**INCOME TAX THEORY LAW AND PRACTICE**

**UNIT I**

**DEFINITION**

**Assessment Year: Section 2(9)**

“Assessment year” means the period starting from April 1 and ending on March 31 of the next year. Eg: Assessment year 2019-20 which commences on April 1, 2019 and ends on March 31, 2020? Income of previous year of an assessed is taxed during the assessment year at the rates prescribed by the relevant Finance Act for tax rates.

**Previous year: section 3**

Income earned in a particular year is taxable in the next year. The year in which include is known as previous year and the next year in which income is taxable is known as assessment year. In other words, previous year is the financial year immediately proceeding the assessment year

**Exceptions to the general rule that previous year’s income is taxable during the assessment year**

In the following situations income of an assessee is liable to be assessed to tax in the same year in which he earns the income:

a. Income of non-residents from shipping;

b. Income of persons leaving India either permanently or for a long period of time;

c. Income of bodies formed for short duration;

d .Income of a person trying to alienate his assets with a view to avoiding payment of tax;

e. Income of a discontinued business.

**Person: Section 2(31)**

The term “person” includes:

1. An individual;

2. A Hindu undivided family;

3. A company;

4. A firm;

5. An association of persons or a body of individuals , whether incorporated or not;

6. A local authority; and

7. Every artificial juridical person not falling with in any of the preceding categories.

**Assesses: Section 2(7)**

Every person in respect of whom, any proceeding under the act has been taken for the assessment of his income or of the income of any other person in respect of which he is assessable or of the loss sustained by him or by such other person or the amount of refund due to him or to such other person may be called an assesses.

**Deemed Assesses:**

A person who is deemed to be an assessee for some other person is called “Deemed Assessee”.

**Assesses In Default:**

When a person is responsible for doing any work under the Income Tax Act and he fails to do it, he is called an “Assessee in default”.

**Assessment [Section 2(8)]**

This is the procedure by which the income of an assessee is determined by the Assessing Officer.

**Basis Of Charge Of Income Tax Sec : 4**

To know the procedure for charging tax on income, one should be familiar with the following:

**1**. **Annual tax** - Income-tax is an annual tax on income.

**2**. **Tax rate of assessment year** - Income of previous year is chargeable to tax in the next following assessment year at the tax rates applicable for the assessment year. This rule is, however, subject to some exceptions

**3. Rates fixed by Finance Act** - Tax rates are fixed by the annual Finance Act and not by the Income-tax Act. For instance, the Finance Act, 2013, fixes tax rates for the Assessment year 2013-14.

**4. Tax on person** - Tax is charged on every person

**5. Tax on total income** - Tax is levied on the “total income” of every assessee computed in accordance with the provisions of the Act.

**INCOME: Section2 (24)**

The definition of the term “income” in section 2(24) is inclusive and not exhaustive. Therefore, the term “income” not only includes those things that are included in section 2(24) but also includes those things that the term signifies according to its general and natural meaning. Income, in general, means a periodic monetary return which accrues or is expected to accrue regularly from definite sources. However, under the Income-tax Act, 1961, even certain income which do not arise regularly are treated as income for tax purposes e.g. Winnings from lotteries,

crossword puzzles.

**Section 2(24)** of the Act gives a statutory definition of income.

At present, the following items of receipts are included in income:—

(1) Profits and gains.

(2) Dividends.

(3) Voluntary contributions received by a trust/institution created wholly or partly for charitable or religious purposes or by an association or institution

(4) The value of any perquisite or profit in lieu of salary taxable under section 17.

(5) Any special allowance or benefit other than the perquisite included above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit

(6) Any allowance granted to the assessee to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living.

(7) The value of any benefit or perquisite whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company or by a relative of the director or such person and any sum paid by any such company in respect of any obligation which, but for such payment would have been

payable by the director or other person aforesaid.

(8) The value of any benefit or perquisite, whether convertible into money or not, which is obtained by any representative assessee mentioned under section 160(1)(iii) and (iv), or by any beneficiary or any amount paid by the representative assessee for the benefit of the beneficiary which the beneficiary would have ordinarily been required to pay.

(9) Deemed profits chargeable to tax under section 41 or section 59.

(10) Profits and gains of business or profession chargeable to tax under section 28.

(11) Any capital gains chargeable under section 45.

(12) The profits and gains of any insurance business carried on by Mutual Insurance Company or by a cooperative society, computed in accordance with Section 44 or any surplus taken to be such profits and gains by virtue of the provisions contained in the first Schedule to the Act.

(13) The profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members

(14) Any winnings from lotteries, cross-word puzzles, races including horse races, card games and other games of any sort or from gambling, or betting of any form or nature whatsoever.

(15) Any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or Employees State Insurance Fund (ESI) or any other fund for the

welfare of such employees.

(16) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy will constitute income. “Keyman insurance policy” means a life insurance policy taken by a person on the life of another person where the latter is or was an employee or is or was connected in any manner what so ever with the former’s business.

(17) Any sum referred to clause (va) of Section 28. Thus, any sum, whether received or receivable in cash or kind, under an agreement for not carrying out any activity in relation to any business; or not sharing any know-how, patent, copy right, trade-mark, licence, franchise, or any other business or commercial right of a similar nature, or information or technique likely to assist in the manufacture or processing of goods or provision of services, shall be chargeable to income tax under the head “profits and gains of business or profession”.

(18) Any sum of money or value of property referred to in section 56(2)(vii) or section56(2)(viia).

(19) Any consideration received for issue of shares as exceeds the fair market value of shares referred to in section 56(2)(viib).

**Gross Total Income Sec: 80b (5)**

As per section 14, the income of a person is computed under the following five heads:

1. Salaries.

2. Income from house property.

3. Profits and gains of business or profession.

4. Capital gains.

5. Income from other sources.

If the income is not derived from any of the above sources, it is not taxable under the act. The aggregate income under these heads is termed as “gross total income”.

**Total Income Sec : 2(45)**

**T**otal income means the the amount left after making the deductions under section 80C to 80U from the gross total income.

**Casual Income**

Any receipt which is of a casual and non-recurring nature is called casual income. Casual income includes the following receipts:

1. Winning from lotteries,

2. Winning from crossword puzzles,

3. Winning from races (including horse races),

4. Winning from card games and other games of any sort

5. Winning from gambling or betting of any form or nature.

**Agriculture income**

Income earned from any of the under given three sources meant Agricultural Income;

(i) Any rent received from land which is used for agricultural purpose.

(ii) Any income derived from such land by agricultural operations including processing of agricultural produce, raised or received as rent in kind so as to render it fit for the market,

or sale of such produce.

(iii) Income attributable to a farm house subject to the condition that building is situated on or in the immediate vicinity of the land and is used as a dwelling house, store house etc.Now income earned from carrying nursery operations is also considered as agricultural income and hence exempt from income tax.

In order to consider an income as agricultural income certain points have to be kept in mind:

(i) There must me a land.

(ii) The land is being used for agricultural operations.

(iii) Agricultural operation means that efforts have been induced for the crop to sprout out of the land .

(iv) If any rent is being received from the land then in order to assess that rental income as agricultural income there must be agricultural activities on the land.

(v) In order to assess income of farm house as agricultural income the farm house building must be situated on the land itself only and is used as a store house/dwelling house.

**Certain income which is treated as Agriculture Income:**

(a) Income from sale of replanted trees.

(b) Rent received for agricultural land.

(c) Income from growing flowers and creepers.

(d) Share of profit of a partner from a firm engaged in agricultural operations.

(e) Interest on capital received by a partner from a firm engaged in agricultural operations.

(f) Income derived from sale of seeds.

**Certain income which is not treated as Agricultural Income:**

(a) Income from poultry farming.

(b) Income from bee hiving.

(c) Income from sale of spontaneously grown trees.

(d) Income from dairy farming.

(e) Purchase of standing crop.

(f) Dividend paid by a company out of its agriculture income.

(g) Income of salt produced by flooding the land with sea water.

(h) Royalty income from mines.

(i) Income from butter and cheese making.

(j) Receipts from TV serial shooting in farm house is not agriculture income.

**Partly agriculture income**

Partly agricultural income consists of both the element of agriculture and business, so non agricultural part of the income is taxed. Some examples for partly agricultural income are given below:

**1. Profit of business other than Tea**

This rule applicable to agricultural produce like cotton, tobacco, and sugarcane etc, here the market value of the agricultural produce raised by the Assessee for utilizing it as raw material for his business will be deducted out of the total profit of such Assessee while calculating tax on his income.

**2. Profit from Tea manufacturing**

If a person using his own tealeaves grown by him for his tea manufacturing business, then 60 % of his income will be treated as agricultural income and the remaining 40 % will be treated as business income. So he has to pay tax on that remaining 40% of income.

**3. Income from the manufacturing of centrifuged latex or cenex**

If a person manufacturing centrifuged latex by using his own made raw then, 65 % of the income derived from the sale of the same is treated as agricultural income so he has to pay tax remaining part of the income.

**4. Income from the coffee manufacturing**

a) 75% of the income derived from the sale of coffee grown and cured by the seller in India is deemed to be agricultural income 25% is taken as business income.

b) 65% the income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India is deemed to be agricultural income 40% is taken as business income.

**Illustration:1** Mr. Ramsanth had estates in Rubber, tea and coffee. He derives income from them.

He furnishes the following particulars of his income for the year ending 31-3-2019

Manufacture of rubber Rs: 5,00,000

Manufacture of coffee grown and cured Rs: 3,50,000

Manufacture of tea Rs: 7,00,000

Compute taxable income of Ramsanth for the A.Y. 2013-14.

**Solution :**

**Computation of Taxable income for the A.Y.2018**

manufacture of rubber ( 35% is non-agricultural income) : 175,000

Manufacturing of Coffee (25% is non-agricultural income) : 87,500

Manufacturing of tea ( 40% is non-agricultural income) : 2,80,000

Taxable Income : 5,42,500

**Capital and revenue receipts and expenditure**

Receipts which are non-recurring (not received again and again) by nature and whose benefit is enjoyed over a long period are called "Capital Receipts", e.g. money brought into the business by the owner (capital invested), loan from bank, sale proceeds of fixed assets etc. Capital receipt is shown on the liabilities side of the Balance Sheet.receipts which are recurring (received again and again) by nature and which are available for meeting all day to day expenses (revenue expenditure) of a business concern are known as "Revenue receipts", e.g. sale proceeds of goods, interest received, commission received, rent

received, dividend received etc.

**Distinction between Capital Receipt and Revenue Receipt:**

**No. Revenue Receipt Capital Receipt**

1 It has short-term effect. The benefit is

enjoyed within one accounting period.

It has long-term effect. The benefit is

enjoyed for many years in future.

2 It occurs repeatedly. It is recurring and

Regular in nature.

It does not occur again and again. It is

nonrecurring and irregular in nature.

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 asset, loan from bank etc.

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

received on shares is a revenue receipt.

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.

**Difference 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 for a number of years in future.

2 Neither an asset is acquired nor is the value of an asset increased.

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 business.

Generally it has physical existence except intangible asset

4 It is recurring and regular and it occurs repeatedly.

It does not occur again and again. It is nonrecurring and irregular.

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 orincome 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 asset side.

7 It does not appear in the balance sheet.

It appears in the balance sheet until its benefit is fully excauted

It reduces revenue (profit) of the business

It does not reduce the revenue of the concern.

**Residential Status And Tax Incidence**

Tax incidence on an assessee depends on his residential status. The residential status of an assessee is determined with reference to his residence in India during the previous year.

Therefore, the determination of the residential status of a person is very significant in order to find out his tax liability. Residence and citizenship are two different things. The incidence of tax has nothing to do with citizenship.

**Residential Status of an Individual**

As per section 6, an individual may be

(a) resident and ordinarily resident in India,

(b)resident but not ordinarily resident in India, or(c) non-resident in India. The following are the two sets of conditions for determining the residential status of an individual:

**Basic conditions :**

He is in India for a period of 60 days or more during the previous year and has been in India for a period of 365 days or more during 4 years immediately preceding the previous year.

**Note:** In the following two cases, an individual needs to be present in India for a minimum of 182 days or more in order to become resident in India:

(a) An Indian citizen who leaves India during the previous year for the purpose of taking employment outside India or an Indian citizen leaving India during the previous year as a member of the crew of an Indian ship.

(b) An Indian citizen or a person of Indian origin who comes on visit to India during the previous year (a person is said to be of Indian origin if either he or any of his parents or any of his grandparents was born in undivided India).

**Additional Conditions:**

**(i)** He has been resident in India in at least 2 out of 10 previous years [according to basic condition noted above] immediately preceding the relevant previous year.

**(ii)** He has been in India for a period of 730 days or more during 7 years immediately preceeding the relevant previous year.

**Resident**

An individual is said to be resident in India if he satisfies any one of the basic conditions.

**(A)Resident And Ordinarily Resident**

An individual is said to be resident and ordinarily resident in India if he satisfies any one of the basic conditions and both of the additional conditions.

**(B)Resident But Not Ordinarily Resident**

An individual is said to be resident but not ordinarily resident in India if he satisfies any one of the basic conditions but not satisfies both of the additional conditions.

**Non-Resident**

An individual is a non-resident in India if he satisfies none of the basic conditions.

**Residential Status Of A Hindu Undivided Family**

As per section 6(2), a Hindu undivided family (like an individual) is either resident in India or non-resident in India. A resident Hindu undivided family is either ordinarily resident or not

ordinarily resident.

**HUF : Resident or Non-Resident**

A Hindu undivided family is said to be resident in India if control and management of its affairs is wholly or partly situated in India. A Hindu undivided family is non-resident in India if control and management of its affairs is wholly situated outside India.

A resident Hindu undivided family is an ordinarily resident in India if the karta or manager of the family (including successive kartas) satisfies the following two additional conditions as laid down by section 6(6)(b).

**Additional condition (i)** Karta has been resident in India in at least 2 out of 10 previous years [according to the basic condition mentioned in immediately preceding the relevant previous year)

**Additional condition (ii)** Karta has been present in India for a period of 730 days or more during 7 years immediately preceding the previous year.

If the Karta or manager of a resident Hindu undivided family does not satisfy the two additional conditions, the family is treated as resident but not ordinarily resident in India.

**Residential Status of Firm and Association of Persons**

As per section 6(2), a partnership firm and an association of persons are said to be resident in India if control and management of their affairs are wholly or partly situated within India during the relevant previous year. They are, however, treated as non-resident in India if control and management of their affairs are situated wholly outside India.

**UNIT 2**

**INCOME FROM SALARIES**

**Salary** (Section 15 – 17)

Salary is the remuneration received by or accruing to an individual, periodically, for service rendered as a result of an express or implied contract. The actual receipt of salary in the previous year is not material as far as its taxability is concerned. According to Income Tax Act there are certain conditions where all such remuneration is chargeable to income tax:

1. When due from the former employer or present employer in the previous year, whether paid

or not

2. When paid or allowed in the previous year, by or on behalf of a former employer or present

employer, though not due or before it becomes due.

3. When arrears of salary is paid in the previous year by or on behalf of a former employer or

present employer, if not charged to tax in the period to which it relates.

**Section 17(1)** of the Income tax Act gives an inclusive and not exhaustive definition of “Salaries”

, which includes:

(i) Wages

(ii) Annuity or pension

(iii) Gratuity

(iv) Fees, Commission, allowances perquisites or profits in lieu of salary

(v) Advance of Salary (vi) Amount transferred from unrecognized provident fund to recognized provident fund

(vii) Contribution of employer to a Recognized Provident Fund in excess of the prescribed limit

(viii) Leave Encashment

(ix)Compensation as a result of variation in Service contract etc.

