PRIME VISION®
Professional Education
BY CA SHIRISH VYAS

EDITION
2025-26

CA/CMA INTER

DIRECT TAX

MAY/SEPT 26 & JAN 27
& JUN/DEC 26

ORIGINAL NOTES

APPLICABLE FOR
PY 2025-26 / AY 2026-27

AS PER
FINANCE ACT 2025

CA SHIRISH VYAS

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PREFACE

In my many years of teaching Direct Tax subject, I have always been passionate about helping students achieve their full potential. I remember standing in front of a classroom filled with eager young minds, and encouraging them to write colourful notes that would help them better remember the vast concepts of Direct Tax subject. Now, I am delighted to present the same in a printed form to support all CA students across the country.

This book aims to provide a comprehensive and simplified coverage of Direct Tax subject for all CA Inter students. This book represents the culmination of my extensive experience in teaching Direct Tax, and has helped countless students in the last 28 years. This book can also be used by students of CMA Inter appearing in June & Dec 26.

I have taken great care to ensure that this book covers all the important aspects of the Direct Tax syllabus prescribed by the Institute of Chartered Accountants of India.

It is a matter of immense satisfaction to me that through this book, I can contribute to your dream of becoming a CA. As an educator, I assure you that this book is the best solution to all your Direct Tax requirements.

Remember that you have the passion and the potential to succeed, and I wish you all the very best in your future endeavours.

I am thankful to all my well-wishers, supporters, and my past students.

Key features of this Book:

1. **One stop solution** for all CA Final students;
2. **Comprehensive** coverage of the syllabus of CA Course;
3. **Charts** and **graphical presentation** for quick recalling;
4. Use of **mnemonics** for memorizing complicated provisions;
5. Highlighted **catch words in red** for faster revision;

Happy learning and good luck!

Best regards,

CA SHIRISH VYAS

IMPORTANT NOTE

Any updates, changes, or corrections [if any] in this book will be uploaded in a separate file. You can access the latest version at any time using the QR code provided below:

STAY UPDATED, KEEP LEARNING

INDEX

INTRODUCTION TO INCOME TAX

1) In the study of income tax, we have to learn following:
   a) How to compute **income** of any person and
   b) How to compute **tax** on such income.

2) In order to compute income of any person, we prepare following statement:

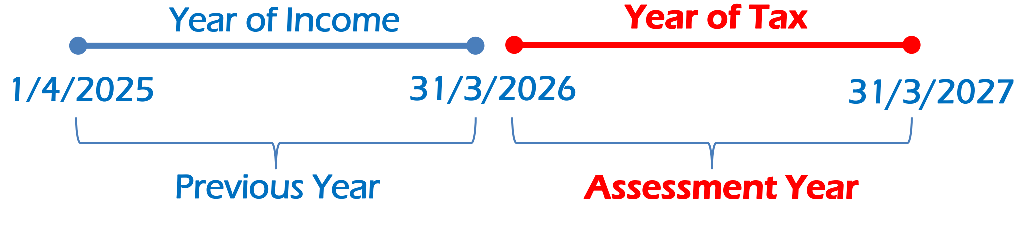
STATEMENT OF TOTAL INCOME

Particulars	Amt.
* Income from Salaries	xxx
* Income from House Property	xxx
* Income from Business	xxx
* Capital Gains	xxx
* Income from Other Sources:	xxx
GROSS TOTAL INCOME	**xxx**
Less: Deductions under Chapter VI A	- xx
Less: Deduction under section 10AA	- xx
NET TAXABLE INCOME	**xxx**

3) In the above statement, there are **5 heads of income**. Income under each head is computed separately by preparing a separate statement. Hence, to calculate 5 heads of income, we prepare **5 separate statements**.

4) To prepare these statements, we require knowledge of following:
   - **Income Tax Act, 1961** and
   - **Income Tax Rules, 1962**

5) The above income tax law keeps changing every year. For our exam, we have to study the law applicable to **previous year 2025-26**.



INCOME FROM SALARIES

MEANING:

An income is treated as salary if the relationship between the payer & the receiver is of **MASTER & SERVANT** [Employer & Employee]. In this chapter, we have to learn how to prepare a statement of Income from Salaries.

Statement of Income from Salaries

Particulars	₹
* Basic Salary (Note 1)	XX
* Allowances (Note 2)	XX
* Provident Fund (Note 3)	XX
* Gratuity (Note 4)	XX
* Pension (Note 5)	XX
* Leave Salary (Note 6)	XX
* Voluntary Retirement Compensation (Note 7)	XX
* Retrenchment Compensation (Note 8)	XX
* Advance Salary, Arrears of Salary & Bonus (Note 9)	XX
* Perquisites (Note 10)	XX
GROSS SALARY	**XXX**
Less: Deductions u/s 16:	
➔ Standard deduction [Max.50,000]	- XX
➔ Entertainment Allowance	- XX
➔ Profession Tax	- XX
TAXABLE INCOME FROM SALARIES	**XXX**

Note 1: BASIC SALARY

Basic salary is **fully taxable**. If net basic salary is given in the question then convert it in to **GROSS** by adding back the items which are deducted from employee's basic salary like PF contribution, Profession tax etc.

Note 2: ALLOWANCES

Allowances are **fixed** amount received on **monthly** basis for a particular **expense**. All the allowances are fully taxable except following:

⇨ EXEMPT ALLOWANCES:

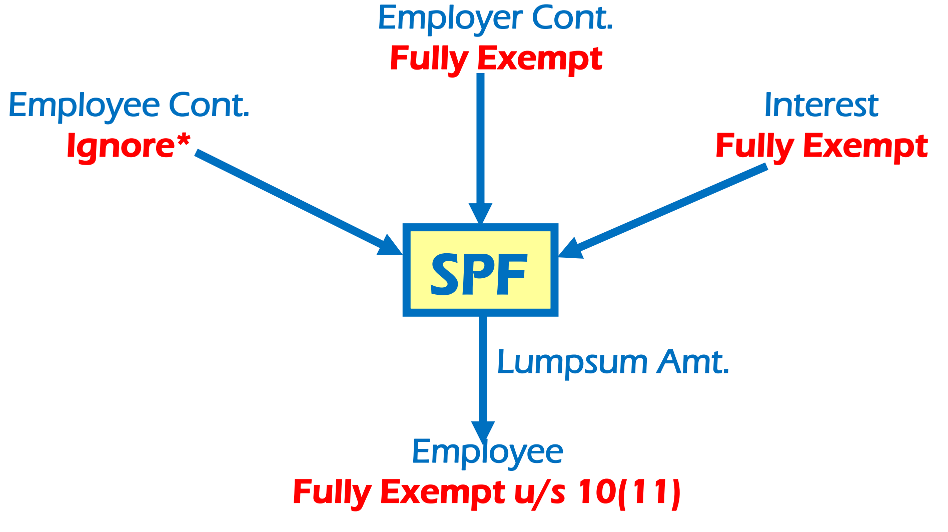
Type of Allowance	Amt. of Exemption
Tribal Area Allowance	Max.. **200 p.m.**
Transport allowance	Max. **3,200 p.m.**
[i.e. Commutation Allowance for journey between office & residence for **physically handicapped** employees]	
Children Education Allowance	Max. **100 p.m. per child** for max. **2 children**
Children Hostel Allowance	Max. **300 p.m. per child** for max. **2 children**
House Rent Allowance (HRA) [Exempt only if employee is actually paying rent]	1) ***50% / 40% of Salary** 2) **Actual amount received** 3) **Rent paid – 10% of Salary** **Whichever is less**
* **50%** , If rent is paid in **Mumbai, Delhi, Chennai, Kolkata**. **40%** , If rent is paid in **Other places** Salary = Basic + DA (in terms) + Turnover Commission	
Underground Allowance	Max. **800 p.m.**
Allowances to employees of Transport undertakings	↓ **70%** of Amt. Received **10,000 p.m.**
Travelling on "tour" or "transfer" allowance	Amt Exempt = Amt **Spent**
Conveyance Allowance {for local travelling}	Amt Exempt = Amt **Spent**
Uniform Allowance	Amt Exempt = Amt **Spent**
Daily Allowance {for day to day exps on tour}	Amt Exempt = Amt **Spent**
Helper Allowance {for office assistant}	Amt Exempt = Amt **Spent**
Research Allowance	Amt Exempt = Amt **Spent**
Note: Few more allowances are exempt but not so important	

⇨ **ENTERTAINMENT ALLOWANCE:**

GOVT. EMPLOYEES	OTHER EMPLOYEES
First **Include** Then **Deduction** ↓ 1) 1/5 × Basic Salary 2) Actual Amt Received 3) ₹ 5,000 Whichever is less	**Only Include** **No Deduction**

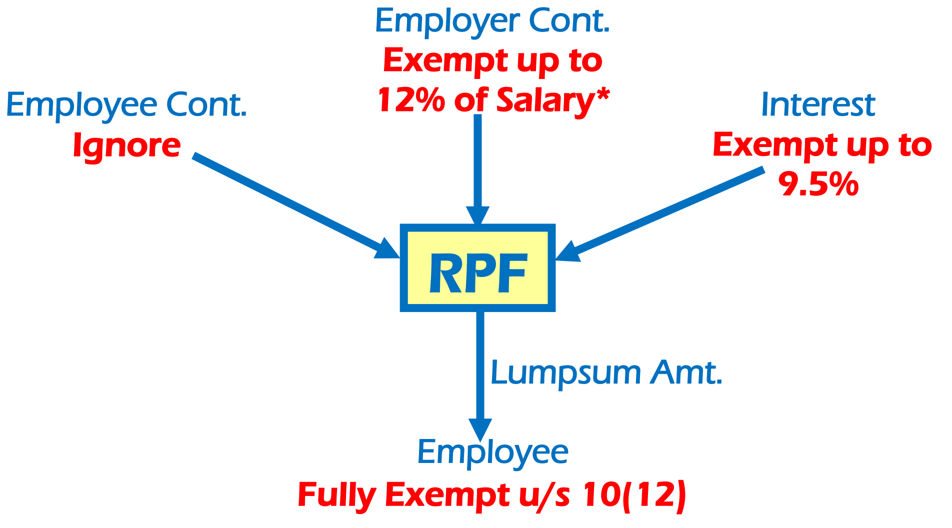
Note 3: PROVIDENT FUND

STATUTORY PROVIDENT FUND [SPF]



* Because employee's contribution is not an additional benefit; it's part of basic salary

RECOGNISED PROVIDENT FUND [RPF]



* Salary = Basic Salary + DA (in terms) + Turnover Commission

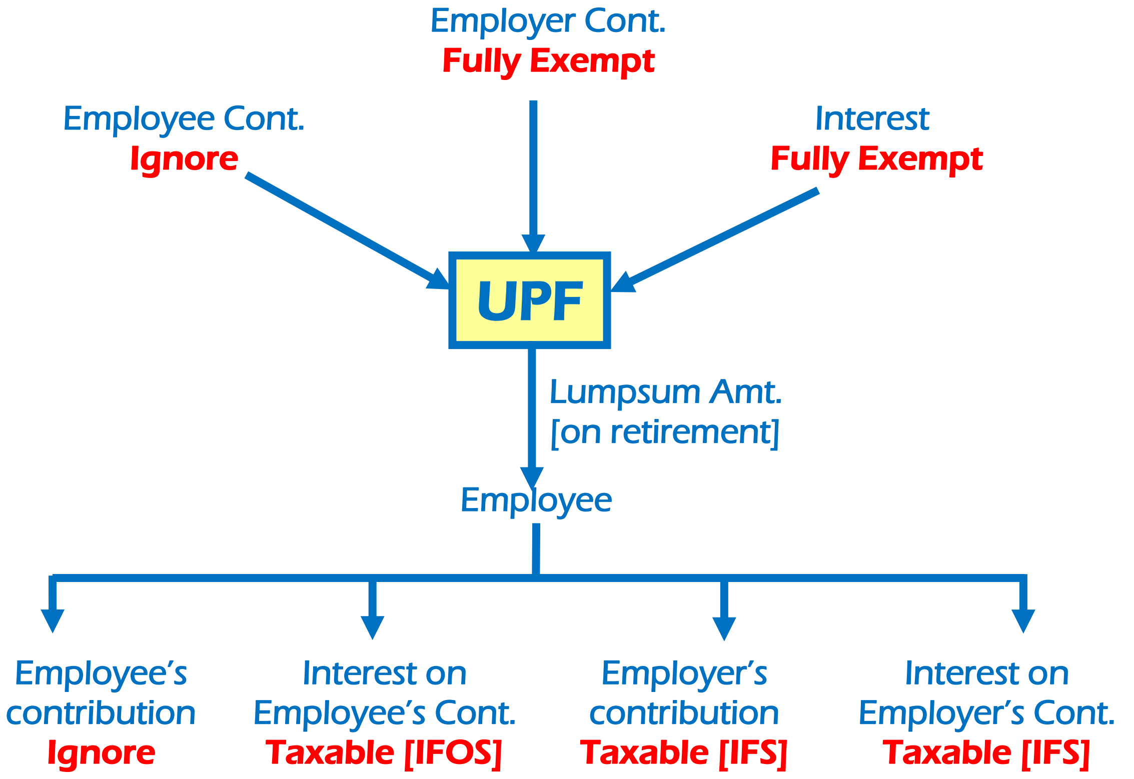
Lumpsum amount received from RPF is fully exempt only if the employee has rendered **service** for **at least 5 years**.
If the employee retires before 5 years then the **exemption** in respect of employer's contribution and interest (in past) shall be **withdrawn**.
However, in following cases, exemption will not be withdrawn even if the service is less than 5 years.

Case i) The employee has retired due to **uncontrollable** reasons. [E.g. Death etc.]

Case ii) Employer's **business** is **discontinued**.

Case iii) The employee has retired and **joined** a **new employer** with an instruction that his balance in RPF should be transferred to the new employer.

UNRECOGNISED PROVIDENT FUND [UPF]



Note 4: GRATUITY

Gratuity received by **Government employees** is **fully exempt** but Gratuity received by Private sector employees is partly exempt as follows:

GRATUITY

[Exempt u/s 10(10)]

POGA Employees

1) 15/26 × Salary p.m. × No. of yrs*
2) Actual Amt. recd.
3) Max. ₹ 20,00,000
Whichever is less

Salary p.m. = **Latest** Basic p.m.
(+) **Latest** DA p.m. (Both)

***No. of years of service**
Fraction should be **rounded off** if it is more than 6 months.
E.g. 24 yrs., 9m = 25 yrs.

Other Employees

1) ½ × Salary p.m. × No. of yrs*
2) Actual Amt. recd.
3) Max. ₹ 20,00,000
Whichever is less

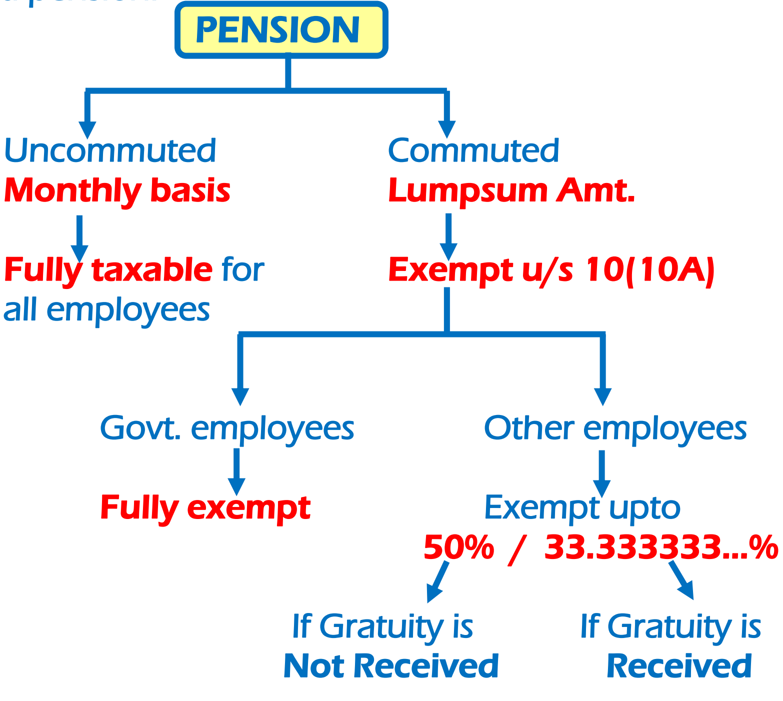
Salary p.m. = **Avg**. Basic p.m.
(+) **Avg**. DA (in terms) p.m.
(+) **Avg**. TC p.m.
(Avg. of preceding 10 mnths)

***No. of years of service**
Fraction should be **ignored**.
E.g. 24 yrs., 9m = 24 yrs.

POGA Employees means employee covered by **P**ayment **O**f **G**ratuity **A**ct, 1972

Note 5: PENSION

Pension is a monthly amount received after retirement. On retirement, the employee has the option to convert his monthly pension in to a lumpsum amount. Such lumpsum amount is known as commuted pension.



Note 6: LEAVE SALARY

Leave salary means encashment of “unused leave” (Leave Saved). E.g. If employer allows 40 days leave every year and if employee has taken only 10 days leave in a particular year then the unused leave of 30 days can be:

1) Encashed immediately

or 2) Carried forward to subsequent years and encashed at the time of retirement

LEAVE SALARY

Encashed during the service
Fully taxable
for all employees

Encashed on retirement
Exempt u/s 10(10AA)

- Govt. employees → **Fully exempt**
- Other employees → **Exempt upto**
  1) Leave credit × Avg. salary p.m.
  2) 10 months × Avg. salary p.m.
  3) Actual amt. recd.
  4) ₹ 25,00,000

  Whichever is less

➔ **Leave credit =**

Leave allowed as per Govt. Rules	XXX
(**Max. 30 days** × No. of yrs. Service **ignoring fraction**)	
Less: Leave taken	- XX
Leave credit	XXX

➔ **Average salary p.m. =**

Avg. Basic p.m. + Avg. D.A. (in terms) p.m. + Avg. TC p.m.
[Average of last 10 months up to the date of retirement]

Note: In case of gratuity, month of retirement should be ignored while selecting10 months.

Note 7: VOLUNTARY RETIREMENT COMPENSATION

It is **exempt u/s 10(10C)** if the voluntary retirement scheme is as per the guidelines prescribed in Rule 2BA.

➔ **Amount of Exemption:**

1) Salary* p.m. × 3 months × No. of years of service completed
2) Salary* p.m. × 1 month × No. of months of service remaining
3) Actual amount received
4) ₹ 5,00,000

Whichever is less

* Salary p.m. = Latest [Basic p.m. + DA (in terms) p.m. + TC p.m.]

Note 8: RETRENCHMENT COMPENSATION

It is **exempt u/s 10(10B)**

➔ **Amount of Exemption:**

1) Amount calculated as per Industrial Disputes Act (Given)
2) Actual amount received
3) ₹ 5,00,000

Whichever is less

Note 9: ARREARS/ADVANCE SALARY/BONUS

Arrears of Salary

Arrears received after settlement of dispute is fully taxable.

