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THIRD YEAR B. COM.

SEMESTER-VI

**CBCS
PATTERN**

TAXATION-INCOME TAX

MEERA GOVINDARAJ



SPPU New Syllabus

Prepared as per
the Latest
Amendments
of Finance Act
For AY 2022-23

A Text Book Of

TAXATION

INCOME TAX

For

T. Y. B. Com. Semester VI

(As Per New Syllabus)

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PREFACE

This book has been compiled as per the new syllabus from June 2021, for the students of T. Y. B. Com. (Sem. VI) Great care has been taken to make the subject simple. Large number of numerical problems have been solved, for the benefit of the students. Attempt has been made to include all the relevant provisions as per the latest Finance Act in these illustrations. In topics like Income from Salary, Income from House Property etc., objective type questions are included to help students remember the minute details of the relevant provisions. Students are advised to learn the provisions by solving these objective type questions, alongwith solving illustrations.

*I am thankful to **Mr. Jignesh Furia** of Nirali Prakashan and the entire team of **Nirali Prakashan** for being instrumental in ensuring the quality and usefulness of the textbook.*

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Suggestions for the improvement in the text are most welcome. We value your input.

“Best of Luck”

- Meera Govindaraj

SYLLABUS

Unit 1 : Income Tax Act 1961 – Important Definitions and Concepts

- **Introduction**- Features of Income Tax, Scope of Income Tax Act, and Importance of Income Tax payment for development of country.
- **Definitions**-Income, Person, Assessee, Deemed Assessee, Assessment year, Pervious year, Agricultural Income, Exempted Income, Gross Total Income (GTI) , Total Taxable Income (TTI), Residential Status of an Assessee, PAN, TAN
- Concept of Capital receipts, revenue receipts and capital expenditure, revenue expenditure.

Unit 2 : Sources and Computation of Taxable Income under the various Heads of Income

- **Income from Salary** – Meaning of salary, Salient features of salary Allowances and tax Liability- Perquisites and their Valuation, Treatment of provident fund, Deductions from salary. (Theory and Problems)
- **Income from House Property** -Basis of Chargeability, Types of property, Annual Value Self occupied and let out property, Deductions allowed (Theory and Problems)
- **Income from Profits and Gains of Business and Professions** – Definition of Business, profession, vocation, speculative business, Methods of accounting, Deductions expressly allowed and disallowed (Theory And Problems)
- **Income from Capital Gains** – Meaning, Chargeability-definitions- Capital assets, transfer, cost of acquisition, Cost of Improvement, Short term and long term capital assets and Capital gains, cost inflation Index, Deductions allowed. (Theory only)
- **Income from other sources**- Chargeability Method of accounting, deductions, Amounts not deductible. (Theory And Problems)

Unit 3 : Computation of Total Taxable Income (TTI) & Tax Liability

- **Gross total Income**-Deductions u/s-80C, 80CCC to 80 U – Total Taxable Income, Income Tax calculation of Individual - (Rates applicable for respective Assessment year), Education cess and higher education cess, surcharge, etc.(calculation of tax payable as per old regime and new regime)

Unit 4 : E-Filing and E-Provisions

- Due dates of filing return, E-filing of income tax return and forms used, advance tax , TDS(Tax deducted at source), Assessment, AIR (Annual information return), SFT(Specified financial transactions).



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Chapter 1...

Income Tax Act, 1961 : Important Definitions and Concepts

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 - 1.2.11 Residential Status of an Assessee
 - 1.2.12 PAN and TAN
- 1.3 Concepts of Capital and Revenue Income and Expenditure

 Questions for Discussion

1.1 INTRODUCTION

- Tax is a compulsory payment made by individuals and entities to the Government of a country as per the tax law and rules made thereunder. Non-payment of taxes would attract penal action. Governments impose tax on incomes, transactions for

(1.1)

sale of goods and services- national and international, on properties like land and building etc. The various taxes include income tax, professional tax, entertainment tax, securities transaction tax, dividend distribution tax, property tax etc.

1.1.1 Features of Income Tax

Income Tax have the following features:

1. Tax is imposed as per the Tax Laws of the country. They are compulsory. Evasion of tax is illegal. But individuals and entities can make tax planning, by taking benefits from the concessions, exemptions etc. provided in the Act to minimise their tax liability.
2. Tax law of a country is applicable to all individuals and entities which fall within the scope of the law, irrespective of their nationality and citizenship.
3. Taxes are imposed on the incomes which may be in the form of sale of goods and services, profit from business, salary, rent, royalty, interest on bonds etc., games, gains from sale of a capital asset etc.
4. Taxes can be direct tax and indirect tax. Direct taxes are paid and borne by the same person. On the other hand, indirect taxes are paid by one and could be passed on to the other. For example, import duty paid on goods would be paid in the first instance by the importer and passed on to the final consumer by way of addition to the price of goods.
5. The income tax becomes payable either on the date of transaction or in the year succeeding the year of income generation. For example, GST is payable as and when the transaction happens, whereas tax on capital gain becomes payable in the year succeeding the year of earnings.
6. The income of a person, earned in the previous year is charged to tax in the immediately following year called the assessment year. The financial year for the purpose starts on 1st April of a year and ends on 31st March of the next calendar year.
7. Income tax is applicable on all the incomes of persons irrespective of whether earned and received in India or outside India. The chargeability of income under the Act depends on the residential status of an individual.
8. The rate of tax is specified by the annual Finance Act of that year and in respect of certain incomes, the Income Tax Act, 1961, prescribes specific rates.

9. Tax rates applicable on different sources of income could be different. For example, tax rate on long-term capital gains, lotteries etc. are different. For example, lottery income is to be taxed @ 30% and long term capital gain is taxed @ 20%, etc. The tax on these incomes are computed separately and on the balance of net income, income tax slab rates are applicable.
10. Income tax includes- Tax on the basis of slab; surcharge applicable if the incomes earned are more than certain amount and Cess, tax on tax facilitating the tax collection for specific purpose, which might be removed once the requirement is fulfilled.
11. Different sources of incomes are termed as 'Heads of Income'. For example, Income from Salary, Income from House Property, Income from Business and Profession, Income from Capital Gains, Income from Other Sources etc.
12. The incomes under all the heads are added together and called Gross Total Incomes. Deductions and exemptions are available under Section 80 of the Act, for certain expenditure and investments. These are deducted from the gross total income.
13. In India the slab rates of income tax applicable to individuals, business organizations, trusts are different.
14. The tax rate applicable to senior and super senior assesses are different from the individuals below 60 years of age.
15. Tax may take the form of TDS, Advance Tax, TCS or Annual tax. TDS is a situation where the party making payment, deducts the tax on behalf of the recipient of the money and deposits with the Govt. For example, tenant is required to deduct tax and make the payment to the landlord, Salary is paid to the employees after deducting the tax on it by the employer.
 - Advance tax is payable by the individuals and entities on the estimated income. The dates of advance tax payment are announced by the Govt. The entities are supposed to pay the tax on those dates.
 - TCS or Tax collected at source refers to the taxes collected from the buyers by the specified agencies at specified rates on exceptional transactions. For example, tax is collected by the Govt. for selling forest products, from the buyers.

16. If tax paid is more than the actual tax liability (due to TDS, Advance Tax etc.), the tax payer can apply for refund.
17. In case of indirect tax like GST and Import duty, input tax credit is available to ensure there is no double taxation.
18. Tax can be progressive or regressive in nature. Progressive taxes are those which increase in amount and rate with the increase in income. On the other hand, regressive taxation are harsh on the lower income groups. There can be proportionate tax where the rate is same irrespective of the income of the individuals or entities.
19. Taxes are an important source of revenue for the Government.
20. Government uses the tax law to give direction to the economic well-being of the nation. For example, it may give tax concessions to companies developing infrastructure.

1.1.2 Scope of Income Tax Act, 1961

- Income Tax Act, 1961 is an Act meant to levy and collect Income-tax in India. It came into force from 1st April, 1962. Income Tax including surcharge (if any) & Cess are charged for any person at the rate as prescribed by Central Act for the concerned Assessment year.
1. The Income Tax Act 1961, extends to the whole of India.
 2. The various heads of incomes on which tax is imposed as per Section 14 of the Act, are as stated below :
 - (a) Salaries (Sections 15 to 17).
 - (b) Income from house property (Sections 22 to 27).
 - (c) Profits and gains of business or profession (Sections 28 to 44 - DA).
 - (d) Capital Gains (Sections 45 to 55 - A).
 - (e) Income from other sources (Sections 56 to 59).
 3. The incomes of the following persons is covered under the Act :
 - (a) An individual
 - (b) A Hindu Undivided Family (HUF)
 - (c) A company
 - (d) A firm

- (e) an Association of Persons (AOP) or a Body of individuals whether incorporated or not.
- (f) a local authority.
- (g) every artificial juridical person not falling within any of the preceding categories.
- The Residential Status of a person determines the incomes chargeable to tax. For example, a resident has to pay tax on all the incomes earned by him whether in India or abroad.

1.1.3 Importance of Income Tax Payment for Development of a Country

- The importance of income tax payment for the development of the country, stems from the following reasons:
 1. Governments exempt certain amount of incomes ensuring minimum amounts are earned and used by people from the lower rungs of the society.
 2. Progressive taxation ensures that those who can bear more tax are made to do so, resulting in use of tax revenue for the public good. It aims to reduce the gap between the rich and poor.
 3. Cess is charged to direct the revenue towards a specific cause. For example, higher education cess is imposed to provide facilities of higher education to those who cannot afford it.
 4. Exemptions from taxes are given to provide direction to the expenditure and investments by persons towards the development of the economy.
 5. Industries are encouraged to set-up their business in certain regions called as SEZ, to facilitate the development of the region.
 6. Duties or tax rates on goods which do not help wellbeing of the economy are higher.
 7. Tax benefits in the form of depreciation are given to entities investing in certain technologies to encourage use of new technology.
 8. To encourage R&D, special deductions are given.
 9. The revenue generated from the tax payment is used for the common good like development of infrastructure, railways, law and order, protection of the country from external aggression etc.

1.2 DEFINITIONS UNDER INCOME TAX ACT, 1961

- The important Definitions given in the Income Tax Act, 1961 are as follows :

1.2.1 Income [Section 2 (24)]

- Income is understood to be a periodical monetary return with some sort of regularity.
- Under Section 2(24), the term 'income' is meant to include the following :
 1. Profits and gains.
 2. Dividend.
 3. Voluntary contribution received by a trust.
 4. Perquisites in the hands of employees.
 5. Any special allowance or benefit.
 6. City compensatory allowance/dearness allowance.
 7. Any benefit or perquisite to a director.
 8. Any benefit or perquisite to a representative assessee.
 9. Any sum chargeable under Sections 28, 41 and 59.
 10. Capital Gains.
 11. Insurance Profit.
 12. Banking income of a co-operative society.
 13. Winnings from lottery.
 14. Employee's contribution towards provident fund.
 15. Amount received under Keyman insurance policy (Keyman insurance can be defined as an insurance policy where the proposer as well as the premium payer is the employer, the life to be insured is that of the employee and the benefit, in case of a claim, goes to the employer).
 16. Amount exceeding ₹ 50,000 by way of gift received by an individual or a Hindu Undivided Family (HUF).

Features of Income

- As per the Income Tax Act, incomes have the following features :
 1. Income can be earned in the form of cash or kind.
 2. It may be earned from a permanent or a temporary source.
 3. It may be legal or illegal.
 4. It may be received in lumpsum or instalment.

5. It may be recurring or non-recurring.
6. A capital receipt is not liable to tax.
[Note : Students are advised to refer to capital and revenue receipt and expenditure.]

1.2.2 Person [Section 2 (3)]

- A 'person' as defined under Section 2(31) includes :
 1. **An Individual** : Individual means a natural person, i.e., human being. It includes minors and persons of unsound mind.
 2. **A Hindu Undivided Family** : It includes only Hindu families, if they are undivided including their wives and unmarried daughters.
 3. **A Company** : It includes Indian companies, foreign companies and the companies in which the public is substantially interested like Government companies, finance companies etc.
 4. **A Firm** : A firm means a partnership firm. Although a firm does not have a separate legal existence, it is treated as a person under the Income Tax Act.
 5. **An Association of Persons (AOP) or a Body of Individuals (BOI), whether incorporated or not** : AOP means a group of persons (individuals, HUFs, companies, firms etc.) who join together for common purposes. On the other hand, BOI means a group of individuals who join together for a common purpose which may be to earn income or otherwise.
 6. **A Local Authority** : A local authority means a municipal committee, district board, Panchayat, Cantonment Board etc., who has been entrusted the control and management of a municipal or local fund.
 7. **Artificial Juridical Person** : Each Artificial Juridical Person not falling within any of the preceding sub-clauses. Artificial juridical persons are entities which are not natural persons, but have a separate existence in the eyes of law. For example, deities, idols, universities etc.

1.2.3 Assessee [Section 2 (7)]

- "Assessee" means a person by whom any tax or any other sum of money is payable under this Act and includes-
 1. Every person in respect of whom any proceeding under this Act has been taken for the assessment of his income or of the income of any other person in respect of which he is assessable, or of the loss sustained by him or by such other person, or of the amount of refund due to him or to such other person.

2. Every person who is deemed to be an assessee under any provision of this Act.
3. Every person who is deemed to be an assessee in default under any provision of this Act.

1.2.4 Deemed Assessee

- Deemed Assessee is an individual who is required by the income tax authorities to pay taxes for some other person. The following individuals are treated as Deemed Assessee:
 1. The executors or the legal heir of the property of a deceased person, who in written has passed on his property to the executor, is treated as a Deemed Assessee.
 2. The eldest son or any other legal heir of a deceased individual (who has expired without writing his will) is treated as a Deemed Assessee.
 3. The guardian of a minor, a lunatic or an idiot is treated as a Deemed Assessee.
 4. The agent of a Non-Resident Indian (having Income Sources in India) is treated as a Deemed Assessee.

1.2.5 Assessment Year (A.Y.) [Section 2 (9)]

- An assessment year means the period of 12 months commencing on the 1st day of April every year. It is the year which immediately succeeds the relevant previous year. The income earned in the previous year is charged to tax in the assessment year. For example, A. Y. 2022-23 commences on 1st April, 2022 and ends on 31st March, 2023. Income earned in the previous year i.e; 2021-2022 is assessed for tax in the A. Y. 2022-23.

1.2.6 Previous Year (P.Y.) [Section (3)]

- Section 3 of the Income Tax Act defines previous year (P.Y.) as the financial year immediately preceding the A. Y. The income earned in this year is assessed for tax in the A. Y. In the case of a newly set-up business or profession, P.Y. shall be the period beginning with the date of setting-up of the business or profession and ending with 31st March of the said financial year.
- Thus, for AY 2022-23, 2021-22 is the Previous Year (P.Y.).

1.2.7 Agricultural Income [Section 2 (1A)]

- Agriculture is a state subject and hence, the Central Government cannot levy tax on agricultural incomes. However, agricultural income of an assessee is

considered for determining the tax liability on non-agricultural income if certain conditions are fulfilled.

- The meaning of agricultural income must be understood to know the incomes that are exempt under this category.
- The definition of agricultural income is given u/s 2(1A) of the Act. According to this Section, the following incomes are agricultural incomes :

1. Any rent or revenue derived from land, which is situated in India and is used for agricultural purposes.
2. Any income derived from such land by agricultural operations. There are two agricultural operations :

(a) Basic Operations

- Basic operations include all the processes carried out upon the land prior to germination. It includes such activities as tilling of land, sowing of seeds, irrigation etc.

(b) Subsequent Operations

- Subsequent operations include all the operations performed after the germination till the product is made fit to be sold in the market. These include digging the soil around the plants, weeding, harvesting etc.
 - Basic operations is a must. Subsequent operations alone are not enough. For example, in the forest, trees grow spontaneously. No basic operation is performed. Income from the sale of fruits found in forests cannot be called agricultural income, since basic functions have not been performed.
3. Any income derived from such land by processing the agricultural product of the land, so that the product is fit to be sold in the market. Such a process may be undertaken by the cultivator or by the receiver of rent in kind i.e., the landlord who has been paid rent in the form of the produce, by the cultivator. It is important to note that only those processes which make the product saleable are included here.

Example : Income from sale of jaggery out of the sugarcane raised is not an agricultural income as only sugarcane itself is fit for sale.

4. Any income derived by the sale of agricultural products raised or received as rent in kind is also agricultural income.

5. Any income derived from any building, provided the following conditions are satisfied :
- (a) The building is on or in the immediate vicinity of the agricultural land,
 - (b) It is occupied by the cultivator or receiver of rent or revenue,
 - (c) It is used as a dwelling-house or store house or out house, and
 - (d) The land is assessed for land revenue or it is situated in rural area.

1.2.8 Exempted Incomes [Section 10]

Incomes exempt from tax (tax-free income) are described in Section 10 of the Income Tax Act. Out of which, some important provisions are described in brief as follows :

- Sec. 10(1) Income from Agriculture is exempt. However, if the net agriculture income exceeds ₹ 5,000 - it is taken into account for tax slab purpose.
- Sec. 10(2) Share of income of Hindu Undivided Family (HUF) for the member is exempt.
- Sec. 10(2A) After assessment of tax of a partnership firm, the income for its partners is exempt from tax.
- Sec. 10(10D) Any sum received from Life Insurance Policy including Bonus is exempt, except the following :
- (i) Any sum received from Keyman Insurance Scheme and other insurance schemes are eligible for deduction u/s 80DD/DDA.
 - (ii) Any sum received from Life Insurance Policy issued after 01.04.2003 whose Annual Premium is more than 20% of the sum assured and, if the insured person is alive.
- Sec. 10(15) Interest received from Post Office Saving Scheme and Govt. Relief Bond.
- Sec. 10(16) Scholarship received to meet out the Expenditure of Education.
- Sec. 10(17) Daily allowance received by MLA/MP is exempt, but salary received is taxable. Other allowances received by MP is tax-free, but an allowance received by MLA is Tax Free up to the maximum limit of ₹ 2,000 per month.
- Sec. 10 (20) Income of Local authority, i.e., Panchayats, Municipal Corporations etc., is exempt.

Sec. 10 (23C)	Income of University/Educational Institutional/Hospital or Medical Institution wholly is substantially financed by Govt. or the Annual receipt of which do not exceed the prescribed amount or which is approved by the competent authority.
Sec. 24(4)	Income of Trade Union or Association of Trade Unions from House Property or Income from other sources.
Sec. 10(25)	Income of Statutory Provident Fund or an Approved Superannuation Fund or Gratuity Fund.
Sec. 10(32)	Income of Minor child up to ₹ 1,500 is tax free; but if exceeds, it will be added to the income of parents.
Sec. 10(34)	Dividend distributed on or after 01.04.2003 by a domestic company will be exempted in the hand of the investor.
Sec. 10(38)	Any Long Term Capital Gain; arising from transfer of equity shares of a Company or Units of an Equity-oriented Fund on or after 01.10.2004, subjected to Securities, Transaction Tax (STT) are exempt from Tax for investor.
Sec. 13(A)	Income of political party from Capital Gains, House Property and other sources are tax free.

Note : Tax-free income for employees and pensioners are described in the Chapter 'Income from Salary'. Students are advised to read the Incomes exempt from tax from the Annexure.

ANNEXURE

1. Agricultural Income : Income from agriculture is exempt. However, if the net agricultural income exceeds ₹ 5,000, it is taken into account for determining the rates of income tax on incomes liable to tax. **[Section 10 (1)]**

2. Receipt from Hindu Undivided Family (HUF) : Any sum received by an individual as a member of Hindu Undivided Family where such sum has been paid out of the income of the family, or in the case of any impartible estate, where such sum has been paid out of the income of the estate belonging to the family, irrespective of whether tax is payable or not by the HUF on its total income.

However, certain receipts from HUF are liable to be clubbed in the hands of an individual member u/s 64(2). **[Section 10 (2)]**

3. Partner's Share in the Firm's Income : In the case of a person being a partner of a firm which is separately assessed as such, a partner's share in the total income of the firm is exempt. The share of a partner of the firm shall be computed by dividing the total income of the firm in the profit-sharing ratio mentioned in the Partnership Deed.

[Section 10 (2A)]

4. Certain Interest Incomes of Non-Residents :

(a) Interest on securities bonds specified by the Central Government upto 31.5.2002. Premium on their redemption is also exempt. [Section 10 (4) (i)]

(b) Interest on Non-Resident (External) Account held by a person resident outside India or a person who has been permitted by the Reserve Bank of India to maintain such account. [Section 10 (4) (ii)]

(c) Interest on specified saving certificates issued before 1.6.2002 by the Central Government, subscribed by a Non-Resident Indian in convertible foreign exchange remitted from outside India through official channels. [Section 10 (4B)]

5. Value of Leave Travel Concession : The value of any leave` travel concession or assistance received by or due from the employer to employee (including, non-citizens) and his family (spouse, children and dependent father, mother, brother and sister dependent on him) in connection with his proceeding on leave or after retirement or transfer of his service to any part of India. [Section 10 (5)]

6. Income of Foreigners : The following incomes in respect of foreigners are exempt :

(a) Remuneration to an official of Embassy, High Commission, Legation, Affairs, Commissioner, Consulate or trade representative of a foreign State, or as a member of staff of any of these officials. [Section 10 (6) (ii)]

(b) Remuneration received by employees of foreign enterprises. [Section 10 (6) (vi)]

(c) Salaries to non-residents employed on a foreign ship. [Section 10 (6) (viii)]

(d) Remuneration received by certain foreigners, on training in certain establishments. [Section 10 (6) (xi)]

7. Tax paid by a person on behalf of another : The tax paid by following persons on behalf of another, shall not be included in the total income of the latter :

(a) Tax paid by Government or an Indian concern on behalf of a foreign company in respect of royalty or fees for technical service paid under an agreement entered into after 31.3.1976 but before 1.6.2002, and either in accordance with the Industrial Policy of the Government or approved by the Central Government.

[Section 10 (6A)]

(b) Tax paid by Government or an Indian Concern on behalf of a non-resident or a foreign company in respect of its income under an agreement entered into before 1.6.2002. **[Section 10 (6B)]**

(c) Tax paid by an Indian company on behalf of a foreign Govt. or a foreign enterprise on income by way of consideration for acquiring an aircraft or an aircraft engine on lease, under an agreement entered into after 31.3.1997 but before 1.4.1999 or after 31.3.2007 and approved by the Central Government.

[Section 10 (6BB)]

8. Income by way of Royalty or Fees for Technical Services, arising to a foreign company under an agreement with the Central Govt., in connection with projects of Indian security. **[Section 10 (6C)]**

9. Allowances / Perquisites for services rendered outside India, paid or allowed outside India by the Government to an Indian citizen. **[Section 10 (7)]**

10. Income of a Technical Assistant under a Co-operative Technical Assistance Programme :

(a) Remuneration received by an individual who is assigned duties in India in connection with any co-operative technical assistance programme or project under an agreement between the Government of India and a foreign Government, directly or indirectly from such Foreign Government.

(b) Any other income of such individual which accrues or arises outside India and is taxable in such foreign country. **[Section 10 (8)]**

11. Income of a Consultant under a Technical Assistance Grant Agreement :
The income of a consultant who is engaged by an international organisation (hereinafter called 'agency') for rendering technical services in India in connection with any technical assistance programme or project under an agreement, approved by the prescribed authority, between the Central Government and the agency, in the form of —

(a) any remuneration or fee received directly or indirectly out of the funds made available to the agency, and

(b) any other income which accrues or arises outside India and is taxable in the country of consultant's origin. **[Section 10 (8A)]**

Note : 'Consultant' means an individual who is either not a citizen of India or is not ordinarily resident in India, or any other non-resident person.

12. Income of an Employee of a Consultant, referred to in clause (8A) above, who is assigned duties in India in connection with any technical assistance programme or project under an agreement [referred under clause (8A) above], in the form of –

- (a) remuneration received directly or indirectly from such consultant, and
- (b) any other income which accrues or arises outside India and is taxable in the country of his origin. The individual/employee should either be not a citizen of India or not ordinarily resident in India.

[Section 10 (8B)]

13. Income of a Family Member of a Technical Assistant/Consultant/ Employee, referred to in clauses (8), (8A) or (8B) above, as the case may be, accompanying him to India, which accrues or arises outside India and is taxable in that foreign State or the country of origin of such member.

[Section 10 (9)]

14. Death-cum-retirement Gratuity :

- (a) Any death-cum-retirement gratuity under the CCS (Pension) Rules, 1972 or under any similar schemes received by all categories of Central and State Government employees ;
Any gratuity received under Section 4 (2) and (3) of the Payment of Gratuity Act, 1972.

- (b) Any other gratuity received on retirement, termination or death, by the employee, his widow or dependants subject to a maximum of one-half month's salary for each year of completed service based on average salary of preceding ten months or ₹ 3,50,000, whichever is less.

[Section 10 (10)]

15. Commuted Pension : Any payment in commutation of pension -

- (a) received under the Civil Pension (Commutation) Rules or under any other scheme of Central/State Government;
- (b) received from any other employer subject to a maximum of -
 - (i) 1/3rd of the commuted value of such pension, in case the employee receives any gratuity; and
 - (ii) 1/2 of the commuted value of such pension, in any other case;
- (c) received from a pension fund set-up by the Life Insurance Corporation or any other insurer, referred under Section 10(23AAB).

[Section 10 (10A)]

16. Leave Encashment : Any payment received by a Central/State Govt. employee, as cash equivalent of leave salary in respect of period of earned leave at his credit at the time of his retirement whether on superannuation or otherwise. However, in case of other employees, the exemption is available subject to specified limits.

[Section 10 (10AA)]

17. Compensation to Employee : Any compensation received by a workman under Industrial Disputes Act or under any other Act or rules, order or notification issued there under or under any standing order or under any award, contract of service or otherwise at the time of his retrenchment is exempt to the extent such compensation is in accordance with Section 25F(b) of Industrial Disputes Act, subject to a maximum of ₹ 5,00,000.

However, the compensation received under any scheme approved by the Central Government is exempt without any limit.

[Section 10 (10B)]

18. Payment under Bhopal Gas Leak Disaster (Processing of Claims) Act, 1985/any scheme framed there under.

[Section 10 (10BB)]

19. Compensation on account of a Disaster received/receivable from Central/State Government or local authority, by an individual or his legal heir (excluding any amount allowed as a deduction).

[Section 10 (10BC)]

20. Payment on Voluntary Retirement : Any payment, received or receivable by an employee of : (i) a public sector company, or (ii) any other company, or (iii) any authority established under a Central, State or Provincial Act, or (iv) a local authority, or (v) a co-operative society, or (vi) a University (including a deemed University), or (vii) an Indian Institute of Technology, or (viii) any State Government, or (ix) the Central Government, or (x) a notified institution having importance throughout India or in any State or States, or (xi) a notified institute of management, on his voluntary retirement or termination of service in accordance with any scheme of voluntary retirement or a scheme of voluntary separation in case of a public sector company, subject to a maximum of ₹ 5 lakhs.

[Section 10 (10C)]

Note : Exemption shall not be allowed for an amount in respect of which relief u/s 89 has been allowed to the assessee for any assessment year.

21. Tax paid by an Employer on any income by way of Perquisites, on behalf of his employee.

[Section 10 (10CC)]

22. Payment/Bonus under a Life Insurance Policy : Any sum received under a life insurance policy, including any bonus allocated on such policy. However, sums received under the following policies are taxable :

- (a) under a policy referred to in Section 80DD or Section 80DDA, or
- (b) under a Keyman Insurance Policy on the life of any former or present employee or any person connected with the business, or
- (c) under an insurance policy issued on or after 1.4.2003, in respect of which the premium payable for a year exceeds 20% of the sum assured, except in case of amount received on the death of a person. **[Section 10 (10D)]**

23. Payment from Provident Fund : Any payment (including interest) from a provident fund under Provident Fund Act, 1925 or Public Provident Fund Scheme, 1968.

[Section 10 (11)]

24. Accumulated Balance of Recognised Provident Fund : Any accumulated balance due and becoming payable to an employee from a recognised provident fund, if any of the following conditions are satisfied :

- (a) if he has rendered a continuous service of five years or more; or
- (b) if his service, though not as stated in (i) above, has been terminated due to his ill-health or by the contraction or discontinuation of his employer's business or any other cause beyond his control; or
- (c) if on cessation of his employment, his accumulated balance is transferred to recognised provident fund maintained by his new employer. **[Section 10 (12)]**

25. Payment from Superannuation Fund : Any payment from an approved superannuation fund made –

- (a) on the death of a beneficiary; or
- (b) to an employee in lieu of or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
- (c) by way of refund of contributions on the death of a beneficiary; or
- (d) by way of refund of contributions to an employee on his leaving the service otherwise than by retirement at or after a specified age or on his becoming incapacitated prior to such retirement, to the extent of contributions made prior to 1.4.1962 and any interest thereon. **[Section 10 (13)]**

26. House Rent Allowance : Any special allowance granted to an assessee by his employer to meet expenditure incurred on payment of rent for residential accommodation subject to prescribed limits and conditions. **[Section 10 (13A)]**

27. Special Allowances to Employees :

- (a) Any special allowance or benefit as may be prescribed which is not in nature of perquisites, specifically granted to meet expenses wholly in performance of duties to the extent such expenses are actually incurred for that purpose.
- (b) Any allowance for meeting personal expenses or compensating increased cost of living as may be prescribed. **[Section 10 (14)]**

28. Interest, etc. - from certain bonds/securities/certificates/deposits :

- (a) **Income by way of interest, premium on redemption or other payment**, on notified securities, bonds, annuity certificates, saving certificates, other certificates and deposits. **[Section 10 (15)(i)]**
- (b) **Interest on Capital Investment Bonds** notified upto 31.5.2002 having simple interest @ 7% p.a. received by an individual or Hindu Undivided Family. **[Section 10 (15)(iib)]**
- (c) **Interest on RBI Relief Bonds** carrying 6.5% p.a. received by an individual or an HUF **[Section 10(15) (iic)]**
- (d) **Interest on NRI Bonds** notified upto 31.5.2002, i.e., NRI Bonds 1988 of State Bank of India and NRI Bonds Second Series issued by State Bank of India, also called as India Development Bonds arising to non-resident Indian or his nominee or survivor or the person to whom such bonds have been gifted by a non - resident. **[Section 10(15) (iid)]**
- (e) **Interest payable to any foreign bank** by any scheduled bank on deposits made with the approval of Reserve Bank of India. **[Section 10(15)(iiia)]**
- (f) **Interest payable to the Nordic Investment Bank** on a loan advanced by it to a project approved by the Central Government. **[Section 10(15) (iiib)]**
- (g) **Interest payable to the European Investment Bank** on a loan granted by it in pursuance of the framework agreement for financial co-operation with the Central Government. **[Section 10(15) (iiic)]**
- (h) **Interest on moneys borrowed before 1.6.2001 by IFCI, IDBI, Exim Bank, National Housing Bank, SIDBI or ICICI** from sources outside India to the extent it does not exceed the rate approved by the Central Government. **[Section 10(15) (iv)(d)]**

- (i) **Interest Payable by an Industrial Undertaking** (engaged in specified activities) in India on a foreign currency loan borrowed before 1.6.2001 from sources outside India and approved by the Central Government. **[Section 10(15) (iv)(f)]**
- (j) **Interest payable by Scheduled Banks** to a non-resident person or a not ordinarily resident individual/HUF on foreign currency deposits approved by the Reserve Bank of India. **[Section 10(15) (iv)(fa)]**
- (k) **Interest payable on Foreign Currency Loans under an agreement approved by the Central Government before 1.6.2003 by a Public Company providing long-term housing finance** for construction or purchase of residential houses in India and eligible for deduction u/s 36(1)(viii). **[Section 10(15)(iv)(g)]**
- (l) **Interest payable on notified bonds of Public Sector Companies** **[Section 10(15) (iv)(h)]**
- (m) Interest on deposits **under Deposit Scheme for Retiring Government Employees, 1989 and Deposit Scheme for Retiring Employees of Public Sector Companies, 1991.** **[Section 10(15) (iv)(i)]**
- (n) **Interest on Securities Deposits with RBI held by the Welfare Commissioner, Bhopal Gas Victims, Bhopal,** for the benefit of such victims. **[Section 10(15)(v)]**
- (o) Interest on Gold Deposit Bonds, 1999. **[Section 10(15)(vi)]**
- (p) Interest on notified bonds issued by a local authority. State Pooled Finance Entity. **[Section 10(15) (vii)]**
- (q) Interest received by a non-resident or a not ordinarily resident person in India, on a deposit made on or after 1.4.2005 in an Offshore Banking Unit. **[Section 10(15) (viii)]**
- 29. Any payment made by an Indian Company** engaged in the business of operation of aircraft to acquire an aircraft or an aircraft engine (other than a payment for providing spares, facilities or services in connection with the operation of leased aircraft) on lease from the Government of a foreign State or a foreign enterprise under an agreement entered before 1.4.1997 or after 31.3.1999 but before 1.4.2007 and approved by the Central Government. **[Section 10 (15A)]**
- 30. Scholarships** granted to meet the cost of education. **[Section 10 (16)]**
- 31. Allowances of MPs and MLAs :**
- (a) Any daily allowance received by Members of Parliament (MP) or any State Legislature (MLA).

(b) Any allowance received by any Member of Parliament under the Members of Parliament (Constituency Allowance) Rules, 1986.

(c) Any constituency allowance received by any member of any State Legislature under any Act or rules made by it. **[Section 10 (17)]**

32. Any payment (in cash or in kind)

(a) **in pursuance of an award** instituted in the public interest by Central/State Government or approved by the Central Government, or

(b) as rewards by the Central/State Government for approved purposes.

[Section 10 (17A)]

33. (a) Pension received by a Central or State Government employee who has been awarded Param Vir Chakra/Maha Vir Chakra/Vir Chakra/other notified gallantry award.

(b) Family Pension received by the family of an employee as aforesaid.

[Section 10 (18)]

34. Family Pension received by a widow/children/nominated heirs, of a member of the armed forces (including paramilitary forces), who died in the course of operational duties, in prescribed circumstances and subject to prescribed conditions.

[Section 10 (19)]

35. Annual Value of a Palace in the occupation of an ex-ruler. **[Section 10 (19A)]**

36. Income of Local Authority, i.e., a Panchayat, Municipality, Municipal Committee, District Board or Cantonment Board. **[Section 10 (20)]**

37. Income of approved research association applying its income wholly and exclusively to its objects of undertaking scientific research [or research in social science or statistical research], subject to specified conditions. **[Section 10 (21)]**

38. Income of a News Agency set-up in India, which applies its income or accumulates it for application solely for collection and distribution of news and does not distribute its income in any manner to its members. **[Section 10 (22B)]**

39. Income of a Professional Association set-up for the control, supervision, regulation or encouragement of the professions of law, medicine, accountancy, engineering, architecture or other notified professions (i.e. Company Secretary, Chemistry, Materials Management and Town Planning), subject to specified conditions.

[Section 10 (23A)]

40. Income received by any regimental fund or non-public fund established by the armed forces for the welfare of the past and present members of the forces or their dependants. **[Section 10 (23AA)]**

41. Income received by an approved fund for the welfare of employees (being its members) or their dependants, and which applies or accumulates its income, wholly and exclusively, to its objects and invests its funds in the forms or modes specified u/s 11(5). **[Section 10 (23AAA)]**

42. Income of a Pension Fund set-up by the Life Insurance Corporation of India or by any other insurance company. **[Section 10 (23AAB)]**

43. Income of a Public Charitable Trust, registered society, etc., engaged in the development of Khadi and Village Industries without profit motive. **[Section 10 (23B)]**

44. Income of Khadi and Village Industries Board. **[Section 10 (23BB)]**

45. Income of any authority established under a Central or State or Provincial Act for the administration of **any public, religious or charitable trust or endowments** (including *maths*, temples, gurudwaras, wakfs, churches, synagogues, agiaries or other places of public religious worship) or religious/charitable societies registered under the Societies Registration Act, 1860, or any other such law. **[Section 10 (23BBA)]**

46. Income of the European Economic Community derived in India by way of interest, dividends or capital gains from investments made out of its funds under specified scheme. **[Section 10 (23BBB)]**

47. Income of the SAARC Fund for Regional Projects. **[Section 10 (23BBC)]**

48. Income of the ASOSAI-SECRETARIAT (Secretariat of the Asian Organisation of the Supreme Audit Institutions) for the A.Ys. 2001-02 to 2010-11.

[Section 10 (23BBD)]

49. Income of the Insurance Regulatory and Development Authority.

[Section 10 (23BBE)]

50. Income of the North-Eastern Development Finance Corporation Ltd., to the extent of nil from A.Y. 2010-11 and onwards. **[Section 10 (23BBF)]**

51. Income of the Central Electricity Regulatory Commission. **[Section 10(23BBG)]**

52. Income of following Funds/Institutions/Trusts, etc. :

(a) P.M. National Relief Fund or P.M. Fund (Promotion of Folk Art), or
P.M. Aid to Students Fund. **[Section 10 (23C) (i), (ii) and (iii)]**

(b) National Foundation for Communal Harmony. **[Section 10 (23C) (iiia)]**

(c) A University/educational institution, hospital or medical institution wholly or substantially financed by the Government, or the annual receipts of which do not exceed ₹ 1 crore or which is approved by the prescribed authority.

[Section 10 (23C) (iiiab) (iiiac) (iiiad) (iiiae) (vi) (via)]

Note : *However, 'anonymous donations' (i.e., voluntary contributions in respect of which records of identity of donors are not maintained by the donee trust/institution) received by any trust etc. referred u/s 10(23C)(iiiad), (iiiae), (vi) or (via), received in excess of higher of 5% of total donations received or ₹ 1,00,000, shall be taxable at the rate of 30% u/s 115BBC.*

(d) Approved fund, charitable/religious institution or trust which applies its income wholly and exclusively in pursuance of its objects. **[Secs. 10 (23C) (iv) and (v)]**

Note : *However, 'anonymous donations' (i.e., voluntary contributions in respect of which records of identity of donors are not maintained by the donor trust/institution) received by certain trusts, etc., received in excess of 5% of total donations received or ₹ 1,00,000, shall be taxable at the rate of 30% u/s 115BBC.*

53. Income of a Mutual Fund **[Section 10 (23D)]**

Note : Income distributed by a Mutual Fund to its unit holders shall be subject to additional income tax u/s 115R, but exempt in the hands of unit holders u/s 10(35).

54. Income of Notified Investor Protection Fund set-up by recognised stock exchanges in India. **[Section 10 (23EA)]**

55. Income of the Credit Guarantee Fund Trust for Small Industries for A.Y.s 2002-03 to 2006-07. **[Section 10 (23EB)]**

56. Income of notified Investor Protection Fund set up by commodity exchanges in India. **[Section 10 (23EQ)]**

57. Income of an Approved Venture Capital Fund or Venture Capital Company by way of dividends or long-term capital gains on equity shares in a venture capital undertaking acquired before 31.3.1999. **[Section 10 (23F)]**

58. Income of an Approved Venture Capital Fund or Venture Capital Company by way of dividends (not subjected to dividend distribution tax u/s 115-0) or long-term capital gains on equity shares in a venture capital undertaking acquired upto 31.3.2000.

[Section 10 (23FA)]

59. Income of a venture capital company or venture capital fund from investment in a venture capital undertaking.

[Section 10 (23FB)]

60. Income of Trade Union or Association of Trade Unions by way of income from house property and income from other sources.

[Section 10 (24)]

61. Income of Statutory Provident Fund or recognised provident fund or an approved superannuation fund or approved gratuity fund or Deposit-Linked Insurance Fund (under Coal Mines P.F. Act or E.P.F. Act).

[Section 10 (25)]

62. Income of the Employees State Insurance Fund.

[Section 10 (25A)]

63. Income of members of scheduled tribes residing in specified areas, from any source in such areas or by way of dividend or interest on securities.

[Section 10 (26)]

64. Income of a Sikkimese individual (except a Sikkimese woman who marries a non-Sikkimese on or after 1.4.2008), from any source in the State of Sikkim or by way of dividend or interest on securities.

[Section 10 (26AAA)]

Note : Income of non-Sikkimese individuals residing in Sikkim, shall continue to remain taxable.

65. Income of an Agricultural Produce Market Committee or Board.

[Section 10 (26AAB)]

66. Income of a statutory corporation, body, etc., set-up for promoting the interests of the members of Scheduled Castes or Scheduled Tribes or backward classes or of any two or all of them.

[Section 10 (26B)]

67. Income of a Corporation established by the Central/State Government for promoting the interests of a notified minority community [i.e., Muslims, Christians, Sikhs, Buddhists and Zoroastrians (Parsis.)]

[Section 10 (26BB)]

68. Income of a Ex-Servicemen Corporation.

[Section 10 (26BBB)]

69. Income of a Co-operative Society formed for promoting the interests of members of Scheduled Castes or Scheduled Tribes, or both.

[Section 10 (27)]

70. Income of certain Boards/Authorities, namely, Coffee Board, Rubber Board, Tea Board, Tobacco Board, Marine Products Export Development Authority, Agricultural and Processed Food Products Export Development Authority, Spices Board and Coir Board. **[Section 10 (29A)]**

71. Subsidy received under a notified-scheme from Tea Board, Rubber Board, Coffee Board, Spices Board or any other commodity Board/ Authority.

[Section 10(30) and (31)]

72. Income of a Minor Child liable to be included in income of his parent u/s 64(1A) is exempt upto a maximum of ₹ 1,500 per minor child. **[Section 10(32)]**

73. Any Capital Gain arising on transfer of units of Unit Scheme, 1964, on or after 1.4.2002 **[Section 10(33)]**

74. Dividends received from a domestic company and subjected to additional income-tax u/s 115-O. **[Section 10(34)]**

Note : *Dividend referred to in Section 115-O shall not be included in the total income of a SEZ Developer or SEZ Unit entrepreneur.*

75. Income in respect of units of -

(a) a Mutual Fund specified u/s 10(23D), or

(b) the specified undertaking or the specified company defined under the UTI (Transfer of Undertaking and Repeal) Act, 2002. **[Section 10 (35)]**

76. Long-term capital gain arising on transfer of eligible listed equity shares of a company acquired on or after 1.3.2003 but before 1.3.2004.

[Section 10 (36)]

77. Any Capital gain arising to an individual/HUF on compulsory acquisition of an agricultural land in urban areas (i.e., situated within the jurisdiction of a municipality or a cantonment board having population of 10,000 or more or within 8 kms., from the local limits of such municipality/board), provided the compensation/consideration is received on or after 1.4.2004 and the land was being used for agricultural purposes by the HUF/individual or his parent(s), during the period of two years immediately before acquisition. **[Section 10(37)]**

78. Long-term capital gains arising on transfer of equity shares of a company or units of an equity oriented fund on or after 1.10.2004 and subject to Securities Transaction Tax (STT). **[Section 10(38)]**

Note : However, long-term capital gain of a company shall be included in computing the 'book profit' for the purposes of MAT (Minimum Alternate Tax) u/s 115JB.

79. Income from notified international sporting event held in India. **[Section 10 (39)]**

80. Grant, etc. received by a subsidiary company, from its holding company being an Indian Company engaged in the business of generation or transmission or distribution of power [Section 10(40)].

81. Any capital gain arising from transfer of an asset of a power undertaking, to an Indian company notified u/s 80-IA(4)(v)(a) effective up to 31.3.2006. **[Section 10 (41)]**

82. Income of a notified non-profit body or authority, set-up under a treaty or agreement between the Central Government and two or more countries.**[Section 10 (42)]**

83. Amount received by an individual as a loan, in lumpsum or in instalment, in a reverse mortgage transaction under a notified scheme. **[Section 10 (43)]**

84. Income of New Pension System Trust. **[Section 10 (44)]**

1.2.9 Gross Total Income (GTI)

- Gross Total Income is the sum total of all the incomes chargeable to tax during the A.Y. This is arrived at after providing the exemptions deduction which are applicable to individual income.
- For example, standard deduction when applicable to Salary or Income from House property, it is applied to the income and the net incomes become part of GTI.

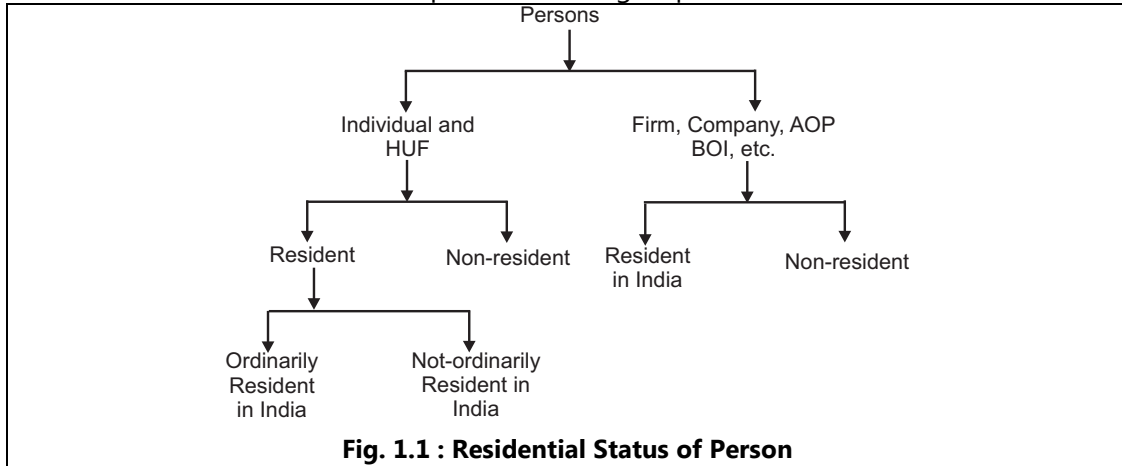
1.2.10 Total Taxable Income (TTI)

- The tax law provide certain deductions from the GTI on certain expenditure and investments. These are deducted as per the rules to arrive at the total taxable income. On the total taxable income tax is calculated. Wherever different rates are applicable, those are applied and on the balance of total taxable income slab rate becomes applicable.

1.2.11 Residential Status of An Assessee

- The basis of charge of an income, under the Income Tax Act depends on the residential status of a person and not citizenship of an individual. 'Residential status' is measured by the number of days the person concerned stays in India. Whether a particular income of a person is taxable or not depends on his/her residential status. In the case of a non-resident, income from India is taxable whereas income earned in foreign land is not taxable.

- The residential status of a person can be grouped as under :



1. Residential Status of an Individual [Sec. 6(1)]

- An individual can be a 'resident' or a 'non-resident'. A resident can be an 'ordinarily resident' or 'not-ordinarily resident'. An individual's stay in India in the previous year is found out to determine his residential status. There are two sets of conditions :
 - Basic conditions, (B) Additional conditions.
- (A) Basic Conditions**
 - Basic conditions are applied to determine whether an individual is resident or not.
 - Presence of at least 182 days in India during the P.Y. 2015-16.
 - Presence of at least 60 days in India during the P.Y. and 365 days during the four years immediately preceding the relevant P.Y. (i.e., during April 1, 2011 and March 31, 2014).
 - The presence in India need not be continuous. Further, the stay need not be at the same place in India. An individual is said to reside in India, if he is on the territorial waters of India. The day of arrival and the day of departure are both considered for determining the number of days in India. If hourly data of stay is available, then, 24 hours is taken as one day.
- Exceptions**
 - In the case of an Indian citizen who left India during the previous year for the purpose of employment or as crew of an Indian ship, the second basic condition is not applicable. Presence of at least 182 days in India (first basic condition) during the P.Y. is enough.

(B) Additional Conditions

- These are applied to test whether the resident is ordinarily resident in India, or not-ordinarily resident in India. There are two additional conditions.
- (a) Resident in India in at least 2 out of 10 years immediately preceding the relevant P.Y. That means, the individual must satisfy at least one of the basic conditions in 2 out of 10 preceding previous years.
- (b) Presence of at least 730 days in India during 7 years immediately preceding the relevant previous year (730 days means 365×2).

Resident

- An individual becomes a resident in India, if he satisfies at least one of the basic conditions. If an individual doesn't satisfy any of the basic conditions, he is a non-resident.
- A resident can be an ordinarily resident or not-ordinarily resident.

Ordinarily Resident

- If a resident satisfies both the additional conditions, he is a resident and ordinarily resident.

Not-ordinarily Resident

- If a resident does not satisfy any of the additional conditions, or satisfies only one of the basic conditions, then, he is a resident but not-ordinarily resident.

2. Residential Status of a Hindu Undivided Family (HUF)**Resident**

- An HUF is resident in India if the control and management of the affairs of the business is wholly in India, or is partly in India and partly outside India.
- A resident HUF is either 'ordinarily resident' or 'not-ordinarily resident'.

Ordinarily Resident

- A resident HUF is ordinarily resident in India if 'Karta' or manager of the family satisfies the following two additional conditions :
 - (a) He has been resident in India for at least 2 out of 10 previous years, immediately preceding the relevant previous year, and
 - (b) He has been present in India for a period of 730 days or more during 7 years immediately preceding the previous year.

Resident but Not-ordinarily Resident

- If Karta or manager of a resident HUF does not satisfy the two additional conditions (both), the family is treated as resident but not-ordinarily resident in India.

3. Residential Status of a Firm, Company, AOP, BOI, etc.

- A firm, Company, AOP or BOI etc., can be either resident or non-resident.

Resident

- When the control and management of the affairs of the taxpayer is wholly in India, or partly in India and partly outside India, the person is resident except a non-Indian company, which can be a resident only if the control and management is wholly in India. On the other hand, if the control and management is wholly outside India, all these persons are non-resident except an Indian company, which is a resident even when the control and management is wholly from outside India.

Incidence of Tax

- Whether a particular source of income is taxable or not, depends on the residential status of a person. The incidence of tax is presented in Table 1.1.

