CALICUT UNIVERSITY 5th semester BBA

equipping with excellence

INCOME TAX

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COLLEGE OF

Syllabus

University of Calicut

Bachelor of Business Administration

BBA5B10 (Elective 1) Income Tax

Time: 5hours per week Credits: 4

Internal: 20 External 80

Objectives: To impart basic knowledge and equip students with application of principles and provisions income tax act 1961 amended up to date.

Unit 1

Basic concepts: Income - Agricultural income - Person- Assessee - Assessment year-Previous year - Gross total income - Total income - Maximum marginal rate of tax - Residential status - Scope of total income on the basis of residential status - Exempted income under section.

15 Hours

Unit 2

Computation of income under different heads: Salaries – Allowances – Perquisites – Profit in lieu of salary – Gratuity – Pension – Income from house property: Annual value of house property – Computation under different circumstances - Deduction from annual value

30 Hours

Unit 3

Profit and gains of business or profession: Definition – Computation – Allowable expenses and not allowable expenses – General deductions – Provision relating to depreciation.

10 Hours

Unit 4

Capital gains: Definition of capital assets – Long term and short term – Transfers – Cost of acquisition – Cost of improvement – Exempted capital gains. Income from other source: Definition – Computation – Grossing up – Deductions and other relevant provisions.

10 Hours

Unit 5

Total income and tax computation: Income of other persons included in assessee's total income – Aggregation of income and set off and carry forward of losses – Deduction from gross total income – Rebates and reliefs – Computation of total income of individuals.

15 Hours

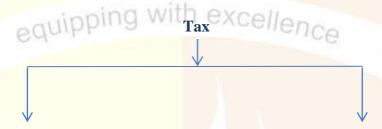
Subject: Income Tax

Module: 1

INCOME TAX BASIC CONCEPTS

Tax

Tax is a compulsory extraction of money from people to be spent for the common benefit of society. Generally tax is classified in to two as direct tax and indirect tax.



DIRECT TAX

When tax is levied on a person directly and he himself pays the amount to the authorities, it is called direct tax. Here incidence and impact of taxes are on the same person. eg:- income tax

INDIRECT TAX

It is paid by the tax payer through an intermediary. here incidence and impact of tax are on different persons. eg:- GST

INCOME TAX

It is collected by the central government. It is a tax paid on the income of a person.

INCOME TAX ACT 1961

The provisions of income tax are contained in the income tax act 1961 which extends to the whole of India and became effective from 1st April 1962.

CBDT (Central Board of Direct Taxes)

It is the supreme authority of income tax in India. It is empowered to frame rules under the control of the central government.

Features of income tax

- > Income tax is a direct tax
- ➤ It is an annual tax
- Tax rate is fixed by the annual finance act
- ➤ Any income whether legal or illegal is taxable
- ➤ Income is calculated under 5 heads
 - Income from salary
 - Income from house property
 - Income from business or profession
 - Income from capital gain
 - Income from other source

DEFINITIONS

1. INCOME [Section 2(24)]

Under this section, income includes:

- Profit and gains
- Dividend, Interest etc...
- > Salary, Allowances, perquisites etc.
- Capital gains
- Winning from lotteries, crossword puzzles, races, card games or betting
- Amount received from employees contribution to any provident fund or other welfare funds

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- Voluntary contributions received by a trust created for charitable or religious purpose etc.
- Any sum received under keyman insurance policy 3LOBAL ST

2. PERSON [Section 2 (31)]

Tax is payable by a person. It includes:

- ➤ An individual
- ➤ A Hindu Undivided Family (HUF)
- > A company
- ➤ A firm
- ➤ An Association of Persons(AOP) or Body of Individuals (BOI)
- ➤ A local authority
- Every Artificial Juridical Person (University, Public Corporation)

3. ASSESSEE [Section 2(7)]

Assessee means a person:

- ➤ Who is liable to pay tax or any other sum of money like interest or penalty under the act
- In respect of whom any proceedings under this act have been taken for the assessment of his income or income of any other person in respect of which he is assessable
- In respect of whom any proceedings under this act have ben taken for the assessment of loss sustained by him or for the amount of refund due to him
- > Who is deemed to be an assessee
- Who is deemed to be an assessee in default

Deemed assessee

A person who is considered as an assessee for some other person or representative of some other person is called deemed assessee. For e.g. Parents of minor child, agent of person.

Assessee in default

When a person is liable to do a work or duty under this act and if he fails to do that, he is called assessee in default. For e.g.. Employer liable to deduct TDS and if he fails to do that, then he is assessee in default.

4. AGRICULTURAL INCOME [Section 2(1A)]

Any rent or revenue derived from land which is situated in India and is used for agricultural purposes and any income derived from such land by agricultural operations or any process or sale of such produce and any income from farmhouse, is treated as agricultural income.

5. GROSS TOTAL INCOME [Section 80 B(5)]

The total of income under five heads of income is called gross total income.

6. TOTAL INCOME [Section 2(45)]

Total income = GTI – All deductions under section 80. it is the income on which income tax is calculated. It is also known as taxable income.

7. MAXIMUM MARGINAL RATE [Section 29C]

It is the rate of tax including surcharge applicable to the highest slab of income of an individual, AOP or BOI as specified in the finance act each year. Present maximum rate for individual is 30%.

8. CASUAL INCOME

Any receipt of casual or non-recurring nature is casual income e.g... winnings from lottery, crossword puzzles, card games or betting.

9. ASSESSMENT YEAR [Section 2(9)]

Assessment year means the period of 12 months commencing on the first day of April every year and ending on 31st march of the next year. It is the year in which assessment is made on the income of the PY.

Current AY: 1-4- 2020 to 31-3-2021

10. PREVIOUS YEAR [Section 3]

It is the financial year immediately preceding assessment year. It is the year in which income is earned.

Current PY: 1-4-2019 to 31-3-2020

Exceptions to the general rule – Accelerated assessment

- ➤ Income of non-resident from shipping business
- ➤ Income of persons leaving India
- Income of an association of persons or a body of individuals formed for a particular purpose
- > Transfer of property to avoid tax
- On discontinuance of a business or profession
 Residential status and Tax liability

RESIDENTIAL STATUS

Residential status of an assessee is determined with reference to his residence in India during the previous year

Residential status of an individual [Section 6(1)]

An individual may be:

- A resident in India popularly known as ordinarily resident
- A not-ordinarily resident in India
- A non-resident

Basic conditions

- 1. He is in India in the previous year for a period of 182 days or more
- **2.** He has been in India for at least 365 days during the 4 years preceding the previous year and is in India for at least 60 days during the previous year.

Exceptions to the above rule of 60 days stay in India

- 1. An individual, who is a citizen of India and leaves India in any previous year for the purpose of **employment** or as a member of the **crew of an Indian ship**, must have stayed in India for at least **182** days during the previous year instead of 60 days.
- 2. If any citizen of India or a foreign national of **Indian origin**, who is living outside India, came on a **visit** to India in the previous year, he must have stayed in India for at least **182** days during the previous year instead of 60 days.

Additional conditions

- 1. He has been **resident** in India in at least **two** out of the **ten** previous years preceding the relevant previous year.
- 2. He should have been in India for at least 730 days in all during the seven previous years preceding the relevant previous year

Determination of residential status

Conditions	Ordinarily Resident	Not ordinarily	Non Resident
		Resident	
Basic conditions	Any one of the basic	Any one of the basic	Not satisfies any basic
	conditions	conditions	conditions
Additional	Both the additional	Does not satisfies	Additional
conditions	conditions	both additional	conditions are
		conditions	irrelevant.

For determining number of days of stay in India, days of entry and exit should be included.

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Residential Status Of Hindu Undivided Family (Huf)

ORDINARILY RESIDENT

- Control and management of its affairs is situated wholly or partly in India
- karta satisfies both the additional conditions

NOT ORDINARILY RESIDENT

- Control and management of its affairs is situated wholly or partly in India
- karta does not satisfies the additional conditions

NON RESIDENT

 control and management of its affairs situated wholly outside of India

RESIDENTIAL STATUS of FIRM, AOP, BOI

RESIDENT

Control and management of affairs wholly or partly in India

NON RESIDENT

Control and management of affairs *wholly* outside India

RESIDENTIAL STATUS OF A COMPANY

RESIDENT

- It is an Indian company
- In PY, place of effective management is *situated in India*

NON RESIDENT

- Not an Indian company
- Place of effective management is situated *outside India*

RESIDENTIAL STATUS OF ANY OTHER PERSON

RESIDENT

Control and management of its affairs is situated wholly or partly in India

NON RESIDENT

Control and management of its affairs is situated wholly outside India

TAX LIABILITY (INCIDENCE OF TAX)

Incidence of tax depends on the residential status of assesse.

KINDS OF INCOME

1. Income received

It means receipt of income for the first time.

2. Income deemed to be received in India

It means which is not actually received in India but considered as income received in India.

- Annual increase to the balance of a RPF of an employee
- Dividend declared by an Indian company
- Tax deducted at source
- Employer's contribution to central government pension scheme

3. Income which accrues or arises in India

It is called so when the assesse obtain the right to receive it. Eg: interest on debentures due but not received.

4. Income deemed to accrue on arise in India

It means income actually not arisen in India but it is deemed to accrue or arise in India under income tax act.

- Income any business connection in India
- Income from any property in India
- Salary earned in India(work done in India) but received outside in India
- Salary payable by the govt of India to a citizen of India for service rendered outside in India
- Dividend paid by an Indian company outside India
- Interest paid by the govt of India on money borrowed outside India
- Royalty payable by the govt of India
- Fees for technical services payable by Indian govt

RELATIONSHIP BETWEEN RESIDENTIAL STATUS AND INCIDENCE OF TAX

Income	Resident	Not ordinarily resident	Non resident
Income received in India	Taxable	Taxable	Taxable
Income deemed to be received	Taxable	Taxable	Taxable
in India			
Income accruing or arising in India	Taxable	Cellence	Taxable
Income deemed to accrue or arise in India	Taxable	Taxable	Taxable
Income from business or profession outside India but	Taxable	Taxable	Not taxable
controlled from India or setup in India			
Income from business or	Taxable	Not taxable	Not taxable
profession outside India but controlled from outside India or setup outside India			
All other incomes outside India	Taxable	Not taxable	Not taxable
Income received or accrued or arisen outside India in earlier years but later on remitted to India during the PY	Not taxable	Not taxable	Not taxable
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Subject: Income tax

Module: 2

INCOME FROM SALARY

SALARY

- There is no distinction between wage of laborer and salaries of high officials
- Salary from foreign government is taxable
- Employee employer relationship is necessary
- Salaries of MP and MLA are taxable under the income from other source
- Salary of a partner is taxable under the head profit or gain from business or profession
- Pension is taxable under the head salary
- Family pension is taxable under the head income from other source
- Examination remuneration to a university teacher is taxable under the head income from other source
- Due dates of salary:

Government and semi government employees- 1st of the next month

Banks and non-government bodies- last date of the same month

Elements of salary

- 1. Basic pay
- 2. Arrears of salary
- 3. Advance alary
- 4. Bonus
- 5. Commission
- **6.** Allowances
- **7.** Perquisites
- **8.** Provident fund

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ALLOWANCES

Payment in cash made by the employer to his employee monthly, other than salary is called allowances. These are for meeting some particular requirements connected with the service rendered by an employee. Allowance may be

- Fully taxable allowances
- Fully exempted allowance
- Partly taxable allowance

1. FULLY TAXABLE ALLOWANCE

- DA on account of high prices. DP is a part of DA given as per terms of employment and considered as part of basic salary.
- Interim relief allowances.
- CCA
- Project allowances
- Fixed medical allowances
- Tiffin allowances
- Servant allowances
- Proctor/ wardenship allowances
- Deputation (substitution) allowances
- Overtime allowances
- Hill allowances (above 1000 mtrs)
- Marriage allowances
- Non practicing allowances
- Family allowances
- Lunch/dinner/refreshment allowances
- Special allowances
- Holiday trip allowances
- Festival allowances
- Entertainment allowances (non-government employees)
- Transport allowances (except handicapped employees).

