

- Meaning of E-filing.
- Difference between E-filing and manual filing of returns.
- Benefits and limitation of E-filing.
- Different Forms.

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## E-Filing of Income Tax Return

### Long Answer Type Questions

Q.1. What do you mean by e-filing? Who will be the Assessee and Explain tax rules?

Ans. Before e-filing we should understand the Income tax return, Before implementation of e-filing system an assessee submitted his Income tax return in manually. In Normal words e-filing means electronically filing the income taxes return.

#### Meaning of E-filing

Online submitting the Income tax return called e-filing. This E-filing submitted to government in a prescribed proforma. It is much quick and simple than manually submission of Income tax return. For e-filing of Income tax return Internet is essential. The e-filing form is available on Internal Revenue Services Website Following includes in E-filing-

1. Tax filing according to the convenience of tax payer.
2. Speed up refunds and reducing the errors.
3. Electronically filing mean Internet and Computer is essential.
4. E-filing available on Income tax Department's site.

#### Who will be the Assessee?

Following are the assessee for filing E>Returns

- (a) Individual
- (b) HUF
- (c) Company
- (d) Trust / Local Authorities
- (e) Chartered Accountants
- (f) Tax Deductor
- (g) Tax collector

#### Tax rates for Assessment year 2022-23

Following are the tax rates for different tax Assesses :

**For Individuals (a) Age Less than 60 years**

	Rate	Amount
Ist	5%	NIL
Next	20%	-----
Next	30%	-----
Balance	-----	-----
<b>Total Tax</b>		

	Rate	Amount
Ist	5%	NIL
Next	20%	-----
Next	30%	-----
Balance	-----	-----
<b>Total Tax</b>		

**(b) Age Less than 80 but more than 60 years**

	Rate	Amount
Ist	5%	NIL
Next	20%	-----
Next	30%	-----
Balance	-----	-----
<b>Total Tax</b>		

Particular	%	Amount
Ist	5%	NIL
Next	20%	-----
Balance	30%	-----
<b>Total Tax</b>		

**(c) Age more than 80 years**

- Note**— We will consider some important point other than above—
1. For HUF the rates will apply as a person whose age less than 60 years
  2. On long term capital gain tax rate will 20%
  3. On short term capital gain the tax rate (In the condition of share) 15%
  4. On lottery, Horse Race, T.V. Prize money tax rate is 30%
  5. Under section 87-A there will be a Rebate of Rs. 12500 on above total tax
  6. If Total Income between 50 Lakhs to 1crore surcharge will be 10%
  7. If Total Income between 1 crore to 2 crore than surcharge will be 15%
  8. If Total Income between 2 crore to 5 crore than surcharge will be 25%
  9. If Total Income above 5 crore than surcharge will be 37%
  10. After charging surcharge the the Health and education Cess charges @ 4%

16(iii) under salary than He/They will use following tax rates which are alternate Tax rates.

Particular	Rate	Amount
Ist	5%	NIL
Next	10%	-----
Next	15%	-----
Next	20%	-----
Next	25%	-----
On more than 1500000	30%	-----
<b>Total Tax</b>		

**Note**— other rules are same as old tax system.

**E-filing options**

There are 3 option for e-filing.

- (1) On Income tax e-filing website
- (2) Registered online tax filing Agency.
- (3) Through a Chartered Accountant or Professionals.

**Q.2. How to file Income tax return electronically and explain the required document for it?**

**Ans.** Process for file Income tax Return electronically—

- (1) visit the website of income tax department.
- (2) Register if New user
- (3) Log in if already have an account.
- (4) Go to the 'E-file' drop down menu.
- (5) Select Income tax return option.
- (6) Fill the form as per instructions.
- (7) Complete all the Process than finish it in prescribed manner.

**Essential documents for e-filing of Income tax return**

- (1) AdharCard
- (2) PAN Card
- (3) Salary Slip
- (4) T.D.S Certificate
- (5) Form 16(A) (OR) 16(B) (OR) 16(C)
- (6) from 26AS
- (7) Bank statement
- (8) Photocopy or scanned pass book
- (9) Bank Interest Certificate
- (10) Post office interest Certificate
- (11) Form No. 16 (For Salaried Person)
- (12) Tax savings Certificate

**Alternate Tax rates**

If a person or HUF dont want to deduct different deduction under section 80 and deduction of interest on loan and section 16(i), 16(ii),

- (13) Donation certificate for 80G
  - (14) Premium Certificate from Life Insurance Companies
  - (15) Audit Report, Balance-sheet and P&L Statements.
- Who will file the Income tax Return-**

- (i) A person who has Income more than 250000 Rs.
- (ii) A H.U.F. Who has Income more than 250000 Rs.
- (iii) Partnership firm, Company, Government or non government institutes.
- (iv) Senior Citizen Whose Total Income more than 300000 Rs. And age between 60 to 80 years.
- (v) Super Senior Citizen Whose Total Income more than Rs. 500000
- (vi) If A Resident Person having income in foreign.
- (vii) If A Non Resident person having Income from India which earned or Received.

**Q.3 How to register for e-filing on Income tax website?**

Ans. If a person or Institute wants to registered himself to Income tax website for e-filing than follow the following steps.

- I. Visit the Income tax E-filing Portal
- II. Open home page and click on register
- III. Go to Taxpayer option and Enter your PAN.
- IV. Click on the validate button
- V. Open Basic Detail Page Fill basic detail like Name, date of birth, Gender and click on continue
- VI. After validation of PAN for a person Contact detail page appears fill the E-mail ID, address, Mobile Number etc. click continue.
- VII. OTP Received on mobile and E-mail ID fill the OTP and click Continue (OTP Which having 6 digit)
- VIII. After fill the above click confirm
- IX. You will see the password text Box where you fill the password and confirm it
- X. After Complete the above process click on Register
- XI. After Registration you can go for login Process.

**Very Short Answer Type Questions**

- Q.4 Define E-filing of Income tax return.**  
 Ans. Please see Answer of Q.1
- Q.5 Explain Alternative tax rate for a person?**  
 Ans. Please see Answer of Q.2
- Q.6 Explain Registration Process of E-filing Income tax return in short.**  
 Ans. Please see Answer of Q.3

**Objective Type Question**

1. For a individual who has the age of 40 years, what is the tax exemption limit-  
 (a) Rs. 2,50,000 (b) Rs. 200000  
 (c) Rs. 300000 (d) Rs. 500000
  2. If you register on Income tax website for e-filing the return you will get OTP which is having-  
 (a) 5 digit (b) 6 digit  
 (c) 4 digit (d) 8 digit
  3. Following will be essential document for registration-  
 (a) PAN Card (b) ADHAR Card  
 (c) Both A and B (d) Graduation Marksheet
- Ans. 1 (a), 2 (b), 3 (c)

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**Difference Between E-Filing and Manual Filing of Returns**

**Long Answer Type Questions**

**Q.7** What is the difference between E-filing and manual filing of Returns?

Ans. There are two ways to file Income tax return

- I. Online (Electronically)
  - II. Offline (Manually)
- (I) Online - Electronically : If you want to file your returns electronically you have two options-

**Option-I.** You can use online tax filling portals for preparation and filing of your tax return.

**Option-II.** You can e-file your tax return on Income Tax Department's Website after Preparing it on Your own using software utility Provided on the department site

In each of the above options your return will be electronically sent to the Income tax Department. However, You Still need to sign your tax return. If you have a digital signature, you can use this to electronically sign your return. If you don't have a digital signature you will need to print out your ITR-V form. An ITR-V is acknowledgement generates on filing your return print this document and sign it. Then send this hard copy of your ITR-V to the central processing cell of Income tax Department in Bengaluru within 120 days through ordinary post.

**Online E-filing Process**

Enter the related data direct on portal and file ITR-1 and ITR-2 as per following steps-

- (1) Go to the E-filing portal.
- (2) Login or sign in the portal.
- (3) Enter ID Password.
- (4) Select Assessment year and ITR Form Number
- (5) Click on filing type which is original or revised.
- (6) Read the Instruction carefully and follow it.
- (7) Choose e-verify OR
- (8) Choose E-verify later than 120 days.
- (9) Select ITR-V and send it to Bengaluru within 120 days.
- (10) Click on preview and than submit it:

**Method of E-verification**

If you submitted your ITR than it required e-verification for e-verification sending signed ITR-V to CPC Bengaluru. You can e-verify using electronic. Verification code or Aadhar OTP or by Net banking (through Bank Account / Demate account or Bank ATM)

- For E-verification you should follow following steps-
- I. Login to portal for e-filing
  - II. Click on the verify
  - III. Select e-verification mode
  - IV. Enter EVC / OTP for e-verification
  - V. E-verification completed to avoid the loss of data save draft which is save for 30 days.

**Offline - Physical filing of tax return**

There is no danger or bias in filing online returns. However if you are still old fashioned and slow to join the digital age, then you can choose to file your returns in physical form. For physical filing you will have to prepare your tax return using the relevant form either on your own or through the help of Chartered Accountant. Once your return is ready and signed by you, you will need to submit this to the local Income tax office whether it is electronic or physical filing, under the new procedure person do not have attach any document or enclosures with the Income tax returns. The medium of filing had no bearing on whether the tax authorities will scrutinize your tax return. It makes no difference to the tax department whether you e-file or file physically. If you are due a refund, You are not going to get it any faster if you file in one way or another.

For Offline filing you will follow the steps-

- (1) Go to the Income tax portal.
- (2) Download the appropriate Income tax return.

- (3) Fill the Income tax form Calculate the tax.
- (4) Generate and save the file.
- (5) Login to e-filing portal and enter ID Password, Captcha and then login.
- (6) Fill the Form offline and send it to local Income tax office. ■

**Very Short Answer Type Questions**

Q.8 How will you verified your Income tax Returns.

Ans. Please see the Answer of Q.7

Q.9 Explain online e-filing process step-by-step?

Ans. Please see the Answer of Q.7

**Objective Type Question**

- (1) For how many days the saved data save as draft-
  - (a) 35 Days
  - (b) 60 Days
  - (c) 30 Days
  - (d) 90 Days
- (2) Advantage of online e-filing is-
  - (a) Speedy
  - (b) Accurate
  - (c) Both
  - (d) None of the above
- (3) Online e-filing is useful because- (Choose the odd reason)
  - (a) Time taking
  - (b) Time Saving
  - (c) Fast
  - (d) accurate

Ans. 1(c), 2(c), 3(a)

**Benefits and Limitation of E-Filing****Long Answer Type Questions**

Q.10 Explain different Benefits and Limitation of e-filing of Income tax Return?

Ans. Today the time is money so everyone saving money as well as time. If a person e-filing his income tax return than he will get different Benefits like round the clock availability, Fast process, more accurate so everyone encash the different advantage which are as follows-

(1) Easier- The process of E-filing is very easy with the help of computer and Internet everyone can do it easily. There are Less chance of errors and missing entries.

(2) Time Saving- Filing electronically with tax preparation software saving the time of tax Agency and Tax Payer. data direct transfer on computer which help to save on one time.

15) **Quick Refund**—Online filing help quick Refund from Income Tax Authorities. Most tax payers who e-file and provide direct Deposit information receive any due refund within 21 days if there are no issues with their tax Return.

16) **Helpdesk**—If a person e-filing the return than all the notices letters from the department are made available online assesee able to view it and submit the responses along with attachments.

17) **Online Service**—All services from Income tax Department available for 24 Hours.

18) **Record Maintaing**—Online e-filing help assesee to maintain his record in a proper manner This record will helpful for any future transaction.

19) **Error Less Work**—Before the last date for filing Income tax Return. If the user files it one or two months prior to this date they can complete the task more swiftly with less error.

20) **Avoid Penalty**—If Any late filing assessee will pay the penalty with interest. So the online Submission of Return will avoid the penalty and interest.

21) **Quick Notices**—Assessee will receives an acceptance or Rejection Notices within 48 hours of transmitting the tax return. Acceptance mean there is no problem with your e-filing but rejection means some problem with e-filing. If e-filing rejection notice received than after correcting it within 5 days present on Department Website.

22) **Slow Internate** is a very big problem for e-filing.

23) **Software error** is another limitation of e-filing.

24) **E-filing is not possible** for a normal tax payer so he need the help of professional like CA.

25) **An electronic filing could be Rejected** over mistake in entering a wrong security number or a wrong identification number or misspelled name return can typically be e-filed again once such error are fixed the IRS says if all else fails and deadline forms send in a paper return instead.

**Very Short Answer Type Questions**

Q11. Explain the advantages of E-filing of Income tax return.  
Ans. Please see the Answer of Question 10.

**Long Answer Type Questions**

Q.12. Explain different types of Income tax Return.  
ITR forms for E-Filing Returns

Ans. (1) **ITR-1: (SAHAD)**—Resident individuals with Income from salary, single house property and other sources not more than 50 Lakh annually and agriculture Income upto Rs. 5000. Annually.

(2) **ITR-2**—Individuals / HUF who do not have Income from Business and profession.

(3) **ITR-3**—Individuals / HUF who have Income from Business and profession.

(4) **ITR-4: (SUGAM)**—Resident, HUF and firms with annual income up to Rs. 50 lakh under section 44AD, 44ADA, 44AE

(5) **ITR-5**—Tax Assessee other than individual company, HUF and those filing ITR-7.

(6) **YTR-6**—Companies A part from those claiming exemption under section 11.

(7) **ITR-7**—Companies / Persons furnishing ITR under section 139(4A), 139(4B), 139(4C) and 139(4D).

Q.13 Give a proforma of challan no. 280 for submitting Income tax Return.  
Ans.

**Challan No. 280**

Important : Please see notes overlaid before filling up the challan

CHALLAN NO./	11 NS 280	Tax Applicable (Tick One)*	Assessment Year
		(09/20) INCOME TAX ON COMPANIES (CORPORATION TAX)	
		(09/23) INCOME TAX OTHER THAN COMPANIES	
Permanent Account Number			
Full Name			
Complete Address with City & State			
Tel No.		Type of Payment (Tick One)	Source (02)
Advance Tax (100)		Tax on Distributed Profits of Partnership Companies (106)	
Self Assessment Tax (104)		Tax on Distributed Income to Unit Holders (107)	
Tax on Regular Assessment (109)			

Single Copy to be sent to the ZAO

**Instructions:**

1. Please send the duly signed (preferably in blue ink) Form ITR-V to "Centralized Processing Centre, Income Tax Department, Bengaluru 560500" by ORDINARY POST OR SPEED POST ONLY. Alternatively, you may e-verify the electronic transmitted return data using Aadhaar OTP or Login to e-filing account through Net-Banking login or EVC obtained generated using Pre-Validated Bank Account/Debit Account or EVC generated through Bank ATM.
2. Form ITR-V shall not be received in any other office of the Income-tax Department or in any other manner. The confirmation of receipt of this Form ITR-V at ITD-CPC will be sent to the e-mail Id registered in the e-filing account.
3. On successful verification, the return filing acknowledgement can be downloaded from e-filing portal as a proof of completion of process of filing the return of Income.

**Objective Type Question**

- (1) ITR-4 also know As-
- (a) Easy
  - (b) Difficult
  - (c) SAHAJ
  - (d) SUGAM
- (2) ITR-1 also known as
- (a) Difficult
  - (b) Easy
  - (c) SAHAJ
  - (d) SUGAM
- (3) For section 139(4A) we will use which ITR form
- (a) ITR-1
  - (b) ITR-2
  - (c) ITR-6
  - (d) ITR-7

**Ans.** (1) D, (2) C, (3) D

## Introduction to Income tax

- Basic concept and Definition
- Types of Assessee
- Different head of Income tax
- Total Income and tax liability.
- PAN Card and Income tax return.

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## Definitions and Basic Concept

### Long Answer Type Questions

Q. 17. What is meant by Income Tax? What are the salient features of Income Tax.

- Ans. (1) Income tax is direct tax, which is imposed on the taxable income of a person or an assessee.
- (2) Income tax Act is applicable all over India including state of Jammu & Kashmir.
- (3) Income tax is a central tax, which is imposed and collected by central government.
- (4) It contributes most to the central government's sources of revenue.
- (5) 77.5% approx of net income tax received through revenue, is distributed to the state governments.
- (6) Amount of surcharge and education cess is not distributed to the states.
- (7) Income tax is imposed only on the taxable income of a person.
- (8) Income tax rate is a progressive rate i.e. high tax rate is applicable on higher income and low rate is applicable on lower income.
- (9) In case of individual and HUF, income tax is applicable on surplus amount after the exempted income.
- (10) There is an administrative department for income tax called as 'Income Tax Department'. It works under Central Board of Direct Taxes (CBDT).

Q. 18. Define 'Income' under the Income Tax Act.

### Income

(A) Income-tax under the Act is levied on the total income of a person. Section 2(24), gives an inclusive definition of 'Income'. Section 2(24) provides that 'Income' includes the following-

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- (1) Voluntary contribution received by -
  - (a) a trust created wholly or partly for charitable or religious purpose, or
  - (b) an association or institution.
- (2) Any special allowance or benefit, specifically granted to meet expenses wholly, necessarily and exclusively, for the performance of his duties.
- (3) Any allowance granted to the assessee either to meet his personal expenses at the place where he performs his duties or where he ordinarily resides or to compensate him for the increased cost of living.
- (4) The value of any benefit or perquisite not being money itself convertible into money or not, obtained from a company by -
  - (a) a director, or
  - (b) a person having substantial interest in the company, or
  - (c) a relative of the director or such person.
- (5) The value of any benefit or perquisite, whether convertible into money or not, obtained by a representative assessee under section 160(1)(iii)/(iv) or by a beneficiary and any sum paid by the representative assessee in respect of any obligation which, but for such payment, would have been payable by the beneficiary.
- (6) Compensation due to or received in connection with the termination of management or the modification of the term and conditions relating thereto [section 28(ii)].
- (7) Income of a trade, professional or similar association from specific services performed for its members [section 28(iii)].
- (8) Profits chargeable to tax [sections 41 and 59].
- (9) Profits on sale of a licence granted under the Imports (Control) Order, 1955 [section 28(via)].
- (10) Cash assistance against export under any scheme of Government [section 28(iib)].
- (11) Customs or excise duty drawback [section 28(iic)].
- (12) Value of any benefit or perquisite (whether convertible into money or not) arising from business or exercise of profession [section 28(iv)]. Even voluntary and gratuitous payments connected with the office, vocation or occupation are included in income.
- (13) Interest, salary, bonus, commission, remuneration due to or received by a partner of a firm from such firm [section 28(v)].

- (14) Capital gain chargeable under section 15.
- (15) Profits and gains of insurance business, computed as per section 44, that is carried on by (a) a mutual insurance company or (b) a co-operative society and any surplus taken to the such profit or gains under the First Schedule.
- (16) Winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any soft or from gambling or betting of any form or nature whatsoever.
- (17) Any sum received by the assessee from his employees, as contribution to –
- any provident fund, or
  - superannuation fund, or
  - any fund set-up under the Employee's State Insurance Act 1948, or
  - any other fund for the welfare of such employees.
- (18) Any sum received under a 'Keyman insurance policy' including the sum allocated as bonus.
- (A) Broad Principles which clarify the concept of Income –**

- The term "income" connotes a periodical monetary return coming in with some sort of regularity or expected regularity from definite sources.
- Income may be received in cash or in kind. When income is received in kind valuation thereof is made on the basis of market value.
- Income arises either on receipt basis or on accrual basis. Income may accrue to taxpayer without its actual receipt.
- The income-tax law does not make any distinction between income from a legal source and income sustained with illegality.
- Income-tax assessment cannot be held up or postponed merely because of existence of a dispute in respect of the title of income.
- Mere relief or reimbursement of expenses is not treated as income.
- When the income is diverted before it reaches the assessee it is 'diversion of income' and not taxable. Conversely, after earning the income, if it is required to be applied to discharge an obligation, it is merely an 'application of income' and it is taxable.
- A surplus arising to a mutual concern cannot be regarded as income.
- There is no distinction between temporary and permanent income.

- Income, whether received in lump sum or in installments, is taxable.
- If a person receives tax-free income on which tax is paid by the person making payment on behalf of the recipient, it has to be grossed up for inclusion in his total income.
- Receipt on account of 'dharmaada', 'gaushala' and 'pathshala' is not income and, therefore, not taxable.
- If any assessee receives extra money on account of devaluation of currency it is taxable.
- Income includes losses. The losses represent 'minus income'.
- Where interest is due on a capital sum and the creditor gets an open payment from the debtor, the creditor is at liberty to appropriate the payment towards principal and interest. If, however, neither the debtor nor the creditor makes any appropriation of payment as between capital and interest, the Income-tax Department is entitled to treat the payment as applicable to the outstanding interest and assess it as income.
- Unless and otherwise expressly provided, the same income cannot be taxed twice.
- Income means real income and not fictional income. A person cannot make a profit by trading with himself.
- Income is chargeable to tax in the hands of a person and not on source.
- It is not necessary that a source of income should exist in the assessment year.
- Pin money received by wife for her dress/personal expenses and small savings made by a woman out of money received from her husband for meeting household expenses is not treated as her income.
- In the case of a sportsman, who is a professional, the award received by him is chargeable to tax. In case of non-professional sportsman, however, the award received by him is not taxable.
- A voluntary payment made entirely without consideration cannot be treated as income.
- A receipt may not be in the nature of income at the time of receipt but a later point of time, it may change character and thus become income. In such a case, the taxability would arise in the year in which it acquires the character of income.
- The sales tax collected by an assessee is his income. However, any payment made by the assessee to the Govt. Ac. shall be separately allowed as deduction.

**Q.19** Distinguish between gross total income and total income.

**Gross Total Income**

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

1. Salaries
2. Income from house property.
3. Profits and gains of business or profession.
4. Capital gain.
5. Income from other sources.

In other words, gross total income means total income computed in accordance with the provisions of the Act before making any deduction under section 80C to 80U.

**Total Income**

Income which comes after deducting deductions allowed U/S 80 from gross total income is called total income.

**Difference between Gross Total Income and Total Income**

Gross Total Income (GTI)	Total Income (TI)
(1) Aggregate of 5 heads of income is called Gross Total Income.	(1) After deducting deductions of section 80C to 80U from GTI, balance amount is called Total Income.
(2) Tax calculation is not done on gross total income.	(2) Tax calculation is done on total income.
(3) Gross total income is not required to rounding off to the nearest ten rupees	(3) Rounding off to the nearest ten rupees of the total income is necessary.
(4) GTI cannot be less than total income.	(4) Total income can be less than or equal to GTI.
(5) Due to exemption Indian agricultural income is never included in gross total income.	(5) For calculation of tax Indian agricultural income is added in GTI.
(6) The gross total income is just a step towards computation of taxable income of an assessee.	(6) The total income is a last step towards computation of taxable income of an assessee i.e. the computation of total income is completed at this stage.

**Short Answer Type Questions**

**Q. 20.** Explain the tax Rates for Assessment year 2022-23

Ans. For assessment year 2022-23 and previous year 2021-22. The tax Rates for different types of Tax Payer is as follow as :-

1 <sup>st</sup>	2,50,000	NIL
Next	2,50,000	5%
Next	5,00,000	20%
Balance (over 10 lakh)		30%

- + L. Term gain × 20%
- + Lottery × 30%
- + Casual Income × 30%

Less- Rebate under section 87-A Maximum (Up to T.I. 5,00,000) - 12,500

+ Surcharge (As Per Rule) (+)

+ 4.1% cess

Less- T.D.S. and Advance tax

Actual tax

- Note-**
1. For Senior Citizen (60 to 80 years) 1<sup>st</sup> 3,00,000 of total income is tax free and next 2,00,000 taxable @ 10% Remaining process will be the same as above.
  2. For Super Senior Citizen (80 year or more than 80 years) 1<sup>st</sup> 5,00,000 of total income is tax free and next 5,00,000 taxable @ 20% Remaining process will same as above.
  3. If Total Income ₹ 50 Lakhs to ₹ 1 crore surcharge will be 10% and ₹ 1 crore to ₹ 2 crore 15% surcharge applicable.
  4. If Total Income ₹ 2 crore to ₹ 5 crore than surcharge will be 25%.
  5. If Total Income more than 5 crore the surcharge will be 37%.
  6. After surcharge 4% for Health and education cess will include.

**Alternative Tax System:** From assessment year 2022-23 government regulate a new alternative tax system where no deduction will allowed, No taxfree allowances allowed and tax rate will be :-

1 <sup>st</sup>	2.5 Lakh	NIL
Next	2.5 Lakh	5%
Next	2.5 Lakh	10%

Next	2.5 Lakh	15%
Next	2.5 Lakh	20%
Next	2.5 Lakh	25%
Balance		30%

Note- Education cess, section 87-A Rebate upto 12,500 Rs. and surcharge rule will be same as normal tax system.

Q. 21. Write short note on the followings-

- (a) Assessment year (b) Previous year  
(c) Person (d) Assessee

Ans. (a) Assessment year

According to section 2(a), an 'assessment year' means the period of 12 months commencing on the 1st of April every year and the ending year on the day 31st of March of the next year. Generally assessment year is the just next of previous year. This issue of book is made according to assessment year 2022-2023. Provisions regarding Computation of Income exist as on 1.4.2021 will be applicable but provisions made or amend after 1.4.2022 will not be applicable. Similarly provisions regarding procedure will be applicable with effect from the date on which it is notified.

The two main functions of the assessment are (a) to find out taxable income as per income tax provisions, and (b) to calculate the tax on the taxable income. Or in other words these two functions are called 'Assessment' and the year in which it is done is called as 'Assessment Year'.

#### (b) Previous year

Section 3 of the Income tax Act defines previous year, it means the duration of the 12 months immediately preceding the assessment year. Generally previous year commence on 1<sup>st</sup> of April and end on 31<sup>st</sup> March. The income of previous year is taxed during the assessment year.

For example, for the assessment year 2022-2023, previous year will commence on 1<sup>st</sup> of April 2021 and end on 31<sup>st</sup> of March 2022. It can be simply said that the year in which income is earned is known as previous year and the next year in which this income is assessed is known as assessment year. Important points are as follow in the relation with previous year-

- (1) For all the assessee and for all the sources of income the financial year (year ending on 31<sup>st</sup> march) will be the uniform previous year.
- (2) There is no compulsion that assessee has to close his accounts on 31<sup>st</sup> march only. Assessee can close his accounts on a different from 31<sup>st</sup> march. However, it is better for him to close his accounts on 31<sup>st</sup> march because in income tax act, the financial year is considered as the previous year.

(3)

In case of any new source of income is generated during the financial year, the previous year will begin from the date of existence of the source of income and will end with just following 31<sup>st</sup> march. In this case, the first previous year may be of less than 12 months. For example, an assessee started his new business on 12-08-2021 then the previous year for that business is from 12-08-2021 to 31-03-2022. Generally the just following financial year, then Previous year is called as assessment year but in the following situations the previous year itself is considered as assessment year-

- Income from shipping business of a non-resident shipping company.
- Income of an Individual who living India forever or for a long period.
- Income of bodies which are formed for short duration.
- Income of a person trying to alienate his assets to avoid payment of tax.
- Income of a discontinued business.

#### (c) Person [Sec. 2(31)]

The term "person" includes

- (a) An individual; Like Ram, Shyam etc.
- (b) A Hindu undivided family;
- (c) A company; (Private limited, public limited and foreign company)
- (d) A partnership firm; (Including LLP)
- (e) An association of persons (AOP) or a body of individuals (BOI), whether incorporated or not;
- (f) A local authority; and
- (g) Every artificial juridical person not falling within any of the preceding categories.

The aforesaid definition is inclusive and not exhaustive.

#### (d) Assessee [Sec. 2(7)]

Assessee means a person by whom any tax or any other sum of money is payable under the act. The term includes the following persons-

- First Category** - A person by whom any tax or any other sum of money (including interest and penalty) is payable under the Act.
- Second Category** - A person in respect of whom any proceeding under the Act has been taken -
- a. either for the assessment of the amount of his income or of the loss sustained by him; or
  - b. of the income (or loss) of any other person in respect of whom he is assessable; or
  - c. of the amount of refund due to him or to such other person.

Third category - Every person who is deemed to be an assessee.  
Fourth category - Every person who is deemed to be an assessee in default.

### Objective Type Questions

- Choose and write correct option-  
Income Tax is a :  
(a) Direct Tax (b) Indirect Tax (c) Tax on Expenses (d) Tax on Sales
- Income Tax is Imposed on :  
(a) Individuals (b) HUF (c) Partnership Firm (d) All of the above
- Incidence of Income Tax on :  
(a) Tax payer (b) Consumer (c) Poor person (d) All of the above  
The assessment year means the period starting from :  
(a) 1<sup>st</sup> January (b) 1<sup>st</sup> April (c) 1<sup>st</sup> July (d) Next day of Diwali
- The term 'person' includes :  
(a) An individual (b) A HUF (c) A company (d) All of the above
- Heads of Income are :  
(a) 3 (b) 4 (c) 5 (d) Many.
- Previous year is :  
(a) Preceding year (b) Year of earning of Income  
(c) Year of Computation of Income (d) Year of Tax Payment.
- Assessment year starts from :  
(a) 1<sup>st</sup> Jan. (b) 1<sup>st</sup> April  
(c) Next day of Diwali (d) None of the above
- Gross Total Income means :  
(a) Taxable Income (b) Accounting Income  
(c) Income before deducting deductions U/S80 (d) All of the above
- Total Income means :  
(a) Taxable Income (b) Income after deducting deductions u/s 80  
(c) Income on which tax to be calculated (d) All of the above
- Income includes following type of receipts :  
(a) Statutory (b) Illegal  
(c) Statutory and illegal both (d) None of these
- Limit of Tax Free Income for Assesse (below 60 yrs) is-  
(a) 2,00,000 (b) 1,80,000 (c) 3,00,000 (d) 2,50,000
- Limit of Tax Free Income for Senior Citizen (60 to 80 yrs) is-  
(a) 2,00,000 (b) 1,80,000 (c) 3,00,000 (d) 5,00,000
- Limit of Tax Free Income for Super Senior Citizen (above 80 yrs) is-  
(a) 2,00,000 (b) 1,80,000 (c) 3,00,000 (d) 5,00,000
- Ans.- 1. (a), 2. (d), 3. (a), 4. (b), 5. (d), 6. (c), 7. (b), 8. (b), 9. (c), 10. (d), 11 (c), 12. (d), 13. (c), 14. (d)

6

### Exempted Income

#### Long Answer Type Questions

Q. 22. What do you mean by 'Exempted Income'? Discuss any ten Exempted Income under the Income Tax Act.

Ans. There are several incomes which are exempted from the income tax. These are as follows -

(1) ~~(1)~~ Agricultural income [Sec. 10(1)] - Indian agricultural income is exempt from tax but foreign agricultural income is taxable. (Note - for the detailed study of agricultural income, see chapter - 'Agricultural income')

(2) ~~(2)~~ Income from partnership firm [Sec. 10(2A)] - In case of a partnership firm the share of profit is not included in the personal income of a particular partner. If a partner receives remuneration and interest on capital then it is taxable as per the given provision -

(A) The amount which is deducted from firm's taxable profits as business expenses is same as that of the amount of remuneration and interest is taxable in the partner's assessment.

(B) The amount of remuneration and interest is not deducted from firm's business income, that is exempted in partner's assessment.

(3) Receipts from a Hindu undivided family [Sec. 10 (2)] - The share of income of an individual member of HUF received from HUF is fully exempt. If any member receives any remuneration from family for taking active part to run the business of the family and interest received from loan amount given to HUF, such remuneration and interest will be taxable in the hands of the member.

(4) Scholarship [Sec. 10(16)] - Scholarship granted to meet the cost of education and research work is exempt from tax. It is not necessary that scholarship should be financed by the Government. Scholarship given by a person or institution will also be exempt for the receiver. If the scholarship holder does not spend the whole money, then the money saved is also not taxable.

(5) Awards or Rewards [Sec. 10(17A)] - Award given by the Central Government or any State Government or any institution which is approved by the Central Government is exempt, whether it is in cash or in kind. These are given for the historical, scientific and artistic

works (excellent) in sports, to help and serve poor and weak people of the society. Gallantry awards given by the government are also fully exempted.

(6) Pension to gallantry award winner [Sec. 10(18)]- The pension for the services rendered by the member of defense forces who have been awarded the Paramvir charka, the Mahavir charka and Vir charka for the demonstration of exceptional courage and valour during the war, the pension of such gallantry award winners has been exempted from the income tax.

(7) Family pension received by the family members of the armed forces [Sec. 10(19)]- Family pension received by the widow or children or legal heirs of a member of the armed forces of the union shall be exempt, if the death of such member has occurred in the course of operational duties.

(8) Income of a minor child [Sec. 10(32)]- Income of a minor child is clubbed in his parent's income. Up to Rs. 1,500 is exempted from the minor's income and if his income is more than 1,500 then only Rs. 1,500 is exempted and rest is added to his parent's income.

(9) Compensation under Bhopal gas leak disaster [Sec. 10(10BB)]- Any payment received by a person under Bhopal gas leak disaster Act 1985, shall be exempt from tax. But any payment received in this connection for which deduction is already been allowed will not be exempt.

(10) Subsidy received by the planters [Sec. 10(30) and (31)]- In the case of an assessee who carries on the business of growing and manufacturing tea, rubber, coffee, cardamom or any such other specific commodity in India, the amount of any subsidy received from or through the board is wholly exempted from the tax. It is received for the replantation or replacement of plants, etc. or for rejuvenation or consolidation of areas used for their cultivation. ■

Q. 23. Which income Exempted for Institutions? Discuss.  
Ans. Exempted Income for Institutions

(1) Income of educational institutes and hospitals [Sec. 10(23 C)]- Any income of educational institutions and hospitals which are existing solely for education purpose and for the health purpose and not for the purpose of earning the profit, is exempted. Such institutions should be wholly or substantially financed by the government. The same type of institutions but not financed by the government) having annual

receipts not more than ₹ 1 crore or if the receipts is more than Rs. 1 crore but they are approved by the income tax department, are also exempted.

(2) Income of scientific research association [Sec. 10(21)]- Any income of an approved scientific research association is exempted.

It is compulsory for the association that its full income must be used for its purpose and follow sec 11(2), (3) & (5) These sections are described under the heading 'Religious and Charitable trust further in this chapter.

(3) Income of local authorities [Sec. 10(20)]- Income of a municipal corporation, municipality, panchayats etc. arises from any work within its own jurisdictional area or in the form of supply of water and electricity outside its own jurisdictional area, will be exempted.

(4) Income of khadi and village industries [Sec. 10(23B) and (23 BB)] - Any income of a trust or a society approved by khadi and village industries commission is exempted. It is mandatory that purpose of these societies should not be earning profit and entire income should be used for fulfilling its objectives. As well as income of khadi and village industries established by state government or which comes under the state act is exempted.

(5) Income of mutual funds- Income of a mutual fund set up by a public sector bank or a public financial institute and approved by RBI or SEBI is exempted.

(6) Income of professional institutions [Sec. 10(23 A)]- Any income of institution (approved by central government), whose object is to control, supervise, regulate or encourage a special profession is exempted. It is necessary that such institutes are not for the purpose of profit making. Income of institute is completely utilized for attaining its objectives. The income of such institutes from house property, interest, or from providing special services is taxable.

(7) Income of registered trade unions [Sec. 10(24)]- Following income of the registered trade union (which is registered under the Indian Trade union Act 1926) is exempted from the tax

(1) Income from house property.  
(2) Income from other sources.  
(8) Income of news agencies [Sec. 10(22B)]- Any income of news agencies which are notified by the central government and whose work is to collect and distribute the news is exempted. It is necessary that their income is completely utilized for attaining its objectives.

(9) Income of other institutions - Income of some other institutions are exempted under different sub-sections of section 10, if they fulfill certain conditions. These institutes are -

- (a) Income of housing boards
  - (b) Income of regimental funds
  - (c) Income of fund established for employees welfare
  - (d) Income of pension fund which is established by Life Insurance Corporation of India or any other insurance company.
  - (e) Income of European Economic Community from interest dividend and capital gain.
  - (f) Income of SAARC fund for regional project.
  - (g) Income of AOSAI
  - (h) Income of Insurance Regulatory and Development authority. (RIDA)
  - (i) Income of Central Electricity Regulatory commission.
  - (j) Income of Investor Protection Fund.
  - (k) Income of Credit Guarantee Funds Trust for Small Industries.
  - (l) Income of investor protection fund for commodity exchange.
  - (m) Income of Statutory Provident Fund and Recognized Provident Fund.
  - (n) Income of Employee's State Insurance Fund.
  - (o) Income of statutory corporations and institutions for promoting the interest of SC/ST.
  - (p) Income of National Minorities Development and Finance Corporation.
  - (q) Income of Ex-Serviceman corporations.
  - (r) Income of cooperative society formed for promoting interest of members of SC/ST.
  - (s) Income of certain commodity boards / authorities.
  - (t) Income of international sporting event.
  - (u) Income of notified non profit body / authority.
  - (v) Income of New Pension System Trust.
  - (w) Income of venture capital fund and venture capital company.
- The above mentioned institutes are generally either the government institutes or institutes approved by the government. ■

### Short Answer Type Questions

Q. 24 Write names of Exempted Income of Salary head.

Ans. Exempted Income of Salary Head  
Income from Allowance - sec. 10 (13(A))

3. Commutation of Pension - sec. 10 (10A)
4. Leave Travel Concession - sec. 10 (5)
5. Leave Salary - sec. 10 (10AA)
6. Retrenchment Compensation - sec. 10 (10B)
7. Allowances and perquisites received by Govt. Employees outside India - sec. 10 (7)
8. Payment from Provident Fund on Maturity - sec. 10 (11)
9. Payment from Superannuation Fund - sec. 10 (13)
10. Compensation under VRS - sec. 10 (10 C)
11. Allowances - sec. 10 (14)
12. Tax on Perquisites Paid by Employer - sec. 10 (10CC)
13. Salary Received by Foreign Diplomats - sec. 10 (6)
14. Salary of Foreign Employees - sec. 10 (6) (vi)
15. Salary of members of ships crew - sec. 10 (6) (viii)
16. Salary of Foreign Trainees - sec. 10 (6) (xi)
17. Salary of an employee working under co-operative technical assistance program - sec. 10 (8)

Q. 25. Describe exemptions available to political parties and electoral trusts.

Ans. **Political Party [Section 13(A)]**

The following incomes derived by a political party are not included in computing its total income-

- (a) Any income which is chargeable under 'The heads 'Income from house property', 'Capital gains' and 'Income from other sources', and
- (b) Any income by way of voluntary contributions. Exemptions under section 13A are not available unless the political party satisfies the following conditions-  
The political party keeps and maintains books of account.  
The political party keeps and maintains a record of each voluntary contribution in excess of ₹ 20,000.
- (c) The accounts of the political party are audited
- (d) The political party should submit a report of contribution received in excess of ₹ 20,000 to the Election Commission.
- (e) Political party must be registered with the Election Commission of India as a political party.

**Electoral Trust [Section 13(B)]**

Donation received by an electoral trust will not be chargeable to tax, if the following conditions are satisfied-

- (a) The electoral trust is approved by the Central Board of Direct Taxes.
- (b) The electoral trust will have to distribute to political parties 95% of the aggregate donations received along with the surplus, if any, brought forward from any earlier previous years.
- (c) The electoral trust functions in accordance with the rule made in this regard by Central Govt.

### Objective Type Questions

#### 1. Choose and write correct option-

1. Exempted Income means income which is :
  - (a) Not taxable
  - (b) Taxable
  - (c) Taxable at wish of Assessee
  - (d) Taxable at half Rate
2. Minor's Income is exempted to the extent of :
  - (a) Upto ₹ 1,000
  - (b) Upto ₹ 1,500
  - (c) Upto ₹ 10,000
  - (d) fully Exempted
3. To get deduction u/s 10A :
  - (a) Audit is voluntary
  - (b) Audit is compulsory
  - (c) Certification is compulsory
  - (d) None of the above
4. The deduction u/s 10A is not available from the assessment year :
  - (a) 2010-11
  - (b) 2011-12
  - (c) 2012-13
  - (d) 2013-14
5. In general deduction u/s 10A is available for :
  - (a) 10 consecutive years
  - (b) Any 10 years out of first 15 years
  - (c) 6 consecutive years
  - (d) Any 6 years out of first 10 years
6. To get deduction u/s 10B the business must be located in :
  - (a) Free trade zone
  - (b) Technology Park
  - (c) Special Economic zone
  - (d) None of the above
7. Exempted income is :
  - (a) Share of profit from partnership firm
  - (b) Salary to partner from partnership firm
  - (c) Interest to partner from partnership firm
  - (d) All of the above
8. Exempted income is :
  - (a) Dividend from an Indian company
  - (b) Dividend from a foreign company
  - (c) Dividend from a co-operative society
  - (d) All of the above

9. Following is not exempted Income :
    - (a) Scholarships
    - (b) Awards from Govt.
    - (c) Winning from Lottery
    - (d) Gallantry awards
  10. Income which is exempted for members of parliament :
    - (a) Salary
    - (b) Dearness Allowance
    - (c) Daily Allowance
    - (d) Pension
  11. The term 'Charitable Purpose' includes the following :
    - (a) Relief to the poor
    - (b) Medical relief
    - (c) Preservation of environment
    - (d) All of the above
  12. The Charitable Trust may accumulate its income maximum for :
    - (a) 4 years
    - (b) 5 years
    - (c) 6 years
    - (d) 10 years
  13. The political party must keep and maintain a record of each voluntary contribution of :
    - (a) ₹ 10,000 or more
    - (b) More than ₹ 10,000
    - (c) ₹ 20,000 or more
    - (d) More than ₹ 20,000
- [ Ans. 1. (a), 2. (b), 3. (b), 4. (c), 5. (a), 6. (d), 7. (a), 8. (a), 9. (c), 10. (c), 11. (d), 12. (b), 13. (d) ]
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7

## Types of Assessee (Residential Status and Incidence of tax)

### Long Answer Type Questions

Q. 26. How is the residential status of an assessee determined for income tax purposes. Discuss the influence of residence on tax liability.

Ans. Basic and additional conditions for Individuals—

BASIC CONDITIONS		
If an Indian Citizen who leaves India during the previous year for the purpose of employment outside India or as a member of the crew of an Indian ship	If an Indian citizen or a person of Indian Origin who is in abroad and who visited India during the relevant previous year	In any other case
(A) Stay for at least 182 days in India during the previous year.	(A) Stay for at least 182 days in India during the previous year.	(A) Stay for at least 182 days in previous year, or (B) Stay in India for at least 60 days during the previous year + 365 days during 4 years preceding the previous year.
ADDITIONAL CONDITIONS		
(x) Stay of at least 730 days during 7 years preceding the previous year.		
(y) Resident in at least 2 years out of 10 years preceding the previous year according to the basic condition only.		

Note - A person is said to be of Indian origin if he or either his parents, or any of his grand parents was born in undivided India (i.e. before 15th August, 1947)

### Determination of Residential Status (Section 6)

Resident		Non-Resident (NR)
Ordinary Resident (RORI)	Not-Ordinary Resident (RNORD)	
Any one/both of basic conditions satisfied +	Any one/both of basic conditions satisfied +	None of the basic conditions satisfied.
Both additional conditions satisfied	Any one/none of additional conditions satisfied	

- 'Year' means the period of 12 calendar months, each immediately preceding the commencement of the relevant previous year, i.e. April to March.
- The Individual need not to be in India for the period(s) specified, at one place. He is also not required to stay continuously for such period.
- The Individual is treated as being in India if he is at any place within the territorial waters in India.
- For determining the period of stay in India, a presence for 24 hours in India is equivalent to one day. If such hourly data of his presence in India is not available the day of his arrival in India and departure from India is to be included in determining the total period.
- Burden of proving that an individual is resident in India is on the revenue.

### Determining the Residential Status

Check the following two things—

- (1) Does the individual fulfill at least one basic condition? (from A&B)
- (2) Does the individual fulfill both the additional conditions together? (x and y)
  - (A) If the answer of both the questions is yes, then the individual is said to be resident and ordinarily resident in India (RORI).
  - (B) The answer of 1<sup>st</sup> question is yes, but 2<sup>nd</sup> question is no then the individual is said to be resident but not ordinarily resident in India (RNORI).
  - (C) If the answer of the 1<sup>st</sup> question is no, then the individual is said to be non-resident (NR). In that condition there is no importance of answer of 2<sup>nd</sup> question.

**Residential Status of a Hindu Undivided Family [Sec. 6(2)]-**

A Hindu undivided family is said to be resident in India if control and management of its affairs is wholly or partly situated in India. A Hindu undivided family is non-resident in India if 100% control and management of its affairs is situated outside India.

Hindu undivided family is a resident and ordinarily resident in India if karta or manager of the family satisfies the following two additional conditions -

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

(2) Karta has been resident in India in at least 2 out of 10 previous years immediately preceding the relevant previous year.

- If karta or manager of a resident Hindu undivided family does not satisfy the two additional conditions, the family is treated as resident but not ordinarily resident in India.
- Control and management of the HUF means the controlling and directive power of the HUF. It means actual control and management. Mere right to control and manage the HUF does not amount to control and management. The place of control and management is situated where the head, the seat and the directing power is situated.
- Under the law, it is presumed that the HUF is resident in India. Thus the burden of proving that the HUF is non-resident is on the HUF.

**Residential Status of a Company [Sec. 6(3)] -**

An Indian company is always resident in India. A foreign company is resident in India only if, during the previous year, 100% control and management of its affairs is situated in India. Conversely, a foreign company is treated as non-resident if, during the previous year, control and management of its affairs is either wholly or partly situated outside India.

Burden of proving that a company is resident in India is on the revenue.

**Residential status of every other person [Sec. 6(4)] -**

Every other person is resident in India if control and management of his affairs is, wholly or partly, situated within India during the relevant previous year. On the other hand, every other person is non-resident in India if 100% control and management of its affairs is situated outside India.

Under the law, it is presumed that the every other person is resident in India. Thus, the burden of proving that the every other person is non-resident is on it.

**Other points -**

- (1) Control and management means decision making and giving directions. A person who makes decision and gives direction is called controller and manager.
- (2) It is important that who is actually controlling and managing the affairs. The person who is having only the rights for controlling and managing the affairs is not important.
- (3) The country in which the function of decision making and giving direction, the control and the management is situated in that country only.
- (4) Control and management is not related with the place of the business or the place of sell or purchase of the goods.
- (5) If at least one decision is taken during a year in India then it will be considered that partial control and management is situated in India. And if, in the whole year every decision is taken in India, then it will be considered that the full control and management is situated in India.

**Q. 27. How is residence of assesses determined for income-tax purpose? Explain the relationship between residence and tax liability.**

**Incidence of Tax [Sec. 5]**

**Ans.** Under the Act, incidence of tax on a taxpayer depends on his residential status and also on the place and time of accrual or receipt of income.

NATURE OF INCOME	RESIDENTIAL STATUS		
	RORI	RNORI	NR
(1) Income received in India.	Taxable	Taxable	Taxable
(2) Income deemed to be received in India	Taxable	Taxable	Taxable
(3) Income which accrues/arises in India	Taxable	Taxable	Taxable
(4) Income deemed to accrue/arise in India	Taxable	Taxable	Taxable
(5) Income from a foreign business which is fully / partially controlled from India	Taxable	Taxable	Exempted
(6) Income from profession which accrued and received outside India but profession is set up in india	Taxable	Taxable	Exempted
(7) Other foreign income	Taxable	Exempted	Exempted
(8) Income remitted to India during the relevant previous year and same was accrued and received outside India during earlier previous years	Exempted	Exempted	Exempted

**Important points**

- (1) Income received, accrued and brought in India in the relevant previous year is the income of point 7 not of point 8.
- (2) While doing the assessment of tax it's not important that how the income is spent.
- (3) The income which is accrued and received during the earlier previous years in any foreign country and brought in India during the relevant previous year, then that income is exempted for all types of assesses. It's not important that, it was taxed earlier or not.
- (4) Some income are exempt on which no tax liability is calculated. For e.g.
  - (A) Indian agricultural income
  - (B) Dividend received from Indian company
  - (C) Gifts up to ₹50,000 received during the previous year. ■

**Short Answer Type Questions**

**Q. 28. What do you understand by 'Receipts of income'?**

**Ans.** **Receipt of Income**

Some important points regarding the place of receipt of income—

- (1) Income received or deemed to be received in India is taxable for all types of assesses. Residential status of the assessee and the place of accrual of income are not important in this regard.
- (2) When any money comes under the control of a person for the first time then it is said that money is received by that person. Money is received by the person for one single time only; same money can't be received for more than one time by the same person.
- (3) If any agent, broker or bank of an assessee receives the amount at a place, then this amount is said to be received by the assessee at that particular place.
- (4) It is not a compulsion that income should be in the form of 'currency'. If the income is received in any other form or kind, place of receiving the kind or form is said to be the place of receiving the income.
- (5) If the goods are delivered through VPP or the acknowledgement slip is sent through bank then the post office or bank is supposed to be the agent of the seller.

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- (6) If any payment is received through the bank then the place and date of the receiving cheque is supposed to be the date and place of receiving the payment.
- (7) If the cheque is sent through the post, then the post office is considered as the agent of the sender of the cheque. But if the cheque is sent through the post when the person receiving the cheque requests for the same then the post office is considered as the agent of the receiver.
- (8) Whether the income is received by an assessee in India, it is the responsibility of income tax department to prove it.
- (9) Two important points regarding the income received are—
  - (A) Whether the income has been received in India or out of India?
  - (B) In which previous year income has been received? Apart from these two points nothing is important. ■

**Q. 29. Write short note on 'Income deemed to be Received in India.'**

**Ans.**

**Income deemed to be received in India (sec-7)**

Income tax act has considered some income as deemed to be received in India. This income is also taxable for all types of assesses. In the assessment of such income neither the residential status of the assessee nor the place of accrual of income is of any importance. Following income is considered deemed to be received in India—

- (1) Interest credited to a Recognized Provident Fund account in excess of specified rate of interest.
- (2) Employer's contribution towards Recognized Provident Fund account in excess of 12% of employee's salary.
- (3) Transfer of balance from an Unrecognized Provident Fund account to a Recognized Provident Fund account.
- (4) Contribution of central government or any other employer towards a Special Pension Scheme in respect of section 80CCD.
- (5) The amount of tax deducted at source.

