MANONMANIAM SUNDARANAR UNIVERSITY

DIRECTORATE OF DISTANCE
&
CONTINUING EDUCATION

TAXATION AND TAX PLANNING

Prepared by

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Units	Title
I	Introduction of Income Tax
	Residential Status of Income Tax
II	Income from Salary
III	Income from House property
IV	Income from Business and profession
V	Income from Capital Gains
	Income from other Sources

TAXATION AND TAX PLANNING

Objectives

1. **To familiarize the students competency in Taxation and Tax planning**
2. **To focus on Increasing Proficiency in the different heads of income**
3. **To impart knowledge on the computation of Taxable Income**
4. **To enlighten the students on various deductions of Income Tax**
5. **To make the students familiar with Capital Gains**

Unit I: Introduction to Income Tax: Income Tax- History of Income Tax in India-Basic concepts- Definition-Agricultural Income- Scope of Total Income- Residential status and incidence of Income Tax- Capital and Revenue – Income which are exempted from Tax. Tax planning – meaning, Tax evasion- Tax saving.

Unit II: Heads of Income: Heads of income- Salary income- Basis of charge – Computation of Gross total income- Salary Income- Deductions from Salary Income – Problems on computation of salary income- Tax planning aspects in assessment of Salary Income.

Unit III: Income from House property Income from house property- Basis of charge- Computations of House property Income- Deduction from house property income- Assessment of income of co-owners of House property- Income from foreign house property – problems- Tax planning aspects in assessment of House property Income

Unit IV: Income from Business and profession: Income from Business and profession – Definition- Basis of Charge-Computation of Business and profession income- Deduction allowable- Depreciation allowance Disallowed deductions- problems on computation of Business and profession - Tax planning aspects in assessment of Income from Business and profession.

Unit V Capital Gains and Income from other sources: Capital gain- Basis of Charge- Definitions – Capital assets- transfer- computation of income from capital Gain- Exemption allowable from the capital Gain Income- problem- Tax planning aspects in assessment of Income from Capital Gains.

Income from other sources –Specific income chargeable – Other income chargeable- Important points relating to Income from other sources –Deductions allowable – problem- Tax planning in relation to Income from other sources.

Learning outcome

After completion of the course, the students must be able to:

- **Through with the concepts of Taxation**
- **Prepare accounts under different heads of income**
- **Prepare taxable statements**
- **File income Tax returns**
- **Gain knowledge of tax deductions**

UNIT I

INTRODUCTION TO INCOME TAX

INTRODUCTION

The Government of India imposes an income tax on taxable income of individuals, Hindu Undivided Families (HUF), companies, firms, co-operative societies and trusts (identified as body of individuals and association of persons) and any other artificial person. Levy of tax is separate on each of the persons. The levy is governed by the Indian Income Tax Act, 1961. The Indian Income Tax Department is governed by the Central Board for Direct Taxes (CBDT) and is part of the Department of Revenue under the Ministry of Finance, Government of India.

ORIGIN OF TAX

The word "tax" was derived from the Latin word "taxore". The meaning of "taxore" is to estimate, appreciate or value.

MEANING OF TAX

Tax is the amount paid by persons staying within a territorial limit of a Sovereign State and is levied on individuals, goods, property, business, services, etc. Tax constitutes Government revenue.

DEFINITION OF TAX

"A tax is a price which each citizen pays to the State to cover his share of the cost of the general public services which he will consume". **- De Marw**

FEATURES OF TAX

- Tax is levied by the State by virtue of its sovereign powers conferred under the constitution.
- Tax is used for public purposes.
- Tax is a compulsory contribution levied by public authorities or State.
- Tax is not a payment for a specific service rendered by the State for the payer.

OBJECTIVES OF TAXATION

Taxation has been used as one of the main instruments to achieve the various socio-economic objectives. The key as well as subsidiary objectives are outlined below:

Key objectives

- To generate revenue,
- To maintain Welfare State,

- To prevent the concentration of wealth in a few hands, and
- To re-distribute the wealth for the common benefit of society.

Subsidiary Objectives

- To enhance savings and thereby investment,
- To bring about rapid economic development, and
- To provide of employment opportunities.

INDIA'S TAX STRUCTURE

The Indian tax structure, like that of any other country, has developed in response to many influences – socio, political and economic. In analyzing the tax structure, it would be relevant to know the properties of an ideal tax structure, which are as follows:

- The distribution of tax burden should be progressive.
- It must improve efficiency of market rather than distort it.
- It must facilitate the use of fiscal policy for stabilization and growth objectives.
- It should be easy to implement administratively with a low cost of collection of taxes.

PRINCIPLES / CANONS / RULES OF TAXATION

I .According to Adam Smith

- Principle of Equality
- Principle of Certainty
- Principle of Convenience
- Principle of Economy

II. According to Western Economists

- Principle of Productivity
- Principle of Elasticity
- Principle of Diversity
- Principle of Simplicity
- Principle of Expediency
- Principle of Co-ordination

TYPES OF TAXES

The important types of taxes in India are Direct taxes and Indirect taxes.

Types of Taxes

Direct Taxes	**Indirect Taxes**
1. Income tax	1. Sales tax
2. Wealth tax	2. Customs duty
3. Gift tax	3. Central excise
4. Birth tax	4. Service tax
5. Water tax	

DIRECT TAXES

Direct tax is demanded from the person who should pay it. It constitutes

- Income tax
- Wealth tax

- **Income Tax**

A tax that is applicable on income that has been generated from any source is termed as Income Tax.

- **Wealth Tax**

Wealth tax is imposed on the wealth possessed by individuals in a country. The tax is on a person’s net worth which is assets minus liabilities.

A wealth tax is generally conceived of as a levy based on the aggregate value of all household assets, including owner-occupied housing; cash, bank deposits, money funds, and savings in insurance and pension plans; investment in real estate and unincorporated businesses; and corporate stock, financial securities, and personal trusts. A wealth tax is a tax on the accumulated stock and purchasing power, in contrast to income tax, which is a tax on the flow of assets (a change in stock).

INDIRECT TAXES

Indirect taxes are those which are demanded from one person with the expectation and intention that he shall indemnify himself at the expense of another. It constitutes

- Sales tax
- Customs Duty
- Service Tax

- **Sales Tax**

A sales tax is a tax paid to a governing body for the sales of certain goods and services. Usually laws allow (or require) the seller to collect funds for the tax from the consumer at the point of purchase.

- **Customs Duty**

Customs Duty is a type of indirect tax levied on goods imported into India as well as on goods exported from India. Taxable event is import into or export from India. Import of goods mans bringing into India of goods from a place outside India.

- **Central Excise**

The Central Excise duty is levied in terms of the Central Excise Act, 1944 and the rates of duty, ad valorem (on value) or specific, are prescribed under the Schedule I and II of the Central Excise Tariff Act, 1985. The taxable event under the Central Excise law is 'manufacture / production' and the liability of Central Excise duty arises as soon as the goods are manufactured or produced. As per the Central Excise Act, duty is taxable only on excisable goods. i.e. Goods specified in Central Excise Tariff Act, 1985.

- **Service Tax**

Service Tax is a tax imposed by Government of India on services provided in India. The service provider collects the tax and pays the same to the government. It is charged on the services except the services in the negative list of services.

DIFFERENCES BETWEEN DIRECT TAX AND INDIRECT TAX

SI. No	Direct Tax	Indirect Tax
1	Direct Taxes are the taxes directly incurred and paid by the person concerned.	Indirect taxes are paid by one person but the same is recovered from another person.
2	It is imposed on Income / Wealth of the assesses	It is imposed on Purchase / Sale / Manufacture of goods and services.
3	There is no shifting of tax burden	Tax burden is shifted to the subsequent user
4	It is collected after the income for a year is earned	It is collected at the time of sale or purchase or rendering of services
5	**Examples:** Income Tax and Wealth Tax	**Examples:** Central excise, Customs, Sales tax, Purchase tax, Service tax, Entry tax

INCOME TAX ACT

A tax that is applicable on income that has been generated from any source is termed as Income tax.

The Central Board of Direct Taxes (CBDT) is the governing body that takes care of the Indian Income Tax. Income tax is imposed by the government on an individual, company, business, Hindu Undivided Families (HUFs), co-operative organization and trusts.

Income Tax is a tax payable, at the rate enacted by the Union Budget (Finance Act) for every Assessment Year, on the Total Income earned in the Previous Year by every Person.

Every year a budget is presented before the Parliament by the Minister of Finance. The bill which is presented by the Minister is amended if necessary and passed by both the Houses of the Parliament.

The Income tax Act 1961, applies to the whole of India and Sikkim and Jammu and Kashmir. It is a comprehensive Act with 298 sections and 12 schedules. The act runs into several thousands of sub sections, rules and sub rules.

HISTORY OF INCOME TAX IN INDIA

Year	History
1860	In 1860, income tax was introduced for the first time by **Sir. James Wilson** for a period of five years to cover the 1857 Military mutiny expenses. It was abolished in 1873.
1877	In 1877, the tax system was revived as a result of the Great Famine of 1876.
1886	In 1886, Income tax introduced as Act II of 1886. It laid down the basic scheme of income tax that continues till the present day.
1918	In 1918, Income tax introduced as Act VII of 1918. It had features like aggregation of income from various sources for the determination of the rate, classification of income under six heads and application of the Act to all income that accrued or arose or was received in India from whatever source in British India.
1922	In 1922, on the recommendations of the All-India Income Tax Committee, the father of the present act was introduced. The central government was vested with the power to administer the tax.
1961	The Government of India referred it to the Law Commission in 1956 with an intention to simplify the Act and also prevent the evasion of income tax. The Law Commission submitted its report in September 1958. In the meanwhile, the Government of India had also appointed the Direct Taxes Administration Enquiry Committee to suggest measures to minimize complications to assess and provide mechanism to prevent tax evasion. The Enquiry Committee submitted its report in 1959. The Government in consultation with Ministry of Law had finally passed the Income Tax Act 1961. The Act came into force from 1st April 1962; it extended to the whole of India.
1997	In 1997, Establishment of the Tax Reform Committee under the chairmanship of Dr. Raja J. Chelliah. It was followed by restructuring the income tax with parameters like lower taxes, fewer slabs, higher exceptions, etc.
2003	The Kelkar Task Force, which was followed by outsourcing of PAN/TAN, exemption of dividend income, compensated by levy of the dividend distributed tax to be paid by the company.

ASSESSMENT

Assessment is the procedure by which the income of an assessee is determined by the assessing officer.

ASSESSEE

Assessee means a person by whom any tax or other sum of money is payable under the Income Tax Act.

TYPES OF ASSESSEE

- **Ordinary Assessee**

Ordinary assessee is a person by whom any tax or other sum of money is payable under the Income Tax Act.

- **Representative Assessee (or) Deemed Assessee**

In certain cases, a person is liable not only for his own income or loss but also for the income or loss for other persons. In such cases, he is treated as deemed or representative assessee.

Examples:

- Deceased person
- Lunatic
- Minors
- Idiot
- Non-Residents

- **Assessee in Default**

If a person fails to fulfill the stationary obligation as per Income Tax Act, he is called Assessee in Default.

PERSON

The term person includes the following:

- An Individual
- A Hindu Undivided Family
- A Company
- A Firm
- An Association of Persons(AOP)

- Body of Individuals(BOI)
- A Local Authority (Municipality, Panchayat etc.)
- Artificial Juridical Person (LIC, University etc.)

CHARGE TO INCOME TAX (Sec.4)

Every Person whose total income exceeds the maximum amount which is not chargeable to the income tax is an assessee, and shall be chargeable to the income tax at the rate or rates prescribed under the finance act for the relevant assessment year, shall be determined on basis of his residential status.

ASSESSMENT YEAR (AY)—[2022-2023]

Assessment year means the period of twelve months beginning form 1st April of every year and ending on 31st March of the immediately following year.

The current assessment year 2022-2023, commenced on 1st April 2022 and will end on 31st March 2023.

The taxpayer's income of the previous year is assessed to tax in the assessment year at the rates prescribed in the Finance Act for the assessment year.

PREVIOUS YEAR (PY) – [2021-2022]

Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year.

Previous year means the financial year immediately preceding the assessment year. A taxpayer's income of the previous year is assessed to tax in the assessment year.

Thus, for the current assessment year 2022-2023, the relevant **previous year will be the financial year 2021-2022, i.e., 1st April 2021 to 31st March 2022.**

In case of newly setup business (or) profession (or) a source of income the first previous year will be less than 12 month, i.e.

Date of commencement of Business (or) Profession - 31-3-2022

Under what circumstances income of a person can be assessed in the same year in which it is earned?

In the following situations, income of a previous year is taxed in that year itself at the rates applicable to that year.

- Income of any non-resident from shipping business.
- Income of individual leaving India.
- Assessment of association of persons or body of individuals or artificial juridical

person formed for a particular event or purpose.

- Transfer of property to avoid Tax,
- On Discontinuance of a Business (or) Profession.

INCOME

Income means periodical receipts from one's business, land, work, investment etc. It is a periodical return with regularity or expected regularity. Income includes the following:

- Salary
- Profits and Gains
- Dividends
- Voluntary contributions received by trust
- Perquisite
- Special allowance or benefit
- Any allowances
- Value of any benefit or perquisite granted to director
- Value of any benefit or perquisite received any representative assessee
- Rent receive from House property
- Any capital gains
- Any winnings
- Any sum received under Key man insurance

FREATURES OF INCOME:

- Definite source
- Legal or illegal income
- Income may be received in cash or in kind
- Income being considered on receipt basis or accrual basis
- Dispute regarding the title
- Mere relief or reimbursement of expenses
- Income may be permanent or temporary

- Income may be received in lump sum or otherwise
- Gifts of personal nature
- Income to be earned from outside

GROSS TOTAL INCOME

U/S 14 of the Income Act, 1961, the term Gross Total Income (GTI) means aggregate of income computed under the following five heads:

- Income from Salary (Sections 15-17)
- Income from House Property (Sections 22-27)
- Income from Business (or) Profession {Sections 28-44)
- Income from Capital Gains (Sections45-55)
- Income from Other Sources (Sections 55-59)

Gross Total Income = Income from Salary + Income from Salary + Income from House Property + Income from Business (or) Profession + Income from Capital Gains + Income from Other Sources

TOTAL / NET / TAXABLE INCOME

Total Income is the amount after allowing deductions U/S 80C to 80U from Gross Total Income.

Total Income = Gross Total Income – Deductions U/S 80C to 80U

<u>Computation of Taxable Income</u>

Assessment year 2022-2023 Previous year 2021-2022

Income from Salary	XX
Income from House Property	XX
Income from Business or Profession	XX
Income from Capital Gains	XX
Income form Other Sources	XX
Gross Total Income	**XXX**
Less: Deductions U/S 80C to 80U	XX
Net / Total / Taxable Income	**XXX**

Note: The taxable income shall be rounded off to the nearest multiple of 10 Rupees.

Computation of Tax Liability

Tax on Net Income	XXX
Add: Health and Education Cess (HEC) 4%	XX
Tax Payable	**XXX**
Less: Tax paid on Self Assessment	XX
Less: Tax Deducted or Collected at Source (TDS)	XX
Less: Tax paid in Advance	XX
Tax Liability	**XXX**

Note: 1.The tax payable amount is to be rounded off to the nearest 10 Rupees.

2.The rate of surcharge is 10%, 15, 25% and 37% of income tax if the total income is Rs 50 lakh to 1 crore, 1 crore to 2 crore, 2crore to 5 crore and above Rs 5 crores respectively.

RATES OF TAXES FOR ASSESSMENT YEAR 2022-2023

- **Tax slabs for Male/Female Assessee (Below 60 years of age)**

Taxable Income	Tax Rates
Up to Rs.2,50,000	Nil
Rs.2,50,001 to Rs.5,00,000	5%
Rs.5,00,001 to Rs.10,00,000	20%
Above Rs.10,00,000	30%

- **Tax slabs for Senior Citizens (Both Male and Female Assessee) from 60 to 79 years of age:**

Taxable Income	Tax Rates
Up to Rs.3,00,000	Nil
Rs.3,00,001 to Rs.5,00,000	5%
Rs.5,00,001 to Rs.10,00,000	20%
Above Rs.10,00,000	30%

- **Tax slabs for Super Senior Citizens (Both Male and Female Assessee) who are 80 and above years of age:**

Taxable Income	Tax Rates
Up to Rs.5,00,000	Nil
Rs.5,00,001 to Rs.10,00,000	20%
Above Rs.10,00,000	30%

Short term capital gain on sale of listed equity shares = 15%

Long term capital gain = 20%

Casual income = 30%

- **Rate of Tax for Firms**

On Total Income = 30%

- **Rate of Tax for Companies**

  On Total Income = Domestic Company 30% and Foreign Company 40%

- **Tax Deduction at Source (TDS)**

  - On **listed** Non Government Securities = 10%
  - On **unlisted** Non Government Securities = 10%
  - On Casual Income = 30%

DEEMED INCOME

Some assesses may cover up income by not disclosing investments, cash, bullion, jewellery (or) other valuable articles and amount spent on unexplained expenditure. These amounts are treated as deemed incomes of assessee. They are:

- Cash credit
- Unexplained investments
- Unexplained money
- Unexplained expenditure
- Amount of investments not fully disclosed in the books of accounts.