(x) Contribution made by the Central Government to the account of an employee under a notified Pension scheme.

**Arrears of Salary**

Salary in arrears / advance, received in lump sum, is liable to tax in the year of receipt. Relief can be obtained for salary arrears u/s 89(1) of the Income Tax Act.

**Pension**

Pension is a payment made by the employer after the retirement or death of employee as a reward for past service. It is normally paid as a periodical payment on monthly basis but certain employers may allow an employee to forgo a portion of pension in lieu of lump sum amount. This is known as commutation of pension.

The treatment of these two kinds of pension is as under:

**Periodical pension (or uncommuted pension):** It is fully taxable in the hands of all employee,whereas government or non-government.

**Commuted pension**

For employees of government organizations, local authorities and statutory corporations, it is fully exempted from tax, hence not included in gross salary.

For other employees, commuted value of half of the total value of pension is exempted from tax.

Any amount received over and above this amount is taxable, so included in gross salary. If,however, the employee is also receiving gratuity (another retirement benefit) along with pension, then one third of the total value of pension is exempted from tax. Amount received in excess of this is taxable, so included in gross salary.

Pension received by employee is taxable under the head “Salaries”. However, family pension received by legal heirs after death of employee is taxable under ‘Income from other sources’ For Central Government Employees joined on or after 1-1-2004, 10% of Salary is compulsory

deducted towards Pension with a matching contribution from the Govt. and is Non-Taxable u/s80CCD. Only Terminal Benefit is charged to tax.

**Gratuity**

Gratuity is the payment made by the employer to an employee in appreciation of past services rendered by the employee. It is received by the employee on his retirement. Gratuity is exempted up to certain limit depending upon the category of employee. For the purpose of exemption,employees are divided into 3 categories:

**(i)Government employees and employees of local authority:**

In case of such employees, the entire amount of gratuity received by then is exempted from tax.

Nothing will be added to gross salary.

**(ii)Employees covered under Payment of Gratuity Act, 1972**

In case of employees who are covered under Payment of Gratuity Act, the minimum of the following amounts are exempted from tax:

1.) Amount of gratuity actually received.

2.)15 days of salary for every completed years of service or part thereof in excess of six months. (15 / 26 x [basic salary + Dearness Allowance] x No. of years of service+1 [if fraction > 6 months]).

3.) Rs.10, 00,000 (amount specified by government).

**(iii) Other employees.**

In case of employees not falling in the above two categories, gratuity received from the employers is exempt to the extent of minimum of following amounts:

1. Actual amount of gratuity received.

2. Half month average salary for every completed year of service

(1/2 x average salary of last 10 months x completed years of service).

3. Rs. 10, 00,000 (amount specified by government).

Salary = 10 months average salary preceeding the month of retirement. = Basic Pay + Dearness Allowance considered for retirement benefits + commission (if received as a fixed percentage on turnover).

**Illustration:1**

Mr. Ashikh retired in September, 2019

2 after having put in 42 years of service in a company.

His average salary for 10 months preceding Sept. 2012 was Rs:2500 p.m. He received a gratuity of Rs;60,000. Compute his taxable gratuity.

**Solution:**Mr.Ashikh is not covered by the Payment of Gratuity Act,1972. He has put in 42 years of

completed service. Here, least of the following is exempted:

½ month’s salary for every completed years of service (2500x ½ x 42) = **52,500**

Actual amount of gratuity received = Rs: 60,000

Statutory limit = Rs: 10,00,000

**Computation of taxable Amount of Gratuity**

**Particulars Rs:**

Amount of gratuity received 60,000

Less: amount exempted 52,500

Taxable Gratuity 7500

**Illustration 2:**

Mr. Athul, covered under the Payment of Gratuity Act, 1972, retires on 10th January, 2013 after serving the company for 16 years. At the time of retirement his basic salary was Rs:4,400 p.m.

and DA Rs:800 p.m. On retirement he receives Rs:1,00,000 as gratuity. Compute the amount of gratuity exempt U/s 10(10).

**Solution :**

As Mr. Athul is covered by the Payment of Gratuity Act, 1972, out of the gratuity received by him, the least of the following is exempted u/s 10(10): 15 days salary for every completed years of service:

(4400+800) x 15/26 x 16 years = **48,000**

Actual amount of gratuity received = Rs: 1,00,000

Statutory limit = Rs:10,00,000

Therefore exempted amount = 48,000.

**Leave Salary**

Employees are entitled to various types of leave. The leave generally can be taken (casual leave/medical leave) or it lapses. Earned leave is a kind of leave which an employee is said to have earned every year after working for some time. This leave can either be availed every year,or get encashment for it. If leave is not availed or encashed, it is allowed to be carried forward.

This leave keeps getting accumulated and is encashed by employee on his retirement. The tax treatment of leave encashment is as under:

(i)**Encashment of leave while in service.** This is fully taxable and so is added to gross salary.

(ii)**Encashment of leave on retirement.** For the purpose of exemption of accumulated leave encashment, the employees are divided into two categories. They are Govt employees and Other employees.

•State or Central Government employees:

Leave encashment received by government employees is fully exempted from tax. Nothing is to be included in gross salary

•Other employees:

Leave encashment of accumulated leave at the time of retirement received by other employees is exempted to the extent of minimum of following four amounts:

1. Amount specified by Central Government (3,00,000).

2. Leave encashment actually received.

3.10 months average salary (10 x average salary of 10 months preceeding retirement).

4. Cash equivalent of unavailed leave.

(Leave entitlement is calculated on the basis of maximum 30 days leave every year, cash

equivalent is based on average salary of last 10 months).

Salary = Basic Pay + Dearness Allowance (forming a part of salary for retirement benefits) +

Commission (if received as a fixed percentage on turnover).

**Illustration:3**

Mr.Afsal was employed in a company. He took voluntary retirement on 1st December, 2012 after completing 25 years of service. On 1st January, 2013 his salary was Rs: 4,000 p.m. after adding the annual increment. The total leave aviled during service is 10 months and actual amount received is Rs: 1,60,000 on encashment. Compute the amount exempt regarding encashment of earned leave.

**Solution:**

The exempted amount of leave encashment is least of the following:

Cash equivalent of earned leave (15 months leave x Rs:4,000) = Rs: 60,000

Ten months average salary (10 months x Rs; 4,000) = Rs: 40,000

Actual amount of leave salary received = Rs: 1,60,000

Statutory Limit = Rs: 3,00,000

Therefore, the exempted amount of leave salary is Rs: 40,000.

**Illustration:4**

Mr. Abhijith retired on 31st October, 2012 after serving 20 years. He received Rs: 96,000 as leave

encashment for 12 months. His average salary at the time of retirement amounted to Rs: 7,400. H had 2 months leave at his credit. Find the taxable amount of leave encashment.

**Solution:**

Exempted amount of leave encashment is least of the following:

Cash equivalent of earned leave (2 months leave x Rs:7,400) = **Rs: 14,800**

Ten months average salary (10 months x Rs; 7,400) = Rs: 74,000

Actual amount of leave salary received = Rs: 96,000

Statutory Limit = Rs: 3,00,000

Therefore, the taxable amount of leave salary = 96,000 – 14,800 = **Rs: 81,200**

**Retrenchment Compensation 10(10B)**

Retrenchment compensation is the compensation is received by a workman at the time

of (i) closing down of the undertaking.(ii) transfer (irrespective of by agreement/compulsory

acquisition) if the following conditions are satisfied:

1. Service of workmen interrupted by transfer

2. Terms and conditions of employment after transfer are less favourable

3. New employer is not under a legal obligation whether under the terms of transfer or otherwise to pay compensation on the basis that the employee’s service has been continuous and has not been interrupted by transfer. The exemption is granted to the least of the followings:

(i) Actual amount received

(ii) Amount determined under the Industrial Disputes Act, 1947

(iii) Maximum Limit Rs 5,00,000

**Illustration:5**

Mr, Adithya Raveendran is employed in a company at Allahabad since 1st October,1998. He is getting a salary of Rs:12,000 p.m. and Rs:2,400 p.m. as DA since 1-1-2018. His service was terminated on account of retrenchment of employees on 1-7-2018 and he was paid Rs:96,000 as

compensation. Compute taxable amount of compensation for the AY 2019-2020.

**Solution:**

The exempted amount of retrenchment compensation is least of the following:

Actual retrenchment compensation received = Rs: 96,000

15 days salary for every completed years of service= 14x ½ x 14400=Rs:1,00800.

Maximum limit Rs: 5,00,000

Sum calculated as per Industrial Dispute Act, 1947 = not given

Therefore, taxable amount of retrenchment compensation= 96,000—96,000 = Nil

**Voluntary Retirement Compensation 10(10c)**

The following Conditions are to be met for claiming exemption:

(i) An individual, who has retired under the Voluntary Retirement scheme, should not be employed in another company of the same management.

(ii) He should not have received any other Voluntary Retirement Compensation before from any other employer and claimed exemption.

(iii) Exemption u/s 10(10C) in respect of Compensation under VRS can be availed by an Individual only once in his lifetime.

Exemption is allowed to the least of the followings:

(i) Actual amount received

(ii) Maximum Limit Rs 5,00,000

(iii) The highest of the following:

1. Last drawn salary × 3 × No. of fully completed years of service

2.Last drawn salary × Balance of no. of months of service left.

**Taxable Value of Allowances**

Allowance is a fixed monetary amount paid by the employer to the employee (over and above basic salary) for meeting certain expenses, whether personal or for the performance of his duties.

These allowances are generally taxable and are to be included in gross salary unless specific exemption is provided in respect of such allowance. For the purpose of tax treatment, we divide these allowances into 3 categories:

I. Fully taxable cash allowances

II. Partially exempt cash allowances

III. Fully exempt cash allowances.

**Fully Taxable Allowances**

Dearness Allowance and Dearness Pay

City Compensatory Allowance

Tiffin / Lunch Allowance

Non practicing Allowance

Warden or Proctor Allowance

Deputation Allowance

Overtime Allowance

Fixed Medical Allowance

Servant Allowance

Other allowances:- There may be several other allowances like family allowance, project

allowance, marriage allowance, education allowance, and holiday allowance etc. which are not

covered under specifically exempt category, so are fully taxable.

**Partly Exempted Allowances**

House Rent Allowance or H.R.A. [Sec. 10(13A) Rule 2A]

Conditions for claiming exemption:

1.Assessee is in receipt of HRA.

2. He has to pay rent.

3.Rent paid is more than 10% of salary.

An allowance granted to a person by his employer to meet expenditure incurred on payment of rent in respect of residential accommodation occupied by him is exempt from tax to the extent of least of the following three amounts:

a)House Rent Allowance actually received by the assessee

b) Excess of rent paid by the assessee over 10% of salary due to him

c) An amount equal to 50% of salary due to assessee (If accommodation is situated in Mumbai, Kolkata, Delhi, Chennai) ‘Or’ an amount equal to 40% of salary (if accommodation is situated in any other place).

Salary for this purpose includes Basic Salary, Dearness Allowance (if it forms part of salary for the purpose of retirement benefits), Commission based on fixed percentage of turnover achieved by the employee.While claiming exemption the following points are considered :

1. The exemption shall be calculated on the basis of where the accommodation is situated.

2. If the place of employment is the same for the whole year, then exemption shall be calculated for the whole year.

3. If there is a change in place during the previous year, then it will be calculated on a monthly basis

4. Exemption should be calculated in respect of the period during which rental accommodation is occupied by the employee during the previous year.

5. Salary for the period during which rental accommodation is not occupied shall not be considered.

**Illustration:6**

Mr. Aswin is entitled to a basic salary of Rs 5,000 p.m. and dearness allowance of Rs 1,000p.m.,

40% of which forms part of retirement benefits. He is also entitled to HRA of Rs 2,000 p.m. He

actually pays Rs 2,000 p.m. as rent for a house in Delhi. Compute the taxable HRA.

**Solution:**

Salary for HRA = (5,000 × 12) + (40% × 1,000 × 12) = 64,800

Particulars Rs: Rs:

Amount received during the financial year for HRA 24,000

Less: Exemption u/s 10(13A) Rule 2A Least of the followings:

(a) Actual amount received 24,000

(b) 50% of Salary of Rs 64,800 32,400

(c) Rent paid less 10% of Salary [2,000 × 12 – 10% of 64,800] 17,520 17,520

Taxable HRA 6,480

**Entertainment Allowance**

This allowance is first included in gross salary under allowances and then deduction is given to only central and state government employees under Section 16 (ii).

**Special Allowances for meeting official expenditure**

Certain allowances are given to the employees to meet expenses ncurred exclusively in performance of official duties and hence are exempt to the extent actually incurred for the purpose for which it is given. These include travelling allowance, daily allowance, conveyance allowance,

helper allowance, research allowance and uniform allowance.

**Special meet personal expenses:**

There are certain allowances given to the employees for specific personal purposes and the amount of exemption is fixed.

i. **Children Education Allowance**: This allowance is exempt to the extent of Rs.100 per month per child for maximum of 2 children (grand children are not considered).

ii. **Children Hostel Allowance**: Any allowance granted to an employee to meet the hostel expenditure on his child is exempt to the extent of Rs.300 per month per child for maximum of 2 children.

iii. **Transport Allowance**: This allowance is generally given to overnment employees to compensate the cost incurred in commuting between place of residence and place of work. An amount uptoRs.800 per month paid is exempt. However, in case of blind and orthopedically

handicapped persons, it is exempt up to Rs. 1600 p.m.

iv. **Running Allowance** (Out of station allowance ): An allowance granted to an employee working in a transport system to meet his personal expenses in performance of his duty in the course of running of such transport from one place to another is exempt up to 70% of such

allowance or Rs.10000 per month, whichever is less.

**v.) Tribal area allowance:** Exemption is available as Rs: 200 p.m.

**vi) Under ground allowance** : Exempted up to Rs:800 p.m.

**Fully Exempt Allowances**

(i)Foreign allowance: This allowance is usually paid by the government to its employees being Indian citizen posted out of India for rendering services abroad. It is fully exempt from tax.

(ii)Allowance to High Court and Supreme Court Judges of whatever nature are exempt from tax.

(iii) Allowances from UNO organization to its employees are fully exempt from tax.

**Perquisites**

Perquisites are defined as any casual emolument or benefit attached to an office or position in addition to salary or wages. . Perquisites are taxable and included in gross salary only if they are (i) allowed by an employer to an employee, (ii) Allowed during the continuation of employment,

(iii) directly dependent on service, (iv) resulting in the nature of personal advantage to the employee and (v) derived by virtue of employer’s authority.

As per Section 17 (2) of the Act, perquisites include:

1.Value of rent free accommodation provided to the employee by the employer.

2. Value of concession in the matter of rent in respect of accommodation provided to the employee by his employer.

3. Value of any benefit or amenity granted free of cost or at a concessional rate in any of the following cases:

a) by a company to an employee who is a director thereof b) by a company to an employee who has substantial interest in the company

c) by any employer to an employee who is neither a director, nor has substantial interest in the company, but his monetary emoluments under the head ‘Salaries’ exceeds Rs.50, 000.

4. Any sum paid by the employer towards any obligation of the employee.

5. Any sum payable by employer to effect an assurance on the life.

6. The value of any other fringe benefit given to the employee as may be prescribed

**Classification of Perquisites**

For tax purposes, perquisites specified under Section 17 (2) of the Act may be classified as follows:

(1) Perquisites that are taxable in case of every employee, whether specified or not

(2) Perquisites that is taxable in case of specified employees only.