Advance Salary

It is taxable.

Note: If the word advance is given without the word salary then it is a Loan/Liability (Ignore it)

Bonus

It is taxable on 'Receipt basis'.

Note 10: PERQUISITES

Perquisites are **additional benefits** over and above the monthly salary. Here, the employer provides **money** or **facility** for **personal expenses** of employee.
If employer provides money then it is monetary perquisite and if employer provides facility, then it is non-monetary perquisites.

Allowance	Perquisites
Allowances are fixed amount **part of monthly salary** received on monthly basis [whether the expense is incurred or not]	Perquisites are provided **over and above the monthly salary** [when the expenses are actually incurred]
Example:	**Example:**
Medical **Allowance**.	Medical bills **paid/reimbursed** by employer (monetary) **Free** medical facility (non-monetary)

TAX TREATMENT OF PERQUISITES

1) MEDICAL FACILITIES:

MEDICAL FACILITIES

- In India
  - Treatment in **GRE Hosp.**
    - **G**ovt. Hospital
    - **R**ecognised Hospital
    - **E**mployer's Own Hospital
    - **Fully Exempt**
  - Otherwise
    - **Fully Taxable**
- Outside India
  - Benefit of TREATMENT
    - **Exempt** to the extent permitted **by RBI.**
  - Benefit of STAY
    - **Exempt** to the extent permitted **by RBI**
  - Benefit of TRAVEL
    - **Fully Exempt** If the **Gross Total Income** of employee is up to **₹ 8,00,000**

Note A: Benefit of Stay and Travel is exempt only for the patient and **one attendant**.

Note B: Medical facilities (inside or outside India) is exempt only if the **patient** is:

- Employee
- Spouse
- Children
- Dependent (Parent/Brothers/Sister)

Note C: Mediclaim **Insurance** premium paid or reimbursed by employer is **fully exempt**.

Note D: If medical bills are reimbursed by employer for treatment of illness related to **COVID-19** then it is **fully exempt** (even if the treatment is not in GRE hospital)

2) LEAVE TRAVEL CONCESSION:

Leave travel concession is **exempt u/s 10(5)** read with Rule 2B.

➔ Amount of Exemption

JOURNEY

- By AIR
  - Amt. Exempt
    1. **Economy Class Fare**
    2. Amt. spent
- By Other Mode
  - Railway Facility Available
    - Amt. Exempt
      1. **First Class AC Rail Fair**
      2. Amt. spent
  - Not Available
    - RPT Available
      - Amt.Exempt
        1. **First Class Deluxe Fare**
        2. Amt. Spent
    - Not Available
      1. **First Class AC Rail Fare** (Similar journey)
      2. Amt. Spent

RPT – Recognised Public Transport

Note: Exemption for leave travel is allowed only for the journey of:

- Employee
- Spouse
- Children**
- Dependent (Parents/Brother/Sister)

Maximum 2 children, if the children are born **on or after 1st October, 1998 (no limit on children born before 1.10.1998)

3) FREE LUNCH:

Exempt up to **₹ 50 per meal** if it is in office or through paid vouchers. Free refreshments is fully exempt.

4) INTEREST BENEFIT:

Interest Benefit

Loan up to ₹ 20,000
Interest benefit is
Fully Exempt

Loan > ₹ 20,000
Interest benefit is
Fully Taxable

[Taxable Amt. = Loan Amt. × (**SBI Rate** – Actual Rate)]

Interest benefit on loan taken from employer for treatment of **specified disease** is **fully exempt**.

5) GIFT FROM EMPLOYER:

Gift in kind or Gift voucher is exempt upto **₹ 5,000**
Cash gift is fully taxable.

6) EDUCATION FACILITY:

Education Facility

Employee
Fully Exempt

Children
Exempt upto
₹ 1000 p.m.p.c.
(If in Employer's Own Institute or Other Institutes where employer has tie-up)
No limit on no. of children

Other Family Member
Fully Taxable

7) HOUSE (ACCOMODATION):

HOUSE

Govt Employees	Other Employees: If E'er Own House	Other Employees: If Rented House
Taxable Value = **Rent as per Govt. rules**	Taxable Value = **5%/7.5%/10% of Salary***	Taxable Value = **10% of Salary*** **Rent paid by E'er** Whichever is less
(+)	**(+)**	**(+)**
Value of Furniture Dep.@ 10% p.a. on cost [if own furniture] or Hire charges paid by E'er [if hired]	**Value of Furniture** Dep.@ 10% p.a. on cost [if own furniture] or Hire charges paid by E'er [if hired]	**Value of Furniture** Dep.@ 10% p.a. on cost [if own furniture] or Hire charges paid by E'er [if hired]
(-)	**(-)**	**(-)**
Rent charged by Employer	**Rent charged by Employer**	**Rent charged by Employer**

Population	%
Upto 15,00,000	5%
More than 15,00,000 up to 40,00,000	7.5%
More than 40,00,000	10%

*Salary for the purpose of above calculation includes BDA BCM

B – Basic Salary
D – Dearness Allowance (In terms)
A – Other Taxable Allowances
B – Bonus
C – Commission
M – Other Monetary Incomes (**excluding perquisites**)

Important points on BDA BCM

1) Only **current year's** salary should be considered. Ignore past and future i.e. ignore arrears of salary, advance salary and past bonus.
2) BDA BCM should be calculated for the **period** during which house is **occupied** by the employee.
3) If the employee is employed with more than one employer, then while calculating BDA BCM, salary from **all the employers** should be considered.
4) **Provident Fund** contribution and interest **should not be considered** in BDA BCM.

⇨ **Hotel accommodation:**

If an employee (whether Government or Non-Govt.) is provided an accommodation in Hotel, then the taxable value

1) **24%** of BDA BCM
2) Rent paid by Employer to Hotel

whichever is less

Less: Rent charged by Employer.

⇨ **Important note:**

If employee is transferred to some other place and he is provided an accommodation in Hotel at other place, then the **stay in Hotel up to 15 days is exempt**.

MOST IMPORTANT POINT:

Value as computed above should not exceed the indexed value of house. Accordingly, the taxable value of house for PY 25-26 will be as follows:

1) Value as computed above
2) Indexed value of the house**

$$\text{** Indexed Value of House} = \text{Perquisite Value of house for the year when house was \textbf{first allotted} to the employee} \times \frac{\text{Index (PY 2025-26)}}{\text{Index (of the year when house was first allotted to employee)}}$$

8) USE OF MOVABLE ASSETS:

USE OF MOVABLE ASSETS

- Computer/Laptop
  Fully Exempt
- Car
  See Below
- Other Assets
  Taxable Amt.
  =
  Depn.@ 10% p.a. on cost
  [if Asset owned by E'er]
  or
  Hire charges paid by E'er
  [if Asset hired by Employer]

CAR FACILITY

- Fully Office use
  No benefit
  No Tax
- Office to Residence
  Fully Ex..
- Fully Private use
  Taxable
  (Note 'a')
- Partly Office Partly Private
  Taxable
  (Note 'b')

Note 'a': CAR FOR FULLY PRIVATE USE:

Depn @ 10% p.a. on cost/Hire charges paid by E'er	XXX
Add: Running & Maintenance Exps (If paid by E'er)	XXX
Add: Drivers Salary (If paid by Employer)	XXX
Taxable Amount	XXX

Note 'b': CAR FOR PARTLY OFFICE PARTLY PVT. USE:

CAR – PARTLY OFFICE PARTLY PRIVATE

- Car owned by Employ**ee** Expenses
  - Paid by E'**ee**: **Ignore** (No Benefit)
  - Paid by E'**er**: Taxable Amt. = Total Amt. Recd. from Employer **(-) Fixed Amt.** For Office use (**1800/2400pm***)
- Car owned by Employ**er** Expenses
  - Paid by E'**ee**: Taxable Amt. = Rs. **600*** pm [If Car upto 1600cc] or Rs. **900*** pm [If Car > 1600cc]
  - Paid by E'**er**: Taxable Amt. = Rs. **1,800*** pm [If Car upto 1600cc] or Rs. **2,400*** pm [If Car > 1600cc]

*All the amounts should be **increased by ₹ 900 p.m. if Driver** is provided by Employer or his salary is paid by Employer.

9) TRANSFER OF MOVABLE ASSETS:

TRANSFER OF MOVABLE ASSETS

Computer/Laptop	Car	Other Assets
Taxable Amt. = **WDV - SP**	Taxable Amt. = **WDV – SP**	Taxable Amt. = **WDV – SP**
WDV: Cost (-) Dep. @ **50%** (WDV Method)	WDV: Cost (-) Dep. @ **20%** (WDV Method)	WDV: Cost (-) Dep. @ **10%** (SLM Method)

Depn should be calculated for **completed years** starting from the date of purchase by employer up to the date of transfer to employee [Part of the year should be ignored]

10) EMPLOYEES STOCK OPTION SCHEME [ESOPS]:

Taxable Amt. =
FMV on the date of exercising the option – Issue Price.

Mobile bills paid/reimbursed by employer is **fully exempt**
Scholarship for employee's children is fully **exempt u/s 10(16)**
Free **Air tickets** to Airline employees – **Fully exempt**
Free **Rail tickets** to Railway employees – **Fully exempt**

IMPORTANT NOTE:

Following **non-monetary** perquisites are **taxable only if** the employee is a **specified employee**:

- Free **Car** Facility
- Free **Tickets**
- Free **Education** facility in excess of 1,000 per month per child
- Free **Gas**, **Electricity**, and **water** supply
- Free **Servants**

Specified Employee means an employee:

- Who is a **director or**
- Who has **substantial interest**
  [i.e. atleast 20% shareholding in employer company] **or**
- Whose **cash taxable salary** is more than **₹ 4,00,000**.

➔ Cash Taxable Salary =
All items of salary [**excluding non-monetary perquisites**]
Less: Deductions u/s 16

Perquisites **other than** those discussed **above**
are **fully taxable** for all employees.

INCOME FROM SALARIES UNDER NEW REGIME

If income of salaries is to be computed as per new regime, then following points should be noted:

1) Exemption u/s **10(13A)** for HRA will **not** be **allowed**.
2) Exemption u/s **10(14)** for other allowances will **not** be **allowed**. However, exemption for **TCDC** will be **allowed**. TCDC means Travelling allowance, Conveyance allowance, Daily allowance, and Commutation allowance for physically handicapped employees.
3) Exemption of **₹ 50 per meal** for **Lunch**//meal facility will **not** be **allowed**.
4) **Dedn. u/s 16** for Entertainment allowance and Profession Tax will **not** be **allowed**. However, standard deduction will be allowed and the amount of **standard deduction** will be **₹ 75,000**.

Note: Concept of new regime is discussed in detail in a separate topic of concessional tax regime

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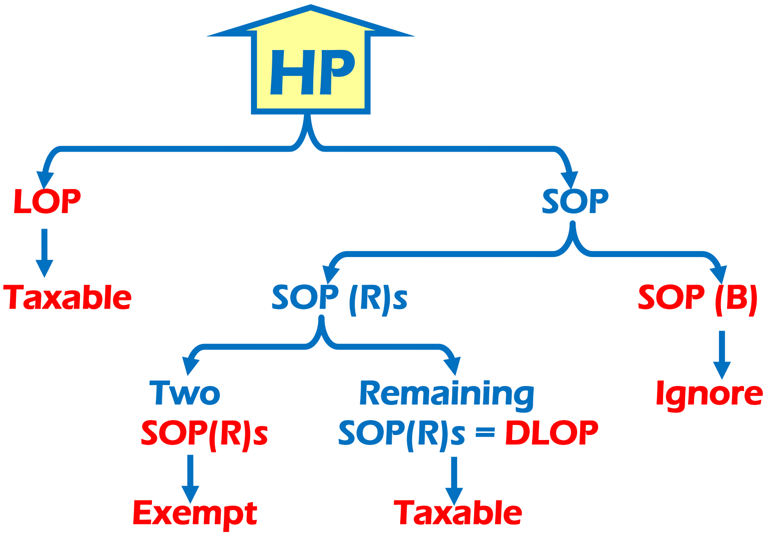
INCOME FROM HOUSE PROPERTY



LOP – Let out property
SOP (B) – Self Occupied Property for Business
SOP (R) –Self Occupied Property for Residence
DLOP – Deemed to be let out property

Statement of Income from House Property

Particulars	LOP	DLOP	SOP (R)
Gross Annual Value	XX	XX	NIL
Less: Municipal Taxes	(XX)	(XX)	NIL
Net Annual Value	XX	XX	NIL
Less: Deduction u/s 24			
➔ Standard dedn [30% of NAV]	(XX)	(XX)	NIL
➔ Interest on Loan	(XX)	(XX)	(XX) Limit
	XX	XX	(XX)
Taxable IFHP		XXX	

GROSS ANNUAL VALUE

↑ **Municipal Value**	XX
Fair Rent	XX
↓ whichever is higher	XX
Standard Rent	XX
↑ Expected Rent	XX
Actual Rent Received/Receivable	XX
GAV (whichever is higher)	XX

Municipal Value means rent as per the records of Local Authority.
Fair Rent means rent of similar houses in the same locality.
Standard Rent means maximum rent which can be legally recovered as per "Rent Control Act".
Expected Rent is computed for the entire **12 months**. However, if the property is newly acquired during the PY say on 1st June, 2023 then it should be computed for 10 months only i.e. **ownership period**.
Actual Rent should be taken for the period **actually let-out** (whether **received** or **outstanding**)

GAV of LOP which is **VACANT** for some part of the year

If Actual Rent Received + Vacancy Rent ≥ Expected Rent then GAV = **Actual Rent Received**

If Actual Rent Received + Vacancy Rent **<** Expected Rent then GAV = **Expected Rent**

MUNICIPAL TAXES

(a) Any tax paid to Municipality i.e. **Local Authority** is Municipal Tax like Water Tax, Local Tax, Property Tax, Corporation Tax, Sewerage Tax, etc.
(b) Deduction is allowed on **payment basis**
(c) Deduction is allowed only, if it is **paid by the owner**.
(d) If it is given in **%** form then it apply % on **Municipal Value**.

INTEREST ON LOAN

(a) Deduction is allowed on **accrual basis**.

(b) Loan may be taken for **any purpose** of house whether **purchase**, construction, **repairs**, renovation etc..

(c) Dedn is allowed whether loan is taken from **Banks/Others** [But u/s 80C, deduction for principal repayment is allowed only if loan taken from Banks/Financial Institution]

➔ Housing Loan

Deduction u/s 24	Deduction u/s 80C
Interest Loan taken from Any One Loan for any purpose	Principal Loan taken from Banks/FI's Loan for Purchase/Const.

(d) Amount of deduction:

Interest on Loan

LOP/DLOP → No Limit

SOP (R) → **Limit** (Combined for both the SOP(R)s)

Loan taken for **Purchase/Construction**
Loan taken before 1.4.99
Max. ₹ 30,000
Loan taken on or after 1.4.99
Max. ₹ 2,00,000*

Loan taken for Repairs etc...
Max. ₹ 30,000

* If purchase/construction is **completed within 5 years** from the end of the year in which loan is taken and the assessee furnishes a **certificate** from the lender specifying the amount of interest payable.

(e) **Pre-Construction Interest**:
It means interest paid **before the year** in which construction/acquisition is completed. It is allowed as deduction in **5 equal instalments**, starting from the year in which construction/acquisition is completed.

(f) If loan is taken by mortgaging House 1 & it is used for purpose of House 2 then deduction is allowed in House 2.

UNREALISED RENT

(a) It means rent which could not be recovered (Bad Debts).
(b) It should be deducted from Actual Rent.
(c) Recovery of unrealised rent should be added at the end of the statement. Taxable Amt. =
Unrealised Rent Recovered **– 30% Standard Deduction**
Note: Any expense on recovery shall not be allowed.

ARREARS OF RENT

If the rent of the property is retrospectively increased or due to any other reason, the owner receives rent for past years (which was not taxed earlier) then it should be added at the end of the statement.

➔ Taxable Amount = Arrears Received **– 30% Standard Dedn**

Note:

Recovery of unrealized rent and arrears of rent shall be taxable even if the assessee is no more the owner of such house property.

PARTLY LET OUT PROPERTY

It means some area of the house is let out & the remaining area is self-occupied. In such case, prepare 2 columns assuming there are 2 houses [LOP & SOP (R)].

Divide all the amounts in the given ratio.

Don't divide actual rent because it is already for let out portion.

Interest on loan for let out area – Deduct full amount

Interest on loan for self-occupied area – Deduct as per limit

CO-OWNERSHIP

In such case, prepare the statement as usual & at the end divide the final answer between the owners (in the given ratio)
If such house is SOP (R), then the limit for interest deduction will be maximum ₹ 30,000/2,00,000 **per owner**.

OTHER POINTS

(a) No standard deduction, if NAV is Negative.
(b) **Penalty** in respect of M. Tax & Int. on Loan is **not allowed**.
(c) A house is treated as **SOP (R)** only if it is self-occupied for full 12 months [it may be vacant for some period but **should not be let-out at all**]. If the house is let out for some months & self-occupied for remaining months then it is treated as LOP.
(d) Expenses of the house property:
- ➔ Municipal Taxes – Allowed
- ➔ Interest on loan – Allowed
- ➔ **Other Expenses – Not Allowed**

INCOME FROM HP UNDER NEW REGIME

If income of house property is to be computed as per new regime, then **interest deduction** in respect of **SOP(R)** will **not** be **allowed**.

Note: Concept of new regime is discussed in detail in a separate topic of concessional tax regime

~~~~~~~~~~~
~~~~~~~~~~~

INCOME FROM BUSINESS

In this chapter,

We have to learn how to calculate **Net Profit as per I.Tax**.

To compute this, we have to prepare following statement:

STATEMENT OF "INCOME FROM BUSINESS"

	Amt.	
GROSS BUSINESS INCOME:		
Sec. 28	XX	**GP etc...**
Sec. 41	XX	
	XXX	
Less: DEDUCTIONS u/s 30 TO 37:		
Sec. 30	-XX	
Sec. 31	-XX	
Sec. 32	-XX	
Sec. 35	-XX	
Sec. 35 AD	-XX	
Sec. 35 D / DDA	-XX	**Expenses**
Sec. 36 (1)	-XX	
Sec. 37 (1)	-XX	
TAXABLE IFB	**XXX**	**N.P. as per I.T.**

➔ OTHER REVELANT SECTIONS:

Expenses Expressly Disallowed	Special Provisions
Sec. 37 (2B)	Sec. 44 AA
Sec. 40 (a)	Sec. 44 AB
Sec. 40 (b)	Sec. 44 AD
Sec. 40 A (2)	Sec. 44 ADA
Sec. 40 A (3)	Sec. 44 AE
Sec. 40 A (7)	
Sec. 43 B	

PART - I DEDUCTIONS U/S 30 TO 37:

Deduction is for **"Expenses"** and for each expense, we have to learn whether deduction is **allowed** or **not allowed**.

Sec. 30 RENT, REPAIRS, TAXES & INSURANCE OF BLDG.