DISPUTED INCOME

Any dispute regarding the title of income will not postpone or held up the assessment of such income. It will be taxed in the hands of the recipient of such income.

CASUAL INCOME

Casual income means an income which is casual and non-recurring in nature.

Examples:

- Winning from lottery
- Winning from crossword puzzles
- Winning from horse races
- Winning from card games

- Betting and
- Gambling

DIVERSION OF INCOME

Diversion of income means that the income is diverted to some other person under some legal obligation.

APPLICATION OF INCOME

If after receiving the income it is given to someone else, it is application of income. Similarly if an income is diverted to some other person voluntarily it is application of income.

AGRICULTURE INCOME

Agricultural income means any rent or revenue derived from land which is situated in India and is used for agricultural purposes. It is exempted U/S 2(1A).

Any income derived operations

- By agricultural operations
- By performance of any process to make the produce marketable by the cultivator
- By income from building used for agriculture purpose.

TYPES OF AGRICULTURAL INCOME

1. Rent or Revenue from Agricultural Land:

When a person grants to another a right to use his land situated in India for agricultural purposes, the former receives from the latter rent or revenue which is treated as agricultural income.

2. Income derived from such land by agricultural operations:

Income earned by applying agricultural operations like tilling of the land, watering it, sowing the seeds, planting and other similar operations is agricultural income.

3. Income derived from such land by the performance of any process:

Income from any process ordinarily employed by a cultivator to render the produce raised by him fit to be taken to market is agricultural income. The process employed in curing of coffee, curing of tobacco, ginning of cotton, etc. are example of such process.

4. Income derived from sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him:

Income derived by cultivator or receiver of rent-in-kind of the produce raised or received by him is treated as agricultural income, even if he keeps a shop for the sale of such produce.

5. Income from Nursery Operation:

Any income from saplings or seedings grown in nursery is deemed to be agricultural income.

6. Income from a farm house:

The income from a house situated in agricultural fields is treated as agricultural income if the following conditions are satisfied:

- The building is owned and occupied by the cultivator or receiver of the rent or revenue of any such land.
- The building is situated in the immediate vicinity of the agricultural land.
- The building is used as dwelling house or a store house or an out house by the cultivator or receiver of rent-in-kind by reason of his connection with the land.

RESIDENTIAL STATUS

INTRODUCTION

There are three types of residential status in India, viz.

- Resident Ordinarily Residents (Residents)
- Resident but not Ordinarily Residents and
- Non Residents

There are several steps involved in determining the residential status of a person.

All residents are taxable for all their income, including income outside India. Non residents are taxable only for the income received in India or Income accrued in India. Not ordinarily residents are taxable in relation to income received in India or income accrued in India and income from business or profession controlled from India.

- **BASIC CONDITIONS**
- An individual is in India during the relevant previous year (2021-2022) for the period of 182 days (or) more. **(OR)**
- An individual is in India for the period of 60 days (or) more during the previous year (2021-2022) and 365 days (or) more during 4 years preceding the relevant previous years.

2020-2021

2019-2020

2018-2019

2017-2019

- **ADDITIONAL CONDITIONS**
- An individual must have satisfied atleast one of the basic conditions in 2 out of 10 years proceeding the previous years.

  2020-2021

  2019-2020

  2018-2019

  2017-2018

  2016-2017

  2015-2016

  2014-2015

  2013-2014

  2012-2013

  2011-2012

(AND)

- An individual has in India for atleast 730 days in all during the 7 years preceding the relevant previous years.

  2020-2021

  2019-2020

  2018-2019

  2017-2018

  2016-2017

  2015-2016

  2014-2015

RULES FOR RESIDENTIAL STATUS OF INDIVIDUAL

- **Resident (Ordinary Resident)**

An individual must satisfy one of the basic condition and both of the additional conditions.

Resident(ROR) = 1 Basic Condition + 2 Additional Condition

- **Resident but Not Ordinary Resident**

An individual must satisfy atleast one of the basic condition and one (or) none of the additional condition.

Resident but Not Ordinary Resident (RNOR)= 1 Basic Condition + 1 (or) 0 Additional Conditions

- **Non Resident**

An individual does not satisfy any one of the basic condition is called non resident.

Non Resident (NR)= 0 Basic Condition

RULES FOR RESIDENTIAL STATUS OF HINDU UNDIVIDED FAMILY (HUF)

S. No.	Place of Control and Management of HUF	Resident (or) Non Resident	Ordinary Resident (or) Not Ordinary Resident
1	Wholly in India	Resident	Refer above Basic and Additional conditions with respect of **'Karta'**
2	Partly in India and Partly in outside India	Resident	Refer above Basic and Additional conditions with respect of **'Karta'**
3	Wholly outside India	Non Resident	Not Applicable

KARTA

Karta is the senior most male member of the Hindu Undivided Family. A senior male member may also be appointed as Karta only if the senior male member surrenders his right of management.

If there is no male member in the family (or) the male member is competent to manage the

HUF then the senior most female member is appointed as Karta.

Rules for Residential Status of Firm, AOP, BOI, AJP, LA

S. No.	Place of Control and Management of Firm, AOP, BOI, AJP, LA	Resident (or) Non Resident
1	Wholly in India	Resident
2	Partly in India and Partly in outside India	Resident
3	Wholly outside India	Non Resident

Rules for Residential Status of Company

S. No.	Place of Control and Management of Company	Resident (or) Non Resident	
		Indian Company	Foreign Company
1	Wholly in India	Resident	Resident
2	Partly in India and Partly in outside India	Resident	Non Resident
3	Wholly outside India	Resident	Non Resident

INCIDENCE OF TAX (OR) BASIS OF CHARGE (Sec. 5) / SCOPE OF TOTAL INCOME

The scope of total income of an assessee depends upon three important considerations:

- The residential status of an assessee
- The place of accrual (or) receipt of income whether actual (or) deemed
- The point of time at which the income has accrued to be received by (or) on behalf of assessee.

S. No.	Particulars	Ordinary Resident	Not Ordinary Resident	Non Resident
1	Income received in India, whether accrued (or) earned in India (or) outside India	Taxable	Taxable	Taxable
2	Income accrued (or) arised in India (or) deemed to be accrued (or) arised in India, whether received in India (or) outside India	Taxable	Taxable	Taxable
3	Income received and accrued outside India from a business controlled (or) profession setup in India	Taxable	Taxable	Not Taxable
4	Income received and accrued	Taxable	Not Taxable	Not Taxable

	outside India from a business controlled (or) profession setup outside India			
5	Income received (or) earned outside India from any other sources	Taxable	Not Taxable	Not Taxable
6	Income earned and received outside India during the year preceeding the previous year remitted to India during the previous year	Not Taxable	Not Taxable	Not Taxable

Illustration-1

Mr.Rohit left for Malaysia., along with his family, for the first time, on 14.10.2021. He returned to India on 31.5.2022. Determine his residential status for the assessment year 2022-2023.

Solution

Determination of Residential status of Rohid

(1) Stay in India during the PY

From 1-4-2021 to 14-10-2022:

30+31+30+31+30+31+14=197 days.

First Basic condition under section6(1) of 182 days or more stay is satified.Rohid is Resident.

(2) (i) Stay in india during 10 years preceding the previous year:

Since he left for the first time on 14-10-2021, he would have been residing in india for the 10 Years preceding the previous year.

Additional condition (i) of being resident for 2 out of 10 Years preceding the previous year is satisfied.

(ii) Stay in India for 730 days during 7 years preceding the previous year:

Since he left India for the first time on 14-10-2021, he would have stayed for 730 days or more in proceeding 7 years. Additional condition (2) of stay for 730 days during 7 years preceding the previous year is also satisfied.

Conclusion:

Mr.Rohid is **Resident and Ordinarily Resident** under Sec6(1) for the assessment year2022-2023.

Illustration 2

Mr. Gunal an Indian citizen, stayed in India for 182 days during the previous year 2021-2022. Determine Mr.Gunal residential status for the assessment year 2022-2023 on the assumption that during the financial yease 2011-2012 to 2020-2021 he was present in India as follows:

2011-12 66days

2012-13 180days

2013-14 20days

2014-15 50days

2015-16 50days

2016-17 59days

2017-18 180days

2018-19 50days

2019-2020 58days

2020-2021 59days

Solution:

Determination of Residential status of Gunal

Assessment year:2022-2023 previous year 2021-2022

(1) Stay in India during the previous year 2021-2022: 182days

First Basic condition under Section 6(1) of 182 days stay in the previous year is satisfied, Gunal is **Resident**

S. No.	Year	Presence in India in days	Resident (R) or Non Resident(NR)	Minimum No of days stay to become Resident
1	2020-21	59	NR	182 or 60 days and 365 days during 4 years preceding the P.Y
2	2019-20	58	NR	182
3	2018-19	50	NR	182
4	2017-18	180	NR	182
5	2016-17	59	NR	182
6	2015-16	50	NR	182
7	2014-15	50	NR	182
8	2013-14	20	NR	182

9	2012-13	180	NR	182
10	2011-12	66	NR	182

Additional Condition(1) under section 6(6)(a) of being resident for 2 out of 10 years preceding the previous year is not satisfied. Gunal is non resident in 10 years preceding the P.Y2021-2022.

Additional condition (2) under Section 6(6)(a) of residing atleast 730 days durin the 7 years preceding the previous year is not satified because of the stay of 506 days during that period (59+58+50+180+59+50+50).

Conclusion:

Gunal is **resident but not Ordinaril**y resident for the assessment year 2022-2023 because he fulfils none of the two additional conditions required Section 6 (6) to be Ordinarily resident.

Illustration 3

Mr. Ramar a foreign national income to India for the first time on June 15, 2016. During the financial years, 2016-2017, 2017-18, 2018-2019, 2019-2020 and 2020-2021 and 2021-2022, he stayed in India for 50 days, 183days, 115days,25days 190days and 58 days respectively. Ascertain in his residential status for the assessment year 2022-2023,

Solution:

Determine of residential status of Ramar:

Assessment year:2022-2023; Previous year:2021-2022

(1) Stay in India as given: 58 days.

First stay in India durin the previous year is not satified. Basic condition under Section 6(1) of 182 days

Second Basic condition under Section 6(1) 60 days in the previous year and 365 days stays in the preceding the 4 years to the previous year is not satisfied.

Conclusion:

Mr Ramar is Non Resident for the assessment year 2022-2023 because he fails to satisfy both the basic condition.

Illustration 4

Abiram had the following income during the previous year 31.03.2022.

- Salary received in India for three months Rs.9000
- Interest on saving Bank Deposit in SBI Rs1000
- Income from House property in India (Computed)Rs.13470
- Amount brought into India out of the past untaxed profits earned in Germany Rs.20000

- Income from Agriculture in Srilanka being invested in India Rs.12350
- Income from business in Bangladesh, being controlled from India Rs.10150
- Dividends received in Belgium from French companies out of which Rs 2500 were remitted to India Rs 23000

You are required to compute his total income for the assessment year 2022-2023, if he is (i)Resident (ii)not ordinarily resident and (iii) Non - Resident.

Solution:

S. No.	Particulars	Resident Rs	Not Ordinarily Resident Rs	Non Resident Rs
1	Salary received in India	9000	9000	9000
2	Interest on saving bank Deposit in SBI	13470	13470	13470
3	Income from house property in India	1000	1000	1000
4	Amount brought into India out of the past untaxed profits earned in Germanay	_	_	_
5	Income from agriculture in Indonesia being invested in India	12350	_	_
6	Income from business in Bangaladesh, controlled from India.	10150	10150	_
7	Dividends received in Belgium from French Companies.	23000	_	_
	Total	68970	33620	23470

CAPITAL AND REVENUE

Differences between Capital Receipts and Revenue Receipts

S. No.	**Capital Receipts**	**Revenue Receipts**
1	Amount received as permanent (or) fixed capital	Amount received as floating (or) circulating capital
2	If a receipt is in connection with fixed asset used by a person in his business investment	If a receipt is in connection with circulating asset
3	Amount of receipt in connection with surrender of rights	Amount of receipt by surrender of future profits
4	Amount of receipt in substitution of a source of income	Amount of receipt in substitution of an income
5	Insurance money received for a capital asset	Insurance money received for a trading goods

Difference between Capital Expenditure and Revenue Expenditure

S. No.	Capital Expenditure	Revenue Expenditure
1	an expenditure incurred to purchase and installation of a fixed asset	An expenditure incurred to purchase of goods for resale together with expenses
2	An expenditure incurred for the acquisition of a source of income	An expenditure incurred for the purpose of earning an income
3	An expenditure incurred to increase earning capacity of business by improving its fixed assets	An expenditure incurred for maintaining fixed asset in good condition
4	Expenditure in raising capital by issuing shares	Expenditure incurred in raising loan or debenture
5	An expenditure incurred to free from capital liability	An expenditure incurred to free from revenue liability

Difference between Capital Loss and Revenue Loss

S. No.	Capital Loss	Revenue Loss
1	Where there is a loss on selling of capital assets like building, plant, machinery etc.	Where there is a loss incurred on selling of stock in trade
2	Once the amount is deposited into the bank and it is withdrawn by an employee without knowledge of assessee	Where there is an embezzlement done by an employee in the business premises
3	Loss due to theft committed by an employee after office hours	Loss due to theft committed by an employee during office hours

EXEMPTED INCOME (U/S 10)

MEANING

Exempted incomes are those incomes on which income tax is not charged. The exemption may be based on:

- The nature of income
- Status of the Assessee, or
- On the source from which the income is derived

I. Income which are totally (fully) exempted from tax U/S 10

- Agricultural Income received in India.
- Any sum received from Hindu Undivided Family (HUF)
- Share of profit from Partnership Firm

- Gratuity received by Government Employees
- Pension received by Government Employees
- Leave encashment received by Government employee
- Any sum received under a life insurance policy, including bonus
- Payment from Statutory Provident Fund (or) Public Provident Fund
- Any allowances received by M.P., M.L.A., M.L.C.
- Long term capital gain on transfer of listed equity shares
- Income of Registered Trade Union
- Income by way of tax on perks
- Interest paid to Non-Resident on notified Government Securities
- Interest to Non Resident to Non Resident External (NRE) Account in any bank in India
- Interest paid to a person of Indian origin and who is Non Resident
- Travel Concession to an Indian Citizen employee
- Foreign Allowance to an Indian citizen by the Indian Government for rendering service outside India

II. Income which are partially exempted from tax U/S 10

- Children education allowance – Exempted upto Rs. 100 p.m. per child for two children only
- Children hostel allowance – Exempted upto Rs. 300 p.m. per child for two children only
- Tribal Area allowance – Exempted upto Rs. 200 p.m.
- Compensatory field area allowance – Exempted upto Rs. 2600 p.m.
- Hill area allowance / High altitude allowance / Snow area allowance – Exempted from Rs. 300 p.m. to Rs. 7000 p.m.
- House Rent Allowance
- Entertainment Allowance
- Gratuity received by Non Government Employee
- Pension received by Non Government employee

- Leave encashment received by Non Government employee
- Allowance received by an employee working in any transport system – Exempted upto 70% of allowance (or) Rs. 6000 p.m. whichever is less.
- Helper allowance – Actual amount spent on performing official duties is exempted
- Uniform allowance – Actual amount spent on performing official duties is exempted
- Conveyance allowance - Actual amount spent on performing official duties is exempted
- Income of Minor

Exempted incomes of newly established industrial undertaking in Free Trade Zones (U/S 10A)

In order to encourage establishment of export-oriented industries in the free trade zones, the Finance Act, 1981 has provided for complete tax exemption in respect of the profits and gains derived by industrial undertaking set up in free trade zones.

Free Trade Zones

The following are the free trade zones in India.

- Kandla Free Trade Zone
- Santacurz Electronics Export Processing Zone
- Falta Export Processing Zone
- Madras Export Processing Zone
- Cochin Export Processing Zone
- Nodia Export Processing Zone

Conditions for claiming deduction U/S 10A

- An undertaking must begin in manufacture (or) production in Free Trade Zone.
- The industrial undertaking should not have been formed by splitting up (or) reconstruction of a business already in existence.
- An undertaking not to be formed by transfer of old machinery
- Repatriation of sale proceeds into India
- The books of accounts must be audited
- The ownership or beneficial interest are not to be transferred

Amount of Deduction

$$= \frac{\text{Business profits of the undertaking X Export turnover}}{\text{Total turnover of the business}}$$

Period of Deduction

The assessee can claim deduction U/S 10A, for a period of 10 consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture (or) produce such articles (or) things (or) computer software.

