INCOME TAX THEORY LAW AND PRACTICE

(AY 2019-2020)

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INCOME TAX THEORY, LAW & PRACTICE

Unit- I

Basic concepts – Definition - previous year –assessment year – person, assessee, income, total income, casual income, capital and revenue - residential status and incidence of tax, incomes exempt under section 10.

Unit- II

Salary – Basis of charge – different forms of salary, allowances, perquisites and their valuation – deduction from salary –Computation of taxable salary.

Unit- III

House property – basis of charge – determination of annual value - GAV, NAV – income from let-out property – self occupied property – deductions-Computation of

taxable income.

Unit- IV

Profits and gains of business and profession – basis of charge – methods of accounting – deductions – dis allowances, Computation of taxable income.

Unit - V

Capital gains – basis of charge – short and long term capital gains – indexed cost of acquisition and improvement – exemptions – chargeability of short and long term capital gains – computation of taxable capital gains. Income from other sources – interest on securities, etc. deduction under Sec 80C – Introduction to direct taxes code.

Theory: 25% Problem: 75%

Text and Reference Books (Latest revised edition only)

1. Students Guide to Income Tax by Vinodh K. Singhania, Taxmann Publications, New Delhi
2. Income tax by T.T.Gaur&Narang, Kalyani publishers, Chennai.
3. Income Tax Law and Practice by A. Murthy – Vijay Nicole Imprints (P) Ltd, Chennai.
4. Income tax – Law & Practice by DinkarPagare – Sultan Chand & Sons, New Delhi.
5. Income tax by T.S.Reddy&Hari Prasad Reddy, MarghamPublications, Chennai.
6. Income tax by Bhagwati Prasad – Vishnu Prakasham publication, Chennai.

UNIT – I

ASSESSMENT YEAR

Assessment year refers to twelve months starting from 1st day of every April of particular year and ending on 31st day of every March of the next year. Current Assessment year is 1.4.2019 to 31.3.2020.

PREVIOUS YEAR

Previous year refers to twelve months immediately preceding the particular Assessment year. If the Assessment year 2019-2020, than Previous year will be 2018-2019.

ASSESSEE

Assessee refers to the following persons as per Act.

- Any person who is liable to pay tax
- Any person who is liable to pay interest or penalty
- A person who is deemed to be an assessee as per the act
- A person who is considered default assessee.
- Any person on whom proceedings of loss is carried out.
- Any person who is entitled to refund of tax.

TYPES OF ASSESSEE

1. **ORDINARY ASSESSEE**
   Ordinary Assess is one who has to pay any tax, penalty and interest to the Income Tax authority.
2. **DEEMED ASSESSEE**
   Deemed assessee is also called as Representative Assessee. He is not only responsible for his income but also responsible for the income of the other person to whom he act as a representative. Eg. Minor – Guardian, Deceased person – Executor
3. **ASSESSEE IN DEFAULT**
   In any person fails to fulfils his duty or obligation, then he is termed as assessee in default. Eg. Govt. College Principal

INCOME

Any thing which brings benefit in the form of cash or kind.

The following are some of the points that can be brought under the concept of income.

1. Profits and gains
2. Dividend
3. Value of any benefit or perquisites either in cash or kind
4. Profit in lieu of salary
5. Any allowance gives to the assessee
6. Any special allowance or benefits
7. Any sum paid as obligation by the company
8. Any capital gains
9. Any winnings from lotteries, crossword puzzles
10. Any sum received under key man insurance policy

PERSON

Person includes the following

- Individual – natural human beings created by the god
- An HUF – which consists of all persons who are lineally descended from a common ancestor
- A firm – as defined by the partnership act
- A company – as defined by the companies act
- An Association of Person (AOP) – AOP comprises two or more persons to carry out a business
- A Body of individuals (BOI) – BOI refers to two or more individual only
- A local authority or municipal corporation
- Any artificial juridical person like universities, bar councils (Created by law)

AGRICULTURAL INCOME:

Agricultural income is fully exempted U/s 10(i). Agriculture income refers to..

- Any rent or revenue derived from land, which is situated in India and used for agricultural purpose
- Any income derived from such land which is used for agricultural purpose
- Any income from a farm house
- Any income derived from saplings or seeding grown in a nursery will be deemed as agricultural income.

CASUAL INCOME

Causal Income means such income the receipt of which is accidental and without any stipulation. It is the nature of an unexpected windfall. Though causal income is fully taxable but it is necessary to clear this meaning from the following point of view

1. Causal income like lottery, race income is taxable at special rate of 30%
2. Causal income cannot be set off against other causal income as well as casual income cannot be used for setting off loss of other head.

FEATURES OF INCOME OR CHARACTERISTICS OF INCOME

1. Income must be from a definite source in order to get it taxed.
2. Self generated income cannot be taxed. Income must come from outside.
3. Legal as well as illegal income is taxed.
4. It is not necessary that income should be in the form of money. It earn also be in the form of kind.
5. Income earned may be permanent or temporary
6. Pin money (pocket money) received by house wives is not considered as an income.
7. Any amount received due to devaluation of currency is taxable income
8. Any loss is also included under the concept of income
9. Income may be a lumpsum or installment
10. Revaluation of assets and excess of any cannot be considered as income.

CANNONS OF TAXATION/PRINCIPLES

1. **CANNON OF EQUALITY** – all assessee should be treated as equally regarding time of payment, manner of payment amount to be paid.
2. **CANNON OF ECONOMY** – It deals with cost of collection and it states that the cost of collection should be minimum.
3. **CANNON OF CONVENIENCE** – Assessee should feel convenient regarding the exact mode and timing of tax payment.
4. **CANNON 0F PRODUCTIVITY** – Tax system generate cash inflow to the treasury.
5. **CANNON OF SIMPLICITY** – It should be made as simple as possible
6. **CANNON OF DIVERSITY** – Multiple tax system should be followed. A mixture of direct tax and indirect tax should be followed.

7. **CANNON OF EXPEDIENCY** – Tax determination and administration should not give room for any criticism.
8. **CANNON OF COORDINATION**

EXEMPTED INCOMES U/S 10

1. 10 (1) – Agricultural income
2. 10 (2) – Receipt from Hindu Undivided Family (HUF)
3. 10 (2A) – Partner's share in firm
4. 10 (4) (i) – interest on securities
5. 10 (4) (ii) – Interest on external account of a non-resident
6. 10(4B) – interest on specific saving certificates
7. 10 (5) – Value of leave travel concession
8. 10 (6A) – Tax paid on behalf of a foreign company
9. 10 (6B) – Tax paid on behalf of non residents
10. 10 (10) – Gratuity
11. 10(10A) – Commuted Pension
12. 10 (10AA) – Leave Encashment
13. 10 (10B) – any compensation to an employee
14. 10 (10C) – Voluntary retirement payment
15. 10 (11) – Provident Fund payment including interest
16. 10 (12) – Accumulated balance of RPF
17. 10 (13) – Superannuation fund payment
18. 10 (13A) – House Rent Allowance
19. 10 (17) – Allowance to MPs and MLAs
20. 10 (15) – Interest on securities and deposits

HISTORICAL BACKGROUND OF INCOME TAX ACT

- In India, Income tax was introduced for the first time in 1860, by Sir James Wilson in order to meet the losses sustained by the Government on account of the Military Mutiny of 1857.
- Thereafter; several amendments were made in it from time to time. In 1886, a separate Income tax act was passed.
- This act remained in force up to, with various amendments from time to time. In 1918, a new income tax was passed and again it was replaced by another new act which was passed in 1922.
- This Act remained in force up to the assessment year 1961-62 with numerous amendments.
- The Income Tax Act of 1922 had become very complicated on account of innumerable amendments.
- The Government of India therefore referred it to the law commission in1956 with a view to simplify and prevent the evasion of tax.
- The law commission submitted its report-in September 1958, but in the meantime the Government of India had appointed the Direct Taxes Administration Enquiry Committee submitted its report in 1956.
- In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed.
- Income Tax Act 1961 has been brought into force with 1 April 1962. It applies to the whole of India including Jammu and Kashmir.

DISTINGUISH BETWEEN CAPITAL RECEIPTS AND REVENUE RECEIPTS.

No.	Revenue Receipt	Capital Receipt
1	It has short-term effect. The benefit is enjoyed within one	It has long-term effect. The benefit is enjoyed for many
2	It occurs repeatedly. It is recurring and	It does not occur again and again. It is nonrecurring and
3	It is shown in profit and loss account on the credit side.	It is shown in the Balance Sheet on the liability side.
4	It does not produce capital receipt.	Capital receipt, when invested, produces revenue receipt e.g. when capital is invested by the owner, business gets revenue receipt (i.e. sale proceeds of goods etc.).
5	This does not increase or decrease the value of asset or liability.	The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed
6	Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend	Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment.

DISTINGUISH BETWEEN CAPITAL EXPENDITURE AND REVENUE EXPENDITURE.

No.	Revenue Expenditure	Capital Expenditure
1	Its effect is temporary, i.e. the benefit is received within the accounting year.	Its effect is long-term, i.e. it is not exhausted within the current accounting year-its benefit is received
2	Neither an asset is acquired nor is the value of an asset	An asset is acquired or the value of an existing asset is increased.
3	It has no physical existence because it is incurred on items which are used by the	Generally it has physical existence except intangible assets.
4	It is recurring and regular and it occurs repeatedly.	It does not occur again and again. It is nonrecurring and
5	This expenditure helps to maintain the business.	This expenditure improves the position of the business.
6	The whole amount of this expenditure is shown in trading P & L A/c or income statement.	A portion of this expenditure (depreciation on assets) is shown in trading & P & L A/c and the balance are shown in the balance sheet on
7	It does not appear in the balance sheet.	It appears in the balance sheet until its benefit is fully exhausted.
8	It reduces revenue (profit) of the business	It does not reduce the revenue of the concern.

RESIDENTIAL STATUS

STATUS OF INDIVIDUALS

1. Resident (R)
2. Ordinary Resident (OR)
3. Not ordinary Resident (NOR)
4. Non Resident (NR)

Resident – Who satisfies any one of the basic condition

Ordinary Resident – Who satisfy any one of the basic condition and both the additional conditions

Not ordinary Resident – Who satisfies any one of the Basic condition but does not satisfy one or more of the additional conditions

Non Resident – Who does not satisfy basic condition

RULES AND REGULATIONS

BASIC CONDITIONS	ADDITIONAL CONDITIONS
1. A stay of **182 days** or more during the current previous year 2018-19 **(OR)** 2. A stay of **60 days** or more in the current previous year and a total stay of **365 days or more in the 4 years** immediately preceding current previous year	1. He should be **resident** in India at least **2 out of 10 years** immediately preceding current previous year **(AND)** 2. A stay of **730 days** or more during the **7 years** immediately preceding current previous year

STATUS OF HINDU UNDIVIDED FAMILY (HUF)

RULES AND REGULATIONS

RESIDENT	NON RESIDENT
When control and management is wholly situated in India **(OR)** when control and management is partly situated in India and party situated outside India	When control and management is wholly outside India

Note: Karta should satisfy the additional conditions of individuals.

STATUS OF COMPANY

Indian Company – Indian company always Resident

Foreign Company - **RULES AND REGULATIONS**

RESIDENT	NON RESIDENT
When control and management is wholly situated in India	When control and management is wholly outside India **(OR)** when control and management is partly situated in India and party situated outside India

INCIDENCE OF TAX:

source of Income	OR	NOR	NR
Any income received or deemed to be received in India Whether accrued in India or outside India	Taxable	Taxable	Taxable
Any income accruing or deemed to accrued in India, whether received in India or outside India	Taxable	Taxable	Taxable
Income received outside India from a business or profession controlled from India	Taxable	Taxable	Not Taxable
Income received outside India from a business or profession controlled from outside India	Taxable	Not taxable	Not Taxable
Income received outside India from any other sources apart from Business	Taxable	Not Taxable	Not Taxable
Past un taxed profit	Not taxable	Not Taxable	Not Taxable

TAX RATES FOR THE A.Y. 2019-20

Individual/HUF/Association of Persons/Body of Individuals/Artificial Juridical Person

In case of Super Senior citizen

Total Income Range	Rates of Income Tax
Up to Rs.5,00,000	Nil
Rs.5,00,001 to Rs.10,00,000	20% of (Total income - Rs.5,00,000)
Rs.10,00,001 and above	Rs.1,00,000 + 30% of (Total income - Rs.10,00,000)

Super Senior Citizen means an individual who is resident in India and is of at least 80 years of age at any time during the relevant previous year (i.e. any resident person, male or female, born before 02-04-1939).

