



SWAMI DAYANANDA COLLEGE OF ARTS & SCIENCE

MANJAKKUDI- 612610

THIRUVARUR(DT)




INCOME TAX THEORY LAW & PRACTICE

TWO MARKS QUESTION

1. What is Previous Year?

- ❖ Previous year refers to twelve months immediately preceding the particular assessment year.
- ❖ If the assessment year 2019-2020, Previous year will be 2018-2019 starting from 1st April 2018 to 31st March 2019.

2. What are the Deduction permissible from salary income?

- Deduction Under section - 80C is allowed from gross total income.
 - Deduction Under Section - 80C is allowed to an individual or a Hindu undivided family.
 - Deduction Under Section - 80C is allowed on the basis of specified qualifying investment / deposits / payments made by the assesses during the previous year.
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3. What is an allowances?

- ✓ An allowance is the financial benefits given to the employee by the employer over and above his/her regular salary.
- ✓ While some allowances are taxable under the head salaries, some are partly taxable or fully non-taxable.

4. What is municipal value?

- This is the value as determined by the municipal authorities for levying municipal taxes on house property.
- Municipal authorities normally charge house tax/ municipal taxes on basis of annual letting value of such house property.



5. Write a note on deduction U/S 24?

Sec- 24 of the income tax act lets home owners claims a deduction of upto Rs.2Lakhs (Rs.1,50,000 If you are filing returns for last financial year) on their home loan interest if the owner or his family reside in the house property.

6. What do you mean by Depreciation?

Depreciation under the income tax act is a deduction allowed for the decline in real value of a tangible or intangible asset used by tax payer.

7. List the expenses disallowed in computation of business income?

The following expenses shall not be deducted in computing income from business under Section 40,

- Donation, gift, charity

- Presence, Fine and penalties
- Household expenses
- Wealth tax, Income tax, tax penalty, gift tax etc.

8. What do you mean by Long-term capital gain?

Capital gains meant the profit earned by an individual on the sale of his investment in asset (such as Stock, Real estate, Bonds, Commodities etc.,) basically it is the gain made on capital investment.

9. What is indexed cost of improvement?

Indexed cost of Acquisition = Cost of Acquisition * Cost inflation index (CII) of the year in which the asset is transferred / cost inflation index (CII) of the year in which asset was held by the seller 2001-2002 whichever is later.

10. Who is an assessee?

- ❖ Any Person who is liable to pay tax or
- ❖ Any person who is liable to pay interest or penalty or
- ❖ Any person who is deemed to be an assessee as per the Act, or
- ❖ Any person who is entitled to refund of tax.

11. What is casual income?

Casual incomes are those incomes which are winning from card games, horse race, crossword puzzles and lotteries, gambling and betting.

12. What is city compensatory allowances?

City Compensatory Allowances (CCA) is fully taxable as per Sec-10(14) of the Income Tax Act 1961 the



amount that an employee receives as CCA is added to his/her annual income and then taxed according to the tax bracket that is applicable for his/her.

13. Explain Perquisites?

- Perquisites are small benefits provided by the employers in addition to the normal salary at a free of cost or concession rates.
- Perquisites are taxable if the hands of employees.

14. What is Gross Annual Value?

- ✓ Gross Annual Value (GAV) also called the annual value that can be earned from a property irrespective of whether it is let out or not a yearly basis.
- ✓ FOR EXAMPLE: Residential house, Factories, Commercial buildings, Godowns and Land thereof.

15. What do you mean by Business?

- ❑ A Business is an organization where people work together. In business, people work to make and sell product or services.
- ❑ A business can earn a profit for the products and services it offers.

16. What is Indexed Cost of acquisition?

Indexed cost of acquisition is calculated as cost of acquisition / cost of Inflation index (CII) for the year in which the asset was first held by the seller, or 2001-2002, whichever is taken X cost inflation index for the year in which the asset is transferred.

17. What is Agriculture Income?

- The income derived from such land, which is used for agriculture operations

- It includes a process by cultivator or receiver of rent in kinds as well as in cash or receipt of such products.

18. Define Salary?

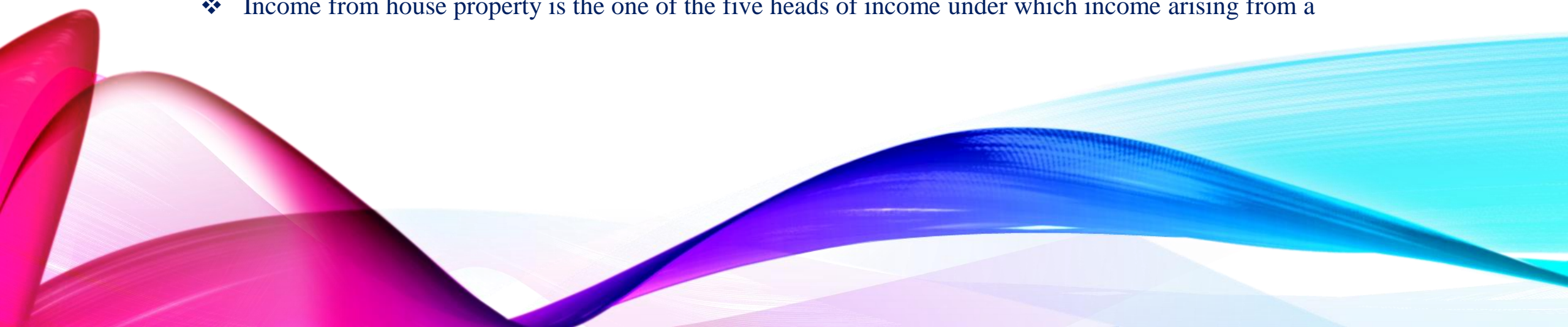
The term salary is defined under Sec 17(1) of the Income Tax Act to include following items as salary, any fee, commission, Perquisites or profit in lieu of salary or in addition to any salary or wages.

