INCOME TAX

ASSESSMENT YEAR 2023-24

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INCOME TAX

(For B.Com, BBA, B. Voc. (ATA), M.Com, M. Voc.(ATA), CA Inter and Other professional courses)

ASSESSMENT YEAR 2023-24

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Projects: He has completed project research work sponsored by ICSSR on **"Socio-Economic Implication of Carbon Taxation: An Exploratory study** in 2019. Another research project entitled "Determination of Shareholders' wealth: A quantitative Analysis" sponsored by UGC has completed in 2008.Right now he has been working as principal investigator of RUSA-MHRD sponsored major project entitled "**Block chain Accounting: An exploratory Research**.

Publications: Sixty nine research articles have been published so far in journals of national and international repute like The Chartered Accountant Journal , Chartered secretary etc. About twenty six popular articles on contemporary social and economic issues have also been published in various Hindi newspapers. He is also author of text books entitled "Business Statistics" and Cost Accounting published in Hindi and English both versions. Three edited books are in his credit.

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6 Research scholars are pursuing Ph.D. under his supervision.

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He is author of Goods and Service Tax (English and Hindi), Accounting Standard, Auditing, Basics of Accounting.

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Preface

It gives us immense pleasure to place before readers the first edition of our book titled "Income Tax". Income tax is a complex subject. It required special skill in order to understand the provisions of Income Tax Act. In this background the present Income tax book is written in a simplistic language and is well structured manner. The provisions of income tax act has been explained in a step-by-step approach in this book.

The main salient features are:

- It is user-friendly and provides information in a concise manner.
- It is a comprehensive and critical study of the law relating to Income Tax.
- Even the last-minute changes till 30.06.2023 in the law have been incorporated in the present book. It is, therefore, the latest and most up-to-date book for the Assessment year 2023-24. The amendment made by the Finance Act, 2023 have been given at appropriate places in the book.
- It includes questions asked in Universities and CA Inter examinations with solutions to practical problems as per the law applicable for assessment year 2023-24.
- The book covers syllabus of B.Com., B.Com (H), B. Voc.(ATA), BBA, M.Com., M. Voc.(ATA), CA inter and other professional courses.

We acknowledge the effort of Arya Book Publications and the entire team in bringing out the book in a very short time period with excellent quality.

We look forward to the comments, suggestions and criticism from the readers.

Authors

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Chapter 1

BASIC CONCEPTS OF INCOME TAX

SECTION-WISE STUDY

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	Principles/Characteristics of Income
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288A	Rounding off of total income
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INTRODUCTION

Understanding the basic concepts of income tax law requires the study of the following:

1. The Income Tax Act, 1961
2. The Income Tax Rules, 1962
3. Annual Finance Bill
4. Notifications, circulars, and clarifications issued from time to time by the CBDT
5. Judicial decisions

The 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 1-4-1962. (Section 1). The act provides provisions for the computation of taxable income of various assessees. The act is amended by an annual finance bill every year. The rates of income tax are not given in the Income tax act, but by the Finance Act which is passed by Parliament along with the budget every year.

Annual Finance Bill/Act: Every year the Finance Minister of India presents a budget before the Parliament. One of the most important components of the budget is the Financial Bill, which covers the direct and indirect tax proposals/amendments levied by the Central Government.

When the Financial Bill is approved by both houses of Parliament and receives the assent of the President of India, it becomes the Finance Act. The provisions of such finance act are thereafter incorporated in the Income Tax Act.

The finance bill also mentions the rates of income tax and other taxes which are given in the first schedule attached to such Finance Bill. There are three parts. Part I gives the income tax rates for different assessees for the current assessment year. Part II gives rates for deduction of tax at source applicable for the current financial year. Part III gives rates for different assessees for payment of advance tax during the current financial year.

For example, the first schedule of the finance bill 2022 provides tax rates as follows:

Part I: The tax rates applicable for the assessment year 2022-2023

Part II: The tax rates applicable for TDS for the financial year 2022-2023. (The assessment year 2023-24)

Part III: The advance tax rates for the financial year 2022-2023. (The assessment year 2022-23)

Tutorial Notes

- When the finance bill is approved by both houses of parliament and receives the assent of the president, it becomes Finance Act. The provisions of such finance Act are incorporated in the income tax Act.
- Part III of a finance Act becomes part-I of the subsequent Finance Act, part III of Finance Act 2022 gives the advance tax rates for the financial year 2022-23. The same rates have become the rates of income tax for the assessment year 2023-2024.
- Total income is calculated in accordance with provisions of the income tax Act, as they stand on the first day of April of the assessment year. Any amendment that has been made after April 1 is not relevant for that assessment year. This rule is applicable to compute taxable income and tax liability, if the amendment is made in procedural law, then it is applicable from the date of amendment.

Explain through Examples

1. Suppose depreciation on intangible assets is reduced from 25% to 20% with effect from April 15, 2023. For calculating income and tax liability for the assessment year 2023-24, the provisions of income tax law on April 1, 2023, are applicable i.e., 25% rate shall be applicable.
2. Suppose a new income tax form DU is introduced with effect from May 8, 2023, in place of the old form T3. This is a procedural amendment. It is applicable from the date of amendment i.e., May 8, 2023.

The Income Tax Rules 1962: To carry out the purposes and implement the provisions of the act certain rules are required. The central board of direct taxes makes such rules. These rules are made applicable by notification in the Gazette of India. Rules provide guidelines to implement the provisions of the income tax act. Thus, knowledge of Income tax rules is necessary for to computation of the taxable income of the assessee.

Notification circulars and clarifications issued from time to time by the Central Board of Direct Taxes: Notifications issued by the Central Government as well as CBDT are binding on everyone. Notification is subordinate legislation and is issued under powers delegated by the Parliament. A circular or clarification is a communication issued by the CBDT which is binding upon the Income Tax authorities but the same is not binding on the assessee. However, **circulars cannot change the provisions of the law; they can merely clarify the law or relax certain provisions in favor of the taxpayers. In the event of a dispute, the circulars do not bind the Courts.**

Judicial decisions: Decisions given by Income Tax Appellate Tribunal (ITAT), High Court is binding on all the assessees as well as income tax authorities under their jurisdiction. Whereas a decision given by the Supreme Court becomes a law that will be binding on all the courts, appellate tribunal, and IT authorities as well as on all assessees.

Hence to a better understanding of Income tax laws, the above are to be understood.

Tutorial Notes

- Entry 82 of List 1 of the seventh schedule to the constitution of India empowers the parliament to levy taxes on income other than agriculture income.
- The Income Tax Act 1961 came into force on April 1, 1962. it extends to the whole of India. The Act comprises 298 sections arranged in 23 chapters and 12 schedules. This act was replaced by the Indian Income Tax Act, of 1922.

- Section 295 empowers the Central Board of Direct Taxes to make rules for the whole or any part of India for carrying out the purpose of the act.
- As per section 294, if as on April 1 of the assessment year the finance act has not been passed by the parliament, till the time it is so passed, the income to be charged for that assessment year is charged at the rates in force in the preceding assessment year or the proposed rated in the finance bill, whichever is more beneficial to the assessee.

IMPORTANT DEFINITIONS

There are some important definitions are given in the Income Tax Act, 1961. These are as follows:

Person [Section 2(31)]

Every person is chargeable to tax under the Act. The word Person includes:

a. An individual
b. Hindu undivided family
c. A Firm
d. Company
e. Association of person
f. Association of Person (AOP) or Body of Individuals (BOI)
g. Local authority
h. Artificial juridical person

The above list is not exhaustive; therefore, any person who does not fall under any of the above seven categories may still be liable to pay tax under section 4. The pictorial presentation is given in Figure 1:

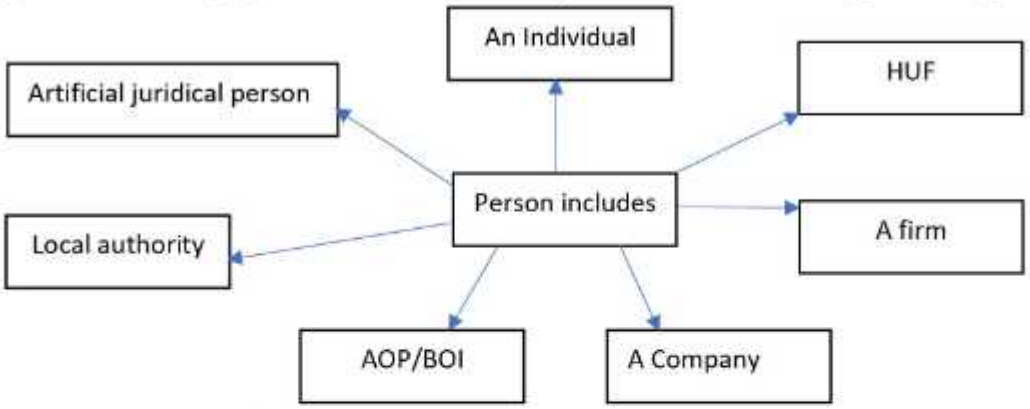


Figure 1: Types of persons under section 2(31)

Difference between AOP and BOI

- Any person can be a member of an association of persons whereas only an individual can be a member of a body of individuals.
- There is a common will and desire among the members of AOP. In the case of BOI, such common will and desire are lacking.

ILLUSTRATION 1.1

Determine the status of the following under section 2(31) of the Income Tax Act:

(1) Mr. Vijay, working as a teacher in a private school
(2) Mrs. Suman, Working as a directory of a company
(3) Udaipur Nagar Nigam
(4) Mohanlal Sukhadia University
(5) Hindustan Zinc Ltd.
(6) A joint Hindu Undivided family of Mrs. and Mr. Mahendra, their two sons, and one unmarried daughter.
(7) Shri Rameshwar and Shri Mohan working together for a business with a partnership deed.
(8) Life Insurance Corporation of India
(9) Shri Sanwaliaji Mandir Mandal trust

Solution:

(1) An individual
(2) An Individual
(3) A local authority
(4) Artificial person
(5) A company
(6) Hindi Undivided Family
(7) A firm
(8) A company
(9) Artificial person

EXERCISE: 1.1

Determine the status of the following under section 2(31) of the Income Tax Act:

(1) Delhi University
(2) Asian Paints Pvt. Ltd.
(3) Punjab National Bank
(4) Shri Krishna Enterprises, a firm consisting of three partners P, K, and R
(5) Municipal Corporation of Delhi
(6) A and B are legal heirs of C. C died in 2020 and A & B carry on their business without entering into a partnership.
(7) A Joint family consisting of J and Mrs. J, their son S and Daughter R.

[Ans.: (1) Artificial Juridical person, (2) A company (3) A company (4) A firm (5) A local authority (6) A body of Individuals (7) A HUF]

Assessee [Section 2(7)]

Assessee means a person by whom any tax or any other sum of money is payable under this act and includes the following:

(i) Every person in respect of whom any proceedings under the Income Tax Act have been undertaken

(ii) A person who is Deemed to be an assessee under any provision of this act for example legal representative or Guardian of minor

(iii) Every person who is Deemed to be an assessee in default under any provision of the Income Tax Act

Assessment year (Section 2(9))

Period of 12 months commencing on the 1st day of April every year and ending on 31st March of next year. Therefore, the period from 1st April to 31st March. The assessment year 2023-24 will commence on 1st April 2023 and will end on 31st March 2024.

Previous year (Section 3)

The financial year immediately preceding the assessment year is known as previous year. Income earned in a year is taxable in the next year. The year in which income is earned is called previous year and the next year in which income is taxable is called the assessment year. Income earned in 2022-2023 is taxable in the year 2023-2024. Hence, the financial year 2022-2023 is a previous year and 2023-2024 is an assessment year.

Generally, the previous year is always of 12 months but in the case of a newly set up business during the middle of the year then the first previous year may be less than 12 months. For instance, Dr. Tuktak started his profession on July 1, 2022, then the first previous year would be from 1 July 2022 to 31 March 2023.

Tutorial notes

All assessees are required to follow a uniform previous year i.e., 1st April to 31st March

Income Tax is payable on the income earned during the previous year and it is assessed in the next financial year which is called the assessment year

ILLUSTRATION 1.2

Ascertain the previous year of the income to the assessment year 2023-24 in the following cases:

1. Mr. Vishwas was appointed as assistant manager in the Secure Meter Pvt. Ltd for the first time on 1.8.2022
2. Mr. Aditya sets up a new business on March 3, 2023.
3. Mr. Kunal purchased a let-out property of two rooms on July 5, 2022

Solution

1. August 1, 2022, to March 31, 2023
2. March 3, 2023, to March 31, 2023
3. July 5, 2022, to March 31, 2023

EXERCISE 1.2

Ascertain the previous year of the income to the assessment year 2022-23 in the following cases:

1. Mr. Aakash was appointed as assistant manager in a Pvt. Ltd for the first time on 1.8.2021. He switch over to another private company on 1-12-2022.
2. Mr. Adit sets up a new business on April 10, 2023.
3. Mr. Kunal purchased a property on July 5, 2022 and let out from 10 Oct. 2022

Exceptions: Cases where the income of the previous year is assessed in the same year

Generally, income earned during a previous year is taxable in the immediately following assessment year. But in the following cases income is taxable in the year in which it is earned. It means in the following cases assessment year and previous year would be the same.

1. **Shipping business of non-residents (Section 172):** on fulfillment of the following conditions, the income tax is to be paid in the same financial year in which income was earned.

- The assessee is a non-resident.
- He owns a ship or a ship is chartered by the non-resident.
- The ship carries passengers, livestock, mail, or goods shipped at a port in India.
- The non-resident may or (may not) have an agent in India

In this case, he will be charged income tax before the ship is allowed to leave the Indian port. Therefore, before the ship leaves the Indian port the master of the ship is under an obligation to furnish a return of the full amount earned on account of fare and freight and pay the tax accordingly. 7.5% of the amount paid or payable on account of such carriage is treated to be income accruing in India and tax on such income is charged in the same year in which it is earned provided the ship owner has no agent in India. The master of the ship shall submit a return of income before the departure of the ship from the Indian port or within 30 days by the representative assessee after getting approval in case of emergency.

2. **Assessment of person leaving India permanently (Section 174)**: If an individual wish to migrate outside India permanently and plans to leave India and such individual has no present intention of returning to India. In this case, the total income of such individual, up to the probable date of his departure from India shall be chargeable to tax in the same assessment year.

3. **Bodies established formed for a particular event or purpose (Section 174A)**: Where it appears to the assessing officer that any Association of Person or Body of Individual or artificial juridical person for the period from the expiry of the previous year for the assessment year up to the date of its dissolution shall be chargeable to tax in that assessment year.

4. **Assessment of person likely to transfer property to avoid tax (Section 175) :** If it appears to the Assessing Officer during any current assessment year, that any person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets with a view to avoiding any payment of his tax liability, then the total income of such person for the period from the expiry of the previous year for that assessment year till the date when the Assessing Officer commences proceeding, shall be chargeable to tax in the same assessment year.

5. **Discontinued business (Section 176) :** Where the business or profession of any person is discontinued than it is the duty of such person to give a notice to the assessing officer of such discontinuation within 15 days. Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year for that assessment year upto the date of such discontinuance may at the discretion of assessing officer be charged to tax in the same assessment year.

INCOME

Income tax Act 1961 does not define the word 'income' clearly. Only Section 2(24) enumerates certain types of receipts which includes:

(i) profits and gains;

(ii) dividend;

(iii) voluntary contributions received by a trust created wholly or partly for charitable or religious purposes or by an institution established wholly or partly for such religious purposes or by an association or institution referred to in section 10(21), 10(23) or 10(23C(iv), (v), (vi) and (via) or by a electoral trust;

(iv) the value of any perquisite or profit in lieu of salary taxable under section 17(2) and (3);

(v) any special allowance or benefit, other than perquisite included under (iv) above, specifically granted to the assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment of profit;

(vi) any allowance granted to the assess either to meet the personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living;

(vii) the value of any benefit or perquisite, whether convertible into money or not, obtained from a company either by a director or by a person who has a substantial interest in the company, or by a relative of the director or such person, and any sum paid by any such company in respect of any obligation which, but for such payment, would have been payable by the director or other person aforesaid;

(viii) the value of any benefit or perquisite, whether convertible into money or not, obtained by any representative assessee mentioned in clause (iii) or clause (iv) of sub-section (1) of section 160 or by any person on whose behalf or for whose benefit any income is receivable by the representative assess (such person being hereafter in this sub-clause referred to as the "beneficially) and any sum paid by the representative assessee in respect of any obligation which, but for such payment, would have been payable by the beneficiary;

(ix) any sum chargeable to Income tax under section 28(ii), (iii), (iiia), (iiib) and (iiic) or section 41 or section 59;

(x) the value of any benefit or perquisite taxable under section 28(iv);

(xi) any sum chargeable to Income tax under section 28(v);

(xii) any capital gains chargeable under section 45;

(xiia) the fair market value of inventory referred to in clause (via) of section 28;

(xiii) the profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society;

(xiiia) the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its member;

(xiv) any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever;

(xv) any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or any fund set up under the provisions of the Employee's State Insurance Act, 1948 or any other fund for the welfare of such employee;

(xvi) any sum received under a Key-man insurance policy including the sum allocated by way of bonus on such policy;

(xvii) any sum referred to in section 28(vi);

(xviii) Where a company, not being a company in which the public are substantially interested, received, in any previous year, from any person being a resident, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the sections (Section 56(2)(viib));

(xix) Any sum of money referred to in section 56(2)(ix);

(xx) Assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee other than –

(a) The subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of explanation 10 to section 43(1);

(b) The subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or State Government, as the case may be, shall also not form part of income.

(xxi) Any sum of money or value of property referred to in section 56(2)(x)

(xxii) Any compensation or other payment referred to in clause (xi) of sub-section (2) of section 56;

IMPORTANT PRINCIPLES/CHARACTERISTICS OF INCOME

(1) **Basic of Income – accrual or receipt:** In case of income from business or income from other sources, the taxability would depend on the method of accounting applied by the assessee, while in other cases, it would generally be taxed on receipt or accrual basis, whichever happens earlier. But in case of a contingent income, it will be taxed when contingency actually occurs and the income arises to the assessee.

(2) **Regularity of income –** Income shall be regard as periodical monetary return coming in with some sort of regularity or expected regularity from definite sources. It means there must be a regular basis to receive the income. It may be daily, weekly, monthly or yearly. However this does not mean that income which does not arise regularly will not be treated as income for tax purposes e.g. winning from lottery, capital gain on transfer of assets etc.

(3) **Application of income –** Where an assessee applies an income to discharge an obligation after the income reaches to his hands, it would be an application of income. In this case the income is taxed in the hands of assessee.

(4) **Diversion of income –** If the income is diverted, before it reaches the assessee as his own income it is not taxable in the hands od assessee.

(5) **Permanent and temporary source –** It is not necessary that there should be some permanent source of income. Income from temporary source is also regarded as income.

(6) **Pin money is not treated as income –** Pin money received by a woman for household expenses from her husband is not treated as income in Income Tax and is regarded as Stridhan.

(7) **Illegal income –** Income is income whether tainted or illegal – For the purpose of income tax, there is no difference between legal and tainted income. Even illegal income is taxed just like any legal income.

(8) **Increase in price is not treated as income –** In the cases where the market value of stock or assets has been increased itself, it will not be treated as income unless the stock or assets is sold out.

(9) **Disputed income –** Any disputed income means we can say where any dispute regarding the title of the income cannot hold up the assessment of the income in the hands of the recipient. In this case, the receiver of income is chargeable to tax though there may be rival claims to the source of the income.

(10) **Income includes losses also –** If there are any losses from any sources of income then such losses can be adjusted with income other heads or sources. You should know that income covers negative income also, it means if there is any loss then it will be a negative income.

(11) Personal gifts – Gifts received by a person on occasions like marriage, festivals, birthdays etc. should not ordinarily be the income of the assessee and therefore, cannot be taxed in the hands of the recipient as his income. However gift of money, or immovable property or certain moveable property received by an individual from unrelated person(s) shall be chargeable to income tax if the aggregate sum of money or value of gift received in previous year exceeds ₹ 50,000. Detailed discussion have been made in the chapter income from other sources.

(12) Probable or anticipated income – Anticipated or probable incomes are not regarded as 'income' unless it is received in cash.

(13) Revenue receipt vs. capital receipts – Section 4 of Income Tax Act brings to charge tax on total income. In order to come within the scope of charging provision, *prima facie* the receipt in question should normally be a revenue receipt. Capital receipts with following certain exceptions are normally exempt –

(i) Compensation for modification/termination of services [Section 17(3)(i)];

(ii) Compensation or other payment due to or received by some specified persons covered under section 28(ii)(a), (b), (c) and (d);

(iii) The fair market value of inventory referred to in section 28(via) i.e. if the inventory is converted into a capital assets;

(iv) Income by way of capital gains (Section 45);

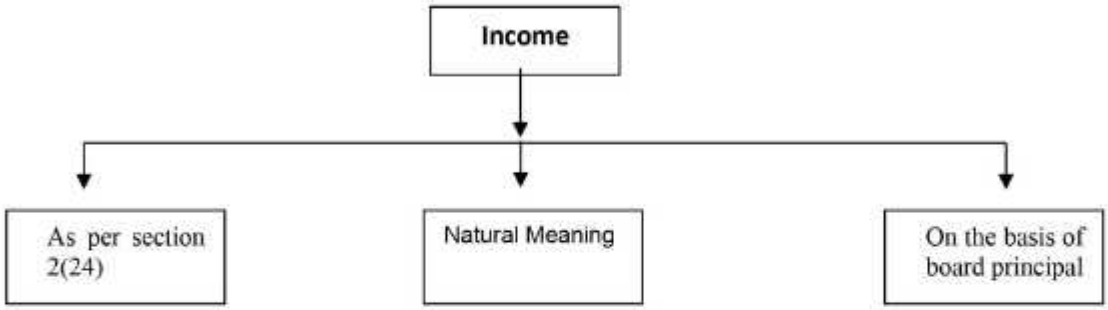
(v) Any sum or a property received by a person from unrelated person(s) without consideration if the aggregate amount received or value of gift during the previous year exceeds ₹ 50,000;

(vi) Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital assets, if –

(a) Such sum is forfeited; and

(b) The negotiations do not result in transfer of such capital assets.

The definition can be summarised as follows:



GROSS TOTAL INCOME (SECTION 14)

The income is to be classified under the following heads of income

a. Income from salary

b. Income from house property

c. Profits and gains of business or profession

d. Income from capital gains

e. Income from other sources

Aggregate of above 5 heads, after applying clubbing provisions and making adjustment off set off and carry forward of losses, the amount is known as gross total income.

Total income

The income which is computed by deducting from the gross total income all permissible deductions under chapter VIA of Income Tax Act (80C to 80U)

Rounding off of total income (Section 288A)

The total income shall be rounded off to the nearest multiple of 10 rupees.

Rounding off of tax (Section 288B)

The amount of tax, interest, penalty, fine, any other sum payable shall be rounded off to the nearest multiple of 10 rupees

EXEMPTION / DEDUCTION / REBATE

Exemption - A receipt coming within the purview of income by virtue of section 2(24) is included in the total income of the assessee for being charged to income tax unless exempt under the express provision of the Act.

Deduction – Deduction is given **from the income** compute under the different provisions of the Act. Certain section also provides for deduction while computing income under each head of income.

Rebate – Rebate is allowed on the amount of income tax so computed and not from the total income.

COMPUTATION OF INCOME

Income Tax levied in India in the following manners

1. Income earned by every person is chargeable to Income Tax provided the income exceeds the maximum amount which is not chargeable to tax it means it exceeds the maximum exemption limit
   - In case of every individual male or female being resident in India who is of the age of 80 years or more at the time during the previous year ₹ 5,00,000
   - In case of individual male or female being resident in India who is of the age of 60 years and above but less than 80 years at any time during the previous year ₹ 3,00,000
   - Any other individual being resident in India who is less than 60 years of age or an individual who is a non-resident irrespective of his age is less than or more than 60 years ₹ 2,50,000
   - An individual irrespective of any age who has opted to be taxed under section 115BAC ₹ 2,50,000
   - Hindu undivided family ₹ 2,50,000
   - Hindu undivided family who has opted to be taxed under section 115BAC ₹ 2,50,000
   - Association of person or body of individual other than cooperative society (where no member has income exceeding maximum exemption limit) ₹ 2,50,000
   - Artificial juridical person ₹ 2,50,000
   - Firm, company, local authority and cooperative society Nil
2. Income tax is charged on the total income of previous year but is taxable in the

following assessment year at the rates applicable to such assessment year. However, there are certain exceptions to this rule.

3. Income tax is charged at two rates
   - Normal tax rate which can be in the form of slab rate for flat rate are fixed by annual finance act
   - special rates are given in the Income Tax Act itself
4. Total income computed in accordance with the provision of the Act. The Income Tax Act have 5 heads which are income from salary, income from house property, income from business and profession, income from capital gain and income from other sources. Aggregate of these 5 heads is known as gross total income. The amount left after deductions allowed from gross total income are known as total income.
5. Tax is charged on total income computed.

Computation of income statement is divided into three parts-

Part-I: Shows the Income from all the sources and heads. Under the Income Tax Act, 1961, there are five heads of income-

1. Income from Salary
2. Income from House Property
3. Business and Professional Income
4. Capital Gains
5. Income from Other Sources.

Part-II: Shows the Total Income of the taxpayer. This is derived after the deduction of all the deductions claimed under Chapter VI-A of the Income Tax Act, 1961 from the Gross Total Income. Popular deductions viz., section 80C, section 80D for Mediclaim, section 80E for interest on education loan, section 80CCD for NPS, section 80TTA, section 80TTB, etc. fall under Chapter VI-A.

Part III – Calculates tax payable for the assessment year.

INCOME TAX RATES

Rates of Income Tax for Assessment Year 2023-24

In case of Individuals

First time two alternative tax options are given to an individual from assessment year 2023-2024. These two alternatives are old tax regime and new tax regime (sec.115BAC). In order to adopt new tax regime certain exemptions are to be withdrawn discussed later.

Old Tax Regime

For an individual (man or woman), residents in India who is of the age of 80 years or more at any time during the previous year:

Total taxable Income	Tax Rate	Computation
Up to ₹ 5,00,000	Nil	Nil
₹ 5,00,001 to ₹ 10,00,000	20%	20% of (TTI - ₹5,00,000)
Above ₹10,00,000	30%	₹1,00,000 + 30% (TTI – 10,00,000)

For an Individual (man or woman), resident in India who is of the age of 60 years or more but less than 80 years at any time during the previous year

Total taxable Income	Tax Rate	Computation
Up to ₹ 3,00,000	Nil	Nil
₹ 3,00,001 to ₹ 5,00,000	5%	5% of (TTI - ₹3,00,000)
₹ 5,00,001 to ₹ 10,00,000	20%	10,000 + 20% of (TTI - ₹5,00,000)
Above ₹10,00,000	30%	₹1,10,000 + 30% (TTI – 10,00,000)

For individuals less than 60 years of age, HUF, AOP/ BOI (Other than a co-operative society) and artificial juridical person

Total taxable Income	Tax Rate	Computation
Up to ₹ 2,50,000	Nil	Nil
₹ 2,50,001 to ₹ 5,00,000	5%	5% of (TTI - ₹2,50,000)
₹ 5,00,001 to ₹ 10,00,000	20%	12,500 + 20% of (TTI - ₹5,00,000)
Above ₹10,00,000	30%	₹1,12,500 + 30% (TTI – 10,00,000)

New Tax Regime u/s 115BAC

w.e.f. A.Y. 2023-24, where the individual or HUF opts to be taxed under section 115BAC, the rates of income tax shall be:

Up to ₹ 2,50,000	Nil
₹ 2,50,001 to ₹ 5,00,000	5%
₹ 5,00,001 to ₹7,50,000	10%
₹ 7,50,001 to ₹ 10,00,000	15%
₹ 10,00,001 to ₹ 12,50,000	20%
₹ 12,50,001 to ₹ 15,00,000	25%
Above ₹15,00,000	30%

If the individual opts to be taxed under section 115BAC the exemption limit in case of all individuals irrespective of age shall be ₹ 2,50,000

Exemptions and Deductions

If an individual adopts new tax regime, then the following deductions and exemptions cannot be claimed:

1. The standard deduction, professional tax and entertainment allowance on salaries
2. Leave Travel Allowance (LTA)
3. House Rent Allowance (HRA)
4. Minor child income allowance
5. Helper allowance
6. Children education allowance
7. Other special allowances [Section10(14)]
8. Interest on housing loan on the self-occupied property or vacant property (Section 24)
9. Chapter VI-A deduction (80C,80D, 80E and so on) (Except Section 80CCD (2) and 80JJAA)
10. Without exemption or deduction for any other perquisites or allowances
11. Deduction from family pension income

Surcharge for the assessment year 2023-24

The amount of income-tax shall be increased by a surcharge for the purposes of the union calculated at the following rates-

(a)	Where the total income (including the income by way of dividend or the income under the provisions of section 111A and section 112A of the Income Tax Act) exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore	10% of such income tax
(b)	Where the total income (including the income by way of dividend or the income under the provisions of section 111A and section 112A of the Income Tax Act) exceeds ₹ 1 crore but does not exceed ₹ 2 crore	15% of such income tax
(c)	Where the total income (excluding the income by way of dividend or the income under the provisions of section 111A and section 112A of the Income Tax Act) exceeds ₹ 2 crore but does not exceed ₹ 5 crore	25% of such income tax
(d)	Where the total income (excluding the income by way of dividend or the income under the provisions of section 111A and section 112A of the Income Tax Act) exceeds ₹ 5 crore	37% of such income tax
(e)	Where the total income (including the income by way of dividend or the income under the provisions of section 111A and section 112A of the Income Tax Act) exceeds ₹ 2 crore but is not covered under clause (c) and (d) above	15% of such income tax

Health and education Cess for the assessment year 2023-24

Health and Education Cess on Income tax @ 4% (inclusive of surcharge, wherever applicable)

Rebate under Section 87A

On fulfilment of the following conditions, an individual is entitled to claim rebate under section 87A. Rebate is given before levied health and education cess.

(1) The assessee is an Individual

(2) He is resident in India,

(3) His total taxable income (after deduction under section 80C) does not exceed ₹ 5,00,000

Quantum of Rebate

Tax payable or ₹ 12,500 whichever is less

STEP BY STEP PROCEDURE FOR COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Total income of an assessee is gross total income as reduced by the amount permissible as deduction under sections 80C to 80U. The scheme of computation of total income and tax liability thereon can be easily understood with the help of the following chart:

Computation of Total Income for an assessment year

Particulars	Amount	Amount
Income from salaries		
Income from salary		
Income by way of allowances		

Taxable value of perquisities		
Gross Salary		
Less: Deduction under section 16		
Standard deduction		
Professional tax		
Income from salaries		
Income from house property		
Adjusted net annual value		
Less: Deduction under section 24		
Income from house property		
Profits and gains of business or profession		
Net profit as per profit and loss account		
Add: Amount which are debited to P & L account but are not allowable as deduction under the Act		
Less: Expenditure which are not debited to P & L A/c but are allowable as deduction under the Act		
Less: Income which are credited to P & L a/c but are exempt under section 10 or are taxable under other heads of income		
Add: Those income which are not credited to P & L a/c but are taxable under the head "Profits and gains of business and profession"		
Profits and gains of business or profession		
Income from Capital Gains		
Amount of capital gain		
Less: Amount exempt under section 54, 54B, 54D, 54EC, 54G, 54GA, 54GB and 54F		
Income from other sources		
Gross income		
Less: Deductions under section 57		
Income from other sources		
Total		
Less: Adjustment on account of set-off and carry forward of losses		
Gross total income		
Less: Deduction under section 80C to 80U		
Total Income or Taxable Income or Net income chargeable to tax		
Total income rounded off to nearest Rs. 10		

Computation of Tax liability

Particulars	Amount	Amount
Tax on net income (At the rates specify earlier in this chapter)		
Less: Rebate under section 87A [in the case of a resident individual having net income not exceeding Rs. 5 Lakhs]		
Income tax after rebate under section 87A		
Add: Surcharge		
Tax and surcharge		
Add: Health and Eduction Cess [4% of tax and surcharge]		
Less: Rebate under section 86,89,90,90A and 91		
Tax		
Less: Pre-paid taxes		
Tax paid on self assessment		
Tax deducted or collected at source		
Tax paid in advance		
Tax liability [rounded off]		

ILLUSTRATION 1.3

If a person (Age below 60 years) has Taxable Income of ₹ 4,85,000. What will be his tax liability?

Solution:

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	(4,85,000 – 2,50,000) = 2,35,000x 5%	11,750
Tax total		11,750
Less: Rebate u/s 87A	Max 12,500 if total income is upto ₹ 5,00,000	11,750
Tax payable		Nil

EXERCISE 1.3

If a person (Age below 60 years) has Taxable Income of ₹ 4,99,000. What will be his tax liability?

[Ans. Nil]

ILLUSTRATION 1.4

If a person (Age above 60 years) has Taxable Income of ₹ 4,85,000. What will be his tax liability?

Solution:

Upto ₹ 3,00,000		Nil
₹ 3,00,001 to ₹ 5,00,000	(4,85,000 – 3,00,000) = 1,85,000x 5%	9,250
Tax total		9,250
Less: Rebate u/s 87A	Max 10,000 if total income is upto ₹ 5,00,000	9,250
Tax payable		Nil

EXERCISE 1.4

If a person (Age above 60 years) has Taxable Income of ₹ 4,99,000. What will be his tax liability?

[Ans.Nil}

ILLUSTRATION 1.5

If a person (Age below 60 years) has Taxable Income of ₹ 7,80,000. What will be his tax liability?

Solution:

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	2,50,000x 5%	12,500
₹ 5,00,001 to ₹ 10,00,000	(7,80,000-5,00,000)*20%	56,000
Tax total		68,500
Less: Rebate u/s 87A	Max 12,500 if total income is upto ₹ 5,00,000	Nil
Balance tax		68,500
Add: Health and Education Cess	@4%	2,740
Tax payable		71,240

EXERCISE 1.5

If a person (Age below 60 years) has Taxable Income of ₹ 8,96,400. What will be his tax liability?

[Ans. Rs. 95,451]

ILLUSTRATION 1.6

If a person (Age below 60 years) has Taxable Income of ₹ 37,00,000. What will be his tax liability?

Solution:

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	2,50,000x 5%	12,500
₹ 5,00,001 to ₹ 10,00,000	5,00,000*20%	1,00,000
Above ₹ 10,00,000	(37,00,000-10,00,000)*30%	8,10,000
Tax total		9,22,500
Less: Rebate u/s 87A	Max 12,500 if total income is up to ₹ 5,00,000	Nil
Balance tax		9,22,500
Add: Health and Education Cess	@4%	36,900
Tax payable		9,59,400

EXERCISE 1.6

If a person (Age below 60 years) has Taxable Income of ₹ 41,35,800. What will be his tax liability?

[Ans. Rs. 10,95,370]

ILLUSTRATION 1.7

Find out tax payable by an individual assuming that he would opt for 115BAC for the assessment year 2023-24:

(a) Having Total income of ₹ 4,10,000.
(b) Having Total income of ₹ 6,50,000.
(c) Having Total income of ₹ 11,30,000.
(d) Having Total income of ₹ 14,50,000.
(e) Having Total income of ₹ 44,80,000.

Solution:

(a) Computation of Tax payable for Total Income of ₹ 4,10,000 under section 115BAC

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 4,10,000 (4,10,000 – 2,50,000)	1,60,000x 5%	8,000
Tax total		8,000
Less: Rebate u/s 87A	Max 12,500 if total income is up to ₹ 5,00,000	8,000
Balance tax		Nil
Add: Health and Education Cess	@4%	Nil
Tax payable		Nil

(b) Computation of Tax payable for Total Income of ₹ 6,50,000 under section 115BAC

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	2,50,000x 5%	12,500
₹ 5,00,001 to ₹ 7,50,000	(6,50,000 – 5,00,000) x 10%	15,000
Tax total		27,500
Less: Rebate u/s 87A	Max 12,500 if total income is up to ₹ 5,00,000	Nil
Balance tax		27,500
Add: Health and Education Cess	@4%	1,100
Tax payable		28,600

(c) Computation of Tax payable for Total Income of ₹ 11,30,000 under section 115BAC

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	2,50,000 x 5%	12,500
₹ 5,00,001 to ₹ 7,50,000	2,50,000 x 10%	25,000
₹ 7,50,001 to ₹ 10,00,000	2,50,000 x 15%	37,500
₹ 10,00,001 to ₹ 12,50,000	(11,30,000 – 10,00,000) x 20%	26,000
Tax total		1,01,000
Less: Rebate u/s 87A	Max 12,500 if total income is up to ₹ 5,00,000	Nil
Balance tax		1,01,000
Add: Health and Education Cess	@4%	4,040
Tax payable		1,05,040

(d) Computation of Tax payable for Total Income of ₹ 14,50,000 under section 115BAC

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	2,50,000 x 5%	12,500
₹ 5,00,001 to ₹ 7,50,000	2,50,000 x 10%	25,000
₹ 7,50,001 to ₹ 10,00,000	2,50,000 x 15%	37,500
₹ 10,00,001 to ₹ 12,50,000	2,50,000 x 20%	50,000
₹ 12,50,001 to ₹ 15,00,000	(14,50,000 – 12,50,000) x 25%	50,000
Tax total		1,75,000
Less: Rebate u/s 87A	Max 12,500 if total income is up to ₹ 5,00,000	Nil
Balance tax		1,75,000
Add: Health and Education Cess	@4%	7,000
Tax payable		1,82,000

(e) Computation of Tax payable for Total Income of ₹ 44,80,000 under section 115BAC

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	2,50,000 x 5%	12,500
₹ 5,00,001 to ₹ 7,50,000	2,50,000 x 10%	25,000
₹ 7,50,001 to ₹ 10,00,000	2,50,000 x 15%	37,500
₹ 10,00,001 to ₹ 12,50,000	2,50,000 x 20%	50,000
₹ 12,50,001 to ₹ 15,00,000	2,50,000 x 25%	62,500
Over ₹ 15,00,000	(44,80,000 – 15,00,000) x 30%	8,94,000
Tax total		10,81,500
Less: Rebate u/s 87A	Max 12,500 if total income is up to ₹ 5,00,000	Nil
Balance tax		10,81,500
Add: Health and Education Cess	@4%	43,260
Tax payable		11,24,760

EXERCISE: 1.7

Find out tax payable by an individual assuming that he would opt for 115BAC for the assessment year 2022-23:

a) Having Total income of ₹ 4,70,000.
b) Having Total income of ₹ 7,15,000.
c) Having Total income of ₹ 11,80,000.
d) Having Total income of ₹ 13,90,000.
e) Having Total income of ₹ 47,50,000.

[Ans. Rs. (a) Nil (b) 35,360 (c) 1,15,440 (d) 1,66,400 (e) 12,09000]

AGRICULTURAL INCOME

As per section 10(1) agricultural income is exempt from income tax. However net agricultural income is added to total income for tax calculation purpose which has been explained in the chapter computation of tax payable.

Definition of Agricultural Income: Section 2(1A)

(a) **Section 2(1A)(a) :** any rent or revenue derived from land which is situated in India and is used for agricultural purposes;

(b) **Section 2(1A)(b) :** any income derived from such land by agricultural operations including processing of the agricultural produce, raised or received as rent in kind so as to render it fit for the market, or sale of such produce; and

(c) **Section 2(1A)(c) :** income attributable to a farm house subject to the condition that the building is situated on or in the immediate vicinity of the land and is used as a dwelling house storehouse, or other out building and the land is assessed to land revenue or a local rate, or alternatively, the building is situated on or in the immediate vicinity of land which is situated in a rural area.

For computing agricultural income, the following points should be kept in mind:

(1) **Income should be derived from land**: For the purpose of exemption, of agriculture income, it should receive or arising or springing from land. Such source should be the immediate and effective source. For example, sale of agricultural product produced on land will be treated as immediate effect. But source should not be any secondary or remote source. For example, dividend paid by agricultural company is not derived from land since the effective and immediate source of income is shareholding and not the land.

(2) **The land should be situated in India**: Land should be situated in India whether urban or rural irrespective of land revenue or local rate. It means for exemption under section 10(1) the land should be in India, if it is outside the India, agriculture income from outside India would always be liable to pay tax.

(3) **Land should be treated as agricultural land:** the land is assessed to land revenue or local rate. However, if it is not assessed to land revenue or local rate than such land should be situated outside area :

Here Urban area means:

(a) If the land is situated within the jurisdiction of municipality etc. or a cantonment board the population of that municipality etc. is 10,000 according to the last preceeding census of which the relevant figures have been published before the first day of the previous year,

(b) If the land is situated in any other area –

Area within the distance measured aerially	Population in such area
Not more than 2 km. from the local limit of municipality or cantonment board	More than 10,000 but not more than 1,00,000
Not more than 6 km. from the local limit of municipality or cantonment board	More than 1,00,000 but not more than 10,00,000
Not more than 8 km. from the local limit of municipality or cantonment board	More than 10,00,000

Farm house:

(a) Situated in Urban area – Income attributable to farm house situated in urban area will not be treated as agricultural income unless the land on which the farm house is situated is assessed to land revenue or any local rate.

(b) Situated in rural area – The income will always be treated as agricultural income whether assessed to land revenue or not.

(4) Land should be used for agricultural purposes – Agricultural work include tilling of the land, sowing of seeds, planting, ploughing, raising of grooves, raising of grass or pastures. It also includes horticulture, floriculture, arboriculture and sylviculture. The Supreme Court in CIT vs. Raja Benoy Kumar Sahas Roy (1957) has held that the land is said to be used for agricultural purposes where the following two types of operations are carried out on such land –

(a) **Primary operations :** Primary operations involve tilling of land, sowing of seeds, watering the land, planting etc. we can say primary operations are done before the plant come out of land.

(b) **Subsequent operations :** After the plant comes out of the land, there are subsequent operations to done like, weeding, pruning, cutting, using pesticides, harvesting etc.

To become a agricultural income it is necessary to do primary operations related to agriculture.

INCOMES TREATED AS AGRICULTURAL INCOME

(1) Income earned from agricultural operations: if income earned from agricultural operations like tilling of land, sowing of seeds, watering of land, harvesting etc. by any person whether he is owner, tenant or mortgagee etc. will be treated as agricultural income.

(2) Rent received on land used for agricultural operations: If a person who is owner of land grants the right of cultivating his land to another person, then the rent amount received by the owner is treated as agricultural income. The rent may be received in cash or in kind.

(3) Any income derived by agriculture from land situated in India and used for agricultural purpose. The following will be treated as income derived from agricultural land –

(i) Standing crop or the raw produce after harvest sold by the agriculturist himself;

(ii) Crop used as raw material by the cultivator in his business

(4) Any income derived from performance of such operations by the cultivator which are necessary to bring the produce in saleable condition is agricultural income. The gain in the value of produce by such marketing process or agricultural process is also classified as income from agriculture. If this process (marketing or process which makes product saleable) is performed on agricultural produce which could be sold without such process as the produce was itself marketable the income attributable to the process shall not be agricultural income.

(5) Self-generated (spontaneous) grass for cattle.

(6) Income from growing flowers and creepers.

(7) Rent from forest;

(8) Income from toddy when it is received by actual cultivator of the trees;

(9) Seeds are clearly a product of agriculture and the income derived from the sale of seeds derived on account of cultivation;

(10) Sale of fruits, flowers and wood if cultivated by assessee;

(11) Compensation received from an insurance company on account of damaged caused to the crop;

(12) Interest on capital to partners and salary to partners engaged in agriculture work if same amount was deducted while computing the income of firm.

NON-AGRICULTURAL INCOME

The following income though related to land or agricultural but are taxable and not treated as agricultural income:

(1) Income from fisheries,
(2) Income from poultry farming,
(3) Income from dairy farms, butter and cheese making,
(4) Income from land used for small markets and exhibitions,
(5) Income from sale of forest, trees, wild grass, fruit and flowers grown spontaneously and without human effort,
(6) Dividend received from a company engage in agricultural work
(7) Income from brick making,
(8) Royalty income of mines,
(9) Income from dairy farms,
(10) Royalty of stone quarries,
(11) Salary of employees of agricultural farm,
(12) Interest on arrears of rent in respect of agricultural land,
(13) Income from breeding of livestock.
(14) Income from sale of surplus water of a well built on agricultural land,
(15) Income from salt produced by flooding the land with sea water and then extracting salt therefrom,
(16) Preservation of potatoes by refrigeration as it is not a process ordinarily employed by a cultivator,
(17) Profit on sale of standing crops/ agricultural produce purchase by assessee.

The above are only example of non-agricultural income, there may be many more case of non-agricultural income.

PARTIAL AGRICULTURAL AND PARTIAL BUSINESS INCOMES

(1) **Income from growing and manufacturing of tea [Rule 8]** – If an assessee is engaged in the business of growing tea and then processing it, 60% of such income is treated as agricultural income and 40% as nonagricultural income. You know that for manufacturing following two activities are performed –

(i) Cultivation of tea leaves
(ii) Processing of tea leaves to bring it in a saleable condition.

ILLUSTRATION 1.8

Agni Tea Company has sales ₹ 65 Lakh during the previous year 2022-23 from growing tea plants on its garden and processes the tea leaves in its own factory. The cost of goods sold for the company is ₹ 48,00,000. Find out its agricultural income and non-agricultural income.

Solution:

Computation of Non-agricultural income of a Tea company for the assessment year 2023-24

Particular	₹
Sales	65,00,000
Less: Cost of goods sold	48,00,000
Net profit	17,00,000
Less: Agricultural income as per rule 8 60% of 17,00,000	10,20,000
Non-agricultural income	6,80,000

EXERCISE: 1.8

Agni Tea Company has sales ₹ 59 Lakh during the previous year 2021-22 from growing tea plants on its garden and processes the tea leaves in its own factory. The cost of goods sold for the company is ₹ 38,00,000. Find out its agricultural income and non-agricultural income.

[Ans. Agricultural income Rs. 12,60,000]

(2) **Income from production of rubber [Rule 7A]** : Income derived from the sale of centrifuged latex or Cemex or latex based crepes (such as pale latex crepe) or brown crepes (such as estate brown crepe, re-milled crepe, smoked blanket crepe or flat bark crepe) or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plant grown by the seller in India as if it were income derived from business, and 35% of such income shall be deemed to be liable to tax and balance 65% will be treated as agricultural income.

(3) **Income from growing and manufacturing of coffee [Rule 7B] :** Income derived from the sale of coffee grown and cured by the seller in India. 75% of such income will be treated as agricultural income and 25% of such income shall be deemed to be income liable to tax.

Income derived from sale of coffee grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavoring ingredients shall be computed and 60^of such income will be treated as agricultural income and balance 40% of such income shall be deemed to be income liable to tax.

(4) **Income from growing and manufacturing of any product [Rule 7]** : If an assessee cultivates agricultural product and use it as raw material in manufacturing activities of business then nonagricultural profit will be

Market value of agricultural produce – total cost of manufacturing

Market value of agricultural/produce will be total agricultural receipt on account of agricultural product. In case where the agricultural produce is not ordinarily sold in the market the aggregate of the following amount is considered as market value of produce :

- Cultivation exp.
- Land revenue or rent of the land and
- A reasonable amount of profit in the opinion of assessing officer

Examples of such partial agricultural income are sugar from sugar cane, potato chips from potato, saus from tomatoes.

GRADED PROBLEMS

ILLUSTRATION 1.9

Compute total taxable income and tax liability of Mr. Pratham for assessment year 2023-24 under old and new tax regime from the following informations:

Income from Salary (Gross)	12,00,000
Income from House property	-1,08,000
Income from other sources	56,200
Deduction under section 80C	1,56,000
Deduction under Section 80D	24,000
Tax deducted at source	89,000

Solution:

Computation of total income for the assessment year 2023-24

Particular	Old Tax regime	New Tax Regime
Income from salary		
Gross salary	12,00,000	12,00,000
Less: Standard Deduction	50,000	Nil
Net taxable salary	11,50,000	12,00,000
Income from house property	-1,08,000	Not allowed
Income from other sources	56,200	56,200
Gross total income	10,98,200	12,56,200
Less: Deduction under section 80C (Maximum Rs. 1,50,000)	1,50,000	Not allowed
Less: Deduction under section 80D (Maximum Rs. 25,000)	24,000	Not allowed
Total income	9,24,200	12,56,200

Computation of tax payable under **old tax regime**

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	2,50,000x 5%	12,500
₹ 5,00,001 to ₹ 10,00,000	(9,24,200-5,00,000)*20%	84,840
Tax total		97,340
Less: Rebate u/s 87A	Max 12,500 if total income is upto ₹ 5,00,000	Nil
Balance tax		97,340
Add: Health and Education Cess	@4%	3,894
Tax payable		1,01,234

Computation of tax payable under **new tax regime**

Upto ₹ 2,50,000		Nil
₹ 2,50,001 to ₹ 5,00,000	2,50,000 x 5%	12,500
₹ 5,00,001 to ₹ 7,50,000	2,50,000 x 10%	25,000
₹ 7,50,001 to ₹ 10,00,000	2,50,000 x 15%	37,500
₹ 10,00,001 to ₹ 12,50,000	2,50,000 x 20%	50,000
₹ 12,50,001 to ₹ 15,00,000	(12,56,200 – 12,50,000) x 25%	1,550
Tax total		1,26,550
Less: Rebate u/s 87A	Max 12,500 if total income is up to ₹ 5,00,000	Nil
Balance tax		1,26,550
Add: Health and Education Cess	@4%	5,062
Tax payable		1,31,612

QUESTIONS

Multiple Choice Questions

Q1. Income tax act extends to:
- (a) Whole of India
- (b) Whole of India except Jammu & Kashmir
- (c) Whole of India except Sikkim
- (d) Whole of India except Jammu & Kashmir and Sikkim

Q.2 Canons of taxation are related to the following except:
- (a) Rate
- (b) Amount
- (c) Certainty
- (d) Methods of levy & collection of tax

Q.3 Which one of the following is not an advantage of direct tax:
- (a) As compared to indirect tax, it is easy to extract from public
- (b) Based on principle of equity & certainty
- (c) Convenient to tax player
- (d) Acts as automatic stabilizer

Q.4 Central government can impose taxes on all of the following except:
- (a) Taxes on income
- (b) Corporation tax
- (c) Taxes on agricultural income
- (d) Taxes on inter-state consignment of goods

Q.5 Normal rates of income-tax are prescribed in the-
- (a) Income-tax act, 1961
- (b) Income-tax rules, 1962
- (c) Finance act of the current year
- (d) CBDT circulars

Q.6 The rule for computation of net agricultural income are given in:
- (a) The income-tax rules, 1962
- (b) The income-tax act, 1961
- (c) Part IV of first schedule of the finance act
- (d) The income-tax rules as framed by CBDT

Q.7 As per section 2(31), the following is not included in the following of 'person'.
(a) An individual (b) A Hindu undivided family
(c) A company (d) A minor

Q.8 "Assessee" includes:
(i) A person in respect of whom any proceedings under the income-tax act, has been taken
(ii) A deemed assessee
(iii) A assessee in default
(a) Only (i) (b) (i) and (ii) both
(c) (i) and (iii) both (d) (i), (ii) and (iii)

Q.9 According to section 2(24) definition of 'income' is:
(a) Inclusive (b) Exhaustive
(c) Exclusive (d) Descriptive

Q.10 A local authority means:
(a) Panchayat (b) Municipality or municipal committee
(c) Cantonment board (d) All of the above

Q.11 A municipal committee legally entitled to manage and control a municipal fund is chargeable to income-tax in the status of:
(a) Individual (b) Association of persons
(c) Local authority (d) Artificial juridical person

Q.12 "Assessment year", as per section 2(9) of the income-tax act, means the
(a) Period of 12 months, commencing on the first day of april every year
(b) Year immediately succeeding the previous year
(c) A year in which income earned in the previous year is assessed to tax
(d) All of the above

Q.13 The presumed income for a non- resident engaged in shipping business in India shall be:
(a) 5% (b) 7.5% (c) 10% (d) 20%

Q.14 A new business was set up on 15.10.2022 and it commenced its business from 1.12.2022. the firs PY in this case shall be:
(a) 15.10.2022 to 31.3.2023 (b) 1.12.2022 to 31.3.2023
(c) 2022-23 (d) 2021-22

Q.15 The maximum amount on which income tax is not chargeable for AY 2023-24 in case of an individual who is resident in India of the age of 60 years or more but less than 80 years and has not exercised the option to be taxed u/s 115BAC is:
(a) ₹ 2,50,000 (b) ₹ 5,00,000 (c) ₹ 3,00,000 (d) ₹ 2,40,000

Q.16 The maximum amount on which income tax is not chargeable for AY 2023-24 in case of an individual who is non- resident in India and who is less than 60 years and has not exercised the option to be taxed u/s 115BAC is :
(a) ₹ 2,40,000 (b) ₹ 2,50,000 (c) ₹ 3,00,000 (d) ₹ 2,00,000

Q.17 Ram, a resident of India, is 61 years old. His total income for the AY 2023-24 is Rs. 5,15,000. His tax liability, if he exercises option 115BAC, shall be:
(a) ₹ 3,120 (b) ₹ 11,180 (c) ₹ 13,520 (d) ₹ 16,120

Q.18 Mrs. Sita, a non- resident in India is 66 years old. Her total income for the AY 2023-24 is ₹ 6,35,440. Her tax liability, if she does not exercise option u/s 115BAC, shall be:
(a) ₹ 38,570 (b) ₹ 41,170 (c) ₹ 54,170 (d) ₹ 39,980

Q.19 Health and education cess is leviable on:
(a) Income Tax (b) Income-Tax + surcharge, if applicable
(c) Surcharge (d) Total income

Q.20 The rate of surcharge applicable to an individual having total income exceeding Rs. 2 crore but exceeding Rs. 5 crores is:
(a) 20% (b) 25% (c) 30% (d) 35%

Very Short Answer Type Questions

1. What do you mean by Direct tax?
2. What is Assessment Year?
3. What is Previous Year?
4. Which section of Income Tax Act defines 'Assessee'?
5. Define 'Assessee'?
6. Which section of Income Tax Act defines 'Assessment Year'?
7. Which Finance Act is applicable for the assessment year 2023-24?
8. What do you mean by application and diversion of income?
9. An Individual has set up new business on 10 December, 2021, though it commenced its operation from 14th November, 2021, what would be its first previous year?
10. What is the extension of Income Tax Act?
11. When the finance bill becomes the Finance Act?
12. What is the meaning of diversion of income? [JNVU, B.Com. 2015]
13. Under which section agricultural income from India is exempt?
14. Raju earns ₹ 15,000 as commission for selling the agricultural product of his tenant. State whether this income is agricultural income or not?
15. Mahesh earns ₹ 5,00,000 for the sale of sugar produced from the sugarcane grown on an agricultural land owned by him. State whether this income is agricultural income or not?
16. What are the types of agricultural income? Write their names.
17. Write any four examples of non-agricultural income.
18. What portion of lumpsum amount received on maturity of life insurance policy is taxable and when?
19. Explain the period of previous year for newly setup business.
20. What do you mean by 'Assessee in default'?
21. What do you mean by 'Representative assessee'?

Short Answer Type Questions

1. Out of the following items, which are revenue receipts?
   a) Premium on issue of shares
   b) Sales tax collected from the purchaser of goods
   c) Interest from investment

d) Perquisites received by a professional during the course of carrying on profession.

2. What do you mean by person?
3. Write short note on partly agricultural income.
4. What do you mean by Gross Total Income?
5. What do you mean by Total Income?
6. Write down the five heads of income under Income Tax Act 1961.
7. Explain the provisions of income tax regarding closure of business.
8. Explain the provisions of income tax regarding Shipping business of a non-resident.
9. Explain the provisions of income tax regarding persons leaving India permanently or temporarily.
10. Explain the provisions of income tax regarding bodies established for short duration.
11. Write down any five types of receipts as given in section 2(24).
12. Write short note on Agricultural income from production of tea.
13. Write short note on income from production of rubber.
14. Write short note on income from manufacturing of coffee.
15. A Tea company earned a profit of ₹ 36 lakh during the previous year. The company gross tea plants on its gardens and processes the tea leaved in its own factory. Find out its agricultural income and non-agricultural income.
16. If in above question in a particular year all production is destroyed and the company gets amount from insurance company of ₹ 40,00,000, state whether it will be treated as agricultural income or not?

Essay Type Questions

1. "Income earned in previous year is taxed in the assessment year" Explain the rule and state its exceptions.

   Or

   "Income tax is charged on the income of the previous year in assessment year" Do you fully agree with this statement? If not, then also state the exception to this statement.
2. Write short notes on –
   a) Person
   b) Assessment year
   c) Assessee
   d) Gross total income
3. Explain the various principles of income under Income Tax Act 1961.

Practical Questions

1. Find out tax payable by an individual assuming that he would not opt for 115BAC
   a) Having Total income of ₹ 3,90,000.
   b) Having Total income of ₹ 7,50,000.
   c) Having Total income of ₹ 13,90,000.
   d) Having Total income of ₹ 46,50,000. [Ans.: (a) Nil (b) ₹ 65,000 (c) ₹ 2,38,680 (d) ₹ 12,55,800]
2. Find out tax payable by an individual assuming that he would opt for 115BAC
   a) Having Total income of ₹ 3,90,000.

b) Having Total income of ₹ 7,50,000.

c) Having Total income of ₹ 13,90,000.

d) Having Total income of ₹ 46,50,000.

[Ans.: (a) Nil (b) ₹ 39,000 (c) ₹ 1,66,400 (d) ₹ 11,77,800]

Answers MCQ

1	2	3	4	5	6	7	8	9	10
A	C	A	C	C	C	D	D	A	D
11	12	13	14	15	16	17	18	19	20
C	D	B	A	C	B	D	B	B	B

❑❑❑

Chapter 2

RESIDENTIAL STATUS AND TAX INCIDENCE

SECTION-WISE STUDY

Section	Particular
	Residential Status
5	Incidence of Tax
6	Resident in India
6(1)	Rules for determining the residential status of an Individual
	Deemed to be NOR
6(2)	Rules for determining the residential status of an HUF, firm, AOP, BOI
6(3)	Rules for determining the residential status of company
6(6)	Not ordinarily resident in India
7	Income deemed to be received
9	Income deemed to accrue in India

INTRODUCTION

Income tax is charged in an assessment year on the total income of previous year of a person, total income being computed under the Income Tax act. Thus, a person is charged in respect of his total income. By virtue of section 2(45), 'total income' means the total amount of income referred to in section 5, computed in the manner laid down in the act. However, the scope of total income in respect of a person determines the income in respect of which he is to be charged. Scope of total income and tax liability depends upon the residential status of a person. Hence, before calculating the taxable income of any person, the residential status has to be determined. The provisions of income tax relating to residential status and scope of total income are discussed in the present chapter.

RESIDENTIAL STATUS

The residential status of a person is determined in every assessment year with reference to previous year. The status so determined forms the basis of determining the income in respect of which the assessee is chargeable to tax. Thus, the residential status of an assessee is to be determined for each previous year separately. According to section 6 an assessee may be either (a) Resident in India, or (2) Non-Resident in India.

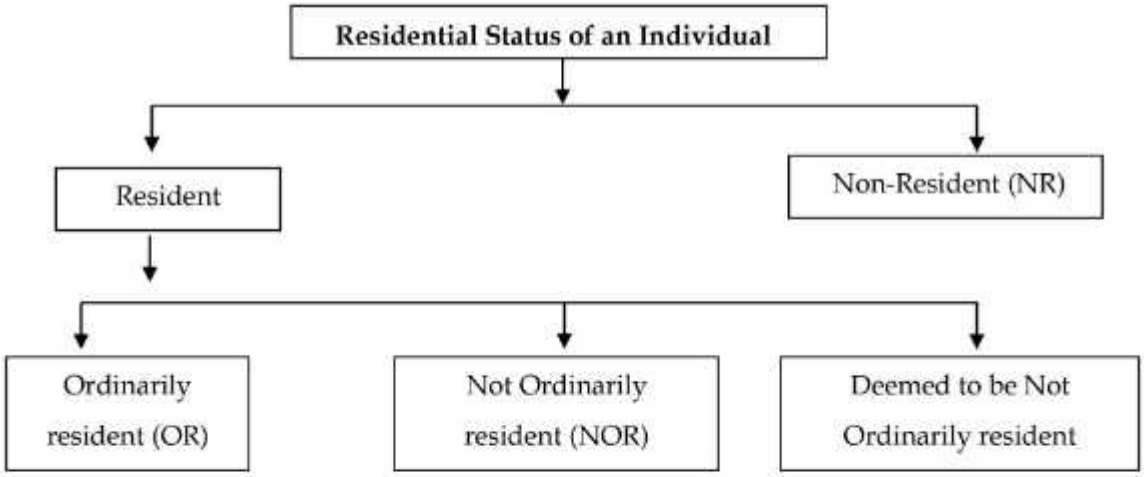
As far as individual and HUF assessees are concerned, they can be further divided into two categories, viz., (a) Resident and ordinary resident (b) resident but not ordinarily resident (c) Deemed to be not ordinarily resident. All other assessees can be either simply resident or non-resident.

If a person is resident in India in a previous year in respect of any source of income, then he is deemed to be resident in India in such previous years in respect of each of his other source of income by virtue of section 6(5). It should be noted that citizenship and residential status are different concepts. A person can have the same residential status in more than one country. Section 6 lays down the test of residence for the following taxable entities:

a) An Individual
b) A Hindu Undivided Family
c) A Firm or Association of Person or Body of Individuals
d) A Company and
e) Any other person

RESIDENTIAL STATUS OF AN INDIVIDUAL (SEC. 6)

An individual may be either (a) resident and ordinary resident or (b) resident but not ordinarily resident or (c) non-resident. In order to determine the residential status of an individual, certain conditions which are given under section 6 are to be tested. Thus, an individual may be classified into the following categories on the basis of residence.



To find out whether an individual is OR, NOR, deemed to be NOR or NR in India, one has to test the basic and additional conditions specified under section 6. If an individual satisfies the basic condition, then he shall be treated as resident in India otherwise he shall be treated as non-resident. If an individual satisfies both basic and additional conditions, he shall be treated as resident and ordinarily resident in India. In order to determine the residential status of an individual, first of all basic and additional conditions are to be understood.

BASIC CONDITION (SECTION 6(1))

An Individual is said to be resident in India in any previous year, if he satisfies **at least one** of the following basic conditions.

Basic condition: (a) He is in India in the previous year for a period of 182 days or more.

OR

Basic condition: (b) He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.

ADDITIONAL CONDITIONS (SECTION 6(6))

A resident individual is treated as ordinary resident (OR) if he satisfies the following both additional conditions-

(i) He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.

and

(ii) He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.

To find out whether an individual is OR, NOR or NR in India, one has to test whether the conditions specified under section 6 are satisfied or not.

Resident and ordinarily resident: An Individual who satisfies any one basic condition as well as both additional conditions is called resident and ordinary resident.

Resident but not ordinarily resident: An Individual who satisfies any one basis condition but does not satisfy both the additional condition is called not ordinary resident.

Non-resident: An Individual who does not satisfy the basic condition is called non-resident i.e., an individual is a non –resident in India if he satisfies none of the basic conditions.

OTHER POINTS

- It is not necessary that the stay should be for a **continuous period**. It is also not essential that the stay should be at **the same place in India.**
- Generally, in computing the days, the day he **enters** India and the day he **leaves** India should both be treated as **stay in India.** Suppose an individual came to India on 7th January and left India 11th January then five days shall be reckoned not four.
- If hourly data of presence is available then days his stay in India has to be calculated on hourly basis and a **total of 24 hours** will be taken as one day otherwise both arrival day in India and departure day from India to be included in determining total period.
- The term employment includes both employment with others and self -employment.
- The Individual is treated as being in India if he is at any place within the territorial waters of India.

- Baryard Brown Vs. Burt

Process to determine residential status: How to determine the residential status of an Individual? (Section 6(1), (6)

In order to determine the residential status of an individual, the following process may be adopted.

Step	Question to be answered	Result
First	Is the individual a resident?	• If yes, proceed to step 2. • If no, the individual is a non-resident.
Second	Is the individual a resident and ordinarily resident?	• If yes, the individual is resident and ordinary resident • If no, the individual is resident but not ordinarily resident.

Exceptions to Basic conditions:

In the following cases '(a)' part of basis conditions is applicable only i.e. (b) part shall not be applicable i.e., basic condition (b) is not taken into consideration in the following cases:

- An Indian citizen who leaves India during the previous year for the purpose **of employment outside India.**

OR

- An Indian citizen who leaves India during the previous year as a **member of the crew of an Indian Ship.**

OR

- An **Indian Citizen or a person of Indian origin who** comes on visit to India during the previous year if not covered under category II (Section 6(6)(c) of Deemed to be NOR.

DEEMED TO BE NOT ORDINARILY RESIDENT (DNOR)

First time a new provision has been inserted in Income Tax Act through finance bill 2020 for creating a new category of an individual i.e., deemed to be not ordinarily resident. For this purpose, first time stay period in India is not a decisive factor. The criterion for deciding whether an individual is a deemed to be NOR are given in form of exception of section 6(1)(b). The determination of deemed to be not ordinarily resident can be done either on the basis of stay period in India or without considering stay period in India. Even if an individual does not satisfy any of the two basic conditions, he is deemed to be resident but not ordinarily resident (NOR) in the cases given below:

1. Based on Stay period in India

Category Second (Section 6(6)(c)): This exception is applicable from the assessment year 2021-22. Under this exception, an individual shall be **deemed to be resident** but not ordinarily resident in India (DNOR) if he satisfies the following 4 conditions:

(a) He is an Indian citizen or a person of Indian origin,

(b) His total income (other than the income from foreign sources) exceeds Rs. 15,00,000 during the relevant previous year,

(c) He comes to India on a visit during the relevant previous year and

(d) He is in India for 120 days (or more but less than 182 days) during the previous year and 365 days or more during 4 years immediately preceeding the relevant previous year.

2. Do not base on stay period in India

Category First (Section 6(1A) & 6(6)(d)): This exception is applicable from the assessment year 2021-22. Under this exception an individual shall be deemed to be resident but not ordinarily resident in India, if he satisfies the following 4 conditions irrespective of his stay in India:

(a) He is an Indian citizen

(b) His total income (other than the income from foreign sources) exceeds Rs. 15,00,000 during the relevant previous year,

(c) He is not liable to tax in any country or territory by reason of his domicile or residence or any other criteria of similar nature, and

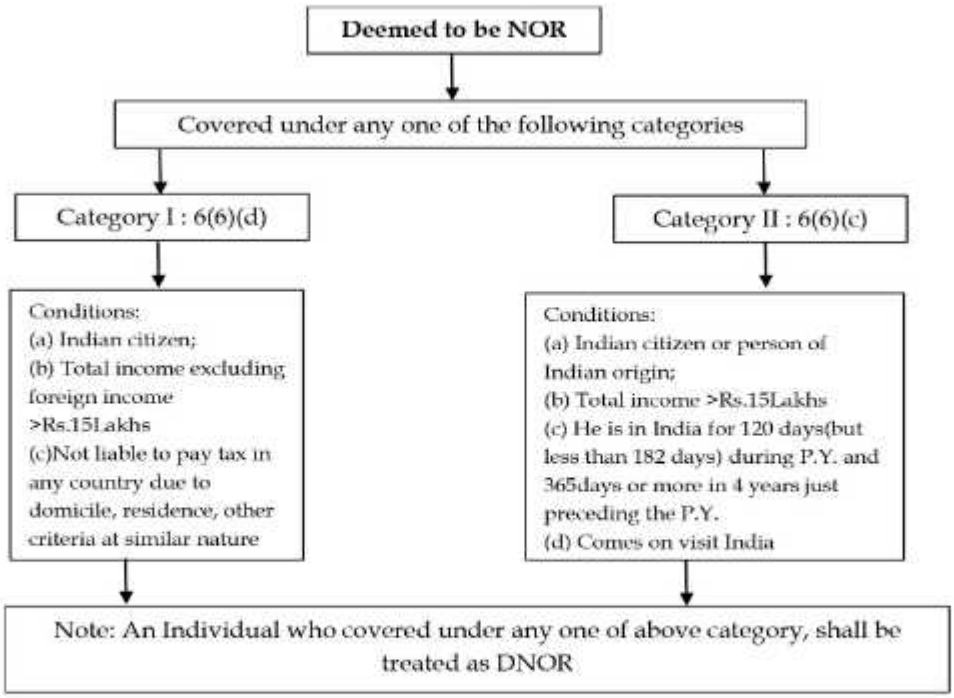
(d) He is not resident in India within the parameters of Section 6(1).

This exception is not applicable in case of a foreign citizen, even if he is a person of Indian origin.

Note: Total income for the ceiling of Rs. 15,00,000 is calculated after ignoring income from foreign sources. 'Income from foreign sources' means income which accrues or arises outside India (except income derived from a business controlled in or profession set up in India). Income which is deemed to accrue or arise in India shall be included in computation of ceiling of Rs. 15,00,000.

EXPLANATION

1. Employment purpose includes both to take employment outside India or leaving India for foreign assignment of present employer. Travelling abroad on business visa to take up any employment or for any business carried outside India is sufficient to prove this condition. The word employment also includes self employment as well as acquiring job.
2. A person is deemed to be of Indian origin if he or either of his parents or any of his grand parents was born in Undivided India (before 1947).



Is the individual a resident? (Section 6(1))

The following basic condition need to be satisfied for an individual to be a resident:

Category of Individual	Condition to be satisfied		Residential Status
	Days for which he should be in India in the previous year	Days for which he should be in India, during 4 years, immediately preceding the previous year	
An Indian citizen who leaves India during the previous year for the purpose **of employment outside India**	182 days or more	Not functional	Resident
An Indian citizen who leaves India during the previous year as a **member of the crew of an Indian Ship.**	182 days or more	Not functional	Resident
An **Indian Citizen or a person of Indian origin who** comes on visit to India during the previous year if total income does not exceed Rs. 15,00,000	182 days or more	Not functional	Resident
An **Indian Citizen or a person of Indian origin who** comes on visit to India during the previous year if total income exceeds Rs. 15,00,000 (DNOR)	120 days	365 days or more	Deemed to be not ordinarily Resident
If an Indian citizen whose total income exceeds Rs. 15,00,000 in P.Y. and is not liable to tax in any country and is NR u/s 6(1)	Not applicable	Not applicable	Deemed to be not ordinarily Resident
Any other individual	182 days or more OR 60 days or more	Not functional 365 days or more	Resident

Residential Status at a Glance

Category	Basic Condition	Additional Conditions
Resident and ordinarily resident (OR)	Satisfied	Satisfied
Resident but not ordinarily resident (NOR)	Satisfied	Not Satisfied
Non-resident (NR)	Not Satisfied	No need to check
Deemed to be not ordinarily resident (DNOR)	No need to check	No need to check

ILLUSTRATION 2.1

(a) Mr. Ganesh, an Indian citizen, went first time to Singapore on 5 September 2022 since his birth. Determine his residential status for the assessment year 2023-24.

(b) Mr. Jayant, who is a foreigner, came to India for the first time on June 15, 2018. During the financial years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23, he stayed in India for 120 days, 115 days, 191 days, 124 days and 80 days respectively. Determine his residential status for the assessment year 2023-24.

(c) Mrs. Kusum is engaged in a business at Australia. She owns a house at Udaipur where she uses to reside continuously for 5 months from last 16 years. During the previous year, due to some reason, she could reside in India at her Udaipur residence only from 1st May, 2022 to 20 June, 2023. Determine her residential status for the assessment year 2023-24.

(d) Mr. Lee, a foreign cricketer, come to India for 110 days every year since financial year 2011-12. Find out his residential status for the assessment year 2023-24

Solution:

(a) Stay of Mr. Ganesh in previous year is 158 days [Being April (30) + May (31) +June (30) + July (31) + August (31) + Sept (5)]. His residential status will be as follows

Basic Condition		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** (he was in India for 158 days) Satisfied (he went first time out of India, so he was in India for complete 4 years)
Additional Conditions		
1.	He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Satisfied** (he went first time out of India, so he was Resident in India for complete 10 years)
2.	He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Satisfied** (he went first time out of India, so he was in India for complete 7 years)
	Residential Status of Mr. Ganesh	**Ordinary Resident**

(b) Stay of Mr. Jayant in previous year is 80 days. His residential status will be as follows

Basic Condition (Any One)		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** (he was in India for 80 days) Satisfied (he was in India for 550 days(120+115+191+124)
Additional Conditions (Both should be satisfied)		
1.	He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Satisfied** (he came first time form outside India, he was Resident in India for 2 years) (See note 1)
2.	He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Not Satisfied** (he was in India for 550 days only)
	Residential Status of Mr. Jayant	**Not Ordinarily Resident**

Note 1: Stay in India

2018-19	120 days	
2019-20	115 days	
2020-21	191 days	(First basic condition satisfied) = Resident
2021-22	124 days	(Second basic condition satisfied) = Resident

(c) Stay of Mrs. Kusum in previous year is 51 days (Being 31 days of May and 20 days of June). Her residential status will be as follows

Basic Condition (Any One)		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Not Satisfied** (she was in India for 51 days) No need to check
Additional Conditions		**No need to check**
	Residential Status of Mrs. Kusum	**Non-Resident**

(d) Stay of Mr. Lee in previous year is 110 days. His residential status will be as follows

Basic Condition		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** (he was in India for 110 days) Satisfied (he was in India for 440 days (i.e., 110x4))
Additional Conditions		
1.	He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Satisfied** (he was Resident in India for complete 10 years) (In 10 years he satisfied 2nd Basic condition)
2.	He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Satisfied** (he was in India for 770 days (i.e., 110 x 7))
	Residential Status of Mr. Lee	**Ordinary Resident**

EXERCISE 2.1

(a) Shri Ankit Paliwal, who resides in Delhi, went to Canada for higher education on 20th August 2022 and came back to India on 10th June 2023. Determine residential status of Shri Ankit Paliwal for the assessment year 2023-24. If Shri Ankit had gone Canada for visit trip, will your answer be different?

(b) Mr. Sharad came to India for the first time from Nepal on 10th June, 2022. He returned to his home country after staying in India upto 25th December, 2022. Will Shri Sharad be resident in India for the assessment year 2023-24?

[Ans: (a) OR, OR (b) NOR]

ILLUSTRATION 2.2

(a) Brett Lee, the Australian cricketer comes to India for 100 days every year. Find out his residential status for the Assessment Year 2023-24.

(b) Mr. Bhushan, a American citizen, comes to India for the first time during the previous year 2016-17. During the financial year 2018-19, 2019-20, 2020-21,2021-22 and 2022-23 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the assessment year 2023-24.

(c) Mr. Chetan, a Shri Lanka citizen, left India after a stay of 10 year on 10.6.2020. During the financial year 2021-22 he comes to India for 46 days. Later, he returns to India for 1 year on 10.12.2022. Determine his residential status for the assessment year 2023-24.

(d) Mr. Dev, an Indian citizen leaves India on 22.10.2022 for the first time, to work as an officer of a company in France. Determine the residential status for the assessment year 2023-24.

Solution:

(a) Stay of Mr. Brett Lee in previous year is 100 days. His residential status will be as follows

Basic Condition		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** (he was in India for 100days) Satisfied (he was in India for 400 days (i.e. 100x4))
Additional Conditions		
1.	He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Satisfied** (he was Resident in India for complete 10 years)(In 10 years he satisfied 2nd Basic condition)
2.	He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Not Satisfied** (he was in India for 700 days (i.e.100 x 7))
	As he has not satisfied both additional conditions so his residential status will be NOR	
	Residential Status of Mr. Brett Lee	**Not Ordinarily Resident**

(b) Stay of Mr. Bhushan in previous year 2022-23 is 70 days. His residential status will be as follows

Basic Condition		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** (he was in India for 70days) and **Not Satisfied** (he was in India for 355 days (i.e., 55+60+90+150))
As he is not satisfying any of basic condition so his residential status will be		**Non-Resident**
Additional Conditions (No need to check for Non-Resident)		

(c) Stay of Mr. Chetan in previous year 2022-23 is 112 days (i.e. 10th December 2022 to 31st March, 2023 : 22+31 +28+31). His residential status will be as follows

Basic Condition		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** (He was in India for 112 days in p.y.) and (He was in India for 847 days in 4 years) i.e. P.Y. 2018-19 : 365 P.Y. 2019-20 : 365 P.Y. 2020-21 : 71 P.Y. 2021-22 : 46
Additional Conditions		
1.	He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Satisfied** (he was Resident in India for complete 9 years)(In 9 years he satisfied 2nd Basic condition)
2.	He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Satisfied** (he was in India for 1943 days i.e. P.Y. 2015-16 : 366 P.Y. 2016-17 : 365 P.Y. 2017-18 : 365 P.Y. 2018-19 : 365 P.Y. 2019-20 : 365 P.Y. 2020-21 : 71 P.Y. 2021-22 : 46
	Residential Status	**Ordinary Resident**

(d) Stay of Mr. Dev an Indian citizen in previous year 2022-23 is 205 days (i.e. 01.04.2022 to 22.10.2022 – 30+31+30+31+31+30+22). Exception: he has to stay in India for 182 days in P.Y. because he is leaving India for employment purpose. His residential status will be as follows

Basic Condition		
1	He is in India for a period of 182 days or more in previous year	**Satisfied**
As he is satisfying basic condition so his status will be		**Resident**
Additional Conditions		
1.	He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Satisfied**
2.	He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Satisfied**
	As he has satisfied both additional conditions so his residential status will be OR	
	Residential Status of Mr. Dev	**Ordinary Resident**

EXERCISE 2.2

(a) John, the Canadian Citizen comes to India for 65 days every year. Find out his residential status for the Assessment Year 2023-24.

(b) Mr. Aashish, a American citizen, comes to India for the first time during the previous year 2018-19. During the financial year 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 he was in India for 155 days, 260 days, 290 days, 150 days and 70 days respectively. Determine his residential status for the assessment year 2023-24.

(c) Mr. Ganesh, a Indian citizen, left India after a stay of 10 year on 10.6.2020 for employment purpose. During the financial year 2021-22 he comes to India for 46 days. Later, he returns to India for 1 year on 15.06.2022. Determine his residential status for the assessment year 2023-24.

(d) Mr. Devilal, an Indian citizen leaves India on 12.07.2022 for the first time, to work as an officer of a company in France. Determine the residential status for the assessment year 2023-24.

[Ans: (a) NR (b) OR (c) OR (d) NR]

ILLUSTRATION 2.3

(a) Mr. Tuktak, the Indian citizen comes to India for 45 days in the previous year 2022-23. His total income for the previous year is Rs. 16,00,000 (Excluding foreign income) and he is not liable to tax in any country. Find out his residential status for the Assessment Year 2023-24.

(b) Mr. Muktak, a Indian citizen, comes to India for visit in the previous year 2021-22. During the financial year 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 he was in India for 95 days, 60 days, 90 days, 150 days and 140 days respectively. Determine his residential status for the assessment year 2023-24 assuming that his total income for previous year is Rs. 17,50,000.

(c) Mr. Tushar, the Indian citizen comes to India for 55 days in the previous year 2022-23. His total income for the previous year is Rs. 13,00,000 from India and Rs. 4,00,000 from Japan on which he is not liable to tax in Japan. Find out his residential status for the Assessment Year 2023-24.

Solution:

(a) Stay of Mr. Tuktak an Indian citizen in previous year is 45 days he is not resident in India u/s 6(1) but from assessment year 2023-24 as per section 6(1A) if an individual satisfies the following conditions than he will be treated as deemed to be Not ordinarily resident in India:

a) He is an Indian citizen

b) His total income (other than the income from foreign sources) exceeds Rs. 15,00,000 during the relevant previous year,

c) He is not liable to tax in any country or territory by reason of his domicile or residence or any other criteria of similar nature, and

d) He is not resident in India within the parameters of Section 6(1).

Because Mr. Tuktak satisfied all of the above conditions so he will be **deemed to be not ordinarily resident in India.**

(b) Stay of Mr. Muktak in previous year 2022-23 is 140 days. His residential status will be as follows

Conditions for deemed to be not ordinarily resident		
(a)	He is Indian citizen	**Satisfied**
(b)	He is in India for a period of 120 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** (he was in India for 140days) and **Satisfied** (he was in India for 395 days (i.e., 95+60+90+150))
(c)	His total income (other than the income from foreign sources) exceeds Rs. 15,00,000 during the relevant previous year	Total Income Rs. 17,50,000
(d)	He comes to India for visit	Yes
As he is all satisfying all of the above conditions so his residential status will be		**Deemed to be Not ordinarily Resident**

(c) Stay of Mr. Tushar an Indian citizen in previous year is 55 days he is not resident in India u/s 6(1) but from assessment year 2023-24 as per section 6(1A) if an individual satisfies the following conditions than he will be treated as deemed to be Not ordinarily resident in India:

a) He is an Indian citizen

b) His total income (other than the income from foreign sources) exceeds Rs. 15,00,000 during the relevant previous year,

c) He is not liable to tax in any country or territory by reason of his domicile or residence or any other criteria of similar nature, and

d) He is not resident in India within the parameters of Section 6(1).

Because Mr. Tushar does not satisfy (b) of the above conditions so Section 6(1A) will not apply to him.

Now because he is not satisfying any basic condition of Section 6(1) so he will be **Non-resident in India.**

EXERCISE 2.3

(a) Mr. Prakash, the foreign citizen comes to India for 45 days in the previous year 2022-23. His total income for the previous year is Rs. 15,20,000 and he is not liable to tax in any country. Find out his residential status for the Assessment Year 2023-24.

(b) Mr. Nayan, a Indian citizen, comes to India for visit in the previous year 2022-23. During the financial year 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 he was in India for 95 days, 60 days, 90 days, 150 days and 140 days respectively. Determine his residential status for the assessment year 2023-24 assuming that his total income for previous year is Rs. 12,50,000.

[Ans.: (a) NR (b) NR)

ILLUSTRATION 2.4

(a) Determine residential status of Mr. Rakesh Daglia for the assessment year 2023-24. Who stays in India during various financial year as under:

P.Y.	Stay	P.Y.	Stay
2022-23	100	2015-16	91
2021-22	200	2014-15	90
2020-21	91	2013-14	88
2019-20	90	2012-13	89
2018-19	89	2011-12	86
2017-18	87	2010-11	87
2016-17	82	2009-10	89
		2008-09	90

(b) Determine residential status of Mrs. Isha for the assessment year 2023-24 who stay in India during various financial years as under :

P.Y.	Stay	P.Y.	Stay
2022-23	75	2015-16	80
2021-22	197	2014-15	91
2020-21	94	2013-14	186
2019-20	189	2012-13	85
2018-19	90	2011-12	89
2017-18	89	2010-11	72
2016-17	91	2009-10	169
		2008-09	72

(c) Dr Tuktak and Mrs Tuktak came to India on October 15, 2022 for a visit of seven months. Both are an Indian citizen. They were in India as follows in earlier years:

Year	Dr. Tuktak (Days)	Mrs. Tuktak(Days)
2021-22	240	365
2020-21	340	20
2019-20	Nil	15
2018-19	118	120

Find out the residential status of Dr Tuktak and Mrs Tuktak for the assessment year 2023-24.

Solution:

(a) Stay of Mr. Rakesh in previous year 2022-23 is 100 days. His residential status will be as follows

Basic Condition		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** he was in India for 100 days in p.y. and he was in India for 470 days in 4 years i.e. P.Y. 2018-19 : 89 P.Y. 2019-20 : 90 P.Y. 2020-21 : 91 P.Y. 2021-22 : 200
Additional Conditions		
1.	He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Not Satisfied** (he was Resident in India for complete only 1 years) **P.Y. 2021-22** : 200 days : Basic Condition I Satisfied **P.Y. 2020-21** : 91 days and 348 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2019-20** : 90 days and 349 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2018-19** : 89 days and 350 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2017-18** : 87 days and 351 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2016-17** : 82 days and 358 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2015-16** : 91 days and 353 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2014-15** : 90 days and 350 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2013-14** : 88 days and 351 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2012-13** : 89 days and 352 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied
2.	He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Satisfied** (he was in India for 730 days i.e. P.Y. 2015-16 : 91 P.Y. 2016-17 : 82 P.Y. 2017-18 : 87 P.Y. 2018-19 : 89 P.Y. 2019-20 : 90 P.Y. 2020-21 : 91 P.Y. 2021-22 : 200
	Residential Status	**Not Ordinary Resident**

(b) Stay of Mrs. Isha in previous year 2022-23 is 75 days. Her residential status will be as follows

Basic Condition		
1	He is in India for a period of 182 days or more in previous year	**Not satisfied**
2.	He is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** he was in India for 75 days in p.y. and he was in India for 570 days in 4 years i.e. P.Y. 2018-19 : 90 P.Y. 2019-20 : 189 P.Y. 2020-21 : 94 P.Y. 2021-22 : 197
Additional Conditions		
1.	He has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Satisfied** (he was Resident in India for complete 9 years) **P.Y. 2021-22** : 197 days : Basic Condition I Satisfied **P.Y. 2020-21** : 94 days and 459 days in 4 p.y. preceding P.Y. Basic Condition II satisfied **P.Y. 2019-20** : 189 days. Basic Condition I satisfied **P.Y. 2018-19** : 90 days and 351 days in 4 p.y. preceding P.Y. Basic Conditions not satisfied **P.Y. 2017-18**: 89 days and 448 days in 4 p.y. preceding P.Y. Basic Condition II satisfied **P.Y. 2016-17**: 91 days and 442 days in 4 p.y. preceding P.Y. Basic Condition II satisfied **P.Y. 2015-16**: 80 days and 451 days in 4 p.y. preceding P.Y. Basic Condition II satisfied **P.Y. 2014-15**: 91 days and 432 days in 4 p.y. preceding P.Y. Basic Condition II satisfied **P.Y. 2013-14**: 186 days. Basic Condition I satisfied **P.Y. 2012-13**: 85 days and 402 days in 4 p.y. preceding P.Y. Basic Condition II satisfied
2.	He has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Satisfied** (he was in India for 830 days i.e. P.Y. 2015-16 : 80 P.Y. 2016-17 : 91 P.Y. 2017-18 : 89 P.Y. 2018-19 : 90 P.Y. 2019-20 : 189 P.Y. 2020-21 : 94 P.Y. 2021-22 : 197
	Residential Status	**Ordinary Resident**

(c) For an Indian citizen who is outside India and comes on a visiting purpose during the previous year, a stay of 182 days or more during the previous year is required to become a resident. Dr Tuktak and Mrs. Tuktak came to India on October 15, 2022 for a period of 7 months. The period from this date to till March 31, 2023 is equal to 168 days (17+30+31+31+28+31) which is less than 182 days. Both Dr Tuktak and Mrs. Tuktak do not satisfy basic condition hence, no need to check whether they satisfy the additional condition or not, so both shall be treated as non-resident for A.Y. 2023-24.

EXERCISE 2.4

(a) Mr. Ankit, after residing continuously in India from last 20 years, went to Australia in connection with his business on 15th March, 2020 and returned back to India on 25th September, 2022.

(b) Mr. Anthony who is a citizen of U.S.A. but residing in India since last 8 years. On 4th July, 2022 he went permanently to USA for doing service there.

Ans.: [(a) OR (b) OR]

HINDU UNDIVIDED FAMILY (SEC. 6(2))

Residential Status of HUF (Sec. 6(2))

Hindu Undivided Family (HUF) may be either (a) Resident and Ordinarily Resident or (b) Resident but Not Ordinarily Resident or (c) Non-Resident. In order to determine the residential status of HUF, certain conditions which are given under section 6(2),(6) are to be tested.

Basic Conditions

A HUF is said to be resident in India if control and management of its affairs is wholly or partly situated in India.

Additional Conditions 6(6)(b)

A HUF is ordinary resident in India if the Karta of the family satisfies the following two additional conditions a laid section 6(6)(b).

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

b) He has been present India for a period of 730 days or more during 7 years immediately preceding the previous year.

Resident and ordinary resident: HUF who satisfies the both basic condition and additional conditions is called resident and ordinary resident (OR).

Resident but not ordinarily resident: A HUF who satisfies the basic condition but does not satisfy the additional condition is called not ordinarily resident(NOR).

Non-resident: A HUF who does not satisfy the basis condition is called non-resident i.e. an individual is a non –resident in India if he satisfies none of the basic conditions(NR).

Note:

1. The place of control and management is situated where the head, the seat and the directing power is situated.

2. Under the law, it is presumed that HUF is resident in India. Thus the burden of proving that the HUF is non-resident is on the HUF.

Process to determine residential status of HUF: How to determine the residential status of HUF ? (Section 6(1), (6))

Test	Question to be answered	Result
First	Is the control and management of HUF situated wholly outside India	If yes, the HUF is Non-resident If no, proceed to test 2
Second	Does the Karta of the HUF satisfy both the following conditions? 1. He has been resident in India at least 2 out of 10 previous years immediately preceding the relevant previous year. and 2. He has been present India for a period of 730 days or more during 7 years immediately preceding the previous year.	If both yes, the HUF is resident and ordinary resident If anyone no, the HUF is resident but not ordinarily resident.

ILLUSTRATION 2.5

A Hindu Undivided Family carries on family business in Nepal, India and Bangladesh. The foreign trade is looked after by the Karta of the family through employees. The Karta of the family never went out of India.

Determine the Residential Status of Hindu Undivided Family.

Solution:

Basic condition: Satisfied because the business was controlled from India.

Additional condition: Both conditions satisfied because Karta never went out of India.

So residential status of HUF will be Ordinary Resident.

EXERCISE 2.5

A Hindu Undivided Family carries on family business from India in Pakistan, China and Bangladesh. The foreign trade is looked after by the Karta from Bangladesh. Indian business were controlled by a member of HUF. Karta never comes to India since last 10 years.

Determine the Residential Status of Hindu Undivided Family. Ans.:[NOR]

FIRM AND ASSOCIATION OF PERSON (SEC. 6 (2))

Residential Status of firm and AOP (Sec. 6(2))

Firm or association of person (AOP) may be either (a) Resident or (b) Non-Resident. In order to determine the residential status of firm, certain conditions which are given under section 6(2) are to be tested

- A firm and AOP are said to be resident in India if control and management of their affairs are wholly or partly situated **with in India** during relevant previous year.
- They are however, treated as non resident in India if control and management of their affairs are situated **wholly outside** India.

Control and management is usually situated at a place **where the head,** the seat and the directing power are situated.

Note: For purpose of determining the residential status of a firm, the residential status of the partner or the member of the HUF, is **immaterial** except in cases where residence of partner affects its control and management.

ILLUSTRATION 2.6

M/s Lincy Collections, Jaipur, is a firm carrying on marble business at Jaipur. During the previous year one partner of this firm, Shri Manish Kumar, remained outside India and the other, Shri Hemant, in India. Both the partners take part in controlling the business.

Determine the residential status of the firm for the assessment year 2023-24.

Solution:

Basic Condition: Satisfied as the business controlled from India. So, the residential status of firm will be Resident

EXERCISE 2.6

M/s Manish Arts, Jodhpur, is a firm carrying on business at Jodhpur. During the previous year both partner of this firm, Sheerish Kumar and Mukul Kumar, remained outside India. Both the partners take part in controlling the business.

Determine the residential status of the firm for the assessment year 2023-24. Ans.:[Non-Resident]

COMPANY [SEC. 6(3)]

Residential Status of a Company (Sec. 6(3))

A company may be either (a) Resident or (b) Non-Resident. In order to determine the residential status of company, certain conditions which are given under section 6(3) are to be tested

An Indian company is always resident in India. A foreign company may be resident or non-resident. A foreign company will be resident in India if its place of effective management (POEM) during the relevant previous year is in India. POEM means a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.

INCIDENCE OF TAX OR BASIS OF CHARGE OR SCOPE OF TOTAL INCOME [SECTION 5]

The scope of total income depends upon the residential status of the assessee and the time and place of accrual or receipt of income. Income tax point of view generally incomes may be divided into two parts viz., Indian Income and foreign income. A income which is either accrued or received in India shall be treated as Indian Income. Indian income is taxable for all three types of individuals (OR, NOR, DNOR NR). An income which is accrued and received outside India shall be treated foreign income. Foreign income is taxable in the hands of Ordinary resident only but if such income is derived form a business whose control is situated in India, then such foreign income shall also be taxable in the hands of not ordinarily resident.

Ordinary Resident (OR)

A ordinary Resident is assessable to tax in respect of

a) Income which is **received** or **deemed to be received in India** in precious year by him or his behalf but accrued anywhere in the world

b) Income which accrues or **deemed to** accrue to him **in India** during previous year but received anywhere in the world.

c) Any **income accrues and received** to him **outside India** during previous year.

Not Ordinarily Resident (NOR) and Deemed to be Not Ordinarily Resident(DNOR)

A not ordinarily resident is assessable to tax in respect of

a) Income which is received or deemed to be received in India previous year by him or his behalf.

b) Income which **accrues** or arises or is deemed to accrue to **him in India** during previous year.

c) Income which **accrues** or arises or **received outside** India from a **business controlled or profession set up in India.**

Non-Resident (NR)

Non-resident is liable to tax in respect of income which is received or deemed to be received in India by him or on his behalf during previous year.

It is clear from above that if any income is either accrued or received in India i.e. any one of them is happened in India then all three types of individuals (OR, NOR and NR) are liable to pay tax. If income is accrued and received outside India then only ordinary resident shall be liable to pay taxes. If such income is derived from a business which is controlled from India, then NOR shall also liable to pay taxes.

Tutorial Notes

- Income is taxable whether it is received in cash or in kind.
- The "receipt" of income refers to the first occasion when recipient gets the money under his control. Once an amount is received as income any **remittance** of the amount to other place does not result in **receipts** at the other place.
- Income should pertain to the previous year.
- Receipt of income by a bank, broker or other agent of the assessee is treated as receipt of income on behalf of the assessee. - Keshav Mills Co. Ltd. CIT (1955)

Deemed receipt

Income tax Act enumerates the following as income deemed to be received in India.

- Annual accretion to the credit balance of an employee in the case of RPF.
- Excess (more than 12%) contribution of employer to RPF.
- Some portion of Transfer balance.
- Tax deducted at source.
- Deemed profit u/s 41.
- Unexplained expenditure u/s 68 and 69

In all the above cases assessee does not receive any cash but income tax act assumed that cash has actually received by the assessee.

Accrual of Income

Income is said to be received when it **reaches** the assessee, when the **right to receive** the income becomes vested in the assessee, it is said to accrue or arise. Accrual of income means right of getting income arises but not receives. The following propositions may be given in respect of accrual of income:

- "Accrual" is generally unconditional.
- Income is said to accrue when it **becomes due.**
- If income is taxable at the time of accrual, it cannot be taxed on receipt basis.
- Place of accrual
  - Retaining control over goods **till destination** by seller, property in goods passes only at destination (outside India), the profit embedded in the transaction arise outside India.
  - In case where the contract of sale is made in one place and the sales take place in another, the profit should be apportioned.
  - Where goods are **sent by rail** consigned to self, income accrues at place of **deliver of goods.**
  - In the case of speculative forward contract, profits accrue at **the place where the contract is made.**
- Interest accrues where money is **lent.**
- Dividend accrues at the place where the register of member is kept.

INCOME DEEMED TO ACCRUE OR ARISE IN INDIA (SEC.9)

Certain Income is deemed to accrue in India u/s 9, even though it may actually accrue outside India. The section applied to all assessee irrespective of their residential status, nationality, domicile and place of business. – CIT Vs. Ahmed bhai Umar bhai & Co. 1965

The following incomes shall be **deemed to accrue** in India.

1. Income from a business connection in India 9(1)(i)

A business connection involves a relation between a business carried on by a non resident which yields profits or gains and some activity in India which contributes to the earning of these profits on gains. It predicates an element of **continuity between** the business of the non resident and the activity in India: an **isolated** transaction is **not** normally regarded as business connection.

- Business connections may be it several forms e.g.
  - Branch office in India.
  - An agent in India.
  - An organization of a non resident in India.
  - Subsidiary company in India.
- The expression "business connection" postulates a real and intimate relation between the trading activity carried on outside India and the trading activity within India.
- The following **operations shall not be treated** as business connection in India.
  - Operations confined to purchase of goods in India for purpose off exports.

- Collection of News and views..
  - Transmission outside India.
  - Non resident engaged in the business of running a news agency
- Shooting of cinematograph film in India if such Non Resident is
  - **(a) an individual –** he should not be a citizen of India;
  - **(b) a firm –** The firm should not have any partner who is citizen of India;
  - **(c) a company –** The company does not have any shareholder who is a citizen of India or who is resident in India.
- Non resident exporter selling goods from abroad to Indian Importer (Principal to principal)

2. Income through or from any property, asset or source of income in India **(Sec.9 (1)(i))**
3. Income through the transfer of capital asset situated in India. **(Sec. 9 (1)(i)).**
4. Income chargeable to tax under the head 'salaries' is deemed to accrue or arise in India if it is earned in India. **(Sec. 9(1)(i)).**
   - Any salary payable for rest period or leave period which is preceded and succeeded by service in India, will also be regarded as salary earned in India.

   Exception: retired civil servants and judges permanently outside India.
5. Salary payable abroad by the Government to a to a citizen of India. **(Sec. 9(1)(iii)).**
6. Dividend paid by an Indian company. (Section **9(1)(iv))**
7. Income by way of interest **u/s 9(i)(v)**
   - Payable by Government. - Payable by resident
8. Income by way of royalty **u/s 9(i)(vi)**

   Exceptions:

   In the following two cases income shall not be deemed to accrue in India:

   First – Approved agreement made before April 1, 1976 (for technical know – how)

   (apply by Central government)

   Second – Royalty for computer software.
9. Income by way of fees for technical service. **u/s 9(i)(vii)**

TAX INCIDENCE AT A GLANCE

Time and place of accrual or receipt of income from whatever source during previous year		Whether included in the total income		
		OR	NOR & DNOR	NR
1.	Income accrued and received in India.	√	√	√
2.	Income accruing or arising in India but received outside India.	√	√	√
3.	Income received in India but accrued outside India.	√	√	√

4.	Income received and accrual outside India.	√	X	X
5.	Income received and accrued outside India from a business controlled in or a profession set up in India.	√	√	X
6.	Past untaxed foreign income brought into India during previous year	X	X	X
7.	Gift received from relative (fully) and from non relative up to Rs. 50,000	X	X	X
8.	Agricultural income received or accrued in India	X	X	X

Taxable√ Tax free X

ILLUSTRATION 2.7

Following are the particulars of taxable income of Dr. Mahesh Kumar for the previous year ending on 31st March, 2023

(i) Royalty received from Govt. of India Rs. 24,000

(ii) Income from business in India Rs. 40,000. This business is controlled from France.

(iii) Income from sale of house property in Delhi Rs. 30,000.

(iv) Income from business in Nepal Rs. 25,000 of which Rs. 15,000 were received in India, the business is controlled from India.

(v) Income from house property in America Rs. 10,000 which was deposited in a Bank in America, Rs. 4,000 out of this were remitted to India

(vi) Income from investment in Japan Rs. 10,000

(vii) Interest received from a non-resident Rs. 5,000, against a loan given to him to run a business in India

(viii) Royalty received from A, a resident, for technical services given to run a business outside India Rs. 20,000

(ix) Past untaxed income which was brought to India in previous year Rs. 6,000

Calculate the total income of Dr. Mahesh Kumar for the assessment year 2023-24, if he is (a) Resident in India, (b) Not ordinary resident in India, and (c) Non resident.

Answer :

COMPUTATION OF TOTAL INCOME OF DR. MAHESH KUMAR
(for the Assessment Year 2023-24)

Particular of Income	Ordinary Resident	Not Ordinarily Resident	Non-Resident
Royalty received from Govt. of India	24,000	24,000	24,000
Income from business in India. This business is controlled from France.	40,000	40,000	40,000
Income from sale of house property in Delhi	30,000	30,000	30,000
Income from business in Nepal Rs. 25,000 of which Rs. 15,000 were received in India, the business is controlled from India	15,000 10,000	15,000 10,000	15,000
Income from house property in America Rs. 10,000 which was deposited in a Bank in America, Rs. 4,000 out of this were remitted to India	10,000	-	-
Income from investment in Japan	10,000	-	-

Interest received from a non-resident Rs. 5,000, against a loan given to him to run a business in India	5,000	5,000	5,000
Royalty received from A, a resident, for technical services given to run a business outside India Rs. 20,000	20,000	-	-
Past untaxed Income	-	-	-
TOTAL INCOME	**1,64,000**	**1,24,000**	**1,14,000**

EXERCISE 2.7

Following are the particulars of taxable income of Dr. C.R. Kumar for the previous year ending on 31st March, 2023

(i) Income from business in Nepal Rs. 50,000 of which Rs. 15,000 were received in India, the business is controlled from India.

(ii) Income from house property in America Rs. 20,000 which was deposited in a Bank in America, Rs. 4,000 out of this were remitted to India

(iii) Income from investment in Japan Rs. 18,000

(iv) Royalty received from Govt. of Japan Rs. 24,000

(v) Income from business in India Rs. 90,000. This business is controlled from France.

(vi) Income from sale of house property in Delhi Rs. 30,000 half of which received in London.

(vii) Interest received from a non-resident Rs. 15,000, against a loan given to him to run a business in India

(viii) Royalty received from A, a resident, for technical services given to run a business outside India Rs. 27,000

(ix) Past untaxed income which was brought to India in previous year Rs. 6,000

Calculate the total income of Dr. C.R. Kumar for the assessment year 2023-24, if he is (a) Resident in India, (b) Not ordinary resident in India, and (c) Non-resident.

[Ans.: (a) Rs. 2,74,000 (b) Rs. 1,85,000 (c) Rs. 1,50,000]

ILLUSTRATION 2.8

The following are the income of Shri Shastri for the previous year 2022-23:

(i) Income from agriculture in Bangladesh Rs.3,20,000

(ii) Salary received in India but the services were rendered in Japan (Computed) Rs. 2,20,000

(iii) Income from a business carried on in India Rs. 1,20,000

(iv) Dividend from company carried on in India Rs. 40,000

(v) Income from business in Shri Lanka but controlled from India and remitted to India Rs. 1,60,000

(vi) Income earned and received in Bangladesh from Bank deposits there Rs. 90,000

Compute Gross total income of Shri Shastri for the Assessment year 2023-24, if he is (i) Resident, (ii) Not Ordinarily Resident, (iii) Non- Resident.

Answer :

COMPUTATION OF TOTAL INCOME OF SHRI SHASTRI
(for the Assessment Year 2023-24)

Particular of Income	Ordinary Resident	Not Ordinarily Resident	Non-Resident
Income from agriculture in Bangladesh	3,20,000	-	-
Salary received in India but the services were rendered in Japan (Computed)	2,20,000	2,20,000	2,20,000
Income from a business carried on in India	1,20,000	1,20,000	1,20,000
Dividend from business carried on in India	40,000	40,000	40,000
Income from business in Shri Lanka but controlled from India and remitted to India	1,60,000	1,60,000	-
Income earned and received in Bangladesh from Bank deposits there	90,000	-	-
Gross Total Income	9,50,000	5,40,000	3,80,000

EXERCISE 2.8

The following are the income of Shri Ravi Shastri for the previous year 2022-23:

(i) Income from a business carried on in Bhutan Rs. 20,000
(ii) Dividend from company carried on in France Rs. 1,40,000
(iii) Income from business in Shri Lanka but controlled from India and remitted to India Rs. 60,000
(iv) Income from agriculture in Bangladesh Rs.2,20,000
(v) Salary received in India but the services were rendered in Japan (Computed) Rs. 5,20,000
(vi) Income earned and received in Bangladesh from Bank deposits there Rs. 50,000

Compute Gross total income of Shri Ravi Shastri for the Assessment year 2023-24, if he is (i) Resident, (ii) Not Ordinarily Resident, (iii) Non- Resident.

[Ans.: (i) Rs. 10,10,000 (ii) Rs. 5,80,000 (iii) Rs. 5,20,000]

ILLUSTRATION 2.9

The income of Shri Jayant for the previous year 2022-23 are following:

(i) Profit from business in Nepal received in India Rs. 50,000
(ii) Income from agriculture in England. It is all spent on the education of children in London Rs. 80,000
(iii) Income from house property in Iran received in India Rs. 1,80,000
(iv) Profit of business established in Bhutan deposited in a bank there Rs. 2,00,000. This business is controlled in India (out of Rs. 2,00,000 a sum of Rs. 1,00,000 is remitted in India)
(v) Income from house property in Singapore deposited in a Bank there Rs. 20,000.
(vi) Income accrued in India but received in England Rs. 90,000.
(vii) Profit earned from business in Udaipur (Rajasthan) Rs. 60,000
(viii) Past untaxed foreign income brought in India during the previous year Rs. 10,000

From the above particulars ascertain the taxable income of Shri Jayant for the assessment year 2023-24, if Shri Jayant if (a) a resident, (b) a not ordinarily resident, and (c) a non resident.

Solution:

Computation of Total Income of Shri Jayant for the Assessment Year 2023-24

Particular of Income	Ordinary Resident	Not Ordinarily Resident	Non-Resident
Profit from business in Nepal received in India	50,000	50,000	50,000
Income from agriculture in England. It is all spent on the education of children in London	80,000	-	-
Income from house property in Iran received in India	1,80,000	1,80,000	1,80,000
Profit of business established in Bhutan deposited in a bank there Rs. 2,00,000.This business is controlled in India (out of Rs. 2,00,000 a sum of Rs. 1,00,000 is remitted in India)	2,00,000	2,00,000	-
Income from house property in Singapore deposited in a Bank there	20,000	-	-
Income accrued in India but received in England	90,000	90,000	90,000
Profit earned from business in Udaipur (Rajasthan)	60,000	60,000	60,000
Past untaxed foreign income brought in India during the previous year	-	-	-
Gross Total Income	**6,80,000**	**5,80,000**	**3,80,000**

EXERCISE 2.9

The income of Shri Shiv for the previous year 2022-23 are following:

(i) Profit of business established in Indore deposited in a bank there Rs. 2,00,000.This business is controlled from Shri Lanka (out of Rs. 2,00,000 a sum of Rs. 1,00,000 is remitted to Shri Lanka)

(ii) Income from house property in Singapore directly deposited in a Indian Bank Rs. 70,000.

(iii) Income accrued in India but received in England Rs. 90,000.

(iv) Profit earned from business in Bengaluru (Karnataka) Rs. 90,000

(v) Profit from business in Nepal received in Nepal Rs. 50,000

(vi) Income from agriculture in England. It is all spent on the education of children in London Rs. 30,000

(vii) Income from house property in India received in Iran Rs. 80,000

(viii) Past untaxed foreign income brought in India during the previous year Rs. 10,000

From the above particulars ascertain the taxable income of Shri Shiv for the assessment year 2023-24, if Shri Shiv if (a) a resident, (b) a not ordinarily resident, and (c) a non-resident.

[Ans.: (a) Rs. 6,10,000 (b) Rs. 5,30,000 (c) Rs. 5,30,000]

ILLUSTRATION 2.10

Mr. Muktak who is of Indian origin and lives in USA, furnishes the following particulars of his income and other information for the previous year 2022-23:

(1) He stayed in India as follows:

P.Y. 2022-23	:	140 days
P.Y. 2021-22	:	240 days
P.Y. 2020-21	:	30 days
P.Y. 2019-20	:	100 days
P.Y. 2018-19	:	Nil

(2) Previous year he comes to India for attending the marriage and visit purpose.

(3) He earned following Income during P.Y.

- Interest on German development Bonds (1/2 received in India) Rs. 1,00,000
- Profit on sale of a building in India but received in Nepal Rs. 16,50,000
- Income from a business in USA which is controlled from New Delhi (50% received in India) Rs. 10,00,000

Determine his residential status and taxable income for A.Y. 2023-24.

Solution:

Stay of Mr. Muktak in previous year 2022-23 is 140 days. His residential status will be as follows:

Conditions for deemed to be not ordinarily resident		
(a)	He is Indian citizen	**Satisfied**
(b)	He is in India for a period of 120 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	**Satisfied** (he was in India for 140days) and **Satisfied** (he was in India for 395 days (i.e. 95+60+90+150))
(c)	His total income (other than the income from foreign sources) exceeds Rs. 15,00,000 during the relevant previous year	Total Income Rs. 17,50,000
(d)	He comes to India for visit	Yes
As he is all satisfying all of the above conditions so he residential status will be		**Deemed to be Not ordinarily Resident**

Computation of Total Income of Mr. Muktak for the Assessment Year 2023-24

Particular of Income	**Deemed Not Ordinarily Resident**
Interest on German development Bonds (1/2 received in India)	50,000
Profit on sale of a building in India but received in Nepal	16,50,000
Income from a business in USA which is controlled from New Delhi (50% received in India)	10,00,000
Gross Total Income	27,00,000

EXERCISE 2.10

Mr. Prabhat who is of Indian origin and lives in USA, furnishes the following particulars of his income and other information for the previous year 2022-23:

(1) He stayed in India as follows:

P.Y. 2022-23	:	110 days
P.Y. 2021-22	:	140 days
P.Y. 2020-21	:	30 days
P.Y. 2019-20	:	100 days
P.Y. 2018-19	:	Nil

(2) Previous year he comes to India for attending the marriage and visit purpose.

(3) He earned following Income during P.Y.

- Profit on sale of a building in Australia but received in Nepal Rs. 16,50,000
- Interest on German development Bonds (1/2 received in India) Rs. 1,00,000
- Income earned and received in Bangladesh from bank deposits Rs. 10,000.
- Income from a business in USA which is controlled from New Delhi (50% received in India) Rs. 10,00,000
- Income accrued in India but received in Kuwait Rs. 5,000
- Income from business in Bangladesh remitted to India Rs. 10,000. The business is controlled from India.

Determine his residential status and taxable income for A.Y. 2023-24.

[Ans.: (a) NR (b) Rs. 55,000]

ILLUSTRATION 2.11

Mrs. Shikha has the following income during the previous year 2022-23:

(i) Income accrued in India but received in Kuwait Rs. 5,000

(ii) Income earned and received in Bangladesh from bank deposits Rs. 10,000.

(iii) Income from business in Bangladesh remitted to India Rs. 10,000. The business is controlled from India.

(iv) Salary received in India for services rendered in Kuwait Rs. 19,800

(v) Income from agricultural in Nepal Rs. 30,000

(vi) Dividend (Gross) from Hindustan Zinc Ltd. Rs. 10,000

(vii) Share in profit of a registered firm Rs. 19,200.

Compute Mrs. Shikha's taxable income, if she is (i) Resident in India, (b) Not Ordinarily resident, and (c) Non-resident.

Solution:

Computation of Total Income of Mrs. Shikha for the Assessment Year 2023-24

Particular of Income	Ordinary Resident	Not Ordinarily Resident	Non-Resident
Income accrued in India but received in Kuwait	5,000	5,000	5,000
Income earned and received in Bangladesh from bank deposits	10,000	-	-
Income from business in Bangladesh remitted to India. The business is controlled from India.	10,000	10,000	-
Salary received in India for services rendered in Kuwait	19,800	19,800	19,800
Income from agricultural in Nepal	30,000	-	-
Dividend (Gross) from Hindustan Zinc Ltd.	10,000	10,000	10,000
Share in profit of a registered firm	Exempt	Exempt	Exempt
Gross Total Income	**84,800**	**44,800**	**34,800**

EXERCISE 2.11

Mrs. Shiksha has the following income during the previous year 2022-23:

(i) Salary received in Kuwait for services rendered in India Rs. 59,800

(ii) Income from agricultural in Bhim(Rajasthan) Rs. 30,000

(iii) Dividend (Gross) from Foreign company Rs. 11,000

(iv) Interest on capital @12% from a registered partnership firm of India Rs. 9,200.

(v) Income accrued in India but received in Kuwait Rs. 5,000

(vi) Income earned and received in India from bank deposits Rs. 10,000.

(vii) Income from business in Bangladesh remitted to India Rs. 10,000. The business is controlled from India.

Compute Mrs. Shiksha's taxable income, if she is (i) Resident in India, (b) Not Ordinarily resident, and (c) Non-resident. [Ans.: (a) Rs. 1,05,000 (b) Rs. 94,000 (c) Rs. 84,000]

GRADED PROBLEMS

ILLUSTRATION 2.12

Mr. Shubham has the following incomes for the previous year ending on 31st March, 2023:

(i) Income from Salary from Govt. of India (Taxable) (He lived in America for some months due to his service and received salary for such period there) Rs. 2,90,000

(ii) Interest from a foreign company received in America and deposited in a Bank there Rs. 50,000

(iii) Income from house property in India received in Australia Rs. 16,000

(iv) His brother gifted him from New York Rs. 60,000

(v) Income from business in New York (Controlled from Delhi head office) Rs. 88,000

(vi) Income from business in Mumbai, managed in America Rs. 2,22,000

(vii) Income was earned in America and received there, but brought in India Rs. 18,000

(viii) Interest on debentures from an Indian company received in New York and spend there. Rs. 26,000

Compute taxable income of Mr. Shubham for the assessment year 2023-24, if he is (a) resident. (b) not ordinarily resident, (c) non-resident.

Solution:

Computation of Total Income of Mr. Shubham for the Assessment Year 2023-24

Particular of Income	Ordinary Resident	Not Ordinary Resident	Non-Resident
Income from Salary from Govt. of India (Taxable) (He lived in America for some months due to his service and received salary for such period there)	2,90,000	2,90,000	2,90,000
Interest from a foreign company received in America and deposited in a Bank there	50,000	-	-
Income from house property in India received in Australia	16,000	16,000	16,000
His brother gifted him from New York (Gift from relative is exempt)	Exempt	Exempt	Exempt
Income from business in New York (Controlled from Delhi head office)	88,000	88,000	-
Income from business in Mumbai, managed in America	2,22,000	2,22,000	2,22,000
Income was earned in America and received there, but brought in India	18,000	-	-
Interest on debentures from an Indian company received in New York and spend there.	26,000	26,000	26,000
Gross Total Income	**7,10,000**	**6,42,000**	**5,54,000**

ILLUSTRATION 2.13

Taxable income of Mr. Manish for the previous year is as follows:

(i) Fee from an Indian company carrying on business in Shri Lanka for technical services rendered at Shri Lanka which have been directly deposited by the company in his Bank account in India Rs. 90,000

(ii) Royalty received in Shri Lanka from Shri Hemant of India for technical services provided to a business carried on in Shri Lanka Rs. 20,000

(iii) Interest received on loan given to Mr. Bowley a non-resident, for a business carried in India Rs. 25,000

(iv) Interest on debentures of a company of Shri Lanka which received in India Rs. 10,000

(v) Income from transfer of immovable property situated in Kanpur Rs. 28,000

(vi) Dividend from a Shri Lankan company, received there and remitted to a Bank of India Rs. 36,000

(vii) Income accrued in Shri Lanka which was received in India Rs. 5,000

(viii) Profits of a hotel business in Shri Lanka Rs. 40,000

(ix) Salary accrued and received in India Rs. 2,40,000

(x) Dividend received from an Indian company Rs. 6,000

Compute taxable income of Mr. Manish for the assessment year 2023-24, if he is (a) resident. (b) not ordinarily resident, (c) non-resident.