Table 1.1 : Incidence of Tax

Nature of Income	Resident and Ordinarily Resident	Resident but Not – Ordinarily Resident	Non-resident
Income accrued or deemed to be accrued and received or deemed to be received in India.	Taxable	Taxable	Taxable
Income accrued outside India but deemed to be received in India.	Taxable	Taxable	Taxable
Income accrued or deemed to be accrued in India but received outside India.	Taxable	Taxable	Taxable
Income accrued and received outside India from a business controlled or profession set-up in India.	Taxable	Taxable	Not Taxable
Income accrued and received outside India from a business controlled or profession set-up outside India.	Taxable	Not Taxable	Not Taxable
Income accrued and received outside India in the P.Y.	Taxable	Not Taxable	Not Taxable
Income accrued and received in India in any year preceding the P.Y. and later on remitted to India in current financial year.	Not Taxable	Not Taxable	Not Taxable

1.2.12 PAN, TAN

1. PAN (Permanent Account Number)

- (a) The Income-tax Department identifies the assesses/persons with a Permanent Account Number (PAN), which is a unique 10 digit alpha-numeric number.
- (b) PAN is to be obtained only once.
- (c) Obtaining PAN is compulsory not only for income-tax purposes but also for certain other transactions.
- (d) Every person who has not been allotted a permanent account number shall, within such time as may be prescribed to apply in Form No. 49 A to the Assessing Officer for the allotment of a permanent account number in the following cases :
 - (i) If his total income or the total income of any other person in respect of which he is assessable under this act during any previous year exceeded the maximum amount which is not chargeable to income tax; or
 - (ii) If he is carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5,00,000 in any previous year; or
 - (iii) He is required to furnish a return of income under Section 139(A), i.e., returns of trusts and charitable institutions.
 - (iv) If he, being an employer, is required to furnish a return of fringe benefits under Section 115WD.
- (e) The Assessing Officer may also allot to any other person by whom tax is payable, a permanent account number.

Penalty for Failure to Apply for PAN

- Failure to apply for PAN No or to quote the PAN in specified documents or transactions attracts penalty of the assesses [Section 272 (B)].

Pan Cards

- The Income-tax Department is issuing multi-purpose laminated PAN cards displaying the PAN No. of the assessee.

Declaration of PAN in case of Minors

- In case of a minor who does not have any taxable income and who wants to open a bank account of time deposit exceeding ₹ 50,000, PAN of his father or guardian may be quoted.

[Rule 114 B first Proviso]**2. TAN**

- The obligation to deduct tax at source is upon the person responsible for paying the income/amount which is subject to TDS. Therefore, such a person, i.e., payer has to follow the procedure for deducting the tax.

- The main responsibilities and procedure of TDS may be mentioned as under :
 - (a) W.e.f.1-10-2004, the payer has to apply for the deduction and collection account number (TDCAN) in form No. 49B. Prior to 1-10-2004, the assessee had to apply for a separate Tax Deduction Account Number (TAN) and the Tax Collection Account Number (TCAN). Where the payer has already been allotted TAN or TCAN, he need not apply for TDCAN.
 - (b) He is to deduct tax from the income/payment mentioned in the various Sections 192 to 196D.
 - (c) The amount so deducted should be deposited within the requisite time to the credit of the Central Government.

1.3 CONCEPTS OF CAPITAL AND REVENUE INCOME AND EXPENDITURE

(A) Capital and Revenue Receipts

- Receipts are of two types – capital receipts and revenue receipts.
- Capital receipts are those which do not occur regularly and are received due to sale of assets, accepting donation, taking loans etc. The general rule is capital receipts are not taxable under the Income Tax Act, unless specified. For example, profit made on sale/transfer of capital assets i.e., capital gain is taxable.
- Revenue receipts, on the other hand, arise regularly from a definite source. For example, salary received from employer, interest received on bank deposits, rent earned on let-out property etc. In case of revenue receipt, the general rule is, all revenue receipts are taxable unless exempted from tax u/s 10 of the Act. For example, interest earned on 'Public Provident Fund' is exempt. Also, dividend received from an Indian company is exempt from tax.
- The following are the differences between capital and revenue receipt :
 1. An amount received as fixed capital or by sale of fixed asset is capital receipt, while an amount received as working capital or by sale of floating assets like, 'stock' is a revenue receipt.
 2. An amount of compensation for surrender of certain rights under an agreement is capital receipt. For example, compensation received from compulsory acquisition of land by government. On the other hand, compensation for loss of future profit is revenue receipt.

3. All capital receipts are exempt unless specified under the Act as taxable. On the other hand, all revenue receipts are taxable unless specifically exempted from tax.

(B) Capital and Revenue Expenditure

- Capital expenditure means expenditure on purchase, additions and acquisition, installation and reconditioning of assets. On the other hand, revenue expenditure means other expenses of recurring nature, which do not create an asset, e.g., postage, telephone charges, depreciation etc.
- In the income tax calculation, capital expenses are not allowed as deduction. But revenue expenses are allowed as deduction from the income earned from a specific source. For example, purchase of a car for business purposes cannot be charged to P&L account, against the business income. On the other hand, repairs and maintenance of car can be deducted from business income in order to determine the profits of the given business.

QUESTIONS FOR DISCUSSION

1. Define the following Terms :
(a) Income, (b) Assessee, (c) Person, (d) Assessment Year, (e) Previous Year.
2. Explain the conditions determining Residential Status of an individual and HUF.
3. Discuss the Scope of the Income Tax Act, 1961.
4. What is 'Agricultural Income' ? Discuss the taxability of agricultural income.
5. Explain Incidence of Tax.
6. Taxability of a receipt depends on whether it is a capital item or a revenue item. Discuss.

7. Write Short Notes

- (A) PAN
- (B) TAN
- (C) Exempted Incomes



Chapter 2...

Sources and Computation of Taxable Income under the Various Heads of Income

Contents ...

- 2.1 Income from Salary
 - 2.2 Income from House Property
 - 2.3 Profits and Gains of Business and Professions
 - 2.4 Capital Gains
 - 2.5 Income from Other Sources
-

INTRODUCTION

Every money receipt by a person is not chargeable to tax. Section 14 of the Act specifies five heads of income on which tax can be imposed under the Income Tax Act. In order to be chargeable, an income has to be brought under one of these five heads. The heads are : (i) salaries, (ii) income from house property, (iii) profits and gains of business or profession (iv) capital gains, and (v) income from other sources.

INCOME FROM SALARY

2.1 INCOME FROM SALARY

1. Meaning of the term Salary

- A regular payment, usually made monthly by an employer under a contract of employment, to an employee is called salary. It is a consideration received by a person for the services rendered to another person (called employer). It includes all cash amounts received by an employee and monetary value of benefits provided by an employer free of cost or at concessional rates.
- According to Section 17 (1) of the Income Tax Act, 1961, Salary includes :
 - (a) Wages

- (b) Any annuity or pension
- (c) Any gratuity
- (d) Any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages
- (e) Any advance salary
- (f) Leave encashment
- (g) The annual accretion to recognise provident fund, beyond the limit specified
- (h) The accumulated transferred balance from unrecognised provident fund account to a recognised provident fund account, to the extent chargeable
- (i) The contribution made by the Central Government in the previous year to the account of an employee under a pension scheme referred in Section 80 CCD.

2. Chargeability

- (a)** Any receipt is salary if the relation between receiver and payer is of employer and employee. For example, salaries or payments of MP's and MLA's do not come under salary head because assembly and its members do not have an employer and employee relationship.

Another important condition to be satisfied is that the employer must have made the payment in his capacity as an employer to the employee. For example, the employee saves the child of the employer from an accident and as a token of gratitude, the employer pays some money. This amount is not considered to be salary, although the two parties have an employer-employee relationship. The payment has been made for personal reasons.

- (b) Year of Chargeability :** Salary is chargeable to tax on due basis or receipt basis whichever is earlier. That means salary of the P.Y. is taxable even if it has not been received by the employee. On the other hand, salary received in advance is taxable under the head salary in the year of receipt. Such advance amount is not included in the income, in the year of receipt. It may be noted that '*Advance Salary*' is not included in the '*Salary for the Purpose*' while computing taxability of various allowances, R.P.F. contributions, perquisites and retirement benefits. Besides, Arrear of salary paid by the employer (including former employer) to taxpayer during the previous year, if not charged to tax in any earlier year, is also chargeable in the Assessment Year.
- (c) Place of Accrual :** The place where services are rendered by the employee is considered the place of accrual. Therefore, a non-resident when is paid outside India, for services rendered in India, is required to include the amount in his taxable income. Salary paid by the Foreign Government to his employee serving

in India is taxable under the head Salaries and Leave salary paid abroad in respect of leave earned in India shall be deemed to accrue or arise in India. An exception to the accrual rule is if a citizen of India renders services outside India and receives salary from Government of India, it would be taxable as salary deemed to have accrued in India.

- (d) Salary Vs. Wages:** According to the Income Tax Act, there are no specific differences between salary and wages.
- (e) Retirement:** After the retirement of an employee, the relationship of employer-employee doesn't exist as the employee is not rendering any service. Pension given to an employee after retirement on a monthly basis is charged under the head salary as the payment is made due to the past relationship. But, in case of death of the employee, family pension received by the dependents is treated as 'income from other sources.'

3. Important Terms

(a) Profits in Lieu of Salary

- Section 17 (3) defines profits in lieu of salary to include
- (i) The amount of compensation due to or received by an assessee from his employer or former employer at or in connection with :
 - (1) termination of employment; or
 - (2) modification of the terms and conditions of employment.
- (ii) Any payment due to or received by the assessee from his employer or former employer or from provident fund or any other fund or any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.
- (iii) Any amount due to or received whether in lumpsum or otherwise, by any assessee from any person before his joining any employment with that person on or after cessation of his employment with that person.

Some Examples : Leave encashment, retrenchment compensation etc.

(b) Allowances

- Allowances refer to the amount paid to an employee to meet certain expenses. For example, medical allowance which is given by an employer to enable the employee to meet his medical expenses. A House Rent allowance is given by an employer to enable the employee meet his rental expenses.

(c) Perquisites (Perks)

- Informally they are called Perks. Perquisites refer to the benefits arising as a result of employment in addition to regular remuneration. For example, facility of motor car, accommodation services of gardener, cook, servants etc. Perquisites are

valued as per Income tax rule and are added with other cash receipts under the head salaries.

4. Computation of Income from Salary

- (a) All cash receipts i.e. basic salary, fees, commission, bonus is combined.
- (b) All allowances are added to the above after deducting the exempt amount, if any, under allowance. Tax free allowances are not added.
- (c) Perquisites are valued as per the rules of Income Tax Act and added with rest of the salary.
- (d) Employer's contribution to RPF to the extent taxable is computed and along with the taxable amount of interest added in the salary.
- (e) Profit in lieu of salary obtained from past and present employer as per service agreement is added.

5. Taxability of Different Amounts under the Head 'Salary'

(a) Basic salary, fees, commission, bonus, advance salary and arrears of salary are fully taxable.

(b) Allowances

- For the purposes of tax, allowances are grouped as :
 - (i) Tax free allowances.
 - (ii) Fully taxable allowances;
 - (iii) Partially exempt allowances : These are further divided into two categories :
 - (1) Where exemption amount depends on the amount spent by the employee, and
 - (2) Where limit of exemption is stated in the Income Tax Act, 1961 or Rules.

(i) Tax-Free Allowance

- These allowances are exempted from tax and hence are not included in the salary. Students may note that these allowances are given for discharge of official duties.
- The below given allowances are tax free
 - (1) Allowance to Government Employees outside India: Any allowance or perquisite allowed outside India by the Government to an Indian citizen for rendering services outside India is wholly exempt from tax.
 - (2) Basic salary or allowance paid by UNO to its employees is not taxable.
 - (3) Compensatory allowance to meet expenses, wholly and exclusively incurred by the employer in the performance of duties or to meet expenses at the place of employment or at a place where he resides, is wholly exempt, if mentioned under Article 222 (2) of the Constitution.

(4) Allowances to Judge of the High Court and Supreme Court.

(ii) Fully Taxable Allowances

- (1) Dearness allowance
- (2) City Compensatory Allowance
- (3) Non-practice Allowance
- (4) Over-time Allowance
- (5) Tiffin Allowance
- (6) Deputation Allowance
- (7) Servant Allowance
- (8) Subsistence Allowance
- (9) Project Allowance
- (10) Fixed Medical Allowance

(iii) Partially Exempt Allowances

To the Extent of Actual Expenditure Incurred

- (1) Uniform Allowance
- (2) Travelling Allowance or Tour/Transfer
- (3) Washing Allowance
- (4) Conveyance Allowance for performance of official duties
- (5) Helper Allowance for official duties
- (6) Daily allowance on tour or on transfer
- (7) Academic research and training allowance or books for professional development

To the Extent of Amount stated in the Act

- (1) Transport Allowance :** It is exempt upto ₹ 1,600 p.m. and in case of disabled person ₹ 3,200 p.m.
- (2) Tribal Area Allowance :** It is exempt upto ₹ 200 p.m.
- (3) Children Education Allowance :** Exempt upto ₹ 100 p.m. per child, upto a maximum of two children.
- (4) Hostel Expenditure Allowance :** It is exempt upto ₹ 300 p.m. per child, upto maximum of two children.
- (5) Underground Allowance :** It is exempt upto ₹ 800 p.m.

Others

- Hour Rent Allowance (H.R.A.) : It is exempt upto the least of the following :
 - (1) Actual HRA received.
 - (2) Rent paid – 10% of salary.
 - (3) 40% of salary (50% of salary for metro.)

'Salary' for the purpose is → Basic salary + D. A. (if part of retirement benefits) + Turnover based Commission.

[**Note:** It is mandatory for employee to report PAN of the landlord to the employer if rent paid is more than ₹ 1,00,000]

6. Taxability of Perquisites

Perquisite is the value of benefit received by an employee in addition to the monetary compensation in the form of salary, allowance etc. But for the facility by the employer, the employee would have spent money.

Taxable Perquisite and its Valuation

(I) Value of Rent Free Accommodation

(A) Value of Unfurnished Accommodation provided to Central and State Government Employee, is equal to

License fee payable in respect of accommodation by as per government rules - Rent actually paid by the employee.

If furniture is also provided, then either the hire charge of furniture or 10% of the cost of furniture p.a. is added to the value of unfurnished accommodation.

(B) Value of Unfurnished Accommodation provided to others

(1) If the accommodation is **owned** by the employer, then the value of unfurnished accommodation is :

(a)	15% of salary – Rent paid by employee.	→	In cities having a population above 25 lakhs.
(b)	10% of salary – Rent paid by employee.	→	In cities having a population above 10 lakhs and upto 25 lakhs as per 2001 census.
(c)	7.5 % of salary – Rent paid by employee.	→	In other cities.

(2) If the accommodation is **hired** by the employer.

Value = Amount paid by the employer or 15% of salary whichever is less – Rent actually paid by the employee.

(3) In case of furnished accommodation, 10% p.a. of the cost of furniture provided or hire charges of furniture, as the case may be, shall be added to the value of the accommodation.

Furniture includes television sets, radio sets, refrigerators, other house-hold appliances, air conditioning plant or equipment or other similar appliances or gadgets.

(C) Valuation of Accommodation provided in a Hotel

- In case an employee is provided with an accommodation in a hotel (for more than 15 days in aggregate), the value of perquisite shall be equal to :

24% of the salary or actual charges paid or payable to such hotel by the – employer whichever is less.	Rent actually paid or payable by the employee.
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(D) Accommodation in Remote Area

- It is tax free. A Remote area is one which has population upto 20,000.

Salary for the Purpose : Basic + Bonus + taxable allowance + commission + DA and D. P. (if part of retirement benefit).

- It doesn't include employers' contribution to P.F, perquisites, retirement or termination benefits, exempt allowance and D.A. and D. P. not forming part of retirement benefits.

Note

- If employee is transferred and retain property at both the places, the taxable value of perquisites for initial period of 90 days shall be determined with reference to only one accommodation (at the option of the assessee). The other one will be tax free. However after 90 days, taxable value of perquisites shall be charged with reference to both the accommodations.

(II) Value of Motor Car or Other Conveyance

- Facility of Motor Car is valued as stated below. It may be noted that the valuation depends upon who owns the vehicles, who is bearing the running expenses, for what purpose is the vehicle used and the engine capacity of the vehicle.

(A) If Motor car is owned by Employer and running and maintenance expenses are incurred or reimbursed by Employer

	Purpose	Value of Perquisite
(a)	Official Purpose	Not taxable
(b)	Private Purpose	Actual expense incurred by the employer Add : 10% of cost of car/Hire charges of car Add : Salary to driver Less : Amount recovered from employee
(c)	Partly Official and Partly Private Purposes	Upto 1600 cc → ₹ 1,800 p.m. Above 1600cc → ₹ 2,400 p.m. Add : If driver provided then @ ₹ 900 p.m. Less : Amount recovered from the employee

(B) If Motor car is owned by the Employee and running and maintenance expenses are incurred or reimbursed by the Employer

(a)	Official Purpose	Not taxable
(b)	Private purposes only	Actual expenses incurred by the employer. Less : Amount recovered from the employee.
(c)	Partly official and Partly Private Purposes	Actual expense incurred by employer Less : Amount recovered from the employee. Less : ₹ 1,800 p.m. (upto 1600 cc) or ₹ 2,400 p.m. (above 1600 cc) Less : ₹ 900 p.m. if driver is also provided.

(C) If Motor Car is owned by the Employer and running and maintenance expenses are incurred by Employee :

(a)	Official Purpose	Not Taxable.
(b)	Private Purposes only	10% p.a. of Actual cost of Car or Hire charges of car Add : Salary to driver Less : Amount recovered from employee
(c)	Partly Official and Partly Private Purpose.	Upto 1600 c.c. : ₹ 600 p.m. Above 1600 c.c. : ₹ 900 p.m. Add : If driver is provided : ₹ 900 p.m. Less : Amount recovered from employee

Valuation of Other Conveyance

- When the conveyance (other than car) is owned by the employee and the actual running and maintenance expenses are met or reimbursed to employee by the employer, the value of perquisite will be as under :

(a)	When used wholly and exclusively for official purposes	Nil.
(b)	When used partly for official purpose and partly for personal use of the employee	Actual amount of expenditure incurred by the employee – ₹ 900 p.m. (If details are maintained then higher amount can be claimed as deduction).

(III) Other Perquisites Taxable in case of all Employees

(a) Medical Expenses paid or reimbursed is exempt upto ₹ 15,000 p.a. If the expenses are incurred by the employee in connection with specified diseases, or in government hospitals or notified hospital, then any payment made by the employer or reimbursed by the employee is fully exempt. This is applicable to treatment of family members also.

(b) Medical treatment of employee or family member abroad, travel and stay abroad in this connection and travel and stay abroad of one attendant shall be taxable perquisite, to the extent permitted by the Reserve Bank of India. The whole of expenditure on foreign travel is exempted perquisite if the employees' gross salary (apart from this perquisite) is less than ₹ 2,00,000.

(c) Gas, electricity or water bill paid or reimbursed by the employer is fully taxable. If the facility is in the name of the employee and is provided by the employer from his own sources then the manufacturing cost to the employer is taxable in all case.

On the other hand, if the facility is in the name of the employer, then either the manufacturing cost or the expenditure incurred by the employer is taxable in the case of 'specified employee' (meaning of 'specified employee' is given at the end of 'perquisite'.)

(d) Valuation of perquisite in respect of free domestic servants like cook, watchman, servant-maid, gardener etc. is the expenditure to the employer. It is taxable in all cases, if the servant is employed by the employee. But is taxable only in the case of specified employee's servant is employed by the employer.

It may be noted that the expenditure on the facility of gardener is not taxable separately, if Rent Free Accommodation is provided by the employer from the owned accommodation.

If domestic servant allowance is given to the employee, then, it is fully taxable.

If reimbursement of servant's salary is made by the employer, then it is fully taxable in all cases.

(e) Educational Facilities

- (i) Where the educational institution is owned by the employer, or where free educational facility is provided in an institution by reason of his being in employment of that employer, then the value of perquisite shall be the cost of providing such education in a similar institution in or near the locality, less the amount recovered from the employee. Cost of such education in similar school less ₹ 1,000 per month per child (irrespective of numbers of children) less amount recovered from employee will be taxable value of perquisite.
- (ii) Where the educational institution is not owned by the employer then the value of the perquisite is; Amount of expenditure incurred by the employer in that behalf less the amount paid by the employee. Cost of such education in similar school less ₹ 1,000 per month per child (irrespective of numbers of children) less amount recovered from employee will be the taxable value of perquisite.
- (iii) Reimbursement of school fees of children or family member of employees, is fully taxable;
- (iv) Free educational facilities/ training of employees, is fully exempt.

(f) Transport Facility

- When transport organisations provide free transport to employees for private journey, the price of service (not cost) less amount paid by the employee is the value of perquisite.
 - In case of an airline or the Railways the perquisite is not taxable
- (g)** Employer's contribution towards superannuation fund is taxable in the hands of employee to the extent such contribution exceeds ₹ 1,50,000

(h) Interest Free or Concessional Loans

- The value of interest from loan (if the loan amount exceeds ₹ 20,000) is computed by charging simple interest, on the loan taken at the rate prevalent in State Bank of India on the 1st day of the relevant P.Y. on the maximum outstanding balance. If the employee pays some amount towards interest as loan, then that amount is deducted from the aforesaid amount, while computing the value of the perquisite. Interest free loan, provided for treatment of specified diseases (Rule 3A) like neurological diseases, Cancer, AIDS, Chronic renal failure, Hemophilia (specified diseases). However, exemption is not applicable to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.
- (i) Food Beverages and Free Meals**
- Following free meals shall be exempt from tax:

- (i) Food and non-alcoholic beverages provided during working hours in remote area or in an offshore installation;
- (ii) Tea, Coffee or Non-Alcoholic beverages and Snacks during working hours are tax free perquisites;
- (iii) Food in office premises or through non-transferable paid vouchers usable only at eating joints provided by an employer is not taxable, if cost to the employer is ₹ 50 (or less) per meal. Thus, free meals upto an amount of ₹ 50 per meal is exempt and also meals of any value provided in remote areas in not taxable. The rest, shall be valued at the expenditure incurred by the employer, less amount recovered from the employer.

(j) Gift

- Gift or Voucher or Coupon on ceremonial occasions or otherwise provided to the employee is taxable as follows:
 - (i) Gifts in cash or convertible into money (like gift cheque) are fully taxable;
 - (ii) Gift in kind up to ₹ 5,000 in aggregate per annum would be exempt, beyond which it would be taxable.

(k) Credit Card Facility

- Cost of credit card provided and personal expenses met by the employer is taxable to the extent of :
 - (i) Expenditure incurred by the employer in respect of credit card used by the employee or any member of his household less amount recovered from the employee is a taxable perquisite;
 - (ii) Expenses incurred for official purposes shall not be a taxable perquisite provided complete details in respect of such expenditure are maintained by the employer.

(l) Free Club Facilities

- Any payment made by employer towards club facility to an employee is taxable to the extent of expenses paid by the employer, less the amount paid or received from the employee.
- It may be noted that if such facilities are provided uniformly to all employees or is provided to the assessee for official purposes, then the value of the perquisite shall be nil.

(m) Use of Movable Assets

- Where movable assets of the employer (other than cars, laptop, computer) is allowed to be used by the employee, the taxable value of the perquisite shall be :
 - (i) Use of Laptops and Computers: Nil

- (ii) Movable asset other than Laptops, computers and Motor Car*: 10% of original cost of the asset (if asset is owned by the employer), or actual hire charges incurred by the employer (if asset is taken on rent) less amount recovered from employee.

(n) Sale of Movable Assets

- Where the employer sell its movable assets after using it for not more than 10 years, the concession if any shall be the taxable value of the perquisite in the hands of specified employees.

Amount of perquisite = Written Down Value of such asset (WDV) – Sale price.

- In order to find out the WDV of the asset the depreciation rate chargeable shall be :

Electronic goods	–	50% p.a. reducing balance method
Motor cars	–	20% p.a. reducing balance method
Other assets	–	10% p.a. straight line method

[Note : Depreciation is chargeable for each completed year of use.]

(o) ESOP / Sweat Equity Share

- The value of ESOP/Sweat equity share allotted to an assessee shall be :

Fair market value of the shares on the – Amount paid by the employee
date of exercise of the option

Fair market value is determined as under :

- In case of listed securities, it is the average of the opening price and closing price on the date of exercise of the option.
- In case of unlisted securities, it is the value determined by a merchant banker as on the date of the exercise of the option.

(p) Leave Travel Concession (LTC)

- Only 2 journeys in a block of 4 years is exempt (however, carryover of concessions is available). Exemption amount is based on the actual expenditure relating to travel fare only in respect of the shortest route from the place of origin to the farthest point.

(q) Employers Contribution towards Approved Superannuation Fund

- The values of perquisite is the amount in excess of ₹ 1,00,000 A.Y. is taxable.

(r) Any Other Facility

- Any other obligation of the employee met by the employer is fully taxable. Any other facility provided is taxable at cost to the employer.

(IV) Perquisites Taxable in case of 'Specified Employees'

- 'Specified employees' include the following :
 - A director in the employer company,

- (b) An employee being the beneficial owner of at least 20% of the ordinary shares in the employer company, and
 - (c) Any other employee whose taxable income under the head 'salaries' exclusive of all non-monetary benefits or amenities exceeds ₹ 50,000 p.a.
- The perquisites taxable in case of specified employees are :
 - (a) Provisions of free or concessional educational facilities.
 - (b) Reimbursement of medical expenditure.
 - (c) Expenditure on foreign travel and stay during medical treatment.
 - (d) Supply of gas, electricity and water.
 - (e) Sale of an asset to the employee at concessional price (including sale or share in the employer company).
- (V) Tax-free Perquisite**
- The following benefits are not taxable :
 - (a) Value of medical treatment provided to an employee or his family member in a hospital maintained by his employer.
 - (b) Reimbursement of expenditure on medical treatment of specified diseases.
 - (c) Reimbursement of expenditure on medical treatment in Government Hospital or notified hospital.
 - (d) Premium paid by an employer on the health of an employee under a government approved scheme.
 - (e) Free use of laptop or computer provided by the employer.
 - (f) Interest free loan or concessional loan upto ₹ 20,000.
 - (g) Free telephone or mobile phone.
 - (h) Premium paid in medical insurance scheme for health risk of employee and his family members.
 - (i) Conveyance facility to the employee from house to office/factory and back.
 - (j) Income tax paid by the employer, on the perquisite (non-monetary ones) on behalf of the employee.

7. Employees Provident Fund

(a) Statutory Provided Fund (SPF)

- Employer's contribution in SPF of the employee, the interest on SPF and any withdrawal out of the fund is tax free. Employees own contribution to SPF is deductible u/s 80 I.

(b) Recognised Provided Fund (RPF)

- Employer's contribution to RPF is taxable to the extent if it is more than 12% of the salary of the employee. Interest on RPF in excess of 9.5 % is taxable. Lumpsum withdrawn from the fund is not taxable. Employees own contribution to RPF is deductible u/s 80I.

(c) Unrecognised Provided Fund (URPF)

- Employer's contribution to the URPF of the employee and interest on it, is not taxable. But employer's contribution and interest are taxable at the time of withdrawal. Employees own contribution to URPF is not deductible u/s 80 C.

Salary for the Purpose = Basic D. A. (if part or retirement benefit + Commission on sales as a percentage

8. Retirement Benefits**(a) Pension**

- Monthly pension is fully taxable.
- Commuted pension is exempt upto $\frac{1}{2}$ of the full value of pension if the employee doesn't receive Gratuity ($\frac{1}{3}$ rd in case employee receives gratuity). Commutation received from Jeevan Suraksha Policy of LIC is fully tax free.

(b) Gratuity

- (i) Gratuity received by government employees is fully exempt.
- (ii) In case of non-government employee covered by the 'Payment of Gratuity Act, 1972', least of the following is exempt :
 - (1) 15 days salary for each of service :

$$\frac{15}{26} \times \text{monthly salary} \times \text{completed year of service}$$
 (period beyond 6 months shall be treated as one year)
 - (2) ₹ 20,00,000, or
 - (3) Gratuity received.

Salary for the Purpose = Basic + D. A. / D. P (if part of retirement benefit)

- (c) In case of non-government employee not covered by the 'Payment of Gratuity Act, 1972' the least of the following is exempt :

- (i) $\frac{1}{2}$ months average salary for each completed year of service (incomplete year not to be considered and average salary means salary drawn during 10 months immediately preceding the month of retirement).
- (ii) ₹ 20,00,000 or
- (iii) Gratuity received.

Salary for the Purpose = Basic + D.A. /D.P. (if part of retirement benefit + commission on sales calculated as a percentage of sales).

(d) Leave encashment/Leave Salary

- (i) Leave encashment received by government employee is tax free.

(ii) Leave encashment received by other employee is exempt to the extent of the least of the following :

- (1) Leave encashment actually received.
- (2) Cash equivalent of earned leave not exceeding 30 days for each year of service, to his credit on retirement.
- (3) 10 months average salary [salary includes Basic + DA (if part of salary)].
- (4) ₹ 3,00,000.

(e) Retrenchment Compensation

- Any compensation received by a workman at the time of retrenchment or closure or transfer of undertaking is exempt from tax subject to an amount calculated–
 - (i) @ 15 days average pay for every completed year of service or any part thereof in excess of six months; or
 - (ii) ₹ 5,00,000 whichever is less.
- The compensation paid under a scheme approved by the Central Government is fully exempt.

Salary for the Purpose : Basic wages + All allowances + Value of all amenities + Value of travel concession + commission.

Payment on Voluntary Retirement : Payment as per approved scheme is exempt upto a maximum of ₹ 5,00,000.

9. Deductions From Salary Income

- Under Section 16 of the Act the following deductions are available :

1	<u>16(i)</u>	Standard Deduction	₹ 50,000 or the amount of salary, whichever is lower
2	<u>16(ii)</u>	Entertainment Allowance received by the Government employees (Fully taxable in case of other employees)	Least of the following is deductible : (a) ₹ 5,000 (b) 1/5th of salary (excluding any allowance, benefits or other perquisite) (c) Actual entertainment allowance received
3	<u>16(iii)</u>	Employment Tax/Professional Tax.	Amount actually paid during the year is deductible. However, if professional tax is paid by the employer on behalf of its employee then it is first included in the salary of the employee as a perquisite and then same amount is allowed as deduction.

PRACTICAL SOLVED PROBLEMS**INCOME FROM SALARY****Problem No. 1**

Mr. Ramkumar is a Central Government employee getting a basic pay of ₹ 10,000 p.m. He also receives Dearness Allowance of ₹ 4,000 p.m. House Rent Allowance received by him during the P.Y. 2021-22 amounted to ₹ 3,000 p.m. He doesn't pay any rent. The Government has deducted ₹ 75 p.m. as professional tax from his salary. Compute the taxable salary of Mr. Ramkumar for the Assessment Year 2022-23.

Solution : **Computation of Income from Salary of Mr. Ramkumar
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic Pay (₹ 10,000 × 12)		1,20,000
Allowances :		—
Dearness Allowance (₹ 4,000 × 12)		48,000
House Rent Allowance (₹ 3,000 × 12)	36,000	
Less : Exempt amount	—	36,000
Gross Salary		2,04,000
Less : Professional tax (₹ 75 × 12)		900
Net Salary/Taxable Salary		2,03,100

Problem No. 2

Mr. Mughal joined Star Ltd. on 1. 4. 2021. Details regarding his salary are as follows :

Basic	₹	16,000	p.m.
Dearness Allowance	₹	2,000	p.m.
(50 % considered for retirement benefits)			
Children Education Allowance	₹	1,000	p.m. (He has two children)
Hostel Allowance	₹	2,000	p.m.
(none of the children stay in Hostel)			
Medical Allowance	₹	1,000	p.m.
Transport Allowance	₹	2,000	p.m.
Servant Allowance	₹	1,200	p.m.
City Compensatory Allowance	₹	2,000	p.m.

Entertainment Allowance	₹	3,000	p.m.
Assistants Allowance (Paid ₹ 2,000 p.m. to assistants)	₹	3,000	p.m.
Academic Allowance (Actual expense ₹ 8,000 p.m.)	₹	2,000	p.m.
Bonus	₹	24,000	p.a.
Commission	₹	9,000	p.a.
Fees	₹	5,000	p.a.

Compute the gross taxable salary for the A.Y. 2022-23.

Solution : **Computation of Income from Salary of Mr. Mughal
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic (₹ 16,000 × 12)		1,92,000
Bonus		24,000
Commission		9,000
Fees		5,000
Allowances		
Dearness Allowance (2,000 × 12)		24,000
Education Allowance (1,000 × 12)	12,000	
Less : Exempt Amount (100 × 12 × 2)	(-) 2,400	9,600
Hostel Allowance (2,000 × 12)	24,000	
Less : Exempt Amount (300 × 12 × 2)	(-) 7,200	16,800
Medical Allowance (1,000 × 12)		12,000
Transport Allowance (2,000 × 12)	24,000	
Less : Exempt Amount (1,600 × 12)	(-) 19,200	4,800
Servant Allowance (1,200 × 12)		14,400
City Compensatory Allowance (2,000 × 12)		24,000
Entertainment Allowance (3,000 × 12)		36,000
Assistant's Allowance (3,000 × 12)	36,000	
Less : Exempt Amount (2,000 × 12)	24,000	12,000
Academic allowance (2,000 × 12)	24,000	
Less : Exempt Amount (2,000 × 12)	24,000	—
Gross Taxable Salary		3,83,600

Problem No. 3

Miss Sonal being a citizen of India, has the following details of her salary :

Basic Salary	₹ 12,000 p.m
Dearness Allowance (forms part of retirement benefits)	₹ 3,000 p.m.
Dearness Pay (50 % forms part of retirement benefits).	₹ 1,000 p.m.
Fees	₹ 50,000 p.a.
House Rent Allowance (Rent paid for Kolkata House	₹ 5,000 p.m. ₹ 4,000 p.m.
Children Education Allowance (She is having a son).	₹ 3,000 p.m.
Hostel Allowance	₹ 3,000 p.m.
Dress Allowance (Actual expenditure ₹ 10,000 p.m)	₹ 5,000 p.m.
Uniform Allowance (Actual expenditure ₹ 1,000 p.m)	₹ 2,000 p.m.
Tiffin Allowance	₹ 1,000 p.m.
Education Allowance for her own education (Actual expenditure – ₹ 1,500 p.m.)	₹ 3,000 p.m.

Compute her Gross Salary for the A.Y. 2022-23.

Solution : **Computation of Income from Salary of Miss Sonal
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic Salary (₹ 12,000 × 12)		1,44,000
Fees		50,000
Allowances		
Dearness Allowance (3,000 × 12)		36,000
Dearness Pay (1,000 × 12)		12,000
House Rent Allowance (5,000 × 12)	} { 60,000	30,600
Less : Exempt Amount		
Children Education Allowance (3,000 × 12)	} { 36,000	34,800
Less : Exempt Amount (100 × 12 × 1)		

Particulars	Details (₹)	Amount (₹)
Hostel Allowance (3,000 × 12)	36,000	32,400
Less : Exempt Amount (300 × 12 × 1)	3,600	
Dress Allowance (5,000 × 12)		60,000
Uniform Allowance (2,000 × 12)	24,000	12,000
Less : Exempt Amount (1,000 × 12)	12,000	
Tiffin Allowance (1,000 × 12)		12,000
Education Allowance (3,000 × 12)		36,000
Gross Salary		4,59,800

Working**(1) House Rent Allowance :**

Least of the following is exempt :

(1) Actual H. R. A – ₹ 60,000

(2) Rent paid – 10% of salary

$$₹ 48,000 - 18,600 = \boxed{₹ 29,400}$$

(2) 50% of salary – ₹ 93,000 (1,86,000 × 50/100)

Salary for the purpose

Basic →	1,44,000	
D. A →	36,000	
D.P. → (500 × 12)	6,000	(Only 50% of 1,000)
	<u>1,86,000</u>	

Note : Education allowance is different from Academic allowance.

Problem No. 4

Mr. Solanki has the following details of his salary. Compute the net salary for the relevant AY.

Basic Salary	₹ 50,000 p.m
Dearness Allowance (60% forms a part of retirement benefits)	₹ 12,000 p.m.
Entertainment Allowance	₹ 5,000 p.m.
Bonus	₹ 60,000 p.a.
Fees	₹ 5,000 p.a
Professional tax paid	₹ 2,000 p.a.

He has been provided with a Rent free Accommodation in Mumbai.

Compute the net Salary if :

- (i) Accommodation is taken on a rent of ₹ 7,000 p.m. by the employer.
- (ii) Accommodation is owned by the employer.

Solution :

**Case (i) Computation of Income from Salary of Mr. Solanki
A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Amount (₹)
Basic Salary (₹ 50,000 × 12)	6,00,000
Bonus	60,000
Fees	5,000
Allowances	
Dearness Allowance (12,000 × 12)	1,44,000
Entertainment Allowance (₹ 5,000 × 12)	60,000
Perquisites	
Value of Rent free accommodation	84,000
Gross Salary	9,53,000
Less : Deductions u/s 16	
Standard Deduction [Section 16 (i)]	50,000
Professional tax paid [Section 16 (iii)]	(-) 2,000
Net Salary	9,01,000

**Case (ii) Computation of Income from Salary of Mr. Solanki
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Amount (₹)
Basic Salary (₹ 50,000 × 12)	6,00,000
Bonus	60,000
Fees	5,000
Allowances	
Dearness Allowance (12,000 × 12)	1,44,000
Entertainment Allowance (₹ 5,000 × 12)	60,000

Particulars	Amount (₹)
Perquisites	
Rent Free Accommodation	1,21,710
Gross Salary	9,90,710
Less : Deductions u/s 16	
Standard Deduction [Section 16 (i)]	50,000
Professional tax paid [Section 16 (iii)]	2,000
Net Salary	9,38,710

Working**Valuation of Rent from Accommodation**

Salary for the purpose

Basic →	₹ 6,00,000
Bonus (+)	60,000
Fees	5,000
D.A (60%)	86,400
Entertainment Allowance (+)	60,000
	<u>₹ 8,11,400</u>

(i) Value when accommodation is owned by employer

15% of salary (15% of 8,11,400) = ₹ 1,21,710

(ii) Value if accommodation is taken on Rent by the employer –

Actual rent paid by the employer or 15% of salary whichever is low

(1) Rent paid = (7,000 × 12) = 84,000, or

(2) 15% of salary = 1,21,710 whichever is less (₹ 8,11,400 × 15/100)

Value = ₹ 84,000

Problem No. 5

Mr. Deepak is an employee of M/s. XYZ Ltd. He gets the following amounts during the previous year 2021-22 :

Basic pay (per month)	₹ 12,000
Dearness Allowance p.m. (forming part of salary)	₹ 5,000
Interest credited to balance in RPF @ 9.5%	₹ 19,000
Rent free house at Delhi	

(Rent paid by company ₹ 5,000 p.m.)

Leave salary for one month ₹ 17,000

Commission on sales (@ 5% of sales) ₹ 50,000

Mr. Deepak contributed ₹ 220 p.m. to RPF and an equal amount was contributed by the company. Compute his income from salary for the A.Y. 2022-23.

Solution :**Working 1 : For calculation of Value of Accommodation**

Salary for the purpose		Value of Accommodation
Basic pay –	₹ 1,44,000	15% of salary or Rent paid
D. A –	₹ 60,000	by the company whichever is
Commission on sales	₹ 50,000	less
Leave salary	₹ 17,000	(i) 15% of 2,71,000 = ₹ 40,650
	₹ 2,71,000	(ii) Rent paid = ₹ 60,000

Working 2 : Contribution to R.P.F

Salary for the purpose –	Basic pay –	₹ 1,44,000
	D.A	₹ 60,000
	Commission on sales	₹ 50,000
		2,54,000

**Computation of Income from Salary of Mr. Deepak
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic Pay		1,44,000
Leave Salary		17,000
Commission on sales		50,000
Allowances		
Dearness Allowance (5,000 × 12)		60,000
Perquisites		
Rent Free Accommodation		40,650
Employer's contribution to RPF	26,400	
Less : Exempted up to 12% of Salary	30,480	Nil
Interest on RPF balance	19,000	-
Less : Exempted up to 9.5%	19,000	Nil
Gross Salary		3,11,650
Less : Deduction u/s 16		
Standard Deduction [Section 16 (i)]		50,000
Taxable Income from Salary		2,61,650

Problem No. 6

Mr. Bapat receives the following emoluments during the P. Y. 2021-2022 :

Basic Pay	₹ 3,60,000
Commission (@ 5% of turnover)	₹ 1,15,000
House Rent Allowance (Rent paid for the year – ₹ 48,000)	₹ 50,000
Dearness Allowance (forming part of salary)	₹ 1,20,000

The company provided him 1000 cc car for office and personal use. Expenditure of the car along with Driver ₹ 40,000 is borne by the Company.

He received interest free loan for buying a house worth ₹ 6,00,000 on 29th February, 2021 from his employer.

(SBI rate of interest for such loan is 11.5% p.a.)

Mr. Bapat contributed ₹ 33,000 to R.P.F. His employer made similar contribution.

The interest credited to his R.P.F Balance of ₹ 1,35,000 was ₹ 15,000.

Compute his income from salary for the A.Y. 2022-23.

Solution : **Computation of Income from Salary of Mr. Bapat
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic Pay		3,60,000
Commission on sales		1,15,000
Allowances		
Dearness Allowance		1,20,000
House Rent Allowance	50,000	
Less : Exempt amount	Nil	50,000
Perquisites		
Value of Motor Car. $(₹ 1,800 + 900) \times 12$		32,400
Interest on Loan (on ₹ 6,00,000 @ 11.5% for one month $\left(₹ 6,00,000 \times \frac{11.5}{100} \times \frac{1}{12} \right)$)		5,750
Employer's contribution to R.P.F	33,000	
Less : Exempt amount	(-) 33,000	–
Interest on RPF Balance	15,000	
Less : Exempt amount @ 9.5%	12,825	2,175
Gross Salary		6,85,325
Less : Deductions u/s 16		
Standard Deduction [Section 16 (i)]		50,000
Net Salary		6,35,325

Working Notes**(i) H. R. A**

Salary for the purpose of H. R. A.

Basic	–	₹ 3,60,000
D. A	–	₹ 1,20,000
Commission on sales		₹ 1,15,000
		5,95,000

Least of the following is exempt :

(1) Actual H. R. A received – ₹ 50,000

(2) Rent paid – 10 % of salary

₹ 48,000 – ₹ 59,500 = Nil

(3) 40% of salary = ₹ 2,38,000 $\left(₹ 5,95,000 \times \frac{40}{100} \right)$ **(ii) RPF**

Salary for the purpose is → ₹ 5,95,000

12% of salary is exempt = ₹ 71,400 $\left(₹ 5,95,000 \times \frac{12}{100} \right)$

i.e. Fully exempt as he is receiving an amount less than the exempt amount.

Problem No. 7

Miss Shruti has the following salary structure :

Basic Salary	₹	15,000	p.m.
D.A. (not forming part of retirement benefit)	₹	5,000	pm.
Hostel Allowance	₹	1,000	p.m.
Tiffin Allowance	₹	500	p.m.
Transport Allowance	₹	2,000	p.m.
Bonus	₹	20,000	p.a.
Commission	₹	15,000	p.a.
Free refreshment in the office	₹	5,000	p.a.
Free Meals for 270 working days costing	₹	150	per meal.
Mobile phone facility	₹	900	p.m.
Laptop worth ₹ 10,000			p.a.

She has been provided with Rent Free Accommodation in Kolkata. The house was allotted to her with effect from 1.5.2021 which she could occupy only on 1.6.2021. The employer is collecting ₹ 1,000 p.m. from her for accommodation. She has also been

provided with 1800 cc along with driver for both private and office purposes. She has paid professional tax @ ₹ 220 p.m. Compute her Net salary for the A.Y. 2022-23

Solution : **Computation of Income from Salary of Miss. Shruti**
for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Basic Salary (₹ 15,000 × 12)		1,80,000
Bonus		20,000
Commission		15,000
Allowances		
Hostel Allowance (1,000 × 12)		12,000
Tiffin Allowance (500 × 12)		6,000
Transport Allowance (₹ 24,000 – ₹ 19,200)		4,800
Dearness Allowance (5,000 × 12)		60,000
Perquisites		
Free Refreshment (not taxable)		–
Free meals [270 × (₹ 150 – ₹ 50)]		27,000
Mobile phone (Not taxable)		–
Laptop (not taxable)		–
Rent Free Accommodation		19,425
Value of car [12 × (2,400 + 900)]		39,600
Gross Salary		3,83,825
Less : Deductions u/s 16		
Standard Deduction		(–) 50,000
Professional tax paid (220 p.m) (12 × 220)		(–) 2,640
Net Salary		3,31,185

(1) Valuation of Rent Free Accommodation

Salary for the purpose –
 (1,80,000 + 20,000 + 15,000 + 12,000 + 6,000 + 2,400)
 Value of Accommodation @ 15% of salary
 $(2,35,400 \times \frac{15}{100})$
Less : Rent recovered (1,000 × 12)

p. a	For 10 months
2,35,400	
35,310	29,425 (2942.50 × 10)
(–) 12,000	10,000
23,310	19,425

Problem No. 8

Mr. Kelkar is the employee of India Tobacco. Co. Ltd., Kolkata. His salary particulars for the year ended 31.3.2022 are as follows :

Basic Salary	₹ 60,000 p.m.
D. A. (not considered for retirement benefits)	₹ 10,000 p.m.
Bonus for the year	₹ 72,000
Arrears of earlier Bonus	₹ 10,000
Commission on profits	₹ 80,000
Advance salary	₹ 60,000
Employers contribution to R.P.F. @ 14% of salary	
Professional tax paid by the company	₹ 2,000 p.a.
Income – tax paid by the company	₹ 5,000 p.m.
Electricity Bill for the year paid by the employer	₹ 12,000
Fees for attending Board meetings	₹ 13,000

His two children are studying in Dehradun School. The education expenses during the year being ₹ 40,000 are fully met by the Company.

Company has given him a fully furnished house at Kolkata. The cost of Furniture – ₹ 1,50,000 and its w.d.v. ₹ 1,40,000.

Mr. Kelkar has been provided with the services of a watchman and a sweeper, whose salary amounts to ₹ 1,600 p.m. per person.

Compute his net salary for the A.Y. 2022-23.

Solution : **Computation of Income from Salary of Mr. Kelkar
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic Salary (₹ 60,000 × 12)		7,20,000
Bonus		72,000
Arrears of Bonus		10,000
Commission on profits		80,000
Advance salary		60,000
Fees		13,000
Allowances		
Dearness Allowance (10,000 × 12)		1,20,000

Particulars	Details (₹)	Amount (₹)
Perquisites		
Professional tax paid		2,000
Income-tax paid by the company (5,000 × 12)		60,000
Electricity Bill paid by the employer		12,000
Education expenses paid by employer		40,000
Value of Rent Free Accommodation		1,47,750
Watchman's salary (₹ 1,600 × 12)		19,200
Sweeper's salary (₹ 1,600 × 12)		19,200
Employers contribution to R.P.F.		
14% of salary i.e. on ₹ 7,20,000	1,00,800	
Less : 12% Exempt Amt. (7,20,000 × 12/100)	86,400	14,400
Gross Salary		13,89,550
Less : Deductions		
Standard Deduction [Section 16 (i)]		50,000
Professional Tax Paid [Section 16 (iii)]		2,000
Net Salary		13,37,550

Working**(1) Value of Rent Free Accommodation**

Salary for the purpose –		
Basic Salary	₹ 7,20,000	
Bonus	₹ 72,000	
Commission (+)	₹ 80,000	
Fees	₹ 13,000	
	<u>₹ 8,85,000</u>	
Value of Accommodation @ 15% of salary	₹ 1,32,750	(8,85,000 × 15/100)
Add : 10% of the cost of Furniture	₹ 15,000	
	<u>₹ 1,47,750</u>	

Problem No. 9

Mr. Balasaheb, an employee of a sole proprietor, Sangamner, has given the following information for the previous year 2021-22 :

Salary	₹ 1,08,000
Bonus	₹ 20,000

Commission on sales @ 5% of Turnover	₹	20,000	
Contribution to Unrecognised Provident Fund (URPF) made by both the employer and him	₹	11,700	
Interest credited to URPF balance @ 12%	₹	11,000	
Vehicle Allowance (spent for office purpose)	₹	4,800	
Medical Allowance	₹	4,800	
Rent Free furnished accommodation for which employer pays a rent of	₹	1,800	p.m.
Cost of Furniture in the accommodation	₹	30,000	
Watchman's salary paid by the employer	₹	3,000	p.m.
Gas, electricity and water bill reimbursed by the employer	₹	13,000	
Hospital Bill paid by the employer	₹	18,500	
He has paid ₹ 2,600 as professional tax.			
Compute his net salary for the A.Y. 2022-23.			

Solution : **Computation of Income from Salary of Mr. Balasaheb
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Salary		1,08,000
Bonus		20,000
Commission on sales		20,000
Allowances		
Vehicle Allowance (exempt)		–
Medical Allowance		4,800
Perquisites		
Rent Free Accommodation		24,600
Watchman's salary (3,000 × 12)		36,000
Gas, water and electricity bill		13,000
Hospital Bill paid	18,500	
Less : Exempt amount	(–) 15,000	3,500
Contribution to URPF		Nil
Interest on URPF balance		Nil
Gross Salary		2,29,900
Less : Deductions u/s 16		
Standard Deduction u/s 16 (i)		(–) 50,000
Professional tax paid u/s 16 (iii)		(–) 2,600
Net Salary		1,77,300

Working note – 1**(1) Value of Rent Free Accommodation**

Basic Salary	₹ 1,08,000		
Bonus	₹ 20,000		
Commission	₹ 20,000		
Medical Allowance	₹ 4,800		
	₹ 1,52,800		
Value of Accommodation – Lower of the following 15% of salary (1,52,800 × 15/100)		₹ 22,920	whichever is less
or			
Rent paid		21,600	
Add : 10% of cost of Furniture		(+) 3,000	
		24,600	

Note : Employee's contribution to URPF is not taxable during service.