**Income accrued in India or deemed to be accrued in India**

**References -**

- (1) The income which is accrued in India or deemed to be accrued in India is taxable to all types of assesses. Residential status of the assessee is of no importance in this regard. Place of receiving the income is also not important.

- (2) When the recipient gets the 'right to demand' or 'right to receive' then the income is considered to be accrued.
- (3) From the taxation point of view the only 2 things important regarding accrual of income are- (A) Whether the income is accrued in India or outside India? (B) In which previous year the income has been accrued? Besides these two points nothing is important.

**Practical Questions**

**Q. 30.** Mr. Patel is an Indian citizen and employed in America since 1991. He came to India first time since 1991, on 10.08.2015 and went to Dubai on 12.08.2017 and came to India on 10.04.2017 and then returned to America on 20.08.2017. On 04.01.2022, he finally came back to India permanently. Determine his residential status for the assessment year 2022-23.

**Solution** - During the relevant previous year Mr. Patel is in India for more than 60 days and for more than 365 days, during 4 years preceding the relevant previous year. He has been in India for more than 730 days in all during the 7 previous year preceding the relevant previous year and he was in India in the year 2008-09, 2009-10, 2010-11 & 2012-13 so he is ordinary resident for the assessment year 2015-16 because he satisfy one basic condition and 2 additional conditions. (If an individual comes to India permanently then his basic conditions will be two and not one)

**Q. 31.** Shri Ramesh has the following incomes for the financial year 2021-22

- (1) Income from property situated in London 40,000
  - (2) Income from salary received in India for service rendered in London 28,000
  - (3) Profit from business in London controlled form India 1,20,000
  - (4) Profit from Kanpur business 1,10,000
  - (5) Agriculture income in India 10,000
- Compute the income of Shri Ramesh for the assessment year 2022-23

**Solution-** (a) Resident (b) Non Resident in India

**Computation of Taxable Income for the assessment year 2022-23**

Incomes	Resident	Non-Resident
(1) Income from property in London	40,000	-
(2) Income from salary received in India	28,000	28,000
(3) Profit from business in London controlled from India	1,20,000	-

(4) Profit from Kanpur business	1,10,000	1,10,000
(5) Agricultural income in India	-	-
<b>Taxable Income</b>	<b>2,98,000</b>	<b>1,38,000</b>

**Q. 32.** For the assessment year 2022-23, Mr. Mehta is non-resident in India. From the information given below, find out his income chargeable to tax for the assessment year 2022-23: (₹)

1. Royalty received in outside India from the Government of India ..... 35,000
2. Technical fees received from an Indian company in Singapore for advise given by him in respect of a project situated in Germany ..... 1,35,000
3. Income from a business situated in Singapore (business is controlled partly in Singapore and partly in India) ..... 1,65,000
4. Income from a business connection in India received outside India ..... 65,000

**Solution :** **Computation of Taxable Income (₹)**

1. As royalty is received from the Government of India, it is deemed to accrue in India. It is always taxable ..... 35,000
  2. Technical fees is received in Singapore. The project is situated in Germany. It is not taxable in the case of a non-resident .....
  3. Income is received from a business in Singapore as well as accrued in Singapore. It is not taxable in the case of a non-resident .....
  4. As the business connection is situated in India, it is deemed accrue in India. It is always taxable. ... 65,000
- Total** 1,00,000

**Q. 33.** The following are the particulars of Income of Mr. Vilas

- Batra (Indian citizen) for the previous year 2021-22 ₹**
1. Profit from business in Japan received in India .... 1,00,000
  2. Income from house property in Bangla Desh received in India ..... 1,000
  3. Income from house property in Sri Lanka deposited in a bank there ..... 2,000
  4. Profit from business in Burma deposited in a bank there. This business is controlled from India. .... 2,000

4. Accrued in India but received in Malaysia ..... 2,72,000  
 5. Accrued in India but received in Malaysia ..... 4,000  
 6. Profit from business in Indore brought into India during the previous year ..... 15,000  
 7. Past untaxed foreign income brought into India during the previous year ..... 15,000
- From the above particulars compute the taxable income of Mr. Batra for the Assessment year 2022-23 if he is -  
 (a) Ordinarily Resident, (b) Not ordinarily resident, (c) Non-Resident.

**Solution : Computation of Taxable Income of Mr. Batra**  
 For the Assessment Year 2022-23

Incomes	Ordinarily Resident	Not Ordinarily Resident	Non-Resident
1. Profit from business in Japan received in India	1,00,000	1,00,000	1,00,000
2. Income from house property in BanglaDesh received in India	1,000	1,000	1,000
3. Income from house property in Sri Lanka deposited in a bank there	2,000	-	-
4. Profit from business in Burma (controlled by India) deposited there in a bank	2,000	2,000	-
5. Income accrued in India but received in Malaysia	4,000	4,000	4,000
6. Profit from business in Indore	2,72,000	2,72,000	2,72,000
7. Past untaxed foreign Income	-	-	2,72,000
<b>Taxable Income</b>	<b>3,81,000</b>	<b>3,79,000</b>	<b>3,77,000</b>

**Objective Type Questions**

- (I) Choose and write correct option -
- Types of Individual assessee are from residential status point of view :  
 (a) 2 (b) 3 (c) 4 (d) 5
  - Types of corporate assessee are from residential status point of view :  
 (a) 2 (b) 3 (c) 4 (d) 5
  - An Individual assessee is resident, if he fulfills :  
 (a) First Basic condition only (b) Second Basic condition only  
 (c) Both basic conditions (d) At least one Basic Condition.

Types of Assessee (Residential Status and Incidence of tax) / 43

- An Individual assess is ordinary resident, if he fulfills :  
 (a) First additional condition (b) Second additional condition  
 (c) Any one additional condition (d) Both additional conditions
- An Individual assessee is ordinary resident, if he fulfills :  
 (a) Both Basic conditions (b) Both additional conditions  
 (c) One basic and both additional conditions  
 (d) Both basic and one additional condition
- An Individual and HUF may be :  
 (a) Ordinary resident only (b) Non-Ordinary resident only  
 (c) Non-resident only (c) Any one of above
- Company and partnership firm may be :  
 (a) Resident only (b) Not-ordinary resident only  
 (c) Non-resident only (d) Resident or non-resident
- Basic condition will be for an Indian citizen who leaves India during the previous year for employment outside India :  
 (a) Stay of atleast 182 days in India  
 (b) Stay of atleast 365 days in India during the just preceding 4 years  
 (c) Stay of atleast 730 days in India during the just preceding 7 years  
 (d) All of the above
- Who may be Resident but not ordinarily resident in India :  
 (a) Individual (b) HUF (c) Both of above (d) None of above
- Foreign agricultural income is taxable in the hands of :  
 (a) Ordinary resident (b) Not-ordinary resident  
 (c) Non-resident (d) All of the above
- Income which is accrued in India is taxable for :  
 (a) RORL only (b) RNORI only (c) NR only (d) All of the above
- Income which is received in India is taxable for :  
 (a) RORL only (b) RNORI only (c) NR only (d) All of the above
- A foreign income is taxable for :  
 (a) RORL only (b) RNORI only (c) NR only (d) All of the above
- Income is taxable in the hands of ordinary resident, if it is :  
 (a) Accrued in India (b) Received in India  
 (c) Accrued and received outside India (d) All of the above
- Income is taxable in the hands of 'Resident but not ordinarily resident in India', if it is :  
 (a) Accrued in India (b) Received in India  
 (c) Deemed to be accrued in India (d) All of the above
- Income is not taxable for a non-resident assessee, if it is :  
 (a) Accrued in India (b) Received in India  
 (c) Accrued and received outside India (d) All of the above

Income from Salary

Long Answer Type Questions

Q. 34. What do you mean by 'Salary'? Discuss the main points of salary head with reference to Income Tax.

Ans. As per sec. 17(1) salary includes—

- (01) Wages,
- (02) Annuity,
- (03) Pension,
- (04) Gratuity,
- (05) Fee,
- (06) Commission,
- (07) Perquisites,
- (08) Profits in lieu of or in addition to salary,
- (09) Any advance of salary,
- (10) Leave encashment,
- (11) Interest credited in PPF A/c
- (12) Employer Contribution to PPF
- (13) Transferred balance from UPPF to PPF,
- (14) Any contribution made by the Central Govt. (or any other employer) to the account of an employee covered by Pension scheme referred to in section 300CCD

Some important point regarding salary

(1) Employer-employee relationship essential - In order to charge an income under the head 'Salaries' it is essential that an employee has earned such income from his 'employer'. In the absence of such a relationship, income may be charged under any head of income other than Salaries.

Instances where employer-employee relationship does not exist - Remuneration received by a director from the company, a person deriving professional income as a musician, a college teacher receives remuneration from the university for setting question paper for examination, remuneration received by a partner of a firm from such firm, salary received by Members of Parliament or Members of

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17. Indian agricultural income is taxable in the hands of :  
(a) RORI only (b) RNORI only (c) NR only (d) None of above
  18. A citizen of India who goes abroad for the purpose of employment, he must stay in India to become resident at least  
(a) 182 days (b) 90 days (c) 60 days (d) 180 days
  19. Income from business in England controlled from India is Taxable for :  
(a) Ordinary Resident (b) Not ordinarily resident  
(c) Both (a) and (b) (d) Non-resident
  20. Every year the residential status of an assessee :  
(a) May change (b) Will certainly change  
(c) Will not change (d) None of these
- [ Ans. 1. (b), 2. (a), 3. (d), 4. (d), 5. (c), 6. (d), 7. (d), 8. (a), 9. (c), 10. (a), 11. (d), 12. (d), 13. (a), 14. (d), 15. (d), 16. (c), 17. (d), 18. (a), 19. (c), 20. (a) ]
- II. State Whether the following Statements are Right or Wrong-
1. A company may be Not ordinarily resident.
  2. Income from business in Chaina is taxable in case of non-resident in India.
  3. A Non-resident Indian is not liable to pay Tax in his income received in India.
  4. H U P. is said to be resident in India if control and management is situated in India.
  5. Part untaxed foreign income brought into India will not be taxable.
  6. Salary received in India but the service rendered in England is taxable for non-resident.
  7. Dividend received in India from a British Company is taxable for non-resident.
  8. A person can be a resident in more than one country.
  9. There is no relation of residential status of an individual to his citizenship.
  10. The residential status of an assessee may change in every previous year.
- Ans. (1) Wrong, (2) Wrong, (3) Wrong, (4) Right, (5) Right, (6) Right, (7) Right, (8) Right, (9) Right, (10) Right.

(2) **Salary and wages**—Theoretically, there is no any difference between salary and wages.

(3) **Salary from more than one sources**— If an individual receives salary from more than one employer simultaneously, salary from each source is taxable under this head. Salary is chargeable to tax, under the head 'Salaries', irrespective of the fact whether it is received from a former, present or prospective employer.

(4) **Salary income must be real and not fictitious**— Amount taxable under the head 'Salaries' should be a real salary and not a fictitious salary.

(5) **Foregoing of salary**— An employee foregoes his salary, it does not mean, that salary so foregone, is not taxable. An employee opts to surrender his salary to the Central Government the salary so surrendered would be excluded from his taxable income.

(6) **Tax free salary**— If employee receives tax-free salary, he has to pay tax on gross salary i.e. net amount received (+) tax paid by the employer.

(7) **Due date of salary**— In general, salary becomes due on monthly basis. In monthly case, again there can be two situations—  
(a) Due on first day of next month  
(b) Due on last day of the same month

In our country, in the case of Government employees, the salary becomes due on the 1<sup>st</sup> day of next month whereas in case of Non-Government and bank employees, salary falls due on the last day of the same month. Thus, in the case of a Government employee, salary for the period 01.03.2021 to 28.02.2022 shall be taxable in the assessment year 2022-23 and in the case of a Non-Government employee, salary for the period 01.04.2021 to 31.03.2022 shall be taxable in the assessment year 2022-23.

(8) **Pay scale**— Suppose an employee is placed in the pay scale of 10,000-1,000-15,000-2,000-25,000. This means that employee will get 10,000 per month in the first year of his service. After one year there will be an increment of ₹ 1,000 in monthly salary i.e. his salary shall be ₹ 11,000 per month in the second year. Same procedure will be adopted in the following years. After reaching 15,000 there will be increment of ₹ 2,000 till it reaches ₹ 25,000.

(9) **Basis of charge of salary income**— As per section 15, salary consists of—  
(a) any salary due whether actually paid or not;  
(b) any salary paid or allowed but not due  
(c) any arrears of salary paid or allowed if not charged to income-tax for any earlier previous year

(d) any salary paid in advance  
Salary is chargeable to tax either on 'due basis or on receipt basis, whichever matures earlier.

(10) **Advance salary and Arrears of salary**— Advance salary is taxable on receipt basis in the previous year in which it is received. Arrear salary is taxable on receipt basis, if the same has not been subjected to tax earlier on due basis.  
Recipient can claim relief under section 89.

(11) **Salary in lieu of notice period**— It is taxable under section 15 on receipt basis.  
(12) **Fees and commission**— Fees and commission are taxable as salary. Employer-employee relationship is essential.

**Commission**

All types of commission are always taxable. Commission is added to the basic salary for different calculations, when the employee has received it on the basis of percentage of sales achieved by him. If the employee gets commission on the basis of the percentage of sale, which is done by some other persons, then that commission is not added to the basic salary of the employee.

(13) **Bonus**— It is taxable in the year of receipt if bonus is received in arrears, the assessee can claim relief under section 89.

(14) **Annuity [Sec. 17(1)(iii)]**— An annuity payable by a present employer or by an ex-employer is taxable.

(15) **Profits in lieu of salary [Sec. 17(3)]**— It includes the following—

1. The amount of any compensation due to or received by an assessee from his employer in connection with the termination of his employment.
2. The amount of any compensation in connection with the modification of the terms of employment.
3. Any payment from unrecognized provident fund.
4. Any sum received under a Keyman insurance policy.
5. Any amount received prior to employment or after cessation of employment.  
Profit in lieu of salary is always taxable.

(16) **Voluntary payments to employees**— Voluntary payments made by an employer, to his employee, is taxable, in the hands of recipient as salary.

A lump sum payment made gratuitously or by way of compensation or otherwise to the legal heirs of an employee, who dies while still in active service, is not taxable as well as ex-gratia is also not taxable.

(17) Salary received from United Nations - It is not taxable in India. Similarly if a teacher, professor or a research scholar comes to India from Bangladesh, Bhutan, Nepal, Pakistan, Maldives or Sri Lanka and get remuneration from any university, college or any other recognized institution for teaching or research work then this remuneration (salary, allowances, perquisites etc) is exempt from tax for up to 2 years.

Q. 35. What is meant by perquisites? What are tax-free perquisites.

Ans. **Perquisites Sec 17(2)**

As we know that usually executive class of employees are income tax payers. Many benefits as amenities are provided to such employees by their employers in addition to normal salary. These amenities or facilities remain a part of the salary for the income tax purpose.

The monetary value of benefits or amenities provided to the employee by his employers are called perquisites, perquisites which are exempted from tax in all cases

The following perquisites are exempted from tax for all employees-

(1) **Medical facilities** - Medical facility provided to an employee by his employer is wholly exempted. But if medical treatment is obtained in a private hospital.

(2) **Refreshment facility** - Free refreshment facility provided to an employee by his employer in office premises during working hours is wholly exempted.

(3) **Telephone facility** - Free telephone or mobile facility provided at employee's residence by his employer is wholly exempted, Although it is partly used for the employee's private purpose.

(4) **Refresher course** - Any fees or expenses paid by the employer for refresher course or training of the employee is exempted, because it ultimately benefits the employer.

(5) Sale of goods on concessional rate is not taxable.

(6) **Free conveyance facility** - Free conveyance facility provided to an employee to cover the journey between office and residence is exempted.

(7) **from house provided to VIPs** - Free house provided to high court judges and supreme court judges and ministers or the leaders of opposition of parliament is exempted perquisite.

(8) **Gift upto ₹ 5000** - The employer gifted any article valued upto ₹ 5000 shall be exempt. *Memorandum gifts from employees*

(9) **Free education facility** - Free educational facility provided in an institute maintained by employer to children of employee provided cost does not exceed ₹ 1000 Per month child is not taxable.

(10) **Loan facility upto ₹ 20,000** - If the employer provides loan without interest or at concessional rate to the employee and loan amount is not more than ₹ 20,000 then such facility will not be taxable.

(11) Free use of computer - Computer or laptop given (not transferred) to an employee for official or personal use is not taxable perquisite.

(12) Health club and sports facilities - use of health club, sports as similar facility provided uniformly to all employees, by the employer are not taxable.

Q. 36. Write notes on :

(a) House Rent Allowance

(b) Entertainment Allowance.

Ans. 1. **House rent allowance [Sec. 10(13A) and rule 2A]** - The following is exempted -

1.	Actual House rent allowance.
2.	The excess of actual rent over 10 percent of salary.
3.	50% of salary, where residential house is situated at Mumbai, Kolkata, Delhi or Chennai and 40% of salary where residential house is situated at any other place.

The least of the above three is exempt from Tax

Other points -

- 'Salary' includes basic salary and dearness allowance, if terms of employment so provide, it also includes commission based on fixed percentage of turnover achieved by an employee
- Basic salary, dearness allowance and commission are determined on 'due' basis in respect of the period during which rental accommodation is occupied by the employee
- Exemption is denied where an employee lives in his own house, or in a house for which he does not pay any rent or pays rent which does not exceed 10 per cent of his salary
- The amount of exemption in respect of house rent allowance received by an employee depends upon the following -
  - A. Basic Salary
  - B. DA if terms of employment so provide
  - C. Commission based on fixed percentage of turnover achieved by an employee
  - D. House rent allowance
  - E. Rent of house; and
  - F. The place where assessee resides.

When these six are the same throughout the previous year, the exemption should be calculated on 'annual' basis. When, however, there is a change in respect of any of the aforesaid item, then the exemption shall be calculated on 'monthly' basis.

(b) **Entertainment allowance** [Sec. 16 (iii)]

Entertainment allowance is first included in gross salary thereafter a deduction is given.

In the case of a Government employee (i.e. a Central or a State Government employee), the least of the following is deductible.

- a. Maximum Rs. 5,000;
- b. 20 per cent of salary;
- c. Actual Allowance

Salary means basic salary only

- Amount actually expended towards entertainment is not taken into consideration.

In the case of a non-Government employee entertainment allowance is fully taxable. ■

**Short Answer Type Questions**

Q. 37. Define 'Salary'.

Ans. As per sec. 17(1) salary includes-

- (01) Wages.
- (02) Annuity.
- (03) Pension.
- (04) Gratuity.
- (05) Fee.
- (06) Commission.
- (07) Perquisites.
- (08) Profits in lieu of or in addition to salary.
- (09) Any advance of salary;
- (10) Leave encashment.
- (11) Interest credited in RPF A/c
- (12) Employer Contribution to RPF
- (13) Transferred balance from UPF to RPF.
- (14) Any contribution made by the Central Govt. (or any other employer) to the account of an employee covered by Pension Scheme referred to in section 80CCD. ■

Q. 38. What are Special allowances under the head salary.

Ans. The following allowances are exempt under section 10(14) to the extent the amount is utilized for the specified purpose -

- (A) Travelling allowance
- (B) Transfer allowance
- (C) Conveyance allowance
- (D) Daily allowance
- (E) Helper allowance
- (F) Research allowance
- (G) Uniform allowance.

Q. 39. Give an account of tax free allowances and taxable allowances under the head Salary.

Ans. 3. **Special allowances** [section 10(14)] -

The following allowances are exempt under section 10(14) to the extent the amount is utilized for the specified purpose -

- (A) Travelling allowance
- (B) Transfer allowance
- (C) Conveyance allowance
- (D) Daily allowance
- (E) Helper allowance
- (F) Research allowance
- (G) Uniform allowance

In the cases given below, the amount of exemption does not depend upon expenditure incurred by the employee -

4. **Tribal area / Scheduled area allowance** - Tribal area allowance is given in (a) Madhya Pradesh; (b) Tamil Nadu; (c) Uttar Pradesh; (d) Karnataka; (e) Tripura; (f) Assam; (g) West Bengal; (h) Bihar; (i) Orissa. The exemption is limited to ₹ 200 per month.

5. **Allowance for transport employees** - It is an allowance granted to an employee working to any transport system. The amount of exemption is -

- a. 70 per cent of such allowance; or
- b. ₹ 10,000 per month, whichever is lower.

6. **Children education allowance** - This allowance is given for children's education. The exemption is limited to Rs. 100 per month per child up to a maximum of two children.

7. **Hostel expenditure allowance** - This allowance is granted to an employee to meet the hostel expenditure on his child. It is exempt from tax to the extent of ₹ 300 per month per child up to a maximum of two children.

8. **Counter insurgency allowance** - It is granted to the members of armed forces operating in areas away from their permanent locations of employment. Exemption is limited to ₹ 3,900 per month.

9. **Transport allowance** - It is granted to an employee for journey between office and residence. It is fully taxable.

10. **Underground allowance** - Underground allowance is granted to an employee who is working in underground mines. Exemption is limited to ₹ 800 per month.

11. **High altitude allowance** - It is granted to the members of armed forces operating in high altitude areas. It is exempt from tax up to ₹ 1,060 per month (for altitude of 9,000 to 15,000 feet) or ₹ 1600 per month (for altitude above 15,000 feet)

**12 Highly active field area allowance** - It is granted to the members of armed forces in the nature of special compensatory highly active field area allowance. It is exempt from tax up to ₹ 4,200 per month.

**13. Island duty allowance** - It is granted to the members of armed forces in the nature of island allowance in Andaman and Nicobar and Lakshadweep group of island. It is exempt up to ₹ 3,250 per month.

**Q. 10 How to do valuation of Rent free Accommodation under the head of Salary.**

**Ans.** Accommodation includes a house, flat, farm house or accommodation in a hotel, motel, service apartment, guest-house, caravan, mobile home, ship or other floating structure.

This Perquisite is taxable in case of specified as well as non-specified employees.

**(A) Government Employees-**

This category includes followings -

- Employees of the Central and State Government.
- Government employees on deputation serving any body or undertaking under the control of Government.

In this case the license-fee / rent according to Government rules shall be the value of perquisite. Fair rent or municipal value or standard rent shall not be relevant.

Residence provided to a Judge of a High Court or Supreme Court is exempt from tax. A similar exemption is extended to an official of Parliament, a Union Minister and a Leader of Opposition in Parliament.

**(B) Other Employees-** Value of the perquisite depends on salary of the employee and lease rent of the accommodation. The provisions in this regard are as follows-

**(I) Salary includes-**

- a. basic salary;
  - b. dearness allowance/pay, if term of employment so provide;
  - c. bonus;
  - d. commission (all types)
  - e. fees;
  - f. all other taxable allowances (excluding exempted amount); and
  - g. any monetary payment which is chargeable to tax.
- For this purpose salary does not include the following-
- (i) dearness allowance/pay if term of employment does not so provide;
  - (ii) employer's contribution to provident fund account of an employee;
  - (iii) all allowances which are exempt from tax and
  - (iv) value of perquisites [under section 17(2)].

**Furnished accommodation** - This provision applies to both categories of employees-Govt. employee and non-government employee.

**(A) A furnished accommodation (not being in a hotel)-**

Step 1 - Find out value of the perquisite on the assumption that the accommodation is unfurnished.

Step 2 - To the value so arrived at, add value of furniture.

Value of furniture for this purpose is as follows;

- a. 10 per cent per annum of the original cost of furniture, if furniture is owned by the employer;
- b. actual hire charges payable (whether paid or payable), if furniture is hired by the employer.

**Meaning of furniture-** Furniture here includes radio sets, television sets, refrigerators, air-conditioners and other household appliances also.

**(B) Furnished accommodation in a hotel-** It includes

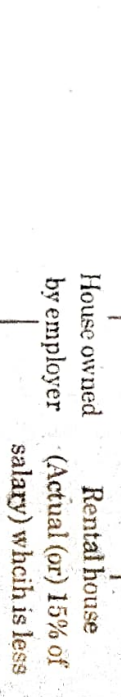
licensed accommodation in the nature of motel, service apartment or guest house. The value of the perquisite is lower of the following two-

1. 24 percent of salary of the employee.
2. Actual bill of the hotel.

If an accommodation is provided in a hotel and the following two conditions are satisfied, it is exempted-

- 1- The hotel accommodation is provided for not exceeding in aggregate 15 days in the previous year.
- 2- Such accommodation is provided on an employee's transfer from one place to another place.

**Value of House Facility**



**Note-**

1. Salary means - Basic salary + Dearness allowance (Under Agreement) + Commission + Bonus + Other taxable Allowances.
2. If House facility with furniture than 10% of furniture cost will include in value of house and if rent given we will include rent.

**Short Practical Questions**

**Q.41.** An employee provided the following facilities by the employer :

- Free food one time daily during the office time for 25 working days. The company pays ₹ 62 per meal for these facilities to caterer.
  - Free electricity from company's factory worth ₹ 3,800.
  - His one son is getting free education in the school run by the company. The expenses of education in a such institution is ₹ 750 p.m. per student.
  - He paid life insurance premium ₹ 4,500 and employer paid ₹ 4,300.
- Compute his taxable perquisites under the head salaries for the Assessment Year 2022-23.

**Solution :** Valuation of Perquisites

(1) Free meal (62 × 50 = 12 × 250)	3,000	
(2) Free electricity (cost incurred by the employer)	3,800	
(3) Free Education (not taxable up to ₹ 1,000 p.m. per child)	Nil	
(4) Life insurance premium paid by employer	4,300	
<b>Taxable Perquisites</b>	<b>11,100</b>	

**Notes-** Perquisites will be taxable as under :

- Free meal facility is not taxable up to ₹ 50 per meal remaining amount is taxable.
- Education facility is exempt because it is not more than ₹ 1,000 p.m.

**Q.42.** Mr. Arul a bank manager, gets ₹ 18,000 per month as salary and dearness allowance at 10% of the salary. He is getting entertainment allowance of ₹ 8000 per annum. During the previous year ended 31st March 2022, he received a bonus of three month's salary. He is also provided with a rent free house (unfurnished) in a town (whose population is less than four lakh) whose fair rent is ₹ 5000 per month. Find out his income under the head 'Salaries' for the assessment year relevant to the previous year 2021-22.

**Solution :-**

**Statement of Income from salary assessment year 2022-23**

Basic salary 1800 × 12	2,16,000	
Dearness allowance 10%	21600	
Entertainment allowance	8000	
Rent free house (2,16,000 + 8,000 + 54,000) × $\frac{7.5}{100}$	20850	
Bonus 18000 × 3	54000	
Gross salary	320450	
Less - Standard deduction	-50,000	
<b>taxable salary</b>	<b>2,70,450</b>	

**Q.43.** Mr. Kapil kumar is an officer in a private Bank. His income is previous year 2021-22 was as follows :

Basic Salary	4000 ₹ Per month
Dearness allowance	1000 ₹ Per Month
City Compensatory allowance	500 ₹ Per month
Entertainment allowance	600 ₹ Per month
Bonus equal to 2 month's salary	

He lives in a rent free house provided by the bank in Meerut (Population 26 lakh). This house is owned by the employer, fair rent of this house is ₹ 2000 per month. He paid professional tax ₹ 1000.

Compute his taxable salary for the assessment year 2022-23.

**Practical Questions**

**Q.44.** The following particulars are Mrs. Dr. Veena Soni

Income for the previous year 2021-22 :

- Salary (after deduction ₹ 6,000 for income tax at source) 2,48,000 per annum.
- Dearness allowance (under the terms of employment) ₹ 12,000 p.a.
- Education allowance (for three children) ₹ 5,700 p.a.
- Medical allowance (Actual expenditure ₹ 4,000) ₹ 7,200 p.a.
- Rent free house (in Mumbai) the company paid ₹ 3,000 per month as rent. The house is furnished and the rent of the furniture is ₹ 2,000 p.a.

Compute Taxable Salary.

**Solution :** Statement of Income from Salary

For the assessment year 2022-23

Basic Salary (2,48,000 + 6,000)	2,54,000
Dearness allowance	12,000
Education allowance (5,700 - 2,400)	3,300
Medical Allowance (Fully Taxable)	7,200
Value of Rent free house	

Rent paid by company or 15% Salary	41,475
60,000 or 41,475 (Whichever is less)	+ 2,000
+ Furniture rent	43,475
Gross Salary	3,19,975

Less - Standard deduction	-50,000
Taxable Salary	2,69,975

**Notes** 1. DA, entertainment allowance, medical allowance and servant allowance are fully taxable.

- Salary for the purpose of valuation of HRA includes basic salary and D.A. if terms of employment so provide.
- Car is provided only for personal purpose so actual expenses of employer on car, actual salary of driver and 10% of original cost of car will be the taxable value of this perquisite.
- Perquisite regarding free lunch is exempt up to ₹ 50 per meal only.

**Q.45** Mrs. Sachitra Kothari is a public relation officer in a company at monthly salary ₹ 10,000. She gets also D.A. 40% of salary under the terms of employment. The company provides her the following facilities-

- She has been provided one domestic servant by the company whose monthly salary is ₹ 1,500.
  - The company spent ₹ 4,000 on her refresher course.
  - Her contribution to R.P.F. ₹ 18,000 and employer's contribution ₹ 16,000.
  - The employer has provided a free telephone at Mrs. Kothari residence and paid bills amounting to ₹ 3,000.
  - Professional tax ₹ 1,000 deducted against salary.
- Compute 'Income from salary' for the assessment year 2022-23.

**Solution :** Statement of Income from Salary

Basic Salary	1,20,000
Dearness allowance	36,000
Employer's contribution to RPF not more than 12% of salary (Basic + D.A.)	Nil
Domestic servant (1,500 × 12)	18,000
Refresher Course	Nil
Telephone Facility	Nil
<b>Gross Salary</b>	<b>1,74,000</b>
Less : Deductions standard deductions	-40,000
Professional tax	1,000
<b>Income from Salary</b>	<b>₹ 1,33,000</b>

**Notes :** 1 Refresher course expenditure and telephone are not taxable.

- Employer's contribution to Recognised Provident Fund is not more than 12% of basic salary + Dearness Allowance under the terms of employment e.g.  $1,20,000 + 36,000 = 1,56,000 = 18,720$ , so there is not any taxable amount. ■

**Q.46.** Mr. Shrikant Kulkarni gets salary ₹ 20,000 per month and 12% Dearness allowance there of. He gets the following facilities-

The Company reimbursed his medical bills ₹ 23,800 and paid water and electricity bills ₹ 1,200. He is provided a maruti car (800 CC) by company partly for private purposes and partly for official purposes. The company incurred whole expenditure for operating the car.

During the previous year he spent ₹ 3,000 for entertainment of company's customers. The company paid ₹ 6,000 for life insurance premium on the policy of ₹ 50,000 on his life. He engaged a domestic servant whose salary is ₹ 1,200 P.M. paid by the company. Compute the income from salary for the assessment year 2022-23.

**Solution :** Statement of Income from Salary

Basic Salary	2,40,000
Dearness Allowance 12%	28,800
Medical bills paid by company (23,800 - 15,000)	8,800
Water and electric bills paid by company	1,200
Motor Car (1,800 × 12)	21,600
Life insurance premium paid by company	6,000
Domestic servant's wages	14,400
<b>Gross Salary</b>	<b>3,20,800</b>
Less : Deduction	-40,000
<b>Income from Salary</b>	<b>₹ 2,80,800</b>

**Notes :** 1. Refresher course expenditure and telephone are not taxable.

- Employer's contribution to Recognised Provident Fund is not more than 12% of basic salary + Dearness Allowance under the terms of employment e.g.  $1,20,000 + 36,000 = 1,56,000 = 18,720$ , so there is not any taxable amount. ■

**Objective Type Questions**

1. Choose and write correct option-

- In order to charge an Income under the Head 'Salary' it is essential that an employee earned the Income from :
  - an employer
  - Govt. of India
  - other than relatives
  - a company
- The salary of M.P. and M.L.A. is taxable under the Head of :
  - Salary
  - Business or profession
  - other sources
  - not taxable at all

- The Salary is taxable only when if it is received from :
  - Present Employer
  - Former employer

- (d) All of above
- (c) Prospective employer  
The salary includes : (c) Fees (d) All of above  
(a) Wages (b) Annuity (c) Profits in lieu of Salary' is taxable on the basis of :  
(b) Receiving
- (a) Accrual (c) (a) or (b) which ever is earlier (d) (a) or (b) which ever is Late  
'Salary' for House Rent Allowance includes :  
(a) Basic Salary (b) DA if term of employment so provide  
(c) Commission based on turnover (d) All of above
- Deduction for entertainment Allowance is available to  
(a) Govt. employees only (b) Semi-Govt. Employees only  
(c) Non-Govt. Employees only (d) All of above
- 'Salary' for entertainment Allowance includes :  
(a) Basic Salary (b) DA if term of employment so provide  
(c) Commission based on turnover (d) All of above
- Maximum exemption in respect of children education Allowance is :  
(a) ₹ 100 per child per month (b) ₹ 200 per child per month  
(c) Actual allowance Granted by employers (d) None of above
- Transport allowance is exempt up to :  
(a) ₹ 1,600 p.m. (b) ₹ 3,200 p.m.  
(c) ₹ 2,400 p.m. (d) Full amount of allowance is taxable
- Perquisite may be provided in :  
(a) cash only (b) Kind only (c) Cash or kind (d) None of above  
Perquisites are not taxable if :  
(a) it has a legal origin (b) it is authorized by employer  
(c) it is unauthorized by employer (d) it is always taxable
- The 'Rent Free Accommodation' is taxable In the hands of :  
(a) Specified employees only (b) Non specified employees only  
(c) (A) as well as (b) (d) Always exempted
- In the case of Govt. employees, value of Rent Free Accommodation shall be :  
(a) 7.5 of salary of the employee (b) 10% of salary of the employee  
(c) 15% of salary of the employee (d) Rent according to Govt. Rules
- The term 'Domestic servant' does not include :  
(a) Gardener (b) Personal Attendant  
(c) Driver (d) All of above are included
- 'Domestic Servant' is engaged by employee and paid by employer, the perquisite is taxable in the hands of :  
(a) Specified employees only (b) Non-specified employees only  
(c) (A) as well as (B) (d) Exempted to all employees
- When Gas, electricity and water supply is made from the resources owned by employer, the value of perquisite would be :

- (a) Fair market value (b) Actual total cost  
(c) Cost of manufacturer (d) Nil (exempted)
- Amount spent for providing free education/Training to the employee is :  
(a) Full Taxable (b) Fully exempted  
(c) Exempted in a certain limit (d) None of above
- Maximum exemption is available in respect of medical treatment in a private hospital is :  
(a) ₹ 10,000 (b) NIL (c) ₹ 20,000 (d) ₹ 25,000
- Facility of Driver provided by the employer is taxable at the rate of :  
(a) ₹ 600 p.m. (b) ₹ 900 p.m.  
(c) ₹ 1200 p.m. (d) Driver is not taxable
- Facility of motor car is exempted in the following case :  
(a) Provided to High court Judge  
(b) Provided to Supreme Court Judge  
(c) Provided for Journey between office and residence  
(d) All of above
- Specified amount for valuation of small car is (Exp. by employer) :  
(a) ₹ 1200 p.m. (b) ₹ 1600 p.m. (c) ₹ 1800 p.m. (d) ₹ 2400 p.m.  
Specified amount for valuation of Big car is (employer) :  
(a) ₹ 1200 p.m. (b) ₹ 1600 p.m. (c) ₹ 1800 p.m. (d) ₹ 2400 p.m.
- Salary for deduction of entertainment allowance means :  
(a) Basic pay (b) Dearness pay (c) Commission on sales (d) All Following facility is taxable to specific employee-  
(a) Gas and Electric (b) Sweeper (c) Education (d) All Deduction allowed from gross salary :-  
(a) Entertainment tax (b) Employment tax  
(c) Income tax (d) Insurance premium
- Ans. 1. (a), 2. (c), 3. (d), 4. (d), 5. (c), 6. (d), 7. (a), 8. (a), 9. (a), 10. (d), 11. (c), 12. (c), 13. (c), 14. (d), 15. (c), 16. (c), 17. (c), 18. (b), 19. (b), 20. (b), 21. (d), 22. (c), 23. (d), 24. (a), 25. (d), 26. (a) ]
- (II) Fill in the blanks :  
Car facility for specific employee is .....  
Reimbursement of medical expenses for private hospital is exempt upto rupees .....  
Loan without interest is exempt upto rupees .....  
The maximum amount of deduction regarding entertainment allowance is ..... in case of government employee.

Sec. .... of the I.T. Act gives the deductions under the head 'Salary'.

(1) Taxable (2) 15,000 ₹ (3) 20,000 ₹ (4) 5,000 ₹ (5) 16

Ans. (1) Taxable (2) 15,000 ₹ (3) 20,000 ₹ (4) 5,000 ₹ (5) 16

III. State Whether the following Statements are Right or Wrong

1. Facility of telephone provided to a specified employee is taxable perquisite.
2. Salary received by a partner from the firm is assessable under the head "Salaries".
3. Employer's contribution in employee's recognised provident fund is tax free upto 15% of salary.
4. LIP paid by employer is taxable perquisite.
5. Employer's contribution to R.P.F. is exempt upto 12% of salary.
6. Maximum exempted amount of transport allowance is ₹ 1,000 P.M.
7. Hostel allowance exempted upto ₹ 200 Per month.
8. Every employee is entitled to get deduction for professional fee.
9. Salary of Government employee became due on 1<sup>st</sup> day of next month.
10. House facility at remote areas is taxable.

Ans. (1) Wrong, (2) Wrong, (3) Wrong, (4) Right, (5) Right, (6) Wrong, (7) Wrong, (8) Right, (9) Right, (10) Wrong]

### Income from House Property

#### Long Answer Type Questions

Q. 47. Define Annual value and describe the allowed deductions which are deducted from Annual Value for the computation of Income from House property.

Ans. Calculation of the gross annual value

Determining gross annual value is very debatable. For this we have to consider the decision given by the Supreme Court in the case of Dr. Balavir Singh in 1985, according to which 'expected reasonable rent' can't be more than the 'standard rent'. We have to also consider section 28(1) which says that the 'expected reasonable rent' will be the rent whichever is higher from the municipal valuation or fair rent. Considering the above mentioned points gross annual value is determined as follows—

Step 1- Municipal valuation or fair rent, whichever is more, is considered as the amount of the first step, but it can't be more than the standard rent. This is also called as 'expected reasonable rent'.

Step 2- If the 'actual rent received or receivable' (from which loss of vacancy period is deducted) is more than the amount from the step 1, than the 'actual rent received or receivable' is taken as 'gross annual value'. There is no need to find the reason that why 'actual rent' is more. Step 3- If the 'actual rent received or receivable' is less than the amount of the step 1, then the three situations arises —

(A) 'Actual rent received or receivable' is less than the amount from the step 1 and the reason is that the house does not remain vacant for a single day then the amount of step 1 is considered to be the 'gross annual value'. This can be easily understood by the given example —

Actual Annual Rent	= ₹ 10 per month
Vacancy period	= NIL
Rent Received	= ₹ 10 × 12 = 120
Amount of step 1	= ₹ 132
Gross Annual Value	= ₹ 132

House is not vacant for a single day, it means loss from the vacancy period is zero. Actual rent is less than the amount from the step 1 but the reason behind that is not the vacancy period, then the rebate of such loss is not given and the amount of step 1 is taken as 'gross annual value'.

(B) 'Actual rent received or rent receivable' is less than the amount received from the step 1 and the only reason behind that is the amount received from the house then the actual rent received is taken as 'gross annual value'. This can be understood by the given example —

Actual Annual Rent	= ₹ 10 per month
Vacancy Period	= 2 Months
Rent Received	= ₹ 10 × 10 = 100
Amount of Step 1	= ₹ 108
Gross Annual Value	= ₹ 100

If house does not remain vacant for even a single day, then the 'actual rent received or receivable' is more than the amount of step 1, the loss from the vacancy period has made it less from the amount of step 1 i.e. the 'actual rent received or receivable' is less than the amount for the loss arising will be available to the assessee and 'actual rent received or receivable' is considered as the 'gross annual value'.

(C) Actual rent received or receivable is less than the amount of step 1 and there are at least two reasons behind this, one of which is the loss from the vacancy period, then this loss is deducted from the amount of step 1 and the remaining amount is considered as the 'gross annual value'. It could be easily understood by the following example.

Actual Annual Rent	= ₹ 10 per month
Vacancy period	= 2 Months
Rent Received	= ₹ 10 × 10 = 100
Amount of step 1	= ₹ 132
Gross Annual Value	= ₹ 132 - (10 × 2) = 112

If the house is not vacant even for a single day, then also the actual rent received or receivable is less than the amount from the step 1, and the loss from the vacancy period of the house has further made it less i.e. the reason behind the 'actual rent received or receivable' getting less than the amount from step 1, is not just the vacancy period of the house, so the rebate for this will be available to the assessee, but no rebate will be available if there is some other reason for the losses arising. In this case loss from the vacancy period will be deducted from the amount of step 1 and the remaining amount will be considered as the 'gross annual value'.

### Simple method for the calculation of the gross annual value

As per the Income tax act the method for calculation of gross annual value is already given, but this method is very difficult for the students. For the convenience of the students a simple method is presented by which same result can be obtained as from the method specified above, i.e. 100% questions will get the same answers whether the student is using the simple method or the above mentioned method. Simple method is as follows -

**Step 1-** Compare municipal valuation and the fair rent, whichever from this is more is considered as the amount from the step 1 municipal value and fair rent both of them should not be more than the standard rent. If this amount is more than the standard rent then before comparison reduce it up to the standard rent.

### Example of first step -

Particulars	House 'A'	House 'B'	House 'C'	House 'D'
Municipal Valuation	100	100	100	100
Fair rent	120	120	120	120
Standard rent		125	112	95
Amount of step 1	120	120	112	95

**Conclusion -** Municipal value or fair rent whichever is more is the amount from step 1. Amount of step 1 can not be more than the standard rent. If this amount is more than the standard rent then it is made equal to the standard rent. Its simplest form -

- (A) Municipal value } whichever is more  
 (B) Fair rent }  
 (C) Whichever is more }  
 (D) Standard rent } Whichever is less

**Step 2-** Compare amount from step 1 and 'actual annual rent received or receivable' (rent received from the house if it is rented for the full year). Take whichever is more and then deduct the loss due to vacancy period, the remaining amount is considered as the 'gross annual value'.

### Example of step 2 -

Particulars	House 'A'	House 'B'	House 'C'
Actual annual rent	₹ 10 per month or ₹ 120	₹ 10 per month or ₹ 120	₹ 10 per month or ₹ 120
(Rent received or receivable)	per annum	per month	per annum
Vacancy period	-	2 months	2 months
Rent received	₹ 120	₹ 100	₹ 100
Amount of step 1	₹ 132	₹ 108	₹ 132
Actual annual rent and amount of step 1, whichever is more	₹ 132	₹ 120	₹ 132
Less- actual loss due to vacancy	-	₹ 20	₹ 20
Gross annual value	₹ 132	₹ 100	₹ 112

**Conclusion-** Amount of step 1 or the actual annual rent received or receivable whichever is more, loss of actual rent due to vacancy period is deducted from that amount, remaining is considered as the gross annual value. It can be presented like this -

- (A) Annual value of 'actual rent' }  
 received or receivable (rent }  
 received if that house }  
 is rented for the whole year) } whichever is more

- (B) Amount of the step 1  
Less - the actual loss due to vacancy period  
(Gross annual value -

Q 48. Describe in brief the following :

- (a) Let out House  
(b) Self Occupied House  
(c) Deemed to be Let out House.

Ans. (a) Let out House- Rental house is let out house. Provision regarding the valuation of such house are -

- (1) All provisions of income from house property are applicable on this house. All the steps are used to determine the gross annual value.
- (2) Deduction like municipal tax, loss of actual rent due to vacancy period, interest on loan etc. are taken for valuation of such houses.
- (3) If taxable income is negative then such type of loss is deducted from income of other house properties. After the deduction of such loss, if any loss still remains then that loss is again adjusted from other 4 heads of income.
- (4) House is given to whom and how that tenant uses that house is not important.
- (5) There is no maximum limit of deduction of interest on loan.
- (6) Loss of actual rent due to vacancy period is deducted in calculation of 'gross annual value'. Unrealized rent and municipal tax is also deducted from 'gross annual value'.

#### House is vacant for the whole year

If house remain vacant for the whole year then 'gross annual value' is taken as zero.

(b) Self occupied house- Self occupied house means assessee and his/her family resides in that house. Provisions for such type of houses are -

- (1) Gross annual value is always zero for the self occupied house. On such house step 1 and step 2 of the method for the calculation of gross annual value is not applicable.
- (2) In the case of valuation of such house municipal value, fair rent and standard rent is ignored. There is no actual rent for such house.
- (3) Standard deduction, loss of actual rent due to vacancy period, municipal tax, unrealized rent etc. are not deducted.

- (4) Interest on loan is the only deduction which is allowed for the self occupied house property and whose limit is maximum up to ₹30,000. If the loan for self occupied house is taken on or after 1.4.1999 and the amount is utilized for purchasing or constructing a house and house is purchased or the work of construction is completed in the next 3 years from the end of the financial year in which the loan was taken, then the maximum limit goes from ₹30,000 to ₹2,00,000.
- (5) Taxable income from the self occupied house can be negative. This loss can be deducted from income from any other house properties. After the deduction of such loss, any loss still remains then that loss is again adjusted from other 4 heads of income.
- (6) Provisions for self occupied house are applicable only on individual, HUF. These are not applicable on company, partnership firms or on other persons.
- (7) All the above provisions are applicable on the two house of the assessee. If the owner has used more than two houses as self occupied houses then all the provisions are applicable on any two house which are declared as the 'self occupied house' by the assessee.

#### House is occupied by owner & tenant

Within a previous year, if in a house owner has resided for some time and tenant has resided for some other time (for example owner has resided for 364 days and tenant has resided even for 1 day) then the house is considered as the let out house. 'Actual annual rent received or receivable' of such house is taken for the period in which the house was let out.

(c) Deemed to be let out house- If the assessee have 2 or more than 2 houses as the self occupied houses then he has to declare one of them as self occupied house and the remaining are deemed to be let out houses. Provision regarding this are -

- (1) 'Gross annual value' of this house is determined as per step 1. Remaining steps are not applicable on these houses.
- (2) Deductions like municipal tax, standard deduction and interest on loan is given, but deductions for unrealized rent and loss of actual rent due to vacancy period is not given.
- (3) Taxable income of such house could be in negative. This can be adjusted from the taxable income from other house properties and income from other 4 heads.

(4) There is no limit for deduction of interest on loan.

### House having more than one unit

If the house is divided in units then the individual unit is treated as individual house and tax liability is also calculated individually.

### Practical Questions

Q.49. Mr. Kumbhaji is owner of two houses. Both are let out and are not covered under Rent Control Act. From the following information, find out Gross Annual Value :-

Particulars	House A	House B
1. Municipal Valuation	1,20,000	96,000
2. Fair rent	1,26,000	90,000
3. Actual rent	1,08,000	1,02,000

Solution : Gross Annual Value

House A - Step 1 - Municipal Value	1,20,000	1,26,000
Fair Rent	1,26,000	1,26,000
Step 2 - Amount of Step 1	= 1,26,000	= 1,26,000
Actual Annual Rent	= 1,08,000	= 1,26,000
Gross Annual Value	= 1,26,000	Ans.
House B - Step 1 - Municipal Value	= 96,000	= 96,000
Fair Rent	= 90,000	= 96,000
Step 2 - Amount of Step 1	= 96,000	= 1,02,000
Actual Annual Rent	= 1,02,000	= 1,02,000
Gross Annual Value	= 1,02,000	Ans.

Q.50. Mr. Gupta is owner of <sup>Self-occupied House</sup> two houses and these houses are used for his residential purpose. The particulars for the previous year 2021-22 are as follows :

Particulars	House A	House B
1. Municipal valuation	12,000	36,000
2. Fair rent	15,000	30,000
3. Standard rent	9,000	24,000
4. Payment of Municipal tax	1,000	3,000
5. Interest on loan	42,000	24,000
6. Insurance Premium	1,200	2,400
7. Vacancy period	2 months	-

Mr. Gupta is an employee in a company from where he gets ₹ 20,000 p.m. as salary. He contributed ₹ 24,000 towards Public

Provident Fund. Find out income from H.P. of Mr. Gupta for the assessment year 2022-23.

Solution : Gross Annual Value (House A)

Step 1 - Municipal Valuation	= 12,000
Fair Rent	= 15,000
Standard Rent	= 9,000

Computation of Total Income

Income from House Property -	
House A - Gross Annual Value	Nil
Less- Int. on Loan	-42,000
House B (SO) - Gross Annual value	Nil
Less: Int. on Loan	24,000
Loss on H.P.	- 66,000

Q.51. Shri Ram owner of a hour property. Its annual letting value is ₹ 80,000. During the Previous year it was let out to a tenant on monthly rent of ₹ 7,000. He claimed the following expenses actually incurred by him :

- Municipal Taxes ₹ 8,000.
- Expenses for the recovery of rent of ₹ 600.
- Maintenance allowance paid to the step mother ₹ 12,000 annually which was a charges on the property according to his father's will.

