

CA SOURABH MUTHA

DT QUIK-BOOK

THE SMALLEST “REVISION BOOK” YOU’LL EVER FIND

S M A T

S O U R A B H M U T H A A C A D E M Y T A X

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DT - QUIKBOOK

CA SOURABH MUTHA - CA INTER - Sep25 / Jan 26

- Use this QUIK-Book to do the best and quickest revision of DT
- Once you revise using this QUIK-Book, refer questions from the 'SMAT Scanner'
- Atleast 3 sums to be written and practised per chapter for best results
- Direct Tax (DT) = Income Tax = 50 marks
- Statements / short-cuts in << --- >> are only for memory purposes

Basic Concepts and Definitions

- Understand need to collect tax and also difference between Direct tax (DT) vs indirect tax (IDT)
- DT is levied by: Ministry of Finance, Department of Revenue & CBDT
- Legislative framework: Income-tax Act, 1961 (IT Act) / Income-tax Rules, 1962 (IT Rules)
- Act is structured as Sections, sub-sections, clauses and sub-clauses, Proviso, amendments
- Act is modified by Annual Finance Act (FA) / Budget <<FA 2024 applies to Sep 25 / Jan 26 exams>>
- Circulars are issued by CBDT
- Notifications are issued by Central Government (CG)
- Case Laws are not applicable for CA Inter exams.
- **Explain who are Persons – Individual, HUF, Partnership Firm, Company, AOP, BOI, LA, AJP**
 - **Individual** – Minor, major, lunatic, deceased person, etc
 - **HUF** – Members include Karta and co-parceners, including women. HUF is a distinct entity only for tax purposes. Since HUF pays its own tax, share of income of members is exempt (Refer exemptions chapter)
 - **Partnership Firm / LLP** – distinct entity for tax purposes. Partners are paid salary, interest, commission & share profit. Share of profit of partners is exempt. From tax perspective, Pfirm and LLP are the same.
 - **Indian Company vs Foreign Company** eg: Tata Motors, Tesla USA, Telsa India
 - **Association Of Persons(AOP) / Body Of Individuals (BOI)** – Persons vs only individuals, voluntary vs operation of law. No Profit sharing ratio mentioned in both AOP/BOI.
 - **Local Authority (LA)** – Eg: Municipality (Discussed at CA Final)
 - **Artificial Jurisdictional person (AJP)** – Eg: Religious/ Temple Trust (Discussed at CA Final)
 - Each of the above persons pay their own taxes and have their own PAN number.
- **Beneficial Interest holder** – holder of 10% or more of equity share capital in a company or 10% or more of Profit Sharing Ratio (PSR) in any other entity
- **Substantial Interest holder** – holder of 20% or more of equity share capital in a company or 20% or more of PSR in any other entity

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- **Financial Year / Previous Year vs. Assessment Year vs. Calendar year** <<PY comes First, AY comes After>> (For Sep 25 / Jan 26 exams: PY 24-25 and AY 25-26 will apply)
- In the case of new entity – PY will be from the date of starting the entity till the subsequent 31st March
- **Assessment** – Procedure of Filing the return and getting assessed by Income-tax authorities (Discussed at CA FINAL)
- **Income:**
 - Income includes – Regular income and casual income
 - Diversion of Income – not taxable since diverted before being earned / received
 - Application of income – taxable, since applied after earning
 - Income vs capital receipt
 - Pin Money = Money paid to family member to run the house, is not income
 - Assessee may choose cash method of accounting but only in PGBP and IFOS
- **Steps to calculate tax payable** → Determine Legal Status → Determine Residential Status → Determine Scope of Income → Compute Income under 5 heads of income (excluding exempt income) → Clubbing of income → Set off or carry forward of losses → Gross Total Income (GTI) → Deductions under chapter VI-A → Determine Total Income → Calculate Tax payable → tax paid as TDS / TCS/Advance Tax / Self-assessment tax → File Return of Income
- **Rounding Off: Only at two place – ‘Total Income’ and ‘Total Tax Payable’**
 - **Section 288A** – Rounding off ‘Total Income’
 - Total Income in paise to be ignored and then last digit of 5 or more to be rounded off to the next ten;
 - **Section 288B** – Rounding off ‘Total Tax payable / refundable’
 - Round off similar to above on the FINAL Tax payable/ refundable amount

Residential Status & Scope of Income

- Difference between Indian Resident & Indian Citizen
- Person can be a Resident or a Non-Resident (NR)
- While Resident in India is taxed on global incomes, NR is taxed only on <<DEAR Income>>
- <<DEAR INCOME>> includes the following
 - Incomes **Deemed** to accrue or arise in India, or
 - Incomes **Earned** in India, or
 - Incomes **Accruing** in India, or
 - Incomes **Received** in India.
- Further, a resident may be further classified as 1) Resident & Ordinary Resident (ROR) or 2) Resident but Not Ordinary Resident (RNOR) (this is only in case of Individual and HUF discussed ahead)
- RNOR is taxed on <<DEAR +1>> Incomes ie DEAR income as above + incomes earned abroad but controlled / managed / setup from India
- Thus the only difference between RNOR and NR is the income earned abroad and CONTROLLED/MANAGED/SET-UP FROM INDIA <<CMS>> is taxable in the hands of RNOR but not in the hands of a NR
- REMITTANCES are subsequent receipts / second receipts and are never taxable.
- EXCEPTION - In case of a Non-resident who is a sea-farer, salary received for services rendered outside even if received in NRE / NRO Account, will NOT be included in total Income

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- **Section 6(1) – Residential status of Individuals**
 - Every Individual can be classified into Resident (R) or Non-Resident (NR) based on two conditions:
 - **1st Condition:** Stay in India ≥ 182 days. If YES, then RESIDENT, else next check for BC2
 - **2nd Condition:** Stay in India ≥ 60 days AND stay in the last four preceding years is ≥ 365 days, if YES, then resident, else NR
 - **Exceptions:**
 - **The above BC2 will NOT apply to the following people** <<Employment & Visiting>>
 - **Indian Citizen** who has left India for employment during the PY or Indian Citizen who has left India to join as a member of a crew of a ship and
 - **Indian Citizen (IC) or Persons of Indian Origin (PIO) VISITING India**
 - **Section 6(6)** - Once a person is a resident, he can be further classified into RNOR or ROR based on the questions below: <<FlashBack Mode>>
 - **Additional Condition** <<AC1>>: Resident in India in ≥ 2 out of 10 previous years AND
 - **Additional Condition 2** <<AC2>>: Stay in India in the last 7 years is ≥ 730 days (Only if BOTH the Additional Conditions are fulfilled, then resident will be called ROR)
 - 'Stay in India' includes both, day of arrival and day of departure except for crew members of foreign bound ships where date of entering the ship and leaving the ship as mentioned in 'Continuous Discharge Certificate' (CDC) is NOT to be included in 'stay in India'.
 - **Two AMENDMENTS** <<AIC1 ie Applicability, Indian Income +15 lakhs and Condition>>
 - **Section 6(1A) – This is called 'Deemed Resident'**
 - Applies to Indian Citizens (IC) only
 - Indian Income <<DEAR + 1>> > 15 lakhs and
 - Condition: Such individual is not taxable in any country as a resident by reason of his domicile or residence,
If all three conditions fulfilled then will be considered as RNOR in India
 - Further,
 - Applies to IC or Person of Indian Origin (PIO)
 - Indian income <<DEAR +1>> > 15 lakhs in the PY and
 - Condition: the BC2 is fulfilled (however 60 days replaced with 120 days).
If all three conditions fulfilled then such individual will be considered as RNOR in India
- **Section 6(2) – Residential status of HUF**
 - Check HUF's control and management (C&M).
 - If C&M is partly or fully in India, then resident
 - Else NR
 - Further, even an HUF can be further classified based on the same two additional conditions as above. If both AC1 and AC2 are fulfilled by the karta then the HUF will be a ROR, else RNOR.
- **Section 6(3) – Residential Status of companies**
 - Indian Company ie registered in India under the Companies Act, 2013- always Resident
 - Foreign company ie registered abroad, then check POEM (Place of Effective Management)

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- If POEM is in India – then Resident
 - If POEM is abroad – then NR
- No further classification between ROR and for companies
- **Section 6(4) – Residential status of others ie Partnership firms, LLPs, AOP, BOI, etc.**
 - Same as HUF, except no further classification into ROR and RNOR
- **Section 9 – Incomes deemed to accrue / arise in India <<ISSDIRF GIFT>>**
 - **The following incomes earned by a NR will be taxable in India as ‘Deemed Income’**
 - **Section 9(1)(i) – Income from a Business Connection (BC) in India <<OnePlus China example>>**
 - BC is a person acting on behalf of a NR and does the following:
 - Exclusive / Dependent agent (Independent agents are not BC); and
 - Habitually enters into contracts or negotiates contracts or maintains stock or secures orders for such NR
 - Exceptions to Section 9(1)(i) <<India Exports News, Movies, & Diamonds>> the following activities will NOT be considered as BC:
 - Even if BC is established, only **income attributable to India will be taxable** in India. Income attributable to India will include 1) Income from advertisement targeting Indian customers, 2) Income from sale of data from Indians, 3) Income from sale of goods and services using the above data
 - Activity of Purchase of goods from India for EXPORT
 - Activity of collection of NEWS / views from India
 - Activity of shooting of films in India (provided Individual, or partners, or shareholders of such NR is not an IC)
 - Activity of displaying rough diamonds in economic zones
- **Section 9(1)(ii) – NRs earning Salaries in India**
 - Salary is earned in India by a NR for services rendered in India will be deemed to accrue / arise in India <<eg: Japanese Metro employee>>
- **Section 9(1)(iii) – NRs earning salaries abroad payable by the Indian Govt to ICs**
 - Eg: Salaries paid to ICs in <<Indian embassy in France>> be deemed to accrue or arise in India and hence taxed in India. <<We tax our people, they tax their people>>
 - While salary is deemed to accrue or arise in India, <<7 allowances>> allowances /perquisites are exempt u/s 10(7)
- **Section 9(1)(iv) – NRs earning Dividends from Indian Companies**
- **Section 9(1)(v) – NRs earning Interest Income**
 - Interest income will be taxable in India if such money is USED in India for
 - a) business & profession (B&P) or b) any income generating activity.
 - Exceptions:
 - If such interest is paid by the Indian govt then usage will not be checked
 - If such interest is **paid by one NR to another NR** then deemed income only if money is used in India ONLY for PGBP (NOT for income generating activity)
- **Section 9(1)(vi) – Royalty Income**
 - Royalty Income will be taxable in India if such patent is USED in India for
 - a) business & profession (B&P) or b) any income generating activity.
 - Exceptions:

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- If such royalty is paid by the Indian govt then usage will not be checked
- **Section 9(1)(vii) – Fees for Technical Services (FTS)**
 - FTS will be taxable in India if such technical services are USED in India for
 - a) business & profession (B&P) or b) any income generating activity.
 - Exceptions:
 - If such FTS is paid by the Indian govt then usage will not be checked
- **Section 9(1)(viii) – Gift**
 - Any sum of money gifted (without consideration) to a NR by a Indian resident then it will be deemed to accrue or arise in India in the hands of the NR
 - The above only if the money / property gifted is > 50,000 pp pa
- **Addl Points – Deemed income shall be taxable for a NR irrespective of territorial nexus ie even if he has no place of business, residence in India**

Agricultural Income

- **Section 10(1) – ‘Agriculture Income’ earned from lands in INDIA is exempt**
- **Rural Agri Land (RAL)**
 - Section 2(1A) – Agricultural Income includes the following which are EXEMPT:
 - Income from cultivation of lands in India
 - Rent or revenue from lands situated in India for agri purposes
 - Basic Operations + subsequent operations both performed together will also be included in agri operations. However, only subsequent operations are not agri operations and hence will be taxable.
 - Income from saplings and seedlings grown in nursery and also flowers and creepers (also bamboo)
 - Income from FARM BUILDING which is adjacent to the land or in the vicinity – such FARM building should be used for agri purposes or store house or dwelling place
 - PLEASE NOTE: Sale of such RAL is not agri income yet it is not taxable since it is not a capital asset (discussed ahead)
- **Urban Agri Land (UAL)**
 - Two differences between UAL and RAL.
 - The following will be taxable in the case of UAL <<BS>>
 - 1) **Sale** of UAL and
 - 2) Income from farm **building**, irrespective of the purpose of renting
 - UAL is within the following area:
 - Population upto 10,000 - within that area
 - Population > 10k upto 1 lakh –within municipal area + upto 2 kms
 - Population > 1 lakh upto 10 lakh –within municipal area + upto 6 kms
 - Population > 10 lakhs –within municipal area + upto 8 kms
 - However the following are NOT agri incomes and hence no exemption u/s 10(1) :
Income from breeding of livestock, Income from poultry farming, Income from fisheries, Income from dairy farming, sale of forest produce naturally geown
- **SCHEME OF PARTIAL INTEGRATION (SOPI)**
 - This scheme applies only when calculating tax
 - It applies only to those persons that have a basic exemption limit (BEL) ie individuals,

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HUFs, AOPs, BOIs, AJP

- Scheme applies only if the following conditions are fulfilled
 - Agricultural Income > 5,000 AND Taxable Income > BEL
- Calculation of tax under this scheme:
- **Step 1:** Calculate total tax on agri income + taxable Income <<SHOCK them>>
- **Step 2:** Calculate total tax on agri income + BEL <<Calm them>>
- **Step 1 – Step 2 = Final tax payable under this scheme**
- **Composite Income: Incomes involving both PGBP and agriculture income**
 - **Tea Business:** Rule 8 <<8 cups of tea>> - First take the income, deduct expenses and calculate the 'profit or net income from tea business'. Then 40% of the same is taxable under PGBP (balance is considered agri income and hence exempt)
 - **Coffee Business:** Rule 7B <<7 cups of coffee made by Barista>> - First take the income, deduct the expenses and calculate the 'profit or net income from coffee business'. Then 40% of the same is taxable under PGBP if coffee is grown, cured, roasted, grounded, etc. (However, only 25% is taxable if coffee is ONLY grown and cured)
 - **Rubber Business** - Rule 7A – same as above and 35% of profit is taxable under PGBP
 - **Rule 7** - <<Potato Chips example>> Transfer of agri produce eg: growing potatoes to PGBP activity eg: making chips to be at MARKET VALUE (or Cost plus reasonable profit, in case market value is not available)

Exempt Income

- Exemption vs Deductions VI-A – Exemptions do not form part of GTI, while deductions form part of GTI and then amount is deducted
- Exemption is covered u/s 10
- **Section 10(1)** – Exemption from agri income (Discussed above)
- **Section 10(2)** – Exemption for share of income received by members from an HUF
 - HUF is taxable as a separate tax entity
 - Hence, when HUF distributes share of income to members, it is exempt
- **Section 10(2A)** – Share of profit of a partner from a PFirm / LLP is exempt
 - PFAS is taxed as a separate entity
 - Hence, when it distributes share of profit to the partners, it is exempt
 - However, the salary, interest, commission, etc paid to partners is taxable in the hands of the partners and can be taken as a deduction by the PFAS
- **Section 10(4)(ii)** – Interest earned in the NRE account is exempt. Interest from such account will be exempt even if such NR becomes a Resident <<4.2% interest earned by NRs in NRE account>>
- **Section 10(6)(ii)** – Salary and allowance paid to Indian Citizens by GOI
 - <<we tax our people and they tax their people (hence we need to exempt their people)>>
 - Salary paid by Indian government to Indian Citizens working abroad <<French Embassy>> is deemed and taxed in India (Section 9(1)(ii)). Thus the same is exempted by foreign countries.
 - Similarly, foreign citizens working in India and paid salary by the foreign governments are taxable by such foreign government and hence exempted in Indian u/s 10(6)(ii).
- **Section 10(10)(BC)** – Compensation received in case of disaster is exempt - <<Big Calamity>>
- **Section 10(10D)** – Receipt from Life Insurance <<D for death for life insurance>>
 - Life insurance policies are of two types - term life & endowment (money back policy)
 - Receipts from Life Insurance policies are exempt if:
 - Received on DEATH of a person or
 - Received from policies where all premiums are <<low>>
 - <<Low premium>> is as under:
 - For policy issued before 1.4.2012 – If premium is upto 10% of sum assured (SA)
 - For policy issued on or after 1.4. 2012 – if premium is upto 20% of SA
 - In case of disabled persons, the above changed from 20% to 15% on or after 31.3.2013
 - For policies issued on or after 1.4.2023 – receipts will be exempt only if total premiums of such policies is upto 5 lakhs pa (if more than assessee to choose policies with premium upto 5 lakhs for exemption).
 - However, amounts received under Keyman Insurance Policy (discussed ahead) is always taxable either under PGBP, or Salaries, or IFOS depending upon the recipient
- **Section 10(11A)** – Receipts from Sukanya Samridhi Account (SSA) is exempt <<11 Rs deposited in SSA>>. The payment into such account will lead to deduction u/s 80C
- **Section 10(12A)** <<After>> Withdrawal from NPS account on closure or opting out is exempt upto 60% of total amount

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- **Section 10(12B)** <<Between>> Withdrawal from NPS account before retirement, etc is only exempt upto 25% of self contributions
- **Section 10(12C) – Amount recd from Agnipath scheme will be exempt**
- **Section 10(15)** – Interest earned on Post Office (PO) saving schemes is exempt upto 3,500 pa (7,000 pa in case of joint holders) <<Post office offers 15% interest>>
- **10(16)** – Education Scholarship from specified persons eg: govt, trusts, etc is exempt <<scholarship at 16>>
- **10(17)** – Allowance received by MPs, MLAs, etc is exempt <<unlucky number for politicians>>
- **10(17A)** – Awards for literary, scientific work etc is exempt <<award for science at 17 AGE>>
- **10(18)** – Pension (also disability pension) received by gallantry award winners or their family members <<18 Gallantry awards >>
- **10(19)** – Pension received by family members of armed forces if they have been martyred during duty <<Soldier dies at 19>>
- **10(26AAA)** <<above above above>> – Exemption for Sikkimese individual – for all sources in Sikkim + for dividend and interest on securities earned anywhere in India
- **10(32)** – Exemption of 1500 per child (or lower if clubbed income is lower) if income of minor child is clubbed in the hands of parent <<Child was born at 32>>
- **10(34A)** – Buyback of shares by domestic companies
 - IN case of buyback, shareholder is exempted and tax has to be paid by the company u/s 115QA at 20% plus surcharge of 12% plus HEC of 4%
- **10(37)** – Compulsory acquisition of Urban Agricultural Land <<UAL + Compulsory Acquisition>>
 - Compulsory Acquisition of UAL is exempt provided it is used for agriculture purposes in the past two years by individual or parents
 - This exemption is only for individuals and HUFs
- **10(43)** – Amount received on Reverse Mortgage Scheme
 - <<Surgeon when he turned 43 reverse mortgaged his house and the bank would then pay him money against the house papers>>
 - Since it is more of a capital receipt ie loan which needs to be repaid, the same is exempt u/s 10(43)

