GOVERNMENT ARTS COLLEGE FOR WOMEN
SALEM-8

(Recognized under Section 2(f) & 2 (B) of UGC Act 1956 and Accredited with "A" Grade- III Cycle by NAAC)

Affiliated to Periyar University, Salem-11

Yercaud Main Road, Gorimedu, Salem – 636 008

PG & RESEARCH DEPARTMENT OF COMMERCE

STUDY MATERIAL

PAPER NAME	**: INCOME TAX AND TAX PLANNING**
SEMESTER	**: III**
CLASS	**: M.COM**
PAPER CODE	**: 19PCM12**

SUBJECT: INCOME TAX AND TAX PLANNING

CLASS: II- M.COM

SYLLABUS

UNIT-I:

Introduction to Income Tax Act – Definitions – Residential Status – Scope of Total Income - Exempted Incomes U/S 10

UNIT-II:

Computation of salary income – Salary items – Allowances – Perquisites – Savings eligible for deduction – Calculation of house property Income – Annual Value – Deductions – Exempted house property incomes- Tax Planning

UNIT-III:

Income from business – Expenses allowed – Expenses disallowed – Computation of Professional Income – Calculation of Capital gain – meaning — Types – Exempted capital gain- Tax Planning

UNIT-IV:

Computation of Income from other sources – Income chargeable under other sources – Deductions from other sources income – Set off and carry forward of losses- Tax Planning

UNIT-V:

Deduction from Gross total income – Clubbing of income – Assessment of Individual – Rates of Income Tax

Note: Distribution of Marks – 80% Problems and 20% Theory.

Text Books: **i) Income tax law and Practice:** V.P.Gaur & Narang.

ii) Income tax law and Practice: A.Jayakumar & Hariharan.

iii) Income tax law and Practice: Dr.H.Mehrotra.

iv) Income tax law and Practice: Dr.M.Srinivasan.

QUESTION PAPER PATTERN

Time: 3Hrs **Max.marks: 75**

PART – A (15x1=15)

Answer ALL the Questions (Multiple Choice Questions)

Three questions from each unit

PART – B (2x5=10)

Answer any TWO (Out of Five Questions)

One questions from each unit

PART – C (5x10=50)

Answer ALL the Questions (with either or choice)

Two questions from each unit

INCOME TAX AND TAX PLANNING

UNIT-I

Introduction to Income Tax Act – Definitions – Residential Status – Scope of Total Income - Exempted Incomes U/S 10

INTRODUCTION:

Income Tax was introduced in India for the first time in the year 1860 by Sir James Wilson. He introduced it in order to meet the losses sustained by the government. The Income Tax Act 1961 came into force with effect from 1st April 1962.Tax is the important sources of revenue to the government. Taxes are more important way of collecting funds for government activities. Tax revenues are very useful to manage the economic activities in number of ways. Taxes are not only source of revenue to government but also useful to control inflation and improving balance of trade in country. Taxation policy of the country plays a vital role in the working of the country. While framing the taxation policy it has to be confirmed that it is in accordance with our economic and social objectives.

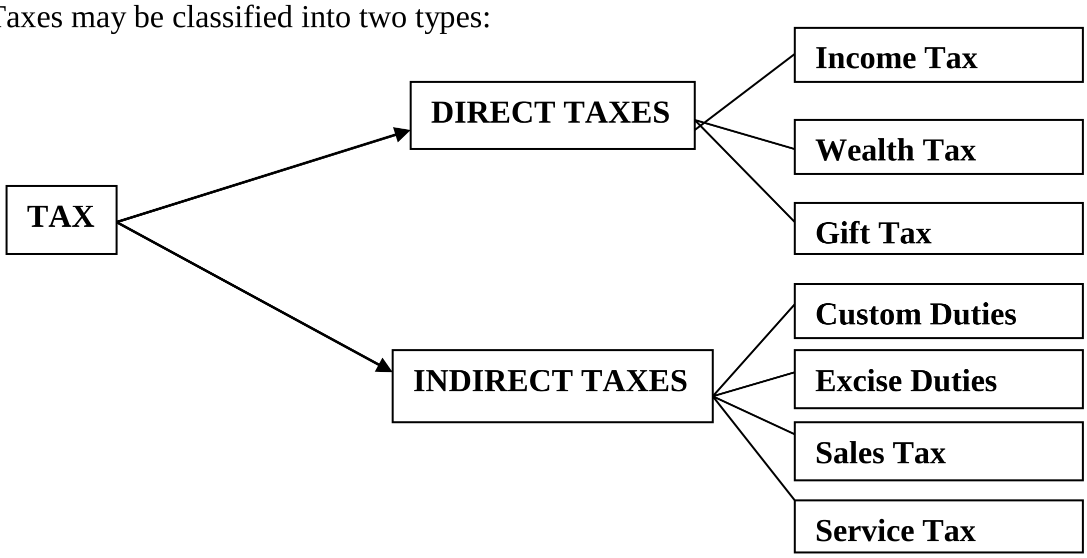
MEANING OF INCOME TAX:

Income Tax is a tax on the income of an individual or an entity. Income Tax may be explained as, "Every person, who is an Assessee and whose total income exceeds the maximum exempted limit, shall be chargeable to income tax at the rates prescribed in the Finance Act". Such income tax shall have to be paid on the total income of the previous year in the relevant assessment year. The tax is a payment that has to be made by an individual or other person to central government, state government and local authority. Tax is based on certain well established rules such as

i) Income earned
ii) Property owned
iii) Expenditure made.

CLASSIFICATION OF TAXES:

Taxes may be classified into two types:



i) Direct Taxes:

Direct taxes are the taxes which are not shifted i.e. the incidence of tax falls on people who pay them to the government. In other words, direct tax is a payment directly made to the state government by the person who bears it. For example: Income tax (is a tax on income, and it is paid and borne by the person who earns income more than the fixed slab), wealth tax, property tax etc. It is imposed according to the ability of person to pay.

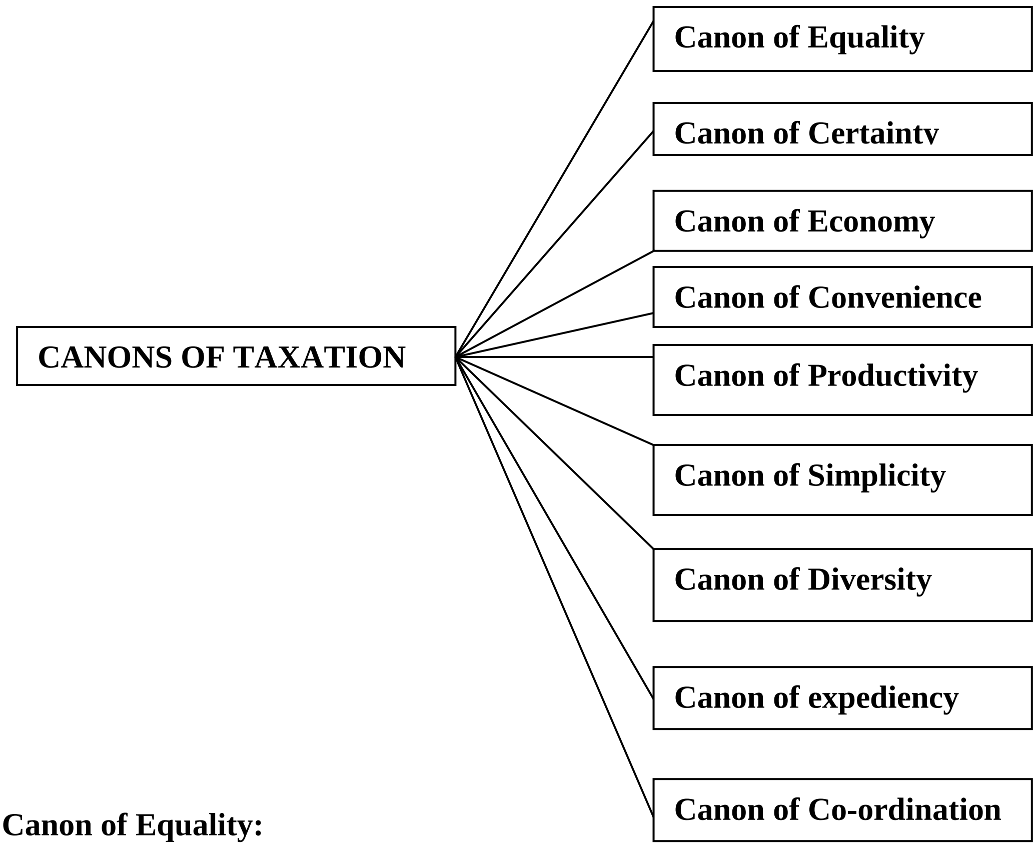
ii) Indirect taxes:

Indirect taxes are the taxes which are paid by one person and it is actually levied on another person. Simply the direct taxes are indirectly paid by the consumer to the government.

For example: Excise duty (The manufacturer of the commodity pays excise duty to the government and recovers this payment from the wholesaler, the wholesaler collects it from the retailer and the retailer passes on the consumer. Thus the immediate payer of excise duty is the manufacturer but it is ultimately born by the consumer), Sales tax, Custom duty, Service tax etc.

CANONS OF TAXATION:

It refers to the principles of taxation. In other words it refers to the basis on which the income is taxed. These principles are essential for a good taxation policy. The following are the important principles of taxation.



a) Canon of Equality:

This is also known as **"Canon of Equity".** This principle is mainly based on **"justice".** All the assessees should be treated equally. In other words, the burden of taxation must be distributed equally. The main concept of this principle is that the person who earns more income should pay more tax and the person who earns less income should pay lesser tax.

b) Canon of Certainty:

Under this principle, certainty regarding time of payment, manner of payment, amount to be paid, and the authority to whom the tax is paid are discussed.

c) Canon of Economy:

This principle deals with cost of collection and it states that the cost of collection should be minimum. Minimum expenditure and maximum collection principle should be followed.

d) Canon of Convenience:

This principle states that the Assessee should feel convenient regarding the exact mode and timing of tax payment i.e., submission of return of income.

e) Canon of Productivity:

This is termed as fiscal adequacy. It states that the tax system will generate revenue to the treasury. This principle also concentrates and implies that the tax system of generating revenue should not adversely affect production. Productive taxation makes it essential that it may not have any unfavorable effect on the savings potential of the people.

f) Canon of Simplicity: The tax should be made simple as possible, in such a way that even a layman can understand it. The tax procedure, rules, regulations etc., are to be simple and giving chance for easy understanding.

g) Canon of Diversity:

Under this principle, a multiple tax system should be followed. It suggests that the tax system should be diverse nature. A mixture of direct tax and indirect tax should be followed.

h) Canon of expediency:

This principle concentrates on:

- Economic expediency
- Social expediency
- Political expediency,

This principle states that tax determination and administration should not give chance for any criticism.

i) Canon of Co-ordination:

This principle states that there should be coordination among the different taxes as and when they are imposed by the tax authorities.

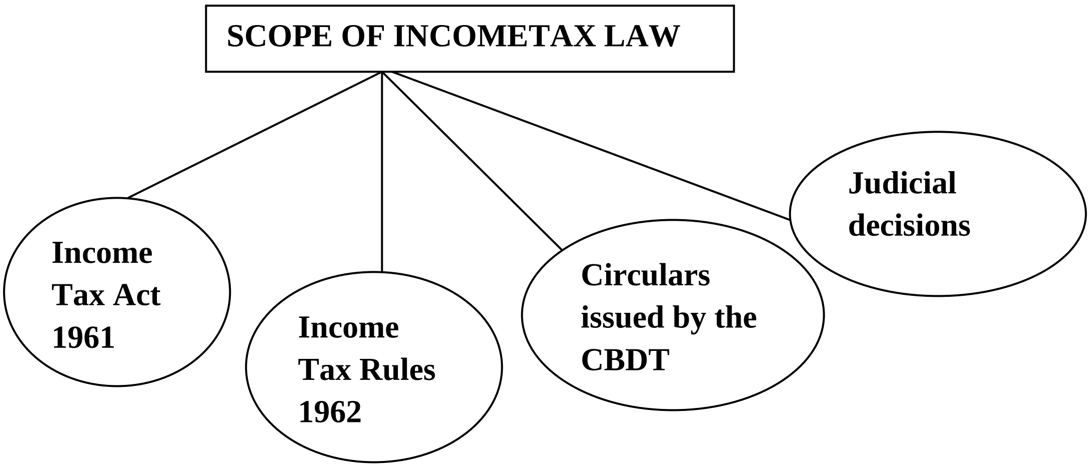
SCOPE OF INCOMETAX LAW:

Income tax is a tax on income. It may be real or nominal. It may be paid in cash or in any kind. As per Article 270 of the constitution of India, the matter of income tax is concerned with the central government. However, the net tax proceeds are distributed between the central and state governments on the basis of recommendation of the finance commission.

The finance commission is an authority appointed by the president of India, in every five years to deal with fiscal matters. The following are the scope of income tax law,

i) Income Tax Act 1961:

The income tax act, 1961 becomes effective from the 1st day of April, 1962. It contains 298 sections and numerous sub sections, schedules etc., for the determination of income, tax liability, procedure for assessments, appeals, penalties and prosecutions. Every year a budget is presented before the parliament by the finance minister. It contains the "Finance Bill". The finance bill mentions the rate of income tax and other rates, rebates and reliefs. Sometimes the Finance Act is not passed by parliament for any assessment year in such a case the income tax will be assessed as per the Finance Act of the preceding year.



ii) Income Tax Rules 1962:

The section 295 of the Income Tax Act has given powers to the Central Board of Direct Taxes to make any rules regarding income tax. These rules are known as income tax rules 1962 and these are amended from time to time. The income tax rules under this Act must be placed before the parliament with in particular period.

iii) Circulars issued by the CBDT:

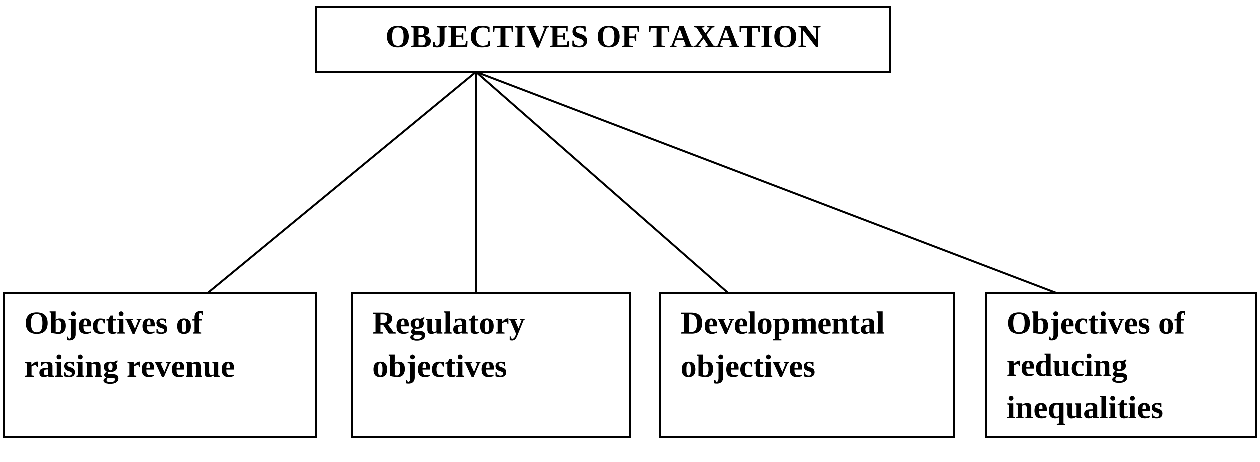
To deal with certain specific problems, the Central Board of Direct Taxes issues circular from time to time. These circulars only for the guidance of the officers and public.

iv) Judicial decisions:

In the course of assessment proceedings sometimes there may arise a dispute between the department and the Assessee over the interpretation of some of the provisions of the Act. To readdress such grievances the Assessee can go to court of law as is prescribed in the Act. In such cases any decision given by the Supreme Court becomes a law which will be boarding on the income tax department as well as on the tax payers. Every decision given by a High court, income tax appellate Tribunal are also binding on the income tax department and tax payers.

OBJECTIVES OF TAXATION:

Basic objective of taxation is to raise resources for the state.



i) Objectives of raising revenue:

This is Basic and primary objective of taxation. Huge amount needed by modern government for national defence, creation of infrastructure, social upliftment schemes. Thus, taxation aims at mobilizing required revenue to fulfill the public expectations and obligation of the state.

ii) Regulatory objectives:

a) Regulating Consumption:

State discourages consumption of harmful and undesirable goods by levying prohibitive rate of tax. E.g. Tobacco products, Liquor etc.

b) Regulating Production:

To encourage production of new industries should give relaxation and exemption from tax, raising tax on imported goods also encourage the local production.

c) Regulating imports and exports:

Imports of undesirable goods can be curbed by imposing high import duties and exports encourage by cutting duties and tax on exports.

c) Regulating the effects of inflation, depression etc:

Raising tax rates reduce consumption of goods and demand, funds collected used for productive purpose to increase supply of goods, thus stabilizing supply and demands equally.

iii) Developmental objectives:

a) Objective of economic development:

Economic development is measured in terms of GNP achieved in all major sectors of the economy i.e. agriculture, industry and services. Taxation used as stimulant to all sectors by changes in tax rate e.g. Capital gain on sale of Long term assets exempted if reinvested in approved sectors.

b) Capital formation:

Taxation plays major role in savings by providing different kinds of exemption from tax on contribution to provident fund, insurance premium, NSC etc.

c) Raising employment opportunities:

Tax concession to start small scale and medium scale units result in creation of jobs.

iv) Objectives of reducing inequalities:

a) Reduction in economic disparities:

Rich become richer and poor are becoming poorer. So levy high tax on rich and low tax on poor is the best way of reducing income disparities.

b) Reduction in regional imbalance:

Tax incentives and exemptions to start industries in backward region.

ASSESSMENT YEAR:

Assessment year is defined as "the period of twelve months starting from 1st day of April and ending on 31st march of the next year". The current assessment year starts from 1st April 2015 and ends on 31st March of 2016.

Assessment Year (AY) = 1.04.2019 to 31.03.2020

PREVIOUS YEAR:

Previous year refers to twelve months immediately preceeding the particular assessment year. In other words, the year in which income is earned is known as previous year. If the assessment year is 2018-2019, then the previous year will be 2017-2018 starting from 1st April 2014 and ending on 31st March of 2015.

Previous Year (PY) = 1.04.2018 to 31.03.2019

EXCEPTIONS TO THE GENERAL RULE REGARDING PREVIOUS YEAR:

Normally all the incomes of the previous year are assessed to tax in the assessment year. But there are certain exceptions to this rule. They are:

i) Sec.172 – Income of non-resident from shipping business

ii) Sec.174 – Income of persons leaving India either permanently or for a long period of time.

iii) Sec.174 (A) – Income of bodies formed for short duration.

iv) Sec.175 – Income of a person trying to transfer his/her assets to avoid the payment of tax.

v) Sec.176 – Income of a discontinued business.

For the above cases The Assessing Officer can force The Assessee to pay tax during the previous year 2017-2018.

Illustration: 1 Miss. Neethu a popular singer from America came to India for the first time in her lifetime in Jan.2017. She has given several performances for which she receives Rs.100000 she has to board the plane on 18th March 2018. When a notice was served on her by the ITO asking her to pay tax immediately. Her reply was seems my previous year ends on 31st March 2019 and I am liable to pay tax in the assessment year 2019-2020. What is your view?

ANS: Normally tax is levied on the income of the previous year in the assessment year as such Miss. Neethu can pay tax in assessment year 2019-2020. But as per section 174, income of persons leaving India such person can be asked to pay tax in the same year in which income is earned. As such under section 174 assessing officer can force her to pay tax (before her departure) during the previous year 2018-2019.

UNUNIFORM OF PREVIOUS YEAR:

All the assessees are required to follow a uniform previous year that is financial year. The Assessee may maintain books of accounts on the basis of calendar year, academic year or any other year but for the purpose of income tax financial year is taken as previous year. Ununiform previous year may be:

i) Previous year in case of newly set- up business

ii) Previous year for new source of income.

i) Previous year in case of newly set- up business:

In case a business or profession is started in between the financial year. The period of previous year may differ**.** Previous year in case of newly set- up business is the period beginning from the date of setting up of the business and ending of the last day of that financial year i.e. 31st March shall be the first previous year for that business. The first previous year of that newly setup business will be either 12 months or less than twelve months. It can never exceed a period of 12 months. But the assessment year will remain same.

ii) Previous year for new source of income:

In case a new source of income under the same head comes into existences during the financial year, the period beginning from the date of new source came into existence and ending on the last day of the financial year shall be the first previous year for that source of income.

Illustration: 2 X set up a new business on April 10th 2018. What is the previous year for the assessment year 2019-2020?

ANS: Previous year for the assessment year 2018-2019 is the period commencing on 10.04.2018 to 31.03.2019.

Illustration: 3 X joins an Indian Company on Jan 23rd 2019 prior to Jan 23rd 2019, he is not in employment. What is the previous year for the assessment year 2019-2020?

ANS: Previous year for the assessment year 2019-2020is 23.01.2019 to 31.03.2019

PERSON:

The term person includes the following:

i) An Individual:

It refers to natural human being and will include male or female, adult or minor and not include any artificial person.

ii) A Hindu Undivided Family:

It is a relationship created due to operation of Hindu Law. The manager or head of HUF is called **"Karta"** and its members are called **"Coparceners".**

iii) Company:

Two or more persons jointly together to run a business for the purpose of achieve some common objective is called company. Company is an artificial person registered under Indian Companies Act 1956 or any other Law. The company may be private or public company.

iv) Firm:

The section 4 of the Indian Partnership Act 1932, defines partnership as "relationship between two or more persons who have agreed to share profit of business carried by all or any of them, acting for all. Income Tax Act accepts only these entities as firms which are assessed as firms under section 184 of the Act. The only condition for a partnership firm is that it must submit its partnership deed duly signed by all partners except a minor partners and it must specify the shares of the partners. In case firm has not submitted its partnership deed it is assessed as firm U/S 185.

v) Association of Persons:

It means two or more persons who join for a common purpose with a view to earn an income. They must combine to engage in an activity with common purposes to produce income. It may consist individual or non- individual as its members.

vi) Body of Individuals:

The term, Body of Individuals means a group of individuals (natural persons) who carries on some activity with the objective of earning income. It must not include non- individual members.

vii) Local Authorities:

Municipality, Panchayats, Cantonment Board, Port Trust etc. are called local authorities.

viii) Artificial and Judicial Persons:

A public corporation established under special Act of Legislature and a body having juristic personality of its own is known as artificial judicial persons. E.g. Universities, councils etc.

Illustration: 4 Determine residential status of the following: a) Delhi University b) Delhi Cloth Mills c) Delhi Municipal Corporation d) Tax man publication private limited e) Lakshmi commercial bank limited f) ABC group housing corporation society g) A firm of X and Y h) Joint family of X, Mrs.X and their sons A and B i) X a lecturer in Delhi university j) Life insurance corporation k) Reserve Bank of India.

ANS: Residential status: a) Artificial judicial person b) Company c) Local authority d) Company e) Company f) AOP g) Partnership firm h) HUF i) Individual j) Company k) Artificial judicial person.

ASSESSEE:

Assessee refers any person who is liable to pay any tax or any other sum of money (interest, fine, and penalty) under the Income Tax Act 1961 is called Assessee. The term Assessee means any persons whose accounts are taken for assessment whether by voluntarily or compulsorily.

TYPES OF ASSESSEE:

Assessee may be classified into three types:

i) Ordinary Assessee:

An ordinary Assessee is one who has to pay any tax, penalty, and interest to the Income Tax Authorities or who is eligible for any refund of tax from the Tax Authorities.

ii) Deemed Assessee:

Deemed Assessee is also known as Representative Assessee. This type of Assessee is not only responsible for his income but also responsible for the income of the other person to whom he acts as a representative.

For a Minor: Deemed Assessee is Guardian.

For a Non-Resident: Deemed Assessee is Agent.

For Deceased Person (with will): Deemed Assessee is Executor.

For Deceased Person (without will): Deemed Assessee is Legal heir or the eldest son.

iii) Assessee in Default:

If any person fails to fulfill his duty or obligation as per the Act, then he is termed as Assessee in default. For example, if a person who should submit a return of income fails to do so then he is Assessee in default.

AVERAGE RATE:

Average rate of income means the rate arrived by dividing the amount of income tax calculated on total income by total income is called average rate.

Average Rate = Total Tax / Total Income X 100.

MAXIMUM MARGINAL RATE:

It means the rate of tax for an individual, which is applicable on highest slab of income.

BLOCK OF ASSETS:

This means that all assets of the same nature and having same rate of depreciation would form one block of assets. For example, all machines having 15% of depreciation would form one block and all machines having 40% rate of depreciation would fall in another Block of Assets.

INCOME [Sec.2 (24)]:

Meaning:

The word income is not defined in the constitution of India. According to English dictionary, the term income means "Periodical receipts from one's business, land, **work, investments etc".** The term income means something which comes in. It is a periodical return with regularity or expected regularity. That income refers not only the monetary return; it also includes value of benefits and perquisites.

Definition: According to section 2 (24) of the Income Tax Act, 1961 the term income includes the following items:

i) Profits and gains

ii) Dividend

iii) Voluntary contributions received by a trust

iv) The value of perquisites or profits in lieu of salary

v) Any special allowances granted to the Assessee to meet personal expenses

vi) Any allowances granted to meet the personal expenses for the increased cost of living.

vii) The value of benefit obtained from a company by a director.

viii) The value of any benefit obtained by any representative Assessee.

ix) Any income chargeable under the head business.

x) Any value of benefits from profession

xi) Any capital gains

xii) Insurance profit

xiii) Casual incomes

xiv) Any sum received under Key Man Insurance Policy.

FEATURES OF INCOME:

The following are the features of income.

i) Definite Source:

The term income refers a periodic monetary return coming with some sort of regularity from definite sources.

ii) Income must come from outside activities:

No one can earn income from himself. The income must come from outside activities.

iii) Tainted Income:

Income earned legally or illegally remains income and it will be taxed according to the provisions of the act is known as Tainted income.

iv) Diversion of income vs. application of income:

Diversion of income means that a part of the income or whole of such income does not reach the Assessee. It is diverted to some other person due to some legal obligation. Where as application of income means after receiving the income spending it. For example The amount paid by a person to his step mother out of rent of property which he has inherited under the provisions of will from his father, is diversion of income but if there is no such provision in the will and he promise to pay some money to his step mother, it is application of income.

v) Temporary or permanent:

Whether the income is permanent or temporary, it is immaterial from the tax point of view. So income earned may be permanent or temporary.

vi) Voluntary receipts:

The receipts which do not arise from the exercise of a profession, business, and remuneration are made for reasons purely of personal nature are not included in the scope of total income.

vii) Dispute regarding the title:

In case a person receiving some income but his title is disputed, it will not free from tax liability. The receiver of such income has to pay tax.

viii) Incomes may be in money or money's worth:

The income may be in money or money's worth. It is taxable in both cases.

ix) Gifts constitute income:

An amount of gifts are received in cash or cheque from a person or persons other than relative shall be deemed as income from other sources. Gifts up to Rs.50000 shall be exempted.

GROSS TOTAL INCOME:

Gross total income is dealt under section 14 of the Income Tax Act 1961. Gross total income refers to the sum total of various heads of incomes such as salary, house property, business or profession, capital gains, and other sources. It should be calculated as follows:

Income from Salary	xxx
Income from House Property	xxx
Income from Business or Profession	xxx
Income from Capital Gains	xxx
Income from other sources	xxx
Gross Total Income	xxx

*Any loss in the heads of income will be adjusted before calculating the Gross Total Income.

Illustration: 5 Compute gross total income of Mr. R for the previous year 2019-2020.

a) Income from salary Rs.120000 p.a. b) Income from house property Rs.80000 p.a. c) Income from business Rs.200000 p.a. d) Long term capital gain Rs.30000 e) Short term capital gain Rs.20000 c) Bank interest Rs.50000 and Dividend from Indian company Rs.40000.

Ans: Computation of gross total income of Mr. R for the previous year 2018-19

Particulars	Amount	Amount
a) Income from salary		120000
b) Income from house property		80000
c) Income from business		200000
d) Income from capital Gain:		
Long term capital gain	30000	50000
Short term capital gain	20000	
e) Income from other sources:		
Bank interest	50000	50000
Dividend from Indian company	Exempt	
Gross Total Income		5,00,000

TOTAL INCOME OR NET INCOME:

The excess of gross total income after allowing deductions under section 80 is termed as total income. It should be calculated as follows:

Gross Total Income	xxxx
Less: Deduction U/S 80	xxx
Total Income or Net Income	xxxx

ROUNDING OFF OF INCOME (SEC 288 A):

Total taxable income of the Assessee shall be rounded- off to the nearest multiple of 10 i.e. if the last figure in the total income is five or more, it would be raised to the next higher multiple of 10 and if the last figure of total income is less than five, the same shall be reduced to lower amount which should be a multiple of ten.

Illustration: 6 Round of the following incomes a) Rs.510615 b) Rs.215614

Ans: a) Rs.510620 b)Rs.215610

AGRICULTURAL INCOME [SEC 2(1A)]:

Agricultural income is fully exempted from Tax U/S 10(1). Agricultural income refers to:

i) Any rent or revenue derived from land, which is situated in India and used for agricultural purposes.

ii) Any income derived from such land, which is used for agricultural operations. It includes process by cultivator or receiver of rent in kind as well as in cash or receipt of sale of such product.

iii) Any income from a farm house.

iv) Any income derived from saplings or seedlings grown in a nursery will be deemed as agricultural income.

CASUAL INCOME:

It is a receipt in the nature of windfall being received by chance, without any stipulation, contract, calculation, estimation or design. It is of casual and nonrecurring in nature. For the taxation, under this section it includes the following:

i) Lotteries

ii) Crossword puzzle

iii) Races including horse races

iv) Card games and other games

v) Gambling or betting.

Tax is deducted at source at prescribed rates out of the following incomes:

The gross winnings from lottery, crossword puzzles, and card games, gambling or betting of any races including horse races will be included in the scope of total income without allowing any deduction towards expenditure. However, expenditure for maintaining racehorses can be claimed as deduction. Income Tax Act has specified a standard rate of 30% tax apart from surcharge and education cess as applicable. TDS(Tax Deducted at Source) will be deducted at 30% in respect of winning from lotteries or cross word puzzles or card games or other games if the income exceeds Rs.10000. (Rs.5000 in case of winning from horse races).

Calculation of Gross Amount if Net Amount is given:

Gross Amount = Net Amount X 100/ 70

* No deduction is allowed for casual income. TDS will not be deducted if the prize money from winning lottery, crossword puzzle etc is Upto Rs.10000 (RS.5000 in case of winning from horse races.)

Illustration: 7 Gross up the following: Winning from Lotteries (net amount) Rs.21000

Ans: Gross Amount = Net Amount X 100/ 70

Gross Amount = 21000 X100/70 = 30000

Important points to be noted while calculating gross total income:

* Dividend from Indian company is not taxable. It is exempted U/S10 (34).

* Indian agricultural income is fully exempted.

* Foreign agricultural income is fully taxable.

* For final dividend date of declaration should be taken.

* For interim dividend date of payment should be taken.

* Gift received from any relative during marriage, by way of will, from local authority, university, educational institutions, hospitals, charitable institute is not taxable.

* Gift received from a friend exceeds Rs.50000 is taxed in the hands of the Assessee. Amount Upto Rs.50000 is not taxable. (If it exceeds Rs.50000 entire amount is taxed).

* Gift from employer is taxed in the hands of employer and in the hands of employee.

BASIS OF CHARGE:

INTRODUCTION:

Tax is levied on total income of Assessee. Under the provisions of Income Tax Act, 1961 the total income of each person is based upon his residential status. Section 6 of the Act divides the assessable persons into three categories:

i) Resident and ordinarily resident

ii) Resident but not ordinarily resident

iii) Non resident

MEANING OF RESIDENTIAL STATUS:

Residential status is determined by considering the number of days stayed in India in a particular previous year. Residential status is not related to citizenship of an individual. An Indian, who is a citizen of India, can be non-resident for income tax purposes, whereas an American who is a citizen of America can be resident of India for income tax purposes. Residential status differs for different types of persons. Residential status of Assessee determined each year with reference to the previous year.

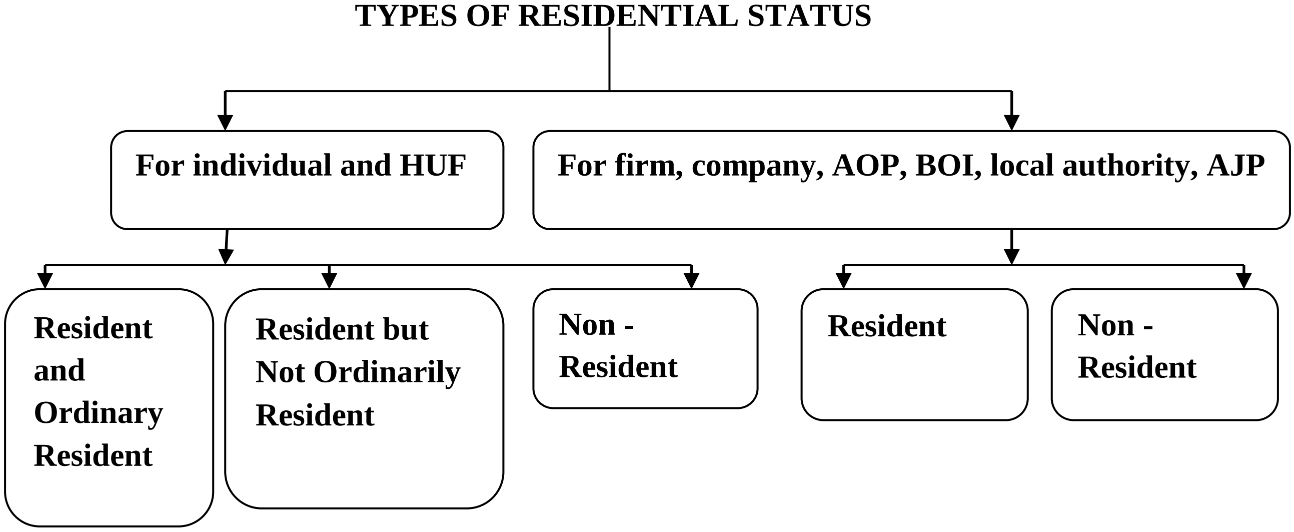
DETERMINATION OF RESIDENTIAL STATUS OF DIFFERENT PERSONS:

Income tax is charged on every person. The term person has been defined under section 2(31) includes:

i) An Individual, ii) A Hindu Undivided Family, iii) Company, iv) Firm, v) Association of Persons, vi) Body of Individuals, vii) Local Authorities, viii) Artificial and Judicial Persons

Therefore, it is essential to determine the residential status of above various types of persons.

TYPES OF RESIDENTIAL STATUS



RESIDENTIAL STATUS OF AN INDIVIDUAL:

It refers to the status of an individual, which is determined on the basis of his/her, total stay in India. Under section 6, the residential status of an individual is divided into the following categories:

RESIDENTIAL STATUS OF AN INDIVIDUAL

Resident (fulfills at least one Basic condition)

Non- resident (not fulfills the basic condition itself)

Resident and Ordinary resident (fulfills at least one Basic condition and both of the additional conditions)

Resident but not Ordinary resident (fulfills at least one Basic condition and fulfills one or none of the additional conditions)

BASIC CONDITIONS: Sec 6 (1)

To find out whether an individual is Resident or Non Resident in India during the previous year, the following Basic Conditions shall be applied:

a. First Basic Condition: **Individual Assessee must be in India for at least 182 days or more during the relevant previous year.**

(Or)

b. Second Basic Condition: **Individual Assessee must be in India for at least 60 days or more during the relevant previous year and 365 days or more during 4 years immediately preceeding the relevant previous year.**

- If an individual **Assessee fulfills any one of the basic condition**, he/she is said to be **resident** in India.
- If an individual **Assessee not fulfills any one of the basic condition**, he/she is said to be **non-resident** in India.

EXCEPTIONS TO BASIC CONDITIONS U/S 6(1) B:

In the following cases, an individual has to stay in India for a period of 182 days or more instead of 60 days or more during the relevant previous year:

i) In case of an Indian citizen leaving India for the purpose of employment in the previous year

ii) In case of an Indian citizen leaving India as a crew member of a ship in the previous year

iii) In case of a person of a Indian origin coming on a visit to India during the previous year (a person of Indian origin means either Assessee or his/her parents or grant parents or great grandparents are born in undivided India)

ADDITIONAL CONDITIONS: Sec 6 (6)

If an individual Assessee becomes resident in India, the following Additional conditions shall be applied to find out whether an individual Assessee is Resident and Ordinarily Resident or Resident but Not Ordinarily Resident:

First Additional Condition: **Individual Assessee must be Resident in India for 2 years out of 10 previous year preceeding the current previous year**

(And)

Second Additional Condition: **Stay in India for 730 days or more during 7 previous year immediately preceeding the current previous year**

- If an **individual Assessee satisfies both the additional conditions**, he/ she is said to be **resident and ordinary resident** in India.
- If an **individual Assessee satisfies one or none of the additional conditions**, he/ she is said to be **resident but not ordinary resident** in India.

IMPORTANT POINTS:

i) The day of visit to India and day of leaving India are regarded as two separate days and both are included.

ii) Residential status of previous year is important and residential status of assessment year is not important

iii) Stay means anywhere within Indian geographical territory, i.e., anywhere in Indian villages, towns, cities, waters or mountains.

iv) Stay may be continuous or intermittent

v) Stay need not be at one place

vi) Object of stay is not important

Illustration 1. X left India for the first time on May 20th 2018. During the financial year 2018-2019. He came to India once on May 27th 2019 for a period of 53 days. Determine the residential status for the assessment year 2020-2021?

ANS: Name of the Assessee: Mr.X

Previous Year : 2019-2020

Assessment Year : 2020-2021

Status : Non-Resident

Workings: Departure 20.5.2018

Arrival 27.5.2019

Foot Note: In this problem Mr.X fails to satisfy the basic condition itself of the Income Tax Act. So, he will be treated as non - resident for the A/Y 2019-2020

Illustration 2. X an Italian citizen comes to India for the first time (after 20 years) on May

28th 2019 and stays Upto Dec 5th 2020. Determine the residential status for the assessment year 2020-2021

ANS: Name of the Assessee: Mr.X

Previous Year : 2019-2020

Assessment Year : 2020-2021

Status : Resident but not ordinarily resident

Workings: Departure 6.12.2020

Arrival 28.5.2019

Foot Note: In this problem Mr.X satisfy the basic condition only of the Income Tax Act. So, he will be treated as Resident but not ordinarily resident for the A/Y 2019-2020

Illustration 3. X is a a foreign citizen .During the financial year 2019-2020, he was in India for 101 days. Determine the residential status for the assessment year 2020-2021. On the assumption that during financial year 2006-2007 to 2019-2020 he was present in India as follows: 2006-2007: 85 days, 2007-2008: 310 days, 2008-2009: 106 days, 2009-2010: 174 days, 2010-2011: 20 days, 2011-2012: 280 days, 2012-2013: 265 days, 2013-2014: 16 days, 2014-2015: 160days, 2015-2016: 281 days, 2016-2017:305 days, 2017-2018: 165 days, 2018-2019: 210 days, 2019-2020: 220 days.

ANS: Name of the Assessee: Mr.X

Previous Year : 2019-2020

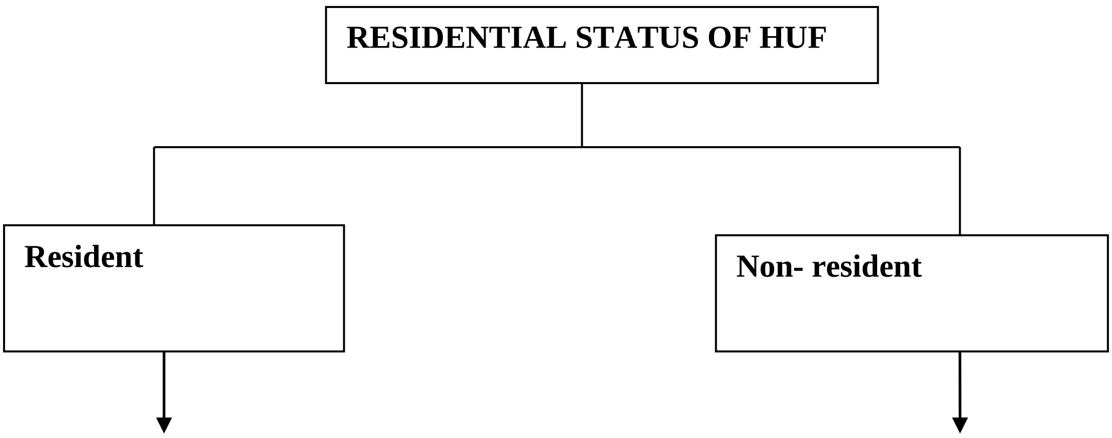
Assessment Year : 2020-2021

Status : Resident and ordinarily resident

Workings 2006-2007: 85 days, 2007-2008: 310 days, 2008-2009: 106 days, 2009-2010: 174 days, 2010-2011: 20 days, 2011-2012: 280 days, 2012-2013: 265 days, 2013-2014: 16 days, 2014-2015: 160days, 2015-2016: 281 days, 2016-2017:305 days, 2017-2018: 165 days, 2018-2019: 210 days, 2019-2020: 220 days.

Foot Note: In this problem Mr.X satisfy the basic condition and both of the additional conditions of the Income Tax Act. So, he will be treated as Resident and ordinarily resident for the A/Y 2017-2018

RESIDENTIAL STATUS OF HUF:



a) When control and management is wholly situated in India

b) When control and management is partly situated in India and partly situated outside India

When control and management is wholly situated outside India

Resident and Ordinary resident

Resident but not Ordinary resident

a) An HUF can have this status depending on the satisfaction of additional conditions by the Karta or manager of the family

b) If the Karta fulfills at least one Basic condition and both of the additional conditions mentioned, then the HUF will get the status of Resident and Ordinary resident

If the Karta fulfills at least one Basic condition and fulfills one or none of the additional conditions mentioned, then the HUF will get the status of Resident but not Ordinary resident

RESIDENTIAL STATUS OF A COMPANY:

RESIDENTIAL STATUS OF A COMPANY

Indian company

Foreign company

An Indian company is always a **resident**. There is no specific rule to Indian company

Resident

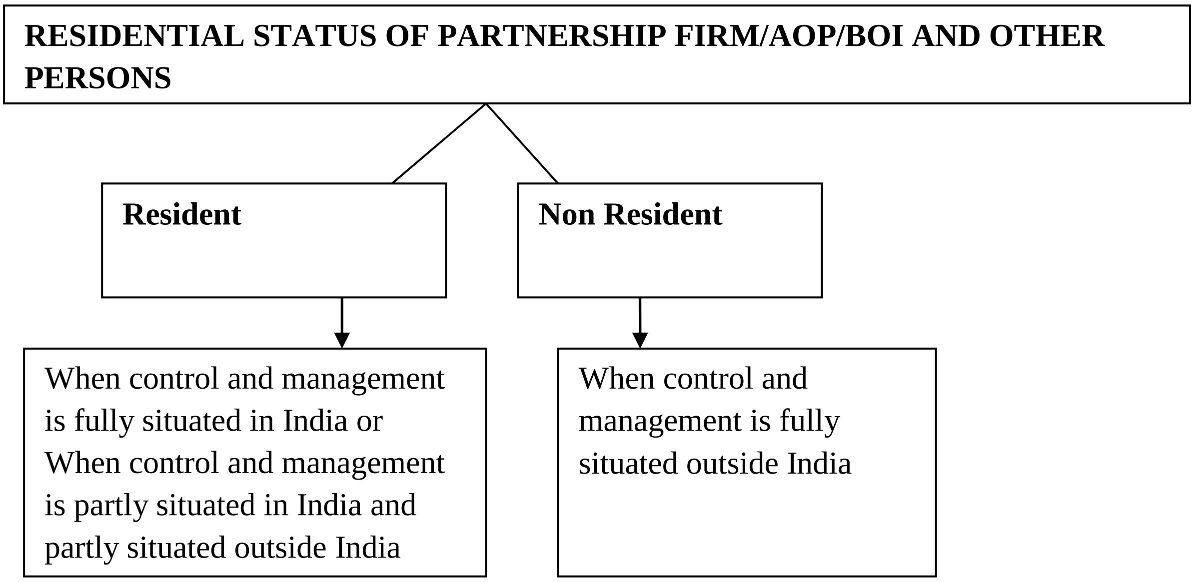
Non Resident

When control and management is fully situated in India

When control and management is partly situated in India and partly situated outside India **or** when control and management is fully situated outside India

RESIDENTIAL STATUS OF PARTNERSHIP FIRM/AOP/BOI AND OTHER PERSONS:

The Residential Status of Partnership Firm/AOP/BOI and Other Persons can have the following status.