The house remained vacant for one month during the previous year. Find out the income from house property for the assessment year 2022-23

Solution- Statement of income from house property

Annual Rent	80,000	
actual Rent	84,000	
(Which ever is more)		84,000
Less : Vacant loss,	7,000	
Less : Municipal tax	8,000	(15,000)
Less : Deduction U/S 24		
(i) Standard deduction 30%	20,700	
(ii) Bank Loan	Nil	20,700
Income from house property		48,300

Q.52. Shri Shantilal Duggar is the owner of four houses. Particulars of his house properties for the previous year 2021-22 are as under :

**First House-** This house is being used for self residential purpose. Its municipal value is ₹ 16,000 per annum. The following expenses made for this house-municipal Tax ₹ 600, Repairs ₹ 500 and Fire insurance premium ₹ 210. Interest on loan taken for construction of the house ₹ 37,000.

**Second House-** The municipal valuation of this house is ₹ 65,000 and it is let out for ₹ 5,000 per month. Expenses Municipal taxes ₹ 5,000, Repairs ₹ 1,000, Collection Charges ₹ 600, Ground rent ₹ 1,000.

**Third House-** This house was completed on 1 Aug. 2019 and let out for residential purpose at the rent of ₹ 1,200 per month. Municipal Tax is 10% on its valuation ₹ 9,000. Repair expenses for this house is nil, but interest ₹ 500 was paid for the loan taken for construction of the house.

**Fourth House-** It's municipal valuation is ₹ 3,000 per annum and is used for Mr. Duggar's self business. His taxable income from business is ₹ 65,000 for the A.Y. 2022-23.

\*Compute Mr. Duggar's income from house property for the assessment year 2022-23.

**Solution : Statement of Income from House Property (A.Y. 2022-23)**

I. Self residential House	Gross Annual Value	Nil	
Less- Deduction for Interest on Loan ₹ 37,000 or 30,000 whichever is less		30,000	(-) 30,000
Rental Houses		65,000	
II. House : Gross Annual Value		(-) 5,000	
Less- Municipal Tax		60,000	
	Net Annual Value	(-) 18,000	42,000
Less- Standard Deduction 30% of Net Annual Value		9,600	
III. House : Gross Annual Value		(-) 900	
Less- Municipal Tax 10% of Annual valuation		8,700	
Less- Deductions u/s 24	Net Annual Value		
(a) Standard Deduction 30% of annual value		2,610	
(b) Interest on Loan		500	
	Income from House Property	3,110	5,590
			17,590

Notes : 1. Annual value of self occupied house is nil, but interest on loan at actual amount ₹ 37,000 or maximum amount ₹ 30,000 is deductible. So ₹ 30,000 will be deducted against rental income. It is assumed that the property is acquired before 1.4.99, so maximum limit of interest on loan is ₹ 30,000. No other deduction is allowed for such house.

- Fourth house is used for assessee's own business, so such house is not considered under this head.
- Annual rental value of III let out house will be taken for 8 months, because it is completed on 1st August during the year. However municipal tax shall be deducted for whole year.
- Fix standard Deduction 30% of Net Annual value in respect of let out house is allowed regarding various expenses.

### Objective Type Questions

- Choose and write correct option-  
A House property owned by the assessee and used in his business is taxable under the head of-  
(a) House Property (b) Business or Profession  
(c) Other Source (d) Not taxable at all.
- The House Property is taxable only when it is situated in:-  
(a) India (b) Outside India  
(c) (A) and (B) (d) it is depend up on citizenship of the assessee.
- Income is taxable under the Head of 'House Property' only when the assessee is a owner of:-  
(a) Building (b) Plot (site)  
(c) Building and Plot (Site) (d) Ownership is not necessary.
- Income from Subletting is taxable as Income from :-  
(a) House Property (b) Business or Profession  
(c) Other Sources (d) Not taxable at all.
- The Lease is a Deemed Owner if he acquires a property on Lease for a term of :-  
(a) Less than 12 year (b) More than 12 year  
(c) Not less than 12 years (d) 30 years or more.

6. Rental Income from property held as Stock in Trade taxable in the Head of :-  
 (a) House Property (b) Business or profession  
 (c) Other sources (d) any of the above.
7. Co-owners of a House Property is taxable as :-  
 (a) Association of persons (b) Partnership firm  
 (c) Body of Individuals (d) None of above.
8. The 'Reasonable Expected Rent' can not be :-  
 (a) exceed the 'Standard Rent' (b) Less than the 'Standard Rent'  
 (c) Equal the 'Standard Rent' (d) Standard Rent is not considerable.
9. For computation of 'Actual Annual Rent' the following item must be considered :-  
 (a) Tenant's share of municipal Tax  
 (b) Refundable deposit from tenant  
 (c) Advance Rent received  
 (d) Non-refundable deposit from tenant.
10. For computation of 'Actual Annual Rent' the following item must be considered :-  
 (a) Tenant's share to the cost of Repairs  
 (b) Commission for search of Tenant  
 (c) Rent accrued but not received (d) All of above.
11. The Municipal Value is ₹ 100; Fair Rent is ₹ 120 and Standard Rent is ₹ 125 of a house, the Reasonable expected rent shall be :-  
 (a) ₹ 100 (b) ₹ 120 (c) ₹ 125 (d) None of above.
12. A has a self residence. He borrowed a loan to purchase it in 1998. the interest on which is payable ₹ 40,000 in the P.Y. The deduction will be :  
 (a) ₹ 40,000 (b) ₹ 30,000 (c) Zero (d) ₹ 20,000
13. Manoj purchased house for his residence and borrowed a loan of ₹ 9,75,000 in 2003. The deduction for interest will be when interest payable in P.Y. is ₹ 1,75,000.  
 (a) ₹ 30,000 (b) ₹ 1,75,000  
 (c) ₹ 1,50,000 (d) ₹ 45,000
14. An individual assessee can show maximum loss from a self-occupied residential house property -  
 (a) ₹ 30,000 (b) ₹ 50,000 (c) ₹ 2,00,000 (d) No limit
15. An assessee borrowed a loan in 2000 to purchase a house which he let out to a tenant. Interest payable on loan is ₹ 1,60,000 in previous year. The deduction U/S 24 (b) for interest will be :  
 (a) ₹ 30,000 (b) ₹ 1,60,000 (c) ₹ 1,50,000 (d) ₹ 48,000
16. Which house property income is not charged to tax?  
 (a) Farm House (b) Palace of an ex-rule  
 (c) Business Building (d) All of the above
17. Municipal Value of let out house is ₹ 1,50,000 and tax payable on it is ₹ 15,000. He paid ₹ 10,000. Amount deductible for calculation A.V. will be -  
 (a) 15,000 ₹. (b) 10,000 ₹. (c) 45,000 ₹. (d) None of the above
18. Municipal Value a let out house is ₹ 80,000. F.V. ₹ 90,000, S.R. ₹ 70,000 and Actual rent is ₹ 1,10,000 Gross Annual Value of house is :  
 (a) ₹ 1,10,000 (b) ₹ 90,000 (c) ₹ 80,000 (d) ₹ 70,000
19. Standard deduction u/s 24(a) when the A.V. is ₹ 25,000 will be :  
 (a) ₹ 5,000 (b) ₹ 6,250 (c) ₹ 7,500 (d) ₹ 10,000
20. Annual Value of a house property is ₹ 1,00,000 Mr. A and B are two equal Co-owners. Contribution of this house in A's income from house property is :  
 (a) ₹ 50,000 (b) ₹ 1,00,000 (c) ₹ 70,000 (d) ₹ 35,000
21. From Income Tax paid of view hour means :  
 (a) Godown (b) House used for residence  
 (c) Office building (d) All of these
22. Deductions from annual value are deducted under section :  
 (a) U/S 24 (b) U/S 23 (c) U/S 23(1) (d) U/S 23(2)
- (II) Fill in the blanks -  
 1. Loan borrowed to construct house: Interest for the prior period of construction is deductible in ..... instalments.  
 2. Loan borrowed to construct or purchase a house property after 1<sup>st</sup> April ..... the maximum deduction for interest is ₹ 2,00,000.  
 3. Annual value of self occupied house which was not let out and the owner residing in other city will be .....  
 4. The deduction for expenses of the rented house except interest on loan is .....  
 5. Tax paid on house to Municipality is deducted against .....  
 Ans. (1) 5 (2) Nil (3) 30% N.A.V. (4) Gross annual value.

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assesse at any time during the previous year, it is not essential that business or profession should be carried throughout the previous year. The following receipts are taxable even if no business or profession is carried on by the assessee during the previous year -

- (i) Recovery or excess recovery against a deduction
- (ii) Sale of depreciable asset by power generating unit.
- (iii) Sale of an asset used for scientific research
- (iv) Recovery or excess recovery against bad debts.
- (v) Amount withdrawn from a special reserve created under section 36(1)(viii)
- (vi) Sum received after discontinuance of a business or profession
- (vii) Sum received as non-compete fees.
- (3) Income of the previous year is chargeable to tax in the next following (assessment) year.
- (4) Tax incidence arises on aggregate income from all business professions carried on by the assessee.
- (5) The assessee is taxable having not only the legal ownership but also the beneficial ownership.
- (6) Income is taxable only if the profit is accrued or arising in the year. Anticipated profits are not considered.
- (7) The profits which are taxed are the real profits and not notional profits.
- (8) Any sum recovered by the assessee in respect of an amount or expenditure which was earlier allowed as deduction, is taxable income.
- (9) The system of accounting cannot override the substantial character of a transaction.
- (10) The income tax department is not concerned with the nature of income whether it is legal or illegal. Income of illegal business is taxable in the same way as income of legal business.
- (11) Sections 30 to 37(1) are cumulative and not mutually exclusive. Hence, if an expenditure is not covered by section 30 it can be claimed U/S 31. If it is not allowed U/S 31 the assessee can approach next section and this way section 37 (1)
- (12) Deduction is allowed in respect of expenses incurred during the previous year only.
- (13) Expenditure should have been incurred in connection with assessee's business.
- (14) If the expenditure is incurred in connection with assessee's

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### Income from Business or Profession

#### Long Answer Type Questions

Q. 53. What is Income from Trade or Business? State the rules regarding computation of this income.

Ans. Under section 28 the following income is taxable under the head 'Profits and gains of business or profession'

- (1) Profits and gains of any business or profession;
- (2) Any compensation received by any person
- (3) Income derived by a trade, professional or similar association from specific services;
- (4) Value of any benefit or perquisite arising from business or the exercise of a profession
- (5) Profit on the transfer of the Duty Entitlement Pass Book Scheme.
- (6) Profit on the transfer of duty free replenishment certificate.
- (7) Export incentive
- (8) Any interest, salary, bonus, commission or remuneration received by a partner from firm
- (9) Any sum received for not carrying out any activity in relation to any business or not to share any know-how, patent, copyright, trademark, etc
- (10) Any sum received under a 'Keyman Insurance Policy'
- (11) Profit and gains of managing agency;
- (12) Income from speculative transactions.

Basic principles -

- One has to keep in mind the following basic principles -
- (1) Business or profession should be carried on by the assessee either personally or through his agent or employees.
  - (2) The business or profession should be carried on only by the

own business it would still be allowed as deduction even if it ensured to the benefit of somebody else.

(15) It is not necessary that benefit of the expenditure should be limited to the relevant previous year.

(16) No deduction is allowed in respect of wasting assets such as mines, oil wells etc.

(17) Expenses incurred before commencement of business shall not be allowed. This rule has following exceptions –

- Expenses incurred after setting up but before commencement of business shall be allowed.

- Sections 35, 35D and 35E are allowed deduction of expenses incurred before setting up of business.

(18) The assessee cannot claim deduction of any expenditure incurred during the previous year with respect to the discontinued business.

(19) No deduction shall be allowed in respect of anticipated losses.

(20) No deduction shall be allowed in respect of any provision or reserve made for meeting contingent liabilities. However, if the liability has arisen but exact amount is not determinable the assessee can claim deduction of estimated amount.

(21) The assessee can claim only actual losses. Notional losses are not allowed. However, there is one exception to this rule—loss arising due to valuation of stock at lower of cost price or market value is allowed.

(22) The burden of proving that the expenditure was incurred for business purpose is upon the assessee. ■

**Q. 54.** What are the deductions allowed to compute Income from Business or Profession? State also disallowed expenses.

**Ans.** In order to claim deduction under this section, the following conditions should be satisfied –

1. The expenditure should not be of the nature described under sections 30 to 36.
2. It should not be in the nature of capital expenditure.
3. It should not be personal expenditure.
4. It should have been incurred in the previous year.
5. It should be in respect of business carried on by the assessee.
6. It should have been expended wholly and exclusively for the purpose of such business.
7. It should not have been incurred for any purpose which an offence or is prohibited by any law (of India).

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**Exception – The Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertaking Act Provides that where a Small Scale Industry supplies goods or renders services to a buyer, the buyer shall make payment within the time agreed in writing and where there is no such agreement before 30 days, from the date of supply of goods or rendering of service failing which buyer shall be liable to pay interest as prescribed, the amount of mandatory interest payable as above shall not be allowed while computing taxable income under the income-tax Act.**

### Allowed expenses under section 37(1)

1. Purchase of raw material and stock in trade.
2. Expenses regarding purchase of raw material and stock in trade e.g. commission, brokerage, freight, carriage etc.
3. Expenses regarding production of goods e.g. wages, various expenses of factory etc.
4. Expenses regarding sale of goods e.g. advertisement, commission, brokerage etc.
5. Various office expenses e.g. salary, telephone and electricity expenses etc.
6. General expenses for operating business.
7. Expenses on labour and employee welfare.
8. Payment of indirect taxes e.g. sales tax, customs duty, excise duty, VAT etc.
9. Interest charge on late payment of sales tax.
10. Compensation paid for termination of the employee.
11. Compensation paid to employee in case of accidental damage.
12. Contribution in the Recognized Provident Fund for the employee.
13. Payment of gratuity and pension to the employee.
14. Expenses at the time of Diwali / Muhurt.
15. The licence fees paid for obtaining the licence incidental to the business.
16. Payment of professional tax levied on business / profession.
17. Interest on late payment of allowed indirect taxes.
18. Additional interest for the late payment of installment under the purchase system or installment payment system.
19. Expenses on inauguration of business.
20. Foreign travelling expenses of the director of the company for the development of the business.
21. Payment of listing fees to recognized stock exchange by the company.
22. Donation in the favour of the business.

23. Expenses for taking loan such as stamp duty, commission and legal expenses.
24. Expenses on the issue of the debentures.
25. Interest on outstanding amount of purchase of business assets.
26. Expenses on new connection of telephone including deposit.
27. General legal expenses for the general business operation.
28. General legal expenses for the protection of business assets.
29. Legal expenses for the defense on the petition for the winding up of the company.
30. Auditor's fees, fees for income tax consultant and litigation expenses on the suit against the income tax department etc.
31. Legal expenses incurred to avoid business liability.
32. Legal expenses incurred for the breach of trading contract which is disadvantageous to the business.
33. Expenditure incurred to oppose the proposed nationalization of the business.
34. Expenses for survival of the business.
35. Contribution towards the Flag Day.
36. Various types of royalties.
37. Expenses on guest house and rest house.
38. Expenses on entertainment of customers.
39. Travelling expenses for business purpose.
40. Expenses on various perquisites given to the employees.
41. Revenue expenses on encouraging the employees for family planning.
42. Legal expenses for the registration of trade mark and protection of trade mark.
43. Expenses on maintaining accounts and record keeping.
44. Expenses on business of business assets.
45. Commission paid as a percentage on sales or profit to the manager or the employee.
46. Donation to the trading association (of which the assessee is the member).
47. Loss due to forfeiture of advance money because of breach of contract.
48. Salary and allowances given to the employees.
49. Income tax paid by the employer on the salary and allowances of the employees.
50. Payment to the personal servant, who looks after a partner's interest in a partnership firm.

51. Payment made to the apprentice.
52. Expenses on replacement of fluorescent lights and electrical appliances.
53. Loss by theft, etc. of the cash.
54. The loss of money due to embezzlement by an employee.
55. Periodical payment for the use of good will.
56. Payment of foreign municipal tax on the business assets, which is situated in a foreign country.
57. Expenses on the updating the knowledge by a professional like purchase of journals and news papers, foreign travelling, participating in a seminar etc.
58. Expenses on welcoming and refreshment of guest on the inauguration of a new branch.
59. Expenses on plantation in the factory premises.
60. Maintenance expenses on the temple which is situated in the factory premises.
61. Contribution to the municipal corporation for building the roads around the factory premises.

#### Disallowed expenses under section 37(1)

1. Compensation for the breach of contract with the State.
2. License fees for the discovery of minerals.
3. Lump sum payment for obtaining the monopoly in the market and for the reducing competition.
4. Payment of tax on behalf of non resident.
5. Expenses on the shifting the registered office.
6. Expenses on the issue of equity and preference shares (except bonus shares)
7. Expenses on the purchase of patents, copyrights, know how etc.
8. Expense on the purchase of the goodwill.
9. Expenses on the purchase of a capital asset.
10. Purchase of land in the form of raw material.
11. Life insurance premium paid for the life policy of proprietor of the business and partner of the firm.
12. Bribe given to the officers by the liquor contractors.
13. Payment of penalties due to breach of any kind of law.
14. Payment to the registrar of companies for increasing the authorized capital.
15. Advertisement given in the souvenir or any other publication of a political party (Deduction will be allowed U/S 80 GGB/ 80GGC)

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16. Income tax and wealth tax.
17. Drawings and personal expenses of owner of the business and the partners of the firm.
18. All reserves and provisions like bad debts reserve (except allowed reserves and provisions as per income tax).
19. Amount paid in donations and personal gifts.
20. Contribution to the political parties. (Deduction will be allowed US \$0 GGRS00GGC)
21. Any expense which is not related to business like house hold expenses.
22. Litigation expenses on registration of shares.
23. Payment made by the employer for the income tax levied on the perquisites of the employees.
24. Payment of interest and remuneration to the partners in excess of the maximum limit of section 40(b) by a partnership firm.
25. Payment of interest on capital and loan to the proprietor by the business.

**Short Answer Type Questions**

Q. 56. Discuss the allowed depreciation rates under the head income from business and profession.

Ans. Block of assets -

Number	Nature of Asset	Rate of Depreciation
Block 1	Buildings - Residential buildings other than hotels and boarding houses.	5%
Block 2	Buildings- which are not mainly used for residential purpose	10%
Block 3	Buildings - Buildings acquired on or after 1.9.2002 for water supply project, water treatment system and providing infrastructure facilities. Temporary erections such as wooden structures.	40%
Block 4	Furniture including electrical fittings.	10%
Block 5	Plant and machinery - Any plant or machinery (not covered by Block 6, 7, 8, 9, 10, 11 or 12 and motor cars	15%

Block 6	Plant and machinery - ships, vessels, speed boats	20%
Block 7	Plant and machinery - Buses, lorries and taxies used in the business of running them on hire and life saving medical equipment	30%
Block 8	Plant and machinery - Airplanes, commercial vehicle acquired after September 30, 1998 but before April 1, 1999 and put to use before April 1, 1999	40%
Block 9	Library Books	40%
Block 10	Plant and machinery - computers including computer software and new commercial vehicle acquired in replacement of condemned vehicle of 15 years of age, which is put to use before April 1, 1999 or before April 1, 2000 (if acquired during 1999-2000). It also includes books, owned by a professional, gas cylinders	40%
Block 11	Plant and machinery - Energy saving devices renewal, energy devices.	40%
Block 12	Plant and machinery - Air pollution control equipments water pollution control equipments. books (being annual publication) or books owned by libraries	40%
Block 13	Intangible assets (acquired after March 31, 1998) Know-how, patents, copyrights, trade marks, licences, franchises	25%

**Practical Questions**

Q. 56.

- State with reasons whether the following expenses/ losses are admissible or not as deduction while computing income from business or profession :
- (a) Stock intrade was lost in fire amounting to ₹ 12,000 and was debited to profit and loss account.
  - (b) Commission of ₹ 12,000 paid in order to receive business.
  - (c) Entertainment expenses of ₹ 18,000 paid in the previous year.
  - (d) Loss of ₹ 10,000 due to embezzlement by an employee.
  - (e) ₹ 2,000 paid as fees to a lawyer for drafting the deed of agreement with an outsider
  - (f) Income tax paid ₹ 20,000.

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Ans:- (a) Allowed. Stock lost by fire is related to business so it is allowed.

(b) Commission is allowed because it was received in order to receive business.

(c) Entertainment expenses are allowed.

(d) Loss due to embezzlement by employee is allowed because it is related to business.

(e) Income tax paid is disallowed.

Q. 57. From the following facts find out the P. & L :

1. Computer purchased for ₹ 3,800 and furniture ₹ 3,000.
2. Car purchased for business ₹ 40,000 and running maintenance expenses incurred ₹ 18,000.
3. Termination compensation given to clerk ₹ 3,000.
4. Donation to election fund of BJP ₹ 700.
5. Bad debt reserve ₹ 3,000, actual bad debts ₹ 2,400.

Which expenses will be allowed and which disallowed and why

Explain.

Solution :

1. Cost of typewriter and furniture is capital expenditure so it is not allowed. Depreciation will be allowed as per rules.
2. Purchasing of car is capital expenditure so it is not allowed but running and maintenance expenses are allowed because it is an expenditure of revenue nature.
3. Compensation given to clerk on termination in the interest of business is allowed.
4. Donation to political party is not allowed.
5. Reserve for bad debts is not allowed, but actual bad debts is allowed.

Q. 58. Mr Kamal S. Vohra is an advocate. His Income and expenditure account is as follows -

Chamber rent	10,000	Fees for cases	2,68,000
Stationery	3,000	Gifts from clients	4,000
Law books (Annually published)	4,000	Salary as a lecturer	13,000
Furniture purchased	13,000	in Law College	7,000
Salary	7,000	Dividend on Shares	3,000
Income Tax	3,000		
Net Surplus	3,30,000		
	3,70,000		3,70,000

Compute his income from profession, 10% Depreciation is allowed on furniture for the assessment year 2022-23.

Solution : Statement of Income from Profession

Net surplus as per income & expenditure A/c		3,30,000
Add- Disallowed expenses		
(i) Furniture cost	13,000	+16,000
(ii) Income Tax	3,000	3,46,000
Less- Allowed expenses		
Depreciation on Furniture @ 10%	(-) 1,300	(-) 1,300
		3,44,700
Less- Other Income		
(i) Salary	92,000	
(ii) Dividend	6,000	(-) 98,000
Income from Profession		2,46,700

Note- Books used for profession are 100% depreciable so allowed. ■

Q. 59. A Trader's Net Profit for the year 2021-22 was ₹ 3,46,000. The following expenses were debited in profit and Loss a/c:

- (1) Income tax paid ₹ 12,000 and fees to income tax consultant ₹ 4,000.
- (2) Outstanding central sales tax was paid for 2015-16 ₹ 5,000 but central sales tax ₹ 6,000 for current year is still un paid.
- (3) Provision for Gratuity ₹ 3,000
- (4) Penalty paid to customs authority for importing prohibited goods ₹ 6,000
- (5) Capital expenditure on scientific research ₹ 80,000

Compute taxable income of business.

Net Profit for the year	3,46,000
add- disallowed items	
Income tax paid	12000
O/S sales tax	6000
Provision for gratuity	3000
Penalty to customs	6000
Income from business	3,73,000

Q. 60. M/s. Vaibhaw Sales Corporation is a retail trader of electronic items. Mr. Vaibhaw Nahar is proprietor of

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The firm. Estimated sales for the financial year 2021-22 will be ₹ 86 lacs. General expenses of the business are estimated to ₹ 81,000. Mr. Yashraj runs his business in own shop which written down value is ₹ 3,00,000. He has two options regarding to assessment.

- (a) Assessment u/s 44 AD on the basis of 8% estimated profit or  
 (b) Maintaining regular accounts and tax payment on actual profit or  
 Advise him, which option he should choose in the following situations.

- (1) If gross profit rate is 10%.  
 (2) If gross profit rate is 7.5%.

Solution :

**Option (a) Computation of taxable income u/s 44 AD @ 8%**

8% Estimated profit on annual turnover @ 8% (Deduction is not allowed for expenses & depreciation)

56,00,000 × 8%

(100)

Taxable Income

4,48,000

**Option (b) Computation of taxable income under general provisions**

10% Gross Profit on total turnover 56 Lacs

Less: Allowed expenses

(i) General expenses

(ii) Depreciation on building

81,000

30,000

Taxable income from business

4,49,000

**Note :** If the rate of gross profit is 7.5% the assessed should opt assessment under general provisions because in this situation the taxable income will be less on than income assessed u/s 44AD. If he does not opt assessment u/s 44 AD he should maintain regular accounts and gets audited them

(ii) If gross profit rate is 7.5%

**Option (a) Computation of Taxable Income u/s 44 AD @ 8%**

8% estimated taxable profit on 56 lacs

Taxable business income

4,48,000

**Option (b) Computation of taxable income under normal provisions @ 7.5%**

Gross Profit 7.5% on 56 Lacs

Less: Allowed expenses

(i) General expenses

(ii) Depreciation on building @ 10%

81,000

30,000

Taxable business income

1,11,000

3,09,000

Q.61.

A Truck Operator assesses owns three heavy goods vehicles for 8 months 14 days, four medium goods vehicles for 7 months 8 days and two light goods vehicles for 9 months 23 days during the previous year 2021-22. He did not keep any account for freight receipts and expenses. Cost of vehicles is ₹ 80 lakhs. Heavy goods vehicle (empty) weight 16 ton.

Estimate his income from business u/s 44 AE of Income Tax Act 1961 for the Assessment year 2022-23.

Solution :

**Estimation of Taxable Income from Business**  
 (Truck Operator u/s 44 AE)

(a) Three heavy goods vehicles for 9 months (8 months 14 days) @ 1,000 $1,000 \times 16 \times 9 \times 3$	4,32,000
(b) Four medium goods vehicles for 8 months (7 months 8 days) @ 7,500 per month $4 \times 8 \times 7,500$	2,40,000
(c) Two light goods vehicles for 10 months (9 month 23 days) @ 7,500 per month $2 \times 10 \times 7,500$	1,50,000
<b>Estimated Business Income</b>	<b>8,22,000</b>

Q.62. Mr. Pramod Garg is a Chartered Accountant. He received the following from profession-

- (1) Audit fees ₹ 9,78,000  
 (2) Tax consultancy fees ₹ 12,25,000  
 (3) Appeal fees ₹ 3,27,000

Office and other expenses are ₹ 5,27,000. He is eligible to take depreciation allowance ₹ 2,14,000. He paid salary to assistants ₹ 3,54,000. Compute taxable income from profession if he opted-

- (a) Assessment under section 44 ADA  
 (b) Assessment under normal provisions.

**Solution-1. Estimated income of C.A. (Professional) u/s 44DA**

**Receipts from C.A. Profession**

- (1) Audit fee  
 (2) Tax consultancy fees  
 (3) Appeal fees

Audit fee	9,78,000
Tax consultancy fees	12,25,000
Appeal fees	3,27,000
<b>Total Gross receipts</b>	<b>23,30,000</b>
Taxable income from profession @ 60% u/s 44DA	13,98,000

**II. Computation of professional income under normal provisions :**

	₹	₹
<b>Professional Receipts</b>		
(1) Audit Fees	9,78,000	
(2) Tax consultancy fees	12,25,000	
(3) Appeal fees	3,27,000	25,30,00
<b>Less- Allowed expenses :</b>		
(1) Office expenses	5,27,000	
(2) Allowed depreciation	2,14,000	
(3) Salary to assistant	3,54,000	10,95,00
<b>Taxable income from profession</b>		<b>₹ 14,35,00</b>

**Opred.**- He should opt. assessment under sec. 44 ADA as estimate basis because his taxable income is lower than normal income.

**Q.63.** Mr. Rupesh mittal is an insurance agent. He received net commission ₹ 50130 after deduction of tax @10% from life insurance corporation of India. Such commission was paid to him for the following insurance business.

- First year commission ₹ 18,000
- Renewal commission ₹ 27,450
- Bonus commission ₹ 4,680

He has not maintained books of accounts in respect of agent business. Compute taxable income from insurance commission for the assessment year 2021-22

**Solution :**

Commission from 29 C :

(a) First year commission	18,000 × 100	20,000	
	90		
Less- 50% allow exp.		(-) 10,000	10,000
(b) Renewal commission	27,450 × 100	30,500	
	90		
Less- 15% allow exp.		(-) 4,575	25,925
(c) Bonus commission	4,680 × 100	5,200	
	90		
Less- Expenses		Nil	5,200
			₹ 41,125

If the commission on insurance agency is not more than ₹ 60,000 and the assessee does not maintain accounts for expenditures, then the following deductions will be allowed in respect of expenditure -

- First year commission - 50%
- Renewal commission - 15%
- Bonus commission - Nil

### Objective Type Questions

**Choose and write correct option-**

- Business Income shall be computed according to :
  - Cash Method
  - Hybrid method
  - Accounting method which is regularly employed by the assessee
  - The Accounting Standards shall be followed by the assessee which are issued by :
    - Income Tax Department
    - Central Government
    - Institute of chartered Accountants of India
    - All of above
- The following income is not taxable under the Head- 'Business or Profession' :
  - Export incentive
  - Salary received by a partner from Firm
  - Dividend on shares held as a stock in trade
  - None of above
- The following income is not taxable under the Head- 'Business or profession' :
  - Rent of House property held as stock in trade
  - Any sum received under keyman Insurance Policy
  - Income from speculative transactions
  - None of above
- The following income is taxable under the Head 'Business or profession' :
  - Profit on Re-issue of shares
  - Sales tax collected from customers
  - Surplus from cancellation of own debentures
  - All of above
- The following is not a speculative transaction :
  - Heading
  - Jobbing
  - Arbitrage
  - All of above
- The following is not considered as export incentives :
  - Profit from export Business
  - Cash incentives
  - Profit from export Business
  - Profit on sale of Import Licence
  - Duty Drawback

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- 8. The Income is taxable only, when business is carried by :
  - (a) Assessee personally
  - (b) Through his Agent
  - (c) Through his Agent Employee
  - (d) All of above
- 9. The Income is taxable only, when the Business is :
  - (a) Legal
  - (b) Illegal
  - (c) Legal or illegal
  - (d) None of above
- 10. Business loss can be allowed as deduction only if the loss is :
  - (a) Revenue in nature
  - (b) Capital in nature
  - (c) (A) and (B) both
  - (d) Deduction of Loss is not allowed at all
- 11. Business Loss can be allowed as deduction only if the loss is :
  - (a) Incurred
  - (b) Anticipated
  - (c) Notional
  - (d) All of above
- 12. The following deduction is allowed in respect of building used for business purpose :
  - (a) Municipal Taxes
  - (b) Insurance Premium
  - (c) Land Revenue
  - (d) All of above
- 13. Allowed Rate depreciation on Residential Building is :
  - (a) 5%
  - (b) 10%
  - (c) 15%
  - (d) 25%
- 14. The allowed Rate of Depreciation on Furniture and Fittings is :
  - (a) 5%
  - (b) 10%
  - (c) 15%
  - (d) 25%
- 15. The allowed rate of depreciation on computers is :
  - (a) 30%
  - (b) 50%
  - (c) 40%
  - (d) 100%
- 16. Depreciation is charged on :
  - (a) Cost price of the Asset
  - (b) Market price of the Asset
  - (c) Opening written down value
  - (d) Closing written down value
- 17. The deduction of depreciation shall be restricted to 50 percent if asset is put to use for :
  - (a) Less than 180 days
  - (b) 180 days
  - (c) Less than 6 months
  - (d) 6 months
- 18. The claim of depreciation is :
  - (a) Mandatory
  - (b) Optional
  - (c) Discretionary
  - (d) None of above
- 19. The Rate of Additional Depreciation is :
  - (a) 10%
  - (b) 20%
  - (c) Both are applicable in different situations
  - (d) None of above
- 20. Unabsorbed Depreciation can not be set off against the

- 21. Deduction in respect of scientific Research is available if the Expenditure is :
  - (a) Salary
  - (b) House property
  - (c) capital Gain
  - (d) Other sources
- 22. The weighted deduction in respect of scientific Research is available on :
  - (a) Revenue in nature
  - (b) Capital in nature
  - (c) Related with re commencement period
  - (d) All of above
- 23. The assessee contributes to approved institutions for scientific Research, deduction is available at the rate of :
  - (a) Land
  - (b) Building
  - (c) Plant and Machinery
  - (d) None of above
- 24. Deduction of Telecom Licence Fees is available on the basis of :
  - (a) Payment
  - (b) Accrual
  - (c) As per accounting method
  - (d) (A) or (B) whichever is earlier
- 25. Deduction for preliminary Exp. is available only to the :
  - (a) Indian company
  - (b) Resident Individual
  - (c) Resident partnership firm
  - (d) All of above
- 26. The Deduction for preliminary Expenses is available in :
  - (a) year of expenditure
  - (b) 5 equal instalments
  - (c) 8 equal instalments
  - (d) 10 equal instalments
- 27. The Indian Banks can make a provision for bad and doubtful debts at the rate of :
  - (a) 7.5% of gross Total Income
  - (b) 10% of Rural Advances
  - (c) (A) + B)
  - (d) (A) or (B) which ever is higher
- 28. For the purpose of provision of bad and doubtful debts the Rural Branch Means a branch of a bank with the population of :
  - (a) Less than 10,000
  - (b) not less than 10,000
  - (c) More than 10,000
  - (d) not more than 10,000
- 29. The following expenditure is disallowed when computing Business Income :
  - (a) Purchase of stock in Trade
  - (b) Purchase of Goodwill
  - (c) Wages
  - (d) Factory Exp
- 30. The following expenditure is disallowed when computing Business Income :
  - (a) Provision for Bad debts
  - (b) Commission and Brokerage
  - (c) Telephone exp.
  - (d) General Exp

- 1. Ans. 1. (d), 2. (b), 3. (c), 4. (a), 5. (b), 6. (d), 7. (a), 8. (d), 9. (c), 10. (a), 11. (a), 12. (d), 13. (a), 14. (b), 15. (c), 16. (d), 17. (a), 18. (a), 19. (c), 20. (a), 21. (d), 22. (c), 23. (d), 24. (a), 25. (d), 26. (b), 27. (c), 28. (d), 29. (b) 30. (a)

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II. State Whether the following Statements are Right

Wrong

1. Contribution to a political party is allowed expenses.
2. 30% depreciation is allowed on Neon Sign Board.
3. Interest on capital partners is allowed @ 12%.
4. Audit is compulsory for a firm having turnover above rupees lakhs.
5. 100% is disallowed if payment made in cash is more than rupees 10,000.
6. In connection with the statutory income-tax proceedings, expenses is admissible.
7. In business income, Life Insurance premium of owner will be allowed as expenses.
8. Expenses incurred are deductible.
9. Provision made for sales-tax is admissible deduction.

Ans. (1) Wrong, (2) Wrong (3) Right, (4) Right, (5) Right, (6) Right (7) Wrong, (8) Right, Wrong, (10) Wrong]

III. Fill in the blanks-

1. Deduction for amount paid to approved university for scientific research is ..... is percent of amount paid.
  2. Rent of business premises is available as a deduction if the building is .....
  3. Expenditure on voluntary retirement is amortised equally in ..... years.
  4. If the cost of goods purchased for business exceeds ₹ 10,000, it should be paid by .....
  5. Income tax is ..... expenditure in the business.
- [Ans. (1) 150 (2) Not owned by the owner of business, (3) Five (4) Account payee cheques or draft, (5) Non-admissible]

### Income from Capital Gain

#### Long Answer Type Questions

Q. 64. What do you mean by 'Capital Gains' under the Income Tax Act? What are the provisions in respect of exemption of capital gains?

Ans. Methods of computation of capital gain is as follows -  
 Find out full value of consideration.

◆ Deduct the following- expenditure on transfer, cost of acquisition or indexed cost acquisition, cost of improvement or indexed cost of improvement.

#### Exempted Capital Gains-

01. Any income arising from the transfer of units US 64 is not taxable where the transfer of such units takes place on or after 1.4.2002. This rule is applicable whether the units are long-term capital asset or short-term capital asset.

02. Bse-500 Equity shares - If eligible shares are acquired during 1.3.2003 and 29.2.2004 and are transferred after 12 months through a recognized stock exchange, long-term capital gain is not taxable.

#### 03. Urban Agriculture Land -

- ◆ The assessee is an individual or a Hindu undivided family.
- ◆ He or it own an agriculture land situated in urban area.
- ◆ Transfer of the agriculture land by way of compulsory acquisition.
- ◆ Agriculture land was used by the assessee and or his parents for agriculture purposes during 2 years immediately prior to the date of transfer:
- ◆ Asset may be long-term capital asset or short-term capital asset.
- ◆ Compensation or consideration received by the assessee after 31-3-2004.

Above conditions are satisfied, capital gain (short-term or long-term) is exempt from tax.

#### 04. Securities -

- ◆ This provision is applicable to all assessee.
- ◆ The asset which is transferred is a long-term capital asset.
- ◆ Asset is equity share in a company or units of equity oriented mutual fund.
- ◆ Transaction takes place on or after 1.10.2001.
- ◆ Transaction is chargeable to securities transaction tax.

If the above conditions are satisfied, long-term capital gain is exempt from tax. It may be noted that in the case given above if the capital gain is short-term capital gain, it is taxable at the flat rate of 15 percent.

Q. 65. Discuss the procedure of Computation of Capital gains.

Ans. There are two types of capital gain

1. Short term capital gain.

2. Long term capital gain.

**1. Short term capital gain**- If any taxable assets like house purchased for 2 years or less than two years ornament & precious metals used for 3 year or less than three years (like Gold, Silver) and share debenture for 12 months (Listed) and 24 months (unlisted) and those assets sold before that time than it's call short term capital gain.

**Computation of Taxable Capital gain (Short term)**

Sales Consideration		.....
less- Selling Expenses		.....
	Net sales	.....
less- Cost of Acquisition		.....
less- Cost of Improvement		.....
	Short term cap. gain	.....

**Note**- If any assets have written down value than capital gain loss always will be short term.

**2. Long term capital gain** - If assets used more than particular period and sold than it will be long term capital gain index will be consider in long term capital gain -

For long term-

Assets	More than
1. Land and House	24 months
2. Gold, Silver, Ornament, Precious Metal	36 months
3. Listed shares & debentures	12 months
4. Unlisted shares & debentures	24 months

Index table is as follow as-

Year	Index	Year	Index
2001-02	100	2011-12	184
2002-03	105	2012-13	200
2003-04	109	2013-14	220
2004-05	113	2014-15	240
2005-06	117	2015-16	254
2006-07	122	2016-17	264
2007-08	129	2017-18	272
2008-09	137	2018-19	280
2009-10	148	2019-20	289
2010-11	167	2020-21	301
		2021-22	317

**Computation of Long term Capital gain**

Sales Consideration		.....
Less- Selling Expenses		.....
	Net sales	.....
Less- Index cost of Acquisition		.....
	Cost × 317	.....
	Transfer year's Index	.....
Less- Index cost of Improvement		.....
	Long term Capital gain/Loss	.....

**Other Facts-**

1. If assets purchased before 1 Apr. 2001 than either cost or value on 1 Apr. 2001 which is more will be calculated.
2. Cost of Bonus share will be NIL After 1<sup>st</sup> Apr. 2001
3. There will be no Indexing in Debenture.
4. More than 36 months in Gold, Diamond, Silver & Ornament will be Long term capital gain otherwise Short term capital gain.
5. More than 12 months in share, Debenture, Securities which is listed will be long term capital gain otherwise short term capital gain.
6. More than 24 months in share, Debenture, Securities which is unlisted will be short term capital gain otherwise short term capital gain. 24 month for House and Land

**Q. 66. Explain the capital gains exempt from tax under section 54 and under section 54B of Income tax Act.**

**Ans.** Under sections 54, 54B, 54EC, 54F, 54G and 54H of the Act, capital gains arising from the transfer of certain capital assets are exempted from tax under certain circumstances.

**Gains on sale of long term residential property (Sec. 54)**

Any long term capital gain arising from the transfer of a house property is exempted from tax provided the following conditions are satisfied-

(1) **Eligibility**- Income of transferred property should be chargeable under the head "Income from house property" and such property was held by the assessee for more than 36 months.

(2) **Acquisition of new house property**- A residential house should be purchased within one year before or two years after the date of transfer of original asset or constructed within three years after that date.

(3) **Ban on transfer-** A residential house should not be transferred within three years of its purchase or construction otherwise, cost of such house shall be reduced by the amount of exemption availed of under this section.

(4) **Deposit to capital gain account-** The amount of capital gain not utilised by the assessee for purchase or construction of new house before the date for furnishing the return of his income is to be deposited by him, on or before the due date for furnishing the return of income in capital gains account scheme, 1988 in any bank or institution. The assessee is allowed exemption in respect of capital gain so utilised or deposited.

(5) **Furnishing of proof-** The return of Income should be furnished alongwith proof of such deposit. The amount already utilised for the purchase or construction of the new residential house together with the amount so deposited shall be deemed to be the amount utilised for the purchase or construction of the new residential house.

(6) **Treatment of unutilised amount-** The assessee has to utilise the amount so deposited for the purchase or construction of the new residential house within the specified period (2 years or 3 years as the case may be). When the deposited amount is not so utilised either wholly or partly for the purchase or construction of the new residential house, the unutilised amount is treated as capital gain of the relevant previous year in which the period of three years from the date of such transfer expires.

#### Gains on transfer of agricultural land (sec 54B)

Capital gain long term or short term arising from the transfer of an agricultural land is exempted from tax provided the following conditions are satisfied-

(1) **Eligibility-** Transferred land should be used for agricultural purpose at least for two years immediately preceding the date of its transfer by the assessee or a parent of his or HUF.

(2) **Acquisition of new land-** Another land for agricultural purposes should be purchased within two years after the date of transfer of original agricultural land.

(3) **Ban on transfer-** The agricultural land should not be transferred within three years from its purchase, otherwise cost of such land shall be reduced by the amount of exemption availed of under this section.

(4) **Deposit to capital gain account-** The amount of capital gain not utilised by the assessee for purchase of new agricultural land before the date for furnishing the return of his income is to be deposited

by him, on or before the due date for furnishing the return of income in capital gains account scheme, 1988 in any bank or institution.

(5) **Unutilised amount-** The assessee is also required to utilise the amount of deposit for the purchase of agricultural land within 2 years from the date of transfer. If the deposited amount is not so utilised for the purchase of agricultural land, the unutilised amount is treated as capital gain of the relevant previous year in which the period of two years from the date of such transfer expires.

#### Short Answer Type Questions

Q. 67. What is Indexation of Cost? Give list of cost of Inflation Index.

Ans. **Indexation of cost-**

Indexation of cost is done for the recovery of loss arising in the Indian currency, due to inflation. The provisions regarding this are-

1. Indexation is done for long term capital assets only.
2. Cost of acquisition of debenture and bonds will not be indexed.
3. Indexation is related to the cost not to the sales consideration.
4. Indexation is on both on cost of acquisition and cost of improvement.
5. For the indexation purpose, one can use 'cost inflation index' only.

6. For the indexation of cost of acquisition, the cost of acquisition is multiplied by the index for the year in which the asset is transferred and divided by the index for the year in which the asset was acquired. If the asset is received by the assessee under section 49(1) then the divided by the index for the year in which the asset was received U/S 49 (1). If the asset is acquired by the assessee or received by the assessee under section 49(1) prior to 1/4/2001 then it should be divided by 100.

7. At the time of indexation, the cost of improvement is multiplied by the index for the year in which the asset is transferred and divided by the index for the year in which improvement of the asset took place.

Q. 68. Explain the 'Bonus Shares' and 'Right Shares' under the head income from capital gains.

Ans. **Bonus shares**

Capital gain on transfer of bonus shares shall be calculated as following-

- (1) If bonus shares allotted before 1.04.2001 – Fair market value on 1.04.2001 is taken as cost of acquisition.
- (2) If bonus Shares allotted on or after 1.04.2001 – Cost of acquisition is taken as zero.
- (3) Period of holding – The period of holding shall be determined from the Date of allotment of bonus shares.

Rights shares-	Cost of acquisition
Situations	Amount actually paid.
Original shares.	Nil.
Rights entitlement.	Amount actually paid by the taxpayer.
Rights shares, acquired by the taxpayer	Purchase price paid to renouncee of rights entitlement plus amount paid to the company which has allotted the rights shares.
Rights shares purchased by the person in whose favour rights entitlement has been renounced.	

The amount realized by the original shareholder by selling his rights entitlement will be short-term capital gains in his hands (as the cost is taken as nil)

**Q. 69. Explain "Capital Gains Account Scheme-1988".**

Ans. This scheme is applicable in respect of section 54, 54(B), 54D, 54F and 54G. If the assessee can not utilise the capital gain before the due date of filling of return of income for purchasing or constructing new asset, like residential house, agricultural land, machinery etc then he should deposit the unutilised money of capital gain in capital gain account scheme-1988 in a public sector bank to avail exemption under aforesaid sections. If such unutilised amount is not deposited before the due date, it will be taxable in relevant previous year in which transfer took place, even the assessee purchases a new asset within specified period (after due date of filling of return). If the amount deposited in capital gains account is not utilised wholly or partly for the purchase or construction of the new asset within the period specified therein-

- (i) The amount not so utilised shall be charged under section 112 as the income of the previous year in which the period of three years or two years from the date of the transfer of the original asset expires.
- (ii) The assessee shall be entitled to withdraw such amount in accordance with the scheme aforesaid.

**Q. 70. Explain the long-term capital gains.**

Ans. If the asset is held by the assessee for more than 36 months or 24 months or 12 months in the case of shares and securities, such

asset will be treated as long term capital asset. In other words a capital asset which is not a short term capital asset will be long term capital asset. Profit or loss arising from the long term capital asset will be chargeable as long term capital gain or loss. In unlisted share we consider 24 month.

**Practical Questions**

*19 Months*

**Q. 71.** An assessee purchased an old house for ₹ 3,60,000 on Jan. 1, 2019 and registration charges were paid ₹ 60,000. Besides, he incurred ₹ 80,000 for its improvement. On August 1, 2021 the house was sold for ₹ 7,50,000. Brokerage paid ₹ 30,000 and other expenses were ₹ 20,000. Calculate capital gains.

**Solution :**

Sales consideration	7,50,000
Less- Aggregate amount of the following items	
(a) Sales & transfer expenses	
(i) Brokerage	30,000
(ii) Other expenses	20,000
(b) Cost of acquisition and improvement	
(i) Purchase price	3,60,000
(ii) Registration expenses	60,000
(iii) Improvement expenses	80,000
Short term capital gain	₹ 2,00,000

**Q. 72.** An assessee purchased a building for ₹ 80,000 on 1st April, 2001 and sold it for ₹ 3 lacs on 1.8.2021. Cost inflation Indexes for 2001-2002 and 2021-22 are 100 and 317 respectively. Compute Long-term Capital gain.

**Solution :**

(i) Indexed cost of acquisition-	
Actual cost acquisition × Index for 2021 - 22	
= Index for 2001 - 2002 (year in which property acquired)	
= $\frac{80,000 \times 317}{100}$	= 2,53,600
(ii) Computation of Long-term capital gain-	
Transfer consideration	3,00,000
Less- Indexed cost	(-) 2,53,600
Long-term capital gain	46,400

Q. 73. Mr. X provides the following data regarding his transaction for the sale of his residential house for the previous year 2021-22.

- House purchased in 2009-2010 4,50,000
- Sold in January 2022 25,00,000
- Purchased another house in Nov. 2022 3,20,000
- Deposited in the Capital Gain Account Scheme 2,00,000
- 1988 in Feb. 2022 2,00,000
- Cost inflation index for 2009-2010 and 2021-22 was 148 and 317 respectively.

**Income from Capital Gain**

Residential house Sold (L.T)	25,00,000
(-) Index cost of acquisition	
Original cost × 2021-22 Index	9,63,851
2009-10 index	15,36,149
4,50,000 × 317	
148	
(-) Exemption U/S 54	
Cost of New house	3,20,000
Deposited to Capital	
deposit scheme	2,00,000
2,00,000	5,20,000
Taxable Long term capital gain	10,16,149

Q. 74. Mr. Umesh Trivedi furnished the following particulars about his income during the previous year 2021-22:

1. Business income ₹ 98,000.
  2. Capital gain ₹ 7,000 from a house sold on 31st July, 2021. He occupied this house before years.
  3. He sold an agricultural land for ₹ 17,000 during the previous year. The land was owned by him for the last 5 years, which was purchased for ₹ 4,000. The land is situated in a village with a population of 8,000.
  4. On 1st March, 2022 he sold a flat for ₹ 4,50,000 which was purchased by him on 1st Jan., 2001 for ₹ 40,000. Its fair market value was ₹ 55,000 on 1st April, 2001.
- Compute the taxable capital gains for the assessment year 2022-23. Cost index number for 2001-02 (100), 2008-09 (137) and 2021-22 (317)

**Different Heads of Income tax / 97**

**Solution :** **Statement of Capital Gains**  
Assessment Year 2022-23

1. Short term capital gain from building		
2. Long term capital gain from shares (direct sold)		7,000
(i) Sales consideration of XYZ Co. Shares		
Less- indexed cost of acquisition		30,000
Purchase Cost × 2021 - 22 Index		
2008 - 09 Index		
14,000 × 317		
137		
(-) 32,394		-2394
3. Rural Agricultural Land (Not Capital assets)		
4. Long term capital gain from Flat-Sales consideration		
Less- Indexed cost of acquisition		6,00,000
Market value on 1st April 2001 × 2021 - 22 Index		
2001 - 02 Index		
55,000 × 317		
100		
1,74,350		4,25,650
(Taxable Capital Gains)		4,30,256

- Notes
1. Shares of XYZ Ltd. were sold to friend directly and Securities Transaction Tax not paid, Therefore taxable as long-term. On the other hand shares of ABC Ltd. were sold through Stock Exchange and Securities Transaction Tax was paid so long-term capital gain on these shares is not taxable.
  2. Index cost of long term capital assets has been found out in the following manner:  
Cost of acquisition × Index No. for 2020 - 21  
Index No. of the base year
  3. Agricultural land is not capital asset because it is situated at the place where population is under 10,000.
  4. The flat is acquired prior to 1.4.81 So value on 1.4.81 is taken as cost of acquisition because it is higher than original cost.

