

UNIT-V  
INCOME OTHER SOURCES

The following solutions are questions in the book T.S. Reddy and Moorthy

(A) Exercises explaining Income tax provision: Provisions relating to income from other sources:  
Tax treatment of Dividends:

- (a) Dividends declared or distributed by an Indian Company or by a mutual fund on its units or units of UTI are fully exempted.
- (b) Dividends from a foreign company & co-operative society are taxable.
- (c) Collection charges on exempted on exempted dividends & interest on loan borrowed for investment in share (Whose dividends are exempted) are not deductible.

**Exercise: 1**

Solution:

Computation of Income from other sources of Mr. Sreenivas P.Y.2018-19; AY: 2019-20.

Particulars	Rs
Dividend Income:	
Dividend from X Ltd. a Foreign Company	40,000
Dividend from Co-op. Society	3,000
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Income from other sources	43,000

**Note:** 1. Dividends received from an Indian company are exempted.

2. Dividends received from a Foreign company and Co-operative society are taxable.

**Exercise: 2**

Computation of Income from other sources of Mr. Murugan for the P.Y.2018-19; AY: 2019-20.

Particulars	Rs
Dividend Income:	
Dividend from a co-operative society	10,000
Dividend from a Foreign company (Net)	52,000
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Income from other sources	62,000

Note:

- 1) Dividend from Indian companies & UIT are exempted.
- 2) Dividend from foreign companies & Dividend from a co-operative society are only taxable.
- 3) Dividend received from a foreign company is to be include 'Net' in the income as there is no provision in the act under which the deduction of foreign tax is deemed to be income received.

## II – Casual Incomes

### Casual Income:

- (A) Lottery winnings & winnings from cross word puzzle & card games are subject to TDS at 30% if the income exceeds Rs. 10,000
- (B) Race winnings are subject to TDS @ 30% if the income exceeds Rs. 5,000
- (C) No TDS on other race winnings, gambling & bettings.
- (D) Casual income is grossed up if net income or income received is given. Grossing up is not required if gross amount or amount won is given.
- (E) Gross amount is =  $\frac{\text{Net amount} \times 100}{100 - \text{Tax rate}}$

### **Exercise 3:**

Computation of Income from Other sources of Shri. Venumadhav for the P.Y.2018-19; AY: 2019-20.

Particulars	Rs
Winning from Lottery; Net amount	70,000
Gross: $\frac{49,000 \times 100}{100-30}$	
Winning from card games	16,000
Income from other sources	86,000

Note: (1) Grossing up is =  $\frac{\text{Net Amount} \times 100}{100-30}$

- (2) Net Winning from lottery exceeding Rs. 10,000 race winnings exceeding Rs. 5,000 are to be grossed up @ 30%.

### **Exercise 4:**

Solution:

Computation of income from other sources of Mr. K for the previous year P.Y.2018-19; AY: 2019-20.

Particulars	Rs
(A) Items in A:	
(a) Winnings from Sikkim lottery received	1,50,000
$\frac{1,05,000 \times 100}{100-30}$	
(b) Winning from horse race (Amount Won)	2,000
(c) Winning from crossed puzzle	4,000
Income from other Sources	1,56,000
(B) Items in B:	
(a) Winning from Lottery (Amount Won)	2,000
(b) Winnings from horse race received	
$\frac{56,000 \times 100}{100-30}$	80,000
Income from other sources	82,000

Note: (1) Since the word “Received” is given grossing up is done.

(2) No 'TDS' if lottery income does not exceed Rs. 10,000 & race winnings does not exceed Rs. 50,000.

**Exercise 5:**

Solution:

Computation of Income from other sources of P.Y.2018-19; AY: 2019-20.

Particulars	Rs
Winning from horse race	10,000
Winning from lottery tickets	50,000
Income from other sources	<u>60,000</u>

Note: (1) Dividend from Indian companies is exempted.

Dividend received is assumed to be from Indian companies.

(2) Amount spends on lottery a ticket is to be ignored.

**Exercise 6:**

Solution: Computation of Income other sources of Mr. A for the P.Y.2018-19; AY: 2019-20.

Particulars	Rs	
Won Gold from Punjab State Lottery		10,00,000
Prize money on horse races	1,00,000	
(-) Expenditure incurred on maintenance of their horse	-1,60,000	
	<u>-60,000</u>	
Loss on maintenance of horse (C/F)		<u>-NIL-</u>
Income from other sources		60,000

Note: (1) Dividends from Indian companies are exempt.

(2) Gold won from Punjab State Lottery is casual Income

(3) Expenses on maintenance of horse can be set off against stake only & not against other income.

**Exercise 7:**

Solution: Computation of Income from other sources of Mr. G Bedi for the P.Y.2018-19; AY: 2019-20.

Particulars	Rs	
Stake money earned by horses at Bombay	1,20,000	
Stake money by horses @ Bangalore	5,00,000	
	<u>6,20,000</u>	
Less: Expenses: At Bombay		
2,60,000	-6,90,000	
@ Bangalore		
4,30,000	<u>70,000</u>	-Nil-
Loss from maintenance of horse C/F for 4years		
Betting horse races @ Bomaby - Received	1,48,071	
$56,000 \times \frac{100}{100-30}$		
Income from other sources	1,48,071	

Note: 1) Income on betting on races received is to be grossed up at 30%.

Amount received is not after tax deduction hence grossing up is done.

2) Expenses on race horse can be set off against stake money only.

**Exercise 8:**

Solution: Computation of income from other sources of Mr. John for the PY: 2018-19: AY: 2019-20

Particulars	Rs	
Stake money earned by horses @ Hyderabad	2,40,000	
Stake money earned by horses @ Bangalore	1,80,000	
	<u>4,20,000</u>	
Less: Expenses: @ Hyderabad		
4,00,000	-6,50,000	
@ Bangalore	<u>-2,30,000</u>	- Nil-
2,50,000		
Loss from maintenance of horses C/F for 4 years		
Betting horse races @ Hyderabad – Received	3,14,286	
$\frac{2,20,000 \times 100}{100-30}$		
Won a lottery	50,000	
Income under speculation business	40,000	
Taxable Income		<u>4,04,286</u>

Note: 1) Since betting income is given as received it is net amount after TDS hence being grossed up @ 30%

2) Expenses on race horses can be set off against stake money only & not against other income.

**Exercise 9:**

Solution: Computation of Mrs. Paul's Family Pension – Taxable PY: 2018-19: AY: 2019-20

Particulars	Rs	
Family Pension $2,000 \times 12$	24,000	
Less: Deduction:		
Standard Deduction:		
$\frac{1}{3}^{\text{rd}}$ of pension $24,000 \times \frac{1}{3}$	8,000	
OR	OR	
Limit	Rs.	
15,000		
Whichever is less	$\Rightarrow$	<u>8,000</u>
Taxable Family Pension		<u>16,000</u>

Note: 1) Pension received by the spouse after the death of the other spouse is called as Family Pension & it is taxed under the head other sources.

2) Family Pension is subject to standard deduction as least of Rs. 15,000 (or) 1/3 of the pension.

**Exercise 10:**

Solution: Computation of Taxable Income of Miss. C for the PY: 2018-19: AY: 2019-20

Particulars		Rs
Royalty on books	30,000	
Less: Expenses for books	<u>-5,000</u>	25,000
Interest on Post office Saving Bank – Exempted upto Rs. 3,500		-NIL-
Cross word Puzzle prizes		<u>2,500</u>
Taxable Income of Miss. c	27,500	

Note: 1) Expenses on winning books is deducted from royalty income.

2) Interest on Post office saving bank is exempted from tax upto Rs. 3,500.

**Exercise 11:**

Solution: Computation of Income from other sources of Mr. Tirumathi Rajamani for the PY: 2018-19: AY: 2019-20

Particulars	Rs
Director's Fees	20,000
Income from Bank	6,000
Income from undisclosed sources	24,000
Ground rent	<u>600</u>
Income from other sources	50,600

Note: 1) Dividend on shares from Indian company is exempted.

2) It is assumed that dividend is from Indian companies.

**Exercise 12:**

Solution: Computation of Income from other sources of Mr. Arumgam for the PY: 2018-19: AY: 2019-20

Particulars		Rs
Interest on investment with a company		10,000
University remuneration for working as an examiner		8,000
Royalty for writing books	80,000	
Less: Expenses on writing books	<u>-20,000</u>	60,000
Family Pension	48,000	
Less: Standard deduction 1/3 <sup>rd</sup> of pension $48,000 \times 1/3 =$ 16,000		
Or		
Or		
Limit		
Whichever is Less		
15,000		
Income from other sources		<u>1,11,000</u>

Note: 1) Dividend from domestic companies are exempted.

2) Family Pension is subjected to standard deduction being least of Rs. 15,000 (or) 1/3 of pension.

III. Income from letting on Hire of Machinery, Furniture along with building Income from leasing out of Plant & Machinery along with Building & Furniture.		
Rent received from leasing of Plant & Machinery along with Building		
Less: Expenses		***
1. Depreciation of Building	***	
Depreciation of plant	***	
2. Repairs of Building	***	
Repairs of Plant	***	
3. Insurance of Building	***	
Insurance of Plan	***	
4. Office expenses	-----	***
Income from leasing of Plant & Building		***

**Exercise 13:**

Solution: Computation of Income from other sources of Mr. Ragavan for the PY: 2018-19: AY: 2019-20

Particulars		Rs	
Winning from lottery received	$68,500 \times \frac{100}{100-30}$	97,857	
Winning from card games		25,000	
Interest received on Govt. securities		14,000	
Family Person		24,600	
Less: Standard Deduction			
1/3 <sup>rd</sup> of Pension [24,600 × 1/3]	8,200		
Or			
Limit			
Rs. 15,000			
Whichever is less		-8,200	
Income from other sources		16,400	
		1,53,257	

Note: 1) Dividend from Indian companies – Exempted from Tax.

2) Winning from lottery received is not amount. Hence it is to be grossed up @ 30% [68,500 × 100 / 100-30]

3) Family Pension is subjected to standard Deduction as least of Rs. 15,000 or 1/3 of amount received.

**Exercise 14:**

Solution: Computation of Income from other sources for Mr. Sekar's for the PY: 2018-19: AY: 2019-20

Particulars	Rs	
Receipts from letting of Plant & Machine	10,000	
Less: Insurance premium in Plant & Machine	-500	
Depreciation	-1,000	
Repairs to Plant & Machinery	-300	8,200
	<u>          </u>	<u>          </u>
Income from other sources		8,200

Note: 1) Dividend income is assumed to be Indian companies – not taxable.

2) Expenses relating to tax free dividend are to be ignored.

**Exercise 15:**

Solution: Computation of Income from other sources for the PY: 2018-19: AY: 2019-20

Particulars	Rs	
Rent from letting out of building with plant & Machinery 2500 × 12.		3,00,000
Less: Depreciation	4,000	
Insurance on building	1,600	
Depreciation on Plant & Machine	5,000	
Insurance on Plant & Machine	500	
Repairs on building & plant	2,500	
Office Expenses to building	1,500	-15,100
	<u>          </u>	<u>          </u>
Income from other sources		2,84,900

Note: 1) All the expenses are incidental to the income & are deductible from the income.

**IV. Interest on Securities:**

a) Interest on Gov. Securities is gross income (Grossing up is not required)

b) Interest on non Gov. Securities is of following types.

- I. Tax free commercial securities: Income on these securities is always to be grossed up.
- II. Other non Gov. Securities: Grossing up of interest on these securities is required if net interest or interest received is given.
- III. Rate of Tax is 10% on listed securities & on unlisted securities.
- IV. Gross amount of interest is equal to =  $\frac{\text{Net Amount} \times 100}{100 - \text{Tax rate}}$ .

**Exercise 16:**

Solution: Computation of Grossed up amount on Interest (Mr. Y) on Debentures – PY: 2018-19:  
AY: 2019-20

Particulars	Rs
Receipts Interest on debentures (listed) from X Ltd.	5,100
$\frac{4,590 \times 100}{100-10}$	<u>5,100</u>
Income from other sources	

Notes: 1) Net interest on debentures is to be grossed up at 10% Tax rate.

2) Since Interest received is after TDS, it is grossed up.

**Exercise 17:**

Solution: Computation of Income from Other Sources.

Particulars	Rs
10% tax free Commercial Securities	3,537
$\frac{31,840 \times 10}{100} = \frac{3,184 \times 100}{100-10}$	
Tax Free Public Ltd company (listed) – received	<u>6,984</u>
	10,521
Income from other sources	

Note: 1) Interest on Tax Free Commercial Securities & tax free Public Ltd Company Security is always grossed up.

**Exercise 18:**

Solution: Computation of Gross Amount.

Particulars	Rs
9% tax free Commercial Securities (Unlisted)	20,000
$\frac{2,00,000 \times 9}{100} = \frac{18,000 \times 100}{100-10}$	<u>20,000</u>
Gross Interest - Taxable	

Note: Interest on Tax free non-gov. securities (both listed & unlisted) is always grossed up at 10% rate of tax.

**Exercise 19:**

Solution: Computation of Mr. Ram's Income from Interest for the PY: 2018-19: AY: 2019-20

Particulars	Rs
10% Tax free debentures of a listed company	-9,978
$\frac{89,800 \times 10}{100} \Rightarrow \frac{8,980 \times 100}{100-10}$	
	<u>12,000</u>
12% Punjab Govt. Loan	21,978
$\frac{1,00,000 \times 12}{100} \Rightarrow$	
Taxable Interest	



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Note: 1) Interest on tax free debentures is always grossed up.

2) Interest on Gov. Securities is always not grossed up.

**Exercise 20:**

Solution: Computation of Income from other sources of Mr. Kumar's for the PY: 2018-19: AY: 2019-20

Particulars	Rs
7% Gov. Securities [25,000 × 7/100]	1,750
8% Agra Municipal Bonds [15,000 × 8/100]	1,200
9% Foreign Gov. Securities [10,000 × 6/100]	600
	3,550
Income from other sources	

Note: Interest on Post Office saving certificates is exempted from tax.

**Exercise 24:**

Solution: Computation of Income from other sources of Shri Rajan for the PY: 2018-19: AY: 2019-20

Particulars	Rs
1) 10% Central Gov. Securities (Held from 1-4-2016 throughout the year) Full year interest 1,00,000 × 10/100	10,000
2) 15% Debentures of a Ltd. Company [Held for both interest due dates] 2,00,000 × 15/100	30,000
3) Interest on securities of a Paper Mill Co. (For Interest due on 31.7.2016, sold before 31.1.2017, the due date of interest, No interest on 31.1.2017) 1,50,00 × 12/100 × 6/12	9,000
4) 10% Securities of Z Ltd. (For interest due on 31.7.2016 – Received & sold before 31.1.2017, the due date of interest, No interest on 31.1.2017) 2,50,000 × 10/100 × 6/12	12,500
5) 10% Securities of XYZ Ltd. (For interest due on 31.7.2016 – not received because purchased on 1.12.2016, the due date of interest 31.1.2017 – Received 1, 25,000 × 10/100 × 6/12.	6,250
	67,750
Income from other sources	

Note: 1) It securities are held on both 31<sup>st</sup> July & 31<sup>st</sup> January, interest is taken for full year.

2) If there are held on only one of these dates, interest is taken only for half year.

3) If they are not held on any of the dates, interest is 'Nil'.

**Exercise 26:**

Solution: Computation of Taxable Income of Mr. J for the PY: 2018-19: AY: 2019-20

Particulars	Rs
6.5% Central Gov. Loan [Held for full Year, Full Interest] $10,000 \times 6.5/100$	650
8% debentures (non-listed) of PQR Ltd. [Held for both the dates of interest] $40,000 \times 8/100$	3,200
U.P Gov. Loan – Interest received	4,000
Bihar Gov. Loan – Interest received	8,000
Interest Received on debenture of ABC Ltd $15,880 \times 100/90$	<u>17,644</u>
Less: 2% Commission to bank for collection of interest [ $650 \times 2,880(3,200 - 10\% \text{ tax}) + 4,000 + 8,000 + 15,880$ ] $= 31,410 \times 2/100$	33,494  -628
Income from other sources	<u>32,866</u>

Note: 1) Interest on relief bonds is exempt from tax.

2) There is no TDS on interest on Gov. Securities.

3) Collection charges reduced @ 2% on net interest received Rs. 628:  $(31,410 \times 2/100) = (650 + 2,880(3,200 - 10\% \text{ on } 3,200) + 4,000 + 8,000 + 15,800)$

4) For the purpose of collection charges the net amount in respect of interest on PQR Ltd. Securities is Rs. 2,880  $(3,200 - 3,200 \times 10/100)$  & ABC Ltd. Securities net interest received is Rs. 15,880.

5) Rate of tax deduction in the case of PQR Ltd., & any ABC Securities is 10%.

**Exercise 27:**

Solution: Computation of Income from other sources of Mr. Srinivas for the PY: 2018-19: AY: 2019-20

Particulars	Rs
a) Director's Fess	13,000
b) Interest on Co-operative Bank	2,000
c) Dividend from Foreign company	6,000
d) Winning from lottery – Received $[27,760 \times 100/70]$	39,657
e) Income from agriculture in England	78,000
f) Honorarium for delivering lectures	1,200
g) Received compensation from Gov. for acquired his house property 80,000	
(-) Less: 50% is deductible from Compensation $80,000 \times 50/100$	<u>40,000</u>
-40,000	1,79,857

Income from other sources	
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- Note: 1) 50% is deductible from compensation received  
 2) Dividends from foreign companies is taxable.  
 3) Income from agricultural land outside India is taxable.  
 4) Since the word winning received is given, it is taken as net amount.  
 Hence grossed up @ 30%.