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- **Deduction u/s 10AA** <<Awesome Area>> - Deduction in case of SEZ units
 - In case of a SEZ unit making export sales, deduction u/s 10AA is given as under:
 - 100% for the first 5 assessment years;
 - 50% for the next 5 AYs;
 - 50% for the next 5 AYs or Amount credited to the Re-Investment Reserve Fund, whichever is lower, for the next 5 years
 - Computation of <<SEZ PE>>
 - Profit of the SEZ unit*export turnover/total turnover
 - **Additional Points u/s 10AA:**
 - Export turnover & total turnover will exclude <<FIT>> ie freight, insurance and telecommunication charges spent in foreign currency
 - In case of amalgamation or demerger, the new entity shall avail this deduction from the said year
 - Total deduction for 15 years from year of manufacture

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- Audit u/s 44AB is compulsory to avail 10AA deduction
- The amount credited to the Re-investment Reserve Fund to be used for purchase of P&M to be put to use within 3 years from the year the reserve was created and till then should not be used for dividend, remittance outside India or creation of any asset outside India. Further, details of such purchase of P&M to be given to the department through ROI
- If the reserve amount is used for other than above purpose, then it will be taxable as income of that year
- **Section 14A** – Expenditure related to exempt income should not be deducted from taxable income. If officer has reasons that the above has happened, then to may calculate expenses which is aggregate of the following based on Rule 8D as under:
 - Expenditure directly linked to exempt income and
 - 1% of the annual average of the monthly averages of investment of such exempt income

Income from House Property (IFHP)

- Income from House Property ie renting of house property is taxable under this head
- House property can be: i) self-occupied (SOP) or ii) let out / rented out (LOP) or iii) deemed let out (DLOP) as under.
- 'Income from House Property' includes income from all kinds of buildings and land along/attached to the building eg: offices, shops, godowns, etc
- AMENDMENT – Even If renting of “residential house properties” is done as a business, it will still be chargeable to tax under IFHP
- Assesse must be the owner of the house property (registration is not compulsory).
- **Section 22** – Charging Section of IFHP <<Surgeon got his own house at age of 22. House was bought on loan from any source>>
- **Section 23(1): Let Out Property (LOP)**
 - **Step 1: Calculate GAV**
 - GAV is Higher of 'Actual Rent (AR)' received / receivable or 'Expected Rent (ER)' (also called Reasonable Lettable Value)
 - BAC'ER' is higher of 'Fair Rent (FR)' or 'Municipal Value (MV)', subject to ceiling of 'Standard Rent' (SR) <<Municipality Figures Standard>>
 - AR and ER both to be calculated for 12 months and the following can be deducted from AR
 - **'Unrealised rent (UR)' will be allowed to be reduced from AR only if the following conditions** are fulfilled as per **Rule 4:** <<Legally Vacate Other Building>>
 - Legal proceedings have been initiated against the tenant;
 - Tenant has **vacated** or steps have been taken to make him vacate;
 - Defaulting tenant does not occupy any **other** property of the person
 - Tenancy is **bona-fide**.
 - **Vacancy Loss (VL)** – is the loss for the period during which the HP is not occupied (ie no LOP or SOP)
 - <<Such VL can be deducted from AR only if AR>ER before deducting such VL, and thereafter ignore ER>>

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- **Step 2: Deduct Municipal Taxes (MT)**
 - From the above GAV, municipal taxes are allowed as a deduction only if PAID by the owner/assesse during the PY ie from 1st April to 31st March
 - $NAV = GAV - MT$
 - Deduction will be given even for 'arrears' or 'advance' MT if paid during the PY
 - If MT is given as a percentage, then it will be percentage of MV
 - In cases of HPs held abroad and taxable in India, even MT paid abroad will be allowed as deduction
- **Step 3: Section 24 – Deductions from NAV**
 - **Section 24(a)** <<A for Adhoc>> Standard deduction of 30% of NAV will be given. This is to compensate for revenue expenditures incurred to earn IFHP. This deduction is given irrespective of amount spent and further no further deductions for revenue expenses will be given in relation to such HP. Thus, any further expenses like insurance, ground rent, collection charges, etc will not be allowed as a deduction.
 - **Section 24(b)** – Deduction for interest on loan taken for HP <<b for borrowings>>.
 - **Interest** = 100% of the Current Year Interest + 1/5 of PCP Interest
 - Current year = the year of acquisition or completion of construction and every subsequent year is considered as current year, thus the year from which the HP is ready to use. (eg: if construction is completed on 26th Nov 2023, then year 23-24 will be considered as PY and interest of whole year will be allowed as deduction)
 - PCP Interest = Pre-Construction Period interest
 - Pre-construction period (PCP) interest is the interest prior to the 'year of completion or acquisition' (ie interest paid before PY 23-24 will be PCP interest in the above example). Such PCP Interest will be allowed as a deduction in 5 equal instalments over 5 consecutive years, starting from the year of completion of construction / acquisition
 - No limit / cap on interest deduction (except in the case of SOP discussed below)
 - Interest deduction will be given on accrual basis ie even if not paid.
 - Deduction even for subsequent fresh loans taken
 - For deduction u/s 24(b) loan can be from any source ie bank or otherwise
 - Unpaid purchase price would be considered as capital borrowed from the builder and hence interest would be allowed as a deduction
 - However, no deduction for interest on interest or for penalty
- **23(2) –Self Occupied Property (SOP)**
 - In case of SOP there is actually no income from HP. Computation is done to give a benefit
 - In case of SOP, all values will be NIL and deduction will be given u/s 24(b) for interest paid/payable. This will lead to a loss which can be set-off and hence SOP is a tax benefit
 - However, such interest deduction will be limited to max 2 lakhs PER PERSON if the following 4 conditions are satisfied: <<Certify 5 ACs 99 >> (else deduction only upto 30,000)
 - Such loan on HP to be taken on or after **1.4.1999**
 - Such loan to be taken only for **acquisition or construction** of HP

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- In case of construction, the same to be **completed within 5 years** post the year of starting construction or taking the loan, whichever is earlier (WIE)
- **Certificate** to be obtained from the lender
- An assessee can consider upto two HPs as SOPs although the aggregate deduction for both such SOPs cannot be more than 2 lakh or 30,000 per person
- HP will be considered as SOP even if a person cannot stay in such HP due to reason of job, Business & Profession at a different location
- **Section 23(3): LOP for part of the year and SOP for part of the year <<LOP + SOP = LOP>>**
 - If HP is self-occupied for part of the year and let out for remaining part, then calculation is same as LOP u/s 23(1)
 - ER to be calculated for the entire year
 - AR also to be computed for the entire year (AR for SOP period will be NIL).
 - Deduction for Unrealised rent and VL, same as LOP above.
- **23(4) – Deemed let out property (DLOP) (notional Income) <<DLOP = LOP>>**
 - In case a person has more than 2 SOPs, the excess HPs will be considered as DLOP
 - Option is with the assessee to choose any two HPs as SOPs while the remaining will be considered as DLOPs
 - In case of deemed let out, there is no actual rent. Thus GAV will be based only on Expected rent <<Municipality Figures Standard>>
 - Deductions shall be similar to LOP
- **23(5) – House property held as stock – in – trade (notional rent) <<5 houses not sold>>**
 - This section is only when HP is held as stock-in-trade eg: by builders, etc.
 - If such HP held as stock is not sold or rented within 2 years AFTER the year of receiving Occupancy Certificate (OC) / Completion Certificate (CC), then such HP will be considered as DLOP
- **APPORTIONED:** In case a 'portion' of the house is let out and other 'portion' is self-occupied, then separate calculations to be done, All values ie MV, FR, SR, MT, Interest, etc to be apportioned based on the area / percentage.
- **Section 25 – Inadmissible deductions**
 - In case Interest on HP is paid outside India and TDS has not been deducted and there is no agent for the said person in India, then such interest will not be allowed as a deduction u/s 24(b)
- **Section 25A – Taxation of Arrears of rent / unrealised rent received in subsequent years <<A for Arrears>>**
 - Arrears / Unrealised rent shall be taxable in the year of receipt and shall be included under IFHP, even though property might not exist
 - Further, 30% deduction to be allowed from the said income
- **Section 26 – Income from co-owned property <<Co-owned it at the age of 26>>**
 - In case co-owned property is let out, then IFHP to be computed normally and then apportioned between the co-owners
 - Where co-owned property is SOP, then each co-owner gets deduction of upto 2 lakhs / 30,000 subject to conditions. Hence, two separate calculations will be required in this case.
- **Section 27 – Deemed Ownership**

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- **Transfer of HP to spouse** - In case of HP is transferred to spouse even then the transferor will be considered as deemed owner for the purposes of computing income from such HP. *Exceptions ie no such deemed ownership if: 1) HP transferred for adequate consideration or 2) HP transferred under an agreement to live apart*
- **Transfer of HP to Minor Child** - In case HP is transferred to a minor child, transferor will be deemed owner for the purposes of computing income from such HP. *Exception ie no deemed ownership if 1) Transferred for adequate consideration or 2) Transferred to minor married daughter*
- **Impartible estate** – are estates which cannot be divided. In such cases the owner shall be deemed owner of the entire estate
- **Member of a co-op society** shall be deemed to be the owner
- **Person in possession of the property** shall be deemed to be the owner even though property is not registered in his/ her name <<Since registration is a mere formality>>
- **Tenancy Rights:** Renting / Leasing HP continuously for more than 12 years leads to creation of tenancy rights. Owner of tenancy rights shall be considered as deemed owner of such HP.
- **Others (under Section 22)**
 - No deduction for any 'Ground rent paid' since 30% flat deduction already given u/s 24(a)
 - **Composite Rent** – Rent for house property + rent for furniture/services etc
 - If both rents can be separated then taxable under IFHP and IFOS respectively
 - However, if rents cannot be separated then entire rent taxable under IFOS
 - **Income from HP situated abroad:**
 - IFHP held abroad may also be taxable under IFHP (in case of ROR or if rent from such HP is received in India)
 - In such cases, Income will be calculated in the same way and all three deductions ie MT, 24(a) and 24(b) will be allowed even for such HP held abroad
 - **Exceptions:**
 - Letting / renting of **vacant plot of land** is chargeable under PGBP or IFOS since it is not a building or land appurtenant thereto

Income from Other Sources ('IFOS')

- IFOS is dealt under Sections 56, 57, 58 and 59 of the Income-tax Act, 1961
- IFOS has three parts: General, Gift Taxation and Dividend Taxation
- PGBP and IFOS are very similar, ie both have income, expenses, disallowances.
- Only under PGBP and IFOS assessee can choose the method of accounting:
 - **Cash method of accounting** accounts income only when received and expenses only when paid <<Follow cash>>
 - **Accrual method of accounting** accounts for income and expenses only for the PY irrespective of cash payment / receipts <<follow the year>>
- **Section 56(1) – Incomes from other Sources**
 - Residuary Section
 - If income is not being taxed under any other head, then taxable u/s 56(1)
- **Section 56(2) – Specific Incomes from other sources**
 - **Interest** on bank and from securities held as investment (If securities held as stock in trade then under PGBP)

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- **Rental Income** from idle capacity from P&M, furniture
- **Dividend Income** always under IFOS <<Dividend has only one Direction>>
- **Interest** on delayed compensation or enhanced compensation under compulsory acquisition (discussed ahead)
- **Winnings** from lotteries / Casual Income/Online Games <<Govt also wants to get lucky>>
 - 30% tax on such above incomes
 - No deductions, no set offs, no expenses, no slab rates, etc will be given against such incomes
 - Even if the lottery business owner wins the lottery it will be considered as casual income
- **Rental Income** from composite rent (discussed in IGHP chapter) if not separable, then taxable under IFOS
- **Welfare amounts** - employee's contribution to PF, NPS, GF (same as in PGBP)
 - Will be added to income first and then deduction will be given only if paid within monthly due dates
- **Gifts** received by any person [discussed ahead]
- **Forfeiture of any amount** on or after 1.4.2014
- **Key Man Insurance** – Taxable under PGBP, Salaries and IFOS <<Keyman insurance receipt is always taxable ie KT>>
- Termination / Modification of non-business **contracts**
- **Section 57 – DEDUCTIONS**
 - **Family Pension** Deduction (lower of the following)
 - 1/3rd of the amount received or
 - 25,000 pa (under new scheme of tax) or 15,000 pa (under old scheme of tax)
 - **Interest on enhanced compensation** - taxable in the *year of receipt* but with a 50% standard deduction (explained in detail u/s 56(2)(viii) below)
 - **Interest** paid on borrowed amount to earn dividend income (max 20% of dividend income)
 - **General** expenses to earn IFOS Income
- **Section 58 – Disallowances ie the following will not be allowed as a deduction <<PooRR Wins Cash Income>>**
 - **Personal** expenses
 - Expenses paid to a **resident** in India without deducting TDS (30% disallowed) (In the above case, if recipient files ROI, pays taxes and provides proof, then TDS will be allowed in such years)
 - Excessive / unreasonable amounts paid to **Relatives** <<clock>>
 - No deduction for casual **winnings** (even for seller of lottery tickets)
 - **Cash** payments for expenditures above 10,000 pp/pd will be disallowed (Cash, Bearer cheques/dd and crossed cheques/dd <<CBC>>)
 - **Income-tax** not allowed as a deduction
- **Section 56(2)(viii)**
 - Interest on enhanced compensation taxed in the YEAR OF RECEIPT
 - **Section 145B:** the above to be taxed in the year of receipt irrespective of the method of accounting employed
 - 50% deduction allowed from the above interest u/s 57

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- **Section 56(2)(x) <<x gifts to be received always>>**

- Gift taxation always in the hands of the recipient

Gifts received without consideration <<free gifts>>

- <<MIS B gets – mobile phone, cash, gold, bike, land>>
- *Step 1:* Gifts are taxed only under the definition of 'Property' <<MIS B SAD JAW>>
- *Step 2:* No gift taxation if received under the following circumstances <<Don't Tax TIP & COVID Money Received From LA HUF>>

- Gift received on **death**
- Gifts received from a registered **trust**
- Gift given to a **trust** for benefit of family members
- **Inheritance**
- **Persons** specified by government
- On the occasion of **marriage**
- Amount received for covid illness (any amount) or received from deceased persons employer (any amount) or on death of a person due to covid (upto 10 lakhs) (Death within 6 months of covid and amounts received within 12 months of death)
- **Relatives** <<232 relatives>>
- From a **fund**
- **Local Authority**
- **HUF** to members on partition

- *Step 3:* Gifts taxed only if the amounts exceed the thresholds below:
 - Aggregate Money received during the year > 50,000
 - Aggregate FMV of Movable property received during the year > 50,000
 - Individual SDV of Immovable property received during the year > 50,000

In case of gifts received for inadequate consideration

<<Benefit taxation>> <<surgeon's wife gets jewellery and apartment cheaper>>

- Calculate benefit, comparing Sale consideration with the FMV in case of movable property or SDV in case of immovable property.
- Step 2 not applicable in this case <<free gifts>>
- Step 3 – Above benefit will be taxed if:
 - Aggregate benefit wrt to Movable property > 50,000 or
 - Individual benefit wrt immovable property is greater than,
 - higher of: a) 50,000 or b) 10% of sales consideration
- In case of more than one SDV, the SDV as on the date of agreement may be taken if any consideration has been paid by means other than <<CBC>>
- The above gift taxation does not apply if property received is in the nature of "stock"
- Relative <<232>> includes
- In case of an individual
 - spouse of the individual;
 - brother or sister of the individual;
 - brother or sister of the spouse of the individual;
 - brother or sister of either of the parents of the individual;

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- any lineal ascendant or descendant of the individual;
- any lineal ascendant or descendant of the spouse of the individual;
- spouse of any of the persons referred above.
- In case of Hindu Undivided Family, relatives include any member thereof.
- **Dividend Income** <<PPE Pvt Ltd example>>
 - Dividend income is always taxable under IFOS in the hands of the shareholders <<DTI>> dividend is always taxable under IFOS
 - <<Accumulated profit in PPE Pvt Ltd was 222 lakhs>>
 - Deemed Dividend u/s 2(22)
 - 2(22)(a) – Assets distributed to shareholders. eg: Gold Coins given to shareholders <<A for assets>>
 - 2(22)(b) – bonds / debentures given as bonus on pref shares (However, issue of equity shares as bonus is not deemed dividend) <<B for Bonds>>
 - 2(22)(c) – Assets distributed on liquidation / closure of the company <<C for closure>>
 - 2(22)(d) – Reduction (decrease) in share capital <<D for decrease>>

(in the above cases, the amounts will be taxed as deemed dividend only till the extent of accumulated profit whether capitalised or not. Thus no deemed dividend for loss making companies / companies having no accumulated profits)

- **2(22)(e) –** <<e for exception>>
 - Deemed dividend when Loan and advance to
 - a) Directly to Beneficial Interest Holder (BIH) or
 - b) to a third party in which BIH has Substantial interest
 - c) to third party for the benefit of the BIH
 - BIH holds 10% or more equity share capital or PSR in the entity
 - This section 2(22)(e) does not apply in case of <<BPL>>
 - However, a Business trade advance is not to be treated as deemed dividend under section 2(22)(e)
 - If company is a Public Company / widely held company
 - If the company is a lending company
 - Deemed dividend even if loan is repaid during the year or interest is paid on such loans
 - In this case amount of loan will be taxed as deemed dividend only upto accumulated profits, which are not capitalised.
- ♣ 2(22)(f) – Buyback of shares taxable under IFOS upto accumulated profits. Costs will be considered under capital gains
- **Section 8 – Dividend Income**
 - ❓ **Final dividend will be taxable in the year in which it is DECLARED** <<FD>>
 - ❓ **Interim dividend will be taxable in the year in which it is RECEIVED** <<IR>>