SCOPE OF TOTAL INCOME OR INCIDENCE OF TAX:

INTRODUCTION:

The tax is levied on total income of a person. The total income of a person is based upon the residential status of an Assessee. Section 5 provides the scope of total income which varies on the basis of status. The following table will show the tax incidence for different residential status.

Different kinds of incomes	**Resident and ordinarily resident**	**Resident but not ordinarily resident**	**Non Resident**
Income earned or deemed to be earned in India but received in foreign country.	**Taxable**	**Taxable**	**Taxable**
Income earned or deemed to be earned in outside India but received in India.	**Taxable**	**Taxable**	**Taxable**
Income earned and received in India or income deemed to be earned and received in India	**Taxable**	**Taxable**	**Taxable**
Income earned or deemed to be and received both outside India.	**Taxable**	**Not Taxable**	**Not Taxable**

Income earned and received outside India from a business controlled or profession set up in India. Income may or may not be remitted to India.	**Taxable**	**Taxable**	**Not Taxable**
Income earned or received outside India from a business controlled or profession set up outside India.	**Taxable**	**Not Taxable**	**Not Taxable**
Income earned and received outside India from any other source.	**Taxable**	**Not Taxable**	**Not Taxable**
Income earned and received outside India in the year preceeding the previous year or past untaxed income brought to India.	**Not Taxable**	**Not Taxable**	**Not Taxable**
Gift is not an income, if it is less than Rs.50000	**Not Taxable**	**Not Taxable**	**Not Taxable**
Gift from friend exceeding Rs.50000 is an income	**Taxable**	**Taxable**	**Taxable**
Dividend from an Indian company is exempted	**Tax free**	**Tax free**	**Tax free**
Dividend from co-operative societies	**Taxable**	**Taxable**	**Taxable**
Dividend from foreign company received in India	**Taxable**	**Taxable**	**Taxable**

Important points to be noted while calculating scope of total income:

* Dividend from Indian company is not taxable. It is exempted U/S10 (34).

* Indian agricultural income is fully exempted.

* Foreign agricultural income is fully taxable.

* Gift received from any relative during marriage, by way of will, from local authority, university, educational institutions, hospitals, charitable institute is not taxable.

* Gift received from a friend exceeds Rs.50000 is taxed in the hands of the Assessee. Amount Upto Rs.50000 is not taxable. (If it exceeds Rs.50000 entire amount is taxed).

* Salary drawn outside India from an Indian company is taxable only for residents. But if service is rendered in India, then that portion is taxable to all.

TYPES OF INCOME:

Income can be divided into two types:

i) Indian income: Indian income is called by various words and names. These are

a) Income earned in India

b) Income accrues and arises in India

c) Income received or deemed to be received in India

d) Income payable in India. Income may have been earned in a foreign country but it is payable in India.

e) Income earned in India but is received or payable outside India.

ii) Foreign Income: Following types of incomes are called foreign incomes:

a) Income earned outside India and also received outside India

b) Any income which is not earned or accrues or arises in India.

Illustration 4 Find out the total income of Mr.X if he is a) Resident and ordinarily resident b) Resident but not ordinarily resident c) Non -resident.

i) Income accrued in Canada but received in India Rs.2000, ii) Rs.5000 were earned in Africa and received there but brought to India. iii) Rs.5000 were earned in India received in Canada iv) Rs.10000 earned and received in Srilanka from a business controlled in India. v) House property income from Srilanka Rs.2000 vi) Rs.4000 was untaxed foreign income which was brought to India during the previous year. vii) Profit earned from a business in Kanpur Rs.10000.

ANS: Computation of total income of Mr.X

Particulars	**Resident and ordinarily resident**	**Resident but not ordinarily resident**	**Non resident**
i) Income accrued in Canada but received in India Rs.2000	2000	2000	2000
ii) Rs.5000 were earned in Africa and received there but brought to India	5000	-	-
iii) Rs.5000 were earned in India received in Canada	5000	5000	5000
iv) Rs.10000 earned and received in Srilanka from a business controlled in India	10000	10000	
v) House property income from Srilanka Rs.2000	2000	-	-
vi) Rs.4000 was untaxed foreign income which was brought to India during the previous year	Exempt	Exempt	Exempt
vii) Profit earned from a business in Kanpur Rs.10000	10000	10000	10000
Total Income	**34000**	**27000**	**17000**

Illustration 5 Find out the total income of Mr.X if he is a) Resident and ordinarily resident b) Resident but not ordinarily resident c) Non -resident.

i) Profit on sale of machinery in Bangalore but received in Australia Rs.30000 ii) Profit from a business in Canada, the business being controlled from India (1/3 received in India) Rs.42000 iii) Income from house property in Iran Rs.20000 iv) Agricultural income in England and was received there but later brought into India Rs.8000 v) Past untaxed income brought into India during the previous year Rs.6000.

ANS: Computation of total income of Mr.X

Particulars	**Resident and ordinarily**	**Resident but not ordinarily**	**Non resident**

	resident	resident	
i) Profit on sale of machinery in Bangalore but received in Australia Rs.30000	30000	30000	30000
ii) Profit from a business in Canada, the business being controlled from India (1/3 received in India) Rs.42000 a) Received in India (1/3) b) Received in foreign country (2/3) control from India	14000 28000	14000 28000	14000 -
iii) Income from house property in Iran Rs.20000	20000	-	-
iv) Agricultural income in England and was received there but later brought into India Rs.8000	8000	-	-
iv) Rs.10000 earned and received in Srilanka from a business controlled in India	10000	10000	
v) Past untaxed income brought into India during the previous year Rs.6000.	Exempt	Exempt	Exempt
Total Income	**100000**	**72000**	**44000**

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY:

Format of computing total taxable income

Particulars	Amount
Taxable income from salaries Sec 15 to 17	**xxxxx**
Taxable income from house property Sec.22 to 27	**xxxxx**
Taxable income from business or profession Sec.28 to 44	**xxxxx**
Taxable income from capital gains (excluding LTCG and STCG liable for STT) Sec.45 to 55	**xxxxx**
Taxable income from other sources (excluding casual incomes) Sec.56 to 59	**xxxxx**
Gross total income excluding LTCG & STCG liable for STT & casual income **Less:** Deduction U/S 80C to 80U	**xxxxxxx** **xxxxx**
Total income excluding LTCG & STCG liable for STT & casual income **Add:** Casual income xxxxx LTCG xxxxx STCG xxxxx	**xxxxxxx** xxxxxx
Total taxable income or net income	**xxxxxxx**

Format for calculating tax liability

Particulars	Amount

Tax on casual income @ 30%	**xxx**
Tax on long term capital gain @ 20%	**xxx**
Tax on short term capital gain @15%	**xxx**
Tax on other taxable income at slab rates	**xxxx**
Add : Educational cess @2% and secondary & higher education cess @1%	**xxxx** xxxx
Total tax **Add :** Interest and penalty	**xxxxx** **xxxxx**
Less : Tax paid on self assessment xxxx Advance income tax xxxx Tax deducted at source xxxx	**xxxxx** xxxxx
Tax payable/ tax refundable	**xxx**

RATE OF TAX:

RATE OF TAX FOR THE ASSESSMENT YEAR 2018-2019:(in the case of every individual below the age of 60 years or HUF, AOP & AJP)

1) INDIVIDUAL RESIDENT (less than 60 years: age):

Income slabs	**Income tax rate**
Upto Rs.250000	**Nil**
From Rs.250000 to Rs.500000	**05%**
From Rs.500000 to Rs.1000000	**20%**
Above Rs.1000000	**30%**

Educational cess: 3% of the income tax.

2) INDIVIDUAL RESIDENT (in the case of every individual , being a resident in India, who is of the age of 60 years or more but below the age of 80 years at any time during the P/Y):

Income slabs	**Income tax rate**
Upto Rs.300000	**Nil**
From Rs.300000 to Rs.500000	**5%**
From Rs.500000 to Rs.1000000	**20%**
Above Rs.1000000	**30%**

Educational cess: 3% of the income tax.

3) INDIVIDUAL RESIDENT (who is of the age of 80 years or more at any time during the P/Y):

Income slabs	Income tax rate
Upto Rs.500000	**Nil**
From Rs.500000 to Rs.1000000	**20%**
Above Rs.1000000	**30%**

Educational cess: 2% Secondary education 1%Higher educations

Surcharge: If total income exceeds Rs.50 lakh but does not exceeds Rs 1 crore 10%. at the rate of 15% of such income tax in the case of a person having a total income exceeding one crore rupees.

INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME/ EXEMPTED INCOMES:

Income fully exempt from income tax does not form part of the total income of the Assessee. Further, if the Assessee wishes to claim any exemption under the Act, the burden of tax, providing that the income is exempt from tax rests with Assessee and not with the income tax authorities.

Exemptions from total income

Section	Who can claim?	Nature of income	Amount of exemption
10 (1)	All Assessee	Agricultural income in India	Fully exempt
10 (2)	Members of HUF	Share of income from HUF	Fully exempt
10 (2A)	Partner of firm	Share of profits from partnership firm	Fully exempt
10 (4)	Individuals	a) Interest on securities and bonds notified by the central government prior to June 2002 including premium on redemption. b) Interest on non-resident external account by non-resident.	Fully exempt
10 (8)	Individual	Income of an individual serving under co-operative technical assistance program.	Fully exempt
10 (8A)	Foreign citizen or Individual Indian citizen	Fees received by a non-resident consultant from an international organization for rendering services in India.	Fully exempt
10 (10BC)	Individual	Compensation received on account of disaster by an individual or his legal heirs from central or state government.	Fully exempt
10 (16)	All Assessee	Scholarship received by an	Fully exempt

		Assessee to meet the cost of his education.	
10 (17)	MLA'S & MP'S	Daily allowance, constituency allowance.	Fully exempt
10 (17A)	All Assessee	Reward or award either in cash or in kind instituted and approved by government.	Fully exempt
10 (18)	Individual	Pension or family pension received by the winner of gallantray award or his family members.	Fully exempt
10 (19)	Individual	Family pension to the heirs of members of armed forces.	Fully exempt
10(26)	Individual	Income by way of dividend or interest on securities or any source of income in specified areas of SC/ST individual.	Fully exempt

QUESTIONS (THEORY)

Section –A:

1. Explain the scope of Income Tax Law.

2. Who is Assessee? Explain the various types of Assessee.

3. Explain the concept of Diversion vs. Application of income.

4. Write about Casual Income.

6. Write short notes on basic conditions and additional conditions while identifying the residential status of an individual.

7. How to identify the residential status of HUF?

8. How to identify the residential status of company?

9. How to identify the residential status of Firm, AOP, BOI and other persons.

10. What is incidence of tax?

Section –B:

1. What do you mean by Income? Explain its features.

2. Define person.

3. Explain the Canons of Taxation.

4. Explain how to identify the residential status of individual.

5. Explain in detail about which incomes are taxable for ordinary resident, not ordinary resident and non- resident.

6. Specify the incomes which do not form part of total income.

PROBLEMS WITH SOLUTIONS:

1. Mr. Arjun an Indian citizen leaves India for the first time on 29.12.2019. He did not return till 31.03.2020. Determine his residential status for the P.Y. 2019-20.
   Solution :

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
30	31	30	31	31	30	31	30	29	273

Mr. Arjun satisfy the basic condition of first. Since it was first time left in india. So he would satisfy the basic condition and additional condition also so arjun is a resident & ordinary resident.

2. Mr. Siva an Indian citizen, went abroad for 20.08.19 for the first time and returned to India on 20.02.2020 determine his residential status for the P.Y.2019-20.

Solution :

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

APR	MAY	JUN	JUL	AUG	FEB	MAR	TOTAL
30	31	30	31	20	10	31	183

Mr. siva went abroad for 20th aug 2019 for the first time. He would have stayed india on as all days before 20th aug. so he satisfy the both basic condition & additional conditions. So siva is a resident & ordinary resident.

3. Mr .X went to japan on a business trip on 20.01.2020 and come back to india on 31.03.2020. he had never gone outside india before that find out residential status for the P.Y 2020-21.

Solution :

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEM	JAN	TOTAL
30	31	30	31	31	30	31	30	31	20	295

Since the “X” statisfy the both basic condition and additional conditions. So “X” is a resident and ordinary resident.

4. On 01.06.17 a Malaysian citizen, left india after a condition stay for 10 years, during the financial year 2018-19, he come back to india and stayed for a period of 46 days and once again left. He come back to india on 10.10.2019 and stayed here for one year determine the residential status.

Solution :

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

OCT	NOV	DEC	JAN	FEB	MAR	TOTAL
22	30	31	31	29	31	174

He satisfied the second basic condition i.e. 60 days during P.Y. and 365 days or more the proceeding 4 years. He is resident and ordinary resident.

5. Mr. Karan, an Indian citizen left india for the 1st time on 30.05.15 and came back on 15.05.18 . he again left india on 10.06.19 came back on 14.01 20 he has been living in india since then determine his residential status for the P.Y. 2019-20.

Solution :

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

APR	MAY	JUN	JAN	FEB	MAR	TOTAL
30	31	10	18	29	31	149

He did not satisfy the first basic condition. Bt he satisfied the second basic condition.he is resident and ordinary resident.

6. Mr.Rajendran left for the U.S.A along with his family for the first time on 14/10/19. He returned to india on 3/5/20. Determine his residential status for the P.Y 2019-2020

Solution:

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

APR	MAY	JUNE	JULY	AUG	SEP	OCT	TOTAL
30	31	30	31	31	30	14	197

Since, he left india for the first time he would have satisfy the two additional conditions.Therefore, he is resident and ordinary resident.

7. Mr.Muralidhran, an Indian citizen stayed in srilanka from 2005 to 2014 and at londen from 1/4/14 to 31/1/20 on 5/2/20. He came back and stayed in india.Determine his resaidential status for the P.Y 2019-2020.

Solution :

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19].

FEB	MAR	TOTAL
25	31	56

Mr.Muralidharan was not satisfied the enyone of basic condition and additional condition .so he is a non-resident in india.

8. Mr.Vionth a foreign citizen (Not of Indian origin)come to india on 20/3/2019 for the first time in the last 16 years. He left india for germany on 1/8/2019 for business purpose on 1/1/2020, the come back determine its residential statu of vinoth for the P.Y 2019-2010.

Solution :

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

APR	MAY	JUN	JULY	AUG	JAN	FEB	MAR	TOTAL

20	31	30	31	1	31	29	31	214

Mr.Vinoth is satisfied in one of the basic condition.he is not satisfied the additional condition. So he is a residential but not-ordinary resident.

9. Mr.Manoj , an Indian citizen went to Singapore on 5/5/2006 for employment purpose. He did not come to india up to 2015-2016, the previous year. During 2016-17,2017-18 and 2018-19, he was in indai for 110 days ,90 and 200 days respectively. In the previous year 2018-19, he came ti india on 10/4/18 and he stayed up to 31/10/2019, them he left for Singapore. Determine his residential status for the P/Y. 2019-2020.

Solution :

BASIC CONDITIONS :

a) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
b) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

a) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
b) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

Note 1 : Previous year 01/04/18 to 31/03/19

Number of days stay during the P.Y =21+31+30+31+31+30+31=205 days

Note 2 : P.Y 2017-2018 200 days Resident

P.Y 2016-2016 90 days Non-resident
P.Y 2015-2016 110 days Non-resident

Note 3 : As he is a citizen and visits india, out of 10 preceding P.Y he did not satisfied the additional condition .resident in at least 2 out of 10 preceding P.Y . therefore he is resident and not ordinary resident.

10. Mr.Dass came to india for the first time on 26/04/2019 and left india on 15/12/2019 during his stay in india the was in Chennai up to 30/7/2019 and there after in Mumbai . determine his residential status for P.Y 2019-2020.

Solution :

BASIC CONDITIONS :

c) He was in india in the previous year for a period or periods amounting in all to 182 days or more.
d) He was in india for 60 days or more during the previous year and he was in india for a period or periods amounting in all to 365 days or more during the four years preceding the previous year.

ADDITIONAL CONDITIONS Sec.6 (6)

c) He was and Indian resident for al least two years out of ten previous years preceding the previous year. [i.e. 2009-10 to 2018-19]
d) He was in India for a period or period amounting in all to 730 days or more during the seven previous years preceding the previous year. [i.e. 2012-13 to 2018-19]

APR	MAY	JUN	JULY	AUG	SEP	OCT	NOV	DEC	TOTAL
5	31	30	31	31	30	31	30	15	234

He was in India for 234 days which in more than 182 days as per section 6 (1)(a).so he resident.but he did not satisfied the additional condition therefore resident and non – ordinary resident .

PROBLEMS ON SCOPE OF TOTAL INCOME & TAX LIABILITY

11.Find out the total income of Mr.X if he is a) Resident and ordinarily resident b) Resident but not ordinarily resident c) Non -resident.

i) Profit on sale of machinery in Bangalore but received in Australia Rs.30000 ii) Profit from a business in Canada, the business being controlled from India (1/3 received in India) Rs.42000 iii) Income from house property in Iran Rs.20000 iv) Agricultural income in England and was received there but later brought into India Rs.8000 v) Past untaxed income brought into India during the previous year Rs.6000

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non resident
i) Profit on sale of machinery in Bangalore but received in Australia Rs.30000	30000	30000	30000

ii) Profit from a business in Canada, the business being controlled from India (1/3 received in India) Rs.42000 a) Received in India (1/3) b) Received in foreign country (2/3) control from India	14000 28000	14000 28000	14000 -
iii) Income from house property in Iran Rs.20000	20000	-	-
iv) Agricultural income in England and was received there but later brought into India Rs.8000	8000	-	-
iv) Rs.10000 earned and received in Srilanka from a business controlled in India	10000	10000	
v) Past untaxed income brought into India during the previous year Rs.6000.	Exempt	Exempt	Exempt
Total Income	**100000**	**72000**	**44000**

12. Find out the total income of Mr.X if he is a) Resident and ordinarily resident b) Resident but not ordinarily resident c) Non -resident.

i) Share of income from joint venture in India Rs.10000, ii) Dividend (sec 10(34)) Rs.1000. iii) Income from agriculture in Pakistan Rs.20000 iv) Salary received in India is Rs.9800 but service for the same were rendered in Iran. v) Income from business (controlled in India) in Pakistan Rs.10000 and remitted to India. vi) Income earned and received in Pakistan from bank deposit Rs.5000 vii) Income accrued in India but received in Iran Rs.10000.

PARTICULARS	Resident and ordinarily resident	Resident but not ordinarily resident	Non resident
Share of income from joint venture in India Rs.10000	10,000	10,000	10,000
Dividend (sec 10(34)) Rs.1000	EXEMPT	EXEMPT	EXEMPT

Income from agriculture in Pakistan Rs.20000	20,000	-	-
Salary received in India is Rs.9800 but service for the same were rendered in Iran.	9,800	9,800	9,800
Income from business (controlled in India) in Pakistan Rs.10000 and remitted to India.	10,000	10,000	10,000
Income earned and received in Pakistan from bank deposit Rs.5000	5,000	-	-
Income accrued in India but received in Iran Rs.10000.	10,000	10,000	10,000
TOTAL	54,800	39,800	39,800

13.Find out the total income of Mr.X if he is a) Resident and ordinarily resident b) Resident but not ordinarily resident c) Non -resident.

i) Dividend from an Indian company (sec 10(34)) Rs.10000. ii) Profit from business in Japan received in India Rs.12000 iii) Profit from business in Pakistan deposited in a bank there. This business is controlled from India Rs.200000 iv) Profit from a business in Indore (controlled by London head office) Rs.110000 v) Interest received from non-resident Mr.A on the loan provided to him for a business carried on in India Rs.50000 vi) Income was earned in America and received there but brought to India Rs.80000 vii) Share of income from Indian Partnership firm Rs.150000. viii) Income from house property in India received in America Rs.62000 ix) Interest on debentures of an Indian company received in Dubai Rs.25000 x) Capital gain on sale of agricultural land situated at Ajmer Rs.48000.

PARTICULARS	Resident and ordinarily resident	Resident but not ordinarily resident	Non resident
Dividend from an Indian company (sec 10(34)) Rs.10000	EXEMPT	EXEMPT	EXEMPT
Profit from business in Japan received in India Rs.12000	12000	12000	12000

Profit from business in Pakistan deposited in a bank there. This business is controlled from India Rs.200000	2,00,000	2,00,000	
Profit from a business in Indore (controlled by London head office) Rs.110000	1,10,000	1,10,000	1,10,000
Interest received from non- resident Mr.A on the loan provided to him for a business carried on in India Rs.50000	50,000	50,000	50,000
Income was earned in America and received there but brought to India Rs.80000	80,000	-	-
Share of income from Indian Partnership firm Rs.150000	1,50,000	1,50,000	1,50,000
Income from house property in India received in America Rs.62000	62,000	62,000	62,000
Interest on debentures of an Indian company received in Dubai Rs.25000	25,000	25,000	25,000
Capital gain on sale of agricultural land situated at Ajmer Rs.48000.	48,000	48,000	48,000
TOTAL	7,37,000	6,57,000	4,57,000

14.Find out the total income of Mr.X if he is a) Resident and ordinarily resident b) Resident but not ordinarily resident c) Non -resident.

i) Interest on German development bonds (1/3 is received in India) Rs.51000 ii) Income from Agriculture in Bangladesh, remitted to India Rs.31000 iii) Income from property in Canada but received in USA Rs.110000 iv) Income earned a business in Kuwait, business being controlled from Mumbai (Rs.25000 received in India) Rs.65000 v) Dividend from an Indian company Rs.15000 vi) Royalty received in Singapore from Mr. David, A resident in India for technical services provided for a business carried on in Singapore Rs.25000. vii) Profit from a business in Chennai this business is controlled from Singapore Rs.125000 viii) Profit on sale of a building in India but Received in Nepal Rs.250000 ix) Income from agriculture in Punjab but received in Mumbai Rs.30000 x) Profit from business in Indonesia. This business is controlled from Delhi (60% of the profit deposited in a bank there and 40% is remitted to India) Rs.40000 xi) Interest received from Mr.D a non-resident on the loan provided to him for a business in India Rs.28000.

PARTICULARS	Resident and ordinarily resident	Resident but not ordinarily resident	Non resident
Interest on German development bonds			
1/3 received in India(51000x1/3)	17,000	17,000	17,000
2/3 received in German(51000x2/3)	34,000	-	-
Income from Agriculture in Bangladesh, remitted to India Rs.31000	31,000	-	-
Income from AgricuIncome from property in Canada but received in USA Rs.110000 lture in Bangladesh, remitted to India Rs.31000	1,10,000	-	-
Income earned a business in Kuwait, business being controlled from Mumbai-Rs.25000 received in India	25,000	25,000	25,000
Balance received in kuwait (65000-25000)	40,000	40,000	40,000
Dividend from an Indian company Rs.15000	exempt	exempt	exempt
Royalty received in Singapore from Mr. David, A resident in India for technical services provided for a business carried on in Singapore Rs.25000	25,000		
Profit from a business in Chennai this business is controlled from Singapore Rs.125000	1,25,000	1,25,000	1,25,000
Profit on sale of a building in India but Received in Nepal Rs.250000	2,50,000	2,50,000	2,50,000

Income from agriculture in Punjab but received in Mumbai Rs.30000	exempt	exempt	Exempt
Profit from business in Indonesia. This business is controlled from Delhi (60% of the profit deposited in a bank there and 40% is remitted to India)	40,000	40,000	-
Interest received from Mr.D a non-resident on the loan provided to him for a business in India Rs.28000.	28,000	28,000	28,000
Total	7,25,000	5,25,000	4,85,000

15.Find out the total income of Mr.X if he is a) Resident and ordinarily resident b) Resident but not ordinarily resident c) Non -resident.

i) Salary drawn during the year for employment outside India from the government of India Rs.93500 ii) Salary drawn for employment in London office of an Indian company for 3 months Rs.18000 iii) Profit earned abroad and received in India Rs.25000 iv) Profit earned from a business transaction outside India and kept in bank there Rs.18000 v) Dividend received from an Indian company Rs.3000.

PARTICULARS	Resident and ordinarily resident	Resident but not ordinarily resident	Non resident
Salary drawn during the year for employment outside India from the government of India Rs.93500	93,500	93,500	93,500
Salary drawn for employment in London office of an Indian company for 3 months Rs.18000	18,000	18,000	18,000
Profit earned abroad and received in India Rs.25000	25,000	25,000	25,000
Profit earned from a business transaction outside India and kept in bank there Rs.18000	18,000	-	-
Dividend received from an Indian company	EXEMPT	EXEMPT	EXEMPT
TOTAL	154,500	136,500	136,500

UNIT-II

Computation of salary income – Salary items – Allowances – Perquisites – Savings eligible for deduction – Calculation of house property Income – Annual Value – Deductions – Exempted house property incomes- Tax Planning

INTRODUCTION:

Tax is charged on the total income of an Assessee as per the Income Tax Act 1961. Section 5 provides the basis for computation of total. Total income is based upon the residential status of an Assessee in the relevant previous year. Total income comprises five heads of income. The first and foremost head of income chargeable to tax for an Assessee is "Income from Salary". Section 15, 16 and 17 of the Act deals with salary income.

DEFINITION OF SALARY: U/S 17 (1)

The term "salary" includes

i) Wages

ii) Any annuity or pensions

iii) Any gratuity

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

v) Any advance salary

vi) Any payment received by an employee in respect of leave not availed by him during service.

vii) The total sum accredited to the credit of employees recognized provident fund to the extent chargeable to tax.

viii) Transferred balance in a recognized provident fund to the extent it is taxable.

FEATURES OR CHARACRERISTICS OF SALARY:

a) Employer and employee relationship: Any income to be taxed under the head salaries should have employer and employee relationship, i.e., payer and payee relationship should exist between the employer and employee. Employer may be individual, firm, company, AOP, corporation, Central/ state government or local authority. Employer may be in India or outside India. The employee may be full time or part time employee. Any remuneration payable to an employee of a foreign government falls under this provision.

b) No difference between salary and wages: Salary as well as wages is a compensation for the work done. Therefore there is no much difference between these two terms. The only distinction can be made is that salary is paid for high officials where as wages is paid for labourers.

c) Salary from more than one employer: If a person receives salary from more than one employer in any particular previous year, then all amount received as salary will be taxed put together. This is possible in case where an employee resigns and joins another job in a particular previous year or if a person is working under more than one employer in a particular previous year.

d) Real salary and fictitious salary: Intention of paying and receiving is essential for an income to be taxed under the head salaries. All amount thus received should be real and not fictitious.

e) Salary foregoing/ voluntary foregoing: If an employee foregoes any salary he cannot escape from tax, because his foregone salary will be considered as salary on due basis. Thus foregoing of salary is a mere application of income that will be taxed in the heads of the employee.

f) Salary surrender: Any amount surrendered under the voluntary surrender of salaries Act, 1961, will not constitute salary and hence it will not be included in the scope of salary. This exemption is available to both public sectors as well as private sector employees.

g) Tax free salary: It refers to the salary the employee gets, for which the employer pays tax to the department. Under these circumstances, the salary of the employees is calculated by computing the amount received by the employee plus the tax paid by the employer.

h) Salary received by Member of Parliament (includes MLA and MLC): A member of parliament is not an employee of government and therefore, the salary received by him as an MP is not chargeable to tax under the head salaries. On the other hand it will be taxed under the head income from other sources.

i) Foreign salary and pension: Any salary or pension received in India from foreign employer, for service rendered in India is taxable as salary under the head income from salary.

j) Payments paid to legal heirs or widow: As per circular No.573, dated 21.8.1990, any lump sum payment made gratuitously or by way of compensation or otherwise to the widow or legal heirs of an employee who dies while in service is not taxable as income.

k) Family pension: Any family pension received by the widow or legal heirs of a deceased employee is not taxable under this head salaries but is taxable under the head other sources.

L) Salary of a partner: Any salary received by a partner from the firm in which he is a partner is not chargeable to tax under the head salaries, where as it is chargeable to tax under the head business or profession.

BASIS OF CHARGEABILITY SECTION 15:

As per the provisions of section 15 the amount of salary due, advance salary and arrear salary received in the previous year from the present or former employer is considered while calculating income from salary. Any salary, bonus, commission or remuneration, by whatever name called due or received by a partner of a firm from the firm shall not be regarded as salary for the purpose of this section.

DIFFERENT FORMS OF SALARY:

i) Basic salary/ wages/ remuneration/ pay
ii) Special pay
iii) Bonus
iv) Fees
v) Commission
vi) Advance salary, vii) Arrear salary
viii) Gratuity
ix) Pension/ annuity
x) Leave salary
xi) Provident fund (taxable portion)
xii) Allowances
xiii) Perquisites

FORMAT FOR COMPUTE SALARY INCOME

Basic items: i) Basic salary/ wages/ remuneration/ pay ii) Special pay iii) Bonus iv) Fees v) Commission vi) Advance salary vii) Arrear salary viii) Salary in lieu of notice	xxxxx
Allowances: i) Fully taxable allowance ii) Partly taxable and partly exempted allowances iii) Fully exempted allowances	xxxx
Perquisites: i) Taxable for all (specified and unspecified) ii) Taxable for specified employees only iii) Exempted for all(specified and unspecified)	xxxx
Special items: i) Gratuity ii) Pension/ annuity iii) Leave salary iv) Provident fund (taxable portion)	xxxx
Deductions u/s 16: i) Standard deduction (not applicable from AY 2006-2007) u/s16 (i) ii) Entertainment allowances u/s16 (ii) iii) Professional tax u/s16 (iii) **Income From Salary**	xxxx xxxxx

BASIC ITEMS:

Basic Salary/ Wages/ Remuneration/ Pay: Any amount received by a person for work done or job rendered is called salary. Basic pay is fully taxable.

Bonus: Bonus is fully taxable under the head salaries on receipt basis. In case arrears of bonus are received in a previous year, these are fully taxable.

Fees: Fees is paid by employer for extra work done by employee. It is fully taxable.

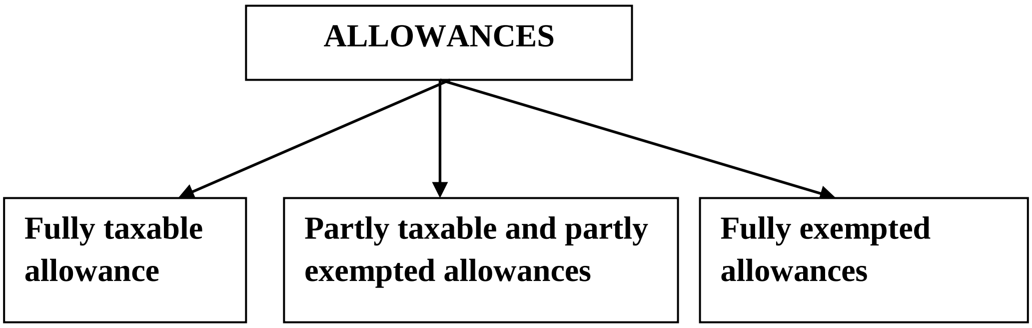
Commission: Commission is paid as a percentage on profit / sales. It is fully taxable.

Advance Salary: In case an Assessee receives some salary in advance in a previous year and which was actually not due in that year shall be taxable in the year of receipt. It does not include any loan or advance taken from employer.

Arrear Salary: It is taxed on receipt basis provided it is not taxed earlier. The receiver can claim relief under section 89.

Salary in lieu of notice: To determine the services of an employee it is essential to serve a notice as per service agreement. In case it is desired to relieve the employee immediately, he is given salary in lieu of such notice period. Such amount is fully taxable under the head salaries on receipt basis.

ALLOWANCES: Allowances is a fixed amount of money given along with salary in order to meet some particular requirement connected with the services rendered by the employee. It is taxed on due or receipt basis. Allowances are generally classified into three categories.



i) Fully taxable allowance:

a) Dearness Allowances: this allowance is given to meet the present cost of living. Dearness allowances are included in salary while calculating salary income. There are two types of DA i) which enters into service benefit ii) which does not enters into service benefits. Dearness allowances are nothing but an additional salary and it is fully taxable.

b) City/Capital compensatory Allowance: These are given to compensate for the high cost of living in a particular big city of India or any other capital city. These are fully taxable.

c) Lunch, Tiffin, marriage, family, deputation, wardenship, non-practicing, project, overtime, fixed medical Allowance: These allowances are fully taxable.

d) Entertainment allowance: This allowance is fully taxable irrespective of any expenditure incurred on entertainment. EA is first included in salary thereafter a deduction is allowed U/S 16 (ii),**The least of the following is deductable EA only for government employees**

i) Statutory limitRs.5000

ii) 20% of the basic salary

iii) Actual EA received.

I) Partly taxable and partly exempted allowances: Partly taxable or partly exempted allowances are those which are not taxed fully. In other words, these allowances are neither fully taxable nor fully exempted. A part of the total amount is taxed as per income tax provisions.

a) House Rent Allowances (HRA) Sec10 (13A): It an allowances given to an Assessee by his employer to meet the expenditure on payment of rent in respect of residential accommodation occupied by him. In case an Assessee lives in his own house or lives in a house for which he is not paying any rent, then the whole amount received by the Assessee will be taxed. **The following rule is applied to calculate the exempted/taxable HRA.**

Step: I Calculation of salary: Salary = Basic salary + DA (forming part) + Fixed % of commission

Step: II Calculation of Exempted HRA: Least of the following exempted:

a) 50% of salary in case of Bombay, Calcutta, Delhi and Madras, and 40% of salary in all other cities,

b) Actual HRA received

c) Rent Paid – 10% of salary

Step: III Calculation of Taxable HRA: Taxable HRA = Actual HRA received – Exempted HRA

Points to be noted while calculating exempted/taxable HRA:

***** While calculating HRA the name of the residing place should be consider and working place should not be consider.

* If in the problem the name of the residing place is not given than working palace should be taken as residing place.

* If in the problem the name of the city is not given assuming that it is metropolitan city.

* If in the problem rent paid is not given then entire HRA received is fully taxable.

* While calculating HRA advance salary and arrear salary should not be considered.

* Salary is chargeable to tax either on accrual basis or receipt basis whichever is earlier.

b) Allowances covered U/S10 (14): Following are the prescribed allowances for the purpose of section 10(14) and their respective treatment in computing the income under the head salaries:

1) Helper allowance: It is exempted Upto actual amount spent on engaging a helper required to perform the official duties.

2) Uniform allowance: It is exempted Upto actual expenditure incurred on acquiring or maintaining of the official uniform. Excess if any, will be taxable.

3) Academic research allowance: It is exempted Upto actual expenditure incurred for research. Excess if any, will be taxable.

4) Travelling, transfer or daily allowance: It is exempted Upto actual expenditure incurred for the purpose of employment. Excess, if any, will be taxable.

5) Any special allowance in the nature of composite hill compensatory allowance/ high altitude allowance/ uncongenial climate allowance/ snow bound area allowance/ avalanche allowance: Exemption allowed Upto Rs.300 p.m. to Rs.7000 p.m.

6) Any special compensatory allowance in the nature of border area allowance/ remote area allowances/ difficult area allowance/ disturbed area allowance: Exemption allowed Upto Rs.200 p.m. to Rs.1300 p.m.

7) Conveyance allowance: It is exempted Upto actual expenditure incurred in performance of official duties. Excess, if any, will be taxable.

8) Compensatory field area allowance: Exemption allowed Upto Rs.2600 p.m.

9) Compensatory modified field area allowance: Exemption allowed Upto Rs.1000 p.m.

10) Counter insurgency allowance: Exemption allowed Upto Rs.3900 p.m.

11) Highly active field area allowance: Exemption allowed Upto Rs.4200 p.m.

12) Underground allowance given to coal mine workers: Exemption allowed Upto Rs.800p.m.

13) Island duty allowance given to armed forces posted in Andaman & Nicobar and Lakshadweep group islands: Exemption allowed Upto Rs.3250 p.m.

14) Transport allowance: Transport allowance to any employee shall be exempted Upto Rs.800 p.m. Excess, if any, will be taxable. But in case of handicapped with disability of lower extremities or a blind employee it shall be exempted Upto Rs.1600 p.m.

15) Tribal area allowance: Exemption allowed Upto Rs.200 p.m.

16) Any running flight allowance: It is exempted Upto 70% of such allowance or Rs.6000 p.m.

Whichever is less?

17) Children education allowance: If any amount is given by employer to employee as education allowance for the education of own children in India, it shall be exempted Upto Rs.100 p.m. per child for two children only.

18) Hostel expenditure allowance: Any allowance granted by employer to meet the hostel expenditure of employees' children it shall be exempted Upto Rs.300 p.m. for per child maximum for two children only.

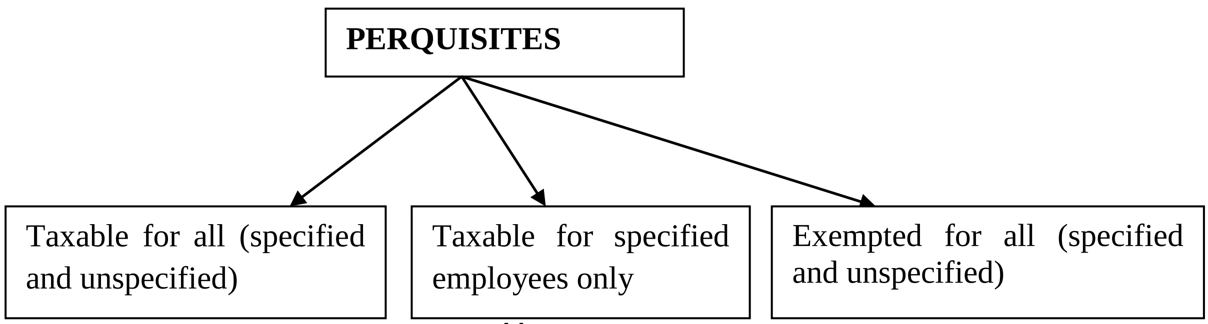
19) Domestic servant allowance: Fully taxable. It is taxable even if amount received is actually spent for engaging a domestic servant.

20) Any special allowance: In the nature of counter insurgency allowance given to the members of the armed forces operating in areas away from their permanent locations for a period of more than 30 days shall be exempted Upto Rs.1300 p.m.

iii) Fully exempted allowances:

a) Foreign allowance only in case of government employees posted outside India.
b) House rent allowance given to judges of high court and Supreme Court
c) Sumptuary allowances given to judges of high court and Supreme Court
d) Allowances from UNO

PERQUISITES: Perquisites are the benefits given to employee by the employer in addition to salary or wages. Normally, they are given in kind. However, there are certain perquisites which are given in monetary terms. For example, reimbursement of expenses. Perquisites are generally classified into three categories.



Meaning Specified and unspecified employees:

Specified:

The following persons are specified employees:

*A director employee (full or part time)

* Employee who is having a substantial interest in the company (i.e.20% of paid up capital or more/20% of voting power or more)

*Employee who's monetary salary exceeds Rs.50000 p.a.

*Monetary salary = Basic salary + DA (forming part and not forming part) + Bonus + Fees + Commission + All taxable allowances – deduction on account of EA and professional tax.

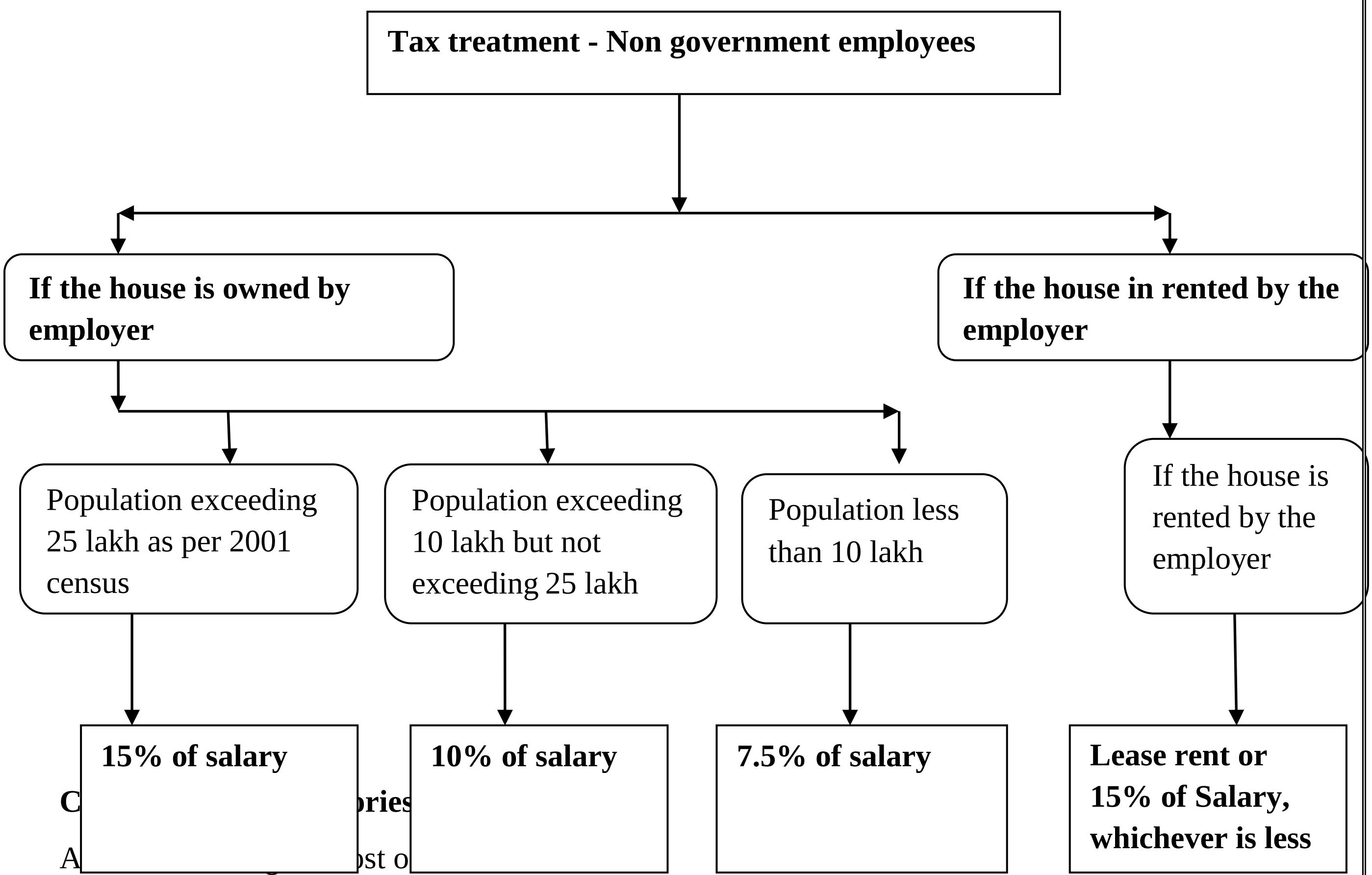
Unspecified employees: Those who are not specified employees.

i) Perquisites Taxable for all (specified and unspecified):

a) Rent Free Accommodation: The following rule is applied to calculate the taxable rent free accommodation (RFA) and concessional accommodation (RFCA):

Tax treatment - government employees (state and central government)

Government Employees (State And Central Government)	
Amount determined as per the government rules	xxxx
Add: 10% of original cost of the assets	xxx
Add: Hire charges	xxx
Less: Rent paid by the employees	xxx
Taxable value of RFA	**xxxx**



Add: Hire charges	xxx
Less: Rent paid by the employee	xxx
Taxable value of RFA	**xxxx**

Note: Salary for this purpose includes basis salary, all taxable allowances, bonus, commission, cash rewards, dearness pay, dearness allowance (forming), fees leave salary encashment pertaining to the current year.