In case of Senior citizen

Total Income Range	Rates of Income Tax
Up to Rs.3,00,000	Nil
Rs.3,00,001 to Rs.5,00,000	5% of (Total Income - Rs.3,00,000)
Rs.5,00,001 to Rs.10,00,000	Rs.10,000 + 20% of (Total income - Rs.5,00,000)
Rs.10,00,001 and above	Rs.1,10,000 + 30% of (Total income - Rs.10,00,000)

Senior Citizen means an individual who is resident in India and is of at least 60 years of age at any time during the relevant previous year. (i.e., a resident person, male or female, born during 02-04-1939 and 02-04-1959)

In case of other Individual1/HUF/Association of Persons/Body of Individuals/Artificial Juridical Person

Total Income Range	Rates of Income Tax
Up to Rs.2,50,000	Nil
Rs.2,50,001 to Rs.5,00,000	5% of (Total Income - Rs.2,50,000)
Rs.5,00,001 to Rs.10,00,000	Rs.12,500 + 20% of (Total income - Rs.5,00,000)
Rs.10,00,001 and above	Rs.1,12,500 + 30% of (Total income - Rs.10,00,000)

PROBLEMS

RESIDENTIAL STATUS OF INDIVIDUAL

1. Mr.A, an Indian citizen left India for the first time on 29.09.2018. He did not return until 31.03.19. Determine his residential status for the AY 2019-2020
2. Mr.G, an India Citizen for the first time went abroad on 16.09.2018, and returned India on 30.04.19. Determine his residential status for the AY 2019-2020.
3. Mr.B, an Indian citizen has been making frequent trips for his business purpose. For the first time he went abroad on 01.04.2014. His stays in India during the last five years are as follows.

2014-15	150 Days
2015-16	60 Days
2016-17	90 Days
2017-18	100 Days
2018-19	75 Days

   Determine his residential status for the AY. 2019-20
4. A citizen of Sri Lanka had been staying in India since 1994. He left India on 20.08.18 for Sri Lanka and returned on 06.02.2019. Determine his residential status for the PY 2018-19.
5. Mr.M,an Indian citizen has been staying in Spain during 1997-2006, and in Germany from 01.04.13 to 31.03.17. On 01.04.18 he came to India and has been staying in India. Determine his residential status for the AY 2019-20.
6. Mr.Viki left for Belgium for the first time on 15.10.16. He came to India only once during the financial year 2018-19 and stayed for a period of 55 days. Determine residential status for the AY.
7. Sam came to India first time during the P.Y. 2018-19. During the previous year, he stayed in India for (i) 50 days; (ii) 183 days; & (iii) 153 days. Determine his residential status for the A.Y. 2019-20.
8. Andy, a British national, comes to India for the first time during 2014-15. During the financial years 2014-15,2015-16, 2016- 17, 2017-18 and 2018-19, he was in India for 55 days, 60 days, 80 days, 160 days and 70 days respectively. Determine his residential status for the assessment year 2019-20.
9. Miss Pal, an Indian citizen, left India for first time on 1st April, 2018 for joining job in Tokyo. She came to India on 11th October, 2018 for only 190 days. Determine her residential status for P.Y. 2018-19.
10. X, a foreign citizen, resides in India during the previous year 2018-19 for 83 days. Determine his residential status for previous year 2018-19 assuming his stay in India during the last few previous years are as follows –

Year	Days	Year	Days	Year	Days	Year	Days
2003-04	220 days	2007-08	36 days	2011-12	137 days	2015-16	175 days
2004-05	15 days	2008-09	115 days	2012-13	265 days	2016-17	15 days
2005-06	257 days	2009-10	123 days	2013-14	310 days	2017-18	67 days
2006-07	110 days	2010-11	65 days	2014-15	121 days		

RESIDENTIAL STATUS OF HUF

11. During the previous year 2018-19 the affairs of an HUF (Mr.Akil is the Karta of HUF) are managed partly from India and partly from Nigeria. Mr.Akil will be in India for a period of 182 days in every financial year. Identify the residential status of the HUF.
12. The affairs of HUF (Mr.Sunil is the Karta of HUF) are fully managed from India during the previous year. Mr.Sunil will be out of India in every financial year for 325 days. Identify the residential status of the HUF.
13. During the previous year 2018-19 the affairs of an HUF are managed partly from Singapore and partly from USA. Identify the residential status of the HUF.

RESIDENTIAL STATUS OF FIRM, AOP, BOI AND OTHER PERSONS

14. A partnership firm is having business in Delhi and Mumbai. In the following cases identify the residential status.
    a. If the control is partly from Mumbai and partly from Delhi
    b. If the control is partly from Delhi and partly from Indonesia
    c. If the control is fully from South Africa.

RESIDENTIAL STATUS OF COMPANY

15. In the following cases identify the residential status
    a. ABC ltd. An Indian company situated in London
    b. KPY Ltd. A foreign company situated in Chennai but controlled from Dubai
    c. Moden Associates a foreign company situated in Hong Kong but fully controlled from India
    d. Silver limited a foreign company situated in India but partly controlled from Dubai and partly from India.

INCIDENCE OF TAX:

1. The following is the income of Mr. Rajan for the previous year 2018-19:

	Particulars	Rs.
(a)	Profits from business in Iran received in India.	5,00,000
(b)	Income from house property in Iran received in India.	1,20,000
(c)	Income from house property in Sri Lanka deposited in a bank	1,80,000
(d)	Profits of business established in Sri Lanka deposited in a bank there, this business is controlled in India (out of 2,00,000 a sum of 1,00,000 is remitted in India).	2,00,000
(e)	Income from profession in India but received in England.	2,40,000
(f)	Profits earned from business in Kanpur.	1,60,000
(g)	Income from agriculture in England, it is all spent on the education of children in London.	2,70,000

From the above particulars ascertain the taxable income of Shri Amit for the previous year 2018-19, if Mr.Rajan is

(i) a resident and ordinarily resident,

(ii) not ordinarily resident, and

(iii) a non-resident.

2. Mr.John earns the following income during the previous year 2018-19:

	Particulars	Rs.
(a)	Interest from an Indian company received in London.	1,20,000
(b)	Pension from former employer in India received in USA.	1,80,000

(c)	Profits earned from a business in Paris which is controlled in India, half of the profits being received in India.	2,00,000
(d)	Income from agriculture in Bhutan and remitted to India.	1,25,000
(e)	Income from property in England received there.	4,00,000
(f)	Past foreign income brought to India.	10,000

Compute his income for the assessment year 2018-19 if he is:

(i) Resident and ordinarily resident in India.

(ii) Not ordinarily resident in India.

(iii) Non-resident in India.

3. Ram provides following details of income, calculate the income which is liable to be taxed in India for the A.Y.2019-20 assuming that –

(a) He is an ordinarily resident (b) He is not an ordinarily resident

(c) He is a non-resident.

Particulars	Amount
Salary received in India from a former employer of UK	1,40,000
Income from tea business in Nepal being controlled from India	10,000
Interest on company deposit in Canada (1/3rd received in India)	30,000
Profit from a business in Mumbai controlled from UK	1,00,000
Profit for the year 2002-03 from a business in Tokyo remitted to India	2,00,000
Income from a property in India but received in USA	45,000
Income from a property in London but received in Delhi	1,50,000
Income from a property in London but received in Canada	2,50,000
Income from a business in Jambia but controlled from Turkey	10,000

4. Mr.N has received the following income during the P.Y. 2018-19.

Salary received in India for five months	30,000
Income from House property in India	24,700
Interest on saving bank deposit in SBI	10,000
Amount brought to India out of past untaxed profit earned in France	50,000
Income from Agricultural in Malaysia being invested in India	20,000
Income from business in Singapore being controlled from India	70,000
Dividend received in Germany from French Companies of which Rs.5000 was remitted to India	1,00,000

You are required to compute total income of Mr.N for the AY 2019-20, if he is

(a) He is an ordinarily resident (b) He is not an ordinarily resident

(c) He is a non-resident.

5. From the following particulars calculate the total income of Mr.Mukil, assuming that he is a) Resident; b) Not ordinarily Resident, and c) Non-Resident

Income from agriculture in Pakistan	20,000
Income accrued in China but received in India	30,000
Income earned in India but received in Japan	36,000
House Property income from Australia	40,000
Past untaxed income during the previous year	12,000

6. From the following particulars of Mr.B, calculate his total income assuming that he is resident, not-ordinary resident and non-resident.

Royalty from the government of India	2,00,000
Gift in foreign currency from a friend received in India	1,50,000
Foreign income from a profession set up India	3,00,000
Income from business in Sri Lanka, but controlled from Chennai	20,000
Income from business in Saudi controlled from Chennai	14,500
Interest from an Indian Company received in USA	6,000
Income from business in Japan controlled from Chennai	1,25,000
Income from Agriculture in Sri Lanka and remitted to India	12,500

7. Ram provides following details of income, calculate the income which is liable to be taxed in India for the A.Y.2019-20 assuming that –

   (a) He is an ordinarily resident

   (b) He is not an ordinarily resident

   (c) He is a non-resident.

Particulars	**Amount (`)**
Salary received in India from a former employer of UK	1,40,000
Income from tea business in Nepal being controlled from	10,000
Interest on company deposit in Canada (1/3rd received	30,000
Profit from a business in Mumbai controlled from UK	1,00,000
Profit for the year 2002-03 from a business in Tokyo	2,00,000
Income from a property in India but received in USA	45,000
Income from a property in London but received in Delhi	1,50,000
Income from a property in London but received in	2,50,000
Income from a business in Jambia but controlled from	10,000

8. State how the following incomes are to be assessed n the hands of an assessee who is a. Resident b. Non-resident and c. Non resident

   1. Salary received during the year for employment outside india from government of india Rs. 50000.
   2. Profits earned in UK and received in India rs. 35000
   3. Salary drawn for employment in Singapore office of an indian company for two months Rs. 7500
   4. Dividend received from an Indian company Rs. 8000
   5. Profit earned from business transaction outside india and kept in Punjab national bank rs.25000

9. From the following particulars submitted by mis rabeeha as regards her income in the previous year 2018-19 compute her gross total income if she is

   a. Resident and ordinary resident
   b. Resident but not ordinary resident and
   c. Non resident

   1. Income from agriculture in srilanka received in Srilanka and remitted to india.Rs. 25000
   2. Pension from an Indian employer received abroad Rs. 12000
   3. Past untaxed profits brought to india Rs. 50000
   4. Rental income from the property in Nepal received outside india Rs. 17000
   5. Annual value of a single self occupied property in india Rs. 3600

10. Mr.vineethan has the following incomes during the assessment year 2019-20. Compute his total income for the assessment year 2019-20 if he is resident of india, not ordinarily of india and non resident of india.

1. Capital gain on sale of a house in Mumbai Rs. 40000
2. Salary received outside india for rendering service in india Rs. 50000
3. Interest received from government of india (received outside india) Rs,. 15000
4. Technical fees received from an india company (received in india for advice given in respect of project outside india) Rs. 80000
5. Income from a business situated outside india (controlled wholly outside india)Rs. 25000

UNIT - II

INCOME UNDER THE HEAD SALARY

MEANING

Any remuneration paid by an employer to his employee in consideration of his service is called salary. It includes both monitory payments (e.g basic salary, bonus, commission etc.) as well as non - monitory facilities (e.g rent free house, medical facility, educational facilities for children etc.).

Under section 15, the following incomes are taxable under the head salary

Definition of salary

Salary under section 17(1), includes the following:

i) Wages,

ii) Any annuity or pension,

iii) Any gratuity,

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

v) Any advance of salary,

vi) Any payment received in respect of any period of leaves not availed by him i.e. leave salary or leave encashment.

vii)The annual accretion to the balance at the credit of an employee participating in a recognized provident fund,

viii) Transferred balance in recognised provident fund to the extend it is taxable,

ix) The contribution made by the Government or other employer, in the previous year, to the account of an employee, under the pension scheme notified by the central Government.

Features of salary

1) **Employer- employee relationship:** the relationship between the payer and payee must be the relationship between employer and employee type. Consider the following cases,
   a) Commission received by a Director from a company is not taxable under the head salary if he is not an employee of the company. It will be taxable under the head business or profession or other sources depending upon the facts.
   b) Any salary, commission, bonus received by a partner of a firm shall not be regarded as salary income and should be charged under the head business or profession.
2) Only receipt from employer is taxable under this head. Receipts from persons other than employer is taxable under the head other sources, these are-a) University remuneration. b) Examiner ship fee,
   c) Family pension received by member of the family of deceased employee,
   d) Salary received by M.P, M.L.A,
3) Salary from more than one employer shall be taxable under this head.
4) Any amount received after cessation of employment is also taxable under this head,
5) Forgoing salary is also taxable under this head if forgone voluntarily.