Rent, Repairs, Taxes and Insurance of
BUILDING

Used for Business	Not Used for Business
Dedn is **Allowed**	Dedn. is **Not Allowed**

Sec. 31 REPAIRS & INSURANCE OF P & M / FURNITURE

Repairs and Insurance of
PLANT & MACHINERY AND FURNITURE

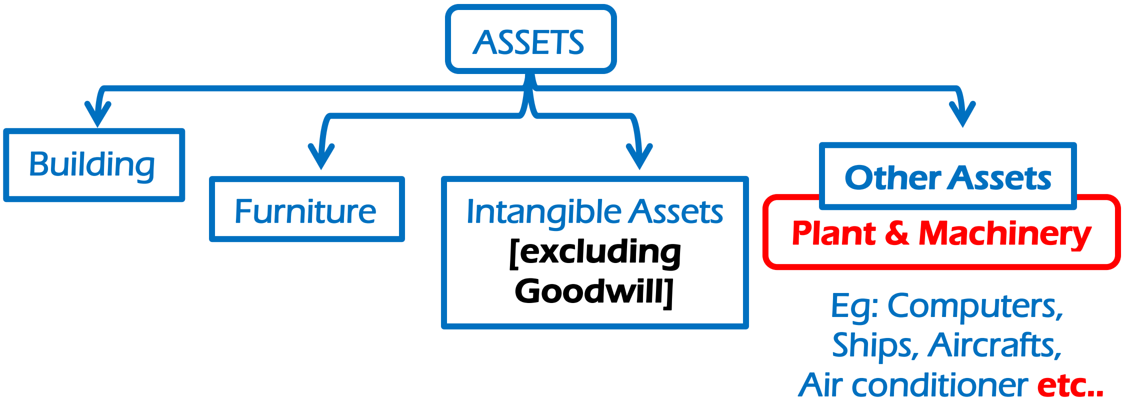
Used for Business	Not Used for Business
Deduction is **Allowed**	Deduction is **Not Allowed**

Sec. 32 DEPRECIATION

⇨ **Summary:**

I. Class of Assets.
II. Conditions
III. Method of Depreciation
IV. Rates of Depreciation
V. System of Depreciation
VI. Amount of Depreciation
VII. Sale of Assets
VIII. Actual Cost
IX. Additional Depreciation
X. Other Points

I) CLASS OF ASSETS:



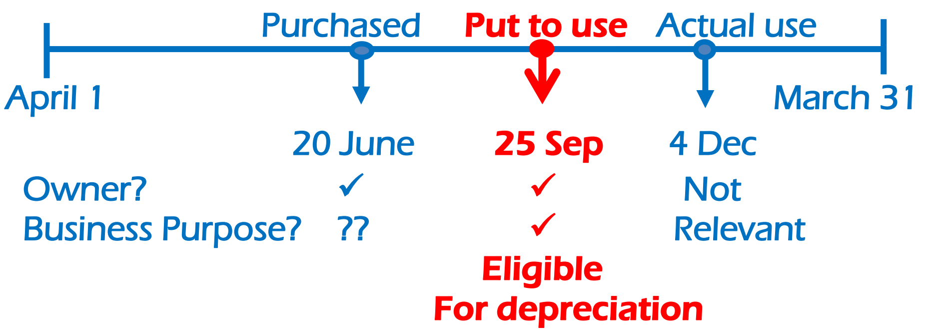
II) CONDITIONS:

Depreciation is allowed if following conditions are satisfied:

1. The Asset should be used for **Business** purpose.
2. The Assessee should be the **Owner** of such asset.
3. In the **year of purchase**, the asset should be put to use for **180 days or more** [If 180 days or more then **full** year depreciation and if less than 180 days then **half** year depreciation].

Note 1:

To count 180 days, consider the date when asset is put to use.



Note 2:

The rule of **180 days** is applicable **only in year of purchase**. This means, if an asset is purchased in a particular year and put to use in next year then, in the year of purchase no depreciation (because it's not put to use) and in the next year full year depreciation, whether put to use for 180 days or more or less (because it's the second year)

Note 3:

III) METHODS OF DEPRECIATION:

Assessees

Power Units	Other Assessees
Option to follow **SLM** or **WDV** Method	**Compulsory** to follow **WDV** Method

IV) RATES OF DEPRECIATION: For WDV Method

CLASS OF ASSETS	%
BUILDING	
⇨ Commercial Building	**10%**
⇨ Residential Building	5%
⇨ Temporary Exections/ wooden structures	40%
FURNITURE	**10%**
INTANGIBLE ASSETS	**25%**
PLANT AND MACHINERY (All other assets)	
1) Motor Cars	
⇨ Normally	15%
⇨ Hiring Business	30%
2) Ships	20%
3) Aircraft	40%
4) Computers [including computer software]	40%
5) Books	40%
6) Pollution Control Equipments	40%
7) General Rate (eg. A/c , Machinery etc.)	**15%**

V) SYSTEM OF DEPRECIATION:

There are two system of calculating depreciation as follows:

➔ Individual Asset system.

➔ Block of Assets system.

All the assessees have to follow **Block of Assets** System. However, if **Power units** opt for **SLM** then they have to follow **Individual Assets System** [because under SLM, each asset has a different and unique rate; so its difficult to make blocks].

Individual Asset system	**Block Of Assets System**
Depreciation is computed **asset wise** (each asset is treated as separate asset)	Depreciation is computed **block wise** (all asset having **same rate** of depn within the **same class** of assets are **grouped** together and treated as one block)
Each asset has its own identity. Hence, **profit or loss** is computed on sale of **each asset**	Entire block is treated as a single asset. Individual asset loses its identity. Hence, **profit or loss** is not computed on sale of each asset. Its computed only **when the entire block is sold**.
Applicable only for **Power units - SLM**	Applicable to **all** the **assesses** [other than power units following SLM]

VI) AMOUNT OF DEPRECIATION:

	Amt.	No.
Opening WDV	XXX	XX
Add: Purchases:		
➔ 180 days or more	XXX	XX
➔ Less than 180 days	XXX	XX
	XXX	XX
Less: Sales (S.P)	XXX	XX
	XXX	XX

Cost of Asset used for
For **less than 180 days**
Half year depreciation

Balance
Full year
depreciation

VII) SALE OF ASSETS

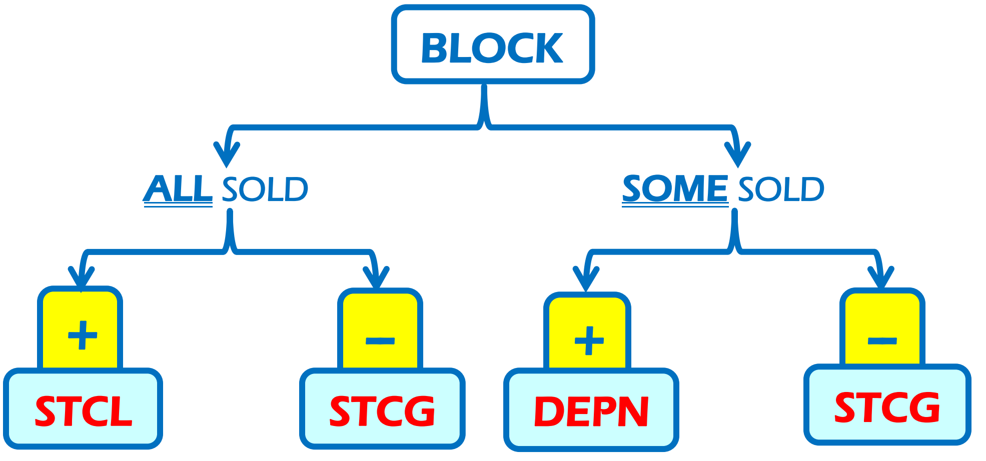
Under **Individual asset system**, profit or loss is calculated on sale of **each asset**. However, under **block of asset** system, profit or loss is calculated only if the **entire block** is sold. (if some assets are sold then it is not treated as sale; its mere recovery of cost).

➔ **Sale under BLOCK OF ASSETS SYSTEM:**

Under Block of Asset system, there are 4 possibilities as follows:

	ALL ASSETS SOLD				SOME ASSETS SOLD			
	(+) Balance		(-) Balance		(+) Balance		(-) Balance	
	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.
Op. WDV Add: Purchases	2,00,000 +7,00,000	(3) (2)	2,00,000 +7,00,000	(3) (2)	2,00,000 +7,00,000	(3) (2)	2,00,000 +7,00,000	(3) (2)
 Less: Sales(S.P.)	9,00,000 (6,00,000)	(5) (5)	9,00,000 (10,00,000)	(5) (5)	9,00,000 (6,00,000)	(5) (4)	9,00,000 (10,00,000)	(5) (4)
	3,00,000	**(0)**	**(1,00,000)**	**(0)**	**3,00,000**	**(1)**	**(1,00,000)**	**(1)**
	STCL	**No Asset No Depn**	**STCG**	**No Asset No Depn**	**Depn @__%**	**Yes Asset Yes Depn**	**STCG**	**Yes Asset But, No Depn.**
Opening WDV {Next Year}	No Block No WDV		No Block No WDV		3,00,000 Less: Depn	1 Asset	Nil	1 Asset

Capital Gains / Loss under block of asset system is **always SHORT TERM.**


BLOCK
ALL SOLD
SOME SOLD
+
STCL
–
STCG
+
DEPN
–
STCG

VIII) ACTUAL COST: Sec. 43 (1)

	Amt.
Opening WDV	XXX
Add: Purchases **[Actual Cost]**	**XXX**
Less: Sales (SP)	– XX
	XXX

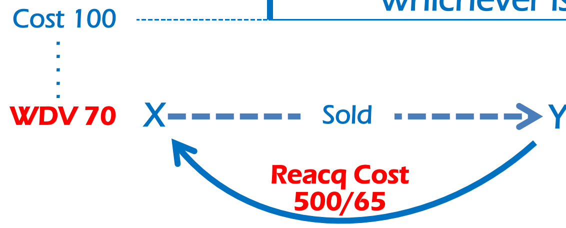
Depn @ ___%

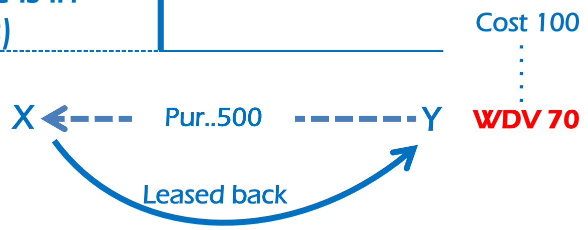
As per sec 43(1), Actual cost for the depn. is calculated as follows:

	Amt.
Cost of the Asset	XXX
Add: Incidental Exp.: Installation charges, Transportation **etc..**	+XXX
Less: Subsidy recd. from Govt. or part of the cost of the asset met by any other person	- XXX
ACTUAL COST	XXX

Note1: INTEREST ON LOAN FOR ASSET:

➔ Cases when ACTUAL COST is taken at NOTIONAL figure:

<table>
<tr><th>Cicumstances</th><th>Notional figure</th></tr>
<tr><td>1) Asset acquired by way of Gift/ Will/ Inheritance.</td><td>WDV of the previous owner.</td></tr>
<tr><td>2) Asset sold and Reacquired</td><td>1. WDV at the time of sale
2. Reacquisition cost
whichever is less</td></tr>
<tr><td colspan="2">


</td></tr>
<tr><td>3) Asset purchased and Leased back to same person (assessee is in leasing business)</td><td>WDV of the previous owner.</td></tr>
<tr><td colspan="2">


</td></tr>
<tr><td>4) Asset acquired with an Intention to reduce tax liability by claiming higher depreciation.</td><td>Amount determined by A.O [with the prior approval of Joint Commissioner]</td></tr>
<tr><td>5) Personal Building converted into Business Building.</td><td>Original cost
<u>Less:</u> Notional depn for the no. of years of personal use at current rates.</td></tr>
<tr><td>Etc.......</td><td></td></tr>
</table>

IX) ADDITIONAL DEPRECIATION:

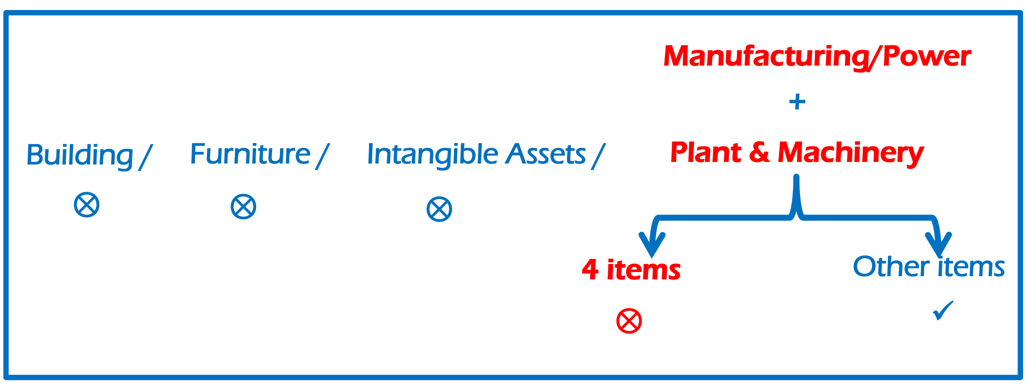
In case of Plant & Machinery, additional depreciation @ **20% on cost** is allowed if following conditions are satisfied:

➔ **Conditions:**

1) The Assessee should be engaged in **Manufacturing** business or in the business of generation / distribution of **Power**.
2) The Asset should be **Plant and machinery *excluding*** following 4 items:
   a) Ships, Aircrafts and Road Transport Vehicles.
   b) Plant & Machinery installed in Office Building.
   c) Second hand Plant & Machinery.
   d) Plant & Machinery, the entire cost of which is allowed as deduction in one year.

Note 1:

Additional depreciation is allowed only in the year in which asset is **first put to use**. In the year of purchase, if the plant and machinery is put to use for **less than 180 days**, then **only half year's** additional depreciation is allowed but the **balance half** can be claimed in the immediate **next year**.



X) OTHER POINTS:

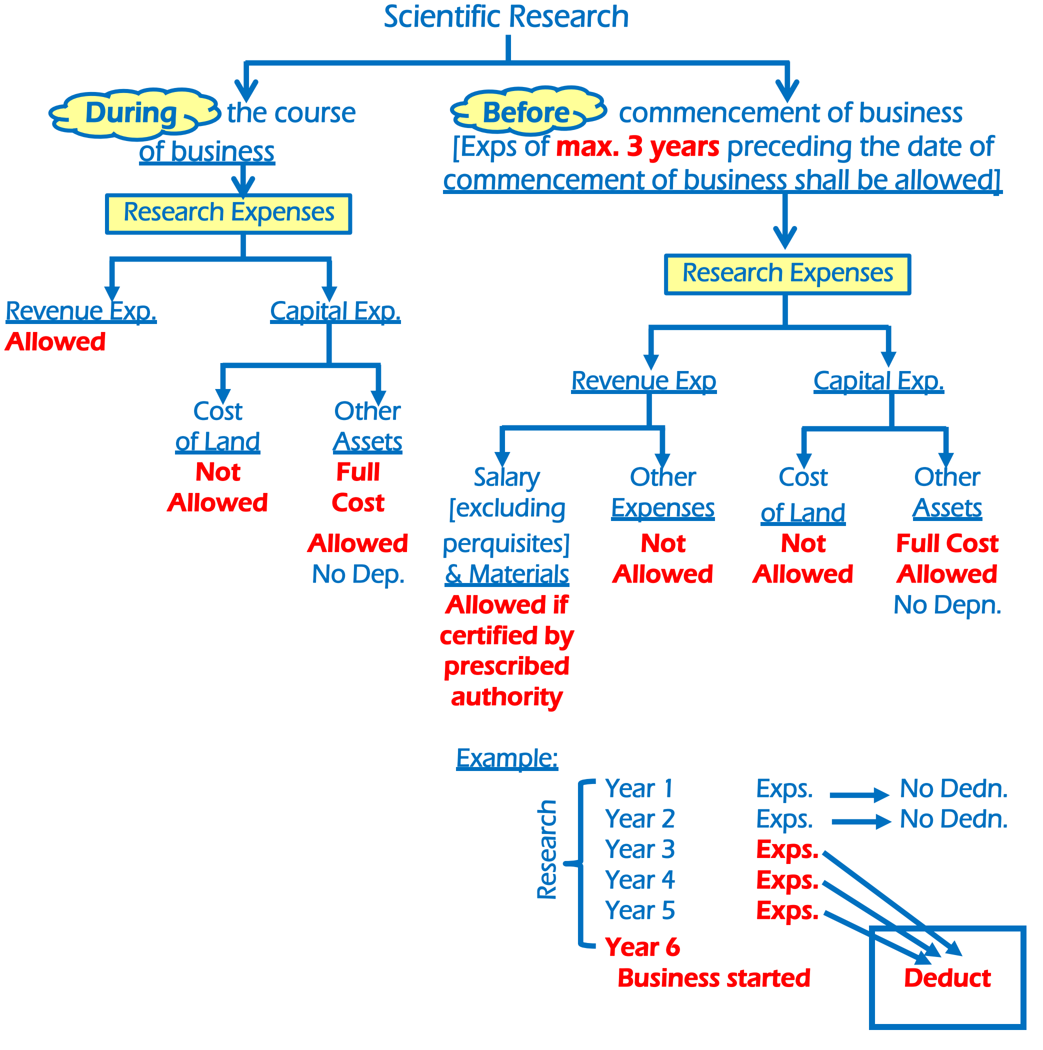
HIRE PURCHASE SYSTEM:

Normally, depn is allowed only if the assessee is the owner of the asset. Under hire purchase system, the assessee becomes the owner only after payment of last instalment but **depn is allowed** right from the beginning assuming assessee is the owner from the beginning.

Sec. 35 EXPENDITURE ON SCIENTIFIC RESEARCH

PART – I: IN-HOUSE RESEARCH:

This means, research is done by Assessee himself within the business [for the business]



PART-II: CONTRIBUTION TO OUTSIDERS:

This means, research is carried on by outsiders and assessee has made donation for such research. Deduction is allowed in respect of donation made to:

- ➔ National Laboratory
- ➔ Indian Institute of Technology [I.I.T]
- ➔ Indian company engaged in R & D
- ➔ Approved **R U C I**

R – Research Association **U** – University **C** – College **I** – Institute

Sec. 35AD — DEDUCTION FOR SPECIFIED BUSINESS

As per this section, **100%** deduction is allowed in respect of **Capital Expenditure** incurred in following business:

NATURE OF BUSINESS	Started on/after **1/4/...**
Setting & Operating **Cold Chain Facility**	**09**
Setting & Operating **Warehousing facility** (For Agricultural Produce)	**09**
Laying & Operating **Cross Country Pipeline Network** (For distribution of Petroleum & Natural Gas) (For Natural Gas, 1/4/**07**)	**09**
Building and Operating **Hospitals** (min. 100 Beds)	**10**
Building and Operating **Hotels** (min. 2 star category)	**10**
Building and developing **Housing Project** (Slum Redevelopment Scheme)	**10**
Building and developing **Housing Project** (Affordable Housing scheme)	**11**
Production of **Fertilizers**.	**11**
Setting and Operating **Inland Container Depot** or container freight station (App.. by Customs Act, 1962)	**12**
Beekeeping and production of honey & Beeswax	**12**
Setting and Operating **Warehousing facility** (for sugar)	**12**
Laying and Operating **Slurry Pipeline Network** (for transportation of iron ore)	**14**
Setting up and operating **Semi–Conductor Wafer** Fabrication Manufacturing unit	**14**
Developing /Operating /Maintaining **Infrastructure facility**	**17**

S/O	S/O	L/O	B/O	B/O	B/D	B/D	Prod.	S/O		S/O	S/O	L/O	D/O/M
C	W	C	H	H	H	H	F	I	B	W	S	S	I
Any Prod.	Ag. Prod.	PNG	Min. 100 beds	Min. 2 Star	SRS	AHS		App by Custom Act, 62	Honey Wax	Sugar	Wafer	Iron ore	
09	09	09	10	10	10	11	11	12	12	12	14	14	17

Section 35AD

- 14 Business
- 4 Conditions
- 5 Notes

➔ 4 CONDITIONS:

Deduction u/s 3AD is allowed only if the following conditions are satisfied:

1. **Business** should be **newly** established. It should not be formed by splitting up or reconstruction of an existing business.

