MANONMANIAMSUNDARANARUNIVERSITY

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TIRUNELVELI–627012

Directorate of Distance & Continuing Education

COURSE MATERIAL

INCOME TAX
LAW AND PRACTICE – I

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INCOME TAX LAW AND PRACTICE – I

COURSE CONTENTS

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INCOME TAX LAW AND PRACTICE - I

UNIT – I INTRODUCITON TO INCOME TAX

Learning Objectives – Introduction to Income Tax

After studying this topic, the learner will be able to:

- **Understand the meaning of Income Tax**
  Explain the concept, nature, and purpose of income tax in India.
- **Know the objectives of levying Income Tax**
  Describe how income tax helps in revenue generation, economic development, and reduction of income inequality.
- **Identify the scope of Income Tax in India**
  Distinguish between total income, taxable income, and exempt income.
- **Understand the basics of the Income Tax Act, 1961**
  State its significance, applicability, and structure.
- **Recognize different types of taxes**
  Differentiate between direct tax and indirect tax with examples.
- **Identify the assessee and assessment year**
  Explain the terms *assessee*, *previous year*, and *assessment year*.
- **Understand the charge of Income Tax**
  State the conditions under which income becomes chargeable to tax.
- **Gain awareness of residential status**
  Understand the basic idea of residential status and its importance in taxation.
- **Know the heads of income (overview)**
  List the five heads of income under the Income Tax Act.

1.1 . INTRODUCTION

The word tax is based on the latin word taxo which means to estimate. To tax means to impose a financial charge or other levy upon a taxpayer, an individual or legal entity, by a state or the functional equivalent of a state such that failure to pay is punishable by law.

Taxation has existed since the birth of early civilization. In ancient times taxes were either material or money like goods or services in the primitive society. The subjects used to pay a share of their income to the Head of a tribe or to the King who in return provided them with the administration security from foreign aggression and other civic amenities.

In the medieval centuries feudalism was founded, so the origin of modern tax system also was founded. Feudal market dues, tolls for protection and use of road, bridges, ferries, land rent, and other payment in goods and services were gradually transferred into money payment with the rise of money economy, Kings liked to receive money and the people preferred to pay money instead of goods and services. Step by step the old feudal revenue system changed into taxation.

Then with the development of economic sciences and with the passage of time, the functions of modern state appeared and taxation gradually became a tool of usage with more than one goal and became important source of revenue. During 19th and 20th centuries, there has been both qualitative and quantitative change in the public expenditures. Taxation has passed through the stages with passage of time, and tax’s functions and objectives also have changed from the ancient communities to medieval societies to modern societies also, so the tax system has evolved with the evolution of the functions of the modern state.

Taxation is a payment from natural persons or legal entity and it is levied by government ,for which no goods or services is received directly in return, so taxes is that amount of money, the people pay which is not related directly to the benefit of people obtained from the provision of a particular goods or services.

Until the early 1930s, it was universally accepted in principle that governments should balance their budgets. Thus, the principle reason for taxation was to pay for government expenditures. Of course, governments had from time to time resorted to borrowing in order to pay for their expenditures and government borrowing was relatively quite large during some war periods. Government borrowing may be from the private sector or from abroad. Alternatively, governments may borrow from the central bank of the Country. A portion of taxes also goes to pay off the state's debt and the interest accumulates.

The taxes collected have been used by the government to carry out many functions. Some of these include:

- Expenditures on war,
- The enforcement of law and public order,
- Protection of property,
- Economic infrastructure (roads, legal tender, enforcement of contracts, etc.),
- Public works, • social engineering, and
- The operation of government itself.

Governments also use taxes to fund welfare and public services. These services can include

- Education systems,
- Health care systems,
- Pensions for the elderly,
- Unemployment benefits, and
- Public transportation, energy, water and waste management systems, common public utilities, etc.

Governments have also financed expenditures in recent years through the sale of publicly owned assets. Although asset sales were an important source of funds to the government, however, they are necessarily limited since assets can only be sold once. Thus, governments still have to raise most of the revenue needed to finance their expenditures through taxation or by charging directly for government services (user charges). Governments uses different kinds of taxes and vary the tax rates, this is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population.

Modern social security systems are intended to support the poor, the disabled, or the retired person by taxes on those who are still working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive. Thus, there is no doubt that most government expenditures must be paid through the taxation system and it is reasonable to see this as the principle function of taxation. Yet there have always been a variety of subsidiary objectives of taxation.

In the present time, taxation is not just a means of transferring money to the government to spend it for meeting the public expenditures or raise revenue to the government, but taxes have become beside that, as a tool for reduce demand in the private sector, redistribution of income and wealth in the societies in the countries. It is also a means for economic development and for playing very important role in the case of stabilization of income, protection industrial home from foreign industrials. Taxation helps to find out solution for some economic problems that face the state, like unemployment, inflation, and depression.

Taxation finds out solution for some economic problems, but not alone, but there are also a lot of another fiscal instruments. They are working together for solution of those economic problems. Countries practice sovereignty authority upon its citizens, through levying of Taxes

Definitions

There is no precise and accurate definition for the tax and the concept of tax has been defined differently by different economists. Some definitions are as follows.

According to Prof Seligman – A tax is compulsory contribution from the person to the government to defray the expense incurred in the common interest of all without reference to special benefits conferred.

According to Bastable – A tax as a compulsory contribution of the wealth of a person, or body of persons for the service of public powers.

Deviti. De Marco defines – A tax as a share of the income of citizens which the state appropriate in order to procure for itself the means necessary for the production of general public services.

Hugh Dalton – A tax is a compulsory charges imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for legal offence. **Jom Bouvier** defined a tax as "A pecuniary burden imposed for support of the government, the enforced proportional contribution of persons and property of the government and for all public needs" **According to Trussing**, "The essence of Tax as distinguished from other charges by government is the absence direct quid pro quo- tit for tat between the tax payers and the public authority".

From the above definitions we may conclude that *a tax is compulsory contribution, levied by government from owner of income without direct benefit but for public benefit, and taxes should be arranged by the law.*

1.2. CHARACTERSTICS OF TAXES

1. Tax is compulsory – A tax is imposed by law. So tax is compulsory payment to the governments from its citizens. *Tax is duty from every citizen to bear his share for supporting the government. The tax is compulsory payment, refusal or objection for paying tax due leads to punishment or is an offence of the court of law.* Government imposes tax when somebody buys commodities, or when uses services or earns income or any other condition for compulsion is found. The government practices its sovereign when levying the tax from its citizens.

2. Tax is contribution – *Contribution means in order to help or provide something. Tax is contribution from members of community to the Government.* A tax is the duty of every citizen to bear their due share for support to government to help it to face its expenditures. Some wants are common to everybody in the society like defence and security, so these wants cannot be satisfied by individuals. These social wants are satisfied by governments, hence the people support government for these social wants. Contribution involves loss or sacrifice from the side of contributor.

3. Tax is for public benefit – Tax is levied for the common good of society without regard to benefit to special individual. *Government proceeds are spent to extend common benefits to all the people such as natural disaster - like floods, famine - defence of the country, maintenance of law and establish infrastructure and order. Such benefits are given to all people.*

4. No direct benefit – Government is compulsorily collecting all types of taxes and does not give any direct benefits to the tax payer for taxes paid. The essence of tax as distinguished from other charges by governments is the absence of a direct quid-pro-que between the taxpayer and the public authority. *Tax is different from another government charges which may give direct benefits to payers such as prices, fees, fines etc where the direct benefits are available. Taxes are for common benefits to all the members of the society.*

5. Tax is paid out of income of the tax payer – Income means money received, especially on regular basis, for work or through investment. *Tax is paid out of income as long as the income becomes realized, here the tax is imposed. Income owner has profit from any business, so he should pay his share for support to the government.*

6. Government has the power to levy tax – Governments are practicing sovereign authority upon its citizens through levying of taxes. Only Govt. can collect tax from the people. *Tax is transferring resources from the private sector to the public sector. Government is levying the tax to cover its expenditures. The government use these taxes for increasing social welfare & economy development.*

7. Tax is not the cost of the benefit – Tax is not the cost of benefit conferred by the government on the public. *Benefit and taxpayer are independent of each other, and payment of taxation is of course designed for conferring of benefits on general public.*

8. Tax is for the economic growth and public welfare – Major objective of the government is to maximize economic growth and social welfare. *Developmental activities of the nations generally involve two operations, the raising of revenue and the spending of revenue, so the government spent taxes for economic benefit, for entire community and for aggregate welfare of the society*

1.3. OBJECTIVES OF TAXATION

The basic objective of taxation is to raise resources for the state. Taxation is for revenue only and a so called tax which looks to anything besides the securing of revenue is not a tax, but an unconstitutional exercise of the taxing power. However, all the modern states in the post second world war era have realized that taxation is a powerful instrument with multiple applications. It can be used to reduce inequalities, to accelerate economic development, as a tool to regulate consumption, imports and exports, in addition to its basic objective raising revenues.

The Objectives of taxation in brief are as under:

1. Objectives of Raising Revenue.

2. Regulatory Objectives.

(a). Regulating Consumption.

(b). Regulating Production.

(c). Regulating Imports and Exports.

(d). Regulating the effects of inflation, depression etc.

3. Developmental Objectives.

(a). Objective of Economic Development.

(b). Objective of Capital Formation.

(c). Objectives of increasing employment opportunities.

4. Objectives of Reducing Inequalities.

(a). Reduction in Economic Disparities.

(b). Reduction in Regional Imbalances.

1. Objectives of Raising Revenue.

The basic and primary objective of taxation is raising revenue. Enormous amounts needed by modern governments for National Defence, Creation of Infrastructure and Social upliftment schemes make regular and systematic resource mobilization compulsory. *Taxes are imposed so as to produce the necessary amount of revenue to meet the requirement of the government, as the public expenditures is increasing in scope and size day by day. Therefore, the main objective of taxes is to raise revenue to meet the Govt. expenditures adequately*

2. Regulatory Objectives.

Taxation performs an important regulatory role in different socio economic aspects.

(a). Regulating Consumption.

State can discourage consumption of harmful and undesirable goods by levying prohibitive rates of tax*. For example, high rates* of tax on Tobacco products, Liquors etc., are intended to minimize their usage by the public.

(b).Regulating production.

Production may be encouraged by exempting new industries from tax for some time, reducing tax on capital goods, increasing tax on imported goods to encourage local production, etc.

(c). Regulating imports and exports.

Imports of undesirable products can be curbed by imposing prohibitively high import duties. Exports can be encouraged by cutting duties and taxes on exports. Duties can be minimised on materials etc., for manufacturing goods for export.

(e). Regulating effects of Inflation, depression etc.

Raising tax rates can reduce consumption of goods and the demand in general. High levels of taxation can reduce the purchasing power of people and the funds collected can be used by the state for productive purposes to increase supply of goods, thus stabilizing supply and demand equation. Inflation is automatically in check when demand and supply are in equilibrium. In periods of economic depression, the state can reduce tax rates to augment the purchasing power of people. It in turn, creates additional demand, thus reviving production and industries resulting in higher levels of economic activity and employment.

3. Developmental Objectives.

Taxation can be used as an effective tool to achieve higher levels of economic development and employment.

(a). Economic development.

Economic Development is measured in terms of GNP (Gross National Product) i.e., the output achieved in all the major sectors of the economy i.e., Agriculture, Industry and Services. Taxation can be used as a stimulant to any one or all the three sectors by judicious changes in the tax rates. For example, capital gains on sale of long term assets are exempted if they are reinvested in approved securities. Agricultural incomes are fully exempted from Income tax. Tax policies can growth encourages higher investments.

(b). Capital formation

Indian household savings rate is around 26%, one of the highest in the world. Savings can be channeled into investment avenues through appropriate policy measures. *Taxation plays a major role in high level of savings by providing different kinds of exemptions from tax on contributions to provident funds, Insurance premiums, National savings certificates, etc. Capital formation through people's savings can be encouraged by Tax incentives.*

(c). Increasing employment opportunities.

Small and medium enterprises usually have maximum potential for employment. Industrial estates, special economic zones, export oriented parks, etc., have high employment potential. *Tax concessions to start small scale and medium scale units result in creation of jobs on large scale. Similarly, tax incentives and exemptions to export oriented units a*nd industrial units in SEZs (Special economic zones) also increase employment opportunities.

4. Objectives of Reducing Inequalities.

Inequalities are common in several aspects. Inequalities in Income, inequalities in regional development etc., can be reduced with the help of taxation.

(a). Reduction in economic disparities.

Income levels of individuals vary wildly in India. It is claimed that rich are becoming richer and the poor are becoming poorer year by year. *Taxation can be a powerful weapon in tackling income disparities. High levels of taxation on the rich which cannot be evaded and diversion of the resulting funds for the benefit of poor is the best way of reducing income disparities.*

(b). Reduction in Regional Imbalances.

Some regions may become well developed compared to others in a country. *Tax incentives and exemptions to start industries in the backward regions can be a good method of dealing with the problem. Urban areas are usually well developed whereas rural areas are backward. Tax incentives of different kinds to start small scale and cottage industries in rural areas, tax incentives for infrastructural undertakings in rural areas etc., can be helpful* in developing rural areas.

1.4. CANONS OF TAXATION

Dictionary meaning of 'Canon' is "general law, rule, principle or criterion". A 'Canon' in the context of taxation can be taken as a general rule or principle. While devising a tax system, canons of taxation *act as guidelines. They can make a tax system effective.*

1. Canon of Equality

The first canon of Adam Smith is the canon of equality. This is also the starting point for *"Ability to pay" principle in taxation. Adam Smith says "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion of their respective abilities, that is in proportion to the revenue which they respectively enjoy under the protection of the state.* In the observation or neglect of the maxim consists what is called the equality or inequality of taxation".

2. Canon of Certainty

The second canon of Adam Smith is the Canon of certainty". Adam Smith says "*The tax which each individual is bound to pay, ought to be 'certain' and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person."* This canon aims at elimination of uncertainty and arbitrariness in taxation. The tax payer should know exactly when to pay the tax, to whom to pay the tax and also the exact amount to be paid by him. Nothing is left to the discretion of the tax officials which can lead to corruption and harassment of the assesses. Usually this canon is ensured through the publicity of the annual Budget of the Government, the discussions in Parliament or assembly on every detail of taxation. Everyone comes to know certainly about the new taxes imposed, the rates of tax etc.

3. Canon of Convenience

The third canon of Adam Smith is that of "convenience". Smith says *"Every tax ought to be so levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it." The object of this canon is to reduce the "psychic burden" and inconvenience of paying tax.* The canon urges that the timing and the manner of collection should both be convenient to the tax payer to ensure maximum compliance.

This canon is widely practiced in every country due to its practical utility. For example, Import duty is collected at the time of handing over the goods to the importer; Income Tax is usually deducted from salaries of employees; Land revenue in rural areas is collected after the harvesting of crops. Sales tax and excise duty are paid by consumers whenever they buy goods to consume in small quantities.

4. Canon of Economy

The fourth canon of Adam Smith is that of economy. According to Adam Smith "*Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state." This canon signifies that the administrative cost of tax collection should be minimized.* It means that the difference between the money which comes out of the pockets of people and that which is deposited in the public treasury should be as small as possible.

5. Canon of Productivity

The canon of productivity was proposed by Bastable who said "In the first place taxation should have productivity".

Productivity of a Tax may be observed in two ways. In the first place, a tax should yield a satisfactory amount for the requirements of a government. *As bastable expressed it, "the very object, for which the revenue system exists is to provide for the maintenance of the state and therefore, the minister in charge of finance naturally estimate* the merits of a tax by the amount of its yield"

6. Canon of Elasticity

The structure of taxation should be elastic in character and capable of expansion and contraction in times of change. The State should be able to increase its revenue by way taxation when the situation demands. During periods of war, national calamities like floods, earthquakes and famine, the State needs more funds immediately. Govt. can raise funds quickly only when the tax system is flexible and elastic. There should be scope for contraction of taxes also when the citizens are over burdened with tax.

For example, taxes on property and commodities are not so, elastic as Income Tax.

7. Canon of Diversity

Tax system should not rely upon a single tax or a chosen few for raising entire resources needed to run the State. The tax burden should be widely distributed on the entire economy without causing much harm to anyone. *Modern economists emphasize upon a Multiple Taxation policy with diverse character. There should be a combination of Direct and Indirect taxes so that all the citizens of the country are involved and contribute for the development of the country.* Of course, diversity does not mean that there should be too many taxes. The emphasis is on judicious mix of different taxes which can produce required amount of revenue without sacrificing the character of productivity and economy.

8. Canon of Simplicity

This canon means that taxes and tax system should be such that they are easily understood by the tax payer. The nature, aim, time of payment, method and basis of estimation of each tax should be followed by each tax payer. The taxation rules and regulations should be simple, intelligible, and easily understandable. The process of tax administration should also be simple. Complex tax system and confusing tax laws may make people avoid paying taxes. Simplicity invariably improves the efficiency of tax systems.

9. Canon of Expediency

“Expediency” means convenience. A tax may be desirable and it may have most of the characteristics of a good tax but the Govt. may not find it expedient or convenient to impose it, may be for political reasons or “Vote Bank Politics”. For example, Tax on Agricultural Income in India. While considering the possibility of imposing a tax, it should be examined from different angles, including the reaction of the tax payers. Imposition of every tax is required to be justified from the point of view of social, political and economic ground realities.

10. Canon of Co-ordination

In democratic countries taxes are imposed by Central, State and local Governments. It is very much desirable that there must be coordination between different taxes imposed by the tax authorities. *The coordination is needed in the interests of tax payer and the government. Otherwise, overlapping of taxes, double taxation etc., can lead to hardship to tax payers and encourage them to avoid, or evade taxes.*

1.5 TAX SYSTEM IN INDIA

Indian tax system had been unorganized, unregulated and unplanned due to historical reasons. India’s alien rulers taxed the people to the benefit of their coffers and also for Royal luxuries of the state. Land revenue was the major part of income for the royal treasury. Other taxes used to be levied on adhoc basis.

During the British rule, no effort was made for uniformity in the tax system. Vast differences were there between the tax policies of the native kings and the British provinces. Social justice, social welfare and economic development were not linked to tax system in anyway.

After independence, each and every, aspect of the Indian Tax system was studied thoroughly and all possible attempts were made to make the system equitable, just and economic, besides yielding adequate revenue to finance the administration and also cater to the needs of economic development.

The Constitution of India is the supreme law of India. It consists of a Preamble, 22 parts containing 444 articles and 12 schedules. Any tax law, which is not in conformity with the Constitution, is called ultra vires the Constitution and held as illegal and void. Some of the provisions of the Constitution are given below:

Article 265 of the Constitution lays down that no tax shall be levied or collected except by the authority of law. It means tax proposed to be levied must be within the legislative competence of the legislature imposing the tax.

Article 246 read with Schedule VII divides subject matter of law made by legislature into three categories:

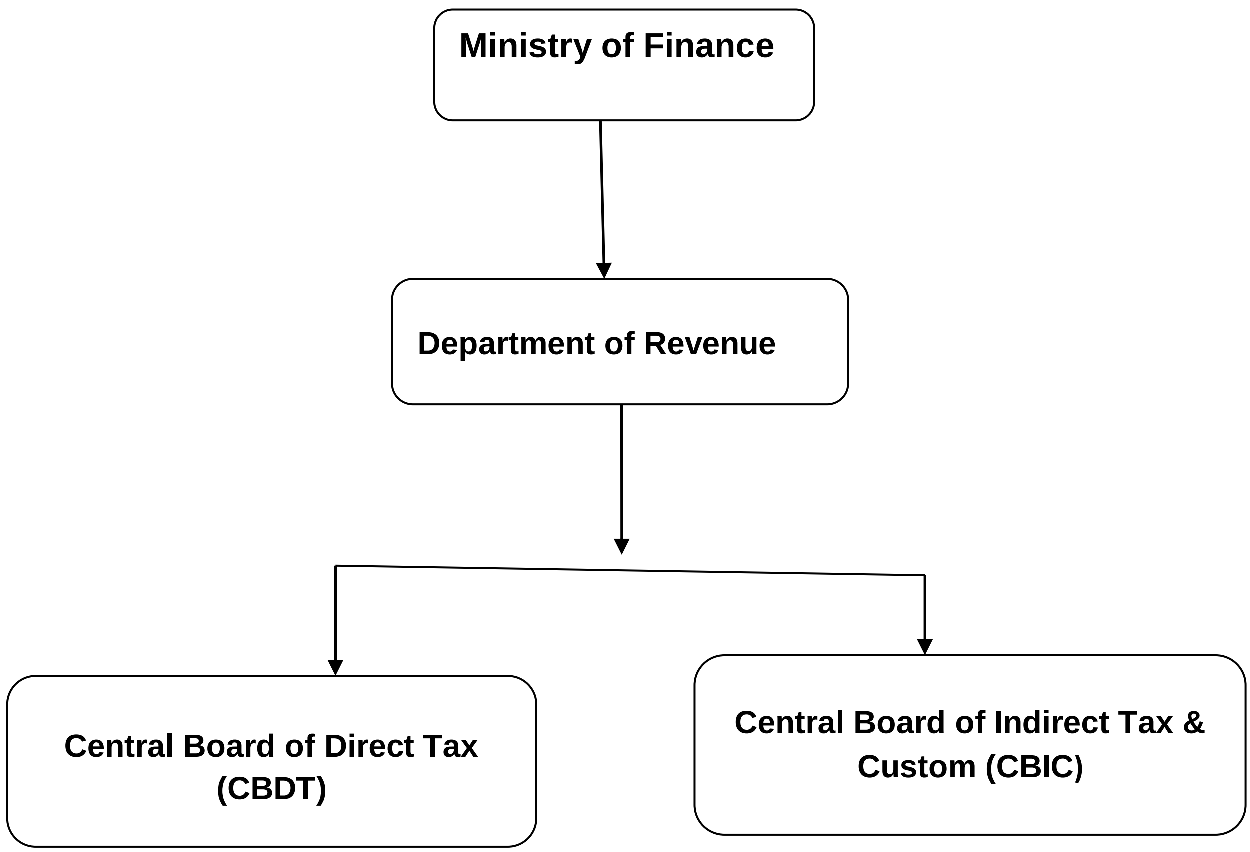
- Union list (only Central Government has power of legislation on subject matters covered in the list)
- State list (only State Government has power of legislation on subject matters covered in the list)
- Concurrent list (both Central & State Government can pass legislation on subject matters).

If a state law relating to an entry in List III is repugnant to a Union law relating to that entry, the Union law will prevail, and the state law shall, to the extent of such repugnancy, be void. **(Article 254).** Following major entries in the respective list enable the legislature to make law on the matter:

Union List (List I)	Entry 82 - Taxes on income other than agricultural income i.e. **Income-tax**
State List (List II)	Entry 46 - Taxes on agricultural income.

1.6 ADMINISTRATION OF TAX LAWS

The administrative hierarchy of tax law is as follows:



1.7 CLASSIFICATION OF TAXES

Modern Tax systems comprise of many types of taxes. Proper classification of the sundry taxes is essential to understand the nature and significance of different taxes.

1. Direct Tax

2. Indirect Tax.

(1). Direct Tax

Based on 'Shifting of Tax', Dalton says "*A direct tax is one which is really paid by a person on whom it is legally imposed or If tax is levied directly on the income or wealth of a person, then, it is a direct tax.* The person who pays the tax to the Government cannot recover itfrom somebody else i.e. the burden of a direct tax cannot be shifted. e.g. Income- tax.

TYPES OF DIRECT TAXES.

Several kinds of Direct Taxes are levied in India by Central Government, State Governments and Local Governments. The following are the most important of them.

(I). Direct taxes levied by Central Government:

(1). Income Tax.

Income tax in India is levied and collected on the basis of Finance Act passed every year under Central budget and the Income Tax Act 1961, aided by the Income Tax rules, 1962. Income Tax is payable by individuals, HUF, AOP, BOI, AJP, Cooperative societies, partnership firms, companies etc. Income tax is a major source of income to the Central government.

(2). Corporation Tax or Corporate Tax or Company Tax.

Income Tax paid by Limited companies is called Corporation Tax or Corporate Tax or Company Tax. It is levied on the profits made by companies as per the rates given in the Finance Act passed by Parliament annually. All profitable companies are required to make advance payment of Income Tax every year. Corporation Tax forms the major chunk of Income Tax in India.

(3). Dividend tax.

Limited companies in India are required to pay dividend tax at 10% on the dividend paid by them to their shareholders. This tax is in addition to the Corporation Income Tax.

(4). Capital gains tax.

For the first time in India, Capital gains tax was introduced in 1947 by the then finance minister Liquate Ali Khan. It was abolished in 1950 and reintroduced again in 1956. This tax is applicable to individuals as well as companies. It is payable on gain realized from capital assets. Income Tax Act 1961 contains all the provisions relating to the capital gains. In the year 2004, Finance minister Chidambaram has made major concessions relating to capital gains tax.

(5). Wealth tax.

Wealth tax is imposed on the wealth or assets held by individuals. It is levied every year on the total value of a person's property or wealth or capital. It was introduced in 1957 in India on the recommendation of Prof.Kaldor. Since wealth increases an individual's tax paying ability, wealth tax is progressive in nature. It is payable at 1% on the net wealth exceeding rupees 15 lakhs. Wealth tax no longer leviable from AY. 2016 – 2017.

(6). Gift Tax

It was introduced to complement estate duty and also to prevent large scale avoidance of estate duty through gifts of property before death and also the wealth tax by gifting away wealth. It was originally introduced in 1956. However with effect from 1st November 1998 gift tax was abolished due to its low yield to the union government

(7). Estate duty or Inheritance tax or death duty

Death taxes assume two major forms. One is called Estate Duty which is levied upon the entire estate left by a deceased person. The other form is Inheritance tax which is levied on the separate shares of the estate transferred to the beneficiaries. It was imposed and collected by the Central government but the proceeds were transferred to the state governments Estate duty was introduced in India from Oct. 1953. It was abolished from16th March 1985 because of its low yield and higher cost of collection.

(II). Direct Taxes at State level.

(1). Land Revenue

Before independence, Land revenue was the most important source of revenue to the government. In fact even in the historical times, land revenue was the most important tax in most of the countries in the world.

Land Revenue is purported to be the state's share in the output from land. In India, land revenue is abolished in some states and in others the rate varies from state to state. However, Land revenue has lost its prominence as a revenue raising tax because of its lack of elasticity and strong bias against taxing the agricultural sector in India

(2). Agricultural Income Tax

Agricultural income tax is defined as a tax on income earned from agriculture or other related activities. Indian constitution specifically provides for levy of agricultural income tax by the State governments. However, no State government has actually passed legislation to tax agricultural incomes.

(3). Professional tax

This is a tax on professionals, payable annually. State government fixes a specified amount to be paid by each category of professionals. Irrespective of actual income, each professional pays the professional tax as a lumpsum, one time payment per year. It may be paid in two installments. In case of professionals working as salaried employees, the employer deducts the amount of tax in two installments from the salary of the employees.

(III). Direct Taxes at local government level.

Local governments like Municipalities, Corporations, Panchayats levy some direct taxes like House property tax.

(2). Indirect Taxes

Indirect tax is imposed on one person, but paid partly or wholly by another. Thus, an indirect tax is one which can be shifted or passed on. So, the tax-payer and the tax-bearer are different persons. Tax is levied on the price of a good or service, then, it is an indirect tax e.g. Goods and Services Tax (GST) or Custom Duty. In the case of indirect taxes, the person paying the tax passes on the incidence to another person.

Various indirect taxes are levied by Central government, the State governments and local governments. The following are the most important of them. Indirect taxes levied by Central Government:

(1). Central Excise Duty

An "excise duty" is a tax on goods produced or manufactured within the country either in the process of their manufacture or before their sale to customers. It is levied on commodities like Beverages, Sugar, Petrol, Tobacco, Cloth etc.

An excise duty should be considered as a tax on a commodity than a tax on transaction. The burden of excise duty lies on the consumers in proportion to the consumption of the commodities.

(2). Customs Duty.

Customs duties are taxes imposed on goods as they cross a national boundary. They are levied on goods imported into India from other countries (Import duties) and also on goods exported from India to other countries (Export duties). Import duties perform the dual functions of protecting domestic industries from foreign competition and also earn foreign exchange. Export duties are levied to earn large amount of revenues.

(3). Goods and Service Tax

The Goods and Service Tax (GST) is a tax levied on most goods and services sold for consumption. The GST is paid by consumers but it is remitted to the Government by the business selling goods and services. In effect, GST provides revenue for the government, borne by the consumers.

1.8 DEFINITION OF IMPORTANT TERMS OR IMPORTANT TERMS USED IN INCOME TAX CALCULATIONS

(1). Assessee [Section 2(7)]

"Assessee" means a person by whom any tax or any other sum of money is payable under this Act. In addition, it includes –

(a). Every person in respect of whom any proceeding under this Act has been taken for the assessment of

- his income; or
- the income of any other person in respect of which he is assessable; or
- the loss sustained by him or by such other person; or
- the amount of refund due to him or to such other person

(b).Every person who is deemed to be an assessee under any provision of thisAct;

(c).Every person who is deemed to be an assessee-in-default under any provisionof this Act.

TYPE OF ASSESSEE:

The term assessee is divided into three categories as under:

i.. Ordinary Assessee

ii. Deemed Assessee and

iii. Assessee in Default.

i. Ordinary Assessee:

1. Any person against whom some proceedings under IT Act are going on.
2. Any person who has filed Return of Loss under sec. 139(3).
3. Any person, by whom any amount of penalty or interest is payable.

4. Any person, who is eligible to get refund of tax.

ii. Deemed Assessee:

A person who is deemed to be an assessee for some other person is called "Deemed Assessee". **For example**: Deceased person, Minor or Lunatic, Non-resident etc.

iii. Assessee in Default:

Any person who fails to perform any statutory obligations as per the Act is called as an assessee in default. For example, any employer who is liable to deduct tax before of salary to his employees, fails to do so, he will be assessed as assessee in default.

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

This is the procedure by which the income of an assessee is determined. It may be by way of a normal assessment or by way of reassessment of an income previously assessed. Assessment Procedure will be dealt with in detail at the Final level.

(3). Assessment Year (AY) [Section 2(9)]

Assessment year means the period of 12 months commencing on the 1st day of April every year. It is the year (just after the previous year) in which income earned in the previous year is charged to tax. E.g., the current assessment year starting on 1st April 2025 and ending on 31st 2026

Taxpoint:

- Duration: Period of 12 months starting from 1st April.
- Relation with Previous Year: It falls immediately after the Previous Year.
- Purpose: Income of a previous year is assessed and taxable in the immediately following Assessment Year.

(4). Previous Year or Uniform Previous Year (PY) [Section 3]

Previous Year means the financial year immediately preceding the Assessment Year. Income earned in a year is assessed in the next year. The year in which income is earned is known as Previous Year and the next year in which income is assessed is known as Assessment Year. It is mandatory for all assessee to follow financial year (from 1st April to 31st March) as previous year for Income-Tax purpose.

(5). Financial Year (FY).

According to sec. 2(21) of the General Clauses Act, 1897, a Financial Year means the year commencing on the 1st day of April. Hence, it is a period of 12 months starting from 1st April and ending on 31st March of the next year. It plays a dual role i.e. Assessment Year as well as Previous Year.

(6). Person [Section 2(31)]

There are seven categories of persons chargeable to tax under the Act:

(a). Individual;

(b). Hindu Undivided Family (HUF);

(c). Company;

(d). Firm or Partnership firm

(e). Association of Persons (AOP) or a Body of Individuals (BOI), whether incorporated or not;

(f). Local authority; and

(g) .Every artificial juridical person not falling within any of the preceding categories

(a). Individual.

The word 'individual' means a natural person, i.e. human being. "Individual" includes male or femae, a minor or a person of unsound mind. However, Deities are assessable as juridical person. Trustee of a discretionary trust shall be assessed as an individual

(b). Hindu Undivided Family (HUF)

A Hindu Undivided Family (on which Hindu law applies) consists of all persons lineally descended from a common ancestor & includes their wives & unmarried daughters.

Taxpoint:

- Only those undivided families are covered here, to which Hindu law applies. It also includes Jain and Sikh families.
- Once a family is assessed as Hindu undivided family, it will continue to be assessed as such till its partition.

(c). Company [Sec. 2(17)]

Company means:

a. any *Indian company*; or

b. any body corporate, incorporated under the laws of a foreign country; or

c. any institution, association or body which is or was assessable or was assessed as a company for any assessment year on or before April 1, 1970; or

d. any institution, association or body, whether incorporated or not and whether Indian or non-Indian, which is declared by general or special order of the Central Board of Direct Taxes to be a company.

a). Indian Company [Sec. 2(26)]

An Indian company means a company formed & registered under the Companies Act, 1956 & includes

- a company formed and registered under any law relating to companies formerly in force in any part of India other than the state of Jammu & Kashmir and the Union territories specified in (c) infra;

- a company formed and registered under any law for the time being in force in the State of Jammu & Kashmir;
- a company formed and registered under any law for the time being in force in the Union territories of Dadar & Nagar Haveli, Goa, Daman & Diu and Pondicherry;
- a corporation established by or under a Central, State or Provincial Act; any institution, association or body which is declared by the Central Board of Direct Taxes (CBDT) to be a company u/s 2(17).

In the aforesaid cases, a company, corporation, institution, association or body will be treated as an Indian company only if its registered office or principal office, as the case may be, is in India.

b). Domestic Company [Sec. 2(22A)]

Domestic company means:

i) an Indian company; or

ii) any other company, which in respect of its income liable to tax under the Act, has made prescribed arrangements for the declaration and payment of dividends (including dividend on preference share), payable out of such income, within India.

c). Foreign Company [Sec. 2(23A)]

Foreign company means a company which is not a domestic company.

Company in which public are substantially interested [Sec. 2(18)]

Following companies are said to be a company in which public are substantially interested:

1. Government Company;
2. A company u/s 8 of the Companies Act, 2013;
3. Mutual benefit finance company;

4. Listed company;

5. Company in which shares are held by co-operative societies;

6. Company which is prescribed by CBDT

(d). Firm or Partnership firm.

As per sec. 4 of Indian Partnership Act, 1932, partnership means "relationship between persons who have agreed to share profits of the business carried on by all or any one of them acting for all". Persons, who enter into such business, are individually known as partners and such business is known as a Firm. A firm is, though not having a separate legal entity, but has separate entity in the eyes of Income-tax Act.

Taxpoint:

- Partnership firm is a separate taxable entity apart from its partners.
- In Income tax, a Limited liability partnership shall be treated at par with firm.

(e). Association of Persons (AOP) or Body of Individuals (BOI)

Association of Persons (AOP) : When persons combine together for promotion of joint enterprise they are assessable as an AOP, if they do not in law constitute a partnership. In order to constitute an association, persons must join for a **common purpose or action** and their object must be to produce income; it is not enough that the persons receive the income jointly. Co-heirs, co-legatees or co-donees joining together for a common purpose or action would be chargeable as an AOP. For e.g., Mr. Yash, AB & Co. (Firm) and X (P) Ltd. join together to carry on construction activity otherwise than as a partnership firm, such an association will be recognized as an association of persons.

Body of Individuals (BOI): Whereas, **BOI** means a group of individuals (individual only) who join together for common purpose(s) whether or not to earn income. Co-heirs, co-donees, etc joining together for a common purpose or action would be chargeable as an AOP or BOI. In case of income of AOP, the AOP alone shall be taxed and the members of the AOP cannot be taxed individually in respect of the income of the AOP For e.g., mutual trade associations, members club, etc.

Difference between AOP and BOI

- In case of BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like Company, Firm etc. can be the member of AOP but not of BOI.
- In case of an AOP, members voluntarily get together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

(f). Local Authority

As per Sec. 3(31) of the General Clause Act, a local authority means a municipal committee, district board, body of Port Commissioners, Panchayat, Cantonment Board, or other authorities legally entitled to or entrusted by the Government with the control and management of a municipal or local fund.

(h). Artificial Juridical Person Artificial juridical person are entities –

Which are not natural person;

- has separate entity in the eyes of law;
- may not be directly sued in a court of law but they can be sued through person(s) managing them for Example: Deities, Idols, University, Bar Council, etc.

Example: Determine the status of the following:

Case Status	Status of Person
a). Tirunelveli Municipal Corporation.	Local authority
b). Corporation Bank Ltd.	Company
c). Mr. Amitabh Bachchan.	Individual

d). Amitabh Bachchan Corporation Ltd.	Company
e). A joint family of Sri Ram, Smt. Ram and their son Lav and Kush.	HUF
f). Calcutta University.	Artificial juridical person
g). X and Y who are legal heirs of Z.	BOI
h). Sole proprietorship business.	Individual
i). Partnership Business.	Firm

(7). Income [Section 2(24)]

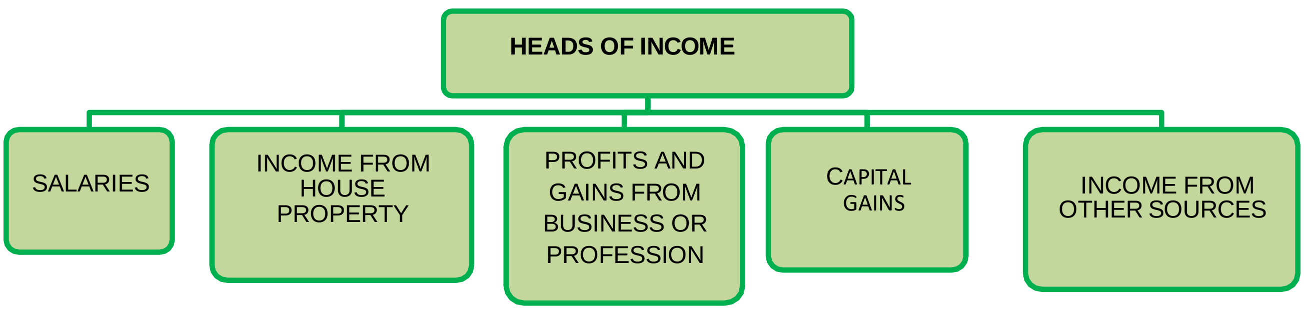
Income tax is charged on the income of a person. The term income has not been defined in the Income Tax Act. But Sec.2(24) explains what is included in income. As per Sec.2(24), income included

- Profits and Gains
- Dividend
- Voluntary Contribution received by a trust
- Value of any perquisite or profit in like of salary
- Any allowance, special allowance or benefit.
- Perquisite or benefit to a director.
- Perquisite or benefit to a representative assessee.
- Any amount received as obligation by the company.
- Capital gain.
- Insurance Profit.
- Wining from lottery.
- Amount received under keyman insurance Policy.
- Gift of an amount exceeds Rs.50,000.

(8).Heads of Income. [Sec.14]

A person may earn income from different sources. For example, a salaried person earns income by way of salary. He also gets interest from bank savings account/fixed deposit. Apart from this, if he has invested in shares, he would be getting dividend and when he sells these shares, he may earn profit on such sale. If he owns a residential property which he has let out, he would earn rental income.

Under the Income-tax Act, 1961, for computation of total income, all income of a tax payer are classified into five different heads of income. These are shown below –



There is a charging section under each head of income which defines the scope of income chargeable under that head. These heads of income exhaust all possible types of income that can accrue to or be received by the tax payer. Accordingly, income earned is classified as follows:

1. Income received from Salary:

The provisions relating to salary are provided under Sections 15 to 17 of the Income Tax Act, 1961. Income that is chargeable under the head Salaries is deemed to accrue or arise in India in all the cases when earned in India; for this purpose, income is said to be earned in India if the services are rendered in India. The actual place of accrual of the salaries, the residential status of the employer, the citizenship or nationality of the employee, and whether the employee is a government servant or an employee of private enterprises are immaterial. However, according to Section 9(2) of this Act, any pension payable outside India to a person residing permanently outside India should not be deemed to accrue or arise in India.

2. Income received from House Property:

The provisions relating to income received from house property are provided under Sections 22 to 27 of the Income Tax Act, 1961. Income received from the let-out buildings or lands adjoining to or forming a part of the building is chargeable under income tax. For example, Mr. X is the owner of a building. The building is given on rent. Income generated from the building is taxable under the head of House Property.

3. Income received from Profits and Gains of Businesses and Professions:

The provisions relating to income received from PGBP are provided under Sections 28 to 44DB of the Income Tax Act, 1961. The profits and gains of any business or profession carried on by the assessee at any time during the previous year are chargeable under this head of income.

4. Income received from Capital Gains:

The provisions relating to income received from capital gains are provided under Sections 45 to 55A of the Income Tax Act, 1961. Section 45 of the Act provides that any profits and gains arising from the transfer of a capital asset in the previous year shall be chargeable under this head of income.

5. Income received from Other Sources:

The provisions relating to income received from other sources are provided under Sections 56 to 59 of the Income Tax Act, 1961. Income from other sources means it is not chargeable under the head of salary, house property, PGBP, and capital gains are chargeable under this head. Dividends, keyman insurance policy, winning from lotteries, contribution to provident fund, income by way of interest on securities, gifts, etc.

Nature of Income

The income under the Income Tax Act is not limited to cash receipts alone but includes other forms of income such as:

i) Monetary Income: Monetary income is direct income that is received in the form of cash or equivalents such as salary, interest, dividends, etc.

ii) Non-Monetary Income: Non-monetary income means benefits received in kind, such as gifts, perks, services, and free accommodations, which have some monetary value in the context of taxation.

(9). Gross Total Income.(GTI). [Sec.80B(5)]

Gross total income is the aggregate of income under all the five heads of income after adjusting the set-off & carry forward of losses. Deductions under chapter VIA are provided from GTI, to arrive at Total income or taxable income is given in the following format:

Computation of Total Income for the A.Y.___

Particulars	Amount
1. Salaries	***
2. Income from house property	***
3. Profits and gains of business or profession	***
4. Capital gains	***
5. Income from other sources	***
Gross Total Income	****
Less: Deduction u/s 80C to 80U	***
Total Income Or Taxable Income	****
Computation of Tax Liability: **Gross Tax** **(Apply tax rate of A.Y 2024 - 25 on Taxable Income)**	***
Add : Health and Education Cess @ 4% on Gross Tax	****
Tax Liability	*****

(10). Casual Income.

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

a. Winning from lotteries,

b. Winning from crossword puzzles,

c. Winning from races (including horse races),

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

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

Tax treatment:

Casual income are fully taxable under the head income from other sources, Further, in case of winnings from lotteries exceeding crossword puzzles or card games Rs. 10,000 and winnings from races exceeding Rs. 5,000 are subject to TDS @30%.

(11). Agriculture Income.

The income tax does not define the term agriculture income. Instead it gives a list income that can be treated as agricultural income. Section 2(1A) of the Act defines agricultural income as follows:

1. Any rent or revenue derived from land that is situated in India and is used for agricultural purpose;

Any income derived from such land by-

a) Agriculture; or

b) Any process ordinarily employed by a cultivator or receiver of rent-in-kind to make the produce fit to be taken to market or

c) The sale by a cultivator or receiver of rent in kind of the produce in respect of which no process has been performed other than a process of the nature described in the above paragraph.

2. Any income derived from farm house.

Criteria to determine agricultural income

- Income received from land situated in India.
- Land is used for agricultural purpose.
- Land is situated in India.

Examples of Agricultural Income:

(i) Income from growing and selling paddy, wheat, flowers, trees.

(ii) Insurance money received for destruction of agricultural produce.

(iii) Income from sale of dried Tobacco leaves.

(iv) Income from sale of straw.

(v) Income from growing and maintaining nursery, tea leaves.

Examples of Non-Agricultural Income:

- Income from sale of wild grass and reeds of spontaneous growth

- Income derived from land let out for storing crops
- Income from fisheries
- Maintenance allowance charged on agricultural land
- Royalty income of mines
- Income from butter and cheese making
- Income from poultry farming
- Income from brick making
- Income from stone quarries
- Income from breeding of live stock.

Illustration- 01.

State, whether the following incomes are agricultural or non-agricultural income:

a) Income from growing flowers and creepers.

b) Income from agricultural land situated in Australia

c) Income from sale of forest trees of spontaneous growth

d) Rent received from house property situated in a village.

e) Remuneration received as manager of an agricultural farm house

f) Income from dairy farm, poultry farming etc.

Solution:

a) Agricultural Income,

b) Non-Agricultural Income

c) Non-Agricultural Income

d) Non-Agricultural Income

e) Non-Agricultural Income

f) Non-Agricultural Income

3. Partly Agricultural Income and Partly Business Income:

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

Sl. No	Crop	Rule	Agricultural Income	Business Income
1	Growing and Manufacture of Tea	8	60%	40%
2	Rubber manufacturing business:	7A	65%	35%
3	Coffee grown and cured by seller	7B(1)	75%	25%
4	Coffee grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavoring ingredients.	7B (1A)	60%	40%
5	In case of other commercial crops, if agriculture produces is used as raw material.	7	Market value of the produce	Balance amount

ILLUSTRATION: 02

Mr. Raman had estates in Rubber, tea and coffee. He derives income from them. He furnishes the following particulars of his income for the year ending 31-3-2025.

Manufacture of rubber Rs: 5, 00,000

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

Manufacture of tea Rs: 7, 00,000

Compute taxable income of Raman for the A.Y. 2025-2026.

Solution: Computation of Taxable income for the A.Y.2025 -26

Particulars	Rs
1. Manufacture of rubber **(35% is non-agricultural income)**	1, 75,000
2. Manufacturing of Coffee (**25% is non-agricultural income)**	87,500
3. Manufacturing of tea (**40% is non-agricultural income**)	2, 80,000
Taxable Income	5, 42,500

12. DEFINITION OF IMPORTANT TERMS OR IMPORTANT TERMS USED IN INCOME TAX CALCULATIONS

(i). Definite Source.

Income connotes a periodical monetary return coming in with some sort of regularity from a definite source.

(ii). Legal or illegal income.

The income-tax does not differentiate income arising from a legal source and an illegal source. However, any expenses incurred to earn the illegal source of income are allowed to be deducted out of such income and the net income is taxable.

(iii). Income may be received in cash or in kind.

It is not necessary that income must be received in the form of cash. Income received in kind or service having money equivalent is also considered for tax purposes. Where the income is received in kind, it is valued according to the rules prescribed in the 'Income Tax Rules, 1962'. Where there is no prescribed rule, valuation thereof is made on the basis of its market value.

(iv). Income being considered on receipt basis or accrual basis.

The income may accrue to a tax payer without its actual receipt. The income in some cases is deemed to accrue to a tax payer without its actual receipt. The income in some cases is deemed to accrue or arise to a person without its actual accrual or receipt. Income accrues where the right to receive arises.

(v). Dispute regarding the title.

Income tax assessment will not be held up or postponed merely because of existence of a dispute regarding the title of income. The recipient is chargeable to tax even though there may be rival claim to the source of income.

(vi). Mere relief or reimbursement of expenses.

Mere relief or reimbursement of expenses is not treated as income. The full Bench of Allahabad High Court held that relief from expenditure granted to the auctioneer could not be regarded as income.

(vii). Income may be permanent or temporary.

Income tax does not differentiate permanent and temporary income, even temporary income is taxable.

(viii). Income may be received in lump sum or otherwise.

Income either received in lump sum or in installments, is liable to tax.

(ix). Gifts of Personal nature.

Gifts of personal nature like birthday, marriage gifts etc., are not liable to tax. Gifts from unrelated persons exceeding Rs. 50,000 in aggregate are taxable.

(x). Income to be earned from outside.

A person cannot make income from himself. Income cannot arise from transactions between head office and branch. In an association, if the subscription from members exceeds its expenditure on its members, the surplus cannot be treated as taxable income. This is because subscription was received from the members themselves and not from outside. Similarly, excess over expenditure received by a club from facilities provided to members as part of advantages attached to such membership is not taxable income.

(xi). Diversion of income vs. Application of Income.

Where the total income is diverted to some other person under legal obligation, it is diversion of income. Where the income is given to someone else after receiving the income, it is application of income. Similarly, if an income is voluntarily diverted to some other person, it is application of income. Where an income is diverted before it reaches the assessee, it is diversion of income and not taxable. But where the income is required to be applied to discharge an obligation after such income reaches the assessee, it is application of income and taxable.

(xii).PIN Money.

Pin money is money received by wife for her personal expenses & small savings made by a woman from money received from her husband for meeting household expenses. Such receipt is not treated as income. Note: Income on investment out of pin money shall be treated as income.

(xiii). Award received by a sports person.

Award received by a professional sports person in the nature of a benefit in exercise of his profession is chargeable to tax.

(12). Tax Planning, Tax Evasion and Tax Avoidance

(a).Tax planning is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. It is the scientific planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act.

(b).Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Tax evasion is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation.

(c).Tax avoidance is an exercise by which the assessee legally takes advantages of loopholes in the Act. Tax avoidance is a practice of bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. Most of the amendments are aimed to curb such loopholes. There are two thoughts about tax avoidance.

Distinguish between Tax Planning, Tax Evasion, Tax Avoidance and Tax Management

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions,	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in	It is a procedure to comply with the provisions of the law.

	rebates & relief.		reduction of total income of the assessee.	
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it	Tax evasion is illegal, both in script & moral.	It is implementation or execution part of taxation department of an organization.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means.	To comply with the provisions of laws.
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It over rules the law.	It implements the law.
Practice	It is tax saving.	. It is tax hedging.	. It is tax concealment.	It is tax administration.

(d). Diversion of income and Application of income

There is a very thin line of difference between Diversion of income & Application of income.

(e). Diversion of income: Where by virtue of an obligation, income is diverted before it reaches to the assessee, it is known as diversion of income & it is not taxable (i.e. even if the assessee were to collect the income he does so on behalf of the person to whom it is payable).

Example: A, B and C are co-authors of a book. The publisher of the book gave the whole royalty of `6,00,000 to A. A paid `2,00,000 to B and C each. Such payment is not application of income but diversion of income.

(f).Application of income: Whereas, application of income means to discharge an obligation (which is gratuitous or self-imposed) after such income reaches the assessee & hence it is taxable.

(13). EXEMPTED INCOME UNDER SECTION 10

The Government of India provides some exemptions to reduce the tax burden on the taxpayers. Section 10 of the Income-tax Act, 1961 talks about those exemption provisions and the terms and conditions on which one can avail a tax exemption. These exemptions help the taxpayer to reduce their tax liability. While calculating the tax liability of an individual, there are certain incomes which is exempt and do not form a part of the total income. Section 10 of the Income-tax Act 1961 includes all those exemptions that a taxpayer can claim while paying income tax. The list of exempted income under Section 10 is given below:

1. Agricultural Income [Section 10(1)]: (Fully exempted)

The following agricultural income exemptions are provided under Section 10(1) of the Income Tax Act:

1. Sale of agricultural produce
2. Agricultural operations such as sowing, cultivation, and tilling
3. Income from agricultural land in India, including rent or revenue
4. Earnings from farm buildings used for agricultural purposes

5. Income from agricultural operations aimed at preservation and growth, such as weeding, pruning, and cutting

2. Partner's Share in Profits [Section 10(2A)]:

The partner's share in the profits of the firm or Limited Liability Partnership (LLP) is fully exempt.

3. Leave Travel Allowance [Section 10(5)]:

Section 10(5), or leave travel allowance exemption, is applicable for individual taxpayers. The LTA exemption applies only to the domestic travel expenses, such as airfare, train or bus fare, incurred by the employee. Other expenses, such as transportation within the destination, sightseeing, hotels, and food, are not covered. Additionally, the exemption is limited to LTA provided in your CTC by the employer. For example, if an employee is given LTA of Rs 30,000 and incurs travel expenses of Rs 20,000, only the amount actually spent on travel would be exempt from taxes and the remaining Rs 10,000 would be included as taxable income.