Solution:

Computation of Total Income of Mr. Manish for the Assessment Year 2023-24

Particular of Income	Ordinary Resident	Not Ordinarily Resident	Non-Resident
Fee from an Indian company carrying on business in Shri Lanka for technical services rendered at Shri Lanka which have been directly deposited by the company in his Bank account in India	90,000	90,000	90,000
Royalty received in Shri Lanka from Shri Hemant of India for technical services provided to a business carried on in Shri Lanka	20,000	-	-
Interest received on loan given to Mr. Bowley a non-resident, for a business carried in India	25,000	25,000	25,000
Interest on debentures of a company of Shri Lanka which received in India	10,000	10,000	10,000
Income from transfer of immovable property situated in Kanpur	28,000	28,000	28,000
Dividend from a Shri Lankan company, received there and remitted to a Bank of India	36,000	-	-
Dividend declared in Shri Lanka which was received in India	5,000	5,000	5,000
Profits of a hotel business in Shri Lanka	40,000	-	-
Salary accrued and received in India	2,40,000	2,40,000	2,40,000
Dividend received from an Indian company	6,000	6,000	6,000
Gross Total Income	**5,00,000**	**4,04,000**	**4,04,000**

ILLUSTRATION 2.14

Mrs. Prarthna gives the following information of her income for the previous year 2022-23:

(i) Mrs.Prarthna first time went to Canada on 20th January 2012 and came back to India on 2nd July 2012.

(ii) On 25th September 2015 she went to Korea and came back to India after 93 days.

(iii) On 26th July 2018 she had gone to Japan and came back to India after staying 105 days.

(iv) On 2nd December, 2020 she had gone to Tokyo for 88 days.

(v) In the previous year 2022-23 she was out of India for 180 days.

She submits the following details of his income for the previous year:

(i) Profit of the business situated in Bangladesh brought to India Rs. 3,00,000

(ii) Dividend of a Bangladesh based company received in India Rs. 40,000

(iii) Taxable Income from the house situated in Bangladesh received in India Rs. 1,50,000

(iv) Commission received in India for the services given in Bangladesh Rs. 70,000

(v) Salary Rs. 40,000 p.m. received in Bangladesh for the service given in India.

Find out her residential status and gross total income.

Solution:

(a) Stay of Mrs. Prarthna in previous year(2022-23) is 185 days (365-180). Her residential status will be as follows

Basic Condition		
1	She is in India for a period of 182 days or more in previous year	**Satisfied**
2.	She is in India for a period of 60 days or more during the P.Y. and 365 days or more during the 4 years immediately preceding the previous year.	Not required to be check because 1st condition has already satisfied
Additional Conditions		
1.	She has been resident in India in at least 2 years out of 10 Years just immediately preceding to the relevant previous year.	**Satisfied** (he was Resident in India for complete 10 years)(In 10 years he satisfied 2nd Basic condition)
2.	She has been in India for a period of 730 days or more during 7 years immediately preceding the Previous year.	**Satisfied** (he was in India for 2272 days)
	Residential Status of Mr. Brett Lee	**Ordinary Resident**

Working : Her stay in India

2012-13	:	2-07-12 to 31-03-13= 30+31+30+31+30+31+31+28+31 = 273 days
2013-14	:	1-4-13 to 31-03-14 = 365 days
2014-15	:	1-4-14 to 31-03-15 = 365
2015-16	:	1-4-15 to 31-03-16 = 366-93 = 273 days
2016-17	:	1-4-16 to 31-03-17 = 365 days
2017-18	:	1-4-17 to 31-03-18 = 365 days
2018-19	:	1-4-18 to 31-03-19 = 365- 105 = 260 days
2019-20	:	1-4-19 to 31-03-20 = 366
2020-21	:	1-4-20 to 31-03-21 = 365-88= 278 days
2021-22	:	1-4-21 to 31-03-22 = 365 days

Computation of Total Income for the Assessment Year 2023-24

Particular of Income	Ordinary Resident
Profit of the business situated in Bangladesh brought to India	3,00,000
Dividend of a Bangladesh based company received in India	40,000
Taxable Income from the house situated in Bangladesh received in India	1,50,000
Commission received in India for the services given in Bangladesh	70,000
Salary Rs. 40,000 p.m. received in Bangladesh for the service given in India.	4,80,000
Gross total income	10,40,000

ILLUSTRATION 2.15

From the following particulars of Income furnished by Mr. Anirudh pertaining to the year ended 31-3-2023, compute the total income for the assessment year 2023-24, if he is:

(i) Resident and ordinary resident;

(ii) Resident but not ordinarily resident;

(iii) Non-resident:

	Particular	Amount
(a)	Profit on sale of shares in Indian company received in Germany	15,000
(b)	Dividend from a Japanese company received in Japan	10,000
(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d)	Dividend from RP Ltd., an Indian company	6,000
(e)	Agricultural income from lands in Gujrat	25,000

[IPCC MAY 2010 Modified]

Solution :

Computation of total income for the assessment year 2023-24

Particular		OR	NOR	NR
(a)	Profit on sale of shares in Indian company received in Germany	15,000	15,000	15,000
(b)	Dividend from a Japanese company received in Japan	10,000	-	-
(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels 75,000 – 30% of 75,000	52,500	-	-
(d)	Dividend from RP Ltd., an Indian company	6,000	-	-
(e)	Agricultural income from lands in Gujrat	Exempt	Exempt	Exempt
Total income		83,500	15,000	15,000

QUESTIONS

Multiple Choice Questions:

Q.1 The following additional conditions are to be satisfied by an individual to be resident and ordinarily resident in India:

(a) He is a resident in at least any two out of the ten previous years immediately preceding the relevant previous year.

(b) He has been in India for 730 days or more during the seven previous years immediately preceding the relevant previous year.

(c) Both (A) and (B) above

(d) None of the above

Q.2 If Karta is resident and ordinarily resident in India but control and management of HUF is situated partly outside India in the previous year, the HUF is:

(a) Resident and ordinarily resident (b) Not ordinarily resident
(c) Non-resident (d) Resident

Q.3 Residential status of an Indian company is resident for the year:

(a) If the entire control and management is wholly in India
(b) If the part of control and management is in India
(c) Regardless of the place of control and management
(d) If it is listed on recognized stock exchange

Q.4 Ram who was born and brought up in India left for employment in Dubai on 20th august, 2022. His residential status in respect of the AY 2023-24 would be:

(a) Resident and ordinarily resident (b) Non-resident
(c) Not ordinarily resident (d) None of the above

Q.5 A person is deemed to be of Indian origin if he, or either of his parents or any of his grandparents, was born in

(a) India (b) India other than J & K
(c) Undivided India (d) Cannot be determined

Q.6 The income earned during the previous year is subject to tax under the act on the basis of residential status of an assesses. However, the residential status of an assesses.....every year

(a) Will not change (b) Will certainly change
(c) May change (d) None of the above

Q.7 Abhay earns the following income during the previous year ended 31st march, 2022. Interest on UK development bonds (1/4th being received in India): ₹2,00,000; profit on sale a building in India but received in Holland: ₹2,00,000. The income liable to tax for the AY 2023-24 if Abhay is resident and not ordinarily resident in India, is

(a) ₹2,50,000 (b) ₹4,00,000 (c) ₹2,00,000 (d) ₹50,000

Q.8 Income of non-resident when attributed from operations in India relating to the following is taxable in India:

(1) Profits of business
(2) Fee for technical services
(3) Royalty
(4) Income from house property in India Select the correct answer from the options given below-

(a) (1) and (4) (b) (1), (3) and (4)
(c) (1) and (3) (d) (1), (2), (3) and (4)

Q.9 Satish brought into India, in the previous year, past untaxed income which was earned in UK. The income will be taxable if satish is-

(a) An ordinarily resident (b) A not ordinarily resident
(c) A non-resident (d) None of the above

Q.10 In the case of an individual being not ordinarily resident the following income is chargeable to tax:

(a) Business income accruing outside India
(b) Property income accruing outside India
(c) Income accruing outside India if it is derived from a business controlled in India
(d) Interest income accruing outside India.

Q.11 Mr. Ajay (age 40) resident of India earned agricultural income of ₹1 lakh from land situated in Sri Lanka. His total income in India amounts to ₹7 lakh. The tax liability would be:
(a) ₹77,250 (b) ₹75,400 (c) ₹74,675 (d) ₹56,650

Q.12 Agricultural income from Haryana is taxable in the hands of
(a) Non-resident (b) Not ordinarily resident
(c) Resident and ordinarily resident (d) None of the above

Q.13 The following income of Ms. Nargis who is a non-resident shall be included in her total income:
(i) Salary for 2 months received in Delhi ₹40,000
(ii) Interest on savings bank account in Mumbai ₹2,100
(iii) Agricultural income in Bangladesh and invested in shares in Bangladesh
(iv) Amount brought into India out of past non-taxed profits earned in USA
(a) (i), (iii) and (iv) (b) (i) and (ii)
(c) (i), (ii) and (iv) (d) All the four above

Q.14 If the assessee is engaged in the business of growing and manufacturing tea in India, the agricultural income in that case shall be:
(a) 25% of the income from such business
(b) 40% of income from such business
(c) 60% of income from such business
(d) Market value of agricultural produce mines the expense on cultivation of such agricultural produce

Q.15 Agricultural income is:
(a) fully exempt (b) partially taxable
(c) fully taxable (d) exempt up to ₹ 2,50,000

Very Short Answer Type Questions

1. Explain any one basic condition for an individual to become resident.
2. Explain the basic condition for a HUF to be treated as resident.
3. Explain any one additional condition applicable for an individual.
4. What do you mean by POEM?
5. When an individual is said to be Indian origin?
6. When is a company treated as NR?
7. When is a firm treated as NR?
8. Mr. Rohan received gift of Rs. 8,00,000 on the occasion of his marriage. Explain the above receipt is taxable or not.

Short Answer Type Questions

1. What do you understand by an income received in India?
2. What do you mean by income accrued and arose in India?
3. What do you mean by income deemed to be received in India?
4. How the residential status of all assessee other than individual is determined ?
5. What do you understand by resident but not ordinary resident in India?
6. What is the relationship of tax liability and residential status?

Essay Type Questions

1. An Individual has to be divided into three categories on the basis of residence. Explain how these categories are defined and how they affect the tax liability of an individual?
2. On which income a non resident is liable to pay income tax?
3. Write short notes on the following from Income tax point of view:
   (a) Income accrued in India
   (b) Income received in India
   (c) Income deemed to be received in India
   (d) Foreign Income
4. How is residential status of an assessee determined for Income Tax purposes? Explain the relationship between residence and tax liability.

Numerical Questions

1. Determine the residential status of Mr. Mayank for the previous year assuming that he never went out of India before this and came back to India on 10th April, 2023 in the following cases:
   (i) Sponsored by his employer in India for Training in USA and he leaves India : (a) on 15th June 2022; (b) on 10th May 2022.
   (ii) He went for employment purposes to USA and leaves India on 15th September 2022.

   Ans.: [(i) (a) OR (b) NR (ii) NR]
2. Mr. Kailash, an Indian citizen runs a business in Japan from Jan. 2019. He comes to India on 1st June and returns to Japan on 31 Oct. every year, but during the year 2022-23 he came for visit to India on 1st June, 2022 and returned on 5 September 2022. His income for the previous year were as follows:
   (a) Income from House property situated in India (Computed) Rs. 1,80,000
   (b) Past foreign untaxed income brought to India in the previous Year Rs. 70,000
   (c) Profit of business in Japan Rs. 7,00,000
   (d) Interest on USA Government bonds half of the interest being received in India Rs. 40,000
   (e) Interest on Securities of the Govt. of India directly credited to his bank account in America Rs. 2,00,000
   (f) Dividend from an Indian Company, received in Japan Rs. 50,000

   Determine his (i) residential status and (ii)taxable income for A.Y. 2023-24.

   Ans.: [(i) Non-Resident (ii) 4,50,000]
3. Determine the taxability of the following income in the hand of (a) resident and ordinary resident, (b) resident but not ordinarily resident, and (c) non-resident for the A.Y. 2023-24 –
   (1) Interest on UK development Bonds, 50% received in India Rs. 50,000
   (2) Profits on sale of shares on and Indian company received in London Rs. 40,000
   (3) Profits on sale of plant at Germany. 50% of profits are received in India Rs. 25,000
   (4) Profits from a business in Delhi but managed entirely from London Rs. 60,000
   (5) Interest for debentures in an Indian company received in London Rs. 10,000.
   (6) Profits from a business in Mumbai managed from London Rs. 26,000
   (7) Income from property situated in Rajasthan, received there Rs. 16,000

(8) Income from agricultural land in Nepal received there and then brought to India Rs. 50,000

(9) Gift received on the occasion of his wedding Rs. 2,00,000

(10) Income from a business in Russia, controlled from Russia Rs. 5,000

(11) Agricultural income from a land in Rajasthan Rs. 25,000

[Ans.: (a) Rs. 2,82,000 (b) Rs. 1,89,500 (c) Rs. 1,89,500]

4. Determine the taxability of the following income in the hand of (a) resident and ordinary resident, (b) resident but not ordinary resident, and (c) non-resident for the A.Y. 2023-24 –

(1) Income from a business in Chennai (50% is received in India) Rs. 2,00,000

(2) Dividend from British company received in London Rs. 5,000

(3) Income earned from business in Germany which is controlled from Delhi (Rs. 40,000 is received in India) Rs. 90,000

(4) Income from property in London deposited in a Indian Bank at London, brought to India Rs. 60,000

(5) Fees for technical services rendered in India but received in London Rs. 80,000

(6) Pension for services rendered in India but received in Burma Rs. 1,00,000

(7) Past foreign untaxed income brought to India during the previous year Rs. 18,000

(8) Income from profession in Kenya which was set up in India, received there but spent in India Rs. 18,000

(9) Interest on saving bank deposit in State Bank of India Rs. 9,000

(10) Dividend from Reliance Petroleum Limited, an Indian company Rs. 15,000

[Ans.: (a) Rs. 5,77,000 (b) Rs. 4,94,000 (c) Rs. 4,44,000]

Answers MCQ

1	2	3	4	5	6	7	8	9	10
C	A	C	B	C	C	A	D	D	C
11	12	13	14	15					
B	D	B	C	A					

❑❑❑

Chapter 3

INCOME FROM SALARIES

SECTION-WISE STUDY

Section 15 to 17
Sec. 15 – Chargeability
Sec. 16 – Deductions (ii) Entertainment Allowance for Govt. Employees (iii) Employment Tax
Sec. 17 – Definitions (i) Salary (ii) Perquisites (iii) Profit in lieu of salary
Sec. 17(25) & Rule 3(a) • Valuation of perquisites
IT Rule
2A and Sec. 10(13A) – House rent Allowance
2B & 10(5) – LTC / LTA
2BA –Voluntary Retirement / separation.
2BB & 10(14) – Special allowance
Section 10(5) to 10(14) Exemptions u/s 10
Sec. 10(5) – Value of travel concession or assistance.
Sec. 10 (5B) – Salary of Technician
Sec. 10(6) – Exemption in the case of foreign national.
Sec. 10(7) – Indian citizen employed abroad by Government of India.
Sec. 10(10) – Gratuity
Sec. 10(10A) – Commuted pension.
Sec. 10 (10AA) – Leave Salary.

Sec. 10 (10B)– Retrenchment compensation.
Sec. 10(10C) – Voluntary retirement.
Sec. 10(11) – Statutory provident fund.
Sec. 10(12) – Recognized Provident fund.
Sec.10 (13) –Approved superannuation fund
Sec. 10(13A) – House Rent allowance
Sec. 10(14) –Special Allowance

INTRODUCTION

The following basic concept must be kept in mind while computing the income from salaries:

1. Employer and Employee Relationship:

In order to charge an income under the head 'Salaries', it is essential that an employee has earned such income from employer. There must be emplyer and employee relationship, either in the present or in the past, between the person liable to pay the income and the person entitled to receive the amount. If this relationship does not exixt, then income would not be deemed to be income from salary and may be charged under the any head of income other than salaries. In this context it may be noted that the term 'employer' is wide enough to include a foreign government, therefore, salary paid by it to its employee serving in India is charged under the head salaries.

The employer and employee relationship is similar to that of master and servant and it distinctly different from that of a principal and agent. For ascertaining whether a person is a servant or an agent, a rough and ready test is whether under the terms of his employment the employer exercises a supervisory control in respect of the work entrusted to that person. Therefore, any commission earned by the agent is chargeable to tax under the head "Profit and Gains of Business or Profession."

Primarily the degree of control of the employer over the employee would be decisive factors. In the case of a lecturer of a college who is also appointed warden of the hostel and gets wardenship allowance, the allowance would be taxed under the head "Salary" because it is being received from the employer by the employee. However, if this college lecturer evaluates the answer books of a university, the remuneration which he receives for this work will not be taxed under the head 'Salaries', as the university is not employer of the lecturer. Such remuneration would, however be taxable under the head " Income from other sources". However, a university professor is evaluated answer books of university then remuneration received shall be taxable under the head income from salaries because here university is a employer of professor.

Instances where employer-employee relationship does not exist and therefor, income is not charged under the head salaries are as follows:

- Salary received by a member of a parliament (M.P.) or Member of legislative assemblies(M.L.A.).
- Salary, bonus, commission etc. received by a partner from firm.
- Retainer fees received by advocate general of (CIT vs Govind Das Swaminathan, 233, ITR 264)

2. Distinction between Salary and Professional Income:

Professional income is derived from work that is performed independently. It does not require close supervision and control of any other person. Therefore, the relationship of employer-employee is absent in such cases. A Chartered Accountant may be employed as lecturer on a monthly remuneration in a university and he may also simultaneously be exercising as a practicing chartered accountant in the department of income

tax and sales tax. In this case remuneration received from university is taxable under the head salaries and profession fee received by him will be chargeable to tax under the head profit and gains of business or profession.

3. Surrender of Salary:

Tax liability of salary arises at the time it becomes due or it is received, whichever is earlier. Therefore, any subsequent forgoing or surrender of salary is merely an application of salary and does not absolve the employee assessee from his tax liability. Thus, salary foregone is included in the salary income. However, any salary surrendered by the employee to the Central Govt. under section 2 of the voluntary surrender of salaries (Exemption from taxation) Act, 1961 will not be included while computing his taxable income, whether he is a private sector / public sector or Govt. employee. In any other cases it would be taxable in the hands of assessee i.e., voluntary waiver by employee of salary due to him is taxable.

4. Place of Accrual [Sec. 9(1)]

Salary income is taxable in India depending on the residential status of assessee and the place where it is accrued or received as discussed in chapter 2. Normally the place of accrual of salary is the place where the services are being rendered therefore, even if a non-resident is paid salary outside India in respect of services rendered in India, it is deemed to accrue or arise in India by virtue of Sec. 9. This means that the service with respect to which salary has accrued should have been performed in India.

By Virtue of **Section 9(i)(iii)** salary paid by Indian Government to an Indian citizen is deemed to accrue on arise in India, even if service is rendered outside India. This rule is applicable to only in respect of salary not in respect of allowance and perquisites (as such allowances and perquisites are exempt u/s 10(7))

To Sum up:

Who is employee		Who is employer	Where service is rendered	Is it taxable in India	
				Salary	Allowance and perquisites
Case: 1.	Indian citizen (resident or non- resident in India)	Govt. of India	Outside India	Yes	No
Case: 2.	Non-resident (but not covered by case 1)	Any	Outside India	No	No
Case: 3.	Resident and Ordinary resident in India (other than case 1)	Any	Any where	Yes	Yes

Note: Case 1 by virtue of section 9(i)(iii).

5. Salary in Grade System:

If a person is appointed under the grade system of salary, the normal annual increment is given to him as already fixed in the grade. e.g., If an employee joins the service on 1-03-2016 and is placed in the grade of ₹ 8,000 – 275 – 8550 – 325 – 11800. It means, he will get a basic pay of ₹ 8,000 from 1.3.2016 to 28.2.2017. Therefore, he will get annual increment ₹ 275 w.e.f. 1.3.2017 and onwards till his salary reaches ₹ 8,550, thereafter, he will get annual increment of ₹ 325 till his salary reaches ₹ 11,800. For previous Year 2022-23, his basic pay would be Rs 9850 from 1-4-2022 to 28-2-23 and ₹ 10175 for the month of March 2023.

It may happen that a person may join the service in a particular grade but his pay may be fixed (not at the initial stage of the grade) an amount somewhere between the grade.

DUE DATE OF SALARY

Salary is due on a particular date. Accordingly, the taxability period is decided.Salary becomes due either on the last day of the month or first day of next month. If salary becomes due on the last day of the same month, then salary from April to March is taken into account. If salary becomes due on the first day of the next month, then salary from March to February shall be taken into account. Because the salary of March shall be due on first April and first April shall come in next financial year hence upto February salary is taken into account. Generally,

- In case of Government and Semi-Government employee – Salary becomes due on 1st day of next month (March to February)
- In case of non-Government and Bank employee - last day of same month (April to March)

ILLUSTRATION 3.1

Miss Ranu is appointed as a lecturer in the grade 8000 – 275 – 8550 – 325 – 11800 on 1st June 2016 at initial pay ₹ 9200. Compute her total basic pay for the previous year 2022 – 2023.

Solution:

For April 2022 to May 2022	2 x 10,825	= ₹ 21650
For June 2022to March 2023	10 x 11,150	= ₹ 1,11,500
Total basic salary for A.Y. 2023-24		= ₹ 1,33,150

Working Note:

Basic pay	
1.6.16 to 31.5.2017	₹ 9200
1.6.17 to 31.5.2018	₹ 9525
1.6.18 to 31.5.2019	₹ 9850
1.6.19 to 31.5.2020	₹ 10175
1.6.20 to 31.5.2021	₹ 10500
1.6.21 to 31.5.2022	₹ 10825
1.6.22 to 31.5.2023	₹ 11,150

EXERCISE 3.1

Miss Renu is appointed as a lecturer in the grade 7000 – 275 – 7550 – 325 – 11800 on 1st June 2016 at initial pay ₹ 8200. Compute her total basic pay for the previous year 2022 – 2023. [Ans. Rs. 1,21,150]

ILLUSTRATION 3.2

Mr. Vishwas was appointed by Wipro Ltd. in the pay scale of 37400- 1200- 43400-1600-59400 on January 1, 2014. Calculate taxable salary for the Assessment year 2023-24 by assuming:

1. Salary becomes due on last day of the month
2. Salary becomes due on first day of the next month

Solution:

Basic Pay	
1.1.2014 to 31.12.2014	37,400
1.1.2015 to 31.12.2015	38,600
1.1.2016 to 31.12.2016	39,800
1.1.2017 to 31.12.2017	41,000
1.1.2018 to 31.12.2018	42,200
1.1.2019 to 31.12.2019	43,400
1.1.2020 to 31.12.2020	45,000
1.1.2021 to 31.12.2021	46,600
1.1.2022 to 31.12.2022	48,200
1.1.2023 to 31.12.2023	49,800

1. If salary becomes due on last day of the month

   1st April 2022 to 31st March 2023

   48,200 x 9 = 4,33,800

   49,800 x 3 = 1,49,400

   Basic Pay 5,83,200

2. If salary becomes due on first day of the next month

   1st March 2022 to 28th Feb. 2023

   48,200 x 10 = 4,82,000

   49,800 x 2 = 99,600

   Basic Pay 5,81,600

EXERCISE 3.2

Calculate basic salary for the assessment year 2023-24 in the following cases:

(i) Mr. P joins service in HK enterprises on 1st Sept, 2018 in the pay scale of 15,000-500-17,000-1000-23,000.

(ii) Mr. Q joins service in RK transport Pvt. Ltd. as on 1 Feb.2017 in the pay scale of 6,000-200-6,600-300-9,600 at an initial pay of Rs. 6,400.

(iii) Mr. R joins service on 1 Feb.2020 in the pay scale of 50,000-2,000-58,000 his salary due on the first day of next month.

IN CASE OF GOVERNMENT AND SEMI-GOVERNMENT EMPLOYEE

After implementation of 6th pay commission in the Government sector in 2006, the date and amount of annual increment is fixed. The annual rate of increment is 3% of basic pay and month is July i.e., annual increment is provided @ 3% of basic pay in the month of July every year with multiple of rupees ten. If 3% comes 2107 then it would be rounded off to ₹ 2110. The annual grade pay (AGP) is also given in the 6th pay commission. In order to calculate basic pay AGP is added to the initial value of grade pay. Suppose an assistant professor is being appointed on July 1, 2018 in a university in the pay scale 15600- 37400+ AGP ₹ 6000. The basic pay at the time of joining on 1-7-2018 would be ₹21, 600. On 1-7-2019 his basic pay would be ₹22250 (21600

+3% of 21600) subject to rounded off in multiple of 10) and on 1-7-2020 his basic pay would be ₹22920.

ILLUSTRATION 3.3

Mr. Vishwas has been appointed by Government of India in pay scale of 37400- 67000 with AGP of ₹10,000 on March 3, 2018. Calculate taxable salary for the Assessment year 2023-2024 when (i) his salary is due on the last day of each month, (ii) his salary due on the first day of next month.

Solution:

Working Note:

Basic Pay (₹)

March 3, 2018 to June 30, 2019 (37400+10000)	47,400
Add: Increment on 1st July @ 3%of 47400= 1422	
Rounded off to next multiple of ten	1430
July 1, 2019 to June 30, 2020	48,830
Add: Increment on 1st July @ 3%of 48830= 1464.9	
Rounded off to next multiple of ten	1470
July 1, 2020 to June 30, 2021	50,300
Add: Increment on 1st July @ 3%of 50300= 1509	
Rounded off to next multiple of ten	1510
July 1, 2021 to June 30, 2022	51,810
Add: Increment on 1st July @ 3%of 51810= 1554.3	
Rounded off to next multiple of ten	1560
July 1, 2022 to June 30, 2023	53,370

Taxable salary for Assessment year 2023-24

(i) Basic Pay in case when his salary due on last day on each month

April 1, 2022 to June 30, 2022	51,810*3	1,55,430
July 1, 2022 to March 31, 2023	53370*9	4,80,330
	Total	6,35,760

(ii) Basic Pay in case when his salary due on first day on each month

March 1, 2022 to June 30, 2022	51,810*4	2,07,240
July 1, 2022 to Feb. 28, 2023	53370*8	4,26,960
	Total	6,34,200

EXERCISE 3.3

Mr. Prateek has been appointed by Govt of India in pay scale of 25400- 57000 with AGP of ₹6,000 on March 3, 2018. Calculate taxable salary for the Assessment year 2023-2024 assuming his salary due on the first day of next month.

[Ans. Rs. 4,19,960]

CHARGEABILITY (SEC. 15)

The following income shall be chargeable to income tax under the head "Salaries".

(a) **Due Salary** : Due salary means which is due, whether paid or not. Any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not; Thus, salary becoming due during the previous year but not paid till the close of that year is, nevertheless, charged in that previous year.

(b) **Advance Salary:** Any salary paid or allowed to an employee in the previous year by or behalf of employer or a former employer, though not due or before it become due to him. Thus salary received in advance for subsequent previous years is charged in the year of receipt although it has not become due in such year.

(c) **Arrear of Salary:** Any arrears of salary paid or allowed to him in the previous year by or on behalf of present employer or former employer, if not charged to income tax in the earlier years. This may be the case where the quantum of salary is raised with the retrospective effect. In that case, the salary so received was never due in the earlier years.

Key Points to be kept in mind:

- The following income is to be taxed in previous year:
  - Due Salary, although not received.
  - Advance salary received, although not due.
  - Arrears of salary received.
- Salary is taxable on due or receipt basis whichever is earlier. Thus double taxation of salary income is avoided
- Family pension received by the widow of deceased assessee is not taxable income under head of salary but it would be taxable under the head of Income from other sources.
- Salary and wages – conceptually no difference. The term wage is normally related to remuneration received for physical or manual labour and the term salary for labour associated with physical and mental capabilities. However, the Income Tax Act does not differentiate between salary and wages.
- Salary from former, present and prospective employers is taxable.
- If tax on salary is being paid by the employer on behalf of the employee. Then, the amount of such tax paid by the employer will be treated as income of the employee and it will be included in the total income of the assessee.

Basis of charge is in accordance with section 15 irrespective of the method of accounting followed

Due date of salary (1)	Date of receipt of salary (2)	Earlier date 1 or 2	P.Y. in which salary is taxable
31.3.2023	April 7, 2023	Due date	2022-2023
30.6.2023	March 7, 2023	Date of receipt	2022-2023
31.7.2015 (not charged to tax for P.Y. 2015-16)	March 2023	Arrear of salary is taxed in the year of receipt if it is not taxed in the year if due.	2022-2023

COMPUTATION OF INCOME FROM SALARY

The following Performa may be used to calculate income from salary:

Computation of Income from Salary of Mr./Mrs. -----
For the Assessment Year 2023-24

Particulars	Amount(₹)
Basic Salary	***
Income by way of different form of salary (retirement benefits)	***
Income by way of Allowances	***
Income by way of Perquisites	***
Gross Salary	***
Deduction u/s 16	
(i) Standard Deduction (Maximum ₹ 50,000)	***
(ii) Entertainment allowance for Govt. Employee	***
(iii) Employment Tax	***
Income from Salary	***

Definition of Salary (Section 17(1))

As per section 17(1) salary includes the following:

a. Wages;
b. Annuity or pension;
c. Gratuity;
d. Fees, commission, perquisites, profit in lieu of salary;
e. Advance of salary;
f. Payment received by an employee in respect of any period of leave not availed by him;
g. Annual accretion to the balance at the credit of an employee participating in recognized provident;
h. Transferred balance in a recognized provident fund to the extent it is taxable;
i. Contribution of Government under a pension scheme referred under section 80CCD.

RETIREMENT BENEFITS

Different forms of salaries are also called retirement benefits. Generally, the following retirement benefits are given to an employee by employer:

1. Gratuity [Section 10(10)]
2. Pension [Section 17(i) (ii) & 10(10A)]
3. Encashment of Leave Salary [Section 10(10AA)]
4. Retrenchment compensation
5. Compensation on Voluntary retirement [Section 10(10B)]

Now we shall discuss one by one in the following paragraphs:

1. Gratuity [Sec. 10(10)]

Gratuity is a payment by the employer to the employee on his retirement or death for consideration of the service which the employee has rendered. It denotes a gratuitous payment made by an employer to his employee for services rendered to him. Gratuity is partially or fully exempt from tax depending on the category of employee receiving it. It is to be noted that the relationship of employer and employee should exist in order to claim exemption in respect of gratuity. Thus, gratuity received by the agents of Life Insurance Corporation is not entitled to exemption because the relationship of employer and employee is absent.

Tax Treatment of Gratuity

In order to determine the taxable and exempted part of Gratuity under Income Tax Act, the identification of the category of employee is required. For this purpose, all the employees can be divided into three categories:

Table: Tax Treatment of Gratuity

Category	Types of employee	Tax treatment
A	Government Employees	It is fully exempt from tax under section 10(10)(i)
B	Non-Government employees covered by the payment of Gratuity Act., 1972	It is fully or partially exempt from tax under section 10(10)(ii)
C	Non-Government employees not covered by the payment of Gratuity Act., 1972	It is fully or partially exempt from tax under section 10(10)(iii)

The above mentioned categories of employees are discussed at full length in the following paragraphs:

(A) In case of Government Employees (Sec. 10(10) (i)) (Category A)

Gratuity received by the government employee is exempt from tax and is, thus, not included in their total income. The exemption is available even if the employee joins the private sector after leaving the government job. Hence, the entire amount of death cum retirement gratuity is exempt from tax u/s 10(10)(i) in the hands of government employees.

Employees who are receiving death cum-retirement gratuity under the following pension rules/scheme/code are as Government employees:

a) Revised pension rules of the Central Government
b) Revised pension rules of the Central Civil Services (Pension) Rules, 1972
c) Any similar scheme applicable to the following:
    a. Members of the civil services of the union or
    b. Holder of posts connected with defense or of civil post under the union or
    c. Members of all India services or
    d. Members of civil services of a state or
    e. Holders of civil posts under a state or
    f. Employees of a local authority
d) Pension code or regulation applicable to members of the defense services.

In nutshell, thus category of government employee covers:

- Central Government Employees;
- State Government Employees;

- Local authority employees;
- A professor/teacher of a university established under an Act of the parliament/ state legislature (as well as a college affiliated to such university or constituent college of such university) is treated as government employees for this purpose. (Ram Kanwar Rana V ITO (2016) (Delhi Tribunal).

ILLUSTRATION 3.4

Mr. Vishwas retired from the Central Government service on December 31, 2022 and joined ABC Pvt. Ltd with effect from January 15, 2023. He was paid ₹ 4,00,000 as retirement gratuity by the Central Government. Determine the amount of gratuity exempt from tax for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Entire amount of gratuity received by Mr. Vishwas is exempt from tax notwithstanding the fact that he has joined the private sector thereafter.

EXERCISE 3.4

Mr. Jayesh retired from the State Government service on 1st Feb.2023. He received ₹11,00,000 as retirement gratuity from the state government. Determine the amount of gratuity exempt from tax for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC. [Ans.: Exempt]

(B) Employees cover by payment of Gratuity Act 1972 (Sec. 10(10) (ii)) (Category B)

Any gratuity received by an employee, covered by the payment of Gratuity Act, 1972, is exempt from tax but exemption is restricted to the extent of lower of the following:

(a) 15 days' salary (7 days in case of seasonal establishment) based on salary last drawn for every completed year of service or part thereof in excess of six months; or

(b) ₹ 20, 00,000; or

(c) Amount of gratuity actually received.

Explanation:

- Payment of Gratuity Act, 1972 is applicable to the following entities
  - Every factory, mine, oil field, plantation, port and Railway Company
  - Every shop or establishment in which 10 or more persons are employed or were employed on any day of the preceding 12 months or such establishments as may be notified by the Central Government.
- Minimum five years continuous service is required to get an amount of Gratuity but in case of death such constraint is not applicable.
- **Last Salary drawn means monthly Basic Pay plus dearness allowance** (D.A.) drawn by an employee at the time of retirement. Whether D.A. is given under terms of employment or not does not matter. It is always included.
- Salary of 15 days is calculated by dividing salary last drawn by 26 i.e. following formula can be use-

$$Last\ drawn\ salary\ x\ \frac{15\ or\ 7}{26}\ x\ No.of\ years\ completed$$

Last drawn salary = Basic pay + D.A.(Always)

- In case of piece rated employee 15 days salary would be computed as follows:

$$\frac{3\ months\ salary\ immediately\ preceeding\ the\ termination}{3} x\ \frac{15}{26} x\ No.of\ years$$

Note: Here, 3 months average shall be taken instead of last month salary drawn.

- Period in excess of six months is taken to be a year while computing the number of years. If the period of the service is 6 months or less than 6 months, it shall be ignored for this purpose. Different situations are illustrated as follows:

Cases	Years of service (difference between date of joining and date of retirement)	Length of service for the purpose of section 10(10)(ii)
1.	32 years, 5 months 28 days	32 years
2.	32 years and 6 months	32 years
3.	32 years, 6 months and one day	33 years
4.	32 years. 11 months and 28 days	33 years

- If an employee is not paid gratuity by his former employer, completed year of service are calculated after taking into account the total period of service under both the employers.
- Computation of exemption can also be done with the help of the following steps

Steps	Computation	Formula
1.	Salary	Basic Pay + Dearness Allowance (last drawn)
2.	Period of Service	Date of Retirement - Date of Joining
3.	15 days salary for service period	$Period\ of\ service \times Salary \times \frac{15}{26}$
4.	Gratuity exempt from tax	Lower of: (a) 15 days' salary for service period; (b) ₹ 20, 00,000; (c) Amount of gratuity actually received

ILLUSTRATION 3.5

Dr. Kalpana is an employee of Secure Meter Pvt. Ltd. She is covered by the Payment of Gratuity Act, 1972. She retires from the company on July 31, 2022. She is paid ₹7,00,000 as gratuity at the time of her retirement. She furnishes the following additional particulars to you with a request to compute the amount of gratuity exempt from tax for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Date of Joining	January 1, 2000
Monthly Basic pay at the time of retirement	₹ 50,000
(Amount of increment of ₹ 2000 in the month of March)	
Dearness allowance under terms of employment	20% of basic pay
Monthly Commission	₹ 25,000
Gratuity received on July 31, 2021	₹ 50,000

Solution:

Steps	Computation	Formula	Result
1.	Salary	Basic Pay + Dearness Allowance (last drawn) i.e. [50,000 + ₹10000]	₹60,000
2.	Period of Service	Date of Retirement 31 July 2022- Date of Joining January 1, 2000 22 Year 7 months	23 years
3.	15 days salary for service period	Period of service × salary × 15 ÷ 26 i.e. [23 × 60,000 ×15 ÷26]	₹7,96,154
4.	Gratuity exempt from tax	Lower of: (a) 15 days salary for service period ₹ 7,96,154 (b) ₹ 20, 00,000 (c) Amount of gratuity actually received ₹ 7,00,000	₹7,00,000
5.	Taxable Gratuity	₹7,00,000 – ₹7,00,000 =	Nil

However, gratuity of ₹50,000 received on July 1, 2021 shall be fully taxable for the assessment year 2022-23, as gratuity that is received while still in service is not exempt from tax.

EXERCISE: 3.5

Mr. Jayesh retired from service from Rajasthan Chemical Ltd. on 30th April 2022 after serving for 33 years and 9 months. Payment of Gratuity Act applies to him. The company pays him a gratuity of ₹ 9,52,000. His monthly basic salary at the time of retirement was ₹ 42,000 and D.A(not in terms of employment) was 10% of basic salary.

You are required to determine the amount of exempted gratuity under section 10(10) of the Income tax act. Assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: Exempted Amount 9,06,231, taxable 45,769]

(C) In the case of any other employee (Category C):

Employees who are not covered by category A and B are covered under this category. Gratuity received on retirement, death, termination, resignation or on his becoming incapacitated prior to the retirement, is **exempt** from tax to the extent of the **least of the following**:

(a) ₹ 20,00,000;

(b) half month average salary for each completed year of service;

(c) Amount of gratuity actually received.

Explanation:

- While calculating completed years of service, any fraction of the year will be ignored e.g. 11 years 11 months and 25 days will be taken 11 years only
- **Average Monthly Salary** is calculated on the basis of average salary of 10 months immediately preceding the month in which an employee is retired i.e. if the date of retirement is 10 October, 2020, salary will be calculated on the basis of average salary for the 10 months period ending September 30, 2020(1 December 2019 to 30 September 2020). If the date of retirement falls on the last day of month, still that month will not be considered.

- **Salary** means: basic pay + D.A. (If under the terms of employment so provided) + commission payable at a fixed % of turnover achieved by an employee.
- If an employee, who has received gratuity in any earlier year from his former employers, receives gratuity from another employer in a later year, the aforesaid limit of ₹ 20,00,000 will be reduced by the amount of gratuity exempted from tax in any earlier years.
- Gratuity received by the widow, children or dependent of the employee on his death is exempt from tax.
- Gratuity received while in service is not exempted from tax.
- Gratuity payable by the LIC to its insurance agents is not qualified for exemptions as agents are not employees of LIC.
- Computation of exemption can also be done with the help of the following steps

Steps	Computation	Formula
1.	Average Salary	[Basic Pay + Dearness Allowance (if under terms of employment so provided) + Commission based on fixed % of turnover]÷10
2.	Period of Service	Date of Retirement - Date of Joining (only completed years are taken into account)
3.	Half month's salary for every completed year of service	[Period of service × average salary x ½]
4.	Gratuity exempt from tax	Lower of the following (a) Half month's average salary for every completed year of service; (b) ₹ 20,00,000; (c) Amount of gratuity actually received
5.	Gratuity taxable	Gratuity Actual received – Exempt amount

ILLUSTRATION 3.6

Assuming in preceding illustration no. 3.5 that Dr. Kalpana is not covered by the Payment of Gratuity Act, 1972. Determine the amount of gratuity which is taxable in the hands of Dr. Kalpana. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Steps	Computation	Formula	Result
1.	Average Salary	[10× (Basic Pay + Dearness Allowance (if terms of employment so provided)+ Commission based on fixed % of turnover i.e. [(50,000×5 + 48,000×5) + ₹98000 + nil] ÷ 10	₹58,800
2.	Period of Service	Date of Retirement 31 July 2022- Date of Joining January 1, 2000 (only completed years are taken into account) 22 Year 7 months	22 years
3.	Half month's salary for every completed year of service	[Period of service × average salary x ½ i.e. [22 × 58,800 x ½]	₹6,46,800

4.	Gratuity exempt from tax	Lower of (a) Half month's salary for every completed year of service ₹6,46,800 (b) ₹ 20, 00,000 (c) Amount of gratuity actually received ₹ 7,00,000	₹6,46,800
5.	Taxable Gratuity	₹7,00,000 – ₹6,46,800 =	₹ 53,200

However, gratuity of ₹50,000 received on July 1, 2021 shall be fully taxable for the assessment year 2022-23, as gratuity that is received while still in service is not exempt from tax.

EXERCISE 3.6

Assuming in preceding exercise no. 3.5 that Mr. Jayesh is not covered by the Payment of Gratuity Act, 1972. Determine the amount of gratuity which is taxable in the hands of Mr. Jayesh. Assuming that the assessee does not opt for new tax regime under section 115BAC. [Ans.: ₹ 2,38,000]

ILLUSTRATION 3.7

Mr. R.K. Jain retired on 1st Sept.2022 after a service of 29 year 7 months. He received a gratuity of ₹ 7,00,000. His salary was 29,000p.m. from 1 Jan. 2021 to 31 Dec 2021 and ₹ 31,000 p.m. from 1 Jan. 2022 onwards. Dearness allowance were 10% of basic salary (40% of which is under terms of service)

What amount of gratuity is taxable from tax in the Assessment year 2023-24 if (a) Gratuity Act 1972 applied and (b) Gratuity act 1972 does not apply to him? Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

(A) If Gratuity Act 1972 apply to him:

Steps	Computation	Formula	Result
1.	Salary	Basic Pay + Dearness Allowance (last drawn) i.e. [31,000 + ₹3,100]	₹34,100
2.	Period of Service	Date of Retirement - Date of Joining 29 years 7 months	30 years
3.	15 days salary for service period	Period of service × salary × 15 ÷ 26 i.e. [30 × 34,100 ×15 ÷26]	₹5,90,192
4.	Gratuity exempt from tax	Lower of: (a) 15 days salary for service period ₹ 5,90,192 (b) ₹ 20, 00,000 (c) Amount of gratuity actually received ₹ 7,00,000	₹ 5,90,192
5.	Taxable Gratuity	₹7,00,000 – ₹ 5,90,192 =	₹1,09,808

(B) If Gratuity act not apply on him

Steps	Computation	Formula	Result
1.	Salary	Basic Pay (29,000x2)+(31,000x8) = 3,06,000 Dearness Allow.3,06,000 x 10%x40%=12,240	₹3,18,240

2.	Average Salary	Salary as above ÷ 10	₹31,824
3.	Period of Service	Date of Retirement - Date of Joining 29 years 7 months	29 years
4.	Half month's salary for every completed year of service	Period of service × salary × ½ i.e. [29 × 31,824 × ½]	₹4,61,448
5.	Gratuity exempt from tax	Lower of: (a) Half month's salary for every completed year of service ₹ 4,61,448 (b) ₹ 20, 00,000 (c) Amount of gratuity actually received ₹ 7,00,000	₹ 4,61,448
6.	Taxable Gratuity	₹7,00,000 – ₹ 4,61,448=	₹ 2,38,552

EXERCISE 3.7

Shri K.L. Jain who is not covered by the payment of Gratuity Act, 1972 receives a gratuity of ₹ 9,52,000 on his retirement on 23rd Sept. 2022 after a service of 32 years 10 months and 24 days. His last drawn emoluments are as follows:

Basic Salary ₹ 42,200 p.m.

Dearness allowance 10% of salary (50% is under term of service)

Annual increment in basic salary 2200 p.m. falls due on 1st Jan. of every year.

What amount of gratuity is taxable in the assessment year 2023-24? [Ans.:₹ 2,50,432]

2. Pension [Sec. 17(i)(ii) and 10(10A)]

Pension is a periodical payment, normally monthly, paid by the employer to an employee after his retirement. In some cases, pension may be partly or fully paid in lump sum. Lump sum payment of pension made in lieu of periodical payments is called commuted pension and periodical payment is called uncommuted pension. For instance, commuted pension is partially or fully exempt depending on the category of employee receiving pension. The Tax treatment of pension is an under:

Table: Tax Treatment of Pension

Category	Type of pension	Type of employee	Tax treatment
A	Monthly pension	Government employee	Taxable
A	Commuted Pension	Government employee	Exempt
B	Monthly pension	Non-Government employee	Taxable
B	Commuted Pension	Non-Government employee	Either fully exempted or partly exempted u/s 10(10A)(ii)

Tax liability is depending upon the category of the employees and types of pensions he receives. The detailed discussion is given in the following paragraphs:

Category A: Government employee

Under this category an employee of the central government, state government, local authority and statutory corporation are covered. Commuted pension is exempt in the hands of this category employee. However, uncommuted pension or monthly pension is fully taxable.

Category B: Non-Government employees

Employees not covered under category A are covered in category B. Uncommuted pension received by this category is fully taxable. However, commuted pension is exempt to the following extent:

- In case where the employee receives gratuity along with pension one third of the total pension which he is normally entitled to received is exempt;
- In any other case, one – half of total pension is exempt from tax u/s 10(10A)(ii).

The provision regarding commuted pension can be presented in the following table in brief.

Table: Tax Treatment of Pension at a Glance

Types of Employees	Is Gratuity also received?	Tax Treatment of commuted pension	Computation
Government Employee	May or may not be received	Entire commuted pension is exempted u/s 10(10A)(i)	Nil
Non-Government Employee	Yes	One third of total pension which he is normally entitled to receive is exempt u/s 10(10A)(ii)	$Value\ of\ Commuted\ Pension\ x\ \frac{100}{\%\ of\ pension\ commuted}\ x\ \frac{1}{3}$
Non-Government Employee	No	One-half of total pension which he is normally entitled to receive is exempt u/s 10(10A)(ii)	$Value\ of\ Commuted\ Pension\ x\ \frac{100}{\%\ of\ pension\ commuted}\ x\ \frac{1}{2}$

Explanation:

- Monthly pension is taxable for all types of employees whether he is government employee or non-government employees
- Pension received from UNO by the employee or his family members is not taxable.
- Pension is chargeable to tax on accrual basis.
- Family pension received by the family members of an employee after his death is charged to tax under the head Income from other sources. However, standard deduction is available under section 57 which is 1/3 of such pension or ₹ 15,000 whichever is lower.
- Pension received by the family members of armed forces is exempt under section 10(19).

ILLUSTRATION 3.8

Dr. Arunita, a Government servant retired from services on 1.7.2022. She receives pension at the rate of 38000 P.M. till 31.12.2022. On 1.1.2023 she commuted 25% of her pension and received a sum of ₹ 2,50,000 at the commuted value of pension. Find out taxable pension. Also calculate the taxable amount of pension if she is non-Govt. employee. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Case A: If Dr. Arunita is Government employee

Uncommuted Pension

Taxable amount = ₹ 2,85,000

(38,000 x 6 months) + (38000 x 75% x 2 Months)

Commuted pension

Fully exempted from tax u/s 10(10A)(i) because Dr. Arunita is a Government servant.

Case B : If Arunita is Non–Govt. employee

Uncommuted Pension

Taxable amount = ₹ 3,13,500

(38,000 x 6 months) + (38000 x 75% x 3 Months)

Commuted pension

Amount received	6,00,000
Exempted $(\frac{2,50,000}{25} \boldsymbol{x\ 100\ x}\ \frac{1}{2})$	5,00,000
Taxable Amount =	Rs. 1,00,000

EXERCISE 3.8

Krishna a government servant retired from services on 1.8.2022. His basic salary at the time of retirement was 65,000. He receives pension per month @50% of basic salary till 31.12.2022. On 1.1.2023 he commuted 60% of his pension and received a sum of ₹ 6,00,000 at the commuted value of pension. Find out taxable pension. Also calculate the taxable amount of pension if he is Non-Govt. employee assuming that he does not receive gratuity. Assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: (a) Govt.:(i) monthly Rs.1,88,500 (ii) commuted: fully exempt,

(b) (i) monthly 2,01,500 (ii) commuted Rs. 1,00,000]

ILLUSTRATION 3.9

A. Mr. Aditya retires from MRF Co. Ltd. on September 30, 2022 and receives gratuity of ₹4,50,000 at the time of such retirement. Since then, he had been receiving ₹75,000 per month as pension. On December 31, 2022 he received ₹7,50,000 as 60% of his pension commuted. Determine the amount of pension chargeable to tax for the assessment year 2023-24.

B. Assume in 'A' above that Mr. Aditya does not receive any Gratuity.

Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution (A)

Particulars	Computation	Taxable amount
Uncommuted Pension		
October to December 2022	= 75000×3	2,25,000
January to March 2023	= 75000×3×40%	90,000

Commuted Pension	$7,50,000 - \left(\frac{7,50,000}{60} x100\ x\ \frac{1}{3}\right)$	3,33,333
Total Taxable amount		6,48,333

Solution (B)

Particulars	Computation	Taxable amount
Uncommuted Pension		
October to December 2022	= 75000× 3	2,25,000
January to March 2023	= 75000×3×40%	90,000
Commuted Pension	$7,50,000 - \left(\frac{7,50,000}{60} x100\ x\ \frac{1}{2}\right)$	1,25,000
Total Taxable amount		4,40,000

EXERCISE 3.9

A. Mr. Prem retired from SRS Pvt. Co. Ltd. on December 31, 2022 and received gratuity of ₹7,50,000 at the time of such retirement. Since then, he had been receiving ₹40,000 per month as pension. On December 31, 2022 he received ₹3,60,000 as 60% of his pension commuted. Determine the amount of pension chargeable to tax for the assessment year 2023-24.

B. Assume in 'A' above that Mr. Prem does not receive any Gratuity.

[Ans.: (a) Rs. 2,08,000, (b) Rs. 1,08,000]

3. Leave Salary [Sec. 10(10AA)]

Employees are entitled to avail a certain number of leaves as per the terms of employment. Leaves not availed may either lapse or may be encashed periodically during the service or at the time of retirement as per the terms of employment. When an employer provides the right to an employee to get cash equivalent against not consumed leaves, such leaves are called earned leave. Any cash salary received against such earned leave is called leave salary. Leave salary may be received either during the continuity of service or at the time of retirement. Thus, leaves which are accumulated and subsequently encashed are termed as earned leaves. These are converted into cash equivalent and paid to the employee and are called 'leave Salary'. Now it has to be checked whether such leave salary is taxable or not under Income Tax Act.

Tax Treatment of Leave Salary

A. **During the continuity of service**: If leave salary is received during the continuity of service, then the entire amount of leave salary received shall be taxable in the hands of the employee whether an employee is a government employee or non-government employee.

B. **At the time of retirement**: If leave salary is received at the time of retirement, then such Leave salary is partially or fully exempt under Income Tax Act depending upon the category of employee receiving it. This is highlighted in the table below:

Category of employee	Tax Treatment
A. Central and state Government employees only (u/s 10 (10AA)(i))	Entire amount of leave salary exempts from tax where received at the time of retirement whether on superannuation or otherwise

B. Other employees (u/s 10 (10AA)(ii))	Exempted from tax when taken at the time of retirement to the extent of lower of following: (a) Cash equivalent of leave salary in respect of the period of earned leave standing to the credit of employee at the time of retirement*. (As per Income Tax Act- maximum 30 days for every completed year of service) OR (b) Average salary × 10 months. OR (c) ₹ 3,00,000. OR (d) Actual amount received.

Explanation:

- **'Average Salary'** is to be calculated on the basis of average salary drawn for 10 months immediately preceding the date (not month) of retirement.
- *Period of earned leave in months standing to the credit of employee at the time of retirement is completed as follows:

	Months
Total leave entitlement in respect of period served (Completed years of service to be taken)	
Less: Period for which leave is availed by the employee	
Leaves for which encashment was taken during the period of service	

Note: Total leave entitlement in respect of the period served cannot exceed 30 days for every year of actual service rendered to the employer from whose service he has retired.

- Salary means for the above purpose.
  1. Basic pay.
  2. D.A., if in terms of employment so provided.
  3. Commission, if it is based on a fixed % of Turnover.
- Where the leave salary is received by an employee from more than one employee in the same previous year, the aggregate amount exempt from income tax cannot exceed the limit specified i.e.,₹ 3,00,000.
- The ceiling limit specified above will be reduced by the amount of cash equivalent of unutilized earned leave which has been exempted in any earlier year or years.
- Salary paid to legal heirs of a deceased employee in respect of privilege leave standing to his credit at the time of his death is not taxable.
- Exemption is respect of leave salary is available only at the time of retirement. Voluntary retirement by way of resignation is also covered.
- While calculating average salary, 30 days will be taken in a month e.g., a person retires on March 16, 2021 then 10 months will be taken from May 17, 2020 to March 16, 2021. If salary is 4000 p.m. in May, then 14 days salary will be taken as 4000 / 30 x 14 = 1867.

- Computation of exemption in respect of other employee can also be done with the help of the following steps

Steps	Computation	Formula
1	Compute completed years of service	Date of retirement minus Joining date (any fraction of a year is to be ignored)
2	Leave due per year in days	**Lower of** Leave due per year as per terms of employment OR 30 days per year
3	Earned leave outstanding in months at the time of retirement	[(Leave due per year (as per step 2) × completed year of service) – Total leaves availed (in days) during period of service – leaves (in days) for which encashment taken during period of service]÷ 30
4	Salary for last 10 months	Ten months [Basic Pay + D.A. (if terms of employment provided) + Commission based on fixed % of turnover]. Salary is to be computed for the 10 months immediately preceding the date of retirement.
5	Average Salary	Salary for last 10 months (as computed in step 4) ÷ 10
6	Leave salary exempt	**Lower of** Earned leave out standing as per step 3 × Average salary (step 5) OR 10 months × Average salary (step 5) OR Statutory limit ₹ 3,00,000 OR Actual Leave salary received
7	Taxable Leave Salary	Actual Leave salary received - Leave salary exempt (Step 6)

ILLUSTRATION 3.10

Following particulars have been furnished by Dr. Gajendra who is an employee in a private sector company. Dr. Gajendra retired on March 31, 2023.

Period of service	15 years and 5 months
Leave entitlement per month	3 days
Leave availed while in service	60 days
Leave encashment while in service	30 days
Basic pay at the time of retirement	₹25,000 p.m.
Annual increment of ₹5000 in the month of April	
D.A. 20% of basic pay (50% under terms of employment)	
Leave salary received at the time of retirement	₹5,60,000

Compute the amount of leave salary chargeable to tax for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Steps	Computation	Formula	Calculation
1	Compute completed years of service	Date of retirement minus Joining date (any fraction of a year is to be ignored) 15 years 5 months	15 years
2	Leave due per year in days	**Lower of** Leave due per year as per terms of employment OR 30 days	**36 days** **OR** **30 days**
3	Earned leave outstanding in months at the time of retirement	[(Leave due per year (as per step 2) × completed year of service) – Total leaves availed (in days) during period of service – leaves (in days) for which encashment taken during period of service]÷ 30	[(30×15)-60-30] ÷ 30 = 12months
4	Salary for last 10 months	Ten months [Basic Pay + D.A. (if terms of employment provide)+commission based on fixed % of turnover]. Salary is to be computed for the 10 months immediately preceding the date of retirement.	[₹ 25,000 + (20% of 25,000 ×50%)] ×10 = ₹2,75,000
5	Average Salary	Salary for last 10 months (as computed in step 4) ÷ 10	₹2,75,000÷ 10 = ₹27500
6	Leave salary exempt	**Lower of** Earned leave outstanding as per step 3 × Average salary (step 5) OR 10 months × Average salary (step 5) OR Statutory limit ₹ 3,00,000 OR Actual Leave salary received	12× ₹27500 = ₹3,30,000 OR 10 × ₹27,500 = ₹ 2,75,,000 OR ₹3,00,000 OR ₹5,60,000
7	Taxable Leave Salary	Actual Leave salary received - Leave salary exempt (Step 6)	5,60,000 – 2,75,000 = ₹ 2,85,000

EXERCISE: 3.10

Determine the amount of taxable leave salary for the assessment year 2023-24 from the following information in respect of an employee who retired from a private service on 31st December 2022.

Salary

From 1-3-2022 to 30-9-2022	₹48,000 p.m.
From 1-10-2022 to 31-12-2022	₹50,000 p.m.

D.A. 20% of basic pay

Date of Joining	1-5-1995
Leave entitlement for each year of service	1.5 month
Leave availed while in service	8 months
Leave salary paid at the time of retirement (50000*31)	₹15,50,000

Assuming that the assessee does not opt for new tax regime under section 115BAC.

(Answer: Exempted leave salary ₹ 3,00,000 taxable ₹12,50,000)

4. Compensation on Retrenchment [Sec. 10(10B)]

This section states that exemption is available in respect of any compensation received by a workman at the time of his retrenchment under:

(a) The Industrial Disputes Act, 1947 or

(b) Any other Act or Rules, under or notifications issued thereunder or

(c) Any standing orders or

(d) Any award, contract of service.

Exemption is available to the extent of lower of the following:

(a) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Disputes Act, 1947. As per this Act compensation =

Completed years of service x 15 days x average pay (in excess of 6 months is to be taken as one year) or

(b) ₹ 5,00,000 or

(c) The amount received.

Explanation:

- **Average pay means**
  - (i) Pay during 3 completed calendar months prior to retrenchment (for monthly).
  - (ii) Pay during 4 completed weeks prior to retrenchment (for weekly payments).
  - (iii) Pay for 12 days prior to retrenchment (for daily payment).
- Pay means all remuneration capable of being expressed in terms of money and includes
  - (a) Such allowances as the workman is, for the time being entitled to;
  - (b) The value of any house accommodation or of supply of light, water, medical attendance or any other service, or any concessional supply of food grain or other articles.
  - (c) Any travel concession

but does not include

(a) Any bonus.

(b) Any contribution to a retirement scheme.

(c) Any gratuity payable on the termination of his service

Computation of Taxable amount of retrenchment compensation

Steps	Computation	Formula
1	Service Period	Joining date to date of retrenchment (Fraction of a year to be considered one year if exceeds 6 months)
2	Last 3 months salary	Basic + D.A. (Always) + All Remuneration in terms of money
3	Average Salary	$\frac{total\ salary\ as\ in\ Step\ 2}{Total\ days\ of\ last\ 3\ months\ from\ the\ date\ of\ retrenchment} x\ 15$
4	Exemption Lower of	(A) Actual Compensation (B) Maximum (C) Average salary x Completed year of service
5	Taxable amount	Actual – Exemption

ILLUSTRATION 3.11

Mr. Prakash was appointed as Lab assistant on 1st June 2007 in Bharat Scientific Pvt. Ltd. On account of retrenchment his services were terminated on 15th December 2022 and he was paid ₹ 4,80,000 as compensation. He received a monthly basic salary of ₹ 24,000 since 1 Oct. 2022 but prior to this date he received ₹ 22,000 as monthly salary. D.A. 5% of basic salary provided. He was also provided a car of 1800cc for his personal and office use. Actual expenditure incurred by the employer on the car is 30,000 p.a. Find an exempted and taxable amount of compensation for the A.Y. 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Steps	Computation	Formula	Calculation
1	Service Period	Joining date to date of retrenchment 1-06-2007 to 15-12-2022 15 years 6½ months	16 years
2	Last 3 months salary	Basic + D.A. (Always) + All Remuneration in terms of money [(24000x2)+(22000x1)]+[5% of 70,000] + [30000*3/12]	Rs. 81,000
3	Average Salary	$\frac{total\ salary\ as\ in\ Step\ 2}{Total\ days\ of\ last\ 3\ months\ from\ the\ date\ of\ retrenchment} x\ 15$ $\frac{81000}{30+31+30} x15$	Rs.13,352
4	Exemption Lower of	(D) Actual Compensation (E) Maximum (F) Average salary x Completed year of service	Rs. 4,80,000 Rs. 5,00,000 Rs. 2,13,632
5	Taxable amount	Actual – Exemption 4,80,000-2,13,632	Rs. 2,66,368

EXERCISE 3.11

Mr. Mohit was appointed as Lab technician on 1st Sept 2010 in Diksha Scientific Pvt. Ltd. On account of retrenchment his services were terminated on 4th November 2022 and he was paid ₹ 5,80,000 as compensation. He received a monthly basic salary of ₹ 44,000 since 1 Oct. 2022 but prior to this date he received ₹ 40,000 as monthly salary. D.A. 5% of basic salary provided of which 60% were in terms of service. He was also provided

rent free accommodation by his employer on which rent paid by the employer was ₹ 3,000 per month. Find an exempted and taxable amount of compensation for the A.Y. 2023-24.

5. Voluntary Retirement Compensation [Sec. 10(10C) Rule 2 BA]

The following conditions are to be satisfied for claiming exemption:

(1) Compensation is received at the time of voluntary retirement or termination .

(2) Exemption is available in respect of any amount received by an employee of:

(a) Public sector company.

(b) Any authority established under a central, state or provincial Act or local authority.

(c) Any other company or a co-operative society.

(3) Maximum amount of exemption is ₹ 5,00,000.

(4) Schemes governing the payment of compensation are framed in accordance with the prescribed guidelines.

Guidelines 2(BA)

- Scheme applies to employees who have completed 10 years of service or 40 years of age.
- Scheme applies to all employees, by whatever name called, including workers and executives except directors.
- Vacancy caused by voluntary retirement is not to be filled up nor to be filled up nor the retiring employee is to be employed in another company.
- The amount received on account of voluntary retirement of the employees does not exceed the following:

(a) 3 Months' salary x Completed years of service.

OR

(b) Monthly salary x Balance months of service left before the date of retirement.

Explanation:

- **Salary means** Basic pay + D.A. (under terms of employment) + commission.
- Relief u/s 89(i) will be admissible in respect of the amount received by the assessee employee from the employer at the time of voluntary retirement or separation.

ALLOWANCES

A fixed amount which is given by employer to employee regularly in order to meet out specific expenses is called allowance. It is fixed, predetermined and given irrespective of actual expenditure. Allowance is a fixed monetary amount paid by the employer to the employee for meeting some particulars expenses, whether personal or for the performance of his duties. Taxable on the basis of section 15 on due or receipt basis whichever comes earlier. For the purpose of tax treatment these allowances can be divided as under.

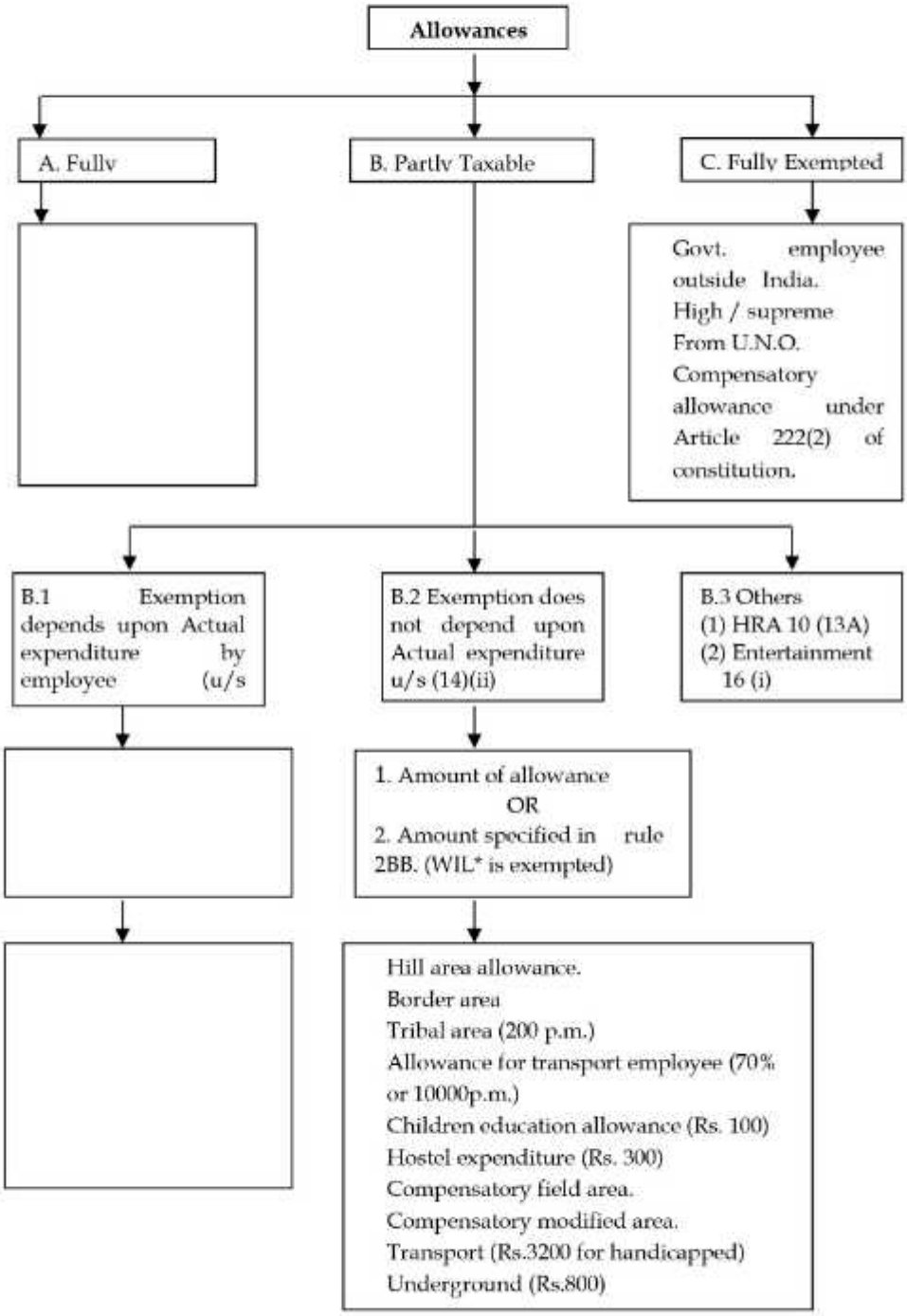
A. Fully Taxable Allowances:

The following are the instances of allowances taxable on due or receipt basis under section 15:

- City Compensatory Allowance
- Dearness Allowance
- Tiffin allowance
- Project allowance
- Any other cash allowance
- Medical allowance
- Servant allowance
- Over Time allowance
- Proctorship allowance

B. Partly Taxable Allowances:

Allowances covered under this category are not fully taxable. A part of allowance is exempted and other part is taxable. Such types of allowances are given under section 10(14). Exemption of such allowances is based either on actual expenditure or maximum limit specified under rule 2BB. The provisions of section 10(14) are given below:



*WIL – Whichever is lower

B.1 Exemption based upon actual expenditure: Special Allowance u/s 10 (14)(i)

Following allowances are not taxable to the extent they are utilized for thepurpose specified. In other words, in the following cases the amount of exemption under section 10(14) is

a. The amount of allowance

OR

b. The amount utilized for the specific purpose for which allowance is given

Whichever is lower.

Exemption is available on above basis in the case of following allowances:

- Traveling allowance / Transfer allowance
- Conveyance allowance
- Academic or research allowance
- Foreign allowance
- Daily allowance
- Helper allowance
- Uniform allowance

B.2 Exemption does not depend upon actual expenditure (Section 10(14)(ii):

In the case given below, the amount of exemption does not depend upon actual expenses incurred by the employee. The maximum exemption limit is given under rule 2BB. Least of the following is exempt:

a. the amount of allowance

OR

b. the amount specified in rule 2BB

The amount specified in rule 2BB of different allowances covered u/s 10(14)(ii) is summarized in the following table.

Table: Maximum exemption Limits of various allowances

Name of Allowance	Nature of Allowance	Extent of exemption under rule 2BB
Children Education Allowance		Exempt up to ₹100 p.m. per child for maximum two children
Hostel Expenditure Allowance		₹300 p.m. per child for maximum two children
Tribal area allowance / scheduled area / Agency area	Exempt only if received in 9 states : (1) M.P. (2) Tamil Nadu (3) UP (4) Karnataka (5) Tripura (6) Assam (7) West Bengal (8) Bihar (9) Orissa.	₹ 200 per month
Allowance for transport employee	Any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed	70% of such allowance OR ₹ 10000 per month Whichever is Lower

Transport allowance	Granted to an employee to meet his expenditure for the purpose of commuting between residence to place of duty	in case of handicapped or blind ₹ 3200 p.m.
Underground Allowance		₹ 800 per month
High altitude Allowance	For altitude of 9000 to 15000 feet	₹ 1060 per month
	For altitude above 15000 feet	₹ 1600 per month
Composite compensatory (Hill area) allowance	(a) Siachen area of Jammu and Kashmir	7000 p.m.
	(b) Areas having height 9000 feet and above from sea level	800 p.m.
	(c) Areas not covered in	
	(a) and (b) above having height 1000 feet and above	300 p.m.
Island Allowance	This special allowance is granted to members of the armed forces in the nature of island allowance in Andaman & Nicobar and Lakshadweep Group of islands.	R.3250 p.m.
Counter insurgency Allowance	This special allowance is granted to member of the armed forces	₹ 3900 p.m.
Border area allowance / Remote locality Allowance	Type A	₹ 1,300 p.m.
	Type B	₹ 1,100 p.m.
	Type C	₹ 1,050 p.m.
	Type D	₹ 750 p.m.
	Type E	₹ 300 p.m.
	Type F	₹ 200 p.m.
Compensatory field area allowance	Some specific areas of Arunachal Pradesh, Sikkim, U.P., J & K, Manipur and Nagaland	₹ 2,600 p.m.
Compensatory modified field area allowance	Some specific areas of Punjab, Rajasthan, Haryana, Himachal Pradesh, Arunachal Pradesh, Assam, Sikkim, P.B., U.P., J & K	₹ 1,000 p.m.

B.3 Other Partly taxable allowances

1. House Rent Allowance (HRA) rule 2A and u/s 10(13A)

The least of the following is exempt from tax.

(a) 50% of salary where house is situated at Delhi, Mumbai, Chennai or Kolkata(DMCK) and 40% of salary in other cities;

OR

(b) Rent paid – 10% of salary;

OR

(c) Actual HRA;

Explanations:

- Salary = Basic Pay + D.A. (under terms of employment) + Commission based on fixed % of turnover.
- Salary shall be determined on "due" basis.
- Exemption is denied where
  - (i) An employee lives in his own house.
  - (ii) When rent paid does not exceed 10% of salary.
- For getting 100% exemption of HRA actual rent paid should be equivalent to Actual HRA + 10% of salary.
- Exemption in respect of HRA depends upon the following:
  - (a) Salary or the employee
  - (b) HRA.
  - (c) Rent paid
  - (d) The place where house is taken

Where these four are the same throughout the year, the exemption u/s 10(13A) shall be calculated on "annual basis". If there is any change the exemption shall be worked out on "Monthly" basis.

Note: HRA exemption will not be allowed to an assessee, if he adopts new tax regime under section 115BAC.

ILLUSTRATION 3.12

From the following yearly information compute taxable house rent allowance for the assessment year 2023-24:

Particular	A	B	C	D
Basic Salary	5,00,000	4,00,000	6,00,000	70,000
Dearness allowance (in terms of service for C case)	2,00,000	3,00,000	1,00,000	30,000
City Compensatory Allowance	1,00,000	20,000	50,000	10,000
Bonus	1,50,000	1,00,000	18,000	15,000
Commission on sale (1%)	-	-	-	30,000

House Rent Allowance	60,000	1,80,000	3,60,000	37,500
Rent paid	1,40,000	3,60,000	4,00,000	41,000
Place of rented house	Ahmedabad	Udaipur	Delhi	Jaipur

Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

	A	B	C	D
Least of the following will be exempt				
(a) 50% of salary if the house is situated at DMCK*	-	-	7,00,000 x 50% = 3,50,000	-
40% of salary for other places	5,00,000 x 40% = 2,00,000	4,00,000 x 40% = 1,60,000	-	1,00,000 x 40% = 40,000
(b) Rent paid – 10% of salary	1,40,000 – (5,00,000 x 10%) = 90,000	3,60,000 – (4,00,000 x 10%) = 3,20,000	4,00,000 – (7,00,000 x 10%) = 3,30,000	41,000 – (1,00,000 x 10%) =31,000
(c) Actual HRA	60,000	1,80,000	3,60,000	37,500
Exempt HRA (Lower of (a), (b) and (c))	60,000	1,60,000	3,30,000	31,000
Taxable HRA	60,000 - 60,000 = NIL	1,80,000 – 1,60,000 = 20,000	3,60,000 – 3,30,000 = 30,000	37,500 - 31,000 = 6,500

* DMCK = Delhi, Mumbai, Chennai and Kolkata

Salary for the purpose of HRA

	A	B	C	D
Basic salary	5,00,000	4,00,000	6,00,000	70,000
D.A. (if it is in terms of service)	-	-	1,00,000	-
Commission on sale (1%)	-	-	-	30,000
Salary	5,00,000	4,00,000	7,00,000	1,00,000

EXERCISE 3.12

From the following information compute taxable house rent allowance for the assessment year 2023-24:

Particular	A	B	C
Basic Salary	4,00,000	3,00,000	7,20,000
Dearness allowance (in terms of service for all cases)	60,000	80,000	-
Commission on sale (2%)	40,000	40,000	60,000
Fixed commission	50,000	5,000	15,000
Rent paid	4,90,000	3,50,000	70,000
House Rent Allowance	2,30,000	2,80,000	90,000
Place of rented house	Kolkata	Mumbai	Raipur

Assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: A : Nil , B : ₹ 70,000, C : ₹ 90,000]

ILLUSTRATION 3.13

Mr. Aditya is an employee of Reliance industries ltd., the company pays the following emoluments during the financial year 2022-23:

Basic salary	₹60,000 p.m.
Dearness allowance forming part of salary	₹18,000 p.m.
Commission based on turnover achieved by Aditya 2%	
Turnover achieved by Aditya	
April 2022 to September 2022	₹30,00,000
October 2022 to March 2023	₹45,00,000
Arrear of salary for financial year 2021-22 received in May 2022	₹ 60,000

Aditya receives ₹ 21,000 per month as House Rent Allowance from the company. The residential house taken on rent is situated in Delhi. Aditya however, stays at this house in Delhi from October 2022 to March 2023. He pays ₹12000 per month as rent for this house. For the period April 2022 to September 2022, Aditya had been staying at the house of one of his close friend. Compute exemption in respect of House Rent Allowance received by him with respect to assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Computation of HRA exempted and taxable of Mr. Aditya for the assessment year 2023-24

	From April 2022 to September 2022	From October 202 to March 2023	Total
Actual HRA	₹21000*6= 126000	₹1,26,000	
Place	Delhi	Delhi	
Rent paid	Nil	₹12000 pm	
Salary	(60000+18000)*6= 4,68,000 + 2% of 30,00,000 = ₹ 5,28,000	(60000+18000)*6= 4,68,000 +2% of 45,00,000 = ₹ 5,58,000	

(a) 50% of salary	50% of 5,28,000 ₹ 2,64,000	50% of 5,58,000 ₹ 2,79,000	₹ 5,43,000
(b) Rent paid – 10% of salary	0 – (10% of 528000)= -52800	72000 – (10% of 5,58,000) = ₹16200	₹ 16,200
(c) Actual HRA	₹1,26,000	₹ 1,26,000	₹ 2,52,000
Least Exempted	0	16200	₹ 16,200
Taxable	₹ 1,26,000	₹ 109800	₹ 2,35,800

EXERCISE: 3.13

Mr. Nitesh joined P Ltd. (Jodhpur) as on 1st June 2022 in the pay scale of 30,000-3,000-36,000-4,000-56,000. Dearness allowance 20% of his basic salary was provided to him which is not in terms of his service. He was also provided HRA of ₹ 5,000 p.m. He took a house on rent from 1 July 2022 at a monthly rent of ₹ 7,000 p.m. prior to this he stayed with his friend. From 1 Oct. 2022 he changes his rented house to a new rented house at ₹ 10,000 p.m. On 1 Feb. 2023 he purchased a residential flat for his own residence.

Compute taxable HRA for Mr. Nitesh for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC. [Ans.: ₹ 18000]

ILLUSTRATION 3.14

Mr. Manish is working in a transport company in Lucknow. He gets a basic salary of ₹ 20,000 p.m., dearness allowance @ 60% of basic salary (60% is in terms of employment), entertainment allowance ₹ 400 p.m., city compensatory allowance ₹ 500 p.m., medical allowance ₹ 300 per month, children education allowance ₹ 80 per month for 3 children each, project allowance ₹ 700 per month, daily allowance ₹ 100 per month, house rent allowance ₹ 1,800 p.m. He spent ₹ 4,000 in entertaining the visitors of the company and paid ₹ 4000 per month as rent of the house occupied by him for his residence. He spent ₹ 2,000 on medical treatment of his family.

Calculate gross income from salaries for the A.Y. 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Computation of gross income from salary of Mr. Manish for the assessment year 2023-24

Particular		**Amount**
Basic salary	20,000x12	2,40,000
Dearness allowance	2,40,000x60%	1,44,000
Entertainment allowance	400x12	4,800
City compensatory allowance	500x12	6,000
Medical allowance	300x12	3,600
Education allowance	80x3x12 = 2,880	
Less: Exempt	80x2x12 = 1,920	960
Project allowance	700x12	8,400
Daily allowance		Exempt
House Rent allowance	1800x12 = 21,600	
Less: Exempt	15,360	6,240
Gross salary		**4,14,000**

Working note:

(1) House Rent allowance exempt : Least of the following will be exempt

(a) 40% of salary 3,26,400 x 40% = ₹1,30,560

(b) Rent paid – 10% of salary
48,000 – (3,26,400x10%) = ₹15,360

(c) Actual HRA ₹21,600

Here Salary for HRA purpose is

Basic salary	₹2,40,000
D.A. 1,44,000 x 60%	₹86,400
Salary for the purpose of HRA	₹3,26,400

EXERCISE 3.14

Mr. Kartik was appointed on 1 August 2019 in Udaipur Rocking Mills Ltd., Delhi, in the pay scale of ₹ 5,800-300-8800 on initial pay of ₹ 6,400. He has been also provided 50% of his pay as dearness allowance (60% of total D.A. is not in terms of service), Proctorship allowance ₹ 600 p.m., tribal area allowance ₹ 700 p.m. and house rent allowance @ 1,500 p.m. He also received a bonus equal to 2 months salary of Nov. & Dec during the previous year. He has taken an accommodation for his residence @ 2,000 p.m. Compute his gross income from salary for the assessment year 2023-24 assuming that his salary becomes due on the first day of next month. Assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.:1,64,168]

PERQUISITES (SEC. 17(2))

Any amenity or benefit or facility provided by an employer to an employee directly or indirectly, whether in cash or in kind, in addition to salary and wages is called perquisite. Value of perquisite is included in the head 'salaries' only when the following conditions are satisfied and taxable under the income tax act:

1) Perquisite is provided by employer to employee
2) It is allowed during the continuance of employment
3) It is directly depend upon service
4) It is resulting in nature of personal advantage to employee
5) It is derived by virtue of employer's authority

Perquisites provided by the employerto the employee or any member of his house shall be chargeable to tax in the hands of the employee. Following members of house are to be included whether dependent or not:

- Spouse
- Children
- Parents
- Servants of dependents

Any perquisite received from other than employer is taxed under the head 'Profit and gains of business or profession' or 'Income from other sources. For example, a doctor or lawyer receiving any benefits from clients in addition to consulting fees shall be taxable under the head income from business or profession. Section 17(2) contains an inclusive definition of perquisite. As per this section it includes:

a. **Sect. 17(2)(i)**-The value of rent-free accommodation provided to the assessee by his employer is treated as perquisite

b. **Sect. 17(2)(ii)**-The value of any concession in the manner of rent respecting any accomodation provided to the assessee by his employer is treated as perquisite.

c. **Sect. 17(2)(iii)**-The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases is treated as perquisite:

(a) by a company to an employee, who is director there of;

(b) by a company to an employee being a person who has a substantial interest in the company;

(c) by any employer to an employee to whom the provision of (i) and (ii) above do not apply and whose income under the head salaries exclusive of the value of all benefits not provided for by way of monetary benefits, exceeds ₹ 50,000.

d. **Sec. 17(2)(iv)-**Any sum paid by the employer in respect of any obligation which, but for such payment would have been payable by assessee is treated as perquisite.

Only amounts actually paid by the employer qualify as perquisite in this case. Such payment may be in the form of reimbursement or by making payment on behalf of the employee. Some examples that are treated as perquisites

1. Salary of gardener, appointed by employee, is paid by employer
2. Payment of hotel bills of employee who stays in such hotel on a personal visit
3. Payment by the employer of personal bills of employees like electricity bills etc.

e. **Sec. 17(2)(v)-**Any sum payable by the employer to effect an assurance on the life of the assessee or to effect a contract for an annuity, such amount being payable, whether directly or through a fund, other than

(a) RPF or

(b) Approved superannuation fund or

(c) Deposit link insurance fund,

is treated as a perquisite. The aforesaid amount qualifies as perquisite on due basis even if payment has not been actually made by the employer.

f. **Sec. 17(2)(vi)-**The value of any specified security or sweat equity shares allotted by the employer free of cost or at concessional rate to an individual who is or has been in employment of that person is treated as perquisite.

g. **Sec. 17(2)(vii)-**The amount of any contribution to an approved superannuation fund by the employer in respect of assessee, to the extent it exceeds 1.5 lakh rupee

h. **Sec. 17(2) (viii)-**The value of any other fringe benefit as may be prescribed.

Taxability of Perquisites

All perquisites covered under section 17(2) can be classified into three categories.

(a) Perquisites taxable in the hands of all employees - Sec.17(2)(i), Sec.17(2)(ii) , Sec.17(2)(iii), Sec.17(2)(v), Sec.17(2)(vi), Sec.17(2)(vii) and Sec.17(2)(viii).

(b) Perquisites taxable only in the hands of specified employee- Sec. 17(2)(iv)

(c) Tax free perquisites.

Specified Employees

An employee is either specified or non-specified employee for the purpose of valuation of perquisites. The following employees are known as specified employee-

- A director cum employee: any employee whos is a director at any time during previous year
- An employee who has a substantial interest in the employer company: employee has 20% voting power in employer company at any time during previous year.

- An employee whose annual salary income exceeds ₹50,000: If an employee receives salary from more than one employer, the aggregate salary will have to be taken into account for determination of ₹50,000. it includes all monetary benefits received by employer but it does not include
- All non -monetary benefits
- Monetary benefits which are not taxable under section 10 as for example exempted part of HRA is not included
- Deductions under section 16

Note: Classification of employees between specified and non-specified does not have much practical utility because an employee is treated as non-specified only when his annual salary income is less than ₹50,000 or less. Since the minimum exemption limit for all individuals is ₹2,50,000 **hence every employee who is paying income tax is a specified employee.**

The value of perquisites has to be determined for the purpose of determination of tax liability of an individual. The detailed valuation rules for perquisites are given under income tax rules, 1964. Now we shall discuss how to value perquisites.

Valuation of Perquisites

Perquisites are taxable in the hands of the employee but now the question is how to value it for income tax purposes. Perquisites are valued in accordance with the rules contained in the Income Tax rules, 1962 and various executive directions. It is to be noted that valuation of perquisite is made on the basis of the benefit arising to the employee and not on the basis of the cost to the employer in providing the benefits.

Taxable in the hands of all types of employees.	Taxable in the hands of specified employee	Exempted from tax in all cases.
• Rent free accommodation (furnished + unfurnished) • Rent free accommodation at concession rate. • Employee's obligation paid by employer. • LIP paid by employer. • Any other fringe benefit or amenity - Interest free loan - Travelling, touring accommodations - Free meals - Gifts voucher - Credit card - Club Expenses - Use of moveable assets - Transfer to Moveable assets.	• Motor Car • Gas, Electricity or water facility • Free or confessional education facility • Domestic servants • Transportation or private journey • Medical facility	• Refreshment and meals • Refresher courses • Goods manufactured by employer • Perquisites to employee outside India by Government • Sale of an asset to an employee after using 10 year more etc.

PERQUISITES TAXABLE IN THE HANDS OF ALL TYPES OF EMPLOYEE.

Valuation rules of various perquisites are given in the following paragraphs:

Valuation of Rent free Residential Accommodation (Sec. 17(2)(i), Rule 3(a)

The word accommodation includes a house, flat, guest house, farm house, accommodation in a hotel, motel, mobile home or ship. Residential accommodation provided by employers to employees may be furnished or unfurnished. Further employees may also be government or private sector employees. Employer may be the owner of residential accommodation or not. The basis of valuation of these is explained below:

Valuation of Unfurnished Rent free Residential Accommodation [Rule 3(1)]

When an accommodation is being provided by an employer without furniture is called unfurnished accommodation. For the purpose of valuation of the perquisite in respect of unfurnished accommodation, all employees are divided into two categories:

Category A	Central and State Government employees
Category B	Private sector employees

Category A : Central and State Government employees

This category includes the following employes:

- Central Government Employees
- State Government Employees
- Those Central or State Government employees who are on deputation to a public sector undertaking and accommodation is provided by the Government. If accommodation is provided by PSU then such employee shall be treated as private sector employee for the purpose of valuation of rent free accommodation.

Rule of valuation: The value of rent-free accommodation shall be equal to license fee. License fee is determined by central or state government in accordance with the rules framed by the Government for allotment of houses to its officers.

Category B : Private sector employees

This category includes all those employees who are not included in category A.

Rule of Valuation: the valuation of rent-free accommodation is dependent upon the population of the city where accommodation is provided. The detailed valuation rules are summarized in the following table

Population of city as per 2001 census where accommodation is provided	Employer is owner of accommodation	Employer is not owner of accommodation
Exceeding 25 lakhs	15% of salary	15% of Salary OR Rent payable by employer Whichever is less
Exceeding 10 lakh but less than 25 lakh	10% of salary	
Up to 10 lakh	7.5% of salary	

Explanation:

1. Here, Salary for the purpose of RFA, includes:
   a. Basic salary
   b. Dearness allowance or dearness pay, it terms of employment so provide

c. Taxable part of allowances
d. Bonus
e. Commission
f. Fees
g. Any monetary payment which is chargeable to tax

But it does not include

1) Dearness allowance if it is not taken as part of salary for purpose of retirement benefits
2) Employer's contribution to provident fund account of the employee
3) Exempted allowances
4) Value of perquisites
5) Lump sum payment received at the time of retirement like gratuity, leave encashment etc.

2. Salary to be included on **accrual basis**. Salary is computed on due basis for the period during which rent free residential accommodation is occupied by the employee. Therefore, any advance or arrears of salary received is not taken into account. In other words, salary accrued for the period during which rent – free accommodation is occupied by the employee shall be considered, whether it is received during the previous year or not.

3. If the assessee is employed with more than one employer and accommodation is provided to him by one of such employers, valuation of perquisite thereof shall include salary from all employers. Suppose Mr. Vishwas is employed at IIT Bombay as full time assistant professor and also employed at NM college as part time lecture and accommodation is being provided only by NM college. While calculating valuation of rent free accommodation salary received from both employer shall be considered.

ILLUSTRATION 3.15

Mr. Vishwas, a director – employee of a private sector company based at Chennai, draws ₹ 18,000 p.m. as basic salary. D.A (forming part of salary) 20% of basic pay, bonus 30% of basic salary, commission ₹ 1600 p.m., transport allowance ₹ 600 p.m. for office to residence, tribal area allowance ₹ 1440 p.a. and rent-free house (rent paid by employer ₹ 16,000 p.m.). Income tax paid by the company on behalf of Vishwas is ₹ 12000. During the P.Y. 2022-23, Vishwas draws salary from April 2023 to May 2023 in advance.

Determine value of perquisites in respect of rent-free house for A.Y. 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Valuation of perquisite of rent-free accommodation under Rule 3(1) – least of the following is taxable

15% of salary i.e. 15% of 3,62,400	=	₹ 54,360
or		
Actual rent paid by employer 16000 x 12	=	₹ 1,92,000

₹ 54,360 is chargeable to tax.

Working Note:

- Above salary is calculated as follows:

Basic pay	18,000 x 12	2,16,000
D.A.	20% of B.P.	43,200
Bonus	30% of 2,16,000	64,800
Commission	1600 x 12	19,200
Transportation allowance	600x12=	7,200
Tribal area allowance	14,400	
Less. Exemption u/s 10(14)(ii)	2,400	12,000
Income Tax		NIL
Advance salary		NIL
Total		3,62,400

Note:

- The word salary does not include the value of perquisites u/s 17(2). Income tax paid by the company on behalf of assessee is a prerequisite u/s 17(2)(iv).
- For the purpose of rent-free accommodation salary is included on "accrual" basis hence advance salary of a period other than P.Y., is not included even if the same is received in the P.Y. Similarly, due salary of P.Y. is included even if received after the end of P.Y.

EXERCISE 3.15

Mr. Ashish, a marketing manager of a HZL, Udaipur (Raj.) (Population 3.75 lacs as per 1991 but 6 lacs as per 2001 census). Draws ₹ 48000 p.a. as a basic salary besides, he gets 3000 p.a. as traveling allowance (fully utilized for official purpose), ₹ 9000 p.a. as bonus, ₹ 15,000 as special allowance. His employer provides a rent-free unfurnished house at Udaipur which is owned by HZL. Fair rent of the house is ₹ 80,000 p.a. Determine value of perquisite in respect of rent-free house for A.Y. 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC. [Ans.: 5,400]

Valuation of Furnished Rent-free Residential Accommodation

If furnishing items are also provided by the employer along with rent free accommodation, such accommodation is called furnished rent-free accommodation. Furnishing items include furniture, television, sofa sets, radio, music system, fans, double bed, dining table etc. The following procedure is followed for valuation of furnished accommodation:

Step-1: Compute the value of the accommodation as if it is not furnished (as explained in above paragraphs)

Step-2: To the amount so computed, add the following:

(1) If furnishing items are owned by the employer, original cost of furniture (not depreciated value) × 10% p.a.

(2) If furnishing items are taken on hire by the employer, hire charges payable(not necessarily paid) by the employer.

	Amount
Valuation of accommodation as if it is not furnished	
Add: 10% of cost of furniture (if employer is owner)	
or /and	
Hire of furniture payable by employer	
Valuation of furnished Rent-free Residential Accommodation	

ILLUSTRATION 3.16

Find the value of perquisites for the following situations:

(a) Salary ₹ 25,500 p.m., dearness allowance ₹ 1,000 p.m.(in terms of service), medical allowance ₹ 1,200 p.m., children education allowance ₹ 150 p.m. for 3 children each, furnished house at Delhi (According to census of 2001 the population of town is more than 40 Lacs), cost of furniture provided with house ₹ 15,000

(b) Basic salary ₹ 31,000 p.m., dearness allowance ₹ 2,000 p.m., tiffin allowance ₹ 500 p.m., hostel allowance ₹ 150 p.m. for 3 children each, furnished house at Jodhpur (according to census 2001 the population of town were 7 Lacs), rent paid by employer is ₹ 5,000 p.m., rent paid for furniture provided to the employee by the employer with rent free accommodation is ₹ 350 p.m.

Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

(a) Salary for the purpose of Rent free accommodation

Basic Salary	25,500x12	3,06,000
D.A.	1,000x12	12,000
Medical allowance	1200x12	14400
Education allowance	150x3x12 = 5,400	
Less: Exempt	100x2x12 = 2,400	3,000
Salary		3,35,400

Rent free accommodation at Delhi

15% of ₹ 3,35,400	= 50,310
+ 10% of cost of furniture 15000x10%	1,500
Value of perquisites	51,810

(b) Salary for the purpose of Rent-free accommodation

Basic Salary	31,000x12	3,72,000
D.A.(not in terms)		
Tiffin allowance	500x12	6,000
Hostel allowance	150x3x12 = 5,400	
Less: Exempt	150x2x12 = 3,600	1,800
Salary		3,79,800

Rent free accommodation at Jodhpur

15% of ₹ 3,79,800	= 56,970
or	
Rent paid 5,000x12	60,000
Whichever is lower	56,970
+ Rent paid of furniture 350x12	4,200
Value of perquisites	61,170

EXERCISE 3.16

From the following information of Mrs. Savita find out taxable value of furnished rent-free accommodation:

Basic salary ₹ 6,000 p.m., D.A. ₹ 500 p.m., Traveling Allowance ₹ 200 p.m., Daily Allowance ₹ 300 p.m., Education allowance ₹ 80 each p.m. for two children, furnished house at Jaipur (Population in 2001 were 21 Lacs) cost of furniture ₹ 16,000.

Assuming that the assessee does not opt for new tax regime under section 115BAC. **[Ans. 8,800]**

Valuation of Accommodation Provided at Concessional Rent (sec. 17 (2)(ii) and Rule 3(b)):

Perquisites in respect of residential accommodation are said to have been provided at concessional rent if any amount is recovered from the employee against providing the accommodation. In that case the accommodation may be furnished or unfurnished. The valuation shall be made accordingly as discussed in above paragraphs and thereafter the amount so recovered from the employee shall be deducted from such valuation. The balancing amount shall be treated as valuation of accommodation provided at concessional rate.

ILLUSTRATION 3.17

Find the concessional value of accommodation for the following situations:

(a) Salary ₹ 22,000 p.m., dearness allowance ₹ 800 p.m. (50% under terms of employment), unfurnished accommodation at Bikaner (Population is less than 10 Lacs in census 2001). Employer is the owner of the house. Amount recovered from the employee towards accommodation is 1,000 p.m.

(b) Basic salary ₹ 26,000 p.m., bonus ₹ 8,000, dearness allowance ₹ 500 p.m. and furnished accommodation at Sikar (Population 16 Lacs in census 2001). Rent paid by employer ₹ 3,000 p.m. Rent recovered from employee ₹ 1,500 p.m. original cost of furniture ₹ 20,000.

Solution:

(a) Salary for the purpose of Rent-free accommodation

Basic Salary	22,000x12	2,64,000
D.A.	800x50%x12	4,800
		2,68,800

Concessional Rent accommodation

7.5% of ₹ 2,68,800	20,160
Less: Rent recovered from employee 1000x12	12,000
Value of concessional accommodation	8,160

(b) Salary for the purpose of Rent free accommodation

Basic Salary	26,000x12	3,12,000
Bonus		8,000
D.A. (not in terms)		-
		3,20,000

Concessional Rent accommodation

15% of ₹ 3,20,000	48,000
or	
Rent paid by employer 3,000x12	36,000
Whichever is lower	36,000
Add: 10% cost of furniture 20,000x10%	2,000
	38,000
Less: Amount recovered from employee 1500x12	18,000
Value of concessional accommodation	20,000

EXERCISE 3.17

Find the concessional value of accommodation for the following situations:

(a) Basic salary ₹ 20,000 p.m., commission ₹ 30000 annual, bonus ₹ 24,000 annual and furnished accommodation at Raipur (Population 16,00,000 in 2001). Rent paid by employer for house ₹ 4000 p.m. and for furniture ₹ 300 p.m. Amount recovered from employee towards rent is ₹ 2,000 p.m.

(b) Salary ₹ 29,000 p.m., dearness allowance 60% of salary(of which 80% is in terms of employment), bonus 10% of salary, commission on sale 1% (Sales during the p.y. 72,00,000), conveyance allowance ₹ 600 p.m. (Actual expenses ₹ 5,700). Rent free unfurnished accommodation in a town having population 15,00,000 in census 2001. House is owned by the employer. Salary paid to gardener by employer ₹ 600 p.m. Amount recovered from employee towards rent is 3,000 p.m. [Ans.(a)₹ 23,700 (b) ₹ 26,334]

Valuation of Accommodation in Hotel

The value of the accommodation shall be-

(i) 24% of the salary paid or payable for the previous year or

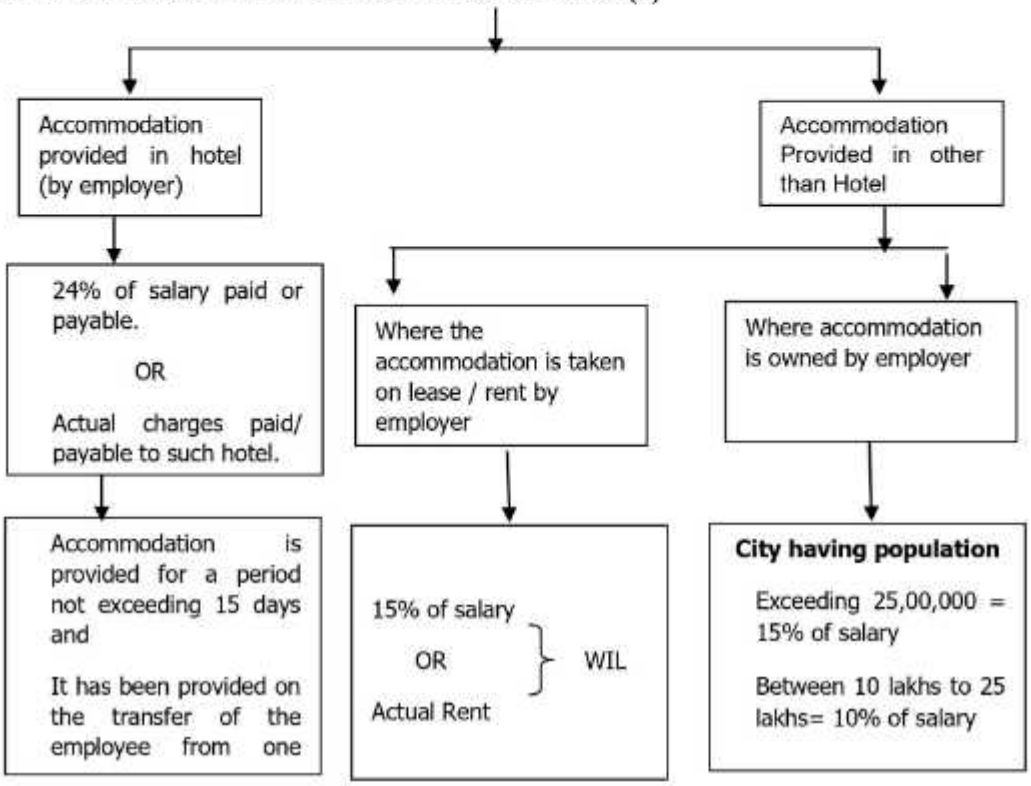
(ii) The actual charges paid or payable to such hotel

whichever is lower for the period during which such accommodation is provided. However, on fulfillment of following two conditions accommodation provided in hotel shall be exempt:

1. Such accommodation is provided for a period not exceeding 15 days;
2. Such accommodation is provided on transfer of the employee from one place to another.

In brief the entire valuation rules discussed so far can be summarized in the following pictorial presentation:

Valuation of Unfurnished Rent-free Accommodation Rule 3(1)



Exemption:

Rent free accommodation is exempted in the following circumstances:

1. In case of transfer from one place to another, an employee is provided accommodation at new place along with existing accommodation then lower value of them will be considered up to 90 days thereafter value of perquisites shall be charged for both such accommodation.
2. Hotel accommodation in case of transfer of assessee from one place to another for a period not exceeding 15 days.
3. Rent free official accommodation to 1. Judge of high court. 2. Judge of the Supreme Court. 3. Office of parliament, a union minister and opposition leader exempt from tax.
4. (a) Accommodation is provided located in 'remote area' (an area located at least 40 K.M. away from a town having a population not exceeding 20,000 is called a remote area.) (b) Accommodation provided at an offshore site.
5. Temporary rent-free accommodation having plinth area of 800 square feet or less which is located at least 8 K.M. away from the local limits of municipality

ILLUSTRATION 3.18

Basic salary ₹ 20,000 p.m., dearness allowance ₹ 500 p.m. in terms of employment, bonus ₹ 3,000 p.m. Find out the value of taxable accommodation perquisites if it is provided :

(a) In hotels throughout the year.
(b) In a hotel for 12 days in P.Y.
(c) On a mining site situated in a remote area.

Solution:

Salary for the purpose of accommodation perquisite

Basic Salary	20,000x12	2,40,000
D.A.	500x12	6,000
Bonus	3,000x12	36,000
Total		2,82,000

(a) If provided in hotel throughout the year

24% of salary or Rent paid whichever is lower

24% of ₹ 2,82,000 = ₹ 67,680

(b) Not taxable because hotel amenities provided for less then 15 days are not taxable.

(c) Exempt perquisite as it is provided in remote areas.

EXERCISE 3.18

Basic salary ₹ 26,000 p.m., dearness allowance ₹ 800 p.m., bonus ₹ 30,000, medical allowance ₹ 300 p.m. Find out the value of taxable accommodation amenity if it is provided:

(a) In hotels throughout the year.

(b) In a hotel for 10 days in P.Y.

(c) On a mining site situated in a remote area.

[Ans.: (a) 82,944 (b) Not taxable (c) Exempt]

ILLUSTRATION 3.19

Shivprasad is a marketing manager in SRS Ltd. at Jaipur. He furnishes the following particulars of his emoluments for the assessment year 2023-24:

(i) He was appointed on 1st November 2018 in the pay scale of ₹ 14,000-500-17,000.

(ii) Dearness allowance ₹ 4,250 per month (70% of which form part of salary for his retirement benefits)

(iii) Project allowance ₹ 1,250 p.m.

(iv) Education allowance ₹ 900 (jointly) p.m. for 3 children.

(v) He was provided a house rent allowance of ₹ 11,000 per month from 1st April 2022 to 31 August 2022. For this period, he was paying rent of ₹ 13,000 p.m.

(vi) From 1st Sept. 2022 the company provided him rent free accommodation in Jaipur. The company recovered ₹ 1,500 p.m. from Shivprasad for this accommodation. (Population 26 Lakh)

Find Gross income from salary for Mr. Shivprasad for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Computation of Gross income from salary for Mr. Shivprasad for the assessment year 2023-24.

Particular		Amount
Basic salary(W.N. 1)		1,88,500
D.A.	4,250x12	51,000
Project allowance	1,250x12	15,000
Education allowance	900x12 = 10,800	
Less: Exempt	100x2x12 = 2,400	8,400
HRA	55,000	
Less: Exempt(W.N. 2)	36,950	18,050
Concessional Rent accommodation (W.N. 3)		11,321
Gross salary		**2,92,271**

Working note:

(1) Basic salary

1 Nov. 2018 to 31 Oct. 2019	14,000
1 Nov. 2019 to 31 Oct. 2020	14,500
1 Nov. 2020 to 31 Oct. 2021	15,000
1 Nov. 2021 to 31 Oct. 2022	15,500
1 Nov. 2022 to 31 Oct. 2023	16,000

1 April 2022 to 31 Oct. 2022	15,500x7	1,08,500
1 Nov. 2022 to 31 Mar. 2023	16,000x5	80,000
Basic salary		1,88,500

(2) House rent allowance : Lease of the following will be exempt (1 April 2022 to 31 August 2022)

(a) 40% of salary 92,375x40% = 36,950

(b) Rent paid – 10% of salary

(13,000x5) – (92,375x10%) = 55,762.50

(c) Actual HRA = 55,000

Least amount ₹ 36,950 will be exempt

Salary for the purpose of HRA

Basic salary 15,500 x 5	77,500
D.A. 4,250 x 70% x 5	14,875
	92,375

(3) Rent free accommodation

Salary (1 Sept 2022 to 31 March 2023) for the purpose of rent free accommodation

Basic salary (1 Sept 2022 to 31 Oct. 2022) 15,500x2	31,000
(1 Nov. 2022 to 31 Mar. 2023) 16,000x5	80,000
D.A. 4,250x70%x7	20,825
Project allowance 1,250x7	8,750
Education allowance 900x7 = 6,300	
Less: Exempt 100x2x7 = 1,400	4,900
Salary	1,45,475

Value of Concessional rent accommodation

15% of ₹ 1,45,475	₹ 21,821
Less: Amount recovered from employee ₹ 1,500x7	₹ 10,500
Taxable value of accommodation	₹ 11,321

EXERCISE 3.19

Mr. Bhim is a supervisor in HK Ltd. at Delhi. He furnishes the following information of his salary for the assessment year 2023-24:

(i) Basic salary ₹ 70,000 per month

(ii) Dearness allowance under terms of employment @10% of basic salary

(iii) Traveling allowance ₹ 500 per month

(iv) On 1 Aug. 2020 he purchased a flat in Delhi which he let out to the company at a rent of ₹ 69,000 per month. The company gives this flat in return to Mr. Bhim as rent free accommodation.

Find gross income from salary for Mr. Bhim for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC. [Ans.: ₹ 10,16,400]

Monetary Obligation of the Employee Discharged by the Employer 17(2) (iv)

Wherever, any monetary obligation of the employee is discharged by the employer, which otherwise would have been payable by the employee, it is considered as a prerequisite and is taxable in the hands of all employees.

Valuation of fringe benefits or amenities New Rule 3(7)

Rule 3(7) has prescribed the following other fringe benefits or amenities.

(i) Interest free or concessional loans (to employee or member of household) applicable for assessment year 2023-24 (SBI lending rate on April 1, 2022 will applicable)

- The interest has to be calculated on the maximum outstanding monthly balance as reduced by the interest, if any paid by him or any such member of his household.
- In the following cases the perquisites is not chargeable to tax

(a) If the loan amount is not exceeding ₹ 20,000.

OR

(b) If loan is taken for medical treatment in respect of disease specified in rule 3A but if any medical reimbursement is made under medical insurance scheme that is taxable.

How to compute:

Step 1 : Find out maximum outstanding monthly balance on last day of month

Step 2 : Find out rate of interest (SBI rates applicable on 1st Day of Previous year)

Step 3: Calculate interest for each month of previous year on amount derived in Step 1

Step 4 : From total interest calculated in step 3 **deduct** interest actually recovered from employee if any.

Step 5 : Balance amount is taxable value of perquisite.

(ii) The value of traveling, touring, accommodation any other expense paid for or borne or reimbursed by the employee for any holiday availed of by the employee or any member of his household. (Rule 3(7)(ii))

(iii) Value of free meals tea and snacks

	Circumstances	Value of benefit
(a)	Tea or snacks provided during office hours	NIL
(b)	Free meals during working hours provided in a (i) remote area (ii) an offshore installation.	NIL
(c)	Free meals during working hours (i) At office premises OR (ii) Through paid vouchers which are not transferable and usable only at eating joints.	Nil, if value thereof in either case is up to ₹ 50 per meal i.e. over ₹ 50 per meal will be taxable.
(d)	In any other case.	Actual expenditure incurred by the employer.

Note: Working hours include extended office hours (like working on holidays, overtime)

(iv) Value of any gift, voucher or token (Section 3(7) (iv)): Tax free if the value of gift is below ₹ 5000 other tthan cash gift (including cheques) because cash gifts are taxable.

(v) Valuation of perquisites in respect of Expense on credit card (Section 3(7)(v))

- The amount paid for or reimbursed by the employer will be the value of benefit.
- Where such expenses are incurred wholly for official purpose – value of benefit 'Nil'.

(vi) Club membership and expenses incurred in a club (Section 3(7)(iv))

- The actual amount of expenditure incurred for the benefit of assessee / employee by the employer, is value of benefit.
- Official purpose : NIL

(vii) Use of Movable assets:

Circumstance	Value of benefit
(a) Use of laptops and computer	NIL
(b) Other assets Other than assets already specified in the Rule.	(i) 10% p.a. of the actual cost of such assets OR (ii) Actual rent by employer as the case may be.

Taxable value of Perquisites = Value as calculated above – Amount recovered from employee

(viii) Transfer or sale of any moveable assets (employer to employee):

Assets transferred	Value of benefit
(a) Computers and electronic items.	Actual cost of such asset to the employer reduced by 50% of the cost to the employer for each completed year during which such asset was put to use by the employer, on the basis of reducing balance method.
(b) Motor car	Actual cost of such asset to the employer reduced by 20% of the cost to the employer for each completed year during which such asset was put to use by the employer, on the basis of reducing balance method.
(c) Any other assets	Actual cost of such an asset to the employer is reduced by 10% of the cost to the employer for each completed year during which such asset was put to use by the employer, on the basis of the straight line method.

Taxable value of Perquisites = WDV on date of transfer – Amount recovered from employee

Perquisites Taxable in the Hands of Specified Employees

An employee shall be a specified employee, if he falls under any of the following three categories: (Sec. 17(2)(iii))

(a) He is director cum employee of a company, or

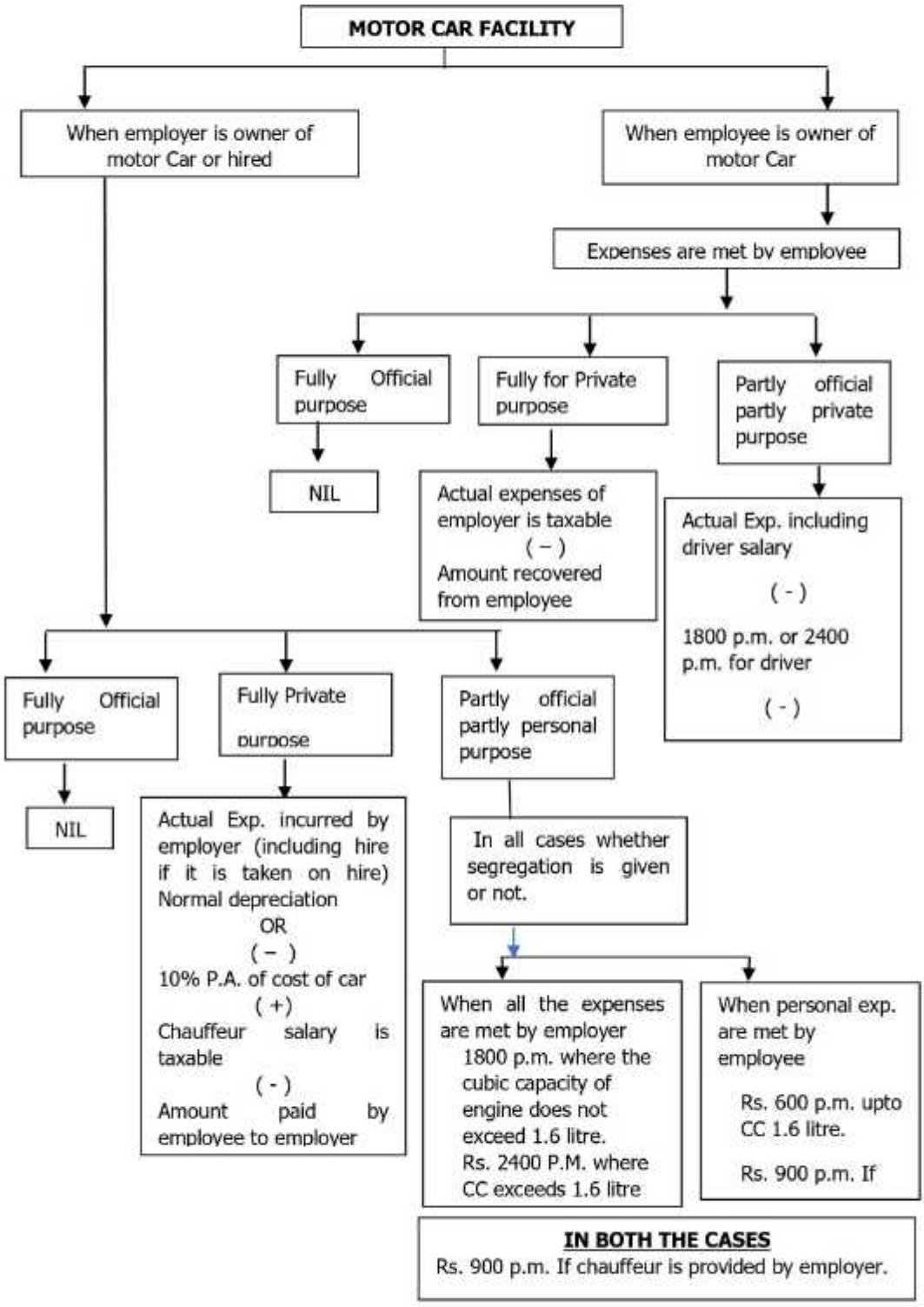
(b) He has substantial interest in the company.(he has a 20% voting power) or

(c) His income under the head 'Salaries' exclusive of the value of all benefits or amenities not provided for by way of monetary payment exceeds ₹ 50,000 after deducting deduction u/s 16(i), (ii), (iii).

For computing ₹ 50,000, the following are to be excluded/deducted.

- All nonmonetary benefits.
- Monetary benefits which are not taxable u/s 10.
- Deductions u/s 16.

(1) MOTOR CAR FACILITY



- Month means completed calendar month (part of month is left out of consideration e.g. If car is given on November 5, 2022, then only four months (Dec., Jan. Feb., and March) shall be taken into account.)
- In case of more than one car, only one car will be valued as partly personal, partly official; the other will be treated as private (fully). Both cars will be taxable.
- Car at concessional rate –

Valuation of car as per above stated rule	
Less. Amount paid by employee (But nothing shall be deducted in partly official and personal)	
Valuation of concessional rate	

- Car facility between office and residence, shall not be treated as any benefit.
- Marked situation taxable for both specified and non-specified.
- Car facility provided to High court judges and Supreme Court judges, not taxable.

ILLUSTRATION 3.20

Calculate the value of motor car provided as perquisites by employer in each of the following cases assuming that the employee is specified employee:

(a) Motor car having engine of 1.4 litre cubic capacity for personal as well as office purpose. All the expenses including salary of ₹ 600 p.m. paid to the driver are borneby the employer.

(b) Motor car having engine of 2100cc for personal as well as office purpose. All the expenses including salary of ₹ 700 p.m. paid to the driver are borneby the employer.

(c) Motor car having engine of 1.6 litre cubic capacity for personal as well as official purpose. Only expenses relating to office uses are borne by the employer. Driver not provided with car.

(d) Motor car having engine of 1.8 litre cubic capacity for personal as well as office purpose. Only expenses relating to official uses are borne by the employer. Driver also provided with a car.

(e) Free use of an employer's car for office use of 2.00 litre cubic capacity.

(f) Employer provided two cars for official and personal purposes. The company incurred the following expenses:

Particular	Car I	Car II
Cost of car	3,80,000	6,20,000
Capacity	1400cc	1800cc
Petrol bills	40,600	50,600
Maintenance expenses	9,400	10,500
Salary of driver	22,000	30,000
Insurance of car	6,300	8,100
Total expenses	78,300	99,200

Solution:

(a) Motor car of 1.4 litre

1,800x12	21,600
900x12	10,800
Total	32,400

(b) Motor car of 2.1 litre

2,400x12	28,800
900x12	10,800
Total	39,600

(c) Car value : 600x12 = 7,200

(d) Motor car of 1.8 litre

900x12	10,800
900x12	10,800
Total	21,600

(e) Not taxable perquisite because provided only for office use.

(f) When more than one car is provided then the valueof the car facility will be ascertained by assuming that one of the cars is used both for personal use and official purpose and the rest are used for personal purpose only. There will be the following two options with the assessee the least of the following options will be the value of facility.