Newly established units in Special Economic Zones (SEZ) U/S 10AA

Section 10AA has been introduced to allow income tax concession to newly established units in Special Economic Zones.

Conditions for claiming deduction U/S 10AA

- The assessee shall be an entrepreneur
- The unit in SEZ is to manufacture (or) produce articles (or) provide services
- The assessee is to have derived income by exporting goods or services out of India from SEZ
- The books of account of tax payer should be audited.

Amount of Deduction

$$\text{Profit of the business of the undertaking X } \frac{\text{Export Turnover}}{\text{Total turnover of the business carried on by the undertaking}}$$

Period of Deduction

- For first 5 year = 100% profits derived from export
- 6 to 10 years = 50% profits derived from export
- 11 to 15 years = 50% profits derived from export (provided an equal amount is debited to P&L A/C and credited to SEZ Re-investment allowance reserve account which can be acquiring new plant and machinery).

New Established 100% Export Oriented Undertaking (EOU) U/S 10B

This deduction has been introduced with a view to providing inventive to 100% export oriented units.

Conditions for claiming deduction U/S 10B

- An undertaking must be approved by 100% export oriented unit by the Central Government.
- The 100% export oriented unit must manufacture (or) produce any article (or) things (or) computer software.
- The industrial undertaking should not have been formed by splitting up (or) reconstruction of a

business already in existence.

- An undertaking not to be formed by transfer of old machinery
- Repatriation of sale proceeds into India
- The books of accounts must be audited
- The ownership or beneficial interest are not to be transferred

Amount of Deduction:

$$= \frac{\text{Business profits of the undertaking} \times \text{Export turnover}}{\text{Total turnover of the business}}$$

Period of Deduction

The assessee can claim deduction U/S 10B, for a period of 10 consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture (or) produce such articles (or) things (or) computer software.

Export of artistic hand-made wooden articles U/S 10BA

Deduction U/S 10BA is applicable in respect of export of artistic hand-made wooden articles.

Conditions for claiming deduction U/S 10BA

- The undertaking should be manufacturing hand-made articles, which are of artistic value.
- The undertaking is not to be formed by splitting up or the reconstruction of a business already in existence.
- The undertaking should not be formed by transfer of previously used plaint or machinery except in few cases.
- 90% or more of sale should be by export of eligible articles
- The undertaking should employ 20 or more workers in the process of manufacturing or production.
- Sale proceeds of the eligible goods or things exported out of India must be received or brought into India by in convertible foreign exchanges
- The books of account must be audited
- If deduction is already claimed by the assessee U/S 10A / 10B, is not eligible for deduction U/S 10BA.

Amount of Deduction

$$\text{Profits of the business of the undertaking} \times \frac{\text{Export Turnover}}{\text{Total turnover of the business carried on by the undertaking}}$$

Period of Deduction

The profit is deductible for 6 assessment years.

Exemption of income from property held for Charitable trust (or) Religious purpose U/S 11, 12, AND 13

Trust

Section 3 of the Indian Trusts Act, 1882 defines a trust as “an obligation annexed to the ownership of property and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him for the benefit of another or of another and the owner”.

Charitable Purpose [Sec 2(15)]

Charitable purpose includes

- Relief of the poor
- Education
- Medical Relief
- The advancement of any object of public utility
- Preservation of environment monuments or places or objects of artistic or historic interest

Religious Purpose

Religious purpose includes the advancement, support or propagation of any religion and its doctrines. In the Eyes of the law all religious purposes are equal. Gifts for public religious purposes are ‘Prima-facie’ gifts for charitable purposes.

Conditions for claiming deduction U/S 11, 12, & 13

Exemption U/S 11, 12, and 13 is applicable in respect of income from property held for charitable trust or religious propose.

- Income from property held by a trust wholly for charitable or religious purposes to the extent to which it is so utilized in India.
- Income of a trust from voluntary contributions which shall form part of the corpus of the trust.
- Donation received by charitable institution
- The charitable trust or institution is required to spend at least 85% of the income to charitable or religious purpose.
- Consequences of misutilisation of accumulated income
- Income from educational or medical services
- The trust must be registered
- The books of accounts must be audited

INCOME OF POLITICAL PARTIES U/S 13A

Political party means a political party registered U/S 29A of the Representation of the People Act, 1951.

The following income of a political party shall not be included in total income:

- Income from house property
- Income from other sources
- Income by way of voluntary contributions received

Conditions for claiming deduction U/S 13A

- The political party keeps and maintains books of accounts and other documents properly.
- The political party keeps and maintains a record of voluntary contribution in excess of Rs. 20000, showing name and address of the person who has made such contribution.
- The accounts of political party are to be audited by a qualified Charted Accountant.

INCOME OF ELECTORAL TRUST (Sec. 13B)

Any voluntary contributions received by an electoral trust shall not be included in total income of the previous year of the trust, if

- It distributes to any registered political party during the previous year. 95% of the aggregate donations received by it during the previous year along with the surplus, if any brought forward from any earlier previous year; and
- It functions in accordance with the rules made by the Central Government.

ANONYMOUS DONATION [Sec. 13(7)]

Anonymous donation means any voluntary contribution, where a person receiving such contribution does not maintain a record of identity indicating the name and address of the done and other prescribed particulars.

TAX PLANNING

It can be defined as on arrangement of one’s financial and economic affairs by taking complete legitimate benefit of all deductions, exemptions, allowance and rebates. So that tax liability reduce to minimum.

Justice Ranganath Misra of supreme Court Speaking: “Tax planning may be legitimate provided it is within the frame work of law, colorable device cannot be part of tax planning and it is wrong to encourage or entertain the belied that it is honourable to avoid payment of tax by resorting to dubious methods”.

TAX AVOIDANCE

Any planning of tax which though done strictly according to legal requirement but defeats the basic intention of the legislature behind the state could be termed as instance of tax avoidance.

TAX EVASION

All methods by which tax liability is illegally avoided are termed as tax evasion. Tax evasion may involve stating on untrue statement knowingly, submitting misleading documents, suppression of facts, not maintaining proper accounting of income earned, omission of material facts on assessment.

UNIT – II

INCOME FROM SALARY

INTRODUCTION

As per the income tax law in India any income that is generated under the territory of the country is subjected to the income tax. All income received as salary under Employer-Employee relationship is taxed under this head. Employers must withhold tax compulsorily, if income exceeds minimum exemption limit, as Tax Deducted at Source (TDS), and provide their employees with a **From 16** which shows the tax deductions and net paid income.

DEFINITION OF SALARY

The term salary is defined as any kind of remuneration that is generated through professional services, personal services and from different jobs in the organization.

FORMS OF SALARY

According to sec. 17, salaries will include the following receipts:

- Basic salary
- Wages
- Annuity
- Pension
- Gratuity
- Fees
- Commission
- Perquisites
- Profit in lieu of salary or in addition to any salary or wages
- Advance salary
- Arrear salary
- Leave salary
- Recognised provident fund
- Remuneration for retrenchment
- Allowances

- Compensation for retrenchment
- Receipts of employees of public sector or other companies or local authority at the time of voluntary retirement

CHARACTERISTICS OF SALARY

- Employer – Employee relationship
- Salaries and business profits
- Salaries and professional income
- Voluntary surrender of salary – Real and Fictional
- Salary from former employer, present employer or prospective employer
- Personal gifts and other voluntary contributions
- Tax-free salary
- Gross salary due to the employee
- Salary or pension received by UNO employee
- Leave salary or pension paid by legal heirs
- Previous year of salary income
- Salary taxable on Due or Receipt basis whichever is earlier.

Computation of Income from Salary

AY = 2022-2023 PY = 2021-2022

Basic salary		xx	
Bonus		xx	
Commission		xx	
Cash Allowances		xx	
Pension			xx
Gratuity		xx	
Provident Fund			xx
Perquisites		xx	
Profit in lieu of salary		xx	
Arrears of salary		xx	
Advance salary			xx
Leave salary		xx	
	-------	-------	-------
Gross salary		xx	
(-) Deduction U/S 16			
Entertainment Allowances 16 (ii)	xx		
Employment / Professional Tax 16 (iii)		xx	xx
	-------	-------	-------

Total / Net / Taxable Salary xx (Income from Salary)

ALLOWANCES

Allowance is a fixed quantity of money is given regularly by employer to the employee, in addition to salary for the purpose of meeting some particular requirement connected with the services rendered by the employee (or) as compensation for unusual condition of that service.

TYPES PF ALLOWANCES

The allowances can be classified into three types, viz.

- Fully exempted allowances
- Fully taxable allowances
- Partly taxable and partly exempted allowances

I. Fully exempted allowances:

- Foreign allowance – Allowances to Government employee, rendering services outside India
- House rent Allowance (HRA) granted to judges of High court and Supreme court
- Sumptuary allowance given to High court and Supreme court judges
- Allowance received by an employee of UNO from his employer
- Any allowance given to High court judges.

II. Fully taxable allowances:

- Dearness allowance (DA)
- City compensatory allowance (CCA)
- Medical allowance
- Lunch allowance
- Overtime allowance
- Servant allowance
- Family allowance
- Tiffin allowance
- Warden allowance
- Deputation allowance
- Non practicing allowance

- Project allowance
- Dog allowance
- Capital compensatory allowance
- Marriage allowance
- Water and Electricity allowance
- Entertainment allowance for Non-Government employees.

III. Partly taxable and partly exempted allowances:

- House Rent Allowance (HRA)
- Entertainment allowance for Government employees
- Children Education allowance – Exempted Rs.100 p.m. for two children
- Children hostel expenditure allowance – Exempted Rs.300 p.m. for two children
- Transport allowance – Exempted Rs.1600 p.m. (Rs.3200 p.m. if the employee is blind / handicapped)
- Mining (underground) allowance – Exempted Rs.800 p.m.
- Tribal area allowance – Exempted Rs.200 p.m.
- Hill compensatory allowance – Exempted Rs.300 to Rs.7000 p.m. depending on the place
- Border / Remote / Disturbed area allowance – Exempted Rs.200 to Rs1300 p.m. depending on the place
- High altitude allowance – Rs.1060 to Rs.1600 p.m. depending on the place
- Running flight allowance – The least of the flowing is Exempted

  (a) 70% of the amount received (or)

  (b) Rs.10,000 p.m.
- Field area allowance – Exempted Rs.2600 p.m.
- Modified field area allowance – Exempted Rs.1000 p.m.
- Counter insurgency allowance – Exempted Rs.3900 p.m.
- Island duty allowance – Exempted Rs.3250 p.m.
- Highly active field area allowance – Exempted Rs.4200 p.m.

Fully exempted allowances for performing official duties

The following expenditures are fully exempted where the expenditure is incurred for official performance of duties.

- Uniform allowance
- Daily allowance
- Conveyance allowance
- Travelling allowance
- Helper allowance
- Academic Research allowance

HOUSE RENT ALLOWANCE (Sec. 10(13A))

House Rent Allowance is an allowance granted to an assessee by his employer to meet expenditure incurred on payment of rent in respect of residential accommodation occupied by him.

HOUSE RENT ALLOWANCE (Sec. 10(13A))

House Rent Allowance is an allowance granted to an assessee by his employer to meet expenditure incurred on payment of rent in respect of residential accommodation occupied by him.

House Rent Allowance (HRA)

Metro city (Chennai, Mumbai Delhi, Kolkatta)	Non – Metro city
1. Actual HRA received	1. Actual HRA received
2. 50% of Salary	2. 40% of Salary
3. Rent paid – 10% of salary	3. Rent paid – 10% of salary

Least is exempted

Salary means:

1. Basic pay
2. Dearness allowance (Service benefit, Forms part of salary, Taken for retirement benefit, if terms of employment so provide)
3. Commission (Fixed percentage on sales (or) turnover)

GRATUITY (Sec. 10(10))

Gratuity is the amount paid by the employer to the employee in respect of service rendered.

Gratuity

Government Employee

Fully exempted from tax

Non – Government Employee

Covered by Payment of

Gratuity Act 1972

1. Actual Gratuity received
2. Rs.20,00,000
3. 15 days salary for every completed years of service
service
(Fraction of year converted into full Year) [Above 6 months]

Not Covered by Payment of

Gratuity Act 1972

1. Actual Gratuity received
2. Rs.20,00,000
3. ½ month **average salary** for each completed years of service

(Fraction of the year is ignored)

Least is exempted

(Average Salary = 10 months' salary last drawn)

Salary means:

1. Basic pay
2. Dearness allowance (Service benefit, Forms part of salary, Taken for retirement benefit, if terms of employment so provide)
3. Commission (Fixed percentage on sales (or) turnover)

PENSION

The periodic payment of money received by an employee for the past services is known as pension.

Pension

Uncommuted Pension (monthly)

Fully Taxable

Commuted Pension (Lump sum)

Government Employee

Fully Exempted

Non-Government Employee

Receiving Gratuity

1/3rd of full value of Pension is exempted

Non Receiving Gratuity

½ of full value of pension is exempted

LEAVE ENCASHMENT (OR) LEAVE SALARY

It is also called encashment of earned leave. If an employee does not avail his earned leave and receives payment in respect of any period of leave, while he continuous to remain in service, it is taxable in full.

Leave salary

Received during the service

Fully Taxable

Received at the time of Retirement

Government Employee

Fully Exempted

Non-Government Employee

1. Actual leave salary received
2. 10 months salary
3. Rs.3,00,000
4. Leave credit at the rate of 30 days p.a. for every completed year of service

(Fraction of the year ignored into full year)

(1year = 1 month)

[Leave credit = Total leave – Leave availed]
(Leave credit X 10 month's average salary)

Least is Exempted

Salary means:

1. Basic pay
2. Dearness allowance (Service benefit, Forms part of salary, Taken for retirement benefit, if terms of employment so provide)
3. Commission (Fixed percentage on sales (or) turnover)

PROFIT IN LIEU OF SALARY (Retrenchment Compensation)

The amount of any compensation due (or) received by an assessee form the employer (or) former employer in connection with the termination of his employment like,

a. Gratuity
b. Pension
c. Leave encashment
d. Provident fund etc,

are included in the salary income in accordance with the provisions laid down under Income Tax Act, 1961.

Profit in lieu of salary

Compensation of loss for Employment (Retirement) (sec. 10(10B)) 10(10C))

1. Actual amount received
2. Rs. 5,00,000
3. The amount calculated under Industrial Disputes Act, 1947.

Compensation received at the time of Voluntary Retirement (VRS) (sec.

1. Actual amount received
2. Rs. 5,00,000
3. No of years service **X** 3 months salary
4. No of months service left before retirement **X** monthly salary

Least is exempted

Salary means:

1. Basic pay
2. Dearness allowance (Service benefit, Forms part of salary, Taken for retirement benefit, if terms of employment so provide)
3. Commission (Fixed percentage on sales (or) turnover)

PROVIDENT FUND

The term provident means to provide for the future. Hence, provident fund is to provide for the future of the employee.

Provident fund scheme is an arrangement whereby every employee is required to save some amount out of his salary every month with almost an **equal contribution by the employer.**

These contributions are invested to earn interest, which is also credited to the employee's provident fund. When an employee retires from service, he receives this amount in lump sum along with interest on it.

TYPES OF PROVIDENT FUNDS

The various types of provident funds are as follows:

1. Statutory Provident Fund

The statutory provident fund is regulated by the Provident Funds Act 1925. It applies to employees of the Government, Semi Government Organisations, local bodies, universities and other recognized educational institutions.

2. Recognised Provident Fund

The recognized provident fund is regulated by the Provident Fund Act 1952. It is maintained by scheduled banks, factories and several business houses. It is usually maintained by private sector undertakings.

3. Unrecognized Provident Fund

An unrecognized provident fund is that provident fund which is neither statutory nor recognized. This fund is maintained by private sector organizations.

4. Public Provident Fund

The public provident fund is regulated by the Public Provident Fund Act 1968. An employee may also contribute to this fund in addition to the fund operated by his employer. The contributions made to the scheme along with interest are repayable after 15 years.

TAX TREATMENT OF PROVIDENT FUNDS

Particulars	**Provident Fund**			
	Statutory	**Recognised**	**Unrecognised**	**Public**
Employer's contribution	Fully exempt from tax	Exempt upto 12% of salary	-	-
Employee's contribution	Eligible for Deduction u/s 80C	Eligible for Deduction u/s 80C	-	Eligible for Deduction u/s 80C
Interest credited	Fully exempt from tax	Exempt upto 9.5% p.a.	-	Fully exempt from tax

PREQUISITES

Perquisite includes any amount due to or received in lump sum or otherwise, by an assessee, from an employer.

Perquisite is defined as "any casual emoluments, fees or profit attached to an office or position in addition to salary or wages".