4. Gratuity Section [10(10)]:

Any income by way of gratuity received by the government, but in the case of employees working in the private sector, depends on whether they are covered under the Payment of Gratuity Act or not.

5. Commuted Pension [Section 10(10A)]:

If you are a Government employee, under this section, you receive tax exemption on the money you get from accumulated pensions.

6. Leave Encashment [Section 10(10AA)]:

Employees are allowed a certain number of leaves during the period of their service. It is upto the employees to avail such leaves or not. In case the leaves are not availed, they either get lapsed to get accumulated for future or are allowed to be encashed at the end of every year or at the time of retirement/resignation. If the employee wished to encash such leave during the period of service then it is fully taxable. However, if such leaves are encashed at the time of resignation/retirement, they are eligible for deduction under section 10(10AA). Further, leave encashment for government employees is completely exempt. In case of a non-government employee, the exemption will be the lower of the follows:

(i). Rs. 25, 00,000

(ii). Leave Salary Actually Received

(iii). Average 10 Months Salary

(v). Cash Equivalent of Unavailed Leave Credit at the time of retirement

7. Retrenchment Compensation [Section 10(10B)]:

Retrenchment compensation is the amount paid at the time of transfer of employment or closing down of the industrial undertaking. Taxpayers receiving such compensation can claim an exemption u/s 10(10B) of the lower of the following:

(i) Compensation Received

(ii) Rs. 5,00,000

(iii) 15 days Avg pay x Completed years of service

8. Voluntary Retirement [Section 10(10C)]:

Any amount received by an employee at the time of voluntary retirement would be taxed as profit in lieu of salary. The taxpayer can avail an exemption u/s 10(10C) as least of the following: Compensation Received

(i) Rs. 5,00,000

(ii) 3 months' salary x Completed years of service

(iii) Last drawn salary x Remaining months of service

9. Exemption on Life Insurance Policy [Section 10(10D)]:

Under this section, you get an exemption for the income you receive from a life insurance policy or bonus. However, the below insurance policies shall not be eligible: Life insurance policy has taken on a specially-abled dependent family member, Key man insurance policy. Insurance policies where the premium amount is more than 10% of the sum assured.

10. Exemption on Payment Made to Provident Fund and Sukanya Samriddhi Account [Section 10(11)]:

Under this section, you receive exemptions for interest from a provident fund upon resignation or retirement. **Note:** From 1st April 2021 onwards, the exemption under section 10(11) will not apply to interest income accrued during the previous year on contributions exceeding Rs. 2,50,000 made by the person/employee to that fund in any previous year.

11. House Rent Allowance [Section 10(13A)]:

Section 10(13A) of the Income Tax Act covers House Rent Allowance (HRA). The part of your salary you receive to cover house rent and accommodation expenses is exempted from taxation. However, a few exceptions are included in Section 10(13A) Rule 2A. The exemption is allowed for the least of the following amounts:

(i). Actual HRA received

(ii). Actual rent paid (-) 10% of [basic salary + DA]

(ii). 50% of [basic salary + DA] for those living in Delhi, Mumbai, Chennai, Kolkata or

(iv). 40% of [basic salary + DA] for those living in other cities

12. Exemption of Special Allowance [Section 10(14)]:

Section 10(14) also includes a tax exemption of Rs.26,400 in a year for food allowance provided by your employer assuming two meals a day and 22 working days in a month. Under Section 10(14), the Internet allowance provided by your employer is exempted from taxation.

This section provides exemptions for expenses incurred due to your employer's business. It includes travelling, conveyance, research allowance and more, provided such expenses are actually spent for the given purposes.

13. Children Education Allowance [Section 10(14)(ii)]:

Taxpayers with children's education allowance can an exemption of Rs. 100 per month for two children every year. In case the taxpayer is blind or deaf and dumb or handicapped, and receiving a transport allowance can also claim an exemption of Rs. 3,200 per month.

14. Interest on Savings Certificate [Section 10(15)]:

Interest income earned on post office savings bank account, premium on redemption or other payment on notified securities, bonds, annuity certificates or other savings certificates is exempt up to the following limits:

Rs. 3,500 for individuals

Rs. 7,000 for joint account holders.

15. Tax Exemption for Educational and Medical Institutions Section [10(23C)]:

Educational or medical institutions whose aggregate annual receipts do not exceed Rs.5 crore are eligible for exemption under this section.

16. Tax Exemptions for Scheduled Tribe Members in Specific Northeastern States [Section 10(26)]:

If you are a member of a Scheduled Tribe in Tripura, Nagaland, Mizoram, Manipur, and Arunachal Pradesh, you are eligible for tax exemptions against income earning either from any source in the states mentioned above or earning through dividends or interest on securities under Section 10(26) Of the Income Tax Act.

17. Exemption on Dividends [Section 10(34)]:

This section includes exemptions from the dividends that you receive from investing in an Indian company. However, this exception is only limited to an amount of Rs.10,000, exceeding which you have to pay tax.

Note: This is applicable only for the dividends received till 31st March 2020.

18. Exemption on Buy-Back of Shares [Section 10(34A)]:

The amount received on shares bought back by a domestic company before 01.10.2024 is fully exempt from tax u/s 10(34A).

19. Exemption on Income from Specified Mutual Funds [Section 10(35)]:

Any income that you gain from the sale of specified mutual fund units.

Note: This is applicable only for the income earned till 31st March 2020.

20. Exemption on Capital Gains from Compulsory Acquisition of Urban Agricultural Land [Section 10(37)]:

This section provides exemptions for capital gains due to the compulsory acquisition of urban agricultural land, provided the below conditions are fulfilled:

land should be used for agricultural purposes for 2 years before its sale date compulsory acquisition scheme should be approved by the central government or RBI

21. Exemption on Long-Term Capital Gains from Sale of Equity Shares and Equity-Oriented Mutual Funds [Section 10(38)]:

When you get long-term capital gains by selling equity shares of an equity-oriented mutual fund, it is exempted from Income Tax calculation. However, the Securities Transaction Tax must be paid. Note: This is applicable only for the long-term capital gain earned till 31st March 2018.

22. Units in Special Economic Zones [Section 10AA]:

An assessee being an entrepreneur conducting business in an SEZ, set up after 01/04/2006 and before 01/04/2021 will be eligible for deduction as follows:

For the first consecutive five assessment years, one can claim a deduction of 100% of profit and gains derived from exports and 50% of profit and gains for the next five assessment years.

50% of profit as debited in the profit and loss account and credited to reserves will be allowed as a deduction for the next consecutive five assessment years.

MULTIPLE CHOICE QUESTIONS (MCQ)

PART - A [1 Marks Questions)

Choose the Correct Answer:

1. Income tax is
   a) A direct tax
   b) An indirect tax
   c) Business tax
   d) Other tax

   Ans: A

2. Income tax is calculated on
   a) Sales
   b) Purchase
   c) Income
   d) Assets **Ans: C**

3. A Person includes:
   a) Only Individuals
   b) Only Individuals and HUF
   c) Individuals, HUF, Firm, Company only
   d) Individuals, HUF, Company, Firm, AOP/ BOI, Local Authority, Every Artificial Juridical Person **Ans: D**

4. Every assessee is a person and
   a) Every person is also an assessee
   b) Every person need not be an assessee
   c) An individual's is always an assessee
   d) A HUF is always an assessee **Ans: B**

5. If one fails to fulfill his statutory obligations as per Income tax Act, he is
   a) Representative assessee
   b) Deemed assessee
   c) Ordinarily assessee
   d) Assessee in-default **Ans: D**

6. Assessment year can be a period of:
   a) Only more than 12 months
   b) 12 months and less than 12 months
   c) Only 12 months
   d) 12 months and more than 12 months **Ans: C**

7. Year in which income is taxable is known as ______ and year in which income is earned is known as:_____
   a) Previous year, Assessment year
   b) Assessment year, previous year
   c) Assessment year, Assessment year
   d) Previous year, Previous year **Ans:B**

8. Pervious year started from:
   a) April
   b) March
   c) January
   d) September **Ans:A**

9. Who is Tax payer?
   a) Assessee
   b) Businessman

c) Trust

d) Farmer **Ans: A**

10. Income tax is applicable to

a) Whole of India

b) Tamil Nadu only

c) Whole of India except J & K

d) Whole of India except M.P **Ans: A**

11. Body of individuals should consist of:

a) Individual only

b) Persons other than individual only

c) Both A and B

d) None of these **Ans:A**

12. Agricultural income is:

a) Fully exempt

b) Partially exempt

c) Fully taxable

d) None of these **Ans:A**

13. Agricultural income is exempt provided the:

a) Land is situated in India

b) Land is situated in any rural area India

c) Land is situated whether in India or outside India

d) None of these **Ans:A**

14. The partial integration of agricultural income, is done to compute tax on:

a) Agricultural income
b) Non agricultural income
c) Both agricultural and non agricultural income
d) None of these **Ans:B**

15. If the assessee is engaged in the business of growing and manufacturing tea in India, the agricultural income in that case shall be:

a) 40% of the income such business
b) 60% of the income such business
c) Market value of the agricultural produce minus expenses on cultivation of such produce
d) 20% of the income from such business **Ans:A**

16. Agricultural income is totally exempted from tax____

a) U/S 10(1)
b) U/S 2(9)
c) U/S 18(1)
d) U/S 2(31) **Ans: A**

17. Income Tax Act was passed in

a) 1961
b) 1971
c) 1981
d) 1951 **Ans: A**

18. The present Income Tax Act is known as

a) Income Tax Act 2023

b) Income Tax Act 1961

c) Income Tax Act 1881

d) Income Tax Act 1962 **Ans: B**

19. The term "previous year" means

a) Financial Year

b) Calendar year

c) Accounting year

d) Financial year before the assessment year **Ans: D**

20. The previous year of newly setup business commences from

a) The date of setting up of a business

b) The date of commencement of business

c) 1st April of the Year

d) 31st March of the Year **Ans: A**

21. Current rates of tax are applicable as per

a) Income Tax Act 1961

b) Financial Act 2024-2025

c) Income Tax Act 2025-2026

d) None of the above **Ans: B**

22. When was Income Tax levied in India for the first time?

a) 1860

b) 1886

c) 1960

d) 1961 **Ans: A**

23. The following which is not example of agricultural income.

a) Sales of straw
b) Growing tea
c) Poultry farming
d) Sale of dried tobacco **Ans: C**

24. Exempted incomes are defined u/s
a) Section 10 of the IT Act
b) Section 24 of the IT Act
c) Section 17 of the IT Act
d) Section 52 of the IT Act **Ans: A**

25. Under which section of IT act, exemption on HRA can be claimed.
a) Sec. 10 (11)
b) Sec. 10 (13
c) Sec. 10. (12)
d) Sec. 10 (13A) **Ans: D**

THEORY QUESTIONS

PART – B [5 Marks Questions):

1. What is the meaning of tax?

2. What do you mean by direct tax?

3. What do you meant by indirect tax?

4. What are the main components of income tax Act?

5. Define income.

6. Define person.

7. Who is an assessee under the income Tax Act?

8. What is Gross Total Income?

9. What is Total Income?

10. What is assessment year?

11. What is previous year?

12. What is casual income?

13. Define agriculture income.

14. Explain the history of Income tax in India?

PART – B [8 Marks Questions):

1. Mention the five canons of taxation according to Adam Smith.

2. What are the objectives of tax?

3. What are the differences between direct and indirect taxes?

4. State the features of tax?

5. Define Assessee. Explain the types of assessee?

6. Discuss about the Agricultural income?

7. State the nature of income?

8. What are the Types of incomes?

9. Writ any ten exempted incomes u/s 10.

UNIT – II

RESIDENTIAL STATUS

Learning Objectives – Residential Status

After studying this topic, students will be able to:

- **Understand the concept of residential status** under the Income Tax Act, 1961.
- **Explain the importance of residential status** in determining the tax liability of an individual.
- **Identify the different categories of taxpayers** based on residential status:
  - ✓ Resident and Ordinarily Resident (ROR)
  - ✓ Resident but Not Ordinarily Resident (RNOR)
  - ✓ Non-Resident (NR)
- **Apply the basic and additional conditions** to determine the residential status of an individual in India.
- **Distinguish between resident and non-resident individuals** with suitable examples.
- **Analyze how residential status affects the scope of total income** chargeable to tax in India.
- **Solve practical problems** relating to determination of residential status for a given assessment year.
- **Relate residential status with taxation of Indian and foreign income**.

2.1 INTRODUCTION

Normally, for the purpose of education, employment, services and other government schemes a person is classified as Citizen and Non-citizen. But, it is not applicable to the implementation of Income Tax Act. Because the Act has its own criteria for classifying a person in order to arrive at his total income. Income tax is charged on the basis of the total income of an assessee. ***Total income is determined by taking into consideration of the residential status of the assessee during the previous year***. Sec.5 of Income Tax Act states that the scope of the total income of a person is determined by reference to his residence.

Residential status is determined for each category of persons separately. It is to be determined for every previous year because it may change from year to year. A person may be a resident of more than one country for any previous year. It is determined by considering the number of days he has stayed in India in a particular previous year.

2.2. TAXABLE ENTITIES OR DETERMINATION OF RESIDENTIAL STATUS.

All taxable entities are divided into the following categories for the purpose of determine the Residential Status:

(1). An Individual or **Determination of Residential Status of Individual.**

(2). A Hindu Undivided Family (HUF) or **Determination of Residential Status of** (HUF)

(3). A firm or **Determination of Residential Status of Firm.**

(4). A Company or **Determination of Residential Status of Company.**

(5). Every other person or **Determination of Residential Status of Every other Person.**

On the basis of residence, the Individual and Hindu Undivided Family (HUF) assessee persons are divided into three categories Viz..

(a). Resident and Ordinarily Resident.

(b). Resident but not ordinarily Resident.

(c). Non – Resident.

However, in case of Firm, Company, Body of Individual and others there are only two categories viz.

1. Resident.

2. Non – Resident.

Steps to Calculation of Residential Status:

1. Calculation of Assessment Year (AY) and Previous Year (PY).

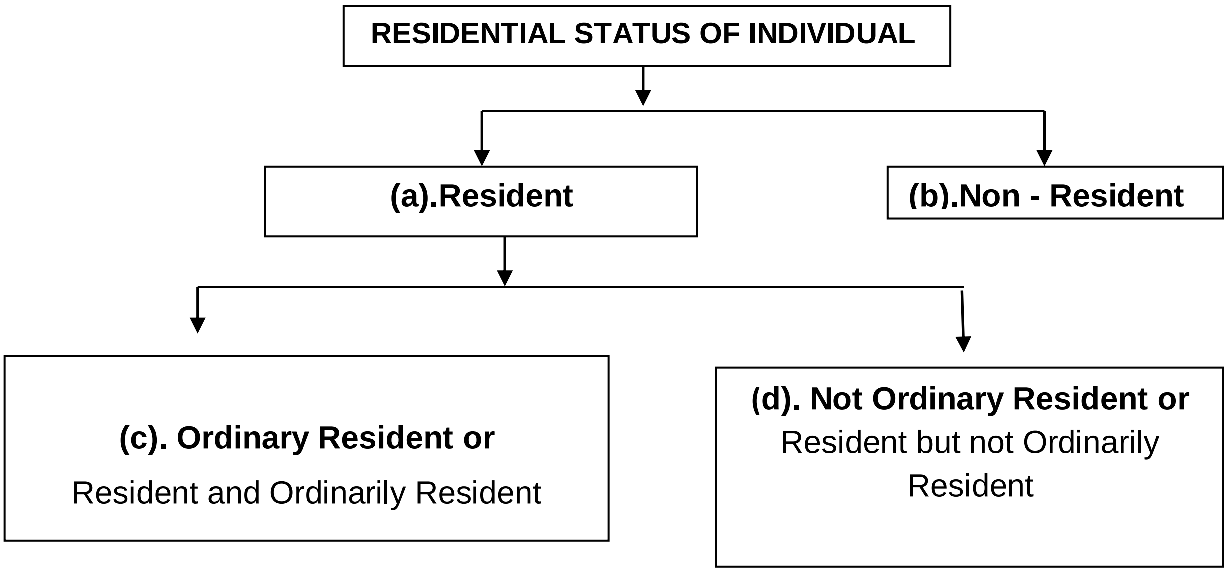
2. Write down to Relating Rules or Conditions of Residential Status.

3. Check the satisfying the conditions or not.

4. Conclusion for Residential Status or not.

2.2.1. DETERMINATION OF RESIDENTIAL STATUS OF INDIVIDUAL. [Sec. 6(1)]

First of all, an individual is classified as **resident or non-resident** and again **a resident individual may further be categorized as ordinarily Resident or Not Ordinarily Resident in India**.



(a). Resident in India [Sec. 6(1)]:

An individual is said to be a resident in India, if he satisfies any one of the following conditions –

(i). He is in India in the previous year for a period or periods amounting in all to of **182 days or more [Sec. 6(1)(a)];**

Or

(ii). He is in India for a period **of 60 days or more during the previous** year and for **365 or more days during 4 previous years immediately preceding the relevant previous year** [Sec. 6(1)(c)] **[i.e. 2020-2021 to 2023-2024).**

Taxpoint: Given Conditions are alternative in nature i.e. assessee needs to satisfy any one condition.

(b). Non - Resident in India

If an individual does not satisfy **any** of the basic conditions **(i) and (ii)** mentioned above, he is said to be Non-Resident in India for the relevant previous year

Illustration : 1

Mr. Rajen left for U.S.A. along with his family, for the first time, on 14- 10-2024. He returned to India on 31-5-2025. Determine his residential status for the assessment year 2025-26.

Solution : Determination of Residential Status:

1. Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year: 2025 -26; (01.04.2025 To 31.03.2026)

Previous year: 2024 -25; (01.04.2024 To 31.03.2025)

2. Write down to Relating Rules or Conditions of Resident

(i). He is in India in the previous year for a period or periods amounting in all to of **182 days or more;**
Or

(ii) He is in India for a period **of 60 days or more during the previous** year and for **365 or more days during 4 previous years immediately preceding the relevant previous year** [Sec. 6(1)(c)] [**i.e. 2020-2021 to 2023-2024).**

3. Check the satisfying the conditions or not.

Number of Days of Stay in India during the P.Y. From **1-4-2024 to 14-10-2024:**

Month	Stay in Days or No of Days
April 2024 (01.04.2024 to 30.04.2024)	30
May 2024 (01.05.2024 to 31.05.2024)	31
June 2024 (01.06.2024 to 30.06.2024)	30
July 2024 (01.07.2024 to 31.07.2024)	31
Augusts 2024 (01.08.2024 to 31.08.2024)	31
September 2024 (01.09.2024 to 30.09.2024)	30
October 2024 (01.10.2024 to 14.10.2024)	14
Total Days stay in Previous Year	**197 Days**

4. Conclusion for Residential Status or not.

First Basic condition under sec. 6(1) of 182 days or more stay is satisfied.

(Previous Year stay in 197 Days). Mr. Rajen is '**Resident'.**

Illustration : 2

Mr.Amaldass, an Indian citizen left India for the first time on 30.09.2024. He did not return until 31.03.2025. Determine his residential status for the P.Y.2024 -2025.

Solution : **Determination of Residential Status.**

1. Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year: 2025 - 26; (01.04.2025 To 31.03.2026)

Previous year: 2024 - 25; (01.04.2024 To 31.03.2025)

2. Write down to Relating Rules or Conditions of Resident

(i). He is in India in the previous year for a period or periods amounting in all to of **182 days or more; Or**

(ii) He is in India for a period **of 60 days or more during the previous** year and for **365 or more days during 4 previous years immediately preceding the relevant previous year** [Sec. 6(1)(c)] **[i.e. 2020-2021 to 2023-2024).**

3. Check the satisfying the conditions or not.

Number of Days of Stay in India during the P.Y. From **01.04.2024 to 39.09.2024**

PY	Apr 24	May 24	Jun 24	July 24	Aug 24	Seb 24	Oct 24	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Total Days Stay
24-25	**30**	**31**	**30**	**31**	**31**	**30**	**-**	-	-	-	-	-	**183**

4. Conclusion for Residential Status or not.

First Basic condition under sec. 6(1) of 182 days stay is satisfied. (Previous Year stay in 183 Days in India). Mr.Amaldass is '**Resident'.**

Illustration : 3

Mr.Aravind, an Indian citizen doing textile business at Tirupur, went to U.K for employment purpose on 10.08.2024 and came back to India on 01.07.2025. He had never gone abroad in the past. Determine the Residential Status of Mr.Aravind for the P.Y.2024.2025

Solution : **Determination of Residential Status.**

1. Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year: 2025 - 26; (01.04.2025 To 31.03.2026)

Previous year: 2024 - 25; (01.04.2024 To 31.03.2025)

2. Write down to Relating Rules or Conditions of Resident

(i). He is in India in the previous year for a period or periods amounting in all to of **182 days or more; Or**

(ii) He is in India for a period **of 60 days or more during the previous** year and for **365 or more days during 4 previous years immediately preceding the relevant previous year** [Sec. 6(1)(c)] **[i.e. 2020-2021 to 2023-2024).**

3. Check the satisfying the conditions or not.

Number of Days of Stay in India during the P.Y. From **01.04.2024 to 29.09.2024**

PY	Apr 24	May 24	Jun 24	July 24	Aug 24	Seb 24	Oct 24	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Total Days Stay
24 - 25	30	31	30	31	10	-	-	-	-	-	-	-	**132**

4. Conclusion for Residential Status or not.

First Basic condition under sec. 6(1) of 182 days stay is not satisfied. (Previous Year stay only in 132 Days in India). Therefore Mr.Aravind is **' Non - Resident'**, due not satisfy basic conditions of 182 days stay in India

Additional conditions to test whether resident individual is 'Ordinarily resident or not' [Sec. 6(6)]

A resident individual in India can further be categorized as –

i) Resident and ordinarily resident in India

ii) Resident but not ordinarily resident in India

(c).Ordinary Resident or Resident and Ordinarily Resident

Resident and ordinarily resident If a resident individual satisfies the following two additional conditions, he will be treated as resident & ordinarily resident in India –

(a). He has been resident in India [as per sec. 6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year.**(i.e. 2011 -2012 to 2020 -2021);**

AND

(b).He has resided in India for a period of 730 days or more during 7 previous years immediately proceeding the relevant previous year. **(i.e. 2014 -2015 to 2023 -2024);**

Taxpoint: To be a Resident & Ordinarily resident in India, one has to satisfy at least ***one condition of sec. 6(1) & both the additional conditions of sec. 6(6).***

(d).Not Ordinary Resident or Resident but not Ordinarily Resident

If a resident individual does ***not satisfy both additional conditions*** as given u/s 6(6), he is "**Resident but not ordinarily resident in India".**

Illustration : 4

Shri. Vignesh, who was born and brought up in India, went to U.K. for further studies on 1st February 2023 and came back to India on 1st October 2024. Ascertain his residential status for the previous year 2024 - 2025

Solution: **Determination of Residential Status of shri.Vignesh**.

1. Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year: 2025 - 26; (01.04.2025 To 31.03.2026)

Previous year: 2024 - 25; (01.04.2024 To 31.03.2025)

2. Write down to Relating Rules or Conditions of Resident

(i). He is in India in the previous year for a period or periods amounting in all to of **182 days or more;** **Or**

(ii) He is in India for a period **of 60 days or more during the previous** year and for **365 or more days during 4 previous years immediately preceding the relevant previous year** [Sec. 6(1)(c)] [**i.e. 2020-2021 to 2023-2024).**

3. Check the satisfying the conditions or not.

Number of Days of Stay in India during the P.Y. From **01-04-2024 to 31-3-25**

PY	Apr 24	May 24	Jun 24	July 24	Aug 24	Seb 24	Oct 24	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Total Days Stay
24-25	-	-	-	-	-	-	31	30	31	31	28	31	**182**

First basic condition under sec. 6(1) of 182 days or more stay is satisfied. Shri. Vignesh is '**Resident'.**

Shri. Vignesh is 'Resident' and then go to Additional conditions to test whether resident individual is 'Ordinarily resident or not'

3. Write down to Relating Rules or Conditions of 'Ordinarily resident or not'

(1). He has been resident (182 Days) in India [as per sec. 6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year.(i.e. 2014 -2015 to 2023 -2024);

AND

(2).He has resided in India for a period of 730 days or more during 7 previous years immediately proceeding the relevant previous year. (i.e. 2017 -2018 to 2023 -2024);

(a). To test a first Conditions :

(a). He has been **resident** (182 Days) in India [as per sec. 6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year.(i.e. 2014 -2015 to 2023 -2024);

Details of Stay in India during 10 years preceeding the Previous Years .

(i. 2014 -2015 to 2023 -2024);

Year	No of Days Stay in Month Wise (1 April to 31 March)	Conditions: 182 Days) in India [as per sec. 6(1)] in at least 2 out of 10 previous years	Result
2023 - 2024	He left India on 1-2-2023 and returned only on 1-10-2023, thus not staying even for a day in India. **= 0 Days**	**182**	**Non Resident**
2022 - 2023	He stayed from 1-4-2022 to 1-2-2023 30+31+30+31+31+30+30+31+30+31+01 = **296 Days**	**182**	**Resident**
2021 - 2022	He stayed from 1-4-2021 to 31-03-2022 **365 Days**	**182**	**Resident**
2020 - 2021	He stayed from 1-4-2020 to 31-03-2021 **365 Days**	**182**	**Resident**
2019 - 2020	He stayed from 1-4-2019 to 31-03-2020 **365 Days**	**182**	**Resident**
2018 - 2019	He stayed from 1-4-2018 to 31-03-2019 **365 Days**	**182**	**Resident**
2017 - 2018	He stayed from 1-4-2017 to 31-03-2018 **365 Days**	**182**	**Resident**
2016 - 2017	He stayed from 1-4-2016 to 31-03-2017 **365 Days**	**182**	**Resident**
2015 - 2016	He stayed from 1-4-2015 to 31-03-2016 **365 Days**	**182**	**Resident**
2014 - 2015	He stayed from 1-4-2014 to 31-03-2015 **365 Days**	**182**	**Resident**

Shri. Vignesh was **resident (182 days) for 9 out of 10 years preceding the previous year more than the 2 out of 10 years preceding the previous year. Hence a**dditional condition (1) of being resident for 2 out of 10 years preceding the previous year is satisfied. (i. 2014 -2015 to 2023 -2024);

(b). To test a Second Conditions :

(b).He has resided in India for a period of 730 days or more during 7 previous years immediately proceeding the relevant previous year. (i.e. 2017 -2018 to 2023 -2024);

Year	No of Days Stay in Month Wise (1 April to 31 March)	Conditions: period of 730 days or more during 7 previous years immediately preceding the relevant previous year	Cumulative Days in stay
2023 - 2024	He left India on 1-2-2023 and returned only on 1-10-2023, thus not staying even for a day in India. **= 0 Days**	**0**	**0**
2022 - 2023	He stayed from 1-4-2022 to 1-2-2023 30+31+30+31+31+30+30+31+30+31+01 = **296 Days**	**296 Days**	**296 Days**
2021 - 2022	He stayed from 1-4-2021 to 31-03-2022 **365 Days**	**365 Days**	**981 Days**
2020 - 2021	He stayed from 1-4-2020 to 31-03-2021 **365 Days**	**365 Days**	**1346 Days**
2019 - 2020	He stayed from 1-4-2019 to 31-03-2020 **365 Days**	**365 Days**	**1711 Days**
2018 - 2019	He stayed from 1-4-2018 to 31-03-2019 **365 Days**	**365 Days**	**2076 Days**
2017 - 2018	He stayed from 1-4-2017 to 31-03-2018 **365 Days**	**365 Days**	**2441 Days**

Shri. Vignesh was Stay in **2441 days during 7 previous years immediately preceding the relevant previous year more than the 730 days specified condition (2).. Hence, Additional condition (2) of stay for 730 days is also satisfied.(i.e. 2017 -2018 to 2023 -2024)**

4. Conclusion for Residential Status or not.

Shri. Vignesh is '**Resident' and 'Ordinarily Resident**' under Sec. 6(1) for the previous year 2024-25. Because Satisfied the Basic conditions as well as additional conditions of (1) and (2).

Illustration: 5

Shri.Raman,who was born and brought up in India, went to U.K. for further studies on1st February 2023 and came back to India on 1st October 2024. Ascertain his residential status for the previous year 2024 - 25.

Solution:

DETERMINATION OF RESIDENTIAL STATUS OF SHRI. RAMAN FOR THE A.Y.2025-2026.

1. Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year : 2025-2026: (01.04.2025 to 31.03.2026)

Previous year : 2024-2025: (01.04.2024 to 31.03.2025)

2. Write down to Relating Rules 'or' Conditions of Resident:

i) He is in India in the previous year for a period of 182 days or more.

OR

ii) He is in India for a period of 60 days or more during the previous year and for 365 days 'or' more days during four years immediately preceding the relevant previous year [i.e. 2020-2021 to 2023-2024).

3. Check the satisfying the conditions or not:

Calculation of No. of days stay in India during the P.Y. From 01.10.24 to 31.03.25

P.Y.	Apr 24	May 24	Jun 24	Jul24	Aug 24	Sep 24	Oct 24	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Total
2024 - 2025	-	--	--	--	-	-	31	30	31	31	28	31	182 Days

Shri. Raman has stayed in India 182 days during the previous year. Hence, the basic condition (ONE) is satisfied. Therefore, we need not proceed to examine basic condition number (TWO) and Shri. Raman said as a "RESIDENT".

II. Examining the fulfillment of Additional condition u/s 6(6):

(Shri. Ram Resident and then go to Additional conditions to test whether resident individual is '**ordinarily resident or not'**).

1. Write down to relating Rules or Conditions of Ordinarily resident or not'

a) He has been resident in India [as per sec. 6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year [i.e.2014-2015 to 2023-2024] **AND**

b) He has resided in India for a period of 730 days or more during 7 previous years immediately preceding the relevant previous year. [i.e. 2017-2018 to 2023-2024]

2. To test a first Conditions:

(1).He has been resident (182 Days) in India [as per sec.6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year.(i.e. 2013 -2014 to 2022 -2023);

Details of Stay in India during10 years preceeding the PreviousYears .

(i.e.2014-2015 to 2023 -2024);

P.Y.	**No. of Days stay in India**	**Status**
2023- 2024	He left India on 1- 2- 2023 and returned only on 1-10-2024, thus not staying even for a day in I **= 0 Days**	**Non-Resident**
2022- 2023	He stayed from 1- 4- 2022 to 1- 2- 2023 30+31+30+31+31+30+30+31+30+31+01 = **296 Days**	**Resident**
2021- 2022	**365 Days**	**Resident**
2020- 2021	**365 Days**	**Resident**
2019- 2020	**365 Days**	**Resident**
2018- 2019	**365 Days**	**Resident**
2017- 2018	**365 Days**	**Resident**
2016- 2017	**365 Days**	**Resident**
2015- 2016	**365 Days**	**Resident**
2014- 2015	**365 Days**	**Resident**

Shr. Raman was resident (182 days(for 9 out of 10 preceding the previous year, (more than the 2 out of 10 preceding previous years). Hence, He satisfied the first additional condition.

3. To test a Second Condition:

Shr. Raman has resided in India for a period of 730 days or more during 7 previous years immediately preceding the relevant previous year. (i.e. 2017-2018 to 2023-2024):

P.Y.	No. of Days stay in month wise (1sr April to 31st March in India)	Cumulative Days in Stay
2023-2024	0	0
2022-2023	296 Days	296 Days
2021-2022	365 Days	981 Days
2020-2021	365 Days	1346 Days
2019-2020	365 Days	1711 Days
2018-2019	365 Days	2076 Days
2017-2018	365 Days	2441 Days

Shri. Raman was stay in 2441 days during 7 preceding the relevant previous years, more than 730 days for second additional condition (2) u/s 6(6) (b). Hence, He satisfied second additional condition.

4. CONCLUSION:

Shri. Raman satisfies the number one of the Basic condition and also satisfied both of the Additional conditions. Therefore, **SHRI.RAMAN IS RESIDENT BUT ORDINARY RESIDENT.**

ILLUSTRATION : 6

Mr. Raman comes to India, for the first time on April 16, 2022. During his stay in India up to October 5, 2024, he stays at Delhi up to April 1, 2024 and thereafter remains in Chennai till his Departure from India. Determine his Residential status for the Assessment year 2025-2026.

Solution:

Determination Of Residential Status Of Mr.Raman For The A.Y.2025 - 2026.

I. Examining the fulfillment of Basic condition u/s 6(1):

1.Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year : 2025-2026: (01.04.2025 to 31.03.2026)

Previous year : 2024-2025: (01.04.2024 to 31.03.2025)

2.Write down to Relating Rules 'or' Conditions of Resident:

i) He is in India in the previous year for a period of 182 days or more.

OR

ii) He is in India for a period of 60 days or more during the previous year and for 365 days 'or' more days during four years immediately preceding the relevant previous year [i.e. 2020-2021 to 2023-2024).

3. Check the satisfying the conditions or not:

Calculation of No. of days stay in India during the P.Y. From 01.04.24 to 05.10.24

P.Y.	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24	Oct 24	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Total
2024 - 2025	30	31	30	31	31	30	05	--	--	--	--	--	188 Days

He is in India for the more than 182 days (Actual: 188 days) during the previous year 2024-2025. Hence, the basic condition (ONE) is satisfied. Therefore, we need not proceed to examine basic condition number (TWO) and **Mr. Raman said as a 'RESIDENT '**

II. Examining the fulfillment of Additional condition u/s 6(6):

(Mr. Raman Resident and then go to Additional conditions to test whether resident individual is 'ordinarily resident or not')

1. Write down to relating Rules or Conditions of Ordinarily resident or not'

a) He has been resident in India [as per sec. 6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year [i.e.2014-2015 to 2023-2024] **AND**

b) He has resided in India for a period of 730 days or more during 7 previous years immediately preceding the relevant previous year. [i.e. 2017-2018 to 2023-2024]

2. To test a first Conditions:

(1).He has been resident (188 Days) in India [as per sec.6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year.(i.e. 2013 -2014 to 2022 -2023);

Details of Stay in India during10 years preceeding the PreviousYears .

(i.e.2014-2015 to 2023 -2024);

P.Y.	No. of Days stay in India	Status
2023-2024	365	Resident
2022-2023	350	Resident
2021-2012	--	Non-Resident
2020-2021	--	Non-Resident
2019-2020	--	Non-Resident
2018-2019	--	Non-Resident
2017-2018	--	Non-Resident
2016-2017	--	Non-Resident
2015-2016	--	Non-Resident
2014-2015	--	Non-Resident
Total	**715 Days**	

Mr.Raman was not satisfies the additional condition (1) for 2 out of 10 years preceding the previous year (Actually 715 days stay in preceding previous year). Hence. The first additional condition was "**NOT SATISFIED".**

3. To test a Second Condition::

Mr. Raman has resided in India for a period of 730 days or more during 7 previous years immediately preceding the relevant previous year. (i.e. 2017-2018 to 2023-2024):

P.Y.	No. of Days stay in month wise (1sr April to 31st March in India)	Cumulative Days in

		Stay
2023-2024	365	**365**
2022-2023	350	**715**
2021-2022	--	**--**
2020-2021	--	**--**
2019-2020	--	**--**
2018-2019	--	**--**
2017-2018	--	**--**

Mr. Raman was Not satisfied the second additional condition (2) u/s 6(6) (b) of residing atleast 730 days during the 7 years preceding the previous year is **NOT SATISFIED** because of the stay of 715 days during that period.

4. CONCLUSION:

Mr. Raman satisfies the basic conditions of (i) of section 6(1) **and** does not satisfies the both of the additional conditions of (a) and (b) of section 6(6), then he will be said to be a **RESIDENT BUT NOT ORDINARILY RESIDENT.**

ILLUSTRATION: 06

Dr.Yasmin an Indian citizen, stayed in India for 182 days during the previous year 2024-2025.Determine Mr. Y residential status for the assessment year 2025-2026 on the assumption that during the financial years 2014-2015 to 2024-25 he was present in India as follows:

2014-2015-66 days, **2015–2016-180 days,** **2016-2017-20 days,**

2017-2018-50 days, **2018–2019-50 days,** **2019-2020-59 days,**

2020–2021-180 days, **2021-2022-50 days,** **2022-2023- 58 days and**

2023–2024-59 days.

Solution:

DETERMINATION OF RESIDENTIAL STATUS OF MR.Y FOR THE A.Y.2025-2026.

I. Examining the fulfillment of Basic condition u/s 6(1):

1. Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year : 2025-2026: (01.04.2025 to 31.03.2026)

Previous year : 2024-2025: (01.04.2024 to 31.03.2025)

2. Write down to Relating Rules 'or' Conditions of Resident:

i) He is in India in the previous year for a period of 182 days or more.

OR

ii) He is in India for a period of 60 days or more during the previous year and for 365 days 'or' more days during four years immediately preceding the relevant previous year [i.e. 2020-2021 to 2023-2024).

3. Check the satisfying the conditions or not:

He stayed in India from 01.04.2024 to 14.10.2024 for current P.Y 2025-2026

Number of Days Stay in India during the P. Y. From 01-04-2024 to 31-03- 2025:

182Days.

First basic condition under sec. 6(1) of 182 days stay in previous year is satisfied. Hence, Dr.Yasmin said as **a 'Resident'.**

II. Examining the fulfillment of Additional condition u/s 6(6):

(Dr.Yasmin Resident and then go to Additional conditions to test whether resident individual is 'ordinarily resident or not')

1.Write down to relating Rules or Conditions of Ordinarily resident or not'

a) He has been resident in India [as per sec. 6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year [i.e.2014-2015 to 2023-2024]

AND

b) He has resided in India for a period of 730 days or more during 7 previous years immediately preceding the relevant previous year. [i.e. 2017-2018 to 2023-2024]

2.To test a first Conditions:

(1). He has been resident (182Days) in India [as per sec.6(1)] in at least 2 out of 10 previous years immediately preceding the relevant previous year.(i.e. 2013 -2014 to 2022 -2023);

Details of Stay in India during10 years preceeding the PreviousYears : i.e.2014-2015 to 23 -24);

P.Y.	No. of Days stay in India	Status
2023- 2024	59 Days (Given in this Question)	**Non Resident**
2022- 2023	58 Days (Given in this Question)	**Non Resident**
2021- 2012	50 Days (Given in this Question)	**Non Resident**
2020- 2021	180 Days (Given in this Question)	**Non Resident**
2019- 2020	59 Days (Given in this Question)	**Non Resident**
2018- 2019	50 Days (Given in this Question)	**Non Resident**
2017- 2018	50 Days (Given in this Question)	**Non Resident**
2016- 2017	20 Days (Given in this Question)	**Non Resident**
2015- 2016	180 Days (Given in this Question)	**Non Resident**
2014- 2015	66 Days (Given in this Question)	**Non Resident**

Dr.Yasmin was 'Non Resident' for 2 out of 10 years preceding the previous year. Hence, Additional condition (1) of being resident for 2 out of 10 years preceding the current previous year is "NOT SATISFIED".

3.To test a Second Condition:

He has resided in India for a period of 730 days or more during 7 previous years immediately preceding the relevant previous year. (i.e. 2017-2018 to 2023-2024):

P.Y.	No. of Days stay in month wise (1sr April to 31st March in India)	Cumulative Days in Stay
2023- 2024	59 Days (Given in this Question)	**59 Days**
2022- 2023	58 Days(Given in this Question)	**107 Days**
2021- 2022	50 Days(Given in this Question)	**157 Days**
2020- 2021	180 Days(Given in this Question)	**337 Days**
2019- 2020	59 Days(Given in this Question)	**396 Days**
2018- 2019	50 Days(Given in this Question)	**446 Days**
2017- 2018	50 Days(Given in this Question)	**496 Days**

Dr.Yasmin was '***Non Resident'*** **for** Stay in period of **730 days or more during 7 previous years immediately preceding the relevant previous year.** ***Hence,*** **Additional condition (2) under Sec. 6 (6)(a) of residing at least 730 days during the 7 years** preceding the previous year is **NOT SATISFIED** because of the stay of 496 days during that period.

4.CONCLUSION:

If an individual Mr. Y satisfies the basic conditions of (i) of section 6(1) **and** does not satisfies the both of the additional conditions of (a) and (b) of section 6(6), then he will be said to be a **RESIDENT BUT NOT ORDINARILY RESIDENT.**

ILLUSTRATION: 07

Mr. Guru, came to India from America for the first time on 02.10.2024. He returns to his home country after staying in India up to 31.03.2025. Determine his Residential status for the Assessment year 2025 - 2026.

SOLUTION : DETERMINATION OF RESIDENTIAL STATUS OF MR. GURU FOR THE A.Y.2025-2026.

I. Examining the fulfillment of Basic condition u/s 6(1):

(1) Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year : 2025-2026: (01.04.2025 to 31.03.2026)

Previous year : 2024-2025: (01.04.2024 to 31.03.2025)

(2) Write down to Relating Rules 'or' Conditions of Resident:

i) He is in India in the previous year for a period of 182 days or more.

OR

ii) He is in India for a period of 60 days or more during the previous year and for 365 days 'or' more days during four years immediately preceding the relevant previous year [i.e. 2020-2021 to 2023-2024).

(3) Check the satisfying the conditions or not:

Calculation of No. of days stay in India during the P.Y. From 02.10.24 to 31.03.25

P.Y.	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
2024 - 2025	-	--	--	--	-	-	30	30	31	31	28	31	**181 Days**

(a) Mr. Guru stays in India for only 181 days during the previous year 2024-2025 he does not satisfy the basic condition number (ONE) and go to check the second conditions.

(b) He stays in India for more than 60 days in the relevant previous year. However, he was not here for 365 days more in the 4 years prior to relevant previous year. Thus he does not satisfy the basic conditions number (TWO) also.

(4) CONCLUSION:

Mr. Guru does not satisfy any of the basic conditions (i) or (ii) Hence, **HE IS NON- RESIDENT IN INDIA**

ILLUSTRATION : 08

Mr. Ravi, an Indian citizen employed in U.K., came to India on 26.12.2024 for a visit and went back on 01.05.2025. Determine his residential status.

SOLUTION :DETERMINATION OF RESIDENTIAL STATUS OF MR. RAVI FOR THE A.Y.2025-2026.

I. Examining the fulfillment of Basic condition u/s 6(1):

(1) Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year : 2025-2026: (01.04.2025 to 31.03.2026)

Previous year : 2024-2025: (01.04.2024 to 31.03.2025)

(2) Write down to Relating Rules 'or' Conditions of Resident:

i) He is in India in the previous year for a period of 182 days or more.

OR

ii) He is in India for a period of 60 days or more during the previous year and for 365 days 'or' more days during four years immediately preceding the relevant previous year [i.e. 2020-2021 to 2023-2024).

3. Check the satisfying the conditions or not:

Calculation of No. of days stay in India during the P.Y. From 26.12.24 to 31.03.25

P.Y.	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
24 - 25	-	--	--	--	-	-	--	--	06	31	28	31	86 Days

(a) Mr. Ravi stays in India for only 86 days during the previous year 2024-2025, he does not satisfy the basic condition number (ONE) and go to second additional condition.

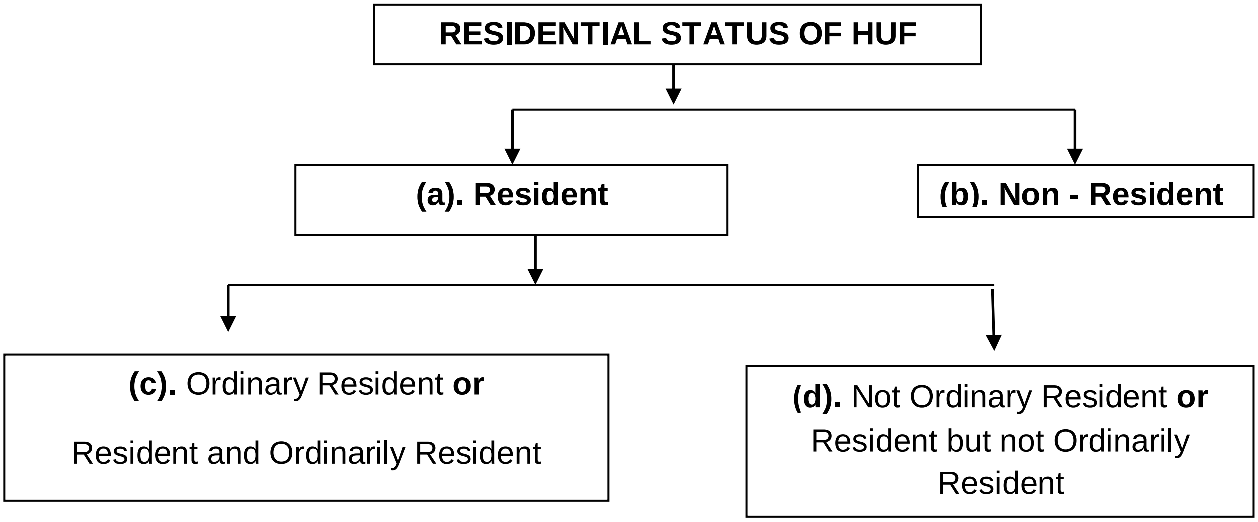
(b) He stays in India for more than 60 days in the relevant previous year. However, he was not here for 365 days or more in the 4 years prior to relevant previous year. Thus he does not satisfy the basic conditions number (TWO) also.

(4) CONCLUSION:

Mr. Ravi does not satisfy any of the basic conditions (i) or (ii) Hence, **HE IS NON-RESIDENT IN INDIA**

2.2.2. DETERMINATION OF RESIDENTIAL STATUS OF HINDU UNDIVIDED FAMILY.(HUF)

An HUF can be either a resident or non-resident in India. Again, a resident HUF can further be classified as 'Ordinarily resident' and 'Not ordinarily resident'



(a). Resident HUF:

A HUF would be resident in India (Stay in182 Days or more in previous year), if the control and management of itsaffairs is situated wholly or partly in India.

Control & management means –

- controlling & directive power;
- actual control & management (mere right to control & manage is not enough);
- central control & management and not the carrying out of day to day affairs.
- The place of central control & management is situated where the head, the seat & the directing power is situated.

(b). Non-resident HUF:

If the control and management of the affairs is situated whollyoutside India, it would become a ***non-resident***.

(c). Ordinary Resident or Resident and Ordinarily Resident HUF (Section 6 (2)).

If Karta of *resident HUF satisfies both the following additional conditions* (as applicable in case of individual) then, resident HUF will be Resident and ordinarily resident, If the 'karta' of a resident HUF *do not satisfies both additional conditions given u/s 6(6), HUF is said to be a not-ordinarily resident.*

(I).Karta of resident HUF should be resident (stay in 182 days in PY) in at least 2 previous years out of 10 previous years immediately preceding relevant previous year. [i.e.2014-2015 to 2023-2024] **AND**

(II). Karta of resided in India for a period of 730 days or more during 7 previous years immediately proceeding the relevant previous year. [i.e. 2017-2018 to 2023-2024]

Illustration : 9

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. Emam, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2024 - 25 after 15 years. He comes to India on 1.4.2024 and leaves for Australia on 1.12.2024. Determine the residential status of Mr. Emam and the HUF for A.Y. 2024-25.

Solution :

(a). Calculation of Residential Status of Mr.Emam.

1. Calculation of Assessment Year (AY) and Previous Year (PY).

Assessment year : 2025-2026: (01.04.2025 to 31.03.2026)

Previous year : 2024-2025: (01.04.2024 to 31.03.2025)

2. Write down to Relating Rules or Conditions of Resident

(i). He is in India in the previous year for a period or periods amounting in all to of **182 days or more;**

Or

(ii) He is in India for a period **of 60 days or more during the previous** year and for **365 or more days during 4 previous years immediately preceding the relevant previous year** [Sec. 6(1)(c)]

3. Check the satisfying the conditions or not.

Number of Days of Stay in India during the P.Y. From **01-04-2024 to 31- 3- 2025**

Mr.Emam comes to India on 1.4.2024 and leaves for Australia on 1.12.2024

PY	Apr 24	May 24	Jun 24	July 24	Aug 24	Seb 24	Oct 24	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Total Days Stay
24 -25	30	31	30	31	31	30	31	30	01	-	-	-	245

Rule : A HUF would be resident in India (Stay in182 Days or more in previous year), if the control and management of itsaffairs is situated wholly or partly in India.

3. Conclusion :

During the P.Y. 2024-25, Mr. Emam has stayed in India for 245 days. Hence, First basic condition under sec. 6(1) of 182 days stay in previous year is satisfied Since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management is in Australia i.e., the control and management is wholly outside India. ***Therefore, the HUF is a non-resident for the P.Y. 2024- 25. However, since he has come to India after 15 years, he does not satisfy the conditionfor being ordinarily resident.***

2.2.3. Determination of Residential Status of Firm or Association of Person (AoP) or Body of Individual (BoI) (Section 6(4))

For Residential status purpose the firm or AOP can be classified in to -

(a). Resident.

A firm, AoP and BoI would be resident in India if the control and management of its affairs is situated wholly or partly in India.

(b). Non-resident.

Where the control and management of the affairs is situated wholly outside India, the firm, AoP and BoI would become a non-resident.

2.2.4. DETERMINATION OF RESIDENTIAL STATUS OF COMPANY. (SECTION 6(3))

A company can be classified into two categories. they are (i) Indian Company and (ii) Foreign Company.

(i).Indian Company: Indian Company is always considered as resident in India irrespective of its control and management.

(ii). Foreign Company: A foreign company will be treated as Resident or Non-resident based on the following Condition;

(a). Resident Company: *A foreign company whose turnover or gross receipt is more than Rs.50 Crore and its management is in India, it will be treated as Resident Company.*

(b). Non - Resident Company: *A foreign company whose turnover or gross receipt is Rs.50 Crore or less then Rs.50 Crore, it will be treated as Non - Resident Company.*

2.2.5. DETERMINATION OF RESIDENTIAL STATUS OF EVERY OTHER PERSON AND ARTIFICIAL JUDICIAL PERSONS. (SECTION 6(4))

(a).Resident: Local authorities and artificial juridical persons would be resident in India if the control and management of its affairs is situated wholly or partly in India.

(b). Non-resident: Where the control and management of the affairs is situated wholly outside India, they would become non-residents.

2.3. TYPES OF INCOME BASED ON RESIDENT

Income is broadly divided into two categories, namely, (a) Indian income and (b) Foreign Income:

1. INDIAN INCOME:

The following income can be treated as Indian income:

- Income received in India or deemed to be received in India.
- Income accrued in India or deemed to accrue in India.
- Income accrued or deemed to accrue outside India and its first receipt is in India.

2. FOREIGN INCOME:

The following income can be treated as foreign income:

- Income accrued or deemed to accrue outside India and its first receipt is outside India
- Income accrued outside India from a business or profession controlled from India.
- Income accrued outside India from any other source controlled from India. **(Sec. 5)**

2.4. INCIDENCE OF TAX (Sec.5)

The purpose of determination of the residential status of different entities is to decide about the taxability of income. Therefore, after determining the residential status, the next step is to analyze its effect on total income. The scope of the total income is the matching of residential status and type of income. After studying the various types of residential status now we proceed to study the various types of income. The income may be classified, for this purpose as follows:

i). Income Received in India

ii). Income Deemed to be received in India

iii). Income Accrued in India

iv). Income Deemed to be accrued in India.

2.4.1. CLASSIFICATION OF INCOME BASED ON INCIDENCE

Classification of Income based on incidence is classified in the following four ways:

1. Income received in India:

Income received in India is taxable in all cases (whether accrued in India or elsewhere) irrespective of residential status of the assessee, therefore it is significant to know the meaning of income received in India. If the place, where the recipient gets the money (on first occasion) under his control, is in India, it is said to be income received in India.