19. What do you mean by Actual Rent?

Actual rent means the rent for which the property is let out during the year, while computing actual rent, rent pertaining to vacancy period is not to be deducted.

20.)What is Income from house property?

- ❖ Income from house property is the one of the five heads of income under which income arising from a




house property is liable to tax under the Income Tax Act 1961.

- ❖ A house property consists of any building or land attachment there to, which is owned by the tax payer.

21. Write the meaning of Business?

As Per the Sec 2(13) of the Income Tax Act, 1961, the term Business includes “Any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

22. What is need of valuation of stock?

- The reason for stock valuation is to predict the future price or potential market prices for the investors to time their sale or purchase of investment
 - Stock valuation is done at the end of every financial year to calculate the cost of goods sold and the cost of the unsold stock.
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23. What is Capital Assets?

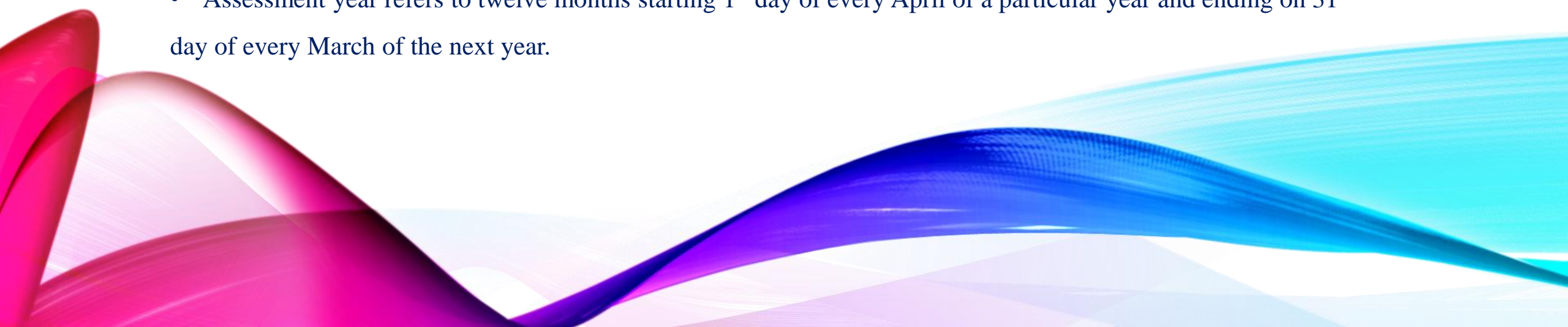
- ✓ Capital asset include property of any kind held by an assessee, whether connected with their business or profession are not connected with their business or profession
- ✓ It includes all kind of property movable or immovable, Tangible or intangible, fixed or circulating.

24. What is meant by Deduction?

- A deduction is an expense that can be subtracted from an individual's gross 2 income.
- It reduces the overall tax liabilities and aids to save tax.


25. What is meant by Assessment Year?

- Assessment year refers to twelve months starting 1st day of every April of a particular year and ending on 31st day of every March of the next year.



- The current assessment year starts from 1st April 2019 and 31st March of 2020.

26. Who is a Person?

- ❖ Person Sec 2(31) includes the following,
 - ❖ Individual
 - ❖ Hindu Undivided Family
 - ❖ Firm
 - ❖ Company
 - ❖ Association of Person (AOP), Body of Individual (BOI)
 - ❖ Local Authority or Municipal Cooperation and
 - ❖ Artificial Juridical Person.
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27. What do you mean by Profession?

- Profession is meant exploitation of one's skills and knowledge independently profession includes vocation.
- Profession may be defined as a vocation or a job requiring some thought, skill and special knowledge like that of CA, Lawyer, Doctor, Engineer etc.,

28. What do you mean by self-generated assets?

It refers to an asset which does not cost anything to the assessee in monetary terms relating to its acquisition or creation.

29. What do you mean by Standard Rent?

- ✓ The standard rent is the amount fixed under the Rent Control Act
- ✓ If the standard rent has been fixed for any property under the rent control act, the owner cannot be expected to get a rent more than the standard rent.

30. What do you mean by Loss from House Property?

Since the gross annual value of a self-occupied house is zero, claiming the deduction on the home loan interest will result in a loss from house property.