Taxable perquisites

1. Rent free accommodation
2. Value of concession in respect of accommodation provided to the employee
3. Professional tax and income tax of employee met by employer
4. Interest free or concessional loans (Exempted upto Rs. 20,000)
5. Domestic servants engaged by employee and salary paid by employer
6. Gas, water and electricity bills in the name of employee paid by the employer
7. Use of employer's movable assets other than laptop and computer.
8. Transfer of employers movable assets to the employees
9. Car or other conveyance owned by employee, used for private purposes and expenses are met by employer.
10. Lunch or dinner provided by the employers in office hours is taxable if cost per meal exceeds Rs.50
11. Gift or voucher is taxable. (Gift in kind exempted upto Rs.5000)
12. Expenditure incurred by an employer in respect of credit card and club expenses are taxable

13. Value of security or sweat equity shares allotted by employer is taxable
14. Travelling, touring accommodation provided to employees
15. Any other bills in the name of the employee for personal expenses issued in the name of employee but paid by employer.

Exempted Perquisites

1. Provision of medical facilities subject to limit.
2. Tea or snacks provides during working hours
3. Free meals provided during working hours in a remote area
4. Perquisites allowed outside India by Government to a Citizen of India for rendering service outside India
5. Sum payable by an employer to a Recognized Provident Fund
6. Employer's contribution to staff Group Insurance Scheme
7. Leave travel concession subject to sec. 10(5)
8. Free education facility provided to children of employees (Value does not exceed Rs.100 p.m. per child for any number of children)
9. Computer / Laptop given to an employee for official / personal use
10. Travelling facility to employees of Railways or Airlines
11. Periodicals and journal required for discharge of work
12. Tax on perquisites paid by employer
13. Conveyance facility provided by the high court judges
14. Conveyance facility provided to an employee to cover the journey between office and residence
15. Accommodation provided on transfer of employee in a hotel for not exceeding 15 days in aggregate.

SPECIFIED EMPLOYEE

An individual will be considered as a specified employee if –

a) He is a **director** employee of the company, or
b) He holds (equity shares) 20% or more of **voting power** in the company
c) His income under the head **salaries** excluding non-monetary payments **exceeds Rs.50,000 p.m.**

VALUATION OF RENT FREE ACCOMMODATION

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

Calculation of Value of Furnished House (Accommodation)

Value of unfurnished house	xx	
(+) 10% original cost of furniture	xx	
(+) Actual Hire Charges		xx
	-------	
	xx	
(-) Any charges paid by employee	xx	

Rent Free Accommodation	xx	

Value of Unfurnished Accommodation

Government Employee

Amount specified as per rule

(OR)

Licence Fee (or) Rent paid

Non-Government Employee

House is owned by employer

House is taken over by employee

Lease by employer

1. Actual rent paid

(OR)

2. 15% of salary

Accommodation in Hotel

1. Actual charges

(OR)

2. 24% of salary

Whichever is lower

Population of city
Above 25 Lakhs

RFA = 15% of Salary

Population of city
10 to 25 Lakhs

RFA = 10% of salary

Population of city
Below 10 Lakhs

RFA = 7.5% of salary

Salary means:

1. Basic pay
2. Dearness allowance (Service benefit, Forms part of salary, Taken for retirement benefit, if terms of employment so provide)
3. Commission (Fixed percentage on sales (or) turnover)
4. Bonus (Statutory)
5. Fees
6. All other taxable allowances
7. Any monetary payment

Taxable of Motor Car Benefits

When the car is owned by the Employer

Expenses met by the Employer

For official use

Not taxable

For personal use

1. Actual expenditure on car xx
2. Remuneration to chauffeur xx
3. 10% of the cost of car xx

1. Actual expenditure on car	xx
2. Remuneration to chauffeur	xx
3. 10% of the cost of car	xx
Taxable	xx

Partly official and partly personal

Cubic capacity of car engine Upto 1.6 litres	
1. Rs.1800 p.m.	21600
2. Rs.900 p.m. (Chauffeur)	10800
Taxable	32400

Cubic capacity of car engine above 1.6 litres	
1. Rs.2400 p.m.	28800
2. Rs.900 p.m. (Chauffeur)	10800
taxable	39600

When the car is owned by the Employer

Expenses met by the Employee

Partly official and partly personal use

Cubic capacity of car engine Upto 1.6 litres	
1. Rs. 600 p.m.	7200
2. Rs. 900 p.m. (chauffeur)	10800
Taxable	18000

cubic capacity of car engine above 1.6 litres	
1. Rs. 900 p.m.	10800
2. Rs. 900 p.m. (chauffeur)	10800
Taxable	21600

When the car is owned by Employee

↓

Expenses met by Employer

↓

For official use → Not taxable

partly official and partly personal use

Cubic capacity of car engine Upto 1.6 litres		cubic capacity of car engine above 1.6 litres	
Actual expenditure incurred	xxx	Actual expenditure incurred	xxx
Less:		**Less:**	
1. Rs. 1800 p.m.	21,600	1. Rs. 2400 p.m.	28800
2. Rs. 900 p.m. (chauffeur)	10800	2. Rs. 900 p.m.	10800
Taxable	32400	taxable	39600

When the Employee owners other automotive but not car

↓

Expenses met by Employer

↓

For official use → Not taxable

partly official and partly personal use

Actual expenditure incurred by Employer	xx
Less: Rs. 900 p.m.	xx
Taxable	xx

DEDUCTION U/S 16

1. Entertainment allowances Sec. 16(ii)
2. Professional tax (or) Tax on employment Sec. 16(iii)

ENTERTAINMENT ALLOWANCE [Sec. 16 (ii)]

The amount given as entertainment allowance to employee by his employer is first included in the salary income of the employee and then the following deduction is allowed:

Entertainment allowances

Government employee

1. Actual amount received
2. Rs. 5000
3. 20% of Basic salary

Least is exempted

Non-Government Employee

Fully taxable

PROFESSIONAL TAX (OR) TAX ON EMPLOYMENT [Sec. 16 (iii)]

Professional tax (or) Tax on employment is levied by a State Government is allowed as deduction only in the year in which the professional tax is paid.

If the professional tax is paid by employer on behalf of employee, then it will first include in the salary as a perquisite and then, the same amount is allowed as deduction.

Illustration 1

Compute the taxable portion of allowances from the information furnished by Mr. Sridhar for the A. Y. 2022-23

			Rs
(a)	Travelling allowance	-	1,500 p.m.
	(Expenditure Rs. 750 p.m.)		
(b)	Helper allowance		
	(Expenditure Rs. 1,350 p.m.)	-	1,200 p.m.
(c)	Tribal area allowance	-	2,400 p.m.
(d)	Education allowance (Per child)		
	(For 3 children)	-	300 p.m.
(e)	Hostel exp. Allowance (per child)		
	(For 3 children)	-	2,500 p.m.
	(Actual Exp. Rs. 2,500 p.m. per child)		
(f)	Transport allowance (Exp. Rs. 15,000 p.m.)	-	19,000 p.m.
(g)	Conveyance allowance (50% personal)	-	1,500 p.m.
(h)	Dog allowance	-	1,000 p.m.

Solution:

Computation of Taxable allowances of Mr. SRIDAR for A. Y. 2022-23

Particulars	Rs.	Rs.
Partially taxable allowances		
(i) Exempted amount is amount spend for official purpose:		
Travelling allowance 1,500x12	18,000	
Less: Exampted 750x12 being amount spend for official purpose	9,000	
		9,000
Taxable amount		
Conveyance allowance: 1,500 x 12		
Less: Spend for official purpose 18,000x50\100	18,000	
	9,000	9,000
Taxable amount		
Helper allowance 1,200x12		
Less: Amount spend 1,350x12	14,400	
	16,200	
(ii) Exempted amount is upto a specified limit		
Tribal area allowance 2,400x12		
Less: Exempted upto: 200x12	28,800	
	2,400	26,400
Taxable amount		
education allowance: 300x12x3		
Less: Exempted Rs. 100 per child upto 2 children 100x12x2	10,800	8,400
	2,400	
Taxable amount		
Hostel Expenditure allowance 2,500X12X3		
Less: Exempted upto 300p.m. per child upto 2 children 100X12X2	90,000	
		82,000
Taxable amount	7,200	
Transport allowance: 19,000X12		
Taxable amount		
Fully Taxable Allowance:		
	2,28,000	2,28,000
Dog allowance-fully taxable 1,000X12		12,000
Taxable portion of allowance		3,75,600

Illustration 2

Mr Naveen a resident of Ajmer, receiver Rs. 48,000 as basic salary during the previous year 2020-21. In addition, he gets Rs. 4,800 as dearness allowance forming part of basic salary, 7% commission on sales made by him (sale made by Mr Naveen during the relevant previous year is Rs. 86,000) and Rs. 6,000 as house rent allowance. He, however, pays Rs. 5,800 as house rent. Determine the quantum of house rent allowance exempt from tax.

Solution:

Computation of house rent allowance exempt from tax P. Y.:2021-22

House rent allowance exempted is least of the following:

1. HRA received
2. 40% of Salary
   (Basic + DASB (Dearness Allowance for service benefits)
   + Commission on turnover)
   (48,000 + 4,800 + 6,200)*40%
   58,820*40\100=
3. Rent paid – 10% of salary (Excess of rent paid over 10% of Salary
   5,800 – 5,882= -82

Least of the above is nil; Hence entire HRA i.e., Rs. 6,000 is fully taxable .

Note: In the case of non-metro cities the second limit for exemption is 48%.

Illustration 3

Compute the net salary in the following cases for assessment year 2022-23

1. Basic salary Rs. 10,000 p.m. DA Rs. 500 p.m. , CCA Rs 200 p.m., Commission Rs.500p.m., Bonus 700 p.m. professional tax paid by employer Rs. 1,200, Employer's contribution to SPF Rs. 3,000 p.m. Interest credited to SPF during 2021 – 2022 Rs. 30,000 at 15%. A is Govt. Employee.

He is in receipt of entertainment allowance @ Rs. 1,000per month.

2. Basic salary Rs. 6,000 p.m. DA Rs. 200 p.m. Bonus Rs. 5000. Professional tax paid by Assessee Rs. 1,500. Entertainment allowance received from his employer @ 500 per month. His employer is a Ltd. Company.
3. Basic salary Rs. 10,000 p.m. DA Rs. 1,000 p.m. Entertainment allowance Rs.5,000 p.a., He is employed in LIC.
4. Basic salary Rs.40,000 p.m. DA Rs. 20,000 p.a.
5. Basic salary Rs. 80,000 p.m. commission Rs. 7,00,000.

Solution:

Computation of salary Income – AY : 2022-23

Particular	A Govt. Employee Rs.	B Non Govt. Rs.	C Non Govt. Rs.	D Non Govt. Rs.	E Non Govt RS.
Basic	1,20,000	72,000	1,20,000	4,80,000	9,60,000
DA	6,000	2,000	12,000	20,000	-
CCA	2,400	-	-	-	-
Commission	6,000	-	-	-	7,00,000
Professional Tax Paid by employer.	1,200	-	-	-	-
To SPF is Exempted					
Interest is Exempted					
Entertainment Allowance	12,000	6,000	5,000	-	-
Gross Salary	1,56,000	85,400	1,37,000	5,00,000	16,60,000
Less: Deductions u/s. 16					
1. Standard Deductions u/s. 16 (i)	50,000	50,000	50,000	50,000	50,000
2. Entertainment Allowance 16 (ii)	5,000	-	-	-	-
3. Professional Tax 16 (iii)	1,200	1,500	-	-	-
Total of Deduction II	56,000	51,500	50,000	50,000	50,000
Net Salary	99,800	33,900	87,000	4,50,000	16,10,000

Note:

(1) Standard Deduction u/s. 16 is allowed from AY 2022-23.

(2) Ea exempted for Govt. Employees is least of : (a) Rs. 5,000 (b) 20% of basic (c) Actual EA.

(3) Non Govt. Employees are not eligible for deduction of EA.

(4) Professional Tax paid by employer is included in salary and deduction is also allowed u/s 16(iii), Whereas professional tax paid by employee is only deducted u/s 16 (iii).

Illustration 4:

Mr. Ram is General Manager of a Company in Madras draws Rs 8,500 per month as salary, He is provided with a house for which the company Bays Rs. 60,000P.A. as rent. Furniture and fitting costing Rs. 30,000 are also provided. He is also provided with a Car of 1.6 Lts. Rating by his employer, and the Car is used both for private and Official purposes. All expenses including salary of driver are borne by the employer.

The employer has also provided him services of sweeper @ Rs. 140/- p.m. a watchman @ Rs.160/- p.m. and Gardener @ 600/-p.m.

He is a ,member of recognised provident fund to which he contributes 12% of salary and a similar contribution is made by the employer. Interest on provident fund balance at 14% credited to his provident fund account to amounted to Rs. 4,200. His son is studying in an engineering college and the expenditure of Rs. 24,000 p.a. on this account was met by the employer. Compute his salary income for the previous year 2021-22. Find QA u/s 80C.

L/C premium paid on own life Rs**.** 80,000. Own contribution to super annuation fund Rs. 60,000.

Solution:

Computation of Income under the head salary of Mr. Ram PY: 2021-22

Particular		Rs.	Rs.
Basic Salary	8,500x12		1,02,000
Interest eredited to RPF in			
Excess of 9.5% (14 – 9.5)		4,200x4.5/14	1,350
Prequisities:			
Education expenses of son met by employee		24,000	
Salary of Sweeper	140x12		1,680
Watchman	160x12		1,920
Gender	600x12		7,200
Rent free accommodation		15,300	
10% of Furniture		3,000	18,300
Value of car as perk:	1,800x12	21,600	
Driver's salary	900x12	10,800	32,400
Gross salary			1,88,850
Less: Deduction u/s. 16			
Standard deduction u/s. 16(ia)			50,000
Net salary			1,38,850

QA u/s 80C : Rs. 1,52,240 (12,240 + 80,000 + 60,000). Amount deductible u/s 80C : Rs. 1,50,000.

Working Note:

Ram is a specified employee as his salary exceeds Rs. 50,000

Value of Rent free accommodation :

Note: As the house is not owned by employer, RFA value is, least of the following:

15% of salary or rent paid by employee.

(1) 15% of 1,02,000 is Rs. 15,300 (ii) Rent paid by employee i.e., 60,000.

As the house is not owned by the employer Gardener's Salary is taxable in the hands of specified employees.

Note (1): Car facility, club bills, free lunch, Gift etc., are taxable as prequisities.

(2): Standard deducation is 16(1a) upto Rs. 50,000 allowed U/s 16(ia)

(3): Rent free accommodation of house not owned by employer is 15% of salary or lease rent which ever is less.

(4): Employer's contribution to RPF is Exempted up to 12%of salary.

Illustration 5:

The following information is given to you by Mr A. An individual, to enable you to ascertain his taxable salary for the assessment year 2022-23.

(i) He was employed as a Senior management of a company and was paid the following:

Basic salary : Rs. 4,000 p.m. Special allowance : at 25%of the basic salary : Peon allowance : at Rs.200 p.m. Bonus : Rs. 20,000. Entertainment allowance @ 1,500p.m.

(ii) There of his children were educated in convents outside the place of his services and the employer paid an allowance of Rs. 7,600 per child per annum to meet the costs of education and boarding expenses .

(iii) During the year, he was asked to proceed to Amritsar to manage temporarily the Branch there and was paid a special pay (not included above) Rs. 5,000 for this agreement.

(iv) The employer reimbursed X with Rs. 300 per month being the tuition fee paid to the Institute of Higher learning and management where Mr A had enrolled himself for MBA course.

(v) During the year he availed LTC for his family and himself. The travel was within the prescribed block of years. He did not travel but his wife the two major children performed the Journey by air. The company paid to X Rs. 10,800 as LTC claim. Travel by air-conditioned first class would have cost each of the persons for the places visited Rs. 1,800 (both ways).

Solution :

Computation of Salary Income of X AY : 2022-23; PY : 2021-22

Particulars		**Rs.**
Basic Salary 4,000x12		48,000
Allowances:		
Special allowances 48,000x25%		12,000
Peon allowance 200x12		2,400
Entertainment allowance 1,500x12		18,000
Special pay for managing Amritsar Branch		5,000
Education allowance 7,600x3	22,800	
Less: Exempted (Rs. 100 + 300)x2x12	9,600	
Tuition fees of X (Tax free)		13,200
Leave Travel concession availed	10,800	
Less: Exempted (1,800x3)	5,400	
Bonus		5,400
Gross Salary		20,000
Less: Deduction under Section 16(1)		1,24,000
Standard deduction u/s 16(1a)		50,000
Net Income from Salary		74,000

Note:

(1) Standard deduction u/s is allowed up to Rs. 50,000

(2) Leave travel concession is exempted upto the amount spend on fare

Illustration 6

From the following details compute the income of 'Arun' who is employed by R Ltd. For the assessment year 2021-22

(i) Basic salary

(ii) Dearness allowance (considered for services benefits)
- 28,000

(iii) High cost of living allowance

(iv) House allowance (actual rend Paid is Rs. 60,000 in Delhi)

(v) Commission (at 2% of turnover achieved by A)

(vi) Insurance premium of ICICI Prudential on Policy in the

Of Mrs. A (sum assured Rs. 2,00,000) paid by ‘A’

Own life LIC premium paid

Deposit in PPF

On 10th March, 2020 ‘R’ Ltd. 0ffers equity shares to employees at the rate of Rs. 410 per share (Market price Rs.600 per share on 10th March, 2021). ‘A’ accepts the offer and per terms of the offer applies for 500 shares on 20th March 2021 (Market price on 20th March, 2021 Rs. 590 per share)

Calculate the amount eligible for deduction u/s 80C.