2. PARTLY TAXABLE ALLOWANCES

- 1. HRA
- 2. Special allowances (official) sec 10(14) i
- 3. Special allowances (personal) sec 10(14) ii

HRA (House Rent Allowance)

HRA is exempt subject to least of the following

- Actual HRA received
- Rent paid in excess of 10% of salary
- 40% of salary

(50% in case of Delhi, Mumbai, Chennai, Kolkata)

Salary = BP+DA forming part of salary +commission on turnover

> Special allowances (official) - exempt up to the amount spent

- Helper allowances
- Uniform allowances
- Daily allowances
- Travelling allowances
- Academic allowances
- Conveyance allowances

> Special allowances (personal) - Exempt up to the a specified limit

• Children education allowance – 100/m/child-max 2 children

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- Children hostel allowances 300/m/child-max 2 children
- Transport allowances 3200/m (handicapped employees)
- Underground allowance -800/m
- Tribal area allowances -200/m
- Running flight allowances employees working in transport system-10000/m or 70%, least
- Compensatory field area allowances -2600/m
- Compensatory modified field area allowances -1000/m
- Island duty allowances 3250/m

3. FULLY EXEMPTED ALLOWANCES

- Foreign allowances allowances given to government employees for rendering services abroad
- Sumptuary allowances to high court and supreme court judges
- Allowances paid to employees of UNO
- Compensatory allowances given to judges

PERKS/PEROUISITES ippoing with excellence

Any benefit attached to an office or position in addition to salary or wages (cash/kind)

- 1. Tax free perks
- 2. Perks taxable to specified employees only
- 3. Perks taxable to all employees

TAX FREE PERKS

- Medical benefit
 - Employer hospital fully exempted
 - o Government hospital fully exempted
 - o Private recognized hospital fully exempted
 - o Private unrecognized hospital fully taxable
 - Foreign hospital
 - Exempted up to the extent approved by RBI
 - Expenses of stay and travel of the patient and one attendant is exempted provided the GTI of the employee does not exceed the amount approved by RBI.
- Tea, snack provided in work place
- Residential accommodation at site
- OBALST Expenses on telephone (including mobile phone)
- Scholarships to employees & children
- Conveyance facility
- Expenses on refresher course
- Tax paid by the employer on the value perquisites
- Employers contribution to staff group insurance scheme
- Perquisite to government employees posted abroad
- Perquisite to high and supreme court judges

- Rent free house to ministers, officer of parliament, or opposition leader
- Laptop and computers for free use
- Periodicals and journals
- Interest free or concessional loan up to 20000. (if more than 20000, then 20000 is taxable)
- Interest free loan for specified diseases
- Transfer of asset after using more than 10 years
- Leave travel concession

PERQUISITES TAXABLE TO ALL EMPLOYEES

1. Value of residential accommodation (RFA)

- Government employees license fee fixed by govt + 10% cost of furniture)
- Other employees –

If owned by employer	Taken on lease	Hotel accommodation	Accommodation	
	or rent		provided at sit	
Population exceeds 25	Actual rent	• Up to 15 days –nil	NIL	
lak <mark>h - 15% of sal</mark> ary	Or 15% of salary	• Exceeds 15 days –		
	whichever is less	24% of salary or		
Population between 10-25	+ 10% cost of	hotel bills	7	
lakh - 10% of salary	furniture	whichever is less		
8			(E)	
Population less than 10				
lakh- 7.5% of salary		2		
L.D.		N.		

Salary= BP+DP+ Bonus+ commission+ all taxable allowance except normal DA+ Leave encasement during service

2. Amount paid by an employer in respect of any obligation which otherwise would have been payable by the employees

- Payment of employee's hotel bill or club bill by the employer if it is not connected with employer's business.
- Payment of any loan due by employee
- Payment of education expenses of the employee's children
- Payment of salary to a domestic servant of an employee
- Payment of employees income tax

3. Assurance on the life of the employees

4. Use of movable asset

10% of the actual cost of asset or amounts of hire charges paid or payable by the employer.

5. Free meals

Exempted up to 50 per meal

6. Interest free or concessional loan

- Loan up to 20000- NIL
- Loan for medical treatment- NIL
- Other cases simple interest on loan computed at the rate p.a. charges by state bank of India or difference between interest charges by the SBI and employer.

7. Holiday enjoyment

8. Gifts

Gift of 5000 or more is taxable.

9. The perquisite in respect of credit cards

10. Electronic gadgets/ computers

11. Employers contribution toward superannuation fund

Contribution of 150000 per year is exempted. Excess contribution is taxable.

12. Allotment of sweat equity shares

13. Allotment of shares listed on a recognized stock exchange

PERQUISITE TAXABLE TO SPECIFIED EMPLOYEES ONLY

Specified employee:-

- 1. He is a director of a company
- 2. He possess 20% equity shares in a company
- 3. His salary income exceeds Rs 50000

The following perquisites are taxable for specified employees only

- Gas, electricity provided at free or concessional rate
- Education facility
- Salary of sweeper, watchmen, Gardner and PA
- Medical facility
- Car
- Transport facility by a transport undertakings
- Education facility:
 - Does not exceed 1000 per child per month NIL
 - ➤ If exceeds 1000 per child per month cost of education in similar institution will be taxable

VALUATION OF CAR

OWNED BY THE EMPLOYER		OWNED BY THE EMPLOYEE		
Used for official purpose only	NIL	Used for official purpose	NIL	
Used for personal purpose only	Expenses met by employer + salary of driver (900 P.M) + 10% depreciation	Used for personal purpose	amount reimbursed by employer	
Used for both official & personal purpose Expenses met by employer	1800pm (small car)2400pm (large car)Add 900pm (drivers salary)	Used for both official & personal purpose	 Small car: amount reimburse – (1800/m+900/m Large car: amount 	
Expenses met by employee	600pm (small car)900pm(large car)Add 900pm(driver's salary)		reimbursed – (2400/m+900/m)	

PROVIDENT FUND

It is provided for future.

1. Statutory provident fund (SPF)

It is a PF to which Indian PF Act 1925 applies. It is maintained by government or semi government offices. It is fully exempt from tax

2. Recognized provident fund (RPF)

It is a PF to which Indian PF Act 1952 applies. It is maintained by private sector organizations.

3. Un recognized provident fund (URPF)

It is PF neither statutory nor recognized. It is approved by PF commissioner but not by the commissioner of income tax.

4. Public provident fund (PPF)

Every individual can subscribe this fund any amount being not less than 500 and not more than 150000 in a year.

	SPF	RPF	URPF	PPF
Employee contribution	Already taxed	Already taxed	X	X
Interest	Exempt	9.5% Exempted	X	X
Employer contribution	Exempt	12% Exempted	X	-
Interest	Exempt	9.5% Exempted	X	- /
Lump sum received	Exempt	Exempt	Taxable	X

Salary = basic pay+ DA if part of pay+ commission on turn over

PROFIT IN LIEU OF SALARY

Any terminal benefits or payment made instead of salary. It includes

- Compensation for loss of employment
- Payment under URPF or superannuation fund
- Payment under key man insurance scheme
- Payment before joining or after retirement

INCOME FROM SALARY (RETIREMENT)

- Gratuity sec 10(10)
- Pension and commuted value of pension sec10(10A)
- Retrenchment compensation section 10 (10B)
- Compensation on voluntary retirement sec 10(10C)
- Amount from provident fund sec 10(11)(12)
- **Gratuity sec 10(10)**
- A. Government employees fully exempted (sec 10(10) i)
- B. Nongovernment
 - 1. Covered by the payment of gratuity act 1972 (sec 10(10)ii)

Least of the following is exempted

• 15/26 * last month salary* completed years of service (6 months and above considered as a year)

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- Rs 2000000
- Actual gratuity received

Salary = BP + DA + Commission on turnover

2. Not covered by the payment of gratuity act 1972 –(sec 10(10)iii)

Least of the following is exempted

- 15/30 * average salary* completed years of service (only completed years are considered)
- Rs 2000000
- Actual gratuity received

Salary = BP + DA forming part of salary+ Commission on turnover

Pension and commuted pension (sec. 10(10A)

- Pension fully taxable under the head salary
- Un commuted pension- fully taxable
- Commuted pension government employees- exempted
- Commuted pension non-government employees:
 - ✓ 1\3 of full pension exempted if received gratuity
 - ✓ 1\2 of full pension exempted if not received gratuity

↓ Leave encashment -sec 10(10AA)

- Leave encashment during service- fully taxable
- Government employees- exempted
- Non-government employees- least of the following is exempted
 - ✓ Actual amount received
 - ✓ Rs 300000
 - ✓ Last 10 month salary
 - ✓ Average salary * leave of credit (maximum 30 days in a year)

Salary = BP+DA forming part of salary + commission on turnover

Retrenchment compensation – sec10 (10B)

Least of the following is exempted

- ✓ Actual amount received
- ✓ Rs 500000
- ✓ 15\ 30* average salary* completed years (in excess of 6 months considered)

(Salary here includes all allowances and perquisites except any bonus, any contribution paid by employer, pension, provident fund Gratuity)

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↓ VRS compensation – sec 10 (10 C)

Exemption is the least of the following

- ✓ Actual amount received
- ✓ Rs 500000
- ✓ Last month salary*3*completed years of services
- ✓ Last month salary* balance of month remaining

Salary= BP+ DA forming part of salary+ commission on turn over

Amount from PF- sec.10(11)(12)

SPF- Fully exempted

RPF- Fully exempted

PPF- Fully exempted

URPF-

- Employer contribution and interest taxable under the head salary
- Employee contribution exempted
- Interest on employee contribution- taxable under income from other source

Deduction from gross salary

- 1. Entertainment allowances
- Government employees
 - ✓ Amount received
 - ✓ 20% of basic salary
 - ✓ Rs 5000

Whichever is less.