Valuation of car facility when more than one car is provided

	Expenses on different cars		Total
Option 1 (Car I)	**32,400**	1,61,200	1,93,600
Option 2 (Car II)	1,16,300	**39,600**	1,55,900
Taxable Value of car			**1,55,900**

Working note:

(1) Value of car if assumed as personal and official use both:

Car I	Car II
(1,800+900)x12 = 32,400	(2,400+900)x12 = 39,600

(2) Value of car if assumed as for only personal use:

	Car I	Car II
Depreciation on car @ 10%	3,80,000x10% = 38,000	6,20,000x10% = 62,000
Other expenses	78,300	99,200
Total	1,16,300	1,61,200

EXERCISE 3.20

Calculate the value of motor car provided as perquisites by employer in each of the following cases assuming that the employee is specified employee:

(a) Motor car having engine of 1.4 litre cubic capacity for personal purpose. All the expenses including salary of ₹ 600 p.m. paid to the driver are borne by the employer. Cost of car ₹ 3,60,000 and other expenses including maintenance ₹ 64,000.

(b) Motor car having engine of 2100cc for office purpose. All the expenses including salary of ₹ 700 p.m. paid to the driver are borne by the employer.

(c) Motor car having engine of 1.4 litre cubic capacity for personal as well as official purpose. Only expenses relating to office uses are borne by the employer. Driver also provided with a car.

(d) Motor car having engine of 1.8 litre cubic capacity for personal as well as office purpose. Only expenses relating to official uses are borne by the employer. Driver not provided with car.

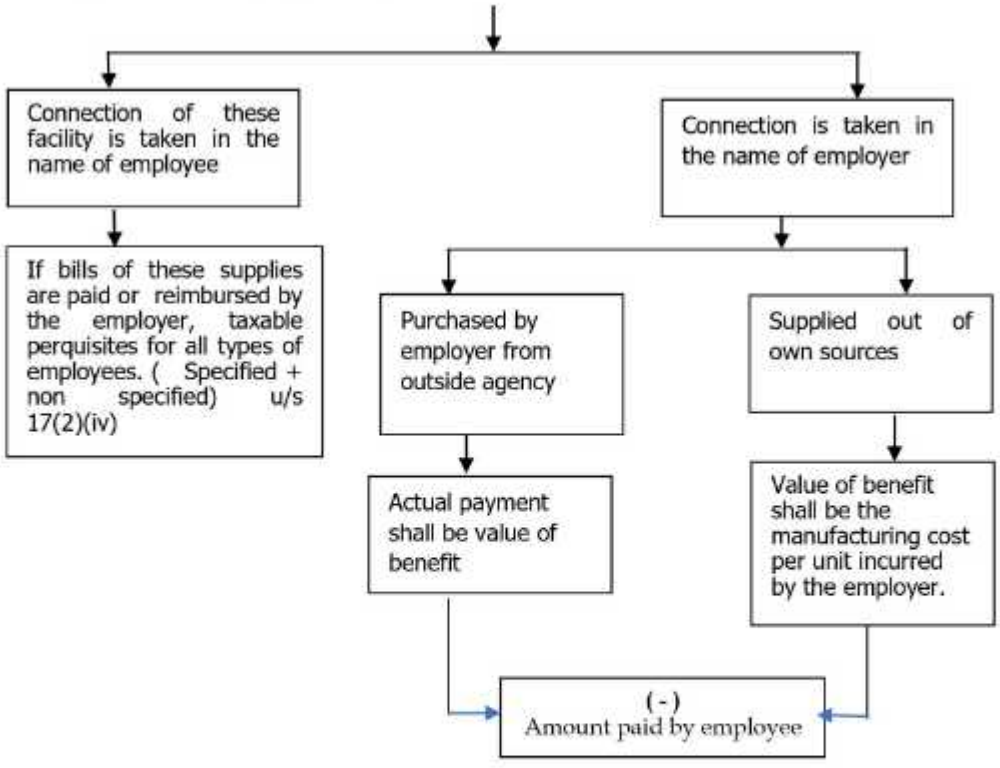
(e) Free use of employer's car for personal as well as office use of 2.00 litre cubic capacity. Driver not provided with car.

(f) Employer provided three cars for official and personal purposes. The company incurred the following expenses:

Particular	Car I	Car II	Car III
Cost of car	3,80,000	6,20,000	8,40,000
Capacity	1400cc	1800cc	2100cc
Petrol bills	40,600	50,600	19,600
Maintenance expenses	9,400	10,500	13,500
Salary of driver	22,000	30,000	30,800
Insurance of car	6,300	8,100	8,800
Total expenses	78,300	99,200	72,700

[Ans.(a) ₹1,07,200 (b) Nil (c) ₹18,000 (d) ₹10,800 (e) ₹28,800 (f) ₹ 3,12,600]

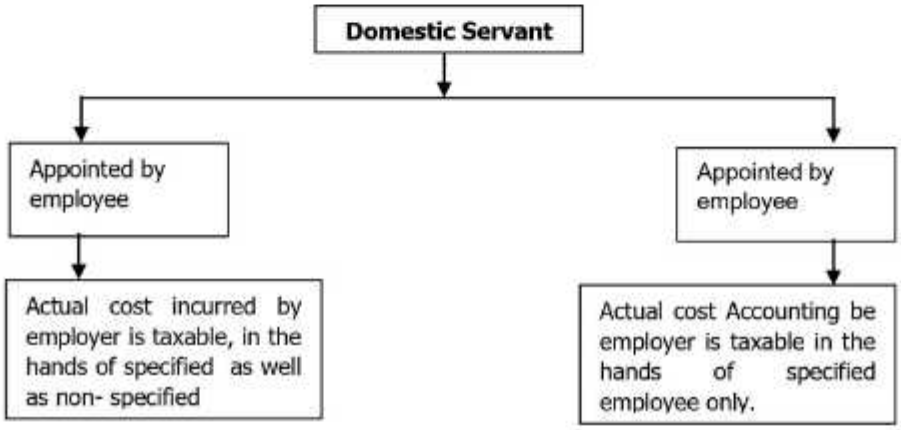
(2) Gas, Electricity or Water supply facility



(3) Free or Concessional educational facilities

- Free educational facility to, and training of employees is not taxable.
- Payment of school fees of employee's children directly to the school is taxable for specified and non-specified u/s 17(2)(iv).
- Where education institution is itself maintained and owned by the employer
  - The value of benefit will be the cost of education in a similar institution in or near the locality.
  - If value of benefit per child does not exceed ₹ 1000 per month per child, value of perquisite will be NIL

(4) Domestic Servants



Note: If an employer provides a rent-free house (owned by employer) to his employee expenses inclusive Gardner salary incurred by employer, is not taxable

(5) Valuation of perquisites in respect of transport private journey: Actual cost incurred by employer

(6) Sweat equity shares

If the following conditions are satisfied, value of sweat equity shares will be taxable in the hands of employees:

1. The security or shares involved are "Specified security". For this purpose specified security means "securities as defined in Section 2(h) of the Securities Contract (Regulation) Act and where employees stock option has been granted under any plan or scheme, therefore, includes the securities offered under such plan or scheme." Section 2(h) of the Securities Contracts (Regulation) Act defines securities to include the following:
   (a) Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate.
   (b) Derivatives;
   (c) Units or any other instrument issued by any collective investment scheme to the investors in such schemes;
   (d) Security receipt as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
   (e) Units or any other such instruments issued to the investors under any mutual fund scheme;
   (f) Government Securities

(g) Such other instruments as may be declared by the Central Govt. to be securities; and

(h) Rights or interest in securities.

"Sweat equity share" means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing knowhow or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

2. Specified security or sweat equity shares are allotted or transferred on or after 1 April 2009. If these securities or shares are transferred during April 1, 2007 and March, 31, 2009, then the employer is liable to pay fringe benefit tax under section 115WB(1)(d).
3. Specified security or sweat equity shares are allotted by the employer or former employer to the employee.
4. Specified security or sweat equity shares may be transferred to the employee or former employee, directly or indirectly.
5. These securities or shares are transferred to the employee either free of cost or at a concessional rate.

Consequences when the above conditions are satisfied-

If the above conditions are satisfied, perquisites will be taxable in the hands of the employee in the assessment year relevant to the previous year in which shares or securities are allotted or transferred to the employee. For this purpose, one has to find out the fair market value of shares or securities according to the prescribed method. Fair market value of shares or securities will be calculated on the date on which the employee exercises the option. Amount actually paid or recovered from the employee in respect of such shares or securities shall be deducted.

Valuation:

Quoted share = Average of opening and closing rate will be fair market value

Unquoted share – such value of the share in the company as determined by a merchant banker on the specified date.

PERQUISITES EXEMPT FROM TAX IN ALL CASES

(1) Medical Facilities

(A) IN INDIA

- If medical treatment is done in the following hospitals and reimbursement is made by the employer, it shall not be treated as taxable perquisites.
  - ❑ Hospital owned by employer
  - ❑ Approved Hospital
  - ❑ Government Hospital
- If medical treatment is done in the private hospital and reimbursement is made by employer, It shall be fully taxable
- Payment of group medical insurance premium of a policy obtained by employer for employees, it shall not be treated as taxable perquisites.

(B) **ABROAD**: The following expenditure incurred by employer on treatment of employee or his family member is tax free perquisite:

Expenses	Condition
(1) Medical treatment	To the extent permitted by RBI
(2) Cost of stay abroad (patient + one attendant)	Tax free to the extent permitted by RBI
(3) Cost or travel of patient + one attendant	Exempted if employees gross total income does not exceed ₹ 2,00,000.

(2) Refreshment during working hours.

(3) Free meals during working hours up to ₹ 50 per meal.

(4) Free meals during working hours in a remote area or officer installation.

(5) Refresher courses.

(6) Goods manufactured by employers are sold to employees at concessional rate.

(7) Perquisites allowed outside India by the Government to citizens of India for rendered service outside India.

(8) Sum payable by employer to RPF or pension scheme.

(9) Actual traveling exp. paid by the employer for journeys undertaken by employees for business purposes.

(10) Annual premium of personal accident policy elected by him in respect of his employee.

(11) Exp. of telephone / mobile.

(12) Sale of an asset or gift of such asset to an employee after using the same by the employer for 10 years or more.

(13) Issue of right shares to an employee – shareholders

PROVIDENT FUND

Under this scheme a stipulated sum is deducted from the salary of the employee as his contribution towards the fund. The employer also generally contribute simultaneously an equal amount out of its pocket to the fund. The contribution of employer and employee are invested in gilt edged securities.

Provident funds may be any one of the following:

1. Statutory Provident Fund:

This fund is maintained by the Government, Semi-Government organization, local authority, Railway, Universities and recognized educational institutions.

2. Recognized Provident Fund:

According to P.F. Act 1952, the establishment employing more than 20 persons should comply with the provisions as to contributing amount to P.F. and others in accordance with the scheme specified therein.

3. Unrecognized Provident Fund:

If a provident fund is not recognized by the commissioner of income tax, it is known as an unrecognized provident fund.

4. Public Provident Fund:

Employee, himself can open a PPF account with any bank. For this employer don't contribute.

Tax Treatment

	Statutory Provident Fund	R.P.F.	U.R.P.F.	P.P.F.
1	2	3	4	5
Employer's contribution	Exempt	Exempted up to 12% of salary	Not taxable	Employer doesn't contribute
Employee's Contribution	Not Taxable	Not Taxable	Not Taxable	Not Taxable
Interest thereon	Exempt	Exempt up to 9.5%	Not taxable	Exempt
Lump sum payment at the time of retirement or termination	Exempt	**Exempt conditions-** - Service more than 5 years (previous employer service is also included) -Out of human control.	Employer's contribution and interest thereon is taxable.	Exempt

Here Salary means Basic Pay + D.A. (under terms of employment)+ fixed % of commission on turnover

DEDUCTIONS U/S 16

Section 16 allows three deductions from salary.

(1) Standard Deduction (Section 16(ia))

Standard deduction is ₹ 50,000 or the amount of salary, whichever is lower.

Important: If an individual opts for the alternative tax regime u/s 115BAC, deductions u/s 16 are not available from A.Y. 2023-24.

(2) Entertainment Allowance 16(ii)

Entertainment allowance is not eligible for exemption but it only qualifies for deduction. Therefore, it is first included in gross salary and there after deduction is allowed u/s 16(ii) to the extent of the least of the following:

- **Government Employee**

  (a) ₹ 5000 or

  (b) 1/5th of Basic Pay

  (c) Actual Entertainment Allowance

  Least of the above will be deductible from Gross salary

- **Non-Government Employee:** From the Assessment year 2002-03 entertainment deduction will not be available to Non-Govt. Employee.

Note: Amount actually expended towards entertainment out of entrainment allowance received is not taken into account (CIT VS Kamla Devi (1971)

Important: If an individual opts for the alternative tax regime u/s 115BAC, deductions u/s 16 are not available from A.Y. 2023-24.

(3) Professional Tax or Tax on Employment 16(iii)

Employment tax levied by the state under article 276 of the contribution is allowed as deductions.

Note:

1. Deduction is available only in the year in which it is paid.
2. If it is paid by employer on behalf of employee, the amount so paid should be included in gross salary as perquisites and then deduction u/s 16(iii) can be claimed

Important: If an individual opts for the alternative tax regime u/s 115BAC, deductions u/s 16 are not available from A.Y. 2023-24.

SALARY PAYMENTS THAT ARE FULLY EXEMPT

1. Tax on Salary of Non- resident technician (Sec. 10(5B)):

The following conditions must be satisfied in order to get the benefit of exemption under section 10(5B).

(A) The employee should be a technician.

(B) Employment should commence after March, 31, 1993

(C) Technician is employed in India by the Government or local authority or corporation set up under law or any business carried on in India.

(D) He should not be a non residentin the preceding 4 years.

Amount of exemption: Tax paid in respect of salary income of a non resident technician for a period of not exceeding 48 months commencing from the date of his arrival in India is exempt from Tax.

2. Salary from U.N.O.

3. Remuneration to Consultants (Section 10(8A)):

Conditions

A. Consultant is an individual who is not an Indian citizen or Indian citizen but NOR or NR.

B. Consultant is engaged by the agency.

C. The engagement is for rendering technical services in India in connection with any technical assistance programme.

4. Remuneration to foreign Citizen 10(B)

- LTC to foreign nationals.
- Salary to diplomats.
- Remuneration to an employee of foreign enterprise during his stay in India.
- Salary to a person employed on a foreign ship.
- Remuneration to an employee on training.

5. Salary received by a teacher/professor from SAARC Member States:

As per avoidance of double taxation agreement among Government of SAARC Members States (i.e. Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka), a professor (or teacher or research scholar) is not chargeable to tax in respect of his salary including allowances and perquisites if a few conditions are satisfied. These conditions are given below:

(a) The Professor or teacher or research scholar is or was a resident of the Member State immediately before visiting the other Member State. For this purpose, an individual shall be deemed to be a resident of a Member State if he/she is resident in that Member State in the fiscal year in which he/she visits the other Member State or in the immediately preceding fiscal year.

(b) The professor or teacher or research scholar visits the other Member State for the purpose of teaching or engaging in research, or both, at a university, college or other similar approved institution in that other Member State.

(c) Remuneration for teaching or research of such teacher shall be exempt from tax in that other Member State for a period not exceeding 2 years from the date of his/her arrival in that other Member State.

6. Salary to non-resident seafarer:

Salary accrued to a non-resident seafarer for services rendered outside India on a foreign going ship with Indian flag or foreign flag shall not be included in the total income merely because the said salary has been credited in the NRE account maintained with an Indian bank by the seafarer.

7. Leave Travel Concession Sec. 10(5) Rule 2B

IN INDIA

Exemption u/s 10(5) is available to Indian as well as foreign citizens as follows.

- Journey may be performed while in service or after retirement.
- Exemption cannot exceed expenditure.
- In case employees are paid a lump sum amount by way of LTC, exemption is not available in respect of the amount not spent on travel.
- Exemption is available only in respect of two journeys performed in a block of four calendar years, the first block commencing with the calendar year 1986. The different block are:
  - A. 2010-2013 (1 Jan. 2010 to 31 Dec. 2013)
  - B. 2014-2017 (1 Jan. 2014 to 31 Dec. 2017)
  - C. 2018-2021 (1 Jan. 2018 to 31 Dec. 2021)
  - D. 2022-2025 (1 Jan. 2022 to 31 Dec. 2025)
- The exemption is available only if the amount is spent on air or bus fare.
- Exemption is restricted under rule 2B to the lower of the amount spent or the following amount in each case.

Mode of travel	Journey performed on or after October 1, 1997
Where Journey is performed by air.	Air economy fare of the national carrier by the shortest route.
Where places of origin of Journey and destination are connected by rail and Journey is performed by any mode of transport other than by air.	Air conditional first-class rail fare by the shortest route to the place of destination.
Where place of origin of Journey and destination or part thereof are not connected by rail and Journey is performed b/w such places.	Where a recognized public transport system exists- First class deluxe fare where no recognized exists- Air condition first class fare.

GRADED PROBLEMS

ILLUSTRATION 3.21

Information is extracted from salary sheet of Mr. Vasant. Calculate exempt HRA for the A.Y. 2023-24.

Basic pay ₹ 10,200 p.m., Dearness Allowance 45% of Basic pay, HRA 7.5% of basic pay. He was transferred from Udaipur to Delhi on November 1, 2022 he paid rent ₹ 2000 P.M. in Udaipur but in Delhi he paid ₹ 3500 per month up to Jan. 2023 and in Feb. 2023& March 2023 he paid ₹ 4000 per month. His basic pay was revised at ₹ 10,975 per month while posted at Delhi. D.A. is given under term of employment.

Also calculate how much rent should be paid for getting fully exempted. Assuming that the assessee does not opt for new tax regime under section 115BAC.

What will be difference in your answer if assessee opt for new tax regime under section 115BAC.

Solution:

April 2022 to October 2022			Nov. 2022 to Jan. 2023		Feb. 2023& March 2023	
B.P.	10,200 x 7	71,400	10975 x 3	32,925	10975 x 2	21,950
D.A.	45% of B.P.	32,130	45%	14,816	45%	9,878
		1,03,530		47,741		31,828

HRA exempt: Least of (a), (b) or (c)

	April 2022 to Oct.2022	Nov.2022 to Jan. 2023	Feb. & March 2023
(a) Actual HRA (7.5% of B.P.)	5,355	2,469	1646
(b) Rent paid – 10% of salary	14,000 – 10,353 = 3,647	10,500 – 4774 = 5,726	8,000 – 3183 = 4817
(c) 40%/50% of salary	40% of 103530 = 41412	50% 47741 = 23,870	50% off 31,828 = 15,914
Exempted (total ₹ 7,762)	3,647	2469	1646
Taxable HRA	1,708	Nil	Nil

Calculation of rent which should paid for getting fully exempted

	April to October	November to January	February & March
Actual HRA	5,355	2,469	1,646
10% of Salary	10,353	4,774	3,183
Rent which should be paid for HRA full exemption	15,708	7,243	4,829
Per month rent to be paid	2,244	2,414	2,415

If assessee opt for new tax regime under section 115BAC : No Exemption available for HRA

Taxable HRA	5,355	2,469	1,646

ILLUSTRATION 3.22

Mr. Sampat is employed in a company in Delhi on a monthly salary of ₹ 40,000. The company provides him with the following benefits during the previous year 2022-23:

(1) An accommodation in Delhi owned by the company for which the company recovers ₹ 4,000 p.m. from him.

(2) He is allowed to use a video camera belonging to the company. The company had purchased this camera for ₹ 1,20,000 on 1-5-2020. The company sold this camera to him for ₹ 33,000 on 31-12-2022.

(3) He is allowed to use a laptop belonging to the company. The company had purchased this laptop for ₹ 70,000 on 30-11-2019.

(4) The company gave him a gift of ₹ 3,800 on his birthday on 11-1-2023.

(5) He made purchases of ₹ 36,000 on his credit card. This amount along with the annual fee of ₹ 1,800 paid by the company.

(6) The company had purchased a car on 16-9-2018 for ₹ 3,00,000. This car was sold to Mr. Sampat on 15-6-2022 for ₹ 1,20,000.

(7) The company has given him a housing loan of ₹ 6,00,000 for 15 years on which it charges interest @ 3.20% per annum. The entire amount of this loan is still outstanding. Take SBI lending rate at 7.20%

Find out taxable value of the above perquisites to be included in income of Mr. Sampat for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Computation of taxable value of perquisites for the assessment year 2023-24

(1) Value of concessional accommodation in Delhi (Assumed population more than 25 lac)

15% of salary (₹ 4,80,000) = ₹ 72,000

Less: Amount recovered from employee = ₹ 48,000

Value of accommodation = ₹ 24,000

(2) Value of use of Video camera (being moveable assets) for 1 April 2022 to 31 Dec. 2022

1,20,000 x 10% x 9/12 = 9000

Benefit on sale of camera

Cost as on 1-5-2020	1,20,000
Less: Dep. @ 10% SLM	12,000
Value as on 1-5-2021	1,08,000
Less: Dep. @ 10% SLM	12,000
Value as on 1-5-2022	96,000
Less: Sale value	33,000
Benefit value	63,000

(3) Use of laptop is not a taxable perquisite

(4) Gift on birth (assumed it is in kind) NIL

(5) Expenses on credit card (Actual) ₹ 36,000+ 1800 = 37,800

(6) Benefit on sale of car

Cost as on 16-9-2019	3,00,000
Less: Dep. @ 20%	60,000
Value as on 16-9-2020	2,40,000
Less: Dep. @ 20%	48,000
Value as on 16-9-2021	1,92,000
Less: Dep. @ 20%	38,400
Value as on 16-9-2022	1,53,600
Less: Sale value	1,20,000
Benefit value	33,600

(7) Value of housing loan = $6{,}00{,}000x \frac{(7.20-3.20)}{100} = Rs.\,24{,}000$

Total taxable amount of all perquisites = 24,000+9,000+63,000+37,800+33,600 + 24,000 = Rs. 1,91,400

ILLUSTRATION 3.23

Ramakant is an employee of Pvt. Company at Bangaluru. The following are the particulars of his salary income:

(i) Salary ₹ 30,000 per month

(ii) Dearness allowance ₹ 10,000 p.m. (50% is under terms of service)

(iii) He is provided with a car of 1.8 litre engine capacity with a driver for his official and personal purpose.

(iv) Commission on turnover achieved by Ramakant @ 2% on ₹ 6,00,000 for the year.

(v) Bonus ₹ 34,000

(vi) He is provided rent free furnished accommodation and the employer pays ₹ 6,000 p.m. for the house and ₹ 1,800 p.m. for the furniture.

(vii) The employee contributes 15% of his salary towards his provident fund and the employer is contributing the same amount. Interest credited during the year @ 14% being ₹ 28,000.

(viii) He paid ₹ 21,000 as life insurance premium on his life.

Compute his income from salary if provident fund is :

(a) Statutory provident fund

(b) Recognized provident fund

(c) Unrecognized provident fund

Assuming that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of salary of Mr. Ramakant for the A.Y. 2023-24

	SPF	RPF	URPF
Basic 30,000x12	3,60,000	3,60,000	3,60,000
D.A. 10,000x12	1,20,000	1,20,000	1,20,000
Commission 6,00,000x2%	12,000	12,000	12,000

Bonus	34,000	34,000	34,000
Employee's contribution to PF	Not taxable	Not taxable	Not taxable
Employer's contribution to PF	-	12,960	-
Interest on PF	-	9,000	-
Value of rent-free accommodation	91,500	91,500	91,500
Car at concessional rate	39,600	39,600	39,600
Gross salary	**6,57,100**	**6,79,060**	**6,57,100**
Less: Standard deduction u/s 16	50,000	50,000	50,000
Income from salary	**6,07,100**	**6,29,060**	**6,07,100**

Working note:

1) Employer's contribution to RPF +

Salary = Basic + D.A. (Under terms) + Commission

3,60,000 + 60,000+ 12,000 = 4,32,000

15% of 4,32,000 – 12% of 4,32,000

64,800 – 51,840 = 12,960

2) Interest on RPF over 9.5%

$$\frac{28,000}{14} x(14 - 9.5) = 9,000$$

3) Value of rent-free accommodation

Basic	3,60,000
D.A. (50%)	60,000
Commission	12,000
Bonus	34,000
Salary for accommodation purpose	4,66,000

15% of salary (₹ 4,66,000) = ₹ 69,900

Or

Rent paid = ₹ 72,000

Whichever is lower = ₹ 69,900

Add: Rent of furniture = ₹ 21,600

Value of accommodation = ₹ 91,500

4) Value of car (2,400+900) x 12 = 39,600

ILLUSTRATION 3.24

Mr. Surya Prakash was appointed on 1 July 2017 in the Udaipur Pvt. Works Ltd., Delhi in the pay scale of ₹ 4,800- 200 – 6,000-300-9000 on initial pay of ₹ 5,400. He has been provided D.A. ₹ 1,250 p.m., house rent allowance ₹ 950 p.m. and 1% commission on sales. Goods sold by him amounted to ₹ 6,00,000 during the previous year and paid ₹ 1,300 p.m. as rent of the house occupied by him for his residence.

He contributes 13% of his salary and D.A. to a provident fund to which the company contributes an equal amount. Interest credited amounting to ₹ 16,200 to his provident fund account @ 15% p.a. what will be his income from salary for the assessment year 2023-24 if the provident fund is :

(a) Statutory provident fund

(b) Recognized provident fund

(c) Unrecognized provident fund

Assuming that the assessee does not opt for new tax regime under section 115BAC

Solution:

Working note:

1) Basic salary

1-07-2017 to 30-06-2018	5,400
1-07-2018 to 30-06-2019	5,600
1-07-2019 to 30-06-2020	5,800
1-07-2020 to 30-06-2021	6,000
1-07-2021 to 30-06-2022	6,300
1-07-2022 to 30-06-2023	6,600

In case of SPF: A statutory provident fund is applicable to Government employees so it is assumed that their salary becomes due on the first day of next month.

1-03-2022 to 30-06-2022	6,300x4	25,200
1-07-2022 to 28-02-2023	6,600x8	52,800
		78,000

For RPF and URPF

1-04-2022 to 30-06-2022	6,300x3	18,900
1-07-2022 to 31-03-2023	6,600x9	59,400
		78,300

2) HRA exemption :

Salary = Basic + D.A. +Commission

For SPF = 78,000 + 15,000 + 6,000 = 99,000

For RPF & URPF = 78,300 + 15,000 + 6,000 = 99,300

Least of the following

(a) 50% of salary (₹ 99,000) = ₹ 49,500

(₹ 99,300) = ₹ 49,650

(b) Rent paid – 10% of salary

SPF (1,300x12) – (99,000x10%) = ₹ 5,700

RPF & URPF (1,300x12) – (99,300x10%) = ₹ 5,670

(c) Actual HRA = ₹ 11,400

Exempt HRA =

SPF = ₹ 5,700,

RPF & URPF = ₹ 5,670

Taxable HRA =

SPF = ₹ 11,400 – ₹ 5,700 = ₹ 5,700

RPF & URPF = ₹ 11,400 – ₹ 5,670 = ₹ 5,730

3) Taxable Employer's contribution to RPF

13% of (basic + D.A.) : 13% of (78,300+15,000)	12,129
Less: 12% of (Basic +D.A. +Commission) 12% of (78,300 + 15,000 + 6,000)	11,916
	213

4) Interest on RPF

$$\frac{16200}{15} x\ 5.5 = 5,940$$

Computation of income from salary for the A.Y. 2023-24

Particular	SPF	RPF	URPF
Basic salary	78,000	78,300	78,300
D.A. 1,250 x12	15,000	15,000	15,000
Commission 6,00,000x1%	6,000	6,000	6,000
HRA	5,700	5,730	5,730
Employee's contribution to PF	Not taxable	Not taxable	Not taxable
Employer's contribution to PF	-	213	-
Interest on PF	-	5,940	-
Gross salary	**1,04,700**	**1,11,183**	**1,05,030**
Less: Standard Deduction	40,000	40,000	40,000
Income from salary	**64,700**	**71,183**	**65,030**

ILLUSTRATION 3.25

Shri Vijay Kumar, an Indian citizen, is an employee of the Government of India. He was transferred to London in Indian High Commission on 1-7-2020. During the previous year 2022-23 he did not come to India at all. He was entitled to the following emoluments:

Basic salary ₹ 40,000 per month

Overseas allowance ₹ 15,000 per month

Rent free furnished accommodation at London whose fair rent value is ₹ 1,90,000 p.a. and cost of furniture provided ₹ 80,000.

His elder son was studying in London school of Statistics and he was allowed ₹ 21,000 per month as education allowance for his education. His younger son was studying in a school run by Indian High Commission in London. He was provided with a car of 1800cc engine capacity which he drives himself and uses the same partly for official purpose and partly for personal purposes. He has also been provided with the services of a gardener, watchmen, sweeper and a cook, the salary of each being ₹ 1,800 per month.

Compute his income from salary for the A.Y. 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of income from salary for the assessment year 2023-24

Basic salary 40,000x12	4,80,000
Less: Standard deduction	50,000
Income from salary	₹ 4,30,000

Note: Allowances & perquisites received by a Govt. Employees overseas are exempt. All the allowance and perquisites received outside India by a Govt. employee will be exempt.

ILLUSTRATION 3.26

From the following information of Chandra Prakash, compute his income from salary for the assessment year 2023-24:

Particular	Amount
Salary from Y Ltd. ₹ 23,000 p.m. (increased to ₹ 25,000 w.e.f. 1-12-2022)	2,84,000
Bonus	26,000
Dearness allowance	38,000
Entertainment allowance	6,000
Personal expenses of Chandra Prakash's son met by employer	15,000
Employee's contribution to URPF	19,000
Employer's contribution to URPF	19,000
Interest on URPF @ 9.5%	9,500
Rent free unfurnished house provided by the employer, at Delhi whose fair rent value is (Population of city 26 Lacs)	1,08,000
Watchmen engaged by employer	6,000
Free refreshment in the office	3,600

Assuming that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of Income from salary of Mr. Chandra Prakash for the assessment year 2023-24

Basic salary	2,84,000
Bonus	26,000
D.A.	38,000

Entertainment allowance	6,000
Personal exp. of son met by employer	15,000
Employee's contribution to URPF	Not taxable
Employer's contribution to URPF	Not taxable
Interest on URPF @ 9.5%	Not taxable
Rent free house 15% of (2,84,000+26,000+6,000)	47,400
Watchmen facility	6,000
Gross salary	**4,22,400**
Less: Standard deduction	50,000
Income from salary	**3,72,400**

ILLUSTRATION 3.27

Mr. Kaduniya is Assistant Manager of a Textile company of Jodhpur since 2001. He has submitted the following particular of his income for the previous year:

(i) Net salary ₹ 2,10,000 after deduction of tax at source ₹ 50,000, contribution to recognized provident fund ₹ 25,000 and rent to bungalow @ 5% of salary.

(ii) Dearness allowance 10% of basic salary (50% of which enters into retirement benefits)

(iii) Education allowance for three children ₹ 90 per month per child.

(iv) Commission on sales ₹ 15,000

(v) Entertainment allowance ₹ 900 per month

(vi) Traveling allowance for his official tour ₹ 40,000. Actual expenditure on tours ₹ 22,000.

(vii) He was given cloth worth ₹ 4,000 by his employer free of cost.

(viii) He resides in the bungalow of the company. Its fair rent is ₹ 2000 per month.

(ix) A watchman and a cook have been provided by the company who are paid ₹ 1,500 per month each.

(x) He has been provided with a motor car of 1.4 litre(cc) for his personal use. Actual expenditure including maintenance was₹ 26,000. Cost of car ₹ 2,10,000

(xi) Employers' contribution to RPF is ₹ 39,000 and the interest credited to this fund @ 13% amounts to ₹ 13,000.

(xii) He took a loan of ₹ 80,000 on 1 May, 2022 from his employer to purchase two wheeler by pledging his gold ornaments. The loan is still outstanding. Assume SBI lending rate for two wheeler 17.60%.

Compute income from salary for the assessment year 2023-24 assuming that his taxable income from other sources for the assessment year is ₹ 50,000. Assume also that the population of Jodhpur city as per census of 2001 is 22 Lacs. Assuming that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of taxable income from salary of Mr. Kaduniya for the A.Y. 2023-24

Basic salary		
Net salary	2,10,000	
Add: Tax deducted	50,000	
Add: Contribution to RPF	25,000	
	2,85,000	
Add: Rent of bungalow 5%	15,000	
2,85,000/95*100		3,00,000
Dearness allowance 10% of basic		30,000
Education allowance 90x3x12	3,240	
Less: Exempt 90x2x12	2,160	1,080
Commission on sales		15,000
Entertainment allowance	900x12	10,800
Traveling allowance (40,000-22,000)		18,000
Cloth provided		Nil
Concessional house 10% of (3,00,000+15000+1080+15000+10800+18000)	35,988	
Less: Amount recovered	15,000	20,988
Watchmen & Cook facility	1500x2x12	36,000
Motor car		
Actual exp.	26,000	
Add: 10% of cost	21,000	47,000
Employer's contribution to RPF 39,000-(12% of (3,00,000+15,000+15,000))		Nil
Interest on RPF $\frac{13,000}{13} x 3.5$		3,500
Interest on Loan $80,000\ x\ \frac{17.60}{100} x \frac{11}{12}$		12,907
Gross salary		**4,95,275**
Less: Standard deduction		50,000
Income from salary		**4,45,275**

ILLUSTRATION 3.28

Mr. Kailash Dwivedi is an associate professor in a college, run by a society on a monthly salary of ₹ 76,000. Besides salary he also gets 56% of salary as dearness allowance, ₹ 2,800 p.m. entertainment allowance and ₹ 1,500 p.m. as proctorship allowance. During the year he gets ₹ 4,000 p.m. as additional D.A. Arrear of salary received ₹ 30,000.

He contributes 10% of his basic and dearness allowance to a recognized provident fund. The college contributes an equal amount. Interest credited to the provident fund @ 12% amounted to ₹ 30,000. Two children of Mr. Kailash are studying in an institution run by society, which runs the college for which he paid nothing. Normally expenditure in an institution of that standard comes to ₹ 1,500 p.m. for one student. Mr. Kailash is provided with rent-free accommodation in a city (population approx. 8 lacs) which is owned by the society. Its fair rental value is ₹ 3,000 p.m.

A gardener for the upkeep of the garden of the house is also provided. Salary of gardener ₹ 400 per month paid by college.

Compute the taxable income from salary of Mr. Kailash Dwivedi for the year ending on 31st March, 2023 for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of taxable income from salary of Mr. Kailash for the assessment year 2023-24

Particular		**Amount**
Basic salary	76,000x12	9,12,000
D.A.	56% of 9,12,000	5,10,720
Entertainment allowance	2,800x12	33,600
Proctorship allowance	1,500x12	18,000
Additional D.A.	4,000x12	48,000
Arrear of salary		30,000
Employee's contribution to RPF		Exempt
Employer's contribution to RPF		-
Interest on RPF	$\frac{30000}{12} x2.5$	6,250
Children education facility	1,500x2x12	36,000
Rent free accommodation 7.5% of (9,12,000 + 5,10,720 + 33,600 + 18,000)		1,10,574
Gardener facility		Exempt
Traveling allowance		Exempt
Gross salary		**17,05,144**
Less: Standard deduction		50,000
Income from salary		**16,55,144**

Note:

1) For the purpose of rent-free accommodation D.A. is considered in terms of employment because the employee contributes to RPF through D.A. also.
2) Traveling allowance between home and office is exempt
3) If the employer is the owner of the house & maintain garden then the gardener facility is not taxable.

ILLUSTRATION 3.29

Mr. Sunil is employed in Bharat Benz Ltd. Mumbai on a monthly salary of ₹ 26,000. In addition to this fixed pay, he is entitled to a commission @5% on the sales made by him (sales effected by him were ₹ 10,00,000 in previous year). During the previous year 2022-23, he had received following allowance and amenities from his employer:

(i) Dearness allowance @ 10% of basic salary is granted to him under the terms of employment and covered for retirement benefits.

(ii) Bonus equal to two months basic salary in Dec. month.

(iii) House rent allowance up to 31 August 2022₹ 2,500 per month.

(iv) From 1 September 2022 he was provided a rent-free accommodation.

(v) Entertainment allowance ₹ 500 per month.

(vi) In December 2021 during leave he went on a visit to Kashmir, with his family. The expenditure amounting to ₹ 16,000 as passage money by air were paid to him by employer as leave travel assistance.

(vii) He and his employer each contributed 12.5% of his salary to RPF. The interest credited to this fund for the previous year at 13.5% rate of interest amounted to ₹ 27,000.

(viii) The company paid ₹ 2,000 as his income tax penalty.

(ix) He had been provided with the amenities of gas, electricity and water, the expenses of which amounting to ₹ 12,000 were paid by the company.

Compute the taxable income from salary of Mr. Sunil for the assessment year 2023-24 keeping in mind that he spent ₹ 6,000 per month as rent of the house hired by him. Assume that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of income from salary of Mr. Sunil for the assessment year 2023-24

Particular		**Amount**
Basic salary	26,000x12	3,12000
Commission	10,00,000x5%	50,000
Dearness allowance	10% of basic	31,200
Bonus	26,000x2	52,000
House Rent allowance (1 Ap. To 31 Aug.)	12,500	
Less: Exempt	12,500	Nil
Rent free accommodation (see note)		42,730
Entertainment allowance	500x12	6,000
Leave travel concession		Exempt
Employee's contribution to RPF		Not taxable
Employer's contribution to RPF (12.5%-12%) x (3,12,000+50,000+31,200)		1,966
Interest on RPF over 9.5%	27,000/13.5x4	8,000
Income tax penalty paid by employer		2,000
Gas, electricity etc.		12,000
Gross salary		**5,17,896**
Less: Standard deduction		50,000
Income from salary		**4,67,896**

Working note:

1) House rent allowance : Exemption 1 April 2022 to 31 August 2022

Least of the following will be exempt

(a) 50% of salary 1,63,833x50% = ₹ 81,917

(b) Rent paid – 10% of salary
(6,000x5) – (10% of 1,63,833) = ₹ 13,617

(c) Actual HRA 2,500x5 = **₹ 12,500**

Salary for the purpose of HRA

Basic 26,000x5	1,30,000
Commission 50,000/12*5	20,833
D.A. 10% of basic	13,000
	1,63,833

2) Rent free accommodation : 1 September 2022 to 31 March 2023: 7 Months

Salary for the purpose of RFA

Basic 26,000x7	1,82,000
Commission 50,000/12*7	29,167
D.A. 10% of basic	18,200
Bonus	52,000
Entertainment allowance 500x7	3,500
	2,84,867

RFA = 15% of 2,84,867 = ₹ 42,730

ILLUSTRATION 3.30

Shri M.K. Jain is a principal of Pvt. College at Bhopal. He is on a pay scale of ₹ 47,000-2000-69000 since 1 January 2017. His salary is due on the 1st day of the next month. Assume population of Bhopal in 2001 was 27 Lacs. Assume that the assessee does not opt for new tax regime under section 115BAC. From the following details, compute the taxable salary for the assessment year 2023-24:

(1) Servant, sweeper and watchman at a salary of ₹ 400 per month each. These servants have been appointed by himself but are paid by college.

(2) He has been provided rent-free accommodation by the college, of which fair rent is ₹ 10,000 per month. He has also been provided the furniture facility of ₹ 90,000 by the employer of which WDV as on 1 April 2022 were ₹ 55,000.

(3) He contributed 14% of his salary towards RPF. Employer's contribution is the same as contributed by Mr. M.K. Jain.

(4) Dearness allowance under terms of employment is ₹ 7,000 per month

(5) Education allowance for two children is ₹ 400 per month per child.

(6) City compensatory allowance ₹ 1,600 per month.

(7) He received ₹ 49,000 in February 2023 for surrendering his one month earned leave.

(8) ₹ 12,000 has been reimbursed by his employer of his medical expenses.

(9) He has been provided with the facility of a car (without driver) of 1.8 litre(cc) which is used by him for both official and private purposes. All expenses related to the car are borne by college.

(10) His professional tax ₹ 2,000 paid by the employer.

Solution:

Computation of income from salary of Mr. M.K. Jain for the assessment year 2023-24

Particular		**Amount**
Basic salary		6,88,000
Dearness allowance	7,000x12	84,000
Education allowance 400x2x12	9,600	
Less: Exempt 100x2x12	2,400	7,200
City compensatory allowance	1,600x12	19,200
Leave salary		49,000
Servant, sweeper & watchmen	400x3x12	14,400
Rent free accommodation 15% of (6,88,000+84,000+7,200+19,200+49,000)	1,27,110	
Add: 10% of cost of furniture 90,000x10%	9,000	1,36,110
Employee's contribution to RPF		Not taxable
Employer's contribution to RPF over 12% (14%-12%) x (6,88,000+84,000)		15,440
Medical reimbursement		12,000
Motor car	2,400 x 12	28,800
Professional tax paid by employer		2,000
Gross salary		10,56,150
Less: Standard deduction		50,000
Less: Profession tax paid		2,000
Income from salary		10,04,150

Working Note:

1) Basic salary

1 Jan. 2017 to 31 Dec 2017	47,000
1 Jan. 2018 to 31 Dec 2018	49,000
1 Jan. 2019 to 31 Dec 2019	51,000
1 Jan. 2020 to 31 Dec 2020	53,000
1 Jan. 2021 to 31 Dec 2021	55,000
1 Jan. 2022 to 31 Dec 2022	57,000
1 Jan. 2023 to 31 Dec 2023	59,000
1 March, 2022 to 31 December 2022 57,000x10	5,70,000
1 January 2023 to 28 February 2023 59,000 x 2	1,18,000
Basic salary	6,88,000

ILLUSTRATION 3.31

Mr. Bharat Joshi is an accountant of a private company at Ajmer (Assume population 21 lacs) since 1 Jan. 2001. He was placed in the grade of 11,000-400-15,000-600-24,000 on 1 Jan 2018 plus a dearness allowance @ 20% of his basic pay, half of which enters into retirement benefits. He contributes 10% of salary and dearness allowance (only from 50%) to a recognized provident fund to which his employer contributes an equal amount. He has been provided with a rent-free house owned by the company; the rent paid of which is ₹ 82,000 per annum. He is getting transport allowance is ₹ 600 per month for official purposes, medical allowance of ₹ 700 per month and servant allowance of ₹ 500 per month. His club bills worth ₹ 7,000 were also paid by the company.

He has been provided with the facility of a gardener and a cook who are each paid ₹ 750 per month by the employer. He is also provided with a car of 2100 cc by the employer for official use only. One child of Mr. Bharat is studying in an institute run by the company for which no fee is paid. Normal expenditure in such a similar institution is ₹ 800 per month.

Interest free loan of ₹ 18,000 provided by employer to Bharat on 1-7-2022. Reasonable rate of interest is 12% per annum.

Compute income from salary of Mr. Bharat for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of income from salary of Mr. Bharat for assessment year 2023-24

Particular		Amount
Basic salary		1,52,400
Dearness allowance	20% of basic	30,480
Employee's contribution to RPF		Not taxable
Employer's contribution to RPF	Below 12%	Not taxable
Rent free accommodation		
Rent paid	82,000	
or		
15% of salary 15% of (1,52,400 + 15,240 + 8,400 + 7,200 + 6,000)	28,386	
Whichever is lower		28,386
Transport allowance	600 x12	7,200
Medical allowance	700x12	8,400
Servant allowance		6,000
Club bill paid by company		7.000
Gardener facility (house not owned by company)	750x12	9,000
Cook facility	750x12	9,000
Education facility upto ₹ 1,000 per month per child		Exempt
Interest free loan upto ₹ 20,000		Not taxable
Gross salary		**2,57,866**
Less: Standard Deduction		50,000
Income from salary		**2,07,866**

Working note:

1) Basic salary

1-1-2018 to 31-12-2018	11,000
1-1-2019 to 31-12-2019	11,400
1-1-2020 to 31-12-2020	11,800
1-1-2021 to 31-12-2021	12,200
1-1-2022 to 31-12-2022	12,600
1-1-2023 to 31-12-2023	13,000
1 April 2022 to 31 Dec. 2022 12,600x9	1,13,400
1 Jan. 2023 to 31 Mar. 202313,000x3	39,000
Basic salary	1,52,400

ILLUSTRATION 3.32

Mr. Manish Ushania, who is employed in Rajasthan Government, Jaipur, gets ₹ 50,000 per month as salary, ₹ 6,000 per month dearness pay under terms of service, ₹ 9,000 as entertainment allowance and ₹ 6,000 p.a. medical allowance. He has also provided a rent-free furnished house fitted with furniture of the cost of ₹ 30,000. He is also getting bonus equals to 2 months' salary. Free lunch facility provided for 200 days per lunch ₹ 80. Mr. Manish has paid ₹ 2,800 for professional tax during the previous year. Compute taxable income from salaries of Mr. Manish for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of income from salary of Mr. Manish for the assessment year 2023-24

Particular		**Amount**
Basic salary	50,000x12	6,00,000
Dearness allowance	6,000x12	72,000
Entertainment allowance		9,000
Medical allowance		6,000
Bonus	50,000x2	1,00,000
Rent free accommodation 15% of (6,00,000+72,000+9,000+6,000+1,00,000)	1,18,050	
Add: 10% of cost of furniture 30,000x10%	3,000	1,21,050
Lunch facility	(80-50)x200	6,000
Gross salary		**9,14,050**
Less: Deduction u/s 16		
Standard deduction		50,000
Professional tax paid		2,800
Entertainment allowance		5,000
Income from salary		**8,56,250**

ILLUSTRATION 3.33

H is a chartered accountant drawing following salary and allowance etc. in the previous year:

(1) Basic pay ₹ 60,000 per month
(2) House rent allowance ₹ 14,000 per month
(3) City compensatory allowance ₹ 1,000 p.m.
(4) Reimbursement of medical expenses ₹ 24,000
(5) He is given a motor car of 1.4 litre(cc) engine capacity and is entitled to use it for office and private purposes.
(6) He is also given the facility of driver from 1 Oct. 2022 to 31 March 2023.
(7) He is given a facility of watchmen and gardener by his employer for which his employer pays ₹ 800 per month to each.
(8) 600 shares of the face value of ₹ 20 each given to him free of cost under Employee's stock option plan. The market value of shares is ₹ 15,000.
(9) He contributes 15% of his basic salary to a recognized provident fund to which his employer contributes an equal amount.
(10) Interest credited to RPF @ 12% p.a. is ₹ 96,000.
(11) The company takes personal accidental policy for him, the annual premium being ₹ 1,800.
(12) He resides in a house in Jaipur belonging to an individual and pays rent of ₹ 15,000 per month.

Compute his income from salary for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC

Solution :

Computation of taxable income from salary for the assessment year 2023-24.

Particular		**Amount**
Basic salary	60,000x12	7,20,000
House rent allowance 14,000x12	1,68,000	
Less: Exempt	1,08,000	60,000
City compensatory allowance	1,000x12	12,000
Reimbursement of medical expenses		24,000
Motor car 1,800x12	21,600	
Add: Driver for 6 months 900x6	5,400	27,000
Watchmen	800x12	9,600
Gardener	800x12	9,600
Shares under ESOP (Market value)		15,000
Employee's contribution to RPF		Not taxable
Employer's contribution to RPF	(15%-12%) of 7,20,000	21,600
Interest on RPF over 9.5%	$\frac{96,000}{12} x2.5$	20,000
Personal accidental policy premium paid by employer		Not taxable
Gross salary		**9,18,800**
Less: Standard Deduction		50,000
Taxable income from salary		**8,68,800**

Working note:

1) House rent allowance

Salary for the purpose of HRA

Basic : ₹ 7,20,000

Least of the following will be exempt

(a)	40% of salary ₹ 7,20,000x40%	=	₹ 2,88,000
(b)	Rent paid – 10% of salary		
	(₹ 15,000x12) – (7,20,000x10%)	=	₹ 1,08,000
(c)	Actual HRA	=	₹ 1,68,000

Exempt HRA = ₹ 1,08,000

ILLUSTRATION 3.34

Mr. Pushpendra is a director of HZL Ltd. From the following information compute his income under the head salary for the assessment year 2023-24 Assume that the assessee does not opt for new tax regime under section 115BAC:

(1) Basic salary ₹ 20,000 p.m.

(2) Bonus ₹ 6,000

(3) D.A. ₹ 3,000 p.m.

(4) Professional tax paid by company ₹ 1800

(5) Gas, electricity bill paid by company ₹ 32,000

(6) Commission on turnover for previous year ₹ 60,000.

(7) Employee's contribution to recognized provident fund 15% of salary.

(8) Company's contribution to RPF is the sameas that of an employee.

(9) He has also been provided with rent free accommodation at Delhi. The company owns the accommodation. The fair rent value of this house property ₹ 12,000 per month.

(10) The company has provided a Maruti Alto (800cc) which is used by him for office use only.

(11) His major son is studying in IIM Udaipur. His fee of ₹ 1,20,000 was paid by employer directly to the institute.

(12) The company has provided a gardener, a security man and a sweeper whose salaries amounting to ₹ 600 p.m., ₹ 500 p.m. and 800 p.m. respectively have been paid by the company.

(13) Cost of furniture provided was ₹ 2,00,000.

(14) Cost of Air conditioner provided was ₹ 25,000 throughout the year for personal use.

Solution:

Computation of taxable income from salary of Mr. Pushpendra for the assessment year 2023-24

Particular		Amount
Basic salary	20,000x12	2,40,000
Bonus		6,000
Dearness allowance	3,000x12	36,000
Professional tax paid by company		1,800

Gas, Electricity bill paid by company		32,000
Commission on turnover		60,000
Employee's contribution to RPF		Not taxable
Employer's contribution to RPF over 12% of salary (15% - 12%) of (₹ 2,40,000 + 60,000)		9,000
Rent free accommodation (Delhi) 15% of (₹ 2,40,000+ 6,000 + 60,000)	45,900	
Add: 10% of cost of furniture 2,00,000x10%	20,000	65,900
Motor car (for office use only)		Not taxable
Education facility		1,20,000
Gardener		Exempt
Security man	500x12	6,000
Sweeper	800x12	9,600
Use of Air conditioner	25,000x10%	2,500
Gross salary		**5,88,800**
Less: Standard deduction		50,000
Less: Professional tax paid		1,800
Income from salary		**5,37,000**

ILLUSTRATION 3.35

Smt. Pramila is an employee of Aditya Birla company, Chennai since 1 July 2006. She has been fixed in the pay scale of ₹ 12,000-200-16,000-300-19,000 since 1 October 2019. She gets 20% of basic pay as dearness allowance which is considered as pay for retirement benefit, ₹ 700 p.m. as medical allowance and ₹ 600 p.m. as traveling allowance.

She has been provided by the company with rent free unfurnished accommodation, the fair rent of which is ₹ 50,000 per annum.

She owns a car which she uses both for office and personal work, all the expenses of running and maintenance including driver's salary are paid by employer which during the previous year amounted to ₹ 70,000. The car is 1.5 litre(cc).

The company transferred her to Banswara on 30th September 2022, where the population is 2 lakh as per census of 2001. The company has provided her rent-free unfurnished accommodation at Banswara also. She did not vacate the accommodation at Chennai upto 31st March, 2023. She uses her car both for private and office use in Banswara also.

Determine her taxable income under the head salary for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of taxable income from salary for the assessment year 2023-24

Particular		**Amount**
Basic salary(W.N. 1)		1,50,000
Dearness allowance 20% of basic		30,000
Medical allowance	700x12	8,400
Traveling allowance		Exempt
Motor car 70,000 – ((1800+900)*12)		37,600
Rent free accommodation(W.N. 2)		28,260
Gross Salary		**2,54,260**
Less: Standard Deduction		50,000
Income from Salary		**2,04,260**

Working note:

1) Basic salary

1 Oct. 2019 to 30 Sept. 2020	12,000
1 Oct. 2020 to 30 Sept. 2021	12,000
1 Oct. 2021 to 30 Sept. 2022	12,000
1 Oct. 2022 to 30 Sept. 2023	12,000

1 April 2022 to 30 Sept. 2022 12,400x6	74,400
1 Oct. 2022 to 31 March 2023 12,600x6	75,600
Basic salary	1,50,000

2) Rent free Accommodation: As per rule if rent free accommodation is provided at two places due to transfer of employee then for 90 days the smaller in value will be taxable. But after 90 days if the employee has not vacated one house then both houses are taxable in the hands of the employee.

	1 Ap. 22 to 30 Sept 22	**1 Oct. 22 to 31 Dec. 22**	**1 Jan. 23 to 31 March, 2023**
	6 months	**3 months (90days)**	**3 Month**
	Chennai	**Banswara**	**Chennai and Banswara both are taxable**
Basic	12,400x6 = 74,400	12,600x3 = 37,800	12,600x3 = 37,800
D.A. 20% of basic	14,880	7,560	7,560
Medical allowance	4,200	2,100	2,100
Salary for RFA	93,480	47,460	47,460
	15%	7.5%	22.5%
Value of RFA	14,022	3,559.50	10,678.50
Total value of RFA	**₹ 28,260**		

ILLUSTRATION 3.36

Mr. Abhinav, who is a director of a private company in Jaipur (Population 27 lacs) is offered on 1 April 2022 with the following two alternatives:

Particular	Option I	Option II
Basic salary	2,40,000	2,40,000
Bonus	30,000	30,000
Educational allowance for two children 600x2x12	14,400	
Education facility for two children 600x2x12		14,400
Servant allowance	7,200	
Servant facility		7,200
Lunch allowance	14,000	
Free lunch during office hours ₹ 70 per meal for 200 days		14,000
Conveyance allowance for private purpose	6,000	
Free car facility for personal purpose (actual expenses)		6,000
House rent allowance ₹ 3,000 p.m. Rent paid by employee ₹ 4,000 p.m.	36,000	
Rent free accommodation provided in Option II		

Compute income from salary for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of income from salary for the assessment year 2023-24

Particular	Option I	Option II
Basic salary	2,40,000	2,40,000
Bonus	30,000	30,000
Education allowance	12,000	
Education facility		Exempt
Servant allowance	7,200	
Servant facility		7,200
Lunch allowance	14,000	
Lunch facility (₹ 70 – ₹ 50) for 200 days		4,000
Conveyance allowance for personal purpose	6,000	
Car facility		6,000
House rent allowance (W. Note)	12,000	
Rent free accommodation		40,500
Gross Salary	**3,21,200**	**3,27,700**
Less: Standard Deduction	50,000	50,000
Income from salary	**2,71,200**	**2,77,700**

Working note:

1) Education allowance

600x2x12	14,400
Less: Exempt 100x2x12	2,400
Taxable	12,000

2) Education facility is exempt upto ₹ 1,000 per month per child upto 2 children.

3) House rent allowance

Salary : Basic 2,40,000

Least of the following will be exempt

(a) 40% of salary 2,40,000x40% = ₹ 96,000

(b) Rent paid – 10% of salary

(4,000x12) – (2,40,000 x 10%) = ₹ 24,000

(c) Actual HRA = ₹ 36,000

Taxable HRA = ₹ 36,000 – ₹ 24,000 = ₹ 12,000

4) Rent free accommodation

Salary = Basic + Bonus

= 2,40,000 + 30,000 = ₹ 2,70,000

15% of salary (₹ 2,70,000) = ₹ 40,500

ILLUSTRATION 3.37

Smt. Usha was employed in a private company since 1-4-1996. Her salary was fixed at ₹ 39,500 in the grade ₹ 35,000-1500-50,000-2,000-60,000 with effect from 1-7-2018. As per service rules the company pays dearness allowance @ 15% of basic pay to those employees whose basic pay does not exceed ₹ 45,000 per month. Employees getting more than ₹ 45,000 per month as basic pay are paid only 10% of basic pay as dearness allowance. Usha retired from service on 1-1-2023. After her retirement, she was sanctioned an amount of ₹ 21,000 p.m. as pension. She opted to get 2/3rd of her pension commuted from 1-1-2023 and received ₹ 2,80,000 from the company as the commuted amount.

Compute her taxable income under salary head for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of income from salary for the assessment year 2023-24

Particular		**Amount**
Basic salary		4,05,000
Dearness allowance 1,32,000x15% = 2,73,000x10% =	 19,800 27,300	 47,100
Monthly pension	$21{,}000x\ \frac{1}{3}x\ \frac{1}{2}$	21,000
Commuted pension	2,80,000	

Less: Exempt ₹2,80,000$x\ \frac{3}{2}x\ \frac{1}{2}$	2,10,000	70,000
Gross Salary		**5,43,100**
Less: Standard Deduction		50,000
Income from Salary		**4,93,100**

Working note:

1) Basic salary

1-7-2018 to 30-6-2019	39,500
1-7-2019 to 30-6-2020	41,000
1-7-2020 to 30-6-2021	42,500
1-7-2021 to 30-6-2022	44,000
1-7-2022 to 30-6-2023	45,500

Salary

1-4-2022 to 30-6-2022 44,000x3	1,32,000
1-7-2022 to 31-3-2023 45,500x6	2,73,000
Basic salary	**4,05,000**

ILLUSTRATION 3.38

Shri Shiv Lal Barber was appointed as lab assistant in Ms. Science Tech Udyog, Delhi on 1 January 2012 on a basic pay of ₹ 15,000 per month. He was in receipt of dearness allowance of ₹ 1,200 per month under terms of service and entertainment allowance of ₹ 400 per month. He was provided a rent-free residential accommodation facility by his employer for which the employer paid rent of ₹ 2,500 per month.

His services were terminated on account of reduction in the number of employees on 30 June 2022. At the time of termination of service earned leave of 8 months was at his credit for which he was paid ₹ 2,00,000 including dearness allowance and entertainment allowance. He was entitled for 45 days earned leave salary per year. He was paid ₹ 1,74,000 in respect of gratuity being basic pay and dearness allowance for 10 months. He was given a monthly pension equals to 30% of his basic salary.

Compute income from salary of Shri Shiv Lal for the assessment year 2023-24 assuming that Ms. Science Tech Udyog had only 8 working employees.

Solution:

Computation of Income from salary for the assessment year 2023-24

Particular		**Amount**
Basic salary	15,000x3	45,000
D.A.	1,200x3	3,600
Entertainment allowance	400x3	1,200
Rent free accommodation Rent paid 2,500x3 = 7,500 Or 15% of salary (45,000+3,600+1,200) = 7,470 Whichever is lower		7,470

Leave encashment	2,00,000	
Less: Exempt(W. N. 2)	48,600	1,51,400
Gratuity	1,74,000	
Less: Exempt (W. N. 1)	81,000	93,000
Monthly pension 1 July 21 to 31 March 22	(15000x30%)x9	40,500
Gross Salary		**3,42,170**
Less: Standard Deduction		50,000
Income from Salary		**2,92,170**

Working Note:

1) Gratuity exemption

Steps	Computation	Formula	Result
1.	Average Salary	[Basic Pay + Dearness Allowance] ÷ 10 i.e. [(15,000x10) + (1200x10)] ÷10	₹ 16,200
2.	Period of Service	1 January 2012 to 1 July 2022 10 Years 6 months	10 years
3.	½ month salary for service period	Period of service × salary × ½ i.e. [10 × 16,200 × ½]	₹81,000
4.	Gratuity exempt from tax	Lower of: (a) 15 days salary for service period ₹ 81,000 (b) ₹ 20, 00,000 (c) Amount of gratuity actually received ₹ 1,74,000	₹81,000
5.	Taxable Gratuity	₹1,74,000 – ₹81,000 =	93,000

2) Leave encashment exemption

Steps	Computation	Formula	Calculation
1	Compute completed years of service	Date of retirement minus Joining date (any fraction of a year is to be ignored)	10 years
2	Leave due per year in days	**Lower of** Leave due per year as per terms of employment OR 30 days	**45 days (1½ month)** **OR** **30 days (1 month)**
3	Earned leave outstanding in months at the time of retirement	[(Leave due per year (as per step 2) × completed year of service) – Total leaves availed (in days) during period of service – leaves (in days) for which encashment taken during period of service]÷ 30	[(1×10)-{(1½x10)-8}] = 3 months
4	Salary for last 10 months	Ten months [Basic Pay + D.A. (if terms of employment provide)+commission based on fixed % of turnover]. Salary is to be computed for the 10 months immediately preceding the date of retirement.	[(15,000x10) + (1200x10)]

5	Average Salary	Salary for last 10 months (as computed in step 4) ÷ 10	₹1,62,000÷ 10 = ₹16,200
6	Leave salary exempt	**Lower of** Earned leave outstanding as per step 3 × Average salary (step 5) OR 10 months × Average salary (step 5) OR Statutory limit ₹ 3,00,000 OR Actual Leave salary received	**3** × ₹16,200 = ₹48,600 OR 10 × ₹16,200 = ₹ 1,62,,000 OR ₹3,00,000 OR ₹2,00,000
7	Taxable Leave Salary	Actual Leave salary received - Leave salary exempt (Step 6)	₹2,00,000 – ₹48,600 = ₹ 1,51,400

ILLUSTRATION 3.39

Mr. Gautam is employed in PR Ltd. as an accountant on a monthly salary ₹ 25,000 plus a dearness allowance of ₹ 4,000 per month. He is a member of an unrecognized provident fund to which he contributes 10% of his salary and his employer also contributes an equal amount. On 1 September 2022 he resigned from PR Ltd. and joined XYZ ltd on the same date on a monthly salary of ₹ 30,000 per month plus a dearness allowance @ 10% of his salary. He received ₹ 90,000 (including interest of ₹ 22,000) from the URPF of which half the amount consisted of employer's contribution and interest thereon.

In his new employment, he contributed 14% of his basic salary to a recognized provident fund while his employer contributed ₹ 30,000 for the previous year. He is also provided with a hotel accommodation for his residence for which employer paid ₹ 6,000 per month.

Find out his income from salary for the assessment year 2023-24 assuming that his salary becomes due on the first day of next month.

Solution:

Computation of income from salary for the assessment year 2023-24

Particular	**Amount**
Basic salary Old 1 March 2022 to 1 September 2022 6 months 25000x6	1,50,000
New 1 September 2022 to 28 Feb. 2023 6 months 30000x6	1,80,000
D.A. Old 4000x6 New 10% of 1,80,000	 24,000 18,000
Employee's contribution to URPF	Not taxable
Employer's contribution to URPF	Not taxable
Withdrawal from URPF (employer's share is taxable including interest) 90,000 x ½	45,000
Employee's contribution to RPF	Not taxable

Employer's contribution to RPF 30,000 – (12% of 1,80,000)	8,400
Rent free accommodation in Hotel Rent paid 6,000 x 6 = 36,000 Or 24% of salary (₹ 1,80,000) = 43,200 Whichever is lower	36,000
Gross Salary	**4,61,400**
Less: Standard Deduction	50,000
Income from Salary	**4,11,400**

ILLUSTRATION 3.40

Mr. Jitendra is the assistant manager of a company at Mumbai since 1st March, 2004. The number of employees in the company is twenty-eight in all. He is getting a salary of ₹ 60,000 per month, dearness allowance @ 10% of his basic pay, 60% of which is in terms of retirement benefits. He contributes 13% of his salary and 60% of dearness allowance to a recognized provident fund to which his employer contributes an equal amount.

He has been provided with the facility of a cook who is paid ₹ 2,000 per month by the employer. He is also provided a car of 1.8 litre (cc) by the employer for office and personal use. He has been provided with a rent-free house owned by the company, the fair rent of which is ₹ 60,000 per annum. He is getting a medical allowance of ₹ 1,200 per month and servant allowance of ₹ 1,500 per month.

He retired on 1 Nov. 2022. He received ₹ 7,80,000 for encashment of leave on 1 November 2022 being 12 months leave not availed of. As per the rule of the company Mr. Jitendra was entitled to 45 days leave for each year of service. He also received ₹ 9,10,000 as gratuity from the employer on the same date. On 1 December 2022 he received ₹ 2,10,000 being the balance of his provident fund account.

Determine taxable income from salary of Mr. Jitendra for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of income from salary for the assessment year 2023-24

Particular		**Amount**
Basic salary (April to Oct)	60,000x7	4,20,000
D.A. 10% of basic		42,000
Employee's contribution to RPF		Not taxable
Employer's contribution to RPF Over 12%	(13%-12%) of {4,20,000+(42000x60%)}	4,452
Cook facility	2000x7	14,000
Motor Car	2,400x7	16,800
Medical allowance	1,200x7	8,400
Servant allowance	1,500x7	10,500
Rent free house	15% of (4,20,000 + 25,200 + 8,400 + 10,500)	69,615
Leave encashment	7,80,000	

Less: Exempt	1,90,800	5,89,200
Gratuity	9,10,000	
Less: Exempt	7,23,462	1,86,538
Withdrawal from RPF		Exempt
Gross Salary		13,61,505
Less: Standard Deduction		50,000
Income from salary		**13,11,505**

Working Note:

1) Leave encashment

Steps	Computation	Formula	Calculation
1	Compute completed years of service	Date of Jointing to Date of retirement (any fraction of an year is to be ignored) 1 March 2004 to 1 Nov. 2022 18 year 8 months	18 years
2	Leave due per year in days	**Lower of** Leave due per year as per terms of employment OR 30 days	**45 days (1½ month)** **OR** **30 days (1 month)**
3	Earned leave outstanding in months at the time of retirement	[(Leave due per year (as per step 2) × completed year of service) – Total leaves availed (in days) during period of service – leaves (in days) for which encashment taken during period of service]÷ 30	[(1×18)-{(1½x18)-12}] = 3 months
4	Salary for last 10 months	Ten months [Basic Pay + D.A. (if terms of employment provide)+commission based on fixed % of turnover]. Salary is to be computed for the 10 months immediately preceding the date of retirement.	[(60,000x10) + (6,00,000x10% x 60%)] = 6,36,000
5	Average Salary	Salary for last 10 months (as computed in step 4) ÷ 10	₹6,36,000÷ 10 = ₹63,600
6	Leave salary exempt	**Lower of** Earned leave outstanding as per step 3 × Average salary (step 5) OR 10 months × Average salary (step 5) OR Statutory limit ₹ 3,00,000 OR Actual Leave salary received	**3** × ₹63,600 = ₹1,90,800 OR 10 × ₹63,600 = ₹ 6,36,000 OR ₹3,00,000 OR ₹7,80,000
7	Taxable Leave Salary	Actual Leave salary received - Leave salary exempt (Step 6)	₹7,80,000 – ₹1,90,800 = ₹ 5,89,200

2) Gratuity : There are 28 workers in company, so Gratuity Act will apply:

Steps	Computation	Formula	Result
1.	Last month Salary	[Basic Pay + Dearness Allowance] i.e. (60,000+ 6000)	₹ 66,000
2.	Period of Service	1 March 2004 to 1 Nov. 2022 18 Years 8 months Fraction of a year to be considered as full year if it exceeds 6 months if Gratuity Act apply.	19 years
3.	15/26 month salary for service period	Period of service × last month salary × 15/26 i.e. [19 × 66,000 × 15/26]	₹7,23,462
4.	Gratuity exempt from tax	Lower of: (a) 15 days salary for service period ₹ 7,23,462 (b) Maximum ₹ 20, 00,000 (c) Amount of gratuity actually received ₹ 9,10,000	₹7,23,462
5.	Taxable Gratuity	₹9,10,000– ₹7,23,462=	1,86,538

ILLUSTRATION 3.41

Following information is available to you of Mr. Anand Gupta of his salary and retirement benefits, calculate taxable income from salary for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC:

(1) He joined service in SS Ltd. on 1 April 2009 and he is getting ₹ 18,000 per month as basic pay. SS Ltd. is a company in which only 9 employees are working. He was retrenched from service on 1 February 2023.

(2) Dearness allowance ₹ 4,000 per month

(3) He is entitled to get 10% commission on sales. The company's sales during the previous year were₹ 12 lacs.

(4) He got ₹ 4,60,000 as gratuity at the time of retrenchment.

(5) No notice was given to him for his retrenchment so ₹ 80,000 was given to him as salary of notice period.

(6) He received ₹ 4,40,000 as compensation for retrenchment.

(7) He was entitled for 45 days leave in each year. At the time of retirement, he received₹ 2,10,000 for his leave balance of 12 months.

(8) His per month pension was decided equal to the full amount of basic salary. He received a commuted pension of ₹ 2,40,000 for 60% of his pension.

(9) In December 2022, he received a leave travel concession of ₹ 60,000 equal to Deluxe class air fare. His wife, dependent sister and nephew also traveled with him on this journey. If his journey was from an economy class air ticket then expenses would have been ₹ 35,000 while 1st Class AC fare through railway would have been ₹ 24,000 only. He availed such facility in March 2019 and not any time earlier to it. He traveled by rail.

(10) Before joining SS Ltd., Mr. Anand Gupta was serving in CD Ltd. from where he received₹ 1,80,000 as gratuity, ₹ 90,000 as commuted pension,₹ 60,000 as compensation and ₹ 1,10,000 as lump sum amount from leave encashment. These all were exempted in his hands.

Solution:

Computation of taxable income from salary for the assessment year 2023-24

Particular		Amount
Basic salary 1 April 2022 to 1 Feb. 2023	18,000x10	1,80,000
Dearness allowance	4,000x10	40,000
Commission	$12{,}00{,}000\ x\ \frac{10}{100} x\ \frac{10}{12}$	1,00,000
Gratuity	4,60,000	
Less: Exempt	1,82,000	2,78,000
Notice period salary		80,000
Compensation	4,40,000	
Less: Exempt	2,19,131	2,20,869
Leave encashment	2,10,000	
Less: Exempt	1,54,000	56,000
Monthly pension (Feb and Mar)	18,000x40%x2	14,400
Commuted pension	2,40,000	
Less: Exempt $\frac{2{,}40{,}000}{60} x100\ x\ \frac{1}{3}$	1,33,333	1,06,667
Leave travel concession	$60{,}000 - \left(\frac{24{,}000}{4} x3\right)$	42,000
Gross salary		11,17,936
Less: Standard Deduction		50,000
Income from Salary		**10,67,936**

Working Note:

1) Gratuity Exemption : Gratuity Act 1972 does not apply because no. of workers in company is less than 10

Steps	Computation	Formula	Result
1.	Average Salary	[Basic Pay + Commission + D.A. (not in terms)] ÷ 10 i.e. [(18,000x10) + 1,00,000] ÷10	₹ 28,000
2.	Period of Service	1 April 2009 to 1 Feb. 2023 13 Years 10 months (Fraction of a year to be ignored)	13 years
3.	½ month salary for service period	Period of service × salary × ½ i.e. [13 × 28,000 × ½]	₹1,82,000
4.	Gratuity exempt from tax	Lower of: (a) 15 days salary for service period ₹ 1,82,000 (b) Maximum ₹ 20,00,000- 1,80,000 = ₹ 18,20,000 (c) Amount of gratuity actually received ₹ 4,60,000	₹1,82,000
5.	Taxable Gratuity	₹4,60,000 – ₹1,82,000 =	₹ 2,78,000

2) Leave encashment

Steps	Computation	Formula	Calculation
1	Compute completed years of service	Date of Jointing to Date of retirement 1 April 2009 to 1 Feb. 2023 13 Years 10 months (Fraction of a year to be ignored)	13 years
2	Leave due per year in days	**Lower of** Leave due per year as per terms of employment or 30 days	**45 days (1½ month)** **or** **30 days (1 month)**
3	Earned leave outstanding in months at the time of retirement	[(Leave due per year (as per step 2) × completed year of service) – Total leaves availed (in days) during period of service – leaves (in days) for which encashment taken during period of service]÷ 30	[(1×13)-{(1½x13)-12}] = 5.5 months
4	Salary for last 10 months	Ten months [Basic Pay + D.A. (if terms of employment provide)+commission based on fixed % of turnover]. Salary is to be computed for the 10 months immediately preceding the date of retirement.	[(18,000x10) + 1,00,000] = 2,80,000
5	Average Salary	Salary for last 10 months (as computed in step 4) ÷ 10	₹2,80,000÷ 10 = ₹28,000
6	Leave salary exempt	**Lower of** Earned leave outstanding as per step 3 × Average salary (step 5) OR 10 months × Average salary (step 5) OR Statutory limit ₹ 3,00,000 – ₹ 1,10,000 = 1,90,000 OR Actual Leave salary received	**5.5** × ₹28,000 = ₹1,54,000 OR 10 × ₹28,000 = ₹ 2,80,000 OR ₹3,00,000 OR ₹2,10,000
7	Taxable Leave Salary	Actual Leave salary received - Leave salary exempt (Step 6)	₹2,10,000 – ₹1,54,000 = ₹ 56,000

3) Compensation :

Salary for last 2 months from the date of retirement

Basic salary	18,000x3	54,000
D.A. (full)	4,000x3	12,000
Commission	10,000x3	30,000
		96,000

Average One day salary

$$\frac{96,000}{30+31+31} = 1043.48$$

Least of the following will be exempt:

(a) Actual Compensation : ₹ 4,40,000

(b) Maximum : ₹ 5,00,000 – ₹ 60,000 =₹ 4,40,000

(c) 15 days salary for each year of service period

1043.48 x 15x 14 : ₹ 2,19,131

Fraction of a year to be considered as a full year for the purpose of compensation exemption calculation.

ILLUSTRATION 3.42

Mr. Rajesh Chouhan aged 56 years has been working with Secure Meters since 1998. He died on 31.12.2022. The following information is available:

Basic salary ₹ 40,000 p.m.; dearness allowance ₹ 3,000 p.m. (50% of which is included for the purpose of determining retirement benefits); transport allowance ₹ 2,800p.m. (out of which only ₹ 1,300 p.m. is used for the journey between office and residence, the remaining amount is not spent); and entertainment allowance ₹ 1,500 p.m. He contributes 15% of basic salary towards RPF and the company also makes a matching contribution. Interest credited @ 9% amounted to ₹ 13,500.

After the death of Rajesh his legal heirs i.e., Mrs. Priya and his minor child get the following payments from company:

(1) Salary for the month of December 2022.

(2) Family pension ₹ 13,000 p.m.

(3) Encashment of leave standing to the credit of Rajesh on 31-12-2022₹ 4,10,000 (as per service rules Rajesh is entitled for 45 days leave for each year of service.

(4) Provident fund balance ₹ 5,20,000.

(5) Gratuity ₹ 4,10,000 (Rajesh is not covered by the payment of Gratuity act 1972 nor is there any agreement with the employer to get gratuity)

Assuming that the assessee does not opt for new tax regime under section 115BAC. Assuming that salary, allowance and pension become due on the last day of the month, find out

(a) Who will be chargeable to tax in respect of the aforesaid receipts?

(b) Net income for the assessment year 2023-24.

Solution:

Computation of taxable income from salary in the hands of Late Mr. Rajesh Chouhan for the assessment year 2023-24

1 April 2022 to 31 December 2022

Particular		Amount
Basic Salary	40,000x9	3,60,000
Dearness allowance	3,000x9	27,000

Transport allowance	2,800x9	25,200
Entertainment allowance	1,500x9	13,500
Employee's contribution to RPF		Not taxable
Employer's contribution to RPF over 12% (15%-12%) of ₹ (3,60,000+13,500)		11,205
Interest on RPF upto 9%		Not taxable
Gross salary		4,36,905
Less: Standard Deduction		50,000
Income from salary		3,86,905

Computation of income of Mrs. Rajesh as legal heirs for assessment year 2023-24

Income from salary		Nil
Income from Other sources		
Salary of Rajesh for the month of Dec. 2019 is taxable in the hands of Mr. Rajesh)		
Family Pension 13,000x3	39,000	
Less: ₹ 15,000 or 1/3 of pension Whichever is lower	13,000	26,000
Leave encashment		Nil
RPF balance		Nil
Gratuity		Nil
Income from other sources		26,000

Notes:

1) Amount withdrawn from the RPF is exempt.
2) Leave encashment paid to legal heirs in respect of earned leave is not taxable.
3) Lump sum payment made gratuitously or by way of compensation or otherwise to the widow or other legal heirs of an employee, who dies while still in active service, is not taxable [circular No. 573, dated 21-8-1990]

ILLUSTRATION 3.43

X, an employee of New Horizons Ltd. draws Rs. 4,00,000 as basic pay, Rs.55,000 as dearness allowance (not part of salary for computing gratuity but it forms part of salary for calculating pension) and Rs. 50,000 as bonus. He received the following for the previous year 2022-23; children education allowance Rs. 90,000, Hostel allowance Rs. 70,000, transport employee allowance Rs. 70,000. Company provided him rent free accommodation in Goa (population 14,50,000), property is owned by the company. Vehicle facility (1400cc with driver) for both official and private purpose for which Rs. 2,000 per month is charged from him. Company has also taken a corporate membership of Royal club exclusively for him, the company spends Rs. 2,00,000 as club charges out of which Rs. 1,20,000 is for official purpose. Calculate his taxable salary for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of income from salary of Mr. X for the assessment year 2023-24

Particular	Amount	Amount
Basic salary		4,00,000
Dearness allowance		55,000
Bonus		50,000
Education allowance	90,000	
Less: Exempt 100x2x12	2,400	87,600
Hostel allowance	70,000	
Less: Exempt 300x2x12	7,200	62,800
Transport employee allowance	70,000	
Less: Exempt		
70% of 70,000 or	49,000	
10,000 per month	1,20,000	
Whichever is lower	49,000	21,000
Rent free accommodation		
10% of (4,00,000 + 55,000+50,000 + 87,600 + 62,800 + 21,000)		67,640
Car (1800 + 900) x 12	32,400	
Less : Amount recovered 2,000 x 12	24,000	8,400
Club exp (2,00,000 - 1,20,000)		80,000
Gross salary		8,32,440
Less: Standard deduction		50,000
Income from salary		**7,82,440**

ILLUSTRATION 3.44

A regular employee of X Ltd. has the following details for the previous year 2022-23. Basic salary Rs. 60,000 per month which is increased to Rs. 70,000 from December 2022; Dearness allowance: Rs. 7,000 per month (60 percent is used for end term benefits); medical allowance Rs. 3,000 per month; children education allowance Rs. 2,000 per month for 3 children; tiffin allowance Rs. 2,000 per month; petrol allowance Rs. 2,000 per month; house rent allowance Rs. 20,000 per month upto September 2022 (Rent paid at Jaipur Rs. 15,000 per month). With effect from November 1, 2022, he is provided rent free accommodation at Ajmer (Population 1500000). Calculate his income chargeable under the head salary for the assessment year 2023-24, further he had joined Y Ltd as part time job with effect from January 2023, with permission of X Ltd. He gets a Rs. 20,000 lumpsum from Y Ltd. Assume that the assessee does not opt for new tax regime under section 115BAC

Solution:

Computation of Income from salary for the assessment year 2023-24

Particular	Amount	Amount
Basic salary		
1 April 2022 to 30 Nov. 2022 60,000 x 8	4,80,000	
1 Dec. 2022 to 31 March 2023 70,000 x 4	2,80,000	7,60,000
Dearness allowance	7,000 x 12	84,000
Medical allowance	3,000 x 12	36,000
Education allowance 2,000 x 3 x 12	72,000	
Less: Exempt 100 x 2 x 12	2,400	69,600
Tiffin allowance	2,000x12	24,000
Petrol allowance	2,000 x 12	24,000
House rent allowance 20,000x6	1,20,000	
Less: Exempt (note 1)	51,480	68,520
Rent free accommodation (Note 2)		
10% of Salary (Rs. 4,45,000)		44,500
Salary from Y Ltd.		20,000
Gross Salary		11,30,620
Less: Standard deduction		50,000
Income from salary		10,80,620

Note:

House rent allowance exempt : Least of the following :

(a) Actual HRA 20,000 x 6 Rs. 1,20,000

(b) Rent paid – 10% of salary
(15,000 x 6) – (10% of 3,85,200) Rs. 51,480

(c) 40% of salary (40% of 3,85,200) Rs. 1,54,080

Salary for the purpose of HRA

Basic salary 60,000 x 6	3,60,000
D.A. 7,000 x 6 x 60%	25,200
	3,85,200

Note 2 Salary for the purpose of Rent-free accommodation

Basic salary 60,000 + (70,000x4)	3,40,000
D.A. 7,000 x 5 x 60%	21,000
Medical allowance 3,000 x 5	15,000

Education allowance 2,000x3x5 = 30,000	
Less: Exempt 100x2x5 = 1000	29,000
Tiffin allowance 2,000 x 5	10,000
Petrol allowance 2,000 x 5	10,000
	4,45,000

QUESTIONS

Multiple Choices Questions

Q.1 Whose income is taxable under the head "salaries" despite no employer-employee relationship.
(a) Member of parliament
(b) Partners of a firm
(c) Professors of college receiving remuneration from university
(d) Remuneration received by high court and supreme court judges

Q.2 "Salary" under section 17(1) includes the following, except:
(a) Wages
(b) Annuity or pension
(c) Transferred balance to recognized provident fund
(d) Advance salary

Q.3 Which one of the following is not a deduction under section 16 of the income-tax act:
(a) Standard deduction (b) House rent allowance
(c) Entertainment allowance (d) Employment or professional tax

Q.4 Rohan joins services on 1st April, 2018 in the grade of 15,000-1,000-18,000-2,000-26,000. His grosst salary for the year ended on 31st march, 2023 will be-
(a) ₹ 2,16,000 (b) ₹ 2,40,000
(c) ₹ 2,28,000 (d) ₹ 1,88,000

Q.5 Which of the following allowance is fully taxable?
(a) Dearness allowance
(b) Allowances to high court and Supreme Court judges
(c) Allowances to Indian citizens who are employees of central government posted abroad
(d) Daily allowance to members of the parliament

Q.6 Sangeeta is employed in megha Ltd., Delhi. He is paid house rent allowance of ₹9,000 per month in financial year 2020-21. His salary for the purpose of computation or house rent allowance relief may be taken as ₹10,000 per month. How much of the house rent allowance is tax-free:
(a) ₹ 1,08,000 (b) ₹ 1,20,000
(c) ₹ 96,000 (d) ₹ 60,000

Q.7 Mr. A is employed in ABS transports as cabin driver. He is paid ₹ 15,000 every month in the whole of previous year as allowance for meeting his personal expenditure in the course of running the goods vehicle. Mr. A does not receive any other amount by way of daily allowance. The amount of allowance eligible for exemption is:
(a) ₹ 1,80,000 (b) ₹ 1,20,000
(c) ₹ 1,26,000 (d) nil

Q.8 Children education allowance received by an employee from his employer is ₹80 per month per child for 3 children. Taxable education allowance will be:

(a) ₹ 960 (b) ₹ 480
(c) nil (d) ₹ 1,200

Q.9 Allowances and perquisites allowed to are employee for services rendered outside India are tax free in case of:

(a) All types of employees (b) Government employees only
(c) Non-government employees only (d) None of the above

Q.10 The maximum amount of any death-cum-retirement gratuity received by an employee not covered under the payment of gratuity act, 1972 on superannuation from the employer exempt from tax is of:

(a) ₹ 20 lakh (b) ₹ 10 lakh
(c) ₹ 5 lakh (d) ₹ 15 lakh

Q.11 For the purpose of pension, government employee means:

(a) central government employee
(b) Central and state government employee
(c) Central and state government employee and employees of local authorities
(d) Central and state government employees and employees of local authorities and employees of Statuary Corporation

Q.12 Mr.Tushar employed in ABC Ltd. opted for voluntary retirement and received ₹ 22 lakhs by way of gratuity. The payment of gratuity act, 1972 is applicable in his case. The monetary limit for exemption under section 10(10) is :

(a) ₹ 3,50,000 (b) ₹ 5,00,000
(c) ₹ 20,00,000 (d) ₹ 3,00,000

Q.13 An employee of a company who was entitled for a gratuity of ₹ 8,00,000 also received ₹ 12,00,000 by commuting 40% of his pension. The taxable amount of commuted pension is:

(a) ₹ 2,00,000 (b) ₹ 4,00,000
(c) ₹ 12,00,000 (d) ₹ 20,00,000

Q.14 The maximum amount of gratuity exempt and the maximum amount of leave encashment exempt under the act respectively are:

(a) ₹ 2,50,000 in each case (b) ₹ 20,00,000 and ₹ 3,00,000
(c) ₹ 10,00,000 and ₹ 3,00,000 (d) None of the above

Q.15 Avinash is an employee of moon public school. His daughter, Reena, is studying in the said school at concessional fees of ₹600 p.m. (actual fee: ₹4,000 p.m.) the amount taxable in the hands of Avinash will be:

(a) ₹48,000 (b) ₹7,200
(c) nil (d) ₹40,800

Q.16 Ramesh took an interest-free loan of ₹15,000 from B Ltd. (the employer). Assuming that the market rate of interest on similar loan is 10%, the taxable value of the perquisite in the hands of Ramesh will be:

(a) ₹150 (b) ₹1,500
(c) nil (d) None of the above

Q.17 Company has provided laptop worth ₹50,000 to his employee for official as well as personal purposes. The taxable amount of perquisites will be:

(a) ₹5,000 (b) ₹25,000
(c) ₹10,000 (d) nil

Q.18 During the previous year, varun received a watch worth ₹20,000 from his employer. The taxable value of the watch will be:

(a) ₹20,000 (b) ₹15,000

(c) Nil (d) None of the above

Q.19 Ashok Co. Ltd. contributed 15% of the salary of the employee Virat towards recognized provident fund. The amount liable to tax as perquisite in the hands of Virat would be..... of contribution.

(a) 5% (b) 3%

(c) nil (d) Any sum exceeding ₹1,50,000

Q.20 Interest credited of statutory provident fund shall be:

(a) Fully exempt (b) Exempt up to 8.5% p.a.

(c) Fully taxable (d) Exempt up to 9.5% p.a.

Q.21 When interest on employee's own contribution from unrecognized provident fund is received, it is:

(a) Taxable as income from other sources

(b) Taxable as income from salary

(c) Exempt from tax

(d) Taxable if the interest exceeds ₹10,000

Q.22 Standard deductions up to ₹..... is allowed to all employees from gross salary under section 16(ia).

(a) ₹30,000 (b) ₹40,000 (c) ₹50,000 (d) ₹60,000

Q.23 Professional or employment tax is charged by:

(a) Income tax act (b) Central government

(c) State government (d) None

Q.24 Total income of Suresh under the head "salary", whose basic salary and DA per month was of ₹40,000 and ₹3,000 respectively and who was also paid leave salary of ₹6,000 and ₹1,000 of professional tax by the employer shall be:

(a) ₹4,72,000 (b) ₹4,76,000

(c) ₹5,23,000 (d) ₹5,16,000

Q.25 Jonny Ltd. transfers a Honda city car to its employee Girish after using it for 4 years and 10 Months for ₹ 10,00,000. The value of taxable perquisite in the hands of girish is –

(a) ₹ 1,17,680 (b) ₹ 1,99,600

(c) Nil (d) ₹ 7,90,000

Very Short Answer Type Questions

1. What do you mean by salary?
2. How advance salary is treated in the computation of income from salary?
3. In which states tribal area allowance is exempted?
4. Name the deductions allowable under the head 'Salaries'.
5. When the facility of loan without interest is exempt from tax?
6. In which head remuneration of assessment of answer books received from university by a professor is taxable and why?
7. When is remuneration not taxable under salary head?
8. In which head salary of a Member of Parliament is taxable and why?

9. Name any two facilities which are exempted from tax.
10. When commission received by an employee is treated as basic salary?
11. Name any five allowances which are exempted to the limit of actual expenses?
12. What is the importance of 'employee-employer relationship' in the computation of income under the head salaries?
13. To what extent is the children's education allowance exempt from tax.
14. What do you mean by 'Perquisites'?
15. To what extent the facility of free lunch to an employee by his employer is exempted?
16. When the salary and other remuneration received by the director of a company is taxable under the head 'Salaries'?
17. How is the value of the facility of furniture provided with rent free accommodation determined?
18. To what extent a gift given to an employee in kind by his employer is exempted?
19. Name the different kinds of provident funds maintained by the employers to which a salary employee may be a member.
20. To what extent is the children's hostel allowance exempt from tax.

Short Answer Type Questions

1. What do you understand by the term salary on the basis of salary grades?
2. Explain the provisions of Income tax Act regarding exemption of Education allowance and Hostel allowance.
3. Describe provisions of Entertainment allowance.
4. Describe provisions of house rent allowance.
5. Describe provisions of Exempted allowances
6. Describe provisions of rent-free accommodation.
7. Describe provisions of motor car
8. Describe provisions of free refreshment and lunch facility.
9. Describe provisions of sale of moveable assets to employees.
10. When can employees be treated as specified employees?
11. How is the exemption in respect of gratuity received under Gratuity payment Act 1972 calculated?
12. Explain the provisions of the Income Tax Act regarding the lump sum amount received by an employee from a provident fund at the time of retirement.
13. Write a short note on medical facilities.
14. Shri Ramkesh Prasad is a manager in a public company. He is on the pay scale of Rs. 12,000-500-20000 since 1 October 2019. He took an advance salary of 3 months on 1 Feb. 2021. Determine the amount of basic pay for the assessment year 2023-24.

    [Ans. Rs. 1,46,000]

15. How is the facility of interest free loan valued?

Essay Type Questions

1. What are perquisites? Explain different kinds of perquisites.
2. What do you understand by term salary? What is included in perquisites and in profit in lieu of salary?

3. Write short notes on :
   (a) Rent free accommodation
   (b) Domestic servants' facility
   (c) Motor car
   (d) Free lunch and refreshment
4. Write short notes on :
   (a) House rent allowance
   (b) Rent free accommodation
   (c) Medical facility
   (d) Entertainment allowance
5. Write short notes on :
   (a) Tribal area allowance
   (b) Exempted allowances
   (c) Children's education allowance
   (d) Motor car
6. Write short notes on :
   (a) Gratuity
   (b) Leave encashment on retirement
   (c) Commuted pension

Numerical Questions

Q 1 Information is extracted from salary sheet of Mr. S.K. Meena. Calculate taxable HRA for the A.Y. 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC

Basic pay ₹ 13,800 p.m., Dearness Allowance 60% of Basic Pay, Commission on sale @ 4%(Total sales during the year were 15 lacs of the company), HRA 9% of Basic Pay. He was transferred from Udaipur to Delhi on Sept. 1, 2021 he paid rent ₹ 3,000 P.M. in Udaipur but in Delhi he paid ₹ 5,500 P.M. up to Jan.2023 in Feb. 2023& March 2023 he paid ₹ 7,000 per month. His basic pay was revised to₹ 14,500 while posted at Delhi. D.A. is given under term of employment. [Ans.: Taxable HRA ₹ 4,750]

Q 2 Mr. Samrat is employed in a company in Jaipur on a monthly salary of ₹ 70,000. The company provides him with the following benefits during the previous year 2022-23:

(1) An accommodation in Jaipur owned by company for which company recovers ₹ 4,000 p.m. from him.(Population 26 lacs)

(2) He is allowed to use a video camera belonging to the company. The company had purchased this camera for ₹ 90,000 on 1-1-2018. The company sold this camera to him for ₹ 28,000 on 31-1-2022.

(3) He is allowed to use a laptop belonging to the company. The company had purchased this laptop for ₹ 70,000 on 30-1-2020.

(4) The company gave him a gift of ₹ 7,800 on his birthday on 10-2-2023.

(5) He made purchases of ₹ 16,000 on his credit card. This amount along with the annual fee of ₹ 1,800 paid by the company.

(6) The company had purchased a car on 1-6-2018 for ₹ 3,00,000. This car was sold to Mr. Samrat on 15-6-2022 for ₹ 1,20,000.

(7) The company has given him a housing loan of ₹ 7,00,000 for 8 years on which it charges interest @ 5% per annum. The entire amount of this loan is still outstanding.

Find out taxable value of the above perquisites to be included in income of Mr. Samrat for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC

[Ans.: (1) Rs. 78,000 (2) Rs. 7,500, Rs. 26,000 (3) Nil (4) Rs. 7,800 (5) Rs. 17,800 (6) Rs. 18,304 (7) Rs. 15,400]

Q 3 Ram is an employee of Pvt. Company at Bikaner. The following are the particulars of his salary income:

(i) Salary ₹ 20,000 per month

(ii) Dearness allowance ₹ 4,000 p.m. (60% is under terms of service)

(iii) He is provided with a car of 1.4 litre engine capacity with a driver for his official and personal purpose.

(iv) Commission on turnover achieved by Ram @ 3% on ₹ 7,00,000.

(v) Bonus ₹ 14,000

(vi) He is provided rent free furnished accommodation and the employer pays ₹ 6,000 p.m. for the house and ₹ 1,800 p.m. for the furniture.

(vii) The employee contributes 15% of his salary towards his provident fund and the employer is contributing the same amount. Interest credited during the year @ 14% being ₹ 42,000.

(viii) He paid ₹ 11,000 as life insurance premium on his life.

Compute his income from salary for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC, if provident fund is:

(a) Statutory provident fund

(b) Recognized provident fund

(c) Unrecognized provident fund

Q 4 Mr. Jatin was appointed on 1 Feb. 2014 in the Udaipur Pvt. Works Ltd., Delhi in the pay scale of ₹ 4,800-200 – 6,000 – 400 – 10,000 on initial pay of ₹ 5,400. He has been provided D.A. 10% of basic, house rent allowance ₹ 1,400 p.m. and 3% commission on sales. Goods sold by him amounted to ₹ 6,00,000 during the previous year and paid ₹ 1,800 p.m. as rent of the house occupied by him for his residence.

He contributes 12.5% of his salary and D.A. to a provident fund to which the company contributes an equal amount. Interest credited amounting to ₹ 16,200 to his provident fund account @ 9.5% p.a. what will be his income from salary for the assessment year 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC if the provident fund is :

(a) Statutory provident fund

(b) Recognized provident fund

(c) Unrecognized provident fund

Q 5 Shri Satish, an Indian citizen, is an employee of the Government of India. He was transferred to Australia in Indian High Commission on 1-5-2019. During the previous year 2022-23 he did not come to India at all. He was entitled to the following emoluments:

Basic salary ₹ 60,000 per month

Overseas allowance ₹ 15,000 per month

Rent free furnished accommodation at London whose fair rent value is ₹ 1,90,000 p.a. and cost of furniture provided ₹ 55,000.

His elder son was studying in Australian school of Economics and he was allowed ₹ 16,000 per month as education allowance for his education. His younger son was studying in a school run by Indian High Commission in London. He was provided with a car of 2100cc engine capacity which he drives himself and uses the same partly for official purpose and partly for personal purposes. He has also been provided with the services of a gardener, watchmen, sweeper and a cook, the salary of each being ₹ 2,000 per month.

Compute his income from salary for the A.Y. 2023-24. Assuming that the assessee does not opt for new tax regime under section 115BAC [Ans.: ₹ 6,70,000]

Q6 From the following information of Prakash Chandra, compute his income from salary for the assessment year 2023-24. Assume that the assessee does not opt for new tax regime under section 115BAC:

Particular	Amount
Salary from Y Ltd. ₹ 43,000 p.m. (increased to ₹ 55,000 w.e.f. 1-12-2022)	
Bonus	46,000
Dearness allowance	24,000
Entertainment allowance	6,000
Personal expenses of Prakash Chandra's son met by employer	17,000
Employee's contribution to RPF	72,000
Employer's contribution to RPF	72,000
Interest on RPF @ 9.5%	11,600
Rent free furnished house provided by the employer, at Nagpur whose fair rent value is (Cost of furniture ₹ 60,000) (Population of city 16 Lacs)	1,08,000
Watchmen engaged by employer	7,200
Free refreshment in the office	4,200

Assume his salary becomes due on the first day of next month. [Ans.: Taxable salary : ₹ 6,74,360]

Q 7 Mr. Dinesh Joshi is Assistant Accountant of a Textile company of Bhilwara since 2002. He has submitted the following particular of his income for the previous year:

(i) Net salary ₹ 10,70,000 after deduction of tax at source ₹ 1,05,000, contribution to recognized provident fund ₹ 2,50,000 and rent to bungalow @ 5% of salary.

(ii) Dearness allowance 10% of basic salary (60% of which enters into retirement benefits)

(iii) Education allowance for one child ₹ 190 per month.

(iv) Commission on sales ₹ 88,000

(v) Entertainment allowance ₹ 900 per month

(vi) Traveling allowance for his official tour ₹ 40,000. Actual expenditure on tours ₹ 32,000.

(vii) He resides in the bungalow of the company. Its rent is ₹ 17,000 per month paid by the employer.

(viii) A gardener, watchmen and a cook have been provided by the company who are paid ₹ 4,800 per month each.

(ix) He has been provided with a motor car of 1.8 litre(cc) for his both office and personal use. Actual expenditure including maintenance was₹ 36,000. Cost of car ₹ 2,10,000

(x) Employer's contribution to RPF is ₹ 2,50,000 and the interest credited to this fund @ 14% amounts to ₹ 1,40,000.

(xi) He took a loan of ₹ 4,40,000 on 1 May, 2021 from his employer to purchase a two-wheeler by pledging his gold ornaments. The loan is still outstanding.

Compute income from salary for the assessment year 2023-24 assuming that his taxable income from other sources for the assessment year is ₹ 50,000. Assume also that the population of Bhilwara as per census of 2001 is 7 Lacs. Assume that the assessee does not opt for new tax regime under section 115BAC

[Ans. Rs. 22,09,560]

Q 8 Mr. K D Suthar is a professor in a college, run by a society on a monthly salary of ₹ 56,000. Besides salary he also gets 60% of salary as dearness allowance, ₹ 3,900 p.m. entertainment allowance and ₹ 1,500 p.m. as proctorship allowance. During the year he gets ₹ 5,000 p.m. as additional D.A. Arrear of salary received ₹ 50,000.

He contributes 13% of his basic and dearness allowance to an unrecognized provident fund. The college contributes an equal amount. Interest credited to the provident fund @ 12% amounted to ₹ 60,000. Two children of Mr. Suthar are studying in an institution run by society, which runs the college for which he paid nothing. Normally expenditure in an institution of that standard comes to ₹ 4,500 p.m. for one student. Mr. Suthar is provided with rent free accommodation in a city (population approx. 28 lacs) which is owned by the college. Its fair rental value is ₹ 30,000 p.m.

A gardener for the upkeep of the garden of the house is also provided. Salary of gardener ₹ 4,000 per month paid by college. During the previous year Mr. Suthar proceeded on two months leave with full pay to his home at Udaipur. The college paid ₹ 65,000 being the air fare to and from Udaipur for him and his wife for this purpose.

Compute the taxable income from the salary of Mr. K.D. Suthar for the year ending on 31st March, 2023 for the assessment year 2023-24 assuming D.A. under the terms of employment. Assume that the assessee does not opt for new tax regime under section 115BAC [Ans.: Taxable salary ₹ 14,88,000]

Q 9 Mr. Mahendra is employed in BHEL, Mumbai on a monthly salary of ₹ 31,000. In addition to this fixed pay, he is entitled to a commission @ 6% on the sales made by him (sales effected by him were ₹ 8,00,000 in previous year). During the previous year 2022-23, he had received following allowance and amenities from his employer:

(i) Dearness allowance @ 10% of basic salary is granted to him under the terms of employment and covered for retirement benefits.

(ii) Bonus equal to two months basic salary in Dec. month.

(iii) House rent allowance up to 31 August 2022₹ 3,500 per month.

(iv) From 1 September 2022 he was provided rent free accommodation.

(v) Entertainment allowance ₹ 800 per month.

(vi) In December 2022 during leave he went on a visit to Kashmir, with his family. The expenditure amounting to ₹ 11,000 as passage money by air was paid to him by employer as leave travel assistance.

(vii) He and his employer each contributed 12% of his salary to RPF. The interest credited to this fund for the previous year at 14.5% rate of interest amounted to ₹ 29,000.

(viii) The company paid ₹ 2,000 as his income tax penalty.

(ix) He had been provided with the amenities of gas, electricity and water, the expenses of which amounting to ₹ 14,000 were paid by the company.

Compute the taxable income from salary of Mr. Mahendra for the assessment year 2023-24 keeping in mind that he spent ₹ 7,000 per month as rent of the house hired by him. Assume that the assessee does not opt for new tax regime under section 115BAC.

Q 10 Shri S.K. Jain is a principal of Pvt. College at Indore. He is on a pay scale of ₹ 62,000-2000-82,000 since 1 January 2018. Assume population of Indore in 2001 was 27 Lacs. From the following details, compute the taxable salary for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC:

(1) Servant, sweeper and watchman at a salary of ₹ 600 per month each. These servants have been appointed by himself but are paid by college.

(2) He has been provided rent free accommodation by the college, of which fair rent is ₹ 10,000 per month. He has also been provided the furniture facility of ₹ 70,000 by the employer of which WDV as on 1 April 2019 were ₹ 55,000.

(3) He contributed 15% of his salary towards RPF. Employer's contribution is the same as contributed by Mr. S.K. Jain.

(4) Dearness allowance is ₹ 5,000 per month

(5) Hostel allowance for two children is ₹ 400 per month per child.

(6) City compensatory allowance ₹ 900 per month.

(7) He received ₹ 26,000 in February 2022 for surrendering his one month earned leave.

(8) ₹ 17,000 has been reimbursed by his employer of his medical expenses.

(9) He has been provided with the facility of a car (with driver) of 1.8 litre(cc) which is used by him for both official and private purposes. All expenses related to the car are borne by college.

(10) Credit card expenses reimbursed by college ₹ 9,000.

(11) Gas bill paid by college ₹ 2,700.

(12) His professional tax ₹ 2,000 paid by the employer. [Ans. : Taxable salary ₹ 11,20,980]

Q 11 Mr. Chetan Daya is a finance manager of a private company at Udaipur (Assume population 19 lacs) since 1 Jan. 2004. He was placed in the grade of 13,000-400-15,000-600-24,000 on 1 Jan 2014 plus a dearness allowance @ 20% of his basic pay, half of which enters into retirement benefits. He contributes 13% of salary and dearness allowance (only from 50%) to a recognized provident fund to which his employer contributes an equal amount. He has been provided with a rent free house owned by the company, rent collected from employee is ₹ 24,000 per annum. He is getting transport allowance is ₹ 1,000 per month for official purposes, medical allowance of ₹ 1,100 per month and servant allowance of ₹ 500 per month. His club bills worth ₹ 9,000 were also paid by the company.

He has been provided with the facility of a gardener and a cook who are each paid ₹ 1,000 per month by the employer. He is also provided with a car of 1400 cc by the employer for official use only. One child of Mr. Chetan is studying in an institute run by the company for which no fee is paid. Normal expenditure in such a similar institution is ₹ 850 per month.

Compute income from salary of Mr. Chetan Daya for the assessment year 2023-24 assuming that his salary becomes due on the first day of next month. Also assuming that assessee does not opt for new tax regime under section 115BAC [Ans.: Taxable salary ₹ 2,39,708]

Q 12 Mr. Devilal, who is employed in Rajasthan Textiles Mills, Jaipur gets ₹ 60,000 per month as salary, ₹ 5,000 per month dearness pay under terms of service, ₹ 6,000 as entertainment allowance and ₹ 4,000 p.a. medical allowance. He has also provided a rent-free furnished house fitted with furniture of the cost of ₹ 50,000. He is also getting a bonus equal to 2 months salary. Free lunch facility provided for 200 days per lunch ₹ 90. Mr. Devilal has paid ₹ 2,300 for professional tax during the previous year. Compute taxable income from salaries of Mr. Devilal for the assessment year 2023-24 assuming population of Jaipur more than 25 lacs assuming that assessee does not opt for new tax regime under section 115BAC.

[Ans.: Taxable salary ₹ 11,33,700]

Q 13 ChanchalKaduniya is a chartered accountant drawing following salary and allowance etc. in the previous year:

(1) Basic pay ₹ 80,000 per month

(2) House rent allowance ₹ 19,000 per month

(3) City compensatory allowance ₹ 1,500 p.m.

(4) She is given a motor car of 1.8 litre(cc) engine capacity and is entitled to use it for office and private purposes.

(5) She is also given the facility of driver from 1 Oct. 2022 to 31 March 2023.

(6) She is given a facility of watchmen and gardener by her employer for which her employer pays ₹ 1,200 per month to each.

(7) 600 shares of the face value of ₹ 20 each given to him free of cost under Employees stock option plan. The market value of shares is ₹ 20,000.

(8) She contributes 14% of his basic salary to a recognized provident fund to which his employer contributes an equal amount.

(9) Interest credited to RPF @ 10% p.a. is ₹ 96,000.

(10) The company takes personal accidental policy for him, the annual premium being ₹ 2,200.

(11) She resides in a house in Jaipur belonging to an individual and pays rent of ₹ 18,000 per month.

Compute her income from salary for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC. [Ans.: Taxable salary ₹ 11,43,000]

Q 14 Miss Sonali is a manager of HZL Ltd. From the following information compute his income under the head salary for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC:

(1) Basic salary ₹ 15,000 p.m.

(2) Bonus ₹ 4,000

(3) D.A. ₹ 1,000 p.m.

(4) Professional tax paid by company ₹ 800

(5) Gas, electricity bill paid by company ₹ 9,500

(6) Commission on turnover for previous year ₹ 72,000.

(7) Employee's contribution to recognized provident fund 14% of basic salary.

(8) Company's contribution to RPF is the sameas that of employee.

(9) He has also been provided with rent free accommodation at Bharatpur. The company owns the accommodation. The fair rent value of this house property ₹ 12,000 per month. (Assume population of Bharatpur in census 2001 was 12 Lacs)

(10) The company has provided a 1800cc which is used by him for personal use only. Actual exp. Rs. 21,500 including depreciation on car.

(11) His major son is studying in FMS College, Udaipur. His fee of ₹ 26,000 was paid by employer directly to the institute.

(12) The company has provided a gardener, a security man and a sweeper whose salaries amounting to ₹ 600 p.m., ₹ 700 p.m. and 800 p.m. respectively have been paid by the company.

(13) Cost of furniture provided was ₹ 1,40,000.

(14) Cost of Air conditioner provided was ₹ 30,000 throughout the year for personal use.

[Ans.: Taxable salary ₹ 3,35,600]

Q 15 Smt. Priyanka is an employee of Tata company, Mumbai since 1 July 2007. She has been fixed in the pay scale of ₹ 15,000-200-16,000-300-19,000 since 1 October 2018. She gets 20% of basic pay as dearness allowance which is considered as pay for retirement benefit, ₹ 700 p.m. as medical allowance and ₹ 600 p.m. as traveling allowance, ₹ 400 p.m. as daily allowance.

She has been provided by the company with rent free unfurnished accommodation, the fair rent of which is ₹ 90,000 per annum.

She owns a car which she uses both for office and personal work, all the expenses of running and maintenance including driver's salary are paid by employer which during the previous year amounted to ₹ 50,000. The car is of 1.5 litre(cc).

The company transferred her to Udaipur on 30th November 2022, assuming where the population is 14 lakh as per census of 2001. The company has provided her rent-free unfurnished accommodation at Udaipur also. She did not vacate the accommodation at Mumbai upto 31st March, 2023. She uses her car both for private and office use in Udaipur also.

Determine her taxable income under the head salary for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC. [Ans.: Taxable salary ₹ 2,85,403]

Q 16 Mr. Naveen, who is a manager of a private company in Jaipur (Population 27 lacs) is offered on 1 April 2022 with the following two alternatives:

Particular	Option I	Option II
Basic salary	5,10,000	5,10,000
Bonus	50,000	50,000
Educational allowance for three children 600x3x12	21,600	
Education facility for three children 600x3x12		21,600
Servant allowance	7,200	
Servant facility		7,200
Lunch allowance	18,000	
Free lunch during office hours ₹ 90 per meal for 200 days		18,000
Conveyance allowance for private purpose	9,000	
Free car facility for personal purpose (actual expenses)		9,000
House rent allowance ₹ 7,000 p.m. Rent paid by employee ₹ 9,000 p.m.	84,000	
Rent free accommodation provided in Option II		

Compute income from salary for the assessment year 2023-24assuming that assessee does not opt for new tax regime under section 115BAC. [Ans.: Taxable Salary Option I ₹ 5,81,400 Option II ₹ 6,25,400]

Q 17 Smt. Isha was employed in a private company from 1-4-1995. Her salary was fixed at ₹ 49,500 in the grade ₹ 45,000-1500-60,000-2,000-70,000 with effect from 1-4-2020. As per service rules the company pays dearness allowance @ 15% of basic pay to those employees whose basic pay does not exceed ₹ 55,000 per month. Employees getting more than ₹ 55,000 per month as basic pay are paid only 10% of basic pay as dearness allowance. Isha retired from service on 1-1-2023. After her retirement, she was sanctioned an amount of ₹ 42,000 p.m. as pension. She opted to get 2/3rd of her pension commuted from 1-1-2023 and received ₹ 4,80,000 from the company as the commuted amount. Assume gratuity to the employee would not be provided.

Compute her taxable income under salary head for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC. [Ans.: ₹ 6,08,800]

Q 18 Shri Praveen Prajapati was appointed as lab assistant in Ms. Compu Tech Udyog, Delhi on 1 January 2008 on a basic pay of ₹ 2,00,000 per month. He was in receipt of a dearness allowance of ₹ 15,000 per month under terms of service and entertainment allowance of ₹ 7,000 per month. He was provided a rent-free residential accommodation facility by his employer for which the employer paid rent of ₹ 35,000 per month.

His services were terminated on account of reduction in the number of employees on 31 July 2022. At the time of termination of service earned leave of 15 months was at his credit for which he was paid ₹ 33,00,000 including dearness allowance and entertainment allowance. He was entitled for 45 days earned leave salary per year. He was paid ₹ 21,00,000 in respect of gratuity being basic pay and dearness allowance for 10 months. He was given a monthly pension equal to 30% of his basic salary.

Compute income from salary of Shri Praveen Prajapati for the assessment year 2023-24 assuming that M/s Compu Tech Udyog had only 8 working employees. Also, assume that assessee does not opt for new tax regime under section 115BAC [Ans.: ₹ 50,46,200]

Q 19 Mr. Bhagwat is employed in HK Ltd. as an accountant on a monthly salary ₹ 25,000 plus a dearness allowance of ₹ 4,000 per month. He is a member of a recognized provident fund to which he contributes 10% of his salary and his employer also contributes an equal amount. On 1 September 2022 he resigned from HK Ltd. and joined XYZ ltd on the same date on a monthly salary of ₹ 40,000 per month plus a dearness allowance @ 12% of his salary. He received ₹ 1,10,000 (including interest of ₹ 22,000) from the RPF of which half the amount consisted of employer's contribution and interest thereon.

In his new employment, he contributed 14% of his basic salary to an unrecognized provident fund while his employer contributed ₹ 30,000 for the previous year. He is also provided with residential accommodation for his residence by his new employer at Ajmer (Assume population in census 2001 were 18 Lacs).

Find out his income from salary for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC. [Ans.: ₹ 4,36,600]

Q 20 Mr. Deepak is the assistant director of a company at Delhi since 1st March, 2002. The number of employees in the company is eight in all. He is getting a salary of ₹ 80,000 per month, dearness allowance @ 10% of his basic pay, 60% of which is in terms of retirement benefits. He contributes 14% of his salary and 60% of dearness allowance to a recognized provident fund to which his employer contributes an equal amount.

He has been provided with the facility of a cook who is paid ₹ 1,500 per month by the employer. He is also provided a car of 1.8 litre (cc) with driver by the employer for office and personal use. He has been provided with a rent-free house owned by the company, the fair rent of which is ₹ 70,000 per annum. He is getting a medical allowance of ₹ 1,400 per month and servant allowance of ₹ 1,800 per month.

He retired on 1 Dec. 2022. He received ₹ 6,80,000 for encashment of leave on 1 December 2022 being 12 months leave not availed of. As per the rule of the company Mr. Deepak was entitled to 45 days leave for each year of service. He also received ₹ 8,00,000 as gratuity from the employer on the same date. On 1 Jan. 2023 he received ₹ 4,10,000 being the balance of his provident fund account.

Determine taxable income from salary of Mr. Deepak for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC. [Ans.: ₹ 13,47,568]

Q 21 Following information is available to you of Mr. Mayank Gupta of his salary and retirement benefits, calculate taxable income from salary for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC:

(1) He joined service in SS Ltd. on 1 April 2009 and he is getting ₹ 24,000 per month as basic pay. SS Ltd. is a company in which only 49 employees are working. He was retrenched from service on 31 Dec. 2022.

(2) Dearness allowance ₹ 5,000 per month under terms of employment.

(3) He is entitled to get 10% commission on sales. The company's sales during the previous year were₹ 6 lacs.

(4) He got ₹ 5,60,000 as gratuity at the time of retrenchment.

(5) No notice was given to him for his retrenchment so ₹ 65,000 was given to him as salary of notice period.

(6) He received ₹ 5,10,000 as compensation for retrenchment.

(7) He was entitled for 45 days leave in each year. At the time of retirement, he received₹ 2,70,000 for his leave balance of 12 months.

(8) His per month pension was decided equal to half amount of basic salary. He received a commuted pension of ₹ 2,52,000 for 60% of his pension.

(9) In December 2022, he received a leave travel concession of ₹ 70,000 equal to Deluxe class air fare. His wife, dependent sister and nephew also traveled with him on this journey. If his journey was from an economy class air ticket then expenses would have been ₹ 35,000 while 1st Class AC fare through railway would have been ₹ 21,000 only. He availed such facility in March 2019 and not any time earlier to it. He traveled by rail. [Ans.: ₹ 10,88,962]

Answers MCQ

1	2	3	4	5	6	7	8	9	10
D	C	B	B	A	C	B	A	B	A
11	12	13	14	15	16	17	18	19	20
D	C	A	B	D	C	D	B	B	A
21	22	23	24	25					
A	C	C	A	B					

❑❑❑

Chapter 4

INCOME FROM HOUSE PROPERTY

SECTION-WISE STUDY

Sections	Particular
Section 22	Chargeability
Section 23(1)	Gross Annual value
Section 23(2)(a) & 23(2) (b)	Computation of Income from a property which the owner occupies for his own residence or which could not actually be self-occupied owing to employment.
Section 24	Deductions from income from house property
Section 25	Interest when not deductible from Income from House property
Section 25 A	Special provision for recovery of unrealized rent and arrear of rent
Section 26	Property owned by co-owners.
Section 27	Deemed ownership.
	OTHER
Section 10	Income from house property is not chargeable to tax i.e. exempted incomes of house property

INDRODUCTION

Income from house property is the second major head of income of income tax. Income from house property is the head where income tax is charged on notional income (annual value) of house property and in some cases under the head capital gain. In case of more than one house property, even if the income from house property has not been accrued or has not been received by the assessee, annual value of such house property would be chargeable to tax. Basically, the inherent capacity of house property to earn rental income is considered rather than actual rent received. The annual value of property consisting of any building or lands appurtenant there to of which the assessee is owner shall be subject to income tax under the head "Income from House Property".

CHARGEABILITY (SEC. 22)

As per section 22, on fulfillment of the following conditions, income is taxable under the head "Income from house property:

CONDITIONS

1. The property should consist of any building or land appurtenant thereto.
2. The assessee should be owner of property.
3. The property should not be used by the owner for the purpose of any business or profession carried by him.

1. Property should consist of any building or lands appurtenant thereto

Annual value of property is chargeable to tax under this head. The property should consist of any buildings. Although the word building has not defined by the act yet it includes all types of building whether it is used for residential purpose or commercial purpose. If any land is attached with building, then such land shall be treated as part of building. As for example if a garden is attached with building or approach road to building are also treated as building. Separate land does not constitute a part of building. Hence, any income is generated from such land shall be covered under the head income from other sources. Following points should be kept in mind in this respect:

- The words 'House Property' and 'Building' have not been defined by the Act. Whether a construction is a building or not, is to be decided, taking into consideration the facts and circumstances of each case.
- However, it is not necessary that building should be used only for residential purposes. Thus, annual value of a building used for a non-residential purpose may be charged to tax under this head provided the conditions regarding chargeability are satisfied.
- Building may be a cinema theater or an auditorium or even an Amphitheatre (which does not have a roof). Thus, the word building includes residential house, building let out for office use or for storage or for factory, music hall, dance hall, lecturer hall etc.
- If should be noted that annual value of a building situated outside India is also taxable under this head.
- Land appurtenant to a building consists of such portions of land that are taken to be a part and paired of the building in order to enable enjoyment of the possession of such building. Therefore, garden attached to building, approach roads etc. form part of building.
- However, the term house property does not include vacant land.

