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e-learning study material

Subject Code: 16CCCCM14

Subject: Income Tax Theory, Law and Practice

Unit I to V

TWO Mark Questions and Answers

2 Mark Questions

Unit - I

① What is previous year?

Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year.

"Previous year is the financial year immediately preceding the assessment year."

② What is assessment year?

The year in which income is taxable is known as assessment year. It means the period starting from April 1 and ending on March 31 of the next year.

③ What is assessment?

Assessment is the procedure by which the income of an assessee is determined by the assessing officer.

④ Who is Assessee?

Assessee means a person by whom any tax or other sum of money is payable under the Income Tax Act 1961.

⑤ Who is ordinary assessee?

Every person in respect of whom any proceedings under the Income Tax Act has been taken for assessment of his income or loss or the amount of refund due to him is known as ordinary assessee.

⑥ Who is deemed (or) representative assessee?

A person who is assessable of income or loss of another person is known as deemed assessee.

eg: In case of minor or lunatic or idiot, guardian (or) parent is deemed assessee.

⑦ Who is assessee-in-default?

If a person fails to fulfil his statutory obligation as per Income Tax Act, he is called "Assessee-in-default."

8 Define - Person

Under section 2(31), the term person includes
(i) an individual (ii) a Hindu Undivided Family
(iii) a company (iv) a firm (v) an association of persons
(vi) body of individuals (vii) a local authority
(viii) Artificial Juridical person.

9 What is Income? (or) Define the term Income.

As per section 2(24) income includes
(i) Profits and gains received by a trust
(ii) Dividends
(iii) Voluntary contribution
(iv) Perquisites
(v) special allowance
(vi) Dearness allowance
(vii) capital gains
(viii) Winnings from lottery / crossword puzzles / horse races

10 What is ^{Gross} total income?

The aggregate income under the five heads is termed as gross total income (or) total income. Total income is determined on the basis of Residential status of the assessee in the previous year.

11 What is casual income?

Casual income includes winnings from lotteries, crossword puzzles, horse races, card games etc. These incomes are taxable under the head 'Income from other sources'.

12 What are the five heads of income?

The five heads of income are
(i) Income from salary
(ii) Income from house property
(iii) Income from business or profession
(iv) Income from capital gains
(v) Income from other sources.

13 Give any two examples of capital receipts.

Capital receipts are usually exempt from tax unless they are expressly taxable.

- Eg: ① Receipt of amount on maturity of LIC policy.
② Premium (or) discount received by a debenture holder.
③ Profit on sale of technical knowhow.

14 Give any 2 examples of revenue receipts.

- Eg: ① Compensation received for loss of revenue profits.
② Income from sale of import entitlements.
③ Consideration received by a partner for using his goodwill.

15) Who is resident ?

An individual who satisfies one of the basic conditions is treated as resident in India.

Basic conditions

- 1) Stay in India for the period of 182 days or more during the previous year
- 2) Stay in India for the period of 60 days or more during the previous year and 365 days or more during 4 years immediately preceding the previous year.

16) Who is ordinarily Resident in India? Sec 6(1)

A resident individual is treated as "Resident and Ordinarily Resident" in India if he satisfies the two additional conditions.

Additional conditions

- 1) He has been resident in India in at least 2 out of 10 previous years immediately preceding the relevant P.Y.
- 2) He has been in India for the period of 730 days or more during 7 years immediately preceding the relevant P.Y.

17) Who is called "Resident but not ordinarily resident"?

An individual who satisfies at least one of the basic conditions but does not satisfy the two (or) any one of additional conditions is treated as a resident but not ordinarily resident.

18) Who is non-resident ?

An individual who does not satisfy both the basic conditions is called as non-resident in India.

19) What do you mean by exempted income?

Exempted incomes are those incomes on which Income tax is not charged.

20) Name any 2 income that exempt from tax.

- 1) Agricultural income
- 2) sum received by a member from HUF
- 3) share of profit of a partner from Partnership firm
- 4) Gift and award upto ₹.50000f in aggregate
- 5) Death cum retirement gratuity

Q1) What is agricultural income?

Agricultural income includes
(a) any rent or revenue derived from land situated in India and is used for agricultural purposes (or)
(b) any income derived from any building owned and occupied by the cultivator.

Q2) Name some Non-agricultural income.

- ① Income from fisheries
- ② Income from sale of trees of forest.
- ③ Income from butter and cheese making
- ④ Income derived from land let out for storing crops.