- Non-government employees Nil
- 2. Employment tax (professional tax)
- 3. Standard deduction up to Rs 50000

INCOME FROM HOUSE PROPERTY

The property consists of any building or land attached there.

- ➤ Building let out to employees income from business
- ➤ Let out to authorities for locating bank, post office, police station etc. income from business
- Composite lending of building with other assets income from business or other source
- The main object of Assessee Company as per memorandum of association is to acquire properties and earn income by letting out of same property, said income is to be brought to tax as business income.
- Paying guest accommodation of clubs to its members business income
- Assessee should be the owner of the property
- The property should not be used for the purpose of assessee's business or profession

Exemptions regarding income from HP

- ➤ Income from farm house- agricultural income
- One self-occupied house- exempted
- ➤ One palace of ex-ruler exempted
- ➤ Income from property owned by local authorities, trade union, charitable trust, political party, universities, educational institutions, hospitals etc exempted

Different types of rental values

Municipal rental value (MRV)

It is the annual rental value of the house property fixed by the municipality.

Fair rental value (FRV)

It refers to the rent charged on similar type of property located in the same locality.

Standard rent received (SR)

It is the maximum rental value fixed by rent control act.

Arrear rent received

Rent pertaining to the previous year received in the current year (reason increase in rent with retrospective effect). Standard deduction can be deducted as per sec 25 A (1).

Unrealized rent received

Rent not realized due to the default by tenant. 30% standard deduction can be deducted as per sec 25 A (1).

Co-ownership

If two or more persons own a house property jointly then they is known as co-owners. If individual share of each co-owner is definite and ascertainable then the share of each such person shall be taxable under his income. Owner includes legal owner beneficial owner and deemed owner.

Legal owner

He is a person who has the legal title of the property as per the Transfer of Property Act, Registration Act etc.

Beneficial owner

He is a person who enjoying the property as an owner to full extend he will be treated as a beneficial owner of such property and will be charged under the head income from house property.

Deemed owner or fictional owner

In following cases a person should be treated as a deemed owner of the property and liable to tax:

- An individual who transfers a house property without adequate consideration to
 his or her spouse, or a minor child not being a married daughter, shall be deemed to
 be the owner of that house property transferred.
- The holder of an impartible estate shall be deemed to be the individual owner of all the properties comprised in this estate.
- A member of co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a house building scheme is deemed to be the owner of that building.
- A person having long term lease rights in a property under a lease agreement extending to 12 years or more in the aggregate including the term for which the lease may be extended.
- A person who is allowed to take or retain possession of any building or part of their
 of in part performance of a contract of the nature referred to in section 53A of the
 Transfer of Property Act 1882 shall be deemed to be the owner of the property.

Gross annual value - Deemed to be let out

If an assessee is holding more than two house property and all of them for self-occupation, in such a case only two houses of this choice is treated as self-occupied and all other houses will be considered as deemed let out. 2 house Property can be considered as self-occupied property. If the assessee considered the second house also as self-occupied property, then he is eligible for a total deduction of maximum Rs 200000 towards interest on housing loan of both the property.

GAV Of self-occupied house remaining vacant due to employment

Here the assessee derives no benefit from the property so annual value is Nil.

COMPUTATION OF INCOME FROM HP

Let out house

	MRV	XXX			
1	FRV	XXX	Higher	XXX	
2		SR		XXX	Lower
3		Actual rent		XXX	Higher (Gross Annual Value)
4	Less:	i) Municipal tax ii) Unrealized rent	XXX XXX	XXX	Net Annual Value
5	Less:	iii) SD@ 30% iv) Interest on loan	XXX	XXX	XXX
6	Add:	v) Arrear rent received vi) Unrealized rent recovered	XXX	XXX	XXX
	ı	Income from	n HP		XXX

❖ Self-occupied house

NAV: Nil	
Less: Interest on loan	XXX
Loss from HP	(XXX)

Deductions from GAV

- 1. Municipal tax paid by the owner during the previous year
- 2. Unrealized rent deduction is allowed only if the following conditions are satisfied:
 - ** The tenancy is bonafied
 - The defaulting tenant is vacated or steps has been taken to compel him to vacate
 - The defaulting tenant is not in occupation of any other property of the assessee.
 - The assessee has taken all reasonable steps to of instituting legal proceedings for the recovery of the unpaid rent or satisfies the assessing officer that legal proceedings would be useless.

Interest on loan maximum limit-(for self-occupied house only)

- Loan before 1 4-1999 Rs 30000
- Loan after 1 4-1999 Rs 200000

Interest on loan= PY interest + 1/5 of preconstruction period interest

Pre-construction period

Period between the dates of loan taken and the date of repayment of loan or date of completion of construction whichever is earlier.

House partly let out

Let out portion will be treated as let out and self-occupied portion as self-occupied. While calculating HP income MRV, FRV, SRV, Municipal tax and interest on loan etc. should be apportioned between let out and self-occupied. A GLOBAL

House let out part of the year: Treated as fully let out

Municipal tax paid by tenant – not allowed

Subject: Income Tax

Module: 3

INCOME FROM BUSINESS AND PROFESSION

Following are business incomes:

- 1. Business or professional income
- 2. Sale of an import license or receipt of any exports incentive.
- 3. Repayment of any customs or excise duty.
- 4. Profit earned from illegal business is also taxable
- 5. Income of a trade association.
- 6. Speculative transactions
- 7. The value of any benefit or perquisite
- 8. Interest, salary, bonus, commission or remuneration received by a partner
- 9. Sum received under key man life insurance policy
- 10. Compensation

Important rules regarding assessment

- Business carried on by the assessee.
- Tax is charged on aggregate income from all business or profession
- Speculation business is to be kept separately
- Expenses for earning income are allowed as deductions.
- Expenses incurred prior to setting of the business will not be allowed to deduct.
- No tax is payable on anticipated or notional profit

Deduction allowable (sec 30-37)

- 1. Rent, rate, taxes, repairs and Insurance of building (u/s 30)
- 2. Repairs and Insurance of machinery, plant and furniture (u/s 31)
- 3. Depreciation (u/s 32)
- 4. Deposit in special account with NABARD (u/s 33 AB)
- 5. Deposit in a special account with the SBI (u/s 33 ABA)
- 6. Expenditure on scientific research

Revenue expenditure incurred by the assessee himself:

Fully allowed as expense incurred during three years immediately preceding the commencement of business.

Contribution made to outsiders

- To approved research organization or university or college or other institutions 150 %
- Contribution to a company 100 %
- Social or statistical research 100%
- National laboratory for a recognized university or an Indian Institute of Technology -150%
- Expenditure on in-house research- 150%

Capital expenditure incurred by the assessee himself

Fully allowed as expense incurred during 3 years immediately preceding the commencement of business.

- Further depreciation will not be allowed in respect of the asset
- Unabsorbed capital expenditure on scientific research can be carried forward for unlimited period.
- 7. Capital expenditure to obtain right to use spectrum for telecommunication services (u/s 35 ABA)
- 8. Expenditure for obtaining license to operate telecommunication service (u/s 35 ABB)
- 9. Expenditure on eligible project specified by central government (u/s 35 AC)
- 10. Expenditure on **specified business** (u/s 35 AD)

Specified business means:

- Setting up and operating a cold chain facility

 (Cold chain facility means a chain of facilities for storage and transportation of agricultural and forest produce, meat, and meat products, marine and dairy products etc.)
- Setting up and operating a warehousing facility for storage of agricultural produce.
- Laying and operating a cross country natural gas or crude or petroleum oil pipeline network for distribution.
- Business of building and operating a new hotel of 2 star or above anywhere in India
- Business of developing and building a housing project.
 - 11. Expenditure for carrying out rural development program notified by central government $(u/s\ 35\ CCA)$
 - 12. Expenditure on agricultural extension projects (u/s 35 CCC)
 - 13. Expenditure on any skill development project (u/s 35 CCD)
 - 14. Amortization of amalgamation or demerger in 5 years (u/s 35 DD)
 - 15. Amortization of VRS expenses in 5 years (u/s 35 DDA)

16. Expenditure on minerals prospecting in 10 years (u/s 35 E)

17. Other deductions U/S 36

• Insurance premium paid to cover the risk of damage or destruction of stock

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- Bonus or Commission paid to employees
- Interest on borrowed capital
- Contribution to recognized provident fund
- Contribution to pension scheme
- Contribution to approved gratuity fund
- Write off of useless or dead animals
- Bad debts
- Expenditure on promotion of family planning among employees
- Discount on zero coupon Bond

18. General deductions U/S 37

- Expenses incurred in purchase manufacture and sale of goods
- General expenses incurred in the day-to-day running of the business
- Expenses incurred in defending cases
- Amount of VAT paid
- Payment of excise duty
- Retrenchment compensation paid
- Commission paid
- Compensation paid to employees
- Royalties paid
- Legal expenses
- Listing fee paid

Depreciation (U/S 32)

Depreciation is charged on block of asset. Block of assets means the assets falling in the same rate of depreciation. Following conditions are to be fulfilled

- Assessee must be the owner of the asset
- Asset must be used for the purpose of business or profession
- Such use must be in the relevant previous year

Computation of depreciation

Opening WDV XXX

Add: Purchases during the year XXX

Less: Sales during the year XXX

Closing WDV XXX

Note: If the asset is put to use for less than 180 days in the year, depreciation will be allowed at 50 % of the eligible rate.