2. Assessee should be owner of the property

Income from house property is taxable under the head "income from house property" only when the assessee is the owner of the property. Therefore, any person other than the owner is not liable to be taxed on income earned from house property. If a tenant sublets the house property and receives rent then he is not liable to be taxed under the head "income from house property" because tenant is not owner of the property. Subletting income is not taxable undersection 22, but it is taxable under section 56 under the head "income from other sources". The following points should be taken into account:

- The term owner includes a legal owner such as a trustee, an executor and an official assignee or an official receiver in whom the property is vested by the insolvency Act. Owner for this purpose means a person who can exercise the rights of the owner not on behalf of the owner but in his own right.

- It is not necessary that the owner of building should be the owner of land of which the building is constructed. Sometimes building is constructed on the leasehold property. In such case assessee shall be treated as owner of building and liable to pay tax.
- It is also not necessary that owner should actually be in receipt of income from such property. Any person, and still the owner will be chargeable to tax in respect of such house property. Suppose if a person makes gift of rental income to a friend or relative without transferring the ownership of property, annual value of property is taxable in the hands of donor, even if rental income is received by the donee. (S. Kartar Singh vs. CIT(1969)(Delhi)
- A tax is levied only on the income of previous year, annual value of property owned by a person during the previous year, is taxable in the following assessment year, even if the assessee is not owner of the property during the assessment year.
- Income from subletting is not taxable as income from house property.

Deemed Owner

Certain persons are treated as 'deemed owner' by virtue of section 27. Thus, income from house property is taxed in their hands even though they are not actual owner of the house property. As per section 27, the following persons are deemed as owner of the property for the purpose of section 22 to 26.

(1) **Transfer to spouse or minor child**: An individual who transfers house property to his or her spouse or minor child without adequate consideration and transfer is not in connection with an agreement to live apart. For example, Dr. Tuktak transfers his house situated in Udaipur to his wife by way of gift against natural love and affection. In this case Dr. Tuktak shall be treated as deemed owner of the property and he is liable to pay tax. The following conditions should be satisfied:

a. The taxpayer should be an individual
b. Such individual transfers a house property
c. The property is transferred to spouse or minor child
d. Minor child should not be married daughter
e. Property is not being transferred to spouse in connection with an arrangement to live apart.
f. The property is transferred without adequate consideration

If above conditions are satisfied, the individual who has transferred the property would be deemed as owner of the property.

(2) **Holder of impartible estate:** Impartible estate means those property which cannot be partitioned among the members of Hindu undivided family (HUF) or sons of a father and generally held by the Karta of the HUF or oldest son of father. The holder of such impartible estate is deemed to be the individual owner of all the properties comprised in the estate.

(3) **House allotted to members of co-operative society:** A member of co-operative society, company or other association of person to whom a building is allotted or leased under a house building scheme of the society is treated as deemed owner of such property. Although under the general law the property is owned by the co-operative society yet members shall be treated as deemed owner for the purpose of section 22 of the Income Tax Act.

(4) **Person having right in a property for a period not less than 12 years:** If a property is giving on lease for term of not less than 12 years, then lessee shall be treated as deemed owner by virtue of section 269UA(f).

(5) **Property acquired under a power of attorney transaction:** A person who is allowed to take or retain possession of any building or part thereof in part performance of contract of the nature referred to in section 53A of the Transfer of Property Act, 1882. Such person shall be treated as deemed owner of the property. The following conditions should be satisfied:

a. There is a agreement in writing between the purchaser and seller;

b. The purchaser has paid the consideration or he is ready to pay the consideration; and

c. The purchaser has taken the possession of the property.

If above conditions are satisfied the purchaser becomes the deemed owner of the property for the purpose of income tax, even if he is not registered owner of the property.

3. Property should not be occupied by the owner for his business or profession.

If a person carries on his own business whose income is chargeable to tax, in his own house property, annual value of such house property is not chargeable to tax under the head "income from house property". The notional income of such house property will not be taxed under this head. Notional rent shall also not be allowed as deduction while computing taxable income from business or profession. The following points can help for better understanding:

- Annual value of property occupied by the owner for the purpose of his own business or profession is not assessable u/s 22.
- Where letting of the house property is subservient and incidental to the carrying on of business or profession of the assessee, the income from such property is assessed under the head profit and gains of business or profession under section 28. For example, residential quarters let out by the assessee to his employee, such letting being necessary to promote efficiency in his business, then income from such property is taxable under "Income from Business or Profession.
- If the owner of the property is an individual/HUF who is a partner in a firm and such property is used by that firm for carrying of business/profession, then property is considered to be used for business purpose.
- If the property is owned by HUF and any members of the HUF is partner in his individual capacity then income shall be taxable under head income from house property.

OTHER IMPORTANT POINTS TO BE REMEMBERED

- In case of resident in India income from property situated in foreign country is taxable. Whether income brought into India or not. However, if the assessee is not ordinary resident in India and Non-resident, income from a property situated in foreign country will taxable in India only when it is received in India.
- In case of disputed ownership, it was observed in Franklin vs. IRC 15TC464 that the recipient of income is liable to pay income tax.
- Property is held by assessee as stock in trade of a business or assessee is engaged in the business of letting out of property on rent, the rent so received shall be taxable under the head 'Income from House property'. However, profit earned on sale or purchase of such house property shall be taxable under the head "Income from Business or Profession".
- **Composite Rent**: When assessee receiving not only rent of building but also charges for different services provided in building, such amount so recovered is called composite rent. If composite rent is given it should be split up and the portion of rent attributable to the letting of the premises shall be assessable as 'Income from House property', the other portion of the composite rent shall be assessable as "income from other sources".

EXEMPTED INCOMES OF HOUSE PROPERTY (SECTION 10)

There are two categories for getting exemption under the head incomes from house property. First entire income from house property is exempted and not included in the gross total income of assessee. Second income from house property is included in gross total income and then deduction is allowed for entire income from house property.

A. Incomes do not include in Gross Total Income:

The following property income is exempt from tax.

1. Income from farm house **(Section 2(1A)(c) and 10(1))**
2. Annual value of any one palace of an ex-ruler
3. **House property held for charitable purposes [Section 11].**
4. **Property held by registered trade union [Section 10(24)].**
5. Property used for own business or profession (**Section** 22)
6. **Income from house property held by**
   - (i) A local authority. (**Section** 10(20))
   - (ii) An approved scientific research association. (**Section** 10(21))
   - (iii) A political party. (**Section** 13A)
   - (iv) A university or any other educational institutions
   - (v) A hospital or medical institution
   - (vi) Atrade Union
7. **Two self-occupied property (Section 23(2), (3) and (4))**

B. Deduction from Gross Total Income:

Apart the aforesaid exemptions, rental income of a co-operative society included in gross total income is subject to the following deductions cooperative society:

1. Income derived by a co-operative society from the letting of godown or warehouse for storage, processing or facilitating the marketing of commodities, is wholly deductible under section 80P(2)(e)
2. If the gross total income of co-operative society does not exceed ₹20,000 any income from house property is fully deductible under section 80P(2)(f). Here the word co-operative society does not include housing society, urban consumers, society, society carrying on transport business, and society engaged in the performance of any manufacturing operations with the aid of power

COMPUTATIONS OF TAXABLE INCOME FROM HOUSE PROPERTY

For computation point of view the house property can be divided into three categories viz.

Let out property (LOP): Property actually let out during the previous year and assessee earns income, such property is called let out property.

Self-occupied property(SOP): When assessee used property for his own residence such house is called self-occupied property. Only two self-occupied property is exempt in the hands of assessee.

Deemed to be let out property (DLOP): Property does not actually let out but income tax act assumes it is let out. Such property is known as deemed to let out. This situation arises when individual owns more than two houses and all houses are used for own residence, only one house according to Assessee's choice is treated as self-occupied and all other house shall be treated as deemed to be let out. Taxable income of deemed to be let out properties shall be calculated in same manner as for let out property. The basis of valuation shall be, how much earnings can be earned, if it is let out.

The following formats can be used to determine income from house property.

For let out and deemed to be let out house property

Computation of Income from House Property of Mr./Mrs.____for the Assessment Year 2023-24

Particulars		Amount (₹)
Gross Annual Value		XXX
Less: Municipal taxes paid by owner		XXX
Net Annual Value		XXX
Less. Deduction u/s 24		
(a) Standard Deduction	XXX	
(b) Interest on borrowed capital	XXX	XXX
Taxable Income from House property		**XXX**

Note: If house is situated in foreign then municipal tax is levied by foreign local body, it is also deductible)

For self-occupied house property

Computation of Income from House Property of Mr./Mrs.____for the Assessment Year 2023-24

Particulars		Amount (₹)
Gross Annual Value		NIL
Less: Municipal taxes paid by owner		NIL
Net Annual Value		NIL
Less. Deduction u/s 24		
(a) Standard Deduction	NIL	
(b) Interest on borrowed capital	XXX	XXX
Income from House property		**XXX**

In order to understand the computation process of income from house property the following points must be understood:

1. Gross Annual Value
2. Municipal Tax
3. Standard Deduction
4. Interest on Borrowed Capital

Now we shall discuss one by one in the following paragraphs:

GROSS ANNUAL VALUE (GAV) (SEC.23(1)):

Gross annual value is the basis for computation of income from house property. Gross annual value indicates inherent earnings capacity of the house property. Tax under the head income from house property does not depend solely upon actual rent received by assessee. This is the one factor which is considered while calculating annual value. First of all, gross annual value is to be determined. The provisions relating to determination of GAV can be studied as follows:

(A) GAV for let out property.

(B) GAV for deemed to be let out property

(C) GAV for self-occupied property.

(A) GAV for let out Property Sec. 23 (1)

Following steps can be used to determine gross annual value for let out property:

Step-1 Find out "Reasonable Expected Rent" (RER) of the property

Step-2 Find out rent actually received or receivable

Step-3 Find out higher of step 1 or step 2

Step-4 Find "Gross Annual Value" by applying following formula;

Gross Annual Value = Step 3 minus Loss due to vacancy

Step-1 Find out "Reasonable Expected Rent" (RER) of the property (Section 23(1)(a): Reasonable expected rent meant how much rent can be fetched from house property i.e. what is inherent earnings capacity of the house property. It may neither be the actual rent received nor the municipal valuation of the property. It something like notional rent which could be received, had the property been let. It depends upon several factors like location, rent of similar properties in neighborhood, nature and history of property, cost of property etc. generally in determining RER due consideration has to be given to the following three factors:

- Rent of similar property in nearby areas i.e., fair rent (FR)
- Municipal valuation (MV)of the property
- Standard rent (SR) under the Rent Control Act if property is governed by such Act.

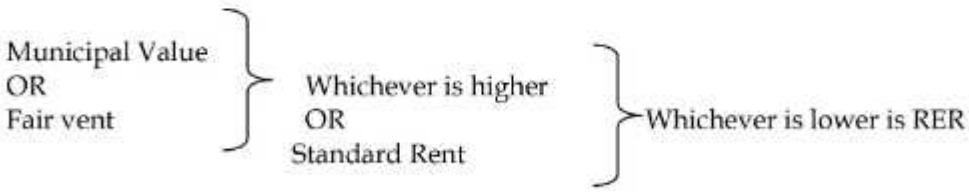
Higher of the following shall be taken as reasonable expected rent (RER).

(a) Municipal Valuation of the property.

OR

(b) Fair rent of the property.

If rent control Act is applicable, then the amount so computed cannot exceed the standard rent determinable under the rent control Act. In nut cell:



Step-2 Find out rent actually received or receivable: for the purpose of step – 2, rent received or receivable shall be computed as follows:

Calculation of rent actually received / receivable 23 (1)(b)	
Annual rent of the previous year received / receivable (Excluding self-occupied period but including vacancy period)	XXX
Less: Unrealized rent	XXX
Actual Rent received /receivable before deducting vacancy loss	XXX

Important points to be kept in mind

- The following conditions are to be satisfied in order to deduct unrealized rent of the previous year only:
  - The tenancy is *Bonafede*.
  - The defaulting tenant has vacated or steps have been taken to vacate the property.
  - The assessee has taken all reasonable steps to recover the unpaid rent

  Composite rent: Sometimes tenant pays composite rent. When owner of the property charges rent for the house property and other charges for various facility provided with the house such rent is called composite rent. Composite rent includes:

  (i) Rent of the house property and

  (ii) Service charges for various facilities like lift, gas, water, electricity etc.

  Composite rent should be split up and the portion of rent attributable to the letting of the premises shall be assessable as "Income for House property". The other portion of the composite rent received for rendering services shall be assessable as "Income from other sources".

- Non-refundable deposit given by tenant is included in rent received on pro rata basis. Suppose tenant pays ₹20,000 as deposit to landlord for ten years then every year ₹2000 shall be added to rent received every year.

Step-3 Find higher amount of step-1 or step-2: reasonable rent received and rent received or receivable amount is compared and whichever is higher is taken into account.

Step-4 Find Gross Annual value

Higher amount of step 1 or step 2	XXX
Less: loss due to vacancy 23(1)(C)*	XXX
Gross Annual Value	XXX

*If let out property is vacant during the previous year for certain period or for whole of the year the actual rent equivalent to vacancy period is deducted from higher amount of step 1 or step 2.

(B) GAV for Deemed to be let out Property

Where a person has occupied more than two house for his own residence purposes, only twohouses according to his own choice shall be treated as self-occupied and all other houses shall be treated as deemed to be let out properties.

In order to determine the gross annual value of deemed to be let out property, step-1 as explained above shall be applicable only because such houses are not let out, hence no rent is received during the previous year. The reasonable expected rent shall become GAV.

For example, An Assessee has three self-occupied houses of which reasonable expected deemed rent is Rs. 60,000, Rs. 84,000 and Rs. 72,000. Now he has choice as follows:

Option I		Option II		Option III	
1st House (SOP)	NIL	1st House (DLOP)	60,000	1st House (SOP)	NIL
2nd House (SOP)	NIL	2nd House (SOP)	NIL	2nd House (DLOP)	84,000
3rd House (DLOP)	72,000	3rd House (SOP)	NIL	3rd House (SOP)	NIL
Taxable Value	72,000	Taxable Value	60,000		84,000

It is better for assessee to choose second option because he has to pay less tax in compare to option I and III.

(C) GAV for Self-occupied Property

Since one self-occupied property is exempted in the hands of individual hence gross annual value of such property shall be zero. The different situations may be as follows:

(a) A house property fully utilized throughout the previous year for self-residential purposes. (Section 23(2)(a))

The annual value of such property shall be taken to be nil, if the following conditions are satisfied.

(i) The property is not let out during whole previous year and

(ii) No other benefit is derived from such house property

(b) A house property which is not actually occupied by the owner owing to employment or business / profession carried on at any other place. (Section 23(2)(b))

If following conditions are satisfied then annual value of such property shall be taken nil.

(i) The assessee cannot actually be occupied the house property due to employment not on account of personal convenience.

(ii) The assessee has to reside at that other place in a building not owned by him.

(iii) The property is not let out during previous year.

(iv) No other benefit is derived from House property.

(c) Where a house is self-occupied for a part of the year and let out for remaining part of the year. In this case the benefit of Section 23(2)(a) is not available and income will be computed as if the property is let out throughout the previous year. The expected rent as per section 23(1)(a) shall be taken for full year but the actual rent received or receivable shall be taken only for the period of let out.

To Sum up

	Self-occupied property (SOP)	Gross Annual value
1.	House property is used for own business.	Not taxable under this head.
2.	House Property is used for the residence of the owner and his family member.	NIL
3.	House Property could not be occupied throughout P.Y. due to employment, business and profession.	NIL
4.	When a part of the property is SOP and other part is let out.	NIL for self-occupied portion and for other portion GAV as calculate for LOP

5.	When House Property let out for a part of the year and self-occupied for other part of the year.	No concession of SOP is available. The house will be taken as let out property for whole year u/s 23(2)(b).
6.	If more than two property is used for self-residence.	NIL for only two and other shall be treated as DLO

Points to be remembered

- If House property is given for free use to relative or adult son then it will not be treated as self-occupied property.
- If one house consists more than one flats and all flats are used for own residence then GAV shall be taken nil for entire house.
- GAV shall be taken nil self-occupied property only for Individual and H.U.F.

MUNICIPAL TAX

Taxes levied by local authority in respect of property shall be deducted in gross annual value of the property of that previous year in which such taxes are actually paid. The following two conditions are to be satisfied:

1. It is paid by owner of the property. If local taxes are paid by tenant, it shall not be deductible.
2. It is actually paid during the previous year. On due basis it is not deductible. If municipal taxes of last couple of years are being paid lump sum in previous year, whole amount shall be deducted. Hence, net annual value may be negative.

Service tax levied by local authority is also included in term local taxes as per section 27(vi). Now government has discontinued service tax but it included in goods and service tax. If any tax is levied by state government like land and building tax shall not be deducted.

ILLUSTRATION 4.1

The following particulars are given in respect of properties A, B, C, and D:-

	A ₹	B ₹	C ₹	D ₹
Municipal Value	60,000	N/A	60,000	60,000
Fair Rent	72,000	72,000	N/A	72,000
Standard Rent	N.A.	66,000	48,000	84,000

Find out the reasonable expected rent in each case.

Solution:-

Computation of Reasonable Expected Rent

Step-1 Reasonable Expected Rent				
Particulars	**A ₹**	**B ₹**	**C ₹**	**D ₹**
a. Municipal Value	60,000	N.A.	60,000	60,000
b. Fair Rent	72,000	72,000	N.A.	72,000
c. Higher of a or b	72,000	72,000	60,000	72,000
d. Standard Rent	N.A.	66,000	48,000	84,000
e. Lower of c or d (RER)	72,000	66,000	48,000	72,000

EXERCISE: 4.1

The following particulars are given in respect of properties P, Q, R, S and T:-

	P ₹	Q ₹	R ₹	S ₹	T ₹
Municipal Value	70,000	N.A.	70,000	72,000	70,000
Fair Rent	82,000	84,000	N.A.	76,000	82,000
Standard Rent	N.A.	78,000	58,000	74,000	86,000

Find out the expected rent in each case.

[Ans.: P : ₹82,000; Q : ₹78,000; R : ₹58,000; S : ₹74,000; T : ₹82,000]

ILLUSTRATION 4.2

Shri Mahesh is the owner of following properties. From the information given below find out the gross annual value in each case for the assessment year 2023-24

Particular	A ₹	B ₹	C ₹	D ₹
Municipal value	84,000	60,000	72,000	72,000
Fair rent	72,000	72,000	84,000	60,000
Standard rent	60,000	54,000	90,000	72,000
Actual Rent(P.A)	72,000	72,000	81,000	96,000

Solution:

Computation of the gross annual value for the A.Y. 2023-24

Step-1 Reasonable Expected Rent				
Particulars	**A ₹**	**B ₹**	**C ₹**	**D ₹**
a. Municipal Value	84,000	60,000	72,000	72,000
b. Fair Rent	72,000	72,000	84,000	60,000
c. Higher of a or b	84,000	72,000	84,000	72,000
d. Standard Rent	60,000	54,000	90,000	72,000
e. Lower of c or d (RER)	60,000	54,000	84,000	72,000
Step-2 Actual rent receivable				
Annual Rent receivable	72,000	72,000	81,000	96,000
Less: unrealized rent	Nil	Nil	Nil	Nil
Actual rent receivable	72,000	72,000	81,000	96,000
Step-3 higher of step1 or step2	72,000	72,000	84,000	96,000
Less: Vacancy	Nil	Nil	Nil	Nil
Gross Annual Value	72,000	72,000	84,000	96,000

EXERCISE: 4.2

Shri Hitesh is the owner of following properties from the information given below. Find out the gross annual value in each case for the assessment year 2023-24

Particular	A ₹	B ₹	C ₹	D ₹
Municipal value	74,000	50,000	62,000	62,000
Fair rent	62,000	62,000	74,000	50,000
Standard rent	50,000	44,000	80,000	62,000
Actual Rent(P.A)	62,000	62,000	72,000	86,000

[Ans.: A : ₹62,000; B : ₹62,000; C : ₹74,000; D : ₹86,000]

ILLUSTRATION 4.3

Hemant is the owner of following properties from the information given below. Find out the gross annual value in each case for the assessment year 2023-24:

Particular	E ₹	F ₹	G ₹	H ₹
Municipal value	84,000	60,000	72,000	72,000
Fair rent	72,000	72,000	84,000	60,000
Standard rent	60,000	54,000	90,000	72,000
Actual Rent(P.A)	72,000	72,000	90,000	96,000
Unrealised rent	6,000	24,000	15,000	20,000

Solution:

Computation of the gross annual value for the A.Y. 2023-24

Step-1 Reasonable Expected Rent				
Particulars	**E ₹**	**F ₹**	**G ₹**	**H ₹**
a. Municipal Value	84,000	60,000	72,000	72,000
b. Fair Rent	72,000	72,000	84,000	60,000
c. Higher of a or b	84,000	72,000	84,000	72,000
d. Standard Rent	60,000	54,000	90,000	72,000
e. Lower of c or d (RER)	60,000	54,000	84,000	72,000
Step-2 Actual rent receivable				
Annual Rent receivable	72,000	72,000	90,000	96,000
Less:Unrealized rent	6,000	24,000	15,000	20,000
Actual rent receivable	66,000	48,000	75,000	76,000
Step-3 higher of step1 or step2	66,000	54,000	84,000	76,000
Less: vacancy allowance	Nil	Nil	Nil	Nil
Gross Annual Value	66,000	54,000	84,000	76,000

EXERCISE: 4.3

Smt. Pratiksha is the owner of following properties from the information given below. Find out the gross annual value in each case for the assessment year 2023-24

Particular	P ₹	Q ₹	R ₹	S ₹
Municipal value	83,000	55,000	65,000	66,000
Fair rent	62,000	62,000	76,000	55,000
Standard rent	55,000	56,000	80,000	62,000
Actual Rent(P.A)	72,000	72,000	90,000	96,000
Unrealised rent	16,000	20,000	10,000	15,000

[Ans.: P : ₹56,000; Q : ₹56,000; R : ₹80,000; S : ₹81,000]

ILLUSTRATION 4.4

Shri Abhay is the owner of three house property at Delhi, Agra and Jaipur. From the following information find out gross annual value for the assessment year 2023-24:-

Particular	Delhi ₹	Agra ₹	Jaipur ₹
Municipal value	24,000	30,000	45,000
Fair rent	30,000	24,000	60,000
Standard rent	N.A.	21,000	66,000
Rent Received before deducting unrealised rent	3,000 p.m.	3,500 p.m.	4,000 p.m.
Vacant period	3 months	6 months	4 months
Unrealised rent	3,000	7,000	Nil

Solution:

Computation of the gross annual value for the A.Y. 2023-24

Step-1 Reasonable Expected Rent			
Particulars	Delhi ₹	Agra ₹	Jaipur ₹
a. Municipal Value	24,000	30,000	45,000
b. Fair Rent	30,000	24,000	60,000
c. Higher of a or b	30,000	30,000	60,000
d. Standard Rent	N.A.	21,000	66,000
e. Lower of c or d (RER)	30,000	21,000	60,000
Step-2 Actual rent receivable			
Annual Rent receivable	36,000	42,000	48,000
Less unrealized rent	3,000	7,000	Nil
Actual rent receivable	33,000	35,000	48,000
Step-3 higher of step1 or step2	33,000	35,000	60,000
Less: Vacancy	9,000	21,000	16,000
Gross Annual Value	24,000	14,000	44,000

Working Note: Rent for the vacant period :-

Delhi 3,000 x 3 = Rs.9,000
Agra 3,500 x 6 = Rs.21,000
Jaipur 4,000 x 4 = Rs. 16,000

EXERCISE: 4.4

Pratibha is the owner of three house property at Udaipur, Chittor and Dungarpur From the following information find out gross annual value for the assessment year 2023-24:

Particular	Udaipur ₹	Chittor ₹	Dungarpur ₹
Municipal value	1,16,000	18,000	1,30,000
Fair rent	1,20,000	15,000	1,45,000
Standard rent	1,56,000	20,000	N.A.
Actual Rent Received before deducting unrealised rent	1,20,000	12,000	1,40,000
Vacant period	2 month	4 months	5 months
Unrealised rent	10,000	3,000	Nil

[Ans.: Udaipur : ₹1,10,000; Chittor : ₹12,000; Dungerpur : ₹1,40,000]

ILLUSTRATION 4.5

Mr.Tuktak, Vishwas, Aditya, Kushagra, Kunal separately own house properties which are let out. From the following information find gross annual value of each house property. (₹ in thousands)

Particulars	Tuktak	Vishwas	Aditya	Kushagra	Kunal
Municipal Value	210	210	210	210	210
Fair Rent	214	214	214	214	214
Standard Rent under Rent Control Act	N.A.	176	176	270	270
Actual Rent of 12 months	206	224	172	228	194
Unrealized rent	2	4	2	4	2

Solution:

Computation of Gross Annual Value

(₹in thousands)

Step-1 Reasonable Expected Rent					
Particulars	**Tuktak**	**Vishwas**	**Aditya**	**Kushagra**	**Kunal**
a. Municipal Value	210	210	210	210	210
b. Fair Rent	214	214	214	214	214
c. Higher of a or b	214	214	214	214	214
d. Standard Rent	N.A.	176	176	270	270
e. Lower of c or d (RER)	214	176	176	214	214

Step-2 Actual rent receivable					
Annual Rent receivable	206	224	172	228	194
Less unrealized rent	2	4	2	4	2
Actual rent receivable	204	220	170	224	192
Step-3 higher of step1 or step2	214	220	176	224	214
Less: vacancy allowance	Nil	Nil	Nil	Nil	Nil
Gross Annual Value	214	220	176	224	214

EXERCISE 4.5

Mr.T, P, K, I, G separately own house properties which are let out. From the following information find gross annual value of each house property. (₹ in thousands)

Particulars	T	P	K	I	G
Municipal Value	202	200	216	110	1600
Fair Rent	214	210	218	114	1530
Standard Rent under Rent Control Act	198	180	170	170	1270
Actual Rent of 12 months	216	220	176	128	1940
Unrealized rent	3	5	4	2	40

[**Ans**.: T : ₹213; P : ₹215; K : ₹172; I : ₹126; G : ₹1900]

ILLUSTRATION 4.6

Tuktak owns a house property whose annual municipal valuation, fair rent and standard rent are ₹2,90,000, ₹2,72,000 ₹2,48,000 respectively. It is let out up to January 31, 2022 and then transferred to Mr. Muktak. Rent being ₹16000 per month up to November 15, 2022 and thereafter ₹28000 per month. House was remained vacant for one month from November 15 to December 15, 2022 due to non-availability of proper tenant. Find out the gross annual value of the property for the assessment year 2023-2024 in the hands of the Tuktak.

Solution:

Step-1 Reasonable Expected Rent		
Particulars		**₹**
a. Municipal Value	$2,90,000x\ \frac{10}{12}$	2,41,667
b. Fair Rent	$2,72,000x\ \frac{10}{12}$	2,26,667
c. Higher of a or b		2,41,667
d. Standard Rent	$2,48,000x\ \frac{10}{12}$	2,06,667
e. Lower of c or d (RER)		2,06,667

Step-2 Actual rent receivable		
Annual Rent receivable	(₹16000*7.5+28000*2.5)	1,90,000
Less unrealized rent		Nil
Actual rent receivable		1,90,000
Step-3 Higher of step1 or step2		2,06,667
Less: Vacancy	28,000 x 1	28,000
Gross Annual Value		1,78,667

EXERCISE 4.6

Tanmay owns a house property whose annual municipal valuation, fair rent and standard rent are ₹ 7,80,000, ₹ 8,72,400,₹ 8,40,000 respectively. It is let out up to March 1, 2023 and then transferred to Mr. Mukul. Rent being ₹ 70,000 per month up to November 1, 2022and thereafter ₹ 72,000 per month. House was remained vacant for two month from November 1 to December 31, 2022 due to non-availability of proper tenant. Find out the gross annual value of the property for the assessment year 2023-2024in the hands of the Tanmay.

[**Ans.**: GAV :₹6,34,000]

ILLUSTRATION 4.7

Find out the gross annual value from the following properties for the assessment year 2023-2024:

₹ in thousand

Particulars	**J**	**H**
Fair Rent	108	138
Actual rent received during previous year	104.5	141.75
Standard Rent	106	131
Municipal Value	105	135
Unrealized rent of the P.Y. 2022-23	10.5	31.5
Unrealized rent of the P.Y. 2021-22	2	3
Period for which property remains vacant	½ month	1 month

Solution:

Computation of Gross Annual Value

Step-1 Reasonable Expected Rent		
Particulars	**J ₹**	**H ₹**
a. Municipal Value	1,05,000	1,35,000
b. Fair Rent	1,08,000	1,38,000
c. Higher of a or b	1,08,000	1,38,000
d. Standard Rent	1,06,000	1,31,000
e. Lower of c or d (RER)	1,06,000	1,31,000

Step-2 Actual rent receivable		
Annual Rent receivable	1,20,000	1,89,000
Less unrealized rent	10,500	31,500
Actual rent receivable	1,09,500	1,57,500
Step-3 Higher of step1 or step2	1,09,500	1,57,500
Less: Vacancy allowance	5,000	15,750
Gross Annual Value	1,04,500	1,41,750

Working notes:

Annual rent of J = (104.5 +10.5)/ 11.5= 10 i.e. 10000 per month

Annual rent of h = (141.75 +31.5)/11= 15.75 i.e. 15750 per month

EXERCISE 4.7

Find out the gross annual value from the following properties for the assessment year 2023-2024:

Particulars	**H**	**K**
Fair Rent	1,10,800	1,38,000
Actual rent received during previous year	1,14,425	1,47,400
Standard Rent	1,06,000	1,41,000
Municipal Value	1,17,000	1,45,000
Unrealized rent of the P.Y. 2022-23	11,500	30,800
Unrealized rent of the P.Y. 2021-22	20,000	30,000
Period for which property remains vacant	½ month	1 month

[**Ans.**: GAV :H₹1,14,425; K : ₹1,47,400]

ILLUSTRATION 4.8

Mr. Mahendra owns three residential house properties. House one and two is self-occupied and other third house is being kept vacant throughout the year and no benefit is derived from such property. Municipal value of both the property is ₹1,50,000(combined), standard rent is ₹1,45,000 and fair rent is ₹1,60,000. Municipal tax is imposed @12% which is paid by Mr. Mahendra. Find net annual value of both the houses for the assessment year 2023-2024 assuming that Mr. Mahendra wants to take first two houses to be treated as self-occupied.

Solution:

House-1 and 2 are Self-occupied hence gross annual value shall be treated as Nil.

House-3 shall be treated as deemed to be let out because no benefit is derived from such house property and house remains vacant throughout the year. In order to determine the gross annual value of deemed to be let out property, only first step shall be applied. It means the reasonable expected rent of the property shall be treated as gross annual value.

Step-1 Reasonable Expected Rent for House 2		
Particulars		**₹**
a. Municipal Value	1,50,000/2	75,000
b. Fair Rent	1,60,000/2	80,000
c. Higher of a or b		80,000
d. Standard Rent	1,45,000	72,500
e. Lower of c or d (RER)		72,500
Gross Annual Value		72,500
Less: Municipal Tax	(12% of 1,50,000)/2	9,000
Net Annual Value		63,500

EXERCISE 4.8

Ramesh owns several houses at Ramgarh. One of which whose municipal value is ₹2,00,000 is used by him for his own residence and the remaining two houses were let out during the previous year 2022-23 he received ₹ 25,000 p.m. and ₹30,000 p.m. rent of the let-out houses. Rent of two months is unrealised for first let out house. Second let out house remained vacant for 2 months. He has made the following payments in respect of all houses:

Municipal taxes paid (10% municipal valuation) ₹ 28,000 for each house, Expenses on repairs ₹3,000, Insurance premium ₹1,500.

Calculate the income from house property of Ramesh for the assessment year 2023-24.

[**Ans.**: 1st House: NIL, 2nd House:₹1,76,400; 3rd House : ₹1,90,400]

ILLUSTRATION 4.9

Find out the gross annual value in the following two cases for the assessment year 2023-2024

Particulars	**X**	**Y**
Municipal Value per annum	76,250	76,250
Fair Value per annum	1,35,000	37,500
Standard Rent under rent control Act per annum	75,000	75,000
Rent old tenant (from 1.04.2022 to 30.06.2022) p.m. new tenant (from 1.07.2022 to 31.12.2022) p.m.	6,250 11,250	2,500 3,125
Property remains unoccupied due to non-availability of suitable tenant	1.01.2022to 31.03.2022	1.01.2022 to 31.03.2022
Unrealized rent of previous year	6,250	Nil
Municipal Tax paid by Tenant	2,000	-
Municipal Tax paid by Landlord	-	2,625

Solution:

Computation of Gross Annual Value

Step-1 Reasonable Expected Rent		
Particulars	**X ₹**	**Y ₹**
a. Municipal Value	76,250	76,250
b. Fair Rent	1,35,000	37,500
c. Higher of a or b	1,35,000	76,250
d. Standard Rent	75,000	75,000
e. Lower of c or d (RER)	75,000	75,000
Step-2 Actual rent receivable		
Annual Rent receivable*	1,20,000	35,625
Less: Unrealized rent	6,250	Nil
Actual rent receivable	1,13,750	35,625
Step-3 Higher of step1 or step2	1,13,750	75,000
Less: Vacancy	33,750	9,375
Gross Annual Value	80,000	65,625
Less: Municipal Tax	-	2,625
Net Annual Value	80,000	63,000

Working note:

*Actual rent receivable = 6250*3+11250*9 = 120000, 2500*3 + 3125*9 =35625

EXERCISE 4.9

Shri Ram Chand Pareek started the construction of a house in Udaipur comprising four units on 1st July, 2019, which completed on 30th June, 2022. The first, second and third units were constructed for residential purposes and the fourth and fifth units for business purposes. On 1st July, 2022 the first and the second units were let out for the residence of the tenants at a monthly rent of Rs. 6,000 and Rs. 4,000 respectively, the third units were used for his own residence. Fourth unit was let out to a businessman for godown purposes at a monthly rent of Rs. 5,000 and the fifth unit, the estimated annual rental value of which is Rs. 48,000 was used by him for the office of his own business.

The annual municipal value of each unit was fixed ₹ 96,000, ₹ 40,000; ₹1,12,000, ₹ 60,000 and ₹90,000 respectively. The annual standard rent value of each unit was fixed ₹ 76,000, ₹ 34,000; ₹ 1,22,000, ₹ 80,000 and ₹92,000 respectively. Municipal taxes @ 12% on first unit was paid by tenant and for second, third- and fourth-unit Shri Ram Chand paid half of municipal tax @5% and tenant paid balance 5%.

Find out the net annual value of each unit of the house for the Assessment Year 2023-24 assuming that municipal taxes are paid for whole of the year.

[**Ans.**: 1st House: 57,000, 2nd House:₹34,000; 3rd House : ₹78,400 and 4th House NIL and 5th House Taxable under business head]

STANDARD DEDUCTION (SECTION 24(A)):

30% of net annual value (NAV) is deductible from net annual value irrespective of any expenditure incurred by the assessee. By nature, it is standard hence it is allowed in all circumstances except annual value having either zero or negative. One self- occupied property is exempted hence GAV of such property is taken as zero than no standard deduction is deducted. If amount of local taxes are greater than gross annual value then net annual value shall be negative and no standard deduction shall be deductible.

Note: In order to better understanding of computation process, two words gross annual value and annual value have been used. In fact income tax act 1961 used only one word annual value.

INTEREST ON BORROWED CAPITAL (SECTION 24(B))

As per section 24(b) Interest on borrowed capital is allowable as deduction on due (accrual) basis if capital is borrowed for the purpose of purchase construction, repair, renewal or reconstruction of the house property. Interest on borrowed capital can be claimed as deduction on yearly basis, even if interest is not actually paid during the previous year. If any brokerage or commission is being paid on arranging housing loan, deduction shall be allowed. Interest on fresh loan taken to repay original loan is allowable as deduction. Interest on unpaid interest is not deductible. Interest on borrowed capital is allowed as deduction only when house is fully constructed and architect has provided certificate of completion of house. If loan is taken before completion of house then interest of preconstruction period shall be deductible in five equal installments. Hence, the amount of interest deductible under section 24(b) includes previous years interest on outstanding loan and one-fifth part of interest of pre-construction period.

Interest deduction u/s 24 :

$$= \left(\frac{1}{5}\textbf{th of interest of pre construction pertiond}\right) + \textbf{(Interest of previous year on oustanding loan)}$$

Interest of Pre-construction Period

- Interest pertaining to the period prior to the construction completed is deducted in five equal annual installments commencing from the previous year in which the house is acquired or constructed.
- Pre-construction period (PCP) means time interval between date of loan taken to 31st March falling just preceding to date of completion of house or date of repayment of loan whichever is earlier. Suppose date of loan taken is August 1, 2016 and date of completion of house is February 26, 2019, loan is still due, then pre-construction period shall be August 1, 2016 to March 31, 2018 (31stMarch just preceding to February 26, 2019). Interest of this period shall be deductible in five equal instalments commencing from previous year 2018-19 (since house is completed during financial year 2018-19) to 2022-23. If five installments are completed before the relevant previous year then pre-construction period interest shall not be allowed as deduction in the previous year. If date of loan taken is August 1, 2014 and date of completion of house is February 26, 2018. The preconstruction period shall be from August 1, 2014 to March 31, 2017. Five instalments come to end in 2021-22 (2017-18, 2018-19, 2019-20, 2020-21 and 2021-22). So no deduction shall be allowed in previous year 2022-2023 because five installments have already completed in 2021-22. One-fifth of interest of pre-construction period shall be allowed in previous year only when one instalment must fall in previous year.

If date of repayment of loan in above example is December 31, 2017 then preconstruction period shall be August 1, 2016 to December 31, 2017 (being March 31 immediately prior to completion of construction or date of repayment of loan, whichever is earlier).

Important points to be remembered:

- Interest on unpaid interest is not deductible.
- Interest on a fresh loan taken to repay original to repay original loan raised for the aforesaid purpose, is allowed as deduction.
- Interest on borrowing can be claimed as deduction only by the person who has acquired property with borrowed fund. It is not available to successor to the property.
- If non-refundable loan from P.F. is taken for the purpose of construction of house, interest on the loan by assessee not belong to him (employers' contribution) can be allowed as deduction.
- No deduction is allowed for any brokerage or commission for arranging the loan.
- Loan can be taken from friends.

MAXIMUM LIMIT

Let Out Property

In case of let out property there is maximum Rs. 2,00,000 is allowed as deduction under section 24(b) regarding interest on borrowed capital because loss from house property cannot exceeds Rs. 2,00,000. The whole interest due during previous year and one fifth of pre-construction period interest if applicable, is deductible.

Self-occupied Property

In case of self-occupied property,the annual value is taken as nil but from the annual value of such house, interest on loan is allowed as deduction. Standard deduction is not allowed as deduction. Hence, income from self-occupied property may be negative and such loss may be set off from income from other heads. There is a maximum limit of ₹30,000 or 2,00,000 as case may be. It is deductible subject to a maximum ceiling given below-

Date of loan taken	For what	Maximum ceiling
Prior to 1.4.1999	Purchase, construction, repairs and renewal of house property	₹ 30,000
After1.4.1999.	1. Loan has been taken for Purchase or construction of house 2. Such construction should be completed within 5 years from the end of financial year in which loan is taken.	₹ 2,00,000
After 1.4.1999	Repairs and renewals of house property	₹30,000

Note:

- Maximum ₹2,00,000 is allowed only when
  1. Loan has been taken after April 1, 1999 and
  2. Loan is being used for acquisition or construction of house Property.
  3. Construction of house must be completed within five years from the end of the previous year in which loan was taken. Suppose loan is taken on August1, 2017 then house must be constructed up to March 31, 2023 otherwise in all other cases only ₹30,000 shall be allowed as deduction.
  4. In any case maximum limit for deduction under section 24(b) cannot exceed by ₹2,00,000.

5. ₹2,00,000 is applicable to individual, hence, if a house is purchased or constructed jointly by husband and wife, then deduction of ₹2,00,000 shall be available to both husband and wife separately.

In brief:

Interest on Borrowed Capital

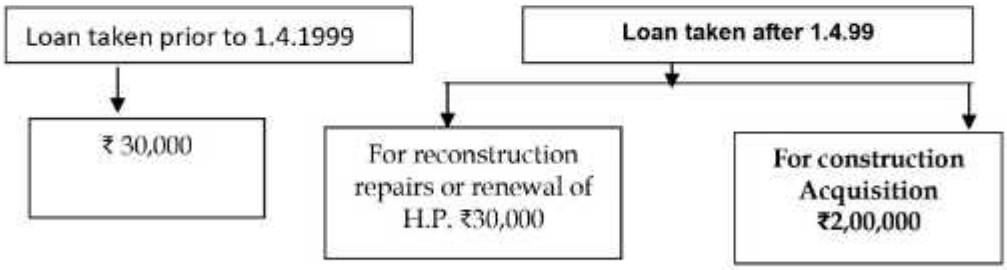


ILLUSTRATION 4.10

Date of Loan	October 31, 2014
Date of Completion of House	December 01, 2018
Amount of Loan	₹20,00,000
Rate of Interest	12%

Calculate Interest on Borrowed Capital Deductible under Section 24 (b), if house is (1) let out (2) self-occupied for the assessment year 2023-24.

What would be your answer if house is completed in December 2017.

Solution:

Pre-construction period(PCP)	October 31, 2014 to March 31, 2018
Interest of PCP	₹20,00,000*12%* 41/12= 8,20,000
Previous Year Interest	₹20,00,000*12%=₹2,40,000

Interest of PCP is deducted in five equal instalments starts from the year in which house is completed i.e. 2018-19, 2019-20, 2020-21, 2021-22, 2022-23.

Amount of interest deductible under section 24(b) for previous year 2022-23:

(1) If House is let out

Pre-construction period Interest ₹8,20,000/5	1,64,000
Previous Year Interest	2,40,000
Total Interest Deductible	4,04,000
Maximum deduction allowable	2,00,000

(2) In case of self-occupied property= ₹2,00,000

If House is Completed in December 2017

Five instalments of PCP are 2017-18,2018-19, 2019-20, 2020-21, 2021-22

Since five instalments are completed in 2021-22, hence no deduction regarding pre construction period shall be allowed in previous year 2022-23

(1) In case of let out property = 0 + 2,40,000 = ₹ 2,40,000
Maximum deduction allowable ₹ 2,00,000

(2) In case of self-occupied property = ₹ 2,00,000

EXERCISE 4.10

Mr. Dhoni owns a house property which is used for his own residential purpose. He took a loan of ₹4 Lacs @12% on 1st April 1998. He took another loan of the same amount to repay the earlier loan @ 9% interest on 1st April 2011. Calculate the taxable amount under the house property head. **[Ans.:₹(30,000)]**

ILLUSTRATION 4.11

Given:

Date of Loan taken by Mr. X	July 1, 2015
Amount of Loan	₹80,000
Rate of Interest	15%
Date of Completion of House	February 20, 2021

Calculate interest deductible under section 24(b) for different previous years if date of repayment of loan is:

A) February 28, 2026
B) July 31, 2022
C) November 31, 2018

Solution:

There are two components of amount deductible u/s 24(b) i.e.,interest of pre-construction period and previous year interest.

If date of repayment of loan is February 28, 2026 or July 31, 2022, then pre-construction period shall be July 1, 2015 to March 31, 2020 (being March 31 immediately prior to completion of house). Interest on ₹80,000 @ 15% per annum from July 1, 2015 to March 31, 2020(57 months) is ₹ 57,000. Amount deductible in first five years is ₹11,400 (57,000/5).

If date of repayment of loan is November 31, 2018, then preconstruction period shall be July 1, 2015 to November 30, 2018. Interest on ₹80,000 @ 15% per annum from July 1, 2015 to November 30, 2018(41 months) is ₹ 41,000. Amount deductible in first five years is ₹8,200 (41,000/5).

Interest deductible under section 24(b) for different previous years is given in the following table:

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Date of repayment of loan is February 28, 2026							
Current Year's Interest	12000	12000	12000	12000	12000	11,000	Nil
PCP Interest	11400	11,400	11,400	11,400	11,400	Nil	Nil
Total Deduction	23,400	23,400	23,400	23,400	23,400	11,000	

Date of repayment of loan is July 31, 2022							
Current Year's Interest	12,000	12,000	4,000	Nil	Nil	Nil	Nil
PCP Interest	11,400	11,400	11,400	11,400	11,400	Nil	Nil
Total Deduction	23,400	23,400	15,400	11,400	11,400	Nil	Nil
Date of repayment of loan is November 30, 2018							
Current Year's Interest	Nil	Nil	Nil	Nil	Nil	Nil	Nil
PCP Interest	8,200	8,200	8,200	8,200	8,200	Nil	Nil
Total Deduction	8,200	8,200	8,200	8,200	8,200	Nil	Nil

EXERCISE 4.11

Find interest on borrowed capital in the following situations for the assessment year 2023-24:

(a) Amount of Loan ₹8 Lac, Rate 12%, Loan taken on 1st July 2016. House constructed on 1st January 2019. No amount of loan repaid so far.

(b) Amount of Loan ₹8 Lac, Rate 12%, Loan taken on 1st July 2015. House constructed on 1st January 2017. No amount of loan repaid so far.

(c) Amount of Loan ₹ 8 Lac, Rate 12%, Loan taken on 1st October 2017. House constructed on 1st June 2019. Loan repaid on 1st January 2023.

(d) Amount of Loan Rs. 8 Lac, Rate 12%, Loan taken on 10nt January 2022. House constructed on 30th April 2022. Loan repaid on 31 August 2022.

[**Ans.**: Interest: (a) ₹1,29,600; (b) ₹96,000; (c) ₹1,00,800 (d) ₹44,208]

ILLUSTRATION 4.12

Dr. Tuktak borrowed a sum of ₹ 3,00,000 on July1,1998 from state bank of India @ of 15% per annum to construct a house property in Udaipur. He borrowed another loan of ₹3,50,000 for the same purpose on May 1, 2006 from LIC housing ltd. on interest @16% per annum. The construction of the house was completed on October 31, 2007 and Dr. Tuktak occupied it for his own residence from November 1, 2007.

The municipal valuation of the house is ₹3,00,000 and during the previous year 2022-23, Dr. Tuktak paid ₹30,000 for municipal taxes.

Compute taxable income from house property for the assessment year 2023-24.

What would be the taxable income of Mr. Tuktak for assessment year 2023-24, had he taken loan of ₹15,00,000 instead of ₹3,00,000 on May 1, 2007. Assuming both the loans are still outstanding.

Solution:

Computation of Income from House Property of Dr.Tuktak for assessment year 2023-24

Particulars	₹
Gross Annual Value	NIL
Less: Municipal taxes paid by owner	NIL
Net Annual Value	NIL

Less. Deduction u/s 24		
(a) Standard Deduction NIL		
(b) Interest on borrowed capital Interest on ₹3,00,000@15% Pre-construction period (Five instalments expired)	45,000 nil	
But restricted (Since loan taken prior 1/4/1999) Interest on loan taken after 1/4/1999 16% of 3,50,000	30,000 56,000	 86,000
Taxable Income from House property		**(86,000)**
If loan had taken on May 1, 2007 of ₹15,00,000 Interest on loan of ₹3,00,000 Interest on second loan 15,00,000@16% But restricted to	45,000 2,40,000 2,85,000	 2,00,000
Taxable Income from House property		**- 2,00,000**

Working notes:

1. Gross annual value of one self-occupied property is always nil.
2. In any case maximum deduction under section 24(b) for self-occupied property cannot be exceed by ₹ 2,00,000.

EXERCISE 4.12

Find taxable income from all the three houses for the assessment year 2023-24 from the following information

	I House	II House	III House
Standard rent p.a.	47,000	63,000	75,000
Fair rent p.a.	54,000	75,000	78,000
Municipal value p.a.	62,000	68,000	96,000
Actual rent p.a.	72,000	90,000	1,08,000
Municipal taxes (for full year)	10%	10%	5%
Paid/unpaid by house owner	Unpaid	Paid	Paid
Vacancy period	3 months	2 months	1 month
Unrealized rent	2 Months	3 months	2 months
Loan to construct house	6,00,000	1,00,000	1,00,000
Loan obtained on	1 April 2018	1 April 2021	1 April 2019
House constructed on	1 April 2020	1 June 2022	1 January 2020
Rate of interest	8%	10%	10%

[**Ans.** : 1st house Rs.(37,800), 2nd house Rs.9,490 and 3rd house Rs.43,340. Total loss from house property Rs.4130]

ILLUSTRATION 4.13

Miss Rajani has three houses in Udaipur city. First house is being used by her for own residence purpose and second and third house are being kept vacant throughout the year and no benefit is derived from this house. She wants to treat all houses as self-occupied and take value as Nil. The details of these houses are given below

Particulars	First house	Second house	Third house
Municipal valuation	4,00,000	5,00,000	4,80,000
Fair rent	3,50,000	4,50,000	4,65,000
Standard rent	3,60,000	5,10,000	4,70,000
Municipal tax	10% paid during P.Y.	10% Due but not paid	8% paid during P.Y.
Loan taken for constructionof house on 1/4/2018	5,00,000	4,00,000	NIL
Rate of interest	12%	15%	-
Date of Completion of House	1 December 2020	31 January 2021	

Suggest which two houses should be opted by Miss Rajani to be assessed as self-occupied so that tax liability is minimum for the assessment year 2023-24.

Solution:

If an assessee occupies more than two house for his own residential purposes, the annual value of only two houses shall be taken to be as per section 23(2)(a) and another house shall be treated as deemed to be let out. In present question problem is that which two houses should be taken as self-occupied by Rajani so that tax liability may be minimized. Miss Rajani has following three options:

	Option I	Option II	Option III
First House	SOP	SOP	DLOP
Second House	SOP	DLOP	SOP
Third House	DLOP	SOP	SOP

Computation of Income from House Property of Miss Rajani for assessment year 2023-24

	Option I		Option II		Option III	
First House	SOP	(84,000)	SOP	(84,000)	DLOP	1,36,500
Second House	SOP	(2,00,000)	DLOP	1,48,400	SOP	(2,00,000)
Int. restricted to Rs. 2,00,000 in case of SOP		(2,00,000)				
Third House	DLOP	3,02,120	SOP	NIL	SOP	NIL
Taxable Income		1,02,120		82,520		(63,500)

In order to minimize tax liability, option third is beneficial for the assessee. Therefore, **House -2 and 3 should opt for self-occupied**.

Working Notes:

Particulars	House-1		House2		House 3	
	SOP	DLOP	SOP	DLOP	SOP	DLOP
a. Municipal Value		4,50,000		5,00,000		4,80,000
b. Fair Rent		3,50,000		4,50,000		4,65,000
c. Higher of a or b		4,50,000		5,00,000		4,80,000
d. Standard Rent		3,60,000		5,10,000		4,70,000
e. lower of c or d		3,60,000		5,00,000		4,70,000
Gross Annual Value	NIL	3,60,000	NIL	5,00,000	NIL	4,70,000
Less: - Municipal taxes paid by owner	NIL	45,000	NIL	NIL	NIL	38,400
Net Annual Value	NIL	3,15,000	NIL	5,00,000	NIL	4,31,600
Less. Deduction u/s 24						
(a) Standard Deduction @ 30%	NIL	94,500	NIL	1,50,000	NIL	1,29,480
(b) Interest on borrowed capital	84,000	84,000	2,00,000	2,01,600	NIL	NIL
Taxable Income from House property	(84000)	1,36,500	(2,00,000)	1,48,400	NIL	3,02,120

Working notes:

Calculation of interest on borrowed capital

House-1

Preconstruction period 1.04.2018 to 31.03.2020

5,00,000*12%*24/12 = 1,20,000/5 = 24,000

Previous year interest = 5,00,000*12% = 60,000

Total interest deductible under section 24(b)= 24000+60000 = 84,000

House-2

Preconstruction period 1.04.2018 to 31.03.2020

12,00,000*12%*24/12 = 2,88,000/5 = 57,600

Previous year interest = 12,00,000*12% =1,44,000

Total interest deductible under section 24(b)=57,600+144000 =2,01,600

EXERCISE 4.13

Namrata owns three houses at Jaipur, all are used for her residence. Other information regarding these three houses is as under:

	House I	House II	House III
Municipal valuation	4,82,000	4,84,000	4,21,000
Fair rent	4,90,000	4,80,000	4,24,000

Standard Rent	4,89,000	4,88,000	4,20,000
Municipal taxes paid by Namrata	48,200	38,720	42,100
Insurance premium	2,000	1,000	3,000
Interest on Loan	2,10,000	1,40,000	56,000

Find taxable income from house property for the Assessment Year 2023-24

[**Ans.** Jaipur: 1st House Rs.98560 (DLO); 2nd House Rs. (1,40,000) (Treated as self-occupied); Udaipur House Rs.(56000)(Treated as self-occupied); Total Rs. (97440).]

INTEREST WHEN NOT DEDUCTIBLE FROM HOUSE PROPERTY (SECTION 25)

Interest on borrowed money which is payable outside India shall not be allowed as deduction u/s 24(b) unless the tax on the same has been paid or deducted as sources. Suppose loan has been taken from a USA based bank for construction of house then interest on such loan shall be deductible only when tax has been deducted before paying interest to bank situated in USA.

ILLUSTRATION 4.14

Prof. Singh owns a big house property in Udaipur. 60% of the property is let out for ₹ 7,500 p.m. and remaining 40% portion is being used by him for self-residence. Compute the income from house property from the following information:

Municipal value of the house	1,00,000
Fair rent	11,000 p.m.
Standard rent	10,000 p.m.
Municipal taxes paid	15,000
Interest on money borrowed from USA for purchase of house property which was acquired in 2014	90,000

Tax on above interest has been deducted

Solution:

Since 60% of the property is let and the balance self-occupied, hence computation shall be separately

Computation of Income from House property of Prof. Singh
For the assessment year 2023-24

Particulars	House-1	
	SOP 40%	Let out 60%
Gross Annual Value	NIL	90,000
Less: Municipal taxes paid by owner 15000*60%	NIL	9,000
Net Annual Value	NIL	81,000
Less. Deduction u/s 24		
(a) Standard Deduction @ 30%*81000		24,300
(b) Interest on borrowed capital		
SOP 40% of 90000 = 36,000	36,000	
LOP 60%*90000		54,000
Taxable Income from House property	-36000	2,700

Income from house property ₹2700 – (-36000) = (-)₹33,300

Working Notes:

Calculation of Gross annual value

Step-1 Calculation of RER

a.	Municipal Value	1,00,000*60%	60,000
b.	Fair Rent	11000*60%*12	79,200
c.	Higher of a or b		79,200
d.	Standard Rent	10000*60%*12	72,000
e.	lower of c or d		72,000

Step-2 Actual rent receivable

Annual Rent receivable 7500*12	90,000
Less: Unrealized rent	Nil
Actual rent receivable	**90,000**
Step-3 Higher of step1 or step2	90,000
Less: Vacancy allowance	Nil
Gross Annual Value	90000

EXERCISE 4.14

Mr. Kailash Tiwari owns two houses at Udaipur. Municipal value of these two houses is₹5,56,000 which includes ₹ 2,00,000 for first house.

Fair rent of first house is ₹ 2,40,000 p.a. during part of the previous year this house was used by him for his own residence i.e., from 1st April 2022 to 31st July 2022 and let out from 1st August 2022 @ ₹ 22,500 p.m. as he was transferred. Tenant vacated this house on 1st March, 2023 and it remained vacant in search of tenant.

In respect of first house, he paid: Municipal Taxes ₹ 16,000, Land revenue ₹ 4,000 and Ground rent ₹ 2,000 during the previous year. A loan of ₹5,00,000 was taken on 1st April 2018 @ 15% p.a. for the construction of the house. On 1st April 2019 he took another loan of Rs. 5,00,000@12% to repay this loan. This house was completed on 1st April 2021. During previous year ₹ 7,000 was paid as interest including interest of earlier years. Nothing was repaid on loan account so far.

He treats his second house also as self-occupied because his major self-dependent son resides thereat. Fair rent and standard rent of this house is ₹ 4,00,000 and ₹3,70,000 respectively. He paid municipal taxes @ 10% of municipal value. He obtained a loan of ₹ 5,00,000 @ 12% from his friend in Japan who is non-resident Indian. During previous year interest was paid to him without any tax deducted at source.

Find out his taxable income from house property for the assessment year 2023-24.

[**Ans.**: 1st House Rs.42,050; 2nd House Rs. 2,34,080]

RECOVERY OF UNREALIZED RENT AND/OR RECOVERY OF RENT (SECTION 25A)

If an assessee realized unrealized rent subsequently during the previous year. It is chargeable to tax. Seventy percentage (30% standard deduction is applicable) of such recovery of unrealized rent is taxable in the hands of assessee. Suppose an assessee could not realize one month rent of financial year 2017-18 , consequently

he deducted from rent receivable while calculating gross annual value of 2017-18. Subsequently such unrealized rent is realized in the previous year 2022-23 then 70% of such receipts shall be taxable in the hands of assessee.

The receipt of arrear of rent is also chargeable to tax in the year in which such rent is received. Arrear of rent means due rent of previous months or years are received lump sum during the previous year. Suppose on April 9, 2022, the owner of house increases the rent from ₹35000 per month to ₹40,000 per month with retrospective effect from April 1, 2021. Tenant pays ₹60,000 (12* 5000) during previous year. Such ₹60,000 shall be treated as arrear of rent. Seventy percent of arrear of rent is taxable in the hands of the assessee, regardless of the fact whether house property is owned or not by the assessee i.e.it is taxable even if the assessee is not the owner of the that property in the year of receipt.

ILLUSTRATION 4.15

Mr. Jugnu owns a house property in Kanore village. It is let out to Datar Agencies at a rent of ₹20,000 per month. Municipal value of the property is ₹1,10,000, fair rent is ₹ 2,40,000. Datar agencies pays municipal tax of ₹11,000. On April 7, 2022 it was decided by Jugnu and Datar agencies that rent is to be increased from ₹20,000 per month to ₹25,000 per month with retrospective effect from April 1, 2021. Mr. Jugnu gets ₹60,000 being arrear for the financial year 2021-22 on April 24, 2022. The unrealized rent of 2019-20 of ₹ 40,000 was received during the previous year. Find out the net income chargeable to tax under the head income from house property of Mr. Jugnu for the assessment year2023-24.

Solution:

Computation of Income from House Property of Mr. Jugnu
For assessment year 2023-24

Particulars	Amount (₹)
Gross Annual Value	3,00,000
Less: Municipal taxes paid by tenant, not deductible	Nil
Net Annual Value	3,00,000
Less. Deduction u/s 24	
(a) Standard Deduction @30% 90,000	
(b) Interest on borrowed capital XXX	90,000
Income from House property	**2,10,000**
Arrear of Rent Received (5000×12)	60,000
Unrealized rent received	40,000
	1,00,000
Less: Standard Deduction @30%	30,000
Arrear of rent and unrealized rent chargeable to tax	70,000
Taxable Income from House Property (2,10,000+70,000)	2,80,000

Working Notes:

Calculation of Gross annual value

Step-1 calculation of RER

a. Municipal Value	1,10,000
b. Fair Rent	2,40,000
c. Higher of a or b RER	2,40,000

Step-2 Actual rent receivable	
Annual Rent receivable 25000*12	3,00,000
Less unrealized rent	nil
Actual rent receivable	3,00,000
Step-3 higher of step1 or step2	3,00,000
Less: vacancy allowance	Nil
Gross Annual Value	3,00,000

EXERCISE 4.15

Mr. Bheru owns a house property in Bhinder village. It is let out to a tenant at a rent of ₹ 35,000 per month. Municipal value of the property ₹ 4,50,000. Tenant pay municipal tax of Rs. 22,000. On April 5, 2022 it was mutually decided between owner and tenant that rent is to be increased from ₹ 35,000 to ₹ 40,000 per month with retrospective effect from 1 April, 2020. Mr. Bheru gets ₹ 1,20,000 being arrear for the financial year 2020-21 and 2021-22. The unrealized rent of 2019-20 of ₹ 50,000 was received during the previous year. Find out the net income chargeable to tax under the head of income from house property of Mr. Bheru for the assessment year 2023-24. [Ans. ₹ 1,19,000]

PROPERTY OWNED BY CO-OWNERS (SECTION 26)

If a house property is owned by two or more persons, such persons are known as co-owners. If the following conditions are satisfied, then the share of each co-owner in the income of the property (as computed under the head Income from H.P.) shall be included in the total income of each such person.

(1) The property must consist of building or building & land appurtenant there to.

(2) It is owned by two or more person.

(3) The respective shares of the co—owners are definite and ascertainable.

Where the co-owners self-occupied the property, the annual value of the property for each co-owner shall be nil, and each co-owner shall be entitled to the deduction of ₹ 30,000 / ₹ 2,00,000 under section 24(b) as the case may be.

ILLUSTRATION 4.16

Three brothers Kunal, Vishwas and Aditya having equal share are co-owner of a house property consisting six identical units, the property was constructed on May 31, 1998. Each of them occupies one unit for their own residence and other three units are let out at a rent of ₹ 8000 per month per unit. The municipal value of the house property is ₹4,80,000 and the municipal taxes are 40% of such municipal value, which were paid during the year. Interest payable on loan taken for construction of house is ₹1,92,000 and up to March 31 interest it was not paid. One of the let-out unit remained vacant for three months during the year. Kunal could not occupy his unit for six months as he was on spiritual tour. He does not own any other house. The other incomes of Kunal, Vishwas and Aditya are ₹80,000, ₹1,06,000 and ₹1,12,000 respectively.

Compute the income under the head "Income from House Property" and the total taxable incomes of three brothers for assessment year 2023-24.

Solution:

Computation of Income from House property
For the assessment year 2023-24

Particulars	Let-out Property 3 units i.e., 50%	Self-occupied property		
		Kunal	Vishwas	Aditya
Gross Annual Value	2,64,000	Nil	Nil	Nil
Less: - Municipal taxes paid by owner 480000*40%*50%	96,000			
Net Annual Value	1,68,000	Nil	Nil	Nil
Less. Deduction u/s 24				
(a) Standard Deduction @ 30%*1,68000 =50,400				
(b) Interest on borrowed capital 50%*192000 =96000	1,46,400	32,000	32,000	32,000
Taxable Income from House property	21,600	(-)32,000	(-)32,000	(-)32,000

Computation of Taxable Income of three brothers

Particulars	Kunal	Vishwas	Aditya
Income from House Property			
Let out Portion	7,200	7,200	7,200
Self-Occupied	(-)32,000	(-)32,000	(-)32,000
Taxable Income from House Property	(-)24,800	(-)24,800	(-)24,800
Other Income	80,000	1,06,000	1,12,000
Total Taxable Income	55,200	81,200	87,200

Working Notes:

Calculation of Gross annual value of let out property

(a) Municipal Value 50% of 4,80,000 = 2,40,000

(b) Actual Rent 8000×12×3 = 2,88,000

(c) Higher of (a) or (b) i.e.,₹2,88,000 minus 24000 Vacancy of one unit for 3 Months = 2,64,000

EXERCISE 4.16

Two brothers Ram and Shyam having equal share are co-owner of a house property consisting four identical units, the property was constructed on 31 March, 2020. Each of them occupies one unit for their own residence and other two units are let out at a rent of ₹ 15,000 and ₹ 12,000 per month respectively for 3rd and 4th unit. The municipal value of the house property is ₹ 6,00,000 and the municipal tax are 10% of such municipal value. Half of the municipal tax paid by tenant for their respective houses. Loan of ₹ 5,00,000 @ 12% taken for construction of house property as on 1 Aug. 2018 and repaid on 31st Oct. 2022. Two month's rent of 3rd unit is not recoverable and 4th unit remain vacant for one month.

Compute the income under the head "Income from house property" for the assessment year 2023-24.

[Ans.: 3rd Rs. 1,50,000 4th Rs. 1,38,000]

GRADED PROBLEMS

Illustration 4.17

Mr. Bhagwat has three identical houses out of them two houses were let out for residential purposes and third house was used by him for own residence. Beside these he also let out one godown and one plot. Other relevant details are given below:

	Value for all three houses	Godown	Plot
Annual municipal valuation	1,80,000	50,000	30,000
Municipal tax paid	15,000	2,000	-
Interest paid on loan	-	15,000	6,000
Standard Rent	1,50,000	55,000	

Rent of first house was ₹ 6,000 per month and second house was ₹ 4,000 per month. Godown was let out at a rent of ₹ 5,000 per month. Plot was let out at a rent of ₹ 3,000 per month. First house was remained vacant for 3 months and rent of ₹ 4,000 could not be realized from tenant of godown.

Compute the taxable income from house property of Shri Bhagwat for the year ended 31st March 2023 assuming that he let out the self-occupied house also for 3 months at a monthly rent of ₹ 4,000 per month.

Solution:

Computation of income from house property for Mr. Bhagwat for the assessment year 2023-24

Particular	I	II	III Deemed let out	Godown
Step-1 Reasonable Expected Rent				
d. Municipal value	60,000	60,000	60,000	50,000
e. Fair rent	-	-	-	-
f. Higher of a or b	60,000	60,000	60,000	50,000
g. Standard rent	50,000	50,000	50,000	-
h. Lower of c or d (RER)	50,000	50,000	50,000	50,000
Step 2- Actual rent receivable				
Annual rent receivable	6,000x12 72,000	4,000x12 48,000	4,000x3 12,000	5,000x12 60,000
Less: Unrealized rent	-	-	-	4,000
Actual rent receivable	72,000	48,000	12,000	56,000
Step 3 Higher of Step 1 or Step 2	72,000	50,000	50,000	56,000
Less: Vacancy	6,000x3 18,000	-	-	-
Gross annual value	54,000	50,000	50,000	56,000
Less: Municipal tax	5,000	5,000	5,000	2,000
Net Annual Value	49,000	45,000	45,000	54,000
Less: Standard Deduction	14,700	13,500	13,500	16,200
Less: Interest on Loan	-	-	-	15,000
Income from house property	**34,300**	**31,500**	**31,500**	**22,800**

Note:

1. Rent of plot is taxable under the head 'Income from Other sources'
2. In case of deemed let out house (3 months of self-occupied house), the rent received or receivable will not include notional rent of that period during which the property was self-occupied. Similarly, when the rent of vacancy period is deducted the deemed rent of self-occupied period shall not be deducted.

ILLUSTRATION 4.18

Mr. Manoj purchased a new Plot on 1st Jan, 1999 at a cost of ₹600000. He obtained a loan of Rs. 400000 @9% p.a. Municipal valuation of this plot is Rs. 60000 p.a. municipal tax on this house is 8% of municipal value which was paid by the assessee. No part of loan is repaid till date. This house is occupied for residence of assessee. Find out taxable income from house property for Mr. Manoj for the assessment year 2023-24 if:

(a) Loan was taken at the time of purchase of plot

(b) Loan was taken in 2012 for construction on plot

(c) Loan was taken in 2019 for repair of house.

Solution:

Computation of Income from Houser property for Mr. Manoj for the assessment year 2023-24

	(a)	(b)	(c)
Gross Annual Value	NIL	NIL	NIL
Less: Municipal Tax	NIL	NIL	NIL
Net Annual Value	NIL	NIL	NIL
Less: Interest on Loan	30,000	36,000	30,000
Income from house property	30,000	36,000	30,000

Working Note:

(a) If loan were taken at the time of purchase of plot i.e., on 1 Jan, 1999 maximum interest deductible restricted to Rs. 30,000

(b) If loan were taken in 2012 for construction of plot, then 4,00,000x9% = Rs. 36,000 is deductible

(c) If loan were taken in 2019 for repair of house, then maximum Rs. 30,000 is deductible.

ILLUSTRATION 4.19

An Assessee purchased a plot for house on 1st Jan .2016 at cost of ₹ 400000. He started construction on this house on 1st Jan .2022 and obtained a loan of ₹ 300000 at 6% rate of interest on same day to construct the house. House was constructed on 31st July 2022.

Municipal valuation of this house is ₹ 84000 p.a. municipal taxes on this house 8% of municipal value which was paid by the assessee. As per provision of municipal act of city, tax should be paid for whole of the financial year whatever the date of construction may be.

On 30th June 2022 he repaid whole amount of loan with interest. He let out this house on 1st September 2022 at ₹ 8000 p.m. During the previous year tenant could not pay rent for two months due to slump in business. House owner waived this rent but claiming deduction for same on the ground that 'there should be no tax if there is no income' in particular month. Find taxable income from hose property for A.Y.2023-24.

Solution:

Computation of income from House property for the A. Y.2023-24

Step-1 Reasonable Expected Rent		
Particulars		₹
a. Municipal Value	84000 x 8/12	56,000
b. Fair Rent		N.A
c. Higher of a or b		56,000
d. Standard Rent		N.A.
e. Lower of c or d (RER)		56,000
Step-2 Actual rent receivable		
Annual Rent receivable*	8000 X 8	64,000
Less: Unrealized rent		Nil
Actual rent receivable		64,000
Step-3 Higher of step1 or step2		64,000
Less: Vacancy	Aug.2018	8,000
Gross Annual Value		56,000
Less: Municipal Tax	84,000 x 8%	6,720
Net Annual Value		49,280
Less: Standard Deduction		14,784
Less: Interest on Loan		1,800
	Income from House Property	32,696

Working note:

1. House was constructed on 31st July 2022 during previous year 2022-23 and whole loan amount paid by 30th June 2022.So, interest from 1 Jan. 2022 to 30th June 2022 will be treated as capital interest.

   Capital interest = 300000 x 6% x 6/12x1/5= Rs. 1800

2. Revenue interest is not applicable because whole loan was repaid before date of construction.

ILLUSTRATION 4.20

For the assessment year 2023-24, Mr. Durga Singh Gaur submits the following information:

Particular	House 1	House 2
Property Income		
Fair rent	45,000	55,000
Actual rent per annum	48,000	48,000
Municipal valuation	46,000	45,000
Municipal taxes (due)	3,000	4,000
Repairs	3,500	2,500
Insurance	2,000	4,000

Land revenue	2,500	3,000
Ground rent	1,600	2,600
Interest on capital borrowed by mortgaging House 1 (funds used for construction of House 2)	12,000	
Nature of occupation	Let out for residence	Let out for business

Determine the taxable income from house property of Durga Singh for the assessment year 2023-24.

Solution:

Computation of income from house property of Mr. Durga Singh for the A.Y. 2023-24

Step-1 Reasonable Expected Rent		
Particulars	**House 1**	**House 2**
a. Municipal Value	46,000	45,000
b. Fair Rent	45,000	55,000
c. Higher of a or b	46,000	55,000
d. Standard Rent	N.A.	N.A.
e. Lower of c or d (RER)	46,000	55,000
Step-2 Actual rent receivable		
Annual Rent receivable*	48,000	48,000
Less: unrealized rent	Nil	Nil
Actual rent receivable	48,000	48,000
Step-3 Higher of step1 or step2	48,000	55,000
Less: Vacancy allowance	-	-
Gross Annual Value	48,000	55,000
Less: Municipal Tax (Due not allowed)	-	-
Net Annual Value	48,000	55,000
Less: Standard Deduction	14,400	16,500
Less: Interest on Loan	-	12,000
Income from House Property	33,600	26,500

ILLUSTRATION 4.21

Mr. Shekhar owns three house properties. He has furnished the following particulars regarding properties:

First House : Its municipal valuation is ₹ 2,00,000. This is used by him for his residence. He has paid fire insurance premium Rs. 3,000 and municipal taxes ₹ 20,000. He has paid interest on loan ₹ 28,200. This loan was taken to repay another loan which he had taken for the construction of this house.

Second House: Its municipal valuation is ₹ 1,70,000 and it has been let out at rent of ₹ 16,000 per month. He has made the following payments in respect of this house:

Municipal taxes ₹ 16,000, repairs ₹ 6,000, land revenue ₹ 12,000, legal expenses for getting the house vacated ₹ 4,000. Annual charge ₹ 40,000. The house remained vacant for 3 months.

Third House: The construction of this house was completed on 31-03-2016. Its municipal valuation is ₹1,20,000. It consists of two identical units. Each of which has been let out at a rent of ₹ 8,500 per month. He has made the following payments in respect of this house:

Municipal taxes ₹ 9,000; ground rent ₹ 4,000; interest on loan taken for construction ₹ 40,000.

The second unit remained vacant for three months and 2 months rent of 1st Unit is not recoverable.

Compute his taxable income from house property for the assessment year 2023-24.

Solution:

I house : Self occupied property

GAV/NAV	Nil
Less: Interest on loan	28,200
	(28,200)

Step-1 Reasonable Expected Rent			
Particulars	**House 2**	**House 3 Unit 1**	**House 3 Unit 2**
a. Municipal Value	1,70,000	60,000	60,000
b. Fair Rent	-	-	-
c. Higher of a or b	1,70,000	60,000	60,000
d. Standard Rent	N.A.	N.A.	N.A.
e. Lower of c or d (RER)	1,70,000	60,000	60,000
Step-2 Actual rent receivable			
Annual Rent receivable*	1,92,000	1,02,000	1,02,000
Less: unrealized rent	Nil	17,000	-
Actual rent receivable	1,92,000	85,000	1,02,000
Step-3 Higher of step1 or step2	1,92,000	85,000	1,02,000
Less: Vacancy allowance	48,000	-	25,500
Gross Annual Value	1,44,000	85,000	76,500
Less: Municipal Tax paid	16,000	4,500	4,500
Net Annual Value	1,28,000	80,500	72,000
Less: Standard Deduction	38,400	24,150	21,600
Less: Interest on Loan	-	20,000	20,000
Income from House Property	38,400	36,350	30,400

ILLUSTRATION 4.22

Mr. Suraj sold his residential house property in Feb. 2022. In August 2022 he recovered rent of ₹ 36,000 from tenant, to whom he had let out his house property for two years from 1 Aug. 2017 to 31 July 2019. He could not realize two months' rent of ₹ 12,000 from him and to that extent his actual rent was reduced while computing income from house property for the assessment year 2018-19 and 2019-20.

Further, he had let out his house property from 1 Sept. 2019 to 31 Jan. 2021 to another tenant. In Oct. 2020 he had increased the rent from ₹ 15,000 to ₹ 18,000 per month and the same was subject matter of dispute. In

Nov. 2021, the matter was finally settled and Mr. Suraj received ₹ 12,000 as arrear of rent for the period 1 Oct. 2020 to 31 Jan. 2021.

Would the recovery of unrealised rent and arrears of rent received be taxable in the hands of Mr. Suraj and if so, in which year?

Solution:

Computation of income from house property for the assessment year 2023-24

Particular	₹
Unrealised rent recovered	36,000
Arrear of rent received	12,000
	48,000
Less: Deduction @ 30%	14,400
Taxable income from house property	33,600

ILLUSTRATION 4.23

Mr. K.L. Verma is a businessman. He has constructed a multistory building consisting of 16 flats of equal size, in April 2017 and completed in April, 2020. Of these16 flats, 8 flats were let out to tenants for their residence, and 2 flats to tenant for their business, 2 flats were used by K. L. Verma for his own residence, 2 flats were used by him for his own business, and 2 flats were allotted to two employees. The rent charged from each of the 10 tenants was ₹ 6,000 p.m. Mr. K.L. Verma paid municipal taxes for each flat ₹ 800, cost of repair of each flat ₹ 1,000, annual interest on loan for construction of building of the house ₹ 1,80,000.

Compute the income of house property for the assessment year 2023-24 assuming that the loan was taken on 1 April 2018.

Solution:

Computation of income from house property for the assessment year 2023-24

(A) 8 let out flats for residential purpose

Actual rent	6,000x8x12	5,76,000
Less: Municipal taxes	800x8	6,400
Net Annual Value		5,69,600
Less: Statutory deduction 30%		1,70,880
Less: Interest on loan Previous year Construction period 1 Ap. 2018 to 31 Mar. 2020 $(90{,}000x2\ year)\ x\ \frac{1}{5} =$	1,80,000x8/16 = 90,000 36,000	1,26,000
Taxable income from let out residential flats		2,72,720

(B) 2 Let out flats for business purpose

Actual rent	6,000x2x12	1,44,000
Less: Municipal taxes	800x2	1,600
Net Annual Value		1,42,400
Less: Statutory deduction 30%		42,720
Less: Interest on loan Previous year Construction period 1 Ap. 2018 to 31 Mar. 2020 $(22{,}500x2\ year)\ x\ \frac{1}{5} =$	1,80,000x2/16 = 22,500 9,000	31,500
Taxable income from let out business flats		68,180

(C) 2 Self occupied flats

Gross Annual value		Nil
Less: Municipal taxes		Nil
Net Annual Value		Nil
Less: Interest on loan Previous year Construction period 1 Ap. 2018 to 31 Mar. 2020 $(22{,}500x2\ year)\ x\ \frac{1}{5} =$	1,80,000x2/16 = 22,500 9,000	31,500
Taxable income from let out business flats		(31,500)

(D) 2 Allotted to employees: Not taxable because used for own business.

ILLUSTRATION 4.24

Mr. Bhalla is the owner of a house in Agra completely let out for residential purposes, consisting of two flats of different sizes. They are let out at ₹ 7,000 per month and ₹ 11,000 per month respectively. Municipal value of the house is ₹ 1,53,000. The rate of municipal tax is @ 5% p.a. of which 40% paid by each tenant. The other particulars of the house are as under:

(a) The house is newly constructed, construction was completed on 1 April, 2017.

(b) Loan taken for construction of house of ₹ 1,80,000 @ 10% as on 1.4.2015. Interest for the preceding three years was also paid in last year but not claimed as deduction.

(c) The second flat was remained vacant for 3 months during the previous year.

(d) Collection charges claimed by him were ₹ 1,100.

Compute his income from house property for the assessment year 2023-24.

Solution:

Computation of income from house property of Mr. Bhalla for the assessment year 2023-24

Step-1 Reasonable Expected Rent		
Particulars	**Flat 1**	**Flat 2**
a. Municipal Value	59,500	93,500
b. Fair Rent	-	-
c. Higher of a or b	59,500	93,500
d. Standard Rent	N.A.	N.A.
e. Lower of c or d (RER)	59,500	93,500
Step-2 Actual rent receivable		
Annual Rent receivable(7000x12), (11000x12)	84,000	1,32,000
Less: unrealized rent	Nil	Nil
Actual rent receivable	84,000	1,32,000
Step-3 Higher of step1 or step2	84,000	1,32,000
Less: Vacancy allowance	-	33,000
Gross Annual Value	84,000	99,000
Less: Municipal Tax 59,500x5%x60% 93,500x5%x60%	1,785	2,805
Net Annual Value	82,215	96,195
Less: Standard Deduction	24,665	28,859
Less: Interest on Loan 1,80,000x10% = 18000 in the ratio 7:11	7,000	11,000
Income from House Property	50,550	56,336

Note: Construction period interest have not been considered because house were constructed on 1 April 2017 from which 5 years has been completed in year 2021-22 financial year.

ILLUSTRATION 4.25

Hitesh owns several houses at Jaipur a one of which whose municipal value is ₹1,60,000 is used by him for his own residence and the remaining houses are let out.During the previous year 2022-23. He received ₹ 2,70,000 as rent of the let-out houses and rent of two months amounting to ₹30,000 is still outstanding,half of which is not recoverable. He has made the following payments in respect of all houses:-

Municipal taxes paid (10% municipal valuation) ₹ 52,000,Expenses on repairs ₹ 40,000, Insurance premium ₹ 13,000, Interest due on loan for all house ₹ 52000

One houses, whose rent is ₹15,000 p.m. remained vacant for six months and another house, whose rent is ₹900 p.m. remained vacant for 10 months. Calculate the income from house property of Hitesh for the assessment year 2023-24.

Solution:

Computation of income from House property for the A. Y.2023-24

Let out houses

Step-1 Reasonable Expected Rent		
Particulars		₹
a. Municipal Value		3,60,000
b. Fair Rent		N.A
c. Higher of a or b		3,60,000
d. Standard Rent		N.A.
e. Lower of c or d (RER)		3,60,000
Step-2 Actual rent receivable		
Annual Rent receivable	8000 X 8	64,000
Less: unrealized rent		Nil
Actual rent receivable		64,000
Step-3 higher of step1 or step2		64,000
Less: Vacancy allowance		8,000
Gross Annual Value		56,000
Less: Municipal Tax	84,000 x 8%	6,720
Net Annual Value		49,280
Less: Standard Deduction		14,784
Less: Interest on Loan		1,800
	Income from House Property	32,696

Self-Occupied House

GAV/NAV	Nil
Less: Interest on Loan	16,000
Income from SOP	(16,000)

Working note:

Rent received previous year	2,70,000
Rent of two houses for two month outstanding	30,000
Rent of vacant period (1500x6) +(900x10)	18000
	48000

Municipal tax 10%

Municipal valuation 52,000/10% = 5,20,000

Municipal value =5,20,000-1,60,000= 3,60,000

Interest paid 52000 Distribute 16:36 i.e., 16000 and 36000 respectively to SOP and let out houses.

ILLUSTRATION 4.26

Mr. Vishwas furnishes the following information about a house property owned by him:

Date of loan taken for construction of residential house	01-01-2019
Date of completion of residential house	01-07-2021
Amount of borrowed capital for construction of house	Rs. 18,00,000
Rate of interest	10% per annum

Calculate maximum permissible allowed interest on borrowed capital under section 24 of Income Tax Act for the assessment year 2023-24 under the following different situations and assuming each situation is independent:

(1) Assuming that house is let out through-out the previous year 2022-23.

(2) Assuming house is being self-occupied by the assessee during entire previous year 2022-23.

(3) Assuming that partial loan amount of Rs. 6,00,000 has been paid by assessee on January 2021 and house is let out throughout previous year 2022-23.

(4) Assuming house is being self-occupied and house is completed in July 2022.

Solutions:

(1) Preconstruction period from 01-01-2019 to 31-3-2021(31 March just preceeding the date of construction) = 27 months

Interest on Preconstruction period = $18,00,000 \times 10\% \times \frac{27}{12} = Rs. 4,05,000$

Allowed interest for the previous year 2022-23

$= \frac{4,05,000}{5} = Rs. 81,000$

Previous year 2022-23 interest = 18,00,000 x 10% = Rs. 1,80,000

Maximum permissible allowed interest for previous year 2022-23 = Rs. 2,61,000

(Rs. 81,000 + Rs. 1,80,000)

(2) Maximum permissible limit = Rs. 2,00,000

(3) Preconstruction period from 01-01-2019 to 31-3-2021 = 27 months

Interest on Preconstruction period =

1-1-2019 to 31-12-2020 $18,00,000 \times 10\% \times \frac{24}{12} = Rs. 3,60,000$

01-01-2020 to 31-3-2021 $12,00,000 \times 10\% \times \frac{3}{12} = Rs. 30,000$

Total = Rs. 3,90,000

Allowed interest for the previous year 2022-23

$= \frac{3,90,000}{5} = Rs. 78,000$

Previous year 2022-23 interest = 12,00,000 x 10% = Rs. 1,20,000

Maximum permissible allowed interest for previous year 2022-23 = Rs. 1,98,000

(Rs. 78,000 + Rs. 1,20,000)

(4) Preconstruction period from 01-01-2019 to 31-3-2022 = 39 months

Interest on Preconstruction period =

1-1-2019 to 31-12-2022 $18,00,000 \times 10\% \times \frac{39}{12} = Rs. 5,85,000$

Allowed interest for the previous year 2022-23

$= \frac{5,85,000}{5} = Rs.1,17,000$

Previous year 2022-23 interest = 18,00,000 x 10% = Rs. 1,80,000

Maximum permissible allowed interest for previous year 2022-23 = Rs. 2,97,000 (Rs. 1,17,000 + Rs. 1,80,000)

QUESTIONS

Multiple Choice Questions:

Q.1 Which is the charging section for income from house property?

(a) Section 21 (b) Section 22

(c) Section 23 (d) Section 24

Q.2 If the business of the assessee is to let out houses on rent, the income will be taxable under the head:

(a) House property (b) Profits and gains of business or profession

(c) Income from other sources (d) Any of the above

Q.3 Which of the following person can be said to have self occupied house property?

(a) An individual (b) HUF

(c) Firm (d) Both (a) and (b)

Q.4 When share of each co-owner in a house property is not definite, the income from such property shall be:

(a) Taxed equally (b) Exempt from tax

(c) Taxed as association of persons (d) Taxed as body of individuals

Q.5 Mohini is the owner of a house property covered under the rent control act. Municipal value ₹30,000, actual rent ₹25,000, fair rent ₹36,000 and standard rent is ₹28,000. The gross annual value of the house property will be:

(a) ₹30,000 (b) ₹28,000

(c) ₹36,000 (d) ₹25,000

Q.6 When a house property is let-out throughout the year for a monthly rent of ₹22,000 and municipal tax paid for current year is ₹24,000 and for the earlier year paid now is ₹16,000 the income from house property would be:

(a) ₹1,68,000 (b) ₹1,56,800

(c) ₹1,84,000 (d) ₹2,24,000

Q.7 Which of the following is allowed to be deducted from annual value u/s 24(a)?

(a) Municipal taxes (b) 30% of annual value

(c) Insurance expenses (d) Ground rent

Q.8 Mr. Vinod acquired a property in April, 2022 for self-residential use. The loan interest payable to state bank of India for the financial year 2022-23 amounts to ₹2,10,000. The amount eligible for deduction under section 24(b) is:

(a) ₹30,000 (b) ₹2,00,000

(c) ₹2,10,000 (d) ₹1,50,000

Q.9 The construction of a house was complete on 31st January,2022. The owner of the house took a loan of ₹20,00,000 @ 6% p.a. on 1st may 2021. In this case the deduction allowable for the previous year 2022- 23 towards interest on borrowings is:

(a) ₹22,000 (b) ₹24,000
(c) ₹1,10,000 (d) None of the above

Q.10 Monaj let-out his house on 1.4.2022 on rent of ₹15,000p.m. The fair rent and the municipal value of house are ₹13,500 p.m. and ₹16,000p.m. respectively. Municipal taxes paid for the year were ₹12,000. Income from house property for the AY 2023-24 will be:
(a) ₹1,26,000 (b) ₹1,76,000
(c) ₹1,05,000 (d) None of the above

Q.11 Find out from the following income derived from house property which is being exempt from income tax:
(a) Income from property of a trust for charitable or religious purposes
(b) Income from property of a housing society
(c) Income from property of a trade association
(d) Income from property of a sports association

Q.12 Mr. Akash received ₹80,000 as recovery of unrealized rent in the previous year 2022-23. How much amount will be taxable considering the provision of section 25A (1) and 25A (2).
(a) ₹80,000 (b) ₹56,000
(c) ₹24,000 (d) Fully exempt

Q.13 Unrealized rent is a deductions from:
(a) GAV (b) NAV
(c) income from house property (d) None of above

Q.14 An assessee has borrowed money for purchase of a house & interest is payable outside India. Such interest shall:
(a) Be allowed as deduction
(b) not be allowed on deduction
(c) Be allowed as deduction if the tax is deducted at source
(d) None of the above

Q.15 Shivani has three residential house properties, all of which are self- occupied, the annual value of:
(a) All the three house properties shall be Nil
(b) One house property shall be nil and for the other two properties, AV shall be computed as if these are let out
(c) Two house properties shall be nil and for one house property AV shall be computed as if it is deemed to be let out
(d) AV of all house properties shall be computed as if all of these are deemed to be let out

Very Short Answer Type Questions

1. Municipal valuation of the house is ₹ 1,00,000 whereas the fair rent of house ₹ 1,20,000 and standard rent is ₹ 1,10,000; Actual rent received or receivable is ₹ 1,50,000; the net annual value in this case shall be?
2. Fair rental value of a house is ₹ 1,40,000, standard rent if ₹ 1,00,000, actual rent ₹ 1,50,000. Municipal taxes paid during the previous year for the past 6 years is ₹ 1,30,000. The net annual value shall be?
3. Mr. Jayant has two house properties; both are self-occupied. The Gross annual value of both the house will be?
4. Fair value of a house for the year is ₹ 35,000 and which was let out from 1 July 2022 at a rent of ₹ 3,000. Find its gross annual value. [Ans. ₹ 27,000]

5. Municipal value of a house is ₹ 24,000 which was completed as on 30 April 2022 and it was let out at a monthly rent of ₹ 3,000 per month. Find out the gross annual value? [Ans.₹33,000]
6. An assessee received ₹ 60,000 during the previous year as arrear of rent out of which ₹ 20,000 relates to previous year 2018-19 and balance related to 2020-2021. How this receipt will be taxable?
7. What do you mean by fair rent?
8. What do you mean by Standard rent?
9. What do you mean by unrealized rent?
10. When deduction for unrealized rent will not be allowed?
11. Can the gross annual value of a house property be in negative? If yes, how?
12. If rent of a house received by spouse of an assessee without transfer of property. Who will be liable to pay tax on rental income?
13. In what situations statutory deduction will not be allowed for an income which is taxable in the head of income from house property?
14. If an assessee has borrowed money for purchase of a house and interest is payable outside India. Interest will be deductible or not? If yes, in what situation?
15. What will be the annual value of property owned by co-owners and it is self-occupied by all co-owners.

Short Answer Type Questions:

1. Determine the net annual value from the following information:

Particular	₹
Municipal value	1,20,000
Fair rent	1,10,000
Standard rent	1,05,000
Actual rent	1,12,000
Municipal tax @ 10% paid by house owner	

[Ans.: ₹ 1,00,000]

2. How will you calculate the gross annual value of a house which has been let out throughout the year?
3. An assessee let out his house at a monthly rent of ₹ 15,000 of which municipal value is ₹ 2,00,000 and standard rent is ₹ 1,70,000. What will be the income from house property?
4. How rent for vacancy period is adjusted while calculating annual value of let out house?
5. Explain the provisions regarding interest on loan for a construction of let out house.
6. Explain the provisions regarding interest on loan for a construction of self-occupied house property.
7. How much statutory deduction under section 24 is deductible? Also explain the provisions regarding other expenses like insurance, repairs etc.
8. Explain the provisions regarding two self-occupied properties.
9. Explain provisions regarding unrealised rent in income from house property.
10. If a self-occupied house is let out for a part of the year than how would you calculated the income from house property?
11. If municipal value of a house is ₹ 60,000. 1/3rd portion of the house is let out at a monthly rent of₹ 2,000. Find out income from house property? [Ans.: ₹ 16,800]

Essay Type Questions

1. Explain the provisions of deemed ownership.
2. Write short notes on (a) GAV (b) Interest on loan (c) Bad debt recovered (d) Statutory deduction.
3. Write short notes on (a) NAV (b) pre-construction period interest (c) Unrealised rent recovered (d) vacancy allowance.
4. Explain the provision of Income Tax Act, if an assessee has more than two self-occupied properties.

Practical Questions

Q.1 Mr. Kailash is the owner of three house properties. All are let out by him. From the following data given below, find out the gross annual value in each case for the assessment year 2023-24:

Particular	A ₹	B ₹	C ₹
Municipal valuation	1,89,000	2,36,000	2,21,000
Fair rent	1,48,000	2,72,000	2,48,000
Standard rent	2,42,000	1,72,000	1,99,000
Actual rent (per annum)	1,72,000	1,96,000	1,86,000

[Ans. (a) ₹ 1,89,000) (b) ₹ 1,96,000 (c) ₹ 1,99,000]

Q.2 Mr. Praveen has following two residential house properties. Both are let out to different tenant. From the following detail find out net annual value for the assessment year 2023-24:

Particular	A ₹	B ₹
Municipal valuation	2,36,000	3,60,000
Standard rent	2,48,000	3,48,000
Fair rent	2,50,000	3,50,000
Actual rent per month	20,000	30,000
Municipal tax	6,000 (3000 still due)	8,500 (Rs. 3,500 paid by tenant)

[Ans. (a) ₹ 2,45,000) (b) ₹ 3,55,000]

Q.3 Shree Heeralal is the owner of following properties. From the following information find out taxable income from house property in each case for the assessment year 2023-24:

Particular	A ₹	B ₹	C ₹
Municipal valuation	2,36,000	3,60,000	1,85,000
Fair rent	2,50,000	3,50,000	1,80,000
Standard rent	2,48,000	3,48,000	1,90,000
Actual rent annual	2,40,000	3,60,000	1,80,000
Vacancy	-	2 months	2 months
Unrealised rent	2 months	-	1 month
Municipal tax paid @ 10% of Municipal value	Paid	Unpaid	Half paid by tenant

[Ans. (a) ₹ 1,57,080) (b) ₹ 2,10,000 (c) ₹ 1,02,025]

Q. 4 Mr. Durga Shanker own two houses, the particulars of which are as under:

Particular	House I	House II
Municipal value	1,50,000	1,60,000
Fair rent	1,75,000	1,63,000
Standard rent	1,72,000	1,70,000
Annual rent	Nil (Self occupied)	1,66,000
Municipal tax paid	10,000	17,000
Interest on loan	20,000	38,000
Unrealised rent for 2021-22	-	8,000

Durga Shanker received during the previous year a sum of ₹ 60,000 from a past tenant as per court order. It was not taxed previously.

Compute taxable income from house property of Shri Durga Shanker for the assessment year 2023-24.

[Ans. (a) SOP ₹ (20,000) (b) ₹ 64,200]

Q. 5 An assessee purchased a new building on 1st Jan., 2015 at a cost of ₹800000. He obtained a loan of ₹ 500000 on the same day @9% p.a. to purchase this house . Municipal valuation of this house is ₹ 80000p.a. municipal tax on this house is 8% of municipal value which was paid by the assessee. No part of loan is repaid till date . This house is occupied for residence of assessee.

Assessee also purchased a plot for house on 1st Jan .2016 at cost of ₹ 400000. He started construction on this house on 15th Jan .2022 and obtained a loan of ₹ 500000 at 8% rate of interest on same day to construct the house. House was constructed on 30th April 2022.

Municipal valuation of this house is ₹6,00,000 p.a. municipal tax on this house 8% of municipal value which was paid by the assessee. As per provision of municipal act of city, tax should be paid for whole of the financial year whatever the date of construction may be.

On 25thAug. 2022 he repaid whole amount whole amount of loan with interest . He let out this house on 1st June 2022 at ₹48,000 p.m. during the previous year tenant could not pay rent for two months due to slump in business. House owner waived this rent but claiming deduction for same on the ground that 'there should be no tax if there is no income' in particular month . Find taxable income from hose property for A.Y.2023-24. [Ans. (a) SOP ₹ (45,000) (b) LOP ₹ 3,00,24]

Q. 6 Shri Mahajan is the owner of four houses the municipal value of which is ₹ 2,50,000; ₹3,20,000; ₹ 2,40,000 and ₹ 6,00,000 respectively. Municipal taxes have been paid on these houses at 10% on their municipal value . He resides in the first house and second house is let out to his employee at a rent of ₹ 1000 p.m. in the interest of business .

1/3rd portion of third house is also used for his residence and remaining portion is let out at ₹ 10,000 p.m. he recovered ₹ 5000for this house from a tenant which was not allowed as bad debts in the earlier years .

Fourth house is let out at a rent of ₹ 55,000 p.m. he obtained a loan to purchase this house from non-resident Indian. Interest on this loan for the previous year was ₹ 40000 which was paid after deducting tax at source.

2nd, 3rd, and 4th house remained vacant for 2 months. Compute his taxable income from house property for the A.Y. 2023-24. [Ans. First House (self-occupied) 2ndNot taxable3rd₹ 86,8004th₹3,03,000]

Q. 7 Shri Hemant is the owner of four house the municipal value of which are ₹ 23000; ₹35000; ₹ 29000 and ₹72000 respectively. municipal taxes have been paid on these houses at 5% on their municipal value. He resides in the first house and second house.

Third house is let out at ₹ 1500p.m. Rent of 2 months not recoverable and house remained vacant for one month.

Fourth house is let out at a rent of ₹6500 p.m. from 1 July 2022 he obtained a loan to purchase this house from non-resident Indian . interest on this loan for the previous year was ₹ 45000 on which tax were not deducted at source.

Compute his taxable income from house property for the A.Y. 2023-24.

[Ans. First and 2ndHouse (self-occupied) 3rd₹ 18,2354th₹38,430]

Q 8 Seema owns two houses at Udaipur ,both are used for her residence. In addition to it, she owns a house at Jodhpur which was let out at a monthly rent of ₹ 20,000p.m. since July2017. Other information regarding these three houses is as under:

	Udaipur		Jodhpur
	House I	House II	
Municipal value	4,90,000	4,84,000	2,10,000
Fair rent	4,88,000	4,90,000	2,40,000
Standard rent	4,85,000	4,85,000	2,00,000
Municipal tax paid by Seema	42,000	48,000	17,000
Repairs	6,000	5,000	7,000
Insurance premium paid	2,000	1,000	3,000
Interest on loan	70,000	1,40,000	70,000

Find taxable income from house property for the A.Y. 2023-24.

[Ans. 1st and 2nd house (2,00,000), 3rd House ₹ 86,100]

Q. 9 Mrs.Pramila owns three houses at Raipur, all are used for her residence. Other information regarding these three houses is as under:

	Raipur		
	House I	House II	House III
Municipal value	2,85,000	2,74,000	2,20,000
Fair rent	2,70,000	2,92,000	2,22,000
Standard rent	2,75,000	2,88,000	2,19,000
Municipal tax paid by Seema	3,200	4,000	4,200
Interest on loan upto 31-3-1999	50,000	-	-
Interest on loan after 1-4-1999	-	1,30,000	80,000

[Ans. 1st SOP Rs. (30,000), 2nd SOP (1,30,000), 3rd DLOP ₹ 70,360]

Q. 10 Shri Piyush is owner of big house , whose municipal value is ₹ 36,00,000 p.a. 2/3rd portion of the house is letout to a tenant on a monthly rent of ₹ 2,10,000 for residential purposes and the remaining 1/3rd portion is occupied by him for his own residence. The construction of this started on 1stMay 2020 and was

completed on 1st Jan. 2023. The house is subject to local tax of ₹ 36,000 p.a. which was paid by house owner. Shri Piyush had taken loan of ₹20,00,000 on 1st July 2020 for the construction of this house. The loan has not been repaid and interest at 12% p.a. is payable on it . The tenant vacated this house on 1st March 2023 and after that it is not yet let out. Find taxable income from house property for the A.Y. 2023-24 [Ans.Self-occupied portion ₹ (1,08,000), Let out portion ₹ 61,200]

Q. 11 Mr. Prakash has two identical houses, one godown and a plot. First house, godown and plot have been let out at a monthly rent of ₹ 10,000, ₹ 8,000 and ₹ 4,000 per month respectively. Second house was used by him for residential purpose but from 1 Oct. 2022 to 31 Dec. 2022 he let out the self-occupied house at a monthly rent of ₹ 7,000 per month due to his deputation at another place. Other relevant details are as follows:

Particular	I house	II house	Godown	Plot
Fair rent	1,00,000	80,000	70,000	50,000
Standard rent	90,000	85,000	75,000	60,000
Municipal valuation	1,50,000	1,00,000	90,000	55,000
Municipal tax @ 10% of M.V.	Paid	Unpaid	Paid by tenant	-
Interest on loan paid	40,000	35,000	10,000	-

First house was remained vacant for 2 months and rent of ₹ 9,000 could not be realized from tenant of godown. During the previous year, he received ₹ 12,000 from an old tenant as an arrear of rent.

Compute the taxable income from house property of Mr. Prakash for the assessment year 2023-24.

[Ans.: First house ₹ 19,500, Second house ₹ 24,500, Third house ₹ 50,900, Taxable arrear ₹ 8,400]

Answers MCQ

1	2	3	4	5	6	7	8	9	10
B	A	D	C	B	B	B	B	C	A
11	12	13	14	15					
A	B	A	C	C					

❑❑❑

Chapter 5

PROFITS AND GAINS FROM BUSINESS OR PROFESSION

SECTION-WISE STUDY

Section	Particular
2 (13)	Meaning of Business
2 (36)	Meaning of Profession
28	Income chargeable under this head
	General Principles Regarding Allowability of Expenses
29	Computation of Profits and Gains from Business or Profession
30	Rent, Rates, Taxes, Repairs, and Insurance of Building
31	Repairs and Insurance of Machinery, Plant, and Furniture
32	Depreciation
32(2)	Unabsorbed Depreciation
32AD	Investment allowance in Specified States
35	Expenditure on Scientific Research
35(2AA)	Contribution to National Laboratory for Scientific Research
35(2AB)	Deduction in respect of in-house research and development expenses
35AD	Deduction of Capital Expenditure of Specified Business
35CCA	Payment for rural development programme
35CCC	Expenditure on Notified Agricultural Extension Project
35CCD	Expenditure on Notified Skill Development Project
35DDA	Amortisation of Expenditure under Voluntary retirement scheme (VRS)
36(1)	Some Specific Deductions
37(1)	General Deductions
40(a)	Interest, Royalty, Fees for technical services or other sum payable outside India or payable to a non resident
40A(2)	Payments to Relatives and associates
40A(3)	Cash Payment exceeding Rs. 10,000
40A(7)	Amounts not deductible in respect of provision for unapproved gratuity fund

40A(9)	Contribution to Non-Statutory Funds
41	Deemed Profits
43A	Changes in the Rate of Exchange of Currency
43B	Amount not deductible in respect of certain unpaid liabilities
43CA	Stamp Duty Value of Land and Building to be Taken as the Full Value of Consideration in respect of Transfer, Even if the same are held by the Transferor as Stock-In-Trade
44AA	Compulsory maintenance of accounts
Rule 6F	Prescribed books of accounts and other documents
44AB	Audit of accounts
44AD	Presumptive taxation scheme for business
44ADA	Presumptive taxation scheme for specified profession
44AE	Presumptive Taxation Scheme for Transport operation business

Another majour income source is business and profession. An assessee earns mainly through salary or do his own business. This chapter will guide you about 'how to calculate taxable profit or loss of a business or profession'. The chapter will also cover small business like retail business, transportation business and professionals.

MEANING OF BUSINESS SECTION 2 (13)

When commercial transactions take place between two or more persons wit profit motive is called business. As per section section 2(13) it includes any

(i) Trade, (ii) Commerce (iii) Manufacture
(iv) Adventure or concern in the nature of trade, commerce or manufacture.

Business arises out of commercial transactions between two or more persons.

MEANING OF PROFESSION (SECTION 2 (36) :

"Profession" includes" Vocation": Profession involves the idea of an occupation requiring purely intellectual skill or manual skill based on some special learning. There should be some special qualification of a person apart from skill and ability, which is required in carrying on any activity which could be considered as a profession. This could be having education in a particular system either in a college, university, or institute or it may be even by experience.

MEANING OF 'VOCATION'

Vocation implies **natural ability** i.e. inborn talent & skill of a person for some particular work.

The **distinction** between business, profession, or vocation is however **not material** because the income from all these activities is taxable under the same head i.e., 'Profits and gains of business or profession

INCOME CHARGEABLE UNDER THIS HEAD (SECTION 28)

The following incomes are taxable under this head:

1. Profits and gains of any business or profession,

2. Compensation due to or received by any person, specified in section 28(ii);
3. Income derived by any trade, professional or similar association from specific services performed for its members,
4. The value of any benefit or perquisite whether convertible into money or not, arising from business or profession ;
5. Any profit on transfer of the duty entitlement pass book scheme
6. Any profit on transfer of the duty free replenishment certificate;
7. Export incentive available to exporters
8. Any Interest, Salary, Bonus, Commission, or remuneration received by a partner from a firm,
9. Any sum received/receivable for
   (i) not carrying out any activity in relation to any business/profession, or
   (ii) not to share any know-how, patent copyright, trademark license, franchise, etc.
10. Any sum received under the keyman insurance policy including bonus,
11. Any sum received from the transfer/destruction/demolition of an asset whose cost has been allowed u/s 35 AD
12. Income from a speculative transaction
13. Fair market value of inventory on its conversion into capital asset:

SECTION28 - CONVERSION OF INVENTORY INTO CAPITAL ASSET

If the assessee converts Inventory into a capital asset and thereafter transfers the same the income shall be taxed under two heads

(i) Business and Profession (ii) Capital Gain

Business profit

Sale Price = FMV of the Inventory at the time of conversion into capital asset shall be chargeable to tax under the head profit and gains from business.

Taxable year - business income would be taxable in the year of conversion.

Capital Gain = Actual sale proice- cost of acquisition (FMV)

Cost of acquisition - the fair market value on the date of conversion

Period of holding- from the date of conversion or treatment. In case of long term period indexded cost of acquisition shall be considered.

Taxable year - in the year of transfer

Business income not taxable u/s 28:

Following incomes, though from business activity or incidental to the business, are not taxable u/s 28 due to specific provisions made by the Parliament:

(i) **Rent of House property even in case of a property dealer** (It is taxable u/s 22) under the head income from house property.
(ii) Dividend on shares in case of a dealer in shares (It is taxable u/s 56)
(iii) Casual Income like winning from lotteries etc. (It is taxable u/s 56)

(iv) Interest received on compensation or enhanced compensation (It is taxable u/s 56) under the head income from other sources. Only 50% of such income shall be taxable under this head.

Basic Principles for Arriving at Business Income

1. **Business should be carried on during the previous year**
2. **Business should be carried on by the Assessee**
3. **Tax incidence arises in respect of all businesses or professions**
4. **Real profit vs. Anticipated profit:**

Anticipated or potential profits or losses, which may occur in the future, are not considered for arriving at taxable income of a previous year.

5. **Real profit vs. Notional profit:**

The profits which are taxed under section 28 are the real profits and not notional profits. For instance, no person can make a profit by trading with himself in another capacity.

6. **Recovery of the sum already allowed as a deduction:**

Any sum recovered by the assessee during the previous year in respect of an amount or expenditure which was earlier allowed as a deduction, is taxable as business income of the year in which it is recovered.

7. **Losses incidental to trade:**

A trading loss is allowable as a deduction while computing business income only in the year in which it is incurred.

8. **Relevance of Method of Accounting and ICDS [Sec 145]:**

The income taxable under the head business or profession shall be computed according to the cash method or mercantile method, as may be regularly employed by the assessee.

It may be noted that even if the assessee follows the cash method of accounting, deduction of depreciation shall be allowable u/s 32.

9. **Legal Business Vs. Illegal Business:**

The income tax department is not concerned with the nature of income whether it is legal or illegal. The income of an illegal business is taxable in the same way as the income of a legal business.

GENERAL PRINCIPLES REGARDING ALLOWABILITY OF EXPENSES

While computing business income we can claim deduction of losses, expenses, and allowances. Some general principles regarding the **allowability** of deductions are as follows:

1. **Burden of Proof is upon the assessee**
2. **Expenses should have been incurred during the previous year**
3. **Expenses should have been incurred for own business**
4. **No deduction in respect of discontinued business:**

If a business has been discontinued in earlier years, the assessee cannot claim a deduction of any expenditure incurred during the previous year for that business.

5. No Deduction in respect of expenses incurred before setting up of Business:

Expenses incurred before setting up of business shall not be allowed. This rule has the following exceptions –

(i) Expenses incurred after setting up but before the commencement of business shall be allowed.

(ii) **Sections 35** of the Act allow deduction of expenses incurred before setting up of business.

6. o allowance in respect of non- assessable business:

Section 28 applies only in respect of business profits which are assessable under the Income tax Act.

For instance, if the assessee carries on a non-taxable business (such as agricultural income in India), no deduction on account of expenditure relating to such non-taxable business can be claimed.

7. "Speculative transaction"

means a transaction in which a contract for the purchase or sales of any commodity including stocks and shares is periodically or ultimately settled otherwise than by the actual delivery.

Where any part of the business of a company consists in the purchase and sale of the shares of other companies, such a company shall be deemed to be carrying on speculation business to the extent to which the business consists of the purchase and sale of such shares.

However, this deeming provision does not apply to the following companies –

(1) A company whose gross total income consists of mainly income chargeable under the heads "Interest on securities", "Income from house property", "Capital gains" and "Income from other sources";

(2) A company, the principal business of which is –

(i) The business of trading in shares; or

(ii) The business of banking; or

(iii) The granting of loans and advances.

Transactions not deemed to be Speculative Transactions

The following forms of transactions shall not be deemed to be speculative transactions:

(i) Hedging contract in respect of raw materials or merchandise: A contract in respect of raw materials or merchandise entered into by a person in the course of his manufacturing or merchandising business to guard against loss through future price fluctuations in respect of his contracts for the actual delivery of goods manufactured by him or merchandise sold by him; or

(ii) Hedging contract in respect of stocks and shares: A contract in respect of stocks and shares entered into by a dealer or investor therein to guard against loss in his holdings of stocks and shares through price fluctuation; or

(iii) Forward contract: A contract entered into by a member of a forward market or stock exchange in the course of any transaction in the nature of jobbing or arbitrage to guard against any loss which may arise in the ordinary course of his business as a member; or

(iv) Trading in derivatives: An eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange.

(v) **Trading in commodity derivatives:** An eligible transaction in respect of trading in commodity derivatives carried out in a recognized association, which is chargeable to commodities transaction tax under Chapter VII of the Finance Act, 2013.

COMPUTATION OF PROFITS AND GAINS FROM BUSINESS OR PROFESSION [SEC. 29]

The profits and gains of any business or profession are to be computed by the provisions contained in sections 30 to 43D. It must, however, be remembered that in addition to the specific allowances and deductions stated in sections 30 to 36, the Act further permits the allowance of items of expenses under the residuary section 37(1), which extends the allowance to items of business expenditure not covered by sections 30 to 36, where these are allowable according to accepted commercial practices

Profits and Gains from Business or Profession – How to be Computed (Sec. 29)

Section 29 permits deductions and allowances laid down by section 30 to 37 while computing profits and gains of a business or profession.The Income from business or profession can be calculated as follows:

Computation of Profits from Business for the A.Y. 2023-2024

		Amount	Amount ₹
A	Income (Incomes chargeable to tax as per section 28)		xxx
	Total Income		xxx
B	Expenditure		
	• Specific deduction (u/s 30 to 36)	xxx	
	• General deductions (u/s37)	xxx	
	• Certain deductions to be only on actual payment (u/s 43B)	xxx	
	• Deduction for which special provisions exist (42, 44A, 44C)	xxx	xxx
	Profits and Gains from business/profession (A-B)		xxx

OR

Computation of Profits from Business/profession for the A.Y. 2023-24

	Amount	Amount ₹
Net profit/surplus as per P&L a/c or Income and Expenditure a/c		xxx
Add : Expenses expressly disallowedunder income tax act and have already debited to P&L a/c		
Add: Incomes covered u/s 28 but not credited to P&L a/c		
Add: Under valuation of closing stock		
Less: Expenses allowed under income tax act but not debited to P& L a/c		
Less: Incomes not covered u/s 28 but credited P& L a/c		
Less: Overvaluation of closing stock		
Income from Business or profession		

Note: First alternative method is appropriated when receipt and payment account is given but second method is appropriate when P&L a/c is given.

DEDUCTIONS ALLOWED UNDER SECTION 37 TO 37(1)

1. Section 30: Rent, Rates, Taxes, Repairs, and Insurance of Building

Following expenses are allowed if the Building is used for the business.

1. Rent is allowed only in case of rented premises, if the premises, is owned by the assessee, then rent is not allowed as a deduction.
2. Current repairs are allowed, capital repairs are not allowed as a deduction.
3. Any sum paid or payable for insurance is deductible.
4. Deduction in respect of **municipal taxes, rates, and land revenue** is deductible subject to **section 43B. (i.e, deduction on payment basis)**

   Amount of deduction = 100% of eligible expenses

2. Section 31: Repairs and Insurance of Machinery, Plant, and Furniture

Following expenses incurred for plant, machinery, or furniture (owned or hired) used for the business are allowed (i) repairs (ii) Insurance;

1. Plant & Machinery and furniture should be used for business purposes.
2. Current Repairs are allowed, capital repairs are not allowed as a deduction.
3. If plant and machinery or furniture are taken on hire then rent payable is not deductible under section 31 but shall be allowed as deduction U/s 37(1).

Amount of deduction = 100% of eligible expenses.

3. Section 32: Depreciation

Conditions for claiming depreciation:

1. The asset must be owned by the assessee.

(i) Registered ownership is not necessary: The assessee doesn't need to be the registered owner of the asset.

(ii) Capital expenditure in a building taken on lease: Where an assessee carries on a business or profession in a building not owned by him but in respect of which he holds a lease or right of occupancy, he is entitled to depreciation, in respect of capital expenditure incurred by him on the construction of any structure or any work concerning the building by way of improvement, renovation or extension.

(iii) Depreciation in the case of any other lease: Except in the above case if the asset is owned by the lessor, depreciation is not allowed to the lessee i.e. assessee.

(iv) Asset has taken on hire purchase: If an asset is obtained under an installment-payment system or hire-purchase agreement, depreciation shall be allowed to the buyer/hire purchaser.

(v) Fractional ownership: If the asset is jointly owned by two or more persons (i.e. co-ownership or fractional ownership), each owner shall be entitled to depreciation.

For example, if the cost of assets is Rs.10 lacs and Mr. A and Mr. B have invested in the ratio of 60% and 40%, Mr. A shall be entitled to claim depreciation on Rs.6 lacs and Mr. B on Rs. 4 lacs.

2. **It must be used for the purpose business or profession.**

   (i) **It includes active use or passive use:** Passive use means the asset is "ready for use" like Generator, Spare Engine, etc.

   (ii) **The assets must be used for business purposes:** If the asset is used only for the personal purposes of the assessee, depreciation is not allowed. Further, if the asset is partly used for business purposes and partly for personal purposes, proportionate depreciation shall be allowed concerning the business use only.

   (iii) **Residential quarters**: When the occupation of residential quarters by the assessee's employees is subservient to and necessary for the business, the property is considered as occupied by the owner for his business. Depreciation is, therefore, allowable on such buildings. Similarly, fans, air-conditioners, refrigerators, furniture, etc., provided by the assessee-employer at the quarters of employees are considered to have been used wholly for the purpose of the employer's business and depreciation is admissible.

3. **It should be used during the previous year**

The asset, in respect of which depreciation is claimed, must have been used for the business. Normal depreciation (i.e., full year's depreciation) is available if an asset is put to use at least for some time during the previous year. **Depreciation is not allowed where the asset could not be used even for a single day or even for a few hours in the previous year.**

4. **Depreciation is available on tangible as well as on intangible assets.**

Depreciation is not allowed on all assets. It is allowed only in respect of – (i) certain tangible assets, and (ii) certain intangible assets. Here tangible assets would mean Buildings, Plants & Machinery, or Furniture. Further intangible assets would mean Know-how, patent, copyright, trademark, license, franchise, or any other business or commercial right of similar nature acquired after 31.3.1998.

It may be noted that the depreciation cannot be claimed on land, livestock, and wasting assets because they are not in the language.