Problem No. 10

From the following information given by Mr. Patil, Ahmednagar, determine his income from salary for the A.Y 2021-22 :

Salary (after deduction of TDS and P.F contribution)	₹ 14,50,000
Tax deducted at source (TDS)	₹ 1,45,000
Contribution to Statutory Provident Fund (SPF)	₹ 1,50,000
Employer's Contribution to SPF	₹ 1,50,000
Interest credited to SPF balance @ 10%	₹ 35,000
Holiday trip allowance	₹ 18,000
Academic Research Allowance (actual expenses ₹ 4,000)	₹ 10,000
House Rent Allowance	₹ 67,000
(Actual rent paid in Ahmednagar ₹ 56,000)	
Mr. Patil paid professional tax of	₹ 225 p.m.
Leave encashment (one month)	₹ 13,000
City Compensatory Allowance	₹ 8,500 p.m.

He has been given a gift in cash ₹ 10,000 on his Birthday.

He had purchased dress on credit card for ₹ 10,000. This amount along with annual fees of ₹ 1,000 was paid by the employer.

Solution : **Computation of Income from Salary of Mr. Patil**
for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Basic Salary (₹ 14,50,000 + ₹ 1,45,000 + ₹ 1,50,000)		17,45,000
Leave encashment		13,000
Allowances		
Holiday trip Allowance		18,000
House Rent Allowance	67,000	
Less : Exempt Amount	–	67,000
Academic Research Allowance	10,000	
Less : Actual expenditure	(–) 4,000	6,000
City compensatory Allowance (8,500 × 12)		1,02,000
Perquisites		–
Gift in cash		10,000
Credit card payment by employer (10,000 + 1,000)		11,000
Gross Salary		19,72,000
Less : Deductions		
Standard Deduction [Section 16 (i)]		(–) 50,000
Professional tax paid [Section 16 (iii)]		(–) 2,700
Net Salary		19,19,300

Working Note : 1 HRA**Salary for H.R.A**

Basic salary	17,45,000
D.A	Nil
Commission on sales	Nil
	₹ 17,45,000

Least of the following is exempt :

- (1) Actual H.R.A – ₹ 67,000
- (2) Rent paid – 10% of salary
56,000 – 1,74,500 = 0
- (3) 40% of salary = ₹ 6,98,000
 $\left(17,45,000 \times \frac{40}{100}\right)$

Note : Employer's contribution to SPF is exempt.

Problem No. 11

Mr. Intax, an accountant of X Ltd., has provided you with the following details of his salary for the previous year 2021-22. Compute the net salary for the A. Y. 2022-23 :

Basic salary	₹	2,40,000
Dearness Allowance – 50% of Basic salary (part of salary)		
House Rent Allowance	₹	12,000
Helper Allowance (actual expenditure ₹ 10,000)	₹	12,000
Education Allowance	₹	6,000
Free Gas and Electricity	₹	2,400
Free Telephone at Residence	₹	9,000
Leave Travel concession (no journey undertaken)	₹	6,400
Contribution to R.P.F. by the employer	₹	24,000

Mr. Intax has two daughters and one son, studying in school. Mr. Intax is staying in a rented house by paying a rent of ₹ 2,500 p.m.

Solution : **Computation of Income from Salary of Mr. Intax
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic Salary		2,40,000
Dearness Allowance		1,20,000
House Rent Allowance	12,000	
Less : Exempt Amount	–	12,000
Helper Allowance	12,000	
Less : Actual expenditure	(–) 10,000	2,000
Education Allowance	6,000	
Less : Exempt amount (100 × 2 × 12)	(–) 2,400	3,600
Free Gas and Electricity		2,400
Free Telephone (not taxable)		–
Leave Travel concession		6,400
Contribution to R.P.F by Employer	24,000	
Less : Exempt Amount (12% of salary)	43,200	Nil
$\left(2,40,000 + 1,20,000 \times \frac{12}{100} \right)$		
Gross Salary		3,86,400
Less : Deductions		
Standard Deduction [Section 16 (i)]		50,000
Net Salary		3,36,400

(1) Working for H.R.A

Salary for the purpose (2,40,000 + 1,20,000) = 3,60,000

Least of the following is exempt :

- (1) Actual H. R. A received – ₹ 12,000
 (2) Rent paid – 10% of salary
 $30,000 - 36,000 = \text{Nil}$
 (3) 40% of salary = $\left(3,60,000 \times \frac{40}{100}\right) = ₹ 1,44,000$
 (4) Free Telephone is not taxable

Problem No. 12

Mr. Manak, a Director of Omega Co. Ltd., Delhi, receives the following salary and perquisites from his employer :

Basic Pay	₹ 16,000 p.m.
Profit Bonus	₹ 18,000 p.a.
D.A. ₹ 2,000 p.m. (enters into retirement benefit)	
Commission on sales @ 4% of sales. Sales made by him	₹ 18,50,000
Advance salary for April to July	₹ 48,000
Employer's contribution towards R.P.F	₹ 8,000 p.m.
Interest credited to R.P.F @ 13%	₹ 26,000

A Rent free accommodation in Delhi. The rent of unfurnished house paid by the employer ₹ 84,000. Rent paid by the employer for the Furniture ₹ 18,000.

He has been provided with the services of a Gardener – @ ₹ 2,000 p.m., Cook – salary ₹ 1,500 p.m. and services of watchman ₹ 4,000 p.m.

Mr. Manak's two children are studying (free) in the school run by the employer. The cost of education in similar institution per student is ₹ 2,000 per month.

Electricity Bill paid by the employer – ₹ 7,000

He has been provided with a car for personal use along with a chauffer. The cost of the car is ₹ 5,00,000. The salary of driver amounting to ₹ 3,000 p.m. is paid by the company. The maintenance expenses are paid by the employee.

The assessee is provided with free lunch during all working days (in all 250 lunches at ₹ 70 each). He received ₹ 17,000 by way of reimbursement of the Hospital bill paid by the employer. He paid professional tax of ₹ 2,500 p.a.

Compute income from salary for the A.Y. 2022-23.

Solution : **Computation of Income from Salary of Mr. Manak**
for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Basic Salary (₹ 16,000 × 12)		1,92,000
Profit Bonus		18,000
Commission on sales (4% of ₹ 18,50,000)		74,000
Advance salary		48,000
Dearness Allowance (2,000 × 12)		24,000
Perquisites		
Value of Rent Free Accommodation		64,200
Gardener's salary (₹ 2,000 × 12)		24,000
Cook's salary (₹ 1,500 × 12)		18,000
Watchman's salary (₹ 4,000 × 12)		48,000
Education facility : (2,000 × 12 × 2)		48,000
Electricity Bill paid		7,000
Motor car (10% of cost of car + Drivers salary)		86,000
Free Lunch (250 × (70 – 50))		5,000
Hospital Bill (Reimbursement)	17,000	
Less : Exempt amt.	(-) 15,000	2,000
Employer's contribution to RPF (8,000 × 12)	96,000	
Less : Exempt Amt. 12% of salary (12% of 2,90,000)		
	34,800	61,200
Interest on RFF	26,000	
Less : Exempt amt. $\left(\frac{26,000}{13} \times 9.5\%\right)$	(-) 19,000	7,000
Gross Salary		7,26,400
Less : Deductions u/s 16 (iii) for professional tax		(-) 2,500
Standard Deduction [Section 16 (i)]		(-) 50,000
Net Salary		6,73,900

Working : (1) Valuation of Rent Free Accommodation

Salary for the purpose :

Basic + Bonus + Commission + D. A = ₹ 3,08,000

Value = 15% of salary of Rent paid whichever is low + Hire charges of Furniture.
 = 46,200 or 84,000 (+) 18,000
 = 46,200 (+) 18,000 = ₹ 64,200

(2) RPF

Salary for the purpose

Basic + D.A + Commission on sales = ₹ 2,90,000

(3) If the cost of education is more than ₹ 1,000/- p.m. per child, then the entire cost becomes taxable.

Problem No. 13

Mrs. Bhargavi receives the following emoluments for the P.Y. 2021-2022 :

Basic Pay	₹	30,000
Dearness Allowance (not a part of retirement benefit)	₹	7,200
Entertainment Allowance	₹	3,000

She is provided with Rent Free Accommodation, owned by the employer at Delhi.

She receives education allowance for her son studying in UK ₹ 600 p.m. Her daughter is studying in an institution owned by the employer at Delhi. Cost of such education in similar institute is ₹ 1,800 p.m. Mrs. Bhargavi pays ₹ 1,000 p.m. to the institute.

The employer also provides her with a gardener – ₹ 100 p.m., a cook from 1.5.2018 – ₹ 200 p.m. and a maid servant ₹ 300 p.m. She is given a laptop costing ₹ 35,000 for both office as well as private purpose.

On 1.10.2019 she is provided with a music system costing ₹ 40,000 for use.

The employer paid ₹ 12,000 towards R.P.F of the assessee. Professional tax paid by the employer ₹ 2,000. Interest credited in the R.P.F @ 8% is ₹ 1,600. Compute the taxable salary keeping in view the fact that she holds 20% of voting power in the company.

Solution : **Computation of Income from Salary of Mrs. Bhargavi
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic pay		30,000
Dearness Allowance		7,200
Entertainment Allowance		3,000
Education Allowance (600 × 12)	7,200	
Less : Exempt Amount (100 × 12)	1,200	6,000
Rent free Accommodation		5,850
Education facility (1,800 × 12)	21,600	
Less : Amount recovered (1,000 × 12)	(-) 12,000	9,600

Particulars	Details (₹)	Amount (₹)
Cook (200 × 11)		2,200
Maid-servant (300 × 12)		3,600
Laptop		–
Use of Music system (10% of 40,000 × $\frac{6}{12}$)		2,000
Professional tax paid by employer		2,000
Employer's contribution to R.P.F	12,000	
Less : 12% of salary (12% of 30,000)	3,600	8,400
Interest on R.P.F (Exempt as it is less than 9.5%)		–
Gross Salary		79,850
Deductions		
Standard Deduction [Section 16 (i)]		(–) 50,000
Professional tax [Section 16 (iii)]		(–) 2,000
Net Salary		27,850

Working : Rent Free Accommodation

Salary for the purpose

Basic Pay – ₹ 30,000

Entertainment Allowance ₹ 3,000

Education Allowance ₹ 6,000

₹ 39,000

Value = 15% of salary = ₹ 5,850 (39,000 × 15/100)

Note : (i) When employee provides rent free accommodation (from the owned source), Gardner's salary is not taxable separately.

(ii) When cost of education is more than ₹ 1000 p.m., the entire amount is taxable.

Problem No. 14

Mr. Tax planner is employed in Weikfield Ltd., Pune. He receives the following emoluments during the P.Y. 2021-22. Basic salary ₹ 15,200 p.m. upto 31st October 2021 and ₹ 16,000 p.m. from 1st November onwards. (salary falls due for payment in the next month).

Dearness Allowance – 20% of Basic salary (part of salary). City compensatory allowance – ₹ 850 p.m.

Uniform Allowance – ₹ 1,000 p.m.. But amount spent was ₹ 850 p.m.

Children Education Allowance – ₹ 350 p.m. (He is having a daughter studying in College).

House Rent Allowance – ₹ 1,500 p.m.

He contributes ₹ 3,000 p.m towards R.P.F and an equal amount is contributed by the employer.

He is having a Motor Car with a c.c 1.5 litres which is used partly for official and partly for personal purpose. Petrol and other expenditure of the car amounting to ₹ 36,000 is paid by the employer. He has been given a gift voucher of ₹ 8,000 on his birthday.

He paid ₹ 3,300 as professional tax and ₹ 60,000 as rent for his residence.

He acquired 1,000 shares of the employer company under the ESOP scheme @ ₹ 45 per share. These shares are listed in the Stock Exchange. The average of opening and closing price of shares on the date of exercise of the option was ₹ 70.

Company transfers Furniture at ₹ 20,000. The cost of the Furniture was ₹ 75,000. It was acquired on 1st May 2021 by the company and was sold to the assessee on 1st of August 2021.

Solution :

(1) Working for H.R.A. : Salary for the purpose

Basic salary [(15,200 × 8) + 16,000 × 4]	1,85,600
Dearness Allowance	37,120
	<u>2,22,720</u>

Least of the following is exempt : (1) Actual H.R.A = 18,000

(2) Rent paid (-) 10%. of salary 60,000 – 22,272 = ₹ 37,728

(3) 40% of salary = ₹ 89,088 $\left(2,22,720 \times \frac{40}{100}\right)$

**Computation of Income from Salary of Mr. Tax planner
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic Salary (15,200 × 8) + (16,000 × 4)		1,85,600
Allowances		
Dearness Allowance		37,120
City compensatory Allowance (850 × 12)		10,200
Uniform Allowance	12,000	
Less : Exempt amount (amount spent)	(-) 10,200	1,800
Children Education Allowance	4,200	
Less : Exempt amount (100 × 1 × 12)	(-) 1,200	3,000
House Rent Allowance	18,000	
Less : Exempt amount	(-) 18,000	-
Perquisites :		-
Motor car [36,000 – (1,800 × 12)]		14,400
Gift		8,000

Particulars	Details (₹)	Amount (₹)
Concessional purchase of shares $1,000 \times (70 - 45)$		25,000
Concession in sale of Furniture		40,000
Employer's contribution to R.P.F.	36,000	
Less : Exempt amount (12% of salary) $\left(1,85,600 + 37,120 \times \frac{12}{100}\right)$	26,726.40	9,273.60
Gross Salary		3,34,393.60
Less : Deductions u/s 16		
Standard Deduction		50,000
Professional tax paid		(-) 3,000
Net Salary		2,81,393.60

(2) Working for Sale of Furniture

Cost of furniture	75,000
Less : Depreciation	
@ 10% under straight line method, for 2 yrs.	<u>(-) 15,000</u>
Book value	60,000
Less : Amt. Recovered	<u>- 20,000</u>
Taxable amt.	<u>40,000</u>

(3) Working for Motor Car

- Since car is owned by the employee, the taxable amount is actual expenditure paid by employer = 1800 p.m.

Problem No. 15

Mr. Akbar employed in Indo Gas Ltd., furnishes the following details of his salary income up to 31.10.2021 :

Basic Pay	₹ 8,000 p.m.
Bonus for the year received in July 2021	₹ 17,200
House Rent Allowance p.m. (He paid ₹ 3,200 p.m as Rent)	₹ 2,800
Club facility for private use	₹ 700 p.m.
Employer's contribution to R.P.F.	₹ 2,800 p.m.

Mr. Akbar also makes an equal contribution.

Free Gas supplied – 12 gas cylinders @ ₹ 350 each (cost ₹ 210)

With effect from 1.11.2021, he joined water supply Co. of the Government and received the following emoluments :

Basic pay per month ₹ 12,000

Rent free Accommodation at Nasik. The license fee as prescribed by Government rule is ₹ 5,000 p.m.

Use of motor car for personal purposes. The cost of running and maintenance of motor car is incurred by the employer. He employs a driver and pays ₹ 2,000 p.m. as salary. The cost of car is ₹ 4,00,000 and expenses of maintenance to the company is ₹ 2,000 p.m.

Employer's contribution to S.P.F. ₹ 2,300 p.m.

Mr. Akbar also makes an equal contribution.

Compute his salary income for the A.Y. 2021-22, if he has paid ₹ 220 p.m. as professional tax.

Solution : **Computation of Income from Salary of Mr. Akbar for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
(a) From Indo Gas Ltd.		
Basic Pay (₹ 8,000 × 7)		56,000
Bonus		17,200
House Rent Allowance	19,600	
Less : Exempt Amount	16,800	2,800
Club facility (₹ 700 × 7)		4,900
Free Gas (12 × 210)		2,520
Employer's contribution to R.P.F (2,800 × 7)	19,600	
Less : 12% of salary (i.e. 56,000)	(-) 6,720	12,880
Total (A)		96,300
(b) From Water Supply Company		
Basic pay (₹ 12,000 × 5)		60,000
Rent Free Accommodation (5,000 × 5)		25,000
Motor car		26,667
Employer's contribution to S.P.F		—
Total (B)		1,11,667
Gross Salary (A + B)		2,07,967
Less : Deductions u/s 16		
Standard Deduction [Section 16 (i)]		(-) 50,000
Professional tax [Section 16 (iii)]		(-) 2,640
Net Salary		1,55,327

Working for H.R.A

Salary for the purpose – $8,000 \times 7 = 56,000$

Least of the following is exempt :

(i) HRA received $(2,800 \times 7)$ ₹ 19,600

(ii) Rent paid – 10% of salary

$(3,200 \times 7) - 10\%$ of 56,000

₹ 22,400 – ₹ 5,600 = ₹ 16,800

(iii) 40% of salary = ₹ 22,400 $\left(₹ 56,000 \times \frac{40}{100} \right)$

Valuation of Motor Car

10% of cost of car for 5 months $\left(40,000 \times \frac{5}{12} \right) = 16,667$

Add : Expenses $(2,000 \times 5)$ (+) 10,000

26,667

Problem No. 16

Mr. Dandekar is employed in Mumbai in the grade of ₹ 24,000 – 1,000 – 30,000 – 1,500, since 1st January 2015. He gets ₹ 3,600 p.m. as Dearness Allowance and ₹ 56,000 p.a. as Medical Allowance. He has been provided with a furnished accommodation by the employer. Furniture costing ₹ 1,30,000 has been provided in the accommodation. He has been provided with the facility of a gardener, a watchman and a servant who are paid ₹ 2,000 p.m, ₹ 1,000 p.m. and ₹ 2,000 p.m. respectively by the employer.

He contributes 15% of his pay and D.A to RPF towards which his employer contributes ₹ 4,000 p.m. Interest amounting to ₹ 23,400 has been credited on the balance of ₹ 1,80,000 standing to his credit in the RPF.

The company sold him a computer on 1.02.2022 at ₹ 7,500. The original cost of it was ₹ 35,000 on 01.02.2019.

The company provides him transport facility from residence to office and back.

Employer paid his life insurance premium of ₹ 8,000 during the year. He was treated in a Government Hospital. The Hospital Bill amounting to ₹ 25,000 was paid by the employer. Compute his net salary for the A.Y. 2022-23. Salary falls, due for payment, at the end of the same months.

Solution : **Computation of Income from Salary of Mr. Dandekar**
for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Basic Salary		3,64,500
Allowances		
Dearness Allowance (₹ 3,600 × 12)		43,200
Medical Allowance		56,000
Perquisites		
Rent free furnished accommodation		82,555
Facility of Gardener (Not taxable)		–
Facility watchman (₹ 1,000 × 12)		12,000
Facility Servant (₹ 2,000 × 12)		24,000
Computer purchase		Nil
Transport Facility (official) (Not taxable)		
Life Insurance Premium		8,000
Hospital Bill (Treatment in Government Hospital)		–
Employer's contribution to R.P.F	48,000	
Less : 12% of salary (on ₹ 4,07,700)	48,924	–
Interest on RPF balance	23,400	
Less : Exempt @ 9.5%	17,100	6,300
		5,96,555
Less : Deduction		–
Standard Deduction u/s 16 (i)		50,000
Net Salary		5,46,555

Working 1

Computations of Basic Salary	₹
1 st January 2015 to 31 st December 2015 =	24,000
1 st January 2016 to 31 st December 2016 =	25,000
1 st January 2017 to 31 st December 2017 =	26,000
1 st January 2018 to 31 st December 2018 =	27,000
1 st January 2019 to 31 st December 2019 =	28,000
1 st January 2020 to 31 st December 2020 =	29,000
1 st January 2021 to 31 st December 2021 =	30,000
1 st January 2022 to 31 st March 2022 =	31,500

Once the employee reaches ₹ 30,000, his increment is ₹ 1,500 p.a.

Basic salary =

From 1st April 2021 to 31st Dec. 2021 = 30,000 × 9 (months) (salary falls due for payment in the same month)
 From 1st January 2022 to 31st March 2022 = 31,500 × 3 (months)

Total = 2,70,000 + 94,500
 = ₹ 3,64,500

Working 2

Valuation of Rent Free Furnished Accommodation

Salary for the purpose

Basic -	₹	3,64,500	
D.A. -	₹	43,200	(assumed to be part of retirement benefit)
Medical Allowance -	₹	56,000	
	₹	<u>4,63,700</u>	

Value of Accommodation = 15% of salary $\left(₹ 4,63,700 \times \frac{15}{100} \right) = 69,555$

Add : 10% of cost of Furniture (+) 13,000
82,555

Working 3

Sale of computer : (after '3' completed years)

Cost of computer =	35,000
Less : Depreciation @ 50%	<u>(-) 17,500</u>
WDV	<u>17,500</u>

Less : Depreciation @ 50%	<u>(-) 8,750</u>
WDV	<u>8,750</u>

Less : Depreciation @ 50%	<u>4,375</u>
WDV	<u>4,375</u>

The sale price is more than the Book value. No concession given to the employee.

Problem No. 17

Mr. Kelkar is an employee in a city having a population of 15 lakhs in Assam. He furnishes the following particulars for computing his salary income for the A.Y. 2022-23 :

Basic salary ₹ 15,000 p.m.

D.A (under terms of employment) 30% of Basic

Children Education Allowance (Two children)	₹ 600 p.m.
Bonus – 30% of Basic Salary	
Entertainment Allowance	₹ 1,000 p.m.
Own contribution to R.P.F – 12% of salary	
Employer's contribution to R.P.F – 14.5% of salary	
Employers contribution to an approved superannuation Fund – 7.5% of salary	
Interest credited to R.P.F balance @ 15% p.a = ₹ 4,000	

He owns a car that he uses for both official and personal purposes. The expenses amounting to ₹ 18,400 is paid by the company. It is estimated that 20% of these expenses relate to personal use.

He is provided with Rent Free Accommodation in the plantation area, the fair rent is ₹ 900 p.m. He is not eligible for the house during the annual vacation for two months. The original cost of the furniture provided is ₹ 40,000.

He was paid a sum of ₹ 10,000 for having saved the company from heavy damages.

Compute the taxable income from salary.

Solution : **Computation of Income from Salary of Mr. Kelkar
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Basic Salary (15,000 × 12)		1,80,000
Bonus (30% of 1,80,000)		54,000
Additional Bonus		10,000
Allowances		
D. A		72,000
Children Education Allowance (600 × 12)	7,200	
Less : Exempt amount (100 × 2 × 12)	2,400	4,800
Entertainment Allowance (1,000 × 12)		12,000
Perquisites		–
Rent Free furnished Accommodation		31,067
Motor Car		14,720
Employer's contribution to R.P.F	36,540	
Less : Exempt and (12% of salary)	(–) 30,240	6,300
Interest on R.P.F	4,000	

Particulars	Details (₹)	Amount (₹)
Less : Exempt Amt. @ 9.5%	(-) 2,533	1,467
Employer's contribution to Superannuation Fund	18,900	
Less : Exempt Amount	(-) 18,900	-
Gross Salary		3,86,354
Less : Deductions u/s 16		
Standard Deduction u/s 16 (i)		50,000
Net Salary		3,36,354

Working Note 1**Rent Free Accommodation**

Salary for the purpose	₹	Value of House –	
Basic	–	10% of salary	= 33,280
Bonus	–	Add : Cost of Furniture	= 4,000
D. A	72,000	(10% of 40,000)	<u>37,280</u>
Education Allowance	4,800	Value for 10 months	= <u>37,280 × 10</u>
Entertainment Allowance	12,000		12
Bonus (additional)	10,000		= ₹ 31,067
	<u>3,32,800</u>		

Working Note 2

Motor Car Exp. of Company	18,400	Statutory deduction is	
Less : 20%	(-) 3,680	1,800 p.m. or 2,400 p.m.	
	<u>₹ 14,720</u>	depending on engine capacity.	

Problem No. 18

Rakesh Deshmukh, the General Manager of Ferrous Ltd., retired on 31st December 2021 after 30 years of service. The particulars of his salary income are as follows :

Salary ₹ 8,000 p.m. from 1.1.2021.

House Rent Allowance ₹ 3,000 p.m. from 1.1.2021.

Medical Expenses reimbursed by the employer ₹ 21,000 for the period from 1st April 2019 to 31st December 2019 which includes ₹ 5,000 paid to Government Hospital.

Rakesh contributes 22% (12% regular and 10% additional) to a Recognised Provident Fund (RPF) and the company contributes 12%.

He lives in a rented house in Delhi and pays ₹ 4,000 p.m. as rent.

He received ₹ 1,50,000 as gratuity. He is not covered under the Payment of Gratuity Act, 1972. He received leave encashment of ₹ 1,60,000 for 16 months leave. Compute his taxable income from salary.

Solution : Computation of Taxable Income from Salary of Mr. Rakesh Deshmukh for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Basic Salary (₹ 8,000 × 9)		72,000
House Rent Allowance (₹ 3,000 × 9)	27,000	
Less : Exempt amount	27,000	–
Reimbursement of medical expenses	21,000	
Less : Statutory amount	(–) 15,000	
Less : Payment made to government hospital	(–) 5,000	1,000
Employer's contribution to R.P.F	8,640	
Less : Exempt amount (12% of salary)	(–) 8,640	–
Gratuity Received	1,50,000	
Less : Exempt amount	(–) 1,20,000	30,000
Leave encashment received	1,60,000	
Less : Exempt amount	(–) 80,000	80,000
Gross Salary		1,83,000
Less : Deduction u/s 16		
Standard Deduction u/s 16 (i)		50,000
Net Salary		1,33,000

Working Notes

(1) House Rent Allowance

Salary for the purpose – ₹ 72,000

Least of the following is exempt :

(a) H. R. A Received – ₹ 3,000 × 9 = 27,000

(b) Rent paid – 10% of salary

36,000 – 7,200 = ₹ 28,800

(c) 50% of salary = ₹ 36,000 (72,000 × 50/100)

(2) Gratuity

Least of the following is exempt :

(a) Actual gratuity received – ₹ 1,50,000

(b) Statutory amount – ₹ 10,00,000

(c) $\frac{1}{2}$ months salary for each completed year of service

$$\left(\frac{1}{2} \times 8,000 \times 30 \text{ years}\right) = \boxed{\text{₹ } 1,20,000}$$

(3) Leave encashment

Least of the following is exempt :

(1) Cash equivalent to leave in credit

$$16 \times 8,000 = \text{₹ } 1,28,000$$

(2) 10 months average salary

$$10 \times 8,000 = \boxed{\text{₹ } 80,000}$$

(3) Amount specified = ₹ 3,00,000

(4) Actual amount received = ₹ 1,60,000

Problem No. 19

Mr. Kincha retires on 31.12.2021 under voluntary retirement scheme approved under the income-tax rules. He was drawing a basic salary of ₹ 6,000 p.m.

Pension after retirement – ₹ 4,000 p.m. He commuted 75% of his pension on 28th February 2022 and received ₹ 1,50,000.

Dearness allowance while in service, as per terms of employment – ₹ 2,000 p.m. Compensation as per scheme received on retirement is ₹ 6,00,000

Gratuity received – ₹ 1,50,000.

Leave salary encashment on retirement – ₹ 72,000

Mr. Kincha has worked for 28 years and 4 months. Leave availed while in service is 19 months. The last increment received was in January 2018. Compute his taxable salary for the A.Y 2022-23.

Solution :

Computation of Taxable Salary of Mr. Kincha

for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Basic Salary (₹ 6,000 × 9)		54,000
D.A (2,000 × 9)		18,000
Pension		
Monthly pension (₹ 4,000 × 2 month)	8,000	
25% of (4,000 × 1) month	1,000	

Particulars	Details (₹)	Amount (₹)
Computed pension received	1,50,000	
Less : 1/3 of full value of pension $\left(\frac{1}{3} \times 1,50,000 \times \frac{100}{75}\right)$	(-) 66,667	83,333
Compensation for retirement	6,00,000	
Less : Amount specified	5,00,000	1,00,000
Gratuity Received	1,50,000	
Less : Exempt amount	1,12,000	38,000
Leave encashment received	72,000	
Less : Exempt amount	72,000	–
Gross Salary		2,93,333
Less : Deductions u/s 16		
Standard Deduction [Section 16 (i)]		50,000
Net Salary		2,43,333

Working**(1) Gratuity : Least of the following is exempt :**

- (a) Actual Gratuity received – ₹ 1,50,000
 (b) Statutory Amount – ₹ 10,00,000
 (c) $\frac{1}{2}$ months salary for each completed year of service

$$\frac{1}{2} \times (6,000 + 2,000) \times 28 = \boxed{\text{₹ 1,12,000}} \text{ (exempt)}$$

(2) Leave Encashment : Least of the following is exempt :

- (a) Actual amount received – ₹ 72,000
 (b) 10 on this average salary $10 \times 8,000 = ₹ 80,000$
 (c) Salary equivalent to the leave to the credit.
 [(28 yrs. of service – 19 months leave availed) = 9 months leave left]

$$9 \times 8,000 = \boxed{\text{₹ 72,000}} \text{ (exempt)}$$

- (d) Statutory amount ₹ 3,00,000

Problem No. 20

Mr. Narendra Kulkarni, who retired from the services of Hotel Samode Ltd., on 31.1.2022, after putting in service of 5 years, received the following amounts from the employer for the year ended 31.3.2022 :

- (1) Salary ₹ 16,000 p.m., comprising of Basic Salary of ₹ 10,000, D.A of ₹ 3,000 and city compensatory allowance of ₹ 2,000 and Night duty allowance of ₹ 1,000.
- (2) Pension @ 30% of Basic salary from 1.2.2018.
- (3) Leave salary of ₹ 75,000. For 225 days of leave accumulated during the 5 years @ 45 days leave for each year.
- (4) Gratuity of ₹ 50,000.

Compute net salary of Mr. Narendra Kulkarni for the A.Y. 2022-23.

D. A. not considered for retirements benefits.

Solution :**Working Notes****(1) Leave salary**

Least of the following is exempt :

- (a) Leave salary received – ₹ 75,000
- (b) Salary equivalent to leave to the credit – ₹ 50,000 exempt.
(5 months × 10,000)

Note : 1 month for each completed year of service)

- (c) 10 months average salary
 $10 \times 10,000 = ₹ 1,00,000$
- (d) Statutory amount = ₹ 3,00,000

(2) Gratuity

Least of the following is exempt :

- (a) Actual Gratuity received = ₹ 50,000
- (b) Statutory amount = ₹ 10,00,000
- (c) $\frac{1}{2}$ month salary for each completed year.
 $= \frac{1}{2} \times 10,000 \times 5 = ₹ 25,000$ exempt

**Computation of Taxable Salary of
Mr. Narendra Kulkarni for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Salary (Basic) (10,000 × 10)		1,00,000
Dearness Allowance (₹ 3,000 × 10)		30,000
City Compensatory Allowance (₹ 2,000 × 10)		20,000
Night duty Allowance (₹ 1,000 × 10)		10,000
Pension received (10,000 × 2) × $\frac{30}{100}$		6,000
Leave salary	75,000	
Less : Exempt amount	– 50,000	25,000
Gratuity	50,000	
Less : Exempt amount	– 25,000	25,000
Gross Salary		2,16,000
Less : Deductions u/s 16		
Standard Deduction [Section 16 (i)]		50,000
Net Salary		1,66,000

QUESTIONS FOR DISCUSSION

(I) Fill in the blanks

- (1) R was employed on 1.9.2007 in the grade of ₹ 15,000-400-17,000-500-22,000. His gross salary for the A.Y. 2018-19 shall be
- (2) 'R' who is entitled to a salary of ₹ 10,000 p.m. took an advance of ₹ 55,000. The gross salary is
- (3) Monthly pension is
- (4) Monthly pension received by a Government employee is
- (5) The facility of gardener is not taxable separately when the Rent Free Accommodation provided to the employee is by the employer.
- (6) Any income is taxable under salary only if and relationship exists.
- (7) Gas, electricity facility provided by the employer is taxable in the hands of employee.

- (8) An employee holding at least % of voting rights is a specified employee.
- (9) Entertainment Allowance received by a Government employee is deductible from Gross salary to the extent of of Basic salary.
- (10) Professional tax paid by the employer on behalf of employee is taxable
- (11) do not term 'salary' for computation of Rent free accommodation.
- (12) The valuation of Rent Free Accommodation of a Government employee is based on determined by Government
- (13) Employee receives ₹ 90 as Education Allowance for each of his two children. The amount of exemption is
- (14) House Rent Allowance is if employee resides in the house owned by him.
- (15) ESOP stands for
- (16) Gift in cash is
- (17) Gift in kind is exempt upto ₹
- (18) Maximum limit for compensation for voluntary retirement is
- (19) Contribution of employer to URPF is, during the service.
- (20) Medical reimbursement is exempt upto
- (21) Leave travel concession is exempt to the maximum of journeys in a block of journeys.
- (22) Meal provided to an employee is exempt upto per meal.
- (23) Refreshment provided to employee is fully
- (24) The value of perquisite is when computer costing ₹ 50,000 has been sold at a concession of ₹ 20,000, after being used for 10 years.
- (25) Interest free loan is a perquisite only if the loan amount exceeds ₹
- (26) Commuted pension is exempt upto of full value of pension if assessee is in receipt of gratuity.
- (27) H.R.A is exempt upto a maximum of % of salary for a house situated in Mumbai.
- (28) % of cost of an asset is taxable perquisite when employee is allowed to use it for personal purpose.
- (29) Rent free Accommodation owned by an employer is taxable upto % of salary in case of metro.
- (30) Withdrawal from unrecognised provident fund is taxable to the extent of contribution and thereon.

Answers

(I) (1) ₹ 2,07,300 (2) ₹ 65,000 (3) taxable (4) taxable (5) owned (6) employer, employee (7) specified (8) 20% (9) 20% (10) perquisite (11) Perquisites (12) license fees (13) ₹ 180 (14) taxable (15) Employees Stock Option Plan (16) fully taxable (17) ₹ 5,000 (18) ₹ 5,00,000 (19) not taxable (20) ₹ 15,000 (21) 2, 4 (22) ₹ 50 (23) exempt (24) nil (25) ₹ 20,000 (26) $\frac{1}{3}$ rd (27) 50% (28) 10% (29) 15 (30) employers, interest.

(II) State whether True or False

- (1) Leave encashment during service is fully taxable.
- (2) Conveyance facility provided by an employer to commute between residence and office is fully taxable.
- (3) Dearness Allowance is taxable only if it is a part of retirement benefits.
- (4) 'Profit in lieu of salary' is taxable under the head 'Income from other sources'.
- (5) Salary received by the member of parliament is taxable under the head salary.
- (6) Employer's contribution to Statutory Provident Fund is fully exempt.
- (7) 'R' is entitled to Hostel Allowance of ₹ 600 p.m for his 3 children @ ₹ 200 p.m. The exemption in this case is ₹ 600 p.m.
- (8) Laptop given by the employer to be used by employee's son is taxable @ 10% of the cost of computer.
- (9) Motor car facility is a Fringe Benefit.
- (10) Interest on R.P.F balance is exempt upto 9.5% of the balance.
- (11) 'Salary' means Basic salary, D.A (forming part of retirement benefit) and commission on sales for the purpose of calculation of H.R.A.
- (12) Deduction for Entertainment Allowance is available for all the categories of employees.
- (13) Transport Allowance is exempt upto ₹ 1600 p.m. for handicapped person.
- (14) Arrears of salary received is not taxable.
- (15) City compensatory allowance is fully taxable.

Answers

(T = True, F = False)

(1) T (2) F (3) F (4) F (5) F (6) T (7) F (₹ 400) (8) F (Not taxable) (9) F (10) T (11) T (12) F (only Government employees) (13) T (14) F (15) T

(III) Answer the following questions

- (1) What is perquisite ? Explain the valuation of any five perquisites.
- (2) How are shares purchased under ESOP scheme valued ?
- (3) State five tax-free perquisites.
- (4) Who are specified employees ?
- (5) Explain the valuation of Motor car.
- (6) How is Gardener's salary treated ?
- (7) Explain the meaning of the term 'salary'.
- (8) Explain the taxability of pension.

(IV) Differentiate

1. Allowance and Perquisite.
2. Rent Free Accommodation and House Rent Allowance.
3. Taxability of commuted pension and monthly pension.
4. Recognised Provident Fund and Unrecognised Provident Fund.
5. Gross salary and net salary.

PROBLEMS FOR PRACTICE

1. Mrs. Sonali is a lecturer in a college. Following are the details of income received by her in the A. Y. 2022-23.

Basic Salary	₹ 14,200 p.m.
Dearness allowance (forms part of retirement benefits)	₹ 4,000 p.m.
City compensatory allowance	₹ 24,000
House Rent allowance	₹ 28,000 p.m.
Examination fees received from university	₹ 4,000

She is a member of recognised provident fund to which she contributes 10% of her salary and her employer also contributes a similar amount.

During the P. Y. she purchased books of ₹ 2,500. She claims deduction for the same.

She lives in her own house. She got re-imburement of Hospitality Bill for ₹ 20,000.

Compute her taxable salary.

Hint : 1. Books can not be claimed as deduction.

2. Examination fees is taxable under the head 'Income from Other sources'.

2. Krishna Bhatt is employed in a company in Pune. He is in the grade, 18,000 – 500 – 22,000 – 1,000 – 30,000 since 1.1.2015. He is paid 20% of salary as dearness

allowance and ₹ 5,000 p.m. as house rent allowance. He pays a rent of ₹ 6,500 p.m. He contributes 17% of his salary and dearness allowances to a Recognised provident fund. Employer also contributes a similar amount.

He is provided with a motor car, used partly for official purpose and partly for office purpose. A driver has also been provided. The running and maintenance expenses are borne by the employer. His telephone bill of ₹ 2,000 and Gas bill of ₹ 1,200 has been paid by the employer. Compute the income from salary for the A. Y. 2022-23.

(Calculate H.R.A. for the parts separately for each of the different Basic + D. A.)

3. The following particulars of income from salary of Rakesh Sharma an employee of XYZ Ltd. is provided for the current Financial Year :

Basic Salary – ₹ 13,000 p.m., D. A. – ₹ 3,000 p.m., Advance salary ₹ 39,000; Bonus – ₹ 15,000. Furnished accommodation in the city having population between 10 and 25 lakh. Cost of furniture is ₹ 1,00,000. Education allowance ₹ 40 p.m. for each of three children. He spent ₹ 1,500 as professional tax.

Compute his income from salary.

INCOME FROM HOUSE PROPERTY

2.2 INCOME FROM HOUSE PROPERTY

- "As per Section 22 of the Income Tax Act, the annual value of a property consisting of any building or land appurtenant thereto of which, assessee is the owner, other than such portion of such property as he may occupy for the purposes of any business or profession carried on by him shall be chargeable to Income Tax under the head "Income from House Property".
- Taxability under the head, "Income from house property", arises if the following conditions are satisfied :

1. The Property Consists of Building or Land Appurtenant Thereto :

The term house property is not defined in the Act. But various judicial interpretation confirm the meaning of house property as any land surrounded by wall whether having roof or not and any land appurtenant to a building .

The following points need to be noted :

- (a) Building includes tiled house with cement or mud wall.
- (b) RCC buildings, palaces.
- (c) Apartments / Flats (each flat is a house property).
- (d) Bungalows, Row Houses, Beach Houses and Pent houses.

- (e) Auditoriums.
- (f) Godowns, Warehouses.
- (g) Offices, Commercial shops, Theatres.
- (h) Farm houses, College buildings, Library buildings.

Conditions

- (a) The buildings should be a permanent structure. Thus, temporary structures such as circus tents, exhibition structures etc. are not house property.
- (b) It may be located in India or in a foreign country : Foreign property is taxable in case of ordinarily resident. If house property income is received in India, then even the not ordinarily residents and non-residents have to pay tax on it.
- (c) Lawns, gardens, parking places, back-yard, approach roads etc. attached to a building are also taxable under the head Income from House Property.
- (d) Building includes commercial as well as residential house property.
- (e) Vacant land which is not attached to a building is not a house property.
- (f) An incomplete structure and buildings which are in a dilapidated condition are not considered to be house property, e.g., if substantial structure of a house property is destroyed due to an earthquake.

2. Assessee is the Owner

- Annual value of a property is assessed to tax only in the hands of the owner, even if he is not in receipt of any income. A person, who is not the owner of the property, is not assessed even if he is in receipt of income from the property.
- The term **owner** includes :
 - (a) Legal owner,
 - (b) Beneficial owner,
 - (c) Deemed owner.

(a) Legal Owner

- Legal owner has the ownership title to the property.

(b) Beneficial Owner

- Beneficial owner is one who enjoys the property as owner but is not the legal owner.

(c) Deemed Owner

- Transferer of property to spouse or minor child holder of impartible estate (not divisible), property held by a member of a corporate body, in whose favour a house property, has been allotted or leased under the House Building Scheme of the company, or association, etc. are considered to be deemed owner of the said property.

3. Property is not used by the Assessee for the purposes of his Own Business or Profession

If the owner of a property carries on his own business or profession, in the property, the annual value thereof is not taxable, provided, income of such business or profession is chargeable to tax.

4. Annual Value

It is interesting to note that it is the annual value or the earning capacity of the house property which is taxable and not the actual income. Actual income is one of the considerations in determining the annual value of the property.

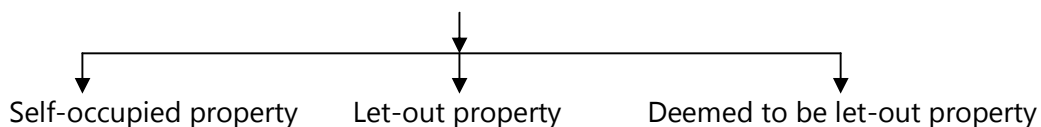
5. Exempted Properties

- Income from the following properties are exempted from tax :
 - (a) Any one place or part thereof an ex-ruler, provided it is not let-out.
 - (b) House property of a local authority.
 - (c) House property of an approved scientific research association.
 - (d) House property of an educational institution.
 - (e) House property of a Hospital.
 - (f) House property of a person who is a resident of Ladakh.
 - (g) House property of a political party.
 - (h) House property of a trade union.
 - (i) A farm house.
 - (j) House property held for charitable purpose.
 - (k) House property used for own business or profession.

Computation of Income : SOP

- For the purposes of computation of Income from House Property, the property can be grouped under three categories :

Types of House Property



(I) Self-Occupied Property [Sec. 23 (2) (a)]

Meaning

- According to the Act, a house property is self-occupied if it is occupied for own residential purpose, by an individual or by a Hindu Undivided Family (for residence of its member). Property used for one's own business or profession is not a self-occupied property. It is rather exempt from tax. If a property is partly

self-occupied and partly vacant, the whole property will get the status of self-occupied property. On the other hand, if it is partly self-occupied and partly used for own profession or business, then the part used for self-occupation is treated as self-occupied and the other part is exempt.

From AY 2020-21, the benefit of considering the houses as self-occupied has been extended to 2 houses.

Computation of Annual Value

- The annual value of a self-occupied property is taken as nil. No deduction for Municipal taxes paid, or repairs, insurance etc. is allowed. The best part of SOP is that deduction u/s 24 (b) is available for interest on borrowed capital. It means if the assessee has borrowed any loan for the purposes of construction or acquisition of the property, the amount of interest on such loan is deductible from the net annual value, which is nil. In such a case, the taxable value of the house property becomes negative. When such negative income is added with other taxable incomes, it reduces the total taxable income of the assessee. However, there is a ceiling to the claim for interest deduction.
- Interest is deductible upto ₹ 2,00,000 (on Accrual basis) in the case of self-occupied property if the following conditions are satisfied :
 - (a) Capital is borrowed on or after April, 1999 for acquisition or construction of House property.
 - (b) The acquisition or construction is completed within 3 years from the end of the financial year in which the capital was borrowed.
 - (c) The person extending the loan certifies that such interest is payable in respect of the loan taken for construction or purchase of the House property or for the repayment of the earlier loan taken for construction or acquisition.
- If these (or any of these) conditions are not satisfied, then the amount of deduction allowed as deduction for interest is restricted to ₹ 30,000 only. It may be noted that actual interest on loan or the ceiling amount, whichever is low, is allowed as deduction.

[Note: With effect from Assessment Year 2020-21, deduction for interest paid or payable on borrowed capital shall be allowed in respect of two self-occupied house properties. However, the aggregate amount of deduction under this provision shall remain same i.e., ₹ 30,000 or ₹ 2,00,000, as the case may be. Interest is classified as pre-construction period interest and post construction period interest].

• **In the following Situations, Gross Annual Values (GAV) is taken as Nil :**

- (i) The property is used throughout the previous year for own residential purposes, it is not let out or put to any other use.
- (ii) If the property could not be occupied throughout the previous year, because employment, business or profession is at some other place (and has not used or let-out).
- (iii) When a part of a house property (which is independent) is self-occupied and the other part is let-out, then, only the self-occupied property's GAV is taken as Nil.
- (iv) When an assessee has occupied more than one property for residence then one property, as per his choice is treated as self-occupied and other self-occupied properties are treated as deemed to be let-out property'.

• **In the following Cases, House Property is Treated as Let-out Property :**

- (i) When property is self-occupied for a part of the year and let-out for the other part of the year.
- (ii) When the property is let-out for the whole year.
- (iii) When a property has more than one property and the self-occupied part is inseparable from the let-out portion (not independent) then the whole property is treated as let-out property.

Computation of Income from House Property : (LOP)

• **Let-Out Property [Sec. 23(1)]**

Income from let-out property is computed as under :

**Computation of Income from House Property
for the A.Y. 2022-23**

Particulars	Details	Amount
Gross Annual Value (GAV)		Xxx
Less : Municipal Taxes paid		(-) xxx
Net Annual Value (NAV)		Xxx
Less : Deduction u/s 24		
(a) Standard Deduction [@ 30% of NAV]	xxx	
(b) Interest on Borrowed Capital	xxx	(-) xxx
Income from House Property		

Gross Annual Value

- Since the taxable income under income from house property is not the rent earned but the inherent earning capacity of the house property, the annual value of the let-out property needs to be calculated. The following factors are considered for determining the annual value :

(a) Actual Rent Receivable (ARR)

- The rent of the property for the previous year is the ARR whether it is received or not. Rent is computed on an accrual basis. It is to be noted that advance rent received during the period is not considered. If rent includes the changes for amenities provided by the owner, then accrual rent is the rent receivable less the cost of amenities.

(b) Municipal Value of the Property

- It is the value determined by the Municipality. The property owners pay tax on the Municipal Value.

(c) Fair Rent (Notional rent)

- It means the rent fetched by a similar property in the same or similar locality. The owners may lend property at a higher rate or lower rate due to emergency, relationship etc.

(d) Standard Rent

- It is the maximum rent, which a person can legally charge under the Rent Control Act, prevailing in the State in which the property is situated. A property owner cannot recover more than the standard rent.

□ Steps for Computation of Gross Annual Value (GAV)***Step 1 : Calculate Reasonable Expected Rent of the Property (RER)***

- It is the higher of Municipal value and fair rent of the property. The reasonable expected rent cannot be more than the standard rent. That means, the higher value between the Municipal value and Fair rent is compared with the standard rent and the lower amount is the RER.

Step 2 : Calculate Actual Rent Receivable after excluding Unrealised rent (but before deducting loss due to vacancy)

- Unrealised rent is deducted from the rent of P.Y., if the following conditions are satisfied :
 - (a) The tenancy is bonafide.
 - (b) Steps have been taken to compel the defaulting tenant to vacate the property.

- (c) The defaulting tenant is not occupying any other property of the assessee.
- (d) All reasonable steps have been taken (legal) for the recovery of the unpaid rent.

Step 3 : *The values calculated under Step 1 and Step 2 need to be compared and the higher one is taken.*

Step 4 : *Find out the loss due to vacancy.*

Step 5 : *The value under Step 3 minus the vacancy under Step 4 is the Gross Annual value.*

Deductions from Gross Annual Value

- From the GAV, Municipal taxes are allowed as deduction provided :
 - (a) These taxes are borne by the owner.
 - (b) The taxes are actually paid by the owner during the previous year.
 - (c) The tax paid must be related to the A.Y. or any year preceding the P.Y. Advance Municipal tax paid is not allowed as deduction.

In case Municipal Tax paid for several previous years and the total tax paid exceeds the GAV, then the Net Annual value can be – negative (i.e. GAV - Municipal Tax)

■ Deductions from the Net Annual Value [Section 24]

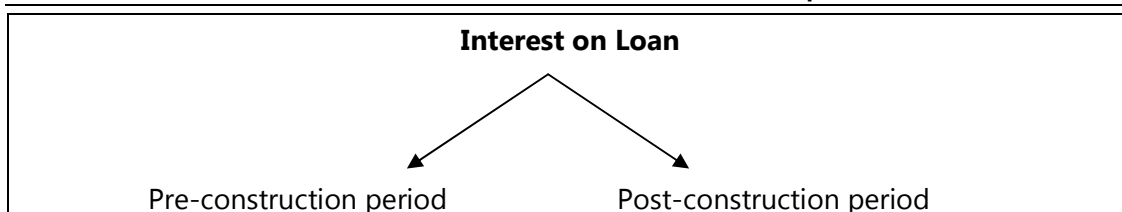
- The annual value after deduction of Municipal taxes is the Net Annual Value of the property. Deductions u/s 24 (a) and u/s 24 (b) is available for a let-out property.

(a) U/s 24 (a)

- Standard deduction of 30% of NAV is allowed as deduction in respect of all expenditure like repairs, rent collection charges, insurance etc. (other than interest). No deduction is allowed for the expenses incurred. The standard deduction of 30% is available irrespective of whether the owner incurs any expenditure in the P.Y. or not.

(b) U/s 24 (b)

- Interest payable on amount borrowed for the purpose of purchase, construction, renovation, repairs, extension, or reconstruction of house property, can be claimed as deduction on an accrual basis.

**(a) Pre-construction Period**

- It is the period starting from the day of borrowing or day of commencement of construction whichever is later and ending on 31st March immediately prior to the year of completion of construction. Interest for the pre-construction period is accumulated and claimed as deduction over a period of 5 continuous years in equal instalments, from the year of completion of construction.

(b) Post-construction Period

- Post-construction period starts from the beginning of the financial year in which construction is completed and ends on the repayment of loan.
- The following interest paid on loan borrowed is not allowed as deduction :
 - (i) Interest on loan taken to pay interest on old loan (taken in connection with house property), is not allowed as deduction.
 - (ii) Interest on loan taken to pay Municipal tax, is not allowed as deduction.
 - (iii) Interest payable outside India is not allowed as deduction if tax is not deducted in respect of such interest and if there is no agent in India in respect of such interest.