**Exercise 28:**

Solution: Computation of Income from other sources of Mr. Chowdhary for the PY: 2018-19:  
 AY: 2019-20

Particulars	Rs
i) Agricultural income from Sri Lanka	20,000
ii) Interest on POSB a/c [Exempt upto Rs. 3,500]	-Nil-
iii) Interest on deposit	
iv) Income from sub-letting	9,000
v) Dividend from foreign company	1,500
vi) Horse race income (net) $53,500 \times 100/70$	15,000
	76,428
Income from other sources	1,21,928

- Note: 1) Agricultural income from land situated outside India is taxable.  
 2) Interest on POSB a/c is exempt upto Rs. 3,500  
 3) Dividend from Foreign company is taxable.  
 4) Net horse race income received is to be grossed up @ 30% tax rate.

**Exercise 29:**

Solution: Computation of Income from other sources of Thiu. Guna for the PY: 2018-19: AY:  
 2019-20

Particulars	Rs
i) Income from agricultural land – Burma	3,60,000
ii) Income from agricultural Kerala	Exempt
iii) Interest on Fixed deposit Indian Bank	16,200
iv) Interest on Post office S.B A/c	1,500
13,500	
Less: Exempt upto Rs. 3,500	10,000
3,500	12,000
v) Dividend from co-operative society	54,000
vi) Director's fee	6,00,000
vii) Net winning from Manipur Cotton	60,000

4,20,000 × 100/70	<u>11,12,200</u>
viii) Advance money forfeited during negotiation to sell a capital asset	
Income from other sources	

- Note: 1) Income from agricultural land outside India is taxable.  
2) Income from agricultural land within India is exempted.  
3) Interest on Post office saving bank is exempt upto Rs. 3,500.  
4) Dividends from co-operative societies is taxable.  
5) Net winnings from lottery is to be grossed up @ 30% tax rate.

**Exercise 30:**

Solution: Computation of Income from other sources of Mr. Mugundan for the PY: 2018-19:  
AY: 2019-20

Particulars	Rs	
Income from letting of Building & Machinery	17,000	
Less: Expenditure:		
Depreciation on building	-4,000	
Insurance on Machinery	<u>-100</u>	
		12,900
Interest on Bank deposit		2,500
Director's fees		1,200
Ground rent		600
Undisclosed income		10,000
Lottery income		10,000
Advance money received & Forfeited during negotiation to sell		70,000
Income from other sources		<u>1,07,200</u>

- Note: 1) Dividend from Indian companies is exempted.  
2) Depreciation of building & insurance on Machinery is deducted from income received from letting of building & machinery.  
3) Undisclosed income is income from other sources.

**Exercise 32:**

Solution:

Computation of Income from other sources of Mr. Smith (as M.P) for PY: 2018-19: AY: 2019-20

Particulars	Rs	
Agricultural income from land in Sri Lanka		15,000
Daily allowance as M.P.		Exempt
Salary as a M.P.		36,000
Royalty from Coalmine	20,000	
Less: Collecting charges	<u>-3,000</u>	
		17,000
Sub-let rent received( $1200 \times 12$ )	14,400	
Less: (-) rent paid (sub-let portion) ( $1000 \times 12$ ) $\times \frac{1}{2}$ )	<u>6,000</u>	
	8,400	
Dividends from co-operative society		
Less: (-) Collecting charges	5,000	
	<u>-100</u>	
Income from other sources	4,900	<u>        </u>
	81,300	<u>        </u>

- Note: 1) Salary received as M.P is income from other sources  
 2) Salary received from a firm is income under the head salaries.  
 3) Income from sub-letting of a house is income from other sources.  
 4) Dividends from co-operative society is taxable  
 5) Agricultural income from outside India is taxable  
 6) Allowance received as an M.P. is exempted.

**Exercise 33:**

Solution: Computation of Income from other sources of Mr. Raman for the PY: 2018-19: AY: 2019-20

Particulars	Rs	
Salary received as M.P.( $500 \times 12$ )		6,000
Daily allowance		Exempted
10% Fixed deposit on Indian bank $10,000 \times 10/100$		1,000
Dividend from Co-operative society		500
Won in cross-ward puzzles & horse races		8,000
Let out Machinery & Furniture & Building ( $5,000 \times 12$ )	60,000	
Less: (-) Repairs of Machinery building.	<u>-1,500</u>	
(-)Depreciation on Machinery building	<u>-10,000</u>	
		<u>48,500</u>
Income from other sources		<u>64,000</u>

- Note: 1) Allowances received by MP are exempted.  
 2) Salary income of MP is Income from other sources.  
 3) Dividends on Indian company shares are not taxable.  
 4) Collection charges on dividend (exempted) are not allowed as deduction.

**Exercise 34:**

Solution: Computation of Income from other sources of Sri. Mukunda for the PY: 2018-19: AY: 2019-20

Particulars	Rs	
Interest on deposit with SBI (Gross)		60,000
Director's fees		1,200
Ground Rent		800
Income from undisclosed source		10,000
Income from lottery (gross)		10,000
Income from agricultural		
-land in India		Exempt
-land in USA		1,00,000
Interest on Bank deposits with UCO Bank		5,000
Gift received from friend		
On 16.8.2016	27,000	
On 30.1.2017	29,000	
	56,000	56,000
[Exceeding In aggregate value of Rs. 50,000] Chennai House property with stamp duty not exceeding Rs. 50,000 – Exempt		Exempt
Madurai house property stamp duty exceeding Rs. 50,000 – [without consideration] – is taxable	5,00,000	
		7,43,000
Income from other sources		

Note: 1) Agricultural income from land situated in India – Exempted income.

2) Gifts from relative are not taxable.

3) Gifts from friends received are taxable if the amount exceeds Rs. 50,000 in aggregate.

4) Dividends from Indian companies are exempted. Hence, collection charges on dividends & interest on capital are ignored.

5) Immovable property received without consideration is taxable if the stamp duty value exceeds Rs. 50,000.

6) House property @ Chennai is not taxable as the value does not exceed Rs. 50,000, whereas Madurai property value exceeds Rs. 50,000, taxable as income from other sources.

**Exercise 35:**

Solution: Computation of Income from other sources for the PY: 2019-19: AY: 2019-20

Particulars	Rs	
Income from letting:		
Building & Furniture	12,500	
(-)Less: Expenses: Repairs	-500	
Depreciation	<u>-1,000</u>	11,000
Interest & Dividend income:		
Interest on Gov. Securities – received		5,000
Interest received from debentures of local authority		
$4,000 \times \frac{100}{90}$		4,444
Interest received from debentures of Abi ltd. (non – listed)		
$3,000 \times \frac{100}{90}$		3,333
Dividend from Indian company		
Interest on 7yrs Post office NSC @ 7%	Exempted	
Casual Income:		
Winning from lotteries (Net)	Exempted	
$21,000 \times \frac{100}{70}$		
Income from other sources		30,000
		<u>          </u>
	53,777	<u>          </u>

Note: 1) Dividend from Indian companies is exempt from tax.

2) Interest received from Gov. Securities is not be grossed up.

3) Interest received from debentures of local authority &amp; Abi Ltd. is grossed up @ 10%

Tax rate.

4) Net winning from lottery is grossed up @ 30% tax rate.

5) Interest on Post office NSC is example from Tax.

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## UNIT – I

### **BRIEFLY EXPLAIN THE MEANING & HISTORY AND CHARACTERISTICS OF THE INCOME TAX**

The income tax was introduced for the first time in 1860 by the British ruler's following by mutiny of 1857. The tax was first come in to existence in 1886. in 1918 another act was passed. It was further replaced by income tax act 1992.was remained till 31-03-1961. It came into force on 01-04-1962.

It applies to the whole of India and ski Kim (including the state of Jammu and Kashmir.). This acts contains 298 sections various sub sections and 14 schedules. The rate of tax revised by finance act which is passed every year by the parliament.

The government of India lays down the principles and rules governing the levy and collection of taxes. The set of rules called as act. The income tax act 1961 lays down the rules and the provisions for determining what the tax that person pays total income. It is the direct tax collected by the central government. The department of income tax functioning under the direct control and supervision of CBDT. Which is governed by ministry of finance of the government of India? It is a vital source of the revenue.

#### **SECTION -4**

It is the direct tax

It is levied on the total income

It is earned by the persons

The income is earned by the previous year.

The tax is levied rates as prescribed by the act for person different rates for the different persons.

#### **DEFINE –TAX**

##### **Demarw**

A tax is a price which each citizen pays to the state to cover his share of the cost of the general public service which he will consume.

##### **Supreme Court**

tax is public impost with out any reference to services rendered which is expressed by saying that a tax is imposed for the purpose of general revenue and its object is not to confer any special benefits upon particular individual and consequent there is no element of quid pro quo between the tax payer and the public,

Tax may also be defined as compulsory exaction of money by public authorities for the public purpose enforceable by law and does not mean payment of the services rendered.

#### **CHARACTERISTICS OF INCOME TAX- SECTION (2)**

##### **Division of receipts in to five heads**

The total income of the persons defined in 2(45). For this purpose U/S 14 there are classified five heads

Income form salary

Income from house property

Income from the business and the profession

Income from capital gains

Income form other sources

##### **Levied on person**

Person defined 2(31) means the individuals, HUF, firm, companies, local authority, AOP, BOI, and artificial judicial persons.

##### **Previous year's income**

The PY begins first April of the year and ends 31 march of the next year. The income earned 12 months is offered for assessment year (AY)

##### **Total taxable income**

Total five heads income from respective heads and clubbing and setoff and carry forward is called as gross total income.-GTI. Finally the deduction U/S 80 is allowed and the balance is total income.

##### **Rates of tax**

The rate of tax is fixed in the finance act.

Slab system

##### **It is the direct tax**

The impact and the incidence of the tax are passed to the person who paid it so it is called as the direct tax.

It is levied by the state of its powers conferred under the constitution

It is used for the public purpose

It is the compulsory contribution

It is not a payment for the specific service rendered

#### **BRIEFLY EXPLAIN THE OBJECTIVES OF THE INCOME TAX**

### **Sources of revenue and revenue generation**

It is importance source collected by the central government. 75% of income tax is allocated to the state and 25% of the income to the union territories.

### **Capacity to pay**

More income more income is to be payable. Less income less tax is to be payable to the government.

### **Sources of capital formation**

By investing funds one can claim rebates and reliefs towards the capital formation.

Maintenance of welfare of the state

Prevention of concentration of wealth in few hands

Re distribution of the wealth to the common benefits

Enhance savings and there by the investment

Rapid economic development

Provision for the employment opportunities

## **EXPLAIN SOME IMPORTANT TERMS OF THE INCOME TAX ACT**

### **ASSESSEE 2(7)**

Assessee means a person by whom any tax or any other sum of money is payable under this act and includes

Every person in respect of whom any proceedings under this act

Every person who is deemed to be an assessee

Every person to be an assessee in default

### **ORDINARY ASSESSEE**

Any person against whom some proceedings under this act are going on . it is immaterial amount is payable or not

Who sustained losses 139(3)

Who has to pay penalty and the interest?

Who is to entitled to refund of tax

### **REPRESENTATIVE ASSESSEE**

He is not liable to pay tax for his own income. He is the guardian or the agent of non resident. He may be the guardian of lunatic or minors, deceased persons who dies after will is executed. He is the eldest son if he dies before the will

Minors and lunatic and idiot the guardians is representative assesses

For the non residents the agent is representatives

### **ASSESSEE –IN- DEFAULT**

Person, who fails to fulfill the obligations, fails to deduct the tax at sources, and deposit the same amount of tax in treasury. He is treated as assessee in defaults

## **WRITE NOTES ON VARIOUS PERSONS-2(31)**

### **INDIVIDUAL**

Means a natural person or human beings. It includes the minors and the persons of the unsound minds

### **HUF- HINDU UNDIVIDED FAMILIES**

Consisting of all persons lineally form a common ancestors and includes wives and unmarried daughters

Sikkim and Jain families,. The head of the family is called as the karta. Members are called as co- parceners. It treated the separate persons.

### **COMPANY**

It is the artificial persons created by law. It has the perpetual succession, common seal, and shares caring the limited liability. Income tax rate for the company is different.

### **FIRM-2 (23)**

Association of more than one person who joint together with a written agreement is called a partnership deed and sharing the profits in agreed ratio is called as firm

Share of the profit from the firm is exempted from the tax 10-2(a)

### **ASSOCIATION OF PERSON –AOP /BODY OF INDIVIDUALS BOI**

When two or more persons join to work for a common purpose or objective to earn a profit or income with out the agreement. it may have the members of companies and firms

### **BODY OF INDIVIDUALS**

It consists of only individuals and they are jointly do some activities

### **LOCAL AUTHORITIES**

It is a separate unit

Panchayats (243)

Municipalities 243(b)

Cantonment boards 192

District board

**ARTIFICIAL JUDICIAL PERSONS**

Persons who don't have a physical existence but have a legal existence called as a AJP  
University of Delhi

**WRITE NOTES ON -INCOME 2(24)**

- It includes the
- Profit and gains
- Dividend
- Voluntary contribution by a trust
- Profits in lieu of salary
- Special allowances and the perks
- Any capital gains u/s 45
- Sum received and receivable
- Winnings from lotteries and cross word puzzles and horse races and gambling and betting's
- Contribution of provident funds
- Sum received on key man insurance policies

**BRIEFLY EXPLAIN THE FEATURES OF INCOME**

- It is a periodical receipt from ones business land work investment etc., something which comes in
- Definite source
- It must come from outside
- Tainted incomes
- Diversion of income vs. application of income
- Temporary income and permanent income
- Voluntary receipts
- Dispute regard title
- Money or moneys worth
- Assesses income
- Gifts above rupees 50000

**Tax treatments**

It must be taxable and exempted and debatable and tax free income

**Example**

- Share of income from AOP
- Share of income form PFAF

**BRIEFLY EXPLAIN THE CONCEPT OF THE GROSS TOTAL INCOME (14)**

Income of the person is computed under the following heads-Salaries-House properties-Profit and gains of the business and the profession-Capital gain-Other sources-The aggregate of these heads incomes is called as the gross total income. It is before making adjustments u/s (80c to 80u)

<b>Computation of total income and the tax liability</b>	
Income form salaries Salary 17(1) Perquisites excluding fringe benefits 17(2) Profit in lieu of salaries 17(3) Gross salary income Deductions (16) Entertainment allowance 16(ii) Tax on employment(iii) Salary income	-----
Income form house property Annual rental value Less   municipal taxes Net annual values Deduction u/s 24 Income from house property	-----
Profit and gains of business and the profession Net profit as per profit and loss account Add expenses debited but not allowed under the act	

Less expenses allowed but debited	
Less incomes credited but not taxable under this heads	-----
Capital gains	
Short term capital gains	
Long term capital gains	
Income under capital gains	-----
Income form other sources	
General incomes 56(1)	
Specific incomes 56(2)	
Less allowed expenses 57	-----
Add income form other persons	-----
Gross total income	-----
Deductions under section 80C to 80 U	-----
Total income ( to be rounded off nearest multiples of 10)	-----
<b>Computation of tax</b>	-----
Tax on short term shares subject to security transaction tax	-----
Tax on long term capital gains	-----
Tax on casual incomes (lotteries, card games, races, puzzles, TV shows)	-----
Tax on income other than given above (slab rate applicable)	-----
Total tax	-----
Less rebate u/s 88E if any	-----
Balance tax	-----
Add (education cess @2% and secondary higher education cess @1%)	-----
Total tax	-----
Less relief u/s 86 and 89(1)	-----
Less prepaid taxes (tax deducted at source and advance tax)	-----
Net tax payable (@time of filing the return) rounded off nearest multiples of 10	-----

#### **WHAT DO YOU MEAN BY THE CASUAL INCOME.**

Any winnings form lotteries, cross word puzzles, races including horse races, card games, other games of any sort or from gambling or betting of any form or nature called as casual income. If the casual income exceeds 2500 from the horse races there must be tax deducted at source. From other incomes if it exceeds 5000 there must be some tax deducted at source.

#### **WRITE SOME DEEMED INCOMES.**

These incomes are treated as the income earned in the previous year. And it is liable to be taxed.

Unexplained Cash credit

Unexplained investments

Unexplained bullion cash, jewelry

Partly explained investments

Unexplained expenditure

Payment of Hundi in cash

#### **BRIEFLY EXPLAIN THE CONCEPT OF THE PREVIOUS YEAR -3.**

Previous year u/s 3 of the income tax act income earned in the year is taxable in the next year. In which income earned is called as the previous year. The next year is called as the assessment year

Current previous year 1-04-2009 to 31-03-2010

The assessee is required to follow the financial year April to march from the year 89-90

New business

First previous year commencing date to 31st march of the next year

It may be 12 months or less than 12 months

It never exceeds the 12 months

It is only 12 months for the next years

#### **WRITE SOME EXCEPTIONS TO THE INCOME EARNED IN THE PREVIOUS YEAR ARE TAXED IN THE NEXT ASSESSMENT YEAR.**

Non residents shipping business -172

Bodies formed for the short durations-174 (a)

Income from the discontinued business 176

Income from the persons leaving India for long time-174

Income for persons alienate assets to avoid the tax-175

### **WRITE NOTES ON THE ASSESSMENT YEAR 2(9)**

It is 12 months commencing on the first day of April and ends 31 marches.

