

Idhaya College for Women Kumbakonam



PG & Research Department of Commerce

III B.Com

**INCOME TAX THEORY LAW & PRACTICE -
16CCCCM14**

Unit - I to V (Provisions)

Dr. V.Mahalakshmi,

Head & Assistant Professor of Commerce,

Idhaya College for Women,

Kumbakonam.

Unit - I

Residential Status

Resident and Ordinarily Resident	Not ordinarily Resident	Non Resident
<p>1. Individual An individual satisfying one of the basic conditions and Both the Additional conditions</p>	<p>An individual satisfying one of the basic conditions and not satisfying one or both of the additional conditions</p>	<p>An individual not satisfying any one of the basic conditions</p>

<p>2. HUF, AOP and a Firm: Control and management of the affairs of HUF is wholly or partly in India</p> <p>3. Company:</p> <p>i. An Indian company is always resident.</p> <p>ii. A foreign compaany: The control and management of affairs is situated wholly in India</p>	<p>If HUF's Kartha is not Ordinarily resident</p> <p>-</p> <p>-</p>	<p>Control and management of the affairs of HUF is wholly outside India</p> <p>-</p> <p>Control and management of affairs is partly in India and partly outside India.</p>

Basic & Additional Conditions

Basic Conditions

1. An individual must stay in India atleast 182 days during the P.Year
2. An individual must stay atleast 60 days during the previous year and 365 days during 4 years preceeding the P.Year.

Additional conditions

1. He has been resident in India atleast 2 years out of 10 years preceeding the p.year
2. He has been in India atleast 730 days during 7 years preceeding the p.year

INCIDENCE OF TAX	OR	NOR	NR
Income:			
1. Received in India	T	T	T
2. Accrued in India	T	T	T
3. Business Income controlled from India	T	T	NT
4. Income from profession set up in India Income received outside India	T	T	NT
5. Business controlled from outside India or profession being set up outside India, Income received outside India			
6. Any other Income received outside India eg. Salary, rent, Interest etc.	T	NT	NT
	T	NT	NT

UNIT - II

Income from Salaries

- I. Items included in Salary**
 - a. Basic salary**
 - b. DA**
 - c. Commission**
 - d. Bonus**
 - e. Allowances**
 - f. Perquisites**
 - g. Retirement benefits**
 - h. Profit in lieu of salary**
 - i. Arrears of salary received**
 - j. Advance salary Received**

Partially Taxable Allowances

1. House Rent Allowance

2. Entertainment Allowance recd. by Govt. employees

Following allowances are exempted upto amount spent for employment purpose:

3. Helper allowance

4. Uniform allowance

5. Academic Research allowance

6. Conveyance allowance

7. Travelling allowance

Following allowances are exempted upto amount so notified

8. Special compensatory allowance

9. Border Area allowance

10. Compensatory field area allowance

11. Tribal area allowance

12. Transport allowance

13. Allowance for transport employees

14. Children's education allowance

15. Hostel expenditure allowance

III. Provident Funds

- **A. Annual Accretion**
- **1. Annual Accretion to SPF/URPF by employer is exempted. Interest credited is also exempted.**
- **2. Annual accretion to RPF by employer's contribution is exempted upto 12% of salary. Interest is exempted upto 9.5%.**

- **B. Refund from Provident Fund**
- **1. Refund from SPF and RPF is fully exempted**
- **2. Refund from URPF:**
 - **a. Employer's contribution and interest thereon is salary income**
 - **B. Interest on employee's contribution is income from other sources.**

iv. Perks taxable in the hands of all employees

- 1. Value of furnished house
 - **A. Govt. Employee: The value of house is rent fixed by the govt. (License fee)**
 - **B. Other employees:**
 - **(i) Owned by employer: In cities whose population is more than 25 Lakhs: 15% of salary. In cities whose population is above 10 lakhs but not exceeding 25 lakhs is 10% of salary. In other cities 7.5% of salary.**

2. Obligation of employee met by employer:

(a) Gas, Water, electricity bills issued in the name of the employee, but paid by employer

(b) Education bills issued in the name of employee, but paid by employer

© Domestic servants employed by employee but paid by employer.

(d) Income tax, professional tax of employee paid by employer

- **3. Interest free loan or loan at concessional rate of interest given by employer to employee**
- **4. Sale of movable assets by employer to employee**
- **5. LIC premium paid by employer**
- **6. Club bills and credit card bills paid by employer.**
- **7. Lunch provided by employer in excess over Rs.50 per mea;**
- **8. Gifts given by employer being cash gifts and gift cheques are fully taxable. Gifts in kind are exempted upto Rs.5,000.**

V. Retirement Benefits

- (a) Gratuity
- (b) Pension
- © Leave encashment
- (d) VRS Compensation
- **VI. Deductions out of Salary income U/S 16**
- **a. Standard deduction**
- **b. Entertainment allowance for Govt. employees**
- **C. Professional tax paid by employer or employee**

VII. Qualifying Amount for deduction U/S 80C

- a. Own contribution to PPF, RPF and SPF
- b. LIC premium
- c. Any amount deducted under group insurance
- d. Any amount invested in NSC VIII or IX issue and accrued interest on NSC
- e. Any amount deposited in NSS
- f. Any amount paid to Jeevan Dhara or Jeevan Akshay plan of LIC
- g. Amount deposited with mutual fund under a scheme of pension fund
- h. Any amount deposited with national housing bank