Salary does not include DA not forming part, exempted allowances, value of perquisites, bonus of earlier years, and employer's contribution to PF a/c of employee.

Only current P/y salary is taken, advance or arrear of salary should not be considered.

If the employee is provided with a hotel accommodation, the taxable value will be determined as follows:

a) 24% of salary or hire charges payable by the employer, whichever is less	xxx
b) Less: Rent paid by the employee	xxx
Taxable Value	**xxx**

Note: If the hotel accommodation is provided to an employee at the time of transfer for a period not exceeding 15 days, the value of hotel accommodation will not be taxable in the hands of the employee.

b) Obligation perquisites (obligation of the employee met by the employer)

i) Life insurance premium paid by the employer on behalf of the employee.

ii) Income tax paid by the employer, on behalf of the employee.

iii) Professional tax paid by the employer, on behalf of the employee.

iv) Gas, electricity, water supply connection is taken in the name of the employee but bills for these supplies are paid by the employer.

v) Domestic servant is appointed by the employee but salary is paid by the employer.

vi) Reimbursement of school fees.

vii) If medical bills are issued in the name of the employee by a private medical practitioner and the employer makes payment, such payment in excess of 15000 shall be taxable.

viii) Club bills, telephone bills in the name of the employee are paid by the employer.

Fringe Benefits: Fringe Benefits are additional benefits provided to the employee in the course of employment.

c) Interest Free Loan:

i) If interest free loan is given by the employer to the employee, the interest on such loan should be calculated at the rate specified by SBI. The interest amount so calculated should be taxed as a perquisite in the hands of an employee.

ii) If loan is given by the employer to the employee at the rate, which is less than the interest rate specified by SBI, the difference in the rate should be considered, for calculating the taxable value of the perquisite.

iii) Nothing is taxable, if the amount of original loan does not exceeds Rs.20000

iv) Interest free loan given for medical treatment of the employee or his family members, it is not chargeable to tax.

d) Sale of employers movable assets: The movable assets, used by the employer is sold to the employee is chargeable to tax its taxable value is calculated as original cost of the asset-depreciation Upto the preceeding P/Y- amount recovered from the employee.

e) Use of employers' movable assets: A movable asset of employer other than vehicles, computers, and laptops used by the employee is chargeable to tax. Its taxable value is calculated as 10% of original cost of the asset or Hire charges whichever is applicable – amount recovered from the employee.

f) Free holiday home facility: If holiday home facility is availed by the employee, he will be taxable to the extent of the cost to the employer.

g) Free lunch and gifts: Free lunch: Free meals provided during working hours are the remote area is not taxable.

Free meals provided by the employer in the office premises during working hours are taxable to the extent the value of meals exceed Rs.50 per meal.

The value of tea/snakes provided during office hours is not taxable, irrespective of its value. **Gifts:** Aggregate value of gifts received from the employer in excess of Rs.5000 is taxable. Gifts in cash of in cheques are fully taxable.

h) Travelling and touring: If the facility uniformly available to all employees: Taxable value is Expenditure incurred by the employer- amount recovered from the employee. **If the facility uniformly not available to all employees:** Taxable value is cost of which the facility is offered by other agencies- amount recovered from the employee.

i) Credit card facility: Payment made by the employer towards securing a credit card facility to the employee and usage of credit card by the employee for personal purpose would be fully taxable in the hands of employee.

The amount so determined should be reduced by the amount from the employees.

j) Club facility: Membership fee & club expenses of the employee met by the employer will be fully taxable.

Health club, sports club facilities provided uniformly to all employees by the employer at employer's premises are exempt

If the benefit is enjoyed under corporate membership, it is fully exempted.

ii) Taxable for specified employees only:

a) Domestic servant (Gardener, sweeper, watchman and cook): Domestic servant appointed by the employer, the taxable value is calculated as salary paid by the employer-amount recovered from the employee, shall be the taxable value in the hands of the employee.

Note: If the employee is residing in the house, which is owned by the employer, the maintenance expenses including gardeners' salary incurred by the employer on the house is not taxable in the hands of the employee.

b) Education facility: Education facility is given to employee's children in an institution which is owned by the employer and facility given in an institution because of employees' employment with the employer.

i) Children of Employee:

Cost of Education	xxx
Less: Rs.1000 p.m. per child	xxx
Less: Amount recovered from the employee	xxx
Taxable Value	**xxx**

ii) Other members of Employee's family:

Cost of Education	xxx
Less: Amount recovered from the employee	xxx
Taxable Value	**xxx**

c) Free gas, electricity and water facility: Free gas, electricity and water facility connection is taken in the name of the employer.

i) Provided from internal source:

Manufacture Cost per unit incurred by the employer	xxx
Less: Amount recovered from the employee	xxx
Taxable Value in the hands of employee	**xxx**

i) Provided from External source:

Amount paid by the employer to the outside agency	xxx
Less: Amount recovered from the employee	xxx
Taxable Value in the hands of employee	**xxx**

d) Medical facility:

i) Medical facility in India:

The following medical Perquisites are exempted:

1) Medical treatment in government hospital

2) Medical treatment in a hospital, which is owned by the employer

3) Medical treatment in a hospital, which is approved by the Chief Commissioner of income tax.

4) Mediclaim paid by the employer on behalf of the employee.

5) Group medical insurance premium paid by the employer on behalf of the employees.

6) Medical treatment in private hospital is exempted Upto 15000 p.a.

i) Medical facility outside India:

The following medical Perquisites are exempted:

1) Medical expenses and stay expenses are exempted to the extent permitted by RBI.

2) Travelling expenses of the patient and one attendant is exempted, if the gross total income of the employee, before including such travel expenses, does not exceed Rs.200000.

Note: Medical Perquisites are exempted, if the treatment is given either to the employee or his family. Family for this purpose means:

1) Employee's spouse and children (dependent or not)

2) Parents, brothers or sisters, who are mainly dependent on employee.

e) Leave travel concession (LTC):

1) LTC received by an employee is exempted to the extent of least of the following:

LTC granted by the employer

Expenses incurred by the employee

Amount prescribed by the IT law.

2) The exemption is available to an individual / family member in respect of 2 journeys's performed in a block of 4 calendar years.

3) Where no exemption is claimed or only one exemption is claimed in any block, one exemption can be carried forward to the next block, which be claimed in the very first year of that block.

f) Transport facility: Transport owned by the employer is tax free and transport is not owned by the employer the taxable value is calculated as cost of transportation born by the employer – amount recovered from the employee.

g) Motor car facility:

If car is owned by the employee but expenses are met by the employer tax treatment:

If car is used for official purpose by the employee	Tax free
If car is used for private purpose by the employee	Actual expenditure incurred by the employer – amount recovered from the employee
If car is used for both official & private purpose by the employee	Actual expenditure incurred by the employer – standard value 1

If car is owned by the employer and expenses are met by the employer tax treatment:

If car is used for official purpose by the employee	Tax free
If car is used for private purpose by the employee	Running and maintenance expenses + driver salary + 10% of original cost of the car (hire charges if car is taken on hire) – amount recovered from the employee
If car is used for both official & private purpose by the employee	Standard value 1 is taxable

If car is owned by the employer but expenses are met by the employee tax treatment:

If car is used for official purpose by	Tax free

the employee	
If car is used for private purpose by the employee	10% of original cost of the car (hire charges if car is taken on hire) + driver salary paid by the employer
If car is used for both official & private purpose by the employee	Standard value 2 is taxable

If other conveyance is owned by the employee but expenses are met by the employer tax treatment:

If other conveyance is used for official purpose by the employee	Tax free
If other conveyance is used for both official & private purpose by the employee	Actual expenditure incurred by the employer – Rs.900 p.m

Note: 1) If the employee has been provided with more than one car or all and some of which are used by the employee for both official and personal purpose, only one car must be treated as use for both purpose and the other cars must be treated as used only for private purpose.

2) Conveyance facility between office and residence is not taxable

3) Conveyance facility to judges is not taxable

4) Any amount recovered from the employee need not be deducted, if standard value is taken as taxable value.

5) Standard Value:

Capacity of Car	**If expenses are met by employer (standard value 1)**	**If expenses are met by employee (standard value 2)**
< 1600cc or 1.6 liters	Rs.1800 p.m.	Rs.600 p.m.
1600cc or 1.6 liters	Rs.2400 p.m	Rs.900 p.m.
Driver /chauffeur facility	Rs.900 p.m.	Rs.900 p.m.

iii) Exempted for all / tax free perquisites (specified and unspecified):

a) Computers, laptops given to an employee for official or personal use.

b) Employer's contribution towards pension of deferred annuity scheme

c) Employer's contribution to staff group insurance scheme.

d) Fee for refresher or management course paid by employer.

e) Free ration received by the members of armed forces.

f) Goods manufactured by the employer are sold to the employees at concessional rate.

g) Hotel accommodation in the case of transfer not exceeding 15 days.

h) Interest free loan given by the employer shall be exempt in the hands of employee, if the amount of such, original loan does not exceed Rs.20000

i) Interest free loan given for medical treatment of employee or his family members is fully exempt from tax.

j) Medical insurance premium paid by the employer.

k) Premium paid on personal accident policy by the employer.

l) Perquisites to government employees posted abroad.

m) Rent free accommodation to high court and Supreme Court judges.

n) Rent free accommodation provided to the employees in remote areas.

o) Reimbursement of expenditure on books and journals.

p) Scholarship to employees children.

q) Telephone facility including mobile provided by the employer either for personal or official use.

r) Tax on perquisites in kind paid by employer.

s) Transfer of a movable assets other than computers, car and electronic items, to the employees after using such assets for more than 10 years by the employer.

SPECIAL ITEMS:

i) Gratuity

ii) Pension/ annuity

iii) Leave salary and

iv) Provident fund (taxable portion)

I) GRATUITY: Gratuity refers to a lump sum payment made by an employer to his employee at the time of leaving job in appreciation of his service. Gratuity is a retirement benefit. For tax treatment the status of the employee is divided into two main categories as follows:

1) Government employees (Central/state/employee of local authority but not employees of Statutory Corporation): Gratuity received by government employee is fully exempted from tax.

2) Non government employees:

a) Employees covered by Payment of Gratuity Act 1972:

Step 1: Calculation of exempted gratuity:

Actual Gratuity Received	xxxx
Notified Limit	1000000
15 days Salary for every year of completed service	xxxx
Whichever is less is exempted	**xxxx**

Step 2: Calculation of taxable gratuity: Actual Gratuity Received – Exempted Gratuity

Note: * Salary = Last month's salary (Basic salary + DA (forming part) + % of commission)

* 15 days = Consider 15/26

* 7 days salary in case of employees working in seasonal factories

* Fraction of service: **Above 6 months take as one year, 6 months and below 6 months ignore.**

b) Employees not covered by Payment of Gratuity Act 1972:

Step 1: Calculation of exempted gratuity:

Actual Gratuity Received	xxxx
Notified Limit	1000000
½ month average Salary for every year of completed service	xxxx
Whichever is less is exempted	**xxxx**

Step 2: Calculation of taxable gratuity: Actual Gratuity Received – Exempted Gratuity

Note: ***Average Salary = Last 10 month's Average salary (10 months immediately preceeding the month of retirement) (Basic salary + DA (forming part) + % of commission)

* Fraction of service: **to be ignored.**

II) PENSION/ ANNUITY: It is periodical payment received by an employee after his retirement. An employee cannot receive pension while in service. There are two types of pension.

a) Commuted pension: It is lump sum amount received at the time of retirement. It is onetime payment.

1) For government employees (includes central/state/local authority/statutory corporations employees): Commuted pension in the hands of government employees is fully exempted.

2) For non government employees: *Received with gratuity 1/3 of full pension is exempted * Received without gratuity 1/2 of full pension is exempted.

b) Uncommuted Pension: It is a periodical payment received by the employee after the date of retirement. It is balance which he gets after commutation. Uncommitted pension is fully taxable for both government and non government employees.

Note: Pension received monthly or otherwise from any employer is fully taxable. Uncommitted pension is taxable as salary income. Pension received from UNO is not taxable. Full pension = commuted + uncommitted pension (total). Given in problem like last day of each month take April to March, First day of next month March to February

III) LEAVE SALARY: There are different types of leave as per service rules. One type of is earned leave where employee can convert the leave into cash provided if he has not utilized the leave. Every employee can surrender the accumulated leave at the time of retirement or leaving job and can encash. Any amount from this type of surrendering leave is known as leave salary.

a) For government employees (central/ state): Leave salary received by government employees is fully exempted.

b) For non government employees (including local authority and public sector undertaking): Least of the following is exempted

1. Actual leave salary received

2. 10 months average salary

3. Absolute limit Rs.300000

4. Salary for utilized eligible leaves (consider 30 days per year)

Whichever is less is exempted

Note: Fraction service to be omitted. Salary = average salary. Leave encashment will be fully taxable if received during service. Exempted only at the time of retirement, superannuation or resignation. In case leave encashment is given to legal heirs of deceased employee, it will not be taxed under salary.

IV) PROVIDENT FUND (TAXABLE PORTION): To encourage savings for the social security of employees, the government has set up various kinds of provident funds. The employee contributes a fixed percentage of his salary towards these funds and in many cases employer also contributes. The whole contribution along with interest is credited to employee's account. He will get payment out of this fund at the time of retirement or some other occasions. If the employee dies, his legal will get the full payment.

a) Statutory Provident Fund: Statutory Provident Fund is the oldest type of fund. It was started in the year 1925 through a Provident fund Act of 1925. This fund was started with a view to promoting savings amongst government employees. Generally, this is maintained by government or semi government departments like Railways, RBI, colleges, universities, local bodies, insurance companies etc.

b) Recognized Provident Fund: It is a fund to which the Commissioner of Income Tax has given the recognition as required under the IT Act. Generally this fund is maintained by industrial undertakings, business houses, banks, etc. The employer's contribution above 12% of employee's salary will be included in employee's salary income for tax purposes.

The employee's contribution towards this fund will fully qualifies for deduction U/S 80 C. Interest credited on PF Upto prescribed rate (9.5%) is exempted. But interest credited above the prescribed rate is taxable and included in salary income.

c) Unrecognized Provident Fund: It is a fund to which is not recognized by the Commissioner of Income Tax. The employee's contribution towards this fund is added in salary and he will not be allowed any deduction U/S 80 C. The employer's contribution and Interest credited on the accumulated balance are not included in employee's salary income.

d) Public Provident Fund: This fund can suit all types of persons. The interested person can open their account in State Bank of India and its subsidiaries. The subscription can be between Rs.500 and Rs.70000 in one year. The subscription this fund is eligible for rebate. Interest credited in this account is fully exempted.

Tax treatment of PF

Particulars	**Statutory Provident Fund**	**Recognized Provident Fund**	**Unrecognized Provident Fund**
Employees own contribution	Fully qualifies for deduction U/S 80 C	Fully qualifies for deduction U/S 80 C	Does not qualifies for deduction U/S 80 C
Employer's contribution	Fully exempted	It is deemed to be received by employee. Excess of Employer's contribution to RPF over 12% of employee's salary is taxable	Ignore
Interest credited on the accumulated balance	Fully exempted	Upto prescribed rate (9.5%) is exempted But interest credited above the prescribed rate is	Ignore

		taxable	
Refund/ Transferred balance of URPF to RPF	Fully exempted	Exempted in all cases except when employee leaves service of his own accord before completion of 5 year's continuous service. In such case the amount which has not been charged to tax is added in salary.	In case of refund taxable portion is added in salary. In case of transferred balance which would have been taxable.

***Note:** Salary includes Basic pay, DA forming part and % of commission.

DEDUCTIONS U/S 16:

i) Standard deduction (not applicable from AY 2006-2007) u/s16 (i)

ii) Entertainment allowances u/s16 (ii): EA is first included in salary and thereafter a deduction is allowed U/S 16 (ii).

iii) Professional tax u/s16 (iii): Professional tax is allowed as deduction U/S 16 (iii). Amount paid either by the employer or employee is allowed. If employer paid the professional tax on behalf of employee it is first included in salary and thereafter a deduction is allowed U/S 16 (iii).

DEDUCTION U/S 80C:

Section 80C is introduced from the A/Y 2006-2007. Under this section deduction is available for the tax payer for his investments, contributions, deposits and payments made in the previous year to a maximum of Rs.100000 from his gross total income. It is available for Individual and Hindu Undivided Family. The following are the investments, contributions, deposits and payments made in the previous year eligible for deduction U/S 80C;

a) Employee's contribution to SPF

b) Employee's contribution to RPF

c) Employee's contribution to PPF (15 year PPF)

d) Life Insurance Premium paid on own life, spouse or any children or Joint life with any member 20% of sum assured or actual premium paid whichever is less is eligible for deduction

e) Premium in respect of Unit Linked Insurance Plan (ULIP) of the LIC mutual fund in the name of self, spouse or any child or Unit Trust of India (UTI).

f) Purchase of National Saving Certificate VIII Issue (NSC VIII)

g) Deposit in National Housing Bank.

h) Payment of premium in respect of Jeewan Akshay, Jeewan Dhara, New Jeevan Dhara, New Jeevan Akshay or any other notified annuity plan of LIC

i) Payment made towards the cost of purchase or construction of a new residential house property.

j) Contribution to any units of mutual fund of UTI and ELDS (Equity Linked Deposit Scheme)

k) Sum paid as tuition fees at the time of admission or otherwise to any university, college, educational institution in India for full time education (Does not include development fee, donation, or any payment of similar nature).

l) Deposits in senior citizens savings scheme.

m) Five year post office time deposit account.

Calculation of deduction U/S 80C:

Actual amount invested / contributed **or** Qualifying amount fixed Rs.100000 whichever is less is Deduction U/S 80C.

INCOME FROM HOUSE PROPERTY:

MEANING:

Section 22 of the Income Tax Act 1961 deals with house property income. The Income from houses, buildings, bungalows, godowns etc. is to be computed and assessed to tax under the head "Income from House Property". The income under this head is not based upon the actual income from the property but upon notional income or the annual value of that building.

POINTS SHOULD BE NOTED WHILE CALCULATING HOUSE PROPERTY INCOME:

a) Building or land appurtenant thereto: Any income from the building and land attached or situated in the vicinity of the building will be taxed under this head of income. The term Building includes residential houses, bungalows, docks, warehouses, any block of bricks or stonework covered by a roof etc. Land which is not appurtenant to any buildings does not come within the scope of this section.

b) Annual Value: Section 23 deals with calculation of annual value. It is calculated by taking into consideration of various aspects like Municipal Valuation, Fair rental Value, Standard Rent, and Actual rent, Period of Vacancy and Unrealized Rent.

c) The Assessee should be the owner of the property: Under this head only owner of the house property can be taxed. The tax under this section is in respect of the legal or beneficial owner and not the occupation or possession of the house property. Therefore, income from subletting will be chargeable under the head income from other sources and not under the head house property.

d) Property not used for the purposes of Assessee's business or profession: Where the Assessee is carrying on business or profession in his own house, building or in a portion of it and the income of such business or profession, is taxable under the head profits or gains of business or profession, the annual value in respect of property or portion of the property is not taxable under the head income from house property.

e) Dispute about ownership: In case there is any dispute regarding the ownership, then the person who receives the rent shall be liable to pay tax till the dispute about the ownership is settled.

f) Letting out of building along with furniture, etc.: Rent received from letting out a building along with the furniture etc. shall be split out in two parts, like**: i) Rent from building** (rent received from building is assessable under the head income from house property) **ii) Rent from furniture**. (Rent received from furniture is assessable under head income from other sources)

g) Sub Letting: When main tenant lets out full or part of the hired building to another person is called sub letting. Income from sub letting, if any, is taxable under the head income from other sources and not under the head income from house property. Out of actual rent received, actual expenses relating to sub let portion are allowed to be deducted.

EXEMPTED INCOMES FROM HOUSE PROPERTY:

Under Section 10 of the Income Tax Act 1961 following incomes from house property are exempted from tax. These incomes are not to be included in the total income of the Assessee. Hence no tax is payable on such incomes. These are:

i) Agricultural house property section 2(1) (c): Income from such house property which is situated on or in the immediate vicinity of agricultural land which is used for agricultural purposes by cultivator is exempted from tax.

ii) House property held for charitable purposes section 11: Any income from a house property held for charitable or religious purposes are also exempted.

iii) Self occupied but vacant house section 23 (3): In case an keeps one of his own house reserved for self occupation but is living in a rented house elsewhere due to his employment or profession the income from such house is taken to be nil.

iv) House used for own business or profession: There is no income chargeable to tax under this head.

v) Property held by registered trade union Section 10 (24): Income from a house property owned by a registered trade union not to be included in its GTI.

vi) Income from house property held by following shall be exempted:

a) House property held by a local authority.

b) House property held by a scientific research institution.

c) House property held by a political party.

d) House property held by a university and any other educational institution working for spreading education and not to earn profit.

e) House property held by a hospital or medical institution working for the spreading of medical services to people and not meant for earning profit.

vii) One house property (a palace) owned by a former ruler of Indian states: Ex rulers of India states may own many palaces but only one palace of their choice shall be treated as a self occupied house and shall be exempted.

viii) Oneself occupied house: In case Assessee owns one residential house, the net annual value of the same shall be taken as nil but in case he owns more than one house, then only one house which annual value is higher shall be treated as a self occupied one and other are treated as deemed to be let out.

MEANING OF VARIOUS TERMS:

ACTUAL RENT: It is the rent actually received by the owner of the house property from the tenant. In case tenant pays composite rent actual rent is reduced by the amount of rent of provisions provided (furniture and other assets). Balance is actual rent of house property. Further, if cost of common facilities like swimming pool maintenance, lift maintenance, lights of common stairs, salary of common Gardner, water and electricity etc. In such expenses are borne by the owner and it is included in the rent. Such cost is reduced out of actual rent received and balance is called real rental value. Any amount of local taxes paid by tenant, costs of repairs borne by tenant are not to be added.

COMPOSITE RENT: Composite rent refers to the total amount received by the owner towards rent of property and charges for different services provided, such as lift, security, furniture, air conditioner etc.

FAIR RENTAL VALUE (FRV): Fair rental value refers to the rent of a similar type of house in the locality. It is important consideration in the determination of gross annual value of house property.

MUNICIPAL RENTAL VALUE (MRV): The municipal corporation or committee conducts a periodical survey of the house properties in their local limits for the purpose of levying local taxes. On the basis of the survey conducted the rental value are fixed which serves as the basis for levying tax. The rental value so fixed is called municipal rental value.

STANDARD RENT (SR): The rent is fixed under the Rent control Act is called a standard rent.

EXPECTED RENTAL VALUE (ERV): The municipal rental value or the fait rental value whichever is higher is considered and then such higher value is compared with standard rent and whichever is lower is treated as expected rent value.

UNREALIZED RENT: It refers to the rent that not be realized by the owner from his tenant. Unrealized rent can be deducted from annual rental value.

VACANCY PERIOD RENT: It refers to the rent for the period during which let out property has remained vacant in the previous year.

GROSS ANNUAL VALUE: Gross annual refers to the value, which is calculated after considering the following i) Expected rent ii) Actual rent. It is the gross amount, which the owner receives before allowing any deductions.

NET ANNUAL VALUE: It is the amount available after deducting municipal tax or local tax paid by the owner from the annual value. It acts as a base to calculate standard deduction U/S 24.

SELF OCCUPIED HOUSE: Self occupied house refers to the house, which has been occupied by the owner himself. The owner can claim nil GAV for one self occupied house. It is not necessary that the owner should occupy only one house. He can occupy more than one house. But for tax purposes only one house will be considered as self occupied. Usually, the house that has high GAV will be considered as self occupied house and other are treated as deemed to be let out.

LET OUT HOUSE: It refers to the house, which has been let out by the owner to the tenant. There is no restriction as to how many houses can be let out. The owner can claim deductions. There is no restriction on the amount of deduction that can be claimed. Municipal tax, standard deduction and interest on borrowed capital are the deductions which can be claimed by the owner.

DEEMED TO BE LET OUT: This type of house has the same tax treatment like let out houses. If the Assessee occupy more than one house as self occupied. Usually, the house that has high GAV will be considered as self occupied house and other are treated as deemed to be let out.

PARTLY LET OUT AND PARTLY SELF OCCUPIED HOUSE: If a part of the whole house is let out and the remaining part is occupied by the owner himself, then it is partly let out and partly self occupied house. This type of house will be treated as fully let out provided it is not easy to identify the value of each unit separately. If it is easy to identify, then self occupied will be treated as self occupied and let out will be treated as let out and property income will be calculated accordingly.

PART OF THE YEAR LET OUT AND PART OF THE YEAR SELF OCCUPIED: If a property is self occupied for a part of the year and let out for the remaining part of the year, then it will be treated as fully let out and property income will be calculated.

UNREALIZED RENT RECOVERED: It refers to the unrealized rent allowed in the earlier years preceeding the current previous year, but realized during the current previous year. It will be deemed as income of the year in which it is received. So, it will be a deemed income for the current previous year.

ARREAR OF RENT: When any arrear of rent is recovered during the current previous year then the excess amount after allowing standard deduction from such arrear should be taken as income. This income is to be included with the property income.

JOINT EXPENSES: It refers to the expenses that have been incurred for more than one house jointly. Such type of expenses will be apportioned to the respective houses on municipal valuation ratio.

MUNICIPAL TAXES: Municipal taxes can be deducted from gross annual value only if it is paid by the owner during the previous year. If on the other hand municipal tax paid by tenant should not be consider. The municipal taxes so paid may relate to either subsequent years or preceeding the previous year. Municipal taxes include service taxes like: Fire tax, water tax, conservancy tax, education cess etc.

If nothing is mentioned in the problem, assuming that it should be paid by the owner. Sometimes municipal tax will be given in percentage in that situation it should be applied only on the basis of municipal valuation.

If the property is situated in foreign country, municipal taxes levied by foreign local authority are deductable.

Municipal tax paid for a let out property, which is vacant for the whole year.

NEGATIVE ANNUAL VALUE: The NAV may result in negative income when the municipal taxes paid by the owner are more than GAV.

LOSS FROM HOUSE PROPERTY:

Loss from house property can be set off from income under any other head. Loss from self occupied house due to interest on loan can be set off from any other head. Any loss under the head house property whether from let out or self occupied house which remains unadjusted, can be carry forward for 8 succeeding previous years to be set off from income under the head house property only.

TYPES OF HOUSE PROPERTY: On the basis of nature of occupation, house property can be classified into the following categories:

i) Let out house

ii) Self Occupied House

iii) Deemed to be let out

iv) Partly let out and partly self occupied house

I) LET OUT HOUSE/ DEEMED TO BE LET OUT:

Format for computing taxable income from let out property:

Particulars	Amount
Gross Annual Value **Less:** Municipal taxes paid by the owner/Assessee during the previous year	**xxx** **xxx**
Net Annual Value **Less: Deductions U/S 24** a) Standard deduction 30% of Net annual value xxx b) Interest on borrowed capital xxx i) Previous year interest xxx ii) pre completion interest xxx	**xxx** **xxx**
Add: Unrealized rent recovered **Add:** Arrears of rent received	**xxx** **xxx**
Taxable Income from House Property	**xxxxx**

DETERMINATION OF GROSS ANNUAL VALUE:

STEP: I Municipal Rental Value

Or

Fair Rental Value → Whichever is higher is Notional Rent

STEP: II The resultant of step - I

Or

Standard Rent → Whichever is less is Expected Rent

STEP: III The resultant of step - II

Or

Actual Rent → Whichever is higher is GAV before vacancy loss

Actual rent = Annual Rent – (Unrealized rent + Cost of common facilities)

***GAV before vacancy loss**	**xxxxx**
Less: Vacancy period loss	**xxx**
Gross Annual Value (after vacancy loss)	**xxxxx**

II) SELF OCCUPIED HOUSE:

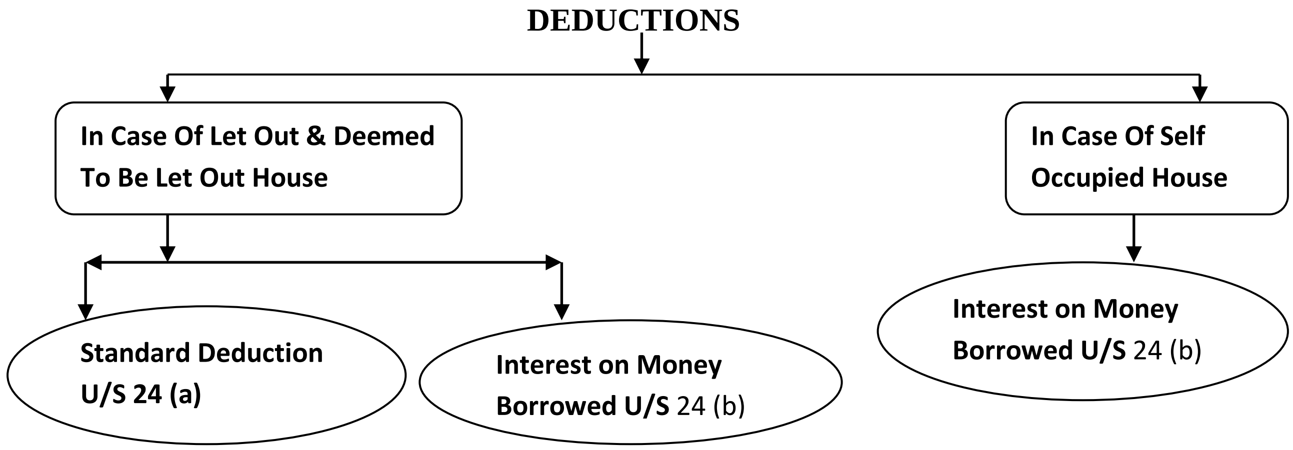
Format for computing taxable income from self occupied property:

Particulars	Amount
Gross Annual Value	**xxx**
Less: Deductions U/S 24 a) Interest on borrowed capital or Maximum limit whichever is less	**xxx** **xxx**

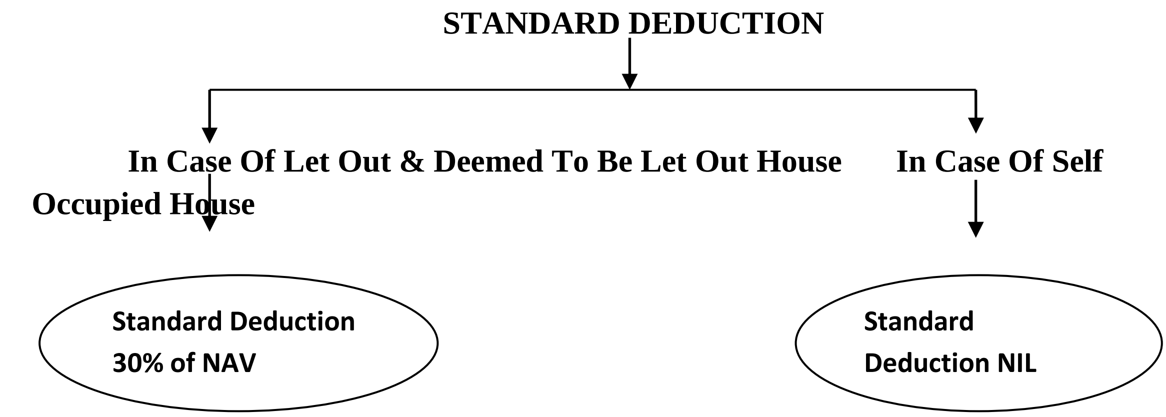
Loss from self occupied House Property	**xxxxx**

DEDUCTIONS U/S 24:

While calculating house property income, deductions are allowed out of net annual value. These deductions are as follows.



a) Standard Deduction U/S 24 (a): It is a flat deduction available out of net annual value. It is allowed @ 30% of the net annual value. Actual expenses incurred by the owner are not to be considered. The standard deduction is available even if the owner has not incurred any expenses for earning rental income. No standard deduction is available for self occupied house.



b) Interest on Money Borrowed (housing loan) U/S 24 (b): Housing loan means loan taken/amount borrowed for construction, purchase, repairs or renovation, etc. of house property. Interest paid on housing loan is allowed as deduction while computing house property income.

Tax treatment of interest on housing loan:

i) Let out/ deemed to be let out house: While calculating house property income respect of such property, interest on loan taken for construction, purchase, repairs or renovation, etc. is allowed as deduction in full. There is no maximum limit in respect of such interest. **Amount of deduction = Actual interest (without any limit).**

ii) In case of self occupied house: Although net annual value is taken as nil in respect of self occupied house property, yet interest on loan taken/amount borrowed for construction, purchase, repairs or renovation, etc. of such a house property is still allowed as deduction. It will result into loss under the head house property which can be set off against other incomes of current previous year or future previous year as per rules. **Maximum limit on interest: a) If loan is taken before 1.4.1999:** Interest on loan is allowed Upto a maximum of Rs.30000. the purpose of loan may be construction, purchase, repair, renovation, extension etc. **b) If loan is taken on or after1.4.1999 for construction, purchase of house property.** Interest on loan taken is allowed Upto a maximum of Rs.150000 provided the following conditions are satisfied:

- The construction or acquisition of house property is completed within 3 years from the end of the financial year in which capital was borrowed and
- The borrower obtains a certificate from the lender
- The above condition not fulfilled maximum deduction Rs.30000 only.
- Loan taken For repairs maximum Rs.30000 as deduction

TREATMENT OF PRE ACQUISITION/ PRE CONSTRUCTION PERIOD INTEREST:

MEANING: Pre construction period means the period starting from the date of borrowing and ending on March 31st immediately preceeding to the year of completion of construction o acquisition.

TAX TREATMENT: Interest for pre construction period shall be allowed as deduction in 5 equal installments starting from the previous in which the house is acquired or the construction is completed and for the next 4 previous years.

STEPS FOR CALCULATION:

i) Date of borrowing of loan

ii) Date of completion of construction

iii) Date of repayment of loan

iv) Amount of borrowing

v) Rate of interest

While calculating pre construction interest, it should be calculated from the date of borrowing of loan to the date of completion of construction or date of repayment of loan whichever is earlier.

If date of completion of construction is earlier, you should calculate interest Upto preceeding March 31st to date of completion of construction. If the date of repayment of loan comes earlier you should calculate interest Upto the date of repayment of loan.

QUESTIONS (THEORY)

Section –A:

1. Explain the features of salary.

2. What are the various types of allowances?

3. Explain gross annual value of let out properties.

4. How will you treat the unrealized rent?

5. What are the exempted incomes from house property?

6. Give the tax treatment of PCI.

Section –B:

1. Explain the various deductions available U/S 80 C / savings eligible as deduction under salary income.

2. Explain the deductions available under the head income from house property.

QUESTIONS (PROBLEMS)

ENTERTAINMENT ALLOWANCES (Sec 16(ii))

1. X an officer of the Punjab government gets Rs.40000 p.m. as salary and Rs.600 P.m. as EA. Besides he gets DA and HRA as per the govt. rules. During the relevant previous year he has utilized the Ea for private purpose. The assessing officer is therefore of the view that the EA is fully taxable. Is he legally correct? If not determine the amount of EA deductable from salary.

HOUSE RENT ALLOWANCES (HRA)

1. X who resides in madras gets Rs.300000 p.a. as basic salary. House rent allowances received Rs.50000. Rent paid Rs.40000 p.a. Find out Taxable HRA for the assessment year 2019-2020.

TAXABLE HRA= Actual HRA-Exempted amt

calculation of exempted amount

Actual HRA-50,000 (OR)

Rent paid-10% of salary

40,000-10/100X3,00,000

40,000-30,000=10,000

(0R)

50% OF Salary

50/100x3,00,000=1,50,000

W.E.L

Exempted Amount =10,000

TAXABLE HRA=50000-10,000=40,000

2. X who resides in Pune gets Rs.200000 p.a. as basic salary. House rent allowances received Rs.55000. Rent paid Rs.50000 p.a. Find out Taxable HRA for the assessment year 2019-2020

TAXABLE HRA= Actual HRA-Exempted amt

<u>calculation of exempted amount</u>

Actual HRA-55,000 (OR)

Rent paid-10% of salary

50,000-10/100X2,00,000

50,000-20,000=30,000

(0R)

40% OF Salary

40/100x2,00,000=80,000

W.E.L

Exempted Amount =30,000

TAXABLE HRA=55000-30,000=25,000

3. X, (who is posted in Delhi but resides in Noida) gets Rs.60000 p.a. as basic pay. House rent allowances received Rs.9000. Rent paid Rs.12000 p.a. during the previous year 2017-2018 he receives 5000 as advance salary of April 2015. Find out Taxable HRA for the assessment year 2019-2020.

TAXABLE HRA= Actual HRA-Exempted amt

calculation of exempted amount

Actual HRA-9,000 (OR)

Rent paid-10% of salary

12,000-10/100X60,000

12,000-6,000=6,000

(0R)

40% OF Salary

40/100x60,000=24,000

W.E.L

Exempted Amount =6000

TAXABLE HRA=9000-6000=3,000

4. X who lives in Meerut gets Rs.80000 p.a. as basic salary. Dearness allowances Rs.30000 (1/3 of which is part of salary for computation of all retirement benefits). During the previous year 2018-2019, X has received salary of 11 months. Salary of March 2015 is received in April 2015. House rent allowances received Rs.12000. Rent paid Rs.20000 p.a. he claims that the entire house rent allowances is exempt from tax. Is he legally correct? If not, find out the amount of HRA exempt from tax.

TAXABLE HRA= Actual HRA-Exempted amt

calculation of exempted amount

Actual HRA-12,000 (OR)

Rent paid-10% of salary

20,000-10/100x90,000

20,000-9,000=11,000

(0R)

40% OF Salary

40/100x90,000=36,000

W.E.L

Exempted Amount =11000

TAXABLE HRA=12000-11000=1,000

Working notes

SALARY=BP+DA(Forming part of salary)+commission

= 80,000+30000x1/3

=80,000+10000=90000

5. X a resident of Salem received Rs.380000 as basic salary. Dearness allowances which forms part of basic salary for computing pension (but not gratuity) 4% commission on sales achieved by him (turnover achieved by him during the relevant previous year 2018-2019 Rs.6000000). HRA received Rs.60000 Rent paid Rs.70000. Find out Taxable HRA for the assessment year 2019-2020.

TAXABLE HRA= Actual HRA-Exempted amt

calculation of exempted amount

Actual HRA-60,000 (OR)

Rent paid-10% of salary

70,000-10/100x4,04,000

70,000-40,400=29,600 (0R)

40% OF Salary

40/100x4,04,000=1,61,600

W.E.L

Exempted Amount =29,600

TAXABLE HRA=60,000-29,600=30,400

Working notes

SALARY=BP+commission

=3,80,000+ 4/100x6,00,000

=3,80,000+24,000=4,04,000

6. X who resides in Pune receives Rs.42000 p.a. as basic pay. During the previous year 2017-2018 he stays in his father's house Upto October 31st 2014 for which he does not pay any rent and there after he takes an accommodation on monthly rent of Rs.2000. The employer however pays Rs.250 p.m. as HRA throughout the previous year. Find out Taxable HRA for the assessment year 2019-2020.

TABLE HRA= Actual HRA-Exempted amt

<u>calculation of exempted amount</u>

Actual HRA-60,000 (OR)

Rent paid-10% of salary

70,000-10/100x4,04,000

70,000-40,400=29,600 (0R)

40% OF Salary

40/100x4,04,000=1,61,600

W.E.L

Exempted Amount =29,600

TAXABLE HRA=60,000-29,600=30,400

Working notes

SALARY=BP+commission

=3,80,000+ 4/100x6,00,000

=3,80,000+24,000=4,04,000

7. X who resides in Calcutta receives Rs.2000 p.m. as basic salary and Rs.1250 p.m. as dearness allowances (32% of it forms part of salary for computing all retirement benefits). During the previous year 2017-2018. He stays in his father's house Upto Dec31st 2014 for which he does not pay any rent and thereafter in an accommodation taken on monthly rent of Rs.1200 the employer however pays Rs.300 p.m. as HRA. He claims that the entire HRA is exempt from tax as HRA received from employer Rs.300 p.m. throughout the year. Find out Taxable HRA for the assessment year 2019-2020

TAXABLE HRA= Actual HRA-Exempted amt

<u>calculation of exempted amount</u>

Actual HRA-300X12=**3600** (OR)

Rent paid-10% of salary

1200X3-10/100X28500

3600-2850=**750**

(0R)

40% OF Salary

40/100x28500=**11400**

W.E.L

Exempted Amount =**750**

TAXABLE HRA=3600-750=2850

Working notes

- BP=2000X12= 24000

DA=1250X30/100=

375X12= 4500

28500

RENT FREE UNFURNISHED ACCOMMODATION (RFA)

1. X is joining as a secretary in the ministry of home affairs. During the P/y ending March 31st 2014, He has been allotted a rent free unfurnished flat at New Delhi. Though the license fee of the flat as per government rule is Rs.1600p.m. Fair market value is not less than 12000 p.m. Determine the taxable value of the perquisite inrestpect of RFA for the A/Y 2018-2019. On the assumption that salary of X is, a) 96000 p.m. b) 112000 p.m.

Ans : SINCE HE IS A GOVT EMPLOYEE

VALUE OF Unfurnished Accodommation = license fees

=1600x12 = 19,200

2. X a director employee of a private sector company based at Indore (population 2400000), draws Rs.90000 p.m as basic salary other allowances and benefits attached to the office are DA (forming part of salary to all retirement benefits) 20% of basic salary, bonus 30% of basic salary, commission Rs.800p.m.Transport allowance Rs.1100 p.m for computing between office and residence (actual expenditure Rs.170 p.m.) Tribal area allowance Rs.8400p.a and RFH (lease rent paid by the employer) Rs.40000 p.m. Income tax paid by the company on behalf of X is Rs.6000. During the previous year 2018-2019, X draws salary of April and May, 2015 (Rs.180000) in advance. Determine the Taxable RFA for the A/Y 2019-2020

- HOUSE NOT OWNED BY THE EMPLOYER
- Value of unfurnished rent free accomodation=
- 15% of salary =16,46,760X15/100=2,47,014

(OR)

ACTUAL RENT=40,000X12=4,80,000 (W.E.L)

Value of unfurnished rent free accomodation=2,47,014

Working notes

BP (90,000X12) =10,80,000

DA(20/100X10,80,000) = 2,16,000

COMMISSION (800X12) = 9,600

TA 1100-170=930X12 = 11,160

BONUS 10,80,000X30/100 = 3,24,000

TRIBAL AREA ALL 8400

- EXEMPTED(200X12) 2400 = 6,000

16,46,760

3. X a sales manager of a paper company at Orissa (population 9.60 lakh as per 1991 census but 11.40 as per 2001 census) draws Rs.480000 p.a. as basic salary besides he gets Rs.6000 p.a as travelling allowance (fully utilize for official purpose) Rs.18000 P.a. as bonus, Rs.30000 as special allowance. His employer provides a RFA in Orissa which is owned by the employer. Fair rent of the house is Rs.80000 p.a. During the P/Y 2017-2018, X has also received Rs.10000 as arrears of bonus of the financial year 2010-2011. Determine the Taxable RFA for the A/Y 2019-2020

- Value of unfurnished rent free accommodation= 10% of salary

(population is 10,00,000-24,00,000) = 10/100X5,38,000

53800

Working notes

BP= 4,80,000

TA= NIL

SP ALL= 30,000

BONUS = 18,000

ARREAR= 10,000

5,38,000

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4. X, a purchase manager of a private sector company gets the following emoluments during the previous year 2017-2018. Basic salary Rs.860000, Bonus Rs.6000, Project allowance Rs.5000, Commission on purchase made by him Rs.16500, Dearness pay (not forming part of salary for any retirement benefits) Rs.3000, Education allowance (including allowance for hostel expenditure) for 2 children of X who are medical students at Delhi Rs.12600 and Gas bill paid by employer on behalf of X Rs.4500. Besides the employer provides a rent free house owned by it in Bombay to X for his residential purpose.