**Objective Type Questions**

1. **Choose and write correct option-**  
Following is not a capital asset :  
(A) Raw material (B) Domestic furniture  
(C) Car for personal use (D) All of above
2. **Following is not a capital asset-**  
(A) Jewellery for personal use (B) House for personal use  
(C) Wearing apparels (D) All of above

5. Personal effects' includes-
  - (A) Archaeological collection
  - (B) Costly furniture
  - (C) Drawings and paintings
  - (D) Sculptures.
6. Following is not a capital asset-
  - (A) Hold as a stock in trade
  - (B) Shares as an investment
  - (C) Work of art for personal use
  - (D) All of above.
7. Following is not a capital asset-
  - (A) Goodwill of the business
  - (B) Goodwill of the profession
  - (C) Tenancy right
  - (D) All of above.
8. Capital gain is arises on
  - (A) Transfer of stock in trade
  - (B) Transfer of any asset
  - (C) Transfer of capital asset
  - (D) Transfer of capital.
9. Unlisted debentures are a long term capital asset, if it is held by the assessee at least for-
  - (A) 12 months
  - (B) More than 24 months
  - (C) 36 months
  - (D) More than 36 months.
10. Govt. securities are a long term capital asset, if it is held by the assessee at least for
  - (A) 12 months
  - (B) More than 12 months
  - (C) 36 months
  - (D) More than 36 months.
11. Gold and silver are long term capital asset, if it is held by the assessee at least for-
  - (A) 12 months
  - (B) More than 12 months
  - (C) 36 months
  - (D) More than 36 months.
12. The term 'Transfer' includes-
  - (A) Exchange of assets
  - (B) Relinquishment
  - (C) Compulsory acquisition
  - (D) All of above.
13. The following gift is treated as "Transfer"-
  - (A) Gift of shares which are received under stock option plan.
  - (B) Gift of a plot to son at the time of his marriage
  - (C) Gift of asset by a will
  - (D) All of above.
14. Transfer of securities under a security lending scheme is not treated as transfer, if scheme is made under guide lines issued by-
  - (A) RBI
  - (B) SEBI
  - (C) RBI वर SEBI
  - (D) RBI वर SEBI
15. Transfer of movable capital asset is completed when-
  - (A) Property is delivered
  - (B) Conveyance deed is executed
  - (C) Conveyance deed is registered
  - (D) All of above.

16. For computation of capital gain, the following items must be deducted-
  - (A) Expenses of transfer
  - (B) Cost of purchase
  - (C) Cost of Improvement
  - (D) All of above.
17. Capital gain arising on transfer of units of US-64 is exempted, if units are transfer on or after-
  - (A) 1.4.2002
  - (B) 1.4.2004
  - (C) 1.4.2006
  - (D) 1.4.2008
18. Capital gain arising on transfer of units of US-64 is exempted, if units are-
  - (A) Long term capital gain (only)
  - (B) Short term capital gain (only)
  - (C) (A) or (B)
  - (D) Non of above.
19. Long term capital gain arising on transfer of equity shares is exempted, if transaction is chargeable to-
  - (A) Income tax
  - (B) Fringe benefit tax
  - (C) Corporate income tax
  - (D) Securities transaction tax
20. Full value of consideration means-
  - (A) Consideration received or receivable
  - (B) Market value of the asset
  - (C) Adequate consideration
  - (D) Only cash received.
21. Section 49 (1) is not applicable in the following case-
  - (A) Asset purchased from Govt. of India
  - (B) Asset received on partition of HUF
  - (C) Asset received under gift or will
  - (D) Asset received by succession.
22. Sec. 49 (1) is not applicable in the following case-
  - (A) Assets received on liquidation of a company by shareholders
  - (B) Assets received on amalgamation of companies
  - (C) Conversion of personal property into joint family property
  - (D) Asset purchased by Govt. of India.
23. Option of the fair market value is not available if the asset is-
  - (A) Personal effects
  - (B) Depreciable assets
  - (C) Furniture for industrial use
  - (D) All of above.
24. Indexation is done of -
  - (A) Cost of acquisition
  - (B) Cost of improvement
  - (C) Both of the above
  - (D) Sales consideration

**Income from Other Sources**

**Long Answer Type Questions**

**Q. 75.** Which income is main taxable income under head income from other sources? Discuss.

**Ans.** A source of income which does not specifically fall under any of the other four heads of income is to be computed and brought to charge under the head 'Income from other sources'.

According to Sec-56(2) the following eight income are always taxable under the head 'Income from other sources'—

- dividend
  - any winnings from lotteries, crossword puzzles, races including horse races, card games and other games or from gambling or betting.
  - any sum received by the assessee from his employees as contribution to any staff welfare scheme (if it is not taxable as a business income)
  - interest on securities.
  - income from machinery, plant or furniture let on hire. (if it is not taxable as a business income)
  - income from letting of plant, machinery or furniture along with the building and letting of building is inseparable from the letting of plant, machinery or furniture. (if it is not taxable as a business income)
  - any sum received under a Keyman Insurance Policy. (if it is not taxable under the head of salary or business)
  - where any sum of money received during a previous year without consideration by an individual or a Hindu undivided family from any person or persons, exceeds ₹50,000. Besides, the above mentioned income, so many income are taxable under this head. Some of them are as follows—
- Fees or commission received by an individual from a person other than his employer.
  - An annuity received under a will.
  - Interest on bank deposit, company deposit, loaned money and 'Hundi' or bill of exchange or other type of interest.
  - Income from subletting (difference between rent received and rent paid)

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23. Cost index for the PY 2009-10 is— (C) 148 (D) 619.

(A) 100 (B) 682

24. The following transaction treated as 'transfer' and chargeable to capital gain tax—

- Transfer of assets by partner to a firm
- Transfer of assets by firm to a partner
- Both (A) and (B)
- None of above

25. First provision to sec. 48 is applicable, if the assessee is—

- RORI (B) RNORI (C) NR (D) (A) and (B).

26. Exemption under Section 54B is related to which of the following :—

- Agricultural land (b) Residential house
- Industrial undertaking (d) None of these

**Ans.** 1.(D), 2.(C), 3.(A), 4.(A), 5.(B), 6.(C), 7.(B), 8.(B), 9.(D), 10.(D), 11.(A), 12.(C), 13.(A), 14.(D), 15.(A), 16.(C), 17.(D), 18.(A), 19.(A), 20.(D), 21.(D), 22.(C), 23.(C), 24.(C), 25.(C), 26. (B) ]

**II. Fill in the blanks—**

1. Cost inflation index for the financial year 2012-13 .....

2. The income arising out of transfer of Long-term Capital Asset is known as .....

3. Share and securities are called long term assets if held on more than ..... months.

4. A building will be long term assets if it is owned by assessee for more than ..... months.

5. Money deposited under Capital Gains Scheme, 1988 is .....

**III. State Whether the following Statemet are Right or Wrong**

1. Goodwill of a business is not deemed to be a capital assets.

2. The cost of acquisition of bonus shares received before 1.4.2001 is deemed to be nil.

3. Long term capital gain on residential house is exempt if new house is purchased within two years from the date of transfer. Exemption u/s 54(B) is on the long term capital gain on agricultural land.

5. Car for personal use is treated as capital assets.

**Ans.** (1) Wrong, (2) Wrong, (3) Right, (4) Right, (5) Wrong.]

(5) Remuneration for investigation in examination, setting question paper, valuation of answer sheets and other work related examination (from a person other than his employer)

(6) Income from royalty on books, patents or mines.

(7) Director's fees.

(8) Ground rent.

(9) Agricultural income from a place out side India.

(10) Income from a place which is used for 'hart', market or fishing.

(11) Rent of plot of the land

(12) Remuneration for article writing in news papers and magazines.

(13) Income from delivering lectures

(14) Income from undisclosed source.

(15) Interest on employee's contribution towards Unrecognized Provident Fund which is received by an employee at the time of retirement.

(16) Salary received by a MP/MLA.

(17) Interest and dividend received from a co-operative society.

(18) Insurance commission (if it is not taxable as business income)

(19) Royalty received on the use of trademark, brand name or goodwill.

(20) Director's commission for standing as a guarantor to banker

(21) Family pension.

(22) Amount withdrawn (principal amount and interest/increment both) from national saving scheme, 'Jeevan dhara', 'Jeevan Akshaya' and equity linked saving scheme on which the assessee was allowed deduction U/S 80CCA or 80CCB.

(23) Remuneration received by cricketer for playing cricket.

(24) Tips received by a waiter in restaurant, taxi-driver or any other person.

(25) Gratuity received by a director of any company who is not the employee of a company.

Here it is necessary to mention that the above mentioned list is 'inclusive' and not 'exhaustive'.

**Q. 76. What are the provisions about income from interest on securities? Discuss.**

**Ans.** Interest on securities [Sec. 56(2)(id)]

Interest on securities means—

(a) interest on any securities of the Central Government or a State Government;

(b) interest on debentures or other securities of a local authority or a company or a corporation.

The provisions in this regard are as follows—

Interest on securities is taxable on 'receipt' basis, if the assessee maintains books of account on 'cash basis'. It is taxable on 'due' basis when books of account are maintained on mercantile system.

Interest on securities does not accrue every day or according to the period of holding of investment. (Generally, interest becomes due on due dates specified on securities.

The person who owns the security on the due date of payment of interest is liable to pay tax on the entire interest even if he is not the owner for the entire period to which the interest relates where interest is chargeable on accrual basis.

The interest on securities is chargeable to tax in the hands of recipient whether he holds securities or not.

Expenses on purchase/sales on securities (i.e. brokerage, commission, transfer expenses etc.) are not deductible from income of interest. As well as, profit on sale of securities is also not taxable under this head.

Interest related with the period of prior to purchase of securities is considered as revenue receipt in income tax and it is taxable. The owner of securities sells or transfers securities and buys back or reacquires them (or similar securities with interest burden not greater than that of the original securities). The timing of these transactions is such that the due date of interest falls in between the dates of sale and purchase of such securities. As a result of this the owner escapes the liability in respect of interest income. Section 94 (1) provides that if as a result of such transactions the owner of security escapes tax liability then the interest payable on such securities shall be deemed to be the income of the owner and not of the person to whom such securities were sold. This transaction is called as the 'Bond washing transaction.'

**Q. 77. Explain the provisions of Income Tax Act about Receipts without consideration or gift.**

**Ans.** Receipts without consideration [Sec. 56(2)(vi)]

Any receipt which is without consideration is called as 'gift' in the practical life.

Gift of cash, moveable asset and immovable asset is taxable in the hands of recipient if it is received during relevant previous year. There are some provisions regarding receipts without consideration or gifts.

(1) Immovable property includes, land or building or both.

**Short Answer Type Questions**

Q. 78. Write short note on the following-

- (a) Taxation on winning amount.
- (b) Tax free securities
- (c) Interest on NSC (National Saving Certificates)
- (d) Income of Cricketers.
- (a) Taxation on the basis of winning

Ans. Winnings from the following is chargeable under the head 'Income from other sources' -

- (1) Lotteries, crossword puzzles,
- (2) Races including horse races.
- (3) Card games and other game of any sort,
- (4) Gambling or betting of any form

'card game and other game of any sort' includes any game show, an entertainment programme on television or electronic mode in which people compete to win prizes or any other similar game.

Provisions regarding taxation on these income U/S 56(2)(b) are as follows :

- ◇ Gross winnings are chargeable to income-tax at a flat rate of 30 percent (without claiming any allowance or expenditure)
- ◇ Actual expenses incurred for earning the incomes are not allowed as a deduction.
- ◇ No deduction is allowed under Sec. 80CCC to 80U.
- ◇ Basic exemption is not allowed.
- ◇ Tax rate is flat 30% for all assessee.
- ◇ Losses cannot be set off against this income.

(b) Exempted securities - Interest on the following securities is exempted from tax-

- (1) 12 years National Savings Annuity Certificates,
- (2) National Defence Gold Bonds, 1980,
- (3) Special Bearer Bonds, 1991,
- (4) Treasury Saving Deposit Certificates (10 years)
- (5) Post Office Cash Certificates (5 years)
- (6) National Plan certificate (10 years),
- (7) National Plan Savings Certificate (12 years)
- (8) Post Office National Saving Certificate (12 years/7 years)
- (9) Post office Savings Bank Account. (up to ₹ 3,500 in a individual account and up to ₹ 7,000 in a joint account)
- (10) Post Office Cumulative Time Deposits Rules, 1981.
- (11) Scheme of fixed deposit governed by the Government Savings Certificates (fixed deposit) rules, 1968.

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(2) Movable property includes, shares, securities, jewellery, archaeological collections, drawings, paintings, sculptures, or any work of art and gold and silver (Bullion).

(3) The above mentioned provisions cover only a receipt by an individual or HUF. If the gift is received by any other person it will not be taxable.

(4) Gift is not being accented, therefore it is taxable on the receipt basis only.

(5) Whether the recipient is resident of India or not, as well as the donor is resident of India or not, gift is received in Indian currency or in foreign currency, these all information are ignorable at the time of taxation on gift. In other words, gift may be taxable in all the conditions.

(6) The gift must be a capital asset in the hands of recipient, if he received stock in trade, raw-material or stores as a gift then it will not considered as gift similarly, rural agricultural land is also not considered as capital asset.

(7) An asset received in gift can be refer to valuation officer for valuation purpose.

(8) If current asset is purchased from a dealer who is registered with sales tax department then invoice price is considered as fair market value. If current asset is purchased from any other person then expected selling price as on valuation date is considered as fair market value.

(9) The receipt of gift is exempted in the following situations-

- ◇ Gift received from a relative.
- ◇ Gift received by a HUF from its member.
- ◇ Gift received on the occasion of his marriage.
- ◇ Gift received by an individual by way of will / inheritance.
- ◇ Gift received in contemplation of death of the payer.
- ◇ Gift received from a local authority.
- ◇ Gift received from any fund, foundation, university, other educational institution, hospital, medical institution any trust or institution referred in section 10(23C)
- ◇ Gift received from a charitable institute registered under section 12AA.

(10) For the aforesaid purpose, the term 'relative' means -

- 1. Spouse of the individual.
- 2. Brother or sister or the individual.
- 3. Brother or sister of the spouse of the individual.
- 4. Brother or sister of either of the parents of the individual.
- 5. Any lineal ascendant or descendant of the individual.
- 6. Any lineal ascendant or descendant of the spouse of the individual.
- 7. Spouse of the persons referred to in (2) to (6)

- (12) Scheme of Fixed deposits governed by the Post Office (Fixed Deposit).
- (13) Special Deposit scheme, 1981.
- (14) Post Office public account (up to ₹ 50000).
- (15) 7% Capital Investment Bonds (exempted only for individual or HUF assessee).
- (16) 9% Rebet Bonds (exempted only for individual or HUF),
- (17) NRI Bonds issued by SBI.
- (18) Notified Bonds issued by public sector companies. The notified bonds are – bonds of Railway Finance Corporation of India, National Hydroelectric Power Corporation, NTPC, REC, PFC, HUDCO etc.
- (19) Gold Deposit Bonds – 1999,
- (20) Interest on securities and bank deposit in respect of Bhopal Gas Leak Disaster.

Interest on these securities is neither included in the total income of assessee nor it is taxable.

#### (c) Interest on NSC

Interest on National Saving Certificates (viii<sup>th</sup> and ix<sup>th</sup> issue) is received at the time of maturity but it is taxable on accrual basis in the head 'Income from other sources'. deduction U/S 80C is available on accrued interest on NSC except last year. Accrued and taxable interest on NSC are as follows -

Years (in which interest is accrued and taxable)	NSC purchased	
	1.7.19 to 31.3.20	1.4.20 to 31.3.22
First	8.00%	7.90%
Second	8.64%	8.52%
Third	9.33%	9.20%
Fourth	10.08%	9.92%
Fifth	10.88%	10.71%
Sixth	Remaining	—

#### (d) Income of cricketers

Remuneration received by cricketers for playing cricket is taxable in the head of 'Income from other sources' but, deduction is allowed on the ad-hoc basis. The provisions in this regard are as follows :-

- (1) 25% of remuneration received by cricketers for playing test matches in India is taxable and remaining 75% portion of remuneration is considered as expenses.

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- (2) Future remuneration received by cricketers for playing other matches in India will be considered as expenses and nothing is taxable.
- (3) 50% of remuneration received by cricketers for playing matches in foreign countries is taxable and remaining 50% portion of remuneration is considered as expenses.

Q. 79. Explain in brief other income taxable under the head 'Income from other sources'.

Ans.

#### Other income

Other income which is taxable under the head income from other sources are as follows—

- (1) **Other interest**— interest other than 'interest on securities' is also taxable in this head. Other interest includes interest on company deposits, interest from co-operative societies, interest on bank/ co-operative bank deposit, interest on hundis, interest on personal loan etc. if a person is having a business of money lending then income from interest will be assessable under the head 'business or profession'. Interest on capital or on loan received by a partner from his partnership firm is also taxable under the head 'business or profession'. government acquired a property under 'Compulsory acquisition' and pays interest with compensation or pays interest with additional compensation by an order issued by a court, then interest will be taxable under this head on 'receipts basis'.

- (2) **Salary of MPs and MLAs** – salary received by MPs and MLAs from their respective government is taxable under the head 'income from other sources'. Daily allowance and constituency allowance received by a MLA and all allowances received by a MP are exempt from tax. The terms MP and MLA includes members of both the houses— lower house and upper house.

- (3) **Income from subletting**— a person having a rented house property re-lets out it to another person, and receives the rent much higher than he pays to his landlord, then the difference between the two rents, is his income and is taxable under the head 'income from other sources'. If a person received rental income from a house property not owned by himself then this rent will also be taxable under this head.

- (4) **Foreign agricultural income** – Indian agricultural income is exempted but foreign agricultural income is taxable under this head. The agricultural land situated outside India and agricultural income derived from this land is called foreign agricultural income. If foreign agricultural income is received outside India then it is taxable in the hands of ordinary resident only.

(5) Family pension – pension received by a widow or legal heir of a deceased employee is called 'Family pension' and it is taxable under the head 'income from other sources'. Standard deduction shall be allowed as either one-third of such pension or ₹ 15,000 which ever is less. Pension received by gallantry award winners and legal heirs of deceased member of armed forces (the death of such member occurred in the course of operational duties) is exempt from tax.

(6) Income from non agricultural land – rental income from land which is not used for agricultural purpose and not attached with any house property is taxable under the head 'income from other sources'. Purpose of letting the land and use by the tenant is irrelevant in this regard.

**Practical Questions**

- Q. 80.** Mrs. Rama Devi furnished the following information about her income during the previous year 2021-22.
- Interest credited on fixed deposit with Bank of India ₹ 4,500. Interest was not withdrawn by her up to 31st March 2021.
  - Interest on Post-office deposits:
    - (a) Post-office Savings Bank ₹ 1,700.
    - (b) Post-office Recurring deposit account ₹ 1,350.
    - (c) Post-office cumulative time deposit account (10 years) ₹ 2,000.
  - Family pension from M.P. Government ₹ 24,000.
  - On 1st November, 2021 she purchased a plot for constructing a residential house. On account of shortage of funds, she could not get the house constructed and hence let out the plot at ₹ 400 per month from 1st January, 2021.
  - ₹ 35,000 received (net amount) as prize of Bihar State Lottery after deducting tax at source and agent commission. She has purchased Lottery tickets amounting to ₹ 7,000 during the previous year.
- Compute her 'Income from other sources' for the assessment year 2022-23.

**Solution :** Statement of 'Income from other Sources'

Assessment Year: 2022-23	
1. Interest on Bank deposit	4,500
2. Interest on post-office deposits-	
(a) P.O. Savings Bank interest (exempted)	Nil
(b) P.O. Recurring deposit interest (taxable)	1,350
(c) P.O. Time deposit interest (exempted)	Nil
3. Family pension from M.P. Government	24,000
Less- 1/3 amount deductible	(-) 8,000
	16,000

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- Rent received from plot (3 months)
- Winning from Lottery (Grossed-up)  $\frac{35,000 \times 100}{70}$  1,200

Note- Other sources is considered as income from but standard deduction is allowed 1/3rd or 15,000 ₹ which ever is less

Income from Other Sources	
73,050	

**Q. 81.** Following are the particulars related to Mr. Madan Mohan for the previous year 2021-22 :

- Interest on fixed deposit in Bank
  - Royalty
  - Income from horse race
  - Winnings from lotteries (Gross)
  - Interest on Post Office Savings Account
  - Income from foreign Agricultural Land
  - Dividend on shares of Indian Company
- He purchased lottery tickets worth ₹ 3,000 and paid ₹ 100 commission for collection of dividend expenses related to royalty ₹ 1000. For the assessment year 2022-23 compute his income from other sources.

**Statement of Income from other sources**

Interest on fixed deposit in Bank	6,000
Royalty	20,000
(-) expenses	1,000
Income from horse race	19,000
Winnings from Lotteries	2,000
Interest on P.O. Saving a/c (exempt)	25,000
Income from foreign agricultural land	-
Dividend on Shara of Indian company (exempt)	10,000
Income from other sources.	5,000
	67,000

**Q. 82.** Mr. Lalit an ordinarily resident in Indian earned the following income during financial year 2021-22

Director's fees	2,000
Income from agriculture land in Pakistan	5,000
Ground-Rent for land in Pathankot	10,000
Interest on postal savings bank account	100
Interest on deposits with Industrial Finance	

Corporation of India  
 Dividend from foreign company 500  
 Rent from sub-letting a house 700  
 Rent payable by Mr. Lahit for the sub-let house 26,250  
 Winning from Horse Race 12,000  
 12,300  
 Compute Taxable Income Under the head 'Income from Other Sources'

Sol	Income from other sources	₹
(1)	Directors fees	2000
(2)	Interest from agriculture, land in Pakistan	5000
(3)	Ground Rent for land in Pathankot	10,000
(4)	Interest on Postal saving bank a/c	Nil
(5)	Interest on deposit with industrial finance co. of India.	Nil
(6)	Dividend from foreign company	Nil
(7)	Rent from sub-letting hour	26250
	Less : Rent Payable for sub-let	12000
(8)	Winning from Horse Race	12300
	<b>Income from other source</b>	<b>44250</b>

### Objective Type Questions

- Choose Correct Option -  
 1. Income from lottery is -  
 (a) Casual Income (b) Other sources income  
 (c) Taxable income (d) Tax Free Income
- Income from other services -  
 (a) Bank interest (b) Royalty  
 (c) Director fees (d) All of above.
- Dividend from Indian company is -  
 (a) Income from other sources (b) Income from business  
 (c) Capital gain (d) Exempted Income
- Interest from tax free Govt. securities is made -  
 (a) Gross-up (b) Net up  
 (c) Not included (d) Included as it is
- Included under the head income from other sources -  
 (a) Speculation Income (b) Lecture fees  
 (c) Horse Race Income (d) All of above
- Income from letting out of trade mark is -  
 (a) Trade income (b) Income from other sources  
 (c) Capital receipt (d) None

- Income for playing test match is taxable under the head -  
 (a) Professional income (b) Income from salary  
 (c) Income from other sources (d) None
  - A receives ₹ 70,000 from lottery taxable amount is :  
 (a) ₹ 1,60,000 (b) ₹ 1,00,000 (c) ₹ 1,40,000 (d) ₹ 1,10,000
  - Income of Dhoni for playing match is taxable under the head -  
 (a) Professional income (b) Income from salary  
 (c) Income from other sources (d) None
  - A receives ₹ 52,500 from lottery taxable amount is :  
 (a) ₹ 60,000 (b) ₹ 1,00,000 (c) ₹ 75,000 (d) ₹ 1,10,000
  - Income from horse race is not grossed up if it is :  
 (a) Upto ₹ 5,000 (b) Upto ₹ 7,500  
 (c) Upto ₹ 10,000 (d) Upto ₹ 2500
  - Salary of a member of parliament will be taxable under the head :  
 (a) Salaries (b) Profit from business & profession  
 (c) Capital gains (d) Income from other sources.
- Ans. 1. (d), 2. (d), 3. (d), 4. (c), 5. (d), 7. (b), 8. (b), 9. (c), 10. (c), 11. (c), 12. (d)
- (III) Fill in the blanks -
- T.D.S. is not deducted on Lottery income upto ₹ .....
  - T.D.S. is not deducted on Horse Race income upto ₹ .....
  - Taxable income of interest of ₹ 10,000 on bank deposit in the name of minor son of Mr. Mohan is ₹ .....
  - Interest received on deposit with a firm ₹ 5,400. Taxable amount will be rupees .....
  - Dividend from a Co-operative society is ₹ 8,000 gross income is ₹ .....
- Ans. (1) 10,000 (2) 10,000 (3) 8,500 (4) 6,000 (5) 8,000.
- (III) State whether the following Statements are Right or Wrong -
- Income from govt. securities is not grossed up.
  - Interest received on semi-govt. securities is always grossed up.
  - T.D.S. is not deducted on the dividend on Co-operative society.
  - While calculating income from lottery expenses are deducted.
  - While calculating income from sub-letting deduction is allowed for rent paid and repairs.
- Ans. (1) Right, (2) Right, (3) Right, (4) Wrong, (5) Right
-

## Total Income and Tax Liabilities

### Deductions From Gross Total Income

#### Long Answer Type Questions

Q.83. Discuss any 5 deductions from Gross Total Income which are important for tax planning.

#### Deductions from Gross Total Income

(1) Deduction in respect of investments – Deduction U/s 80C is available to individual and HUF for investments made during the relevant previous year. The following are the main provisions of the section 80C-

- Deduction would be available from gross total income.
- Deduction is available only to an individual or a Hindu undivided family
- Deduction is available on investments/contributions/deposits/payments made by the taxpayer during the previous year
- The maximum deductible under section 80C, 80CCC and 80CCD cannot exceed ₹ 1.5 lakh.
- Deduction is allowed on the basis of payment
- It is not necessary that the investment should be made out of the taxable income.

**Deduction U/S 80C is available on aggregate amount of the following:**

1. Life Insurance premium (subject to a maximum of 20% of sum assured) (see note).
2. Payment in respect of non-commutable deferred annuity
3. Amount deducted from salary payable to a Government employee for deferred annuity.
4. Contribution towards SPF & RPF.
5. Contribution towards PPF.
6. Contribution towards an approved superannuation fund.
7. Subscription to National Savings Certificates
8. Contributions for participating in the unit-linked insurance plan (ULIP) of Unit Trust of India.
9. Contribution for participating in the unit-linked insurance plan (ULIP) of LIC Mutual Fund.
10. Payment for notified annuity plan of LIC.
11. Subscription towards notified units of Mutual fund or UTI.

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12. Contribution to notified pension fund set up by Mutual Fund or UTI
13. Any sum paid to Home Loan Account Scheme of the National Housing Bank or contribution to any notified pension fund set up by National Housing Bank.
14. Any sum paid as subscription to any scheme of-
  - a. Public Sector Company engaged in providing long term finance for residential houses in India.
  - b. Housing Board.
15. Any sum paid as tuition fees to any university / college / educational institution in India for full time education of any two children of an individual.
16. Any payment towards the cost of purchase/Construction of a residential property (including repayment of loan)
17. Amount invested in approved debentures or and equity shares in a public company engaged in infrastructure.
18. Amount deposited as term deposit for a period of 5 years or more in a bank.
19. Subscription to any notified bonds of NABARD.
20. Deposit in an account under the Senior Citizens Savings Scheme.
21. Deposit in Five Year Time Deposit under the Post Office Time Deposit Rule 1981.

**Note:** In the case of an individual, life insurance policy should be taken on his own life, life of the spouse or any Child. In the case of a Hindu undivided family, policy may be taken on the life of any member of the family

(2) **Deduction in respect of National Savings Scheme** – Deduction was available under section 80CCA only for the assessment year is 1988-89 to 1992-93 in the case of an individual and a Hindu undivided family. This deduction was available in relation to amount deposited under National Savings Scheme, 1987 or the amount paid under Jeewan Dhara and Jeewan Akshay plan of LIC.

Where any amount the National Savings Scheme, 1987 or any amount is received on account of surrender of Jeewan Dhara / Jeewan Akshay the entire amount received by the assessee is deemed to be the income of the assessee of that period in which such withdrawal is made.

Where the amount is paid on the death of the assessee to his legal heirs the amount so paid will not be chargeable to tax in the hands of legal heirs –

(3) **Deduction in respect of equity linked saving scheme** – Section 80CCB relating to deduction in respect of investment made in

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 the notified Equity Linked Saving Scheme for the assessment year 1991-92 and 1992-93.

Any amount returned to the assessee will be deemed to be income for the previous year in which the amount is returned.

(4) **Deduction in respect of pension fund** – As per section 80CCC, deduction is available for taking the membership of pension fund and payment of premium. Provisions in this regard are as follows :-

- The taxpayer is an individual.
- He has paid a sum under an annuity plan of the Life Insurance Corporation of India of any other insurer for receiving pension.
- The aforesaid amount is paid out of income chargeable to tax. It is however not necessary that it should be paid out of the income of the current year.

If the aforesaid conditions are satisfied then the amount deposited or ₹1,00,000, whichever is lower is deductible. The aggregate deduction under sections 80C, 80CCC and 80CCD cannot exceed Rs. 1,50,000.

**Other points** – (1) The assessee or his nominee surrenders the annuity before maturity date of such annuity the surrender value shall be taxable in the year of the receipt. (2) If pension is received by the assessee (or his nominee) such pension will be taxable in the hands of recipients.

(5) **Deduction in respect of notified pension scheme** – New pension scheme is applicable to new entrants to Government service or any other employer. As per the scheme, it is mandatory for member employee to contribute 10 percent of salary every month. Matching contribution is required to be made by the employer. The tax treatment under the special pension scheme U/S 80CCD is as follows :-

- Contribution made by the employer is first included under the head 'Salaries' in assessment of the employee.
- Such contribution is deductible (maximum limit is 10% of salary of the employee) under section 80CCD.
- Employee's contribution (to the extent of 10 percent of the salary of the employee) is also deductible under section 80CCD.
- Pension is taxable.
- No deduction will be allowed under section 80C in respect of amounts on which deduction has been claimed under section 80CCD.
- 'Salary' includes dearness allowance, if the terms of employment so provide, but not include any type of commission.

- The aggregate amount of deduction under section 80C, 80CCC and 80CCD cannot exceed ₹ 1,50,000.
- A self employed person can claim the benefit of Sec. 80CCD. No deduction is available in respect of a self-employed person's contribution to the notified pension scheme which is excess of 10% of his gross total income.

(6) **Deduction in respect of medical insurance premium** – U/S 80D is available on payment of health insurance premium. The provisions in this regard are as follows:-

- The taxpayer is an individual or HUF.
- Insurance premium is paid by the taxpayer for mediclaim insurance policy or for similar scheme of any other insurer who is approved by the IRDA (Insurance regulatory and development authority).
- The premium is paid by mode other than cash.
- It is paid out of income chargeable to tax.
- The policy is taken for the health of the following persons-  
 (A) **Individual** – On the health of the taxpayer, spouse, parents or dependent children of the taxpayer.  
 (B) **Hindu undivided family** – On the health of any member of the family. Maximum limit is 25,000.

(7) **Deduction in respect of expenditure on dependent being a person with disability** – Deduction U/S 80DD is available for expenses on medical treatment, training and care of a dependent relative being a person with disability. Provisions in this regards are as follows.

- The taxpayer is resident in India.
- The resident taxpayer is an individual or a Hindu undivided family.
- The assessee must incur expenditure –  
 (a) On medical treatment including training and rehabilitation and/or  
 (b) By way of payment to a scheme framed by UPI/IC/Other Insurer and approved by the CBDT.  
 Insurer and approved by the CBDT.  
 'Dependent being a person with disability' is a person who satisfies the following points-  
 (a) In the case of an individual dependent means the spouse, children, parents, brothers and sisters of the individual or any one of them.  
 (b) In the case of a Hindu undivided family 'dependent' means a member of a Hindu undivided family.  
 (c) Such person is wholly, or mainly dependent upon such individual or Hindu undivided family.  
 (d) Such person has not claimed any deduction under section 80U.

(c) 'Disability' shall have the meaning assigned to it in section 2(i) of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act 1995.

- (f) 'Person with disability' means a person having 'disability' stated above of not less than 40 percent.
- For claiming the deduction the assessee shall have to furnish a copy of the certificate issued by the medical authority along with the return of income.
  - Fixed deduction of ₹ 75,000/- irrespective of actual expenditure. The deduction shall be a fixed sum of ₹ 1,25,000 - irrespective of actual expenditure where such dependent person having any disability over 80%.
  - If the dependent predeceases the assessee or the member of HUF in whose name deposit is made an amount equal to the deposit made under the scheme shall be deemed to the income of the assessee in the year of receipt.

**Q. 84. Explain in brief the section 80C of Income Tax Act, about Investments.**

**Ans. Deduction in respect of investments - Deduction U/S 80C is available to individual and HUF for investments made during the relevant previous year. The following are the main provisions of the section 80C-**

- Deduction would be available from gross total income.
- Deduction is available only to an individual or a Hindu undivided family.
- Deduction is available on investments/contributions/deposits payments made by the taxpayer during the previous year.
- The maximum deductible under section 80C, 80CCC and 80CCD cannot exceed ₹ 1.5 lakh.
- Deduction is allowed on the basis of payment.
- It is not necessary that the investment should be made out of the taxable income.

**Deduction U/S 80C is available on aggregate amount of the following:**

1. Life Insurance premium (subject to a maximum of 20% of sum assured) (see note).
2. Payment in respect of non-commutable deferred annuity.
3. Amount deducted from salary payable to a Government employee for deferred annuity.
4. Contribution towards SPF & RPF.
5. Contribution towards PPF.

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6. Contribution towards an approved superannuation fund.
7. Subscription to National Savings Certificates
8. Contributions for participating in the unit-linked insurance plan (ULIP) of Unit Trust of India.
9. Contribution for participating in the unit-linked insurance plan (ULIP) of LIC Mutual Fund.
10. Payment for notified annuity plan of LIC.
11. Subscription towards notified units of Mutual fund or UTI.
12. Contribution to notified pension fund set up by Mutual Fund or UTI.
13. Any sum paid to Home Loan Account Scheme of the National Housing Bank or contribution to any notified pension fund set up by National Housing Bank.
14. Any sum paid as subscription to any scheme of -  
a. Public Sector Company engaged in providing long term finance for residential houses in India.  
b. Housing Board.
15. Any sum paid as tuition fees to any university / college / educational institution in India for full time education of any two children of an individual.
16. Any payment towards the cost of purchase/Construction of a residential property (including repayment of loan)
17. Amount invested in approved debentures or/and equity shares in a public company engaged in infrastructure.
18. Amount deposited as term deposit for a period of 5 years or more in a bank.
19. Subscription to any notified bonds of NABARD.
20. Deposit in an account under the Senior Citizens Savings Scheme.
21. Deposit in Five Year Time Deposit under the Post Office Time Deposit Rule 1981.

**Q.85. Discuss the deduction in respect of donation (80 G).**

**Ans. Deduction in respect of donations - As per section 80G deduction is available for the donations given by the assessee to the notified funds and institutions. Provisions in this regard are as follows:**

- Deduction under this section is available to all assessee.
- Such donation is a sum of money. Donations in kind are not eligible for deduction.
- Donation must be given to the notified fund or institution.
- It is not necessary that the donation must be paid out of the taxable income of the assessee.
- There are some funds and institutions to which one can donate any amount he wishes and deduction is available on entire amount of donation. But there are certain funds and

institutions in which an assessee cannot avail deduction for more than 10% of his 'adjusted gross total income'.  
 Deduction will be available @ 100% on certain donations and @ 50% for other donations.

The list of notified funds and institutions is as follows :-

**Done**

**Rate of deduction**

A. The funds and institutions to which one can donate any amount he wishes and deduction is available on entire amount of donation.

- (1) National Defence Fund set up by the central Govt. 100%
- (2) Prime Minister's National Relief Fund 100%
- (3) Prime Minister's Armenia Earthquake Relief Fund 100%
- (4) Africa (Public Contributions-India) Fund 100%
- (5) National Foundation for Communal Harmony 100%
- (6) An approved university and educational institution 100%
- (7) The Maharashtra Chief Minister's Earthquake Relief Fund 100%
- (8) A fund set up by the govt. of Gujarat for providing relief to victims of earthquake in gujrat 100%
- (9) Zilla Saksharta Samiti 100%
- (10) National/State Level Blood Transfusion Council 100%
- (11) Fund set up by a state govt. for the medical relief to the poor 100%
- (12) Central Welfare Fund of the Army and Air force 100%
- (13) Andhra Pradesh Chief Minister's Cyclone Relief Fund 100%
- (14) National Illness Assistance Fund 100%
- (15) Chief Minister's or Lieutenant Governor's Relief Fund 100%
- (16) National Sports Fund or National Cultural Fund or Fund for Technology Development and Application 100%
- (17) Jawaharlal Nehru Memorial Fund 50%
- (18) Prime Minister's Drought relief Fund 50%
- (19) National Children's Fund 50%
- (20) Indira Gandhi Memorial Trust 50%
- (21) Rajiv Gandhi Foundation 50%

B. Funds and institutions in which an assessee cannot avail deduction for more than 10% of his 'adjusted gross total income'.

- (1) Govt. or any approved local authority, institution or association to be utilized for purpose of promoting family planning 100%
- (2) The Indian Olympic Association or notified sports institution (donation only by a company) 100%
- (3) Govt. or any Local authority for any charitable purpose (other than the purpose of promoting family planning) 50%

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- (4) Any corporation specified for promoting interest of the minority community 50%
- (5) Public charitable institution or fund approved U/S 80G 50%
- (6) Any notified Temple, Mosque, Gurudwara, Church or other place for renovation or repairs 50%
- (7) Any authority of trust constituted in India for construction of housing accommodation or town planning 50%
- (8) Adjusted gross total income is calculated in the following manner:- 50%

Gross total income

- Less- 1. long term capital gain .....
- 2. Short term capital gain covered U/S 111A .....
- 3. deduction U/S 80 except sec. 80G .....

Adjusted gross total income

**Short Answer Type Questions**

Q.86. Discuss the following deductions :

- (i) Deduction in respect of interest on loan taken for higher education (Sec. 80E)
- (ii) Deduction in respect of income received by authors as royalty (Sec. 80QQB)

Ans. (i) Deduction in respect of payment of interest on loan taken for higher education - As per sec 80E deduction is available for the payment of interest on loan taken for the higher education from any bank or institution. Provisions in this regard are as follows :-

- 1. The assessee is an individual.
- 2. He had taken a loan from any financial institution or an approved charitable institution.
- 3. The loan was taken for the purpose of pursuing any education pursued after passing the senior secondary examination (or equivalent) from any recognized board.
- 4. The loan was taken by the taxpayer for the purpose of pursuing his own higher education or for the purpose of higher education of his spouse / any child / the student for whom the taxpayer is the legal guardian.

- Amount is paid by the individual during the previous year way of interest on such loan.
- Such amount is paid out of his income chargeable to tax. If the above conditions are satisfied the entire amount paid way of interest is deductible. The deduction shall be allowed in the year in which the assessee starts repayment and 7 successive years, (i.e. all for 8 years).

**(ii) Deduction in respect of Royalty income of authors**

As per Sec. 80QQB, the deduction is available to the authors of books in respect of their royalty income. The provision in this regard are as follows:

- The taxpayer is an individual resident in India.
- He is an author or joint author.
- The book authored by him is work of literary, artistic or scientific nature. The 'book' shall not include brochures, commentaries, diaries, guides, journals, magazine, newspapers, pamphlets, text-books for schools tracts and other publications of similar nature, by whatever name called.
- The gross total Income of the taxpayer includes the following-
  - Royalty or copyright fees; it also includes advance payment which is not returnable
  - Lumpsum consideration for transfer of any interest in the copyright of the book.
- The taxpayer shall have to obtain a certificate in Form No 10CCCD from the person responsible for paying the income and furnish it along with the return if the above-mentioned conditions are satisfied. The deduction shall be 100% of income or ₹ 3,00,000/- whichever is less.
- If the royalty or copyright fee is more than 15% of the value of the books sold during the previous year the excess royalty shall not qualify for deduction. This rule will not apply in relation to a lump sum consideration in lieu of all rights of the assessee in the book.
- If the eligible income is earned outside India the deduction shall be allowed on so much of the income earned in foreign exchange which is brought to India within six months from end of the previous year or within the period extended by the RBI.
- It appears that the limit of ₹ 3,00,000/- is per assessee and not per book.

**Practical Questions**

Q.87.

Mr. Ravi has started a job of Central Government on 01-01-2021. His basic salary is ₹ 40,000 p.m. and dearness allowance is ₹ 20,000 p.m. (50% of which is covered under terms of employment). The government contributes ₹ 6,000 p.m. to the special pension fund. Mr. Ravi makes a matching contribution. Find out taxable income of Mr. Ravi for the assessment year 2022-23.

**Solution :**

Computation of Taxable Income		₹
Income from salary-		
Basic Salary (40,000 × 12)		4,80,000
DA (20,000 × 12)		2,40,000
Employer's Cont. to pension fund (6,000 × 12)		72,000
	GTT/Taxable Salary	7,92,000
Less : Deduction U/S 80 C (GPF)-		
Deduction U/S 80 CCD-		
(A) Employer's Cont. (10% of salary)	=	70,000
(B) Employee's Cont. (10% of salary)	=	60,000
(Restricted to ₹ 1,60,000)		1,30,000
	Taxable Income	6,42,000

- Notes - 1.** For deduction U/S 80CCD the term 'salary' includes basic salary and DA if terms of employment so provide.
- Employer's contribution towards Special Pension Scheme is first of all included in taxable salary and then afterward it is deductible U/S 80CCD (maximum 10% salary of the employee)
  - The employee can also avail deduction U/S 80CCD for his own contribution towards Special Pension Scheme (maximum 10% of his salary)
  - The total deduction U/S 80C, 80CCD and U/S 80CCD cannot exceed ₹ 1 lakh but employers contribution (up to 10% of employer's salary) is in addition to this ₹ 1,00,000.

**Objective Type Questions**

- Choose the Correct Answer.
- On which income deduction under section 80 G is not allowed :

1. (a) Salary (b) House property  
(c) Long Term Capital Gain (d) None
2. Mr. Rajat is completely blind. he will avail deduction U/S 80U :  
(a) ₹ 50,00,000 (b) ₹ 60,000  
(c) ₹ 65,000 (d) ₹ 1,25,000
3. Deduction admissible under Section 80E :  
(a) In relation to Donation  
(b) In relation to Medical Expenses  
(c) In relation to interest on Loan for higher education paid  
(d) None of these
4. How much maximum amount can a person deposit to Public Provident Fund (P. P. F.) in a financial year to earn interest on it :  
(a) ₹ 50,000 (b) ₹ 60,000  
(c) ₹ 70,000 (d) ₹ 1,00,000
5. Deduction u/s 80C is not available to :  
(a) Individual (b) Hindu Undivided Family  
(c) Company (d) All of these
6. For deduction U/S 80C the life insurance policy should be taken on the life of :  
(a) Karta of the HUF (b) Any male member of HUF  
(c) Any female member of HUF (d) Any member of HUF
7. The following contribution not qualified for deduction U/S 80C :  
(a) Subscription to NSC  
(b) Subscription to Indira Vikas Patra  
(c) Contribution to PPF  
(d) All of the above
8. The following contribution not qualified for deduction U/S 80C :  
(a) SPF (b) RPF  
(c) UPP (d) PPF
9. The following contribution not qualified for deduction U/S 80C :  
(a) Pension fund of Life Insurance Corporation  
(b) Pension fund of Unit Trust of India  
(c) Pension fund of National Housing Bank  
(d) All of above are qualified
10. The following payment is qualified for deduction U/S 80C :  
(a) Principal amount of Housing Loan  
(b) Interest of Housing Loan  
(c) (a) and (b) both  
(d) None of the above

11. Deduction U/S 80C is available on the basis of :  
(a) Accrual (b) Payment  
(c) (a) or (b) whichever is earlier (d) (a) or (b) whichever is later
  12. Deduction U/S 80CCD is available to :  
(a) Individual only (b) HUF only  
(c) Individual and HUF only (d) All the assesses
  13. Deduction U/S 80CCD is available to :  
(a) Govt. employees (b) Non-Govt. employees  
(c) Self employed person (d) All of the above
  14. Deduction U/S 80D is available to :  
(a) Individual only (b) HUF only  
(c) Individual and HUF only (d) All the assesses
  15. To get deduction U/S 80D, the health insurance policy is taken on the health of :  
(a) Tax payer (b) Parents of taxpayer  
(c) Dependent children of taxpayer (d) Any of the above
  16. To get deduction U/S 80DD the 'person' having disability not less than :  
(a) 25% (b) 40%  
(c) 50% (d) 60%
  17. To get deduction U/S 80DD the 'person' having disability of 80% or above, the amount of deduction shall be :  
(a) ₹ 1,25,000  
(b) Actual expenses of the assessee  
(c) (a) or (b) whichever is less  
(d) (a) or (b) whichever is more
  18. Deduction U/S 80E is available to :  
(a) Individual only (b) HUF only  
(c) Individual and HUF only (d) All the assesses
  19. To get deduction U/S 80E, assessee had taken a loan from :  
(a) Govt. of India (b) Financial Institution  
(c) Employer of the assessee (d) Any one of the above
  20. Deduction U/S 80G is available to :  
(a) Individual only (b) HUF only  
(c) Individual and HUF only (d) All the assesses
- Ans. 1. (c), 2. (d), 3. (c), 4. (d), 5. (c), 6. (d), 7. (b), 8. (c), 9. (a), 10. (a), 11. (b), 12. (a), 13. (d), 14. (c), 15. (d), 16. (b), 17. (a), 18. (a), 19. (b), 20. (d).

II. Fill in the blanks-

1. The deduction u/s 80P is available to a .....
  2. The deduction u/s 80 JJA is available to a .....
  3. The deduction u/s 80CCC is available to .....
  4. The maximum deduction allowable u/s 80C is .....
  5. The maximum deduction allowable u/s 80GGG is ..... P.m.
  6. Deduction u/s 80GG is related to .....
- Ans. 1. Co-operative Society, 2. Indian Co., 3. Individual, 4. 1,50,000, 5. 2,000 ₹, 6. House rent paid.

III. State Whether the following Statement are True or False

1. Where a person lives in his own house, even he is entitled to deduction u/s 80GG.
2. Interest on Loan taken for education of child, the father is entitled to deduction u/s 80E.
3. Deduction under sections 80C to 80U can exceed gross total income.
4. For Donation to National children's Fund the deduction is allowed 100% of such donation.
5. Deduction u/s 80GGG is related to donation.

[Ans.- 1. Wrong, 2. Right, 3. Wrong, 4. Wrong, 5. Wrong] ■

**Computation of Total Income and tax liability of Individuals**

**Long Answer Type Questions**

Q88. Discuss in brief to Procedur of Computation of Total Income of Individual Assessee.

Ans. **Computation of Total Income of Individual Assessee.**

The procedure of computation of total income and calculation of tax liability of an individual is as follows:

- First of all, we will determine the residential status of the individual assessee. After this we will find which income will be taxable in the hands of assessee.
- After this, we will make the assessment of 5 heads (salary, house property, business or profession, capital gain and other source) of the assessee. For this we will apply all the provisions of income tax act.
- After that, we will set off of losses.
- In certain situations, according to the provisions, we will club the income of other person with income of the assessee. After

clubbing of income, whatever amount we will get, that will be called 'Gross Total Income'.

- The deduction U/S 80 will be given from Gross Total Income. Remaining amount will be called 'Total Income' or 'Taxable Income'. This amount will be rounding of at Rs 10.
- On total income, the tax will be calculated at the rates prescribed for relevant previous years. In the amount of tax, the education cess will be added at the rate of 4 % of such amount of tax and the amount will be rounding of at Rs 10. This amount is called 'Gross Tax Liability' of the assessee.
- Lastly, the amount of payment of advance tax, amount of tax deducted at source and tax collected at source (TCS) will be deducted from above mentioned Gross Tax Liability. Remaining amount will be called 'Net Tax Liability'. The assessee has to pay this amount to the income tax department. If this amount is negative then income tax department will refund the amount to the assessee.
- If taxable income of the assessee is not more than ₹ 5,00,000 than a deduction of ₹ 12,500 is allowed from tax payable by him. ■

**Rates of Tax 2021-22**

	(Tax Liabilities)	
1 <sup>st</sup>	₹ 2,50,000	NIL
Next	₹ 2,50,000	5%
Next	₹ 5,00,000	20%
Balance (over 10 lakh)		30%

- + Loan Term gain × 20%
- + Lottery × 30%
- + Casual Income × 30%

Less- Rebate  
under section 87-A Maximum  
(Up to T.I. 5,00,000)

- + 10% Surcharge (If T.I between 50 Lakh to 1 crore)
- + 15% Surcharge  
(More than 1 crore T.I.)