Tax Benefits for Home from AY 2020-21

Tax Benefits	On Principal Repaid	On Interest Paid
(i) First House - Self Occupied :	<ul style="list-style-type: none"> • Actual Principal repaid subject to a maximum of ₹ 1,50,000 (₹ 2 lakh for senior citizens) can be claimed as investment eligible for deduction u/s 80 C. 	<ul style="list-style-type: none"> • Actual home loan interest paid subject to a maximum of ₹ 2,00,000 (₹ 3 lakh for senior citizens), if house construction completed within 5 years from the end of the financial year in which loan is taken. • If construction of house is not completed within five years, then ₹ 30,000 is tax exempt.

Tax Benefits	On Principal Repaid	On Interest Paid
		<ul style="list-style-type: none"> Additional exemption of upto ₹ 50,000 on interest paid for loans upto ₹ 35 lakhs with cost of home upto 50 lakhs.
(ii) First House Rented/Vacant (Deemed to be Let-out Property)	<ul style="list-style-type: none"> Upto ₹ 1,50,000 (₹ 2 lakhs for senior citizens) is eligible for tax deduction u/s 80C. The deduction is available only if the property owner is staying in a different city for work. 	<ul style="list-style-type: none"> For the AY 2020-21, actual interest paid on each property can be set-off from income with no upper-limit. For the AY 2020-21, exemption on interest has been capped at lower of two, i.e. ₹ 2,00,000 or actual interest paid for all properties owned by a tax payer.
(iii) Second House/ Additional Property	None	<ul style="list-style-type: none"> For AY 2020-21, actual interest paid on each property can be set-off from income with no upper limit. For AY 2020-21, exemption on interest has been capped at lower of two, i.e.; ₹ 2,00,000, or actual interest paid for all properties owned by a tax payer.

• **Deemed to be Let-out Property [Sec. 23 (4)]**

- Where the assessee occupies more than one house property or self-occupied or has more than one unoccupied property, then only one of such properties, at his choice, shall be taken as self-occupied and the rest of the properties shall be treated as 'deemed to be let-out property'.
- Gross Annual Value of a deemed to be let-out property is determined on the basis of step 1 only. Since the assessee does not receive any rent from the property, other steps are irrelevant.

• **Computation of Income from Deemed to be Let-out Property**

Particulars	Details	Amount (₹)
Gross Annual value (GAV)		Xxx
Less : Municipal taxes		(-) xxx
Net Annual Value (NAV)		
Less : Deduction u/s 24		
(a) Standard deduction @ 30% of NAV	xxx	
(b) Interest on capital borrowed	xxx	(-) xxx
Income from House Property		

• **Other Important Points**

(a) Treatment of Unrealised Rent, Realised Subsequently

- Unrealised rent, claimed as deduction earlier, if is realised in any subsequent year, then the amount, not charged to tax in the relevant P.Y., is considered as income in the year when it is collected. No deduction is available. An important point to be noted in this is that this income is taxable under the head income from house property, even if he is not the owner of the property in the year such rent is collected.

$$\text{Taxable Amt.} = [\text{Unrealised Rent recovered} + (\text{ARR} - \text{Unrealised Rent}) - \text{GAV}]$$

Note : ARR and GAV of the concerned year to be considered in which the rent remained unrealised.

(b) Treatment of Arrears of Rent

- Arrears of rent is taxable in the year in which it is collected, even if the assessee is not the owner of the property. Standard deduction is available for the arrears so collected, i.e. 30% of the rent so collected is deducted and the rest is taxable as income from house property.

$$\text{Taxable Amt.} = [\{\text{Arrears of Rent} + (\text{ARR} - \text{Unrealised Rent})\} - \text{GAV}] - 30\%$$

(c) Composite Rent and its Treatment

- When owner charges along with the rent of the building, the charges for other amenities provided to the tenant, then it is called composite rent.

- The rent of the property should be separated from other charges and taxability needs to be calculated under the head, 'Income from House Property'. In such cases, income from amenities is charged under the head, 'Profits and Gains of Business or Profession' or 'Income from Other Sources'. On the other hand, if rent is not separable, the rent so received is treated as income from "Profits and Gains of Business or Profession" or "Income from Other Sources."

□ **Current Scenario 1 : One Self-occupied and One Let-out House Property**

- The interest on housing loan can be claimed as a deduction upto ₹ 2 lakhs for a self-occupied house property and there is no limit for the let-out house property.
- If the computation results in loss from two house properties, then maximum of ₹ 2 lakhs can be set-off against other heads of income and balance can be carried forward for 8 assessment years. And, this loss can be used to set-off income from house property only.

New Amendment (AY 2020-21)

- Now as per new amended provisions, both house properties would be considered as self-occupied and notional income (basis deemed to be let-out) would not trigger in this case.
- The total interest on both the home loans (self-occupied house properties) that can be used as deduction is limited to ₹ 2 lakhs.

□ **Tax Benefits on Home Loans for Joint Owners**

- The joint owners who are the co-borrowers of a self-occupied house property, can claim a deduction of interest on the home loan upto to ₹ 2 lakh each.
- Deduction on principal repayments, including a deduction for stamp duty and registration charges u/s 80 C within the overall limit of ₹ 1.5 lakhs for each of the joint owners.
- These deduction are allowed to be claimed in the same ratio as that of the ownership share in the property.

PRACTICAL SOLVED PROBLEMS**INCOME FROM HOUSE PROPERTY****Computation of Gross Annual Value****Problem No. 1****(When there is neither unrealised rent nor vacancy period)**

Calculate Gross Annual value for the following properties :

Particulars	House – I (₹)	House – II (₹)	House – III (₹)
Municipal Value p.a.	1,20,000	1,50,000	1,80,000
Fairs Rent p.a	1,05,000	1,55,000	1,68,000
Standard Rent p.a.	Not Applicable	1,80,000	1,44,000
Actual Rent Receivable	1,00,000	1,75,000	1,00,000
Period of the previous year (in months)	12 months	12 months	10 months

Solution : We need to calculate Reasonable Expected Rent (RER), Actual Rent Received or receivable (ARR) and then the Gross Annual Value (GAV).

Particulars	House – I (₹)	House – II (₹)	House – III (₹)
Municipal Value (a)	1,20,000	1,50,000	1,50,000
Fair Rent (b)	1,05,000	1,55,000	1,40,000
Higher of (a) and (b) [A]	1,20,000	1,55,000	1,50,000
Standard Rent [B]	–	1,80,000	1,20,000
Lower RER of [A] and [B]	1,20,000	1,55,000	1,20,000
Actual Rent Received/Receivable (ARR)	1,00,000	1,75,000	1,00,000
Gross Annual Value [Higher of RER and ARR]	1,20,000	1,75,000	1,20,000

Note : For House three (House-III), the period is 10 months, which means the House was acquired/ constructed only on 1st of June (1st June to 31st March = 10 months).

Hence, Municipal Value, Fair Rent and Standard Rent have been taken for 10 months and Actual Rent Received/Receivable is considered to be for 10 months.

$$\text{Municipal Value : } \frac{1,80,000}{12} \times 10 = ₹ 1,50,000 \text{ (for 10 months)}$$

$$\text{Fair Rent : } \frac{1,68,000}{12} \times 10 = ₹ 1,40,000$$

$$\text{Standard Rent : } \frac{1,44,000}{12} \times 10 = ₹ 1,20,000$$

Problem No. 2

When there is vacancy period and no unrealised rent, Compute GAV in the case of following properties for the A.Y. 2020-21 :

Particulars	House – A (₹)	House – B (₹)	House – C (₹)
Municipal Value p.a.	3,00,000	5,00,000	3,00,000
Fair Rent p.a	6,00,000	1,80,000	4,00,000
Standard Rent p.a.	1,80,000	2,25,000	2,40,000
Actual Rent p.a.	9,00,000	2,40,000	2,40,000
Vacancy Period	3	1	1

Solution :

When there is vacancy and no unrealised rent, the loss due to vacancy is deducted from the Higher amount between RER and ARR.

Particulars	House – A (₹)	House – B (₹)	House – C (₹)
Municipal Value (a)	3,00,000	5,00,000	3,00,000
Fair Rent p. a. (b)	6,00,000	1,80,000	4,00,000
Higher of (a) and (b) [A]	6,00,000	5,00,000	4,00,000
Standard Rent [B]	1,80,000	2,25,000	2,40,000
RER Lower of [A] and [B]	1,80,000	2,25,000	2,40,000
ARR	9,00,000	2,40,000	2,40,000
Higher of RER and ARR	9,00,000	2,40,000	2,40,000
Loss due to vacancy (Rent p.m × vacancy period)	(-) 2,25,000	(-) 20,000	(-) 20,000
GAV	6,75,000	2,20,000	2,20,000

Problem No. 3

(When there is unrealised rent but no vacancy)

Calculate Gross Annual Value from following particulars :

Particulars	A ₁ (₹)	A ₂ (₹)	A ₃ (₹)
Municipal Value	90,000	30,000	3,15,000
Fair Rent	3,00,000	3,00,000	3,00,000
Standard Rent	50,000	2,40,000	5,00,000
Actual Rent	120,000	1,80,000	1,50,000
Unrealised rent of the previous year 2021-22	20,000	15,000	25,000

Solution :

Unrealised rent is deducted from the Annual Rent Received or Receivable (ARR)

Particulars	A ₁ (₹)	A ₂ (₹)	A ₃ (₹)
Municipal Value (a)	90,000	30,000	3,15,000
Fair Rent (b)	3,00,000	3,00,000	3,00,000
Higher of (a) and (b) = [A]	3,00,000	3,00,000	3,15,000
Standard Rent [B]	50,000	2,40,000	5,00,000
RER Lower of [A] and [B]	50,000	2,40,000	3,15,000
Actual Rent -Unrealised Rent (ARR)	1,00,000	1,65,000	1,25,000
Higher of RER and ARR is the Gross Annual value	1,00,000	2,40,000	3,15,000

Problem No. 4

(When both vacancy and unrealised rent exist)

Compute Gross Annual Value for the following properties :

Particulars	H ₁ (₹)	H ₂ (₹)	H ₃ (₹)
Gross Municipal Value	1,58,000	1,80,000	1,20,000
Fair Rent	1,40,000	1,45,000	2,40,000
Standard Rent	1,20,000	2,40,000	3,00,000
Annual Rent	1,80,000	3,00,000	1,50,000
Unrealised Rent of the previous year 2021-22	25,000	40,000	20,000
2020-21	30,000	50,000	60,000
Period of vacancy (in months)	3 months	1 month	2 month

Solution :

Particulars	H ₁ (₹)	H ₂ (₹)	H ₃ (₹)
Municipal Value (a)	1,58,000	1,80,000	1,20,000
Fair Rent (b)	1,40,000	1,45,000	2,40,000
Higher of (a) and (b) = [A]	1,58,000	1,80,000	2,40,000
Standard Rent [B]	1,20,000	2,40,000	3,00,000
Lower between [A] and [B] = RER	1,20,000	1,80,000	2,40,000
ARR (Annual Rent – Unrealised Rent)	1,55,000	2,60,000	1,30,000
Higher of PER and ARR	1,55,000	2,60,000	2,40,000
(-) Loss due to vacancy	45,000	25,000	25,000
Gross Annual Value	1,10,000	2,35,000	2,15,000

Problem No. 5

Ramesh is the owner of a house. The house has been let-out for an annual rent of ₹ 1,000 p.m. The annual value of the house property is ₹ 10,000. The expenses that have been incurred in connection with the house are as follows :

Municipal Tax	₹ 1,000
Collection Charges	₹ 800
Annual Charge on Property	₹ 1,000

House remained vacant for a month during the previous year. Calculate the taxable income from house property for the A.Y. 2022-23.

**Solution : Computation of Income from House Property of Mr. Ramesh
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details	Amount (₹)
Gross Annual Value		11,000
Less : Municipal Taxes		- 1,000
Net Annual Value		10,000
Deduction u/s 24		
(i) Standard Deduction @ 30% of NAV	3,000	
(ii) Interest on Loan	-	3,000
Income from House Property		7,000

Working Notes : Gross Annual Value is the higher amount between Annual value and Annual Rent Received or Receivable i.e. 10,000 or (12,000 – 1,000 = ₹ 11,000) ∴ ₹ 11,000 is taken as GAV

Vacancy rent is deducted from the Higher Amount to determine GAV.

Problem No. 6

Mr. Rajan constructed a house property for which he borrowed ₹ 2,00,000 @ 12% p.a. on 1.10.2020. The construction of the house was completed by the end of January, 2021. The property has been let out for ₹ 6,000 p.m from 1st April 2021. Municipal taxes paid during the year were ₹ 7,500. Repair charges incurred were ₹ 12,500. Municipal value of the property is ₹ 75,000. Fair Rent is ₹ 1,00,000 and Standard Rent is ₹ 85,000. He paid ₹ 20,000 towards interest on Loan. Compute the income from house property for the A.Y. 2022-23.

Solution : **Computation of Income from House Property of Mr. Rajan**
for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Amount (₹)	Amount (₹)
Municipal Value	75,000	
Fair Rent	1,00,000	
Higher Amount	1,00,000	
Standard Rent	85,000	
RER (Lower Amount)	85,000	
Annual Rent (6,000 × 12)	72,000	
Gross Annual Value (Higher between RER and ARR)		85,000
Less : Municipal Taxes paid		(-) 7,500
Net Annual Value		77,500
Deductions u/s 24		
(i) Standard Deduction @ 30% of ₹ 77,500	23,250	
(ii) Interest on Loan	24,000	47,250
Income from House Property		30,250

Working Notes

- (1) Interest on loan is allowed on accrual basis and hence interest for the whole year i.e. ₹ 24,000 has been allowed as deduction and not ₹ 20,000 i.e. amount paid.
- (2) No pre-construction interest as the year of completion is the last A.Y. in which the construction began.

Problem No. 7

Arjun owns a house property, the construction of which was completed on 31st May, 2021. On 1st October, 2020, he had borrowed a loan of ₹ 5,00,000 for the construction of the property, @ 12.5% p.a. The property has been let-out since 1st of June for a rent of ₹ 10,000 p.m. Other particulars related to the house property are as follows :

Municipal Value p.a.	₹ 1,20,000
Fair Rent p.a.	₹ 1,35,000
Standard Rent p.a.	₹ 1,05,000
Municipal Taxes paid	10% p.a.

Repair Charges paid ₹ 3,000

Collection Charges paid ₹ 5,500

Compute the taxable income from House property of Mr. Arjun for the A.Y. 2022-23.

Solution :**Calculation of Gross Annual Value**

Municipal value → $\frac{1,20,000}{12} \times 10 = ₹ 1,00,000$

(10 months)

Fair Rent (10 months) → $\frac{1,35,000 \times 10}{12} = 1,12,500$

Higher Amount → 1,12,500

Standard Rent (10 months) → $\frac{1,05,000}{12} \times 10 = 87,500$

Reasonable expected rent (Lower of the two) = 87,500

Annual Rent Receivable (10,000 × 10) = 1,00,000

Gross Annual Value (Higher Amt. between RER and ARR) = 1,00,000

**Computation of Income from House Property of Mr. Arjun
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Amount (₹)	Amount (₹)
Gross Annual Value		1,00,000
Less : Municipal Taxes paid (10% of M.V)		(-) 10,000
Net Annual Value		90,000
Deduction u/s 24		
(i) Standard Deduction @ 30% of NAV	27,000	
(ii) Interest on Loan : Current year		
Pre-construction	6,250	33,250
Income from House Property		56,750

Working Notes :

- (i) Pre-construction interest : From the date of loan to the 31st March of the year when construction is completed i.e., from 1.10.2020 – 31.3.2020 on

$$5,00,000 \times \frac{12.5}{100} \times \frac{6}{12} = ₹ 31,250$$

Pre-construction interest is allowed in 5 equal instalments, beginning with the year in which construction is completed :

$$\frac{31,250}{5} = ₹ 6,250$$

$$(ii) \text{ Annual interest : } 5,00,000 \times \frac{12.5}{100} = ₹ 62,500$$

Problem No. 8

Mr. Karthik is the owner of a House Property

Municipal value ₹ 2,45,000

Fair Rent ₹ 16,500 p.m.

Standard Rent ₹ 16,800 p.m.

Rent ₹ 18,000 p.m.

The house remained vacant for 1 month. He paid Municipal taxes of ₹ 20,000 out of which ₹ 8,000 was contributed by the tenant. He had borrowed a loan of ₹ 10,00,000 @ 11.5% p.a. in the year 2011. He paid ₹ 5,00,000 of the loan in the year 2017 on 30th June. Compute the taxable income from House property for the A.Y. 2022-23.

Solution :**Working Note 1 : Calculation of Gross Annual Value**

Municipal Value	₹ 2,45,000
Fair Rent (16,500 × 12)	₹ 1,98,000
Standard Rent (16,800 × 12)	₹ 2,01,600
Reasonable Expected Rent	₹ 2,01,600
Annual Rent Received / Receivable	₹ 2,16,000
Gross Annual value	
(2,16,000 – 18,000)	₹ 1,98,000

**Computation of Income from House Property of Mr. Karthik
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Amount (₹)	Amount (₹)
Gross Annual Value		1,98,000
Less : Municipal Taxes paid		(–) 12,000
Net Annual Value		1,86,000
Deduction u/s 24		
(i) Standard Deduction @ 30% of 1,86,000	55,800	
(ii) Interest on Loan	71,875	1,27,675
Income from House Property		58,325

Working Note 2 :

(1) Interest on Loan :	₹
On 10,00,000 × $\frac{11.5}{100} \times \frac{3}{12}$ =	28,750
On 5,00,000 × $\frac{11.5}{100} \times \frac{9}{12}$ =	43,125
Total Interest	71,875

(2) Vacancy rent has been deducted from the higher amount between RER and ARR.

(3) Municipal taxes paid by the tenant is not allowable as deduction.

Problem No. 9

Mrs. Rama is the owner of a two storied house in Hyderabad. She gets a monthly rent of ₹ 7,000 from her tenant in the ground floor. The first floor is identical in all respects. It is given on rent to her friend from whom she charged ₹ 5,000 p.m. as rent, the friend stayed up to 31.12. 2021. On 1st January 2022, it was let-out to a tenant at a rent of ₹ 7,000 p.m. Municipal tax paid by her for the property was ₹ 10,000, including ₹ 2,000 for the next year i.e. 2022-23. The Municipal value of the property is ₹ 2,00,000. The standard rent is ₹ 1,80,000 for the property. She paid interest on loan taken for the construction of the first floor ₹ 20,000 in the P.Y. She incurred ₹ 7,500 as repair expenses. Compute the taxable income from House property of Mrs. Rama for the A.Y. 2022-23.

Solution :

Calculation of Gross Annual value	Ground Floor (₹)	First Floor (₹)
Municipal Value	1,00,000	1,00,000
Fair Rent (7,000 × 12)	84,000	84,000
Standard Rent	90,000	90,000
Reasonable expected rent	90,000	90,000
Annual Rent Receivable	84,000	66,000
Gross Annual value	90,000	90,000

**Computation of Income from House Property of Mrs. Rama
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Amount (₹)	Amount (₹)
Ground Floor		
Gross Annual Value		90,000
Less : Municipal Taxes paid		(-) 4,000
Net Annual Value		86,000
Less : Deductions u/s 24		
(i) Standard Deduction @ 30% of NAV	25,800	
(ii) Interest on Loan	-	25,800
Income from Property		60,200
First Floor		
Gross Annual Value		90,000
Less : Municipal Taxes paid		4,000
Net Annual Value		86,000
Less : Deductions u/s 24		
(i) Standard Deduction (30/100 × 86,000)	25,800	
(ii) Interest on Loan	20,000	45,800
Income from House property		40,200
Total Income from House property (60,200 + 40,200)		1,00,400

Working Notes

- (1) Advance, Municipal tax is not allowed as deduction.
- (2) Fair rent for the house in the First Floor is ₹ 7,000 p.m.
Monthly rent charged to the friend is less than Fair rent.

Problem No. 10

Compute income from House property of Mr. Sharma for the A.Y. 2022-23 (F.Y. 2021-22).

Particulars	House A (₹)	House B (₹)	House C (₹)
Municipal value of the House	1,80,000	1,80,000	3,36,000
Fair Rent	2,14,000	2,00,000	3,50,000
Standard Rent	1,86,000	2,10,000	3,45,000
Annual Rent	1,98,000	2,16,000	3,60,000
Unrealised Rent	6,000	15,000	1,50,000
Municipal tax paid	18,000	18,000	33,600
Interest on Capital	40,000	42,000	1,56,000

Solution :**Calculation of Gross Annual Value**

Particulars	House A (₹)	House B (₹)	House C (₹)
Municipal value	1,80,000	1,80,000	3,36,000
Fair Rent	2,14,000	2,00,000	3,50,000
Standard Rent	1,86,000	2,10,000	3,45,000
Reasonable Expected Rent	1,86,000	2,00,000	3,45,000
Annual Rent less unrealised rent	1,92,000	2,01,000	2,10,000
Higher Amount	1,92,000	2,01,000	3,45,000
Gross Annual Value	1,92,000	2,01,000	3,45,000

**Computation of Income from House Property of Mr. Sharma
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Amount (₹)	Amount (₹)
House A Gross Annual Value	1,92,000	
Less : Municipal Taxes Paid	18,000	
Net Annual Value	1,74,000	
Less : Deductions u/s 24		
(i) Standard Deduction @ 30% (1,74,000 × 30/100)	52,200	
(ii) Interest on Loan	40,000	
	81,800	81,800
House B		
Gross Annual Value	2,01,000	
Less : Municipal Tax Paid	18,000	
Net Annual Value	1,83,000	
Deductions u/s 24		
(i) Standard deduction @ 30% (1,83,000 × 30/100)	54,900	
(ii) Interest on Loan	42,000	
Income from House Property	86,100	86,100
House C		
Gross Annual Value	3,45,000	
Less : Municipal Tax Paid	33,600	
Net Annual Value	3,11,400	
Deductions u/s 24		
(i) Standard deduction	93,420	
(ii) Interest on Loan	1,56,000	
Income from House Property	61,980	61,980
Total Income From House Property (A + B + C)		2,29,880

Problem No. 11

Find out the income from House Property in respect of the following properties :

Particulars	X (₹)	Y (₹)	Z (₹)
Municipal Value	36,000	28,000	46,200
Fair Rent	37,000	29,000	52,400
Standard Rent	35,000	28,400	48,200
Annual Rent	33,600	33,600	50,400
Unrealised Rent	8,400	14,000	8,400
Vacancy Period	1 month	3 months	5 months
Municipal Taxes	15%	15%	15%
Interest on Loan	7,000	6,050	8,020
Date of Loan	2.10. 2017	2.10. 2017	2.10. 2017

Solution :

Calculation of Gross Annual Value

Particulars	X (₹)	Y (₹)	Z (₹)
Municipal Value	36,000	28,000	46,200
Fair Rent	37,000	29,000	52,400
Standard Rent	35,000	28,400	48,200
Reasonable Expected Rent	35,000	28,400	48,200
Annual Rent Less unrealized rent	25,200	19,600	42,000
Higher Amount	35,000	28,400	48,200
Gross Annual Value (Higher Amt. – Vacancy Rent)	32,200	20,000	27,200

**Computation of Income from House Property
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Amt. (₹)	Amt. (₹)
House X		
Gross Annual Value	32,200	
Less : Municipal Taxes paid (15% of Municipal Value) (₹ 36,000 × 15/100)	5,400	
Net Annual Value	26,800	
Less : Deductions u/s 24		
(i) Standard deduction @ 30% of NAV	8,040	
(ii) Interest on loan	7,000	
Income from House Property	15,040	11,760

Particulars	Amt. (₹)	Amt. (₹)
House Y		
Gross Annual Value	20,000	
Less : Municipal Taxes (15% of Municipal Value) $\left(₹ 28,000 \times \frac{15}{100} \right)$	4,200	
Net Annual Value	15,800	
Less : Deductions u/s 24		
(i) Standard deduction @ 30% of NAV	4,740	
(ii) Interest on Loan	6,050	
Income from House Property	10,790	5,010
House Z		
Gross Annual Value	27,200	
Less : Municipal Taxes paid (15% of M.V) $\left(46,200 \times \frac{15}{100} \right)$	6,930	
Net Annual Value	20,270	
Less : Deductions u/s 24		
(i) Standard deduction @ 30% of NAV $\left(20,270 \times \frac{30}{100} \right)$	6,081	
(ii) Interest on Loan	8,020	
	14,101	6,169
Total Income from House Property		22,939

Problem No. 12

Mr. Krishna has a house property used for own residence, for 9 months and for the remaining 3 months of the previous year, it was unused. Gross Municipal value of the property is ₹ 6,00,000 p.a.; Fair Rent ₹ 5,00,000; Standard Rent ₹ 4,00,000. He incurred repair expenditure of ₹ 10,000 and paid Municipal tax ₹ 5,000 during the year. He had borrowed ₹ 1,00,000 @ 12 % simple interest on 31.3.99, for the purchase of the house property and loan is still unpaid.

Solution : Since, the house has been self-occupied for a part of the year and remained vacant for the rest of the period, it is treated as self-occupied property.

**Computation of Income from House Property of Mr. Krishana
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Amt. (₹)	Amt. (₹)
Gross Annual Value		Nil
Less : Municipal Taxes		–
Net Annual Value		Nil
Deductions u/s 24		
(i) Standard Deduction	Nil	
(ii) Interest on loan	12,000	– 12,000
Income from House Property		(–) 12,000

Note : Interest on loan is available up to ₹ 30,000 if the loan is taken before 1.4.99.

Problem No. 13

Mr. Mohan owns two houses and both are occupied by him for his own residence. He has provided the following information. As a tax consultant give your advice as to which house should be treated as self-occupied ?

Particulars	House I (₹)	House II (₹)
Municipal Valuation	₹ 1,00,000	₹ 1,26,000
Fair Rent	1,10,000	1,20,000
Standard Rent	90,000	1,28,000
Municipal Taxes	18,000	24,000
Interest on Loan	36,000	1,80,000
Date of Loan	1.04.08	31.12. 98
Date of Completion of construction	May 2001	April 2000

Solution :

Since, Mr. Mohan is using two houses for residential purpose, only one of the properties at his choice shall be treated as self-occupied and the other shall be treated as deemed to be let-out property. Since, the GAV and NAV of self-occupied property is nil and interest deduction is available, it is better to treat that house as self-occupied where the amount of income is more. We can calculate the total income from House property by treating either House I as self-occupied or House II as self-occupied.

Alternative I : House I self-occupied and House II as deemed to be let-out property
Computation of Income from House Property of Mr. Mohan
for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Amt. (₹)	Amt. (₹)
House I (Self-Occupied Property)		
Gross Annual Value		Nil
Less : Municipal Taxes		Nil
Net Annual Value		Nil
Deductions u/s 24		
(i) Standard Deduction		
(ii) Interest on Loan	30,000	- 30,000
Income from House Property		(-) 30,000
House II (Deemed to be Let-out Property)		
Gross Annual Value		1,26,000
Less : Municipal Taxes paid		(-) 24,000
Net Annual Value		1,02,000
Less : Deductions u/s 24		
(i) Standard Deduction @ 30% of NAV $\left(1,02,000 \times \frac{30}{100}\right)$	30,600	
(ii) Interest on Loan	1,80,000	-2,10,600
Income from House Property		(-) 1,08,600

[Note the total deduction is restricted to ₹ 2,00,000.]

Total Income from House Property :

House I -	(-) 30,000
House II -	(-) 1,08,600
	<u>(-) ₹ 1,38,600</u>

Alternative II : House II self-occupied and House I as deemed to be let-out property
Computation of Income from House Property of Mr. Mohan

Particulars	Amt. (₹)	Amt. (₹)
House I : Let Out Property (deemed)		
Gross Annual Value		90,000
Less : Municipal Taxes		18,000
Net Annual Value		72,000
Deductions u/s 24		
(i) Standard Deduction @ 30% of NAV $\left(72,000 \times \frac{30}{100}\right)$	21,600	

Particulars	Amt. (₹)	Amt. (₹)
(ii) Interest on Loan	36,000	57,600
Income from House Property		14,400
House II : Self-occupied Property		
Gross Annual Value		Nil
Less : Municipal Taxes		Nil
Net Annual Value		Nil
Deductions u/s 24		
(i) Standard Deduction	–	
(ii) Interest on Loan	30,000	– 30,000
Income from House Property		(–) 30,000

Total Income from House Property :

House I :	14,400
House II :	(–) 30,000
Total income :	<u>₹ 15,600</u>

Mr. Mohan should treat House I as Residential property and House II as Deemed to be let out property.

Note : However, from AY 2020-21, the house owner can claim his 2 properties as self-occupied and remaining house (if any) as let out property for income tax purpose.

Problem No. 14

Compute income under the head income from 'House Property' of Sriram from the following information :

Particulars	House 1 (₹)	House 2 (₹)	House 3 (₹)
Municipal Value	3,75,000	2,25,000	3,25,000
Fair Rent	2,25,000	2,25,000	2,00,000
Standard Rent	3,00,000	2,60,000	2,00,000
Municipal Tax	15%	15%	15%
Repairs	5,000	10,000	4,000
Ground Rent	3,000	1,000	1,500
Interest on Loan	40,000	1,00,000	20,000

House 1 and House 2 have been occupied for own residential and House 3 is used for own business. All the loans on the three properties have been taken before 1.4.99.

Solution : Sriram can treat one house out of House 1 and House 2 as self-occupied and can claim deduction for interest on loan which is restricted to ₹ 30,000 as loan has been taken before 1.4.99. It is better to treat house with greater GAV as self-occupied.

The Gross Annual Value of House 1 is ₹ 3,00,000 & that of House 2 is ₹ 2,25,000. It is better to treat House 1 as self-occupied.

**Computation of Income from House Property of Sriram
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
House I : Self-Occupied			
Gross Annual Value		Nil	
Net Annual Value		Nil	
Less : Deduction u/s 24.			
Interest on Loan		(-) 30,000	
Income from House Property			(-) 30,000
House II : Deemed to be let-out			
Gross Annual Value		2,25,000	
Less : Municipal Taxes paid (15% of municipal value)		33,750	
Net Annual Value		1,91,250	
Less : Deductions u/s 24			
(i) Standard Deductions @ 30% of NAV	(-) 57,375		
(ii) Interest on Loan	(-) 1,00,000	(-) 1,57,375	
Income from House Property		33,875	33,875
Total Income from House Property			3,875

Note :

- Interest on loan for self-occupied property is restricted to ₹ 30,000 if loan is borrowed before 1.4.99.
- There is no such restriction for the interest on loan for a deemed to be let-out property.
- House used for carrying out one's own business is not a House Property for the purpose of house property income.
- Expenses on repairs and ground rent are not allowed as deduction.

Note : However, from AY 2020-21, the house owner can claim his 2 properties as self-occupied and remaining house (if any) as let out property for income tax purpose.

Problem No. 15

Mr. Xavier owns two houses, which are used by him for his residential purposes. The details regarding the properties are given below. Advise as to which property should be treated as self-occupied.

Particulars	House A (₹)	House B (₹)
Municipal Value	70,000	96,000
Fair Rent	68,000	90,000
Standard Rent	72,000	–
Municipal Tax (50% paid)	16,000	29,000
Insurance Premium	3,000	450
Annual Charges	1,500	1,150
Interest on Capital borrowed to pay Municipal Tax	5,400	–
Interest on loan borrowed for purchase of house property	70,000	64,000
Repayment of Loan	60,000	30,000

The loan for House A is taken before 1st April, 1999 and the loan on House B is taken in May 2002.

Solution : **Computation of Income from House Property of Mr. Xavier for the A.Y. 2022-23 (F.Y. 2021-22)**

Alternative I

'A' self-occupied and 'B' deemed to be let-out

Particulars	Details (₹)	Amount (₹)	Amount (₹)
House A : Self-occupied			
Gross Annual Value		Nil	
Net Annual Value		Nil	
(i) Interest on loan taken for purchase	30,000	– 30,000	
			(–) 30,000
House B : Deemed to be let-out property			
Gross Annual Value		96,000	
Less : Municipal Taxes paid (50 %)		(–) 14,500	
Net Annual Value		81,500	

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Less : Deductions u/s 24			
(i) Standard Deduction @ 30% of NAV	24,450		
(ii) Interest on Loan taken for purchase.	64,000	(-) 88,450	(-) 6,950
Total Income from House Property			(-) 36,950

Alternative II

House A : Deemed to be let-out property

House B : Self-occupied property

**Computation of Income from House Property of Mr. Xavier
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
House A : Deemed to be let-out property			
Gross Annual Value		70,000	
Less : Municipal taxes paid		(-) 8,000	
Net Annual Value		62,000	
Less : Deductions u/s 24			
(i) Standard Deduction @ 30% of NAV	18,600		
(ii) Interest on Loan	70,000	(-) 88,600	
			(-) 26,600
House B : Self-occupied			
Gross Annual Value		Nil	
Net Annual Value		Nil	
Less : Deduction u/s 24 :			
(i) Interest on Loan	(-) 64,000	(-) 64,000	
			(-) 64,000
Total Income from House Property			(-) 90,600

Alternative II, has greater negative income from House property. Hence, Mr. Xavier is advised to treat House A as deemed to be let-out property and House B as self-occupied property.

Note :

1. Insurance premium and annual charges are not allowed as deduction.
2. When House A is treated as self-occupied, the interest deduction is restricted to ₹ 30,000 as loan is taken before 1.4.99.

Note : From AY 2020-21, the house owner can claim his 2 properties as self-occupied.

Problem No. 16

Mr. Mohan owns a house property which has three independent units. The details of the property are given hereunder.

Municipal Value	:	₹	60,000
Fair Rent	:	₹	70,000
Standard Rent	:	₹	90,000
Municipal Taxes Paid	:	₹	15,000
Repairs	:	₹	6,400
Ground Rent	:	₹	9,000

Unit I : (50% of Floor Area)

This unit is let-out for residential purpose on a monthly rent of ₹ 8,200. It remained vacant for one month, and has not been put to any other use.

Unit II : (25% of Floor Area)

This is used by him for his own residence.

Unit III : (25 % of Floor Area)

This is used for the purpose of his own profession.

Interest on capital borrowed for renewal of the house property is ₹ 63,000.

Compute income from House property.

Solution : Computation of Income from House Property of Mr. Mohan for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Unit I : 50% of Floor Area : Let-out			
Municipal Value (50%)	30,000		
Fair Rent (50%)	35,000		
Standard Rent (50%)	45,000		
Reasonable Expected Rent	35,000		
Annual Rent (8,200 × 12)	98,400		
Higher Amount	98,400		
Gross Annual Value (Higher Amt. – Vacancy rent) (98,400 – 8,200)		90,200	
Less : Municipal Taxes paid (50%)		7,500	
Net Annual Value		82,700	

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Less : Deduction u/s 24			
(i) 30% Standard Deduction $\left(82,700 \times \frac{30}{100}\right)$	24,810		
(ii) Interest on Loan	31,500	(-) 56,310	
Income from House Property			26,390
Unit II : Self-occupied			
Gross Annual Value		Nil	
Net Annual Value		Nil	
Less : Deductions u/s 24			
(i) Interest on Loan		- 15,750	(-) 15,750
Total Income from House Property			10,640

Notes :

1. Gross Annual Value calculations may be shown as working.
2. Expenses on repairs and ground rent are not deductible.

Problem No. 17

Mr. Devesh has a house property in Cochin. The house property has two units of equal dimension. Unit I is self-occupied throughout the year. Whereas Unit II is let-out at a rent of ₹ 10,000 p.m. for the first 9 months and thereafter used for self-occupation. Compute his taxable income from house property from the details given below :

Municipal Value	₹ 2,40,000,
Fair Rent	₹ 1,65,000,
Standard Rent	₹ 3,00,000.

Municipal Tax is 10%. 30% of the tax is paid by tenant for the let-out property during the 9 months it was let-out and for the remaining period the tax was paid by Mr. Devesh. Interest on loan ₹ 63,000.

The loan was taken for reconstruction of the property.

Expenditure on repairs is ₹ 20,000.

Solution :**1. Working : Gross Annual Value of Unit II**

	₹
Municipal Value (50%)	1,20,000
Fair Rent	82,500
Standard Rent	1,50,000

RER	1,20,000
ARR (for 9 months)	90,000

2. Working : Municipal taxes paid for Let-out unit

Municipal tax pertaining to Unit II : ₹ 12,000
(10% of 1,20,000)

Paid by Devesh for 9 months

$$\left(12,000 \times \frac{70}{100} \times \frac{9}{12}\right) = ₹ 6,300$$

Paid by Devesh for the remaining
3 months

$$\left(12,000 \times \frac{3}{12}\right) = ₹ 3,000$$

₹ 9,300

**Computation of Income from House Property of Mr. Devesh
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Unit I : Self-occupied			
Net Annual Value		Nil	
Less : Deductions u/s 24			
(i) Interest on Loan		30,000	
Income from House Property			(-) 30,000
Unit II : Let-out			
Gross Annual Value		1,20,000	
Less : Municipal taxes paid		(-) 9,300	
Net Annual Value		1,10,700	
Less : Deduction u/s 24			
(i) Standard Deduction @ 30% of NAV	33,210		
(ii) Interest on Loan	31,500	(-) 64,710	
Income from House Property			45,990
Total Income from House Property			15,990

Note :

1. On Unit I, the maximum amt. of interest deduction available is ₹ 30,000 as the loan is taken for reconstruction.
2. Expenditure on repairs is not allowed as deduction.

3. Although Unit II has been used for own residence for 3 months, it shall be treated as let-out property.
4. A.R.R. is calculated for actual period let-out i.e., 9 months, 3 months, during which the house was self occupied and is not treated as vacancy.

Problem No. 18

Mr. Rana owns a big house. The house has three independent residential units.

Unit 1 : 50% of the floor area is let-out for residential purpose on a monthly rent of ₹ 27,000. The unit was used by Rana for his residence from 1st April to 31st May. A sum of ₹ 3,000 could not be collected from the tenant. All the needful was done to recover the rent.

Unit 2 : 25% of the floor area is used for the purpose of his residence.

Unit 3 : 25% of the floor area is used by him for his business.

Other details of the house are :

Municipal Valuation ₹ 5,16,000

Municipal Taxes paid ₹ 42,000

Repairs ₹ 60,000

Interest on capital borrowed for payment of Municipal taxes is ₹ 16,000.

He had borrowed a loan of ₹ 12,00,000 for the construction of the house property on 1st August 2015, @ 12% p.a. simple interest. The construction of the house was completed on 1st May, 2016. The loan is repaid to the extent of ₹ 6,00,000, on 30th September, 2018.

Compute taxable income from house property.

Solution : Working**(1) Calculation of Gross Annual Value of Unit – 1**

Municipal Value	: 2,58,000
Fair Rent	: –
Standard Rent	: –
Reasonable Expected Rent	: 2,58,000
A.R.R.	: 2,67,000
(27,000 × 10 months) – 3,000	
Gross Annual Value	: 2,67,000

(2) Calculation of Pre-construction Interest

Pre-construction period → 1st of August 2015 to 31st March 2016 (not 1st May 2014)

$$\text{Interest} = 12,00,000 \times \frac{12}{100} \times \frac{8}{12} = ₹ 96,000$$

Pre-construction interest is allowed as deduction in 5 annual, equal instalments.
Hence the amount deductible is $\rightarrow 96,000 \div 5 = ₹ 19,200$

(4) Calculation of Interest for the year 2019-2020

$$\text{On ₹ 12,00,000} \times \frac{12}{100} \times \frac{6}{12} = ₹ 72,000 \quad (\text{Till September})$$

(+)

$$\text{On ₹ 6,00,000} \times \frac{12}{100} \times \frac{6}{12} = ₹ 36,000$$

(12,00,000 – 6,00,000 the amt. repaid)

Total Amt. ₹ 1,08,000

**Computation of Income from House Property
of Mr. Rana, for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Unit – 1 (Let Out)			
Gross Annual Value		2,67,000	
Less : Municipal taxes paid (50% of 42,000)		21,000	
Net Annual Value		2,46,000	
Less : Deductions u/s 24			
(i) Standard Deduction @ 30% of NAV	73,800		
(ii) Interest on Loan			
(1) Pre-construction Interest (50% of 19,200)	9,600		
(2) Annual Interest (50% of 1,08,000)	54,000	(-) 1,37,400	
Income from the House Property			1,08,600
Unit – 2 : (Self occupied)			
Gross Annual Value		Nil	
Net Annual Value		Nil	
Deductions u/s 24			
(i) Interest on Loan			
Pre-construction (25% of 19,200)	4,800		
Annual Interest	27,000	(-) 31,800	
Income from the property			- 31,800
Total Income from House Property			76,800

Problem No. 19

Mr. Ashutosh constructed 8 flats of a similar nature and let-out each flat on a rent of ₹ 5,000 p.m. For the construction of the flats he had borrowed a loan of ₹ 6,00,000 on 1.8.2019 @ 18% interest. The construction was completed in August 2016. The Municipal taxes paid during the financial year 2021-2022 included ₹ 10,000 for earlier years, ₹ 6,000 for the year 2021-22 and ₹ 2,000 for the year 2022-23. Out of the loan borrowed, a sum of ₹ 4,50,000 was repaid on 31st December, 2021. Out of the 8 flats two flats remained vacant for a period of 3 months and one flat remained vacant for a period of 9 months. Determine the income from House Property.

Solution : **Computation of Income from House Property of Mr. Ashutosh
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details	Amount (₹)
Gross Annual Value (5,000 × 8 × 12) – (5,000 × 15)		4,05,000
Annual Rent – Vacancy Rent		(–)12,000
Less : Municipal taxes paid		3,93,000
Net Annual Value		
Less : Deductions u/s 24		
1. Standard Deduction (3,93,000 × 30%)	1,17,900	
2. Interest on Loan		
(a) Pre-construction	14,400	
(b) Annual	87,750	2,20,050
Income from House Property		1,72,950

Notes**1. Total Vacancy Period**

2 flats for a period of 3 months	=	6 months
One flat for 9 months	=	9 months
		15 months

2. Calculation of Pre-construction Interest

Pre-construction period = 1.08. 2017 to 31st March 2018 : 8 months
(i.e. 31st March of the year of completion)

$$\begin{aligned} \text{Interest Amt.} &= 6,00,000 \times \frac{18}{100} \times \frac{8}{12} \\ &= ₹ 72,000 \end{aligned}$$

1/5th is allowed as deduction

$$\text{i.e.} \quad 72,000 \times \frac{1}{5} = ₹ 14,400$$

3. Annual Interest

(a) Before repayment of loan =

$$6,00,000 \times \frac{18}{100} \times \frac{9}{12} = ₹ 81,000$$

(1 April to 21st Dec.)

(b) After repayment of ₹ 4,50,000 of loan =

$$1,50,000 \times \frac{18}{100} \times \frac{3}{12} = ₹ 6,750$$

$$\underline{\underline{₹ 87,750}}$$

4. Advance Municipal taxes paid for 2022-23 not allowed as deduction.

Problem No. 20

Compute income of Mr. Vikram, from House Property for the A. Y. 2022-23.

Municipal Value : ₹ 2,40,000

Rent p.a. : ₹ 3,00,000

Municipal Taxes : 10%

Date of completion of construction 31.1. 2021

Date of Letting : 1. 2. 2021

Date of borrowing loan : 1st September 2020

He had borrowed a loan of ₹ 1,80,000 @ 12% interest for the construction of the house property. During the year he paid interest on delayed payment of interest ₹ 100 Unrealised rent was recovered, belonging to the year 2021 ₹ 22,000. Out of this, ₹ 10,000 was allowed in A. Y. 2021-22.

Solution :

**Computation of Income from House Property of Mr. Vikram
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details	Amount (₹)
Gross Annual Value		3,00,000
Less : Municipal Taxes paid		24,000
Net Annual Value		2,76,000
Less : Deductions u/s 24		
(i) Standard Deduction @ 30% of NAV	82,800	

Particulars	Details	Amount (₹)
(ii) Interest on Loan	21,600	1,04,400
		1,71,600
Unrealised Rent recovered		12,000
Total Income from House Property		1,83,600

Working :

1. GAV → Municipal Value – 2,40,000

RER – 2,40,000

ARR – 3,00,000

Higher Amount = ₹ 3,00,000.

2. Interest on delayed payment of interest not allowed as deduction.

3. There is no pre-construction interest as the construction is completed before 31st March.

4. Taxable Unrealised Rent =

{Unrealised rent recovered + (ARR – Unrealised rent of the concerned year) } –

GAV of the year

= { 22,000 + (50,000 – 10,000) – 50,000 } = ₹ 12,000

➤ ARR for the 2 months = ₹ 25,000 × 2 = ₹ 50,000

Since house is completed only on 31st January.

GAV for the year 2018-19

M.V. – 40,000

ARR (50,000 – 10,000) ₹ 40,000 (Unrealised rent allowed deduction)

Higher Amount → ₹ 40,000

Problem No. 21

Mr. Aamir owns a house property. It is given on rent to a Hotel @ ₹ 11,000 p.m. Municipal value of the property is ₹ 1,30,000. Fair Rent is ₹ 1,40,000 and Standard Rent is ₹ 1,34,000. Municipal taxes paid by Mr. Aamir is as follows :

₹ 26,000 on March 31st 2021

₹ 30,000 on May 2021.

On May 1st 2020, the rent is increased to ₹ 16,000 p.m., with retrospective effect from 1st April 2019. Arrears of rent was received on 1st May 2021. Find out the income chargeable to tax for the A.Y. 2019-20 and A.Y. 2020-21.

**Solution : Computation of Income from House Property of Mr. Aamir
for the year A.Y. 2019-20 (F.Y. 2018-19)**

Particulars	Details (₹)	Amount (₹)
Gross Annual Value		1,34,000
Less : Municipal Taxes paid		(-) 26,000
Net Annual Value		1,08,000
Less : Deductions u/s 24		
(i) Standard deduction @ 30% of NAV	32,400	
(ii) Interest on loan	–	(-) 32,400
Income from House Property		75,600

**Computation of Income from House Property
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Gross Annual Value		1,92,000
Less : Municipal Taxes paid		(-) 30,000
Net Annual Value		1,62,000
Less : Deductions u/s 24		
(i) Standard deduction @ 30% of NAV	48,600	
(ii) Interest on loan	–	(-) 48,600
Arrear of Rent Received	58,000	1,13,400
Less : Standard deduction @ 30% of the Amount	<u>(-) 17,400</u>	(+) 40,600
Taxable Income from House Property		1,54,000

Working

1. Gross Annual value	A.Y. 2021-22	A.Y. 2022-23
	₹	₹
Municipal value	1,30,000	1,30,000
Fair Rent	1,40,000	1,40,000
Standard Rent	1,34,000	1,34,000
Reasonable Expected Rent	1,34,000	1,34,000
Annual Rent Received or Receivable	1,32,000	1,92,000
Gross Annual value	<u>1,34,000</u>	<u>1,92,000</u>

2. Arrears of Rent is taxable only to the extent not charged previously.
Arrears received = ₹ 60,000.

$$\begin{aligned}\text{Taxable Amount} &= \text{Arrears received} + (\text{A.R.R.} - \text{unrealised rent}) - \text{GAV} \\ &= 60,000 + 1,32,000 - 1,34,000 \\ &= ₹ 58,000\end{aligned}$$

QUESTIONS FOR PRACTICE**I. Fill in the blanks**

1. The annual value of a house with Municipal Value ₹ 1,00,000, fair rent ₹ 1,20,000 and Standard rent ₹ 1,10,000 which is let out at an annual rent of ₹ 1,40,000 is
2. 'A' has three self-occupied house property, out of which shall be treated as deemed to be let out property.
3. The value of property which could not be occupied because of service or profession in some other place is treated as if no other benefit is derived from the property.
4. % of net annual value is allowed as standard deduction in case of let-out property.
5. Pre-construction period starts on the date of loan and ends on of the year in which construction is completed.
6. The income from house property can be either or negative.
7. Pre-construction interest is allowed as deduction is equal instalments spread over a period of years.
8. There is no restriction to the amount of deduction for interest on loan taken for construction of a property.
9. In case of self occupied property, the claim for deduction of interest on loan taken for reconstruction is restricted to
10. The maximum amount of deduction allowable under Section 24, for a self occupied property is
11. A house property let out for 6 months and self occupied for 6 months shall be property.
12. Municipal tax is deductible from
13. % deduction is allowed on Arrears of rent received.
14. Unrealised rent is treated as income from house property of the year in which it is
15. 'X' gifted house property to his minor child and the property is let-out. The income shall be taxable in the hands of

16. Income is taxable under the head, house property is taxable in the hands of assessee if he is of the property.
17. Municipal taxes are deductible only if they are by the in the previous year.
18. An assessee was allowed deduction of unrealised rent to the extent of ₹ 40,000 in the past although the total unrealised rent was ₹ 60,000. He is able to recover ₹ 45,000 during the P.Y. on account of such unrealised rent. He shall be liable to pay tax on
19. If interest on loan is payable outside India, it shall be allowed as deduction only if
20. Vacancy allowance is available on property.
21. Rent earned by a tenant by sub-letting the house is income

Answers :

- | | | | |
|--------------------------------|----------------|-----------------|------------------------|
| 1. ₹ 1,40,000 | 2. two | 3. Nil | 4. 30 |
| 5. 31 st March | 6. zero | 7. 5 (five) | 8. let-out |
| 9. ₹ 30,000 | 10. ₹ 2,00,000 | 11. let-out | |
| 12. Gross Annual Value | | 13. 30 | 14. recovered |
| 15. 'X' | 16. owner | 17. paid, owner | 18. ₹ 25,000 |
| 19. Tax is deducted at source. | | 20. Let-out | 21. from other source. |

II. Write True/False

1. Unrealised rent is deducted from the Reasonable Expected Rent.
2. The income earned on a house property received as gift by a minor daughter from her father is taxable as income from house property in the hands of the daughter.
3. The net annual value of a self occupied property can be negative.
4. The net annual value of let-out property can be negative.
5. 30% standard deduction is not available for a deemed to be let out property.
6. The owner of two or more self-occupied house can choose the house which should be treated as self-occupied.
7. The deduction for pre-construction interest is not available in case of self-occupied property.
8. The income from any house property i.e. self occupied, let out or deemed to be let out property can be negative.