The house is allotted on September 15^{th}, 2014 though it is occupied by X only from October 1^{st}, 2014. While municipal valuation of the house Rs.34000 p.a. Market rent of similar property in the same locality Rs.37000. The employer company maintains the garden attached to the house (salary of gardener and other maintenance expenses Rs.2000) standard rent under Bombay rent control Act Rs.36000. Determine the Taxable RFA for the A/Y 2019-2020.

- Computation of gross salaryof Mr.Z

Salary for the year		3,96,000
D.A(40% enters into pay)		1,58,000
Education allowance	6,000	
- exempted(100x12)	1,200	
	-------	4,800
Value of rent-free house:house owned by Employer		
71/2%of salary[3,96,000+1,58,000+4,800 =5,59,200]	41,940	
+:10% of cost of furnishing	23,000	
+rent of air conditioner(1000x5)	5,000	69,940

		6,29,140

GRATUITY

Government Employee

1. X a government employee receives Rs.210000 as gratuity at the time of retirement on April 30th 2014. On May 15th 2014 he joins a private sector company on a monthly salary of Rs.23000. is the gratuity received by him exempt from tax?

ANS:Since he is govt employee his gratuity is fully exempted from tax

2. Mr.P an employee of government of Tamilnadu, received Rs.68750 as gratuity at the time of retirement on October 14th 2014. Comment how much gratuity is taxable to Mr.P.

Ans:Mr.P is a employee of Tamil Nadu govt his gratuity is fully exempted from tax

NON GOVERNMENT EMPLOYEE

Employees covered by Payment of Gratuity Act 1972

1. X an employee of LMN Company Ltd receives Rs.45000 as gratuity. He is covered by the payment of gratuity Act 1972 he retires on November 10th 2014 after rendering service of 30 years and 4 months. At the time of retirement his monthly Salary was Rs.2340 (inclusive of DA of Rs.200 p.m). Calculate the amount of taxable gratuity?

Solution : Taxable Gratuity=Actual Gratuity-exempted amount

Calculation of exempted amount

1.Actual Gratuity=45000 (or)

2.max.limit=10,00,000 (or)

3.15/26X average salary X no:of years of completed service

15/26x2340x30= 40,500

W.E.L

EXEMPTED AMOUNT=40,500

TAXABLE GRATUITY=45000-40500=4500

2. X an employee of ABC Company Ltd receives Rs.75000 as gratuity. He is covered by the payment of gratuity Act 1972 he retires on November 13^{th} 2014 after rendering service of 25 years and 8 months. At the time of retirement his monthly Salary was Rs.2400 (exclusive of DA of Rs.100 p.m). Calculate the amount of taxable gratuity?

- **Solution** : Taxable Gratuity=Actual Gratuity-exempted amount

Calculation of exempted amount

1.Actual Gratuity=75000 (or)

2.max.limit=10,00,000 (or)

3.15/26X average salary X no:of years of service

15/26x2500x26=37500

W.E.L

EXEMPTED AMOUNT=37500

TAXABLE GRATUITY=75000-37500=37500

Working notes

Salary=Basic pay+DA=2300+200=2500

Employees not covered by Payment of Gratuity Act 1972

1. X who is not covered by the payment of gratuity Act1972 retires on January 6^{th} 2015 from PQR ltd and receives Rs.124000 as gratuity. After service of 29 years and 11 months, his average monthly salary during March 1^{st} 2014 to December 31^{st} 2014 is Rs.8500 p.m. Besides he gets Rs.2000 p.m as DA (butt considered only for computing PF and not gratuity or pension). What amount of gratuity will be exempt from tax and taxable?

- **Solution** : Taxable Gratuity=Actual Gratuity-exempted amount

Calculation of exempted amount

1.Actual Gratuity=1,24,000 (or)

2.max.limit=10,00,000 (or)

3.1/2X average salary X no:of years of service

1/2x8500x29=1,23,250

W.E.L

EXEMPTED AMOUNT=1,23,250

TAXABLE GRATUITY=1,24,000-1,23,250=750

Working notes

Salary=Basic pay=8500(DA does not form part of the salary)

2. X, a marketing specialist of Madras , is working with two companies Viz, 'P' company and 'Q' company he retires from 'P' company on June 30^{th} 2000 (salary at the time of retirement Rs.2800) and receives Rs.16000 as gratuity out of which Rs.4000 is exempt under section 10(10)(iii). He also retires from 'Q' company on January 10th 2014 after 8 years and 7 months of service and receives Rs.192000 as gratuity. His average basic salary drawn from 'Q' company for the preceeding 10 months ending on December 31^{th} 2014 is Rs.19000 per month. Besides he has received Rs.1000 p.m. as DA, 20% of which forms part of salary for the purpose of computation of gratuity and pension. For PF the entire amount is considered. X gets 3% commission on turnover achieved by him. Total turnover achieved by him during 10 months ending on December 31^{th} 2014 is Rs.287500. determine the amount of gratuity exempt under section 10(10)(iii) for the A/Y 2019-2020.

- **Solution** : Taxable Gratuity=Actual Gratuity-exempted amount

Calculation of exempted amount

1.Actual Gratuity=1,92,000 (or)

2.max.limit=10,00,000 (or)

3.1/2X average salary X no:of years of service

1/2x19200x8=76800

W.E.L

EXEMPTED AMOUNT=76800

TAXABLE GRATUITY=1,92,000-76800=1,15,200

Working notes

Salary=Basicpay +DA=19000+1000X20/100=19000+200=19200

PENSION/ ANNUITY

1. Determine the taxable amount of pension for the A/Y 2018-2019 in the following case on the assumption that it becomes due on last day of each month. Case 1: X receives Rs.21000 p.m. as pension. From the government Punjab for the P/Y 2018-2019.

- ANS:UNCOMMUTED PENSION-Rs 21,000X12=2,52,000 fully taxable

2. Determine the taxable amount of pension for the A/Y 2019-2020 in the following case on the assumption that it becomes due on last day of each month. Case 1: X retires from Indian economic service on August 31st 2013. He receives pension of Rs.10000 p.m.

- ANS:UNCOMMUTED PENSION-Rs 10,000X7=70,000 fully taxable

3. X retires from Indian administrative service on May 31st 2019. He receives pension of Rs.19000 p.m. Upto June 30th 2019. With effect from July 1st 2019 he gets 30% of pension commuted for Rs.300000.

- ANS:Commuted pension =3,00,000-fully exempted since he is govt employee
- Uncommuted pension =19000 x1=19000 is fully taxable

4. X retires from PQR private ltd in December 2019. He receives pension of Rs.7000 p.m. Upto Feb. 28th 2020 when he dies.

- Ans commuted pension:7000x2=14000 is fully taxable- employee of private Ltd

5. MR Hari retires from punjab government service on 30 th june 2019 and his pension has been fixed at Rs 1200 pm.He gets 1/3rd of his pension commuted for 60000

- Ans: Commuted pension=Rs 60000 is fully exempted

  Un commuted pension=1200x9=10,800 is fully taxable

6. Mr.V retired on 31-12-2019 and his pension was fixed at Rs 3,600 pm.He got ¾ th of the pension commuted for which he received Rs 1,80,000 from his employer A Ltd co. find out the taxable amount of commuted value of pension if :

A) he gets gratuity b)he does not get gratuity

- Ans :. If he gets gratuity exempted upto 1/3 of pension

for ¾ of pension commuted value is 1,80,000

for full pension 1,80,000x4/3

For 1/3 pension of commuted value is 1,80,000x4/3x1/3 80,000

Exempted 80,000

Taxable=1,80,000-80,000=1,00000

- If he does not gets gratuity exempted upto 1/2 of pension

for ¾ of pension commuted value is 1,80,000

for full pension 1,80,000x4/3

For 1/3 pension of commuted value is 1,80,000x4/3x1/2 1,20,000

Exempted 1,20,000

Taxable=1,80,000-1,20,000=80,000

III) LEAVE SALARY

Government Employees (central/ state)

1. Mr.M an employee of Uttar Pradesh Government Retired on 3rd February 2015 and received Rs.80000 towards leave encashment. Comment on tax treatment

Ans:. GOVT EMPLOYEE –Leave salary is fully exempted

2. Mr.M an employee of central government receives Rs.290000 as cash equivalent of earned leave to his credit at the time of retirement on August 31st 2014. He joins a private sector on October 1st 2014. The assessing officer is view is that since X has joined a private sector organization, the amount of earned leave received by him is fully taxable. Do you agree with him?

Ans: No he receives the leave encashment while he was in govt sector GOVT EMPLOYEE –Leave salary is fully exempted

COMPREHENSIVE PROBLEMS ON INCOME FROM SALARY

1. Mr. Durai has drawn a salary of Rs.4,000 p.m. HRA Rs.600 p.m. (Rent paid at Coimbatore Rs.400 p.m.). Find out taxable HRA for the P.Y. 2019- 2020.
   SOL:
   Working Note 1: For HRA, salary means Basic 48,000
   Working 32: Calculation of Taxable HRA

HRA Received		**7,200**
Less: Exempted - Least of the following		
1. Actual HRA	7,200	
2. 40% of salary	19,200	
3. Rent- 10% of salary 4,800 – 4,800	NIL	NIL
		7,200

2.Mr. X is in receipt of annual salary of Rs.20,000. He is providing with a furnished accommodation for which his employer pays a rent of Rs.14,400 p.a. and deducts Rs.200 p.m. from employee's salary. The cost of furnishing the residence amount to Rs.30,000. Calculate the value of perquisites if the house is occupied for 9 months only.

SOL :

Note 1: For HRA, salary means Basic Rs.20,000
Note 2: Perquisites value of RFA
15% of salary i.e. 20,000 × 15/100 3,000
Or

Rent paid by employer	14,400	
Whichever is less therefore		3,000
Add: 10% of cost of furniture		3,000
		6,000
Reduced to 9 months 9,000 × 9/12		4,500
Less: Amount deducted from employee 200 ×9		1,800
Perquisites value of Taxable RFA		**2,700**

3.Mr. X resides in Chennai gets Rs.3,00,000 p.a. basic salary, D.A (enter into service benefits) Rs.40,000 and 2% commission on turnover achieved by him. (Turnover achieved by him during the relevant period is Rs.3,00,000). He receives Rs.60,000 as HRA though he pays a rent of Rs.80,000 p.a. determine the Taxable and Exempted portions of HRA.

SOL:

Working Note 1: For HRA, salary means

Basic	**3,00,000**
D.A	40,000
Commission	6,000
	3,46,000

WorkingNote2: HRA

HRA Received		**60,000**
Less: Exempted – Lease of the following		
1. **Actual HRA**	60,000	
2. **50% of salary**	1,73,000	
3. **Rent-10% of salary 80,000 – 34,000**	45,400	45,400
Taxable HRA		14,600

4. Mr. Ganesh is working as an officer with Central Government at Delhi. His salary for the year 2019-2020 is Rs.48,000. He is getting a D.A at the rate of 70% of salary and D.A up to 40% of salary is treated as pay for service benefits. He is providing with the rent free house whose rental value is Rs.350 p.m. Calculate the value of rent free house.

SOL:

Working Note 1: RFA

Salary means Basic	**48,000**
D.A 40%	19,200
	67,200

It can be assumed that owner paying rent Rs.350 p.m.

15% of salary 10,080

Or

Rent paid by employer 4,200

Whichever is less, Therefore taxable RFA 4,200

5. Mrs. Sathyabama is employed in BHEL , Bhopal on a monthly salary of Rs.37,500 p.m. and dearness pay Rs.6,000 p.m. she also gets bonus ₹. 8,000. She has been providing a rent free unfurnished house. The fair rental value of the house is Rs.4,600 p.m. Find the taxable value of the perquisites .

SOL:

Note 1 : For RFA, salary means

Basic	**4,50,000**
D. Pay	72,000
Bonus	8,000
	5,30,000

Note 2: Taxable RFA 15% of Rs.5,30,000 = 79,500

6. Mr. A works in Government of Tamil Nadu, Chennai. He gives the following details

Basic salary	**Rs.5,000 p.m**
D.A (forming part of salary)	Rs.1,000 p.m.
D.A (not forming part of salary)	Rs.700 p.m.
HRA	Rs.600 p.m.
Entertainment allowance	Rs.250 p.m.

He claim that he pays a rent of Rs.2200 p.m. and he has spent Rs.3,000 p.a. towards E.A

Calculate i) Taxable HRA

ii) Taxable Entertainment allowance.

SOL:

Note 1: For HRA, salary means

Basic 60,000 + D.A 12,000 = Rs.72,000

Note : 2:

HRA Received			**7,200**
Less: Exempted - Lease of the following			
1.	**Actual HRA**	7,200	
2.	**50% of salary**	36,000	
3.	**Rent – 10% of salary 2,400 – 7,200**	NIL	NIL
	Taxable HRA		7,200

Note 3: Entertainment allowance

Eligible deduction - Least of the following

1.	**Actual E.A**	**3,000**	
2.	**Maximum limit**	5,000	
3.	**20% of Basic**	2,000	3,000

7. From the following details calculate taxable gratuity for the A. Y. 2020-2021 Basic salary Rs.8,000 p.m. Gratuity received Rs.2,00,000 (last ten months average salary Rs.8,000 p.m.) He is not covered under Payment of Gratuity Act and total service made was 34 years.

SOL :

1.	**Half month salary for each completed year of service 4,000 × 34**	**1,36,000**
2.	**Actual gratuity**	2,00,000
3.	**Statutory limit**	20,00,000

Least of the above i.e. Rs.1,36,000 Exempted

Therefore taxable gratuity 2,00,000 - 1,36,000 = Rs.64,000

8. Mr. Ravinder is in receipt of annual salary of Rs.2,00,000. He is providing with a furnished accommodation at Madurai (population is above 25,00,000) for which his employer pays a rent of the residence amount to Rs.30,000. Calculate the value of perquisites.

SOL:

Note 1: Salary means Basic Rs.2,00,000
Note 2: Perquisites value
15% of salary 30,000

Or	**Rent paid by employer**	**24,000**	
	Whichever is less, Therefore		24,000
	Add: 10% cost of furniture		3,000
			27,000
	Less: Amount deducted from employee		12,000
	Perquisites value of concessional **rent accommodation**		**15,000**

9.Compute the taxable portion of allowance from the information furnished by Mr. Hari Haran for the P.Y 2019-2020.

1.	**Traveling allowance (Expenditure Rs.750 p.m.)**	**1,500 p.m.**
2.	**Helper allowance (Expenditure Rs.1,350 p.m.)**	1,200 p.m.
3.	**Tribal area allowance**	2,400 p.m.
4.	**Education allowance (per child, for 3 children)**	300 p.m.
5.	**Hostel Expenditure allowance (per child, for 3 children)**	2,500p.m.

(ACTUAL EXPENDITURE RS.2,000 P.M. PER CHILD)

Solution :

	Ram		Laxman
Traveling allowance		**18,000**	
		9,000	
Helper allowance	14,400		
Less: Exempted 1,350 × 12	16,200	Nil	
Tribal area allowance	28,000		
Less: Exempted 200 × 12	2 000	26,000	
Education allowance 300 × 12 × 3	10,800		
Less : Exempted 100 × 12 × 2	2,400	8,400	
Hostel allowance 2,500 × 12 × 3	90,000		
Less : Exempted 300 × 12 × 2	7,200	82,800	
Taxable allowance		**1,35,600**	

10.After 33 years and 9 months in a factory, Mr. Mathan who is covered under the payment of Gratuity Act retired from service on 30th September 2019. The employer pays him a gratuity of Rs.3,30,000. His monthly basic salary at the time of retirement was Rs.14,400 D.A Rs.1,200 and house rent allowance Rs.2,500. You are required to determine the amount of Exempted Gratuity.

SOL:

Note 1: Total service 33 Years 9 months = 34 years
Note 2: Salary means 14,400 + 1,200 = Rs.15,600 p.m.
Note 3: 15 days salary 15,600/26 × 15 = Rs.9,000
Note 4: Least of the following - Exempted Rs.9,000 × 34 = 3,06,000
Maximum limit 20,00,000
Actual gratuity 3,30,000
Therefore Rs.3,06,000 Exempted.

11.From the following information Compute the taxable House rent allowance of Mr. Ram and Mr. Laxman who reside at Kanpur.

Salary per month	Rs.6,000	Rs.6,000
HRA	Rs. 300	Rs. 1,050
Rent paid per month	Rs. 960	Rs. 750

SOL:RAM

HRA Received			**3,600**
Less: Exempted - LeasT of the following			
1.	**Actual HRA**	3,600	
2.	**40% of salary 72,000 × 40/100**	28,800	
3.	**Rent – 10% of salary 11,520 – 7,200**	4,320	3,600
			NIL

Laxman:

HRA Received			**12,600**
Less : Exempted - Least of the following			
1.	**Actual HRA**	12,600	
2.	**40% of salary 72,000x40/ 100**	28,800	
3.	**Rent – 10% of salary 9,000 – 7,200**	1,800	1,800
			10,800

12.Compute salary income of Mrs. Chandra for the P.Y 2019-2020.

- Basic salary 8,000 p.m.
- DA 3 000 p.m.
- Bonus 5,000 p.m.
- HRA (Rent paid in Salem Rs.3,000 p.m.) 4,000 p.m.
- Her contribution to RPF @ 14% of salary
- Employer contribution to RPF @ 15% of salary
- He is providing with a big car for personal and official purpose, expense are met by the company.

SOL:HRA

HRA Received			**48,000**
Less : Exempted - Least of the following			
1.	**Actual HRA**	48,000	
2.	**40% of salary 96,000x40/ 100**	38,400	
3.	**Rent – 10% of salary 36,000 – 9,600**	26,400	26,400
			21,600

Note 2 : RPF

Excess over 12% i.e. 3% taxable 96,000 × 3/100 2,880

Note 3: car

2,400 × 12 = Rs.28,800 Taxable

COMPUTATION OF TAXABLE SALARY

Basic	96,000
D.A	36,000
Bonus	60,000
HRA (note 1)	21,000
Employer contribution to RPF (note)	2,800
Car	28,800
Gross salary	2,45,280
Less: deduction u/s 16 standard deduction	40,000
Taxable salary	2,05,280

13.Mr. Basheer is employed at Mumbai. His particular of income for the P.Y 2019-2020 are as follows:

- Basic salary Rs.8,000 p.m.
- D.A (40% Compute for retirement benefits) Rs.2,000 p.m.
- Bonus Rs.8,000 p.a.
- Commission Rs.4,500 p.a.
- Entertainment allowances Rs. 500 p.m.

- F.R.V of the free house provided by the employer Rs.40,000 p.a. value of furniture provided Rs.20,000

  Find out the income salary of Mr. Basheer. Give the necessary Working.

  SOL :

Note 1: RFA , salary means

Basic	**96,000**
D.A 24,000 × 40/ 100	9, 600
Bonus	8,000
Commission	4,500
E.A	6,000
	1,24,100

15% of salary	**18,615**
+ 10% cost of furniture	2,000
Value of RFA	20,615

COMPUTATION OF TAXABLE SALARY

Basic	96,000	
D.A	24,000	
Bonus	8,000	
Commission	4,500	
E.A	6,000	
RFA (note 1)	20,615	
Gross salary	1,59,115	
Less: deduction u/s 16 standard deduction	40,000	
E.A	-	
Professional tax	-	40,000
Taxable salary		1,19,115

14.Mr. Madhan an employee of the Sagar Gas Supply Ltd., Allahabad receives the following emoluments during the previous year 2019-2020.

Basic pay	**Rs.60,000**
Project allowance	Rs.12,000
Arrears of project allowance of may 2016	Rs. 1,000
Rent free furnished house:	Rs. 5,540
1. Fair rent of the house	Rs. 500
2. Rent of furniture	
Free gas supply (cost)	Rs. 600
7Service of sweeper	Rs.1,800
Service of gardener	Rs.1,000
Service of cook	Rs.3,000

Free use of Chauffeur driven small car which is usedPartly for office and partly for private purposes.

He is a member of a recognized provident fund to which he contribute Rs.7,500 his employer also contributes an equal amount. Determine his income from salary for the P.Y 2019-2020.

COMPUTATION OF TAXABLE SALARY

Basic pay		Rs. 60,000
Project allowance		Rs. 12,000
Arrears of project allowance		Rs. 1,000
Rent free furnished house	Rs.10,800	
15% of Rs.72,000 + Rent of furniture	Rs. 500	Rs. 11,300
Free gas		Rs. 600
Service of sweeper		Rs. 1,800
Service of gardener		Rs. 1,000
Service of cook		Rs. 3,000
Car (1,800 + 900) × 12		Rs. 32,400
Employer contribution to RPF 7,500 – 7,200		Rs. 300

Gross salary	Rs.1,23,400
Less: standard deduction	Rs. 40,000
Taxable salary	**Rs. 83,400**

15.From the following particular, find out the taxable salary of Mrs. Asha working at Coimbatore (population more than 25 lakhs)

- Salary Rs.12,000 p.m.
- D.A Rs.1,500 p.m.
- Employer 's contribution to employees 's Recognized provident fund - 14% of basic salary.
- Interest on provident fund balance @ 13% p.a. Rs.3,900
- Rent free accommodation (unfurnished) – fair rental value is Rs.80,000 p.a. expenses on maintenance of garden met by employer Rs.3,000
- A car (1.4 lt. Capacity) is provided by. All expenses are borne by . It is used both for performance of duties and private purpose. Car was used by employee for only 11 months during the year.
- She paid professional tax of Rs.200.
- She received Rs.500 p.m. as fixed medical allowance.

COMPUTATION OF TAXABLE SALARY Mrs. Asha

Salary		Rs.1,44,000
D.A @ 1,500 p.m.		Rs. 18,000
Employer 's contribution to RPF	Rs.20,160	
Less: Exempted 12%	Rs.17, 280	Rs. 2,880
Interest on RFA		
Excess over 9.5%		Rs. 1,050
3900 × 3.5		
Fixed medical allowance		Rs. 6,000
RFA 1,50,000 × 15/ 100		Rs. 22,500
Car (1,800 + 900) × 11		Rs. 29,700
Gross salary		Rs.2,24,130
Less : deduction		
u/s 16 standard	Rs.40,000	
deduction	Rs. 200	Rs. 40,200
Professional tax		
Taxable salary		**Rs. 1,83,930**

16.Mrs. X, an employee of Tamilnadu Government submits the following information relevant for the P.Y 2019-2020.

Salary Rs.86,000, Entertainment allowance Rs.8,000, Bonus Rs.10,200 Education allowance Rs.4,000, (for her grand children). Income tax penalty paid by employer: Rs.2,000, Medical expenses reimbursed by employer: Rs.2,000. Leave travel concession: Rs.1,000, Free residence telephone Rs.4,000, free refreshments during office hours Rs.4,000. Payment of electricity bills by the employer Rs.1,060. Reimbursement of gas bills Rs.1,000. Professional tax paid by employer Rs.300. Professional tax paid by Mrs. X : Rs.150. Determine the taxable salary.

SOL:

Note 1: Entertainment allowances

Least of the following can be claimed as deduction

I.	Actual E.A	Rs.8,000
II.	20% of 86,000	Rs.17,200
III.	Maximum limit	Rs. 5,000

Therefore Rs.5,000 can be claimed as deduction.

COMPUTATION OF TAXABLE SALARY of Mrs. X

Basic		86,000
Entertainment allowance		8,000
Bonus		10,200
Education allowance (no amount Exempted for grants child)		4,000
Income tax paid by employer		2,000
Medical reimbursement		2,000
Leave travel concession - tax free		-
Free refreshments during office hours - tax free		-
Payment of electricity bills by employer		1,060
Reimbursement of gas bills		1,000
Professional tax paid by employer		300
Gross salary		1,14,560
Less : deduction u/s 16		
Standard deduction	40,000	
Entertainment allowance (note 1)	5,000	
Professional tax (300 + 150)	450	45,450
Taxable salary		**69,110**

17.Compute the taxable salary of Mr. Ragu of Palani from the following particulars.

- Basic salary Rs.8,000 p.m.
- Dearness allowance Rs.2,000 p.m. considered for retirement benefits
- Bonus Rs.8,000 p.a.
- Rent free accommodation provided by the employer, the fair rental value of which is Rs.20,000 p.a. The cost of furniture provided, there is Rs.10,000 (assume population is 9,00,000)
- Entertainment allowances Rs.500 p.m.
- His contribution for RFA is at 15% of salary
- Employer 's contribution to RPF is Rs.15,000 p.a.
- Interest credit RPF balance at 9.5% Rs.1,900
- Free use of large motor car for both official and personal purposes. Driver is also provided.

SOL:

Note1: RFA

Salary means Basic		96,000
D.A		24,000
Bonus	8,000	
E.A	6,000	
		1,34,000

Perquisites value of RFA

1,34,000 × 7.5/100	10,050
+ 10% of cost of furniture	1,000
	11,050

Note2: Employer contribution to RPF

Actual contribution	15,000
Less: Exempted	
1,20,000 × 12/100	14,400
	600

COMPUTATION OF TAXABLE SALARY OF MRS. RAGU

Basic	96,000
D.A	24,000
Bonus	8,000
RFA (note 1)	11,050
Entertainment allowance	6,000
Employer contribution to RPF (note 2)	600
Interest of RFA Exempted up to 9.5%	-
Car (2,400 + 900) × 12	39,600
Gross salary	1,85,250
Less: standard deduction	40,000
Taxable salary	**1,45,250**

18.Mr. Vasan is an employee of a private company in Delhi. He furnished the following particular for the P.Y 2019-2020.

- Basic 12,000 p.m.
- D.A @ 50% of basic salary. It is taken for retirement benefits.
- He contribution 15% of his salary towards RPF.
- Employer also contribution the same amount towards RPF.
- Interest on RPF @ 10% Rs.2,000.
- He received HRA @ 20% of basic salary. He stayed in Delhi in a rented house, for which he is paying rent @ Rs.3,000 p.m.
- He was provided with a car of 1.6 Ltd. Both for official and personal use. Expenses met by employer.
- His employer paid his LIC premium Rs.5,000 and professional tax Rs.1,200 Compute his taxable salary for the A.Y. 2020-2021.

SOL:

Note1: HRA

Salary means 1,44,000 + 72,000 = Rs.2,16,000

HRA Received 28,800

Less: Exempted - Least of the following

1. Actual HRA 28,800
2. 50% of salary 1,08,000
3. Rent - 10% o salary 36,000 - 21,000 14, 40014,400

Taxable HRA 14,400

Note 2: Employer contribution to RPF

Salary means 1,44,000 + 72,000 = 2,16,000

Excess over 12% is taxable. Therefore 3% is taxable.

2,16,000 × 3/ 100 Rs.6,480

Note 3: Interest on RPF

Excessover 9.5% is taxable therefore 5% is taxable

2,000/10 × 5 = Rs.100

COMPUTATION OF TAXABLE SALARY

Basic		1,44,000
D.A		72,000
HRA (note)		14,400
Employer contribution to RPF (note 2)		6,480
Interest on RPF (note 3)		100
Car 2,400 × 12		28,000
LIC paid by employer		5,000
Professional tax paid by employer		1,200
Gross salary		2,71,980
Less: deduction u/s 16		
Standard deduction	40,000	
E.A	---	
Professional tax		41,200
	1,200	
Taxable salary		**2,30,780**

19.From the following particulars, compute taxable salary of Mr. Vidhyasagarfor the P.Y 2019-2020.

- Salary Rs.6,000 p.m.
- D.A Rs.4,000 p.m.
- Entertainment allowance Rs.1,000 p.m.
- Employer ‘s contribution to RPF Rs.9,000. His own contribution was Rs.9,000.
- Interest @ 10% p.a. on credit balance of RPF amount to Rs.1,000
- City Compensatory allowance Rs.500 p.m.

- Medical allowance Rs.1,200 p.m. He has been providing with a large car for both official and personal use. Employer bears all expenses of the car.
- He is providing an unfurnished house by the employer in a city (population 12 lakhs) The fair rental value of the house is Rs.3,000 p.a. Employer change Rs.500 from him per month as rent.

SOL :

COMPUTATION OF TAXABLE SALARY

P.Y 2019-2020 A.Y 2020-2021

Salary		72,000
D.A		48,000
Entertainment allowance		12,000
Employer 's Contribution to RPF	9,000 –8,640	360
Interest on RPF		500
CCA		6,000
Medical allowance		14,400
Car 24,000 × 12		28,000
Concession in Rent		
Rent free accommodation		
10% of 1,04,400	10,440	
Less : Rent paid by the assessee	6,000	4,400
Gross salary		1,86,500
Less: deduction u/s 16 Standard deduction		40,000
Taxable Salary		**1,46,500**

20.Mr. Shiv Das is working as project engineer in a manufacturing concern at Chennai. He furnished the following particular relating to his income.

- Basic salary 40,000 p.m.
- Dearness pay 5,000 p.m.
- Commission on sales @ 1% (Sales made by him during the P.Y Rs.40,00,000)
- Bonus @ two months Basic salary
- Entertainment allowance 2,000 p.m.
- House rent allowance 5,000 p.m.
- The employer paid Rs.15,000 towards income tax liability of shiv Das.
- The employer provided him L.T.C of Rs.35,000 for going to Rajasthan.

- He has also been provided with gas, electricity and water facility and employer spent Rs.15,000 on these.
- He and his employer both contributed 15% of his salary to his recognized provident fund and interest credited to this fund @ 12% amount to Rs.30,000 during the previous year.
- He spent Rs.6,000 per month as rent of the house occupied by him in Chennai. Compute his taxable income for the P.Y 2019-2020.

SOL:

COMPUTATION OF TAXABLE SALARY OF MR. SHIV DAS

P.Y 2019-2020 A.Y 2020-2021

Salary	4,80,000	
Dearness pay	60,000	
Commission	40,000	
Bonus	80,000	
Entertainment allowance (note 1)	24,000	
House rent allowance (note 2)	46,000	
Income tax paid by the employer	15,000	
L.T.C (working Note 3)		
Gas, electricity and water	15,000	
Employer contribution to RPF (working note 4)	17,400	
Interest on RPF (w note 5)	6,250	
Gross salary	7,83,650	
Deduction u/s 16		
Standard deduction 40,000		40,000
Taxable salary	**7,43,650**	

Working Note 1:

Since he is a non government employee, no amount is deducted for Entertainment allowances.

Working Note 2: HRA

Salary means Basic + D.A + commissions

4,80,000 + 60,000 + 40,000 = 5,80,000

Actual HRA 60,000
Less: Exempted
Actual 60,000
50% of salary 2,90,000
Rent – 10% of salary
(72,000 – 58,000) 14,000

Whichever is less. Therefore 14,000

46,000

Working Note 3: L.T.C

No amount is taxable assumed that it is providing as per rules. Hence it is exempted.

Working Note 4: Employer contribution to RPF

Salary means Basic + D.P + commission
4,80,000 + 60,000 + 40,000 = 5,80,000

Excess over 12% i.e. 3% (15 – 12) is taxable.
Therefore 5,80,000 × 3/ 100 = Rs.17,400

Working Note 5: Interest on RPF

Interest on RPF is taxable on Excess over 9.5%
Therefore 30,000 / 12 × 2.5 = Rs.6,250

PROBLEMS ON INCOME FROM HOUSE PROPERTY

1. Calculate the expected Rental value a) Mr.R has a house at Pune where Rent Control Act is applicable. Its MRV is Rs.108000 p.a. and FRV is Rs.120000 p.a. Standard rent is Rs.102000

b) In above case what difference it will make if Rent Control Act not applicable and standard rent is not given.

Ans : **CALCULATION OF EXPECTED RENT**

Case - A

STEP: I Municipal Rental Value = Rs.1,08,000

Or

Fair Rental Value = Rs.1,20,000

Whichever is higher is Notional Rent = Rs.1,20,000

STEP: II The resultant of step – I = Rs.1,20,000 Or

Standard Rent = Rs. 1,02,000

Whichever is less is Expected Rent Rs.1,02,000

Case - B

STEP: I Municipal Rental Value = Rs.1,08,000

Or

Fair Rental Value = Rs.1,20,000

Whichever is higher is Notional Rent = Rs.1,20,000

There is no Standard rent so expected rent is Rs.1,20,000

2. From the following figures given below calculate the Annual Rental value in each case separately:

Rental Value	Case A(Rs.)	Case B(Rs.)	Case C(Rs.)	Case D(Rs.)
MRV	60000	48000	36000	96000
FRV	75000	60000	45000	116000
Standard Rent	NA	72000	42000	115000
Real Rent	69000	54000	40000	120000

Ans :

CALCULATION OF ANNUAL RENTAL VALUE - Case - A

STEP: I Municipal Rental Value = Rs.60,000

Or

Fair Rental Value = Rs.75,000

Whichever is higher is Notional Rent = Rs.75,000

STEP: II The resultant of step – I = Rs.75,000

Or

Standard Rent = Nil

Whichever is less is Expected Rent Rs.75,0000

STEP: III The resultant of step – II = Rs.75,000 Or

Actual Rent = Rs. 69,000

Whichever is higher is GAV= Rs.75,000

CALCULATION OF ANNUAL RENTAL VALUE - Case - B

STEP: I Municipal Rental Value = Rs.48,000

Or

Fair Rental Value = Rs.60,000

Whichever is higher is Notional Rent = Rs.60,000

STEP: II The resultant of step – I = Rs.60,000

Or

Standard Rent = Rs.72,000

Whichever is less is Expected Rent Rs.60,0000

STEP: III The resultant of step – II = Rs.60,000 Or

Actual Rent = Rs. 59,000

Whichever is higher is GAV= Rs.60,000

STEP: I Municipal Rental Value = Rs.36,000

Or

Fair Rental Value = Rs.45,000

Whichever is higher is Notional Rent = Rs.45,000

STEP: II The resultant of step – I = Rs.45,000

Or

Standard Rent = Rs.42,000

Whichever is less is Expected Rent Rs.42,0000

STEP: III The resultant of step – II = Rs.42,000 Or

Actual Rent = Rs. 40,000

Whichever is higher is GAV= Rs.42,000

CALCULATION OF ANNUAL RENTAL VALUE - Case - D

STEP: I Municipal Rental Value = Rs.96,000

Or

Fair Rental Value = Rs.1,16,000

Whichever is higher is Notional Rent = Rs.1,16,000

STEP: II The resultant of step – I = Rs.1,16,000

Or

Standard Rent = Rs.1,15,000

Whichever is less is Expected Rent Rs.1,15,0000

STEP: III The resultant of step – II = Rs.1,15,000 Or

Actual Rent = 1,20,000

Whichever is higher is GAV= Rs.1,20,000

3. Calculate the Annual Rental value from the particulars given below: MRV Rs.60000 p.a. and FRV Rs.66000 p.a. Actual Rent is Rs.7000 p.m. Standard Rent is Rs.69000 p.a.

a) House was vacant for full year during the P/Y 2018-2019

b) House was vacant for two months year during the P/Y 2018-2019

c) Actual Rent of the house is Rs.4000 p.m. and was vacant for two months year during the P/Y 2018-2019

Ans : CALCULATION OF ANNUAL RENTAL VALUE

CASE - A

As the house property was vacant for the full year during the previous year 2019- 2020. Hence its Annual Rental Value is Nil

CALCULATION OF ANNUAL RENTAL VALUE - Case - B

STEP: I Municipal Rental Value = Rs.60,000

Or

Fair Rental Value = Rs.66,000

Whichever is higher is Notional Rent = Rs.66,000

STEP: II The resultant of step – I = Rs.66,000

Or

Standard Rent = Rs.69,000

Whichever is less is Expected Rent Rs.66,0000

STEP: III The resultant of step – II = Rs.66,000

Or

Actual Rent = Rs. 84,000 (7,000 x 12)

Whichever is higher is GAV before vacancy loss = Rs.84,000

GAV before vacancy loss = 84,000

Less: Vacancy period loss = 14,000

(7,000x2)

Gross Annual Value (after vacancy loss) **=Rs.70,000**

CALCULATION OF ANNUAL RENTAL VALUE - Case - C

STEP: I Municipal Rental Value = Rs.60,000

Or

Fair Rental Value = Rs.66,000

Whichever is higher is Notional Rent = Rs.66,000

STEP: II The resultant of step – I = Rs.66,000

Or

Standard Rent = Rs.69,000

Whichever is less is Expected Rent Rs.66,0000

STEP: III The resultant of step – II = Rs.66,000

Or

Actual Rent = Rs. 48,000 (4,000 x 12)

Whichever is higher is GAV before vacancy loss = Rs.66,000

GAV before vacancy loss = 66,000

Less: Vacancy period loss = 8,000

(4,000x2)

Gross Annual Value (after vacancy loss) **=Rs.58,000**

4. Calculate the Annual Rental value from the particulars given below: MRV Rs.60000 p.a. and FRV Rs.66000 p.a. Actual Rent is Rs.7000 p.m. Standard Rent is Rs.69000 p.a. During the previous year 2018-2019 Assessee could not realize rent for two months.

Ans :CALCULATION OF ANNUAL RENTAL VALUE

STEP: I Municipal Rental Value = Rs.60,000

Or

Fair Rental Value = Rs.66,000

Whichever is higher is Notional Rent = Rs.66,000

STEP: II The resultant of step – I = Rs.66,000

Or

Standard Rent = Rs.69,000

Whichever is less is Expected Rent Rs.66,0000

STEP: III The resultant of step – II = Rs.66,000
Or

Actual Rent = Rs. 70,000

Whichever is higher is GAV = Rs.70,000

Actual rent = Annual Rent – (Unrealized rent + Cost of common facilities)

(7,000 x 12) - (7,000x2)

84,000 - 14,000 = Rs.70,000

5. Calculate the Annual Rental value from the particulars given below: MRV Rs.60000 p.a. and FRV Rs.66000 p.a. Actual Rent is Rs.6000 p.m. Standard Rent is Rs.69000 p.a. During the previous year 2018-2019 Assessee could not realize rent for two months.

Ans :CALCULATION OF ANNUAL RENTAL VALUE

STEP: I Municipal Rental Value = Rs.60,000

Or

Fair Rental Value = Rs.66,000

Whichever is higher is Notional Rent = Rs.66,000

STEP: II The resultant of step – I = Rs.66,000

Or

Standard Rent = Rs.69,000

Whichever is less is Expected Rent Rs.66,0000

STEP: III The resultant of step – II = Rs.66,000
Or

Actual Rent = Rs. 60,000

Whichever is higher is GAV = Rs.60,000

Actual rent = Annual Rent – (Unrealized rent + Cost of common facilities)

(6,000 x 12) - (6,000x2)

72,000 - 12,000 = Rs.60,000

Comprehensive Problems on Income from House Property

1.From the following particulars, calculate the gross annual value.

Particulars	H1	H2	H3	H4
HRV	12, 000	24, 000	1,20,000	4,20, 000
FRV	15,000	30,000	1,50,000	3,60,000
SRV	18,000	28,000	1,80,000	3,90,000

Solution:

Particulars	H1	H2	H3	H4
MRV FRV	12,000 15,000	24,000 30,000	1,20,000 1,50,000	4,20,000 3,60,000
Whichever is higher SRV	15,000 18,000	30,000 28,000	1,50,000 1,80,000	4,20,000 3,90,000
Whichever is lower	15,000	28,000	1,50,000	3,90,000
GAV	15,000	28,000	1,50,000	3,90,000

2.Calculate the GAV:

	H1	H2	H3	H4
MRV	40,000	24,000	2,40,000	4,00,000
FRV	50,000	30,000	3,00,000	3,60,000
SRV	60,000	36,000	2,64,000	1,80,000

Solution :

Particulars	H1	H2	H3	H4
MRV	40,000	24,000	2,40,000	4,00,000
FRV	50,000	30,000	3,00,000	3,60,000
Whichever is higher	50,000	30,000	3,00,000	4,00,000
SRV	60,000	36,000	2,64,000	1,80,000
Whichever is lower	50,000	30,000	2,64,000	1,80,000
GAV	50,000	30,000	2,64,000	1,80,000

3.Calculate the GAV:

Particular	H-1	H-2	H-3	H-5
MRV FRV SRV ARV	10,000 11,000 12,000 13,000	24,000 22,000 20,000 28,000	36,000 40,000 45,000 42,000	55,000 56,000 60,000 52,000

Solution :

Particular	H-I	H-II	H-III	H-IV
MRV	10,000	24,000	36,000	55,000
FRV	11,000	22,000	40,000	56,000
Whichever is. higher	11,000	24,000	40,000	56,000
SRV	12,000	20,000	45,000	60,000
whichever is lower/ERV	11,000	20,000	40,000	56,000
ARV	13,000	28,000	42,000	52,000
Whichever is higher GAV	13,000	28,000	42,000	56,000

4.Calculate the GAV

Particular	H-I	H-II	H-III	H-IV
MRV FRV SRV ARV	21,000 18,000 20,000 19,000	49,500 54,000 63,000 51,000	84,000 80,000 75,000 55,000	2,80,000 1,90,000 2,24,000 3,00,000

Solution :

Particular	H-I	H-II	H-III	H-IV
MRV	21,000	49,500	84,000	2,80,000
FRV	18,000	54,000	80,000	1,90,000
Whichever is higher	21,000	54,000	84,000	2,80,000
SRV	20,000	63,000	75,000	2,24,000
Whichever is				

lower/ERA ARV	20,000 19,000	54,000 51,000	75,000 55,000	2,24,000 3,00,000
whichever is higher GAV	20,000	54,000	75,000	3,00,000

5. From the following particulars, compute the GAV:

	Rs
Municipal value	36,000
Fair rental value	33,000
Standard rent	30, 000
Annual rental value	42,000

Loss due to vacancy 2 months

Solution :

Praticulars	House Rs
MRV FRV Whichever is higher/ERV ARV Whichever is higher Less: LDV 2months ×3500 GAV(ARV-LDV)	36,000 33,000 36,000 42,000 42,000 7,000
GAV =	**35,000**

6.Calculate GAV:

	Rs
MRV	60,000
FRV	66,000
SRV	69,000

Actual rent 7,000p.m

a) House was vacant for full year during the previous year 2019-20.
b) House was vacant for two months during the previous year 2019-20.
c) Actual rent of the house is Rs.4000p. M and was vacant for tow month.

Solution :

Loss due to vacancy = no.of vacant month×rental value per month

= 2 months ×Rs .4000 p.m

= 8,000

House 1:

WEH=84,000

Vacancy period =84,000**(84,000-84,000)**

GAV = Nil

House 2:

ARV =84,000

Unrealised =14,000**(WET)(84,000-14,000)**

GAV =70,000

HOUSE 3:

ARV = 66,000

Vacancy rent = 8,000**(WEH)(66,000-8,000)**

GAV = Rs.58,000

7.