(3) Perquisites that is exempt from tax for all employees

**Perquisites Taxable in case of all Employees**

The following perquisites are taxable in case of every employee, whether specified or not:

1. Rent free house provided by employer

2. House provided at concessional rate

3.Any obligation of employee discharged by employer e.g. payment of club or hotel bills of employee, salary to domestic servants engaged by employee, payment of school fees of employees’ children etc.

4. Any sum paid by employer in respect of insurance premium on the life of employee

5. Notified fringe benefits (on which fringe benefit tax is not applicable) – it includes interest free or concessional loans to employees, use of movable assets, transfer of moveable assets.

**Perquisites taxable in case of Specified Employees only**

Specified Employee:

An Individual will be considered as a Specified Employee if:

• He is a director of a company, or

• He holds 20% or more of equity voting power in the company,

• Monetary salary in excess of 50,000: His income under the head salaries, (from any employer including a company) excluding non-monetary payments exceeds 50,000. For the above purpose,salary, should be arrived at after making the following deductions:

(a) Entertainment Allowance

(b) Professional Tax.

The following perquisites are taxable in case of such employees:

1. Free supply of gas, electricity or water supply for household consumption

2. Free or concessional educational facilities to the members of employees household

3. Free or concessional transport facilities

4. Sweeper, watchman, gardener and personal attendant

5. Any other benefit or amenity

**Perquisites which are tax free for all the employees**

This category includes perquisites which are tax free for the employees and also other perquisites on which employer has to pay a tax (called Fringe Benefit Tax) if they are given to the employees and so are not taxable for them.

The following perquisites are exempt from tax in all cases and hence not includible for the purpose of tax deduction at source under section 192 during the financial year 2008-09:

1. Provision for medical facilities subject to limit

2. Tea or snacks provided during working hours

3. Free meals provided during working hours in a remote area or an offshore installation

4. Perquisites allowed outside India by the Government to a citizen of India for rendering service

outside India.

5. Sum payable by an employer through a recognized provident fund or an approved superannuation or deposit-linked insurance fund established under the Coal Mines Provident Fund or the Employees Provident Fund.

6. Employer’s contribution to staff group insurance scheme.

7. Leave travel concession subject to Sec.10 (5)

8. Payment of annual premium by employer on personal accident policy effected by him on his employee

9. Free educational facility provided in an institute owned/maintained by employer to children of employee provided cost/value does not exceed ` 1,000 per month per child (no limit on no. of children)

10. Interest-free/concessional loan of an amount not exceeding 20,000

11. Computer/laptop given (not transferred) to an employee for official/personal use.

12. Transfer without consideration to an employee of a movable asset (other than computer,electronic items or car) by the employer after using it for a period of 10 years or more.

13. Traveling facility to employees of railways or airlines.

14. Rent-free furnished residence (including maintenance thereof) provided to an Official of Parliament, a Union Minister or a Leader of Opposition in Parliament.

15. Conveyance facility provided to High Court Judges u/s22B of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges u/s 23A of the Supreme Court Judges (Conditions of Service) Act, 1958.

16. Conveyance facility provided to an employee to cover the journey between office and residence.

17. Accommodation provided in a remote area to an employee working at a mining site or an onshore oil exploration site, or a project execution site or an accommodation provided in an offshore site of similar nature.

18. Accommodation provided on transfer of an employee in a hotel for not exceeding 15 days in aggregate.

19. Interest free loan for medical treatment of the nature given in Rule 3A.

20. Periodicals and journals required for discharge of work.

21. Tax on perquisite paid by employer [Sec.10 (10CC)]

22. Other Exempted Payments:

i. Bonus paid to a football player after the World Cup victory to mark an exceptional event

ii. Payment made as a gift in appreciation of the personal qualities of the employee.

iii. Payment of proceeds of a benefit cricket match to a great cricket player after he retired from test match.

iv. Trust for the benefit of employee’s children

**Valuation of Perquisites**

**Valuation of Medical Facilities**

Medical facilities provided to employee are exempt from tax.

A. Medical benefits within India which are exempt from tax include the following:

a) Medical treatment provided to an employee or any member of his family in hospital maintained by the employer.

b)Any sum paid by the employer in respect of any expenditure incurred by the employee on medical treatment of himself and members of his family :

(i) In a hospital maintained by government or local authority or approved by the government for medical treatment of its employees.

(ii) In respect of the prescribed diseases or ailments in any hospital approved by the Chief Commissioner.

(iii) Premium paid by the employer on health insurance of the employee under an approved

scheme.

c) Premium on insurance of health of an employee or his family members paid by employer Limited Exemption: If the ordinary medical treatment of the employee or any member of his family is done at any private hospital, nursing home or clinic, the exemption is restricted to Rs.15, 000.

B. Medical Treatment outside India which is exempt from tax includes the following:

a)Any expenditure incurred by employer on the medical treatment of the employee or any member of his family outside India.

b)Any expenditure incurred by employer on travel and stay abroad of the patient (employee or member of his family) and one attendant who accompanies the patient in connection with such treatment, shall be exempt to the following extent :

(i)The expenditure on medical treatment and stay abroad shall be exempt to the extent permitted by the Reserve Bank of India.

(ii)The expenditure on travel shall be exempt in full provided the gross total income of the employee (including this expenditure) does not exceed Rs.2, 00,000.

**Valuation of rent free accommodation**

For the purpose of valuation of house, employees are divided into 2 categories:

**a) Central and State Government employees:** If accommodation is provided by the State or Central Government to their employees, the value of such accommodation is simply the amount fixed by the government (called the licence fees) in this regard.

**b): Other Employees:**The valuation of accommodation for this category of non government employees depends upon whether the accommodation given to the employee is owned by the

employer or taken on lease.

**1. Accommodation owned by employer**

In cities having population exceeding 25 lakhs as per 2001 census : 15% of Salary Less Rent actually paid by employee In cities having population exceeding 10 lakhs but not exceeding 25 lakhs as per 2001 census

: 10% of Salary Less Rent actually paid by employee In other places:

7.5% of Salary Less Rent actually paid by employee

**2. Accommodation is taken on lease / rent by the employer**

Rent paid by the employer or 15% of Salary whichever is lower Less Rent recovered from employee

**3. Accommodation in a hotel**

24% of salary paid/payable or actual charges paid/payable whichever is lower Less Amount paid or payable by the employee

**4. Valuation of accommodation in case of Employees on transfer:**

(a) For the first 90 days of transfer: Where accommodation is provided both at existing place of work and in new place, the accommodation, which has lower value, shall be taxable.

(b) After 90 days : Both accommodations shall be taxable.

Valuation of furnished accommodation where the accommodation is furnished, 10% per annum of the original cost of furniture given to the employee shall be added to the value of unfurnished accommodation. If the furniture is taken on rent by employer, then actual hire charges are to be added to the value.

**Definition of salary for rent free accommodation:**

Basic Salary + Taxable cash allowances + Bonus or Commission + any other monetary payment.

(It does not include dearness allowance if it is not forming part of basic salary for retirement benefit, allowances which are exempt from tax, value of perquisites specified under Section 17(2),employer’s contribution to provident fund account of employees).

**Sweeper, gardener or watchman provided by the employer**

The value of benefit of provision of services of sweeper, watchman, gardener or personal attendant to the employee or any member of his household shall be the actual cost to the employer. The actual cost in such a case is the total amount of salary paid or payable by the employer or any other person on his behalf for such services as reduced by any amount paid by the employee for such services. If the above servants are engaged by the employer and facility of such servants are provided to the employees, it will be a perquisite for specified employees only.

On the other hand, if these servants are employed by the employee and wages of such servants are paid / reimbursed by the employer, it will be taxable perquisite for all classes of employees.

**Free Supply of Gas, Electricity or Water**

The value of these benefits is taxable in the hands of specified employees, if the connection is taken in the name of the employer, and is determined according to the following rules:

a) If the employer provides the supply of gas, electricity, and water from its own sources, the manufacturing cost per unit incurred by the employer shall be the value of perquisite.

b) If the supply is from any other outside agency, the value of perquisite shall be the amount paid by the employer to the agency supplying these facilities.

c) Where the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value of perquisite calculated under (a) or (b).

d) Where the connection for gas, electricity, water supply is in the name of employee and the bills are paid or reimbursed by the employer, it is an obligation of the employee discharged by the employer. Such payment is taxable in case of all employees under Section 17 (2) (iv).

**Free Education**

a) Cost of free education to any member of employees’ family provided in an educational institution owned and maintained by the employer shall be determined with reference to reasonable cost of such education in a similar institution in a nearby locality. For education facilities provided to the children of employee (excluding any other member of house hold),the value shall be nil, if the cost of such education per child does not exceed Rs.1, 000 per month.

b)Where free education facilities are allowed to any member of employees’ family in any other educational institution by reason of his being in employment of that employer, the value of perquisite shall be determined as in (a).

c)In any other case: The value of benefit of providing free or oncessional educational facilities for any member of the house hold (including children) of the employee shall be the amount of expenditure incurred by the employer.

d) While calculating the amount of perquisite in all in above cases, any amount paid or recovered from the employee in this connection, shall be deducted

**Free Transport**

The value of any benefit provided by any undertaking engaged in the carriage of passengers or goods to any employee or to any member of his household for private journey free of cost or at concessional rate in any conveyance owned or leased by it shall be taken to be the value at which such benefit is offered by such undertaking to the public as reduced by the amount, if any, paid by or recovered from the employee for such benefit. In case of employees of the Railways and airlines, the value of transport facility shall be exempt.

**Use of any movable asset other than computer or laptops or other assets already mentioned**

10% of Actual Cost if owned by the employer; or Actual rental charge paid/payable by the employer less Amount recovered from employee.

**Leave Travel Concession (LTC)**

Leave Travel Concession is a non-taxable perquisite available for salaried class. An Employee with his dependent family members can avail of this facility to travel anywhere in India / native place. Exemption is limited to the amount actually spent. The amount exempt is the value of any

travel concession or assistance received or due to the assessee.

1. **Journey by Air:** Economy Class Airfare of India Airlines by the shortest route or the actual amount spent, whichever is lower.

2. **Journey by Rail:** A/C 1st Class rail fare by the shortest route or actual amount spent,whichever is lower.

3. Where the place of destination is connected by Rail: Air-conditioned first class Rail fare by the shortest route or the actual amount spent for the journey performed by road whichever is lower.

4. Where the place of destination is NOT connected by Rail :

1*. If Recognized public transport exists:* First Class or Deluxe Class fare by the shortest route or the actual amount spent whichever is lower.

2. *If No recognized public transport exists:* Air-conditioned first Class Rail fare by the shortest route or the actual amount spent whichever is lower.

These exemptions is available only for 2 journeys performed in a block of 4 calendar years.

Family of an Individual means:

• Spouse and children of the individual, and

• Parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the Individual

**Free meals during office hours**

Actual cost to the employer in excess of Rs 50 per meal less: amount recovered from the employee. Tea or non-alcoholic beverages and snacks during working hours is not taxable.

**Gifts**

Value of any gift or voucher or taken other than gifts made in cash or convertible into money (e.g. gift cheques) on ceremonial occasion. In this case if the aggregate value of gift during the previous year is less than Rs 5,000, then it is not a taxable perquisite.

**Profit in lieu of salary**

Profit in lieu of salary means any amount received by the employee from the employer due to its employee employer relationship other than normal compensation what he receive from employer.

The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment or modification of his term of employment

Any payment from Unrecognized Provident Fund( URPF) or such other fund to the extent to which it does not consist of contribution by the assessee or interest on such contribution.

Any sum received undera keyman insurance policy including the sum allocated by way of bonus on such policy.

Any other amount from employer except the following:

Gratuity exempted u/s 10(10)

House rent allowance

Retrenchment compensation

Superannuation fund

Statutory provident fund or public provident fund

Recognized provident fund, if does not include contribution of assessee and interest

thereon

Keyman insurance policy and bonus

Any amount received prior to employment or after the cession of employment

Any received from ex-employer

**Illustraton:7**

Mr. Sajad is now working in a private company at Chennai and he gets a monthly salary of Rs:9,000. He is provided with a rent free unfurnished accommodation for which he pays a monthly rent of Rs:300. Calculate taxable perquisite.

**Solution:**

15% of salary: 108000 x 15/100 =16,200

Less rent paid by the employee = 3,600

Therefore, Value of unfurnished accommodation **= 12,600**

**Provident Fund**

Provident Fund Scheme is a welfare scheme for the benefit of employees. Under this scheme,certain amount is deducted by the employer from the employee’s salary as his contribution to Provident Fund every month. The employer also contributes certain percentage of the salary of the employee to the Fund. The contributions are invested outside in securities. The interest earned on it is also credited to the Provident Fund Account. At the time of retirement, the accumulated

balance is given to the employee.

**(i)Statutory Provident Fund**

This is set up under the provisions of Provident Fund Act, 1925.

Contribution is made by Employer and Employee.

Assesse’s Contribution: will get Deduction u/s 80C

Employer’s Contribution- Not taxable

Interest credited- Fully exempted

Withdrawal at the time of retirement/resignation/termination, etc- Exempted u/s 10(11)

**(ii)Recognized Provident Fund**

This is set up under the Employee’s Provident Fund and Miscellaneous Provisions Act, 1952 (PF Act, 1952) and is maintained by private sector employees.

Assessee’s Contribution- will get Deduction u/s 80C

Employer’s Contribution-Amount exceeding 12% of salary is taxable

Interest credited-Exempted up to 9.5% p.a. Any excess is taxable.

Withdrawal at the time of retirement/ resignation/termination, etc-Exempted u/s 10(12) Subject to conditions.

**(iii)Unrecognized Provident Fund**

If a provident fund is not recognized by the Commissioner of Income Tax, it is known as unrecognized PF.

Assesse’s Contribution: will not get Deduction u/s 80C. No Income Tax Benefit

Employer’s Contribution- Not taxable at the time of contribution

Interest credited- On Employee’s contribution taxable under the head Other Sources” and, on Employer’s contribution not taxable at the time of credit.

Withdrawal at the time of retirement/resignation/termination, etc- employee’s contribution thereon is not taxable. Interest on employees share ias taxable under the head income from other sources.

Employer’s contribution and interest thereon is taxable as Profits in lieu of Salary, under “Salaries”

**iv) Public Provident Fund**

The Central Government has established the Public Provident Fund for the benefits of general public to mobilize personal savings. Any member of general public (whether salaried or self employed) can participate in this fund by opening a Provident Fund Account at the State Bank of India or its subsidiaries or other nationalized banks. A salaried employee can simultaneously become member of employees provident fund whether statutory, recognized or unrecognized) and public provident fund. Any amount may be deposited (subject to minimum oRs.500 and maximum of Rs.70, 000 per annum) under this account. The accumulated sum is repayable after 15 years.

Assesse’s Contribution: will get Deduction u/s 80C

Interest credited- Fully exempted

Withdrawal at the time of retirement/resignation/termination, etc-Exempted u/s 10(11)

**Deductions:**

The income chargeable under the head salaries is computed after making the following deductions under Section 16:

amounts:

(i)Rs.5000

(ii)20% of basic salary

(iii)Amount of Entertainment Allowance actually received during the year.

2.Professional Tax [Section 16(iii)] of the Act.

Professional tax or tax on employment levied by a State under Article 276 of the Constitution is allowed as a deduction only in the year when it is actually paid. If the professional tax is paid by the employer on behalf of the employee, it is first included in gross salary as a perquisite (since it is an obligation of employee fulfilled by employer) and then the same amount is allowed as deduction on account of professional tax from gross salary.