9. GAV of a let out property can not exceed Standard Rent.
10. Reasonable expected rent of a let out property can not exceed its Standard Rent.
11. 'A' has two houses. Both are self-occupied and hence the income from house property of 'A' is nil.
12. The earning capacity of a house property is taxable under the head 'income from house property' and not its actual rent.
13. Property held for charitable purpose is exempted property.
14. Vacant land attach to a building is house property.
15. If rent can not be segregated from the charges for other amenities included in composite rent, then the whole amount will be taxed under the head "Profits and gains of business or profession" or "Income from other sources".
16. If assesses lets out his house property for smooth running of his business or profession, then the income from such property is taxable under the head income from house property.
17. A house property located outside India is taxable in the hands of resident and ordinarily resident assesses.
18. A house property located outside India is taxable in the hands of a not ordinarily resident if the rental income is received in India.
19. When rent received by letting out a building along with furniture can be split, that part of income which is earned by letting out furniture is treated as "Income from other sources" and the rest of the income is treated as income from house property.
20. Unrealised rent can be claimed as deduction only if tenancy is bonafide, the tenant vacates the property and the tenant is not occupying any other property of the assesses.
21. The house property held by a political party is taxed under the head income from house property.
22. 'A' sells his house property on 31st May 2010 and realises unrealised rent of the p.y. The amount is not taxable as he is no more the owner of the property.
23. Interest payable outside India without TDS is not allowed as deduction.
24. Interest on loan is not allowed as deduction if the assessee has not paid the amount.

25. Municipal tax is allowed to be deducted from Gross Annual Value, whether it is paid by the assessee or by his tenant.
26. Interest on loan taken for payment of municipal tax is not allowed as deduction.
27. Interest paid on fresh loan taken to repay the original loan is allowed as deduction.
28. Interest on loan taken for paying outstanding interest on old loan is not deductible.
29. Advance payment of municipal tax is allowed as deduction from GAV of a let-out property.
30. For a newly constructed house, the municipal value is taken only for that part of the year which corresponds to the date of completion of construction till 31st March of the same year.

Answers

1. False, Unrealised rent is deducted from Annual rent.
2. False, in the hands of father.
3. False, Nil, only income can be negative.
4. True, If Municipal taxes is paid for past years and the deduction from GAV is more than the GAV.
5. False, Let-out property and deemed to be let-out property, both are treated same.
6. True.
7. False, The deduction for pre-construction interest is available in case of self-occupied property.
8. True
9. False, RER can not be more than standard rent.
10. True.
11. False, one house will be taxable.
12. True.
13. True
14. True
15. True
16. False, business and profession.
17. True
18. True
19. True
20. True
21. False
22. False, Unrealised rent recovered is taxable even if the assessee is not the owner of the house property.
23. True.
24. False, Interest is allowed as deduction on accrual basis.
25. False, Only if paid by the owner, the Municipal tax is allowed as deduction.
26. True
27. True
28. True
29. False.
30. True.

III. Answer the following questions

1. Explain the house properties that are taxable under the head 'Income from House Property.'
2. Give the list of properties that are exempted from tax.
3. What are the condition for taxability of an income under the head 'Income from House Property' ?
4. Explain the deductions allowed under Section 24 for a let-out property.
5. State the rule regarding deduction for 'interest on loan' take in connection with a self-occupied property.
6. How is the GAV of a let out proper is computed ?
7. What is the treatment of the following, while calculate income from house property :
 - (i) Composite rent (ii) Arrears of rent (iii) Unrealised rent.
8. Explain :
 - (i) Self-occupied property. (ii) Let out property (iii) Deemed to be let-out property.
9. How do you treat the following while calculating income from House Property :
 - (i) A house property let-out for a part of the year and self-occupied for the rest of the period.
 - (ii) Owned by co-owners, i.e., more than one owner.

PROBLEMS FOR PRACTICE**(1) Determine the Gross Annual Value in the following cases :**

- (a) Rukmini has a property whose municipal valuation is ₹ 2.4 lakhs. She let it out to a Bank for ₹ 30,000 p.m. from July 2018. For the months of April, May and June 2018, the property was vacant.
- (b) Ramsingh has built a showroom (fair rent ₹ 2,00,000) on the highway and let it out for a rent of ₹ 20,000 p.m. to an automobile dealer. The tenant vacated the property on 31st March, 2021 since then the property remained vacant.
- (c) Lucky Ali owns a house property in Pune. The details of the property are – Municipal value – ₹ 2,00,000 p.a., Fair rent ₹ 1,80,000 p.a., standard rent ₹ 2,10,000 p.a. It is let out throughout the p.y. The rent charged was ₹ 10,000 p.m. up to 15 August 2010 and ₹ 12,000 p.m. Thereafter, the property was sold by Lucky Ali to Ahmed on 28 February, 2021.

Mr. Lucky Ali to realise, the rent of March 2019 from the tenant.

Calculate GAV for Lucky Ali and Mr. Ahmed separately for the A. Y. 2022-23.

(2) Determine the amount of deduction for interest on loan in the following case :

- (a) Gross Annual Value of the let-out the property is ₹ 6,40,000.
- (b) The assesses paid the following amounts as interest on loan related to the house property, for various purpose as stated below :
- (i) Interest on loan taken for repair ₹ 20,000.
- (ii) Interest on loan taken for purchasing the house property, only 50% paid ₹ 10,000.
- (iii) Interest on loan taken to pay interest on the previous loan ₹ 5,000.
- (iv) Interest on loan taken to repay previous loan ₹ 15,000.
- (v) Interest on loan taken for payment and municipal tax ₹ 2,000.
- (vi) Interest on loan taken for the purchase of house property outside India ₹ 15,000, no TDS paid.
- (vii) Interest paid for the pre-construction period ₹ 25,000. The house was constructed in the year 2017 on September 30th.

(3) Mr. Jayram has a house property which is used by him for his residence. Compute his taxable income from House property from the following details :

Municipal value – ₹ 6,00,000, Fair rent – ₹ 5,00,000, standard rent ₹ 4,00,000. He incurred repair expenditure of ₹ 10,000 and paid municipal tax ₹ 50,000 during the year. He had borrowed following loans :

- (i) ₹ 9,00,000 @ 12% for purchase of House Property on 1 July, 2019. The construction was completed on 30 April, 2021.
- (ii) ₹ 1,00,000 for interiors @ 9.5% on 31st December, 2021.

(4) Mr. Sushant has occupied two houses for his personal purpose, the details of which are given as follows :

Particulars	House – I (₹)	House – II (₹)
Municipal Valuation	₹ 90,000	₹ 45,000
Fair Rent	₹ 1,20,000	₹ 60,000
Standard Rent (Under Rent Control Act)	₹ 1,00,000	₹ 66,000
Fire Insurance Premium Paid	₹ 1,500	₹ 1,500

Municipal taxes of 10% is paid by Sushant. Mr. Sushant pays ₹ 5,000 annually as annuity on House II. He has spent ₹ 10,000 and ₹ 15,000 on repairing House I and II respectively. He has paid interest on loan borrowed for House II amounting to ₹ 6,000. Calculate income from house property for the A. Y. 2022-23.

- (5) From the following information compute the income from House Property for the A.Y. 2022-23.

Municipal Value	₹ 36,000
Fair Rent	₹ 37,000
Standard Rent	₹ 25,000
Annual Rent	₹ 48,000
Municipal Taxes Paid	₹ 3,600
Amount Spent on Repairs	₹ 3,600
Period of Vacancy	1 month
Interest on Capital Borrowed	₹ 36,000

- (6) Compute income from House Property for Mr. Alok.

Particulars	House – A (₹)	House – B (₹)	House – C (₹)
Municipal Value	1,80,000	1,80,000	3,36,000
Fair Rent	2,04,000	2,04,000	3,51,000
Standard Rent	1,86,000	2,10,000	3,45,000
Annual Rent	1,98,000	2,16,000	3,60,000
Unrealised Rent	6,000	15,000	1,50,000
Municipal Tax Paid	18,000	18,000	33,600
Interest on Capital	40,000	42,000	1,56,000

All the loans are taken on 1st April, 1999.

- (7) Mr. Datta owns three properties for residential purpose. The following details are provided :

Particulars	House – I (₹)	House – II (₹)	House – III (₹)
Municipal Value	82,000	50,000	70,000
Fair Rent	75,000	60,000	65,000
Standard Rent	70,000	70,000	65,000
Municipal Taxes	8,200	6,000	7,000
Repairs	8,000	6,000	–

Ground rent on 10% is paid on NAV, for each house. Interest paid on capital borrowed for renewal of house property, I and III amounting to ₹ 38,000 and ₹ 32,000 respectively. The loan was taken on 1st June, 2000. You are required to calculate income from house property.

PROFITS AND GAINS OF BUSINESS AND PROFESSIONS**2.3 PROFITS AND GAINS OF BUSINESS AND PROFESSIONS****1. Meaning of Business and Profession****(a) Business**

- *“As per Section 2 (13) of the Income Tax Act, Business includes any type of trade, commerce and manufacture or any adventure or concern in the nature of trade, commerce or manufacture.”*
- Generally, business means a recurring economic activity, but, for income tax purpose, an isolated activity may be termed as business.
- The most important thing is that, the activity should indicate trade, either after manufacturing, or after buying the commodity.
- The purpose should be to earn profit.

(b) Profession

- “Profession means the activity for earning livelihood that requires intellectual skill or manual skill, e.g., the work of a lawyer, doctor, auditor, engineer and so on. Profession includes vocation i.e. activities performed in order to earn a livelihood e.g., brokerage, insurance agency etc.

2. Taxable Incomes under the Head Business/Profession

- According to Section 28 (i), any income from business or profession including income from speculative transaction shall be taxable under the head.
- Profits and Gains of Business and Profession include the following :
 - (a) The profits and gains of any business or profession which was carried on by the assessee at any time during the previous year.
 - (b) Any compensation or other payment due to or received by any specified person.
 - (c) Income derived by a trade, professional or similar association from specific services performed for its members.
 - (d) Profit on sale of a license granted under the Imports (Control) Order 1955, made under the Import Export Control Act, 1947
 - (e) Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of Government of India.
 - (f) Any duty of Customs or Excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duties Drawback Rules, 1971.

- (g) Profit on transfer of Duty Entitlement Pass Book Scheme, under Section 5 of Foreign Trade (Development and Regulation) Act, 1992
- (h) Profit on transfer of Duty Free Replenishment Certificate, under Section 5 of Foreign Trade (Development and Regulation) Act, 1992
- (i) Value of any benefits or perquisites arising from a business or the exercise of a profession.
- (j) Any interest, salary, bonus, commission or remuneration due to or received by a partner of a firm provided that has been allowed as deduction in computing the taxable profits of such firm.
- (k) (i) Any sum received or receivable for not carrying out any activity in relation to any business or profession; or
(ii) Any sum received or receivable for not sharing any know-how, patent, copyright, trademark, licence, franchise, or any other business or commercial right or information or technique likely to assist in the manufacture of goods or provision of services.
- (l) Any sum received under a Key man Insurance policy including the sum of bonus on such policy.
- (m) Any profit or gains arising from conversion of inventory into capital asset.
- (n) Any sum received (or receivable) in cash or in kind, on account of any capital assets (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital assets has been allowed as a deduction under Section 35AD
- (o) Income from speculative transactions. However, it shall be deemed to be distinct and separate from any other business.
- (p) Remission or cessation of liability in respect of any loss, expenditure or trading liability incurred by the tax payers.
Recovery of trading liability by successor which was allowed to the predecessor shall be chargeable to tax in the hands of successor. Succession could be due to amalgamation or demerger or succession of a firm succeeded by another firm or company, etc.
Any liability which is unilaterally written-off by the taxpayer from the books of accounts shall be deemed as remission or cessation of such liability and shall be chargeable to tax.
- (q) Depreciable asset in case of power generating units, is sold, discarded, demolished or destroyed, the amount by which sale consideration and/ or

- insurance compensation together with scrap value exceeds its WDV shall be chargeable to tax.
- (r) Where any capital asset used in scientific research is sold without having been used for other purposes and the sale proceeds together with the amount of deduction allowed under Section 35 exceed the amount of the capital expenditure, such surplus or the amount of deduction allowed, whichever is less, is chargeable to tax as business income in the year in which the sale took place.
 - (s) Where bad debts have been allowed as deduction under Section 36(1)(vii) in earlier years, any recovery of same shall be chargeable to tax.
 - (t) Amount withdrawn from special reserves created and maintained under Section 36(1)(viii) shall be chargeable as income in the previous year in which the amount is withdrawn.
 - (u) Loss of a discontinued business or profession could be adjusted from the deemed business income as referred to in Section 41(1), 41(3), (4) or (4A) without any time limit.
 - (v) Any foreign exchange gain or loss arising in respect of specified foreign currency transactions shall be treated as income or loss. Such gain or loss shall be computed in accordance with notified ICDS [subject to Section 43A]
 - (w) Where consideration for transfer of land or building or both as stock-in-trade is less than the stamp duty value, the value so adopted shall be deemed to be the full value of consideration for the purpose of computing income under this head.
 - (x) No such adjustment is however required to be made if value adopted for stamp duty purposes does not exceed 110% of the sale consideration.
 - (y) The profits and gains arising from construction contract or a contract for providing service is to be determined on the basis of percentage completion method, in accordance with the notified ICDS.
 - (z) Where consideration for transfer of land or building or both as stock-in-trade is less than the stamp duty value, the value so adopted shall be deemed to be the full value of consideration for the purpose of computing income under this head. However, no such adjustment is required to be made if value adopted for stamp duty purposes does not exceed 110% of the sale consideration.
 - (aa) As per RBI Guidelines, Interest on bad and doubtful debts of Public Financial Institution or Scheduled Bank, or [a co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural

- development bank] or State Financial Corporation or State Industrial Investment Corporation, shall be chargeable to tax in the year in which it is credited to Profit and Loss A/c or year in which it is actually received, whichever happens earlier.
- (bb) With effect from Assessment Year 2020-21, the Finance (No. 2) Act, 2019 has covered 'Deposit Taking NBFCs' and 'Systemically Important Non-deposit Taking NBFCs' in the ambit of 43D. Hence, such NBFCs shall be able to recognize interest on bad and doubtful debts in the year in which it is credited to Profit and Loss A/c or year in which it is actually received, whichever happens earlier.
- Deposit Taking NBFC' means a NBFC which is accepting or holding public deposits and is registered with the RBI.
- (cc) 'Systemically Important Non-deposit Taking NBFC' means a NBFC which is not accepting or holding public deposits and having total assets of not less than ₹ 500 crore as per the last audited balance sheet and is registered with the RBI.
- Similarly as per NHB Guidelines, Interest on bad and doubtful debts of housing finance company, shall be chargeable to tax, in the year it is credited to P & L A/c or year in which it is actually received by them, whichever is earlier.
 - Assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Govt. or State Govt. or any authority or body or agency to the assessee would be included in definition of income as referred to in Section 2(24). However, in the following cases, subsidy or grant shall not be treated as income:
 - (i) The subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of Explanation 10 to clause (1) of Section 43;
 - (ii) The subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or a State Government, as the case may be.
- 3. Income not chargeable under the Head Profits and Gains of Business and Profession**
- The following incomes though in the nature of business and professional income, shall not be taxable under this head :
- (a) Rent of house property, even though an assessee is engaged in the business of letting out and the property is kept as stock-in-trade. However, where the letting out the property helps in the smooth running of the business, such income from the house property shall be treated as business income.

For example, letting house property to the employees of the business.

- (b) Dividend on shares, held as stock, by the assessee and if he deals in shares, it will not be treated as business income. It is chargeable to tax under the head 'Income from other sources'.
- (c) Winning from lotteries, races etc. are taxable under the head 'Income from other sources' even if such income is derived through regular business activity.
- (d) Sum taxable under the head 'Capital gain' is not taxable under this head. E.g. profit on sale of route permit shall not be taxable under the head 'Income from business and profession.
- (e) Exempted incomes as per Sections 10, 10A, 10B, 10BA, 11A or 13A.

4. Computation of Profits and Gains of Business and Profession

■ Important facts relating to Business or Profession

(a) Chargeability

- Tax is chargeable from the person who carries out the business or profession. The essential requirement is that he should be entitled to carry out the business. It is immaterial if the assessee carries on the business through a manager/servant/agent etc.

(b) Legality of Business

- Whether the business is legal or illegal, the profits will be calculated under this head only. For example, profits due to betting, smuggling etc.

(c) Negative Income

- Profits include losses also. Losses are also considered in the head of business or profession and are adjusted against income from other sources. If it cannot be adjusted in the P.Y. concerned, then it can be carried forward and adjusted in the income of the next financial year.

(d) Anticipated Profit/Loss

- Estimated or anticipated profits as not considered.

(e) Notional Profit

- Profit made by business to one's own self is not considered. For example, if the proprietor uses goods of sale price ₹ 1,00,000 for personal use and the cost of goods is ₹ 90,000, then ₹ 10,000 cannot be considered as profit from business.

(f) Compilation of Income of all Business or Profession

- If an assessee carries on several businesses or professions, then income from all businesses or professions shall be merged together.

(g) Business or Profession should be carried on during the P.Y.

- The business must be carried on during the P.Y. It is not necessary that it should continue throughout the year or till the end of the P.Y.
- In the following cases, income will be treated as business income, although the business is not carried out during the P.Y. :
 - (i) Recovery of any amount earlier allowed as deduction.
 - (ii) Sale of assets used for scientific research.
 - (iii) Bad debt recovery, earlier allowed as deduction.
 - (iv) Amount withdrawn from a reserve created earlier.

5. Methods of Computation of Business Income**(a) Direct Method**

- In this method, a new profit or loss statement is prepared considering the provisions of Income tax Act, ignoring Profit and Loss account as per the books of accounts.

(b) Indirect Method

- In this method, the net profit or loss as per the book of accounts is adjusted considering the allowed and disallowed expenses and incomes as per the provisions of the Act.

6. Expenditure not allowed as Deduction (Disallowed Expenses)

- (a) Capital Expenses are not allowed as deduction, e.g., purchase of neon-signs, surgical equipments, shares, motor cars etc.
- (b) Capital Losses incurred on sale of capital asset is not allowed as deduction.
- (c) Penalty of any type relating to direct/indirect tax, legal or illegal business etc. is not allowed.
- (d) If the assessee is paying unreasonable amount to his relatives in connection with the business or profession, then such amount which is excess is not allowed as deduction.
- (e) Interest on capital, rent on own building is not allowed as deduction.
- (f) If payment of any expenditure of an amount more than ₹ 20,000 is made in cash, then such expenditure is fully disallowed. The assessee is supposed to make

- payment in A/c payee cheque or in D/D form. Bearer cheque of a amount exceeding ₹ 20,000 is also not allowed.
- (g) Expenses allowed under other heads of income, is disallowed under this head.
 - (h) Anticipated loss or expenditure is not allowed as deduction, e.g., "Provision for Bad and doubtful debts."
 - (i) Expenditure which is illegal is not allowed.
 - (j) Any personal expense of the owner such as Life Insurance Premium is not allowed.
 - (k) Charity and donations are not allowed except the ones specifically allowed in the Act.
 - (l) Income tax, wealth tax and any tax on non-monetary perquisites of the employee paid is also not allowed.

7. Expressly Allowed Deductions

☐ Rent, Rates, Taxes, Repairs and Insurance for Buildings

- In respect of rent, rates, taxes, repairs and insurance for premises, used for the purposes of the business or profession, the following deductions shall be allowed:
 - (a) where the premises are occupied by the assessee:
 - (i) as a tenant, the rent paid for such premises and further if he has undertaken to bear the cost of repairs to the premises, the amount paid on account of such repairs;
 - (ii) otherwise than as a tenant, the amount paid by him on account of current repairs to the premises;
 - (b) any sums paid on account of land revenue, local rates or municipal taxes;
 - (c) the amount of any premium paid in respect of insurance against risk of damage or destruction of the premises.

Explanation

- For the removal of doubts, it is hereby declared that the amount paid on account of the cost of repairs referred to in sub-clause (i) and the amount paid on account of current repairs referred to in sub-clause (ii) of clause (a), shall not include any expenditure in the nature of capital expenditure.

☐ Repairs and Insurance of Machinery, Plant and Furniture

- In respect of repairs and insurance of machinery, plant or furniture used for the purposes of the business or profession, the following deductions shall be allowed:

- (a) the amount paid on account of current repairs thereto;
- (b) the amount of any premium paid in respect of insurance against risk of damage or destruction thereof.

Explanation

- For the removal of doubts, it is hereby declared that the amount paid on account of current repairs shall not include any expenditure in the nature of capital expenditure.

▣ **Depreciation**

- Depreciation is allowed as per written down value. The different rates of depreciation and the assets to whom they are applicable is given below:

Rate	Assets
5%	Building used for residential purpose.
10%	Building neither used for residential purpose nor for water projects, furniture and fittings.
15%	Motor car (except those used in the business of providing car on hire), other than those specified under the category of 30%.
20%	Ships.
25%	Intangible assets: Know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature.
30%	Motor lorries, buses and taxis used in the business of hire, Moulds used in rubber and plastic goods factories, Machinery and plant used in semi-conductor industry covering all integrated circuits.
40%	Building for installing plant and machinery for water treatment or water supply project, temporary erections, machinery and plant for providing water service or water treatment, aeroplane, commercial vehicle, air pollution control equipment, water pollution control equipment, solid waste control equipment, life saving medical equipment, computer including computer software, containers made of glass or plastic used as refills, machinery used in weaving, processing in garment sector, books for professional use, machineries and equipment for renewable energy, gas cylinders including valves and regulators, glass manufacturing concerns direct melting furnace and plant and machinery in mineral oil concerns.

(For details of depreciation rates, please visit Income Tax website of the Government of India).

• **Investment Allowance**

- In respect of a ship or an aircraft or machinery or plant, 25% of the actual cost will be allowed as investment allowance.
- **Provided** that in respect of a ship or an aircraft or machinery or plant specified in sub-section (8B), this sub-section shall have effect as if for the words "twenty-five per cent", the words "twenty per cent" had been substituted:
- **Provided further** that no deduction shall be allowed under this section in respect of:
 - (a) any machinery or plant installed in any office premises or any residential accommodation, including any accommodation in the nature of a guest house;
 - (b) any office appliances or road transport vehicles;
 - (c) any ship, machinery or plant in respect of which the deduction by way of development rebate is allowable under Section 33; and
 - (d) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and gains of business or profession" of any one previous year.

8. Specific Disallowances

Section	Description
40(a)(i)	Any sum (other than salary) payable outside India or to a non-resident, which is chargeable to tax in India in the hands of the recipient, shall not be allowed to be deducted if it was paid without deduction of tax at source or if tax was deducted but not deposited with the Central Government till the due date of filing of return. However, if tax is deducted or deposited in subsequent year, as the case may be, the expenditure shall be allowed as deduction in that year.
40(a)(ia)	Any sum payable to a resident, which is subject to deduction of tax at source, would attract 30% disallowance if it was paid without deduction of tax at source or if tax was deducted but not deposited with the Central Government till the due date of filing of return. However, where in respect of any such sum, tax is deducted or deposited in subsequent year, as the case may be, the expenditure so disallowed shall be allowed as deduction in that year.

Section	Description
40(a)(ib)	Any sum paid or payable to a non-resident which is subject to a deduction of Equalisation levy would attract disallowance if such sum was paid without deduction of such levy or if it was deducted but not deposited with the Central Government till the due date of filing of return. However, where in respect of any such sum, Equalisation levy is deducted or deposited in subsequent year, as the case may be, the expenditure so disallowed shall be allowed as deduction in that year. Note: This provision has been inserted by the Finance Act, 2016, w.e.f. 1-6-2016
40(a)(ii)	Any sum paid on account of any rate or tax levied on the profits and gains of business or profession is not deductible.
40(a)(ia)	Wealth-tax or any other tax of similar nature shall not be deductible.
40(a)(iii)	Salaries payable outside India, or in India to a non-resident, on which tax has not been paid/deducted at source is not deductible.
40(a)(iv)	Payments to provident fund or other funds for employees' benefit shall not be deductible if no effective arrangements have been made to ensure deduction of at source from payments made from such funds to employees which shall be chargeable to tax as 'salaries'.
40(a)(v)	Tax paid by the employer on non-monetary perquisites provided to employees is not deductible if the tax so paid is not taxable in the hands of employees by virtue of Section 10(10CC).
40A(2)	Any payment to related parties (relatives, directors, partner, member of HUF/AOP, person who has substantial interest in business of the taxpayer, etc.) in respect of any expenditure shall be disallowed to the extent such expenditure is considered excessive or unreasonable by the Assessing Officer having regard to its fair market value.
40A(3)/(3A)	An expenditure, which is otherwise deductible under any provision of the Act, shall be disallowed if payment thereof has been made otherwise than by account payee cheque/bank draft or use of electronic clearing system through a bank account and it exceeds ₹ 10,000 (₹ 35,000 in case of payment made for plying, hiring or leasing goods carriages) in a day (Subject to certain conditions and exceptions).

Section	Description
40A(7)	Provision for payment of gratuity to employees, other than a provision for contribution to approved gratuity fund, shall not be allowed as deduction (Subject to specified conditions). Gratuity actually paid (or payable) during the year and contribution to approved gratuity fund is allowed as deduction.
40A(9)	Any sum paid as an employer for setting-up or as contribution to any fund, trust, company, AOP, BOI, Society or other institution (other than recognized provident fund, approved superannuation fund, approved gratuity fund or pension scheme referred to in Section 80CCD) shall not be allowed as deduction if such contribution or payment is not required by any law.

❑ **Special Provision with regard to Partnership Firm**

(I) Remuneration of Partners

- There is restriction on the amount of remuneration payable to the partners of a partnership firm. The rules regarding this are as follows:
 1. If the book profit is negative, the maximum remuneration payable is ₹ 1,50,000.
 2. If the book profit is positive:
 - (a) on the first ₹ 3,00,000 of profit, ₹ 1,50,000 or 90% of book profit whichever is less.
 - (b) on the balance of profit 60%.

(II) Interest on Capital of Partner

- The partners can be allowed a maximum of 12% as interest on capital.

(III) Method of Accounting

- The method of accounting accepted is accrual basis of accounting.

(IV) Maintenance of Books of Account

- (1) Persons carrying on specified profession and if their gross receipts exceed ₹ 1,50,000 in all the three years immediately preceding the previous year, they must maintain prescribed books of accounts
 - In case of other business or profession, the criteria for maintaining books of accounts include the following:
 - (a) total sales, turnover or gross receipts exceeds ₹ 25,00,000 in any one of the three years immediately preceding the previous year; or
 - (b) income from business or profession exceeds ₹ 2,50,000 in any one of the three years immediately preceding the previous year.

- Under Section 44AA(3) by persons carrying on certain professions (Rule contained in 6F). Every person carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or authorised representative or film artist are required to keep and maintain the following books of account and other documents:
 - (i) a cash book;
 - (ii) a journal, if the accounts are maintained according to the mercantile system of accounting;
 - (iii) a ledger;
 - (iv) carbon copies of bills, whether machine numbered or otherwise serially numbered, wherever such bills are issued by the person and carbon copies or counterfoils of machine numbered or otherwise serially numbered receipts issued by him (not required if the amount involved is less than 25 rupees).
 - (v) original bills wherever issued to the person and receipts in respect of expenditure incurred by the person, or where such bills and receipts are not issued and the expenditure incurred does not exceed fifty rupees, payment vouchers prepared and signed by the person.
- “Authorised representative” means a person who represents any other person, on payment of any fee or remuneration before any Tribunal or authority constituted or appointed by or under any law for the time being in force, but does not include an employee of the person so represented or a person carrying on legal profession or a person carrying on the profession of accountancy;
- “Cash book” means a record of all cash receipts and payments, kept and maintained from day-to-day and giving the cash balance in hand at the end of each day or at the end of a specified period not exceeding a [month];
- “Film artist” means any person engaged in his professional capacity in the production of a cinematograph film whether produced by him or by any other person, as—
 - (i) an actor;
 - (ii) a cameraman;
 - (iii) a director, including an assistant director;
 - (iv) a music director, including an assistant music director;
 - (v) an art director, including an assistant art director;
 - (vi) a dance director, including an assistant dance director;
 - (vii) an editor;

- (viii) a singer;
 - (ix) a lyricist;
 - (x) a story writer;
 - (xi) a screen-play writer;
 - (xii) a dialogue writer; and
 - (xiii) a dress designer.
- (2) A person carrying on medical profession shall, in addition to the books of account and other documents specified in sub-rule (2), keep and maintain the following, namely :
- (i) a daily case register in Form No. 3C;
 - (ii) an inventory [under broad heads] as on the first and the last day of the previous year, of the stock of drugs, medicines and other consumable accessories used for the purpose of his profession.
- (3) The books of account and other documents as specified are required to be kept and maintained by the person at the place where he is carrying on the profession, or where the profession is carried on in more places than one, at the principal place.
- (4) The books of account and other documents specified should be kept and maintained for a period of six years from the end of the relevant assessment year:

(V) Audit of Accounts

- As per Section 44AB, every person must get the accounts of the business or profession audited by a chartered accountant if the following conditions are satisfied:
 - (i) If total sales, turnover or gross receipts exceeds ₹ 2 Crore in any previous year, in case of business; or
 - (ii) If gross receipts exceeds ₹ 50 Lakhs in any previous year, in case of profession.
- The audit must be conducted before the specified date and the report of the audit must be in the prescribed form, signed and verified by the auditor.
- If any other law is applicable for audit of any business and profession then the provisions of such law will be applicable.

PRACTICAL SOLVED PROBLEMS**INCOME FROM BUSINESS AND PROFESSION****Problem No. 1**

Mr. Kulkarni presents the following Profit and Loss Account for the year ending 31.3.2022. Calculate their taxable income for the A. Y. 2022-23.

Dr.		Profit and Loss Account		Cr.	
Particulars	₹	Particulars	₹		
To Salary	20,000	By Gross Profit	59,000		
To Bonus paid	2,400	By Interest received	8,000		
To Advertisement	3,000	By Dividend from Indian Company	1,000		
To Entertainment Expenses	2,500	By House Rent received	20,000		
To Telephone Expenses	2,000				
To Car Expenses	6,000				
To Donations	2,000				
To Misc. Expenses	4,000				
To Interest on Loan	1,500				
To Income-tax	1,200				
To Depreciation	2,400				
To Net Profit	41,000				
	88,000				88,000

Other Information

1. Salary includes ₹ 4,000 paid to domestic servant.
2. Car expenses include 1/3rd for personal use.
3. Depreciation allowable as per the Income Tax Act is ₹ 1,800.
4. Actual bad debt suffered by Kulkarni amounted to ₹ 400.
5. Loan has been taken for business purposes.

Solution : **Computation of Income from Business of Mr. Kulkarni**
for the A. Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Net Profit as per P & L A/c.		41,000
Add : Expenses disallowed		
Salary of domestic employee	4,000	
Excess depreciation	600	
Car expenses for personal use	2,000	
Donation	2,000	
Income-tax	1,200	9,800
		50,800

Particulars	Details (₹)	Amount (₹)
Less : Incomes exempt, or related to other heads of income		
Interest received	8,000	
Dividend from Indian company (exempt)	1,000	
House Rent received	20,000	29,000
		21,800
Less : Expenses allowed but not charged to P & L A/c.		
Bad debts	400	400
Taxable Income from Business		21,400

Note

1. Interest and house rent are chargeable under the heads 'Income from other sources' and 'House Property Incomes' respectively.
2. Dividend from domestic company is exempt from tax.

Problem No. 2

Mr. Rakesh Sharma furnishes his Profit and Loss Account for the year ended 31.3.2022. You are required to compute income from business for the A.Y. 2022-23.

Profit and Loss Account			
Dr.	(₹)	Cr.	(₹)
To Opening Stock	35,000	By Sales	1,50,000
To Purchases	60,000	By Closing Stock	35,000
To Wages	25,000	By Gift from father	10,000
To Rent	10,000	By Sale of Car	17,000
To Repairs of Car	4,000	By Income-tax refund	3,000
To Wealth Tax	1,000		
To Medical expenses	5,000		
To General expenses	2,000		
To Depreciation of Car	3,000		
To Advance income-tax paid	1,000		
To Net Profit	69,000		
	2,15,000		2,15,000

Other Information

1. Rakesh carries on his business from rented premises, half of which is used as his residence.

2. Car is meant for both personal and professional purpose. The professional use is 3/4th.
3. Medical expenses were incurred during the sickness of Mr. Rakesh during the year.
4. Purchase includes purchase of furniture for ₹ 2,500.

Solution : **Computation of Income from Business of Mr. Rakesh Sharma
for the A. Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Net Profit as per P & L A/c.		69,000
Add : Expenses disallowed		
Purchase of Furniture	2,500	
Rent (1/2 for personal use)	5,000	
Repair of Car (1/4 th for personal use)	1,000	
Wealth-tax	1,000	
Medical expenses	5,000	
Depreciation of Car (1/4 th)	750	
Advance income-tax	1,000	16,250
		85,250
Less : Incomes disallowed		
Gift from father	10,000	
Sale of Car	17,000	
Income-tax refund	3,000	30,000
Taxable Income from Business		55,250

Problem No. 3

The following is the Profit and Loss Account of Shri Jivajirao Shinde for the year ended 31.3. 2022. Compute his business income.

Profit and Loss Account

Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To Salaries	33,000	By Gross Profit	1,60,000
To Advertisement	13,500	By Dividend received	6,000
To Printing and Stationery	4,500	By Bad debt recovered	2,000
To Bad debt	4,000	By House Rent	18,000
To R. D. D.	9,000	By Other Business income	18,000
To Donation	3,000		

Particulars	(₹)	Particulars	(₹)
To Interest on Loan	4,000		
To Telephone Expenses	3,750		
To Wealth-tax	4,500		
To Income-tax	7,500		
To LIC Premium	3,300		
To Loss on Sale of Machinery	4,500		
To Electricity Bill	2,700		
To Interest on Capital	8,000		
To Preliminary Expenses	5,000		
To Depreciation	9,500		
To Sales tax	5,250		
To Net Profits	79,000		
	2,04,000		2,04,000

Other Information

- Salaries include ₹ 3,000 paid for domestic servant.
- Telephone expenses include ₹ 750 for private purpose.
- Total preliminary expenses is to be written-off in 5 years (equal amount), amounting to ₹ 20,000.
- Wealth tax includes Municipal tax on let-out property.
- Bad debt recovered includes the Bad debts allowed earlier.

Solution : **Computation of Income from Business of Mr. Jivajirao Shinde**
for the A. Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Net Profit as per P & L A/c.		79,000
Add : Expenses disallowed		
Salary to domestic servant	3,000	
R.D.D.	9,000	
Donation	3,000	
Private telephone expenses	750	
Wealth-tax	4,500	
Income-tax	7,500	

Particulars	Details (₹)	Amount (₹)
LIC Premium	3,300	
Loss on Sale of machinery	4,500	
Interest on capital	8,000	
Preliminary expenses (5,000 – 4,000)	1,000	44,550
		1,23,550
Less : Incomes from Other Heads of Income		
Dividend	6,000	
House Rent	18,000	24,000
Income from Business		99,550

Problem No. 4

Following is the Profit and Loss Account of Mr. Pathak, Pune, for the financial year 2021-22 :

Dr.		Profit and Loss Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Salary	1,65,000	By Gross Profit	4,20,000		
To Rent and Taxes	60,000	By Commission	42,000		
To Commission	11,000	By Sundry Receipts	4,200		
To Advertisement	15,000	By Interest on Fixed Deposit	35,000		
To R.D.D.	8,000	By Gift from a friend	2,900		
To Depreciation	22,000				
To Conveyance	8,400				
To Stationery	15,200				
To Bonus paid	16,000				
To Contribution to R. P. F.	12,500				
To Contribution to P.P.F.	13,000				
To Interest on Capital	12,000				
To Net Profit	1,46,000				
	5,04,100				5,04,100

Additional Information

1. Depreciation allowable under the Act is ₹ 18,000.
2. Rent and taxes include ₹ 8,000 as property tax on residential house of Mr. Pathak.

3. Advertisement includes ₹ 12,000 as cost of permanent sign board, fixed on the premises.
4. Sundry receipts of ₹ 4000 are in respect of recovery of personal loan given to a friend and ₹ 200 is interest on the same.

You are required to compute taxable income from business for the A. Y. 2022-23.

Solution : **Computation of Income from Business of Mr. Pathak**
for the A. Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Net Profit as per P & L A/c.		1,46,000
Add : Expenses disallowed		
Tax on Residential property	8,000	
R.D.D.	8,000	
Permanent sign board	12,000	
Depreciation (excess)	4,000	
Contribution to PPF	13,000	
Interest on Capital	12,000	57,000
		2,03,000
Less : Incomes disallowed/chargeable under other heads of income		
Sundry receipt	4,200	
Gift from a friend	2,900	
Interest on Fixed deposit	35,000	42,100
Income from Business		1,60,900

Notes

1. Permanent sign board is a capital expenditure.
2. Contribution to P.P.F. i.e. Public Provident Fund is personal in nature.
3. Interest on Fixed Deposit is chargeable under the head 'Income from Other Sources'.

Problem No. 5

Following is the Profit and Loss Account of the business of Mr. Abhishek for the financial year ending 31.3. 2022 :

Dr.		Profit and Loss Account		Cr.	
Particulars	₹	Particulars	₹		
To Salary	80,000	By Gross Profit	2,00,000		
To Advertisement	6,000	By Sundry Receipt	8,400		
To Fire Insurance	3,500	By Gift from Father	25,000		
To Office Expenses	4,500	By Interest on Bank deposit	6,000		
To Depreciation	15,800	By Bad Debts recovered	5,400		
To Bonus	12,800	(not allowed as deduction			
To Income-tax provision	8,600	earlier)			
To Sales Tax	4,500				
To Interest on Bank Loan	5,600				
To R.D.D.	3,500				
To Net Profit	1,00,000				
	2,44,800				2,44,800

Other Information

1. Out of bonus ₹ 4,200 is yet to be paid.
2. Advertisement includes ₹ 550 as expenses incurred for selling household furniture.
3. Depreciation allowable as per Income Tax Rule is ₹ 14,000.
4. Sales tax includes ₹ 500 as penalty for not filing return on time.
5. Bank loan is for business purpose.
 - You are required to compute taxable income from business for the A. Y. 2022-23.

**Solution : Computation of Taxable Income from Business of Mr. Abhishekh
for the A. Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Net Profit as per P & L A/c.		1,00,000
Add : Expenses disallowed		
Expenses for selling household furniture	550	
Excess Depreciation (15,800 – 14,000)	1,800	
Bonus (not paid in cash yet)	4,200	
Penalty	500	
R.D.D.	3,500	
Income-tax provision	8,600	19,150
		1,19,150

Particulars	Details (₹)	Amount (₹)
Less : Incomes disallowed/chargeable under other heads of income		
Gift from father	25,000	
Interest on Bank deposit	6,000	
Bad debts recovered (not allowed earlier)	5,400	(-) 36,400
Taxable Income from Business		82,750

Notes :

1. Bad debt, disallowed earlier, is a disallowed income.
2. Bonus not paid is not allowed.
3. Penalties are not allowed as deduction.
4. Sales tax is allowed.

Problem No. 6

Following is the Profit and Loss A/c. of Mrs. Vedika Shinde for the year 2021-22 :

Dr.		Profit and Loss Account		Cr.	
Particulars	₹	Particulars	₹		
To repairs on building	1,30,000	By Gross Profit	6,05,000		
To Interest	1,10,000	By Income-tax Refund	1,500		
To Travelling	1,30,000	By Dividend	3,500		
To contribution to Scientific Research Association	1,00,000	By Interest on deposits	5,500		
To Professional tax	550				
To Advertisement	51,000				
To Net Profit	93,950				
	6,15,500				6,15,500

Following further information is furnished :

1. Repairs of building includes ₹ 75,000 spent for construction of compound wall, around the business premises.
 2. Interest includes ₹ 45,000 payable outside India, on which tax has not been deducted at source.
 3. Personal travelling for private purpose ₹ 2,500.
 4. Contribution made for scientific research is the approved amount.
 5. Depreciation allowable as per Income-tax Act is ₹ 15,500.
- Compute his income from business for A. Y. 2022-23.

Solution :

**Computation of Income from Business of Mrs. Vedika Shinde
for the A. Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Net Profit as per P & L A/c.		93,950
Add : Expenses disallowed but charged to P & L		
Expenditure on compound wall	75,000	
Interest paid without deduction of TDS.	45,000	
Personal Travelling	2,500	1,22,500
		2,16,450
Less : Expenses allowed but not charged		15,500
Depreciation		2,00,950
Less : Incomes not taxable/chargeable under other heads of income		
Income-tax refund	1,500	
Interest on deposits	5,500	
Dividend	3,500	(-)10,500
Income from Business		1,90,450

Note

1. Income tax refund is not a business income.
2. Interest on deposits and dividends are 'Income from other Sources.'

Problem No. 7

From the following Profit and Loss A/c, of Mr. Khote for the year ending 31st March, 2021, find out his taxable income from business for the A. Y. 2022-23

Dr.	Profit and Loss A/c.		Cr.
Particulars	₹	Particulars	₹
To Opening Stock	1,20,000	By Sales	14,20,000
To Purchases	10,00,000	By Income-tax Refund	2,000
To Salaries	25,000	By Profit on sale of import licensed	3,000
To Legal Expenses	9,000	By Gift Received	18,000
To Bad Debts	6,000	By Closing Stock	2,00,000
To Rent	50,000	By Bad Debts Recovered	

Particulars	₹	Particulars	₹
To Interest on Loan	12,500	(allowed earlier)	6,000
To Depreciation	15,000		
To Income-tax Paid	25,000		
To Outstanding Sales Tax	3,000		
To Advertisement	50,000		
To Office Expenses	9,500		
To Contribution towards URPF	5,000		
To General Expenses	1,00,000		
To Travelling Expenses	21,000		
To Net Profit	1,98,000		
	16,49,000		16,49,000

Additional Information

1. Stock has been overvalued by 25% (closing stock only).
2. Legal expenses include ₹ 2,000 paid for preparation of income tax return.
3. Gift is received from supplier for achieving target sale.
4. Out of outstanding sales tax, an amount of ₹ 750 has been after the due date of filing returns.
5. There was a loss by theft ₹ 5,000 not entered in the P & L A/c.

Solution :

**Computation of Income form Business of Mr. Khote
for the A. Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Net Profit		1,98,000
Add : Expenses disallowed		
Sales tax paid after due date	750	
Income-tax paid	25,000	
Contribution to URPF	5,000	
		30,750
		2,28,750

Particulars	Details (₹)	Amount (₹)
Less : Income disallowed/chargeable under other heads of income		
Income-tax refund	2,000	(-) 2,000
		2,26,750
Less : Overvaluation of closing stock (2,00,000 × $\frac{25}{125}$)	40,000	
Loss of theft. Cost charged or P & LA/c.	5,000	(-) 45,000
Income from Business		1,81,750

Notes

1. Bad debt recovered allowed earlier is a business income.
2. Profit on sale of import license is allowed income.
3. Contribution to unrecognised provident fund is disallowed.
4. Overvaluation of closing stock is deducted as overvaluation results in inflating the profits.

Problem No. 8

Mr. Kumar furnishes the following particulars for the financial year 2021-22. Compute his income from business for the A. Y. 2022-23

Dr.		Profit and Loss Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Salary	2,04,000	By Gross Profit	8,86,000		
To Miscellaneous expenses	39,000	By Commission and discount	1,17,000		
To Advertisement	70,000	By Miscellaneous Receipts	23,000		
To Fire Insurance premium	4,000				
To Diwali Expenses	5,000				
To Entertainment Expenses	4,000				
To Mahurat Expenses	2,100				
To Bad Debts Written-off	6,900				
To Reserve for Losses	10,000				
To Interest on Capital	4,000				
To Patents	27,000				
To Depreciation on Plant and machinery	28,000				
To Provision for Excise Duty	13,000				
To Net Profit	6,09,000				
	10,26,000				10,26,000

1. Salaries paid includes payment to relatives ₹ 54,000 out of which ₹ 6,000 were excessive.
2. Miscellaneous expenses include ₹ 5,400 on training of apprentices. ₹ 8,000 commission for securing order for business, ₹ 11,600 as compensation on termination of service.
3. Advertisement include gifts given to customers, amounting to ₹ 20,000.
4. Depreciation allowable is ₹ 33,000.
5. Excise duty of ₹ 5,000 has been paid before filing returns.

Solution :

**Computation of Income from Business Mr. Kumar
for the A. Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Net Profit		6,09,000
Add : Expense Disallowed		
Excess salary to relative	6,000	
Reserve for losses	10,000	
Interest on capital	4,000	
Excise duty unpaid (13,000 – 5,000)	8,000	
Patents	27,000	55,000
		6,64,000
Less : Expenses Deductible		
Depreciation on Plant and Machinery (33,000 – 28,000)	5,000	
Depreciation on Patents (25% of ₹ 27,000)	6,750	11,750
Income from Business		6,52,250

Note : Depreciation is provided @ 25% on intangible assets like patents, trade marks etc.

Problem No. 9

From the following Profit and Loss Account of Mrs. Ranjana, Compute profits from Business.

Dr.		Profit and Loss Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Salary	60,000	By Gross Profit b/d	3,06,000		
To Rent and Rates	36,000	By Bad debts recovered	20,000		
To Interest on loan	15,000				
To Depreciation	1,05,000				
To Printing and stationery	24,000				

Particulars	Amount (₹)	Particulars	Amount (₹)
To Postage	2,400		
To Loss on Sale of Shares	8,100		
To Other general expenses	7,500		
To Net Profit c/d	68,000		
	3,26,000		3,26,000

Additional Information

1. Opening stock was undervalued by ₹ 9,000 and closing stock was also found to be undervalued by ₹ 5,500.
2. Printing and stationery purchase has been made in cash.
3. Depreciation allowable under Income Tax Act ₹ 66,000.
4. General expenses include donation to public charitable trust ₹ 2,000.
5. Bad debts incurred earlier were ₹ 30,000. But Mrs. Ranjana was allowed to deduct only ₹ 15,000. Out of the said debts, ₹ 20,000 has been recovered.
6. There were other business receipts of ₹ 5,000, not entered in the P & L A/c.

Solution :

**Computation of Income from Business of Mrs. Ranjana
for the A. Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Net Profit as per P & L A/c		68,000
Add : Expense disallowed		
Printing and stationery	24,000	
Loss on sale of shares	8,100	
Excess Depreciation	39,000	
Under-valuation of closing stock	5,500	
Donation to charitable trust	2,000	78,600
		1,46,600
Less : Bad debts Recovered disallowed earlier (₹ 30,000 – ₹ 15,000)	15,000	
Under-valuation of Opening stock	9,000	24,000
		1,22,600
Add : Other business receipts		5,000
Income From Business		1,27,600

Note : Payments of more than ₹ 20,000 is to be paid by way of A/C payee cheque or DD.

Problem No. 10

Mrs. Ratna is the proprietor of a business. Her Profit and Loss Account for the year ending 31.3.2022 is as follows :

Dr.		Profit and Loss Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Establishment Expenses	2,45,000	By Gross Profit	4,18,000		
To Rent and Rates	48,000	By Interest on government securities	7,000		
To General Charges	7,500	By Rent from House	96,000		
To House Hold Expenses	23,000	By Dividend Received	15,000		
To Commission	18,000				
To Allowance	4,000				
To Provision for Bad debt	12,000				
To Postage and Telegram	2,500				
To Law Charges	7,500				
To Advertising	15,800				
To Gifts (Personal)	1,200				
To Fire Insurance	4,000				
To Sales-tax	12,800				
To Repairs and renewals	5,000				
To Loss on sale of Motor car (Private)	2,500				
To Life Insurance	4,000				
To Donation to Rayat Shikhan Sanstha	10,000				
To PPF	5,000				
To Wealth Tax	3,000				
To Interest on Capital	4,500				
To Audit fees	5,000				
To Interest on loan	7,000				
To Depreciation	25,000				
To Provision for Tax	15,000				
To Net Profit	48,700				
	5,36,000				5,36,000

Additional Information

1. Actual bad debts amounted to ₹ 5,000.
 2. Depreciation as per Income tax rules ₹ 24,000.
 3. Advertising expenses include ₹ 10,000 spent on special advertising campaign to open a new shop.
 4. Law charges are in connection with Trade mark.
 5. Mrs. Ratna carries on her business from rented premises. Half of which is used as her residence. Rent, rates and taxes include ₹ 8,000 paid as rent.
 6. Municipal tax paid for let out house ₹ 4,000 included in wealth tax.
- Compute the business income.

Solution : **Computation Income from Business of Mrs. Ratna
for the A. Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Net Profit		48,700
Add : Expenses disallowed		
Rent for private purpose	4,000	
Household Expenses	23,000	
Provision for Bad debt	12,000	
Gifts	1,200	
Loss on sale of motor-car	2,500	
Life Insurance	4,000	
P.P.F.	5,000	
Wealth Tax	3,000	
Interest on Capital	4,500	
Provision for tax	15,000	
Excess depreciation	1,000	
Donation	10,000	85,200
		1,33,900
Less : Income chargeable under other heads of Income		
Interest on government securities	7,000	
Rent from house	96,000	
Dividend received	15,000	(-) 1,18,000
		15,900
Less : Bad debts		(-) 5,000
Income from Business		10,900

Problem No. 11

Mr. Ram is a Chartered Accountant and has prepared the following Income and Expenditure Account for the year ending 31.3. 2022.