6) Salary or pension received by the employees of UNO is fully exempted.

7) Salary from present, past or prospective employer is also taxable under this head.

Format to Computation of salary income

	Rs.
Basic items:	
1. Basic salary/wages/remuneration/pay	***
2. Special pay	***
3. Bonus	***
4. Fees	***
5. Commission	***
6. Advance salary	***
7. Arrear salary	***
Allowances	
1. Fully taxable allowance	***
2. Partly taxable allowance	***
3. Fully exempted allowance	***
Perquisites	
1. Taxable for all	***
2. Taxable for specified employee only	***
3. Exempted for all	***
Special items	
1. Gratuity	***
2. Pension	***
3. Leave encashment	***
4. Provident fund	***
GROSS SALARY	*******
Deduction U/S 16	
(i) Standard deduction (Rs.40,000 or the amount of salary, whichever is lower)	*******
(ii) Entertainment allowance	***
(iii) Professional Tax/employment tax	***
INCOME FROM SALARY	*******

Provident fund

Provident fund scheme is a scheme intended to give substantial benefits to an employee at the time of his retirement.

Under this, a specified sum is deducted from his salary as contribution and employer also contributes certain sum to this scheme. The contribution of the employer and employee are invested in approved securities. Interest earned from this is also credited to this provident fund account. Thus the balance of the provident fund account consists of the following:

i) Employee's contribution

ii) Employer's contribution

iii) Interest on employee's contribution

iv) Interest on employer's contribution

The accumulated balance is paid to the employee at the time of retirement or resignation. In the case of death of the employee, the same is paid to the legal heirs.

There are four **TYPES** of **provident funds**:

i) **Statutory Provident Fund (SPF) :**The SPF is governed by Provident Fund Act,1925. It applies to employees of government, semi-government, local bodies etc

ii) **Recognised Provident Fund (RPF) :**RPF means a provident fund recognized by the Commissioner of income tax for the purpose of tax. It is governed by the Provident fund act 1952.

iii) **Unrecognised Provident Fund (URPF) :** it is a provident fund not recognized by the Commissioner of income tax

iv) **Public Provident Fund (PPF) :**PPF is operated under the Public Provident Fund Act 1968. It is open to general public. Salaried employees may also contribute to PPF in addition to the fund operated by the employer.

Tax Treatment of the Provident Fund:-

Particulars	**SPF**	**RPF**	**URPF**	**PPF**
Employees contribution	Eligible for deduction U/S	Eligible for deduction U/S 80C	Not eligible for deduction U/S 80C	Eligible for deduction U/S 80C
Employer's contribution	Fully exempt	amount in excess of 12% of salary is taxable	Not taxable yearly	N.A(there is only one contribution)
Interest credited	Fully exempt	Amount in excess of 9.5% p.a is taxable	Not taxable yearly	Fully exempt
Lump sum amount received at retirement	Fully exempt	Fully exempt(at least five year service)	a)employer's contribution and interest taxable under the head salary b)interest of employee contribution taxable under the head 'other	Fully exempt

ALLOWANCES

An allowance is defined as a fixed amount of money given periodically in addition to the salary for the purpose of meeting some specific requirements connected with the service rendered by the employee or by way of compensation for some unusual conditions of employment.

Fully Exempted Allowances.

(1) Foreign allowance given by Government to its employees posted abroad is fully exempted
(2) House rent allowance given to Judges of High Court and Supreme Court is fully exempted.
(3) Sumptuary Allowances given to Judges of High Court and Supreme Court is fully exempted.
(4) Allowances from U.N.O.
(5) Allowances to Teacher/Professor from SAARC member states
(6) Allowances to member of Union Public Service Commission.

Fully Taxable Allowances

(1) **Dearness Allowance(DA) and Dearness Pay(DP):** This is a very common allowance these days on account of high prices. Sometimes Additional Dearness Allowance is also given. It is included in the income from salary and is taxable in full. Sometimes it is given under the terms of employment and sometimes without it. When it is given under the terms of employment it is included in salary for purposes of determining the exemption limits of house rent allowance, recognised provident fund, gratuity and value of rent free house and is also taken into account for the purposes of retirement benefits. Sometimes dearness allowance is given as 'Dearness Pay'. It means that it is being given under the terms of employment.

(2) **Fixed Medical Allowance:** It is fully taxable.

(3) **Tiffin Allowance:** It is given for lunch and refreshments to the employees. It is taxable.

(4) **Servant Allowance:** It is fully taxable even if it is given to a low paid employee, not being an officer, i.e., it is taxable for all categories of employees.

(5) **Non-practicing Allowance:** It is generally given to those medical doctors who are in government service and they are banned from doing private practice. It is to compensate them for this ban. It is fully taxable.

(6) **Hill Allowance:** It is given to employees working in hilly areas on account of high cost of living in hilly areas as compared to plains. It is fully taxable, if the place is located at less than 1,000 meters height from sea level.

(7) **Warden Allowance and Proctor Allowance:** These allowances are given in educational institutions for working as Warden of the hostel and/or working as Proctor in the institution. These allowances are fully taxable.

(8) **Deputation Allowance:** When an employee is sent from his permanent place of service to some other place or institution or organisation on deputation for a temporary period, he is given this allowance. It is fully taxable.

(9) **Overtime Allowance:** When an employee works for extra hours over and above his normal hours of duty he is given overtime allowance as extra wages. It is fully taxable.

(10) **Other Allowances** like Family allowance, Project allowance, Marriage allowance, City Compensatory allowance, Dinner allowance, Telephone allowance etc. These are fully taxable.

Partly Taxable Allowances.

(a) **Special allowances for performance of official duty:** These allowances are specifically granted to meet expenses wholly and exclusively incurred in the performance of official duty. These are exempt to the extent such expenses are actually incurred or the amount received whichever is less. These allowances are **travelling allowance, Daily allowance, Helper allowance, Academic Allowance, Uniform Allowance** etc.

(b) **Allowance to meet personal expenses :**Allowances which are granted to meet personal expenses are exempt to the extent of amount received or the limits specified whichever is less. It includes HRA, transport allowance, children education allowance, children hostel allowance .etc. a brief description of which are given below.

House Rent Allowance (HRA)

Any special allowance specifically granted to an employee by his employer to meet expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee, is ***exempt to the extent of least of the following***:

1. **Actual amount of such allowance received or**
2. **Rent paid over 10% of salary [Rent paid – 10% of salary]**
3. **An amount equal to:**
   a) where such accommodation is situated at Mumbai, Kolkatta, Delhi or Chennai, then 50% of the amount of salary due to the assese,
   b) where such accommodation is situated at any other place, then 40% of the amount of salary due to the assese.

<u>(Salary = Basic Pay + D.A. (If form part of retirement benefit) + Commission (If it is based on specific % of turnover).</u>

Other allowances and their exemption limits:-

S.1 No	**Allowance**	**Extend of exemption.**
1	Any special compensatory allowance/hill compensatory allowance/high altitude allowance	₹ 800 per month or ₹ 7,000 per month or ₹300 per month depending upon the
2	Any Special Compensatory Allowance in the Nature of Border Area Allowance, Remote Locality Allowance or Difficult Area Allowance / Disturbed Area Allowance	₹ 1,300 per month or Rs1,100 per month or Rs1,050 per month or ₹750 per month or
3	Tribal area allowance	₹ 200 per month
4	Any allowance granted to an employee working inany transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place, provided that such employee is not in receipt of daily allowance	70 per cent of such allowance up-to a maximum of ₹ 10,000 per month

5	Children education allowance	100 per month per child up to a maximum of two children
6	Children hostel allowance	₹ 300 per month per child up to a maximum of two
7	Compensatory field area allowance	₹ 2,600 per month
8	Compensatory modified field area allowance	₹ 1,000 per month
9	Any special allowance in the nature of counter insurgency allowance granted to the member of armed forces operating in areas away from their permanent locations for a period of more than 30	₹ 3,900 per month ₹
10	Transport allowance granted to an employee to meet his expenditure for the purpose of computing between	₹ 1600 per month
11	Transport allowance granted to an employee, who is ` blind or orthopedically handicapped with disability of lower extremities, to meet his expenditure for the purpose of commuting between the	₹ 3200 p.m.
12	Underground allowance	₹ 800 p.m.

Treatment of Entertainment Allowance

In case of Entertainment allowance an assessee will not get any exemption but would be eligible for deduction under section 16(ii) from gross salary. The deduction is allowed to government employees only; Non-Government employees will not be eligible for this deduction. The entire amount of entertainment allowance will be added to gross salary.

The minimum of the following shall be available as deduction in case of Government employees:

(i) Actual amount of entertainment allowance received during the year

(ii) 20% of his salary exclusive of any allowance, benefit or other perquisites.

(iv) ₹5,000.

PERQUISITES

The term "perquisites" includes all benefits and amenities provided by the employer to the employee in addition to salary and wages either in cash or in kind which are convertible into money. These benefits or amenities may be provided either voluntarily or under service contract. For income-tax purposes, the perquisites are of three types:

(A) Tax-free perquisites

(B) Taxable perquisites

(C) Perquisites taxable under specified cases.

(A) Tax-free perquisites (in all cases)

The value of the following perquisites is not to be included in the salary income of an employee :

i. **Medical Facilities:**

(a) The value of any Medical facility provided to an employee or his family member in any hospitals, clinics, etc. maintained by the employer.

(b) Reimbursement of expenditure actually incurred by the employee on medical treatment for self or for his family members in any hospitals, dispensaries etc. maintained by the Government or local authority or in a hospital approved by the chief commissioner.

(c) Group medical insurance obtained by the employer for his employees (including family members of the employees) or all medical insurance payments made directly or reimbursement of insurance premium to such employees who take such insurance.

(d) Reimbursement of medical expenses actually incurred by the employee up-to a maximum of ₹ 15,000 in the aggregate in a year, in a private hospital for his and his family.

(e) Any expenditure incurred or paid by the employer on the medical treatment of the employee or any family member of the employee outside India, the travel and stay abroad of such employee or any family member of such employee or any travel or stay abroad of one attendant who accompanies the patient in connection with such treatment will not be included in perquisites of the employee.

ii. **Refreshment :**

The value of refreshment provided by the employer during office hours and in office premises is fully exempt. Free Meals provided by the employer during working hours is exempt if its value either case does not exceed ₹50. However, free meals provided by the employer during working hours in a remote area shall be fully exempt.

iii. **Subsidized lunch or dinner provided by employer:**

iv. **Recreational facilities:**

v. **Telephone facility:** to the extent of the amount of telephone bills paid by the employer.

vi. **The value of transport** provided by the employer to the employees from their place of residence to the place of work and back in the case of an employer engaged in the business of carriage of goods or passengers, to his employees either free of charge or at a concessional rate.

vii. **Personal accident insurance. viii. Refresher Course.**

ix. **Free rations.**

x. **Sale of an asset** gifted to an employee by the employer after using the same for 10 years or more is a perquisite in the hands of employee.

xi. Perquisites to Government employees being citizens of India, posted abroad.

xii. **Rent-free house** to High Court Judges

xiii. **Rent-free house** to Supreme Court Judges

xiv. **Conveyance facility** to High Court and Supreme Court judges.

xv. **Privilege passes and privilege ticket** orders granted by Railways to its employees.

xvi. Sum payable by an employer through a Recognised Provident Fund or an Approved Superannuation Fund or Deposit-linked Insurance Fund established under the Coal Mines Provident Fund or the Employees' Provident Fund.

xvii. Sum payable by an employer to pension or deferred annuity scheme.

xviii. Employer's contribution to staff group insurance scheme.

xix. **Actual travelling expenses** paid/reimbursed by the employer for journeys undertaken by employees for business purposes.

xx. **Leave travel concession**

xxi. **Free holiday trips** to non-specified employees.

xxii. **Rent-free furnished residence** (including maintenance thereof) provided to an Officer of Parliament, a Union Ministry and a leader of opposition in Parliament.

xxiii. **Goods sold to employees**, by their employer, at concessional rates.

xxiv. **The value of any benefit** provided by a company free of cost or at a concessional rate to its employees by way of allotment of shares, debentures or warrants directly or indirectly under the Employees' Stock Option Plan or Scheme of the said company.

xxv. **Free educational facility** to the children of the employee in an educational institute owned/maintained by the employer if cost of such education or value of such benefit does not exceed ₹**1,000/-** per month per child.

xxvi. **Interest free loan** to an employee if the amount of loan does not exceed ₹ **20,000/-** or if loan is provided for specified diseases.

xxvii. **Computer/laptops** (provided only for use, ownership is retained by the employer).