**Illustration:8**

Mr. Abhijith is getting a salary of Rs 12,000 p.m. w.e.f. 1.4.2011. He is promoted w.e.f. 31.12.2011 and got arrears of Rs75,000. Bonus for the year 2012-13 is Rs15, 000 remains outstanding but bonus of Rs 12,000 for the year 2011-12 was paid on 1st January 2013. In March 2013, he got two months salary i.e. April and May 2013 in advance. Compute the

gross salary for the assessment year 2013-14.

**Solution:**

**Computation of Gross Salary for the Assessment Year 2013-14**

Salary : Rs 12,000 × 12 1,44,000

Arrears of Salary 75,000

Bonus for the year 2012-13 : (Receivable) ---

Bonus for the year 2011-12 : (Received) 12,000

Advance of Salary: April & May 2013 (12,000 × 2) 24,000

Gross Salary 2,55,000

**Illustration:9**

Following particulars are furnished by Muhammed Labeeb, a citizen and resident in India:

Basic salary after deduction of contribution to RPF Rs: 2,40,000

Own contribution to RPF Rs:20,000

Interest credited to RPF @9.5% Rs:3,600

HRA (house is at Kolar and rent paid amount to Rs:30,000) Rs: 14,400

Unit-linked insurance plan contribution paid by employer Rs: 2,000.

Compute taxable income from salary of Muhammed Labeeb for the A.Y.2013-14.

**Solution:**

Computation of Income from Salary for the assessment year 2013-14

Basic salary ( 2,40,000+20,000) 2,60,000

HRA (14,400-4,000) 10,400

Ulip paid by employer 2,000

Gross Salary 2,72,400

**Less:** Deductions Nil

Taxable Salary 2,72,400

**Notes: Least of the following is exempt:**

**Actual HRA Rs:14,400**

**Excess of rent paid over 10% of salary (30000-26000) Rs:4,000**

**40% of salary Rs: 1,04,000**

**Illustration :10**

Mr. Varun furnished the following particulars of his income for the financial year 2013-13:

Salary 15000 p.m.

D A 1250 p.m.

Entertainment Allowance 1000 p.m.

Employer’s and employee’s contribution to RPF 24000 each

Interest from PF @ 9.5% p.a. 19000

City compensatory allowances 200 p.m.

Medical allowances 10000

He has been provided with the facility of unfurnished house by the employer in a town (population less than 10 lakhs) for which the employer charge Rs:500 per month. The fair rent of the house is Rs: 30,000 p.a. The house is owned by the employer.

The employer has employed for him a sweeper @ Rs:200 p.m. and a

servant a2 Rs:750 p.m.

Compute taxable income under the head ‘salary’ for the AY 2013-14

**Solution:**

**Computation of Income from Salary for the assessment year 2019-2020**

Salary 180000

DA 15000

Entertainment allowance 12000

CCA 2400

Medical allowance 10000

Employer’s contribution to RPF in excess of 12% of salary 2400

Sweeper 2400

Servant 9000

Concession in rent 9330

Gross Salary 242530

Less: Deductions nil

Taxable salary 2,42,530

**Notes:** Concession in Rent:

7.5% of Salary ( 180000+12000+2400+10000) Rs: 15,330

Less : Rent Charged Rs: 6,000

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Rs: 9,330

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**Illustration:11**

Mr. Justin Kuriakose retired on 31-10-2019 after serving 20 years. He received Rs;96,000 as

leave encashment for 12 months. His average salary at the time of retirement amounted to

Rs:7,400. He had 2 months leave at his credit. Find out the taxable amount of Leave encashment.

**Solution:**

The exempted amount of leave salary is least of the following:

10 months average salary ( 7400 x10 ) Rs:74000

Actual amount of leave encashment received Rs:96,000

Amount of leave salary at his credit (7400x2) **Rs:14,800**

Maximum limit Rs:3,00,000

Computation of taxable Amount of Leave Salary

Amount of leave salary received 96,000

Less: amount exempted 14,800

Taxable amount of leave salary 81,200

**Illustration:12**

From the following particulars calculate the salary income of Mr. Reshin for the assessment year

2019-2020:

Basic pay Rs: 5500 p.m.

HRA Rs:2400 p.m.

DA Rs: 5,000 p.m.

Entertainment Allowance Rs:1,200 p.m.

CCA Rs: 600 p.m.

Education allowance for 2 children (total) Rs: 800 p.m.

Reshin and his employer (a private company) contribute to RPF @ 14% of salary. He lives in a rented house at Alleppy on amonthky rent f Rs: 3000.

**Solution:**

Computation of income from salary of Mr. Reshin for the Assessment Year 2019-20

Basic pay 66000

HRA (28800-26400) 2400

D A 60000

Entertainment allowance 14400

CCA 7200

Education allowance ( 9600-2400) 7200

Employer’s contribution toRPF in excess of 12% 1320

Income from Salary 1,58,520

COMPREHENSIVE PROBLEM

**Illustration:13**

Mr. Akhildas is employed as an engineer in Indian railways. He is getting Rs:7,000 p.m. as basic pay; Rs:2,500 p.m. as D.A.and Rs:2,500 p.m. as dearness pay. During the year 2012-13, he received the ollowing allowances also:

Rs: 16,500 as running allowance p.m.

Rs; 200 p.m. per child as educational allowance for his 2 children

One of his son is staying in a hostel on which Akhildas is spending Rs:800 p.m. He is getting Rs:500 p.m. for his as hostel allowance for meeting their expenditure.

Rs: 250 p.m. as CCA.

Rs:400 p.m. as uniform allowance , fully spent for employment purposes.

Rs: 1250 p.m. as HRA. He pays Rs:1500 p.m. as rent to house owner. He contributes 10% of his basic pay and DA to SPF and the Indian railway contributes a similar amount.

Compute his taxable salary for the AY 2019-2020

**Solution**

Computation of taxable salary of Mr.Akhildas for the A Y 2013-14

Basic pay (7500 x 12) 90,000

D A (2500 x 12) 30,000

D P (2500 x 12) 30,000

House Rent Allowance:HRA received (1250 x 12) 15,000

Less: exempted 6,000 9,000

Running Allowance:

Running allowance received 16,500

Less: 70% of allowance or Rs:10,000 p.m, whichever is less)

Education allowance (200x12x2) 4,800

Less: exemption for 2 children

(100x12x2) 2,400

Hostel allowance (500x12) 6,000

Less: exempted (300x12) 3,600 2,400

Uniform Allowance (400x12) 4,800

Less: exempted 4,800 ...........

CCA (250 x12) 3,000

Gross Salary 1,73,300

Less : Deduction u/s 80C (PF) 12,000

Income from Salaries 1,61,300

Calculation of exempted amount of HRA:

Least of the following is exempted:

HRA received (Rs:1,250 x12) = 15,000

Excess of rent paid over 10% 0f salary (18,000-12,000) = **6,000**

40% of salary (1,20,000x40%) = 48,000

**Illustration :14**

Mr.Suhil is a government employee. He draws a monthly salary of Rs;20,000 and Rs: 500 p.m. as entertainment allowance. Find out the amount of deduction for the entertainment allowance.

**Solution:**

Least of the following is exempted:

Actual Entertainment Allowance received (500x12) = 6,000

Statutory Limit = Rs: 5,000

20% of Salary 2,40,000 x 20%) = Rs: 48,000

Therefore the amount of deduction for the entertainment allowance is Rs: 5,000.

**UNIT 3**

**INCOME FROM HOUSE PROPERTY**

The annual value of a property, consisting of any buildings or lands oppurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head ‘Income from house property’. However, if a house property, or any portion thereof, is occupied by the assessee, for the purpose of any business or profession, carried on by him, the profits of which are chargeable to income-tax, the value of such property is not chargeable to tax under this head.

Thus, three conditions are to be satisfied for property income to be taxable under this head:

1. The property should consist of buildings or lands appurtenant thereto.

2. The assessee should be the owner of the property.

3. The property should not be used by the owner for the purpose of any

**DETERMINATION OF ANNUAL VALUE**

The basis of calculating Income from House property is the ‘annual value’. This is the inherent capacity of the property to earn income and it has been defined as the amount for which the property may reasonably be ,the expected to be let out from year to year. It is not necessary that the property should actually be let out. The municipal value of the property, the cost of construction standard rent, if any, under the Rent Control Act, the rent of similar properties in the same locality, are all pointers to the determination of annual value.

**Gross Annual value**

The Gross Annual Value is the municipal value, the actual rent (whether received or receivable) or the fair rental value, whichever is highest. If, however, the Rent Control Act applies to the property, the gross annual value Fair rental value or municipal value whichever is higher or

Standard rental value whichever is less. If the property is let out but remains vacant during any part or whole of the year and due to such vacancy, the rent received is less than the reasonable expected rent, such lesser amount shall be the Annual value.

**The principle of determining GAV is :**

Expected Rental Value OR

Actual Rent received for full year,Whichever is more.

Here, Expected Rental Value is calculated as follows:

If the let out property is not subject to Rent Control Act ERV is:

FRV or MRV whichever is higher.

If the let out property is subject to Rent Control Act ERV is:

FRV or MRV whichever is higher

OR

Standard Rental Value ,Whichever is less.

**Municipal Tax**

Municipal Tax includes services tax like Water Tax and Sewerage Tax levied by any local authority. It can be claimed as a deduction from the Gross Annual Value of the Property.

**Conditions:**

(a) Paid by Owner. The tax shall be borne by the owner and tie same was paid by him during the previous year.

(b) Property let out: Municipal Tax can be claimed as a deduction only in respect of let out or deemed to be let out properties (i.e. more than one property self occupied).

(c) Year of payment: Municipal Tax relating to earlier previous years, but paid during the current previous year can be claimed as deduction only in the year of payment.

(d) Advance Taxes: Advance Municipal Tax paid shall not be allowed as deduction in the year of payment, but can be claimed in the year in which it falls due.

(e) Borne by Tenant: Municipal taxes met by tenant are not allowed as deduction.

**Unrealized Rent**

Unrealized Rent means the rent not paid by the tenant to the owner and the same shall be deducted from the Actual Rent Receivable from the property before computing income from that property, provided the following conditions are satisfied:

1. The tenancy is bonafide

2. The defaulting tenant should have vacated the property

3. The assessee has taken steps to compel the defaulting tenant to vacate the property

4. The defaulting tenant is not in occupation of any other property owned by the assessee

5. The assessee has taken all reasonable steps for recovery of unrealized rent or satisfies the Assessing Officer that such steps would be useless.

**Deduction from Net Annual Value**

**A.Standard Deduction u/s 24(a):** Standard deduction of 30% of NAV (Net Annual Value) shall be allowed to the assessee.

**B. Interest on Loan u/s 24(b):**

1. Purpose of loan: The loan shall be borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of the house property.

2. Accrual basis: The interest will be allowed as a deduction on accrual basis, even though it is not paid during the financial year.

3. Interest on interest: Interest on unpaid interest shall not be allowed as a deduction.

4. Brokerage: Any brokerage or commission paid for acquiring the loan will not be allowed as a deduction.

5. Prior period interest: Prior Period Interest shall be allowed in five equal installments commencing from the financial year in which the property was acquired or construction was completed.

6. Interest on fresh loan to repay existing loan: Interest on any fresh loan taken to repay the

existing loan shall be allowed as a deduction.

7. Inadmissible interest: Interest payable outside India without deduction of tax at source and in respect of which no person in India is treated as an agent u/s 163 shall not be an allowable expenditure. [Section25]

8. Certificate: The assessee should furnish a certificate from the person from whom the amount is borrowed.

**Income From Self – Occupied House Property**

The annual value of one self-occupied house property is taken as ‘Nil’. From the annual value, only the interest on borrowed capital is allowed as a deduction under section 24. The amount of deduction will be:

1. Either the actual amount accrued or Rs.30,000/- whichever is less

2. When borrowal of money or acquisition of the property is after 31.3.1999 - deduction is

Rs.1,50,000/- applicable to A.Y 2002-03 and onwards.

However, if the borrowal is for repairs, renewals or reconstruction, the deduction is restricted to

Rs.30, 000. If the borrowal is for construction/acquisition, higher deduction as noted above is available. If a person owns more than one house property, using all of them for self-occupation,he is entitled to exercise an option in terms of which, the annual value of one house property as specified by him will be taken at Nil. The other self occupied house property/is will be deemed to be let-out and their annual value will be determined on notional basis as if they had been let out.

Annual Value of a house property which is partly self – occupied and partly let out: If a house property consists of two or more independent residential units, one of which is self – occupied and the other unit(s) are let out, the income from the different units is to be calculated separately.

**Illustration:1**

Compute Gross annual value:

Actual rent Rs: 24,000 p.a.

Fair rent Rs:28,000 p.a.

Standard rent Rs: 20,000 p.a.

**Solution:**

Gross Annual Value = ERV or Actual Rent Received for full year, whichever is higher.

Here Rent Control Act is applicable.

FRV =Rs: 28,000 ; SRV = 20,000

Therefore, ERV = 20,000.

Actual Rent = 24,000

So, GAV = 24,000.

**Illustration:2**

Calculate annual rental value from the following particulars for the assessment year 2013-14.Actual rent Rs: 14,000 p.m.; MRV Rs: 1,20,000 p.a.; FRV Rs:1,32,000 p.a. Standard rent Rs:1,38,000. During the P.Y. the assessee is not able to realise two months rent.

**Solution:**

Expected Rental Value = 1,32,000

Actual rent for the full year (14,000x12) = 1,68,000

Therefore, GAV = 1,68,000.

Annual Value = 1,68,000 – unrealised rent

= 1,68,000 -- 28,000 = 1.40,000.

========

**Illustration:3**

Compute gross annual value for the AY

FRV Rs: 1,32,000 p.a.; Actual rent Rs:12,000 p.m.; MRV Rs:1,20,000 p.a., Standard rent Rs:1,30,000.

**Solution:**

Expected Rental Value = Rs: 1,30,000

Actual rent for full year (12,000 x 12) = Rs:1,44,000

Therefore, GAV = Rs: 1,44,000.

==========

**Illustration:4**

Rinju is the owner of 2 houses. From the following, find out annual value of the houses:

**House-1 House-2**

Municipal value 30,000 35,000

Actual rent 40,000 32,000

FRV 36,000 30,000

SRV 30,000 36,000

Municipal tax paid 4,000 3,500

**Solution**:

MRV or FRV (higher) 36,000 35,000

SRV 30,000 36,000

ERV (Lesser of the above 2) 30,000 35,000

Actual Rent 40,000 32,000

**GAV** (higher of 3 and 4) **40,000 35,000**

Less : Municipal Taxes 4,000 3,500

Annual Value 36,000 31500

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**Illustration:5**

Mr. Abhinand constructed one house in 2010. Half of the portion is let out and the remaining half is used for his residence. The following particulars are available:

MRV Rs: 12,500; Rent received Rs:10,000 ; Municipal taxes Rs:2,500 ; Ground rent Rs;250 ;

Repairs Rs:2,000 ; Interest on loan taken for construction Rs: 2,500.

Compute income from house property of Mr. Abhinand for the AY 2013-14.

**Solution:**

Computation of Income from house property

Let out portion:

GAV (MRV =6250 or Rent received, whichever is higher) : 10,000

Less : municipal rent ( ½ ) : 1,250

Net Annual Value : 8,750

Deductions:

30% of annual value : 2,625

Interest on loan taken for construction : 1,250

Income from let out portion 4,875

Self-occupied portion:

Net Annual Value : Nil

Deductions:

Interest on loan taken for construction : 1,250

Income from self occupied portion --1,250

Income from House Property **3,625**

**Illustration:6**

The following information is available in respect of two houses of owned by Neeraj.