PARTICULARS	House I	House II	House III	House IV	House V
MRV	75,000	65,000	65,000	82,000	1,45,000
FRV	64,000	67,000	65,500	76,500	78,500
SRV	60,000	60,500	71,000	81,000	71,000`
ARV	1,44,000	96,000	84,000	84,000	1,08,000
Period of Vacancy	1.5 months	2 months	2 months	1 month	3 months

Sol:

PARTICULARS	House I	House II	House III	House IV	House V
MRV	75,000	65,000	65,000	82,000	1,45,000
FRV	64,000	67,000	65,500	76,500	78,500
WEH / NRV	75,000	67,000	65,500	82,000	1,45,000
SRV	60,000	60,000	71,000	81,000	71,000
WEL / ERV	60,000	60,500	65,500	81,000	71,000
ARV	1,44,000	96,000	84,000	84,000	1,08,000

WEH	1,44,000	96,000	84,000	84,000	1,08,000
Period of vacancy	18,000	16,000	14,000	7,000	27,000
Gross annual value	1,26,000	80,000	70,000	77,000	81,000

Pr:8

PARTICULARS	**House I**	**House II**
MRV	48,000	1,20,000
FRV	60,000	1,44,000
ARV	54,000	1,56,000
SRV	72,000	2,04,000
URR (in Rs.)	9,000	34,000

Sol:

House I		**House II**	
Particulars	**Rs**	**Particulars**	**Rs**
MRV	48,000	MRV	1,20,000
FRV	60,000	FRV	1,44,000
WEH/ NRV	60,000	WEH / NRV	1,44,000
SRV	72,000	SRV	2,04,000
WEL/ ERV	60,000	WEL/ERV	1,44,000
ARV 54,000		ARV 1,56,000	
(-) URR 9,000	45,000	URR 34,000	1,22,000
WEH		WEH	
GAV	6,000	GAV	1,44,000

Pr:9

PATICURLRS	**House I**	**House II**	**House III**
MRV	40,000p.a	30,000p.a	35,000p.a
FRV	42,000p.a		
SRV	42,000p.a	28,000p.a	NA

Annual Rate	4,000	2,500	3,500
U.R.R (Rule 4 satisfied)	4,000	2,500	3,500

Sol:

PARTICULARS	House I	House II	House III
MRV	40,000	30,000	35,000
FRV	42,000	-	-
WEH / Nominal rent	42,000	30,000	35,000
SRV	42,000	30,000	35,000
WHL / Expected rent	42,000	28,000	35,000
House I			
Actual rental value(4500 x12) 5 54000	50,000		
Un realised rent WEH 4000	50,000		
House II			
Actual rental value (1750 x 12) 21,000			
Un realized rent 2500		18,500	
WEH		28,000	
House III			
Actual rental value (1900 x 12) 22,800			
Un realized rent 8500			19,300
WEH			35,000
Gross rental value	50,000	28,000	35,000

Pr:10

_Municipal tax paid by the owner 10% of municipal value. Unrealised rent Rs. 40,000.

Particulars	**Rs**
Municipal Value	1,60,000
Fair rent	1,70,000
Standard rent	1,60,000
Actual rent	20,000 p.m

Sol:

Particulars	**Rs**
MRV	1,60,000
FRV	1,70,000
WEH / National rent	1,70,000
SRV	1,60,000
WEL / Expected rent	1,60,000
Actual rental value 24,000 (2,00,000 x 12) 40,000	2,00,000
(-) Unrealised rent	
WEH	2,00,000
GRV	
(-) Municipal tax 10% (1,60,000 x 10%)	16,000
Gross annual value	1,84,000

Pr:11

From the following particulars, compute the gross annual value.

Particulars	**Rs**
Actual rent	7,000 p.m
Municipal rental value	70,000 p.a
FRV	77,000 p.a
Standard rent	79,000 p.a

Sol:

Particulars	**Rs**
MRV	70,000
FRV	77,000
WEH / National rent	77,000
SRV	79,000

WEL / Expected rent	77,000
Actual rental value 84,000 (7,000 x 12)	
(-) Unrealised rent (7,000 x 12) 14,000	70,000
WEH	
Gross actual value	77,000

Pr:12

From the following particulars, compute the gross annual value.

Particulars	**House I**	**House II**	**House III**	**House IV**
MRV	18,000	15,000	18,000	24,000
FRV	15,000	18,000	24,000	15,000
SRV	Nil	24,000	Nil	Nil
ARV	24,000	12,000	36,000	30,000
URR (in Rs.)	2,000	1000	6,000	7500
Vacancy (in months)	1	1	3	1

Sol:

Particulars	**Rs**
MRV	18,000
FRV	15,000
WEH / NRV	18,000
SRV	-
WEL / ERV	18,000
Actual rental value 24,000	
(-) Unrealised rent 2,000	
22,000	
(-) Loss due vacancy 2,000	20,000
WEH	20,000

Particulars	House I	House II	
MRV	15,000	18,000	

FRV	18,000	24,000	
WEH / NRV	18,000	24,000	
SRV	24,000		
WEL / ERV	18,000	24,000	
Actual rental value 12000			36,000
(-) Unrealised rent 1,000			6,000
11,000			30,000
(-) Loss due vacancy 1000	10,000	21,000	9,000
Actual rent realized after unrealized rent			36,000
ARR-ARU= (12,000-1000) if ARR (or) ARR (U) is loss than ERV GAV=EAV-LDV = 18,000-1000	11,000	30,000	36,000 30,000
Gross annual value	17,000	21,000	9,000

Particulars	**Rs**
MRV	24000
SRV	15000
WEH/NRV	24000
SRV	-
WEH/ERV	240000
Actual rental value 30000	
(un realized rent) 7500	

(ARR) 22500	
(30000x1/2) 20000	20000
Acutal rental received after unrealized rent ARR(V)ARV-ARR if ARR(w) is less ERV	22,500 22,500
GRV=ERV=LDV=24000-2000	21500

Pr:13

From the following particulars, compute the gross annual value.

Particulars	Rs
FRV	3,00,000
MRV	3,40,000
SRV	3,60,000
Annual rent	6,00,000
URR (in months)	1 month
Vacancy period	3 month

Sol:

Particulars	Rs
MRV	3,40,000
FRV	3,00,000
WHE / NRV	3,40,000
SRV	3,60,000
WHL / FRV	3,40,000
Actual rental value (URR- Vacancy)	4,00,000
WEH (GAV)	4,00,000

Pr:14

From the following particulars, compute the gross annual value Mr.Shyam for the previous year 2019 to 2020

Particulars	Rs
MRV	1.20,000
FRV	1,44,000
SRV	1,21,000
Actual rent	10,000 p.m

a) Mr.Shyam could not realize rent for one month and house also reminded vacant for 2 months
b) What will be the GAV, if actual rent is Rs 13,000 p.m

Sol:

Particulars	House I	House II
MRV	1,20,000	1,20,000
FRV	1,44,000	1,40,000
WEH	1,44,000	1,44,000
SRV	1,21,000	1,21,000
WEL	1,21,000	1,21,000
ARV House I => (10,000x12)= 1,20,000 (-) Vacancy (2 months) = 2,00,000 1,00,000		
(-) URR House II->(12,000x12)=1,56,000 26,000 1,30,000		
(-) URR 1,17,000		

Pr:15

Compute gross annual value from the information given in below.

Particulars	House I	House 2
Municipal rental value	Rs. 12,000	Rs. 18,000
Fair rental value	18,000	24,000
Actual rental value	24,000	36,000
Standard rental value	Nil	48,000
Unrealised rent (in months)	2months	3 months

Sol:

Particulars	House I	House 2
MRV	12,000	18,000
FRV	18,000	24,000
Whichever is higher	18,000	24,000
SRV	Nil	48,000
Whichever is lower	18,000	24,000
ARV – URR	20,000	27,000
WEH -> GRV->	2,000	27,000

Pr:16

Compute the GAV from the particulars given below.

Particulars	House I	House 2
Municipal value	24,000	36,000
Fair rental value	18,000	24,000
Standard rental value	Nil	18,000
Actual rental value	36,000	30,000
Vacant (in months)	3	2

Sol:

Particulars	House I	House 2
MRV	24,000	36,000
FRV	11,500	24,000
Whichever is higher	24,000	36,000
SRV	-	18,000
Whichever is lower	24,000	18,000
ARR-Vacancy	27,000	25,000
Whichever is higher		
GAV	27,000	25,000

Pr:17

Mr.Bagawan Reddy owns a house at Mumbai whose municipal value is Rs. 48,000 p.a.and fair rent is Rs. 60,000 p.a . It was let out for residential purpose at a monthly rent of Rs. 6,000.The house was vacant during the P.Y 2019-20 for 2 months.The expenses relating to the property during the previous year were as follows:

	Rs.
Municipal taxes	10,000
Annual charge	12,000
Collection charge	9,000
Interest on loan for :	
i) Purchase of TV	3,000
ii) Construction of house	15,000

Compute his income and house property.

Sol:

Particulars	Rs
Municipal rental value	48,000
FRV	60,000

Whichever is higher / NRV	60,000
SRV	-
Whichever is lower / ERV	60,000
ARV 72,000	
(-)vacancy period 12,000	60,000
Whichever is higher/gross annual value	60,000
(-)Municipal taxes	10,000
Net annual value	50,000
(-)Deduction u/s 24	
Standard deduction@30% NAV	15,000
Interest and loan for construction of house	15,000
Income from house property	20,000

Pr:18

Mr.Baskar borrowed Rs. 1,00,000 @ 12% for constrictions of house on 01.08.13. The loan was repaid on 31.12.19. The date of completion of constructions of house was 31.12.17. Calculate the interest on loan allowed under Sec. 24. If the house is let out.

Sol:

Interest on borrowed capital

Particulars	**Rs**
P.Y (2019-20) interest (W.N.1)	9,000
Pre contribution period interest (W.N.2)	88,000
Total interest to be claimed	17,800

Working:1

Previous year (2019-20) interest (1,00,0000 x 12%)= (12,000 x 9/12)=9,000 payment date=31.12.19 (1.4.2018=31.12.19=9 months)

Working:2

Pre construction period interest

Date of borrowing loan- 01.08.13 Whichever
Date of pre payment - 31.12.19 is lower
Date of combating- 31.12.17
Interest in for the period 1.4.2013 to 13.3.17
2013-14= 8 months

2014-15= 12 months
2015-16= 12 months
2016-17= 12 months
14 months Rs
1 year interest 1,00,000 x 12/ 100 = 12,000
For 44 months 12,000 x 12/44 = 44,000
1/5th on interest can be claimed = 8800

Pr:19

Mr.Xavier borrowed Rs. 50,000 @ 12% p.a . on 01.04.11.The constructions of the house was completed on 31.11.13. The loan was repaid on 31.03.20. Calculate the amount of interest deductible for the P.Y.2019-20.

Sol:

Interest on borrowed capital

Particulars	**Rs**
P.Y (2019-20) interest (W.N.1)	6000
Pre consideration period interest (W.N.3)	-
Total interest to be claimed	6000

Working 1:

Previous year (2019-20) interest 3000 (5000x12/100)

Working 2:

Interest on loan for self occupied can be construction the date of completed on 31.11.13 the 31st march 2011 falls before the data of loan. Therefore pre constructions interest would not arise in this problems.

Pr:20

Mr.Murugan owns a house which is let out for residential purpose. The constructions of the house was completed on 31.06.16. Municipal value of the house is Rs.6,000 p.a.whereas the fair rent is Rs 65,000 p.a. and the annual rent receives is Rs.72,000 p.a. Municipal tax paid by the owner is 10% of the municipal value. Un realized rent is Rs.6,000 (condition of rule 4 are satisfied).Interest on loan borrowed for constructions of house property is Rs.12,000. Compute the income from house property.

Sol:

Particulars	**Rs**
MRV	60,000
FRV	65,000
Whichever is higher	65,000
ARV (-) URR	66,000
Whichever is higher (OSR) before	66,000
(-) Municipal tax 6,000	
Deduction u/s 24	
30% standard deduction 2000 12000 30000	
(-) interest on borrowed capital	

Income from house property	30,000

Pr:21

Mr.Ganesh has two houses at Chennai. The particulars of the houses are as follows.

Particulars	House-A	House-B
Municipal value	1,20,000p.a	96,000 p.a
Fair rent	96,000p.a	84,000 p.a
Standard rent	Nil	1,08,000 p.a
Actual rent	9,000p.m	10,000 p.m
Municipal tax paid	20,000p.a	20,000 p.a
Interest on loan borrowed for construction	10,000p.a	20,000 p.a

Compute the income from house property of Mr.Ganesh for the P.Y 2019-20.

Sol:

Particulars	House A	House B
Step:1		
Municipal value	12,000	96,000
Fair rent	96,000	84,000
Whichever is higher	1,20,000	96,000
Step:2		
Step(1) answer	1,20,000	96,000
Standard rent	-	-
Whichever is lower	1,20,000	1,08,000
Step:3		
Step(2) answer	1,20,000	96,000
Actual rent	1,08,000	1,20,000
Gross annual value	1,20,000	1,20,000
Step:3		
GRV	1,20,000	1,20,000
Municipal tax	20,000	20,000
	1,00,000	1,00,000
Deduction u/s 24		
Standard deduction @30% interest on borrowed for construction	30,000 10,000	30,000 10,000
Income from house property	60,000	50,000

Pr:22

Calculate the income from house property of Mr. John from the following information:

	RS
Municipal rental value	36,000p.a
Fair rental value	42,000p.a
Actual rent	4,000p.a

Interest on loan taken for his 'daughter's marriage 2,000p.a
The house remained vacant for ½ months 12,000
Sol:

Particulars	Rs
Step:1	
Municipal rental value	36,000
Fair rental value	42,000
Whichever is higher	42,000
Step:2	
Step (1)answer	
Standard rental value	42,000
Whichever is lower	-
Step:3	
Step(2)answer	42,000
Actual rent (4,000X12)	48,000
Whichever is higher	48,000
Step:4	
Step(3)answer	48,000
(-)Vacancy 4,000x1/2	6,000
GAV	42,000
(-)Municipal tax	42,000
	2,000
	40,000
(-)Deduction 30% of NAV	12,000
Income from house property	28,000

Pr:23

Mr. Sekar owns a house at Chennai. The house is let out for residential purpose from 01.04.16.onwards at a monthly rent of Rs.6000.The municipal value the house is 60,000 and the fair rental value isRs.48,000. Expenses incurred in respect of the house were: Municipal taxRs.8,000; Repairs Rs.20,000 and land revenue Rs.2,000.The interest on capital borrowed for constructing the house is Rs.3,000. The house remained vacant for two months and the assessed could not realize rent for three months.

Compute the income from house property Mr.Sekar for the P.Y.2019-20.

Sol:

Particulars	Rs
MRV	60,000
FRV	48,000
Whichever is higher / ERV	60,000

SRV	-
Whichever is lower / ERV	60,000
ARV (6000x12) 72000	
(-) Unrealised rent 18000 54000	
(-) Loss due vacancy 12000	22,000
Whichever is higher	60,000
Actual rent received after unrealized rent (ARR (V)	
ARV-ARR-72000=18000	54,000
If ARR and ARR (V) is lessthan ERV ARV-ERV-LDV=60000-12000	48,000
Gross annual value	48,000
(-) Municipal tax	8,000
Net annual value	40,000
Deduction u/s 24	
(-) Standard deduction 20% on NAV (4000x 30/100)	12,000
Interest on capital borrowed for constructing the house	3,000
Income from house property	25,000

Pr:24

Mr.Navin owns a big home, the construction of which was completed in August 2000. 50% portion of the house is let out for residential purpose at a monthly rent of Rs. 5,000 p.m. The remaining 50% portion is used by Mr.Navin as his own residence. The expenses regarding the house were: Municipal taxesRs. 20,000, interest on loan taken for repair of the house Rs. 30,000 and fire insurance premium Rs. 6,000. Find out his taxable income from house property for the P.Y.2019-20.

Sol:

Particulars	**Let out property**	**Self property Rs**

	50% Rs	
MRV	-	-
FRV	-	-
Whichever is higher / NRV	-	-
SRV	-	-
Whichever is lower / LRV	-	-
Actual rental value (5000x12)	60,000	-
Gross annual value	60,000	-
(-) Municipal taxed (2000x12)	10,000	-
Net annual value	50,000	-
Deduction u/s 24		
(-) Standard deduction @ 30% on NAV	15,000	-
Interest on loan taken for repair of house (3000 x 5%)	15,000	15,000
Income from house property	20,000	15,000

<u>Total income from house property</u>

Particulars	**Rs**
Let out property	20,000
Self occupied property	15,000
Income from house property	5,000

<u>Pr:25</u>

Mr.Sakthi owns a house propery at Bangalore. The particulars of the house are as follows:

Municipal valuation Rs.96,000
Fair rent Rs.84,000
Municipal taxes Rs.10,000
Fire Insurance Premium Rs.2,200p.a
Interest on loan borrowed for construction of the house Rs.13,000

The house was let out for residential purposes for Rs. 10,000 p.m from 01.04.19 to 31.01.20 and self occupied from 01.02.20. onwards.

<u>Sol:</u>

Particulars	Rs
MRV	96,000
FRV	4,000
Whichever is higher / NRV	96,000
SRV	-
Whichever is lower / ERV	9,600
Actual rent value (10,000 x 12)	1,00,000
Let out of 10 months (1.04.19- 31.1.20)	
Whichever is higher (Gross annual value)	1,00,000
(-) Municipal tax	10,000
Net annual value	90,000
Deduction u/s 24:	
(-) Standard deduction @ 30% on NAV	27,000
Interest on loan borrowed for contribution of the house	13,000
Income from house property	50,000

<u>Pr:26</u>

Mr.Aariya owns a big house, the construction of the house was completed in june 2016. Municipal valusation of this house is Rs. 60,000. He has let out one third of the house at a monthly rent for Rs. 2,500. He occupies the remaining portion as his own residence. The let out portion remain occupied by him from 01.02.20 onwards. The other particulars regarding the house are as follows.Municipal tax pain Rs.15,000. Insurance premium Rs.4,000 and rent Rs.6,000.Interest on loan borrowed for construction of the house his Rs.12,000 p.a.

Compute the taxable income from house property Mr.Aariya.

<u>Sol:</u>

Particulars	**Let out property Rs**	**Self occupied property Rs**
MRV	20,000	-
FRV	-	-
Whichever is higher / NRV	20,000	-
SRV	-	-
Whichever is lower /ERV	20,000	-
Actual rental value (2,500x12)	25,000	-

Gross annual value	25,000	-
(-) Municipal taxed (1000 x 1/2)	5,000	-
Net annual value	20,000	-
Deduction u/s 24		
(-) Standard deduction @ 30% on NAV	6,000	-
Interest on loan borrowed for construction of the house	400	8,000
Income from house property	10,000	8,000

Total income from house property

Particulars	**Rs**
Let out property	10,000
Self occupied property	8,000
Income from house property	2,000

27. Mr.Saran borrowed Rs.3,00,000on 01.04.13@12%p.a.to construct a house. The construction of the house was completed on 31.03.18.andRs.1,20,000 was repaid on 31.12.19.compute the interest on loan deductible in computing the income from house property.

Solution:

Interest on borrowed capital

Particular **Rs**

P.y(19-20)interest (W.N.1)30,000

Pre construction period interest (W.N.2) 28,000

Total interest to be claimed **58,800**

W:1

P.y(2019-20)interest

(3,00, 000)×12%=(36,000×10/12)=**30,000**

Repayment data =31.12.2019

Computed data=21.3.2018

= 31.3.10 - 31.12.2019

= 10 months

W:2

Pre construction period interest

Data of Borrowing loan = 1.4.14 Data of repayment = 31.12.19 Data of completion =31.3.18

Interest is for the period =1.4.13 -31.3.18

2013-14 =12months

2014-15 =12months
2015-16 =12months
2016-17 =12months
=48 months
1year interest 30,000×12/100=36,000
For 48 months 36,000/12×48=1,44,000
1/5th on interest can be claimed
(28,800×1/5) **=28,800**

28. Mr. Sachin owns a house property in Agra which is let out forRs.1,20,000 p. a. It's municipal valuation and municipal taxes are Rs.1,00,000 and 30% respectively. The municipal tax is paid by the tenant as per the rental agreement but at the same time Mr. Sachin bears the following expenses on tenant amenities.

Life expenses Rs.2,000
Water change Rs.3,000
Gardeners salary Rs.1,500
Light of stairs Rs.3,500
Mr. Sachin claims the following deduction

	Rs.
Collection charges	10,000
Annual charge	22,000
Collection charge	13,000

Interest on loan taken for construction of a house Rs.17,000
Compute the taxable income form house property for the P.Y. 2019-20.

Solution :

Computation of IFHPof Mr.sachin for the A.Y 2019-20
Gross annual value
Municipal value Rs. 1,00,000
Actual rent (1,20,000 – cost of amenities10,000) Rs.1,10,000
Whichever is higher Rs.1,10,000
Less: municipal taxes Nil
Rs. 1,10,000
Net annual value
Deduction u/s 24:
¡) Standard deduction
@ 30% of NAV Rs.33,000
¡¡) Interest on loan Rs. 17,000
Income from home property 60,000

29. Mr.Ganesh is the owner of a house property at ooty, the municipal value of which is Rs.80, 000 and the fair rental value isRs.1,00,000 p.a.During the p.y 2019-20, the house is used by him, as follows:

25% of the house is occupied for his own residence
25% of the house is used for the own business
25% of the house is let out for residential purpose @Rs.2,500 p.m.
(This portion remained vacant for one month).

25% of the house is let out for business purpose @ Rs.2,000 p.m. with effect from 01.04.19 to 30.01.20 and self occupied from 01.02.20 onwards

The other expenses incurred by Mr.Ganesh in respect of house are as follows:

Municipal tax Rs.10,000p.a.

Interest on loan taken for construction house Rs.24,000 p.a.

Current rent Rs. 2,000 p.a.

Repair Rs. 4,000 p.a.

Compute income from house property of Mr. Ganesh.

Solution :

Deduction u/s 24

¡) Standard deduction 30%of NAV 6,750

¡¡) Interest of loan (24,000×25/100) 6,000

12,750

Income for let out property for business 9,750

	Rs.
Loss from self occupied property	-6,000
Income from property used for own business	Nil
Income from let out portion	11,500
Income from let out for business	9,750
Income from house property	**15,250**

30. Mr.jain owns a new house the construction of which was completed on 01.04.18 and the details relating to the house are given below :

Municipal value of the house Rs.1,00,000p.a.

Fair rental value of the house Rs.1,20,000p.a

Actual rental value of the house Rs.15,000p.m.

Municipal taxes 15% on municipal value

Let out from 01.04.19 to 31.12.20 and self occupied from 01.01.20 onwards

Ground rent Rs.12,000 p.a.

Annual charge Rs.10, 000 p.a.

Interest on loan taken to construct the house :

¡) 01.01.15 to 31.03.18 Rs.60,000

¡¡) 01.04.19 to 31.03.20 Rs.20,000

Interest on delayed payment of interest Rs.2,500

Compute his income from house property.

Solution:

Particulars	Rs
MRV	1,00,000
FRV	1,20,000
WEH/NRV	1,20,000
SRV	
WEL/ERV	1,20,000
ARV(15000×9)	1,35,000
(1.4.19-31.12.20)9months	
(WEH)/GAV	1,35,000

(-)Municipal tax(15%on municipal value) 15,000 (1,00,000×15/100)

NAV Rs. 1,20,000

<u>(-)Deduction u/s24:</u>

SD 30%on NAV (1,20,000×30%) 36,000

Current p.y interest (2019-20) 20,000

(1.4.19 – 31.3.20)
Precompletion period interest
Interest is for the period (1.1.15 – 31.3.18)
1.4.15 – 16 =12months
16-17 =12months
17 - 18 =12months
= 36 months
Rs
One year interest = 20,000
For 36 months (20,000/12×36) = 60,000
(1/5)th on interest can be claimed = 12,000
12,000
(60,000× 1/5)
IFHP =52,000

UNIT-III

Income from business – Expenses allowed – Expenses disallowed – Computation of Professional Income – Calculation of Capital gain – meaning — Types – Exempted capital- Tax Planning.

PROFITS AND GAINS OF BUSINESS OR PROFESSION

INTRODUCTION

The profits and gains from business or profession taxed under the head income from business or profession. Before knowing the tax provision of section 28 to 44 it is important to understand the meaning of the terms business, profession, vocation and format for computing taxable income from business or profession.

BUSINESS [SECTION 2(13)]

Business simply means any economic activity carried for earning profits. Section 2(13) has defined the term business means any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

Adventure in the nature of trade: Profits arising from an isolated transaction are taxable as business profits, if it is treated as an adventure in the nature of trade, commerce or manufacture.

PROFESSION [SECTION 2(36)]

Profession refers to an occupation where intellectual skill and technical expertise in a specified field is acquired for earning a livelihood. Lawyers, Doctor, Auditor, engineer, accountant, surgeon etc, are the some of the examples of profession which includes vocation.

VOCATION

Vocation simply means a way of living for which one has special fitness. Vocation means any activity upon which a person spends the major portion of his time and out of which he makes his living. Music, Dancing, writing books and contribution of articles to journal constitute the vocation.

CHARGING PROVISION (SEC 28(1) : The following are the incomes which are chargeable to income tax under the head Profits and Gains of Business or Profession.

1) Business or Professional Income: The profits and gains of any business or profession which was carried on by the Assessee at any time during the P/Y are assessed under this head.

2) Compensation: Compensation or other payment due or received by managing director is taxable under this head profit and gains of business or profession.

3. Income of a trade or professional association: Income derived by a trade, professional or similar association from specific service performed for its members only considered to be business income and taxed under this head profit and gains of business or profession.

4. Export incentives: Export incentives like profit on sale of licence, cash assistance from government of India, any duty of customs or excise etc. taxed under this head profit and gains of business or profession.

5. Value of benefit or perquisite: The value of any benefit or perquisite, whether convertible into money or not arising from business or the exercise of a profession, is chargeable under this head profit and gains of business or profession.

6. Salary, Interest, Bonus, Commission or Remuneration received by a partner from a Firm: Any Salary, Interest, Bonus, Commission or Remuneration received by a partner from a Firm assessed as firm U/S 184 is to be treated as business income in the hands of partner and taxed under this head profit and gains of business or profession.

7. Profit earned from an illegal Business: The income earned from any business whether legal or illegal is taxable. Income tax law does not make any distinction between a legal and illegal business. Thus income earned from smuggling business was held to be taxable income.

8. Any sum received under a keyman insurance policy including the sum allocated by way of bonus on such policy.

METHODS OF ACCOUNTING: There are two methods of accounting. They are:

1) Cash system of accounting: Under this system of accounting all those receipts and payments, which are actually collected and spent during the current previous year, are considerable in order to calculate net profit. In simple terms any receipts or payments paid are considered and due are not considered under this system.

2. Mercantile system: Under this system of accounting all those receipts and payments, which are paid or due will be considered to calculate net profit.

BAD DEBTS RECOVERED DISALLOWED EARLIER: Bad debts recovered disallowed earlier, refers to any bad debts, which has been disallowed (taxed) as a deduction while calculating business income in the earlier years preceding the current previous year but received during the current P/Y. any such amount shown in the current P/Y P&L A/c should be deducted from current year's profit since it has already been taxed in the earlier years.

BAD DEBTS RECOVERED ALLOWED EARLIER: Bad debts recovered allowed earlier, refers to any bad debts, which has been allowed (not taxed) as a deduction while calculating business income in the earlier years preceding the current previous year but received during the current P/Y. any such amount shown in the current P/Y P&L A/c should be added to the current year's profit in order to tax the amount since it is not taxed in the earlier years.

ADMISSIBLE EXPENSES/ALLOWED EXPENSES/ DEDUCTABLE:

Admissible expenses are those expenses which are allowed under the act. If such expenses are not debited to p& l a/c by the assesses it should be deducted from net profit,. Following are some of the examples of admissible expenses

1. Advertisement expenses (except political party)
2. Audit Fees
3. Bank Cash Transaction Tax
4. Bad debts
5. Contribution towards rural development program and conservation of natural resources
6. Demurrage paid to railways
7. Discount and allowance
8. Deprecation allowable
9. Establishment expenses

10. Expenditure on guest house or holidays home facility
11. EB bill, land revenue, fire insurance premium, rent of the premises which is used for business
12. Entertainment expense
13. Expenses on campaign against nationalization
14. Expenditure on scientific research
    a. revenue expenditure – Fully deductible
    b. Capital expenditure- Fully deductible except acquisition of land
    c. Contribution to approved research association @175%
15. General expenses
16. Gifts and present not made in personal capacity
17. Income tax expenses
18. Legal expenses for filing income tax appeal
19. Legal expenses to defend the existing title of capital asset
20. Municipal tax of quarters let out to employees
21. Other expenses incurred according to provision of law
22. Postage and telegram
23. Printing and stationary
24. Professional tax paid
25. Railway freight and Octroi expenses
26. Service charge
27. Subscription to a trade or professional association
28. Salaries, wages, perquisites, allowances of employees
29. Staff welfare expenses
30. Tournament expenses
31. Telephone installation charges
32. Traveling expenses related to business
33. Training expenses and Welfare expenses
34. Contribution to national laboratory 125% allowed
35. Expenditure on knowhow 25% is allowed as depreciation
36. Loss by theft and embezzlement by employee
37. Loss of cash due to robbery while being carried by cashier for disbursement.
38. Loss due to fire, accident

ALLOWABLE DEDUCTIONS: The following are some of examples of expenses allowable as deduction U/S 37:

1. All expenses and payments for purchasing of raw materials, manufacture and sale of goods.

2. All expenses in the nature of advertisement to push up sales

3. Sales tax

4. Day to Day expenses to carry on business

5. Reasonable expenses incurred on Diwali, Pooja or other festivals.

6. Royalty paid

7. Commission paid

8. Installation expenses of new telephone and payment made under OYT (own your telephone) scheme.

9. Legal expenses incurred to claim damages

INADMISSIBLE EXPENSES/ NOT DEDUCTABLE EXPENSES/ DISALLOWED EXPENSES U/S 40:

Inadmissible expenses are those expenses which are not allowed under the act. If such expenses are debited to P&L a/c, it should be added back to the net profit. Following are some of the examples of inadmissible expenses

1. Any business expenses paid in cash exceeding Rs. 20000 100% of such payment shall be disallowed
2. Provision, reserve for bad debts, provision for taxation
3. Bonus, commission, interest on loan, employees contribution to PF not paid or on or before the due date of filing of returns
4. Betterment charges paid to corporation under town planning act
5. Capital losses like loss on sale of machinery, car etc.
6. Charity and donation
7. Capital expenses like purchase of machinery, building
8. Contribution to staff welfare fund
9. Contribution to unapproved or unrecognized fund or political party
10. Direct tax like income tax, wealth tax , interest o loan
11. Difference in trail balance
12. Expenses relating to other heads of income like municipal tax of house property let out
13. Expenses incurred to earn tax free income like cultivation expense
14. Excess depreciation
15. Excessive and unrealizable payments made to relatives
16. Fines and penalties
17. Family planning expenditure on employees
18. Fringe benefits tax, wealth tax, income tax, tax penalty, advance income tax, gift tax, estate duty

19. Drawings, salary to proprietors, medical expenses, expenses for falily members, LIC premium
20. Interest on capital (own)
21. Illegal expenses
22. Legal expenses to acquire a title or to cure a defect in the assessor's title of assets
23. Personal expenses or loss like contribution to NSS, NSC, PPF, proprietor salary, drawing , rent paid to self, household expenses etc
24. Loss from discontinued business
25. Preliminary expenses or 5% of cost W.E.L. is deducted in equal installment for 5 year, commencing when such expenses incurred
26. Provision and reserve like reserve for future loss. Provision for bad and doubtful debts etc
27. Sales tax, excise duty, Custom duty, local tax of the premises used for business not paid on or before the due date
28. Salary or interest on loan payable outside India without TDS
29. Speculation loss
30. Patents, copyrights, technical knowhow purchased

TAX FREE INCOMES:

If incomes which are exempted from tax are credited to P& L A/C such incomes should be deducted from net profit to get income taxable under the head income from the business. Following are some of the examples of tax free incomes

1. Agricultural Income (India)
2. Bad debts recovered but disallowed earlier
3. Customs duty, excise duty recovered but disallowed earlier
4. Dividend from an Indian company or UTI
5. Spot office savings bank interest
6. Gifts from relatives
7. Income tax refund
8. With Drawl from PPF
9. Life insurance maturity amount

10. FORMAT FOR COMPUTATION OF TAXABLE INCOME FROM BUSINESS

Particulars	Amount	Amount
Net profit or loss as per P & L A/C		xxxxx
(+) Inadmissible expenses debited to P& L A/C(disallowed expenses)	xxx	
Business / Profession income not credited to P& L(allowed income)	xxx	
Overvaluation of opening stock	xxx	
Undervaluation of closing stock	xxx	

Notional loss	xxx	xxx
(-) Admissible expenses not debited in P&L A/c (allowed expenses)	xxx	
Non business income credited to P& L A/C (disallowed income)	xxx	
Undervaluation of opening stock	xxx	
Overvaluation of closing stock	xxx	
Notional profit	xxx	xxx
Taxable income from business		xxxx

Notional profit or loss:

No person can make profit by trading with himself. For example if the amount of sales which is credited to P& L A/C includes a sum of Rs.20000 representing the value of goods withdrawn for family use and if these goods were purchased at a cost of Rs. 100000 there is a notional profit to the extent of Rs. 10000 and this profit should be deducted from net profit as tax is levied on real profits on the other hand if there is notional loss it should added back to net profit.

Points should be considered while calculating income from business:

1. If amount paid exceeding Rs.20000 is paid by a crossed cheque or by a crossed bank draft then full amount should be allowed as deduction.

2. If amount exceeding Rs.20000 is paid in cash, then the entire amount should be disallowed.

3. With effect from 1.10.2009, Rs.35000 to be considered in case of payment made for plying, hiring or leasing goods carriages.

4. For mediclaim insurance a) If paid by cheque allowed b) If paid in cash disallowed.

5. **Treatment of depreciation: a) If depreciation is given in P&L A/c as well as in the adjustment:** i) Add depreciation given in the P&L A/c to net profit ii) Subtract depreciation given in the adjustment from net profit **b) If depreciation is given only in P&L A/c not in the adjustment:** i) Ignore depreciation given in the P&L A/c while working out problems. **c) If depreciation is given only in the adjustment:** i) Subtract depreciation given in the adjustment from net profit

6. If any asset is put to use for less than 180 days, only 50% of the actual depreciation should be allowed.

7. **Treatment of bad debts recovered:** a) If bad debts recovered disallowed earlier is given in the credit side of the P&L A/c: subtract from net profit. B) If bad debts recovered allowed earlier is given in the credit side of the P&L A/c: Ignore while working out problems.

8. Fixing of neon sign board is a capital expenditure. Hence it should be disallowed if shown in the debit side of the P&L A/c (it should be added to net profit).

9. If any amount is paid out of India it can be allowed provided if there is TDS. If there is no TDS the actual amount should be disallowed.

10. Penalty if shown in P&L A/c should be disallowed.

11. If any tax is paid before due date of filing of return it should be allowed while calculating income from business.

12. Any interest paid to partner's capital is allowed up to 12%. If the rate exceeds 12% the excess of 12% should be disallowed.

PROFESSIONAL INCOME

FORMAT FOR COMPUTING INCOME FROM PROFESSION

In case of Doctor or Medical practitioner		
Particulars	**Amount**	**Amount**
Professional receipt:		
Fees for conducting operation	xxx	
Consultation fees	xxx	
Visiting fees	xxx	
Sale of medicine	xxx	
Gifts from patients for profession	xxx	
Examiner's fee	xxx	
Nursing home receipt	xxx	
Any other professional receipt	xxx	
Total professional receipts		xxxxx
Less: Professional expenses:		
Dispensary Expenses:		
(Rent, light, water, salary to staff, telephone expenses:	xxx	
Cost of medicine:		
Cash basis : Cost of actual medicine purchased		
During the year. (or)	xxx	
Mercantile basis : (opening + new purchase – Closing)	xxx	
Depreciation on surgical equipments at prescribed rate	xxx	
Depreciation on books	xxx	
Motor car expenses (related to professional work)	xxx	
Expenses relating to increase professional knowledge	xxx	
Hospital or clinic expenses	xxx	
Cost of books for professional purpose	xxx	
Any other expenses	xxx	xxx
Income from profession		**xxxxx**

In case of Chartered Accountant		
Particulars	**Amount**	**Amount**
Professional receipt:		

Audit fees	xxx	
Gain from accountancy work	xxx	
Institute fees	xxx	
Examiner fee	xxx	
Gifts from clients	xxx	
Consultancy service	xxx	
Any other income	xxx	xxxxx
Less: Professional expenses:		
Audit office expenditure	xxx	
Institute expenses	xxx	
Depreciation on books	xxx	
Motor car expenses	xxx	
Membership fees	xxx	
Depreciation on office equipments	xxx	
Stipend to trainee’s	xxx	
Depreciation on office furniture	xxx	
Expenses relating to increase professional knowledge	xxx	
Subscription	xxx	xxx
Income from profession		**xxxxx**

In case of Lawyer or Advocate		
Particulars	**Amount**	**Amount**
Professional receipt:		
Practicing fees	xxx	
Legal fees	xxx	
Special commission	xxx	
Present from clients	xxx	
Examiner fee	xxx	
Any other income	xxx	xxx
Less: Professional expenses		
Office expenditure	xxx	
Salary to staff	xxx	
Depreciation on books	xxx	
Depreciation on office equipments	xxx	
Subscription	xxx	

Purchase of stamp pare and court fee	xxx	
Traveling expenses	xxx	
Expenses relating to increase professional knowledge	xxx	xxx
Income from profession		**xxx**

Points should be considered while calculating income from profession:

1. In profession either receipts and payments account or income and expenditure account are given.

2. Professional receipts and payments should be considered.

3. Loan for profession should not be considered but interest on loan for profession should be considered.

4. **Treatment of depreciation:**

a) Building 10%

b) Furniture 10%

c) Plant and machinery 15%

d) Car 15%

e) Books and computer 60%

f) Books for annual publication 100%

Purchase of asset during 2012-2013 and used for less than Upto 179 days: **6 months depreciation should be calculated** and 180 days or above: **1 year depreciation should be calculated.**

5. Material consumed = opening stock + purchase + closing stock (this formula is applied only if Assessee follows mercantile system of accounting. Suppose in the case of cash system actual purchases should be considered.

6. **Mercantile system:** Actual receipts & payments and accrued income and outstanding expenses **Cash system:** Actual receipts and payments. **Nothing is mention in the problem assuming that the Assessee follows mercantile system of accounting.**

DEPRECIATION

MEANING:

Depreciation refers to a gradual permanent continuous fall in the book value of the fixed asset due to constant use of the asset. It simply refers to decrease in the value of an asset. The decrease in the value may be because of wear or tear. Depreciation can be allowed as expenditure only if the following conditions are satisfied:

1. Assesses should be the owner
2. he should use the asset for business or profession
3. It should be used in the previous year

ASSET:

Asset refers to any property owned by the assessees during the course of business. There are two types of assets.

a) Tangible Assets: Assets that we can see and touch is called tangible assets. Assets like plant, machinery, furniture, electrical items and building are tangible assets.

b) Intangible Assets: Assets that we cannot see and touch is called intangible assets. Assets like patents, know how, trade mark, franchises are tangible assets.

WRITTEN DOWN VALUE METHOD:

This is the usual method, which is followed by all business units to charge depreciation. Under this the WDV of a particular asset on 1.4.2012 (beginning of current P/Y) is taken along with purchases and sales made during 2012-2013 (during the current P/Y) to calculate depreciation.

Particulars	**Amount**
Written down value as on 1.4.2012	Xxxx
Add: Additions during 2012-2013	xxxx
Less: Sales during 2012-2013	xxxx
Value as on 31.3.2013 (value on which depreciation should be calculated)	**xxxx**

UNABSORBED DEPRECIATION SEC32 (2):

Unabsorbed depreciation refers to that part of depreciation, which cannot be allowed in a particular previous year due to shortage of profit or of no profit. In other words any part of depreciation, which cannot be allowed in a particular previous year because of non availability of profit or profit available, is less than the required amount then the amount which is not claimed as deduction will be termed as unabsorbed depreciation.

Tax treatment: a) unabsorbed depreciation can be carried forward and set off with any income until is fully written off. For example

Total amount of depreciation	5000
Depreciation that can be claimed in current P/Y	2000
Unabsorbed depreciation	**3000**

b) There is no limitation as to how long it can be carried forward.

c) It can be adjusted in subsequent years with any heads of income except salary income.

RATES OF DEPRECIATION FOR ASSESSMENT FOR THE YEAR 2013-2014:

1. Building:

a) Residential building except hostel and boarding houses 5%

b) Non residential building like office, factory and go down 10%

c) Building acquired on or after 1.9.2002 for installing plant and machinery or water treatment system 100%

d) Purely temporary erection in wood 100%

2. Furniture:

a) Any furniture and fittings including electric installation 10%

3. Computers:

a) Including computer software 60%

4. Books:

a) Books owned by Assessee carrying on a profession:

Annual Publication 100%

Other books 60%

b) Books owned by Assessee carrying on lending business 100%

5. Intangible assets:

Patents, technical know-how, copyrights, trademarks, licenses, franchise or any other business or commercial rights or similar nature acquired on or after 1.4.98: 25%

6. Surgical equipments: 15%

7. Plant and machinery

a) Motor car used in business purchased on or after 1.4.1990:15%

b) Aero plane – Aero engines 40%

c) Motor bus, Motor lorry, taxies used in business 30%

d) Commercial vehicle acquired on or after 1.10.98 put to use before 1.4.1999:50%

e) New commercial vehicle acquired on or after 1.10.98 put to use before on 1.4.99 in replacement of vehicle condemned for 15 years: 50%

f) Life saving medical equipment 40%

Format for depreciation

Particulars	**Amount**
WDV at the beginning of the year	xxx
(+) Purchase of assets during the year	xxx
(-) Sale of asset during the year	xxx
Depreciable value	**xxx**
(-) Depreciation (at prescribed rate)	xxx
WDV at the end of the year	**xxx**

CAPITAL GAINS:

INTRODUCTION:

Any Income derived from a Capital asset movable or immovable is taxable under the head Capital Gains under Income Tax Act 1961. Taxation of Capital Gains depends on two aspects namely

- Capital assets
- Transfer

CAPITAL ASSETS SEC 2(14):

Capital assets refers to property of any kind whether fixed or circulating, movable or immovable, tangible or intangible held by an Assessee including property of his business or profession, but excluding non – capital assets. Capital assets include goodwill, leasehold rights, jewellery, shares, manufacturing licence, etc.

Types of Capital Assets:

There are three types of capital assets:

a) Financial Assets:

Financial assets include shares, debentures, securities, units of UTI, mutual funds, Zero Coupon Bonds etc. Financial assets divided into two types **Short term capital assets** If any taxpayer has sold a Capital asset within12 months/ 1 year of its purchase **Long term capital assets** If any taxpayer has sold a Capital asset more than 12 months/ 1 year of its purchase.

b) Depreciable Assets:

Depreciable assets (building, machinery etc) always called Short term capital assets.

c) Other Assets:

Other assets divided into two types **Short term capital assets** If any taxpayer has sold a Capital asset within36 months/ 3 years of its purchase **Long term capital assets** If any taxpayer has sold a Capital asset more than 36 months/ 3 years of its purchase.

TRANSFER SEC 2(47):

The term transfer includes

- Sale , Exchange or Relinquishment of the assets or
- Extinguishment of any right therein or
- Compulsory acquisition by law or
- Where the asset is converted by owner into stock – in – trade or
- Transaction involves in allowing the possession of any immovable property to be taken or retained in part performance of contract or
- Maturity or redemption of a Zero Coupon Bonds With Effect from the AY 2006-2007

CAPITAL GAIN:

It refers gain on transfer of capital assets.

Types of Capital Gain:

There are two types of capital gains namely

a) Short Term Capital Gains:

Any gain from the sale or transfer of short term capital assets will be termed as Short Term Capital Gains.

Taxability of short term capital gains: short term capital gain is taxed @ 15% for the AY 2013-2014 plus 2% education cess and 1% secondary higher education cess

b) Long Term Capital Gains:

Any gain from the sale or transfer of long term capital assets will be termed as long Term Capital Gains.