2. Income deemed to be received in India

Following incomes shall be deemed to be received in India and taxable in hands of all assessee irrespective of their residential status -

i). The annual accretion in the previous year to the balance at the credit of an employee participating in a recognized provident fund, to the extent provided in Rule 6 of part A of the IV schedule i.e.- **ii).** Employer's contribution to the recognized provident fund in excess of 12% of salary.

iii). Interest credited on the above balance by a rate exceeding 9.5% [Sec. 7(i)]

iv). The transferred balance in recognized provident fund, to the extent liable to income tax [Sec. 7(ii)]

v). The contribution made, by the employer in the previous year, to the account of an employee under a pension scheme notified u/s 80CCD [Sec. 7(iii)]

vi). Tax Deducted at source [Sec. 198] **vii).** Deemed profit. **viii).** Income from undisclosed sources.

3. Income which accrued or arised in India:

The term accrued or arised means "The occasion when the assessee obtains a right to receive and income". For example, interest on Bank deposit accrued in the account of the assessee.

4. Income Deemed to be Accrued or Arised in India:

The following incomes are deemed to be accrued or arised in India:

a) Income from Business Connection in India

b). Income from any property, Asset or Source of income situated in India

c). Income from the transfer of any capital Asset situated in India

d). Any income which falls under the Head Salaries, if it is Earned in India

e). Salary payable by the Government of an Indian Citizen/National for Services Rendered Outside India

f). Dividend paid by an Indian Company outside India

h). Interest, Royalty and Fees for Technical Services payable by Government.

5. PROFORMA / FORMAT OF TAX INCIDENCE

The following table highlights the provisions of tax incidence in brief

Sl. No	Nature of Income	Tax incidence in case of		
		Resident & ordinarily resident	Resident But not-ordinarily resident	Non resident
1	Income accrued or deemed to be accrued and received or deemed to be received in India	Taxable	Taxable	Taxable
2	Income accrued outside India but received or	Taxable	Taxable	Taxable

	deemed to be received in India.			
3	Income accrued or deemed to be accrued in India but received outside India	**Taxable**	**Taxable**	**Taxable**
4	India income	**Taxable**	**Taxable**	**Taxable**
5	Foreign income	**Taxable**	**Taxable**	**Not taxable**
6	Income accrued and received outside India from a business controlled in or profession set-up in India.	**Taxable**	**Taxable**	**Not taxable**
7	Income accrued and received outside India from a business controlled or profession set-up outside India.	**Taxable**	**Not taxable**	**Not taxable**
8	Business is wholly or partly controlled outside India	**Taxable**	**Not taxable**	**Not taxable**
9	Income accrued and received outside India in any year preceding the previous year and later on remitted to India in current financial year or Past untaxed foreign income brought into India during the previous year.	**Not taxable**	**Not taxable**	**Not taxable**
10	Dividend from Indian/domestic Company	**Taxable**	**Taxable**	**Taxable**
11	Dividend from foreign company received in India.	**Taxable**	**Taxable**	**Taxable**
12	Agricultural income in India	**Exempt**	**Exempt**	**Exempt**
13	Agricultural income from foreign country and received there.	**Taxable**	**Not taxable**	**Not taxable**
	Total Income	**XXX**	**XXX**	**XXX**

ILLUSTRATION: 10

Mr. Raman provides following details of income, calculate the Taxable income which is liable to be taxed in India for the A.Y.2025-2026 assuming that –

(a). He is an ordinarily resident (b). He is not an ordinarily resident (c). He is a non-resident.

Particulars	Rs.
Salary received in India from a former employer of UK	**1,40,000**
Income from tea business in Nepal being controlled from India	**10,000**
Interest on company deposit in Canada (1/3rd received in India)	**30,000**
Profit from a business in Mumbai controlled from UK	**1,00,000**
Profit for the year 2002-03 from a business in Tokyo remitted to India	**2,00,000**
Income from a property in India but received in USA	**45,000**
Income from a property in London but received in Delhi	**1,50,000**
Income from a property in London but received in Canada	**2,50,000**
Income from a business in Jambia but controlled from Turkey	**10,000**

Solution:

Computation of taxable income of Mr. Ram for the A.Y.2025-2026

Particulars	Resident/ Ordinary resident Rs.	Resident but Not-ordinary resident Rs.	Non-resident Rs.
Received in India from a former employer of UK	1,40,000	1,40,000	1,40,000
come from tea business in Nepal being controlled from India	10,000	10,000	Nil
Interest on company deposit in Canada - 1/3rd received in India	10,000	10,000	10,000
- 2/3rd received outside India	20,000	Nil	Nil
Profit from a business in Mumbai controlled from UK	1,00,000	1,00,000	1,00,000
Past Profit from a business in Tokyo remitted to India	Nil	Nil	Nil
Income from a property in India but received in USA	45,000	45,000	45,000
Income from a property in London but received	1,50,000	1,50,000	1,50,000

in Delhi			
Income from a property in London but received in Canada	2,50,000	Nil	Nil
Income from a business in Jambia but controlled from Turkey	10,000	Nil	Nil
Taxable Income	**7,35,000**	**4,55,000**	**4,45,000**

ILLUSTRATION: 11

Mr. Mani provides following details of income, calculate the Taxable income which is liable to be taxed in India for the A.Y.2025-2026 assuming that –

(a).He is an ordinarily resident (b). He is not an ordinarily resident (c). He is a non-resident.

1. Salary received during the year for employment outside India from government of India Rs. 50000.
2. Profits earned in UK and received in India Rs. 35000
3. Salary drawn for employment in Singapore office of an Indian company for two months Rs. 7500
4. Dividend received from an Indian company Rs. 8000
5. Profit earned from business transaction outside India and kept in Punjab national bank Rs..25000.

Solution:

Computation of taxable income of Mr. Mani for the A.Y. 2025 -2026

Particulars of income	Resident Rs.	Not ordinary Resident Rs.	Non-resident Rs.
Income accruing or arising in India. But received outside India	50000	50000	50000
Profit earned in UK and received in India	35000	35000	35000
Salary drawn for employment in Singapore from an Indian company	7500	Nil	Nil
Dividend received from an Indian company	8,000	8,000	8,000

Profit earned from business transaction outside India and kept in Punjab national bank	25000	Nil	Nil
Taxable Income	**1,25,500**	**93,000**	**93,000**

Note: dividend from a domestic company is exempt in all cases.

ILLUSTRATION: 12.

From the following particulars submitted by Mrs. Meena as regards her income in the previous year 2024-2025, compute her gross total income. If she is: 1. Resident 2. Not ordinary resident and 3. Non resident

1 .Income from agriculture in Srilanka received in Srilanka and remitted to India's. 25000

2. Pension from an Indian employer received abroad Rs. 12000
3. Past untaxed profits brought to India Rs. 50000
4. Rental income from the property in Nepal received outside India Rs. 17000
5. Annual value of a single self occupied property in India Rs. 3600

Solution:

Computation of gross total income of Mrs. Meena for the A.Y. 2025 - 2026

Incomes	Resident Rs.	Not ordinary Resident Rs.	Non-resident Rs.
Pension from an Indian employer	12,000	12,000	12,000
House property let out In Nepal 17000 **Less:** 30% 5100 : 11,900	11,900	Nil	Nil
Agriculture income in Srilanka	25,000	Nil	Nil
Past un expected income	Nil	Nil	Nil
Annual value of self occupied property in India	Nil	Nil	Nil
Total income	**48,900**	**12,000**	**12,000**

ILLUSTRATION: 13

Mr. Kumar has the following incomes during the previous year 2024-2025. Compute his total income for the assessment year 2025-2026 if he is resident of India, not ordinarily of India and non resident of India.

1. Capital gain on sale of a house in Mumbai Rs. 40000
2. Salary received outside India for rendering service in India Rs. 50000
3. Interest received from government of India (received outside India) Rs. 15000
4. Technical fees received from an India company (received in India for advice given in respect of project outside India) Rs. 80000
5. Income from a business situated outside India (controlled wholly outside India) Rs. 25000
6. Income from business connection in India Rs.35,000.

Solution:

Computation of Total Income of Mr. Kumar for the A.Y. 2025-2026

Incomes	Resident Rs.	Not ordinarily Resident Rs.	Non Resident Rs.
1.Capital gain on sale of a house	40000	40000	40000
2. Salary received outside India for rendering service in India	50000	50000	50000
3. Interest received from government of India	15000	15000	15000
4. Technical fees received from an India company	80000	80000	---
5. Income from a business situated outside India	25000	---	---
6. Income from business connection in India	35000	35000	35000
Total Income	**245000**	**220000**	**140000**

ILLUSTRATION: 14

From the following details calculate the total income of Mr. Raja, if he is OR, NOR and NR.

1. Dividend from Indian company Rs 1,00,000
2. Dividend from foreign company Rs 1,50,000, received in India
3. Income from business in Kenya but controlled from India Rs, 2,00,000
4. Income accrued in Switzerland Rs, 2,50,000, 2/5th received in India
5. Income from business in Indonesia but controlled from Bangladesh Rs, 5,00,000

Solution:

Computation of Taxable Income of Mr. Raja for the A.Y. 2025 - 2026

S. No	Income	Resident Rs.	Not ordinarily Resident Rs.	Non Resident Rs.
1	Dividend from Indian company	1,00,000	1,00,000	1,00,000
2	Dividend from foreign company, received in India	1,50,000	1,50,000	1,50,000
3	Income from business in Kenya but controlled from India	2,00,000	2,00,000	2,00,000
4	Income accrued in Switzerland 2/5 received in India {2,50,000*2/5} Balance 1,50,000	1,00,000 1,50,000	1,00,000 Nil	1,00,000 Nil
5	Income from business in Indonesia but controlled from Bangladesh	5,00,000	Nil	Nil
	Total income	**12,00,000**	**5,50,000**	**3,50,000**

ILLUSTRATION: 15

Mr. Sunil earns the following income during the previous year 2024-2025

1. Interest from an Indian company received in Germany Rs, 1,00,000
2. Pension from former employer in India received in U.K. Rs, 2,00,000
3. Income from companies in USA and received in India 1,00,000
4. Income from agriculture in USA and received in India 10,000
5. Income from employment in Japan received there Rs, 20,000
6. Past untaxed profits brought to India Rs, 50,000

Compute GTI of Sunil for the assessment year 2025-2026 if he is,

i. Resident ii. Not ordinarily resident and iii. Non resident

Solution: Computation of Taxable Income of Mr. Sunil for the A.Y.2025-2026

S.No	Income	Resident Rs.	Not ordinarily Resident Rs.	Non Resident Rs.
1	Interest from an Indian company received in Germany	1,00,000	1,00,000	1,00,000
2	Pension from former employer in India received in U.K	2,00,000	2,00,000	2,00,000
3	Income from companies in USA and received in India	1,00,000	1,00,000	1,00,000
4	Income from agriculture in USA and received in India	10,000	10,000	10,000
5	Income from employment in Japan received there	20,000	Nil	Nil
6	Past untaxed profits brought to India Rs, 50,000	Nil	Nil	Nil
Total income		**4,30,000**	**4,10,000**	**4,10,000**

2.5. CAPITAL AND REVENUE RECEIPTS AND EXPENDITURE

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

CAPITAL AND REVENUE RECEIPTS

For income tax purpose, a clear understanding of the distinction between the two is essential because income tax is charged on revenue incomes and not on capital incomes unless they are expressly taxable.

Difference between Capital Receipt and Revenue Receipt

S.N	Capital receipt	Revenue receipt
1	It has long-term effect. The benefit is enjoyed for many years in future.	It has short-term effect. The benefit is Enjoyed within one accounting period.
2	It does not occur again and again. It is Non recurring and irregular in nature.	It occurs repeatedly. It is recurring and regular in nature.
3	It is shown in the Balance Sheet on the liability side.	It is shown in profit and loss account on the credit side.
4	The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed asset, loan from bank etc.	This does not increase or decrease the value of asset or liability.
5	Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment.	Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt.

Examples of Capital Receipts:

- Compensation received for nationalization
- Insurance many received for the loss of capital assets.
- Premium on the issue of new shares
- Annuity received under LIC scheme.
- Sale of fixed assets/non trade investments/technical knowhow.
- Issue of shares and debentures.
- Loan borrowed from banks and other institutions. etc.,

Examples of Revenue Receipts:

- Annuities Received periodically
- Compensation received for loss of profits.
- Proceeds of sale of forest trees.
- Dividends and interest from investments.
- Interest on refund of income tax
- Lump sum royalty received in advance.
- Subsidy or grant received from the Government for business.

2.6. CAPITAL AND REVENUE EXPENDITURES:

The distinction between the two is vital because only revenue expenses are allowed and capital expenses are disallowed.

DIFFERENCES BETWEEN CAPITAL EXPENDITURE AND REVENUE EXPENDITURE:

Sl. No	Capital expenditure	Revenue expenditure
1	Its effect is long-term, i.e. it is not exhausted within the current accounting year-its benefit is received for a number of years in future.	Its effect is temporary, i.e. the benefit is received within the accounting year.
2	An asset is acquired or the value of an existing asset is increased.	Neither an asset is acquired nor is the value of an asset increased.
3	Generally it has physical existence except intangible assets.	It has no physical existence because it is incurred on items which are used by the business.
4	It does not occur again and again. It is Non recurring and irregular.	It is recurring and regular and it occurs repeatedly.
5	This expenditure improves the position of the business.	This expenditure helps to maintain the business.
6	A portion of this expenditure (depreciation on assets) is shown in trading & P & L A/c and the balance are shown in the balance sheet on asset side.	The whole amount of this expenditure is shown in trading P & L A/c or income statement.
7	It appears in the balance sheet until its benefit is fully exhausted.	It does not appear in the balance sheet.
8	It does not reduce the revenue of the concern.	It reduces revenue (profit) of the Business

Examples of Capital Expenditure:

- ✓ Registration of business
- ✓ Expenditure on issue of shares of a company.
- ✓ Cost of acquisition of plant, machinery, or land and building.
- ✓ Remuneration to promoters of a company
- ✓ Advertisement expenditure at the floatation of a company.

Examples of Revenue Expenditure:

- ✓ Salary and perquisite to employees.
- ✓ Rent of business premises
- ✓ Discount on issue of debentures
- ✓ Entertainment expenses
- ✓ Cost of training provided to employees
- ✓ Insurance premium on stock and on profit

2.7. MULTIPLE CHOICE QUESTIONS (MCQ)

PART – A
(1Mark Questions) Choose the Correct Answer:

1. Who is Resident?

a) Followed any one of the basic condition
b) Not followed of the basic condition
c) Additional conditions followed
d) None of these **Ans: A**

2. One of the basic conditions under residential status ___ days

a) 186
b) 182
c) 181
d) 180 **Ans: B**

3. Who is an ordinarily resident?

a) Both basic and additional
b) Only basic
c) Only additional
d) Not basic and additional conditions **Ans: A**

4. Income received in Indian in previous year is taxable in the hands of:

a) Resident
b) Not-resident
c) Non ordinarily resident
d) All the above **Ans: D**

5. Income accured outside India and received outside India taxable in case of:

a) Resident and ordinarily resident (ROR) only
b) Resident but not ordinarily resident (RNOR) only
c) Non-resident only
d) ROR, RNOR and Non-Resident **Ans:A**

6. Residential status to be determined for:

a) Previous year

b) Assessment year

c) Accounting year

d) None of these **Ans: A**

7. **Incomes which issue accure or arise outside India but are received directly into India are taxable in case of:**

a) Resident only

b) Both ordinarily resident and NOR

c) Non-resident

d) All the assesses **Ans:D**

8. **Income which accure outside India from a business controlled from India is taxable in case of:**

a) Resident only

b) Not ordinarily resident only

c) Both ordinarily resident and NOR

d) Non resident **Ans: C**

9. **Income which accure or arise outside India and also received outside India taxable in case of:**

a) Resident only

b) Not ordinarily resident

c) Both ordinarily resident and NOR

d) None of these **Ans: A**

10. **Taxable incomes of a person is determined on the basis of his:**

a) Residential status in India

b) Citizenship in India

c) None of these

d) Both of the above **Ans: A**

11. **Dr. NK. Ltd., is an Indian company whose entire control and management of its affairs is situated outside India. Dr. NK.Ltd., shall be:**

a) Resident in India

b) Non-resident in India

c) Not ordinarily resident in India

d) None of these **Ans: A**

12. M & S Ltd, is registered in U.K the control management of its affairs is situated in India. M & S Ltd shall be:

a) Resident in India

b) Non-resident

c) Not ordinarily resident in India

d) None of these **Ans:B**

13. Guru a foreign national visited India during previous year 2024-25 for 180 days. Earlier to this he never visited India. Guru in this case shall be:

a) Resident in India

b) Non-resident

c) Not ordinarily resident in India

d) None of these **Ans: B**

14. An Indian company is always:

a) Resident in India

b) Non-resident in India

c) Not ordinarily resident in India

d) None of these **Ans: A**

15. Dividend paid by an Indian company:

a) Taxable in India in the hands of the recipient

b) Exempted in the hands of recipient

c) Taxable in the hands of the company and exempt in the hands of the recipient

d) None of these **Ans: C**

16. The following is capital receipt:

a) Salary paid by HUF to a member

b) Dividend from investment

c) Bonus shares

d) Sale of technological know **Ans: B**

18. Following is not a capital receipt:

a). Dividend on investment

b).Bonus shares

c). Sale of know – how

d). Compensation received for vacating business place **Ans: D**

19. Cost of acquisition of fixed asset is the example of:

a) Capital expenditure

b) Revenue expenditure

c) Capital expenditure

d) Revenue expenditure **Ans: A**

20. Annuity received periodically is the example of:

a) Capital expenditure

b) Revenue expenditure

c) Capital receipts

d) Revenue receipts **Ans: D**

21. Unclaimed dividend is the example of:

a) Capital expenditure

b) Revenue expenditure

c) Capital receipts

d) None of these **Ans: D**

22. Interest from investment is the example of:

a) Capital expenditure

b) Revenue expenditure

c) Capital receipts

d) Revenue expenditure **Ans:B**

23. Premium on the issue of new share is the example of:

a) Revenue expenditure

b) Revenue receipts

c) Capital receipts

d) Capital expenditure **Ans:C**

24. Sales tax collected from the customer is the example of:

a) Revenue expenditure

b) Revenue receipts

c) Capital receipts

d) All the above **Ans:B**

25. Perquisites and allowances paid to government employees posted abroad are

a) Exempted income

b) Casual income

c) Taxable under Business or Profession

d) Taxable under other sources **Ans: A**

THEORY QUESTIONS

PART – B (5 Marks Questions):

1. Who is a resident?

2. Who is a non resident?

3. Who is a not ordinarily resident?

4. What are the Basic conditions?

5. What are the Additional Conditions?

6. When an individual is called as Resident and Ordinarily Resident?

7. When an individual is called as Resident but not Ordinarily Resident?

8. When an individual is called as Non-Resident?

9. How do you treat an income as an Indian Income or as a Foreign Income?

10. What are the incomes taxable in the hands of Resident?

11. What is capital expenditure? Give examples.

12. What is capital receipt? Give examples.

13. What is revenue expenditure? Give examples

PART – C (8 Marks Questions):

1. What are the incomes taxable in the hands of a Non-Resident?

2. How do you determine the residential status of an individual?

3. State the different types of Residential Status?

4. How the Residential Status of Hindu Undivided Family is determined?

5. How the Residential Status of a company is determined?

6. Explain the terms Indian Income and Foreign Income.

7. Distinguish between capital receipts and revenue receipts.

8. What are the differences between capital and revenue expenditure.

PRACTICAL EXERCISE

EXERCISE 01: Mr. Kannan, an Indian citizen left India for the first time on 29.09.2024. He did not return until 31.03.2024. Determine his residential status for the Previous Year 2024-2025.

[ANS: Resident and Ordinary Resident]

EXERCISE 02: Mr. Kumar, an Indian citizen for the first time went abroad on 16.09.2024, and returned India on 30.04.2024. Determine his residential status for the P.Y. 2024-2025.

[ANS: Resident and Ordinary Resident]

EXERCISE 03: Mr. Murugan, an Indian citizen has been making frequent trips for his business purpose. For the first time he Went abroad on 01.04.2020. His stays in India during the last five years are as follows:

2020-2021	:150 days,	2021-2022	: 70 days
2022-2023	: 80 days,	2023-2024	: 110 days
2024-2025	: 85 days		

Determine his residential status for the previous year 2024-2025.

[ANS: Resident and Ordinary Resident]

EXERCISE 04: Ms. Manju went to Japan on a business trip on 30.01.24 and came back to India on 31.03.2024. She had never gone outside India before that. Find out residential status for the P.Y. 2024-2025.**[ANS: Resident and Ordinary Resident]**

EXERCISE 05: Ms. Devi left for the USA along with his family for the first time on 14.10.23. She returned to India on 03.05.2024. Determine her residential status for the P.Y. 2024-2025.

[ANS: Resident and Ordinary Resident]

EXERCISE 06: Mr Ramesh went to England for studies on 5th August 2024 and came back to India on 25th February 2025. He never has been out of India before. What is Residential Status for the A.Y. 2025-2026. **ANS: Resident and Ordinary Resident]**

EXERCISE 07: Mr. John, a foreign national came to India for the first time on 31.03.2020. During the period between the financial year of 2020-21 and 2024-25 he was in India as noted below:

2020-21-160 days, 2021-22 -15 days

2022-23 -90 days, 2023-24 -250 days

2024-25 -70 days. Determine his residential status for the P.Y.2024-25.

[ANS: Resident but Not Ordinary Resident]

EXERCISE 08: Mrs. Mano, an American comes to India for the first time in last 18 years on 15.07.2024. On January 20, 2024 she leaves India for Italy. Determine her residential status for the P.Y. 2024-2025.**[ANS: Resident but Not Ordinary Resident]**

EXERCISE 09: Mr. Xavier, a foreign cricketer comes to India for 100 days every year since the financial year 2018-2019. Find out his residential status for the assessment year 2025-2026.

[ANS: Resident but Not Ordinary Resident]

EXERCISE 10: Mr. Sunil, a crew in an Indian ship, left India on 10.08.2024and comes back to India only on 15.06.2025. Determine his residential status for the previous year 2024-2025.

[ANS: Non-Resident]

EXERCISE 11: Mr. Rajan, an Indian citizen employed in U.S.A., came to India on 30.12.2024 for a visit and went back on 06.05.2025. Determine his residential status.

[ANS: Non-Resident]

EXERCISE 12: Mr. Gobi left India for the first time on 15.05.2022. During the previous year 2024-2025, she came to India on 10th February for 49 days only. Determine her residential status for the P.Y. 2024-2025.

[ANS: Non-Resident]

EXERCISE 13: Mr. Mohan, an Indian citizen doing textile business at covai, went to U.K for employment purpose on 10.08.2023 and came back to India on 01.07.2024.He had never gone abroad in the past. Determine the Residential Status of Mr. Mohan for the P.Y.2024 – 2025

[ANS: Non-Resident]

EXERCISE 14: Following are the incomes of Mr. Arun for the previous year 2024-2025.

1. Profit from the business in Chennai Rs. 20,000
2. Income accrued in India but received in Singapore Rs.4,000
3. Profit from business in USA but received in India Rs.5,000
4. Income from house property in Trichy received in Kolkatta 4,000
5. Profit from business abroad, controlled from India Rs.15,000
6. Income from house property in Srilanka and deposited there Rs. 2,000
7. Post untaxed income brought into India Rs. 12,000

Compute the total income of Mr. Arun for the A.Y. 2025-2026,

If he is a) Resident b)Not Ordinary Resident c) Non-Resident.

[ANS: Total Income: R-50,000, NOR-48,000, NR-33,000]

EXERCISE 15: From the following particulars of income of Mr. Prabhu, compute his gross total income. if he is a i) Resident ii) Not Ordinarily Resident iii) Non- Resident

1. Income accrued in Canada but received in India Rs. 2,000
2. Rs. 5,000 were earned in Africa and received there but brought in India
3. Rs. 5,000 earned in India but received in Canada
4. Rs.10, 000 earned and received in Srilanka from a business controlled from India.
5. House property income (computed) from Sri Lanka Rs.2, 000
6. Past untaxed foreign income, brought to India during the previous year Rs. 4,000
7. Profit earned from a business in Kanpur Rs. 10,000.

[ANS: Total Income: R-34,000, NOR-27,000, NR-17,000].

EXERCISE 16: Mr. D earns the following incomes during the financial year 2024-2025.

(i) Dividend paid by an Indian company but received in London Rs. 10,000.

(ii) Pension from former employer in India, received in America Rs. 40,000.

(iii) Profit earned from business in Paris, controlled from India (half of the profits received in India) Rs. 2, 00,000.

(iii) Income from property in Sri Lanka, received there Rs. 40,000.

(iv) Income from agiculture in Bhutan, received there and brought to India Rs. 50,000.

Determine the gross total income of Mr. D for the previous year 2024-2025.

1) Resident and ordinarily resident 2. Resident but not ordinarily resident 3) Non-Resident.

(Ans: Total Income: R= 3, 30,000, NOR = 2, 40,000 & NR = 40,000)

EXERCISE 17: Find out the gross total income of Mr. X for the A.Y. 2025-2026. If he is is a (i) Resident, (ii) Not ordinarily resident, (iii) Nonresident:

(i) Income from business in Chennai, managed in UK Rs. 50,000

(ii) Pension for service rendered in India, received in France Rs. 30,000

(iii) Profit from business in Sri Lanka, deposited in a bank there Rs. 24,000.

(iv) Profit on sale of building in India but received in Sri Lanka Rs. 36,000.

(Ans: GTI: R = 1, 40,000, NOR = 1, 16,000 & NR = 1, 16,000)

EXERCISE 18: Mr. N furnishes the following particulars of his income earned during the P.Y. 2024-2025:

a) Profit from business in Chennai Rs.50, 000

b) Income from agriculture in Srilanka Rs. 1, 90,000

c) Income from property in Maxico received there Rs. 2, 00,000

d) Interest on Singapure Development bond Rs. 1,50,000 (1/3rd received in India).

e) Income from business in Kuwait controlled from Mumbai Rs. 85,000 (Rs. 35,000 received in India)

f) Dividend from domestic company Rs.1, 000

g) Profit on sale of building in Bangalore received in Nepal Rs. 50,000

h) Income from agriculture in Punjab Rs. 1, 00,000

i) Profit on sale of plant at London Rs. 50,000 (50% is received in India)

j) Rent from house property in Nepal received there Rs. 20,000

k) Profit from business in mysore received in Mandya Rs. 25,000

l) Dividends from UK based company received in UK Rs. 27,000

Compute his Gross total income for the A.Y 2025-2026. If he is – a) Resident b) Not ordinarily resident and c) Non-Resident.

(Ans: GTI: R= 8,47,000, NOR = 2,85,000 & NR = 2,35,000)

EXERCISE 19: From the following particulars of Mr. Mani compute his Gross total Income for the A.Y. 2025-2026. A) Resident B) Not-ordinarily resident c) Non-resident.

(i) Income from business in Chennai, business managed from Srilanka Rs. 25,000.

(ii) Income from House Property in Mysore Rs. 1, 00,000

(iii) Income from salary in Japan Rs. 1, 60,000

(iv) Income from business in Kuwait, business being controlled from Mumbai (Rs.25,000 is received in India)Rs. 65,000.

(v) Income from agriculture in Punjab, received in Mumbai Rs. 30,000

(vii) Income from agriculture in Bangladesh remitted to India Rs. 10,000

(viii) Profit from sale of building in India Rs. 2, 50,000

(ix) Profit from business in Indonesia, this business controlled from Delhi Rs.40,000

(x) Income from Indian Partnership firm Rs.5,000

(xi) Interest on Savings Bank deposits in State Bank of India Rs. 1,000

(xii) Dividend from foreign company received in England Rs. 10,000

(xiii) Interest from foreign company received in England Rs. 10,000

(Ans: GTI: R= 7,11,000, NOR = 4,97,000 & NR = 4,17,00)

UNIT – III

INCOME FROM SALARY

Learning Objectives – Income from Salary

After studying this unit, students will be able to:

- **Understand the meaning of Salary**
  - ✓ Explain the concept of salary under the Income Tax Act
  - ✓ Identify the employer–employee relationship
- **Identify different components of salary**
  - ✓ Basic salary, wages, annuity, pension
  - ✓ Allowances, perquisites, and profits in lieu of salary
- **Classify various allowances**
  - ✓ Fully taxable allowances
  - ✓ Partly exempt allowances (HRA, LTA, etc.)
  - ✓ Fully exempt allowances
- **Understand perquisites**
  - ✓ Meaning and types of perquisites
  - ✓ Taxability of perquisites
  - ✓ Valuation of common perquisites
- **Explain profits in lieu of salary**
  - ✓ Types of payments covered
  - ✓ Tax treatment of compensation and gratuity
- **Compute gross salary**
  - ✓ Salary due or received

- ✓ Arrears and advance salary

- **Understand deductions from salary**
  - ✓ Deduction under Section 16
  - ✓ Standard deduction
  - ✓ Entertainment allowance
  - ✓ Professional tax
- **Compute income under the head 'Salaries'**
  - ✓ Step-by-step computation
  - ✓ Practical illustrations
- **Apply tax provisions to real-life situations**
  - ✓ Calculate taxable salary income
  - ✓ Solve numerical problems related to salary income

3.1 INTRODUCTION TO SALARY: [Sec. 15 to 17]

Income from salary is the first among the five heads of income. It seeks to tax all forms of remuneration received by an employee from his employer during the previous year. For this, it is immaterial whether the employee is employed in government or private sector, involved in manual or mental work, highly or lowly place. In this unit, provisions relating to taxation of salaries are discussed.

3.2 BASIS OF CHARGE (SEC.15)

The following incomes are chargeable to income tax under the head "Salaries".

(i) Any salary due from the present or former employer to an assessee in the previous year previous yrear, whether paid or not;

(ii) Any salary paid or allowed to him in the previous year by or on behalf of the present or former employer, due or paid in advance; and

(iii) Any arrears of salary paid or allowed to him in the previous year by or on behalf of the present or former employer, if not charged to income tax in any earlier previous year.

3.3 MEANING OF SALARY

The term salary refers to any remuneration received by employee from his employer in consideration of his service. It includes the monetary value of benefits and facilities provided by an employer to his employee. **For example,** Mr. Kannan is working in a concern, Sri Om Muruga Publication as a manger. He is paid Rs. 50,000 per month as salary. Here, Om Muruga Publication is called as Employer, and Mr. Kannan is called as Employee and amount of Rs. 50,000 is called as salary. As per section 15, the following incomes are taxable under the head salaries:

1. Salary due to an assessee
2. Salary paid or allowed
3. Any arrear salary paid or allowed
4. Salary from present or past employer's

3.4. DEFINITION OF SALARY

As per sec. 17(1) of the Income-tax Act, 1961, salary includes the following amount received or due to an employee:

1. Wages;
2. Any annuity or pension;
3. Any gratuity;
4. Any fees, commission,
5. Any Perquisite or profits in lieu of any salary or wages;
6. Any advance of salary;
7. Any payment received in respect encashment of leave.
8. The contribution to provident fund.
9. Contribution made by the employer in the previous year, to the account of an employee under a pension scheme referred to in sec. 80CCD [National Pension Scheme and Atal Pension Yojana]

3.5 FEATURES OF SALARY

Following are the important features/principles of salary:

- Employee employer relationship
- Place of accrual of salary income
- Salaries and Business Profits
- Salaries and professional income
- Surrender of salary to central government
- Salary from more than one employer
- Salary from present, past and prospective employer
- Salary or pension of UNO employees
- Personal gifts
- Accrual basis
- Payment made after termination
- Tax free salary
- Deduction from salary etc.

3.6. DIFFERENT FORMS OF SALARY

The term salary is a wide. It includes several items of earnings. The various items of earnings included in salary are:

- Basic salary or wages
- Commission
- Bonus
- Allowances
- Perquisites
- Advance pay
- Arrears of salary
- Dearness pay
- Annuity
- Gratuity
- Pension

3.7 SECTIONS OF INCOME FROM SALARY

Salary income is to be computed in accordance with the provisions contained in sections 15, 16 and 17.

Section 15 provides scope of the salary, Section 16 contains provisions relating to deduction allowed out of gross salary income and section 17 defines various items of salary.

PROFORMA / FORMAT OF INCOME FROM SALARY

COMPUTATION OF TAXABLE SALARY

Sl. No	Particulars	Rs.	Rs.
1	Basic Salary		XXX
	Dearness Allowance		XXX
	Commission		XXX
	Bonus		XXX
	Advance Salary		XXX
	Arrear Salary		XXX
	Leave salary (during the service)		XXX
2	**ALLOWANCES:**		
	i. Fully Taxable Allowances		XXX
	ii. Partially Taxable Allowance:	XXX	
	Less: Exempt up to Actual Expenses/ Specific Provisions	XXX	XXX
3	Employer Contribution to PF	XXX	
	Less: Exempt	XXX	XXX
4	Interest on employer contribution to PF	XXX	
	Less: Exempt	XXX	XXX
5	Value of Perquisites		XXX
6	**Profit-in-lieu of Salary (if Applicable)**		
	(i) Retirement compensation	XXX	
	Less: Exempt	XXX	XXX
	(ii) VRS compensation	XXX	
	Less: Exempt	XXX	XXX
7	**Retirement Benefits (if Applicable)**		
	(i) Leave Salary	XXX	
	Less: Exempt	XXX	XXX
	(ii) Gratuity	XXX	
	Less: Exempt	XXX	XXX
	(iii)Commuted Pension	XXX	
	Less: Exempt	XXX	XXX
	(iv)Uncommuted Pension (Fully Taxable)		XXX
	Gross Salary		XXX
	Less: Deduction U/s 16		
	(i) Standard Deduction u/s 16(ia)	XXX	
	(ii) Entertainment Allowance u/s 16 (ii)	XXX	
	(iii) Professional Tax u/s 16 (iii)	XXX	
	(iv) Deduction u/s 80 C Provisions	XXX	XXX
	Taxable Salary		**XXX**

3.8. BASIC SALARY

BASIC SALARY:

It is the sum paid by employer to employee as salary and shall be **FULLY TAXABLE**.

Illustration: 01

Mr. X joined in an reputed Institution on 01.01.2025 at the scale of Rs.15, 000 p.m. Salary falls dueat the end of every month. Calculate his basic salary for the Previous Year 2024-2025.

Solution:

Calculation of Taxable Salary of Mr. X for the P.Y. 2024 – 2025

1. Calculation of Due Date of Salary in Month wise:		
Month	**Due Date (Salary falls at the end of the every month)**	**Rs.**
January 2025	31.01.2025	15,000
February 2025	28.02.2025	15,000
March 2025	31.03.2025	15,000
Total Basic Salary		**45,000**
2. Therefore, Basic salary for the Previous year 2024-2025: Rs. 45,000		
(15,000 X 3 Months = Rs.45,000) Basic Salary Rs.45, 000.		

Illustration : 02.

Mr. Y joined in an institution on 01.01.2025 at the scale of Rs.25, 000 p.m. Salary falls due on 1st day of the next month. Calculate his basic salary for the Previous Year 2024-2025.

Solution: **Calculation of Taxable Salary of Mr. X for the P.Y. 2024 – 2025**

1. Calculation of Due Date of Salary in Month wise:		
Month	**Due Date : (Salary fall due on 1st day of the next month)**	**Rs.**
January 2025	01.02.2025	25,000
February 2025	01.03.2025	25,000
March 2025	01.04.2025	---
Total Basic Salary		**50,000**
2. Therefore, Basic salary for the Previous year 2024-2025: Rs. 50,000		
(25,000 X 2 Months = Rs.50,000) Basic Salary Rs.50,000		

Illustration : 03

Mr. Raman joined in HCL Ltd, on 1st September 2024 on a monthly salary of Rs.30, 000. His salary becomes due on the first day of the next month and it is paid on the fifth day of the next month. Calculate his basic salary for the Previous Year 2024 - 25.

Solution: **Calculation of Taxable Salary of Mr. Raman for the P.Y. 2024 – 2025**

1. Calculation of Due Date of Salary in Month wise:		
Month	**Due Date** (Salary becomes due on the first day of the next month and it is paid on the fifth day of the next month)	**Rs.**
Sept. 2024	05.10.2024	30,000
Oct. 2024	05.11.2024	30,000
Nov. 2024	05.12.2024	30,000
Dec. 2024	05.01.2025	30,000
Jan. 2025	05.02.2025	30,000
Feb. 2025	05.03.2025	30,000
Mar. 2025	05.04.2025	---
Total Basic Salary		**1,80,000**
2. Therefore, Basic salary for the Previous year 2024-2025: Rs. 30,000 (March 2025 salary is not taxable during the P.Y.2024 -2025 as the due date and Receipt date fall after 31.03.2025. (30,000 X 6 Months = Rs1,80,000)		
Basic Salary: (30,000 X 6 Months = Rs.1,80,000		

3.9. PAY- SCALE SYSTEM (GRADE SYSTEM)

It is a system of payment where increment scale is pre-known to employee.

For Example: Basic salary is given as 10,000 – 2,000 – 18,000 – 4,000 – 24,000. The above data indicates the increment schedule. As per this schedule initial payment is 10,000 p.m. which will increased by 2,000 every year until salary reaches to 18,000 p.m. Once salary reaches to 18,000 then increment will be 4,000 every year till salary reaches the scale of 24,000. Accordingly, basic salary is calculated.

Illustration : 04

Mr. Mari was appointed on 01.01.2021 in the pay scale of 14,000 – 2,000 – 20,000 – 3000-35,000. Calculate his basic salary for the Previous Year 2024-25.

Solution : **Calculation of Taxable Salary of Mr. Mari for P.Y. 2024 -2025**

1). Calculation of Increment or Grade Salary in Month wise :	
Period	**Basic Salary (Increment Salary based on Joining date : 01.01 in every year)**
01.01.2021 to 31.12.2021	14,000
01.01.2022 to 31.12.2022	16,000 (14000 + 2000)
01.01.2023 to 31.12.2023	18,000 (16000 + 2000)
01.01.2024 to 31.12.2024	20,000 (18000 + 2000)
01.01.2025 to 31.12.2025	23,000 (20000 + 3000)
Therefore basic salary for the P.Y.2024 -2025	
Period	**Basic Salary p.m.**
01.04.2024 to 31.12.2024 = (9 Months x Rs.20,000)	1, 80,000
01.01.2025 to 31.03.2025 = (3 Months x Rs.23,000)	69,000
Total	**2,49,000**
Basic Salary: Rs. 2,49,000	

3.10 DIFFERENT MEANING OF SALARY

Even though the word salary is defined under section 17(i) for the purpose of chargeability, the meaning of this term differs for different purposes. The following consolidated statement will be useful to the students in this regard.

Sl. No	Circumstance	Meaning of Salary
1	House Rent Allowance (HRA)	Basic + DA (If it is forming part of salary) + Commission (If it is fixed percentage of sales)
2	Entertainment Allowance (EA)	Basic only
3	Leave Salary	Basic + DA (If it is forming part of salary) + Commission (If it is fixed percentage of sales)
4	Gratuity Covered	Basic + DA (always) but excluding bonus, commission and other allowance.
5	Gratuity Not Covered	Basic + DA (If it is forming part of salary) + Commission (If it is fixed percentage of sales) but excluding all other allowances.
6	Compensation for VRS	Basic + DA (If it is forming part of salary)
7	Contribution to PF	Basic + DA (If it is forming part of salary) + Commission (If it is fixed percentage of sales)
8	Rent free House	Basic + DA (If it is forming part of salary) + Commission(always) + all other taxable allowances
9	Specified Employee	Basic +DA (always) + Commission (always) + leave salary + gratuity + uncommented pension + all other taxable allowances minus deduction for EA minus deduction for professional tax.

3.11 ALLOWANCES

Allowance is a fixed monetary amount paid by the employer to the employee for meeting some particular expenses. For the purpose of taxation the allowances may be classified as follow

1. Fully Taxable Allowances

2. Partly taxable Allowances

3. Fully exempt Allowances

I. FULLY TAXABLE ALLOWANCES:

Following are the allowances which are fully taxable and included in the gross salary.

1. Dearness allowance: Dearness allowance is the most popular allowance being given to employees these days. It is determined on the basis of rising prices of commodities in general.

2. City Compensatory allowance: An allowance to meet personal expenses, which arise due to special circumstances, or to compensate extra expenditure by reason of posting at a particular place.

3. Tiffin allowance: An allowance to meet the expenditure on Tiffin, refreshment etc.

4. Dinner Allowance: It is fully taxable under the head salaries.

5. Medical Allowance: An Allowance to meet the expenditure on medical treatment etc.

6. Servant allowance: An allowance to meet the expenditure of servant for personal purpose.

7. Non-Practicing allowance: Allowance given to professionals to compensate them for restriction on private practice.

8. Warden/Proctor allowance: Allowance given to employees of educational institutions for working as warden of the hostel or working as proctor in the institutions.

9. Deputation allowance: Allowances given to an employee, when he is sent on deputation for a temporary period from his permanent place of service.

II. PARTLY TAXABLE ALLOWANCES U/S 10(14):

There are certain specific allowances which are exempt upto a certain limit. For the purpose of better understanding, these allowances are divided into two categories as mentioned below:

(a). Allowances which are Exempt to the Extent of Actual Amount Received or the Amount Spent for the particular Purpose Whichever is Less:

1. Travelling Allowance: An allowance, by whatever name called, to meet the cost of travel on tour. Cost of travel includes any sum paid in connection with transfer, packing and transportation of personal effects on such transfer.

2. Conveyance Allowance: Any allowance granted to meet the expenditure on conveyance in performance of duties of the office, provided free conveyance is not provided by the employer.

Taxpoint: Expenditure for covering the journey between office and residence is not treated as expenditure in performance of duties of office and consequently not covered under this allowance. (Refer Transport allowance)

3. Daily Allowance: An allowance, by whatever name called, granted on tour (or for the period of journey in connection with transfer) to meet the ordinary daily charges incurred by employee on account of absence from his normal place of duty.

4. Helper Allowance: Any allowance (by whatever name called) to meet the expenditure of assistant or helper, provided such helper is appointed for the performance of duties of an office.

Tax point: Servant allowance is **fully taxable.**

5. Academic Research Allowance: Any allowance, by whatever name called, granted to encourage academic, research and other professional pursuits. This allowance may also be termed as Professional Development / Academic allowance.

6. Uniform Allowance: Any allowance, by whatever name called, to meet the expenditure on purchase or maintenance of uniform wear, during the performance of duties of an office.

Tax point: Uniform allowance is different from Dress allowance. Dress allowance is **fully taxable.**

(b). Allowances which are Exempt to the Extent of Amount Received "or" the Specified Provisions Whichever is Less.

1. House Rent Allowance

2. Entertainment Allowance

3. Boarder Area Allowance

4. Tribal/Schedule Area Allowance

5. Allowance for Transport Employees

6. Children Education Allowance

7. Hostel Expenditure Allowance

8. Transport Allowance

9. Underground Allowance

10. Island Duty Allowance

1. HOUSE RENT ALLOWANCE (HRA) Sec. 10(13A) and rule 2A

It is given by the employer to the employee to meet the expenses in connection with rent of the accommodation which the employee might have to take. **This is exempt to the extent of the minimum of the following:**

Minimum of the following is exempted from tax:

a) Actual HRA received.

b) Rent Paid – 10% of Salary.

c) **50%** of salary for Chennai, Mumbai, Kolkata and Delhi) or **40%** of salary for other places.

Salary means: Basic + D.A. (if it forms a part of retirement benefit) + Commission as a fixed % on turnover.

Notes:

1. Salary shall be determined on due basis for the period for which the employee occupies rented accommodation in the previous year and gets HRA.

2. Exemption is not available if employee lives in his own house, or in a house for which he does not pay any rent.

3. For criteria of 50% of salary for Chennai, Mumbai, Kolkata and Delhi (Metro Cities in India) (or) 40% of salary for other places in India.

Illustration : 05

Compute taxable HRA of Mr. Anand who is working in Chennai. Basic salary Rs. 3,000 pm, HRA Rs. 700 pm, Rent paid Rs. 400 pm.

Solution:

Computation of Taxable HRA of Mr. Anand for the A.Y.2025-2026

Particulars	Amount Rs	Amount Rs
HRA Received (700 x 12)		8,400
Less: Least of the following will be exempted:		
i) Actual HRA Received: 700 x 12	8,400	
ii) 50% of salary: 36,000 x 50/100	18,000	
iii) Rent paid - 10%of salary: 4,800 - 3,600	1,200	
Least of the above will be empted		1,200
Taxable HRA		**7,200**

Working Note: 1 Calculation of salary means:

Basic Salary (3,000 x 12)	36,000
DA (If forming Part)	---
Commission (If forming Part)	---
Salary	**36,000**

Illustration : 06

Mr. Muthu is employed at Chennai at a salary of Rs. 6,000 p.m. The employer is paying HRA of Rs.700 p.m. but the actual rent paid by him is Rs. 800 p.m. Compute the exempted and Taxable HRA for the A.Y. 2025-2026.

Solution:

Computation of Taxable HRA of Mr. Muthu for the A.Y 2025-2026

Particulars	Rs	Rs
HRA Received (700 x 12)		8,400
Less: Least of the following will be exempted:		
i) Actual HRA Received: 700 x12	8,400	
ii) 50% of salary: 72,000 x 50/100	36,000	
iii) Rent paid - 10% of salary: (9,600 - 7,200)	2,400	
Least of the above will be Exempted		**2,400**
Taxable HRA		**6,000**

Working: Calculation of salary:

Basic Salary (6,000 x 12)	72,000
DA (If forming Part)	--
Commission (If forming Part)	---
Salary	**72,000**

Illustration : 07

Dr. Kannan a resident of Madurai, receives Rs. 1, 00,000 p.a. as basic salary and Rs. 20,000 p.a. as DA (2/3rd of which is forming part of salary) and he also receives a commission on purchases of Rs. 1,000 p.m. Bonus of Rs. 15,000 p.a. and HRA of Rs. 24,000 p.a. (Rent paid on Trichy Rs. 30,000 p.a.) Compute his taxable HRA for the A.Y.2025-2026.

Solution:

Computation of Taxable HRA of Dr. Kannan for the A.Y. 2025-2026

Particulars	Rs	Rs
HRA Received		24,000
Less: Least of the following will be exempted:		
i) Actual HRA Received:	24,000	
ii) 40% of salary: 1,13,333 x 40/100	45,333	
iii) Rent paid - 10%of salary: (30,000 - 11,333)	18,667	

Least of the above will be exempted		18,667
Taxable HRA		**5,333**

Working: Calculation of salary:

Basic Salary (6,000 x 12)	1,00,000
DA (If) 20,000 x 2/3	13,333
Commission (If)	---
Salary	**1,13,333**

2. ENTERTAINMENT ALLOWANCE Sec. 16(ii)

This is an allowance given to the employee for entertaining the customers or client of the employer. The persons in higher executive carder are always expected to spend large sums on public relations and this allowance is a sort of reimbursement of these expenses. The amount so received is supposed to have been spent and therefore, it was not table before 1955. But due to certain other considerations, it is now included is salary and a deduction is allowed as per section 16(iii) for Government employees only.

(a). In the case of a Government employee: (Central or State Govt.)

The least of the following is deductible from gross salary:

(i) Actual Entertainment Allowance.(EA) Received

(ii) 20% or 1/5th of basic salary

(iii) Statutory limit of Rs. 5,000.

Notes:

(a) Salary means: basic salary only.

(b) In order to determine amount of entertainment allowance deductible from salary, the following points need considered:

(c) Amount actually expended towards entertainment is not taken into consideration.

(d) In case of a non-Government employee including employees of statutory corporation and local authority, deduction on EA is not allowed.

Illustration : 08

Mr. D is a government employee gets Rs. 80,000 p.a. as basic salary. In addition he receives Rs. 20,000 as entertainment allowance. Compute deduction under entertainment allowance.

Solution:

Computation of Deduction under Entertainment Allowance

Particulars	Rs.
i. Actual EA Received	20,000
ii. 20% of basic salary 80,000 x 20/100	16,000
iii. Maximum limit	5,000

Whichever is less (WEL) will be deducted. Hence, Deduction Rs.5, 000 can be claimed for EA.

Illustration : 09

Mr. Ravi is a government employee working in Madurai. He gets Rs. 9,000 per month as basic salary, Rs. 4,000 per month as dearness allowance (forming part of salary) and Rs. 3,000 per month as entertainment allowance. He has spent Rs.41, 000 towards it. Compute the eligible amount of deduction under E.A.

Solution: Computation of Deduction under Entertainment Allowance

Particulars	Rs.
i. Actual EA Received (3,000 x 12)	36,000
ii. 20% of basic salary 1,08 ,000 x 20/100	21,600
iii. Maximum limit	5,000

WEL will be deducted. Hence, Deduction Rs.5, 000 can be claimed for EA

3. Composite Allowance:

Any allowance such as compensation allowance or uncongenial climate allowance or snow bound area allowance is **exempt up to Rs. 7,000 per annum**.

4. Boarder/Remote/Disturbed Area Allowance:

Any allowance in the nature of boarder area allowance or remote locality allowance or difficult area allowance or disturbed area **allowance is exempt upto Rs. 1,300 per month.**

5. Tribal /Schedule Area Allowance:

Allowances in the nature of tribal area in Madhya Pradesh, Tamilnadu, Uttar Pradesh, Karnataka, Tripura, Assam, West Bengal, Bihar and Orissa are **exempt upto Rs. 200 per month**.

6. Allowance for Transport Employees:

Any allowance granted to an employee working in any transport system, which is not receiving any daily allowance, **is extent up to 70% of such allowance or Rs. 6,000 per month. Whichever is less (WEL).**

7. Children Education Allowance:

An allowance to meet the expenses in connection with education of children, by whatever name called.

Treatment: Minimum of the following is exempted from tax -

a) Rs.100 per month per child (to the maximum of two children)

b) Actual amount received for each child (to the maximum of two children.

Illustration : 10

Mr. Ramesh received Children Educational Allowance for his two Sons studying in a School in Madurai at Rs 500 p.m. Compute Taxable Children Allowance.

Solution:

Computation of Taxable Children Education Allowance(CEA)

Particulars	Rs.
Actual Allowance (500 x12 x2)	12,000
Less: Exempt (100 x12 x 2)	2,400
Taxable CEA	**9,600**

Illustration : 11

The Tree children of Mr. X living in Madurai are studying in a school. During the previous year 2024-2025 he received Rs. 600 p.m. from his employer as Educational allowance. Compute Taxable Children Educational Allowance.

Solution:

Computation of Taxable Children Education Allowance

Particulars	Rs.
Actual Allowance (600 x12 x3)	21,600
Less: Exempt (100 x12 x 2)	2,400
Taxable CEA	**19,200**

Note: The exemption for education allowance is allowed only to the extent of two children.

8. Children Hostel Allowance:

An allowance to meet the hostel expenses of children, by whatever name called.

Treatment: Minimum of the following is exempted from tax -

a) Rs. 300 per month per child (to the maximum of two children)

b) Actual amount received for each child (to the maximum of two children).

Notes for Children Education Allowance and Hostel Allowance:

a) Child includes adopted child, step-child but does not include illegitimate child and grandchild.

b) Child may be major or minor child.

c) Deduction is available irrespective of actual expenditure incurred on education of child.

Illustration : 12

Mr. A received Rs. 1,500 p.m. from his employer in respect of three children are studying in Madurai. Compute his taxable Children Hostel Allowance.