He let out the first house for a yearly rent of Rs: 11,000. He paid Rs:1,000 as interest on borrowings. He paid Rs: 100 as insurance premium. He let out his second house at a monthly rent of Rs:1,200. It is not rented out for 3 months. The unreaqlised rent for the past 5 years was Rs:13,000. Compute the income from house property of Mr. Neeraj for the AY

**Solution:**

**Computation of Income from house property for AY**

First House:

Annual Value : 11,000

Less : Deductions:

Standard deduction (30%) : 3,300

Interest on loan : 1,000 : 4,300 6,700

Second House:

Annual Value : 14,400

Less : Loss for vacancy period : 3,600

Unrealised rent : 13,000 16,600 --2,200

Income from House Property = 4,500.

**UNIT 4**

**Income from Business and Other sources**

**Business : Sec 2 (13)**

Business includes any trade, commerce, or manufacture or any adventure or concern in the nature of trade, commerce, or manufacture. Or practical purpose business means the purchase and sale or manufacture of a commodity with a view to make profit. Business includes banking, transport business or any other adventure. Profit of an isolated transaction is also taxable under this head.

**Profession**

A profession is a vocation founded upon specialized educational training, the purpose of which is to supply objective counsel and service to others, for a direct and definite compensation, wholly apart from expectation of other business gain. For example the work of lawyer, doctor auditor engineer and so on. Vocation means activities which are performed in order to earn livelihood.

**llustration: 1** The net profit of business of Mr. Baveesh as disclosed by its P&L account was Rs:3,25,000 after charging the following:

Municipal taxes on house property let out Rs:3,000

Bad debt written off Rs:15,000

Provision for bad and doubtful debts Rs: 16,000

Provision for taxation Rs: 15,000

Depreciation Rs: 25,000

Depreciation allowance as per rule is Rs:20,000.

Compute taxable business profit.

**Solution:**

Computation of income from busines

Particulars Rs Rs

Net profit 3,25,000

Add: Municipal taxes 30000

Provision for bad debts 16000

Provision for taxation 15000

Excess epreciation 5000 39,000

Business Profit 3,64,000

**Illustration:2**

From the following P&L account, compute income from business:

PROFIT AND LOSS ACCOUNT

To Salaries 14,600 By G/p 1,35,000

To household expense 2000

To income tax 900

To Gifts 900

To business expense 2,200

To LIC premium 2,100

To bad debt reserve 800

To N/P 1,11,500

1,35,000 **1,35,000**

**Solution:**

Computation of income from business for the A Y

Net Profit as pe P&L Account : 1,11,500

Add : Expenses Disallowed:

Household expenses 2,000

Income tax 900

Gift 900

LIC Premium 2,100

Bad debt reserve 800 6,700

Income from business 1,18,200

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**Illustration:3**

Dr. Biju is a medical practitioner in Mahe. From the following, calculate his income from

profession for the AY 2019-20:

gross receipt from dispensary 2,35,000

Gross receipt from consultation 1,65,000

Operation fee 2,50,000

Visiting fee 50,000

Gifts from patients 30,000

Medicines purchased 1,25,000

Closing stock of medicines 35,000

Salaries paid to employees 1,50,000

Surgical equipments purchased 48,000

Dr. Biju wanted to attend a medical seminar in Australia to update

the knowledge and spent an amount of

25,000

Medical books purchased 20,000

He owns a house whose MRV is Rs:50,000. Half portion of the

house is used for profession. Expenses paid on house are

municipal tax=30% of MRV ; Repairs Rs:10,000 ; and renovation

expenses Rs:30,000.

**Solution:**

Computation of income from profession for the AY 2019-20

Gross receipts from dispensary 2,35,000

Gross receipts from consultation 1,65,000

Operation fee 2,50,000

Visiting fee 50,000

Gifts from patients 30,000 7,30,000

Less : Expenses :

Medicines ( 1,25,000—35,000) 90,000

Salaries to employees 1,50,000

Surgical equipments ( Depreciation :

15% )

7,200

Visit to Australia to attend a medical

seminar

25,000

Medical Books ( Depreciation : 60% ) 12,000

Expenses on house used for profession:

Municipal tax (50,000 x 10% x ½

)

2,500

Repairs ( 10,000 x ½ ) 5,000

Total 2,91,700

Income from profession 4,38,300

**Illustration:4**

The following is the Receipts and Payments account of Mr. Akhilesh, a practicing Chartered

Accountant for the year ended 31-03-2020:

Receipts Rs: Payments Rs:

Audit fee 19,210 Office expenses 10,000

Consultation 10,000 Office rent 5,000

Tribunal appearance 15,000 Salaries and wages 12,050

Miscellaneous 20,000 Printing and Stationeries 1,000

Interest on Govt. security 10,000 subscription 3,000

Rent received 10,000 Purchase of books(annual

publication)

1,300

Presents from clients 10,000 Travelling expenses 5,800

Interest on bank loan 3,000

Donation to National Defence

Fund

5,000

Loan from bank was taken for the construction of the house in which he lives. MRV of the house

is Rs: 8,000 and the local taxes Rs: 800 p.a. One-fourth of travelling expenses are not allowable.

Compute income from profession for the A Y 201020.

**Solution:**

Computation of income from business for the AY 2019-20

Particulars Rs: Rs:

Audit Fees 19,210

Consultation Fee 10,000

Tribunal appearance 15,000

Miscellaneous 20,000

Presents from clients 10,000 74,210

Less: Allowable Expenses:

Office expenses 10,000

Office rent 5,000

Salaries and wages 12,050

Printing and stationery 1,000

Subscription 3,000

Purchase of books (100% depreciation) 1,300

Travelling expenses (5,800 x ¾ ) 4,350 36,700

Income from Profession 37,510

**Illustration:5**

Calculate the amount of depreciation on the assets of a mill:

Factory building W.D.V. on 01-04-2012 Rs: 14,00,000

Additions made on 01-06-2012 Rs: 6,00,000

Rate of depreciation 10%

The part of factory building which was destroyed by fire, for which the insurance company

accepted the claim for Rs: 60,000 and scrap value realised amounted to Rs:10,000.

**Solution:**

**Computation of Depreciation**

Factory building : W.D.V on 1-4-2012 Rs: 14,00,000

Additions made on 1-6-2012 Rs: 6,00,000

Rs: 20,00,000

Less: Amount received from the insurance company Rs:60,000

Amountb received from the sale of scrap Rs:10,000 Rs: 70,000

Written Down Value of factory building for the AY 2013-14 Rs: 19,30,000

Therefore, Depreciation @ 10% **Rs: 1,93,000**

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**Illustration:6**

From the following figures, you are required to calculate the admissible during the previous year:

Plant & Machinery(Rs:) Building(Rs:)

W.D.V. at the beginning of the year 3,75,000 15,00,000

Purchased during the year 4,50,000 Nil

Sales during the year 7,75,000 3,00,000

**Solution:**

Computation of Depreciation

Particulars Plant & Machinery Building

Rate = 15% Rate = 10%

W.D.V at the beginning of the year 3,75,000 15,00,000

Add: Purchase 4,50,000 Nil

Total 8,25,000 15,00,000

Less: sales 7,75,000 3,00,000

W.D.V. 50,000 12,00,000

Depreciation 7,500 1,20,000

**Capital Gains**

Profits or gains arising from the transfer of a capital asset made in a previous year are taxable as

capital gains under the head “Capital Gains”. The capital gain is chargeable to income tax if the

following conditions are satisfied:

1. There is a capital asset.

2. Assessee should transfer the capital asset.

3. Transfer of capital assets should take place during the previous year.

4. There should be gain or loss on account of such transfer of capital asset.

**Capital Asset:** Sec. 2(14): Capital Asset means property of any kind (Fixed, Circulating,

movable, immovable, tangible or intangible) whether or not connected with business or

profession.

Exclusions —

a. Stock-in-trade

b. Personal effects of the assessee i.e., personal use excluding jewellery, costly stones, silver,

gold

c. Agricultural land in a rural area i.e., an area with population more than 10,000.

d. 6½% Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Bonds, 1980 issued by

the Central Government

e. Special Bearer Bonds, 1991 issued by the Central Government.

f. Gold Deposit Bonds issued under Gold Deposit Scheme 2000

**Kinds of capital assets**

There are two kinds of capital assets

**Short-term capital asset: Sec. 2(42A):** means a capital asset held by an assessee for not more

than thirty six months immediately preceding the date of its transfer. However, in the following

cases, an asset, held for not more than twelve months, is treated as short-term capital asset—

a. Quoted or unquoted equity or preference shares in a company

b. Quoted Securities

c. Quoted or unquoted Units of UTI

d. Quoted or unquoted Units of Mutual Funds specified u/s. 10(23D)

e. Quoted or unquoted zero coupon bonds

**Long-term capital asset: Sec. 2(29A):** means a capital asset which is not a short-term capital

asset. Under the existing law, profits and gains arising from the transfer of capital asset made in a

previous year is taxable as capital gains. A capital asset is distinguished on the basis of the period

of holding. A capital asset, which is held for more than three years, is categorized as a long-term

capital asset. However, if the capital asset is in the nature of equity, it is categorized as a longterm

capital asset if it is held for more than one year. All capital assets other than long-term

capital asset are termed as a short-term capital asset.

Transfer includes:

• Sale of asset

• Exchange of asset

• Relinquishment of asset (means surrender of asset)

• Extinguishments of any right on asset (means reducing any right on asset)

• Compulsory acquisition of asset.

The definition of transfer is inclusive, thus transfer includes only above said five ways. In other

words, transfer can take place only on these five ways. If there is any other way where an asset is

given to other such as by way of gift, inheritance etc. it will not be termed as transfer.

**Year of chargeability to tax**

Capital gains are generally charged to tax in the year in which ‘transfer’ takes place.

**Long term capital gains**

Long term Capital gains, if the assets like shares and securities, are held by the assessee for a period exceeding 12 months or 36 months in the case of other assets. Units of UTI and specified mutual funds will now be eligible for treatment as long term capital assets if they are

held for a period exceeding 12 months.

Long term Capital gains are computed by deducting from the full value of consideration for the

**Differences between Long term capital gains and Short term capital gains**

**Illustration:1**

Mr. Vishal sold his residential house for Rs:4,50,000 in November, 2012. Indexed cost of this

house was Rs: 1,80,000. He paid 3 % of sale as commission to broker. He purchased another

house on 26th January, 2013 for Rs:2,00,000. Compute his capital gains for the AY 2019-20

**Solution:**

**Computation of capital gains for the AY 2019-20**

Particulars Rs: Rs:

Selling price of the house 4,50,000

Less: Brokerage 13,500

Indexed cost 1,80,000 1,93,500

Long terrm capital gain 2,56,500

Less: Cost of new house 2,00,000

Taxable Capital Gain 56,500

**Illustration:2**

Mr. Irfan provides you the following information to the sale of residential house. Calculate his

capital gain for the AY 2013-14.

House purchased in January, 1989 Rs:4,83,000

Sold the house in August, 2018 Rs:30,00,000

Purchased another residential house in November, 2012 Rs:2,00,000

Invested in bond issued by NHAI Bonds u/s 54EC Rs:1,00,000

The Cost Inflation Index in 1988-89 was 161 and for 2018-193 was852.

**Solution:**

**computation of capital gains for the AY 2019-20**

Particulars Rs: Rs:

Sale of asset in August,2018 30,00,000

Less: Indexed cost of acquisition(483000x 852/161 ) 25,56,000

Capital Gain 4,44,000

Less: Exemption u/s 54 being cost of house

purchased within one year

2,00,000

Exemption u/s 54EC 1,00,000 3,00,000

Taxable Capital Gain 1,44,000

**Illustration:3**

Mr. Anandamurthy showed his block of assets as on 1-4-2019 at a WDV of Rs:1,50,000. He purchased another asset within the block during the year 2019-20 for Rs:40,000.The entire block of assets is sold during the previous year for Rs:2,00,000. Calculate capital gain for the

assessment year 2019-20.

**solution**:

**Computation of capital gains for the AY 2019-20**

Particulars Rs:

W.D.V. of assets as on 01-04-2012 1,50,000

Add: Assets purchased during P.Y. 40,000

1,90,000

Less: Selling Price 2,00,000

Short Term Capital Gain 10,000

**Illustration:4**

Mr. Varma purchased a plot in 1986-87 for Rs: 1,40,000. It was sold on 15-1-2018 for Rs:15,80,000 and he paid Rs:1,00,000 as brokerage. He invested Rs:2,00,000 in NHAI bonds on 31-3-2013 and Rs: 3,10,000 in bonds issued by Rural Electrification Corporation Ltd. on 1-8- 2013. Compute his taxable capital gain, if the CII for 1986-87 was 140 and for 2019-20 is 852.

**Solution:**

**Computation of capital gains for the AY 2019-20**

Particulars Rs: Rs:

Selling price of plot 15,80,000

Less: Brokerage 1,00,000

Indexed cost (1,40,000 x 853/140) 8,52,000 9,52,000

L T C G 6,28,000

Less: Exempt u/s 54EC : NHAI Bonds purchased

within 6 months from the date of transfer of LTCA

2,00,000

Taxable Capital Gains 4,28,000

***Note:*** *Bonds of Rural Electrification Corporation Ltd. not purchased within 6 months from the date of transfer of LTCA, hence, not entitled to exemption.*

agri. land 7,20,000

Less: Indexed Cost (75,000 x 852/125) 5,11,200

LTCG 2,08.800

Less: Cost of new agri. land 80,000

Deposit in Capital Gains Account 50,000 1,30,000

Taxable Capital Gains 78,800

Less: Cost of new house 8,00,000

Taxable Capital Gains Nil

**DEDUCTIONS AGAINST INCOME FROM OTHER SOURCE U/S 57**

a. commission or remuneration for realising dividend or interest on securities – Section 57(i)

b. Repairs, depreciation in case of letting out of plant, machinery, furniture, building etc.

c. Standard deduction in case of family pension – 57(iia)

d. Any other expenditure of revenue nature [57(iii)]

e. Interest on borrowed capital [loan taken to invest in shares/ debentures etc.]

**Illustration:1**

Mr. S.B.Singh, a College Professor, furnished the following particulars. You are required to

compute income from other sources:

Examination remuneration Rs: 7,000

Royalty from books and articles Rs: 25,000

Winnings from card games Rs: 6,700

Winnings from State lottery Rs: 30,000

Expenditure on purchase of lottery tickets Rs: 12,000.

**Solution:**

**Computation of Income from Other Sources For the AY 2019-2020**

Particulars Rs:

Examination remuneration 7,000

Royalty from books and articles 25,000

Winnings from card games 6,700

Winnings from State lottery 30,000

Income from other sources 68,700

**Illustration :2**

Compute income from other sources:

Dividend (Gross) Rs:9,600

Expenses incurred for its collection Rs: 500

Receipts from letting of plant and machinery Rs: 10,000

Repairs of Plant and Machinery Rs: 4,000

Insurance premium in respect of plant and machinery Rs: 2,000

Depreciation allowed for letting Rs:4,000

**Solution:**

**Computation of Income from Other Sources For the AY 2019-2020**

Particulars Rs: Rs:

Receipts from letting of P&M 10,000

Less: Admissible expenses:

Repairs of P&M 4,000

Insurance premium in respect of P&M 2,000

Depreciation allowed for letting 4,000 10,000

Income from other sources Nil

**Illustration:3**

From the following particulars submitted by Sri. Mani Shankar Iyer, compute his income from other sources for the AY 2019-2020 :

As Director of ABC Ltd. he received Rs: 12,000 p.m. as salary and Rs:1,200 p.m. as entertainment allowance. The company provides him a car for both official and personal use. The personal use is estimated to be 50%. The company incurs an expenditure of Rs:16,000 on running and maintenance of the car {for both official and personal use) and depreciation of the car may be taken as Rs: 14,000.