31. Give two examples for Income from other sources?

- Interest on bank deposits loan or company deposits.
- Agriculture income from agricultural and situated outside India.

32.)What is Fair Rental Value?

- ✓ Fair rent is a rent which a similar property can fetch in a similar locality, if let out for a year.
- ✓ It is based on the such factors like location, cost of construction, availability of facilities and positions of demand and supply of houses in particular area.



33.)What is meant by Let-out Property?

- A property which is given by the owner to the tenant for some consideration is treated as a let out property.
- In case a Person has more than one self occupied property than only one property shall be treated as self occupied and others shall be treated as deemed to be let out property.

34. What is Capital Gains?

- Capital gains is a rise in the value of a capital assets that gives it a higher worth than the purchase price.
- Gain is not realised until the asset is sold. It may be a short term or long term and must be claim on income tax.

35. State the meaning of Interest on Securities?

Income by way of interest on securities is taxable on receipt basis if the assessee maintain books of accounts on cash basis. Interest had not been charged to tax on due basis for any earlier previous year.

36. What is Annual Rental Value?

As Per Sec-23(1) of the income tax Act Annual value of a home is the sum for which the property might reasonably be expected to be let out from year to year.

37. What is the meaning of Valuation of Stock?

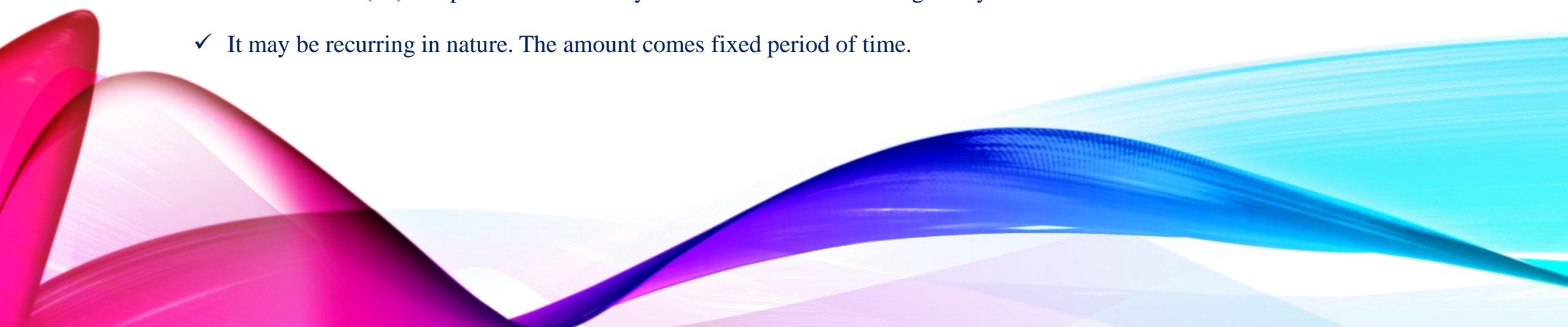
Stock valuation is the process of calculating the value of goods or material owned by a company or available for sale in a store at a particular time, or the value is calculated.

38. What is meant by Income from other sources?

Income from other sources is a category under the Income Tax in which we can consider all the different sources of income which does not fall under other heads.

39. Define Income?

- ✓ Income Sec 2(24) is a periodical monetary return with some sort of regularity
- ✓ It may be recurring in nature. The amount comes fixed period of time.



40. What is short term capital gain?

Short term gain is a profit realised from the sale transfer or other disposition of personal or investment property known as a capital asset that has been held for one year or less

41.)What is Dearness allowances?

- ❖ Dearness allowance is an allowance paid to employees as a cost of living adjustment allowance paid to the employees to cope with inflation.
- ❖ DA paid to employees is fully taxable with salary.



42.)Mr.X resides in Chennai and gets Rs. 10,000 p.m as basic salary Rs.8000 p.m as DA(Entering service benefit) Rs.12000 p.m as HRA, he pays Rs. 10,000 p.m as rent. calculate taxable HRA.

Solution:

Calculation of taxable HRA:

Particular	RS
Actual HRA received	1,44,000
Exempted: HRA	98,400
Taxable HRA Received	45,600

Workings NO.1

Calculation of Exempted HRA:

1. Actual HRA Received	1,44,000
2. Rent paid-10% of salary (1,20,000-21,600)	98,400
3. 50% of salary	1,08,000

Whichever is less is taken as

Exempted HRA Rs.98,400.

Working No:2

Calculation of Salary:

Basic Salary 1,20,000

DA (Forming Part) 96,000

% of commission NIL

Total 2,16,000

10% of salary = $2,16,000 \times 10/100 = \text{Rs. } 21,600$

50% of salary = $2,16,000 \times 50/100 = \text{Rs. } 1,08,000.$



Working No:3

Calculation of Rent:

Rent paid = 10,000 p.m

= (10,000 x 12)

=Rs. 1,20,000



THANK
YOU

BY:

Dr. D. INDHUMATHI

M.Com.,M.Phil.,B.Ed.,M.B.A.,D.I.Yoga.,SET(Comm).,Ph.D.,

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DEPT OF COMMERCE