Additional depreciation for plant and machinery@ 20%

- A new plant and machinery should be acquired and installed after 31/03/2005
- It should be used for manufacturing purpose during the previous year
- It shall be allowed 10% if the asset is put to use for less than 180 days

Assets	Percentage
Residential building	5%
Nonresidential building	10%
Building for water treatment system	40%
Temporary building	40%
Furniture and fittings	10%
Plant and machinery (general)	15%
Motor bus, lorry, taxi	30%
Aero planes, aero engines	40%
Air/water/solid pollution control equipment	40%
Lifesaving medical equipment	40%
Water treatment plant	40%
Oil wells	15%
Computers including software	40%
Books (including annual publications)	40%
Books library purpose	40%
Ships/ vessels/ speed boats	20%
Intangible assets (patent, trademarks, copyright)	25%

Computation of business income

Net profit as per P/L A/C	XXX
Add: 1) Disallowed expenses debited in P/L A/C	XXX
2) Allowed income not credited in P/L A/C	XXX
3) Under valuation of closing stock	XXX
4) Over valuation of opening stock	XXX
Less: 1) Disallowed income credited in P/L A/C	XXX
2) Allowed expenses not debited in P/L A/C	TCe XXX
3) Under valuation of opening stock	XXX
4) Over valuation of closing stock	XXX
Taxable business income	XXX

Disallowed expenses

- Income tax
- Wealth tax
- Fringe benefit tax
- Municipal tax
- All reserves and provisions
- Interest on capital
- Capital expenditure
- Donation
- Penalties
- Life Insurance Premium
- Gift
- Personal expenses
- Past losses charge to profit and loss account
- Payment in excess of Rs 10,000 to a person in a day
- Payment outside India were tax is not deducted at source
- Contribution to any un approved fund

Disallowed income

- Rent from let out building (not for employees)
- Interest on securities
- Bad debt recovered if disallowed earlier
- Income tax refund
- Gift (not related with profession)
- Sale of capital asset equipping with excellence
- Dividend
- Lottery
- Games
- All other income not received exclusively from business or profession

Con CIOBAL STUDIES

Subject: Income Tax

Module: 4

INCOME FROM CAPITAL GAIN

Essential conditions

- Existence of a capital asset
- Transfer of such asset during the previous year
- Profit and gain must arise from such transfer

Capital Asset

Capital asset means property of every description. It may be movable or immovable, tangible or intangible whether connected with business or profession or not. But it **does not include**:

- Commercial goods (stock in trade)
- Rural agricultural land
- Gold Bond
- Special bearer Bond 1991
- Gold deposit Bond
- Movable assets for personal use example: refrigerator, wearing clothes, furniture etc.

The following assets **will not be** treated as personal effects:

- Archaeological collections
- Drawings
- Paintings
- Any work of art
- Jewelry

Types of capital assets

- הב CG) הב 2 (29A)- LTCG) 1. Short term capital Asset (section 2(42A) – STCG)
- 2. Long term Capital Asset (section 2 (29A)- LTCG)

STCA or LTCA	Asset
	Securities listed in a recognized stock
STCA if held for < = 12 months	exchange (other than unit)
LTCA if held > 12 months	Units of the UTI or equity oriented fund
	Zero coupon bond
	Unlisted shares
STCA if held for < = 24 months	Land or building or both
LTCA if held > 24 months	with excellence
Edail	Units of debt oriented fund
	Unlisted securities other than shares
STCA if held for < = 12 months	Other capital assets
LTCA if held > 12 months	

Transfer of capital asset

Transfer includes: -

- The sales, exchange or relinquishment of the asset
- The extinguishment of any right there in
- The compulsory acquisitions thereof under any law
- In a case but the asset is converted by the owner thereof in to, or is treated by him as, stock in trade off a business carried on by him, such conversion or treatment:

Transaction not treated as transfer

- Transfer on partition or partial partition of HUF
- Transferred under gift or will
- Transfer buys a company to its subsidiary company and vice versa. Subject to certain conditions.
- Transferred on amalgamation of an Indian company
- Transfer in a case of demerger of Indian company
- Transfer of shares in case of demerger or amalgamation
- Transfer by way of conversion of bonds/ debentures into shares
- Distribution of assets in kind by a company to its shareholder on liquidation
- Any transfer of shares in an Indian company held by a foreign company to another foreign company as a part of amalgamation between two foreign companies.

- Any transfer made by a non-resident of such foreign currency convertible bonds or shares as may be specified by the central government to another nonresident where the transfer is made outside India.
- Any transfer of a capital asset which is a work of art or archeological, scientific or artistic importance to the government, university, national art gallery or any other public museum notified by central government.
- Any transfer made before 31/12/1998 by a person who is a member of a recognized stock exchange to a company of his membership rights in the stock exchange to the company incorporated for this purpose.
- Any transfer of land by a sick industrial company under the scheme prepared by BIFR, such transfer is made during the period of sickness.
- Conversion of a sole proprietorship concern or partnership in to a company.
- When a private or unlisted public company is converted in to a limited liability partnership, the transfer of capital asset or intangible asset to LLP is not regarded as a transfer if the conditions are satisfied.
- Transfer of a capital asset being a government security made outside India through an intermediary by a non-resident to another nonresident is not treated as transfer.
- Transfer of units by unit holders in consolidation scheme of mutual funds
- Any transfer by the way of conversion of preference shares in to equity shares.

EXEMPTION AS PER SECTION 10

- 1. Capital gain on transfer of US64
- 2. Long term capital gain on transfer BSE 500equity shares
- 3. Capital gain on compulsory acquisition of urban agricultural land. Exemption is applicable only the following conditions are satisfied 3ALS
- The assessee is an individual or HUF
- He owns an agricultural land situated in urban area
- Transfer is done by the way of compulsory acquisition
- Agricultural land was used by the assessee or his parents for agricultural purpose during 2 years immediately prior to the date of transfer.
- Asset may be long term or short term capital asset.
- 4. Long term capital gain on transfer of securities not chargeable to tax in cases covered by transaction tax. To get exemption following conditions needed to satisfy:

- Asset should be long term capital asset
- Securities are equity shares of a company or units of equity oriented funds.
- Transaction is chargeable to security transaction tax.

Deemed transfer

If a capital asset is converted in to stock in trade then it will be deemed as a transfer. The difference between market value and cost price shall be taxable as capital gain.

Transfer capital asset by a person to firm, AOP or BOI:

In which assessee is or becomes a partner or as a member, profit or gain arising of such transfer shall be considered as capital gain and taxable.

Transfer of capital asset on dissolution of firm, AOP, BOI:

Gain arising out of such transfer shall be chargeable to tax as the income of the firm or AOP, BOI.

Difference between long term capital gain and short term capital gain

Long term capital gain	Short term capital gain
Arises out of transfer of long term capital	Arises out of transfer of short term capital
asset.	asset.
These are taxed at the rate of 20%	These are taxed at the rate of 15% or
	applicable the tax rate applicable to all
	other incomes
Cost of acquisition and cost of improvement	No indexing is done
are needed to indexed	-
If LTCA is acquired before 1/4/2001, then	No such option is available here.
the fair market value is taken as cost of	
acquisition.	
Exemptions u/s	Exemptions u/s 54B,54D, 54G can be
54,54B,54D,54EC,54ED,54F and 54G can	deducted
be deducted	OBI
LTCL can be setoff only against LTCG	STCL can be set off from both LTCG and
	STCG.

Computation of STCG- section 48

Full value of consideration received or accrui	ng	XXX	
Less			
1. Cost of transfer	XXX		
2. Cost of acquisition	XXX		
3. Cost of improvement	XXX		
Gross short term capital gain	A.L.	XXX	
Less: exemption u/s 54 B/ 54 D/ 54 G	XXX	cellence	
Taxable STCG		XX	
Computation of LTCG- section 48 (1)			
Full value of consideration received or accrui	ing	XXX	
Less			
1.cost of transfer	xxx		
2. Indexed cost of acquisition	xxx		
3. Indexed cost of improvement	xxx		
Gross long term capital gain		XXX	
Less:			
Exemption u/s 54/54 B/54 C/54 D/54 F/54	G/ 54 G	A xxx	
Taxable LTCG		XXX	
Indexed cost of accusation = cost of acquis	ition *	CII for the year of sale	
CII for the year of acquisition			
Indexed cost of improvement = cost of improvement* CII for the year of sale			
	CII j	for the year of improvement	

DEPRECIABLE ASSET: gain arising from such asset is always treated as STCG.

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CAPITAL GAIN IN SPECIAL CASES

I. Capital gain in case of amount received from insurance on account of damage or destruction of any capital asset

Profit or gain arising from receipt of such money or other as it shall be chargeable to Income Tax under the head capital gain in which previous year the capital gain shall arise. It' shall be value of any money or the fair market value of other is it for the date of such receipt.

II. Capital gain on conversion of capital asset into stock in trade

The conversion of capital asset into stock in trade is treated as a transfer but the capital gain will not arise in the previous year in which the asset is converted it will arise in the previous year in which the asset is converted it will arise in the previous year in which such converted asset is sold or otherwise transferred. The fair market value of the asset as on the date of such a conversion shall be deemed to be full value of the consideration of the asset.

III. Transfer of capital asset to a firm/ BOI/AOP

Capital asset is transferred by a partner to his partnership firm or AOP/BOI by the way of his capital contribution is treated as transfer and capital gain will be taxable in the hands of the partner or members as his income in the previous year in which such transfer takes place.

IV. Capital gain on compulsory acquisition of a capital asset

Government has acquired an asset of a person by the way of compulsory acquisition the capital gain will be treated as follows

Initial compensation

It is taken as full value of consideration. Capital gain is chargeable to tax in the year in which the initial compensation is first received

Additional compensation

If a Court/ Tribunal/ Authority enhances compensation it will be taxable in the year in which enhanced compensation or additional compensation is received. For this purpose cost of acquisition and cost of improvement are taken as nil.

V. Computation of capital gain in case of joint development agreement.

Where the capital gain arises to an assessee being land or building or both under a specified agreement the capital gain shall be chargeable to income tax as income from the previous year in which the certificate of completion for the whole or part of the project is issued by the competent authority.

VI. Capital gain on transfer of shares/ debentures in the hands of non-resident

If a non-resident acquires shares in or debentures of an Indian company by utilizing foreign currency, the gain will be calculated in the same foreign currency which was initially utilized in acquiring shares or debentures. After calculating capital gain in foreign currency it will be converted into Indian currency

VII. Capital gain on transfer of securities in demat form

Demat account is a safe and convenient means of holding securities just like a bank account for his fund. The idea of dematerialized account is to avoid the need to hold physical shares. For computing capital gain chargeable to tax the cost of acquisition and period of holding of any security in demat form shall be determined on the basis of first in first out (FIFO) method.

VIII. Capital gains on distribution of assets by companies in liquidation

Here distribution shall not be regarded as a transfer by the company. Therefore there will be no capital gain to the company. However, where a shareholder on the liquidation of a company receives any money or other assets from the company in lieu of the shares held by him such a shareholder shall be chargeable to income tax under the head capital gain in respect of the money and the asset so received.

Cost of acquisition

It is the value for which the asset is acquired by the assessee.

- 1. Cost of acquisition and improvement to previous owner will be deemed to be cost of acquisition and improvement if the asset is acquired by the following mode of transfer:-
 - By succession, inheritance
 - by distribution of an asset by liquidation
 - under a gift or will
 - On partial / total partition of HUF

2. Cost of acquisition of self-generated capital asset

- The cost of acquisition on of certain self-generated capital asset like goodwill of business, tenancy rights, route permits, loom hours, right of manufacturer, produce or process of any article or thing is the cost at which the same is purchased
- Otherwise the cost of acquisition is nil.

3. Cost of acquisition of bonus/ right shares

- Cost of acquisition of bonus shares is nil
- Cost of right shares is cost at which it is purchased
- If the right is renounced the cost of right is nil.
- If right share is purchased by others the cost of share is purchase price + cost of purchase of right.