Profits & Gains from Business / Profession (PGBP)

- PGBP is similar to IFOS ie Incomes, expenses and disallowances.
- Difference between 'business' and 'profession' is irrelevant since both are taxed under the same head ie PGBP
- **Section 28 – Charging Section -**
 - **Profits** from business or profession (cash or mercantile system, whichever is chosen)
 - Modifications / termination of a **contract** in business, agency, etc
 - Incomes earned from members by trade and professional **associations**
 - Income from **export** incentives eg: duty drawback, DEPBS
 - **Benefits** / perquisites received during Business / Profession eg: gifts, donations
 - Interest, salary, remuneration etc paid by the **partnership firm** to the partners, to the extent allowed as a deduction to the PFAS. However, share of profit is exempt from 10(2A)
 - **Non-compete fee** paid to not do something or not use a copy-right etc
 - **Keyman** Insurance Policy when amount received by the entity. If received by person then Salary and received by family, then IFOS. Thus KIP is always taxable <<KT>>
 - **Conversion** of stock-in-trade to capital asset will be considered as PGBP Income, sale price will be considered as FMV on the date of conversion (notional income)
 - **Reversal of deduction for Specified Business:** Capital asset given benefit under 35AD, when sold, up to cost will be taxable here
- **PGBP can be of the following three types: 1) Non-speculative business <<normal business>> 2) Speculative business, and 3) Specified Business**
 - Speculative Business are business eg; Intra-day share trading where which are ultimately settled without actual delivery
 - The following will always be considered <<normal business>>
 - Shares, trading by a banking, lending entity
 - All derivatives eg: hedging, futures, forwards, options, swaps, etc <<derivatives are normal>>
- **Section 29 – Computation under PGBP – follow sections 30 – 44**
- **Section 30 – Deduction for expenses wrt L&B <<RRTRI for L&B>>**
 - Rent, Rates, Taxes, Repairs & Insurance for L&B used for business
 - Deduction only for revenue repairs
 - Capital expenditure by a tenant will result in deemed building in the balance sheet
- **Section 31 – Deduction for expenses wrt P&M, Furniture etc. <<RI for P&M>>**
 - Repairs and insurance allowed for P&M used for business
 - P&M to be used or intended to be used for the purposes of business eg: fire extinguishers
- **Section 32 – Depreciation**
 - Depreciation if a non-cash expenditure and a tax benefit
 - Dep can be computed for assets that fulfil the twin tests <<OP>>
 - Should be **owned** by the assessee
 - Should be **put to use** for purposes of business – active as well as passive use
 - There are four categories of assets under IT Act – L&B, F&F, P&M and intangible assets.
 - Depreciation allowed as deduction only at rates laid down under the IT Act
 - Rates of Dep

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- L&B – 5% residential units as part of business, 10% other than residential, 40% - water supply project and temporary sheds
- F&F – 10%
- P&M (from 15% to 40%)
 - P&M general – 15%
 - Motor Cars – 15% (if given on rent then 30%) (if purchased during 23.8.2019 to 31.3.2020 then rate would be 30%)
 - Oil wells – 15%
 - Ships 20%,
 - Moulds in rubber industry and ICs – 30%,
 - Airplanes 40%,
 - Air Pollution control equipment – 40%,
 - Lifesaving medical equipment – 40%,
 - water supply project P&M – 40%,
 - Windmills – 40%,
 - Computers and Books 40%
 - P&M used in govt labs – 40%
- Intangibles – 25% (other than goodwill)
- Explanation to Section 32(1):
 - Half Year's depreciation in case of assets put to use for less than 180 days (Thus if put to use on or after 5th Oct, then only half year's depreciation will be allowed)
 - In case of amalgamation, merger etc <<SAMR>> – Step1: Dep to be calculated normally (ignoring amalgamation) and Step2: then such dep to be bifurcated between the two companies based on the number of days of usage of assets
- **Section 32(1)(ii)** - Depreciation is as per WDV method using Block of assets method <<Family Method>> Block of Assets means all assets belonging to the same category and subject to the same rate of dep <<Block is mechanical ie Opening WDV + Add purchases during the year – Assets sold / discarded during the year>>
- **Section 31(1)(i)** - Power generating and distribution and transmission companies have an option to depreciate using SLM
- Spares which are to be used in the machine and required infrequently should be capitalised
- Land and goodwill is not depreciated
- Dep will be allowed even if asset is given on operating lease to someone else. If giving on lease is not business, then dep will be allowed as a deduction under IFOS Section 57(ii)
- **Section 32(1)(iia) – Additional Dep**
 - Ont time 20% additional depreciation to be given on NEW P&M purchased for the purposes of <<PM>> Power generation, etc and Manufacturing.
 - Additional depreciation @20% (just once) will be allowed over and above normal dep
 - Such addl dep is only for NEW P&M, not for any other category of assets
 - If used for less than 180 days, then half year's depreciation this year and half next year (same as depreciation)
 - No such additional dep on <<SSOM>> 1) motor vehicles, 2) P&M installed in office,

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residence or guest house, 3) Second hand P&M whether used earlier in India or abroad, 4) ships and aircrafts

- Additional depreciation available in the case of an assessee engaged in printing or printing and publishing
 - **Section 32(2) – Unabsorbed dep**
 - If depreciation exceeds profits of the business, the excess dep cannot lead to any loss, instead it is carried forward to the next year as unabsorbed dep
 - Can be carried forward indefinitely even if ROI is not filed or filed late
 - Set off in this order: Current year depreciation – B/f business loss – Unabsorbed depreciation.
 - **Section 32(1)(iii) - Terminal Dep** – Used only in cases of SLM assets of power companies
 - In the event of sale, scrap, destruction of the asset, in case the money payable is less than the WDV of the asset, then the difference will be debited to the P&L account as 'terminal dep'
 - **Section 43(6) – Block of Assets**
 - Block means those assets which belong to the same category of assets and are subject to the same rates of depreciation
 - Block calculation: Opening WDV + Additions during the year – Sale during the year = Closing WDV
 - Depreciation calculation – On the closing WDV – Calculate full year or half year's depreciation as the case maybe
 - **Section 43(1) Actual Cost**
 - The more the cost, the more the depreciation, hence this section defines 'cost of assets'
 - Cost of asset includes all the expenses incurred till the asset is put to use
 - In case any costs is paid by modes of <<CBC>> above 10,000 per person per day (ppd), the same will not be included in the costs and no depreciation to be given for the same (35,000 limit for cash is not applicable while purchasing capital asset)
 - **Explanations as under <<Only highlighted explanations are important>>**
- 1) Assets acquired for scientific research all 100% deduction u/s 35 – NIL
 - 1A. Asset transferred from stock into CA u/s 28(via) – FMV as on the date of conversion
 - 2) Gift / inheritance – COA to the previous owner less dep allowed to previous owner
 - 3) Second hand Asset acquired at a higher price to claim higher dep – COA to be determined by the AO
 - 4) Asset used – transferred – reacquired at higher price: COA will be WDV at the time of first transfer or reacquisition price, whichever is lower
 - 4A. Asset acquired from a person and leased back to the same person – WDV at the time of transfer
 - 5) **Asset being building earlier held as investment, now used for PGBP – COP less notional dep up to the year of bringing it into PGBP**
 - 6) Asset transferred by holding to WO Subsidiary or vice versa – WDV in the hands of holding Co at the start of the PY or vice versa
 - 7) Asset transferred under amalgamation to an Indian Amalgamating company – WDV in the hands of the first company

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7A. Asset transferred under demerger to an Indian resulting company – WDV in the hands of the demerged company

8) **Assets acquired out of borrowed money – COA to include interest till the asset is put to use**

9) **Asset on which excise duty etc has been paid – COA to include such duties reduced by credit taken**

10) **Asset against which a grant/subsidy has been received – COA will be cost less grant received**

11) Asset brought by NR from abroad into India – COA abroad less notional dep

12) Asset under corporatisation – Amount which would have been regarded as actual cost had there been no corporatisation

13) Asset under Section 35AD 100% deduction already taken – NIL

- **Section 35 – Deduction for Scientific Research Expenditure (in-house expenditure)**

- **Section 35(1)(i) – Deduction for revenue expenditure**

- Incurred in the current year as well as three PYs before the date of commencement of business is allowed as a deduction.
 - The above deduction is allowed only for raw material and salaries

- **Section 35(1)(iv) – 100% Deduction for capital expenditure**

- Any capital expense incurred for inhouse R&D will be given a 100% deduction EXCEPT for land. Since 100% deduction is allowed, no depreciation will be allowed.

- **Sale of such scientific research asset:**

- If sold after using for business / profession, then the sale proceeds to be reduced from the block of asset.
 - If sold before using it for business / profession, then sale proceeds up to cost of acquisition to be reversed in PGBP [Section 41(3) discussed ahead] and sale price in excess of such cost will be taxed under CG

- **Section 35 – Deduction for Donations for scientific research to outsiders (may or may not connected to business)**

- Deductions for SR donations given to approved scientific associations, SR donations to Indian Companies engaged in scientific research, donations for social research, SR donations to Universities, specified persons, IITs and National Laboratories (USIN)
 - Section 35 deductions will be allowed even if the institutions approval is withdrawn later
 - In case the above deductions cannot be set off against CY income, then c/f and set off in the same manner as depreciation ie cannot lead to a loss and unlimited period of c/f.
 - In case of amalgamation, etc, the c/f deductions would be available to the next entity

- **Section 35D – Deduction of Preliminary expenditure (1/5) <<Dial a doctor>>**

- Preliminary expenditure (PE) is generally incurred before commencement of business or extension of business eg incorporation expenses, share issue, etc
 - Such PE is allowed as a deduction in 5 equal instalments over 5 consecutive years from the year of commencement of business
 - The PW will be restricted to, higher of:
 - 5% of capital employed or

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- 5% of cost of project.
(If entity is other than company, then only 5% of cost of project)
- **Capital employed** is paid up equity + preference shares + debentures + loans (in case of foreign borrowings then only long term borrowings over 7 year) as on the last day of the PY in which the business commences
- **Cost of Project** is Actual cost of land, building, P&M, furniture, etc as on the last day of the PY in which the business commences
- The following expenses will be allowed as PE only if done on their own or by approved concerns <<Project FEM>> Project report, feasibility, engineering and market survey. Other expenses eg: legal, advertising etc can be done by any concern.
- Deduction of unexpired period of 5 years as well as for the year of amalgamation will be allowed to the next entity as well in case of amalgamation, etc
- **Section 35DDA – Deduction of VRS expense (1/5)** <<Surgeon took VRS from DDA>>
 - Deduction will be given of the expenditure incurred on VRS by any person, over 5 equal instalments over 5 consecutive years, starting from the **year of payment**
 - Deduction of unexpired period will be available to the amalgamated entity as well
- **Section 35AD <<Also Develop>> - Deduction in case of 'Specified Business' (SB)**
 - 100% Deduction will be allowed for capital expenditures incurred for specified businesses: <<Super-Fast Bike Can Cover 3 Hospitals, 3 Workshops, 3 Institutions>>
 - Any capital expense incurred prior to the date of commencement, if capitalised will also be allowed as a deduction
 - Since 100% if already allowed as a deduction, no depreciation will be allowed
 - No deduction for the following: Land, Goodwill and issue of financial instruments and payments more than 10,000 made in <<CBC>>.
 - Such deduction will be allowed even on second hand P&M up to 20% and even on imported used P&M.
 - In case the above expenditures cannot be set-off against current incomes, then can be c/f for unlimited years and set off in the later years **but only against any SB income only**. However, for this c/f of loss, IT Return should be filed in due time <<8LAN>>
 - The above assets have to be used for the specified business for a period of 8 years
 - If sold before 8 years, then entire sale proceeds will be PGBP Income u/s 28(vii)
 - If change of use to NSB before 8 years, then reversal of benefit after allowing normal depreciation (except sick companies)
 - If transferred under Section 47 situations (ie not regarded as transfer) then cost shall be NIL
- **Section 36 – Specific deductions**
 - **36(1)(i) – Deduction for insurance premium for stock**
 - Section 36(1)- Deduction for insurance premium paid for livestock for milk-co-op societies
 - Section 36(1) - Deduction for health insurance premium for employees, in modes other than cash
 - **36(1)(ii) – Bonus and Commission paid to employees.** (However, Bonus that should have been paid as dividend is not allowed as a deduction)
 - **36(1)– Deduction for interest on loans taken for B&P**

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- Business loan can be taken from any source and at any rate of interest
- Interest on loan taken for buying assets can be capitalised till asset is put to use.
- Interest paid on GST payments is also allowed as a deduction
- Interest on loan taken to pay dividend is allowed as deduction
- However, Interest paid on income tax is not allowed as deduction
- **36(1) – Deduction of discount on ZCBs**
 - Such deduction will be apportioned over the life of the ZCBs.
 - Calculate the discount and divide it by the number of months (months rounded off to next month if 15 days or more)
- **36(1)(iv) – Deduction for Employer's contribution to PF, SAF**
- **36(1)(iva) - Deduction for Employer's contribution to NPS upto 10% of BDC**
 - ICAI ILLUSTRATION 9
- **36(1)(v) – Deduction for Employer's contribution to approved gratuity fund only**
<<gratuity after working for v years>>
- **36(1)(va) – Deduction for Employee's contribution to the above funds, only if deposited within monthly due dates. The above amounts were included in the PGBP income earlier. <<permanent disallowance>>**
- **36(1)– Deduction for bad debts <<vii lakhs of bad debts>>**
 - No deduction allowed for PROVISION for bad debt, deduction only for ACTUAL bad debts.
 - Such amount should have been included in the income
 - Business should be continued to get deduction
 - Bad debts for loans given not allowed as deduction (except for lending entities)
 - Subsequent recovery of bad debt will be considered as income u/s 41(4) (only to the extent not taxed earlier)
 - Bad debts will be allowed in the hands of the successor, if business has been taken over by the successor
- **36(1)(ix) – Family planning expenditure (1/5) <<ix kids per employee>>**
 - This deduction is allowed only to Companies
 - Capital expenditure allowed over 5 years
 - Unabsorbed amount to be tackled in a manner similar to unabsorbed dep
- **36(1)(xv) – Deduction for STT paid if share trading is considered as PGBP <<STT introduced in 2015>>**
- **36(1)(xvi) – Deduction for CTT if commodity trading is considered as PGBP <<CTT introduced in 2016>>**
- **Section 37 – General Deductions for PGBP <<dustbin section>>**
 - Any expenditure which is not personal in nature and which is not capital in nature will be allowed u/s 37
 - Explanation – No deduction for expenditure prohibited by law eg: referral fees to doctors, penalties, etc
 - Explanation – No Deduction for CSR expenses, unless it relates to one of the above PGBP sections eg: Section 35(1)(ii)
- **Section 43B – Certain Deductions allowed only if amount is PAID <<M-TREI says PLEASE PAY>>**
 - The following deductions will be allowed only if paid by return filing due date

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<<JON>> u/s 139(1)

- Amounts to be paid to **MSMEs but only MICRO and SMALL INDUSTRIES**.
 - If agreement, then amount to be paid within agreed date or max 45 days
 - If no agreement, amount to be paid within 15 days
- **Tax**, duty, cess etc payable to the govt
- Sum payable to Indian **Railways**
- Bonus / commission payable to **employees**
- Leave encashment payable to **employees**
- Employer's contribution towards RPF, SAF, gratuity, etc for **employees**
- **Interest** on loan from PFI, SFI, etc
- **Interest** on loan from an NBFC
- **Interest** on loan taken from a scheduled bank, including co-operative bank.
- Conversion of interest into loan is not considered as repayment
- If paid after 139(1) due date then will be allowed as a deduction in the year of payment
- **Section 37(2B) <<2B a politician>> - Expenses on Political Parties** ie advertisement in any souvenir, brochure, tract, and pamphlet or like published by a political party are to be entirely disallowed. (the same will be allowed to companies u/s 80GGB)
- **Section 40(a)(i) – Payment to NR or outside India w/o deducting TDS – 100% Disallowed <<100% angry>>**
 - Payments made to a NR or outside India
 - Deduction will not be allowed if:
 - TDS has not been deducted in the FY or
 - TDS has been deducted in the FY but not paid before 139(1) due date
 - Such TDS will be allowed as a deduction later in the 'year of payment'
 - Such TDS will be allowed if the recipient has filed the ROI, included income, paid taxes and given proof then deduction will be allowed in the subsequent year in which tax has been paid.
- **Section 40(a)(ia) - Amount paid to a Resident in India w/o deducting TDS – 30% Disallowed <<30% angry>>**
 - Payments made to a Resident in India
 - 30% Deduction will not be allowed if:
 - TDS has not been deducted in the FY or
 - TDS has been deducted in the FY but not paid before 139(1) due date
 - Such TDS will be allowed as a deduction later in the 'year of payment'
 - Such TDS will be allowed if the recipient has filed the ROI, included income, paid taxes and given proof then deduction will be allowed in the subsequent year in which tax has been paid.
 - **ICAI ILLUSTRATION 10, 11**
- **Section 40(a)(ii) – No deduction for income-taxes paid**
- **Section 40(a)(iii) – Permanent disallowance in case TDS is not deducted or deducted by not paid on salary paid outside India or to a NR <<permanent disallowance>>**
- **40(a)(v) – Perks given by Employer to employee are taxable in the hands of the employee.** If such income tax is borne by the employer, then no deduction available to the Employer for such tax payment.
- **Section 40(b)(iv) – Deduction for interest paid by partnership firm to partners subject to**