Solution: Computation of Taxable Children Hostel Allowance

Particulars	Rs.
Actual Allowance (1,500 x12)	18,000
Less: Exempt (300 x12 x2)	7,200
Taxable CHA	**10,800**

9. Transport Allowance:

An allowance, by whatever name called, to meet the expenditure for the purpose of travelling between the place of residence and the place of duty.

Available to: Assessee is blind / deaf and dumb / orthopedically handicapped.

Treatment: Minimum of the following shall be exempted:

a. Actual amount received; or Rs.3, 200 p.m.

Tax point: No exemption is available to the assessee other than specified above.

10. Underground Allowance:

It is granted to an employee who is working in uncongenial, unnatural climate in underground coal mines are exempt upto Rs.800 per month.

Illustration 13:

Mr. X received the following allowances during the previous year 2024-2025. Compute Taxable Allowance to be included in the gross salary for the Assessment Year 2025-2026.

a. Travelling Allowance Rs. 1,500 p.m. (Expenditure incurred Rs. 750 p.m.)

b. Helper Allowance Rs. 1,200 p.m. (Expenditure incurred Rs. 750 p.m.)

c. Uniform Allowance Rs.1,000 p.a. (Cost of uniform purchased during the year Rs. 1,500)

d. Academic Research Allowance Rs. 500 p.m. (Research expenditure incurred during the year Rs.3,000)

e. Transport Allowance Rs. 1,500 p.m.

f. Boarder Area Allowance Rs. 1,600 p.m.

g. Tribal Area Allowance Rs. 500 p.m.

Solution: **Computation of Taxable Allowance for the A.Y.2025-2026**

Particulars	Rs	Rs.
1. Travelling Allowance (1,500 x 12)	18,000	
Less: Exempt (750 x 12)	9,000	9,000
2. Helper Allowance (1,200 x 12)	14,400	
Less: Exempt (Full)	14,400	Nil

3. Uniform Allowance **Less:** Exempt(Full)	1,000 1,000	Nil
4. Academic Research Allowance (500 x 12) **Less:** Exempt	6,000 3,000	3,000
5. Transport Allowance (1,500 x 12) **Less:** Exempt (800 x 12)	18,000 9,600	8,400
6. Boarder Area Allowance (1,600 x 12) **Less:** Exempt (1,300 x 12)	19,200 15,600	3,600
7. Tribal Area Allowance (500 x 12) **Less:** Exempt (200 x 12)	6,000 2,400	3,600
Taxable Allowance		**27,600**

III. FULLY EXEMPTED ALLOWANCE

Following allowances are fully exempted under the I.T. Act.

1. Foreign allowance to a government servant for services outside India sec. 10(7).
2. Allowance to High Court and Supreme Court Judges u/s 22A(2).
3. Sumptuary allowance to High Court and Supreme Court Judges u/s 22C.
4. Out of Pocket or outfit allowance for NCC Officers.
5. Allowances to employees of UNO(United Nations Organizations)
6. Transport allowance /Sumptuary allowance to UPSC, Chairman and Members
7. Allowances received by a teacher / Professor from SAARC member countries.
8. Allowance or Perquisite to member of Union Public Service Commission [Sec. 10(45)]

3.12 PERQUISITE SEC. 17(2)

The perquisite means, any casual emoluments or benefits attached to an office or position, in addition to salary or wages, which is availed by an employee. In other words, perquisites are the benefits in addition to normal salary.

DEFINITION:

As per sec. 17(2) of the Income tax Act, Perquisite includes -

i. Value of rent-free accommodation provided by the employer.

ii. Value of concession in rent in respect of accommodation provided to the assessee by his employer.

iii. The value of any benefit or amenity granted or provided free of cost or at concessional rate to 'specified employees'.

iv. Amount paid by an employer in respect of any obligation which otherwise would have been payable by the employee.

TYPES OF PERQUISITES:

For tax purposes, perquisites specified u/s 17(2) perquisites are classified as follows:

(i) Tax Free Perquisites.

(ii) Taxable Perquisites in the hands of All Employees and

(iii) Taxable perquisites in the hands of Specified Employees.

I. TAX FREE PERQUISITES IN THE HANDS OF ANY EMPLOYEE:

1. Provision of medical facilities subject to limit
2. Tea or snacks provided during working hours.
3. Free meals provided during working hours in a remote area.
4. Employer's contribution to staff group insurance scheme.
5. Leave travel concession
6. Free educational facility provided to children of employees
7. Interest free /concession loan of an amount not exceeding Rs. 20,000.
8. Computer/Laptop given to an employee for official /personal use.
9. Travelling facility to employees of railways or airlines
10. Rent-free furnished residence provided to an official of parliament, a union minister or a leader of opposition in parliament.
11. Conveyance facility provided to an employee to cover the journey between office and residence.
12. Accommodation provided in a remote area to an employee working at a mining site.
13. Tax on perquisite paid by employer {Section 10(10cc)}.

(II). PERQUISITES TAXABLE IN THE HANDS OF ALL EMPLOYEES:

1. Accommodation Facility:

2. Loan Facility
3. Use of Movable Assets
4. Transfer of Movable Assets
5. Tour Facility
6. Food and beverages
7. Gift
8. Club Facility
9. Credit card Facility
10. Sweet Equity Share

(III). TAXABLE PERQUISITES IN THE HANDS OF SPECIFIED EMPLOYEES (SEC. 17(2) (III) AND RULE 3):

Some perquisites are offered by the employer are taxable only in the hands of specified employees.

Specified employee is one who is:

1. Director of the employer company, whether full-time or part-time.
2. Shareholder of the employer-company holding 20% or more of voting shares of the company and
3. Any other employee whose income under salaries by way of taxable monetary benefits exceeds Rs.50, 000.

The following perquisites are taxable in the hands of specified employee:

(a) Motor car or any other conveyance
(b) Free domestic servants
(c) Free supply of Gas, Electric energy and water supply.
(d) Free education facilities to employee's children
(e) Free or concessional private journey to an employee by the employer engaged in the carriage of passenger or goods.
(f) Free medical facilities.

3.13. PERQUISITE OF ACCOMMODATION FACILITY

Employees are provided house accommodation by its employer. The accommodation may be furnished or unfurnished. It may be provided without rent or at concessional rent. It may be provided to government employees or other employees. *The term accommodation includes a house, flat, form house, accommodation in a hotel, motel service, apartment, guest house mobile home caravan ship or other floating structure. It is taxable in all cases except for the Judges of High Courts or the Supreme Court, Officials of Parliament, Union Ministers and Leader of opposition.*

Taxable Value: For the purpose of valuation, employees are divided into two categories:

a). Government employees

b). Non-Government employees

(a). FOR GOVERNMENT EMPLOYEE:

This category includes Central and State Government Employees but does not include employees of a Local Authority or a Foreign Government. The basis of valuation of accommodation is a sum equal to the "License" Fee in accordance with rules framed by the Government.

License fee / perquisite value of amount fixed by the government	**XXX**

Illustration :14

Mr. X an officer of the Government of Tamil Nadu, draws Rs.25, 000 p.m. as basic salary. He is provided with a rent free unfurnished house at Chennai whose market rent is Rs. 7,800 p.m. however the license fee as per Government rules is Rs. 1,250 p.m. Determine the value of Rent free house for the Assessment year 2025-2026.

Solution:

Perquisite value of Rent Free Accommodation in the case of a Government Employee is the rate fixed by the Government.

Government Fixed rate Rs.1,250 p.m.

Therefore, **the Perquisite Value is Rs.1, 250 X 12 Months = Rs.15,000.**

Illustration :15

Mr. Nainar, Central Government employee is provided with an accommodation in Chennai. The rental value of which is Rs.1, 00,000. The rate fixed by the Government is Rs.1, 000 p.m. His monthly salary is Rs.10, 000 plus D.A. Rs.4, 000. Calculate the perquisite value.

Solution:

Perquisite value of Rent Free Accommodation in the case of a Government Employee is the rate fixed by the Government.

Government Fixed rate Rs.1000 p.m.

Therefore, **the Perquisite Value is Rs.1, 000 X 12 Months = Rs.12,000.**

(b). FOR NON-GOVERNMENT EMPLOYEES:

For the purpose of valuation of perquisites under this category, the factors such as ownership of the accommodation, the population of the place in which the accommodation is located, amount of salary of the employee, rent of the accommodation if it is not owned by employer, cost of furniture provided or hire charges for furniture in the case of furnished accommodation, the amount of rent recovered from the employee in the case of concessional rent accommodation etc., The valuation rules are as follows:

Place in which Accommodation is provided	Accommodation owned by the Employer	Accommodation not owned by the Employer
1). If the population is less than 10 Lakhs	Taxable for **7.5 %** of Salary	**Minimum of the following Amount (WEL):** **1.** Rent paid by Employer **2.** 15% of Salary
2). If the population is between 10 Lakhs to 25 Lakhs.	Taxable for **10 %** of Salary	
3). If the population is above 25 Lakhs.	Taxable for **15 %** of Salary	

Note : Calculation of Salary means:

Particulars	Rs.
1. Basic Pay	**Xxx**

2. Dearness Allowance (If it enters into retirement benefits)	**Xxx**
3. Bonus	**xxx**
4. Commission	**xxx**
6. Fees.	**xxx**
7. Taxable portion of all allowances	**xxx**
Total Salary	**Xxx**

III. Concessional rent accommodation:

(Above Situations **"Minus"** Rent recovered from the Employee).

Illustration 16:

Mr. Rajan is working in a Private Company at Chennai. From the following information, you are asked to compute the Value of Rent-free unfurnished House. The house is owned and provided to Mr. Rajan by the company.

Basic salary	3, 00,000
Dearness Allowance (Forming part of salary)	1, 00,000
Fees	50,000
Entertainment Allowance	10,000

Solution:

Computation of Taxable Value of Rent Free House

Particulars	**< 10 Lakhs @7.5%**	**Between 10-25 lakhs @10%**	**>25 Lakhs @15%**
Taxable	4,60,000 x 7.5/ 100	4,60,000 x 10/100	4,60,000 x 15/100
Value of RFH =	Rs. 34,500	Rs. 55,200	Rs. 69,000

Working Note:

<u>Calculation of Salary for RFA</u>

Particulars	**Rs.**
1. Basic salary	3,00,000
2. Dearness Allowance (Forming part of salary)	1,00,000
3. Fees.	50,000
4. Entertainment Allowance (EA)	10,000

Total Salary	4,60,000

Illustration : 17

Mr. Raman is working in a public Company in Chennai. He gets a salary at the rate of Rs. 20,000 p.m. Dearness allowance Rs. 500 p.m. (50% of salary in term of employment purpose) and City Compensatory allowance Rs. 300 p.m. He has been a rent free house by the company, fair rental value of which is Rs. 1,200 p.m. Compute Taxable Value of Perquisite.

Solution:

Computation of Taxable Value of Rent Free House

Accommodation : Owned by the Employer

Population : Less than 25 lakhs

Taxable value : @10% of Salary

Calculation of salary for RFA:

Particulars	Rs.
1. Basic salary	2,40,000
2. Dearness Allowance (Forming part of salary)	3,000
3. CCA	3,600
Total Salary	**2,46,000**

Taxable Value = (2, 46,000 x 10/100= Rs.24, 660

IV. ACCOMMODATION NOT OWNED BY THE EMPLOYER

Taxable Value : @15% of Salary or Actual Rent (WEL)

Illustration : 18

Mr. Ravi, an employee of ABC Ltd posted at Chennai, draws Rs. 3, 00,000 as Basic Salary, Rs. 10,000 as dearness allowance (forming part of salary) and Rs. 5,000 as commission. Besides, the company rent free unfurnished accommodation in Chennai. The house is not owned by the Company. Rent paid by the Employer for the Accommodation is Rs. 50,000 p.a. Determine the Taxable Value of the Perquisite.

Solution:

Computation of Taxable Value of Rent Free House

Accommodation : Not Owned by the Employer

Taxable Value : @15% of Salary or Actual Rent (WEL)

Particulars	Rs	Rs
Basic salary DA Commission	3,00,000 10,000 5,000	 3,15,000
15% of Salary (3,15,000 x15/100) Actual Rent		47,250 50,000
Taxable Value **(47,250 or 50,000 WEL)**		**47,250**

Note: Salary for this purpose: basic salary + DA (if it is forming part of salary) + Commission and all other taxable allowances.

3.13. FURNISHED ACCOMMODATION

The term Furnished/Furniture includes Television sets, Radio, Refrigerator, Air Conditioner, Plant or equipment and other household appliances provided by employer to his employer for meeting any accommodation facility during the service period is eligible to claim this benefits.

VALUE OF FURNISHED ACCOMMODATION:

Value of unfurnished RFA as above	**Xxx**
Add: Value of furniture; (If owned by employer, *then 10% p.a. of original cost of such furniture* **OR** *If hired from third party*, **then actual Hire charges**.	**Xxx**
Value of furnished RFA	**XXX**

Illustration 19:

Mr. Kumar has the following salary structure::

a) Basic Salary Rs. 5,000 p.m.	b) Entertainment Allowance Rs. 1,000 p.m.
c) Education Allowance Rs. 500 p.m. (he has three children)	d) DA Rs.3,000 p.m.
e) Fees Rs.5,000 p.a.	f) Bonus Rs. 10,000 p.a.
g) Professional tax of employee paid by employer Rs. 2,000 for the year	

i). He has been provided a rent-free accommodation in Mumbai.

(ii). 60% of DA only forms part of retirement benefits

Compute taxable value of accommodation in the hands of Mr. Kumar in the following cases:

1. The employer owns such accommodation.
2. The employer hires such accommodation at a monthly rent of Rs. 900.

Solution:

Taxable value of Rent-free accommodation for the A.Y. 2025-2026

Particulars	Basis of determination	Taxable Perquisite
(i) Owned by employer	15% of Salary (Working)	Rs. 16,830
(ii) Hired by employer	15% of Salary or Actual rent paid by employer, whichever is lower	Rs. 10,800

Working: Salary for the purpose of Rent-free accommodation

Particulars	Rs.	Rs.	Rs.
Basic Salary			60,000
Bonus			10,000
Fees			5,000
Allowances:			
Dearness allowance	36,000 × 60%	21,600	
Entertainment Allowance		12,000	
Education Allowance	6,000 – 2,400	3,600	37,200
		Gross Taxable Salary	**1,12,200**

Illustration : 20

In above illustration, how shall answer differ if the property is situated in a city where population is only 14 lakhs.

Solution:

Taxable value of rent free accommodation for the A.Y.2025-2026

Particulars	Basis of determination	Taxable value of Perquisite
Owned by employer	@10% of Salary (as per the above working)	Rs. 11,220
Hired by employer	@15% of Salary **or** Actual rent paid by employer, **whichever is lower**	Rs. 10,800

Illustration 21:

Miss. Vanitha has the following salary structure: `

- **a)** Basic salary Rs. 15,000 p.m.
- **b)** Dearness Allowance Rs. 5,000 p.m. (not forming part of retirement benefit)
- **c)** Hostel Allowance Rs. 1,000 p.m. (does not have any child)
- **d)** Tiffin Allowance Rs. 500 p.m.
- **e)** Transport Allowance Rs.200 p.m.
- **f)** Bonus Rs.20,000 p.a.
- **g)** Commission Rs. 15,000 p.a.
- **h)** Free refreshment in office worth Rs. 5,000 p.a.
- **i)** Mobile phone facility by employer Rs. 900 p.m.
- **j)** Computer facility worth Rs. 10,000 p.a.

She has been provided a Rent-free Accommodation (owned by employer) in Kolkata. The house was allotted to her with effect from 01.05.2024 but she could occupy the same only from 01.06.2023. Find her gross taxable salary for the A.Y. 2025-2026.

Solution:

Computation of gross taxable salary of Miss Vanitha for the A.Y. 2025-2026

Particulars	Rs.	Rs.
Basic Salary		1,80,000
Bonus		20,000
Commission		15,000
Allowances:		
Dearness Allowance	60,000	
Hostel Allowance - (Fully taxable as she has no child)	12,000	
Tiffin Allowance	6,000	
Transport Allowance	2400	80,400
Perquisite u/s 17(2):		
Free Refreshment (not taxable)	Nil	
Mobile or telephone facility	Nil	
Computer facility	Nil	
Rent Free Accommodation	29,425	29,425
Gross Salary		**3,24,825**

Working: Salary for the purpose of rent-free accommodation

Basic Salary	1,80,000
Bonus	20,000
Commission	15,000
Allowances	
Dearness allowance	Nil
Hostel Allowance	12,000
Tiffin Allowance	6,000
Transport Allowance	2,400
Total	**2,35,400**
Value of Rent-Free Accommodation **(being 15% × Rs. 2,35,400 × 10 / 12)**	29,425

3.14. MOTOR CAR FACILITY

1. IF CAR OWNED BY EMPLOYER AND EXPENSES MET BY EMPLOYER:

(i) For Private Purpose:

Actual expenditure on car plus 10% of the cost of car for normal wear and tear plus salary paid to driver.

(ii) For Both Private and Official Purpose:

a) If Capacity of Car is up to 1600CC/1.6Liters:

Rs. 1,800 p.m. plus 900 p.m. for driver / Chauffeur.

(b) If Capacity of Car is above 1600CC/1.6Liters:

Rs. 2,400 p.m. plus 900 p.m. for driver.

2. IF CAR OWNED BY EMPLOYER AND EXPENSES MET BY EMPLOYEE:

(i) For Private Purpose:

10% of the cost of car for normal wear and tear plus salary paid to driver.

(ii) For Both Private and Official Purpose:

(a) If Capacity of Car is up to 1600CC/1.6Liters:

Rs. 600 p.m. plus 900 p.m. for driver.

(b) If Capacity of Car is above 1600CC/ 1.6Liters:

Rs. 900 p.m. plus 900 p.m. for driver.

3. IF CAR OWNED BY EMPLOYEE AND EXPENSES MET BY EMPLOYER:

(i) For Private Purpose:

Actual expenses incurred by employer

(ii) For Both Private and Official Purpose:

(a) If Capacity of Car is up to 1600CC/1.6Liters:

Actual expenses incurred by employer minus Rs. 1,800 p.m. plus 900 p.m. for driver.

(b) If Capacity of Car is above 1600 CC/1.6Liters:

Actual expenses incurred by employer minus Rs. 2,400 p.m. plus 900 p.m. for driver.

4. IF CAR OWNED BY EMPLOYEE AND EXPENSES MET BY EMPLOYEE:

"Not a perquisite"

Notes:

1. If CC of the car is less than 1600 CC, it is considered as small car
2. If CC of the car is 1600 CC or more, it is considered as big car.

3.15. PERQUISITES IN RESPECT OF MEDICAL FACILITY [u/s 17(2)]

Medical facility is taxable as under:

	Case	Treatment
1.	Fixed Medical Allowance	**Fully Taxable**
2.	**Medical facility** provided to the employee or his family in a hospital, clinic, dispensary or nursing home maintained by the employer.	**Fully Exempted**
3.	Medical Insurance premium paid or Reimbursed by the employer **or** Any other expenditure reimbursed by the employer for providingmedical facility.	**Fully Taxable**
	For this purpose of medical facility. **'family member means**, Spouse, children of the individual, Parents, brothers, sisters , wholly or mainly dependent on the employee.	

3.16 PERQUISITES INRESPECT OF FREE DOMESTIC SERVANTS [U/S 3(3)]

Value of perquisite is determined as under:

Servant appointed by (Servant includes, sweeper, gardener, watchmen etc)	**Taxable value of perquisite**	**Taxable in hands of**
Employer	Actual cost to the employer is **taxable** as perquisite	Specified employee
Employee		All employee

Notes:

(a). If rent-free accommodation (owned by the employer) is provided with gardener then **gardener's salary and maintenance cost of garden** shall **not be taxable**.

(b). Any amount charged from the employee for such facility shall be **reduced from above value**.

(c). Domestic servant allowance given to employee is **fully taxable**.

(d). Reimbursement of servant-salary by the employer **shall be taxable** in hands of all employee.

Illustration :22

Mr.Amar is working a ABC ltd. He appointed a watchman, a cook and a sweeper in his house at a salary of Rs.4,000 p.m, Rs.6,000 p.m and Rs.2,000 p.m respectively. His employer paid all their salaries. Compute the perquisite value.

Solution: **<u>Calculation of Taxable Perquisite value of Domestic Servants</u>**

Name of the Servants	**Rs.**
Watchmen (4000 x 12 months)	48,000
Cook (6000 x 12 months)	72,000
Sweeper (2000 x 12 months)	24,000
Taxable perquisite value of Domestic Servants	**1,44,000**

Illustration : 23

Mr.Arul has been provided with the following servants by his employer during the P.Y. 2024 - 2025. Watchmen salary Rs.3,000 p.m, Cook at the salary of Rs.4,000 p.m, Servant maid at the salary of Rs.1,000 p.m, Sweeper at the salary of Rs.600 p.m and Gardner at the salary of Rs.1,000 p.m. He has also been provided a rent free accommodation which is owned by the employer. Calculate taxable perquisite value of domestic servants.

Solution : Calculation of Taxable Perquisite value of Domestic Servants

Name of the Servants	Rs.
Watchmen (3000 x 12 months)	36,000
Cook (4000 x 12 months)	48,000
Server maid (1000 x 12 months)	12,000
Sweeper (600 x12 months)	7,200
Gardner salary (Since the accommodation is owned by the employer, the salary of the Gardner **need not be taxable** in the hands of employee)	Nil
Taxable perquisite value of Domestic Servants	**1,03,200**

3.17 FREE GAS, ELECTRICITY OR WATER FACILITY [U/S 3(4)]

(i) Gas, Electricity and water provided from outside agency, actual amount by the employer shall be taxable.

(ii) Gas, Electricity and water provided from employers own source, Actual cost shall be taxable. However, any amount charged from employee for this, it can be reduced by that amount.

Illustration : 24

Mr.Thirumaran is working in a private company at thanjavur. His basic salary is Rs.20000 p.m. D.A is Rs.5,000 p.m. He is provided with free gas facility by his employer. Find the taxable value of perquisite if

(i) Employer has provided such facility from own source. The manufacturing cost of employer for the facility is Rs.12,000. Whereas the market value of such facility is Rs.18,000.

(ii) Employer is engaged in business of cashew nuts and hires such facility from outside agency for Rs.24,000.

Solution:

(I). Taxable perquisite value of Gas is Rs.12,000.(ii). Taxable perquisite value of Gas is Rs.24,000.

3.18. PERQUISITES IN RESPECT OF FREE EDUCATION [U/S 3(5)]]

The following are the provisions relating to education facility provided to employee by the employer.

(a). Expenditure relating to training to employees is **NOT TAXABLE**.

(b). When education facility provided to the family members of the employee in an institution maintained by the employer, cost of education in a similar institute in the locality is Taxable. However, **Rs.1,000 per month per child shall be exempted without any restriction on number of children.**

(c). Child includes adopted child, stepchild of the assessee, but does not include grandchild or illegitimate child.

(d). Any amount charged from the employee for such facility shall be reduced from the above value.

Illustration : 25

Mr.Sampath is working in a manufacturing company. He attended a 15 days training programme organized by the Industrial Training centre, for which the company paid the seminar fee Rs.25,000. Calculate the taxable perquisite value of education.

Solution: Since, the training programme is attended by the employee for the benefit of the company seminar fee Rs.20,000 is "**NOT TAXABLE".**

Illustration : 26

Mrs.Mala is working in Brakes India ltd, Chennai. The company is maintaining a public school at Chennai. Books of account of the school and company are maintained separately. Mrs.Mala son and his younger brother are students of that school.

Relationship	Cost of Education in a similar institution	Amount charged from Mrs.Mala.
Son	Rs.6000 p.m	Rs.2000 p.m
Younger Brother	Rs.7,500 p.m	Rs 4,000 p.m

Solution: **(I) Taxable perquisite value of Son of Mrs.Mala.**

Cost of Education in a similar institution (6000 x12 months)	**72,000**
Less: (1). Exempted Rs.1000 (1000 x12) = 12,000 **(2).** Amount charged from Mrs.Mala (2000 x 12) **= 24,000**	36,000
Taxable perquisite value of Son of Mrs.Mala	**36,000**

II.Taxable perquisite value of Younger Brother of Mrs.Mala.

Cost of Education in a similar institution (7,500 x12 months)	**90,000**
Less: **(1).** Amount charged from Younger Brother (4000 x 12) **= 48,000**	**48,000**
Taxable perquisite value of Younger Brother of Mrs.Mala	**42,000**

3.19. VALUATION OF PERQUISITES IN RESPECT OF INTEREST FREE LOAN [RULE 3(7)(i):

(a).When employee is provided with interest free loan or concessional loan, it will be Taxable at SBI Lending rate for the loan period. It is not taxable if the loan amount does not **exceed Rs.20,000.**

(b). If the loan is provided for the purpose of medical treatment of family members of the employee, **it is not chargeable to tax.**

Illustration : 27

Mr. Arun is working in Ramco cements ltd. On 01.10.2024 he receives an interest free housing loan of Rs.20,00,000 from his company. It is repayable in 5 years. If SBI rate of interest is 8.4%. calculate the value of perquisite of interest.

Solution:

Taxable Perquisite Value = Rs.20,00,000 x 8.4 /100 (interest rate) x 6 /12 (Month) = **Rs.84,000/-**

Illustration : 28

Mr.Amar working in Rmkv Textiles On 01.07.2024 he receives a housing loan of Rs.5,00,000 from his company for a period of 6 years. The company charged interest at 6% p.a. The existing rate of interest on housing loan of SBI is 9.5% p.a. Calculate the value of perquisite.

Solution:

Taxable Perquisite Value = Rs.5,00,000 x (9.5% - 6%)

= Rs.5,00,000 x 3.5 /100 (Interest) x 9 / 12(Month) = Rs.13,125/-

Note: Interest charged by the company (6%) is lower than SBI Interest rate (9.5%). Hence, the difference in the interest rate for the loan period is the value of perquisite. Interest is calculated for 9 months only.

3.20 PERQUISITES IN RESPECT OF EXPENDITURE ON HOLIDAY [U/S 3(7)(ii)]

Valuation of perquisite in respect of travelling, touring, holiday home or any other expenses paid for or borne or reimbursed by the employer for any holiday availed of by the employee or any member of his household is **taxable in the hands of all employees**. Any amount charged from employee shall be reduced from the above determined value.

PERQUISITES IN RESPECT OF FREE MEALS [U/S 3(7)(iii)]

The facility provided by employer is taxable in the hands of employee on the following basis:

Case		Tax Treatment
1	Tea, snacks or other non-alcoholic beverages in the form of light refreshment provided during office hours (including over-time) and Free meals provided during office hours in Remote area and an offshore installation	Nil (Not Taxable)

2	**Free meals provided by the employer during office hours:** • At office or business premises; or • Through paid vouchers which are not transferable and usable only at eating joints.	Expenditure on free meals in **excess of Rs. 50 per meal shall be taxable** perquisite to the extent of excess amount in hands of all employees. **E.g**. Free meal given to employee worth Rs. 70 per meal through non-transferable coupon for 300 times in a year. Taxable perquisite in such case shall be Rs6,000 {being (Rs.70 – Rs.50) x 300}.
3	In any other case	The actual expenditure incurred by employer as **reduced by amount charged from employee for such lunch or meal shall be taxable in the hands of all employees.** **i.e**. [Actual expenditure **to** employer – Amount charged from employee]

PERQUISITES IN RESPECT OF GIFT VOUCHER OR TOKEN GIVEN BY EMPLOYER [U/S 3(7)(IV)]

The value of any gift, voucher, or token given to the employee (or any member of his household) on ceremonial occasion or otherwise by the employer shall be taxable in the hands of all employees. However, gift, voucher or token up to Rs 5,000, in aggregate, during the previous year, shall be exempted.

Notes: (a). **Where worth of gift is in excess of Rs 5,000 then amount in excess of ` 5,000 shall be Taxable.**

(b) No such exemption (Rs 5,000) is available on gift made in cash or convertible into money.

Illustration: 29

Mr.Guru is working in a private company at vilupuram. His employer provides tea/coffee to him during office hour. Expenditure incurred by the employer in this regard is Rs.3,600 p.a. Besides the employer provides free lunch (cost being Rs.150 per meal for 300 working days). Amount recovered from Mr.Guru is Rs.30 per meal. During the Pongal festival he gets a wrist watch of Rs.8,000 as gift from his employer. Ascertain the perquisite value of meal and Gift.

Solution:

(a).Since Tea / Coffee provided during office hours – **Not taxable**.

(b).**Perquisite value of Lunch** is Rs.21,000/ {(Meal Cost Rs.150 – Rs.50 (exempted) – Rs.30 (Recovered amount) x 300 days }Rs.70 x 300 days = Rs.21,000/

(c).**Taxable perquisite value is Rs.3000/-** (Since Gift in kind is exempted up to Rs.5000) (Watch Cost Rs.8000 – Exempted Amount Rs.5000 = **Rs.3,000/**

3.21 GRATUITY: SEC. 10(10)

Gratuity is a retirement benefit given by the employer to the employee in consideration of past services. Sec. 10(10) deals with the exemptions from gratuity income. Such exemption can be claimed by a salaried assessee. Gratuity received by an assessee other than employee shall not be eligible for exemption u/s 10(10). **Example:** Gratuity received by an agent of LIC of India is not eligible for exemption u/s 10(10) as agents are not employees of LIC of India.

CASE I: GRATUITY RECEIVED DURING CONTINUATION OF SERVICE:

Gratuity received during continuation of service is **fully taxable** in the hands of all employee (whether Government or non-Government employee).

CASE II: GRATUITY RECEIVED AT THE TIME OF TERMINATION OF SERVICE BY GOVERNMENT EMPLOYEE:

Gratuity received at the time of termination of service by Government employee is **fully exempt from tax u/s 10(10)(i)**. Tax point: Government employee, here, includes employee of the Central or the State Government or local authority but does not include employee of statutory corporation.

CASE III: Gratuity Received at the Time of Termination of Service by Non – Government Employee, "Covered" under the Payment of Gratuity Act 1972:

In such case, least of the following shall be exempted from tax u/s 10(10) (ii):

1. Actual Gratuity received;

2. Rs. 20, 00,000; **or**

3. 15 days salary for every completed year of service

[**15/26 x Last drawn salary x Every Completed year of service**]

Notes:

1. While computing number of completed years of service, part of the year in excess of six months is to be treated as one year. (E.g. 7 years 9 months will be treated as 8 years; 7 years 5 months will be treated as 7 years).

2. Salary means salary last drawn by an employee including dearness allowance but excluding bonus, commission and other allowance.

Illustration : 30

Mr. Raja, an employee of ABC Ltd., receives Rs. 2, 05,000 as covered under the Payment of Gratuity Act, 1972. He retires on 10th September, 2024 after rendering service for 35 years and 7 months. The last drawn salary was Rs. 2,700 per month. Compute the amount of gratuity chargeable to tax.

Solution:

Computation of Taxable Gratuity of Mr. Raja for theA.Y. 2025-2026 (Covered)

Particulars	Rs.	Rs.
Gratuity received		2,05,000
Less: Least of the following shall be exempted as per Sec 10(10)(ii):		
(a). Actual gratuity received	2,05,000	
(b). Statutory Amount	20,00,000	
(c) 15/26 X completed year of service X salary p.m. [15/26 × 36 × 2,700]	56,077	
Least of the above will be Exempted:		**56,077**
Taxable Gratuity		**1,48,923**

Case D: Gratuity received at the time of termination of service by non-Government employee "not covered" under the Payment of Gratuity Act 1972:

Gratuity received at the time of termination of service by non-government employee being "**not covered"** under the Payment of Gratuity Act shall be exempted from tax u/s 10(10)(iii) to the extent of lower of the following:

1. Actual Gratuity received;

2. Rs.10, 00,000; and

3. 1/2 × Completed year of service × Average Salary p.m.

Notes:

1). While computing number of years of service, fraction in the year shall be ignored.

(e.g. 7 years 9 months will be treated as 7 years only)

2). Average Salary is calculated on the basis of average salary for ten months immediately preceding the month of retirement.

3). Salary includes basic salary, dearness allowance (if it is forming part of salary) and commission (if it is based on fixed percentage on sale) but excluding all other allowances.

Illustration : 31

Mr. Kumar, retired on 21.10.2024, received Rs. 1, 20,000 as gratuity. He served the Company for 26 Years and 8 months. At the time of Retirement, his salary was Rs. 5,000 per month. However, the Average salary for 10 months preceding the month of Retirement is Rs. 4,800 per month. Compute his taxable gratuity if he is a —

a) Government employee
b) b) Non-Government employee, covered by the Payment of Gratuity Act 1972;
c) c) Non-Government employee not covered by the Payment of Gratuity Act 1972.

Solution:

a) Government employee: Taxable amount: **Nil** as per section 10(10)(i).

b) Other cases:

Computation of taxable gratuity of Mr. Kumar for the A.Y. 2025-26.

Particulars	Case (b)		Case (c)	
	Rs.	Rs.	Rs.	Rs.
Gratuity received		**1,20,000**		**1,20,000**
Less: Least of the following is exempted u/s 10(10)				
1). Actually gratuity received	1,20,000		1,20,000	
2). Statutory amount	20,00,000		20,00,000	
3) 15/26 × completed year of service × salary p.m. [15 / 26 × 30 × 5,000]	86,538	**86,538**	-	
4) 1/2 × completed year of service × salary p.m. [1/2 × 29 ×4,800]	-	**-**	69,600	**69600**
Taxable Gratuity		**33,462**		**50,400**

3.22 PENSION

Pension means a periodic payment made to the employee, by the former employer, in consideration of past service payable after his retirement. Pension is fully taxable under the head salaries, in the hands of all employees

1. **Commutation of pension** means converting the future right to receive monthly pension, into a lump sum amount receivable immediately, i.e. on retirement or superannuation. This is eligible for exemption u/s 10(10A).

2. **Family pension** means pension received by the family members of the deceased employee. It is not taxable under the head salaries but taxable under the head “Income from other sources”.

Taxability of Pension:

1. UNCOMMUTED/MONTHLY PENSION:

Monthly pension (uncommitted pension) is “**fully taxable**” for both Government and Non-Government Employees.

2. COMMUTED/FULL PENSION:

a) For Government Employees:

(Central/State Govt./ Local Authority/Statutory Corporation (Includes Government Employees absorbed by public sector undertaking) is **“fully exempt u/s 10(10A)”.**

b) For Non-Government Employees:

Commuted Pension received by Non - Government Employees calculated in to the following two ways:

(i) Commuted pension received by an employee who also received gratuity:

One third of total pension (1/3 of total Commuted amount) commuted is exempt.

Particulars	Rs.	Rs.
Uncommuted Pension (Monthly wise received Pension amount X 12 Month)		XXX
Commuted pension received	XXX	
Less: 1/3rd of full value of pension (100%)	XXX	XXX
Taxable pension		**XXX**

(ii) Commuted pension received by an employee who does not receive gratuity:

One half of total pension (1/2 of total commuted value amount)) commuted is exempt

Particulars	Rs.	Rs.
Uncommuted Pension (Month wise received Pension amount X 12 Month)		XXX
Commuted pension received	XXX	
Less: 1/2nd of full value of pension (100%)	XXX	XXX
Taxable pension		**XXX**

Note: Taxable commuted pension shall be eligible for relief u/s 89(1).

Illustration : 32

Mr. Mano retired on 15.4.2024 from X company ltd. He was entitled to a Pension of Rs. 4,000 per month. At the time of retirement, he got 75% of the pension commuted and received Rs.1, 20,000 as commuted pension. Compute the Taxable Portion of the Commuted Pension if

(i) He received gratuity,

(ii) He does not received gratuity.

Solution:

Computation of Taxable Pension

Particulars	Rs.	Rs.
(i). When he received gratuity:		
Commuted Pension (75%)	1, 20,000	
Less: Exempt: 1/3 rd of Full Pension: (**Rs. 1, 20,000 x 75 /100 x 1/3)**	53,333	
Taxable Pension:		66,667
(ii) When he does not received gratuity:		
Commuted Pension (75%)	1, 20,000	
Less: Exempt 1/2th of full pension (Rs. 1, 20,000 x 75 /100 x ½)	80,000	
Taxable Pension:		**40,000**

3.23 LEAVE SALARY ENCASHMENT (Sec. 10(10AA)

As per service contract and discipline, normally, ***every employee is allowed certain period of leave (with pay) every year. Such leave may be availed during the year or accumulated by the employee. The accumulated leave lying to the credit of an employee may be availed subsequently or encashed.*** When an employee receives an amount for waiving leave lying to his credit, such amount is known as leave salary encashment.

Case A: Leave salary received during continuation of service

Leave salary during continuation of service is **fully taxable** in the case of the Government employee as well as Non - Government employees [Sec. 17(1)(va)].

Case B: Leave salary received by Government employee on termination of service

At the time of termination of service, leave salary received by the Central or State Government employee is **fully exempted** u/s 10(10AA)(i).

Tax point: Government employee here does not include employee of local authority or public sector undertaking or foreign Government employee.

Case C: Leave salary received by non-Government employee on termination of service

At the time of termination of service, leave salary received by a non-Government employee (including employee of foreign Government, local authority, public sector undertaking) is exempted to the **least of the following u/s 10(10AA)(ii):**

a). Actual amount received as leave salary

b). Maximum limit Rs. 3,00,000/-

c). 10 months× Average salary p.m.

d). (Numbers of years of service x 1) – (Number of months of leave availed x Average Salary)

Notes:

1. Average salary means Basic + DA (considered for retirement benefits) + Commission (as a fixed percentage on turnover) being last 10 months average salary ending on the date of retirement or superannuation. (e.g. if an employee retires on 18/11/2025 then 10 months average salary shall be a period starting from 19th Jan' 2025 and ending on 18th Nov' 2025).

2. If DA is not forming a part of retirement benefit then the same shall not be included in salary for the above purpose. However, DA itself shall be fully taxable.

3. While calculating completed year of service, ignore any fraction of the year. E.g. 10 years 9 months shall be taken as 10 years.

Illustration : 33

a) Ms. Leena is working in Guru Ltd. since last 25 years 9 months. Company allows 2 months leave for every completed year of service to its employees. During the job, he had availed 20 months leave. At the time of retirement on 10/8/2025, he got Rs. 1, 50,000 as leave encashment. As on that date, his basic salary was Rs.5,000 p.m., D.A. was Rs.2,000 p.m., Commission was 5% on turnover plus Rs. 2,000 p.m. (Fixed p.m.). Turnover effected by the assessee during last 12 months (evenly) Rs.5,00,000. Ms.Leena got an increment of Rs.1, 000 p.m. from 1/1/2025 in basic and Rs. 500 p.m. in D.A. Compute his taxable leave encashment salary.

b) How shall your answer differ if the assessee had taken 2 months leave instead of 20 months, during his continuation of job.

Solution: Working:

1. **Completed year of service**: 25 years 9 months = 25 years
2. **Salary means** Basic salary + Dearness Allowance(if it is forming part of salary) + Commission on turnover (last 10 months average from the date of retirement)

Particulars	Oct' 24-25 days (Rs)	Nov (Rs)	Dec (Rs)	Jan'-25 (Rs)	Feb (Rs)	Mar (Rs)	April (Rs)	May (Rs)	June (Rs)	July (Rs)	Aug 10 Days (Rs)	Total
Basic	**2,710**	**4,000**	**4,000**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**	**1,613**	**47,323**
D.A.	**1,016**	**1,500**	**1,500**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**645**	**18,661**
Commission	**500000 × 5% × 10/12**											**20,833**
Total												**86,817**
Average salary i.e. Rs.86,817 / 10 months												**8,682**

Monthly fixed commission is irrelevant. Commission as fixed percentage of turnover is to be considered.

<u>Computation of taxable leave encashment salary of Ms. Leena for the A.Y.2025-2026</u>

Particulars	Case (a)		Case (b)	
	Rs.	**.Rs.**	**Rs.**	**Rs.**
Leave encashment received		**1,50,000**		**1,50,000**
Less: Least of the following is exempted u/s 10(10AA)(ii):				
a) Actual amount received	**1,50.000**		**1,50.000**	
b) Statutory Amount	**3,00,000**		**3,00,000**	
c) 10 months × Av. Salary p.m. (10 × 8,682)	**86,820**		**86,820**	
d) [{1× completed year of service - Leave taken} × salary p.m.] **[{1 × 25 – 20} × 8,682]** **[{1 × 25 – 2} × `8,682]**	**43,410**	**43,410**	**1,99,686**	**86,820**
Taxable Leave Encashment		**1,06,590**		**63,180**

Illustration :34

Mr. David retired on 31/3/2025. At the time of retirement, 18 months leave was lying to the credit of his account. He received leave encashment equivalent to 18 months Basic salary Rs. 1, 26,000. His employer allows him 1½ months leave for every completed year of service. During his tenure, he availed of 12 months leave. At the time of retirement, he also gets D.A. Rs. 3,000. His last increment of` 1,000 in basic were on 1/4/2020. Compute taxable leave encashment.

Solution : Working:

1. Calculation of completed year of service: Employee has received 18 months leave encashment on termination of service as well he had enjoyed leave of 12 months during his tenure. That means he had received a leave benefit of 30 months. Since leave allowed by employer is 1½ months for every completed year of service, this signifies that Mr. David had completed 20 years (being 30/1½) of service.

2. Salary here means, Basic + DA + Commission, being last 10 months average from the date of retirement. There is no increment in last 10 months (last increment was on 1/4/2018) and there is no commission, hence Average Salary = Rs.7,000 (i.e. ` 1,26,000/18) + Rs.3,000 = Rs.10,000 p.m.

Computation of taxable leave encashment of Mr. David for the A.Y. 2025-2026

Particulars	Rs.	Rs.
Leave Encashment received		1,26,000
Less: Least of the following is exempt u/s 10(10AA)(ii):		
(a). Actual amount received	1,26,000	
(b). Statutory Amount	3,00,000	
(c). 10 months × Average Salary p.m. (10 × 10,000)	1,00,000	
(d). {1× completed year of service - Leave taken} × Avg. salary p.m. [{1 × 20 – 12}× ` 10,000]	80,000	80,000
Taxable Leave Encashment		**46,000**

Case D: Leave salary paid to the legal heir

Leave salary paid to the legal heir of deceased employee is **not taxable**. Further, leave salary received by a legal heir of the Government employee who died in harness is not taxable in the hands of the recipient [Circulars No.309, dated 3/7/1981].

3.24 PROFITS IN LIEU OF SALARY [Sec. 17(3)]

Profit in lieu of salary is payments received by an employee in addition to the regular Salary. The Profits in lieu of salary can include both monetary and other forms of compensation. It is **Fully Taxable**. The following are the important points about the profit in lieu of salary:

(i) Receipts included in profit in lieu of salary:

As per section 17(3) of the income tax act, profits in lieu of salary include the following:

i). The amount of any compensation due to or received by an employee from his employer or former employer in connection with the termination of his employment or the modification of the terms and conditions of employment.

ii). Any amount due to or received by an employee from an unrecognized provident fund or any other similar fund to the extent to which it is taxable under the head salaries.

iii). Any other payment due to or received by an employee from his employer or former employer in appreciation of his services, provided such payment is attributable to or connected with employment.

iv). Sum received by an employee under Keyman insurance policy endorsed in his favour by his employer with effect from the assessment year 1997-1998.

(ii). Receipts not included in profits in lieu of salary:

Certain receipts obtained by an employee from his employer are not to be included in profits in lieu of salary to the extent that they are ***exempt from tax under section 10 of the income tax act.***

(i) Death cum retirement gratuity [sec. 10(10)]
(ii) Commuted value of pension [sec.10(10A)]
(iii) Compensation [sec. 10(10C)]
(iv) At the time of VRS from a public sector company
(v) Payment from statutory provident fund [sec.10(11)]
(vi) Payment from recognized provident fund [sec.10(12)]
(vii) House rent allowance [sec. 10(13A)].

3.24. PROVIDENT FUND (PF)

Provident fund scheme is a saving device in the hands of salaried class. It is a retirement benefit scheme. Under this scheme, a stipulated sum is regularly deducted from the salary of the employee as his contribution towards the fund. The employer also, generally, contributes a similar amount out of his pocket to the fund. The employer’s and employee’s contribution are together invested in such fund. Interest earned thereon is also credited to the fund of the employee. Thus, provident fund scheme is a great media to initiate and mobilize small savings to a large scale. On termination of service or retirement, employee receives the whole accumulated fund, subject to certain conditions. ***Hence, provident fund has four components i.e. Employer’s contribution; Employee’s contribution; Interest on employer’s contribution; and Interest on employee’s contribution. Provident fund is of four typ***es.

Types of Provident Fund:

Provident fund may be classified as:

1. Statutory provident fund

2. Recognized provident fund

3. Unrecognized provident fund

4. Public provident fund (for employees as well as non-employees) and

5. Contributed provident fund (CPF)

1. Statutory Provident Fund (SPF):

Statutory provident fund is set up under the provisions of the Provident Funds Act, 1925. It applies to employees of the Government and Semi-Government organizations, local authorities, railways, Universities and recognized educational institutions maintain Statutory Provident Fund.

Tax treatment:

i). Employee's own contribution (Sec. 88(2) (iv). The whole of such contribution paid by the employee from his chargeable income will qualify for deduction u/s 80C.

ii). Employer's contribution and increase in accumulated balance due to interest, etc (Sec. 10(11). It is exempt in the hands of employee.

2. Recognized Provident Fund (RPF):

The provident fund scheme is framed under the Employee's Provident Fund and Miscellaneous Provisions Act, 1952 (hereinafter referred as PF Act). The PF Act covers any establishment employing 20 or more persons. However, any establishment employing less than 20 persons can also join the scheme provided employer and employee both agree to do so. Further, if an employer creates his own scheme for provident fund then he can do so subject to recognition from the Commissioner of Income tax.

Tax treatment:

i). Employee's own contribution (Sec. 88(2)(vi). The whole of such contribution paid by the employee from his chargeable income will qualify for deduction u/s 80C.

ii). Employer's contribution (Sec. 17(1) rule 6(a) of part A of schedule IV). Such contribution will be exempt in the hands of employee **up to 12% of his salary.** The interest on the accumulated balance will be **exempt upto 9.5% rate.**

3. Unrecognized Provident Fund (URPF):

If a provident fund scheme is created by an employer, which is not recognized by the Commissioner of Income tax, then such fund is known as Unrecognized provident fund.

Tax treatment:

i). Employee's Own contribution: An employee's contribution to an unrecognized provident fund will not qualify for deduction u/s 80C.

ii). Employer's contribution: The amount contributed by employer is exempt in the hands of employee. It is not included in his salary.

4. Public Provident Fund (PPF):

The Central Government has established a fund for the benefit of public to mobilize personal savings. Any member of the public, whether salaried or self-employed, can contribute to the fund by opening a provident fund account at any branch of the State Bank of India or its subsidiaries or other nationalized bank. Even a salaried employee can simultaneously become a member of employee's provident fund (whether statutory, recognized or unrecognized) and public provident fund. Any amount in multiple of 5 (subject to minimum of Rs.500 and maximum of Rs. 1, 50,000 p.a.) may be deposited in this account. Interest is credited every year but payable only at the time of maturity. Interest earned on this fund is exempt from tax u/s 10(11).

Tax treatment:

i). Individual own contribution: The contribution paid by assessee from his chargeable income will qualify for deduction u/s 80C.

ii). Employer's contribution: There is no employer's contribution in case of this fund.

iii). Increase in accumulated balance due to interest, etc. It is exempt.

iv). Payment of accumulated balance or withdrawal. It is exempt.

5. Contributed provident fund (CPF):

Contributed provident fund is opened by the organizations but it is volunteer fund. In this employee – employer relationship is also required. A simple account (like RD) has to be opened in the bank or any financial trust. Generally same amount has to be deposited in each month.

Tax treatment:

i) Generally 10% of the employee salary is deducted and the same amount deposited by the employer. It is matured after getting NOC from the employer. Principal amount deposited in this fund may be free from income tax subject to getting approval from income tax office by organization, but interest amount is taxable.

RULES FOR PROVIDENT FUND

EMPLOYER CONTRIBUTION TO PROVIDENT FUND		
1. EMPLOYER CONTRIBUTION TO PF		
(a)	Recognized Provident Fund (RPF)	Exempt up to **12%** of Salary
(b)	Statutory Provident Fund (SPF)	Fully Exempt
(c)	Unrecognized Provident Fund (URPF)	Fully Exempt
(d)	Public Provident Fund (PPF)	Not Applicable
2. INTEREST ON PROVIDENT FUND		
(a)	Recognized Provident Fund (RPF)	Exempt up to the rate **of 9.5%**
(b)	Statutory Provident Fund (SPF)	Fully Exempt
(c)	Unrecognized Provident Fund (URPF)	Fully Exempt
(d)	Public Provident Fund (PPF)	Not Applicable

Illustration : 35

Mr.Ramesh, manager of a firm, has furnished the following particular. Compute his Gross salary. Basic Pay Rs. 9000 p.m, D.A (Enter into service benefits) Rs.4000 p.m. and Commission (3% on Turnover) Rs.25, 000 p.a. He contribution 15% of his salary towards RPF. His employer also contributes on equal amount. The interest on RPF is credited at the rate of 14% interest amount toRs.5,600.

Solution:

Computation of Gross Salary

Particular	Rs.
1. Basic Pay (9000 x12 months)	1,08,000
2. D.A (enter into service benefits) (4000 x 12 months)	48,000
3. Commission (Fixed % on turnover)	25,000
4. Employer Contribution to RPF **(Working – 2)**	5,430
5. Interest on RPF **(Working – 3)**	1,800
Gross Salary	**1,88,230**

Working Note : 1. Calculation of Salary :

1.Basic Pay (Rs.9000 x12)	1,08,000
2. D.A.	48,000
3. Commission	25,000
Total	**1,81,000**

Working Note : 2. Calculation of Employers contribution to RPF :

1.Actual Contribution	15 %
Less: Exempted Contribution	12%
Taxable Percentage of Contribution to RPF	03 %
Therefore Taxable Employer Contribution to RPF = Salary X 3 % / 100 = 181000 x 3 / 100 = Rs.5,430/	

Working Note : 3. Calculation of Interest on RPF :

1.Actual Interest Credit on RPF	14 %
Less: Exempted Contribution	9.5%
Taxable Percentage of Interest credit on RPF	4.5 %
Therefore, Interest on RPF = Interest X 4.5 % / 100 = 5,600 x 4.5 % / 100 = Rs.1,800/	

Illustration : 36

Mr. Muthu has the following salary structure – Basic pay Rs.10,000 p.m. Commission (fixed) Rs.2,000,DA Rs.1,000 p.m. Entertainment allowance Rs.2,000 p.m.

He contributes Rs.20,000 to provident fund. Employer also makes a matching contribution. Compute gross salary of if –

a) Mr.Muthu is a Government employee and such provident fund is a statutory provident fund.

b) Mr.Muthu is an employee of A Ltd. and such fund is a recognized fund.

c) Mr.Muthu is an employee of B Ltd. and such fund is an unrecognized fund.

Solution:

Computation of taxable salary of Mr. Muthu for the A.Y. 2025 - 2026

Particulars	Case A		Case B		Case C	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Basic		**1,20,000**		**1,20,000**		**1,20,000**
Commission		**2,000**		**2,000**		**2,000**
Allowances:						
Dearness allowance	12,000		12,000		12,000	
Entertainment allowance	24,000	**36,000**	24,000	**36,000**	24,000	**36,000**
Contribution to PF	20,000		20,000		20,000	
Less: Exempted	20,000	**Nil**	15,840	**4,160**	20,000	**Nil**
Gross Salary		**1,58,000**	**1,62,160**		**1,58,000**	

Notes:

1. Contribution to statutory and unrecognized provident fund is fully exempted.
2. Contribution to recognized provident fund is exempt upto 12% of salary.