4. Cost of acquisition of asset acquired prior to 01-04-2001

The cost of acquisition of any property acquired prior to 01-04- 2001 will be the fair market value of that property as on 01-04- 2001 or actual cost of acquisition at the option of the assessee higher.

5. Cost of acquisition in case of advance money received and forfeited

- Should be deducted from the cost of acquisition
- If it is received and forfeited on or after1-4-2014 it shall not be deducted from cost of acquisition. It should be treated as income from other sources

CII for PY 2019-20 = 289, 2001-02 base year 100.

Cost of improvement

It is the capital expenditure incurred in making addition and alterations in a capital asset.

- Cost of improvement before 01-04-2001 will not be considered.
- Cost of improvement relating to goodwill, patent etc should not be considered

Capital gain exempt from tax

1. Section 54- individual and HUF

- Transfer of residential property and invested in residential property
- Within a period of one year before or two year after the date of transfer purchased one house in India or within a period of three years constructed one residential house in India

Exemption = capital gain invested

2. Section 54B - Individual and HUF

- Transfer of agricultural land and invested in agricultural land
- The agricultural land was in two years immediately preceding the date of transfer being used by the assessee for his parent or a HUF for agricultural purpose.
- The assessee has purchased within a period of 2 years from the date of transfer any other land for agricultural purpose.

Exemption= capital gain invested

3. Section 54D- any assessee

- Compulsory acquisition of land and building
- Land and building should be used by the assessee for industrial undertaking at least 2 years immediately before the date of transfer
- The assessee has within a period of three years after such transfer purchased any other land or building or constructed any building for re-establishing the industrial undertaking

Exemption = capital gain invested

- 4. Section 54EC etc. Any assesse
- Transfer of long term capital assets (land or building) and invested in long term specified asset (redeemable after 5 years, NHAI or RECL bonds)
- The new asset should be purchased within 6 months from the date of transfer

Exemption= capital gain invested up to the maximum of 50,00000

- 5. Section 54EE any assesse
- Transfer of long term capital asset invested in notified units of specified fund (Startup India Action Plan)
- The new investment should be made within six month from the date of transfer and before 1st April 2019

Exemption= capital gain invested up to the maximum of 5000000

- 6. Section 54F- individual and HUF
- Transfer of long term capital assets and invested in residential house
- The assessee does not on more than one residential house on the date of transfer
- Within a period of one year before or two years after the date of transfer, purchased one residential house in India or with in a period of three years constructed one residential house in India

Exemption = proportionate net consideration invested (capital gain/

Net consideration* Amount invested)

7. Section 54G – Shifting of industrial undertaking from urban areas to non-urban area – All assessee

Here capital gain arising on the transfer of fixed assets other than furniture and fixtures of industrial undertaking effected to shift it from an urban area.

8. Section 54G – Exemption of capital gain on shifting of industrial undertaking from Urban area to Non-Urban area.

The capital gain arising on transfer of fixed asset other than furniture and fixtures of industrial undertaking effected to shift it from an urban area.

Following conditions for claiming the examination are as under:

- The transfer is affected in the course of shifting undertaking from an urban area to any area other than an urban area.
- Asset transferred is machinery, planned, building land or any right in building or land used for the business of industrial undertaking in an urban area.
- The capital gain is utilized within one year before or three years after the date of transfer.
- For purchasing new machinery or plant or building or land for taxpayers business in that in new area.
- Shifting of the old undertaking and its establishment to the new area.
- Incurring of expenditure on other purposes specified in this scheme notified for the purpose.

9. Section 54 GA - Shifting of an industrial undertaking from urban area to any special economic zone

It is exempt of the following conditions were satisfied:

- The transfer should be a long term or a short term capital asset such as plant, machinery, building or land or right in building or land.
- Such asset has been used for the purpose of business of industrial undertaking situated in urban area.
- The transfer should be done in connection with shifting of industrial undertaking in SEZ.
- The amount of capital gain must be used within a period within a period of one year before or three years after the date of transfer to purchase machinery or plant, to acquire land to construct building for the purpose of business in SEZ. (The unutilized amount capital gain mast is deposited in a capital gain deposit account.)

10. Section 54GB- Exemption of long term capital gain tax on transfer of residential property

In this case assessee can claim exemption from capital gain tax if he invests the net consideration in equity shares of a new SME company. Such SME company is required to invest this amount in purchase of a new plant and machinery.

This exemption can be claimed subject to the following conditions:

- The investee company should qualify as a small or medium enterprise under the Micro, Small and Medium Enterprises Act 2006.
- The company should be engaged in the business of manufacture of an article or a thing.
- SME Company should be incorporated within the period from 1st of April of the year in which capital gain arises to the assessee and before the due date for filing the return by the assessee.
- The assessee should hold more than 50 % of the share capital or the voting right after the subscription in the shares of a SME company.
- The assessee will not able to transfer the above shares for a period of 5 years.
- The company will have to utilize the amount invested by the assessee in the purchase of new plant and machinery within a period of one year from the date of subscription in the equity shares.
- If the entire amount is not so invested before the due date of filing the return of income by the assessee, then the company will have to deposit the amount in the scheme to be notified by the central government. The above new plant and machinery acquired by the company cannot be sold for a period of 5 years.
- The exemption would be available in case of any transfer of residential property made on or before 31st March 2017.

11. Section 54 H - Extension of time for acquiring new assets for depositing or investing amount of capital gain

Where the transfer of original asset by the way of a compulsory acquisition under any law, and the amount of compensation awarded for such acquisition is not received by the assessee the date of transfer, the period of acquiring the new asset or the period for depositing or investing the amount shall be extended in relation to the amount of compensation as is not received on the date of transfer.

Tax on capital gain

STCG

It is chargeable as per normal rates of income tax related to assessee. Other words, it is added to total income, and tax payer is taxed according to their income tax slab.

Tax on STCG on transfer of equity shares in a company or units of an equity - oriented fund. (Section 111A)

It is applicable on transfer of equity shares through recognized stock exchange and such transaction is liable to securities transaction tax. It is taxed at 15%.

If, STT not paid when shares are listed in recognized stock exchange located in an International Financial Services Centre. – 15%.

LTCG

- 20% of capital gain computed after allowing indexation benefits
- 10% of capital gain computed without giving the benefits of indexation

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INCOME FROM OTHER SOURCES

Income not chargeable under any other head is chargeable to tax under this head. Section 56 to lays down a list of incomes which are taxable under this head:

- 1. Dividend
- 2. Casual income eg: of winning from lotteries, crossword puzzles etc.
- 3. Gift
- Share premium in excess of fair market value of shares
- 5. Income by way of interest received on compensation or enhanced compensation
- 6. Sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset
- 7. Any sum received by the assessee from his employee as a contribution to provident fund etc.
- 8. Interest on securities
- 9. Income from letting of machinery, plant or furniture
- 10. Composite rent
- 11. Any sum received under key man insurance policy
 - (Key man insurance policy means a life insurance policy taken by a person on the life of another person who is either the employee or is connected in any manner with the business of that person.
- 12. Any compensation or other payment due to or received by any person in connection with the termination of his job, meant for the modification of the terms and conditions relating thereto In addition to above following items are also chargeable under the head of other source:
- Income from subletting of a house property
- Interest on bank deposit
- Interest on company deposits, interest on loans etc.
- Remuneration received from a person other than his employer for evaluation of answer scripts
- Income from royalty
- Directors fees
- d CEOR GLOBAL Rent from a vacant land
- Insurance commission
- Income from undisclosed source
- Income from private tuition
- Interest on income tax refund
- Family pension received by the family members of a deceased employee

- Dividend received from a cooperative society
- Income from activity of owning and maintaining race horse
- Stipend to trainee
- Interest on employees contribution towards and recognized provident fund at the time of payment of lump sum amount
- Agricultural income received outside India
- Income from leasehold property d property with excellence
- Rent of trademark
- Salary of MP, MLA or Council
- Unexplained cash credit, investment, money, expenditure
- Remuneration from writing articles in journals

T. Dividend

(Dividend means the sum received by a shareholder of a company on the distribution of its profits whether out of taxable income for tax free income. It is immaterial whether it is received in cash or kind.

- Dividend received from a domestic company is not taxable in the hands of the receiver under section 10 (34)
- The assessee is required to pay a tax @10%, if the total income from dividend exceeds Rs 10 lakh section (115 B BDA)
- o Dividend from a foreign company and deemed dividend from an Indian company under section 2(22) are taxable in the hands of shareholders under this head regardless whether they are investment or stock in trade.
- o Dividend received from a co-operative society is taxable under this head

Deemed dividend

Deemed dividend is the dividend which is not actually paid as a dividend but assumed to be dividend for the purpose of taxation under Income Tax law. In case of closely held company payment by the way of loan or advances treated as a dividend to the extent of following cases:

- 1. Such loan or advance is given to a registered shareholder who beneficially holds 10 % or more of equity shares in the loan giving company.
- 2. such a loan / advance are given to a" concern" which may be a HUF,

Sole proprietor, Firm, AOP, BOI or a company where by one of the shareholders beneficially holding 10 % equity share capital in the closely held company has a substantial interest in the

"concern". Substantial interest in a concern is if he is at any time during the previous year beneficially entitled to at least 20 % of the income of such a concern. Ceiling limit of the dividend is the extent of accumulated profit.

- ➤ Bonus shares declared by the company shall not be dividend as there is no release of profit.
- Any expenditure incurred in respect of exempted dividend is shawl not be allowed as deduction
- > Income from units of a specified company or a mutual fund is exempt in the hands of the unit holder
- > Deductions from dividend income:
 - 1. Commission or remuneration for releasing dividend
 - 2. Interest on loan
 - 3. Any other expenditure incurred wholly and exclusively for earning dividend except in the nature of capital expenditure or personal expenses

II. Casual Income: winning from lottery crossword puzzle

Such income should be fully taxable and no deduction should be allowed. Tax is charged at a flat rate of 30 % if the amount exceeds Rupees 10000. The person responsible to give tax on net amount of winnings but the amount includible in taxable income of the recipient it will be the amount of gross winning. Net winning is the amount received by the recipient after tax deduction at source grossing up of income. Casual income is to be grossed up when the amount given in the question as "net", "received", or "after deduction of tax" or is "collected by bank".

Gross up value = Net amount /70*100

- No deduction can be claimed from such income even if such expenditure is engaged exclusively and wholly for earning searching come.
- ➤ Deductions u/s 80C to 80 U is also not available for such income.