2. **Plant & Machinery** required in the business should be **new** (first hand). However, use of second-hand P & M is allowed as follows:

Total Plant & Machinery

Indian	Imported	Balance
Second hand	Second hand	should be
20% of Total	Any Amount	NEW
(Allowed)	(Allowed)	

3. In case of **Cross Country Pipeline Network** (petroleum and natural gas), following additional conditions should be satisfied – **IPCO**
   a) Business should be owned by **Indian Company** or consortium of Indian companies
   b) Business should be approved by **PNGRB** (Petroleum and Natural Gas Regulatory Board).
   c) Atleast some portion of the total pipeline capacity (as may be prescribed by PNGRB) should be made available for use by "others" on **common carrier basis**.
   d) Any **other conditions** as may be prescribed

4. In case of **Infrastructure facility**, following additional conditions should be satisfied:
   a) Business should be owned by **Indian Company** or consortium of Indian companies
   b) The assessee should enter in to an **Agreement** with **Central** or **State Govt.** or **Local** Authority for developing, operating or maintaining infrastructure facility.

➔ 5 NOTES:

1) **Expenses** incurred **before commencement** of business shall be **allowed** as deduction in the **first year** of business.
2) Deduction is allowed for all the capital expenditures **excluding**:
   - ➔ Cost of **Land**;
   - ➔ Cost of **Goodwill**;
   - ➔ Cost of **Financial instruments**;
3) Amount received (selling price) on **sale or disposal** of asset (in respect of which deduction is allowed u/s 35AD) shall be **taxable u/s 28**.
4) Loss from **Specified** Business can be set off **only against** Income from **Specified** Business. If it cannot be set off in the same year, then it can be carried forward for **unlimited** no. of years [Sec. 73A]
5) Asset acquired for specified business should be used **only in specified** business for a minimum **8 years** (from the year of purchase). During such 8 years, if such asset is used in non-specified business then the following amount shall be taxable:

   Taxable amt. = Dedn allowed earlier u/s 35AD (-) Depn that would have been allowable till last year.

   Eg: Asset cost ₹ 100

Yr.1 Yr.2 Yr.3	Specified Business Specified Business Specified Business	Dedn ₹100 NIL NIL
Yr.4	Non-Specified Bus.	₹72.9 (100 - 27.1*) Added to income

* 27.1 = 10 + 9 + 8.1 [Depn for 3 years @ 10% assumed]

Sec.35 D PRELIMINARY EXPENSES

Preliminary exp. means expenses incurred **before** commencement of a **new project**.
The following expenses are eligible for deduction:

➔ **List of Eligible Expenses:** **PFME DRSO**
- **P**roject Report
- **F**easibility Report
- **M**arket Survey
- **E**ngineering Services
- **D**rafting of Memorandum/Articles of association & other legal Documents
- **R**egistration Fees
- **S**hares & Debentures Issue Expenses
- **O**thers expenses as may be prescribed

➔ **Amount of Deduction:**

For Companies	For Other assessees
Deduction = **1/5th** of: 1) Actual Eligible Expenses 2) 5% of COP or CE [whichever is high] Whichever is less	Deduction = **1/5th** of: 1) Actual Eligible Exps. 2) 5% of COP Whichever is less

➔ **Notes:**
1) The above deduction is for **5 years** starting from the year in which project commences.
2) COP (Cost of Project) = Cost of Fixed Assets (required for the new project)
   CE (Capital Employed) = Share Cap. + Deb. + L.T. Loans (for the new project)
3) This deduction is only for **Indian companies** and **Others Resident** in India.

Sec.35 DDA | VOLUNTARY RETIREMENT COMPENSATION

Deduction is allowed in **5 equal Instalments**.

Sec.36(1) | OTHER SPECIFIC DEDUCTIONS – C I_2B_2

C | CONTRIBUTION TO PF etc.

Contribution to

Statutory Provident Fund (SPF)
Recognised Provident Fund (RPF)
Approved Superannuation Fund
Approved Gratuity Fund

↓

Allowed only if it is **PAID** up to the due date of filing of return as required by **Sec. 43B**

Unrecognised PF (UPF)
Unapproved Gratuity Fund
Unapp. Superannuation Fund

↓

Not Allowed

Notes:

1. Employer's Contribution to PF is allowed if it is paid upto due date of filing return as required by Section 43B.
   However, **Employee's** Contribution to PF is allowed if **paid upto due date of the fund** as required by section 36(1)(va). If not paid upto due date of the fund, then it is **disallowed forever**.

2. Employer's contribution to NPS (**National Pension Scheme**) is allowed as **deduction u/s 36(1)**
   ⇨ Max. **14%** of [**Basic Salary + D.A (in terms)**]

I_1 INSURANCE PREMIUM

- ➔ Stock – **Allowed**
- ➔ Medical Insurance Premium on Employee's health.

Paid by Cheque → **Allowed**

Paid in Cash → **Not Allowed**

I_2 INTEREST ON LOAN

Interest on Loan

- Taken for Personal Use → **Not Allowed**
- Taken for Business Use
  - Loan is taken from PFI/SFC/SIIC/SB/NBFC → **Allowed** if it is **PAID** up to the due date of filing of return or required by **Sec.43B**
  - Loan is taken from others → **Allowed** [whether **paid** or **o/s**]

PFI -	Public Financial Institution
SFC -	State Financial Corporation
SIIC -	State Industrial Investment Corporation
SB -	Schedule Banks [including Co-operative Banks]
NBFC –	Non-Banking Financial Companies

B_1 BONUS & COMMISSION TO EMPLOYEES

Bonus and commission to employees is **allowed** as dedn if it is **PAID** up to the due date of filing of return as required by **Sec. 43B**.

B_2 BAD DEBTS

a) BAD DEBTS

- Related to Sales etc..
  - **Allowed**
- Related to Loans
  - ➔ Normally **Not Allowed**
  - ➔ Money Lending Business **Allowed**

b) BAD DEBTS RECOVERY

- **Taxable u/s 41(4)**
  - If it was **allowed** as deduction **earlier**
- Not Taxable
  - If it was not allowed as a deduction earlier

c) Actual Bad debts is allowed as a deduction but **RDD** is **not allowed**.

F FAMILY PLANNING EXPENDITURE

Any Expenditure incurred for promoting family planning amongst the **employees** is allowed as a deduction as follows:

Family Planning Expenditure

- Revenue Exp.
  - **Allowed**
- Capital Exp.
  - **Allowed in 5 equal installments**

Note: This deduction is only for **Companies**.

Sec.37(1) GENERAL DEDUCTION

Any expense which is **not covered u/s 30 to 36(1)** shall be allowed as a deduction u/s 37(1) if following 2 conditions are satisfied:

1. Expense should be related to **Business**.
2. Expense should be **Revenue** in nature.

Note 1: Any Expense which is **illegal** in nature is **disallowed** even if such expense is necessary for the business. Eg: Bribes, protection money, secret commission etc.
Settlement amount paid to settle contraventions is illegal (disallowed). Expenditure for any purpose which is an offence or prohibited by law shall include any expenditure incurred to settle proceedings initiated in relation to a contravention under any law.

Note 2: Any Expense on **CSR** is **not allowed** because these expenses are not related to business [CSR = Corporate Social Responsibility]

Examples:

1) ADVERTISEMENT:

- ➔ Normally – Allowed u/s 37 (1)
- ➔ Advt. in the souvenir, brochure, pamphlets etc of a **Political Party** – **Not allowed** u/s **37 (2B)** – Treated as donation to political party [Dedn u/s 80GGB – For companies or u/s 80GGC – For others]

2) PENALTY:

PENALTY

Breach of **LAW**	Breach of **CONTRACT**
Not Allowed	**Allowed**
	Eg: Penalty for: - Late delivery of goods - Wrong delivery of goods etc.

3) TAXES:

TAXES

Related to Goods and Services

E.g. Sales Tax/ VAT
Customs duty
Excise duty
Service Tax
GST etc...

Allowed if it is **PAID** up to the due date of filing of return as required by **Sec. 43B**

Not Related to Goods and services

Eg. Income Tax
Wealth Tax

Not Allowed u/s 40(a)

	Taxes	Int. on late payment	Penalty
Sales Tax/VAT	✓	✓	×
Custom Duty	✓	✓	×
Excise Duty	✓	✓	×
Service Tax	✓	✓	×
GST	✓	✓	×
Income Tax	×	×	×
Wealth Tax	×	×	×

4) OTHER EXPENSES:

Other Expenses

Related To Business
Allowed

Not Related to Business
Not Allowed

PART - II
EXPENSES EXPRESSLY DISALLOWED

Sec.37 (2B) ADVERTISEMENT – POLITICAL PARTY

Advt. in souvenir, brochure, pamphlets etc. of a political party is expressly disallowed under this section

Sec.40 (a)

Under this section, following expenses are expressly disallowed:

a) **Income Tax** and **Wealth Tax**
b) Expenses incurred **without** deducting **TDS**

Payment to **Resident** → **30% Disallowed**

Payment to **Non Resident** → **100% Disallowed**

Sec.40 (b)

While computing business Income of Partnership firm, deduction for **remuneration** and **interest** shall be allowed subject to following **conditions** and **limits**:

➔ **CONDITIONS:**

1. Remuneration and interest should be **AUTHORISED** and **QUANTIFIED** by the Partnership Deed. (either the exact amt. of interest/remuneration should be mentioned in the deed or method of calculating such amount should be mentioned in the deed)
2. Remuneration should be paid to **WORKING PARTNER**.

➔ LIMITS:

➔ For INTEREST TO PARTNERS:

(on Partners' Capital or Partners' Loan):

Max. 12% p.a.

➔ For REMUNERATION TO PARTNERS:

(Salary, Commission, Bonus etc. to working partners)

BOOK PROFITS

(Taxable IFB **before** deduction of Partners Remuneration)

Up to 6,00,000	Balance
× 90%	× 60%
XXX	XXX
3,00,000	
XXX	

XXX

Limit

Amount of deduction:

1. Actual Remuneration to working Partners
2. Limit u/s 40(b) as calculated above

Sec.40 A (2) PAYMENT TO RELATIVES

PAYMENT TO RELATIVES

Reasonable Amt.	Excess* Amt.
Allowed	**Not Allowed**

*A payment is treated is excessive if it exceeds the **fair market value** of the goods, services or facilities or the **legitimate needs** of the business.

Meaning of Relative:

Assessee	Relatives
Individual	Husband, Wife, Brothers, Sisters, Lineal Ascendant and Lineal Descendant (H/W/B/S/L_A/L_D)
Partnership Firm	Partner and their relatives (H/W/B/S/L_A/L_D)
HUF	Members and their relatives (H/W/B/S/L_A/L_D)
Company	Directors and their relatives (H/W/B/S/L_A/L_D)
Any Assessee →	Substantial interest → Any Person
Any Assessee ←	Substantial interest ← Any Person

Note:
Substantial Interest means having atleast:
20% ***shares*** [in case of companies] or
20% rights in ***profits*** [in other cases]

Sec.40 A (3) PAYMENT EXCEEDING Rs.10,000

PAYMENTS

- Up to Rs. 10,000
  Allowed
  Whether Cash
  or Cheque
- **more than Rs. 10,000**
  - If paid by
    A/c Payee Cheque/Draft/ECS
    Allowed
  - If paid by
    Cash/Bearer Cheque
    Fully Disallowed

Note 1:

The above rule is applicable to all the expenses **except** medical **insurance premium of employee's health**. Insurance premium of employee's health is allowed as a deduction only if it is paid by cheque [whether less than or more than Rs.10,000].

Note 2:

The restriction of cash payment is applicable to **revenue exp. as well as capital exp**. This means, if an asset is purchased in cash then such asset will not be eligible for depreciation or any other deduction like section 35 AD etc..

Note 3:

The restriction of cash payment is applicable to payment **per person per day**.

Case	Date	Payment	Allowed or not
I	14.10.25	7,500 cash to "A" 7,500 cash to "B"	Both allowed because different Persons
II	14.10.25 15.10.25	7,500 cash to "A" 7,500 cash to "A"	Both allowed because different dates
III	14.10.25 14.10.25	7,500 cash to "A" 7,500 cash to "A"	Same Person, Same date, Same Expense ∴ Not Allowed (because in aggregate it exceeds Rs.10,000)

Note 4:

If an expenditure exceeding Rs. 10,000 (**outstanding**) is claimed as a deduction on accrual basis in a particular year and **subsequently**, it is **paid by cash** then **deduction** allowed earlier shall be **withdrawn**.

➔ EXCEPTIONS TO SEC. 40 A (3) [RULE 6 DD]:

In following cases, deduction is allowed even if payment exceeding Rs.10,000 is made in cash:

1) Payments made to **Government** or **Banks/Financial Institutions** Eg: GST, custom duty, Interest to bank etc.
2) Payments made to **producers** of:
   - Agricultural products
   - Forest products
   - Fish products
   - Poultry products
   - Diary products
   - Animals products
   - Products manufactured without the aid of power

3) Payments made in a place where there are **no banking facilities**.

4) Payment of **Terminal Benefits** to an employee (i.e. Gratuity, PF etc.) **up to Rs. 50,000**
5) Payment of **Salary** to an employee who is **posted** to a place other than his normal place of duty for minimum **15 days** (where he has no bank A/c)

6) Payment made to **Transport operator up to Rs. 35,000**

Sec.40 A (7) PROVISION FOR GRATUITY

This means, assessee has provided for gratuity payable to employees who will retire in future. Since employees will **retire in future**, the gratuity expense will accrue in future & since it will **accrue in future**, it will be **allowed in future** (**not now**). Hence, provision for gratuity is **not allowed**.

Note: Similarly, **any provisions/reserves** in respect of expenses or losses which will accrue in future are **not allowed**.
Eg: Provision for contingencies, RDD, Reserve for discount etc.

Sec.43 B DEDUCTION ON PAYMENT BASIS

As per this section, following expenses are allowed only if such expenses are **PAID** up to the due date of filing of return:

T. B. L I C R M

T: Any **T**ax, cess, duty payable to Govt.
B: **B**onus & Commission to employees.
L: **L**eave salary to employees.
I: **I**nterest on loans taken from PFI, SFC, SIIC, SB & NBFC
C: **C**ontribution to SPF, RPF, Approved Gratuity fund & Approved Superannuation fund.
R: Payment to Indian **Railways**
M: Payment to **Micro and small enterprises**

If the **payment is not made** up to the due date of filing of return, deduction is **not allowed in the current PY**. However, deduction will be allowed in future i.e. **in the year of actual payment**.

However, in case of amount payable to micro and small enterprises, sec.43B requires that the payment should be made within the **time limit prescribed in sec.15** of MSMEDA, 2006 [Micro, Small and Medium Enterprises Development Act, 2006]. If payment is made **within the time limit** u/s 15 of MSMEDA 2006 then dedn is allowed on **accrual basis** and if it is paid **after such time limit** then dedn is allowed on **payment basis**.

As per sec. 15 of MSMEDA, 2006, any sum due to micro and small enterprises should be paid on or before the **date agreed** upon in writing between the parties [**which shall not exceed 45 days**]. If there is **no such agreement** then it should be paid within **15 days**.

Eg: Our Previous year is **2025-26**
On **26th March 2026**, Assessee purchased stationery from Mr.X [who is a micro and small enterprise]. The assessee did not agree as to when the amount will be paid by him to Mr.X. Accordingly, the stationery bill should be paid within 15 days i.e. latest upto **10th April 2026**.

In this case:

⇨ If the assesses pays the bill **on or before 10th April 2026** then dedn will be **allowed in the PY 2025-26** itself on accrual basis.

⇨ If the assessee pays the bill **after 10th April, 2026,** then dedn will not be allowed in PY 2025-26. It will be allowed in the **year of actual payment**.

PART - III ➜ LIST OF BUSINESS INCOMES

Following incomes are taxable as business income:

➔ **As per Sec. 28:**

1. Gross Profit ;
2. Fees for providing services ;
3. Gifts from customers / clients ;
4. Cash Compensatory support (subsidy), Duty Drawback and Sale of Import license ;

Subsidy from Govt.

For purchase of Asset	All other subsidies
Deduct from the **cost of Asset** as per Sec. 43(1)	**Taxable** u/s 28

5. Remuneration and Interest received by partner from partnership firm is taxable u/s 28 [but **share in Net Profit** is **exempt u/s 10 (2A)**];

6. Non-compete fees i.e. amt. received for not carrying on competitive business/activity ;
7. Amount recd. from Keyman Insurance Policy ;
   Note: Amount received is taxable u/s 28 but Premium paid for Keyman Insurance is allowed as deduction u/s 37(1).
8. Amount recd. on sale or disposal of asset (in respect of which deduction is allowed u/s 35AD) ; and
9. Any Other income which is related to the business.

➔ As per Sec. 41: DEEMED BUSINESS INCOMES:

Section 41(1): GENERAL RECOVERY:

Subsequent recovery of **Any Expense** or Loss shall be taxable as business income if such expense or loss was **allowed in past**.
Eg: GST Refund, custom duty refund, etc.

Section 41(4): BAD DEBTS RECOVERY:

Subsequent recovery of **Bad debts** shall be taxable as business income if such bad debts was **allowed in past**.

Section 41(3): SALE OF SCIENTIFIC RESEARCH ASSETS:

Eg:

	Cost	100
Less:	Dedn u/s 35	– 100
	WDV	Zero

	SP.	105
Less:	WDV	0
	Profit	105

Capital gains	Bus. Income u/s 41(3)
5 [SP – Cost]	100

PART - IV SPECIAL PROVISIONS

Sec. 44 AA COMPULSORY MAINTENANCE OF BOOKS

Assessees

- Specified Profession (**Note.1**)
  - **Specified Books**
  - **Any Books**
- Other Assessees (**Note.2**)
  - **Any Books**
  - **No Books**

Note 1: ASSESSEE CARRYING ON SPECIFIED PROFESSION:

An assessee carrying on specified profession is required to maintain specified books if the **Gross Receipts** of **all** the preceding **3 years** is more than **₹ 1,50,000**. Otherwise, the assessee can maintain any books as are necessary for completing the assessment.