It is the financial year of government. Relevant previous year's income is chargeable to the tax.

Current assessment year is 1-04-2010 to 31-march of 2011.

### **DEFINE THE AGRICULTURAL INCOMES.**

Agricultural income is exempted form the tax according to section 10(1)

The constitution Of India gives the power to make laws to tax it to the state government.

According to 2(1) a

Any rent revenue received form the land situated in India and is used for the agricultural operations

It can be in urban and rural areas

Any income derived from agricultural operation for processing and fit for the market

Income form farm house immediate vicinity of land used for dwelling or store house.

### **WRITE ABOUT THE RATE OF TAX**

The rate of the tax is informed in the interim budget for the assessment year 09-10. The rate of individuals nil rate slabs is expected to rise. After the tax liability calculation education cess at the rate of 2% and secondary higher education cess at the rate of 1% is levied in the previous year 08-09. In the previous year the nil rate slabs for individuals is 150000. And for the women's it becomes 180000. And for the old aged persons it is 225000. For the long term capital gain it is 20% and for the casual income it is 30%.

### **RATE OF THE TAX FOR THE ASSESSMENT YEAR 2020-2011**

#### **FOR THE INDIVIDUALS (OTHER THAN FEMALES AND SENIOR CITIZENS) HUF, BOI & ARTIFICIAL PERSONS**

If total income is upto rupees 160000	Nil
Total income 160000-300000	10% of income exceeding 160000
Total income exceeds 300000-500000	14000+20% of income exceeding 300000
If the income exceeds Rs. 500000	54000+30% of income exceeding 500000

#### **FOR THE FEMALE ASSESSEES ( BELOW THE AGE OF 65 YEARS)**

If total income is upto rupees 190000	Nil
Total income 190000-300000	10% of income exceeding 190000
Total income exceeds 300000-500000	11000+20% of income exceeding 300000
If the income exceeds Rs. 500000	51000+30% of income exceeding 500000

#### **FOR THE SENIOR CITIZEN ASSESSEE**

If total income is upto rupees 240000	Nil
Total income 240000-300000	10% of income exceeding 240000
Total income exceeds 300000-500000	6000+20% of income exceeding 300000
If the income exceeds Rs. 500000	46000+30% of income exceeding 500000

### **SURCHARGE**

It has been abolished with effect from the assessment year 2010-2011

Education cess

It is to be levied @2% of tax if any for all persons irrespective of income plus secondary and higher education cess @ 1%

### **SPECIAL RATES**

For short term capital gains on shares which are subject to security transaction tax 15%

For long term capital gains 20%

For casual incomes (lotteries, races, puzzles) 30%

### **WHAT DO YOU MEAN BY THE AVERAGE RATE OF TAX?**

It means the rate arrived at by dividing the amount of income tax calculated on the total income by such total income

Total income / total tax \*100

### **WRITE NOTES ON MAXIMUM MARGINAL RATE.**

It means the rate of tax for an individual. Which is applicable on the highest slab of income at present is 30%

### **WHAT DO MENN BY BLOCK OF ASSETS**

It means the group of assets falling within the class comprising of

Tangible assets like building, plant and machinery

Intangible assets like know how, patents, copyrights, trade marks  
 Normal rate of depreciation is 155

**WHAT DO YOU MEAN BY CHARITABLE PURPOSE?**

It includes the relief of poor, education, medical relief, and the advancements

**BRIELY EXPLAIN THE CONCEPT OF CHILD**

It includes a steps child and adopted child of that individual of male and female children

Fair market value

The price that the capital asset would ordinarily fetch on sale in the open market on the relevant date

Where the price referred to in sub clause Is not ascertainable.

**BRIELY EXPLAIN THE CONCEPT: INDIA.**

India as the territory of India. Its territorial waters, seabelt, and sub soil underlying such waters, continental shelf exclusive economic zones or any other maritime zone and the air space above its territorial waters.

**WRITE THE DIFFERENCE BETWEEN TAXES AND FINES AND THE PANALITIES.**

A tax is the compulsory contribution made by the tax payer

Fines and the penalties are the payments made for the contra version of the law.

A public authority imposes taxes mainly to obtain activities of the central government and the fines and the penalties mainly to deter people from doing certain acts.

**WRITE THE DIFFERENCES BETWEEN THE DIRECT AND THE INDIRECT TAXES.**

Direct taxes are not shiftable, while indirect taxes are shiftable. Direct taxes are the taxes on income from land and the tax on building the tax on intangibles or movable property. Indirect taxes are those which strike the private consumption of citizens and also transfers of property. The stike the income at the moment when the citizen spends it to acquire other goods.

<b>Direct taxes</b>	<b>Indirect taxes</b>
Direct taxes contribute 25% to 35% of total income	Indirect taxes contribute 65% to 75% of total revenue
They do not have any impact on costs and prices	Increase in rates of indirect taxes leads to increase in costs and price of goods
Income tax wealth tax interest tax corporation tax	Excise duty, customs duty, sales tax, service tax
It conform the principle of equity	They do not discriminate between rich and poor
Income tax is tax levied on income and wealth tax is imposed on property and the assets	They tax is levied on the tax on the consumption. They affect lower income group
They have the element of certainty. The tax payer knows the amount of tax payable by him after claiming all deductions and rebates	The tax evation is likely less
Imposition of direct taxes doesn't create imbalance in the use of productive resources	It creates the imbalances

**WRITE THE IMPORTANT TYPES OF THE TAXES**

The commonest classification of taxes is direct taxes and the indirect taxes. According to mill while direct tax is determined from the person who should pay it. Indirect taxes are those which are demanded from the person with the exception and intention that he shall indemnify himself at the expense of another. Direct taxes is also classified on the basis their burden on the tax payers. According to this classification taxes may be classified as proportional progressive, regressive, and degressive.

**Progressive taxation**

A tax is called progressive when with increasing income the tax liability not only increases in absolute terms but also it increases as a proportion of income

**Proportional taxation**

If the tax liability increases in the same proportion as the increase in the tax payers income it is known as the proportional tax system. It never levied in varying percentages

**Regressive taxation**

If the tax liability as a proportion of income falls with the increase in the tax payers income it is known as regressive taxation. In these tax poor sections of the society has to pay high tax

**Degressive tax**

In this case there is a declining degree of progressive as the tax base increases. The rate of tax increases up to a certain limit beyond which a uniform rate is changed. The result of this tax is that higher income groups make less sacrifice than the lower income groups.

**Single tax system**

In this system in which taxes are levied only on the one object. There is only one object it constitute the source of public revenue. It can yield adequate revenue and avoid unfairness in the distribution of the burden of taxation by means of graduation differentiation and other devices.

### **Multiple tax system**

It means taxes are levied on the various items. It enables in the more equitable redistribution of income and wealth while some other taxes would help the economy in the direction of regional balanced growth.

### **WRITE THE DISTINCTION BETWEEN THE TAXES AND FEES**

A fund raised by the tax revenue is referred as the tax revenue. A tax is compulsory charge or payment levied or imposed by a public authority on an individual or corporation. The fees is charged by the government by rendering services to the beneficiaries

### **WRITE ABOUT THE PRINCIPLES OR THE CANONS OF THE TAXATION**

It refers to the administration aspect of a tax. They relate to the rate amount method of levy and collection of tax

#### **Canon of equality**

According to the Adam smith the subjects of every state ought to contribute towards the support of the government as nearly as possible. This canon implies that the burden of taxation must be distributed equally in relation to the ability of the tax payers

#### **Canon of certainty**

The tax system should be specific and certain. In the words of the Adam smith the tax which each individual is bound to pay must be certain not arbitrary. It should not be any embarrassment and confusion about the amount time and the mode of the payment

#### **Canon of economy**

The cost of collection of tax must be minimum. The tax must be such as to bring the maximum part of the collected revenue in the government treasury.

#### **Canon of convenience**

This principle implies that tax must be collected in a convenient manner from the tax payers. Salaried person are satisfied when the tax is deducted at source

#### **Canon of productivity**

Taxes must be levied in order to accumulate enough money for the government to secure enough facilities for the people.

#### **Canon of elasticity**

This canon implies that taxation should have built in flexibility. The tax system must designed in such a way that it must bring more revenue to more earned persons.

#### **Canon of simplicity**

This implies that the tax systems tax rates and provisions must be made simple to understand by the common people. It must not have complex provisions and rules and the regulations

#### **Canon of the diversity**

According to this principle there must be a multiple tax system of diverse nature rather than having single tax system and introducing the large number of taxes.

#### **Canon of expediency**

This canon implies that levy of taxes must be based on certain well founded principles so that they are justified from the government point of view. Tax must be levied on the basis of economic, social, political point of view.

### **WRITE NOTES ON THE TAX PLANNING TAX EVASION AND AVOIDANCE.**

**Tax planning** can be defined as an arrangement of ones financial and economic affairs by taking complete legitimate benefit of all deductions exemptions allowances and rebates so that tax liability reduces to minimum. Thus all such arrangements by which the laws are fully complied and which meet all legal obligations and transactions representing the tax planning.

#### **Tax avoidance**

The line of demarcation between tax planning and tax avoidance is very thin and blurred. There is an element of malafide motive involved in tax avoidance. The planning of tax which though done strictly according to legal requirement but defeats the basic intention of legislature behind the statute could be termed as instance of tax avoidance.

#### **Tax evasion**

All methods by which tax liability is illegally avoided are termed as tax evasion. An assessee guilty of tax evasion may be punished under the relevant laws. Tax evasion may involve stating an untrue statement knowingly submitting misleading documents, suppression of facts, not maintaining proper records, omission of material facts.

## **WRITE ABOUT THE RESIDENTIAL STATUS OF THE ASSESSEES AND THE BASIS OF CHARGE**

The incidence of the tax on any assessee depends upon his residential status under income tax. The liability of the tax depends not only the nature of the income and place of accrual or receipts but also upon residential status. Tax payers are classified into resident, non resident, ordinary resident. Tax is levied on the total income of the assessee. The total income of the each person is based upon the residential status of the assessee. Section 6 of the act divides the assessable persons in to 3 types

Ordinary resident

Resident but not ordinary resident

Non resident

The concept of the residential status has nothing to do with the nationality or domicile of a person. An Indian who is a citizen of India can be a non resident of India for the purpose of the income tax. An American can be only the resident of India. The residential status of the person can be determined each year with the previous years stay in India.

### **Importance of the residential status**

It determines scope of taxable income

5(1) & (2) – the incomes of assessee taxable based on the residential status.

It may be different for different previous years.

### **Citizenship**

Person born in a particular country might make a citizen or national of that country.

The residential status does not depend upon the date source of income comes to existence during the PY.

A person may be resident in two countries @ the same time

An Indian company can which is registered in India and has a place of business shall always be a resident

### **Effects**

The amount of income chargeable to tax in India

Rate of the tax does not affected by the residential status (subject to conditions)

## **BRIEFLY EXPLAIN THE RESIDENTIAL STATUS OF PERSONS**

### **INDIVIDUALS-6(1)**

#### **Basic conditions**

- a) He is India in the relevant previous year for a period of 182 days or more.
- b) He is in India for a period of 60 days or more during the relevant previous year and 365 days or more during 4 immediately proceeding the relevant previous years.

#### **Exceptions**

- 1) For Indian citizens who leave India for employment the period of 60 days read as 182 days.
- 2) Members of crew the 60 days replaced as 182 days
- 3) Indian origin that comes to visit India the 60 days is replaced as 182 days.

When the two conditions (basic conditions) are satisfied he is resident. None of the basic conditions are satisfied he is called as the non resident.

#### **Additional conditions**

The additional conditions need to seen only for resident and ordinary resident and resident not ordinary resident

- a) An individual who has been a resident in India @ least 2/10 previous years preceding the previous years
- b) He has in India during 7 previous years immediately preceding relevant previous years 730 days or more.  
(Day of entry and the departure are treated as stay in India) – Advance ruling act 7(1997)

### **HINDU UNDIVIDED FAMILIES 6(2)**

#### **Basic conditions**

The place where the control and the management of the affairs of the HUF is located

- a) wholly in India
- b) Partly in India and parts outside India than the HUF is resident of India for the previous year.

Where the control and the management wholly outside India the HUF is a non resident.

Policy making decisions for the future in the place where the control and management is located. The status of karta is not relevant. The additional conditions need to seen only for the resident HUF.

Resident –ordinary and not ordinary resident.

- a) karta has been a resident in India at least 2/10 relevant previous years
- b) The karta has during the 730 days out of 7 relevant previous years.

These conditions are to determine the status of residential status of HUF.

### **RESIDENTIAL STATUS OF A FIRM AND AOP AND EVERY OTHER PERSON.**

#### **Resident**

Firm and AOP and every other person is said to be the resident when the control and the management of the affairs

- a) wholly in India (or)
- b) partly in India



**Non resident**

Control and the management of the affairs wholly outside in India this person is called as a non resident

Control means head and brains to control the affairs

**Company****Resident company**

a) an Indian companies is always resident

b) a foreign company is resident in India if its control and the management ( meeting of the BOD) is in India

**Non resident companies**

a foreign company is run non resident in India if its control and the management

a) Wholly outside India

b) Partially in India and outside India

**EXPLAIN THE SCOPE OF TOTAL INCOME****Resident 5(1)**

Income received or deemed to received in India (place and the date of accrual is immaterial)

Income accruing arising and deemed to accrue in India is taxable for the residents

Income accruing outside India is also taxable for the residents in India.

**Not ordinary resident**

The following items are taxable for the not ordinary residents

Income received and deemed to received in India

Income accruing and deemed to accruing in India

Income accruing out side India

**Non resident 5(2)**

The following income is taxable for these nonresidents

Income received and deemed to be received in India

Income accruing and deemed to be accrued in India

**Indian incomes**

Income earned in India

Income accrues in India

**Income received**

Tax deducted at source

Employer's contribution to recognized provident funds

Interest accrued on the provident funds balance

Taxable portion of transferred balance

Contribution to pension scheme 80 CCC

Share of income from joint venture

Other incomes received in India

**Deemed to accrue in India**

Income arising business connection

Income from property held in India

Income form transfer of capital assets

Apportionment of profits

Income from sale of goods

Income from salaries earned in India

Salaries for the government service outside in India

Dividend paid by Indian companies in outside Indians

Dividend received by way of interest

Royalty

Fees for the technical services

Income from shooting of any picture in India

Income form agricultural in foreign countries is taxable in the case of resident only.

Income remitted to India is not as income received.

**Deemed receipts (7)**

Annual accretion of recognized provident funds

Transferred balance

Tax deducted at source

Deemed profits

**WRITE THE NAME OF THE UNDISCLOSED INCOMES AND THE FOREIGN INCOMES.**

- Unexplained cash credit
- Unexplained investments -69
- Unexplained money-69(a)
- Unexplained investments in banks-69(b)
- Unexplained expenditure 69(c)
- Amount borrowed or repaid HUNDI 69(C)
- Contribution to pension funds

Income may be earned in foreign and payable in India

**Foreign income**

Income earned and accrues in outside India and received outside India

Income which is not earned and accrues or arise in India

**BRIEFLY EXPLAIN THE SCOPE OF INCOME / INCIDENCE OF TAX (FOR INDIVIDUAL AND HUF)**

	<b>Particulars</b>	<b>Resident +ordinary resident</b>	<b>Resident +not ordinary resident</b>	<b>Non resident</b>
Indian incomes	Received in India	Tax	Tax	Tax
	Deemed to received in India ( accrued in India and outside India)	Tax	Tax	Tax
	Accruing and arises in India (whether received in India /outside India)	Tax	Tax	Tax
	Deemed to accrue ( whether received in India / outside India)	Tax	Tax	Tax
Foreign incomes	Income received and accrued from a business control in India	Tax	Tax	No tax
	Income received and accrued outside India business control form outside India and setup from outside India	Tax	No tax	No tax
	Income not from the business received and accrued Outside India	Tax	No tax	No tax

**BRIEFLY EXPLAIN THE SCOPE OF INCOME / INCIDENCE OF THE TAX FOR OTHER PERSONS**

	<b>Particulars</b>	<b>Resident</b>	<b>Non resident</b>
Indian incomes	Received in India	Tax	Tax
	Deemed to received in India ( accrued in India and outside India)	Tax	Tax
	Accruing and arises in India (whether received in India /outside India)	Tax	Tax
	Deemed to accrue ( whether received in India / outside India)	Tax	Tax
Foreign incomes	Income received and accrued from a business control in India	Tax	No tax
	Income received and accrued outside India business control form outside India and setup from outside India	Tax	No tax
	Income not from the business received and accrued Outside India	Tax	No tax

**WRITE NOTES ON THE INCIDENCE OF THE TAX**

- i) Residential status for the tax purpose
- 2) Place and time of the accrual / receipts of income

Section 5(1) deals with the incidence of tax of resident and ordinary resident and resident and not ordinary resident.