III. Gift

Gift means any sum of money, movable property or immovable property which received without consideration or inadequate consideration. Property does not include furniture, clothes etc. the provision of this section shall not apply. There are taxable gift and exempted gift:

Taxable gifts

- **1.** Any amount received as gift up to rupees 50000 in 1 year is not taxable in the hands of recipient. But if amount exceeds Rs. 50000 then whole received amount will be taxable.
- **2.** Any immovable property received without consideration and stamp duty value of property exceeds Rupees 50000 the stamp duty value of the property is taxable.
- **3.** Any movable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding rupees 50000 then the difference between stamp duty value and the consideration is chargeable to tax. If the difference between the actual value and stamp duty is less than 50000 the transfer is not considered as a taxable gift.
- **4.** Any movable property received without consideration and the fair market value of which exceeds Rupees 50000 the whole of the aggregate fair market value of such property.
- **5.** Any movable property is received for a consideration which is less than the aggregate fair market value of the property by an amount exceeding rupees 50000 and then the difference between aggregate fair market value and the consideration is chargeable to tax.

Exempted gift

Gift received from relatives

- Relatives defined by income tax act as follows:

 Spouse, brothers, sisters, parents, brother in law, sister in law, father in law, mother in law.
- ➤ Gift received on occasion of the marriage of the individual
- > Gift received under a will or by way of inheritance
- ➤ In contemplation of death of the payer
- Any local authority trust or university

IV. Interest on Securities

The term security generally means a document acknowledging the debt taken by the government or some other establishment from general public. Income from security is also not chargeable to tax under the head. Interest on security means

- a) Interest on any security of the central government or a state government
- **b)** Interest on debentures or other securities issued by or on behalf of a local authority or a company or a corporation established by a central, state or provincial act.
- Interest on securities taxable as per cash basis or due basis depending on the method of accounting followed by the assessee. If there is no method is followed then it should always be taxable on due basis.

- Interest shall be taxable when such interest force due. Due date of interest as prescribed by the issuing authority. Interest on securities is chargeable in the hands of the person who happens to be its owner at the time when the interest becomes due.
- The expenses such as collection expenses interest on loan and any other expenditure are detectable from the interest income.

Types of securities

There are four types of securities.

1. Tax- free government securities

Interest on securities is fully exempt from tax under section 10 (15). Interest on such securities is neither included in total income nor it is taxed.

2. Less tax government securities

These securities are either by central or state government. These are taxable securities but no tax is deducted at source on such securities. Interest on such securities will not be grossed up.

3. Tax free non-government securities

These securities are not tax free actually. The tax on the interest amount is actually paid by the company. The assessee get full amount of interest from the company without deducting any tax. For income tax purpose the tax paid by the company on the interest is to be added with the interest received by the assessee and his gross amount shall be included in his total income. This process is called grossing up.

4. Less tax non-government securities

These securities are taxable securities and income tax is deducted at source on the amount of interest calculated at the percentage stated on the securities and balance of the amount of interest paid to the security holder. Here the gross amount of interest shall be included in the total income of the assessee.

LOBALS

Tax free securities

For all assessee

- 12 year national saving annuity certificate
- National Defense Gold Bonds, 1980
- Special bearer bonds, 1991
- Treasury Savings Bank deposit certificate(10 years)
- Post office cash certificates (5 years)
- National plan certificate (10 years)
- National plant saving certificate (12 years)
- Post office National Savings certificate (12 years/7 years)

- Post office savings bank account
- Individual account- maximum exemption limit Rs. 3500
- Joint account- maximum exemption limit is Rs. 7000
- Post office cumulative time deposit account (15 years)
- Special deposit scheme 1981
- Fixed deposit scheme governed by the government saving certificate (fixed deposit) rules
 1968
- Fixed deposit scheme governed by the post office(fixed deposit) rules 1968

 Public account in post office (up to 5000)
- Bonds issued by local authority and specified by the central government
- Gold deposit bonds 1999

For individuals and HUF

- Interest on 7% capital investment Bond
- Interest on 8 % relief bonds, 2002, 6.5 % savings Bond 2003.
- Interest on notified bonds or debentures of public sector companies

Interest Exempted

- Interest on notified securities, bonds, certificate, deposits etc.
- Interest on notified capital investment bonds
- Interest on notified relief bonds
- Interest on notified a bonds in the hands of non-residents
- Nonresident account
- Interest on notified savings certificate
- Interest on gold deposit bonds 1999 for deposit certificate under gold monetization scheme 2015
- Dividend from a domestic company

Grossing up of interest if it is given net of TDS

In some problem interest income received (net interest) is given rather than interest earned. In such case it is needed to gross up the interest income received.

Rules for grossing up per interest on securities

- If the rate of interest is given only the interest of tax free commercial securities is grossed up and interest on all other securities is not gross up.
- Interest on tax free commercial securities is always grossed up. Whether its rate percent is given or the amount received is given.
- Interest on less tax securities is gross up only when the amount received is given.
- Generally tax on interest on securities is required to be deducted at 10%.

Interest received*100/90

Deduction of tax at source (TDS)

The person or company who deducted tax is required to deposit such a mode of tax deducted to the government treasury on behalf of the assessee. This is known as deduction of tax at source.

Rates of TDS

- ➤ Interest on securities- 8% of savings (taxable) bonds, 2003 or 7.75% savings (Taxable) bonds, 2018 during the financial year- 10%
- Interest on securities- issued on behalf of any local authorities statutory corporation listed debentures of a company and other industrial securities -10%
- ➤ Interest(any other person)- 10%
- ➤ Winning from lottery- 30%
- ➤ Winning from horse race- 30%

Bond washing transaction

Is the technique adopted by high income group of assessee by transferring their securities to low-income class of assessee on the eve of the due date of interest. It is a method of sale and repurchase of same or similar securities with a view to avoid attacks. After the date of interest they again transfer the securities in the name of the real owner. By doing this income tax department suffers huge losses of revenue.

Family Pension

Regular monthly amount payable by the employer to a person belonging to the family of a deceased employee. It is taxable under the head income from other sources after allowing standard deduction.

Standard deduction: Minimum of 1/3 rd of such pension, Rs 15000

Deductions

From the gross amount of income from other sources the following deductions are available to assessee:

- ➤ In case of interest from securities any reasonable sum paid by the way of remuneration or commission for the purpose of realizing Such income
- In case of income from plant and machinery or furniture given out on hire the following expenses allowed as deduction:
 - Current repair to building
 - Current repair to machinery, plant or furniture
 - Insurance premium paid
 - Depreciation
- In case of any expenditure other than capital expenditure or personal expenditure which has been in necessarily and exclusively for earning income
- ➤ In case of family pension

In case of interest on compensation or enhanced compensation - 50% of such interest

Cor Or GLOBAL STUD

Subject: Income tax

Module: 5

COMPUTATION OF TOTAL INCOME

CLUBBING OF INCOME (SECTION 60 TO 65)

As per the provisions of clubbing the assessee is liable to pay tax on his income along with the income of others. Inclusion of income of other person with the income of assessee is known as clubbing of income.

1. Transfer of income without transfer of asset(section 60)

2. Revocable transfer of asset (section 61)

If an asset is transferred under a revocable transfer, income from such asset is taxable in the hands of the transferor. The purpose of such kind of transfer includes any trust settlement or covenant, agreement or arrangement.

When a transfer is considered a revocable (section 63)

- Such transfer is containing any provision re- transfer of the whole or any part of the income or asset to the transferor, during the lifetime of the transferee or the beneficiary.
- Such a transfer gives a transfer a right to re assumed the power over the whole or any part of the income or asset during the lifetime of the transferee or the beneficiary.

3. Income of individual to include income of spouse, minor child etc.

- Income of the spouse by the way of salary, commission, fees or any other form of remuneration whether in cash or in-kind from a concern in which such an individual has a substantial interest.
- o If an asset is transferred by an individual directly or indirectly to the spouse without any adequate consideration, the income from such asset shall also be included in the total income of the assessee.
- 4. Transfer of asset to son's wife (Section 64)
- 5. Transfer to AOP or another person for the benefit of the son's wife. (Section 64)

6. Income from business

If the individual transfers any asset directly or indirectly to spouse or son's wife without adequate consideration and such asset is invested by the transferee in any business, the proportional profit of such business is to be included in the income of the transferor:

Value of the asset on first day of previous year

7. Income of minor child

- ❖ The income of minor child will be clubbed in the income of that parent (mother/father) whose total income (excluding the income of the minor child) is greater.
- The minor child not suffering from any disability of the nature specified in section 80U
- The income of the minor child is once included in the total income of either parents, any such income arising in any subsequent year shall not be clubbed in the total income of the other parent.
- ❖ If the marriage of the parents does not subsist then the income of the minor child will be included in the income of that parents who maintains the minor child in the relevant previous year.
- ❖ Were both the parents of the minor child are not alive, the income of the minor child cannot be assessed in the hands of any other relatives.
- Certain incomes taxed in the hands of minor child only (not clubbed in the hands of parents)
 - O Any income earned by a minor child who is suffering from any disability specified in section 80U
 - Any income earned by the minor child on the account of any manual work done by him.
 - Any income earned by the minor child on account of any activity involving the application of his skills, talent or specialized knowledge and experience.

Exemption: Where the minor child's income has been clubbed in the total income of his parents, such a parent will be entitled to an exemption to the extent of such income or 1500 whichever is less.

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8. Transfer of separate individual property to Hindu Undivided Family (conversion of the property)

- Converts a separate property as the property of the HUF
- Throws the property into the common stock of the family
- Otherwise transfers his individual property to the family.

For inadequate consideration then the income resulting from such transferred property shall continue to be clubbed in the total income of the individual.

AGGREGATION OF INCOMES

In computing total income of an assessee, the following income shall also be included in his income along with the income of the assessee.

- 1) Share in income of Association of Persons or Body of Individual
- 2) Deemed income: -
 - Cash credit
 - Unexplained Investments
 - Unexplained money
 - Amount of investment not fully disclosed in books of accounts
 - Unexplained expenditure
 - Amount borrowed or repaid on hundi

Taxation of deemed income

Undisclosed income is to be taxable at special rate that is at 30 %. No deduction in respect of any expenditure or allowance shall be allowed to the assessee while computing deemed income.

SET OFF AND CARRY FORWARD OF LOSSES

Intra source set off (section 70)

- Loss of speculation can be set off only against speculation gain.
- Loss from business or other activity can be set off against profit from other business.
- Long term capital loss can be set off only against long term capital gain.
- ➤ Short term capital loss can be set off against short term and long term capital gains.
- Loss from owning and maintaining race horses shall be set off only against income from such activity.
- ➤ Loss from lottery, cross word puzzles, gambling, card games or betting cannot be set off against any income.

Inter head set off (Section 71)

- Loss from speculation cannot be set off against any other income.
- Loss under the head capital gain cannot be set off against any other income but only against capital gain.
- Loss from business of owning and maintaining race horses cannot be set off against any other income.
- Loss under the head business or profession cannot be set off against income under the head salary.
- Loss from owning and maintaining race horses cannot be set off against any other heads of income.