+ 4% cess

Less- T.D.S. and Advance tax

Actual tax

Note- 1 For Senior Citizens (60 to 80 years) / ₹ 3,00,000 of total income is tax free and next 2,00,000 taxable @ 10%. Remaining process will same as above.

- For Super Senior Citizen (80 year or more than 80 years) In 5,00,000 of total income is tax free and next 5,00,000 taxable @ 20%. Remaining process will same as above.
- If Total Income ₹ 50 Lakhs to ₹ 1 crore than surcharge will be 10%.
- If Total Income ₹ 1 crore to ₹ 2 crore than surcharge will be 15%.
- If Total Income between ₹ 2 crore to ₹ 5 crore surcharge will be 20%.
- If Total Income more than ₹ 5 crore than surcharge will be 37%.

**Alternative Tax System-** From assessment year 2022-23 govt. government regulate a new alternative tax system where no deduction will allowed. No taxfree allowances allowed and tax rate will be :-

1 <sup>st</sup>	2.5 Lakh	Nil
Next	2.5 Lakh	5%
Next	2.5 Lakh	10%
Next	2.5 Lakh	15%
Next	2.5 Lakh	20%
Next	2.5 Lakh	25%
Balance		30%

Note- Education cess, section 87-A Rebate upto 12,500 Rs. and surcharge rule will be same as normal tax system.

**Practical Questions**

**Q.89.** From the following information compute the total income of Mr. Sudhir Dixit for the assessment year 2021-22-

- Salary ₹ 17,000 per month.
- He contributes 20% of his salary to a recognised provident fund. (17,000)
- Employer's contribution to provident fund is 14% of salary.
- Interest credited to provident fund ₹ 12,000. (11,400)
- Dividend from an Indian Company ₹ 12,000 and Interest on bank deposit ₹ 7,600.
- Life Insurance premium paid ₹ 4,000.

**Solution :** **Computation of Total Income**  
(For the A.Y. 2022-23)

1. <b>Income from salary</b>	
Salary 17,000 × 12	2,04,000
Employer's contribution to RPF	4,080
excess over 12% i.e. 2%	2,08,080
Less : S. D. (16 i)	50,000
	<b>1,58,080</b>

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Income from House Property	Nil
Income from Business	Nil
Capital gains	Nil
Income from other sources	Nil
Dividend on shares (exempt)	Nil
Bank interest	12,000
	7,500
<b>Gross Total Income</b>	<b>19,500</b>
Less: Deduction u/s 80C	
(a) Own contribution to PPF 20% of salary	40,800
(b) LIC premium	4,000
	44,800
<b>Taxable Income</b>	<b>1,32,880</b>

**Q.90.** Taxable Income of an assessee has been determined ₹ 10,80,000. for the assessment year 2021-22. Find out tax payable by him if the assessee is :

- General assessee, (2) Senior Citizen assessee, (3) Super Senior Citizen.

**Solution :** (1) General assessee (up to 60 years)

1 <sup>st</sup>	2,50,000	Rate	Amount
Next	2,50,000	5%	12,500
Next	5,00,000	20%	1,00,000
Balance	80,000	30%	24,000
			<u>1,36,500</u>
		+ 4% cess	<u>5,460</u>
			<u>1,41,960</u>

(2) Senior citizen assessee (more than 60 and under 80 years)

1 <sup>st</sup>	3,00,000	Rate	Amount
Next	2,00,000	5%	10,000
Next	5,00,000	20%	1,00,000
Balance	80,000	30%	24,000
			<u>1,34,000</u>
		+ 4% cess	<u>5,360</u>
			<u>1,39,360</u>

(3) Super senior citizen (more than 80)

1 <sup>st</sup>	5,00,000	Rate	Amount
Next	5,00,000	20%	1,00,000
Balance	80,000	30%	24,000
			<u>1,24,000</u>
		+ 4% cess	<u>4,960</u>
			<u>1,28,960</u>

Notes - 1. Deduction U/S 80C is available for payment/investment made out of taxable income as well as exempted income. 2. LTCG is chargeable to tax at 20% flat rate. 3. The assessee has agricultural income as well as non-agricultural income so the calculation of tax will be done by special method.

Q.91. Gross total income of Mr. Goyal (age : 72 years) for the previous year 2021-22 is ₹ 6,90,000. He made following payments -

1. He spent ₹ 12,000 for medical treatment of his dependent disabled son and ₹ 30,000 for treatment of cancer of dependent son of his late friend.
2. Medical insurance premium of ₹ 25,000 for himself.
3. Repayment of loan of ₹ 30,000. It was taken for higher education of his grand son. It includes ₹ 12,000 as interest.
4. Donation of ₹ 5,000 towards Prime Minister's Drought Relief Fund.
5. Tuition fees of ₹ 8,000 for his grand son.

Calculate total income of Mr. Goyal for the assessment year 2022-23.

[Ans. TI : ₹ 5,62,500 ]

- Hints - 1. Deduction U/S 80DDB will not be allowed for medical treatment of dependent son of a deceased friend of the assessee but deduction of ₹ 30,000 U/S 80DD will be allowed irrespective of actual expenses for medical treatment of his dependent disabled son.
2. The assessee is a resident senior citizen so the maximum limit of deduction U/S 80D will be ₹ 20,000.
  3. Deduction U/S 80CC and 80E will not be allowed for payment of tuition fees and payment on interest on education loan respectively, because these payments were made for grand son of the assessee.

### Objective Type Questions

1. Choose the Correct Answer -

1. Sum of various heads of incomes is called :
  - (a) Gross total income
  - (b) Total income
  - (c) Taxable income
  - (d) Adjusted income
2. Out of which income deduction u/s 80C is not allowed :
  - (a) Income from Salary
  - (b) Income from House Property
  - (c) Income from Business
  - (d) Long-term Capital Gains
3. Number of heads in Income Tax Act are -
  - (a) 3
  - (b) 4
  - (c) 5
  - (d) 6

4. Out of which income deduction u/s 80G is not allowed -

- (a) Income from Salary
- (b) Income from House property
- (c) Short-term capital gain u/s 111A
- (d) Income from other sources

5. If total income is 4,20,194.50 ₹ the rounded off income shall be -

- (a) ₹ 4,20,194
- (b) ₹ 4,20,195
- (c) ₹ 4,20,190
- (d) ₹ 4,20,200

Which income is rounded off :

- (a) Gross Total Income
- (b) Total Income
- (c) (a) & (b) both
- (d) None of these

7. Exemption limit in the case of a resident women below 60 years of age for the assessment year 2022-23 is :

- (a) ₹ 2,50,000
- (b) ₹ 2,40,000
- (c) ₹ 1,60,000
- (d) None of these

8. Exemption limit for A.Y. 2022-23 in case of resident senior citizen assessee is -

- (a) ₹ 3,00,000
- (b) ₹ 2,40,000
- (c) ₹ 1,60,000
- (d) ₹ 1,50,000

9. Exemption limit for AY 2022-23 in case of Non-resident in India, aged 80 year is -

- (a) ₹ 1,50,000
- (b) ₹ 5,00,000
- (c) ₹ 2,40,000
- (d) ₹ 2,50,000

10. The rate of education cess is -

- (a) 2%
- (b) 4%
- (c) 3%
- (d) 5%

11. The rate of tax on lottery winnings is -

- (a) 20%
- (b) 25%
- (c) 30%
- (d) 35%

12. Total income of resident woman aged 50 years for A.Y. 2022-23 is 5,00,000 ₹ She will pay tax -

- (a) ₹ 31,000
- (b) ₹ 13,000
- (c) ₹ 3,400
- (d) ₹ 35,020

13. Total income of Ram (aged 40 years) for A.Y. 2021-22 is 4,00,000 ₹ He will pay tax -

- (a) ₹ 24,000
- (b) ₹ 7,000
- (c) ₹ 16,000
- (d) ₹ 16,450

14. Education cess is calculated on -

- (a) Total income
- (b) Tax on total income
- (c) Taxable income
- (d) Agriculture income

15. The rate of Surcharge on tax payable when taxable income is ₹ 2,59,000-

- (a) 5%
- (b) 2%
- (c) 3%
- (d) Zero

[Ans. 1. (a), 2. (d), 3. (c), 4. (c), 5. (c), 6. (b), 7. (a), 8. (a), 9. (b), 10. (b), 11. (c), 12. (b), 13. (b), 14. (b), 15. (d).]

II. Fill in the blanks-

1. The rate of surcharge on tax payable is ..... % when taxable income is ₹ 5,59,000.
  2. The tax liability of an assessee is determined with reference to his .....
  3. For A.Y. 2022-23 the income tax exemption limit for an individual is .....
  4. Income tax payable by an individual is ₹ 6,342.60. The rounded off tax payable will be .....
  5. Special tax rate is applicable for long term capital gains is .....
- Ans. 1. Nil, 2. Total income, 3. ₹ 2,50,000, 4. ₹ 6,340, 5. 20%.

III. State Whether the following Statement True or False-

1. Surcharge is levied when the total income of an individual exceeds ₹ 2,50,000.
  2. A partner is liable to pay tax on his share income received from the firm.
  3. An individual resident in India and non-resident in India pay tax at the same rates.
  4. Education cess is imposed at 4%.
  5. Dividend received from an Indian Company is not included in total income.
- Ans.- 1. False, 2. False, 3. True, 4. True, 5. True]

□□□

10

Long Answer Type Questions

Q.92. Discuss the procedure of Assessment under Income tax Act.

Ans. As per sec. 139(1), (4A), (4B) and (4C) when a person calculates his total income, loss and tax liability according to the provisions of Income Tax Act then this accounting is called 'Return of income'. This return of income is furnished with income tax department in prescribed form and prescribed manner then it is called 'Filing of return'. In other words, return of income is a statement furnished by a person giving details of his total income or loss and tax liability under the Act. The return showing a loss is called a 'return of loss'.

Such return is called a voluntary return as it is filed voluntarily by the assessee and not in response to any notice. The following persons are under statutory obligation to file return of income -

Taxpayer	Minimum income to attract the provision of filing return of income
(1) Company or firm [sec. 139(1)]	Any income or loss
(2) A person other than a company or firm [Sec. 139(1)]	Compulsory return if taxable income (plus deduction U/S 10A, 10B, 10BA, and section 80C to 80U) exceeds the exemption limit.
(3) A person in receipt of income derived from property held under a trust for charitable or religious purposes [Sec. 139(4A)]	If the income (without giving exemption under section 11 or 12) exceeds the exemption limit.
(4) Every political party [Sec. 139(4B)]	If the income (without giving exemption under section 13A) exceeds the exemption limit.
(5) Scientific research association, news agency, professional institution, khadi and village industries, educational /medical institution, trade union [Sec. 139(4C)]	If the income (without giving exemption under section 10) exceeds the exemption limit.
(6) University/educational institution and hospitals if the aggregate annual receipt does not exceed of ₹ 1 Crore [Sec. 139(4C)(e)]	If the income (without giving exemption under section 10) exceeds the exemption limit.
(7) Any university/college/other institution [Sec. 139(4D)]	Any income or loss

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**Notes:** (1) In this regard the exemption limit for the assessment year 2021-22 is ₹ 2,50,000. (2) This provision applies to all persons whether they are resident or non-resident.

**Notified Forms for Return**

The Central Board of Direct Taxes has notified the following forms:

Particulars	Form
1. Assessee who has salary house property and other sources income as individual	I TR-2
2. Individual or H.U.F. who has Business and Profession Income	I TR-3
3. Individuals or H.U.F. who has Partnership Income as a partner but dont have any sole trade business	I TR-4
4. Individuals or H.U.F. who have Income from Business	I TR-4S
5. Small trades, Contractor and Transportor who have estimated Income under section 44-AD and 44-AE	I TR-5
6. Partnership firm, Association of person	I TR-6
7. Companies (excluding those company whose income tax free under section-11)	I TR-6
8. Charitable Institute, Trust and Political party etc.	I TR-7

**Notes:-**

- I TR-7 can be submitted only in paper format.
  - I TR-5 and I TR-6 can be submitted only in computer media. In other remaining cases, return can be submitted in paper format or through computer media.
  - These returns are not to be accompanied with any other document including any statutory form or report of audit.
- Due date for filing returns of Income [Sec. 139(1)]**  
 The act prescribes two dates for filing the returns:
- 30<sup>th</sup> September of the assessment year : The due date shall be 30<sup>th</sup> September in three cases -
    - Company assessee.
    - Where the accounts are required to be audited under any law.
    - Where the assessee is a working partner of a firm and the books of firms are required to be audited under any law.

- 31<sup>st</sup> July of the assessment year : In all other cases, the due date shall be the 31<sup>st</sup> July.

**Notes:** Where the last date for filing of a return of income is a holiday, the return can be submitted on next working day.

Q.98. Write Short note on:

- (A) Return of Loss
- (B) Related Return Of Income
- (C) Revised Return Of Income
- (D) Defective Return of Income

**(A) Return of loss [Sec. 139(3)]**

Ans.

The return of loss should be filed in the prescribed form and within the time allowed under section 139(1) The following losses cannot be carried forward if the return of loss is not submitted in time -

- (a) Loss from ordinary business
  - (b) Loss from speculative business
  - (c) Capital loss (short term as well as long term)
  - (d) Loss from the activity or owning and maintaining race horses.
- However, the delay may be condoned if few conditions are satisfied. If the assessee does not receive any notice from the Assessing Officer for not filing such returns, it cannot be valid excuse.

**(B) Related Returns [Sec. 139(4)]**

1. Related return may be furnished by a person who has not furnished a return :

- (a) within the time allowed to him under section 139(1)
- (b) within the time allowed under a notice issued under section 142(1)

2. Such return may be furnished at any time before the expiry of earlier of the following :

- (a) one year from the end of the relevant assessment year.
  - (b) completion of the assessment.
3. If returns is submitted after the due date of submission of return of income, the following consequences will be applicable

- The assessee will be liable for penal interest under section 234A.
- A penalty of ₹ 5,000 may be imposed under section 271F if belated return is submitted after the end of assessment year.
- If return of loss is submitted after the due date, a few losses cannot be carried forward.

○ If return is submitted belated, deduction under section 10A, 10B, 80IA, 80IAB, 80IB and 80IC will not be available.

**4. Other Points :**

- A belated return filed under section 139(4) would be valid only if it is filed within one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier.
- If a return is filed after the completion of assessment but before service of demand notice, such return is not a valid return.

**(C) Revised return [Sec. 139(5)]**

- A person who has furnished a return (a) under section 139(1) or (b) in pursuance of a notice issued under section 142(1) can file a revised return. A belated return file under section 139(4) cannot be revised.
  - A revised return can be furnished when such person discovers any omission or any wrong statement in such return, which had occurred due to a bona-fide mistake or inadvertence by the assessee. However, a revised return cannot be filed in the following cases -
    - (a) In cases where the person had concealed particulars or made false statements in the original return.
    - (b) In cases where belated return has been filed under section 139(4)
  - Such return may be furnished at any time before the expiry or earlier of the following:
    - (a) one year from the end of the relevant assessment year
    - (b) Completion of the assessment.
- No interest liability arises on filing a revised return under this sub-section.

□ Implications of filing a revised return :-

- (a) Original return is substituted for such revised return.
  - (b) Original return is treated as withdrawn.
  - (c) Revised return is treated as being furnished on the date the original return was furnished.
- A second revised return can be filed under section 139(6) for correcting any omission or wrong statement made in the first revised return.

- The period of limitation for completion of assessment prescribed under section 153(1) will run from the date of filing of second revised return, if the assessee has filed two revised returns.
- There is no provision in the Income-tax Act to seek permission to revise a return. It is a right of the assessee to submit such return.

**(D) Defective or incomplete return [Sec. 139(9)]**

If the return of income filled by the assessee is defective or incomplete then it is called defective return. Procedure for assessment of a defective return :

- (1) The Assessing Officer may intimate the defect to the assessee.
  - (2) The assessee can rectify defect within 15 days from the date of intimation.
  - (3) The assessee can submit an application to the Assessing Officer for grant of extension. If the officer is satisfied, he may grant extension.
  - (4) If the assessee fails to remove defect within 15 days or extended time, the return filed by him is treated as an invalid return and the proceedings are taken as if the assessee has failed to submit a return.
  - (5) It may be noted that if the assessee removes defect after expiry of 15 days or extended time but before completion of assessment, the Assessing Officer may condone the delay.
- The period of 15 days shall be computed with reference to the date on which the intimation is served upon the assessee.
  - An unsigned return submitted by the assessee is invalid and not merely defective.
  - Return signed and verified by an unauthorized person is an invalid return.

In the following situations the return of income is considered as a return defective :

- (a) Return form has not been duly filled - All items must be filled in manner indicated in the return form. No column or row should be left blank. Otherwise the return may be liable to be defective or even invalid.
- (b) Annexure, Statements, Accounts, etc - Under section 139(9), a few statements, reports, proof or prepaid taxes, accounts, etc. should accompany the return of income, otherwise the return will become defective.

However, it is not possible to attach any certificate of report or computation or final accounts with new 'Income tax return forms'. Likewise, it is not possible to attach proof of prepaid taxes. The assessee should, therefore, retain these papers with him. These may be furnished whenever the Assessing Officer wants to examine them in assessment proceedings or otherwise. Returns of income will not become defective because of not fulfillment of this requirement.

**Q. 91. What do you understand by Permanent Account Number? What are consequences for failure to apply for the same?**

**Ans. Permanent Account Number (PAN) [Sec. 139A]**

The following persons are required to obtain a permanent account number:

1. Every person, if his total income assessable during the previous year exceeds the exemption limit.
2. Any person carrying on business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5,00,000 in any previous year.
3. Every religious or charitable trust which is required to furnish return of income
4. Every employer, who is required to furnish a return of fringe benefits tax.
5. Exporters and importers who are required to be obtained an importer-exporter port code.
6. Assessee as defined in the Central Excise Rules.
7. Persons who requires registration under the Central Excise Rules.
8. Assesses as defined in service tax.
9. Persons who are registered under the Central Sales Tax Act or general sales tax law of the appropriate State.

The Assessing Officer may also allot a permanent account number to any other person by whom tax is payable and he have not applied for permanent account number. Any other person may also apply for a permanent account number.

Every person, to whom PAN has been allotted, has the duty to quote the PAN in all the returns of income, challans, and any correspondence with the income tax department. In addition to that assessee must quote his PAN in documents related to the following transactions:

- Sale/purchase of any immovable property valued at ₹ 5 Lacs or more.

- Sale/purchase of a motor vehicle (other than two wheeled vehicle)
- A time deposit exceeding ₹ 50,000 with a bank.
- A deposit exceeding ₹ 50,000 in the Post Office Saving Bank A/c.
- A contract of value exceeding ₹ 1,00,000 for purchase/sale of securities
- Opening an account with a bank
- Making an application for installation of a telephone connection (including a cellular telephone connection)
- Payment to hotels/restaurants against their bills of an amount exceeding ₹ 25,000 at any time.
- Payment in cash for purchase of bank drafts or pay order or banker's cheque from a bank for an amount aggregating to ₹ 50,000 or more during any one day.
- Deposit in cash aggregating to ₹ 50,000 or more during any one day with a bank.
- Payment in cash in connection with a travel to any foreign country of an amount exceeding ₹ 25,000 at any one time.
- Making an application to a bank or to any other company or institution for issue a credit card.
- Payment of an amount of ₹ 50,000 or more to a Mutual fund for purchase of its unit.
- Payment of an amount of ₹ 50,000 or more to a company for acquiring shares issued by it.
- Payment of an amount of ₹ 50,000 or more to a company or an institution for acquiring debentures or bonds issued by it.
- Payment of an amount of ₹ 50,000 or more to RBI for acquiring bonds issued by it.
- It is also provided that any person receiving/paying any sum from/on which tax is deducted or collected at source shall intimate his PAN to the person responsible for such TDS/TCS. Further, an obligation is cast on the deductor/collector of TDS to quote such PAN in the statement returns and certificates of TDS/TCS.

The assessee can use the following instead of his PAN in the above mention transactions:

- (a) GIR number by a person not having agricultural income
- (b) Form no. 61 by a person having agricultural income only
- (c) Copy of passport by a non-resident individual.

The following points should be noted:

1. Every person, receiving any document related to the prescribed transactions shall ensure that the permanent account number has been duly quoted in the document.

### Short Answer Type Questions

Q. 96. What is self Assessment?  
Self Assessment (Sec. 140)

Ans. When an assessee does his own assessment then it is called as self assessment. In this assessment there is no involvement of income tax department or of the Assessing Officer. This assessment is done for the preparation of the return of income. If this assessment is done by a tax consultant or any other person on behalf of the assessee then also, it is called as self assessment. As per sec 140A the provisions in this regard are as follows:

- (1) If an assessee wants to submit his return of income then to prepare the return he must perform these 3 tasks- computation of taxable income, calculation of tax and interest payable. These tasks jointly are called as self assessment.
- (2) Payment of income tax and interest is compulsory before the furnishing of the return of income. All corporate assessee and other assessee (for whom audit is compulsory U/S 44AB) will have to make payment through internet banking.
- (3) The reference of deposit should be submitted along with the return of income. If the assessee pays less than the amount calculated as per manner mentioned above, then the income tax department shall first adjust it towards interest payable and the balance shall be adjusted towards tax payable. If the assessee fails to pay whole or any part of the required amount then he shall be deemed as 'assessee in default'. In this case, the income tax department realizes the simple interest @ 1% per month on the outstanding amount.
- (4) After the opportunity of being heard is given to the assessee the Assessing Officer is empowered to impose penalty maximum equal to the outstanding amount. ■

Q. 97. Write short note on:

A. Summary Assessment B. Regular Assessment.

#### A. Summary assessment

Ans. As per sec 143(1), the Assessing Officer may complete the assessment without calling the assessee. The summary assessment is completed on the basis of return furnished by the assessee. The summary assessment may be complete without passing the regular assessment order. The provisions in this regard are as follows:

- (1) This assessment is completed by the Assessing Officer himself. This assessment is done on the basis of return of income submitted by the assessee. ■

2. Every person shall intimate the Assessing Officer any change in his address.
  3. No person who has already been allotted a permanent account number under the new series shall apply to obtain or possess another permanent account number
  4. In case of issuance of PAN number and card the maximum period should be three months from the date of application.
  5. If a person requires applying for PAN and he does not apply for it then a penalty of ₹ 10,000 may be imposed on him. ■
- Q. 95. What is the Best Judgement Assessment? In What circumstances can it be made? Are there any remedies open to assessee against such assessment?

#### Best judgment assessment

Ans. As per sec. 144 the Assessing Officer can make best judgment assessment in the following situations:

- If the assessee has to file the return, but he did not file it.
  - If the assessee fails to comply with all the directions of a notice U/S 142(1)
  - If the assessee fails to comply with the terms of a notice U/S 143(2), requiring his presence and production of the evidences and documents.
  - The Assessing Officer is not satisfied with the correctness or completeness of the books of accounts or the assessee has not regularly maintained the proper books of accounts.
- Other provisions regarding best judgment assessment are a follows:

- (1) The Assessing Officer after considering all the relevant material is to make the assessment.
- (2) In this assessment determination of income should be done by the way of logical and best in its kind
- (3) This assessment can only be made after giving the assessee an opportunity of being heard. This opportunity shall be given by the issue of a notice to the assessee. But, the opportunity for hearing will not be necessary when notice U/S 142(1) has been issued.
- (4) The assessee can make an appeal U/S 246A against the assessment order and if he does not want to appeal then he can make a request for revision U/S 264 to the income tax commissioner.
- (5) Refund cannot be granted under best judgment assessment.
- (6) In the case of an appeal the assessee cannot produce his books of accounts and the relevant documents. ■

- (2) If there is any **prima-facie** arithmetic error or controversy in the return of income then the Assessing Officer may correct these errors and controversies.
- (3) After this assessment if refund is allotted to the assessee the refund order and if the notice is issued to the assessee for depositing the due amount, the notice is considered as the assessment order. In any other case the acknowledgement of the return is considered as the assessment order.
- (4) No intimation can be issued U/S 143(1) after the expiry of 1 year from the end of financial year in which return was submitted.

### B. Regular assessment

U/S 143(3) an Assessing Officer may do scrutiny of the return filed by the assessee. Provisions in this regard are as follows :

- (1) In order to scrutinize, the Assessing Officer selects some return out of the returns received by him by using the method prescribed by the Central Board of Direct Taxes in this regard. U/S 139(1) or 142(1)
- (2) The scrutiny may be done for the returns which are submitted
- (3) If the Assessing Officer considers it necessary to ensure that the assessee has not understated his income, has not computed excessive loss or has not underpaid the tax in any manner then he may scrutinize the return.
- (4) The Assessing Officer may issue a notice U/S 143(2) The notice requires the assessee to produce any evidence in support of his return.
- (5) Such notice shall be issued within a period of 6 months from the end of the financial year in which it is submitted.
- (6) Considering the evidences produced by the assessee, other such evidences and all the relevant materials gathered by the Assessing Officer, he has to pass an order. That order is called as the assessment order.
- (7) The order must be in writing. The order must have the total income/loss of the assessee and the sum payable/refundable by the assessee on the basis of such assessment. ■

### Objective Type Questions

- I. Choose the Correct Answer :
  1. Intimation for assessment on the basis of return [u/s 143(1)] can not be sent after the expiry of :
    - (a) One year from the end of relevant assessment year.

- (b) One year from the end of the financial year in which the return is made
  - (c) Two years from the end of relevant assessment year
  - (d) Two years from the end of the financial year in which the return is made
2. Normally Due date for filing Return of Income in case of an individual is -
    - (a) 30<sup>th</sup> June
    - (b) 31<sup>st</sup> July
    - (c) 31<sup>st</sup> August
    - (d) 30<sup>th</sup> September
  3. Due date for filing Return of Income in case of firm, whose accounts are required to be audited, is -
    - (a) 31<sup>st</sup> July
    - (b) 31<sup>st</sup> August
    - (c) 30<sup>th</sup> September
    - (d) 31<sup>st</sup> October
  4. For an individual, having income from salary or family pension and interest, prescribed form is -
    - (a) SAHAJ
    - (b) ITR-2
    - (c) ITR-3
    - (d) ITR-4
  5. Getting Permanent Account Number is Compulsory for -
    - (a) Income tax assessee
    - (b) Importer
    - (c) Assessee under Service Tax
    - (d) All of above
  6. From No. ITR 6 is for -
    - (a) Individual
    - (b) HUF
    - (c) Partnership firm
    - (d) Company
  7. An Individual having income from a proprietary business shall be use the following return form-
    - (a) ITR 1
    - (b) ITR 2
    - (c) ITR 3
    - (d) ITR 4
  8. Normally Due date for filing of return of income where the assessee is a company is -
    - (a) 31<sup>st</sup> March
    - (b) 31<sup>st</sup> July
    - (c) 30<sup>th</sup> Sep.
    - (d) 31<sup>st</sup> Dec.
  9. Normally Due date for filing of return of income where the assessee is a salaried Individual is-
    - (a) 31<sup>st</sup> March
    - (b) 31<sup>st</sup> July
    - (c) 30<sup>th</sup> Sep.
    - (d) 31<sup>st</sup> Dec.
  10. The following Losses cannot be carried forward if the return of loss is not submitted in time-
    - (a) Loss from House Property
    - (b) Unabsorbed depreciation
    - (c) Business loss
    - (d) All of the above

11. Rectification of mistake is done-  
(a) w/s 145 (b) w/s 147 (c) w/s 154 (d) w/s 156
  12. Section of Self Assessment is-  
(a) 140 (b) 140A (c) 143 (d) 144
  13. Section of Best Judgement Assessment is-  
(a) 143 (b) 144 (c) 147 (d) 148
  14. Assessment w/s 143 shall be completed from the end of relevant assessment year-  
(a) Within 18 months (b) Within 21 months  
(c) Within 24 months (d) Within 30 months
  15. Penalty will be levied if return is not filed upto end of the assessment year-  
(a) ₹ 2,000 (b) ₹ 5,000  
(c) ₹ 7,000 (d) ₹ 10,000
- [ Ans. 1. (b), 2. (b), 3. (c), 4. (a), 5. (d), 6. (d), 7. (d), 8. (c), 9. (b), 10. (c), 11. (c), 12. (d), 13. (b), 14. (b), 15. (b) ]
- II. Fill in the blanks-
- (i) Due date for filing return is ..... in case of a company.
  - (ii) Due date for filing return is ..... in case of an employee.
  - (iii) A charitable institution is required to file return of income in Form No. ....
  - (iv) A belated return for A.Y. 2022-23 can be filed till .....
  - (v) Due date for filing return is ..... in the case of a co-op. society, for 2021-22.
- Ans. (i) 30<sup>th</sup> Sep., (ii) 31<sup>st</sup> July, (iii) Form No. ITR-7, (iv) 31.07.2022, (v) 30<sup>th</sup> November 2021.
- III. State whether the following statement are True or False
1. Due date for furnishing return of income for salaried person is June 30.
  2. A charitable trust need not file a return.
  3. If return is filed after due date, interest shall be charged @ 1% p.m.
- Ans.- 1. False, 2. False, 3. True]

□□□

TDS and E-filing of TDS Return.

- Introduction to TDS
- Provisions relating to advance payment
- Provisions for deposit TDS
- Schedule for submission of TDS
- Schedule for filing TDS Returns.
- Forms for filing TDS Returns.

Introduction to TDS

Long Answer Type Questions

Q. 98. Explain the provision of Income Tax Act regarding the deduction of Income Tax at Source. What is the Penalty for failure to deduct tax at source.

Ans. Meaning : In order to simplify the collection of income tax, provisions are made regarding tax deduction at source (TDS) Under this provision payer of salary, rent, commission, interest, dividend etc. is liable to deduct the tax from these amounts according to rates specified by the income tax act and deposits the amount of tax to govt. of India. The payer pays amount remaining after TDS to the recipient of the income mentioned above. At the time of the assessment of the recipient this amount of TDS will be adjusted with his tax liability. In other words, if the actual tax liability of the recipient is higher than the amount of TDS then he will pay balance amount to the income tax department but, if his net tax liability is lesser than the amount of TDS, then the income tax department will refund the excessive amount to the assessee. In both the cases, interest will be charged / paid according to the provisions in this regard. Due to this system the assessee feels lower tax burden. Provisions in this regard are as follows :

**Surcharge and Education cess**

1. If the recipient is a foreign company and the amount of payment is more than ₹ 1 crore then along with the amount of TDS, 2% surcharge on the amount of tax will be deducted in addition to TDS at the prescribed rate.
2. If the recipient is non-resident assessee or a foreign company or salary is being paid to any person, then Education cess @ 4% is also deducted.
3. Besides the above mentioned cases, there is no deduction for surcharge as well as education cess along with the TDS.

1. Salary : The employer deducts income tax at the time of payment of the salary. As per sec. 192 the employer is liable to calculate actual tax liability of the employee on his salary and deduct tax at source the amount equal to his actual tax liability. Tax is deducted at the time of payment and it has nothing to do with the date of accrual of the salary. There is no any prescribed rate of TDS on salary. There won't be any TDS if the taxable salary of the employee is not more than the exemption limit of the income tax. Education cess is also added in the calculation of actual tax liability of the employee and TDS regarding calculation of actual tax liability of the employee and TDS are as follows :

- First of all the employer computes the taxable salary of his employees. During the computation of taxable salary all the provisions regarding 'income from salary' head are kept in mind.
- If an employee is engaged in multiple jobs, then the tax will be deducted on the aggregate salary by one of the employers. Being the employer as the employee may choose will liable for TDS. It is the responsibility of the employee to submit the information about the salary received from the other employers in the form no. 12B to such employer.
- At the time of computation of salary, the exemption in respect of house rent allowance will be given only when the employee produces declaration form in this regard. The employee is not liable to produce the receipt of rent to the employer if the amount of house rent allowance is not more than ₹ 3000 per month.
- If an employee claims relief U/S 89 and produce particulars in the form no. 10F, then in certain cases, employer allows this relief at the time of computation of taxable salary.
- If an employee declares his other income then the employer will add this income to the taxable salary but, the employer is not liable to ask employee for his other income. Any negative income cannot be adjusted by the employer in computation of taxable salary except loss from 'house property head'.
- The employer can allow deduction under sec 80C for some donations but, not for some other donations. Similarly the employer can allow deduction under section 80C, 80CCC, 80CCD, 80DD, 80E, 80KA and 80U but cannot allow remaining deductions under sec. 80.
- The employer calculates income tax on the taxable income of the employee at the rates of tax prescribed for the relevant previous year and adds education cess. Taxable income and amount of tax both are rounded off at ₹ 10.

2. Interest on securities : If the recipient is a resident person then the payer of interest on securities is liable to deduct tax at source. As per sec. 193 the provisions in this regard are as follows :

- If the tax on salary and allowances of the employee is paid by the employer, then it is considered as income of employee and included in the computation of taxable salary, but if the employer pays the tax on perquisites received by the employee then it is not considered as the income of the employee.
- Deductions U/S 16(i) and 16(ii) are allowed in the computation of the taxable salary of the employee.
- The employer is liable to deduct actual amount of tax liability determined by the above mentioned method. But it is not compulsory to deduct it in 12 equal installments during the year.
- Interest on securities : If the recipient is a resident person then the payer of interest on securities is liable to deduct tax at source. As per sec. 193 the provisions in this regard are as follows :
- The tax has to be deducted at source at the time of payment or at the time of credit whichever is earlier. Sometimes interest on securities is not paid by deductor but he had made accounting entry for outstanding interest. In this situation it is compulsory to deduct tax while passing the entry in the books of accounts for outstanding interest. This accounting for outstanding interest is also called as 'Interest credited'.
- The rate of TDS on interest on securities is 10%.
- If the debentures are listed in a recognized stock exchange of India, the interest is paid by an account payee cheque, the aggregate amount of interest received by debenture holder during the financial year does not exceed ₹ 5000, the payer company has substantial interest of the public and the recipient is a resident individual in India then it is not necessary to deduct tax at source.
- If the recipient of the interest is a retirement fund then no tax is deducted at source.
- If the recipient is LIC of India or GIC of India or its subsidiary company then also no tax is deducted at source.
- Tax is deducted at the time of redemption of deep discount bonds.
- If the interest on securities is exempt from tax then tax is not deducted at source.

- Tax is not deducted on interest on following securities :-
- Central Govt. and State Govt. securities.
- Debentures issued by a co-operative society
- Debentures issued by public sector companies, institutions and authorities which are notified by Central Govt.
- Listed demate securities.

**3. Dividend :** Equity dividend and preference dividend given by the domestic companies is Taxable for the hands of share holders 10%, therefore tax is due on these dividends. The provisions of TDS are not applicable on dividend given by the foreign companies. The company is liable for payment of tax on deemed dividend under sec. 2(22)(a), sec 2(22)(b), sec 2(22)(c) and sec 2(22)(d) Therefore no tax is deducted at source on these deemed dividends.

Tax is deducted @ 10% as per sec. 194 on deemed dividend US 2(22)(e) Tax is deducted at the time of payment and it has nothing to do with the date of accrual of the dividend. It is compulsory for the TDS that the payer must be an Indian company and recipient is a resident shareholder.

**4. Interest other than interest on securities :** As per sec. 194A no tax is deducted on interest other than interest on securities if the payer is an individual or HUF whose books of accounts are not required to be audited US 44AB in the immediately preceding financial year than the relevant previous year. Tax is deducted in all the other cases except mentioned above. It is a must that the recipient is person resident in India. other provisions in this regard are as follows :

- Rate of TDS is 10%.
- The tax has to be deducted at source at the time of payment or at the time of credit whichever is earlier.
- If the payment of interest is made by a banking company, co-operative or post office (on senior citizen deposit scheme) and the total amount is not more than ₹ 10,000 during the financial year then tax is not deducted at source. In any other case, the TDS provisions are not applicable if the amount of interest is not more than ₹ 5,000. Limit of ₹ 10,000 is separate for each branch of a bank. In other words, if a person makes fixed deposit at different branches of a bank then to find out the above mentioned limit there is no need to add interest payable by different branches. Every branch deducts tax at source on the basis of interest given by it.

- If an asset is sold on hire-purchase system or installment payment system and the purchaser pays interest along with installment to the seller then interest is not deducted at source on this interest.

Tax is not deducted at source in the following situations :

- If the recipient is a banking company, co-operative bank, public sector financial institution, LIC of India, UTL, insurance company or co-operative society.
- If the payment of interest is done by a partnership firm to its partners or co-operative society to its members or a co-operative society to another co-operative society.
- Interest due on post office (time deposit, recurring deposit, monthly income account), National Saving Certificate, Kissan Vikas patra, Indira Vikas Patra.
- If payment of interest is made by banking company or co-operative bank on deposits other than time deposit.
- Interest payable by Central Govt. under the provisions of direct taxes
- Interest on zero coupon bond

**5. Winning from lottery and cross word puzzles :** If any person pays, any other person for winning of lottery, cross word puzzle, card game or any other game of similar nature then as per sec. 194B he is liable to deduct tax at source. The rate of TDS is 30% but, if the amount of payment is not more than ₹ 10,000 then tax is not deducted at source. If the amount is more than ₹ 10,000, then tax is deducted on the entire amount. This deduction is done at the time of payment. If the prize of lottery or cross word puzzle is partially in cash or partially in kind or fully in kind then payer is liable to ensure that tax has been paid in respect of winnings. In practical life, the payer collects cash from recipient @ 30% and deposits it to the Central Govt.

**6. Winning from horse race :** If any person pays, any other person for winning from horse race then as per sec. 194BB he is liable to deduct tax at source. The rate of TDS is 30% but, if the amount of payment is not more than ₹ 10,000 then tax is not deducted at source. If the amount is more than ₹ 10,000, then tax is deducted on the entire amount. This deduction is done at the time of payment. It has nothing to do with the date of accrual of winning.

**7. Payment to contractors :** If the payer is central govt., State govt., local authority, corporation, company, co-operative society, society, trust, university, partnership firm, housing board or such individual and HUF whose books of accounts are required to be audited U/S 44AB in the immediately preceding financial year than the relevant previous year and he pays consideration of work contract to any contractor or sub-contractor then as per sec. 194C he liable to deduct tax at source. The provisions in this regard are as follows :

- The tax has to be deducted at source at the time of payment or at the time of credit whichever is earlier.
  - If the recipient is an individual or HUF then tax is deducted @ 1% and in any other case tax is deducted @ 2%. If the amount payable to the contractor or subcontractor in entire financial year is not more than ₹ 75,000 and any installment is not more than ₹ 30,000 then tax is not deducted at source.
  - If the recipient is a transport operator and he furnishes his Permanent Account Number to the payer then tax is not deducted at source. In this case the payer is liable to inform this PAN to the income tax department in the prescribed form.
- 8. Insurance commission :** If any person pays to any other resident person for insurance commission, then as per sec. 194D he is liable to deduct tax at source. The rate of TDS is 5% but, if the amount of payment is not more than ₹ 15,000 then tax is not deducted at source. The tax has to be deducted at source at the time of credit whichever is earlier.

**9. Commission on sale of lottery tickets :** If any person pays to any other person for commission on sale of lottery tickets, then as per sec. 194G he is liable to deduct tax at source. The rate of TDS is 5% but, if the amount of payment is not more than ₹ 1,000 then tax is not deducted at source. The tax has to be deducted at source at the time of payment or at the time of credit whichever is earlier. If the agent of the lottery tickets purchases lump-sum tickets on discount from the Govt. and sells them on the value so determined by himself then the provisions of sec. 194G are not applicable.

**10. Commission and brokerage :** As per sec. 194H no tax is deducted on commission and brokerage, if the payer is an individual or

HUF whose books of accounts are not required to be audited U/S 44AB in the immediately preceding financial year than the relevant previous year. Tax is deducted in all the other cases except mentioned above. The rate of TDS is 5% but, if the amount of payment is not more than ₹ 15,000 then tax is not deducted at source. The tax has to be deducted at source at the time of payment or at the time of credit whichever is earlier. But, it is compulsory that the recipient must be a resident person.

**11. Rent :** As per sec. 194I no tax is deducted on payment of rent, if the payer is an individual or HUF whose books of accounts are not required to be audited U/S 44AB in the immediately preceding financial year than the relevant previous year. Tax is deducted in all the other cases except mentioned above. If the rent relates to plant, machinery and equipment then the rate of TDS will be 2% and if it relates to land, building, furniture or fittings then rate will be 10%. This sec. is applicable only when the recipient is a resident person. The tax has to be deducted at source at the time of payment or at the time of credit whichever is earlier. If the amount of payment in the entire financial year is not more than ₹ 1,80,000 then tax is not deducted at source. Similarly if the recipient is Central Govt. or State Govt. or Local authority then also tax is not deducted at source.

**12. Fees for professional or technical services :** As per sec. 194J no tax is deducted on payment of professional fees or technical fees or royalty, if the payer is an individual or HUF whose books of accounts are not required to be audited U/S 44AB in the immediately preceding financial year than the relevant previous year. Tax is deducted in all the other cases except mentioned above. This sec. is applicable only when the recipient is a resident person. The tax has to be deducted at source at the time of payment or at the time of credit whichever is earlier. If the amount of payment in the entire financial year is not more than ₹ 30,000 then tax is not deducted at source. The rate of TDS is 10%.

**Note- (1)** For all above (excluding Lottery and Horse Race) without PAN Rate will 20%

**(2)** For contractor and sub-contractor will charge @ 5% IF PAN not given. ■

### Short Answer Type Questions

Q.98. What are the payments on which tax is deducted at source?

Q.100. What are the provisions regarding deduction of tax at source under the head 'Salaries'? What would be the consequences if tax is not deducted at source?

Q.101. What are the provisions of law regarding deduction of tax at source from the following incomes : (a) Winning from lottery, (b) Interest on securities, (c) Payment of rent?

Ans. Note - For Answer of above all three questions read Q.98 carefully.

### Practicals Questions

Q.102. Find out the tax to be deducted at source in the following cases during current year 2022-23. If the recipient is an individual and resident in India. Assuming that recipients produced PAN -

- (1) Income from internet on securities (listed) 6,000
- (2) Payment regarding lottery winnings 50,000
- (3) Dividends from domestic company 40,000
- (4) Winnings from a horse race 12,000
- (5) Winnings from lottery 2,000
- (6) Commission to lottery agent 30,000
- (7) Insurance Commission 24,000

Solution : Tax Deducted at s Source

Particular	Amount	Rate	TDS
(1) Interest on securities (listed)	₹ 6,000	10%	₹ 600
(2) Lottery winnings	50,000	30%	15,000
(3) Dividends - Exempt	40,000	10%	4,000
(4) Winnings from a horse race	12,000	30%	3,600
(5) Winnings from lottery			
(Amount not more than ₹ 10,000)			Nil
(6) Commission to lottery agent	30,000	5%	1,500
(7) Insurance commission	24,000	5%	1,200

Q.103. A company pays salary ₹ 1 Lakh per month to its manager, during the year 2022-23 15% of salary is deducted for provident fund. Find out amount to be deducted at source as tax for the current financial year. Professional tax is ₹ 2,500.

Solution :

Taxable income for TDS purpose Financial Year 2022-23  
(A.Y. 2023-24)

Salary 1,00,000 × 12 during financial year	12,00,000
Less- (i) Standard Deduction	50,000
(ii) Professional Tax	2,500
Less - Deduction u/s 80C.	
Taxable Salary	11,47,500
Contribution to Provident Fund 15% = 1,80,000 or maximum 1,50,000 which ever is less	(-) 1,50,000
Taxable Income	9,97,500

### Tax Calculation to TDS

First	2.5 Lakh	Nil
Next	2.5 Lakh	12,500
Next	4,97,500	99,500
Next		1,12,000
		4,480
Add : 4% Health and Education cess		1,16,480
Total Tax to be deducted		1,16,480

Monthly TDS 1,16,480 / 12 = 9,707 Rs. per month

Q.104. Gross Remuneration form salary head of an employees is ₹ 6,26,000 and interest on loan taken for self occupied house is ₹ 4,000, Life Insurance premium is ₹ 56,000. Calculate the amount of tax deducted at source for the current financial year April, 2022.

Solution : Statement of estimated taxable income for TDS

I. Income from salary	6,26,000	
Gross salary	58,000	5,78,000
Less- S.D.		(2,400)
Income from House property		4,26,000
Interest on loan for self house		(56,000)
Gross Total Income		4,98,000
Less - Deduction u/s 80 C - LIP		(4,98,000)
Total Income		Nil

**Objective Type Questions**

1. Choose the Correct Answer.  
SurchARGE will be applicable in the case of TDS only when the recipient is-  
(a) An Indian Company  
(b) A foreign Company  
(c) A company  
(d) All of the above
2. SurchARGE will be applicable in the case of TDS only when the recipient is a foreign company and the payment/credit is-  
(a) Exceeds ₹ 40,00,000  
(b) Exceeds ₹ 60,00,000  
(c) Exceeds ₹ 1,00,00,000  
(d) None of the above
3. Education cess will be applicable only in the following case in respect of TDS-  
(a) Tax deduction from payment of salary  
(b) Tax deduction from payment of Rent  
(c) Tax deduction from payment of commission  
(d) Tax deduction from payment of dividend
4. The rate/amount of TDS on the payment of salary is-  
(a) 10% of gross salary  
(b) 20% of gross salary  
(c) ₹ 1,000 per month  
(d) Actual tax liability of the employee on salary
5. At the time tax has to be deducted in respect of salary-  
(a) At the time of credit  
(b) At the time of payment  
(c) (a) or (b) whichever is earlier  
(d) Provisions of TDS are not applicable
6. Only following loss declared by the employee would be considered by employer in respect of TDS on salary-  
(a) Loss from self occupied house  
(b) Loss from house property  
(c) Loss from Business  
(d) Loss from Investment
7. In respect of TDS on salary the employer should take into consideration amount deductible under section-  
(a) 80 CCD  
(b) 80 DDB  
(c) 80 QQB  
(d) 80 RRB
8. The rate of TDS on the interest on securities is -  
(a) 10%  
(b) 10.30%  
(c) 30%  
(d) 30.90%
9. At the time tax has to be deducted in respect of interest on securities-  
(a) At the time of credit  
(b) At the time of payment  
(c) (a) or (b) whichever is earlier  
(d) Provisions of TDS are not applicable

10. No tax has to be deducted at source in respect of interest on securities if the recipient is-  
(a) Regimental Fund  
(b) Life Insurance Corporation of India  
(c) General Insurance Corporation of India  
(d) All of the above
  11. At the time tax has to be deducted in respect of interest on deep discount bonds-  
(a) At the time of credit  
(b) At the time of payment  
(c) (a) or (b) whichever is earlier  
(d) At the time of redemption
  12. Tax has to be deducted at source on the following dividend-  
(a) Equity dividend  
(b) Preference dividend  
(c) Deemed dividend U/S 2(22)  
(d) All of the above
  13. The rate of TDS on the winning from lotteries is-  
(a) 10%  
(b) 10.30%  
(c) 30%  
(d) 30.90%
1. (a), 2. (c), 3. (a), 4. (d), 5. (b), 6. (b), 7. (a), 8. (a), 9. (c), 10. (d), 11. (c), 12. (c), 13. (c)
- II. Fill in the blanks-  
(i) The provision relating to tax collection at source are given in section .....
  - (ii) The provisions relating to tax deduction at source from winnings from horse race are given in section .....
  - (iii) On Tendu leaves tax (excluding surcharge and education cess) shall be collected at source @ ..... %
  - (iv) Tax shall be deducted on bank interest if interest amount is ..... in excess of.
- Ans. (i) Sec. 206C, (ii) Sec. 194BB, (iii) 5%, (iv) ₹ 10,000
- III. State Whether the Following Statements are True or False
  1. No tax is deducted at source in respect of interest on securities issued by a domestic company.
  2. No tax is deducted at source in case winnings from lottery is in kind.
  3. Tax deducted at source is an advance tax.
  4. An individual pays rent ₹ 10,000 p.m. He cannot deduct tax at source.
  5. On salaries tax is deducted at source according to provision of sec. 192.
  6. Tax deducted at source @ 10% on Bank fixed deposit interest credit is more than ₹ 10,000 in a year.
- [Ans.- 1. False, 2. False, 3. True, 4. True, 5. True, 6. False.]

## Provisions Relating to Advance Payment

### Long Answer Type Questions

Q.105. What do you understand by Advance tax? How it is Computed? Discuss the provision of Income Tax Act regarding its payment.

**Ans. Meaning :** Assessment of the income of the previous year is done in the following financial year which is called as the assessment year. Theoretically, the payment of tax shall be made during the assessment year but, practically, it is paid during the previous year in 3 or 4 instalments. When an assessee pays tax on the income of the previous year in instalments during the same year, then it is called as the advance payment of the tax. In the following financial year (assessment year), when assessment is made then this amount of advance payment of tax will be adjusted with the tax liability of the assessee. If the amount of the advance payment of tax is less than the amount of the actual tax liability then the department will realize the remaining amount from the assessee. But, if the amount of advance payment is more than the required amount then the department will refund the excess amount to the assessee.

The scheme of payment of the advance tax is aimed to ensure regular flow of revenue to the Government and lighten the burden of the assessee by avoiding one-time payment of taxes.

Every person is liable to pay advance tax if advance tax payable is ₹ 10,000 or more. All items of income are liable for payment of advance tax. The limit of ₹ 10,000 has been kept sufficient high so that the small taxpayers need not pay advance tax. This reduces inconvenience to small taxpayers and workload for banks and the Income-tax department. Advance payment of tax is also called as 'pay as you earn'.