5(2) deals with the incidence of the tax of the non residents

**WRITE THE INCOMES WHICH DON'T FORM PART OF THE TOTAL INCOME (OR) EXEMPTED INCOMES.**

Agricultural incomes 10(1)

Sum received by a member of HUF 10(2)  
 Income from the firm 10(2a)  
 Interest of the securities or bonds held by the non residents 10(4)  
 Interest on savings certificates 10(4b)  
 Payment under Bhopal gas leak disorder 10(10bc)  
 Amount received from the LIC maturity 10(10d)  
 Scholarship granted to cost of education 10(16)  
 Awards and rewards 10 (17)  
 Daily and constituency allowance received by member of parliaments and member of state legislative assemblies.10 (17)  
 Income from SAARC fund 10(23)  
 Income from insurance regulatory authority 10(23b)  
 Income from notified mutual funds  
 Income from investor's protection fund  
 Income from trade unions  
 Income from ESI  
 Income from bodies' promote interest of SC &ST  
 Subsidy received from the tea board  
 Income from minors  
 Travel concessions to Indian citizen-Income from consultancy  
 Commuted value of pensions-Amount received on leave encashments 10 (10a)  
 Income by way of tax on professions 10(cc)-Payment from SPF 10 (11)-Payment from RPF 10 (12)  
 Payment of superannuation of funds 10 (13)-Income form palace of the former rulers 10(19)  
 Income from scientific research association 10(21)

### HOW DO YOU CALCULATE THE TAX LIABILITY OF THE INDIVIDUALS?

The tax liability of the individuals and the Hindu undivided families are calculated on the basis of the tax rates fixed by the finance act. The incomes of the persons mentioned above classified in to the five heads they are salary incomes, house property incomes, business and professional incomes, capital gains incomes, income from other sources, the total of these incomes are called as the gross total incomes and the deduction under sections 80 are allowed the net of these is called total income. The tax liability is calculated.

#### For the individuals (other than females and senior citizens) HUF, BOI & artificial persons

If total income is upto rupees 160000	Nil
Total income 160000-300000	10% of income exceeding 160000
Total income exceeds 300000-500000	14000+20% of income exceeding 300000
If the income exceeds Rs. 500000	54000+30% of income exceeding 500000

#### For the female assesseees ( below the age of 65 years)

If total income is upto rupees 190000	Nil
Total income 190000-300000	10% of income exceeding 190000
Total income exceeds 300000-500000	11000+20% of income exceeding 300000
If the income exceeds Rs. 500000	51000+30% of income exceeding 500000

#### For the senior citizen assessee

If total income is upto rupees 240000	Nil
Total income 240000-300000	10% of income exceeding 240000
Total income exceeds 300000-500000	6000+20% of income exceeding 300000
If the income exceeds Rs. 500000	46000+30% of income exceeding 500000

#### Education cess

It is to be levied @2% of tax if any for all persons irrespective of income plus secondary and higher education cess @ 1%

#### Special rates

For short term capital gains on shares which are subject to security transaction tax 15%

For long term capital gains

20%

For casual incomes (lotteries, races, puzzles)

30%

### HOW YOU CALCULATE THE TAX LIABILITY OF FIRMS?

Firm is taxed at the 30%. The surcharge is nil. Education cess at the rate of 2% and the secondary higher education cess 1% are to be calculated on the tax amount. The income is calculated head wise that is business income, house property incomes, other sources income etc.,

### HOW YOU CALCULATE THE TAX LIABILITY OF COMPANIES?

Domestic companies are taxed at the rate of 30%. Foreign companies are taxed as follows for the royalty received from government or any agreement made with Indian concern and is approved by the central government @20% - for other companies @40%. Surcharge is applicable @ 10% on income tax after allowing rebate u/s 88E to domestic companies and 2.5% to foreign companies provided the total income exceed one crore. Education cess is 2% and secondary higher education cess is calculated @ 1%.

#### **HOW YOU CALCULATE THE TAX LIABILITY OF COMPANIES?**

For the co-operative societies if the net income is upto 10000 -10% tax is applicable. For 10000-20000 -20% rates is applicable. Above 20000 -30% is applicable. Education cess at the rate of 2% and secondary higher education cess @1% is charged.

#### **HOW YOU CALCULATE THE TAX LIABILITY OF LOCAL AUTHORITIES?**

- local authorities are taxed at 30%
- surcharge is not applicable
- education cess at 2% is to be calculated on the income tax
- secondary higher education cess at 1% to be calculated on the tax.

#### **PROBLEMS**

1. Mr. K an Indian citizen leaves India for the first time on 31-03-05 and comes back on the 15 the may2008. he again leaves India on the 10<sup>th</sup> June 2008 to come back on the 14<sup>th</sup> January 2010. He is living in India since then. Determine the status for the previous year 2009-2010.

2. Mr. Gating a foreign citizen leaves India for the first time in the last 20 years on November 25, 2006 During the calendar year 2008 he comes to India on September 1 and stays a period of 20 days. During the calendar year 2009 he not visit India at all but comes to India on January 15, 2010. Determine the residential status of him for the assessment year 2010-2011.

3. Subash is a citizen of India staying 18 days in India. He left on 15<sup>th</sup> may 2009 for London for his higher studies came back to India on 25<sup>th</sup> may 2009.he maintained a dwelling place India during his absence.

4. Mr R a foreigner came to India form Poland for the first time on 1<sup>st</sup> April 2004. He stayed here continuously for three years and went to France on 1<sup>st</sup> April 2006. he however returned to India on 1<sup>st</sup> July 2006. And went to Poland on 1<sup>st</sup> December 2007. He again came to India on 25<sup>th</sup> January 2010 on a service in India. What is his residential status for the assessment year 2010-2011?

5. Mr John a foreign national came to India for the first time on June 15th, 2004. during the financial year,2003-2004, 2004-2005, 2005-2006, 2006-2007, 2007-2008, 2008-2009,2009-2010 he stays in India for 120, 115, 15, 191,75, days and 124 days. Determine his residential status for the assessment year 2010-2011.

6. Mr. A a senior scientist goes to England on a job approved by the central government for a period of 3 years. On 15th September 2010. He is never out of India before. Determine his residential status for the previous year 2010-2011

7. Mr. B a married citizen of India left for Germany for the first time on 15-09-2008 on a business trip. He returned to India on 5-06-2009. During his absence for India he maintained a dwelling house for himself in Calcutta. Determine his residential status for the assessment year 2010-2011.

8. A person after about 26 years of service and stay in India retired to England in April 2006. And returned to India on 15<sup>th</sup> February 2010, to take a salaried appointment. What is his residential status for this PY?

9. What is the residential status of an individual for the assessment year 2010-2011 who came to India for the first time in 2005-2006 and was in India as follows?

Previous years	presence in India (days)
2006-2007	26
2007-2008	15
2008-2009	185
2009-2010	186

10. Mr. Present went to Germany for a diploma course on 5<sup>th</sup> august 2009 and came back to India on 25<sup>th</sup> February 2010. His family remained in India. He had never been out of India before. What is his residential status for the year ending 31-03-2010?

11. MR G .an foreign citizen leaves India for the first time in the last 20 years on November 25, 2007. During the calendar year 2008 he comes to India on the September first and stays for a period of 20 days during the calendar year 2009 he not visited India at all but comes to India on January 15 2010. Determine his residential status.

12. Mr. A senior scientist goes to Nigeria on a job approved by the central government on September -15 2009. He has never been out of India before. Determine his residential status for the assessment year.

13. Mr. A foreign citizen. He is in India during the previous year and his other stay details are given below

Year	days
1994-1995	85
1995-1996	310
1996-1997	106
1997-1998	174
1998-1999	20
1999-2000	280
2000-2001	265
2001-2002	16
2002-2003	160
2003-2004	281
2004-2005	305
2005-2006	165
2006-2007	210
2007-2008	220
2008-2009	101
2009-2010	86

14. Mr. A is a MBA student. Who is engaged in the export business visits to England frequently? He is in India during the previous year and his other stay details are given below

Year	days
2001-2002	187
2002-2003	140
2003-2004	305
2004-2005	35
2005-2006	70
2006-2007	225
2007-2008	306
2008-2009	283
2009-2010	185

15. A HUF is caring the business in India. The business is having its head office in Delhi where is controlled. The head of the family was in Kenya for the business purpose through out the previous year. Determine his residential status.

16. ABC firm has registered partnership in India and is controlled from India. Determine its residential status the managing partner is in UK for more than 280 days. Determine his residential status

17. Compute the taxable income of the .Mr. Rams is he is resident and ordinary resident and resident and not ordinary resident and non resident for the previous year 2009-2010

Salary drawn during the year for the employment outside India for the government of India	rupees 93500
Salary drawn for the employment in London office of an Indian company received there	rupees 18000
Profit earned abroad and received in India	rupees 25000
Profit earned in abroad from the business and kept the bank in there	rupees 18000
Dividend received from an Indian companies	rupees 3000

18. Compute the taxable income of the .Mr. Rams is he is resident and ordinary resident- resident and not ordinary resident,- non resident for the previous year 2009-201

particulars	Rupees
Interest on saving bank in Indian bank –Delhi	1200
Income from the agricultural in Africa and invested in Nepal	10000
Dividend from the foreign company and received in foreign	10000
Pension computed received in India	60000
House property income received in India	100000

19. Compute the taxable income of the .Mr. Rams is he is resident and ordinary resident- resident and not ordinary resident, -non resident for the previous year 2009-2010

particulars	Rupees
Profit of the business in Delhi	1200
Income accrued in India and received in America	10000
Income from the business in England and received in India	10000
Income from the house property in Africa and received in India	60000
Profit from the business in Pakistan and controlled from India	100000
Income from the house property in Pakistan and deposited a bank there	20000
Past untaxed income	10000

20. Compute the taxable income of the .Mr. rams is he is resident and ordinary resident- resident and not ordinary resident, -non resident for the previous year 2009-2010

particulars	Rupees
Profit on sale of machinery in Bangalore but received in Australia	30000
Profit from the business in Canada business controlled in India -1/3 received in India	42000
Income from the house property in Iran	20000
Agricultural income in England and was received there	80000
Past untaxed foreign incomes	6000

21. Mr. Ayya left India for the first time on 15<sup>th</sup> December 2009 and returned back to India on 2<sup>nd</sup> February 2010. Determine his residential status

22. Mr. Raghu an Indian citizen goes to Singapore for employment during the previous year 2009-10 on 1<sup>st</sup> September 2009. He was in India from his birth during the year 1989. Identify his residential status.

23. A partnership firm is having business in Delhi and Mumbai. In the following cases identify the status

If the control is partly from Mumbai and partly from Delhi

If the control is partly from Delhi and from Indonesia

If the control is fully from South Africa.

24. Compute the taxable income of the .Mr. Rams is he is resident and ordinary resident- resident and not ordinary resident,- non resident for the previous year 2009-2010

particulars	Rupees
Dividend from Indian companies	100000
Dividend from a foreign companies received in India	15000
Income from business in Kenya but controlled from India	200000
Income from the business in Sutherlands but controlled from Bangladesh	500000
Income accrued in Indonesia received in India	250000

**UNIT –II COMPLETED**

### **DEFINE THE TERM SALARY**

U/s 15 any salary due from an employer or a former employer to an assessee in the previous year

Any salary paid or allowed to him in the previous year by or behalf of and employee or a former employer

Any arrears of the salary paid or allowed to him in the previous year.

Any salary bonus , commission or remuneration by whatever name called due to or received by a partner of a firm from firm shall not be regarded as salary for the purpose of salary income.

### **BRIEFLY EXPLAIN THE CHARACTERISTICS FEATURES OF THE SALARY INCOMES**

Relationship of employer and the employee

Salary from more than one employer

Salary received from the present past and future employer

Tax free salary

Salary received from the member of the parliaments

Place of accrual of salary income

Deduction made by the employers

Salary or pension received by the UNO employees

Salary as a partner

Payment received by legal heirs of a deceased employee

Payment made after cessation of employment.

Voluntary foregoing

Previous year's salary

Taxability of salary on due or receipt which ever is earlier basis.

Advance salary received

Arrears of the salary received.

Salary in lieu of notice.

### **DEFINITION OF THE WORD SALARY 17(1)**

According to section salary includes the following amount received from an employer

Wages

Any annuity or pension

Any gratuity

Any fees or commission perquisites or profit in lieu of salary in addition to any salary or wages

Any advance salary

Any salary in lieu of leave

The annual accretion of provident funds

Any transferred balance.

### **BRIEFLY EXPLAIN THE KINDS OF THE PROVIDENT FUNDS**

#### **Statutory provident fund**

It is the oldest type of fund it was started in the year 1925.this is for the government and the semi government employees. Like railways and the reserve bank of India and the colleges and the universities.

#### **Recognized provident funds**

It is a fund to which the commissioner of income tax has given the recognition as required under the income tax. This is maintained by industrial undertakings and the business houses and the banks

#### **Unrecognized provident funds**

It is the fund which is not recognized by the commissioner of income tax.

#### **Transferred balance**

Any fund transferred form the unrecognized provident fund to recognized fund is called as the transferred balance. Excess of fund over the limits of RPF is taxable.

#### **Public provident fund**

It is the fund established for the benefit of the business persons and self employment persons

The contribution is exempted 80C

Self employed peoples are doctor's lawyers, accountant's actors, traders, pensioners etc.

Taxable portion of annual accretion of the RPF

Contribution made by the employer over 12% of the employee's salary

Interest credited over 9.5 % on the accumulated balance.

### **Treatment of provident funds**

Particulars	SPF	RPF	URPF
Employees contribution	Deduction u/s 80 C	Deduction u/s 80 C	Not qualifies 80C
Employers contribution	Exempted	Excess over 12% of employees salary is taxable	Ignore time being
Interest credited	Exempted	Excess over 9.5 % of rate is taxable	Ignore time being
Refund	Exempted	Exempted in all cases except employee leaves before 5 years in this case not charged amount added to salary	Refund portion is taxable income of the year.

**WRITE NOTES ON THE ALLOWANCES 17(3) RECEIVED BY THE EMPLOYEE FROM THE EMPLOYERS**

Any amount or sum allowed regularly. It is given in the form of cash along with the salary. It is given to meet the specific loss or expenditure.

**Fully exempted allowances**

Foreign allowance (government posted outside India)

House rent allowance given to high court judge's Supreme Court

Allowances from UNO

Sumptuary allowance to high court and Supreme Court

**Fully taxable allowances**

Name	Why it is given	Taxability
Dearness allowance/ additional DA/ high cost of living allowance/ interim relief./additional salary/ Enters in to pay/ dearness pay/DA given in terms of employment	To compensate loss due to the raise in prices	Fully taxable  It treated as the part of salary for PF, RFH, bonus ,gratuity, leave encashment.
CCA –city compensatory allowance	To compensate the high cost of living in big cities	Fully taxable
Lunch,/Tiffin/,marriage/, family/, deputation/,warden ship/ ,no practicing/project/ overtime/fixed medical/ allowances		Fully taxable
Entertainment allowance	To entertain the guests or customers. reimbursement is exempted	u/s 16(11) least is exempted statutory limit -5000 1/5 of basic pay actual amount of EA received

**Helper allowance**

It is exempted up to the actual amount spent on engaging the helpers

**Uniform allowance**

It is also exempted up to the actual amount spent

**Academic research allowance**

Exempted up to the actual amount of the expenditure

**Conveyance allowance**

It is exempted up to the actual amount of expenditure of the performance of the duties

**Traveling transfer and daily allowance**

It is exempted up to the actual amount of the expenditure

**Compensatory field area allowance**

Exempted up to 2600 per month

**Transport allowance**

Exempted up to 800 per month

**Running and flight allowance**

70% of the allowance or 6000 per month

**Children education allowance**

Exempted up to 100 per month per child maximum 2 children

**Hostel expenditure allowance**

Exempted up to 300 per month per child maximum 2 children

**Domestic servant allowance**

Fully taxable



## **WRITE NOTES ON THE PERQUISITES 17(2)**

Salary includes the value of any perquisites or amenities provided by the employer to the employee. These are taxable under the heads of salary.

### **FULLY TAXABLE PERQUISITIES**

Rent free house

Concessional rent accommodation

Value of the amenities granted or provided free of cost or at a concessional rate

Any sum or obligation paid by the employer in respect of employee

Any sum payable by the employer directly to the funds like LIC

Value of fringe benefits or amenities

Any portion of the premium paid by the employer in relation to the employee

Any sum paid by the employer in respect of employee already paid

These values of all perks is includes in the total income of the employee under this head

### **PERQUISITES EXEMPTED IN ALL CASES**

Free medical facilities

Free refreshment during working hours

Free recreational facilities

Free meals provided during office hours

Free education training or refresher course for employees

Leave travel concessions

Perks provided to the employees of the government services

Rent free house provided to the member of the parliament

Free residence and the conveyance to the high court and the Supreme Court judges

Amount contributed to the deferred annuity scheme

Amount contributed to the group scheme

Transfer of the movable asset computer, car, electronic items more than 10 years

Accident insurance premium paid by the employer for his own benefit

Interest on the free loan at the concessional rate if the amount does not exceed the 20000 or medical treatment

Tax on the perks

## **WRITE NOTES ON THE PERKS TAXABLE FOR ALL CASES**

### **RENT FREE HOUSE**

Nature of the employment

Government, semi government, or any other.