Salary for such purpose:

Particulars	Rs.
Basic	**1,20,000**
Commission (as fixed)	**Nil**
Dearness allowance	**12,000**
Total	**1,32,000 @12% is 15,840**

3.25 RETRENCHMENT COMPENSATION [Sec. 10(10b)]

Retrenchment means cancellation of contract of service by employer.

Tax Treatment [Sec. 10(10B)]:

Any compensation received by a worker at the time of retrenchment is exempted to the extent of minimum of the following:

a). Actual amount received;

b). Rs. 5, 00,000; or

c). (15/26 X Yrs of Service X Average Pay): An amount calculated in accordance with the provisions of sec. 25F(b) of Industrial Dispute Act, 1947 (Under the said Act a workman is entitled to retrenchment compensation equivalent to 15 days' average pay, for every completed year of service or any part thereof in excess of 6 months)

3.26. COMPENSATION RECEIVED AT THE TIME OF VOLUTERY RETIREMENT SCHEME (VRS) (Sec. 10(10c)

If an employee accepts retirement willingly in lieu of compensation then such retirement is known as Voluntary Retirement. Voluntary retirement compensation received or receivable by an employee is eligible for exemption subject to the following conditions:

Conditions for exemption

1. Compensation is received from specified employer.
2. Compensation is received as per Voluntary Retirement Scheme (VRS) framed in accordance with prescribed guidelines*

Amount of exemption:

Exemption shall be least of the following:

a). Actual amount received as per guidelines; or

b). Statutory limit Rs.5, 00,000.

c) .3 month salary x no. of years of service

Taxable VR Compensation = Actual amount received - Exempted amount.

*Guidelines [Rule 2BA]

1. Scheme (VRS) must be applicable to all employees (other than director) who have either completed age of 40 years or has completed 10 years of service. (This condition is, however, not applicable in the case of an employee of a public sector company)

2. Such scheme must be framed to reduce the number of employees.

3. The vacancy caused by VRS is not to be filled up.

4. The retiring employee is not to be employed in another company or concern belonging to the same management.

5. The amount of compensation does not exceed

- the amount equivalent to 3 months salary for each completed year of service; **or**
- salary at the time of retirement multiplied by the balance month of service left.

Note: Salary means: [Basic + DA (if forms a part of retirement benefit) + fixed percentage of commission on turnover], last drawn salary.

3.27. DEDUCTION FROM GROSS SALARY [Sec. 16]

I. STANDARD DEDUCTION [SEC. 16(i)]

*Standard deduction of Rs. **50,000** for old regime and **75,000** for new regime "OR" the amount of gross salary whichever is lower.*

Standard Deduction under New & Old Tax Regime:

The standard deduction available for salaried individuals under both the regimes for the FY 2024-25 (AY 2025-26) is as follows:

Old Tax Regime: Rs. 50,000 & New Tax Regime: Rs. 75,000

II. ENTERTAINMENT ALLOWANCE [SEC. 16 (ii)]

Entertainment allowance is first included in salary and there after a deduction is allowed under this section from gross taxable salary. However, deduction u/s 16(ii) shall be available to the Government employee only.

Deduction for Entertainment allowance being the least of the following:

a). Actual Entertainment Allowance Received

b). Statutory limit Rs. 5,000/-

c). 20% of **Salary**.

III. PROFESSIONAL TAX [SEC. 16 (iii)]

Tax on employment, profession, trade, etc. levied by a State under Article 276 of the Constitution will be allowed as deduction on cash basis, whether paid by employee or by employer (on behalf of employee) from gross taxable salary.

Note: If employer (on behalf of employee) pays Professional tax then:

(i) Firstly, it is to be included as taxable perquisite; and

(ii) Further, it is allowed as deduction u/s 16(iii).

IV. DEDUCTIONS U/S.80 C PROVISIONS.

Saving are important for the economic development of any country. In order to promote savings, a deduction up to Rs.1,50,000 is allowed from Gross Total income, if the tax payer put his savings in the following terms.

(a). Employees contribution to SPF,RPF and PPF.

(b). Payment of L.I.C premium not exceeding 20% of the sum assured.

(c). Any amount deposited under unit Linked Insurance Plan.

(d). Any amount invested National Saving Certificates (NSC) – VIII Issues.

(e). Any amount invested in National Saving Scheme -1992.

(f). Any amount invested in notified funds set up by mutual funds or UTI.

(g). Any amount deposited as subscription to home loan account scheme of the National Housing Bank.

(h). Any repayment of housing loan taken from the L.I.C, HDFC, or any of the banks.

(i). Any payment towards Tuition fees to not Two children,

(j). Any investment made in notified bonds issued by NABARD,

Total of the above payments not exceeding Rs.<u>1,50,000</u> can be claimed as deduction from gross total income except long term capital gain and income from gambling.

Illustration : 37

Compute taxable Entertainment allowance & net salary of Mr. Sri ram from the following data: Basic salary Rs. 8,000 p.m. D.A.Rs. 2,000 p.m. Taxable perquisite Rs.35,000, Entertainment Allowance Rs. 4,000 p.m. Out of such allowance Rs.20,000 is expended and balance amount is saved. Assuming he is:

(i) Government employee. **(ii)** Non-Government employee.

Solution:

Computation of taxable income of Mr Sri ram for the A.Y.2025 - 2026

Particulars	Government Employee		Non-Government Employee	
	Rs.	Rs.	Rs.	Rs.
Basic Salary		96,000		96,000
Dearness Allowance		24,000		24,000
Entertainment Allowance		48,000		48,000
Taxable perquisite		35,000		35,000
Gross Taxable Salary		2,03,000		2,03,000
Less: Deduction u/s 16:				
(i) Standard Deduction 16(i)	50,000		50,000	
(ii) Entertainment allowance 16(ii)	5,000	55,000	Nil	50,000
(iii) Professional Tax 16(iii)		---		---
(iv) Deduction 80 c		---		---
Net Taxable Salary	**1,48,000**		**1,53,000**	

Note: We have followed old regime of standard deduction in all problems.

Working: Entertainment Allowance is exempted to the extent of least of the following:

(i). Actual EA Received Rs. 48,000

(ii). 20% of Basic Salary Rs.19, 200

(iii). Statutory amount Rs.5, 000

"Least amount Rs. 5,000 is exempt from tax"

Illustration : 38

Mr. Raman a non-Government employee has the following salary details:

a). Basic Salary Rs.5, 000 p.m.

b). D.A. Rs.2,000 p.m.

c). Entertainment Allowance Rs.300 p.m.

d. Professional tax paid by employee Rs.600

e). LIC Premium paid by employer Rs.3,600

f. Income tax paid by employee Rs. 2,000

g). Professional tax paid by employer on behalf of employee Rs. 1,600

Compute his taxable salary for the A.Y 2025-2026.

Solution:

Computation of taxable salary of Mr. Raman for the A.Y.2025-2026

Particulars	Rs.	Rs.
Basic Salary		60,000
Allowances		
Dearness Allowance	24,000	
Entertainment Allowance	3,600	27,600
Taxable perquisite		
Professional tax paid by employer	1,600	
LIC Premium paid by employer	3,600	5,200
Gross Taxable Salary		**92,800**
Less: Deduction u/s		
(i). Standard Deduction 16(i)	50,000	
(ii). Entertainment allowance 16(ii) (Assessee is a Non- Govt. employee)	Nil	
(iii). Professional Tax 16(iii) (Rs.1,600 + Rs.600)	2200	52,200
Taxable Salary		**40,600**

Illustration :39

Mr. X has retired from his job on 31/3/2024. From 1/4/2024, he was entitled to a pension of Rs.3,000 p.m. On 1/8/2024, he got 80% of his pension commuted and received Rs.1,20,000. Compute taxable pension if he is:

Case (a). Government employee;

Case (b). Non-Government employee & not receiving gratuity

Case (c). Non-Government employee (receiving gratuity, but not covered by the Payment of Gratuity Act).

Solution:

Computation of taxable pension of Mr. X for the A.Y.2025-2026

Particulars	Case a		Case b		Case c	
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
1. Uncommuted Pension						
1/4/2024 to 31/7/2024 **(Rs. 3,000×4)**	12,000		12,000		12,000	
1/8/2024 to 31/3/2025 (Rs.600 × 8)	4,800	**16,800**	4,800	**16,800**	4,800	**16,800**
2. Commuted Pension	1,20,000		1,20,000		1,20,000	
Fully exempted u/s 10(10A)(i)	1,20,000	**Nil**				
Exempted u/s 10(10A)(ii) **(½ of Rs.1,50,000)**			75,000	**45,000**		
Exempted u/s 10(10A)(ii) **(1/3 of Rs.1,50,000)**					50,000	**70,000**
Taxable Pension		**16,800**		**61,800**		**86,800**

Illustration 40:

Mr. Murugan joined Golden Ltd. on 1/4/2024. Details regarding his salary are as follows:

Particulars	Rs.
Basic	5,000 p.m.
Dearness Allowance	2,000 p.m. (50% considered for retirement benefit)
Education Allowance	1,000 p.m. (he has 1 son and 3 daughters)
Hostel Allowance	2,000 p.m. (none of the children is sent to hostel)
Medical Allowance	1,000 p.m. (total medical expenditure incurred Rs. 3,000)
Transport Allowance	1,800 p.m. (being used for office to residence & vice versa)
Servant Allowance	1,000 p.m.
City compensatory Allowance	2,000 p.m.
Entertainment Allowance	1,000 p.m.
Assistants Allowance	3,000 p.m. (paid to assistant ` 2,000 p.m.)
Professional Development Allowance	2,000 p.m. (actual expenses for the purpose ` 8,000 p.m.)
Bonus	24,000 p.a.
Commission	9,000 p.a.
Fees	5,000 p.a.

Compute his gross taxable salary for the assessment year 2025-2026.

Solution:

Computation of gross taxable salary of Mr. Murugan for the A.Y.2025-2026

Particulars	Rs.	Rs.	Rs.
Basic Salary			**60,000**
Bonus			**24,000**
Commission			**9,000**
Fees			**5,000**
Allowances:			
Dearness Allowance		24,000	
Education Allowance	12,000		
Less: Exemption (Rs.100 × 2 × 12)	2,400	9,600	
Hostel Allowance	24,000		
Less: Exemption (Rs.300 × 2 × 12)	7,200	16,800	
Medical Allowance		12,000	
Transport Allowance	21,600		
Less: Exemption	Nil	21,600	
Servant Allowance		12,000	
City Compensatory allowance		24,000	
Entertainment Allowance		12,000	
Assistance Allowance	36,000		
Less: Exemption (Being actual expenditure)	24,000	12,000	
Professional development allowance	24,000		
Less: Exemption (Actual expenditure max. of amount received)	24,000	Nil	**1,44,000**
Gross Taxable Salary			**2,42,000**

Illustration : 41

Mr. Raman is employed in a town (having a population of 13 lakh). He draws a salary of Rs. 8000 pm. DA Rs. 2000pm (40% enters into retirement benefits), bonus Rs. 8000 p.a Commission Rs. 4500 p.a. Entertainment allowance Rs. 500 p.m. FRV of rent free house provided by the employer Rs. 40000 p.a. value of the furniture provided Rs 20000. Compute his income from salary for the assessment year 2025-2026.

Solution:

Computation of Income from Salary of Mr. Raman for the A.Y. 2025- 2026

Particulars	Rs.	Rs.
Salary	96,000	
DA	24,000	
Bonus	8,000	
Commission	4,500	
Entertainment allowance	6,000	
Value of rent free furnished house	14,410	1, 52,910
Less: Deduction 16:		
i**). Standard deduction 16(i)**	50,000	
ii). Professional tax 16(ii)	---	
iii). Entertainment Allowance 16 (iii)	---	
iv). Deduction u/s 80 c	---	50,000
Income from Salary		**1, 02,910**

Working: Computation of value of Rent Free furnished house:

Salary = (96000+40% of 24000 (DA) + 8000 + 4500 + 6000= 1,24,100

10% of Salary : 12,410

Add: 10% of cost of furniture : 2,000

Value of furnished house : 14,410.

Illustration : 42

The following are the particulars of income of Mr. Raj for the previous year ended 31st March 2025. He is employed by an individual.

- **a)** Salary Rs.9,000 p.m.
- **b)** Bonus equal to 2 months salary Dog allowance Rs. 150 p.m
- **c)** Special allowances Rs. 120 pm
- **d)** Employee's contribution to RPF @ 15% of salary.
- **e)** Employers contribution to the fund @ 15% of the salary.
- **f)** Interest credited to the provident fund @ 9.5% p.a is Rs. 5600
- **g)** He is provided with free lunch in office. The cost per meal is Rs. 30.
- **h)** The employer has given him a small car which he uses for his personal and office use.
- **i)** He meets the expenses of the car which is used for personal purposes.

Compute his income from salary for the assessment year 2025-2026.

Solution:

Computation of income from salary of Mr. Raja for the A.Y 2025-2026

Particulars	Rs.
Salary	1,08,000
Bonus	18,000
Dog allowance	1,800
Special allowance	1.440
Employer's contribution to RPF in excess of 12% of salary	3,240
Lunch (cost does not exceed Rs. 50 per meal)	Exempted
Car @ 600 p.m	7,200
Gross salary	**1,39,680**
Less: Standard deduction 16(i)	50,000
Income from salary	**89680**

Illustration : 43

Mr. Ravi a non-Government employee has the following salary details:

Basic Salary Rs. 5,000 p.m., D.A. Rs. 2,000 p.m., Entertainment Allowance Rs. 300 p.m. Professional tax paid by employee Rs. 600 LIC Premium paid by employer Rs. 3,600 Income tax paid by employee Rs. 2,000. Professional tax paid by employer on behalf of employee Rs. 1,600 Find his taxable salary.

Solution: Computation of taxable salary Mr. Ravi for the A.Y.2024-25

Particulars	Rs.	Rs.
1. Salary and Other items.		
Basic Salary (Rs.5,000 X 12 Months)		60,000
2. Allowances		
Dearness Allowance (Rs.2,000 x 12 Months)	24,000	
Entertainment Allowance (Rs.300 x 12 Months)	3600	27,600
3. Perquisite		
Professional tax paid by employer	1,600	
LIC Premium paid by employer	3,600	5,200
Grass Taxable Salary		**92,800**
Less: Deduction u/s 16 and 80 C		
Standard Deduction	50,000	
Entertainment allowance (Assessee is a Non-government employee)	-	
Professional Tax paid by employer and employer (1,600 + ` 600)	2,200	
LIC Premium paid by employer	3,600	55,800
Taxable Salary		**37,800**

Illustration : 44

Dr. Lenin furnished the following particulars of his income for the year 2024-2025.

Salary Rs. 15,000 p.m. DA Rs. 1,250 p.m.

Entertainment allowance Rs. 1,000 p.m. Employer's and Employees contribution to RPF Rs. 24,000 each. Interest on PF at 9.5% p.a. Rs.19,000. City compensatory allowance Rs. 200 p.m.

Medical allowance Rs. 10,000

He has been provided with an unfurnished accommodation (population less than 10 lakhs) for which the employee paid Rs. 500 p.m. the house is owned by the employer, fair rental value is Rs. 30,000 p.a. a sweeper at Rs. 200 pm and a servant at Rs. 750 for the assessment year 2025-2026.

Solution:

Computation of taxable income from salary of Dr. Leninfor the A.Y. 2025-2026

Particulars	Rs.	Rs.
Salary		1,80,000
DA		15,000
Entertainment allowance		12,000
Employer's contribution to RPF in excess of 12%		2,400
City compensatory allowance		2,400
Medical allowance		10,000
Sweeper		2,400
Servant		9,000
Concession in rent		
Value	15,330	
Less: rent paid by the employee	6,000	9,330
Gross salary		**2,45,530**
Less: standard deduction 16(i)		50,000
Taxable salary		**1,95,530**

Illustration : 45

Mr. Eswaran is working in TVS ltd, Chennai. He furnishes the following particular. Compute his taxable salary for the P.Y.2023 -2024.

1. Basic Salary Rs.45,000 p.m
2. D.A (forming part of salary) Rs.9,000 p.m
3. House Rent Allowance (Actual Rent is Rs.6000 p.m) Rs 4,000 p.m.
4. Bonous Rs.10,000
5. He owns a car (1500 cc). He uses it partly for official and partly for private purpose. During the P.Y.2022 -23 He spent a sum of Rs.30000 on running and maintenances of car. Besides he has engaged a driver (Rs.24,000). The employer reimburses the entire expenditure of Rs.54,000.

Solution: **Computation of taxable salary Mr. Eswaran for the A.Y.2025-2026**

Particulars	Rs.	Rs.
1. Salary and Other items.		
Basic Salary (Rs.45,000 X 12 Months)		5,40,000
Bonus		10,000
2. Allowances		
Dearness Allowance (Rs.9,000 x 12 Months)	1,08,000	
House Rent Allowance **(Workings : 1)**	40,800	1,48,800
3. Perquisite		
Car **(Workings : 2)**	21,600	21,600
Grass Taxable Salary		**7,20,000**
Less: Deduction u/s		
Standard Deduction	50,000	
Entertainment allowance	-	
Professional Tax paid by employer and employer	-	
LIC Premium paid by employer	-	50,000
Taxable Salary		**6,70,000**

Workings: 1 – CALCULATION OF HOUSE RENT ALLOWANCE

Particulars		Rs.
Actual House Rent Allowance Received (4000 pm X 12)		48,000
(Salary Means = Basic Pay + DA (5,40,000 + 108,000 = 6,48,000)		
<u>Less:</u> Minimum of the Following Amount shall be exempted from tax		
(1). Actual House Rent Allowance Received	**46,000**	
(2).50%salary **Rs.6,48,000** (6,48,000 X 50/100 = 3,24,000)	**3.24,000**	
(3). Actual Rent Paid – 10% of Salary.		7,200
[(6,000 pm X 12 = 72,000) – (6,48,000 X 10/100 = 64,800)		
(72,000 – 64,800) = 7,200.	**7,200**	
Taxable House Rent Allowance		**40,800**

<u>Workings : 2</u> – <u>Calculation of Taxable Perquisite (Car) Value - Both Use.</u>

(See Rule.S.No.3) (Employee car as well as expenses also meet by a employee)

Particular	Rs.
Actual Expenses incurred	54, 000
1. Running Expenses / Maintenance Cost (CC.1.5 Lt – Big car) – **Rs.1,800 x 12 = 21,600)**	
2.Driver's salary (900 x 12) = **10,800 (21,600 + 10,800) = 32,400**	32, 400
Taxable Perquisite value of car	**21, 600**

Illustration : 46

Mr. Murugan joined Star Ltd in chennai on 1/4/2024. Details regarding his salary are asfollows:

Basic pay Rs.5,000 p.m., Dearness Allowance Rs.2,000 p.m.

Education Allowance Rs.1,000 p.m. (he has 1 son and 3 daughters).

Hostel Allowance Rs.2,000 p.m. (none of the children is sent to hostel).

Medical Allowance Rs.1,000 p.m. (total medical expenditure incurred Rs 3,000),

Transport Allowance Rs.1,800 p.m. (being used for office to residence & vice versa),

Servant Allowance Rs.1,000 p.m.

City compensatory Allowance Rs.2,000 p.m.

Entertainment Allowance Rs.1,000 p.m.

Assistants Allowance 3,000 p.m. (paid to assistant 2,000 p.m.),

Professional Development Allowance 2,000 p.m. (actual expenses for the purpose 8,000 p.m.),

Bonus Rs.24,000 p.a., Commission Rs. 9,000 p.a., Fees Rs.5,000 p.a.,

Travelling Allowance (He spend Rs.3000 only) Rs.5,000 p.a

Uniform and Maintenance Allowance Rs.200 p.m (He Spent Rs.2000 for this purpose).

Overtime Allowance Rs.500 p.m. Tiffin allowance Rs 2,000 p.m

House Rent Allowance (Actual Rent Paid Rs.3,500 p.m) Rs.3000 p.m.

Compute his gross taxable salary for the assessment year 2025-26.

Solution:

Computation of gross taxable salary of Mr. Murugan for the A.Y.24-25

Particular			Rs.
(1). SALARY AND OTHER ITEMS			
1. Basic Salary (Rs.5000 .pm X 12 Months)			60,000
2. Bonus (Rs.24000 p.a)			24,000
3. Commission (Rs.9000 p.a)			9,000
4. Fees (Rs.5000 p.a)			5,000
(2). ALLOWANCES:			
1. Dearness Allowance 2,000 p.m (Rs.2000 X 12 Month)	-	24,000	
2. Education Allowance 1,000 p.m (Rs.1000 X 12 Month)	12,000		
Less : Exempted of Education Allowance. (Rs.100 per month X 2 children) ***(Rs.100 X 2 Child X 12 Month)***	2,400	9,600	
3. Hostel Allowance 2,000 p.m (2000 X 12 Months)	24,000		
Less : Exempted Hostel Allowance ***(Rs.300 X 2 Child X 12 Months)***	7,200	16,800	
4. Medical Allowance 1,000 p.m (1000 X 12 Months)		12,000	
5. Transport Allowance 1,800 p.m (1800 X 12 Months)		21,600	
6. Servant Allowance 1,000 p.m. (1000 12 Months)		12,000	
7. City compensatory Allowance 2,000 p.m. (2000 X 12 Months)		24,000	
8. Entertainment Allowance 1,000 p.m.(1000 X 12 Months) (since he is a non government employee, entertainment allowance is fully taxable and on deduction is eligible)		12,000	
9. Assistants Allowance 3,000 p.m (3000 X 12 Months)	36,000		
Less : Exemption (Being Actual Expenditure Rs.2000 X 12 Month)	24,000	12,000	
10. Professional Development Allowance 2,000 p.m (2000 X 12)	24,000		

Less : Exemption (actual expenses for the purpose ` 8,000 p.m) (8000 X 12 Month = 96,000) More amounts spent this purpose. So, Tax is **Nil**	96,000	Nil	
11.Travelling Allowance (He spend Rs.3000 only) Rs.5,000 p.a **Less** : Actual amount spent for this purpose	5,000 3,000	2,000	
12. Uniform and Maintenance Allowance Rs.200 p.m (200 X 12) **Less** : Actual amount spent for this purpose	2,400 2,000	400	
13. Overtime Allowance Rs.500 p.m (500 X 12)		6,000	
14. Tiffin allowance Rs 2,000 p.m (2000 X 12)		7,200	
15. House Rent Allowance **(Working note : 1)**		8,000	**1,67,600**
Gross Taxable Salary (1) +(2)			**2,65,600**

Workings : Computation of taxable House Rent Allowance of for the A.Y. 25 - 26

Particulars		**Rs.**
Actual House Rent Allowance Received (3000 pm X 12)		**36, 000**
Less: ***Minimum of the Following Amount shall be exempted from tax***		
(1). Actual House Rent Allowance Received	**36,000**	
(2) .50%salary **Rs.84,,000** (84,000 X 50/100 = 24000)	**24,000**	
(3). Actual Rent Paid – 10% of Salary.		
[(3500 pm X 12 = 42,000) – (84,000 X 10/100 = 8400**)**		
(42,000 – 8,400) = Rs.33, 600 /	**33,600**	**24,000**
Taxable House Rent Allowance		**8,000**

Workings : Calculation of Salary = Basic Pay + DA + Commission on Turnover.

Salary = [(Basic pay Rs.5000 pm X 12) + (D.A.Rs. 2000 pm X 12 Months)

= (60,000 + 24,000) = **Salary Rs.84, 000/**

3.28 REVIEW QUESTIONS

MULTIPLE CHOICE QUESTIONS (MCQ)

PART – A (1 Marks Questions) Choose the Correct Answer:

1. Under which section defines salaries?

a) 15(1)

b) 17(1)

c) 17(5)

d) 15(5) **Ans: B**

2. Under section 17(1) defines-

a) Income from business

b) Capital gains

c) Income from other sources

d) Income from salaries **Ans: D**

3. Salary and allowances received by M.L.A and M.P are taxable under the head:

a) Salary

b) Business income

c) Profession income

d) Income from other source **Ans: D**

4. For entertainment allowance-

a) Salary = Basic pay

b) Salary = Basic + Allowances

c) Salary = Basic + Allowances + Bonus

d) Salary = Basic + Allowances + Bonus + DA **Ans: A**

5. For gratuity under payment of gratuity act:

a) 16(5)

b) 16(2)

c) 16(4)

d) 16(3) **Ans: D**

6. Entertainment allowance under section:

a) 16(5)

b) 16(2)

c) 16(4)

d) 16(3) **Ans: B**

7. Professional tax paid U/S

a) 16(1)

b) 16(2)

c) 16(4)

d) 16(3) **Ans:D**

8. Basic pay is

a) Not taxable

b) Partly taxable

c) Fully taxable

d) None of these **Ans: C**

9. Fees are paid by employer for extra work done by employee. It is

a) Not taxable

b) Partly taxable

c) Fully taxable

d) None of these **Ans: C**

10. Commission is paid as a percentage on profit/sales. It is

a) Not taxable

b) Partly taxable

c) Fully taxable

d) None of these **Ans: C**

11. Encashment of leave salary under section:

a) 10(10A)

b) 10(10AA)

c) 10(10)

d) 10(1A) **Ans: B**

12. Leave salary received during the service period

a) Not taxable

b) Partly taxable

c) Fully taxable

d) None of these **Ans: C**

13. Leave salary received at the time of retirement for government employees

a) Not taxable

b) Partly taxable

c) Fully taxable

d) None of these **Ans: C**

14. Encashment of leave salary maximum exempted limit

a) 5,00,000

b) 3,00,000

c) 2,00,000

d) 1,00,000 **Ans: B**

15. For encashment of leave salary requirement of

a) 16 months average salary

b) 12 months average salary

c) 10 months average salary

d) 8 months average salary **Ans: C**

16. Gratuity comes under:

a) Sec 10(5)

b) Sec 10(10)

c) Sec 10(15)

d) Sec 10(1) **Ans: B**

17. Gratuity received from for central government employees

a) Not exempted

b) Fully exempted

c) Partly exempted

d) None of these **Ans: B**

18. For gratuity maximum limit

a) 5,00,000

b) 10,00,000

c) 15,00,000

d) 20,00,000 **Ans: B**

19. Commutation of pension under sec.

a) 10(10AA)

b) 10(10)

c) 10(10AA)

d) 10(10AAA) **Ans: A**

20. Entertainment allowances is first included in salary income and there after a deduction is given U/S

a) 16(1)

b) 16(2)

c) 16(3)

d) 16(4) **Ans: B**

21. Maximum limit on entertainment allowance

a) 20,000

b) 15,000

c) 10,000

d) 5,000 **Ans: D**

22. In entertainment allowance deducted

a) 20% of basic pay

b) 10% of basic pay

c) 30% of basic pay

d) 40% of basic pay **Ans: A**

23. Entertainment allowance for non government employees treated us

a) Not exempted

b) Fully taxable

c) Partly exempted

d) None of these **Ans: B**

24. House rent allowance rent paid

a) Less 5% of salary

b) Less 15% of salary

c) Less 10% of salary

d) Less 20% of salary **Ans; C**

25. If the house is situated in Chennai, Delhi, Mumbai, Kolkata, will be considered

a) 50% of salary

b) 40% of salary

c) 30% of salary

d) 25% of salary **Ans: A**

26. If the house is not situated in Chennai, Delhi, Mumbai, Kolkata, will be considered

a) 50% of salary

b) 40% of salary

c) 30% of salary

d) 25% of salary **Ans: B**

27. Aggregate value of gifts received from the employer in excess of is taxable

a) 15,000

b) 10,000

c) 5,000

d) 25,000 **Ans: C**

28. Gifts made is cash or gifts cheques are

a) Fully taxable

b) Not taxable

c) Partly taxable

d) None of these **Ans; A**

29. Retrenchment compensation under section

a) Sec, 10(5B)

b) Sec, 10(10B)

c) Sec. 10(B)

d) Sec. 10(10) **Ans: C**

30. Retrenchment compensation maximum limit

a) 5,00,000

b) 3,00,000

c) 2,00,000

d) 1,00,000 **Ans: A**

31. In case of tax free salary

a) Tax is to be paid by employer

b) No tax is payable on such salary

c) Tax is to be paid by the employee

d) Govt, itself pays the tax at a future date **Ans: A**

32. Salary received from by a member of parliament is

a) Taxable as salary income

b) Exempted from tax sources

c) Taxable as income from other source

d) None of these **Ans: C**

33. Which of the following is an exempted salary?

a) Payment by employer in kind

b) Salary from former employer

c) Salary received by UNO employees

d) Leave salary **Ans: C**

34. Contribution into public provident fund (PPF) are repayable after

a) 5 years

b) 10 years

c) 20 years

d) 15 years **Ans: D**

35. Allowances received by a government employee posted abroad are

a) Fully exempted

b) Partly exempted

c) Fully taxable

d) Taxable by the country where posted **Ans: A**

36. Dearness allowances is taxable in the hands of \

a) Govt. employees

b) Non-Govt employees

c) All employees

d) None of these **Ans: C**

37. Rent paid to a partner by a PFAF is

a) Allowable expense

b) None business expenditure

c) Rebate to firm

d) None of these **Ans: A**

38. Salary from PFAF of partner is

a) Exempted income

b) Taxable business expenditure

c) Salary income

d) Capital gain **Ans: B**

39. Share of profits from PFAF of a partner is.

a) Business income

b) Exempted income

c) Income from other sources

d) Capital gain **Ans: B**

40. Interest on capital of partner from PFAF is:

a) Business income

b) Income other sources

c) Exempted income

d) None of these **Ans: A**

41. interest paid by AOP to members is

a) Allowable business expense of AOP

b) Allowable business expense of HUF

c) Expense for member

d) None of these **Ans: B**

42. Remuneration paid to members of AOP is

a) Inadmissible expense of AOP

b) Allowable business expenses of AOP

c) Expense for members

d) None of these **Ans: A**

43. Rent paid by AOP to a partner for using his premises is

a) Allowed fully

b) Allowed partly

c) Disallowed none of these **Ans: A**

44. Share of income received from AOP is entitled to rebate at

a) 10%

b) Nil

c) Average rate

d) 20% **Ans: C**

45. House rent allowance is

a) Fully taxable

b) Partly taxable

c) Fully exempted

d) None of these **Ans: B**

46. Income tax authorities are grouped into two main wings administrative and

a) Judicial

b) Managerial

c) Executives

d) Clerical **Ans: A**

47. The highest administrative authority for income tax in India]

a) Finance minister

b) CBDT

c) President of India

d) Clerical **Ans: B**

48. What are the exemption limit in children education allowances

a) 100pm

b) 200pm

c) 300pm

d) 250pm **Ans: A**

49. Exemption for house rent allowances is determined by

a) Rule 24c

b) Sec. 80c

c) Rule 2A

d) Sec.91 **Ans: C**

50. Exemption limit of HRA in metropolitan cities is

a) 50% of salary

b) 40% of salary

c) 15% of salary

d) None of these **Ans: A**

51. Exempted limit of HRA in non metropolitan cities is

a) 40% of salary

b) 50% of salary

c) 10% of salary

d) 7.5% of salary **Ans: A**

52. Education allowance is exempted upto a maximum of

a) One child

b) Two children

c) Three children

d) Four children **Ans: B**

53. Children education allowances is exempted upto

a) 200p.m. per child

b) 300 p.m. per child

c) 100 p.m. per child

d) 400 p.m. per child **Ans: C**

54. Hostel expenditure allowances is exempted upto

a) 300 per month per child

b) 200 per month per child

c) 150 per month per child

d) 250 per month per child **Ans: A**

55. Entertainment allowance to govt, employees is exempted, which is least of 20% of basic salary or actual allowance or.

a) 1,000

b) 2,000

c) 20,000

d) 5,000 **Ans: D**

56. Perk is______

a) Cash paid by employer to employee

b) Facility provided by employer to employee

c) Amount credited to employee

d) None of these accounts **Ans: B**

57. Perquisites to employee are covered in the I.T. Act 1961 under

a) Sec 2a

b) Sec 17b

c) Sec 28a

d) Sec 36c **Ans: B**

58. Value of RFA in case of govt, employee shall be taxable upto

a) 15% of employee salary

b) 7.5% of employee salary

c) License fee fixed by govt,

d) 10% of employee salary **Ans: C**

59. Value of RFA of a house owned by employer in case of non govt, employee's with above 25 lakhs population is

a) 10% of employees salary

b) 15% of employees salary

c) 7.5% of employees salary

d) 20%v of employees salary **Ans: B**

60. Interest on RPF balance is exempted upto

a) 9.75%

b) 9.5%

c) 10%

d) 12% **Ans: B**

61. Employer contribution to RPF is exempted upto

a) 10% of salary

b) 13% of salary

c) 12% of salary

d) 11% of salary **Ans; C**

62. Death cum retirement gratuity paid to a government employees

a) Fully taxable

b) Partially taxable

c) Fully exempted

d) Government pays the tax **Ans: A**

63. Statutory limit for exemption of gratuity received by non- govt. employee

a) 3,00,000

b) 5,00,000

c) 20,00,000

d) 4,00,000 **Ans: C**

64. Commuted value of person is fully exempted incase of

a) An employee of private sector

b) An employee of public sector undertaking

c) A govt, employee

d) None of these **Ans: C**

65. Leave encashment received during service by a govt or non govt employee

a) Fully exempted

b) Partially exempted

c) Fully taxable

d) Employer has to pay tax on it **Ans: C**

THEORY QUESTIONS

PART – B [5 Marks Questions]

1. Define salary.

2. What do meant by salary?

3. What is the basis of charge of salary income?

4. State the features of salary?

5. What are the different forms of salary?

6. State the different sections of income from salary.

7. Write the different meaning of salary?

8. What is allowance?

9. State the provisions relating to Hours Rent Allowance

10. How will you determine the value of rent free accommodation?

11. Write short note on perquisites?

12. What is Perquisite? Explain its types.

13. Define perquisite under IT Act?

14.State the provisions relating to EA?

15. What are taxable perquisites'?

16. What is the rule for leave travel concession?

17. What is gratuity? Explain it provisions.

18. What is pension? Explain its types.

19. State the provisions relating to Motor Car.

20. State the provisions relating to Provident fund.

21. What is leave salary? State the provisions.

22. What is provident fund?

PART – C [8 Marks Questions]

23. Explain in details about deduction u/s 16?

24. State the various types of allowances.

25. Discuss about the Pension?

26. Analysis the various types of Provident Fund.

27. Discriminate RPF and URPF

28. Discuss the items included under the head Salary u/s 17.

29. Evaluate the various types of perquisites.

30. Outline the computation of Income from salary.

31. State the various types of deduction under section 16 and 80 C

PRACTICAL EXERCISES

HOUSE RENT ALLOWANCE (HRA)

EXERCISE 01: Ms. Manjula has drawn a salary of Rs. 4,000 p.m. House rent allowance @ Rs. 600 p.m.(Rent paid at Madurai Rs. 400 p.m.), Find out the taxable HRA for the Previous Year 2024-2025.

(Ans: Taxable HRA Rs. 7,200)

EXERCISE 02: Mr. Kannan a resident of Tirunelveli, receives Rs. 48,000 as basic salary during the previous year 2024-2025. In addition, he gets Rs. 4,800 as dearness allowance forming part of basic salary, 7% commission on sales made by him Rs.86,000 and Rs.6,000 as House Rent Allowance. He pays Rs.5,800 as house rent . Compute Exempted HRA.

(Ans: Exempted HRA Rs. Nil)

EXERCISE 03: Mr. Nagarajan an Employee of a company in Chennai received Rs. 40,000 as salary and Rs. 15,000as DA(not forming part of salary) and Rs. 12,000 as H.R.A. Determine the taxable H.R.A. If the actual rent paid by him during the Previous Year was (a) Rs. 8,000 (b) Rs. 32,000 and (c) Nil.

(Ans: Taxable HRA: (a) 8,000 (b) Nil & (c) 12,000)

EXERCISE 04:

Mr. Raju is employed in Ashok Leyland Ltd, Chennai. He, receives a basic salary Rs.8,000 p.m. In addition, he gets 4000 as dearness allowance forming part of basic salary, 3% commission on sales made by him (sale made by Mr.Raju during the relevant previous year is Rs.300000) and Rs 6,000 as house rent allowance. He, however, pays Rs. 6,500 p.m. as house rent in chennai. Determine the quantum of exempted & Taxable house rent allowance.

(Ans: Exempted: 62700 & Taxable: 9,300)

PERQUISITE OF ACCOMMODATION FACILITY

I. RENT FREE UNFURNISHED ACCOMMODATION (RFUA):

EXERCISE 05: Mr. Muthuram, a state Government employee is provided with an accommodation in Trichy, the rental value of which is Rs.1, 50,000. The rate fixed by the Government is Rs. 1,500 p.a. His monthly salary is Rs. 12,000 plus D.A Rs.5, 000. Find the perquisite value.

EXERCISE 06: Ms. Manju, a Central Government employee is provided with an accommodation in Chennai, the rental value of which is Rs. 75,000. The rate fixed by the Government is Rs. 1,000 p.m. her monthly salary is 20,000 plus D.A. Rs. 4,000. Find the perquisite value. Determine the value of Rent free house for the Assessment year 2025-2026.

EXERCISE 07: Mr. Ravi is working in Private Company at Chennai. From the following information you are asked to compute the value of Rent-free unfurnished House. (The house is owned and provided to Mr. Ravi by the company).

(a) Basic salary	Rs. 3, 50,000
(b) Dearness Allowance (Forming part of salary)	Rs. 1, 00,000
(c) Fees	Rs. 50,000
(d) Entertainment Allowance	Rs. 10,000

EXERCISE 08: Mr. Anand furnishes the following particulars:

Basic pay	15,000 p.m.
D.A (50% enter into retirement benefits)	6,000 p.m.
CCA	3,000 p.m.

He is paid an educational allowance of Rs. 2,000 p.m. for his children. He is provided with a rent-free unfurnished accommodation. The fair rental value of the house is Rs.48, 000.

Compute the perquisite value and gross salary if population is

(a) Less than 10 lakhs

(b) Between 10 and 25 lakhs and

(c) More than 25 lakhs.

II RENT FREE FURNISHED ACCOMMODATION

EXERCISE 09: Mr. X is a non-Government employee provided with a Rent free house whose Taxable Value is Rs. 30,000.In addition, some of the household appliances is provided in the house costing Rs. 40,000. The Employer pays Rs. 20,000 as hire Charges for two Air conditioners during the previous year. Compute the Taxable Value of Furnished Rent Free House.

EXERCISE 10: From the following particulars of Mr.Babu, compute the perquisite value:

Basic salary	Rs. 12,000 p.m.
D.A.	Rs. 3,000 p.m.
Bonus	Rs. 5,000 p.m.
Commission (2% on turnover)	Rs. 7,000 p.a.
Fees	Rs. 4,000 p.a.

He is provided with a rent-free accommodation in Erode with furniture. The cost of furniture provided by the employer is Rs.15,000.

III CONCESSIONAL RENT HOUSE

EXERCISE 11: Mr. Maheswaran received during the Previous Year ending March 31st 2025, emoluments consisting of Basic Pay Rs. 1,62,000, Special allowance Rs. 17,000 and Reimbursement of Medical Expenditure Rs. 3,800. Rent Recovered from the Employee is Rs. 18,000. Compute the Value of the Perquisite.

EXERCISE 12: Mr. Durai is a private company employee at Ooty (Population 25 lakhs). His basic salary is Rs. 12,000 p.m. and his D.A. is Rs. 5,000 p.m. which forms part of his salary. He is provided with a rent free accommodation. His employer pays a rent of Rs. 2,500 p.m. but deducts Rs. 1,000 p.m. from employees' salary for that accommodation. The cost of furniture provided in that house is Rs. 45,000. Calculate the value of concessional rent free accommodation.

EXERCISE 13: Mr.Velu has furnished the following Particulars:

a) Basic Salary Rs.6,000 p.m.

b) D.A. (Forming part of Salary) Rs.3,000 p,m.

c) City compensatory Allowance Rs.2,500 p.m.

d) Bonus Rs.5000 p.a.

He is provided with a rent free accommodation in cuddalore, the population of which is 20 lakhs. Compute the perquisite value if,

(i). The employer owns such an accommodation.

(ii). The employer hires such an accommodation as a monthly rent of Rs.1,500 p.m.

IV MOTOR CAR FACILITY

EXERCISE 14: Mr. Mohan has been provided a car (1.8 ltr.) by his employer. The cost of car to the employer was Rs. 3, 50,000 and maintenance cost incurred by the employer Rs. 30,000 p.a. Driver salary is paid by the employer Rs. 3,000 p.m. Find out the taxable value of perquisite for Mr. Mohan for the P.Y 2024-2025, if the car is used for:

(a) Office purpose (b) Personal purpose (c) Both purpose

EXERCISE 15: Mr. Sunder is an employee of ABC Ltd., Chennai provided with small car for both official and personal purpose. The car expenses Rs. 45,000 including driver's salary Rs. 30,000 is paid by the company. He pays Rs. 750 p.m. to the company for using the car for his private purposes. Find the perquisite value of car.

EXERCISE 16: Motor car of more than 1.6 litres CC is provided for use to director Mr. X by the employer company and the connected expenses including the salary of the driver are met by the company. The car is used partly for personal and partly for official purpose. However it is difficult to calculate the proportion of expenses relating to personal use. Compute the taxable value of perquisite.

(Ans: Taxable Value of Perquisite: 39,600)

EXERCISE 17: Calculate the value of car facility from the following:

(a) Car below 1.6ltr. Expenses met by employer and used partly for official and partly for personal purpose. The expenses incurred by company are Rs. 2,400. (b) Car 1.6 ltr. Used for official work and also used by employee from his residence to office and back

(Ans: Taxable Value of Perquisite: Rs. 21,600)

LEAVE SALARY

EXERCISE 18: Ms. Suhasini retires on 01.07.2024 after 18 years of service and received Rs. 1, 50,000 as leave encashment for 15 months. Her employer allows her 1.5 months of leave for every one year of service. She has already availed leave for 12 months. Her 10 months average salary was Rs. 15,000 p.m. compute the taxable amount of leave encashment.

(Ans: Taxable Leave Encashment Rs. 1, 10,000)

EXERCISE 19: Mr. Hari, retired from services on 28.02.2025:

Salary at the time of retirement Rs. 22,100 p.m.

Average salary for 10 months ending on 28.01.2025 Rs. 22,100 p.m

Duration of service 24 years

Leave entitlement for every year of service 1.5 months

Leave availed while in service 19 months

Leave at the credit of the employee 17 months

Leave salary paid at the time of retirement @ Rs. 22,100 p.m Rs. 3,75,700

Compute Taxable Leave Salary.

(Ans: Taxable Leave salary Rs. 2, 65,200)

EXERCISE 20: Ms. Eswari Retired on 31.10.2024 after 20 years of service and received Rs. 3, 36,000 as leave encashment for 12 months. Her employer allows her 1.5 months of leave for every one year of service. She has already availed leave for 18 months. Her salary for 2023-2024 was Rs. 40,000 and from 01.04.2024 it was raised to Rs.48,000 p.m. Compute the taxable amount of leave encashment.

(Ans: Taxable Leave Encashment Rs. 2, 44,800)

EXERCISE 21: Mr. David retired on 31.08.2024 after 22 years of service and received Rs.1, 50,000 as leave encashment for 15 months. His employer allowed him 60 days leave for each year of his service. During his service he has enchased 14 months leave. He received a basic salary of Rs.12, 000 p.m, D.A of Rs.4, 000 p.m. Ascertain his taxable leave encashment.

(Ans: Taxable Leave Enhanced Rs. 22,000)

GRATUITY

I. For Government Employee:

EXERCISE 22: Mr. X an employee of Central Government service received Rs. 7, 00,600 as Gratuity at the time of his retirement on 30th September 2024. Compute taxable amount of Gratuity.

(Ans: Taxable Gratuity Nil)

II. For Non-Government Employee-Covered by Gratuity Act:

EXERCISE 23: Mrs. Rajamani is working in ABC Pvt. Ltd. She retired from service after rendering a service of 29 years and 7 months on 31st December 2024. She received Rs. 3, 00,000 as gratuity from her company. She is covered by the Payment of Gratuity Act 1972,Her pay last drawn is Rs. 13,500 p.m. Find out the taxable amount of Gratuity.

(Ans: Taxable Gratuity: Rs.66.346)

EXERCISE 24: Mr. Muthu not-covered by the Payment of Gratuity Act,1972 receives a gratuity of Rs. 45,000 when he retires during 2024-2025 after a service of 40 years and 11 months. His average monthly salary during last 10 months of service was Rs. 2,200. Determine Taxable Gratuity in his case.

(Ans: Taxable Gratuity: Rs. 1,000)

EXERCISE 25: Ashoken, an employee of ABC Ltd., receives Rs. 2, 05,000 as gratuity under the Payment of Gratuity Act, 1972. He retires on 10th September, 2024 after rendering service for 35 years and 7 months. The last drawn salary was Rs 2,500 per month and D.A. was Rs.200. Calculate the amount of gratuity chargeable to tax.

(Ans: Taxable Gratuity: 1, 48,923)

EXERCISE 26: Mr. Ravi retired from his job after 29 years 6 months and 15 days of service on 17/12/2024 and received gratuity amounting Rs.4, 00,000. His salary at the time of retirement was basic Rs. 6,000 p.m., Dearness allowance Rs.1,200 p.m., House rent allowance Rs.2,000, Commission on turnover at 1%, Commission on profit Rs.5,000. He got an increment on 1/4/2025 of Rs.1,000 p.m. in Basic. Turnover achieved by assessee Rs.1, 00,000 p.m.

Calculate his taxable gratuity if he is a —

Case 1: Government employee

Case 2: Non-Government employee, covered by the Payment of Gratuity Act;

Case 3: Non-Government employee not covered by the Payment of Gratuity Ac

Ans: Case 1: Fully Exempted, Case 2: Case 2: 2,75,385 & Case 3: 2,75,385)

PENSION

EXERCISE 27: Mr Murugan receives Rs. 1,75,000 as uncommuted pension and Rs. 4,00,000 as commuted pension from Central Government during the Previous year 2024-2025. He also receives Rs. 5,00,000 as Gratuity. Determine the amount of pension taxable for the Assessment year 2025-2026.

(Ans: Taxable Pension : Nil)

EXERCISE 28: Mr. MN retired on 1.1.2025 and his pension was fixed at Rs. 7,200 p.m. He gets 75% of the pension commuted for which he received Rs. 3, 60,000 from his employer at a limited company. Find out taxable amount of commuted value of pension if (a) He gets Gratuity, or (b) He does not get Gratuity. **(Ans: (a) 2,00,000 & (b) 1,20,000)**

EXERCISE 29: Ms. Kani retired on 30.11.2024 after serving 30 years and 9months. She received Rs.3,00,000 as gratuity under payment of Gratuity Act and her pension has been fixed at Rs.12,000p.m. She gets ½ of her pension commuted and gets Rs.3, 60,000. Calculate taxable gratuity and pension when she is a private employee and her salary at the time of retirement was Rs.15,600 p.m.

(Ans: Taxable Gratuity Rs. 21,000. Commuted Pension Rs. 1, 20,000 and Pension Rs. 24,000)

PROVIDENT FUND

EXERCISE 30: Calculate the amount of taxable annual accretion to RPF for Mr.A, from the following particulars:

Salary Rs. 3,5000 p.m.

DA Rs. 1,000 p.m. (50% forming part of salary)

Employer Contribution to RPF Rs. 500 p.m.

Own Contribution to RPF Rs. 500 p.m.

Interest on RPF @14% Rs. 8,400 p.a.

(Ans: Taxable RPF: 2,940)

EXERCISE 31: Ms.Veni, who retired on 1st September 2024, received Rs. 4,00,000 as a lump sum from provident fund of which Rs. 1,70,000 was her employer's contrition and Rs. 1,70,000 was her own contribution and the rest Rs. 60,000 interest there on. She retired after rendering 15 years of continuous service. Compute the taxable amount, if the PF is a) RPF b) URPF.

Ans: Employer contribution Rs. 1,70,000 and Interest thereon Rs. 30,000 is taxable)

EXERCISE 32: Ms. Rani, an employee of HCL, has furnished the following particulars relating to P.Y. 2024-2025:

Basic Salary Rs.30, 000

D.A (50% Forming part of retirement benefits)Rs. 10,000 p.m.

CCA Rs. 5,000 p.m.

Commission on turnover at 2% Rs.40, 000 p.a.

She is contributing 15%of her salary towards P.F. Her employer also contributes an equivalent amount towards PF. She received Rs.5, 600 as interest onPf at the rate of 14%. Compute the gross salary, If the provident fund is a) RPF b) URPF and SPF.

(Ans: Gross Salary: a) Rs. 5, 95,000 b) Rs. 5, 80,000 and c) Rs. 5,80,000

DEDUCTION FOR ENTERTAINMENT ALLOWANCE

EXERCISE 33: Mr. Guru is a Central Government Employee. He receives Rs. 750 p.m. as entertainment allowance. He gets Rs. 1, 00,000 p.a. as basic salary. Calculate the amount of entertainment allowance deductible from gross salary under section 16(ii)

(Ans: Rs. 5,000)

EXERCISE 34: MS. Anupriya is a non-government employee getting a salary of Rs. 25,000 p.m. D.A @ Rs.8,000 p.m. and entertainment allowance Rs.1,000 p.m. Compute the deduction u/s 16(ii) allowable from gross salary.

(An: Eligible deduction Nil)

EXERCISE 35: Ms. Shanthi is a Government employee getting a salary of Rs.30, 000 p.m. D.A (Forming part of salary) Rs. 6,000 p.m. and Entertainment allowance Rs. 2,000 p.m. Compute the deduction u/s 16(ii) allowable from gross salary.

(Ans: Eligible Deduction Rs. 5,000)

EXERCISE 36: Mr. Ram is a Government employee working in Madurai. He gets Rs.9000 pm as basic salary, Rs.4000 pm as Dearness allowance and Rs.3000 pm as entertainment allowance. He has spent Rs.41, 000 towards it. Determine the quantum of exempted Entertainment allowance.

(Ans: Exempted: Rs. 5,000& Taxable Rs. 31,000)

COMPREHENSIVE PROBLEMS

EXERCISE 37: The following are the particulars of salary income of Mr. Ravi, who is employed at Bangalore.

Salary @ Rs. 20,000 p.m.

D.A. @ 40% of Salary

City compensatory allowance Rs. 1,600 p.m.

House rent allowance Rs. 4,000 p.m. and

He pays rent of Rs. 5,000 p.m.

Professional Tax Rs. 1,200

He and his employer contribute @15% of salary towards RPF.

He owns a car which he is used for official and personal use

Compute his taxable salary income.

EXERCISE 38: Mr. Kumar is working in a State Government organization. He furnishes the following particulars. Compute his taxable salary for the P.Y 2024-2025.

Particulars
1.Basic Salary Rs. 50,000 2. D.A. (75%enter into service benefits) Rs. 10,000 3. Entertainment allowance Rs. 12,000 (his actual expenditure towards its amounted to Rs. 15,000). 4. Professional tax paid by his employer Rs. 3,800 5. Employer contribution towards RPF Rs. 90,000. **(Ans: Taxable Salary: 6,84,200)**

EXERCISE 39: Mr. Muthu is working HCL, Chennai. He furnishes the following particulars. Compute his taxable salary for the P.Y. 2024-2025.