### Rates of tax

For the calculation of the advance tax, it is a disputed matter that a student studying, the income tax for the previous year 2021-22, shall use the rates of the tax relevant to the previous year 2021-22 or to the previous year 2022-23. It is more logical that he uses the tax rates relevant to the previous year 2022-23. This dispute is not important in this year because tax rates are same for PY 2021-22 and PY 2022-23.

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### Calculation of Advance tax liability by the assessee (sec. 209)

For the previous year 2022-23 (assessment year 2023-24), calculation of tax will be done by the assessee in the following manner:

1. Estimation of the tax liability : Following are the provisions in this regard :-

- First of all, the assessee will estimate his gross total income for the relevant previous year at the beginning of the previous year. Estimation is the responsibility of the assessee and if it goes wrong then he will be responsible for it.
- Estimated amount of deduction U/S 80C to 80U will be deduct from the estimated gross total income.
- Estimated tax liability will be calculated on the net estimated taxable income with the tax rates relevant to the previous year 2020-21. Education cess will be calculated @ 4% on estimated tax liability and then it will be added to the estimated tax liability.
- Estimated amount of tax deduction at source and tax collection at source will be deducted from the estimated tax liability.
- If the remaining amount is ₹ 10,000 or more than assessee has to pay the advance tax. If the amount is less than ₹ 10,000 then the assessee will not be liable to pay the advance tax.
- If the liability of the advance tax arises, then the assessee has to pay the instalments of advance tax on the prescribe dates according to the provisions specified in the law.
- It is irrelevant, whether the assessment of the assessee was made by the department for any assessment year or not. And assessee furnished any return of income for any year or not.
- 2. **If the assessee has an agricultural income :** If the assessee has agricultural income as well as non-agricultural income then the calculation of estimated tax liability is done in the following manner :-
  - If the estimated net agricultural income is not more than ₹ 5,000 then it will be ignored. But if it is more than ₹ 5,000 then it will be considered.
  - Indian agricultural income is not included in the amount of estimated gross total income or taxable income because it is exempt from tax. But it will be considered at the time of calculation of estimated tax liability.
  - Foreign agricultural income will be included directly to the gross total income because it is chargeable to tax in the hands of the assessee.
  - If the estimated net Indian agricultural income is more than ₹ 5,000 then calculation of tax will be done as follows :

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- Aggregate the agricultural income with non-agricultural income to determine the tax payable on such amount.
- Aggregate the agricultural income with the basic exemption limit and determine the tax payable on such amount.
- The difference between the tax computed in the above two conditions, will be the tax payable in respect of non-agricultural income.
- Education Cess is also added, and then the ultimate amount is tax payable.

The above mentioned method of calculation of tax is not applicable if the assessee is a company or a partnership firm because the agricultural income is not considered in the calculation of tax in the case of such persons.

**3. Advance tax on capital gain and casual income:** It is not expected from the assessee that he will estimate his income from capital gain and casual income. Because both the income are uncertain. In other words, these types of income cannot be estimated accurately. If the capital gain or casual income accrued after the payment of any installment of advance tax then tax on these income must be considered in determining the remaining installments. If these income is accrued after the payment of all installments of advance tax then the tax on these income can be paid by the assessee before the end of the previous year. In both cases, the interest on the amount of advance tax U/S 234B and 234C will not be chargeable.

**4. Rates of tax :** Rates of tax relevant to the previous year 2021-22 (assessment year 2022-23) are as follows :

**(A) For resident senior citizen :-** If the assessee (both male and female) is either ordinary resident or not a ordinary resident. In other words, he is not a non-resident and he has completed 60 year then the effective tax rates will be as follows :

Income	Tax rates
Up to ₹ 3,00,000	Nil
On next ₹ 2,00,000	5%
On next ₹ 5,00,000	20%
On the remaining amount	30%

**(B) For resident super senior citizen -** If the assessee (both male and female) is either ordinary resident or not an ordinary resident. In other words, he is not a non-resident and he has completed 80 year then the effective tax rates will be as follows -

Income	Tax rates
Up to ₹ 5,00,000	Nil

On next ₹ 5,00,000 20%  
 On the remaining amount 30%  
**(C) For other individual (Man or Woman) and HUF :-**  
 Effective rates for all the individuals who cannot be included in the situations (A) and (B) mentioned above and for all HUF are as follows :

Income	Tax rates
Up to ₹ 2,50,000	Nil
On next ₹ 2,50,000	5%
On next ₹ 5,00,000	20%
On the remaining amount	30%

**(D) For partnership firm and LLP :-** Income of partnership firm and limited liability Partnership will be taxable at 30% flat rate.  
**(E) For company :-** Income of the domestic company will be taxable at 30% flat rate. If the income of the company is more than ₹ 1 crore then surcharge will be applicable @ 15% which will be calculated on the amount of tax.

**(F) Tax rates on specific income :** Tax rates on certain specific income for all types assesses are as follows :-  
 - on long term capital gain 20% Flat rate  
 - short term capital gain covered U/S 111A 15% Flat rate  
 - winning from lottery, horse race, cross words 30% Flat rate  
 puzzle etc.,

**(G) Education cess :-** Education cess will be charged @ 4% on the tax payable by any type of assessee (in the case of domestic companies after including the amount of surcharge).

**(H) Surcharge Rate is as follow :-**  
 IFT. 1. between ₹ 50 Lakhs to 1 Crore = 10%  
 IFT. 1. between ₹ 1 Crore to 2 Crore = 15%  
 IFT. 1. between ₹ 2 Crore to 5 Crore = 25%  
 IFT. 1. more than ₹ 5 Crore = 37%

**(I) If total income up to ₹ 5,00,000 than there will be deduction under section 87-A upto ₹ 12,500.**  
**(J) If Tax payee did not take standard deduction Tax free allowances Life insurance premium, and medical than Tax rate for year 2022-23 is :-**

Income	Tax rates
1st 2.5 Lakhs	Nil
Next 2.5 Lakhs	5%
Next 2.5 Lakhs	10%
Next 2.5 Lakhs	15%
Next 2.5 Lakhs	20%
Next 2.5 Lakhs	25%

Balance 30%

4% cess on above will apply for education and health.

**5. Installments of advance payment of tax (Sec. 211) :**

advance tax will be payable in 3 installments in the case of non-corporate assessee and in 4 installments in case of corporate assessee.

Due dates of payment and amount of installments are as follows :-

Due dates for payment	Instalment of advance	In the case of
		Any person & company
On or before June 15	Not less than 15% of	
On or before Sept. 15	Not less than 45% of advance tax less amount, if any, paid in the earlier instalment	
On or before Dec. 15	Not less than 75% of advance tax less amount(s), if any, paid in the earlier instalment(s)	
On or before March 15	Whole amount of advance tax less amount(s), if any, paid in the earlier instalment(s)	

**Notes :**

- If the last day for payment of any installment is a day on which the receiving bank is closed due to a holiday, payment can be made on the next immediately following working day. In such case, interest under section 234C is not charged.
- Any amount of advance tax paid on or before March 31<sup>st</sup> is also treated as advance tax paid during the relevant financial year. However, on such payment, interest under section 234C is payable.
- An assessee who is liable to pay advance tax is required to estimate his current income and pay advance tax thereon without having to submit any estimate or statement of income to the assessing authorities.
- After making payment of first/second instalment of advance tax, an assessee can revise the remaining instalment(s) of advance tax in accordance with his revised estimate of current income and pay tax accordingly.

**Order for the payment of advance tax by an Assessing Officer**

- The assessing officer may also issue an order for payment of advance tax to the assessee. The following provisions are given below : -
- The tax payer is one who has earlier been assessed in income tax.
  - In spite of the legal obligation, he has not paid advance tax.

- The Assessing Officer may pass an order, requiring him to pay advance tax on his current year's income
- The order must specify the different instalments in which the advance tax should be paid.
- Such order must be passed during the previous year but not later than last day of February.
- On receipt of the notice from the Assessing Officer to pay advance tax, the assessee can submit his own estimate of lower current income/advance tax and pay tax accordingly. In such a case he has to send intimation in Form No. 28A to the Assessing Officer.
- Alternatively, if the advance tax on current income, as per own estimate of the assessee, is likely to be higher than the amount estimated by the Assessing Officer, the assessee shall pay higher tax in accordance with his own calculation. In such case, no intimation to the Assessing Officer is required.
- First of all, the Assessing Officer will have to find out income of the current year. Current year's income would be calculated on the following basis -
  - (a) total income of the latest previous year in respect of which the assessee has been assessed by way of regular assessment;
  - (b) the total income returned by the assessee for any subsequent year, whichever is higher.
- The order passed by the Assessing Officer can be revised by him. Such revision is possible if subsequent to passing an order under section 210(3) but before March 1 or the relevant financial year, the assessee has furnished a return of income for a later year or any assessment for a later year has been completed at a higher figure. The duty of the assessee in respect of revised order is same as in the case of original order.

**Q. 106. What are the effects of non Payment of Advance Tax? Discuss.**

Ans.

**Consequences of Non-payment of Advance Tax**

If the assessee had paid the instalments of the advance tax, then at the time of assessment this amount will adjusted from his actual tax liability. Under section 218, an assessee is deemed to be an assessee in default in respect of relevant instalment(s) of advance tax in the following cases -

(a) The Assessing Officer passed an order and issued a notice to the assessee for the payment of advance tax then assessee neither pays nor submits form no. 28A to the Assessing Officer in this regard.

(b) Where the assessee does not pay the advance tax payable under section 210(6) on the basis of his estimated current income.

In such cases penalty under section 221(1) is impossible. For default in payment of advance tax, interest under section 234B and 234C is chargeable.

**Interest U/S 234B:** The provisions in this regard are as follows.

- If an assessee liable to pay advance tax has failed to pay such tax then interest U/S 234B will be chargeable on the amount 'Assessed Tax'.
- If an assessee paid advance tax, less than 90% of the 'assessed tax' then interest U/S 234B will chargeable on difference between actual payment of tax and amount of assessed tax.
- Amount of TDS and TCS is deducted from the tax payable on the income determined on the basis summary assessment or regular assessment, and then the remaining amount is called as the 'assessed tax'.
- The interest will be calculated for the period starting from 1st April of the next financial year to the date of completion of summary assessment or regular assessment.
- Interest will be charged @ 1% for every month or part of a month by simple interest method.
- If an assessee files his return of income on the basis of self assessment U/S 140A before the completion of summary assessment or regular assessment then interest will be chargeable on the amount of tax due on taxable income which is shown by the assessee in the return of income. Before the calculation of interest the amount of TDS and TCS will be deducted from the amount of tax payable. Interest will be chargeable for the period starting from 1st April of the next financial year to the date of furnishing of return of income.
- Where as a result of re-assessment the amount of tax is increased, then the interest will be chargeable on the amount of increased tax liability for the period falling between the date of regular assessment and the date of re-assessment. If the amount of tax payable is increased or decreased by an appeal or revision or rectification of mistake, then the amount of interest will be increased or decreased accordingly.

**Short Answer Type Questions**

Q.107. What is the order of payment of advance tax by assessment officer?

Ans. **Order for the payment of advance tax by an Assessing Officer**

The assessing officer may also issue an order for payment of advance tax to the assessee. The following provisions are given below :-

- The tax payer is one who has earlier been assessed in income tax.
- In spite of the legal obligation, he has not paid advance tax.
- The Assessing Officer may pass an order, requiring him to pay advance tax on his current year's income.
- The order must specify the different installments in which the advance tax should be paid.
- Such order must be passed during the previous year but not later than last day of February.
- On receipt of the notice from the Assessing Officer to pay advance tax, the assessee can submit his own estimate of lower current income/advance tax and pay tax accordingly.
- In such a case he has to send intimation in Form No. 28A to the Assessing Officer.
- Alternatively, if the advance tax on current income, as per own estimate of the assessee, is likely to be higher than the amount estimated by the Assessing Officer, the assessee shall pay higher tax in accordance with his own calculation. In such case, no intimation to the Assessing Officer is required.
- First of all, the Assessing Officer will have to find out income of the current year. Current year's income would be calculated on the following basis -
  - (a) total income of the latest previous year in respect of which the assessee has been assessed by way of regular assessment;
  - (b) the total income returned by the assessee for any subsequent year, whichever is higher.
- The order passed by the Assessing Officer can be revised by him. Such revision is possible if subsequent to passing an order under section 210(3) but before March 1 of the relevant financial year, the assessee has furnished a return of income for a later year or any assessment for a later year has been completed at a higher figure. The duty of the assessee in respect of revised order is same as in the case of original order.

**Practicals Questions**

**Q.108. From following calculate advance tax**

Income from house property	2,00,000
Business Income	3,00,000
Income from other sources	20,000
	(₹)
	<u>5,20,000</u>

**Computation of Total Income**

Income from House Property	2,00,000
Income from Business	3,00,000
Income from Other Sources	20,000
	(₹)
	<u>5,20,000</u>

<b>Advance tax :</b>		
First	2,50,000	NIL
Next	2,50,000	12,500
Balance	20,000	4,000
	16,500	660
	+ 4% cess	<u>17,160</u>

**Installment :**

I <sup>st</sup> 15 June 2020 (17,160 × 15%)	= 2,574
II <sup>nd</sup> 15 Sep. 2020 (17,160 × 45%) - 2,574	= 5,148
III <sup>rd</sup> 15 Dec. 2020	
(17,160 × 75%) - 2,574 - 5,148	= 5,148
IV <sup>th</sup> 15 March 2020	
(17,160 - 2,574 - 5,148 - 5,148)	= 4,290
	Total tax <u>17,160</u>

**Q.109. Calculate advance tax liabilities from following ₹**

- (i) Income from salary 2,00,000
- (ii) H.P. Income 10,00,000
- (iii) Allowed deduction under 80C 1,50,000
- (iv) Medical insurance premium 22,000

Calculate on following basis :

- (A) Normal Rates applicable
- (B) Alternative tax Rate applicable
- (A) Normal Rate applicable

<b>Solution :</b>	<b>Computation of Total Income</b>	
Income from Salary	2,00,000	
Income from House Property	10,00,000	
	Gross Total Income	<u>12,00,000</u>

Less - Deductions :	
80C	-1,50,000
80D	-22,000
	Total Income
	<u>10,28,000</u>

<b>Advance tax :</b>		
First	2,50,000	NIL
Next	2,50,000	12,500
Next	50,00,000	1,00,000
Next	5,00,000	8,400
Balance	5,00,000	30%
	1,20,900	4,836
	+ 4% cess	<u>1,25,736</u>

**(B) Alternative tax Rate applicable**

Income from Salary	2,00,000
Income from House Property	10,00,000
	Total Income
	<u>12,00,000</u>

<b>Advance tax :</b>		
I <sup>st</sup>	2,50,000	NIL
Next	2,50,000	12,500
Next	2,50,000	25,000
Next	2,50,000	37,500
Next	2,00,000	13%
Next	2,00,000	40,000
	1,15,000	4,600
	+ 4% cess	<u>1,19,600</u>

**Q.110. Detail of Income of Dr. Sharma for assessment year 2022-23 is as follow :-**

- 1. Business Income 6,00,000
- 2. Longterm Capital gain (1 Sep. 2020) 90,000
- 3. H.P. Income 1,50,000

Insurance Premium ₹ 60,000 and Medical insurance premium ₹ 20,000. Calculate Advance tax and installment for current year 2022-23.

<b>Computation of Total Income</b>	
Income from House Property	1,50,000
Income from Business	6,00,000
Income from Capital gain	90,000
	Gross Total Income
	<u>8,40,000</u>
Less - Deductions	
Insurance Premium 80(C)	- 60,000
Medical Insurance Premium	- 20,000
	Total Income
	<u>7,60,000</u>

Tax (7,60,000 - 90,000 = 6,70,000)		
1 <sup>st</sup>	2,50,000	NIL
Next	2,50,000	5%
Balance	1,70,000	20%
		46,500
		<u>1,860</u>
		58,360

+ 4%

Tax (upto 31 Aug.)  
+ 90,000 × 20% = 18,000  
+ 4% cess 720  
18,720  
77,080

**Installment :**

15 June 58,360 × 15%		= 8,754
15 Sep. (77,080 × 75%) - 8,754 - 25,932		= 23,124
15 Dec. 2020		
(77,080 × 75%) - 8,754 - 25,932		= 23,124
15 March		
77,080 - 8,754 - 25,932 - 23,124		= 19,270
	Total tax	<u>77,080</u>

**Objective Type Questions****I. Choose the Correct Answer.**

- Object of provisions regarding Advance payment of tax is-**
  - Ensure regular flow of revenue
  - Lighten the burden of the assessee
  - (a) and (b) both
  - None of the above
- Every person is liable to pay advance tax if advance tax payable is-**
  - Less than ₹ 10,000
  - More than ₹ 10,000
  - ₹ 10,000 or more
  - ₹ 1,50,000 or more
- The limit of ₹ 10,000 regarding advance payment of tax has been decided for-**
  - Small taxpayers need not pay advance tax
  - Reduction of workload for income tax department
  - Reduction of workload for banks (d)
  - All of the above
- Rate of interest under section 234B and 234C is-**
  - 0.75% per month
  - 1.00% per month
  - 1.25% per month
  - 1.50% per month
- Interest u/s 234B is related with-**
  - Relevant with previous year
  - Relevant with assessment year
  - (a) and (b) both
  - None of the above

**6. Interest U/S 234C is related with-**

- Relevant with previous year
- Relevant with assessment year
- (a) and (b) both
- None of the above

**7. Due dates for advance tax of an individual assessee are-**

- 15<sup>th</sup> September
- 15<sup>th</sup> December
- 15<sup>th</sup> March
- All

**8. First instalment of Advance Tax payable in case of Company falls due on-**

- July 15
- June 20
- June 15
- March 15

**9. Advance tax is payable if tax payable after deducting tax at source is-**

- ₹ 10,000 or more
- ₹ 15,000
- ₹ 5,000 or more
- ₹ 20,000

**10. The liability of payment of advance tax arises if the amount of tax is the amount given below-**

- ₹ 3,000
- ₹ 5,000
- ₹ 5,000 or more
- None of these

[Ans. 1. (c), 2. (c), 3. (d), 5. (b), 6. (a), 7. (a), 8. (c), 9. (a), 10. (d)]

**II. Fill in the blanks-**

- First instalment of advance tax payable in case of company falls due on .....
  - Third instalment of advance tax payable in case of assessee other than a company falls due on .....
  - On deferment of advance tax during A.Y. 2022-23, interest shall be payable @ ..... p.m.
  - Advance tax is payable if tax payable after deducting tax at source is .....
- Ans. (i) June, 15, (ii) 15 Dec., (iii) 1%, (iv) ₹ 10,000 or more
- III. State Whether the Following Statement are True or False**
- Second instalment of advance tax payable in case of company falls due on 15<sup>th</sup> December.
  - Second instalment of advance tax payable in case of assessee other than a company falls due 15<sup>th</sup> December.
  - After deducting tax deducted at source, if tax payable is ₹ 10,000 or more, advance tax is payable.
- [Ans.- 1. False, 2. False, 3. True]

## Schedule for Deposit TDS

Schedule for Deposit TDS / 167

### Long Answer Type Questions

Q.111. Mention the time Schedule for Deposit of T.D.S.

Ans. **RATE FOR DEDUCTION OF TAX AT SOURCE**

Section 192 to 206 of the Income tax Act lay down the provisions relating to deduction of tax at source. The provisions in respect of different incomes are as follows—

For the Financial year 2022-23 -w.e.f. 1.4.2022

Tax Shall be deducted by the payer on the following items	Rate of TDS PAN furnished	Rate of TDS PAN not furnished
1. Rent (if gross rent is more than ₹ 2,40,000)	10%	20%
2. Interest on securities other than Govt. Securities	10%	20%
3. Interest on company debentures listed or unlisted (amount exceeding ₹ 5,000)	10%	20%
4. Other interest (if amount is over ₹ 5,000)	10%	20%
5. Lottery (if the prize is more than ₹ 10,000)	30%	30%
6. Horse Race (if winning amount is more than ₹ 10,000)	30%	30%
7. Payment to contractors (Individuals)	1%	5%
8. Payment to contractors (Other than individual)	2%	5%
9. Insurance commission (if the commission is more than ₹ 15,000)	5%	20%
10. Commission on sale of lottery tickets	5%	20%
11. Interest on bank deposits (if total interest credited or paid is more than ₹ 40,000 (Senior citizen ₹ 50,000)	10%	20%
12. Professional fees (if the fees is in excess of ₹ 30,000)	10%	20%
13. Commission and brokerage (more than ₹ 15,000)	5%	20%

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Attention Please—Above mentioned TDS rates are applicable for the financial year 2022-23, in case of non submission of PAN higher rate 20% shall be applicable.

Time of Deposit of TDS No-II

Time of deposit of TDS, Tax deducted by a person shall be deposited Government account as follows—

No.	Different Situations	Time of Deposit of TDS
1.	Tax is deducted collected by an office of the Government and tax is paid without production of an income tax challan	On the same day on which tax is deducted
2.	Tax is deducted / collected by an office of the Government and tax deposit is accompanied by an income tax challan [Challan No. ITNS 281]	On or before 7 days from the end of the month in which tax is deducted.
3.	Tax is deducted / collected by a person (not being an office of the Government) [Challan No. ITNS 281]	* Where income or amount is paid or credited in the month of March : Tax should be deposited by April 30. * Where income or amount is paid or credited before March 1: Tax should be deposited within 7 days from the end of the month in which tax is deducted.
4.	Tax is deducted by a person (not being an office of the Government) and the Assessing Officer (with prior approval of Joint Commissioner) has permitted quarterly deposit of tax deducted under sections 192, 194A, 194D and 194H (Challan No. ITNS 281)	* For the quarter ending June 30 : Tax should be deposited by July 7. * For the quarter ending September 30 : Tax should be deposited by October 7. * For the quarter ending December 31 : Tax should be deposited by January 7. * For the quarter ending March 31 : Tax should be deposited by April 30.
5.	Tax is deducted by a person under section 194-1A [Challan No.:	* Applicable from June 1, 2016 - Within 30 days from

	From 26QB]	the last date of month in which tax is deducted. * Applicable up to May 31, 2016 – Within 7 days from the last date of month in which tax is deducted.
6.	Tax is deducted by a person under section 194-IB [Challan No.: From 26QC]	* Within 30 days from the last date of month in which tax is deducted.
7.	Tax deducted by a person under section 194M [Challan No.: From 26QD]	* Within 30 days from the last date of month in which tax is deducted.

### MODE OF DEPOSIT OF TDS/TCS-

Tax deducted/ collected on or after April 1, 2010 shall be deposited as follows-

\* When tax is deducted collected by a Government office and paid without production of a challan-The following procedure should be followed-

1. Tax will be deducted collected by the person responsible for tax deduction/collection (i.e., tax deductor or collector).

2. The deductor/collector shall report tax so deducted/ collected to the Pay and Accounts Officer or the Treasury Officer or the Cheque Drawing and Disbursing Officer or any other person (by whatever name called) who is responsible for crediting such s to the credit of the Central Government.

3. The person to whom tax deduction/collection is reported by the deductors/Collectors, shall submit a statement in Form No. 246. It should be submitted to a Notified agency [i.e., an agency authorised by the Director General of Income tax (Systems)].

It should be submitted within the time-limit given below-

	<b>Time-limit (with effect from June 1, 2016)</b>
Where statement relates to month of March	On or before 30 days
Where statement relates to any other month	On or before 15 days

**Schedule for Submission of TDS Returns**

**Long Answer Type Questions**

Q.115. Mention the prescribed form and due dates regarding TDS Returns.

**Ans. QUARTERLY STATEMENT OF TAX DEDUCTION/COLLECTION**

In respect of tax deducted/collected on or after April 1, 2010 quarterly TDS/TCS statements shall be submitted in the following form:

	For In No.
Tax deduction from salary under section 192	24Q
Tax deduction when deductees are non-resident (not being a company), foreign company and persons who are resident but not ordinarily resident	27Q
Tax deduction under section 194-1A	28QB
Tax deduction under section 194-1B	28QC
Tax deduction under section 194-M	26QD
Tax deduction in any other case	26Q
Tax collection	27EQ

**Other requirements** - The deducted or collector at the time of preparation of quarterly return of TDS/TCS shall -

(a) quote his/its TAN;  
 (b) his/its PAN (except in the case where deductor/collector is an office of the Government);

(c) quote PAN of all deductees/collectees;  
 (d) furnish particulars of tax paid to the central Government including book identification number or challan identification number;  
 (e) particulars of amount paid/credited to without TDS in view of issue of certificate by the Assessing Officer under section 197;

(f) furnish particulars of amount paid/credited to transport contractor (who have intimated their PAN) without TDS in view of the provisions of section 194C(6);

(g) furnish particulars of amount paid/credited without TDS after obtaining declaration in Form No. 15G/15H in view of provisions of section 197A(1A)/(1C);

(h) furnish particulars of amount paid/credited without TDS in view of the notifications issued under section 197A(1F); and

**Schedule for Submission of TDS Returns / 175**

(i) furnish particulars of amount received or debited on which tax was not collected in view of the furnishing of declaration by buyer under section 206C(1A).

**Due date of Submission of Quarterly Returns**

In respect of tax deducted/collected the quarterly returns shall be the time-limit given below -

For the quarter ending	Due date of submission OF quarterly statements	
	TDS returns	Quarterly TCS returns
June 30	July 31	July 15
September 30	October 31	October 15
December 31	January 31	January 15
March 31	May 31	May 15

**Note** - The time limit given above is not applicable in the case of TDS under section 194-1A/194-1B/194M. In these cases, challan of electronic deposit of TDS (i.e., Form No. 26QB/26QC/26QD) is itself taken as quarterly statement of TDS (no separate statement of TDS is to be submitted).

**CERTIFICATE OF TAX DEDUCTION/COLLECTION AT SOURCE**

TDS/TCS certificate shall be issued (Form No. 16 for TDS from salary, Form No. 16B for TDS under section 194-1A, Form No. 16C for TDS under section 194-1B, Form No. 16A for TDS from other than salary and Form No. 27D for TCS)

**TIME-LIMIT FOR ISSUE OF TDS/TCS CERTIFICATE** - Time-limit for issue of TDS/TCS certificates in new forms has been modified. However, the new limits are applicable only in respect of tax deducted/collected on or after April 1, 2010. The new time-limits are given below -

Form No. (New format)	Periodicity	Due date
Form No. 16	Annual	On or before June 15 of the financial year immediately following the financial year in which tax is deducted.
Form No. 16A	Quarterly	Within 15 days from the due date of furnishing TDS / TCS returns. In other words -
From No. 27D		For the quarter ending Form No. 16A June 30 September 30 December 31 March 31
		TDS/TCS certificate should be given on or before Form No. 27D August 15 November 15 February 15 June 15 July 30 October 31 January 30 May 30
Form No. 16B		Within 15 days of furnishing challan in Form No. 26QB
Form No. 16C		Within 15 days of furnishing challan in Form No. 26QC
Form No. 16D		Within 15 days of furnishing challan in Form No. 26QD

**SALARY TDS CERTIFICATE IN NEW FORM NO. 16**  
 New Form No. 16 is divided into different parts as follows—

**Form No. 16 Contents**

**Part A (Form No.16 and Form No.12BA)** This part contains information of employer and employee (the name and address of employer and PAN / TAN of deductor, name and address of employee, PAN of employee) assessment year, period of employment, address of CIT (TDS), summary of receipt numbers of origins quarterly TDS returns deducted and amount of tax deposited or remitted). Besides, Part A includes details of tax deducted and deposited with the Central Government (like, tax serial number, status of challan matching OLTAS). In verification, the deductor will have to certify the amount of tax deducted and deposit by him.

**How to generate different parts of Form No. 16**  
 AD deductors (including Government deductors who deposit TDS the Central Government Account through book entry) shall issue the Part A of Form No. 16, by generating and subsequently downloading through TRACES Portal, in respect of all sums deducted on or after April 1, 2012 – Circular No. 4/2013, dated April 17, 2013. Part A of Form No. 16 shall have a unique TDS certificate number.

**Part B (Form No. 16)**  
 Part B includes details of salary paid, other incomes, amount deductible under Chapter VI-A, tax payable and relief under section 89. Part B also includes a separate in verification.  
 In verification tax deductor will certify that salary tax details are complete and contact on the basis of account books and other available records documents/ statements. All deductors (including Government shall issue Part B of Form No. 16 by generating and downloading through TRACES Portal) in respect of all sums deducted on or after April 1, 2018 under section 192. The TRACES generated Form No. 16 shall have a unique TDS certificate number.

**Activating TDS**  
 To get started, you have to enable the Tax Deducted at Source (TDS) module in Tally ERP 9 and enter your company's registration details.

To enable TDS

- \* In the Gateway of Tally > Statutory and Taxation.
- \* Set Enable Tax Deducted at Source (TDS) to Yes in the Company Operations Alteration screen. The Company Operations Alteration screen appears.
- \* Enable the option Set/alter TDS details? to display TDS Deductor

Details screen.

- \* Enter the TAN registration number.
- \* Enter the Tax Deduction Account Number (TAN).
- \* Select the Deductor Type. Enter Deductor branch/division.
- \* Enable the option Set/alter details of person responsible? to display the Person Responsible Details screen.
- \* Enter the details and press Enter.
- \* Enter the Rate of TDS if PAN not available.
- \* Enable the option Ignore IT Exemption Limit TDS Deduction? if required.
- \* Enable the option Activate TDS for stock items? if required.

The TDS Deductor Details screen appears.

- \* Press Enter. Press Ctrl+A to save the details.

**Q.116. Give proforma of Form No. 16.**

Ans. [See rule 31(D)(ii)]

**PART A**

Certificate under section 303 of the Income-tax Act, 1961 for tax deducted at source on salary paid to an employee under section 192 or pension/interest income of specified vendor citizen under section 194P

Certificate No.		Last updated on	
Name and address of the Employer-Specified Bank		Name and address of the Employer-Specified vendor citizen	
PAN of Deductor	TAN of the Deductor	PAN of the Employer specified vendor citizen	Employee Reference No. Provided by the Employer (if available)
Address		Assessment Year	Yr/Prd with the Employer (if available)
CIT (TDS)		From	To

**Introduction to GST - Concept and returns**

- Output tax liability of CGST, SGST, UTGST, IGST Compensation Cess
- GST Network
- Input Tax Credit and its Utilization
- Composition Supplier
- Schedule for payment of GST
- GSTR 1, 2, 3 and 3 B

**15****Concept of Goods and Service Tax and GST Network****Long Answer Type Questions**

Q.119. What is the meaning of goods and services tax? Also explain characteristics.

Or

Explain goods and services tax.

Or

Discuss goods and services tax.

**Ans.** GST is a destination based tax on consumption of goods and service. It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as set off. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer.

The tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

**Definition of GST**

Goods and services tax is an indirect tax which is levied on taxable value of goods, services or both were supplied by persons. It is a value added tax which is charged on every stage of supply.

GST is multi point tax and it is levied on taxable value in every stage but due to input tax credit its net burden is equal to tax on value addition by the supplier. In input credit method the total GST payable on supply Less Input credit shall be net GST payable.

**Meaning of Goods and Services Tax**

- In article 366(12A) of the Constitution, "Goods and Services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption;
- It is a destination based tax on consumption of goods and services. *MS7 covers all the taxes and consumption up to final available as set off.*
- In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer.

Particulars	Manufacturer	Wholeseller	Retailer
Sales	10,000	12,000	15,000
Purchase	0	10,000	12,000
Value Added	10,000	2,000	3,000
Tax on Sales @ 10%	1000	1200	1500
Tax on Purchase @ 10%	0	1000	1200
Tax to be paid	1000	200	300

Characteristics or the features of the GST are explained as follows :

**1 Applicability GST is applicable to whole of India including Jammu and Kashmir.**

**2 Levy :** (1) GST would be applicable on "supply" of goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services.

(2) The same is applicable on importation of service whether for consideration or not. *subject to GST.*

(3) Import of goods is subject to custom duty and GST.

**3 Destination based consumption tax :** (1) GST would be based on the principle of destination based consumption taxation as against the present principle of origin based taxation.

(2) Tax revenue will be levied and collected by the consuming State.

**4 Dual GST :** (1) It would be a dual GST with the Centre and the States simultaneously levying it on a common base.

(2) The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States including Union territories with legislature would be called State GST (SGST).

(3) Union territories without legislature would levy Union territory GST (UTGST).

(4) An Integrated GST (IGST) would be levied on inter-state supply (including stock transfers) of goods or services. This would be collected by the Centre so that the credit chain is not disrupted.

**5 Import :** (1) Import of goods would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.

(2) Import of services would be treated as inter-State supplies and would be subject to IGST.

**6 Export :** Exports would be zero-rated.

**7. Applicability on goods and services :** (1) GST would apply to all goods and services except Alcohol for human consumption.

(2) GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural gas) would be applicable from a date to be recommended by the GSTC.

(3) Tobacco and tobacco products would be subject to GST. In addition, the Centre would continue to levy Central Excise duty.

**8. Threshold exemption :** (1) A common threshold exemption would apply to both CGST and SGST.

(2) Taxpayers with an annual turnover of ₹ 40 lac (₹ 20 lac for special category States as specified in article 279A of the Constitution) would be exempt from GST.

(3) A composition scheme which is optional (i.e. to pay tax at a rate lower than specified rate without credits) would be available to small taxpayers (including to specified category of manufacturers and service providers) having an annual turnover of up to ₹ 1.5 crore or ₹ 75 lac in case of an eligible registered person, registered under section 25 of the said Act, in any following States, namely:-

- |                        |                 |
|------------------------|-----------------|
| (i) Arunachal Pradesh, | (ii) Assam,     |
| (iii) Manipur,         | (iv) Meghalaya, |
| (v) Mizoram,           | (vi) Nagaland,  |
| (vii) Sikkim,          | (viii) Tripura, |
| (ix) Himachal Pradesh. |                 |

For service provider composition available upto ₹ 50 Lakhs turnover. Rate is 6%.

**9 Rates of GST :** CGST, SGST/UTGST & IGST would be levied at rates to be mutually agreed upon by the Centre and the States under the aegis of the GSTC. The rates of GST i.e. (CGST + SGST/UTGST) will be Nil, 0%, 0.25%, 3%, 5%, 12%, 18% and 28%. In addition, GST Compensation Cess will be payable on pan masala, tobacco products, coal, aerated waters and motor cars. These rates will apply to IGST also.

**10. Time of Supply:** The time of supply fixes the point when liability to charge GST arises. It also indicates when a supply is deemed to have been made. The CGST/SGST Act provides separate time of supply for goods and services.

**11. Value of taxable supply of goods and services:** The value of taxable supply of goods and services shall ordinarily be the 'transaction value' which is the price paid or payable, when the parties are not related and price is the sole consideration. **Section 15** of the CGST/SGST Act further elaborates various inclusions and exclusions from the ambit of transaction value.

**12. Reverse charge:** There is concept of reverse charge on notified supply and supply received from unregistered person.

**13. Input tax credit:** Input Tax Credit (ITC) to be broad based by making it available in respect of taxes paid on any supply of goods or services or both used or intended to be used in the course or furtherance of business.

**14. Utilization of credit:** (i) **Utilization of IGST:** The amount of input tax credit on account of IGST available in the electronic credit ledger of dealer shall first be utilized towards payment of IGST and the amount remaining, if any, may be utilized towards the payment of CGST and SGST, in that order.

(ii) **Utilization of SGST:** The amount of input tax credit on account of SGST available in the electronic credit ledger shall first be utilized towards payment of SGST and the amount remaining, if any, may be utilized towards the payment of IGST.

(iii) **Utilization of CGST:** The amount of input tax credit on account of CGST available in the electronic credit ledger shall first be utilized towards payment of CGST and the amount remaining, if any, may be utilized towards the payment of IGST.

**Note:** The input tax credit on account of CGST shall not be available for payment of SGST. Similarly input tax credit on account of SGST shall not be available for payment of CGST.

**15. Tax deduction at source:** Obligation on certain persons including Government departments, local authorities and Government agencies, who are recipients of supply, to deduct tax at the rate of 1% from the payment made or credited to the supplier where total value of supply, under a contract, exceeds two lakhs and fifty thousand rupees (₹ 2.5 lac). [Postponed upto 30.06.2019]

**Q.120. What are the advantages of GSTR?**

Or

**What are the favourable impacts of GSTR?**

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**What are the benefits to Indian economy and consumers after the GST?**

Or

**What are the difficulties / demerits or disadvantages in implementation of GST?**

The favourable Benefits / Merits / Advantages of GST are as follows:

Ans.

**A. Make in India**

- Will help to create a unified common national market for India, giving a boost to Foreign investment and "Make in India" campaign;
- Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;
- Harmonization of laws, procedures and rates of tax;
- It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;
- Ultimately it will help in poverty eradication by generating more employment and more financial resources;
- More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports;
- Improve the overall investment climate in the country which will naturally benefit the development in the states;
- Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-State sales;
- Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a "Manufacturing hub".

**B. Ease of Doing Business**

- Simpler tax regime with fewer exemptions;
- Reductions in the multiplicity of taxes that are at present governing our indirect tax system leading to simplification and uniformity;
- Reduction in compliance costs - No multiple record keeping for a variety of taxes - so lesser investment of resources and manpower in maintaining records;
- Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc;

- e. All interaction to be through the common GSTN portal, setting public interface between the taxpayer and the administration.
- f. Will improve environment of compliance as all returns to be filed online, input credits to be verified online, encouraging more paper trail of transactions;
- g. Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lead greater certainty to taxation system;
- h. Timelines to be provided for important activities like obtaining registration, refunds, etc;
- i. Electronic matching of input tax credits all - across India thus making the process more transparent and accountable.

**C. Benefit to Consumers**

- a. Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and service supplier;
- b. It is expected that a relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under a compounding scheme- purchases from such entities will cost less for the consumers;
- c. Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

**D. Benefits to Indian Economy**

- (i) **Eliminate Multiple Taxes System** : This is one of the advantages of GST system. It eliminates all different types of taxes. You need not pay excise and sale tax, services tax and turnover tax. This is very big decision to eliminate multiple taxes system.
- (ii) **Ease of Business Setup** : GST starts with a unique concept that can make easy business setup process with one country one tax concept. This is very beneficial to interstate business with less complication among states. The GST system will provide a boost to Indian economy to start a different business to fight poverty in a genuine way.
- (iii) **Less Bureaucracy** : It is a very positive sign that provides less bureaucracy. You need not pay a bribe to tax officer. You can check your details in just few click. This is very necessary for fair business in India. It is very easy and fewer documents process tax system. You can easily pay your tax online according to your business.
- (iv) **Enhancement in Economy** : It provides more tax payer to governments. The government gets more funds that can be used for

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many reforms in India. The government provides more facility with the high budget product in the welfare of Indian citizen in many ways. This is a win-win situation both for country and citizen. This is one of the biggest reforms in Indian indirect tax system according to latent business requirements.

(v) **Less Price Product** : This is a very important tax system in India that provides one nation one tax system. You can extend your business in other tax and you need not pay interstate taxes. It provides the national platform for business to grow your business at the national level. You get the maximum benefits from this financial reform named by GST. It is very beneficial for governments also. GST will increase tax revenue by replacing 17 indirect taxes with single GST tax. You have to completion on a national level with your business growth that is profitable for you to enhance your business sale in an easy way.

**Difficulties / Demerits or Disadvantages in Implementation of GST**

India's Goods and Services Tax (GST), is being called a 'game changer' for its far-sweeping impact on business. Manufacturers, traders, and service providers across India have been placed under one unified tax umbrella, and no longer need to work with a tedious array of 17 distinct types of taxes they currently need to comply with.

The industry, at present, is struggling to get on with the destination-based tax from an origin-based tax structure. The shift from the previous tax regime and carry forward the input credits into GST is the biggest challenge that businesses are facing today.

To make "One Nation, One Tax" a reality, the government is training its officers on taxation of services. GSTN, the technology backbone for the reform, has a massive IT mandate of securely handling mammoth volumes of data that GST will generate. The legislation cuts across all enterprises, requiring them to relook at their business models, business policies and procedures.

GST offers tax and finance professionals multiple opportunities to grow their client list and clearly establish their role in ensuring a seamless migration of various businesses to become GST compliant. Firms are scrambling to get the right teams in place to benefit from the new tax regime as GST is expected to bring in financial savings, which will accrue on account of a well-planned GST system. But such prospects are not without challenges for these professionals.

**The difficulties in implementation of GST are as follows :**

(i) **GST preparedness among clients is missing** : Clients' understanding of GST provisions and its impact on their business is still

at a nascent stage, and many are still identifying the locations and places they need to be registered in.

These businesses are also assessing the mandated GST compliance their relevant functional departments need to adhere to, including their Supply Chain, IT Systems, and Legal. This is necessary for identifying their new Working Capital, Cash Flow, and Fund Flow needs. To be on the right side of the GST anti-profitteering clause, businesses are also assessing their cost sheets while performing Comparable Analysis of the pricing of goods and services, pre-and post GST.

(ii) **Lack of Clarity on GST Provisions (Rules and Regulation)** : Various provisions of GST are still ambiguous. Categorisation of goods and services in various cases is still unclear. Provisions for anti-profitteering, as well as the now-deferred e-way bill, which tracks consignments across states, are unclear.

The new tax regime requires transporters to generate e-way bills on the GST portals which includes incurring substantial costs to install radio frequency identification devices (RFIDs). Currently there is no clarity on who will bear the bill for the infrastructure. The government has also made the rules related to assessment and audit public, but the absence of actual forms in the public domain challenges the effectiveness of the rule.

(iii) **Increased compliance, with increase in the number of returns to be filed annually** : Businesses will need to file multiple returns, a minimum of 37 in most cases for assesses, and this can increase manifold in accordance with business models. Clients will need to ensure timely compliance by registered suppliers to ensure there is no loss of input credit. This will necessitate correct data and reports to fill accurate GST returns.

(iv) **Preparedness of IT Systems** : Various businesses are yet to map the accounting software and IT systems in line with the new tax provisions, to create GST invoices, and extract required reports. Tax and accounting professionals jointly need to ensure that their clients' current systems are compatible with their GST Service Provider (GSP).

With GST demanding compliance, only days after guidelines were issued in their entirety, India Inc is rushed for time to modify the entire IT framework. Seamless implementation will require six million micro, small, and medium enterprises (MSMEs) to adapt their invoicing approaches for which they do not have adequate IT support and systems.

(v) **Lack of skilled resources and need for re-skilling** : With GST rates and their complexities only recently becoming a part of our policy framework, skilled staff with updated GST subject knowledge and training are not easily available. This has placed an additional work load on personnel across industries, and created an urgent need for additional GST-skilled resources to ensure swift implementation.

While GST aims to streamline business and protect consumer interests, the legislation should not allow a sense of apprehension to impact industrial interests. GST is both a challenge and an opportunity for tax and accounting professionals, and a knowledge of cloud, big data, analytics, and business applications along with financial knowledge is the need of an hour.

Q.121. Write a note on classification of goods and services tax.

Or  
What are the various rules of interpretation of Tariff?

Or  
What are the importance of correct classification of Goods and Services Tax?

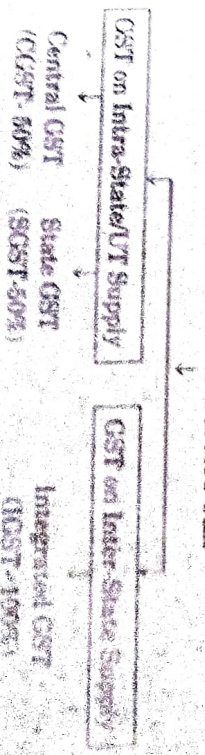
Ans. India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

Department of Economic Affairs ministry of finance, Government of India, resolve this issue by the following statement (working paper GST reforms and Inter Governmental consideration in India).

“The key concerns about this option would thus be political: Notwithstanding the economic merits of a national GST, will it have a damaging impact on the vitality of Indian federalism? With no other major own source revenue, will individual States become too dependent on collective choices and feel disempowered to act on their priorities? Will it be possible for the Governments with such diverse political interests and philosophies to reach a consensus and adhere to it?”

**Classification of gst in India**

Dual GST system is adopted in India to maintain financial relationship between Centre and States. GST structure can be shown as under -



1. **Central GST** : Amount of GST deposit in central government Accounts which is called central GST. Special excise duty. Central finance

entry. Additional excise duty. Additional Custom duty all will include in CGST. Service tax also include in CGST. Important point for CGST is as follows :-

(i) **Taxation** : This taxation applies in the place of service tax central excise duty and other duty.

(ii) **Rate** : For CGST half rate of total rate will apply normally the total rate is 3%, 5%, 12%, 18% and 28% but for CGST 1.5%, 2.5%, 5%, 9% and 14%.

(iii) **In invoice** : It will show in invoice with total invoice price. (iv) **Use** : The amount of CGST is used by central government only there will be no sharing with state.

(v) **Act** : To Regulate central goods and service tax there is a particular act called goods and service tax act, 2017.

(vi) **Tax Authorities** : The Authority for central excise duty also liable for CGST. Now it is named central tax department.

**2. State or union Territories goods and service tax** : The second part of GST is called (SGST) State Goods and Service Tax it will include sales tax, VAT etc. Following will important for SGST :

(i) **Taxation** : If any goods transfer under any state or any union Territory than it is called CGST. Entry Tax, Sales tax and VAT include in it.

(ii) **Tax Rates** : It will be as apply as CGST. This means the half amount of tax will apply as SGST.

(iii) **Invoice** : It will show separately in invoice, means it will include in total invoice price.

(iv) **Use** : Amount of SGST will be used by the particular state or Union Territory.

**3. Integrated GST** : If any goods transfer to a state to another state it is called interstate sale than integrated GST will apply. It is a type of dual GST. If there is a interstate sale than integrated GST will apply as CTGST and SGST a little bit difference that whole rate will apply in IGST.

Following will consider in IGST :

**1. Interstate supply** : IGST will apply on interstate supply only. If any goods supply form a state to another state than it will taxable under IGST rules.

**2. Collection** : The collection of IGST will done by the central government under section 269-A of Constitution.

**3. Use** : IGST amount will be used by the Central and State Government in appropriate Ratio decided by finance commission which established according to constitution.

**Difference among the CGST, SGST and IGST.**

	CGST	SGST	IGST
1. Collection of Tax	Collection by Central Government.	Collection by State government.	Collection for both state and central.
2. Effectiveness	Effective under state supply.	Effective under state supply.	Effective under interstate supply and import.
3. Replacement	It replaced Excise duty, Service tax, Additional Excise duty etc.	It replaced VAT, Sales Tax Entry tax, Entertainment tax, Octroi and Tax on Lottery.	It replaced Central sales tax.
4. Input Tax Credit	Against CGST and IGST.	Against SGST and IGST.	Against CGST, SGST and IGST.
5. Turnover	Total turnover 40 lakhs and in special state and services 20 lakhs.	Total turnover 40 lakhs and in special state and services 20 lakhs.	Not Defined.
6. Tax Share	For Central Government	For state government.	Distribute in central and State Government.
7. Composition Scheme	Total turnover for composition is 1.5 crore.	Total Turnover for composition is 1.5 crore.	Composition Scheme not available.

Note-(1) From 1 April 2019 service provider having turnover upto ₹ 50 lakhs will be eligible for composition scheme @ 6%.

(2) For special state the turnover will be ₹ 20 lakhs and for service provider it will be ₹ 10 lakhs.

**Q.122. What are the important definitions under GST Act?**

Write the definition and classification of GST.  
Or

Write a short note :

1. Goods
2. Services
3. Agent
4. Aggregate turnover
5. Input tax credit
6. Job work
7. Place of Business
8. Electronic Cash Ledger

- 9. Invoice
- 10. Person
- 11. Taxable Person
- 12. Supplier
- 13. Business Vertical
- 14. Business
- 15. Place of Supply [Sec. 2(86)]

Ans. (1) Goods - Sec. 2 (52)

"Goods" means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply;

So, analysing the above definition we find that -

- (1) Goods includes all types of movable property like-cloth, sugar, iron, kirana goods, vehicles etc.
- (2) Money and securities are not covered under the definition, so these are not goods.
- (3) Growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply will be treated as goods.
- (4) Actionable claim, other than lottery, betting and gambling will not, be treated as supply of goods;
- (5) Intangibles like copyright and carbon credit would continue to be covered under goods.

(2) Services - Sec. 2(102)

"Services" means anything other than goods, money and securities, but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination to another form, currency or denomination for which a separate consideration is charged;

So, in the reference of GST "Service" means-

- (1) Any activity carried out by a person for another for consideration
  - (2) But shall not include-
    - (a) (i) A transfer of title in goods or immovable property, by way of sale, gift or in any other manner, or
    - (ii) Delivery or supply of any goods which is deemed to be a sale.
    - (iii) A transaction in money or actionable claim.
  - (b) A provision of service by an employee to the employer in the course of or in relation to his employment.
  - (c) Fees taken in any Court or tribunal established under any law for the time being in force.
- So service meant by an activity which is performed by a person to other person for a value or consideration.

(3) Agent - Sec. 2 (5)

"Agent" means a person, including a factor, broker, commission agent, arhatia, del-credere agent, an auctioneer or any other mercantile agent, by whatever name called, who carries on the business of supply or receipt of goods or services or both on behalf of another.

Thus, agent is a person who carries on the business of supply or receipt of goods or services or both on behalf of another. Agency is a relationship that can be formed validly even without consideration. Agent can work purely on commission basis.

The agent functions as an extended arm of the principal and therefore, supplies (inward and outward) effected by an agent on behalf of the principal will be treated as supplied effected by the principal.