Place

Population exceeds 25 lakhs
-----------------------------

Population 10 not exceeding 25 lakhs
--------------------------------------

Other cities less than 10 lakhs
---------------------------------

### **Exempted accommodations**

In remote area at least 40 km away from the city limit

In off shore area

Rent free house provided to Supreme Court and high court judges

If it is more than one least is taxable

### **Hotel accommodation**

    Compute salary for number of days he stayed in the hotel

    Calculate 24% of this salary

    Compare with the actual bill paid by the employer to the hotel for such accommodation

If the hotel accommodation is provided for more than 15 days then the perk is not taxable for the first 15 days and it will be taxable for remaining days

### **Meaning of salary for this purpose is**

Basic salary

Dearness pay (enters in to the pay or service benefits)

Commission

Bonus

Fees

Value of all taxable allowances

Any other monetary benefits

Leave encashment of salary

Income tax of employee if it relates to the leave earned of previous years

**Taxability**

For the unfurnished house	
Owned by the employer	
Government employees	Rent fixed by government
Other employees	
Population is more than 25 lakhs cities	15% of the salary
Population is 10 to 25 lakhs	10 % of the salary
Population is less than 10 lakhs	7.5 % of the salary

**Note:**

If the furniture is provided from owned by the employer add 10% of the cost of furniture

If the furniture is hired by the employer actual hiring charges added with RFH

Furniture includes sofas, beds, chairs, tables, TV, house hold appliances, A/C, refrigerators,

**CONCESSIONAL RENT ACCOMMODATION**

The rent paid by the employee is deducted from the RFH is called as concessional rent accommodation

**OBLIGATION OF EMPLOYEES MET BY EMPLOYER**

Gas and electricity

Education bill

Income tax of the employee

Professional tax of the employee

Salary of the servants

Any other personal bill

Any other fringe benefits given to the employee

Free meals if provided @ working hours if the value exceeds 50 per day

Interest on the free loan @ concessional rate of interest if more than 20000

Use of movable assets except computers and the laptops

Any life insurance premium paid by the employer

**PERKS TAXABLE IN SPECIFIED CASES ONLY**

Following perks are taxable only if employee is either a director of company or has a substantial interest more than 20% of voting rights) and his monetary benefit exceeds 50000 per annum.

Monetary salary includes -Basic pay-D.A/D.P/ ADA -Bonus commission fees and all taxable portions of the allowances-Any perks received in the monetary form-Gratuity pension, leave salary,

Monetary salary of 50000 shall be calculated after allowing the deductions u/s 16(ii)

**WRITE THE TAXABILITY OF THE FREE DOMESTIC SERVANTS.**

Perks of free domestic servants

Particulars	Value
Free domestic servants of sweeper gardener, watchmen	Actual amount paid as the salary
Free supply of gas, electric energy, water supply	Actual cost
Free educational facilities	Reasonable amount which employee spent in similar type of the organization
Other bill met by the employee	Actual amount
Free transport	If conveyance is hired or ticket is purchased by employer , actual expenses are taxable

**WRITE THE TAXABILITY OF THE VALUE OF THE BENEFIT OF THE USE OF THE MOVABLE ASSETS AND THE OTHER BILLS.**

In case of the employees is using the assets (movable) other than the computers, laptops, the value is taxable in the hands of the employees shall be treated as the 10% of the cost of the assets \* no of days given/ total days in the year

**Value of the assets of sale of (movable) to the employee at the nominal price**

First calculate the WDV of the assets deducting the depreciation for each year of 12 months

Depreciation details	Rate of the depreciation
Electronic items	50% pa on WDV
Motor car or any other conveyance	20% pa on WDV
Other assets	10% pa on actual cost basis

**OTHER BILLS**

On the name of the employer for personal expenses of the employee paid by the employer shall be taxable.

Perks of car, transport facilities, traveling /touring, food and beverages, gift, club bills, or credit card facilities when employer is not subject to fringe benefit tax are taxable in the hands of the employees.

**WRITE NOTES ON THE PROFIT IN LIEU OF SALARIES.**

Amount received as the compensation form the employer  
 Amount received for the modification of the terms and conditions of the employments  
 Amount of gratuity (10)  
 Amount of commuted pension 10(10a)  
 Amount received as retirement compensation  
 Amount received as approved super annuation of the funds  
 Payment received from the URPF  
 Amount received from the key man insurance policies

**LEAVE TRAVEL CONCESSIONS**

Leave travel concessions any where in India the actual expenditure is exempted. It is restricted to the two children only.

Perks to the employees posted outside India is fully exempted

**DEATH CUM RETIREMENT GRATUITY**

It is given at the time of leaving the job or in the event of the death

Nature of the employment	Rule according to income tax law
Government employees Central/ state/ local authorities/ defense	exempted
Non government employees Covered under payment of gratuity act 1972	Least is exempted 15 days salary for each completed years service 7 days salary for seasonal factories notified limit is 350000 actual gratuity received
Non government employees Not Covered under payment of gratuity act 1972	Least is exempted ½ months salary of service of average salary limit 350000 actual amount received

**Note**

For the employee means any person other than apprentice in any establishment factory mines, plantation, port, railway, company, shop.

The full year of completed year’s services is taken for the years for the payment of gratuity act

The 15 days salary is calculated the average salary for the preceding 10 months salary

Salary= pay + dearness allowance if enters or not

Relief u/s 89(1) taxable gratuity included in the salary income of any previous year the employee can entitled to claim the relief if hasn’t get the gratuity after 5 years service

For the payment not cover under the act salary is pay + DA if enters for pay + commission of sales

**PENSION**

Pension is the payment given to the old aged persons

Un commuted/ periodic/ normal pension	Committed pensions
Fully taxable	Exempted for the government employees
	Non government employees
	Gets gratuity
	1/3 of the pension which is normally committed entitled is exempted
	If he not gets gratuity
	½ of the committed value of the pension is exempted

**LEAVE ENCASHMENT ON THE RETIREMENT**

If it is received @ time of working is fully taxable

If it is received @ time of retirement least is exempted

For government employees is exempted

For others

Least is exempted

Actual amount received

Limit 300000

Cash equitant to the leave at the time of retirement

10 month average salary for the every completed year’s service.

Salary= pay + dearness pay (if enters in to pay or service benefits)+ commission on sales

**AMOUNT RECEIVED AS THE TERMINATION OF THE EMPLOYMENT**

It is happen because of the industrial dispute act

Least is exempted

Amount calculated under the act

Limit is 500000

Actual compensation received. Under the industrial dispute act a worker is allowed retrenchment compensation equal to 15 days of the salary in excess of 6 months.

#### **AMOUNT RECEIVED AS THE VOLUNTARY RETIREMENT 10-10 C**

If the employee is retired from the

A public sector company

Company

Authority established under the central state provincial act

Local authorities

Universities

IIT

State and the central governments

The least of the following is exempted

Limit 500000

Three months average salary for every completed year's service

Salary for the months remaining

Actual amount received

Income by way of tax on the perks not provided as the monetary payment is exempted 10-10CC

Any amount received as SPF @ PPF is exempted 10(11)

Amount received from RPF 10 (12)

Is tax free when the employee is rendered 5 years continuous service?

Any payment from approved superannuation of funds 10(13)

It is made on the death of a beneficiary or retirement is fully exempted

Any special allowance

If it is given in performance of duties is fully exempted

#### **WRITE THE DEDUCTIONS OUT OF GROSS SALARY INCOMES -16**

##### **ENTERTAINMENT ALLOWANCE 16-II**

Least is exempted

Limit is 5000

1/5 of the basic pay

Actual amount received

##### **TAX ON EMPLOYMENT/PROFESSIONAL TAX**

In the case of the professional tax paid by the employee or paid by his employer if fully allowed as deduction

#### **WRITE THE DEDUCTIONS U/S 80 C OF GROSS SALARY INCOME OR THE REBATE OUT OF GROSS SALARY INCOME**

It can be claimed by an individual and the HUF

Total amount deposited in various approved saving schemes or 100000 per (pa) WEL is shall be allowed as the deduction. It also includes the 80 CCC & 80 CCD. The amount due but not paid upto 31st march shall not qualify for this deduction.

##### **Qualifying amount**

Own contribution to the SPF, RPF,

Own contribution to the PPF to the maximum of 70000

Payment of LIC premium for own life spouse life, children's life,

Amount deducted as the deferred annuity

Payment towards group insurance

Deposits in super ANNUATION of the funds

Deposits in united linked insurance plans

Amount invested in NSS

Amount invested in NSS 1992

Amount paid to LIC under JEEVAN dharma policies

Notified pension funds

Amount deposited in housing banks

Any subscription of central government

Term deposits with the banks

Repayment of house building advance

Payment of the tuition fees

Any paid as the equity shares or debentures

Amount paid as the units of mutual funds  
Investment in bonds issued by NABARD  
Deposits in post office time deposits an senior citizens saving scheme

**WRITE NOTES ON THE MARGINAL RELIEF**

Where taxable income exceeds 1000000 the amount of income tax and surcharge payable shall not exceed the total amount payable as income tax on total income of rupees 1000000 by more than the amount that exceeds the amount

**WRITE NOTES ON THE RELIEF U/S 89(1) FOR ARREARS OF SALARY OR FAMILY PENSION**

Salary is taxable whether is due or received. But the following cases the AO may grant relief

Salary being received as arrears or in advance

Compensation

Commutation of the pension

Other payment

Computation procedure for the arrears of the salary and the family pension advance salary

Add the salary of arrear or advance in current year's income

Exclude the income and find the differences

Revised total tax is calculated if it related to previous years

Compare the taxes

Pay extra tax or get the relief

**SALARY INCOMES- PROBLEMS**

1. From the following compute the salary income

	(Rupees)
Net salary received	72000
Income tax deducted at source	4000
Professional tax deducted	1200
Group insurance deducted	1200
Rent of house deducted	3600

2. Mr A was appointed as reader in periyar university in the scale of 12000-420-18300 an01 -09-2006. Compute his salary income for the previous year 2009-2010 if his salary is due on the first of every month and the last of the month.

3. Compute the taxable portion of annual accretion of the provident fund

Salary 4800 per month

Commission @1% of the sales of 240000 achieved by him during the previous year.

Employer's contribution to the provident funds (RPF) @700 per month

Interest credited to the provident funds @12% p.a. is 7200.

4. Mr X joined in the new job on 1-04-2008 at a salary of 18000 p.m due on the last day of the month. He started contributing to URPF @ 3000 per month. His employer was also contributing same amount. The fund was recognized from 1-10-2009. Interest credited during the year 2009-2010 at the rate of 12% was 4800. For the period of 1.4.2008 to 30.09.2008 was 3600.compute the transferred balance as on the and its taxable portion.

5. Compute the gross salary income

Salary @ 5000 per month

DA @ 1000 per month (500 per month enters in to pay for the service benefits)

Advance salary for the two months Rs.11000

Employer's contribution to RPF Rs.800 per month.

6. Compute the gross salary income given below for the each situation separately

Salary @3500 per month

DA @Rs 1000 per month

CCA@ Rs 200 per month

HRA @1000 per month

Commission on turnover achieved by him Rs 6000.

(a) living in own house

(b) Living in rented house at Delhi as DA enters into salary for the service benefits and rent paid is Rs 1500 per month.

(c) Living in rented house at Chandigarh and DA does not enter into pay for service benefits and rent paid is Rs 1000 per month.

7. Mr R is working with the reliance Industries limited at Ahemadabad ( population over 25 lakhs)

Compute his salary income for the previous year

Salary	30000 per month
DA (treated as part of salary for calculation of provident fund)	5000 per month
Bonus (15000 is gratuitous)	25000
Commission	200000
Employers and employees contribution to the provident funds (RPF)	3000 per month

Calculate the value of the perk of the rent free house

- (a) house is owned by the employer and its FRV is Rs 45000 per annum
- (b) house is hired by employer at 4000 per month,

8. Compute the value of the RFH

Salary Rs 5000 per month (salary due on the last of every month)

DA @ 100% of the salary

Bonus statutory Rs 10000. And gratuitous 5000.

CA@ Rs 400 per month

EA @ Rs 500 per month

Arrears of the salary Rs 6000

Cost of the furnishing is 25000 and a hired A/C is provided for the 6 months rent paid is 1000 per month

- (a) employee is a government employee and rental value is 400 per month
- (b) Employee is working with the Punjab government (population below 4 lakhs) the government owns the house its FRV 9000 per annum. The house was provided to him from 1-05-2008
- (c) Employee is working in a company at Delhi (population above 25 lakhs ) rent paid by the company is 48000 p.a. employee pays Rs. 250 per month as rent.

9. Compute the value of the RPF

Pay	rupees 20000 per month
DA (enters in to the pay)	5000 per month
Education allowance @250 per month per child	
Transport allowance	1000 per month
Entertainment allowance	4000 per month
He stays in hotel for 12 days and actual bill is 3600	
He stays in hotel for 41 days and actual bill is 38450.	

10. mr. X is a director of a company, purchased a car on 1-07-2009 from the employer company for rs 120000, car was purchased by the company on 30-06-2006. For 260000. Find the value of the perk.

11. A limited company sold the following assets to one of its employees in Dec 2008.

Asset	Date of purchase	Cost to employer	Price sold to employee	Market price
Car	10.10.2007	500000	160000	200000
TV	01.06.2006	40000	10000	18000
Furniture	15.04.2008	100000	50000	60000

The company gave a computer to the son of this employee for his personal use. The FMV of the computer is Rs 40000. Compute the value of the benefit.

12. Calculate the taxable value of the following

Salary of the gardener paid by the employer Rs. 1200 per annum and the FRV of the house owned by employer is 30000

Salary of the gardener sweeper and watchman is 400 per month Rs 180 per month and 750 per month salary paid by the employer.

House hired by the employer at the rate of 1500 per month. Gardeners salary is paid by the employer @ 400 per month salary of the employee is 150000 per annum

House owned by the employer salary of the sweeper @ 200 per month and watch man @400 per month is paid by the employer .salary of the employee is Rs 48000 per annum.

13. Mr. B received rupees 60000 on his retirement on 30-09-2008 as gratuity from his employer with whom he has served for 29 years and 7 months. Compute his taxable amount in each of the following cases separately if his salary during calendar year 2007 was 2000 per month and 2008 was 2400 per month. And is due on the first date of the month. He had worked with the company and received 92000 as the gratuity for the 6 years.

- He is working in the government
- His is working in the machine tool factory (covered under the gratuity act)
- He is working in a commercial office at Delhi.

14. Mr., A retired on 31-05-2009 and his pension is fixed at 1500. His salary at time of retirement was 5000. Compute his taxable amount of pension (salary due on first of every month)

- he gets 1/3 of his pension commuted from his employer which is government and gets 60000
- he gets 1/2 of the pension from his employer which is company and gets 90000(gets gratuity also)
- he commutes 3/4 of his pension during January and gets 135000 as commuted value.( he does not gets gratuity)

15. Mr A retires on 31-10-2009 after 20 years of the service and received 48000 as leave encashment. For 12 months. His employer allows him 1.5 month leave for year. He already enchased leave for 18 months. His salary for 2007-08 was 3000 and from 1.4.2009 was 4000 per month. Compute his taxable income.

16. Compute salary income from the following information

- A loan of 200000 for the purchase of motor car is taken from the employer. Rate of interest is 10.25% prescribed rate of interest is 11.75%
- Employer transfers air conditioner to his employee this was acquired in 1995
- Provide free ration to army force person valued at 6500
- Free use of computer for the computer engineer valued 10000 by the computer concern

17. From the following compute the gross salary income

Net salary received in hand	150000
Income tax deducted at source	6000
Own contribution to the PF	20000
Rent of own house provided	4000
Profit bonus	24000
Entertainment allowance	12000 pa
He went for the tour for the official purpose	6000
Reimbursement of medical bills in notified hospital	18000
He was provide with RFH in patina (population above 20 lakhs)	
Salary of the gardener paid by the company	500 pm
The water and the electricity and water bill paid by the company	1200 pm
He was provided a car used for the official and the personal purpose (subject to FBT)	
The company contributed Rs. 24000 towards the RPF	

18. From the following calculate the gross total income

Basic pay	12000 pm
Profit bonus	12000
Commission on sales	42000
Entertainment allowance	2000 pm
Reimbursement of medical expenditure in private hospital	22000
RFH owned by the employer at chandigarh (population 7.5 lakhs)	

19. From the following compute the salary income for the assessee

Salary received in hand	71800
Income tax deducted at source	1200
Own contribution deducted from the salary	8000
DA @ 50% of the salary	
Employer's contribution to the provident funds (recognized)	8000
Own contribution to the PF	8000

He is provided with the RFH in Calcutta (population above 25 lakhs) owned by his employer the fair rental value is 4000 pm the cost of furnishing is 45000. Salary of the gardener paid by the employer is 3000 pa

He is provided with a car of 1.6 cc he used it for the personal and office use the maintenance expenditure borne by the employer

He had 2 LIC policies one on his own life the policy value is 80000 and the premium paid by the employer is 8200. And the other the life of the wife and the premium paid by him 1800 pa.

20. Mr A is a principal of the government college on 1-1-2007 in the grade of 16300-450-20800 at the basic salary of 16300 pm he is getting DA @37% of the basic pay. He is received CCA @120 pm. He is contributing 2000 pm to the PF. interest credited to his PF account is 36000. He is getting 1000 pm as the EA. he is provided with the RFH in the college campus whose rental value is 500 pm. During the year he acted as the controller of the examination and received 8400 as the remuneration. He paid 3000 to ULIP. And deposited Rs 46000 in PPF

Compute his gross salary income

21. Mr. A is working as the doctor in the government in hospital and retired on 31-7-2009. He joined as advisor for 1-9-2009. Salary during the government service 48000 and house rent allowance received 8000 and he is living his own house. Gratuity received 172000 and leave encashment at the time of the retirement 60000. Commuted value of the pension received 50000. Expenses on the books and the journals 6000. Pension received 36000. And he received as the advisor 70000. Compute his salary income.

22. Mr. A retired from the public limited company and received 460000 as voluntary retirement amount. He retired from the service on 31-11-2009. After 24 years of service. The normal date of the retirement is 31-12-2011.his salary at the time of the retirement is 16000 per month. Find out the exempted amount.