Particulars
i. Basic salary Rs. 45,000 p.m. ii. Dearness Allowance (50%enter into service benefits) Rs. 9,000 p.m. iii. House Rent allowance (Actual rent is Rs. 6,000 p.m.) Rs. 4,000p.m. iv. Bonus Rs.10,000 v. He owns a car (1500cc). He uses it partly for official and partly fo private purpose, During the P.Y. 2024-2025 he spent a sum of Rs.30,000 on running and maintenances of car. Beside she has engaged a driver (Salary Rs. 24,000). The employer reimburses the entire expenditure of Rs.54,000. **(Ans: Taxable Salary 6,65,000)**

EXERCISE 40: Mr. Vinoth is an officer of a Company at Bangalore. From the following Particulars compute his Taxable Salary income

Particulars
i. Basic salary Rs. 1,20,000 ii. Dearness Allowance Rs. 24,000 iii. House Rent Allowance Rs. 12,000 iv. Children's Educational Allowance Rs. 6,000 v. Medical Allowance Rs.2,400 vi. Contribution to R.P.F. Rs. 12,000 vii. Employers Contribution to R.P.F. Rs. 12,000 viii. Interest credited to R.P.F. at 14%Rs.3,700 ix. He is providing with the services of a cook and a watchman who are paid Rs. 500 and Rs.600 p.m. respectively. He is also provided with a car of 1.6Ltr for official and Private Purpose. Expenses of a car met by the Company. He has been living in a Rented house and paying Rs. 1,500 p.m. as rent. **(Ans: Taxable Salary Rs. 1,41,989)**

UNIT – IV

INCOME FROM HOUSE PROPERTY

Learning Objectives – Income from House Property

After studying this unit, learners will be able to:

- **Understand the concept of "Income from House Property"** under the Income-tax Act.
- **Identify the conditions** under which income is taxable under the head "House Property".
- **Distinguish between different types of house properties**:
  - ✓ Self-occupied property
  - ✓ Let-out property
  - ✓ Deemed let-out property
- **Compute Gross Annual Value (GAV)** for different types of house properties.
- **Calculate Net Annual Value (NAV)** after allowing municipal taxes.
- **Apply deductions under Section 24**, including:
  - ✓ Standard deduction (30% of NAV)
  - ✓ Deduction for interest on borrowed capital
- **Compute income from self-occupied and let-out house property** accurately.
- **Understand treatment of unrealised rent and arrears of rent**.
- **Explain tax treatment of co-owned house property**.
- **Solve practical problems** relating to computation of income from house property.

4.1. INTRODUCTION TO HOUSE PROPERTY

According to Income Tax Act, 1961 of Sections 22 to 27 deals with the computation of the taxable income from house property. This is the second head of income. Income from house property is not based on the actual income, but it is based the annual value of that property.

4.2 MEANING OF HOUSE PROPERTY

A person may possess house properties let out to one or more tenants. The rent for the house is payable usually monthly as per the agreement between house owner and tenant. Such rent received from the tenant during the previous year is taxable in the Assessment year in the hands of house owner (assessee) is called as income from house property.

4.3. BASIS OF CHARGE OF HOUSE PROPERTY

The annual value of property consisting of any building or land appurtenant thereto of which the assessee is the owner shall be subject to income tax under the head income from house property after claiming deduction under section 24 provided such property, or any portion of such property is not used by the assessee for the purpose of any business or profession, carried on by him, the profits of which are chargeable to income tax. As per section 22, the following three conditions are to be satisfied for charging income under this head:

(i) The property should consist of any building or lands appurtenant thereto.

(ii) The assessee should be owner of the property.

(iii) The Property should not be used by the assessee for his own business or profession.

4.4. IMPORTANT POINTS OF HOUSE PROPERTY

Points to be noted with regard to compute income from house property can be enumerated as follows:

(i). The income is limited to the Rent from building and land appurtenant to it i.e., attached to building only, Building includes residential houses, warehouses, any block of cricks or stone work covered by the roof etc.

(ii). Annual value is defined under section 23(1)

(iii). The assessee should be the owner or deemed owner of the house property.

(iv). In case of a dispute about ownership, the person who receives rent shall be liable to pay the tax till the courts order is obtained.

(v). If the actual tenant sub-lets full or part of the hired building to another person it is called sub-letting. Sub-letting is taxable under the head Income from other sources.

(vi). If the property is used for the assessee own business or profession, the annual value of such property is not taxable under the head income from house property but the gains from business or profession which is carried on in such property is taxable under the head income from business or profession.

4.5 DEEMED OWNER OF HOUSE PROPERTY

The term **"owner" will include anybody who has the authority to exercise the owner's rights to charge revenue under this heading. However, for this head, a person who exercises owner rights on behalf of another person will not be regarded as an owner.** In this regard, the following points should be noted–

i) Even though the registered document has yet to be executed in his favour, a buyer of real estate who is qualified to exercise owner rights shall be regarded as an owner for this head.

ii) Even though he is not the owner of the land on which the building is standing, the owner of the building shall be treated as the owner for this category concerning structures built on leasehold land. Even if the building is given to the lessor when the lease is over, the situation will remain the same.

4.6. WHO IS DEEMED OWNER OF THE HOUSE PROPERTY?

As per section 27, the following persons through not the actual owners of a property are deemed to be the owners for income tax purposes.

(i). Section 27(i) define: An individual who transfers any house property to his or her spouse without adequate consideration or to his minor child not being a married daughter.

(ii). Section 27 (ii) define: The holder of an impartial estate shall be deemed to be the owner of all the properties comprised in the estate.

(iii). Section 27 (iii) define: A member of co-operative society or company or other associations of persons to whom a building or its part is allotted or leased under a house building scheme.

(iv). Person in Possession of a Property [Section 27(iiia)]Section 27 (iiia) define: A person who takes a land on lease and constructs a house upon it.

(v). Person having right in a Property for a period not less than 12 years [Section 27(iiib)**]** Section 27 (iiia) A person who is allowed to take or retain possession of any building or part thereof as per the provisions of transfer of property Act.

4.7. DEEMED OWNER EXAMPLE:

For example, if Mr. X gifts Rs. 5,00,000 to his wife, who then buys a house with that money, Mr. X is not treated as the deemed owner for income tax purposes. The income from this property would be taxable in his wife's hands. This distinction in deemed ownership rules helps prevent tax avoidance while allowing for some flexibility in family financial planning.

4.8. EXEMPTED INCOME FROM HOUSE PROPERTY

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

1. Annual value of any one Palace of ex-ruler [Sec. 10(19A)].
2. House property income of a local authority [Sec. 10(20)].
3. House property income of an approved scientific research association [Sec. 10(21)].
4. House property income of an educational institution [Sec. 10(23C)].
5. House property income of a hospital [Sec. 10(23C)].
6. House property of a person being resident of Ladakh [Sec. 10(26A)]
7. House property income of a political party [Sec. 13A]
8. House property income of a trade union [Sec. 10(24)]
9. A farm house [Sec. 10(1)]
10. House property held for charitable purpose [Sec. 11]
11. House property used for own business or profession [Sec. 22].
12. One self-occupied property.

4.9. ANNUAL VALUE OF HOUSE PROPERTY

The annual value of a house property is the notional rental income that the property is expected to generate over a year. For determining the annual value, the various factors like municipal value, fair rental value, annual rental value, standard rent, unrealized rent, loss due to vacancy are taken into consideration. It may be defined as the sum for which the property might reasonably be expected to let from year to year.

FACTORS DETERMINING THE ANNUAL VALUE

For calculating Gross Annual Value, the following factors are taken into consideration;

(i) Municipal Rental Value (MRV)

This is the value as determined by the municipal authorities for levying value of such house property. It may differ from area to area.

(ii) Fair Rental Value (FRV)

Fair rent is a rent which a similar property can fetch in a similar locality, If let out for a year. It is based on such factors like location, cost of construction; availability of facilities and position of demand and supply of houses in particular area.

(iii) Standard Rental Value (SRV)

The maximum amount rent fixed under the Rent Control Act which a person can legally recover from his tenant. A landlord cannot reasonably expect to receive from a tenant any amount more than Standard Rent. Accordingly, it can be concluded that if the property is covered by the Rent Control Act then Reasonable Expected Rent (RER) cannot exceed Standard Rent. The rent fixed under the Rent Control Act is called a standard rent.

(iv) Expected Rental Value (ERV)

The municipal rental value or the fair rental value whichever is higher is considered and then such higher value is compared with standard rent and whichever is less is treated as expected rental value.

(v) Actual Rent Receivable [ARR]

Any sum receivable as rent of the house property for the previous year is an evidence for determining the earning capacity of the building. Such actual rent receivable is to be computed on accrual basis. However, where tenant pays rent, which is influenced by benefits provided by the owner of the property, such rent must be disintegrated to determine actual rent i.e. De-facto rent of the property.

(v) Unrealized Rent (UR)

It refers to the rent that could not be realized by the owner from his/her tenant. Unrealized rent can be deducted from annual rental value, if the following conditions are satisfied:

(i) The tenancy is bonafide.

(ii) The defaulting tenant has vacated the property.

(iii) The defaulting tenant is not in occupation of any other property belonging to the owner.

(iv)The assessee has undertaken all necessary steps to institute legal proceedings.

(vi) Loss Due to Vacancy (LDV)

It is the amount of loss of rent arised due to the reason that, the house property is not occupied by any persons.

(vii) Composite Rent (CR)

The amount received by the owner towards rent for house as well as for various amenities provided to the tenant, such as lift, security, electricity, water etc. it is called composite rent.

(viii) Municipal Tax (MT)

The municipal tax includes the following:

1. Any cess/surcharge/rate levied by any local or municipal authorities
2. Any sanitation cess, sewerage tax, conservancy cess etc.
3. Any fire tax, educational cess, water tax, etc.

Notes: i) Actual amount paid by the owner is allowed

ii) Amount paid by the tenant is not allowed

4.10. CLASSIFICATION OF HOUSE PROPERTY

To compute income from house property on the basis of nature of occupation, house property can be classified into the following categories:

(i) Let out house property (LOHP) [Sec.23(1)]

(ii) Self occupied house property for residence (SOHP) [Sec.23(2)(a)].

(iii) Deemed to be let-out house property (DLOHP) (DLOP)[Sec.23(4)].

(iv) Partly let-out and partly self occupied property (PLOP and PSOP) [Sec.23(3)]

(v) Part of the year let out and part of the year self occupied.

(I). LET- OUT HOUSE PROPERTY (LOHP):

Format for computing Taxable Income from Let out Property

Particulars	Rs.	Amount Rs.
Gross Annual Value (GAV)		**XXX**
Less: Municipal Tax		**XXX**
Net Annual Value (NAV)		**XXX**
Deduction U/S 24:		
Standard Deduction @ 30% of NAV	**XXX**	
Interest on borrowed capital	**XXX**	**XXX**
Add: Unrealized rent recovered		**XXX**
Add: Arrears of rent received		**XXX**
Taxable Income from House Property		**XXX**

IMPORTANT POINTS TO BE REMEMBERED

Points to be noted with regard to compute the taxable income from house property as follows:

(i) Gross Annual Value is taken as nil for self-occupied house.

(ii) Municipal tax paid by the owner is allowed and paid by the tenant is not allowed.

(iii) Municipal tax due is also not allowed

(iv) Standard deduction should be given for all houses compulsorily (except for self occupied houses) at **30%** on Net Annual Value.

(v) If only one property is used for own residential purposes, it is treated as self occupied property.

(vi) If more than one property are used for own residential purposes, only one house of taxpayer choice are treated as self occupied houses and the other houses will be treated as deemed to be let out.

(vii) After 2019-2020 FY (Financial Year) onwards the benefit has been given to the taxpayer of considering 2 houses as self occupied and the remaining house as let out for income tax purposes.

(viii) Municipal tax is to be calculated on percentage basis and it should be calculated on municipal valuation.

(ix) For self-occupied house, only Interest on borrowed capital is allowed

(x) Self-occupied house will always show Loss of House Property Income.

(xi) Joint expenses should be separated on municipal valuation.

DIFFERENCE BETWEEN SELF OCCUPIED, DEEMED TO LET OUT AND LET OUT PROPERTY

The difference between Self Occupied Property, Deemed to Let out Property and Let out Property are as follows:

1. Usage: Self occupied Property Used by the owner for residential purposes on the other hand Deemed Let out property Considered to have been let out whereas Let out property is rented out to tenants.

2. Income Tax Treatment: Self Occupied Property has No rental income, Deemed Let out Property is considered to have Notional rent for taxation. Whereas Let out property has Taxable rental income.

3. Loan Provisions: Deductions for home loan interest and principal repayments. Can be claimed in Self Occupied Property, Deemed Let out Property and Let out Property. Whereas Deductions for expenses and repairs related to the rental property can be claimed in Let out Property.

LET OUT HOUSE PROPERTY SEC. 23(1)

The house which has been let out by the owner to the tenant for residential or commercial purpose is called let out property. For computing annual value of let out property, the property may be classified under the following four heads.

1. Let out throughout the year

2. Let out throughout the year with Unrealized Rent.

3. Let out throughout the year with Vacancy only.

3. Let out throughout the year with Vacancy and Unrealized Rent. Only.

(1). LET OUT HOUSE PROPERTY THROUGHOUT THE YEAR

Illustration : 01

Mr. A provides the following particulars for the Assessment Year 2025-2026, Calculate Gross annual Value.

Particulars	Amount
Municipal Rental Value	40,000
Fair Rental Value	46,000
Standard Rent	45,000
Actual Rent	50,000

Solution:

Computation of Gross Annual Value of Mr. A for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1.Municipal Rental Value (MRV) 2. Fair Rental Value (FRV) **(Whichever is Higher (WEH))**	40,000 46,000	**46,000**
3. Whichever is Higher (WEH) amount 4. Standard Rent (SR) **(Whichever is Less (WEL is ER)**	**46,000** 45,000	45,000
5. Expected Rent (ER) 6. Actual Rent **(Whichever is Higher is GAV)**	45,000 50,000	50,000
Gross Annual Value (GAV)		**50,000**

Illustration : 02

From the following particulars, calculate the GAV.

Particulars	Amount (Rs)
Municipal Rental Value	3,00,000
Fair Rental Value	2,80,000
Standard Rent	3,50,000

Solution: Computation of Gross Annual Value for the A.Y. 2025-2026

Particulars	Rs.	Rs.
1.Municipal Rental Value (MRV) 2. Fair Rental Value (FRV) **(Whichever is Higher (WEH))**	3,00,000 2,80,000	**3,00,000**

3. Whichever is Higher (WEH)	**3,00,000**	
4. Standard Rent (SR)	3,50,000	
(Whichever is Less (WEL is ER)		**3,00,000**
5. Expected Rent (ER)	3,00,000	
6. Actual Rent	Nil	
(Whichever is Higher is GAV)		3,00,000
Gross Annual Value (GAV)		**3,00,000**

Illustration : 03

From the following particulars, calculate the GAV of each house:

Particulars	House- I Rs	House- II Rs.	House- III Rs.
Municipal Rental Value	30,000	4,20,000	60,000
Fair Rental Value	24,000	5,00,000	70,000
Standard Rent	35,000	6,00,000	66,000
Actual Rent	---	6,25,000	50,000

Solution: **Computation of Gross Annual Value for the A.Y. 2025-2026**

Particulars	House- I Amount	House- II Amount	House- III Amount
1.Municipal Rental Value (MRV)	30,000	4,20,000	60,000
2. Fair Rental Value (FRV)	24,000	5,00,000	70,000
(Whichever is Higher (WEH))	**30,000**	**5,00,000**	**70,000**
3. Whichever is Higher (WEH)	30,000	5,00,000	70,000
4. Standard Rent (SR)	35,000	6,00,000	66,000
(Whichever is Less (WEL is ER)	30,000	**5,00,000**	**66,000**
5. Expected Rent (ER)	30,000	5,00,000	66,000
6. Actual Rent	Nil	6,25,000	50,000
(Whichever is Higher is GAV)			
Gross Annual Value (GAV)	**30,000**	**6,25,000**	**66,000**

(II). LET OUT THROUGHOUT THE YEAR WITH UNREALIZED RENT:

Illustration 04:

Mr. Anbu Provides the following information for the A.Y.2025-2026, Calculate Gross Annual Value.

Particulars	Amount

Municipal Value	60,000
Fair Rent	68,000
Standard Rent	62,000
Actual Rent	66,000
Unrealized Rent	2,000

Solution:

Computation of Gross Annual Value of Mr. Anbu for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (MRV)	60,000	
2. Fair Rental Value (FRV)	68,000	
(Whichever is Higher (WEH))		**68,000**
3. Whichever is Higher(WEH)	68,000	
4. Standard Rent (SR)	62,000	
(Whichever is Less (WEL is ER)		**62,000**
5. Expected Rent (ER)	62,000	
6. Actual Rent	64,000	
(Rent Received - Unrealized Rent)		
(66,000 – 2,000 = Rs.64,000)		
(Whichever is Higher is GAV)		**64,000**
Gross Annual Value (GAV)		**64,000**

(III). LET OUT THROUGHOUT THE YEAR WITH VACANCY PERIOD:

Illustration : 05

Mr. Kumar provides the following particulars for the A.Y.2025-2026. Calculate Gross Annual Value.

Particulars	Amount

Municipal Value	60,000
Fair Rent	65,000
Standard Rent	59,000
Actual Rent	72,000
Loss due to vacancy	6,000

Solution:

Computation of Gross Annual Value for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (MRV)	60,000	
2. Fair Rental Value (FRV)	65,000	
(Whichever is Higher (WEH))		**65,000**
3. Whichever is Higher(WEH)	65,000	
4. Standard Rent (SR)	59,,000	
(Whichever is Less (WEL is ER)		**59,000**
5. Expected Rent (ER)	59,000	
6. Actual Rent		
(Rent Received - Loss due to Vacancy Period)		
(72,000 – 6,000 =Rs.66,000)	66,000	
(Whichever is Higher is GAV)		**66,000**
Gross Annual Value (GAV)		**66,000**

(IV). LET OUT THROUGHOUT THE YEAR WITH UNREALIZED RENT AND VACANCY PERIOD:

Illustration : 06

From the following particulars of Mr. Mani, find out the Gross Annual Value.

Particulars	Amount (Rs.)

Municipal Value	1,40,000
Fair Rent	1,45,000
Standard Rent	1,42,000
Actual Rent	1,66,000
Unrealized Rent	14,000
Vacant period in number of months	½ month
Loss due to vacancy	7,000

Solution:

Computation of Gross Annual Value for the A.Y. 2025 - 2026

Particulars	Rs.	Amount (Rs.)
1.Municipal Rental Value (MRV)	1,40,000	
2. Fair Rental Value (FRV)	1,45,000	
(Whichever is Higher (WEH))		**1,45,000**
3. Whichever is Higher(WEH)	1,45,000	
4. Standard Rent (SR)	1,42,000	
(Whichever is Less (WEL is ER)		**1,42,000**
5. Expected Rent (ER)	1,42,000	
6. Actual Rent		
(AR=Rent Received - Unrealized Rent + Loss due to Vacancy)		
(1,66,000 - 14,000 - 7,000 = Rs.1,47,000)	1,47,000	
(Whichever is Higher is GAV)		**1,47,000**
Gross Annual Value (GAV)		**1,47,000**

Illustration 07:

Calculate the Gross Annual Value, from the following particulars:

Particulars	Rs.
Municipal Value	72,000 p.a

Fair Rental Value	78,,000 p.a
Standard Rental Value	84,000 p.a
Actual Rental Value	90,,000 p.a
Date of new house completion	31.05.2024
Date of Letting or let out	01.08.2024

Solution: <u>CALCULATION OF GRASS ANNUAL VALUE</u>

- Since it is a new house property and its construction was completed only on **31.05.2024**, the per annum value of all factors is to reduced **10 months** (Let out period only) from **01.06.2024 to 31.03.2025.**
- Since let out only on **01.08.2024**, vacancy period is **2 months from 01.06.2024 to 31.07.2024.**

Annual value of all factors reduced 10 Months. Hence,

Particulars	Rs.	Amount reduced for 10 Months let out period only.
Municipal Value	72,000/12 X 10 Months	60,000
Fair Rental Value	78,,000/12 X 10 Months	65,000
Standard Rental Value	84,000/12 X 10 Months	70,000
Actual Rental Value	90,,000/ 12X 10 Months	75,000

Computation of Gross Annual Value for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Value (MRV)	60,000	
2. Fair Rental Value (FRV)	65,000	
(Whichever is Higher (WEH))		**65,000**

3. Whichever is Higher(WEH) 4. Standard Rent (SR) **(Whichever is Less (WEL is ER)**	65,000 70,000	 **65,000**
5. Expected Rent (ER) 6. **Actual Rent – Loss due to vacancy for 2 months** **(75,000 – 15,000 = 60,000)** **(75,000 /10 x 2 months = 15,000)** **(Whichever is Higher is GAV)**	65,000 60,000	 **65,000**
Gross Annual Value (GAV)		**65,000**

4.11. DETERMINATION OF NET ANNUAL VALE (NAV)

Illustration : 08

Mr. Vinoth owns a house which has been let out of Rs. 1,000 per month. The fair Rent of the house is Rs.10, 000; Municipal Value Rs. 15,000, Municipal Tax at 10% on Municipal value. Find out the Net Annual Value:

Solution:

Computation of Net Annual Value for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1.Municipal Rental Value (MRV) 2. Fair Rental Value (FRV) **(Whichever is Higher (WEH))**	15,000 10,000	 **15,000**
3. Whichever is Higher(WEH) 4. Standard Rent (SR)	15,000 ---	 **15,000**
(Whichever is Less (WEL is ER) 5. Expected Rent (ER) 6. Actual Rent (AR) **(Whichever is Higher is GAV)**	 15,000 12,000	 **15,000**
Gross Annual Value (GAV) **Less:** Municipal Tax @10% on M.V		15,000 1,500
Net Annual Value (NAV)		**13,500**

Illustration : 09

From the following, calculate Net Annual Value of the house property for the P.Y. 2024-2025.

Particulars	Amount (Rs)
Municipal Value	40,000
Fair Rent	45,000

Standard Rent	50,000
Actual Rent	48,000
Municipal Tax @10% paid by the owner	48,000 p.a.

Solution:

Computation of Net Annual Value for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1.Municipal Rental Value (MRV)	40,000	
2. Fair Rental Value (FRV)	45,000	
(Whichever is Higher (WEH))		**45,000**
3. Whichever is Higher(WEH)	45,000	
4. Standard Rent (SR)	50,000	**45,000**
(Whichever is Less (WEL is ER)	45,000	
5. Actual Rent (AR)	48,000	
(Whichever is Higher is GAV)		**48,000**
Gross Annual Value (GAV)		48,000
Less: Municipal Tax @10% on M.V Rs. 40,000.		4,000
Net Annual Value		**44,000**

Illustration : 10

From the following information of Mr. X, compute the net annual value of the let out portion of the house for the previous year 2024- 2025.

Particulars	Rs
Municipal Value	20,000 p.a.
Fair Rent	30,000 p.a.
Standard Rent	36,000 p.a.
Actual Rent	3,500 p.m.
Municipal Tax @20%of the M.V. and as per the agreement, 50% of it paid by the tenant.	

Solution:

Computation of Net Annual Value for the A.Y. 2025 - 2026

Particulars	Rs.	Amount
1.Municipal Rental Value (MRV)	20,000	
2. Fair Rental Value (FRV)	30,000	
(Whichever is Higher (WEH))		**30,000**
3. Whichever is Higher(WEH)	30,000	

4. Standard Rent (SR)	36,000	**30,000**
(Whichever is Less (WEL is ER)	30,000	
5. Actual Rent	42,000	
(Whichever is Higher is GAV)		
Gross Annual Value (GAV)		**42,000**
Less: Municipal Tax (paid by owner) **(Rs. 20,000 x 20/100 = 4,000 x 50/100 = 2,000)**		2,000
Net Annual Value (NAV)		**40,000**

4.12. DEDUCATION FROM HOUSE PROPERTY [SEC.24]

According to section 24, the following two deductions are allowed from income from house property.

(i). Standard or Statutory Deduction 24(a)

(ii). Interest on borrowed capital 24(b)

1. Standard Deduction.

At 30% of net annual value shall be allowed as standard deduction irrespective of the expenses incurred by the owner i.e. no deduction can be claimed for actual expenses incurred by the owner like repairs, ground rent, fire insurance premium etc.

2. Interest on Borrowed Capital.

Interest on capital borrowed for purchasing, constructing, repairing the house property is allowed as deduction. The following are the points to be considered to claim deduction under interest on loan.

(i). Interest on loan is allowed on accrual basis

(ii). Interest on fresh loan taken to repay the previous house property loan can be deducted.

(iii). Interest on unpaid interest cannot be deducted.

(iv). Any brokerage, commission to avail the loan is not allowed as deduction.

(v). For let out property, full interest on loan relating to the previous year can be deducted. There is no maximum limit.

(vi). For Self-occupied property, interests on loan can be deducted subject to the following limits:

1 Loan availed before 01.04.1999 - only Rs.30, 000

2. Loan availed on or after 01.04.1999 - Up to Rs. 2, 00,000 can be deducted

(vii). Pre-construction interest can be deducted in five equal installments, beginning from the year of construction.

4.13. RULES FOR INTEREST ON LOAN

1. While calculating pre-completion interest the following concepts should be considered

a) Date of Loan b) Date of Repayments and c) Date of Completion

2. Always consider Date of Loan and take Date of Repayment or Date of Completion whichever is earlier to calculate interest.

3. When the Date of Repayment is considered, the actual date of repayment should be taken.

4. When the Date of Repayment is considered, the 31st March immediately preceding the date of completion should be taken.

5. Interest on pre-construction or completion is allowed as deduction in 5 equal installments from the previous year in which the property is acquired or constructed.

4.14. DETERMINATION OF INCOME FROM HOUSE PROPERTY

Illustration : 11

Mr. Sunder has a property whose municipal valuation is Rs. 2, 40,000. He has let it out to a Bank for Rs. 30,000 p.m. from July 2024. For the months of April, May and June 2024 the property was Vacant. Calculate his Income from house property for the Assessment Year 2025-2026.

Solution:

Computation of Income from House Property for the A.Y. 2025 - 2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (MRV)	2,40,000	
2. Fair Rental Value (FRV)	---	
(Whichever is Higher (WEH))		**2,40,000**
3. Whichever is Higher(WEH)	2,40,000	
4. Standard Rent (SR)	---	**2,40,000**
(Whichever is Less (WEL is ER)	2,40,000	
5. Actual Rent (30,000 x 12 = 3,60,000		
Less: L.D.V (30,000 x 3 = 90,000)	2,70,000	
3,60000 – 90,000 = **2,70,000**		**2,70,000**
(Whichever is Higher is GAV)		
Gross Annual Value (GAV)		2,70,000
Less: Municipal Tax		---
Net Annual Value (NAV)		**2,70,000**
Less: Standard Deduction @ 30% on NAV	**81,000**	
(2, 70,000 x 30%)		**81,000**
Interest on Loan	**---**	
Income from House Property		**1,89,000**

Illustration : 12

Compute income from house property of Mr. Gopi from the following: Actual Rent received Rs.27, 000, Municipal Tax paid by landlord Rs. 1,000 and paid by tenant Rs. 900. Interest on loan borrowed for constructing the house Rs. 2,000.

Solution:

Computation of Income from House Property for the A.Y. 2025 - 2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (MRV)	Nil	
2. Fair Rental Value (FRV)	Nil	
(Whichever is Higher (WEH))		**Nil**
3. Whichever is Higher(WEH)	Nil	
4. Standard Rent (SR)	Nil	Nil
(Whichever is Less (WEL is ER)	**Nil**	
5. Actual Rent	27,000	
(Whichever is Higher is GAV)		
Gross Annual Value (GAV)		**27,000**
Less: Municipal Tax		1,000
Net Annual Value (NAV)		26,000
Less: Standard Deduction @ 30% of NAV (26,000 x 30%)	7,800	
Interest on Loan	2,000	9,800
Income from House Property		**16,200**

4.15. INTEREST ON LOAN DURING PRE- CONSTRUCTION PERIOD

Interest paid or payable for the period prior to the previous year in which the property is acquired or constructed will be aggregated and allowed in **five successive** financial years starting from the year in which the acquisition or construction was completed. ***For this purpose pre construction period is determined from the date of borrowing upto the date of repayment of loan or date of completion of construction whichever is earlier.***

(i) WHERE THE DATE OF REPAYMENT COMES EARLIER:

When the repayment of loan comes earlier, the pre-construction period is determined starting from the date of borrowing of loan and ending with the date of repayment

Illustration : 13

Determine the amount of interest of Mr. X for pre-construction Period for a let out property.

Amount Borrowed Rs. 10, 00,000 at 12% per annum

Date of Borrowing 1.4.2019

Date of Repayment 31.7.2023

Date of Completion of Construction of House 18.1.2024

Solution:

Calculation of Pre-Construction Period interest of Mr. X for the A.Y.25-26

Date of Borrowing : 01.04.2019

Date of Repayment : 31.07.2023

Date of Completion of Construction : 18.01.2024

Pre-Construction Period: (Date of Borrowing and date of Repayment of loan)

From 1.4.2019 to 31.7.2023

4 Years and 4 months

Total Interest = (10,00,000 x 12% x 4 years) +(10,00,000 x 12% x 4/12)

= (4,80,000 + 40,000) = **5,20,000**

Interest allowed = 5, 20,000 x1/5 = 1, 04,000

Note: The date of repayment of loan is comes earlier than date of construction of house property, therefore, the pre-construction period is taken as period commencing from date of borrowing of loan and ending on date of repayment of loan.

(ii) WHERE THE DATE OF CONSTRUCTION OR ACQUISITION OF HOUSE PROPERTY COMES EARLIER:

In this case, the duration of pre-construction period is determined commencing from the date of borrowing of loan and ending on 31st March of immediately prior to the date of completion of construction or date of acquisition.

Illustration : 14

Mr.Guru borrowed a sum of Rs.20, 00,000 @15% per annum on 1.4.2022 for construction of a house. The construction was completed on 20.03.2024. Loan was repaid on 01.05.2024. What would be amount of interest allowable in respect of pre-construction period for Assessment Year 2025-2026 assuming that house is let out?

Solution:

Determination of Amount of Interest on Pre-Construction Period for the

Assessment Year 2025-2026

Date of Borrowing : 01.04.2022

Date of Completion of Construction : 20.03.2024

Date of Repayment : 01.05.2024

Pre-Construction Period = Date of borrowing and 31st March immediately prior to the date of Completion of Construction.

= From 01.04.2022 to 31.03.2024 = 1Year

Interest = (20, 00,000 x 15% x 1year) =Rs. 3, 00,000

Interest allowed = 3, 00,000 x 1/5 = Rs. 60,000.

Note: The date of construction of house is comes earlier than date of construction of house property. Therefore, the pre-construction period is taken as period commencing from date of borrowing of loan and ending on 31st March immediately prior to the date of completion on of construction.

(iii) WHERE THE DATE OF REPAYMENT NOT APPLICABLE:

Illustration :15

Mr. A has constructed a house property for which he borrowed Rs. 6, 00,000 @ 11% p.a. on 01.04.2019. The construction was completed on 31st May 2023. It was let out from 1st June 2023. Loan amount was not repaid till date. Calculate the interest on loan to deduct u/s 24 for the P.Y. 2024-2025.

Solution:

Calculation of Interest on Borrowed Capital

Particulars	Amount (Rs.)
Interest on P.Y (2024-2025) 6,00,000 @11%	**66,000**
Pre-Construction period interest	**52,800**
Total Interest to be claimed	**1,18,800**

Working:

Calculation of Pre-Construction Period interest of Mr. X for the A.Y.25-26

Date of Borrowing : 01.04.2019

Date of Repayment : NA

Date of Completion of Construction : 31.05.2023

Pre-Construction Period: Date of Borrowing and Date of Completion

(DOC is taken, 31st March immediately preceding the construction date to be taken)

From 1.4.2019 to 31.05.2023

4 Years (48 Months)

Total Interest = (6, 00,000 x 11% x 4 years) = 2, 64,000

Interest Allowed = 2, 64,000 x1/5 = Rs. 52,800

Illustration :16

How will you treat the interest on borrowed capital for income tax purposes for the following houses separately?

Particulars	House-I Self-Occupied)	House-II Let out for residence)
Date of loan	15.03.2022	10.04.2021
Interest on borrowed capital	2,38,000	1,78,000

Solution:

Computation of Interest on loan deductible u/s 24 for the A.Y. 2025-2026

Particulars	House- I Self-Occupied)	House - II Let out for residence)
Date of loan (Actual Interest paid [Rs. 2, 38,000 but restricted to Rs. 2, 00,000 only]	2,00,000	1,78,000

Note: As **House I** was used for self occupation, interest on loan borrowed on or after 1.4.1999 is allowed upto a maximum of Rs. 2, 00,000.

(ii) **House II** was let out for residence; interest on loan is deductible fully without maximum ceiling.

Illustration :17

From the following particulars, compute the taxable income from House Property of Mr. Sami for the A.Y. 2025-2026:

Municipal Value Rs. 1, 20,000

Annual rent received Rs. 1, 50,000

Date of borrowing the loan on 01.07.2020

Date of completion of construction 31.05.2024

Amount of loan borrowed Rs. 50,000

Rate of Interest on loan at 15% p.a.

Solution:

Computation of Income from House Property
of Mr. Sami for the A.Y. 2025-2026

Particulars	Rs.	Rs.
1. Municipal Value	1,20,000	
2. Fair Rental Value	Nil	
(Whichever is Higher (WEH))		**1,20,000**
3. Whichever is Higher(WEH)	1,20,000	
4. Standard Rent (SR)	Nil	1,20,000

(Whichever is Less (WEL is ER)	1,20,000	
5. Actual Rent	1,50,000	
(Whichever is Higher is GAV)		**1,50,000**
Gross Annual Value (GAV)		1,50,000
Less: Municipal Tax		Nil
Net Annual Value (NAV)		1,50,000
Less: Deduction u/s 24:		
(i). Standard Deduction @30% on NAV (1,50,000 x 30%)	45,000	
(ii). Interest on Loan (50,000 x 15/100)	75,000	
(iii). Pre - construction interest (50,000 x 15/100 x 45/12 x 1/5)	5,625	58,125
Taxable Income from Let out property		**91,875**

Note: 45 means 45 month of interest allowed.

II. SELF OCCUPIED HOUSE PROPERTY (SOHP) [SEC 23(2)(A)]

When an assessee occupies the house property for his/her residential purpose, it is called self occupied property (SOP). The following are the important provisions relating to self occupied property.

1. The Annual value of self occupied house property is taken as **NIL.**

2. The Annual value is considered as NIL, municipal tax cannot be claimed as deduction.

3.If more than two house properties are used for own residential purposes, only two houses of assessee's choice are considered as self occupied property and other houses shall be treated as deemed to let out.

4. If there is interest on borrowed capital relating to self occupied property, deduction in allowed subject to the maximum as given below:

(i) Up to Rs. 2, 00,000 it is borrowed on or after 1.4.1999 and it is for the purpose of acquisition/construction of that property the construction completed within 5 years from the end of financial year in which the capital was borrowed.

(ii) In all other cases, the maximum limit shall be Rs. 30,000 only, if the loan is borrowed before 1.4 1999 for purchase, construction, reconstruction, repairs or

renewals of a house property.

PROFORMA OR FORMAT OF INCOME FROM SELF - OCCUPIED HOUSE PROPERTY

Particulars	**Amount (Rs.)**
Gross Annual Value	Nil
Less: Deduction u/s 24	
(Interest on loan borrowed or Maximum Limit of Rs. 30,000 or Rs. 2,00,000 WEL)	XXX
Loss on Self occupied Property	-**XXX**

Illustration : 18

Mr. Kumar, the owner of the one house, occupies it for his own residence. The Municipal Value and Fair Rental Value is Rs. 1, 20,000 and Rs. 1, 44,000 respectively. He has paid Rs. 10,000 as municipal tax. Besides he paid interest on borrowed capital for acquiring that house (borrowed during 2020) Rs. 2, 30,000. Compute income from house property.

Solution:

Computation of Income from Self Occupied House Property
for the A.Y. 2025-2026

Particulars	**Amount (Rs.)**
Net Annual Value	Nil
Less: Deduction u/s 24:	
Interest on capital (restricted to Rs. 2,00,000)	2,00,000
Loss from Self-Occupied House	**2,00,000**

Illustration :19

Mr. Hari owns a house property. It is used by him throughout the Previous Year 2024-2025 for his residence. Municipal Value of the property is Rs. 1, 66,000, Whereas, Fair Rent is Rs. 1,76,000 and Standard Rent is Rs. 1,50,000. The following Expenses are incurred by him: repairs Rs. 20,000, Municipal Tax Rs. 16,000, Insurance Rs. 2,000; Interest on Capital borrowed to construct the Property Rs. 1,35,000; Interest on capital borrowed by mortgaging the property for Daughter's Marriage Rs. 20,000 (in either case capital is borrowed before April 1999). His income from Business is Rs. 7, 10,000. Find out the income from House Property.

Solution :

Computation of Income from Self Occupied House Property

for the A.Y. 2025-2026

Particulars	**Amount (Rs.)**
Net Annual Value	Nil
Less: Deduction u/s 24:	
Interest on borrowed capital (Maximum Rs. 30,000)	30,000
Loss from Self-Occupied House	**- 30,000**

Note: Loan was borrowed before 01.04.199. Therefore, Interest is allowed as deduction up to Rs. 30,000. Interest on loan borrowed for the purpose of daughter's marriage is not allowed as deduction even though it is obtained by mortgaging the house property.

III. DEEMED TO BE LET- OUT HOUSE PROPERTY [SEC.23(4)] - (More Than One House under Self Occupation)

When more than one house are self occupied by the assessee for residential purposes. Only one house is treated as self-occupied and all other houses will be **deemed to be let out.** The house Property of higher gross annual value is to be treated as self occupied and remaining houses are treated as deemed to be let out. The annual value of deemed to be let out house property is to be calculated on the basis of provisions applicable to let out house and that of self occupied house is taken as NIL

Illustration : 20

Mr. Krishnan has two houses at Madurai both of which are self occupied. The particulars of the Houses are as under:

Particulars	**House- I**	**House- II**
Municipal Value	50,000	1,00,000
Fair Rent	75,000	1,25,000
Standard Rent	85,000	1,50,000
Municipal Taxes	5,000	10,000

Determine Net Annual Value for the A.Y.2025-2026.

Solution:

Computation of Net Annual Value for the Assessment Year 2025-2026

(I) House-I (Deemed to be let out):

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (MRV)	50,000	
2. Fair Rental Value (FRV)	75,000	
(Whichever is Higher (WEH))		**75,000**
3. Whichever is Higher (WEH)	75,000	
4. Standard Rent (SR)	85,000	
(Whichever is Less (WEL is ER)		**75,000**
5. Expected Rent (ER)	75,000	
5. Actual Rent (AR)	Nil	
(Whichever is Higher is GAV)		**75,000**
Gross Annual Value (GAV)		**75,000**
Less: Municipal Taxes		5,000
Net Annual Value (NAV)		**70,000**

(II) House – II (Self-Occupied)

Particulars	**Rs.**
Net Annual Value	Nil

Note: The Gross Annual Value of House II is higher. Therefore, it is treated as Self-Occupied and House II is treated as Deemed to be let out.

1V. PART OF HOUSE PROPERTY IS LET OUT AND ANOTHER PART IS SELF OCCUPIED [Sec.23(3)]

Where the house property is consisting of two independent units or portions or flats of floors, the computation of income from house property shall be made separately for each unit or portion or flat or floor as follows:

(i). In case of unit of portion or flat or floor used for Self Occupation, the income from house property is to be calculated by applying the provisions with regard to Self Occupied house property.

(ii). In the case of unit or portion or flat or floor let out, the income from house property is to be calculated by apply in the provisions with regard to Let out house property.

Illustration : 21

Mr. X constructed one house in 2016. 75% of the property is let out and 25% is occupied for his residence. The let out portion is also self - occupied for one month. The particulars are:

Particulars	Amount (Rs.)
Municipal value of full house	5,000 p.a.
Annual rent for 75% portion	4,000 p.a
Municipal tax	500 p.a.
Ground rent	100 p.a.
Repairs	200 p.a.
Fire insurance premium	150 p.a.
Collection charges	60 p.a.
Interest on loan taken for construction	600 p.a

His income from all other sources amounts to Rs.10, 000. Determine his income from house property for the A.Y. 2025-2026.

Solution:

Computation of Income from House Property for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (5,000 x ¾)	3,750	
2. Fair Rental Value	Nil	
(Whichever is Higher (WEH))		3,750
3. Whichever is Higher(WEH)	3,750	
4. Standard Rent (SR)	Nil	3,750
(Whichever is Less (WEL is ER)	3,750	
5. Actual Rent (4,000 x 11/12)	3,667	
(Whichever is Higher is GAV)		3,750

Gross Annual Value (GAV)		3,750
Less: Municipal Tax (500 x 3/4)		375
Net Annual Value (NAV)		3,375
Less: Standard Deduction (3,375 x30%)	1013	
Interest on Loan (600 x ¾)	450	1,463
Income from House property		**1,912**

Computation of Income from Self Occupied House Property for the A.Y. 2025-2026

Particulars	Amount (Rs.)
Net Annual Value	Nil
Less: Deduction u/s 24:	
Interest on Loan (600 x ¼)	150
Loss from Self-Occupied House	**-150**

Computation of Total Income from House Property for the A.Y. 2025-2026

Particulars	Amount (Rs.)
Let out portion	1,912
Self occupied portion	-150
Total Income from H.P.	**1,762**

Illustration : 22

Mr. Ganesh owns a big house, the construction of which was completed in May 2017, 50% of the floor area is let out for residential purposes on a monthly rent of a Rs. 3,200. However, this portion remained vacant for one month during 2024-2025, 25% of the floor area is used by the owner for the purpose of his profession, while remaining 25% of the floor area is utilized for the purpose of his residence. Other particulars of the house are as follows:

Particulars	Amount (Rs.)
Municipal Valuation	60,000
Standard Rent	90,000
Municipal tax paid	12,000
Repair	3,000

Interest on capital borrowed for repairs	28,000
Ground rent	4,000
Annual Charge	6,000
Fire insurance premium	1,200

Compute the Taxable income from house property of Mr. Ganesh for the Assessment Year 2025-2026.

Solution:

Computation of Income from House Property for the Assessment Year 2025-2026

Unit – I (50% of floor area LOP)

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental (60,000 x 50%)	30,000	
2. Fair Rental Value	Nil	
(Whichever is Higher (WEH))		30,000
3. Whichever is Higher(WEH)	30,000	
4. Standard Rent (50%of 90,000)	45,000	30,000
(Whichever is Less (WEL) is ER)	30,000	
5. Actual Rent (3,200 x 12=38,400)		
Less: Vacancy (3,200 x 1= 3,200)	35,200	
(Whichever is Higher is GAV)		35,200

Gross Annual Value (GAV) **Less:** Municipal Tax (12,000 x 50%)	35,200 6,000	
Net Annual Value (NAV) **Less:** Standard Deduction @30% (29,200 x 30%) Interest on borrowed capital (28,000x 50%)	 8,760 14,000	**29,200** 22,760
Income from Unit- I		**6,440**
Unit - II 25% of floor area used for own business or profession		**Nil**
Unit - III 25% of floor area Self Occupied Property		
Gross Annual Value	**Nil**	
Less: Deduction u/s 24: a) Standard deduction b) Interest on borrowed capital (28,000 x 25%)	 **Nil** **7,000**	
Loss from Unit - III		**- 7,000**

III Total Income under the Head House Property:

Particulars	**Amount (Rs.).**
Unit 1 - Income from House Property Unit II - Used for Business or Profession Unit III - Self Occupied House Property	6,440 Nil -7,000
Loss from House Property	**- 560**

Illustration : 23

Mr. Gopi owns a residential house property. It was two equal residential units like Unit 1 and Unit 2, While Unit: 1 is self-occupied by him for his residential purpose. Unit: 2 is let out (rent being Rs. 6,000 per month, rent of 2 months could not be recovered), Municipal value of the property is Rs. 1,30,000, Standard Rent is Rs. 1,25,000 and Fair Rent is Rs.1,40,000. Municipal Tax is imposed at 12 per cent which is paid by him. Other Expenses for the Previous Year being Repairs Rs. 250, Insurance Rs. 600, Interest on Capital (borrowed during 2010) for constructing the Property Rs. 63,000. Find out the Income from house property for the Assessment Year 2025-2026.

Solution: **I. Unit 1 Self-Occupied Property (50%):**

Computation of Income from Self Occupied House Property for the A.Y. 2025-2026

Particulars	**Amount (Rs.)**
Net Annual Value **Less: Deduction u/s 24:**	Nil

Interest on Loan (63,000 x ½ = 31,500) Restricted to Rs 30,000	30,000
Loss from Self-Occupied House	**- 30,000**

II. Unit 2: Let Out House Property (50%):

Computation of Income from House Property for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Value (1, 30,000 x 50%)	65,000	
2. Fair Rental Value (1, 40,000 x 50%)	70,000	
(Whichever is Higher (WEH))		**70,000**
3. Whichever is Higher(WEH)	70,000	
4. Standard Rent (1, 25,000 x 50%)	62,500	62,500
(Whichever is Less (WEL) is ER)	62,500	
5. Actual Rent:		
Rent Received: 6,000 x 12 =72,000		
Less: Unrealized Rent: 6,000 x 2 = 12,000	60,000	62,500
(Whichever is Higher is GAV)		
Gross Annual Value (GAV)	**62,500**	
Less: Municipal Tax	7,800	
(1,30,000 x 50% x 12/100)		54,700
Net Annual Value (NAV)		
Less: Standard Deduction (54,700 x 30%)	16,410	
Interest on Loan (63,000 x 50%)	31,500	47,910
Income from House property		**6,790**

III Total Income under the Head House Property:

Particulars	Amount (Rs.)
Unit:1 (Self Occupied House Property)	- 30,000
Unit:2 (Let Out House Property)	6,790
Total Income under Head House Property	**- 23,210**

Notes: (i) The house has two independent units, therefore each unit is considered separately as per relevant applicable provision. (ii) In the case of income from Let out house, only two deductions (standard deduction and interest on loan) are allowed.

IV. HOUSE PROPERTY IS LET OUT PART OF THE YEAR AND SELF OCCUPIED FOR REMINING PART OF THE YEAR

Where the house property is let out part of the year and self occupied for remaining part of the year or vice versa, the taxable income from house property shall be computed by ignoring benefit of self occupation and considering the actual rent received for the let out period only. In the other word, the period of self occupation not to be considered, and the actual rent shall be taken on the basis of let out period.

Illustration : 24

Mr. Muthu owns a house. The Municipal Value Rs. 60,000, Fair Rental Value Rs. 72,000 and Standard Rent Rs. 66, 000 respectively. He occupied the house for own residence from 01.04.2024 to 30.06.2024 and from 01.07.2024 let it out on rent of Rs. 7,000 p.m. Compute income from house property if municipal tax is 15% of the Municipal Value.

Solution:

Computation of Income from House Property for the A.Y 2025-2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (MRV)	60,000	
2. Fair Rental Value (FRV)	72,000	
(Whichever is Higher (WEH)		**72,000**
3. Whichever is Higher(WEH)	72,000	
4. Standard Rent (SR)	66,000	**66,000**
(Whichever is Less (WEL is ER)	66,000	
5. Actual Rent (9,000 x 9 =63,000)	63,000	
(Whichever is Higher is GAV)		**66,000**
Gross Annual Value (GAV)	**66,000**	
Less: Municipal Tax (60,000 x 15%)	9,000	
Net Annual Value (NAV)		**57,000**
Less: Standard Deduction		
(57,000 x 30%)	**17,100**	17,100
Interest on Loan	**---**	
Income from House Property		**39,000**

Illustration : 25

Mr. Jawahar owns a house the Municipal Value of which is Rs. 18,000 and Standard Rend Rs. 30,000. He occupied the house for own residence from 01.04.2024 to 30.09.2024 and from 01.10.2024, let it out on Rent at Rs. 2,000 p.m. Determine the Annual Value, If Municipal taxes actually paid in respect of the house amount to Rs. 2,000.

Solution:

Computation of Income from House Property for the Assessment Year 2025-2026

Particulars	Rs.	Amount (Rs.)
1.Municipal Rental Value (MRV)	18,000	
2. Fair Rental Value (FRV)	---	
(Whichever is Higher (WEH))		18,000
3. Whichever is Higher(WEH)	18,000	
4. Standard Rent (SR)	30,000	18,000
(Whichever is Less (WEL is ER)	18,000	
5. Actual Rent (2,000 x 6 =63,000)	12,000	
(Whichever is Higher is GAV)		18,000
Gross Annual Value (GAV)	**18,000**	
Less: Municipal Tax	2,000	
Net Annual Value (NAV)		**16,000**

V. LET-OUT PROPERTY WITH COMPOSIT RENT

Illustration : 26

Mr. Selvakumar owns a house property in Chennai which is let out for Rs. 90,000 p.a. Municipal Value is Rs. 60,000 and municipal taxis 10% of municipal tax is paid by the tenant as per the rental agreement but at the same time Mr. Selvakumar bear the following expenses on tenant amenities.

Life expenses Rs.1, 500, Water charges Rs.3, 000, Gardner's salary Rs. 2,000, Lights of stairs 1,500 and He claims the following deduction:

Collection charges Rs. 8,000, Annual charges Rs. 7,000, Interest on loan taken for construction of a house Rs. 5,000. Compute the taxable income from house property for the P.Y. 2024-2025.

Solution:

Computation of Income from House Property for the A.Y. 2025-2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (MRV)	60,000	
2. Fair Rental Value (FRV)	---	
(Whichever is Higher (WEH))		60,000
3. Whichever is Higher(WEH)	60,000	
4. Standard Rent (SR)	---	60,000
(Whichever is Less (WEL is ER)	60,000	
5. Actual Rent: 90,000 – 8,500(Amenities)	81,500	
(Whichever is Higher is GAV)		81,500
Gross Annual Value (GAV)	**81,500**	
Less: Municipal Tax	---	
Net Annual Value (NAV)		**81,500**
Less: Deduction u/s 24:		
(i). Standard Deduction at 30% of NAV	24,450	
(81,500 x 30/100)		
(ii). Interest on loan	5,000	29,450
Income from House Property		**52,050**

Illustration : 27

Mr. Pandian owns a house property in Tenkasi which is let out for Rs. 1, 20,000 p.a. Municipal Value is Rs. 1, 00,000 and municipal tax is 10% of municipal value. Only 70% of the municipal tax was paid during the previous year. He bears the following expenses on amenities:

Life expenses Rs. 5,000, Water charges Rs. 5,000, Gardener's salary Rs 4,000 and Lighting Rs. 4,000 and Interest on loan taken for construction of a house Rs. 10,000. Compute the taxable income from house property for the A.Y. 2025-2026.

Solution:

Computation of Income from House Property for the A.Y. 2025 - 2026

Particulars	Rs.	Amount (Rs.)
1. Municipal Rental Value (MRV)	1,00,000	
2. Fair Rental Value (FRV)	---	
(Whichever is Higher (WEH)		1,00,000
3. Whichever is Higher(WEH)	1,00,000	
4. Standard Rent (SR)	---	1,00,000
(Whichever is Less (WEL is ER)	1,00,000	
5. Actual Rent:		
1,20,000 – 18,000 (Amenities)	1,02,000	
(Whichever is Higher is GAV)		**1,02,000**
Gross Annual Value (GAV)	**1,02,000**	
Less: Municipal Tax		
(1,00,000 x 10/100 x 70/100)	7,000	
Net Annual Value (NAV)		**95,000**
Less: Deduction u/s 24:		
(i). Standard Deduction at 30%of NAV	28,500	
(95,000 x 30/100)		
(ii). Interest on loan	10,000	38,500
Income from House Property		**56,500**

VI. RECOVERY OF ARREAR RENTAND UNREALIZED RENT

Illustration : 28

Compute income from house property of Mr. Ram from the following information.