He was also a Director in another company from which he received Rs: 13,000 as

Director’s fee.

Interest received on deposits with a Co-operative bank limited Rs:2,000.

Dividend received from a foreign company Rs: 6,000.

Received winnings from lottery Rs: 24,500

Income from agricultural land in England Rs: 78,000.

Honorarium for delivering lectures in a registered society Rs:1,200.

**Solution:**

**Computation of Income from Other Sources For the AY 2019-2020**

Particulars Rs:

Director’s fee 13,000

Interest on deposits with Co-operative Bank 2,000

Dividend from a foreign company 6,000

Winnings from lottery ( 24500 X 100/70) 35,000

Agri. Income from England 78,000

Honorarium for Lectures 1,200

Income from other sources 1,35,200

**Illustration**:4

Compute income from other sources of Mr. Ajayakumar for the AY 2019-2020. His investments are :

5% govt. securities Rs: 70,000

7.5% Agra Municipal Bond Rs: 50,000

9% debentures of a company Rs:30,000

7% Capital Investment Bond Rs: 20,000

**Solution:**

**Computation of Income from Other Sources For the AY 2019-2020**

Particulars Rs:

Interest on Govt. Securities (70,000 x 5%) 3,500

Interest on Agra Municipal Bond (5,000 x 7.5 %) 3750

Interest on debentures (30,000 x 9%) 2,700

Interest on Capital Investment Bond Exempt

Income from Other Sources 9,950

**Illustration:5**

The following are the details relating to Mr. Siddharth for the P.Y. 2018-19. Compute income from other sources:

Income from agriculture in Pakistan Rs: 5,000

Interest on post office savings bank Rs: 1,000

Dividend from foreign company Rs: 700

Dividend from Indian company Rs:1,000

Rent from sub-letting house Rs: 26,250

Expenses for sub-letting house Rs: 1,000

Winning from lottery (Net) Rs: 14,000

**Solution:**

**Computation of Income from Other Sources For the AY 2019-20**

Particulars Rs:

Income from agriculture 5,000

Interest on P.O.S.B. Exempt

Dividend from foreign company 700

Dividend from Indian company Exempt

Rent from sub-letting house 26,250

Less: Expenses 1,000 25,250

Winnings from lottery (14,000 x 100/70) 20,000

Income from Other Sources 50,950

UNIT 4

**SET OFF AND CARRY FORWARD LOSSES**

Set off of loss from one source against income from another source under the same head of income (sec 70.)

1. Save as otherwise provided in this Act, where the net result for any assessment year in respect

of any source falling under any head of income, other than Capital gains, is a loss, the assessee shall be entitled to have the amount of such loss set off against his income from any other source under the same head.

(2) Where the result of the computation made for any assessment year under sections to in respect of any short-term capital asset is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset.

(3) Where the result of the computation made for any assessment year under sections to in respect of any capital asset (other than a short-term capital asset) is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset not being a shortterm capital asset.

However the following are the exceptions to the general rule.

(1) Loss from speculation business cannot be set off against income from other sources. This loss can be set off only against income from another speculation business.

(2) Loss of specified business cannot be set off against income from other business. This loss can be set off only against income from other specified business.

(3) Long term capital loss cannot be set off against short term capital gain. This loss can be set off only against long term capital gain.

(4) Loss from the activity of owning and maintaining race horses shall be set off against income from owning and maintaining race horses only and not against any other income under the head other sources.

**Inter head adjustment [Section 71]**

Loss under one head of income can be adjusted or set off against income under another head. However, the following points should be considered:

(i) Where the net result of the computation under any head of income (other than ‘Capital Gains’) is a loss, the assessee can set-off such loss against his income assessable for that assessment year under any other head, including ‘Capital Gains’.

(ii) Where the net result of the computation under the head “Profits and gains of business or profession” is a loss, such loss cannot be set off against income under the head “Salaries”.

(iii) Where the net result of computation under the head ‘Capital Gains’ is a loss, such capital loss cannot be set-off against income under any other head.

(iv) Speculation loss and loss from the activity of owning and maintaining race horses cannot be set off against income under any other head.

**Carry forward and set off losses**

If it is not possible to set off the losses during the same assessment year in which they occurred, so much of the loss as he has not been so set off out of the following losses can be carried forward

for being set off against his income in the succeeding years provided the losses have been determined in pursuance of a return filed by the assessee within the time allowed u/s 139(i) and it

is the same assessee who sustained the loss.

(i) Loss under the head income form house property.

(ii) Loss of non speculation business or profession.

(iii)Loss of speculation business.

(iv)Loss of specified business

(v) Short term capital loss or long term capital loss.

(vi)Loss from activity of owning and maintaining race horses.

**Set-off and carry forward of loss from house property [Section 71B]**

(i) In any assessment year, if there is a loss under the head ‘Income from house property’, such loss will first be set-off against income from any other head during the same year.

(ii) If such loss cannot be so set-off, wholly or partly, the unabsorbed loss will be carried forward to the following assessment year to be set-off against income under the head ‘Income from house property’.

(iii) The loss under this head is allowed to be carried forward up to 8 assessment years immediately succeeding the assessment year in which the loss was first computed.

(iv) For example, loss from one house property can be adjusted against the profits from another house property in the same assessment year. Any loss under the head ‘Income from house property’ can be set off against any income under any other head in the same assessment year.

However, if after such set off, there is still any loss under the head “Income from house property”, and then the same shall be carried forward to the next year.

(v) It is to be remembered that once a particular loss is carried forward, it can be set off only against the income from the same head in the forthcoming assessment years.

**Carry forward and set-off of business losses [Sections 72 & 80]**

Under the Act, the assessee has the right to carry forward the loss in cases where such loss cannot

be set-off due to the absence or inadequacy of income under any other head in the same year. The loss so carried forward can be set-off against the profits of subsequent previous years. Section 72 covers the carry forward and set-off of losses arising from a business or profession. The assessee’s right to carry forward business losses under this section is, however, subject to the following conditions:-

(i) The loss should have been incurred in business, profession or vocation.

(ii) The loss should not be in the nature of a loss in the business of speculation.

(iii) The loss may be carried forward and set-off against the income from business or profession though not necessarily against the profits and gains of the same business or profession in which the loss was incurred. However, a loss carried forward cannot, under any circumstances, be set-off against the income from any head other than “Profits and gains of business or profession”.

(iv) The loss can be carried forward and set off only against the profits of the assessee who incurred the loss. That is, only the person who has incurred the loss is entitled to carry forward or set off the same. Consequently, the successor of a business cannot carry forward or set off the losses of his predecessor except in the case of succession by inheritance.

(v) A business loss can be carried forward for a maximum period of 8 assessment years immediately succeeding the assessment year in which the loss was incurred.

(vi) As per section 80, the assessee must have filed a return of loss under section 139(3) in order to carry forward and set off a loss. In other words, the non-filing of a return of loss disentitles the assessee from carrying forward the loss sustained by him. Such a return should be filed within the time allowed under section 139(1). However, this condition does not apply to a loss from house property carried forward under section 71B and unabsorbed depreciation carried forward under section 32(2).

**Carry forward and set off speculation business losses (section 73)**

The loss of a speculation business of any assessment year is allowed to be set off only against the profits and gains of another speculation business in the same assessment year. If a speculation loss could not be set off from the income of another speculation business in the same assessment year, it is allowed to be carried forward for 8 assessment years immediately succeeding the assessment year for which the loss was first computed. Also, it can only be set off against the income of only a speculation business. It may be observed that it is not necessary that the same speculation business must continue in the assessment year in which the loss is set off. However, filing of return before the due date is necessary for carry forward of such a loss.

The following are the other important points regarding carry forward of business losses.

1. Losses of discontinued business of an industrial undertaking after reestablishment or revival. If on account of natural calamities the business of an industrial undertaking is discontinued; but revived within 3 years thereafter, the unabsorbed losses of the undertaking shall be carried forward and set off against the profit of the revived business or any other business up to a maximum period of 8 years.

2. Treatment of losses after succession takes place by inheritance : The loss incurred by the father in the course of carrying on his business can be carried forward and set off by his son , if he succeeds to the business of his father on account of his death.

3. Provisions relating to carry forward and set off of accumulated loss and unabsorbed depreciation allowance in amalgamation or demerger, etc 72A.

**Losses in speculation business (sec 73)**

(1) Any loss, computed in respect of a speculation business carried on by the assessee, shall not be set off except against profits and gains, if any, of another speculation business.

(2) Where for any assessment year any loss computed in respect of a speculation business has not been wholly set off under sub-section (1), so much of the loss as is not so set off or the whole loss where the assessee had no income from any other speculation business, shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year, and

(i) it shall be set off against the profits and gains, if any, of any speculation business carried on by him assessable for that assessment year ; and

(ii) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the following assessment year and so on.

**Losses under the head Capital gains (sec 74)**

(1) Where in respect of any assessment year, the net result of the computation under the head Capital gains is a loss to the assessee, the whole loss shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year, and

(a) in so far as such loss relates to a short-term capital asset, it shall be set off against income, if any, under the head Capital gains assessable for that assessment year in respect of any other capital asset;

(b) in so far as such loss relates to a long-term capital asset, it shall be set off against income, if any, under the head Capital gains assessable for that assessment year in respect of any other capital asset not being a short-term capital asset;

(c) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the following assessment year and so on.

(2) No loss shall be carried forward under this section for more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

(3) In respect of allowance on account of depreciation or capital expenditure on scientific research, the provisions of sub-section (2) of section 72 shall apply in relation to speculation business as they apply in relation to any other business.

(4) No loss shall be carried forward under this section for more than eight assessment years

immediately succeeding the assessment year for which the loss was first computed.

**Illustration:1**

The business income of an individual for the AY 2013-14 has been determined by the AO at Rs:

3,50,000. Later, it is found that he has not considered the following while determining the

income: Depreciation for the current year Rs: 12,000

Unabsorbed depreciation carried forward Rs: 15,000

Unabsorbed business loss carried forward from AY 2011-12 Rs: 3,000

Determine the total income for the AY 20113-14.

**Solution:**

**Computation of Total Income for the AY 2019-20**

**Particulars Rs:**

Business income as determined by A O 3,50,000

Less: Current year’s depreciation 12,000

3,38,000

Less: Unabsorbed Business Loss of 2011-12 3,000

3,35,000

Less: Unabsorbed Depreciation 15,000

Total Income **3,20,000**

**Illustration:2**

From the following information of a trader, compute the gross total income for the AY

1) Income from H.P. Rs: 2,50,000

2) Business Loss Rs: 60,000

3) Current year’s depreciation Rs: 10,000

4) Business loss of preceding years Rs: 50,000

5) Unabsorbed depreciation of preceding years Rs: 30,000

6) STCG Rs:40,000

7) LTCG Rs: 50,000

**Solution :**

**Computation of Total Income for the AY 2019-20**

**Particulars Rs: Rs:**

Income from H.P. 2,50,000

Less: Business loss 60,000

Current depreciation 10,000

Unabsorbed depreciation 30,000 1,00,000

1,50,000

LTCG 50,000

Less: STCG 40,000 10,000

Gross Total Income **1,60,000**

**Deductions From Gross Total Income**

In computing the total income of an assessee, deductions specified under sections 80C to 80U will be allowed from his Gross Total Income. However, the aggregate amount of deductions under this chapter shall not, in any case, exceed the gross total income of the assessee. Total Income = Gross Total Income – Deductions under sections 80C to 80U.

These deductions are divided into two categories. They are:

A. Deductions in respect of certain payments

B. Deductions in respect of certain incomes.

**Deductions in respect of certain payments**

**SECTION 80C: Deduction in respect of life insurance premia, deferred annuity,**

**contributions to provident fund, subscription to certain equity shares or debentures, etc.**

**Persons Covered:** Individual /HUF.

**Eligible Amount:** Any sums paid or deposited in the previous year by the assessee —

1. As ***Life Insurance premium*** to effect or keep in force insurance on life of (a) self, spouse and any child in case of individual and (b) any member, in case of HUF.

(i).Insurance premium should not exceed 20% of the actual capital sum assured, if the policy is issued before 1-04-2012.

(ii). The qualifying amount of life insurance premium on the insurance policy issued on or after 1- 04-2012 shall not exceed 10% of the actual capital sum assured.

(iii). The qualifying amount of life insurance premium on an insurance policy issued on or after 1- 04-2013 shall not exceed 15% of the actual capital sum assured if it is on the life of a person who is (a) a person with disability or a person with severe disability or (b) suffering from decease or aliment specified u/s 80DDB.

2. To effect or keep in force ***a deferred annuity contract*** on life of self, spouse and any child in case of individual. Such contract should not contain a provision for cash payment option in lieu of payment of annuity.

3. By way of **deduction from salary payable by or on behalf of the Government** to any individual for the purpose of securing to him a ***deferred annuity*** or making provision for his spouse or children. The sum so deducted does not exceed 1/5th of the salary.

4. As contribution (not being repayment of loan) by an individual to **Statutory Provident Fund;**

i.e., any provident fund to which the Provident Funds Act, 1925, applies.

5. As contribution to **Public Provident Fund**scheme, 1968, in the name of self, spouse and any child in case of individual and any member in case of HUF.

6. As contribution by an employee to a **recognized provident fund**.

7. As contribution by an employee to an **approved superannuation fund**.

8. any subscription to any such security of the central government or any such deposit scheme which is notified by the central govt.

9. Any sum deposited in a **10 year or 15 year account under the Post Office Savings Bank**

***(CTD) Rules, 1959***, in the name of self and as a guardian of minor in case of individual and in the name of any member in case of HUF.

10. Subscription to the NSC (VIII issue) and IX issue.

11. As a contribution to Unit-linked Insurance Plan (ULIP) of UTI or LIC Mutual Fund (Dhanraksha plan) in the name of self, spouse and child in case of individual and any member in case of HUF.

12. To effect or to keep in force a contract for such annuity plan of the LIC (i.e., Jeevan Dhara, Jeevan Akshay and their upgradations) or any other insurer as referred to in by the Central Government.

13. As subscription to ***any units of any Mutual Fund*** referred u/s. 10(23D) ***(Equity Linked***

***Saving Schemes)***.

14. As a contribution by an individual to any ***pension fund*** set up by any Mutual Fund referredu/s 10(23D).

15. As subscription to any such deposit scheme of ***National Housing Bank (NHB)***, or as a contribution to any such pension fund set up by NHB as notified by Central Government.

16. As subscription to ***notified deposit schemes*** of (a) Public sector company providing long-term finance for purchase/construction of residential houses in India or (b) Any authority constituted in India for the purposes of housing or planning, development or improvement of cities, towns and villages.

17. As ***tuition fees*** (excluding any payment towards any development fees or donation or payme of similar nature), to any university, college, school or other educational institution situated within India for the purpose of full-time education of any two children of individual.

18. Towards the cost of ***purchase or construction of a residential house property*** (including the repayment of loans taken from Government, bank, LIC, NHB, specified assessee’s employer etc., and also the stamp duty, registration fees and other expenses for transfer of such house property to the assessee). The income from such house property should be chargeable to tax under the head "Income from house property".