Computation of Salary income of Mr. ‘A’ AY: 2022-23

Particulars	**Rs.**	**Rs.**
Basic salary		1,16,000
Allowances:		
Dearness allowance (Service benefits)		28,000
High cost of living allowance		30,000
House rent allowance (HRA)	48,000	
Less: Exempted(W.N.I)	43,000	
		4,200
Commission		18,000
Perks: Equity share given under ESOP is taxable (590 – 410)	180*500	90,000
Gross salary		2,86,200
Less: Deductions U/s. 16:		
Standard deduction U/s. 16(ia)		50,000
Taxable Salary		2,36,200

Amount deductible u/s 80C :Rs. 1,50,000

Working Note1:

HRA exempted is least of the following:

1. Actual HRA received
2. 50% of Salary – 1,62,000*50/100
   (Basic + DASB + Commission in Turnover)
3. Rent paid – 10% of salary (60,000 -16,200)
   - HRA Exemption is Rs. 43,800.

Note:

(1) Share allotted by a company to its employees is taxable. Perquisite value of shares allotted is, fair market value on the date of exercising the option minus value paid by employee per share

(2) Qualifying amount for deduction u/s 80C:
LIC Premium:
(Least of 10% of policy value or actual premium
PPF
Amount deductible u/s is least of Rs. 1,50,000 or 1,80,000.

Note: Standard deduction u/s 16 (i) is allowed upto Rs. 50,000

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UNIT III
INCOME FROM HOUSE PROPERTY

INTRODUCTION

Section 22 to 27 of the Income Tax Act deals with taxability of income in respect of house property. The following basic conditions must be satisfied for income to be taxed under this head:

a) The property consists on building or land adjacent thereto.
b) The assessee must own property
c) The property must not be used for the purpose of business or profession of the assessee. It must be used only for renting out so as to derive rental income.

The property for which the annual value consists of buildings/lands appurtenant thereto of which the assessee is the owner shall be chargeable to income tax under the head, "Income from House Property". A person may occupy the property of the purpose of business or profession, the profits of which are taxable.

SELF OCCUPIED HOUSE PROPERTY

A property became a self occupied house property when it consists of a house or part of a house which:

a) Is in the owner's occupation as purpose of his own residence.
b) Cannot be occupied by the owner because of his employment, business or profession carried on at any other place and has to reside at that other place in a building not belonging to him, the annual value of such house or part of house shall be taken to be nil.

Computation of Income from House Property
(Self occupied House)

AY 2022-2023		**PY 2021-2022**
Gross Annual Value (GAV)	Nil	
(-) Municipal taxes	Nil	

Net Annual Value (NAV)	Nil	
(-) Deduction u/s 24		
1. Standard Deduction (30% of NAV)	**Nil**	
2. Interest on borrowed capital	xx	

Income from House Property	xx	

Computation of Income from House Property
(Let out Property and Deemed to be Let out Property)
AY 2022-2023 PY 2021-2022

Gross Annual Value (GAV)	xxx
(-) Municipal taxes	xxx

Net Annual Value (NAV)	xxx
(-) Deduction u/s 24	
1. Standard deduction (30 % of NAV)	xxx
2. Interest on borrowed capital	xxx

Income from House Property	xxx

NET ANNUAL VALUE

Net Annual Value is the amount arrived after deduction municipal taxes from the Gross Annual Value.

Net Annual Value = Gross Annual Value – Municipal Taxes

MUNICIPAL TAX

Municipal tax is deductable on payment basis. It includes general tax, fire tax, sewerage tax, sanitation cess, local tax and water tax.

Conditions for Municipal Tax

1. It must be paid by the owner
2. It must be actually paid during the previous year

GROSS ANNUAL VALUE

Gross annual value is the sum of which the house property might reasonably expect to let out from year to year. It can determine by taking into four factors:

1. Municipal value
2. Fair Rental value
3. Standard Rent
4. Rent received from Tenant

1. Municipal Value

Municipal value is a value arrived from a periodic survey conducted by the municipality for the purpose of imposition of taxes in respect of the house.

2. Fair Rental Value

Fair Rental Value is a rent fetched by similar house property in the same locality.

3. Standard Rent

Standard Rent is determined under Rent Control Act foe selected cities.

4. Rent received from Tenant

Rent received is a sum for which house is actually let out.

VACANCY RENT

The period which the house remained vacant is called vacancy rent.

UNREALISED RENT

The unrealized rent is the amount in which the rent is not collected from the tenant for the particular months.

Computation of Gross Annual Value (GAV)
Let out property and Deemed to be let out property)

Step – I = Expected rent

(a) Municipal Value	xx
(b) Fair Rental value	xx
(c) Whichever is higher of (a) or (b)	xx
(d) Standard Rent	xx

Expected Rent = Whichever is lower of (c) or (d)

Step – II = Annual Rent

Annual or Actual Rent received	xx
(-) Vacancy Rent	xx
(-) Unrealised Rent	xx
Annual Rent	**xx**

Gross Annual Value = Expected Rent (or) Annual Rent whichever is Higher

DEDUCTION U/S 24

1. Standard Deduction

Standard deduction is a statutory deduction in let out property and deemed o be let out property. It is determined **30% on Net Annual Value (NAV).**

2. Interest on borrowed capital

Interest on borrowed capital is calculated on loan taken for construction, repairs, renewals or reconstruction of house property. It can be classified into:

a. Pre Construction Interest

b. Post Construction Interest

(a) Pre Construction Interest

It is the amount of interest calculated before the completion of construction or acquisition of property. Normally the pre construction period interest is deductible in 5 equal instalments from the year of completion of construction (or) acquisition of property.

Calculation of Pre – Construction Period

Date of borrowing loan

↓

Date of completion of construction

(or)

Date of Acquisition of construction

(or)

Date of repayment of loan

March 31

↓

whichever is earlier

<u>**Interest on Borrowed capital**</u> **(Limit on Pre + Post Construction Interest)**

S. No.	Pre + Post Construction Interest	Self occupied property	Let out property
1	If capital borrowed before 1-4-1999 [For house acquired, constructed, repaired, renewed or reconstructed]	Actual amount (or) Rs.30000 whichever is less	No limit
2	If capital borrowed on (or) after 1-4-1999 [For the house is acquired or constructed within 5 years of the end of previous year]	Actual amount (or) Rs.200000 whichever is less	No limit
3	If capital borrowed on (or) after 1-4-1999 [For repairs, renewals, renovation or reconstruction]	Actual amount (or) Rs.30000 whichever is less	No limit

(b) Post Construction Interest

If the loan amount is not repaid, then we have to calculate post construction interest or current year interest.

COMPOSITE RENT

It is the amount received from the tenant, where the building is let out along with other facilities like electricity, cooler, lift, water pump and so on.

EXEMPTED INCOME FROM HOUSE PROPERTY

Income from the following house property is wholly exempted from tax:

1. Income from one self occupied house property
2. House property used for own business or profession
3. Income from farm house (Agricultural income)
4. Income from house property on educational institution or hospital
5. Income from house property in case of a person resident of Ladakh
6. Income of a statutory authority from letting of godowns or warehouse
7. Annual value of any one palace of ex-Indian ruler.
8. Income from house meant for self residence but could not be occupied throughout the previous year on account of his service, business or profession at any other place
9. Income from house property owned by:
   a) Local authority
   b) Development authority
   c) Scientific research association
   d) Trade union
   e) Charitable trust
   f) Political party

Illustration 1

Determine the gross annual value in the following cases for the assessment year 2022-2023

Assets	I	II	III
Fair Rent	87000	50000	70000
Municipal value	86000	42000	50000
Standard Rent	84000	64000	NA
Actual Rent	82000	92000	79000

You may assume that the Assets are let out throughout the previous year.

Solution:

Computation of gross annual value A.Y: 2022-2023, P.Y:2021-2022

Assets	I	II	III
StepI : Reasonable expected Rent: Higher of Municipal valuation and Fair rent subject to Maximum of Standard Rent	84000	50000	70000
StepII : Actual Rent	82000	92000	79000
Gross Annual value, higher of the above StepI &II	**84000**	**92000**	**79000**

Illustration 2

Mr Malaikani owns a property at Chennai (Municipal value Rs.160000, Fair rent Rs 180000, Standard rent Rs 150000). The house is let out upto Septemper 30,2021 (Monthly rent being Rs 15000). From October 1, 2021 the property is self occupied for own residential purposes. Find out the gross annual value for the assessment year 2022-2023.

Solution:

Computation of gross annual value A.Y: 2022-2023, P.Y:2021-2022

Particulars	Rs.	Rs.
Step I		
Municipal value	160000	
Fair Rent	180000	
Standard Rent	150000	
Reasonable rent: Higher of municipal value and Fair Rent Subject to maximum of Standard Rent		150000
Step II Actual rent for 6 months 15000x6		90000
Gross Annual value, higher of the above steps I&II		150000

Illustration 3

Ajit owns a residential house property. It comprises two equal residential units –unit 1 and unit 2. While unit 1 is self occupied by Ajit for his residential purpose, unit II is let (rent being Rs 5000p,m.) Municipal value of the property is Rs120000, Standard rent Rs130000, and fair Rent is Rs 15000. Find the gross annual value of the property for the assessment year 2022-2023.

Solution:

Computation of gross annual value A.Y: 2022-2023, P.Y:2021-2022

Particulars	**Unit I (Self occupied) Rs.**	**Unit II (let out) Rs.**
Step I reasonable expected rent:		
Municipal value 50% of 120000	---------	60000
Fair Rent 50% of 150000	---------	75000
Standard Rent 50% of 130000	---------	65000
Reasonable rent: Higher of municipal value and Fair Rent Subject to maximum of Standard Rent		65000
Step II Actual rent 5000x12		60000
Gross Annual value, higher of the above steps I&II	NIL	65000

Illustration 4

Ramesh owns three houses, two of which are self occupied. The particulars of the houses are as under.

	House I Rs.	**House II Rs.**	**House III Rs.**
Municipal value	70000	90000	40000
Fair Rent	78000	120000	45000
Standard Rent	-------	100000	38000

Find the gross annual value of the property for the AY 2022-2023.

Solution

Particulars	**House I Self occupied Rs.**	**House II Self occupied Rs.**	**House III Deemed to be let Rs.**
Step I reasonable expected rent: Municipal value Fair Rent Standard Rent	 70000 78000 --------	 90000 120000 100000	 40000 45000 38000
Gross annual value Step II Higher of municipal value and Fair Rent Subject to maximum of Standard Rent	 NIL	 NIL	 38000

Illustration 5

Balu has let out a house property for a monthly rent of Rs 20000. Its Municipal valuation is Rs 250000 p.a. Its fair rental value is Rs 240000p.a. It has been let out from 01-10-91. Mr Balu paid Rs 10000 as municipal taxes. Municipal taxes paid by tenant are Rs5000. Rs 3000 Municipal Taxes are due but not paid. Out of Rs 10000 paid by Balu Rs 2000 relates to subsequent two years. Find the net annual value of the house property for the A.Y2022-23.

Solution:

Particulars	**Rs**	**Rs**
StepI Reasonable Rent: Fair rental value Municipal value Higher of above two	 240000 250000	 250000
Step II Actual Rent 20000x12		240000
Gross annual value Less: Municipal taxes paid by owner		250000 10000
Net Annual value		240000

Illustration 6

Selvam took loan of Rs400000 on 01-04-2018 at 20%p.a. to construct a house. The construction of the house was completed on 01.11.2020. Compute the amount of interest deductible in computing the income from house property if the house is let out, and the loan is not yet repaid during the 2021-2022.

Solution:

Computation of interest allowable as Deduction AY 2022-23, PY 2021-22

Particulars	**Rs.**
Pre construction interest Post construction interest of current year	32000 80000
Total interest allowed as deduction	112000

Note:

Preconstruction interest: 400000x20/1000x2years=160000/5=32000

Post construction interest 400000x20/100=80000.

Illustration 7

Mr A occupied three flats for his residential purposes, particulars of which are as follows:

	House I **Rs**	**House II** **Rs**	**House III** **Rs**
Municipal valuation	90000	45000	40000
Fair Rent	120000	40000	45000
Standard rent under Rent control Act	80000	NA	25000
Municipal taxes paid	10%	10%	10%
Fire insurance	1000	600	1200
Interest payable on capital borrowed for the purpose of flat before 01-04-99	40000	50000	10000

Determine the taxable income for the assessment year 2022-2023. You are informed that A could not occupy House 2 for two months commencing from December 1, 2021 and that he has attained the age of 65 on August 23, 2021.

Solution:

Mr A has occupied three flats for his residential purposes. From AY2022-23, and assessee can occupy two houses for self occupation, and other house occupied is deemed to be let out.

	House I Self occupied Rs	House II Self occupied Rs	House III Deemed to be let out Rs
Gross annual value Less: Municipal taxes of 10% of M.V	------------ -----------	------------ -----------	25000 4000
Net Annual value Less:Deduction 1.Standard deduction 30% of NAV 2.Interest on loan for construction, borrowed before 1-4-99, is restricted to Rs 30000 in the case 0f self occupied House	NIL -------- 30000	NIL -------- 50000	21000 63000 10000
Income from house property	-30000	-50000	47000

Illustration 8

Mr Jagan has occupied three houses for his residence details of which are given below

	House I Rs	House II Rs	House III Rs
MRV	1000000	1200000	600000
FRV	700000	1100000	800000
SRV	900000	1400000	400000
Municipal taxes 10%			
Interest on Loan borrowed for construction (Loan borrowed during April 2012)	250000	225000	210000

Compute the Income from House property.

Solution:

	House I Self occupied Rs	House II Self occupied Rs	House III Deemed to be let out Rs
FRV	1000000	1200000	600000
MRV	700000	1100000	800000
SRV	900000	1400000	400000
Gross annual value	--------	-----------	400000

Less: Municipal taxes of 10% of M.V	NA	NA	80000
Net Annual value Less:Deduction 1.Standard deduction 30% of NAV 2.Interest on loan for construction, borrowed after 1-4-99, is restricted to Rs 200000 in the case 0f self occupied House	NIL -------- 250000 (or) 200000	NIL -------- 225000 (or) 200000	320000 -96000 210000
Income from house property	-200000	-200000	14000

Illustration 9

Mr. X Land owner of two houses. In respect of these he has furnished the following particulars:

	House A	**House B**
Date of completion of construction	(31.3.1997)	(01.07.2001)
Municipal Rental value	360000	600000
Actual rent received	300000	60000p.m
Municipal taxes paid	36000	30000(Due)
Ground rent	1000	7800
Interest on loan for construction	50000	182000

Compute his income from house property for the assessment year 2022-23. Out of the municipal taxes of House A Rs 18000 are paid by the tenant.

Solution:

Computation of Income from House property AY2022-23, PY2021-22

Particulars	Let out property	
	House A Rs	House A Rs
Municipal Rental value I Actual Rent received II	360000 300000	600000 720000
Gross Annual value (Higher of the above I or II Less: Municipal Taxes paid (36000-18000)	360000 18000	720000 ______
Net Annual Value Less: Deduction U/s 24: 1.Standard deduction (30% of annual value) 2.Interest on Loan	342000 -102000 -50000	720000 -216000 -182000
Income from house property	189400	322000

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UNIT IV

INCOME FROM BUSINESS OR PROFESSION

BUSINESS

The term business has been defined in section 2(13) of the income tax act. The term business includes “any trade, commerce, manufacture or any adventure or concern in the nature of trade, commerce and manufacture”.

PROFESSION [Sec. 2(36)]

Profession is an occupation requiring intellectual skill or manual skill for earning livelihood.

Examples

Lawyer, Doctor, Auditor and Engineer ect.

VOCATION

Vocation means any special type of activity in which a person is engaged and earns his livelihood from such activity.

Examples

Music, Dance, etc.

CONDITIONS (OR) PRINCIPLES FOR COMPUTING BUSINESS INCOME

For charging the income under the head “Profits and Gains of business,” the following conditions should be satisfied:

1. There should be a business or profession.
2. The business or profession should be carried on by the assessee.
3. The business or profession should be have been carried on by the assessee at any time during the previous year.
4. Business or Professional income to be assessed in the assessment year.
5. Aggregate income of all business or profession carried on by the assessee is chargeable to tax.
6. Only real profits are assessed and taxed.
7. Amount allowed earlier as deduction is recovered during the previous year, is taxable as receipt.
8. Both legal and illegal business incomes are assessable to tax.