23. From the following compute the gross salary income

Salary at 12000 per month

Contribution to the RPF at 1610 per month

Employer also contributed the same amount to the above said fund

DA not enters in to the pay or the service benefits 300 per month

Interest credited to the PF @ 13% is Rs 13000

Contribution to the PPF 9000

Bonus 3000 per annum

Premium paid by the employee paid by the employer 12000

Ration bill paid by the employer 2000 pm

Deposited in ELSS 4800

Repayment of HDFC – 20500.

24. Mr. A had taken a loan of 200000 from the employer for the treatment of his father is suffering from a notified illness. Rate of interest is 11.5%. it is being repaid in monthly installments of 3000 pm. He received a claim of 60000 from the insurance company on 1-7-2008 in respect of this. Calculate the value of the benefit of concessional rate of interest for the previous year 2008-2009. Prescribed rate of interest by the SBI -15.5%

25. Give the treatment for the following perks under the provisions of the act

A loan of 400000 is taken from the employer for the construction of the house

Rate of the interest charged by the employer is 9% pa

If the rate of interest charged by the employer is 11% pa

Prescribed rate of interest by the SBI is 10.5 %

Employer is engaged in the production of the cloth which he supplies at the concessional rate to his employee

Rent free house given to the leader of the opposition party in the parliament.

26. Compute the amount of deduction admissible u/s 80 C

a) Gross total income (including LTCG of 60000) 132400

Amount invested in NSS rupees 15000

Amount invested in ULIP rupees 20000

Amount invested in notified shares 45000.

b) Gross total income 182400

Amount invested in NSC 13000

Amount invested in ELSS 22000

Amount deposited in PPF 75000

### UNIT –III (COMPLETED)



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## UNIT-IV

### **BRIEFLY DEFINE THE INCOME FROM HOUSE PROPERTY AND ITS CONCEPT AND THE BASIS OF CHARGE.**

The incomes from houses buildings bungalows go downs etc is to computed and assessed to tax under the head house property. It is not based on the actual incomes but on the notional incomes

Section 22

Building or land appurtenant there to and it includes the buildings, residential houses, bungalows, docks ware houses, Annual value determined according to the section -23

The Assessee should be the owner of the house

He may be also the deemed owner of the house property

It must not be used for the Assessee own business and profession

If there any dispute about ownership the real owner must pay the tax

House property situated in foreign country the resident only has to pay tax.

Building let out to a bank, post office, police station, excise department is exempted

Income from sub letting of the house property is taxable in the other sources head by the receiver

Composite house property income if possible to separate it shown on the each head that is house property and the other sources

Income from the hotel business paying guest accommodation is taxable such rental income taxable in the business income (if the income from runs his business)

### **MENTION EXEMPTED INCOMES FROM THE HOUSE PROPERTY**

Agricultural house property 2(1)

House property held for the charitable purpose (11)

Self occupied but vacant house 23(3)

House property for own business or profession

Property held by registered trade unions

Income from the property held by the following shall be exempted

Income from the property held by the local authority, scientific research institution, political parties, university and the educational institutions, medical institutions for services

One house property or a palace held by the former rulers

One self occupied house.

### **BRIEFLY EXPLAIN ABOUT THE DEEMED OWNER OF THE HOUSE PROPERTY**

According to section 27 -An individual who transfers otherwise than adequate consideration any house property to his or her spouse-Not being a transfer in connection with an agreement to live apart

The holder of an impartible estate shall be deemed to the individual owner of all the property so transferred.

A member of a co-operative to whom a building or part thereof is allotted or leased under a house building scheme of the society shall be deemed to be the owner of that building there of.

### **EXPLAIN THE DIFFERENT TYPES OF THE RENTAL VALUES IN THE HEAD OF HOUSE PROPERTY INCOMES**

#### **Annual values**

Section 23(1)

Where the property or any part of the property is let out any sum of money received or receivable in the previous year shall be treated as the annual value

Where any sum received in excess of the above it shall be treated as the annual value

Where the property is vacant during the previous year is deduct able

#### **Actual rent**

It is the rent received by the owner from the tenant. Any amount of local tax paid by the tenant, interest on the advances are not to be added.. it must not include any unrealized rent,

#### **Real rental value (RRV)**

In case of cost of common facilities such as lift, pump maintenance, salary of common gardener, lighting of stairs, and water and the electricity bills if it included in the rent are borne by the owner . such costs are to be reduced from the rent is called RRV.

#### **Municipal rental value (MRV)**

For the purpose of levying the municipal tax the local authority conducts the periodical survey of the house properties in their local limits. It is called as the municipal rental value

#### **Fair rental value (FRV)**

It is the rental value of a house property can fetch.

It is rent prevailing for similar type of accommodation in same or similar type of accommodation in same locality.

#### **Standard rent (SR)**

The rent fixed under the rent control act where so ever applicable is called as standard rent.

### **Expected rental value (ERV)**

In case of standard rent is not fixed

Municipal rental value

Fair rental value

Actual rent received (WEH) shall be treated as the rental value

In case of standard rent fixed

Municipal rental value

Fair rental value

Standard rent – if standard rent fixed the expected rent cannot exceed the standard rent.

Compare the MRV & FRV – WEH and is not exceed the standard rent

If the actual rent is exceed the standard rent actual rent is treated as ERV.

### **WHAT ARE THE DIFFERENT METHODS OF DETERMINING THE ANNUAL VALUE**

Annual value of let out house

#### **1. House property is let out for full year and there is no vacancy or unrealized rent.**

Compare the MRV & FRV whichever is high is compared with SR whichever is less is ERV

If actual rent received is more than ERV – the actual rent is taken as ARV.

If actual rent received is less than ERV – the ERV is taken as ARV.

These provisions are applicable only when the HP is let out whole year

This is only applicable there is no unrealized rent

Taxes paid by the tenant, cost of repairs borne by the tenant or interest on the deposits made by the tenant not be added back

#### **2. House property is let out for full year and there is vacancy**

If the property is vacant for the full year the ARV is nil

If the property is vacant for the part of the year

If rent received or receivable is more than the ERV

Compare the MRV & FRV whichever is high is compared with SR whichever is less is ERV. If rent received or receivable for the full year is more than ERV

#### **3. House property is let out and there is unrealized rent**

Compare the MRV & FRV whichever is high is compared with SR whichever is less is ERV

If the rent actually received or receivable after deducting unrealized rent as per the conditions given below is more than ERV such rent received or receivable is ARV

Important points

if the following conditions are fulfilled the amount of unrealized rent shall be deducted out of actual rent received.

There is tenancy of bona fide

That the tenant has vacated the house or steps have been taken to get the house vacated.

The tenant is not occupying any other house owned by the assessee

Unrealized rent of earlier years is not deductible.

#### **4. House property is let out and there is vacancy and the unrealized rent.**

Compare the MRV & FRV whichever is high is compared with SR whichever is less is ERV

If the rent actually received during the year after deducting the unrealized rent is more than such rent received is ARV

Such ARV is reduced by an amount of actual rent in proportion to the vacancy

If the rent actually received or receivable after deducting the unrealized rent and vacancy per conditions is less than ERV such ERV is ARV.

#### **5. If the house property is let out for a part of the year**

Take all values only for the period of the house property is in existence.

### **WHAT ARE THE DIFFERENT TAXES DEDUCTED FROM THE ANNUAL VALUE?**

Local tax

Municipal tax

Fire tax

Water tax

Conservancy tax

Education cess etc.,

### **HOW YOU SELECT THE ANNUAL VALUE FOR THE SELF OCCUPIED HOUSE & WHAT ARE THE DEDUCTIONS ALLOWED TO THE SELF OCCUPIED HOUSES.**

Only one house in own occupation

If there is more than one property is in occupation one is taken as nil other treated as let out

If it consists of various houses units one unit is taken as nil

If the house property is let out and partly self occupied is to be treated as

If it is one house no self occupation benefit is given

If the units are separate one unit is allowed the self occupied benefit

House property is let out for part of the year and under own occupation for the part of the year no benefit of the self occupation is allowed.

**Self occupied house whose annual rental value is reduced to nil and the pre construction interest**

Loan taken for repairs or alteration or renovation of the house actual interest paid or payable during the previous or 30000 pa whichever is less is allowed as the deduction

House is completed or loan taken before 1-4-1999 actual interest paid + 1/5 of the pre construction interest or 30000 whichever is less is taken as deduction

House is completed on or after 1-4-1999 actual interest paid for the previous year+1/5 of the pre construction interest or 150000 whichever is less is taken as the deduction.

**In case of all other house properties**

Standard deduction 30% of the net annual value is allowed as deduction every year.

**HOW YOU TREAT THE INTEREST ON LOAN FOR THE LET OUT HOUSE.**

Loan must be taken to repairs construct, renovate, or purchase the house

Interest on the mortgage cannot allowed as the deduction

Interest for the previous year is fully allowed

Interest for the prior to the completion of house is called pre construction interest is allowed as the deduction over the 5 year.

**Treatment of the unrealized rent recovered from 2003-2004 on wards**

It is deemed as income of the year in which is recovered

**Property owned by the co-owners**

If share of co- owners is determinate the income of such house property is calculated as one house and income is divided amongst the co- owners

**Joint expenses**

Divide the joint expenses in the ratio of MRV or municipal taxes or fire insurance premium

Loss from house property

The loss can be set off from any income of the same year. Any loss from let out house property or self occupied can be carried forward to 8 succeeding previous years and to set off income from the house property only.

**Negative annual value**

This situation is possible only the municipal taxes paid by the owner are more than the ARV. Hence there will be the loss from the house property

**PROBLEMS**

1. Mr. Ambo hired a house of 5 rooms at 5000 per month. He paid Rs 6000 as the municipal taxes and spent 5000 on the repairs of the house. He has sub let 2 rooms at the rate of 3000 pm to his friend . Compute his income from the sub letting.
2. compute ARV  
Municipal rental value 48000 pa  
Actual rental value 50000 pa  
Lift and pump maintenance charges paid by the owner 6000 pa  
Salary of the common gardener paid by the tenants to the owner is 500 pm and the actual expenses paid by him is 4200.
3. Compute the expected rental value

Rental value	Case A	Case B	Case C
MRV	30000	30000	30000
FRV	36000	36000	36000
standard rent	-	33000	42000

4. Compute the annual rental values

Rental value	Case A	Case B	Case C
MRV	60000	48000	36000
FRV	75000	60000	45000
standard rent	-	72000	42000
Real rent	69000	54000	40000

5. Calculate the annual rental value  
Actual rent 7000 pm,

FRV 66000 pa  
 MRV 60000 pa  
 Standard rent 69000 pa  
 During the previous year he could not realized rent for 2 months.

6. In the previous year there was unrealized rent of 42000 but the owner could claim the deduction of 31000 only. Find out the claim u/s 25 A if the Assessee recovers. 12000 and 28000 in the year.

7. Mr Z has given his premises on hire from 1-8-2004 to a business for its office. He submits the following particulars  
 MRV 144000  
 FRV 148000  
 Standard rent 160000 pa  
 Actual rent 180000  
 Municipal taxes 14400 pa  
 Interest on loan taken for the purchase of the house 45000

8. Mr B owns a house property at Chennai. It consists of 3 independent units.  
 UNIT -1 own residence  
 UNIT -2 let out  
 UNIT-3 own business  
 MRV 120000 pa  
 FRV 132000 pa  
 Standard rent 108000 pa  
 Rent 3500 pm  
 Unrealized rent -3 months  
 Repairs -10000  
 Insurance- 2000  
 Interest on money borrowed for the purchase of the house 96000  
 Municipal tax 14400  
 Date of completion 1-11-2003.

9. From the following particulars compute the income form house property  
 Date of completion 1-11-2003  
 Municipal rental value 96000  
 Fair rental value 84000  
 Self occupied 2/3 portion  
 let out 1/3 portion from 1-4-2008 to 31-8-2008 at 7200 and self occupied from 1-9-2008  
 Municipal taxes 6000 pa  
 Fire insurance premium 2000 pa  
 Ground rent 4000 pa  
 Interest on loan 7500

10. From the following compute the income from the house property

	House A	House B
Standard rent	36000	56000
Fair rent	42000	62000
Municipal valuation	24000	44000
Municipal tax paid	1200	1200
Municipal taxes due	1200	1200
Ground rent paid	1000	1000

Date of completion of these houses was 31-1-2006. he has taken a loan of 250000 @ 10% for the construction of the houseA on 1-06-2004 and he repaid rs 200000 on 1-10-2008.

11. Mr Z owns a big house of 3 units  
 UNIT -1 let out @8000 pm  
 UNIT -2 own business  
 UNIT-3 own residence  
 Municipal valuation 150000  
 Fair rental value 195000

Standard rent	186000
Municipal taxes	15000
Repairs	12000
Interest on the money borrowed	60000

Unit –I remained vacant for the 2 months and one month rent is not realized.

12. Mr. A constructed a building of two equal flats. One flat is occupied for his own residence and the other is used for the let out purpose at a monthly rent of 1000.

Municipal taxes paid for the two flats 10% on the municipal value 20000.

Fire insurance premium 2% of the municipal value

Repairs and the alteration 1000

Interest on the loan taken for the second flat 4200

Conservancy tax in addition to the municipal tax 300.

Compute the house property income

13. From the following compute the income from the house property

Rent	800 pm
Municipal taxes paid	1800
Ground rent	50
Interest on loan taken for the construction of the house	1000
Unrealized rent for this year admitted	2000

14. From the following compute the income from the house property

Municipal rental value	24000 pa
Actual rent received	30000
Municipal taxes	2400 pa
Date of completion	31-03-2005
Interest on loan to construct the house	
2002-2003 to 2007-2008	15000 pa
2008-2009	10000

15. From the following compute the income from the house property

	House A	House B
Construction completed	31-3-1998	1-6-97
Actual rental value	60000	42000
Municipal valuation	50000	36000
Standard rent	45000	
Fair rental value	48000	54000
Municipal taxes	2500	3600
Interest on money borrowed	6200	
Vacancy period	2 months	
Rent collection charges`	4300	1600

Insurance premium and the ground rent of the second house are still outstanding.

16. From the following compute the income from the house property

	House A	House B
Municipal rental value	24000	38000
Fair rental value	22000	34000
Standard rent	20000	40000
Annual rent	30000	36000
Interest on loan taken for the construction of the house	28000	22000
Vacancy period	2 months	3 months
Municipal taxes	10% of MV	2400

17. Compute the annual rental value-MRV-84000 pa

FRV 90000 pa

Standard rent-87000 pa

Unrealized rent -4000

Real rent-8000 pm

Date of completion-31-07-2008 and date of letting-1-10-2008

18. Calculate the annual rental value

Actual rent-7000 pm-municipal rental value-60000 pa- fair rental value-66000 pa- standard rent 69000 pa

During the year he could not realize rent for 2 months.

19. Mr.A is the owner of a house which is let out for 500 pm the municipal tax is equal to 10 % of the rent compute the annual value if the tax is paid by the tenant and the owner.

20. MRVof the residential house is 24000. Actual rent is 2500 pm. The vacancy period is 2 months. Municipal tax is 2400. Interest on loan taken to construct the house is 16000. Compute income

#### UNIT -4 COMPLETED

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#### UNIT – V

#### DEFINE THE BUSINESS INCOME AND EXPLAIN THE CONCEPT

It is the part of the total income of an assessee. This head is the most important source for the government.

Business is any economic activity carried on for earning the profits. Any trade or commerce and manufacture. it is real organized course of activity or conduct with a set purpose.

Adventure in nature of trade

Profits arising from an isolated transaction are taxable as business profits.

It is for resale of goods and

Eliminate the possibility of personal use

He makes any adventure to improve the quality

#### PROFESSION

It is the occupation requiring purely intellectual skill or manual skill controlled by the intellectual skill of the operator.

Lawyer, accountant, engineer, surgeon, author. It includes the vocation. Vocation simply means a way of living for which one has special fitness.

#### Charging provisions

Business and the professional incomes<sup>28</sup> (i)

All revenue profits arising from business or profession are chargeable even if they are of casual and non recurring in nature. Illegality of the business or profession does not exempt its income from tax.

Compensation<sup>28</sup> (ii)

Income of a trade or professional association <sup>28</sup>(iii)

Profit on sale of license

Granted under imports order 1955 made under the imports and exports act 1947.

Cash assistance

Received or receivable by any person against the exports

Any duty of customs or excise

Any repaid repayable as drawback to any person

The taxation law amendments act 2005.

Value of benefit or perquisite

Salary interest bonus, commission, or remuneration received by a partner of the firm.

Amount received under the agreement for not to carry business

Speculation business.

A transaction in which a contract for the purchase or sale of any commodity including stocks and shares is periodically settled other wise than the actual delivery or transfer of the commodity or scripts.

Trading in derivatives not to be speculative transactions <sup>43</sup>(5)

Profit earned from an illegal business,

For the removal of doubts it is here by declared that the expenditure incurred by an assessee for any purpose of business or profession and no deduction or allowance shall be made in respect of such expenditure.

Any sum received under the key man insurance policy

#### MENTION THE DEDUCTIONS ALLOWED IN RESPECT OF BUSINESS INCOMES – GENERAL

**PRINCIPLES**-Section 30-37 of the income tax act provide for the deduction to be allowed while computing the profit and gains of the business and the professions.

Any expenditure incurred in consideration of commercial expediency and on the basis of the principles of ordinary commercial trading is allowed as the deduction.