➔ **Specified Books (Rule 6F)**

- Cash Book
- Journal
- Ledger
- Copies of Bills
- Receipts of Expenses
- Stock of Medicines Register } only in case of Medical Profession.
- Daily Case Register }

➔ **Specified Profession [MA$_2$LE FIT CO.]**

Medical, Accountancy, Architecture, Legal, Engineering, Film Artist, Interior Decoration, Technical Consultancy, Company Secretary and Others as may be notified by CBDT.

Note 2: OTHER ASSESSEES:

Other assessees are required to maintain any such books as are necessary to complete the assessment if:

➔ In case of Individual / HUF:

Total Sales > ₹ 25,00,000
or
Taxable IFB > ₹ 2,50,000

in **any one** of the preceding **3 years**.

➔ In case of Others:

Total Sales > ₹ 10,00,000
or
Taxable IFB > ₹ 1,20,000

in **any one** of the preceding **3 years**.

Otherwise, these assessees are not required to maintain books of accounts.

Failure to comply with above provision –
PENALTY of ₹ 25,000 u/s 271A

Sec. 44 AB — COMPULSORY AUDIT OF ACCOUNTS

1) In case of a **Business**, audit is compulsory if the total sales/turnover is **more than ₹ 1 crore/10 crores**.
Limit is ₹10 crores, if **max. 5%** of the Total Payments* during the financial year and **max. 5%** of the Total Receipts* during the financial year is by cash or bearer chq. or crossed chq.
*Total payments & receipts shall include all payments & receipts whether revenue or capital in nature.

2) In case of a **Profession**, audit is compulsory if the Gross Receipts is **more than ₹ 50 lakhs**.

3) Audit should be done by a **CA** and the **Audit Report** should be furnished atleast **one month prior the due date of filing return** i.e. upto **30th September** of AY.

4) The assessee should submit following **forms**:
   i. Form 3 CA (for companies) / Form 3 CB (for others)
   ii. Form 3 CD (for all assessees)

5) Failure to comply with above provision shall attract **penalty u/s 271B** which will be lower of following:
   i. 0.5 % of Total sales/ Gross Receipts
   ii. ₹ 1,50,000

Sec.44 AE | PRESUMPTIVE SCHEME - TRANSPORT BUSINESS

Transport business = Business of plying / hiring goods carriages.
In case of Transport business, following special provisions are applicable if the assessee **owns up to 10 goods vehicle** throughout the previous year:

1. Income from such business is computed on presumptive basis as follows:
   Taxable IFB = **Rs. 7,500 × No. of months × No. of trucks**
   However, in case of <u>Heavy Goods Vehicle</u> (Weight >12,000 kgs/12 tons):
   Taxable IFB = **Rs. 1,000 per ton × [Weight] No. of tons × No. of mnths × No. of trucks**
2. **Deductions** u/s 30 to 37(1) shall **not** be **allowed**. However, in case of a P. Firm carrying on transport business, dedn for **remuneration** and **interest** paid to **partners** shall be **allowed** subject to limits & conditions u/s 40(b).
3. If assessee follows presumptive basis then such assessee is **not required** to maintain **books** of accounts and get it **audited**.
4. If the Assessee **claims** that his actual business income is less than the presumptive amt. then he can declare such **lower Income** provided he **maintains books** and **gets** it **audited**.

Sec.44ADA | PRESUMPTIVE TAXATION FOR PROFESSIONALS

In case of assessees carrying on specified profession [MA_2LE FIT CO.], following special provisions are applicable if the **Gross Receipts is up to ₹ 50 lakhs***.

1. Income from such profession is computed on presumptive basis as follows:

   Taxable IFB = 50% of Gross Receipts

2. Deduction u/s **30 to 37(1)** shall **not** be **allowed**. Even partner's remuneration and interest is not allowed.
3. If assessee follows presumptive basis then such assessee is **not required** to maintain **books** of a/c's and get it **audited**.
4. If the Assessee claims that his actual professional income is less than the presumptive amt. then he can **declare lower Income** provided he **maintains books** of accounts and **gets** it **audited**. However, if the **net taxable Income** of such assessee is **upto the Basic Exemption** then the Assessee can **declare lower** Income **without** the requirement of maintaining **books** of accounts and getting it **audited**.

Note 1:

This section is applicable only to **Residents Individuals** and **Resident Partnership firms [not being LLP]**.

***Note 2:**

The threshold limit for claiming presumptive taxation u/s **44ADA** is **Rs.75 lakhs** for those assessees in whose case **max. 5% of the gross receipts** is by way of cash or bearer chq. or crossed chq.

Sec.44 AD — PRESUMPTIVE TAXATION FOR ALL BUSINESS

In case of all the business (other than transport business, professionals and agency business) following special provisions are applicable if the **Total Sales** [or Turnover or Gross Receipts] **is upto ₹ 2 crores***.

1. Income from such business is computed on presumptive basis as follows:
   Taxable IFB = 6% / 8 % of Total Sales [or Turnover]
   Note: **6%,** in respect of the amount of Sales/turnover received by account payee **Cheque/Draft/ECS** during the PY or up to the due date of filing return.
2. Deduction u/s **30 to 37(1)** shall **not** be **allowed**. Even partner's remuneration and interest is not allowed.
3. If assessee follows presumptive scheme then such assessee is **not required** to maintain **books** and get it **audited**.
4. If the Assessee claims that his actual business income is less than the presumptive amt. then he can **declare lower Income** provided he **maintains books** of accounts and **gets** it **audited**. However, if the **net taxable Income** of such assessee is **upto the Basic Exemption** then the Assessee can **declare lower** Income **without** the requirement of maintaining **books** of accounts and getting it **audited**.

Note 1:
This section is applicable only to **Residents Individuals**, **Resident HUF** and **Resident Partnership firms [not being LLP]**.

Note 2:
If assessee follows presumptive scheme in a particular year then it is **compulsory** to follow this scheme for **coming 5 years**. During these 5 years, if assessee **opts out** of the scheme then for the **next 5 years**, the assessee **cannot enter** this scheme.

***Note 3:**
The threshold limit for claiming presumptive taxation u/s **44AD** is **Rs.3 crores** for those assessees in whose case **max. 5% of the turnover** is by way of cash or bearer chq. or crossed chq.

PART - V PROBLEMS

QUESTION:

Profit and Loss A/c

	Rs.		Rs.
To Allowed Exps ✓	xxx	By Business Incomes ✓	xxx
To Disallowed Exps ⊗	**xxx**	**By Non - Bus. Incomes ⊗**	**xxx**
To Net Profit	xxx		
	xxx		xxx

ANSWER:

STATEMENT OF INCOME FROM BUSINESS [Indirect Method]

	Amt.	Amt.
N.P as per P/ L A/c		xxx
Add: DISALLOWED EXPENSES:		
- - - - - - - - - - - -	xxx	
- - - - - - - - - - - - } Dr.⊗	Xxx	
- - - - - - - - - - - -	Xxx	+ xxx
		xxx
Less: NON-BUSINESS INCOMES:		
- - - - - - - - - - - -	Xxx	
- - - - - - - - - - - - } Cr.⊗	Xxx	
- - - - - - - - - - - -	Xxx	- xxx
		xxx
Less: UNRECORDED BUSINESS EXPS: [U B E]		
- - - - - - - - - - - -	Xxx	
- - - - - - - - - - - -	Xxx	- xxx
		xxx
Add: UNRECORDED BUSINESS INCOME: [U B I]		
- - - - - - - - - - - -	xxx	
- - - - - - - - - - - -	xxx	+ xxx
TAXABLE INCOME FROM BUSINESS		xxx

Note 1: Treatment of Depreciation while Solving Sums:

Depreciation as per books (P/ L Dr.) – ⊗ **Disallowed**

Depreciation as per Income Tax (Addl. Info.) – **UBE**

INCOME FROM BUSINESS UNDER NEW REGIME

If income of business is to be computed as per new regime, then following points should be noted:

1) ***Additional depreciation*** is **not allowed**.
2) Deduction u/s **35AD** is **not allowed**. Full cost deduction in respect of capital expenditure will not be allowed but depreciation on such assets will be allowed.
3) Deduction for **donation**/contribution **for research** is **not allowed**.

INCOME FROM BUSINESS - Summary

Statement of "Income from Business"

	Amt.
GROSS BUSINESS INCOME:	
➔ **Sec. 28:**	
Gross Profit	xxx
Fees for providing services	xxx
Gifts from customers/clients	xxx
Cash Compensatory Support [Subsidy]	xxx
Duty drawback / Sale of import license	xxx
Remuneration/Int. from P.Firm [Share in NP – Ex.10(2A)]	xxx
Amount recd from Keyman insurance policy	xxx
Non-compete fees	xxx
Sale proceeds of sec. 35AD assets	xxx
Other business incomes	xxx
➔ **Sec. 41:**	
Recovery of allowed expenses [Sec. 41(1)]	xxx
Bad debts recovery [Sec. 41(4)]	xxx
Sale of asset by power unit following SLM [Sec. 41(2)]	xxx
Sale of research asset [Sec. 41(3)]	xxx
	XXX
Less: DEDUCTIONS u/s 30 to 37:	
Sec. 30: Rent/Repairs/Taxes/Insurance (Building)	-XX
Sec. 31: Repairs & Insurance (P & M / Furniture)	-XX
Sec. 32: Depreciation	-XX
Sec. 35: Scientific Research Exp./Donation [100% dedn]	-XX
Sec. 35 AD: Capital exp. in specified bus.. [100% dedn.]	-XX
Sec. 35 D: Preliminary exps. [5 Equal Inst.]	-XX
Sec. 35 DDA: Voluntary Retirement Comp. [5 Equal Inst.]	
Sec. 36(1):	
Cont. to SPF/RPF/App. SAF/App. GF [payment basis]	-XX
Insurance of Stock	-XX
Insurance of Employees' health [if paid by cheque]	-XX
Int. on loan from PFI/SFC/SIIC/SB/NBFC [payment basis]	-XX
Interest on loan from others [accrual basis]	-XX
Bonus/Comm. to employees [payment basis]	-XX
Bad debts	-XX
Sec. 37(1): General deduction	-XX
TAXABLE IFB	**XXX**

Sec. 37 (2B):
Advt. [Political Party]
Sec. 40(a):
Income tax/Wealth tax
Exps without TDS
Sec. 40(b):
Limit for Partners Rem/Int.
Sec. 40A (2):
Excess Payment to relatives
Sec. 40A (3):
Cash Payment > 10,000
Sec. 40A (7):
Provision for Gratuity
Sec. 43B:
Dedn. on payment basis
[T.B.LICRM]

FORMAT FOR SOLVING SUMS	
NP as per P & L	xxx
Add: Disallowed Exps.	+xx
Less: Non-Bus. Incomes	- xx
Less: UBE	- xx
Add: UBI	+ xx
TAXABLE IFB	XXX

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CAPITAL GAINS

➔ SUMMARY:

I. BASIC CONDITIONS and COMPUTATION
II. SECTION WISE [Sec. 45(1) TO Sec. 55]

PART - I BASIC CONDITIONS & COMPUTATION

➔ When to compute CG ?

Capital Asset + Transfer = Capital Gains

Capital Asset ↓ **(Note 1)**   Transfer ↓ **(Note 2)**

➔ How to compute CG ?

COMPUTATION OF CAPITAL GAINS	
Full Value of Consideration	xxx
Less: Transfer Expenses	- xx
Net Consideration	xxx
Less: Cost of Acquisition*	(xx)
Less: Cost of Improvement*	(xx)
STCG/LTCG **(Note 3)**	xxx

*If **transfer** takes place **before 23rd July, 2024**, we deduct **indexed** cost in the computation of **LTCG**.

$$\text{Indexed COA} = \text{COA} \times \frac{\text{Index (Year of Transfer)}}{\text{Index (Year of Purchase)}}$$

$$\text{Indexed COI} = \text{COI} \times \frac{\text{Index (Year of Transfer)}}{\text{Index (Year of Improvement)}}$$

In our exam, trasnfer will be after 23/7/24. Hence, no indexation.

Note 1: DEFINITION OF CAPITAL ASSET [Sec. 2(14)]:

ASSETS

MRS.G.S ↓ **Not a Capital Asset** ↓ **No Capital Gains**

Other Assets ↓ Capital Asset ↓ Capital Gains

Movable Personal* Assets (T.V., Fridge, Washing machine etc)
Rural Agricultural Land in India [RALI]
Stock-in-Trade
Gold Bonds issued under Gold Deposit Scheme, 1999 and deposit certificates issued under Gold Monetisation Scheme, 2015 [However, **Sovereign Gold Bonds** issued by RBI is treated as a **capital asset** and it is subject to **Capital Gains** Tax].
Special Bearer Bonds

*Following are Movable Personal Assets but capital assets:
➔ Jewellery
➔ Drawings, Paintings, Sculptures or any work of art [DPSA]
➔ Archaeological collections

Note 2: DEFINITION OF TRANSFER [Sec. 2(47)]:

Transfer includes **SEREC$_2$**:
Sale of capital asset
Exchange of capital asset
Relinquishment of capital asset
Extinguishment of "Rights" in capital assets
Compulsory acquisition of capital asset by Government.
Conversion of capital asset into stock in trade

Note 3: TYPES OF CAPITAL GAINS:

CAPITAL ASSETS

Listed Securities Units of UTI / EOF	Other Assets
Short term, if trf.. within **1 year** Otherwise, long term	Short term, if trf.. within **2 years** Otherwise, long term

EOF – Equity oriented fund is a mutual fund/ULIP which invests: Minimum **65%** in listed **equity** shares of domestic companies **or** Minimum **90%** in **another fund** which also invests minimum **90%** in listed **equity** shares of domestic companies.

Note 4: PURCHASE BEFORE 1/4/2001:

In such case, cost of acquisition will be:

1. Actual Cost
2. Fair Market Value [FMV] as on 1.4.2001*

* in case of immovable prop., lower of FMV or SDV as on 1/4/01

Note 5: IMPROVEMENT BEFORE 1/4/2001

IGNORE

PART -II SECTION WISE

Sec. 45 (1): BASIS OF CHARGE:

The basis [conditions] for charging capital gains to tax is as follows:

a) There must be a **Capital Asset**

b) There must be **Transfer** of such capital asset

Capital Asset + Transfer = Capital Gains

As per this section, the year of charging capital gains is the **year of transfer** i.e. on accrual basis (not on receipt basis).

Year of Tax = Year of Transfer

However, there are **some exceptions** to this rule [discussed later]

Sec. 45 (1A): DESTRUCTION OF CAPITAL ASSET:

Normally,

Capital gains is computed only if there is a "transfer". In case of destruction, there is **no transfer** because in the process of transfer, the asset must exist. The definition of transfer includes extinguishment of "Rights" in a capital asset but in case of destruction, the capital asset itself is extinguished. Hence, destruction is not a transfer [therefore, **no capital gains**].

However,

After the introduction of section 45(1A), capital gains will be **computed** even in case of destruction **provided** the destruction is due to the following reasons: **(NRFE)**

- **N**atural calamities
- **R**iots or civil disturbance
- Accidental **F**ire or explosion
- **E**nemy attack

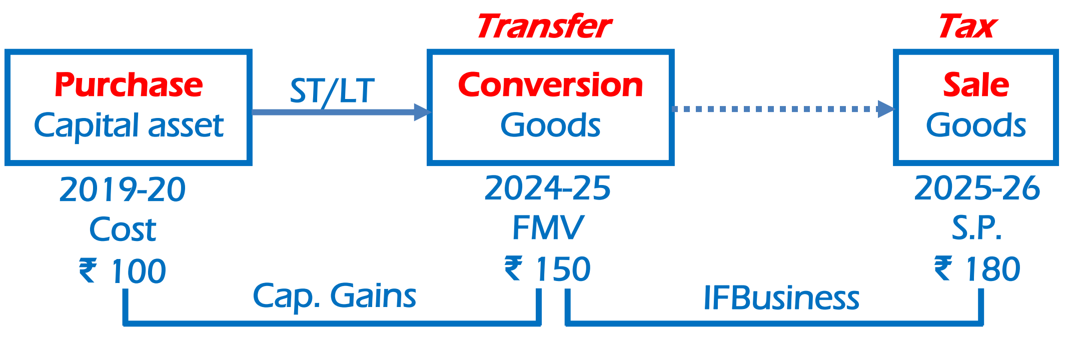
Notes:

1) If the destruction is due to **other reasons**, then capital gains is **not computed**.
2) Normally,
   Year of Tax = Year of Transfer
   However, in case of destruction,
   Year of Tax = Year of **Receipt** of Insurance Claim
3) FVOC = Amt. of Insurance claim

Sec. 45 (2): CONVERSION OF CA INTO STOCK IN TRADE:

If Capital Asset is sold – Income is Capital Gains
If Stock-in-trade is sold – Income is Business Income
If CA is converted in to SIT and then sold – Partly CG...Partly IFB

Example:



In the above eg., the assessee purchased jewellery during 2019-20 as investment. During 2024-25, the assessee started the business of jewellery & the jewellery which was held as investment was transferred to his jewellery shop. This amounts to conversion of capital asset into stock in trade. In such case, 2 calculations are done in the year when the jewellery is sold [i.e. 2025-26].

➔ **First Calculation [Income From Business]:**

S.P. of stock in trade	xxx
Less: FMV on the date of conversion	-xxx
Income From Business	xxx

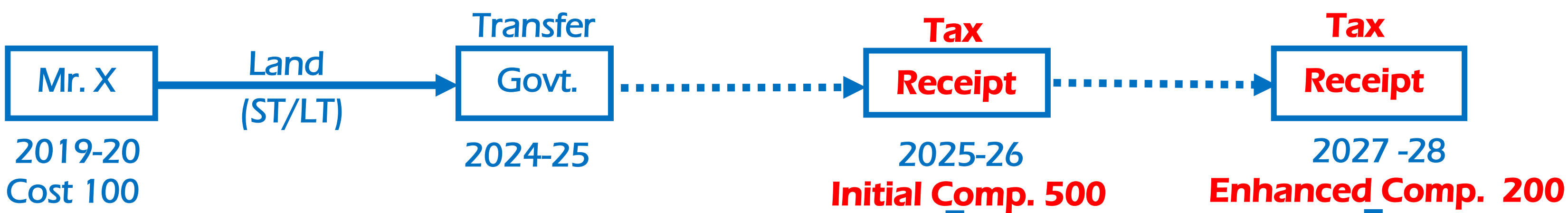
➔ **Second Calculation [Capital Gains]:**

FVOC (***FMV on the date of conversion***)	xxx
Less: Transfer Expenses	-xxx
Net Consideration	xxx
Less: COA	-xxx
Less: COI	-xxx
STCG / LTCG	xxx

Note:
Normally, Year of Tax = Year of Transfer
However, in case of conversion,
Year of Tax = Year of **sale of stock in trade**

Sec. 45 (5): COMPULSORY ACQUISITION BY GOVT.:

Example:



FVOC	500
Less: Trf. Exp.	–
N.C.	500
Less: COA	- 100
Less: COI	–
STCG/LTCG	400

FVOC	200
Less: Legal Exp.	- 5
STCG/LTCG	195

In the above example, Mr. X's land is compulsorily acquired by Government during 2024-25. Initially, government awarded compensation to Mr. X which he received during 2025-26. However, Mr. X was not satisfied with the amount of compensation. Hence, he filed a court case. He won the case and the court ordered for additional compensation which he received during 2027-28.