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limits <<P-Interest>>

- Max interest deduction of 12% pa
- Interest can be paid only if there are profits and to the extent of profits
- Interest payment to be authorised by the partnership deed
- Can be paid to all partners
- If representative partner is paid then 40(b) applies, if rep partner eg: karta of HUF is paid in individual capacity then no limitation
- **Section 40(b)(v) – Deduction for Salary etc paid by Partnership firm to partners subject to limits <<P-Salary>>**
 - In case of loss, maximum deduction of Rs 3,00,000 pa for all the partners aggregate
 - In case of profits, then upto 6,00,000 profits – higher of 3,50,000 or 90% of profits
 - And above 6,00,000 profits – 60% of such higher profits.
 - Such payments can be made only to working partners
 - Should be authorised and cannot be authorised retrospectively
 - Profit is to be taken after all expenditures including interest allowed u/s 40(b)(iv) but before remuneration to partners.
- **Section 40A(2) – Excessive / Unreasonable expenses to Specified Persons DISALLOWED <<EPS>>**
 - Specified persons are as follows:
 - For an individual – relatives (Spouse, siblings, LA and LD only) and Substantial Interest, to and fro
 - For a company, HUF, PFAS, etc – Directors, members, partners and their relatives and Substantial Interest, to and fro
 - Individual, Company, firm, HUF having substantial interest in an entity, such persons, their directors, members, partners, etc and their relatives and Substantial Interest, to and fro
- **Section 40A(3) and 40A(3A) – Cash, etc payment DISALLOWED**
 - No deductions for payment for expenses made <<CBC>>, etc more than 10,000 pp pd.
 - In case of payments to GTA, higher limit of 35,000 pp pd would apply
 - 40A(3A) – In case a expense is already deducted and subsequently such liability is discharged by way of <<CBC>>, then too will be disallowed and expense to be added back
 - However, certain expenses exceptions are there in Rule 6DD <<deduct deduct>>
 - Allowed when paid to banks, govt, cultivator, grower of forest produce, animal husbandry and purchase of animals, cottage industry w/o using power, village w/o bank, Employee/heir paid gratuity etc upto 50k, Salary after deducting TDS to an employee who is outside normal place of work for more than 15 days and having no bank account there, money changer, paid to agent for the above purposes.
- **Section 40A(7) – No deduction for provisions made for gratuity funds except:**
 - No deduction for employer's contribution to gratuity fund unless:
 - It is an approved gratuity fund or
 - Gratuity policy from LIC or
 - In case of actual payment of gratuity to employees
- **Section 40A(9,10,11) – No deduction for random provisions made**
 - No deduction for employer's contribution to non-statutory funds

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- However, when payments are made to employees from these funds, then deductions can be taken
- **Section 43A**
 - In case an asset has been acquired using foreign currency and there is a change in rates, then the COA / actual cost should be adjusted accordingly
- **Section 43CA – Sale consideration (SC) vs SDV in case of sale of L&B <<ask your CA>>**
 - In case any stock being land and building is being sold for less than SDV, then the difference could be taxable u/s 43CA
 - Step1: Calculate 110% of SC, if SDV is within that range then no change.
 - Step2: If SDV is more than the above limit then SDV will be considered as SC and PGBP income to be increased. (this percentage would be 20% in case of sale of residential unit subject to the same conditions as mentioned under Section 56(2)(x) of IFOS)
 - In case there are two SDVs ie on DOA and on DOR, then SDV as on the DOA can be taken provided some payment has been made by modes other than cash (similar to Section 56(2)(x))
- **Section 41 – Deemed Incomes <<ABCD>>**
 - Amount recovered from sale of **Asset** fully depreciated u/s 35
 - **Balancing Charge** is case of sale of asset depreciated using SLM method
 - Any benefit or recovery or **cancellation** of liability
 - Bad **Debt** recovery
- **Composite Income under Rule 8,7B,7A, etc**
 - Already discussed under agriculture income
 - However, even though only some part of income is taxable as PGBP income, entire depreciation should be deducted from asset value in the balance sheet to arrive at the WDV
- **Section 44AA – Maintenance of Accounts <<Arrange Accounts>>**
 - In case of specified professions – Books of accounts to be maintained if gross receipts / turnover exceeds 1,50,000 in ALL the 3 PYs, only then maintain BOAs as suggested under Rule 6F, else only normal books (for new business check for that year only) <<Govt likes ALL professions>>
 - In case of other than specified professions / businesses – Books of accounts to be maintained only If gross receipts exceed 10,00,000 or net income exceeds 1,20,000 in ANY of the 3 PYs. (for new business check if expected to increase for that year only) (Ind and HUFs have a higher limit of 25,00,000 gross receipts or 2,50,000 net income)
 - Books to be maintained for 6 PYs
- **Section 44AB – Audit of Accounts <<Audit Books>>**
 - Audit is compulsory in the following cases:
 - In case of Profession – If turnover exceeds 50 lakhs or 75 lakhs* during the PY
 - In case of Business – If turnover exceeds 1 crore or 10 crores*
 - *For the higher limit of 75 lakhs or 10 crores the cash payments / total payments AND the cash receipts / total receipts should both be max upto 5%
 - Special circumstances in which audit becomes compulsory
 - Section 44AD - If such a person claims that profits are lower than required u/s Sec. 44AD and if his income exceeds the BEL

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- Section 44AD(4) - If a person carrying on business is covered by the provisions of Sec. 44AD(4) and his income exceeds the BEL
- Section 44ADA - If such a person claims that the profits are lower than the profits required u/s Sec. 44ADA and if his income exceeds the BEL.
- Section 44AE - If such a person claims that the profits are lower than the profits computed under this sections (irrespective of his turnover).
- In case of violation of Section 44AB, then penalty u/s 271B of 1.5% of turnover subject to maximum amount of 1,50,000
- **Section 44AD – Presumptive taxation for business <<Assume Deductions>>**
 - Applicable only to resident Individual, PFAS (not to LLPs) and HUF
 - Applicable to above persons undertaking BUSINESS except persons carrying on any agency business, persons earning income in the nature of commission or brokerage income
 - Can be availed only if turnover during the year upto 2 crores (higher limit of 3 crores if cash receipts is upto 5% of total receipts)
 - Presumptive income of 8% (6% in case of payments received in the bank account)
 - No other deductions allowed from 28 to 44 sections. However, losses can be set off and other deductions under Chapter VI-A can be taken
 - WDV to be calculated normally for the purpose of balance sheet
 - No further deduction allowed to PFAS eg: remuneration, interest paid to partners
 - Once Section 44AD is used, the same to be used even for the next 5 consecutive AYs, else: can't claim 44AD benefits for the next years after that year, and compulsory 44AA and 44AB is income is more than BEL.
- **Section 44ADA – Presumptive taxation in the case of profession <<assume deductions again>>**
 - Applicable to resident Individual, PFAS (not to LLPs) ~~and HUF~~
 - Assessee is engaged in specified profession u/s 44AA
 - Can be availed only if turnover is upto 50 lakhs (higher limit of 75 lakhs if cash receipts is upto 5% of total receipts)
 - Then presumptive income @50% of turnover
 - All expenses assumed, WDV normally, no resumeration / interest deduction to partners, set off losses can be taken
- **Section 44AE <<Always on Expressway>> – Presumptive taxation for goods carriage business**
 - Applies to ALL assesses whether resident or NR
 - Applies only if assess OWNS max 10 goods carriages anytime during the year
 - Income as follows:
 - For heavy goods vehicle (over 12,000 kgs): 1000 INR pm per ton of weight
 - Other than heavy goods vehicle: 7,500 per month or part of the month per vehicle
 - Expenses already assumed, WDV as normal calculation

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- Salary and interest to partner ALLOWED
- If claimed lower profit, then 44AA and 44AB applicable

CLUBBING OF INCOME (Clubbing)

- **Section 60 – Clubbing of Income to apply in case of transfer of income without transfer of asset**
 - Section applies to ‘all persons’
 - Clubbing to apply and income will be taxable in the hands of the transferor again
 - **Q3**
- **Section 61 – Clubbing of Income to apply in case of transfer of income + revocable transfer of asset**
 - Section applies to ‘all persons’
 - Since transfer of asset is revocable, clubbing to apply and income will be taxable in the hands of the transferor again
- **Section 62 – Clubbing of Income to NOT apply in case of transfer of income + IRREVOCABLE transfer of asset**
 - Section applies to ‘all persons’
 - Clubbing provisions will not applicable since transfer is irrevocable
 - If the transfer becomes revocable due to some condition, then income will be clubbed
- **Section 63 – Definition of REVOCABLE TRANSFER**
 - If transferor has the right to revoke ie take the asset back (even if such right is not used); or
 - If the transferor enjoys income from such asset (in part or in full)
- **Section 64(1A) – Clubbing of income in the case of minor children <<A1 children>>**
 - Every Income of minor children will be clubbed in the hands of that parent whose income is higher, before such clubbing. Once decided, this option will continue in the future years.
 - If parents have separated, then clubbed in the hands of the parent who maintains the children
 - Exceptions:
 - No clubbing in case of <<SIM Income>> ie income from skill, intelligence or manual work
 - No clubbing in case of disabled minor children
 - Even accretion to income eg: bonus shares will be subject to clubbing, except income of disabled minor child
 - Exemption u/s 10(32) upto max 1,500 per child whose income is clubbed will be given
 - However, in case house property transferred to minor child, then Section 27(IFHP chapter) will apply and hence 10(32) exemption will not be available. In case of clubbing of income, minor married daughter will be treated as any minor child and clubbing will apply in the same manner
- **Section 64(1)(ii) – Remuneration (in cash or kind) to spouse from an entity in which a person has substantial interest**
 - <<Surgeon’s partnership firm, in which he has 20% partnership, pays salary to wife of surgeon not connected to her education>>
 - Such incomes are to be clubbed in the hands of the person who has substantial

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interest

- Substantial interest to be seen as aggregate of the said person + relatives (The term 'relative' in relation to an individual means the husband, wife, brother or sister or any lineal ascendant or descendant of that individual)
- No clubbing, if income is linked to professional or educational qualifications
- If both person and spouse earn income and both have substantial interest, then clubbing in the hands of the person earning higher income
- **Section 64(1)(iv)** – Clubbing of Income from asset transferred to spouse w/o adequate consideration
 - Income to be clubbed in the hands of the transferor
 - Accretion of income not to be clubbed
 - No clubbing if
 - Transfer on account of separation or
 - if adequate consideration is paid or
 - Asset acquired out of pin money
 - If part consideration paid, then proportionate clubbing of income
 - In case asset eg: gold or money is transferred to spouse/son's wife and then same is invested in business then proportionate business income / loss will be clubbed too (clubbing will apply only if invested amount / asset is invested from 1st April then clubbing from the next year)
- **Section 64(1)(vii)** – Clubbing of income from asset transferred to third party for benefit of spouse
 - Clubbing will apply
- **Section 64(1)(vi)** Clubbing of income from asset transferred to son's wife spouse w/o adequate consideration
 - Similar to Section 64(1)(iv) ie transfer to spouse
 - Income to be clubbed in the hands of the transferor
 - Accretion of income not to be clubbed eg: bonus shares
 - In case asset eg: gold or money is transferred to son's wife and then same is invested in business then proportionate business income / loss will be clubbed too (if invested transfer and investment after 1st April then clubbing from the next year)
- **Section 64(1)(viii)** – Clubbing of Income from asset transferred to third party for benefit of son's wife
 - Similar to Section 64(1)(vii)
 - Clubbing will apply
- **Cross Transfers** – Clubbing to apply in case of two or more inter-dependant transfers with an intention to avoid tax.
 - Clubbing in the hands of respective related persons only for income on the common amount
- **Section 64(2)** – Clubbing of income from asset transferred to HUF w/o adequate consideration
 - When individual, who is a member of the HUF, transfers any property to HUF then income from such property will be clubbed
 - Clubbing to apply even if converted property is distributed on partition
- **Clubbing of income also means that losses will be clubbed**

Income From Salaries

- **Section 15** - charging section for 'Salaries'
- Income under the head salaries is computed as under
 - Add: Salaries + Allowances (taxable) + Perquisites <<SAP>>
 - Less: Standard Deduction + Entertainment Allowance Deduction + Prof Tax Deduction <<SEP>>
 - Both the above are dealt with as under
- **Section 16 - Deductions from Salary Income** <<SEP>>
 - Section 16(i) - Standard Deduction of max 50,000. The same is an adhoc deduction even if no amount spent
 - Section 16(ii): Entertainment Allowance deduction (only for govt employees), allowance will first be added and deduction will be LEAST of the following:
 - Entertainment allowance received; or
 - 20% of Basic Salary; or
 - 5,000 pa (statutory limit which is fixed)
 - Section 16(iii): Deduction for Professional tax, only if PAID (even if paid by the employer)
- **The following are taxable under the head salaries -** <<SAP>>
 - Salaries –
 - Basic Salary <>,
 - Dearness Allowance (which forms part of retirement benefits) <<D>>,
 - Other Dearness Allowance (not forming part of retirement benefit) <<OD>>,
 - Commission as % of turnover <<C>>,
 - Fixed Commission <<OC>>
 - Bonus
 - Others like wages, remuneration, emoluments, etc, whatever name called
 - Salary is taxable on due or receipt basis, whichever is earlier (exception bonus which is taxable on receipt basis)
- **Allowances:** <<Allowances are always added first and then exemptions as allowed are reduced from the same>> <<HRA Can Demotivate & HURT HeartBEAT>> <<Till HURT, exemption is based on amount SPENT, for HBEAT exemption is of a FIXED AMOUNT>>
 - **Section 10(13A) - Exemption from House Rent Allowance (HRA)**
 - HRA is an allowance, hence it is to be added first
 - Then, only if rent is actually paid or payable, then exemption to be reduced to the LEAST of the following:
 - HRA Received; or
 - 1) 10% of salary <<BDC>>; or
 - 2) 40%/50% of salary <<BDC>>
 - 50% in the case house is rented in Mumbai, Delhi, Chennai or Kolkata
 - The above calculation only for the period house was taken on rent
 - If no HRA is paid by employer, then no addition and hence no exemption.
 - **Section 10(14) – Exemptions from Special Allowances**
 - **CONVEYANCE (Travelling) allowance**
 - Add allowance received first and then exemption for the amount SPENT
 - No exemption for amount spent on conveyance between home and office
 - **DAILY allowance**

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- First add the allowance received and then exemption for the amount SPENT
- **HELPER (for official purposes) Allowance**
 - First add the allowance received and then exemption for the amount SPENT
- **UNIFORM Allowance**
 - First add the allowance received and then exemption for the amount SPENT
- **RESEARCH Allowance**
 - First add the allowance received and then exemption for the amount SPENT
- **TOUR/ TRAVEL Allowance**
 - First add the allowance received and then exemption for the amount SPENT
- **<<HeartBEAT>> - Add allowance and deduction as per fixed amounts max.**
- **HOSTEL allowance**
 - First Add allowance received, then exemption of max 300 per month per child (upto 2 children)
- **EDUCATION Allowance**
 - First add the allowance, then exemption of max 100 per month per child, (upto 2 children)
- **<<Blind>> Transport Allowance for blind, deaf, dumb, handicapped persons**
 - First add the allowance, then exemption of 3200 pm
- **Area Based Allowance**
 - First add the allowance, then exemptions as under:
 - Tribal Area – 200 pm
 - Border Area – 200 to 1300 pm
 - Underground – 800 pm, etc
 - Such allowances amounts will be given in the exam question
- **Transport Sector Employee allowance (eg Allowance given to pilots, train drivers, TCs, etc)**
 - First add the allowance, then exemption of 10,000 pm or 70% of allowance, whichever is less
- **Any other allowances**
 - Any other allowance received eg: servant allowance, medical allowance, etc will be added but no exemptions will be given
- **Fully exempted allowances <<2 Judges UN Abroad>>**
 - Allowances given to HC and SC judges
 - Compensatory allowances given to any judge
 - Allowances paid to UN employees
 - Allowances paid by GOI to Indian Citizens abroad (already covered u/s 10(7) of exemptions chapter)
- **PERQUISITES**
 - Are personal benefits generally given in kind to the employees
 - The same have to be valued and will be taxed in the hands of the employees

Sr.	Perquisite	Type of employee	Value	Details
		Government	License Fees	-

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1	Accommodation (leased by employer)	Private employee	Value will be LEAST of: a) Rent / lease paid by employer or b) 10% of salary	Salary includes BDC + all taxable allowances + all monetary payments excluding advance / arrears of salary and OD. In case accommodation is provided at more than one place because of transfer, then lower value to be taxed upto 90 days, after which both values to be taxed as perquisite In case accommodation provided (upto 800 sq ft and more than 8 kms from municipal limits or any size more than 40 kms away from town) at mining site, etc, then no perquisite to be added.
2	Accommodation (owned by employer)	Government	License Fees	-
		Private employee	5% or 7.5% or 10% of salary depending on population. Upto 10 lakhs, 10-25 lakhs and 25 lakhs+.	Same as above
3	Furniture with accommodation	Any	If rented, then rent of furniture. If owned, then 10% of original cost	
4	Hotel Accommodation	Transferred employee	Upto 15 days nothing, then 24% of salary	
		Any other employee	Least of a) 24% of salary or b) actual hire charges	-
5	Gas Electricity & water		Perquisite value will be the amount paid by the employer. If employer itself generates, then, actual cost is taken as value.	-
6	Domestic servant		Amount paid by employer	If servant allowance paid, then taxable as allowance
7	Educational Facility		Amount paid by employer for children and relatives of employee	Institute selected by employee

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			For children – Cost of similar institutions less 1000 per child; For relatives – Cost of similar institution	Institute run by employer or selected by employer
8	Transport Facility		Market Value paid by the employer	No perquisite if employer is airline entity or railway entity
9	Medical Facility in India	Related persons – Spouse and children always. Parents and siblings, only if dependant.	Facility provided in private clinic – entire taxable	<i>Amount paid by employer for employee / family for covid illness is not a perquisite</i>
			Facility provided in govt hospital, hospital managed by employer, approved by CC etc - not taxable <<GMC>>	Medical insurance premium paid for employees is not a perquisite. Medical allowance paid is taxable.
10	Medical Facilities OUTSIDE INDIA	Related persons – Spouse and children always. Parents and siblings, only if dependant.	Expenses incurred by employer on treatment, stay and travel of employee/relative + 1 are exempt if within RBI limits <<STT>>	Exception: Expense on travel will be taxable if GTI of employee is > 2 lakhs
11	Motor Car (Personal entire)		If employer provides the car then – a) 10% of Original cost or hire	
			charges + b) Driver's salary + c) Actual cost of fuel etc.	
12	Motor Car (partly Personal)		Same as above but reduced by the following amounts: Driver's salary: (900) Fuel + Car: (1800/2400) Only Car: (600/900)	If more than one car provided, then any one can be assumed P+O and other cars are all personal. Use of car from home to office is not taxable. Car for Judges and UPSC is not taxable.
13	Movable Assets <<Office	All employees	If movable asset used – 10% of actual cost or actual hire charges	Exceptions: Mobile, laptops, computers, telephone, journals.