COMPUTATION OF DEPRECIATION

The following information is required for the computation of depreciation:

(i) Cost of Asset (ii) Period of use

(iii) Depreciation Method. (iv) Block of assets

(i) Cost of Asset means the actual cost of the asset to the assessee. The cost of depreciable assets would include the purchase price and all other expenses incurred to bring the assets to their present form and location. For example, Installation charges, expenses for the development of the asset, training of staff, traveling expenses (for purchase of asset) legal expenses; expenses incurred for the foundation laying ceremony of the factory (But, inauguration expenses not included in the cost of Assets) **Any amount that has been born by any other person should be reduced from the cost like government subsidy.**

Where the assessee incurs any expenditure, in respect of which payment or aggregate of payments made to a person of an amount exceeding Rs. 10,000 in a day otherwise than by an account payee cheque or account payee bank draft or use of the electronic system through bank account would not be eligible as a deduction.

Interest paid on borrowed money for acquisition of fixed assets: Interest on a loan taken for the acquisition of a fixed asset shall be treated as follows:

(a) Newly set up business Up to the commencement of commercial production - Capital Expenses
After the commencement of commercial production - Revenue Expenses

(b) Existing business acquiring Assets for extension/expansion Up to the date on which the asset is put to use - Capital Expenses
After the date on which the assets are put to use - Revenue Expenses of business.

(ii) Period of Use: In order to claim depreciation the asset must be used during the previous year. If the assets have been acquired during the year and are **put to use for less than 180 days** during the previous year depreciation is available at **half** of the normal rate. This restriction applies only in the year of acquisition and not in subsequent years.

(iii) Depreciation Method: The Income Tax Act permits only two methods of depreciation –

(a) WDV Method: Normally WDV method is allowed. In this method, depreciation is computed **on the WDV of the Block of Assets.**

(b) SLM Method:– This method is allowed only in the case of an undertaking engaged in the **generation or generation and distribution of power.** In this method, depreciation is computed on the **Cost of the Asset.**

Power-generating units can opt for the WDV method. Such an option must be exercised before the due date for furnishing return u/s 139 (1) for the assessment year relevant to the previous year in which the undertaking begins to generate power. Such an option once exercised shall be final and shall apply to all of the subsequent assessment years.

WDV Method: Depreciation shall be computed block-wise and not asset-wise. Depreciation should be computed on the WDV of the block.

(iv) Block of assets: As per Section 2(11) "Block of Assets" means a group of assets falling within a class of assets comprising:

(a) Tangible assets, being building, machinery, plant, or furniture;

(b) Intangible assets, being know-how, patents, copyrights, trademarks, licenses, franchises, or any other business commercial rights of similar nature.

Assets eligible for depreciation are classified into four classes i.e.

(a) Building; (b) Plant and machinery; (c) Furniture; (d) Intangible assets.

Each class of assets other than intangible assets may have different blocks or groups on which separate rates of depreciation are prescribed and for each such rate, a separate block will be formed.

CALCULATION OF DEPRECIATION (UNDER WDV METHOD)

	Amount
Opening WDV of a block of assets	
Add: Assets purchased during the year	
Less: Amount received/ receivable in respect of assets sold/ discarded/ demolished during the year	
Less: Depreciation as per specified rates	
Closing WDV	

Rule of Computation:

(a) If new asset acquired during the year used for more than 180 days

Depreciation = Rate of depreciation x closing W.D.V.

(b) If new asset acquired during previous year used for less than 180 days

Depreciaton = Normal rate of depreication x (Closing W.D.B – Cost of New asset) + 50% of normal rate of depreciaton x cost of new asset

(c) If W.D.V. left less than cost of new assets then 50% of normal depreciaton shall be charged on W.D.V.

Note:

1. Building includes – Road, Bridge, Culvert, Well, Tube well
2. Plant includes – Ships, Vehicles, Books, Scientific apparatus, and surgical equipment used for the purpose of business or profession. However, the plant does not include tea bushes, livestock, building, furniture, or fittings.
3. Furniture & Fittings include - Electrical fittings. "Electrical Fittings" include electrical wiring, switches, sockets, other fittings, fans, etc.
4. No depreciation allowance is available in the following two cases:
   a) All the assets of the block have been sold during the year, though the block value is not zero. Such an amount would be treated **as a short-term capital loss.**
   b) The block value has been reduced to zero, though the assets are still in existence. The difference remaining (i.e. between the sale price and opening WDV + cost of assets purchased) would be taken as **short-term capital gains** and the block would be carried forward at nil value.

Rate of Depreciation WDV Method:

Block	Particulars of Assets	Rate
Building (1)	**Residential buildings for the residence of employees:** It should be mainly used for the residence of employees (at least 2/3rd part of the building should be used for residence)	5%
Building (2)	**Building used for business and profession of the assessee:** Buildings used for factories, offices, godowns, or buildings are not mainly used for the residence of employees. (It covers hotels also)	10%
Building (3)	**Purely temporary construction** such as wooden structures temporary shops in exhibitions, temporary houses for servants, etc,	40%
Furniture (4)	**Furniture and fittings including electrical fittings.**	10%
Plant& Machinery (5)	**Plant and Machinery** – (i) Normal Rate of Depreciation	15%
	(ii) Motor cars, other than those used in a business of running them on hire, acquired and put to use in business	
Plant& Machinery (6)	**Ships:** Ocean-going ships and vessels ordinarily operating on inland waters including speed boats.	20%
Plant& Machinery (7)	(i) **Taxi and motor buses:** Motor lorries and motor taxis used in a business of running them on hire	30%

Plant& Machinery (8)	(i) **Aeroplanes** – Aero engines	40%
	(ii) **Computers** including computer software	
	(iii) **Books:** Books owned by professionals, Books owned by libraries.	
	(iv) **Gas cylinders** including values and regulators	
	(v) **Energy** saving devices, **Renewal Energy devices**	
	(vi) **Plant and machines to control air pollution**, water pollution, and solid waste control	
Intangible Assets (9)	**Intangible Assets:** These includes expenditure incurred on technical knowhow, patents, copyrights, trademarks, license, franchises, or any other business or commercial rights of similar nature	25%

Additional Depreciation (Initial Depreciation):

1. It is in **addition to normal depreciation.**
2. The **assessee must be engaged in the manufacture or production of any article or thing.**
3. It is allowed in the **power sector** (generation, transmission, or distribution of power).
4. It is also allowed in case of an assessee engaged in printing or printing and publishing.
5. New plants and machinery should be acquired and installed.
6. It is **not** allowed in relation to the following plant and machinery:
   (i) Ships
   (ii) Aircraft
   (iii) Any machinery or plant installed in office premises, residential accommodation, or guest house.
   (iv) Any office appliances
   (v) Any road transport vehicles
   (vi) Any plant or machinery, the whole of the actual cost of which is allowed as a deduction.
   (vii) **Any machinery or plant which, before its installation by the assessee, was used either within India or outside India by any other person.**
7. Rate of additional depreciation = 20% of cost
   If the asset is put to use for less than 180 days then the rate = 10% of cost
   It is allowed only in the year in which the asset is put to use and not in the subsequent year.
8. If the asset is put to use for less than 180 days then 10% of the original cost will be allowed in the year of purchase and a balance 10% of the original cost will be allowed in the next assessment year.

SLM Method:

1. **Asset-wise depreciation:** The depreciation shall be computed on an individual asset basis. The block system is not applicable in the case of SLM.
2. **Depreciation rates:** As prescribed by Income Tax Rules 1962shall be applied.
3. Depreciation shall be calculated on the actual cost of the assets
4. SLM is optional for undertaking engaged in
   (i) generation or (ii) generation and distribution of power

Terminal depreciation: (ie. Loss on transfer) and Balancing charge (i.e. gain on transfer) in the case of power unit:

1. Terminal depreciation:

Where a tangible asset is sold, discarded, demolished, or destroyed in any previous year and the money payable in respect of such asset together with the scrap value, if any, is less than the WDV of the asset, the difference (i.e. the deficiency) shall be allowed as terminal depreciation or capital loss. If the assessee wants to claim such deficiency as terminal depreciation, the following conditions must be satisfied.

(i) The amount of deficiency is written off in the books of account,

(ii) The relevant asset is used for business purposes at least for some time during the year of the sale, and

If these conditions are not satisfied, the deficiency shall be treated as a capital loss (short-term or long-term depending upon the holding period).

2. Balancing charge:

If sale consideration together with scrap value is more than the opening WDV then the surplus will be treated as follows:

(a) Surplus equal to the amount of depreciation already claimed is taxable as a balancing charge as business income.

(b) The remaining surplus is taxable (Short term or long-term depending upon the holding period) under the head capital gains.

Where an asset is sold, discarded, etc. in the previous year in which it is first put to use any loss/ profit allowed arising therefrom will not be as terminal depreciation or chargeable as balancing charge but shall be treated as capital loss/ gain respectively.

Section 32 Provides that the claim of depreciation is mandatory. It shall be allowed even if the assessee does not claim.

Proportionate Depreciation: The provisions of proportionate depreciation are applicable in case of

a. Demerger of the company.

b. Amalgamation of companies.

c. Conversion of the firm into a company.

d. Conversion of proprietary concern into a company.

e. Succession of business otherwise than death.

f. Amalgamation/ Demerges of co-operative banks

The depreciation will be **apportioned** between the transferor and transferee in the **ratio of number of days** for which the assets are **used by each concern**.

3. Unabsorbed Depreciation (Section 32(2)):

a) Section 32 (2) provides how unabsorbed depreciation is to be carried forward and set off.

b) If as a result of the inadequacy of profits and gains full effect cannot be given to depreciation allowable U/s 32(1). Such a portion of depreciation becomes unabsorbed depreciation.

c) The unabsorbed depreciation should be set off against the profits and gains if any of the business or profession carried on by the assessee

d) If unabsorbed depreciation cannot be wholly set off against business income then the balance **unabsorbed depreciation can be set off against income under any other head (except salary) for that Assessment year.**

e) The balance unabsorbed depreciation shall be carried forward to the following Assessment years.

f) The unabsorbed depreciation **shall be carried forward without any limitation for any number of years.**

g) **Unabsorbed depreciation can be set off against income under any head (except salary) in the subsequent Assessment years.**

h) Even unabsorbed depreciation of discontinued business is eligible for set off in the future Assessment year.

4. Investment allowance in Specified States (Section 32AD):

Eligible Assessee: Manufacturing industries set up in the notified backward area of Andhra Pradesh, Bihar, Telangana, and West Bengal on or after 1.4.2015.

Eligible Investment: New plant & machinery acquired and installed on or after 1.4.2015 but up to 31.3.2020.

Eligible Deduction: 15% of the actual cost of asset acquired and installed

If a manufacturing unit is set up in the notified backward area of Andhra Pradesh, Bihar, Telangana, and West Bengal on or after 1.4.2015, the Rate of additional depreciation = 35% on cost.

If the asset is put to use for less than 180 days then 17.5% of the original cost will be allowed in the year of purchase and a balance 17.5% of the original cost will be allowed in the next assessment year

It is **not** allowed in relation to the following plant and machinery:

(i) Ships or Aircraft

(ii) Any machinery or plant installed in office premises, residential accommodation, or guest house.

(iii) Any office appliances

(iv) Any road transport vehicles

(v) Any plant or machinery, the whole of the actual cost of which is allowed as a deduction

(vi) Any machinery or plant which, before its installation by the assessee, was used either within India or outside India by any other person

Withdrawal of Investment Allowance: The new asset should not be transferred within a period of 5 years from the date of its installation otherwise the amount of investment allowance allowed to the assessee shall be deemed to be the business income of the assessee of the previous year in which such asset is transferred.

However, this restriction is not applicable in a case of amalgamation/demerger.

5. Expenditure on Scientific Research (Section 35):

"Scientific research" means" any activity for the extension of knowledge in the field of natural or applied science including agriculture, animal husbandry or fisheries.

Revenue Expenditure incurred by the assessee himself:

1. A 100% deduction is allowed only if such **research is related to business**.

2. 100% deduction of expenses incurred for the purchase of **material** and payment of **salary** (other than expenditure on providing perquisites) to employees. Such expenditure should be **incurred within 3 years** immediately **before the commencement** of business. The deduction will be **allowed** in the **year of commencement** of business and it cannot exceed the amount certified by the prescribed authority.

Capital Expenditure incurred by the Assessee himself:

1. A 100% deduction will be allowed only if such **research is related to business**.
2. 100% research related to business **within 3 years immediately before the commencement** of business will be allowed in the year of commencement of business.
3. **No deduction** is allowed in respect of the cost of **land** or right in the land.
4. **No deduction** by way of **depreciation** will be allowed for an asset used in scientific research.
5. Where a capital asset is used in normal business after it ceases to be used for scientific research, depreciation shall be allowed U/s 32. Cost shall be taken to be the original cost of the asset minus deduction claimed U/s 35 i.e. Nil.
6. If the asset is sold without being used for any other purposes the lower of the following will be taxable as business income:
   (i) Sale price, or (ii) Deduction U/s 35

Contribution to Approved Research Association:

(i) Engaged in Social Science and Statistical Science - 100%

(ii) Engaged in Scientific Research- 150%

Contribution to National Laboratory for Scientific Research[Section 35(2AA)]:

1. Deduction is allowed if payment is made to
   (a) National laboratory (b) University
   (c) IIT (d) others as approved by the prescribed authority
2. Deduction = 150% of the payment made
3. The scientific research **may be related or unrelated** to the business of the assessee.

The contribution given to the company for scientific Research, Social Science, and Statistical Science;

The amendment allows the **weighted deduction of 100%** in respect of any contribution given to a company for scientific research if the following conditions are satisfied –

(i) The payee is a company registered in India.

(ii) The payee has the main object of scientific research and development.

(iii) The payee is approved by the prescribed authority.

(iv) The payee fulfills any other prescribed condition.

6. Deduction in respect of in-house research and development expenses (Section 35(2AB)):

1. Deduction is allowed to **companies Assessee only**.
2. The assessee must be engaged in the business of
   (i) Biotechnology, or
   (ii) Manufacture of
      (a) Drugs (b) Pharmaceuticals (c) Electronic equipment
      (d) Computer (e) Telecommunication equipment

3. The research and development facility is approved by the prescribed authority.

   The taxpayer has entered into an agreement with the prescribed authority for co-operating in such research and development facility and for the account maintained for that facility.
4. The assessee incurs any capital or revenue expenditure on in-house research.
5. No deduction will be allowed for the cost of land or building. 100% deduction for the **cost of building can be claimed under Sec 35**. But the **cost of land does not qualify** for any deduction.
6. Deduction = **150** % of actual expenses

Other Points:

1) **Unabsorbed capital expenditure:** Any unabsorbed expenditure under this section shall be treated the same as unabsorbed depreciation U/s 32(2). It can be carried forward for an indefinite period and can be set off against any of the other heads of income also.

2) **Amalgamation:** In case of amalgamation, the amalgamating company cannot claim any deduction U/s 35. But an amalgamated company (being an Indian company) can claim a deduction u/s 35.

7. Deduction of Capital Expenditure of Specified Business (Section 35AD):

This section has been introduced to provide investment-linked incentives to the following business:

Specified business essential for the Indian economy:

1. Laying and operating a **cross-country**: (a) **natural gas**; (b) **crude**; or (c) **petroleum oil pipeline network** for distribution including storage facilities being an integral part of such network.
2. Setting up and operating a **cold chain facility**;
3. Setting up and operating a **warehousing facility** for the storage of **agricultural produce**;
4. Building and Operating anywhere in India, a **new hospital with at least 100 beds** for patients.
5. Building and operating anywhere in India, a **new hotel of two star or above** category as classified by the central government.
6. Developing and Building a **housing project** under the scheme for **slum redevelopment** or rehabilitation framed by the central or state government and notified by the CBDT in accordance with the prescribed guidelines.
7. Businesses like developing and building a **housing project** under a scheme for **affordable housing** framed by the governments and notified by the CBDT
8. Business of **producing fertilizers**: Capital expenditure like a new plant or newly installed capacity in any existing plant for the production of fertilizers
9. Setting up and operating an **inland container depot or a container freight station** notified under the Customs Act, 1962
10. **Bee-keeping** and production of honey and beeswax
11. Setting up and operating a **warehousing facility for the storage of sugar**
12. Laying and operating a **slurry pipeline** for the **transportation of iron ore**
13. Setting and operating a **semiconductor wafer fabrication** manufacturing unit notified by CBDT.
14. Developing or maintaining and operating or developing, maintaining & operating a new **infrastructure facility**.

DEDUCTION IN CASE OF ABOVE SPECIFIED BUSINESS

100% of the capital expenditure during the previous year would be allowed as a deduction.

Expenditure not eligible for deduction u/s 35AD

(I) Expenditure incurred on Acquisition of any land; goodwill or financial instrument

(II) Where the assessee incurs any expenditure, in respect of which payment or aggregate of payments made to a person of an amount exceeding Rs. 10,000 in a day otherwise than by an account payee cheque or account payee bank draft or use of the electronic system through bank account would not be eligible as a deduction.

Conditions to comply

The conditions to be complied with by a specified business for availing deduction under this section are as follows:

(i) It is **not set up by splitting up**, or the reconstruction, of a business already in existence;

(ii) It is **not set up by the** transfer to the specified business of **machinery or plant previously used** for any purpose.

EXCEPTION to condition (ii)

Exception 1: any plant & machinery which was used outside India by any person if the following condition is fulfilled :

(a) Such machinery or plant was **not used at any time in India**.

(b) Such machinery or plant is **imported into India** from any country outside India; and

(c) **No deduction** on account **of depreciation has been allowed** or is allowable in respect of such machinery or plant to any person earlier.

Exception 2: The specified business is not formed by the transfer of machinery or plant previously used for any purpose. However, **up to 20% of the total value** of plant and machinery can be plant and machinery **earlier used**;

(iii) The assessee shall **not be allowed any deductions** in respect of specified business under the provisions of **chapter VI-A 'Deduction in respect of certain incomes'**;

(iv) Once the assessee claims a deduction under section 35AD, **no other deduction** shall be allowed under any other section in any other previous year;

(vi) The deduction shall be allowed only if the **accounts are audited** by a Chartered Accountant and the audit report thereof is furnished along with the return of income.

Special Points

1. Where any capital asset, in respect of which deduction has been allowed u/s 35AD, has been discarded, demolished, destroyed, or transferred and consequent to that, **any sum has been received** or is receivable, shall be subject to **tax under the head 'Profit and Gains of Business or Profession'**
2. The **actual cost of any capital asset** on which deduction has been allowed or allowable u/s 35AD shall be considered as **'NIL' in the hands of an assessee** who has availed such benefit.
3. **Losses** of specified business can be **set off only against the profits from the specified business**.

In a case where the loss suffered by a specified business is unabsorbed, the same shall be carried forward to the subsequent assessment for setoff against profits of any specified business. Such unabsorbed loss of specified business may be **carried forward for setoff for an indefinite period**.

4. An asset shall be used only for the specified business for a period of 8 years. If such asset is used for any other purpose, the total amount of deduction so claimed (as reduced by the amount of depreciation that would have been allowed) shall be deemed to be the business income of the assessee in the year in which it is so used.

8. Payment for rural development programme (Section 35CCA):

Deduction is allowed if payment is made to:

1) Any association or institution for carrying out any programme of rural development.
2) Any association or institution which has of object of training the persons for implementation of rural development programme.
3) **National fund for rural development.**
4) **National urban poverty eradication fund.**

Deduction = Sum paid by the assessee

The association or institution as well as programme should be approved by the prescribed authority.

9. Expenditure on Notified Agricultural Extension Project (Section 35CCC):

Where an assessee incurs any expenditure on agricultural extension project notified by the Board. A deduction to the extent of 150% of such expenditure shall be allowed.

The agricultural extension project shall be considered notified if it fulfils all of the following conditions:

(a) The project shall be undertaken by an assessee for training, education and guidance of farmers

(b) The project shall have prior approval of the Ministry of Agriculture

(c) An expenditure (not being expenditure in the nature of cost of any lanc building) exceeding the amount of 25 lakhs is expected to be incurred for the project.

10. Expenditure on Notified Skill Development Project (Section 35CCD):

Where a company incurs any expenditure on any skill development project notified by the board. A deduction to the extent of 150% of such expenditure shall be allowed. Expenditure in the nature of cost of any land or building does not qualify.

11. Sec 35D: Amortisation of preliminary expenses

Who can claim deduction

1) Indian Company. 2) Resident non corporate assessee.

Time and purpose of preliminary expenditure

Before commencement of business:	For setting up any undertaking or business
After commencement of business:	In connection with extraction of an undertaking or in connection with setting up a new unit.

Qualifying Expenditure

1) Expenditure incurred for:

(i) Preparation of feasibility report

(ii) Preparation of project report

(iii) Conducting market survey or any other survey necessary for business.

(iv) Engineering services relating to the business of assessee.

2) Legal charges for drafting any agreement between the assessee and any other person for setting up or conduct of the business

3) In case of company assessee following additional expenses.

(i) Legal charges for drafting MOA/ AOA

(ii) Printing expenses of MOA/ AOA

(iii) Company registration fee under companies Act.

(iv) Underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of prospectus for public issue of shares or debentures.

Amount of Deduction:

There are three steps involved in computation of deduction—

Step I – Compute total of all eligible expenses i.e. the "Qualifying amount".

Step II – Compute "Maximum limit" as under

Assessee	Maximum limit
Company	5% of 'Cost of project' or 5% 'Capital employed', whichever is Higher
Non-corporate	5% of 'Cost of project'.

Step III – Compute 'Deductible amount'. This is 'amount of step -I' or 'amount of step – II', whichever is less

Step IV – 'Deduction amount' shall be allowed as **deduction in Five equal installments**. The first installment shall be allowed in the year in which business is commenced or the year in which the extension of undertaking is completed or the new undertaking commences production, as the case may be.

Notes:

1. **Cost of Project means:** Cost of fixed assets like land, building, leaseholds, plant, machinery, furniture & fittings, railway sidings, development of land and building (as on the last day of the year in which business is commenced).
2. **'Capital Employed' Means:** Issued Capital + Debentures + Long term borrowings (repayable during a period of not less than 7 years) as on the last day the year in which business in commenced.
3. **In case of demerger or amalgamation deduction** will be allowed to the resulting company or amalgamated company in the same manner.
4. **Audit of accounts** is necessary for claiming deduction where accounts are not audited under any other law.

12. Amortisation of Expenditure under Voluntary retirement scheme (VRS) (Section 35DDA):

1) Where any expenditure is incurred by way of payment of any sum to an employee in scheme of voluntary retirement.

2) Deduction = **1/5 of amount paid** in the previous year in which payment is made and balance in four equal installments in succeeding four previous years.

3) **If payment under VRS is made in installment each installment is eligible independently for amortisation over a period of 5 years.**

4) In case of demerger or amalgamation deduction will be allowed to the resulting company or amalgamated company in the same manner.

Note: This section is not applicable to any payment made to an employee for retrenchment or termination from service. Hence compensation paid in that situation shall be fully deductible u/s 37(1).

13. Some Specific Deductions (Section 36(1)):

Apart from above mentioned deductions the provisions of Sec 36(1) provide for following other deductions:

1) Insurance Premium

a) Insurance premium paid in respect of insurance against **risk of damage or destruction of stocks** or stores is allowed.

b) Insurance premium paid by federal milk co-operative society for **insurance on the life of cattle** owned by a member of primary co-operative society

c) Insurance premium paid by **any mode other than cash** for **insuring the health of the employees** under an approved insurance scheme.

2) Bonus or Commission to Employees(Sec 36(1) (ii)): Bonus or commission paid to employees for services rendered, where such sum would not have been payable as profits or dividends to such employees **(subject to Sec. 43B)**

3) Interest on borrowed Capital (Sec 36(1) (iii)):

1. Assessee must have borrowed capital - capital is borrowed for the **purpose of business** is allowed as deduction. **Interest on own capital is not deductible.** In other words, interest shall be paid to another person. Interest paid by one unit of the assessee to another unit is not deductible.
2. If capital is borrowed to acquire capital assets, then interest upto the date asset is first put to use will be capitalized i.e., added to cost of acquisition of the asset and interest for the period after the asset is put to use will be deductible.
3. Deduction will be **allowed even if profit is not earned** from use of such capital.
4. **No deduction** for interest will be allowed **if money is borrowed to pay income tax.**
5. **Interest on non-payment** or **late payment of advance tax** or **for late filing of return is not deductible.**

4) Discount on Zero coupon Bonds (Sec 36 (1) (iiia))

(i) **'Discount'** -means difference between the amount received and the amount payable on redemption of bonds.

(ii) This discount is allowed as deduction on pro rata basis over the period starting from date of issue to date of redemption of such bond.

$$Deduction = \frac{Total\ Discount}{Life\ of\ bonds\ (in\ months)}$$

(iii) **Meaning of Zero coupon bonds:** Zero coupon bonds issued by any infrastructure capital company or fund or public sector company.

(iv) **Meaning of month** – rounded off months i.e. 15 days or more are taken as 1 month otherwise ignore

5) **Write off of allowance for animals (Sec 36 (1) (vi)):** If animals which are used for business or profession (not as stock in trade) have died or become permanently useless then Deduction = Actual Cost – Amount realised from sale of carcasses or sale of animals

6) **Bad Debts (Sec 36 (1) (vii))**

Conditions:

(i) Debt should be **related to the business or profession**.

(ii) It shall be allowed in the previous year in which such debt becomes irrevocable.

(iii) The **business** to which debt is related **should be continued** during the previous year.

(iv) The **successor of business** can **claim deduction for debt created by the predecessor**.

(v) If debt recovered is less than unclaimed amount (i.e. Debt – bad debt allowed as deduction) then this will be allowed as deduction in year of recovery. But if debt recovered is more than unclaimed amount then,

Business Income = Recovery – Unclaimed amount

This business income will be taxable in the year of recovery.

(vi) **Transfer to Provision** for bad and doubtful debts or "Bad debts Reserve A/c" shall **not be allowed as deduction.**

7) **Employer's contribution to the account of the employee under a Pension Scheme referred u/s 80CCD[Section 36(1)(iva)]**

(i) The employer's contribution to the account of an employee under a Pension Scheme as referred to in section 80CCD would be allowed as deduction while computing business income.

(ii) However, deduction would be restricted to 10% of salary of the employee in the previous year.

(iii) Salary = Basic salary + conditional dearness allowance

8) **Family Planning Expenses (Sec36(1) (ix)) :**

Conditions:

1. The assessee must be a company , and
2. The expenditure must be incurred for promoting family planning among its employees.

Deduction = 100% if expenditure is revenue in nature.

Deduction = 5 equal installments if expenditure is capital in nature.

9) **Securities Transaction Tax (STT) : Section 36 (1) (xv)):** Securities Transaction Tax (STT) paid during the previous year is allowed as a deduction if the assessee is a dealer in securities.

10) **Commodities Transaction Tax to be allowed as a deduction [Section 36(xvi)]:** Commodities Transaction Tax paid by the assessee during the previous year shall be allowable as deduction, if the assessee is a dealer in commodity derivatives.

GENERAL DEDUCTIONS (SECTION 37(1))

Section 37(1) is the residuary section.In order to claim deduction under this section, the following condition should be satisfied: -

Conditions

(i) The expenditure should not be of the nature described U/s 30 to 36

(ii) It should **not** be in the nature of **capital expenditure**.

(iii) It should **not** be **personal expenditure** of the assessee.

(iv) It should have been **incurred in the previous year**

(v) It should have been incurred **wholly and exclusively for the purpose of business** carried on by the assessee.

(vi) It should **not have been incurred** for any purpose **which is an offence** or is prohibited by the law.

Expenditure should not be covered by sections 30 to 36:

1. For claiming deduction of an expenditure under section 37 (1), It should be ensured that the expenditure is not in the nature described by sections 30 to 36. The rule is that if an item of expenditure is covered under any of the aforesaid sections, the same cannot be claimed under the residuary section.
2. **Section 37(2B)** :Expenditure incurred on giving any advertisement in a souvenir, brochure, pamphlet or the like published by a political party is **not** allowed.
3. **EXPENDITURE ON CORPORATE SOCIAL RESPONSIBILITY:** any expenditure incurred by an assessee on the activities relating to CSR referred in Sec 135 of companies act 2013 shall not be deemed to have been incurred for the purpose of business and hence shall not be allowed as deduction u/s 37(1).
4. Expenses incurred in providing freebees to medical practitioner by pharmaceutical and allied health sector industry (Through circular)

SPECIFIC DISALLOWANCES UNDER THE ACT

Interest, Royalty, Fees for technical services or other sum payable outside India or payable to a non resident (Section 40(a)):

1. No deduction shall be allowed of above expenditure if
   (a) Tax is not deducted or
   (b) Tax deducted but not deposited upto due date of return of income u/s 139(1)
2. However such sum shall be allowed as deduction in the subsequent year in which such tax has been paid.

Sec 40(a)(ia) Any sum payable to resident

1. 30% of such sum shall be disallowed if
   (a) Tax is not deducted or
   (b) Tax deducted but not deposited upto due date of return of income u/s 139(1)

2. However 30% of such sum shall be allowed as deduction in the subsequent year in which such tax has been paid.

Special point for Sec 40(a)(ia)

If the following conditions are satisfied then no disallowance occurs –

(a) Resident recipient has furnished his return of income u/s 139

(b) Resident recipient has taken into account the above income in such return

(c) Resident recipient has paid the tax due on the income declared in such return of income.

(d) The payer furnishes a certificate to this effect from a CA.

Sec 40(a)(ii) Any sum paid on account of tax or cess levied on profits and gains of any business or profession.

Sec 40(a)(iii) Salary payable outside India or to a non resident without tax deduction

Sec 40(a)(v) Tax on non monetary perquisite paid by the employer

Payments to Relatives and associates (Section 40A(2)):

1) If an assessee incurs expenditure towards goods supplied, services rendered or facilities provided by specified persons the assessing officer can disallow such expenditure to the extent it is excessive or unreasonable. While doing so he shall have due regard to:

(a) The fair market value of the goods, service of facilities for which the payment is made; or

(b) The legitimate needs of the business or profession carried on by the assessee; or

(c) The benefit derived by or accruing to the assessee from such a payment.

The persons who are specified are as follows:

Assessee		Specified Persons
1) Individual :	:	Any relative of the assessee, any person in whose business or profession the assessee or his relative has a substantial interest
2) Company, firm, AOP or HUF	:	Any director, partner or member or relative of such person: any person in whose business or profession the assessee or director, partner or member of the assessee or any relative of such person has a substantial interest

2) **Who is Relative: [Section 2(41)] :** The term "relative" in relation to an individual, means the spouse, brother or sister or any lineal ascendant or descendant of that individual.

3) **Substantial interest**: A person is deemed to have substantial interest in the business or profession if such person is the beneficial owner of at **least 20 per cent of equity capital (in the case of a company) or if such person is entitled to 20 per cent profits or a concern (in any other case) at any time during the previous year.**

Cash Payment exceeding Rs. 10,000 (Section 40A(3)):

Where the assessee incurs any expenditure, in respect of which payment or aggregate of payments made

(i) to a single person

(ii) on a single day

otherwise than by

(a) an account payee cheque or

(b) account payee bank draft or

(c) use ofeletronic system through bank account

exceeds Rs. 10,000, such expenditure shall not be allowed as a deduction.

The **limit of 10,000 has been raised to 35,000** in case of **payment made to transport operators** for plying, hiring or leasing goods carriages.

Effect of Payment in Subsequent Year [40A(3A)]:where a deduction has been allowed by the Assessing Officer, but subsequently the assessee makes payment exceeding Rs.10,000 otherwise than by an account payee cheque or account payee bank draft or use ofeletronic system through bank account, the payment so made shall be deemed to be the income of business profession and accordingly chargeable to tax as the income of subsequent year (i.e. the year of payment).

Cases where disallowances would not be attracted:

(1) Loan transactions: It does not apply to loan transactions because advancing of loans or repayments of the principal amount of loan does not constitute an expenditure.

(2) Payment made by commission agents: This requirement does not apply to payment made by commission agents for goods received by them for sale on commission or consignment basis because such a payment is not an expenditure deductible in computing the taxable income of the commission agent.

For the same reason, this requirement does not apply to advance payment made by the commission agent to the party concerned against supply of goods.

However, where commission agent purchases goods on his own account but not on commission basis, the requirement will apply.

Exceptions (Rule 6 DD) No disallowance shall be made under section 40A(3):

In following exceptional situations, no disallowances shall be made.

(i) Where **payments are made to banks and financial institutions.** Such as RBI, Commercial banks, Co-operative banks, land mortgage banks, LIC etc.

(ii) Where **payment is made to State or Central government and** is required to be made in legal tender such as payment of **direct taxes, customs duty, excise, Railway Freight etc.**

(iii) Payment through the **banking system** in some specific manners, Telegraphic Transfer (TT), Mail Transfer (MT), Letter of Credit (L/C), book adjustment in the same bank or between one bank and other bank, Bill of Exchange made payable to a bank, Electronic Credit System (ECS), Credit Card and Debit Card.

(iv) Payment made by **book adjustment** by an assessee in the account of payee against money due to the assessee for any goods supplied or services rendered by him to the payee.

(v) Payment to a **cultivator or grower** or producer towards, purchase of agricultural produce, forest produce, produce of animal husbandry including hides and skin, produce of dairy or poultry farming, fish or fish products, or the products of horticulture or apiculture.

(vi) Payment for the purchase of the products manufactured in a **cottage industry** carried on **without aid of power**.

(vii) Payment of **retirement benefits** such as gratuity, retrenchment compensation etc. payable to an employee or his legal heirs, **if such payment does not exceed Rs.50,000 in aggregate**.

(viii) Payment to **a person** who ordinarily **resides or carries on B/P/V in a village not served by any bank**.

(xi) Payment required to be made on a day on which **banks were closed** either on account of holiday or strike.

(x) Payment made by **any person to his agent**, who is required to make payment in cash for goods or services on behalf of such person.

(xi) **Salary payment** after deduction of tax at source made to an employee who is **temporarily posted** for a **continuous period of 15 days or more** at a place other than his normal place of duty or **on a ship** and such employee doesn't maintain any bank account at such place or ship.

(xii) Payment made by an **authorized dealer or money changer** against purchase of foreign currency or traveller cheques in normal course of his business.

Amounts not deductible in respect of provision for unapproved gratuity fund (Section 40A(7)):

No disallowance where any provision is made by the employer for the purpose of payment of sum by way of contribution to an approved gratuity fund during the previous year or for the purpose of making payment of any gratuity that has become payable during the previous year.

Contribution to Non-Statutory Funds (Section 40A(9)):

Any sum paid by the assessee (as an employer) to any fund, company, society, trust or institution established for the employees is disallowed.

Exceptions: The section does not apply where the contribution is made by an employer to the following funds:

(i) An Approved Gratuity fund.

(ii) A Recognised Provident Fund.

(iii) An Approved Superannuation Fund,

(iv) Any other statutory fund i.e. any fund set up under any law for the time being in force.

DEEMED PROFITS (SECTION 41)

This section enumerates certain receipts which are deemed to be income under the head "business or profession." Such receipts would attract charge even if the business from which they arise had ceased to exist prior to the year in which the liability under this section arises. The particulars of such receipts are given below:

(i) Remission or cessation of trading liability [Section 41(1)]

(ii) Balancing charge [Section 41(2)]

(iii) Sale of capital asset used for scientific research [Section 41(3)]

(iv) Recovery of a bad debt subsequently etc. [Section 41(4)]

(v) Brought forward losses of defunct business [Section 41(5)]

CHANGES IN THE RATE OF EXCHANGE OF CURRENCY (SECTION 43A)

Where an assessee has acquired any asset from a foreign country for the purpose of his business or profession, and due to a change thereafter in the exchange rate of the two currencies involved, there is an increase or decrease in the liability (expressed in Indian rupees) of the assessee at the time of making the

payment, the following values may be changed accordingly with respect to the increase or decrease in such liability:

(i) the actual cost of the asset under section 43(1)

(ii) the amount of capital expenditure incurred on scientific research under section 35(1)(iv)

(iii) the amount of capital expenditure incurred by a company for promoting family planning amongst its employees under section 36(1)(ix)

(iv) the cost of acquisition of a non-depreciable capital asset falling under section 48.

The amount arrived at after making the above adjustment shall be taken as the amount of capital expenditure or the cost of acquisition of the capital asset, as the case may be.

Amount not deductible in respect of certain unpaid liabilities (Section 43B):

(Certain Deductions to be allowed on payment basis)

Deduction of following expenses shall be allowed only on payment basis.

1) **Any tax, duty, cess or fee by whatever name called payable under any law** may be central law, state law or municipal law etc.

2) **Interest on any loan or borrowing from any Public financial institution**, State financial Institution, State financial corporation or Sate Industrial Investment Corporation.

3) **Interest on any loan or advance taken from a Scheduled bank or a** Co operative bank.

4) **Bonus or commission to employees**

5) Any sum payable to an **employee in lieu of any leave to his credit (Earned leave salary)**

6) Contribution of employer **towards staff welfare scheme. For example, Provident fund, Superannuation fund, Gratuity fund** or any other welfare Fund of employees.

7) **Any sum payable to the Indian railways for the use of railway assets.**

The above amounts shall not be allowed as deduction unless the payments are actually made within the due date for filing the return of income U/S 139 (1). If the payment is made after the due date for filing the return deduction can be claimed only in the year of actual payment

Note: If any sum payable by an assessee as interest on any loan is converted by the bank or financial institution into a fresh loan the interest so converted shall not be deemed as actual payment and not allowed as deduction in the computation of income U/s 43B.

Stamp Duty Value of Land and Building to be Taken as the Full Value of Consideration in respect of Transfer, Even if the same are held by the Transferor as Stock-In-Trade (Section 43CA):

(i) where the consideration for the transfer of an asset (other than capital asset), being land or building or both, is less than the stamp duty value, the stamp duty value shall be deemed to be the full value of the consideration for the purposes of computing income under the head "Profits and gains of business of profession".

However, if the stamp duty value does not exceed 105% of the consideration received or accruing then, such consideration shall be deemed to be the full value of consideration for the purpose of computing profits and gains from transfer of such asset.

(ii) Further, where the date of an agreement fixing the value of consideration for the transfer of the asset and the date of registration of the transfer of the asset are not same, the stamp duty value may be taken as on the date of the agreement for transfer instead of on the date of registration for such

transfer, provided at least a part of the consideration has been received **by way of an account payee cheque/ account payee bank draft or use of ECS through a bank account** on or before the date of the agreement.

(iii) The Assessing Officer may refer the valuation of the asset to a valuation officer where the assessee claims before any Assessing Officer that the value adopted or assessed or assessable by the authority for payment of stamp duty exceeds the fair market value of the property as on the date of transfer and

(iv) Where the value ascertained by the Valuation Officer exceeds the value adopted or assessed or assessable by the Stamp Valuation Authority, the value adopted or assessed or assessable shall be taken as the full value of the consideration received or accruing as a result of the transfer.

Compulsory maintenance of accounts (Section 44AA):

"Specified Profession": For the purpose of section 44AA legal, medical, engineering, architectural, accountancy, technical consultancy, or interior decoration or authorised representative, film artist, company secretary and information technology are specified professions.

Different categories	Taxpayers who come under these categories	Requirement of maintenance of books of account
Category A	Person carrying on **"specified profession"** if their gross receipts in the profession **exceed Rs.1,50,000** in **all** the three years immediately preceding the previous year	Persons coming in this category are required to maintain such books of account as are prescribed by **rule 6F**
Category B	Person carrying on **"specified profession"** if their annual gross receipts in the profession **do not exceed Rs.1,50,000** in **any** of the three years immediately preceding the previous year	Persons coming under this category are required to maintain such "books of account and other document" as may enable the Assessing Officer to compute their taxable income under the Income-tax Act.
Category C	Individual or HUF carrying on a **"non-specified profession"or any business** if their annual income from such profession or business **exceeds Rs.2,50,000** or the total sales, turnover or gross receipts thereof are in **excess of Rs.25,00,000** in **any one** of the **three years** immediately preceding the previous year	Persons coming under this category are required to maintain such "books of account and other document" as may enable the Assessing Officer to compute their taxable income under the Income-tax Act.
Category D	Persons (other than individual or HUF) carrying on a **"non-specified profession"or any business** if their annual income from such profession or business **exceeds Rs.1,20,000** or the total sales, turnover or gross receipts thereof are in **excess of Rs.10,00,000** in **any one** of the **three years** immediately preceding the previous year	Persons coming under this category are required to maintain such "books of account and other document" as may enable the Assessing Officer to compute their taxable income under the Income-tax Act.

Notes:

In case of Individual or HUF: In cases where the business or profession is newly set up in any previous year, if his income from business or profession is likely to exceed Rs. 2,50,000 or his total sales turnover or gross receipts, as the case may be, in the business or profession are likely to exceed Rs.25,00,000 during the previous year

In case of Persons (other than individual or HUF) : In cases where the business or profession is newly set up in any previous year, if his income from business or profession is likely to exceed Rs.1,20,000 or his total sales turnover or gross receipts, as the case may be, in the business profession are likely to exceed Rs.10,00,000 during the previous year

Following persons are also required to maintain books of accounts u/s 44AA:

1. Where profits and gains from the business are calculated on a presumptive basis under section 44AEand the assessee has claimed that his income is lower than the presumptive income.
2. In cases where an assessee not eligible to claim the benefit of the provisions of section 44AD and his income exceeds the basic exemption limit during the previous year.

RULE 6F- PRESCRIBED BOOKS OF ACCOUNTS AND OTHER DOCUMENTS

The following books of account and other documents are required to be maintained

(i) a cash book;

(ii) a journal, if accounts are maintained on mercantile basis;

(iii) a ledger;

(iv) Carbon copies of bills and receipts issued by the person in relation to sums exceeding Rs. 25;

(v) Original bills and receipts issued to the person in respect of expenditure incurred by the person exceeding Rs. 50.

In case of a person carrying on medical profession, he will be required to maintain the following in addition to the list given above:

(i) a daily case register in Form 3C.

(ii) an inventory under broad heads of the stock of drugs, medicines and other consumable accessories as on the first and last day of the previous year used for his profession.

Place at which books to be kept and maintained: The books and documents shall be kept and maintained at the place where the person is carrying on the profession.

Where there is more than one place, it is to be kept and maintained at the principal place of his profession. However, if he maintains separate set of books for each place of his profession, such books and documents may be kept and maintained at the respective places.

It is to be kept and maintained for a minimum period of 6 years from the end of relevant Assessment year.

WHEN AUDIT OF ACCOUNTS BY CERTAIN PERSONS IS COMPULSORY (SECTION 44AB)

The following persons are required to get their accounts **compulsorily audited before the specified date** by a chartered Accountant.

1. If the total sales, turnover, gross receipts in business exceeds Rs. 100 lakh in any P.Y.
2. If the gross receipts in profession exceeds Rs. 50 lakh in any P.Y.
3. Where the assessee is covered U/s 44ADA & 44AE and claims that the profits and gains from the business are lower than the profits and gains computed under these sections.
4. In cases where an assessee not eligible to claim the benefit of the provisions of section 44AD and his income exceeds the basic exemption limit during the previous year.

If an eligible person opts for presumptive taxation scheme as per Section 44AD, he shall not be required to get his accounts audited if the total turnover or gross receipts of the relevant previous year does not exceed Rs.2 crore.

Specified date means the due date of return of income u/s 139(1).

PRESUMPTIVE INCOME SCHEMES

Presumptive taxation scheme for business (Section 44AD):

Eligible business: All small businesses with total turnover/gross receipts of up to Rs.200 lakh (except the business of plying, hiring and leasing goods carriages covered under section 44AE).

Eligible assessee: Resident individuals, HUFs and partnership firms (but not LLPs) and who has not claimed deduction under any of the section 10AA or deduction under any provisions of Chapter VIA under the heading "C.—Deductions in respect of certain incomes" in the relevant assessment year would be covered under this scheme.

Persons not eligible for presumptive taxation scheme: The following persons are specifically excluded from the applicability of the presumptive provisions of section 44SAD-

(a) A person carrying on specified profession as referred to in section 44AA

(b) A person earning income in the nature of commission or brokerage; or

(c) A person carrying on any agency business.

Presumptive rate of tax: The presumptive rate of tax would be 8% of total turnover or gross receipts. However, the presumptive rate of 6% of total turnover or gross receipts will be applicable in respect of amount which is received

- by an account payee cheque or
- by an account payee bank draft or
- by use of electronic clearing system through a bank account during the previous year or before the due date of filing of return under section 139(1) in respect of that previous year.

Higher threshold for non-audit of accounts for assesses opting for presumptive taxation under section 44AD: Section 44AB makes it obligatory for every person carrying on business to get his accounts of any previous year audited if his total sales, turnover or gross receipts exceed Rs.1 crore. However, if an eligible person opts for presumptive taxation scheme as per Section 44AD, he shall not be required to get his accounts audited if the total turnover or gross receipts of the relevant previous year does not exceed Rs.2 crore. **In case of non-offering of income as per section 44AD for five continuous years, eligible assessee cannot opt for section 44AD for the next five AYs after the assessment year of first non-option**.

Advance tax: The eligible assessee is required to pay advance tax by 15th March of the financial year.

Presumptive taxation scheme for specified profession (Section 44ADA):

Eligible Profession: A resident assessee :

(a) who is engaged in any profession referred to in section 44AA (1) such as legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the Official Gazette; and

(b) whose total gross receipts does not exceed fifty lakh rupees in a previous year,

Presumptive rate of tax: The income of the assessee shall be calculated on estimated basis at a sum equal to **50% of the total gross receipts.**

Option to claim lower profits: Assessee can claim that profits & gains of these business are lower than the incomes deemed in these provisions only if assessee maintains books of A/c as per Sec. 44 AA and gets them audited U/s 44AB and furnished audit report.

Advance Tax: The eligible assessee is required to pay advance tax by 15th March of the financial year.

Presumptive Taxation Scheme for Transport operation business (Section 44AE):

Eligible business :- Business income of an owner goods carriages from the plying, hire or leasing of such goods carriages;

Eligible assessee :- The scheme applies to persons owning not more than 10 vehicles at any time during the previous year.

Presumptive Income :-

Heavy goods Vehicle- 1,000 per ton of gross vehicle weight or unladen weight, asthe case may be, for every month or part of a month

Other than heavy goods vehicle- Rs. 7500 for every month or part of a month.

Option to claim lower profits:: Assessee can claim that profits & gains of these business are lower than the incomes deemed in these provisions only if assessee maintains books of A/c as per Sec. 44 AA and gets them audited U/s 44AB and furnished audit report.

Meaning:-

(1) **Heavy goods vehicle-** any goods carriage, the gross vehicle weight of which exceeds 12,000 kilograms.

(2) **Gross vehicle weight-** total weight of the vehicle and load certified and registered by the registering authority as permissible for that vehicle.

(3) **Unladen weight-** the weight of a vehicle or trailer including all equipment ordinarily used with the vehicle or trailer when working but excluding the weight of driver or attendant and where alternative parts or bodies are used the unladen weight of the vehicle means the weight of the vehicle with the heaviest such alternative body or part

Common points for Section 44 AD, 44ADA and Sec 44 AE

1. **No further deduction would be allowed**: All deductions allowable under Section 30 to 38 shall be deemed to have been allowed in full and no further deduction shall be allowed.
2. **Written down value of the asset:** The WDV of any asset of such business shall be deemed to have been calculated as if the assessee had claimed and had been actually allowed the deduction in respect of depreciation for each of the relevant years.

3. **Relief from maintenance of books of accounts and audit:** The intention of this scheme is to reduce the compliance and administrative burden on small assessee and relieve them from the requirement of maintaining books of account. Such assessees opting for the presumptive scheme are not required to maintain books of account under section 44AA or get them audited under section 44AB.
4. However, the assessee has the option to declare in his return of income, an amount higher than the Presumptive income so calculated claimed to have been actually earned by him.
5. Salary, interest, remuneration paid to partner as per section 40(b) is **not** deductible.

RENTAL INCOME CHARGEABLE AS INCOME FROM BUSINESS AND NOT AS INCOME FROM HOUSE PROPERTY

Income from letting out any house property for any purpose is taxable under the head "Profit & Gains from Business or Profession" provided such letting out is supplementary to the business/profession of the assessee. All expenses in relation to such house property are allowed to be debited to the Profit & Loss A/c prepared u/h 'Business/Profession'.

EXAMPLES:

Rent received by a school from letting out its auditorium for conducting coaching classes, rent income from letting out of houses by a company to its employees, etc.

Circumstances where rental income is held as business income:

(i) Where business and its assets are leased out as a going concern.

(ii) Assets are leased out along with furniture and fittings and other associated structures.

(iii) In addition to leasing of properties, various other services were regularly provided (like lifts, security, or other amenities, infrastructure such as machinery, security systems, canteen and housekeeping, etc.). Thus, if facilities given by assessee along with let out buildings/commercial establishments were inseparable and entire construction and interiors of buildings were done with sole intention of carrying on business, entire income would be assessed as business income.

(iv) Leasing out the property as a dire financial consequence in the business.

(v) Rental income from business of developing, operating and maintaining an industrial park and providing infrastructure facilities.

(vi) Assessed as business income in earlier years.

(vii) Letting out of godowns and warehouses to traders, carrying on warehousing business is a primary source.

(viii) Letting out in the course of business or is integral part of business (*e.g.*, letting house to director)

(ix) Letting out temporarily.

(x) Rental income from flats taken on tenancy basis.

(xi) Evidence of commercial exploitation is necessary.

(xii) Special right or privilege is given to franchisees to undertake a particular business in property

Amount not deductible in respect of payment to relatives:

If a payment is made by a taxpayer in respect of an expenditure to the persons as mentioned below table, section 40A(2) is applicable and, consequently , to the extent such expenditure is considered to be excessive or unreasonable having regard to the fair market value of goods, services, facilities etc. it shall be disallowed.

Before this we should learn about two terms 'relative' and 'substantial interest'-

Relative (Section 2(41)) : The term 'relative' in relation an individual means the husband, wife, brother or sister or any lineal ascendent or descendent of that individual.

Substantial Interest: A person is deemed to have substantial interest in the business or professon if such person is the beneficial owner of at least 20% of equity capital (in the case of a company or if such person is entitled to 20% profits of a concern (in any other case) at any time during the previous year.

Who has incurred the expenditure (i.e. the taxpayer)	To whom the payment is made
An individual	To a relative
An individual	To a person in whose business the taxpayer or any of his relative has a substantial interest
A HUF	To a member of the family or relative of such person
A firm	To a partner of the firm or a relative of the partners
A company	To a person in whose business the taxpayer/any director of taxpayer/any relative of such director has a substantial interest
A company	To a director of the company or any relative of the director
An association of person	To a member of the association or a relative of the member
Any taxpayer	To an individual who has a substantial interest in the business of the taxpayer or a relative of such individual
Any taxpayer	To a company who has a substantial interest in the business of the taxpayer any director of such company or a relative of such director(or from the assessment year 2013-14, any other company carrying on business/profession in which the first mentioned company has a substantial interest)
Any taxpayer	To a firm/association of person/HUF who has a substantial interest in the business of the taxpayer or partner member of such person or a relative of perner/member
Any taxpayer	To a company one of whose director has a substantial interest in the business of the taxpayer or payment is made to any director of such company or any relative of such director
Any taxpayer	To a firm/AOP/HUF, one of whose partner/members has a substantial interest in business of the taxpayer or payment is made to any other partner/member of such firm/association/HUF or any relative of such person.
A firm/AOP/HUF	To a person in whose business the taxpayer any partner/member of the taxpayer or any relative of such partner/member has a substantial interest.

ILLUSTRATION 5.1

An Assessee owns the following assets in his business as on 1 April 2022:

Assets	Rate of depreciation applicable	Book value
Machine A	15%	50,000
Machine B	15%	60,000
Motor van	30%	20,000
Furniture	10%	50,000
Motor car	15%	16,000
Building A	5%	2,20,000
Building B	10%	1,40,000

Find out block wise book value of assets ?

Solution:

First Block (Machines 15%) (A + B) (50,000+60,000)	1,10,000
Second block (Motor Van 30%)	20,000
Third Block (Furniture 10%)	50,000
Fourth Block (Motor Car 15%)	16,000
Fifth block (Building A 5%)	2,20,000
Sixth block (Building B 10%)	1,40,000

EXERCISE 5.1

An Assessee owns the following assets in his business as on 1 April 2022:

Assets	Rate of depreciation applicable	Book value
Machine A	15%	60,000
Machine B	15%	1,10,000
Machine C	15%	40,000
Motor van	30%	70,000
Furniture	10%	40,000
Motor car	15%	2,56,000
Building A	10%	20,00,000
Building B	10%	60,00,000

Find out block wise book value of assets ?

r[Ans.: First Block 15% Rs.2,10,000, Second 30% Rs. 70,000, Third 10%Rs. 40,000, Fourth 15% 2,56,000, Fifth 10% Rs. 80,00,000]

ILLUSTRATION: 5.2

Mr. Vikas purchased a machine on 15 Sept. 2020 for Rs. 6,00,000 and sold it on 10 April, 2022 for Rs. 4,30,000. He acquired again the same machinery on 15 July 2022 for Rs. 4,50,000. What will be the actual cost of the machinery for the previous year 2022-23?

Solution:

Actual cost of machine	6,00,000
Less: Depreciation @ 15% for previous year 2020-2021	90,000
Book value as on 1-4-2021	5,10,000
Less: Depreciation @ 15% for previous year 2021-2022	76,500
Book value as on 1-4-2022	4,33,500

Note: Machine sold on 10 April 2022 for Rs. 4,30,000 and same machine re acquired on 15 July 2022 in the same previous year for Rs. 4,50,000. In this case the book value of WDV on 1 April 2022 will be Rs. 4,33,500 (Being the depreciated value or Rs. 4,50,000 whichever is less). Hence Opening WDV for previous year 2022-23 will be Rs. 4,33,500.

EXERCISE 5.2

Mr. Pratham purchased a machine on 10 Aug. 2021 for Rs. 6,60,000 and sold it on 15 Dec, 2022 for Rs. 6,10,000. He acquired again the same machinery on 25 Dec. 2022 for Rs. 6,25,000. What will be the actual cost of the machinery for the previous year 2022-23? [Ans.:Rs. 4,76,850]

ILLUSTRATION 5.3

Mr. Vallabh has following machines in the block of 15%.

Machine A	1,50,000
Machine B	2,00,000
Machine C	1,00,000
Machine D	90,000
WDV as on 1 April 2022	5,40,000

A new machine E of same block were purchased for Rs. 6,50,000 on 30 Nov. 2022. Two old machines were sold on 28 June 2022 for Rs. 8,80,000.

You are required to compute the depreciation and additional depreciation for the assessment year 2023-24.

Solution:

Computation of depreciation allowed u/s 32(1)

Particular	**Amount**
WDV of machine as on 1.04.2022	5,40,000
Add: Machines purchase on 30 Nov. 2022	6,50,000
Less: Machines sold during the year	8,80,000
Machines in the block (C, D and E)	3,10,000

Depreciation allowable 3,10,000 x 7.5% (Machine used for less than 180 days)	23,250
Additional depreciation 6,50,000 x 10%	65,000
Allowable depreciation total	88,250
WDV of machines at the end of previous year 2022-23	2,21,750

Exercise 5.3

Mr. Prayas has following machines in the block of 15%.

Machine A	55,000
Machine B	1,75,000
Machine C	88,000

A new machine D of same block were purchased for Rs. 4,10,000 on 10 Jan. 2023. Machine A were sold on 31 Dec. 2022 for Rs. 5,00,000.

You are required to compute the depreciation and additional depreciation for the assessment year 2023-24.

[Ans.: Rs. 58,100]

ILLUSTRATION 5.4

From the following information calculate allowable depreciation for the assessment year 2023-24:

WDV of Machine (15% block)	4,00,000
New machines purchased during the year	
Machine I 10 June 2022	2,00,000
Machine II 10 Nov. 2022	1,00,000
Old machines sold for Rs.	3,00,000

Solution:

Computation of allowable depreciation

WDV of block 15%	4,00,000
Add: New machines purchased	
Machine I	2,00,000
Machine II	1,00,000
	7,00,000
Less: Old machine sold	3,00,000
Value of block	4,00,000
Depreciation	
Machine II used less than 180 days 1,00,000 x 7.5%	7,500
Balance block (4,00,000-1,00,000) x 15%	45,000
Additional depreciation	

Machine II 1,00,000x 10%	10,000
Machine I 2,00,000 x 20%	40,000
Total depreciation allowable	1,02,500
WDV of block at the end of 2022-23	2,97,500

EXERCISE 5.4

From the following information calculate allowable depreciation for the assessment year 2023-24:

WDV of Machine (15% block)	6,00,000
New machines purchased during the year	
Machine I 15 June 2022	3,00,000
Machine II 15 Nov. 2022	1,50,000
Old machines sold for Rs.	4,50,000

[Ans.:Rs. 1,53,750]

ILLUSTRATION 5.5

From the following information find allowable depreciation for the assessment year 2023-24:

Particular	**Amount**
Depreciated value as on 1-4-2022	2,00,000
New plant and machinery purchased	
On 1-06-2022	11,20,000
On 10-11-2022	2,80,000
Sales of old plant	60,000

A machine of Rs. 3,00,000 purchased by payment of cash in June 2022 included in above.

How your answer will be changed if :

1. Machines are installed in backward area of Rajasthan.
2. Machines are installed in backward area of Andrapradesh
3. Machines re installed in developed area of Telangana

Solution:

Computation of allowable depreciation and additional depreciation for the assessment year 2023-24

Particular	**Amount**
Depreciated value as on 01-04-2022	2,00,000
Add: New machine purchased in June 2022 (Rs. 11,20,000 – Rs. 3,00,000)	8,20,000
In Nov. 2022	2,80,000
	13,00,000

Less: Sales of old machine	60,000
Value of block	12,40,000
Normal depreciation 2,80,000 x 7.5%	21,000
(12,40,000 – 2,80,000) x 15%	1,44,000
Additional depreciation	
2,80,000 x 10%	28,000
8,20,000) x 20%	1,64,000
Total depreciation	3,57,000
WDV as on 31 March 2023	8,83,000

Notes: If machines are purchased on cash payment, depreciation will not be allowed on such machine.

If machines are installed in specific area: earlier if machines was installed in specific area additional depreciation was allowed @ 35% instead of 20% but w.e.f. assessment year 2023-24 such provision was withdrawn. Therefore, there will be no change in (a), (b) and (c).

EXERCISE 5.5

From the following information find allowable depreciation for the assessment year 2023-24:

Particular	**Amount**
Depreciated value as on 1-4-2022	2,50,000
New plant and machinery purchased	
On 1-06-2022	14,00,000
On 10-11-2022	3,50,000
Sales of old plant	1,00,000

[Ans.: Rs. 5,73,750]

ILLUSTRAION: 5.6

You are given the following information in respect of Mr. Palash Kumar. Compute depreciation allowable as per Income Tax Act, 1961 for the assessment year 2023-24:

a) Written down value of plant and machinery on 01-04-2022 Rs. 5,36,000

b) Additions to plant made on 01-12-2022 in office building Rs. 1,30,000

c) Machinery purchased on 31-12-2022 which could not be installed during the financial year Rs. 1,40,000.

d) Sale proceeds of the machinery of Rs. 1,72,000 which was originally purchased on 01-04-2020 for Rs. 1,20,000

e) Machinery destroyed in a fire happened on 30-03-2023. Its original cost on the date of purchase on 01-04-2021 was Rs. 60,000. The amount received rom the insurance company Rs. 45,000.

Rate of depreciation 15%

Solution:

Computation of depreciation for the assessment year 2023-24

Block 15%

Particular	Amount
WDV of Plant and Machinery as on 01-04-2022	5,36,000
Add: Plant purchased on 01-12-2022	1,30,000
	6,66,000
Less: Sale proceeds of machine sold	1,72,000
Less: Amount received from Insurance co. for machine destroyed in a fire	45,000
	4,49,000
Less: Depreciation on	
1,30,000 x 7.5% 9,750	
Depreciation on (4,49,000 – 1,30,000) x 15% = 47,850	
Additional depreciation on Rs. 1,30,000 1,30,000 x 10% = 13,000	70,600
WDV as on 01-04-2023	3,78,400

EXERCISE 5.6

You are given the following information in respect of Mr. Palash Kumar. Compute depreciation allowable as per Income Tax Act, 1961 for the assessment year 2023-24:

a) Written down value of plant and machinery on 01-04-2022 Rs. 7,35,000

b) Additions to plant made on 01-05-2022 in office building Rs. 2,80,000

c) Machinery purchased on 31-12-2022 which could not be installed during the financial year Rs. 2,80,000.

d) Sale proceeds of the machinery of Rs. 3,30,000 which was originally purchased on 01-04-2020 for Rs. 1,20,000

Rate of depreciation 15% [Ans.:Rs. 1,58,750]

ILLUSTRATION 5.7

From the following data calculate the depreciation admissible to Shri Kailash Joshi for the assessment year 2023-24

(a) WDV of Computer as on 1-4-2022 Nil
Additions on 01-01-2023 Rs. 60,000

(b) WDV of Factory building on 1-4-2022 Rs. 5,00,000
Additions in Aug. 2022 Rs. 3,00,000

(c) WDV of plant and machinery on 1-4-2022 Rs. 7,00,000
Additions
15-07-2022 Rs, 1,20,000
31-12-2022 Rs. 1,50,000

Sales during the year

01-01-2023 Rs. 5,00,000

(d) WDV of Furniture & fixtures on 01-04-2022 Rs. 1,30,000

(e) WDV of Motor car on 01-04-2022 Rs. 70,000

Solution:

Computation of amount of allowable depreciation and additional depreciation for the assessment year 2023-24

	Rs.	Rs.
First block (Factory building @ 10%)		
WDV on 01-04-2022	5,00,000	
Add: Additions in Aug. 2022	3,00,000	
WDV for depreciation for P.Y.	8,00,000	
Depreciation @ 10% on Rs. 8,00,000		80,000
Second block (Furniture & Fixtures Depreciation @ 10%)		
WDV on 01-4-2022	1,30,000	
Add: Additions	Nil	
Less: Sales	Nil	
	1,30,000	
Depreciation @ 10% on 1,30,000		13,000
Third block (Plant and Machinery, Car, Dep. @ 15%)		
WDV of Motor Car	70,000	
WDV of Plant and machinery	7,00,000	
	7,70,000	
Add: Additions		
15-07-2022	1,20,000	
31-12-2022	1,50,000	
	10,40,000	
Less: Sales during the year	5,00,000	
WDV for P.Y.	5,40,000	
Depreciation on		
Additions of P & M used less than 180 days in previous year 1,50,000 x 7.5%	11,250	
Balance of block used more than 180 days (5,40,000 – 1,50,000) x 15%	58,500	69,750

Additional depreciation		
1,50,000 x 10%	15,000	
1,20,000 x 20%	24,000	39,000
Fourth Block (Plant and Machinery @ 40%)		
WDV of computers on 01-04-2022	Nil	
Add: Additions	60,000	
Less: Sales during the previous year	Nil	
	60,000	
Depreciation @ 40% 60,000 x 20%		12,000
Allowable depreciation		2,13,750

EXERCISE 5.7

From the following data calculate the depreciation admissible to Shri Kailash Joshi for the assessment year 2023-24

(a) WDV of Computer as on 1-4-2022 Rs.26,000
Additions on 01-01-2023 Rs. 60,000

(b) WDV of Factory building on 1-4-2022 Rs. 8,00,000
Additions in Aug. 2022 Rs. 23,00,000

(c) WDV of plant and machinery on 1-4-2022 Rs. 7,00,000
Additions
15-07-2022 Rs. 2,40,000
31-12-2022 Rs. 1,70,000
Sales during the year
01-01-2023 Rs. 8,00,000

(d) WDV of Furniture & fixtures on 01-04-2022 Rs. 1,55,000

(e) WDV of Motor car on 01-04-2022 Rs. 90,000 [Ans.:Rs. 4,75,150]

GRADED PROBLEMS

ILLUSTRATION 5.8

State, giving reasons whether the following items are allowable while computing the profits and gains of business or profession:

1. Bonus to partner for extra services.
2. Advertisement expenses relating to business were paid through a bearer cheque of Rs. 25,000.
3. Expenses incurred in respect of a branch of the business which was discontinued during the year.
4. Interest paid for funds borrowed specifically for the acquisition of a capital assets.
5. Rent paid to daughter for office block which was gifted to her at the time of her marriage.

Solution:

1. Allowed: Bonus is a remuneration for services. It is an allowed expenditure.
2. Disallowed: Payment exceeding Rs. 10,000 is made otherwise crossed cheque, it is 100% disallowed. In this case, payment is made through bearer cheque, not crossed cheque, hence 100% of Rs. 25,000 i.e. 25,000 will be disallowed.
3. Disallowed: Any expenditure incurred after the discontinuation of business is not allowable. Here the business of branch was discontinued. Therefore expenses on this business will not be allowed.
4. Allowed: it is an expenses which is incurred for the purpose of business so it is deductible like general expenses of business.
5. Allowed: It is compulsory for business to have or hire a building for business to run. Hence the rent is an allowable expenditure.

ILLUSTRATION 5.9

State, giving reasons, whether the following items are allowable while computing the profits and gains of business or profession.

1. Fees paid to the lawyer for drafting the partnership deed.
2. Payment of wealth tax.
3. Commission of Rs. 5,000 paid in order to secure business.
4. Interest paid to wife on money borrowed from her.
5. Donation to Political party.

Solution:

1. Disallowed: Fee paid to the lawyer for drafts the partnership deed is a capital expenditure, even it is not a preliminary expenses and deduction u/s 35D is not available for such expenditure.
2. Disallowed: Wealth tax is to be paid on the assets of an assessee, so it is not deductible as expenditure of business. At present wealth tax is not leviable in India.
3. Allowed: because the commission has been paid to secure business and it is related to business so it is allowable.
4. Allowed: Interest is an allowable expenditure as it is related to business means loadn taken for the purpose of business. It is assumed here that wife has self earned capital from which she has given money for business.
5. Disallowed: Donation to political party is never allowed whether the benefit for business has received or not. Assessee can get deduction under chapter VI u/s 80GGC as donation to political party.

ILLUSTRATION 5.10

State with reasons whether the following are admissible while computing the profit and gains of business or profession:

1. Loss due to embezzlement by an employee.
2. Sum paid to labour leader to call off the strike.
3. Loss of cash due to robbing of an employee while going to the bank.
4. Compensation paid to an employee for premature termination of his services.
5. Lumpsum consideration paid on 1-4-2020 for acquiring know how Rs. 6,00,000

Solution:

1. Allowed: It is loss during the business so allowable expenses.
2. Allowed: Sum paid to call off the strike is in the interest of business. Hence, it is an allowable expenditure.
3. Allowed: Loss is related to business so allowed as business expenses.
4. Allowed: It is assumed that it is in the interest of the business to terminate the employee so it is an allowable expenditure.
5. Disallowed: Only 25% depreciation allowed u/s 32(1) on technical know how acquired by lumpsum payment.

GRADED PROBLEMS

ILLUSTRATION 5.11

Mr. Mehra is the proprietor of a business. His profit and loss account for the year ending 31st March, 2023 is as follows:

Profit and loss account

Particular	Amount	Particular	Amount
To Commission	3,000	By Gross profit	7,01,680
To Law charges	900	By Rent from house property	10,800
To Postal charges	540	By Interest on Govt. Securities (Gross)	10,800
To Provision for bad debt	2,400		
To Discount and allowances	900		
To Household expenses	1,03,460		
To General charges	1,500		
To Rent, Rates and Taxes	5,800		
To Establishment exp.	9,600		
To Advertising exp.	3,100		
To Fire insurance premium(for goods)	720		
To Goods and Service Tax	2,900		
To Repairs and renewals (not for business premises)	1,260		
To Provision for Income tax	7,800		
To Provision for depreciation	5,000		
To Interest on bank loan	2,760		
To Audit fee	600		
To Interest on capital	2,180		
To Life insurance premium	3,580		
To Loss on sale of motor car (used for private purpose)	3,600		
To Net Profit	5,61,680		
	7,23,280		7,23,280

Following further information provided to you:

1. Depreciation allowable is Rs. 3,400 as per Income tax rules.
2. Actual bad debt written off during the year amounted to Rs. 1,100.
3. A bank loan is taken for business purposes.
4. Amount of Income Tax actually paid during the year is Rs. 8,400
5. Advertising expenses include Rs. 1,100 spent on special advertising campaign to open a new shop in the market.
6. Mr. Mehra carries on his business from rented premises, half of which is used as his residence. Rent, Rates and taxes include Rs. 4,800 paid as rent of the premises during the year.

Compute the business income of Mr. Mehra for the assessment year 2023-24.

Solution:

Computation of Income from Business for the assessment year 2023-24

Particular	Amount
Net profit as per Profit and Loss account	5,61,680
Add: Provision for depreciation	5,000
Add: Provision for bad debt	2,400
Add: Provision for Income Tax	7,800
Add: Rent of Half premises	2,400
Add: Household expenses	1,03,460
Add: Loss on sale of Motor car	3,600
Add: Repaid and renewals (not for business premises)	1,260
Add: Life insurance premium	3,580
Add: Interest on capital	2,180
	6,93,360
Less: Allowable expenses	
Bad Debt	1,100
Depreciation	3,400
Less: Income credited to Profit and Loss account but not taxable in Business and Profession Head	
Interest on Govt. Securities	10,800
Rent from House property	10,800
Income from business	6,67,260

Notes:

1. Repairs and renewals are not related to business premises so disallowed.
2. Law charges are in connection with the protection of trademarks which is related to business so allowed as expenses.
3. Special advertising campaign expenses for new shop is allowed is these are business expense.

ILLUSTRAION 5.12

Shri Shambhu Lal Panwar, the proprietor of a flour mill has prepared the following profit and loss account for the year ending 31st March, 2023. You are required to compute the income from business for the assessment year 2023-24:

Profit and loss account

Particular	Amount	Particular	Amount
To Postal charges	110	By Gross profit	2,59,490
To Trade Expenses	495	By Rent from property	550
To Establishment charges	2,420	By Dividend from a cooperative society	2,860
To Interest	1,595	By Bad debt recovered (allowed as a deduction in an earlier year)	2,200
To Charities	413		
To Rent rates and taxes	1,540		
To Discount and allowance	220		
To Income Tax	770		
To Gift and present for publicity	137		
To Fire Insurance premium	276		
To Donations	440		
To Audit fees	273		
To Repairs and renewals	276		
To Net Profit	2,56,135		
	2,65,100		2,65,100

Following further information has been provided:

1. Interest has been paid on the loan taken for the let out house property.
2. Half of insurance premium, repairs and renewals are related to let out property.

Solution:

Computation of Income from business for the assessment year 2023-24

Particular		Rs.
Net profit as per profit and loss account		2,56,135
Add: Disallowed expenses		
Income tax	770	
Charities	413	
Donations	440	
Interest related to let out house property	1,595	
Fire insurance Premium(1/2)	138	
Repair (1/2)	138	3,494
		2,59,629

Less: Income not taxable under business income		
Rent from property	550	
Dividend	2,860	3,410
Income from business		2,56,219

Notes:

1. Bad debt recovered is taxable in the year of recovery as it has already allowed in respective year.
2. Gift and present for publicity is an allowable expenses as these are related to business.

ILLUSTRATION 5.13

The profit and loss account of Shri Prabhu lal for the year ending 31st March, 2023 is as under:

Profit and loss account

Particular	Amount	Particular	Amount
To Interest on capital	4,160	By Gross profit	1,06,210
To Travelling expenses	3,705	By Bad debt recovered (not allowed as deduction in earlier years)	2,340
To Advertisement Exp.	1,950	By Sundry trade receipt (including Rs. 10,000 received from a competitor trader for not selling goods in south India)	16,120
To Charities	5,720	By Interest on Debenture of a company(Net)	3,510
To GST paid	4,160		
To Entertainment Exp.	14,300		
To Salary	22,750		
To Trade exp.	3,380		
To Rent and rates	3,380		
To Discount and allowances	1,755		
To Gift and presents	2,795		
To Repairs and renewals	1,625		
To Life insurance premium	4,940		
To Bad debt	2,080		
To Depreciation	2,600		
To Scientific research exp.	3,900		
To Technical know how purchased on 20-01-2023	6,500		
To Goodwill written off	3,510		
To Net Profit	36,725		
	1,29,935		1,29,935

Following further information provided to you for adjustments:

1. GST paid include a sum of Rs. 240 being the amount of interest for late payment of GST.
2. Scientific research expenses are in relation to a payment made to a research association approved by the Central Govt. in this behalf.
3. Allowable depreciation as per income tax rules Rs. 3,000

You are required to compute the income from business for the assessment year 2023-24.

Solution:

Computation of income from business for the assessment year 2023-24

Particular	Amount	Amount
Net profit as per profit and loss account		36,725
Add: Scientific research exp. as per P & L	3,900	
Depreciation as per P & L	2,600	
Gift and Presents	2,795	
Interest on capital	4,160	
Charities	5,720	
Life insurance premium	4,940	
Technical Know-how purchased	6,500	
Goodwill written off	3,510	34,125
		70,850
Less: Allowable scientific research donation (weighted deduction) 3,900 x 150%	5,850	
Allowable depreciation	3,000	
Bad debt recovered (not allowed in earlier years)	2,340	
Interest on debentures	3,510	
Rent of house property	1,755	
Depreciation on technical know-how 6,500x12.5%	813	17,268
Income from business		53,582

Notes:

1. Entertainment expenses are allowable expenses u/s 37(1).
2. Amount received from competitor is taxable as business receipts so no adjustment has been done.
3. Interest on late fee of GST is allowable expenses because it is related to business only.
4. Goodwill is an asset. So loss due to reduction in value of goodwill is a capital loss so it can not be set off from business receipts.

ILLUSTRATION 5.14

The profit and loss account of a Sugar Mill for the year ending 31st March, 2023 is as follows:

Profit and loss account

Particular	Amount	Particular	Amount
To Opening stock of Sugar	61,600	By Sales	18,04,770
To Cost of cane crushed	7,30,400	By Sundry receipts	16,400
To Wages	70,400	By Closing stock of Sugar	3,81,045
To Manufacturing expenses.	5,45,600		
To General charges	23,672		
To Provision for tax	19,096		
To Director fee	5,280		
To Repair and renewals	53,064		
To Depreciation	58,432		
To Establishment charges	35,464		
To Commission on sales	61,600		
To Auditors fee	2,112		
To Remuneration to Directors	49,280		
To Net Profit	4,86,215		
	22,02,215		22,02,215

Other information provided to you for further adjustments:

i. Sugar costing Rs. 1,900 was distributed free of charge on the occasion of Holi which was not entered in books of account.

ii. Closing stock has been valued at a price which is 10% below the original cost. The market value at the end of the year was higher than the actual cost.

iii. Cost of cane crushed include Rs. 1,68,300 being the cost of the cane produced on the won farms of the mill. Its market value is Rs. 2,15,000.

iv. The value of assets as on 1 April 2022 :
   a. Factory building Rs. 1,40,000
   b. Machines Rs. 2,60,000
   c. Furniture Rs. 60,000

v. Establishment charges include Rs. 7,200 paid as compensation to an employee, who were terminated for his misbehavior.

vi. Repair expenses of machine of Rs. 18,000 was paid in cash and balance amount waws paid through account payee cheque.

vii. General charges include Rs. 9,000 paid as donation.

Compute the amount of taxable profits of the business for the assessment year 2023-24

Solution:

Computation of Income from business for the assessment year 2023-24

Particular	Amount
Net profit as per profit and loss account	4,86,215
Add: Disallowed expenses	
Depreciation as per P & L	58,432
Provision for tax	19,096
Cash payment of repairs of machine exceeds Rs. 10,000	18,000
Donation included in general chages	9,000
Undervaluation of closing stock 3,81,045 $x \frac{10}{90}$	42,338
	6,33,081
Less: Agricultural income included in profit (2,15,000 – 1,68,300)	46,700
Less: Depreciation allowable (W.Note)	59,000
Taxable income from business	5,27,381

Note :

1. Depreciation allowable :

Building	1,40,000x10%	14,000
Machine	2,60,000 x15%	39,000
Furniture	60,000 x 10%	6,000
Allowable depreciation		59,000

2. Repair of one machine Rs. 15]000 was paid in cash which is more than Rs. 10,000. Therefore it is 100% disallowed.
3. Actual cost of closing stock was 3,81,045 $x \frac{100}{90}$ = Rs. 4,23,383 but it was shown at Rs. 3,81,045. As a result of it profit was reduced by Rs. 4,23,383 - Rs. 3,81,045 = Rs. 42,338 which is now added back.
4. No entry was made in the books for free distribution of sugar but it has reduced closing stock by Rs. 1,900 which in turn has reduced profit by Rs. 1,900. It is an allowable expenses but as it has already reduced profit, now there is no need of adjustment.

ILLUSTRATION 5.15

Mr. Prem Prakash is registered medical practioner. He has prepared the following income and expenditure account for the year ending 31st March, 2023

Income and expenditure account

Particular	Amount	Particular	Amount
To Salaries	14,200	By Consultation fee	1,70,000
To Establishment exp.	4,000	By Visiting fee	1,40,000
To Household exp.	95,000	By Sales of medicines	60,000
To Car purchased	2,60,000	By Bad Debt recovered (allowed in earlier years)	3,000

To Charity and Donation	7,000	By Gift from mother in law	7,600
To Gift to daughter	17,200	By Gain on horse race	15,000
To Interest on capital	3,500	By Sale proceeds of ancestral house	35,000
To Income Tax	6,000	By Long term capital gain	1,40,000
To Surgical equipment	8,500	By Short term capital gain	20,000
To Life insurance premium	4,500	By Dividend on shares	6,000
		By Interest from saving bank in PNB	1,500
To Surplus	1,85,300	By Interest on Fixed deposits	7,100
	6,05,200		6,05,200

Rate of depreciation allowable on car and surgical equipment is @ 15%. You are required to compute the income from profession.

Solution:

Computation of income from profession for the assessment year 2023-24

Particular	**Amount**	**Amount**
Surplus as per Income and expenditure		1,85,300
Add: Disallowed expenses		
Car purchased	2,60,000	
Household exp.	95,000	
Charity and donation	7,000	
Gift to daughter	17,200	
Interest on capital	3,500	
Income tax	6,000	
Surgical equipment	8,500	
Life Insurance premium	4,500	4,01,700
		5,87,000
Less: Income not taxable in business head		
Gift from mother in law	7,600	
Gain on horse race	15,000	
Sale proceeds of ancestral house	35,000	
Long term capital gain	1,40,000	
Short term capital gain	20,000	
Dividend on shares	6,000	
Interest from saving bank	1,500	
Interest on fixed deposit	7,100	2,32,200
Less: Depreciation on		
Car 2,60,000x 15%	39,000	
Surgical equipments 8,500 x 15%	1,275	40,275
Income from profession		3,14,525

ILLUSTRATION 5.16

From the following information compute the income of Dr. Tarun Mathur from his profession for the assessment year 2023-24:

Income and expenditure account

Particular	Amount	Particular	Amount
To Dispensary rent	72,000	By Consultation fee	1,95,000
To Telephone bills	15,600	By Visiting fee	1,88,000
To Purchase of medicines	11,200	By sale of medicines	1,10,000
To Electricity and water exp.	8,700	By Operation fee	99,000
To Salary to staff	64,000	By Dividend	17,000
To Surgical equipment	26,000	By Rent from House property	60,000
To Income tax	21,500		
To Donation	3,100		
To Motor car exp.	11,400		
To Depreciation on car	31,650		
To Net surplus	4,03,850		
	6,69,000		6,69,000

Additional information:

1. Electricity and water exp. includes personal bill of Rs. 3,700.
2. 1/3rd of motor car expenses is related to personal use.
3. Depreciation allowable on surgical equipment @ 15%

Solution:

Computation of income from profession for the assessment year 2023-24

Particular	Amount
Net surplus	4,03,850
Add: Disallowed expenses	
Personal electricity & water exp.	3,700
Motor car exp. (personal) 11400*1/3	3,800
Surgical equipment (capital expenditure)	26,000
Income tax	21,500
Donation	3,100
	4,61,950
Less: Dividend	17,000
Rent from house property	60,000
Depreciation on Surgical equipment 26,000x15%	3,900
Income from profession	3,81,050

ILLUSTRATION 5.17

The profit and loss account of a private company for the year ending 31st March, 2023 is as under:

Profit and Loss account

Particular	Amount	Particular	Amount
To Opening stock	1,10,300	By Sales	51,55,600
To Purchase	30,15,600	By Closing stock	1,40,560
To Railway freight	3,00,000		
To Wages and salaries	1,60,000		
To Gross Profit	17,10,260		
	52,96,160		52,96,160
To Staff welfare expenses	6,000	By Gross profit	17,10,260
To Audit fee	3,000	By Rent of staff quarters	48,540
To Directors fee	3,600		
To Repair to building and machinery	7,200		
To Legal expenses	14,500		
To General charges	8,700		
To Interest paid	1,10,000		
To Provision for Bad Debt	3,000		
To Depreciation allowable	36,000		
To Donation	12,000		
To Managing directors remuneration	60,000		
To Provision for tax	3,10,000		
To General reserve	54,000		
To Debenture redemption fund	15,000		
To Contribution to Employees State Insurance	12,000		
To Proposed Dividend	4,00,000		
To Net Profit	7,03,800		
	17,58,800		17,58,800

You are also provided the further information to compute the taxable income from business for the assessment year 2023-24:

i. Staff welfare expenses include Rs. 2,000 being cost of pucca well.

ii. A bill for purchase of goods amount to Rs. 35,000 was paid by crossed cheque.

iii. A bum of Rs. 5,500 on account of liability for commission foregone by a creditor has been carried to a special reserve. The amount was debited to P & L account in year 2021-22.

iv. Interest paid include Rs. 1,800 being the payment of commission for raising the loan for the company.

v. General charges includes:

vi. Rs. 6,000 for repair of staff quarters
vii. Rs 1,000 for municipal taxes of staff quarters
viii. Donation of Rs. 1,000 to a charitable institution
ix. Rs. 1,800 for insurance of staff quarters
x. Repair to business premises include Rs. 4,000 for whitewashing and rest for repairing of machine.
xi. Managing director remuneration include Rs. 3,000 paid to ex-managing director for bonus.
xii. Legal charges includes fee paid for income tax appeal and sales tax proceedings.
xiii. General charges includes Rs. 600 paid to a lawyer to defend a case against managing director for smuggling goods from foreign country.
xiv. Rs. 1,700 as contribution to ESI by employer, already included in P &L account was due in March 2023 but was paid after the due date of furnishing of date of return.
xv. The assessee has deposited sum of Rs. 1,50,000 with the National Bank in Tea, Coffee and Rubber deposit account during the previous year and his business fulfils all the required conditions of section 33AB.

Compute the income from business for the assessment year 2023-24

Solution:

Computation of Income from business for the assessment year 2023-24

Particular	Amount	Amount
Net profit as per P & L		7,03,800
Add: Cost of Pucca well being capital expenditure	2,000	
Purchase bill not paid by Account payee cheque	35,000	
Liability foregone by a creditor taxable u/s 41(1)	5,500	
Donation to charitable institution included in General charges	1,000	
Payment to ex-managing director	3,000	
Payment to lawyer for defence in case of smuggling goods	600	
Contribution to ESI deposited after due date of furnishing income tax	1,700	
Provision for bad debt	3,000	
Donation	12,000	
Provision for tax	3,10,000	
General reserve	54,000	
Debenture redemption fund	15,000	
Proposed dividend	4,00,000	8,42,800
		15,46,600
Less: Regarding deposit in National bank u/s 33AB		1,50,000
Taxable income from business and agriculture		13,96,600
Taxable income from business 13,96,600x40%		5,58,640

ILLUSTRATION 5.18

The profit and loss account of Mr. Jeetendra of his business for the year ending 31 March, 2023.

Particular	Amount	Particular	Amount
To Salary	1,20,000	By Gross profit	4,95,400
To Advertisement	64,100	By Rent from House property	64,000
To Office expenses	69,100	By Income tax refund	11,000
To Insurance exp. (Goods)	11,600	By Bad debt recovered	8,800
To Fire insurance premium (house property)	5,900		
To Life insurance premium	8,000		
To Provision for tax	25,000		
To Bad debt	5,900		
To General exp.	6,000		
To WDV of Patent purchase in 2022-23	7,000		
To Depreciation on Motor car	17,000		
To banking cash transaction tax	2,000		
To Entertainment exp.	13,900		
To Car Exp.	12,000		
To Net profit	2,11,700		
	5,79,200		5,79,200

Other information:

(a) The cost of car is Rs. 1,20,000 which is 1/3 used for personal use and allowed depreciation @ 15% per annum.

(b) There is only one employee and he is getting 10,000 per month salary.

(c) Advertisement expenses include the following:

1. Articles were presented to customers (20 articles of Rs. 900 each)
2. T.V. sets were given to customers as prize (2 TV sets) Rs. 5,000 each)
3. Diaries and calendars Rs. 3,600
4. Remaining amount was spent for advertisement to newspapers

(d) Bad debt recovered amount includes Rs. 5,000 of such amount which was disallowed by income tax officer in 2018-19.

Solution:

Computation of income from business for the assessment year 2023-24

	Rs.
Net profit as per profit and loss account	2,11,700
Add: Disallowed expenses	
Car expenses 1/3	4,000
Depreciation on cat (treated separately)	17,000
Fire insurance premium related to house property	5,900
Life insurance premium	8,000

Provision for tax	25,000
WDV of patent	7,000
	2,78,600
Less: Bad debt recovered disallowed in earlier years	5,000
Rent from house property	64,000
Income tax refund	11,000
Income from business	1,98,600

Note:

1. All the expenses included in advertisement expenses are related to business so allowed expenses.
2. Bad debt disallowed by assessing officer is not taxable in the year of recovery.

ILLUSTRATION 5.19

Profit and loss account for the year ending 31st March 2022 of Mr. Lalit Kumar is given below:

Particular	Amount	Particular	Amount
To Opening stock	1,20,000	By sales	9,20,000
To Purchases	4,80,000	By Closing stock	3,00,000
To Wages	1,50,000	By Sale of old car	1,50,000
To Income tax paid	10,000	By Bad debt recovered (allowed in earlier years)	60,000
To Repair of car	30,000	By Refund of income tax	20,000
To Investment allowance reserve	1,30,000	By Dividend	30,000
To Rent	50,000		
To Donation	30,000		
To General Expenses	50,000		
To Depreciation on car	40,000		
To Diwali exp.	40,000		
To Advance Income tax	20,000		
To Interest on capital	60,000		
To Net Profit	2,70,000		
	14,80,000		14,80,000

Additional information:

- Diwali expenses includes gift worth Rs. 20,000 given to relatives.
- Purchases include retail purchase worth Rs. 2,00,000 payment of which is made through account payee cheque.
- Wages includes 10 months salary of Mr. Lalit Kumar's driver at Rs. 5,000 per month.

- Mr. Lalit Kumar purchased car for Rs. 2,00,000 in the previous year. He charged depreciation on car @ 20%. The car was sold for Rs. 1,50,000 was used ¾ for business purposes and ¼ for personal purpose.
- Mr. Lalit Kumar is running his business from a rented premises, half of which he uses for his own residence.

Compute his taxable income from business for the assessment year 2023-24.

Solution:

Computation of income from business for the assessment year 2023-24

	Rs.
Net profit as per profit and loss	2,70,000
Add: Disallowed expenses	
Gift to relatives	20,000
Salary of car driver (5,000x10) x ¼	12,500
Depreciation of car (fully disallowed because assets has been sold in previous year)	40,000
Rent of building (1/2 personal)	25,000
Income Tax	10,000
Investment allowance reserve	1,30,000
Donation	30,000
Advance income tax	20,000
Interest on capital	60,000
	6,17,500
Less: Income not taxable in business head	
Sales of old car	1,50,000
Refund of income tax	20,000
Dividend	30,000
Income from business	4,17,500

ILLUSTRATION 5.20

From the following profit and loss account of Mrs. Meenakshi for the year ending 31st March, 2023, compute income of her business for the assessment year 2023-24:

Particular	Amount	Particular	Amount
To Advertisement	44,000	By Gross profit	9,13,000
To Office salary	1,32,000	By Discount	16,500
To General Exp.	55,000	By Commission	26,400
To Provision for tax	22,000	By Sundry receipts	2,200
To Fire Insurance premium	13,200	By Interest Govt. Securities (Gross)	70,400
To Interest on capital	26,400	By Bad debt recovered	4,400
To Provision for bad debt	33,000		

To Provision for depreciation	44,000		
To Discount and allowance	13,200		
To Postage & telegrams	11,000		
To GST	17,600		
To Loss on sale of building	39,600		
To Interest on bank loan	30,800		
To Medical expenses of daughter	1,10,000		
To Net profit	4,41,100		
	10,32,900		10,32,900

Actual bad debt written off during the year amounts to Rs. 12,000 but the assessing officer was of the view that 30% of the bad debt claimed had become bad two years ago so should be disallowed. The written down value of building sold was Rs. 1,32,000. It was sold on 10 Jan. 2023 for Rs. 92,400. There was no other asset in this clock of asset. General expenses includes Rs. 8,000 given as donation to an university. The amount of depreciation allowable is Rs. 53,000. Advertisement expenses includes Rs. 15,000 the cost of a permanent sign board fixed at the main gate of premises.

Solution:

Computation of Income from business for the assessment year 2023-24

Particular	**Amount**	**Amount**
Net profit as per profit and loss account		4,41,00
Add: Disallowed expenses		
Provision for bad debt	33,000	
Loss on sale of building	39,600	
Donation	8,000	
Provision for depreciation	44,000	
Cost of permanent sign board	15,000	
Provision for tax	26,400	
Medical exp. of daughter	1,10,000	2,98,000
		7,39,100
Less: Income not chargeable under business head		
Interest on Govt Security	70,400	70,400
		6,68,700
Less: Expenses allowed		
Actual bad debt	12,000	
Depreciation allowable	53,000	
Depreciation on sign board 15,000x 10%	1,500	66,500
Income from business		6,02,200

ILLUSTRATION 5.21

Mr. Om Prakash Khaturia runs a retail store at Udaipur. During the previous year 2022-23 his gross turnover from such business through banking channel were Rs. 22,00,000 and other than banking channel were Rs. 52,00,000. He wants to claim the following deductions:

	Rs.
Cost of material purchase	33,40,000
Salary of employees	6,40,000
Depreciation	3,90,000
Other expenses	1,60,000

Advice him whether he should opt for not for the scheme of presumptive profit under section 44AD and also comment on the consequences of the decision.

Solution:

Calculation of presumptive profit under section 44AD

	Rs.
Presumptive profit @ 6% on turnover through banking : 22,00,000 x 6%	1,32,000
Presumptive profit @ 8% on turnover other than banking medium: 52,00,000 x 8%	4,16,000
Presumptive profit	5,48,000

Normal Profit if Mr. Om Prakash does not opt for presumptive profit under section 44AD

	Rs.
Total receipts (22,00,000 + 52,00,000)	74,00,000
Less : Cost of material purchase	33,40,000
Less: Salary of employees	6,40,000
Less: Depreciation	3,90,000
Less: Other expenses	1,60,000
Normal profit	28,70,000

Mr. Om Prakash should choose section 44AD presumptive taxation because presumptive profit is much lower than the normal profit. But he should kept in mind that once he choose presumptive profit he cannot opt out section 44AD in next 5 consecutive years as per section 44AD(5).

ILLUSTRATION 5.22

Mr. Mahendra runs a retail store at Jaipur. During the previous year 2022-23 his cash turnover transactions were Rs. 65,00,000 while through ECS or banking transactions were Rs. 18,00,000. His details of expenditure were:

Cost of Material purchase Rs. 64,50,000

Salary of employees Rs. 12,00,000

Depreciation Rs. 4,50,000

Other expenses Rs. 60,000

Advice him whether he should opt for presumptive taxation under section 44AD and also comment on the consequences of the decision.

Also state that if the assessee has taken presumptive taxation in assessment year 2023-24 whether he can opt for normal profit taxation?

Solution:

Computation of presumptive profit under section 44AD

	Rs.
Presumptive profit on transactions other than banking	
65,00,000 x 8%	5,20,000
Presumptive profit on transactions through banking	
18,00,000 x 6%	1,08,000
Total presumptive profit	6,28,000

Normal profit if Mr. Mahendra does not opt for presumptive profit under section 44AD

	Rs.
Total receipts or turnover (65,00,000 + 18,00,000)	83,00,000
Less: expenditure	
Cost of material purchase	64,50,000
Salary of employees	12,00,000
Depreciation	4,50,000
Other expenses	60,000
Normal profit	1,40,000

Mr. Mahendra should choose normal profit. He has to get his accounts audited from a practicing Chartered Accountant. This will be more beneficial to reduce tax burden.

But if Mr. Mahendra has already opted presumptive profit taxation in assessment year 2023-24 than he has to opt only presumptive profit taxation for current year also. As per section 44AD(5) an assessee opted for presumptive profit u/s 44AD cannot opt normal profit for next 5 years.

ILLUSTRATION 5.23

Dr. Anil Kumar is a medical practitioners run a clinic in Jaipur. During the previous year 2022-23 his gross receipt from profession amounted to Rs. 38,00,000. What will be presumptive profit under section 44ADA? If his total expenses related to profession is Rs. 30,00,000. State which taxation is beneficial for him?

Solution:

Calculation of presumptive profit under section 44ADA

50% of gross receipts

38,00,000 x 50% = Rs. 19,00,000

If Dr. Anil Kumar want to opt for normal profit , it will be

	Rs.
Gross receipts	38,00,000
Less: Total expenses	30,00,000
Normal profit	8,00,000

Dr. Anil Kumar should opt for normal profit because it is more beneficial for him. He has to get his accounts audited from a practicing Chartered Accountants.

QUESTIONS

Multiple Choice Questions

Q.1 Perquisite received by the assessee during the course of carrying on his business or profession is taxable under the head.
(a) Salary (b) Other Sources
(c) Business & Profession

Q.2 Export incentives received by an assessee are
(a) Exempt (b) Taxable under section 28
(c) Exempt upto certain limits

Q.3 Income of a trade or professional association, from specific services performed for its members shall be:
(a) Exempt (b) Taxable U/H business and profession
(c) Taxable U/H income from other sources

Q.4 Under the head Business & Profession, the method of accounting which an assessee can follow shall be:
(a) Mercantile system only (b) Cash system only
(c) Mercantile or cash system only (d) Hybrid system

Q.5 For computation of business income, the assessee has to follow
(a) Accounting standards prescribed by I.C.A.I.
(b) ICDS notified by the Central Government
(c) No accounting standards

Q.6 Any sum received by an employer from keyman insurance policy taken on the life of the employee shall be:
(a) exempt
(b) taxable under the head business and profession
(c) taxable under the head other sources
(d) taxable in the hands of employee

Q.7 R, who was carrying on agency business, received a sum of 5,00,000 from his principal for termination of agency. Compensation amount so received shall be:
(a) exempt as it is capital receipt

(b) fully taxable under the head business and profession
(c) taxable under the head other sources

Q.8 If the house property used for business or profession is taken on rent, tick the expenses which shall not be allowed as deduction under section 30.
(a) Rent
(b) Current repairs other than expenditure in the nature of capital expenditure
(c) Insurance premium
(d) Rates and taxes though due

Q.9 Where the machinery, plant and furniture are used by the assessee for the purpose of carrying on business and profession, he shall be entitled to deduction under section 31 on account of:
(a) current repairs other than expenditure in the nature of capital expenditure
(b) revenue and capital expenditure on repairs
(c) any repairs

Q.10 Depreciation is allowed in case of:
(a) Tangible assets only (b) Intangible assets only
(c) Tangible and Intangible assets

Q.11 The depreciation is allowed to:
(a) The owner of asset (b) Owner including fractional owner of the asset
(c) Lessee

Q.12 Electricity companies are allowed depreciation on the basis of:
(a) Block of asset
(b) Each asset separately
(c) Each asset separately unless the assessee opts for block of asset system in the first previous year of its commencement.
(d) Either on block of asset or each asset separately provided the option is exercised in the first previous year.

Q.13 If the asset of a particular block is acquired and put to use during the previous year for less than 180 days, the assessee shall be entitled to depreciation:
(a) At normal rate (b) At 50% of normal rate
(c) Proportionate period for which it is put to use

Q.14 W.D.V. of block of 15% as on 1.4.2022 is Rs. 5,00,000. An asset amounting to Rs. 1,00,000 was acquired on 1.11.2022 and put to use on 1.12.2022. During the previous year 2022-23 a part of the block (other than the new asset) is sold for Rs. 5,40,000. The depreciation to be allowed for this block shall be:
(a) 9,000 (b) 4,500, (c) 5,000

Q.15 Where a part of block of assets is sold for a price more than the opening W.D.V plus cost of asset acquired during the year, if any, the assessee shall be subject to:
(a) Balancing charge
(b) Short-term capital gain
(c) Short-term or long-term capital gain depending upon the period after which the block is transferred

Q.16 Where a part of the block of asset is sold for price less than the opening W.D.V. plus cost of assets, if any, acquired during the year, the balance amount shall be treated as:
(a) Short-term capital loss

(b) Terminal/balancing depreciation
(c) Written down value for purpose of charging current year depreciation

Q.17 Where the entire block of the asset is sold for a price more than the opening W.D.V. and asset, if any, acquired during the year, the excess amount shall be subject to:
(a) Balancing charge
(b) Short-term capital gain
(c) Long-term or short term capital gain depending upon the period for which block is held.

Q.18 Where an electricity company claiming depreciation on straight line method on each asset separately sells such asset for a price more than its W.D.V. then the excess amount shall be taxable:
(a) As short term capital gain
(b) Balancing charge under Business head
(c) Balancing charge to the extent of depreciation allowed in the past and the balance if any short term capital gain.
(d) Balancing charge to the extent of depreciation allowed in the past and the balance if any long term or short term capital gain depending upon the period for which such asset was held.

Q.19 Where the entire block is sold for a price less than the opening W.D.V. and cost of asset, if any, acquired during the previous year, the balance amount, shall be treated as
(a) Terminal/balancing depreciation
(b) Short-term capital loss
(c) Written down value
(d) Short-term or long-term capital loss depending on the period for which block was held.

Q.20 Where the electricity company charging depreciation on straight line method on each asset separately, sells any asset for a price less than the opening WDA. The balance amount shall be treated as:
(a) Short term capital loss (b) Terminal depreciation
(c) Written down value

Q.21 Additional depreciation is allowed to an assessee-
(a) Which is an industrial undertaking
(b) Which is an industrial undertaking or an assessee who is engaged in business of generation or generation and distribution of power
(c) Which is engaged in any business
(d) Which is an electricity undertaking

Q.22 Additional depreciation is allowed in case of-
(a) All asssets acquired by the specified assessee
(b) Eligible plant and machinery acquired by the assessee
(c) New eligible plant and machinery acquired by the specified assessee
(d) New eligible plant and machinery and furniture acquired by the specified assessee

Q.23 Additional depreciation shall-
(a) Be deductible while computing WDV of the next previous year
(b) Not be deductible while computing WDV of the next previous year.

Q.24 R acquired an asset for Rs. 5,22,000 which includes Rs. 72,000 as excise duty for which the assessee has claimed GST Credit. The actual cost of acquisition to be included in the block of asset shall be:
(a) Rs. 5,22,000 (b) Rs. 4,50,000 (c) None of the two

Q.25 An asset which was acquired for Rs. 5,00,000 was earlier used for scientific research. After the research was completed, the machinery was brought into the business of the assessee. The actual cost of the asset for the purpose of inclusion in the block of asset shall be:

(a) Rs. 5,00, 000 (b) Nil

(c) Market value of the asset on the date it was brought into business

Q.26 Which of the following taxes are allowed as deduction while computing the business income

(a) Wealth tax (b) Income-tax (c) Goods and service tax

Q.27 Unabsorbed depreciation which could not be set off in the same assessment year, can be carried forward for:

(a) 8 Years (b) indefinitely (c) 4 Years

Q.28 Unabsorbed depreciation brought forward from an earlier year of a particular business can be set off from:

(a) The same business (b) Any head of income

(c) Any business income (d) Any head of income but first from business income

Q.29 Expenditure on scientific research incurred by the assessee shall be allowed if such research:

(a) Is related to the business of the assessee

(b) May or may not relate to the business of the assessee

(c) Is related to the research specified by the Government

Q.30 If an assessee carries on any scientific research related to his business, he shall be allowed deduction u/s 35 on account of:

(a) Revenue expenditure

(b) Capital expenditure

(c) Both revenue and capital expenditure

(d) Both revenue and capital expenditure except expenditure incurred on acquisition of land.

Q.31 Certain revenue and capital expenditure on scientific research are allowed as deduction in the previous year of commencement of business even if these are incurred:

(a) Five years immediately before the commencement of business

(b) 3 years immediately before the commencement of the business

(c) Any time prior to the commencement of the business.

Q.32 Where a scientific research asset is sold without having been used for other purpose then the sale price to the extent of the cost of the asset already allowed as deduction in the past shall treated as:

(a) Business income

(b) Short-term capital gain

(c) Long-term capital gain

(d) Long-term or short-term capital gain depending upon the period for which such asset was held.

Q.33 Where the sale price in the above case exceeds the cost of acquisition of such asset which was allowed as deduction u/s 35, such excess shall be treated as:

(a) Business income

(b) Short-term capital gain

(c) Long-term capital gain

(d) Short-term or long-term capital gain depending upon the period for which such asset was held

Q.34 If the income of a business before claiming revenue expenditure on scientific research is Rs. 50,000 and the revenue expenditure incurred on scientific research related to the business of the assessee is Rs. 80,000, then Rs. 30,000 shall be:

(a) Business loss
(b) Unabsorbed revenue expenditure on scientific research
(c) None of these

Q.35 If the income of a business before claiming capital expenditure on scientific research is Rs. 50,000 and the capital expenditure incurred on scientific research related to the business of the assessee is Rs. 80,000, then Rs. 30,000 shall be:

(a) Business loss
(b) Unabsorbed capital expenditure on scientific research
(c) None of these two

Q.36 Brought forward unabsorbed capital expenditure on scientific research can be carried forward:

(a) For any number of years (b) 8 years (c) 10 years

Q.37 If any amount is donated for research, such research should be in the nature.of

(a) Scientific research only
(b) Social or statistical research only
(c) Scientific or social or statistical research

Q.38 If donation is made for scientific or social or statistical research, such research:

(a) Must relate to the business of the assessee
(b) May or may not relate to the business of the assessee
(c) None of these

Practical Questions

Q. 1 Rohan is owner of three buildings which are used by him for his own business. The written down value of these buildings is Rs. 7,50,000 on 1-4-2022 and the rate of depreciation allowable on this block is 10%. He purchased another building on 1-12-2022 for Rs. 3,75,000 and sold the two old buildings on 1-3-2023 for Rs. 12,75,000. Transfer expenses amounted to Rs. 30,000.

Compute the allowable depreciation/taxable capital gain for the assessment year 2023-24.

What would have been the difference had the building been sold for Rs. 5,25,000.

[Allowable depreciation Nil , Capital Gain 1,20,000 or depreciation of Rs. 60,000 if sold for Rs 5,25,000]

Q. 2 Mahesh purchases on 5-5-2022 a new machine at a cost of Rs. 4,50,000. In bringing it to factory site, he incurs expenses on clearing, freight and loading amounting to Rs. 10,000, Rs. 4,000 and Rs. 1,500 respectively. In installing the machine a further cost of Rs. 30,000 is incurred. It is then found that a part is broken and in repairing such broken part an additional expenditure of Rs. 24,500 becomes necessary. Ultimately on 2-2-2023 the machinery is ready for use and is actually brought into use on that day. If the rate of depreciation is 15%, determine the actual cost of the machinery for purposes of depreciation and also the amount of depreciation admissible for the assessment year 2023-24, assuming the WDV of the same block as on 1-4-2022 was Rs. 6,40,000. Sale of part of machine Rs. 1,20,000.

[Ans.: Total Admissible Depreciation Rs 60,000)

Q. 3 Hemant is engaged in the business of transportation of goods. On 1-4-2022 the WDV of his various assets was as given below:

	Rs.
Office building (Rate of depreciation 10%)	9,20,000
Commercial vehicles (Rate of depreciation 30%)	30,90,000
Car (Rate of depreciation 15%)	2,10,000

During the year, he sold one of the commercial vehicles which was over the age of 15 years for Rs. 6,00,000. It was replaced by another vehicle at the cost of Rs. 9,00,000 on 1-07-2022. A new vehicle was purchased on 1-1-2023 for Rs. 15,00,000. Calculate depreciation admissible for the previous year 2022-23.

[Ans.: Admissible depreciation Rs 13,92,500]

Q 4 From the particulars given below by an industrial undertaking calculate the amount of depreciation admissible during the year ending 31-3-2023

Fixed assets	Written down value on 1-4-2022	Additions during the accounting year	Rate of depreciation
Building (non Residential)	15,60,000	Nil	10%
Building (Residential)	3,75,000	Nil	5%
Plant and Machinery	31,50,000	5,60,000	15%
Motor cars	74,000	-	15%
Furniture	17,600	Nil	10%

Part of the residential buildings whose written down value on 1-4-2022 was Rs. 2,20,000 was completely destroyed by fire on 5-6-2022 and Rs. 1,80,000 was received from insurance company in respect thereof.

The new plant and machinery were installed on 8-10-2022.

[Ans.: Admissible Depreciation on 10% block 1,57,760 (1,56,000 + 1,760), on 5% block 9,750 and on 15% block 5,25,600]

Q. 5 Calculate depreciation of the following assets:

	W.D.V. on 1-4-2022	Rate of depreciation
Building A	5,40,000	5%
Building B	4,15,000	10%
Building C	5,20,000	10%
Furniture	24,500	10%
Plant and Machinery A	5,60,000	30%
Plant and Machinery B	3,20,000	15%

Following assets have been purchased on 5-4-2022 and put to use on the following dates during the previous year:

	Date put to use	Rs.	Rate of Dep.
Plant C	1-8-2022	1,60,000	40%
Plant D	18-11-2022	2,80,000	30%

Plant E	10-9-2022	4,00,000	15%
Building D	01-12-2022	3,00,000	10%
Building E	11-4-2022	1,60,000	5%

Following assets have been sold during the previous year:

	Date of sale	Sales consideration
Building B	25-10-2022	6,40,000
Plant A	8-5-2022	5,80,000

Rs. 90,000 were also spent to renovate and modify Building A. Rs. 1,20,000 also been spent in June 2022 on Machinery B to make it suitable for the new system of production.

[Ans.: Admissible Depreciation on 5% block 39,500, on 10% block 69,450, on 15% block 2,30,000, on 30% block 91,000 and on 40% block 64,000)

Q. 6 For conducting research for his own business, an assessee purchased a plant in the year 2013-14 for Rs. 5,00,000. The entire cost was allowed as deduction in the assessment year 2014-15. The research is completed on 15-4-2022. Explain the tax treatment if (i) plant is sold for Rs. 3,00,000 on 30-4-2022 without putting it for some other use or (ii) it is used for manufacturing purposes from 20-4-2022 and sold for Rs. 3,00,000 on 30-3-2023 or (iii) it is used for manufacturing purpose from 20-4-2022 and including in the block of assets whose WDV as on 1-4-2022 was Rs. 4,00,000 and the scientific research asset thereafter was sold for Rs. 3,00,000 on 30-3-2023.

Q. 7 RG, a sole proprietor, commenced production on 1-12-2022. He has made the following expenditure on scientific research upto the year ending on 31-3-2023:

(a) on 13-12-2022, the firm paid Rs. 90,000 to the Indian Agricultural Research Institute, New Delhi, an approved and notified scientific research institution under section 35(1)(ii), for the purpose of carrying out scientific research in natural science.

(b) On 21-12-2022, the firm paid Rs. 60,000 to the Indian Institute of Management, Ahmedabad, and approved and notified institute under section 35(1)(iii), for the purpose of carrying out research in social and statistical science.

(c) On 10-1-2023, the firm paid Rs. 40,000 to an approved National Laboratory for carrying out programmes on scientific research.

(d) On 23-12-2022, the firm purchases a plot of land for Rs. 2,00,000. Later on, a building (laboratory) was constructed (cost of construction – Rs. 1,70,000; date of completion of construction – 1-3-2023) to start the in house research.

(e) Before the commencement of the production, the firm had made the following revenue expenditure for its research laboratory:

(i) Expenditure on salary and perquisite to research personnel and research material during the 12 months ending on 30-11-2019 – Rs. 20,000

(ii) Expenditure on providing rent free flats and club facility to research personnel from 1-12-2019 to 30-11-2022 – Rs. 8,000.

(iv) Expenditure on research material from 1-12-2019 to 30-11-2022 – Rs 46,800 (out of which the amount certified by the prescribed authority is Rs. 34,800).

(v) Capital expenditure on scientific research (not certified by the prescribed authority)-

	Expenditure incurred upto 30-11-2019	Expenditure incurred between 1-12-2019 and 30-11-2022
Purchase of land for growing herbals for research	50,000	60,000
Purchase of equipments for research	30,000	40,000
Expenditure of capital nature for cultivation of herbals	2,000	4,600

Determine the amount of deduction available to the firm under section 35(1) for the assessment year 2023-24, if the scientific research is (a) related to or (b) unrelated to the business of the firm.

Q. 8 The following is the profit and loss account of Mahesh for the year ended 31-3-2023. Compute his taxable income from business for that year:

	Rs.		Rs.
Opening stock	15,00,000	Sales	4,07,00,000
Purchase	3,75,20,000	Closing stock	20,00,000
Wages	20,00,000	Gift from father	1,00,000
Rent	60,000	Sales of car	3,70,000
Repairs of car	1,30,000	Income tax refund	1,30,000
Medical expenses	30,000		
Audit fee	3,10,000		
Depreciation of car	30,000		
Advance income tax paid	1,20,000		
Profit for the year	16,00,000		
	4,33,00,000		4,33,00,000

Following further information is given:

(a) Mahesh carries on his business from rented premises half of which is used as his residence.

(b) Mahesh bought a car during the year for Rs. 2,00,000. He charged 15% depreciation on the value of car. The use of the car was ¾th for the business and ¼th for personal purposes.

(c) Medical expenses were incurred during sickness of R for his treatment.

(d) Wages include Rs. 60,000 on account of Mahesh's driver. [Ans.: Rs. 12,35,000]

Q. 9 Alok is Chartered accountants and has prepared the following income and expenditure account for the year ending 31-3-2018.

Income and expenditure account

Office expenses	7,10,000	Audit fees	24,50,000
Employees salary	9,60,000	Gift from Father in law	60,200
Magazines	6,000	Dividend	30,000
Personal expenses	1,70,000	Profit on sale of investment	64,500
Donation to NDF	5,000	Tax consultancy fees	8,00,000
Interest	7,000		

Income tax	1,33,000		
Car expenses	20,000		
Telephone expenses	10,000		
Net surplus	13,83,700		
	34,04,700		34,04,700

You are required to compute his professional income for the assessment year 2023-24 considering the following points –

(i) Rs. 10,000 domestic servant's salary is included in employees salary.

(ii) Alok is owner of a building. Its written down value is Rs. 8,00,000 on 1-4-2022. The building is used for the office. Besides this, furniture costing Rs. 3,00,000, whose wdv on 1-4-2022 is Rs. 2,50,000 is used for profession. Allowed depreciation @10% under Income Tax Act. [Ans.: Rs. 14,42,000]

Q.10 Mr. Tenzingh is engaged in composite business of growing and curing (further processing) Coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-3-2023 are given below:

	Rs.
WDV of Car as on 1-4-2022	3,00,000
WDV of machinery as on 31-3-2022 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are Rs. 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the assessment year 2023-24. Show the WDV of the assets as on 31-3-2023. [IPCC MAY 2010 Modified]

[Ans.: Agricultural income Rs. 9,66,750; Business Income Rs. 3,22,250]

Q. 11 Mr. Gopal Krishna (Age 43 years) furnishes the following particulars of his income relevent for the assessment year 2023-24:

Profit & Loss acount for the year ending 31st March 2023

Particular	**Amount**	**Particulars**	**Amount**
To Salary to staff	2,26,000	By Gross profit	15,20,400
To Advertisement	12,400	By Rent of house property	3,36,000
To Municipal tax of house property	40,000	By Dividend from an Indian co.	14,300
To Depreciation of house property	60,000	By Profit on sale of import licence	50,480
To Repair to house property	17,100		
To Fire Insurance of house property	8,900		
To Office Expenses	54,600		
To Fire insurance of office & godown	20,000		

To Life insurance premium of own life policy	3,000		
To Depreciation on business assets	14,300		
To Patent right [½ of Rs. 70,000 being cost of such right acquired on April 6, 2022]	35,000		
To Income tax penalty	1,000		
To Interest on capital borrowed for business	4,900		
To Rent paid to Gopal Krishna	56,000		
To Net profit	13,67,980		

Gopal Krishna own as house property (outside the jurisdiction of any rent control act), erection of which was ompleted in March 1999. There are three residential units in the house. Unit 1 (consisting of 50% of the carpet area) is let out to a tenant at Rs. 20,000 per month. Unit 2 (25% of the carpet area) is used by Gopal Krishna for own residential purposes. Unit 3 (25%) is utilized by him for his business purposes.

Determine the taxable income from business for the assessment year 2023-24. [Ans.: Rs. 11,85,230]

Answers MCQ

1	C	**11**	B	**21**	B	**31**	B
2	B	**12**	C	**22**	C	**32**	A
3	B	**13**	B	**23**	A	**33**	D
4	C	**14**	B	**24**	B	**34**	A
5	B	**15**	B	**25**	B	**35**	B
6	B	**16**	C	**26**	C	**36**	A
7	B	**17**	B	**27**	B	**37**	C
8	D	**18**	D	**28**	D	**38**	B
9	A	**19**	B	**29**	A		
10	C	**20**	B	**30**	D		

❑❑❑

Chapter 6

CAPITAL GAINS

SECTION-WISE STUDY

Section	Particular
2(A)	Meaning of Capital Asset
2(47)	Meaning of Transfer
10(34)	Exemption of Transfer of US-64 units
10(37)	Exemption of capital gain arises when agricultural land compulsory acquired by government
45	Capital Gain
45(1)	Basis of charge
45(1a)	Computation of capital gain when insurance claim is received.
45(2a)	Transfer of security by depository
	Computation of capital gain in certain special cases
45(2)	Computation of capital gain in the case of conversion of capital assets into stock in trade.
45(3)	Transfer of capital assets by a partner to a firm
45(4)	Distribution of capital assets on dissolution of firm
45(5)	Compulsory acquisition of on assets under any law.
	Special provisions for joint development agreements
47(iv)/(v)	Withdrawal of exemption
48	Indexed cost of acquisition and Indexed cost of improvement
49(1)	Modes of Acquisition
49(2a)	Conversion of debenture into shares
50	Cost of acquisition of depreciable assets
50A	Computation of Capital Gains in Case of Depreciable Assets
50C	Computation of capital gains in real estate transaction
51	Advance Money Received
10 and 13A	Exemption under various sub-clauses i.e., 10(33), 10(37)
54	Gain on sale of residential house property

54B	Capital Gain on transfer of land used for agricultural purpose
54D	Capital Gain on compulsory acquisition of lands and building
54EC	Exemption of capital gain on investment in certain bonds
54EE	Exemption of capital gain on investment in units of specified fund
54F	Exemption of capital gain arises on transfer of capital asset other than residential house
54G	Exemption of capital gain on shifting of industrial undertaking from urban area
54GA	Exemption of capital gain on shifting of industrial undertaking from urban area to SEZ
54GB	Relief from LTCG on transfer of residential property if invested in a new manufacturing SME unit
55	Meaning of Cost of Improvement and cost of acquisition
55(2)	Cost of Acquisition
111A	Tax rates on taxable amount of capital gains where Securities transaction tax is paid
112	Tax on Long-term Capital Gains: When STT is not applicable
112A	Tax on long-term Capital Gains on sale of equity Shares: When STT is applicable

INTRODUCTION

Investment in a house property or plot of land is one of the most popular investments because individual gets to own a house. While other may invest with the intention of earning profit upon selling the property in the future. Another major investment of investors is in gold, Jewellery, shares, mutual fund, bonds etc. These assets are considered as capital assets for income tax purposes. Gain or loss on dispose of such investment may be subject to tax under capital gain head. Similarly capital gains or losses may arise from sale of different types of capital assets. We shall discuss this aspect in this chapter.