The Central government notifies cost inflation index for every year. The indexed cost of acquisition is calculated by multiplying the actual cost of acquisition with C.I.I of the year in which the capital asset is sold and divided by C.I.I of the year of purchase of capital asset. Similarly the indexed cost of improvement can be calculated by using the C.I.I of the year in which the capital asset is improved. Where the capital asset was acquired before the year 1981 then the cost of acquisition shall be the fair market value or the actual cost of its acquisition whichever is higher. The Fair market value of a capital asset can be known by the valuation of the registered value.

Taxability of long term capital gains:

Long Term Capital Gain is taxed @ 20% for the AY 2013-2014 plus 2% education cess and 1% secondary higher education cess

SLUMP SALE (SEC 42 C):

Transfer of one or more undertakings as a result of the sale for a lump- sum consideration without values being assigned to the individual assets and liabilities.

COST OF ACQUISITION (SEC 55(2) b):

Cost of acquisition refers to the cost for which the asset was purchased by the Assessee. Any expenses relating to acquisition can be included in cost of acquisition. Interest on borrowed capital for the purpose of acquisition can be considered as part of cost of acquisition provided, it is not considered in any other provision.

Cost of acquisition in case of depreciable assets (sec 50):

The written down value of the block of the assets on last day of the previous year should be considered. Any gain from depreciable assets should always be treated as short term capital gain.

FMV as on 1st April 1981 Taken as Cost of Acquisition (SEC 55(2)):

If the asset purchased before 1.4.1981: the following provision should be followed

Actual cost or FMV as on 1.4.1981 whichever is higher is taken as cost of acquisition.

Cost of improvement SEC 55(1) b):

Cost of improvement refers to any capital expenditure spent towards additions or improvements to the existing capital assets. The following points should be considered

- Cost of improvement on or after 1.4.1981 should be considered
- Cost of improvement before 1.4.1981 should not be considered

Indexed cost (SEC 48):

Indexed cost refers to cost, which has been proportionately converted with the cost inflation index. It includes both cost of acquisition as well as cost of improvement. In case of bonds and debentures, there is no indexed cost but capital indexed bonds issued by government it should be indexed.

FORMAT FOR COMPUTATION OF INDEXED COST:

$$\text{Indexed cost} = \frac{\text{Cost}}{\text{Index of the year of acquisition/ improvement}} \times \text{Index of the Year of Sale (852)}$$

FORMAT FOR COMPUTATION OF SHORT TERM CAPITAL GAIN:

Particulars	**Amount**	**Amount**
Sale consideration of the assets		**xxxxxx**
Less: Expenditure in connection with transfer	**xxxx**	

Less: Cost of acquisition of the assets	**xxxx**	
Less: Cost of improvement of the assets	**xxxx**	
Less: Exemption from capital gain under section 54B,54D,54G,54GA	**xxxx**	**xxxxxx**
Net taxable capital gain		**xxxxxx**

FORMAT FOR COMPUTATION OF LONG TERM CAPITAL GAIN:

Particulars	**Amount**	**Amount**
Sale consideration of the assets		**xxxxxx**
Less: Expenditure in connection with transfer	**xxxx**	
Less: Indexed Cost of acquisition of the assets	**xxxx**	
Less: Indexed Cost of improvement of the assets	**xxxx**	
Less: Exemption from capital gain under section 54,54B,54D,54EC,54F,54G,54GA,54GB	**xxxx**	**xxxxxx**
Net taxable capital gain		**xxxxxx**

REALIZATION EXPENSES:

Brokerage, commission, stamp duty, registration fees and travelling expenses in connection with transfer are deductable from sale consideration.

WHEN ADVANCE MONEY IS RECEIVED:

Section 51 deals with Advance Money. When any advance money received and retained by the Assessee in respect of transfer, then the advance money received and retained should be deducted from the cost value or written down value or fair market value, as the case may be while calculating cost of acquisition. The Assessee should be the same person (the person who received the advance money as well as the person who sells the property should be same)

CAPITAL GAINS EXEMPTED U/S10:

The following are the capital gains, which are, exempted U/S 10 of the Income Tax Act.

- Capital gain (short term or long term) on transfer of a unit of US 64
- Long term capital gain on transfer of BSE 500 Equity shares
- Capital gain (short term or long term) on compulsory acquisition of urban agriculture land
- Long term capital gain towards securities covered by transaction tax

ASSETS NOT INCLUDED UNDER CAPITAL ASSETS:

- Stock in trade, consumable stores or raw materials held for the purpose of business or profession
- Personal effects like furniture, refrigerator, television, household appliances, pooja articles, motor car and any other vehicles.
- Gold bonds of central government
- Special bearer bonds 1991 etc.

DEDUCTIONS/ EXEMPTIONS AVAILABLE U/S 54 WHILE CALCULATING CAPITAL GAINS:

Section	For what purpose it is allowed	Rules to be followed
54	Transfer of residential house property and investing in residential house property	a) Capital gain arising from Transfer of residential house property and investing in residential house property comes under this section b) Only individuals and HUF can claim exemption under this section c) The transferred house property should be LTCA d) Capital should be reinvested 1 year before or 2 years after the date of sale e) Newly constructed it should be within 3 years f) The new house purchased or constructed should not be sold within 3 years g) If the amount of capital gain is not re invested in another residential house that should be deposited in Capital Gains Deposit Accounts Scheme of any public sector bank and should be utilized within the specified time. h) To claim exemption if the amount is deposited in the CGDAS, proof should be shown to the assessing officer. i) The exemption will be actual gain or amount invested in assets whichever is less.
54B	Sale of land used for agricultural purposes and invested in another agricultural land	a) Only individuals and HUF can claim exemption under this section b) The transferred asset may be LTCA or STCA c) The land should be used by the Assessee for a period of 2 years before the date of transfer d) The gain should be invested in another agricultural land within 2 years from the date of transfer e) The new agricultural land should not be sold within 3 years f) If the amount of capital gain is not re invested that should be deposited in Capital Gains Deposit Accounts Scheme of any public sector bank and should be utilized within the specified time. g) To claim exemption if the amount is deposited in the CGDAS, proof should be shown to the assessing officer. h) The exemption will be actual gain or amount invested in assets whichever is less.
54D	Compulsory acquisition of land and building, forming part of industrial undertaking	a) It is available to individuals, HUF firm, company and other persons. b) The transferred asset may be LTCA or STCA c) The land and building should be used by the Assessee for a period of 2 years preceding the date of Compulsory acquisition d) It is not necessary that the Assessee should own such land and building during the 2 years. e) The gain should be invested in another land and building 3 years from the date of transfer f) The new land and building should not be sold within 3 years g) If the amount of capital gain is not re invested that should be deposited in Capital Gains Deposit Accounts Scheme of any public sector bank and should be utilized within the specified

		time. h) To claim exemption if the amount is deposited in the CGDAS, proof should be shown to the assessing officer i) The exemption will be actual gain or amount invested in assets whichever is less.
54EC	Amount invested in certain long term specified assets (bonds)	a) It is available to individuals, HUF firm, company and other persons. b) The transferred asset must be LTCA c) The gain should be invested within 6 months from the date of transfer d) The Assessee can invest the whole or part of the capital gain in long term specified assets. (bonds issued by NABARD or National Highways Authority of India or Rural Electrification Corporation or National Housing Bank or Small industries) e) The exemption will be actual gain or amount invested in specified assets whichever is less. f) The new asset should not be sold within 3 years h) Investments in the mentioned specified assets on or after 1.4.2007, should not exceed Rs.5000000
54F	Sale of long term capital assets other than residential house property but investing in house property	a) Only individuals and HUF can claim exemption under this section b) The transferred asset may be LTCA other than residential house property c) The new house should be purchased within 1 year before or within 2 years after the sale. d) If the house is constructed it should be constructed within 3 years from the date of transfer. e) Exemption should be calculated as follows: Exemption = LTCG X Amount invested/ Net consideration f) If the amount of capital gain is not re invested that should be deposited in Capital Gains Deposit Accounts Scheme of any public sector bank and should be utilized within the specified time. g) To claim exemption if the amount is deposited in the CGDAS, proof should be shown to the assessing officer h) The new asset should not be sold within 3 years **Note**: Assessee should not own any other residential house on the date of sale and he should construct a residential house within a period of 3 years or should not purchase within 2 years a second house.
54G	For shifting of industrial undertaking from urban area to non urban area	a) This section applies when capital assets like plant, machinery, land or building or any right in land or building used in urban area is shifted. b) The amount should be reinvested within a period of 1 year before or 3 years after the date of transfer in new plant, machinery, land or building should be acquired. c) Shifting expenses can be claimed as deductions. d) The new asset should not be sold within 3 years e) If the amount of capital gain is not re invested that should be deposited in Capital Gains Deposit Accounts Scheme of any

		public sector bank and should be utilized within the specified time. f) To claim exemption if the amount is deposited in the CGDAS, proof should be shown to the assessing officer
54GA	For shifting of industrial undertaking from urban area to any Special Economic Zone	a) Applies to shifting of plant, machinery, land or building or any right in land or building used in urban area to Special Economic Zone b) The amount should be reinvested within a period of 1 year before or 3 years after the date of transfer c) Shifting expenses can be claimed as deductions. d) The new asset should not be sold within 3 years e) If the amount of capital gain is not re invested that should be deposited in Capital Gains Deposit Accounts Scheme of any public sector bank and should be utilized within the specified time. f) To claim exemption if the amount is deposited in the CGDAS, proof should be shown to the assessing officer
54GB	Transfer of long term residential property and investing in Equity shares of an eligible company (small and medium enterprises)	a) Only individuals and HUF can claim exemption under this section b) It is available for transfer of Lt residential property between 1.4.2012 and 31.3.2017 c) Equity shares in eligible company should be acquired on or before due date of furnishing of return d) Eligible company should utilize the amount for the purchase of new assets within one 1 year from the date of purchase of equity shares. e) Exemption should be calculated as follows: Exemption = LTCG X Amount invested (cost of plant)/ Net consideration f) Equity shares in the eligible company should not be sold within 5 year. g) New asset should not be transferred within 5 years. h) Deposit account should be utilized fully or partly for purchasing the new asset within one year from the date of subscription in equity shares. i) Eligible company: i) incorporated on or after April 1 of the PY in which residential property is transferred ii) Engaged in the business of manufacture of any article or thing iii) The transferor of residential property has more than 50% share capital or voting right after subscription in shares by the Assessee (transferor) iv) The company qualifies to be a SME j) New asset includes plant and machinery excluding office appliance, computers, software, vehicle, 100% depreciable asset.
54H	Extension of time limit for acquiring new assts	a) It deals with the extension of time limit for acquiring new assets b) It deals with the time limit prescribed in each section and also the enhanced compensation c) Enhanced compensation is taxable in the year in which it is received. Under this the time Limit will be determined from the date of receipt of additional compensation.

Hints for calculating taxable income from capital gains:

1. Cost should be indexed only for long term capital assets by looking into the cost inflation index table.

2. Depreciable assets should always be treated as STCA.

3. Indexed cost should be calculated by considering net consideration.

4. Except section 54F and 54GB all other sections can be given in full.

5. Section 54F and 54GB should be calculated as follows

Exemption = LTCG X Amount invested (cost of plant)/ Net consideration

The cost inflation index table as notified is here below:

Cost Inflation Index Notified by the GOVTs

Financial Year	**(CII)**
2001-2002	100
2002-2003	105
2003-2004	109
2004-2005	113
2005-2006	117
2006-2007	122
2007-2008	129
2008-2009	137
2009-2010	148
2010-2011	167
2011-2012	184
2012-2013	200
2013-2014	220
2014-2015	240
2015-2016	254
2016-2017	264
2017-2018	272
2018-2019	280

TREATMENT OF ADVANCE MONEY RECEIVED:

a) Section 51 deals with advance money.

b) When any advance money is received and retained by the Assessee in respect of transfer, then the advance money received and retained should be deducted from the cost value or written down value or fair market value, as the case may be, while calculating cost of acquisition.

c) The Assessee should be the same person. (I.e. the person who received the advance money as well as the person who sells the property should be same)

d) If any advance money is received before 1.4.1981, and the FMV as on 1.4.1981 is taken into consideration for calculation, then the advance money received may be deducted from the FMV.

QUESTIONS

SECTION –A:

1. Explain the types of accounts.
2. Write brief note on depreciation.
3. Explain the types of capital gain.
4. What are the different types of capital assets?
5. What are the incomes exempted under capital gain?
6. Explain the deduction available under section 54EC.

SECTION –B:

1. What are the charging provisions U/S 28 under the head profits and gains of business or profession?

PROBLEM ON INCOME FROM BUSINESS OR PROFESSION

PROBLEM : 1

From the Following P & L a/c of Mr. Ajit,ascertain his income from business for the P.Y.2019-20:

Particulars	Rs.	Particulars	Rs.
opening stock	24,000	sales	2,25,000
Purchases	1,00,000	closing stock	33,000
Salaries	12,000	income from HP	5,000
Legal charges	8,000	income tax refund	15,000
General expenses	20,000	commission receive	70,000
Donation	15,000		
Motor car expenses	4,000		
Depreciation	6,000		
G/R	20,000		
Net profit	1,39,000		
	3,48,000		3,48,000

ADDITIONAL INFORMATION :

i) One-fourth of motor car expenses was for his personal use.
ii) General expenses include Rs.5,000 as diwali pooja expenses.
iii) Opening stock and closing stock were over valued by 20%and 10%respectively.
iv) Depreciarion admissable under IT act is Rs.5,000.

SOLUTION:

COMPUTATION OF INCOME FROM BUSINESS OF MR.AJIT.

Particulars	Rs.	Rs.
Net profit as per P & L a/c		1,39,000
ADD: expenses not allowed		
Donation		15,000
Motor car expenses(4,000×1/4)		1,000
Excess depreciation charged in P & L a/c		1,000

General reserve		20,000
Over valuation of opening stock		24,000
		41,000
		1,80,000
LESS: income not related but credited		
Income tax refund	15,000	
Income from HP	5,000	
Over valuation of closing stock	3,000	
	23,000	
Income from business		1,57,000

PROBLEM : 2

Mr.Sanjay is the proprietor of a business his P & L a/c for the year ending on 31.03.20 is as follows:

Particulars	Rs.	Particulars	Rs.
Salary to staff	48,000	G/R profit	1,24,000
Legal expenses	12,000	interest on GOVT.securities	18,000
Bonus (due)	6,000	rent of quarters given to employees	24,000
Reserve for bad debts	4,000		
General expenses	7,500	sundry receipts	36,000
Diwali pooja expenses	2,500	dividend	12,500
Sales tax	9,000		
Interest on capital	4,000		
Income tax	3,000		
Acquisition of technical know-how	12,000		
Net profit	1,07,500		
	2,15,000		2,15,000

ADDITIONAL INFORMATION :

i) General expenses include(a) Rs.5,000 -donation to NDF(b) Rs.1,000 for accident insurance premium for employees.

ii) Bonus was paid on 31.03.19.

iii) Technical know -how was acquired on 31.12. 19.

iv) Due date of furnising the return of income is 31.10.2020.

SOLUTION:

COMPUTATION OF INCOME FROM BUSINESSOF MR SANJAY.

Particulars	Rs.	Rs.
Net profit as per P & L a/c		1,07,000
ADD: expenses not allowed		
Bonus (due)	6,000	
Reserve for bad debts	4,000	
General expenses - donation to NDF	5,000	

Interest on capital	4,000	
Income tax	3,000	
Techincal know -how (10,000×75/100)		9,000
		31,000
		1,38,000

LESS:income credited but not related

Interest on GOVT. Securities	18,000	
Dividend	12,500	30,500
Income from business		1,07,500

PROBLEM : 3

Following is the P & L a/c.of Mr.elsa for the year ending with 31.03.2020.

Particulars	Rs.	Particulars	Rs.
Salary	18,000	G/R profit	3,21,000
Office expenses	22,000	interest from PO	9,000
Rent	6,000	SB account	
House hold expense	14,000	sundry receipts	20,000
Drawings	20,000	dividend	25,000
postage	4,500	commission	25,000
advertising	7,500		
Sales tax	26,000		
General charges	14,000		
Audit fees	7,000		
Interest on capital	3,000		
Income tax	19,000		
Life insurance premium	5,000		
Net profit	2,34,000		
	4,00,000		4,00,000

ADDITIONAL INFORMATION :

i) advertisement expenditure includes cost of neon sign board Rs.25,000.

ii) general charges include Rs.4,000 given to Ramakrishna mission as donation.

iii) Mr.elsa carries out his business from rented premises half which is used as his residence.

iv) sales tax includes Rs.6,000 due on 31.05.2019.but it was paid on 28.09.2019.due date of filling the returns is 31.08.2019.

compute income from business for the P.Y.2019-2020.

SOLUTION :

COMPUTATION OF INCOME FROM BUSINESS OF MR.ELSA

Particulars	Rs.	Rs.

Net profit as per P & L a/c		2,34,000
ADD:expenses not allowed		
rent -personal use (6,000×1/2)	3,000	
House hold expenses	14,000	
Drawings	20,000	
Advertising-neon sign board	25,000	
Sales tax due	6,000	
General expenses-donation	4,000	
Interest on capital	3,000	
Income tax	19,000	
Life insurance premium	5,000	
	99,000	
	3,33,000	
LESS: income credited but not related		
Interest on PO SB account	9,000	
Dividend	25,000	
	34,000	
income from business	2,99,000	

PROBLEM : 4

Mr.Gandhi is a businessman.his profit and loss account for the year ending with 31.03.20 is as follows :

Particulars	Rs.	Particulars	Rs.
General expenses	4,800	gross profit	44,600
Bad debts	2,400	income tax refund	2,400
Salary to staff	3,600	dividend on shares	3,600
Advertisement	9,000	brokerage	5,000
Patents purchased	4,000	bad debts recovered	7,000
Life insurance premium	3,000	(earlier allowed)	
Commission	2,000		
Household expenses	7,000		
Legal expenses	1,500		
Depreciation	2,500		
Interest on capital	1,800		
Fire insurance premium	1,000		
Net profit	20,000		
	62,600		62,600

ADDITIONAL INFORMATION:

i) Depreciation allowable is rs.2000.

ii) Patents were purchased during 1.4.2018

iii) Advertisement expenses were spent on insertion.in news papers.

iv) General expenses include a payment of rs. 2000 given to notified laboratory.for carrying on scientific research.

v) Legal expenses were incured for defending the trademark of his business.

Compute business income of Mr.gandhi for the P.Y .2019-2020.

SOLUTION:

COMPUTATION OF INCOME FROM BUSINESS OF MR.GANDHI.

	Rs.	Rs.
Net profit as per p&L a/c		20,000
ADD: expenses not allowed		
Patent (4000×75/100)	3,000	
Life insurance premium	3,000	
Household expenses	7,000	
Depreciation excess	500	
Interest on capital	1,800	
	15,300	35,300
LESS:income not related but credited		
income tax refund	2,400	
Dividend on shares	3,600	6,000
Income from business		29,300

PROBLEM : 5

The Following is the P & L A/C of Mr.Angamuthu for the year ended 31.03.2020.Calulate his income from business

Particulars	Rs.	Particulars	Rs.
To salaries	24,000	By G/R profit	2,25,000
To advertisement	16,000	By interest on deposit	25,000
To bad debts	5,000	By sundry debts	13,000
To drawings	4,000	By commission	12,000
To ales tax reserve	6,000	By bad debts recovered	15,000
To interest on capital	10,000	(allowed earlier)	
To bonus to employees	17,000	By dividend	5,000
To bonus to proprietor	3,000		
To legal expenses	10,000		
To depreciation	12,000		
To donation	15,000		
To audit fees	10,000		
To life insurance premium	5,000		
To net profit	1,58,000		
	2,95,000		2,95,000

ADDITIONAL INFORMATION:

1. Legal expenses include Rs.3000 spent on purchase land.
2. Advertisement includes Rs 2000 spent on neon sign board.
3. Depreciation allowable on all assets is Rs 10,000.
4. Income from smuggling not included in the P & L a /c is Rs.22,000.

SOLUTION:

COMPUTATION OF INCOME FROM BUSINESS OF MR.ANGAMUTHU.

	Rs.	Rs.
Net profit as per P & L a/c		1,58,000
ADD: expenses not allowed		
Drawings	4,000	
Sales tax reserve	6,000	
Interest on capital	10,000	
Bonus to proprietor	3,000	
Purchase of land	3,000	
Excess depreciation (12,000-10,000)	2,000	
Donation	15,000	
Life insurance premium	5,000	
Advertisement	2,000	
		50,000
		2,08,000
LESS: income not related but credited		
Interest on deposit	25,000	
Dividend	5,000	
		30,000
		1,78,000
ADD: smuggling income		22,000
Income from business		2,00,000

PROBLEM : 6

Following is the P & L a/c of a merchant. Compute his income from business for the P.Y 2019-20.

Particulars	Rs.	Particulars	Rs.
To rent	6,000	By G/R profit	52,300
To rates	600	By income from debtors	2,800
To salary of staff	5,400	By rent from property	2,400
To diwali pooJa expenses	200	By sundry income	1,600
To interest on loan	12,500	By commission	3,700
To sundry expenses	5,500		
To bad debts	600		
To charity	100		
To reserve for bad debts	200		

To entertainment	850		
To loss by theft	1,400		
To net profit	29,450		
	62,800		62,800

ADDITIONAL INFORMATION :

1. Rent includes Rs.1,200 of a shop belonging to the assesee himself.
2. Salary of staff includes salary of Rs.2,400 to his son,a B.com student,who causually helps to the business.
3. A loan of Rs.6,000 @15%P.A.is taken from his wife out of funds advanced by him and interest is included in the interest on loan.
4. Entertainment expenditure includes Rs.150 spent on tea for the guest of the local M.L.A.
5. Sundry expenses include Rs.900 spent for pilgrimage to hardware.
6. Loss by theft took place when a pretend customers stole a neckless worth Rs.600;Rs.800 was stolen from his house in the night by de-locking.

7.He earned Rs.4,000 in gold-smuggling not shown in books.

8.Rates include Rs.400 for the property let.

Compute the merchant's business income.

SOLUTION:

COMPUTATION OF BUSINESS INCOME

	Rs.	Rs.
Net profit as per P & L a/c		29,450
ADD:expenses not allowed		
Charity	100	
reserve for bad debts	200	
Salary for son	2,400	
Interest on loan	900	
Tea (guest of the local M.L.A	150	
Pilgrimage to Haridwar	900	
Theft by de-locking	800	
Rates	400	7,050
		36,500
LESS: on-business income		
Rent from property		2,400
		34,100
ADD: income not credited		4,000
Income from business		38,100

PROBLEM : 7

Following is the P & L a/c of Mr.Velan for the year ending on 31.03.20

Particulars	Rs.	Particulars	Rs.
Staff salary	32,000	G/R profit	1,72,000
General expenses	8,000	profit on sale	

Bad debts	2,000	of car	18,000
Income tax	3,000	interest on	
Salary to proprietor	5,000	securities	5,000
Car expenses	2,000	commission	5,000
Interest on capital	9,000		
Depreciation	12,000		
Donation	5,000		
Contribution to employees RPF	10,000		
Audit fees	6,000		
Interest on OD	4,000		
Net profit	1,02,000		
	2,00,000		2,00,000

ADDITIONAL INFORMATION :

1. One-half of motor car expenses is because of his personal use.
2. Depreciation allowable is Rs.10,000.
3. General expenses include Rs.2,000 for arranging party in honour of his friend.
4. Rent for business premises paid during the year but not debited P & L a/c is Rs.4,000.compute his business income for the P.Y.2019-2020.

SOLUTION:

Particulars	Rs.	Rs.
Net profit as per P & L a/c		1,02,000
ADD: expenses not allowed		
General expenses -personal	2,000	
Income tax	3,000	
Salary to proprietor	5,000	
Car expenses -personal	1,000	
Interest on capital	9,000	
Depreciation - excess(12,000-10,000)	2,000	
Donation	5,000	
		27,000
		1,29,000
LESS: income not related but credited		
Profit on sale of car	18,000	
Interest on securities	5,000	
		23,000
		1,06,000
LESS: rent not debited earlier		4,000
Income from business		1,02,000

PROBLEM : 8

Following is P & L a/c of Mr.Nijam for the year ending on 31.03.20.

Particulars	Rs.	Particulars	Rs.
General expenses	35,000	gross profit	3,00,000
Salary to staff	30,000	customs duty recovered	25,000
Rent	12,000	(disallowed earlier)	
Bad debts reserve	28,000	commission	75,000
Depreciation	15,000	sundry receipts	65,000
Interest on capital	20,000	gift from father	35,000
Banking cash transaction tax	3,500		
Sales tax	15,000		
Income tax	9,000		
Extension of business premises	25,000		
Entertainment expenses	1,500		
Household expenses	6,000		
Net profit	3,00,000		
	5,00,000		5,00,000

ADDITIONAL INFORMATION:

i) General expenses include:

a)Rs.5,000 as donation to a school.

b)Rs.2000 as employees family planning expenditure

c) Rs.10,000 as expenditure on the training employee .

ii) Depreciation allowable is Rs.17, 000 as pet income tax rules.

SOLUTION:

Particulars	Rs.	Rs.
net profit as per P & L a/c		3,00,000
ADD: expenses not allowed		
General expenses - donation	5,000	
Bad debts reserve	28,000	
Depreciation as per P & L a/c	15,000	
Interest on capital	20,000	
Income tax	9,000	
Extension of business premises	25,000	
Household expenses	6,000	
		1,08,000
,		4,08,000
LESS:income not related but credited		
Customs duty disallowed	25,000	
Gift of father	35,000	
Depreciation as per adjustment	17,000	
		77,000
Income from business		3,31,000

PROBLEM : 9

From the following receipts and payments accounts of Advocate Mr.Ramachandran,compute his income from profession for the P.Y.2019 -20.

Receipts	Rs.	Payments	Rs.
To balance b/d	5,000	By office expenses	66,000
To legal fees	1,80,000	By printing and stationary	12,000
To gift from clients	15,000	By telephone expenses	23,000
To interest on investment	18,000	By electricity charges	8,000
To salary as lecturer	12,000	By salaries	62,000
		By purchase of typewriter	10,000
		By purchase of furniture	6,000
		By balance c/d	43,000
	2,30,000		2,30,000

SOLUTION :

COMPUTATION OF INCOME FROM PROFESSION OF MR. RAMACHANDRAN.

Particulars	Details Rs.	Amount Rs.
Professional Receipts:		
Legal fees	1,80,000	
Gift from clients	15,000	
		1,95,000
LESS: professional expenses		
Office expenses	66,000	
Printing and stationary	12, 000	
Telephone expenses	23,000	
Electricity charges	8,000	
Salary	62,000	
Purchase of typewriter	1,500	
Purchase of furniture	600	
		1,73,100
Income from profession		21,900

PROBLEM : 10

Mr.R.J.Malini is a leading lawyer. She has furnished the following receipts and payments account for the P.Y.2019 - 2020.

Particulars	Rs.	Particulars	Rs.
Balance b/d	7,840	salaries	16,000
Legal fees	42,000	telephone	4,000
Gift from clients	38,000	life insurance premium	13,000
Special commission fee	9,000	subscriptions to law Journals	4,500
Interest on bank deposits	15,000	electricity	1,500
Dividend	9,160	purchase of stamp Paper	6,000

		Motor car expenses	3,000
		Donation to a political party	7,000
		Law chamber membership fee	3,750
		Wealth tax	2,250
		Balance c/d	60,000
	1,21,000		1,21,000

ADDITIONAL INFORMATION:

i) One - third of the motor car use is personal.

ii) 50% of the telephone and electricity expenses is for domestic purpose.

Compute her income from profession.

SOLUTION:

COMPUTATION OF INCOME FROM PROFESSION OF MRS.MALINI.

Particulars	Rs.	Rs.
Professional Receipts:		
Legal fees.	42,000	
Gift from clients	38,000	
Special commission fees	9,000	
		89,000
LESS: professional expenses		
Salaries	16,000	
Telephone -office 50%	2,000	
Subscription to law journals	4,500	
. Electricity - office 50%	750	
Purchase of stamp paper	6,000	
Motor car expenses - office 2/3	2,000	
Law chamber membership fee	3,750	
		35,000
Income from profession		54,000

PROBLEM : 11

Mr.Berned , a charted accountant, who keeps his books on cash basis furnishes the following receipts and payments account for the year ending on 31.03.2020.

Particulars	Rs.	Particulars	Rs.
Balance b/d .	12,500	salaries to staff	12,000
Accountancy work	22,250	office rent	8,000
Fees: 2016 - 17	7,000	car expenses	5,000
2017 - 18	13,000	drawings	15,000
2018 -19	25,000	office repairs	2,500
Gifts from clients	17,250	institute fee	1,000
Dividend income	10,000	stipends	7,000
Winning from lottery	15,000	typewriter	10,000
		Telephone charges	6,000
		Balance c/d	55,500

1,22,000	1,22,000

ADDITIONAL INFORMATION :

i) 40% of car use is for personal performance .

ii) Depreciation of car during the year amounts to Rs.2,000.

iii) Depreciation on typewriter is 15%.

Ascertain his professional income.

SOLITION:

COMPUTATION OF INCOME FROM PROFESSION OF MR.BERNED.

Particulars	Rs.	Rs.
Professional receipts:		
Accountancy work	22,250	
Fees for 2016 - 17	7,000	
Fees for 2017 - 18	13,000	
Fees for 2018 - 19	25,000	
gift from clients	17,250	
		84,500
LESS: professional expenses		
Salary to staff	12,000	
Office rent	8,000	
Car expenses - 60%	3,000	
Office repairs	2,500	
Institute fee	1,000	
Stipends	7,000	
Depreciation on typewriter	1,500	
Telephone charges	6,000	
Depreciation on car 60%	1,200	
		42,200
Income from profession		42,300

PROBLEM ON INCOME FROM CAPITAL GAINS

Problem: 1

Mr.Vijai purchased an asset during 2019-2020 for Rs 3,00,000.The asset was sold for Rs 5,00,000 inb the previous year 2020-2021.calculate his capital gain.

Solution :

Computation of capital gain

PARTICULAR	Rs	Rs

Sales consideration		500000
Purchase	-	300000
CAPITAL GAIN		**200000**

Problem: 2

Mr.Arjun had bought a residential house on 01.10.17 for Rs.8,00,000. Further he spent Rs.50,000 to repair the house on 20.06.18. He sold the property on 1.12.19 for Rs. 13,00,000. He paid a brokerage of Rs.20,000. Compute the capital gain for the previous year 2019-2020.

Solution :

Computation of capital gain

PARTICULARS	Rs	Rs
Sales consideration		1300000
(-)Expenses of transfer		20000
NET CONSIDERASTION		**1280000**
(-)Cost of acquisition	800000	
Cost of improvement	50000	750000
CAPITAL GAIN		**530000**

Problem: 3

Mr.Santhosh bought an asset in the year 2017-2012 for Rs.7,75,000 during the previous year he sold it for Rs.15,50,000. Expenses in the connection with the transfer of sale his Rs.25,000 [CII 2011-2012: 184 , 2019-2020: 289]

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**RS**
Sales consideration		1550000
(-)Expenses of transfer		15,50,000
NET CONSIDERATION		**15,25,000**
(-) Cost of acquisition 775000×289/184		2,117,255
CAPITAL GAIN		**3,07,745**

Problem: 4

Mr.Mithran purchased an asset during the year 2014-2015 for Rs. 7,50,000. During the previous year it was sold for Rs. 14,00,000. Expenses in connection with the transfer of sale is Rs.28,000 Calculate taxable capital gain for the p.y 2019-2020 [CII 2011-2012:184 , 2019-2020: 289]

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Sales consideration		**14,00,000**
(-)Expenses of transfer		**28,000**
NET CONSIDERATION		**13,72,000**
(-) Cost of acquisition 750000×289/246		8,81,097
CAPITAL GAIN		**4,90,903**

Problem: 5

Mr.Ganapathi sold a house on 20.11.19 for Rs 18,00,000 this house was inherited by him during 2001-2002 from his for the who had constructed it in 1995-1996 for Rs 1,00,000. He spent Rs 1,00,000 on renovation of the house in 2009-10. Fair market value of the house as on 1.04.2001 was Rs 4,50,000.

This house was under negotiations for sale in april .2019 and he received Rs.40,000 as advanced money. He contract could not materialized and the advanced money was forfeited. Compute his amount of capital gain assume that he does not qualify for any exemption. [CII for 20012-2002: 100 , 2009-2010 : 148 , 2019-2020: 289]

Solution :

Computation of Capital Gain

PARTICULAR	Rs	Rs
Sales consideration		18,00,000
NET CONSIDERATION		**18,00,000**
(-) Cost of acquisition 4,50,000×289/100	13,00,500	
(-)cost of improvement 100000×289/148	1,95,270	14,95,770
LONG TERM CAPITAL GAIN		**3,04,230**

Problem: 6

Mrs.Anju bought a land for Rs. 3,00,000 on 5.09.14. she entered an agreement into bavithra for selling that house on 10.05.15 for the Rs 5,00,000 and received an advanced money Rs 50,000. But that agreement was not materialize, she forfeited the advanced money. Later anju transferred this land to chithra under a gift deed on 8.08.16. chithra sold this land for Rs 6,00,000 on 10.07.19. compute capital gain for chithra for the p.y 2019-2020.[CII 2014-15:240 , 2016-17:264, 2019-20:289]

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Sales consideration		**6,00,000**
NET CONSIDERATION		**6,00,000**
(-) Cost of acquisition 300000×289/240		**3,61,250**
LONG TERM CAPITAL GAIN		**2,38,750**

Problem: 7

Mrs. Renu purchase a house property for Rs 42,000 on 20.07.95. she gets the first floor of the house constructed in 1998-99 by spending Rs 65,000. She dies on 12th sep. floor the property is transferred to Ms. Vedha by his will. Ms. Vedha spends Rs 50,000 during 2004-05 for reconstruction of the property. She sells the house property for Rs 17,50,000 on 20.03.20 brokerage paid by Ms. Vedha Rs 12,500. The F.M.V on 01.04.2001 is Rs 3,60,000 find out the amount of capital chargeable to tax for the P.Y 2019-20 [C.II. for 2000-01 : 100; 2004-05; 113; 2019-20; 289]

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Sales consideration	1,75,000	
(-)Expenses of transfer	22,500	
NET CONSIDERATION		**17,37,500**
(-) Cost of acquisition 3,60,000×289/100	10,40,400	
(-)cost of improvement 500000×289/113	1,27,876	11,68,276
LONG TERM CAPITAL GAIN		**5,69,624**

Problem: 8

Mr. Madhan Karthi acquired a residential house in cuddalore on 25.07.14 for Rs 6,80,000. He spent Rs 2,00,000 for the additional construction during 2014-15. He sold that house on 10.01.20 for Rs 10,20,000 for which he paid Rs 10,000 as brokerage. Compute the capital gain for the P.Y 2019-20. [C.I.I 2014-15 : 240; 2015-16: 254; 2019-20: 289]

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Sales consideration	10,20,000	
(-)Expenses of transfer	10,000	
NET CONSIDERATION		**11,00,000**
(-) Cost of acquisition 680000×289/240	8,18,833	
(-)cost of improvement 200000×289/254	2,27,559	10,41,392
LONG TERM CAPITAL GAIN		**36,392**

Problem: 9

MR. Akilan acquired a house in Madurai on 10.04.17 for Rs 3,50,000. On 15.07.19 he entered into an agreement to sell the property to Gnanam for Rs 4,70,000 for which he received Rs 20,000 as advance money . as gnanam could not make the payment within the agreed time, the advance amount Rs 20,000 was forfeited. Subsequently on 24.09.19, akilan sold that house to china for Rs 5,20,000, for which he paid a brokerage of 1%. Compute the capital gain for the P.Y. 2019-20. [C.I.I for 2017-18: 272; 2019-20: 289]

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Sales consideration	**5,20,000**	
(-)Brokerage 1% 520000×1/100	**5,200**	
NET CONSIDERATION		**5,14,800**
(-) Cost of acquisition 3,50,000×289/272		**3,71,875**
LONG TERM CAPITAL GAIN		**1,42,925**

Problem: 10

Mrs. Uma has bought a residential house on 15.02.14 for Rs 5,00,000. Futher she spent Rs 85,000 for its renovation on 11.11.18. she sold that house on 15.02.20 for Rs 15,00,000 for which she paid brokerage Rs 15,000. C.I.I for 2013-14: 220; 2018-19: 280; 2019-20: 289. Compute her capital gain for the P.Y 2019-20

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Sales consideration	15,00,000	
(-)Brokerage	15,000	
NET CONSIDFERATION		**14,85,000**
(-) Cost of acquisition 500000×289/120	6,56,818	
(-)cost of improvement 85000×289/280	87,732	7,,44,550
LONG TERM CAPITAL GAIN		**7,40,450**

Problem: 11

Mrs. Kavitha received jewellery as a gift from her sister Mrs. Latha. Mrs. Latha acquired that jewellery for Rs 50,000 on 01.01.95. The fair market value of that jewellery on 01.04.2001 was Rs 1,40,000. On 15.07.16 she had sewn a diamond worth Rs 80,000 in such jewellery. She sold that jewellery for Rs 12,00,000 on 10.10.19, for that transaction she paid brokerage 1% compute capital gain for the P.Y.2019-20. [C.I. for 2001-02 100: 2016-17: 264; 2019-20: 289]

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Sales consideration	12,00,000	
(-)Expenses of transfer	12,000	
NET CONSIDERATION		**11,88,000**
(-) Cost of acquisition	4,04,600	

140000×289/100		
(-)cost of improvement 80000×289/264	87,576	4,92,176
LONG TERM CAPITAL GAIN		**6,95,824**

Problem: 12

Mr. BABU rao purchased shares of various companies worth Rs 2.00.000 during the year 2013-14. ON 01.10.18 he became dealer in shares and securities and converted his shares into stock in trade. The F.M.V on the date of conversion was Rs 4,00,000. These shares where sold during 2019-20 at Rs 6,50,000. Compute his capital gain and business profit. [C.I.I for 2013-14: 2018-19: 280; 2019-20: 289]

Solution :Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Fair market value		**400000**
(-) Cost of acquisition 400000×289/220		**5,25,456**
LONG TERM CAPITAL GAIN		**1,45,456**

Problem: 13

Mrs. Saranya acquired a house during 1997 for Rs 1,50,00. She spent Rs 50,000 to renovate the house during 1998. She died on 05.05.99. The property is inherited by kamali, daughter of saranya . she Rs 40,000 on its repairs and avail Rs 25,000 as repair allowance while computing income from house property during P.Y 2008-09. Kamali sold the house on 09.09.19 for Rs 30 lakhs and paid brokerage 2%. The fair market value of the house on 01.04.01 Rs 5,00,000. [C.I.I for 2001-02: 100; 2008-09: 137; 2019-20: 289]. Compute capital gain for the P.Y 2019-20.

Solution :

Computation of Capital Gain

PARTICULAR	**Rs**	**Rs**
Sales consideration	30,00,000	
(-)Expenses of transfer	60,000	
NET CONSIDERATION		**29,40,000**
(-) Cost of acquisition 500000×289/100	14,45,000	
(-)cost of improvement	31,642	**14,76,642**

15000×289/187		
LONG TERM CAPITAL GAIN		**14,63,358**

Problem: 14.

From the following Particulars,Compute Capital Gain of Mr.Sai for the P.Y 2019-2020

	Land	Debentures
Years of purchase	2014-15	2017-18
Years of sale	2019-20	2019-20
Cost of acquisition	1,50,000	2,50,000
Cost of imporement in 201718	30,000	
Selling expenses	4,000	7,500
Sale consideration	3,25,000	2,60,000

C.I.I. for 2014-15;240, 2017-18;282 and 2019.20;289

Solution :

Computation of Capital Gain - Land

Particulars	Rs.	Rs.
Sale consideration		3,25,000
(Less) Indexed of cost acquisition		
150000x289/240	1,80,625	
(Less) Indexed of improvement		
30,000x289/282	33,092	
Long Term Capital Gain -Land		1,11,283

Computation of Capital Gain - Debentures

Particulars	Rs.	Rs.
Sale consideration		2,60,000
Selling Expenses		7,500
Net Consideration		2,52,500
(Less) Indexed of cost acquisition		
		2,50,000
Long Term Capital Gain -Debentures		2,500

Problem: 15.

Mrs.Vani.acquired a residential house property on 10.5.10 for 750000. She made renovation during 2017-18at the costof 200000. She sold that residential house on 08.07.19 for 35000000 for which she paid commission 35000.He bought another residential houses on 22.02.20.for 1000000 compute her capital gain for the P.Y 2019-20

C.I.I. 2019-20;167,2017-18;272 , 2019-20;289.

Solution :

Computation of Capital Gain

Particulars	Rs.	Rs.
Sale consideration		35,00,000
(less) Expenses of Transfer		35,000
Net consideration		34,65,000

(less) Indexed of acquisition 750000x289/167 (Less) Indexed of Improvement200000&289/272	12,97,904 2,12,500	 15,10,404
Long Term Capital Gain		9,54,596

Problem: 16.
Mr.Ganesa Moorthy furnished the following detail about his property
(A) sale consideration of residential house Rs.1200000 on 10.11.19 (C.I.I.289)
(B) cost of acquisition of the house on 15.09.15 Rs. 600000 (C.I.I.;254)
(C) New residential house acquired no 26th Feb.2020 for Rs.1700000
Solution:

Computation of Capital Gain

Particulars	Rs.
Sale consideration (Less) Indexed cost of acquisition 60000x289/254	12,00,000 6,82,677
Long term capital gain	5,17,323

Problem: 17
From the following details, calculate capital gain
(A) Sale consideration of residential house Rs. 1800000 on 20.07.19 (C.I.I;289)
(B)cost of acquisition of the house on 01.05.07.Rs.60000 (n C.I.I.;129)
(c) new residential house acquires on 11th fed 2020nRs.30000
(D) cost of stamp and registration fees Rs.5000
Solution :

Computation of Capital Gain

Particulars	Rs.
Sale consideration (Less) Expenses of Transfer Net consideration (less) Indexed of cost of acquisition 60000x289/129 LTCG	1,80,000 5,000 1,75,000 1,34,419 40,581
(less) Exemption u/s 54 **Taxable LTCG** 40,581-30,000=10581	30,000 **10,581**

Problem: 18
Mr .Angamuthu owns a residential house in salem, which he acquires in the month of May 2006 for Rs. 750000.He sold house he for Rs.2475000 on 10th Jan. 2019. He incurred Rs.15000 in connection with the sale. He purchasedanother house at Coimbatore on 20 th Feb 2020bfor Rs,400000 on 10th March 2020 he depositsRs.150000 in SBI undercapital gain deposit Account Scheme. Calculate the taxable amount of capital gains.
(C.I.I. - 2006-07:122 ; 2019-20:289)

Solution :

Computation of Capital Gain

Particulars	Rs.	Rs.
Sale consideration Less: Exp .on Transfer Less:Indexed of cost acquisition 7,50,000x289/122 Long Term Capital gain		24,75,000 <u>15,000</u> 24,60,000 <u>17,76,639</u> 6,83,361
(less)Exemption u/s 54	 4,00,000 1,50,000	 <u>5,50,000</u> **1,33,361**

Problem: 19

Mr. Vilvijayan acquired a residential house property on 18.1012 for Rs.12,00,000. He renovated it during 2013-14 at the cost of Rs.2,50,000. He sold the residential house on 01.12.19 for Rs.24,00,000 for which he paid a commission of Rs.24,000. he bought another residential house on 20.02.20 forRs.16,00,000. Compute the capital gain for the P.Y.2019-20. C.I.I for

2013-13: 200 ;2013-14: 220 ; 2019-20: 289

Solution :

Computation of Capital Gain

Particulars	Rs.	Rs.
Sale consideration (less) Expenses of transfer Net consideration (less) Indexed of cost acquisition120000x289/200 (less)m indexed cost of improvement 250000x289/220 2376000-2062409=313591 	 17,34,000 32,84,409 	24,00,000 24,000 23,76,000 20,62,409
Long Term capital gain Section (54)		Nil 3,13,591

Problem: 20

Mr.Akoram bought a residential house during 2014-15 for Rs.2,40,000. He made a additional construction during 2016-17 for Rs.70,000. He sold n that house for Rs.5,25,000 0n 20.10.19 for which he paid a brokerage of 1 %. He bought another residential house for Rs.1,00,000 on 10.03.20 ascertain the taxable capital gain. C.I.I for 2014-15: 240; 2016-17:264;2019-20:289

Solution :

Computation of Capital Gain

Particulars	Rs.	Rs.
Sale consideration		5, 25,000
(Less)Expenses of Transfer0		5,250
Net consideration		5,19,750
(Less)Indexed cost of acquisition240000x289/240	2,89,000	
(Less) Indexed cost of improvement	76,629	3,65,629
70000x289/264		1,54,121
154121-100000=54121		
(Less) exemption u/s 54 Section (54)		1,00,000
Long Term Capital gain		54,121

UNIT-IV

Computation of Income from other sources – Income chargeable under other sources – Deductions from other sources income – Set off and carry forward of losses - Tax Planning

INTRODUCTION:

Income from Other Source is residual head of income. It means: A source of income which does not fall under any one of the other four heads of income (*viz.*, 'salaries', 'Income from house property', 'Profits and gains of business and profession', or 'Capital gains') is to be computed and brought under the head 'Income from other sources'.