- i. Any amount deposited with an authority engaged in housing development or town and rural development
- j. Any amount repaid under housing loan
- k. Any amount deposited in equity linked saving scheme
- l. Any amount paid as college or school tuition fees of two children
- m. Amount paid as subscription to equity shares or debentures of any infrastructure company
- n. Any amount contributed by employer towards super annuation fund

- **O. Amount deposited in UTI or LIC under ULIP**
- **P. Amount deposited with housing finance corporation**
- **Q. Term deposit with a bank**
- **R. Subscription to Bonds of NABARD**
- **S. Amount deposited under senior citizens saving scheme**
- **T. Amount deposited in five year time deposit scheme in post office**

Maximum qualifying amount U/S 80C is least of U/S 80CCE

- **(a) Rs. 1,50,000**
- **(b) Actual payment / investment in specified schemes.**
- **The qualifying amount is deductible from gross total income**

Unit – III

Income from House Property

Exempted income from House Property:

- (a) Farm house property income**
- (b) House property held for charitable purpose**
- (c) Self occupied by the owner of the property for residence or for carrying out own business or profession**
- (d) Property held by a registered trade union, local authority, political party, educational institution or hospital etc.**

Deductions allowed under the head House property

- **Deduction of Municipal Taxes: Municipal taxes paid by the owner are deducted from gross annual value to arrive at the net annual value.**
- **Two deductions are allowed under sec. 24**
- **a. Standard deduction is allowed at 30% of NAV.**
- **b. Pre construction Interest is allowed in 5 installments from the year of completion. Post construction interest is allowed in the respective previous years.**

- **c. Interest allowed for self occupied house:**

- (i) If the loan is borrowed for construction or purchase prior to 1.4.99 Rs.30,000 or Actual interest whichever is less is allowed as deduction.
- (ii) If the loan is borrowed on or after 1.4.99: Rs. 2,00,000 or Actual interest whichever is less is allowed as deduction.

- (iii) If the loan is borrowed for repairs or renovation, irrespective of the date of loan: Rs.30,000 or actual interest whichever is less is allowed as deduction.
- d. Interest allowed for let out house and deemed to be let out house:
 - Actual interest is allowed as deduction without any restriction or without reference to date of borrowing.
 - Other than the above expenses no other deduction is allowed.

Unit - IV

Income from Business or Profession

Format for Computing Business Income:

Net profit	xxx
Add: Inadmissible expenses being debited to P&L A/C	xxx
Less: Expenses allowed but not debited to P&L A/C	xxx
Less: Items of income credited to P&L A/C which are non business income or which are not income	<u>xxx</u>
Business Income	xxx

Format of Computing Income from Profession

- **Receipts from Profession** **xxx**
- **(-) Expenses in connection with**
- **the profession** **xxx**
- **Net Income from Profession** **xxx**

Unit - V

Capital Gains

Provisions o Capital Gains

Exempted capital Assets:

Stock-in-trade, Household articles except jewellery, Rural agricultural land, Gold bonds, Special bearer bonds, Urban agricultural land acquired by Government.

Short term Capital Gain

Gain on sale of assets held upto 36 months (incase of listed shares, debentures this period is 12 months) In case of Land & Building or both 24 months or less ever in the case of unlisted shares.

Long term Capital Gains

Gain on sale of assets held for a period exceeding 36 months (incase of listed shares, debentures this period is more than 12 months). In case of Land & Building or both more than 24 months.

Indexation of Assets

(a) If transferred prior to 1.4.2001:

Cost /FMV X CII of year of sale

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(b) If transferred after 1.4.2001:

Cost /FMV X CII of year of sale


CII of year of transfer by gift or will

In the case of bonds and debentures indexation of cost is not allowed.

Income from Other Sources

Income Chargeable as income from other sources

- a) Dividends from foreign companies and dividends from co-operatives is taxable. Dividends from Indian companies and on units of UTI and mutual funds are exempted.**
- b) Family pension received is income from other sources.**
- c) Agricultural income from outside India is chargeable as income from other sources**
- d) Income from sub letting of house property or rent of vacant land as income from other sources**


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- e) Royalty income is received as IFOS**
 - f) Director's fee, remuneration for writing the articles, remuneration for evaluation are assessable as IFOS**
 - g) Salary received by members of parliament are taxable. Allowances of parliament are exempted.**
 - h) Any gift in aggregate in excess of Rs.50,000 received from unrelated person are taxable.**
 - i) Gifts from relatives are fully exempted**

j) Gifts received in kind are taxable

h) Immovable property purchased for less than stamp duty value is taxable.

Deduction U/S 57

1. Bank commission on collection of taxable dividends and interest on securities is deductible
2. Interest on loan taken to acquire investments whose income is taxable is deductible

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- 3. Standard deduction @ $\frac{1}{3}$ of family pension or Rs.15,000 whichever is less is deductible.**
 - 4. Depreciation, repairs, fire insurance premium, local taxes relating to let out plant & machinery along with building and furniture are deductible.**
 - 5. 50% of interest on compensation or enhanced compensation received.**