BASIS OF CHARGE (SECTION 45 (1))

Any profits or gains arising from the transfer of a capital assets effected in the previous year, shall be chargeable to income tax under the head "Capital Gain" and shall be deemed to be the income of the previous year in which the transfer took place unless such gain is exempt u/s 54, 54B, 54D, 54EC, 54EE, 54F, 54G, 54GA or 50GB.

Conditions:

The following are the essential conditions for taxing capital gain:

(a) There must be a capital asset;

(b) The capital asset must have been transferred by the assessee;

(c) Such transfer takes place during previous year;

(d) There must be profit or gain as a result of such transfer ;

(e) Such gain should not exempt u/s 54, 54B, 54D, 54EC, 54EE, 54F, 54G, 54GA and 54GB.

If all above conditions are satisfied then capital gain is taxable in the previous year in which transfer took place. However, there are some exceptions which are discussed later in this chapter. Now we shall discuss conditions one by one in detail.

(A) CAPITAL ASSET (SECTION 2(14)):

As per section 2(14) capital asset means: (a) Property of any kind held by an assessee, Whether or not connected with his business/profession or movable or immovable or tangible or intangible. But the following assets are not treated as capital assets:

1. Stock in Trade (Section 2(14) (i)):

Any stock in trade, consumable stores or raw material held by assessee for the purpose of business are not treated as capital assets. However, any securities held by a foreign Institutional investor which has invested in such securities in accordance with regulations made under SEBI act shall be treated as capital asset.

2. Personal Effect (Section 2(14) (ii)):

Any personal effect, which satisfied the following conditions, is not treated as capital assets:

(1) It is movable property
(2) It is held for personal use.
(3) It is so held by the assessee or any member of his family dependent on him.
(4) It includes wearing apparel and furniture but excludes jewelry.

To sum up:

Table 1: Instances of Personal effect

Instances of assets considered to be personal effect	Instances not considered to be personal effect
Refrigerator, fixed deposit Motorcar, scooter, cycle. Furniture at residence. Wearing apparel Household items and utensils.	Securities, Silver utensils Gold and silver coin used for puja. Building (residence) loose diamonds Jewelry, archaeological collections, drawings and paintings, sculptures or any work of art

3. Agricultural land in rural area

Agricultural land situated in rural areas in India shall not be treated as capital asset. A land is called rural agricultural land if it is situated outside a certain kilometer with reference to the populationof the municipality in accordance with the preceding census i.e., 2011. The parameter of area in terms of kilometer and population are given in the table 2:

Table 2: Rural Agricultural Land

Agricultural land situated outside	Population
2 Km. (aerial distance) from the local municipality	Having population more than 10,000 but less than 1,00,000
6 Km. from the local municipality	Having population more than 1,00,000 but less than 10,00,000
8 Km. from the local municipality	Having population more than 10,00,000

Shall be treated as rural agricultural land

Explained through example: Suppose the population of Udaipur city is 6,00,000 then any agricultural land situated within 6 Km. area of municipality shall be treated as urban agricultural land and it shall be considered

as capital asset. if it is situated away from 6 Km. then it shall be treated as rural agricultural land and it shall not be treated as capital asset. In other words capital gains arising from transfer of rural agricultural land would not be taxable.

The following points should be kept in mind in this respect:

- Agriculture land situated outside India is always treated as capital assets
- Agriculture land situated within 2 Km./6 Km/8 Km. of municipalities is a capital asset.
- For land to be agricultural the following point merit consideration:
  1. The land should be capable of agriculture operation.
  2. Actual carrying on of agricultural operations is not necessary
- If agricultural land is situated in a village which comes within a municipality, then the population of the municipality shall be considered and not of the village. It means if the population of a municipality is more than 10,000 then agricultural land shall be treated as capital asset even if the population of a village is less than 10,000.

4. Bonds:

The following bonds issued by central government are not treated as "capital assets"

- 6.5 % Gold bonds, 1977
- 7% Gold bonds, 1980
- National defense gold bonds, 1980
- Special bearer bond, 1991
- Gold deposit bond issued under the gold deposit scheme, 1999 2(14) (vi)
- Deposit certificates issued under Gold Monetization scheme, 2015 and 2019 notified by the Central Government.

TYPES OF CAPITAL ASSETS

Capital assets are categorized into two parts on the basis of holding time period.

(i) Short-term capital assets

(ii) Long-term capital assets

Short-term Capital Assets

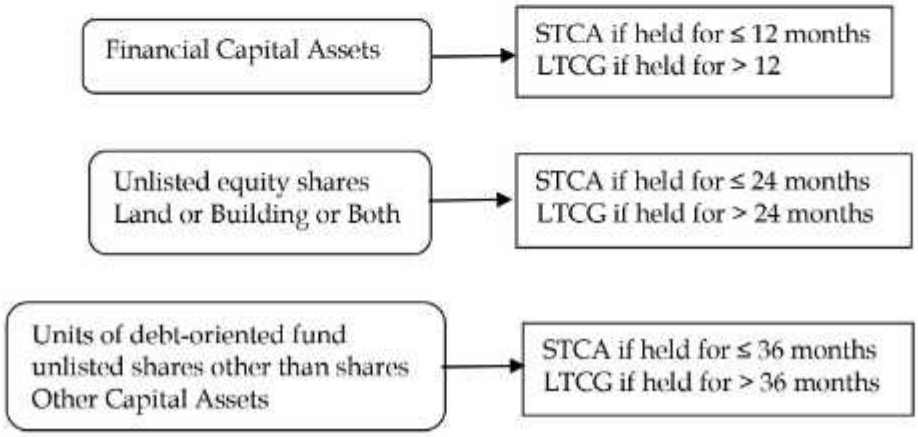
Capital asset held by an assessee for not more than 12/24/36 months (as the case may be) immediately prior to its date of transfer is called short-term capital assets. It means if capital assets held for more than 12/24/36 months immediately prior to transfer are called long-term capital assets. For the purpose of classification of capital assets into short term and long term the capital assets may be divided into four categories:

1. **Financial Capital Assets (12 months):** The following financial capital asset, held for not more than 12 months, is treated as short –term capital assets.

- Listed Equity and Preference share of a company.
- Other listed securities (Debenture, Bond, Derivatives etc.).
- Listed and unlisted Units of U.T.I
- Listed or unlisted Units of equity oriented mutual fund
- Listed or unlisted Zero-coupon bond

2. **Immovable property being land or building or both (24 months):** Immovable property held for not more than 24 months shall be treated as short term capital assets
3. **Unlisted equity or preference shares:** held for not more than 24 months shall be treated as short term capital assets.
4. **Other assets** other than above mentioned assets held for not more than 36 months shall be treated as short term capital assets.

The pictorial presentation of classification of capital assets is given below:



Where: STCA : Short Term Capital Assets LTCA : Long Term Capital Assets

Figure 1: Classification of Capital Assets

Long-term Capital Assets

As per section 2(29A), an asset other than short-term capital asset is regarded as a long-term capital asset. The differentiation between short term and long -term capital assets is necessary because the tax rates are different for both the categories. Generally long-term capital gain is taxable at a lower rate of income tax.

It is clear from the above discussion that the holding period is a significant factor to determine short term and long-term capital assets. Now we shall understand how to determine the holding period.

Any gain arises on transfer of short-term capital assets is called Short-Term Capital Gain. On other hand any gain arises on transfer of long-term capital assets is called Long Term capital Gain.

Determination of holding period

The following consideration applies in determining the holding period of a capital asset.

Table 3: Calculation of holding period under different situation

Different situations		Holding Period calculation
1.	Where Shares held in a company in liquidation.	The period subsequent to the date on which the company goes into liquidation shall be excluded.
2.	Asset acquired u/s 49(I) (gift, will etc.)	Include the holding period of the previous owner also.
3.	Shares of an Indian Co. which merged with other company	Period for which the assessee held the share in the amalgamating Co. should be included.

4.	Bonus (shares) assets	The period is reckoned from the date of allotment of such assets.
5.	Right issue is subscribed	The period is reckoned from the date of allotment
6.	Right is renounced	Period is reckoned from the date of offer of such right.
7.	**Securities Transactions**	
	When securities are acquired in several lots at different point of time	The first -in-first-out method shall be adopted to reckon the period of holding
	In transaction of securities through brokers	Date of broker's note should be treated as the date of transfer
	In transaction taking place directly between the parties	The date of contract of sale as declared by the parties shall be treated as the date of transfer
8	Where an inventory of business is converted into or treated as a capital asset by the assessee	Period from date of conversion or treatment as a capital asset shall be considered
9	Flat in a co-operative Society	The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Calculation Process of Holding Period

While calculating the holding period, a fraction of a day shall also be taken into account. The period of 12/24/36 calendar months begins on the day when an assessee became the holder of the asset and ends one day before in the relevant calendar month, next year or after 2 or 3 years.

The date on which asset is acquired and the date on which asset is sold are not excluded while calculating holding period.

Example: Dr. Tuktak acquired a building on 01-03-2016 and was sold on 01-03-2018, the holding period shall be 24 months and one day, hence it shall be treated as long-term asset. In such a case 24 months is completed on 28-02-2018. The asset is sold on 01-03-2018, such day shall be treated as the period of holding although the asset was held for a fraction of day.

Property constructed on a land purchased earlier

In case a building is constructed on land which was purchased much earlier, the question arises whether the period of holding the asset should be reckoned from date of acquisition of land or from date of completion of construction of building.

In such a case property consists of two components viz., land and building. When the property is sold, the period of holding has to be determined separately for land and building. It means separate computation for the purpose of determining taxable income under the head capital gain. The consideration received should also be split into two parts relating to each component i.e. land and building.

Example: suppose land acquired in 1990 for ₹ 7,00,000 and building was constructed on this land in 2019 and incurred expenditure of ₹14,00,000. The building was sold on July 7, 2020 for ₹ 60,00,000. In this case gain attributable to land shall be assessable as long-term gains. The gains attributed to the building shall be treated as short term because the holding period of the building is less than two years. The sale consideration of

₹60,00,000 shall be distributed between land and building in the ratio of indexed cost of acquisition of land and cost of building.

(B) THE CAPITAL ASSET MUST HAVE BEEN TRANSFERRED

Gain arising on transfer of capital assets is taxable under the head capital gain. if the capital asset is not transferred or such transaction is not regarded as transfer, there will be no capital gain. However, section 45(1A) provides that in case of profit from insurance claim due to damage of property, there will be capital gain on such deemed transfer though no asset has been actually transferred in such case.

The word transfer is significant. Section 2(47) defines the word transfer. Section 2(47) includes the following in Transfer:

1. Sale, exchange or relinquishment of the asset or
2. Compulsory acquisition of capital asset under any law or
3. Conversion of capital asset into stock in trade of a business or
4. Part-performance of the contract of nature referred in section 53A of transfer of property Act, 1882 or
5. Maturity or redemption of a zero-coupon bond

1. Sale, exchange or relinquishment of the asset:

- Sale is a transfer of ownership in exchange for a price paid or promised or part paid and part promised. A sale takes place when title in the property is transferred for a price.
- Exchange takes place when two persons mutually transfer the ownership of another, neither thing or both things being money only. The fundamental difference between sale and exchange is that in the case of sale, consideration is money, whereas in case of exchange the consideration is another asset.
- Relinquishment takes place when the owner withdraws himself from the property and abandons his rights thereto. However, it should be noted that property continues to exist after the relinquishment when the owner surrenders his rights in property in favor of another person.
- Extinguishments of any rights in an asset: The Extinguishments means to stop or to end. However, for transfer on account of extinguishments of any rights in an asset to be charged to capital gain, it is necessary that the asset itself is in existence. Extinguishments refer not to extinguishments of asset itself but to extinguishments by a company are treated as amount paid on transfer by way of extinguishments of rights in the shares.
- Insurance claim is received on account of deconstruction of asset: it does not amount to be transferred to capital asset-Vania silk mills (1991) the effect of judgment has been nullified by inserting section 45(1A) by Finance Act 1999.

2. Compulsory acquisition:

Compulsory acquisition of an asset under any law is treated as a "transfer" and therefore, the amount received as compensation on such acquisition is liable to capital gain.

Example: Suppose NHAI wants to widen the highway road and acquire compulsory land from the land owner even if he is not interested. Such acquisition shall be treated as transfer. In such a case, though the assessee was not willing to transfer the asset, it has been compulsorily acquired under law.

3. Conversion of capital asset into stock in trade:

Conversion of capital asset by its owner into stock in trade of the business carried on by him is treated as a transfer.

Example: Mr. Prem has 5 kg of gold. He wants to start a business in gold hence he converted his personal gold into stock of the business. Conversion of Gold i.e., capital asset converted into stock in trade shall be treated as transfer and Mr. Prem shall be liable to compute taxable gain under the head capital gain.

4. Transfer under the transfer of property act:

Transaction allowing possession of any immovable property to be taken or retained in part performance of a contract of the nature referred to in section 53A of the transfer of property act, 1882 is included within the meaning of "transfer" and gain arising then from are liable to capital gain.

Transfer when complete and effective:

a. Immovable property when documents are registered:
b. Immovable property when documents are not registered: Even if documents are not registered but the following conditions are satisfied under section 53A of the transfer of property Ac, ownership in the property is transferred 1. There should be a contract in writing 2. the transferee has paid consideration or willing to perform his part of the contract and 3. the transferee has taken possession of the property.
c. Movable property: Title of movable property passes at the time when property is delivered pursuant to a contract to sell.

Transfer enabling enjoyment of any property.

1. Any transaction, which has the effect of transferring, or enabling the enjoyment of any immovable property is treated as transfer. The member of the cooperative society of multistoried buildings is treated as deemed owner of the flat. If the deemed owner transfers the right to use and enjoy the flat by changing the membership of co-operative society, it will be treated as transfer.
2. Capital contribution of a partner to the firm by way of bringing in share of a company is treated as transfer.
3. Redemption of preference shares is treated as transfer.
4. Redemption of deep discount bonds is treated as transfer.

Certain transactions not included in transfer

1. Distribution of assets in kind by a company to its shareholders on its liquidation (Section 46(1)).
2. Any distributions of capital assets in kind by H.U.F to its members at the time of total/ partial partition (Section 47(i)).
3. Any transfer of capital asset under a gift or a will or irrevocable trust (Section 47(iii)) however, this clause shall not apply to transfer under gift of capital asset being shares, debentures or warrants allotted by company to its employee under employee's stock option plan.
4. Any transfer of capital asset by a company to its wholly owned Indian subsidiary company a vice versa (Section 47(iv and v)).
5. Any transfer under amalgamation scheme.
6. Any transfer of agricultural land in India effected before March 1, 1970.

7. Any transferred capital asset, being any work of art, archaeological, scientific or book, manuscript, painting, photograph, print to the Govt. or University, National University, national art gallery and any notified by Govt.
8. Any transfer of rupee denominated bonds of an Indian company issued outside India by a non-resident to another non-resident.
9. Transfer of Sovereign bond issued by the Reserve Bank of India
10. Transfer by way of conversion of bond or debenture, debenture stock, or deposit certificates of a company into shares/debentures.

(C) CAPITAL GAIN SHOULD ARISE IN THE PREVIOUS YEAR IN WHICH TRANSFER TOOK PLACE.

Normally, capital gain arises in the previous year in which the transfer of the asset takes place even if the consideration for the transfer is received in later years. For the assessment year 2023-24 any capital asset transferred during the previous year 2022-23 and gains have been raised then such gain shall be taxable

Exceptions:

In the following cases capital gain is taxable not in the year of transfer but in some other year. suppose a capital asset is converted into stock in trade during 2022-23 but it is sold in the year 2023-24 then capital gain shall be taxable in the year 2023-24 not in the year in which transfer took place i.e., 2022-23. Hence there are some exceptions in which capital gain is not taxable in the year in which transfer took place but in some other years. Some of them are as follows:

1. Conversion of capital asset into stock-in-trade.
2. Compulsory acquisition of an asset.
3. Transfer by an individual or HUF of capital asset being land and building under specified agreement for the developing a real estate project.
4. Damage or deconstruction of any capital asset by fire or other calamities. (Received from ins. Co.)

COMPUTATION OF CAPITAL GAIN (SEC-48)

Capital gains are of two types

(I) Short term capital gain which arises on the transfer of a short-term capital assets and

(II) Long-term capital gain which arises on the transfer of a long-term capital asset.

Particular

Computation of Short-Term Capital Gain (STCG) for assessment year ..... of .....

Particular	Amount ₹
Full value of consideration	
Less: Expenditure incurred wholly and exclusively in connection with such transfer.	
Net Consideration	
Less: Cost of acquisition	
Less: Cost of improvement	
Gross Short Term Capital gain	
Less: Exemption (54B/54D/54G/54GA)	
Taxable short-term capital gain	

Computation of Long-Term Capital Gain (LTCG)

Particular	Amount ₹
Full value of consideration	
Less: Expenditure incurred wholly and exclusively in connection with such transfer.	
Net Consideration	
Less: Indexed Cost of acquisition	
Less: Indexed Cost of improvement	
Gross Long-Term Capital gain	
Less: Exemption 54/54B/54D/54EC/54EE/54F/54G/54GA/54GB)	
Taxable long-term capital gain	

In order to understand the procedure of computation of capital gain as explained above, the following should be understood properly.

(a) Full value of consideration (b) Expenditure incurred
(c) Cost of acquisition (d) Cost of improvement
(e) Indexed cost of acquisition and indexed cost of improvement

(a) Full Value of Consideration

Full value of consideration received or accruing as a result of transfer of the capital asset is to be taken into consideration. The word full value is used because transfer includes not only sale but also other modes of transfer like exchange etc. While computing capital gain, the following points are to be noted in this respect:

(a) "Full Value" of consideration is to be considered.
(b) Consideration received or accruing is to be considered
(c) Such receipt or accrual or deemed value should be as a result of the transfer of capital asset.

In the following cases, instead of actual consideration, the full value of consideration shall be the deemed value. Deemed value may be market value or fair market value or recorded value in the books.

Table 4: Deemed value considered as full Value of consideration

Mode of transfer	Deemed full value	Section
Money received from an insurer on account of damage or destruction of any capital asset	Fair market value of asset on the date of receipts	45(1A)
Conversion of capital asset into stock-in-trade.	F.M.V. on date at conversion.	45(2)
Gift of shares/ debentures allotted ESOP	Market value on the date of gift	48
Distribution of asset in kind on dissolution of firm or AOP	F.M.V. on date of dissolution	45(4)
Introduction of capital asset into firm by partner	Amount recorded in the books of accounts of the firm.	45(3)
Shareholders receiving assets on the liquidation of the company	Market Value of asset – deemed dividend under section 2(22) (C)	
Transfer by individual or HUF of capital asset being land and building or both under specified agreement for developing a real estate project	Stamp duty value on the date of issue of certificate of completion, of share the share of individual in the land or building as increased by consideration in cash	45(5A)

Transfer of land or building	Not less than value adopted by stamp valuation authority if consideration declared by assessee is less	50 C
Transfer of a capital asset where consideration is not ascertainable or cannot be determined	Fair market value on the date of transfer	50D

Special provision for full value of Consideration in certain cases (Section 50C)

Sometimes actual sale consideration is less than stamp duty valuation, in such situations stamp duty valuation shall be considered as full value of consideration subject to stamp duty valuation is greater than 110% of sale consideration. Stamp duty value is a value adopted by authority of the state government for the purpose of payment of stamp duty at the time of registration of sale deed.

If date of agreement and date of registration are not the same, the stamp duty value on the date of agreement may be taken for the purpose of computing the full value of consideration.

On fulfillment of the following conditions the value adopted by the stamp duty authority shall be taken as "full value of consideration" for the purpose of computation of capital gains.

1. The transferred asset is land or building or both. It may be long-term or short-term or depreciable or non-depreciable assets.
2. Stamp duty **value exceeds 110**% of sale consideration.

ILLUSTRATION 6.1

Dr. Trilok transfers a house in January 2022. Indexed cost of acquisition is ₹ 16,00,000. Find out long-term capital gain chargeable to tax for the assessment year 2023-24 under different situations given below:

Situations	Stamp duty valuation at the time of agreement	Actual sale consideration as per agreement
Situation 1	79,00,000	70,00,000
Situation 2	77,00,000	70,00,000
Situation 3	75,00,000	70,00,000

Solution:

Computation of income from capital gain for the assessment year 2023-24

Particulars	Situation 1	Situation 2	Situation 3
Sale Consideration	70,00,000	70,00,000	70,00,000
110% of sale consideration	77,00,000	77,00,000	77,00,000
Stamp Duty Valuation	79,00,000	77,00,000	75,00,000
Full value of consideration	79,00,000	70,00,000	70,00,000
less: Indexed cost of acquisition	(Stamp value)	(Actual Sale Price)	(Actual Sale Price)
LTCG	16,00,000	16,00,000	16,00,000
	63,00,000	54,00,000	54,00,000

Note: Stamp duty value at the time of transfer is taken as full value of consideration, if it exceeds 110% of actual sale consideration. section 50c is applicable only when stamp duty valuation is greater than 110% of actual sale price otherwise actual sale price is taken into account.

EXERCISE 6.1

Mr. Vinay transfers a house in Dec. 2022. Indexed cost of acquisition is ₹ 26,50,000. Find out long term capital gain chargeable to tax for the assessment year 2023-24 with following details:

Stamp duty valuation at the time of agreement ₹ 86,00,000

Actual sale consideration as per agreement ₹ 75,00,000 [Ans.: ₹ 59,50,000]

(b) Expenditure incurred wholly and exclusively in connection with transfer.

These expenses are allowed as deductions but such expenditure.

(a) Should be incurred.

(b) Should be incurred wholly and exclusively in connection with transfer.

Following are the instances of such expenses, which are allowed:

1. Brokerage
2. Expenses on advertisement
3. Sales Commission
4. Legal expenses
5. Expenses on Stamps

However, no deduction shall be allowed in computing the income chargeable under the head 'capital gain' in respect of any amount paid on account of securities transaction tax (STT).

(c) Cost of Acquisition (Section 55(2)).

Cost of acquisition of an asset is the value for which it was acquired by the assesses. Expenses of capital nature for completing or acquiring the title to the property are includible in the cost of acquisition. In nut cell cost of acquisition is the price which has been paid by the assessee or any amount which the assessee has incurred to acquire the asset. Interest paid on borrowed capital for acquisition of capital assets may or may not be part of it. The detailed treatment is explained as under:

Interest on Borrowed Money

Assets can be acquired by taking loans. In such a situation the question arises whether interest on loan taken shall be formed a part of cost of acquisition or not. In this regard the following points should be taken into account.

1. **Interest paid on money borrowed for construction of house property**: Interest paid on construction of house can be divided into two parts:
   - Interest paid or due on the money borrowed from the date of taking loan and till the last day of the previous year prior to the year in which house construction completed, shall be allowed as deduction in the five equal installments starting from the previous year in which construction is completed or house is acquired.
   - Interest from the year of construction or acquisition of house till it is paid, shall be allowed as deduction in respective previous year regularly.

- If house property is sold within 5 years of the construction and interest for the pre-construction period could not be claimed as deduction as it is allowed as deduction in 5 years the balance interest can be treated as part of cost of the asset for computing capital gain.

2. **Interest on loan taken for acquiring a capital asset (other than house property)**will become part of the cost of acquisition

3. **Interest due or paid for acquisition of a business asset**: Any interest due or paid for the acquisition of business assets before the commencement of business shall be capitalized and treated as part of the cost of the asset till the business has commenced.

4. **Interest paid by the firm to its partners on capital** : contribution for the purchase of capital assets cannot be treated as per cost of acquisition.

Deemed cost of acquisition

In the cases given below, the cost of acquisition is taken at a notional or deemed figure:

S.N.	Cases	Determination of cost of acquisition
1	Capital asset becomes the property of the assessee before April 1, 2001, other than by made referred u/s 49(1)	Fair market value of the asset on April 2001 or Actual cost to the assessee Whichever is higher.
2	Capital asset becomes the property of the assessee (at any point of time) by any of modes referred to 49(1) And Such asset becomes the property of the previous owner before April 1,2001	F.M.V. on April 1,2001 Or Actual cost to the previous owner Whichever is higher (it is optional assessee may opt or not)
3.	Capital asset becomes the property of the assessee by any of the modes referred to in section 49(1) And Such asset becomes the property of the previous owner on or after April 1,1981	The actual cost of acquisition to the previous owner is taken to be cost of acquisition of the asset.
4.	In any other case	Cost of acquisition is the amount actually spent by the assessee in acquiring the capital assets.

Note: In case the cost to the previous owner cannot be ascertained, the fair market value of the asset on the date on which such asset becomes the property of the previous owner is taken to the cost of acquisition to the previous owner. (u/s 49).

In nut cell in the following cases, the assessee may take his option either actual cost or the fair market value of the asset as on April 1, 2001 as the cost of acquisition

a. The assessee became owner of the property before April 1, 2001; or

b. The assess became the owner of property under any mode referred under section 49(1) and the previous owner became the owner before April 1, 2001.

Modes of Acquisition (Section 49(1))

In any of the following cases, the capital asset is not actually purchased by the assessee, but it becomes his property:

(i) On any distribution of assets on the total or partial partition of a HUF.
(ii) Under a gift/will
(iii) By succession, heritance.
(iv) On any distribution of assets on the dissolution of a firm.
(v) On any distribution of assets on the liquidation of a company.
(vi) Under a transfer to a revocable or an irrevocable trust.

Cost of acquisition in special cases

Special Cases	Cost of Acquisition
Bonus Shares Acquired before 1/4/2001 Acquired after 1/4/2001	 F.M.V. on 1/4/2001 Nil
Additional compensation received in case of compulsory acquisition	Nil
Any asset received at the time of liquidation of company	Fair market value of such asset on date of distribution
Conversion of debenture into shares	Cost of debenture shall be taken as cost of acquisition of shares. (Holding period shall count from date of allotment of debenture)
Conversion of preference shares into equity shares	Cost of acquisition of preference shares
Depreciable asset U/S 50	The opening balance of the block of asset on the first day of the previous year plus actual cost of the assets acquired during the year fall within the same block
Conversion of capital asset into stock in trade	F.M.V. on the date of conversion shall be taken as cost of acquisition
If advance money is forfeited during previous year 2013-14 or any earlier previous year On or after 2014-15	Advance money will be deducted from the cost of acquisition Taxable in the hands of recipient u/s 56(2)(ix) under the head Income from other sources
Transfer of right shares	Amount actually paid by the taxpayer
Right entitlement (which is renounced by the assessee in favor of a person)	Nil Holding period = date of offer to date of renouncement
Right shares purchased by the person in whose favor the right entitlement has been renounced	Purchase price paid to renouncer of rights entitlement plus amount paid to the company which has allotted the right shares
Demat form of securities	FIFO method shall be applicable for determination of cost of acquisition and period of holding

(d) Cost of Improvement

Any capital expenditure incurred by an assessee in making any addition or alteration or improvement to the capital asset, such expenditure is called cost of improvement. Any cost of improvement incurred prior April 1, 2001 is not taken into account for calculating the capital gain chargeable to tax. Since fair market value on 1/04/2001 is being considered if property acquired prior to 1/4/2001, hence cost of improvement is

automatically adjusted in FMV. In the term of section 55(1) (b) cost of improvement in various circumstances have been explained below:

Table: Cost of improvement in different situations

	Capital asset covered	Determination of cost of improvement
1.	Goodwill of business. Right to manufacture, produce or process any article or thing. Any other capital asset	Nil Nil
2.	Capital asset that becomes the property of the assessee before April 1, 2001 and the case is not covered u/s 49(1)	Cost of improvement includes all capital expenditures incurred by the assessee making any additions or alterations to the capital asset on or after April 1, 2001.
3.	Capital asset that becomes the property of the assesses after April 1, 2001 and the case is not covered u/s 49(1)	Cost of improvement includes all capital expenditures incurred by the assesses making any additions or alterations
4.	Capital asset that becomes the property of the assesses and the previous owner before April 1, 2001 and the case is covered u/s 49 (1)	Cost of improvement includes all capital expenditures incurred by the assesses making any additions or alterations to the capital asset on or after April 1, 2001.
5.	Capital asset that becomes the property of the assesses on or after April 1, 2001 the case is covered u/s 49 (1) and the previous owner acquire the asset before April 1, 2001	Cost of improvement includes all capital expenditures incurred by the assesses making any additions or alterations to the capital asset on or after April 1, 2001 incurred by the assesses and the previous owner
6.	Capital asset that becomes the property of the assesses on or after April 1, 2001 the case is covered u/s 49 (1) and the previous owner acquire the asset after April 1, 2001	Cost of improvement includes all capital expenditures incurred by the assesses making any additions or alterations to the capital asset incurred by the assesses and previous owner

In nutshell, cost of improvement does not include the following:

(a) Expenditure incurred prior to April 1, 2001

(b) Any expenditure that is deductible in computing the income chargeable under the head "Income from House Property", profit and gains of business or profession or income from other sources is not included in cost of improvement.

ILLUSTRATION 6.2

Mr. Rohan purchased a plot on 15 June 2021 for ₹ 1,70,000. This plot was sold by him on 15 June 2022 for ₹ 2,25,000. Transfer expenses were ₹ 1,000. Compute capital gain for the assessment year 2023-24

Solution:

Computation of income from capital gain of Mr. Rohan for the assessment year 2023-24

Particular	Amount
Sale proceeds	2,25,000
Less: Transfer expenses	1,000
Less: Cost of acquisition	1,70,000
Short term capital gain	54,000

EXERCISE 6.2

Mr. Praveen purchased a house property on 20 Dec. 2021 for ₹ 3,10,000. This house property was sold by him on 15 January 2023 for ₹ 4,30,000. Transfer exp. were ₹ 4,000. Compute Income from capital gain for the assessment year 2023-24. [Ans. STCG : ₹ 1,16,000]

(e) Indexed cost of acquisition and Indexed cost of improvement (Section 48)

Under section 48, for computation of long-term capital gains, the cost of acquisition and cost of improvement will be increased by applying cost inflation index (CII). When CII is applied on cost of acquisition and cost of improvement, it becomes indexed cost of acquisition and indexed cost of improvement.

Cost Inflation Index

CII for any year means such an index as the central government may, having regard to seventy five percent of average rise in the consumer price index for urban non manual employees of the immediately preceding previous year to such previous year, by notification in the official gazette, specialty in this behalf.

CII from 2001-02 to 2022-23 previous years as notified by the central government are given below:

Table1: Cost Inflation Index for different Years

Previous Year	CII	Previous Year	CII	Previous Year	CII	Previous Year	CII
2001-02	100	2008-09	137	2015-16	254	2022-23	331
2002-03	105	2009-10	148	2016-17	264		
2003-04	109	2010-11	167	2017-18	272		
2004-05	113	2011-12	184	2018-19	280		
2005-06	117	2012-13	200	2019-20	289		
2006-07	122	2013-14	220	2020-21	301		
2007-08	129	2014-15	240	2021-22	317		

Computation of Index cost of acquisition and index cost of improvement.

By applying following formula index cost of acquisition and improvement on be calculated:

Index cost of acquisition =

$$Cost\ of\ acquisition\ x\ \frac{CII\ for\ the\ year\ in\ which\ asset\ is\ transferred}{CII\ for\ the\ year\ in\ which\ asset\ was\ first\ held\ by\ the\ assessee\ or\ Yr.2001-02\ whichever\ is\ later}$$

When asset was acquired under section 49(1)

Index cost of acquisition =

$$Cost\ of\ acquisition\ x\ \frac{CII\ for\ the\ year\ in\ which\ asset\ is\ transferred}{CII\ for\ the\ year\ in\ which\ asset\ was\ first\ held\ by\ the\ previous\ owner\ *\ or\ 2001-02\ whichever\ is\ later}$$

* In 2012 Bombay high court held that indexed cost of acquisition has to be computed with reference to year in which previous owner first held asset and not year in which the assessee became owner of asset.

Index cost of improvement =

$$Cost\ of\ improvement\ x\ \frac{CII\ for\ the\ year\ in\ which\ the\ asset\ is\ transferred}{Index\ no.\ For\ the\ year\ in\ which\ improvement\ takes\ place.}$$

Note:

- If a capital asset is acquired before April 1,2001, fair market value of the asset on April1, 2001 or actual cost of acquisition whichever is higher shall be taken into account as cost of acquisition.
- If a capital asset is acquired u/s 49(1), the cost of the previous owner shall be taken into account as a cost of acquisition.
- Indexed cost of acquisition has to be computed with reference to the year in which the previous owner first held the asset and not year in which the assessee became owner of asset.
- Any improvement took place prior April 1,2001 shall not be taken into account

ILLUSTRATION 6.3

Mr. Prakash purchased a Plot on 15 June 1994 for ₹ 60,000. This plot was sold by him on 13 September 2022 for ₹ 26,00,000. The market value of the plot as on 1 April 2001 was ₹ 2,60,000. Transfer expenses on sale were 2% of sale price. Compute capital gain for the assessment year 2023-24.

Solution:

Computation of income from capital gain of Mr. Prakash for the assessment year 2023-24

Particular	Amount
Sales	26,00,000
Less: Transfer expenses 2%	52,000
Less: Indexed cost of acquisition 2,60,000*x*331/100	8,60,600
Long term capital gain	16,87,400

Note: Indexation has been done for cost of acquisition (₹ 60,000) or Fair market value as on 1 April 2001(₹ 2,60,000) whichever is higher.

EXERCISE 6.3

Mr. Jayant purchased a piece of land on 5 July 2006 for ₹ 4,10,000 and sold it on 12 September 2022 for ₹ 14,00,000. Expenses on transfer were 2% on the sale price. He spent ₹ 45,000 in 2007-08 for the boundary wall on this plot. Compute the capital gain for assessment year 2023-24. [Ans.: LTCG Rs. 1,44,158]

ILLUSTRATION 6.4

Dr. Tuktak acquired a house property for ₹1,00,000 on June 1, 1987. The following expenses were incurred by him on this house property:

a.	Cost of construction of one room on roof in 1995-96	₹1,34,000
b.	Cost of construction one more room in 2003-04 on roof	₹3,64,000
c.	Major Alteration in property in 2012-13	₹3,04,000

Fair market value of the property on April 1, 2001 is ₹ 8,24,000. The house property was sold by Dr. Tuktak on June 10, 2022 for ₹ 99,74,000 after incurring transfer expenses ₹ 34,000. Calculate amount of capital gains for the assessment year of 2023-24. CII for 2003-04 and 2012-13 are 109 and 200 respectively.

Solution:

Computation of long-term capital gain

Particular		Amount
Full value of consideration		99,74,000
Less: Expenditure incurred on transfer of House		34,000
Net Consideration		99,40,000
Less: Indexed Cost of acquisition		
8,24,000 × 331 /100		27,27,440
Indexed Cost of improvement		
1995-96 not considered prior to 1/4/2001	Nil	
2003-04 ₹3,64,000× 331/109	11,05,357	
2012-13 ₹3,04,000× 331/200	5,03,120	16,08,477
Gross LONG-TERM Capital gain		56,04,083

EXERCISE 6.4

Mr. R.K. Jhakal acquired a house property on 1 June 2001 for ₹ 10,80,000. The following exp. were incurred by him on this house property :

Year 2003-04 ₹ 60,000
Year 2010-11 ₹ 70,000
Year 2015-16 ₹ 50,000

The house property is sold by Mr. R.K. Jhakal on 20 March, 2023 for ₹ 58,00,000. Transfer exp. were 2% paid on sale value. Calculate income from capital gain for the assessment year 2023-24. CII for 2001-02, 2003-04, 2010-11 and 2015-16 is 100, 109, 167 and 254 respectively. [Ans. : LTCG ₹17,22,600]

No Indexation

In the following cases benefit of indexation would not be applicable to the long-term capital gain arising from the transfer of the following assets referred to section 112A

1. Equity shares in a company on which STT is paid both at the time of acquisition and transfer
2. Unit of equity-oriented fund or units of business trust on which STT is paid at the time of transfer.
3. In case of transfer of depreciable assets
4. In case of transfer of bond and debentures.
5. Shares and debenture purchased in foreign currency and held by non-resident

COMPUTATION OF CAPITAL GAIN IN SPECIAL CASES

(A) Conversion of Capital Asset into Stock in Trade (Section 45(2)):

The following peculiar points should be taken into account while calculating amount of capital gain:

(1) Sections 45(2) apply where the owner of a capital asset converts it into the stock-in-trade of a business carried on by him or treats it as stock-in-trade.

(2) The following points to be considered while computation capital gain arises from such conversion,

(3) Capital gain arising on conversion will be chargeable to tax in the year in which such stock-in-trade is sold and not in the year in which the conversion takes place.

(4) Conversion of capital asset into stock-in-trade will be treated as transfer under section 2(47) in the year in which conversion takes place.

(5) Fair market value of the asset on the date of conversion shall be deemed to be full value of the consideration for this purpose.

(6) For the purpose of indexation year of conversion is taken to be the year of transfer of the capital

(7) Cost of acquisition is computed as per the normal provision.

(8) The excess of sale consideration over the fair market value on the date of conversion shall be treated as business income.

In nutshell:

Capital gain = Fair market value on date of conversion - Indexed cost of acquisition*
Business Income= Actual sale proceeds (-) Fair market value on date of conversion

*Index cost of acquisition =

$$Cost\ of\ acquisition\ x\ \frac{CII\ of\ that\ year\ in\ which\ conversion\ took\ place}{CII\ of\ that\ year\ in\ Which\ asset\ was\ acquired}$$

Note: Both capital gains and business income are chargeable to tax in the year in which stock in trade is sold.

ILLUSTRATION 6.5

Dr. Bharat Choudhary converts his Jewellery (acquired in 2002-2003 for ₹1,50,000) into stock in trade on May 10, 2008 having a fair market value ₹4,80,000 on this date and subsequently sells the stock-in-trade so converted for ₹18,00,000 on July 30, 2022. Determine the amount of taxable capital gain and business income. (CII for 2002-03: 105, 2008-09: 137 and 2022-23: 331)

Solution:

Computation of Capital Gain of Dr. Bharat Choudhary for the Assessment Year 2023-24

	₹
Full value of consideration being FMV on date of conversion	4,80,000
Less: Expenditure incurred on transfer	Nil
Net Consideration	4,80,000
Less: Indexed Cost of acquisition $1,50,000 x \frac{137}{105}$	1,95,714
Long Term Capital Gain	2,84,286

Business Income = Actual sale proceeds (-) Fair market value on date of conversion
= ₹ 18,00,000 - ₹ 4,80,000
= ₹ 13,20,000

EXERCISE 6.5

Mr. Vijay has a plot which was purchased on 30th April 2011 for ₹ 2,00,000. He converted this land into stock in trade on 10th August 2016. Fair market value of the land was ₹ 8,00,000 on the date of conversion. Subsequently he sold the land held as stock in trade for ₹ 10,50,000 on 10th September 2022. Determine the amount of taxable capital gain and business income. (CII for 2011-12 : 184, 2016-17: 264 and 2022-23: 331)

[Ans.: LTCG ₹ 5,13,043, Business income ₹ 2,50,000]

(B) Withdrawal of exemption given by (Section 47(iv)/(v))

Under section 47 (iv)(v) any capital asset is transferred by a holding co. to its subsidiary company or vice-versa, such transfer is not treated as transfer, however, in the following two cases the exemption shall be withdrawn:

(a) If at any time before the expiry of 8 years from date of transfer, such capital asset is converted by Transferee Company into stock in trade of its business.

(b) The holding co. ceases to hold the share capital of the subsidiary co, before the expiry of the period of 8 years.

(C) Transfer of Capital asset by partner to firm or association of person (Section 45(3), (4))

When a partner of a firm transfers a capital asset to the firm and such transfer may be by way of his capital contribution or otherwise then the capital gain is chargeable to tax in the previous year in which such transfer takes place under section 45(3). The amount recorded for such capital assets in the books of accounts of a firm shall be taken as full value of consideration received as a result of transfer. If the asset transferred is not a capital asset then section 45(3) shall not be applicable. For example, the transfer of personal car.

Computation of Capital Gain on transfer of capital asset to firm by partner

	Amount
Amount recorded in the books of account of firm	
Less: Cost of acquisition	
STCG/LTCG	

Note: Taxable in the previous year in which such transfer takes place.

ILLUSTRATION 6.6

Dr. Sunil acquired a house property by way of a gift from his father on his birthday March 1, 2010. His father had acquired this property in the previous year 2006-07 for ₹ 22,00,000. On March 1, 2023 Dr. Sunil became a partner in a partnership firm and contributed this house property as his capital. The market value of the property on March 1, 2023 was ₹1,76,00,000 but it was recorded in the books of accounts of the firm ₹1,10,00,000. Compute the amount of capital gain chargeable to tax in the hands of Dr. Sunil for assessment year 2023-24. The CII for the year 2006-07, 2009-2010, 2010-2011 and 2022-2023 are 122, 148, 167 and 331 respectively.

Solution:

Computation of capital gain of Mr. Sunil for the assessment year 2023-24

	Amount
Full value of consideration	1,10,00,000
Less: Expenditure incurred on transfer	Nil
Net Consideration	1,10,00,000
Less: Indexed Cost of acquisition 22,00,000 × 331 /122	59,68,852
LONG-TERM Capital gain	50,31,148

Tutorial Notes:

1. The recorded value shall be taken as sale consideration not fair market value.
2. The cost of the previous owner shall be the cost of acquisition for the present owner because it is acquired under section 49.
3. CII of that year shall be taken into account in which the previous owner became owner of the asset.

EXERCISE 6.6

P and Q are partners in a firm. On 30th November 2022 R joins the firm and brings the following assets as his capital contribution in the firm:

Particular	Land	Jewellery	Shares in a Co.
Fair market value 30-11-2022	10,00,000	6,00,000	2,00,000
Amount recorded in the books	8,00,000	5,00,000	1,80,000
Actual cost	1,80,000	80,000	1,50,000
Year of acquisition	April 2006	Sept. 2010	Jan. 2020

₹ 14,80,000 is credited in the capital account of R in the firm. Compute taxable capital gain for the assessment year 2023-24 if the cost inflation index for F.Y. 2006-07:122, 2010-11:167, 2019-20:289, 2022-23: 331.

[Ans. LTCG ₹ 3,11,639(land) ₹ 3,41,437(Jewellery) STCG on shares ₹ 30,000]

(D) Distribution of capital asset on dissolution of firm (Section 45(4)) or Transfer of Capital asset by firm to partner

When a firm transfers a capital asset to the partner and such transfer is by way of distribution of capital assets on dissolution of the firm or otherwise then the capital gain is chargeable to tax in the previous year in which such transfer takes place under section 45 (4) in the hands of the partner. The fair market value of the such transferred capital asset on date of transfer shall be taken as full value of consideration received as a result of transfer. If the asset transferred is not a capital asset, then section 45(4) shall not be applicable. For example, transfer of rural agricultural land.

Computation of Capital Gain on transfer of capital asset by firm to partner

	₹
Fair Market value on date of transfer	
Less: Cost of acquisition	
STCG/LTCG	

Note:

1. Taxable in the previous year in which such transfer takes place.
2. If a depreciable asset is transferred then the written down value of the block of asset on April 1, 2020 shall be taken as cost of acquisition.
3. In case of transfer of depreciable asset, the arising gain shall always be considered as short term capital gain even then the asset is held more than 24 or 36 months as case may be due to section 50.

ILLUSTRATION 6.7

T and M are partners in a firm. The firm was dissolved on July 31, 2022. The assets of the firm were distributed as under:

Showroom was taken by T, Shares of reliance company were taken by M. The details of these assets are as under

Particulars	Showroom	Reliance Shares
Cost of Acquisition	₹72,00,000	₹6,02,100
Year of acquisition	2008-09	2013-14
Market value on 31/07/2020	40,50,000	41,68,800
Agreed Value as per deed	22,50,000	22,50,000
W.D.V. on 1/04/2020	28,80,000	N.A.

Compute taxable amount of capital gain in the hands of the firm for the assessment year 2023-24. The CII for 2013-14 is 220.

Solution:

Computation of capital gain in the hands of firm for the assessment year 2023-24

	Amount ₹
Showroom	
Full value of consideration	40,50,000
Less: Expenditure incurred on transfer	0
Net Consideration	40,50,000
Less: Cost of acquisition (W.D.V. on 1/4/2020)	28,80,000
SHORT-TERM Capital gain	11,70,000
Shares of Reliance	
Full value of consideration	41,68,800
Less: Expenditure incurred on transfer	0
Net Consideration	41,68,800
Less: Indexed Cost of acquisition 6,02,100 × 331 /220	9,05,887
LONG-TERM Capital gain	32,62,913

EXERCISE 6.7

A, B and C were partners in a firm. Firm was dissolved on 31st August 2022. The assets of the firm were distributed amongst the partners as follows:

	Jewellery	Urban land	Block of building
Year of acquisition	Sept. 1998	Jan. 2006	2007-08
Cost of acquisition	1,80,000	3,00,000	5,00,000
Value at which given to partner	8,00,000 (A)	11,00,000 (B)	11,00,000 (C)
Market value as on 31st Aug. 2022	9,00,000	12,00,000	12,00,000
W.D.V. as on 1-4-2021	-	-	3,00,000
Market value as on 1-4-2001	2,20,000	-	-

Compute the taxable capital gain in the hands of firm. (CII for F.Y. 2001-02:100, 2005-06:117, 2007-08:129, 2022-23:331) [Ans. LTCG : ₹ 1,71,800 (Jew.) ₹3,51,282 (land) STCG : ₹ 9,00,000(Building)]

(E) Computation of capital gain in the case of self-generated assets:

An asset is called a self-generated asset if nothing is paid in terms of money to generate or acquire the same. In other words, an asset which does not cost anything to the assesses in terms of money in its creation or acquisition is a self-generated asset. Self-generated assets may be goodwill, tenancy rights, route permits and loan hours, right to manufacture, trademark or brand name associated with business.

The cost of self-acquired assets will be taken nil. If the goodwill is purchased and later on transferred the purchase price will be taken as cost of acquisition. If self-acquired assets are acquired before 1-4-2001, the option of adopting fair market value on said date is not available. The following may be self-generated assets

- Goodwill
- Right to carry on any Business
- Route permits
- Trademark
- Right to manufacture or produce any article
- Tenancy right
- Loom hour
- Brand name associated with business

Other than aforesaid self-acquired assets are not chargeable to tax like:

- Self-acquired goodwill of profession
- New formula invented.

(F) Conversion of debenture into shares (Section 49(2a))

Conversion of debenture into shares are not treated as transfer hence no capital gain is arising. But on the sale of shares or debentures received on such conversion, the capital gain shall be computed. The cost of debenture shall be treated as the cost of acquisition of shares. If preference shares are converted into equity shares, these rules will not be applicable.

ILLUSTRATION 6.8

Dr. Bhanawat gets 1000 partly convertible debentures of NMDC Ltd @ ₹ 200 per debenture face value being ₹100 on June 15, 2005. As per the terms of allotment NMDC ltd converted 60% portion of each debenture into two equity shares of face value of ₹10 on August 3, 2013. In October 2021, Dr. Bhanawattransferred 1200 equity shares in NMDC ltd. @ ₹600 per share and 1000 debenture of non-convertible portion @ ₹310 per

debenture. Fair market value of Equity share as on 31-01-2018 is @ 420 per share. Find out the amount of capital gain chargeable to tax for the assessment year 2023-24. CII for 2005-06 is 117.

Solution:

The original cost of investment is ₹2,00,000 (₹200*1000). Out of this 60% has been converted into equity shares hence cost of acquisition of shares shall be ₹1,20,000 and cost of 1000 debenture shall remain ₹80,000 (₹2,00,000-1,20,000). The holding period of equity shares shall be reckoned from the date of issuing debentures. After conversion of debenture into equity shares, Dr. Bhanawat holds the following:

Scrip	Number	Face Value per scrip	Total Cost ₹
Equity Shares	1200	10	1,20,000
Debenture	1000	40	80,000

Computation of capital gain of Dr. Bhanawatfor A.Y. 2023-24

Particular	Equity shares	Debenture
Full value of consideration	7,20,000 (₹600*1200)	3,10,000 (₹310*1000)
Less Indexed cost of acquisition Actual cost ₹ 1,20,000 or FMV as on 31-01-2018 ₹ 5,16,000 Whichever is higher	5,16,000	80,000*
Long-term capital gain	2,04,000	2,30,000

*in case of debentures indexation benefit is not applicable

EXERCISE 6.8

Mr. Mukesh acquired 500 debentures of a company on 10 August 2010 @ ₹ 75 per debenture. The company converts the debenture into equity shares in 1:4 ratio. Thus Mr. Mukesh gets 2000 equity shares of the company. Fair market value of shares was₹ 25 per share at the time of conversion of debentures into equity shares. Face value of equity shares is ₹ 10 per share. Mr. Mukesh sold 60% of his holding @ ₹ 60 per share on 10 May 2022. Fair market value as on 31-01-2018 were ₹ 30 per share.

Find out income from capital gain of Mr. Mukesh for the assessment year 2023-24. [Ans.: LTCG ₹ 36000]

(G) Computation of capital gain when insurance claim is received (Section 45(1A))

As per sub section (1A) of the section 45 any insurance claim received on destruction of any capital asset is chargeable to tax. If a destructed asset is not a capital asset, then section 45(1A) shall not be applicable like stock in trade.

Capital gain is calculated in the year in which destruction takes place but it is included in the taxable income of that previous year in which the compensation is received. Hence, CII of that year shall be taken into account in which destruction takes place, not the previous year in which compensation was received. On fulfillment of the following conditions section 45 (1A) shall be applicable:

Conditions:

1. Compensation is received under insurance from the insurer due to damage or destruction of any capital assets.

2. The damage is a result of four categories of circumstances viz.
   (i) Flood, thunderstorm, hurricane, cyclone, earthquake.
   (ii) Riots or civil disturbance.
   (iii) Accidental fire explosion.
   (iv) Action by enemy or action taken in combating an enemy.

Any gain arising from receipt of compensation shall be deemed to be capital gains of the previous year in which such compensation was received. Any amount received from an insurance company other than the situation mentioned above shall be taxable in other heads of income either Business or profession or other sources.

ILLUSTRATION 6.9

Dr. Menariya owned an office building which was purchased by him on November 30, 2009 for ₹16,00,000. This office building was destroyed by a mob of people under civil disturbance due to Casteism riots in January 2013 and Dr. Menariya Received a sum of ₹ 78,00,000 from the insurance company on June 2022. Find out the amount of capital gain for the assessment year 2023-24. The CII for year 2009-10, 2012-13 and 2022-23 are 148, 200 and 331 respectively.

Solution:

Computation of Capital gain of Mr. Menariya for the assessment year 2023-24

	Amount ₹
Full value of consideration	78,00,000
Less: Expenditure incurred on transfer	0
Net Consideration	78,00,000
Less: Indexed Cost of acquisition ₹16,00,000*200/148	21,62,162
Long-term Capital gain	56,37,838

Note: Capital gain is calculated in the year in which destruction takes place (2012-13) but it is included in the taxable income of that previous year in which the compensation is received (2022-23).

EXERCISE 6.9

Mahesh owns a house property which was purchased by him on 01.06.1985 for ₹4,00,000. The said property was destroyed by fire on 04.06.2022 and he received a sum of ₹62,00,000 for the insurance company during the year. The market value of the above property as on 01.04.2001 was ₹20,00,000. Compute the capital gain for the assessment year 2023-24. [Ans. LTCG(₹ 1,40,000)]

(H) Computation of Capital Gains in Case of Depreciable Assets (Section 50 and 50A)

If any depreciable asset covered under section 32 is being transferred during the previous yearthen the amount of capital gain shall be calculated as per section 50 and 50A. As we kindly aware about block of asset Section 50 provides two situations viz.,

A. When written down value of the block of asset is zero on last day of the previous year (section 50(1))

B. When the block of assets is empty on the last day of the previous year

A. When written down value of the block of asset is zero on last day of the previous year (section 50(1))

When any asset of the block is being sold and sale consideration is greater or equal to combined value of written down value on first day of previous year, transfer expenses and cost of assets acquired during the previous year then written down value of that block shall be treated as zero at the end of the previous year even some assets are remains available in the block. In such a situation the excess amount of sale consideration over the sum of transfer expenses, cost of new assets acquired and opening balance of WDV of that block shall be treated as short-term capital gains.

Computation of Short-term capital gain

		Amount ₹
(a) Full value of consideration of depreciable assets is transferred during P.Y. and fall within same block		
(B) Less:	(1) Expenditure incurred on transfer	
	(2) W.D.V of block of assetson the first day of P.Y.	
	(3) Actual cost of assets acquired in same block	
Short term Capital Gain (A>B)		

Note: if A < B, it means the resultant figure is negative, then depreciation shall be charged as per section 32 and section 50(1) shall not be applicable.

B. When the block of assets is empty on the last day of the previous year (Section 50(2))

When all the assets of the block have been transferred and sale consideration is more than the combined value of written down value of block of asset on first day of previous year, transfer expenses and cost of assets acquired during previous year of that block, then such difference shall be treated as short term capital gain otherwise it will be treated as short-term capital loss.

Computation of Short-term capital gain

		Amount ₹
(a) Full value of consideration of transferred depreciable assets is transferred during P.Y. and fall within same block		
(B) Less:	(1) Expenditure incurred on transfer	
	(2) W.D.V of block of assetson the first day of P. Y.	
	(3) Actual cost of assets acquired in same block	
Short Term Capital Gain/loss		

Transfer of depreciable assets at a Glance

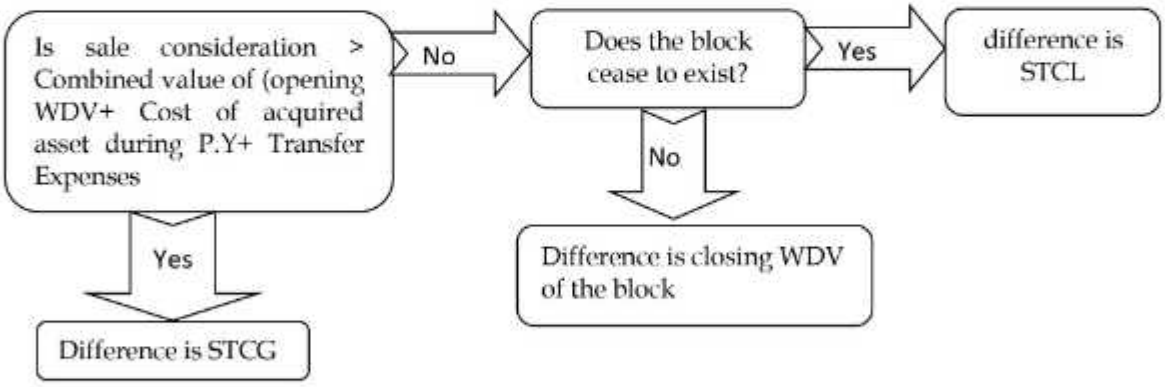


Figure 2: Capital Gain Computation of transfer of depreciable assets

ILLUSTRATION 6.10

Prakash & Company, a sole proprietorship owns six machines, put in use for business in March 2019. The depreciation on these machines is charged @ 15%. The Written down value of these machines as on April 1, 2022 was ₹ 16,00,000. Three of the old machines were sold on June 10, 2022 for ₹ 20,00,000. A second-hand plant was bought for ₹ 16,00,000 on November 30, 2022.

You are required to

1. Determine the claim of depreciation for assessment year 2023-24
2. Compute capital gain liable to tax for assessment year 2023-24
3. If Prakash & company had sold the three machines in June 2022 for ₹ 40,00,000 will there be any difference in your above calculation? Explain.

Solution:

1. Computation of depreciation for A.Y. 2023-24

	₹
W.D.V. of the block as on 1/04/2022	16,00,000
Add: Second hand plant acquired	16,00,000
Total	32,00,000
Less: Sale consideration	20,00,000
W.D.V. of the block as on 31/03/2023	12,00,000

Depreciation shall be charged on ₹ 12,00,000 @ 15%. Since a new plant acquired during the previous year is put in use for less than 180 days hence depreciation is restricted by 50% of normal depreciation prescribed in section 32. Therefore, the allowable depreciation shall be 7.5% of ₹ 12,00,000 i.e. ₹ 90,000.

2. Computation of Capital Gain

Computation of capital gain

	₹
(a) Full value of consideration of depreciable assets is transferred during P.Y. and fall within same block	20,00,000
(B) Less: (1) Expenditure incurred on transfer	Nil
(2) W.D.V of block of asset on first day of p.y.	16,00,000
(3) Actual cost of assets acquired in same block	16,00,000
SHORT-TERM Capital Gain (A>B)	Nil

Here A<B, hence depreciation shall be charged as discussed above 1. No gain or loss is arising as the block of assets continues to exist and some of assets are sold for price which is lesser than the WDV of the block.

3. If the Machines are sold for ₹ 40,00,000

Computation of capital gain

	₹
(a) Full value of consideration of depreciable assets is transferred during P.Y. and fall within same block	40,00,000

(B) Less: (1) Expenditure incurred on transfer		nil
(2) W.D.V of block pf asset on first day of P.Y.	16,00,000	
(3) Actual cost of assets acquired in same block	16,00,000	32,00,000
Short-Term Capital Gain (A>B)		8,00,000

Here STCG arises since sale consideration is more than the combined value of opening WDV and the addition made during the year.

EXERCISE 6.10

Compute capital gain and business income of Mr. Prem Prakash for the assessment year 2023-24. Mr. Prem Prakash has following 3 plants in the beginning of the year in his business:

Assets	Rate of depreciation	WDV on 1-4-2022
Plant A	15%	11,00,000
Plant B	15%	4,00,000
Plant C	15%	2,00,000

(a) Plant A is sold on 20 Nov. 2022 at a consideration of ₹ 20,00,000.

(b) If Plant B and C are sold on 20 Nov. 2022 at a consideration of ₹ 8,00,000.

(c) If the entire block of plants sold for ₹ 16,00,000.

(d) If the entire block of plants sold for ₹ 18,00,000.

[Ans.: (a) STCG 3,00,000 (b) WDV 9,00,000 (c) STCL ₹1,00,000(d) STCG ₹ 1,00,000]

(I) Computation of capital gain in the case of compulsory acquisition of an asset (Section 45(5))

If any capital asset is compulsorily acquired by Central Government or the Reserve Bank of India, initial compensation shall be taken as full value of sale consideration and capital gain shall be chargeable to tax in the previous year in which initial compensation was first received. Later on, any compensation has been enhanced by the court or any authority, it shall be taxable in the previous year in which enhanced compensation is received no cost of acquisition and improvement shall be deducted. However, if any litigation expenses are incurred for getting the enhanced compensation shall be deductible.

(J) Advance Money received (Section 51)

Sometimes an assessee receives advance money from prospective buyer for transfer of capital asset and buyer promises to pay balance amount on a particular later date. Later on, the prospective could not maintain his promise and do not pay the balance amount then assessee has a right to forfeit the advance money received from him. Tax treatment of advance money received from prospective buyer is as follows:

1. If advance money is forfeited during previous year 2013-14 or any earlier previous year or prior to 1/04/2014: advance money shall be deducted from the cost of acquisition while calculating the amount of capital gain on subsequent transfer of asset. If such capital asset is not transferred during the lifetime of the assessee, it shall not be taxable in the hands of assessee.

2. If advance money is forfeited during previous year 2014-15 or any subsequent years: It is taxable in the hands of recipient (Assessee) under section 56(2)(ix) under the head "Income from Other Sources" in the year in which advance money is forfeited. Consequently, no treatment shall be made under the head capital gain for the purpose of tax.

ILLUSTRATION 6.11

Mr. Bhavesh purchased a plot of land on October 19, 2002 for ₹ 2,00,000. On May 5, 2005, he entered into an agreement to sell the plot of land to Mukesh for ₹ 10,00,000 and received advance money of ₹21,000. Mr. Mukesh could not maintain his promise and did not pay the remaining amount within stipulated time period, Mr. Bhavesh forfeited advance money. Mr. Bhavesh died on October 12, 2006 and his brother Dr. Rakesh got the property.

Further Dr. Rakesh entered into an agreement on May 10, 2019 to transfer the plot to Shailesh after receiving an advance of ₹2,51,000. Shailesh could not maintain his promise and consequently advance money was forfeited.

Dr. Rakesh ultimately sells the property to Kulkarni on June 20, 2022 for ₹ 8,00,000. Find out tax consequences in the hands of Bhavesh and Dr. Rakesh for different assessment years.

Solution:

Mr. Bhavesh forfeited money of ₹21,000 during the previous year 2005-06 i.e., prior to 1-4-2014 and plot was not transferred during his lifetime. Hence advance forfeited by Bhavesh is not taxable. Such amount shall also not deduct from cost acquisition while selling such plot by Dr. Rakesh.

Dr. Rakesh

Forfeiture of advance money of ₹ 2,51,000 from Shailesh during P.Y. 2019-20 i.e., after 1-04-2014 shall be taxable in the hands of Dr. Rakesh under the head "Income from Other Sources" for the P.Y 2019-20.

Computation of Capital Gain for A.Y. 2023-24

	₹
Full value of consideration	8,00,000
Less: Expenditure incurred on transfer	Nil
Net Consideration	8,00,000
Less: Indexed Cost of acquisition	6,62,000
Long-term Capital gain	1,38,000

Computation of Gross Total Income of Dr. Rakesh for A.Y 2023-24

Long-term Capital gain	1,38,000
Income from other sources	2,51,000
Gross Total Income	3,89,000

Working Notes:

Computation of indexed cost of acquisition

Cost of acquisition to the previous owner (Bhavesh)	₹2,00,000
Less: Amount forfeited during 2005-06 Not to be considered	Nil
Less: amount forfeited during 2019-20 Taxable under the head income from other sources)	Nil
Cost of Acquisition	
Indexed cost of acquisition	₹2,00,000
(₹2,00,000* CII of 2022-23:331/CII of 2001-02: 100)	6,62,000

EXERCISE 6.11

Gopal Lal purchased a house at Udaipur in June 2005 for ₹ 6,00,000. Registration exp. of ₹ 20,000 were paid. In Jan. 2020 he entered into an agreement to sell the property to Ramesh for ₹ 14,20,000 and received earnest money of ₹ 1,20,000. As per the agreement the balance payment was to be made within 30 days, if not then the seller has power to forfeit the advance amount. As Ramesh could not make the payment within the stipulated period the advance money was forfeited. On 20 Dec. 2022, Gopal sold the house property to Vijay for ₹ 24,00,000.

Compute income from capital gain for the assessment year 2023-24. CII for 2005-06 is 117.

[Ans. : LTCG₹6,45,983]

EXEMPTIONS OF CAPITAL GAINS

Exemption available under the head capital gain can be classified into two categories:

a. Exemption under various sub-clauses of section 10 and 13A

b. Exemption under section 54/54B/54D/54EC/54F/54G/54GA/54GB

a. Exemption under various sub-clauses of section 10 and 13A

In order to get exemption under section 10 and 13 A, no fresh investment is required. Assessee can claim for exemption only on the basis of capital asset transferred no further investment is required. These are mentioned as under:

Capital gains on transfer of Unit Scheme – 1964 (Section 10(33))

Any income arising from the transfer of capital assets being a unit of the unit scheme, 1964 shall be exempt if transfer takes place on or after 1 April 2002. If loss occurs instead of gain then such loss shall not be allowed to be set off/carried forward.

Capital gains on compulsory acquisition of urban agricultural land (Section 10(37))

Any capital gain arising by way of compensation on compulsory acquisition of urban agricultural land on or after 1 April 2004 shall be exempt. The exemption is available only when such land has been used for agricultural purposes during the two years just preceding the date of transfer by individual or HUF.

Where acquisition has taken place before 1 April 2004 but the compensation received after 31 March 2004, it shall be exempt. But a part of compensation has been received before 1 April 2004 then no exemption shall be available.

ILLUSTRATION 6.12

Rohan acquired an agricultural land costing ₹ 10,00,000 situated within 4 K.M. form Udaipur municipal corporation having population of 5,00,000 on 1 April 2004. The land has been used for agricultural purposes since its purchase till 1 September2013 when the Central Government took over compulsory acquisition of this land. A compensation of ₹ 23,00,000 was settled. The compensation was received on 1 July 2022. CII 2004-05: 113, 2013-14:220, 2022-23: 331

1. Compute the amount of capital gains taxable in the hands of Rohan.
2. Will your answer be any different if Rohan had sold this property to his friend Shailesh?
3. Would your answer be different if Rohan had not used this land for agricultural purposes?

Solution:

1. Since urban agricultural land was being used for agricultural purpose by assessee himself for at least two years just preceding to date of compulsory acquisition and compensation was received after 31 March 2004, hence as per section 10(37), entire capital gain arising on such compulsory acquisition will be fully exempt.

Computation of Capital Gain for A.Y. 2023-24

	₹
Full value of consideration	23,00,000
Less: Expenditure incurred on transfer	Nil
Net Consideration	23,00,000
Less: Indexed Cost of acquisition 10,00,000*220/113	19,46,903
Gross long-term Capital gain	Exempt u/s 10(37)

Note:

1. Capital gain shall not be exempt and the entire gain (₹3,53,097) shall be taxable in the hands of Rohan.
2. Capital gain shall not be exempt and the entire gain (₹3,53,097) shall be taxable in the hands of Rohan. Land was not used for agricultural purposes hence section 10(37) shall not apply.

EXERCISE : 6.12

Mr. Pankaj acquired a rural agricultural land and an urban agricultural land worth ₹ 7,00,000 and ₹ 9,00,000 respectively on 1 July 2010. Both the land have been used for agricultural purposes. He sold rural agricultural land in April 2020 for ₹ 25,00,000. His urban land was compulsorily acquired by the Central Government. A compensation of ₹ 30,00,000 was settled and paid to him on 15 January 2023. CII for 2010-11: 167. Compute the amount of capital gain for the assessment year 2023-24.

[Ans.: (a) Not a capital assets (b) Exempt]

Section 13A

Any income derived from capital gains by a political party is not included in computing total income.

b. Exemption under section 54/54B/54D/54EC/54F/54G/54GA/54GB

Exemption under sections 54/54B/54D/54EC/54F/54G/54GA/54GB are available to assessee only when he invests capital gain in form further investment. It means in order to get exemptions under these sections, assessee has to make some investment within a reasonable time period. The detailed discussions are given as under:

1. Capital Gains on sale of residential house [section 54]

Eligibility: Under section 54, only individuals or a Hindu Undivided family can claim exemption.

Conditions:

1. There should be a transfer of residential house (building including land appurtenant thereto)
2. Income derived from such house property should be chargeable under the head Income from house property.
3. Residential houses may be self-occupied or let out.

4. It should be a long-term capital asset. it must be held for a period of more than 24 months (before 1 April 2017, 36 months)
5. One or two new residential houses should be purchased or constructed within the limit given below:
   a. Purchased within 1 year before or 2 years after the date of transfer of residential house.
   b. Constructed within a period of 3 years after the date of transfer.

   Note: One residential house can have several independent residential houses.
6. Construction of the house should be completed within 3 years from the date of transfer.
7. New assets should be situated in India.
8. The new house property should not be transferred within 3 years from date of acquisition otherwise capital gains exempted earlier shall be withdrawn by way of deducting it from cost of acquisition.
9. The Exemption can be claimed for purchase/construction of two residential houses instead of one if capital gain does not exceed ₹ 2 crore.
10. If such investment is not made before the due date of filing of return of income then capital gain has to be deposited under capital gains accounts scheme 1988 in order to avail exemption under this section.

Circumstance, where the assess can acquire two residential houses instead of one :

Where the amount of the capital gain does not exceed ₹ 2 crore, the assessee, may at his option, purchase or construct two residential houses in India, and where such an option has been exercised –

(a) The provisions of this subsection shall have effect as if for the words "one residential house in India", the word "two residential houses in India" had been substituted;

(b) Any reference in this subsection

Quantum of Exemption

Least of the following is exempt

Cost of new residential house	Whichever is Lower
OR	
Long-term Capital Gain	

ILLUSTRATION 6.13

Sanjay acquired a residential house property for ₹ 1,00,000 on June 1,1997. Fair market value of the property on April 1, 2001 is ₹8,24,000. The house property was sold by Sanjay on June 10, 2022 for ₹ 1,02,74,000 after incurring transfer expenses of ₹ 34,000. The stamp duty value is ₹1,09,74,000. He acquired a new residential house costing₹34,00,000 on December 31, 2021 and also construction of a new residential house completed on 20 July 2022 having cost ₹ 40,00,000.

Calculate amount of capital gains for the assessment year of 2023-24.

If sale consideration is ₹2.75 crore then what will be the taxable amount of capital gain.

Solution:

Computation of long-term capital gain of Mr. Sanjay for the assessment year 2023-24

Full value of consideration(being stamp duty value exceeds by 110% of sale consideration)	1,09,74,000
Less: Expenditure incurred on transfer of House	34,000
Net Consideration	1,09,40,000
Less: Indexed Cost of acquisition 8,24,000 × 331 /100	27,27,440
Long-Term Capital gain	82,12,560
Less: Exemption under section 54 (3400000+4000000)	74,00,000
Taxable Long-term Capital Gain	8,12,560

If sale consideration is ₹2.75 crore then exemption under section 54 shall not be applicable because capital gains will be 2,47,72,760. Since from A.Y. 2023-24 section 54 is applicable when capital gain amount is less than 2 crores.

EXERCISE : 6.13

Mr. Nitin performed the following transactions in the last years.

House purchased in 1998	₹ 3,00,000
Fair market value on 1 April 2001	₹ 7,00,000
Cost of improvement in 1999-2000	₹ 1,00,000
Cost of improvement in 2007-08	₹ 1,50,000
House sold in Nov. 2022	₹ 70,00,000
Transfer expenses 1% of sale value	
Purchase another residential house in Feb. 2023	₹ 20,00,000

On 10 April 2023 he deposited ₹ 20,00,000 with State Bank of India, Jaipur under the capital gain deposit scheme. He constructed a residential house in December 2023 at the cost of ₹ 15,00,000. The cost of construction is financed by withdrawing the amount from SBI capital gain account and unutilized amount of capital gains is withdrawn on 15 December 2023.

Compute the taxable amount of capital gain for the assessment year 2022-23, 2023-24, 2024-25 (CII 2001-02 : 100, 2007-08: 129) [Ans.: LTCG ₹ 4,52,576, ₹ 5,00,000 will be taxable in A.Y. 2024-25]

2. Capital gain arises from the transfer of Urban agricultural land used for agricultural purpose (Section 54B)

Eligibility: Under section 54B, only individuals or a Hindu Undivided family can claim exemption.

Conditions:

1. The transferred capital asset should be urban agricultural land. It may be a long-term capital asset or not.
2. Such agricultural land was used for agriculture purposes either by assessee or his parents or by HUF for a period of 2 years immediately preceding to the date of transfer.
3. Assessee has purchased another agricultural land (may be rural or urban) for agricultural purposes within a period of two year from the date of such transfer. In case of acquisition by government time limit shall apply from the date of receipt of compensation.
4. New agricultural land should not be transferred within 3 years from the date of its acquisition.

5. If such investment is not made before the due date of filing of return of income then capital gain has to be deposited under capital gains accounts scheme 1988 in order to avail exemption under this section.

Note: If urban agricultural land is a transfer by way of compulsory acquisition. one may claim exemption under section 10(37) as discussed earlier.

Quantum of deduction

Amount of capital gain generated on transfer of agricultural land OR Cost of new agricultural land including amount deposited in deposit scheme	whichever is Lower

Consequences if new agricultural land is transferred within three years

The new agriculturalland should not be transferred within 3 years from date of acquisition otherwise capital gains exempted earlier shall be withdrawn by way of deducting it from cost of acquisition. Calculation will be as follows:

	₹
Sale consideration of new agriculture land	
Less: cost of acquisition (Cost of new agriculturalland minus exemption given earlier)	
STCG	

ILLUSTRATION 6.14

Omprakash acquired an urban agricultural land costing ₹10,00,000 on 1 April 2004. The land has been used for agricultural purposes since its purchase till date of transfer. He transferred such agricultural land on 1 July 2022 to Mohan for ₹ 43,00,000. He paid a brokerage @ 1% on sale consideration. Out of sale consideration received he deposited ₹ 12,00,000 to capital gain deposit scheme 1988 in SBI on 1 October 2022 for the purpose of acquiring new agricultural land. Compute the amount of capital gains taxable in the hands of Omprakash. ₹CIII 2004-05: 113, 2022-2023: 331.

Solution:

Computation of Capital Gain for A.Y. 2023-24

	₹
Full value of consideration	43,00,000
Less: Expenditure incurred on transfer	23,000
Net Consideration	42,77,000
Less: Indexed Cost of acquisition 10,00,000*331/113	29,29,203
Gross long-term Capital gain	13,47,797
Less: Exemption under section 54B	12,00,000
Taxable Long-term capital gain	1,47,797

EXERCISE 6.14

Mr. Pranay purchased an urban agricultural land for ₹ 11,00,000 on 15 June 2006. He incurred ₹ 1,10,000 in 2007-08 for the boundary of the land and since then the land has been used for agricultural purposes. He transferred such agricultural land for ₹60,00,000 to Sanjay on 10 July 2022. He paid brokerage @ 2% on sale value. He purchased another rural agricultural land for ₹ 25,00,000. Compute the amount of taxable capital gain for the assessment year 2023-24. (CII 2006-07: 122, 2007-08:129). [Ans. LTCG ₹1,13,326]

3. Capital Gain on Compulsory Acquisition of Land and Building Forming Part of Industrial Undertaking (Section 54D)

Eligibility: Under section 54D, an individual, Hindu Undivided family, firm, company or any other person can claim exemption.

Condition:

1. The transferred Asset may be short term or long term
2. Capital Gain arises on transfer by way of compulsory acquisition of land and building which forms a part of industries undertaking belonging to assessee.
3. Such land and building were used for industrial purposes for at least 2 years just preceding the date of compulsory acquisition. However, it is not necessary that the assesseeshould be the owner of such land and building for two years. He should be the owner of property at the time of sale.
4. Assessee purchased another land and building within a period of 3 years from the date of receipt of compensation or constructed
5. Newly acquired land and building should be used for the purpose of shifting or re-establishment of said undertaking

Quantum of deduction

Amount of capital gain generated on transfer by way of compulsory acquisition of land & building	Whichever is Lower
OR	
Cost of new land & building including amount deposited in deposit scheme	

Consequences if new land and Building is transferred within three years

The new land & building should not be transferred within 3 years from date of acquisition, otherwise capital gains exempted earlier shall be withdrawn by way of deducting it from cost of acquisition. Calculation will be as follows:

	₹
Sale consideration of new land & Building	
Less: cost of acquisition (Cost of new land minus exemption given earlier u/s 54D)	
STCG	

4. Investment in certain bonds [Section 54EC]

Eligibility: Under section 54EC, an individual, Hindu Undivided family, firm, company or any other person can claim exemption.

Condition:

1. There should be transfer of Long-term capital assets being land or building or both.
2. Such asset should be transferred on or after 1 April 2000
3. The transferred asset can also be a depreciable building under section 32 held for more than 36 months.
4. The assessee should invest capital gain in "long-term specified assets" within 6 months from date of transfer of capital asset. "Long-term specified assets" means any bond redeemable after 5 years issued by
   - National Highway Authority of India (NHAI)
   - Rural Electrification corporation (REC)
   - Any other authority but bonds are notified by central government
5. The assessee should not transfer or convert or avail loan or advance on the security of such bond for a period of 5 Years from date of acquisition.

Quantum of Exemption

Least of the following is exempt

Amount of capital gain generated	Whichever is Lower
OR	
Amount invested in Long-term specified assets	
Or	
₹50,00,000	

ILLUSTRATION 6.15

Dr. Pravesh sells a plot for ₹95,00,000 on January 5, 2023. He acquired this plot on March 1, 2005 for ₹2,10,000. He incurred expenses of ₹5000 and ₹95000 on purchase and sell this plot respectively. Dr. Pravesh made the following investments:

1. Purchase of ₹40,00,000 NHAI bonds on 5 May 2023
2. Purchase of ₹20,00,000 REC bonds on 10 June 2023

Find out the amount of capital gain chargeable to tax for the assessment year 2023-24. CII for 2004-05, 2005-06 and 2022-23 are 113, 117 and 331 respectively

Solution:

Computation of capital gain for a.y. 2023-24

	₹
Full value of consideration	95,00,000
Less: Expenditure incurred on transfer	95,000
Net Consideration	94,05,000
Less: Indexed Cost of acquisition 2,15,000*317/113	6,29,779
Gross long-term Capital gain	87,75,221
Less: Exemption under section 54 EC (40,00,000+20,00,000, but restricted to ₹50Lakhs)	50,00,000
Taxable Long-term capital gain	37,75,221

EXERCISE 6.15

Mr. Vinay sold a house for₹ 98,00,000 on 15 November 2022. He acquired this house on 1 May 1997 for ₹ 5,10,000. The fair market value of the house on 1 April 2001 was ₹ 8,00,000. He made the following investments:

1. Purchase of ₹ 40,00,000 NHAI bonds on 20 March, 2023
2. Purchase of a residential flat for ₹ 30,00,000
3. Purchase of ₹ 20,00,000 REC bonds on 15 June 2023.

Find out the amount of taxable capital gain for assessment year 2023-24. [Ans.: LTCG ₹1,52,000]

5. Investment in notified units of a specified funds [Section 54EE]

In order to provide incentive to start-up in India, the Government has declared 'start-up action plan in 2016. This action plan envisages establishment of a fund of funds which intends to raise ₹ 2500 crore annually for four years to finance start-ups.

Eligibility: Under section 54EE, an individual, Hindu Undivided family, firm, company or any other person can claim exemption.

Condition:

1. There should be a transfer of Long-term capital assets.
2. Such asset is transferred on or after 1 April 2016
3. The assessee has invested capital gains in long-term specified assets within 6 months from the date of transfer of capital asset. Long-term specified assets are to be notified by the central government but no fund has been notified till date.
4. The amount of such investment during the financial year should not exceed ₹50 lakhs.
5. New long-term specified asset should not be transferred within a period of 3 years

Quantum of Exemption

Least of the following is exempt

Amount of capital gain generated	Whichever is Lower
OR	
Amount invested in Long-term specified assets	
OR	
₹50,00,000	

Consequences if new long-term specified asset is transferred within three years

The long-term specified asset should not be transferred within 3 years from date of acquisition, otherwise capital gains exempted earlier shall be withdrawn and it shall be chargeable to tax as long-term capital gain in the year in which such specified assets are transferred.

ILLUSTRATION 6.16

Dr. Saral owns a residential house property. He acquired this property on 1/3/2010 for costing ₹45,00,000. Dr. Saral transfers this house on January 1, 2023 for ₹6,00,00,000. Transfer expenses incurred ₹6,00,000. In order to avail exemptions, he made the following investments:

1. A residential house property on May 10, 2023: ₹2,86,00,000
2. Invest in bonds of NHAI on 1 March 2023: ₹40,00,000 and bonds of REC on 1 August 2023 ₹30,00,000
3. Invest in long-term specified assets notifies for the purpose of section 54EE on 4 June 2023: ₹70,00,000

Compute amount of capital gain chargeable to tax for the assessment year 2023-2024. CII for 2009-2010 and 2022-23 are 148 and 331 respectively.

Solution:

Computation of Capital Gain for A.Y. 2023-24

	₹
Full value of consideration	6,00,00,000
Less: Expenditure incurred on transfer	6,00,000
Net Consideration	5,94,00,000
Less: Indexed Cost of acquisition 45,00,000*317/148	1,00,64,189
Gross long-term Capital gain	4,93,35,811
Less: Exemption Under section 54 (since LTCG is more than 2 Crore)	Nil
Under section 54EC (30,00,000 invested after six months not allowed)	40,00,000
Under section 54EE(restricted to ₹50,00,000)	50,00,000
Taxable Long-term capital gain	4,03,35,811

EXERCISE : 6.16

Mr. Vijay owns a residential house property. He acquired this property on 1 June 1995 for costing ₹ 10,00,000. Fair market value as on 1 April 2001 was ₹ 16,00,000. He transferred the house on 15 November 2022 for ₹ 80,00,000. Transfer Exp. ₹ 40,000. He invested in long term specified assets notified for the purpose of section 54EE on 10 March 2023₹ 55,00,000.

Compute amount of taxable capital gain for the assessment year 2023-24. [Ans. : LTCG Nil]

6. Capital gains on transfer of a long-term capital asset other than house property [54F]

Eligibility: Under section 54EE, only individuals and Hindu Undivided Family can claim exemption.

Condition:

1. There should be a transfer of capital assets other than residential house property (for example plot, commercial house property, shares, gold etc.)
2. It should be a long-term capital asset. it must be held for a period of more than 12/24/36 months as per rule (before 1/4/2017, 36 months)
3. One new residential house should be purchased or constructed within the limit given below:
   i. Purchased within 1 year before or 2 years after the date of transfer of residential house.
   ii. Constructed within a period of 3 years after the date of transfer.
4. Construction of the house should be completed within 3 years from the date of transfer of original capital asset. Date of commencement is irrelevant.
5. New assets should be situated in India.
6. The assessee should not own more than one residential house on the date of transfer.

7. The assessee should not
   a. Purchase any other residential house within a period of 2 Years or
   b. Construct any other residential house within a period of 3 years from the date of transfer.

   Otherwise, capital gain exempt u/s 54F shall be deemed to be income by way of long-term capital gain of the year in which another residential house is purchased or constructed.
8. The new house property should not be transferred within 3 years from date of acquisition otherwise capital gains exempted u/s 54F earlier shall be withdrawn and it shall be treated as long-term capital gain of the year in which the house is transferred.
9. If such investment is not made before the due date of filing of return of income then capital gain has to be deposited under capital gains accounts scheme 1988 in order to avail exemption under this section.

Quantum of Exemption

Capital gain shall be exempted in the proportion of sales consideration invested in acquiring new residential house. If entire sale consideration has been invested in a new house then entire capital gain shall be exempted. If 60% sale consideration has been invested by way of acquiring a new residential house then 60% capital shall be exempted. Hence exemption is available on the following basis:

$$Cost\ of\ new\ residential\ house \times \frac{Long\ term\ Capital\ Gain}{Net\ sale\ Consideration}$$

ILLUSTRATION 6.17

From the following particulars, compute taxable capital gains of Mahendra for A.Y. 2023-24.

Cost of Jewelry purchased in financial year 2006-07	₹9,00,000
Sale price of Jewelry sold in January 2023	₹26,12,000
Transfer expenses incurred	₹12,000
Residential house purchased in March 2023	₹12,00,000

Cost inflation indexes for 2006-07 and 2022-23 are 122 and 331 respectively.

Solution

Computation of Income from capital gain for the Assessment Year 2023-24

	₹
Full value of consideration	26,12,000
Less: Expenditure incurred on transfer	12,000
Net sale Consideration	26,00,000
Less: Indexed Cost of acquisition 9,00,000*331/122	24,41,803
Gross long-term Capital gain	1,58,197
Less: Exemption Under section 54 F ₹12,00,000*1,58,197/26,00,000	73,014
Taxable Long-term capital gain	85,183

EXERCISE 6.17

Mr. Manish sold a plot on 1 October 2022 for ₹ 35,20,000 to his friend. The cost of transfer was ₹ 20,000. He purchased this plot during 2007-08 for ₹ 2,58,000. Mr. Manish purchased a residential house on 10 February 2023 for ₹ 20,00,000.

Assuming that Mr. Manish has only one residential house on 1 October 2022, calculate income from capital gain for assessment year 2023-24. (CII 2007-08: 129) [Ans.: LTCG ₹ 12,16,286]

7. Capital gain on transfer of assets in cases of shifting of industrial undertaking from urban area (Section 54G)

Conditions:

1. A capital asset (being plant, machinery, land, building) used for the purpose of an industrial undertaking situated in an urban area is transferred.
2. The transfer is affected in the course of or in consequence of the shifting of such industrial undertaking to any area other than urban area.
3. The assessee has within a period of one year before 3 years after the date on which the transfer took place:
   (a) Purchase a new machinery or plant.
   (b) Acquired building or land for the purpose of industrial undertaking.
   (c) Shifted original assets and transferred the establishment of such undertaking.

Quantum of Exemption

Least of the following is exempt

Amount of capital gain generated	**Whichever is Lower**
Or	
Amount invested in assets	

Consequences if new asset is transferred within three years

The new asset should not be transferred within 3 years from date of acquisition, otherwise capital gains exempted earlier shall be withdrawn by way of deducting it from cost of acquisition. Calculation will be as follows:

	₹
Sale consideration of new land & Building	
Less: cost of acquisition (Cost of new land minus exemption given earlier under section 54G)	
STCG	

ILLUSTRATION 6.18

Mr. Sunil who owns an industrial undertaking manufacturing chemical in Jaipur owns the following assets:

Industrial land	Cost of acquisition in 2003-04 was ₹ 4,10,000
Plant and Machinery	WDV as on 1 April 2022₹ 45,00,000

Building	WDV as on 1 April 2022₹ 90,00,000
Furniture	WDV as on 1 April 2022₹ 2,60,000

As per the policy of the Government Mr. Sunil has to shift his business from Jaipur urban area to other areas. Mr. Sunil sells all the assets as under :

	₹
Industrial land	25,00,000
Plant and Machinery	48,00,000
Building	1,00,00,000
Furniture	3,00,000

The new assets acquired for the purpose of new industrial undertaking in other area are as under:

	₹
Industrial land and building	20,00,000
Plant and Machinery	7,00,000

Compute income from capital gain of Mr. Sunil for the assessment year 2023-24.

Solution:

Computation of income from capital gain of Mr. Sunil for the assessment year 2023-24

Particular	₹	₹
Industrial land		
Sale proceeds	25,00,000	
Less: Indexed cost of acquisition $\mathbf{4,10,000}x\ \frac{331}{109}$	12,45,046	
Long term capital gain		12,54,954
Plant and machinery		
Sale proceeds	48,00,000	
Less: WDV as on 1-4-2022	45,00,000	
Short term capital gain		3,00,000
Building		
Sale proceeds	1,00,00,000	
Less: WDV as on 1-4-2022	90,00,000	
Short term capital gain		10,00,000
Furniture		
Sale proceeds	3,00,000	
Less: WDV as on 1-4-2022	2,60,000	
Short term capital gain		40,000
Total capital gain		25,94,954
Less: Exemption u/s 54G (₹ 20,00,000 + ₹ 7,00,000) = ₹ 27,00,000 but restricted to (₹ 13,07,615 + ₹ 3,00,000 + ₹ 10,00,000)		25,54,954
STCG on furniture		40,000

Note: Capital gain on furniture is not eligible for exemption u/s 54G.

Capital Gains arising on transfer of residential house

If a residential house is being transferred by an assessee then he can claim exemption under section 54, 54EC and 54EE as explained in preceding paragraphs. Here such provisions are depicted in a chart in order to quicklyunderstand these provisions. Section 54EC is also available to land and depreciable buildings in addition to residential building and section 54EE is also available to other long-term capital assets.

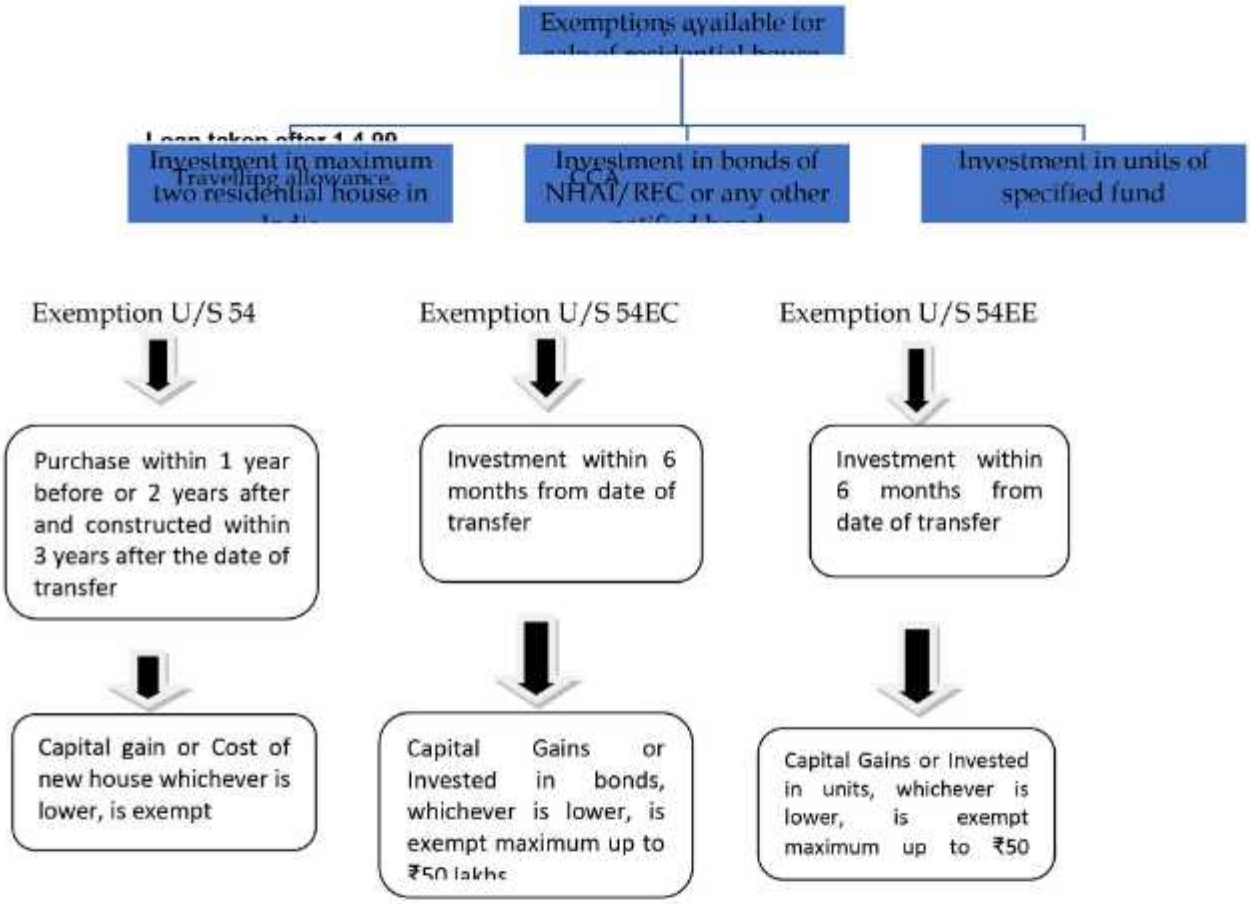


Figure 3: Exemption available on transfer of residential house

8. Capital gain on transfer of assets in cases of shifting of industrial undertaking from urban area to any special Economic Zone [Section 54 GA]

Conditions:

1. A capital asset (being plant, machinery, land, building) used for the purpose of an industrial undertaking situated in an urban area is transferred.
2. The transfer is affected in the curse of or in consequence of the shifting of such industrial undertaking to Special economic zone and such SEZ may be situated in urban area of any other area
3. The assessee has within a period of one year before 3 years after the date on which the transfer took place:
   a. Purchase a new machinery or plant.
   b. Acquired building or land for the purpose of industrial undertaking.
   c. Shifted original assets and transferred the establishment of such undertaking.

Quantum of Exemption

Least of the following is exempt

Amount of capital gain generated	**Whichever is Lower**
OR	
Amount invested in assets	

Consequences if new asset is transferred within three years

The new asset should not be transferred within 3 years from date of acquisition, otherwise capital gains exempted earlier shall be withdrawn by way of deducting it from cost of acquisition. Calculation will be as follows:

	₹
Sale consideration of new land & Building	
Less: cost of acquisition (Cost of new land minus exemption given earlier U/S 54D)	
STCG	

9. Relief from long-term capital gains tax on transfer of residential property if invested in a new manufacturing Small and Medium Enterprises company (54GB)

Eligible: Individual and HUF

Conditions:

1. There should be a capital gain from transfer of residential property.
2. The amount of consideration should be utilized for subscription in equity shares of eligible companies before the due date of furnishing of return of income. If full amount of net consideration is not utilized for subscription in equity shares, the exemption shall be allowed proportionate to the amount so invested.
3. The amount of subscription as share capital is to be utilized by the company for the purchase of new assets (eligible plant and machinery) within a period of one year from the date of subscription in equity shares.
4. The equity shares of the company or the new asset acquired by the company should not be sold or otherwise transferred within a period of 5 years from date of acquisition. But if the new asset is a computer or computer software then three years shall be considered instead of 5 years.

Eligible company: The company that satisfies the following conditions is termed as 'eligible company' –

- The company should have been incorporated in India.
- The company should have been incorporated during the previous year in which the capital gain has arisen to the subsequent financial year up to the due date of furnishing of the income tax return.
- The company is engaged in the business of manufacturing of an article or a thing.
- The company in which the assessee has more than 50% share capital or more than 50% voting rights after the subscription in equity shares by the assessee.
- The company should qualify to be a medium or small enterprise under the Micro, Small and Medium Enterprises Act, 2006 or the same is an eligible start-up.

Tax on amount of capital gains

Capital assets are classified into two categories viz., short-term and long-term capital assets because the tax rates on these are different. Both general and special tax rates are applicable to the taxable amount of capital gains. Tax on short-term and long-term capital gains is computed as follows:

Table Different Tax rates on taxable amount of capital gains

Different Situation	Tax Rates
Short term capital gains a. Securities transaction tax is paid [Section 111A] (Deduction u/s 80C to 80U are not available) b. STT is not paid	 15% Normal tax rate like any other income
Tax on Long-term Capital Gains: When STT is not applicable [Section 112] (Deduction u/s 80C to 80U are not available) General rate Non-resident • u/s 115AB,115AC,115AD OR 115E • Unlisted securities of a company in which public are not substantially interested (without Indexation) In respect of listed securities With Indexation OR Without Indexation	 20% 10% 10% 20% OR option } any one 10%
Tax on long-term Capital Gains on sale of equity Shares: When STT is applicable [section 112A]	10%

Tax on short term capital gains in respect of equity shares / units of an equity-oriented fund [Section 111A]

On fulfillment of the following conditions tax on short-term capital gain shall be charged @ 15% + SC+HEC.

1. Short-term capital gains are arising on transfer of equity shares or a unit of an equity-oriented fund or a unit of business trust.
2. Securities transaction tax (STT) has been paid on such transaction
3. The transaction took place on or after 1 April 2004.

if securities transaction tax is not applicable, short term capital gain is taxable like any other income.

Note: If short-term capital gain arising from transaction undertaken in foreign currency on a recognized stock exchange located in an international financial services centre (IFSC) would be taxable at concessional rate of 15% even though STT is not paid.

Tax on Long-term Capital Gains [Section 112]

If securities transaction tax is not applicable on transfer of long-term assets then the following tax rates shall be applicable under section 112:

Situations	Concessional rate of tax:
A. In case of non-resident or a foreign company	
a. On transfer of unlisted securities or shares of a company in which public are substantially interested	10%

	b. Other than above a	20%
B.	in case of domestic company or any other resident	20%
C.	long-term capital gain in the hands of non-resident under section 115AB, 115AC, 115AD or 115E	10%

Deductions under section 80C to 80U are not available in respect of long-term capital gain.

Tax on long-term capital gain from listed shares, securities and units

On fulfillment of the following conditions, an assessee has two options for calculating the tax liability on long-term capital gains. First: without indexation @10% and second with indexation @20%.

Conditions

1. Tax payer is individual, HUF, Company or any other person
2. The transferred asset is long-term asset
3. The long-term asset is
   a. a security listed in any recognized stock exchange in India
   b. Zero-coupon bond

Tax computation

Option1 @20%	Option 2 @10%
1. Find sale consideration	1. Find sale consideration
2. Less: Transfer Expenses	2. Less: Transfer Expenses
3. Less: indexed cost of acquisition	3. Less: Cost of acquisition
4. Balance is LTCG (1-2-3)	4. Balance is LTCG (1-2-3)
5. Tax liability @20% of 4 + Cess	5. Tax liability @10% of 4 + Cess

Taxpayers should select either option 1 or option 2 whichever is lower. It is difficult to state which option is better without calculation. However, option 2 shall be better in case of transfer of listed bonus shares and listed securities.

In case of individual and HUF the benefit of exemption limit is available, if taxable income (minus LTCG) is less than exemption limit. Suppose total Taxable income of an individual is ₹2,80,000 including LTCG ₹33,000. Exemption limit is ₹2,50,000. Taxable income other than LTCG is ₹2,47,000 (2,50,000-33,000). It is less than the exemption limit of ₹3000. Hence LTCG chargeable to tax will be ₹30,000 (33000-3000) @20%.

Tax on long-term Capital Gains on sale of equity Shares [section 112A]

On fulfillment of following conditions long-term capital gain in excess of₹1,00,000 shall be taxable @10%. It means LTCG up to ₹1,00,000 shall be exempt. The rate of 10% is applicable to both corporate assessee or non-corporate assessee.

1. The transferred asset should be a long-term capital asset.
2. Transferred capital asset being
   a. equity shares in a company or
   b. a unit of an equity-oriented fund or
   c. a unit of a business trust
3. Securities transaction tax has been paid on transfer of these capital assets.

4. In case of equity shares STT was also paid on both time at the time of acquisition of shares after 1/10/2004 and at the time of sale.

Note:

1. If a transaction is undertaken on a recognized stock exchange located in an international financial services center (IFSC) the condition of STT paid is not applied.
2. Equity-oriented fund means a fund set up under mutual fund scheme and a. In casesuch a mutual fund invests in another unit of mutual fund which is traded on recognized stock exchange-Minimum 90% of total proceeds of such fund should invest in the units of such other fund and other funds also invest a minimum of 90% of its total proceeds in equity shares of domestic companies b. In any other case minimum 65% proceeds should invest in equity shares of domestic companies.
3. If tax is payable under section 112A then

a. Indexation benefit is not available

b. Deduction under section 80C to 80U are not available

c. Rebate under section 87A is not available against amount of tax calculated

4. If equity shares or units are acquired before February 2018, then cost of acquisition shall be higher of

   a. Actual cost of acquisition

      OR

   b. Fair market value (FMV) of equity shares on January 31,2018 but restricted to actual sale consideration. OR FMV OR actual sale consideration whichever is lower

FMV for listed shares is the highest price of share quoted on stock exchange and for unlisted shares NAV shall be considered.

ILLUSTRATION 6.18

Dr. B.L. Sharma furnishes the following information

Cost of acquisition of 500 equity shares of ONGC on 1 March 2015 ₹45,000

(securities transaction was paid)

500 shares transferred on 20 May 2022 @ ₹500 per share and STT paid.

Highest market price quoted on Bombay Stock Exchange on 31 January 2018 ₹200

Calculate tax payable by Dr. B.L. Sharma on capital gain for the A.Y. 2023-24.

Solution:

Since conditions of section 112A are satisfied hence tax shall be calculated as per section 112A .

Working Note:

Calculation of cost of acquisition for the purpose of section 112A

Actual cost of acquisition i.e. ₹ 45,000

OR

FMV on 31/1/2018 ₹₹1,00,000 (500*200) or Actual Sale consideration ₹ 2,50,000 (500*500) whichever is lower i.e., 1,00,000

Cost of acquisition (higher of above) ₹1,00,000

	₹
Sale consideration	2,50,000
Less: Cost of acquisition	1,00,000
LTCG	1,50,000

Computation of Tax

Tax on LTCG 10% of ₹1,50,000	₹15,000
Add Health and education Cess @4%	₹600
Tax Liability	15,600

GRADED PROBLEMS

ILLUSTRATION 6.19

Mr. Jai was the owner of the following assets:

	Year of purchase	Cost	Fair market value as on 1 April 2001
Gold	1991-92	80,000	3,60,000
Land and building	1985-86	14,00,000	15,80,000

Jai sold these assets on 10th January 2023 for a total consideration of ₹ 64,00,000 (Gold ₹ 30,00,000 and land and building ₹ 34,00,000). Find out the amount of capital gain chargeable to tax for the assessment year 2023-24.

Solution:

Computation of capital gain of Mr. Jai for the assessment year 2023-24

	Gold	Land and building
Sales proceeds	30,00,000	34,00,000
Less: Transfer exp.	Nil	Nil
Less: Indexed cost of acquisition	$3,60,000x\frac{331}{100}$ 11,91,600	$15,80,000x\frac{331}{100}$ 52,29,800
Long term capital gain	18,08,400	(18,29,800)

ILLUSTRATION 6.20

During the previous year 2022-23 Mr. Mayank sells the following capital assets:

	Land	Gold	Paintings
Sale proceeds	50,00,000	18,50,000	2,75,000
Cost of acquisition	8,20,000	2,40,000	1,40,000
Year of acquisition	1997-98	2003-04	2012-13
Fair market value as on 1-04-2001	11,40,000	-	-
Transfer exp.	2%	1%	5%

Compute amount taxable under the head capital gain for the assessment year 2023-24. (CII 2003-04: 109, 2012-13: 200)

Solution:

Computation of capital gain of Mr. Mayank for the assessment year 2023-24

	Land	Gold	Paintings
Sale proceeds	50,00,000	18,50,000	2,75,000
Less: Exp. On transfer	1,00,000	18,500	13,750
Net sale proceeds	49,00,000	18,31,500	2,61,250
Less: Indexed cost of acquisition	$11,40,000x\frac{331}{100}$ 37,73,400	$2,40,000x\frac{331}{109}$ 7,28,807	$1,40,000x\frac{331}{200}$ 2,31,700
Long term capital gain	11,26,600	11,02,693	29,550

ILLUSTRATION 6.21

Roshan acquired a house in the previous year 1990-91 for ₹ 6,00,000 and paid ₹ 60,000 as registration charges. He incurred expenditure on improvement in 1995-96 of ₹ 1,00,000. Fair market value of the house as on 1 April, 2001 was ₹ 9,20,000. Roshan died on 20 June 2010 and the property was transferred to his son Rakesh through inheritance. The market value of the property at that time was ₹ 16,00,000. Rakesh also incurred expenses on improvement in the year 2012-13 for ₹ 60,000. Rakesh sold property on 30 Nov. 2022 for ₹ 55,00,000.

Compute the amount of capital gain for the assessment year 2023-24. (CII for 2001-02 100, 2010-11: 167, 2012-13: 200)

Solution:

Computation of capital gain for the assessment year 2023-24

	₹
Sale proceeds	55,00,000
Less: Expenses on transfer	Nil
Net sale proceeds	55,00,000
Less: Indexed cost of acquisition 9,20,000x 331/100	30,45,200
Less: Indexed cost of improvement 60,000x331/200	99,300
Long term capital gain	23,55,500

Note: Cost of acquisition = Cost or FMV as on 1-04-2001 whichever is higher is taken for indexation.

ILLUSTRATION 6.22

Mr. Prakash acquired a house for ₹ 3,20,000 in 2002-03. On his death in June 2006 the house was acquired by his son Mr. Aarav. This house was acquired by the Government on 15 November 2017 for ₹ 31,20,000 and a compensation of ₹ 20,00,000 was paid to him on 20 January 2018 and the balance ₹ 11,20,000 on 20 May 2018. Aarav filed a suit against the Government challenging the quantum of compensation, therefore court ordered

for additional compensation of ₹ 3,40,000 which was received by him on 20 Feb. 2023. He incurred an expenditure of ₹ 8,000 in connection with the suit. (CII 2002-03: 105, 2006-07 : 122, 2017-18: 272).

Compute amount of capital gain taxable for the assessment year 2023-24.

Solution:

Capital gain in assessment year 2018-19

	₹
Compensation received	31,20,000
Less: indexed cost of acquisition 3,20,000x272/105	8,28,952
Long term capital gain	22,91,048

Capital gain for Assessment year 2023-24

	₹
Enhance Compensation received	3,40,000
Less: Exp. Incurred	8,000
Long term capital gain	3,32,000

ILLUSTRATION 6.23

Mr. Rajeev sold a residential house for₹ 35,60,000 on 25 December 2022. He purchased this house during 2004-05 for ₹ 3,39,000. He purchased another residential house in January 2021 for ₹ 20,00,000. Expenses on transfer ₹ 10,000.

Compute the taxable income under the head capital gain for the assessment year 2023-24.

Solution:

Computation of capital gain for the assessment year 2023-24

	₹
Sales proceeds	35,60,000
Less: Expenses on transfer	10,000
Net sale proceeds	35,50,000
Less: Indexed cost acquisition 3,39,000x331/113	9,93,000
Capital gain	25,57,000
Less: Exemption u/s 54 Purchase of residential house	20,00,000
Taxable long term capital gain	5,57,000

ILLUSTRATION 6.24

Mr. Rohan transfers the following assets during the previous year 2022-23:

	Land	Goodwill	Trade mark	Tenancy right
Sale proceeds	28,00,000	8,00,000	3,00,000	4,40,000
Exp. On transfer	30,000	10,000	5,000	5,000
Cost of acquisition (1996)	1,00,000	70,000	-	-
Fair market value as on 1 April 2001	4,00,000	2,50,000	1,00,000	1,10,000

Compute the amount of taxable capital gain for the assessment year 2023-24.

Solution:

Computation of income from capital gain for the assessment year 2023-24

	Land	Goodwill	Trade mark	Tenancy right
Sale proceeds	28,00,000	8,00,000	3,00,000	4,40,000
Less: Exp. On transfer	30,000	10,000	5,000	5,000
Net sale proceeds	27,70,000	7,90,000	2,95,000	4,35,000
Less: Indexed cost	$4,00,000x\frac{331}{100}=$ 13,24,000	$70,000x\frac{331}{100}=$ 2,31,700	-	-
LTCG	14,46,000	5,58,300	2,95,000	4,35,000

Note:

(i) Cost of a self generated asset will be taken as zero. In the given question such assets were acquired before 1-4-2001 and its market value is also given but still its acquisition cost will be taken as zero.

(ii) If goodwill is acquired, its cost of acquisition will be taken as cost of assets irrespective of fair market value on 1-04-2001.

ILLUSTRATION 6.25

Amit submits you the following particulars:

	Urban Agricultural land	Listed shares	Gold	Rural agricultural land	Residential house property
Date of sale	15 Feb. 2023	20 Jan. 2023	15 Nov. 2022	15 April 2022	20 July 2022
Sale price	30,00,000	1,90,000	6,00,000	35,00,000	62,00,000
Exp. On transfer	2%	1%	1%	1%	3%
Cost of acquisition	1,00,000	40,000	80,000	2,00,000	4,10,000
Date of acquisition	1 May 1997	10 Aug. 2010	15 May 2004	1 June 1995	10 July 1985
Market value as on 1-4-2001	1,80,000	-	-	2,50,000	9,00,000

He deposited a sum of ₹ 10,00,000 on 18 May 2023 in the capital gain scheme account of State Bank of India to buy agricultural land later. Out of the sale proceeds of house and gold he has invested ₹ 36,00,000 on purchase of residential house property on 15 March, 2023. The shares were sold through a recognized stock exchange and therefore STT was paid. The fair market value of these shares as on 31.01-2018 was ₹ 90,000.

Compute taxable amount of income from capital gain for the assessment year 2023-24. CII for P.Y. 2001-02:100, 2004-05: 113, 2010-11: 167.

Solution:

Computation of income from capital gain for the assessment year 2023-24

	Urban Agricultural land	Listed shares	Gold	Residential house property
Sale price	30,00,000	1,90,000	6,00,000	62,00,000
Less: Exp. on transfer	60,000	1,900	6,000	1,86,000
Net sale proceeds	29,40,000	1,88,100	5,94,000	60,14,000
Less: Indexed cost of acquisition	$\frac{1,80,000x331}{100}$ =5,95,800	90,000	$\frac{80,000x331}{100}$ = 2,64,800	$9,00,000x\frac{331}{100}$ = 29,79,000
Capital gain	23,44,200	98,100	3,29,200	30,35,000
Less: Exemption u/s 54B	10,00,000	-	-	-
u/s 54	-	-	-	30,35,000
u/s 54F	-	-	1,63,492	-
Long term capital gain	13,44,200	98,100	1,65,708	-

Note: Exemption u/s 54F

Amount of investment 36,00,000 less amount used u/s 54 : 30,35,000

Balance amount can be used for section 54F

Cost of new assets/net sale proceeds x capital gain

$$=\frac{2,95,000}{5,94,000}x\ 3,29,200 = 1,63,492$$

ILLUSTRATION 6.26

Mr. G.M. Mehta sold some ornaments on 10 December 2022 for ₹ 18,00,000. Out of which ornaments costing ₹ 6,00,000 were received as gift from his uncle on 20 April 2010 and balance of costing of ₹ 3,00,000 were purchased by him on 20 Sept. 2006. His uncle purchased the ornaments in 2003-04 and the fair market value on the date of gift was ₹ 7,20,000. He purchased bonds of NHAI of ₹ 5,00,000 on 20 March, 2023 and of REC of ₹ 2,00,000 on 15 June 2023.

Compute the income from capital gain of Mr. G.M. Mehta for the assessment year 2023-24. (CII 2006-07: 122, 2003-04: 109)

Solution:

Computation of income from capital gain of Mr. G.M. Mehta for the assessment year 2023-24

	₹
Sale proceeds	28,00,000
Less: Exp. on transfer	-
Net sale proceeds	28,00,000

Less: Indexed cost of acquisition $3,00,000x\frac{317}{122}$	8,13,934
$6,00,000x\frac{317}{109}$	18,22,018
Capital gain	1,64,048
Less: Exemption u/s 54EC NHAI bonds purchased within 6 months ₹ 5,00,000 but maximum upto the amount of capital gain	1,64,048
Long term capital gain	Nil

Note: No exemption will be available for bonds of REC purchased after 6 months from the date of transfer.

ILLUSTRATION 6.27

Mr. Hitesh is a chartered accountant in practice in Udaipur since 31 July 2007. He transferred his practice to another chartered accountant Mr. Lalit on 5th October 2021 and charged ₹ 2,00,000 towards goodwill. He is claiming expenses of ₹ 1,30,000 towards self-generation of goodwill. Compute the income from capital gain for the assessment year 2023-24.

Solution: Goodwill of profession is not capital assets so there will be no taxable capital gain.

ILLUSTRATION 6.28

Mr. Bharat Joshi sold the goodwill of the business of which he was sole proprietor on 15 March 2023 for ₹ 4,60,000. The goodwill was self-generated goodwill but he is claiming ₹ 30,000 for expenses incurred.

Compute the amount of taxable capital gain.

If he had purchased this business in 1997 by paying a sum of ₹ 70,000 for goodwill. What will be changed in your answer assuming the fair market value of goodwill as on 1 April 2001 ₹ 1,00,000.

Solution:

Computation of income from capital gain of Mr. Bharat Joshi for the assessment year 2023-24

	₹
Sale proceeds	4,60,000
Less: Indexed cost	Nil
Long term capital gain	4,60,000

Computation of income from capital gain of Mr. Bharat Joshi for the assessment year 2023-24 if goodwill were purchased

	₹
Sale proceeds	4,60,000
Less: Indexed cost of acquisition $70,000\ x\frac{331}{100}$	2,31,700
Long term capital gain	2,28,300

ILLUSTRATION 6.29

Calculate income tax liability for the assessment year 2023-24 in the following cases:

	Mr. Kapoor Age 54	**Khan Age 69**	**Tuktak Age 82**
Status	Resident	Non-Resident	Resident
Total income Other than LTCG	2,30,000	3,00,000	6,00,000
Long term capital gain	30,000	60,000	60,000
	From sale of vacant plot	From sale of listed equity share (STT Paid)	From sale of agricultural land in rural areas

Solution:

	Mr. Kapoor Age 54	Khan Age 69	Tuktak Age 82
Status	Resident	Non-Resident	Resident
Total income Other than LTCG	2,30,000	3,00,000	6,00,000
Long term capital gain	30,000	60,000	60,000
	From sale of vacant plot taxable under section 112 @ 20%	From sale of listed equity share (STT Paid) Exempt under section 112A since it is less than Rs. 1,00,000	From sale of agricultural land in rural areas exempt since it is not capital asset
Total Income	2,60,000	3,00,000	6,00,000
Tax liability			
On LTCG @20% (after adjusting basic exemption limit	(2,60,000 – 2,50,000) x 20% = 2,000	Nil	Nil
On other income	Nil	Nil	(6,00,000 – 5,00,000) x20% = 20,000
Tax	2,000	Nil	20,000
Less: Rebate under section 87A	2,000	Nil	Nil
Balance tax	Nil	Nil	20,000
Add: Cess 4%	Nil	Nil	800
Tax payable	Nil	Nil	20,800

QUESTIONS

Multiple Choice Questions

Q.1 What is the charging section for income under the head "capital gains"

(a) Section 43 (b) Section 45

(c) Section 46 (d) Section 48

Q.2 Capital asset excludes all except-

(a) Stock-in-trade
(b) Personal effects
(c) Jewellery
(d) Rural agricultural land in India

Q3. In terms of section 2(42A), unlisted shares treated as long-term capital asset, if they are held for a period more than-

(a) 24 months
(b) 36 months
(c) 12 months
(d) 48 months

Q4. Which of the following is not a requisite for charging income-tax on capital gains?

(a) The transfer must have been effected in the relevant assessment year
(b) There must be a gain arising on transfer of capital asset
(c) Capital gains should not be exempt u/s 54
(d) Capital gains should not be exempt u/s 54EC

Q5. Long-term capital gains on zero coupon bonds are chargeable to tax:

(a) @20% computed after indexation of such bonds
(b) @10% computed without indexation of such bonds
(c) Higher of (a) or (b)
(d) Lower of (a) or (b)

Q6. Out of the following, which income is chargeable as capital gain?