Particulars	Amount (Rs.)
Fair Rent	62,000
Let out	7,000 p.m.
Municipal Tax paid	20,000

Other information:

(i). The House remained vacant for Two months during the P.Y.

(ii). Unrealized Rent allowed as deduction in A.Y 2020-2021 but Received during the Previous Year Rs.20, 000.

(iii). Expenditure incurred in collecting unrealized Rent Rs.5, 000 (iv). Arrears of Rent Received during the P.Y. Rs. 12,000.

Solution: **Computation of Income from House Property for the A.Y. 2025-2026**

Particulars	Rs.	Amount (Rs.)
1.Municipal Rental Value (MRV) 2. Fair Rental Value (FRV) **(Whichever is Higher (WEH))**	--- 62,000	62,000
3. Whichever is Higher(WEH) 4. Standard Rent (SR)	62,000 ---	62,000
(Whichever is Less (WEL is ER) 5. Actual Rent (7,000x12=84,000) Less: LDV(7,000x2= 14,000)	62,000 70,000	
(Whichever is Higher is GAV) **Gross Annual Value (GAV)**		70,000 20,000
Less: Municipal Tax **Net Annual Value (NAV)** **Less:** Standard Deduction: (50,000x30%) Interest on Loan:	15,000 ---	50,000 15,000
Taxable Income from House Property		35,000
Add: Unrealized Rent Recovered		20,000
		55,000
Add: Arrear Rent Recovered **Less:** Standard Deduction (12,000x30%)	12,000 3,600	8,400
Income from House property		**63,400**

Note: (i). The Arrear rent is eligible separately for standard deduction.

(ii). Municipal tax paid during the year admissible as deduction, even though it is not related to previous year. (iii) Expenses for collecting unrealized rent shall not be allowed as deduction.

Illustration : 29

Mr. Selva has three house property details are as follows:

Particulars	House- I Rs.	House- II Rs.	House- III Rs.
Rent received	60,000	40,000	---

Municipal Value	45,000	28,000	15,000
Standard Rent	40,000	30,000	---
Municipal Tax	6,000	3,000	1,000
Interest on loan against HP	17,000	19,000	6,000
Repairs	4,000	2,000	500
Purpose of house	Let-out	Let-out	Self-occupied

Compute the total house property income for the A.Y. 2025-2026.

Solution:

Computation of Income from House Property for the A.Y. 2025-2026

Particulars	Let-Out House I	Let-Out House- II	Self-Occupied House- III
1. Municipal Rental Value (MRV)	45,000	28,000	---
2. Fair Rental Value (FRV)	---	---	---
(Whichever is Higher (WEH))	45,000	28,000	---
3. Whichever is Higher(WEH)	45,000	28,000	---
4. Standard Rent (SR)	40,000	30,000	---
(Whichever is Less (WEL is ER)	40,000	28,000	---
5. Actual Rent	60,000	40,000	---
(Whichever is Higher GAV)	**60,000**	**40,000**	---
Less: Municipal Tax	6,000	3,000	---
Net Annual Value (NAV)	**54,000**	**37,000**	Nil
Less: Deduction u/s 24:			
(i). Standard Deduction @30% on NAV	16,200	11,100	---
(ii). Interest on Loan	17,000	19,000	6,000
Income from House Property	**20,800**	**6,900**	**- 6,000**

Computation of Total Income from House Property for the Assessment Year 2025-2026

Particulars	Amount (Rs.)

House I (Let-Out)	20,800
House II (Let-Out)	6,900
House III (Self-Occupied)	-6,000
Total Income from House Properties	**21,700**

4.16. MULTIPLE CHOICE QUESTIONS (MCQ)

PART – A (1 Marks Questions) Choose the Correct Answer:

1. Under which section of the Income Tax Act 1961, the incomes from house property are exempted from tax.

a) Section12

b) Section10

c) Section15

d) Section16 **ANS: B**

2. An income can be taxed under the head "income from house property", if the following conditions are satisfied:

a) There must be building and land appurtenant thereto.

b) The assesses must be the owner of the property.

c) The property must not be used by the assesses

d.) All the above **ANS: D**

3. Annual value is defined under-

a) Section 20(1)

b) Section 22(1)

c) Section 23(1)

d) Section 25 (1) **ANS: C**

5. House property held for charitable purposes-

a) Section 10

b) Section 11

c) Section 12

d) Section 13 **ANS: B**

6. Agricultural House property under-

a) Section 2(1)(A)

b) Section 2(1)(B)

c) Section 2(1)(C)

d) Section 2(1)(D) **ANS: C**

7. Self-occupied but vacant house-

a) Section 23(1)

b) Section 23(2)

c) Section 23(3)

d) Section 23(4) **ANS: C**

8. Property held by registered trade union under-

a) Section 10(12)

b) Section 10(16)

c) Section 10(20)

d) Section 10(24)

ANS: D

9. Annual value of one place in the occupation of a ex-ruler-

a) Section 10(18A)

b) Section 10(15A)

c) Section 10(19A)

d) Section 10(11A) **ANS: C**

10. Income from house property in the hands of a political party----

a) Section 13A

b) Section 12A

c) Section 11A

d) Section 10A **ANS: A**

11. Income from house property belonging to scientific research association----

a) Section 9(21)

b) Section 10(21)

c) Section 11(21)

d) Section 12(21) **ANS: B**

12. Income from letting of godowns by certain authorities---

a) U/S10 (25)

b) U/S10 (27)

c) U/S10 (29)

d) U/S10 (31) **ANS: C**

13. Property income of an educational institutional and hospital----

a) U/S10 (21C)

b) U/S10 (23C)

c) U/S10 (25C)

d) U/S10 (27C) **ANS: B**

14. On the basis of nature of occupation, house property can be classified into the following category:

a) Let out property for residence or commercial

b) Self occupied property for residence

c) Deemed to be let-out property

d) All the above **ANS: D**

15. GAV expand----

a) Gross annual value

b) Gross accepted value

c) Gross adjusted value

d) Gross average value **ANS: A**

16. NAV expand----

a) Net annual value

b) Net accepted value

c) Net adjusted value

d) Net average value **ANS: A**

17. Income from house property applicable----

a) Deductions U/S20

b) Deductions U/S24

c) Deductions U/S28

d) Deductions U/S30 **ANS: B**

18. Standard deduction income from house property ----

a) 10% of NAV

b) 20% of NAV

c) 30% of NAV

d) 40% of NAV **ANS: C**

19. FRV expand----

a) Full rental value

b) Fair rental value

c) Fair rate value

d) Full rate value **ANS: B**

20. AR can be expand----

a) Annual rent

b) Average rent

c) Actual rent

d) Accurate rent **ANS: C**

21. MRV is expand----

a) Municipal rate value

b) Market rental value

c) Market rate value

d) Municipal rental value **ANS: D**

22. SR stands for

a) Standard rent

b) Stimulated rent

c) Standard rate

d) Stop rent **ANS: A**

23. ERV stands for---

a) Expected rate value

b) Expected rental value

c) Expected rate value

d) Essay rental value **ANS: B**

24. UR stands for----

a) Unrecognized rent

b) Unrealized rent

c) Unrealized rate

d) Unrecognized rate **ANS: B**

25. A has two house properties, both are self-occupied. The annual value of

a) Both houses shall be nil

b) One house shall be nil

c) No house shall be nil

d) None **ANS: A**

26. Self occupied house property means----

a) House occupied by assessee

b) Rented house

c) House owned by others

d) None **ANS: A**

27. Pre-Construction interest is allowed as deductions

a) In 3 installments in 3 years

b) In 4 installments in 4 years

c) In 5 installments in 5 years

d) In 6 installments in 6 years. **ANS: C**

28. Maximum interest allowed on loan on or after 1.4.1999for purchasing a house for own residence is:

a) Rs.30, 000

b) Rs. 2, 00,000

c) 1, 20,000

d) Rs. 3, 00,000 **ANS: B**

29. For Income tax purpose, the house means:

a) Godown

b) Building

c) Dwelling house

d) Above all are included in house **ANS: D**

30. Income from subletting is taxable under the head:

a) Income from other sources

b) Income from house property

c) Income from capital gains

d) Income from business **ANS: A**

THEORY QUESTIONS

PART – B [5 Marks Questions)

1. Define annual value?
2. What is meant by net annual value?
3. State the meaning of municipal value and fair rent?
4. Give the meaning of Standard rent and fair rent.
5. What are the conditions for House property?
6. What is Deemed owner of House Property?
7. What do you meant by Gross Annual Value?
8. How do classify the House Property?
9. 11. What is Municipal Tax?
10. What is Expected rent?
11. What is composite rent?
12. What is unrealized rent?
13. State the rules relating to interest on house loan as deduction?

PART – C [8 Marks Questions]

1. How the annual value is determined?

2. What are exempted incomes from house property?

3. How the income from self occupied house property is calculated?

4. Explain the provision relating to pre-construction interest.

5. Explain the factors to be consider while determining Gross Annual Value?

6. Illustrate how the Gross Annual Value is Calculate.

7. Illustrate how the Income from House Property is calculated

8. What are the deductions allowed on income from house property?

9. How do you treat the unrealized rent of the past recovered in the current previous year?

10. How do you determine pre-construction period while calculating interest on borrowed capital?

11. Explain the gross annual value of let out properties?

12. What are the deductions allowed while computing the Income from House Property?

13. Draw the format of Computing Let-Out and Self occupied Property?

PRACTICAL EXERCISES

LET OUT HOUSE PROPERTY

I. DETERMINATION OF GROSS ANNUAL VALUE

EXERCISE 01: Mr. X provides the following particulars for the Assessment Year 2025-2026. Calculate Expected Rent.

Particulars	Rs.
Municipal Value	40,000
Fair Rent	51,000
Standard Rent	63,000
Actual Rent	60,000

(**Ans: 51,000)**

EXERCISE 02: From the following particulars,

Calculate the Grass Annual Value. Municipal Rental Value (MRV) Rs.3, 00,000.

Fair Rental Value (FRV) Rs.2, 80,000 and Standard Rental Value (SRV) Rs. 3, 50,000.

(Ans: Rs. 3,00,000)

EXERCISE 03: Find out the gross annual value of let out Property.

Particulars	Rs.
Municipal Value	60,000
Fair Rent	50,000
Standard Rent under the Rent Control Act	70,000
Actual Rent Received	65,000

(Ans: Rs. 65,000)

EXERCISE 04: From the following particulars, calculate the Grass Annual Value.

Particulars	House-A	House-B
MRV	50,000	30,000
FRV	60,000	40,000
SRV	65,000	39,000
ARV	55,000	42,000

(Ans: H1 Rs. 60,000 & H2 Rs. 42,000)

EXERCISE 05: From the following particulars, calculate the Grass Annual Value.

Particulars	House-A	House-B	House-C
MRV	30,000	4,20,000	1,20,000
FRV	24,000	5,00,000	1,10,000
SRV	35,000	6,00,000	90,000

(Ans: H1 Rs. 30,000, H2 5, 00,000 & H3Rs. 90,000)

EXERCISE 06: Mr. Raj owns Four houses particulars Regarding which are as follows:

Particulars	House-I Rs.	House-II Rs.	House-III Rs.	House-IV Rs.
Municipal Value	12,000	15,000	18,000	---
Fair Rent	18,000	12,000	24,000	24,000
Standard Rent	9,000	14,400	---	30,000

Actual Rent	6,000	24,000	15,000	18,000

Determine the Gross Annual Value of the property in each case.

(Ans: (I) Rs. 9,000, (II) Rs.24,000, (III) Rs. 24,000 & (IV) Rs. 24,000)

EXERCISE 07: From the following find out the Annual Value:

Particulars	House-I Rs.	House-II Rs.	House-III Rs.	House-IV Rs.
Municipal Value	30,000	20,000	35,000	30,000
Fair Rent	36,000	24,000	32,000	25,000
Standard Rent	32,000	28,000	30,000	28,000
Actual Rent	38,000	30,000	38,000	30,000

(Ans: (I) 36,000, (II) 28,000, (III) Rs. 35,000 & (IV) Rs.30,000)

EXERCISE 08: Mr. Ravi provides the following particulars for the Assessment Year 2025-2026. Calculate Gross Annual Value.

Particulars	Rs.
Municipal Value	1,12,000
Fair Rent	1,17,000
Standard Rent	1,15,000
Actual Rent	1,20,000
Unrealized Rent	50,000

(Ans: Rs. 1,15,000)

EXERCISE 09: Mr. Raman provides the following particulars for the Assessment Year 2025-2026. Calculate Gross Annual Value.

Particulars	Rs.
Municipal Value	1,40,000
Fair Rent	1,50,000
Standard Rent	1,20,000
Actual Rent	1,44,000
Unrealized Rent	---
Vacancy Period	10 months
Loss due to Vacancy	1,20,000

(Ans: Rs. 24,000)

EXERCISE 10: From the following information, you are required to find out the Gross Annual Value of a let out Property.

Particulars	Rs.
Municipal Rental Value	96,000
Fair Rental Value	1,16,000
Annual Rent if it is let out throughout the year	1,18,000
Standard Rent under Rent Control Act	1,15,000

Loss due to Vacancy	8,000

(Ans: Rs. 1, 10,000)

EXERCISE 11: From the following particulars of Mr. A find out the Gross Annual Value. Municipal Value Rs. 1, 40,000, Fair Rent Rs. 1,50,000; Standard Rent Rs. 1,20,000; Actual Rent Rs. 96,000; Vacancy Period 10 months; Loss Due to Vacancy Rs. 80,000.

(Ans: Rs. 40,000)

EXERCISE 12: Calculate the Gross Annual Value, from the following particulars, Municipal value Rs. 36,000. Fair Rental Value Rs.24, 000. Actual Rental Value Rs.42, 000, Vacancy Period 2 Months.

(Ans: GAV: Rs. 36,000)

EXERCISE 13: Calculate the Gross Annual Value, from the following particulars,

Particulars	Rs.
Municipal Value	60,000p.a
Fair Rental Value	66,,000p.a
Standard Rental Value	63,000p.a
Actual Rental Value	66,000p.a
Date of new house completion	30.06.2024
Date of Letting or let out	01.10.2024

(Ans: GAV: Rs. 47,250)

EXERCISE 14: Calculate the Gross Annual Value, from the following particulars,

Particulars	HOUSE-A	HOUSE-B
Municipal Value	18,000	24,000
Fair Rental Value	21,000	26,400
Standard Rental Value	24,000	30,000
Actual Rental Value	36,000	22,800
Unrealized Rent in months	2 months	2 months

(Ans: House: A Rs. 30,000 & House: B Rs. 25,000)

EXERCISE 15: Calculate the Gross Annual Value, from the following particulars,

Particulars	HOUSE-X	HOUSE-Y
Municipal Value	18,000	1,00,000
Fair Rental Value	20,000	1,25,000
Standard Rental Value	4,000	1.12.500
Actual Rental Value	36,000	1,20,000
Unrealized Rent	3,000	1 months
Vacancy(In months)	1	1.5

(Ans: House-X Rs.30,000 & House-Y Rs.1,25,000)

II. DETERMINATION OF NET ANNUAL VALUE

EXERCISE 16: From the following Particulars of Mr. A, determine the Net Annual Value.

Particulars	Rs.
Municipal Valuation	1,00,000
Fair Rent	1,20,000
Standard Rent	1,25,000
Actual Rent	1,00,000
Municipal Taxes	15,000

(Ans: Rs. 1, 05,000)

EXERCISE 17: From the following, Calculate Net Annual Value

Particulars	Rs.
MRV	1, 00,000 p.a.
FRV	1, 10,000 p.a.
SRV	1, 20,000 p.a.
AR	1,32,000 p.a.

Municipal tax is @10% of municipal value and sanitation tax is @ 2%

(Ans: NAV Rs. 1, 12,800)

EXERCISE 18: From the following, ascertain the Net Annual Value of the house property for the P.Y. 2024-2025.

Particulars	Rs.
MRV	50,000 p.a.
FRV	55,000 p.a.
SRV	60,000 p.a.
AR	54,000 p.a.

Municipal tax @ 10% is paid by the owner. **(Ans: NAV: Rs. 50,000)**

EXERCISE 19: From the following details, calculate the Net Annual Value for the P.Y. 2024-2025.

Particulars	Rs.
Rent Received Municipal Value Municipal tax @ 10% of MV (Tenant paid 50% of Municipal tax)	8,000 p.m. 90,000 p.a.

(Ans: NAV Rs. 75,500)

III. DETERMINATION OF INCOME FROM HOUSE PROPERTY

EXERCISE 20: From the following, compute the income from House Property for the Previous Year 2025-2026.

Particulars	Rs.
Annual Rental Value	60,000
Municipal Value	50,000
Municipal Tax Paid by the Owner	1,200
Municipal Tax Payable by the Owner	500
Municipal Tax Paid by the Tenant	1,000
Ground Rent	600
Fire Insurance	500
Collection Charges	150
Unrealized Rent Received (allowed earlier)	10,000

The house Remained Vacant for 2 Months **(Ans: NAV: Rs. 44,160)**

EXERCISE 21: Compute the income from House Property from the information given below:

Particulars	Rs.
Municipal Rental Value	18,000
Rent Received during the year	24,000
Municipal Taxes (50% paid by Tenant)	1,800 p.a.
Expenses incurred on Repairs:	
(a)By Owner	3,000
(b) By Tenant	3,000
Collection Charges	1,000
Date of Completion of House	1.6.2010

The house Remained Vacant for 2 Months **(Ans: NAV: Rs. 16,170)**

EXERCISE 22:

Mr. Gopal owns a house at Chennai. The particulars of the house are given below:,

Particulars	Rs.
Municipal Value	84,000
Fair Rental Value	96,000
Municipal taxes	12,000
Ground rent	7,500
Repairs	Rs.3,000p.a

- Interest on loan borrowed for construction of house of Rs.15,000.
- The house was let out for residential purpose for Rs.12,000 p.m.
- Ascertain taxable income from house property for the P.Y. 2024-2025**(Ans: Rs. 70,400)**.

EXERCISE 23: From the following particulars of Mr. Tamil, Calculate income from House Property. The Net Annual Value of house property is Rs. 72,000. The deduction claimed are as follows: Repairs Rs. 2,000; House Tax paid Rs. 6,000. Interest on loan (for repairing the house) Rs. 40,000; Insurance Premium due Rs. 1,000.

(Ans: Rs. 20,400)

SELF OCCUPIED HOUSE PROPERTY

EXERCISE 24: Mr. Charan, the owner of the one house, occupies it for his own residence. The MRV and FRV of the house is Rs. 1, 80,000 and Rs. 2, 00,000 respectively. He has paid Rs. 12,000 as municipal tax. Besides, he paid interest on borrowed Capital for repairing that house (borrowed during 2020) Rs. 65,000. Compute income from house property. **(Ans: Loss on Self-occupied -30,000)**

EXERCISE 25: Mr. Selvan, started the construction of a house on 1.6.2023 and took a loan of 3, 00,000 @ 15% per annum on 1.7.2022. Construction was completed on 30.11.2024 and was self-occupied from 1.12.2024. Compute his income under the head income from house property for the Assessment Year 2025-2026.

(Ans: -51,750)

EXERCISE 26: Mr. Kani, the owner of one house, occupied for his own residence. Municipal Value and Fair Rental Value is Rs. 1, 00,000 and Rs. 1,10,000 respectively. He has paid Rs. 782 as Municipal Tax. The house was constructed on 31.12.2014. Repayment of interest on borrowed capital for the Construction of the house is Rs. 1,50,000. Compute income under the head income from house property.

(Ans: -1,50,000)

EXERCISE 27: Ms. Harini, the owner of the one house, occupies it for her own residence. The MRV and FRV of the house is Rs. 84,000 and Rs. 96,000 respectively. She has paid Rs. 7,500 as municipal tax. Besides she paid interest on borrowed capital for acquiring the house (borrowed during 2020) Rs. 3, 75,000. Compute her income from house property. (**Ans: -2,00,000)**

PARTLY LET OUT AND PARTLY SELF OCCUPIED HOUSE

EXERCISE 28: Mr. Swamy owns two houses and both are used by him for his own residence. He intends to treat one such house as Self-occupied and the other as deemed to be let out. Your advice is sought as to the beneficial option based on the following information for the Assessment Year 2025-2026.

Particulars	**House – I Rs.**	**House –II Rs.**
Fair Rent	72,000	68,000
Municipal Valuation	84,000	52,000
Standard Rent	90,000	60,000
Municipal Taxes Levied	20,000	14,000
Municipal Taxes Paid	10,000	7,000
Repairs	14,000	12,000
Insurance Premium	3,000	2,200
Interest on loan (borrowed during August, 2014)	62,000	18,000

EXERCISE 29: Mr. X constructed one house in 1992, 75% of the property is let out and 25% is occupied for his residence. The let-out portion is also self -Occupied for one month.

Particulars	**Rs.**
Municipal value of full house	5,000 p.a.
Annual rent of 75% portion	4,000 p.a.
Municipal taxes	500 p.a.
Ground rent	100 p.a.
Repairs	200 p.a
Fire insurance premium	150 p.a.
Collection charges	60 p.a.
Interest on loan taken for construction	600 p.a.

His income from all other sources amount to Rs. 10,000. Determine his income from house property. **(Ans: LOH: 1,912 & SOH: 150)**

EXERCISE 30: Mr. Sekar owns a house at Madurai. The particulars of the Calculate the Gross Annual Value, from the following particulars,

Particulars	Rs
Municipal Valuation	96,000
Fair Rental	84,000
Municipal taxes	10,000
Fire Insurance Premium	2,200p.a
Interest on loan borrowed for construction of the house.	Rs.3,000p.a

The house was let out for residential purpose for Rs.10,000 p.m.. Ascertain taxable income from house property for the P.Y. 2024-2025. **(Ans: Rs. 64,000)**

EXERCISE 31: Find out the Annual Value of the house. Half of the house is Self-Occupied and half of the house is let out Rs. 7,500 p.m. Municipal value of the house in Rs. 1, 50,000 on which tax is paid at 20%. **(Ans: Rs. 52,500)**

INTERST ON LOAN

EXERCISE 32 : On 1st July 2019 Mr. Vasan borrowed Rs. 20,00,000 @ 9% p.a. from IOB to construct a house. The house construction was completed on 30.09.2023. He did not repay the loan till date. He let out that home from 1st Oct. 2023. Compute the interest on loan eligible for deduction u/s 24 of the P.Y2024-2025.

(Ans: Rs. 3, 15,000)

EXERCISE 33: Mr. Siva took a loan of Rs.4, 00,000 on 1.4.2019 @ 20% p.a. to construct a house. The construction was completed on 1.11.2023. Compute the amount of interest deductible while computing income from house property. Assume the house is let out.

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UNIT – IV

PROFITS AND GAINS FROM BUSINESS OR PROFESSION

Learning Objectives – Profits and Gains from Business or Profession

After studying this unit, learners will be able to:

- **Understand the meaning of "Business" and "Profession"** as defined under the Income-tax Act, 1961.
- **Identify the scope and chargeability** of income under the head *Profits and Gains from Business or Profession*.
- **Determine the basis of charge**, including when income is taxable (section 28).
- **Classify different types of business and professional incomes**, such as speculative and non-speculative businesses.
- **Compute taxable income from business or profession**, including gross receipts and net profit.
- **Understand allowable deductions** under sections 30 to 37 (rent, repairs, depreciation, expenses, etc.).
- **Identify expenses expressly disallowed** under the Income- tax Act.
- **Understand depreciation provisions** and calculation of depreciation on business assets.

5.1. INTRODUCTION

The profit/gains from business or professions carried on by the assessee at any time during the previous year are assessed to tax under the head income from business or profession. Further, the profits or gains shall be computed according to the method of accounting regularly employed by the assessee. It the Profit and loss account prepared by the assessee is not computed from income tax point of view, such account has to be adjusted from income tax point of view, in order to ascertain the correct taxable profits or gains from business or profession.

As per the Gross total Income the third head is "Profits and Gains of Business or Profession" This unit deals with the tax provisions of Sections 28 to 44, it is important to understand the meaning of the terms Business, Profession, vocation and format for computing taxable income from business or profession.

5.2. IMPORTANT CONCEPTS OF BUSINESS "OR" PROFESSION

The following are the important terms about the business or profession under the Income Tax Act 1961.

DEFINITION OF BUSINESS

The word "Business" is defined in section 2(13) to include any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

BUSINESS [SEC. 2(13)]

According to section 2(13) of the Income Tax Act, the term Business means any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

The term Business it can be said that the following are the elements of a business;

1. The purpose of the business is to earn profits.
2. It may include the activities of rendering services to others.

3. Business arises out of commercial transactions between two or more persons.

PROFESSION [SEC.2 (36)]

According to section 2(36) Profession requires purely intellectual skill or manual skill on the basis of some special learning and qualification gathered through past training or experience e.g. chartered accountant, doctor, lawyer are the some of the examples of Profession. Professional skill can be acquired only after patient study (in a particular system either a college, university or institute) and application (i.e. experience). Further, Profession includes Vocation.

VOCATION

Vocation implies natural ability of a person to do some particular work e.g. singing, dancing, etc. The term “vocation” is different from the term “hobby”. Vocation must have the earning feature. It can be treated as an earning means by which a man passes his life. Unlike profession, vocation does not require a degree or special learning.

TRADE

Trade implies buying goods and selling them to make profits. If such transactions are on a large scale, it is called Commerce. But Business is not confined merely to purchase or sale of article. It may even consist of rendering services to others. For examples: Communication services (Telephone, Telegraph) or Transport services like railway, bus and aeroplane etc.

COMMERCE

The term Commerce means the act of purchase of goods with a view to sell them at profit is repeated on a large scale.

MANUFACTURE

The term “Manufacture” means a process which result in an alteration or change in goods which are subjected to such manufacture. It refers to the production of articles for use from raw or prepared materials by giving these materials new forms, qualities, properties or combinations whether by hand labor or machinery.

SPECULATION BUSINESS

Speculation business refers to earning money through speculative transactions. It takes place without taking actual delivery. Majority of the traders in stock markets are doing this speculative business. They enter into contract with others for purchase or sale of stocks or shares other than actual delivery. Income arising from speculation business is calculated as business income for tax purpose. However, speculation loss can be adjusted only against speculation profit.

Note: Speculative Transaction = any transaction without actual delivery.

ILLEGAL BUSINESS

Any business which is not permitted by the law of the land is called as an illegal business. Income Tax act does not make any difference between legal and illegal business for tax purpose. Illegal business profit is calculated by deducting expenses relating to illegal business from income relating to illegal business. Income earned from such illegal business will be taxed under Income Tax Act, 1961. However, Illegal business cannot be adjusted against legal business income.

Note: Illegal Business Profit = Illegal Business Income – Illegal Business Expenses.

5.3. DIFFERENCES BETWEEN BUSINESS AND PROFESSION

The following points are the difference between business and profession:

1. The primary objective of a business is to earn profit whereas profession is aimed at providing services.

2. A business can be established by the decision of the entrepreneur and after fulfilling certain legal formalities. On the other hand, profession requires membership of the respective professional body and certificate of practice, for the establishment.

3. Any person can start his business; there is no minimum qualification to run a venture. On the contrary, specialized knowledge of study, training and expertise is the major requirement for the profession.

4. A business requires capital investment according to its size and nature. Unlike, profession whose capital requirement is limited.

5. A businessman gets profit as a return for the work done by him/her. Conversely, a professional gets a fee for the services rendered by him/her.

6. In business, there is no prescribed code of conduct. As opposed to the profession, the code of conduct is prescribed by the professional bodies which must be followed.

7. In general, every business advertises its products and services, for the purpose of increasing sales. As against this, the advertisement is strictly prohibited as per professional code of conduct.

8. In business, transfer of interest is common, like transfer of business by the father to his son. In contrast to the profession, where transferability is not possible as it requires specialized skill and knowledge.

9. Business and risk go hand in hand, so the risk factor is always present in business. On the other end, the risk factor may or may not be present in a profession.

5.4. INCOME CHARGEABLE UNDER THE HEAD BUSINESS "OR" PROFESSION [SEC. 28]

According to Sec. 28 enlists the incomes, which are chargeable under the head 'Profits & gains of business or profession':

1. Any Profits & gains of any business or profession carried out by the assessee during the previous year[Sec. 28(i)]

2. Any Compensation to other payment due to or received by a person doing business or profession [Sec. 28(ii)]

3. Income of trade or profession or Similar Association [Sec. 28(iii)]

4. Export incentives Available to Exporters [Sec. 28(iiia) (iiib) & (iiic)]

5. Perquisite from business or profession [Sec. 28(iv)]

6. Remuneration to partner [Sec. 28(v)]

7. Amount received or receivable for certain agreement [Sec. 28(va)]

8. Keyman Insurance Policy [Sec. 28(vi)]

8. Conversion of stock into capital asset [Sec. 28(via)]

9. Recovery against certain capital assets covered u/s 35AD [Sec. 28(vii).

5.5. GENERAL PRINCIPLES FOR COMPUTATION OF INCOME FROM

BUSINESS “OR” PROFESSION”

While computing profits and gains from business or profession, the following general principles or rules are to be followed.

1. Carried on by the Assessee
2. Aggregate of income
3. Speculation Business
4. Business or Profession during the Previous Year
5. Actual Profit
6. Legality of Business or Profession
7. General Commercial Principles
8. Recovery of Loss
9. Burden of Proof
10. Expenditure incurred during the Previous Year
11. Expenditure incurred for the Purpose of the Business
12. Expenditure before setting up of Business
13. The benefit of Expenditure may extend to Other Years
14. Expenditure on Taxable Business Only
15. Expenditure on Wasting Assets
16. Provision and Reserve

5.6. EXPENSES WHICH ARE EXPRESSLY ALLOWED

According to Section 30 to 37 deals with the expenses which are expressly allowed as deduction while calculating the taxable income from business or profession.

1. Rent, rates, taxes, repairs and insurance for building [sec. 30]

Rent, rates, taxes, repairs & insurance for premises used for the purpose of business or profession shall be allowed under this section.

2. Repairs & insurance of machinery, plant and furniture [sec. 31]

Repairs & insurance of plant, machinery & furniture are allowed as deduction. Points to be noted in this regard: Use of asset: The asset must be used for the purpose of business or profession. However, if the asset is not exclusively used for the purpose of business or profession then deduction shall be restricted to a fair proportion of above expenditure, which the Assessing Officer may determine [Sec. 38(2)].

3. Depreciation

Section 32 of the I.T. Act 1961 deals with depreciation, Depreciation simply refers to decrease in value of asset due to passage of time, wear and tear of the assets. Depreciation is calculated for capital both tangible assets and Intangible assets owned by an assessee and used by him in his business or profession.

4. Expenditure on Scientific Research (Section 35)

The term “scientific research” means any activity for the extension of knowledge in the fields of natural or applied sciences including agriculture, animal husbandry or fisheries. The word Scientific Research has been defined as 'an activity for the extension of knowledge in the fields of natural or applied sciences including agriculture, animal husbandry or fisheries'. Such an activity may result in an improved efficiency and this in turn increases the productivity of the process. So, in order to encourage people to enhance the productivity, government has provided certain tax incentives under this section by way of deduction for expenditure incurred in respect of Scientific Research. Such Scientific research may be carried out for the purpose of

(a). Extension of business;

(b). Providing medical facilities to the employees.

Deduction under this section is allowed in two ways

(1). When assessee takes up scientific research on his own

(2). When assessee contributes amount for carrying out scientific research to an approved body.

(1). When assessee takes up scientific research on his own

When assessee carries on any scientific research, the expenditure incurred by him for such may be **(i) Revenue expenditure or (ii) Capital expenditure**

The treatment of above is as follows.

(i). Revenue expenditure Sec. 35(1)(i):

In any revenue expenditure on scientific research incurred by the assessee to his own business during the previous year shall be allowed in full.

(ii). Capital expenditure Sec. 35 (1)(iv)

In any capital expenditure on scientific research incurred by the assessee to his business during the previous year shall be allowed in full except expenses on land.

(iii). Expenditure on In-house research and development expenses Sec. 35(2AB)

Any amount incurred by a company on in-house research and deduction is allowed at 150% of that expenditure except land.

(iv). Expenditure on Patent or Copyright Sec. 35A

Any expenditure incurred for patent or copyright is eligible for depreciation allowance at 25% of that expenditure.

(v). Expenditure of Know-how Sec. 35AB

Any expense incurred by an assessee to acquire know-how is eligible for 25% of that expense as depreciation allowance.

(vi). Amount paid to a Recognized University, College and Research association

Any amount paid to any national laboratory or recognized University or approved institutions for carrying out scientific research programme is eligible for deduction at 150 % of that contribution.

(vii). Amount paid for Scientific Research to a Company

Any amount paid to a company for scientific research shall be allowed at 100% provided that company is registered in India and its object is scientific research and development.

(viii).Amount paid to a Social or Statistical research 35 (1) (iii)

Any amount paid to an approved research association or to a University or or other institutions for social science research or statistical research is allowed at 100% whether it is related or not related to assessee's business.

(ix). Contribution made to Outsiders Sec. 35(1) (ii)

Any amount paid to outsiders for scientific research purpose, it is allowed as deduction at 150% of that contribution whether it is related or unrelated to assessee's business.

(x). Amount contributed to National Laboratory [Section 35(2AA)]:

Any amount contributed by the assessee to a National laboratory or University or IIT or to a specified person (approved by prescribed authority) with a specific direction that the amount shall be used for the purpose of scientific research, shall be given a deduction of 2 times. "National Laboratory" Any laboratory functioning at national level under the aegis of

(1) Indian Council of Agricultural Research
(2) Indian Council of Medical Research
(3) Council of Scientific and Industrial Research
(4) Defence Research and Development Organisation
(5) Department of Electronics
(6) Department of Bio-technology
(7) Department of Atomic Energy

(xi). Expenditure on any skill development project (Sec. 35CCD)

If a company incurs any expenditure (excluding cost of any land or building) on any skill development project notified by the board, 150%of such expenditure is allowed for deduction.

(xii). Preliminary Expenses Sec. 35 D:

Any expenses incurred as preliminary expenses in the nature of capital by an Indian company or non corporate assessee can claim one-fifth of the preliminary expenses for five years from the year of commencement of business. The following are some of the preliminary expenses:

1. Preparation of feasibility report
2. Preparation of project report
3. Legal charges for drafting Articles or MOA
4. Fees paid for registering a company
5. Expenses on issue of shares or debenture etc.

5.7. SPECIFIC DEDUCTIONS

I. DEDUCTIONS U/S 36

The following are the various deductions allowed u/s 36 relating to income from business or profession.

(i). Insurance premium on stock Sec. 36(1) (i)

(ii). Insurance premium on cattle

(iii). Insurance on health of employees Sec. 36(1) (ib)

(iv). Bonus or commission Sec. 36 (1) (iii)

(v). Interest on borrowed capital Sec. 36(1) (iii)

(vi). Discount on a zero coupon bonds

(vii). Employer contribution to RPF Sec. 36(1) (iv)

(viii). Employer contribution to approved gratuity fund Sec. 36(1)(v)

(ix). Employer contribution to welfare scheme

(x). Allowance in respect of animals

(xi). Bad debts Sec. 36(1) (vii)

(xii). Provision for bad debts of certain banks

(xiii). Banking cash transaction tax

(xiv). Securities transaction tax paid Sec. (1)(xv)

(xv). Discount on Zero Coupon Bonds

(xvi). Expenditure on promoting family planning Sec. 36(1)(ix)

(xvii). Commodities Transaction Tax Sec. 36(1)(xvi).

II. GENERAL DEDUCTIONS U/S 37

The following are some of such expenses which are allowed under this section:

(i). Remuneration to employees

(ii). Audit fees

(iii). Compensation paid to terminated employee

(iv). Customs duty

(v). Excise duty

(vi). Gift to employees

(vii). Income tax appeal expenses

(viii). Legal expenses for company's Assets

(ix). Salary paid to outsider

(x). Sales tax

(xi). Value Added Tax

(xii). Workmen compensation paid

(xiii). Festival allowance to employees

(xiv). Interest paid to Sales department on arrears of sales tax

(xv). Subscriptions to trade associations

(xvi). Expenditure on souvenirs published by trade organization.

(xvii). Penalty

(xviii). Damage

(xix). Expenditure on raising loans

(xx). Expenditure on advertisement

(xxi). Premium on losses of profit policy

(xxii). Expenses on training of employees (xxiii) Professional tax

5.8. EXPENSESS DISALLOWED

Section 40, 40A and 43B provides for certain expenses which are not allowed as deduction.

1. EXPENSES NOT ALLOWED/DISALLOWED U/S40:

The following expenses shall not be deducted in computing income from business. In the case of individuals;

(i). Any interest, royalty, fees payable outside India without TDS.

(ii). Any payment as salaries paid outside India without TDS.

(iii). Any sum paid on account of any rate or tax levied on profits or gains.

(iv). Any sum paid on account of wealth tax chargeable in any foreign country

(v). Any payment to PF or other fund without deducting the tax at source

(vi). Tax actually paid by employer on perquisites.

2. EXPENSES NOT ALLOWED/DISALLOWED U/S 40A:

(i). Payment to Relatives

(ii). Cash exceeding Rs. 10,000otherwise than account payee cheque, draft or any electronic mode for expenses other than plying, hiring or leasing goods Sec. 40A(3)

(iii). Cash Expenses Exceeding Rs.35,000 other than account payee cheque, draft or electronic mode for expenses of plying, hiring or leasing goods Sec.40A(3)

(iv). Provision of gratuity

(v). Payment to unapproved fund

(vi). Personal expenses

(vii). Any other provision or reserve.

3. OTHER DISALLOWED EXPENSES:

(i). Personal expenses of the proprietor.

(ii). Drawing made by the proprietor.

(iii). Medical expenses of the proprietor.

(iv). Any Capital expenditure

(v). Any Charity or presents given

(vi). Donation to political parties

(vii). Penalties paid by the assessee

(viii). Any payments of fine for violation of law

(ix). Insurance premium paid by a firm on the life policy of the partners.

(x). Legal expenses incurred to defend against criminal liability.

(xi). Expenditure incurred in shifting the registered office.

4. LOSSES ALLOWABLE FOR DEDUCTION:

i). Loss by theft and embezzlement by employee

ii). Loss of cash due to robbery under normal course

iii). Loss due to fire, accident

iv). Loss due to non-recovery of advances.

v). Loss due to white ants

vi). Loss arising from negligence or dishonesty of employees.

5.9. DEEMED PROFITS [SEC.41]

There are certain amounts which though not treated as income apparently under the accounting principles, have to be treated as income or profits chargeable to tax u/s41. Such items are chargeable to tax as deemed profit:

(i). Deduction allowed earlier but recovered later on [Sec. 41(1]

(ii) .Balancing charge on Assets [Sec. 41(2]

(iii). Profit on sale of assets used for scientific research [Sec. 41(3)]

(iv). Recovery of Bad debts [Sec. 41(4)]

(v). Amount withdrawn from special reserve [Sec. 41(4A)]

(vi). Recovery in the case of Discontinued Business [Sec. 41(5)]

5.10. COMPULSORY MAINTENANCE OF BOOKS [SEC. 44AA]

According to Sec. 44AA, specified Professionals like Practitioners of Law, Engineering, Medicine, accountancy, architectural, technical consultancy, interior decoration and a non-specified professionals whose income exceeds Rs. 1, 50,000 in any of the three years immediately preceding the current previous year or is likely to exceed Rs.1, 50,000 during the current previous year is required to maintain the following books:

(a). Cash book

(b). Journal

(c). Ledger

(d). Copies of bills and receipts

(e) .Original bills and receipts in respect of expenditure

(f). Daily case register in from No.3C

(g). Stock register of drugs in case of medical professionals

The above mentioned books of account and documents should be kept for at least 6 years from the end of the relevant assessment year.

5.11. COMPULSORY AUDIT OF ACCOUNTS [SEC. 44AB]

Under section 44AB, the following persons are required a compulsory audit of their books for tax purpose.

1). A person carrying on business and if the total sales, turnover or gross receipt in business for the previous year exceeds Rs. 1Crore.

2). A person carrying on profession and his gross receipts in profession for the previous reay exceeds Rs. 50 Lakhs.

3). A person covered u/s 44 AD and such person claims that the profit and gains from the business are lower than the profits and gains computed in accordance with the provisions.

4). A person covered u/s 44AE, 44BB, and 44BBB who wants to claim that the profit and gains from the business are lower than the profits and gains computed under these sections, irrespective of turnover.

5.12. UNDER VALUATION OF STOCK

Generally opening stock is debited in the Profit and Loss account considering that it is expenses. When it is overvalued in the books, it leads to suppress the profit. To find the actual profit, the amount of overvaluation should be added back to the profit. When it is undervalued in the books, it leads to increase the profit. To find the actual profit, the amount of undervaluation should be reduced from the profit.

5.13. OVER VALUATION OF STOCK

Generally closing stock is credited in the Profit and Loss account considering that it is income. When it is overvalued in the books, it leads to increase the profit. To find the actual profit, the amount of overvaluation should be reduced from the profit. When it is undervalued in the books, it leads to suppress the profit. To find the actual profit, the amount of undervaluation should be added back to the profit.

5.14. METHODS / SYSTEMS OF ACCOUNTING

1. Cash System

Under this system only such transactions are recorded in which actual receipts and actual payments of the business occur. Entries in the books are made only when money is actually received or is actually paid. No account is maintained for outstanding, prepaid, accrued or unearned incomes. This system is best suitable for professional persons like doctors, chartered accountants etc.

2. Mercantile System

In this system, proper record of cash as well as credit transactions is made. Under this system any income which relates to the current year whether it is received or not and any expenditure whether actually paid or not, is taken into consideration for computing the profit and losses of the business. The profit and loss account prepared under this system shows correct profit and loss and balance sheet gives correct financial position of the business.

3. Hybrid System

Under this system of accounting the assessee adopts both the previous methods in a mixed form. Some transactions are recorded in cash system and some under mercantile system depending upon the choice of book keeper.

PROFROMA / FORMAT FOR COMPUTING TAXABLE INCOME FROM BUSNESS

COMPUTATION OF TAXABLE INCOME FROM BUSINESS

Particulars	Rs.	Amount.
Net Profit as per Profit and Loss Account		XXX

ADD: Not relevant to Business Expenses but Debited to Profit and Loss Account and Not Allowed Income Credited to Profit and Loss Account. 1.Inadmissible expenses but included in Profit and Loss Account 2. Income relating to business but not included (credited) in Profit and loss Account. 3. Overvaluation of opening stock 4. Undervaluation of closing stock	XXX XXX XXX XXX	XXX
Less: **Relevant** to Business Expenses but not Debited to Profit and Loss Account and Relevant to Business Income but not Credited to Profit and Loss Account. 1. Admissible expenses but not included in Profit and Loss Account 2. Income not relating to business but included(credited) in Profit and Loss Account 3. Undervaluation of opening stock 4. Over valuation of closing stock 5. Tax free incomes credited to Profit and Loss Account	XXX XXX XXX XXX XXX	XXX XXX
Taxable Income from Business		**XXX**

5.15. EXAMPLES FOR INADMISSIBLE EXPENSES: (Not Relating to Business)

Inadmissible expenses are those expenses, which are not allowed under the Act. If such expenses are debited to Profit and Loss account by the assessee, they should be added back to the net profit. ***The Following are some of the examples of inadmissible expenses:***

Personal expenses, Interest on capital, Charities and donations, Drawings, Capital expenditure like purchase of machinery, extension of building, Expenses in connection with purchase of fixed assets, Provision and reserves, Contribution to staff welfare fund, Salary to proprietor, Bonus to proprietor, Salary to non-working partners, Income tax, Wealth tax, Loss due to theft at the residence, Interest on loan borrowed for the purpose of payment of income tax, Legal expenses in connection with criminal cases, Legal expenses in connection with purchase of assets, Fine and Penalty for customs duty, Penalty for illegal activities, Penalty for breach of contract, Advertisement expenditure in the nature of permanent or neon signboard, Difference in trial balance, Excess depreciation, Salary paid unreasonably, Loss on sale of assets, Rent for residential portion, Cost of additions to fixed assets, Cost of patents, copy right and technical know-how, Taxes on house property, Over valuation of opening stock, Under valuation of closing stock, Expenses in construction of well, Legal expenses with regard to smuggling goods, Cost of addition to the business premises, Trade discount allowed to a relative in excess, Penalty for violation customs rules, Expenditure for criminal suit and commodity Transaction Tax.

5.16. EXAMPLES FOR ADMISSIBLE EXPENSES: (Relating to business)

Admissible expenses are those expenses, which are allowed under the Act. If such expenses are not debited to Profit and loss account by the assessee, they should be deducted from the net profit. ***Following are some of the examples of admissible expenses:***

Advertisements expenses, Audit fees, Bank commission, Bad debts, Bank cash transaction tax, commodity transaction tax, Discount and allowances, Depreciation allowable, Establishment expenses, Expenditure on guest house or holiday home facility, Electricity bill, land revenue, repairs, fire insurance premium, rent of the premises, Entertainment expenses, Expenditure on scientific research, Revenue expenditure on research, capital expenditure on research, festival expenses, General expenses, Gift and presents not made in personal capacity, income tax expenses, loss of stock due to theft by an employee, legal expenses for filing income tax appeal, legal expenses to defend an existing title to a capital assets, municipal taxes of quarters, postage and telegrams, printing and stationary, professional tax paid, railway freight and octroi expenses, services charges, subscription to a trade or professional association, salaries, wages, perquisites, allowances to employees, staff welfare expenses, security transaction tax, tournament expenses, telephone installation charges, travelling expenses related to business, training expenses and welfare expenses.

5.17. EXAMPLES FOR INADMISSIBLE INCOME: [Not Relating to Business]

The following are some of the examples of inadmissible incomes.

Interest, Dividend, Part time salary, Rent from house property, Profit on sale of assets, Agricultural income, Gifts from relatives, Income tax refund, Interest on income tax refund, Bad debts recovered (disallowed earlier), Unrealized profit on goods taken by proprietor, Under valuation of opening stock, Over valuation of closing stock.

5.18. EXAMPLES FOR ADMISSIBLE INCOME: (Relating to Business)

The following are some of the examples of admissible income that is fully relating to the business activities.

Commission, Discount, Sundry receipts, income from illegal business, Miscellaneous income, compensation received from competitors, Bad debts recovered but allowed earlier, Interest from debtors for delayed payments, Profit on sale of import license, Rent received from employees, Speculation income, Custom/excise duties recovered but earlier allowed as deduction and Other incomes.

TAX FREE INCOMES

If incomes, which are exempted from tax, are credited to P/L account, such incomes should be deducted from net profit, to get income taxable under the head income from business. Following are some of the examples of tax free incomes:

Agricultural Income, Bad debts recovered but disallowed earlier, Custom duty/excise duty recovered but disallowed earlier, Dividend from an Indian company/UTI, Gift from father/on occasion of grihapravesam/ relatives, interest from PO savings bank account, Income tax refund, Refund from LIC, and Withdrawal from PPF.

PROFROMA / FORMAT FOR COMPUTATION OF INCOME FROM

PROFESSION

1. FOR DOCTOR / MEDICAL PRACTITIONER

Particulars	Rs.	Amount.
1. Professional Receipts / Incomes:		
1. Consultation fees	XXX	
2. Visiting fees	XXX	
3. Sale of medicines	XXX	
4. Fees for conducting operation	XXX	
5. Gifts received from patients for prof. services	XXX	
6. Examiner's fees	XXX	
7. Nursing home receipts	XXX	
8. Any other professional receipts	XXX	XXX
Less: Professional Payments/Expenses:		
1. Dispensary Expenses	XXX	
2. Cost of Medicines		
(Open. stock + Purchase - Closing. Stock)	XXX	
3. Depreciation of Surgical Equipment at 15%	XXX	
4. Depreciation on X-Ray Machines at 15%	XXX	
5. Cost of Professional Books at 40%	XXX	
6. Motor Car Expenses	XXX	
7. Depreciation on motor car	XXX	XXX
Professional Income		**XXX**

2. FOR AUDITING PROFESSION (CHARTERED ACCOUNTANT):

Particulars	Rs.	Amount
1. Professional Receipts / Incomes:		
1. Audit Fees	XXX	
2. Gain from accountancy work	XXX	
3. Consultancy fee and Services	XXX	
	XXX	

4. Institute fees	XXX	
5. Examiners fees	XXX	
6. Gifts from clients	XXX	
7.Appellate Tribunal Appearance Fee	XXX	XXX
8. Any other professional receipts		
Less: Professional Payments/Expenses:		
1.Audit Office expenditure	XXX	
2. Institute Expenses	XXX	
3. Office rent	XXX	
4. Salary to staff	XXX	
5. Electricity bill	XXX	
6. Subscription for journals	XXX	
7. Printing and stationary	XXX	
8.Travelling expenses	XXX	
9.Depreciation on office equipment or vehicles	XXX	
10. Stipend to trainees	XXX	XXX
Professional Income		**XXX**

3. FOR LEGAL PROFESSION [LAWYER / ADVOCATE]

Particulars	Rs.	Amount
1. Professional Receipts / Incomes:		
1. Legal fees	XXX	
2. Special commission fee	XXX	
3. Gift from clients	XXX	

4. Legal opinion fees	XXX	XXX
Less: Professional Payments / Expenses:		
1. Rent of chamber	XXX	
2. Office expenses	XXX	
3. Books for profession	XXX	
4. Salary to staff	XXX	
5. Purchase of stamp paper	XXX	
6. Court fee stamp	XXX	
7. Electricity charges	XXX	
8. Telephone expenses	XXX	
9. Travelling expenses	XXX	
10. Depreciation on Typewriter	XXX	
11. Subscription	XXX	XXX
Professional Income		**XXX**

5.19. SIMPLE PROBLEMS FOR INCOME FROM BUSINESS

Illustration : 01

Compute the business income from the following information:

Commission earned	Rs. 20,000
Sales	Rs.1, 20,000
Purchase	Rs. 20,000

Salary	Rs. 11,000
Purchase of Typewriter	Rs. 8,000.

Solution: Computation of Income from Business for the A.Y.2025-2026

Particulars	Rs.	Amount (Rs.)
1. Incomes:		
Sales	1,20,000	
Commission earned	20,000	1,40,000
2. Less: Expenses:		
Purchase	20,000	
Staff salary	11,000	
Depreciation on Typewriter at 15% on Rs. 8,000	1,200	32,200
Income from Business		**1,07,800**

Illustration : 02

From the following particulars, compute the taxable income under the head of income from business.

Particulars	Amount (Rs.)
Net Profit	5,50,000
Administrative expenses	5,000
Household expenses	3,000
Discount allowed	4,000
Income tax	400
Provision for bad debts	2,000
Bad debts	3,000
Donation to Prime Minister NRF	4,000
Legal fee	200

Solution:

Computation of Taxable Income from Business for the A.Y.2025-2026

Particulars	Rs.	Amount.
Net profit as per profit and loss account		5,50,000
Less: Allowed Expenses:		
Administrative expenses	10,000	
Trade expenses	5,000	

Discount allowed	4,000	
Bad debts	3,000	
Legal fee	200	22,200
Taxable Income from Business		**5,27,800**

Illustration : 03

Net profit after charging the following expenses is Rs.50, 000. Compute the taxable income from business.