UNIT –V (to be contd.,)

#### WRITE THE DEDUCTIONS ALLOWED IN RESPECT OF BUSINESS INCOMES – GENERAL PRINCIPLES

### Deductions allowed – general principles

Section 30-37 of the income tax act provide for the deduction to be allowed while computing the profit and gains of the business and the professions.

Any expenditure incurred in consideration of commercial expediency and on the basis of the principles of ordinary commercial trading is allowed as the deduction.

It is for the purpose of the business or any other expenditure incurred totally and exclusively for the purpose of the business.

Any other expenditure which was incurred on the caring the business

Only those expenses are expressly allowed

Capital expenditure is not allowed.

The expenses is allowed for the own business.

The onus of proof that a particular expenditure is permissible as a deduction falls upon the assesses.

### Deductions

Particulars	Section
Rent repairs, taxes, and insurance for the machinery for the business	30
Repairs and the maintenance for the business assets	31
Depreciation	32
Expenditure for the scientific research	35
Expenditure on patents and copyrights	35A
Expenditure of know how	35 AB
Expenditure on eligible projects	35AC
Preliminary expenses	35D
<b>Deductions (allowable)</b>	36
Insurance premium on stock	
Bonus and commission to employees	
Interest on borrowed capital	
Employers contribution to provident funds	
Employers contribution to approved super annuation of funds	
Loss of animals	
Bad debts	
Building used for the business premises	38
<b>Expenses expressly disallowed</b>	40
Deduction of tax at source	
Capital losses	
Cultivation expenses	
Gifts and the presents	
Fines and the penalty's	
Salary or interest paid out side India	
Personal life insurance premiums	
Investments	
Legal criminal case expenses	
Loss by theft from the residence	
Difference in trial balance	
Cost of patent rights	
Expenditure of fringe benefit tax	
Any other tax	
Wealth tax levied on business assets	
Salary payable out side India	
Any salary bonus commission paid to the owners	
Drawings	
Capital nature expenditure	
Amount paid to the charity and the donations(subscription is allowed)	
Any provision and reserves(except special reserves)	
Income tax and wealth tax other tax imposed on the income	
Other expenditure which was not necessary	
Any provision for bad debts and taxation	
Depreciation in excess of limit.	
Payment to the relatives 40A(2)	

Payment exceeding rupees 2000040A(3) All payments exceeding the limit only through crossed demand draft or crossed bank draft. If paid other mode 100% is disallowed.	
<b>Expenditure which is allowable not deduct in profit and loss account</b>	
Actual bad debt Depreciation no debited in profit and loss account Difference due to debiting the goods	
<b>income exempted from the tax</b> Post office saving bank interest Agricultural receipts Gifts from the relatives Income tax refund Bad debt disallowed earlier Life policy maturity amount Capital receipt With drawl from the provident funds	
<b>Income taxable under the other heads</b>	
Part time salary Interest on securities Rent from the property Capital gains Dividend bank interest and winnings from lotteries, race courses	
<b>INCOME FROM BUSINESS</b>	

### DEEMED PROFITS

Deduction allowed earlier but recovered later on 41(1)  
Balancing charge  
Profit on sale of assets used for scientific research  
Bad debts allowed earlier but recovered 41(4)  
Amount with drawn from the special reserve 41(4A)  
Setting off losses from the deemed profits 41(5)

### VALUATION OF THE STOCKS

The stock may be valued at the cost or market price or the cost or the market price whichever less is.  
Under or over valuation of the stock  
To find the real value  
Under valuation= value of stock \* 100/100-rate of under valuation  
Over valuation = value of stock\*100/100+rate of over valuation

### TREATMENT

If opening stock is undervalued	Reduce the profit
If the opening stock is over valued	Increase the profit
Closing stock is under valued	Increase the profit
Closing stock is over valued	Reduce the profit.
Cash system of accounting	Value of opening and closing stock is ignored
Mercantile system is followed	Opening +purchase-closing stock is the cost of goods
Value of stock used by the personal use	Value at the cost price-if is value the market price reduce the profit.

### DEDUCTION OF CERTAIN PAYMENTS ONLY IF PAID 43(B)

Any payment of sales tax  
Employer's contribution to the provident funds  
Super annuation of funds  
Gratuity funds  
Other funds for the welfare of the employees.



Bonus or commission payable to the employees.

These payments are actually paid on or before 31-03-2010. The payments of provident funds, ESI if it paid before the due date it is fully allowed. If the payments after the due date is not allowed as the deduction.

These payments are made before March.

#### **MAINTAINS OF ACCOUNTS 44AA**

Every person caring on legal medical engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any the profession must maintain the accounts.

Where the gross receipts don't exceed 150000 in any of the 3 years immediately proceeding the previous year the person is exempted to maintain the accounts.

#### **COMPULSORY AUDIT**

If a person is caring on business his total sales turnover or gross receipts in business exceeds 40 laks in previous year

If a person caring the profession his gross receipts exceeds 10 laks.

Specified date is the date by which the person required to file the return

Profit and gain of retail business

Where the total turnover doesn't exceed 40 laks

#### **SPECIMEN FOR THE COMPUTATION OF THE BUSINESS INCOME**

	<b>Balance as per the profit and loss account</b>	
<b>Add</b>	<b>Expenses claimed but not allowed under the act</b>	
	all reserves and provisions	
	All taxes(income tax, wealth tax, gift tax)	
	Rent paid to self	
	Capital expenditure	
	All expenses relates to other heads	
	Depreciation	
	Gift and presents not relate to the business	
	Personal expenses	
	Amount invested	
<b>Less</b>	<b>Expenses allowed under the act not claimed</b>	
	Actual bad debts	
	Depreciation	
<b>Less</b>	<b>Income exempted from the tax</b>	
	Post office savings bank interest	
	Agricultural receipts	
	Gifts from relatives	
	Bad debt recovered disallowed earlier	
	Life insurance maturity amount	
<b>Less</b>	<b>Income taxable under other heads</b>	
	part time salary	
	Interest on securities	
	Rent from property	
	Dividend	
	Bank interest	
	Lotteries	
<b>Add</b>	<b>Income form illegal business</b>	
	<b>Business income</b>	

#### **COMPUTATION OF THE PROFESSIONAL INCOME OF THE DOCTOR OR MEDICAL PRACTITIONER**

<b>Professional receipts</b>	
Consultation fees	
Operation fees	
Visiting fees	
Sale of medicine	
Gifts from patients	
Examiners fees	

<b>Professional expenditure</b>	
Dispensary expenses	
Cost of medicines	
Depreciation on equipments	
Cost of professional books purchased	
<b>Professional income</b>	

#### COMPUTATION OF THE PROFESSIONAL INCOME OF THE CHARTED ACCOUNTANT

<b>Professional receipts</b>	
Audit fees	
Income form accountancy work	
Institute expenses	
Examiners fees	
Gift from clients	
Consultancy services	
<b>Professional expenditure</b>	
Office expenditure	
Institute expenses	
Examiners fees	
Stipend to trainees	
<b>Professional income</b>	

#### COMPUTATION OF THE PROFESSIONAL INCOME OF THE LAWYER OR AN ADVOCATE

<b>Professional receipts</b>	
Practicing fees	
Legal fees	
Special commission	
Presents from clients	
Examiners fees	
Other professional incomes	
<b>Professional expenditure</b>	
Office expenditure	
Salary of staff	
depreciation	
Stipend to trainees	
<b>Professional income</b>	

#### PROBLEMS

1. State the following are chargeable to the tax

- Sales tax and wealth tax
- Donation to the political party
- Cost of instillation of new telephone
- Loss due to emblezzment by an employee
- Bad debts
- Legal expenses for the building

2. The following compute the business income

	<b>Rs.</b>		<b>Rs.</b>
General expenses	7000	gross profit	140000
Fire insurance premium	2000	Bad debt recovered (disallowed)	4000
Bad debts	1000	Interest on securities	4000
Salaries	65000	Rent from employees	12000
Interest on capital and income tax	3000	Interest from debtors	6000
Depreciation	2000		
Sales tax due	5000		
Advance tax paid	1000		

Donations	500		
Motor car expenses	750		
Municipal tax on house property	5000		
Net profit	39000		
	166000		166000

General expenses include rupees 4000 paid to the compensation to the old employee.& the 2200 by way of the help to the poor students. Depreciation to the income tax act is 2900.50% car expenses to the private use.

3. From the following calculate the business income

	Rs.		Rs.
Salaries	95000	gross profit	380000
Advertisement (cash)	24000	Interest on securities	14000
General expenses	16000	Income from house property	25000
Entertainment expenses	22000	Bad debt allowed earlier	12000
Bad debt	1500		
Drawings	24000		
Sales tax	6000		
Interest on capital	7000		
Repairs	28500		
Depreciation	15000		
Bonus	10000		
Car purchased	72000		
Expenses of the car	12000		
Donations	6000		
Provisions for the bad debts	6000		

Net profit for the year is 90000

3000 spent on the purchase of the land included in the legal expenses

½ of the repair expenses for the building

Depreciation allowed on the building is 14400.

4. From the following compute the income from the business

	Rs.		Rs.
Salary	6500	Gross profit	36750
Bad debts	1700	Commission	1250
Provision for bad debts	3000	Discounts	500
Advertisements	3800	Sundry receipts	200
Fire insurance (house property )	550	Rent of building	3600
General expenses	2750	Profit on sale of investment	3000
Depreciation	1200		
Interest on capital	2000		
Interest on bank loan	1300		
Net profit	22500		
	45300		45300

The amount of depreciation is rupees 1000. Interest on bank loan was paid on 1-8-2010.date of filing the return is 31-07-2010.

5. From the following compute the income from the profession

	Rs.		Rs.
Drawings	48000	Audit fees	224000
Office rent	42000	Consultancy service fees	98000
Telephone installation charges	15000	Dividend from Indian companies	6000
Electricity bill	4200	Dividend on UTI	4000
Salary	66000	Accountancy work	24000
Charities	1200		
Gifts to relatives	9600		
Car expenses	21000		
Subscription to journals	2500		

Institute fees	1200		
Stipends	12000		
Net income	133300		
	356000		356000

The amount of depreciation is rupees 5000. 30% of the car is used for the personal purpose

6. From the following compute the income from the business

	Rs.		Rs.
Opening stock	338000	Gross profit	870000
Purchases	329900	Misc. receipts	2490
Stores	21800	Closing stock	129000
Power and fuel	7680		
Rates and taxes	430		
Repairs	9070		
Repairs to the building	1680		
Salaries	15860		
Misc. expenses	95500		
Contribution to RPF	6200		
Staff welfare expenses	1020		
Bonus	4400		
Insurance	2500		
Commission to agents	43500		
Selling expenses	780		
Audit fees	980		
Bad debts	2100		
License fees	1090		
Interest	26500		
Provision of taxation	22000		
Depreciation	40000		
Net profits	30500		

The amount of depreciation is rupees 36000

Misc. expenses include penalty for the violation of rules 4200, donations-10000

Misc. income include the advance income tax refund of 400

7. From the following compute the income from the business

	Rs.		Rs.
Salaries	10800	By gross profit	35672
Sundry expenses	1200	Discount	751
Reserve for doubtful debt	4500	Commission	1205
Insurance	450	Sundry receipts	52
Advertisement	2500		
Income tax	2375		
Car expenses	1200		
Interest on capital	1000		
Interest on bank loan	1550		
Charity	150		
Life insurance premium	550		
Depreciation	1200		
Difference in trial balance	105		
Net profit	10100		
	37680		37680

The amount of depreciation is rupees 950

The motor car expenses half for the personal use

The advertisement expenses used for the special advertisement campaign

Salaries include a sum of 6000 for personal use

8. From the following compute the income from the business

	Rs.		Rs.
Opening stock	32000	Sales	420000
Purchases	360000	Closing stock	48000
Salaries	76000	Dividend from Indian companies	3200
Rent	2890		
Insurance premium	1700		
Printing	720		
Advertisement	26000		
House hold expenses	690		
Net profit	10800		
	79200		79200

Salaries and the wages includes 18000 charged as salary to the owner and 400 to the domestic servant

Rent included a sum of 1800 being the hostel expenses of his son

1600 of LIC premium included in the insurance premium

Municipal taxes of 2100 paid on the house property included in the house hold expenses.

9. From the following compute the income from the business

	Rs.		Rs.
Opening stock	20000	Sales	127000
Purchases	109000	Closing stock	52000
Salaries	6000	Dividend from Indian companies	4000
Rent	11000	Discount received	12000
Bonus	1500	Race winnings	12000
Printing	1500	LIC maturity amount	15000
Stationery	5000	Share of AOP	30000
Miscellaneous expenditure	5000		
Advertisement	12000		
Drawings	5000		
LIC premium	5000		
Car expenses	6000		
Petrol repairs	12000		
Property tax	4000		
Donation	3000		
Cost of NSC	3000		
Net profit	45000		
	252000		252000

The car expenses for the personal use 1/3

Property tax is for the self occupied house

10. From the following compute the income from the business

	Rs.		Rs.
General expenses	18000	Gross profit	89000
Salaries	7000	Bad debts recovered	1000
Bad debts	3000	Income tax refund	4500
Depreciation	4000	Dividend on shares	8000
Advertisement	5000	Dividend on UTI	5000
Income tax appeal	11000		
Fire insurance premium	2000		
Donation	7000		
Patents	10500		
Audit fees	1000		
Provision for bad debts	3800		
LIC premium	5200		
Net profit	30000		

Patents purchased during the year

Bad debts recovered were allowed earlier years

Depreciation other than patents is 4800.

11. From the following compute the income form the profession

	Rs.		Rs.
To balance	10000	Rent of clinic	18000
Consultation fees	60000	Purchase of medicine	38000
Visiting fees	45000	Salaries	24000
Gifts and the presents	8000	Surgical equipments	40000
Sale of medicine	42000	Motor car expenses	8000
Dividend form UTI	6000	Purchase of car	140000
Life insurance maturity	100000	House hold expenses	7000
Dividend from NDS	6000	Closing balance	2000
	277000		277000

50% of the car expenses for the personal use the car were purchased in December

House hold expense include 6800 of the LIC premium

Gifts and present include 3000 from the relatives

Closing stock of the medicine is 12000 and opening stock is 4000.

12. From the following compute the income form the business

	Rs.		Rs.
To general expenses	18000	Gross profit	89000
Salaries	7000	Bad debt s recovered	1000
Bad debts	3000	Income tax refund	4500
Depreciation	4000	Dividend on shares	8000
Advertisement	5000	Dividend on UTI	5000
Income tax appeal	11000		
Fire insurance premium	2000		
Donation	7000		
patents	10500		
Audit fees	1000		
Provision for bad debts	3800		
Life insurance premium	5200		
	107500		107500

Patents purchased during the year

Bad debts recovered were disallowed earlier

Depreciation other than patents is 4800.

13. From the following compute the income form the business

	Rs.		Rs.
Salaries	7000	Gross profit	50000
Drawings	8000	Interest on post office savings bank	100
Lic premium	1000	Lic maturity amount	6900
Depreciation	4500	Interest on bank deposits	3600
Donation	500		
General expenses	2600		
Provision for bad debts	8100		
Income tax	2000		
Rent	1700		
Net profit	25200		
	60000		60000

The amount of depreciation allowable is 4000

General expenses include 600 for his private expenses.

14. From the following compute the income form the profession

	Rs.		Rs.
To balance	5514	Office expenses	44150
Audit fees	94750	Institute expenses	1902
Income from other work	15475	Personal expenses	519

Institute fees	2100	Certificate fees	143
Examiners fees	645	LIC. premium	4250
Interest on govt. securities	18000	Income tax	2493
Rent from property	4300	Car	60000
		Car expenses	9420
		Insurance of house property	300
		balance	17607
	140784		140784

Office expenses include 173 for the purchase of technical books

1/3 of car expenses relates to professional practice

Depreciation for the car and the furniture is 9452.

15. X reveals the following information

Purchases made during the year include a payment of 210000 to a relative on 1-11-2009. 150000 in account payee cheque. 40000 by way of bearer cheque . And remaining in cash. in this case how much cash is disallowed.

16. Discuss the admissibility of the following item

X received a notice from the sales tax authorities and he created a reserve for 6000. on 31-03-2010. he paid rupees 3000 on 14.07.2010 and 3000 on 10-10.2010 . He filed the return on 31-07-2010.

17. To what extent the following items are allowed

a) Entertainment expenditure incurred during the year is 50000

b) Daily allowance given to the employee 2000 per day

c) 10 items were presented during the previous year costing 2000 for the advertisement.

18. From the following compute the income form the profession

	Rs.		Rs.
Balance	6540	Rent	2400
Legal fees	84400	Telephone	3000
Salary	3600	Salaries	2400
Interest on debentures	2700	Subscription	240
Gifts from clients	10000	Traveling	560
Rent	6000	Office expenses	600
Refund from income tax	10000	Stamp paper	1600
		Interest on loan	870
		Donation	5000
		Income tax paid	8420
		Municipal tax	600
		Lic premium	7600
		Balance	89950

The loan was borrowed for the construction of the house

Gift from the client include 2000 from the relatives.