Income and Expenditure Account

Expenditure	Amount (₹)	Income	Amount (₹)
To Office Expenses	10,000	By Audit Fees	70,500
To Salary	6,000	By Gift from father-in-law	5,050
To Magazine	600	By Dividend	8,000
To Personal Expenses	17,000	By Profit on Sale of	
To Donation to NDF	500	Investment	6,500
To Interest	700	By consultation fees	50,950
To Income-tax	13,200		
To Car Expenses	2,000		
To Surplus	91,000		
	1,41,000		1,41,000

You are required to compute the professional income for the A. Y. 2022-23, considering the following points :

1. Car is used equally for official and personal purposes.
2. Salary of domestic servant ₹ 1,000 is included in salary.

Solution : **Computation of Professional Income of Mr. Ram**
for the A. Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Surplus as per Income and Expenditure A/c		91,000
Add : Expenses disallowed		
Personal Expenses	17,000	
Donation to NDF	500	
Income tax	13,200	
Car expense for personal use $\frac{1}{2}$	1,000	
Salary of domestic servant	1,000	
		32,700
		1,23,700
Less : Incomes exempt or from other heads of income		
Gift from father-in-law	5,050	
Dividend	8,000	
Profit on Sale of Investment	6,500	
		19,550
Income from Profession		1,04,150

Problem No. 12

The following is the Receipts and Payments Account of Dr. Kelkar for the financial year 2021-22. Compute taxable income from profession.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	5,000	By Rent of Clinic	54,000
To Fees at Clinic	1,00,000	By Repairs and maintenance of clinic	14,000
To Visit fees	75,000	By Membership fees of Doctors Association	11,000
To Salary from Medical college	88,000	By Purchase of Drugs	30,000
To Life Policy matured	1,50,000	By Repayment of Housing loan	1,50,000
To Dividend from Indian Companies	50,000	By Income-tax	5,000
To Interest on Debentures	15,000	By P.P.F.	35,000
To Fixed deposits matures	25,000	By LIC premium	8,000
To Hire of medical equipment	6,000	By Loan to a friend	10,000
To Sale of Drugs	35,000	By Closing Balance	2,32,000
	5,49,000		5,49,000

Additional Information

1. Stock of drugs : ₹ 3,400.
2. Outstanding salary of employees is ₹ 15,000.
3. Sale of drugs is made to patients.
4. Charge depreciation as medical equipment ₹ 3,500.

Solution : **Computation of Professional Income of Dr. Kelkar**
for the A. Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)
Professional Incomes		
Clinical fees	1,00,000	
Visit fees	75,000	
Sales of drugs	35,000	
		2,10,000
Less : Professional Expenses		
Depreciation	3,500	
Rent of Clinic	54,000	

Particulars	Details (₹)	Amount (₹)
Repair and maintenance	14,000	
Membership fees	11,000	
Purchase of drugs	30,000	
Less : Stock of drugs	<u>3,400</u>	26,600
Outstanding salaries	15,000	1,24,100
Income from Profession		85,900

Note : Salary from medical college is chargeable under the head Income from salary.

Problem No. 13

Mr. Satish Shah is a registered medical practitioner. He keeps his books on cash basis and his summarised cash account for the year ending 31.3.2022.

Receipts and Payments Account

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	1,30,000	By Municipal tax on house property	400
To Loan from Bank for private purpose.	30,000	By Cost of Medicines	10,000
To Sale of medicine	35,250	By Surgical equipment	80,000
To Consultation fees	55,000	By Motor Car	1,00,000
To Visiting fees	34,000	By Car Expenses	6,000
To Interest on Government Securities	4,500	By Salaries	4,600
To Rent from House Property	3,600	By Rent of Dispensary	1,600
		By General Expenses	10,800
		By LIC Premium	3,000
		By Interest on loan	200
		By Insurance of House property	200
		By Deposit in Tatkal Telephone	22,000
		By balance c/d	53,550
	2,92,350		2,92,350

Additional Information

- One-fourth of motor car expenses are personal.
 - Depreciation allowable on car is 20%, which has been used for more than 6 months. Provide 25% depreciation on surgical equipment.
- Compute taxable income from profession of Mr. Satish Shah.

Solution :

**Computation of Income of Mr. Satish Shah
for the A. Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Professional Income		
Sale of Medicines	35,250	
Consultation fees	55,000	
Visiting fees	34,000	1,24,250
Less : Professional Expenses		
Cost of medicines	10,000	
Car expenses (3/4 th for professions)	4,500	
Salaries	4,600	
Rent of Dispensary	1,600	
General expenses	10,800	
Deposit in Tatkal telephone	22,000	53,500
		70,750
Less : Depreciation		
Motor Car $\left(1,00,000 \times \frac{20}{100} \times \frac{3}{4}\right)$	15,000	
Surgical equipments	20,000	35,000
Income from Profession		35,750

QUESTIONS FOR DISCUSSION

1. What is a 'Business' and a 'Profession'. State the incomes taxable under 'Business and Profession'.
2. What are the expressly allowed deductions while computing income under the head 'Business and Profession' ?
3. How do you treat the following items while computing the incomes from business and professions :
 - (a) Reserve for doubtful debts appearing in the Profit and Loss Account of the assessee.
 - (b) Interest on capital charged to the Income and Expenditure account.
 - (c) Expense of ₹ 20,000 or more paid in cash.
 - (d) Wealth tax charged to Profit and Loss Account.

- (e) Penalty paid for delayed payment of Income-tax.
- (f) Bad debts recovered, disallowed earlier, credited to the Profit and Loss Account.
- (g) Expenses incurred on approved village development programmes, charged in the Profit and Loss Account.
- (h) Contributions made to approved scientific research institution e.g. universities, charged in the Profit and Loss Account.

PROBLEM FOR PRACTICE

1. Compute taxable income of Mr. Alexander for the A. Y. 2022-23.

Profit and Loss A/c.

To salary	1,50,000	By Gross Profit	7,50,000
To Telephone Charges	10,000	By Income from let-out property (Rent)	60,000
To Charity	2,500	By Bad debts recovered	
To Municipal tax on House Property	1,000	(₹ 2,500 was allowed earlier)	6,000
To Rent paid	2,00,000		
To Printing and Stationery	750		
To Expenses on approved village development programme	5,000		
To Fire insurance	3,500		
To Bonus	5,000		
To Contribution to employees R.P.F.	20,000		
To Canteen expenses	45,000		
To Net Profit	3,73,250		
	8,16,000		8,16,000

Additional Information

1. Salary includes, amount paid to relative employee, which is excess by ₹ 15,000.
2. Telephone charges includes telephone deposit made under OVT Scheme.
3. Contribution to R.P.F. has not been deposited in the fund before the date of filing returns.
4. Canteen expenses include ₹ 35,000 for raising a wall.

CAPITAL GAINS**2.4 CAPITAL GAINS**

- As per Section 45 (1), profits or gains arising on transfer of a capital asset shall be chargeable under the head "Capital Gains."
- Capital gain is taxable in the P.Y. in which the asset is transferred. In some cases, capital gain is taxable in the P.Y. in which consideration is received rather than the P.Y. in which transfer took place. E.g., compulsory acquisition by the Government.

Definitions and Meanings**1. Capital Asset**

- "As per Section 2 (14) of the Act, Capital Asset means property of any kind movable or immovable, tangible or intangible, held by an assessee including property of his business or profession, but excludes certain specified assets i.e. non-capital asset."
- Any securities held by a FII (Foreign Institutional Investors) which has invested in such securities in accordance with the regulations made under the SEBI Act, 1992.
- Thus, capital asset means any kind of property held by an assessee –
 - (a) Whether held in connection with his business or profession, or not.
 - (b) Whether movable or immovable.
 - (c) Whether tangible like furniture or intangible like copyright.

2. Non-capital Assets

- Non-capital assets include the following :
 - (a) Stock-in-hands**, consumable stores, or raw-materials held for the purpose of business or profession.
 - (b) Personal Effect** viz.; wearing apparel, furniture, motor vehicles, held for personal use of assessee or his family. However, certain personal effects are treated as capital assets. These are: (i) jewellery, (ii) archaeological collections, (iii) drawings, (iv) paintings, (v) sculptures, or (vi) any work of art.
 - (c) Agricultural Land** in India, in rural areas. The following types of agricultural land are considered as capital assets :
 - (i) Land situated within any Municipality or Cantonment Board having a population of 10,000 or more.
 - (ii) Land situated within 8 kilometres from the local limits of such Municipality or Cantonment Board.

- (d) Special Bearer Bonds issued by the Central Government.
- (e) 6.5% Gold Bond or 7% Gold Bonds or National Defence Bonds, 1991, issued by Central Government.
- (f) Special Bearer Bonds.
- (g) Gold Deposit Bonds issued under the Gold Deposit Scheme.
- (h) Deposit certificates issued under Gold Monetisation Scheme, 2015.

3. Transfer

- Transfer of capital assets means any of the following :
 - (a) Sale, exchange and relinquishment of the asset.
 - (b) Extinguishment of any right in an asset.
 - (c) Compulsory acquisition of any asset under law.
 - (d) Conversion of asset into stock-in-trade by the owner.
 - (e) Any transaction of immovable property, under the Transfer of Property Act, 1882.
 - (f) Any transaction which has the effect of transferring or enabling the employment of any immovable property.
 - (g) Maturity or redemption of a zero coupon bond.

Meanings

- Generally transfer means sale but in relation to income tax it includes the following :
 - (a) Sale, exchange or relinquishment of the asset.
 - (b) Extinguishment of any rights in relation to a capital asset.
 - (c) Compulsory acquisition of an asset.
 - (d) Conversion of capital asset into stock-in-trade.
 - (e) Maturity or redemption of a zero coupon bond.
 - (f) Allowing possession of immovable properties to the buyer in part performance of the contract.
 - (g) Any transaction which has the effect of transferring and (or enabling the enjoyment of) immovable property.
 - (h) Disposing of or parting with an asset or any interest therein or creating any interest in any asset in any manner whatsoever.

4. Types of Capital Asset

- Capital assets may be:

(a) Short-term Capital Asset

- A capital asset held by an assessee for not more than 36 months immediately before transfer is called a short-term capital asset. However, in the case of the

following assets, the assets are short-term assets, if these are held for more than 12 months immediately before the date of transfer.

- (i) Equity or preference shares in a company listed in a recognised stock exchange.
- (ii) Listed securities like debenture, government securities etc.
- (iii) Units of UTI.
- (iv) Zero Coupon Bonds.
- (v) Equity oriented mutual fund units.
 - In case of unlisted shares of a company, the period of holding to be considered is 24 months instead of 36 months.

(b) Long-term Capital Asset

- A capital asset, held for more than 36 months before sale/transfer is known as a long-term capital asset.
- In case of securities, shares listed in recognised stock exchange in India, units of equity oriented mutual fund units, listed securities like debentures and Government securities, units of UTI and Zero coupon bonds, the period of holding is 12 months instead of 36 months. If these assets are held for more than 12 months, they are treated as long-term capital assets.
- In case of unlisted shares in a company, the period of holding is 24 months instead of 36 months.
- With effect from A.Y. 2018-19, the period of holding of immovable property (being land or building or both) is 24 months instead of 36 months.
- ***The distinction between short-term and long-term is important due to the following reasons***
 - (a) Tax rates are different for the two.
 - (b) In case of long-term assets, indexation is done so as to make the sale price and acquisition price comparable.
 - Tax exemptions are available, for long-term capital gain, if some conditions are fulfilled.

5. Capital Gain

- The gain arising out of transfer of a short-term capital asset is called short-term capital gain and gain arising out of transfer of a long-term capital asset is called long-term capital gain. There are few exceptions to the rule, like gain on depreciable asset is always taxed as short-term capital gain.

6. Indexed Cost of Acquisition or Improvement

- In case of long-term capital assets, indexation is applied to the cost of acquisition and improvement to adjust the cost to the price level of sale.
- "Indexed cost of acquisition or improvement is an amount which bears to the 'cost of acquisition' or 'cost of improvement' the same proportion as cost of Inflation Index for the year in which the asset is transferred bears to the cost of Inflation of Index for the first year in which the asset was held by the assessee or for the year beginning on 1.4.2001 whichever is less.

$\text{Indexed Cost of Acquisition/Improvement} = \frac{\text{Cost of Acquisition/Improvement} \times \text{Index of the year of transfer}}{\text{Index of the year of acquisition/improvement}}$

Computation of Short-term Capital Gain (SCG)

Computation of Capital gain of _____ for the A.Y. _____

Particulars	Details	Amount ₹
Sale Consideration {Full Value of Consideration}		xxxx
Less: Expenses of Transfer		(-) xxx
Net Sale Consideration		xxxx
Less: (i) Cost of Acquisition	xxx	
(ii) Cost of Improvement	xxx	(-) xxx
Short-term Capital Gain		xxx
Less: Exemption u/s 54B, 54D, 54G, and 54GA		(-) xxx
Short-term Capital Gain		xxx

7. Sale Consideration

- The entire value of sale in terms of money or money's worth is sale consideration, irrespective of whether it is received in lumpsum or in instalments.

8. Expenses on Transfer

- Any expenditure incurred for transfer such as brokerage or commission, stamp and registration fee, travelling expenses etc. are called expenses on transfer.

9. Cost of Acquisition

- It includes expenditure incurred for acquiring the asset or completing the title of the asset. For example, the sum paid for discharge of mortgage debt, to clear charges over the property created by the previous owner, etc. In case of capital assets received as gift, being transferred, the cost of acquisition shall be the cost of acquisition to the previous assessee and the date of acquisition will be the date of acquisition by the previous owner.

10. Cost of Improvement

- It means an expenditure incurred to increase the productive quality of the asset including cost of additions and alterations to the capital asset.

11. Computation of Long-term Capital Asset**Computation of Capital gain of _____ for the A.Y. _____**

Particulars	Details (₹)	Amount (₹)
Sale Consideration (Full Value)		xxx
Less : Expenses of Transfer		xxx
Net Sale Consideration		xxx
Less: (i) Indexed Cost of Acquisition	xxx	
(ii) Indexed Cost of Improvement	xxx	xxx
Long-term Capital Gain		xxx
Less: Exemption u/s 54		xxx
Taxable Long-term Capital Gain		

12. Cost of Inflation Index

- Cost inflation index for any year means such index as the Central Government may specify after considering 75% of the average rise in consumer price index for urban non-manual employee. Cost inflation index for different financial years is as follows :

Financial Year	CII (Cost of Inflation Index)	Financial Year	CII (Cost of Inflation 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		

13. Treatment of Assets acquired before 1.4.2001

- It may be noted that cost of inflation index starts with 2000-2001, when the index is 100. If an asset is acquired before 1.4.2001 then its cost of acquisition will be higher of the following:

- (a) Actual cost of acquisition (ignoring the cost to improvement incurred before 1.4.2001), or
- (b) Fair Market value of the asset as on 1.4.2001
 - This option is not available for self-generated asset and depreciable asset.

14. Deemed or Notional Cost of Acquisition

- In certain cases, cost of acquisition of the previous owner of the property shall be deemed to be cost of acquisition for the assessee:
 - (a) Asset received on partition of HUF.
 - (b) Assets received under a gift or will.
 - (c) Assets received by succession, inheritance or devolution.
 - (d) Assets received on dissolution of a firm, BOI or AOP.
 - (e) Assets received on liquidation of a company.
 - (f) Assets received under a trust (whether revocable or irrevocable).
 - (g) Assets received under business re-organisation.
 - (h) Assets (being a self-acquired property of a member) received by an HUF from its members.
 - (i) Assets covered u/s 56 (2) (vii) (Refer income from other sources).

☐ Cases where Indexation Benefit is not available even on Transfer of Long-term Capital Asset

1. Bonds or debentures, other than capital indexed bonds issued by the Governments.
2. Depreciable assets.
3. Slump sale.
4. Units/ GDR/ securities given in Sections 115 AB, 115 AC, 115 ACA and 115 AD.
5. Share and debentures in India acquired by a non-resident in foreign currency, if a few conditions are satisfied.

Exempt Capital Gains

- In the following cases, capital gain is exempt from tax u/s 10 of the Act. :
 1. Long-term or short-term capital gains on transfer of units of Unit Scheme, 1964
 2. An individual or HUF can claim exemption in respect of capital gain on compulsory acquisition of urban agricultural land in India owned by an individual or by HUF, if the land was used for agricultural purposes by the owner or any of his parents) during the 2 years immediately prior to acquisition.
 3. An individual or HUF can claim exemption in respect of capital gain arising on transfer of land or building or both under Land Pooling Scheme under the Andhra Pradesh Capital City Land Pooling Scheme (Formulation and

- Implementation) Rules, 2015. It is available only if the individual or HUF was owner of such land as on 2/06/2014.
4. Long-term capital gain on transfer of equity shares or units of equity oriented mutual fund or a unit of business trust other than a unit allotted by a trust in exchange of shares of a special purpose vehicle, if
- (a) Securities Transaction Tax (STT) is applicable on equity share both at the time of acquisition and at the time of transfer and in the case of equity oriented mutual fund, STT is applicable at the time of transfer
- (b) transfer takes place on or after October 1,2004

Exception

- Acquisition of share in IPO, FPO, bonus or right issue by a listed company, acquisition by a non-resident in accordance with FDI policy etc.

Note

- If the long term capital gain on the above mentioned capital asset is more than ₹ 1,00,000 then on the excess amount of gain, tax will be applicable @ 10% without indexation.
- The cost of acquisitions of a listed equity share acquired by the taxpayer before February 1, 2018, shall be deemed to be the higher of following:

(a) The actual cost of acquisition of such asset; or

(b) Lower of following:

 - (i) Fair market value (FMV) of such shares as on January 31, 2018; or
 - (ii) Actual sales consideration accruing on its transfer.
- The Fair market value of listed equity share shall mean its highest price quoted on the stock exchange as on January 31, 2018. However, if there is no trading in such shares on January 31, 2018, the highest price of such share on a date immediately preceding January 31, 2018 on which trading happens in that share shall be deemed as its fair market value. In case of units which are not listed on recognized stock exchange, the net asset value of such units as on January 31, 2018 shall be deemed to be its FMV.

Exemption on Capital Gain u/s 54

- The following exemptions are available u/s 54 for capital gain. The total amount of exemption cannot exceed the total amount of capital gain :

Particulars	Section 54	Section 54B	Section 54D	Section 54EC
Eligible taxpayer	Individual and HUF	Individual and HUF	Any person	Any person
Capital gains eligible for exemption	Long-term	Short-term or Long-term	Short-term or Long-term	Long-term

Particulars	Section 54	Section 54B	Section 54D	Section 54EC
Capital gains arising from transfer of	Residential House property	Agriculture land used by taxpayer or by his parents or HUF for agriculture purposes in last 2 years before its transfer	Compulsory acquisition of land or building forming part of industrial undertaking (which was used for industrial purposes for at least 2 years before its acquisition).	Long-term capital asset (being Land or Building or both)
Assets to be acquired for exemption	One residential house property Or Two residential house properties Note: With effect from Assessment Year 2020-21, a taxpayer has an option to make investment in two residential house properties in India. This option can be exercised by the taxpayer only once in his lifetime provided the amount of long-term capital gain does not exceed ₹ 2 crores.	Agricultural land (may be in urban area or rural area)	Land or building for shifting or reestablishing said industrial undertaking	Bond of NHAI or REC, etc.
Time limit for acquiring the new assets	Purchase: within 1 year before or 2 years after date of transfer Construction: within 3 years after date of transfer	Within 2 years after date of transfer	Within 3 years from date of receipt of compensation	Within 6 months from date of transfer
Exemption Amount	Investment in new assets or capital gain, whichever is lower	Investment in agricultural land or capital gain, whichever is lower	Investment in new assets or capital gain, whichever is lower	Investment in new assets or capital gains, whichever is lower, however, subject to ₹ 50 lakhs in a financial year.
Withdrawal of exemption	If new asset is transferred within 3 years of its acquisition	If new asset is transferred within 3 years of its acquisition	If new asset is transferred within 3 years of its acquisition	If new asset is transferred or it is converted into money or a loan is taken on its security within 5 years of its acquisition
Deposit in Capital gains deposit scheme before due date under Sec. 139(1)	Yes	Yes	Yes	No

Eligible taxpayer	Any Person	Individual and HUF	Any person	Any person	Individual and HUF
Capital gains eligible for exemption	Long-term	Long-term	Short-term or Long-term	Short-term or Long-term	Long-term
Capital gains arising from transfer of long-term capital asset	Any long-term capital asset	Any long term asset (other than a residential house property) provided on date of transfer taxpayer does not own more than one residential house property (except the new house)	Land, building, plant or machinery, in order to shift industrial undertaking from urban area to rural area.	Land, building, plant or machinery, in order to shift industrial undertaking from urban area to SEZ.	Residential property (house or a plot of land) Note: Provisions of this section shall not apply to any transfer of residential property made after March 31, 2017. However, in case of an investment in eligible start-up, the residential property can be transferred up to March 31, 2019. Note: w.e.f. Assessment Year 2020-21, the sunset date for transfer of original capital asset (residential property) for investment in eligible start-ups is extended from March 31, 2019 to March 31, 2021 and the condition of minimum holding of 50% of share capital or voting rights in the start-up is relaxed to 25%.
Assets to be acquired for exemption	Units of such fund as may be notified by Central Government to finance start-ups	One residential house property	Land, building, plant or machinery, in order to shift industrial undertaking to rural area.	Land, building, plant or machinery, in order to shift industrial undertaking to SEZ.	Subscription in equity shares of an eligible company. Note: 1. w.e.f. April 1, 2017, eligible start-up is also included in definition of eligible company. 2. The eligible company should utilize the amount of subscription for purchase of new

Eligible taxpayer	Any Person	Individual and HUF	Any person	Any person	Individual and HUF
					assets (i.e., plant and machinery except vehicle, office appliances, computer or computer software etc.). However, in the case of eligible startup, the new asset shall include computers or computer software.
Time limit for acquiring the new assets	Within 6 months after the date of transfer of original asset	Purchase: within 1 year before or within 2 years after date of transfer Construction: Within 3 years after date of transfer	within 1 year before or 3 years after date of transfer	Within 1 year before or within 3 years after date of transfer	Investment by the assessee - Before due date for furnishing of return under Sec. 139(1). Investment by the company - within 1 year from date of subscription.
Exemption Amount	Investment in new assets or capital gains, whichever is lower, however, subject to ₹ 50 lakhs.	Investment in new assets × Capital gain/net consideration	Investment in new assets or capital gain, whichever is lower	Investment in new assets or capital gain, whichever is lower	Investment in new assets X capital gain/net consideration
Withdrawal of exemption	If new asset is transferred within a period of 3 years from the date of its acquisition. Note: Where assessee takes loans or advance on security of such specified asset, he shall be deemed to have transferred such asset on the date on which such loan or advance is taken.	(a) If new asset is transferred within 3 years of acquisition, (b) If another residential house is purchased within 2 years of transfer of original asset; (c) If another house is constructed within 3 years of transfer of original asset	If new asset is transferred within 3 years of acquisition	If new asset is transferred within 3 years of acquisition	If equity shares in company or new asset acquired by company is sold or transferred within a period of 5 years from date of acquisition. Note: w.e.f. Assessment Year 2020-21, the restriction on the transfer of new asset is reduced to 3 years in case of computer or computer software.
Deposit in Capital gains deposit scheme before due date under Sec. 139(1)	No	Yes	Yes	Yes	Yes

• Adjustment of LTCG against the Basic Exemption Limit

- Basic exemption limit means the level of income up to which a person is not required to pay any tax. The basic exemption limit applicable in case of an individual for the financial year 2019-20 is as follows :
 1. For resident individual of the age of 80 years or above, the exemption limit is ₹ 5,00,000.
 2. For resident individual of the age of 60 years or above but below 80 years, the exemption limit is ₹ 3,00,000.
 3. For resident individual of the age of below 60 years, the exemption limit is ₹ 2,50,000.
 4. For non-resident individual, irrespective of the age of the individual, the exemption limit is ₹ 2,50,000.
 5. For HUF, the exemption limit is ₹ 2,50,000.

• Calculation of Tax on Capital Gain

- **Tax on Short-term Capital Gain**
- The STCG shall be treated as normal income for the purpose of applicability of rate of income tax except the following :
 1. Section 111A is applicable in case of STCG arising on transfer of equity shares or units of equity oriented mutual-funds or units of business trust, which are transferred on or after 1-10-2004 through a recognised stock exchange and such transaction is liable to securities transaction tax (STT).
 - Equity oriented mutual fund means a mutual fund specified under Section 10(23D) and 65% of its investible funds, out of total proceeds are invested in equity shares of domestic companies.
 - If the conditions of Section 111A as given above are satisfied, then the STCG is termed as STCG covered under Section 111A. Such gain is charged to tax at 15% (plus surcharge and cess as applicable).
 2. With effect from Assessment Year 2017-18, benefit of concessional tax rate of 15% shall be available even where STT is not paid, provided that :
 - (a) Transaction is undertaken on a recognised stock exchange located in any International Financial Service Centre, and
 - (b) Consideration is paid or payable in foreign currency.

■ Tax on Long-term Capital Gain (LTCG)

1. As per Section 112A, long-term capital gains arising from transfer of an equity share, or a unit of an equity oriented fund or a unit of a business trust shall be taxed at 10% (without indexation) of such capital gains. The tax on capital gains shall be levied in excess of ₹ 1 lakh.
2. LTCG due to transfer of other assets, after taking benefit of indexing shall be taxed @ 20%.
3. Long-term capital gain cannot be adjusted against exemption u/s 80 chapter VI-A. But if needed, it can be adjusted against basic exemption limit of income-tax.

QUESTIONS FOR DISCUSSION**1. Fill in the blanks**

1. For claiming exemption u/s 54B, the asset transferred should be
 2. Shares held in a company shall be short-term capital asset if these are held for not more than month.
 3. Capital gain arises from the transfer of Asset.
 4. effects are not capital asset.
 5. Painting is a asset.
 6. Cost of index is available from the year
 7. Benefit of indexation is allowed for the Asset.
 8. Rate of tax applicable on STCA is is transaction is chargeable to securities transaction tax (STT).
 9. The rate of tax on LTCA is
 10. LTCA on Agricultural land is incomes.
- 2.** Differentiate : (i) Long-term Capital Gain and Short-term Capital Gain,
(ii) Tax on LTCA and STCA.
- 3.** Write in brief the various exemptions available for computation of capital gain.
- 4.** Explain the meaning of :
- (1) Capital Asset.
 - (2) Transfer and Deemed transfer,
 - (3) Indexed Cost of Acquisition and improvement. (4) Notional cost of acquisition.

INCOME FROM OTHER SOURCES**2.5 INCOME FROM OTHER SOURCES**

- Income which is not to be excluded from the total income under the Income Tax Act but does not fall under any of the specified heads of income, is chargeable to tax under the head "Income from other sources".
- The following incomes are chargeable to income tax under the head:
 1. Dividends from domestic company covered by Section 2(22) (e).
 2. Interest on securities if the income is not chargeable to income tax under the head 'Profits and gains of business or profession'.
 3. Any pension received by the legal heirs of an employee.
 4. Any winnings from lotteries, crossword puzzles, races including horse races, card games, or any other game, gambling or betting.
 5. Any contribution to a fund for welfare of employees received by the employer.
 6. Interest on bank deposits.
 7. Interest on income tax refund.
 8. Income in the form of hire from machinery, plant or furniture belonging to the assessee by letting the assets, if not chargeable to 'Profits and gains of Business and Profession'. If building is also let out along with these assets and the letting of building is inseparable from the machinery, plant or furniture, the income from such letting, if not chargeable under the head "Profits and gains of business and profession".
 9. Gift
 - (a) Any sum of money exceeding ₹ 50,000 received without consideration, the whole amount.
 - (b) Any immovable property received without consideration and if the stamp duty value of such property exceeds ₹ 50,000, the stamp duty value of the property.
 - (c) Any immovable property received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the amount exceeding the stamp duty value.
 - (d) Any property, other than immovable property, received without consideration, the aggregate fair market value of which exceeds ₹ 50,000, the fair market value.
 - (e) Any property other than immovable property, received for partial consideration, the amount exceeding the fair market value.

- The amount or property received without consideration or for partial consideration is not taxable if received:
 - (a) from any relative; or
 - (b) on the occasion of the marriage of the individual; or
 - (c) under a will or by way of inheritance; or
 - (d) in contemplation of death of the payer or donor, as the case may be; or
 - (e) from any local authority as defined in the Explanation to clause (20) of Section 10; or
 - (f) from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to in clause (23C) of Section 10; or
 - (g) from any trust or institution registered under Section 12aa; or
 - (h) by way of transaction not regarded as transfer under clause (vicb) or clause (vid) or clause (vii) of Section 47.
 - (i) from an individual by a trust created or established solely for the benefit of relative of the individual.
 - (j) by any fund or trust or institution or any university or other educational institution or any hospital or other medical institution specified for the purpose.
- "Property" means the following capital asset of the assessee, namely :
 - (a) immovable property being land or building or both;
 - (b) shares and securities;
 - (c) jewellery;
 - (d) archaeological collections;
 - (e) drawings;
 - (f) paintings;
 - (g) sculptures;
 - (h) any work of art;
 - (i) bullion.

Meaning of 'Relative'

- (a) In case of an individual:
 - (i) spouse of the individual;
 - (ii) brother or sister of the individual;
 - (iii) brother or sister of the spouse of the individual;
 - (iv) brother or sister of either of the parents of the individual;
 - (v) any lineal ascendant or descendant of the individual;
 - (vi) any lineal ascendant or descendant of the spouse of the individual;
 - (vii) spouse of the person referred to in items (ii) to (vi); and
- (ii) In case of a Hindu undivided family, any member thereof.

Meaning of "Stamp Duty Value"

- It means the value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property;
- Where a company, not being a company in which the public are substantially interested, receives, in any previous year, from any person being a resident, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares:
 - This clause shall not apply where the consideration for issue of shares is received:
 - (a) by a venture capital undertaking from a venture capital company or a venture capital fund; or
 - (b) by a company from a class or classes of persons as may be notified by the Central Government in this behalf.

Meaning of 'Fair Market Value'

- 'Fair market value' of the shares means the value :
 - (a) as may be determined in accordance with such method as may be prescribed; or
 - (b) as may be substantiated by the company to the satisfaction of the Assessing Officer, based on the value, on the date of issue of shares, of its assets, including intangible assets being goodwill, know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, whichever is higher;

Meaning of 'Venture Capital Company'

- "Venture Capital Company", "venture capital fund" and "venture capital undertaking" means the meanings respectively assigned to them in clause (a), clause (b) and clause (c) of Explanation to clause (23FB) of Section 10;
- Interest received on compensation or on enhanced compensation in the year in which the amount is received, after deducting 50% of such income;
- Any amount received as an advance otherwise in the course of negotiation for transfer of a capital asset if such sum is forfeited and the negotiations do not result in transfer of such capital asset.
- Any compensation or other payment due to or received by any person in connection with the termination of his employment or the modification of the terms and conditions of the employment.

Deductions Allowable

- The following deductions are available to the assessee in obtaining the taxable amount under this head :
 1. In case of taxable dividend income and interest from securities, any reasonable sum paid by way of remuneration or commission for the purpose of realising such income including interest on borrowed capital if such borrowed capital is used for making investment in shares or securities.
 2. In case of income from plant, machinery or furniture given out on hire, the following expenses will be allowed as deduction:
 - (a) Current repairs to building.
 - (b) Current repairs to machinery, plant or furniture.
 - (c) Insurance premium paid for insuring the plant, machinery, building or furniture.
 - (d) Depreciation on building, machinery, plant or furniture.
 3. In case of any expenditure other than capital expenditure or personal expenditure which has been incurred wholly, necessarily and exclusively for earning income like revenue expenditure, such expenditure will also be allowed as a deduction.
 4. In case of family pension received by legal heirs of an employee, a standard deduction of $\frac{1}{3}^{\text{rd}}$ of such amount or ₹ 15,000 whichever is less will be allowed by way of deduction.

Amounts not Deductible

- The following amounts are not deductible while computing the taxable amount under this head :
 - (1) Personal expenses of the assessee.
 - (2) Any sum paid on account of wealth tax in India or abroad.
 - (3) Any amount not allowable by virtue of it being reasonable.
 - (4) Any expenditure in connection with income from winnings from lotteries, crosswords, cross puzzles, races including horses, car race and other games of races, gambling, betting of any form.
- However expenses are allowed as a deduction in computing the income of an assessee who earns income from maintaining as well as holding race horses.

PRACTICAL SOLVED PROBLEMS**INCOME FROM OTHER SOURCES****Problem No. 1**

Determine the head of income under which the following incomes of an assessee shall be taxable:

- (1) Dividend of ₹ 84,000 received by an individual from an Indian company.

- (2) Dividend of ₹ 1,84,000 received by Mrs. Sunanda from a foreign company.
- (3) ₹ 25,200 won by Mr. Soham from a game show.
- (4) ₹ 84,000 received by Mr. Kumar from his friend on his birthday.
- (5) Rent of a plot of land of ₹ 20,000 received by Mr. Jagdish.
- (6) Rent of a shop amounting to ₹ 1,00,000 per month received by Mr. Sohil.
- (7) Interest of ₹ 50,000 from bank fixed deposits received by a salaried employee.
- (8) Compensation of ₹ 2.5 crore, received by Richa Shah, in connection with the termination of her management, who is managing the whole of business of an Indian company.
- (9) Interest received on compensation or on enhanced compensation.
- (10) Profit on sale of license granted under the imports (control) order.
- (11) Interest received by the partner of a partnership firm.
- (12) An amount received by any person for agreeing, not to carry out any activity in relation to any business.
- (13) An amount received in cash on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction.
- (14) Any profit on sale of business asset.
- (15) Pension received from employer after retirement.
- (16) Family pension received by the heir of an employee.
- (17) Income from intraday trading.

Solution :

Sr. No.	Nature of Income	Applicable Head of Income
1.	Dividend of ₹ 1,04,000 received by an individual from an Indian company	Income from other sources
2.	Dividend of ₹ 1,84,000 received by Mrs. Sunanda from a foreign company	Income from other sources
3.	₹ 25,200 won by Mr. Soham from a game show	Income from other sources
4.	₹ 84,000 received by Mr. Kumar from his friend on his birthday	Income from other sources
5.	Rent of a plot of land of ₹ 20,000 received by Mr. Jagdish	Income from other sources

Sr. No.	Nature of Income	Applicable Head of Income
6.	Rent of a shop amounting to ₹ 1,00,000 per month received by Mr. Sohil	Income from House property
7.	Interest of ₹ 50,000 from bank fixed deposits received by a salaried employee	Income from other sources
8.	Compensation of ₹ 2.5 crore, received by Richa Shah, in connection with the termination of her management, who is managing the whole of business of an Indian company	Profits and gains of business or profession
9.	Interest received on compensation or on enhanced compensation	Income from other sources
10.	Profit on sale of license granted under the imports (control) order	Profit and gains of business or profession
11.	Interest received by the partner of a partnership firm	Profit and gains of business or profession
12.	An amount received by any person for agreeing, not to carry out any activity in relation to any business	Profit and gains of business or profession
13.	An amount received in cash on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction	Profit and gains of business or profession
14.	Any profit on sale of business asset	Capital gain
15.	Pension received from employer after retirement	Income from Salary
16.	Family pension received by the heir of an employee	Income from other sources
17.	Income from intraday trading	Speculation income, Profit and gains of business or profession

Problem No. 2

On 25-5-2019, Mrs. Kartik gifted his personal building to his friend M/s Leela who stood by her in times of need. The market value of the building was ₹ 40,00,000 and the value of the building adopted by the Stamp Valuation Authority for charging stamp duty was ₹ 35,00,000. What will be the tax implications of the above items in the hands of Mrs. Kartik?

Solution :

Mrs. Kartik has not to pay any tax to the government. It will be treated as 'Income from other sources' in the hands of M/s Leela. The taxable income is the stamp duty of ₹ 35,00,000.

Problem No. 3

Discuss the tax treatment of the following information provided by Mrs. Kajal :

- (i) Gift of gold received from her mother. The value of gold amounted to ₹ 1,84,000.
- (ii) Shares of the face value of ₹ 40,000, received by way of gift from his brother. The market value of the shares on the date of transfer was ascertained as ₹ 1,00,000
- (iii) Gift of diamond jewellery amounting to ₹ 1,50,000 received from her friends on the occasion of his marriage.
- (iv) Television set received from a friend who has bought a better version. The market value of the Television is ₹ 50,000 whereas friend required her to pay ₹ 20,000.
- (v) A painting, costing ₹ 30,000 was sold to her by the club in which she is a member at ₹ 10,000.

Solution :

- (i) Gift of gold received from her mother is not taxable, as gift received from relative is tax free.
- (ii) Shares received from brother is not taxable, as brother is a relative.
- (iii) Diamond jewellery received from friends is not taxable, as it is received on the occasion of her marriage.
- (iv) Television set received from a friend is not taxable, as 'television' is not specified immovable property.
- (v) The painting sold at concessional rate is not taxable, as the value of the transaction is less than ₹ 50,000.

Problem No. 4

Compute taxable income of Mr. Ramesh under the head 'Income from other sources' from the following details:

1. His friend is owning a small jewellery shop. He sold a gold jewellery at ₹ 85,000. The market value of the jewellery amounted to ₹ 1,85,000.
2. In the previous year, he was paid termination compensation by the employer company amounting to ₹ 90,00,000. He used to manage the whole of business of the company. The other members of the board objected to the amount, hence he was not paid the amount in the previous year. In the current year, he received the amount with an interest @ 6% for the delay of 6 months.

Solution: Computation of 'Income from Other Sources' for Mr. Ramesh

Particulars	Details (₹)	Amount (₹)
Market Value of Jewellery	1,85,000	
Less: Amount Paid	(85,000)	1,00,000
Interest on compensation	2,70,000	
Less: 50%	1,35,000	1,35,000
Taxable Income from Other Sources		2,35,000

Problem No. 5

Compute the taxable amount of Mrs. Sunita Hegde, under the head 'Income from other sources' from the following details:

- (a) On 25-6-2019, purchased a building from her friend for ₹ 15,40,000. The value of the building adopted by the Stamp Valuation Authority for charging stamp duty is ₹ 18,40,000.
- (b) She is in receipt of a family pension of ₹ 2,10,000.
- (c) She has earned fees of ₹ 60,000 from University for valuation of examination papers.
- (d) She earned an interest of ₹ 20,000 on fixed deposits with bank, less than 5 year term.
- (e) Received dividend of ₹ 30,000 from a domestic company and ₹ 50,000 from a foreign company (no tax paid).

Her expenses during the year in relation to the above are:

- (a) Brokerage paid for collecting interest on securities ₹ 2,500.
- (b) Fees paid for filing income tax returns ₹ 1,000.
- (c) Commuting expenses incurred for going to university for valuation ₹ 4,000.

Solution:**Computation of "Income from Other Sources" of Mrs. Sunita Hegde**

Particulars	Details (₹)	Amount (₹)
Concessional Payment on Purchase of Building	18,40,000	
	(15,40,000)	3,00,000
Family Pension	2,10,000	
Less: Lower of 1/3 rd of pension or ₹ 15,000	(15,000)	1,95,000
Examination Fees	60,000	
Less: Commuting Expenses	4,000	56,000
Interest on Security	20,000	
Less: Brokerage Paid	(2,500)	17,500
Dividend Received from Foreign Company		50,000
Taxable Income from Other Sources		6,18,500

QUESTIONS FOR DISCUSSION

1. Define 'Income from Other sources'.
2. Provide list of expenses allowed to be deducted from the 'Income from other sources'.
3. Explain the meaning of 'Relatives'.
4. Explain the meaning of 'Stamp Duty value'.



Chapter 3...

Computation of Total Taxable Income (TTI) and Tax Liability

Contents ...

3.1 **Gross Total Income** - Deductions u/s 80 C, 80 CCC to 80 U, Total Taxable Income, Income Tax Calculation of Individual (Rates Applicable for Respective Assessment Year), Education cess and Higher Education Cess, Surcharge Etc. (Calculation of tax payable as per old regime and new regime)

📖 Practical Solved Problems

📖 Questions for Discussion

📖 Problems for Practice

3.1 GROSS TOTAL INCOME – DEDUCTIONS U/S 80 C, 80 CCC TO 80 U, TOTAL TAXABLE INCOME, INCOME TAX CALCULATION OF INDIVIDUAL (RATES APPLICABLE FOR RESPECTIVE ASSESSEMENT YEAR), EDUCATION CESS AND HIGHER EDUCATION CESS, SURCHARGE, ETC. (CALCULATION OF TAX PAYABLE AS PER OLD REGIME AND NEW REGIME)

(A) Meaning of Gross Total Income (GTI)

- Gross total income is the aggregate of net income computed under the 5 heads of income, after applying provision of clubbing, set-off and carry forward of losses. From the GTI, deductions are made as per Chapter VI A.

(B) Deductions u/s 80 C, 80 CCC to 80 U

- Income tax in India is progressive. Higher rate of income tax is imposed on higher levels of income. In order to encourage expenditure and investment in a certain direction, Government allows certain expenses and investments of an

assessee to be deducted from the gross total income. This has the effect of reducing the tax liability of the assessee on one hand and planned economic development on the other. These deductions are contained in Chapter VI A of the Income Tax Act.

- These deductions are explained in brief in the following :

Section 80 C

1. Life insurance premium for policy is limited to 10% of the sum assured, in case of policies taken after 1.4.2012. The limit is 20% in case of policies taken prior to 1.4.2012.
 - (a) in case of an individual, on life of assessee, assessee's spouse and any child of assessee
 - (b) in case of HUF, on life of any member of the HUF
2. Sum paid under a contract for a deferred annuity
 - (a) in case of an individual, on life of the individual, individual's spouse and any child of the individual (however, contract should not contain an option to receive cash payment in lieu of annuity)
 - (b) in case of HUF, on life of any member of the HUF
3. Sum deducted from salary payable to Government servant for securing deferred annuity or making provision for his wife/children [qualifying amount limited to 20% of salary]
4. Contributions by an individual made under Employees' Provident Fund Scheme (EPF)
5. Contribution to Public Provident Fund (PPF) Account in the name of:
 - (a) in case of an individual, such individual or his spouse or any child of such individual
 - (b) in case of HUF, any member of HUF
6. Contribution by an employee to a recognised provident fund (RPF)
7. Contribution by an employee to an approved superannuation fund
8. Subscription to any notified security or notified deposit scheme of the Central Government. For this purpose, Sukanya Samriddhi Account Scheme has been notified vide Notification No. 9/2015, dated 21.01.2015. Any sum deposited during the year in Sukanya Samriddhi Account by an individual would be eligible for deduction.

9. Amount can be deposited by an individual or in the name of girl child of an individual or in the name of the girl child for whom such an individual is the legal guardian.
10. Subscription to notified savings certificates (NSC) [National Savings Certificates (VIII Issue)]
11. Contribution for participation in unit-linked Insurance Plan of UTI :
 - (a) in case of an individual, in the name of the individual, his spouse or any child of such individual
 - (b) in case of a HUF, in the name of any member thereof
12. Contribution to notified unit-linked Insurance Plan of LIC Mutual Fund [Dhanaraksha 1989]
 - (a) in the case of an individual, in the name of the individual, his spouse or any child of such individual
 - (b) in the case of a HUF, in the name of any member thereof
13. Subscription to notified deposit scheme or notified pension fund set-up by National Housing Bank [Home Loan Account Scheme/National Housing Banks (Tax Saving) Term Deposit Scheme, 2008]
14. Tuition fees (excluding development fees, donations, etc.) paid by an individual to any university, college, school or other educational institution situated in India, for full time education of any 2 of his/her children
15. Certain payments for purchase/construction of residential house property
16. Subscription to notified schemes of
 - (a) public sector companies engaged in providing long-term finance for purchase/construction of houses in India for residential purposes.
 - (b) authority constituted under any law for satisfying need for housing accommodation or for planning, development or improvement of cities, towns and villages, or for both
17. Sum paid towards notified annuity plan of LIC (New Jeevan Dhara/New Jeevan Dhara-I/New Jeevan Akshay/New Jeevan Akshay-I/New Jeevan Akshay-II/Jeevan Akshay-III plan of LIC) or other insurer
18. Subscription to any units of any notified Mutual Fund or the UTI (Equity Linked Saving Scheme, 2005)
19. Contribution by an individual to any pension fund set-up by any mutual fund which is referred to in Section 10 (23D) or by the UTI (UTI Retirement Benefit Pension Fund)

20. Subscription to equity shares or debentures forming part of any approved eligible issue of capital made by a public company or public financial institutions
21. Subscription to any units of any approved mutual fund referred to in Section 10(23D), provided amount of subscription to such units is subscribed only in 'eligible issue of capital' referred to above.
22. Term deposits for a fixed period of not less than 5 years with a scheduled bank, and which is in accordance with a scheme framed and notified
23. Subscription to notified bonds issued by the NABARD.
24. Deposit in an account under the Senior Citizen Savings Scheme Rules, 2004 (subject to certain conditions)
25. 5-year term deposit in an account under the Post Office Time Deposit Rules, 1981 (subject to certain conditions)

Maximum Amount of Deduction

- The limit to the total amount of deduction under section 80C is the whole of the amount paid or deposited subject to a maximum of ₹ 1,50,000. This maximum limit of ₹ 1,50,000 is the aggregate of the deduction that may be claimed under sections 80C, 80CCC and 80CCD.

Section	Nature of Deduction	Who can Claim
(1)	(2)	(3)
80CCC	Contributions to certain pension funds of LIC or any other insurer (up to ₹ 1,50,000) (subject to certain conditions)	Individual
80CCD	Contribution to pension scheme notified by Central Government up to 10% of salary (subject to certain conditions and limits) Contribution made by employer shall also be allowed as deduction under Section 80CCD(2) while computing total income of the employee. However, amount of deduction could not exceed 10% of salary of the employee	Individual
80CCF	Amount up to ₹ 20,000, paid or deposited, during the previous years relevant to assessment year 2011-12 or 2012-13, as subscription to notified long-term infrastructure bonds	Individual/HUF

Section	Nature of Deduction	Who can Claim
80D	<p>Amount paid (in any mode other than cash) by an individual or HUF to LIC or other insurer to effect or keep in force an insurance on the health of specified person. An individual can also make payment to the Central Government health scheme and/or on account of preventive health check-up, subject to the following limit:</p> <ol style="list-style-type: none"> i. For self, spouse and dependent children ₹ 25,000 (₹ 50,000 if the person is a senior citizen) ii. For parents of the assessee : (Additional) ₹ 25,000 (₹ 50,000 if person insured is a senior citizen) iii. Medical expenditure if no amount is paid in respect of health insurance - ₹50,000 (only in case of senior citizen) iv. Deduction for preventive health check-up shall not exceed in aggregate ₹ 5,000 <p>The aggregate amount of deduction cannot exceed ₹ 1,00,000.</p> <p>In case of HUF, Premium up to ₹ 25,000 (₹ 50,000 if member insured is a senior citizen) paid to insure any member of the family.</p> <p>Medical expenditure if no amount is paid in respect of health insurance ₹ 50,000 (only in case of senior citizen)</p> <p>The aggregate amount of deduction cannot exceed ₹ 50,000.</p>	Individual/HUF

Section	Nature of Deduction	Who can Claim
80DD	Deduction of ₹ 75,000 (₹ 1,25,000 in case of severe disability) to a resident individual/HUF where (a) any expenditure has been incurred for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability [as defined under Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995] (w.e.f. assessment year 2005-06 including autism, cerebral palsy and multiple disability as referred to in National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation & Multiple Disabilities Act, 1999), or (b) any amount is paid or deposited under an approved scheme framed in this behalf by the LIC or any other insurer or the Administrator or the specified company for the maintenance of a dependent, being a person with disability (subject to certain conditions)	Resident Individual/HUF
80DDB	Expenses actually paid for medical treatment of specified diseases and ailments subject to certain conditions	Resident Individual/HUF
80E	Amount paid out of income chargeable to tax by way of payment of interest on loan taken from financial institution/approved charitable institution for pursuing higher education (subject to certain conditions) (maximum period : 8 years)	Individual
80EE	Interest payable on loan taken by an individual from any financial institution for the purpose of acquisition of a residential house property subject to certain condition. (Maximum deduction ₹ 50,000)	Individual

Section	Nature of Deduction	Who can Claim
80G	<p>Donations to certain approved funds, trusts, charitable institutions/donations for renovation or repairs of notified temples, etc. [amount of deduction is 50 per cent of net qualifying amount]. 100 per cent of qualifying donations to National Defence Fund, Prime Minister's National Relief Fund, Prime Minister's Armenia Earthquake Relief Fund, Africa (Public Contributions - India) Fund, National Children's Fund (from 1-4-2014), Government or approved association for promoting family planning, universities and approved educational institutions of national eminence, National Foundation for Communal Harmony, Chief Minister's Earthquake Relief Fund (Maharashtra), Zila Saksharta Samitis, National or State Blood Transfusion Council, Fund set-up by State Government to provide medical relief to the poor, Army Central Welfare Fund, Indian Naval Benevolent Fund and Air Force Central Welfare Fund, Andhra Pradesh Chief Minister's Cyclone Relief Fund, National Illness Assistance Fund, Chief Minister's Relief Fund or the Lt. Governor's Relief Fund in respect of any State or Union Territory, National Sports Fund, National Cultural Fund, Fund for Technology Development and Application, Indian Olympic Association, etc., fund set-up by State Government of Gujarat exclusively for providing relief to victims of earthquake in Gujarat, National Trust for Welfare of Persons with Autism, Cerebral palsy, Mental retardation and Multiple Disabilities and sums paid between 26-1-2001 and 30-9-2001 to any eligible trust, institution or fund for providing relief to Gujarat earthquake victims, the Swachh Bharat Kosh and the Clean Ganga Fund (from assessment year 2015-16) and National Fund for Control of Drug Abuse (from assessment year 2016-17) [subject to certain conditions and limits]</p>	All assesseees

Section	Nature of Deduction	Who can Claim
80GG	Rent paid in excess of 10% of total income for furnished/unfurnished residential accommodation (subject to maximum of ₹ 5,000 p.m. or 25% of total income, whichever is less) (subject to certain conditions)	Individuals not receiving any house rent allowance
80GGA	Certain donations for scientific, social or statistical research or rural development programme or for carrying out an eligible project or scheme or National Urban Poverty Eradication Fund (subject to certain conditions)	All assesseees not having any income chargeable under the head 'Profits and Gains of Business or Profession'
80GGB	Sum contributed to any political party/electoral trust	Indian company
80GGC	Sum contributed to any political party/electoral trust	All assesseees, other than local authority and artificial juridical person wholly or partly funded by Government
	For Certain Incomes	
80-IA	Profits and gains from industrial undertakings engaged in infrastructure facility, telecommunication services, industrial park, development of Special Economic Zone, power undertakings, etc. (subject to certain conditions and limits. No deduction under this section shall be available to an enterprise which starts the development or operation and maintenance of the infrastructure facility on or after the 1st day of April, 2017.	All assesseees

Section	Nature of Deduction	Who can Claim
80-IAB	Profits and gains derived by undertaking/enterprise from business of developing a Special Economic Zone notified on or after 1-4-2005 (subject to certain conditions and limits)	Assessee being Developer of SEZ
	No deduction under this section shall be available to an assessee, being a developer, where the development of Special Economic Zone (SEZ) begins on or after the 1st day of April, 2017.	
80-IAC	Profit and gains derived by an eligible start-up from specified business on or after 1-4-2016 (subject to certain conditions)	Company and LLP
80-IB	Profits and gains from industrial undertakings, cold storage plant, hotel, scientific research & development, mineral oil concern, housing projects, cold chain facility, multiplex theatres, convention centres, ships, etc. (subject to certain conditions and limits)	All assessees No deduction shall be available to an enterprise which commence the business activity on or after 1-4-2017.
80-IC	Profits and gains derived by an undertaking or an enterprise in special category States (Himachal Pradesh, Uttaranchal, Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura) (subject to certain limits, time limits and conditions), (a) which has begun or begins to manufacture or produce any article or thing, not being any article or thing specified in the Thirteenth Schedule, or which manufactures or produces any article or thing, not being any article or thing specified in the Thirteenth Schedule and undertakes substantial expansion during the specified period.	All assessees

Section	Nature of Deduction	Who can Claim
	(b) which has begun or begins to manufacture or produce any article or thing specified in the Fourteenth Schedule or commences any operation specified in that Schedule, or which manufactures or produces any article or thing, specified in the Fourteenth Schedule or commences any operation specified in that Schedule and undertakes substantial expansion during the specified period	
80-ID	Profits and gains from business of hotels and convention centres in specified areas (subject to certain conditions).	All assesseees
80-IE	Deduction in respect of certain undertakings in North Eastern States.	All assesseees
80JJA	Entire income from business of collecting and processing or treating of bio-degradable waste for generating power, or producing bio-fertilizers, bio-pesticides or other biological agents or for producing bio-gas, making pellets or briquettes for fuel or organic manure (for 5 consecutive assessment years)	All assesseees
80JJAA	<p>Deduction of 30% of additional employee cost in respect of employment of new employees.</p> <p>Additional employee cost means total emoluments paid or payable to additional employees employed during the previous year.</p> <p>Deduction shall be allowed for first three Assessment Years including the Assessment Year relevant to previous year in which such employment is provided.</p> <p>(Subject to certain other condition)</p>	Assessee to whom section 44AB applies

Section	Nature of Deduction	Who can Claim
80LA	Certain incomes of Scheduled banks/banks incorporated outside India having Offshore Banking Units in a Special Economic Zone/Units of International Financial Services Centre (subject to certain conditions and limits)	Scheduled Banks/banks incorporated outside India/Units of International Financial Services Centre
80P	Specified incomes [subject to varying limits specified in sub-section (2)]	Co-operative societies
80QQB	Royalty income of author of certain specified category of books (up to ₹ 3,00,000) (subject to certain conditions)	Resident Individual - Author
80RRB	Royalty on patents up to ₹ 3,00,000 in the case of a resident individual who is a patentee and is in receipt of income by way of royalty in respect of a patent registered on or after 1-4-2003 (subject to certain conditions).	Resident individuals
80TTA	Interest on deposits in savings bank accounts (up to ₹ 40,000 per year)	Individuals/HUFs (except Senior Citizen)
80TTB	Interest on deposit in saving account or fixed deposit (upto ₹ 50,000 per year)	Senior citizen
80U	Deduction of ₹ 75,000 to a resident individual who, at any time during the previous year, is certified by the medical authority to be a person with disability [as defined under Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995] [w.e.f. assessment year 2005-06 including autism, cerebral palsy and multiple disabilities as defined under National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation & Multiple Disabilities Act, 1999] [in the case of a person with severe disability, allowable deduction is ₹ 1,25,000] (subject to certain conditions).	Resident individuals

Rebates u/s 87A

- Tax rebate in case of individual resident in India, whose total income does not exceed ₹ 5,00,000. Quantum of rebate shall be an amount equal to hundred per cent of such income-tax or an amount of ₹ 12,500, whichever is less.