CARRY FORWARD AND SET OFF OF LOSS

> Loss from house property

Any loss under this head can be set off against the income under any other head. But such set off shall be allowed subject to a maximum of 2 lakh. Carry forward of HP loss: 8 years.

> Loss from business and profession

The following are the principles of carry forward and set off in case of business loss:

- After carry forward in subsequent years, it can be set off against any business income. They can also be set off against speculation profit.
- In order to get the benefit of carry forward of loss the business in respect of which the loss was incurred should be continued for at least part of the year in which set off is claimed. Discontinuation and restart would be treated as a violation of this condition.
- The bought forward business loss can be set off against any income in respect of a discontinued business.
- Loss can be carried forward for 8 assessment years.
- Loss cannot be carried forward unless the return of income for that previous year is filed on time.
- Loss can be carried forward only by the person who has incurred it.

> Carry forward and set off of speculation loss

Speculation loss it can be set off only against income from speculation. It is not possible to set off against income of that year, and then it can be carried forward as a set off only against the income from speculation up to a period of 4 assessment year from the period from which the loss was incurred.

> Loss under the head capital gain

♦ Short term capital loss

It can be set off in the same assessment year with the capital gain arising out of short term or long term capital asset. Carry forward to 8 years.

❖ Long term capital loss

Such a loss can be set off against the gain from any other long-term capital assets only. Carry forward: 8 years.

Loss of Discontinued business

When a business have been discontinued before 1-4-1999 and bought forward loss of such a business cannot be set off against the income of any other business or profession.

Loss on maintenance of horse races

Race horse owners are allowed to stay out of their losses against the income arising out of owning and maintaining horse race. It can be carry forward: 8 years.

Sequence of set off

- a) Current year capital expenditure on scientific research
- b) Current year expenditure on family planning
- c) Current year depreciation
- d) Brought forward losses from business/profession
- e) Unabsorbed expenditure on family planning
- f) Unabsorbed depreciation
- g) Unabsorbed capital expenditure on scientific research.

PERMISSIBLE DEDUCTIONS FROM GROSS TOTAL INCOME

Section 80C -Deduction in respect of life insurance premium contribution to PF etc.

- **1.** Insurance premium paid on insurance of the life of self-spouse for his child. The amount paid should not exceed 20% of the actual capital sum insured. Policy issued on or after 1-4- 2012, the qualifying amount should not exceed 10% of the actual sum insured.
 - The policy issued on or after 1-4- 2013 for insurance on the life of a person who is a person with disability or severe disability or suffering from disease referred in section 80 DDB the qualifying amount should not exceed 15 % of the sum assured.
- 2. For a contract of annuity on the life of self or spouse or his child.
- 3. Sum deducted from his or her salary for securing his a deferred annuity for making provision for his wife for children. The sum deducted should not exceed 1/5th of the salary.
- 4. As contribution to any provident fund to which provident fund act 1925 applies to public provident fund (15 year) recognized provident fund, and approved superannuation fund.
- 5. Subscription towards any security of the central government or any such deposit scheme (notified by central government)
- 6. Subscription to saving certificates
- 7. Contribution for participating in the unit linked insurance plan of UTI, LIC,
 Mutual Fund
- 8. Sum paid towards and duty plan of LIC of India or any other insurer
- 9. Sum paid as contribution to any unit of mutual fund
- 10. Interest due on the national saving certificate
- 11. Investment in a term deposit
- 12. Subscription to such bonds issued by National bank for Agriculture and Rural Development
- 13. Investment made on or after 1 4 2007 in post office 5 year time deposit account
- 14. Investment made on or after 1-4-2007 in senior citizen saving Scheme
- 15. Investment made in Sukanya Samridhi scheme for welfare of girl child
- 16. Contribution by a Central Government employee to his tier 2 account of national pension system for a fixed period of at least 3 years.

Section 80CCC, (i)-deduction in respect of contribution to certain pension funds

If an individual deposited any amount out of his income under a contract for any annuity plan of Life Insurance Corporation of India for receiving pension from the fund shall be allowed a deduction of the whole of the amount paid or deposited or 150000 whichever is less. This limit would be subject to the overall limit of 150000 provided in section 80CCE.

Section 80CCD (1) - Deduction in respect of contribution to pension scheme of central Government

This deduction is available to those employees who are appointed by the central government on or after 1-1 -2004 or being an individual employed by any other employer or any other assessee. The amount of deduction is:-

- Amount deposited by the employee during the previous year in the pension scheme notified by the government or 10 % of his salary whichever is less. In case of any other individual (non-salaried) maximum of 20% of his gross total income is allowed.
- Amount contributed by the central government or 10% of salary whichever is less.

 Salary includes DA (in terms of employment) and excluded all other allowances and perquisites.

Section 80CCD (1B)

An additional deduction is allowed in respect of any amount paid up to 50000 rupees for contribution made by any individual assessee under NPS. Deduction of rupees 50,000 under section 80CCD (1B) is an addition to the overall limit of rupees 150000 provided under section 80CCE.

Section 80CCE- Total amount of deduction

As per section 80CCE the aggregate deduction under section 80C, 80 CCC and 80 CCD (1) will be subject to the overall limit of 150000. That means the maximum deduction allowable as per section 80C, 80CCC and 80CCD (1) will be rupees 150000.

SECTION	PARTICULARS	CEILING LIMIT
Section	Investment in LIP deposit in	
80C	PPF/ SPF/RPF	150000
80CCC	Contribution to certain pension	
	funds	150000
80CCD(1)	Contribution to NPS of	10% of salary
	government	or 20% of GTI,
	government	As the case may be
80CCE	Aggregate deduction under	
	section 80C, 80 CCC and	150000
	80 CCD (1)	$A \setminus A$
80CCD	Contribution to NPS notified	y A A
(1B)	by the Central Government	50000
	(outside the limit of 150000	
	U/S 80CCE)	
80CCD (2)	Contribution by the employer	
	to NPS of Government	
	(outside the limit of rupees	10% of salary
	150000 under section 80CCE)	

Section 80D - Deduction in respect of medical insurance premium health checkup and medical treatment

Taxpayers can claim deductions for health insurance premiums paid for ensuring self-spouse dependent children and parents. The tax deduction is applicable on both health insurance and medi claim policies. Male children if not employed then they can be covered up to 25 years. Whereas female children can be covered until she gets married (only if he is unemployed). Only premium amount can be claimed as a deduction.

- 1. Self & family25000
- 2. Self &family + Parents25000 + 25000 = 50000
- 3. Self &family + parents (senior citizens) 25000 + 50000=75000
- 4. Self (senior citizen) & family + parents (senior citizen) 50000 + 50000 = 100000

Single premium health insurance policy/multi-year medi claim policy

If the assessee prefers to pay insurance premiums for multiple years in one year itself (may get discount on premium rates) the deduction should be allowed proportionally over the years for which the benefit of the health insurance is available (subject to the overall monetary limit)

Section 80 DD-Deduction in respect of maintenance and support of handicapped dependent n excellence

Deduction is allowed if the individual or HUF.

- a) Expenditure for the medical treatment, training and rehabilitation of the dependent there being a person with the dependent, disability or
- b) Paid any amount to LIC or any other insurer in respect of schemes for the maintenance of a disabled dependent.

Amount of deduction:

Normal individual - 75000

Person with severe disability – 125000

(Here dependent means spouse, children, parent, brothers and sisters in the case of an individual and member in case of HUF who are wholly or mainly dependent on such individual or HUF for support and maintenance who has not claimed any deduction under section 80U.)

Section 80DDB-deduction in respect of medical treatment of certain chronic and protracted disease such as cancer, AIDS, Thalassemia etc.

This direction is allowed to an individual or a HUF who incurred medical expenditure on himself or a dependent. The amount of deduction is allowed as follows:

Citizen: 40000 or amount paid whichever is less.

Senior citizen & super senior citizen: 100000 or amount paid whichever is less.

The assessee actually paid this amount for the medical treatment of specified disease assessee should submit a certificate in this respect.

Section 80E - Deduction in respect of interest on loan taken for higher education including **Vocational Studies**

Any amount paid by the assessee as interest on such loan is allowed as deduction. The deduction will be allowed for a maximum period of 8 years from the year in which payment of interest on loan begins or till the interest is paid in full whichever is earlier.

Section 80 EE- Deductions in respect of interest on loan taken for acquiring residential house property

Deduction allowed is the amount of interest payable on such a loan subjected to a maximum of 50000. The deduction is allowed only if the assessee fulfills the following instructions:

- 1. The loan is sanctioned during the period of 1-4 -2016 to 31-3-2017
- 2. The amount of loan does not exceed 35 lakhs
- 3. The value of residential house property does not exceed 50 lakhs.
- 4. The assessee does not own any residential house property on the date of sanction of the loan.
- 5. Interested in respect of which deduction has been claimed under this section, shall not be deductible under any other provisions of the same or any other assessment year.

This direction is allowed over and above of rupees 200000 allowed as per section 24 interest paid in respect of loan borrowed for acquisition of a self-occupied property.

Section 80 EEA - Deduction in respect of interest on loan taken for affordable house Amount of deduction is, interest payable on loan taken subject to a maximum of 150000. To get deduction the following conditions are to be satisfied:

- 1. The loan is sanctioned during the period of 1-4 -2019 to 31-3- 2020
- 2. The stamp duty value of residential house does not exceed 45 lakhs.
- 3. The assessee does not own any residential house property in the date of the sanction of loan.
- 4. Amount of deduction allowed shall not be deductible under any other provisions for the same in the same assessment year.

80EEB-Ddeduction in respect of interest on loan taken for electric vehicles

Electric vehicle means a vehicle run exclusively on a traction battery and having electric regenerative Breaking system. Amount of deduction allowable is the interest payable on loan taken subject to a maximum of 150000. Deduction allowed will not be claimed in any other section.

Section 80G-Deduction in respect of donation to certain funds charitable institutions etc.