Unit - II

Q3) Define salaries.

Any remuneration received by an employee in consideration of services rendered to his employer is called salary.

Q4) What are the items included in salary? (or) What are the different forms of salary?

Basic salary, commission, bonus, Allowances, perquisites, profit in lieu of salary and pension, advance and arrears of salary.

Q5) What is an allowance?

An allowance is a cash payment to the employee on a regular basis in addition to Basic salary to meet certain expenses in connection with duties of his office.

Q6) What are deductions permissible from salary income?

Deductions permissible from salary income are
(i) U/S 16(ii) Entertainment allowance for state and central government employee (permissible at the maximum of ₹.5000/-)
(ii) U/S 16(iii) Professional / Employment tax paid.

Q7) What do you mean by perquisites?

Perquisites mean any benefit attached to an office or position in addition to salary or wages. It may be given in cash or kind.

28 Define - Perquisites.

Perquisite is defined by sec 17(a) as including

- (a) Rent free accommodation provided.
- (b) value of any concession in the matter of rent
- (c) value of any benefit
- (d) obligation of employee met by the employer
- (e) any sum payable by the employer to effect an insurance or an annuity
- (f) value of other fringe benefits.

29 Who is specified employee?

An employee shall be specified employee, if he is

- (i) a director of the company.
- (ii) an employee having 20% (or) more equity shares and voting power.
- (iii) an employee drawing a salary more than ₹.50000/- p.a.

30 Explain the term Pension.

Pension is a periodical payment received by an employee subsequent to retirement.

31 What is PPF?

Public Provident Fund is suited to self-employed people. An account under this scheme can be opened at a branch of SBI or any of nationalised banks authorised by central Government. The contribution along with interest are repayable after 15 years.

32 What is meant by PF?

Provident Fund is a scheme where the employee contributes a sum of money from his monthly salary towards savings. The employer also contribute some amount to the account of employee.

33 Name some fully taxable allowances.

- (1) Dearness allowance
- (2) City Compensatory allowance
- (3) Medical allowance
- (4) Lunch allowance
- (5) Overtime allowance
- (6) Project allowance
- (7) Dog allowance
- (8) Marriage allowance

34 What is total income?

The excess of gross total income after allowing deductions u/s 80 is termed as total income.

Total Income = Gross Total Income - Deduction u/s 80.

Unit - III

35) What is annual value?

Annual value is the value of the building and the land attached to the vicinity of the building will be considered for tax under the head income from house property.

36) What is Municipal rent (or) Municipal Rental value?

Municipal value refers to the value fixed by the municipal or local authority.

37) What is Fair rent (or) Fair rent value?

Fair Rental value (FRV) refers to the rent which a similar property will fetch at the same or nearby similar locality.

38) What is standard rent?

Standard rent refers to the rent fixed by the Rent Control Act. It is the maximum rent an owner can claim from his tenant as rent.

39) What is Actual rent?

Actual rent refers to the rent for which a property has been actually let out by the owner.

40) What is Expected rent?

Expected rent refers to the reasonable rent for which the property can be let out.

41) What is Gross Annual Value?

Gross Annual Value refers to the value, which is calculated after considering the following

(i) Expected Rent and (ii) Actual Rent

It is the gross amount, which the owner receives before allowing any deductions.

42) What is Net Annual Value?

Net Annual value is the amount available after deducting municipal tax or local tax paid by the owner from the Gross Annual Value.

$$NAV = GAV - \text{Municipal (or) local tax paid by the owner.}$$

43) What is Unrealized rent?

Unrealized rent (URR) refers to the rent, which has not been realized by the owner from the tenant, for the let out period.

44) What is meant by Vacancy?

Vacancy refers to the period for which the property is not occupied by any one. The rent during the vacancy period should be deducted from Actual rent while calculating GAV.

45) What is self-occupied house?

Self-occupied house refers to the house, which has been occupied by the owner himself. The gross annual value of one self occupied house is Nil.

46) What is let out house?

It refers to the house, which has been let out by the owner to the tenant. The owner can claim all deductions for let out house.

47) What is "Deemed to be Let out house"?

If an assessee has more than one house as self-occupied, then he can select one house as self-occupied house. The remaining houses will be treated as "Deemed to be Let Out houses."

48) What is composite rent?

Composite rent refers to the total amount received by the owner towards rent of the property and charges for different services provided such as lift, security, furniture, air-conditioner etc.

$$\text{Composite Rent} = \text{Property rent} + \text{Rent for provisions provided.}$$

49) Write a note on deduction u/s 24.