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	Projector used by employee for personal purposes>>		If sold – then depreciated value less amount paid, is taxable as perquisite.	Dep Rate – Computers 50% (WDV) Motor car – 20% (WDV) Other assets – 10% (SLM). Any asset sold after 10 years is not taxable. If employer deals in the same movable asset, then no perquisite.
14	Lunch / Refreshment	All employees	Cost of the meal provided will be added as a perquisite. Rs. 50 to be reduced per meal only if provided during office hours.	Snacks, tea, coffee are not perquisites. Also, meals provided in remote areas are not perquisites.
15	Gifts	All employees	While gifts received in cash / cheque are fully taxable Gifts in kind upto 5,000 pa are not taxable.	
16	Credit card	All employees	Annual fee + personal expenses paid by employer will be taxable	
17	Club expenditure	All employees	Amount paid by employer will be taxable	Health / gym facility provided to employees is not taxable.
18	Loan	All employees	Interest on loan as per SBI rates at the start of the year is taxable. Perquisite is calculated as under: Amount of Loan * Beneficial Interest rate * Period	Not taxable if a) Loan given for medical purposes (same should be repaid by the end of the month of receipt from insurance company) and b) aggregate loans upto 20,000 <<20 Medical>>
19	Holiday	All employees	Price paid by the employer for the holiday is taxable.	
			Market Value of facility owned by employer or	
20	Sweat Equity shares	All employees	Listed Shares: Difference between the average of highest and lowest price on exercise date and the exercise price will be taxable as the perquisite. Unlisted shares: Same as above only thing FMV has to be obtained from a registered valuer.	Vesting Period – Period after which employee can opt for ESOP. Exercise Date is when such ESOPs are exercised/agreed upon. Exercise Price – Price at which ESOPs are offered. Taxability of Perquisite is discussed ahead in the chapter.

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21	LTC (Exemption u/s 10(15))	All employees	Amount paid by employer for travel of employee and family is allowed as an exemption u/s 10(15) for 2 journeys in a block of 4 years. One such travel can be carried forward to the first year of the next block.	Exemption for – Air – Economy, Rail – First class, any other mode – 1 st class. LTC for self plus family – spouse and children always + (Parents and siblings) if dependant Exemption for max two children (after 1.10.1998) however, if twins, etc are born after the first child then, exemption will be given for all such children.
22	Any other benefit	All employees	Cost to the employer	

- The above values to be reduced by any contribution taken from the employee
- Section 10(10CC) - If tax on the above non-monetary perquisites is paid by EMPLOYER, then the tax amount will be exempt u/s 10(10CC)
- Section 17(2)(iv) – Any other liability of employee met by the employer will be taxable as a perquisite
- Amount payable by an employer directly or indirectly to effect an assurance on the life of the assessee will be taxable as a perquisite.
- The following are specified Employees <<50 Substantial Directors>>
 - Net income from salaries > 50,000 pa or
 - Having substantial interest in an entity or
 - Directors in a company
- Certain perquisites are only taxable in the hands of specified employees <<Educated Servant Transported Medical Gas by Car>>
- **Additional Points:**
 - Salary is taxable on due or receipt basis, whichever is earlier, ie the method of accounting followed does not matter
 - Employer – employee relationship is a must
 - Exceptions:
 - Salary received by partners from partnership firm and received by MLAs, MPs, are not taxable under this head
 - Salary foregone is still taxable <<Foregone FOLLOWS>>
 - However, salary surrendered is not taxable <<Surrender STOPS>>
 - Loan and advance AGAINST salary is not taxable, since it is a liability
 - Salary can be from part time or full time employment and can be from multiple employers
 - Director who is an employee – Commission is taxable under salaries
 - Arrears of salary taxable when received, if not taxed earlier
 - Deemed salary – Section 9(1)(ii) and 9(1)(iii) (already discussed under Scope of Income chapter – Deemed Income)
 - **Section 17(3)** - Salary also includes 'Profits in lieu of salary' ie amounts received from Keyman insurance amount, contract modification amount, URPF etc
 - Employer's contribution to RPF in excess of 12% of salary and interest above 9.5 % pa will be added to salaries.
 - Salary paid tax-free: ie if employer bears the burden of the tax on the salary of the

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employee then the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer.

- **National Pension Scheme (NPS) Contribution by employer:**
 - Amount contributed by employer towards NPS scheme is fully taxable in the hands of such employee
 - Deduction is given to the employer for such contribution u/s 36(1)(iva) upto 10% of salary (14% of salary for central govt)
 - Deductions are given to employee u/s 80CCD (discussed ahead under chapter 'deductions under chapter VI-A')
- **Relief u/s 89 in case of arrears / advance salary**
 - Due to advance salary and arrears of salary, current year salary increases and pushes individual to higher slab rates, hence relief is provided (eg: 5 lakhs received as arrears from previous employer due to salary revision)
 - Step 1: Tax on current year salary including arrears and advance (eg: 10+5)
 - Step 2: Tax on current year salary excluding arrears and advance (eg: 10)
 - Step 3: Step 1 – Step 2
 - Step 4: That said year's salary including arrears / advance (eg: 3+5)
 - Step 5: That said year's salary excluding arrears / advance (eg: 3)
 - Step 6: Step 4 – Step 5
 - Relief is only if Step 3 is greater than step 6
 - However, no such relief will be given if exemption taken u/s 10(10C)
- **Retirement Benefits** <<GRADUALLY PEOPLE LEAVE RETIRE VOLUNTARY-RETIRE POST SERVICE>> <<Surgeon Loves Government Positions>>
 - Just like SAP, Retirement benefits are also first added and then exemption as under will be reduced
 - If any of the retirement benefits are received during the course of employment, then will always be TAXABLE.
 - If any of the following retirement exemptions are used once, then subsequently only the unused portion of the statutory limit will be used for the calculation.
 - **Section 10(10) – Exemption from GRATUITY received from employer**
 - If received during service then taxable for everyone
 - If received by government employee (including local authority), then fully exempt <<People Loves GOVERNMENT Services>>
 - If received by others then exemption as under:
 - If covered by POGA then deduction as under:
 - Gratuity Received
 - 20 lakhs
 - $15/26 \times \text{last drawn BDOD} \times \text{Completed Years}$ (rounded Off to next year if more than 6 months)
 - If not covered by POGA then least of the following (four things change)
 - Gratuity Received
 - 20 lakhs
 - $15/30 \times 10 \text{ month average BDC} \times \text{Completed no of years}$
 - **Section 10(10B) – Exemption from Retrenchment Compensation received**
 - Under this calculation is similar to Gratuity (covered by POGA)
 - Exemption to the least of the following:

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- Retrenchment compensation Received
- 5 lakhs
- $15/26 \times 3$ month average BDOD*Completed Year (rounded Off to next year if more than 6 months)
- **Section 10(10C) – Exemption from Voluntary-retirement amount received**
 - <<See ahead and see behind hence exemption u/s 10(10C)>>
 - Exemption to the least of the following:
 - VRS compensation received
 - 5 lakhs
 - Last salary drawn (BDC)*Completed no of Years*3
 - Last salary drawn (BDC)*Months left till retirement
- **Section 10(10AA) <<Always Around>> Leave Salary / Leave Encashment**
 - Leave salary paid during employment is taxable for all
 - Leave salary paid on retirement or leaving the firm is exempt as:
 - Government employees – fully EXEMPT hence <<Surgeon LOVES Government Positions>>
 - Exemption will be least of the following:
 - Leave salary received or
 - 25 lakhs or
 - 10 months average BDC*10
 - 10 months average BDC*Pending leaves (in months)
 - **Pending Leaves:**
 - Total Number of leaves for completed no of years (max 30 leaves per year) eg: 30 leaves * 20 years = 600 leaves
 - Less: Leaves encashed / availed eg: 150 leaves
 - Leaves pending in months = Pending leaves / 30 eg: 450/30 = 15
- **Section 10(10A) – Exemption from commuted Pension received from employer**
 - Monthly pension received is always taxable for everyone (taxable under Salaries head)
 - Commuted ie Lumpsum pension received is treated as under:
 - Government employees (including high court and supreme court judges) – EXEMPT hence <<People Love Government Services>>
 - Other than govt employees – Exemption upto $\frac{1}{2}$ of TOTAL PENSION
 - For those also getting gratuity, exemption is lower ie only $\frac{1}{3}$ of TOTAL PENSION
 - Any commuted pension received by an individual out of annuity plan of the Life Insurance Corporation of India (LIC) from a fund set up by that Corporation will be exempted.
- **Section 10(11) – Exemption from Provident Fund contribution**
 - **Statutory Provident Fund (SPF)**
 - Contributions to SPF (SPF is only for govt employees) are exempt <<EEE Contribution, interest and withdrawal all exempt>> hence <<SURGEON Loves Government Positions>>
 - **Recognised Provident Fund (RPF)**
 - Contributions to RPF (other than govt employees) are also all exempt to the following limits:
 - Employers's contribution is exempt upto 12% of salary <<BDC>>

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- Interest upto 9.5% pa
- Withdrawal is exempt after 5 continuous years (Exempt even if withdrawn within 5 years if withdrawal is due ill health, discontinuance of business or events beyond control <<IDC>>)
- **Unrecognised Provident Fund (URPF):**
 - No exemptions for any Contributions to URPF. The same will be taxable when RECEIVED by the employee
 - Employer's share as well as Interest on the same – taxable under salaries
 - Interest on employee's share is taxable under IFOS
- **Section 10(13) - Exemption from Super Annuation Fund contribution**
 - Super annuation fund is similar to PF, etc but is not often used in India.
 - Employer's contribution is exempt upto 1.5 lakhs annually
- Additional Points:
 - **Section 17(2)(vii):** The amount or aggregate of amounts of any contribution made
 - Towards RPF; and
 - Towards NPS ; and
 - towards approved superannuation fund
 - by the employer to the account of the assessee, to the extent it exceeds 7,50,000 will be taxable in the hands of the employee u/s 17(2)(vii)
 - **Section 17(2)(viiia):** Further, any annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the employer's contribution which is included in total income in any previous year under section 17(2)(vii) will be taxable u/s 17(2)(viiia)
 - Interest on PF exempt only upto 2.5 lakhs pa / 5 lakhs pa if no employer contribution
 - **Tax on sweat equity shares:** Tax on perquisite of specified securities and sweat equity shares is required to be paid in the year of exercising of option. However, where such shares or securities are allotted by the current employer, being an eligible start-up, the perquisite is taxable in the year
 - after the expiry of 48 months from the end of the relevant assessment year
 - in which sale of such security or share are made by the assessee
 - in which the assessee ceases to be the employee of the employer, whichever is earlier.
 - **Agniveer Fund - Central** Government's contribution to Agniveer Corpus Fund account would form part of salary of employees. However, while computing total income of an individual enrolled in the Agnipath Scheme, being the assessee, a deduction under section 80CCH is allowed to the assessee in respect of his contribution as well as Central Government's contribution under Agniveer Corpus Fund.

Capital Gains

- Details below are capital gains on or after 23rd July 2024. Capital Gains before 23rd July are discussed later in this chapter QUIK-Book
- Capital Gains are chargeable to tax on the 'transfer' of a capital asset, details are as under.
- Capital gains is always seen from the 'transferor's perspective'
- **Section 45 – Charging Section <<ATPSC>>**
 - There should be an ASSET
 - There should be a TRANSFER
 - There should be Period of holding
 - There should be a SALE PRICE
 - There should be a COST
- **Definition of Assets**
 - Asset includes 'property of any kind' eg: Shares, gold, flat, villas, etc
 - Also includes ULIPs where premium paid is more than 2.5 lakhs
 - Exceptions <<But Spare Personal Assets>>
 - Bonds (specified bonds)
 - Stock (taxed under PGBP)
 - Personal Movable Assets eg: mobile, laptops bikes, etc (other than SAD JAW)
 - Agriculture Land – Rural agri land only.
- **Transfer includes <<SER Extinguished & Compulsory Conversion ZCBs>>**
 - Sale, exchange or relinquishment; or
 - Extinguishment of rights in any asset; or
 - Compulsory Acquisition under any law; or
 - Conversion of Capital asset into stock; or
 - Redemption of Zero Coupon Bonds (ZCBs)
- **Section 47 – Transactions NOT regarded as transfer (thus no capital gains in the foll cases) (THIS SECTION IS NOT IMPORTANT FOR CA INTER STUDENTS)**
 - Section 46(1) – Asset transferred by a company in liquidation <<Kingfisher Airlines>>
 - Section 47(i) – Assets transferred by a HUF to its members <<family first>>
 - Section 47(iii) – Assets transferred under a gift/ will/ inheritance
 - Section 47(iv) – Asset transferred by Parent Company to WOS in India <<Reliance to Jio>>
 - Section 47(v) - Asset transferred by WOS to Parent Company in India <<Jio to Reliance>>
 - Section 47(vi) – Asset transferred by amalgamating to amalgamated company in India <<six towers transferred from Vodafone to idea>>
 - Section 47(vii) – Shares transferred of amalgamating Co for shares of amalgamating Co <<Vodafone shares to Idea shares>>
 - Section 47(vib) - Asset transferred by demerged to resulting company in India
 - Section 47(vid) - Shares transferred of demerged Co for shares of resulting Co <<Businesses Demerge - for the above two sections>>
 - Section 47(viic) – Redemption of SGBs (after 8 years)
 - Section 47(x) – Conversion of bonds into shares / bonds <<conversion after x years>>
 - Section 47(xb) – Conversion of pref shares into equity shares
 - Section 47(xvi) – Conversion in case of Reverse Mortgage Scheme <<RMS for xvi years>>
 - Section 47(xvii) – Conversion of units on amalgamation of MF schemes.
- **Section 2(29A) Long Term Capital Asset (LTCA) and Section 2(42A) Short Term Capital Asset**

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(STCA)

- Most Assets are LTCA if held for > 24 months
- All Listed securities + ZCBs + Units of UTI + Units of Equity Oriented MFs <<LISTED ZUM>>, these are LTCA if held for > 12 year
- **LTCA have these benefits:**
 - They are given the benefit of Indexation as well as taxed at flat and low rates
- **Period of Holding (POH)**
 - POH is from the date of acquiring the asset till the date of transfer (subject to exceptions u/s 45)
 - POH is important because – 1) POH determines LT/ST and 2) POH determines indexation
 - In case of gifts are not taxed – POH includes POH of the previous owner
 - POH in case of Transfer of CA into Stock will be time till such asset is converted
 - POH in case of Shares – from the date of allotment till the date of transfer / liquidation.
Eg: normal shares, bonus shares, rights shares, sweat equity shares, shares in amalgamating and demerging entity
 - POH in case of conversion of debentures into shares – only from the date of holding the shares
- **Section 48 – Computation of Capital Gain / Capital Loss (CG/CL)**
 - To calculate CG we only need <<ATPSC>>
 - Section 55 deals with Cost of Acquisition (COA) and Cost of Improvement (COI)
 - Expenditure incurred wholly and exclusively for transfer of asset is allowed as a deduction eg: brokerage
 - No deduction for STT / CTT under CG head
- Generally, CG is taxable in the 'year of transfer' irrespective of sale consideration being received in that year or next years. Thus method of accounting does not matter under CG head.
- **However, Capital Gains in Special Circumstances will be computed as under:**
 - **Section 45(1A) <<1 Accident>>**
 - In case of destruction of asset due to any accident, riot, civil disturbance, etc and insurance compensation is received or a new asset is received, then CG/CL will be computed u/s 45(1A)
 - Accident is extinguishment of right hence TRANSFER
 - Insurance amount will be Sale consideration (or FMV of the asset received)
 - POH will be till the asset is destroyed
 - **Section 45(2) <<2 calculations – CG and PGBP>>**
 - Conversion of CA into stock will be assumed to be TRANSFER
 - However, it will be taxed only when all or part of the stock is sold
 - For CG - FMV on conversion will be assumed to be Sale consideration, and POH will be till the date of conversion
 - For PGBP, the FMV above will be considered as the cost of the stock
 - **Section 45(5) – Original + Enhanced Compensation <<1+4 crores for the bungalow>>**
 - Compulsory acquisition is regarded as transfer. Since there are two compensations, there will be two calculations in the 'year of receipts'.
 - CG will be calculated at two times – when initial compensation is received and next when enhanced compensation is received (Cost will be NIL at the second time and litigation expenses allowed as deduction)
 - Thus CG only in the year of receipt.
 - Such enhanced compensation shall be deemed to be income of the PY in the

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FINAL ORDER is made.