Types of donations

- No limit donations (deduction allowed @100% of the qualifying amount)
- No Limited donations (deduction is allowed a@ 50% of the qualifying amount)
- ➤ With Limited donation (deduction allowed 100% of the qualifying amount)
- ➤ With limit donation (deduction allowed 50 % of the qualifying amount)

No Limited donations (100% of qualifying amount)

- The National defense fund
- The Prime Minister's national relief fund
- The Prime Minister's Armenia earthquake relief fund
- National foundation for communal harmony
- Any approved university or any educational institution
- The chief Minister's earthquake relief fund Maharashtra
- The Zilla SaksharthaSamithi.
- The national blood transfusion Council or state blood transfusion Council
- Fund set up by a state government for the medical relief to the poor
- Central welfare fund of the army and Air Force and the Indian navel benevolent fund
 National illness assistance fund
- Chief Minister's relief fund or the Lt.Governor's relief fund
- National sports fund or National cultural fund or fund for technology development and application.
- Any fund set up by the state government of Gujarat exclusively for providing relief to the victims of earthquake of Gujarat
- The national trust for Welfare of persons with Autism, cerebral palsy, mental retardation and multiple disabilities
- National children's fund
- National fund for control of drug abuse
- Swachh Bharat kosh
- Clean Ganga fund
- Donation to PM cares fund:(Donation up to 30-06-2020)

No Limited donation (deduction allowed at 50% of the qualifying amount)

- The Prime Minister's drought relief fund
- The Jawaharlal Nehru Memorial fund
- Indira Gandhi Memorial Trust
- Rajiv Gandhi Foundation

GLOBA

With limit donation (deduction allowed 100% of the qualifying)

- Government or local authority, institution or association to be utilized for the purpose of promotion of family planning.
- Indian Olympic Association or to an institute notified by the central government for the development of infrastructure for sports and games in India

With Limited donation (deduction allowed for 50% of the qualifying amount)

- The government or local authority utilized for charitable purpose
- Charitable organizations
- Any organization constituted for the development of housing and planning of cities, towns and villages
- Any notified the temple, Mosque, Gurudwara, Church or other place (For renovation or repair)
- To a corporation formed to protect the minority interest.

Conditions for allowing deduction

- ❖ Donation given should not be in kind. If the amount of donation exceeds 2000, it should be paid by any mode other than cash.
- ❖ Donation should not be given for the benefit or any particular religion, class, creed or community. But it does not include a scheduled caste, Scheduled Tribes and backward class or women or children, which are not for any particular religious community or caste.

80GG- Deduction in respect of rent paid.

Here, he will get a deduction:

- 1. Rent paid less 10% of adjusted total income.
- 2. 25% of adjusted total income
- 3. 5000 P.M

Whichever is less

Adjusted total income = Gross total income - long term capital gain + short term capital gains if any + deduction under section 80C to 80U before deduction as per section 80 GG.

Section 80 GGA- Deduction in respect of certain donations for research or rural development.

An assessee (other than, one who's Income is taxable under business and profession) he's eligible for this deduction. Here assessee can deduct 100% of the amount paid to the following institutions:

- a) An approved research Association which has its own object the undertaking of research in social science or statistical research or to a University, College or other institution to be used for scientific, social and statistical research.
- b) An institution which has its object the undertaking of any programme of rural development, to be used for carrying out any programme of rural Development or an Association which has its object the training of person for implementing programme of rural development.
- c) A public sector company or a local Authority or to an Association or institution approved by the National Committee, for carrying out any eligible projected or scheme or to the undertaking of any programme of conservation of Natural Resources or of afforestation to be used for carrying out any programme of conservation of Natural Resources or to the national urban poverty eradication fund set up and notified by the central government.

No deduction shall be allowed in respect of l any sum exceeding 10000, unless such sum is paid by any mode other than cash.

80 GGB-Deduction in respect of contributions made by an Indian company to political parties or an electoral trust.

The amount contributed is allowed as deduction.

80GGC-Deduction in respect of contributions made by an individual to political parties or electoral trust.

The amount contributed by an assessee who is not a local Authority or artificial juridical person, is eligible for deduction. No deduction shall be allowed under section 80 GGB&GGC in respect of any sum contributed by the way of cash.

80 IA -Deductions in respect of profit and gains from industrial undertaking or enterprises engaged in infrastructure development

The amount allowed as deduction in respect of Telecommunication services 100% for the first 5 years and 30% for the next five years. In other cases the amount of deduction is 100% for 10 consecutive assessment years

Section 80 IAB- Deduction in respect of profit and gain by an undertaking for enterprise engaged in development of special economic zone.

Enterprise will get a deduction of 100% for the profit and gains derived from such business for 10 consecutive assessment years, but the development of special economic zone should begin on or before March 31st 2017. The assessee can opt for any 10 consecutive years out of 15 years beginning with the year in which SEZ is notified by the government.

Section 80 IAC deduction in respect of profit and gains of eligible start up from an eligible business

Eligible startup means a company or LLP incorporated during 1-4 -2006 to 31-03- 2019 whose total turnover is up to 25 crores during any of the previous year from 2016-17 to 2020-2021. The amount of deduction is allowed here is 100% of the profit and gains for 3 consecutive assessment years. The assessee may opt for any 3 consecutive years out of 5 years beginning with the year of its Incorporation.

Section 80IB-Deduction in respect of profit and gains from industrial undertaking other than infrastructural development, ships or hotel etc.

No deduction under this section shall be allowed to an undertaking engaged in refining mineral oil, if it begins refining on or after 1-4-2009. But it is not applicable in case of public company. A 5 year tax holiday also be allowed to hospital located anywhere in India (except 7 urban agglomerations) provided the hospital is constructed and has started or start functioning between 1-4- 2008 and 31- 03 -2013. An undertaking begins commercial production of natural gas on or after 1-4 -2009 but before 31-03- 2007- deduction is allowed 100% of profit for initial 7 assessment years.

Section 80IC- deduction in respect of profit and gain from undertakings or enterprise in special category states.

Section 80 ID - Deduction in respect of profits and gains from business of hotel and Convention centers in specific area.

Section 80 IE - Deduction in respect of profit and gains in respect of certain undertakings in North Eastern states

Section 80 JJA -Deduction in respect of profits from the business of processing of biogradable waste

Here deduction is available for a period of 5 consecutive assessment years relevant to the previous year in which such business commences. (100% deduction)

Section 80 JJA deduction in respect of employment of new workmen

Here a deduction is allowed of an amount equal to 30% of additional wages paid to the new regular workers employed by the assessee in the previous year for 3 assessment years. In order to claim this incentives, it has been extended to units employing 50 (instead of 100) regular work man.

Section 80 QQB-Deduction in respect of royalty income of authors

He will get a deduction of Rs. 300000 or whole of such income (Royalty maximum @15 % of the value of such books sold less expenses attributable to such income) whichever is less, is allowed as deduction.

Section 80-RRB deduction in respect of royalty on patents

The amount of deduction is whole of such income or rupees 300000 whichever is less.

Section 80 TTA Deduction in respect of interest from bank

Here an individual or HUF, interest from savings bank account with a bank, cooperative bank, Post Office bank, up to 10000 will not be taxable(It is not applicable in case of fixed deposit).

Section 80 TTB- Deduction in respect of interest on bank/post office deposits in case of senior citizen

Here deduction is equal to 50000 or the amount of aforesaid interest, whichever is lower.

Section 80U-Deduction in the case of permanent physical disability (including blindness)

PLACE OF GLOBALISHIP Normal disability- Rs. 75000

Severe disability- Rs. 125000

AGRICULTURAL INCOME

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

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

excellence

- 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.
- Any income derived from farm house.

Criteria to determine agricultural income

- Income derived from land situated in India
- ❖ Land is used for agricultural purpose
- **❖** Land is situated in India.

Types of Agricultural income

- Rent or revenue from agricultural land
- Income derived from agriculture
- Income from any process used by the cultivator to render the product marketable
- Income from the sale of produce raised or received as rent in kind
- Income from buildings used for agriculture
- Any income derived from saplings or seedlings grown in a nursery.

Partly agricultural income

❖ Profit of business other than Tea (Rule 7)

Market value of agricultural product raised can be deducted from total profit of such assessee. The rule is applicable in case of cotton, tobacco, sugarcane etc.

❖ Profit from Tea manufacturing (Rule 8)

Tea leaves grown - 40% treated as business income

- 60% treated as agricultural income.

❖ Income from the manufacturing of centrifuged latex or cenex

- 65% Treated as agricultural income
- 35% Treated as business income.

❖ Income from coffee manufacturing

- 75% of sale and cured of coffee grown is treated as agricultural income.
- 25% Treated as business income.

Examples of Agricultural income

- Income from sale of dried tobacco leaves in which green tobacco leaves are dried by using some process.
- Grazing fees realized from piece of land which was used for grazing animals or used for agricultural purpose
- Cattle are rare and exclusively for agricultural purposes and on the farm any income received on the sale of milk and the butter would be agricultural income

Examples of Nonagricultural income

- Income from the sale of wild grass
- Income from the sale ginned cotton
- Share of agricultural procedure received by a person for supply of water

COMPUTATION OF AGRICULTURAL INCOME

Agricultural Income of assessee can be computed as per the rules given below.

- Rent or revenue derived from agricultural land will be computed on the same basis as is adopted for the computation of income under the head income from other source.
- > Income derived from agricultural house property is computed as if it were income chargeable to income tax under the head income from house property.
- ➤ Income derived from agricultural operation is computed as if it were income chargeable to income tax under the head profit or gains from business or profession.
- Loss incurred in agriculture will be allowed to be set off only against gains from agriculture.
- Any sum payable to the government in the form of tax charged by the state government on agriculture will be allowed as a deduction.

Method of integration

Agricultural income is exempt from tax under section 10(1). But in the case of individual, HUF, AOP/BOI or artificial juridical person, if the net agricultural income exceeds Rs.5000 it is taken into account for determining the rate of income tax on other urban income liable to tax. Then relief of tax is allowed on such agricultural income.

- ➤ Net agricultural income is integrated with non-agricultural income.
- Income tax is calculated on this integrated income at the rates prevailing each assessment year.
- Then income tax will be calculated on the net agricultural income as increased by an amount of Rs. 250000, Rs.300000, and Rs.500000 as the case may be.
- Income tax calculated under 3 above is deducted from the income tax calculated 2 above.

ASSESSMENT OF INDIVIDUAL AND HUF

Rates of income tax for the assessment year 2020-2021

Normal rates of tax

Net income	Income tax rates
Where the total income does not exceeds 250000	Nil
Where the total income exceeds 250000 but does	5% of the amount by which the total
not exceed 500000	income exceeds 250000
Where the total income exceeds 500000 but does	12500 + 20% of the amount by which
not exceed 1000000	the total income exceeds 500000
Above 1000000 by which the total income	1,12500 + 30% of the amount 10,00000
exceeds	

Individual's age 60 years to 80 years

Net income	Income tax rates
Where the total income does not exceeds 300000	Nil
Where the total income exceeds 300000 but does	5% of the amount by which the total
not exceed 500000	income exceeds 300000
Where the total income exceeds 500000 but does	10000 + 20% of the amount by which
not exceed 1000000	the total income exceeds 500000
Above 1000000 by which the total income	1,10000 + 30% of the amount 10,00000
exceeds	

Individual's age above 80 years

Where the total income does not exceed 500000	Nil
Where the total income exceeds 500000 but does	20% of the amount by which the total
not exceed 1000000	income exceeds Rs. 500000
Above 1000000 by which the total income	100000 + 30% of the income exceed
exceeds	10,00000