Computation of Income from Business of ___________

	AY 2022-2023	PY 2021-2022
Net profit or Loss as per P&L A/C	xxx	
Add: Inadmissible expenses (Disallowed)	xx	
Over valuation of Opening stock	xx	
Under valuation of closing stock	xx	
	------	
	xxx	
Less: Expenses allowed	xx	
Over valuation of closing stock	xx	
Under valuation of opening stock	xx	
Non-Business income	xx	

Business Income or Loss	xxx	

Computation of Income from Profession of Auditor or Charted Accountant

	AY 2022-2023	PY 2021-2022
Receipts from Profession		
Audit fees	xx	
Income from accountancy work		xx
Institute fees	xx	
Consultancy fees	xx	
Examiners fees		xx
Gifts from clients	xx	
Any other professional receipts		xx

	------
	xxx
Less: Expenses in connection with profession	
Institute expenses	xx
Membership fees	xx
Stipend to trainees	xx
Subscriptions	xx
Office expenses	xx
Cost of books	xx
Motor car expenses (Professional work)	xx
Depreciation of office equipment, car etc	xx
Any other professional expenses	xx

Income from Profession	xxx

Computation of Income from Profession of Lawyer or Advocate

AY 2022-2023 PY 2021-2022

Receipts form profession	
Practicing fees	xx
Legal fees	xx
Presents from clients	xx
Special commission	xx
Examiners fees	xx
Any other professional receipts	xx
	---------

	xxx
Less: Expenses in connection with profession	
Salary to staff	xx
Purchase of stamp paper	xx
Court fee	xx
Subscriptions	xx
Office expenses	xx
Cost of books	xx
Travelling expenses	xx
Depreciation on office equipment	xx
Any other professional expenses	xx

Income from Profession	xxx

Computation of Income from Profession or Doctor or Medical Practitioner

AY 2022-2023 PY 2021-2022

Receipts from profession	
Consultation fees	xx
Operation fees	xx
Visiting fees	xx
Sale of medicines	xx
Examiners fees	xx
Gifts from patients	xx
Nursing home receipts	xx

Any other professional receipts	xx
	------
	xxx
Less: Expenses in connection with profession	
Salary to staff	xx
Telephone expenses	xx
Water charges	xx
Rent and light	xx
Cost of medicines (Purchases)	xx
Cost of books	xx
Motor car expenses	xx
Nursing home expenses	xx
Depreciation on surgical equipment and	xx
Depreciation on X-Ray machines	xx
Any other professional expenses	xx

Income from Profession	xxx

Computation of Income from Profession of ____________

AY 2022-2023	PY 2021-2022
Receipts from Profession	xx
Less: Expenses in connection with profession	xx

Income from Profession	xx

EXPENSES EXPRESSLY ALLOWED

1. Expenses relating to rent, rates, taxes, repairs and insurance for buildings (Sec. 30)
2. Expenses relating to repairs and insurance of machinery, plant and furniture (Sec. 31)
3. Depreciation (Sec. 32)
4. Tea / Coffee / Rubber Development Account (Sec. 33AB)
5. Site Restoration fund (Sec. 33ABA)
6. Deduction for company carrying on shipping business (Sec. 35A)
7. Expenditure on Scientific Research (Sec. 35)
8. Expenditure on acquisition of copy right / patent right (Sec. 35A)
9. Expenditure on acquisition of know how (Sec. 35AB)
10. Expenditure for obtaining licence to operate Telecommunication services (Sec. 35ABB)
11. Expenditure on eligible projects / schemes (Sec. 35AC)
12. Contribution to rural development programmes (Sec.35CCA)
13. Amortisation of certain preliminary expenditure (Sec.35D)
14. Amortisation of expenditure in case of Amalgamation or demerger (Sec.35DD)
15. Expenditure incurred under Voluntary Retirement Scheme (VRS) (Sec. 35 DDA)
16. Expenditure in relation to certain minerals (Sec. 35E)
17. **Other deductions (Sec. 36)**
    a) Insurance premium
    b) Premium for employees health insurance
    c) Bonus or Commission to employees
    d) Interest on borrowed capital
    e) Contribution to provident, superannuation and gratuity funds
    f) Employees contribution towards staff welfare schemes
    g) Loss of animals
    h) Bad debts
    i) Reserve to be created by Public financial institutions
    j) Expenditure on Family Planning
    k) Contribution towards exchange risk administration fund

18. **General Deductions (Sec. 37)**
    a) Entertainment expenditure
    b) Expenses on advertisement
    c) Expenses on travel
    d) Expense on guest houses and holiday homes
    e) Expenses in connection with commission earned as agent of LIC, UTI, Post office or mutual funds or Government securities agent
    f) Legal expenses
    g) Expenses to oppose nationalization

h) Expenses to oppose nationalization
i) Damages in the interest of business
j) Salary, bonus and travelling expenses paid by a partner assessee to his staff to look after his interest and to earn income for partnership
k) Expenses on trade marks
l) Expenses in connection with assets
m) Expenses incurred on Diwali and Mahurat

DISALLOWED (OR) INADMISSIBLE EXPENSES

1. Expenses not connected with business or profession
2. Excess depreciation
3. Drawing and personal expenses of the proprietors and partners
4. Capital expenditure
5. Any charity donations
6. Provision for bad debts, taxes, etc
7. Provisions and reserves against any losses
8. Past losses charges to Profit and Loss Account
9. Income tax, wealth tax, gift tax and other taxes
10. Salary and interest payable outside India without TDS
11. Fines, Damages and Penalty
12. Disallowed litigation expenses

DEEMED PROFITS

Where an allowance or deduction is allowed in the assessment for any year in respect of loss or expenditure incurred by assessee, but later on the allowed deduction or allowance is recovered by the assessee or by successor shall be deemed to be profits and gain of business is called deemed profit.

Example

Bad debts allowed earlier but recovered on later.

DEPRECIATION

Depreciation

Depreciation means a permanent decrease in the value of assets by wear and tear caused by their use in the business over a period of time.

Assets Eligible for Depreciation

1. Tangible assets

a. Building

b. Plant

c. Furniture

2. Intangible assets

a. Know-how

b. Patents

c. Copy rights

d. Trade marks

e. Licences

f. Franchises

g. Business or commercial rights

Conditions for claiming Depreciation

1. The depreciation is allowed only on the capital asset
2. The asset must be owned by the assessee
3. The asset must have been actually used by the assessee
4. The total amount of depreciation will not exceed the actual cost of the block of assets to the assessee
5. In case of joint ownership of an asset, depreciation would be allowed to each f the owners in proportion to the contribution to the assets in the first year in which the assets are put to use for the purpose of business
6. Actual cost is the basis in the case of all assets in the first year in which the assets are put to use for the purpose of business
7. Method of Depreciation

a. Straight line method

This method is used, where the undertaking engaged in **generation and distribution of power only.** Depreciation may be claimed at the prescribed rates on the actual cost.

b. Written down value method

This method is used on any block of assets at prescribed rates.

8. Depreciation allowance to assesses carrying on their business in lease or rental premises

9. Treatment of assets acquire under hire purchase agreement
10. Depreciation is not allowable in case of car acquired from outside India

Conditions for claiming additional depreciation

The following conditions are to be remembered to claim addition depreciation:

1. Additional depreciation is allowed for undertakings engaged in manufacture/production of any article.
2. Additional depreciation is allowed only in respect of new plant and machinery installed in factory on or after 1-4-2005
3. Additional depreciation is allowed in the case of initial year of acquisition.
4. The rate of additional depreciation is 20% of cost of asset.

Unabsorbed depreciation

If available profits are less than admissible depreciation, the unadjusted portion is unabsorbed depreciation.

In other words, the whole amount of current depreciation allowance is not deductable on account of the insufficiency of the other taxable income; the remaining unabsorbed amount is called unabsorbed depreciation.

Rules for set off and carry forward unabsorbed depreciation

S. No.	Losses	Carry forward and set off against
1	Unabsorbed depreciation	Income from House Property Income from Business or Profession Income from Capital Gains Income from other sources (Except casual income)

Actual cost of an asset

Actual cost of an asset means the actual cost of the asset reduced by that portion of the cost, if any, as has been met directly or indirectly by any other person or authority.

Block of Assets [Sec. 2(11)]

Block of assets means a group of means falling within a class of assets having same percentage of depreciation.

Rate of Depreciation on Written Down Value Method

S. No.	Assets	Description	Rate of Depreciation
1	**Building**	Residential Purpose	**5%**
2		Non-Residential Purpose	**10%**
3		Water supply project	**100%**
4		Wooden structure	**100%**
5	**Furniture**	Furniture & Fittings	**10%**
6	**Plant & Machinery**	Air conditioners, Surgical equipment, Motorcars, Scooter	**15%**
7		Ships, Vessels, Speed boats	**20%**
8		Buses, Lorries and taxies	**30%**
9		Aeroplanes	**40%**
10		Plant & Machinery used in the weaving, processing and garment sector of textile industry	**50%**
11		Computers	**60%**
12		Energy saving devices Sugar works and Steel industry	**80%**
13		Air pollution, water pollution equipments	**100%**
14	**Intangible Assets**	Know-how, patents, copy rights, trade marks, licences, franchises	**25%**

Rate of Depreciation on Straight Line Method (or) Actual cost method

S. No.	Assets	Description	Rate of Depreciation
1	Plant & Machinery	Hydro-electric	3.40%
		Steam electric NHRS and waste heat recovery boilers/plants	7.84%
		Diesel electric and gas plant	8.24%
2		Cooling towers and circulating water systems	7.84%
3	Hydraulic works	Dams, spillways, weirs, canals, reinforced concrete flumes and syphons	1.95%
		Reinforced concrete pipelines and surge tanks, steel pipelines, sluice gates, steel surge, hydraulic control valves and other hydraulic works	3.40%
4	Building and Civil Engineering works	Office and showrooms	3.02%
		Containing thermo-electric generating plant	7.84%
		Containing hydro-electric generating	3.40%

		plant	
		Temporary erection such as wooden structures	33.40%
		Roads other than kutcha roads	3.02%
		Others	3.02%
5	Transformers	Transformers (including foundations) having a rating of 100 kilovolt ampere and over	7.81%
		Others	7.84%
6		Switchgear including cable connections	7.84%
7	Lightning arrestor	Station type	7.84%
		Pole type	7.84%
		Synchronous condenser	5,27%
8	Batteries	Underground cable including joint boxes and disconnected boxes	5.27%
		Cable duct system	3.02%
9	Overhead lines including supports	Lines on fabricated steel operating at nominal voltages higher than 66 kilovolt	5.27%
		Lines of steel supports operating at nominal voltages higher than 13.2 kilovolt but not exceeding 66 kilovolt	5.27%
		Lines on steel or reinforced concrete supports	7.84%
10		Meters	12.77%
11		Self propelled vehicles	33.40%
12	Air-conditioning plants	Static	12.77%
		Portable	33.40%
13		Office furniture and fittings	12.77%
14		Office equipments	12.77%
15		Internal wiring including fitting and apparatus	12.77%
16		Street light fittings	12.77%
17	Apparatus let on hire	Other than motors	33.40%
		Motors	12.77%
18	Communication equipment	Radio and high frequency carrier system	12.77%
		Telephone lines and telephone	12.77%
19		Any other assets not covered above	7.69%

Illustration 1

State whether the following expenses are admissible of inadmissible as loss in P&L A/C

1. Penalty paid to Government authority.
2. Capital expenditure on Scientific research.
3. Commission paid for increasing sales.

Solution:

- Penalty paid to Government authority is in admissible.
- Capital expenditure on Scientific research is admissible provided it is other than land cost.
- Commission paid for sales is admissible.

Illustration 2

State the admissibility or not the following items in business head:

1. Commission paid Rs 10000 to secure order for business
2. Rs200000 compensation paid to an employee for premature termination of services for illegal activities.
3. Stock was lost in fire Rs 30000 debited to P&L a/c.
4. Loss due to embezzlement by an employee Rs 8000
5. Purchase of building Rs300000.

Solution:

- Commission paid to secure business order is admissible.
- Compensation paid to an employee is admissible.
- Stock was lost in fire is admissible.
- Loss due to embezzlement by an employee is admissible.
- Purchase of building being capital cost is admissible.

Illustration 3

From the following statements compute the business income.

Commission earned Rs 20000

a. Sales Rs 120000
b. Purchase Rs 20000
c. Staff salary Rs 11000
d. Purchase of type writer Rs8000

Solution:

Computation of Business Income

Particulars	Rs	Rs
Sales Add: Commission earned		120000 20000

		140000
Less: Expenses:		
Purchases	20000	
Staff salary	11000	
Depreciation on purchase of type writer 8000x15/100	1200	32200
Business income		107800

Illustration 4

From the following, Compute the taxable income under the head income from business, profit before adjusting the following items is Rs 550000.

	Rs
Administration Expenses	10000
Trade Expenses	5000
House hold expenses	3000
Discount allowed	4000
Income Tax	400
Provision for bad debts	2000
Bad debts	3000
Donation to P.M National relied	4000
Fund	200
Legal fee	

Solution:

Computation of Business income

Particulars	**Rs**	**Rs**
Net profit		550000
Less: Admissible Expenses		
Administration Expenses	10000	
Trade Expenses	5000	
Discount allowed	4000	
Bad debts	3000	
Legal fee	200	22200
Business Income		527800

Illustration 5

The profit and Loss a/c of a firm of a firm shows a profit of Rs 50000 after debit of the following items.

A. Income Tax paid Rs 30000
B. Travelling expenses Rs 20000
C. Penalty and fee Rs 40000
D. Sale Tax Rs 30000

Solution:

Computation of Business income

Particulars	Rs	Rs
Net profit		50000
Add: Inadmissible Expenses		
Income Tax paid	30000	
Penalty and Fee	40000	70000
Business Income		120000

Illustration 6

Mr. Roy submits the following particulars of his business from which you calculate the income from business.

Net profit as per profit and Loss account (after charging the following) Rs.125000

1. Sales Tax Rs 20000 and Income Tax Rs 55000
2. Bad debts provision Rs 3000
3. Commission to procure business order Rs 8000
4. Interest on Capital Rs 38000
5. Depreciation Rs 4000 (but as per income tax rules Rs 2000 only)

Solution:

Computation of Business income

Particulars	Rs	Rs
Net profit		125000
Add: Inadmissible Expenses		
Income Tax	55000	
Bad debts provision	3000	
Interest on Capital	38000	
Depreciation	4000	100000
		225000

Less: Expenses allowed Depreciation	2000	2000
Business Income		223000

Illustration 7

The following the profit and Loss Account of Mr,Sankar for the year

Particulars	Rs	Particulars	Rs
To Rates and Taxes	450	By Gross profit	14623
To Establishment (Staff)	1750	By Bank interest on personal deposits	577
To Rent	600		
To Household Expenses	1450		
To Discount	250		
To Advertisement	200		
To Income Tax	480		
To Postage, Stationery	810		
To Fire Insurance	150		
To Gifts and present	160		
To Charity and donation (to approve institution)	1140		
To purchase of Machinery	1500		
To Repairs of furniture	50		
To Interest on Loan	1000		
To Life Insurance premium	600		
To Reserve for doubtful debts	700 250		
To Interest on Capital	3660		
To Net Profit			
	15200		15200

You are required to ascertain the business Income of Mr.Sankar

Solution:

Computation of Business income

Particulars	**Rs**	**Rs**
Net profit		3660
Add: Inadmissible Expenses		
House hold expenses	1450	
Income tax	480	
Gifts and presents	160	
Charity and presents	1140	
Capital expenditure on purchase of	1500	

machinery	600	
Life Insurance premium	700	
Reserve for doubtful debts	250	6280
Interest on capital		9940
Less: Non Business income or income to be shown under other heads		
	577	
Bank Interest		577
Business Income		9363

Illustration 8

Following is the profit and loss A/c of Lakshmi for the year ending 31st March 2022. You are required to ascertain his income from business for the year ended on that date,

Particulars	Rs	Particulars	Rs
To Salaries	7800	By Gross profit	
To Sundry expenses	1200	By Discount	35672
To Reserve for bad debts	3000	By Commission	751
To Insurance	450	By Sundry Receipt	1205
To Advertising	2500	By profit on Sale of import	52
To Income Tax	2375	Licence	2000
To Loss on sale of Car	1200		0
To Interest on Capital	1000		
To Interest on Bank loan	1550		
To charity	150		
To Taxation Reserve	3000		
To LIC (Self)	350		
To Loss of a part of building by Fire	1500		
To Amount paid to university for	10000		
Social research	1000		
To Depreciation on Building	200		
To Depreciation on Furniture	105		
Difference in Trial balance	30100		
To Net profit	57680		
			5768
			0

Additional Information:

1. The motor car was used equally for business purposes and the proprietors private purposes.

2. Bank loan is taken for business purposes.
3. The amount of depreciation allowable according to Income tax Rules, in respect of Building and Furniture was Rs 800 and Rs 150 respectively.
4. Included in the advertising expenses is a sum of Rs 1000 expended on a special advertising campaign undertaken during the year in respect of a product of a company placed recently in the market.
5. Salaries include Rs 3000 being the amount drawn by Lakshmi during the year against profits.