(i) From transfer of self-generated good-will of profession
(ii) From transfer of personal jewellery
(iii) From transfer of paintings and artwork
(iv) from transfer of furniture utilized for personal use

(a) (i) and (ii)
(b) (ii) and (iii)
(c) (i), (ii) and (iii)
(d) All the four

Q7. Short-term capital gains arising from the transfer of equity shares in a company or units of an equity-oriented fund or units of a business trust charged with security transaction tax are subject to income-tax at the rate of-

(a) 10%
(b) 15%
(c) 20%
(d) Normal rate

Q8. When shares of a listed company held for more than 36 months are transferred privately for ₹8lakh, with original cost of acquisition of ₹1 lakh whose indexed cost of acquisition is ₹2 lakh the income-tax payable would be:

(a) ₹1,44,200
(b) ₹72,800
(c) ₹1,24,800
(d) ₹61,800

Q9. Durafon (P.) Ltd., engaged in steel industry, acquired a vacant piece of land on 15th may, 2020. The company sold the said land in December, 2022. The profit earned on sale of vacant land of ₹10 lakh shall be taxable as:

(a) Business income
(b) Income from other sources
(c) Short term capital gain
(d) Long term capital gain

Q10. Cost of acquisition in case of bonus shares allotted before 1.4.2001 will be:

(a) Face value on the date of allotment
(b) Nil
(c) Market value as on 1.4.2001
(d) Current market value

Q11. In order to enjoy exemptions u/s 54EC, the resultant long-term capital gains should be invested in specified bonds within a period of ..... from the date of transfer:
(a) 36 months (b) 4 months
(c) 6 months (d) 12 months

Q12. Long-term capital gains on sale of a long-term capital asset in October, 2021 are ₹105 lakh. The assessee invested ₹50 lakh in REC bonds in March, 2022 and ₹55 lakh in NHAI bonds in may, 2022. The amount of exemption eligible under section 54EC is:
(a) Nil (b) ₹50 lakh
(c) ₹55 lakh (d) ₹105 lakh

Q13. For claiming exemption u/s 54G, an assessee has invest the resultant capital gains within a specified period. Which of the following is not eligible for such investment?
(a) Furniture (b) Land
(c) Building (d) Plant or machinery

Q14. Under which section, the assessee has to reinvest the entire net consideration to claim full exemption for the long-term capital gains earned during a previous year:
(a) Section 54EC (b) Section 54F
(c) Section 54GA (d) Section 54D

Q.15 Exemption u/s 54G is available on account of transfer:
(a) for any assessee
(b) in pursuance of shifting from urban area to any other area
(c) in pursuance of shifting from urban area to any rural area
(d) in pursuance of shifting from rural area to any urban area

Short Answer Type Questions

1. What do you mean by capital assets?
2. What are exceptions of capital assets?
3. Why does capital asset classify into two types?
4. Define the term transfer under the head of capital gain.
5. What do you mean by rural agricultural land?
6. When does stamp duty valuation of real estate consider?
7. How is the exemption calculated under section 54F?
8. What is the maximum limit of investment under section 50C?

Essay Type Questions

1. What are the exemption available under capital gain chapter?
2. What do you mean by capital assets and LTCG, STCG?

Numerical Questions

1. Mr. X bought equity shares on 5th May 2012 for ₹ 14,000. Fair market value of the shares was ₹ 20,000 as on 31 Jan. 2018. He sold the shares on 14 Nov. 2022 for ₹ 30,000. What will be the long-term capital gain or loss? [Ans.: LTCG ₹ 10,000]

2. Mr P bought equity shares on 14th Sept. 2016 for ₹ 9,000. Fair market value of the shares was ₹ 11,500 as on 31 Jan. 2018. He sold the shares on 8 Dec. 2022 for ₹ 7,000. What will be LTCG? [Ans.: LTCL ₹4,500]

3. Mr. Jay purchased a piece of land on 15 July 2010 for ₹ 5,10,000 and sold it on 20 September 2022 for ₹ 18,00,000. Expenses on transfer were 2% on the sale price. He spent₹ 1,45,000 in 2012-13 for the boundary wall on this plot. Compute the capital gain for assessment year 2022-23. CII of 2010-11 and 2012-13 is 167 and 200 respectively. [Ans.: LTCG ₹5,13,187]

4. Mr. Pushkar acquired a house property on 1 June 1997 for ₹ 8,00,000. Fair market value as on 1-4-2001 was₹ 10,00,000. The following exp. were incurred by him on this house property :

   Year 2003-04 ₹ 80,000
   Year 2010-11 ₹ 1,00,000
   Year 2015-16 ₹ 2,00,000

   The house property was sold by Mr. Pushkar on 20 Nov., 2022 for ₹ 72,00,000. Transfer exp. were 2% paid on sale value. Calculate income from capital gain for the assessment year 2022-23. CII for 2001-02, 2003-04, 2010-11 and 2015-16 is 100, 109, 167 and 254 respectively. [Ans.: LTCG ₹31,88,230]

5. Mrs. Sakshi has a plot which was purchased on 30th April 2008 for ₹ 3,00,000. She converted this land into stock in trade on 10th August 2016. Fair market value of the land was₹ 11,00,000 on the date of conversion. Subsequently he sold the land held as stock in trade for ₹ 13,50,000 on 10th June 2022. Determine the amount of taxable capital gain and business income. (CII for 2007-08 : 129, 2008-09: 137, 2016-17: 264 and 2022-23: 331) [Ans.: LTCG ₹ 5,21,898, Business Income ₹ 2,50,000]

6. A and B are partners in a firm. On 1st Feb. 2023 C joins the firm and brings the following assets as his capital contribution in the firm:

Particular	Land	Jewellery	Archeological collection
Fair market value 01-02-2023	20,00,000	8,00,000	4,00,000
Amount recorded in the books	18,00,000	8,80,000	3,80,000
Actual cost	1,80,000	3,80,000	1,50,000
Year of acquisition	April 2008	Sept. 2012	Jan. 2017

₹ 30,60,000 is credited in the capital account of C in the firm. Compute taxable capital gain for the assessment year 2022-23 if the cost inflation index for F.Y. 2008-09:137, 2012-13:200, 2016-17:264, 2022-23: 331.

[Ans.: LTCG (a) 13,65,109 (b) 2,51,100 (c) 1,91,932]

7. A, B and C were partners in a firm. Firm was dissolved on 31st December 2022. The assets of the firm were distributed amongst the partners as follows:

	Jewellery	Urban land	Block of building
Year of acquisition	Sept. 2021	Jan. 1998	2011-12
Cost of acquisition	6,80,000	3,00,000	5,00,000
Value at which given to partner	6,00,000 (A)	18,00,000 (B)	31,00,000 (C)
Market value as on 31st Aug. 2021	7,00,000	20,00,000	32,00,000
W.D.V. as on 1-4-2022	-	-	3,00,000
Market value as on 1-4-2001	-	4,10,000	-

Compute the taxable capital gain in the hands of the firm. (CII for F.Y. 2001-02:100, 2011-12:184, 2022-23:331) [Ans.: (a) STCG₹ 20,000 (b)LTCG₹ 6,42,900 (c) STCG₹ 29,00,000]

8. Mr. Bhavesh acquired debentures of a company on 15 June 2015 @ ₹ 30 per debenture. The company converts the debenture into equity shares in 1:5 ratio. Thus Mr. Bhavesh gets 3000 equity shares of the company. Fair market value of shares were ₹ 75 per share at the time of conversion of debentures into equity shares. Face value of equity shares is ₹ 10 per share. Mr. Bhavesh sold 70% of his holding @ ₹ 90 per share on 10 May 2022. Fair market value as on 31-01-2018 were ₹ 45 per share.

Find out income from capital gain of Mr. Bhavesh for the assessment year 2023-24.

[Ans.: LTCG ₹ 94,500]

9. Pankaj owns a house property which was purchased by him on 1 June 1995 for ₹ 6,00,000. The said property was destroyed by fire on 20 July 2017 and he received a sum of ₹ 52,00,000 for the insurance company during the previous year 2022-23. The market value of the above property as on 1 April 2001 was ₹16,00,000. Compute the capital gain for the assessment year 2023-24.CII of 2017-18 is 272.

[Ans.: LTCG ₹ 8,48,000]

10. Compute capital gain and business income of Mr. Prem Prakash for the assessment year 2023-24. Mr. Prem Prakash has following 3 plants in the beginning of the year in his business:

Assets	Rate of depreciation	WDV on 1-4-2022
Plant A	15%	8,00,000
Plant B	15%	4,00,000
Plant C	15%	3,00,000

(a) Plant A is sold on 10 July 2022 at a consideration of ₹ 20,00,000.

(b) If Plant B and C are sold on 20 Nov. 2022 at a consideration of ₹ 11,00,000.

(c) If the entire block of plants sold for ₹ 17,00,000.

(d) If the entire block of plants sold for ₹ 10,00,000.

[Ans. (a) STCG ₹ 5,00,000 (b) WDV ₹ 4,00,000 (c) STCG ₹ 2,00,000 (d) STCL ₹ 5,00,000]

11. Jagdish purchased a house at Jodhpur in June 2008 for ₹ 8,00,000. In June 2019 he entered into an agreement to sell the property to Kailash for ₹10,10,000 and received earnest money of ₹ 1,10,000. As per the agreement the balance payment was to be made within 30 days, if not then the seller has power to forfeit the advance amount. As Kailash could not make the payment within the stipulated period the advance money was forfeited. On 10 July 2022, Jagdish sold the house property to Mayank for ₹25,40,000.

Compute income from capital gain for the assessment year 2023-24. CII for 2008-09 is 137.

[Ans.: LTCG₹6,07,153]

12. Mr. Rakesh acquired a rural agricultural land and an urban agricultural land worth₹ 12,00,000 and ₹ 21,00,000 respectively on 1 July 2004. Both the land have been used for agricultural purposes. He sold rural agricultural land in April 2021 for ₹ 28,00,000. His urban land was compulsorily acquired by the Central Government. A compensation of ₹ 32,00,000 was settled and paid to him on 15 January 2023. CII for 2004-05: 113. Compute the amount of capital gain for the assessment year 2023-24.

[Ans. : (a) Not a capital assets (b) Exempt]

13. Mr. Nitesh performed the following transactions during in last years.

House purchased in 1994 ₹ 6,00,000.

Fair market value on 1 April 2001 ₹ 10,00,000.

Cost of improvement in 1998-1999 ₹ 3,00,000.

Cost of improvement in 2011-12 ₹ 4,50,000.

House sold in February 2022 ₹60,00,000.

Transfer expenses 2% of sale value

On 10 April 2022 he deposited ₹ 15,00,000 with State Bank of India, Jaipur under the capital gain deposit scheme. He constructed a residential house in December 2022 at the cost of ₹ 12,00,000. The cost of construction is financed by withdrawing the amount from SBI capital gain account and unutilized amount of capital gains is withdrawn on 15 December 2022.

Compute the taxable amount of capital gain for the assessment year 2022-23, 2023-24, 2024-25 (CII 2001-02 : 100, 2011-12: 184) [Ans. : (a) 2022-23 ₹4,54,728 (b) A.Y. ₹3,00,000]

14. Mohan bought a building for ₹ 4,00,000 on 30th Sept. 1998 which was sold on 20 Feb. 2023 for ₹ 90,00,000 . Expenses on transfer were ₹ 1,10,000. The fair market value of the building on 1 April 2001 was₹ 7,00,000. He invested ₹ 40,00,000 in the bonds of Rural electrification corporation on 31 March, 2023and₹ 30,00,000 in the bonds of NHAI on 18 Aug. 2023.

(a) Compute the income from capital gain for the assessment year 2023-24

(b) What will happen if he takes out a loan against the security of bonds?

[Ans.: (a) ₹15,73,000 (b) Taxable]

15. Mr. Bhuvnesh sold certain ornaments in Jan. 2022 for ₹ 13,50,000. These ornaments were purchased by him in 2006-07 for the use of his wife for ₹ 1,60,000. He purchased a house for his own residence for ₹ 8,00,000 in March, 2022. The new house property was sold on 31 Oct. 2022 for ₹ 9,50,000. Compute income from capital gain for the assessment year 2022-23 and assessment year 2023-24. CII 2006-07 : 122.

[Ans.: LTCG ₹ 3,80,625, A.Y. 2022-23 ₹ STCG 1,50,000, LTCG 5,53,637]

16. Mr. Shiva sold a plot on 1 October 2022 for ₹ 98,10,000 to his friend. The cost of transfer was ₹ 90,000. He purchased this plot during 1997-98 for ₹ 12,50,000. The fair market value of the house on 1 April 2001 was₹ 15,00,000. Mr. Manish purchased a residential house on 31 December 2022 for ₹ 40,00,000.

Assuming that Mr. Manish has only one residential house on 1 October 2022.Calculate income from capital gain for assessment year 2023-24. (CII 2001-02: 100) [Ans. LTCG ₹7,55,000]

17. On 31 Dec. 1980 Mr. Prakash purchased 2000 shares of PQR Ltd. @ 200 per share. Transaction exp. paid @ 1 per share. On 31 Aug. 1985 the PQR Ltd. issued bonus shares. Mr. Prakash was allotted 500 bonus shares. The fair market value of the shares on 1 April 2001 was ₹ 520 per share. On 15 Jan. 2022, he sold all the shares including bonus shares @ ₹ 2,200 per share and paid transaction exp. 1% on sale proceeds. He invested ₹ 15,00,000 in the construction of a residential house which was completed before 31 July 2022.

Compute income from capital gain of Mr. Prakash for the assessment year 2022-23 assuming that shares are transferred through a recognized stock exchange and he doesn't own any other residential house property as on 31-1-2018 was ₹ 1400 per share. [Ans. LTCG ₹ 14,09,187]

Answer MCQ

1	2	3	4	5	6	7	8	9	10
B	C	A	A	D	C	B	C	D	C
11	12	13	14	15					
C	B	A	B	B					

❑❑❑

Chapter 7

INCOME FROM OTHER SOURCES

SECTION-WISE STUDY

Section	Particular
8	Basis of charge
56(2)	Specific incomes which are included under the head "Income from Other sources"
	Income which are normally taxable under the head 'Income from other sources'
56(2)(i)	Dividend
	Casual income
Section 56(2)(id)	Interest on Securities
	Gifts
57	Deductions
58	Amount not deducted
94	Bond washing transactions

INTRODUCTION: BASIS OF CHARGE

The last head of income is "Income from Other sources. This is a residuary source of income means under this head the income which is not chargeable to tax under any first four heads viz "Income from Salary", "Income from house property", "Profits and gains of business or profession"and "Capital gains" .

SPECIFIC INCOMES WHICH ARE INCLUDED UNDER THE HEAD "INCOME FROM OTHER SOURCES" [SECTION 56(2)]

The following incomes are enlisted under section 56(2) which shall be chargeable to income tax under the head Income from other sources –

(i) Dividend

(ii) Winning from lotteries, crossword puzzles, races including horse races, card games, and other games of any sort, or from gambling or betting of any form or nature.

(iii) **Employee's contribution to staff welfare schemes:** Any sum received by the assessee from his employees as contribution to any provident fund, or any other welfare fund for the employees provided it is not taxable under the head 'Profits and gains of business or profession'.

Note: The contribution of the employee deducted by the employer is treated as income of the employer, but if the employer deposits such an amount on or before the due date of deposit applicable for such fund, he will be allowed a deduction on account of the same. Therefore, we can say that is the amount deducted from an employee for any provident fund, firstly treated as income and thereafter employer will be able to get a deduction on payment of such amount.

(iv) **Interest on securities:** Income by way of interest on securities provided the income is not chargeable to income tax under the head profits and gains of business or profession.

(v) **Rental income from machinery etc.:** Rental income from machinery, plant, or furniture provided that income is not chargeable to tax under the business or profession.

(vi) Where the assessee lets out machinery, plant, furniture or any other assets along with building where rent is inseparable from letting the said machinery, plant or furniture provided that the income if not chargeable to tax under any business or profession.

(vii) **Sum received under a Keyman Insurance policy:** Any sum received under a Keyman Insurance policy, including the sum allocated by way of bonus on such policy, if such income is not taxable under the head 'salaries' or 'profits and gains of business or profession'.

(viii) **Gifts:** Any sum of money, the aggregate value of which exceeds ₹ 50,000 is received without consideration or property (whether movable or immovable) is received without consideration or property is received for an inadequate consideration by any person on or after 1-4-2017 if the amount of such gift or inadequate consideration exceeds ₹ 50,000. [Section 56(2) (x)].

(ix) Where a closely held company receives in any previous year from any resident person, any consideration for issue of shares that exceeds the face value of shares, then the aggregate consideration received for such share which is in excess of fair market value shall be taxable.

(x) **Interest on compensation:** Income by way of interest received on compensation or an enhanced compensation to be taxed in the year in which such interest is received.

(xi) Forfeiture of advance received for transfer of a capital asset.

(xii) **Compensation on termination of employment:** Any compensation received or receivable whether in the nature of revenue or capital, in connection with the termination or the modification of the term and conditions of any contract relate to its employment shall be taxable under stion 56 of the act.

GENERAL PROVISIONS (SECTION 56(1))

On fulfillment of the following conditions, a income shall include under the head Income from Other sources:

(i) There should be an income.

(ii) Income shall not exempt under section 10 to 13A

(iii) Such income not covered in any other head of income.

EXAMPLES OF INCOME WHICH ARE NORMALLY TAXABLE UNDER THE HEAD 'INCOME FROM OTHER SOURCES'

1. Casual income.
2. Interest on a SavingBank account.
3. Interest on bank deposits/deposits with companies.
4. Interest on loans.
5. Interest on securities of foreign governments.
6. Income from subletting of a house property by a tenant.
7. Insurance commission.
8. Family pension.
9. Directors sitting fee for attending board meetings.
10. Income from undisclosed sources.
11. Remuneration received by Member of Parliament/Member of Legislative Assembly.
12. Agricultural income from agricultural land outside India.
13. Income from racing establishment.
14. Income from royalty, if it is not income from business and profession.
15. Rent from a vacant piece of land.
16. Examinership fee received by a teacher from an institution other than his employer.
17. Interest received on delayed refund of Income Tax.
18. Director's commission for standing as a guarantor to bankers.
19. Director's commission for underwriting shares of a new company.
20. Income from granting of mining rights.
21. Income received after discontinuance of business.
22. Income from market, fisheries, rights of ferry or moorings.
23. Income from grant of grazing rights.
24. Gratuity received by a director who under the relevant contract, is not an employee or servant of the company.
25. Total interest till date on employee's contribution to an unrecognized provident fund at the time when the payment of lump sum amount from the unrecognized provident fund is due.
26. Any compensation received from the employer.
27. Any remuneration received by employee from any person other than employer
28. Any remuneration from the employer for any work which is not his part of duty..
29. Rent from any property on short term lease.
30. Rent from other services provided to tenants.
31. Commission received from promoting NSC, PPF and Post office savings.
32. Commission received by lottery agent.
33. Receipt from annuity.
34. Interest from delay in compensation (only 50% is taxable).
35. Cash credits which are unexplained.
36. Unexplained investment.

37. Unexplained money.
38. Amount of investment which is shown at lesser value in the books of accounts.
39. Unexplained expenditure.
40. Income from programmes on Radio and TV.
41. Income from consultancy and tuition work.

EXPENSES AND DEDUCTION ALLOWED

Deductions allowed under the head "Income from other sources"are as follows:

(1) Standard deduction in case of family pension (Section 57(ii)(a)): an amount equal to 33.333% of such family pension or Rs. 15,000 whiehver is less, is allowed as deduction.

(2) Depreciation and expenses on machinery, plant, furniture and building which are let out (Section 50(ii) or (iii)): Following expenses of these assets are allowed as deduction:
   (i) Premium on insurance of building
   (ii) Expenditure on repairs of building
   (iii) Insurance premium and repairs expenditure of machinery, plant and furniture;
   (iv) Depreciation of machinery, plant, building and furniture.

(3) Other expenditure incurred to earn income (Section 57(iii)): Any expenditure incurred to earn taxable income under the head other sources are deductible, if following conditions have been fulfilled:
   (i) Expenditure is solely incurred for the purpose of earning
   (ii) Expenditure is not a capital expenditure
   (iii) Expenditure is not a personal expenditure of the assessee
   (iv) Expenditure is incurred in previous year only.

(4) Expenses on maintaining horses for horse race: Such expenses are deductible only from the income of horse races.

(5) Amount borrowed for the purpose of purchases of investment: Normally the amount taken on loadn for the purpose of purchase of investment or shares is allowed as deduction but in case when the loan is taken to purchase shares than the amount payable as interest on loan cannot be exceed by 20% of the amount of dividend on such shares.

(6) Commission or remuneration for collection of dividend or interest on securities (Section 57(1)): any reasonable amount paid as commission or remuneration to a banker or any other person for realising divident and interest on securities is allowed as deduction.

(7) Interest on delay in compensation: A 50% amount of interest received as delayed compensation or enhanced compensation will be allowed as deduction under section 57(iv).

AMOUNT NOT DEDUCTIBLE:

An assessee cannot claim deduction for the following amounts paid or payable under the head "Income from other sources:

(a) Expenses on casual income: Expenses and losses in connection to income from lottery, crossword, puzzles horse races, card games, betting etc. are not allowed.

(b) Dividend collection charges: Collection chages for dividend received are not allowed as deduction.

(c) Personal Expenses: Personal expenses of the assessee are not allowed as expenses.

(d) Interest paid outside India without TDS: Interest chargeable under this head, which is payable outside India and has been paid without deducting tax at source or without pay tax thereon.

(e) All provisions and reserves

(f) Amount of capital expenditure

(g) Salary paid outside India without TDS: Payment of salary payable outside India and has been paid without deducting tax at source or without paying tax thereon.

(h) Payment to relatives or institution: Any payment made to a relative or a co-institution in respect of any expenditure to the extent to which such payment is excessive or unreasonable in the opinion of the Assessing Officer is disallowed.

(i) Cash payment exceeding Rs. 10,000/Rs. 35,000: If payment of any expenditure exceeding Rs. 10,000/Rs. 35,000 (Rs. 35,000 in case of payment made for playing, hiring or leasing goods carriages) is made in cash (not by account payee crossed cheque or bank draft or by any provided electronic media) then amount of such expenses is not allowed as deduction.

There are some exception to the above rules. Means in the following cases cash payment of more than Rs. 10,000/Rs. 35,000 (as the case may be) allowed:

(i) If the amount is paid to Central or State Government or Bank or any financial institution.

(ii) If the amount is paid through bank

(iii) If the amount is paid to farmer or producer of agricutural product, fruits vegetables, dairy products.

(iv) If the amount is paid in such a village where there is no banking facility, or to a person who belongs to such a village having no bank.

(j) 30% Disallowability of expenses where there is no TDS in India: 30% of any amount paid to a resident on which tax is not deducted at source in accordance with sections 192 to 192LA is not eligible for a deduction in the year that the expense was incurred. Similarly, 30% of sum payable will be disallowed if tax has been deducted at source but not deposited with the Government by the due date of deposit of tax under section 139(1).

If the tax deducted or deposited in the subsequent previous year then the amount which was disallowed in the earlier previous year (30% of total expenses) will be allowed in the previous year in which such tax is deducted and deposited with Government.

According to the provisions of Section 201 if any person was liable to deduct tax at source and has not deducted tax but recipient of income has whown it as income while filling his tax return under stion 139 and has paid tax on such income then not part of expenses will be disallowed even if there was not TDS. Provided that person who received income and paid tax on it, provides a certificate from Chartered accountant to the person from whom he received income that he has paid tax on it before last date of submission of tax return.

DIVIDEND (SECTION 56(2)(i))

Under section 2(22) the following payments or distributions by a company to its shareholder are deemed as dividend to the extent of accumulated profit of the company:

(a) Any distribution entailing the release of the company's assets (Sec. 2(22)(a))

(b) Any distribution of debentures, debenture stock, deposit certificates and bonus to preference shareholders. (Sec. 2(22)(b))

(c) Distribution on liquidation of company (Sec. 2(22)(c))

(d) Distribution on reduction of capital (Sec. 2(22)(d))

(e) Any payment by way of advance or loan to the following:

(i) A shareholder (being a person who is beneficial owner of equity shares) holding not less than 10% of the voting power; or

(ii) Any concern in which such shareholders is a member or a partner and in which he has substantial interest (Sec. 2(22)(e))

The following points should be noted:

1. Under section 2(22)(e), the amount advanced for business transactions would not fall within the definition of deemed dividend. In other words, if the amount advanced does not bear the characteristics of loan and advances (Sec. 2(22)(e)) is not applicable.
2. Where money lending (giving loan) is a substantial part of the business of the company, the provisions of Sec. 2(22)(e) are not applicable. For this purpose, the factual position as it stands during the relevant previous year alone is supposed to be taken into consideration to decide the issue whether lending of money is a substantial part of the businessof the concerned company.
3. Any subsequent dividend to the extent it is set off against any loan or advance (deemed as dividend under Sec. 2(22)(e) is not treated as dividend
4. The expression "concern" for the purpose of this provision means a HUF or a firm or AOP or BOI or a company. Further a person shall be deemed to have a substantial interest in a concern, other than a company, if such person is at any time during the previous year beneficially entitled to not less than 20% of the income of such concern. In relation to a company, the provision of section 2(32) will apply.
5. The following shall not be treated as dividend-
   (a) Any payment made by a company on purchase of its own shares in accordance with the provisions contained in section 77A of Companies Act; or
   (b) Any distribution of shares made in accordance with the scheme of demerger by the resulting company to the shareholders of the demerged company whether or not there is a reduction of capital in the demerged company.

TAX TREATMENT IN THE HAND OF SHAREHOLDER

Income by way of dividend is taxable in the hands of shareholders under section 56 under the head 'Income from other sources'. There is no special treatment of dividend income. However if the shareholder is an individual,HUF/AOP/BOI/artificial juridical person, surcharge on income tax on dividend income cannot exceed 15%.

BASIS OF CHARGE FOR DIVIDEND (SECTION 8)

Normal dividend: It is declared to be income of the previous year in which it is declarged in AGM.

Deened dividend: It is treated as income at the previous year in which is it is paid.

Interim dividend: It is treated as income at the previous year in which is it is declared and paid.

Casual income:

Any winning from :

(i) Lotteries
(ii) Crossword puzzles
(iii) Races including horse races,
(iv) Card games and other games of any sort,
(v) Gambling or betting of any form or nature whatsoever

is known as casual income and chargeable to tax under the head "Income from other sources".

Conditions:

(a) Income should be earned casually.
(b) Income should be of non-recurring nature.
(c) Income should not be related to profession.
(d) Income should not be received from the employer.

SPECIAL RATE OF INCOME TAX IN CASE OF CASUAL INCOME

Casual income is taxable at a special rate of income tax, which at present is 30% + surcharges, if applicable + Health and education cess @ 4%.

Tax deduction: Under section 194B and 194BB, tax is deductible @ 30% on payment in respect of winning from lotteries or crossword puzzle or card games or other games exceeding Rs. 10,000. Likewise, in the case of winnings from horse races, payments exceeding Rs. 10,000 are subject to tax deduction at source at the rate of 30%.

Gross up : If the net amount received is given then it is to be noted that the gross amount is taxable so net amount should be gross up for computation of income.

Example:

	Rs.
Winning from lottery (Gross amount)	15,00,000
Less: Tax deduction 30%	4,50,000
Net amount	10,50,000

If the net amount (like Rs. 10,50,000) is given in question then net receipt shall be converted into gross amount as follows:

Net winning from lotteries or crossword puzzles or horse race or card games or other games:

$$Gross\ amount = \frac{Net\ amount}{1 - 0.30}$$

$$= \frac{10,50,000}{1 - 0.30} = 15,00,000$$

Note:

(1) No tax is deducted from winning from other races, gambling or betting, hence no need to be gross up. There is no difference between net and gross amount in this case.

(2) If prize is received in Kind as well as in cash: If amount of prize is in kind, then the institution who provides the prize must ensure that recipient of prize has deposited the amount of tax in the Government treasury. If prize is partially in cash and partially in kind then the tax will be deducted at sources on total amount if prizes but if cash is not sufficient the recipient has to deposit the tax with Government treasury then prize will be provided by institution.

(3) No deduction of expenses allowed : As per section 58(4) in the case of an assessee having income from casual source, no deduction in respect of any expenditure or any other amount in connection with such income shall be allowed while computing such income. In other words, the entire casual income without deducting any expenditure or allowance will be taxable.

(4) Deduction of expenses allowed in case of activity of owning and maintaining horses for horse race.

INTEREST ON SECURITIES (SECTION 56(2)(ID))

Income by way of interest on Securities is taxable as income from other sources, if the same is not taxable as business income under section 28.

According to section 2(28B) "Interest on securities" means –

(i) Interest on any security of the Central Government or a State Government;

(ii) Interest on debentures or other securities for money issued by, or on behalf of a local authority or a company or a corporation established by Central, State or Provincial Act.

Thus securities may be divided into following categories:

(i) Securities issued by Central/State Governments;

(ii) Debenture/bonds issued by a local authority;

(iii) Debentures/bonds issued by companies;

(iv) Debenture/bonds issued by a corporation established by a Central, State or Provincial Act i.e., autonomous and statutory corporations.

MEANING OF SECURITIES

The word "security" is not defined under the Act. One has, therefore to depend upon its natural meaning and the meaning ascribed to it under various judicial pronouncements. The shorter Oxford English Dictionary defines the word "Security" as a document held by a creditor as guarantee of his right to payment. In other words, unless the payment of debt is secured in some way, a mere debt is not "security".

If the assessee maintains books of account on "cash basis" amount received as interest on securities is taxable on "Receipt" basis.

If the assessee maintains books of account on mercantile system, then interest is taxable on "due" basis.

DUE DATE OF INTEREST

Interest on securities does not accrue everyday or according to the period of holding of investment. For instance, if one hold 7% securities from January 1, 2023 to February 28, 2023, if cannot be said that interest of two months has accrued to the security holder. Generally, interest becomes due on due dates specified on securities. For instance, if specified due dates of interest of particular securities are March and September every year, interest of six month falls due on each such date and holder of securities on these dates will be entitled to interest of six month on each such date.

Interest exempt from tax [Section 10(15)] : Interest on notified securities (as well as notified bonds and certificates) is exempt under section 10(15). Section 10(15) also provides exemption in respect of interest on Post office saving bank account (to the extent of Rs. 3,500 in case of an individual account and Rs. 7,000 in the case of a joint account).

GROSS UP

Tax is to be deducted at source on interest on securities at the prescribed rates of tax. For Income tax purposes what is to be charged to tax is the gross amount of interest therefore, if net interest is given, it has to be grossed up to arrive at the taxable amount.

(i) 8%/7.75%/floating rate saving(taxable) bonds if the amount of interest payable exceeds Rs. 10,000

(ii) Securities are issued by a statutory corporation or a local authority or any company.

Net interest can be grossed up as under:

$$\frac{Net\ interest}{1 - tds\ rate}$$

TDS rates

8%/7.75%/floating rate saving(taxable) bonds	10%
Non-government securities whether or not listed or recognized stock exchange	10%

MONEY/PROPERTY RECEIVED WITHOUT OR INADEQUATE CONSIDERATION (SECTION 56(2):

Section 56(2) is applicable when sum of money/property is received by an individual/HUF and fall in the following 5 categories:

Asset	Amount included in Income for chargeable to tax
A sum of Rs. 50,000 or more received without adequate consideration during relevant previous year from one or more than one person	Whole amount
Immovable property is received without consideration and stamp duty value exceeds Rs. 50,000	Stamp duty value
Immovable property is received for consideration and (a) stamp duty value exceeds 110% of consideration and (b) the difference between stamp duty value and consideration is more than Rs. 50,000	Difference between stamp duty value and consideration
Movable property received without consideration having value more than Rs. 50,000	The whole amount
Movable property is received for a consideratio which is less than fair market value and having difference more than Rs. 50,000	Difference between aggregate fair market value and consideration is chargeable to tax

Amount not chargeable to tax : The aforesaid five categories don't applicable, if money/property received from the following even value exceeding Rs. 50,000

(1) Relative

(2) On occasion of the marriage of individual

(3) By way of will/inheritance

(4) In contemplation of death of payee
(5) Local authority
(6) Any foundation/university/hospital educational institute, medical institution, trust;
(7) Shares received as a consequence of demerger or amalgamation of a company or business reorganisation of a co-operative bank.
(8) From any trust, or institution which are registered under section 12AA.

Meaning of relative:

(i) Spouse of individual
(ii) Brothers and sisters of individual
(iii) Brothers and sisters of spouse of individual
(iv) Brothers and sisters of either of the parents of the individual
(v) Any lineal ascendant or desendent of the individual and the spouse of individual
(vi) Spouse of the persons of above (ii) to (v).

ILLUSTRATION 7.1

Mr. P.L. Dashora has the following investments during the year ended 31st March, 2023 consisted of:

(i) 6% Government securities ₹ 30,000
(ii) 8% Lucknow municipal bonds ₹ 15,000
(iii) 9% Mumbai port trust bonds ₹ 25,000
(iv) Interest due on post office national saving certificates ₹ 2,000
(v) 7% National plan certificates ₹ 7,000
(vi) 6% Securities of foreign Govt. ₹ 18,000

He paid ₹ 430 as commission for collecting the aforesaid taxable interest on securities and ₹ 1,400 as interest on loan which he had taken for the purpose of purchasing above securities.

Find out his income under the head 'Income from other sources'.

Solution:

Computation of Income from other sources for the assessment year 2023-24

Particular	Amount
6% Govt. securities 30,000x6%	1,800
8% Lucknow Municipal bonds 15,000x8%	1,200
9% Mumbai port trust bonds 25,000x9%	2,250
Post office national saving certificates	2,000
7% National plan certificates	Exempt
6% Securities foreign govt. 18,000 x 6%	1,080
	8,330
Less: Commission	430
Less: Interest on loan	1,400
Income from other sources	6,500

EXERCISE 7.1

Mr. Prem Shanker Vyas is a businessman dealing in textiles. On 1-4-2022 the position of his investment was as under:

(1) ₹ 40,000 7.5% Government of India Loan 2002
(2) ₹ 32,000 10% Debenture of Birla Jute Mills Ltd. (listed)
(3) ₹ 12,000 12% Debenture of T ltd.
(4) Interest on National saving certificate (IX) issue due ₹ 4,120
(5) ₹ 30,000 10% Rajasthan Govt. Loan
(6) ₹ 10,000, 7% capital investment bonds
(7) ₹ 10,000 7% relief bonds

The due dates of interest of all the above securities are 1st May and 1st Nov. Calculate income from other sources for the assessment year 2023-24 [Ans. ₹ 14,760]

ILLUSTRATION 7.2

During the financial year 2022-23 Mrs. Jaya received the following amounts as interest:

(1) ₹ 9,000 on Debenture of Pratap Iron Works ltd.
(2) ₹ 7,200 on Raj. Govt. Loan 1995
(3) ₹ 8,100 on Debenture of Jodhpur Municipality
(4) ₹ 12,600 on tax free debentures of Life Insurance Corporation
(5) ₹ 7,200 on tax free debentures of Century mills Ltd.

The public are not substantially interested in Pratap Iron Works ltd.

Compute the taxable income from other sources of Mrs. Jaya for the assessment year 2023-24 assuming that his bank has charged 3% commission on the actual amount of interest collected and the interest in each case is received on 1 Aug. and 1st Feb.

Solution:

Computation of taxable income from other sources for the assessment year 2023-24

Particulars	Amount received	Gross amount
Interest on debentures of Pratap Iron Works 9,000*100/90	9,000	10,000
Interest on Rajasthan Govt. loan	7,200	7,200
Interest on Debenture of Jodhpur municipality 8,100*100/90	8,100	9,000
Interest on tax free debenture of LIC 12,600*100/90	12,600	14,000
Interest on tax free debentures of century mills 7,200*100/90	7,200	8,000
	44,100	48,200
Less: Collection charges @3% on ₹ 44,100		1,323
Income from other sources		46,877

EXERCISE 7.2

Shri Sitaram has furnished the following particulars of his investment during the previous year ending 31st March 2023. Compute his income from interest on securities.

(i) 11% ₹ 20,000 Municipal debentures

(ii) 12% ₹ 12,000 debentures of a limited company

(iii) 10% ₹ 33,000 Government securities

(iv) 10% ₹ 27,000 tax free debentures of a sugar company. The interest on these debentures is payable on 30 Sept. and 31 March. He sold these debentures on 15 Oct. 2022.

(v) He bought 18% ₹ 20,000 Madras port trust bonds on 1 Nov. 2022. The interest on these bonds is payable on 1 June and 1 Dec.

(vi) 11% ₹ 11,000 Bombay port trust bonds

(vii) He paid ₹ 360 for realization of above interests. [Ans.: ₹ 11,090]

ILLUSTRATION 7.3

Mr. Prayas is a manager in a company at a monthly salary of ₹ 45,000. He received following gifts during the previous year:

(i) ₹ 3,00,000 in cash from friend

(ii) ₹ 80,000 by cheque from a friend as gift

(iii) Jewellery from his friend of which market value is ₹ 3,60,000

(iv) ₹ 70,000 in all from his four different friends on the occasion of his birthday.

(v) ₹ 1,20,000 from his mother's brother who lives in USA.

(vi) ₹ 90,000 from the sister of his father who lives in Lodon.

(vii) ₹ 2,00,000 from the friend of his wife.

(viii) ₹ 75,000 from the father in law of his brother.

(ix) ₹ 44,000 from his employer.

(x) ₹ 70,000 as scholarship from a registered charitable institute.

He purchased a house from Mr. Satyam at ₹ 30,80,000 whereas its stamp duty value on the day of purchase was ₹ 39,00,000.

He also purchased gold worth ₹ 3,10,000 of which market value was ₹ 3,50,000.

Compute the income from other sources for the assessment year 2023-24.

Solution:

Computation of income from other sources for the assessment year 2023-24

Particulars	Amount
Cash gift from friend	3,00,000
Gift by cheque from a friend	80,000
Gift of Jewellery from a friend	3,60,000
Gift from four friends as aggregate amount is more than ₹ 50,000	70,000
Gift from mother's brother	Exempt

Gift from father's sister	Exempt
Gift from friends of his wife	2,00,000
Gift from father in law of his brother not covered in the definition of relatives	75,000
Scholarship from a registered charitable institute	Exempt
Immovable property purchased for inadequate consideration (39,00,000-30,80,000)	8,20,000
Movable property gold purchased for inadequate consideration (Note 1)	Nil
Income from other sources	19,05,000

Note:

1) Movable property (gold) acquired for inadequate consideration. The difference between market price and purchase price does not exceed ₹ 50,000 so nothing is taxable.

2) Gift received from employer is taxable under the chapter "Income from Salary" if exceeds ₹ 5,000 per annum.

EXERCISE 7.3

Mr. Rohit provides you the following information for the previous year 2022-23:

(1) He gets gift of house A from his friend Basant (stamp duty value is determined at ₹ 8,00,000)

(2) He gets a gift of house B from Chaman (who is father in law of his elder brother) (stamp duty value is ₹ 4,00,000, however current market value is ₹ 5,70,000).

(3) He purchased a second hand car for ₹ 1,20,000 from Devilal (market value is however ₹ 3,50,000)

(4) He purchases a work of art for ₹ 4,00,000 from Ekta (fair market value if ₹ 4,40,000)

(5) He purchases Jewellery for ₹ 8,00,000 from Firdos Khan (Fair market value is ₹ 8,20,0000 Firdos Khan is not a registered dealer.

(6) He purchases a painting for ₹ 4,30,000 from (who is brother of Mrs. Rohit) (fair market value if ₹ 7,00,000).

(7) He purchase a commercial property for ₹ 52,00,000 from Hemant (fair market value is ₹ 60,00,000)

(8) He get a gift of 1000 preference shares in Anamika Ltd. from Jaiprakash (on the date of purchase stock exchanges are closed, the lowest quotation on the immediate preceding working day in BSE is ₹ 55).

(9) He gets a gift cheque of ₹ 1,10,000 from his friend Lokesh on his birthday. [Ans.: ₹ 22,25000]

ILLUSTRATION 7.4

During the previous year 2022-23 Mr. B.L Ojha had the following securities:

(i) ₹ 1,09,800, 10% tax free debentures of Wadhwa textiles

(ii) ₹ 52,000, 10% tax free debentures of a textiles mill company. The company is listed at Jaipur Stock Exchange.

(iii) ₹ 54,000, 7% 10 Year Defense Deposit Certificate

(iv) ₹ 27,000, 10% tax free Kandla port trust bond

The interest is paid on 31 March annually. He paid 3% commission to his bank for collection of interest.

Calculate taxable income for the assessment year 2023-24

Solution:

Computation of income from other sources of Mr. B.L. Ojha for the assessment year 2023-24

Particular		₹
Income from Tax free debentures of Wadhwa textiles	1,09,800x10% = 10,980 $10{,}980\ x\ \frac{100}{90}$	12,200
Income from Tax free debentures of a textiles mill company	52,000x10% = 5,200 $5{,}200\ x\ \frac{100}{90}$	5,778
Income from Defense Deposit Certificate		Exempt
Income from tax free Kandla port trust bond	27,000x10% = 2,700 $2{,}700\ x\ \frac{100}{90}$	3,000
Total		20,978
Less: Collection charges	3% on (10,980+5,200+2,700)	566
Income from other sources		20,412

Note: (1) Interest on a 10 year defense deposit certificate is exempt. Therefore collection charges on this interest charged by the bank shall not be deducted.

EXERCISE 7.4

During the previous year 2022-23 Mr. M.L Verma had the following securities:

(i) ₹ 2,21,400, 10% tax free debentures of Wadhwa textiles

(ii) ₹ 70,200, 10% tax free debentures of a textiles mill company. The company is listed at Jaipur Stock Exchange.

(iii) ₹ 94,000, 7% 10 Year Defense Deposit Certificate

(iv) ₹ 72,000, 10% tax free Kandla port trust bond

The interest is paid on 31 March annually. He paid 3% commission to his bank for collection of interest. Calculate taxable income for the assessment year 2023-24 [Ans.: ₹ 39,309]

ILLUSTRATION 7.5

Pankaj Gupta had the following investment for the financial year 2022-23:

(i) Income from undisclosed sources ₹ 60,000.

(ii) 7% Capital Investment bonds ₹ 40,000

(iii) 8% RBI relief bonds ₹ 84,000

(iv) 12% tax free bonds of a public sector company ₹ 90,000

(v) Interest on National Saving Certificate (VIII issue) ₹ 9,000

Besides the above, Mr. Pankaj had set up a factory with building, plant, machinery and furniture etc. However he decided to give it on hire at a composite rent of ₹ 12,000 per month. During the year he spent ₹ 18,000 for repair and ₹ 11,000 for the insurance of the factory. He had borrowed ₹ 4,00,000 @ 8% against these assets, but this amount was spent for the marriage of his brother.

Compute taxable income from other sources of Mr. Pankaj for the assessment year 2023-24.

Solution:

Computation of income from other sources of Mr. Pankaj for the assessment year 2023-24

Particular		₹
Income from undisclosed sources		60,000
Income from Capital Investment bonds		Exempt
Income from RBI relief bonds		Exempt
Income from tax free bonds of a public sector company	90,000x12% = 10,800 $10{,}800 \times \frac{100}{90}$	12,000
Interest on NSC		9,000
Composite Rent of factory	12,000x12 = 1,44,000	
Less: Expenses Repair	18,000	
Insurance	11,000	1,15,000
Income from other sources		1,96,000

EXERCISE 7.5

Raj Gupta had the following investment for the financial year 2022-23:

(i) Income from undisclosed sources ₹ 95,000.

(ii) 7% Capital Investment bonds ₹ 30,000

(iii) 8% RBI relief bonds ₹ 45,000

(iv) 12% tax free bonds of a public sector company ₹ 2,32,500

(v) Interest on National Saving Certificate (VIII issue) ₹ 21,000

Besides the above, Mr. Raj had set up a factory with building, plant, machinery and furniture etc. However he decided to give it on hire at a composite rent of ₹ 14,000 per month. During the year he spent ₹ 38,000 for repair and ₹ 11,000 for the insurance of the factory. He had borrowed ₹ 4,00,000 @ 8% against these assets, but this amount was spent for the marriage of his brother.

Compute taxable income from other sources of Mr. Raj for the assessment year 2023-24. [Ans.: ₹ 2,66,000]

ILLUSTRATION 7.6

Shri Laxman, a resident individual, received the following net interest during the previous year ended on 31st March, 2023:

(i) Interest on Govt. Securities ₹ 25,500

(ii) Interest on debentures issued by local authority ₹ 11,500

(iii) Interest on tax free Govt. Securities ₹ 4,500

(iv) Interest received on 12 years National Saving Annuity certificate ₹ 5,300

(v) Interest on debentures of ABC Ltd. (unlisted) ₹ 6,300

(vi) Interest on debenture of National Thermal Power Corporation (NTPC) ₹ 9,100

(vii) Interest on listed debenture of Reliance Ltd. ₹ 10,200

(viii) Interest on unlisted debentures of Tractor Paints Ltd. ₹ 11,300

(ix) Interest on debentures issued by Industrial Finance Corporation ₹ 4,600

Mr. Laxman won ₹ 70,000 from horse racing. Net computed other income from other sources is ₹ 22,000.

Compute the taxable income under the head 'Income from other sources for the assessment year 2023-24.

Solution:

Computation of income from other sources of Mr. Laxman for the assessment year 2023-24

Particular		₹
Interest on Govt. Securities		25,500
Interest on debentures issued by local authority		11,500
Interest on tax free Govt. Securities		Exempt
Interest received on 12 years National Saving Annuity certificate		Exempt
Interest on debentures of ABC Ltd. (unlisted)	$6{,}300x\frac{100}{90}$	7,000
Interest on debenture of National Thermal Power Corporation (NTPC)		Exempt
Interest on listed debenture of Reliance Ltd.	$10{,}200x\frac{100}{90}$	11,333
Interest on unlisted debentures of Tractor Paints Ltd.	$11{,}300x\frac{100}{90}$	12,556
Interest on debentures issued by Industrial Finance Corporation	$4{,}600x\frac{100}{90}$	5,111
Winning from horse race		70,000
Other income		22,000
Income from Other sources		1,65,000

EXERCISE 7.6

Shri Bharat, a resident individual, received the following net interest during the previous year ended on 31st March, 2023:

(i) Interest on Govt. Securities ₹ 49,500

(ii) Interest on debentures issued by local authority ₹ 16,000

(iii) Interest received on 12 years National Saving Annuity certificate ₹ 8,900

(iv) Interest on debentures of ABC Ltd. (unlisted) ₹ 18,900

(v) Interest on debenture of National Thermal Power Corporation (NTPC) ₹ 9,100

(vi) Interest on listed debenture of Reliance Ltd. ₹ 22,500

(vii) Interest on unlisted debentures of Tractor Paints Ltd. ₹ 17,100

(viii) Interest on debentures issued by Industrial Finance Corporation ₹ 7,560

Mr. Bharat won ₹ 3,10,000 from horse racing. Net computed other income from other sources is ₹ 51,100.

Compute the taxable income under the head 'Income from other sources for the assessment year 2023-24.

[Ans.: ₹ 5,00,000]

ILLUSTRATION 7.7

Shri Bharat furnishes the following particulars of his income for the financial year ending 31-3-2023:

(i) Directors fee received in August 2022₹ 40,000

(ii) He takes a house at a monthly rent of ₹ 500 per month. Half portion of this house was sublet on a monthly rent of ₹ 750 per month.

(iii) Dividend received in September 2022 from UTI ₹ 12,000

(iv) Dividend received in June 2022 from Tata Tea Co. Ltd. ₹ 13,600 (60% of income of the company is agricultural income)

(v) Amount received on 1-12-2022 in connection with winning from a horse race ₹ 19,600

(vi) Amount received on 1-02-2023 in connection with winning from lottery ₹ 45,500. Cost of lottery tickets purchased ₹ 400

Compute his taxable income for the assessment year 2023-24.

Solution:

Computation of income from other sources of Mr. Laxman for the assessment year 2023-24

Particular		**₹**
Directors fee received		40,000
Sub letting rent	750x12 = 9,000	
Less: Rent paid	500x12 = 6,000	3,000
Dividend received in September 2022 from UTI		12,000
Dividend received in June 2022 from Tata Tea Co. Ltd.		13,600
Winning from a horse race	$19{,}600x\frac{100}{70}$	28,000
Winning from lottery	$45{,}500x\frac{100}{70}$	65,000
Income from Other Sources		1,61,600

Note: (1) No deduction allowed for expenses against casual income.

EXERCISE 7.7

Shri Mukesh furnishes the following particulars of his income for the financial year ending 31-3-2023:

(i) Directors fee received in August 2022 ₹ 70,000

(ii) He takes a house at a monthly rent of ₹ 6,000 per month. Half portion of this house was sublet on a monthly rent of ₹ 9,000 per month.

(iii) Dividend received in September 2022 from UTI ₹ 21,000

(iv) Dividend received in June 2022 from Tata Tea Co. Ltd. ₹ 25,400 (60% of income of the company is agricultural income)

(v) Amount received on 1-12-2022 in connection with winning from a horse race ₹ 29,260. Expenses on this income were ₹ 5,000.

(vi) Amount received on 1-02-2023 in connection with winning from lottery ₹ 6,12,500. Cost of lottery tickets purchased ₹ 4,000

Compute his taxable income for the assessment year 2023-24. [Ans.: ₹ 10,69,200]

ILLUSTRATION 7.8

Dashrath an Indian citizen, resident individual, submits the following particulars of his income for the year ended 31-3-2023:

1) Agricultural income from India ₹ 15,000
2) Agricultural income from Nepal ₹ 21,000
3) Salary as a member of Rajasthan State Assembly ₹ 48,000
4) Daily allowance as MLA ₹ 8,000
5) Royalty from a coal mine ₹ 18,000
6) Dividend received from a co-operative society ₹ 8,000

He has incurred the following expenses-

(a) Paid collection charges ₹ 200 for collecting dividend
(b) ₹ 2,200 spent for earning royalty income.

Compute Dashrath's income from other sources for the A.Y. 2023-24.

Solution:

Computation of income from other sources of Mr. Dashrath for the assessment year 2023-24

Particular		**₹**
Agricultural income from India		Exempt
Agricultural income from Nepal		21,000
Salary as a member of Rajasthan State Assembly		48,000
Daily allowance as MLA		Exempt
Royalty from a coal mine	18,000	
Less: Expenses	2,200	15,800
Dividend received from a co-operative society	8,000	
Less: Expenses	200	7,800
Income from Other Sources		92,600

EXERCISE 7.8

Mahima an Indian citizen, resident individual, submits the following particulars of her income for the year ended 31-3-2023:

a) Agricultural income from India ₹ 55,000
b) Agricultural income from Nepal ₹ 89,000
c) Salary as a member of Rajasthan State Assembly ₹ 5,60,000
d) Daily allowance as MLA ₹ 48,000
e) Royalty from a coal mine ₹ 28,000
f) Dividend received from a co-operative society ₹ 18,000

She has incurred the following expenses-

(a) Paid collection charges ₹ 2,000 for collecting dividend

(b) ₹ 4,200 spent for earning royalty income.

Compute Mahima's income from other sources for the A.Y. 2023-24. [Ans.: ₹ 6,88,800]

GRADED PROBLEMS

ILLUSTRATION 7.9

Mr. Harsh has the following investment in the previous year ended on 31st March 2023:

(i) Family pension ₹ 36,000

(ii) ₹ 80,000, 13% debentures of Udaipur development authority. He took a loan to purchase debentures of Udaipur development authority ₹ 50,000@10% on which interest has become due but not yet paid in the previous year.

(iii) ₹ 7,500 received as interest on post office recurring deposit

(iv) ₹ 30,000, 12% Haryana State Electricity Board Bonds.

(v) ₹ 30,000, 14% Allahabad Development bonds

(vi) ₹ 36,000, 10% (tax free) listed debentures of a company

(vii) ₹ 2,610 received interest on tax free secured securities of Chit India Ltd. Co.

Bank charged 3% as collection charges on realization of interest on all securities. Interest being payable in each case on 1st January and 1st July.

Calculate income from other sources for the assessment year 2023-24.

Solution:

Computation of income from other sources of Mr. Harsh for the assessment year 2023-24

Particular		**₹**
Family pension	36,000	
Less: 1/3 of pension or ₹ 15,000 whichever is lower	12,000	24,000
Interest from debentures of Udaipur development authority	80,000x13% = 10,400	
Less: Interest paid on loan	50,000x10% = 5,000	5,400
Post office recurring deposit		7,500
Income from Haryana State Electricity Board Bonds	30,000x12%	3,600
Income from Allahabad Development bonds	30,000x14%	4,200
Income from (tax free) listed debentures of a company	$36,000x10\% = 3,600x\frac{100}{90}$	4,000
Interest on tax free secured securities of Chit India Ltd. Co	$2,610x\frac{100}{90}$	2,900
Total		51,600
Less: Collection charges	3% of 22,590	678
Income from Other sources		50,922

Note: Amount received in Bank

Interest from debentures of Udaipur development authority	10,400 x 90%	9,360
Income from Haryana State Electricity Board Bonds	3,600x90%	3,240
Income from Allahabad Development bonds	4,200x90%	3,780
Income from (tax free) listed debentures of a company		3,600
Interest on tax free secured securities of Chit India Ltd. Co		2,610
Total		22,590

ILLUSTRATION 7.10

Mr. Sumant gets the following gifts in Nov. 2022. State its taxability under each situation for the A.Y. 2023-24:

(i) Gift of ₹ 51,000 from his friend

(ii) Gift of Jewelry worth ₹ 2,00,000 from his fiancé.

(iii) Gift of ₹ 31,000 each from his two friends on his marriage

(iv) Gift of ₹ 78,000 from his father's brother.

(v) Gift of ₹ 65,000 from his wife's friend on the occasion of marriage.

(vi) Gift of ₹ 46,000 from his brother's father-in-law

(vii) Gift of ₹ 26,000 from his friend.

Solution:

Computation of income from other sources of Mr. Sumant for the assessment year 2023-24

Particular		**₹**
Gift from his friends (taxable if aggregate of sum of money received in P.Y. exceeds ₹ 50,000)	51,000+26,000	77,000
Gift of Jewelry worth ₹ 2,00,000 from his fiancé Fiancé is not a relative hence taxable		2,00,000
Gift from his two friends on his marriage (Gift received at the time of marriage is exempt)		Exempt
Gift of ₹ 78,000 from his father's brother. (Gift received from relative is exempt)		Exempt
Gift from his wife's friend on the occasion of marriage (Gift received at the time of marriage is exempt)		Exempt
Gift from his brother's father-in-law (Not a relative, hence taxable)		46,000
Income from Other sources		3,23,000

ILLUSTRATION 7.11

Calculate income from other sources for the assessment year 2023-24 from the information given below:

a) Winning from lottery ₹ 1,50,000

b) Amount received from horse race winning ₹ 70,000

c) Gifts received:

(i) Received ₹ 61,000 as gift from his friend

(ii) Received ₹ 1,20,000 as gift from his elder brother

(iii) Received ₹ 11,40,000 as gift on his marriage.

(iv) Received ₹ 90,000 as gift from his NRI friend

(v) Another gift of ₹ 38,000 received from his friend.

Solution:

Computation of income from other sources for the assessment year 2023-24

Particular		**₹**
Winning from lottery		1,50,000
Amount received from horse race winning	$70{,}000x\frac{100}{70}$	1,00,000
Gifts received:		
Received from his friend	61,000+90,000+38,000	1,89,000
Gift from relative Elder brother		Exempt
Gift on his marriage		Exempt
Income from Other Sources		4,39,000

ILLUSTRATION 7.12

Ram (48 years) gives the following information for the previous year 2022-23:

(1) On 1-11-2022 he gets gift of house from his friend Bharat (Stamp duty value is determined at ₹ 8,00,000)

(2) On 15-12-2022, he gets another house from Chetan (who is father in law of his elder brother) (Stamp duty value is ₹ 90,000, however current market value is ₹ 1,65,000)

(3) On 24-03-2023, Ram purchase a commercial property for ₹ 88,00,000 from Hemant (fair market value is ₹ 1,20,00,000)

(4) On 25-06-2022, Ram gets a gift cheque of ₹ 1,00,000 from his friend Prakash on his birthday.

(5) On 07-05-2022, Ram purchased a second hand car for ₹ 90,000 from Meena (market value is, however ₹ 2,00,000).

(6) On 14-01-2023, Ram purchased a work of art for ₹ 7,00,000 from Rakesh (fair market value is ₹ 7,30,000)

(7) On 20-04-2022, Ram purchased jewelry for ₹ 4,00,000 from Akash (fair market value if ₹ 4,80,000)

(8) On 5-01-2023, Ram purchased a painting for ₹ 1,20,000 from Garima (who is sister of Mrs. Ram) (fair market value is ₹ 3,20,000)

(9) On 15-05-2022, Ram gets a gift of 600 preference shares in A Ltd. from Jay (On 15-05-2022, stock exchanges are closed, the lowest quotation on the immediate preceding working day in NSE is ₹ 60)

(10) On 10-08-2022, minor son of Ram get the gifts of ₹ 60,000 from elder brother's of Ram's grandfather.

Determine the amount of net income of Ram for the assessment year 2023-24.

Solution:

Computation of income from other sources of Mr. Ram for the assessment year 2023-24

Particular		₹
Gift of house from his friend Bharat		8,00,000
Gift of house from his friend Chetan father in law of elder brother not relative	Stamp duty value	90,000
Purchase of commercial property	1,20,00,000-88,00,000	32,00,000
Gift in money (point no. 4 and 10)	1,00,000+60,000	1,60,000
Purchased of second hand car at lower price but not taxable because car is not a property within the meaning of section 56(2)(x)		Not taxable
Purchased of work of art	7,30,000-7,00,000	30,000
Purchased of jewellery	4,80,000-4,00,000	80,000
Purchased a painting from a relative is not taxable as sister of wife is relative		Exempt
Gift of 600 preference shares (Aggregate value of gift of movable property does not exceeds ₹ 50,000 is not taxable)	600x60 = 36,000	Not taxable
Income from other sources		43,60,000

ILLUSTRATION 7.13

Laxmi Lal, a resident individual, received the following net interest during the previous year ended on 31st March, 2023:

(i) Interest on 9% Bonds of Mahanagar Telephone Nigam Ltd. ₹ 19,000.
(ii) Interest on 14% Bonds of Mahanagar Telephone Nigam Ltd. ₹ 11,000.
(iii) Interest on 9% Bonds of Neyveli Lignite Corporation Ltd. ₹ 22,000.
(iv) Interest on 14% Bonds of Neyveli Lignite Corporation Ltd. ₹ 12,000.
(v) Interest on listed debentures of Reliance Ltd. ₹ 23,400
(vi) Interest on unlisted debentures of Asian Paints Ltd. ₹ 5,670
(vii) Interest on Govt. Securities ₹ 3,500
(viii) Interest on 7% Capital Investment Bonds ₹ 10,500
(ix) Interest received on 10% Relief Bonds ₹ 3,300
(x) Interest on 9% Bonds of National Thermal Power Corporation (NTPC) ₹ 16,000
(xi) Interest on debentures of Cooperative society ₹ 18,000
(xii) Interest on debentures issued by local authority ₹ 27,000
(xiii) Interest on debentures of Good Icecream ltd. (Unlisted) ₹ 11,250

Compute the taxable income from other sources of Shri Laxmi lal for the assessment year 2023-24 assuming that his bank has charged 2% commission on the actual amount of interest collected.

Solution:

Computation of income from other sources of Mr. Laxmi Lal for the assessment year 2023-24

Particular		₹
Interest on 9% Bonds of Mahanagar Telephone Nigam Ltd.		Exempt
Interest on 14% Bonds of Mahanagar Telephone Nigam Ltd.		11,000
Interest on 9% Bonds of Neyveli Lignite Corporation Ltd.		Exempt
Interest on 14% Bonds of Neyveli Lignite Corporation Ltd.		12,000
Interest on listed debentures of Reliance Ltd.	$23{,}400x\frac{100}{90}$	26,000
Interest on unlisted debentures of Asian Paints Ltd.	$5{,}670x\frac{100}{90}$	6,300
Interest on Govt. Securities		3,500
Interest on 7% Capital Investment Bonds		Exempt
Interest received on 10% Relief Bonds		Exempt
Interest on 9% Bonds of National Thermal Power Corporation (NTPC)		Exempt
Interest on debentures of Cooperative society		18,000
Interest on debentures issued by local authority	$27{,}000x\frac{100}{90}$	30,000
Interest on debentures of Good Icecream ltd. (Unlisted)	$11{,}250x\frac{100}{90}$	12,500
Gross Interest		1,19,300
Less: Bank Charges	2%of (11,000+12,000 +23,400+5,670+3,500 +18,000+27,000 +11,250)	2,236
Income from Other Sources		1,17,064

ILLUSTRATION 7.14

Mr. Vyas had the following incomes during the previous year 2022-23. You are required to find income from other sources:

(i) Received dividend from an Indian Company ₹ 4,00,000.

(ii) He is one the shareholders of Hindustan Zinc Ltd. Company paid a dividend of ₹ 14,00,000 to him during the previous year.

(iii) Winning from card games and betting ₹ 38,000

(iv) His land was acquired by the Government during 2013-14 and the amount of compensation of ₹ 45,00,000 was received during 2018-19 but the interest of ₹ 1,10,000 received during the previous year 2022-23 because of delay in payment of compensation. The land was acquired during 2001-02 at a cost of ₹ 1,50,000.

(v) Received interest on 10 year capital investment bonds for a nominal value of ₹ 3,00,000 @ 9% per annum.

(vi) Received interest on 5 year relief bonds for a nominal value of ₹ 60,000 @ 10% p.a.

Solution:

Computation of income from other sources of Mr. Vyas for the assessment year 2023-24

Particular		₹
Dividend from an Indian Company		4,00,000
Hindustan Zinc Ltd. Company dividend		14,00,000
Winning from card games and betting		38,000
Interest on delay in compensation		1,10,000
Income from capital investment bonds		Exempt
Income from relief bonds		Exempt
Income from Other sources		19,48,000

ILLUSTRATION 7.15

Shri Joshi is a Member of Parliament from Jaipur. From the following information find out income from other sources for the Assessment year 2023-24:

(i) As a Member of Parliament, he received a salary of ₹ 60,000 per month and daily allowance of ₹ 30,000 for attending the session.

(ii) Fee received for attending director meeting ₹ 1,90,000.

(iii) He received family pension of ₹ 4,80,000

(iv) Agricultural income from Pakistan ₹ 1,00,000

(v) Income from Agricultural Land given on rent for the purpose of Sunday market ₹ 48,000

(vi) Remuneration received for working as an examiner of Rajasthan University ₹ 37,000

(vii) He is author of Commerce books. He received royalty of ₹ 1,40,000 in the previous year. He claims the following deductions out of the following:

  (a) Salary of a clerk ₹ 30,000

  (b) Books purchased for revising the books ₹ 18,000

  (c) Telephone expenses in connection with printing and sale of the books ₹ 12,000.

(viii) Agricultural income on agricultural land in India ₹ 5,00,000

(ix) Agricultural income on commercial land not used for commercial purpose in India ₹ 1,40,000

(x) Income from the articles published in the Indian newspapers₹ 32,000.

Solution:

Computation of income from other sources of Mr. Joshi for the assessment year 2023-24

Particular		₹
Salary as member of parliament	60,000x12	7,20,000
Daily allowance		Exempt
Fee received for attending director meeting		1,90,000
Family pension	4,80,000	
Less: Exemption 33 1/3% of pension of ₹ 15,000 whichever is lower	15,000	4,65,000
Agricultural income from Pakistan		1,00,000

Rent from Agricultural land used for Sunday market		48,000
Examiner remuneration		37,000
Royalty of books	1,40,000	
Less: Expenses incurred: Salary to a clerk	30,000	
Books purchased	18,000	
Telephone and other exp.	12,000	80,000
Agricultural income on agricultural land in India		Exempt
Agricultural income on commercial land		1,40,000
Income from the articles published		32,000
Income from Other Sources		**18,12,000**

ILLUSTRATION 7.16

From the following information provided by Mrs. Jayant find out income from other sources for the financial year 2022-23:

		₹
(i)	Winning from lottery (net)	39,060
(ii)	Rent from subletting (Rent paid for the house 3,000 per month)	62,000
(iii)	Interest on Postal Saving bank A/c	2,600
(iv)	Directors fees	9,100
(v)	Income from agricultural land in Australia	19,000
(vi)	Ground rent for land in Jaipur	17,000
(vii)	Interest on securities (Gross)	16,400
(viii)	Dividend from Indian Company	11,00,000
(ix)	Dividend from foreign company	60,000
(x)	Speculation income from shares	49,600
(xi)	Income from Business	82,000

Solution:

Computation of income from other sources of Mrs. Jayant for the assessment year 2023-24

Particular		**₹**
Winning from lottery (net)	$39{,}060x\frac{100}{70}$	55,800
Rent from subletting	62,000	
Less: Rent paid for the house 3,000 per month	36,000	26,000
Interest on Postal Saving bank A/c	2,600	
Less: Interest on Postal Saving bank A/c is exempt upto ₹ 3,500	2,600	Exempt
Directors fees		9,100

Income from agricultural land in Australia		19,000
Ground rent for land in Jaipur		17,000
Interest on securities (Gross)		16,400
Dividend from Indian Company		11,00,000
Dividend from foreign company		60,000
Income from Other sources		13,03,300

Note: Income from speculation of shares and income from business is taxable under the head "Income from business and profession".

ILLUSTRATION 7.17

Following are the particulars of income of Mr. Akalank . Compute his income under the head income from other sources for the assessment year 2023-24:

(i) Dividend received from an Indian company ₹ 9,14,000
(ii) Winning from lottery : Amount received ₹ 2,10,000
(iii) Winning from card games (gross) ₹ 45,000
(iv) Interest received on Government Securities held as investment ₹ 19,000
(v) Family pension received ₹ 36,000
(vi) Interest on 9% Bonds of Mahanagar Telephone Nigam Ltd. ₹ 9,000.
(vii) Interest on 14% Bonds of Mahanagar Telephone Nigam Ltd. ₹ 15,000.
(viii) Interest on 9% Bonds of Neyveli Lignite Corporation Ltd. ₹ 2,000.
(ix) Interest on 14% Bonds of Neyveli Lignite Corporation Ltd. ₹ 62,000.
(x) Saving bank interest ₹ 8,000

Solution:

Computation of income from other sources of Mr. Akalank for the assessment year 2023-24

Particular		**₹**
Dividend received from an Indian company		9,14,000
Winning from lottery	$2{,}10{,}000x\frac{100}{70}$	3,00,000
Winning from card games		45,000
Interest received on Government Securities		19,000
Family pension received	36,000	
Less: 1/3 of pension or 15,000 whichever is lower	12,000	24,000
Interest on 9% Bonds of Mahanagar Telephone Nigam Ltd.		Exempt
Interest on 14% Bonds of Mahanagar Telephone Nigam Ltd.		15,000
Interest on 9% Bonds of Neyveli Lignite Corporation Ltd.		Exempt
Interest on 14% Bonds of Neyveli Lignite Corporation Ltd.		62,000
Saving bank interest		8,000
Income from Other Sources		**13,87,000**

ILLUSTRATION 7.18

From the following information of the income of Mr. C.L. Jain compute the taxable income under the head 'Income from other sources' for the year ended 31st March, 2023:

(i) He opened a Saving bank account with PNB in June 2022 and received ₹ 1,400 as interest in December 2022 and ₹ 560 in March 2023.

(ii) He opened a fixed deposit of ₹ 3,00,000 with PNB. Accrued interest for previous year for this FD is ₹ 19,200

(iii) He received rent of ₹ 1,15,200 per month from sub-letting of a building to Company on 1 June 2022. He paid rent of ₹ 70,000 per month as rent to the landlord of this building from 1 June 2022. He also spent ₹ 30,000 for collection of rent. TDS by company @ 10%.

(iv) He is holder of ₹ 37,000, 10% tax free Food corporation debentures, interest on which is payable on September 30 and March 31.

(v) On his birthday on 10 August 2022, one of his friends gave him a gift of ₹ 28,000 and on 26th March, 2023his another friend gave him a gift of ₹ 24,000.

(vi) NSC VIII issue for the nominal value of ₹ 30,000 were purchased on 1 August 2018 on which compound interest at 7.80% per annum at half yearly rests is for income tax purposes assumed to have become due each year on certificate at ₹ 100 for the Fourth year ₹9.77

(vii) Amount received in January 2023 in respect of a winning in quiz contest organized by Akashwani₹ 2,400

(viii) He is holder of ₹ 20,000, 7% Capital investment bonds

(ix) Received a scooter worth ₹ 36,000 as a gift from a friend.

Solution:

Computation of income from other sources of Mr. C.L. Jain for the assessment year 2023-24

Particular		**₹**
Saving bank interest	1,400+560	1,960
Fixed deposit interest		19,200
Subletting rent	1,15,200x10x100/90 = 12,80,000	
Less: Rent paid	70,000x10 = 7,00,000	
Less: Expenses	30,000	5,50,000
Interest from Food corporation	37,000x10% = $3700x\frac{100}{90}$	4,111
Gift from friends (Taxable if aggregate value exceeds ₹ 50,000 per annum)	28,000 + 24,000	52,000
NSC Interest	30,000 x 9.77%	2,931
Winning quiz prize		2,400
Interest from capital investment bond		Exempt
Gift of scooter (not in definition of assets)		-
Income from Other Sources		**6,32,602**

ILLUSTRATION 7.19

Mr. Girdhari received the following gifts during the previous year. Compute income from other sources for the assessment year 2023-24.

(1) ₹ 21,000 from his employer
(2) ₹ 35,000 from father in law of his sister.
(3) ₹ 2,60,000 from his friend.
(4) Jewellery of which market value is ₹ 4,00,000 from his friend.
(5) ₹ 1,00,000 from the friend of his wife.
(6) ₹ 72,000 from the brother of his father who lives in the USA.
(7) ₹ 90,000 from his mother's sister who lives in Europe.
(8) ₹ 26,000 each from three different friends on the occasion of his birthday.
(9) Gift from father ₹ 2,00,000
(10) Car as gift from father in law of ₹ 6,00,000

Solution:

Computation of income from other sources of Mr. Girdhari for the assessment year 2023-24

Particular		**₹**
Gift from employer is taxable under the head income from salary		-
Money gifts:		
Father in law	35,000	
Friend	2,60,000	
Friend of his wife	1,00,000	
Brother of his father	Exempt	
Mother's sister	Exempt	
Three different friends	78,000	
Father	Exempt	4,73,000
Gift of Jewellery		4,00,000
Car from father in law		Exempt
Income from other sources		**8,73,000**

ILLUSTRATION 7.20

Mr. Mukesh received the following amounts as interest in the previous year:

(1) ₹ 63,000 in Gujarat Govt. loan 2030.
(2) ₹ 27,000 on debentures of Udaipur Municipality
(3) ₹ 43,200 on debentures of Udaipur Iron works Ltd.
(4) ₹ 26,100 on tax free debentures of life insurance corporation.
(5) ₹ 15,300 on tax free listed debentures of Century Mills Ltd.

Compute income from other sources of Mukesh for the assessment year 2023-24 assuming that his bank had charged 1% commission on the actual amount of interest collected and interest in each case received on 1st September and 1st March.

Solution:

Computation of income from other sources of Mr. Mukesh for the assessment year 2023-24

Particular		**₹**
Interest from Gujarat Govt. loan 2030		63,000
Interest from debentures of Udaipur Municipality	$27000x\frac{100}{90}$	30,000
Interest from debentures of Udaipur Iron works Ltd.	$43200x\frac{100}{90}$	48,000
Interest from tax free debentures of life insurance corporations.	$26100x\frac{100}{90}$	29,000
Interest from tax free listed debentures of Century Mills Ltd	$15300x\frac{100}{90}$	17,000
Total interest income		1,87,000
Less: Charges 1% of (63,000+27,000+43,200+26,100+15,300)		1,746
Income from Other sources		**1,85,254**

ILLUSTRATION 7.21

Following particulars of the investment of Mr. Kailash have been furnished for the previous year. The interest on various securities is payable on 1 January and 1 July. Compute his income under the head 'Income from Other sources' for the assessment year 2023-24:

(1) He holds 10%, ₹ 15,000 Bombay trust bond on 1 April,2022 he sold them on 5 March, 2021.

(2) He holds 10%, ₹ 20,000 debentures of Punjab Textile ltd. on 1 April 2022. He sold them on 31 August 2022.

(3) He holds 12%, ₹ 30,000 debentures of J.K. Synthetic Ltd. on 1 April, 2022. He sold the debentures of J.K. Synthetic Ltd. on 1 October 2022 cum interest and bought 18%, ₹ 30,000 debentures cum interest of Asian Paints Ltd. on the same date.

(4) 10%, ₹ 20,000 Punjab Govt. Loan

(5) He bought 9%, ₹ 10,000 debentures cum interest of Escort Ltd on 10 March, 2023.

He paid ₹ 600 as bank commission, half of which was for the purchase and sale of debentures and the balance for realization of interest.

Solution:

Computation of income from other sources of Mr. Kailash for the assessment year 2023-24

Particular		**₹**
Income from Bombay trust bond	15,000x10%	1,500
Income from debentures of Punjab Textile ltd.	20,000x10%x6/12	1,000
Income from debentures of J.K. Synthetic Ltd.	30,000x12%x6/12	1,800
Income from debentures of Asian Paints Ltd.	30,000x18%x6/12	2,700

Income from Punjab Govt. Loan	20,000x10%	2,000
Income from debentures of Escort Ltd	No interest provided between 10 March to 31 March	-
Total interest		9,000
Less: Bank commission		300
Income from Other Sources		8,700

ILLUSTRATION 7.22

Shri Kailasth Pati submits details of his income and investments for the previous year ending 31 March, 2023:

(1) Dividend received from X Ltd. ₹ 59,000

(2) Dividend received from foreign co. ₹ 16,000

(3) Dividend received from a Tea company ₹ 13,00,000(60% of income of company is treated as agricultural income)

(4) Dividend from co operative society ₹ 53,000

(5) Deemed dividend related to section 2(22)(e) received ₹ 1,10,000

(6) Amount received from winning from horse race ₹ 19,60,000

(7) Interest on public deposit ₹ 60,000 (gross)

(8) Remuneration received from other organizations other than employer for giving consultancy ₹ 45,000.

(9) ₹ 77,000 received from lottery prize.

(10) Interest received on listed debentures of Hemant Ltd. ₹ 35,100.

You are required to calculate income from other sources.

Solution:

Computation of income from other sources of Mr. Kailash Pati for the assessment year 2023-24

Particular		**₹**
Dividend from X ltd.		59,000
Dividend from foreign Co.		16,000
Dividend received from a Tea company		13,00,000
Dividend from co-operative society		53,000
Deemed dividend related to section 2(22)(e)		1,10,000
Winning from horse race	$19,60,000x\frac{100}{70}$	28,00,000
Interest on public deposit		60,000
Remuneration received from other organisations		45,000
Lottery prize.	$77,000x\frac{100}{70}$	1,10,000
Interest received on listed debentures of Hemant Ltd.	$35,100x\frac{100}{90}$	39,000
Income from Other sources		**45,92,000**

ILLUSTRATION 7.23

Shree Sohan Singh is a political leader. The particular of his income for the assessment year 2023-24 are as follows:

(1) Received ₹ 72,000 @ ₹ 6,000 per month as family pension from the Central Govt.

(2) Received a sum of ₹ 8,000 for delivering lectures in favorof candidates in municipal elections.

(3) Received a sum of ₹ 30,000 as royalty from ABC company to whom he has given right to publish his book on Political Science.

(4) He has some machines which he gave on rent. The rent received in this respect amounts to ₹ 45,500. Repair charges on machines are ₹ 10,000.

(5) Received ₹ 15,600 as rent of agricultural land given to a kiln contractor for the kiln.

(6) Interest received on Post office saving bank a/c Rs 2,800

(7) Remuneration received from radio talk ₹ 2,000.

Compute his taxable income under the head 'Income from other sources' for the assessment year 2023-24.

Solution:

Computation of income from other sources of Mr. Sohan Singh for the assessment year 2023-24

Particular		₹
Family pension	72,000	
Less: 1/3 of pension or ₹ 15,000 whichever is lower	15,000	57,000
Delivering lectures income		8,000
Royalty from ABC company		30,000
Rent of Machines	45,500	
Less: Repair charges	10,000	35,500
Rent of agricultural land		15,600
Interest received on Post office saving bank a/c	Exempt up to ₹ 3,500	Exempt
Remuneration received from radio talk		2,000
Income from Other Sources		1,48,100

QUESTIONS

Multiple Choice Question

Q1. The charging section for "income from other sources" is:

(a) 55 (b) 56

(c) 57 (d) 58

Q2. Which of the following will not be taxable as income from other sources?

(a) Director's fee (b) Income from sub-letting

(c) Rent of vacant plot of land (d) Salary received by managing director

Q3. Which of the following is not included in taxable income?

(a) Income from smuggling activity

(b) Casual income
(c) Gifts of personal nature subject to a maximum of ₹50,000 received in cash
(d) Income received in kind

Q4. Varun, engaged in fertilizer trade, received rent by sub letting a building. This will be taxable under the head:
(a) Income from house property
(b) Income from capital gains
(c) Income from profits and gains of business and profession
(d) Income from other sources

Q5. Neelam received ₹84,000 as gift from friends, during the P.Y. 2022-23. The amount taxable as income from other sources will be
(a) ₹50,000 (b) ₹84,000
(c) ₹34,000 (d) Nil

Q6. Shivani bought a wristwatch from her friend the FMV of wrist watch was ₹30,000. The amount taxable in the hands of shivani will be:
(a) ₹90,000 (b) ₹60,000
(c) Nil (d) ₹30,000

Q7. If the money or property is received ….. it is exempt.
(a) From a relative (b) On the occasion of the marriage of individual
(c) By way of will/inheritance (d) All of these above

Q8. X received deemed dividend to the tune of ₹12,00,000 u/s 2(22)(e). The amount of tax payable by Mr. X for the P.Y. 2022-23
(a) 2,00,000 @ 10% = ₹20,000 u/s 115BBDA
(b) 12,00,000 will be added as IFOS
(c) Nil
(d) None of above

Q9. Dividends' received from a foreign company in the hands of an individual are:
(a) Exempt (b) Taxable @ 10%
(c) Taxable as normal rates (d) Taxable @ 15%

Q10. The amount deductible from family pension is up to:
(a) ₹15,000 or 1/3rd of family pension whichever is less
(b) ₹ 15,000 or ½ of family pension whichever is less
(c) ₹10,000 or 1/3rd of family pension whichever is less
(d) No deduction

Q.11 Winnigns from lottery, races, cross word puzzeles and card games are:
(a) Taxable u/s 56(2)(ib)
(b) no expenses are allowed to be deducted from winning
(c) gross winnings are taxable
(d) all of above

Q.12 Interest on securities are taxable:
(a) On receipt basis
(b) On due basis

(c) on the basis of method of accounting reguraly employed by assessee
(d) as per the discretion of assessing officer

Q.13 Gift received by HUF from its members shall be:
(a) fully exempt
(b) fully taxable
(c) taxable to the extent it exceeds ₹ 50,000
(d) None of above

Q.14 Where an advance received for transfer of capital assets is fortified on or after 1-4-2014 such fortified shall be :
(a) Deducted from the cost of the assets
(b) Exempt
(c) Taxable as income under the head income from other source
(d) None of above

Q.15 Any immovable property received by any person without considerations , unless exempt in specified cases, shall be taxable to the extent of :
(a) Market value of the immovable property
(b) Stamp duty value fixed by the stamp duty authority
(c) Stamp duty value fixed by the stamp duty officer provided it exceeds ₹ 50,000
(d) Stamp duty value minus ₹ 50,000

Very Short Type Questions

Q 1. Define Casual Income?
Q.2 Define Keyman Insurance Policy?
Q.3 Income from winning lotteries by a person having the same as business included in which head?
Q.4 Define Deemed dividend?
Q.5 Describe exemption in respect of family Pension?

Short type Questions

Q.1 Define dividend and its provisions related to Income Tax Act 1961?
Q.2 Describe section 58 "Deduction not allowable"
Q.3 Define provision related to Gift?
Q.4 Explain provision related to family pension?
Q.5 Explain provision to Online Games u/s 115BBJ?

Essay type Questions

Q.1 Describe any 10 income which are covered in the head of other sources?

Numerical Questions

1. During the previous year 2022-23 Mr. M.L. Vashishth had the following securities:
(i) ₹ 54,900, 10% tax free debentures of Wadhwa textiles
(ii) ₹ 21,000, 10% tax free debentures of a textiles mill company. The company is listed at Delhi Stock Exchange.

(iii) ₹ 24,000, 7% 10 Year Defense Deposit Certificate

(iv) ₹ 1,08,000, 10% tax free Kandla port trust bond

The interest is paid on 31 March annually. He paid 2% commission to his bank for collection of interest.

Calculate taxable income for the assessment year 2023-24. [Ans.: ₹ 20,065]

2. Lokesh Jain had the following investment for the financial year 2022-23:

(i) Income from undisclosed sources ₹ 90,000.

(ii) 7% Capital Investment bonds ₹ 50,000

(iii) 8% RBI relief bonds ₹ 64,000

(iv) 12% tax free bonds of a public sector company ₹ 2,70,000

(v) Interest on National Saving Certificate (VIII issue) ₹ 29,000

Besides the above, Mr. Lokesh had set up a factory in June 2022 with building, plant, machinery and furniture etc. However he decided to give it on hire at a composite rent of ₹ 21,000 per month from 1 July, 2022. During the year he spent ₹ 18,000 for repair and ₹ 11,000 for the insurance of the factory. He had borrowed ₹ 4,00,000 @ 8% against these assets, but this amount was spent for the marriage of his brother.

Compute taxable income from other sources of Mr. Lokesh for the assessment year 2023-24.

[Ans.: ₹3,15,000]

3. Shri Prabhat, a resident individual, received the following net interest during the previous year ended on 31st March, 2023:

(i) Interest on Govt. Securities ₹ 1,15,300

(ii) Interest on debentures issued by local authority ₹ 80,900

(iii) Interest on tax free Govt. Securities ₹ 61,000

(iv) Interest received on 12 years National Saving Annuity certificate ₹ 22,400

(v) Interest on debentures of ABC Ltd. (unlisted) ₹ 11,300

(vi) Interest on debenture of National Thermal Power Corporation (NTPC) ₹ 20,600

(vii) Interest on listed debenture of Reliance Ltd. ₹ 32,400

(viii) Interest on unlisted debentures of Tractor Paints Ltd. ₹ 90,200

(ix) Interest on debentures issued by Industrial Finance Corporation ₹ 19,200

Mr. Laxman won ₹ 2,10,000 from horse racing. Net computed other income from other sources is ₹ 92,000.

Compute the taxable income under the head 'Income from other sources for the assessment year 2023-24.

[Ans.: ₹6,68,311]

4. Shri Deepak furnishes the following particulars of his income for the financial year ending 31-3-2023:

(i) Director fee received in August 2022₹ 90,000

(ii) He takes a house at a monthly rent of ₹ 2,000 per month. Half portion of this house was sublet on a monthly rent of ₹ 1000 per month.

(iii) Dividend received in September 2022 from UTI ₹ 19,000

(iv) Dividend received in June 2022 from Tata Tea Co. Ltd. ₹ 43,600 (60% of income of the company is agricultural income)

(v) Amount received on 1-12-2022 in connection with winning from a horse race ₹ 57,400

(vi) Amount received on 1-02-2023 in connection with winning from lottery ₹ 1,05,000. Cost of lottery tickets purchased ₹ 1,000

Compute his taxable income for the assessment year 2023-24. [Ans.: ₹3,96,600]

5. Virendra an Indian citizen, resident individual, submits the following particulars of his income for the year ended 31-3-2023:

- Agricultural income from India ₹ 6,10,000
- Agricultural income from Nepal ₹ 2,60,000
- Salary as a member of Rajasthan State Assembly ₹ 96,000
- Daily allowance as MLA ₹ 18,000
- Royalty from a coal mine ₹ 87,000
- Dividend received from a co-operative society ₹ 24,000

He has incurred the following expenses-

(a) Paid collection charges ₹ 600 for collecting dividend

(b) ₹ 4,800 spent for earning royalty income.

Compute Virendra's income from other sources for the A.Y. 2023-24. [Ans.: ₹4,61,600]

6. Mr. Praveen has the following investment in the previous year ended on 31st March 2023:

(i) Family pension ₹ 90,000

(ii) ₹ 1,80,000, 13% debentures of Udaipur development authority. He took a loan to purchase debentures of Udaipur development authority ₹ 80,000@11% on which interest has become due but not yet paid in the previous year.

(iii) ₹ 9,600 received as interest on post office recurring deposit

(iv) ₹ 70,000, 12% U.P. State Electricity Board Bonds.

(v) ₹ 30,000, 14% Allahabad Development bonds

(vi) ₹ 1,08,000, 10% (tax free) listed debentures of a company

(vii) ₹ 9,900 received interest on tax free secured securities of Hit India Ltd. Co.

Bank charged 3% as collection charges on realization of interest on all securities. Interest being payable in each case on 1st January and 1st July.

Calculate income from other sources for the assessment year 2023-24. [Ans.: ₹1,33,007]

7. Mrs. Suman gets the following gifts in Nov. 2022. State its taxability under each situation for the A.Y. 2023-24:

(i) Gift of ₹ 13,000 from her friend

(ii) Gift of Jewelry worth ₹ 3,00,000 from her fiancé.

(iii) Gift of ₹ 6,42,000 each from her two friends on her marriage

(iv) Gift of ₹ 1,78,000 from her father's brother.

(v) Gift of ₹ 6,50,000 from her husband's friend on the occasion of marriage.

(vi) Gift of ₹ 4,40,000 from her brother's father in law

(vii) Gift of ₹ 16,000 from her friend. [Ans.: ₹7,40,000]

8. Calculate income from other sources for the assessment year 2023-24 from the information given below:
   a) Winning from lottery ₹ 15,50,000
   b) Amount received from horse race winning ₹ 8,40,000
   c) Gifts received:
      (i) Received ₹ 6,050 as gift from his friend
      (ii) Received ₹ 1,20,000 as gift from his elder brother
      (iii) Received ₹ 11,40,000 as gift on his marriage.
      (iv) Received ₹30,000 as gift from his NRI friend
      (v) Another gift of ₹ 13,955 received from his friend. [Ans.: ₹28,00,005]

9. Mahesh (51 years) gives the following information for the previous year 2022-23:
   (1) On 1-11-2022 he gets gift of house from his friend Bharat (Stamp duty value is determined at ₹ 7,00,000)
   (2) On 15-12-2022, he gets another house from Chetan (who is father in law of his elder brother) (Stamp duty value is ₹ 90,000, however current market value is ₹ 1,65,000)
   (3) On 24-03-2023, Mahesh purchase a commercial property for ₹ 18,00,000 from Hemant (fair market value is ₹ 30,00,000)
   (4) On 25-06-2022, Mahesh gets a gift cheque of ₹ 10,000 from his friend Prakash on his birthday.
   (5) On 07-05-2022, Mahesh purchased a second hand car for ₹ 90,000 from Meena (market value is, however ₹ 2,00,000).
   (6) On 14-01-2023, Mahesh purchased a work of art for ₹ 8,00,000 from Rakesh (fair market value is ₹ 8,60,000)
   (7) On 20-04-2022, Mahesh purchased jewelry for ₹ 4,00,000 from Akash (fair market value if ₹ 4,80,000)
   (8) On 5-01-2023, Mahesh purchased a painting for ₹ 1,20,000 from Garima (who is sister of Mrs. Ram) (fair market value is ₹ 3,20,000)
   (9) On 15-05-2022, Mahesh gets a gift of 600 preference shares in A Ltd. from Jay (On 15-05-2022, stock exchanges are closed, the lowest quotation on the immediate preceding working day in NSE is ₹ 60)
   (10) On 10-08-2022, minor son of Mahesh got the gifts of ₹ 25,000 from elder brother's of Mahesh grandfather.

   Determine the amount of net income of Mahesh for the assessment year 2023-24. [Ans.: ₹21,30,000]

10. Lalit Kumar Damor, a resident individual, received the following net interest during the previous year ended on 31st March, 2023:
   (i) Interest on 9% Bonds of Mahanagar Telephone Nigam Ltd. ₹ 27,000.
   (ii) Interest on 14% Bonds of Mahanagar Telephone Nigam Ltd. ₹ 38,000.
   (iii) Interest on 9% Bonds of Neyveli Lignite Corporation Ltd. ₹ 32,000.
   (iv) Interest on 14% Bonds of Neyveli Lignite Corporation Ltd. ₹ 42,000.
   (v) Interest on listed debentures of Reliance Ltd. ₹ 31,500
   (vi) Interest on unlisted debentures of Asian Paints Ltd. ₹ 8,640
   (vii) Interest on Govt. Securities ₹ 15,600
   (viii) Interest on 7% Capital Investment Bonds ₹ 20,600
   (ix) Interest received on 10% Relief Bonds ₹ 6,600

(x) Interest on 9% Bonds of National Thermal Power Corporation (NTPC) ₹ 7,800

(xi) Interest on debentures of Cooperative society ₹ 27,000

(xii) Interest on debentures issued by local authority ₹ 36,000

(xiii) Interest on debentures of Good Ice cream ltd. (Unlisted) ₹ 76,140

Compute the taxable income from other sources of Shri Lalit Kumar Damor for the assessment year 2023-24 assuming that his bank has charged 2% commission on the actual amount of interest collected.

[Ans.: ₹2,86,302]

11. Mr. Mohit Sen had the following incomes during the previous year 2022-23. You are required to find income from other sources:

(i) Received dividend from an Indian Company ₹ 4,00,000.

(ii) He is one the shareholders of Power Zinc Ltd. Company paid a dividend of ₹ 5,60,000 to him during the previous year.

(iii) Winning from card games and betting ₹ 67,000

(iv) His land was acquired by the Government during 2011-12 and the amount of compensation of ₹ 55,00,000 was received during 2017-18 but the interest of ₹ 1,38,000 received during the previous year 2022-23 because of delay in payment of compensation. The land was acquired during 2001-02 at a cost of ₹ 1,30,000.

(v) Received interest on 10 year capital investment bonds for a nominal value of ₹ 4,00,000 @ 9% per annum.

(vi) Received interest on 5 year relief bonds for a nominal value of ₹ 90,000 @ 10% p.a.

[Ans.: ₹11,65,000]

12. Shri P.R. Suthar is a Member of Parliament from Jaipur. From the following information find out income from other sources for the Assessment year 2023-24:

(i) As a Member of Parliament, he received a salary of ₹ 40,000 per month and daily allowance of ₹ 36,000 for attending the session.

(ii) Fee received for attending director meeting ₹ 85,000.

(iii) He received family pension of ₹ 42,000

(iv) Agricultural income from Pakistan ₹ 2,10,000

(v) Income from Agricultural Land given on rent for the purpose of Sunday market ₹ 77,000

(vi) Remuneration received for working as an examiner of Rajasthan University ₹ 17,000

(vii) He is author of Commerce books. He received royalty of ₹ 90,000 in the previous year. He claims the following deductions out of the following:

(a) Salary of a clerk ₹ 30,000

(b) Books purchased for revising the books ₹ 18,000

(c) Telephone expenses in connection with printing and sale of the books ₹ 12,000.

(viii) Agricultural income on agricultural land in India ₹ 2,20,000

(ix) Agricultural income on commercial land not used for commercial purpose in India ₹ 70,000

(x) Income from the articles published in the Indian newspapers₹ 16,000.

[Ans.: ₹10,13,000]

13. From the following information provided by Mrs. Hemant find out income from other sources for the financial year 2022-23:

		₹
(i)	Winning from lottery (net)	67,200
(ii)	Rent from subletting (Rent paid for the house 3,000 per month)	78,000
(iii)	Interest on Postal Saving bank A/c	3,800
(iv)	Directors fees	27,200
(v)	Income from agricultural land in Kanpur	38,000
(vi)	Ground rent for land in Jaipur	21,500
(vii)	Interest on securities (Net)	16,400
(viii)	Dividend from Indian Company	9,80,000
(ix)	Dividend from foreign company	60,000
(x)	Speculation income from shares	49,600
(xi)	Income from Business	82,000

[Ans.: ₹12,45,222]

14. Following are the particulars of income of Mr. Mohit. Compute her income under the head income from other sources for the assessment year 2023-24:

(i) Dividend received from an Indian company ₹ 10,14,000
(ii) Winning from lottery : Amount received ₹ 12,60,000
(iii) Winning from card games (gross) ₹ 25,600
(iv) Interest received on Government Securities held as investment ₹ 31,000
(v) Family pension received ₹ 54,000
(vi) Interest on 9% Bonds of Mahanagar Telephone Nigam Ltd. ₹ 9,000.
(vii) Interest on 14% Bonds of Mahanagar Telephone Nigam Ltd. ₹ 21,000.
(viii) Interest on 9% Bonds of Neyveli Lignite Corporation Ltd. ₹ 2,000.
(ix) Interest on 14% Bonds of Neyveli Lignite Corporation Ltd. ₹ 26,000.
(x) Saving bank interest ₹11,000 [Ans.: ₹29,67,600]

15. From the following information of the income of Mr. Dharmendra Sharma compute the taxable income under the head 'Income from other sources' for the year ended 31st March, 2023:

(i) He opened a Saving bank account with PNB in June 2022 and received ₹ 2,060 as interest in December 2022 and ₹ 1510 in March 2021.
(ii) He opened a fixed deposit of ₹ 3,00,000 with PNB. Accrued interest for previous year for this FD is ₹ 44,200
(iii) He received rent of ₹ 1,80,000 per month from sub-letting of a building to Company on 1 June 2022. He paid rent of ₹ 90,000 per month as rent to the landlord of this building from 1 June 2022. He also spent ₹ 30,000 for collection of rent. TDS by company @ 10%.
(iv) Received ₹ 36,000 on withdrawal from deposit under National saving scheme 1987 on 15 January 2023.

(v) He is holder of ₹ 1,22,400, 10% tax free Food corporation debentures, interest on which is payable on September 30 and March 31.

(vi) On his birthday on 10 August 2022, one of his friends gave him a gift of ₹ 21,000 and on 26th March, 2023his another friend gave him a gift of ₹ 24,000.

(vii) NSC VIII issue for the nominal value of ₹ 70,000 were purchased on 1 August 2018 on which compound interest at 7.80% per annum at half yearly rests is for income tax purposes assumed to have become due each year on certificate at ₹ 100 for the Fourth year ₹9.77

(viii) Amount received in January 2023 in respect of a winning in quiz contest organized by Akashwani₹ 48,000

(ix) He is holder of ₹ 20,000, 7% Capital investment bonds

(x) Received a scooter worth ₹ 36,000 as gift from a friend. [Ans.: ₹11,86,209]

16. Mr. Gopal received the following gifts during the previous year. Compute income from other sources for the assessment year 2023-24.

(1) ₹ 41,000 from his employer

(2) ₹ 75,000 from father-in-law of his sister.

(3) ₹ 35,000 from his friend.

(4) Jewellery of which market value is ₹ 6,00,000 from his friend.

(5) ₹ 30,000 from the friend of his wife.

(6) ₹ 72,000 from the brother of his father who lives in USA.

(7) ₹ 90,000 from his mother's sister who lives in Europe.

(8) ₹ 16,000 each from three different friends on the occasion of his birthday.

(9) Gift from father ₹ 2,00,000

(10) Car as gift from father-in-law of ₹ 8,00,000 [Ans.: ₹7,88,000]

17. Mr. Himanshu received the following amounts as interest in the previous year:

(1) ₹ 1,17,000 in Gujarat Govt. loan 2030.

(2) ₹ 41,400 on debentures of Udaipur Municipality

(3) ₹ 46,800 on debentures of Udaipur Iron works Ltd.

(4) ₹ 29,000 on tax free debentures of life insurance corporation.

(5) ₹ 36,000 on tax free listed debentures of Century Mills Ltd.

Compute income from other sources of Himanshu for the assessment year 2023-24 assuming that his bank had charged 2% commission on the actual amount of interest collected and interest in each case received on 1st September and 1st March. [Ans.: ₹2,81,818]

18. Following particulars of the investment of Mr. Rakesh have been furnished for the previous year. The interest on various securities is payable on 1 January and 1 July. Compute his income under the head 'Income from Other sources' for the assessment year 2023-24:

(1) He holds 10%, ₹ 40,000 Bombay trust bond on 1 April, 2022 he sold them on 5 March, 2023.

(2) He holds 10%, ₹ 50,000 debentures of Punjab Textile ltd. on 1 April 2022. He sold them on 31 August 2022.

(3) He holds 12%, ₹ 40,000 debentures of J.K. Synthetic Ltd. on 1 April, 2022. He sold the debentures of J.K. Synthetic Ltd. on 1 October 2022 cum interest and bought 18%, ₹ 40,000 debentures cum interest of Asian Paints Ltd. on the same date.

(4) 10%, ₹ 90,000 Punjab Govt. Loan

(5) He bought 9%, ₹ 10,000 debentures cum interest of Escort Ltd on 10 March, 2023.

He paid ₹ 600 as bank commission, half of which was for the purchase and sale of debentures and the balance for realization of interest. [Ans.: ₹21,200]

19. Shri Naresh Jain submits details of his income and investments for the previous year ending 31 March, 2023:

(1) Dividend received from X Ltd. ₹ 79,000

(2) Dividend received from foreign co. ₹ 47,000

(3) Dividend received from a Tea company ₹ 2,10,000(60% of income of company is treated as agricultural income)

(4) Dividend from co operative society ₹ 83,000

(5) Amount received from winning from horse race ₹ 12,60,000

(6) Interest on public deposit ₹ 20,000 (gross)

(7) Remuneration received from other organizations other than employer for giving consultancy ₹ 15,000.

(8) ₹ 8,000 received from lottery prize.(Gross)

(9) Interest received on listed debentures of Hemant Ltd. ₹ 48,100.

You are required to calculate income from other sources. [Ans.: ₹23,15,444]

20. Shree Ram Singh is a political leader. The particular of his income for the assessment year 2023-24 are as follows:

(1) Received ₹ 96,000 @ ₹ 8,000 per month as family pension from the Central Govt.

(2) Received a sum of ₹ 18,000 for delivering lectures in favorof candidates in municipal elections.

(3) Received a sum of ₹ 56,000 as royalty from ABC company to whom he has given right to publish his book on Political Science.

(4) He has some machines which he gave on rent. The rent received in this respect amounts to ₹ 80,500. Repair charges on machines are ₹ 10,000.

(5) Received ₹ 36,600 as rent of agricultural land given to a kiln contractor for the kiln.

(6) Interest received on Post office saving bank a/c Rs 1,800

(7) Remuneration received from radio talk ₹ 6,000.

Compute his taxable income under the head 'Income from other sources' for the assessment year 2023-24.

[Ans.: ₹2,68,100]

Answer MCQ

1	2	3	4	5	6	7	8	9	10
B	D	C	D	B	C	D	B	C	A
11	12	13	14	15					
D	C	A	C	C					

❑❑❑

Chapter 8

CLUBBING OF INCOME

(INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME)

SECTION-WISE STUDY

Section	Particular
60	Transfer of income without transfer of assets
61	Revocable transfer of assets
62	Transfer irrevocable for a specified period
63	Transfer and revocable transfer defined
64	Income of an individual to include income of spouse, minor child etc.
64(1)(ii)	Remuneration of a spouse from a concern in which the other spouse has substantial interest
64(1)(iv)	Income from assets transferred to the spouse
64(1)(vi)	Income from assets transferred to son's wife
64(1)(vii)	Income from assets transferred to any person for the benefit of the spouse of the transferor
64(1)(viii)	Income from assets transferred to any person for the benefit of son's wife of the transferor.
64(1A)	Clubbing income of minor child
64(2)	Income from self-acquired property converted to joint family property
65	Liability of person in respect of income included in the income of another person
68	Other deemed incomes

INTRODUCTION

Income tax is charged on a slab basis system on total income of an individual.There are progressive tax rate of tax and as the income goes up, the tax rates also go up. At present we know that minimum tax rate is 5% and highest tax rate is 30%. There is a tendency among the taxpayer who are in higher tax brackets to divert a part of their income to such a person whose total income is less or below taxable limit in order to reduce their tax burden.

For example, if Mr. A has an income of ₹ 15,60,000 including taxable rental income of ₹ 4,80,000, the tax payable by him if he does not opt to be taxed under section 115BAC would be as under:

		₹
On first ₹ 2,50,000		Nil
On Next ₹ 2,50,000	2,50,000x5%	12,500
One Next ₹ 5,00,000	5,00,000 x 20%	1,00,000
Over ₹ 10,00,000	5,60,000x30%	1,68,000
		2,80,500
Add: Health and education cess	@ 4%	11,220
Tax payable		2,91,720

If Mr. A can divide the rental income in the hands of any other person (Mr. B) related to him, who is less income of ₹ 2,00,000, than tax liability on ₹ 6,80,000 (2,00,000+4,80,000) would be :

		₹
On first ₹ 2,50,000		Nil
On next ₹ 2,50,000	2,50,000x5%	12,500
On balance (6,80,000-5,00,000)	1,80,000x20%	36,000
		48,500
Add: Health and education cess	@ 4%	1,940
Tax payable		50,440

In this case tax liability of Mr. A on balance ₹ 10,80,000 (₹ 15,60,000-4,80,000) would be:

		₹
On first ₹ 2,50,000		Nil
On Next ₹ 2,50,000	2,50,000x5%	12,500
One Next ₹ 5,00,000	5,00,000 x 20%	1,00,000
Over ₹ 10,00,000	80,000x30%	24,000
		1,36,500
Add: Health and education cess	@ 4%	5,460
Tax payable		1,41,960

In case of above case of tax evasion, he can able to pay only ₹ 1,92,400 (1,41,960+50,440) instead of original liability of ₹ 2,91,720. Tax evade by him ₹ 99,320.

In order to curb such evasion of tax few provisions have been incorporated under section 60 to 65 of the Income Tax Act under which the income received by one person is included or clubbed in the income of another person. Such income is known as deemed income or clubbing of income to such another person. The main provision related to the deemed income are as follows:

DEEMED INCOME TO CURB TAX EVASION

1. Transfer of income without transfer of assets (Section 60):

Where there is a transfer of income by assessee without transfer of assets whatever income arises from such assets shall be included in the total income of transferer and not in the total income of recipient. For

example, Mr Kailash on 12% Debenture of HZL Limited of ₹ 4 lakh and declares that the interest of such debentures shall belong to his friend Ramesh but the debenture remains with Mr Kailash in this case the interest of ₹ 48000 will be received by Ramesh but it will be included in the total income of Mr Kailash.

2. Revocable transfer of assets (Section 61):

If an asset is transferred along with the income but such transfer is revocable, then any income arising from such an asset shall be included in the total income of transferer. According to Section 63, the of the following are the revocable transfer if:

(i) It contains any provision for the transfer, directly or indirectly over the whole or part of the assets or income

(ii) It gives the transferer right to resume directly or indirectly over the whole or part of the assets or income

Exceptions: In the following cases the above provisions of section 61 will not apply

(i) Transfer which is not revocable during the lifetime of transferer or beneficiary or recipient

(ii) Transfer is made before 1st April 1961 and was not revocable for a period exceeding six years

In the above cases income from such assets will be included in the total income of the recipient. But, as and when such as it reverts back to transfer the income will be included in the total income of transferer.

3. **Remuneration of spouse (Section 64(1)(ii)):**

Spouse means husband for female assessee and wife for male assessee. The following are the remuneration earned and received by one spouse will be included in the total income of another:

Salary received from business because of substantial interest of another spouse: Salary, Commission, fees, perquisites received by the spouse from an organisation where another spouse has substantial interest, shall be included in the hands of assessee who has got such substantial interest.

Meaning of substantial interest: The substantial interest means: "Assessees and their relatives hold at least 20% voting rights or 20% share capital of an organisation at any time during the previous year".

For example, Mr C has 30% right in a partnership firm. Mrs. C is getting a salary of ₹ 12000 per month. This salary will be included in the total income of Mr C. The deductions and rebate related to such income will also be provided to Mr C.

Exceptions:

1. If such salary, Commission or fees is received because of professional qualification possessed by spouse, then such income will not be included in the total income of another spouse. This will be taxed to the recipient.
2. If there was absence of relationship of husband and wife at the time of arising the income.

Note: As per circular number 258 of Central Board of Direct taxes if both the husband and wife have substantial interest in an organisation and both are getting remuneration then such remuneration of both the persons shall be clubbed in the hands of that spouse whose total income before including such remuneration is more.

Note: When the income of one spouse is added in the income of another then it will always be clubbed to such assessee. Like that only if assessing officer is interested to make any changes, he can change but before this opportunity must be given to the assessee to be heard.

4. Income from transferred assets to spouse without consideration (Section 64(1)(iv)]:

If the assets is transferred by one spouse to another without consideration or inadequate consideration then any income from such an asset is generated will be included in the total income of the transferer spouse.

Example: Dr. Tuktak transfers 100 debentures of LIC Ltd. to Mrs. Tuktak without consideration. Later on Mrs. Tuktak receives interest income on it. This interest income will be taxable in the hands of Dr. Tuktak as per section 64(1)(iv).

Exceptions: In the following cases income from transferred assets will not be included in the total income of transferer:

(i) Assets purchase the out of pin money: If any amount is provided by husband to his wife for household expenses and wife save the sum amount from it then such saved amount is known as pin money and such savings will be treated as wife's money. If any assets is purchased from such pin money then it will be an asset of wife and income of such an asset will also be included in the income of wife.

(ii) If assets are destroyed: If any asset is destroyed then there will be no income from such asset so it cannot be treated as deemed income.

(iii) Absence of relationship of husband and wife: If at the time of transfer of asset or at the time of arising of income there is absence of relationship of husband and wife then income from such assets which was transferred without consideration will be included in the income of recipient and not in the income of transferer.

(iv) If transfer is made within object to live apart: If asset is transferred within agreement to live apart or because of divorce then in that case the relationship of husband and wife does not exist and hence the income from such transferred assets to spouse cannot be treated as deemed income.

(v) If transfer is made with full consideration: If full consideration is received it is assumed to be a sell and income from such sale of asset cannot be treated as deemed income. If money is provided by one spouse to another, so that search another person can make payment of consideration of asset then it will be treated as without consideration.

(vi) Income from asset acquired from deemed income: If recipient of deemed income has invested his or her income in certain assets then income from such new asset will not be taxable in the hands of transferer of assets as deemed income. In other words, it can be said that income from Dept income is not treated as deemed income and it will be the income of the recipient. Similarly, if there is accretion in asset then the income from such accreted asset will be the income of recipient.

Note: If form of asset is changed then income from new asset will be treated as deemed income

Example: Mr. Mohan transferred a house property to his spouse. After sometime spouse sell the house property and invest the amount in debentures of a public company. In this case interest received by Mrs. Mohan on the venture will be treated as deemed income in the hands of Mr. Mohan.

5. Income from assets transfer to son's wife (Section 64(i)(vi)):

Any income arising from asset transferred by assessee individual to son's wife directly or indirectly without consideration owner after 1st June 1973 shall be included in the total income of transferer.

Explanation:

1. Relationship of father-in-law and daughter-in-law should be existed both at the time of transfer of asset and at the time of accrual of income. If asset is transferred before marriage, then this rule will not be applicable.

2. If there is any improvement in assets then income from such improvement will be taxable in the hands of receiver.
3. Transfer includes indirect transfer also.

Exceptions: Following are the exception of above provision:

1. If transfer is with adequate consideration, then income will be taxed in the hands of transferee.
2. If consideration is inadequate then the proportionate income will be taxed in the hands of transferer to the extent to which consideration is inadequate.
3. If such asset is transferred prior to 1st June 1973 then income from such assets will be treated as income of recipient.
4. If asset is transferred to father-in-law by daughter in law or any asset is transferred to son-in-law by father-in-law then this section will not apply.

6. Transfer of an asset to any other person (Section 64(i)(vii)):

If an asset is transferred by assessee to any other person for the benefit of the spouse, the income from such assets will be included in the income of transferer.

Similarly, if an asset is transferred by an assessee to any person on or after 1st June 1973 for the benefit of son's wife then the income from such assets will be included in the total income of transferer.

7. Income of minor children (Section 64(1A)):

The income of minor child will be included in the income of father or mother whose total income excluding the income of minor is more. In this respect other provision are as under:

1. Where minor's income is once included in the total income of either parent then it will always be included in the income of same person to whom it was included for the first time. It will not be included in the total income of other parent, unless the assessing officer is satisfied, after giving opportunity to hear the other parent.
2. If parents are living separately or the marriage of his or her parents does not subsist then income shall be included in the total income of parent who maintained the minor in the previous year.
3. Here child means only legitimate child, this includes adopted as well as Step son or daughter but illegitimate child will not be included.
4. If a person gifted any asset to minor then income from such as it will be included in the income of parent of minor not in the income of Donor. For example,If uncle has made a gift of ₹ 35000 will be treated as income of either father or mother of minor child will not be clubbed in the hands of uncle.

Exceptions: In the following cases the income of minor child will not be clubbed in the income of parents:

1. Income earned by minor by applying his skill, talent for specialised knowledge for income earned by minor on account of any manual work done by minor.
2. Income of minor child suffering from any disability, of the nature mentioned under section 80U like physically handicapped, totally blind etc.
3. If at the end of the previous year child has completed 18 years then whole of the income of the previous year will not be clubbed in the income of parents for that year and subsequent years.
4. Income of minor married daughter.

Exemptions: Where any income of minor child has been included in the total income of a parent, such parent shall be entitled to an exemption to the extent of such income or ₹ 1500 whichever is lower in respect of each minor child whose income is so included.

8. Transfer of asset to Hindu undivided family (Section 64(2)):

When an individual who is the member of Hindu undivided family converts his on asset as the property of the Hindu undivided family after 31st December 1969 without consideration then the income of such property will be included in the total income of the transferer.

After the complete partition of the Hindu undivided family, the income from such property derived by the spouse of the transferer will be included in the total income of transferer.

Important rules:

- The above rules of inclusion of income of other persons will also be applied in the case of negative income.
- The income of other person will be included in the head to which it belongs. For example, the income from transferred house will be included in the income from house property head.
- If the tax is deducted at source, then received income will be grossed as per the rule and the benefit of tax which is deducted at source will be given to assessee.
- If the deduction of chapter VIA is available (80C to 80U) on the such deemed income, then it will also be provided to assessee.
- If the income is arrived on deemed income, then such income will not be included in the income of transferer. only the income from transferred asset will be included in the income of transferer.
- If there is any accretion in asset then income on such asset cannot be included in the income of transferer. For example, Mr. Amar transferred 1,000 shares of a listed company to his wife as a gift. Company provided her bonus share on these shares. The dividend on bonus shares will be the income of Mrs. Amar. Only the dividend on original shares will be deemed income of Mr Amar.

9. Other deemed incomes:

Following transactions are not usually included in the total but to prevent tax evasion, they are included as deemed income.

1. Unexplained cash credit (Section 68): Amount deposited by the assessee in the books of accounts for which no satisfactory explanation is given to the assessing officer is known as unexplained cash credit.
2. Unexplained investment (Section 69): Which are neither recorded in banks or accounts not satisfactory explanation could be given regarding the investment.
3. Unexplained money (Section 69A): Any money in terms of cash, gold, jewellery etc. for which satisfactory explanation could not be given by assessee.
4. Not fully disclosed investment (Section 69B): Undisclosed amount of investment will be taxable as deemed income.
5. Unexplained expenditure (Section 69C): If no explanation could be given about the source of the money of such expenditure, then it will be included in the total income.
6. Amount borrowed or repaid on Hundi (Section69D): If loan taken on Hundi and its repayment is not made through cheque then such amount and interest there on will be taxable.

Note: Above mentioned other deemed incomes from (1) to (6) are taxable at the rate 60%.

10. Income to include gift of money from unrelated persons:

The following three kinds of gift received by an individual or Hindu undivided family from unrelated person or persons shall be taxable under section 56(2)(vii):

1. Gift of money
2. Gift of immovable property received without consideration
3. Gift of any property, other than immovable property whether received with consideration or required for inadequate consideration

ILLUSTRATION 8.1:

Mrs. Sunita Verma received the following amounts during financial year 2022-23:

Particulars	**₹**
Gross Salary	7,90,000
Family pension 20,000x12	2,40,000
Income of a minor child	6,400
Accumulated balance in Provident Fund of her husband after his death	41,000
Gratuity received after the death of husband	6,70,000

Calculate taxable income of Mrs. Sunita Verma for the assessment year 2023-24.

Solution:

Computation of taxable income of Mrs. Sunita Verma for the assessment year 2023-24

Particulars		**₹**
Income from salary		
Gross salary	7,90,000	
Less: Standard Deduction u/s 16(i)	50,000	7,40,000
Income from Other sources		
Family pension	2,40,000	
Less: Deduction 1/3rd of pension or ₹ 15,000 whichever is lower	15,000	2,25,000
Income of Minor child	64,000	
Less: Exemption u/s 10(32)	1,500	62,500
Gross total income		**10,27,500**
Less: Deduction under chapter VIA		Nil
Total income		**10,27,500**

Note: Accumulated balance in provident fund and amount of gratuity received after the death of husband is exempt from tax as it is assumed to be with the limit prescribed by section 10(10).

EXERCISE 8.1

Mr. Vikas received the following amounts during financial year 2022-23:

	₹
Salary received	8,40,000
Rent received	1,20,000
Income of minor child	8,500
Income of minor child by his talent	15,000
Interest on PPF received	72,000
Withdrawal from PPF account	7,00,000

Calculate taxable income of Mr. Vikas for the assessment year 2023-24. [Ans.: 8,81,000]

ILLUSTRATION 8.2

In consideration of a promise to, marry, Praveen transferred 1000 bonds of a company to Rachna on 15th October, 2010. They married on 12th May, 2015. During the previous year Rachna received interest on bonds amounting to ₹ 30,000. Who (Praveen or Rachna) is liable to pay tax on the interest income and why?

Solution:

The interest income will be taxable in the hands of Rachna because at the time of transfer of bonds there were no relationship of husband and wife between Praveen and Rachna.

EXERCISE 8.2

In consideration of a promise to divorce Mr. Prakash transferred 10000 bond of a company to his wife on 15th February 2022. During the previous year ₹ 56,000 were earned on this bond. Explain who is liable to pay tax on the interest income and why? [Ans.: Taxable in the hands of wife]

ILLUSTRATION 8.3

Mr. Shiva and Mrs. Shiva are employed in Pratham Ltd. and getting remuneration of ₹ 18,000 per month and ₹ 14,000 per month respectively. Their other incomes are ₹ 1,10,000 and ₹ 96,000 respectively. Their shareholding in Pratham Ltd. along with relatives are Mr. Shiva 6%, Mr. Shiva's brother 10%, Mrs. Shiva 13% and Mrs. Shiva's Sister 9%.

Calculate gross total income of Mr. Shiva and Mrs. Shiva for the assessment year 2023-24

Solution:

Computation of gross total income for the assessment year 2023-24

Particulars	Mr. Shiva	Mrs. Shiva
Income other than salary	1,10,000	96,000
Salary from Pratham Ltd.		
Mr. Shiva 18,000x12 = 2,16,000		
Mrs. Shiva 14,000 x 12 = 1,68,000	3,84,000	
Gross total income	4,94,000	96,000

Note:

(i) Mr. and Mrs. Shiva both have substantial interest in Pratham Ltd.

Mr. Shiva	
Share of self	6%
Mrs. Shiva	13%
Brother of Mr. Shiva	10%
	29%

Mrs. Shiva	
Share of self	13%
Mr. Shiva	6%
Sister of Mrs. Shiva	9%
	28%

Because other income of Mr. Shiva is higher than Mrs. Shiva, So salary from Pratham Ltd. have been clubbed in the hands of Mr. Shiva.