(B) Taxable perquisites (in all cases)

The value of the following perquisites is added to the salary income of the employee:

i) Value of rent-free residential accommodation provided to the assessee(RFA or RFH)

ii) Value of any concession in the matter of rent in respect of residential accommodation provided to the assessee.

iii) Sum paid by the employer for affecting an assurance on the life of the employee or for providing an annuity. If the amount is paid to a recognised provident fund or an approved superannuation fund, or to a deposit linked insurance fund established under Employees' Provident Fund Act, the sum so paid is not to be included in the salary income.

iv) Sum paid by the employer in respect of any obligation of the assessee, which would otherwise have been payable by the assessee. Some of the examples of such expenses are as follows:

a) Income-tax paid by the employer due from the employee.

b) Payment of club bills, club subscription or hotel bills of the employee.

c) Fees paid by the employer directly to the school or reimbursement of tuition fees of the children of the employee.

d) Payment of any loan due to the employee.

v) The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee.

vi) The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds one lakh rupees;

vii) The value of any other fringe benefit or amenity as may be prescribed.

(C) Perquisites taxable only in the cases of Specified Employees

The value of certain benefit or amenity granted or provided free of cost or at a concessional rate shall be included in the salary income of 'specified employees', **a specified employee is one,**

1. who is director [full time or part time director];
2. who has a substantial interest in the company concern, i.e., employee is the beneficial owner of at least 20 per cent of the equity shares of that company or is entitled to at least 20 per cent share is profit of the concern;
3. Whose income chargeable under head salaries (exclusive of the value of all benefits or amenities not provided by way of monetary payments) exceeds ₹ 50,000.

Some of the examples of such perquisite which are included in the salary income of a specified employee are;

i) Free boarding facility provided by employer.

ii) Free conveyance for private use.

iii) Free education facility to the family members of employee.

iv) Holiday trips at employer's cost.

v) Gas, electricity or water supplied free for household consumption.

vi) Wages of domestic servants paid by employer.

vii) Free lunches or dinners.

Valuation of Perquisites.

The valuation of various perquisites is done as follows:-

1) Valuation of Residential Accommodation.

S.l No	Circumstance	Unfurnished (A)	Furnished (B)
1	Accommodation is provided by union or state government.	License fee determined by the government as reduced by the rent paid by the employee	Add 10% of the cost of furnishing to the value
2	a)Where accommodation is provided by the employer and owned by the employer. or b) where accommodation is taken on lease or rental by the employer	i**) 15% of salary in cities having population of 25 lakh or more** **ii)10 % of salary in cities having population in between 10 to 25 lakhs.** **iii) 7.5% of salary in cities having population less than 10 lakh.** or Actual amount of lease rental paid or payable by the employer or 15% of salary whichever is lower as reduced by the rent paid	Add **10% of the cost of furnishing** to the value determined under (A)

3	Accommodation is provided by the employer in hotel	Not applicable	24% of the salary or actual amount

Here "salary"includes the pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called.

VALUATION OF CAR

Owner	Expense s met	Purpose	Value of car
1(a) Employer	Employer	Only official	Not a perquisite
1(b) Employer	Employer	Only Private	Total of: i. Actual expenditure on car ii. Remuneration to chauffeur. iii. 10% of the above cost of car
1(c)(i) Employer	employer	Partly official and partly personal	Cubic capacity of engine upto 1.6 ltr: ₹ 1,800 p.m + ₹900 p.m (chauffeur) Cubic capacity of engine above 1.6 ltr:
1(c)(ii) Employe r	employee	Partly official and partly	Cubic capacity of engine upto 1.6 ltr: ₹ 600 p.m + ₹900 p.m (chauffeur) Cubic capacity of engine above 1.6 ltr:
2(i) Employee	Employer	Only official use	Not a perquisite
2(ii) Employee	Employer	Partly personal and partly	Actual expenditure incurred Less: Value of Car cubic capacity upto 1.6 litres orValue of Car cubic capacity

GRATUITY

Gratuity is a retirement benefit. It is paid at the retirement/cessation of employment based on the service.

Death cum Retirement Gratuity:-

i. Fully Exempted- Union government/ state government/local body etc employees.

ii. Where the employees are covered under the Payment of Gratuity Act, 1972:

It shall be exempt from tax to the extent of least of the following:-

1. fifteen days' wages (seven days' wages in case of seasonal establishments) for each completed year of service or part thereof in excess of six months on the basis of salary last drawn for every completed year of service or part thereof in excess of six months; or
2. The gratuity actually received; or
3. ₹10,00,000

iii. <u>Where the employees are not covered under the Payment of Gratuity Act,1972:</u>

The amount of any other gratuity received by the employee from a private employer (not covered under the Payment of Gravity Act, 1972) on his retirement or at the termination of his employment, least of the following is exempted:-

1. 1/2 month's salary for each year of completed service, calculated on the basis of the average salary for the ten months immediately preceding to his retirement, or
2. ₹10,00,000 or
3. Gratuity actually received.

PENSION

It is periodical payment received by an employee after his retirement. An employee cannot receive pension while he is in service. Any pension received is taxable as salary.

<u>Commuted Pension</u>

It is a lump sum amount received at the time of retirement. It is onetime payment.

Tax treatment:

a) <u>For Government Employee – Fully exempted from Tax</u>

b) **<u>For Non Government Employee</u>**

Would be exempt to the extent of the following:-

a) In cases where the employee receives any gratuity; the commuted value of 1/3rd of pension

b) In any other case, the commuted value of 1/2 of such pension.

<u>Uncommuted Pension</u>

It is periodical payment received by the employee after the date of retirement. It is the balance which he gets after commutation. Pension received monthly or otherwise from any employer is fully taxable.

ENCASHMENT OF EARNED LEAVE

IT act grants the following exemptions on this account:

1) <u>if received at the time of retirement by a government employee- fully exempt</u>
2) <u>if received at the time of service – fully taxable for all employees</u>
3) <u>For non-government employees least of the following:</u>

i) Average salary x no. of leaves due at retirement

ii) 10 month's "average salary", i.e. salary drawn during the period of 10 months immediately preceding the retirement/superannuation,

iii) The amount specified by the Government ₹3,00,000.

iv) The amount of leave encashment actually received at the time of retirement.

PROBLEMS

1. Mr.N resides in Chennai and gets Rs.20,000 per month as basic salary, Rs.16,000 per month as DA (Entering service benefits), Rs.24,000 per month as HRA. He pays Rs.20,000 per month as rent. Calculate taxable HRA.
2. Compute the exemption available under section 10(13 A) in the following cases:

Name of Employee	A	B	C	D	E
Place of residence	Delhi	Noida	Mumbai	Patna	Bangalore
Salary p.m.	4,000	6,000	8,000	3,000	5,000
H.R.A. p.m.	1,500	1,200	5,000	1,000	1,500
Rent paid p.m.	Nil	1,000	6,000	800	400

3. Mr.Ashok is a salaried employee working in Delhi. He gives the following details:
Salary Rs.20,000 p.m.,
DA (forming part) Rs.10,000 p.m.
HRA Rs.8,000 p.m. (Rent paid by him Rs.10,000 p.m.)
Calculate exempted HRA.
4. From the following calculate exempted HRA. Mr.Harish is a salaried employee working in Mumbai. During the previous year he receives Rs.13,000 p.m. as salary and Rs.8,500 p.m. as DA (Rs.5,000 p.m. does not entering benefits). He was given an HRA of Rs.7,500 p.m. He resides in his own house.
5. Mr. Arun an employee of Murthi limited received Rs.68,000 as gratuity. He is covered by payment of Gratuity act 1972. He retired on 15th July 2018 after rendering of service of 36 years and 9 months. At the time of retirement his monthly basic salary was Rs.3,200 and DA (forming part) was Rs.1000 respectively. Calculate the exempted gratuity.
6. Mr. soba an employee of KL Ltd. received Rs.2,75,000 as gratuity. He is covered by payment of Gratuity act 1972. He retired on 12th May 2018 after rendering of service of 33 years and 8 months. At the time of retirement his monthly basic salary was Rs.12,000 and DA (not forming part) was Rs.4,000 respectively. Calculate the exempted gratuity.
7. Shri Rajesh was employed since 1.1.1987 in a commercial establishment. His salary was fixed at Rs.14,800 in the grade of Rs.14,000 - 400 - 22,000 with effect from 1.7.2016. He got 15% of his salary as dearness allowance which is treated as salary for computation of retirement benefits. He retired from service on 1.2.2019. He received Rs.3,40,000 as gratuity from his employer. Calculate his gross income under the head 'Salaries' for the assessment year 2019-20 if—
(i) Payment of Gratuity Act, 1972 applies,
(ii) Payment of Gratuity Act, 1972 does not apply.
8. Ashok, an employee of ABC Ltd., receives Rs. 2,05,000 as gratuity under the Payment of Gratuity Act,1972. He retires on 10th September, 2018 after rendering service for 35 years and 7 months. The last drawn salary was Rs. 2,700 per month. Calculate the amount of gratuity chargeable to tax.
9. Mr. Old man retired from his job after 29 years 6 months and 15 days of service on 17/12/2018 and received gratuity amounting Rs. 4,00,000. His salary at the time of retirement was basic Rs. 6,000 p.m., dearness allowance Rs. 1,200 p.m., House rent allowance Rs. 2,000, Commission on turnover 1%, Commission on profit Rs. 5,000. He got an increment on

1/4/2018 of Rs. 1,000 p.m. in Basic. Turnover achieved by assessee Rs. 1,00,000 p.m. Calculate his taxable gratuity if he is a —

a) Government employee

b) Non-Government employee, covered by the Payment of Gratuity Act;

c) Non-Government employee not covered by the Payment of Gratuity Act

10. Mr. Bhanu is working in Zebra Ltd. since last 25 years 9 months. Company allows 2 months leave for every completed year of service to its employees. During the job, he had availed 20 months leave. At the time of retirement on 10/8/2018, he got Rs. 1,50,000 as leave encashment. As on that date, his basic salary was Rs. 5,000 p.m., D.A. was Rs. 2,000 p.m., Commission was 5% on turnover + Rs. 2,000 p.m. (Fixed p.m.). Turnover effected by the assessee during last 12 months (evenly) Rs. 5,00,000. Bhanu got an increment of Rs. 1,000 p.m. from 1/1/2018 in basic and Rs. 500 p.m. in D.A. Compute his taxable leave encashment salary.

11. Mr. Das retired on 31/3/2019. At the time of retirement, 18 months leave was lying to the credit of his account. He received leave encashment equivalent to 18 months Basic salary Rs. 1,26,000. His employer allows him 1½ months leave for every completed year of service. During his tenure, he availed of 12 months leave. At the time of retirement, he also gets D.A. Rs. 3,000. His last increment of` 1,000 in basic was on 1/4/2018. Find taxable leave encashment.

12. X, a resident of Ajmer, receives Rs. 48,000 as basic salary during the previous year 2018-19. In addition, he gets Rs. 4,800 as dearness allowance forming part of basic salary, 7% commission on sales made by him (sale made by X during the relevant previous year is Rs. 86,000) and Rs. 6,000 as house rent allowance. He, however, pays Rs. 5,800 as house rent. Determine the quantum of exempted house rent allowance.

13. Compute the taxable house rent allowance of Mr. Abhijeet from the following data:

Basic Salary Rs. 5,000 p.m.,

D.A. Rs. 2,000 p.m.,

HRA Rs. 4,000 p.m., Rent paid Rs. 4,000 p.m. in Pune.

- On 1/07/2018, there is an increment in Basic salary by Rs. 1,000.
- On 1/10/2018, employee hired a new flat in Kolkata at the same rent as he was posted to Kolkata.
- On 1/01/2019, employee purchased his own flat and resides there.

14. Mr. Rohan is working with X & Co. and Y Ltd. His taxable monetary salary from X & Co. is Rs. 36,000 p.a.and from Y Ltd. is Rs. 45,000 p.a. Since the aggregate salary is more than Rs. 50,000 p.a. Mr. Rohan will be treated as specified employee for both the employer i.e. X & Co. and Y Ltd.

1. Even 'DA not forming a part of salary for retirement benefit' shall be included in salary, while determining the above limit of Rs. 50,000 p.a.