- **Section 46 – Transfer of asset on liquidation of company <<KINGFISHER>>**
 - Section 46(1) – Transfer of assets by liquidating company to shareholders is not subject to CG in the hands of the liquidating company
 - Section 46(2) – Transfer of shares by the shareholding for the above asset will be subject to CG.
 - <<ATPSC>>
 - The FMV of the asset on the date of distribution will be considered as the sale consideration (less deemed dividend u/s 2(22)(c), if any)
- **Section 55: Special Costs for intangible assets:**
 - COA is the price paid for the asset
 - If asset acquired before 1.4.2001, then assessee has an option to take the FMV as on 1.4.2001 as the COA (*In case of immovable property, this can be maximum upto the SDV as on 1.4.2001*) <<Old Fashioned>>
 - In case of intangible assets like Goodwill, Trademark, patents, tenancy rights, right to manufacture, right to pursue any business/profession, stage carriage permits, loom hours etc:
 - If the same are purchased, then COA will be purchase price
 - If self-generated, then COA will be NIL
 - If purchased before 1.4.2001, then FMV as on 1.4.2001 CANNOT be taken
 - Bonus Shares – COA is NIL (however if allotted before 1.4.2001, then FMV as on 1.4.2001 to be taken)
 - Right shares
 - If acquired – the COA is the price paid
 - If right purchased and then acquired – COA is rights purchase price + COA
 - COI – Any COI before 1.4.2001 to be ignored
- **Section 50C <<Check>> Sale Consideration in case of transfer of L&B as a capital asset**
 - The provisions are same as 43CA, except that 43CA is for PGBP and 50C is for capital asset
 - Applicable when L&B is sold as a capital asset
 - If SDV is within 110% of SC, then no change
 - However, if SDV is higher than 110% of SC, then SDV is to be considered as SC
- **Section 50CA – SC in the case of unlisted shares**
 - In case of transfer of unlisted shares, if FMV > SC, then such FMV will be considered as the sale consideration
- **Section 50D – In case SC is undeterminable**
 - Then, FMV is assumed to be the SC
- **Section 50B – SLUMP SALE <<B for Britannia>>**
 - Slump sale is when an entire undertaking is sold together without assigning values to individual assets
 - For CG purposes, Sale consideration will be the lumpsum consideration or the FMV on the date of sale of undertaking, whichever is higher.
 - COST will be the net-worth to be calculated as under:
 - Book Value of Non-depreciable assets eg: land at Book Value
 - WDV of Depreciable assets eg: building at WDV

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- Any revaluation of assets to be ignored
 - Any goodwill will be ignored
- Report of CA is compulsory
- Seller can carry forward losses of transferred entity
- Even if LTCA ie undertaking started for > 36 months, no Indexation will be given in case of slump sale
- **Section 51 – Forfeiture of amounts <<51 is auspicious amount>>**
 - Forfeiture of amounts in relation to capital asset before 1.4.2014 to be reduced from Cost
 - No such reduction if such advance has been received and retained by the previous owner and not the assessee
 - Reduce the cost first with the forfeited amount and then do indexation, if applicable.
- **Exemptions from Capital Gains**
 - 10(37) – Exemption from CG in case of Compulsory Acquisition of Urban Agri Land (Discussed in exempt Income chapter)
- **Exemptions u/s 54 Series**
 - **Section 54 – Exemption in case of HP for HP <<House for House>>**
 - Given to Individuals and HUF only
 - Asset transferred to be LTCA being Residential house property only (excluding only land)
 - First Calculate LTCG
 - The above LTCG will be exempted if one house is constructed (within 3 years) or purchased (one year before or max upto 2 years later). Till this period the amount to be deposited in Capital Gain Account Scheme (CGAS) by the return filing date <<JON>>
 - Even two houses can be purchased or constructed if amount of LTCG is upto 2 crores (this option can be used only once in the lifetime of a person)
 - Amount to be invested is the LTCG
 - The new asset to be held for 3 years from DOA, if sold earlier, cost to be reduced by the amount of benefit ie CG exemption
 - Benefit upto max 10 crores
 - **Section 54B <<BARREN Agri Land>>**
 - Exemption if UAL is sold to purchase another agriculture land
 - Exemption given only to Individuals and HUF
 - Asset transferred maybe short term or long term 'urban agri land'
 - New asset has to be agri land (urban or rural area)
 - New asset to be purchased within 2 years from date of transfer (DOT)
 - Amount to be invested is the CG
 - The new asset to be held for 3 years from DOA, if sold earlier, cost to be reduced by the amount of benefit ie CG exemption (no such condition for rural agri land)
 - CGAS applicable, amount to be by before the return filing date
 - **Section 54F <<Family Assets>>**
 - Applies to Individual and HUF Only

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- Asset transferred can be any long term capital asset except residential house property
- Calculate Net Sale Consideration (NSC)
- The NSC has to be invested, else proportionate exemption
- New Asset has to be Residential House Property
- New Asset to be constructed within 3 years or acquired within 1 year before or 2 years later from DOT
- The new asset to be held for 3 years from DOA, if sold earlier, CG exempted earlier will be taxable
- CGAS applicable, amount to be by before the return filing date
- This exemption can only be used if the assessee has none or max one HP before such purchase
- Benefit upto max 10 crores
- The assessee should not purchase any other residential house within a period of 2 years or construct any other residential house within a period of 3 years from the date of transfer of the original asset.
- **Section 54D <<Demanded>>**
 - In this case exemption is given on compulsory acquisition of industrial land, if CG is invested in purchase of industrial land
 - Applicable to all assesses
 - Asset transferred has to be L&B forming part of industrial undertaking
 - Can be short term or Long term
 - Amount to be invested is the CG
 - New asset to be acquired within 3 years from receipt of compensation
 - The new asset to be held for 3 years from DOA, if sold earlier, cost to be reduced by the amount of benefit ie CG exemption
 - Entire Capital Gains to be invested
 - CGAS applicable, amount to be by before the return filing date
- **Section 54EC <<Easy Capital Gains>>**
 - Applicable to all assesses
 - Exemption from LTCG on Land & Building (including only land)
 - Amount to be invested is the LTCG
 - New Asset to be bonds of NHAI or REC or any other specified bonds to be purchased within 6 months from the DOT
 - Maximum investment u/s 54EC is 50 lakhs aggregate for all transfers in a year
 - Such bonds to be held for 5 years
 - Such bonds not to be transferred or converted or pledged, CG exempted earlier will become taxable
- **Section 54H <<Hold On>>**
 - In case the above transfers are on account of compulsory acquisition then time for investment will start from the date of receipt of payment
- **CGAS:**
 - If the amount deposited in CGAS is not utilized within the stipulated time of 2 years / 3 years then such unutilized amount shall be charged as capital gain of the previous year in which the specified period expires. In

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the case of section 54F, proportionate amount will be taxable.

- **Tax on Capital Gains**
 - **Normal Assets** <<Normal 12.5>>
 - **STCG**
 - Taxed at normal rates
 - BEL can be used
 - **LTCG**
 - Taxed at a low and flat rate of 12.5% u/s f
 - indexation benefit
 - BEL can be used (only by residents)
 - **<<Listed EUU>> (no indexation allowed) <<20:12.5>>**
 - **STCG**
 - Taxed at flat and low rate of 20% u/s 111A
 - BEL can be used (only by residents)
 - **LTCG**
 - Taxed at flat and low rate of 12.5%, only above 1,25,000per annum u/s 112A
 - BEL can be used (only by residents)
 - Before 1.2.2018 LTCG on listed shares, etc was exempt u/s 10(38), which got abolished post 31.1.2018. Thus, In case of listed shares purchased prior to 1.2.2018, COA will be revised COA u/s 55(2)(ac) <<Higher lower>>
 - Revised COA will be Higher of
 - a) Original Cost or
 - b) Lower of FMV (highest price) as on 31.1.2018 or SC
- **Additional Points:**
 - Market linked debenture or specified mutual fund (less than 35% invested in equity) will always be STCG taxable at normal rates
 - Section 46A – buyback of shares will be taxable in the hands of the company at 20% plus 12% surcharge plus 4% HEC
 - On or after 23rd July 2024 Indexation will be given only in the following case: a) Only to individuals and HUFs & b) Only on sale of LTCA being Residential house property. Thus, assessee will have 2 options – 1) No indexation and LTCG at 12.5% or 2) Indexation and LTCG at 20% <<i20>>. However, if option 2 is a loss it will be considered as 0.
 - Before 23rd July 2024 the following was applicable:
 - Indexation was given for all LTCAs except listed securities and Slump sale;
 - Rates of tax were <<N i20>> and <<15:10>> respectively for other assets and listed assets

Set off and Carried Forward of Loss

- <<This entire chapter is based on a blood bank - loss means you require blood. Blood is first taken from immediate family, then from extended family. If blood is still required, you move

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to the next year and take it only from immediate family>>

- Define intra-head and inter-head
- Under Salaries there can never be a loss <<hence no blood requirement>>
- **Section 70 – Intra-head adjustment <<within the family>>**
 - Salary will have no loss
 - HP loss can be adjusted within the head
 - Intra-head adjustment is not possible in the following cases <<unique blood>>:
 - Speculative business loss
 - Specified business u/s 35AD loss
 - Long term capital loss (LTCL)
 - Loss from owning and maintaining race horses (horses business)
- **Section 71 – inter head adjustment <<outsiders >>**
 - No such adjustment possible in the following cases <<unique blood>>:
 - Speculative business loss
 - Specified Business loss
 - LTCL
 - Loss from owning and maintaining race horses (horses business)
 - Further, inter-head adjustments will be as under:
 - Under IFHP, maximum adjustment inter-head is 2 lakhs against any head of income which is most beneficial. Example if option to adjust against salaries as well as capital gains, then adjust against capital gains since salaries can be taxed at slab rates <<friendly but shy>>
 - Under PGBP, Normal business (non-speculative) loss cannot be set-off against salaries income and horses business income <<Semi friendly>>
 - No inter-head adjustment for Capital Loss <<non-friendly head>>
 - No adjustments to be made from any casual income.
- **Step 3 – Carry forward of losses <<the loss will be stamped with the year and head, so they are quarantined and cannot be adjusted against other heads, except UAD>>**
- **Section 71B – IFHP can be carried forward**
 - Loss from HP can be carried forward for 8 years
 - Even if ROI is filed late or no ROI is filed
- **Section 72 – Normal Business**
 - Loss can be carried forward for 8 years
 - Only if ROI is filed within due dates
- **Section 73 – Speculation Business loss**
 - Loss can be carried forward for 4 years only
 - Only if ROI is filed within due dates
- **Section 73A – Loss from specified business**
 - Loss can be carried forward unlimited no of years
 - Only if ROI is filed within due dates
- **Section 74 – Loss from Capital Gains**
 - Loss can be carried forward for the next 8 years
 - Only if ROI is filed within due dates
- **Section 74A – Loss from owning and maintaining race horses (stake money)**
 - Loss can be carried forward for next 4 years only
 - Only if ROI is filed within due dates
 -

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- **Additional points**

- If any income is exempt, then loss from such business is also not allowed to be set off
- No option for set off, it is compulsory
- First clubbing and then set off
- For the same person, one business loss can be set off against another business income
- Under IFOS - Only loss from horse business can be carried forward
- UAD can be carried forward Indefinitely and can be set-off against all heads except salaries and casual income ie <<no quarantine stamp>> <<INS>>
- Treatment of UAD = SRE = FPE <<INS>>
- Loss from discontinued business can be carried forward and set off too and loss of discontinued year not subject to 8 years.
- Order of carry forward and set off
 - First deduct current year expenses like dep, SRE, FPE,
 - Then, set off brought forward business loss since it has expiry
 - Then set off UAD – Unabsorbed scientific research – unabsorbed family planning expenditure (since they have unlimited life)
- In the default / new scheme u/s 115BAC the following changes would apply:
 - IFHP loss cannot be set off against any other heads of income <<Non-friendly>>, and
 - IFHP loss cannot be carried forward to subsequent years <<one year game>>

Deductions under Chapter VI-A

- **While every head of income has its own deduction, these deductions are given from the Gross Total Income (GTI)**
- **Section 80A <<Aggregate>>**
 - Deductions u/c VI-A cannot be more than GTI <<available GTI>>
 - Such deductions will be allowed only if claimed in the Return of Income (ROI)
 - Chapter VI-A deductions cannot be claimed / taken from the following incomes which are to be taxed at specific rates <<unavailable GTI>>
 - Casual Income (to be taxed at 30%)
 - LTCG u/s 112 (to be taxed at 12.5%)
 - STCG u/s 111A (to be taxed at 20%)
 - LTCG u/s 112A (to be taxed at 12.5% above 1.25 lakhs)
 - 115BBD, etc.
- **Section 80C – Deduction for contributions as under: <<Girl's Life Now Needs 5 Ultra Senior Assets PF, MF, shares & debentures, House (NHB loan) and Indian Education>>**
 - This section only applies to Individuals and HUFs
 - It applies to both Residents and NRs <<since contributing to the economy>>
 - Deduction for the following contributions:
 - Contribution towards Sukanya Samridhi Account by parents, guardians etc.
 - Payment of premium towards life insurance
 - Deduction only upto the limits <<low premiums>> specified u/s 10(10D)

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- Deduction even for premium paid for family ie self, spouse and children
 - Deduction even for premium for life insurance taken / paid abroad
- Contribution / purchase of NABARD bonds
- Contribution / purchase of National Savings Certificate (NSC)
- Creation of 5 year FD with banks and POs – Max limit of 1,50,000 pa
 <<taxsaver FD>>
- Contribution to Unit Linked Insurance Plans (ULIPs) for self, spouse or children (taxability of ULIPs is only at CA FINAL)
- Contribution towards Senior Citizen Savings Scheme
- Contribution towards Annuity plans for self, spouse and children
- Contribution towards Public Provident Fund (Deduction even for premium paid for family ie self, spouse and children), RPF, SPF (can be contributed for self, spouse and children)
- Purchase of specified Mutual fund units
- Purchase of specified shares / debentures (with 3 year lock-in)
- Deduction for principal paid on 'Housing loan'
 - only if loan taken from banks, FIs etc ie
 - deduction for amount paid for stamp duty and registration fee
 - House should be acquired or construction should be completed
- Purchase of NHB bonds
- Deduction of Children's Education fees paid in India (Max 2 children) (no deduction for private coaching, donations, etc)
- Tier II of NPS account is given deduction u/s 80C
- If amount withdrawn from FD, or ULIP cancelled or house sold within 5 years then deduction to be reversed. In case of life insurance the above period is of two years.
- **Section 80CCC** <<Care Care Care>>
 - This section only applies to Individuals and HUFs
 - It applies to both Residents and NRs <<since contributing to the economy>>
 - Purchase of 'Annuity plans of LIC'
- **Section 80CCD** <<NPS was created at CCD>> Contribution towards NPS
 - Section 80CCD(1) – Self contribution to NPS subject to 10% of salary <<BDC>> for salaried people or 20% of GTI in case of self-employed people
 - Section 80CCD(1B) – Extra deduction for self-contribution to NPS, maximum 50,000
 - Section 80CCD(2) – Employer's contribution to NPS (entire contribution by employer was earlier taxable under Salaries) – Deduction of maximum 10% of salary (BDC) or 14% of salary (in case of central govt employees)
 - **Please Note:**
 - Section 10(12A) and 10(12B) exempts withdrawals upto 60% and 25% respectively
 - NPS amount will be entirely exempt if withdrawn on death, to contribute to LIC scheme, etc.
 - Contribution to Tier II account of NPS will be allowed as a deduction but only under section 80C
 - Tier I NPS deduction u/s 80CCD while Tier II NPS deduction will be given u/s 80C
- **Section 80CCE** <<CC Extent>>

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- Maximum aggregate deduction of Section 80C + 80CCC + 80CCD(1) will be Rs. 1,50,000 pa
- **Section 80CCH <<Country Champion & Hero>>** - Agnipath scheme deduction - Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces. Section 80CCH provides deduction in respect of contribution made in the Agniveer Corpus Fund by the individual enrolled in the Agnipath Scheme and the Central Government. 80CCH(2) amount contributed by govt will be added first and then deduction will be given.
- **Section 80D <<doctor's fees>>** - Deduction for health insurance premium
 - Applies to only individuals and HUFs
 - Applies to both Residents and NRs <<since contributing to the economy>>
 - Family here includes self, spouse, children <<Category I>> and parents <<Category II>>
 - Category I - For self, spouse and children – max 25,000 pa (including contribution to govt health schemes ('CGHS')) (it will be max 50,000 pa if any person is senior citizen)
 - Category II - For parents – max Rs. 25,000 pa (it will be 50,000 pa if any parent is a senior citizen + Resident (CGHS not allowed))
 - In case of senior citizen, if not getting / not taken health insurance, then medical expenditure can be deducted upto the above limits
 - The premiums to be paid other than cash
 - In the above limits of category I and II - there is provision for preventive health check-ups medical test upto 5,000 pa aggregate for both categories, even if paid in cash
 - Section 80D(4A) <<4 years aggregate>> – if premium paid for more than 1 year, then proportionate deduction based on financial years it covers
- **Section 80DD <<Disabled dependent>>**
 - Applies only to Individuals and HUFs only
 - Applies only to Residents <<since not contributing to the economy>>
 - Family includes: Spouse, children, parents, brothers and sisters of the ind and members for the HUF
 - If Assessee has a disabled dependant then deduction as under:
 - Flat deduction of 75,000 (if disability is less than 80%) or
 - Flat 1,25,000 (if disability is 80% or more)
 - Amount spent does not matter in the above deduction.
- **Section 80DDB <<Double Dangerous Bemaari>>**
 - Applies only to Individuals and HUFs only
 - Applies only to Residents <<since not contributing to the economy>>
 - Family includes: Spouse, children, parents, brothers and sisters of the ind and members for the HUF
 - Deduction to the LESSOR of the following: <<Compare first, then deduct amount received>>
 - amount spent on treatment of specified diseases during the year or
 - 40,000 (this will be Rs 1,00,000 in case ill person is individual of 60 and more and resident)
 - From the above amount, any receipts from Insurance companies or employers will be reduced
- Entire "E" Series is for <<PIIE>> i.e. **payment** basis, **interest** deduction, for **individuals** and