INCOMES THAT ARE TAXED UNDER OTHER SOURCES:

General incomes / (Incomes U/S 56(1) :

a) Agricultural income from outside India.

b) Receipts from person other than employer

c) Income from subletting or rent from subletting or rent of vacant land or ground rent

d) Director's fees or sitting fees

e) Remuneration for delivering lectures or writing articles

f) Withdrawal from NSS U/S 80CCA (principal and interest amount)

g) Repurchase of units U/S 80CCB (principal amount)

h) Casual incomes other than that taxable U/S 56(2)

i) All types of interest except taxable U/S 56(2)

Specific Incomes / (Incomes U/S 56(2) :

a) Dividend from foreign company

b) Dividend from cooperative society

c) Interest on securities

d) Winnings from lotteries, races, crossword puzzles, TV game shows, card games, gambling and betting.

e) Any amount received as gift or gift received during 2012-13 which is not exempted u/s 56(v)

f) Income from letting of plant and machinery where it is not regular business.

g) Income from letting of building along with furniture and plant and machinery and rent is inseparable

h) Any amount deducted by employer out of employees' salary as their contribution towards providend fund or ESI fund.

DEDUCTIONS CAN BE CLAIMED WHILE CALCULATING INCOME FROM OTHER SOURCES:

a) Amount paid for the purpose of realizing an income such as

i) Remuneration

ii) Commission

iii) Collection charges

iv) Interest paid on loan taken to buy shares or securities.

<u>b) In case of Plant and Machinery or Furniture</u>

i) Repairs

ii) Insurance premium paid

iii) Depreciation (provided the Assessee owns the asset. If the Assessee is a lessee or mortgagee, depreciation is not allowed)

c) Amount paid by employer to provident fund or ESI authorities by appropriate date.

d) Any expenditure spent to maintain racehorses is allowed.

e) In case of family pension received by legal heirs, a standard deduction of 1/3 of such pension or Rs.15000 whichever is less is allowed as deduction.

f) For any other income such as royalties etc. any amount actually spent to earn such income can be claimed as deduction.

<u>AMOUNT NOT DEDUCTABLE UNDER INCOME FROM OTHER SOURCES:</u>

a) Personal expenses of the Assessee

b) Any interest which is paid or is payable on which tax is not deducted at source.

c) Any amount paid as wealth tax in India or abroad

d) Any amount which is considered as unreasonable

e) Any expenditure in connection with winnings from lotteries, crossword puzzles, races including horse races, gambling, betting in any form.

<u>METHODS OF ACCOUNTING:</u>

There are two methods of accounting. They are:

1) Cash system of accounting: Under this system of accounting all those receipts and payments, which are actually collected and spent during the current previous year, are considerable in order to calculate net profit. In simple terms any receipts or payments paid are considered and due are not considered under this system.

2. Mercantile system: Under this system of accounting all those receipts and payments, which are paid or due will be considered to calculate net profit.

<u>INTEREST EXEMPTED FULLY RFOM TAX WHILE CALCULATING OTHER SOURCES INCOME:</u>

The following incomes by way of interest is exempted for all (from point 1 to 12)

1. 12 year National Savings Annuity certificates

2. National Defence Gold Bonds, 1980

3. Special Bearer Bonds, 1991

4. Post Office Cash Certificates (5yeras)

5. Treasury Savings Deposit Certificates

6. National Plan Certificates (10 years)

7. National Plan Savings Certificates (12 years)

8. Post office National Savings certificates (12 years/ 7 years)

9. Post Office Savings Bank Accounts. (Rs.3500 for individual and Rs.7000 for joint account is exempted)

10. Post Office Savings Accounts Rules (interest upto Rs.5000)

11. Special Deposit Scheme 1981.

12. Non Resident Rupee Deposit Scheme.

13. Interest on 7% Capital Investment Bonds.

14. Interest on Notified Relief Bonds in case of Individuals and HUF

15. Interest payable to any foreign banks performing central banking function outside India

16. Interest received by an individual who has received bonds by way of gift from NRI.

CASUAL INCOME:

It is a receipt in the nature of windfall being received by chance, without any stipulation, contract, calculation, estimation or design. It is of casual and nonrecurring in nature. For the taxation, under this section it includes the following:

i) Lotteries

ii) Crossword puzzle

iii) Races including horse races

iv) Card games and other games

v) Gambling or betting.

Tax is deducted at source at prescribed rates out of the following incomes:

The gross winnings from lottery, crossword puzzles, and card games, gambling or betting of any races including horse races will be included in the scope of total income without allowing any deduction towards expenditure. However, expenditure for maintaining racehorses can be claimed as deduction. Income Tax Act has specified a standard rate of 30% tax apart from surcharge and education cess as applicable. TDS(Tax Deducted at Source) will be deducted at 30% in respect of winning from lotteries or cross word puzzles or card games or other games if the income exceeds Rs.10000. (Rs.5000 in case of winning from horse races).

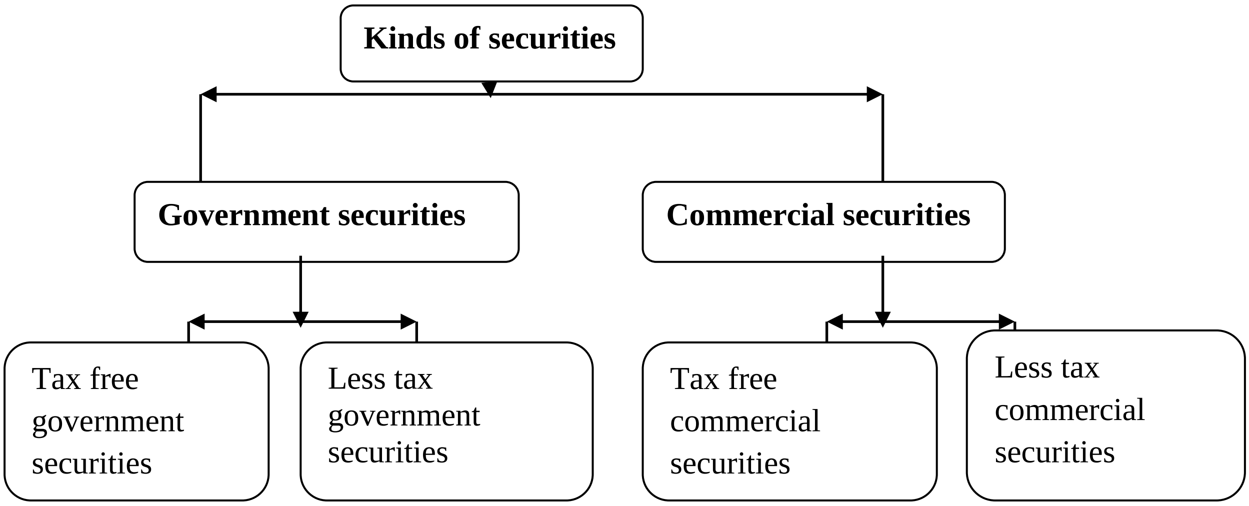
Calculation of Gross Amount if Net Amount is given:

Gross Amount = Net Amount X 100/ 70

* No deduction is allowed for casual income. TDS will not be deducted if the prize money from winning lottery, crossword puzzle etc is Upto Rs.10000 (RS.5000 in case of winning from horse races.)

<u>KINDS OF SECURITIES:</u>

Securities can be classified into the following types:



1) Government Securities:

a) Tax free government securities:

i) Interest on these types of securities is fully exempted

ii) It is not included in the scope of total income.

b) Less tax government securities:

i) These securities are issued by Central Government or State Government

ii) No TDS is deducted on these types of securities

iii) These types of securities are taxable securities

iv) Interest received should not be grossed up) while working out problem take the actual amount without grossing up)

1) Commercial Securities:

a) Tax free commercial securities:

i) Local authority or statutory corporation or a company issues these types of securities in the form debentures or bonds

ii) Tax is paid by the employer

iii) Since employee is not paying the tax it is termed as tax free commercial securities

iv) Interest amount should be grossed up always (while working out problems always gross up these types of securities.)

b) Less tax government securities:

i) These types of securities are taxable securities

ii) Income tax is deducted at source

iii) Interest amount should be grossed up if the net amount is given. If the gross amount or the rate of interest is given it should be calculated as it is.

TDS (TAX DEDUCTED AT SOURCE)

It refers Tax Deducted at Source. Under this concept, the Assessee will not receive the gross total amount he is eligible. He will be getting his net amount. The tax to be paid on the gross amount will be deducted by the person who pays the amount to the Assessee at source itself, and will deposit in the Treasury of the government. Usually in case of salary income the employer will be the person who will deduct TDS. In case of securities, which are eligible, or TDS or any winnings, the person who pays the amount will deduct TDS before paying the amount to the respective person.

GROSSING UP RATE (TDS RATE):

Particulars	TDS Rate
Interest on any security of Central or State Government	No TDS
Interest on debentures listed in a recognized stock exchange, statutory bodies, and local authorities	10%
Any other (listed,unlisted) interest on security	10%
Winnings from lottery, crossword puzzles, card games, horse races, Tv games shows etc.	30%

Grossing up of income done only if net, received, after deduction of interest on tax free (non-govt.) securities or amount collected by bankers is given.

FORMAT FOR CALCULATION OF INCOME FROM OTHER SOURCES:

Particulars	Amount
Dividend from Foreign company: Amount received as dividend xxxx Less: Amount spent for collection xxx	xxxx
Interest on securities: Amount received xxxx Less: Collection charges xxx Commission xx Interest paid on loan taken to buy shares xx xxx	xxxx
Casual incomes: Winnings from card games, horse races, crossword puzzles, lotteries, gambling, betting	xxxx
Income from letting of plant and machinery, building, furniture: Actual amount received xxxx Less: Repairs xxx Insurance premium xxx Depreciation xxx xxx	xxxx
Family pension received by legal heirs: Pension received xxx Less : 1/3 of such pension or Rs.15000 whichever is less xxx	xxx
Royalty received by authors: Actual amount received xxx Less: Actual expenditure xx	xxx
Examinership remuneration: Actual amount received xxx Less: Actual expenditure xx	xxxx

Any other income (director fee, honorarium, etc.) Actual amount received Less: Actual expenditure	 xxx xx	xxx
Income from other sources		xxxxxx

Hints for calculating taxable income from other sources:

1. Dividend from Indian company is not taxable. It is exempted U/S 10(34)

2. No deduction is allowed for casual income.

3. Depreciation can be allowed only when the Assessee is the owner of the asset.

4. TDS will not be deducted if the prize money from winning lottery, crossword puzzle etc is up to Rs.10000 (Rs.5000 in case of winning from horse races)

5. Interest includes Hedging Transaction charges on account of currency fluctuation

6. Tax free government securities should not be grossed

7. Tax free commercial securities should always be grossed

8. Less Tax government securities should not be grossed

9. Less Tax commercial securities should be grossed if net amount is given.

10. Indian agricultural income is fully exempted.

11. Foreign agricultural income is fully taxed.

12. For final dividend date of declaration should be taken.

13. For interim dividend date of payment should be taken

14. Gift received from any relative, during marriage, by way of will, from local authority, university, educational institutions, hospitals, charitable institute is not taxable.

15. Gift received from a friend which exceeds Rs.50000 is taxed in the hand of the Assessee. Amount up to Rs.50000 is not taxable.

16. Gift from the employer is taxed in the hands of employer and in the hands of employee.

17. Income from the activity of maintenance of horse for race purpose is to be calculated as follows.

Stake money received (stake money refers prize money) – Maintenance expenses

SET OFF, CARRY FORWARD AND SET OFF OF LOSSES

SET OFF, CARRY FORWARD AND SET OFF OF LOSSES SECTION 70 to 80

SET OFF OF LOSSES:

Set Off Of Losses is adjusting losses from on head with other head of income or within the same head of income in the previous year. In this we have the following two concepts:

a) Set off of loss from one source against income from another source under the same head of income: (inter source adjustment):

Inter source adjustment is one, where the loss is set off within the same head of income.

<u>b) Set off of loss from one head against income from another: (inter head adjustments):</u>

Inter head adjustment is one, where the loss of one head of income is set off against another head of income.

Points to be considered in case of set off of losses:

1. Loss from speculative business cannot be set off from any other income except income from speculative business.

2. Long term capital loss can be set off only from long term capital gain.

3. Loss from owning and maintaining of race horses can be set off from any income earned from owning and maintaining of horse races.

4. Loss from business can be set off from house property, capital gains, and other sources except salaries.

5. Loss from house property can be set off from any other head of income.

CARRY FORWARD AND SET OFF OF LOSSES:

If a loss cannot be adjusted in a financial year, then that portion of loss, which cannot be adjusted, will be taken to the next financial year to get it adjusted. This method of taking it to next year and get it set off is termed as carry forward and set off of losses.

TABLE SHOWS THE PROVISIONS FOR SET OFF, CARRY FORWARD AND SET OFF OF LOSSES

Nature of income/ loss	**Set off of losses in current PY**	**Carry forward and set off of losses**	**Number of carry forward and set off**
Income from salary	Carry forward and set off will not arise in this head of income because there will be no loss under the head of salary income		
Income/ loss from house property	Loss from house property can be set off first from income from another house and then from any other head including salary	i) Loss which cannot be adjusted in current PY can be carried forward. ii) Carried forward loss should be set off only from HP income and not from any other income iii) Return of loss should be filed within the time limit.	Loss can be carried forward for a period of 8 years
Income/ loss from business **a) Non speculative business loss**	Loss from business can be set off first from income from another business and then from any other head except salary	i) Loss which cannot be adjusted in current PY can be carried forward. ii) Carried forward loss should be set off only from business income and not from any other income iii) Return of loss should be filed within the time limit. iv) It is not necessary that loss should belong to the same business. Continuity of business	Loss can be carried forward for a period of 8 years

		is not necessary to carry forward and set off	
b)Speculative business loss	Loss from speculative business can be set off with income from speculative business and not from any income	i) Loss which cannot be adjusted in current PY can be carried forward. ii) Carried forward loss should be set off only from speculative business income and not from any other income iii) Return of loss should be filed within the time limit. iv) It is not necessary that loss should belong to the same business. Continuity of business is not necessary to carry forward and set off	Loss can be carried forward for a period of 4 years
Income/ loss from capital gains **a) Short term capital loss** **a) Long term capital loss**	Loss from Short term capital can be set off with short term capital gain and long term capital gain loss from long term capital can be set off with long term capital gains only and not from any gain.	i) Loss which cannot be adjusted in current PY can be carried forward. ii) Carried forward short term loss should be set off both from long term and short term capital gains and not from any other income iii) Return of loss should be filed within the time limit. i) Loss which cannot be adjusted in current PY can be carried forward. ii) Carried forward long term loss should be set off only from long term capital gains and not from any other income iii) Return of loss should be filed within the time limit.	Loss can be carried forward for a period of 8 years Loss can be carried forward for a period of 8 years
Income/ loss from other sources	Other sources loss can be set off only with other sources income	i) Loss from owning and maintaining or race horses comes under this head. ii) Loss which cannot be adjusted in current PY can be carried forward. iii) Carried forward loss should be set off only against any income from owning and	Loss can be carried forward for a period of 4 years

		maintaining or race horses. iv) Return of loss should be filed within the time limit.	
Casual income	No set off, carry forward and set off of losses under this head of income.		
Unabsorbed depreciation	Depreciation can be adjusted with any income except salary	i)Unabsorbed depreciation cannot be adjusted in current PY can be carried forward. ii) Carried forward Depreciation can be adjusted with any income except salary iii) The following order should be followed: a) Current depreciation b) B/F losses of business c)Unabsorbed depreciation	No restriction

QUESTIONS

SECTION-A

1. What are the incomes that can be taxed under the head other sources.
2. Explain the various deductions that can be claimed while calculating income from other sources.
3. Explain the expenditure that cannot be claimed as deduction while calculating income from other sources.
4. Explain the various methods of accounting.
5. How to treat casual incomes while calculating income from other sources.
6. Explain the various kinds of securities.
7. How to treat speculative losses?
8. How to treat unabsorbed depreciation?

SECTION-B

1. Explain the various kinds of securities and their tax treatment.
2. Briefly discuss set off and carry forward of losses

PROBLEMS ON INCOME FROM OTHER SOURCES

Problem : 1

From the following particulars find out the income from other sources:

	Rs
i. Directors fees	22,000
ii. Ground rent	18,000
iii. Dividend from an Indian company	25,000
iv Royalty from books	10,000
v. Dividend from Co-operative society	2,000

SOLUTION:

COMPUTATION OF IFOS

	Rs
Directors fees	22,000
Ground rent	18,000
Dividend from company	Exempt
Royalty from books	10,000
Dividend from cooperative society	2,000
TOTAL	**52,000**

Problem : 2

Compute Mohan's dividend income chargeable under the head income from other sources.

	Rs
i. Dividend from co-operative society	10,000
ii .Interim dividend from 'C' Ltd	3,500
iii. Dividend from Suzuki Ltd (Foreign company)	15,000
iv. Dividend from Ashok Leyland Ltd. Chennai	20,000
v. Dividend from U.T.I	5,000

SOLUTION:

COMPUTATION OF IFOS

	Rs
Dividend from cooperative society	10,000
Interim dividend from C Ltd	Exempt
Dividend from Suzuki Ltd (Foreign Co)	15,000
Dividend from Ashok Leyland Ltd	Exempt
Dividend from U.T.I	Exempt
TOTAL	**25,000**

Problem : 3

Mr. Goyal received the following gifts during the P.Y. 2019-2020 calculate his income from other sources.

	Rs
i. Gift from his friend	27,000
ii. Gift from grand mother	10,000
iii. Gift from his cousin	33,000
iv. Gift under will	15,000
v. A friend from London gifted him a foreign watch worth	25,000

vi. Rs .1, 00,000 received as gift on he occasion of his marriage.

SOLUTION:

COMPUTATION OF IFOS

	Rs
Gift from friend	27,000
Gift from grand mother	Exempt
Gift from cousin	33,000
Gift under will	Exempt
Gift of watch from friend(Note 1)	-

Gift on marriage	Exempt
TOTAL	60,000

Problem :4

Mr. .Raguvaran as the following investments for the previous year beginning.

i. 10% Rs.40,000 Government securities
ii. 10% Rs. 40,000 U.P. Government loan
iii. 10% Rs. 45000 tax free debentures of a company
iv. 10% Rs 20,000 debentures (listed) of a steel company
v. Rs.7,110 received as a interest on debentures of a unlisted company
vi. Received Rs.27,000 as interest on tax free debentures of a listed company

He paid commission to his bank Rs. 500 for collecting the above amounts. Find out his taxable income from other sources for the P.Y2019-2020.

SOLUTION:

COMPUTATION OF IFOS

	Rs
Interest from 10% Government securities	4,000
Interest from Karnataka Government loan	4,000
Interest from tax-free debentures 4,500x100/90	5,000
Interest from steel company	2.000
Interest from unlisted company 7,110x100/90	7,900
Interest on tax free debentures 27,000x100/90	30,000
TOTAL	52,900
Less : Bank commission	500
IFOS	52,400

Problem :5

Mr. Joseph furnished the following particulars of his income. Calculate his income from other sources for the previous year 2019-20.

i. Rs.50,000 received as interest from Govt .securities
ii. Rs.8.000 spent towards collection charges.
iii. Dividend from an Indian company Rs. 40,000
iv. Dividend from a foreign company Rs.25,000
v. Family pension Rs.75,000

SOLUTION:

COMPUTATION OF IFOS

		Rs	Rs
Interest received		50,000	
Less: collection charges		8,000	
			42,000
Dividend from Indian company			Exempt
Dividends from foreign company			25,000
Family pension			75,000
Les: 1/3 of 75,000	25,000		
Maximum limit	15,000		
Which ever is less		15,000	
			60,000

TOTAL	**1, 27,000**

Problem : 6

Mr. Ramanan has the following investments and income during the previous year beginning compute his income from other sources for the P.Y.2019-20.

i. Rs. 2,50,000 invested in 10% less-tax Govt .securities
ii. Rs. 4,50,000 invested in 8% tax-free commercial securities
iii. Rs. 5,00,000 invested in 10% less-tax commercial securities
iv. Rs. 18,000 received as interest from less-tax commercial securities

SOLUTION:

COMPUTATION OF IFOS

	Rs
10% less tax Government securities	25,000
8% tax free commercial securities 36,000x100/90	40,000
10% less tax commercial securities	50,000
Interest on less tax commercial securities 18,000x100/90	20,000
TOTAL	**1, 35,000**

Problem : 7

From the following particulars calculate income from other sources.

i. Income from agricultural land in Africa Rs. 50,000
ii. Income from Royalty Rs. 25,000. Actual expenditure spent for his Rs.2,500
iii. Salary as Member of Parliament Rs.45, 000 p.m.
iv. W innings from crossword puzzle Rs.15,000
v. Rental income from plant and machinery Rs. Excluding Rs. Repairs and Rs. 1,000 depreciation.

SOLUTION:

COMPUTATION OF IFOS

		Rs	Rs
Income from agricultural land in Africa			50,000
Income from royalty		25,000	
Less; Actual expenses		2,500	
			22,500
Salary as Member of Parliament 45,000x12			5, 40,000
Winnings from gross word puzzles			15,000
Income from letting out of P&M		6,000	
Less; Repairs	500		
Depreciation	1,000	1,500	
			4,500
IFOS			**6, 32,000**

Problem :8

Mr. Maran is a member of parliament from Chennai. He had the following income during the P.Y. 2019-20.

i. Salary as M.P	4,000 p. m
ii. Daily allowances	20,000
iii. Winning from cross word puzzles	10,000

iv. Interest on Bank deposits	2,000	
v. Rent from plant and machinery	6,000 p .m	
vi. Dividend from cooperative society	5,000	

Other information:

a. He holds 10% preference shares of Ashok Leyland of the face value of Rs. 20,000
b. He spent Rs. 2,000 on plant and machinery repairs
c. Depreciation on plant and machinery is Rs. 5,000

Compute the taxable income from other sources:

SOLUTION:

COMPUTATION OF IFOS

		Rs	Rs
Salary as M.P			48,000
Daily allowance			Exempt
Winnings from cross word puzzles			10,000
Interest on Bank deposit			2,000
Rent form plant and machinery		72,000	
Less: Repair expenses	2,000		
Depreciation	5,000		
		7,000	
			65,000
Dividend from cooperative society			5,000
IFOS			**1,30,000**

Problem :9

Following incomes are received by Mr. Anbu for the P.Y. 2019-20.

i. Winning from borse races Rs. 1,500
ii. Income from writing articles in journals Rs. 2,500
iii. Dividend Rs. 5,000
iv. Gift from father Rs. 3,000
v. Income from agricultural land in Malaysia Rs. 10,000
vi. Winning from lotteries Rs. 4,000
vii. Income from undisclosed sources Rs. 5,000
viii. Dividend from a foreign company Rs. 6,000
ix. Interest on fixed deposit Rs. 2,000
x. Interest on national defense Gold bonds 1980 Rs. 5,250

Ascertain his income from other sources.

SOLUTION:

COMPUTATION OF IFOS

	Rs
Winning from horse races	1,500
Income from writing articles in journals	2,500
Dividend	Exempt
Gift from father	Exempt
Income from agricultural land in Malaysia	10,000
Winning from lotteries	4,000
Income from undisclosed source	5,000
Dividend from a foreign company	6,000

Interest on fixed deposit	2,000
Interest on national Defence gold bonds 1980	Exempt
IFOS	**31,000**

Problem :10

The following investments were held by Mr. Mahesh on 01.04.2019.

i. Rs 90,000 8% Karnataka govt .Loan.
ii. RS40, 000 9% Bombay improvement Trust Bonds.
iii. Rs50, 000 10% Debentures of a Textile Mill Co.
iv. Rs 75,000 10% preference shares of an Automobile Co.

He claims 6% of the income as collections chares, but he paid only Rs 200 as commission for collecting interest. He also paid Rs 5,200 as interest on loan taken to purchases Debentures of the Textile mill Co.

Compute his income under the head income from other sources

SOLUTION:

COMPUTATION OF IFOS

	Rs
Interest on 8% Karnataka Govt.loan	7,200
Interest on 9% Bombay improvement trust bonds	3,600
Interest on 10% Debentures of a Text ail milk co	5,000
Dividend on 10% preference shares of an automobile co	Exempt
	15,800
Less;	
Interest on loan 5,200	
Bank commission 200	5,400
IFOS	**10,400**

Problem :11

Mr.Gomatheeswaran furnished the following particulars regarding his investments and income during the previous year 2019-20

i.6%Tamilnadu Government securities Rs 10, 00,000

ii.8% listed debentures of L&T Pvt. Ltd. Rs 5, 00,000

iii. Gift received Rs 50,000 in foreign currency from of friends on 12th December 2019.

Iv.7% listed debentures in Titan Ltd .Rs6, 00,000

[Interest payable on 1st June and 31st January of every year]

He has sold his 7% listed debentures of Titan Ltd .on 15th January 2019.

SOLUTION:

COMPUTATION OF IFOS

	Rs
Tamil Nadu Government securities	60,000
L&T PVT.LTD Debentures	40,000
Gift from a friend	50,000
Interest from Titan Ltd 42000x1/2	21,000
IFOS	**1, 71,000**

Problem : 12

Mr. Keerthi furnished the following particulars for the previous year 2019-20. Compute his income from other sources.

i. Rs. 30,000 interest received from post office Savings bank Account.
ii. Rs. 50,000 invested in 10% debentures of listed tea company.
iii. Rs. 8,000 interest received from national development bonds.
iv. Rs. 5,000 received as interest from the debentures of a cooperative society.
v. Rs. 90,000 invested in 10% tax-free debentures of Chennai municipal cooperation.

SOLUTION:

COMPUTATION OF IFOS

	Rs
Interest from post office savings bank account 30,000-3,500	26,500
Interest from Tea company	5,000
Interest from national development bonds [No TDS]	8,000
Interest from cooperative society	5,000
Tax free debentures of Chennai municipal corporation 9,000x100/90	10,000
IFOS	**54,500**

Problem : 13

Mr. Mayilvahanan furnished the following particulars regarding his income during the previous year 2019-20. Ascertain his income from other sources.

i. Winning from lotteries [net amount] Rs. 21,000
ii. He lives a rented house paying rent Rs.3,000 p .m. The house is too big for his family. Hence, he has sub-let one-third portion of the house on a rent of Rs. 1,500 p.m. He has undertaken the liability of paying municipal taxes of Rs. 1,500 on the whole house and also the current repairs of the hole house amounting to Rs. 6,000
iii. Dividend declared by an Indian company Rs. 6,000 collection charges Rs. 100
iv. Rs. 6,000 received as interest on Government securities
v. Rs. 18,000 received as interest on debentures of local authority
vi. Rs. 3,600 received as interest on debentures from Best Ltd. [not listed]

SOLUTION:

COMPUTATION OF IFOS

		Rs	Rs
Winning from lotteries 21,000x100/70			30,000
Income from subletting;			
Rent received		18,000	
Less; Rent paid on 1/3portion@ 1000		12,000	
		6,000	
Less; Proportionate expenses incurred on let out			
1/3rd municipal taxes	500		
1/3rd repairs	2,000	2,500	
			3,500
Dividend from Indian company			NIL
Interest on Government securities			6,000
Interest on debentures of local authority 18,000x100/90			20,000
Interest on debentures of best limited 3,600x100/90			4,000

Interest on post office NSC [Exempted]	NIL
IFOS	**63,500**

Problem : 14

Mr. Periyasamy received the following incomes during the previous year 2019-20.

	Rs
i. Interest on fixed deposit with Bank of India	7,000
ii Dividend from a foreign company	3,500
iii Dividend from a cooperative society	4,000
iv. Prize of Meghslaya state lottery (Gross)	22,000
v. Royalty on an iron mine	19,000
vi. Share in Hindu undivided Family income	7,500

He purchased lottery tickets Rs. 2,400 in pervious year. Rs. 100 paid commission to bank for the dividend collection. Rs. 850 expenses for royalty.

SOLUTION:

COMPUTATION OF IFOS

		Rs
Interest on fixed deposit with state bank of India		7,000
Dividend from foreign company		3,500
Dividend from a cooperative society		4,000
Price of Meghalaya state (Gross)		22,000
Royalty on an iron mine		19,000
Share in Hindu undivided family		NIL
		55,500
Less: Bank contribution	100	
Expenses on Royalty	850	950
IFOS		**54,550**

Problem :15

Mr. Raja ram furnished the following particulars for the previous year 2019-20.

	Rs.
i. Income from agriculture in Bangaladesh	5,000
ii. Ground rent for land in Raipur	10,000
iii. Interest on postal savings bank account	1,000
iv. Interest on deposit which IFCI	5,000
v. Dividend from foreign company	700
vi. Rent from subletting a house	26,250
vii. Rent paid for sublet house	12,000
ix. Winning from horse race	12,300

x .Interest Rs. 36,000 received on 10% tax-free debentures (listed) of Hero Honda Ltd.

Ascertain his income from other sources.

SOLUTION:

COMPUTATION OF IFOS

	Rs
Income from agriculture in Bangladesh	5,000
Ground rent for land in Raipur	10,000

Interest on postal savings bank account	Exempt
Interest on deposits with IFCI	5,000
Dividend from foreign company	700
Rent from subletting a house 26,250-12,000-1000	13,250
Winning from horse race	12,300
Interest on tax free debentures 36,000x100/90	40,000
IFOS	**86,250**

PROBLEMS ON SET OFF & CARRY FORWARD OF LOSSES

Problem:1

Mr.Ram has submitted the following particulars of his income and loss for the P.Y.2019-20 compute his gross total income.

Particular	Rs
Income from house property (computed)	15,000
Profits and gain of personal business	22,000
Share of profit from an A.O.P	10,000
Short term capital gain	9,000
Long term capital gains	15,000
Long term capital loss	18,000

The following items have been brought forward

1.Business loss for the P.Y 2018-19 25,000
2. Loss from house property in the P.Y 2018-19 19,000

Solution: Computation of total income

Particular	Rs	Rs
Income from house property	15,000	
Less: to be carry forward P.Y 2017-18	19,000	
Loss to be Carry Forward	4,000	

Income from business: Personal business A.O.P(not included as the A.O.P has paid tax at the M.M rate	 22,000	
 Less: Brought forward loss	22,000 25,000	
Loss to be carry forwad	3,000	
Income from capital gain Short term capital gain long term capital gain long term capital loss Long term capital loss to be C.Fd	 15,000 18,000 3000	 9,000
Total income		9,000

Working notes:

1.Business loss Rs 3000(25,000-22,00) can be carry forwad
2.LTCL 3.000 (18,000-15,000can be carry forward
3.House property loss Rs 4,000 (19,000-15,000) can be carry forward

Problem :2

VGP brothers of Chennai ,submit the following particulars ,for computing the total income for the previous year 2019-2020

Particular	Rs
Loss from business before depreciation	20,000
Depreciation allowable	6,000
Income from other source	20,000
Interest on securities	1,00,000
Brought forward business loss from P.Y 2018-19	50,000
Unasorbed depreciation from P.Y 2018-19	80,000

Brought forward loss of house property P.Y 2018-2019	10,000

You are required to compute the gross total income for the P.Y 2019 - 20

	Rs	Rs
Income from HP	18,000	
B/F loss of HP	10,000	
		8,000
Loss from bus.profession	20,000	
Add : Depn. Allowance	6,000	1,20,000
Unabsorbed Depreciation Total income		-80,000 22,000

Working Notes:

1.Current year business loss can be set of against any other source of income

2. Brought forward business loss from p.y 2017-18 can be set off against income from business only since there is no business income it can be carry forward to next A.Y

3.Unabsorbed depreciation can be set off against any source of income

PROBLEM 3

Mr.Sitendhra babu a resident of india sumits the following particulars of his income for the P.Y 2019 - 20

Particulars	RS
Income from house let out computed	9,500
Profit from radio business	19,600
Intrest from firm	1,800
Speculation income	1,900
Short term capital gain	3,200
Long time capityal gains	1,400

The following items have been brought forward from the preceding P.Y 2018-19

Loss from radio business 4600

Unabsorbed depreciation 1000

Speculation loss 3200

Short term capital loss for the year 2014-15 4100

Long term capital loss for the year 2015 -16 3950

Brought forward loss from house property 3000

Current year depreciation amounted to 500

Compute the gross total income and the carry forward of the losses

Solution

Computation of total income of Mr Silendhra babu for the P.Y 2019 - 20

Particular	Rs	Rs
Income from house let out	9,500	
Brought forward loss from house property	3,000	
		6,500
Income from business : Profit from radio business Interest from firm	19,600 1,800	
Less:current year depreciation	21,400 500	
Less :loss from Radio business	20,900 4,600	
Less: Unabsorbed depreciation Speculation income: Less : B.Fd. speculation loss of 2009-10 Speculation loss to be carry forward Short time capital gain B/F Short rwem capital loss of 2014-15 Unadjusted STCL to be carry forward Long term capital gain less; B.Fd LTCL from the year 2015-16 Balance LTCL can be carry forward	16,300 1,000 1,900 3,200 1,300 3,200 4,100 900 1,400 3,950 2,550	15,300

Total income		20,000

Working notes :

1. Speculation loss Rs 1,300(3,200-1,900) can be carry forward.
2. Short term capital Rs 900(4100-3200) can be carry forward.

Problem 4

Mr. Anbu an Indian resident furnishes the following particulars of his income for the pevious year 2018-19. You are required to deal with set off and carried forward of losses.

	RS
Income from securities(gross)	10,000
Income from residential house (computed)	5,000
Profits from rayon business	25,000
Income from an agency business	2,000
Speculation income	2,000
Short term capital gain	4,000
Long term capital gain	9,500

The carried forward items from the P.Y 2018-19 are
Loss from hosiery business 4,000
Loss from agency business 3,000
Loss from rayon business 3,000
Speculation loss 6,000
Short term capital loss 6,500
Long term capital loss (of previous year 2016-17)
Current years depreciation for rayon business 500

Particular	Rs	Rs
Income from house property		5,000
Business income:		
1)speculation business		
Income from speculation business	+2,000	
Set off brought speculation loss		
Carry forward speculation loss		
2)rayon business	-4000	
Income from rayon business	-2000	
Less current depriciation		
	25,000	
B.Loss rayon business	500	

B Fd loss of rayon business 3000 B Fd hoistery business 4000 Income from agency business 2000 B.Fd loss from agency -3000 3)Capital gains Long term capital gain Set off B/F Long term capital loss Short term capital gains 4000 Set off B/F Short term capital loss 6000 4)Other sources: Interest on securities Total Income	 7000 17500 -1000 9500 6500 -2000	 16,500 3,000 1,000 10,000 32,500

Working notes

1. Loss of a discontinued business can be a set off against the income of a continued business
2. Speculation loss cannot be set off against non speculation again . hence, 2000 can be carry forward .

UNIT-V

Deduction from Gross total income – Clubbing of income – Assessment of Individual – Rates of Income Tax

DEDUCTION FROM GROSS TOTAL INCOME UNDER SECTIONS 80C TO 80U

INTRODUCTION:

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. Gross total income means the aggregate of all heads of income after adjusting and clubbing of income and set off and carry forward of losses. To calculate the taxable income certain deductions from gross total income are permissible under section 80C and 80U. These deductions are allowed to motivate the savings in certain cases and to provide relief in certain other cases.

SECTION 80C: Applicable to Individual and HUF.

PURPOSE OF ALLOWING DEDUCTIONS U/S 80C:

Deduction in respect of life insurance premium, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc. (w.e.f. Asst. Year 2007-2008).

1. **Life Insurance premium** to (a) self, spouse and any child in case of individual and (b) any member, in case of HUF. Insurance premium should not exceed 20% of the actual capital sum assured.

2. **A deferred annuity contract** on life of self, spouse and any child in case of individual.

3. As contribution to **Statutory Provident Fund;** i.e., any provident fund to which the Provident Funds Act, 1925, applies.

4. 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.

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

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

7. 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.

8. Subscription to the NSC (VIII issue).

9. 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.

10. 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.

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

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

13. 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.

14. 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.

15. As **tuition fees** (excluding any payment towards any development fees or donation or payment 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.

16. 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".

17. 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**.

18. 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.

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

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

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

CALCULATION OF DEDUCTION U/S 80C:

Actual amount invested / contributed **or** Qualifying amount fixed Rs.100000 whichever is less is Deduction U/S 80C.

SECTION 80CCC: Applicable to Individual

PURPOSE OF ALLOWING DEDUCTIONS U/S 80CCC: Deduction In Respect Of Contribution To Certain Pension Funds

DEDUCTION U/S 80CCC: The maximum amount available under this section is Rs.100000

SECTION 80CCD: Applicable to Individual

PURPOSE OF ALLOWING DEDUCTIONS U/S 80CCD: Deduction In Respect Of Contribution To Pension Scheme Of Central Government

DEDUCTION U/S 80CCD: The maximum amount available under this section is 10% of Assessses salary (basic + DA forming)

SECTION 80CCF: **Applicable to Individual and HUF.**

PURPOSE OF ALLOWING DEDUCTIONS U/S 80CCF: Deduction In Respect Of Long Term Infrastructure Bonds. Investment or subscription made in notified long term infrastructure bonds as eligible as deduction

DEDUCTION U/S 80CCF: The maximum deduction limit is Rs. 20,000/-.

SECTION 80D: **Applicable to Individual and HUF**

PURPOSE OF ALLOWING DEDUCTIONS U/S 80D: Deductions In Respect Of Medical Insurance Premium. Premium paid on Mediclaim Policy issued by GIC or any other insurer approved by IRDA (Insurance Regulatory and Development Authority).

DEDUCTION U/S 80D: i) The amount should be paid by any mode other than cash out of taxable income.

ii). (a) Insurance on the health of the self, spouse, parents or children of the Assessee in the case of Individual or (b) Insurance on the health of any member if the Assessee is HUF.

iii) Extent of Deduction 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.

iv) 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 2011-12, the benefit of deduction will be extended to the contribution made to Central Government Health Scheme. However, the aggregate limit for deduction remains the same.

SECTION 80DD Applicable to Individual/HUF

PURPOSE OF ALLOWING DEDUCTIONS U/S 80DD: Deduction In Respect Of Maintenance Including Medical Treatment Of Handicapped Dependant. 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.

DEDUCTION U/S 80DD: (a) Rs. 50,000/- in case of normal disability or (b) Rs. 100,000/- in case of severe disability.

SECTION 80DDB Applicable to Individual/HUF

PURPOSE OF ALLOWING DEDUCTIONS U/S 80DDB: Deduction In Respect Of Medical Treatment, Etc. Expenditure actually incurred for the medical treatment of such diseases or ailments specified in Rule 11DD (some of the diseases are Parkinson 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.

DEDUCTION U/S 80DDB:

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 Applicable to Individual

PURPOSE OF ALLOWING DEDUCTIONS U/S 80E: 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.

DEDUCTION U/S 80E: Entire amount of interest

SECTION 80G

PURPOSE OF ALLOWING DEDUCTIONS U/S 80G: Deduction In Respect Of Donations To Certain Funds, Charitable Institutions, Etc. there are certain donations, which can be allowed in full, where as certain donations which can be allowed with certain limitations.

Donations without limit:

Deduction @ 100%	**Deduction @ 50%**
1. National Defence fund set up by the central government 2. Prime minister's national relief fund 3. Prime Minister's Armenia Earthquake Relief Fund; 4.Africa (Public Contributions — India) Fund; 5 National Foundation for Communal Harmony; 6.An approved university/educational institution of National eminence; 7.The Maharashtra Chief Minister's Relief Fund Chief Minister's Earthquake Relief Fund, Maharashtra; Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat; 8. Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district; 9. National Blood Transfusion Council or to any State Blood Transfusion Council; 10. any fund set up by a State Government for the medical relief to the poor; 11. The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund, 12. Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996; 13.National Illness Assistance Fund; 14.Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory; 15.National Sports Fund; 16.National Cultural Fund; 17.Fund for Technology Development and	1.Jawaharlal Nehru Memorial Fund; 2.Prime Minister's Drought Relief Fund; 3. National Children's Fund; 4. Indira Gandhi Memorial Trust; 5. Rajiv Gandhi Foundation.

Application; 18.National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities; 19.Any trust, institution or fund to which applies for providing relief to the victims of earthquake in Gujarat	

Donations with limit:

Deduction @ 100%	**Deduction @ 50%**
1. If donation given to Government or any approved local authority, institution or association to be utilized for the purpose of promoting family planning; 2. 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.	1. Any notified temple, mosque, gurdwara, church or other place for renovation and repair. 2. Any corporation specified for promoting interest of minority community 3. Any authority constituted in India by law for the purpose of planning, development or improvement of cities, towns and villages or for both 4. Government or any local authority to be utilized for any charitable purpose other than promoting family planning.

DEDUCTION U/S 80G:

1. In case of No limit Donations:

a) Take the actual amount for consideration.

b) If it is 100% allowable, allow 100% of the donation.

c) If it is 50% allowable, allow 50% of the deduction.

1. In case of limit Donations:

a) Take 10% of Gross Total Income after allowing section 80C to 80U (without 80G), LTCG, STCG and any other income on which tax is not payable.

b) Gross Total Income (given in the problem)	xxxx
Less: Deductions U/S 80C to 80U except 80G	xxxx
Less : LTCG or STCG if any	xxx
Gross Total Income on which 10% is to be calculated	xxxx

c) Take the amount calculated as per step (b)

d) Allow 100% donations with limit first followed by 50% donation with limit to the available extent.

SECTION 80GG

PURPOSE OF ALLOWING DEDUCTIONS U/S 80GG: Deduction In Respect Of Rent Paid Any Assessee other than Assessee having income falling u/s 10(13A) (i.e., House Rent Allowance).

DEDUCTION U/S 80GG: 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 available to all Assessee

PURPOSE OF ALLOWING DEDUCTIONS U/S 80GGA: Deduction In Respect Of Certain Donations For Scientific Research Or Rural Development

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 development 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).

Relevant Conditions/Points:

1. No deduction is allowed if Assessee has income chargeable under the head "Profits and gain of business and profession".

2. Any sum in respect of which deduction is allowed under this section will not qualify for deduction under any other provision of this Act for any assessment year.

3. If donation is paid for rural development, then the Assessee should furnish the certificate referred to in Section 35CCA(2) or 35CCA(2A) from such association or institution and if donation paid for eligible project/scheme then the Assessee should furnish the certificate referred to in Section 35AC(2)(a) from such association.

DEDUCTION U/S 80GGA:

100% of the amount paid as donation/contribution.

SECTION 80GGB Available to Indian company

PURPOSE OF ALLOWING DEDUCTIONS U/S 80GGB: Deduction In Respect Of Contribution Given By Companies To Political Parties Or An Electoral Trust"

DEDUCTION U/S 80GGB: 100% Of The Amount Paid As Contribution.