19. From the following compute the income form the profession

	Rs.		Rs.
To balance	10000	Rent of clinic	18000
Consultation fees	60000	Purchase of medicine	38000
Visiting fees	45000	Salaries	24000
Gifts and the presents	8000	Surgical equipments	40000
Sale of medicine	42000	Motor car expenses	8000
Dividend form UTI	6000	Purchase of car	140000
Life insurance maturity	100000	House hold expenses	7000
Dividend from NDS	6000	Closing balance	2000
	277000		277000

20. From the following compute the income form the profession

	Rs.		Rs.
To balance	10000	Rent of clinic	
Consultation fees		2008-2009	600
2008-2009	3000	2009-2010	4800
2009-2010	15000	2010-2011	600
2010-2011	2000	Electricity and water bills	2000
Visiting fees	30000	Professional books	4000
Loan from the bank	25000	House hold expenses	7800
Sale of medicine	60000	Collection charges of dividend	100
Gifts and the presents	5000	Car	30000
Remuneration from law journals	6000	Surgical equipments	4800
Dividends	10000	Income tax	10000
Interest on post office saving bank	7000	Salary	15000
		LIC premium	15000
		Gift to wife	5000
		Interest on loan for profession	2000
		Car expenses	15000
		Purchase of medicine	40000
		Balance	20300

Compute his taxable income for the assessment year 2010-2011

1/3 of the car use is for the personal

Depreciation on car is to allowed @ 15 % and on books is @60%

Gifts includes 2000 from relatives

Closing stock of the medicine is 5500.

21. From the following compute the income form the profession

	Rs.		Rs.
To balance	6540	Rent	2400
Legal fees	84400	Telephone	3000
Salary as part time lecturer	3600	Salaries	2400
Interest on debentures	2700	Subscription for journal	240
Gifts from claints	10000	Traveling	560
Rent	6000	Office expenses	600
Interest on foreign securities	8000	Stamp papers	1600
Refund from compulsory deposits	2000	Interest on loan	870
		Donation to a school	5000
		Income tax paid	8420
		Municipal tax	600
		Lic premium	6000
		Wealth tax	1600
		Balance	89950

Compute his taxable income for the assessment year 2020-2021

The loan was taken for constructing his house. Its rental value is 300 per month. School is recognised by the income tax purpose. Gifts from clients includes 2000 received from his father.

#### **WRITE THE IMPORTANT METHODS OF ACCOUNTING**

Cash System is a Method of Accounting the Transactions on a Date and Time as and when the Cash Involved is Received (or) Paid. For Example if the Practice of a Concern is to pay the Salary For a Month on the 5<sup>th</sup> Day of Next Month, the Entry as per Cash System is made on the Date of Payment i.e., 5<sup>th</sup> of Next Month. The Date of Accrual/Arising of the Liability is ignored here. This Is followed by those Accountants who are Not Professional in their Approach.

Mercantile System is a Method of Accounting in which the Transactions and Events are Recorded On the day of their Arising/Accrual/Happening ignoring the Payment of Cash /Receipt of Cash towards the same. In the Above case if the Salary Payment is recorded on the 31<sup>st</sup> of the Relevant Month the Accounts are said to be maintained as per Mercantile/Accrual System/Method. It is the More Advisable Method as it reveals the Results of the Period Accounted for more reliably. The mix of this two system is called as hybrid system

#### **WRITE TABOUT YHE TERM DEPRECIATION & STATE ITS REASONS**



Depreciation is calculated for the 3 objects

To arrive the real business profits

To determine the book value of assets

To know the real position of the assets

### Charge of depreciation

Profit and gains of business or profession during the relevant years

Income from other sources in case of assets let out for a certain period of time and letting is not regular business.

### Tangible assets & rate of depreciation

#### Building

Building –non factory-residential purpose-5%

Building- factory-non residential purpose-10%

Building- priority- projects-100%

Building- temporary structure-100%

**Furniture & fittings** including electric fittings -10%

#### Plant and machinery-

Particulars	Rate
Plant and machinery, car except taxi, motor cycle, bus, truck A/C surgical equipments	15%
Motor buses, lorries, used in hiring	30%
Aircrafts, life saving medical equipments	40%
Containers made of glass	50%
Computers, books for professional other than annual publication gas cylinder,	60%
Energy saving devices	80%
Pollution control equipments, books of annual publications	100%

### INTANGIBLE ASSETS

Know how, patents, copy rights, trade marks, licenses, franchises or commercial rights-normal rate-25%

### CONDITIONS FOR THE DEPRECIATION

Depreciation is allowed on the capital assets

Use of assets

In case of newly acquired assets full depreciation is allowed only use is more than 180 days

The assets purchased earlier than 2008-2009 put in to use 2008-2009 eligible for full depreciation.

Block of assets-means of group of assets

Assets must owned by the assessee

Assets actually used for the business of the assessee.

No depreciation is allowed in the sale of the assets

Full particulars are submitted to the AO

Depreciation is allowed on the WDV

Plant includes ships, vehicles books, scientific apparatus, surgical equipments, but not include tea, bushes, live stocks.

Depreciation on motor taxies, lorries, trucks, used for hiring the higher rate of depreciation is 40%

Depreciation is allowed on block assets system

Depreciation on actual cost basis.

### ACTUAL COST OF ASSETS

Cost of acquiring the assets

Cost of instillations

Expenses of insurance and frights

Expenses

### WDV-WRITTEN DOWN VALUE

Normal depreciation + extra normal depreciation +extra shift allowance initial depreciation are deducted from the cost of assets

Take the aggregate written down value in the block
Add –actual cost of assets acquired during the previous year in the same block
Deduct – money realized (sold, discarded, demolished, destroyed)
The result is WDV

### ADDITIONAL DEPRECIATION & UNABSORBED DEPRECIATION

The 20% of the actual cost is allowed if the conditions are fulfilled

The assessee is engaged in production of the article

It is allowed the new plant acquired after 1-04-2005

It is in excess of normal depreciation

The 180 days in the previous year is applicable

Not allowed 100%

It is not allowed for ships and aircrafts, old plant and machinery, office appliances, the unabsorbed depreciation set off from other than salary income and balance is carry forward to next years.

## TWO MARKS QUESTIONS

1. Who is an Assessee?  
'Assessee' means a person by whom any tax or other sum of money is payable under this act, and includes-
  - Every person who is deemed to be an assessee under any provision of this act.
  - Every person who is deemed to be an assessee in default under any provision of this act.
2. What is Casual Income?  
Casual income is a non recurring income that is not likely to occur again in a year. It is a income which is earned by chance such income is neither anticipated nor provided for in any agreement such incomes are received at uncertain times.
3. Define Income.  
'Income' includes not only those things which the interpretation clause declares that it shall include, but all such things the word signifies according to its natural import.  
The term income simply means something which comes in. It is a periodical return with regularity or expected regularity. It's nowhere mentioned that income refers to only monetary return. It includes value of benefits and perquisites. Anything which can reasonably and properly be described as income is taxable under this act unless specifically exempted under the various provisions of this act.
4. Who is a Resident?  
An individual is said to be resident in India if he satisfies any one of the two Basic conditions.
  - An individual is in India during the relevant previous year for a period amounting in all to 182 days or more.
  - An individual is in India for a period or periods amounting in all to 365 days or more during the four years preceding the 'relevant previous year' and he is in India for a period of 60 days or more during the 'previous year'.
5. What is City Compensatory Allowance?  
City/Capital compensatory allowances are given to compensate for the high cost of living in a particular big city of India or any other capital city. These are also fully taxable.
6. What is mean by perquisites?  
The word 'Perquisites' has not been defined under Income tax Act 1961. Perquisites simply mean any casual emolument attached to an office. Perquisite defines as "any casual emolument, fee or profit attached to an office or position, in addition to salary or wages". They may be received in cash or in kind.
7. Give two examples of Casual Income.
  - Winning from horse races
  - Lottery tickets
  - Gambling
8. What is Total Income?  
'Total income' means the total amount of income referred to in section 5, computed in the manner laid down in this act. In other words, 'Total Income' means income remaining after allowing deductions under chapter VIA(i.e.,U/s 80C to 80U) from gross total income. It is important to note that income tax is charged on total income at prescribed rate.  
$$\text{Total income} = \text{Gross total income} - \text{Deductions under chapter VIA}$$
9. What is meant by Agricultural Income?  
In India, agricultural income refers to income earned or revenue derived from sources that include farming land, buildings on or identified with an agricultural land and commercial produce from a horticultural land. Agricultural income is defined under sec

2(iA) of the income tax act 1961. According to this section agricultural income generally means.

- a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes.
- b) Any income derived from such land by agricultural operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.
- c) Any income attributable to a farm house subject to satisfaction if certain conditions specified in this regard.

10. What do you mean by Salary?

Any Salary due from an employer or a former employer to an assessee in the previous year whether paid or not.

According to section 178(1) salary includes the following amounts received by an employee from his employer during the previous year:

- Wages
- Any annuity or pension
- Any gratuity
- Any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages
- Any advance of salary

11. Mention the types of income of individual?

- Income from salary
- Income from house property
- Profits and Gains from business or profession
- Capital gain
- Income from other sources

12. Mention three examples for Exempted incomes with meaning.

- Agricultural Income: Agricultural income as defined in sec 2(1A) is totally exempt from tax though in certain cases agricultural income is taken into account to find out tax on non agricultural income.
- Share of profits of a partner from partnership firm: In the case of a partner of a firm which is separately assessed, share of profits is not taxable in the hands of partner.
- Gifts and Awards: Are exempted if casual and non-recurring receipts may be by way of:
  - a) Gifts and presents on the occasion of marriage etc. .
  - b) Awards attributable to appreciation of personal qualities of the recipient for excellence in any field or service e.g., awards to a non-professional artist, singer, writer, etc..
  - c) Gifts received from unrelated persons upto Rs 50,000 in aggregate are exempted.

13. What are the types of Provident Fund?

The word 'Provident' means to provide for the future. Hence provident fund is to provide for the future of the employee. This fund is credited by any amount deducted from the salary of the employee every month at a certain rate and the employer also makes his own contribution to this fund. These contributions are invested to earn interest, which is also credited to the employee's provident fund.

- Statutory provident fund
- Recognised provident fund
- Unrecognised provident fund
- Public provident fund

14. What is Assessment year?

The taxpayer's income of the previous year is assessed to tax in the assessment year at the rates prescribed in the finance act for the assessment year.

Assessment year means the period of twelve months beginning from 1<sup>st</sup> April every year and ending on 31<sup>st</sup> March of the immediately following year. The current assessment year 2019-2020 for example, commences on 1<sup>st</sup> April 2019 and will end on 31<sup>st</sup> March 2020.

15. 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 means the financial year immediately preceding the assessment year. A taxpayer's income of the previous year is assessed to tax in the assessment year. Thus, for the current assessment year 2019-2020, the relevant previous year will be the financial year 2018-19, i.e., 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019.

16. What is the Residential status of a company?

The residential status of a company is to be determined on the basis of its incorporation or registration. Section 6(3) provides the following tests in this connection.

Resident: A company shall be said to be resident in India, in any previous year, if-

a) it is an Indian company ;or

b) its place of effective management, at any time in that year, is in India.

For this purpose, the expression "place of effective management" shall mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.

- Not Ordinarily Resident: A company cannot have this status. It can either be resident or non –resident.
- Non- resident: A company shall be 'non – resident' if it is not resident in India during the relevant accounting year. It means that, a company whose control and management is situated wholly or partially outside India, will be non- resident company.

17. What are the Residential status of HUF?

- Resident: Control and Management of the affairs of Hindu undivided family
  1. Wholly in India
  2. Partly in India and partly outside India.
- Non Resident: Control and management of the affairs of Hindu undivided family wholly out of India.
- Not Ordinarily: If the Karta of resident HUF does not satisfy the two additional conditions.

18. Who is a Non Resident?

If an individual does not satisfy any of the basic conditions (i) and (ii) mentioned above, he is said to be Non –Resident. Additional conditions are irrelevant in relation to 'Non Residents'.

19. Define the term Person.

- An individual: A natural person or a human being is an individual. An individual may be male, female or a lunatic.
- A Hindu undivided family (HUF): A family consists of all the members of the lineally descended from a common ancestor including their wives and unmarried daughters.
- A Company: A company is defined as an artificial person created by law with perpetual succession, a common seal and common stock divided into shares with limited liability.
- A Firm: A firm is a partnership which is defined by the partnership act as a “relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all”. These persons are called partners and collectively they are called “Firm”.
- An Association of Persons (AOP): If two or more persons associate themselves for managing a property for the purpose of producing income, they are said to have formed an ‘Association of persons’ provided that it is not a Hindu undivided family, firm, company or a local authority.
- Body of Individuals (BOI): BOI means a conglomeration of individuals who carry on some activity with the objective of earning some income.

20. What is Municipal value?

In order to levy local taxes the Municipal corporation /committee local authority conducts a periodical survey of the house properties in their local limits. Based on the survey the rental values are fixed which serves as the basis for levying tax. The rental value so fixed is called Municipal rental value (MRV).

21. What is Fair rental value?

It is the rental value which a house property can fetch based on the rent prevailing for similar type of accommodation in same locality. It is based on the presumption that rent prevailing in same locality for similar properties is almost the same which is called Fair Rental Value (FRV).

22. What is Standard rent?

The rent fixed under the Rent Control Act, where so ever applicable, is called Standard Rent. If a property is covered under rent control act, the standard rent is applicable.

23. What is Income from House Property?

Provision relating to income which falls under the head “Income from house property” are explained and discussed in the following pages. The scope of the income assessed under this head is defined by section 22. The procedure for its computation is governed by sections 23 to 27.

24. Define Depreciation ?

1

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. An asset cost is spread over its anticipated life by charging Depreciation every year against the profits of the business.

25. What is unabsorbed Depreciation ?

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

1. Unabsorbed Depreciation can be set off against any income other than salary and casual income.
2. Unabsorbed Depreciation can be carried forward and set off against any income other than salary and casual income.

26. What is net annual value ?

The net annual value may result in negative income when the municipal taxes paid by the owner are more than gross annual value. In such case only one deduction i.e., interest on loan is allowed. Hence there will be loss from house property.

27. What are the Types of house property under income tax Act 1961 ?

Under the Income Tax Act 1961, the basis of charge of income tax in respect of income from house property is based on three essential conditions:

- The property must consist of building and lands appurtenant thereto.
- Assessee is the owner of the property.
- Assessee does not use the property for purpose of own business of profession

28. Explain the different block 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.

Intangible assets being knowhow, patents, copyright, trademarks, licenses, franchises, or any other business or commercial rights of similar nature.

29. What is gratuity ?

Gratuity refers to a lump sum payment made by an employer to his employee at the time of leaving job in appreciation of his long and loyal services. Earlier it was a voluntary payment but now it has become a sort of compulsory payment for government employees, semi-government employees, and all other employees working in banks, universities, colleges, factories, etc

1. In this case, gratuity is received by employee on leaving job either due to voluntary retirement or due to statutory retirement on reaching the super annuation age.

30. What is deemed let out house?

An assessee who is liable even without legal or beneficial ownership is called "Deemed owner". In the under mentioned cases an assessee, though not the owner of property in the legal sense and not actually in receipt of income from property, will still be liable as deemed owner

31. What is mean by Deemed Incomes?

Some assessee may cover up Incomes by not disclosing investments, cash, bullion, jewellery, or other valuable articles and amount spent on unexplained expenditure. These amounts are treated as deemed Incomes of assessee.

32. What is mean by perquisites?

Salary includes any perquisites allowed or amenity provided by employer to employee. The word 'perquisites' has not been defined under income tax act 1961. Perquisite simply means any casual emolument attached to an office. Oxford English dictionary also defines perquisites as "any casual emolument, fee or profit attached to an office or position, in addition to salary or wages". Perquisites may be given in a variety of forms.

33. How will you treat house rent allowances?

The amount of cash paid is known as house rent allowances. Out of the total H.R.A received, an amount equal to the minimum of the following items is exempted from tax. If any, will be added in the salary of the employee for tax purposes.

- 50% of the salary in case of Bombay, Calcutta, Delhi and Chennai. 40 % of salary in case of all other cities,
- Actual house rent received,
- The amount by which the actual rent paid by the employee exceeds 10% of his salary.

Taxable HRA = Actual HRA received – exempted amount

34. Define the term salary?

- ✓ Any salary due from an employer or a former employer to an assessee in the previous year whether paid or not.

- ✓ Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him
- ✓ Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer if not charged to income tax for any earlier previous year

35. What is income tax?

A tax may be defined as “a compulsory extraction made by central government from the general public. It is a financial charge imposed on individuals or legal entities the government in pursuant to its legislative authority. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority. The proceeds from taxes constitute a major source of revenue to government that spends the collected amount from the common benefits of the society

36. What is an allowance?

The term allowances have been derived from the word “to allow”. As per oxford dictionary the word ‘allowances’ means ‘any amount or sum allowed regularly’. As such allowances are given in cash along with salary by the employer. These allowances are given to an employee to meet some specific type of loss or expenditure of the employee or to help him to meet certain type of expenses which the employee might have incurred in the performance of duties assigned by his employer.

37. Define term business?

Business simply means any economic activity carried on for earning profits. Sec 2 (13) has defined the term as “any trade, commerce, manufacture or any adventure or concern in the nature of trade, commerce and manufacture”. In the words of justice S.R. Dass, “The word business connotes some real, substantive and systematic or organized course, activity or conduct with a set purpose”.

38. Define the term profession?

A profession is an occupation requiring purely intellectual skill or manual skill controlled by the intellectual skill of the operator.

Example: Lawyer, accountant, engineer, surgeon, author.

39. What is casual income?

Income received from winning lotteries, crosswords, puzzles, card games, house race or any other games known as casual income.

40. What is composite Rent?

Composite rent means when the landlord or owner of a property receives rent in respect of building let out including: Other assets as for example furniture, fixtures, plant and machinery.