Solution:

Computation of Business income

Particulars	**Rs**	**Rs**
Net profit		30100
Add: Admissible Expenses:		
Reserve for Bad debts	3000	
Income tax	2375	
Loss on Sale of Car	1200	
Interest on Capital	1000	
Charity	150	
Taxation Reserve	3000	
LIC (self)	550	
Loss of a part of Building by fire	1500	
Difference in trial balance	105	
Depreciation on Building	1000	
Depreciation on Furniture	200	
Salary drawn by owner	3000	
Amount paid to university	10000	27080
Less:		
Allowable Depreciation on Building		57180
Allowable Depreciation on Furniture	800	
Amount paid to university Social Research	150	
	10000	
		10950
Business Income		
		46230

Income from profession:

Illustration 9

The following is the receipt and payments account of a **Medical Practitione**r for the year ending March 31, 2021.

Receipts	**Rs**	**Payments**	**Rs**
Balance b/d		Clinic Rent	15000
Visiting fees	110000	Staff Salaries	80000
Consultation fees	6500	Rent and taxes	5000
Sale of Medicines	0	Electricity and water	4000
Operation theatre rent	6500	Purchase of Medical Books	4000
Interest and dividends	0	Purchase of Surgical equipments	30000
	2500	Motor car expenses	15000
	0	Medical association membership	5000
	1500	fees	20000
	0	Audit fees	2000
	2000	Staff welfare expenses	1000
	0	Diwali expenses	6000
		Entertainment expenses	30000
		Medicines purchased	83000
		Balance C/d	300000
	300000		

Additional information:

1. A cash payment of Rs 5000 was given to him by a patient in appreciation of his medical service but was not accounted for in the books of accounts.
2. One third of Motor car expenses relate to his personal use. Depreciation on Motor Car allowable under the Income tax act was Rs 6000 for professional use.
3. Audit fees include Income tax appeal expenses of Rs 15000.
4. Depreciation computed at the prescribed rate on surgical equipment is Rs 10000.
5. His taxable income from house properties was Rs,500000
6. Interest and dividends include
   - Interest on Bank Deposits Rs4000
   - Dividends from UTI Rs4000
   - Interest on National Deposit Scheme Rs5000
   - Dividends from Indian Companies Rs7000

Compute his net Income from profession for the assessment year 2022-2023

Solution:

Computation of Income from profession of **Medical Practitioner** for the Assessment year 2022-2023.

Particulars	**Rs**	**Rs**
Income from profession		
Visiting fees	65000	
Consultation fees	65000	
Sale of Medicine	25000	
Operation theatre rent	15000	
Cash receipt from a patient	5000	175000
Less: Expenses connection with profession:		
Clinic rent	15000	
Staff Salaries	80000	
Rent and Taxes	5000	
Electricity and water	4000	
Depreciation on Medical Books 4000x40/100	1600	
Medical association membership fees	5000	
Audit fees	20000	
Staff welfare expenses	2000	
Diwali expenses	1000	
Entertainment Expenses	6000	
Depreciation allowable on car	6000	
Cost of medicines	30000	
Depreciation on surgical equipment	10000	
Motor Car expenses15000x2/3	10000	195600
Income from profession		-20600

Illustration:10

Kunal a **lawyer by profession** keeps his cash book as per cash book as per cash system of accounting. The following is the summary of his cash book for the year ended 31st March 2022.

Receipts	Rs.	Payments	Rs.
To balance	5,000	By rent of chamber	2,400
To fees	35,000	By car expenses	3,600
To remuneration as examiner	3,000	By household expenses	12,000
		By local taxes for the house	
To interest on bank deposits	25,00	By repairs of the house	1,200
		By LIC premium for self	
To rent from house properly	8,000	By cost of books for profession	4,000
	1,600		
To dividends		By medical treatment of self	4,800
		By balance	
			4,000
			5,000
			18,100
	55,100		55,100

Additional information :

a) 1/3 of the house is used by Kunal for his own residence.
b) Kunal is insured for Rs.40,000.
c) Kunal has to get medical treatment for an eye ailment caused by intensive study of law books.
d) ½ of the car expenses relate to personal use of the car by Kunal

Depreciation computed at the prescribed rate on the written down value of the car is Rs.2,000.

Compute his income from profession.

Solution :

Computation of income form profession of Mr. Kunal for the assessment year 2022-23

Particulars	Rs	Rs
Professional Receipts:		
Fees	35000	
Remuneration as examiner	30000	38000
Less: Expenses in connection with profession:		
Rent of Chamber	2400	
½ ot tthe expenses of car	1800	
Cost of depreciation books for profession 4,000 X 40/100	1600	
Depreciation of the car (2,000 X1/2)	1000	-6800
Income from profession		31200

Illustration:11

Mr.Singaraj is practicing as a **Chartered Accountant** in Delhi. He deposits all receipts in his bank account pays all expenses by cheque. Following is the analysis of his bank account for the year ending 31-3-2020. Compute his income from profession.

	Rs.
Receipts :	
Consultation	4,00,000
Audit fees	90,000
Appellate tribunal Appearance	50,000
Presents from clients	20,000
Interest on Govt.securities	60,000
Rent received from house	70,000
Loan from client	1,00,000
Miscellaneous receipts	7,000
Payments:	
Computer purchased	50,000
Stipend to articled clerks	24,000
Office expenses	30,000
Office rent	15,000
Salaries and wages	18,000
Printing and stationery	5,000
Subscription to C.A Institute	800
Purchase of books for Professional use (Annual Publication)	10,000
Travelling expenses	12,000
Interest on loan	15,000
Donation to NDF	20,000

Additional Information :

1. Travelling expenses are incurred for profession.
2. Computer is purchased on 1-8-2020 and used for office purpose.
3. 50% of the books were purchased in August 2020.
4. ½ of travelling expenses are disallowed.
5. ½ of the loan from client is used for personal purpose.

Solution :

Computation of income from profession of Mrsingaraj for the assessment year 2022-23

Particulars	Rs.	Rs.
Income from profession :		
Consultation	4,00,000	
Audit fees	90,000	
Appellate tribunal appearance	50,000	
Presents from clients	20,000	
Miscellaneous receipts	7,000	
		5,67,000
Less : **Expenses in connection with profession :**		
Stipend to articled clerks	24,000	
Office expenses	30,000	
Office rent	15,000	
Salaries and wages	18,000	
Printing and stationery	5,000	
Subscription to C.A Institute	800	
Travelling expenses (12,000 X ½)	6,000	
Interest on loan (15,000 X ½)	7,500	
Depreciation on computer at 40%	20,000	
Depreciation on books used for profession 10,000 X 40/100	4,000	
		1,30,300
Income from profession		4,36,700

Note :

1. Interest on Govt. securities, rent received from house and loan from client are non professional income. hence they are ignored.
2. Miscellaneous receipts are income from profession.
3. Donation to NDF is deductible from gross total income.
4. Books used for profession being annual publication are eligible for 40% depreciation.

Calculation of Depreciation

Illustration 12

Mr Arun acquires on 1st June 2019 for Rs 200000. He borrowed a loan of Rs 150000 at 15% p.a. on 01.06.2020 for acquriring the asset. He has incurred Rs 15000 for transportation of the asset to the factory. He has spent Rs 5000 for installation of the asset. It was found that asset had to be repaired before installation at a cost of Rs 20000. Ultimately the asset was put into use on 01.09.2021. Compute the actual cost of the asset for the purpose of depreciation.

Solution:

Computation of Actual Cost of Asset PY 2021-22, AY2022-23

Particulars	**Rs**
Cost of Acquisition	20000
Add:Interest on loan till commencement of work	0
Installation Expenses	28125
Transportation Cost	5000
Repair cost before installation	15000
	20000
Total Actual Cost	26812
	5

Illustration 13

Mr ponram purchased a car in April 2017 for Rs 380000 for his professional use. On july 1st 2020, he gifted the car to his son Ravi, who uses it fully for his professional purposes. The market value of the car on the date of gift was Rs 340000. Find out the Cost of the car for computation of depreciation for the previous year 2021-22.

Solution:

Computation of cost of car AY 2022-23, PY 2021-22

Particulars	Rs	Rs
Cost of Car to previous owner on 01.04.2017		380000
Less: Depreciation for P.Y2017-18 at 15% on 380000	57000	
Deemed Depreciation for 2018-19 at 15% on Rs 323000	48450	
Deemed depreciation for 2019-20 PY at 5% on Rs 274550	41183	146633
Cost to the done for PY 2021-22		233367

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UNIT V

INCOME FROM CAPITAL GAINS AND OTHER SOURCES

INTRODUCTION

Section 45 to 55A of the Income Tax Act, 1961 deal with the capital gains. Section 45 of the Act, provides that any profits and gains arising from the transfer of a capital asset effected in the previous year shall be chargeable to income-tax under the head "Capital Gains".

Conditions

The requisites of a charge to income tax, of capital gains under section 45 are:

1. There must be a capital asset
2. The capital asset must have been transferred by the assessee.
3. The transfer must have been affected in the previous year.
4. There must be a gain arising on such transfer of a capital asset.

CAPITAL ASSETS

Capital asset means property of any kind held by assessee, whether fixed or circulating, movable or immoveable, tangible or intangible.

Examples

1. Shares
2. Debentures
3. Goodwill
4. Jewellery
5. Land & Building
6. Plant & Machinery, etc.

Exceptions

The following assets are not included in capital assets:

1. Stock in trade, raw materials, consumable stores, held for the purpose of business or profession.
2. Assets use for personal use (Except jewellery)
3. Agricultural land situated in Rural area (Population of 10000 or more)
4. Gold bonds issued by the Central Government in 1977 or 1980
5. National defence gold bonds, 1980
6. Special bearer bonds, 1991
7. Special bearer bonds, 1991
8. Gold deposit bonds issued under gold deposit scheme 1999

Transfer of capital assets

The transfer of capital assets includes the following:

- Sale of asset
- Exchange of asset
- Relinquishment of asset (that is surrender of asset)
- Extinguishment of any right on asset
- Compulsory acquisition of asset

CAPITAL GAIN

An income that is derived from the sale of an investment is known as Capital gain. In otherwise, any profit or gain arising from the transfer of a capital asset is also called as capital gain. There are two types of capital gain. Viz,

(a) Short Term Capital Gain

(b) Long Term Capital Gain

1. SHORT TERM CAPITAL GAIN

Capital gain arising from transfer of short term capital asset is known as short term capital gain. Such a capital asset held by an assessee for less than 36 months immediately prior to its date of transfer.

2. LONG TERM CAPITAL GAIN

Capital gain arising from transfer of long term capital asset is known as long term capital gain. Such as capital asset held by an assessee for more than 36 months immediately prior to its date of transfer.

Exceptions

The following capital assets are also long term capital assets which are held by assessee from more than 12 months.

1. Listed debenture held in a company
2. Listed shares held in a company
3. Units of Unit Trust of India (Quoted or not)
4. Units of a Equity Oriented Mutual Fund (Quoted or not)
5. Zero coupon bonds (Quoted or not)
6. Any other securities listed in a stock exchange like Government securities, bonds, derivatives.

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COST OF ACQUISITION

The cost of acquisition means the amount at which an assessee has paid to purchase or construct or acquire a capital asset.

Determination of Cost of Acquisition

From the following cases, the cost of acquisition is determined as:

1. In case of asset acquired without paying any amount by way of transfer, gift or will, partition of HUF etc., the cost will be the **cost at which assets were acquired by previous owner along with improvement.**
2. In case cost is unascertainable, it is option of assessee to consider **fair market value on 1-4-1981.**
3. Depreciation assets will be treated as **short term capital asset** and its cost is **Written Down Value (WDV).**
4. Cost of Bonus shares are taken as **"NIL".**
5. In case the asset is **long-term,** the cost of acquisition has to be inflated by using **cost of inflation index.**

COST OF IMPROVEMENT

Cost of improvement means all capital expenditure incurred in making additions or alterations to the capital assets by the present owner or by the previous owner.

Note:

The capital expenditure incurred on or after 1-4-1981 is only to be considered for cost of improvement.

Computation of Short Term and Capital Gain

AY 2022-2023 **PY 2021-2022**

Full sale consideration		xxx	
(-) Expenses incidental to transfer			xx

Net sale consideration		xxx	
(-) Cost of acquisition	xx		
Cost of improvement	xx	xx	

Short term capital gain		xxx	
(-) Exemption			
U/S 54B, 54D, 54G		xx	

Net Short Term Capital Gain		xxx	

Computation of Long Term Capital Gain

AY 2022-2023 PY 2021-2022

Full sale consideration	xxx
(-) Expenses incidental to transfer	xxx

Net sale consideration	xxx
(-) Indexed Cost of acquisition	xxx
Indexed Cost of improvement	xxx

Long term capital gain	xxx
(-) Exemption	
U/S 54, 54B, 54D, 54EC, 54F, 54G	xxx

Net Long Term Capital Gain	xxx

CALCULATION OF INDEXED COST

1. Capital asset is acquired by the assessee before 1-4-1981

Cost of acquisition

(OR)

Fair market value of the asset

On 1-4-1981

Indexed cost of acquisition =------------------------------------ X Cost inflation index for the year in

Cost of inflation index (CII) which the asset is transferred

For 1981-82

Cost of improvement after 1-4-1981

Indexed cost of =------------------------------------ X Cost inflation index for the year in

Improvement Cost of inflation index (CII) which the asset is transferred

For the year in which

Improvement took place

2. Capital asset is acquired by the assessee on (or) after 1-4-1981

Cost of acquisition

Indexed cost of acquisition =------------------------------------ X Cost inflation index for the year in

Cost of inflation index (CII) which the asset is transferred

For the year in which

Asset is acquired

Cost of improvement Incurred by the assessee

Indexed cost of =---------------------------------- X Cost inflation index for the year in

Improvement Cost of inflation index (CII) which the asset is transferred

For the year in which

Improvement took place

COST INFLATION INDEX

Cost inflation index in relation to previous year means the index as the Central Government may, having regard to 75% of the average rise in the consumer price index for urban non-manual employees for the immediate proceeding previous year, notify in this behalf.

The Central Government has notified the following Cost Inflation Index for the purpose of calculation of Long Term Capital Gain.

S. No.	Financial Year	Cost Inflation Index
1	2001-02	100
2	2002-03	105
3	2003-04	109
4	2004-05	113
5	2005-06	117
6	2006-07	122
7	2007-08	129
8	2008-09	137
9	2009-10	148
10	2010-11	167
11	2011-12	184
12	2012-13	200
13	2013-14	220
14	2014-15	240
15	2015-16	254
16	2016-17	264
17	2017-18	272
18	2018-19	280
19	2019-20	289
20	2020-21	301
21	2021-22	312
22	2022-23	331

Notes:

1. Indexing is **required** for long term capital assets only.
2. Indexing is **not required** for short term capital assets, debentures, bonds and depreciable assets.
3. Long Term Capital Gain on sale of listed shares sold on (or) after 1-10-2004 is exempted.

EXEMPTED CAPITAL GAINS

The following capital gains are exempted:

1. Capital gain on transfer of Residential House Property (Sec. 54)

Capital Gain = **Long Term**

Conditions:

1. The assessee should purchase a residential house within 1 year before (or) 2 years after the date of sale (or) construction of a residential house within 3 years after the date of sale (or)

2. Deposit under Capital Gain Account Scheme and withdrawal it withdrawal it within 3 years after sale to invest in a residential house.

Amount of exemption = Investment in 1 (or) 2 of the above conditions.