15. Mr. Laloo Singh, received education allowance of Rs. 80 p.m. for his 1st child, Rs. 90 p.m. for his 2nd child and Rs. 120 p.m. for his 3rd child. He also received hostel allowance of Rs. 1,000 p.m. None of his children are studying. Find taxable Children Education Allowance and Hostel allowance

16. Mr. Chauhan has the following salary structure::

a) Basic Salary Rs. 5,000 p.m.	b) Entertainment Allowance Rs. 1,000 p.m.
c) Education Allowance Rs.500 p.m. (he has three children)	d) DA Rs. 3,000 p.m.
e) Fees Rs. 5,000 p.a.	f) Bonus Rs. 10,000 p.a.
g) Professional tax of employee paid by employer Rs. 2,000 for the year	

h) He has been provided a rent-free accommodation in Mumbai.
i) 60% of DA only forms part of retirement benefits

Compute taxable value of accommodation in the hands of Mr. Chauhan in the following cases:

i) The employer owns such accommodation.

ii) The employer hires such accommodation at a monthly rent of ` 900.

17. Miss Stuti has the following salary structure: `

a) Basic salary 15,000 p.m.
b) Dearness Allowance 5,000 p.m. (not forming part of retirement benefit)
c) Hostel Allowance 1,000 p.m. (does not have any child)
d) Tiffin Allowance 500 p.m.
e) Transport Allowance200 p.m.
f) Bonus 20,000 p.a.
g) Commission 15,000 p.a.
h) Free refreshment in office worth 5,000 p.a.
i) Mobile phone facility by employer 900 p.m.
j) Computer facility worth 10,000 p.a.

She has been provided a Rent-free Accommodation (owned by employer) in Kolkata. The house was allotted to her with effect from 1/5/2018 but she could occupy the same only from 1/6/2018. Find her gross taxable salary.

18.Mr. Rohit a non-Government employee has the following salary details :

a. Basic Salary Rs. 5,000 p.m.
b. D.A. Rs. 2,000 p.m.
c. Entertainment Allowance Rs. 300 p.m.
d. Professional tax paid by employee Rs. 600
e. LIC Premium paid by employer Rs. 3,600
f. Income tax paid by employee Rs. 2,000
g. Professional tax paid by employer on behalf of employee Rs. 1,600

Find his taxable salary.

12. Mr. Das retired on 31/3/2019. At the time of retirement, 18 months leave was lying to the credit of his account. He received leave encashment equivalent to 18 months Basic salary Rs. 1,26,000. His employer allows him 1½ months leave for every completed year of service. During his tenure, he availed of 12 months leave. At the time of retirement, he also gets D.A. Rs. 3,000. His last increment of Rs. 1,000 in basic was on 1/4/2018. Find taxable leave encashment.

13.Mr. Amit has retired from his job on 31/3/2018. From 1/4/2018, he was entitled to a pension of Rs. 3,000 p.m. On 1/8/2018, he got 80% of his pension commuted and received Rs. 1,20,000. Compute taxable pension if he is:

Case a) Government employee;

Case b) Non-Government employee & not receiving gratuity
Case c) Non-Government employee (receiving gratuity, but not covered by the Payment of Gratuity

Act)

14.Mr. Mugal joined Star Ltd. on 1/4/2018. Details regarding his salary are as follows:

Particul	Amount
Basic	5,000 p.m.
Dearness Allowance	2,000 p.m. (50% considered for
Education Allowance	1,000 p.m. (he has 1 son and 3
Hostel Allowance	2,000 p.m. (none of the children is sent
Medical Allowance	1,000 p.m. (total medical expenditure
Transport Allowance	1,800 p.m. (being used for office to residence & vice versa)
Servant Allowance	1,000 p.m.
City compensatory	2,000 p.m.
Entertainment Allowance	1,000 p.m.
Assistants Allowance	3,000 p.m. (paid to assistant ` 2,000
Professional Development	2,000 p.m. (actual expenses for the
Bonus	24,000 p.a.
Commission	9,000 p.a.
Fees	5,000 p.a.

Compute his gross taxable salary for the assessment year 2019-20.

15. Miss nithya is a govt. employee and she is drawing a monthly salary of Rs. 8000. She is provided with a rent free unfurnished accommodation for which the government has fixed a monthly rent of Rs. 1000. She pays a monthly rent of Rs. 200 to the government. Calculate her gross salary.

16. Mr. Jamal is employed in a town (having a population of 13 lakh). He draws a salary of Rs. 8000 pm. DA Rs. 2000pm (40% enters into retirement benefits), bonus Rs. 8000 p.a Commission Rs. 4500 p.a. Entertainment allowance Rs. 500 p.m. FRV of rent free house provided by the employer Rs. 40000 p.a .value of the furniture provided Rs 20000. Calculate this income from salary for the assessment year 2019-20.

17. The following are the particulars of income of Mr.Baburaj for the previous year ended 31st March 2019. He is employed by an individual.

Salary Rs.9000 p.m

Bonus equal to 2 months salary
Dog allowance Rs. 150 p.m

Special allowances Rs. 120 pm

Employee's contribution to RPF @ 15% of salary.

Employers contribution to the fund @ 15% of the salary.

Interest credited to the provident fund @ 9.5% p.a is Rs. 5600

He is provided with free lunch in office. The cost per meal is Rs. 30.

The employer has given him a small car which he uses for his personal and office use. He meets the expenses of the car which is used for personal purposes.

Compute his income from salary for the assessment year 2019-20.

18. Mr. Rajiv furnished the following particulars of his income for the year 2018-19.

Salary	rs. 15000pm
DA	Rs. 1250pm
Entertainment allowance	Rs. 1000 pm
Employer's and Employees contribution to RPF	Rs. 24000 each
Interest on PF AT 9.5% P.a	Rs. 19000
City compensatory allowance	Rs. 200 pm
Medical allowance	Rs. 10000

He has been provided with an unfurnished accommodation (population less than 10 lakhs) for which the employee paid Rs. 500 p.m the house is owned by the employer, fair rental value is Rs. 30000 p.a. a sweeper at Rs. 200 pm and a servant at Rs. 750. For the assessment year 2019-20.

UNIT – III
INCOME FROM HOUSE PROPERTY

According to Section 22 of the income tax act, "The annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner, other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him, the profits of which are chargeable to income- tax, shall be chargeable to income tax under the head Income from House Property".

The following points emerge from the above charging section:

(a) Tax is charged on income from the buildings or lands appurtenant thereto:

The buildings include residential buildings, buildings let out for business or profession or auditoriums for entertainment programmes. The location of the building is immaterial. It may be situated in India or abroad.

(b) Tax is charged on income from lands appurtenant to buildings:

Where the land is not appurtenant to a building the income from land can be charged as business income or "income from other sources", as the case may be. The lands appurtenant to buildings include approach roads to and from public streets, courtyards, motor garage, compound, play-ground and kitchen garden. In case of non-residential buildings, car-parking spaces, drying grounds or play-grounds shall be the lands appurtenant to buildings.

(c) Tax is charged from the owner of the buildings and land appurtenant thereto:

Where the recipient of the income from house property is not the owner of the building, the income is not chargeable under this head but under the head 'Income from Business or Other Sources'. For example, the income to a lessee from sub-letting a house is not chargeable under the head 'Income from House Property'. The owners may be of several types like:

a) Real owner
b) Legal owner
c) Mortgagor in case of mortgaged property
d) Lessee in case of leasehold property

Deemed owners: Sometimes there will be deemed owners as per the rule of income tax, like:

i) Property transferred to spouse without adequate consideration- transferor will be the deemed owner
ii) Self-acquired property converted into common pool of HUF- transferor will be the deemed owner
iii) Impartible estate of HUF, the holder is its deemed owner.
iv) Property acquired under power of attorney, its holder is the deemed owner.

(d) Utilised by the assessee for his own business or profession purpose

The annual value of such property or the portion thereof as is utilised by the assessee for the purposes of his own business, profession or vocation, the profits of which are assessable to tax, is not taxable under Section 22. The assessee is also not allowed to claim any deduction in respect of notional rent while computing income from any such business, profession or vocation. However, the assessee can claim depreciation under Section 32 of the Income-tax Act and also, he can claim other expenses e.g. repairs, insurance, municipal taxes, interest on borrowed capital etc. for such business income.

(e) Taxability of rental income from a owned house property

Rents or income arising from ownership of any house property cannot be taxed under any other head since Section 22 provides a specific head for charge of such income to tax.

Similarly, the following income from buildings is not assessable under this head:

a. **Buildings or staff quarters let out to employees and others:** Where the assessee lets out the building or staff quarters to the employees of business whose residence there is necessary for the efficient conduct of business, the rent collected from such employees is assessable as income from business and taxable under the head business or profession and not under this head.

b. **If building is let out to authorities for locating bank, post office, police station, central excise office, etc.:**

c. **Composite letting of building with other assets:** Where the assessee lets on hire machinery, plant or furniture belonging to him and also buildings and the letting of the buildings is inseparable from the letting of the said machinery, plant or furniture, the income from such letting is chargeable to tax under the head "Income from other Sources" if it is not chargeable to income-tax under the head "Profits and gains of business or profession" However, if rent is separable between rent of building and rent for other facilities viz. rent of machinery, plant or furniture or other facilities etc, then rent of building would be taxable as Income from house property and rent for machinery, plant or furniture or other facilities would be taxable as either Income from Other Sources or Profits and gains of business or profession, depending upon the facts of each case.

d. **Income of State Industrial Development Corporation for letting out of sheds, etc.**

e. **Services rendered in providing electricity, use of lifts, supply of water, maintenance** etc

ANNUAL VALUE.

The measure of charging income-tax under this head is the annual value of the property, i.e., the inherent capacity of a building to yield income.

Computation of Annual Value/Net Annual Value (NAV)

Net annual value shall be computed in the following manner:

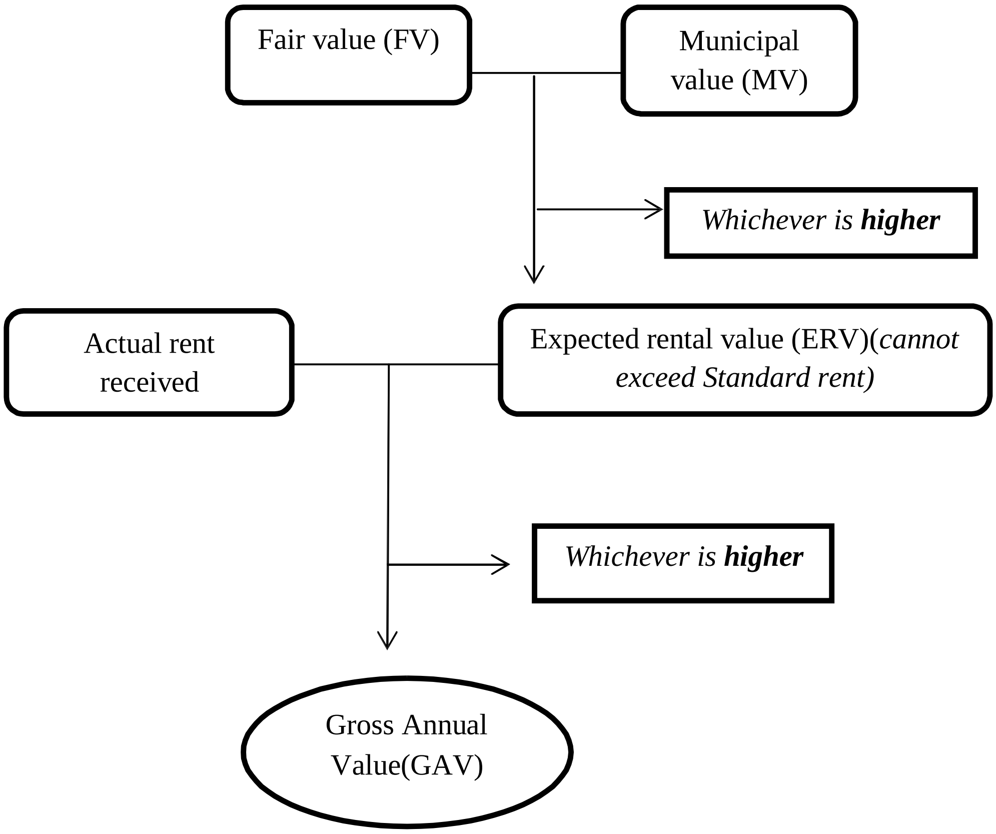
Step1. Determine the Gross Annual Value(GAV)

Step2. Deduct municipal tax actually paid by the owner during the previous year from the Gross Annual Value.