19. As subscription to ***equity shares or debentures*** forming part of any eligible issue of capital of public company or any public financial institution ***approved by Board***.

20. As ***Term Deposit*** (Fixed Deposit) ***for 5 years or more with Scheduled Bank*** in accordance with a scheme framed and notified by the Central Government.

21. As subscription to any notified bonds of National Bank for Agriculture and Rural Development (NABARD).

22. In an account under the **Senior Citizen Savings Schemes Rules, 2004.**

23. As f**ive year term deposit** in an account under the **Post Office Time deposit Rules, 1981**.

**Extent of Deduction:** 100% of the amount invested or Rs. 1,00,000/- whichever is less. However, as per Section 80CCE, the total deduction the assessee can claim u/ss. 80C, 80CCC and 80CCD(1) shall be restricted in aggregate to Rs. 1,00,000/-.

**SECTION 80CCC- Deduction In Respect of Contribution to Certain Pension Funds**

**Persons Covered-** Individual.

**Eligible Amount-** Deposit or payment made to LIC or any other insurer in the approved annuity

plan for receiving pension.

**Extent of Deduction-** Least of amount paid or Rs. 1,00,000/- .

**SECTION 80CCD- Deduction In Respect of Contribution to Pension Scheme of Central Government**

**Persons Covered-** Individual in the employment of Central Government or any other employeron or after 1-1-2004 or any other assessee being an individual.

**Eligible Amount-** Deposit or payment made by the employee and Central Government orindividual under a pension scheme notified by the Central Government.

**Extent of Deduction-**A) Aggregate of (a) Amount paid or deposited by the employee and (b)Amount paid or deposited by the Central Government. The total deduction shall be restricted to

maximum 10% of salary.

B) Amount deposited by individual, subject to 10% of total income, in a previous year**80CCE-** The aggregate amount of deductions under section 80C, section 80CCC and 80CCDshall not exceed Rs 1, 00,000.

**Section 80CCG**

Section 80CCG of the Income-tax Act is also called as Rajiv Gandhi Equity Savings Scheme 2012 (RGESS). Any resident individual with income less than Rs 12 lakhs who uses demat account for the first time to buy notified shares, mutual funds or ETFs can claim 50% deduction on the invested amount. RGESS was introduced to encourage small investors to participate in the equity markets.

**Eligibility**

1. The assessee should be a new retail investor. This means you should be using a demat account the first time ever for equities. You should be using a new demat account or if you had a demat account you should have never traded in equities using it before.

2. The gross total income should not exceed Rs 12 lakhs.

3. Investment must be done in

(i) Shares belonging to BSE-100, NSE-100, maharatnas, navratnas or miniratnas. FPOs of these companies or IPOs of PSUs with 51% government shareholding are also eligible.

(ii) Mutual funds and ETFs investing in the above shares are eligible for tax saving through RGESS. NFOs of such funds are also eligible for 80 CCG RGESS deduction.

4. NRIs cannot avail this tax benefit. RGESS tax rebate under section 80CCG is applicable only or residents. Investments will have a total lock-in period of three years. The first year will be a fixed lock-in period where the assessee cannot alter the securities on which deduction has been claimed under 80CCG and the next two years will be flexible lock-in period where the assessee can sell the securities while ensuring that value of the portfolio on which tax benefit has been claimed is maintained.

**Maximum deduction limit:** Maximum investment is capped at Rs 50,000. You can claim only 50% deduction on the amount invested. This deduction can be availed for three consecutive years, based on investments you make in those years, complying with RGESS requirements.

**Section 80D- Deductions In Respect Of Medical Insurance Premia**

**Eligible Amount** Premium paid on Mediclaim Policy issued by GIC or any other insurer approved by IRDA (Insurance Regulatory and Development Authority).

**Extent of Deduction:**

**For Individual**

A. For taxpayer his/her spouse and dependent children: 100% of premium paid subject to ceiling of (a) Rs. 20,000/- in the case of premium paid in respect of senior citizen (who has attained the age of 65 years or more) and (b) Rs. 15,000/- in other cases.

B. Additional deduction for parents of the taxpayer whether dependent or not 100% of premium paid subject to ceiling of (a) Rs. 20,000/- in the case of premium paid in respect of senior citizen (who has attained the age of 65 years or more) and (b) Rs. 15,000/- in other cases.

**From Assessment year 2019-20**, the benefit of deduction will be extended to the contributionmade to Central Government Health Scheme. However, the aggregate limit for deduction remainsthe same.

**Section 80DD- Deduction In Respect Of Maintenance Including Medical Treatment Of Handicapped Dependant**

**Persons Covered-** Resident Individual/HUF.

**Eligible Amount-**(a) Expenditure incurred on medical treatment [including nursing], training and rehabilitation of a disabled dependant, or (b) Any payment or deposit made under a scheme framed by LIC or any other insurer or the administrator or the specified company and approved by the Board for payment of lump sum amount or annuity for the benefit of dependant with disability.

**Relevant Conditions/Points**

1. The concerned assessee must attach a copy of certificate in the prescribed Form and signed by prescribed medical authority along with return of income filed u/s 139. A fresh medical certificate may be required to be submitted after the expiry of stipulated period depending on the condition of disability as specified in such certificate.

2. Dependant means (a) in case of an individual, the spouse, children, parents, brothers and sisters of such individual and (b) in the case of a Hindu Undivided Family, any member of HUF; and who is dependant wholly or mainly on such individual or HUF for support and maintenance and who has not claimed deduction under section 80U for the assessment year relating to previous year.

**Extent of Deduction**(a) Rs. 50,000/- in case of normal disability or (b) Rs. 100,000/- in case of severe disability.

**Section 80DDB- Deduction In Respect Of Medical Treatment, Etc.**

**Persons Covered-** Resident Individual/HUF.

**Eligible Amount-** Expenditure actually incurred for the medical treatment of such diseases or ailments specified in Rule 11DD (some of the diseases are parkinsons disease, malignant cancers, full blown AIDS, chronic renal failure, thalassaemia etc.) for self or dependant relative (spouse, children, parents, brothers and sisters) in case of individual or any member of HUF in case of HUF.

**Relevant Conditions/Points**

1. The concerned assessee must attach a copy of certificate in the prescribed Form No.10-I by a neurologist, an oncologist, a urologist, a haematologist, an immunologist or such other specialist working in Government Hospital along with return of income.ndividual/HUF

2. The deduction under this section shall be reduced by the amount received under insurance from an insurer or reimbursed by an employer, for the medical treatment of the concerned person.

**Extent of Deduction**

100% of the expenses incurred subject to ceiling of (a) Rs. 60,000/- in the case of expenses incurred for senior citizen (who has attained the age of 65 years or more) and (b) Rs. 40,000/- in other cases.

**Section 80E- Deduction in Respect of Interest on Loan Taken for Higher Education**

**Persons Covered-** Individual.

**Eligible Amount-** Any amount paid by way of interest on loan taken from any financial institution or any approved charitable institution for his/her higher education or w.e.f. 1-4-2008 for the purpose of higher education of his/her spouse, children and legal guardian of the

Individual.

**Relevant Conditions/Points**

1. Amount should be paid out of income chargeable to tax.

2. All field of studies including vocational studies pursued after passing the Senior secondary

examination or its equivalent from any school, board or university recognized by the central govt or state govt. or local authority or by any other authority authorised by the central govt. or state govt. or local authority to do so.

3. Approved charitable institution means an institution established for charitable purposes and notified by the Central Government u/s. 10(23C) or referred in 80G(2)(a).

4. Financial institution means banking company or financial institution notified by Central Government.

5. The deduction is allowed in the initial assessment year (i.e., the assessment year relevant to the previous year, in which the assessee starts paying the interest on loan) and 7 assessment years immediately succeeding the initial assessment year or until the interest is paid in full whichever is earlier.

**Extent of Deduction-** Entire amount of interest.

**Section 80G Deduction In Respect of Donations to Certain Funds, Charitable Institutions,**

**Etc.**

**Persons Covered-**All assessees [except for 80G (2)(c), which is applicable for donations made only by company] to the Indian Olympic Association or to any other Association or Institution for the development of infrastructure for sports & games or the sponsorship of sports & games, in India

**Eligible Amount-** Any sums paid in the previous year as Donations to certain funds, charitable institutions etc. specified u/s. 80G(2).

**Relevant Conditions/Points**

1. Donation in kind is not eligible for deduction.

2. Donations paid out of another year’s income or out of income not includible in the assessment

of current year are also eligible for deduction. Lt. F. No. 45/313/66 – ITJ (61) dt. 2-12-1966.

**Extent of Deduction**

***Without any ceiling of 10% of adjusted Gross Total Income:—***

**(a) 100% of donation if donation given to**

(i)National Defence Fund set up by the Central Government;

(ii)Prime Minister’s National Relief Fund;

(iii)Prime Minister’s Armenia Earthquake Relief Fund;

(iv)Africa (Public Contributions — India) Fund;

(v)National Foundation for Communal Harmony;

(vii)An approved university/educational institution of National eminence;

(viii)The Maharashtra Chief Minister’s Relief Fund

(ix)Chief Minister’s Earthquake Relief Fund, Maharashtra;

(x)Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat;

(xi)any Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district;

(xii)National Blood Transfusion Council or to any State Blood Transfusion Council;

(xiii)any fund set up by a State Government for the medical relief to the poor;

(xiv)the Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air

Force Central Welfare Fund,

(xv)Andhra Pradesh Chief Minister’s Cyclone Relief Fund, 1996;

(xvi) National Illness Assistance Fund;

(xvii)Chief Minister’s Relief Fund or Lieutenant Governor’s Relief Fund in respect of any State

or Union Territory;

(xviii)National Sports Fund;

(xix)National Cultural Fund;

(xx)Fund for Technology Development and Application;

(xxi) National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities;

(xxii)Any trust, institution or fund to which Section 80G(5C) applies for providing relief to the victims of earthquake in Gujarat (contribution made during January 26, 2001 and September 30, 2001) **or**

**(b) 50% of donation if donation given to:**

Jawaharlal Nehru Memorial Fund; Prime Minister’s Drought Relief Fund; National Children’s Fund(deduction shall be allowed 100% w.e.f.A.Y 2014- 15) ; Indira Gandhi Memorial Trust;

Rajiv Gandhi Foundation.

**With ceiling of 10% of adjusted Gross Total Income:—** Where the aggregate of sums exceed 10% of adjusted gross total income, then such excess amount is ignored for computing such aggregate.

**(a) 100% of qualifying amount, if donation given to** Government or any approved local authority, institution or association to be utilised for the purpose of promoting family planning; Donation by a Company to the Indian Olympic Association or to any other notified association or institution established in India for the development of infrastructure for sports and games in India or the sponsorship of sports and games in India.

**(b) 50% of qualifying amount if donation given to** any other fund or any institution which satisfies conditions mentioned in Section 80G(5); Government or any local authority to be utilized for any charitable purpose other than the purpose of promoting family planning, Any authority constituted in India for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or both; Any corporation referred in Section 10(26BB) for promoting interest of minority community; For repairs or renovation of any notified temple, mosque, gurudwara, church or other place.

**Section 80GG Deduction in Respect of Rent Paid**

**Persons Covered** Any assessee other than assessee having income falling u/s 10(13A) (i.e., House Rent Allowance).

**Eligible Amount** Any expenditure incurred by him on payment of rent (by whatever name called) in respect of any furnished or unfurnished accommodation in excess of 10% of his total income, before making any deduction under this section.

**Extent of Deduction-** Lower of (a) Rs. 2,000 per month, or (b) 25% of the total income (after allowing all deductions except under this section), or (c) Expenditure incurred in excess of 10% of the total income (after allowing all deductions except under this section).

**Section 80GGA Deduction In Respect Of Certain Donations For Scientific Research Or Rural Development**

**Persons Covered-** All assessees:

**Eligible Amount-**

1. Any sum paid to a scientific research association or to a university, college, or other institution to be used for ***scientific research*** [approved u/s. 35(1) (ii)];

2. Any sum paid to a university, college, or other institution to be used for ***research in social***

***science or statistical research*** [approved u/s. 35(1)(iii)];

3. Any sum paid to an association or institution for any ***programme of rural development***

[approved u/s. 35CCA];

4. Any sum paid to an association or institution for ***training of persons for implementing rural***

***development programmes*** [approved u/s. 35CCA];

5. Any sum paid to a public sector company or local authority or to an association or institution approved by National Committee for carrying out ***any eligible project or scheme***

[approved u/s. 35AC];

6. Any sum paid to a ***rural developemt fund*** set up and notified by Central Government for the purposes of Section 35CCA(1)(a);

7. Any sum paid to a ***National Urban Poverty Eradication Fund*** set up and notified by Central Government for the purposes of Section 35CCA(1)(d).

**Extent of Deduction-**100% of the amount paid as donation/contribution.

**Section 80GGB Deduction in Respect of Contribution Given by Companies to Political**

**Parties or an Electoral Trust"**

**Persons Covered-** Indian company.

**Eligible Amount-** Contribution given by Indian companies to any political parties or an electoral trust.

**Extent of Deduction-**100% of the amount paid as contribution.

**Section 80GGC- Deduction In Respect of Contribution Given by any Person to Political**

**Parties or an Electoral Trust"**

**Persons Covered-** Any assessee (except local authority and every artificial juridical person

wholly or partly funded by the Government).

**Eligible Amount-** Contribution given by assessee to political parties or an electoral trust.

**Extent of Deduction-**100% of the amount paid as contribution.

**Illustration:1**

Ram Prakash (70 years of age) gives the following information. Compute deductible amount

under sec.80C for the A.Y. 2107-19:

1. Payment of LIC premium for his own life (policy amount Rs: 60,000) Rs: 13,000.

2. Payment of LIC premium on life of his wife Rs: 5,000 (paid out of agricultural income)

3. Contribution to URPF Rs: 24,000

4. Contribution to PPF Rs: 15,000

5. Interest accrued on NSC (VIII issue) including 6th year’s interest of Rs: 1,500 is Rs:8,000

**6.** Repayment of loan taken for construction of a residential flat from Housing Development

Finance Corporation (includes interest Rs: 34,000) Rs: 80,000.

**Solution :**

**Computation of Deduction under section 80 C for the A.Y.2019-20**Particulars Rs:LIC Premium ---self ( 20% of sum insured ) 12,000

LIC Premium --- wife 5,000

Contribution to PPF 15,000

Accrued interest to NSC VIII th issue 7,500

Repayment of housing loan (80,000 – 34,000) 46,000

Total deduction **85,500**

**Illustration:2**

From the following information, compute total income for the A.Y. 2019-20:

1. Business income of Surjih, aged 70, is Rs: 13,20,000

2. He deposited Rs: 70,000 in PPF And purchased NSC VIII issue Rs: 50,000

3. He paid interest on loan taken from a financial institution for higher education of his grand

son Rs:1,20,000.