Relief u/s 89

- Salary in arrears or advance. According to the rule, in case the employee is a Government servant or is an employee in a company, cooperative society, local authority, university, institution or association of body, he/she may for claiming the relief submit the form 10E to his/her employer who is responsible for making the payment of the salary as referred to in sub-section (1) of Section 192 of the Income Tax Act, 1961.
- In all other cases, the assessee for claiming the relief should file an application in form 10E to his/her income tax assessing officer. The relief under section 89(1) is allowable in the assessment year in which the arrears or the advance is received by the employee.

Important Points

- The following portion of gross income cannot be adjusted against deductions u/c VI A :
 - Long-term capital gain.
 - Short term capital gain due to transfer of shares and mutual funds (after the applicability of security transaction tax).
 - Income arising from winning lottery and horse racing.
 - Income of some heads related with Section 115.
- (b) Aggregate sum of all deductions cannot be more than the Gross Total Income.
- (c) To claim deductions, the submission of a supporting document is the responsibility of the assessee.
- (d) Investment for claiming deduction can be made from the income of any financial year.

(C) Income Tax Calculation – Total Taxable Income (Rates Applicable for Respective Assessment Year (AY 2022-23))

(I) Income Tax Slab For Individuals (Resident, NRIs and HUFs)

	Income Tax Slab	Income Tax Rate	Health and Education Cess
(a)	Upto ₹ 2,50,000	Nil	Nil
(b)	₹ 2,50,000 – ₹ 5,00,000	5% of total income exceeding ₹ 2,50,000	4%

	Income Tax Slab	Income Tax Rate	Health and Education Cess
(c)	₹ 5,00,000 – ₹ 10,00,000	₹ 12,500 (+) 20% of total income exceeding ₹ 5,00,000	4%
(d)	Above ₹ 10,00,000	₹ 1,12,500 (+) 30% of total income exceeding ₹ 10,00,000	4%

(II) Income Tax Slab for Senior Citizens (60 years or more but less than 80 years of age)

Income Tax Slab	Income Tax Rate	Health and Education Cess
Upto ₹ 3,00,000	Nil	Nil
₹ 3,00,000 – ₹ 5,00,000	5%	4%
₹ 5,00,000 – ₹ 10,00,000	20% of income that is more than ₹ 5,00,000 (+) ₹ 10,000	4%
Above ₹ 10,00,000	30% of income that is more than ₹ 10,00,000 (+) ₹ 1,10,000	4%

(III) Income Tax Slab for Super Senior Citizens (80 years or more)

Income Tax Slab	Income Tax Rate	Health and Education Cess
Upto ₹ 5,00,000	Nil	Nil
₹ 5,00,000 – ₹ 10,00,000	20% of income that is more than ₹ 5,00,000 (+) ₹ 10,000	4%
Above ₹ 10,00,000	30% of income that is more than ₹ 10,00,000 (+) ₹ 1,10,000	4%

Surcharge

- 10% surcharge on income tax if the total income exceeds ₹ 50 lakhs but below ₹ 1 crore.
- 15% surcharge on income tax if the total income exceeds ₹ 1 crore but below ₹ 2 crore.

- (c) 25% surcharge on income tax if the total income exceeds ₹ 2 crores but below ₹ 5 crores.
- (d) 37% surcharge on income tax if the total income exceeds ₹ 5 crores but below ₹ 10 crores.
- (e) 37% surcharge on income tax if the total income exceeds 10 crores.

Taxable Income does not include the following because of Special Rates of Income tax

- (a) Short-term capital gain arisen from transfer of equities and units of equity oriented mutual fund 15% (Sec. 111. A) which are subject to transaction tax.
- (b) Long-term capital gain 20% (Sec. 112) after indexation and 10% without indexation.
- (c) Income from winning of lottery and race course competition etc. 30% (Sec. 115BB).

Other Important Points

- (a) Education cess of 4% is applicable on the amount of income tax plus surcharge.
- (b) The taxable income is rounded off to the nearest multiple of ₹ 10/- If last digit is 5 or more, it shall be raised to the next higher multiple, in the opposite case, it shall be reduced to next lower multiple of 10.
- (c) Tax payable and refund is also to be rounded off to the nearest multiple of ₹ 10.

Tax Rates Applicable in the New Regime

- The Finance Act, 2020, has provided an option to Individuals and HUF for payment of taxes at the following reduced rates from Assessment Year 2021-22 and onwards:

Total Income (₹)	Rate
Up to 2,50,000	Nil
From 2,50,001 to 5,00,000	5%
From 5,00,001 to 7,50,000	10%
From 7,50,001 to 10,00,000	15%
From 10,00,001 to 12,50,000	20%
From 12,50,001 to 15,00,000	25%
Above 15,00,000	30%

- Surcharge is levied on the amount of income-tax at following rates if total income of an assessee exceeds specified limits

Assessment Year 2022-23				
Range of Income				
₹ 50 Lakhs to ₹ 1 Crore	₹ 1 Crore to ₹ 2 Crores	₹ 2 Crores to ₹ 5 Crores	₹ 5 crores to ₹ 10 Crores	Exceeding ₹ 10 Crores
10%	15%	25%	37%	37%

Health and Education Cess

- Health and Education Cess is levied at the rate of 4% on the amount of income-tax plus surcharge.

Important Points

(a) A resident individual (whose net income does not exceed ₹ 5,00,000) can avail rebate under section 87A. It is deductible from income-tax before calculating education cess. The amount of rebate is 100 per cent of income-tax or ₹ 12,500, whichever is less.

(b) The option to pay tax at lower rates shall be available only if the total income of assessee is computed without claiming specified exemptions or deductions.

- (i) The standard deduction, professional tax and Entertainment allowance
- (ii) Leave Travel Allowance
- (iii) House Rent Allowance
- (iv) Minor child Income Allowance
- (v) Helper Allowance
- (vi) Children Education allowance
- (vii) Interest on loan on the self-occupied or vacant property
- (viii) Chapter VI A deductions (80C to 80 E except section 80CCD(2), 80JJAA.

COMPUTATION OF TAXABLE INCOME AND TAX LIABILITY

PRACTICAL SOLVED PROBLEMS

Problem No. 1

Mr. Reddy had received the following incomes during the year ending 31.3.2022. Compute his taxable income and tax liability.

Basic salary	₹ 25,000	p.m.
D.A (part of retirement benefit)	₹ 7,000	p.m.
House Rent Allowance	₹ 10,000	p.m.

Transport Allowance ₹ 1,800 p.m.

He paid professional tax of ₹ 2,250 p.a.

He has a property in Mumbai. He has let it out at a monthly rent of ₹ 15,000 p.m. One month rent could not be received due to vacancy. He is staying at a rented house in Pune for which he is paying a rent of ₹ 12,000 p.m.

During the year he sold his investment in shares of a company within 2 months for ₹ 1,75,000. He had purchased it for ₹ 80,000.

He repaid the loan borrowed on Mumbai Property, ₹ 50,000. He also paid ₹ 40,000 towards interest on loan.

He paid LIC premium of ₹ 10,000 on his life and ₹ 15,000 on the life of his wife. He invested ₹ 15,000 in P.P.F.

He contributed ₹ 4,500 per month towards R.P.F. His employer also made a similar contribution.

He received ₹ 26,000 as interest on his R.P.F. balance @ 10%. He paid Municipal tax of ₹ 15,000 p.a. on his property.

Compute the total taxable income of Mr. Reddy for the A.Y. 2022-23.

Solution : **Computation of Total Taxable Income of Mr. Reddy
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income from Salary			
Basic Salary (25,000 × 12)		3,00,000	
D. A (7,000 × 12)		84,000	
House Rent Allowance	1,20,000		
Less : Exempt Amount	81,600	38,400	
Transport Allowance (1,800 – 1,600) × 12		2,400	
Employer's Contribution to R.P.F	54,000		
Less : Exempt @ 12% of salary	46,080	7,920	
Interest on R.P.F	26,000		
Less : Exempt @ 9.5% $\left[\frac{26,000}{10} \times 9.5 \right]$	24,700	1,300	

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Gross Salary		4,34,020	
Less : Deductions u/s 16			
Standard Deduction [Section 16 (i)]		(-) 50,000	
Professional tax paid [Section 16 (iii)]		(-) 2,250	
Net Salary			3,81,770
Income from House Property			
Gross Annual value (15,000 × 11)		1,65,000	
Less : Municipal tax paid		- 15,000	
Net Annual Value		1,50,000	
Less : Deduction u/s 24			
(a) 30% of NAV	45,000		
(b) Interest on capital borrowed	40,000	(-) 85,000	
Income from House Property			65,000
Capital Gain			
Short-term Capital Gain			
Full value of considerations		1,75,000	
Less : Cost of Acquisition		80,000	
Income from Capital Gain			95,000
Gross Total Income			5,41,770
Deduction u/s 80			
(1) Deduction u/s 80 (c)			
LIC Premium – on self	10,000		
on wife	15,000		
Contribution in PPF	15,000		
Contribution in RPF	54,000		
Loan on House Property	50,000		
	1,44,000		1,44,000
			3,97,770
Taxable Total Income			3,97,770

Working note : House Rent Allowance

Salary for the purpose :

Basic + D.A = ₹ 3,84,000

Least of the following is exempt :

- (i) Actual HRA = ₹ 1,20,000
(ii) Rent paid – 10% of salary = 1,20,000 – 38,400 = ₹ 81,600
(iii) 40% of salary = ₹ 1,53,600 $\left(₹ 3,84,000 \times \frac{40}{100} \right)$

Problem No. 2

Mr. Dileep Pathak is 66 years of age. He furnishes the following details of his income for the year ending 31.3.2022.

Pension Received @ ₹ 12,500 p.m.

He commuted $\frac{3}{4}$ th of his pension on 1st January 2022 for ₹ 90,000.

He is working as a guest Lecturer in a College at a basic salary of ₹ 10,000 p.m. The College gives him facility of free meals in the canteen @ ₹ 75 per meal for 250 days in a year. He has a car of 1,800 cc provided by the college.

He bears its maintenance cost. The car is used partly for official purposes and partly for personal purposes.

He received ₹ 12,000 as interest on his Fixed Deposit with a Bank.

He is receiving a family pension of ₹ 45,000 p.a.

Compute the taxable income and tax liability of Mr. Dileep Pathak for the A.Y. 2022-23.

Solution : (I) Computation of Total Taxable Income of Mr. Dileep Pathak for the A.Y. 2022-23 (F.Y. 2021-22)

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income from Salary			
Basic Salary (10,000 × 12)		1,20,000	
Free Meal 250 × (75 – 50)		6,250	
Motor Car (900 × 12)		10,800	
Monthly Pension (12,500 × 9)	1,12,500		
$\left(12,500 \times \frac{1}{4} \times 3 \right)$	9,375	1,21,875	
Commutated Pension Received	90,000		
Less : Exempt $\frac{1}{2}$ of the full value	60,000	30,000	
$\left(90,000 \times \frac{4}{3} \times \frac{1}{2} \right)$			
Gross Salary			2,88,925
(-) Standard Deduction [Section 16 (i)]			50,000

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income from Salary			2,38,925
Income from Other Sources			
Interest on Fixed Deposit		12,000	
Family Pension received	45,000		
Less : Exempt (₹ 15,000 or 1/3 rd of pension whichever is low)	- 15,000	30,000	42,000
Gross Total Income			2,80,925
Deduction u/s 80			Nil
Taxable Total Income (Rounded of to multiples of 10)			2,80,925

(II) Computation of Tax Liability

Up to ₹ 2,50,000

₹

Nil

$$2,80,925 (-) 2,50,000 = 30,925 \times \frac{5}{100}$$

₹ 1546.25

Less : Rebate

₹ 1546.25

Nil

Add : Health and Education Cess

Nil

Total Tax Liability

Nil

Note : Maximum tax rebate limit u/s 87A is ₹ 12,500 if the taxable income does not exceed ₹ 5,00,000.

Problem No. 3

From the following particulars furnished by Mr. Mohan Singh for the year ended 31.3.2022, you are required to compute his total income and tax payable for the A.Y. 2022-23.

- (1) He retired on 31.12.2021 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.
- (2) He was paid a salary of ₹ 50,000 p.m. and house rent Allowance of ₹ 12,000 p.m. He paid rent of ₹ 11,000 p.m. during his tenure of service.
- (3) On retirement, he was paid a gratuity of ₹ 5,50,000. He was not covered by the Payment of Gratuity Act. His average salary in this regard may be taken as ₹ 50,000. He had not received any other gratuity.
- (4) He had accumulated leave of 15 days per annum during the period of his service. This was encashed by him at the time of retirement. A sum of

- ₹ 3,15,000 was received by him in this regard. His average salary be taken at ₹ 50,000.
- (5) After retirement he ventured into textile business and incurred a loss of ₹ 80,000 for the period ended 31.3.2022.
- (6) He received professional income of ₹ 3,00,000.
- (7) He invested ₹ 22,500 in RPF, ₹ 40,000 in PPF and ₹ 37,500 in National Saving Certificates.

Solution :

**(I) Computation of Total Taxable Income of Mr. Mohan Singh
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income from Salary			
Basic Salary (50,000 × 9)		4,50,000	
Gratuity	5,50,000		
Less : Exempt Amount	5,50,000	Nil	
Leave Encashment	3,15,000		
Less : Exempt Amount	3,15,000	Nil	
House Rent Allowance	1,44,000		
Less : Exempt Amount	54,000	90,000	
Gross Income from Salary			5,40,000
(-) Std. Deduction			(50,000)
Income from Salary			4,90,000
Profits and Gains of Business/Professions			
Income from Profession		3,00,000	2,20,000
Loss from Textile Business		(80,000)	
Gross total Income			7,10,000
Less : Deduction u/s 80 c.			
Contribution to R.P.F	22,500		
Contribution to P.P.F	40,000		
National Saving Certificate	37,500		1,00,000
Taxable Total Income			6,10,000

(II) Computation of Tax Liability of Mr. Mohan Singh (AY 2022-23)

	Amount (₹)
Up to ₹ 2,50,000	nil
₹ 2,50,000 to ₹ 5,00,000 @ 5%	12,500
₹ 5,00,000 to ₹ 6,10,000 @ 20%	22,000
	34,500
Add : Cess @ 4%	1,380
Total Tax Liability	35,880

Working Notes**1. Gratuity****Least of the following is exempt :**

(a) Actual gratuity received – ₹ 5,50,000.

(b) $\frac{1}{2}$ × average salary × completed year of service

$$\frac{1}{2} \times 50,000 \times 25 = 6,25,000$$

(c) ₹ 10,00,000 (as per law).

2. Leave Encashment**Least of the following is exempt :**

(a) Actual amount received ₹ 3,15,000

(b) 10 month average salary = $50,000 \times 10 = ₹ 5,00,000$ (c) Cash equivalent to earned leave = $50,000 \times 12.5 = ₹ 6,25,000$

(d) Statutory amount = ₹ 10,00,000.

3. House Rent Allowance**Least of the following is exempt :**(a) Actual H.R.A. received : $12,000 \times 12 = ₹ 1,44,000$

(b) Rent paid – 10% of salary

$$(11,000 \times 9) - 10\% \text{ of } (4,50,000)$$

$$99,000 - 45,000 = ₹ 54,000$$

(c) 50% of salary :

$$(50,000 \times 9) \times \frac{50}{100} = ₹ 2,25,000$$

4. Employer's contribution to RPF has not to been given, hence it is not computed.
5. He is not a senior citizen hence although retired, the tax slab applicable will be the one for a regular individual.

Problem No. 4

Mr. Prakash Mohite has given the following particulars of his income and savings for the financial year ending on 31.3.2022 :

Gross Salary	₹ 8,03,000
Profit from Business	₹ 1,50,000
Interest on Government Securities	₹ 3,800
Dividend received from Indian Company	₹ 5,600
Income from House property	₹ 15,000
He paid professional Tax ₹ 2,500 and Income Tax	₹ 50,000
He paid ₹ 10,200 for LIC premium, deposited in PPF	₹ 10,000

Invested ₹ 5,000 in National Savings Certificates and made F.D. for 5 years in State Bank of India ₹ 50,000.

Compute the Total Taxable Income and Tax liability of Mr. Prakash Mohite for A.Y. - 2020-21.

Examine the impact of adopting the taxation under the new regime.

Solution :

**(I) Computation of Taxable Income and Tax Liability of Mr. Prakash Mohite
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Income from Salary		
Gross Salary		8,03,000
Less : Deduction u/s 16		
Standard Deduction [Section 16 (i)]		(–) 50,000
Professional Tax [Section 16 (iii)]		(–) 2,500
Net Salary		7,50,500
Income from House Property		15,000

Particulars	Details (₹)	Amount (₹)
Income from Business		1,50,000
Income from Other Sources		
Interest	3,800	
Dividend (exempted)	–	3,800
Gross Total Income		9,19,300
Less : Deduction u/s 80		
(i) 80C		
LIC premium	10,200	
Deposit in PPF	10,000	
NSC	5,000	
Fixed deposit	50,000	(–) 75,200
Taxable Total Income		8,44,100

(II) Computation of Tax Liability : (AY 2022-23)

Tax slab	Rate	Amount (₹)
Up to ₹2,50,000		nil
₹2,50,000 to ₹5,00,000	5%	12,500
₹5,00,000 to ₹8,44,100	20%	68,820
		81,320
Add : Cess @ 4%		3,252.8
Total Tax Liability (Rounded off)		84,572.8 84,580

(III) Taxation under the New Regime

Under the new tax regime, lower rates of tax is applicable with the condition that standard deduction and deductions under chapter VI A are not available.

The taxable income in such a case would be calculated as follows:

Particulars	Details (₹)	Amount (₹)
Income from Salary		
Gross Salary		8,03,000
Less : Deduction u/s 16		
Professional Tax [Section 16 (iii)]		(–) 2,500

Particulars	Details (₹)	Amount (₹)
Net Salary		8,00,500
Income from House Property		15,000
Income from Business		1,50,000
Income from Other Sources		
Interest	3,800	
Dividend (exempted)	–	3,800
Gross Total Income		9,19,300
Less : Deduction u/s 80		
(i) 80C		
LIC premium	10,200	
Deposit in PPF	10,000	
NSC	5,000	
Fixed deposit	50,000	Nil
Taxable Total Income		9,19,300

Tax Slab	Rate	Amount (₹)
Up to ₹ 2,50,000	Nil	0
From ₹ 2,50,001 to ₹ 5,00,000	5%	12,500
From ₹ 5,00,001 to ₹ 7,50,000	10%	25,000
From ₹ 7,50,001 to ₹ 9,19,300	15%	25,395
Total		62,895
Add : Cess @4%		2,515.8
Total Tax Liability		65,410.8

Mr. Prakash Mohite would save tax if he opts for taxation under the new regime.

The amount of savings would be ₹ 84,580 – ₹ 65,411 = ₹ 19,169

Problem No. 5

Mr. Yogesh Chandra has the following income for the financial year 2021-22:

Gross Salary	₹ 7,68,000
House Property	Nil (self-occupied)
Short-term capital gain on sale of shares (Subject to Securities Transaction Tax)	₹ 51,000
Long-term capital gain	₹ 22,000

Other Incomes

Bank Interest	₹ 7,000
Dividend on Shares of Indian Companies	₹ 8,000
Interest on Government Securities	₹ 5,000
Interest on Debentures	₹ 12,000
Interest on PPF	₹ 9,000
Mr. Yogesh made the following investments during the year :	
Contribution to R.P.F	₹ 9,360
Deposit in PPF account	₹ 5,000
LIC premium	₹ 6,000

Compute his taxable income and tax payable under old and new regime

Solution :

**(I) Computation of Taxable Income and Tax Liability of Mr. Yogesh Chandra
for the A. Y. 2022-23 (F.Y. 2021-2022)**

Particulars	Details (₹)	Amount (₹)
Gross Salary	7,68,000	
Less : Deduction u/s 16 (i)		
Standard Deduction	50,000	
Net Salary		7,18,000
Income from House Property		Nil
Short-term capital gain on Shares		51,000
Long-term capital gain on Shares		22,000
Income from Other Sources		
Bank Interest	7,000	
Dividend an Share (exempted)	–	
Interest on Government Securities	5,000	
Interest on Debentures	12,000	
Interest PPF (exempt)	–	(+) 24,000
Gross Total Income		8,15,000
Less : Deduction u/s 80		
U/s 80C		
Contribution to RPF	9,360	
Deposit in PPF	5,000	
LIC premium	6,000	20,360
Total Income		7,94,640

(II) Computation of Tax :(AY 2022 – 23)

(i) Short-term capital gain (ST Tax paid)	₹
@ 15% of 51,000	7,650
(ii) Long-term capital gain	
@ 20% of 22,000	4,400
	12,050

(iii) On the Balance of Income of ₹ 7,21,640 (7,94,640 – 51,000 – 22,000) tax slab will be applicable.

Old Regime

Tax Slab	Rate	Amount (₹)
Up to ₹ 2,50,000	Nil	0
From ₹ 2,50,001 to ₹ 5,00,000	5%	12,500
From ₹ 5,00,001 to 7,21,640	20%	44,328
Total		56,828
Add : Tax on capital gains		12,050
Gross Tax		68,878
Add : Cess @ 4%		2,755
Total tax liability		71,633

New Regime

The taxable income will increase under the new regime due to standard deduction and deduction u/s 80 are disallowed. The taxable income would be ₹ 7,92,000 (7,21,640 + 50,000 + 20,360)

Tax slab	Rate	Amount (₹)
Up to ₹ 2,50,000	Nil	0
From ₹ 2,50,001 to ₹ 5,00,000	5%	12,500
From ₹ 5,00,001 to ₹ 7,50,000	10%	25,000
From ₹ 7,50,001 to ₹ 7,92,000	15%	4,200
Total		41,700
Add : Tax on capital gains		12,050
Gross Tax		53,750
Add : Cess @4%		2,150
Total Tax Liability		55,900

Tax Liability is Lower in the New Regime

Problem No. 6

Compute taxable income of Mrs. Ratna Jawedakar for the A.Y. 2022-23.

Net Profit as per Profit and Loss Account	₹ 2,00,000
Fine imposed by Municipality charged to P & L account	₹ 800
Income tax penalty charged	₹ 6,000
Interest on Capital borrowed for purchase of Machinery, charged to P&L Account	₹ 10,000
Provident Fund contribution payable	₹ 5,000
The amount is paid after the due date of filing returns.	
Long-term capital gain	₹ 20,000

During the year she received ₹ 50,000 by way of winning from Lottery.

His investment includes the following:

- PPF ₹ 1,00,000
- Medical insurance ₹ 50,000 (for him and spouse)
- LIC premium ₹ 80,000
- Mutual Fund 50,000 (equity oriented)

Solution :

**(I) Computation of Taxable Income of Mrs. Ratna Jawedakar
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)
Income from Salary	Nil	
Income from Business		
Net Profit as per P&L Account	12,00,000	
Add : Disallowed Expenses		
Fine by Municipality	800	
Income-tax Penalty	6,000	
PF contribution (paid after due date of filing return)	5,000	12,11,800
Long-term Capital Gain		20,000
Income from Other Sources		
Winnings from Lottery		50,000
Gross Total income		12,81,800

Particulars	Details (₹)	Amount (₹)
Deduction u/s 80		
80C		
PPF	1,00,000	
LIC Premium	Nil	
Mutual fund	50,000	1,50,000
80D		25,000
Medical insurance		
Taxable Income		11,06,800

(II) Computation of Tax Liability (AY 2022-23)

(i) On Long-term capital gain @ 20% (₹ 20,000 × 20%)		4,000
(ii) On Winnings from Lottery @ 30% (₹ 50,000 × 30%)		15,000
(iii) On the Balance of Income 10,36,800 as per the tax slab		
Up to ₹ 2,50,000	Nil	
₹ 2,50,000 to ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,000 to ₹ 7,50,000 @ 10%	25,000	
₹ 7,50,000 to ₹ 10,36,800 @ 20%	57,360	94,860
Gross Tax		1,13,860
Add : Cess @ 4%		4,554.4
Total Tax Liability (Rounded)		1,18,414

Problem No. 7

Mamata Rani supplies the following details for computing her tax liability for the A.Y. 2022-23 :

(a) She is working with 'A' Ltd. on following terms :

Basic salary ₹ 50,000 p.m.

D.A ₹ 14,000 p.m.

HRA ₹ 15,500 p.m

Car of 1.4. litres, is provided for office as well as personal purpose. Maintenance expenses being met by the company.

- (b) She has two house properties. One is used by her for residence and the other is let-out at a monthly rent of ₹ 10,500. She had borrowed ₹ 12,00,000 for the construction of self-occupied property @ 12% p.a. interest. Interest for the year is still outstanding, amounting to ₹ 1,44,000.
- (c) She received interest on her Bank deposit ₹ 5,000; interest on NSC ₹ 6,000 and interest on deposits of a public limited company ₹ 4,500.
- (d) She made a mediclaim policy of her dependent mother aged 62 years and paid a premium of ₹ 5,000.
- (e) She donated ₹ 10,000 to Rajiv Gandhi Memorial Fund.
- (f) Her handicapped brother is fully dependent on her.
- (g) She paid LIC premium of ₹ 8,000.
- (h) She paid tuition fees for her son ₹ 10,000.
- (i) She paid professional tax of ₹ 2,500.

Compute her taxable income and tax liability.

Also compare the taxation under the New Regime. Advise her.

Solution :

**(I) Computation of Taxable Income of Mamata Rani
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income from Salary			
Basic salary (50,000 × 12)		6,00,000	
D. A (14,000 × 12)		1,68,000	
H.R.A. (15,500 × 12)	1,86,000		
Less : Exempt Amount (she stays in her own house)	Nil	1,86,000	
Perquisite Motor car (1,800 × 12)		21,600	
Gross Salary		9,75,600	
Less : Deduction u/s 16			
Std. Deduction [Section 16 (i)]		(-) 50,000	
Profession tax [Section 16 (iii)]		(-) 2,500	9,23,100
Income from House Property			
Self-occupied property Gross Annual Value		Nil	

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Net Annual Value		Nil	
Less : Deduction u/s 24			
Interest on Capital		(-) 1,44,000	
Let-out property			
Gross Annual Value		1,26,000	
Less : Municipal taxes paid		-	
Net Annual Value		1,26,000	
Less : Deductions u/s 24 (i) 30% standard deduction		37,800	88,200
Income from Other Sources			
Interest on Bank deposit		5,000	
Interest on NSC		6,000	
Interest on Deposits of a Public Ltd. Co		4,500	15,500
Gross Total Income			10,26,800
Less : Deductions u/s Section 80			
(i) 80C – Insurance premium	8,000		
Tuition fees	10,000		
	18,000		
(ii) 80 D – Medi-claim policy premium	5,000		
(iii) 80 DD – Dependent handicapped	50,000		
(iv) 80G – Donation	5,000		
	78,000		(-) 78,000
Taxable Income			9,48,800

(II) Computation of Tax Liability

Tax Slab	Rate	Amount (₹)
Up to ₹ 2,50,000	Nil	0
From ₹ 2,50,001 to ₹ 5,00,000	5%	12,500
From ₹ 5,00,001 to ₹ 9,48,800	20%	89,760
Total		1,02,260
Add : Cess @ 4%		4,091
Total Tax Liability (rounded)		1,06,350

Under the New Regime

Total taxable income would be without claiming deductions u/s 80 and the standard deduction. The total taxable income would increase to ₹9,92,700.

Tax Slab	Rate	Amount (₹)
Up to ₹ 2,50,000	Nil	0
From ₹ 2,50,001 to ₹ 5,00,000	5%	12,500
From ₹ 5,00,001 to ₹ 7,50,000	10%	25,000
From ₹ 7,50,001 to ₹ 9,92,700	15%	36,405
Total		73,905
Add : Cess @ 4%		2,956.2
Total Tax Liability (rounded)		76,861.2

Mamata Rani's tax liability is lower under the new regime. Hence she is advised to apply the tax as per the new regime, she would save a huge amount of tax.

Problem No. 8

Mrs. Sunita Gavaskar is a practicing Chartered Accountant. She also runs a private coaching institute. Her accounts show the following for the year 2021-22.

Receipts	₹	Payments	₹
To balance b/f	20,000	By Coaching Expenses	2,000
To Audit Fees	2,00,000	By Municipal Tax on Property	3,000
To Income from Other Professional Work	1,00,000	By Office Expense	48,000
To Coaching Fees	31,200	By Drawings	20,000
To Interest on Investment	2,000	By Membership Fees	2,000
To Examiner's Fees	1,000	By Life Insurance Premium	13,000
To Interest on Fixed Deposit	5,000	By Income Tax	5,000
To Family Pension	60,000	By Motor car purchased	2,05,000
To Rent from House Property	11,50,000	By Motor Car Expenses	6,000
		By Insurance of House Property	11,600
		By Balance c/d	12,53,600
	15,69,200		15,69,200

Additional information

- (1) 20% of motor car expenses is in respect of profession.
- (2) Allowable Depreciation on motor car is ₹ 41,000.
- (3) Bad debt (allowed) is ₹ 600.
- (4) Outstanding audit fees ₹ 25,000.
- (5) She made Long-term capital gain of ₹ 1,30,000 from the sale of house property and invested the amount in the Capital Gain Account Scheme.

Advise if he should opt for tax under the new regime.

Solution :

**(I) Computation of Taxable Income of Mrs. Sunita Gavaskar for the A.Y. 2022-23
(F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income from House Property			
Gross Annual value	11,50,000		
Less : Municipal taxes paid	(-) 3,000		
Net Annual value	11,47,000		
Less : Deduction u/s 24			
(i) 30% standard deduction	3,44,100		
(ii) Interest on loan	–		8,02,900
Income from Business and Profession			
Professional income			
Audit fees received	2,00,000		
Add : Outstanding Audit Fees	25,000		
Income from Other Professional Work	1,00,000	3,25,000	
Less : Professional Expenses			
Office expenses	48,000		
Membership fees	2,000		
Motor-car expenses	1,200		
Depreciation on motor car	8,200		
Bad debt	600	60,000	

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Gains of Profession			2,65,000
Capital Gain (exempted)			Nil
Income from Other Sources			
Coaching fees	31,200		
Less : Coaching expenses	(-) 2,000	29,200	
Family pension received	60,000		
Less : Exempt amount	(-) 15,000	45,000	
$\frac{1}{3}$ rd of ₹ 60,000, i.e. ₹ 20,000 or ₹ 15,000 (whichever is less)			
Interest on Investment		2,000	
Interest on Fixed deposit		5,000	
Examiner's fees		1,000	82,200
Gross Total Income			11,50,100

Tax Liability : She should opt for the new regime as she has no deduction to be claimed under salary and u/s 80 C

Tax slab	Rate	Amount (₹)
Up to ₹ 2,50,000	Nil	0
From ₹ 2,50,001 to ₹ 5,00,000	5%	12,500
From ₹ 5,00,001 to ₹ 7,50,000	10%	25,000
From ₹ 7,50,001 to ₹ 10,00,000	15%	37,500
From ₹ 10,00,000 to ₹ 11,50,100	20%	30,020
Total		1,05,020
Add : Cess @ 4%		4,201
Total tax liability (rounded)		1,09,221

Problem No. 9

Mr. Soham Patel furnishes the following details of his income for the A.Y. 2022-23:

He is working in a company, receiving the following emoluments :

Basic Salary ₹ 20,000 p.m.

Dearness Allowance ₹ 7,500 p.m. (part of retirement benefit).

Transport Allowance ₹ 3,700 p.m. (he is 60% handicapped).

Employer's Contribution to R.P.F ₹ 3,500 p.m.

He also makes an equal contribution.

He was provided with a rent free furnished accommodation for which company pays ₹ 10,500 p.m. and recovers ₹ 2,500 p.m. from him. The Furniture costing ₹ 25,000 is also provided in the house, free of cost to Soham.

He also received the following :

Interest on his R.P.F Balance @ 10% p.a. ₹ 20,500

Interest on PPF ₹ 1,40,000

Besides his interest due on NSC excluding 6th years is ₹ 15,000.

During the year he had borrowed ₹ 25,00,000 for education @ 11% for himself. He paid half year interest on it.

He paid the following :

- (i) LIC premium of ₹ 20,000 on a policy of ₹ 5,00,000
- (ii) He donated ₹ 5,000 for rural development.
- (iii) He made a deposit of ₹ 25,000 in 5 yrs. term in post office.

Compute taxable income and tax liability of Mr. Soham Patel for the A.Y. 2022-23.

Solution :

**Computation of Taxable Income of Mr. Soham Patel
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income from Salary			
Basic Salary (₹ 20,000 × 12)		2,40,000	
Dearness Allowance (₹ 7,500 × 12)		90,000	
Transport Allowance (3,700-3,200) × 12		6,000	
Employer's Contribution to R.P.F	42,000		
Less : 12% of salary (Basic + DA = salary)	39,600	2,400	
Interest on R.P.F	20,500		
Less : Exempt @ 9.5% $\left[\frac{20,500}{10} \times 9.5 \right]$	19,475	1,025	

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Value of Rent free furnished Accommodation			
Lower of 15% of salary or Rent paid by the employer (15% of 3,36,000 i.e. ₹ 50,400 or 1,26,000 whichever is less)	50,400		
Add : 10% of cost of furniture	2,500		
Less : Amount paid by Soham	(-) 30,000	22,900	
Gross Income from salary			3,62,325
Std. Deduction [Section 16 (i)]			50,000
Net Salary Income			3,12,325
Income from Other Sources			
Interest on PPF (exempt)	Nil		
Interest on NSC	15,000	15,000	15,000
Gross Total Income			3,27,325
Less : Deductions u/s 80			
(i) 80C = LIC premium (only 20% of policy allowed)	20,000		
RPF own contribution	42,000		
Deposit in P.O.	25,000		
Interest on NSC (excluding Interest of 6 th yr.)	15,000		
	1,02,000		
80 C' Deduction is limited to	1,50,000		1,02,000
(ii) 80 GGA Donation for Rural development (100%)			5,000
(iii) 80 E Interest Education loan paid			1,37,500
(iv) 80 U Handicapped assessee (less than 80%)			75,000
Taxable Income			7,825

(II) Tax Liability – Nil

As his income is less than the exempted amount of ₹ 2,50,000.

Problem No. 10

The following is the Receipts and Payments Account of a medical practitioner Mrs. Saroj Poonawala for the year ended 31.3.2022.

Receipts	Amount (₹)	Payments	Amount (₹)
Balance b/f	1,60,000	Clinic Rent	24,000
Visiting fees	1,40,000	Staff salaries	1,20,000
Consultation fees	6,60,000	Rent and taxes	16,000
Sale of medicines	40,000	Electricity and water	7,000
Operation theatre rent	25,000	Purchase of medical books	20,100
Interest on Bank deposits	36,000	Purchase of surgical equipments	40,000
Dividend from UTI	10,000	Motor car expenses	24,000
Sale of old newspapers and Books	13,000	Medical association membership	4,000
		LIC premium	10,000
		Audit fees	14,000
		Staff welfare expenses	3,000
		Diwali expenses	2,000
		Entertainment expenses	8,400
		Medicines purchased	26,000
		Balance c/d	7,65,500
	10,84,000		10,84,000

Additional Information

- (1) Depreciation allowed as per Income Tax Act, is ₹ 2,500 on surgical equipment.
- (2) $\frac{1}{4}$ th of the Motor car expenses are for personal use and depreciation on motor car as per Income Tax Act is ₹ 9,000 for professional use.

- (3) Audit fees include 'income-tax' consultation fees.
- (4) Rent received from House properties is ₹ 4,00,000.
- (5) Opening and closing stock of medicines were ₹ 10,000 and ₹ 15,000 respectively.
- (6) Rent and taxes include Municipal taxes of ₹ 5,000 paid.

Compute the taxable income and tax liability of Mrs. Saroj Poonawalawho has a dependent brother who is 50% handicapped. Can she claim any deduction for the medical treatment of her brother which was ₹ 60,000 in the year 2020-21. Use new regime tax rates.

Solution :

**(I) Computation of Taxable Income and Tax liability of Mrs. Saroj Poonawala
for the A.Y. 2022-23 (F.Y. 2021-22)**

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Income from House Property			
Gross Annual value		4,00,000	
Less : Municipal taxes paid		(-) 5,000	
		3,95,000	
Less : Deductions u/s 24			
(i) Standard deduction @ 30%	1,18,500		
(ii) Interest on loan	–	1,18,500	2,76,500
Income from Business and Profession			
Professional Incomes			
Visiting fees	1,40,000		
Consultation fees	6,60,000		
Sale of medicines	40,000		
Operation theatre rent	25,000		
Sale of old newspapers and book	13,000	8,78,000	
Less : Professional Expenses			
Clinic rent	24,000		
Staff salaries	1,20,000		
Rent and taxes (16,000 – 5,000)	11,000		
Electricity and water	7,000		
Purchase of Books	20,100		

Particulars	Details (₹)	Amount (₹)	Amount (₹)
Motor car expenses $\left(24,000 \times \frac{3}{4}\right)$	18,000		
Membership fees	4,000		
Audit fees	14,000		
Staff welfare expenses	3,000		
Diwali expenses	2,000		
Entertainment expenses	8,400		
Medicines (26,000 + Opening Stock of 10,000 – Closing stock of 15,000)	21,000		
Depreciation – surgical equipment	2,500		
Motor car	9,000	2,64,000	6,14,000
Income from Other Sources			
Interest on Bank deposits		36,000	
Dividend from UTI (exempt)	10,000		36,000
Gross Total Income			9,26,500
Deductions u/s 80			
80C Life insurances premium	10,000		
80DD for Dependent (Handicapped)	75,000		- 85,000
Taxable Income			8,41,500

Tax slab	Rate	Amount (₹)
Up to ₹ 2,50,000	Nil	0
From ₹ 2,50,001 to ₹ 5,00,000	5%	12,500
From ₹ 5,00,001 to ₹ 7,50,000	10%	25,000
From ₹ 7,50,001 to ₹ 8,41,500	15%	13,725
Total		51,225
Add : Cess @ 4%		2,049
Total tax liability (rounded)		53,270

QUESTIONS FOR DISCUSSION

1. What are the various deductions available to individuals u/s 80 (Chapter VI) ?
2. Discuss in detail the deductions u/s 80C, 80CCC, 80CCD, 80CCE. What is the maximum amount of deduction available ?
3. Compare and contrast the tax under the old regime and tax under the new regime.

4. Write Short notes

- (A) Section 80 D
 (B) Rebate u/s 89
 (C) Section 80 U
 (D) Section 80 C

PROBLEMS FOR PRACTICE

1. Mr. A aged 66 years is a practicing Chartered Accountant. He submits the following particulars of his income and investments during the current year :

	₹
Net Income from profession	3,05,000
Bank interest	58,000
Dividend from UTI	5,000
NSC accrued interest	7,000
Other interest	25,000
Interest on PPF	35,000
Deposit in PPF	10,000
5 years Fixed Deposit with SBI	50,000
Medical insurance premium paid	22,000
Investments in notified Infrastructure Bonds	20,000
Deposit in Senior Citizen Savings Scheme	35,000

- Compute his income for AY 2022-23.
2. Mr. Agarwal working in Pune who is handicapped (60% disabled) has furnished the following particulars of his income for the year ended 31.3.2022. You are required to compute his total income and tax liability for the A.Y. 2022-23.
- Salary ₹ 75,000 p.m.
 D.A 41% of salary (not enters into retirement benefit).
 Entertainment Allowance ₹ 600 p.m.
 Bonus equal to 2 months salary.
 Helpers Allowance ₹ 700 p.m. (all spent)
 He has been provided with 1600 cc car for official and private purpose; all expenditure of car is met by him .
 Holiday allowance ₹ 2500

Children education allowance ₹ 120 p.m. for three children	
H.R.A ₹ 3,500 p.m. He paid ₹ 5,000 p.m. as Rent.	
Employees contribution to R.P.F	₹ 12,000.
Income from Business	₹ 27,000
Income from short-term capital gain	₹ 30,000
He received :	
(i) Interest on Government securities	₹ 4000
(ii) Interest on Bank deposit	₹ 10,000
(iii) Income from UTI	₹ 150,000
(iv) Dividend from Indian company	₹ 2,500 p.m.
His Savings and Investments were as follows :	
Life Insurance premium	₹ 12,000
Contribution to P.F.	₹ 20,000
Tuition fees of son	₹ 22,000
Medical insurance premium of father (dependent)	₹ 25,000
Donation to National Defence Fund	₹ 5,000
Professional tax paid by him	₹ 3,000



Chapter 4...

E-Filing and E-Provisions

Contents ...

- ▣ Introduction
- 4.1 Due Dates of Filing Return
- 4.2 E-filing of Income Tax Return and Forms Used
- 4.3 Advance Payment of Tax
- 4.4 Tax Deducted at Source (TDS)
- 4.5 Assessment
 - 4.5.1 Assessment under Section 143(1) (Summary Assessment)
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 - 4.5.3 Faceless Assessment [Section 144B]
 - 4.5.4 Assessment under Section 144 (Best Judgement Assessment)
 - 4.5.5 Assessment under Section 147 (Re-assessment)
- 4.6 AIR (Annual Information Return)
- 4.7 SFT (Specified Financial Transactions)

INTRODUCTION

- As per the Income Tax Act, 1961 following entities are required to pay Income Tax :
 1. Individuals
 2. Hindu Undivided Family (HUF)
 3. Association of Persons (AOP)
 4. Body of Individuals (BOI)
 5. Firms
 6. Companies

- Payment of tax is based on the residential status of the persons, who are divided into Resident and Non-resident. The residential status depends on the number of day's stay in India.
- Residents are required to pay tax on their global income where as non-residents are required to pay tax on income earned, received or accrued in India.
- In case of individuals, the income tax slab depends on the age. Senior and super senior citizens have higher (tax) exemptions.
- The taxpayer has to communicate the details of taxable income/loss to the Income-tax Department. These details are communicated to the Income-tax Department in the form of 'Returns'. There are different forms filed depending on the sources of income, as stated below :

1. **ITR-1:** Individuals (residents) having income from salary, one house property, other sources, agricultural income less than ₹ 5,000 and with a total income of up to ₹ 50 lakh
2. **ITR-2:** Individuals/HUFs not having any business or profession under any proprietorship
3. **ITR-3:** Individuals/HUFs having income from a proprietary business or profession
4. **ITR-4:** Individuals/HUFs having presumptive income from business or profession
5. **ITR-5:** Partnership firms or LLPs
6. **ITR-6:** Companies
7. **ITR-7:** Trusts

4.1 DUE DATES OF FILING RETURN

- According to Section 139 (i),
 1. Every person being a company or firm; or
 2. Being a person other than a company or a firm, if his total income or the total income of any person in respect of which he is assessable under this Act during the P.Y., exceeded the maximum amount which is not chargeable to income tax, shall furnish return of income within the due dates as prescribed.

Explanation

- A company/firm has to submit return of income whether there is any income or loss. A person other than a company or a firm i.e. individual, or HUF, or AOP or BOI or an artificial juridical person is required to file a return of income only if the total income including the income of a person in respect of which he is assessable under the Income Tax Act under Chapter VI-A, exceeds the exemption limit (before deductions under Section 10A, 10B, 10BA and Sections 80 C to 80 U).

Due Dates for Filing Returns**1. The due dates are as follows :**

- (a) In case of a person being;
 - (i) A company
 - (ii) A person whose accounts as required to be audited under this Act or under any other law.
 - (iii) Working partner of a firm whose accounts are so required to be audited, the due date of filing returns is 31st October of the relevant assessment year.
- (2) In the case of any other assessee, the due date of filing returns is 31st July of the relevant A.Y.
 - When an assessee files a return of income after the due dates prescribed, interest at specified rate for every month or part of a month of the delay in filing returns will be levied and where a return of income is filed after the end of the relevant assessment year, penalty will be levied.

4.2 E-FILING OF INCOME TAX RETURN AND FORMS USED

- Under the Income-tax Law, different forms of return of income are prescribed for different classes of taxpayers. The return forms are known as ITR forms (Income-tax Return Forms).
- The following table gives a brief overview of the return forms and is not an exhaustive discussion on the return forms. For more provisions of applicability/non-applicability of the ITR Forms, the readers should go through the discussion on each ITR Form covered in this topic in later part. Forms of return prescribed under the Income -tax Law for the assessment year 2022-23 are as follows :

Return of Form	Description
ITR – 1	Also known as SAHAJ is applicable to a ordinarily Resident individual having salary or pension income or income from one house property (not a case of brought forward loss or loss to be carried forward) or income from other sources (not being lottery winnings and income from race horses and income chargeable to tax at special rates). However, an individual who is a director in a company or has held equity shares of an unlisted company shall not be eligible to use ITR -1. Further, the ITR-1 shall not be available to a taxpayer in whose case the tax has been deducted on cash withdrawal under Section 194N or tax has been deferred in respect of ESOPs allotted by an eligible startup.
ITR – 2	It is applicable to an individual or a Hindu Undivided Family not having income chargeable to income-tax under the head "Profits or gains of business or profession".
ITR – 3	It is applicable to an individual or a Hindu Undivided Family who has any income chargeable to tax under the head business or [As amended by Finance Act, 2021] profession.
ITR – 4	Also known as SUGAM is applicable to individuals or Hindu Undivided Family or partnership firm who have opted for the presumptive taxation scheme of Section 44AD/44ADA/44AE.
ITR – 5	This Form can be used by a person being a firm, LLP, AOP, BOI, artificial juridical person referred to in Section 2(31)(vii), cooperative society, local authority Private Discretionary Trust, Society registered under Society Registration Act, 1860, trust other than trusts eligible to file ITR 7, estate of deceased person, estate of an insolvent, business trust and investment fund. However, a person who is required to file the return of income under Section 139(4A) or 139(4B) or 139(4C) or 139(4D) shall not use this form (i.e., trusts, political parties, institutions, colleges.)