Following points shoud be noted in this regard:

1) Normally, Year of Tax = Year of Transfer
   However, in case of compulsory acquisition, Year of Tax = Year of **Receipt** of Compensation

2) If **initial** compensation is received in **instalments**, then the **entire** compensation will be taxable in the year of reciept of **first installment**.
   If **enhanced** compensation is received is **instalments**, then it is taxable **as & when received**.

3) If assessee receives **interest** for the delay in initial/ enhanced compensation then such interest is taxable as **IFOS**.
   ➔ Taxable Amt. = Total Interest – **50 % standard deduction**

Sec. 47: EXEMPT TRANSFERS:

In following cases, there is a capital asset and there is transfer of such capital asset but the transfer is exempt u/s 47:

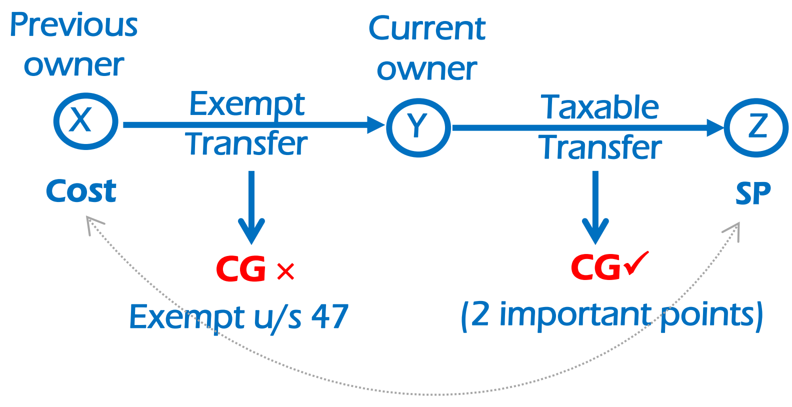
Capital asset ✓ + Transfer ✓ = Capital Gains ✓

But, Exempt u/s 47

1. Transfer by way of **Gift/Will/Inheritance**.
2. Transfer by HUF to its individual members at the time of **partition**.
3. **Conversion** of self acquired property of an individual member into the common property of HUF.
4. Transfer by amalgamating company to amalgamated company in the scheme of **amalgamation**.
5. Transfer between a **holding** company and its **100% subsidiary** company.
6. **Exchange** [by a shareholder] of shares in amalgamating company for shares of amalgamated company in the scheme of amalgamation.
7. **Exchange** of convertible debentures for shares on Conversion of convertible debentures into shares.

   etc......

Sec. 49(1): CAPITAL GAINS AFTER EXEMPT TRANSFERS:

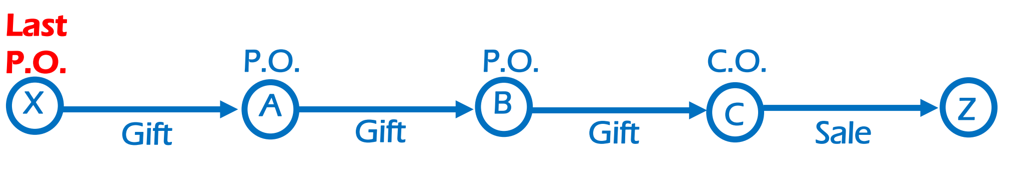


In the above example, transfer by "X" to "Y" is exempt u/s 47. Hence, capital gains is not computed. But later, when "Y" transfers the asset to "Z", capital gains will be computed and in such computation, following 2 points should be noted:

1) **Cost** of Acq... for "Y" = Cost to the **previous owner** "X".
2) To decide Short term/Long term, **period** should be calculated from date of purchase by **previous owner** "X" up to the date of transfer to "Z".

Note 1:
The logic behind taking the cost of previous owner is that the Govt. wants to **withdraw the exemption u/s 47 in the previous transfer**.

Note 2:
Previous owner means the **last previous owner**.



Note 3:
While deducting cost of **improvement**, consider improvement done by **previous** owner **as well as current** owner.

Sec. 49(4): COST OF ASSET ACQUIRED BY WAY OF GIFT:

If the receiver of the gift has already been taxed u/s 56 on the FMV or SDV of gifted asset [under the head IFOS] then cost of such asset will be such FMV or SDV.

FMV [Fair Market Value] – in case of Movable property and
SDV [Stamp Duty Value] – in case of Immovable property.

Example:

PO: X (2010-11, Cost 100) —Land, Gift→ CO: Y (2014-15, FMV/SDV 400) —Land, Sale→ Z (2025-26, SP 500)

X → Y (Land, Gift): CG ×

Exempt u/s 47 for the transferor but the receiver **may** or **may not** be taxed under **IFOS**

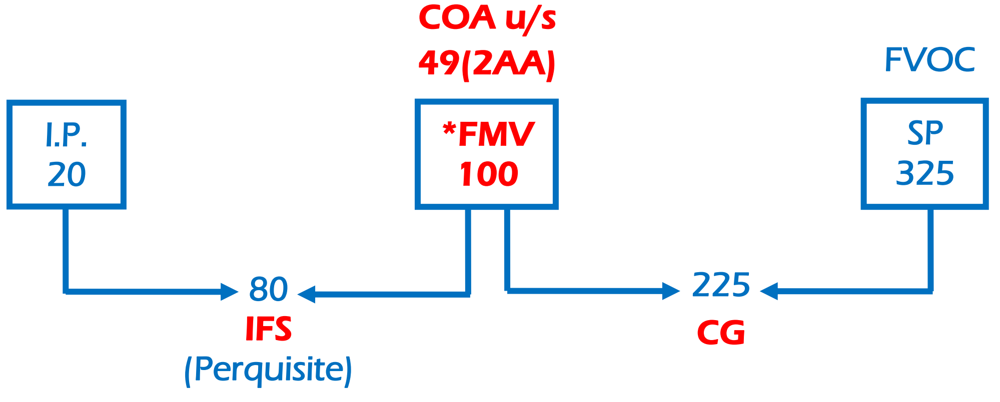
Y → Z (Land, Sale): CG ✓

FVOC (S.P.)	500
(-) COA	-100/400

- Cost and Period from **Previous owner** as per Sec. 49(1) If 'Y' is **not taxed under IFOS**
- Cost and Period from **Current Owner** as per Sec. 49(4) If 'Y' is **taxed under IFOS**

Sec.49(2AA): COST OF SHARES ALLOTED UNDER ESOPS:

Under **E**mployees **S**tock **OP**tion **S**cheme, an employee is alloted shares/securities at **concessional price**. This **benefit** is taxable under the head "**Income from Salaries**". When such shares are sold, capital gains is computed as follows:



*FMV should be as on the **date of exercising the option**.

Sec. 48/50: MODE OF COMPUTATION:

CAPITAL ASSETS

Depreciable Assets
(Eg: Machinery, Office/Factory Bldg. and Other business assets)

Section 50

Opening WDV	XXX
Add: Purchases	XXX
Less: Sales (SP)	-XX
	XXX

All Sold:
- (+) STCL
- (-) STCG

Some Sold:
- (+) Depn
- (-) STCG

Always Short term

Non – Depreciable Assets
(Eg: Land, Jewellery, Shares, Res..House etc..)

Section 48

FVOC	XXX
Less: Transfer Exps	- XX
Net Consideration	XXX
Less: COA	- XX
Less: COI	- XX
STCG / LTCG	XXX

Short /Long term

Sec. 50B: SLUMP SALE:

As per Section 2(42C), slump sale means transfer of an "undertaking" for **lumpsum price**. Price is fixed for the whole undertaking **without assigning values to individual assets and liabilities**.
Since price of each asset is not known individually, it is not possible to compute capital gains for each asset separately. Hence, **single computation** is done as follows (assuming the entire undertaking as a single capital asset):

COMPUTATION OF CG
(Sale of "**Undertaking**")

Full value of consideration [Higher of following] ↕ **Actual consideration or** **FMV as per Rule 11UAE** [Given in the sum] Less: Transfer Exps.	xxx (xx)
Net Consideration Less: Cost of Undertaking [**Net Worth** – **Note.2**]	xxx (xx)
STCG/LTCG	xxx

Note 1:

To decide short term/long term, period should be calculated from the **date of commencement of undertaking** upto the date of slump sale. If this period is **upto 3 years** then the capital gains is **short term** and if this period is **more than 3 years** then the capital gains is **long term**.

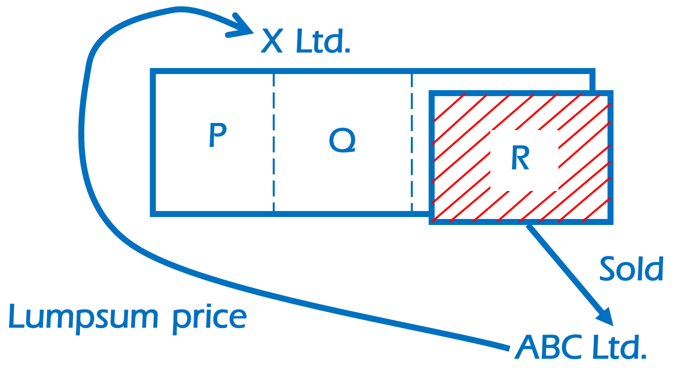
Note 2: Net Worth:

WDV of depreciable assets (as per I.Tax)	XXX
Add: Book Value of other assets	+ XX
Less: Book Value of outside liabilities	- XX
Net Worth	XXX

In short, **all** the assets and liabilities of the undertaking shall be considered **except share capital**, **reserves** and **misc. exp**.

Note 3:

If Balance sheet values are revalued figures then **remove the effect of revaluation**. In case of sec. 35AD assets and self generated Goodwill, consider the value as Nil.



Sec. 50C: FVOC FOR IMMOVABLE PROPERTY:

In case of Immovable Property (Land/Building):

FVOC = ↑ 1) Declared consideration (Actual Sale Price)
2) Stamp Duty Value (SDV)

Stamp Duty Value is like market value. It is the value adopted by Stamp Valuation Authority [State Govt] for stamp duty purpose.

Note 1:

If SDV [on agreement date] is different from SDV [on registration date] then consider **SDV [on agreement date]** provided part or whole of the consideration is **received** by way of account payee **cheque**/bank draft/ECS [**on or before** the **agreement** date]

Example:

SDV [on agreement date]	120
SDV [on registration date]	130
Actual sale price	100

Assumimg part or whole of the consideration is received in cheque on or before the agreement date, FVOC = 120 or 100 [whichever is high i.e. 120]

Note 2:

If the SDV exceeds the actual sale price and if the **difference is only upto 10% of actual sale price** [Small Difference] then **SDV** is **ignored.**

Note 3:

If the Assessee disputes the Stamp Duty Value and if the matter goes to the Valuation Officer [V.O.] then:

FVOC = 1) Declared consideration (Actual Sale Price)
2) SDV **or** Value as per VO (whichever is less)

While solving sums of immovable property, use following flow chart for determining FVOC:

Select SDV [Ag. Date or Regn. Date]

Compare
1) Actual SP
2) SDV

Small Diff..
FVOC
=
Actual SP

Big Diff..
FVOC
=
Actual SP
SDV/VO (Lower)

Sec. 51: FORFEITURE OF ADVANCE MONEY RECEIVED:

This means, assessee had negotiated for sale of a capital asset and **took advance** from the buyer but the sale **did not materialise** and assessee forfeited the advance money received i.e. the assessee **did not return** the money.

In such cases,

- ⇨ If advance money is forfeited **before 01.04.2014** then it should be **deducted from** the **cost** of Asset.
- ⇨ If advance money is forfeited **on or after 01.04.2014** then it is taxable as **IFOS** (in the year in which such advance is forfeited).

Example:

Mr. X was supposed to sell his property to Mr. Y for which he took an advance of Rs.50,000. However, the sale did not materialise because Mr.Y backed out. Hence, Mr. X **forfeited** advance of **Rs. 50,000** on **4th June, 2010**.

During 2015-16, Mr. X negotiated with Mr. A for the sale of same property and took advance of Rs.25,000. Even this sale did not materialise and the advance of **Rs.25,000** was **forfeited** by Mr. X on **8th September 2015**.

The property was finally sold to Mr. Z on 10th April, 2025 for Rs. 90 lakhs.

Compute the amount of capital gains assuming the property was puchased by Mr. X for Rs. 26 lakhs during 2004-05.

COMPUTATION OF CAPITAL GAINS

FVOC [Sale price]	90,00,000
Less: Trf. Exp.	—
N.C.	90,00,000
Less: COA (26 L – **50,000**)	- 25,50,000
LTCG	64,50,000

Note: Advance money of **Rs.25,000** forfeited on 8th Sept., 2015 [i.e. on/after 1/4/2014] shall be taxable as **IFOS** in PY 2015-16.

Sec. 55: COST IN DIFFERENT SITUATIONS:

SITUATION	COST
Purchase before 1.4.2001	Cost = ↑ Actual cost FMV on 1.4.2001
Improvement before 1.4.2001	Ignore
Bonus Shares: ➔ Alloted on/after 1.4.2001 ➔ Alloted before 1.4.2001	 Cost = Nil Cost = ↑ Actual cost Nil FMV [1.4.2001] $\boxed{xxx}$
Right "Shares": ➔ For existing shareholder ➔ For outsider	 Cost = Issue price Cost = Issue price + Amt. paid to the renouncer
Rights "offer"	Cost = Nil
Self generated asset E.g. Goodwill, trademark, brand name etc. ➔ If self generated ➔ If purchased	 Cost = Nil Cost = Purchase price

Sec. 45(5A): JOINT DEVELOPMENT AGREEMENT (JDA):

JDA = Agreement between the **owner of a Land/Building** and a **builder/developer** where the owner **transfers his land/bldg..** to the builder/developer for construction of building in consideration of **share in the new building** [in the form of one or more flats in the new building]. Since the agreement involves transfer of a capital asset [land/bldg.], capital gains will be computed by the owner of land/bldg. as follows:

Monetary consideration **SDV of his share as on the date of issue of CC**	**xxx** **+ xxx**
FVOC Less: Transfer Expenses	xxx -xxx
Net Consideration Less: COA [**Cost of Land/Bldg trf^{ed}**.] Less: COI	xxx -xxx -xxx
STCG / LTCG	xxx

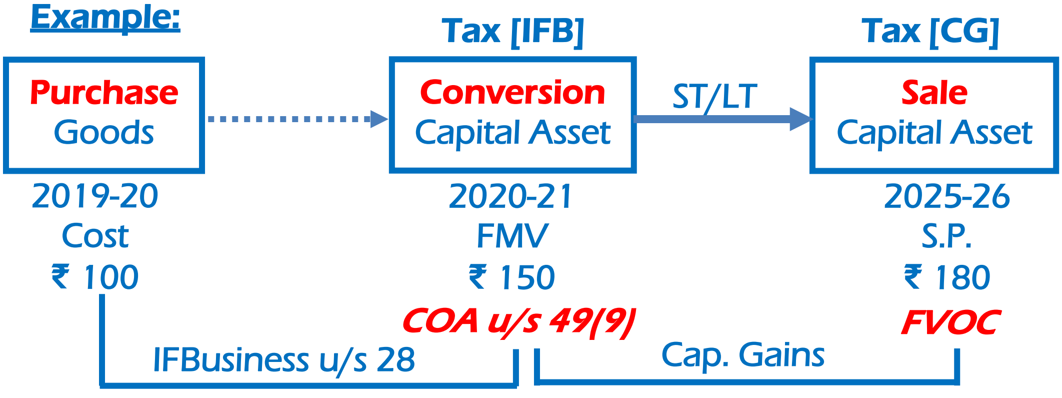
Normally,
Year of Tax = Year of Transfer [i.e. the yr. when land/Blgd is trf^{ed}.]

However, in case of joint development agreement,
Year of Tax = Year in which **CC** for the new bldg.. is **issued**
CC = Certificate of Completion

Note 1:
Monetary consideration is subject to TDS u/s 194 IC @ 10%

Sec. 49 (9): CONVERSION OF STOCK IN TRADE INTO CA:

Example:



EXEMPTIONS

Sec. 54: EXEMPTION FOR RESIDENTIAL HOUSE:

LTCG on transfer of a **residential house** [except self occupied property for business] shall be exempt if the amount of capital gains is invested in purchase/construction of a new **residential house** in India.

➔ **Time Limit for purchase/construction of new house:**

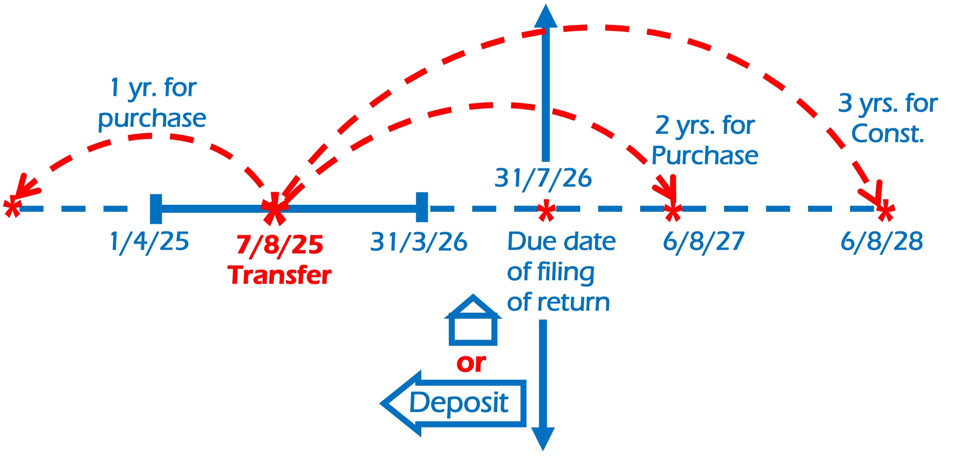
The new house should be purchased either within **1 year before** or within **2 years after** the date of transfer of old house or the new house should be constructed within **3 years after** the date of transfer of old house.

➔ **Scheme of deposit:**

a) If the new house is **not acquired upto the due date** of filing return then the assessee should **deposit** the desired amount in **CGAS** (Capital Gains Account Scheme – special a/c opened in bank) (Deposit should be made on or before the due date of filing return).

b) The deposited amt. should be **utilized** for the acquisition of **new asset** within the prescribed time.

c) If the deposited amt. is **not utilised** or **misutilised** then the exemption shall be **withdrawn**.