4. He spent Rs: 40,000 on medical treatment of disabled dependent.

**Solution:**

**Computation of Total Income for the A.Y.2019-2020**

**Particulars Rs:**

Business Income Being GTI 13,20,000

Less: Deduction u/s 80 C :

PPF and NSC ( Maximum deduction

Rs:1,00,000)

1,00,000

Deduction u/s 80DD:

Medi. Treatment deduction allowed

Rs:50,000)

50,000

Deduction u/s 80E (interest on loan for

high. Edu. Of grand son Not deductible)

1,50,000

Total Income **11,70,000**

**Illustration :3**

Compute total income of Mr. X, a disabled, for the A.Y 2019-2020

1. Salary income is Rs: 4,30,000

2. He deposited Rs:20,000 in URPF.

3. He paid LIC premium Rs: 45,000 on a policy (issued on 15-6-2012) of Rs: 4,00,000

4. He donated Rs: 20,000 to National Children’s Fund by cheque.

**Solution:**

**Computation of Total Income for the A.Y.2019-20**

**Particulars Rs:**

Salary Income being GTI 4,30,000

Less: Deduction u/s 80 C : LIC premium (10% of sum

assured)

40,000

Deduction under 80G Donation to NCF (50% of

20,000)

10,000

Deduction under 80 U (Disabled) 50,000 1,00,000

Total Income **3,30,000**

**Illustration:4**

Compute total income of Mr. Xaviour, a non-resident for the A.Y. 2019-20:

1. Salary for 3 months received in India (computed) Rs: 18,000

2. Dividend received in Belgium from British companies Rs: 44,000

3. Interest on SB deposits in SBI Rs: 2,000

4. Taxable income from H.P. Rs:6,800.

**Solution :**

**Computation of Total Income for the A.Y.2019-20 particulars Rs:**

Salary 18,000

Income from H.P. 6,800

Interest on SB Deposits 2,000

Gross Total Income 26,800

Less: Deductions Nil

**Total Income 26,800**

**Illustration:5**

From the following , compute Total Income of Mrs. Rajalakshmi for the A.Y. 2013-14:

Income from poultry farming Rs: 30,000

Interest from bank deposits Rs: 4,000

Dividend from shares held in an Indian company (Gross) Rs: 20,000

Income from units of Mutual Fund (Gross) Rs:8,000

Income from other sources Rs:42,000

Donation to National Defence Fund Rs:2,000

**Solution:**

**Computation of Total Income for the A.Y.2019-20**

**Particulars Rs: Rs:**

Income from Business:

Income from poultry farming 30,000

Income from Other Sources:

Interest on deposits 4,000

Dividend from shares in Indian company Exempt

Income from units of UTI Exempt

Other incomes 42,000 46,000

Gross Total Income **76,000**

Less : Deduction u/s 80G 2,000

Total Income **74,000**

**Illustration:6**

Mr. X earned GTI of Rs: 5,00,000 in the P.Y and made the following donations during the year

by cheques:

a) Rs: 10,000 to CM’s Earthquake Relief Fund Maharashtra.

b) Rs: 15,000 to National Foundation for Communal Harmony.

c) Rs; 40,000 to municipality for family planning

d) Rs: 25,000 to approved institutions

Compute the amount of deduction admissible u/s 80G for the A.Y.2019-2020

**Solution: Computation of Deduction u/s 80G**

**Particulars Rs: Rs:**

a)CM’s Earthquake Relief Fund ( 100% of amount

donated)10,000

b)National Foundation for Communal Harmony (100% ofamount donated)15,000c and d) Qualifying amount is 10% of GTI (Rs: 50,000):

Donation to municipality for Family planning( 40,000 x 100%)

For the balance amount 50% (10,000 x 50 %)

40,000

5,000

45,000

Deduction u/s 80 G **70,000**

**Illustration:7**

From the following, prepare a statement of assessment of income of Mr. Ashikh for the A.Y.2019-2020

1) Monthly salary Rs: 15,000 w.e.f. 01-07-2019.

2) His contribution to URPF is 15%

3) Employer’s contribution is 10%

4) Dividend on preference share of an Indian company Rs: 8,000

5) Deposit made in a bank ( interest 5 %) Rs:20,000

6) He owns a house, half of which is occupied by his son for his residence who is living

separate from his father and the other half is let at Rs: 1,500 p.m. ; insurance premium Rs:

250; local taxes Rs:6,000

7) He has income from a firm Rs:12,000 and fror the HUF Rs: 10,000.

**Solution:**

**Computation of Total Income for the AY 2019-20**

**Particulars Rs: Rs:**

Income from salary ( 15,000 x 9) 1,35,000

Income from H.P.

Gross Annual Value

Less : Municipal Tax

Less : Standard Deduction 30 % 0f GAV

36,000

6,000

30,000

9,000 21,000

Income from business:

Share from a firm

Share from HUF

Exempt

ExemptIncome from other sources:

Dividend

Interest on FD

Exempt

1,000 1,000

Gross Total Income **1,57,000**

Less : Deduction under section 80 C Nil

Total Income **1,57,000**

**Illustration:8**

Compute the taxable income of HUF:

Profit from business Rs: 32,000

Salary received by a member of the family Rs: 8,000

Director’s fee received by Karta of the family Rs: 6,000

Profit from a firm Rs:10,000

Dividend (Gross) Rs: 5,000

Rental value of the property let out Rs: 12,000

Municipal taxes Rs: 600.

**Solution:**

**Computation of Total Income of the HUF for the AY 2019-2020**

**Particulars Rs: Rs:**

Income from business:

Family business Profit from a firm 32,000

Exempt 32,000

Income from H.P. :

Rental Value 12000

Less : Municipal Tax 600

Less : Annual Value ( 30 % )

Total Income 39,980

*Note: salary received by member of an HUF and director’s fee received by the Karta are not*

*taxable in the hands of HUF.*

**Computation of Tax Liability of Individuals**

**Computation of Total Income and Tax Liability of Individuals**

Income-tax is levied on an assessee’s total income. The total income has to be computed as per the provisions of the Income-tax Act, 1961. Following steps are considered for computing total

income and to charge tax.

Step 1 – **Determination of the residential status of the Assessee**: First all we want determine

the residential status of the assessee. The residential status of a person has to be determined to find out which income is to be included in computing the total income. It decides whether the individual is tobe taxed or not. The residential status of an individual is determined on the basis of the duration of time spend by him in India. . Based on the time spent by him, he may be (a)

resident and ordinarily resident, (b) resident but not ordinarily resident, or (c) non-resident.

Step 2 – **Classification of income under different heads**

The Act specifies five heads of income. These heads of income consist of all possible types of income that can accrue to or be received by an individual. An individual is required to classify the income earned by him under the appropriate heads of income.

Step 3 – **Exclusion of income not chargeable to tax:** There are certain incomes which are

wholly exempt from income-tax e.g. agricultural income. These incomes have to be excluded while calculating Gross Total Income. T the same time certain incomes are partially exempt from income tax e.g. House Rent Allowance, Education Allowance etc.. These incomes are excluded

only to the extent of the limits specified in the Act. The balance income over and above the prescribed limits would enter computation of total income and have to be classified under the relevant head of income.

Step 4 – **Computation of income under each head:**

Income is to be computed in accordance with the provisions governing a particular head of income. As per the rules certain deductions and allowances are allowed. These deductions are allowed while computing income under each head.

Step 5 – **Clubbing of income of spouse, minor child etc.**:

In case of individuals, income-tax is levied on a slab system on the total income. The tax system is progressive. That means if income increases the tax amount to be paid also increases. We can see that some taxpayers who have the higher income bracket have a tendency to divert some portion of their income to their spouse, minor child etc. to minimize their tax burden. In order to prevent such tax avoidance, clubbing provisions have been included in the Income-tax Act. As per the provisions of income tax act income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person when it is seen that the income is diverted for avoiding tax.

Step 6 – **Set-off or carry forward and set-off of losses:**

An individual may have different sources of income under the same head of income. He might have profit from one source and loss from the other. As per the provision we can set off the losses

under one head or form other heads or can carry forwards for the coming assessment years. All provisions related to that should be considered while computing total income of the Assessee.

**Computation of Gross Total Income:**

The final figures of income or loss under each head of income, after allowing the deductions, allowances and other adjustments, are then aggregated, after giving effect to the provisions for clubbing of income and set-off and carry forward of losses, to arrive at the gross total income.

Step 8 – **Deductions from Gross Total Income:**

There are deductions prescribed from gross total income. The allowable deductions in case of an individual are deductions under sections 80C, 80CCC, 80CCD, 80CCF, 80D, 80DD, 80DDB, 80E, 80G, 80GG, 80GGA, 80GGC, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID,80-IE, 80JJA, 80QQB, 80RRB, 80TTA and 80U. These deductions are allowed as per the rules prescribed in the inco tax act.

Step 9 – **Compute Total income:**

After allowing all deductions allowable, we can compute total income.

Step 10 – **Application of the rates of tax on the total income:**

Different slab of tax rates are available on basis of status and age of individual. . There also will be basic exemption limit. The basic exemption limit is Rs 2, 00,000 for the assessment year 2013-

14. This means that no tax is payable by individuals with total income of up to Rs 2,00,000.

**Level of total income Rate of tax**

A) Normal Rates :

Up to Rs: 2,00,000 : Nil

Rs: 2,00,001 to 5,00,000 : 10%

Rs: 5,00,001 to 10,00,000 : 20%

Above Rs: 10,00,000 : 30%

B) Individual- Senior citizen (60 years or more but less than 80 years):

Up to Rs: 2,50,000 : Nil

Rs: 2,50,001 to 5,00,000 : 10%

Rs: 5,00,001 to 10,00,000 : 20%

Above Rs:10,00,000 : 30%

C) Individual- Super senior citizen (80 years or more):

Up to Rs: 5,00,000 : Nil

Rs: 5,00,001 to 10,00,000 : 20%

Above Rs:10,00,000 : 30%

Surcharge: Nil

**Education Cess:** 3% on the amount of income tax.

**Illustration:1**

Compute tax liability of Mr. Ramsanth for the A.Y. 2019-2020:

Income from business Rs: 1,80,000

Income from H.P. Rs: 35,000

*Solution:*

Income from business Rs: 60,000

STCG Rs: 5,000

LTCG Rs: 1,00,000

Income from other sources Rs: 15,000

**Computation of tax liability for the A.Y 2019-2020**

Business income 60,000

LTCG 1,00,000

STCG 5,000

Income from other sources 15,000

**Total Income 1,80,000**

Tax on LTCG @ 20 % 20,000

On balance of Rs: 80,000 Nil

Total Tax 20,000

Education cess 3 % 600

**Total Tax Liability 20,600**

**Illustration:2**

Mr. Jithin Raj furnished the following incomes earned during the year :

1.) Winning from Kerala State Lottery Rs: 1,00,000

2.) Profits from business Rs: 1,50,000

3.) STCG Rs: 12,000

4.) LTCG Rs: 23,000

**Solution:**

**Computation of tax liability for the A.Y 2019-2020**

Income from business 1,50,000

Capital gains:

LTCG : 23,000

STCG : 12,000 35,000

Winnings from Kerala State Lottery 1,00,000

**Total income 2,85,000**

Tax on Lottery income ( 1,00,000 x 30%) 30,000

Tax on LTCG ( 23,000 x 20 %) 4,600

Tax on balance income ( 1,62,000 ) Nil

Total tax 34,600

Education cess 1,038

Total tax liability 35,638

Less : Tax deducted at source ( 1,00,000 x 30%) 30,000

**Net Tax Liability 5,638**

**Illustration:3**

Following details are available in respect of income of Mrs. Maya for the year 2019-20:

a) LTCG (indexed) Rs: 2,30,000

b) Interest on bank time deposits Rs:10,000

c) Dividend from co-operative society Rs: 5,000

d) LIC premium paid Rs: 10,000

e) Contribution to Public Provident Fund Rs:10,000

Calculate tax payable by Mrs. Maya for the assessment year 2019-20.

**Solution:**

**Computation of tax liability for the A.Y 2019-20**

**Particulars Rs:**

Long Term Capital Gains 2,30,000

Income from other sources:

Interest from bank

10,000

Dividend from Co-operative society 5,000

15,000

**Gross total income 2,45,000**

Less : Deduction u/s 80 C 15,000

Total Income 2,30,000

Tax on Rs: 2,00,000 Nil

Tax on Rs: 30,0000 (LTCG) @ 20 % 6,000

Total 6,000

Add : Education Cess (6,000 x 3% ) 180

**Tax Payable 6,180**

*Note: Deduction u/s 80C to 80U are not available against LTCG*.

**Illustration:4**

Mr. Muhammad Haneefa is an Assistant Professor in a college . Compute his total income and

tax liability for the A.Y. 2019-20 :

(a) Salary Rs: 20,000 p.m.

(b) Royalty from books Rs: 36,000

(c) Remuneration for examination duty Rs: 10,800

(d) Wardenship Allowance Rs: 400 p.m.

(e) Income from lottery (Net) Rs:21,000

(f) Income from card games Rs: 12,800

(g) Expenses on lottery tickets Rs: 20,000.

**Soluation:**

**Computation of tax liability for the A.Y 2019-20**

**Particulars Rs: Rs:**

**Income from Salary:**

(a) Salary ( 20,000 x 12 ) 2,40,000

(b) Wardenship Allowance ( 400 x 12) 4,800

Gross Salary 2,44,800

Less : Deduction .........

Net Salary 2,44,800

Income from Other Sources:

(a) Examination duty remuneration 10,800

(b) Royalty from books 36,000

(c) Lottery winnings ( 21,000 100/70 ) 30,000

(d) Income from card games 12,800

Total 89,600

Gross Total Income 3,34,400

Less : Deduction u/s QQB (assumed as scientific

books ) 36,000

**Total Income 2,98,400**

***Computation of Tax Liability:***

Up to Rs: 2,00,000 ..........

For balance ( 98,400 x 10%) 9,840

Total 9,840

Add : Education Cess ( 9,840 x 3% ) 295

Total Tax Liability 10,135

Less : Tax Deducted at Source 9,000

**Net Tax Liability 1,135**

**Illustration:5**

Mr. Nair is working in a private company in Mumbai. He furnished the following details of his

income for the financial year 2012-13:

a) Monthly salary Rs: 11,200

b) D A per month Rs:3,850

c) A rent free unfurnished accommodation for which he pays Rs: 340 p.m.

d) A car with an engine capacity of 1.8 litres with a driver is provided by the employer. All

expenses relating to the car is met by the employer. The car is used for both personal and

official purposes.

e) He is also getting an amount of Rs: 1,000 p.m.as entertainment allowance.

f) He paid Rs: 1,200 as profession tax for the last financial year.

g) Education allowance for two children @ Rs: 600 p.m.

h) Cost of electricity bill paid by the company Rs: 22,000.

i) His income from let out house property Rs: 25,000. He spent Rs: 12,000 for its repairs in

the previous year.

j) He contributed Rs: 3,000 p.m. to a recognized provident fund. He also paid Rs: 16,000

towards his life insurance premium.

**Solution:**

**Computation of tax liability for the A.Y 2019-2020**

**Particulars Rs: Rs:**

**Income from Salary:**

Salary ( 11,200 x 12 ) 1,34,400

D A ( 3,850 x 12) 46,200

Entertainment allowance ( 1,000 x 12) 12,000

Educational allowance (600 x 12 ) -- (100 x 2 x12)

4,800

Perquisites :

(e) Rent free unfurnished accommodation:

15 % of salary (Pvt. Employee at Mumbai) :

22,680

Less : Rent paid by employee (340 x 12) : 4,080

(f) Motor car (2,400 + 900) x 12 39,600

(g) Electricity bill paid by the company 22,000

Gross Salary 2,77,600

Less : Deduction u/s 16 (iii) 1,200

Net Salary 2,76,400

**Income from H.P :** 25,000

Less : Deduction (30%) 7,500 17,500

**Gross Total Income** 2,93,900

Less : Deduction under section 80 C :

RPF ( 3,000 x 12 ) 36,000

Life Insurance Premium 16,000 52,000

**Total Income 2,41,900**

Tax on Income :

Up to Rs: 2,00,000 Nil

On Balance 41,900 x 10 % 4,190

Total 4,190

Add : Education Cess (4,190 x 3%) 126

**Tax Liability 4,316**

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