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. Gross total income means the aggregate of all heads of income after adjusting and clubbing of income and set off and carry forward of losses. To calculate the taxable income certain deductions from gross total income are permissible under section 80C and 80U. These deductions are allowed to motivate the savings in certain cases and to provide relief in certain other cases.

SECTION 80C: Applicable to Individual and HUF.

PURPOSE OF ALLOWING DEDUCTIONS U/S 80C:

Deduction in respect of life insurance premium, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc. (w.e.f. Asst. Year 2007-2008).

1. **Life Insurance premium** to (a) self, spouse and any child in case of individual and (b) any member, in case of HUF. Insurance premium should not exceed 20% of the actual capital sum assured.

2. **A deferred annuity contract** on life of self, spouse and any child in case of individual.

3. As contribution to **Statutory Provident Fund;** i.e., any provident fund to which the Provident Funds Act, 1925, applies.

4. 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.

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

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

7. 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.

8. Subscription to the NSC (VIII issue).

9. 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.

10. 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.

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

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

13. 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.

14. 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.

15. As **tuition fees** (excluding any payment towards any development fees or donation or payment 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.

16. 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".

17. 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**.

18. 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.

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

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

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

CALCULATION OF DEDUCTION U/S 80C:

Actual amount invested / contributed **or** Qualifying amount fixed Rs.100000 whichever is less is Deduction U/S 80C.

SECTION 80CCC: Applicable to Individual

PURPOSE OF ALLOWING DEDUCTIONS U/S 80CCC: Deduction In Respect Of Contribution To Certain Pension Funds

DEDUCTION U/S 80CCC: The maximum amount available under this section is Rs.100000

SECTION 80CCD: Applicable to Individual

PURPOSE OF ALLOWING DEDUCTIONS U/S 80CCD: Deduction In Respect Of Contribution To Pension Scheme Of Central Government

DEDUCTION U/S 80CCD: The maximum amount available under this section is 10% of Assessses salary (basic + DA forming)

SECTION 80CCF: **Applicable to Individual and HUF.**

PURPOSE OF ALLOWING DEDUCTIONS U/S 80CCF: Deduction In Respect Of Long Term Infrastructure Bonds. Investment or subscription made in notified long term infrastructure bonds as eligible as deduction

DEDUCTION U/S 80CCF: The maximum deduction limit is Rs. 20,000/-.

SECTION 80D: **Applicable to Individual and HUF**

PURPOSE OF ALLOWING DEDUCTIONS U/S 80D: Deductions In Respect Of Medical Insurance Premium. Premium paid on Mediclaim Policy issued by GIC or any other insurer approved by IRDA (Insurance Regulatory and Development Authority).

DEDUCTION U/S 80D: i) The amount should be paid by any mode other than cash out of taxable income.

ii). (a) Insurance on the health of the self, spouse, parents or children of the Assessee in the case of Individual or (b) Insurance on the health of any member if the Assessee is HUF.

iii) Extent of Deduction 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.

iv) 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 2011-12, the benefit of deduction will be extended to the contribution made to Central Government Health Scheme. However, the aggregate limit for deduction remains the same.

SECTION 80DD Applicable to Individual/HUF

PURPOSE OF ALLOWING DEDUCTIONS U/S 80DD: Deduction In Respect Of Maintenance Including Medical Treatment Of Handicapped Dependant. 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.

DEDUCTION U/S 80DD: (a) Rs. 50,000/- in case of normal disability or (b) Rs. 100,000/- in case of severe disability.

SECTION 80DDB Applicable to Individual/HUF

PURPOSE OF ALLOWING DEDUCTIONS U/S 80DDB: Deduction In Respect Of Medical Treatment, Etc. Expenditure actually incurred for the medical treatment of such diseases or ailments specified in Rule 11DD (some of the diseases are Parkinson 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.

DEDUCTION U/S 80DDB:

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 Applicable to Individual

PURPOSE OF ALLOWING DEDUCTIONS U/S 80E: 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.

DEDUCTION U/S 80E: Entire amount of interest

SECTION 80G

PURPOSE OF ALLOWING DEDUCTIONS U/S 80G: Deduction In Respect Of Donations To Certain Funds, Charitable Institutions, Etc. there are certain donations, which can be allowed in full, where as certain donations which can be allowed with certain limitations.

Donations without limit:

Deduction @ 100%	**Deduction @ 50%**
1. National Defence fund set up by the central government 2. Prime minister’s national relief fund 3. Prime Minister’s Armenia Earthquake Relief Fund; 4.Africa (Public Contributions	1.Jawaharlal Nehru Memorial Fund; 2.Prime Minister’s Drought Relief Fund; 3. National Children’s Fund; 4. Indira Gandhi Memorial Trust;

— India) Fund; 5 National Foundation for Communal Harmony; 6.An approved university/educational institution of National eminence; 7.The Maharashtra Chief Minister's Relief Fund Chief Minister's Earthquake Relief Fund, Maharashtra; Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat; 8. Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district; 9. National Blood Transfusion Council or to any State Blood Transfusion Council; 10. any fund set up by a State Government for the medical relief to the poor; 11. The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund, 12. Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996; 13.National Illness Assistance Fund; 14.Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory; 15.National Sports Fund; 16.National Cultural Fund; 17.Fund for Technology Development and Application; 18.National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities; 19.Any trust, institution or fund to which applies for providing relief to the victims of earthquake in Gujarat	5. Rajiv Gandhi Foundation.

Donations with limit:

Deduction @ 100%	Deduction @ 50%
1. If donation given to Government or any approved local authority, institution or association to be utilized for the purpose of promoting family planning; 2. Donation by a Company to the Indian	1. Any notified temple, mosque, gurdwara, church or other place for renovation and repair. 2. Any corporation specified for promoting

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.	interest of minority community 3. Any authority constituted in India by law for the purpose of planning, development or improvement of cities, towns and villages or for both 4. Government or any local authority to be utilized for any charitable purpose other than promoting family planning.

DEDUCTION U/S 80G:

1. In case of No limit Donations:

a) Take the actual amount for consideration.

b) If it is 100% allowable, allow 100% of the donation.

c) If it is 50% allowable, allow 50% of the deduction.

1. In case of limit Donations:

a) Take 10% of Gross Total Income after allowing section 80C to 80U (without 80G), LTCG, STCG and any other income on which tax is not payable.

b) Gross Total Income (given in the problem)	xxxx
Less: Deductions U/S 80C to 80U except 80G	xxxx
Less : LTCG or STCG if any	xxx
Gross Total Income on which 10% is to be calculated	xxxx

c) Take the amount calculated as per step (b)

d) Allow 100% donations with limit first followed by 50% donation with limit to the available extent.

SECTION 80GG

PURPOSE OF ALLOWING DEDUCTIONS U/S 80GG: Deduction In Respect Of Rent Paid Any Assessee other than Assessee having income falling u/s 10(13A) (i.e., House Rent Allowance).

DEDUCTION U/S 80GG: 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 available to all Assessee

PURPOSE OF ALLOWING DEDUCTIONS U/S 80GGA: Deduction In Respect Of Certain Donations For Scientific Research Or Rural Development

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 development 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).

Relevant Conditions/Points:

1. No deduction is allowed if Assessee has income chargeable under the head "Profits and gain of business and profession".

2. Any sum in respect of which deduction is allowed under this section will not qualify for deduction under any other provision of this Act for any assessment year.

3. If donation is paid for rural development, then the Assessee should furnish the certificate referred to in Section 35CCA(2) or 35CCA(2A) from such association or institution and if donation paid for eligible project/scheme then the Assessee should furnish the certificate referred to in Section 35AC(2)(a) from such association.

DEDUCTION U/S 80GGA:

100% of the amount paid as donation/contribution.

SECTION 80GGB Available to Indian company

PURPOSE OF ALLOWING DEDUCTIONS U/S 80GGB: Deduction In Respect Of Contribution Given By Companies To Political Parties Or An Electoral Trust"

DEDUCTION U/S 80GGB: 100% Of The Amount Paid As Contribution.

SECTION 80GGC

PURPOSE OF ALLOWING DEDUCTIONS U/S 80GGC: deductions in respect of donations to political parties. This deduction is allowed to any person other than a local authority when he has made contribution to a political party registered under sec 29A.

SECTION 80QQB

PURPOSE OF ALLOWING DEDUCTIONS U/S 80QQB: Deductions in respect of royalty income of authors of text books. This deduction is allowed to an individual who has received royalty for his work on literacy, artistic or scientific nature.

DEDUCTION U/S 80QQB: He can claim the actual royalty subject to the maximum of Rs. 300000 as deductions

SECTION 80RRB

PURPOSE OF ALLOWING DEDUCTIONS U/S 80RRB: deductions in respect of royalty on patents. This deduction is allowed to a individual who is resident and patentee and is his gross total income includes royalty in respect of such patent. The patent should be registered on or after 1.4.2003 under the patents act 1970.

DEDUCTION U/S 80RRB: He can claim the actual royalty subject to the maximum of Rs300000 as deductions

SECTION 80U

PURPOSE OF ALLOWING DEDUCTIONS U/S 80U: deductions in respect of person with disability

DEDUCTION U/S 80U: If the Assessee is a person with disability he can claim deductions under this section. He must be certified by the medical authority as person with disability. As Assessee who is suffering from severe disability (i.e., disability to the extent of 80% or more) can claim up to Rs100000. An Assessee who is suffering from disability but not severe disability can claim up to Rs50000. This deduction is allowed irrespective of actual expenditure.

AGGREGATION OF INCOME/ UNDISCLOSED INCOME/ INVESTMENT OR DEEMED INCOME

INTRODUCTION:

Assessing officer, while making a scrutiny assessment will make enquiries regarding extraordinary receipts, investments made or expenditure incurred during the year. If the Assessee is not in a position to give an explanation or if the AO is not satisfied with the explanation given by the Assessee than that part of income will be included in the Assesses total income of that particular year of assessment. The following are the incomes, which are usually treated as undisclosed income or investments.

a) Cash credits

When any sum is found credited in the books of an Assessee maintained during any previous year, Assessee is supposed to establish the nature, source and genuineness of the amount. The said amount credited in the books of account will be charged to income tax provided.

i) No explanation is given by the Assessee or

ii) The explanation given by the Assessee is not satisfactory in the opinion of the AO.

b) Unexplained investments

when an Assessee has made investments which are not recorded in the books of account maintained by him for any source of income, the value of the investments may be deemed to be the income of the Assessee provided,

i) No explanation is given by the Assessee or

ii) The explanation given by the Assessee is not satisfactory in the opinion of the AO.

Unexplained money, etc

When an Assessee is found to be the owner of any money, bullion, jewellery or other valuable article which is not recorded in the books of account maintained by him it will be taxes as the deemed to be the income of the Assessee provided,

i) No explanation is given by the Assessee or

ii) The explanation given by the Assessee is not satisfactory in the opinion of the AO.

Undisclosed investments

When an Assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article, and the Assessing Officer finds that the amount expended on making such investments or in acquiring such bullion, jewellery or other valuable article not fully disclosed in the books of account maintained by the Assessee then that amount will be treated as deemed income of the Assessee provided,

i) No explanation is given by the Assessee or

ii) The explanation given by the Assessee is not satisfactory in the opinion of the AO.

Unexplained expenditure, etc

Where an Assessee has incurred any expenditure during any financial year, then the amount covered by such expenditure or part thereof will be consider as deemed income of the Assessee provided,

i) No explanation is given by the Assessee or

ii) The explanation given by the Assessee is not satisfactory in the opinion of the AO.

Amount borrowed or repaid on hundi

When any amount is borrowed on a hundi from, or any amount due thereon is repaid to any person otherwise than through an account payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying the amount. To avoid double taxation, if the person is taxed at the time of borrowing then he will be taxed at the time of repayment and vice versa. The repayment amount includes the amount of interest paid on the borrowed amount.

CLUBBING OF INCOMES

MEANING:

Clubbing of income simply refers to shifting of one's income to some other person's income in order to minimize tax. The Income Tax Act deals with certain provisions regarding clubbing of income under sections 60 to 65. Under the mentioned sections, income of other person may be included in the income of Assessee total income. Such inclusion of income is termed as Clubbing of income of the Assessee. Deemed income refers to those incomes which are not actually the income of the Assessee, but are included in the total income for the purpose of tax purposes. For example: Income of husband which is shown to be the income of his wife is clubbed in the income of Husband and is taxable in the hands of the husband. Income of a minor child is taxable in the hands of his parents.

CLUBBING OF INCOMES U/S 60 to 64:

Normally every person pays tax on his own income but in following cases income of spouse, minor child, and son's wife or a third person is included in the income of individual. These cases are:

1. Transfer of income without transfer of asset

When there is transfer of income without transfer of asset sec.60. Such incomes remain transferor's income.

2. Revocable transfer of assets

When there is revocable transfer of assets sec.61. Income from such asset remains transferor's income. Transfer is revocable if the transferor reserves the right to get back the asset at any time or retransfer the asset at any time or assume the income of such asset at any time.

In case transfer is not revocable during the lifetime of transferee, it is treated as irrevocable and its income remains transferree's income.

3. Income of spouse or son's wife:

a) Any salary, commission or remuneration, fees received by spouse from a concern in which individual has substantial interest, shall be added in the income of such individual. But salary, commission or remuneration will not be clubbed if it is earned by the spouse due to his/her personal qualification or experience. A person is said to have substantial interest if he owns 20% or more share in such concern. Section 64(1) (ii).

b) Income from an asset transferred to spouse without adequate consideration, remains transferor's income. The relationship of husband and wife must exist on the date of transfer. The transfer must not be under an agreement to live apart. In case income from such asset is reinvested, the income from such reinvestment will not be clubbed. Section 64(1) (iii).

c) In case asset is transferred to a third person but benefit from such asset is still accruing to spouse, son's wife or minor child, income from such asset remains transferor's income. Section 64(1)(viii).

d) In case asset is transferred to son's wife without adequate consideration, income remains transferor's income. Section 64(1)(vi).

e) In case an asset which was transferred without adequate consideration is reinvested in business, the proportionate profits of such business shall be added in the income of transferor.

4) Income of minor child section 64(1A):

Every income of minor child from any source shall be added in the income of that parent whose income is higher. Income of minor child, who is physically challenged or mentally retarded, shall not be clubbed. Any income earned by a minor child with his own skill or art will not be clubbed. A parent in whose income, income of a minor child is clubbed can claim exemption of Rs.1500 per child or income so clubbed whichever is less.

ASSESSMENT OF INDIVIDUALS

INTRODUCTION:

Assessment of individuals includes calculation of taxable income and the tax liability of an Assessee after giving effect to all rules and regulations that are incorporated by the Income Tax Authorities from time to time. Rules prevailing for the current financial year should be applied to assess the tax liability of an individual.

ASSESSMENT OF INCOME:

The sum total of all the sources of income after giving effect to set off and carry forward of losses reduced with sections 80 and rebate U/S 88E should be considered as taxable income. The taxable income should be rounded off to the nearest Rs.10. the tax rates, surcharge and education cess as applicable should be applied on the taxable income or net income to identify the tax liability of an individual.

Income received from certain other cases:

1. Share of Income received from HUF being its member- It is fully exempted U/S 10(2) and is not added in individual's total income.

2. Share of Income received from firm assessed as firm - It is fully exempted U/S 10(2A)

3. Share of income from a partnership firm: A partnership firm can be assessed in two manners:

a) Assessed as firm: If the firm has submitted its deed to the assessing officer it is assessed U/S 184 as firm. If it does not submit its deed, it is assessed U/S 185. Share of income from firm is fully exempted. Remuneration and interest allowed to firm U/S 40 (B) is taxable as business income of partners.

b) Assessed as AOP. If deed is not submitted it is treated as association of persons. In case total income of any partner without adding share of AOP exceeds Rs.100000, the AOP pays tax at

MMR which is 30%. In this case share of income received by partners is not added in their individual income. If total income of any partner exceeds Rs.100000 the AOP pays tax at the rates applicable to an individual. In this case share is fully added in individual income of partners and is fully taxable again. If AOP's income more than Res.100000 the partners can claim rebate of tax U/S 86 at average rate. No rebate if AOP's income below Rs.100000.

4. Dividend received from company

a) From Indian company – It is fully exempted

b) From foreign company – It is fully taxable

COMPUTATION OF TAX LIABILITY

ROUNDING OFF OF INCOME (SEC 288 A):

Total taxable income of the Assessee shall be rounded- off to the nearest multiple of 10 i.e. if the last figure in the total income is five or more, it would be raised to the next higher multiple of 10 and if the last figure of total income is less than five, the same shall be reduced to lower amount which should be a multiple of ten.

Format of computing total taxable income

Particulars	Amount
Taxable income from salaries Sec 15 to 17	**xxxxx**
Taxable income from house property Sec.22 to 27	**xxxxx**
Taxable income from business or profession Sec.28 to 44	**xxxxx**
Taxable income from capital gains (excluding LTCG and STCG liable for STT) Sec.45 to 55	**xxxxx**
Taxable income from other sources (excluding casual incomes) Sec.56 to 59	**xxxxx**
Gross total income excluding LTCG & STCG liable for STT & casual income **Less:** Deduction U/S 80C to 80U	**xxxxxxx** **xxxxx**
Total income excluding LTCG & STCG liable for STT & casual income **Add:** Casual income xxxxx LTCG xxxxx STCG xxxxx	**xxxxxxx** xxxxxx
Total taxable income or net income	**xxxxxxx**

COMPUTATION OF TAX LIABILITY:

After computing the total income, next step is to compute the tax liability. Steps for computation of tax liability are:

i) Round off total income to the nearest multiple of 10.

ii) Divide the total income into four parts:

a) Long term capital gain. Calculate tax at the rate of 20%

b) On short term capital gains on shares subject to STT calculate tax @ 15%

c) Winning from lotteries, puzzles, races, card games, gambling and betting. Calculate tax at the rate of 30%.

d) Balance is total income which will be rounded off. Calculate tax at scheduled rates.

iii) Tax calculated as above is added up.

iv) On the amount of tax calculated above, add

a) Education cess @ 2% of tax.

b) Secondary and higher education cess @ 1% of tax.

v) After adding education cess following rebates are allowed:

a) Rebate U/S86: for share from AOP: This rebate is allowed at average rate

b) Relief U/S 89(1) for arrears

vi) Balance is tax payable which will be rounded off to the nearest multiple of 10.

REBATE, RELIEF OF INCOME TAX

Relief U/S 89(1) for arrears of salary: Salary is taxable in the previous year in which they are due or received. But in case following incomes are included in the total income of an Assessee, he may apply to the Assessing officer for relief:

a) Salary being received in arrears or in advance: Where the payment is in the nature of gratuity in respect of past services extending over a period of not less than 5 years is received.

b) Where the payment is in the nature of compensation received by an employee from his employer or former employer at or in connection with the termination of employment of the continuous service of not less than three years and where the unexpired portion of the term of employment is also not less than 3 years,

c) Where the payment is in the nature of commutation of pension:

All these incomes pertain to the head salaries and in the above cases relief is to be calculated by the income tax officer.

Computation of relief: In case of salary received in arrears or in advance:

i) Add the arrears of salary or advance salary in current previous year's income and compute tax on total income so computed.

ii) Exclude the amount of arrears from the current previous year's income and compute the tax on total income so computed. Calculate the difference between tax at (i) and computed tax at (ii).

iii) In case arrears of salary or advance salary relate to one previous year: such amount is added in the total income of the previous year to which such arrears belong. On this revised total income tax is calculated.

iv) Calculate the difference between the tax paid in that year and tax payable on revised total income of that previous year.

v) Compare the difference of taxes calculated in point (ii) to be calculated (A) with the difference of taxes calculated in point (iv) to be called (B). If tax at (A) is more than tax at (B) the excess shall be the amount of relief to be allowed to such Assessee.

vi) In case arrears belong to more than one previous year: the arrears should be got ascertained to different previous years and above mentioned procedure is to be adopted for each of these previous years and differences in each of these previous years are to be aggregated. Aggregate of these differences will be called figure. (B) And rest of the procedure is same to calculate the amount of relief.

In case of arrears of family pension: If arrears of family pension are received the Assessee can apply for relief U/S 89(i) in same manner as in case of arrears of salary.

Rebate U/S 86 on share from AOP:

This rebate is allowed only if share from AOP is included in the total income of a person.

Procedure for rebate U/S 86 for share from AOP

1. Compute total income of AOP
2. For computing tax on total income rates to be applied are to be determined in the following manner:

a) For determining rates of tax find out the individual income of each member.

b) If such individual income of all partners/ members does not exceed Rs.200000 each, the AOP shall pay tax at the rates applicable to an individual

c) Share from such AOP is fully added in the individual income of each member and is fully taxable again in the hands of the members

d) Out of the tax a rebate of tax on share from AOP is allowed at average rate which is calculated as Total Tax/ Total Income x 100

e) No rebate of tax if total income of such AOP does not exceed Rs.200000

PURPOSE OF ALLOWING DEDUCTIONS U/S 80GGC: deductions in respect of donations to political parties. This deduction is allowed to any person other than a local authority when he has made contribution to a political party registered under sec 29A.

SECTION 80QQB

PURPOSE OF ALLOWING DEDUCTIONS U/S 80QQB: Deductions in respect of royalty income of authors of text books. This deduction is allowed to an individual who has received royalty for his work on literacy, artistic or scientific nature.

DEDUCTION U/S 80QQB: He can claim the actual royalty subject to the maximum of Rs. 300000 as deductions

SECTION 80RRB

PURPOSE OF ALLOWING DEDUCTIONS U/S 80RRB: deductions in respect of royalty on patents. This deduction is allowed to a individual who is resident and patentee and is his gross total income includes royalty in respect of such patent. The patent should be registered on or after 1.4.2003 under the patents act 1970.

DEDUCTION U/S 80RRB: He can claim the actual royalty subject to the maximum of Rs300000 as deductions

SECTION 80U

PURPOSE OF ALLOWING DEDUCTIONS U/S 80U: deductions in respect of person with disability

DEDUCTION U/S 80U: If the Assessee is a person with disability he can claim deductions under this section. He must be certified by the medical authority as person with disability. As Assessee who is suffering from severe disability (i.e., disability to the extent of 80% or more) can claim up to Rs100000. An Assessee who is suffering from disability but not severe disability can claim up to Rs50000. This deduction is allowed irrespective of actual expenditure.

QUESTIONS

SECTION-A

1. Write short note on clubbing of income.
2. Discuss aggregation of income.
3. Bring out deductions available from GTI.
4. Explain about deemed income.

SECTION-B

1. Explain deduction U/S 80G with procedures regarding calculation.
2. Explain various deductions available to individuals U/S80.
3. Briefly discuss how to calculate tax liability of an individual.

PROBLEM ON

AGGREGATION OF INCOME/ CLUBBING OF INCOMES

1.Mr.Ravi deposited Rs.20,000 in a bank as F.D in the name of his minor son on his 14th birth day on 05.09.2018.During the previous year 2019-20, his son received Rs.14,000 as interest from the bank. How will you treat the interest on fixed deposit?

Solution :

Income of minor child is clubbing with the income of his parent. Therefore Rs.14, 000 will be included in Mr. Ravi's income However he can claim exemption Rs.1, 500 from that interest income u/s 10(32)

2.Mr. Hathi and Mrs.Hathi hold 25 %and20% equity shares in sony Ltd. Respectively. They are also employed from 01.04.2019 in Chennai Branch of Sony Ltd.(annual salary being Rs.1,60,000 andRs. 1,20,000 respectively) without any technical or professional qualification. Other income of Mr.Hathi and Mr.Hathi are Rs. 2,75,000 and Rs.1,90,000 respectively. Find out the net income of Mr.Hathi and Mr.Hathi for the P.Y 2019-20.

Solution :

Income of Mr. Hathi

	Rs	Rs
Income from salary		1,60,000
Less: standard deduction	40,000	
		1,20,000
Income from salary of Mrs.Hathi		1,20,000
Less: standard deduction	40,000	
		80,000
Income from other sources		2,75,000
Total income		4,75,000
Income from other sources		1,90,000
Total income		**1,90,000**

3.Mr.X furnished the following particulars regarding his family income for the previous year 2019-20.Compute their total income for the P.Y 2019-20.

Income from salary (gross)of Mr.X 5,00,000
Income from business 2,00,000
Interest on Fixed deposit 40,000
Interest from business of Mrs.X 90,000
Income from business of Mrs.X 3,00,000
Interest on F.D on his minor son4,000
Solution :

Income of Mr.X

	Rs.	
Income from business	2,00,000	
Interest form F.D	40,000	
Total income	2,40,000	

Income of Mrs.X

	Rs.	Rs.	Rs.
Income from salary of Mr.X			5,00,000
Less: standard deduction	40,000		
			4,60,000
Income from business			3,00,000
Interest on F.D		90,000	
Interest on F.D of minor son		4,000	
Less:Exemption u/s10(32)		1,500	
		2,500	
Total income			**8,52,500**

4.From the following particulars of income of Mr.Lakshmanan and his family members, compute his income for the P.Y 2019-20

(¡) self income:

a) **Income from salary (gross) 7,50,000**
b) **Income from business 2,00,000**
c) **Income from HP 5,00,000**
d) **Income from other sources 50,000**

(¡¡)wife's income :

a) **Income from salary (gross)1,80,000**
b) **Income from interest on debentures gifted by her husband 12,000**

(¡¡¡)Minor daughters income :

a) **Income from Hp gifted by her father 30,000**
b) **Interest on investment made by her mother in daughters name 6,000**

Solution :

Computation of Total Income of Mr.Lakshmanan

		Rs	Rs
Income from salary gross salary			7,50,000
Less:standard deduction		40,000	
			7,10,000
Income from business			2,00,000
Income from HP			5,00,000
Less: standard deduction 30%		1,50,000	
			3,50,000
Income from minor daughter HP	30,000		
Less: standard deduction 30%	9,000		21,000
Less:exemption u/s	1,500		

	19,500
Income from other source own income	30,000
Interest on debentures gift	12,000
Interest on investment of mother daughter	6,000
Total income	**13,37,500**

5.From the following information compute the income of Mr.Barani and Mrs.Barani for theP.Y 2019-20

Income of Mr.Barani:

1.)Income from his own business 7,50,000

2.)Income from interest on Debentures (gross) 60,000

Income of Mrs.Barani:

1. **Income from salary (computed) 5,00,000**
2. **Income from house property 40,000**
3. **Income form interest on debentures (gross)transferred by Mr.Barani 23,000**

Solution :

Computation of income of Mr.Barani (A.Y2019-20)

	Rs.	Rs.
Income from business		7,50,000
Income from other sources:		
Interest on debentures	60,000	
Interest on debentures transferred to wife	23,000	
		83,000
Total income		**8,33,000**

Computation of Income of Mrs.Barani (A.Y 2019-30)

	Rs.	Rs.
Income from salary		5,00,000
Income from HP	40,000	
Less: standard deduction 30%	12,000	
		28,000
Total income		**5,28,000**

DEDUCTIONS FROM GROSS TOTAL INCOME

PROBLEM NO:1

Mr. Vijay has furnished the following particulars during the P.Y. 2019-20. What is his eligibility for deduction u/s 80C?

	Rs.
Income from salary	75,000
Income from house property	30,000
Income from other sources	20,000
Interest on NSC	5,000
LIC premium paid on his own life (sum assured Rs.50,000) (policy taken in 2017)	12,000
Repaid loan borrowed for house property from his friend	20,000

Repaid loan borrowed for house property from SBI	40,000
Contribution to PPF	5,000

SOLUTION:

Computation of Deduction u/s 80C

	Rs.
Interest on NSC	5,000
LIC premium, restricted to 20% sum assured	10,000
Repaid of housing loan from SBI	40,000
Contribution to PPF	5,000

PROBLEM NO: 2

Mr. Surya has furnished the following particulars regarding his income of P.Y. 2019-2020. What is his eligibility for deduction u/s 80CCC?

	Rs.
Income from house property (computed)	4,00,000
Income from other sources	1,50,000
Premium on LIC annuity plan	1,75,000

SOLUTION:

His contribution to LIC annuity plan Rs.1,75,000. Deduction u/s 80CCC is restricted Rs.1,50,000. So be in eligible up to Rs. 1,50,000.

PROBLEM NO: 3

Mr. Dharani is a Govt. employee getting a basic salary Rs.12,000 p.m., D.A Rs.5,000 (50%enters into retirement benefits) and a C.C.A of Rs.3,000. He contribution Rs.50,000 towards the notified pension scheme. His employer also contribution the same amount . What is his eligibility for deduction u/s 80CCD?

SOLUTION:

NOTE-1: salary of deduction u/s 80CCD

Basic 1,44,000+D.A 30,000 = Rs.1,74,000

NOTE-2: His contribution towards notified pension scheme Rs.30,000. Employer also contributed the same amount. Deduction u/s 80CCD is restricted to the following amount.

	Rs.
10% employer's contribution 1,74,000*10/100	17,400
10% employer's contribution 1,74,000*10/100	17,400
deduction u/s 80CCD	34,800

PROBLEM NO: 4

Mr. Vasu furnished the following paticulars regarding his income for the P.Y. 2019-20.

	Rs.
Income from Salary (Gross)	3,00,000
Rental income from house property	60,000
Profits of business	4,58,000

During the previous year he paid by cheque Rs.36,000 as premium on the insurance of the health of himself and wife. During the year the assesse claimed Rs.1,500 for the illness of his wife, which were duly received from the insurance company. Vasu spent Rs. 19,000 on her treatment and training during the previous year. Compute the total income of Vasu for the P.Y. 2019-2020.

SOLUTION:

	Rs.	Rs.
Income from salary	3,00,000	
LESS: standard deduction	40,000	2,60,000
Income from house property (A.B)	60,000	
LESS: 30% of annual value	18,000	42,000

Profit of business		4,58,000
Gross total income		7,60,000
LESS: deduction u/s 80D(max. deduction Rs.25,000)	25,000	
u/s 80DD	75,000	1,00,000
Taxable income		6,60,000

PROBLEM NO: 5

Mr. Srikanth has made the following payments during the P.Y. 2019-20. Compute his eligible amount for deduction u/s 80D. He has paid premiums for medi claim policies of the following persons.

	Rs.
Him self	20,000
His wife	5,000
His daughter (depend	5,000
His son (not dependent)	4,000
His brother (dependent)	3,000
His mother (dependent)	18,000
His father (not dependent)	17,000

SOLUTION:

	Rs.	Rs.	
For him self		20,000	
For wife		5,000	
For daughter		5,000	
For son (not dependent)		_	
For brother (not eligible)		-	
		30,000	
Restricted to Rs.25,000		25,000	
For mother (dependent)		18,000	
For father (dependent / not dependent)	17,000	35,000	
Restricted to Rs.25,000			25,000
Deduction u/s 80D		50,000	

PROBLEM NO: 6

Mr. Mani has furnished the following particulars. Determine his total income.
Medical treatment (specific diseases) of Mr. Mani in Govt. hospital Rs.30,000
Medical treatment (specific diseases) of Mr. Mani in recognized hospital Rs.14,000
Salary of Mr. Mani is Rs.6,00,000. Find out taxable income for the P.Y. 2019-2020.

SOLUTION:

	Rs.
Gross salary	6,00,000
LESS: standard deduction	40,000
Gross total income	5,60,000
LESS: deduction u/s 80DDB	40,000
Taxable income	5,20,000

WORKING NOTES :1

deduction u/s 80DDB

Actual expenses	30,000+14,000	44,000	
(or)			
Maximum limit			40,000

WEL is eligible for deduction

Therefore Rs.40,000 can be claimed as deduction u/s 80DDB.

PROBLEM NO: 7

Mr. Mathi is a Govt. employee working at Trichy. His Gross Total Income during the P.Y.2019-20 is Rs.15,00,000. His dependent brother (age 72) is infected with AIDS. He has spent Rs.1,25,000 for the treatment of his brother. Can he claim any deduction u/s80?

SOLUTION:

If any amount spent for the treatment of notified disease of dependent relative, one can claim actual amount subject to maximum of Rs.1,00,000 (for senior citizen) u/s 80DDB.

PROBLEM NO: 8

Mr. Vimal borrowed Rs.3,00,000 for his son's post-graduation in 2016-17. His son in not a dependant. The loan amount is repayable in six installments of Rs.60,000 each (Rs.50,000 as principal and Rs.10,000 as interest) starting from 2018-19. Compute his deduction u/s80E assuming that he has repaid the loan properly.

SOLUTION:

He can claim Rs.10,000 as deduction u/s 80E for 8 A.Y from A.Y. 2017-2018.

PROBLEM NO:9

Mr. Vikram's Gross Total Income for the P.Y.2019-20 is Rs.4,00,000 including LTCG. Rs.1,00,000. He has submitted the following information.

	Rs.
i)Premium of a medi claim policy by cheque	7,000
ii)LIC premium for his own life (sum assured Rs.2,00,000) (policy taken in 2016)	25,000
iii)Expenses on the medical treatment of his wife severe disability	30,000
iv)Payment of interest to Indian Bank, for loan borrowed for the higher education of his daughter	20,000
v)Payment of donations to Prime Ministers National Relief Fund	6,000
P.M. National Drought Relief Fund	10,000
An approved institutionfor the promotion family of planning	25,000
An approved charitable institution	15,000

Compute the amount eligible for Deduction u/s80G.

SOLUTION:

NOTE-1: **eligible deduction u/s 80 except 80G**

1. 80C LIC premium Rs.25,000
2. 80D medi claim premium Rs. 7,000
3. 80DD expenses on medical treatment Rs. 75,000
4. 80E higher education loan – interest Rs.20,000

NOTE-2: Deduction u/s 80G

No Limit	100%	PMNRF	6000
	50%	PMDRF	10000
With	100%	FP	25000
	50%	A.tax	15000

NOTE-3: **Calculation of adjusted total income**

	Rs.	Rs.
Gross total income		4,00,000
LESS: LTCG	1,00,000	
80C	25,000	
80D	7,000	
80DD	75,000	

80E	20,000	
		2,27,000
		1,73,000

10% of Rs.1,73,000 i.e Rs.17,300

NOTE-4: **deduction u/s80G**

Particulars 2-Amount		%	Allowable amount
NL donations			
P.M national relief fund	6,000	100%	6000
P.M drought relief fund	10,000	50%	5000
WL donation limit 17,300			
Promotion of family planning	25,000	100%	17300
Approved institution	15000	50%	
Eligible deduction u/s80G			28,300

PROBLEM NO:10

Mr. Promoth has furnished the following particulars for the P.Y. 2019-20

	Rs.
Income from salary (Net)	3,00,000
Income from other sources	80,000
Contribution to RPF	20,000
Premium of medi claim policy	10,000
Rent paid for a house at Coimbatore	4,000 p.m.

Compute the eligible deduction u/s80GG.

SOLUTION:

NOTE-1: **Deduction u/s 80**

	Rs.
i) 80C contribution to RPF	20,000
ii) 80D medi claim policy	10,000

NOTE-2: calculation of adjusted total income

	Rs.	Rs.
Income from salary		3,00,000
Income from other sources		80,000
Gross total income		3,80,000
LESS: 80C	20,000	
80D	10,000	30,000
		3,50,000

NOTE-3: Deduction u/s 80GG

	Rs.
i) rent -10% of adjusted total income 48,000-35,000	13,000
ii) 25% of adjusted total income 35,000*25/100	87,500
iii) Rs 5000*12	60,000

Least of the above i.e Rs.13,000 is eligible for deduction u/s 80GG.

COMPUTATION OF TAX LIABILITY

ASSESSMENT OF INDIVIDUALS

PROBLEM NO: 1

From the following particulaRs , calculate the tax liability of Mr.Nakkiran for the Previous year 2018-2020.

Income from salary Rs .6,00,000 (Computed)
Income from house property Rs . 60,000
Income from other sources Rs .1,20,000
Donation to National Defence Fund Rs .10,000

SOLUTION:

Calculation of Taxable Income of Mr.Nakkiran

	Rs .
Income from salary	6,00,000
Income from house property	60,000
Income from other sources	1,20,000
G.T.I	7,80,000
LESS: deduction u/s 80	
Sec. 80G – 100% eligible deduction	10,000
Taxable Income	7,70,000

Computation of tax liability:(Senior Citizen)

	Rs .
Tax on firstRs . 2,50,000	Nil
Next Rs .2,50,000 @ 5%	12,500
Balance Rs .2,70,000 @ 20%	54,000
	66,500
ADD: HEC (66,500*4/100)	2,660
Tax liability	69,160

PROBLEM NO: 2

From the following particulaRs , calculate the tax liabilitynofMr.Selvam (who Is 85 yeaRs) for the previous year 2019-2020.

Income from salary Rs .9,00,000
Income from house property Rs .3,60,000 (Computed)
Income from other sources Rs .1,00,000
Donation to Prime Minister’s Drought Relief Fund Rs .40,000

SOLUTION:

Calculation of Taxable Income of Mr.Selvam

	Rs .	Rs .
Income from salary	9,00,000	
LESS: standard deduction	40,000	8,60,000
Income from house property		3,60,000
Income from other sources		1,00,000
G.T.I		13,20,000
LESS: deduction u/s 80		
Sec. 80G donation PMDRF50% eligible		20,000
Taxable Income		13,00,000

Computation of tax liability: (super senior citizen)

	Rs .
Tax on firstRs .5,00,000	Nil
Next Rs .5,00,000@20%	1,00,000

Balance Rs .3,00,000 @ 30%	90,000
1,90,000	
ADD: HEC (1,90,000*4/100)	7,600
Tax liability	1,97,600

PROBLEM NO: 3

From the following information, compute the Taxable Income and tax liability of MRs .Devi for the P.Y.2019-2020.

	Rs .
Gross salary	6,00,000
Income from house property (computed)	75,000
Winning from lottery received	21,000
Long term capital gain	70,000
Interest on Govt, securities	20,000
Short term capital loss	10,000
Income from Business	75,000
Amount invested in NSC – VIII issue	60,000
Life Insurance premium paid	40,000

SOLUTION:

Computation of Taxable Income and tax liability of MRs .Devi for the A.Y 2020-2021

	Rs .	Rs .
i) Income from salary		6,00,000
LESS: standard deduction		40,000
		5,60,000
ii) Income from house property		75,000
iii) capital gain		
LTCG	70,000	
STCG	- 10,000	60,000
iv) Business profit		75,000
v) income from other sources		
winning from lottery(21,000*100/70)		30,000
Interest on Govt, security	20,000	50,000
G.T.I		8,20,000
LESS: deduction u/s 80C (60,000+40,000)		1,00,000
Taxable income		7,20,000

Computation of tax liability

	Rs .	Rs .
i) tax on LTCG(60,000*20/100)		12,000
ii) tax on lottery winning(30*30/100)		9,000
iii) tax on balance of income(7,20,000-90,000=6,30,000)		Nil
tax on firstRs .2,50,000		
next Rs .2,50,000@5%	12,500	
next Rs .1,30,000@20%	26,000	38,500
59,500		
ADD: HEC(59,500*4/100)		2,380
Tax liability		61,880

PROBLEM NO: 4

From the following information, compute the Taxable Income and tax liability of Mr.

Srinath (68 yeaRs)for the P.Y.2019-2020.

	Rs .
Salary	60,000 p.m.
D.A.	18,000 p.m.
C.C.A.	10,000 p.m.
Income from house property (computed)	72,000
Long term capital gain	1,75,000
Winning from lottery (Gross)	1,00,000
Interest on Govt. Securities	20,000
Income from profession	1,75,000
Short term capital gain	1,25,000
Life Insurance premium paid	50,000
Contribution to R.P.F.	20,000

SOLUTION:

Computation of Taxable Income of Mr.Srinath for the A.Y 2020-21.

	Rs .	Rs .
1. salary(7,20,000+2,16,000+1,20,000)	10,56,000	
LESS: standard deduction	40,000	10,16,000
2. Income from house property		72,000
3. Income from capital gain		
LTCG	1,75,000	
STCG	1,25,000	3,00,000
4. income from professi		1,75,000
5. income from other sources		
Lottery	1,00,000	
Interest on Govt, securities	20,000	1,20,000
Gross total income		16,83,000
LESS: deduction u/s 80C (50,000+20,000)		70,000
Taxable Income		16,13,000

Computation of tax liability

	Rs .	Rs .
i) tax on lottery winning(1,00,000*30/100)		30,000
ii) tax on LTCG (1,75,000*20/100)		35,000
iii) tax on balance of income(16,13,000-2,75,000=13,38,000)		
tax o firstRs .3,00,000	Nil	
on next Rs .2,00,000@5%	10,000	
on next Rs .5,00,000@20%	1,00,000	
on nexrt Rs .3,38,000@30%	1,01,400	2,11,400
		2,76,400
ADD: HEC (2,76,400*4/100)		11,056
Tax liability		2,87,456

Tax payable (rounded off) Rs .2,87,460.

PROBLEM NO: 5

Mr. Naveen is employed in LaRs on LTd., as the Production Manager. He received the following incomes during the previous year 2019-2020.

	Rs .
Salary	45,000 p.m.

Dearness allowance	6,000 p.m
Interest on fixed deposit	12,000
Prize from crossword puzzles (Gross)	52,000
Winning from Lottery (Gross)	1,20,000

Royalty from books Rs . 50,000, He has spant Rs .5,000 in preparing the book.
Dividend on 100 equity share of Rs .10 each @ 10%
Dividend on 100 preference shares at Rs .8 per share.
Dividend collection charges paid Rs .25.

You are asked to calculate his total income from the previous year 2019-20.

SOLUTION:

Computation of Taxable Income of Mr.Naveen for the A.Y.2020-21.

	Rs .	Rs .	Rs .
Income from salary			
Basic pay		5,40,000	
D.A		72,000	
		6,12,000	
LESS: standard deduction		40,000	5,72,000
Income from other sources			
Royalty	50,000		
LESS: expenses	5,000	45,000	
Interest on FD		12,000	
Prize from crossword buzzles		52,000	
Winning from lottery		1,20,000	2,29,000
Gross total income			8,01,000
LESS: deduction u/s 80QQB royalty received (note-1)	45,000		7,56,000

Computation of tax liability

	Rs .	Rs .
i) tax on lottery and puzzles(1,72,000*30/100)		51,600
ii) tax on balance of income(7,56,000-1.72,000=5,84,000)		
tax on firstRs .2,50,000	Nil	
next Rs .2,50,000@5%	12,500	
next Rs .84,000@20%	16,800	29,300
		80,900
ADD: HEC (80,900*4/100)		3,236
Tax liability		84,136

Tax payable (rounded off) Rs .84,140

WORKING NOTES: Royalty actual or Rs .3,00,000 WHL is exempted.

PROBLEM NO: 6

From the following information compute tax payable by Mr.Ragavan for the previous year 2019-2020.

	Rs .
Income from house property (Computed)	80,000
Interest on Govt, securities	10,000
Long term capital gain	50,000
Income from business	10,55,000
Amount withdrawn from public provident fund	50,000
Purchased N.S.C VIII issue	30,000
Deposited in PPF	60,000
Subscripation to eligible issue of capital	35,000

SOLUTION:

Computation of Taxable Income of Mr.Ragavan

	Rs .
Income from house property	80,000
Income from business	10,55,000
LTCG	50,000
Income from other sources:	
Interest on Govt, securities	10,000
Gross total income	11,95,000
LESS: deduction u/s 80C (30,000+60,000+35,000)	1,25,000
Total income	10,70,000

Computation of taxable liability

	Rs .	Rs .
i) tax on LTCG (50,000*20/100)		10,000
ii) tax on balance of income(10,70,000-50,000=10,20,000)		
tax on firstRs .2,50,000		Nil
next Rs .2,50,000@5%		12,500
next Rs .5,00,000@20%		1,00,000
next Rs .20,000@30%	6,000	1,18,500
		1,28,500
ADD: HEC(1,28,500*4/100)	5,140	
Tax liability		**1,33,640**

" ALL THE BEST "