- u/s 24(i) standard deduction - 30% of Net Annual Value
- 24(ii) Interest on borrowed capital - Interest on capital borrowed for acquisition, construction, repairs, renewals or reconstruction is allowed.

50) Name some income from HP that fully exempt from tax.

- (1) Income from farm house.
- (2) Annual value of any one palace of ex-Indian ruler
- (3) Property income of an educational institution or hospital
- (4) Property used for own business (or) profession
- (5) Income from one self-occupied property.

51) What is depreciation?

Depreciation means a decrease in the value of assets by wear and tear caused by their use in the business over a period of time.

Unit - IV

51 Define - Business.

As per Sec. 2(13) of the Income Tax Act, business includes "any trade, commerce, manufacture or any adventure or concern in the nature of trade, commerce or manufacture."

52 What is Profession?

Section 2(36) defines 'Profession' to include vocation. The word Profession implies professed attainments and special knowledge as distinguished from mere skill.

53 List the expenses disallowed in computation of business income.

- (a) Personal expenses relating to proprietor
(i) Drawings (ii) Personal LIC Premium (iii) Legal expenses for personal
(iv) Gift and presents (v) Household expenses (vi) Pilgrimage expenses.
- (b) All Provisions and reserves
(i) Reserve for bad debts (ii) Reserve for depreciation
(iii) Reserve for Income Tax (iv) Reserve for losses

54 What is scientific research?

The term scientific research means, "any activity for the extension of knowledge in the fields of natural or applied sciences including agriculture, animal husbandry or fisheries."

55 List the admissible deductions.

- (a) Rent of a building excluding capital nature expenses.
(b) Repair and insurance expenses of machine, plant, furniture

56 What is deemed profit?

If any sum allowed as deduction as expenditure or loss in earlier years, is recovered in a subsequent year, the amount so recovered shall be treated as deemed profit.

57 What is unabsorbed depreciation?

If the available profits are less than admissible depreciation, the unadjusted portion is unabsorbed depreciation.

58 Define Blocks of assets

As per Section 2(11) "Block of assets" means group of assets falling within a class of assets comprising, tangible and intangible assets in respect of which the same percentage of depreciation is prescribed.

59 What is Site Restoration Fund?

Deposited with SBI any amount in a special a/c maintained by the assessee with the bank in accordance with a scheme approved in this behalf of GOI in the Ministry of Petroleum and Natural Gas. Deposit any amount in an account called "Site Restoration Fund."

Unit - V

61) What is capital asset?

Capital asset is defined to include property of any kind, whether fixed or circulating, movable or immovable tangible or intangible.

62) What is short term capital asset?

A Non-Financial capital asset held by an assessee for not more than 36 months immediately preceding the date of transfer is a short-term capital asset.

63) What is long term capital asset?

Any non-financial capital asset held by an assessee for more than 36 months immediately preceding the date of transfer is a long-term capital asset.

64) What is short term capital gain?

Gain arising from transfer of short term capital assets is called short-term capital gain.

65) What is long term capital gain?

Capital gain arising from transfer of long term capital asset is called long term capital gain.

66) What is meant by cost of acquisition?

Cost of acquisition of an asset is the amount paid by the assessee to acquire it. All the capital expenses paid for acquiring the title to the property are termed as the cost of acquisition.

67) What is meant by cost of improvement?

Cost of improvement includes all expenditure of capital nature incurred in making any addition / alteration to the capital asset by the assessee.

68) What is indexed cost of acquisition?

Indexed cost of acquisition means an amount which bears to the cost of acquisition the same proportion as cost inflation index for the year in which the asset is transferred.

69) What is self-generated asset?

An asset which is created by the assessee who has not incurred cost in terms of money to create it or acquire, it is a self-generated asset.

70) What is "indexed cost of improvement"?

It means an amount which bears to the cost of improvement the same proportion as cost inflation index for the year in which the asset is transferred bears to the cost inflation index for the year in which the improvement to the asset took place.

71) What is cost inflation index?

Cost inflation index in relation to a previous year means such index as the central Government having regard to 75% of average rise in the consumer price index for the immediately preceding P/Y to such P/Y.

72) Name some income chargeable under the head Income from other sources.

- (1) Dividends from co-operative societies and foreign companies.
- (2) Interest on securities
- (3) Winnings from lotteries, crossword puzzles