➔ **Amount of Exemption:**

↓
1) Amt. of Capital Gains
2) Cost of New House / Amt. of Deposit

➔ **Lock in period:**

The new house should not be transferred within **3 years from the date of its acquisition**. If the new asset is transferred within 3 years then the **exemption** allowed earlier shall be **withdrawn** as follows:

COMPUTATION OF CG

(on transfer of new house within 3 years)

FVOC (SP of new asset)	xxx
Less: Transfer Exps.	(xx)
Net Consideration	xxx
Less: **Reduced** COA (Cost of new house – **Exemtpion claimed** earlier)	(xx)
Less: COI	(xx)
STCG/LTCG	xxx

➔ **Eligible assessee:**

Individuals and HUF

➔ **Other Points:**

1) Cost of new house for the purpose of exemption should be **max. ₹ 10 crores**.
2) The assessee can purchase/construct only one residential house in India. If the assessee acquires **2 or more** houses then exemption is allowed only for the cost of 1 house [the **one whose cost is higher**]. However, in case of an assessee having LTCG **upto Rs. 2 crores**, exemption can be claimed for **2 houses** [but **only once** in his life time].

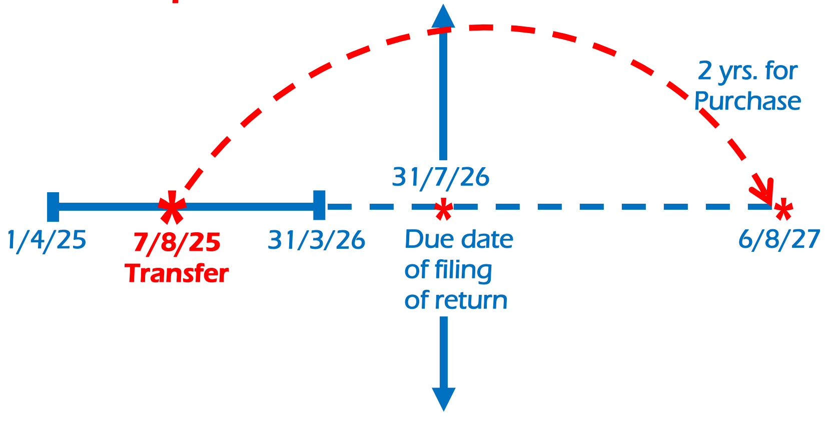
Sec. 54B: EXEMPTION FOR AGRICULTURAL LAND :

STCG/LTCG on transfer of an **urban agricultural land** [used for agricultural purpose for atleast 2 years either by assessee or his parents] shall be exempt if the amount of capital gains is invested in purchase of a new **agricultural land [rural or urban]**.

➔ **Time Limit:**

The new agricultural land should be purchased within **2 years after** the date of transfer of old land.

➔ **Scheme of deposit:** Same as section 54



➔ **Amount of Exemption:** Same as section 54

➔ **Lock in period:** Same as section 54

➔ **Eligible assessee:** Individuals and HUF

AGRICULTURAL LAND

Rural area
Not a Capital Asset u/s 2(14)

Urban area

Compulsory acquisition
Fully Exempt u/s 10(37)

Sale etc...
FVOC
Less: Trf. Exp.
NC
Less: COA/ICOA
Less: COI/ICOI
STCG/LTCG
Less: Exempt u/s 54B

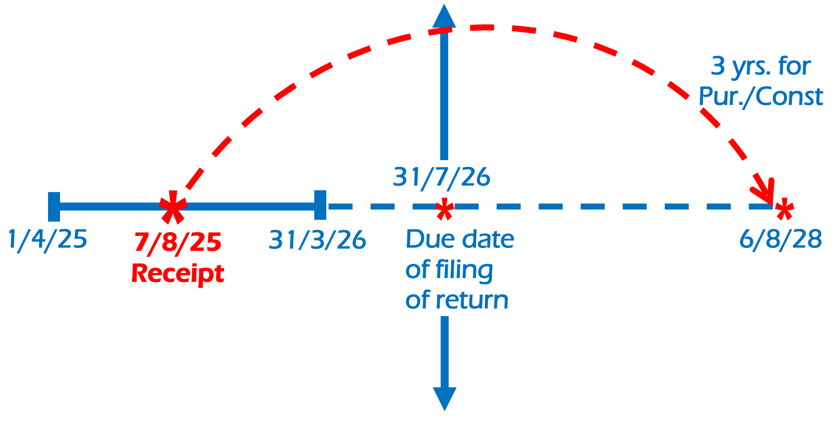
Sec. 54D: EXEMPTION FOR INDUSTRIAL L & B :

STCG/LTCG on **compulsory acquisition** of an **industrial land and building** [used for industrial purpose for atleast 2 years] shall be exempt if the amount of capital gains is invested in purchase or construction of a new **industrial land and building**.

➔ **Time Limit:**

The new industrial L & B should be purchased or constructed within **3 years after** the date of ***receipt*** of compensation.

➔ **Scheme of deposit:** Same as section 54



➔ **Amount of Exemption:** Same as section 54

➔ **Lock in period:** Same as section 54

➔ **Eligible assessee:** All assessees

Sec. 54EC: EXEMPTION FOR IMMOVBLE PROPERTY :

Capital gains on transfer of any **long term** capital asset [being **immovable property**, whether depreciable or non depreciable] shall be exempt if the amount of capital gains is invested in purchase of **notified bonds**.

➔ **Time Limit:**

The notified bonds should be purchased within **6 months after** the date of transfer of old asset.

Notified Bonds = Bonds of **NHAI** [National Highways Authority of India] or **RECL** [Rural Electrification Corporation Limited] or **PFCL** [Power Finance Corporation Ltd.] or **IRFCL** (Indian Railway Finance Corporation Ltd.) or any **other notified bonds**.

➔ **Scheme of deposit:** Not applicable

➔ **Amount of Exemption:**

1) Amt. of Capital Gains
2) Cost of New Bonds
3) Max. ₹ 50,00,000

➔ **Lock in period:**

The bonds should not be transferred within **5 years from the date of its acquisition**. If the bonds are transferred within 5 years then the **exemption** allowed earlier shall be **withdrawn** as follows:

COMPUTATION OF CG

(on transfer of bonds within 5 years)

FVOC (SP of bonds) Less: Transfer Exps.	xxx (xx)
Net Consideration Less: **Full** COA/COI	xxx (xx)
STCG/LTCG of New bonds **Add: LTCG exemption** [of old asset] **withdrawn**	xxx +xx
	xxx

➔ **Eligible assessee:** All assessees

Sec. 54F: EXEMPTION FOR ANY LTCA [Except House]:

Capital gains on transfer of **any long term capital asset** [other than a residential house] shall be exempt u/s 54 if the amount of ***net consideration*** is invested in purchase/construction of a new **residential house** in India.

➔ **Time Limit:** Same as section 54

➔ **Scheme of deposit:** Same as section 54

➔ **Amount of Exemption:**

If the net consideration is **fully utilised** then the capital gains is **fully exempt**.
If the net consideration is **partly utilised** then the capital gains is **partly exempt** as follows:

$$\text{Exemption} = \text{Gross LTCG} \times \frac{\text{Cost of new house/Deposit}}{\text{Net Consideration}}$$

➔ **Lock in period:**

The new house should not be transferred within **3 years from the date of its acquisition**. If the new asset is transferred within 3 years then the **exemption** allowed earlier shall be **withdrawn** as follows:

COMPUTATION OF CG
(on transfer of new house within 3 years)

FVOC (SP of bonds)	xxx
Less: Transfer Exps.	(xx)
Net Consideration	xxx
Less: **Full** COA	(xx)
Less: COI	(xx)
STCG/LTCG of New House	xxx
Add: LTCG exemption [of old asset] **withdrawn**	+xx
	xxx

➔ **Eligible assessee:**

Individuals and HUF

➔ Other Points:

1) Cost of new house for the purpose of exemption should be **max. ₹ 10 crores**.

2) **Number of new houses to be acquired:**
The assessee can purchase/construct only one residential house in India. If assessee acquires **2 or more** houses **at the time of filing** the return then exemption is **not allowed**.
If he acquires only **one** house **at the time of filing** the return then exemption is **allowed** but then such exemption will be **withdrawn in future** [if he purchases another house within 2 years or constructs another house within 3 years].

3) **Number of existing houses [already owned]:**
For claiming exemption u/s 54F, the assessee should **not own more than one** residential house (he should have only 1 house or no house).

Existing House	New House
0	Only 1
1	Only 1

Only for 54F   For 54 as well 54F

SUMMARY

	Section	Asset transferred	Asset to be purchased	Time limit	Scheme of deposit	Amt. Of Exemption	Lock in period	Eligible assessee
LT	54	**Residential house** [except SOP(B)]	Residential house [except SOP(B)]	1B 2A 3A	Same	Same	3 years	Ind./HUF
LT/ST	54B	**Urban Ag. land** (used for ag. purpose for atleast 2 yrs by assessee or his parents)	**Any** agricultural land (Rural/Urban)	2A	Same	Same	3 years	Ind./HUF
LT/ST	54D **Comp. Acq***	**Industrial Land** & **Bldg**. (used for ind. purpose for atleast 2 yrs by assessee)	Industrial Land & Bldg.	3A	Same	Same	3 years	All
LT	54EC	**Any LTCA** being immovable property	**Notified Bonds** (NHAI/RECL/PFCL etc)	6 months	**N.A.**	Same **Note 6**	**5 years**	All
LT	54F	**Any LTCA** (except Res. House)	**Residential house** (except SOP(B))	1B 2A 3A	Same	**Different**	3 years	Ind./HUF

SOP(B) = Self occupied property for Business

*Exemption u/s **54D** is only in case of **compulsory acquisition**

Exemption u/s **54G/GA is only in case of **shifting** of industrial undertaking from urban area to rural area or SEZ

CAPITAL GAINS ON SHARES AND SECURITIES

SHARES AND SECURITIES

Equity Shares
Units of EOF / Business trust

Transfer through RSE

STT paid (Note.1)

LTCG u/s 112A

Purchase on/before 31/1/18	
FVOC Less: Trf. Exps.	xxx - xx
NC Less: **Grandfathered** COA	xxx - xx
LTCG	xxx

Purchase after 31/1/18	
FVOC Less: Trf. Exps.	xxx - xx
NC Less: COA	xxx - xx
LTCG	xxx

Exempt up to 1,25,000
Balance 12.5% Tax
No Rebate u/s 87A

STCG u/s 111A
20% Tax

Trf. not through RSE

Other Securities

STT not paid

LTCG
12.5% Tax

STCG
Normal tax rate
(i.e. Slab rates, 30% etc.)

Note 1: STT paid:

Benefit of concessional tax u/s 112A / 111A is applicable only if **STT is paid** by the assessee [in case of **units** – at the **time of sale** but in case of **equity shares** - at the time of **purchase as well as sale**.

➔ Exception – If equity shares were unlisted at the time of purhase or were purchased in Public Issue, Rights Issue, Bonus Issue, ESOPs, etc. then STT should be paid only at the time of sale.

Note 2: Grandfathered Cost:

Benefit of **Grand fathering** is applicable i.e. if the equity shares/units are purchased **on/before 31/1/2018** then gains upto 31/1/2018 are exempt. Hence, cost of acquisition will be computed as follows:

↑ Actual Cost
FMV as on 31/1/2018 **or** SP [whichever is **less**]

Note 3: FMV as on 31.1.18

➔ If **equity shares/units** were **listed** as on 31.1.18:
FMV as on 31.1.18 = **Highest Trading Price** as on 31.1.18.

If the equity shares were not traded on 31/1/18 then consider highest trading price of the immediately preceding date when the shares were traded.

➔ If the **units** were **not listed** as on 31.1.18:
FMV as on 31.1.18 = **Net Assets Value** as on 31.1.18 and

➔ If **equity shares** were **not listed** as on 31.1.18:
FMV as on 31.1.18 =

$$\text{Cost of Acquisition} \times \frac{\textbf{Index (2017-18)}}{\text{Index (Yr. of Purchase)}}$$

LTCG from IMMOVABLE PROPERTY

In case of **resident individual/HUF**, tax on LTCG on transfer of an immovable property (**purchased before 23/7/2024**) is calculated as follows:

1) Tax **@20%** on LTCG (**with indexation**)**
2) Tax **@12.5%** on LTCG (**without indexation**)

** COMPUTATION OF LTCG (with indexation)

	₹
FVOC	XXX
Less: Transfer Expenses	- XX
Net Consideration	XXX
Less: Indexed COA	- XX
$= \text{Cost of Acquisition} \times \dfrac{\text{Index (Year of Transfer)}}{\text{Index (Year of Purchase)}}$	
Less: Indexed COI	- XX
$= \text{Cost of Improvement} \times \dfrac{\text{Index (Year of Transfer)}}{\text{Index (Yr. of Improvement)}}$	
LTCG (with indexation)	XXX

COMPUTATION OF CAPITAL GAINS (Summary)

FULL VALUE OF CONSIDERATION		**Sections**
—In Sale	Sale price	
—Destruction	Insurance claim	45(1A)
—Conversion of CA into SIT	FMV on conversion dt.	45(2)
—Compulsory Acquisition	Initial/Enhanced comp	45(5)
—Joint Development Agreement	Money + SDV of his share	45(5A)
—Immovable Property	Hgher of Actual SP/SDV	50C
<u>LESS:</u> COST OF ACQUISITION		
—When Previous trf is exempt	Cost to Previous Owner	49(1)
—Gifted Asset (Taxed under IFOS)	Cost to Current Owner [FMV/SDV]	49(4)
—Shares allotted under ESOPS	FMV on the dt of exercising option	49(2AA)
—Slump Sale (No Indexation)	Net Worth {WDV of Dep assets as per I.T. + BV of Other Assets – o/s liab.}	50B
—Asset acquired before 1/4/2001	Actual Cost or FMV [1/4/2001] (higher)	55
—Improvement before 1/4/2001	Ignore	55
—Bonus shares before 1/4/01	FMV on 1/4/2001	55
—Bonus shares on/after 1/4/01	Zero	55
—Right shares (for existing s/h)	Issue Price	55
—Right shares (for outsider)	Issue Price + Amt paid to renouncer	55
—Rights "Offer"	Zero	55
—Self generated assets like G/W etc	Zero (if self) or Pur.Price (if purchased)	55
<u>LESS:</u> EXEMPTIONS:		
RH to RH	CG or CNA/Deposit (whichever is less)	54
Urban Ag Land to Any Ag Land	" "	54B
Ind. L&B to Ind. L&B {Comp. acq.}	" "	54D
LTCA [Imm..Prop..] to Bonds	" " **(Max 50 Lakhs)**	54EC
LTCA to RH	**CG x CNA /Deposit ÷NC**	54F
SHORT/LONG TERM CAPITAL GAINS		

~~~~~~~~~~~~~~~
~~~~~~~~~~~~~~~

INCOME FROM OTHER SOURCES

INCOMES

- Income from Salaries
- Income from HP
- Income from Business
- Capital Gains
- Remaining Incomes → **IFOS**

Eg: **D.W. R_3AM_2U FAKIR G** etc...

- **Taxable** — Amt. **included** in the statement
- **Exempt** — Amt. **excluded** in the statement

STATEMENT OF INCOME FROM OTHER SOURCES

D	Dividend income	XXX
W	Winnings from lottery, races, gameshows etc.	XXX
R_3	Rent Income	
	1. Rent from Other Assets (other than HP)	XXX
	2. Rent from Sub-letting of house property	XXX
	3. Composite rent of (Bldg. + Other Assets)	XXX
A	Agricultural Income	
	➔ In India [**Exempt u/s 10(1)**]	—
	➔ In Foreign [Taxable]	XXX
M_1	Receipts as MP/MLA	
	➔ Salary [Taxable]	XXX
	➔ Daily allowance [**Exempt u/s 10(17)**]	—
M_2	Income of minor children	XXX
	Exempt up to **Rs.1500 per minor child** u/s **10(32)**	
U	Income from 'units' of UTI/Mutual fund	XXX
F	Family pension received after the death of employee [Fully **exempt u/s 10(19)** if received after the death of **Army** employee]	XXX
A	Award	
	➔ From Government [**Exempt u/s 10(17A)**]	—
	➔ From Others [Taxable]	XXX
K	Amount receipt from Keyman Insurance Policy	XXX
	Note: Amt. received from Life Insurance Policy is **Exempt u/s 10(10D)**	
I	Interest Incomes (**Note 1**)	
	➔ **GP_2S** [**Exempt 10(15), (11), (11A)**]	—
	➔ Remaining Interest Incomes [Taxable]	XXX
R	Royalty Income	XXX
G	Gifts from friends, relatives etc..	XXX
	(**Discussed in separate topic**)	
	Etc........	
TAXABLE IFOS		**XXX**

Note 1:

INTEREST INCOMES

GP$_2$S → **Exempt**

Remaining Interest Incomes → Taxable

G – Gold Bonds issued under Gold Deposit Scheme, 1999 & Gold Monetization Scheme, 2015 [**Exempt u/s 10(15)**]

P – Post Office Savings Bank Account (POSBA)

Exempt u/s 10(15) upto **₹ 3,500**

In case of joint a/c, exempt upto **₹ 7,000**

P – Public Provident Fund A/c (PPF) [**Exempt u/s 10(11)**]

S – Sukanya Samriddhi Account Scheme [**Exempt u/s 10(11A)**]

Note 2: **DEDUCTIONS u/s 57:**

Deduction is for EXPENSES.

Expenses given in the question should be treated as follows:

Income	Deduction u/s 57
Taxable Incomes	**DEDUCT** all expenses.
Exempt Incomes	**IGNORE** all expenses.
Winnings	**IGNORE** all expenses.
Dividend and Income from units of UTI/Mutual fund	**DEDUCT** only **one expense** i.e. **interest** on borrowings [**max. 20%** of Dividend/units' income]
Family Pension	**STANDARD** Deduction 1/3 × Actual amt. received ₹ 15,000
Interest on compensation on account of compulsory acquisition	**STANDARD** Deduction 50%f Amount received

INCOME FROM OTHER SOURCES
UNDER NEW REGIME

If Income of Other Sources is to be computed as per new regime, then following points should be noted:

1) Exemption u/s **10(17)** for Daily Allowance of MP/MLA will **not** be **allowed**.
2) Exemption u/s **10(32)** for income of minor children will **not** be **allowed**.
3) **Standard deduction u/s 57** for Family Pension will be 1/3rd or **₹ 25,000** (whichever is less).