For the purpose of computation of net annual value, properties can be classified into three categories:

A. Properties let out throughout the year.
B. Properties occupied by the owner for residential purposes or properties not self- occupied owing to employment at any other place.
C. Partly let out and partly self-occupied property.

A) Let out house property.



Municipal Value: Municipal value is the value determined by the municipal authorities for levying municipal taxes on house property.

Fair rent: Fair rent is the amount which a similar property can fetch in the same or similar locality, if it is let for a year.

Standard Rent: The standard rent is fixed under Rent Control Act. In such a case, the property cannot be let for an amount which is higher than the standard rent fixed under the Rent Control Act.

Actual rent received or receivable: Actual rent is rent for let out period. It is the de facto rent (i.e. what should have been the actual rent).

FORMAT FOR COMPUTATION OF INCOME FROM HOUSE PROPERTY

Computation of Income from house property of …………. for the Assessment Year ……….

Particulars	**Details**	**Amount**
Gross Annual Value (GAV)		*********
Less: Municipal tax		********
Net Annual Value (NAV)		********
Less: Deductions u/s		
24(a) Standard deduction [30% of NAV]	****	
24(b) Interest on borrowed capital	****	****
Income from house property		****

Deductions from Gross Annual Value (GAV)

While computing the net annual value the following deductions are made from the gross annual value:

1) **Municipal Taxes:**The taxes including service taxes (fire tax, conservancy tax, education, water tax, etc.) levied by any municipality or local authority in respect of any house property paid by the owner.

2) **Unrealised Rent:** If rent for the period cannot be recovered fully from the tenant it can be deductible.

The sum remaining after these deductions are made is called the annual value of house property.

Deductions from Annual Value (AV)

The income chargeable under the head "Income from house property" shall be computed after making the following deductions, namely:

(a) Standard deduction

A sum equal to 30% of the annual value;

(b) Interest on borrowed capital

(i) Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital and such acquisition or construction is completed within three years from the end of the financial year in which capital was borrowed is deductible

(ii) Interest on loan for the period prior to the previous year in which the house is completed is also allowable in five equal annual instalments.

B. Property occupied by the owner [Section 23(2)]

Where the property consists of one house or part of a house in the occupation of the owner for his own residence, and is not actually let during any part of the previous year and no other benefit is derived therefrom by the owner, the annual value of such a house or part of the house shall be taken to be nil. The only deduction available in respect of such house is towards interest on borrowed capital but subject to a ceiling of ₹. 30,000 or ₹.2,00,000 as the case may be. In other words, to this extent there could be a loss from such house.

Concession for one House only:

Where the assessee has occupied more than one house for the purposes of residence for himself and family members, he has to make a choice of one house only in respect of which he would like to claim exemption. Other self-occupied houses will be treated as if they were let out (Deemed Let out) and their annual value will be determined in the same manner as we have discussed in the case of let out property.

Loss from House Property.

When the aggregate amount of permissible deduction exceeds the net annual value of the property, there will be a loss from that property. This loss can be set-off against the income from any other house property. If even after the set-off, there is an unabsorbed balance of the loss, the same can be set-off against income under any other head in the same year and the balance unabsorbed part of the loss can be carried for set off within the subsequent eight assessment years against income from house property.

C. House which is partly Self-occupied and Partly Let Out:

When a portion of the house is self-occupied for the full year and a portion is self- occupied for whole year, the annual value of the house shall be determined as under:

i. From the full annual value of the house the proportionate annual value for self- occupied portion for the whole year shall be deducted.
ii. The balance under (i) shall be the annual value for let out portion for a part of the year.

According to Section 22 of the income tax act, "The annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner, other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him, the profits of which are chargeable to income- tax, shall be chargeable to income tax under the head Income from House Property".

The following points emerge from the above charging section:

(a) Tax is charged on income from the buildings or lands appurtenant thereto:

The buildings include residential buildings, buildings let out for business or profession or auditoriums for entertainment programmes. The location of the building is immaterial. It may be situated in India or abroad.

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Where the land is not appurtenant to a building the income from land can be charged as business income or "income from other sources", as the case may be. The lands appurtenant to buildings include approach roads to and from public streets, courtyards, motor garage, compound, play-ground and kitchen garden. In case of non-residential buildings, car-parking spaces, drying grounds or play-grounds shall be the lands appurtenant to buildings.

(c) Tax is charged from the owner of the buildings and land appurtenant thereto:

Where the recipient of the income from house property is not the owner of the building, the income is not chargeable under this head but under the head 'Income from Business or Other Sources'. For example, the income to a lessee from sub-letting a house is not chargeable under the head 'Income from House Property'. The owners may be of several types like:

a) Real owner
b) Legal owner
c) Mortgagor in case of mortgaged property
d) Lessee in case of leasehold property

Deemed owners: Sometimes there will be deemed owners as per the rule of income tax, like:

i) Property transferred to spouse without adequate consideration-transferor will be the deemed owner

ii) Self-acquired property converted into common pool of HUF- transferor will be the deemed owner

iii) Impartible estate of HUF, the holder is its deemed owner.

iv) Property acquired under power of attorney, its holder is the deemed owner.

(d) Utilised by the assessee for his own business or profession purpose

The annual value of such property or the portion thereof as is utilised by the assessee for the purposes of his own business, profession or vocation, the profits of which are assessable to tax, is not taxable under Section 22. The assessee is also not allowed to claim any deduction in respect of notional rent while computing income from any such business, profession or vocation. However, the assessee can claim depreciation under Section 32 of the Income-tax Act and also, he can claim other expenses e.g. repairs, insurance, municipal taxes, interest on borrowed capital etc. for such business income.

(e) Taxability of rental income from a owned house property

Rents or income arising from ownership of any house property cannot be taxed under any other head since Section 22 provides a specific head for charge of such income to tax.

Similarly, the following income from buildings is not assessable under this head:

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b. **If building is let out to authorities for locating bank, post office, police station, central excise office, etc.:**

c. **Composite letting of building with other assets:** Where the assessee lets on hire machinery, plant or furniture belonging to him and also buildings and the letting of the buildings is inseparable from the letting of the said machinery, plant or furniture, the income from such letting is chargeable to tax under the head “Income from other Sources” if it is not chargeable to income-tax under the head “Profits and gains of business or profession” However, if rent is separable between rent of building and rent for other facilities viz. rent of machinery, plant or furniture or other facilities etc, then rent of building would be taxable as Income from house property and rent for machinery, plant or furniture or other facilities would be taxable as either Income from Other Sources or Profits and gains of business or profession, depending upon the facts of each case.

d. **Income of State Industrial Development Corporation for letting out of sheds, etc.**

e. **Services rendered in providing electricity, use of lifts, supply of water, maintenance** etc

PROBLEMS

1.Calculate Gross Annual Value for the following house properties. (` in '000)

Particul	H1	H2	H3	H4	H5	H6
Gross Municipal value for the whole	120	13	140	150	160	180
Fair rent for the whole year	105	11	135	155	175	168
Standard rent (for whole year)	NA	10	135	180	165	144
Actual rent receivable	100	11	135	175	200	100
Period of the previous year (in months)	1	12	1	1	1	1

2.Find out the gross annual value in case of the following properties let out throughout the previous year for the assessment year 2019-20.

Particulars	H1	H2	H3	H4	H5
Municipal annual value	9	50	3	10	31
Fair rent	30	30	30	30	30
Standard rent under the Rent Control Act	5	80	24	25	50
Actual rent receivable p.a.	12	60	18	36	15
Unrealised rent of the P.Y. 2018-19 (in	2	3	1	3	2

3.Find out the Gross annual value in case of the following properties

Particul	H1	H2	H3	H4	H5	H
Gross Municipal Value p.a.	20	30	40	500	300	300
Fair rent p.a.	30	60	75	180	200	400
Standard rent under the Rent	30	18	28	225	250	240
Actual rent p.a.	60	90	30	240	216	240
Property remains vacant (in	1	3	2	1	2	1

4.Find out the gross annual value in respect of the following properties for the A.Y. 2019-20

Particul	H1	H2	H3
Gross Municipal value	150	180	120
Fair rent	140	140	240
Standard rent	120	240	300
Actual rent if property is let out throughout the	180	300	150
Unrealised rent of the previous year 2018-19	2	4	2
Unrealised rent of the year prior to the previous	3	5	6
Period when the property remains vacant (in	3	1	-

5.Mr. Krishnan constructed one house in 2016. Half of the portion is let out and the remaining half is used for his residence. particulars are available.

Municipal value	125
Rent received	100
Municipal tax	250
Ground rent	250
Repairs	200
Interest on loan taken for	2500

6. Compute his income from house property for the AY 2019-20 Mr. leelamma is the owner of a house in kottayaram. The details regarding her house are given below.

Municipal value	84
Rent received	90
Total Municipal tax	12
Municipal tax paid by tenant	42
Ground rent	25
Repairs	20
Interest on loan taken for	30
Unrealized rent recovered	40

Compute her income from house property for the AY -2019-20

7.Vipin das is the owner of a house in vatakara. It has let out for rent for Rx is fixed as /Rs. 90000 per annum. The municipal tax is fixed as Rs. 10000, which according to agreement is to be paid by the tenant. The owner spent the following amount for providing additional facilities to the tenant.

Water charges	1000
Lift repair	1000
Lighting	800
Gardeners salary	1200

The landlord claims the following deductions

Collection charges	2000
Land revenue	10000
Repairs	30000
Legal expenses to purchase land	24000

Compute his income from house property 2019-20

UNIT – IV

INCOME FROM BUSINESS OR PROFESSION

BUSINESS

The meaning of the expression 'Business, has been defined in Section 2(13) of the Income-tax Act. According to this definition, business includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

PROFESSION

According to the generally accepted principles, the meaning of the term 'profession' involves the conceptof an occupation requiring either intellectual skill or manual skill controlled and directed by the intellectual skill of the operator.

Income chargeable to the head 'business or profession'.

The scope of income chargeable under the head 'Profits and Gains from business or Profession' is coveredby Section 28 of the Act which lays down that the following items of income must be charged to tax under this head:

1) **Income from business or profession**: The profits and gains of any business or profession which was carried on by the assessee at any time during the previous year.
2) **Compensations**:
   a) Received on termination of a managing agency of Indian company.
   b) Received on termination of a managing agency of foreign company
   c) Received on termination of any agency or on modification of terms of agency,
   d) Received from government or a corporation on taking over of management of property or business.
3) **Income from Trade associations**: Any income derived by a trade or professional or other similar association from the specific servicesperformed by it for its members.
4) **Export Incentives:**
   Profits on sale of a license granted under the Imports
   Cash assistance (by whatever name called) received or receivable by any person against exportsunder any scheme of the Government of India;
   Any duty of customs or excise re-paid or re-payable as drawback to anyperson against exports.
5) **The value of any benefit or perquisite**, whether convertible into money or not, which arises from thecarrying on of a business or the exercise of a profession.
6) **Any interest, salary, bonus, commission or remuneration**, by whatever name called, due to or receivedby a partner of a firm from such firm.
7) Any sum, whether received or receivable in cash or kind, under an agreement for –
   (a) Not carrying out any activity in relation to any business or

(b) not sharing any know-how, patent, copyright, trade mark, license, franchise or any other businessor commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision of services:

8) **keyman Insurance Policy:**Any sum received under a keyman Insurance Policyincluding the sum allocated by way of bonus onsuch policy.

9) any sum, whether received or receivable, in **cash or kind, on account of any capital asset** (other thanland or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction under section 35AD.

Computation of income from Business or Profession.

Format for Computation of Business or Profession Income :

Computation of Income from Business

Net Profit as per Profit & Loss Account	-----------
Add : Expenses disallowed/Inadmissible Expenses [i.e. items already debited in P & L A/c but not eligible for deduction]	-----------
Less : Incomes Credited in P & L A/c to be treated separately under different heads of income	(-----------)
Less : Expenses (not debited to P & L A/c) allowed as per Provisions	(----------)
Income from business	**---------**

Computation of Income from Profession

Receipts relating to Profession (on Cash Basis) *Less* : Payment relating to profession (both cash and accrual basis)	--------- (--------)
Income from Profession	---------

Deductions allowable u/s: 30 to 36

1) **Rent, Rates, Taxes, Repairs and Insurance for Buildings** (Section 30)
2) **Repairs and Insurance of Machinery, Plant and Furniture** (Section 31)
3) **Depreciation (Section 32)**

Depreciation is the diminution in the value of an asset due to normal wear and tear or due to obsolescence.In order to allow depreciation the following conditions are to be fulfilled;

i. There must be an asset.
   - **a)** Tangible- building, machinery, plant.etc
   - **b)** Intangible- patent, copyright, trademark etc

ii. Such asset should be owned, wholly or partly, by the assessee

iii. Such asset should be used for purposes of Business or Profession. iv.It should be used during the relevant Previous Years.