2. Capital gain arising from the transfer of Agricultural land located in Urban Area (Sec. 54B)

Capital gain = **Short Term and Long term**

Conditions

1. Purchase of another agricultural land within 2 years from the date of transfer (sale).

(OR)

2. Deposit in Capital Gain Account Scheme.

Amount of exemption = Investment in 1 or 2 of the above conditions

3. Capital gain on compulsory acquisition on Land and Building (Sec. 54D)

Capital gain **= Short Term and Long Term**

Conditions:

1. The assessee should have used the land and building for industrial purpose atleast for 2 years immediately preceding the date on which the transfer took place.
2. Purchase of another land and building or constructed within 3 years after the date of sale, for the purpose of shifting or re-establishing the industrial undertaking.
3. Deposit in Capital Gain Account Scheme

Amount of exemption = Investment in 2 or 3 of the above conditions

4. Capital gain not to be charged on investment in certain bonds (Sec. 54EC)

Capital gain **= Long term**

Conditions:

1. The new asset shall be purchased within 6 months from the date of transfer of original asset.
2. The long term specified asset to be purchased is bonds, redeemable after 3 years, issued
   a) By the National Highways Authority of India on (or) after 1-4-2000
   b) By the rural electrification corporation limited on (or) after 1-4-2001

c) The amount of investment in the specified long term investment cannot exceeds Rs.5000000

Amount of Exemption: Investment in 2nd Condition

5. Capital gain arising out of sale of an asset other than residential house property and investment of consideration in residential house (Sec. 54F)

Capital gain **= Long term**

Conditions:

1. Purchase of house property within 1 year before (or) 2 years after the date of sale (or) Construction of another house within 3 years from the date of sale (or)
2. Deposit in Capital Gain Account Scheme

Amount of Exemption:

1. If amount of investment is equal (or) more than net consideration
   -Entire capital gain arising from transfer will be exempt from tax
2. If amount of investment is less than net consideration

   $$\text{Capital gain} \times \frac{\text{Cost of new house}}{\text{Net Sale Consideration}}$$

3. Unutilised amount:

$$\text{Unutilised amount} \times \frac{\text{Amount of original capital gain}}{\text{Net Sale Consideration}}$$

6. Capital gain arising on transfer of assets in case of shifting of industrial undertaking from urban area to non-urban area (Sec. 54G)

Capital gain **= Short Term and Long term**

Conditions:

1. Investment in new machinery, land and building within 1 year before (or) 2 years after the sale.

Amount of Exemption:

1. If the cost of new assets acquired and incidental expenses are equal to (or) more than the capital gain then, entire capital gain will be exempted.
2. If the amount of capital gain is less than cost of newly acquired asset and incidental expenses, the excess of capital gain is taxable.

7. Exempted Capital Gain U/S 10

(a) Gain from sale of shares Sec. 10(36)

Any gain arising on transfer of long term equity shares in a company purchased on (or) after 1st March 2003 and before 1st March 2004 and held for a period of 12 months or more shall be exempted.

(b) Gain from compulsory acquisition of Urban Agricultural Land Sec. 10(37)

Long term capital gain is arising on compulsory acquisition of Urban Agricultural Land under any law is exempted.

The land was being used for agricultural purpose for two years preceding the date of transfer by an individual (or) HUF and the compensation is received on (or) after 1st April 2004.

(c) Gain arising on transfer of securities Sec. 10(38)

Long term capital gain is arising on transfer of securities which are in recognized stock exchanges in India on (or) after 1-10-2004 is fully exempted.

Rules for Set Off of capital losses

S. No.	Losses	Set off against
1	Short term capital loss	Short term capital gain and Long term capital gain
2	Long term capital loss	Long term capital gain only

INCOME FROM OTHER SOURCES

INTRODUCTION

This is a residual head of income. Income from other sources is the income that is not chargeable to tax under any other head of income (Salary, House Property, Business or Profession, Capital Gain).

VARIOUS INCOMES FROM OTHER SOURCES

1. Dividend
2. Winning from lottery
3. Winning from crossword puzzles
4. Winning from house races
5. Winning from Card Games
6. Betting
7. Gambling

8. Income by letting out of furniture, plant, machinery along with building
9. Interest on securities
10. Interest on bank deposits
11. Interest on loans
12. Interest on own contribution towards Unrecognized Provident Fund
13. Interest received on securities from cooperative society
14. Royalty income
15. Income by subletting of house property
16. Income from agricultural land situated outside India
17. Income from Undisclosed sources:
    a. Unexplained cash credits (Sec. 68)
    b. Unexplained investments (Sec. 69)
    c. Unexplained money (Sec. 69A)
    d. Unexplained expenditure (Sec. 69C)
18. Directors fees
19. Gifts
20. Family pension
21. Ground rent
22. Salary of Member of Parliament (MP)
23. Salary of Member of Legislative Assembly (MLA)
24. Salary of Member of Legislative Council (MLC)
25. Remuneration received towards examination work by a teacher or lawyer.
26. Remuneration received for writing articles in journals by a person who is not a professional journalist
27. Income received under key man insurance policy
28. Any fees or commission received by an employee from a person other than his employer.
29. Annuity received under Annuity deposit scheme
30. Rent of land not attached to any building
31. Amount withdrawn from deposit in National Savings Scheme
32. Gratuity received by a director who is not an employee of the company
33. Receipts by cricketers selected to play for India

Computation of Income from Other Sources

AY 2022-2023 PY 2021-2022

S. No.	Particulars	Amount (Rs.)
1	Dividend Income	xxx
2	Casual Income	xxx
3	Income by maintenance of horses	xxx
4	Income by letting out of furniture, plant, machinery along with building	xxx

5	Interest on securities	xxx
6	Royalty income	xxx
7	Income by subletting of House Property	xxx
8	Family Pension Received	xxx
9	Other incomes	xxx
	Income from Other Sources	**xxx**

1. Computation of Dividend Income

Dividend from Foreign Companies	xx
Dividend from Co-operative Societies	xx
	-----
	xx
(-) Collection charges (on above dividend)	xx

Dividend Income	**xx**
	-----

2. Computation of Casual Income

Winning from lottery	xx
Winning from crossword puzzles	xx
Winning from horse races	xx
Winning from Card Games	xx
Betting (or) Gambling	xx

Casual Income	**xx**

Rate of Tax Deducted at Sources (TDS)

Winning from lottery Winning from crossword puzzles Winning from card games	If income exceeds Rs.10000 (or) If income exceeds Rs.1000000	30% (or) 33%
Winning from horse races	If income exceeds Rs.10000 (or)	30% (or)

	If income exceeds Rs.1000000	33%
Betting (or) Gambling	No TDS	-

Formula for Grossing Up (Net winnings or Amount Received is given)

$$\text{Gross winnings} = \text{Net winnings} \times \frac{100}{100 - \text{Rate of TDS}}$$

3. Computation of income from the activity of maintenance of houses for race purposes

Income by maintenance of horse	xx
Stake money received	xx
	-----
	xx
(-) Expenses	xx
	-----
	xx
	====

4. Computation of income from letting or hire of machinery, plant, furniture and building

Income from letting or hire of machinery,	
Plant, furniture and building	xxx
(-) Repairs	xxx
Depreciation	xxx
Insurance	xxx
	--------------
	xxx
	--------------

5. Computation of Interest on Securities

Interest on Government Securities	xxx
Interest on Non-Government Securities	xxx
	------
	xxx
(-) Collection charges	xx
Interest on borrowing for investment	xx
	-------------
	xxx

[Interest on Bank deposits (Exceeding Rs.10000) = 10%

Interest on Company deposits (Exceeding Rs.2500) = 10%

Listed and unlisted securities = 10%]

Interest on Post Office Savings Bank A/C is exempted

Rate of Tax Deducted at Source (TDS)

Grossing Up (Net, Tax Free or Amount Received is given)

$$\text{Gross winnings} = \text{Net winnings} \times \frac{100}{100 - \text{Rate of TDS}}$$

Note: In case of Government Securities, Grossing Up is not required.

Types / Kinds of Securities

(I). Government Securities

a) Tax Free Government Securities

These securities are those, the interest on which is fully exempt from tax u/s 10(15).

b) Less Tax Government Securities

Such securities are issued either by the Central Government or a State Government. These are taxable securities, but no tax is deducted at source on such securities. Hence, the interest on such securities will not be grossed up.

(II). Non-Government Securities

c) Tax Free Commercial Securities

It is issued by a local authority or statutory corporation or a company. The interest on this type of securities is not really ‘tax free’, because tax on the interest is payable by the company, or local authority or corporation concerned. These securities are called ‘tax free’, because the assessee is not to pay tax on the interest, since the tax is paid by the company on assessee’s behalf.

d) Less Tax Commercial Securities

Less tax securities are also called “Taxable Securities”. In case of this kind of securities income tax is deducted at source from the interest and balance of interest after deduction of the income tax is paid to the security holder.

6. Computation of Royalty Income

Royalty income received	xxx
(-) Expenses incurred	xx
	------
	xxx
	------

7. Computation of income by Subletting of House Property

Income by subletting of House Property	xxx
(-) Repairs	xxx
Local taxes	xxx
	xxx

8. Computation of Family Pension

Family pension received		xxx
(-)**Standard Deduction**		
1/3 of family pension (or) Rs.15000	which ever is less	xx
		xxx

9. Computation of Other Incomes

Income from Agricultural land situated outside India	xx
Salary received by MP and MLA	xx
Gifts received from person other than relative (Exceeds Rs.50000)	xx
Directors' fees	xx
Ground Rent Received	xx
Income received by leasing out of non-agricultural land	xx
Any income not taxed under other heads	xx
	xx

Illustration : 1

Mr. Kani has furnished the following details: Determine his capital gain for A.Y.2022-23

S. No	Nature of Capital Assets	Date of Purchase	Date of Sale	Cost Rs.	Expense on Purchase Rs.	Sale value Rs.	Expenses on value Rs.
`1.	House 'A'	1-1-18	1-8-19	4,00,000	10,000	7,00,000	5000
2.	House 'B'	31-12-17	15-12-19	3,00,000	2,000	5,00,000	10,000
3.	Building 'C'	1-1-19	1-1-20	5,00,000	5,000	8,00,000	10,000
4.	Urban agriculture land	1-1-19	1-2-20	7,00,000	30,000	15,00,000	4,000
5.	Land(Non-agriculture)	31-1-18	1-6-19	6,00,000	1,000	8,00,000	5,000
6.	Commercial building 'D'	1-8-17	1-7-19	8,00,000 (W.D.V)	Nil	6,00,000	2,000

Computation of Total Short -Term Capital Gain

(sale value –Expenses on sale –(Cost of Purchase + Expenses on Purchase)

Particulars	**Rs.**
House –A	2,85,000
House -B	1,88,000
Building -C	2,85,000
Urban agriculture land	7,66,000
Non-agriculture land	1,94,000
Commercial building	(-)2,02,000
Total Short-term capital gain	15,16,000

Illustration:2

Computation of short term capital gain on Depreciable Assets

Determine the capital gains in each of the following situations separately.

(a) Machine A purchased on 1-10-2013 at a cost of Rs. 5,00,000 written down value on 1-4-2019 Rs.50,000 and sold on 1-8-2019 for Rs.3,00,000.

(b) Furniture purchased on 1-10-2015 for Rs.7,00,000 written down value on 1-4-2019 Rs.5,00,000 and sold on 1-9-2019 for Rs. 4,00,000.

(c) There are four machines in a block of 15% rate of depreciation. They were all purchased in 2016-17. The details are as follows.

Particulars	W.D.V. on 1-4-2019 Rs.
Machine A	4,21,875
Machine B	10,54,687
Machine C	4,21,875
Machine D	2,10,937

What will be the capital gains in the following cases separately?

1. If Machine ‘A’ is sold for Rs.30,00,000.
2. IF Machine ‘B’ alone is sold for Rs.15,00,000.
3. If all four machines are sold for Rs.28,00,000.
4. If all four machines are sold for Rs. 10,00,000.

Solution :

Computation of Capital Gains for the P.Y. 2021-22

Situation (a)

Particulars	**Rs.**
Sale value	3,00,000
Less: Written down value	50,000
Short term capital gain	2,50,000

Situation (b)

Particulars	Rs.
Sales value	4,00,000
Less : written down value	5,00,000
Short term capital Loss	(-)1,00,000

Situation (c) : Case 1

Particulars	Rs.	Rs.
Sale value of machine 'A' With same rate of depreciation Falling in a single block.		30,00,000
A	4,21,875	
B	10,54,687	
C	4,21,875	
D	2,10,937	21,09,374
Short term capital gain		8,90,626

Note : Since the sale value of asset 'A' exceeds the entire block's W.D.V., The

Case –II

Particulars	Rs.
W.D.V. of the block an on 1-4-19 (A+B+C+D)	21,09,374
Less : Sale value of asset 'B'	
W.D.V. for calculating depreciation	15,00,000
	6,09,374
Less : Depreciation for 2019-20=6,09,374x15/100	
W.D.V. as on 31-3-20	
	91,406
	5,17,968

Note : If sale value of one or more (but not all) assets is not exceeding the book value of the book, the block continues to exist.

Case : III

Particulars	Rs.
Sale value of all the assets in the block Less: W.D.V. of all assets in the block	28,00,000 21,09,374 6,90,626

Note : The block ceases to exist as all the assets are sold. Sale value of the four assets exceeds the book value of the block; the result is short term capital gain.

Case –IV

Particulars	Rs.
W.D.V. of all assets as on 1-4-19 Less : sale value of all the four assets Short term capital loss	21,09,374 10,00,000 11,09,374

Note: The block ceases to exist as all the assets are sold value does not exceed the block's book result is short term capital loss.

Illustration: 3

Mr. palavasakrishnan owned two motor cars which were mainly used for business purposes. The written down value on April 1,2019 of these cars is Rs. 1,81,000. The block of assets comprising of only these two cars, was sold in June 2019 for Rs. 1,50,000. In September 2019, he sold 1,000 shares in X Ltd. (unlisted) an Indian company, for Rs. 3,10,000. He had purchased the same during ,March, 2005 for Rs. 3,10,000. A house plot purchased in March, 2011 for Rs. 3,00,000 was sold by him for Rs.9,35,000 0n January 18,2019. (CII 2010-11:167,2004-05:113,2019-20:289)

Compute the capital gains chargeable to tax in respect of the above transactions for the assessment year 2022-23.

Solution :

Computation of Capital Gains for the Assessment Year 2022-23

Particulars		Rs.	Rs.
i) short term capital gain/Los:			
sale consideration of motor cars			
Less : cost of acquisition(W.D.V. as on 1.4.2019) short term capital loss		1,50,000	
ii) Long Term Capital Gain Loss :		1,81,000	
on transfer of shares (unlisted) sale consideration			(-) 31,000
Less : Indexed cost of acquisition			
(3,10,000X289/113)	30,00,000		
Long term capital gain on transfer of house plot			
Sale consideration	7,92,832	22,07,168	
Less : Indexed cost of acquisition			
(3,00,000X289/167)	9,35,000		
Long term capital gain	5,19,162	4,15,838	
LTCG			25,92,006

Note : ITCG on sale of sale of shares of unlisted company are taxable.

Illustration : 4

Mr. A Purchases a house property for Rs. 26,000 on 10 th May 1962. He gets the first floor of the house constructed in 1967 -68 by spending Rs.40,000. He dies on 12th September 2003. The property is transferred to Mrs. X by his will. Mrs. X spends Rs. 80,000 and Rs.26,700 during 2006-07 and 2008-09 respectively for reconstruction of the property. Mrs X sells the house property for Rs.95,00,000 on 15th March 2019 (brokerage paid by Mrs. X is Rs.41,500). The fair market value of house on 1st April,2001 is 280 for 2001-02 Rs.100 for 2003-04 is Rs.109.

Solution :

Computation of Capital Gains For The Assessment Year 2022-23

Particulars	**Rs.**	**Rs.**
Sale consideration		95,00,000
Brokerage		41,500
Less : expenditure on transfer		94,58,500
Indexed cost of acquisition:		
Cost of acquition:26,000		
F.M.V. ON 1-4-2001: 4,60,000	13,29,400	
4,60,000x 289/100		
12,51,200		
Indexed cost of improvement		
(2006-07) 80,000X 289/122	1,89,508	
(2008-09)26,700X289/137	56,323	15,75,231
Long term capital gain		78,83,269

Income from other sources:

Illustration: 5

Mr. Baskar received the following income during the year 2019-20 computer taxable income under the head 'income from other sources '. Separately for each cash.

(A)	Winnings received from Sikkim lottery	70,000
	Winnings from horse races	2,000
	Winnings from crossword puzzles	4,000
(B)	Winnings from lottery	2,000
	Winnings from received from horse races	56,000

Solution :

Computation of income from other sources of Mr. Baskar for the previous year 2021-22

Particulars	Rs.
Winnings received from Sikkim lottery: net Rs.70,000 Gross : 70,000X100/100-30	1,00,000
Winning from horse races (less than Rs. 5,000; No T.D.S)	2,000
Winning from crossword puzzle (less than Rs.10,000;No T.D.S)	4,000
Income from other sources	1,06,000
(B) Winnings from lottery (less than Rs. 10,000;No T.D.S)	2,000
Winnings received from horse races: Net Rs. 56,000 Gross : 56,000 X 100/100-30	80,000
Income from other sources	82,000

Illustration: 6

Compute '**Income from other sources**' from the following information for the financial year 2021-22.

		Rs.
I.	Amount won from Lottery	80,000
	Amount won from Betting on horse racing	8,000
II.	Amount received from Lottery	63,000
	Amount received from Betting on horse racing	42,000
III.	Income from Lottery	1,800
	Betting on horse racing	1,000

Solution :

Computation of income from other sources for the previous year 2021-22

Particulars	Rs.
Winnings from lottery	80,000
Winnings from on horse racing	8,000
	88,000
Amount received from lottery:	
Net : Rs. 63,000	
Gross : 63,000 X 100/100-30	90,000
Amount received from betting on horse racing:	
Net : Rs.42,000	
Gross: 42,000 X 100/100-30	60,000
	1,50,000
Income from lottery	
Incomes from on horse racing	1,800
	1,000
Income from other sources.	2,40,800

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