Return of Form	Description
ITR – 6	It is applicable to a company, other than a company claiming exemption under Section 11 (exemption under section 11 can be claimed by charitable/religious trust).
ITR –7	It is applicable to a persons including companies who are required to furnish return under Section 139(4A) or Section 139(4B) or Section 139(4C) or Section 139(4D) (i.e., trusts, political parties, institutions, colleges.).
ITR –V	It is the acknowledgement of filing the return of income.

Modes of Filing Return of Income

- Modes of filing the return of income Return Forms can be filed with the Income-tax Department in any of the following ways :
 - (a) by furnishing the return in a paper form;
 - (b) by furnishing the return electronically under digital signature;
 - (c) by transmitting the data in the return electronically under electronic verification code;
 - (d) by transmitting the data in the return electronically and thereafter submitting the verification of the return in Return Form ITR-V;

Note

- Where the return of income is filed in the manner given at (d) without digital signature, then the taxpayer should take two printed copies of Form ITR-V. One copy of ITR-V, duly signed by the taxpayer, is to be sent (within the period specified in this regard, i.e., 120 days) by ordinary post or speed post to "Income-tax Department – CPC, Post Bag No. 1, Electronic City Post Office, Bengaluru–560100 (Karnataka). The other copy may be retained by the taxpayer for his record.

Mode of Filing of Return

- The applicable return of income shall be furnished by a person mentioned in column (2) of the Table below to whom the conditions specified in column (3) apply, in the manner specified in column (4) thereof:-

Sl.	Person	Condition	Manner of Furnishing Return of Income
1	Individual or Hindu undivided family	Accounts are required to be audited under section 44AB of the A	Electronically under digital signature;
		(b) A super senior citizen (whose age is 80 years or above at any time during the previous year) who furnishes the return either in ITR-1 or ITR-4	(A). Electronically under digital signature; or (B) Transmitting the data electronically in the return under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V; or (D) Paper form;
		(c) In any other case	(A) Electronically under digital signature; or (B) Transmitting the data electronically in the return under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V;]
2	Company	In all cases.	Electronically under digital signature.
3	A person required to furnish the return in Form ITR-7	In case of a political party; In any other case	Electronically under digital signature; (A) Electronically under digital signature; or (B) Transmitting the data in the return electronically under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V.
4	Firm or limited liability partnership or any person (other than a person mentioned in Sl. 1 to 3 above) who is required to file return in Form ITR-5	Accounts are required to be audited under section 44AB of the A In any other case.	Electronically under digital signature; (A) Electronically under digital signature; or (B) Transmitting the data in the return electronically under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V

Documents to be Attached along with the Return of Income

- ITR return forms are attachment less forms and, hence, the taxpayer is not required to attach any document (like proof of investment, TDS certificates, etc.) along with the return of income (whether filed manually or filed electronically).
- However, these documents should be retained by the taxpayer and should be produced before the tax authorities when demanded in situations like assessment, inquiry, etc.
- As discussed above, no documents are to be attached along with the return of income, however, in case of a taxpayer who is required to furnish a report of audit under Section 10(23C)(iv), 10(23C)(v), 10(23C)(vi), 10(23C)(via), 10A, 10AA, 12A(1)(b), 44AB, 44DA, 50B, 80-IA, 80-IB, 80-IC, 80-ID, 80JJAA, 80LA, 92E, 115JB or 115VW or to give a notice under section 11(2)(a) shall furnish it electronically on or before the date of filing the return of income.

(I) Applicability of ITR – 1 (SAHAJ)

- Return Form ITR – 1 (SAHAJ) can be used by a ordinarily resident individual whose total income includes:
 1. Income from salary/pension; or
 2. Income from one house property (excluding cases where loss is brought forward from previous years or loss to be carried forward).
 3. Income from other sources (excluding winnings from lottery, income from race horses and income chargeable to tax at special rates).
- Further, in a case where the income of another person like spouse, minor child, etc., is to be clubbed with the income of the taxpayer, this return form can be used only when such income falls in any of the above categories.

(II) Non-applicability of ITR – 1 (SAHAJ)

- Return Form ITR – 1 (SAHAJ) cannot be used by an individual:
 1. Who is a Non-resident or Not Ordinarily Resident.
 2. Who is a Director of a company.
 3. Whose total income exceeds ₹ 50 lakhs.
 4. Who has income from more than one (1) house property.

5. Who has held unlisted equity shares at any time during the previous year.
6. Who claims deduction under Section 80QQB or Section 80RRB in respect of royalty from patents or books.
7. Who claims deduction under Section 10AA or Part-C of Chapter VI-A.
8. Who has brought forward loss or losses to be carried forward under any head [As amended by Finance Act, 2021].
9. Person claiming deduction under Section 57 from income taxable under the head 'Other Sources' (other than deduction allowed from family pension).
10. Who wants to claim relief under Section 90 or 91.
11. Who wants to claim credit of tax deducted at source in the hands of any other person.
12. Who has any assets (including Financial Interest in an entity) located outside India.
13. Who has signing authority in any account outside India.
14. Who has any income to be apportioned in accordance with provisions of Section 5A.
15. Who has any of the following income :
 - (a) Income from Business or Profession
 - (b) Capital Gains
 - (c) Income taxable under the head 'Other sources' which is taxable at special rate
 - (d) Dividend income exceeding ₹ 10 lakhs taxable under Section 115BBDA
 - (e) Unexplained income (i.e., cash credit, unexplained investment, etc.) taxable at 60% under Section 115BBE
 - (f) Agricultural Income exceeding ₹ 5,000
 - (g) Income from any source outside India
16. In whose case the tax has been deducted on cash withdrawal under Section 194N and the tax has been deferred in respect of ESOPs allotted by an eligible start-up.

(III) Applicability of ITR – 2

- This Return Form is to be used by an individual or a Hindu Undivided Family who is not having income chargeable to income-tax under the head "Profits or gains of business or profession". Further, in a case where the income of another person like spouse, minor child, etc., is to be clubbed with the income of the

taxpayer, this Return Form can be used if income to be clubbed falls in any of the above categories.

(IV) Non-applicability of ITR – 2

- Return Form ITR – 2 cannot be used by an individual or a Hindu Undivided Family whose total income for the year includes income from Business or Profession or he wants to claim deduction under Section 10AA or part-c of Chapter VI-A

(V) Applicability of ITR – 3

- Form ITR – 3 can be used by an individual or a Hindu Undivided Family who is having income under the head business or profession.

(VI) Non-applicability of ITR – 3

- Form ITR – 3 cannot be used by any person other than an individual or a HUF. Further, an individual or a HUF not having income from business or profession cannot use ITR – 3.

(VII) Applicability of ITR – 4 (SUGAM)

- Form ITR – 4 (SUGAM) can be used by an individual/HUF/Firm whose total income for the year includes :
 1. Business income computed as per the provisions of Section 44AD or 44AE; or
 2. Income from profession computed as per the provisions of Section 44ADA; or
 3. Income from salary/pension; or
 4. Income from one house property (excluding cases where loss is brought forward from previous years or losses to be carried forward); or
 5. Income from other sources (excluding winnings from lottery and income from race horses).
- Further, in a case where the income of another person like spouse, minor child, etc., is to be clubbed with the income of the taxpayer, this return form can be used if income to be clubbed falls in any of the above categories.

(VIII) Non-applicability of ITR – 4 (SUGAM)

- Form ITR – 4 (SUGAM) cannot be used by a person:
 1. Who is a Non-resident or Not Ordinarily Resident.
 2. Who is a Director of a company.

3. Whose total income exceeds ₹ 50 lakhs.
4. Who has income from more than one House Property.
5. Who has held unlisted equity shares at any time during the previous year.
6. Who claims deduction under Section 80QQB or 80RRB in respect of royalty from patent or books.
7. Who claims deduction under Section 10AA or Part-C of Chapter VI-A.
8. Who has brought forward loss or losses to be carried forward under any head.
9. Person claiming deduction under Section 57 from income taxable under the head 'Other Sources' (other than deduction allowed from family pension).
10. Who wants to claim relief under Sections 90 or 91.
11. Who wants to claim credit of tax deducted at source in the hands of any other person.
12. Who has any assets (including Financial Interest in an entity) located outside India.
13. Who has signing authority in any account outside India.
14. Who has any income to be apportioned in accordance with provisions of Section 5A.
15. Who has any of the following income:
 - (a) Income from Business or Profession
 - (b) Capital Gains or Loss
 - (c) Income taxable under the head 'Other sources' which is taxable at special rate
 - (d) Dividend income exceeding ₹ 10 lakhs taxable under Section 115BBDA.
 - (e) Unexplained income (i.e., cash credit, unexplained investment, etc.) taxable at 60% under Section 115BBE
 - (f) Agricultural Income exceeding ₹ 5,000.
 - (g) Income from any source outside India.
 - (h) Income from speculative business and other special incomes.
 - (i) Income from agency business or commission or brokerage.
16. Who has income of the nature specified in Section 17(2)(vi) on which tax is payable/deductible under Section 192(2) or 192(1C). In case the assessee keeps and maintains all books of accounts and other documents referred to in Section

44AA and also gets his accounts audited and obtains an audit report as per Section 44AB, filling up the Form ITR-4 (Sugam) is not mandatory. In such a case, other regular return forms viz. ITR-3 or ITR-5, as applicable, should be used.

(IX) Applicability of ITR – 5 Form

- ITR-5 can be used by a person being a firm, LLP, AOP, BOI, Artificial Juridical Person (AJP) referred to in Section 2(31)(vii), local authority referred to in Section 2(31)(vi), representative assessee referred to in Section 160(1)(iii) or (iv), cooperative society, society registered under Societies Registration Act, 1860 or under any other law of any State, trust other than trusts eligible to file Form ITR-7, estate of deceased person, estate of an insolvent, business trust referred to in Section 139(4E) and investments fund referred to in Section 139(4F).

(X) Non-applicability of ITR – 5

- Form ITR – 5 cannot be used by a person who is required to file the return of income under Section 139(4A) or 139(4B) or 139(4C) or 139(4D) (i.e., trusts, political parties, institutions, colleges, etc.).

(XI) Applicability of ITR – 6 Form

- ITR – 6 can be used by a company, other than a company claiming exemption under section 11 (exemption under Section 11 can be claimed by a charitable/religious trust).

(XI) Non-applicability of ITR – 6 Form

- ITR – 6 cannot be used by a company claiming exemption under Section 11 (exemption under Section 11 can be claimed by a charitable/religious trust).

(XII) Applicability of ITR – 7

- Form ITR – 7 can be used by persons including companies who are required to furnish return under Section 139(4A) or Section 139(4B) or Section 139(4C) or Section 139(4D) (i.e., trusts, political parties, institutions, colleges, etc.).

(XIII) Non-applicability of ITR – 7

- Form ITR – 7 cannot be used by a person who is not required to furnish return under Section 139(4A) or Section 139(4B) or Section 139(4C) or Section 139(4D) (i.e., trusts, political parties, institutions, colleges, etc.).

Source for obtaining the Return Forms

- The return forms (ITR forms) can be downloaded from www.incometaxindia.gov.in.
- Income-tax Department has established an independent portal for e-filing the return of income. The taxpayers can log on to www.incometaxindiaefiling.gov.in for e-filing the return of income.

E-filing utility provided by the Income -tax Department

1. The Income-tax Department has provided free e-filing utility (i.e., software) to generate e-return and furnishing the return electronically.
2. The e-filing utility provided by the Income Tax Department is simple, easy to use and also contains instructions on how to use it.
3. By using the e-filing utility, the taxpayers can easily file their return of income.
4. Utility can be downloaded from www.incometaxindiaefiling.gov.in

Benefits of E-filing the Return of Income

1. E-filing can be done from any place at any time and it saves time and efforts.
2. It is simple, easy and faster.
3. The e-filed returns are generally processed faster as compared to returns filed manually.

E-filing help desk of Income -tax Department

- In case of queries on e-filing the return, the taxpayer can contact 1800 1030025.

Difference between E -Filing and E-payment

1. E-payment is the process of electronic payment of tax (i.e., by net banking) and e-filing is the process of electronically furnishing the return of income.
2. Using the e-payment and e-filing facility, the taxpayer can discharge his obligations of payment of tax and furnishing the return of income easily and quickly.

Form 26AS

- A taxpayer may pay tax in any of the following forms:
 1. Tax Deducted at Source (TDS)
 2. Tax Collected at Source (TCS)
 3. Advance tax or Self-assessment Tax or Payment of tax on regular assessment.

- (a) The Income-tax Department maintains the database of the total tax paid by the taxpayer (i.e., tax credit in the account of a taxpayer).
- (b) Form 26AS is an annual statement maintained under Rule 31AB of the Income-tax Rules disclosing the details of tax credit in the account of the taxpayer as per the database of Income-tax Department. In other words, Form 26AS will reflect the details of tax credit appearing in the Permanent Account Number of the taxpayer as per the database of the Income-tax Department.
- The tax credit will cover:
 - (i) TDS,
 - (ii) TCS, and
 - (iii) Tax paid by the taxpayer in other forms like Advance tax, Self-assessment tax, etc.
 - The provisions of Form 26AS is governed by Section 203AA of the Income-tax Act, 1961 which provides that the Director-General of Income-tax (Systems) shall deliver a statement in Form 26AS to every person from whose income the tax has been deducted or collected and in whose respect tax has been paid.
 - Income-tax Department will generally allow a taxpayer to claim the credit of taxes as reflected in his Form 26AS.
 - Rule 114-I provides that an annual information statement in Form No. 26AS shall be uploaded, by the Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems) or any person authorised by him, in the e-filing account of the assessee.
 - Such statement shall be uploaded within 3 months from the end of the month in which the information is received by him.
 - The scope of newly introduced Form 26AS has been expanded to cover certain additional information such as information received under Double Taxation Avoidance Agreement or Tax Information Exchange Agreement.

New Form 26AS is divided into 2 Parts

1. Part A

- It contains certain basic information of the assessee, i.e., Permanent Account Number, Aadhaar number, Name, Date of birth/Incorporation, Mobile number, Email address and address.

2. Part B

- It contains the information in respect of the following transaction:

- (a) Information relating to tax deducted or collected at source;
- (b) Information relating to Specified Financial Transactions (SFT);
- (c) Information relating to payment of taxes;
- (d) Information relating to demand and refund;
- (e) Information relating to pending proceedings;
- (f) Information relating to completed proceedings; and
- (g) Information received from any officer, authority or body performing any functions under any law or information received under an agreement referred under Section 90 or Section 90A or information received from any other person to the extent it may be deemed fit in the interest of the revenue.

4.3 ADVANCE PAYMENT OF TAX

- Tax on the income earned in P.Y. is paid in the respective A.Y., but, in certain cases an assessee may be required to pay tax during the A.Y. itself, as Advance Tax.
- The scheme of advance tax is based on the rule 'Pay-as-you Earn.' The tax is paid on the estimated income of the financial year. For example, the income earned in 2021-22 is assessed and paid in the A.Y. 2022-23. However, under the scheme of 'Advance Tax', the assessee will pay tax on his estimated income in installments.
- Every person is liable to pay advance tax, if the tax on the estimated income is ₹ 10,000 or more.
- All incomes are liable to payment of advance tax including capital gain, winning from lotteries etc.

1. Condition under which Liability to Pay Advance Tax arises

- When the advance tax payable is ₹ 10,000 or more, the assessee is liable to pay tax in advance.

2. Due Date for Payment of Advance Tax

□ In the case of Companies

	Due date	Amount of Installment
(a)	On or before 15 th June	Not less than 15% of Advance tax
(b)	On or before 15 th September	Not less than 45% of Advance Tax (after deducting the amount already paid)

	Due date	Amount of Installment
(c)	On or before 15 th December	Not less than 75% of Advance tax (after deducting the amount already paid)
(d)	On or before 15 th March	The whole amount of Advance tax (balance after deducting the amount already paid)

In the case of Other Assesses

	Due date	Amount of Installment
(a)	On or before 15 th September	Not less than 30% of Advance Tax
(b)	On or before 15 th December	Not less than 60% of Advance tax (reduce the amount already paid)
(c)	On or before 15 th March	The whole amount of Advance Tax (reduce the amount already paid)

- If an assessee fails to pay the advance tax, he may be asked to pay for the delay and/or penalty may be leviable on such installment.

3. Procedure for Payment of Advance Tax

(a) On Assessee's Own Motion

- When an assessee decides to pay advance tax on his own, he needs to compute his estimate of income for the financial year and should calculate tax as per the rates applicable to the incomes of the financial year concerned.
- While computing the advance tax of the brought-forward losses and allowable deduction under U/A need to be deducted. If surcharge is applicable, it should be calculated and added to the tax liability. Education cess and SHEC should also be added to the tax. Every time he makes the payment of an installment, he may revise his estimate if required and revise his estimated tax liability.
- Statement of estimated income is not to be submitted to the tax authorities.

(b) On Receipt of Order from the Assessing Officer

- The Assessing officer may pass an order and issue a notice of demand requiring the assessee to pay advance tax. The advance tax is determined by the Assessing officer in such case.

4.4 TAX DEDUCTED AT SOURCE (TDS)

- In order to check tax evasion by the recipient of income, government requires that person making such payment must deduct the tax at prescribed rates and pay only the net amount to the person who has earned the income. The amount so deducted is called *Tax Deducted at Source* or *TDS*.
- The tax deducted is required to be deposited by the payer in the Government Treasury within the stipulated time.
- The recipient of such net income is issued a certificate in Form 16 or 16 A or 16 AA as the case may be, within one month from the end of the month during which the payment is made.
- The payee will get credit for the tax so paid. From his total tax liability for the concerned year, the TDS will be deducted and he will be required to pay only the balance.
- If the TDS is more than the tax liability, he can claim refund from the Government in the prescribed form.
- TDS enables quick and effective collection of tax.

1. Incomes on which TDS Scheme is Applicable

- TDS scheme is applicable on the following incomes :
 - (a) Salary to resident/non-resident.
 - (b) Other incomes such as interest, deemed interest, deemed dividends, rent, commission/brokerage, lottery, winnings, winnings of races, technical/professional fees, royalty, compulsory acquisition compensation, payment to contractors, royalty etc.

2. Time of TDS

- Tax is deducted at source either (a) at the time of payment, or (b) at the time of giving credit to the recipient.

(a) At the Time of Payment

- In the following cases, tax is deducted at the time of payment :
 - Salary
 - Deemed dividend
 - Winnings from lottery/crossword puzzle, horse races
 - Payment in respect of deposit under National Saving Scheme
 - Payment of compensation or acquisition of capital asset

(b) At the Time of Payment or at the time of giving Credit to the Recipient in the books of the Payer, whichever is earlier.

- The cases covered under this rule are as follows :
- Interest on securities
- Any other interest
- Payment to contractors
- Insurance commission
- Payment to non-resident sportsmen
- Commission on lottery tickets
- Commission or brokerage
- Rent
- Fees for professional/ technical services royalty
- Payment to non-resident/foreign companies

3. Limit of Income up to which TDS Scheme is Not Applicable

- Tax is deducted at source for the incomes mentioned above only if the amount of income earned by the assessee is more than the prescribed limit.
 - The limit of income up to which tax is not deducted at source is stated below :
- | | |
|--|------------|
| (a) Salary - If taxable salary exceeds ₹ 15,833/₹ 20,000/₹ 13,333 especially for woman, senior citizens and others respectively. | |
| (b) Bank/Co-operative Bank/ Post office interest | ₹ 10,000 |
| (c) Any other interest | ₹ 5,000 |
| (d) Interest on compensation awarded by motor accidents claims tribunal | ₹ 50,000 |
| (e) Winnings from lottery/crossword puzzles | ₹ 10,000 |
| (f) Winnings from Horse Races | ₹ 5,000 |
| (g) Payment to contractor (single contract) | ₹ 30,000 |
| (h) Payment to contractor (aggregate consideration for a financial year) | ₹ 75,000 |
| (i) Insurance commission | ₹ 20,000 |
| (j) Deposit under NSS Scheme | ₹ 2,500 |
| (k) Lottery commission | ₹ 1,000 |
| (l) Commission/brokerage | ₹ 5,000 |
| (m) Rent | ₹ 1,80,000 |
| (n) Professional fees | ₹ 30,000 |

(o) Technical fees	₹ 30,000
(p) Royalty	₹ 30,000
(q) Compulsory acquisition payment	₹ 1,00,000
(r) Commission of sale of lottery tickets	₹ 1,000

4. Time for Deposit of TDS

- The tax deducted at source should be deposited within 7 days from the end of the month in which tax is deducted/collected. Exceptions to the rate are as given below :
 - (a) The amount should be deposited on the same day in cases where the tax is deducted by an office of Government and when tax is to be deposited without production of income tax Challan.
 - (b) Tax deducted in the month of March should be deposited by 30th April after the end of the financial year (other than office of Government).
 - (c) In some cases, the Assessing officer may permit quarterly deposit of TDS. In such cases, the amount collected as TDS should be deposited within 7 days from the end of each quarter. In case of the fourth quarter, the amount should be deposited by 30th April after the end of the financial year.

5. Quarterly Statements

- The person deducting tax at source should submit quarterly statements of TDS in Form No. 24Q, 27Q, 26Q, 27EQ as applicable. These statements are to be submitted within 15 days from the end of each quarter. The fourth quarter return should be submitted on or before May 15th of the immediately preceding financial year.

6. Mode of Submission of Quarterly Statements

- TDS return can be submitted either electronically or in paper format. The collector/deductor in office of the Government, principal officer of a company, person required to get his account audited under Section 44AB and when the number of deductees is 20 or more, the submission of quarterly return must be made electronically.

7. Rate of TDS

- TDS is deducted at the prescribed rates, stated below :
 - (a) Salary at the rates prescribed in the Finance Act.

- (b) Interest on securities - @ 10%.
- (c) Other interest - @ 10%
- (d) Winnings from lottery, cross-word puzzles or card game and other games - @ 30%
- (e) Winnings from Horse races - @ 30%.
- (f) Payments contractors, @ 1% it undivided HUF contractors and @ 2% to other persons.
- (g) Insurance commission - @ 10%
- (h) Payments out of deposits under NSS - 20%
- (i) Repurchase of units - @ 20%
- (j) Commission on sale of lottery tickets - @ 10%
- (k) Commission on brokerage payable - @ 10%
- (l) Rent - of machinery plant etc. - @ 20%
Land and building - @ 20%
- (m) Fees for professional services or technical services - @ 10%.
- (n) Payment of compensation on acquisition of land / building - @10%.

8. Applicability of Surcharge and Education Cess while computing TDS

- Surcharge on TDS is applicable only when the recipient is a foreign company and the amount subject to TDS is more than ₹ 1 crore.

9. Education Cess

- Education Cess of 2% of TDS and secondary and higher education cess at the rate of 1% of TDS is applicable only when the recipient is a non-resident or a foreign company or in the case of payment of salary to any person.

10. PAN

- If PAN is not intimated, tax will be deducted at either the normal rate given or at the rate of 20%, whichever is higher.

4.5 ASSESSMENT

- Every taxpayer has to furnish the details of his income to the Income-tax Department. These details are to be furnished by filing up his return of income. Once the return of income is filed up by the taxpayer, the next step is the

processing of the return of income by the Income Tax Department. The Income Tax Department examines the return of income for its correctness. The process of examining the return of income by the Income Tax department is called as "Assessment".

- Assessment also includes re-assessment and best judgment assessment under section 144.

Types of Assessment under Income Tax Act, 1961

- Under the Income-tax Law, there are four major assessments given below:
 1. Assessment under Section 143(1), i.e., Summary assessment without calling the assessee.
 2. Assessment under Section 143(3), i.e., Scrutiny assessment.
 3. Assessment under Section 144, i.e., Best judgment assessment.
 4. Assessment under Section 147, i.e., Income escaping assessment.

4.5.1 Assessment under Section 143(1) (Summary Assessment)

- This is a preliminary assessment and is referred to as summary assessment without calling the assessee (i.e., taxpayer).

Scope of Assessment under Section 143(1)

- Assessment under section 143(1) is like preliminary checking of the return of income. At this stage, no detailed scrutiny of the return of income is carried out.
- At this stage, the total income or loss is computed after making the following adjustments (if any), namely:-
 1. any arithmetical error in the return; or
 2. an incorrect claim (*), if such incorrect claim is apparent from any information in the return;
 3. disallowance of loss claimed, if return of the previous year for which set-off of loss is claimed was furnished beyond the due date specified under section 139(1); or
 4. disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in the return; or
 5. disallowance of deduction claimed u/s 10AA, 80IA to 80-IE, if the return is furnished beyond the due date specified under section 139(1); or

6. addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return.
- However, no such adjustment shall be made in relation to a return furnished for the assessment year 2018-19 and thereafter.
 - However, no such adjustment shall be made unless an intimation is given to the assessee of such adjustment either in writing or in electronic mode. Further, the response received from the assessee, if any, shall be considered before making any adjustment, and in case where no response is received within 30 days of the issue of such intimation, such adjustments shall be made.
 - For the above purpose, "an incorrect claim apparent from any information in the return" means a claim on the basis of an entry in the return :-
 - (a) of an item which is inconsistent with another entry of the same or some other item in such return;
 - (b) in respect of which the information is required to be furnished under the Act to substantiate such entry and has not been so furnished; or
 - (c) in respect of a deduction, where such deduction exceeds specified statutory limit which may have been expressed as monetary amount or percentage or ratio or fraction.

Procedure of Assessment under Section 143(1)

- After correcting arithmetical error or incorrect claim (if any) as discussed above, the tax and interest and fee*, if any, shall be computed on the basis of the adjusted income.
- Any sum payable by or refund due to the taxpayer shall be intimated to him. An intimation shall be prepared or generated and sent to the taxpayer specifying the sum determined to be payable by, or the amount of refund due to the taxpayer. An intimation shall also be sent to the taxpayer in a case where the loss declared in the return of income by the taxpayer is adjusted but no tax or interest is payable by or no refund is due to him.
- The acknowledgement of the return of income shall be deemed to be the intimation in a case where no sum is payable by or refundable to the assessee or where no adjustment is made to the returned income.

- As per Section 234F, a fee shall be levied where the return of income is not filed within the due dates prescribed under section 139(1). Fee for default in furnishing return of income shall be ₹ 5,000 if return has been furnished after the due date prescribed under section 139(1). However, it shall be ₹ 1,000 if the total income of an assessee does not exceed ₹ 5 lakh.

Time-limit

- Assessment under section 143(1) can be made within a period of 9 months from the end of the financial year in which the return of income is filed.

4.5.2 Assessment under Section 143(3) (Scrutiny Assessment)

- This is a detailed assessment and is referred to as scrutiny assessment. At this stage, a detailed scrutiny of the return of income will be carried out to confirm the correctness and genuineness of various claims, deductions, etc., made by the taxpayer in the return of income. [As amended by Finance Act, 2021]

Scope of Assessment under Section 143(3)

- The objective of scrutiny assessment is to confirm that the taxpayer has not understated the income or has not computed excessive loss or has not underpaid the tax in any manner. To confirm the above, the Assessing Officer carries out a detailed scrutiny of the return of income and will satisfy himself regarding various claims, deductions, etc., made by the taxpayer in the return of income.

Procedure of Assessment under Section 143 (3)

- If the Assessing Officer considers it necessary or expedient to ensure that the taxpayer has not understated the income or has not computed excessive loss or has not underpaid the tax in any manner, then he will serve on the taxpayer a notice requiring him to attend his office or to produce or cause to be produced any evidence on which the taxpayer may rely, in support of the return.
- To carry out assessment under Section 143(3), the Assessing Officer shall serve such notice in accordance with provisions of Section 143(2).
- Notice under section 143(2) should be served within a period of six months from the end of the financial year in which the return is filed. The taxpayer or his representative (as the case may be) will appear before the Assessing Officer and will place his arguments, supporting evidences, etc., on various matters/issues as required by the Assessing Officer.

- After hearing/verifying such evidence and taking into account such particulars as the taxpayer may produce and such other evidence as the Assessing Officer may require on specified points and after taking into account all relevant materials which he has gathered, the Assessing Officer shall, by an order in writing, make an assessment of the total income or loss of the taxpayer and determine the sum payable by him or refund of any amount due to him on the basis of such assessment.

4.5.3 Faceless Assessment [Section 144B]

- Faceless assessment means the assessment proceedings conducted electronically in "eproceeding" facility through assessee's registered account in the designated portal. Designated portal means the web portal designated as such by the Principal Chief Commissioner or Principal Director General, in charge of the National Faceless Assessment Centre. The CBDT had issued the instructions, guidelines and notice formats for conducting scrutiny assessments electronically.

Scope of Faceless Assessment

- Section 144B provides that the assessment of total income or loss of the assessee under Section 143(3) or Section 144 shall be made in a faceless manner in respect of the specified territorial areas or persons or class of persons or income or class of income or cases or class of cases.

4.5.4 Assessment under Section 144 (Best Judgement Assessment)

- This is an assessment carried out as per the best judgment of the Assessing Officer on the basis of all relevant material he has gathered. This assessment is carried out in cases where the taxpayer fails to comply with the requirements specified in section 144.

Scope of Assessment under Section 144

- As per Section 144, the Assessing Officer is under an obligation to make an assessment to the best of his judgment in the following cases:- [As amended by Finance Act, 2021]
 1. If the taxpayer fails to file the return required within the due date prescribed under section 139(1) or a belated return under section 139(4) or a revised return under section 139(5).
 2. If the taxpayer fails to comply with all the terms of a notice issued under section 142(1).

Note

- The Assessing Officer can issue notice under section 142(1) asking the taxpayer to file the return of income if he has not filed the return of income or to produce or cause to be produced such accounts or documents as he may require and to furnish in writing and verified in the prescribed manner information in such form and on such points or matters (including a statement of all assets and liabilities of the taxpayer, whether included in the accounts or not) as he may require.
- (i) If the taxpayer fails to comply with the directions issued under Section 142(2A).
Note : Section 142(2A) deals with special audit. As per Section 142(2A), if the conditions justifying special audit as given in Section 142(2A) are satisfied, then the Assessing Officer will direct the taxpayer to get his accounts audited from a chartered accountant nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner and to furnish a report of such audit in the prescribed form.
- (ii) If after filing the return of income the taxpayer fails to comply with all the terms of a notice issued under Section 143(2), i.e., notice of scrutiny assessment.
- (iii) If the assessing officer is not satisfied about the correctness or the completeness of the accounts of the taxpayer or if no method of accounting has been regularly employed by the taxpayer.
- From the above criteria, it can be observed that best judgment assessment is resorted to in cases where the return of income is not filed by the taxpayer or if there is no cooperation by the taxpayer in terms of furnishing information/ explanation related to his tax assessment or if books of accounts of taxpayer are not reliable or are incomplete.

Procedure of Assessment under section 144

- If the conditions given above calling for best judgment are satisfied, then the Assessing Officer will serve a notice on the taxpayer to show cause why the assessment should not be completed to the best of his judgment. No notice as given above is required in a case where a notice under section 142(1) has been issued prior to the making of an assessment under section 144.
- If the Assessing Officer is not satisfied by the arguments of the taxpayer and he has reason to believe that the case demands a best judgment, then he will proceed to carry out the assessment to the best of his knowledge.

- If the criteria of the best judgment assessment are satisfied, then after taking into account all relevant materials which the Assessing Officer has gathered, and after giving the taxpayer an opportunity of being heard, the Assessing Officer shall make the assessment of the total income or loss to the best of his [As amended by Finance Act, 2021] knowledge/judgment and determine the sum payable by the taxpayer on the basis of such assessment.

Time-Limit as per Section 153

- The time limit for making assessment under section 144 is:-
 1. Within 21 months from the end of the assessment year in which the income was first assessable. [For assessment year 2017-18 or before]
 2. 18 months from the end of the assessment year in which the income was first assessable. [for assessment year 2018-19]
 3. Within 12 months from end of the assessment year in which income was first assessable. [Applicable for assessment year 2019-20 and assessment year 2020- 21]
 4. Within 9 months from end of the assessment year in which income was first assessable. [Applicable for assessment year 2021-22 and onwards]

Note

- If reference is made to TPO, the period available for assessment shall be extended by 12 months.

4.5.5 Assessment under Section 147 (Re-assessment)

- The Finance Act, 2021 has substituted the existing Sections 147, 148, 149 and 151 and also inserted a new Section 148A making a complete change in the assessment proceedings related to Income escaping assessment and search-related cases.
- The new provisions related to re-assessment are as follow:
 1. If any income of an assessee has escaped assessment for any assessment year, the Assessing Officer may, subject to the new provisions of sections 148 to 153, assess or reassess such income and also any other income which has escaped assessment and which comes to his notice subsequently in the course of the proceedings, or recompute the loss or the depreciation allowance or any other allowance, as the case may be, for such assessment year.

2. It is imperative to note that once assessment or reassessment or re-computation has started, the Assessing Officer is empowered to assess or reassess the income which has escaped assessment and which comes to his notice subsequently in the course of the proceeding under this procedure notwithstanding that the procedure prescribed in new section 148A was not followed before issuing such notice for such income.

■ **When it shall be deemed that Income has escaped Assessment**

(I) In cases other than Search, Survey or Requisition

- The information suggesting that the income chargeable to tax has escaped assessment means any information flagged in the case of the assessee for the relevant assessment year as per the 'Risk Management Strategy' formulated by the CBDT from time to time or any final objection raised by the Comptroller and Auditor General of India (CAG) to the effect that the assessment in the case of the assessee for the relevant assessment year has not been made as per the provisions of the Income-tax Act.

(II) In Search, Survey or Requisition Cases

- In search, survey or requisition cases initiated or made or conducted, on or after 1st April 2021, it shall be deemed that the Assessing Officer has information which suggests that the income chargeable to tax has escaped assessment in the case of the assessee for the 3 assessment years immediately preceding the assessment year relevant to the previous year in the following cases:
 1. A search is initiated under Section 132 or books of account, other documents or any assets are requisitioned under Section 132A, on or after the 1st day of April 2021, in the case of the assessee;
 2. A Survey is conducted under section 133A in the case of the assessee;
 3. The Assessing Officer is satisfied, with the prior approval of PCIT or CIT, that any money, bullion, jewellery or other valuable article or thing, seized or requisitioned in case of any other person on or after the 1st day of April 2021, belongs to the assessee; or

4. The Assessing Officer is satisfied, with the prior approval of PCIT or CIT, that any books of account or documents, seized or requisitioned in case of any other person on or after the 1st day of April 2021, pertains or pertain to, or any information contained therein, relate to, the assessee.

Time Limit for Issuance of Notice

- Time limit for issuance of notice under Section 148 of the Income-tax Act:

Particulars	Time Limit
In general	No notice shall be issued if 3 years have elapsed from the end of the relevant assessment year.
Where the Assessing Officer has evidence in his possession which reveals that the income escaping assessment, represented in the form of asset, amounts to or is likely to amount to ₹ 50 lakhs or more.	Notice can be issued beyond a period of 3 years but not beyond the period of 10 years from the end of the relevant assessment year.

Faceless Assessment of Income escaping Assessment [Section 151A]

- With effect from 01-11-2020, the Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 has inserted a Section 151A to empower the Central government to make a scheme to carry out the following functions in a faceless manner:
 1. Assessment, reassessment or recomputation under Section 147 ('re-assessment');
 2. Issuance of notice under Section 148 for conducting re-assessment; or
 3. Sanction under Section 151 for the issue of notice under section 148 for conducting re-assessment.
- Such a scheme is to be formed to impart greater efficiency, transparency and accountability by:
 - (a) Eliminating the interface between the Income-tax authority and the assessee or any other person to the extent technologically feasible; [As amended by Finance Act, 2021]

- (b) Optimizing utilization of the resources through economies of scale and functional specialization; and
- (c) Introducing a team-based assessment, reassessment, re-computation or issuance or sanction of notice with dynamic jurisdiction. W.e.f., Assessment Year 2021-22, the Finance Act, 2021 amended the Section 151 to provide that conducting of enquiries or issuing show-cause notice or passing an order under new Section 148A (before issuance of notice under new Section 148) in a faceless manner shall be notified subsequently.

4.6 AIR (ANNUAL INFORMATION RETURN)

- Annual Information Return (AIR) of 'high value financial transactions' is required to be furnished under Section 285BA of the Income-tax Act, 1961 by 'specified persons' in respect of 'specified transactions' registered or recorded by them during the financial year. Annual Information Return (AIR) is filed in addition to the regular return.
- It is meant to disclose high value financial transactions carried out by the specified persons during the financial year.
- The specified persons include individuals and taxpayers undertaking the specified financial transactions, banks, mutual funds, institutions issuing bonds, and registrars, or sub-registrars.

High Value Transactions

- These transactions include :
 1. Open FDs of more than ₹ 10 lakh.
 2. Pay credit card bill of more than ₹ 10 lakh by cheque and more than ₹ 1 lakh by cash.
 3. Buy bonds of more than ₹ 10 lakh.
 4. Buy mutual funds of more than ₹ 10 lakh.
 5. Buy shares of more than ₹ 10 lakh.
 6. Offer shares for buyback of more than ₹ 10 lakh.
 7. Buy foreign exchange of more than ₹ 10 lakh.
 8. Buy property worth more than ₹ 30 lakh.

9. Get bank drafts made of more than ₹ 10 lakh with cash.
10. Deposit more than ₹ 10 lakh in cash in savings bank account.
11. Deposit or withdraw more than ₹ 10 lakh in cash from current account.
 - These are cumulative amounts. Intra-day transactions will not get captured in the Form 26AS, though the tax department does know about those deals too.

Due date

- The due date of filing of the return is the 31st of August of the following year.
- The 'specified persons' and the 'specified transactions' are listed in Rule 114E of the Income-tax Rules, 1962.

4.7 SFT (SPECIFIED FINANCIAL TRANSACTIONS)

- To keep a watch on high value transactions undertaken by the taxpayer, the Income-tax Law has framed the concept of statement of financial transaction or reportable account. With the help of the statement, the tax authorities will collect information on certain prescribed high value transactions undertaken by a person during the year.
- Statement of financial transaction or reportable account is to be filed by certain prescribed entities and in such statement they are required to furnish the details of specified financial transactions or any reportable account registered/recorded/maintained by them during the year. Thus, on the basis of the information provided by certain prescribed entities in statement of financial transaction or reportable account, the Income-tax Department keeps a track of specified financial transactions carried on by a person during the year.
- In this part, you can gain knowledge on various provisions relating to statement of financial transaction or reportable account.

Basic Provisions

- As per Section 285BA of the Income Tax Act, 1961, specified entities (Filers) are required to furnish a statement of financial transaction or reportable account (hereinafter referred to as 'statement') in respect of specified financial transactions or any reportable account registered/recorded/maintained by them during the financial year to the income-tax authority or such other prescribed authority.

Persons required to file Statement of Financial Transaction or Reportable Account

- Following persons shall be required to furnish statement of financial transactions or reportable accounts registered or recorded or maintained by them during a financial year to the prescribed authority:
 1. an assessee;
 2. the prescribed person in the case of an office of Government;
 3. a local authority or other public body or association;
 4. the Registrar or Sub-Registrar appointed under Section 6 of the Registration Act, 1908 (16 of 1908);
 5. the registering authority empowered to register motor vehicles under Chapter IV of the Motor Vehicles Act, 1988 (59 of 1988);
 6. the Post Master General as referred to in clause (j) of Section 2 of the Indian Post Office Act, 1898 (6 of 1898);
 7. the Collector referred to in clause (g) of Section 3 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (30 of 2013);
 8. the recognised stock exchange referred to in clause (f) of Section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);
 9. an officer of the Reserve Bank of India, constituted under Section 3 of the Reserve Bank of India Act, 1934 (2 of 1934);
 10. a depository referred to in clause (e) of sub-section (1) of Section 2 of the Depositories Act, 1996 (22 of 1996); or
 11. a prescribed reporting financial institutions ;
 12. a person, other than those referred to in clause (1) to (11), as may be prescribed.

Transactions that are required to be reported

- The statement of financial transaction shall be furnished by every person mentioned in column (3) of the Table given below in respect of all the transactions of the nature and value specified in the corresponding entry in column (2) of the said table, which are registered or recorded by him on or after the 1st day of April, 2016, namely:-

Sr. No.	Nature and Value of Transaction	Class of Person (Reporting Person)
1	<p>(a) Payment made in cash for purchase of bank drafts or pay orders or banker's cheque of an amount aggregating to ₹ 10 lakh or more in a financial year.</p> <p>(b) Payments made in cash aggregating to ₹ 10 lakh or more during the financial year for purchase of pre-paid instruments issued by Reserve Bank of India.</p> <p>(c) Cash deposits or cash withdrawals (including through bearer's cheque) aggregating to ₹ 50 lakh or more in a financial year, in or from one or more current account of a person.</p>	A banking company or a cooperative bank
2	Cash deposits aggregating to ₹ 10 lakh or more in a financial year, in one or more accounts (other than a current account and time deposit) of a person.	A banking company or a cooperative bank Post Master General
3	One or more time deposits (other than a time deposit made through renewal of another time deposit) of a person aggregating to ₹ 10 lakh or more in a financial year of a person.	A banking company or a cooperative bank Post Master General Nidhi Company Non-banking financial company
4	Payments made by any person of an amount aggregating to— (i) ₹ 1 lakh or more in cash; or (ii) ₹ 10 lakh or more by any other mode, against bills raised in respect of one or more credit cards issued to that person, in a financial year	A banking company or a cooperative bank or any other company or institution issuing credit card
5	Receipt from any person of an amount aggregating to ₹ 10 lakh or more in a financial year for acquiring bonds or debentures issued by the company or institution (other than the amount received on account of renewal of the bond or debenture issued by that company)	A company or institution issuing bonds or debentures

Sr. No.	Nature and Value of Transaction	Class of Person (Reporting Person)
6	Receipt from any person of an amount aggregating to ₹ 10 lakh or more in a financial year for acquiring shares (including share application money) issued by the company	A company issuing shares
7	Buy back of shares from any person (other than the shares bought in the open market) for an amount or value aggregating to ₹ 10 lakh or more in a financial year	A company listed on a recognised stock exchange purchasing its own securities under section 68 of the Companies Act, 2013
8	Receipt from any person of an amount aggregating to ₹ 10 lakh or more in a financial year for acquiring units of one or more schemes of a Mutual Fund (other than the amount received on account of transfer from one scheme to another scheme of that Mutual Fund)	A trustee of a Mutual Fund or such other person managing the affairs of the Mutual Fund
9	Receipt from any person for sale of foreign currency including any credit of such currency to foreign exchange card or expense in such currency through a debit or credit card or through issue of traveller's cheque or draft or any other instrument of an amount aggregating to ₹ 10 lakh or more during a financial year	Authorised person under Foreign Exchange Management Act, 1999
10	Purchase or sale by any person of immovable property for an amount of ₹ 10 lakh or more or valued by the stamp valuation authority referred to in Section 50C of the Act at ₹ 30 lakh or more	Inspector-General or Registrar or Sub-Registrar appointed under the Registration Act, 1908

Sr. No.	Nature and Value of Transaction	Class of Person (Reporting Person)
11	Receipt of cash payment exceeding ₹ 2 lakh for sale, by any person, of goods or services of any nature (other than those specified at Sl. Nos. 1 to 10 of this rule, if any)	Any person who is liable for audit under section 44AB of the Act
12	Cash deposits during the period 9 th November, 2016 to 30 th December, 2016 aggregating to— (i) ₹ 12,50,000 or more, in one or more current account of a person; or (ii) ₹ 2,50,000 or more, in one or more accounts (other than a current account) of a person.	A banking company or a cooperative bank to which the Banking Regulation Act, 1949 applies Post Master General as referred to in clause (j) of Section 2 of the Indian Post Office Act, 1898
13	Cash deposits during the period 1 st of April, 2016 to 9 th November, 2016 in respect of accounts that are reportable under SI.No.12 because cash deposited in this account between 9 th November, 2016 to 30 th December, 2016 aggregating to (i) ₹ 12,50,000 or more, in one or more current account of a person; or (ii) ₹ 2,50,000 or more, in one or more accounts (other than a current account) of a person.	A banking company or a cooperative bank to which the Banking Regulation Act, 1949 applies Post Master General as referred to in clause (j) of Section 2 of the Indian Post Office Act, 1898

Due Date

- The statement of financial transaction shall be furnished electronically (under digital signature) in Form No. 61A to the Director of Income-tax (Intelligence and Criminal Investigation) or the Joint Director of Income-tax (Intelligence and Criminal Investigation).
- However, a Post Master General or a Registrar or an Inspector General may furnish Form No. 61A in a computer readable media being a Compact Disc or Digital Video Disc (DVD), alongwith the verification in Form-V on paper.

- The statement shall be furnished on or before 31st May immediately following the financial year in which the transaction is registered or recorded.
- The statement of financial transaction in respect of the transactions listed at serial number (12) and serial number (13) in the Table given above, shall be furnished on or before the 31st day of January, 2017.
- Section 285BA(5) empower the tax authorities to issue a notice to the person who had not filed the statement within due date. In such a case, the tax authorities may serve upon such person a notice requiring him to furnish the statement within a period not exceeding 30 days from the date of service of such notice and in such a case, the person shall furnish the statement within the time as specified in the notice.

QUESTIONS FOR DISCUSSION

1. What is Assessment? Explain in brief the different types of Assessment.
2. Describe the different forms of returns.
3. Differentiate between TDS and Advance Tax.
4. What is AIR ? State the different High Value Transactions.
5. Explain Specified financial transactions(SIP).

6. Write Short Notes

- (A) Applicability of ITR-1 (SAHAJ)
- (B) Form 26 AS
- (C) Advance Payment of Tax
- (D) Tax Deducted at Source (TDS)
- (E) Faceless Assessment
- (F) Annual Information Return (AIR)
- (G) Assessment under Section 147



APPENDIX

MULTIPLE CHOICE QUESTIONS

Chapter No. 1

1. The basis of charge of an income, under the Income Tax Act depends on the of a person and not citizenship of an individual.
(a) source of income (b) amount of Income
(c) residential status (d) PAN
2. Amount received as fixed capital or by sale of fixed asset is
(a) Capital receipt (b) Revenue receipt
(c) Capital payment (d) Revenue expenditure
3. is a unique 10 digit alpha-numeric number to identify an assessee.
(a) TAN (b) Aadhar
(c) TIN (d) PAN
4. is charged to direct the revenue towards a specific cause.
(a) Income tax (b) GST
(c) Cess (d) Marginal tax
5. Income from Agriculture is exempt. However, if the net agriculture income exceeds it is taken into account for slab purpose.
(a) ₹ 500 (b) ₹ 5,000
(c) ₹ 50,000 (d) ₹ 5,00,000

Ans. : (1) – (c), (2) – (a), (3) – (d), (4) – (c), (5) – (b).

Chapter No. 2

1. The annual value of a house with Municipal Value ₹ 1,00,000, fair rent ₹ 1,20,000 and Standard rent ₹ 1,10,000 which is let out at an annual rent of ₹ 1,40,000 is

- (a) ₹ 1,40,000 (b) ₹ 1,20,000
(c) ₹ 20,000 (d) ₹ 1,10,000
2. 'A' has three self-occupied house property, out of which shall be treated as deemed to be let out property.
(a) three (b) two
(c) one (d) none
3. The value of property which could not be occupied because of service or profession in some other place is treated as if no other benefit is derived from the property.
(a) ₹ 10,000 (b) AV of the property
(c) Nil (d) None of these
4. An employee holding at least of voting rights is a specified employee.
(a) 10% (b) 20%
(c) 50% (d) 25%
5. Capital incurred on sale of capital assets is not allowed as Deduction.
(a) income (b) revenue
(c) losses (d) expenses
6. % of NAV is allowed as Standard Deduction in case of let-out property.
(a) 25 (b) 20
(c) 50 (d) 30
7. % deduction is allowed on Arrears of rent received.
(a) 10 (b) 20
(c) 5 (d) 30

Ans. : (1) – (a), (2) – (b), (3) – (c), (4) – (b), (5) – (c), (6) – (d), (7) – (d).

Chapter No. 3

1. Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of Government of India is treated as
(a) Salary income (b) Business income
(c) Professional income (d) Income from other source
2. 80C Deduction for Life Insurance premium is limited to of the premium amount.
(a) 5% (b) 10%
(c) 20% (d) 30%
3. Interest received on SBI account is allowed as deduction under
(a) 80 CCC (b) 80TTA
(c) 80D (d) 80E
4. A resident individual can avail rebate under section 87A, if the taxable income does not exceed
(a) ₹ 2,00,000 (b) ₹ 2,50,000
(c) ₹ 3,00,000 (d) ₹ 5,00,000
5. The deduction u/s 80DD is available for dependent up to a maximum of
(a) ₹ 25,000 (b) ₹ 50,000
(c) ₹ 75,000 (d) ₹ 105,000

Ans. : (1) – (b), (2) – (c), (3) – (b), (4) – (d), (5) – (c).

Chapter No. 4

1. ITR – 1 form is also known as
(a) SUGAM (b) SAHAJ
(c) LPP (d) CPC

2. ITR – 2 is applicable to _____.
(a) Individual and HUF (b) Partnership
(c) Trust (d) Company
3. SFT stands for _____.
(a) Special Financial Tracks (b) Small Financial Transactions
(c) Specified Financial Transactions (d) Select Farm Tree
4. Advance tax of not less than 15% is payable _____.
(a) On or before 15th March (b) On or before 15th June
(c) On or before 15th September (d) On or before 15th December
5. The person deducting tax at source should submit _____ of TDS in Form No. 24Q, 27Q, 26Q, 27EQ as applicable.
(a) monthly statements (b) quarterly statements
(c) half yearly statements (d) yearly statements

Ans. : (1) – (b), (2) – (a), (3) – (c), (4) – (b), (5) – (b).