Depreciation will be charged on the 'Written Down Value'(WDV) of the 'Block of assets'.

Block of Assets: It means a group of assets falling within a class of assets

Rate of depreciation for block of assets-

Number	Nature of Asset	Rate of depreciation.
Block 1	Residential building other than hotels and boarding houses	**5%**
Block 2	Building- Office, factory, godowns or buildings which are not usedfor residential purpose	**10%**
Block 3	Buildings temporary erection such as wooden structures	**100%**
Block 4	Any furniture/ fitting including electrical fittings	**10%**
Block 5	Any plant & machinery and motor cars	**15%**
Block 6	Ships, vessels, speed boatsetc	**20%**
Block 7	Buses, lorries and taxies used in the business of running them on hire.	**30%**
Block 8	Aero planes	**40%**
Block 9	Containers made of glass or plastic used as refills and plant and machinery.	**50%**
Block 10	Computers including software	**60%**
Block 11	Energy saving device	**80%**
Block 12	Air pollution control equipment; water pollution control equipment; solid water control equipment; recycling and resource recovery systems etc	**100%**
Block 13	Intangible assets- Know-how, patents, copyrights, trademarks, Licences, Franchises etc	**25%**

Expenses Disallowed (Section 40)

The following amounts shall not be deducted in computing the income chargeable under the head "profits andgains of business or profession:

i. Interest, royalty, fees for technical services payable outside India
ii. TDS not deducted on certain payments:
iii. Rate or Tax Paid on Profits:
iv. Wealth Tax [Section 40a(iia)]:
v. Amount paid by way royalty, licence fee, service fee, privilege fee, service charge by State Government undertaking to State Government.
vi. Salaries [Section 40a(iii)]: Any payment which is chargeable under the head "salaries" if it is payable –a) outside India; or b) to a non-resident
vii. Payment to Provident Funds etc: Any payment to a Provident Fund or other fundestablished for the benefit of employees of the assessee would be disallowed in cases where the assessee (employer) has not made effective arrangements to secure deduction of tax at source from any payment made from the fund which are chargeable to tax under the head 'salaries' in the hands ofthe employees.
viii. Payment of tax on non-monetary perquisites [Section 40a(v)]:
ix. Payment to Partners by a firm (Discussed under the chapter Assessment of firms).

PROBLEMS

1.The net profit of business of Mr. Vijayan as disclosed by its profit and loss account were Rs. 325000 after charging the following.

a.	Municipal taxes on house	300
b.	Bad debts written off	150
c.	Provision for doubtful debts	160
d.	Provision for taxation	150
e.	Depreciation	250
f.	Depreciation allowable	200

Ascertain taxable business profit?

2.The following is the profit and loss account of Mr. raja. You are required to compute his income from business as well as his total income for the assessment year 2019-20.

Salaries and wages	24000	Gross profit	96400
Rent rates and taxes	6400	Dividends	4800
Trade expense	2950	Rent from property	10800
Advt	1900		
Fire insurance premium	600		
Discount	2500		
Postage	550		
Donation	2000		
Income tax	6600		
Loss of stock	4000		
Repairs	1000		
Audit fee	600		
House hold expenses	7000		
Life insurance premium	4000		
Interest on capital	400		
Net profit	47550		
	112000		112000

3.The following is the receipt and payment account maintained by a registered medical practitioner. An abstract of receipts and payments is given below. You are required to compute his income from profession and also compute his total income for the assessment year 2019-20.

Balance b/d	78000	Cost of medicine	8000
Consultation fees	42000	Surgical tools	6000
Sale of medicine	15000	Rent of dispensary	1400
visiting fees	20000	Motor car	100000
interest on govt. securities	3500	Car expense	6000
rent from property	3000	Salaries	5300
loan from bank for pvt use	2000	Life insurance premium	2500
		Interest on bank loan	200
		Property insurance	500
		OYT deposit	8000
		Balance c/d	25600
	163500		163500

Additional information:

1. Half of the motor car expenses are meant for personal use
2. Depreciation allowable on car is 15% and surgical tools @ 25%

UNIT – V

INCOME FROM CAPITAL GAINS

Any profit or gains arising from the transfer of a capital asset will be chargeable to income tax under the head capital gain.

'Capital assets' may be:-

1) Any stock in trade, raw material or consumable stores held for the purpose of business or profession.
2) Personal effects, ie. Movable properties held by the assesse, excluding the following-
   a) jewellery,
   b) archaeological collections,
   c) drawings,
   d) paintings
   e) sculptures, or
   f) any art work
3) Rural agricultural land in India.
4) National defense gold bonds, 7% gold bonds issued by central government.
5) Special bearer bond 1991, issued by central government.
6) Gold deposit bonds issued under gold deposit scheme.

'Transfer' means;

The term transfer includes the following types of transactions:-

i) The sale, exchange of asset,
ii) The extinguishment of any right therein,
iii) The compulsory acquisition under any law ,
iv) Conversion of capital asset to stock in trade,
v) The maturity or redemption of zero coupon bond,
vi) Part performance of the contract,
vii) Transactions having the effect of transferring of an immovable property, eg. power of attorney transactions

Transactions which do not constitute transfer [Sections 46 and 47]

1. any distribution of capital assets on the total or partial partition of a HinduUndivided Family;
2. any transfer of a capital asset under a gift or will or an irrevocable trust
3. any transfer of a capital asset by a company to its subsidiary company, if–
   a) the parent company or its nominees hold the whole of the share capital of the subsidiary company, and
   b) the subsidiary company is an Indian company.
4. any transfer of a capital asset by a subsidiary company to the holding company, if –
   a) the whole of the share capital of the subsidiary company is held by the holding company, and
   b) the holding company is an Indian company;

5. any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company if the amalgamated company is an Indian company;
6. any transfer in a scheme of amalgamation of a capital asset being share or shares held in an IndianCompany, by the amalgamating foreign company to the amalgamated foreign company, if –
   a) at least twenty-five per cent of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
   b) such transfer does not attract tax on capital gains in the country, in which the amalgamating company is incorporated.
7. any transfer by a shareholder, in a scheme of amalgamation, of a capital asset being a share or shares held by him in the amalgamating company, if –
   a) the transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company except where the shareholders itself is the amalgamated company, and
   b) the amalgamated company is an Indian company;
8. any transfer of agricultural land in India effected before the first day of March,1970;
9. any transfer of a capital asset being any work of art, archaeological, scientific or art collection, book, manuscript, drawing, painting or photograph.
10. any transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form, of a company, into shares or debentures of that company.
11. any transfer of land by a sick industrial company
12. where a firm is succeeded by a company in the business carried on by it as a result of which the firm sells or otherwise transfers any capital asset or intangible asset to the company:

Short Term Capital Gain (STCG)

Any capital gain arising as a result of transfer of a short-term capital asset is known as short-term capital gain.

SHORT TERM CAPITAL ASSETS

According to Section 2(42A) of the Income-tax Act:**"Short term" capital asset** means a capital asset held by an assessee for not more than thirty-six monthsimmediately preceding the date of its transfer. In the case of capital assets (being equity or preference share ina company) held by an assessee for not more than 12 months immediately prior to its transfer.However, an unlisted security and a unit of a mutual fund (other than an equity oriented mutual fund) shall be a short-term capital asset if it is held for not more than thirty six months.

It is calculated as follows-

Full value of consideration		---------------
Less: expenses on transfer		---------------
Net consideration		---------------
Less: i) cost of acquisition	-----------	
ii) Cost of improvements	-----------	---------------
Short term capital gain		---------------

Long Term Capital Gain (LTCG)

Long Term Capital Gain is the gain arising from long term capital assets.

LONG TERM CAPITAL ASSETS

Those capital assets which are held by an assessee for more than 36 months before the date of transfer are long term capital assets. In case of financial assets, if it is held for more than 12 months before the date of transfer, they are treated as long term capital assets.

It is calculated as follows-

Full value of consideration		-------------
Less: expenses on transfer		-------------
Net consideration		-------------
Less: i) Indexed cost of acquisition	--------	
ii) Indexed Cost of improvements	---------	
Long term capital gain		------------

Cost of acquisition.

i) In the case of acquisition of a capital asset by the assessee by purchase from a previous owner, cost of acquisition means the amount of the purchase price; and

ii) In any other case cost of acquisition shall be Nil.

iii) Capital assets acquired before 1.04.2001. The fair market value as on 1.04.2001will be the cost of acquisition.

Cost of Improvement.

i) Incurred before 1.04.2001 is to be ignored.

ii) Incurred after 1.04.2001 is given as deduction.

Capital gains exempt from Tax.

Under Sections 54, 54B, 54D, 54EC, 54F, 54G and 54H of the Act, capital gains arising from the transfer of certain capital assets are exempt from tax under certain circumstances. These provisions are dealt with section wise below.

1. Capital Gain on sale of residential house (sec 54) Eligible assesse: individual and HUF.

Conditions to be fulfilled,

There should be transfer of residential house

It must be long term capital asset

Income of such house should be taxable under the head income from house property.

A new residential house should be-

Purchased within 1 year before or 2 years after the date of transfer (or)

Constructed within a period of 3 years after the date of transfer.

Limit of exemption.

If the cost new house is greater than the capital gain, it's fully exempted.

If the cost of new house is less than the capital gain, to the extent of the cost of new house is exempted.

2. Capital gain on transfer of agricultural land (sec 54B)

Eligible assesse: Individual and HUF.

Conditions to be fulfilled,

There should be a transfer of urban agricultural land.

Such land must have been used for agricultural purposes by the assesse, being an individual or his parent in the two immediately preceding years.

He should purchase another agricultural land within two years from the date of transfer.

Quantum of exemption,

If cost of new agricultural land is greater than the capital gains, entire amount is exempted.

If cost of new agricultural land is less than the capital gains, to the extent of cost of new agricultural land is exempted.

3. **Capital gains on compulsory acquisition of land and building(Sec 54D) Eligible assesse-** any assesse

Conditions to be fulfilled

There must be compulsory acquisition of land or building.

The land and building should have been used by the assessee for the purpose of business in the two years immediately preceding to the date of acquisition.

The assessee must purchase any other land or building within three years from the date of transfer

Limit of exemtion.

If the cost new land or building is greater than the capital gain, it's fully exempted.

If the cost of new land or building is less than the capital gain, to the extent of the cost of new house is exempted.

4. **Capital gains through investment in certain bonds of NHAI and RECL (Sec 54EC) Eligible assessee-** Any assessee

Conditions to be fulfilled.

There should be transfer of long term capital asset.

Capital gains arising from such transfer should be invested in long term specified asset within 6 months from date of transfer.

Long term specified bonds means, redeemable after three years, issued by National Highway Authority of India (NHAI) or the Rural Electrification Corporation limited (RECL).

Quantum of exemption: capital gains or amount invested in specified bonds, whichever is lower.

5. **Capital gain in cases of investment in residential house (sec 54F) Eligible Assessee:** individual and HUFs

Conditions to be fulfilled

There must be transfer of capital asset. Not being a residential house.

A new residential house should be-

Purchased within 1 year after the date of transfer (or)

Constructed within a period of 3 years after the date of transfer.

The assessee should not own more than one residential house at time of transfer.

Quantum of exemption

If cost of new residential house is greater than net sale, entire capital gain is exempt.

If cost of new residential house is less than net sale consideration, only proportionate capital gains is exempt,

$$\text{LTCG} \times \frac{\text{Amount invested in new residential house}}{\text{Net sale consideration}}$$

‘Capital gain account scheme (CGAS)’

Under sections 54, 54B, 54D, 54F and 54G capital gains is exempt to the extent of investment of such gains in specified assets within specified time. If such investment is not made before the date of filing of return of income, then the capital gain has to be deposited under CGAS.

Time limit: such deposit in CGAS should be made before filing the return of income or on or the before the due date of filing the return.

6. **Long-term capital gain on transfer of securities covered under Transaction Tax (Sec 10(38)**)

Any income arising from the transfer of a long term capital asset being securities, and the transaction of sale securities is entered into in a recognised stock exchange in India is exempted from capital gain tax.

COST OF INFLATION INDEX (CII)

CII for any years means the index announced by central Government according to the consumer price index, through the Official Gazette.