(4) Aggregate Turnover - Sec 2(6)

"Aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes Central tax, State Tax, Union Territory tax, integrated tax and cess;

The term Aggregate turnover is relevant to a person to determine:

- (1) Threshold limit to obtain registration under the Act ₹ 20 Lakh (or ₹ 10 Lakh in case of: supplies effected from Special category States) in a financial year.
- (2) Threshold limit to opt for composition scheme.
- (3) Outward supplies on which tax is paid on reverse charge basis by the recipient will be included in the aggregate turnover of the supplier.

(5) Input Tax - Sec. 2(62)

"Input tax" in relation to a registered person, means the Central tax, State tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him and includes-

- (a) The integrated goods and services tax charged on import of goods.
- (b) The tax payable under the provisions of sub-section (3) and (4) of section 9.
- (c) The tax payable under the provisions of sub-sections (3) and (4) of section 5 of the integrated Goods and Services Tax Act;
- (d) The tax payable under the provisions of sub-sections (3) and (4) of section 9 of the respective State Goods and Services Tax Act; or

- (e) The tax payable under the provisions of sub-sections (3) and (4) of section 7 of the Union Territory Goods and Services Tax Act but does not include the tax paid under the composition levy.

**(6) Job Work - Sec 2(68)**

"Job work" means any treatment or process undertaken by a person on goods belonging to another registered person and the expression "job worker" shall be construed accordingly.

Job-work is understood as the processing or working on goods supplied by the principal to complete a part or whole of the process. The work may be in the initial process, intermediate process, assembly, packing or any other process. The goods sent for job work may be raw material, component parts, semi finished goods and even finished goods. The resultant goods could also be a variation of the same or the complete product.

While treatment and processing are commonly understood as service, there is no implication that job work is purely service, or that goods would not be used for such treatment or processing. However, Schedule II of the CGST Act which specifies activities to be treated as supply of goods or supply of services, section provides that any treatment or process which is applied to another person's goods is a supply of service. Such a deeming fiction in respect of job work is given effect to, based on the primary objective of any job work, which is to provide a service.

**(7) Place of Business [Sec. 2(89)]**

Means the place of business specified as the principal place of business in the certificate of registration. The principal place of business could be any of the places of business of a person, which is located in the same State in which the registration is intended to be obtained. Generally, this location would be the head office or the corporate office or the billing address of the person, or the address registered under a statute such as the Companies Act, or as specified in the partnership deed.

**(8) Electronic Cash Ledger**

**Electronic Cash Ledger [Sec. 2(43)] :** means the electronic cash ledger referred to in sub-section (1) of section 49;

**Electronic cash ledger means** a cash ledger maintained in electronic form by each registered person. The amount deposited through various modes of payment (viz., internet banking, debit/ credit cards, NEFT/ RTGS or by any other mode), shall be credited to the electronic

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 cash ledger. The amount available in this ledger can be used for the payment of:

- (a) Tax
- (b) Interest
- (c) Penalty
- (d) Fees or
- (e) Any other amount payable.

**(9) Invoice**

**Invoice or Tax invoice [Sec. 2(66)] :** means the tax invoice referred to in section 31; The tax invoice should contain all the prescribed details such as the description of the goods, quantity, value and tax charged on the supply.

**In respect of goods :**

- A tax invoice can be issued at or before the time of removal of the goods for making the supply, where the supply involves movement of the goods (either by the supplier or by the recipient, or any other person).
- However, where the supply to the recipient does not involve movement of the goods, the tax invoice would be due at the time of delivery or making the goods available to the recipient.
- It is not necessary that every supply requires movement of goods on the basis that all goods are movable in nature. The time of removal would matter only in cases where the removal of goods and the movement of goods is by virtue of the supply.
- Consider the case of sale on approval basis. Goods would be removed at a certain time, and may be delivered to the location of the recipient. However, it is not known at the time of removal, whether the transaction results in a supply. Therefore, the time of confirmation by the recipient that he wishes to retain the goods would be the due date for issuing the tax invoice.
- The Government is also empowered to notify certain categories of supplies in respect of which it can prescribe a separate time limit for issuance of tax invoice.

**In respect of services:**

- A tax invoice for supplying services should be issued within 30 days from the date of supply of the taxable service.
- However, the Government is empowered to notify certain categories of services wherein any other document relating to the supply would be treated as the tax invoice, or for which no tax invoice is required to be issued at all. The provisions of Section 31 of the CGST Act also provide for invoices or other

documents such as bill of supply, payment voucher, receipt, voucher, etc. in for specific situations.

### (10) Person - Sec. 2(84)

In common language 'person' means natural human being, from the GST point of view the word is used in a broad sense. The word 'Person' has been defined u/s 2(84) of the Act, according to which, it includes artificial person also. Hence person includes-

- (1) **An individual** - It refers to a natural human being whether male or female, minor or major.
- (2) **A Hindu Undivided Family** - It is a relationship created due to operation of the Hindu Law. The manager of H.U.F. is called "Karta".
- (3) **A Company** - It is an artificial person registered under Indian Companies Act or any other law.
- (4) **A Firm** - It is an entity which comes into existence as a result of partnership agreement.
- (5) **LLP** - A limited liability partnership.
- (6) **An Association of persons or a Body of individuals** - An association of persons or a body of individuals, whether incorporated or not, in India or outside India.
- (7) **Corporation** - Any corporation established by or under any Central Act, State Act or Provincial Act or a Government company.
- (8) **Foreign corporate body** - Any body corporate incorporated by or under the Laws of a country outside India.
- (9) **Co-operative society** - A co-operative society registered under any law relating to co-operative societies.
- (10) **Local Authority** - Municipalities, Panchayats, Cantonment Boards, Port Trusts etc. are called local authorities.
- (11) **Artificial Juridical Person** - Statutory Corporations like Life Insurance Corporation, a University etc. are called artificial juridical persons.
- (12) **Government** - Central Government or a State Government.
- (13) **Trust** - Any type of trust e.g. public trust, private trust, charitable trust etc.

### (11) Taxable Person - Sec. 2(107)

"Taxable person" means a person who is registered or liable to be registered under section 22 or section 24:

According to Sec. 22, every supplier shall be liable to be registered under this Act in the State or Union territory (other than special category States) from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds ₹ 40 lakh. In case of special category state the threshold limit on all be ₹ 20 lakh. As per Section 24 of the CGST/SGST Act, the following categories

of persons shall be required to be registered compulsorily irrespective of the threshold limit:

- (i) Persons making any inter-State taxable supply;
- (ii) Casual taxable persons;
- (iii) Persons who are required to pay tax under reverse charge;
- (iv) Electronic commerce operators

### (12) Supplier - Sec. 2(105)

"Supplier" in relation to any goods or services or both, shall mean the person supplying the said goods or services or both, and (i) shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied.

In the definition of term supplier, agents supplying on behalf of the supplier are also included within the meaning of 'supplier'. This is to ensure that invoices raised by the agent on behalf of the supplier for effecting sales on his behalf qualify as valid invoices, as if they were issued by the supplier himself.

So, seller of goods or provider of services or both called supplier under GST.

### (13) Business Vertical

"Business vertical" means a distinguishable component of an enterprise that is engaged in the supply of individual goods or services or a group of related goods or services which is subject to risks and returns that are different from those of the other business verticals.

**Explanation:** For the purposes of this clause, factors that should be considered in determining whether goods or services are related include:

- (a) The nature of the goods or services;
- (b) The nature of the production processes;
- (c) The type or class of customers for the goods or services;
- (d) The methods used to distribute the goods or supply of services;
- (e) The nature of regulatory environment (wherever applicable), including banking, insurance or public utilities.

### (14) Business - Sec. 2(17)

In GST Act the term business has been defined in an inclusive manner. This definition is very wide and covers all the transactions that are currently subjected to various taxes.

This definition of business is important since levy is on supplies undertaken in the course or furtherance of business.

"Business" includes:

- (a) Any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;

- (b) Any activity or transaction in connection with or incidental or ancillary to trade, commerce, manufacture, profession etc.
- (c) Any activity or transaction in the nature of sub-clause (b) whether or not there is volume, frequency, continuity or regularity of such transaction.
- (d) Supply or acquisition of goods including capital goods and services in connection with commencement or closure of business.
- (e) Provision by a club, association, society, or any such body for a subscription or any other consideration) of the facilities or benefits to its members.

So the following aspects had to be noted in this respect :

- (1) Trade, commerce etc., including incidental activities whether or not there is volume, frequency, continuity or regularity of such transaction, occasional transactions are - Even if there is no profit motive or even if no profit is earned an activity in the nature of trade, manufacture, commerce, profession may constitute business.
- (2) Government activities excluding sovereign functions are also subject to GST.
- (3) 'Wager' is also included in the definition of business to impose GST on betting transactions.
- (4) Educational services would be covered under profession or business.
- (5) Acquisition of goods including capital goods, supply by association/ club admission of persons to a premises and services by a race club.
- (6) Charitable or religious activities are not specifically covered

**(15) Place of Supply [Sec. 2(86)]**

Means the place of supply as referred to in Chapter V of the Integrated Goods and Services Tax Act; Chapter V deals with determination of 'place of supply' under the following brackets:

- (a) Goods, other than supply of goods imported into, or exported from India.
- (b) Goods imported into, or exported from India.
- (c) Services where location of supplier and recipient is in India.
- (d) Services where location of supplier or location of recipient is outside India.
- (e) Online information and database access or retrieval services (OIDARS) provided by a person located in a non-taxable

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territory to a non-taxable online recipient (i.e., Government, territorial or local authorities, individuals, other persons, governmental or local authorities, individuals, other persons, receiving such services for purpose other than commerce, industry, business, profession, but located in taxable territory).

**Q.123. Explain the Authorities of GST and their rights.**

Ans.

**Administration of GST**

For taxation of GST there is an administration part established for central and for state separately. For central GST (CGST) and IGST there are central tax department and for state there is a commercial tax department that collects and imposes the tax. There are different Authorities for state and central are :

**(I) Authorities for Central GST :**

- 1. Prime Commissioner Prime Director General for Central tax.
- 2. Central tax chief Commissioner.
- 3. Prime deputy director general of Central Tax.
- 4. Deputy Director of Central tax.
- 5. Director of Central Tax.
- 6. Joint director of Central tax.
- 7. Sub director of Central tax.
- 8. Assistant director of Central Tax.
- 9. Other authorities appointed by Central Government.

**(II) Authorities for State GST :**

- 1. State tax Commissioner.
- 2. Special tax commissioner of state.
- 3. Deputy tax commissioner of state.
- 4. Joint tax commissioner of state.
- 5. Sub tax commissioner of state.
- 6. Assistant tax commissioner of state.
- 7. Other authorities appointed by state government.

**Powers of Officers :**

- Following powers for different tax officer under section 5 :
  - 1. **Follow the order :** For state officer it is compulsory to follow the order of commissioner and for central officer it is compulsory to follow the order of Prime Director General of Central tax.
  - 2. **Powers of Subordinate Office :** All the central and state subordinate officers having rights according to Act under section 5 to govern the tax in proper manner.
  - 3. **Transfer of rights :** If commissioner wants to transfer his powers and rights to sub-ordinates, then he will do it in proper manner.

4. Restriction : If any authorities transfers his rights than it is restricted to use his own rights and power which is transferred.

Q.124. Explain the classification of goods and service tax.  
 Ans. See question number 121 for answer.

Q.125. How will you calculate taxable value of supply related products?  
 Ans. Computation of taxable value of supply by manufacturer

Transaction value/Invoice Price	.....
Add : Following Items if there are not included in Transaction value	.....
(1) Municipal tax paid by tenant	.....
(2) Packing charges	.....
(3) Design, engineering, Consultancy fees Testing fees and Inspection fees.	.....
(4) Loading and weightment charges	.....
(5) Outward freight and insurance	.....
(6) Value of free after sales service in warranty period.	.....
(7) Installation charges	.....
(8) Expenditure by recipient on behalf of supplier	.....
(9) Interest, Late fees, Penalty	.....
(10) Subsidy directly linked to supply	.....
Less : Trade discount, cash discount or Quantity discount	.....
Taxable value of supply	.....

**Calculation of GST payable on taxable supply**

(Value of Taxable Supply × Rate/100)	.....	.....
GST Payable	.....	.....
(a) In case of Intra-state supply	.....	.....
(i) CGST (Half of the rate)	.....	.....
(ii) SGST (Half of the rate)	.....	.....
(b) IGST on Interstate supply	.....	.....
Total GST Payable	.....	.....
Less : Input tax credit :	.....	.....
GST on Input supply or Raw material	.....	.....
Net GST Payable	.....	(-)

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Q.126. How will you calculate taxable value of services.  
 (D) GST rates on taxable services.

- Ans. Normally service tax rate is 18%. Following will be the rates :  
 (1) 12% GST for Air services other than economy series.  
 (2) 5% for Restaurant services, goods transport service, Road Ist class A.C. Rail services, Air transport services  
 (3) Transport services A.C. Bus Services, printing services 5% Rate economy series, Textile job work, printing services 5% Rate for all the above.

(4) 18% for all other services than above.

(II) Intra state supply of Services  
 (CGST) Central GST = 9% (normal rate)

(a) (SGST) State GST = 9% (normal rate)

(b) (III) GST on Interstate supply.  
 IGST will supply at total rate

(a) If GST not included.  
 Taxable service × Rate (18%)  
 100

(b) If GST included :  
 Taxable service × Rate (18%)  
 100 + 18

Following will consider when solve the practical problems :

- (1) First of all read carefully and think that it is taxable service or not. For example for a engineer drawing fees is taxable.
- (2) GST not charge on service cost other expenses will include in it.
- (3) If any expenses on services it will not deduct.
- (4) If a trader sold goods and services both than we will calculate Total GST on goods and services.

Q.127. Explain integrated goods and service tax and its characteristics.

Ans. If any goods or service under the Interstate supply than IGST will apply.  
 An integrated GST would be levied and collected by the centre on inter-state supply of goods and services.

**Characteristics of IGST :**

- (1) IGST is payable on Inter-state supply.
- (2) In IGST movement of goods and service is smooth.
- (3) IGST equal to total of CGST and SGST.
- (4) Input tax credit of IGST can be used for SGST.
- (5) IGST will be payable on inter-state stock transfers, branch transfers.

- (6) In many problems, provisions and rules of CGST Act shall be applicable in respect of IGST.
- (7) In IGST there are same treatment of goods and services.
- (8) IGST also applies on Import.

Introduction of integrated goods and service tax :

- (1) Short name of this act is integrated goods and service tax Act, 2017.
- (2) This act is regulated all over India except jammu and Kashmir.
- (3) This act effective on 22 June 2017 some provision include on 1 July 2017.
- (4) There are 25 sections in Integrated Goods and service tax act.
- (5) Provisions other than place decision, Taxation collection, Tax division, credit adjustment are already given in Goods and service tax Act.

Integrated goods and service tax apply on inter state sale following include in inter state supply:

- (A) **Inter state supply of goods.**
  - (i) Inter state supply within two state like Goa and Madhya Pradesh.
  - (ii) Inter state supply within two. U.T, like Dehli and Chandigarh.
  - (iii) Inter state supply between a state and U.T, Like Dehli and Madhya Pradesh.
- (B) **Inter state supply of services**
  - (i) Inter state supply of services within two states.
  - (ii) Inter state supply of service within, two U.T, (Union territory)
  - (iii) Inter state supply between a state and U.T.

**Q.128. Explain the provision for integrated goods and Service Tax.**

**Ans.** If any goods or service under the Interstate supply than IGST will apply.

An integrated GST would be levied and collected by the centre on inter-state supply of goods and services :

**Characteristics of IGST :**

- (1) IGST is payable on Inter-state supply.
- (2) In IGST movement of goods and services is smooth.
- (3) IGST equal to total of CGST and SGST.
- (4) Input tax credit of IGST can be used for SGST.
- (5) IGST will be payable on inter-state stock transfers, branch transfers.
- (6) In many problems, provisions and rules of CGST Act shall be applicable in respect of IGST.

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- (7) In IGST there are same treatment of goods and services.
- (8) IGST also applies on import.

**Provisions regarding IGST**

1. **Reverse charge system :** On the recommendation of the council specify categories of supply of goods or service the tax on which shall be paid on reverse charge basis by the Recipient.

2. **Unregistered dealer :** The integrated tax in respect of the supply of taxable goods or services by a supplier who is not registered to a registered person shall be paid by such person on Reverse charge basis as the recipient.

3. **Interstate supply :** The IGST will be calculated on Inter-state supply of goods or service or both. There are different IGST Rates like zero, 3%, 5%, 12%, 18% and 28%.

4. **Import and Export :** The integrated GST on goods imported into India shall be Levied and collected according to IGST Act.

5. **Tax on Petroleum Product :** Petroleum product like crude oil, Petrol, Diesel, are not covered in GST but in future it will covered under IGST.

**Q.129. How will you calculate taxable value of inter-state supply?**

**Ans.** **Computation of Taxable Value of Inter-state Supply : Chart**

\* Transaction value or invoice price of Goods  
Add: Following items if these are not included in

Transaction Value	
1. Taxes other than GST	
Except GST any tax duty cess, charge which are paid by recipient to supplier are incurred on behalf of supplier.	
2. Packing charges	
Any types of packing e.g. primary packing, secondary packing, transport packing, returnable packing shall not be included.	
3. Other cost and expenses related to supply	
Design and Engineering Charges, Consultancy fees, Testing fees, Inspection fees etc.	
4. Loading Weighment charges etc.	
Loading charges, weighment charges, handling	

changes etc.	.....	
5. Freight and transit insurance	.....	
Outward freight and insurance	.....	
6. After sales service	.....	
Value of free after sales service in warranty period	.....	
7. Installation charges	.....	
Machine, plant or any structure installation charges at the site of recipient	.....	
8. Expenses by recipient on behalf of supplier	.....	
Expenditure by recipient on behalf of supplier	.....	
9. Interest, penalty for delayed payment	.....	
Interest, late fees or penalty for delayed payment.	.....	
10. Subsidy or incentive	.....	
Subsidy directly linked to supply other than Government subsidy	.....	+
Less: The following:		
Discount before or at the time or after supply shown in invoice	.....	-
(Trade Discount, Cash Discount or Quantity Discount)	.....	.....
<b>Taxable value of supply</b>		

**Calculation of GST Payable on Taxable Supply**

<b>Value of Taxable Supply</b> (as per calculation)	.....
<b>Inter-State supply</b>	.....
Full rate 3%, 5%, 12%, 18%, 28%	
<b>Less : Input Tax Credit on Inward Supply</b>	.....
<b>Tax paid on purchase i.e.</b>	.....
<b>Total GST Payable</b>	.....
<b>Net GST Payable</b>	(-) .....

**Note :** If transaction value included GST then the following formula shall be applied :

$$\frac{\text{Taxable value} \times \text{Rate of GST}}{100 + \text{Rate of GST}}$$

Q.130. Explain the determination of place of supply of goods or service.

**Provision Regarding Place of Supply**

**Ans.**  
To determine whether the transaction is intra state or Inter-state or Import or export we will consider section 10 to 13 for goods and service. We will consider following :

**Place of Supply of Goods (Section-10)**

- 1. Movement of goods:** Movement of goods by any person it will be supplier or Recipient. With the basis of movement of goods we clear the place of supply the location of the goods will decide then place of supply.
- 2. Import and Export of Goods :** In Import and export, the location of importer or exporter decide the place of supply.
- 3. Assembling or Installation :** In the condition of assembling and Installation, the place of assembling and installation will be place of supply.
- 4. Delivery of goods :** If goods delivered from one place to other place than principal place of business will be the place of supply.

**For example :**

1. A the trader of U.P. sold the goods to B the trader of M.P. then it will be a interstate sales.
2. If trader A sold goods from Indore to trader B of Neemuch and goods travelled not only in M.P. but Rajasthan than it will not an Interstate sale because the location of supplier and location of the recipient are in the same state.

**Place of supply of services :** For deadlines the GST pattern whether the CGST or SGST or IGST charged place of supply of service must determined. There are two types of services :

- (i) Intra state supply
  - (ii) Inter state supply.
- (i) Inter-state supply :** If the supplies and Recipient in same location in a state then it will be Intra state supply means then it will of the supplier and place of supply of services are same state then it will be Intra state supply. It will not include SEZ developer or unit.

**For example :**

Mr. A Tax consultant in Indore giving services to Mr. D from Dhar than it will be Intra state supply of service.  
**(ii) Inter-state supply :** If the location of supplier and location of the supply of service are not in same state that it will be Inter-state supply.

**For example :**

Famous C.A. of Indore Mr. Khandelwal give services to Mr. B. lives in Mumbai then it will be Interstate supply of service.

**Short Answer Type Questions**

**Q.131. Define goods and service tax.**

Ans. See question number 119. for answer.

**Q.132. Explain the advantages of goods and service tax.**

Ans. See question number 120. for answer.

**Q.133. Explain G.S.T. Council.**

Ans. **G.S.T. Council**

According to New Section of Constitution 279 (A), GST Council is organised by President.

According to his rights and powers, according to constitution GST council was organised by president of India on 15 Sep. 2016. Following are the member of GST Council:-

1. Finance minister of India - President
  2. Finance State minister - Member
  3. All state finance ministers - Member
  4. From above selected person - Vice president
- GST Council organised for Harmonized National market development.

**Q.134. Explain Input Tax Credit.**

**Meaning of Input Tax [Sec. 2(62)]**

Input tax means the Central tax (CGST), State tax (SGST), Integrated tax (IGST) or Union territory tax (UTGST) charged on supply of goods or services or both made to a registered person. It also includes:

- tax paid on reverse charge basis and
- integrated tax goods and services tax charged on import of goods.

It does not include tax paid under composition levy.

**Eligibility and conditions for taking input tax credit**

[Section 16]

**Eligibility:-**

- Every **REGISTERED PERSON** shall,
- subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49,
  - be entitled to take credit of input tax charged on any supply of goods or services or both to him
  - which are used or intended to be used

- in the course or furtherance of his business and
- the said amount shall be credited to the electronic credit ledger of such person.

**Conditions to be satisfied for taking itc**

The following all four conditions must be satisfied for taking ITC:-

1. he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed;
2. he has received the goods or services or both.
3. The tax charged in respect of such supply has been actually paid to the Government, either in cash or through utilisation of input tax credit admissible in respect of the said supply; and
4. He has furnished the return under section 39 in FORM-GSTR 2

**Q.135. Explain the characteristics of Integrated goods and Service Tax.**

Ans. Refer question No. 127 for answer.

**Practical Problems**

**Q.136. From the following information compute value of taxable supply under CGST Act :**

- (1) Value of machine (including GST @ 18%) 11,80,000
- (2) The invoice value includes the following:
  - (a) Design charges 9,700
  - (b) Consultancy charges in relation to pre-installation planning 22,500
  - (c) Testing charges 19,300
  - (d) Inspection charges 18,200
- (3) Trade discount actually allowed shown separately in invoice ₹ 70,000

**Solution :** **Computation of Value of taxable supply of goods**

Particulars	Amount (₹)
Value of machine $(11,80,000 \times \frac{18}{118}) + (11,80,000 - 1,80,000)$	10,00,000
Value of machine $(11,80,000 \times \frac{18}{118})$ (including GST @ 18%)	70,000
Less : Trade discount actually allowed shown separately in invoice	9,30,000
	1,67,400
Add : GST $18\% \times 9,30,000 \times \frac{18}{100}$	10,97,400
<b>Value of Taxable supply</b>	<b>10,97,400</b>

C.G.S.T. = ₹ 83,700 (9%), S.G.S.T. = ₹ 83,700 (9%)

Q.137. From the following information compute the value of taxable supply under the CGST :

- (1) Contracted value of supply of goods 2,80,000
  - (2) The contracted value of supply includes the following :
    - (a) Cost of primary packing 7,000
    - (b) Weightment and haulage 3,000
    - (c) Design and engineering charges 15,000
  - (3) Other information :
    - (i) Cost of protective packing at recipient's request for safe transportation 12,000
    - (ii) Commission paid to agent by recipient on instruction of supplier 13,000
    - (iii) Freight and insurance charges paid by recipient on behalf of supplier 12,500
- Find out tax payable and total amount of bill if GST rate is 12% on goods supplied.

**Solution :** Computation of taxable value of supply

Particulars	Amount ₹
Transaction value of supply of goods	2,80,000
Add : Items not included in transaction value	
(1) Cost of protective packing at recipient's request for safe transportation	12,000
(2) Commission paid to agent by recipient on instruction of supplier	13,000
(3) Freight and insurance charges paid by recipient on behalf of supplier	12,500
	37,500
<b>Add : GST @ 12%</b>	<b>Taxable value</b>
(a) GST @ 6%	19,050
(b) SGST @ 6%	19,050
	38,100
<b>Total amount of invoice</b>	<b>3,55,600</b>

Q.138. CRI Pumps manufactured 3,000 Pumps during April, 2022. Its price as per price list is ₹ 600 per Pump, exclusive of taxes. The manufacturer offers 20% discount to wholesalers on the price list.

During the April 1,500 pumps were sold in wholesale, 1,000 pumps were sold in retail Balance quantity of 500 pumps was in stock at the end of year. The effective rate of GST is 18%.

Calculate amount of GST payable by CRI pumps for the month of April Inputs used in finished goods included ₹ 50,000 on account of GST paid.

**Solution :**  
Computation of Assessable value and GST Payable

No. of pumps removed from factory	1,500 × 600	9,00,000
Wholesale	1,000 × 600	6,00,000
Retail		15,00,000
	<b>Transaction Value</b>	
		1,80,000
	Less : 20% discount allowed on wholesale	1,80,000
	₹ 9,00,000	<b>Taxable Value</b>
		13,20,000
	<b>GST payable @ 18% on 13,20,000</b>	
(a) CGST 9%	1,18,800	
(b) SGST 9%	1,18,800	2,37,600
Less : Input Tax credit on inward supply of material		50,000
	<b>Net GST Payable</b>	<b>1,87,600</b>

Q.139. How will you calculate taxable value of supply related to traders?

**Ans.** Computation of Taxable value of supply by trader

Particulars of supply	Gross Amount	Taxable Amount
Invoice price or Transaction value		.....
Add : Following items if they are not included in transaction value :		
(1) Packing- Primary Packing transport packing	.....	
(2) Commission brokerage etc.	.....	
(3) Expenses incurred by recipient on behalf of supplier	.....	
(4) Loading and weightment charges	.....	
(5) Testing, inspection etc.	.....	
(6) Transportation and insurance expenses	.....	
(7) Interest, Late fees, penalty etc.	.....	
(8) Subsidy other than government subsidy	.....	
(9) Other incidental expenses	.....	
(10) Any tax or fees regarding goods other than GST	.....	
		(+)
Less : (1) Trade discount cash discount or any other discount	.....	
(2) Credit note-S/R etc.	.....	
	<b>Taxable supply</b>	

**Calculation of GST payable**

(I) If GST not included

$$\text{Taxable supply} \times \text{Rate} \\ 100,$$

There are two types of GST :

- (a) CGST-half Rate will apply
  - (b) SGST-half rate will apply
- Inter-state supply

$$\text{Taxable supply} \times \text{Rate} \\ 100$$

(II) If GST included in supply value

$$\text{Taxable supply} \times \text{Rate} \\ 100 + \text{Rate}$$

**Note :** If no information about tax include or not include than we will assume it is not included.

**Q.140. The supply from Purva General Stores :**

- 1. Shampoo 76,000
- 2. Powder 74,000
- 3. Spectacles 38,500
- 4. Conditioner 20,000
- 5. Glass bangles 40,000
- 6. Cream 50,000
- 7. Kumkum, Kajal 20,000
- 8. Ladies Purse 25,000
- 9. Ladies Chappals 40,000
- 10. Nirodh, Mala-D 30,000
- 11. Lipsticks 40,000

Discount to customer ₹ 5,000, goods sold to U.P. ₹ 10,000 include in Ladies purse Calculate Taxable value and GST.

**Solution :**

**Computation of Taxable Supply under GST**

	Total supply	Taxable supply
1. Shampoo	76,000	76,000
2. Powder	74,000	74,000
3. Spectacles	38,500	38,500
4. Conditioner	20,000	20,000
5. Glass bangles	40,000	40,000
6. Cream	50,000	50,000
7. Kumkum, Kajal	20,000	20,000
8. Ladies purse	25,000	25,000

- 9. Ladies Chappals 40,000
- 10. Nirodh Mala-D 30,000
- 11. Lipstick 40,000

	Total	Taxable value
Ladies Chappals	40,000	40,000
Nirodh Mala-D	30,000	30,000
Lipstick	40,000	40,000
<b>Total</b>	<b>110,000</b>	<b>110,000</b>
- Discount	-5,000	-5,000
<b>Taxable value</b>	<b>105,000</b>	<b>105,000</b>

**Calculation of GST**

CGST (3,58,500 - 10,000) × 9%	31,265
SGST 3,48,500 × 9%	21,365
IGST (10,000 × 18%)	62,730
<b>Total GST</b>	<b>1,500</b>

**Q.141. Ms. Sharma Brothers is a Cloth Merchant. Following are the particulars of supplies by the dealer :**

- Cloth 14,50,000
  - Rajai and pillow covers 1,00,000
  - Readymade garments (Purchased from Mumbai) 1,60,000
  - Hostery (purchased from Registered dealer in GST VAT paid ₹ 1,000) 1,30,000
  - Towel and Gamcha (Selling price ₹ 80 per piece) 40,000
  - Books 3,00,000
  - Exercise books 3,00,000
- Compute total and taxable supply of the trader. Supply figures included 5% VAT.

**Solution : Computation of Taxable Turnover**

	₹	₹
Cloth	14,50,000	14,50,000
Rajai and pillow covers	1,00,000	1,00,000
Readymade Garments	1,60,000	1,60,000
Hostery	1,30,000	1,30,000
Towels Gamcha	30,000	30,000
Books (exempt tax)	40,000	40,000
Exercise books	3,00,000	3,00,000
<b>Value including GST</b>	<b>22,10,000</b>	<b>21,70,000</b>
<b>Less: GST included</b>	<b>10,05,000 × 5/105</b>	<b>(-1,03,333)</b>
<b>Taxable Value of Supply</b>		<b>20,66,667</b>

**Q.142. Mohini Beauty Parlour provides beauty treatment services to Ladies and Gents. Services provided and**

amount charged for them during the month July 2022 are as under :

1. Facial, manicure and pedicure charges ₹ 7,870
2. Bridal makeup charges 31,760
3. Hair cutting and shaving charges 7,220
4. Plastic surgery and cosmetic surgery charges 23,650
5. Face and beauty treatment charges 46,830
6. Supply of cosmetics to customers 47,235
7. Hair Dyeing charges 8,325
8. Fees for counselling services on beauty 3,420
9. Face care and makeup charges 10,740

The parlour incurred the following expenses to provide aforesaid services : *add make hole*

- (i) Cosmetics and other material used ₹ 16,850
- (ii) Rent of parlour ₹ 10,800
- (iii) Light expenses ₹ 1,870
- (iv) Salary to beauticians 17,800
- (v) Telephone bills ₹ 1,850.

Determine the taxable value of services and goods supplied and find out the amount of GST payable @ 18% on services and 28% on cosmetics.

**Solution :**

**Computation of taxable Services and taxable goods by Mohini Beauty Parlour**

(a) Taxable Services :	
Facial, manicure and pedicure charges	7,870
Bridal makeup charges	31,760
Hair cutting and shaving charges	7,220
Plastic surgery and cosmetic surgery charges	23,650
Face and beauty treatment charges	46,830
Hair Dyeing charges	8,325
Fees for counselling services on beauty	3,420
Face care and makeup charges	10,740
<b>Taxable value for services</b>	<b>1,39,815</b>
<b>(b) Taxable Goods - Supply</b>	
<b>Supply of Cosmetics</b>	<b>47,235</b>
<b>Total Taxable Supply</b>	<b>1,87,050</b>
<b>Add : GST payable charged in invoice</b>	
(a) GST on services ₹ 1,39,815 @ 18%	25,167
(b) GST on Goods ₹ 47,235 @ 28%	13,226
<b>Total amount charged in invoice</b>	<b>2,25,443</b>

Q.143. A Readymade garment manufacturer of Indore (M.P.) supplied goods to Dealer of Jaipur (Raj.) value ₹ 2,28,000

- (1) The contracted price does not include the following :
  - (i) Cost of packing for transportation ₹ 5,000
  - (ii) Freight and insurance from place of removal to Jaipur premises. 15,000
- (2) A discount of ₹ 7% was given by the supplier at transaction value of goods.
- (3) IGST is levied @ 5%

**Solution :**

**Computation of Taxable Value and IGST Payable**

Particulars	Amount ₹
Transaction value	
Add : Expenses separately charged	3,00,000
(1) Cost of transportation packing	5,000
(2) Freight and insurance	15,000
	+ 20,000
Less : Discount @ 7% on transaction value	3,20,000
	- 21,000
<b>Taxable value of supply</b>	<b>2,99,000</b>
<b>Add : IGST payable @ 5%</b>	<b>14,950</b>
<b>Total amount of invoice</b>	<b>3,13,950</b>

Q.144. From the following information compute value of taxable supply under IGST Act in respect of inter-state supply :

- (1) Value of machine (including GST @ 18%) ₹ 12,00,000
- (2) The invoice value includes the following :
  - (a) Design charges 25,700
  - (b) Consultancy charges in relation to pre-installation planning 2,500
  - (c) Testing charges 19,300
  - (d) Inspection charges 7,200
- (3) Trade discount actually allowed separately in invoice ₹ 80,000.

**Solution :**

**Computation of value of taxable inter-state supply of goods**

Particulars	Taxable Amt (₹)
Value of machine (including tax)	12,00,000

*Handwritten note:* GST included in invoice value of machine = 2,16,000

Less : Trade discount actually allowed shown separately in invoice 80,000  
11,20,000

Value excluding tax 11,20,000 × 100  
 118 Value of taxable supply

Add : ICGST @ 18% Total Value 11,20,000  
 9,49,152  
 1,70,847  
11,20,000

Note : (1) Machine expenses are already included so we will not include it.

(2) G.S.T. include in transaction value so it will be deduct.

Q.145. USHA Electronics Limited Indore (M.P.) manufactured 15,000 V.C.D. Sets, 786 brand during the Month of May, 2022 following particulars are available :

1. Supply price is ₹ 20,000 par VCD for distributors and ₹ 12,000 (net) for wholesale dealers excluding GST.
  2. Discount to distributors @ 20%. but discount is not allowed to wholesale dealers.
  3. During the year 8,000 VCD were sold to distributor and 5,000 VCD sets were sold to wholesale dealers.
  4. 2,000 VCD sets were lying in stock at the end of month in godown.
- Determine taxable value and calculate GST payable, if rate is 12%. Find out total amount of tax invoice.

Solution :

**Computation of Taxable Value and GST Payable**

Transaction Value of V.C.D. Sets removed from factory	
(a) Sold to distributors (8,000 × 20,000)	16,00,00,000
(b) Sold to whole sale dealers (5,000 × 12,000)	6,00,00,000
<b>Transaction Value</b>	<b>22,00,00,000</b>
Less : Trade discount @ 20% allowed to distributors on 16,00,00,000	(- ) 3,20,00,000
<b>Taxable Value</b>	<b>18,80,00,000</b>
Add : ICGST @ 12%	2,25,60,000
taxable value ₹ 18,80,00,000 × 12%	
<b>Total amount of Invoice</b>	<b>21,05,60,000</b>

Note : (1) After deducting discount we will get taxable value of goods issued on wet price to dealers. So discount will not be deducted.

Concept of Goods and Service Tax and GST Network / 225  
 (2) Goods which is not supplied from factory is not taxable. So no GST will be applied on stock in Godown.

**Objective Type Questions**

Choose the Correct Option

1. Which of the following tax has not subsumed in GST :  
 (a) Central Excise Duty (b) Service Tax  
 (c) Basic Custom Duty (d) Special Additional Duty of Customs  
 Ans. (c)
2. Term 'Goods' means movable property, but does not include :  
 (a) Actionable claim (b) Growing crops  
 (c) Securities (d) Sugar  
 Ans. (c)
3. Tax has been subsumed in GST :  
 (a) Basic Custom Duty (b) Service Tax  
 (c) Stamp Duty (d) Tax on Electricity  
 Ans. (b)
4. Chairperson of GST council is :  
 (a) Chief Commissioner of Board of Indirect Tax  
 (b) Union Finance minister (c) Prime Minister  
 (d) President of NITI Aayog.  
 Ans. (b)
5. GST Regulation act Regulation declared in :  
 (a) Lok Sabha (b) Central hall of Parliament  
 (c) Rajyasabha (d) None of the above  
 Ans. (b)
6. G.S.T. in Invoice :  
 (a) Showing (b) Not Showing  
 (c) Voluntary (d) None of the above  
 Ans. (a)
7. Advantage of GST :  
 (a) Composition Facility (b) Input tax credit  
 (c) Increase in tax collection (d) All the above  
 Ans. (d)
8. In India GST is a :  
 (a) Single (b) Double  
 (c) Triple (d) All the above  
 Ans. (b)
9. GST is a :  
 (a) By State Government (b) By Central Government  
 (c) Both (d) None of the above  
 Ans. (c)
10. GST Act Regulate on :  
 (a) 1 April 2016 (b) 1 April 2017  
 (c) 30 April 2017 (d) 1 July 2017  
 Ans. (d)
11. Member of the GST Council, should be :  
 (a) Union Finance Minister (b) Union Home Minister

- (c) State Chief Minister (d) None of the above  
**Ans. (a)**
12. **Services of GST network include :**  
 (a) Return filing and processing  
 (b) Fixing threshold limit of turnover for exemption  
 (c) Invoicing supply of goods/services  
 (d) None of the above.  
**Ans. (a)**
13. **It is mandatory to generate E-way Bill, when :**  
 (a) Value of consignment exceeds ₹ 50,000  
 (b) Nature of consignment is full vehicle  
 (c) Loaded with exempted goods only  
 (d) Loaded in own conveyance.  
**Ans. (a)**
14. **Zero Rated Supply includes :**  
 (a) Export of Goods/Services  
 (b) Supply of Goods/Services to SEZ developer unit  
 (c) Supply of Goods/Services by SEZ developer unit  
 (d) Both (a) and (b)  
**Ans. (d)**
15. **Types of GST in India are :**  
 (a) Central GST (b) State GST  
 (c) Integrated GST (d) All of above.  
**Ans. (d)**
16. **The following is applicable interstate supply :**  
 (a) State GST (b) Central GST  
 (c) Integrated GST (d) National GST.  
**Ans. (c)**
17. **Following include in aggregate turnover :**  
 (a) Supply of taxable goods or taxable service or both  
 (b) Export of goods or service or both  
 (c) Interstate supply of tax free and taxable goods and services  
 (d) All the above  
**Ans. (d)**
18. **Following will include in Individual :**  
 (a) Individual (b) Company  
 (c) Firm (d) All the above  
**Ans. (d)**
19. **Following include in place of business :**  
 (a) Godown (b) Place of Accounting  
 (c) Place of Agent (d) All the above  
**Ans. (d)**
20. **Maximum rate is for GST :**  
 (a) 5% (b) 12%  
 (c) 28% (d) 18%  
**Ans. (c)**
21. **Deduction allowed against transaction value :**  
 (a) Trade Discount  
 (b) Special discount for Advance Payment  
 (c) In Guarantee period after sales service charges  
 (d) All of above  
**Ans. (a)**

22. **Rate of Education cess is on GST is :**  
 (a) 1% (b) 2%  
 (c) Zero (d) 3%  
**Ans. (c)**
23. **Assessable value of a machine is ₹ 15,000 and effective rate of GST is 12% GST shall be :**  
 (a) 1931 ₹ (b) 1,800 ₹  
 (c) 2,250 ₹ (d) 2,304 ₹  
**Ans. (b)**
24. **Invoice price of a T.V. including GST 12% is ₹ 23,520, taxable value shall be :**  
 (a) 17,900 ₹ (b) 21,000 ₹  
 (c) 22,950 ₹ (d) 20,425 ₹  
**Ans. (b)**
25. **Integrated GST is distributed amongst states :**  
 (a) In the ratio of 2 : 1 (b) Equally  
 (c) In the ratio recommended by Central Government  
 (d) Equal among all states  
**Ans. (b)**
26. **Law relating to IGST in India is :**  
 (a) Central GST Act (b) State GST Act  
 (c) Integrated GST Act (d) All of above  
**Ans. (c)**
27. **The following is applicable on interstate supply :**  
 (a) State GST (b) Central GST  
 (c) Integrated GST (d) National GST  
**Ans. (c)**
28. **Inter-State supply is :**  
 (a) Supply from M.P. to Rajasthan  
 (b) Purchased in Delhi and sold in Delhi  
 (c) Supply with in union territory  
 (d) Supply with in state  
**Ans. (a)**
29. **When is a supply of goods to take place inter-state :**  
 (a) Transfer of goods one to another state  
 (b) Import of goods  
 (c) Export of goods (d) All of above  
**Ans. (d)**
30. **Where a sale will not be regarded as Inter-state supply :**  
 (a) Transfer of goods within state  
 (b) Supply of goods with in same union territory  
 (c) Goods on consignment in same state  
 (d) All of above  
**Ans. (d)**
31. **Liabe person to pay tax on Inter-State supply :**  
 (a) Supplier (b) Purchaser  
 (c) Both above (d) Consumer  
**Ans. (a)**
32. **Integrated GST shall be paid in the :**  
 (a) State of supplier (b) State of Recipient  
 (c) Any where (d) In Delhi  
**Ans. (a)**

## Input Tax Credit and its Utilization

### Long Answer Type Questions

Q146. What is the meaning of input tax credit? What are the conditions to be satisfied for taking ITC? Explain.

Ans. According to Sec. 2(63) of the CGST Act, 2017, Input Tax credit means the credit of input tax.

**Meaning of input tax [Sec. 2(62)]**

Input tax means the Central tax (CGST), State tax (SGST), Integrated tax (IGST) or Union territory tax (UTGST) charged on supply of goods or services or both made to a registered person. It also includes:

- Tax paid on reverse charge basis and
- Integrated tax goods & services tax charged on import of goods. It does not include tax paid under composition levy.

**Eligibility and conditions for taking input tax credit [Section 16]**

**Eligibility :**

Every REGISTERED PERSON shall,

- Subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49,
- Be entitled to take credit of input tax charged on any supply of goods or services or both to him
- Which are used or intended to be used
- In the course or furtherance of his business and
- The said amount shall be credited to the electronic credit ledger of such person.

**Conditions to be satisfied for taking ITC**

The following all four conditions must be satisfied for taking ITC:

1. He is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed;
2. He has received the goods or services or both.
3. The tax charged in respect of such supply has been actually paid to the Government, either in cash or through utilisation of input tax credit admissible in respect of the said supply; and
4. He has furnished the return under section 39 in FORM-GSTR 2

**Meaning of some of the important terms used:-**

1. **Person includes:**

- (a) an individual;
- (b) a Hindu Undivided Family;

- (c) a company;
- (d) a firm;
- (e) a Limited Liability Partnership;
- (f) an association of persons or a body of individuals, whether incorporated or not, in India or outside India;
- (g) any corporation established by or under any Central Act, State Act or Provincial Act or a Government company as defined in clause (45) of section 2 of the Companies Act, 2013;
- (h) any body corporate incorporated by or under the laws of a country outside India;
- (i) a co-operative society registered under any law relating to co-operative societies;
- (j) a local authority;
- (k) Central Government or a State Government;
- (l) society as defined under the Societies Registration Act, 1860;
- (m) trust; and
- (n) every artificial juridical person, not falling within any of the above;

**Invoice or Tax Invoice :**

Means the tax invoice referred to in section 31.

The tax invoice should contain all the prescribed details such as the description of the goods, quantity, value and tax charged on the supply.

**Debit Note :**

Means a document issued by a registered person under sub-section 3 of section 34.

**A debit note should be issued by a supplier in the following circumstances :**

1. The taxable value shown in the invoice is lesser than the taxable value of the supply; or
2. The tax charged in the invoice is less than the tax payable on the supply.

**Credit Note :**

means a document issued by a registered person under sub-section 7 of section 34;

**A credit note can be issued by a supplier only in the following circumstances :**

1. The taxable value shown in the invoice exceeds the taxable value of the supply;
2. The tax charged in the invoice exceeds the tax payable on the supply;
3. The goods supplied are returned by the recipient;
4. The goods/ services are found to be deficient.

**Q.147. Explain eligible and not eligible person for ITC? Explain situations in which ITC not allowed?**

**Ans.** Following will be eligible for input tax credit:

- (1) Seller and purchaser like whole-seller distributor and retailers.
- (2) Exporter
- (3) Registered Contractor
- (4) Registered Service Provider
- (5) Manufacturer and seller
- (6) Manufacturer who also a Exporter
- (7) Person who give goods on Lease.

**Person not eligible for ITC**

Following person will not be eligible for Input tax Credit:

- (1) Unregistered dealer of goods and service.
- (2) Composition dealer.

**Ineligible Situations:**

In following condition there will no deduction for ITC:

- (1) If goods given as sample or gift. No input tax credit received.
- (2) If goods lost by theft, fire, or destroyed than no deduction for input tax rebate.
- (3) Transport Company or vehicle on Rent Company or vehicle training company will not get Input tax credit.
- (4) If any building construction for the business purpose and material and service used for it will not get Rebate as ITC.
- (5) In the condition of any fraud or pressure no rebate will given.
- (6) Pipe line outside the factory and tele-communication tower will not eligible under the rebate of ITC.
- (7) If any Depreciation deduct on capital goods than it will not eligible for input tax credit.
- (8) If goods received from composition dealer no rebate under ITC.
- (9) If goods used for personnel consumption than ITC will not deduct.
- (10) If goods or service received by non-resident than no rebate under ITC will deduct.

**Q.148. Explain input tax credit transfer and mutual adjustment.**

**Ans.** **Transfer of Input Tax Credit**

(A) **Use of IGST to pay SGST :** The amount collected as integrated GST shall stand reduced by an amount equal to the input tax credit. So the central government shall transfer the amount so apportioned to the account of the appropriate state government in such

and within such time as may be prescribed.

(B) **Uses of IGST for CGST :** The amount collected as integrated GST shall stand reduced by an amount equal to the input tax credit of CGST so the central government shall transfer an amount equal to the amount of ITC related CGST.

(C) **Use of IGST to pay UTGST :** The amount collected as integrated GST shall stand reduced by an amount equal to the input tax credit of UTGST so the Central Government shall transfer an amount equal to the amount of ITC related UTGST.

**Utilisation of Credit :**

(A) **Utilisation of CGST :** The amount of Input tax credit on account of CGST can be utilised towards payment of CGST and if not sufficient balance than it may be utilized towards IGST.

(B) **Utilisation of IGST :** The amount of input tax credit on account of IGST can be utilized toward payment of IGST and if not sufficient balance than it may be utilized toward CGST and SGST.

(C) **Utilisation of SGST :** The amount of input tax credit on account of SGST can be utilized towards payment of SGST and if any remaining amount it may be utilized toward IGST.

**Short Answer Type Questions**

**Q.149. Who will be the eligible person for input tax credit?**

**Ans.** Refer Q. No. 147 for answer.

**Q.150. Who will be the not eligible person for ITC?**

**Ans.** Refer Q. No. 147 for answer.

**Practical Problem**

**Q.151. A manufacturer has entered into contract for supply of an machine. The terms of contract are as follows :**

- |  |          |
|--|----------|
| 1. Price of machine  | ₹ 33,000 |
| 2. Machine inspection                                      | ₹ 40     |
| 3. Packing charges   | ₹ 1,500  |
| 4. Transport cost for despatch of finished machine         | ₹ 370    |
| 5. Design and drawing charges included in price of machine | ₹ 1,950  |
| 6. GST payable   | 12%      |

Find the taxable value and the GST payable. The manufacturer used capital goods to manufacture the machine which include GST ₹ 1,000. Besides inputs used during manufacturing consists GST paid ₹ 790 to suppliers.

Solution :

**Computation of Taxable Value and GST Payable**

Transaction value of Machine	33,000
Add : Inspection charges	640
Packing expenses	1,650
Transportation charges	870
<b>Taxable value</b>	<b>36,160</b>
<b>Add : GST @ 12%</b>	<b>4,339</b>
<b>Total value charged</b>	<b>40,499</b>

Note: Design expenditure value is already included. Therefore are not added separately.

**Allowable Input Tax Credit and GST Payable**

GST payable on taxable supplies during the period	4,339
Less : Input Tax Credit (1,000 + 790)	1,790
<b>GST (Net)</b>	<b>2,549</b>

**Q.152. Ms. Jay Traders, is a Registered supplier of Mumbai.** The firm has paid tax ₹ 3,00,000 in respect of goods supplied from registered manufacturer of Mumbai during the period. Tax payable by the supplier on various taxable supplies during the period are as under :

- (1) GST and SGST payable on taxable supply in Mumbai. 50,000
- (2) IGST payable on Inter-state supply 2,40,000

Find out eligible Input Tax credit. How can set off unadjusted amount?