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makes it **expensive**

- **Section 80E <<Education>>** - Deduction for interest on Education loan on PAYMENT basis
 - Applies to only individuals
 - Applies to both Residents and NRs <<since contributing to the economy>>
 - Deduction for Interest on loan taken for education of self, spouse or children (or for whom he/she is a guardian) in India or abroad
 - Loan from banks, FIs, in India.
 - Deduction available from first year of payment + 7 consecutive years
- **Section 80EE <<Easy EMI>>**
 - Applies to only individuals
 - Applies to both Residents and NRs <<since contributing to the economy>>
 - Deduction for interest paid on residential housing loan
 - Similar to Section 80EE, except the following:
 - SDV of house property to be max 50 lakhs,
 - Residential House may be SOP or LOP
 - Loan to be sanctioned between 1.4.2016 to 31.3.2017
 - Maximum deduction 50,000 pa over and above Section 24(b)
 - ♣ Loan from a bank or Financial Institution only and not from NBFC
- **Section 80EEA <<Easy EMI Again>>**
 - Applies to only individuals
 - Applies to both Residents and NRs <<since contributing to the economy>>
 - Deduction for interest paid on residential housing loan
 - Similar to Section 80EE, except the following:
 - SDV of house property to be max 45 lakhs,
 - Residential House may be SOP or LOP
 - Loan to be sanctioned between 1.4.2019 to 31.3.2022
 - Maximum deduction 1,50,000 pa over and above Section 24(b)
 - Loan from a bank or Financial Institution only and not from NBFC
- **Section 80EEB <<easy electric bike>>**
 - Applies to only individuals
 - Applies to both Residents and NRs <<since contributing to the economy>>
 - Deduction for Interest on loan taken to buy electric vehicle Maximum deduction 1,50,000 pa
 - Loan to be sanctioned between 1.4.19 to 31.3.23
 - From any bank, FI, NBFC only.
- **G Series involves 'giving' (except 80GG)**
- **Section 80G <<give>>**
 - Applies to ALL ASSESSES
 - Applies to both Residents and NRs <<since giving>>
 - Deduction of specified percentage based on categories as under:
 - Category I - Deduction of 100% of the amount contributed
 - Category II – Deduction of 50% of the amount contributed <<Drought Relief Fund>>
 - Category III – 100% deduction subject to a limit of '10% of ATI' <<Family Olympics >>
 - IV Category – 50% deduction subject to the 'unused limit of 10% of ATI'. First compare donation and balance of ATI and then do 50% <<Give Him Money to Create Temple>>

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- ATI = Adjusted Total Income = <<Available GTI less all deduction except Section 80G>>
- Cash donations above 2000 fully disallowed
- **Section 80GG <<Ghar Ghar>>**
 - Applies to only individuals
 - Applies to both Residents and NRs <<since paying rent>>
 - Applies to those who pay house rent and yet do not get exemption u/s 10(13A) as well as self-employed persons paying rent
 - Deduction is least of the following:
 - 5,000 pm or
 - Rent paid less 10% of adjusted total income (before this deduction)
 - 25% of adjusted total income (before this deduction) or
 - The assessee or his spouse or his minor child or a HUF of which he is a member should not own any accommodation at the place where he ordinarily resides or perform duties of his office or employment or carries on his business or profession
- **Section 80GGA <<Give Give Around>>**
 - Applies to ALL ASSESSES
 - Applies to both Residents and NRs <<since giving>>
 - Applies only to those assesses who do not have PGBP income
 - Deduction for donations towards Scientific research, rural development, skill development etc (Similar to Section 35(ii)/(ia)/(iii)/2AA)
 - Cash donations above 2000 fully disallowed
- **Section 80GGB <<Give Give Big >>**
 - Applicable only to Companies
 - Deduction for Donations / payments made to political parties and electoral trusts
 - Cash donation completely disallowed <<Since political parties already have a lot of black money>>
 - Also, disallowance u/s 37(2B) for advertisements in political souvenirs can be deducted under this section
- **Section 80GGC <<Give Give CHOTA >>**
 - Same as Section 80GGB, but applicable to everyone other than companies
 - Deduction for Donations / payments made to political parties and electoral trusts
 - Cash donation completely disallowed <<Since political parties already have a lot of black money>>
 - However, disallowance u/s 37(2B) for advertisements in political souvenirs CANNOT be deducted under this section
- **Section 80JJAA <<Job Job Add Add>>**
 - Applies only to those entities who are subject to audit u/s 44AB
 - Applies to both residents as well as NRs <<since creating jobs>>
 - Deduction of 30% of salary paid to additional employees for 3 consecutive years
 - In case of new entity, all employees will be considered as 'additional employees'
 - However, deductions subject to the following:
 - No deduction if salary paid in cash
 - No deduction if salary paid above 25,000 pm
 - No deduction if govt or third party is contributing to PF and not the employer
 - No deduction if period of job is less than 240 days in the year (150 days in case of <<LAF>> mfg of leather products, apparel, or footwear)*

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- If not employed for 240 or 150 days during the said year, but employed for 240 or 150 afresh in the next year, then deduction allowed in the next year, even if no additional employees in the next year
- Salary = excludes employer's contribution to PF and lumpsum retirement benefits
- **Section 80QQB <<Quality Quality Books>>**
 - Applies only to Individuals
 - Applies only to residents <<since not contribution / spending money>>
 - Deduction to authors / co-authors of max 3,00,000 pa on royalty income earned on books (Literary, artistic or scientific books)
 - Deduction calculated as under:
 - Step 1: Royalty to be maximum 15% of sales (no such condition in case of Lumpsum royalty)
 - Step 2: If royalty earned abroad, determine amount remitted into India within 6 months from end of the previous year
 - Step 3: Take lower of Step 1 or 2 and deduct expenses incurred for earning such income
- **Section 80RRB - <<Royalty Racket Bat>>**
 - Applies only to Individuals
 - Applies only to residents <<since not contribution / spending money>>
 - Deduction to inventors or co-inventors for max 3,00,000 pa on royalty income
 - Step 1: If royalty earned abroad, determine amount remitted into India within 6 months from end of the previous year
 - Step 2: Take the above amount and deduct expenses incurred for earning such income
- **Section 80TTA <<Ten Thousand Annually>>**
 - Applies only to Individuals and HUFs
 - Applies to both residents and NRs <<since saving money>>
 - Applies to individuals below 60 years
 - Deduction of max 10,000 pa on interest earned on savings account only with a bank or Post Office
 - In case of post office interest, first deduct exemption u/s 10(15) and then deduction 80TTA
- **Section 80TTB <<Big Deduction>>**
 - Applies only to Individuals
 - Applies to only residents <<since heavy deduction>>
 - Deduction of max 50,000 pa on interest earned on 'saving A/c' as well as 'FD' from a bank or Post office
 - ILLUSTRATION
- **Section 80AC** – The following deductions will be given only if Return of Income is filed within the due dates u/s 139(1)
 - Section 80JJAA, Section 80QQB and Section 80RRB <<Join Return Queue>>
- **Section 80U** – Deduction for person with disability <<similar to Section 80DD>>
 - Applies only to Individuals
 - Applies to only residents <<since not contributing>>
 - Flat deduction of either 75,000 or 1,25,000 depending upon disability same as Section 80DD
- **Additional Points:**
 - Explain difference between deductions and exemptions

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- Categories of deductions

TDS, TCS, Advance Tax

- The income-tax payable by an assessee is paid/deducted/collected either through TDS or TCS or Advance Tax or Self-assessment tax
- Thus, total tax liability = TDS + TCS + AT + SAT
- TDS is deducted, TCS is collected and AT is paid during the course of the PY
- Self-assessment Tax is paid in the AY along with filing the return of income
- Provisions relating to TDS are as under:

Section	Payer	Receiver	Details	Additional points
192 <<192 employees>>	Employer	Employee	Every month while paying salary, employer has to deduct TDS. Employer has to calculate the 'average tax' of the employee by taking details of employee's other incomes, tax deductions, loss from HP, Section 115BAC option, etc	TDS on PAYMENT basis. If no PAN then tax at Maximum Marginal Rate (MMR).
192A <<Aaraam>>	Provident Fund	Employee	If amount is withdrawn from RPF account within 5 years then TDS @ 10% if amount/ aggregate amounts > 50,000.	TDS on PAYMENT basis. If no PAN then tax at MMR. Exception: No TDS if amount withdrawn due to loss of job due closure of business or disability or illness.
193	Any person	Person holding securities	10%. (In case of govt bonds, TDS only if nominal value of govt bonds exceeds 10,000)	No TDS if interest on debentures paid by cheque only upto 5,000 pa. And NO TDS in case of 8% saving (taxable) bonds, etc if face value is upto 10,000 pa If no PAN then tax at 20%.

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				TDS on payment or credit, whichever is earlier.
194A <<Axis Bank>> Interest other than interest on securities	Everyone (except small individuals and HUFs)	Resident Person	10%. (No TDS if: a) interest if upto 5000 pa) b) In case of banks, if interest from FD and RD is upto 40,000 pa / 50,000 pa for senior citizens (subject to CBS) c) On interest paid to resident partners. d) Payment under Motor Accident Claims Tribunal - upto 50,000 per payment. e) on interest paid to banks, FIs, etc.	TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%. Limits should be seen based on CBS ie aggregate for all branches of a single bank.
194B <<Bets>>	Everyone	Everyone	TDS @ 30% if casual income is above 10,000 per payment	TDS on payment basis. If paid in kind, then payer to ensure TDS payment before releasing winnings.
194BB <<bigger Bets>>	Everyone	Everyone	TDS @ 30% if income from betting on race horses is above 10,000	TDS on payment basis.
194BA <<Bet App>>	Everyone	Everyone	TDS @30% on income from online games	TDS at the time of withdrawal or at the end of the FY on the net winnings.
194C <<Contractor>> <<Small Personal Limit>>	Everyone Exception ie 1) small Ind or small HUFs, or 2) payment for personal purposes, 3) Payment upto certain limits	Resident Contractor	TDS @ 2% on payments made to contractors (1% in case contractor is Individual or HUF) No TDS if: a) Transport contractor upto 10 carriages and having PAN, or b) single	TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%. Addl Point: a) Works contract subject to TDS u/s 194C =

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			amount upto 30,000 or aggregate payment upto 1,00,000 per contractor per annum.	Specifications + material b) advertising, broadcasting, catering, transport, lending and parking at airport are subject to TDS u/s 194C.
194D	Any person	Resident person	TDS @ 5% on insurance commission if amount is more than 15,000 pa (TDS rate changed to 2% from 1 st Oct 2024)	TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%.
194DA <<death amount>>	Any person	Resident person	TDS @ 5% on 'net receipts' ie amount received from insurance company less insurance premiums. TDS only if above 1 Lakh (TDS rate changed to 2% from 1 st Oct 2024)	Receipts from life insurance is taxable only if premiums are higher than limits discussed u/s 10(10D)
194EE <<extremely exhausting>>	Any Person	Any person	TDS @ 10% if amount received from NPS authority is more than 2,500 per person pa	TDS on payment basis. No TDS if paid to heir of the assessee.
194G <<Gambling owner>>	Lottery Company	Any Person	TDS @ 5% on Lottery commission if amount is more than 15,000 pa	TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%.
194H <<helper/broker>>	Any person except small Ind and HUFs	Any Resident Person	TDS @ 5% on general commission or brokerage if amount is more than 15,000 pa. (TDS rate changed to 2% from 1 st Oct 2024)	TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%.

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194I <<initially Rent>>	Any person except small Ind and HUFs Q13	Any Resident Person	TDS @ 10% in case of rent paid on land & building and Furniture (2% on rent for P&M) if aggregate payment per person is above 2,40,000 per annum.	TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%. No TDS on GST. No TDS on lumpsum lease payments.
194IA <<Immovable Property Acquire>>	Any Person	Resident Person	TDS @ 1% if sale consideration or SDV is more than 50 lakhs. TDS on the higher amount (<i>Eg: if SC is 48 lakhs and SDV is 52 lakhs, then TDS will be on 52 lakhs @1%</i>) Exceptions: No TDS u/s 194IA if 1) rural agriculture land or 2) compulsory acquisition. TDS can be paid within 30 days from the end of the month.	TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%. SC includes club fee, parking fee, etc.
194IB <<Impossible Buy>>	Only to small Inds and HUFs	A resident Person	TDS @ 5% if rent paid on residential house property if more than 50,000 per month. TDS cannot be more than last month's rent. TDS can be paid within 30 days from the end of the month. (TDS rate changed to 2% from 1 st Oct 2024)	TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%. TDS to be deducted in the last month of the year of the last month of vacation, whichever is earlier.

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194J <<Jealous professionals>> <<PTNRD>> <<Small Personal Limit>>	Any person Exception: <<Small personal limit>> NO TDS if: a) payment made by small Ind or HUFs, b) payment for personal purposes, c) payment within limits.	Any resident person	TDS @ 10% on payments made to professionals <<PTNRD>> No TDS if amount paid is upto 30,000 per annum. TDS u/s 194J would be attracted in case of computer software except if: (1) the software is acquired in a subsequent transfer without any modification by the transferor;	The limit of 30,000 pa does not apply to payments made to directors remuneration. TDS rate will be 2% in the case of technical services, call centre services and movie royalty. TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%.
			(2) tax has been deducted under section 194J on payment for any previous transfer of such software; and (3) the transferee obtains a declaration from the transferor that tax has been so deducted along with the PAN of the transferor.	
194K <<Kotak Mutual Fund>>	Any Person	Any Resident Person	TDS @ 10% on income from units of MF if amount is more than 5,000 per person pa.	No TDS on capital gains. TDS on payment or credit, whichever is earlier. If no PAN then tax at 20%.
194LA <<Legally acquire>>	Any Person	Resident Person	TDS @ 10% in case of amount paid on compulsory acquisition of immovable property above 2,50,000.	TDS on payment basis. If no PAN then tax at 20%.

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194M <<Misuse>> <<Justify His Case>>	Only applies to Small Ind and HUFs	Resident Person	TDS @ 5% on amounts paid to professionals, <<helpers>> and contractors, if the aggregate amount paid per person pa is more than 50 lakhs. (TDS rate changed to 2% from 1 st Oct 2024)	TDS on payment or credit basis, whichever is earlier. If no PAN then tax at 20%. TDS can be paid within 30 days from the end of the month.
194N <<Notes>>	Bank, Co-op bank or post office	Any Person	TDS @ 2% in case of cash withdrawals of more than 1 crore per bank (from any account savings or current) per annum. (From 1 st July 2020, if ROI not filed for ALL the 3 PYs then TDS 2% above 20 lakhs and @ 5% above 1 crores). In case of co-operative banks limit is now 3 crores)	Exceptions – NO TDS if withdrawal by Govt, banks, PO, White label ATMs. TDS only on the excess amount above threshold limits. TDS only on payment basis.
194O <<Online>>	E-Com Operator (ECO)	E-Com participant	TDS @ 1% of the gross amounts / sales on ECO or through the ECO. Exception: No TDS if seller is an Ind or HUF and gross amount/ sales during the year does not exceed 5 lakhs and PAN is furnished. (TDS rate changed to 0.1% from 1 st Oct 2024)	TDS on payment or credit basis, whichever is earlier. If no PAN then tax at 5%.
Section 194	Company Indian	Shareholder	TDS @10% in case of dividend paid > 5,000. (this threshold will not apply if dividend if paid in cash)	TDS before making such payment. No TDS on dividend paid to LIC, GIC.

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Section 194P	Specified Bank	Specified Senior Citizen	TDS to be deducted by the bank at rates in force for senior citizen > 75 years, having only pension and interest income, both earned in the same bank.	This avoids the burden to file return of income at the end of the year for such senior citizen.
Section 194R <<Reels>>	Everyone	Everyone	TDS @10% on benefits and perks recd in relation to business and profession. TDS on cash / kind recd above 20,000 pa pp	Does not apply to <<Small>> Individuals or HUFs
Section 194Q (Quantity)	Anyone having t/o > 10 crores in the preceding year	Anyone selling goods > 50 lakhs pa	TDS @0.1% on the excess above 50 lakhs	TDS on payment or credit whichever is earlier. 194O> 194Q > 206C(1H). If no PAN then TDS @5%
Section 194T <<Trust>>	Partnership Firm / LLP	Paying salary or interest to partners	TDS at 10% if amount paid / payable is more than 20,000 pa per partner	
Section 194S <<Speculation>>	Payer / Buyer of Virtual Digital Assets (VDAs) eg crypto currency	Seller of VDA	TDS at 1% if amount paid or payable is more than 50,000	

- **Extra Points:**
 - Under the provisions of Sec. 196, no tax is required to be deducted at source from any sums payable to the government.
 - Unless stated, time will be payment or credit, whichever is earlier.
 - Payment basis in the case of 192, 192A, 194LA, 194B, 194BB, 194N
 - No TDS on GST
 - All rates are flat rates ie no surcharge and cess, since paid to residents.
 - Unless states, if no PAN then TDS rate will be 20%
 - Small Individuals and HUFs mean those than do not cross the turnover of 50lakhs / 1 crore in the preceding year.
 - Section 191 – tax on sweat equity shares in case of eligible start-up to be paid directly by the employee within specified period (already discussed under Salaries chapter)
- The above TDS should be deposited with the central govt by the 7th of next month (by 30th April for the month of March)

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- Further, a quarterly statement to be filed by the 31st after the quarter ends (for March by 31st May)
- **Section 201(1A)**
 - In case of non-deduction interest @1% pm or part from date due to date of deduction
 - In case of deduction but further non-payment, then interest @1.5% pm or part
 - ILLUSTRATION
- **Section 206AB - Higher rate of TDS for non-filers of income-tax return**
 - TDS at higher of the following rates –
 - at twice the rate prescribed in the relevant provisions of the Act;
 - at twice the rate or rates in force i.e., the rate mentioned in the Finance Act; or
 - at 5%
 - the above, if a person who has not filed the returns of income for previous year and the TDS and TCS > 50,000 in the said year
 - However, section 206AB is not applicable in case of tax deductible at source under sections 192, 192A, 194B, 194BB9 or 194N.
- **Section 196 – No TDS on sums payable to Government, Reserve Bank**
- **Tax Collected at Source (TCS) <<TCS is always the seller>>**
 - TCS is only to be collected by the seller ie it will be added to the cost of the product
 - TCS on the following:
 - <<Alcohol Scraps My Car (1%)>>
 - <<2 licenses for 2.5 trees (timber/forest produce) and 5 bidis (tendu leaves)>>
 - TCS @ 1% on
 - sale of alcohol for human consumption upto retail level (not in the case of consumers)
 - Sale of scrap
 - Sale of minerals <<LIC>> (coal, lignite and iron ore) (TCS only if personal consumption and not used ahead for manufacturing or generating power)
 - Sale of car (Refer Section 206C(1F) below)
 - TCS @ 2% in case of sale of license for parking lot, toll plaza, mine
 - TCS @ 2.5% on sale of timber
 - TCS @ 5% on sale of tendu leaves
 - No TCS is buyer is govt, embassy, etc
 - **206C(1H) <<high value>>** In case of seller (big seller having turnover of more than 10 crores) selling above 50 lakhs to a buyer (other than govt/LA), other than export, then TCS to be collected at 0.1%. Further, if Aadhaar/PAN is not given then twice the rate or 1%
 - Time of TCS is debit or payment (except motor car and selling of goods)
 - **Section 206C(1F) <<fancy car>>** - TCS on sale of motor car
 - TCS @ 1%
 - On retail level only, not wholesale level
 - Any car, bike, etc above 10 lakhs
 - Only on payment basis
 - **206C(1G) <<global>>**
 - TCS is forex is bought or forex is transferred, TCS rate is 5% above 7 lakhs