1. Income Tax Rs. 10,000, Wealth tax Rs. 5,000 and Sales tax Rs.7,000
2. Drawings Rs. 15,000
3. under valuation of opening stock Rs. 6,000
4. under valuation of closing stock Rs. 8,000.

Solution:

Computation of Taxable income from business for the A.Y.2025 - 2026

Particulars	**Rs.**	**Amount**
Net Profit		50,000
<u>ADD: Inadmissible expenses</u>:		
Income Tax	50,000	
Wealth tax	5,000	
Drawings	15,000	
Under valuation of closing stock	8,000	38,000
		88,000
<u>Less: Admissible Income:</u>		
Under valuation of opening stock		6,000
Taxable Income from Business		**82,000**

Illustration :04

The net profits of business of Mr. Ravi, as disclosed by its profit and loss account were Rs.3, 25,000 after charging the following.

a. Municipal taxes on house property	3,000
b. Bad debts written off	15,000
c. Provision for doubtful debts	16,000
d. Provision for taxation	15,000
e. Depreciation	25,000

f. Depreciation allowable 20,000

Compute taxable business income.

Solution:

Computation of Income from Business for the A.Y.2025-2026

Particulars	Rs.	Rs.
Net Profit as per P & L A/c		3, 25,000
ADD: Inadmissible Expenses:		
Municipal taxes	3,000	
Provision for bad debts	16,000	
Provision for taxation	15,000	
Excess Depreciation (25,000-20,000)	5,000	39,000
Business Income		**3, 64,000**

Illustration : 05

A firm stock of goods is valued on 1.4.2024 and on 31.3.2025 at Rs. 2, 50,000 and Rs. 3, 00,000 at 20% below the cost. Calculate the amount of under valuation of opening and closing stocks.

Solution:

(i) Undervalued amount of opening stock:

= 2, 50,000 / 80 x 20=Rs. 62,500

(ii) Undervalued amount of closing stock:

= 3, 00,000/ 80 x 20 = Rs. 75,000

Illustration :06

Compute income from business of Mr. X for the A.Y. 2025-2026

Particulars	Amount
Net profit	75,000
Interest on capital	3,000
Provision for income tax	1,500
Provision for doubtful debts	2,500
Drawings	6,000

Solution: **Computation of Income from Business of Mr. X for the A.Y.2025-2026**

Particulars	Rs.	Amount
Net Profit as per P&L account		75,000
Add: Inadmissible Expenses:		
Interest on capital	3,000	
Provision for income tax	1,500	
Provision for Doubtful debts	2,500	
Drawings	6,000	13,000
Business Income		**88,000**

Illustration : 07

Mr. Raju gives you the following particulars from his accounts for the year ending 31.3.2025. Following items have been debited to profit and loss account.

Particulars	Amount (Rs)
Net profit as per profit and loss account	3, 00,000
Contribution to unrecognized provident fund	20,000
Provision for income tax and wealth tax	10,000
Advertisement	10,000
Provision for excise duty	5,000
Interest on late payment of sales tax	1,000
Office expenses	3,000

Solution:

Computation of Business Income of Mr. Raju for the A.Y. 2025-2026

Particulars	Rs.	Rs.
Net profit as per Profit and loss account		3, 00,000
Add: Inadmissible Expenses:		
Contribution to URPF	20,000	
Provision for Income tax and Wealth tax	10,000	
Provision for Excise duty	5,000	35,000
Business Income		**3,35,000**

Illustration : 08

The following is the profit and loss account of Mr. X, You are required to compute his income from business for the Academic Year. 2025-2026.

Particulars	Amount	Particulars	Amount
Salaries and wages	24,000	Gross profit	96,400
Rent rates and taxes	6,400	Dividends	4,800
Trade expense	2,950	Rent from property	10,800
Advertisement	1,900		
Fire insurance premium	600		
Discount	2,500		
Postage	550		
Donation	2,000		
Income tax	6,600		
Loss of stock	4,000		
Repairs	1,000		
Audit fee	600		
House hold expenses	7,000		
Life insurance premium	4,000		
Interest on capital	400		
Net profit	47,550		
	1,12,000		**1,12,000**

Solution:

Computation of Income from Business of Mr. X for the A.Y. 2025-2026

Particulars	Rs.	**Amount**
Net Profit as per P & L A/c		47,550
ADD: Inadmissible Expenses: included in P&L A/C:		
Income tax	6,600	
Repairs	1,000	
Donations	2,000	
Interest on capital	400	
Fire insurance	600	
LIC Premium	4,000	39,000
Less: Inadmissible Incomes: included in P&L A/C		
Income from property	10,800	
Dividend	4,800	15,600
Income from Business		**53,550**

5.20. SIMPLE PROBLEMS WITHOUT ADJUSTMENTS

Illustration : 09

From the following P&L account of Mr. Arun, compute his taxable income from business for the P.Y. 2024-2025.

Particulars	**Amount**	**Particulars**	**Amount.**
To Salary	48,000	By Gross Profit	75,000
To Donation	6,000	By Income from HP	15,000
To Electricity	5,000	By Dividend from investments	5,000
To Provision for Bad debts	3,000		
To Net Profit	33,000		
	95,000		95,000

Solution:

Computation of Income from Business of Mr. Arun for the A.Y.2025-2026

Particulars	Rs.	Rs.
Net Profit as per Profit and Loss Account		33,000
ADD: Inadmissible expenses:		
(included in P & L Account:		
Donation	6,000	
Provision for bad debts	3,000	9,000
Less: Inadmissible Income:		42,000
(not related to business):		
Income from house property	15,000	
Income from dividend	5,000	
		20,000
Income from Business		**22,000**

Illustration :10

Compute the business income of Mr. Ravi whose P&L account is given below:

Particulars	Amount	Particulars	Amount
To Rent	1,400	By Gross Profit	1,19,400
To Household expenses	1,850	By Dividend	3,556
To Trade expenses	2,650	By Interest on	
To Income tax	700	Govt securities.	3,184
To Discount	200		
To Advertisement	550		
To Fire insurance	250		
To Gift	125		
To Donation	800		
To Repairs	1,600		
To Wealth tax	600		
To LIC premium	850		
To Interest on capital	400		
To Audit fees	250		
To Postage	915		
To Net profit	1,13,00 0		
Total	**1,26,140**		**1,26,140**

Solution:

Computation of Business Income of Mr. Ravi for the A.Y. 2025-2026

Particulars	Rs.	Rs.
Net profit as per profit and loss account		1,13,000
Add: Inadmissible Expenses:		
Household Expenses	1,850	
Income Tax	700	
Gift to a relative	125	
Donation	800	
Wealth tax	600	
LIC Premium	850	
Interest on capital	400	5,325
Less: Inadmissible Income:		1,18,325
Dividend	3,556	
Interest on Govt. Securities	3,184	6,740
	Business Income	**1,11,585**

Illustration : 11

The Profit and Loss account of Mr. Arul for the year ended 31.3.2025

Particulars	Rs.	Particulars	Rs.
To Salaries paid	6,000	By Gross Profit	20,000
To Rent	4,000	By Rent received	6,000
To General Expenses	2,000	By STCG	2,000
To Depreciation	1,000	By Interest received	2,000
To Charity	500		
To Donation	1,500		
To Bad debts	200		
To Provision for	1,000		
Bad debts	1,800		
To Advertisement	12,000		
To Net Profit			
Total	**30,000**		**30,000**

Compute the business income of Mr. Arul for the A.Y 2025-2026.

Solution:

Computation of Business Income of Mr. Arul for the A.Y. 2025-2026

Particulars	Rs.	Rs.
Net Profit as per Profit and Loss account		12,000
Add: Inadmissible Expenses:		
Charity	500	
Donation	1,500	
Provision for bad debts	1,000	3,000
Less: Inadmissible Income:		15,000
Rent received	6,000	
Short term capital gain	2,000	
Interest received	2,000	10,000
Business Income		**5,000**

5.21 SIMPLE PROBLEMS WITH ADJUSTMENTS

Illustration : 12 Profit and Loss account of Mr. Kumar is as follows:

Particulars	Rs.	Particulars	Rs.
To Salary	50,000	By Gross Profit	2,00,000
To Income tax	9,000	By Dividend	20,000
To Entertainment expenses	20,000		
To Net Profit	1,41,000		
	2,20,000		**2,20,000**

Salary includes Mr. Kumar salary of Rs. 30,000. Compute his income from business.

Solution:

Computation of Income from Business of Mr. Kumar for the A.Y.2025-2026

Particulars	Rs.	Rs.
Net Profit as per Profit and Loss Account		1,41,000
ADD: Inadmissible expenses :		
Salary to Kumar	30,000	
Income tax	9,000	39,000
Less: Inadmissible Income:		1,80,000
Dividend	20,000	20,000
Income from Business		**1,60,000**

Illustration : 13

Following is the Profit and Loss Account of Mr. Elangovan for the year ending 31st march 2025.

Particulars	Rs.	Particulars	Rs.
To General Expenses	17,000	By Gross Profit	66,000
To Interest on Capital	2,000	By Profit on sale of car	15,000
To Salary to Proprietor	12,000	By Bad Debts Recovered	5,000
To Staff Salary	18,000	By Interest on Securities	8,000
To Bad Debts	2,000	By Dividend	8,000
To Advertisement	3,000		
To Fire insurance	1,500		
To Depreciation	3,000		
To Provision for Bad Debts	1,500		
To Income tax	5,000		
To Donation to a school	4,000		
To Car Expenses	3,000		
To Net Profit	30,000		
	1.02,000		**1,02,000**

Adjustments:

(a). Depreciation as per Income Tax rules is Rs. 2,500 . **(b).** General expenses include Rs. 500 spent on printing of calendars. Compute his business income.

Solution: Computation of Income from Business of Mr. Elangovan for the A.Y.2025-2026

Particulars	Rs.	Rs.
Net Profit as per Profit and Loss Account		30,000
ADD: Inadmissible expenses (included in P & L Account:		
Salary to Proprietor	12,000	
Interest on Capital	2.000	
Depreciation (3,000-2,500)	500	
Provision for Bad Debts	1,500	
Income Tax	5,000	
Donation	4,000	25,000
Less: Admissible Income(not relating to business):		55,000
Interest on Securities	8,000	
Profit on Sale of Car	15,000	
Dividend	8,000	31,000
Income from Business		**24,000**

Illustration : 14

From the following Profit and Loss account of Mr. Kani, Compute the business income

Particulars	Amount	Particulars	Amount

To Salary	35,000	By Gross Profit	1,05,000
To Rent	10,000	By Interest on fixed deposit	5,000
To Postage	2,000	By Discount received	2,000
To Discount allowed	5,000	By Profit on sale of car	20,000
To Purchase of furniture	15,000		
To Depreciation	5,000		
To General reserve	10,000		
To Wealth tax	2,000		
To Net Profit	48,000		
	1,32,000		**1,32,000**

Adjustment: (i). Closing stock is undervalued by Rs. 10,000

(ii). Expenses not debited in Profit and loss account Rs. 3,000

(iii). Salary of Rs. 35,000 includes Rs. 5,000 withdrawn by Mr. Kani.

Solution: **Computation of Income from Business of Mr. Kani for the A.Y.2025-2026**

Particulars	Rs.	Amount
Net Profit as per Profit and Loss Account		**48,000**
ADD: Inadmissible expenses (included in P & L Account:		
Drawings	5,000	
Purchase of furniture	15,000	
General reserve	10,000	
Wealth tax	2,000	
Undervalued Closing stock	10,000	42,000
Less: Inadmissible Income(not relating to business):		90,000
Interest on Fixed Deposit	5,000	
Profit on sale of Car	20,000	25,000
		65,000
Less: Admissible Expenses:		
Depreciation on Furniture (15,000x10/100)	1,500	
Expenses not debited	3,000	4,500
Income from Business		**60,500**

Illustration : 15

Mr. Surya is an owner of a small shop in Chennai. Determine his business income on the basis of the following profit and loss account for the year ending March 31, 2025.

Particulars	Rs.	Particulars	Rs.
To Opening stock	1,04,000	By Sales	40,51,000

To Purchase	30,08,750	By Closing stock	2,10,000
To Salaries and wages	1,75,000		
To Rent and rates	1,31,000		
To Commission	21,500		
To Household expense	20,000		
To income tax	36,100		
To Advertisement	5,000		
To Postage and telegram	4,000		
To Interest on own capital	84,000		
To Provision for Doubtful Debts	3,400		
To Depreciation on Furniture	18,000		
To Net Profit	6,50,250		
	42,61,000		**42,61,000**

Adjustments:

(i). Depreciation on furniture as per I.T. provisions is Rs. 17,200.

(ii). Closing stock and Opening stock have consistently been valued at 10% below cost price.

(iii). Household expenses include a contribution of Rs. 11,750 towards public provident fund.

(iv). Amount of sales includes a sum of Rs. 41,250 representing the value of goods withdrawn for the use of Mr. Surya family members. These goods were purchased at a cost of Rs. 27,850. Market value of these goods is Rs. 45,240.

Solution:

Computation of Income from Business of Mr. Surya for the A.Y.2025-2026

Particulars	Rs.	Rs.
Net Profit as per Profit and Loss Account		**6,50,250**
ADD: Inadmissible expenses (Included in P & L Account:		
Household expenses (including contribution to PPF)	20,000	

Income Tax Interest on own capital Provision for bad debts Depreciation on Furniture Undervaluation of closing stock **(2,10,000x10/90)**	36,100 84,000 3,400 18,000 23,333	 184,833
		8,35,083
Less: Admissible expenses but not included in P&L Account:		
Allowable Depreciation on furniture (172,000x10/100) Under valuation of opening stock(1,04,000x10/90) Profit on drawings of goods (41,250-27,850)	17,200 11,555 13,400	 42,155
Business Income		**7,92,927**

5.22. DEPRECIATION

CONCEPT OF DEPRECIATION:

The concept of depreciation is allowed under the Income Tax Act. Depreciation under the Income Tax Act is a deduction allowed for the reduction in the real value of a tangible or intangible asset used by a taxpayer.

The concept of depreciation is used for the purpose of writing off the cost of an asset over its useful life. Depreciation is a mandatory deduction in the profit and loss statements of an entity using depreciable assets and the Act allows deduction either using the Straight-Line method or Written Down Value (WDV) method.

The calculation for depreciation under the WDV method is widely used. However, in case the undertaking is engaged in power generation or its generation and distribution, there is an option to choose the straight-line method.

In certain circumstances, the Act also allows a deduction for additional depreciation in the year of purchase.

CONDITIONS FOR CLAIMING DEPRECIATION

The following conditions are to be satisfied for such claiming:

(i) **Assets must be owned by the Assessee**

(ii) Assets must be used for the purpose of Business or Profession

(iii) It should be used during the Relevant Previous Year.

(iv) Depreciation is available on Tangible as well as Intangible Assets.

(v) Amount of Depreciation not to exceed the Maximum Limit.

(vi) No depreciation in the year of sale.

IMPORTANCE OF DEPRECIATION

Depreciation holds significant importance in accounting and financial management for several reasons. The following are the most important of depreciation:

(i) Matching principle

Depreciation allows businesses to match the cost of an asset with the revenue it generates over its useful life, aligning with the matching principle in accounting.

(ii) Accurate financial statements

By spreading the cost of an asset, businesses can present more accurate financial statements that better reflect their financial health and performance.

(iii) Asset valuation

Properly accounting for depreciation assists in determining the fair market value of assets, facilitating accurate valuation for financial reporting purposes.

(iv) Investor and creditor confidence

Accurate depreciation methods contribute to transparent financial reporting, enhancing confidence among investors and creditors.

(v) Tax implications

Depreciation affects taxable income, influencing the amount of taxes a business owes. A proper depreciation calculation can optimise tax liabilities.

(vi) Asset replacement planning

Understanding the depreciation of assets aids in strategic planning for their replacement or upgrade, ensuring continued operational efficiency.

(vii) True economic value

It provides a more realistic representation of the asset's decreasing value, reflecting its true economic worth over time.

(viii) Budgeting and forecasting

Businesses can make informed budgeting and forecasting decisions by considering the depreciation of assets and their impact on future expenses.

5.23. BLOCK OF ASSETS [SEC. 2(11)]

Depreciation is calculated on the WDV of a Block of assets. Block of assets is a group of assets falling within a class of assets comprising of: (i) Tangible assets, being building, machinery, plant or furniture, (ii) Intangible assets, being know how, patents, copyrights, trade-marks, licenses, franchises or any other business or commercial rights of similar nature

The block of assets is identified depending on its life, nature, and similar use. Further, the depreciation percentage within the class of assets must be considered for asset classification. Each such class of asset with the same rate of depreciation will be identified as a block of the asset.

Individual assets lose their identity under Income Tax Act as depreciation is calculated on the block of assets rather than on individual assets.

BLOCK OF ASSETS:

Dr. Raj owns the following assets as on 1.4.2025, the rate of depreciation is mentioned against each:

Assets	Rate of Depreciation at %
Residential buildings	**5**
Office buildings	**10**
Furniture and fittings	**10**
General plant and machinery	**15**
Motorcar	**15**
Motor taxis	**30**
Books being annual publications	**100**
Books for professional use	**60**
Computers	**60**
Patents	**25**

You are required to constitute the block of assets for the purpose of computing depreciation.

Solution: The assets owned by Mr. Raj is grouped into eight blocks of assets for the purpose of depreciations:

Assets
1. First Block - Building: Rate of Depreciation @5% (Residential Buildings)
2. Second Block – Building: Rate of Depreciation @10% (Office Buildings)
3. Third Block – Furniture: Rate of Depreciation @10% (Furniture & Fittings)
4. Fourth Block – Pant & Machinery: Rate of Depreciation @ 15% (General plant & Machinery & Motor car)
5. Fifth Block – P & M: Rate of Depreciation @ 30% (Motor taxis)
6. Sixth Block – P & M: Rate of Depreciation @ 60% (Books for professional use for computer)
7. Seventh Block – P & M: Rate of Depreciation @ 100% (Books being annual publications
8. Eighth Block – Intangible assets: Rate of Depreciation@25% (Patents)

5.24. METHOD OF CALCULATING DEPRECIATION

Methods of Depreciation and useful life of depreciable assets may vary from asset to asset. Based on asset type and industry, it can differ for accounting and taxation purposes also. **Most commonly employed methods of depreciation are Straight Line Method and Written Down Value Method.**

Other than depreciation rates, the basic differences depreciation calculation as per the income tax Act and companies act is the method used for depreciation calculation.

I. Methods of depreciation as per Companies Act, 1956 (Based on Rates):

(i) Straight Line Method

(ii) Written Down Value Method

II. Methods of depreciation as per Companies Act, 2013 (Based on Useful Life):

(i) Straight Line Method

(ii) Written Down Value Method

(iii) Unit of Production Method

III. Methods of depreciation as per Income Tax Act, 1961 (Based on Rates):

(i) Written Down Value Method (Block wise)

(ii) Straight Line Method for Power Generating Units

DEPRECIATION RATES AS PER IT ACT – WDV FOR THE A. Y 25 - 26:

I. FOR TANGIBLE ASSETS:

Block	Nature of Asset
Buildings 5%	Residential purpose (building other than hotels and boarding)
Buildings 10%	Non residential purpose (Official or Business like godown, office, factory, etc.)
Buildings 40%	Temporary construction
Furniture 10%	Any furniture including electrical fittings
Plant/Machinery 20%	Ocean going ships, vessels, speed boats
Plant/Machinery 30%	Motor car (including lorries, taxies and buses) used for hiring purposes
Plant/Machinery 40%	Computer including computer software Books owned by a professional
Plant/Machinery 40%	Air or water pollution control equipment
Plant/Machinery 15%	Oil Wells
Plant/Machinery 15%	In general (if nothing is mentioned regarding nature of plant & machinery and including motor car not used for hiring purpose)

II - Intangible Assets:

Types of Intangible Assets	If Acquired After 01.04.1998
Patents/Copyrights and other Assets	25% of Depreciation is allowed
Technical know-how	25% of Depreciation is allowed

WRITTEN DOWN VALUE (WDV) OF ASSETS

As per Section 32(1) of the IT Act depreciation should be computed at the prescribed percentage on the WDV of the asset, which in turn is calculated with reference to the actual cost of the assets. In the context of computing depreciation, it is important to understand the meaning of the term 'WDV' & 'Actual Cost'.

Written down value basis is one where depreciation will be calculated on the asset value as on 31st March 2025 taking into account the value as on 1st April 2024 along with any other transaction that have taken place between 1st April 2024 and 31st March 2025.

WDV under the Income Tax Act means:

(i). Where the asset is acquired in the previous year, the actual cost of the asset shall be treated as WDV.

(ii). Where the asset is acquired in an earlier year, the WDV shall be equal to the actual cost incurred less depreciation actually allowed under the Act.

Format for Calculating Value of Depreciation

Particulars	Rs.
Written Down Value as on 01.04.2024	XXX
ADD: Additions during the years 2024-2025	XXX
LESS: Sales during the year 2025-2026	XXX

Note: Depreciation is to be computed based on the value as on 31.03.2024.

Illustration 16:

Mr. Guru is trading in computer spare parts. Calculate the amount of Depreciation for the Assessment Year 2025-2026.

(i). Value of Machinery on 01-04-2024 – Rs. 30,000.

(ii). Purchased during 2024-2025 – Rs. 75,000.

(iii). Sold during 2024-2025 – Rs.1, 00,000.

Solution:

Calculation of Depreciation for the Assessment Year 2025-2026

Particulars	Amount
WDV as on1-4-2024 **ADD**: Cost of Acquisition	30,000 75,000
	1,05,000
Less: Amount realized from sales	1,00,000
WDV as on 31-3-2025	Rs.5,000
Depreciation = 5,000 x 60% = Rs.3,000	

Illustration :17

Mr. Kumar provides the following figures. You are required to ascertain the Depreciation Admissible in the A.Y. 2025-2026.

Particulars	Plant Rs.	Buildings Rs.
Written down value at the Beginning of the year	5,00,000	20,00,000
Additions During the Year	6,00,000	Nil
Sale During the Year	12,00,000	4,00,000
Rate of Depreciation on	@15%	@10%

Solution:

Calculation of Depreciation for the Assessment Year 2025-2026

Particulars	Plant Rs.	Building Rs.
WDV as on1- 4- 2024	5,00,000	20,00,000
ADD: Cost of Asset Acquired During the Year	6,00,000	---
	11,00,000	20,00,000
Less: Sale of Asset During the Year	11,00,000	4,00,000
WDV as on 31-3-2025	Nil	16,00,000
Depreciation (16, 00,000 x 10%)	**Nil**	**1,60,000**

INCOME FROM PROFESSION

In the case of professionals like Chartered Accountants, Doctors, layers etc. The procedure for computation of taxable income is somewhat different. The question will provide either Receipts and Payments Accounts or Income and Expenditure Account instead of Profit and Loss Account.

The procedure for computation of income from Profession is given below.

Particulars	**Rs.**	**Amount (Rs).**
Professional Income	XXX	
Less: Professional Expenses	XXX	
Income from Profession		XXX

INCOME FROM MEDICAL PROFESSION

Illustration 18:

The following is the receipt and payment account maintained by a registered medical practitioner. An abstract of receipts and payments is given below. You are required to compute his income from profession and also compute his total income for the assessment year 2025-2026.

Receipts	**Amount**	**Payments**	**Amount**
Balance b/d	78,000	Cost of medicine	8,000
Consultation fees	42,000	Surgical tools	6,000
Sale of medicine	15,000	Rent of dispensary	1,400
visiting fees	20,000	Motor car	1,00,000
Interest on govt. securities	3,500	Car expense	6,000
Rent from property	3,000	Salaries	5,300
loan from bank for Personal use	2,000	Life insurance premium	2,500
		Interest on bank loan	200
		Property insurance	500
		Professional deposit	8,000
		Balance c/d	25,600
	1,63,500		**163500**

Additional information:

1. Half of the motor car expenses are meant for personal use

2. Depreciation allowable on car is 15% and surgical tools @ 25%

Solution

Computation of Professional income of Medical Practitioner for the A.Y 2025-2026

Particulars	Rs.	Amount
Professional Incomes:		
1. Sale of medicine	15,000	
2. Visiting fees	20,000	
3. Consultation fees	42,000	77,000
Less: Professional Expenses:		
1. Cost of medicine	8,000	
2. Rent of dispensary	1,400	
3. Salaries	5,300	
4. Car expenses (Half)	3,000	
5. Depreciation on car (1, 00,000 x15/100 x1/2)	7,500	
6. Professional deposits	8,000	34,700
Income from Profession		**42,300**

Illustration 19:

From the following statement compute the income from profession of Dr. Kannan for the Assessment Year 2025-2026.

Particulars	Rs.	Particulars	Rs.
To Dispensary Rent	36,000	By Visiting Fees	45,000
To Electricity Charges	6,000	By Consultation Fees	1,25,000
To Telephone Charges	6,000	By Sale of Medicines	72,000
To Salary to Nurse	36,000	By Dividends	5,000
To Depreciation on Surgical			
Equipment	6,000		
To Purchase of Medicines	36,000		
To Depreciation on X-ray	4,000		
Machine	5,500		
To Income tax	4,000		
To Donation	9,600		
To Motor car Expenses	4,800		
To Depreciation on Car	93,100		
To Net Income			
	2,47,000		**2,47,000**

Adjustments:

(i). Electricity and water charges include domestic (personal) bill of Rs.2, 500.

(ii). Telephone expenses include 40% for personal use.

(iii). Half of motor car expenses are for professional use.

(iv). Opening stock of medicines was Rs. 6,000 and closing stock was Rs. 4,000.

Solution:

Computation of Income from Profession of Dr. Kannan for the A.Y. 2025-2026

Particulars	Rs.	Amount
Professional Incomes:		
Visiting fees	45,000	
Consulting fees	1, 25,000	2, 42,000
Sale of Medicines	72,000	
Less: Professional Expenses:		
Dispensary Rent	36,000	
Electricity Charges (6,000-2,500)	3,500	
Telephone Expenses (6,000 x 60/100)	3,800	
Salaries	36,000	
Depreciation on Surgical Equipments	6,000	
Cost of Medicines used (6,000+36,000-4,000)	38,000	
Depreciation on X-ray Machine	4,000	
Depreciation on Motor Car (4,800 x ½)	2,400	
Motor car Expenses (9,600 x ½)	4,800	1, 34,300
Income from Profession		**1,07,700**

INCOME FROM LEGAL PROFESSION

Illustration : 20

From the following income and Expenditure Account of Mr. Kumar, a Lawyer, ascertain his Professional income for the Assessment year 025-2026.

Particulars	Amount	Particulars	Amount
To Rent of Chamber	4,000	By Legal Fees	40,000
To Salaries	10,000	By Gifts from Clients	20,000
To Travelling Expenses	5,000	By Rent from House Property Let	5,000
To Stamp Paper and Court fee	1,000		
To Household Expenses	2,000		
To Subscription to Law Journals	2,000		
To Household Property Tax	500		
To Donations	1,000		
To Surplus	39,500		
	65,000		**65,000**

Adjustments:

(i). Gifts from clients include gift from his father Rs. 4,000.

(ii). Stock of stamp paper at the end of the year Rs. 200.

(iii). Donation is made to approved institutions.

Solution: **Computation of Income from Profession of Mr. Kumar (Lawyer) for the A.Y. 2025-2026**

Particulars	Rs.	Amount
Professional Incomes:		
Legal Fees	40,000	
Gifts from Clients (20,000 - 4,000)	16,000	56,000
Less: Professional Expenses:		
Rent of Chamber	4,000	
Salaries	10,000	
Travelling Expenses	5,000	
Stamp Paper and Court fees (1,000 – 200)	800	
Subscription to Law Journals	2,000	21,800
Income from Profession		**34, 200**

Illustration : 21

The following is the income and expenditure account of Mr. Praba, a lawyer for the year ending on 31.03.2025. You are required to compute his income from profession.

Particulars	Rs.	Particulars	Rs.
To Salaries	24,000	By Legal fees	1,14,000
To Rent	6,000	By Present from clients	20,000
To Law books purchase	5,000	By Special commission fees	6,000
To Telephone expenses	8,000	By House rent	15,000
To Charity	10,000	By insurance on bank deposits	5,000
To Loss on shares sold	5,000		
To Motor car expense	3,000		
To Office expense	8,000		
To Electricity Charges	4,000		
To Gift to daughter	7,000		
To Surplus	80,000		
	1,60,000		**1,60,000**

Additional Information: (i) 1/3rd of Car expenses are for personal use.

(ii). ¼ th of telephone expenses is for personal use.

(iii). ½th of rent and electricity charges are for his residence.

Solution: Computation of Income from Profession of Mr. Praba (Lawyer)

for the Assessment Year 2025-2026

Particulars	Rs.	Amount
Professional Incomes:		
Legal fees	1, 14,000	
Presents from clients	20,000	
Special commission fees	6,000	1, 40,000
Less: Professional Expenses:		
Salaries	24,000	
Rent (6,000 x ½)	3,000	
Depreciation on Law books (5,000 x 40/100)	2,000	
Telephone (8,000 x ¾)	6,000	
Motor car expenses (3,000 x 2/3)	2,000	
Office expense	8,000	
Electricity charges (4,000 x ½)	2,000	47,000
Income from Profession		**93,000**

INCOME FROM ACCOUNTING PROFESSION

Illustration: 22

Following are the receipts and payment of Mr. X, practicing chartered accountant:

Particulars	Amount (Rs.)
Receipts:	
Audit fees	50,000
Consultation fees	10,000
Appellate Tribunal Appearance	20,000
Miscellaneous	10,000
Interest on Government Security	5,000
Rent received	6,000
Presents from clients	9,000
Payments:	
Office expenses	8,000
Office rent	7,000
Salaries and wages	14,000
Printing and stationery	1,600
Subscription to CA Institute	4,000
Purchase of books for professional purpose	1,600
Travelling expenses	6,000
Donation to National Defence Fund	5,000

Compute his Professional Income of Mr. X for the A.Y. 2025-2026

Solution: Computation of Income from Profession of Mr. X (CA)for the A.Y. 2025-2026

Particulars	Rs.	*Amount (Rs.)*
Professional Incomes:		
Audit fees	50,000	
Consultation fees	10,000	
Appellate Tribunal Appearance	20,000	
Miscellaneous	10,000	
Presents from clients	9,000	99,000
Less: Professional Expenses:		
Office expenses	8,000	
Office rent	7,000	
Salaries and Wages	14,000	
Printing and Stationery	1,600	
Subscription to CA Institute	4,000	
Dep. On Books (1,600 x 60%)	960	
Travelling expenses	6,000	41,560
Income from Profession		*57,440*

Illustration : 23

From the following receipts and payments accounts of Mr. Rajan, a Chartered Accountant, you are required to compute his income from profession for the P.Y.2024-2025.

Receipts	Amount.	Payments	Amount.
To Balance b/d	12,000	By office expenses	75,000
To Audit fees	4.80,000	By Membership fees	25,000
To Income from other audit works	70,000	By LIC Premium	10,000
		By Income Tax	40,000
To Examiners fees	8,000	By Personal expenses	50,000
		By Motor car	3,00,000
		By Motor car expenses	38,000
		By Balance c/d	32,000
Total	**5,70,000**	**Total**	**5,70,000**

Solution: <u>**Computation of Income from Profession of Mr. Rajan (CA) for the A.Y. 2025-2026**</u>

Particulars	Rs.	Amount
Professional Receipts:		
Audit fees	4, 80,000	
Income from other audit works	70,000	5, 50,000
Less: Professional Payments:		
Office expenses	75,000	
Membership fees	25,000	
Motor car expenses	38,000	
Depreciation on car (3,00,000 x 15/100)	45,000	1,83,000
Income from Profession		**3,67,000**

UNDISCLOSED INCOME/INVESTMENT FROM BUSINESS OR PROFESSION

Undisclosed income is the income which the assessee has not shown in his Income Tax Return and thereby not paid income tax on it. The primary objective of the Income tax department is to detect such undisclosed income and bring the same under the tax net.

If the Assessing Officer detects cash credits, unexplained investments, unexplained expenditure etc., the source for which is not satisfactorily explained by the assessee to him, there are various provisions in the Income Tax Act which empowers the assessing officer to charge tax on such amount.

The following are treated as income from Undisclosed Sources:

(i). Cash Credit [Section 68] -

(ii). Unexplained investments [Section 69] -

(iii). Unexplained Money, etc. [Section 69A] -

(iv). Amount of Investments, etc., not fully disclosed in books of account [Section 69B] -

(v). Unexplained Expenditure, etc. [Section 69C] -

(vi). Amount Borrowed or Repaid on Hundi [Section 69D]

1. Cash Credits [Section 68]:

Where any sum is found credited in the books of the assessee and the assessee offers no explanation about the nature and source or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the sum so credited may be charged as income of the assessee of that previous year.

2. Unexplained Investments [Section 69]:

Where the assessee has made investments which are not recorded in the books of account and the assessee offers no explanation about the nature and the source of investments or the explanation offered is not satisfactory, the value of the investments shall be taxed as income of the assessee for such financial year.

3. Unexplained money etc. [Section 69A]:

Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the books of account and the assessee offers no explanation about the nature and source of acquisition of such money, bullion etc. or the explanation offered is not satisfactory, the money and the value of bullion etc. may be deemed to be the income of the assessee for such financial year. Ownership is important and mere possession is not enough.

4. Amount of investments etc., not fully disclosed in the books of account [Section 69B]:

Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the Assessing Officer finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the books of account maintained by the assessee and he offers no explanation for the difference or the explanation offered is unsatisfactory, such excess may be deemed to be the income of the assessee for such financial year.

5. Unexplained expenditure [Section 69C]:

Where in any financial year an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or the explanation is unsatisfactory the Assessing Officer can treat such unexplained expenditure as the income of the assessee for such financial year. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.

6. Amount borrowed or repaid on hundi [Section 69D]:

Where any amount is borrowed on a hundi or any amount due thereon is repaid other than through an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the previous year in which the amount was borrowed or repaid, as the case may be. However, where any amount borrowed on a hundi has been deemed to be the income of any person, he will not be again liable to be assessed in respect of such amount on repayment of such amount. The amount repaid shall include interest paid on the amount borrowed Unexplained money, investments etc. to attract tax @60% [Section 115BBE]

1. Unexplained money, investment, expenditure, etc. deemed as income under section 68 or section 69 or section 69A or section 69B or section 69C or section 69D would be taxed at the rate of 60% plus surcharge @25% of tax. Thus, the effective rate of tax (including surcharge @25% of tax and health & Education cess@4%. The final tax rate comes to 78% (including cess)

2. No basic exemption or allowance or expenditure shall be allowed to the assessee under any provision of the Income-tax Act, 1961 in computing such deemed income.

3. Further, no set off of any loss shall be allowable against income brought to tax under sections 68 or section 69 or section 69A or section 69B or section 69C or section 69D.

MULTIPLE CHOICE QUESTIONS [MCQ]

PART – A [1 Marks Questions] Choose the Correct Answers:

1. Sum received under a Keyman insurance policy is chargeable to tax under the head:
   a) Income from salary
   b) Income from H.P
   c) Profit and gains of business
   d) Capital gain **Ans: C**
2. General deductions for business or profession are covered under the I.T.Act 1961
   a) Sec.30
   b) Sec.31
   c) Sec.37
   d) Sec.45 **Ans: C**
3. Specific disallowed while computing profits and gains of business or profession are included in the I.T. Act 1961
   a) Sec.20
   b) Sec.40
   c) Sec.60
   d) Sec.80 **Ans: B**

4. **P**reliminary expenses shall be allowed as deduction in
   a) 5 Installments
   b) 10 Installments
   c) 15 Installments
   d) 12 Installments **Ans: A**
5. Group of assets which fall under the same category is called
   a) Tangible assets

b) Intangible assets

c) Fixed assets

d) Block of assets **Ans: D**

6. Bad debts allowed earlier and recovered latter on is

a) Business income

b) Non business income

c) Exempted income

d) Income from other sources **Ans: A**

7. Under valuation of opening stock is

a) Deducted from net profit

b) Added to net profit

c) Credited to P&L a/c

d) None of these **Ans: A**

8. Over valuation of closing stock is

a) Deducted from net profit

b) Added to net profit

c) Adjusted P&L a/c

d) None of these **Ans: A**

9. Professional expenses are allowed on

a) Accrual basis

b) Payment basis

c) Accrual or payment basis

d) None of these **Ans: D**

10. Gift from clients are

a) Professional income

b) Income from other sources

c) Non taxable item

d) None of these **Ans: A**

11. Section 44AA deals with

a) Compulsory Audit of Accounts

b) Compulsory Maintenance of Books

c) Estimated Incomes

d) Undisclosed incomes **Ans: B**

12. Section 44AB deals with

a) Compulsory Audit of Accounts

b) Compulsory Maintenance of Books

c) Illegal Books

d) Speculative business **Ans: A**

13. Business accounts should be compulsorily audited if the turnover exceeds

a) 10 Lakhs

b) 20 Lakhs

c) 1Crore

d) 50 Lakhs **Ans: C**

14. Deduction towards contribution to Approved Scientific research Association is

a) Up to 100%

b) Up to 125%

c) Up to 150%

d) Up to 200% **Ans: A**

15. Contribution towards National Laboratory is eligible upto a deduction of

a) Up to 100%

b) Up to 125%

c) Up to 150%

d) Up to 200% **Ans: A**

16. Profit earned from illegal business is

a) Taxable

b) Tax free

c) Other income

d) Ignored by tax authorities **Ans: A**

17. Intangible assets are
    a) Not eligible for depreciation
    b) Eligible for depreciation
    c) Can be fully written-off in the year of acquisition
    d) None of these **Ans: B**
18. Interest on loan borrowed for acquisition of an asset till date of installation is
    a) Revenue expenditure
    b) Capital expenditure
    c) Non business expenditure
    d) None of these **Ans: B**
19. Repairs incurred before installation of an assets is
    a) Revenue expenditure
    b) Capital expenditure
    c) Non business expenditure
    d) None of these **Ans: A**
20. Method of depreciation allowed is
    a) WDV method
    b) SLM method
    c) Replacement method
    d) Market value method **Ans: A**
21. If a depreciable asset is acquired and used for less than 180 days in a financial year, depreciation allowed on it is
    a) Normal rate
    b) 50% of normal rate
    c) Nil
    d) None of these **Ans: B**
22. Under each class of depreciable assets, assets with same rate of depreciation and formed into
    a) Blocks

b) Categories

c) Aggregates

d) None of these **Ans: A**

23. Rate of depreciation on residential building is

a) 5%

b) 10%

c) 15%

d) 20% **Ans: A**

24. Rate of depreciation on non - residential building is

a) 10%

b) 15%

c) 20%

d) 25% **Ans: A**

4. Rate of depreciation on furniture is

a) 5%

b) 15%

c) 10%

d) 20% **Ans: C**

25. Apart from normal depreciation, additional depreciation is permitted for certain assets at the rate of

a) 10%

b) 20%

c) 40%

d) 50% **Ans: B**

26. Gifts from clients are:

a) Income from other sources

b) Capital gains

c) Professional income

d) Other sources **Ans: C**

27. Intangible Assets acquired after 01.04.1998, is charged at a depreciation of

    a) 15%

    b) 25%

    c) 35%

    d) 40% **Ans: B**

28. Depreciation allowed on books is

    a) 10%

    b) 20%

    c) 30%

    d) 40% **Ans: D**

29. Rate of depreciation on furniture is

    a) 5

    b) 15

    c) 10

    d) 20 **Ans: C**

30. The final tax rate of unexplained income/investment is

    a) 78%

    b) 73%

    c) 70 %

    d) 30 % **Ans: A**

THEORY QUESTIONS

PART – B [5 Marks Questions]

1. Define Business
2. Define Profession?
3. What is Vocation?
4. Write short note on block of assets.
5. What are Deemed profits?
6. What is meant by Depreciation?

7. What is Block of Assets?
8. What are the conditions to be satisfied for claiming Depreciation?
9. What are the Rate of Depreciation for the Current A.Y.?

PART – C [8 Marks Questions]

1. State Differences between Business and Profession?
2. What are the differences between Business and Profession?
3. Analyze the expenses deductible under section 37(1)
4. What are the admissible expenses under profit and gains of business or profession?
5. State the income chargeable to tax under the head profits and gains of business or profession?
6. Explain the principles of computing income from business?
7. What are the disallowed expenses under the head profits and gains of business or profession?
8. Writ the few points out the provision on scientific research.
9. Explain the methods of accounting in business?
10. What are professional receipts and professional expenses?
11. What is undisclosed Income?

12 Explain Unexplained expenditure Sec 69A, 69B, 69C, 69D?

13. Discuss the procedure for computing professional income.
14. Discuss the procedure for computing business income.

PRACTICAL EXERCISES

WHEN PROFIT AND LOSS ACCOUNT IS GIVEN

EXERCISE 01: From the Profit and Loss Account of a business man, find out his Business income:

Particulars	Rs.	Particulars	Rs.
To Salary	25,000	By Gross Profit	3,00,000
To Office Expenses	10,000	By House Rent	10,000
To Advertisement	10,000	By Capital Gains	40,000
To Depreciation	10,000		
To Bad Debts Reserve	25,000		
	2,70,000		
To Net Profit			
	3,50,000		**3,50,000**

(Ans : Rs.2,45,000)

EXERCISE 02: Following is the Profit and Loss Account for the year ending 31.03.2025.

Particulars	Rs.	Particulars	Rs.
To Purchase	2,30,000	By Sales	7,00,000
To Salaries	65,000		
To General Expenses	1,75,000		
To Rend and Rates	6,000		
To Income Tax	10,000		
To Sales Tax	5,000		
To Charity	1,000		
To Wealth Tax	10,000		
To Audit fee	2,000		
To Legal Expenses	20,000		
To Reserve for Doubtful	6,000		
Debts	50,000		
To Provision for Income Tax	20,000		
To Depreciation on Assets	1,00,000		
To Net Profit			
	7,00,000		**7,00,000**

Assuming allowable Depreciation as per the IT Act is Rs. 24,000. Compute Income from Business. **(Ans : 1,73,000)**

EXERCISE 03: Compute Business Income from the following Profit and Loss Account.

Particulars	Rs.	Particulars	Rs.
To General Expenses	10,000	By Gross Profit	1,40,000
To Fire Insurance (50%		By Bad Debts Recovered	
for House)	8,000	(disallowed earlier)	10,000
To Salary	30,000	By Interest on Govt.	5,000
To Advertisement (in	25,000	Securities	10,000
cash)	20,000	By Rent from House	10,000
To Salary to Proprietor	5,000	Property	
To Interest on Capital	10,000	By Long Term Capital gain	
To Income Tax	5,000		
To Sales Tax	10,000		
To Donation	2,000		
To Motor Car Expenses	50,000		
To Net Profit			
	1,75,000		**1,75,000**

(i) General Expenses include Rs. 1,000for Drawings.

(ii) Car was used 50% for Business Purpose. **(Ans: Rs. 81,000)**

WHEN PROFIT AND LOSS ACCOUNT IS

EXERCISE 04: Profit and loss account of Mr. Adhi shows a net profit of Rs. 1, 00,000 after debiting the amount withdrawn for personal expenses Rs. 10,000, Life Insurance Premium Rs. 15,000, Income tax Rs. 22,000, Expenses relating to Income Tax Proceeding Rs. 15,000 and Municipal Tax relating to the self – occupied property Rs. 1,400. Compute his taxable income under the Head Profit from Business.

(Ans: 1, 48,400)

EXERCISE 05: Compute Taxable Business Income of Mr. X from the details given below:

Particulars	Rs.
Profit earned (before adjusting the following items)	5,00,000
House Tax	10,000
Income Tax	5,000

Provision for Income Tax	1,000
Advertisement	4,000
Establishment Expenses	1,000
Bad Debts	5,000
Bad Debts Reserve	1,000
Sales Tax	500
Dividend from an Indian Company (gross)	6,000
Donation to a Political Party	500

(Ans: 4, 89,500)

EXERCISE 06: The Net Profit of Mr. Y of Chennai as per his Profit and Loss for the year ended 31.03.2025 after charging the following items was Rs. 2, 40,000.

Particulars	Rs.
Interest on Capital	20,000
Salary to Staff	1,16,000
Office Expenses	3,000
Bad Debts written – off	13,000
Provision for Bad Debts	10,000
Provision for Income tax	16,000
Donation	10,000
Depreciation	17,000

Depreciation allowable as per the Act only Rs. 12,000, Compute Income from Business. **(Ans : Rs. 3, 01,000)**

DEPRECIATION

EXERCISE 07:

From the following information of Sunil Ltd., Compute the depreciation for the previous year 2024-2025.

Particulars	WDV as on 01.04.2024	Additions 2024-2025	Rate of Depreciation
Machinery	5,00,000	50,000	15%
Building	10,00,000	1,50,000	10%
Patents	30,000	10,000	25%

(Ans: Depreciation: Rs. 2, 07,000)

EXERCISE 08:

From the following particulars, compute the amount of depreciation for the previous year 2024-2025

Particulars	WDV as on 01.04.24	Additions 2024-2025	Rate of Depreciation
Residential house	4,00,000	3,00,000	5%
Furniture and Fittings	60,000	40,000	10%
Books	15,000	--	40%

(Ans: Depreciation Rs. 51,000)

INCOME FROM

EXERCISE 09: Ms. Manjunathan is a Registered Medical Practitioner. He keeps his Books on cash Basis. His Summarized Cash Book for the Year ended 31st March, 2025 is as under.

Receipts	Rs.	Payments	Rs.
To Opening Balance	5,400	By Cost of Medicine	40,000
To Bank Loan	12,000	By Surgical Equipment	12,000
(Personal)	61,000	By Motor-car Purchased	24,000
To Sale of Medicines	20,000	By Car- expenses	3,600
To Consulting Fees	16,000	By Salary	2,400
To Visiting Fees	14,400	By Rent for Dispensary	2,400
To Rent from Property	30,000	By General Expenses	1,200
To Sale of Building	10,000	By Personal Expenses	7,200
To Sale of Furniture		By LIC Premium	4,000
		By Interest on Bank Loan	720
		By Property –insurance	800
		By Fixed Deposit in Bank	60,000
		By Closing Balance	28,480
	1,86,800		**186,800**

Additional information:

(i) 1/3rd of the Car Expenses are for Personal use.

(ii) Rate of Depreciation on the New car is 15% and on Surgical Equipments at 15% **(Ans: Rs. 1, 41,100)**

EXERCISE 10: Mr. X is a Registered Medical Practitioner. He has prepared the following income and Expenditure Account for the year ending 31st March 2025.

Expenses	Rs.	Incomes	Rs.
Household Expenses	1,20,000	Consultation Fees	1,10,000
Car Purchased	1,30,000	Visiting Fees	1,20,000
Travelling Expenses	4,000	Gains on Race (gross)	10,000
(Personal)	1,000	Share in sale of ancestral	34,000
Charity & Donations	2,000	house	600
Income Tax	8,000	Interest from P.O.S. Bank	6,000
Salaries	7,000	Capital Gains	
Gifts to Daughter	1,000	Dividend from Domestic	5,000
Establishment Expenses	4,000	Company	2,000
Surgical Equipments	1,200	Gifts from Father-in-Law	
Books (annual Publication)	2,000	Bad Debts Recovered	2,000
Life Insurance Premium	1,000	(not allowed)	1,300
Wealth Tax	1,000	Interest on Fixed Deposits	
Interest on Capital	8,700		
Surplus			
	2,90,000		**2,90,900**

(i) Rate of Depreciation allowance on car is 15% and on Surgical Equipments it is at 15%. Compute income from profession. **(Ans: 1,99,700)**

EXERCISE 11: Mr. Raman is Chartered Accountant in Chennai. Compute his income from Profession for the Assessment Year 2025-2026.

Expenses	Rs.	Income	Rs.
To Office Rent	33,000	By Audit fees	3,00,000
To Salary to Staff	75,000	By Financial Consultancy	
To Charities	5,000	Service	60,000
To Gifts to Relatives	6,000	By Interest on Deposits in a	
To Subscription for Journals	2,400	Bank	22,000
To Drawings	16,000	By Dividend on Units of UTI	6,000
To Car Expenses	24,000	By Accountancy works	32,000
To Household Expenses	8,600		
To NSC Purchased	40,000		
To Net Income	2,10,000		
	4,20,000		**4,20,000**

Additional Information:

(i) Office Rent Rs. 3,000 paid not recorded.

(ii) Depreciation of Car During the year is Rs. 6,000.

(iii) 30% of car Expenses are related to Personal. **(Ans: 2, 60,600)**

EXERCISE 12: Mr. Chandru is a chartered accountant in Chennai. He has submitted the following income and expenditure account for the year for the year ended 31st March, 2025.

Particulars	Rs.	Particulars	Rs.
Drawing	48,000	Audit fees	2,24,000
Office rent	42,000	Financial consultancy	98,000
Telephone installation	15,000	service	
Charges	4,200	Dividends from an Indian	6,000
Electricity bill	66,000	company (gross)	4,000
Salary of staff	1,200	Dividend on units of UTI	24,000
Charities	9,600	Accountancy works	
Gifts given to relatives	21,000		
Car expenses	2,500		
Subscription for journals	1,200		
Institute fee	12,000		
Stipends to trainees	1,33,300		
Net income			
	3,56,000		**3,56,000**

Additional Information:

(i) Depreciation of car during the year amounts Rs. 5,000.

(ii) 30% of the car is used for personal purposes.

Compute his Income from Profession. **(Ans: Rs. 1,84,900)**

EXERCISE 13: Following is Income and Expenditure account of Mr. Zion, a lawyer, compute the income for Profession for the A.Y. 2025-2026.

Expenditure	Rs.	Incomes	Rs.
To Rent of chamber	4,000	By Legal fees	40,000
To Salaries	10,000	By Gifts from clients	20,000
To Travelling expenses	5,000	By Rent from H.P (let)	5,000
To Stamp paper and court fee	1,000		
To Household expenses	2,000		
To Subscription to Law Journals	2,000		
To Municipal Tax (HP)	500		
To Donation to approved	1,000		
institution	39,500		
To Surplus			

	65,000		**65,000**

Additional Information:

(i) Gifts from clients include gift from father Rs. 4,000

(ii) Stock of stamp paper at the end of the year Rs. 200.

(Ans: Rs. 34,000)

EXERCISE 14: Following is the Receipts and Payments Account of Mr. Ramu (resident) a lawyer for the year ended 31.03.2025.

Receipts	Rs.	Payments	Rs.
To Balanced b/d	10,000	By Staff salaries	56,000
To Arbitration fees	2,40,000	By Professional books	18,000
To Legal Counselling fees	30,000	By Subscription to	2,000
To Loan from bank	25,000	Journals	4,000
To Rent from property	45,000	By Refreshment charges	15,000
To Interest on bank FD	21,000	By Rent of office	18,000
To Dividend from Tat Ltd.	8,000	By Telephone charges	3,000
To Share of Income from	1,00,000	By Printing Charges	6,000
HUF		By Electric Charges	2,50,000
		By Purchase of car	50,000
		By Computer purchased	7,000
		By Car expenses	10,000
		By Contribution to PPF	14,000
		By NSC purchased	2,000
		By BAR association fees	24,000
		By Balanced c/d	
	4,79,000		**4,79,000**

Additional Information:

i) ½ of the car expenses pertain to personal use.
ii) Depreciation rates – car at 15%, computer at 60% and books at 100%.
iii) 25% of Telephone expenses pertain to personal use.
iv) Half of the electric charges are for the house property.
v) Gifts from clients Rs. 10,000 not included in the above account.
vi) Loan from bank is for personal use.

Compute his total income for the A.Y. 2025-2026.

(Ans: 1,11,250)