Financial year	CII	Financial year	CII
2001-02	100	2010-11	167
2002-03	105	2011-12	184
2003-04	109	2012-13	200
2004-05	113	2013-14	220
2005-06	117	2014-15	240
2006-07	122	2015-16	254
2007-08	129	2016-17	264
2008-09	137	2017-18	272
2009-10	148	2018-19	280

INCOME FROM OTHER SOURCES

The incomes which are neither covered under the head salary, house property, business income or capital gains shall be taxable under head Income from other sources. This head of income is a residual head because it covers all other incomes which are uncovered and which are not exempt from tax. Income chargeable under Income-tax Act, which does not specifically fall for assessment under any of the heads discussed earlier, must be charged to tax as "income from other sources". In addition to the taxation of income not covered by the other heads, Section 56(2) specifically provides certain items of incomes as being chargeable to tax under the head in every case.

The following shall be chargeable to Income Tax under the head Income from other sources:

1. **Dividends [Section 56(2)(i)]**
   Dividend income other than divided referred under section 10(34) shall be included under income from other sources.
2. **Keyman Insurance policy**
   Amount received under a Keyman insurance Policy, including bonus on each Policy, if it is not taxable under any other head of income shall be chargeable under Income from other sources.
3. **Winnings from lotteries [Section 56(2)(ib)]**
   Any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature shall be chargeable to tax under Income from other sources.
   The entire income of winnings, without any expenditure or allowance or deductions under Sections 80C to 80U, will be taxable. However, expenses relating to the activity of owning and maintaining race horses are allowable. Further, such income is taxable at a special rate of income-tax i.e., **30% + surcharge + cess @ 3%** [Section115BB]
4. **Contribution to Provident fund**
   Income of the nature referred to in Section 2(24)(x) (relating to certain contributions to any provident fund or superannuation fund or any fund set up under the provisions) will be chargeable to income-tax under the head "income from other sources" if such income is not chargeable to income-tax under the head "profits and gains of business or profession". But if the employer deposits such amount on or before due date of deposit applicable for such contribution, he will be allowed a deduction on account of the same.
5. **Income by way of interest on securities**
   If the income by way of interest on securities is not chargeable to income-tax under the head 'Profits and gains of business or profession' than such income shall be taxable under Income from other sources.
6. **Income from hiring of machinery etc.**
   Income from machinery, plant or furniture belonging to the assessee and let on hire if the income is not chargeable to income-tax under the head "profits and gains of business or profession" shall be taxable under Income from other sources.

7. **Hiring out of building with machinery (composite letting) etc.**
   Where an assessee lets on hire machinery, plant or furniture belonging to him and also building and the letting of the building is inseparable from the letting of the said machinery, plant or furniture, the income from such letting, if it is not chargeable to income-tax under the head "Profits and gains of business or profession" shall be taxable under Income from other sources.
8. **Money Gifts:**
   Where any sum of money, the aggregate value of which exceeds ₹ 50,000, is received without consideration the whole of the aggregate value of such sum shall be taxable under the head Income from other sources.
   Provided that this clause shall not apply to any sum of money received
   a) from any relative; or
   b) on the occasion of the marriage of the individual; or c) under a will or by way of inheritance; or
   d) in contemplation of death of the payer; or e) from any local authority
   f) from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust.
   g) from any trust or institution registered under section 12AA.
   Explanation: For the purposes of this clause, **relative** means i. spouse of the individual;
   ii. brother or sister of the individual;
   iii. brother or sister of the spouse of the individual;
   iv. brother or sister of either of the parents of the individual;
   v. any lineal ascendant or descendant of the individual;
   vi. any lineal ascendant or descendant of the spouse of the individual;
   vii. Spouse of the person referred to in clauses (ii) to (vi).]
9. Gifts aggregating to more than ₹50,000 in a year on or after 1st Day of April, 2006.
10. **Shares as gift to its members**.
11. **Share premiums in excess of the fair market value to be treated as income**
12. **Income by way of interest received on compensation or on enhanced compensation.**
13. **Advance money received-** any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset.

Besides the above, there are some other incomes which are also chargeable under the head 'Income from Other Sources'. For example:

1. Any fees or commission received by an employee from a person other than his employer.
2. Any annuity received under a Will. It does not include an annuity received by an employee from his employer.
3. All interest other than interest on securities, e.g. interest on bank deposits, interest on loan, etc.

4. Income of a tenant from sub-letting the whole or a part of the house property.
5. Remuneration received by a teacher or a lawyer for doing examination work.
6. Income of Royalty.
7. Director's fees.
8. Rent of land not appurtenant to any building.
9. Agricultural Income from land situated outside India.
10. Income from markets, ferries and fisheries, etc.
11. Income from leasehold property.
12. Remuneration received for writing articles in Journals. m. Income from undisclosed sources.
13. Interest received by an employee on his own contributions to an unrecognised provident fund.
14. Casual income in excess of ₹ 5,000, or
15. Salary of a Member of Parliament, Member of Legislative Assembly or Council.
16. Interest received on securities of co-operative society.
17. Family pension received by the widow of an employee of the U.N.O. is exempt. Similarly the family pension of gallantry awardee is exempt.
18. Amount withdrawn from deposit in National Savings Scheme, 1987 on which deduction under Section 80CCA has been allowed including interest thereon.
19. Gratuity received by a director who is not an employee of the company.
20. Director's commission for giving guarantee to bank.
21. Director's commission for underwriting shares of a new company.

Casual income and its taxability.

Casual income includes income by way of winnings from lotteries; crossword puzzles; races including horse races; gambling and betting of any nature or form; card games, game show or entertainment program on television or electronic mode and any other game of any sort. All these incomes are chargeable to tax under the head income from other sources

Deduction from Casual Income: No deduction or exemption is provided in respect of the casual income. No deduction can be claimed from such income even if such expenditure is incurred exclusively and wholly for earning such income.Further, deduction under section 80C to 80U is also not available from such income.

Taxation of Casual Income: Casual income is liable to TDS. The casual income is taxed at a flat rate of 30% plus surcharge (if any, plus education cess plus secondary and higher education cess). When the TDS has already been deducted from the income, then in order to calculate the tax liability on such income, the income is to be grossed up.

However, the following incomes are not liable to TDS:

i. Winning from lottery upto amount ₹.10,000 ii. Winning from racing other than horse race iii. Winning from horse race upto ₹. 5,000

Dividend and its taxability.

Dividend means the sum paid to or received by a shareholder proportionate to his shareholding in a company out of the total sum distributed. The definition of "Dividends" under Section 2(22) is an inclusive definition and it means dividend as normally understood and include in its connotation several other receipts set out in the definition(e.g.loan by a closely held company to its shareholder).

Taxation of dividend:

i. Dividend declared/distributed/paid by domestic company including deemed dividendis exempt in the hands of shareholder.
ii. Dividend from units of mutual fund is exempted.
iii. Dividend from foreign company is taxable under the head other sources.

Interest on securities

Interest on securities is chargeable as Income from Other Sources if it is not chargeable as
Profits and Gains of Business or Profession, i.e. when the securities are held as investment.

Taxability of interest:

i. Interest is taxable under the head other sources and liable to TDS at 10%.
ii. **Interest on Securities Exempt –** The interest on securities of the following cases is exempt from tax –

a. Interest on notified securities, bonds or certificates issued by the Central Govt. Interest on Post Office Savings Bank Account will be exempted only to the extent of ₹ 3,500 in case of an individual and ₹7,000 in case of joint account w.e.f. AY 2012-13

b. Interest to an individual or a HUF on 7% Capital Investment Bond or on notified Relief Bonds.

c. Interest to non-resident Indians on notified bonds.

PROBLEMS

1.Mr. Divesh had purchased a golden ring as on 17/8/2017 for Rs. 20,000. On 1/05/2018, he has sewn a diamond on it costing Rs. 25,000. On 1/08/2018, he sold such ring for Rs. 80,000 and incurred brokerage for arranging customer Rs. 5,000. Compute capital gain.

2.On 23rd December, 2018, Rajat sold 500 grams of gold, the sale consideration of which was Rs. 13,50,000. He had acquired this gold on 20th August, 2000 for Rs. 4,00,000. Fair market value of 500 grams of gold on 1st April, 2001 was Rs. 3,60,000. Find out the amount of capital gain chargeable to tax for the assessment year 2019-20.

3.Mr. bal Krishnan provides you the following information relating to the sale of his only residential house. Calculate his capital gain for the assessment year 2019-20.

Sold the house in Sept 2018		5000000
Expenditure incurred in connection with transfer	25000	
House purchased in January 1987		240000
Fair market value on Ist may 2001		420000
Purchased another residential house in January 2019		1050000
Invested in bond issued by NHA u/s 54EC in jan 2019		850000
The cost of inflation index in 2001-02 was 100 and for 2018-19	280	

4.Mr. A sold his property for Rs. 376000 in December 2018 incurring an expense of Rs. 6000 which was purchased in January 2017 for Rs. 240000. Find out taxable capital gain ?

5.Calculate capital gain from the following data. Sold self generated goodwill for a business RS. 700000 bonus shares in kairali ltd (not listed) and (being short term capital assets) sold for RS.400000. Business income Rs. 30000. Long term capital loss in the transfer of a building Rs. 20000. Face value of bonus shares sold RS. 300000.

6.Compute income from “income from other sources” from the following particulars submitted by Mr. soman.

1.	Dividend (gross)	9600
2.	Expenses incurred for its collection	500
3.	Receipt from letting of plant and machinery	10000
4.	Repairs of plant and machinery	4000
5.	Insurance premium in respect of plant and machinery	2000
6.	Depreciation allowed for letting	4000

DEDUCTIONS U/S 80 C

Deductions under 80C is allowed to an individual assessee and a Hindu Undivided Assessee. If an assessee has paid any of the following during the previous year, he can claim the entire amount not exceeding Rs.1,50,000 as deduction from gross total income.

a. Any sum paid as LIC premium (actual premium subject to 20% of sum assured is allowed)
b. Any sum paid by an employee towards SPF, RPF
c. Any contribution to Unit Linked Insurance Plan
d. Any sum paid as tuition fees for not more than two children
e. Any sum paid as repayment of housing loan
f. Any sum deposited in a term deposit for a period of not less than 5 years with a scheduled bank.

DIRECT TAXES CODE

The **Direct Taxes Code** (**DTC**) is said to replace the existing Indian Income Tax Act, 1961.

HIGHLIGHTS OF THE DIRECT TAXES CODE

- Common threshold Income Tax exemption limit for men and women proposed at Rs. 2 lakh per annum (proposed), up from Rs. 1.8 lakh
- 10 per cent tax on annual income between Rs. 2-5 lakh, 20 per cent on between Rs. 5-10 lakh, 30 per cent for above Rs. 10 lakh
- Tax burden at highest level will come down by Rs. 41,040 annually
- Proposal to raise tax exemption for senior citizens to Rs. 2.5 lakh from Rs. 2.4 lakh currently.(NOTE:- Union budget 2011-12 already has proposed it.)
- Corporate Tax to remain at 30 per cent but without surcharge and cess.
- MAT to be 20 per cent of book profit, up from 18.5 per cent.
- Proposal to levy dividend distribution tax at 15 per cent.
- Exemption for investment in approved funds and insurance schemes proposed at Rs. 1.5 lakh annually, against Rs. 1.2 lakh currently

- Proposed bill has 319 sections and 22 schedules against 298 sections and 14 schedules in existing IT Act.
- Once enacted, DTC will replace archaic Income Tax Act.
- However, many provisions in Income Tax Act will be a part of DTC as well.
- FBT will be charged to the employee rather than the employer.

SALIENT FEATURES OF DIRECT TAXES CODE

- DTC removes most of the categories of exempted income. Equity Mutual Funds (ELSS), Term deposits, NSC (National Savings certificates), Unit Linked Insurance Plans (ULIPs), Long term infrastructures bonds, house loan principal repayment, stamp duty and registration fees on purchase of house property will lose tax benefits.
- Only half of Short-term capital gains will be taxed
- Surcharge and education cess are abolished.
- For incomes arising of House Property: Deductions for Rent and Maintenance would be reduced from 30% to 20% of the Gross Rent. Also all interest paid on house loan for a rented house is deductible from rent.
- Tax exemption on Education loan to continue.
- Tax exemption on LTA (leave travel allowance) is abolished.
- Taxation of Capital gains from property sale: For sale within one year, gain is to be added to taxable salary.
- Tax on dividends: Dividends will attract 5% tax.
- Medical reimbursement: Max limit for medical reimbursements has been increased to rupees 50,000 per year from current rupees 15,000 limit.