Note: Concept of new regime is discussed in detail in a separate topic of concessional tax regime

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TAXATION OF GIFTS

GIFTS

- **From EMPLOYER** — Income From Salaries
- **From CUSTOMERS** — Income From Business
- **From OTHERS** — IFOS u/s 56(2)(x)

From OTHERS

I .M .D r. L C_2 (Note.1)
Fully Exempt

OTHERWISE

Received MONEY
If aggregate money
upto ₹ 50,000
Fully Exempt
Otherwise Fully Taxable

Recd MOVABLE property (Note.3)

- **At NO PRICE**
If aggregate
FMV
upto ₹ 50,000
→ Fully Exempt
→ Otherwise
Fully Taxable
- **At LOW PRICE**
If aggregate
{FMV - Actual Price}
upto ₹ 50,000
→ Fully Exempt
→ Otherwise
Fully Taxable

Recd IMMOVABLE property

- **At NO PRICE**
If per property
SDV
upto ₹ 50,000
→ Fully Exempt
→ Otherwise
Fully Taxable
- **At LOW PRICE**
If per property
{SDV - Actual Price}
upto ₹ 50,000*
→ Fully Exempt
→ Otherwise
Fully Taxable

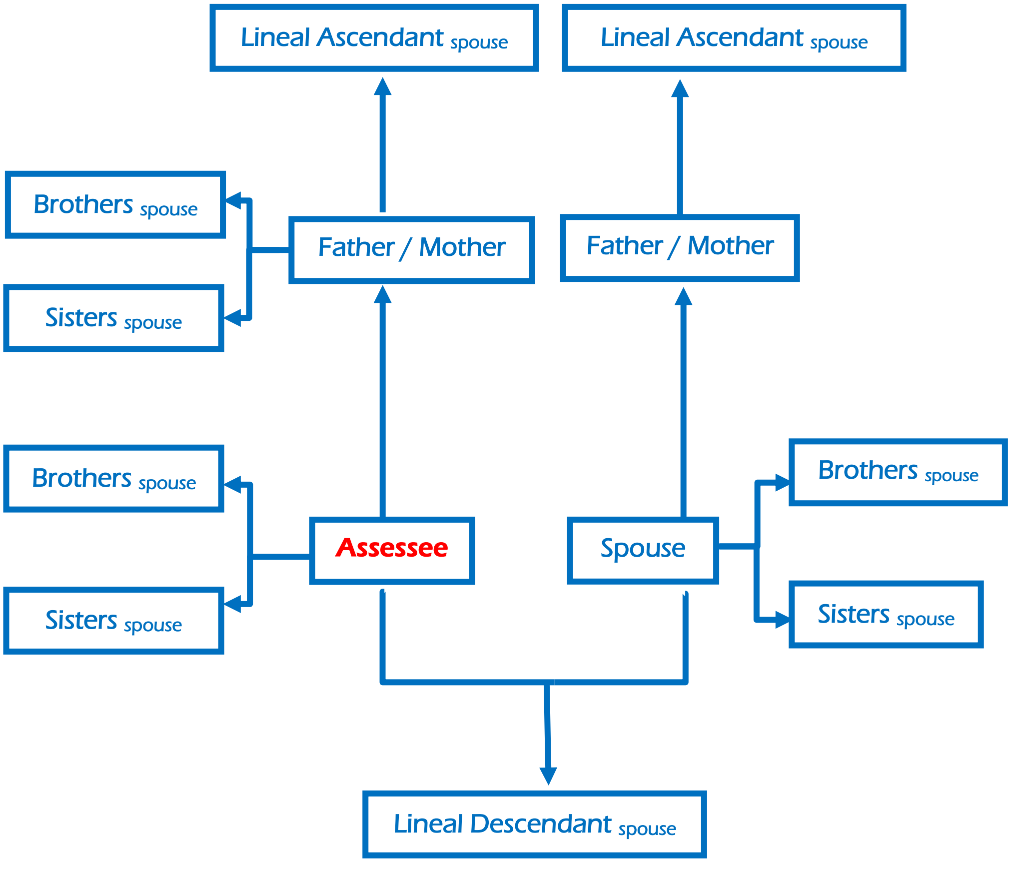
***or up to 10% of Actual Price [Whichever is high]**

NOTE 1: GIFTS FULLY EXEMPT = I.M.D r. L C_2

I – Gift by way of **Inheritance** or Will
M – Gift on **Marriage**
D – Gift in Contemplation of **Death**
r – Gift from **Relatives**
L – Gift from **Local Authority**
C_1 – Gift from or to **Charitable/Religious trust**
C_2 – Any sum received by an individual for his or family* member's **COVID treatment** or
Any sum **up to ₹10 lakhs** received by family* member of individual who **died due to COVID** [provided to the amount is recd **within 12 mnths** from the date of death]

*Family = Spouse, Children, Dependent [Parents/Brothers/Sisters]

NOTE 2: MEANING OF RELATIVE:



NOTE 3: MOVABLE PROPERTY:

Gift of only following movable properties is taxable: [JAS-V]

- **J**ewellery [including bullions]
- **A**rtistic work [DPSA] and Archaeological collections
- **S**hares and Securities
- **V**irtual Digital Assets

*any property [whether movable or immovable] held as **stock in trade** received as gift [either for no price or low price] **shall not be taxable.**

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TAXATION OF DIVIDEND

DEEMED DIVIDEND

For taxation of dividend, dividend includes normal dividend as well as deemed dividend. As per section 2(22), following distributions by a company to its shareholders are deemed as dividend (to the extent of accumulated profits).

Sec 2(22)(a): Release of Company's Asset:

Any distribution by a company which leads to release of company's asset is deemed as dividend (to the extent of accumulated profits).

Sec 2(22)(b): Bonus:

Any distribution of **Equity or Debt** item by way of bonus to **Preference shareholders** is deemed as dividend to the extent of accumulated profits.
Any distribution of **Debt** item by way of Bonus to **Equity Shareholders** is deemed as dividend to the extent of accumulated profits (whether capitalised or not).

Normal Bonus [No D.D.]: Co. $\xrightarrow[\text{Bonus}]{\text{Eq./Pref.}}$ ESH

Abnormal Bonus [D.D.]:
- Co. $\xrightarrow[\text{Bonus}]{\text{Eq./Pref./Deb. etc.}}$ PSH
- Co. $\xrightarrow[\text{Bonus}]{\text{Deb./Bonds etc.}}$ ESH

Sec 2(22)(c): Liquidation [Closure] of Company:

Any distribution by a company to its shareholders at the time of liquidation is deemed as dividend (to the extent of accumulated profits).

Example:

Balance Sheet of A Ltd.

ESC [Incl. ₹ 70,000 Bonus] Reserves	3,00,000 2,00,000	Assets	5,00,000
	5,00,000		5,00,000

On liquidation, the company distributes Rs. 5,00,000 to its shareholders out of which Rs. 2,70,000 [i.e. the amount of reserves whether capitalised or not] will be deemed as dividend u/s 2(22)(c)

Sec 2(22)(d): ReDuction of Share Capital:

Any distribution by a company to its shareholders at the time of reduction of share capital is deemed as dividend (to the extent of accumulated profits).

Example:

Balance Sheet of A Ltd.

ESC (30,000 shares x 10) Reserves	3,00,000 2,00,000	Assets	5,00,000
	5,00,000		5,00,000

The company reduces its share capital from ₹ 10 to ₹ 2 per share by returning ₹ 8 per share. Hence, the company distributes Rs. 2,40,000 [30,000 x 8 per share] to shareholders out of which Rs. 2,00,000 [i.e. the amount of reserves] will be deemed as dividend u/s 2(22)(d).

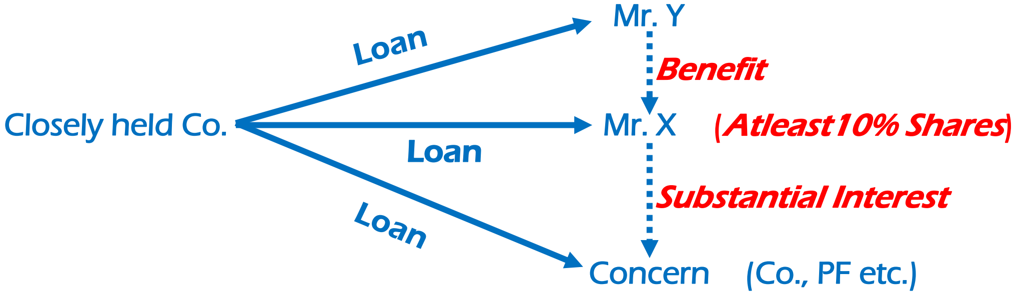
Sec 2(22)(e): Loan by Closely held Co...: [Exception]

In the following cases, any loan or advance given by a closely held company is deemed as dividend (to the extent of accumulated profits).

a) Loan given to a **shareholder** having minimum **10%** shares

b) Loan given to **any concern** in which such shareholder has a **substantial interest** (minimum 20% stake)

c) Loan given to **any person** for the **benefit of such shareholder**.



Note: Any Loan/Advance given in the **ordinary course** of its business of money lending **shall not be deemed as dividend** u/s 2(22)(e).

Sec 2(22)(f): Buy back of shares:

Any amount received by a shareholder on **buy back** of shares [in accordance with the provisions of sec. 68 of the Companies Act, 2013] is **deemed as dividend**.

Note: Cost of shares bought back is allowed as **capital loss**.

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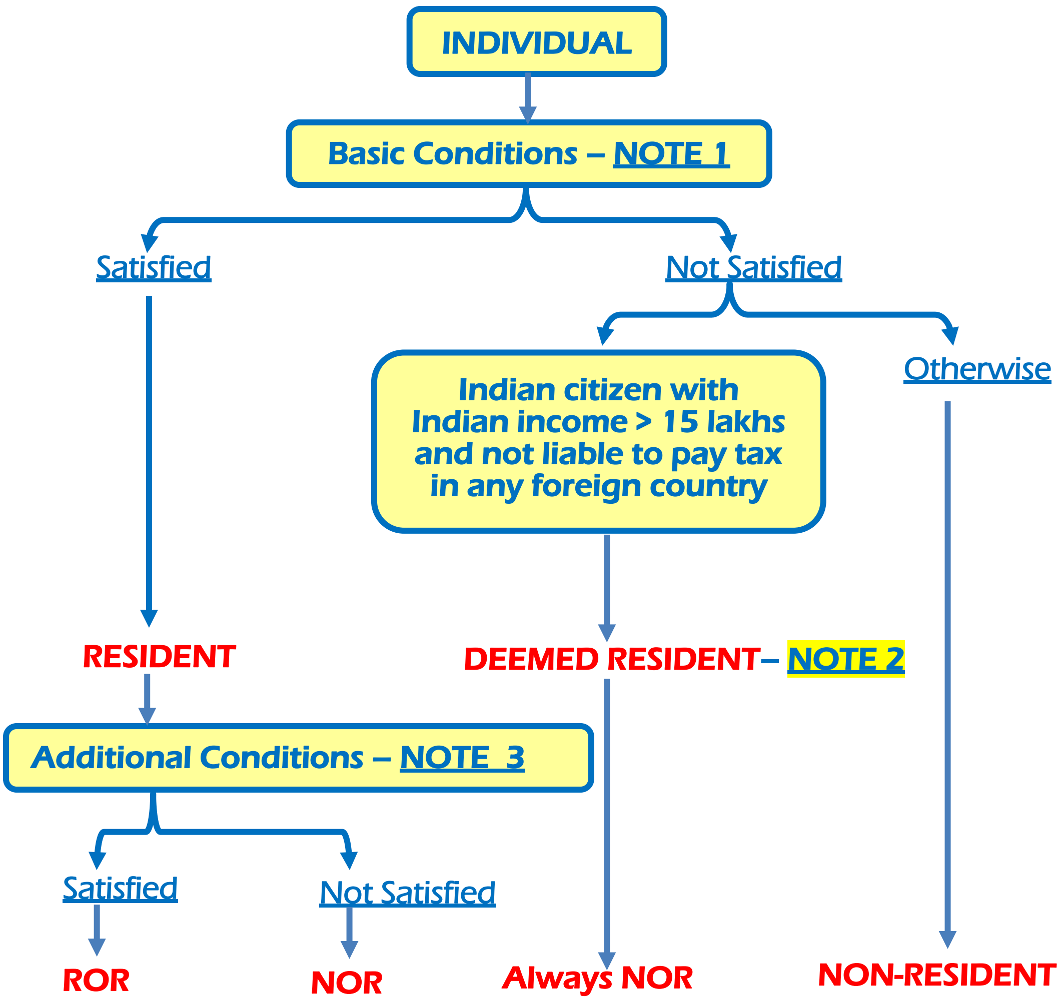
RESIDENTIAL STATUS

➔ Why to decide?

It is necessary to decide because:

- If a person is a **ROR** [Resident and Ordinarily Resident] then he has to pay tax on **World income**.
- If a person is **NOR** [Not Ordinarily Resident] then he has to pay tax on all **Indian incomes + Only One foreign income** i.e. foreign *business* income *controlled from India*.
- If a person is **NR** [Non-Resident] then he has to pay tax only on **Indian incomes**.

➔ How to decide?



NOTE 1: BASIC CONDITIONS:

Stay in India for **182 days** or more in current P.Y.

or

Stay in India for **60/120 days** or more in current P.Y. **and**
Stay in India for **365 days** or more in preceding 4 PYs.

Use of above basic conditions depends upon the type of individual as follows:

INDIVIDUALS

Normal individuals	Indian citizen or Indian origin* [settled abroad], who **comes** to India *during P.Y.* **for visit** [having Indian income **> 15 lakhs**]	Indian citizen or Indian origin* [settled abroad], who **comes** to India *during P.Y.* **for visit** [having Indian income **upto 15 lakhs**]	Indian citizen **leaving** India *during P.Y.* **for employment** outside India or as a member of crew of Indian ship
Resident if **any one basic** condition is satisfied i.e. **182 days** or **60 + 365 days**	Resident if **any one basic** condition is satisfied i.e. **182 days** or **120 + 365 days**	Resident **only if 1st basic** condition is satisfied i.e. **182 days**	Resident **only if 1st basic** condition is satisfied i.e. **182 days**

*An individual is said to be a person of Indian origin if he himself or his parents or his grandparents were born in undivided India.

NOTE 2: DEEMED RESIDENT:

Normally, residential status is decided based on number of days an individual stays in India [as discussed in basic conditions]. However, if following conditions are satisfied then an individual is deemed as resident of India [**irrespective of his stay in India**]:

i) Such Individual is an **Indian Citizen**;
ii) His Indian* income is **more than 15 lakhs** and
iii) He is **not liable** to tax **in any foreign country** by reason of his domicile, residence or any other similar criterion.

* For the purpose of ₹15 lakhs in Note 1 and 2, Indian income = Income from sources in India + Income from foreign business controlled from India.

NOTE 3: ADDITIONAL CONDITIONS:

Resident in India for **2 yrs.** or more out of **preceding 10 PYs**

and

Stay in India for **730 days** or more in **preceding 7 PYs**

If an individual satisfies **both** the above additional conditions then he is **ordinarily resident** in India.

However, in case of an **Indian citizen** or **Indian origin** [settled abroad], who comes to India during P.Y. for **visit** [having **Indian income > 15 lakhs**], he will be always be treated as **NOR** if he has become resident by satisfying condition of **120 days + 365 days.**

HUF

Control & Mngt. in India [partly/fully]
Resident

- **If Karta satisfies both the Additional conditions**
  Ordinarily Resident
- Otherwise
  NOR

Otherwise
Non-Resident

PARTNERSHIP FIRMS/AOP

Control & Mngt. in India [partly/fully]
Resident

Otherwise
Non-Resident

COMPANIES

Indian Company
Resident

Foreign Company

- If **POEM in India**
  Resident
- If POEM outside India
  Non-Resident

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SCOPE OF TOTAL INCOME

After deciding the residential status, the next step is to determine the total income depending upon the residential status of the assessee.

- If the assessee is a **ROR** [Resident and Ordinarily Resident] then he has to pay tax on **World income**.
- If the assessee is **NOR** [Not Ordinarily Resident] then he has to pay tax on all **Indian incomes + Only One foreign income** i.e. foreign *business* income *controlled from India*.
- If the assessee is **NR** [Non-Resident] then he has to pay tax only on **Indian incomes**.

	ROR	NOR	NR
Indian Income	Taxable	Taxable	Taxable
Foreign Income			
⇨ Foreign Business controlled from India	Taxable	Taxable	—
⇨ Other Foreign Income	Taxable	—	

Note 1:

Indian income means income which is either
accrued[2] in India
or
received[1] in India or both.

[1] Received in India means income should be **first received in India**. Consider the place of first receipt – Ignore subsequent remittance.

[2] Accrued in India depends upon the type of income as follows:

1) **Income from Salaries:**

Salary is deemed to accrue in India if the place of rendering **service is India**. However, in case of **Government employees** [**Indian citizen**], salary is deemed to accrue in India **even if the services are** rendered **outside** India. In case of such Govt. employees, any **allowance** or **perquisites** received **outside India** is fully **exempt u/s 10(7)**.

2) **Income from House Property:**

Rent income is deemed to accrue in India if the **house** property is located **in India**.

3) **Income from business**

Business income is deemed to accrue in India if the **place of business is in India**. However, in following cases, the income is not deemed to accrue in India even if the place if business is in India:

- If the place of business in India is solely for **shooting** of cinematographic films;
- If the place of business in India is solely for **collecting news and views** in India and
- If the place of business in India is solely for **purchasing goods** in India.

4) **Capital Gains**

Capital gains is deemed to accrue in India if the **capital asset is located in India**.

Important note:

- Sale of shares of **Indian co.** - CG is treated as **Indian income**.
- Sale of shares of **Foreign co.** - CG is treated as **foreign income**.
- Sale of shares of **Foreign co.** [for **> 5% shareholder**] - CG is deemed as **Indian income**, if such shares derive its value substantially from **assets located in India** [i.e. balance sheet of such foreign company, has Indian assets having **FMV > 10 cr.** & such FMV **>/= 50% of Total Assets** of Foreign Co.].

5) **Income from other sources**

Income from other sources is deemed to accrue in India if the **source of income is in India**. However, following points should be noted:

- If the income is **interest** on loan, **royalty** or **fees** for technical services, then the income is deemed to accrue in India if it is received from **Government of India** **or** if the loan, patent/copyright or technical service is used for **business in India**.
- If the income is **gift**, then it is deemed to accrue in India if the **giver** of the gift is a **resident**.

Note 2:

Ignore Past Foreign Untaxed Income brought in India.

Note 3:

Question on scope of total income should be solved after following all the rules of deduction for expenses, exemptions and chapter VIA.

Note 4:

Foreign business **set up in India** means foreign business **controlled from India**.

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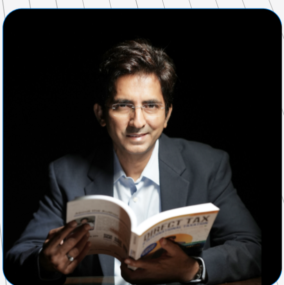
After qualifying as a Chartered Accountant in 1997 with an All India Rank of 42, CA Shirish Vyas, turned to the Education Industry to transform his passion into a profession. With a vast experience of over 28 years, he is an eminent Professor, Mentor, Motivator and Guide to many CA Students. To instill the same passion and motivation into his students, he founded the Prime Vision Professional Education and is currently a leading faculty and mentor of this prominent Institute.

He is the pioneer of colour coded notes & his comprehensive book is a saviour for last minute revision and preperation of this vast DT subject. People call him "TEACHER" of teachers.



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