Solution :

In time period tax payable on taxable supply applied

- (1) On goods supply in Mumbai 50,000
- (2) Integrated G.S.T. (Goods supplied other states) 2,40,000

**Total payable G.S.T. 2,90,000**

Less : In Mumbai from registered manufactures received credit of incurred goods (-) 3,00,000

**Unadjusted amount of credit (-) 10,000**

- (1) In this question by the supplier the taxable amount is less than credit amount. Therefore the tax liability will be zero.
- (2) The unadjustable amount of ₹ 10,000 of wealth tax will be adjusted in the next payable amount.
- (3) If even in the next period this amount could not be adjusted then on request it will be refunded by the department. ■

Input tax credit will :

1. (a) Reduce
- (c) Both

Input tax credit is allowed for :

2. (a) Raw Material
- (c) Services

Input tax credit is available for :

3. (a) CGST
- (c) IGST

Input tax credit is deduct against:

4. (a) On GST
- (c) On Receipts

If goods purchased from unregistered dealer than Input tax credit :

5. (a) Deduct
- (c) Deduct and than Add it

Ans. 1. (a), 2. (d), 3. (d), 4. (a), 5. (b). ■

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**Composition Supplier****Long Answer Type Questions**

**Q.153. What is the meaning of composition levy? Explain.**

Or

**What is the scope and features of composition scheme?**

Or

**Explain in detail the meaning and scope of composition levy.**

Or

**Who are the person who can opt for composition scheme? Explain in detail.**

Ans. **Meaning of Composition Scheme**

Composition scheme is an optional scheme under which tax payer has an option to pay tax at a lower rate. This scheme is available only to certain eligible taxable person. The objective of this scheme is to:

- Simplify Procedures and
- Simplify Compliances
- For the small taxpayers.

Composition payment of levy of tax is an alternative made to pay tax

### Scope and objective of composition scheme under GST

The objective of this scheme is to simplify the tax procedure for small tax payer, they are not require to keep lengthy records. The small taxpayers with an AGGREGATE TURNOVER\*\* in a preceding financial year up to ₹ 1.5 crore or ₹ 75 lakhs in case of an eligible registered person, registered under section 25 of the said Act, in any following States, namely:-

- |                        |                 |
|------------------------|-----------------|
| (i) Arunachal Pradesh, | (ii) Assam,     |
| (iii) Manipur,         | (iv) Meghalaya, |
| (v) Mizoram,           | (vi) Nagaland,  |
| (vii) Sikkim           | (viii) Tripura, |
| (ix) Himachal Pradesh: |                 |

Shall be eligible for composition levy. Under the scheme, a taxpayer shall pay tax as a percentage of his turnover in a State during the year without the benefit of ITC.

### Meaning of aggregate turnover [Sec. 2(6)]

As per section 2(6) 'aggregate turnover' means

- Value of all outward taxable supplies
- Value of all exempt supplies
- Value of all exports supplies
- Value of all inter-state supplies of a person having the same PAN and it EXCLUDES
  - ▶ Taxes levied under
  - ▶ central tax (CGST),
  - ▶ State tax (SGST),
  - ▶ Union territory tax (UTGST),
  - ▶ integrated tax (IGST) and
  - ▶ compensation cess.

Also, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of aggregate turnover.

### Meaning of turnover in state or turnover in union territory [Sec. 2(112)]

Means the Aggregate value of

- All Taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis) and
- Exempt supplies made within a State or Union territory by a taxable person,
- Exports of goods or services or both and
- Inter-State supplies of goods or services or both made from the State or Union territory by the said taxable person but EXCLUDES

- ▶ Central tax,
- ▶ Union Territory tax,
- ▶ Cess.
- ▶ State tax,
- ▶ Integrated tax and

### Main Features of Composition Scheme

Composition levy is a simple scheme of tax paying and reduced lesser formalities.

The features relating to Composition scheme under CGST Act, 2017 are discussed as under-

#### (1) Scheme is applicable for supply of goods and restaurant services

Composition scheme may be opted for by taxable person, in respect of supply of any goods or restaurant services. Composition scheme is not available in case of supply of services except restaurant services.

#### (2) Eligibility for the composition scheme

The scheme is available to those whose aggregate turnover of supply of goods in the previous financial year did not exceed ₹ 1.5 crore. The turnover limit for Composition Levy for CGST and SGST purposes shall be ₹ 75 lakh in previous financial year, in respect of the following States (1) Arunachal Pradesh (2) Assam (3) Manipur (4) Meghalaya (5) Mizoram (6) Nagaland (7) Sikkim (8) Tripura and (9) Himachal Pradesh.

#### (3) Persons not eligible for composition scheme

- The following persons are not eligible to opt composition scheme-
- (i) Supplier whose annual aggregate turnover of goods is more than ₹ 1.5 crore.
  - (ii) Service providers except restaurant services
  - (iii) Tax payers making inter-State supplies
  - (iv) Making supplies through e-commerce operators who are required to collect tax at source.
- Shall not be eligible for composition scheme.

#### (4) Rate of Tax

In case of composition levy option a registered person shall pay tax at the following rates instead of normal tax rates prescribed-

- (a) 1% of turnover in case of manufacturer;
- (b) 5% of turnover persons engaged in restaurant services.
- (c) 1% of turnover of goods by trader or merchants of goods.
- (d) 6% of turnover in case of service provider if turnover upto ₹ 50 lakh.

#### (5) Bill of Supply to be issued and not tax invoice

A registered person supplying exempted goods or services or both or paying under the provisions of section 10 shall issue, instead of a tax

an invoice, a bill of supply containing such particulars and in such manner as may be prescribed.

Thus, taxable person paying GST under composition scheme should issue Bill of Supply instead of tax invoice.

#### (6) Composition tax not to be collected from recipients

A taxable person to whom the provisions of composition scheme applies shall not collect any tax from the recipient on supplies made by him. It means that a composition scheme supplier cannot issue a tax invoice.

#### (7) Input tax credit cannot be availed

A taxable person to whom the provisions of composition scheme applies shall not be entitled to "any credit of input tax.

#### (8) Customer not entitled to take credit of composition tax

Customer who buys goods from registered person who is under composition scheme is not eligible for composition input tax credit because a composition scheme supplier cannot issue a tax invoice.

#### (9) Quarterly payment of tax, penalty, fee, interest

The payment of tax, interest, penalty, fee etc. is to be made in Electronic Cash Ledger only, as he is not eligible for any Input Tax Credit.

Since tax has to be paid at the time of filing return, registered persons paying tax under composition scheme are required to pay tax on quarterly basis before 20<sup>th</sup> of month next to the quarter.

#### (10) Quarterly return and Annual Return

The taxable person paying GST under composition scheme is required to file only one return per quarter, within 18 days after end of each quarter.

Further, he is also required to file Annual Return before 31<sup>st</sup> December following the end of financial year. They do not have to file monthly returns of receipt and supplies of goods/services.

The following person are eligible to opt for composition scheme:

The registered person shall be eligible to opt for composition scheme, if—

- (a) Restaurants service providers are eligible to opt composition levy.
- (b) He is not engaged in making any supply of goods which are not leviable to tax under this Act; i.e. Exempt supply etc.
- (c) The person making Inter-State purchase is allowed in composition scheme.
- (d) The person who is not engaged in making any supply of goods through an electronic commerce operator who is required to collect tax at source under section 52; and
- (e) He is not a manufacturer of such goods as may be notified by the Government on the recommendations of the Council.

Where more than one registered persons are having the same PAN, the registered person shall not be eligible to opt for the same scheme for one of the registered place. The person, if opting for the composition scheme have to opt for composition for the registered places.

**Example :** A Ltd. has 4 units located in Delhi, Haryana, Punjab and Gujarat. Each unit has to obtain separate registration in each state though all the units have same PAN. The condition is that all 4 units have to opt for composition levy or all have to pay under normal scheme.

**Example :** Mrs. Shreya a taxable person has the following

- Supply of Garments (Registered in Gurgaon)
- Supply of Computers (Registered in Gurgaon)
- Franchisee of Domino's (Registered in Punjab)

In this case, the composition scheme would be applicable for all.

Mrs. Shreya is not eligible to opt composition scheme for all garments business only.

**The following person are not eligible to opt for composition scheme :**

- (i) **Restricted from making supply of goods which are not liable to GST :** Certain goods are not liable to GST, e.g. petroleum, alcohol for human consumption, etc. - a person opting for composition scheme shall not be entitled to make any supply of non-GST goods.
- (ii) **Restricted from effecting inter-State outward supplies:**

The taxable person should not affect any inter-State outward supplies. This means that even stock transfers to branches outside the State would not be permitted. Where a taxable person effects inter-State barter transaction (supply) or inter-State warranty contract (supply), he will not be eligible to opt for composition scheme.

- (iii) **Restricted from making supplies through an e-commerce operator :** A person opting for composition scheme is not allowed to affect any supply of goods through an e-commerce portal, unless such portal is owned by the same person.
- (iv) **Restriction on manufacture of notified goods :** The person opting for the scheme should not be a manufacturer of certain goods as are notified in this regard as follows. However, there is no restriction in case the person is engaged in trading of such goods.

- i) Ice cream and other edible ice, whether or not containing cocoa
- ii) Pan masala
- iii) All goods, i.e. Tobacco and manufactured tobacco substitutes

Similar provision has also been issued under UTGST Notification No. 2/2017- Union Territory Tax dt. 27-06-2017.

**Q.154.** What are the benefits and drawbacks under the composition scheme ?

**Ans.** Benefits of compounding / composition scheme are as follows:

As mentioned earlier, the benefits of this scheme will only be available to small taxpayers. Registration for this scheme is optional and the taxpayer needs to apply for it every year. It offers several benefits.

- 1. Reduced tax liability :** Probably the biggest benefit - registering under compounding scheme is the reduction in taxes. Tax rates under composition scheme is expected to be in the range of 1% to 5% which is considerably lower than standard tax rates under regular GST scheme.

- 2. Limited compliance :** Another major advantage of composition scheme is that it promises to reduce the number of documents and processes required for compliance under GST law. Where a normal taxpayer will be required to file a minimum of 3 returns in a month, a compounding dealer will be asked to file only 1 return every quarter of a year.

- 3. Ease of doing business :** Reduced tax liability and limited compliance will make it easy for small businesses to grow and flourish. On one hand reduced taxes will result in surge of profit margin while on the other limited compliance will reduce hassles allowing a party to focus more on his business.

- 4. Ample liquidity / cash flow :** A composite tax payers usually and logically will not have to struggle with the liquidity crunch unlike a normal tax payer who pays output taxes on his supplies at a standard rate. Although, the normal tax payer can only avail input tax credit when his supplier also files the returns which have to pay with his GST returns. The absence of such provisions for a composite tax payer makes him have a roaring working capital with no blockage of funds in the taxation domain.

- 5. Equal opportunity marketplace :** It is not true, that a composition scheme weakens your business proposition. Instead, it gives the small players an opportunity to extend their foot print to deeper local markets, where biggies rule - by offering the most cut-throat pricing and passing the rebate taxes further. For, the ambitious small players, the composition scheme may act as a propellant and a growth driver, if used properly with a vision.

It must also be noted that, if the composite tax payers are found to be indulging in inter-state transactions or any export import dealings, he can be devoid of the composition scheme and will have to re-register as a normal tax payer.

**Drawbacks or limitations of GST composition scheme**

**1. No inter-state business :** Tax benefits of GST compounding scheme are only given if a taxpayer carries his business within the boundaries of a state. A taxpayer registered under the composition scheme is barred from carrying out inter-state transactions and cannot effect import-export of goods and services. Thus, he is compelled to carry only intra-state transaction and limits the territory of his business.

- 2. No Credit of Input Tax :** Compounding scheme has no provision of input credit on B2B transactions. Therefore, if any taxable person is carrying out business on B2B model, such person will not be allowed the credit of input tax paid from the output liability. Also, the buyer of such goods will not get any credit of tax paid, resulting in price inflation and cascading effect.

- 3. Pay tax from your own pocket :** Although the rate of composition / compounding tax is expected to be very low, a taxpayer under this scheme is not allowed to recover such tax from his buyer. The taxpayer is not allowed to raise a tax invoice. Consequently, the burden of such tax is kept on the taxpayer himself and this has to be paid out of his own pocket.

- 4. Penal provisions :** While taking advantage of GST composition scheme, one needs to take utmost care as the penalty is severe. If taxpayer is found wrongly registered under this scheme while not fulfilling eligibility criteria and therefore avoiding normal taxes. Then the person will have to pay taxes along with penalty equal to 100% of taxes levied upon him.

Despite some drawbacks, composition scheme is a very good initiative under GST regime as it promises to improve business environment in our country and help create several new jobs. ■

**Short Answer Type Questions**

**Q.155.** Composition is on option. Explain.

**Ans.** Refer Q. No. 153 for answer.

**Q.156.** Give benefits of composition.

**Ans.** Refer Q. No. 154 for answer.

**Practical Problems**

**Q.157.** The following supplies made by a supplier of agricultural produce:

(1) Wheat	17,40,000
(2) Pulses	13,60,000

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(3) Soyabean	15,50,000
(4) Cotton	8,40,000
(5) Garlic	3,10,000
(6) Methi	2,80,000
(7) Seeds	3,10,000

Normal rate of GST on taxable goods is 5%.

Find out GST liability.

**Solution :**

If the composition dealer has to pay 1% on taxable goods, then in this condition the tax liability will as below :

### Calculation of taxable supply

(1) Wheat (exempted)	Nil
(2) Pulses (exempted)	Nil
(3) Soyabean (taxable)	15,50,000
(4) Cotton (taxable)	8,40,000
(5) Garlic (exempted)	Nil
(6) Methi (taxable)	2,80,000
(7) Seeds (exempted)	3,10,000
<b>Value of taxable supply</b>	<b>29,80,000</b>

Composition levy 1% means 29,800

**Q.158.** Ganesh Traders is supplier of Kirana Goods. Annual Turnover of the firm is ₹ 25 Lakh. Inward supply of goods of firm is as under :

- (a) From Registered suppliers ₹ 10 Lakh  
(b) From Unregistered suppliers ₹ 15 Lakh

Tax rate of GST 5% on taxable value of supply. Calculate tax liability increase of composition levy.

**Solution :**

**Tax liability in the state to adopt composition**

(1) On total turnover (₹ 25,00,000 1%)	25,000
<b>Total G.ST. Liability</b>	<b>25,000</b>

**Note :** In the condition of composition from unregistered persons, in the state of purchasing, in effective rate, in the form of reverse charge, the provision of depositation has been postponed upto 31<sup>st</sup> March 2022. There fore the unregistered persons won't have to pay tax on purchased goods. ■

### Objective Type Questions

- Which of the following persons can opt for Composition Scheme ?  
(a) Making a supply of goods which are not leviable to GST  
(b) Making any inter-state outward supplied of goods  
(c) Effecting of supply of goods through e-commerce operator liable to collect tax at source. (d) None of the above
  - What are the threshold limit of turnover in the preceding financial year for opting to pay tax under composition scheme ?  
(a) ₹ 20 Lakh (b) ₹ 10 Lakh  
(c) ₹ 1.5 Crore (d) None of these
  - What is the rate applicable under CGST to a registered person being a manufacturer opting to pay tax under composition scheme ?  
(a) 2.5% (b) 0.5%  
(c) 0% (d) No composition scheme
  - Can composition scheme be availed, if the registered person effects inter-state supplies ?  
(a) Yes (b) No  
(c) Yes, subject to prior approval of the central govt.  
(d) Yes, subject to approval of the concerned state government
  - In case of composition applicable rate is :  
(a) 1% (b) 12%  
(c) Normal rate (d) Maximum rate
  - Option of composition may be opt :  
(a) Before the commencement of the year  
(b) With in 60 days of commencement of year  
(c) Ending of the year (d) Any time
- Ans. 1. (d), 2. (c), 3. (b), 4. (b), 5. (a), 6. (b).

## Long Answer Type Questions

Q.159. Explain the classification of Rates.

Ans. **Classification of Goods Regarding Tax Rates**

GST rates about 1,000 Goods are classified in 7 divisions from zero to 28%. Some important items and applicable tax rates are mentioned here. Broadly tax rates are as follows for various type of goods -

**I. Nil rated or tax free goods**

About 150 items are covered under the schedule zero rated goods, main exempted items are as under -

Description of Goods	Tax Rate
(1) All type of foodgrains and Cereals - Wheat, Rice, Corn, Jawar, Barley etc.	Nil
(2) Fresh Milk, Pasturised Milk, Curd	
(3) All type of pulses, All type of seeds quality goods	
(4) Fresh Fruits and Vegetables, Natural Honey	
(5) Coffee beans, Fresh meat, Fish, Chicken, Eggs etc.	
(6) Flour, Besan, Maida, Rawa etc.	
(7) Bread (except Pizza bread)	
(8) Earthen pot and clay lamps	
(9) Salt (iodised or plain, kala namak, sendha namak etc.)	
(10) Bindi, Sindoor, Kajal, Alta, Kumkum, Rakhi	
(11) Stamps, Judicial Papers, Cheque book	
(12) Printed Books, Children picture, drawing or colouring books	
(13) Newspapers and Magazines	
(14) Plastic or Glass Bangles,	
(15) Slates, Slate pencils, maps, atlases,	
(16) Pooja equipment, Prasad by religious organisations, Idols of deities made of stone	
(17) Sanitary Napkins, Contraceptives, condom	
(18) Khadi, Khadi yam, Raw Silk, Jute	
(19) National flag, Gandhi Topi	
(20) Cattle feed, Aquatic feed, Poultry feed.	

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- (21) Fire wood and charcoal  
 (22) Hearing aids,  
 (23) Agricultural equipments  
 (Manually operated or animal driven)  
 (24) Jaggery, Gur, Khandsari  
 (25) Papp, Parmal, Chivra, Muri etc.

**II. Goods Taxable @ 0.25%**

(1) Rough diamonds	0.25%
(2) Rough precious	0.25%
(3) Semi-precious stones.	0.25%

Note : From 18th July 2022 cut and polished diamonds rate will be 15%.

**III. Goods Taxable @ 3%**

(1) Gold, silver and jewellery	3%
(2) Platinum	3%
(3) Imitation jewellery	3%
(4) Pearl	3%
(5) Diamonds	3%
(6) Synthetic stone, precious stone	3%
(7) Coins	3%

**IV. Goods Taxable @ 5%**

(1) Packaged registered branded food grains and Hour (wheat, rice, rye, jawar, corn, flour, maida)	5%
(2) Packed and registered branded pulses	5%
(3) Cream, Yogart	5%
(4) Skimmed Milk Powder	5%
(5) Branded Chhena and Paneer	5%
(6) Frozen Vegetables, Fish, Meat	5%
(7) Coffee roasted	5%
(8) Tea	5%
(9) Spices, saffron	5%
(10) Pizza Bread, Ice and Snow	5%
(11) Agarbatti, Dhoop, Loban	5%
(12) Kerosene distributed by public distribution system	5%
(13) Coal, Bio-gas	5%
(14) Specified Medicines	5%
(15) Stent, Insulin	5%
(16) Raw Minerals and Ores	5%

(17) Ramadisivour Injection	5%
(18) Sugar	5%
(19) Cotton yarn, Silk yarn	5%
(20) Natural fibre	5%
(21) All type of Fabrics	5%
(22) Silk woven fabric	5%
(23) Cotton fabrics embroidery	5%
(24) Readymade garments and hosiery upto ₹ 1,000	5%
(25) Oilseeds, Edible oils	5%
(26) Namkeen Bhujia, Sev, Mixture, Khakhra etc.	5%
(27) Newsprint	5%
(28) Mineral, Chemical or Organic Fertilisers	5%
(29) Bricks	5%
(30) Covid Vaccine, Senetizers, Puls Oximeter.	5%

**V. Goods Taxable @ 12%**

(1) Butter	12%
(2) Cheese	12%
(3) Ghee	12%
(4) Dry Fruits in packaged form	12%
(5) Sapsage	12%
(6) Fruit Juices	12%
(7) Cycles	12%
(8) Medicines	12%
(9) Tooth Powder	12%
(10) Paper	12%
(11) Picture Books	12%
(12) Picture Books	12%
(13) Umbrella	12%
(14) Sewing Machine	12%
(15) LED Lamps	12%
(16) Coated fabrics	12%
(17) Readymade garments & hosiery of ₹ 1,000 and above	12%
(18) Agricultural machinery	12%
(19) Kitchen ware	12%

**VI. Goods Taxable @ 18%**

(1) Chocolates	18%
(2) Biscuits	18%
(3) Wafers	18%

(4) Confectionery	18%
(5) Shampoo, Soap	18%
(6) After shave lotion	18%
(7) Pastries and Cakes	18%
(8) Preserved Vegetables	18%
(9) Jams	18%
(10) Domestic electrical appliances	18%
(11) Soups	18%
(12) Ice-Cream	18%
(13) Instant Food Mixes	18%
(14) Mineral Water	18%
(15) Small televisions up to 25 inches	18%
(16) Envelopes, Note Books	18%
(17) Refrigerators	18%
(18) Steel Products	18%
(19) Printed Circuits	18%
(20) Camera	18%
(21) Speakers and Monitors	18%
(22) Water heater	18%
(23) Cell phones and its parts	18%
(24) Tendu leaves	18%
(25) Artificial fibre	18%
(26) Synthetic yarn like nylon	18%
(27) Polyester	18%
(28) Food Grinders, Mixers	18%
(29) Computers	18%
(30) Machinery for industrial use	18%
(31) Machine tools	18%
(32) Plywood laminates	18%
(33) Paint, Distemper	18%
(34) Varnish, Putty	18%
(35) Washing Machine etc.	18%

**VII. Goods Taxable @ 28%**

(1) Molasses	28%
(2) Pan Masala	28%
(3) Aerated water	28%
(4) Air Conditioners	28%
(5) Motorcars	28%
(6) Automobiles	28%

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(7) Motorcycles	28%
(8) Aircraft for personal use	28%
(9) Yachts.	28%

### GST Rates for Taxable Services

Most of the taxable services are taxable @ 18%. However some services are taxable @ 5% or 12% e.g. transportation services etc.

A summarised list of tax rates on services is given here :

Services	GST Rate
(1) Transport of passengers, by rail in first class or air conditioned coach.	5%
(2) Transport of passengers by- (a) air conditioned contract carriage other than motorcab; (b) air conditioned stage carriage; (c) radio taxi.	5%
(3) Transport of passengers by air in economy class.	5%
(4) Transport of passengers by air, embarking from or terminating in a Regional Connectivity Scheme Airport	5%
(5) Transport of passengers by air with or without accompanied belongings, in other than economy class.	12%
(6) Transport of passengers by motorcab where the cost of fuel is included in the consideration charged from the service recipient.	5%
(7) Passenger transport services other than 1 to 6 above.	5%
(8) Transport of goods by rail [except exempted items]	5%
(9) Transport of goods in a vessel.	5%
(10) Services of goods transport agency (GTA) in relation to transportation of goods.	5%
(11) Transport of goods in containers by rail by any person other than Indian Railways.	12%
(12) Goods transport services other than above.	12%
(13) Rental services of transport vehicles with or without operators	18%
(14) Supporting services in transport other than above.	18%
(15) Job work services in relation to textile or readymade garments	5%
(16) Printing services	5%
(17) Postal and courier services.	18%
(18) Electricity, gas, water & other distribution services.	18%
(19) Leasing of aircrafts by an operator for operating	18%

(19) scheduled air transport services or scheduled air cargo service by way of transaction covered.	5%
(20) Financial and related services; real estate services; and rental and leasing services.	12%
(21) Services provided by a foreman of a chit fund in relation to chit.	12%
(22) Real estate services.	18%
(23) Leasing or rental services of Intellectual Property (IP) right in respect of goods other than Information Technology software.	12%
(24) Temporary or permanent transfer or permitting the use or enjoyment of Information Technology software.	18%
(25) Business and Production Services.	18%
(26) Research and development services.	18%
(27) Legal and accounting services.	15%
(28) Selling or space for advertisement in print media.	5%
(29) Other professional, technical and business services other than above.	18%

Q.160. What are the provisions for payment of tax interest and penalties?

Ans. **Features of Payment of Tax**

Any type of payment, deposit towards tax interest, penalty, any fee or other amount should pay through internet banking like NEFT (National Electronic fund transfer or R.T.G.S. (Real time gross settlement) or any other Net Banking process. Following are the features of payment process :

- (1) Only Electronically generated challan should be used not manually prepared challan.
- (2) Making payment online is too easy.
- (3) Logical Tax collection data.
- (4) Speedy Accounting.
- (5) Paperless transaction.
- (6) Fast Remittance
- (7) Simple process.
- (8) Digital Challan

### Provisions Regarding payment of Tax

1. CPIN : It is given at the time of generation of challan. It's a 14 digit unique number for challan, it will remain valid for a period of 15 days. (CPIN - Common Portal Identification Number)

2. CIN : It means challan Identification number, it has 17 digit including 3 digit of Bank code and 14 digit of CPIN. CIN is communicated by the authorized bank to tax payer as well as to GSTN.

**3. Identification number for payment :** For each debit or credit to the electronic cash or credit ledger there will be a unique identification number shall be generated. So for any payment which related to tax interest or other payment unique identification number is compulsory.

**4. Process of Deposit :** The payment of tax should be made through

(i) Debit or credit ledger of the tax paid maintained on the common portal but through this only tax can be paid, interest penalty and fees cannot be paid by debit in the credit ledger.

(ii) In cash by debit in the cash ledger (maintained on the common portal) the cash will be deposited through NEFT, RTGS, Internet Banking, Debit card and also from credit card).

**5. Generation of Challan :** For payment purpose, challan will generate in form GST-PMT-06 on the common portal. This challan will be used in payment of tax, interest, penalty, fees and other amount.

**6. Liability :** For a registered person under GST tax liability will arise when he has done the supply of goods or services. The Time is generally the earliest of one of the three events namely receiving payment, issuance of invoice or completion of supply.

**7. Liable Person :** Following persons are liable to pay tax :

(i) In the case of Import and other notified supplies under the reverse charge Mechanism.

(ii) In the case of intra state supply of service.

(iii) Government department making payment above a specified limit of ₹ 2.5 Lakhs.

(iv) All other supplier of goods or services is liable to pay GST (More than specified Limit)

**8. Types of Payment :** There are dual GST System in India so following types of GST are paid by the Registered dealer:

(i) For any intra state supply taxes to be paid are the CGST and SGST form.

(ii) Any interstate supply IGST will paid which will have components of both CGST and SGST.

(iii) For any Government account tax deducted at sources (TDS) and Tax Collected at source (TCS)

(iv) In addition wherever applicable, interest penalty, fees, and any other payment will also be required to be made.

**9. Due Date :**

(1) Composition tax payers will need to pay tax on quarterly basis.

(2) Payment of taxes for the month of March shall be paid by the 20<sup>th</sup> of April.

(3) Payment of taxes by the normal tax payer is to be done on monthly basis by the 20<sup>th</sup> of the succeeding month.

**10. Types of Ledger :** The following ledgers are related to payment of tax :

(a) **E-Ledgers :** Electronic Ledgers or E-Ledgers are statements of cash and input tax credit in respect of each registered tax payer. In addition, each tax payer shall also have an electronic tax liability register. Once a tax payer is registered on Common Portal (GSTN), two registers (Cash & Input Tax Credit ledger) and an electronic tax liability register will be automatically opened and displayed on his dash board at all times.

(b) **Tax liability register :** Tax Liability Register will reflect the total tax liability of a tax payer (after netting) for the particular month.

(c) **Cash Ledger :** The cash ledger will reflect all deposits made in cash and TDS/TCS made on account of the tax payer. The information will be reflected on real time basis. This ledger can be used for making any payment on account of GST.

(d) **ITC Ledger :** Input Tax Credit as self-assessed in monthly returns will be reflected in the ITC Ledger. The credit in this ledger can be used to make payment of TAX ONLY and not on other amounts such as interest, penalty, fees etc.

**Q.161. Explain electronic tax Liabilities Register.**

**Ans. Electronic Tax Liability Register**

The effective points related Electronic tax liability register are as follows as :

**1. Form :** Electronic liability Register is maintained in form GST PMT-01 for each person who pays tax, interest, penalty, fees or any other amount which debited to the said Register.

**2. Debit Items :** Debit items of electronic liability register are :

(i) Amounts payable like tax, Interest, fees or any other amount.

(ii) Other than above payments, any amount of interest that may accrue from time to time.

(iii) The amount of tax and interest payable as a result of mismatch u/s 42 section 43 or sections 50.

**3. Adjustment :** If the taxable person makes the payment of tax, interest and penalty specified in the show cause notice or demand order and the electronic liability register shall be credited.

**4. Electronic cash ledger :** The amount deducted under section 51, or the amount collected under section 52, or the amount payable on reverse charge basis, or the amount payable under composition any amount payable towards interest, penalty, fee or any other amount under the Act shall be paid by debiting the electronic cash ledger and the electronic liability register shall be credited accordingly.

5. **Discrepancy** : A registered person shall, upon noticing any discrepancy in his electronic liability ledger, communicate the same to the officer exercising jurisdiction in the matter through the common portal in form GST PMT-04.

6. **Adjustments of tax reliefs by appellate authority in register** : Any amount of demand debited in the electronic liability register shall stand reduced to the extent of relief given by the appellate authority or Appellate Tribunal or court and the electronic tax liability register shall be credited accordingly.

Q.162. Write short notes on :

- (a) Electronic Credit Ledger
- (b) Electronic Cash Ledger
- (c) Tax Deduction at Source.

Ans. (a) **Electronic Credit Ledger**

Electronic Credit Ledger should be maintained in form GST PMT-02; it will be used for input tax credit. Each registered person is eligible for input tax credit on the common portal.

- (1) Where a registered person has claimed refund of any unutilized amount from the electronic credit ledger in accordance with the provisions of section 54.
- (2) The electronic credit Ledger shall be debited to the extent of discharge of any Liability.

#### Main rules regarding Electronic Credit Ledger

1. **Maintenance of electronic credit ledger by persons eligible for ITC** : The electronic credit ledger shall be maintained in FORM GST PMT-02 for each registered person eligible for input tax credit under the Act on the common portal and every claim of input tax credit under the Act shall be credited to the said ledger.

2. **Debits in ledger** : The electronic credit ledger shall be debited to the extent of discharge of any liability in accordance with the provisions of Section 49.

3. **Refunds of ITC to be debited in ledger** : Where a registered person has claimed refund of any unutilized amount from the electronic credit ledger in accordance with the provisions of Section 54, the amount to the extent of the claim shall be debited in the said ledger.

4. **Rejection of refund of ITC claim - re-credit in ledger** : If the refund so filed is rejected, either fully or partly, the amount debited to the extent of rejection, shall be re-credited to the electronic credit ledger by the proper officer by an order made in FORM GST PMT-08.

5. **No direct entry in ledger** : Save as provided in the provisions of this Chapter, no entry shall be made directly in the electronic credit ledger under any circumstance.

#### (b) Electronic Cash Ledger

Electronic Cash ledger is maintained in form GST PMT-05 for each person, who is liable to pay tax, interest, penalty and other fee. Some important points related to electronic cash ledger :

1. **Mode** : There are different mode to deposit the tax, interest, penalty and other fees.

- (i) Internet Banking (ii) Debit or Credit Card
- (iii) NEFT (National Electronic fund transfer)
- (iv) RTGS (Real time gross settlement)

2. **Format** : The electronic cash ledger under shall be maintained in form GST PMT-05 for each person, who is liable to pay tax, interest, penalty, late fee or any other amount under GST.

3. **Challan** : Challan will generate in form GST PMT-06 on the common portal challan is normally valid for a period of 15 days.

4. **Unregistered Person** : For an unregistered person temporary identification number generated through the common portal.

5. **Challan identification Number (CIN)** : It will be generated by the collecting bank and the same shall be indicated in the challan on receipt of the CIN from the collecting Bank. Where the bank account of the person concerned is debited but no CIN is generated the said person may represent electronically in form GST PMT-07 through the common portal.

6. **Refund** : Where a person has claimed refund of any amount from the electronic cash ledger the said amount shall be debited to the electronic cash ledger.

#### (c) Tax Deduction at source

1. **Persons liable to deduct tax at source** : Notwithstanding anything the contrary contained in this Act, the Government may mandate :

- (a) A department or establishment of the Central Government or State Government; or
- (b) Local authority; or
- (c) Governmental agencies; or
- (d) Such persons or category of persons as may be notified by the Government.

2. **Levy of late fees** : If any deductor fails to furnish to the deductee the certificate, after deducting the tax at source, within 5 days of crediting the amount so deducted to the Government, the deductor shall pay, by way of a late fee, a sum of ₹ 100 per day from the day after the expiry of such 5 days period until the failure is rectified, subject to a maximum amount of ₹ 5,000.

3. **Credit of TDS** : The deductee shall claim credit, in his electronic cash ledger, of the tax deducted and reflected in the return of

the deductor furnished under section 39(3), in such manner as may be prescribed.

**4. Interest :** If any deductor fails to pay to the Government the amount deducted as tax under section 51(1), he shall pay interest in accordance with the provisions of Section 50(1), in addition to the amount of tax deducted.

**5. Determination of the amount :** The determination of the amount in default under this section shall be made in the manner specified in section 73 or section 74.

**Q.163. Explain tax collection at source in detailed.**

**Ans.** **Tax Collection at Source**

Some provisions related to tax collection at source are as under:

**1. Time Limit :** The operator shall deposit the tax within 10 days after the end of particular month in which such collection is made.

**2. Collection by Operator :** The collection of tax made by the electronic commerce operator not being an agent.

**3. Rectification :** If any operator furnishing or discovers any omission or incorrect particular than he shall rectify such omission or incorrect particulars. This rectification other than scrutiny, audit, inspection or enforcement activity.

**4. Credit of TCS :** Under a prescribed manner, the supplier who has supplied the goods or service, through the operator shall claim credit in his electronic cash ledger.

**5. Annual statement :** Annual statement shall furnish by every operator electronically to be filed upto 31<sup>st</sup> December of succeeding financial year.

**6. Matching the detail :** Outward supplies furnished by the concerned supplier should match the detail furnished by every operator under section 52(4).

**7. Discrepancy :** If outward supplies furnished by the concerned supplier did not match to the detail furnished by operator than discrepancy communicate to both the parties.

**8. Interest Payable :** The concerned supplier in whose output tax liability any amount has been added shall pay the tax payable in respect of such supply along with interest.

**9. Time Limit for Information :** Every operator on whom a notice has been served under section 52(12) shall furnish the required information within 15 days of the date of service of such notice.

**10. Penalty Upto ₹ 25,000 :** Any person who fails to furnish the information required by the notice served under section 52(12) shall, prejudice to any action that may be taken under section 122, be liable to pay a penalty which may extend to ₹ 25,000.

**Q.164. Explain the provisions related accounts and records for registered dealer under G.S.T.**

**Provisions related accounts and records**

**Ans.**

**1. Responsible persons who keep accounts and record.**

(i) **Responsible person :** A person who applies for composition scheme will not maintain accounts and record other than those all Registered person responsible to keep Accounts and Records.

(ii) **Importer, exporter :** Importer, exporter and suppliers attracting payment of tax on Reverse charge will keep accounts and records related inward supply, outward supply, stock and Input tax credit.

(iii) **Other persons :** Some other persons also responsible for maintaining the accounts and rule :

- (1) Person liable to deduct tax at sources (Government Institution)
- (2) Collect tax at source (E-commerce operator)
- (3) Non-Resident Person.

**2. Accounts and Records :** Every registered person shall keep and maintain a separate account of advances received, other than that they have to keep following :

- |                            |                           |
|----------------------------|---------------------------|
| (1) Stock of goods         | (2) Input tax credit      |
| (3) Output tax payable     | (4) Inward supply         |
| (5) Outward supply         | (6) Manufacture of goods. |
| (7) Credit note            | (8) Debit note            |
| (9) Tax collected and paid | (10) Reverse charge.      |

**3. Particular :** Particulars of Accounts are :

- (i) Name and address of suppliers
- (ii) Name and address of Receivers.
- (iii) Address of the premises where goods are stored.

**4. Place :** There are different places where the dealers keep accounts and records :

(i) **Head Office :** Head office means the principal place of business which shows in the certificate of Registration. Every registered person shall keep the books of account at the principal place of business and books of accounts.

(ii) **Other than principal place :** If any other place shown in the certificate of Registration other than principal place than Record to be maintained at each place of business.

(iii) **Other Place :** Any books of account belonging to a registered person are found at any premises other than those mentioned in the certificate of registration they shall presumed to be maintained by the said registered person.

**5. E-Records :** The registered person should keep and maintain the accounts and records online, means in a electronic form. It shall be

substantiated by means of a digital signature. All records and accounts should properly serially numbered.

**6. On Demand** : If any accounts and records not maintain properly then the registered dealer provides the records and Accounts as demanded and under the law.

**7. Amendment** : No entry in records and accounts erased by any one and all incorrect entries otherwise than those of clerical nature shall be served under correction and thereafter the correct entry shall be provided a log of every entry added or deleted shall be maintained.

**8. Preservation** : All the accounts and records shall be preserved for the period as provided in section 36 where such accounts and documents are maintained manually, be kept at every related place of business mentioned in the certificate of registration.

**9. Audit** : Every registered person who kept account and records according to rule and having excess turnover (over the limit) than he must audit his accounts. The reconciliation statement and such other documents in such form and manner as may be prescribed.

**10. Additional Accounts** : The Commissioner may notify a class of taxable persons to maintain additional accounts or documents for such purpose as may be specified therein.

**11. Penalty** : If a taxable person :

- (1) Fails to keep, maintain or retain books of account and other documents in accordance with the provisions of GST Act or the rules made there under.
  - (2) Fails to furnish information or documents called for by an officer in accordance with the provisions of this Act or the rules made there under or furnishes false information or documents during any proceedings under GST Act.
  - (3) Falsifies or substitutes financial records or produces fake accounts or documents or furnishes any false information or returns with an intention to evade payment of tax due under GST Act.
- He shall pay a penalty of 10,000 or an amount equivalent to the tax evaded.

**Q 165. How many types of accounts are under G.S.T.?**

**Ans** There are different types of accounts under G.S.T. :

- (1) Manufacturers
- (2) Service Suppliers
- (3) Imported or Exported goods
- (4) Agent
- (5) Works Contractors
- (6) Operator of warehouse and transporter

**1. Manufacturers** : Dealer should maintain monthly production and commodity wise stock a/c and a/c for advance and Accounts for Input tax collection.

(1) For Quantitative details of Raw Material or services used in manufacturing will show in a monthly production account.

(2) Dealer must maintain the account of stock in respect of goods received and supplied by him. It will include opening balance, receipts, supply, goods lost, stolen destroyed written off, free sample, gift and closing balance of Raw Material finished goods and work in progress.

(3) If advance received or paid than there will be a separate a/c for advances.

(4) The records which show the information about Tax payable, Tax collection, input tax. Input tax credit claimed and tax paid will also maintain as accounts.

**2. Service Suppliers** : Every dealer who supplies the services should maintain the accounts related service supply, input services and tax etc.

**3. Imported or exported goods** : Every dealer should maintain a true and correct account of the goods or services imported or exported or of supplies. Also show the Reverse charge tax, bill of supply, delivery challan, credit note, debit note, receipts voucher and Refund Voucher.

**4. Agent** : Agent should keep/maintain following :

- (1) Receipts of supply of goods and services.
- (2) Particulars including quantity, value, description.
- (3) Detail of accounts furnished to every principal.
- (4) Tax paid on receipts or supply of goods or services.

**5. Works Contractors** : Works contractors should maintain following in a particular manner :

- (1) The name and address of the owner.
- (2) Quantity description and value of goods or services.
- (3) Detail of payment received and made.
- (4) The name and address of suppliers.

**6. Operator of warehouse and Transporter**

- (1) The detail of business should be in form GST ENR-01.
- (2) Unique enrollment number shall be generated and communicated to the particular person.
- (3) If a person has already enrolled in other state or union Territory than he deemed to be enrolled in state.
- (4) Any amendment can be furnished by operator of warehouse and transporter.

**Practical Problems**

Q.170. Dhavan Electronics supplied the following electrical goods on 18<sup>th</sup> June 2022:

- (1) Two Air-conditions - Price ₹ 30,800 each
  - (2) Five LED TV Set - Price ₹ 28,700 each
  - (3) Eight washing Machines - Price ₹ 14,700 each
  - (4) Three Mixers - Price ₹ 3,850 each
  - (5) Parts and accessories of AC ₹ 12,400
- Find out GST payable. Tax was charged separately. Tax rate is 18%.

**Statement of GST Payable**

Items	Quantity	Rate	Amount (Total)	Tax Amount
Air Conditioner	2	30,800	61,600	11,088
LED T.V.	5	28,700	1,43,500	25,830
Washing Machine	8	14,700	1,17,600	21,168
Mixer	3	3,850	11,550	2,079
A.C. Parts	-	-	12,400	2,232
				62,397

[ CGST ₹ 31,199 and SGST ₹ 31,199 ]

Q.171. Sharma Garments supply particulars are as under for the month of June 2022:

- (1) Shirts - 8 @ ₹ 780 (5%)
- (2) Paint - 4 @ ₹ 3,540 (5%)
- (3) Jeans - 20 @ ₹ 780 (12%)
- (4) Sarees - 14 @ ₹ 1,750 (5%)
- (5) Sweater - 5 @ ₹ 1,150 (12%)
- (6) Suitlength - 4 mts. @ 1,260 (12%)
- (7) Ladies suit - 6 @ ₹ 1,540 (12%)

Customers allowed 5% discount on readymade garments. GST was charged separately. Find out total amount charged in invoices and GST payable.

**Solution: Statement of GST Payable**

Items	Quant.	Rate	Amount	Dis-count	Net Price	Tax Amount
Shirts	8	780	6,240	312	5,928	296
Paints	4	3,540	14,160	708	13,452	673

- (5) Should maintain the records of goods transported, delivered and goods stored in transit.
- (6) Operator of warehouse should maintain accounts showing dispatch receipts, issue, movement and disposal of goods.

**Short Answer Type Questions**

Q.166. Explain provision for interest on delayed tax payment.

Ans. If any person fails to pay the tax or any part of thereof to the account of the central or a state government within the period prescribed thereon, interest should charge on that amount. Pay interest at such rate not exceeding 18%. Following provisions will consider in interest on delayed payment of tax:

1. **Interest on undue tax or excess ITC**: In case of undue or excess claim of input tax credit than supplier shall be liable to pay interest on such amount of tax. Interest rate not more than 24% as may be notified by Government on the recommendation of GST council.
  2. **Calculation**: The calculation interest should be from the day after succeeding the day on which such tax was due to be paid or in such manner as may be prescribed.
  3. **Refund of balance**: The balance in the electronic cash ledger or, electronic credit ledger after payment of tax, interest, penalty, fee or any other amount payable under this Act or the rules made thereunder may be refunded in accordance with the provisions of Section 54.
  4. **Electronic liability register**: All liabilities of a taxable person under this Act shall be recorded and maintained in an electronic liability register in such manner as may be prescribed.
  5. **Discharge of Liabilities**: Every taxable person shall discharge his tax, self assessed tax and other dues related to returns of previous tax period, self assessed tax and other dues related to the return of the current tax period and other amount payable under this Act.
  6. **Incidence of tax**: Every person who is liable to pay tax on goods or service unless the contrary is proved by him, be deemed to have passed on the full incidence of such tax to the recipient.
- Q.167. How will you use the Credit Ledger Amount?  
Ans. Refer Q.No. 162 for Answer.
- Q.168. How many types of accounts are in G.S.T.?  
Ans. Refer Q.No. 165 for Answer.
- Q.169. What are the provisions for record maintained in electronic form?  
Ans. Refer Q.No. 164 for Answer.

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	780	15,600	780	14,820	1,778
Jean	20	1,750	24,500	24,500	1,225
Sarees	14	1,150	5,750	5,462	455
Sweater	5	1,280	5,040	5,040	605
Sareelength	4	1,280	9,240	8,778	1,053
Ladies suit	6	1,540	9,240	462	6,285

**Q.172.** The following are details of purchases and supplies effected by M/s. Sarthak Enterprises a registered manu-

facturer :

- (1) Purchased Raw material ₹ 2,24,000 (inclusive of GST @ 12%)
- (2) Purchased Stores ₹ 3,54,000 (inclusive of GST 18%)
- (3) Manufacturing expenses ₹ 70,000.
- (4) Other Direct and Indirect expenses ₹ 15,000

During the month of July, 2022 only 80% production is sold within the State and charged 20% profit margin on total cost applicable, GST rate being 18%.

Calculate the amount of CGST and SGST payable after utilising input tax credit for the month of July, 2022.

**Solution :**

**Computation of Invoice Value and Tax Liability**

Particulars	₹
Purchase of Raw material Net (₹ 2,24,000 × 100 ÷ 112)	2,00,000
Purchase of stores manufacturing expenses (₹ 3,54,000 × 100 ÷ 118)	3,00,000
Manufacturing expenses	70,000
Other direct and Indirect expenses	15,000
<b>Total Cost of goods manufactured</b>	<b>5,85,000</b>
Cost of goods sold (80% of 5,85,000 goods produced were sold)	4,68,000
Add : Profit margin @ 20% of cost	93,600
<b>Total Transaction Value</b>	<b>5,61,600</b>
Add : GST charged in invoices @ 18%	50,544
(a) CGST (9%)	50,544
(b) SGST (9%)	50,544
<b>Total amount including GST</b>	<b>6,62,688</b>

**Note :**

- (1) Total cost of Production for producer is 5,85,000.
- (2) 80% of produced goods sold with profit 20% on cost and also include 18% GST.

**Statement of Payment of Tax**

Particulars	CGST (9)	SGST (9)
Output tax liability @ 18% for the month of July @ 18% i.e. CGST 9% and SGST 9% on 5,61,600	50,544	50,544
Less : Eligible input tax credit in respect of purchases of Raw material	- 12,000	- 12,000
2,24,000 - 2,00,000 = 24,000	- 27,000	- 27,000
Stores 3,54,000 - 3,00,000 = 54,000		
<b>Net GST payable</b>	<b>11,544</b>	<b>11,544</b>

**Note :** It does not matter that 20% goods not sold the ITC will deduct whole.

**Objective Type Questions**

1. Which of the following having highest rate in G.S.T. :  
(a) Diamond (b) Spectacles  
(c) Silver (d) Motor car
2. G.S.T. rate on Icecream :  
(a) 12% (b) 18% (c) 28% (d) 3%
3. G.S.T. rate of milk and paneer :  
(a) 5% (b) 3% (c) 0.25% (d) 12%
4. G.S.T. rate on bugar :  
(a) 12% (b) 5% (c) 18% (d) 28%
5. G.S.T. rate on butter :  
(a) 12% (b) 5% (c) 18% (d) 3%
6. GST is deposited :  
(a) Per month (b) Quarterly (c) Annually (d) Weekly
7. Prescribed for deposition of GST is :  
(a) GSTR-2 (b) GSTP-3  
(c) GSTN-1 (d) GST PMT-06
8. Interest is payable in case of delayed payment of GST within due time :  
(a) 2% monthly (b) 18% Annual  
(c) 16% Annual (d) 17% Annual
9. GST can be deposited through :  
(a) E-payment (b) RTGS (c) NEFT (d) Any of above
10. Under GST Tax deducted at source made by :  
(a) Employer (b) Government  
(c) Government Department (d) Supplier

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11. Tax deducted at source by Government department if:
    - (a) Value of supply is more than ₹ 5 Lakh
    - (b) Work contract value is more than ₹ 2.5 Lakh
    - (c) Value of services is more than ₹ 2.5 Lakh
    - (d) None of above
  12. Section related to tax deduction at source in GST is:
    - (a) 38
    - (b) 40
    - (c) 51
    - (d) 50
  13. **Liabe person to tax collection at source :**
    - (a) Every transd
    - (b) E-commerce operator
    - (c) Distributor
    - (d) Government department
  14. **Selection related to tax collection at source under GST is:**
    - (a) 50
    - (b) 52
    - (c) 51
    - (d) 60
  15. **Types of accounts are :**
    - (a) Accounts by operator of warehouse
    - (b) Reverse charge a/c
    - (c) Account of receipts
    - (d) All of above
  16. **Place of keeping accounts :**
    - (a) Principal place of business
    - (b) Other places of business
    - (c) Other places
    - (d) All of above
  17. **Period of retention of accounts :**
    - (a) 27 months
    - (b) 21 months
    - (c) 72 months
    - (d) 48 months
- Ans. 1. (d), 2. (b), 3. (a), 4. (b), 5. (a), 6. (a), 7. (d), 8. (b), 9. (d), 10. (c), 11. (b), 12. (c), 13. (b), 14. (b), 15. (d), 16. (d), 17. (c) ■

## 19 Profirma and Filing of GST Return

**Q.173 Give proforma of GST returns and also give the due dates.**  
**Ans.** The list of all types of GST returns in India alongs with frequency and the due date or filing returns:

Return form	Who should file the return and what should be filed?	Frequency	Due date for filing
GSTR-1	Registered taxable supplier should fill details of outward supplies of taxable goods and services as effected. Registered taxable recipient should file details of inward	Monthly	11th of the subsequent month.
GSTR-2	Supplies to taxable goods and	Monthly	15th of the

GSTR-3	Registered taxable person should file monthly return on the basis of finalization of details of outward supplies and inward supplies plus the payment of amount of tax.	Monthly	subsequent month. 20th of the subsequent month.
GSTR-4	Composition supplier should file quarterly return.	Quarterly	18th of the month succeeding quarter.
GSTR-5	Return for non-resident taxable person.	Monthly	13th of the subsequent month.
GSTR-6	Return for input service distributor.	Monthly	13th of the subsequent month.
GSTR-7	Return for authorities carrying out tax deduction at source.	Monthly	10th of the subsequent month.
GSTR-8	E-commerce operator or tax collector should file details of supplies effected and the amount of tax collected.	Monthly	10th of the subsequent month.
GSTR-9	Registered taxable person should file annual return.	Annual	31st Dec of the next fiscal year.
GSTR-10	Taxable person whose registration has been cancelled or surrendered should file final return.	Once, after the registration is cancelled	Within 3 months of date of cancellation or date of cancellation order, whichever is later.
GSTR-11	Person having UTN claiming refund should file details of inward supplies.	Monthly	28th of the month, following the month for which the statement was filed.