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except:

- However, TCS rate will be 0.5% above 7 lakhs if the forex is sent for education abroad out of loan
- Further, TCS rate will be 5% on amount upto 7 lakhs and 20% on amounts above 7 lakhs.
- If no PAN then TCS at twice the rate or twice the rate, whichever is higher.
- **Advance Tax (AT)**
 - **Section 207** – AT to be paid during the course of the PY
 - **Section 208** <<2+8=10>> – AT is to be paid only if the tax liability, after TDS and TCS is more than 10,000 per person.
 - Exception – No AT to be paid by a person who is 60 years or more having no PGBP income
 - **Section 209** – Computation of AT
 - First estimate total income – then Calculate tax with surcharge and cess – then deduct TDS, TCS and if balance is more than 10,000 then AT to be paid
 - **Section 211** – Instalments of AT <<2+1+1=4 instalments>>
 - AT to be paid in 4 instalments
 - <<Just Send Demanded Money>> <<Jaldi Se Dedo Money>>
 - AT payment dates: 15th June – 15th Sept – 15th Dec – 15th March
 - AT payment schedule: 15% - 45% - 75% - 100% respectively by the above dates.
 - AT instalments to be rounded off upto 100s
 - For assesses under presumptive income ie Sections 44AD or 44ADA, only one instalment ie 15th March is applicable
 - If the last day for payment of any instalment of advance tax is a day on which the receiving bank is closed, the assessee can make the payment on the next immediately following working day, and in such cases, the interest leviable under sections 234B and 234C would not be charged.
 - **Section 234C** – Deferment of Instalments
 - If instalments are not paid as per schedule, then interest at 1% per month for 3 months ie upto the next date
 - Concession for 15th June and 15th September – No interest u/s 234C if 12% and 36% respectively has been paid.
 - Exceptions to the above– <<ABCD>> Asset sale, New Business, Casual Winnings and Dividend
 - **Section 234B** – Interest on short payment of AT
 - If AT is not paid or AT paid by 31st March is less than 90% of tax to be paid, then interest @ 1%

Computation of Income

- This is NOT a new chapter, it is an aggregation of all the chapters
- NRs don't get the following: 1) Higher BEL + Rebate u/s 87A + the BEL cannot be used against LTCG 112, LTCG 112A and STCG 111A
- No deduction can be taken under PGBP for abandoned project which did not commence
- Bday on 1st April 2024 will be considered as completed on 31 March 2023
- Higher Surcharge of 25% and 37% will not apply on 1) LTCG u/s 112A, 2) STCG u/s 111A and

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3) dividend income

- **PY years income generally taxed in AY except:** <<Ships Eventually Leave Avoiding Danger>>
 - NR in SHIPPING business
 - AOP/BOI/AJP formed for an EVENT
 - Persons LEAVING India
 - Persons likely to transfer property to AVOID tax
 - DISCONTINUED Business
- **Section 115JC <<Just Cry>> – Alternate Minimum Tax (AMT)**
 - **AMT applies to all assessee except companies**
 - **AMT applies only in case an assessee has availed the following <<SAD>>**
 - **Specified** Deduction u/s 35AD
 - Deduction in relation to an SEZ u/s **10AA <<Awesome Area>>**
 - Income Linked **Deductions** u/s 80JJAA, 80QQB or 80RRB
 - **Computation of AMT:**
 - **Step 1:** Compute adjusted total income (ATI)
(If ATI exceeds Rs. 20 lakhs only then AMT provisions will apply. Except in the case of Partnership firms and LLPs, even if ATI is less than 20 lakhs, AMT will apply)
 - **Step 2:** Compute AMT [18.5% of adjusted total income].
 - **Step 3:** If AMT > tax computed as per regular provisions, then AMT is to be paid
 - **AMT Credit:** AMT credit ie AMT less Tax computed as per regular provisions, can be carried forward for the next 15 years and such credit can be used whenever tax as per regular provisions is more than AMT
 - **Exception:** However, the provisions of AMT would not apply in case an individual or HUF opting for concessional rates of tax under section 115BAC.
 - The excess amount paid will be given as a credit u/s 115JAA for next 15 years and can be used when tax liability under regular provisions is greater than tax liability under 115JC to the extent it is higher. Eg: Regular tax – 15 lakhs, AMT tax – 12 lakhs, AMT credit 5 lakhs. Regular tax to be paid and credit of 3 lakhs can be used
 - Advance tax applies even in case of AMT
 - CA report needed to certify ATI
- **115BAC <<Better Available Choice>> (also called default tax regime)**
 - Only available to Individuals and HUFs
 - It is now the “default tax regime” though assessee can choose the earlier tax regime (called the normal/regular/optional tax regime) as well <<DN ie default is the new tax regime>>
 - **Advantages:**
 - **New Slabs & New rates:**
 - *Upto 3 lakhs - Nil*
 - *3-7 lakhs – 5%*
 - *7-10 lakhs – 10%*
 - *10-12 lakhs – 15%*
 - *12-15 lakhs – 20%*
 - *More than 15 lakhs – 30%*
 - No AMT in this option
 - No impact on the incomes

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- Highest surcharge under new scheme will be max 25% (amendment)
- Relief u/s 87A upto 7 lakhs under 115BAC, and relief given above 7 lakhs if tax is more than the income. (refer illustration in SMAT Scanner)
- **Disadvantages: The following deductions will not be given**
 - **IFOS: No deduction in the case of family pension income**
 - Family pension deduction upto 25,000 pa under this scheme
 - **CG: No change**
 - **PGBP: No deductions for the following <<Additional Scientists Developed Awesome Covaxin>>**
 - Additional Depreciation
 - Scientific Research Deduction
 - Specified Business Deduction
 - 10AA deduction
 - Others
- **Salaries – No deductions / exemptions except Deductions allowed in salary – <<Blind Can Do 50 Tour>>**
 - Blind, etc allowance deduction
 - Conveyance allowance deduction
 - Daily allowance deduction
 - Standard deduction of 75,000
 - Tour allowance deduction
- **IFHP: No deduction u/s 24(b) in case of SOP and no set off against other heads of income <<non friendly>>**
- **Clubbing: No exemption of upto 1,500 u/s 10(32)**
- **Set-off and cf of losses:** IFHP loss cannot be set off against other heads of income and also it cannot be carried forward to subsequent years
- **Chapter VI-A Deductions:** No deductions except 80CCD(2) and 80JJAA and 80CCH(2)
- **Option:** Can be opted before ROI filing due date (for others), however if PGBP income then can be opted only once in lifetime
- Surcharge, cess even in this new regime
- No higher BEL irrespective of age
- Rebate u/s 87A will be given if Total Income is upto 7 lakhs. Max Rebate will be 25,000. Further, even if income is greater than 7 lakhs and excess tax > excess income then rebate will be given of the difference.

Return of Income

- **Section 139(1)**
 - Return filing is compulsory for Companies and partnership firms <<Compulsorily File >>
 - For others, ROI filing is need if:
 - (GTI + 54 Exemption) > BEL
 - Or in the following cases: <<COFE>>
 - Current account deposit of more than 1 crore
 - If foreign asset, or interest in an entity or bank account abroad then ROI compulsory irrespective of income (this condition is only for

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ROR)

- Foreign travel expenses for self or others more than 2 lakhs
- Electricity expense of more than 1 lakh
- Rule 12AB added four more conditions subject to which ROI will have to be filed <<B&P Saved TDS>> Business T/O exceeding 60 lakhs, Professional receipts exceeding 10 lakhs, aggregate TDS / TCS exceeding 25,000 (50,000 for senior citizens), savings bank account deposits exceeding 50 lakhs in a year.
- **ROI to be filed within the due dates:**
 - 31 July – non audit assesses
 - 31 Oct – assesses subject to audit and
 - 30 Nov – Assesses having international transactions
- In case of partnership firm which is subject to audit, even the partners (working and non-working) can file their returns by 31st October <<big firms, big partners>>
- **Section 139(3) – Loss Return**
 - In order to carry forward losses the ROI for the said year has to be filed within the above due dates, else losses will not be allowed to be carried forward (Section 80) (exceptions UAD u/s 32(2), Loss from House Property u/s 71B, Scientific Research outsiders u/s 35 or family planning expenditure u/s 36(i)(ix))
- **Section 139(4) <<filed 4 months late>> – Belated return**
 - ROI can be filed belated anytime till 31st December of the AY or till the time of assessment, whichever is earlier
- **Consequences of filing ROI late / belated <<LIFT>**
 - Losses will not be allowed to be carried forward, subject to exceptions
 - Interest u/s 234A will need to be paid, if any tax remains payable
 - Late FEE payable
 - Tax payable, if any
- **Section 234F – Late Fee**
 - Late fee for filing ROI late / belated is Rs. 5,000 per person (It will be reduced to Rs. 1,000 if total income is upto 5 lakhs)
- **Section 139(5) <<Revised 5 times>> – Revised Return**
 - Any ROI can be revised, however only till 31st December of the AY or till assessment, whichever is earlier
 - Can be revised any number of times
 - Everything in the ROI can be modified except the original date.
- **Interest u/s Section 234A**
 - if ROI is filed late, then interest to be paid on the tax payable, if any, If ROI is not filed only, then interest upto date of completion of assessment is to be paid
 - Above Interest is to be paid @1% pm or part of the month
- **Section 139(1A) – Bulk Return**
 - Employer has option to file return of employees
- **Section 139(6A) – Particulars to be filed along with ROI**
 - P&L, BS, audit report, etc to be filed along with, else ROI will be considered defective
 - If books of accounts are not maintained then details like turnover, gross profit, expenses, net profit, etc to be given + debtors, creditors, stock, cash balances to be give, else ROI to be considered as defective
- **Section 139(9) – Defective Return**

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- If the ROI is not supplemented with the details like P&L, BS, etc, or not verified, etc then it would be considered defective
- Defect to be corrected by the assessee within 15 days from intimation by the income tax department, else ROI would be considered invalid
- Non-payment of the tax alongwith return DOES NOT make the ROI defective
- **Section 140 – Persons to verify return**
 - The person concerned or any legal representative or authorised person (AP) (POA to be attached always)
 - Individual – himself (except for lunatic) or AP
 - HUF – Karta or any adult member or AP
 - Company – MD or director or any AP or liquidator
 - Firm – Managing partner or any partner or AP
- **Section 139B <<Badge>> - Tax Return Preparers**
 - Auditable persons and NRs can't use TRPs
 - Officers of banks with which assessee has relations, lawyers, CAs and employees of other than companies cannot be TRPs
 - Also revised return can be filed through TRPs only if original return was filed through TRP
- **Section 139A – PAN**
 - Person required to file ROI or Person having gross sales greater than 5 lakhs or entering into financial transaction of more than 2.5 lakhs or in case the above 2.5 lakh transaction is undertaken by an artificial entity then the MD, Director, trustee, etc of such entity
 - Also PAN required for the following – i) cash deposit in banks > 20 lakhs pa, ii) cash withdrawal > 20 lakhs pa, iii) open a current account
 - Even AO may allot PAN to assessee
 - Please refer to module for list when PAN is to be quoted. Generally it is to be quoted for transactions above 50,000, subject to exceptions. Important ones – Purchase of vehicle, opening bank account except BSBDA or FD, credit / debit card, demat, hotel bill or foreign travel > 50,000 in cash, FD > 50,000, LIC premium > 50,000, securities > 1 lakh, immovable property > 10 lakhs, sale of goods or services > 2 lakhs. Else penalty of 10,000.
- **Section 139AA – Aadhaar Number**
 - **Section 234H <<Home Aadhaar>>** Where a person, who is required to intimate his Aadhaar Number fails to do so on or before the notified date i.e., 31st March, 2022, he shall be liable to pay such fee which shall not exceed 1,000.
 - Where person who has not intimated his Aadhaar number on or before 31st March, 2022, has intimated his Aadhaar number after 31st March, 2022, after payment of fee specified in section 234H, his PAN would become operative within 30 days from the date of intimation of Aadhaar number.
 - The above PAN inoperation would be with effect from 1.7.2023 and continue till the PAN becomes operative. A fee of 1,000 has to be paid to make the PAN operative by intimating the Aadhaar number. This is not applicable to persons residing in Assam, Jammu & Kashmir and Meghalaya; a non-resident; persons who are 80 years or more at any time during the previous year; not a citizen of India
- **Section 140A – Self Assessment**
 - After considering TDS, TCS and AT, the balance tax payable, if any to be paid at the

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time of filing the ROI

- **Section 234B – Interest on shortfall of advance tax**
 - In case advance tax u/s 207 is not paid or the amount of advance tax paid is less than 90% of the total tax liability (after considering TDS, TCS, relief, etc), then interest would be charged @1% pm or part of the month till the same is paid
- **Section 234C <<Check>> – Interest on shortfall in AT instalments**
 - Section 234C, checks the instalments of advance tax paid <<JSDM instalments>> and shortfall per instalment will be subject to interest @1% pm or part of the month for 3 months (1 month for the last instalment)
- **Section 139(8A) – Updated return** can now be filed within 24 months from end of AY eg: AY 24-25 then will 31st March 2027. This can be filed whether ROI has been filed earlier or not. The same cannot be filed to increase losses, increase refund amount or reduce income, ie <<it has to be updated for the benefit of the govt>>. Cannot be filed if updated return of that year already filed or assessment is in progress or has been completed.
- **Section 140B – Additional Tax on updated return.** If return filed after due date of 139(5)/139(4) and within 12 months from end of AY then 25% additional amount on tax + interest. If after that period ie after 12 months but before 24 months, then 50% addl amount on tax + interest.
- In case of shortfall of payment of tax, the amount paid shall be first adjustment against any “fees”, then against any “interest” and last against “tax” payable <<FIT>>

Rates of tax

- **Section 4** - Income-tax is a tax levied on the total income of the previous year of every person
- Explain total tax payable: Basic Tax + Surcharge + Cess
- Basic Tax changes from one assessee to another
- Surcharge is a tax on the Basic Tax and it changes from one assessee to another –
- However, Health and Education Cess (HEC) remains the same for all assesses ie @ 4% of (Basic tax + Surcharge, if any)
- **Explain Tax Rates for Individuals:**
 - All individuals enjoy a Basic Exemption Limit (BEL) and are taxed based on slab rates.
 - Slab Rates: Basic tax
 - Upto 2,50,000 – Nil
 - From 2,50,001 to 5,00,000 – 5%
 - From 5,00,001 to 10,00,000 – 20% and
 - Above 10,00,000 – 30%
 - Higher BEL for Resident Individuals on or above 60 ie 3,00,000 and on or above 80 years ie 5,00,000
 - Rebate u/s 87A for Resident Individuals if TI is max upto 5 lakhs
 - Surcharge (calculated on basic tax) if TI above 50 lakhs, 1 crore, 2 crores and 5 crores @ 10%, 15%, 25% and 37% respectively
 - Higher surcharge of 25% and 37% not applicable on 112A, 111A and dividend income
 - HEC @ 4% (on basic tax + surcharge, if any)
 - NRs are not given ‘higher BEL’ as well as ‘rebate’ <<since they don’t vote>>
 - Maximum Marginal rate (MMR) used in TDS chapter is

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- Tax Rate 30% + Surcharge 37% + Cess 4% = 42.744%
- *Please Note:* Rebate u/s 87A is, however, not available in respect of tax payable @10% on long-term capital gains taxable under section 112A.
- **Tax rates for HUFs (Same as individuals except no rebate and no higher BEL is given)**
 - All HUFs also enjoy a Basic Exemption Limit (BEL) and are taxed based on slab rates.
 - However, share of income of members is exempt u/s 10(2)
- **Tax rates for PFirms / LLPs**
 - Basic tax of 30% (flat rates ie no BEL/slab rates)
 - Surcharge (calculated on basic tax) @ 12% if TI exceeds 1 crore
 - HEC @ 4% (on basic tax + surcharge, if any)
 - However, share of profit of partners is exempt u/s 10(2A)
- **Tax Rates for Domestic Companies <<Lower Rates but higher surcharge>>**
 - If Turnover of FY 2019-20 is upto 400 crores, then basic tax @ 25% (flat rates ie no slabs/ BEL)
 - Else, basic tax @ 30%
 - Surcharge (calculated on basic tax) @ 7% if TI above 1 crores or 12% if TI above 10 crores
 - HEC @ 4% (on basic tax + surcharge, if any)
- **Tax rates for Foreign Companies <<higher rates but lower surcharge>>**
 - Basic tax @ 35% (Flat rate ie no slabs / BEL)
 - Surcharge (calculated on basic tax) @ 2% if TI above 1 crore or 5% if TI above 10 crores
 - HEC @ 4% (on basic tax + surcharge, if any)
- **Explain Marginal Relief:**
 - This concept applies to all assesses
 - If income is marginally above the threshold limits of surcharge eg: 51 lakhs for an individual then check for marginal relief as under:
 - **Step 1:** Calculate tax + surcharge on entire income eg: 51 lakhs
 - **Step 2:** The surcharge above (1,64,250) to be reduced by the excess income (1,00,000)
 - **Step 3:** This excess (64,250) is not to be paid: marginal relief
- **Additional Points:**
 - **Tax rates for co-operative societies** – 10% upto 10,000 & 20% from 10,000 to 20,000 and 30% on excess above 20,000. Surcharge at 12% if TI above 1 crore. BEL @ 4%
 - Tax on undisclosed income / assets / expenditure u/s 115BBE will be 60% basic tax + 25% surcharge + 4% cess. No BEL can be adjusted and no expenses can be deducted from such income.
 - In case if 60th birthday on 1st April 2024, then will be considered as senior citizen for PY 23-24