EXERCISE 8.3

Mr. Jay and his wife Ritu are employed in Vinay Ltd. and getting remuneration of ₹ 58,000 per month and 44,000 per month respectively. Their other incomes are 4,10,000 and ₹ 3,96,000 respectively. Their shareholding in Vinay Ltd. along with relatives are Mr. Jay 6%, Mrs. Jay's brother 10%, Mrs. Jay 13% and Ritu's sister 9%.

Calculate gross total income of Mr. Jay and Mrs. Ritu for the assessment year 2023-24.

[Ans.: Mr. Jay ₹ 16,34,000, Mrs. Ritu ₹ 3,96,000]

ILLUSTRATION 8.4

Determine the gross total income of Vikas and his wife from the following particulars for the year ending 31-3-2023:

(i) Vikas and his wife are partners in a firm carrying on textile business their respective shares of profit being ₹ 1,67,000 and ₹ 39,000.

(ii) Their 14 year old son has been admitted to the benefits of another firm, from which he received ₹ 95,000 as his share of profit in the firm and ₹ 92,000 as interest on capital. The capital was invested out of minor's own fund amounting to ₹ 9,00,000.

(iii) A house property in the name of Vikas was transferred to his wife on 31 Aug. 2022 for adequate consideration. The property has been let out at a rent of ₹ 42,000 per month.

(iv) Mr. Vikas transferred ₹ 1,60,000 to a trust, the income accruing from its investment as interest amounted to ₹ 16,000 out of which ₹ 11,000 shall be utilized for the benefit of his son's wife and ₹ 5,000 for the benefit of his son's minor child.

(v) Debenture of Naman Ltd. of ₹ 80,000 and ₹ 60,000 purchased two years ago are in the names of Mr. Vikas and Mrs. Vikas respectively on which interest is receivable at 10% per annum. His wife had in the past transferred ₹ 40,000 out of her income to Mr. Vikas for the purchase of the debenture in Vikas's name.

Solution:

Computation of Gross total income of Mr. Vikas for the assessment year 2023-24

Particular	₹	₹
Income from House property		
Rental value for 5 months 42,000x5	2,10,000	
Less: 30% as statutory deduction	63,000	1,47,000
Income from business		
Share from firm (exempt)	Nil	
Minor Son's share in another firm (Exempt)	Nil	
Interest on minor's capital with firm (92,000 – Exemption under section 10(32) ₹ 1,500)	90,500	90,500
Income from other sources		
Interest @ 10% on ₹ 40,000 debentures	4,000	
(only one half of ₹ 80,000 were bought by own funds)		
Interest from trust which is utilized for the benefit of son's wife	11,000	16,000
Gross total income		2,53,500

Computation of Gross total income of Mrs. X for the assessment year 2023-24

Income from House property		
Rental income for 7 months 42,000 x 7	2,94,000	
Less: 30% Statutory Deduction	88,200	2,05,800
Income from business		
Share from firm (Exempt)		
Income from other sources		
Interest on debentures 60,000 x 10%	6,000	
Interest on ₹ 40,000 10% debentures in husband name but funds invested by her	4,000	10,000
Gross total income		2,15,800

Note:

1. The minor's son income has been clubbed but as the share of the profit from the firm is exempt will not affect the total income. However, if interest on capital contribution's received, it will be clubbed to the extent of the amount of invested as capital contribution out of the transfer made without adequate consideration.
2. The income from trust which has been used for the benefit of son's wife to be clubbed in the hands of transferor. But this provision is not applicable to son's minor son.
3. Share of profit from a firm which is assessment as such is fully exempt under section 10(2A)

EXERCISE 8.4:

Determine the gross total income of Manish and his wife the following particulars for the year ending 31-3-2023:

(i) Manish and his wife are partners in a firm carrying on retail business their respective share of interest on capital is 14,000 and 11,000 and share of profit being ₹ 1,31,000 and ₹ 43,000 respectively.

(ii) Their 12 year old son has been admitted to the benefits of another firm, from which he received ₹ 73,000 as his share of profit in the firm and ₹ 57,000 as interest on capital. The capital was invested out of minor's own fund amount to ₹ 10,00,000.

(iii) A house property in the name of Manish of which rent of ₹ 40,000 per month received by his wife without transfer of house property.

(iv) Mr. Manish transferred ₹ 1,10,000 to a trust, the income accruing from its investment as interest amounted to ₹ 21,000 out of which ₹ 16,000 shall be utilized for the benefit of his son's wife and ₹ 5,000 for the benefit of his son's minor child.

(v) Debenture of Maan Ltd. of ₹ 90,000 and ₹ 75,000 purchased two years ago are in the names of Mr. Manish and Mrs. Manish respectively on which interest is receivable @ 10% per annum. His wife has in the pas transferred ₹ 45,000 out of her income to Mr. Manish for the purchase of the debenture in Manish name.

[Ans.: Mr. Manich 4,26,000, Mrs. Manish 12,000]

ILLUSTRATION 8.5

Naveen (Age 16 years) has the following income during previous year 2022-23:

(i) Interest on Bank deposit ₹ 1,75,000

(ii) Interest on Government Securities ₹ 1,80,000

(iii) Interest on Debentures ₹ 60,000

(iv) Income by Acting in film ₹ 2,40,000

(v) Income by a singing concert held by him ₹ 1,50,000

His father's total income ₹ 5,09,000

His mother's total income ₹ 5,09,300

Calculate the taxable income of Naveen his father and his mother.

Solution:

(i) Naveen's fathers total income

Particular	**Amount**
Total Income	5,09,000

(ii) Naveen's mothers total income

Particular		**Amount**
Own Income		5,09,300
Add: Clubbing of minor son's income		
Interest on bank deposit	1,75,000	
Interest on govt. securities	1,80,000	

Interest on debentures	60,000	
	4,15,000	
Less: Exemption under section 10(32)	1,500	4,13,500
Total Income		9,22,800

(iii) Naveen's taxable income

Particular	Amount
Income by acting in film	2,40,000
Income by a singing concert held by him	1,50,000
Total income	3,90,000

EXERCISE 8.5

Rajesh (Age 15 years) has the following income during previous year 2022-23:

(i)	Interest on bank deposit	90,000
(ii)	Interest on Govt. Securities	71,000
(iii)	Interest on Saving bank account	8,000
(iv)	Income by a talent concert held by him	1,25,000
(v)	Interest on debentures	40,000
(vi)	Income by acting in film	2,00,000

His father's total income ₹ 6,07,000

His mother's total income ₹ 3,10,000

Calculate the taxable income of Rajesh, his father and his mother.

[Ans.: Mr. Rajesh's father ₹ 8,14,500, Mother ₹ 3,10,000, Rajesh 3,25,000]

ILLUSTRATION 8.6

Income of a family is as under:

(1) Mr. Deepak from business income ₹ 3,50,000

(2) Mrs. Deepak Salary from employment ₹ 2,40,000

(3) Minor son of Mr. Deepak:

Interest from a company(the amount for investment received from his grand father) ₹ 21,000

(4) Minor son of Mr. Deepak, Mr. Vijay received income by acting in film ₹ 1,90,000

(5) Income of minor daughter, Miss Jaya ₹ 14,000

Discuss in whose hands the income are assessable and compute the total income of each person of family.

Solution:

(i) Computation of total income of Mr. Deepak for the assessment year 2023-24

Particular		Amount
Income from business		3,50,000
Income of minor son		
Interest from a company	21,000	
Less: Exemption u/s 10(32)	1,500	19,500
Income of minor daughter	14,000	
Less: Exemption u/s 10(32)	1,500	12,500
Total Income		3,82,000

(ii) Computation of total income of Mrs. Deepak

Particular	Amount
Salary	2,40,000
Less: Standard deduction	50,000
Total income	1,90,000

(iii) Income of Minor Son: Vijay

Particular	Amount
Income from acting in film	1,90,000
Total income	1,90,000

EXERCISE 8.6

Income of a family is as under:

(1) Mr. Shiv has income from business ₹ 5,00,000

(2) Mrs. Shiv has income from salary from Rana Ltd. ₹ 3,60,000

(3) Minor son of Mr. Shiv :
Interest from a company (the amount for investment received from his grand mother) ₹ 27,000

(4) Minor son of Mr. Shiv, Master Ganesh received income by acting in film ₹ 1,10,000.

(5) Income of minor daughter, miss Vishakha ₹ 8,000

Discuss in whose hands the income is assessable and compute the total income of each person of family.

[Ans.: Mr. Shiv ₹ 5,32,000 Mrs. Shiv ₹ 3,10,000, Minor Son ₹ 1,10,000]

ILLUSTRATION 8.7

Mr. Tanmay transferred investment worth ₹ 2,00,000 to Mrs. Tanmay on which she earns income @ 16% per annum. Mrs. Tanmay invested the amount of income of first year in the similar investment and earned income of ₹ 37,120 on the total investments of ₹ 2,32,000 in the previous year. State in whose income this income will be included?

Solution:

Computation of taxability of income

Particular	Mr. Tanmay	Mrs. Tanmay
Amount invested	2,00,000	32,000
Interest @ 15% taxable in the hand of	32,000	5,120

EXERCISE 8.7

Mr. Hemant transferred investment worth ₹ 10,00,000 to Mrs. Hemant and ₹ 5,00,000 to his daughter Isha. On this investment the rate of interest were 12% per annum. Both Mrs. Hemant and Miss Isha invested the amount of income of first year in the similar investment and earned ₹ 1,34,400 and 67200 respectively on total investment in the previous year. State in whose income this income will be clubbed?

[Ans.: Hemant ₹ 1,78,500, Mrs. Hemant ₹ 14,400, Miss Isha ₹ 7,200]

GRADED PROBLEMS

ILLUSTRATION 8.8

The particulars of income of Mr. Rajiv and his family is given below for the previous year 2022-23:

(i) Shri Rajiv is doing a retail business from which he earned ₹ 8,00,000

(ii) On 16th August 2021 an immovable property was transferred by Rajiv to his wife in the consideration of her consent on the agreement of divorce. His wife earned ₹ 74,000 from this property during the previous year 2022-23.

(iii) Shri Rajiv own a house. It was transferred to him by his father four years ago as gift. Rajiv received rent of ₹ 30,000 per month from this house property during the previous year.

(iv) Mr. Rajiv has two minor children. One daughter lives with the wife of Rajiv while the son lived with Rajiv. During the previous year the son earned ₹ 2,20,000 from the property to him by his grandfather and the daughter earned ₹ 1,10,000 from the property transferred to her by Rajiv.

Compute total income of Mr. Rajiv for the assessment year 2023-24

Solution:

Computation of total income of Mr. Rajiv for the assessment year 2023-24

Particular		Amount
Income from house property		
Rent received 30,000x12	3,60,000	
Less: Statutory deduction @ 30%	1,08,000	2,52,0000
Income from business		
Income from retail business		8,00,000
Income from other sources		
Income of minor son	2,20,000	
Less: Exemption under section 10(32)	1,500	2,18,500
Gross total income		12,70,500
Less: Deduction		Nil
Total income		12,70,500

Note:

(1) Income of ₹ 74,000 will be taxed in the hands of Mrs. Rajiv because their marriage does not subsist and the property was transferred for the consent of divorce.

(2) Income of minor son and daughter will be clubbed to the father or mother who maintains the minor child, where the marriage of the parents does not subsist. Hence in this case income daughter will be clubbed to her mother and income of son will be clubbed to his father.

(3) House transferred by a father to his major son is not to be clubbed with father. So rent received from the house property is taxable in the hands of Mr. Rajiv.

ILLUSTRATION 8.9

Jitendra and his family has following income. You are required to assess which income is taxable in whose hands for the assessment year 2023-24 keeping the provisions of clubbing in mind:

(1)	Jitendra's income	
	(i) Income from business	5,20,000
	(ii) Interest on investment (Gross)	58,000
(2)	Riya's income (Wife of Jitendra)	
	(i) Rental income of house property gifted by her father	1,10,000
	(ii) Rental income of house property gifted by her father-in-law	1,80,000
	(iii) Interest on debentures gifted by Jitendra in 2016 (Gross)	61,000
(3)	Mukesh's Income (Major Son of Jitendra)	
	(i) Salary received from a company	9,60,000
	(ii) Annual rent received from a house property which was gifted by Jitendra to him in 2014	60,000
	(iii) Interest on debentures by minor son of Mukesh. (Debentures were gifted by Jitendra to his grand-son	6,000
(4)	Income of Minor son of Jitendra:	
	(i) Salary received from a firm for services rendered	2,40,000
	(ii) Interest on fixed deposit with a bank deposited by Jitendra	12,000

Solution:

Computation of total income of Jitendra

Particular		Amount
Income from business		5,20,000
Income from other sources		
Interest on investment	58,000	
Interest on debentures (Gifted to wife)	61,000	
Interest on FD received by minor son 12,000		
Less: Exemption under section 10(32) 1,500	10,500	1,29,500
Gross total income		6,49,500

Computation of total income of Mrs. Riya for the assessment year 2023-24

Particular		Amount
Income from house property		
Rent received	1,10,000	
Less: Statutory deduction @ 30%	33,000	77,000
Total income		77,000

Computation of total income of Mukesh (Major Son) for the assessment year 2023-24

Particular		Amount
Income from salary		
Salary received	9,60,000	
Less: Standard Deduction	50,000	
Income from house property		
Rent received	60,000	
Less: Statutory deduction @ 30%	18,000	42,000
Income from other sources		
Clubbing of income of minor son	6,000	
Less: Exemption under section 10(32)	1,500	4,500
Gross total income		9,56,500

Computation of total income of minor son for the assessment year 2023-24

Particular		Amount
Salary received	2,40,000	
Less: Standard deduction	50,000	1,90,000
Total income		1,90,000

ILLUSTRATION 8.10

Income tax department made an investigation in the premises of Mr. Lokesh and revealed the following information. Assess which of the following information will be treated as income for the assessment year 2023-24:

(1) His books shows a deposit of ₹ 3,00,000 from his wife. No source of fund could be explained by his wife about this deposit.

(2) His books show a deposit of ₹ 1,50,000 from a fake assessee Mr. Sohan. He could not explain who is Sohan.

(3) He spend ₹ 30,00,000 in the marriage of his son but he could explain about source of ₹ 14,00,000 only.

(4) His books shows that he constructed a building of ₹ 15,00,000 in the year 2018-10 but he could not explain from where he obtained funds for it.

(5) He obtained a loan of ₹ 6,00,000 from Mr. Shaym Sunder on Hundi on cash.

(6) His books also shows that he purchased a machine of ₹ 9,00,000 in the year 2019-20 but he could explain about source of ₹ 4,00,000 only for it.

(7) Ornaments of ₹ 17,00,000 was found in his locker but he could not explain the amount of source.

(8) New cloth of ₹ 32,000 was also found in this almirah but he could not explain what was its source.

(9) He paid ₹ 2,00,000 as interest on Hundi loan in cash in the previous year.

(10) He obtained a loan of ₹ 8,00,000 in the previous years from Satyanarayan. He repaid in cash ₹ 3,00,000 with interest in the previous year.

Solution:

Computation of gross total income of Mr. Lokesh for the assessment year 2023-24

Particular		Amount
Unexplained cash credit from Sohan		1,50,000
Unexplained expenditure on marriage (30,00,000 – 14,00,000)		16,00,000
Unexplained investment (construction of building)		15,00,000
Loan obtained on Hundi from Shyam Sunder in Cash		6,00,000
Investment not fully disclosed		5,00,000
Unexplained money (ornaments)		17,00,000
Interest paid in cash on Hundi loan		2,00,000
Loan repaid in cash with interest		3,00,000
Gross total income		65,50,000

Note:

1. If source of new cloth or household expenses is not explained by assessee it is not treated as income as these provisions applied on huge investment or expenditure for the purpose of tax evasion.
2. If loan is provided by wife than it is duty of his wife to explain what was source of it. If she fails then this amount will be treated as income of wife not for her husband.

QUESTIONS

Multiple Choice Questions

Q1. The provisions of clubbing of income are contained in Section ….. to ….. under the income-tax act,1961

(a) 60 – 65 (b) 60 - 64

(c) 58 - 64 (d) 59 - 65

Q2. Transfer of income is revocable in the following cases:

(a) Sale with a condition of re-purchase (b) Power to change beneficiary or trustees

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q3. Pratik is working as company secretary in raj chem. Pvt. Ltd. on a salary of ₹20,000p.m. He got married to pooja who holds 25% shares of this company. What will be the impact of salary paid to Pratik by the company in the hands of pooja?

(a) No amount to be clubbed (b) Club 50% salary

(c) Club 100% s alary (d) 25% salary be clubbed

Q4. Mr. vishal gifted a let-out building which fetches rental income of ₹10,500 per month to his son's wife on 1,11.2020.The municipal tax on 6,000 on the property was paid on 10,1,2022.The income from all other sources (compute) amounts to ₹2,60,000 except income from above said property. His total income chargeable to tax is:

(a) ₹ 3,11,450 (b) ₹ 3,44,000
(c) ₹ 3,80,000 (d) ₹ 3,33,500

Q5. Mr. Rohan a member of an HUF converted his self-acquired property as the property of HUF. The income from the property shall be taxable in the hands of:
(a) Mr. Rohan (b) The HUF
(c) At the option of the HUF (d) None of the above

Q6. Substitutions interest for the purpose of clubbing provision u/s 64(1)(ii) shall be of:
(a) the individual only (b) the individual and his spouse token together
(c) the individual along with his relative (d) the individual, his spouse and his children

Q7. The relative for the purpose of the section 64(1)(ii) shall include:
(a) spouse, brother, sister of the individual
(b) spouse, brother, any other individual
(c) spouse, children and dependent brother and sister of the individual
(d) spouse, children , dependent parents, dependent brother and sister of the individual

Q8. A has sold 2000, 14% debentures of ₹ 100 each to his wife for ₹ 90,000. The market value of debenture on the date of transfer was ₹ 1,80,000. In the case interest income to be included in the total income of A shall be:
(a) ₹ 28,000 (b) ₹ 14,000
(c) ₹ 25,200 (d) ₹ 12,600

Q.9 P gifts ₹ 5,00,000 to his wife who invested same in the partnership business. Mrs. P receives ₹ 2,65,000 as her share of profits from such firm. In this case amount to clubbed in the income of P shall be:
(a) ₹ 2,65,000
(b) ₹ 15,000 after giving maximum exemption of ₹ 2,50,000 to mrs. P
(c) nil
(d) ₹ 15,000 if wife is less than 60 years old and nil if the wife is 60 years or more

Q.10 When income of minor child is clubbed in the income of the parents concerned, such parents will be allowed maximum exemption of :
(a) ₹ 1,500
(b) ₹ 1,500 per minor child
(c) to the extent of actual income clubbed or ₹ 1,500 per minor child (WEL)
(d) no exemption

Q.11 An income of minor child who is person with disability shall be:
(a) clubbed with the income of the parents whose income other than such income is greater
(b) taxable in the hands of minor through his guardian or legal representation
(c) exempt
(d) none of above

Q.12 Income of minor child from the application of his talents and skills or from his manual work shall be:
(a) Clubbed with income of parent whose income other than such income is greater
(b) taxable in the hands of minor through his guardian or legal representation
(c) exempt
(d) none of above

Q.13 Income of Minor married daughter shall :
- (a) be clubbed in the income of her husband
- (b) be clubbed in the income of the parent whose income other than such income is greater
- (c) not to be clubbed and taxable in her hands
- (d) None of above

Q.14 If any income has to be clubbed u/s 64, it will be clubbed under the:
- (a) head income from the other sources
- (b) relevant head to which it belongs
- (c) head income from business
- (d) none of above

Very Short Type Questions

1. Write the meaning of ' Deemed income'.
2. Explain the meaning of 'Aggregation of Income'.
3. Explain the meaning of 'Converted Asset'.
4. Give the meaning of Clubbing of Income
5. Write rates of income-tax on unexplained incomes.

Short Answer Type Questions

1. Give the meaning of revocable transfer.
2. What is substantial interest?
3. How the income of a minor child is included in the income of his/her parents?

Essay Type Questions

1. What do you mean by clubbing of income? In what circumstance is the income of one person treated as income of another?
2. 'An assessee is not only liable in respect of his own incomes for tax purposes but his liability may extend to some other incomes also'. Comment on this statement.
3. Write short notes on the following:
   - (i) Clubbing of income
   - (ii) Deemed incomes
   - (iii) Aggregation of income

Numerical Questions

Q. 1 The particular of income of Mr. Sunil and his family is given below for the previous year 2022-23:
- (i) Sunil is doing a retail business from which he earned ₹ 18,00,000.
- (ii) On 16th Oct. 2021 an immovable property was transferred by Sunil to his wife before their marriage. His wife earned ₹ 2,40,000 from this property during the previous year 2022-23.
- (iii) Sunil owns a house. It was transferred to him by his grand father three years ago as gift. Sunil used this house for his own residence. He paid 68,000 as interest on loan taken for repairing of this house.

(iv) Mr. Sunil has two minor children. One daughter lives with him and while the son lived with father of Sunil for studies. During the previous year the son earned interest ₹ 7,800 from fixed deposits in a bank and the daughter earned interest of ₹ 6,120 from Sukanya Samridhdhi account.

Compute total income of Mr. Sunil for the assessment year 2023-24. [Ans.: 17,76300]

Q. 2 Praveen and his family has following income. You are required to assess which income is taxable in whose hand for the assessment year 2023-24 keeping the provisions of clubbing in mind:

(1) Praveen's income
   (i) Salary from a Private company ₹ 1,80,000
   (ii) Income from business ₹ 4,10,000
   (iii) Interest on Investment (gross) ₹ 61,000

(2) Priya's income (wife of Praveen)
   (i) Salary received from a private school ₹ 24,000
   (ii) Rental income of a house property gifted by her husband ₹ 1,20,000
   (iii) Interest on fixed deposit (investment out of PIN money) ₹ 48,000
   (iv) Interest on debentures gifted by Praveen in 2021 ₹ 16,000

(3) Mayank's income (major son of Praveen)
   (i) Salary received from a firm in which Praveen has substantial interest ₹ 2,40,000

(4) Income of minor son of Praveen
   (i) Income from a singing show ₹ 90,000
   (ii) Interest on fixed deposit with a bank deposited by Praveen ₹ 14,000

[Ans.: Mr. Praveen ₹ 7,13,500, Priya ₹ 2,38,000, Major son 2,40,000, Minor son ₹ 90,000]

Q. 3 Income tax department made an investigation in the premises of Mr. Jayant and revealed the following information. Assess which of the following information will be treated as income for the assessment year 2023-24:

(1) His books show a deposit of ₹ 6,00,000 from his wife. No source of fund could be explained by his wife about this deposit.

(2) His books show a deposit of ₹ 4,50,000 from a fake assessee Mr. Sohan. He could not explain who is Sohan.

(3) He spends ₹ 30,00,000 in the marriage of his son but he could explain about source of ₹ 20,00,000 only.

(4) His books shows that he constructed a building of ₹ 17,00,000 in the year 2018-10 but he could not explain from where he obtained funds for it.

(5) He obtained a loan of ₹ 7,00,000 from Mr. Shaym Sunder on Hundi on cash.

(6) His books also shows that he purchased a machine of ₹ 9,00,000 in the year 2019-20 but he could explain about source of ₹ 5,00,000 only for it.

(7) Ornaments of ₹ 25,00,000 was found in his locker but he could not explain the amount of source.

(8) New cloth of ₹ 12,000 was also found in this almirah but he could not explain what was its source.

(9) He paid ₹ 1,00,000 as interest on Hundi loan in cash in the previous year.

(10) He obtained a loan of ₹ 9,00,000 in the previous years from Narayan. He repaid in cash ₹ 4,00,000 with interest in the previous year. [Ans.: ₹ 72,50,000]

Answer MCQ

1	2	3	4	5	6	7	8	9	10
B	C	A	B	A	C	B	B	C	C
11	12	13	14						
B	B	B	B						

❑❑❑

Chapter 9

SET OFF AND CARRY FORWARD OF LOSSES

SECTION-WISE STUDY

Section	Particular
	Set off of losses
Section 70	Inter source adjustment allowed
Section 71	Inter head adjustment allowed
	Carry forward of losses
Section 71B	Loss from house property
Section 72	Loss from business or profession
Section 72A	Loss of amalgamating company
Section 73A	Loss of specified business
Section 74	Loss from capital gain
Section 74A	Loss from activity of owning and maintaining race horses

INTRODUCTION

As we know that there are five head of income and each head may have income under different sources. It might also happen that net result from a particular source/head may be a loss. This chapter will explain you that how you can set off a loss from other source of income. You will learn how the loss of one source can be adjusted with another profitable source as well as how the loss of one head can be set off from another profitable head of income.

The provision for set off or carry forward and set off of losses are contained in section 70 to 80 of Income Tax Act and it covers the following three steps:

Step 1 : Adjustment of one source of loss with another source of income as intra head adjustment.

Step 2 : Adjustment of one loss of head with another head of income as inter head adjustment in the same assessment year at the time aggregation of income.

Step 3 : Carry forward of loss to the next assessment year to claim, it as set off it could not be set off under the step 1 or step 2

SET OFF OF LOSSES

1. Intra Head Adjustment:

Set off of loss of one source to another source of income under the same head of income (Section 70): If any source has net result of loss for any assessment year falling under any head of income other than "capital gain, is entitled to set off such loss against the income from any other source of same head. For example, Mr. Y has two business. First cloth business has a loss of ₹ 25,000 and second of Shoe business has a profit of ₹ 40,000. As per the provision of section 70 Mr. Y can set off the loss of cloth business of ₹ 25,000 towards to Shoe business profit of ₹ 40,000 under the same head of income from business and profession.

However, the following exception should be kept in mind while doing set off under Intra Head:

(i). Long term capital loss: can be set off only against long term capital gain.

(ii). Speculation business loss: As per section 73, loss of speculation business can only be set off against income of another speculation business profit. Means we can set off business loss from speculation business profit but can not set off the speculation business loss to normal business profit. For better understanding see the below example:

	A	B	C	D
Normal business profit or (loss):				
X	25,000	25,000	-	-
Y	(15,000)	-	-	(15,000)
Speculation profit or (loss)				
P	-	-	25,000	25,000
Q	-	(15,000)	(15,000)	-
Income after adjustment of loss	10,000	25,000	10,000	10,000
	Normal business loss can be set off from Normal business profit	Speculation business loss cannot be set off from normal business profit	Speculation business loss can be set off from speculation business profit	Normal business loss can be set off from Speculation business profit

Meaning of Speculative transaction (Section 43(5)) – "means a transaction in which a contract for the purchase or sale of any commodity including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips.

You may also note that derivative trading carried out through a recognized stock exchange and derivative trading in foreign exchange shall not be treated as profit or loss from a speculation business.

(iii). Loss from the activity of owning and maintaining race horses (Section 74A): Loss from the activity of owning and maintaining race horses can only be set off from the profit of same activity. Such loss cannot be set off from any other source of income.

(iv). Exempted source loss: Loss incurred from a source, income from which is exempt, cannot be set off against income from taxable source.

(v). Loss on account of casual income cannot be set off against winning from lotteries, cross word puzzles, card games etc.: As you know that no expenditure or allowance is allowed from casual

incomes, similarly, no loss from any lottery, card games, races etc. is allowed to be set off from the income of winning of lotteries, crossword puzzles, card games, races etc.

(vi). Loss of a specified business referred to in section 35AD: Section 35AD of Income Tax Act covers the business of cold chain facility, business of building and operating hotel, business or warehouse for storage of agricultural purposes etc. As per section 70A, any loss computed in respect of specified business referred to in section 35AD shall not be set off except against profit or gains, if any, of any other specified business. Means it cannot be set off from any other business income.

(vii). Loss arising from the purchase and sale of securities not to allowed in certain cases (Section 94(7)):

(a) any person buys or acquires any securities or unit within a period of three months prior to the record date;

(b) Such person sells or transfers:

- Such securities within a period of three months after such date or
- Such units within a period of 9 months after such record date

(iii) the dividend or income on such securities or unit received or receivable by such person is exempted;

Then, the loss, if any, arising to him on account of such purchase and sale of securities or unit, to the extent such loss does not exceed the amount of dividend or income received or receivable on such securities or unit shall be **ignored** for the purposes of computing the income chargeable to tax.

(viii). Bonus Stripping in case of units (Section 94(8)) : Where:

(a) A person buys or acquires any units within a period of three months prior to the record date;

(b) Such person is allotted or is entitled to additional units on the basis of such units without making any payment.

(c) He sells all or any of such units while continuing to hold all or any of the additional units within a period of 9 months after such date,

Then the loss, if any, arising to him on account of such purchase or sale of units shall be ignored for the purpose of computing his income chargeable to tax.

(ix). If individual or HUF opts to be taxed under the new tax regime u/s 115BAC the loss under the head income from house property shall not be allowed to be set off from any other head of income.

2. Inter head Adjustment (Section 71)

Set off of loss from one head against income of another head: As per section 71(1), if after setting off under intra head adjustment, the net result of any head of income, other than "capital gain" is a loss, the assessee shall be entitled to have the amount of such a loss set off from other head income. For example, loss of house property head can be set off from income from salary head or income from business and profession head.

(1) Loss under the head profit and gains of business or profession cannot be set off from income under the head salary [Section 71(2A] : If there is any loss for any assessment year under the head profits and gains of business or profession than it cannot be set off from the income under the head salaries. However, the loss of business or profession shall be allowed to set off from income under any other head other than salary head.

(2) Loss under the 'capital gain'[Section 71(3)] : Short term capital loss or long-term capital loss under the head income from capital shall not be allowed to be set off against income under any other head. It shall however be allowed to carry forward.

(3) Loss under the head income from house property allowed to be set off from any other head upto ₹ 2,00,000 [Section 71(3A)] : If there is loss under the head income from house property and the assessee has income assessable under any other head of income the assessee shall be entitled to set off such loss, to the maximum of ₹ 2,00,000 against income under the other head. The balance loss over ₹ 2,00,000 after set off shall be carried forward to be set off only under the head income from house property.

3. Carry forward of losses

If a loss cannot be set off under intra head adjustment or inter head adjustment or inadequacy of income of same year, it may be carried forward and set off against the income of the subsequent year. Under the Act, the following losses can be carried forward:

(a) Loss under the head 'income from house property'[Section 71B]
(b) Loss under the head 'profits or gains of business or profession
(c) Speculative loss under the head 'profit or gains of business or profession
(d) Short term capital loss under the head 'income from capital gain'
(e) Long term capital loss under the head 'income from capital gain'
(f) Loss under the head 'income from other sources' only from the activity of owning and maintaining race horses.

(a) Carry forward and set off of loss from house property [Section 71B]:

Section 71B provides that where the assessee incurs any loss under the head 'income fromhouse property', will be allowed to be carried forward for 8 assessment year to claim it as a set off in the next subsequent years under the head 'income from house property' only. For the previous year, if the loss of house property head could not be set off because of :

(i) Absence of income under other head or
(ii) Loss under the head of house property being more than ₹ 2,00,000 in the previous year, or
(iii) Inadequacy of the income under other head,

It may be carried forwarded for 8 assessment years succeeding assessment year 2020-21.

Important points:

- Provision of section 80 and 139(3) are not applicable for the loss carry forward under the head house property [section 71B] and as such loss under the head income from house property can be carried forward even if return is not submitted under section 139(1).
- If individual or HUF opts to be taxed under the new tax regime u/s 115BAC the loss under the head income from house property shall not be allowed to be set off from any other head of income.

(b) Carry forward and set off of business losses [Section 72]:

In this para we will discuss the provisions of carry forward and set off of business loss other than loss from speculation business and loss from specified business. Where business loss could not be set off in the same assessment year because either the assessee had no income under any other head of income or the income was less than the loss such loss which could not be set off in the same assessment year can be carried forward to 8 following assessment years and it shall be set off against the profits and gains of business or professions subject to following conditions:

(1) Carry forward business loss can be adjusted only against business income :

The business loss can be carried forward to the subsequent assessment year and set off only against business income of the subsequent year. As you should have knowledge that in the same assessment year, loss from a business can be adjusted against income from any other head of income except salary head.

However, the carry forward business cannot be adjusted to other heads of income.

(2) Business may be changed: It is not essential to carry on the business of which loss is carried forward.

(3) Carry forward loss can be set off any income of this head: After carry forward to next year, the business loss can be set off from any income of business and profession including speculation loss.

(4) Ownership should not change: The business losses can be set off only by the assessee. If the ownership of business has been changed then the new owner as well as seller of business are not entitled to set off the loss of business of old owner. The following are the exceptions:

(i). Inheritance: Where a business carried on by one person is acquired by another person through inheritance. However, the unabsorbed depreciation cannot be carried forward by the legal heir as inheritance is not covered under section 32(2).

(ii). Amalgamation: Business losses and unabsorbed depreciation of an amalgamating company can be set off against the income of the amalgamated company, if the amalgamation is within the meaning of section 72A/72AA of the income tax act.

(iii). Succession of proprietary concern or a firm by a company.

(iv). Succession of a private company or unlisted company by a limited liability partnership.

(v). Demerger.

(5) Order of set off: The order of set off will be as under:

(i). Current year depreciation

(ii). Current year capital expenditure on scientific research and current year expenditure on family planning to the extent allowed.

(iii). Brought forward business or professional loss

(iv). Unabsorbed depreciation

(v). Unabsorbed capital expenditure on scientific research

(vi). Unabsorbed expenditure on family planning.

(6) Filing of return before the due date if necessary for carry forward of such loss.

(c) Speculation loss (Section 73):

Speculation business loss can be carried forward to the subsequent 4 years and can be set off against speculation business income only.

Important:

(1) It is not necessary that the same speculation business must continue in the assessment year in which the loss is set off.

(2) Filing of return before the due date is necessary for carry forward of such loss.

(3) Loss from derivative trading shall be treated as loss from non-speculative business.

(4) If speculation business is illegal, then the loss of such speculation business can not be carried forward.

(5) Assessee may set off carried forward speculation loss without set off the current year's speculation loss.

(d) Loss of a specified business referred to in section 35AD [Section 73A]:

The loss of a specified business referred to in section 35AD of any assessment year is allowed to be set off only against profits and gains, if any, of any other specified business. But if such loss of specified business has not been wholly set off so much of the loss as is not so set off or the whole loss where the assessee has no income from any other specified business shall, subject to the other provisions of this chapter, be carried forward to the following assessment year and –

(1) It shall be set off against the profits and gains, if any, of any specified business carried on by him assessable for that assessment year; and

(2) If the loss cannot be wholly so set off, the amount of loss no so set off shall be carried forward to the following assessment year and so on.

So we can say that loss of specified business can be carried forwarded indefinitely till it is set off.

(e) Unabsorbed depreciation: Depreciation charged during a particular year, if it could not be set off due to lack of profit, then it is known as unabsorbed depreciation. Unabsorbed depreciation can be carried forward indefinitely till it is set off.

(f) Carry forward of losses of head capital gain [Section 74]:

If there is short term or long-term capital loss in a particular year both shall be separately carried forward. Further such carried forward short term capital loss can be set off in the subsequent assessment year from income under the head capital gains, whether short term or long term. But brought forward long-term capital loss shall be allowed to set off only from long term capital gain.

Such capital losses can be carried forward to a maximum of 8 assessment year immediately succeeding the assessment year for which the loss was first computed.

(g) Set off carry forward and set off of loss from activity of owning and maintaining race horses [Section 74A]:

If loss from owning and maintaining of horses for horse race could not be set off in the same year then it can be carried forward for next 4 subsequent assessment year and this loss can be set off from profits from owning and maintenance of horses for race only.

Set off of losses under New Tax Regime u/s 115BAC

Mainly following provisions are applicable in new tax regime regarding set off of losses:

1. There will be no negative income from self-occupied house due to payment of interest. Therefore, income of self-occupied house will be always nil.
2. Loss from let out house property cannot be set off from other any heads of income under the new tax regime. But such loss of maximum ₹ 2,00,000 can be carried forward and can be set off according to the provisions of section 71(B). In other words, it can be set off from income from house property upto next 8 assessment years.
3. The total income shall be computed without set off of any carry forward loss or depreciation for any earlier assessment year, if such loss or depreciation is attributable to any of the following deductions:
   (i) Deduction available to Special Economic Zone unit under Section 10AA.
   (ii) Additional depreciation under section 32(1)(iia) to an assessee engaged in the business or manufacture of any article or a thing or generation, transmission or distribution of power.

(iii) Investment allowance of 15% if new plant and machinery is installed in notified backward areas in certain states as per section 32AD.

(iv) Deduction under section 33AB to an assessee engaged in the business of growing or manufacturing of Tea/Coffee/Rubber.

(v) Deduction under section 33ABA on account of deposit in Site Restoration Fund.

(vi) Deduction in respect of payment made to certain association/institutions for scientific research [Section 35(1)(ii) or payment made to a company to be used for scientific research [Section 35(1) (iia)] or payment made to certain institutions for research in social sciences or a university or an Indian Institute of Technology [Section 35(2AA].

(vii) Deduction under section 35AD in respect of expenditure on specified business.

(viii) Deduction under section 35CCC in respect of expenditure on agriculture extension project.

Note: As per new tax regime under section 115BAC minimum taxable income of assessee is ₹ 2,50,000 in all cases. Generally assessee can adjust the amount of LTCG with the other income if such is running short or less than ₹ 2,50,000. But in case of New tax regime, this adjustment is not allowed. It means whatever the other income, the tax on LTCG will be charged @ 20%.

Illustration: LTCG 60,000 and other income ₹ 2,30,000.

Tax calculation as per old tax scheme

	₹
Tax on first ₹ 2,50,000	Nil
Tax on LTCG Over ₹ 2,50,000 (60,000 – 20,000) x 20% (Being difference of ₹2,30,000 and ₹ 2,50,000)	8,000

Tax calculation as per new tax scheme

	₹
Tax on first ₹ 2,30,000	Nil
Tax on LTCG 60,000 x 20%	12,000

SET OFF AND CARRY FORWARD OF LOSSES (SECTION 70 TO 74) : AT A GLANCE

Steps :

1. **Inter source adjustment**
2. **Inter head adjustment**
3. **Carry forward & Set off**

Step 1 : Inter source adjustment

Section 70 : Inter source adjustment allowed: Loss from any source can be set off against income from any other source falling with the same head.

Exceptions:

1. Speculation loss can be set off only against speculative income.

2. Loss of a specified business under section 35AD.
3. Loss from activity of owning and maintaining race horses
4. No loss can be set off against winning from lotteries, crossword puzzles, card games etc.
5. Long term capital loss cannot be set off from short term capital gain

Step 2 : Section 71: Inter head adjustment allowed.

Loss from house property can be set off from other heads of income subject to maximum of ₹ 2,00,000.

Exceptions:

1. Speculation loss
2. Loss of a specified business
3. Loss from activity of owning and maintaining race horses
4. No loss can be set off against winning from lotteries, crossword puzzles, card games etc.
5. Long term capital loss cannot be set off from short term capital gain.
6. Loss from business cannot be set off against income from salary.

Step 3 : Carry forward of losses

- Section 71B: Loss from house property and set off allowed in 8 years.
- Note: Under new tax regime under section 115BAC the loss under the head income from house property shall not be allowed to be set off from any other head of income.
- Section 72: Loss from business or profession and set off allowed in 8 years
- Section 72A: Loss of amalgamating company and set off allowed in 8 years.
- Section 73A: Loss of specified business allowed to be set off only from income of specified business. Carry forward allowed indefinitely.
- Section 74: Loss from short-term capital gain and set off allowed in 8 years. However brought forward long term capital loss can be set off only from long term capital gain.
- Section 74A : Loss from activity of owning and maintaining race horses and set off allowed in 4 years.

ILLUSTRATION 9.1

Compute gross total income after setting off of losses for Mr. Mahendra for the previous year 2022-23 from the following information:

	₹
Salary received	1,08,000
Rent received from house	36,000
Long term capital loss	39,000
Winning from lottery	48,000
Loss from horse race	16,000
Short term capital gain	26,000

Solution:

Computation of Gross Total income of Mr. Mahendra for the A.Y. 2023-24

Particular	₹	₹
Income from salary		
Salary received	1,08,000	
Less: Standard Deduction	(50,000)	58,000
Income from house property		
Rent received	36,000	
Less: Statutory deduction @ 30%	(10,800)	25,200
Income from capital gain		
Long term capital loss (LTCL can only be set off from LTCG so loss to be carry forward to next year)	(39,000)	
Short term capital gain		26,000
Income from Other sources		
Winning from lottery		48,000
Loss from horse race (Can not be set off from any other income)	(16,000)	
Gross total Income		1,57,200

EXERCISE 9.1

Compute gross total income after setting off of losses for Mr. Rajesh for the previous year 2022-23 from the following information:

	₹
Salary received	2,40,000
Rent received from house	72,000
Long term capital loss	41,000
Winning from lottery	1,00,000
Loss from horse race	27,000
Short term capital gain	41,000

[Ans.: ₹ 3,81,400]

ILLUSTRATION: 9.2

Compute gross total income after setting off of losses for Mr. Shiv for the previous year 2022-23 from the following information:

	₹
Salary received	1,78,000
Rent received from house A	36,000
House B used for his own residence (interest on housing loan paid for house B)	14,200

Long term capital gain on sale of building	39,000
Long term capital loss on sale of Jewellery	13,000
Winning from lottery	28,000
Loss from horse race business	16,000
Short term capital loss	16,000

Solution:

Computation of Gross Total income of Mr. Shiv for the A.Y. 2023-24

Particular		₹	₹
Income from salary			
Salary received		1,78,000	
Less: Standard Deduction		(50,000)	1,28,000
Income from house property			
Rent received house A	36,000		
Less: Statutory deduction @ 30%	(10,800)	25,200	
House B Self occupied	Nil		
Less: Interest paid on house loan	(14,200)	(14,200)	11,000
Income from capital gain			
Long term capital gain on sale of building	39,000		
Long term capital loss on sale of Jewellery(LTCL can only be set off from LTCG)	(13,000)	26,000	
Short term capital loss (Short term capital loss can be set off from STCG or LTCG)		(16,000)	10,000
Income from Other sources			
Winning from lottery			28,000
Loss from horse race business (Can only be set off from horse race business income)		(16,000)	
Gross total Income			1,77,000

EXERCISE 9.2

Compute gross total income after setting off of losses for Mr. Satish for the previous year 2022-23 from the following information:

	₹
Salary received	5,40,000
Rent received from house A	1,08,000
House B used for his own residence (interest on housing loan paid for house B)	41,200
Long term capital gain on sale of building	9,00,000
Long term capital loss on sale of Jewellery	1,13,000

Winning from lottery	3,20,000
Loss from horse race business	56,000
Short term capital loss	49,000

[Ans. ₹ 15,82,400]

ILLUSTRATION 9.3

The business income of an individual for the assessment year 2023-24 has been determined by the assessing officer ₹ 3,20,000. Later, it is found that he has not considered the following while determining the income:

(i) Unabsorbed depreciation carried forward ₹ 30,000

(ii) Depreciation for the current year ₹ 88,000

(iii) Unabsorbed business loss carried forward from A.Y. 2020-21 ₹ 32,000

Determine the gross total income for the assessment year 2023-24.

Solution:

Computation of Gross Total income for the A.Y. 2023-24

Particular	₹	₹
Income from business		3,20,000
Less: (i) Depreciation for the current year	88,000	
(ii) Unabsorbed business loss carry forward from A.Y. 2020-21	32,000	
(iii) Unabsorbed depreciation carried forward	30,000	1,50,000
Gross total income		1,70,000

EXERCISE 9.3

The business income of an individual for the assessment year 2023-24 has been determined by the assessing officer ₹ 8,80,000. Later, it is found that he has not considered the following while determining the income:

(i) Unabsorbed depreciation carried forward ₹ 1,30,000

(ii) Depreciation for the current year ₹ 1,92,000

(iii) Unabsorbed business loss carried forward from A.Y. 2020-21 ₹ 1,11,000

Determine the gross total income for the assessment year 2023-24. [Ans.: ₹ 4,47,000]

ILLUSTRATION 9.4

From the following particulars, compute the gross total income of Mr. Rakesh for the assessment year 2023-24:

(i) Loss under the head 'Income from house property' which is let out ₹ 80,000

(ii) Income from non-speculative business ₹ 88,000

(iii) Profit of speculation business ₹ 48,000

(iv) Long term capital gain from building ₹ 1,20,000
(v) Short term capital loss ₹ 52,000
(vi) Loss under the head 'Income from Other sources' ₹ 60,000
(vii) Income from agricultural land ₹ 32,000

Solution:

Computation of Gross Total income of Mr. Rakesh for the A.Y. 2023-24

Particular	₹	₹
Income from business		
Non speculative Income	88,000	
Profit from speculative business	48,000	
	1,36,000	
Less: (i) Loss from House property	(80,000)	
(ii) loss under the head 'Income from Other sources'	(60,000)	
Balance loss from other sources to be adjusted from capital gain	(4,000)	Nil
Capital Gain		
Long term capital gain	1,20,000	
Less: Short term capital gain	(52,000)	
	68,000	
Less: Balance of loss from other sources	(4,000)	64,000
Gross total income		64,000

Note: Income from agricultural land means agricultural income. Income from agricultural land will not be considered for adjusting any loss because it is exempted income.

EXERCISE 9.4

From the following particulars, compute the gross total income of Mr. Rakesh for the assessment year 2023-24:

(i) Loss under the head 'Income from house property' which is let out ₹ 95,000
(ii) Income from non-speculative business ₹ 1,92,000
(iii) Profit of speculation business ₹ 96,000
(iv) Long term capital gain from building ₹ 6,20,000
(v) Short term capital loss ₹ 6,32,000
(vi) Loss under the head 'Income from Other sources' ₹ 20,000
(vii) Income from agricultural land ₹ 39,000 [Ans.: ₹ 1,73,000]

ILLUSTRATION 9.5

Compute gross total income after setting off of losses for Mr. Vineet for the previous year 2022-23 from the following information:

1. Taxable income from salary ₹ 72,000

2. Taxable income from house property

Income from House A	₹ 20,000
Loss from House B	₹ 16,000
Loss from House C	₹ 15,000

3. Income from business

Profit from General business	₹ 77,000
Depreciation for current year	₹ 22,000
Past trade losses	₹ 20,000
Profit of Speculative business	₹ 19,000

4. Capital Gain (Computed)

(i)	STCG	₹ 28,000
(ii)	LTCG on Shares (net)	₹ 18,500
(iii)	LTCL on building (net)	₹ 24,000

Solution:

Computation of Gross Total income of Mr. Vineet for the A.Y. 2023-24

Particular	₹	₹
Income from Salary		72,000
Income from House property		
Income from House A	20,000	
Loss from House B	(16,000)	
Loss from House C	(15,000)	(11,000)
Income from Business		
Profit from General business	77,000	
Less: Depreciation for current year	22,000	
	55,000	
Less: Past trade losses	20,000	
Income from General business	35,000	
Profit of Speculative business	19,000	54,000
Income from capital gain		
LTCG	18,500	
Less: LTCL	24,000	
LTCL (to be carried forward to next year)	(5,500)	
Short term capital gain		28,000
Gross Total Income		1,43,000

EXERCISE 9.5

Compute gross total income after setting off of losses for Mr. Vineet for the previous year 2022-23 from the following information:

1.	Taxable income from salary	₹ 7,20,000
2.	Taxable income from house property	
	Income from House A	₹ 20,000 per month
	Loss from House B	₹ 96,000
	Loss from House C	₹ 25,000
3.	Income from business	
	Profit from General business	₹ 6,72,000
	Depreciation for current year	₹ 1,12,000
	Past trade losses	₹ 90,000
	Profit of Speculative business	₹ 25,000
	Loss of Speculative business	₹ 10,000
4.	Capital Gain (Computed)	
	(i) STCG	₹ 2,80,000
	(ii) LTCG on Shares (net)	₹ 2,15,000
	(iii) LTCL on sale of building (net)	₹ 2,40,000

[Ans.: ₹ 15,89,000]

ILLUSTRATION 9.6

Particular of taxable income under various heads of shri Nitin Sharma for the previous year 2022-23 are as under:

(1)	Income from salary	₹ 3,00,000
(2)	Income from house property	₹ 59,000
(3)	Income from business	
	Profit from silver business	₹ 1,16,000
	Loss from cloth business	₹ 49,000
	Loss from sugar business	₹ 69,000
	Profit from share speculation from Delhi stock exchange	₹ 30,000
	Loss from share speculation from Bombay stock exchange	₹ 47,000
(4)	Income from other sources ₹ 21,000	

Compute gross total income of Shri Nitin Sharma after setting off of losses. State, is there any loss which can be carried forward.

Solution:

Computation of Gross Total income of Mr. Nitin Sharma for the A.Y. 2023-24

Particular	₹	₹
Income from Salary		3,00,000
Income from house property		59,000
Income from business		
Profit from silver business	1,16,000	

Less: loss from cloth business	(49,000)	
Less: Loss from sugar business	(69,000)	
Loss of normal business cannot be set off from salary head but can be set off from house property and other sources head	(2,000)	(2,000)
Profit from share speculation from Delhi stock exchange	30,000	
Loss from share speculation from Bombay stock exchange	(47,000)	
Loss carried forward to next year	(17,000)	
Income from other sources		21,000
Gross total income		3,78,000

EXERCISE 9.6

Particular of taxable income under various heads of shri Nitesh Sharma for the previous year 2022-23 are as under:

(1)	Income from salary	₹ 33,00,000
(2)	Income from house property	₹ 2,13,000
(3)	Income from business	
	Profit from silver business	₹ 6,16,000
	Loss from cloth business	₹ 4,49,000
	Loss from sugar business	₹ 1,69,000
	Profit from share speculation from Delhi stock exchange	₹ 75,000
	Loss from share speculation from Bombay stock exchange	₹ 47,000
(4)	Income from other sources	₹ 36,000

Compute gross total income of Shri Nitesh Sharma after setting off of losses. State, is there any loss which can be carried forward. It is to be assumed that assessee does not opt for tax under section 115BAC.

[Ans.: ₹ 31,62,000]

GRADED PROBLEMS

ILLUSTRATION 9.7

From the details of income of Shri Suyash given below, you are required to compute his gross total income for the assessment year 2022-23 after setting off the losses.

Salary received	₹ 1,80,000
Computed income from house property A (let out)	₹ 45,000
Computed loss from house property B (Self occupied)	₹ 17,000
Loss from electrical business	₹ 18,000
Profit from Petha business	₹ 70,000
Loss from speculation business	₹ 15,000
Long term capital loss	₹ 28,000

Short term capital gain	₹ 14,000
Interest on securities (gross)	₹ 21,000

Solution:

Computation of Gross Total income of Mr. Suyash for the A.Y. 2020-21

Particular	₹	₹
Income from Salary		
Salary received	1,80,000	
Less: Standard deduction	(50,000)	1,30,000
Income from house property		
House property A	45,000	
Less: loss of House property B	(17,000)	28,000
Income from business and profession		
Profit from Petha business	70,000	
Less: loss from electrical business	(18,000)	52,000
Loss from speculation business (cannot be set off from any other head income so carried forward to next year)	(15,000)	
Income from capital gain		
Short term capital gain		14,000
Long term capital loss (Carried forward to next year because LTCL can only be set off from LTCG)	(28,000)	
Income from Other sources		
Income from other sources		21,000
Gross total income		2,45,000

ILLUSTRATION 9.8

Durga Singh, a resident individual, submits the following information, relevant to the previous year ending 31-3-2022

		₹
(1)	Salary received from a private company	2,80,000
(2)	Income from house property	
	House I	29,000
	House II	(2,50,000)
	House III (Self occupied)	(18,000)
(3)	Profits and gains of business and profession	
	Business I	18,000
	Business II	(32,000)
	Business III (Speculative)	(74,000)
	Business IV (Speculative)	46,000

(4)	Capital gain	
	Short term capital loss	(6,000)
	Long term capital gain on building	65,000
	Long term capital loss on shares	(60,000)
(5)	Income from other sources (computed)	
	Income from card games	47,000
	Income from betting	21,000
	Loss on maintenance of race horses	11,000

Determine the gross total income for the assessment year 2022-23.

Solution:

Computation of Gross Total income of Mr. Durga Singh for the A.Y. 2022-23

Particular	₹	₹
Income from Salary		
Salary received	2,80,000	
Less: Standard deduction	(50,000)	
	2,30,000	
Less: House property loss set off	(2,00,000)	30,000
Income from house property		
House I	29,000	
House II	(2,50,000)	
House III (Self occupied)	(18,000)	
	(2,39,000)	
Less: Set off from salary upto ₹	2,00,000	Nil
Balance loss to be carried forward to next year	(39,000)	
Income from Business and Profession		
Business I	18,000	
Business II	(32,000)	
Business loss carried forward	(14,000)	Nil
Business III (Speculative)	(74,000)	
Business IV (Speculative)	46,000	
Speculation loss carried forward to next year	(28,000)	Nil
Income from capital gain		
Long term capital gain on building	65,000	
Less: long term capital loss on shares	(60,000)	
	5,000	
Less: Short term capital loss set off	6,000	
Short term capital loss carried forward to next year	(1,000)	Nil

Income from other sources		
Income from card games	47,000	
Income from betting	21,000	68,000
Loss on maintenance of race horses carried forward to next year ₹ 11,000		
Gross total income		98,000

Note:

(1) Normal business loss cannot be set off from income from salary

(2) No loss can be set off from income from casual income.

ILLUSTRATION 9.9

The following information is given by Udai Singh, an assessee for the preparation of his income tax return for the assessment year 2022-23

Loss under the head business	₹ 2,60,000
Long term capital gain on sale of building	₹ 7,80,000
Short term capital loss on sale of shares	₹ 2,10,000
Loss in respect of self occupied property	₹ 66,000
Loss in respect of let out house property	₹ 1,70,000
Share of loss from a partnership firm brought forward from assessment year 2020-21	₹ 36,000

You are required to:

(a) Compute the net income/loss; and

(b) Determine, the loss if any, to be carried forward giving reasons for the same.

Solution:

Computation of Gross Total income of Mr. Udai Singh for the A.Y. 2022-23

Particular	₹	₹
Long term capital gain	7,80,000	
Less: Short term capital loss	2,10,000	5,70,000
Inter head adjustment		
Self occupied property loss	(66,000)	
Let out property loss	(1,70,000)	
Loss under the head house property	(2,36,000)	
Set off allowed to the extent of ₹	2,00,000	
Balance loss carried forward	(36,000)	
Loss to be adjusted		
Loss from house property	(2,00,000)	
Loss from business	(2,60,000)	(4,60,000)
Gross total income		1,10,000

Note: Share of loss from the firm brought forward from assessment year 2020-21can not be sef off byUdai Singh. It is to be carried forward by the firm itself.

ILLUSTRATION 9.10

Mr. Bhagirath submits the following particulars of his income and loss for the assessment year 2022-23-

		₹
(a)	Loss in gambling	17,000
(b)	Computed income from house property	1,10,000
(c)	Profit from electrical business (before depreciation)	90,000
(d)	Depreciation of current year	17,000
(e)	Income from speculation business in oil	32,100
(f)	Long term capital gain from sale of land	56,300
(g)	Income from interest from a firm	52,100
(h)	Interest from debenture of a private company	17,000
(i)	Profit on maintenance of race horses	21,000

The following items have been brought forward from preceeding year 2020-21:

		₹
(i)	Short term capital loss	45,000
(ii)	Long term capital loss	8,000
(iii)	Unrealized rent	21,000
(iv)	Loss of electrical business	27,000
(v)	Loss on maintenance of race horses	17,900
(vi)	Loss from speculation	20,100
(vii)	Unabsorbed depreciation	6,300

You are required to compute his gross total income and give the details of losses set off and carried forward by him.

Solution:

Computation of Gross Total income of Mr. Bhagirath for the A.Y. 2022-23

Particular	₹	₹
Income from house property		1,10,000
Income from business and profession		
Profit from electrical business	90,000	
Less: Current year depreciation	17,000	
	73,000	
Less: Brought forward business loss	27,000	
	46,000	
Less: Unabsorbed depreciation brought forward	6,300	39,700
Profit of speculation in Oil	32,100	
Less: brought forward speculation loss	20,100	12,000

Income from capital gain		
Long term capital gain on sale of land	56,300	
Less: Long term capital loss brought forward	(8,000)	
	48,300	
Less: Short term capital loss brought forward	(45,000)	3,300
Income from other sources		
Interest from a firm	52,100	
Interest from debentures of a private company	17,000	69,100
Profit on maintenance of race horses	21,000	
Less: Brought forward loss	(17,900)	3,100
Gross total income		2,37,200

ILLUSTRATION 9.11

Mr. Jai Prakash started his business in previous year 2020-21 and was assessed first time to income tax. The assessment order showed that the assessee had suffered a loss of ₹ 57,000 and was further entitled to depreciation ₹ 17,800 and capital expenditure on scientific research ₹ 31,000. During the previous year 2021-22 Jai Prakash had a taxable profit from its operations amounting to ₹ 1,20,000 before charging depreciation of ₹ 36,800. The other income during the year amounts to ₹ 22,300. Determine the taxable income of the assessee for the assessment year 2022-23.

Solution:

Computation of Gross Total income of Mr. Jai Prakash for the A.Y. 2022-23

Particular	₹	₹
Income from business		
Current year profit	1,20,000	
Less: Current year depreciation	(36,800)	
	83,200	
Less: brought forward business loss	(57,000)	
	26,200	
Less: Unabsorbed depreciation	17,800	8,400
Income from other sources		22,300
Gross total income		30,700

ILLUSTRATION 9.12

Shri Arjun submits the following particulars:

		₹
(a)	Computed income from salary	3,00,000
(b)	Income from house property (computed)	90,000
(c)	Profit from personal business	2,50,000

(d)	Share in profit from a firm	60,000
(e)	Share of profit from an A.O.P. (Tax has not been paid by A.O.P.)	1,10,000
(f)	Short term capital loss	27,000
(g)	Long term capital gain on sale of building	1,06,000
(h)	Long term capital loss on shares	70,000
(i)	Dividend on shares of JKJ ltd. (held as stock in trade)	13,00,000
(j)	Speculation profits	90,000
(k)	Brought forward losses of preceeding assessment year	
	(i) Business loss	4,10,000
	(ii) Loss of speculation	1,10,000
	(iii) Unrealised rent	70,000
(l)	Long term capital loss of assessment year 2014-15	1,20,000
(m)	Long term capital loss of assessment year 2012-13	40,000

Compute his gross total income for the assessment year 2022-23.

Solution:

Computation of Gross Total income of Mr. Bhagirath for the A.Y. 2022-23

Particular	₹	₹
Income from salary		**3,00,000**
Income from house property		
Income from house property	90,000	
Less: Business loss set off against house property	(50,000)	40,000
Income from business and profession		
(A) General business		
Own business	2,50,000	
Share in profit from a firm	Exempt	
Share in profit from an A.O.P.	1,10,000	
	3,60,000	
Less: brought forward loss	4,10,000	
Business loss set off from house property income	(50,000)	
(B) Speculation		
Profit of current year	90,000	
Brought forward loss	1,10,000	
Loss to be carried forward to next year	(20,000)	
Income from capital gain		
Long term capital gain on building	1,06,000	
Less: long term capital loss on shares	(70,000)	
	36,000	

Less: Short term capital loss	(27,000)	
	9,000	
Less: brought forward LTCL	(1,20,000)	
Loss cannot be carried forward	(1,11,000)	
Income from other sources		
Dividend from JKJ Ltd.		13,00,000
Gross total income		**16,40,000**

Working notes:

(1) Unrealised rent cannot be set off.

(2) It if eighth year for long term capital loss of ₹ 1,20,000 so remaining loss of ₹ 1,11,000 will not be carried further.

(3) LTCL of assessment year 2012-13 cannot be set off because of more than 8 year old.

(4) Share in profit from a firm is fully exempt in the hands of partner.

QUESTIONS

Multiple Choice Questions

Q1. Which of the following losses a available after inter sources set-off, cannot be set-off from incomes in other heads in the same assessment year:

(a) Speculation losses (b) Loss from specified business

(c) Loss under the head capital gains (d) All of the above

Q2. No loss can be set off against:

(a) Income from salaries (b) Income from house property

(c) Income from capital gains (d) Winnings from lotteries

Q3. Loss from house property of the current year can be set off against income from....

(a) Any other house property without any limit

(b) Any other head of income up to maximum ₹2,00,000

(c) Both (a) & (b)

(d) None of the above

Q4. Mr. vipul has loss from house property of ₹1,10,000 (computed) for the assessment year 2023-24. He can carry forward such loss for subsequent .... Assessment years.

(a) 4 (b) Nil

(c) 8 (d) Indefinite

Q5. Unabsorbed loss from house property can be carried forward for:

(a) 4 years (b) 8 years

(c) Indefinite period (d) Cannot be carried forward

Q6. Speculation loss can be carried forward for ..... subsequent assessment years.

(a) 8 (b) Nil (c) 4 (d) 6

Q7. Loss from speculation business can be set off against:

(a) income from salaries (b) income from house property

(c) income from speculation business only (d) any head of income

Q8. The amount of depreciation not absorbed in the same year can be carried forward:
(a) for a period of 4 years (b) for a period of 8 years
(c) for a period of 6 years (d) indefinitely

Q9. If a person is eligible to claim:
(1) Unabsorbed depreciation (2) Current scientific research expenditure
(3) Current depreciation (4) Brought forward business loss
The order of priority to set-off would be-
(a) (4), (3), (2), (1) (b) (2), (3), (4), (1)
(c) (3), (4), (1), (2) (d) (1), (2), (3), (4)

Q10. To carry forward and set off losses, a loss return must be filed by the assessee within the stipulated time and get the loss determined by the assessing officer. However, this condition is not applicable to-
(a) Loss from house property (b) Loss from speculation
(c) Loss from discontinued business (d) Loss from capital assets

Q11. Mr. Kumar is employed in a company. His income under various heads are-
(1) Salary ₹5,60,000
(2) Loss from let out property ₹65,000
(3) Loss from business ₹1,10,000 and
(4) Loss under the head "other sources" ₹30,000
His total income after set-off of losses would be:
(a) ₹ 3,55,000 (b) ₹ 4,65,000
(c) ₹ 4,20,000 (d) ₹ 5,30,000

Q12. Business loss can be set off from any other business income but cannot be set-off from:
(a) Salary income (b) House property income
(c) Long term capital gains (d) Income from derivatives specified in section 43(5)

Q13. ABC Pvt. Ltd. has a business loss of ₹10lakh. There is unexplained share application money to the tune of ₹25 lakh. The total income of the company will be:
(a) ₹ 15 lakh (b) ₹ 35 lakh
(c) ₹ 25 lakh (d) None of the above

Q14. The loss other than loss from house property is allowed to be carried forward only when as assessee has furnished:
(a) return of loss
(b) return of loss before the due date mention u/s 139(1)
(c) or not furnished the return of loss
(d) return of loss before the due date mention u/s 139(1) or 139(4)

Q.15 Loss under the house property :
(a) can be carried forward 8 Assessment Year
(b) cannot be carried forward
(c) can be carried forward for only 4 Assessment year
(d) can be carried indefinitely

Very Short Type Questions

1. What do you mean by source of income?
2. How will the loss of a speculative business be set off in the same previous year?
3. Explain the provisions of income tax act for setting off the losses of a firm?

Short Answers Type Questions

1. Which losses can be carried forward?
2. Distinguish between source of income and head of income.
3. What are the provisions of Income Tax act regarding carry forward of losses of house property?
4. Explain the provisions of Income Tax act regarding carry forward of losses arisen due to change in the succession of a trade.
5. Explain the provisions regarding carry forward of losses under the head income from other sources.
6. If an assessee claims several losses together, what would be sequence to deduct those losses? Explain.
7. Discuss the provisions of set-off of losses under one head against income under another head along with its exceptions.

Long Answers Type Questions

1. What do you understand by set-off of losses? Discuss the provisions of set-off of losses as given in Income Tax Act 1961.
2. Explain the provisions regarding set off of losses while computing the total income.
3. What is the meaning of unabsorbed depreciation and what are the rules regarding carry forward of Unabsorbed depreciation.
4. What are the provisions regarding set off of the following losses:
   (a) Long term capital losses
   (b) Short term capital losses
   (c) Speculation losses
   (d) Losses of lottery and card games
5. What are the provisions regarding set off and carry forward of the following losses:
   (a) Long term capital losses
   (b) Short term capital losses
   (c) Speculation losses
   (d) Losses of lottery and card games
   (e) Losses of specified business.

Numerical Questions

1. Particular of taxable income under various heads of Shri Bhanwer Sharma for the previous year 2021-22 are as under:

(1)	Income from salary	₹ 2,00,000
(2)	Loss from house property	₹ 37,000
(3)	Income from business	
	Profit from silver business	₹ 1,40,000

	Loss from cloth business	₹ 65,000
	Loss from sugar business	₹ 85,000
	Profit from share speculation from Delhi stock exchange	₹ 40,000
	Loss from share speculation from Bombay stock exchange	₹ 47,000
(4)	Income from other sources	₹ 32,000

Compute gross total income of Shri Bhanwer Sharma after setting off of losses. State, is there any loss which can be carried forward. [Ans.: GTI ₹ 1,85,000]

2. Compute gross total income after setting off of losses for Mr. Pratham for the previous year 2021-22 from the following information:

	₹
Salary received	1,80,000
Rent received from house	72,000
Long term capital loss	71,000
Winning from lottery	54,000
Loss from horse race	21,000
Short term capital gain	32,000

[Ans.: GTI ₹ 2,66,400]

3. The business income of Mr. Praveen for the assessment year 2022-23 has been determined by the assessing officer ₹ 5,30,000. Later, it is found that he has not considered the following while determining the income:

(i) Unabsorbed depreciation carried forward ₹ 45,000

(ii) Depreciation for the current year ₹ 1,11,000

(iii) Unabsorbed business loss carried forward from A.Y. 2019-20 ₹ 52,000

Determine the gross total income for the assessment year 2022-23. [Ans.: GTI ₹ 3,22,000]

4. From the following particulars, compute the gross total income of Mr. Jaideep for the assessment year 2022-23:

(i)	Loss under the head 'Income from house property' which is let out	₹ 95,000
(ii)	Income from non-speculative business	₹ 2,60,000
(iii)	Profit of speculation business	₹ 40,000
(iv)	Long term capital gain from building	₹ 1,86,000
(v)	Short term capital loss	₹ 39,000
(vi)	Loss under the head 'Income from Other sources'	₹ 1,00,000
(vii)	Income from agricultural land	₹ 32,000

[Ans.: GTI ₹ 1,42,000]

5. Compute gross total income after setting off of losses for Mr. Pranay for the previous year 2021-22 from the following information:

a) Taxable income from salary ₹ 1,08,000

b) Taxable income from house property

	Income from House A	₹ 90,000
	Loss from House B	₹ 25,000
	Loss from House C	₹ 41,000
c)	Income from business	
	Profit from General business	₹ 1,90,000
	Depreciation for current year	₹ 41,000
	Past trade losses	₹ 70,000
	Loss of Speculative business	₹ 26,000
d)	Capital Gain (Computed)	
	(i) STCL	₹ 28,000
	(ii) LTCG on Shares (net)	₹ 27,000
	(iii) LTCL on building (net)	₹ 36,000

[Ans.: GTI ₹ 1,63,000]

6. Compute gross total income after setting off of losses for Mr. Jayant for the previous year 2021-22 from the following information:

	₹
Salary received	3,60,000
Rent received from house A	1,08,000
House B used for his own residence (interest on housing loan paid for house B)	73,400
Long term capital gain on sale of building	83,000
Long term capital loss on sale of Jewellery	24,000
Received from lottery	64,400
Loss from horse race business	25,000
Short term capital loss	22,000

[Ans.: GTI ₹ 4,41,200]

7. B.K. Singh, a resident individual, submits the following information, relevant to the previous year ending 31-3-2022

		₹
(1)	Salary received from a private company	5,60,000
(2)	Income from house property	
	House I	1,20,000
	House II	(1,80,000)
	House III (Self occupied)	(18,000)
(3)	Profits and gains of business and profession	
	Business I	48,000
	Business II	(32,000)
	Business III (Speculative)	(55,000)
	Business IV (Speculative)	46,000

(4)	Capital gain	
	Short term capital loss	(16,000)
	Long term capital gain on building	90,000
	Long term capital loss on shares	(60,000)
(5)	Income from other sources (computed)	
	Income from lottery	19,000
	Income from betting	21,000
	Loss on maintenance of race horses	20,000

Determine the gross total income for the assessment year 2022-23. [Ans.: GTI ₹ 5,02,000]

8. The following information is given by Vinay Mishra, an assessee for the preparation of his income tax return for the assessment year 2022-23

Loss under the head business	₹ 1,80,000
Long term capital gain on sale of building	₹ 8,10,000
Short term capital loss on sale of shares	₹ 1,90,000
Loss in respect of self occupied property	₹ 96,000
Loss in respect of let out house property	₹ 1,20,000
Share of loss from a partnership firm brought forward from assessment year 2020-21	₹ 36,000

You are required to:

(a) Compute the net income/loss; and

(b) Determine, the loss if any, to be carried forward giving reasons for the same.

[Ans.: GTI ₹ 2,40,000]

9. Mr. Dinesh submits the following particulars of his income and loss for the assessment year 2022-23-

		₹
(a)	Loss in gambling	34,000
(b)	Computed income from house property	2,20,000
(c)	Profit from electrical business (before depreciation)	1,80,000
(d)	Depreciation of current year	34,000
(e)	Income from speculation business in oil	64,200
(f)	Long term capital gain from sale of land	1,12,600
(g)	Income from interest from a firm	1,04,200
(h)	Interest from debenture of a private company	34,000
(i)	Profit on maintenance of race horses	42,000

The following items have been brought forward from preceeding year 2020-21:

		₹
(i)	Short term capital loss	90,000
(ii)	Long term capital loss	16,000

(iii)	Unrealized rent	42,000
(iv)	Loss of electrical business	54,000
(v)	Loss on maintenance of race horses	35,800
(vi)	Loss from speculation	40,200
(vii)	Unabsorbed depreciation	12,600

You are required to compute his gross total income and give the details of losses set off and carried forward by him. [Ans.: GTI ₹ 4,74,400]

10. Mr. Prakash started his business in previous year 2020-21 and was assessed first time to income tax. The assessment order showed that the assessee had suffered a loss of ₹ 61,000 and was further entitled to depreciation ₹ 17,800 and capital expenditure on scientific research ₹ 31,000. During the previous year 2021-22 Prakash had a taxable profit from its operations amounting to ₹ 2,10,000 before charging depreciation of ₹ 40,900. The other income during the year amounts to ₹ 22,300. Determine the taxable income of the assessee for the assessment year 2022-23. [Ans.: GTI ₹ 1,12,600]

11. Shri Mayur submits the following particulars:

		₹
(a)	Computed income from salary	6,00,000
(b)	Income from house property (computed)	1,80,000
(c)	Profit from personal business	5,00,000
(d)	Share in profit from a firm	1,20,000
(e)	Share of profit from an A.O.P. (Tax has not been paid by A.O.P.)	2,20,000
(f)	Short term capital loss	54,000
(g)	Long term capital gain on sale of building	2,12,000
(h)	Long term capital loss on shares	1,40,000
(i)	Dividend on shares of JKJ ltd. (held as stock in trade)	16,00,000
(j)	Speculation profits	1,80,000
(k)	Brought forward losses of preceeding assessment year	
	(i) Business loss	8,20,000
	(ii) Loss of speculation	2,20,000
	(iii) Unrealised rent	1,40,000
(l)	Long term capital loss of assessment year 2014-15	2,40,000
(m)	Long term capital loss of assessment year 2012-13	80,000

Compute his gross total income for the assessment year 2022-23. [Ans.: GTI ₹ 12,80,000]

12. From the details of income of Shri Vijay given below, you are required to compute his gross total income for the assessment year 2022-23 after setting off the losses.

Salary received	₹ 3,60,000
Computed income from house property A (let out)	₹ 64,000
Computed loss from house property B (Self-occupied)	₹ 36,000
Loss from electrical business	₹ 88,000

Profit from Petha business	₹ 70,000
Loss from speculation business	₹ 24,000
Long term capital gain	₹ 28,000
Short term capital loss	₹ 14,000
Interest on securities (net)	₹ 27,000

[Ans.: GTI ₹ 3,64,000]

Answer MCQ

1	2	3	4	5	6	7	8	9	10
D	D	C	C	B	C	C	D	B	A
11	12	13	14	15					
B	A	C	B	A					

❑❑❑

Chapter 10

DEDUCTIONS FROM GROSS TOTAL INCOME

SECTION-WISE STUDY

Section	Particular
80	Basic rules off deduction
80C	Deduction in respect of life insurance premium, provident fund, investment in certain shares and debentures etc.
80CCC	Deductions in respect of contributions to Pension Fund
80CCD	Deduction in respect of contribution to pension scheme of Central Government
80D	Deduction in respect of medical insurance premium payment on health check-up contribution to Central Government Health Scheme or other similar scheme
80DD	Deduction in respect of the dependent who is a person with disability
80DDB	Deduction in respect of medical treatment etc
80E	Deduction for interest paid on loan taken for pursuing higher education
80EE	Deduction to in respect of interest on loan taken from Financial Institutions for president house property if certain conditions are satisfied
80G	Deduction in respect of donation to certain funds charitable institutions
80GG	Deduction for Rent paid
80GGA	Deduction in respect of certain donations for scientific research or rural development programme
80GGB	Donation in respect of contribution by companies to political parties
80GGC	Deduction in respect of contribution given by any person to political party
80IA	Deduction in respect of profits and gains from industrial undertaking or Enterprises engaged in infrastructure development
80IAB	Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of special economic zone
80IAC	Deduction in respect of Eligible Start up
80IB	Deduction in respect of profits and gains from certain industrial undertaking other than infrastructure development
80IBA	Deduction for profit from housing projects

80ID	Deduction in respect of profit and gains from business of Hotel/convention centre in NCR
80IE	Deduction in respect of undertaking established in North East States
80JJA	Deduction in respect of profit from business of processing of biodegradable waste
80JJAA	Deduction in respect of new employment
80LA	Deduction in respect of certain income of offshore banking units and international financial services centre
80QQB	Deduction in respect of royalty income, etc. of authors of certain books other than text books
80RRB	Deduction in respect of royalty on patents
80TTA	Deduction in respect of interest on deposits of saving accounts
80TTB	Deduction in respect of interest on deposits
80U	Deduction in respect person with disability

INTRODUCTION

In chapter you will learn about deductions from gross total income available for an assessee to reduce his tax liability through investment or payment. The aggregate of income computed under each head of income after giving the effect of the provision of clubbing of income and set off of losses is known as gross total income. In computing the total income of assessee, the deductions mentioned under chapter VI A of income tax act or under section 80C to 80U will be deducted from gross total income.

Computation of total income of assessee

Particulars	Amount
Income from salary	+
Income from house property	+
Income from business and profession	+
Income from capital gain	+
Income from other sources	+
Add: Clubbed income of other persons to be included in the income of assessee under section 60 to 64	+
Add: Income from undisclosed the sources under section 68 to 69D	+
Less: Current year's losses and carry forward losses equals to gross total income	-
Gross Total Income	=
Less: Deduction under chapter VIA	-
Total Income	

BASIC RULES OF DEDUCTION

The following are the basic rules to provide the deduction under Section 80 of Income Tax Act -

1. The aggregate amount of deduction under section 80 shall not exceed the by the gross total income excluding long term capital gain, short term capital gain which are taxed the under section 111A, casual income and dividend and gain from GDR's.

For example, an assessee has gross total income of Rs. 6,00,000 than he cannot get deduction under section 80 exceeding the above gross total income of Rs. 6,00,000.

2. Deduction under section 80C to 80U will not be allowed from the following income even it is the part of gross total income:
   - All types of long-term capital gain,
   - Short term capital gain on transfer of equity shares and units of equity-oriented fund through a recognised stock exchange that is short term capital gain covered under section 111A,
   - Casual incomes
   - Income related to section 115A, 115AB,115AC, 115ACA, 115AD and 115D

2. If a deduction is allowed under the above sections to the AOP or BOI then deductions for the same payment/income will not be allowed to the members of the AOP/BOI. [Section 80A(3)].

3. Deductions under section 80IA to 80RRB, where, in the case of an assessee, any amount of profits and gains of a undertaking or unit or enterprise or eligible business is claimed and allowed as a deduction under any of those provisions for any assessment year, deduction in respect of, and to the extent of, such profits and gains shall not be allowed under any other provisions of this act for such assessment year and shall in no case exceed the profits and gains of such undertaking or unit or enterprise or eligible business, as the case may be.

4. Where any deduction is allowed under any section in respect of any income then the amount of such deduction shall not exceed the net income included in the gross total income

   For example: An individual gets deduction for saving bank interest upto Rs. 10,000 and in this case he can get deduction only in case if he had shown the income from saving bank interest in income from other sources. Means a person has to add first the income in gross total income than he will be able to get deduction.

DEDUCTION IN RESPECT OF EXPENDITURE AND PAYMENT

Section 80C: Deduction in respect of life insurance premium, provident fund, investment in certain shares and debentures etc.

Deduction available to	Limit	Remark
an individual and Hindu undivided family	Maximum of Rs. 150000	Deduction will be provided on the amount actually invested or deposited

The investment earning deposit and contribution made by the assessee during the previous year when are deductible under Section 80Care as follows:

1. Insurance Premium: Any sum paid by an individual to effect or to keep in force an insurance on the life of:
   (a) An individual himself
   (b) His/her spouse, and
   (c) Any child of such individual

   In case of HUF: life of any member of the family

   Note:

   (i) Children includes married/unmarried, dependent/not dependent on the individual.

(ii) Premium paid exceeding certain percentage of the capital sum assured not eligible for deduction [Section 80D(3)]:

Life insurance premium other than contract of deferred annuity	Amount paid eligible for deduction
For policy issued on or before 31-33-2012	20% of the capital sum assured
For policy issued on or after 1-4-2012	10% of the capital sum assured
For policy issued on or after 1-4-2013 for the insurance on life of a person who is: • A person with disability or a person with several disability as referred to in section 80U; or • Suffering from disease or ailment as specified in the rules made under section 80DDB	

2. Any contribution to a public Provident fund. The contribution may be made to an account standing in the name of individual himself his/her spouse or any child of such individual.
3. Contribution by an employee to an approved superannuation fund.
4. Any payment made to effect or keep in force a contract of a non-commutable deferred annuity (other than mentioned clause (5) below) on the life of (a) an individual himself, (b) his/her spouse and (c) any child of such individual.
5. Payment made to effect or keep in force a contract for notified annuity plan of the Life Insurance Corporation or any other insurer. New Jeevan Dhara, New Jeevan Dhara -1 and New Jeevan Akshay, New Jeevan Akshay – 1 and New Jeevan Akshay – II are the schemes which have been notified.
6. Tuition fee paid for any two children to any university college school or other educational institution situated within India for the purpose of full-time education. Such sum should have been paid as tuition fees excluding any payment towards development fees or donation or payment of similar nature.
7. Subscription to any deposit scheme or contribution to any pension fund set up by the National Housing Bank. The Home Loan Account Scheme of the National Housing Bank has been notified.
8. National Saving Certificate (VIII or IX issue) purchased. Any interest accrued on these certificates which is deemed to be reinvested also qualifies for deduction.
9. Any amount deducted in accordance with the conditions of services from the salary payable by or on behalf of the Government to any individual for the purpose of securing to him a deferred annuity or making provisions for his spouse or children. The sum deducted should not exceed $1/5^{th}$ of the salary.
10. Amount deposited in term deposit for a fixed period of not less than 5 years with a scheduled bank.
11. Amount deposited as five-year time deposit in an account under the Post office time deposit rules 1981.
12. Any amount deposited in an account under the Senior Citizens Saving Scheme Rules 2004.
13. Any subscription to notified units of (a) any mutual fund referred to in section 10(23D), or (b) the administrator or the specified company as referred to section 2 of the Units Trust of India, Equity Linked Saving Scheme (ELSS), 2005 has since been notified.
14. Subscription to equity shares or debentures forming part of any eligible issue of capital approved by the Board of wholly public company any public financial institution where such proceeds are utilized for infrastructure company.
15. Amount paid towards the cost of purchase or construction of a residential property. Such payment may be made towards:

(a) Any instalments or part payment due under any self-financing or other scheme of any developing authority housing board or other authority engaged in construction and sale of house property.

(b) Any instalment or part payment due to any company or co-operative society of which the assessee is a shareholder or member.

16. Investment in the specified bonds issued by National Bank for Agricultural and Rural Development (NABARD).

17. Amount deposited by an individual in "Sukanya Samriddhi Account Scheme" in the individual, any girl child.

Amount deposited, interest accrued and withdrawal from such account is exempt under section 10(11A) of the Income Tax Act.

18. Deposit in an account under the senior citizen saving schemes rules 2004. If amount is withdrawn before 5 years, then the principal amount will be taxed in the year of withdrawal.

19. Amount contributed (for a fixed period of not less than 3 years) by a Central Government Employees to his NPS (Tier II) account.

20. Any sum paid as subscription to any scheme of:

(a) Public sector company engaged in providing long-term finance for purchase/construction of residential houses in India (i.e., public deposit schemes of HUDCO),

(b) Housing board constituted in India for the purpose of planning, development or improvements of cities towns.

ILLUSTRATION 1

Compute the deduction allowed under section 80C for Mr. Ajay from the following information for the assessment year 2023-24:

Life Insurance premium on his own life (sum assured 50,000) policy issued on 1-4-2023	7,300
Life insurance premium on the life of his wife	7,000
Life insurance premium on the life of his major son (dependent on him)	11,000
Life insurance premium on the life of his minor son (not dependent on him)	12,000
Life insurance premium on the life of dependent brother	4,000
Contribution to ULIP	7,000
Contribution to PPF	51,000
Term deposit for 5 year with a scheduled bank	21,000
Contribution to Sukanya Samridhdhi Account	50,000

Solution:

Computation of deduction under section 80C

Life Insurance premium on his own life (sum assured 50,000) policy issued on 1-4-2023 (Limited to 10% of sum assured) 50,000 x 10%	5,000
Life insurance premium on the life of his wife	7,000
Life insurance premium on the life of his major son (dependent on him)	11,000
Life insurance premium on the life of his minor son (not dependent on him)	12,000

Life insurance premium on the life of dependent brother	Not allowed
Contribution to ULIP	7,000
Contribution to PPF	51,000
Term deposit for 5 year with a scheduled bank	21,000
Contribution to Sukanya Samridhdhi Account	50,000
Total amount invested	1,64,000
Allowable deduction under section 80C	1,50,000

ILLUSTRATION 2

From the following information calculate deductible amount under section 80C for the assessment year 2023-24:

Subscription to National Saving certificate IX issue	31,000
Interest on NSC purchased in June 2021	4,848
Tuition fee paid on the education of Child X Rs. 14,000 Child Y Rs. 10,000 Child Z Rs. 6,000	30,000
Five year time deposit in post office	19,000
Contribution to Recognized Provident fund	20,000

Solution:

Calculation of deduction under section 80C

Subscription to National Saving certificate IX issue	31,000
Interest on NSC purchased in June 2021	4,848
Tuition fee paid on the education of Child X Rs. 14,000 Child Y Rs. 10,000	24,000
Five year time deposit in post office	19,000
Contribution to Recognized Provident fund	20,000
Total amount invested	98,848
Allowable deduction under section 80C	98,848

Section 80CCC: Deductions in respect of contributions to Pension Fund

Deduction available to	Limit	Remark
An individual	Maximum of Rs. 150000	Deduction will be provided on the amount actually invested or deposited

This deduction is allowed to an individual who deposit and amount out of the taxable income with Life Insurance Corporation or other insurance companies with an object to get an annuity quantum of deduction.

Note:

(1) Amount should be paid or deposited out of income chargeable to tax

(2) If deduction is claimed under section 80CCC and later on pension is received by the assessee (or his nominee), such pension will be taxable.

(3) If the assessee or his nominee surrenders the annuity before maturity date of such annuity the surrender value shall be taxable.

Section 80CCD: Deduction in respect of contribution to pension scheme of Central Government

Deduction available to	Limit	Remark
An individual	Maximum of Rs. 150000	80CCD(1) Assessee or Employee's contribution to pension scheme
An individual	10% of Salary	80CCD(2) Employer contribution to pension scheme
An individual	Maximum of Rs. 50,000	80CCD(1b) Additional investment by employee to NPS

Note:

- If the assessee is not an employee the amount contributed by individual who is not an employee is deductible under this section up to a maximum 20% of gross total income.
- Deduction for employers' contribution as discussed in the chapter of salary the amount contributed by the employer towards National pension scheme will be treated as salary to employee and taxable under the head income from salary the amount contributed by the employer maximum 10%.In case of Central Government employees this will be 14% of basic salary plus dearness allowance of employee is deductible under section 80CCD(2)
- The deduction under section 80CCD(2) is in addition to the deduction of section 80CCD(1) and there will be no restriction of section 80CCE
- Additional deduction of Rs. 50000 for contribution towards National pension scheme under section 80CCD(1b):Thissub-section allows additional deduction of Rs.50000 will be provided to an individual for contribution towards National pension scheme deduction will also be in addition to the deduction as mentioned above and there will be no sealing of 150000 under section 80CCE
- If amount so deposited by an individual in National pension scheme and the deduction for the same has already been taken under section 80CCD(1) then no additional deduction will be provided under section 80CCD(1b) if partial deduction is taken by individual under section 80CCD(1) then for the remaining amount of deduction under section 80CCD(1b) will be provided to the maximum extent of Rs. 50000
- If assessee received any amount from this scheme at the time of completion of the scheme for closure of accounts then the taxation treatment will be as follows: if assess gets monthly pension then such pension receivable during the previous year is fully taxable and if assessee gets lump sum amount then the 60% of the total amount is taxable.

ILLUSTRATION 3

Gross total income of Mr. Jalaj who is self employed is Rs. 8,40,000. Out of such GTI :

(1) He contributed Rs. 1,00,000 to public provident fund.

(2) He contributed Rs. 90,000 to pension scheme of Central Government

(3) His employer contributed Rs. 90,000 to pension scheme of Central Government (Amount included in Gross total income)

Compute his taxable income if he:

(i) Does not opt to be taxed under section 115BAC

(ii) Opts to be taxed under section 115BAC.

Solution:

Computation of total income of Mr. Jalaj for the assessment year 2023-24

	Not opt for 115BAC	Opts for 115BAC
Gross total income	8,40,000	8,40,000
Less: Deduction under section		
80C PPF	1,00,000	-
80CCD(1) Contribution to pension scheme	90,000	-
Total	1,90,000	-
Deductible amount under section 80CCE	1,50,000	-
80CCD(2) Employers contribution to pension scheme	90,000	90,000
Taxable income	6,00,000	7,50,000

ILLUSTRATION 4

Following are the income and investment details of Mr. Rajeev for the previous year 2022-23:

(i) Salary received Rs. 50,000 per month

(ii) Let out house property rent received Rs. 30,000 per month

(iii) Interest on loan for above property Rs. 78,000

(iv) Exam remuneration Rs. 20,000

(v) Deposit in PF @ 10% of gross salary

(vi) Tuition fee paid for 2 children Rs. 3,000 for each child

(vii) His contribution to pension scheme of Central Government Rs. 83,000

Compute his total income if he:

(i) Doe not opt for new tax regime

(ii) Opts for new tax regime.

Solution:

Computation of total income of Mr. Rajeev for the assessment year 2023-24

	Old tax regime	New tax regime
Income from salary		
Salary received	6,00,000	6,00,000
Less: Standard deduction	50,000	-
	5,50,000	6,00,000
Income from House property		
Rent received 30,000 x 12	3,60,000	3,60,000

Less: Statutory deduction	1,08,000	1,08,000
Less: Interest on Loan	78,000	-
	1,74,000	2,52,000
Income from other sources		
Exam remuneration	20,000	20,000
Gross total income	7,44,000	8,72,000
Less: Deduction under section		
80C Deposit in PF	60,000	-
Tuition fee 3000x2x12	72,000	-
80CCD(1) Contribution to pension scheme	83,000	-
	2,15,000	-
Deducible amount u/s 80CCE	1,50,000	-
Total income	5,94,000	8,72,000

Section 80D: Deduction in respect of medical insurance premium payment on health check-up contribution to Central Government Health Scheme or other similar scheme

Deduction available to	Limit	Remark
An individual/HUF	As per table below	Amount paid (in any mode other than cash) by an individual or HUF to LIC or other insurer to effect or keep in force an insurance on the health of specified person. An individual can also make payment to the Central Government health scheme and/or on account of preventive health check-up (subject to limit)

Individual	HUF
For self, spouse and dependent children: Rs. 25,000 (Rs. 50,000 if person insured is a senior citizen*);	Premium up to Rs. 25,000 (Rs. 50,000 if member insured is a senior citizen) paid to insure any member of the family.
For parents of the assessee: (Additional) Rs. 25,000 (Rs. 50,000 if person insured is a senior citizen)	NA
Medical expenditure if no amount is paid in respect of health insurance-Rs.50,000 (only in case of senior citizen)	Medical expenditure if no amount is paid in respect of health insurance-Rs.50,000 (only in case of senior citizen)
Aggregate amount of deduction cannot exceed Rs.1,00,000 in any case	**Aggregate amount of deduction cannot exceed Rs.50,000 in any case.**

Section 80DD: Deduction in respect of the dependent who is a person with disability

Deduction available to	Limit	Remark
Resident individual/HUF	Deduction of Rs. 75,000 (Rs. 1,25,000 in case of severe	(*a*) any expenditure has been incurred for the medical treatment (including nursing), training

	disability)	and rehabilitation of a dependant, being a person with disability, or (*b*) any amount is paid or deposited under an approved scheme framed in this behalf by the LIC or any other insurer or the Administrator or the specified company for the maintenance of a dependent, being a person with disability (subject to certain conditions)

Note:

- Disability as defined under Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995] (w.e.f. assessment year 2005-06 including autism, cerebral palsy and multiple disability as referred to in National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation & Multiple Disabilities Act, 1999)

Section 80DDB: Deduction in respect of medical treatment etc

Deduction available to	Limit	Remark
Resident individual/HUF	Maximum deduction is Rs. 40,000 (Rs. 1,00,000 where expenditure is incurred for a senior citizen [w.e.f assessment year 2019-20])	Expenses actually paid for medical treatment of specified diseases and ailments subject to certain conditions

Section 80E: Deduction for interest paid on loan taken for pursuing higher education

Deduction available to	Limit	Remark
Individual whether resident or not	Actual amount paid for interest for a period of eight years from the year he starts paying interest	Loan may be taken for higher education for self, spouse and child

Section 80EE: Deduction to in respect of interest on loan taken from Financial Institutions for president house property if certain conditions are satisfied

Deduction available to	Limit	Remark
Individual whether resident or not	Maximum deduction 50,000	Interest payable on loan taken by an individual from any financial institution for the purpose of acquisition of a residential house property subject to certain condition.

Notes:

- Loan is taken for acquisition of residential house property.
- The loan has been sanctioned by the financial institution during the period beginning on 1st April 2016 and ending on 31st March 2017
- The amount of loan sanctioned for acquisition of the residential house property does not exceed Rs. 35,00,000
- The value of residential house property does not exceed rupees 50,00,000
- The Assessee does not own any residential house property on the date of sanction of loan.
- Where a deduction under this section is allowed for any interest, deduction can interest under any other provision of this act for the same or any other assessment year

Section 80G: Deduction in respect of donation to certain funds charitable institutions

Deduction available to	Limit	Remark
All Assessees	Actual donation Deduction on the basis of Qualification explained below	Donations to certain approved funds, trusts, charitable institutions/donations for renovation or repairs of notified temples, etc.

Donation which are deductible without limit: Deduction allowed for the following donations without any limitation

Donation to	% of deduction
National Defence fund set up by the Central Government	100%
Prime Minister National Relief Fund or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM Cares Fund)	100%
Prime Minister Armenia Earthquake Relief Fund	100%
Africa public contribution India Fund	100%
National foundation for Communal Harmony	100%
Approved university or educational institution for National eminence	100%
Maharashtra chief minister relief fund	100%
Zila Saksharta Samiti	100%
National blood transfusion Council or state Council for blood transfusion	100%
State government fund for providing medical relief to poor	100%
Army Central welfare fund or in Indian Naval benevolent fund for Air Force Central welfare fund	100%
Andhra Pradesh Chief Minister cyclone relief fund	100%
National illness assistance fund	100%
Chief minister relief fund for Lieutenant governor's relief fund	100%
National sports fund	100%
National cultural fund	100%
Technology development and application fund	100%
Funds set up by the government of Gujarat for providing relief to victims of earthquake	100%
National trust for Welfare of persons with Autism cerebral palsy mental retardation and multiple disabilities	100%
Swachh Bharat kosh	100%
National children's fund	100%
Clean Ganga fund	100%
National fund for control of drug abuse	100%
Jawaharlal Nehru Memorial fund	50%
Prime Minister's Drought Relief fund	50%
Indira Gandhi Memorial Trust	50%
Rajiv Gandhi Foundation	50%

Donation which are deductible with limit

100% deduction allowed for the following deduction after applying qualifying limit of 10% of adjusted gross total income

- Donation to Government or any approved local authority, institution or association to be utilised for promoting family planning
- Any sum paid by the assessee, being a company, in the previous year as donations to Indian Olympic association or to any other association or institution established in India and notified by the Central Government for
- The development of infrastructure for sports and games; or
- The sponsorship of sports and games in India

50% deduction allowed for the following deduction after applying qualifying limit of 10% of adjusted gross total income

- Any other approved fund or any institution which satisfies conditions mentioned in section 80G(5)
- Government or any local authority to be utilised for any charitable purpose other than the purpose of promoting family planning
- Any authority constituted in India

Note:

- Adjusted Gross total income means: Gross total income - long term capital gain - short term capital gain under section 111A - deduction under section 80C to 80U (except 80G) +incomes under section 115A, 115AB, 115 AC and 115AD
- Important donation in kind do not qualify and if more than rupees 2,000 payment should not be made in cash

ILLUSTRATION 5

From the following information calculate deduction under section 80G if assessee does not opt for new tax regime under section 115BAC if his total income is Rs. 8,20,000

	Rs.
Donation to National Defence fund	40,000
Donation to PMNRF	25,000
Donation to Indira Gandhi Memorial fund	30,000
Donation to Indian Olympic association	76,000
Donation to Mahesh Seva Sansthan	9,000

Solution:

Computation of deduction under section 80G

I – 100% deduction without limit		II – 50% deduction without limit	
Donation to NDF	40,000	Indira Gandhi memorial fund	30,000
Donation of PMNRF	25,000		
Total	65,000		30,000

Deduction %	100%		50%
Deductible amount	**65,000**		**15,000**

With qualifying limit of 10% of adjustment Total income (10% of 8,20,000) = Rs. 82,000

III – 100% deduction with limit		IV – 50% deduction with limit	
Donation to Indian Olympic association	76,000	Donation to Mahesh Seva Sansthan	9,000
Total	76,000		9,000
Deduction %	100%		50%
Deductible amount (Allowed maximum upto Rs. 82,000)	**76,000**	Actual donation Rs. 9,000 but limited to (82,000 – 76,000) = 6,000	**6,000 x 50% = 3,000**

Total deduction under section 80G

65,000 + 15,000 + 76,000+ 3,000 = 1,59,000

Section 80GG: Deduction for Rent paid

Deduction available to	Limit	Remark
Individuals not receiving any house rent allowance	Rent paid in excess of 10% of total income for furnished/unfurnished residential accommodation (subject to maximum of Rs. 5,000 p.m. or 25% of total income, whichever is less)	Individuals who do not receive a house rent allowance yet pay rent and does not occupy a owned residential house property

Section 80GGA: Deduction in respect of certain donations for scientific research or rural development programme

Deduction available to	Limit	Remark
All assesses not having business income	hundred percent of some donated is allowed	For scientific research research in Social Sciences or statistical research or National Urban Poverty Eradication Fund

Section 80GGB: Donation in respect of contribution by companies to political parties

Deduction available to	Limit	Remark
Company assessee	Amount contributed provided the payment is made in the mode of other than cash	Donation maybe to any political party registered having PAN number or electoral trust

Section 80GGC: Deduction in respect of contribution given by any person to political party

Deduction available to	Limit	Remark
All assessees, other than local authority and artificial juridical person wholly or partly funded by Government	Amount contributed provided the payment is made in the mode of other than cash	Donation maybe to any political party registered having PAN number or electoral trust

DEDUCTIONS IN RESPECT OF CERTAIN INCOMES

Section 80IA: Deduction in respect of profits and gains from industrial undertaking or Enterprises engaged in infrastructure development

Deduction available to	Limit
An Assessee, whose Gross Total Income includes any profits and gains derived by A to F as mentioned below.	As per limits specified

A. Any enterprise carrying on the business of (i) developing, (ii) operating and maintaining, or (iii) developing, operating, maintaining and any infrastructure facility; [Section 80-IA(4)(i)]

B. An undertaking which is engaged in generation, transmission, distribution of power, etc. [Section 80-IA(4)(iv)]

C. An undertaking which is engaged in 'Telecommunication Services'.

D. An undertaking which is engaged in 'Industrial Park or Special Economic Zone'

E. An undertaking which is engaged in 'Reconstruction of Power Unit'

F. Conditions applicable to all Undertakings / Enterprises mentioned above.

(A) Essential Conditions for Enterprises Carrying on the Business of Infrastructure Facility [Section 80-IA(4)(i)]

i. The enterprise should carry on the business of –
   a. developing,
   b. operating and maintaining, or
   c. developing, operating and maintaining, any infrastructure facility.

ii. the enterprise is owned by an Indian company or a consortium of such companies or by an authority or a Board or a Corporation or any other body established or constituted under any Central or State Act.

iii. the enterprise has entered into an agreement with Central/State Government or a local authority or any other statutory body for
   - developing,
   - operating and maintaining or
   - developing, operating and maintaining, a new infrastructural facility.

iv. the enterprise has started or starts operating and maintaining the infrastructural facilities on or after 1.4.1995.

Meaning of infrastructural facility:

For the purposes of this clause, "infrastructure facility" means:

i. a road including toll road, a bridge or a rail system;

ii. a highway project including housing or other activities being an integral part of the highway project;

iii. a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system;

iv. a port, airport, inland waterway or inland port or navigational channel in the sea.

Amount and Period of Deduction under Section [Section 80-IA(4)(i)] -

100% of profits and gains derived from such business for 10 consecutive assessment years out of 15 years beginning with the year in which undertaking or the enterprise develops and begins to operate any infrastructure facility or generates power or commences transmission or distribution of power or undertakes substantial renovation or modernisation.

However, in case of enterprises engaged in developing, etc of any infrastructure facility *other than port, airport, inland waterway or inland port or navigational channel in the sea,* the period of 15 years shall be substituted by 20 years.

The deduction commences from the '**Initial Assessment Year**'.

What is 'Initial Assessment Year' for the purpose of Section 80IA -

Initial assessment year, for this purpose, means the assessment year specified by the assessee at his option to be the initial year. But it should not fall beyond the 15th. of assessment year starting from the previous year in which the enterprise begins operating and maintaining the infrastructure facility.

However, the benefit of deduction is available only for 10 consecutive assessment years falling within a period of 15th. Assessment Years beginning with the assessment year in which an assessee begins operating and maintaining infrastructure facility.

Provisions of section 80-IA shall not apply to any enterprise which starts the development or operation and maintenance of the infrastructure facility on or after 1.4.2017 as such enterprise shall be eligible for 100% deduction of capital expenditure under section 35AD. [Second proviso to section 80-IA(4) inserted by the Finance Act, 2016]

B) Essential Conditions of undertaking which is engaged in Generation, Transmission, Distribution of Power, etc. [Section 80-IA(4)(iv)]

The following Conditions should be satisfied by the undertaking:

It is an undertaking which:

A. is set up in any part of India for the generation or generation and distribution of power if it begins to generate power at any time during the period beginning on 1.4.1993 and ending on 31.3.2017;

B. starts transmission or distribution by laying a network of new transmission or distribution lines at any time during the period beginning on 1.4.1999 and ending on 31.3.2017.

However, the deduction in this case shall be allowed only in relation to the profits derived from laying of such network of new lines for transmission or distribution;

C. undertakes substantial renovation and modernisation of the existing transmission or distribution lines at any time during the period 1.4.2004 to 31.3.2017. "Substantial renovation and modernisation" shall mean an increase of plant and machinery by atleast 50% of the book value of such plant and machinery as on 1.4.2004.

Other Conditions for Undertaking referred to in clause (B) above [Section 80-IA(3)]

i. Such undertaking should not be formed by splitting up, or the reconstruction, of a business already in existence. However, this condition shall not apply to an undertaking which is formed as a result of the re-establishment or revival of an undertaking, in circumstances specified u/s 33B.

ii. It should not be formed by the transfer to a new business of machinery or plant previously used for any purpose.

However, plant and machinery, already used for any purpose, can be transferred to the new industrial undertaking, provided value of such plant and machinery does not exceed 20% of the total value of plant and machinery of the new industrial undertaking. It may be noted that it is not essential that the building in which the undertaking carries on the business should also be new. Deduction u/s 80-IA will be available even if the industrial undertaking is set up in an old building.

Amount and Period of Deduction under Section [Section 80-IA(4)(iv)] -

100% of profits and gains derived from such business for 10 consecutive assessment years out of 15 years beginning with the year in which undertaking or the enterprise develops and begins to operate any infrastructure facility or generates power or commences transmission or distribution of power or undertakes substantial renovation or modernisation.

However, in case of enterprises engaged in developing, etc of any infrastructure facility *other than port, airport, inland waterway or inland port or navigational channel in the sea,* the period of 15 years shall be substituted by 20 years.

The deduction commences from the '**Initial Assessment Year**'.

What is 'Initial Assessment Year' for the purpose of Section 80IA -

Initial assessment year, for this purpose, means the assessment year specified by the assessee at his option to be the initial year. But it should not fall beyond the fifteenth* of assessment year starting from the previous year in which the enterprise begins operating and maintaining the infrastructure facility.

However, the benefit of deduction is available only for 10 consecutive assessment years falling within a period of 15th. Assessment Years beginning with the assessment year in which an assessee begins operating and maintaining infrastructure facility.

(C) An undertaking which is engaged in 'Telecommunication Services'

The provisions are given below –

Conditions - The following conditions should be satisfied by the undertaking—

1. It should be a new undertaking.
2. It should not be formed by transfer of old plant and machinery.
3. The undertaking should be engaged in providing telecommunication services. It should start providing telecommunication services (whether basic or cellular including radio paging, domestic satellite service or network of broadband network and internet services and electronic data interchange service) at any time after March 31, 1995 but before March 31, 2005. "Domestic satellite" for this purpose means a satellite owned and operated by an Indian company for providing telecommunication service.

Amount and Period of Deduction -

100% of profits and gains derived from such business for 10 consecutive assessment years out of 15 years beginning with the year in which undertaking or the enterprise develops and begins to operate any infrastructure facility or generates power or commences transmission or distribution of power or undertakes substantial renovation or modernisation.

However, in case of enterprises engaged in developing, etc of any infrastructure facility *other than port, airport, inland waterway or inland port or navigational channel in the sea,* the period of 15 years shall be substituted by 20 years.

The deduction commences from the '**Initial Assessment Year**'.

What is 'Initial Assessment Year' for the purpose of Section 80IA -

Initial assessment year, for this purpose, means the assessment year specified by the assessee at his option to be the initial year. But it should not fall beyond the fifteenth* of assessment year starting from the previous year in which the enterprise begins operating and maintaining the infrastructure facility.

However, the benefit of deduction is available only for 10 consecutive assessment years falling within a period of 15th. Assessment Years beginning with the assessment year in which an assessee begins operating and maintaining infrastructure facility.

(D) An undertaking which is engaged in 'Industrial Park or Special Economic Zone'

The provisions are given below –

Conditions - The following conditions should be satisfied by the undertaking –

1. It develops, develops and operates or maintains and operates an industrial park or a special economic zone.
2. The industrial park must start operating during April 1, 2007 and March 31, 2011 or the special economic zone must start operating during April 1, 1997 and March 31, 2005.

Amount and Period of Deduction -

100% of profits and gains derived from such business for 10 consecutive assessment years out of 15 years beginning with the year in which undertaking or the enterprise develops and begins to operate any infrastructure facility or generates power or commences transmission or distribution of power or undertakes substantial renovation or modernisation.

However, in case of enterprises engaged in developing, etc of any infrastructure facility *other than port, airport, inland waterway or inland port or navigational channel in the sea,* the period of 15 years shall be substituted by 20 years.

The deduction commences from the '**Initial Assessment Year**'.

What is 'Initial Assessment Year' for the purpose of Section 80IA -

Initial assessment year, for this purpose, means the assessment year specified by the assessee at his option to be the initial year. But it should not fall beyond the fifteenth* of assessment year starting from the previous year in which the enterprise begins operating and maintaining the infrastructure facility.

However, the benefit of deduction is available only for 10 consecutive assessment years falling within a period of 15th. Assessment Years beginning with the assessment year in which an assessee begins operating and maintaining infrastructure facility.

(E) An undertaking which is engaged in 'Reconstruction of Power Unit'

The provisions are given below –

Conditions - The following conditions should be satisfied by the undertaking –

1. It should be owned by an Indian company and set up for reconstruction or revival of a power generating plant.
2. It should be formed before November 30, 2005 with majority equity participation by public sector companies for the purposes of enforcing the security interest of the lenders to the company owning

the power generating plant and such Indian company is notified before December 31, 2005 by the Central Government.

3. Such undertaking begins to generate or transmit or distribute power before March 31, 2011.

Amount and Period of Deduction

100% of profits and gains derived from such business for 10 consecutive assessment years out of 15 years beginning with the year in which undertaking or the enterprise develops and begins to operate any infrastructure facility or generates power or commences transmission or distribution of power or undertakes substantial renovation or modernisation.

However, in case of enterprises engaged in developing, etc of any infrastructure facility *other than port, airport, inland waterway or inland port or navigational channel in the sea*, the period of 15 years shall be substituted by 20 years.

The deduction commences from the '**Initial Assessment Year**'.

What is 'Initial Assessment Year' for the purpose of Section 80IA -

Initial assessment year, for this purpose, means the assessment year specified by the assessee at his option to be the initial year. But it should not fall beyond the fifteenth* of assessment year starting from the previous year in which the enterprise begins operating and maintaining the infrastructure facility.

However, the benefit of deduction is available only for 10 consecutive assessment years falling within a period of 15th. Assessment Years beginning with the assessment year in which an assessee begins operating and maintaining infrastructure facility.

(F) Conditions applicable to all Undertakings / Enterprises mentioned above.

1. Audit of accounts [Section 80-IA(7)]:

The deduction under section 80-IA from profits and gains derived from an undertaking shall not be admissible unless the accounts of the undertaking for the previous year relevant to the assessment year for which the deduction is claimed have been audited by a chartered accountant and the assessee furnishes, along with his return of income, the report of such audit in Form No. 10CCB duly signed and verified by such accountant.

2. Inter-unit transfer of goods or services [Section 80-IA(8)]:

Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or where any goods or services held for the purposes of any other business carried on by the assessee are transferred to the eligible business and, in either case, the consideration, if any, for such transfer as recorded in the accounts of the eligible business does not correspond to the market value of such goods or services as on the date of the transfer, then, for the purposes of the deduction under this section, the profits and gains of such eligible business shall be computed as if the transfer, in either case, had been made at the market value of such goods or services as on that date:

However, where in the opinion of the Assessing Officer, the computation of the profits and gains of the eligible business in the manner hereinbefore specified presents exceptional difficulties, the Assessing Officer may compute such profits and gains on such reasonable basis as he may deem fit. "Market value" in relation to any goods or service, means the price that such goods or service, would ordinarily fetch on sale in the open market.

3. Double deduction not allowed [Section 80-IA(9)]:

Where any amount of profits and gains of an undertaking or of an enterprise in the case of an assessee is claimed and allowed under this section for any assessment year, deduction to the extent of such profits and

gains shall not be allowed under the heading "deductions in respect of certain incomes", and shall in no case exceed the profits and gains of such eligible business of undertaking or enterprise, as the case may be.

4. Restriction of excessive profits [Section 80-IA(10)]:

Where it appears to the Assessing Officer that, owing to the (i) close connection between the assessee carrying on the eligible business to which this section applies and any other person, or (ii) for any other reason, the course of business between them is so arranged that the business transacted between them produces to the assessee more than the ordinary profits which might be expected to arise in such eligible business, the Assessing Officer shall, in computing the profits and gains of such eligible business for the purposes of the deduction under this section, take the amount of profits as maybe reasonably deemed to have been derived therefrom.

5. Power of Central Government to declare that the section shall not apply [Section 80-IA(11)]:

The Central Govt. may, after making such inquiry as it may think fit, direct, by notification in the Official Gazette, that the exemption conferred by this section not apply to any class of industrial undertaking or enterprise with effect from such date as it may specify in the notification.

6. Deduction not to be allowed in cases where return is not filed within the specified time limit [Section 80AC]:

No deduction shall be allowed to the assessee under this section unless he furnishes a return of his income of the relevant assessment year on or before the due date specified u/s 139(1).

Section 80IAB: Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of special economic zone

Deduction available to	limit	Important
The taxpayer is a developer of a special economic zone.	100%	The gross total income of the taxpayer includes profits and gains derived by an undertaking from any business of developing a special economic zone

Note:

- Such special economic zone is notified on or after April 1, 2005 and the development of special economic zone should begin on or before March 31, 2017.
- Deduction should be claimed in the return of income. Return of income should be submitted on or before the due date of submission of return of income.
- Books of account should be audited. Audit report should be uploaded one month prior to the date of submission of return of income.
- **Amount of Deduction:** 100% deduction is available in respect of the aforesaid profit. Deduction is available for 10 consecutive assessment years. The deduction may be claimed, at the option of the taxpayer, for any 10 consecutive assessment years out of 15 years beginning from the year in which the special economic zone has been notified by the central government.

Section 80IAC: Deduction in respect of Eligible Start up

Deduction available to	limit	Remark
A Company or limited liability partnership	100%	Incorporated on or after 1st April 2016 but before 1st April, 2022 and engaged in an eligible business

Note:

- Limited liability partnership means a partnership referred to in section 2(1)(n) of the Limited Liability Partnership Act, 2008.
- A certificate is issued by the Inter-Ministerial Board as notified by the Central Government in its gazette notification.
- Eligible business means a business which involves innovation, development or improvement of products or processing or services or a scalable business model with a high potential of employment generation or wealth creation, deployment or commercialisation of new products, processes or services driven by technology or intellectual property.
- Annual turnover of the assessee should not be exceeded Rs. 100 crore in any 10 previous years beginning from the year in which the deduction under this section is claimed first time.
- Deduction of 100% of the profits derived from eligible business for 2 consecutive assessment years out of the first 10 years beginning from the year in which eligible business started.
- Books of accounts should be audited and audit report must be produced along with return of income.
- Company or LLP should not be formed by splitting up or the reconstruction of an existing business. But in case of start-up which is formed as a result or re-establishment, reconstruction or revival by the assessee because of Section 33B.
- Provisions of minimum alternate tax(MAT) or alternate minimum tax (AMT) are applicable even the aforesaid deduction is allowed.
- If assessee fails to claim the deduction under this section in any previous year, the same cannot be allowed as deduction in the subsequent year.
- The plant and machineries used in the business should be new one.
- Maximum 20% of total plant and machineries may be old one, which was previously used in India. The plant and machinery purchased from abroad, will be treated as new.

Section 80IB: Deduction in respect of profits and gains from certain industrial undertaking other than infrastructure development

Deduction available to	limit	Remark
All assessees	As explained below	• Commercial production and refining of mineral oil; • Processing, preservation and packaging of fruits or vegetables, meat and meat products or poultry or marine of dairy products; • Integrated business of handling, storage and transportation of good grains; • Operating and maintaining a hospital located anywhere in India than the excluded area.

(1) Industrial undertaking producing or refining mineral oil in the North Eastern Region or in any part of India [Section 80-IB(9)]

Conditions:

- It is located in the North Eastern Region and has begun or begins commercial production of mineral oil before 1-4-1997 or on or after 1-4-1997 but not later than 31-3-2017.

- It has begun or begins commercial production on or after 1-4-1997 but not later than 31-3-2017 where it is located in any other part of India.
- It is engaged in the business of refining of mineral oil on or after 1-4-1998 but not later than 31-3-2012
- It is engaged in commercial production of natural gas in licensed blocks and begins commercial production of natural gas on or after 1-4-2009

Notes:

- Deduction shall be available @ 100% of eligible profit for 7 assessment year commencing from the initial assessment year.
- North Eastern Region covers the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura.

(2) Undertakings engages in Processing, preservation and packaging of fruits or vegetables, meat and meat products or poultry or marine of dairy products [Section 80IB(11A)]:

Conditions:

- It begins or operate the business of processing, preservation and packaging of fruits or vegetables or integrated business of handling, storage and transportation of food grains.
- It must begin or operate the business on or after 1-4-2001.
- The business of processing preservation and packaging of meat and meat products or poultry or marine or dairy products should commence on or after 31-3-2009.

Deduction:

Assessee	Deduction
Owned by a company	100% for the first 5 years
	30% for the next 5 years
Owned by any other assessee	100% for the first 5 years
	25% for the next 5 years

(3) Undertaking operating and maintaining a hospital located anywhere in India other than excluded area [Section 80IB(11C)]:

Conditions:

- The hospital is constructed and has started or starts functioning at any time during the period beginning on 1-4-2008 and ending on 31-3-2013;
- The hospital has at least 100 beds for patients.
- The construction of the hospital is in accordance with the regulations or bye-laws of the local authority; and
- The assessee furnishes audit report in such form and containing such particulars, as may be prescribed, and duly signed and verified by an accountant, as defined in the Explanation to sub-section 288, certifying that the deduction has been correctly claimed.

Deduction:

- 100% of the profits and gains of such business for a period of 5 consecutive assessment years, beginning with the initial assessment year.

Notes:

- A hospital shall be deemed to have been constructed on the date on which a completion certificate in respect of such construction is issued by the local authority concerned;
- "Excluded area" shall mean an area comprising –
  - (a) Greater Mumbai urban agglomeration;
  - (b) Delhi urban agglomeration;
  - (c) Kolkata urban agglomeration;
  - (d) Chennai urban agglomeration;
  - (e) Hyderabad urban agglomeration;
  - (f) Bangalore urban agglomeration;
  - (g) Ahmedabad urban agglomeration;
  - (h) District of Faridabad;
  - (i) District of Gurgaon;
  - (j) District of Gautam Budh Nagar;
  - (k) District of Ghaziabad;
  - (l) District of Gandhinagar, and
  - (m) City of Secunderabad

Section 80IBA: Deduction for profit from housing projects

Deduction available to	Limit	Remark
All assessees	100%	100% of the profit derived from the below mentioned business is deductible under section 80IBA

Conditions:

- The assessee has profits derived from the business of developing and building a housing project
- The competent authority has approved the project after June 1, 2016 but on or before March 31, 2021.
- The assessee completes the projects within a period of 5 years from the date of first approval by the competent authority. The project shall be deemed to have been completed when a certificate of completion of project as a whole is obtained in writing from the competent authority.
- The carpet area of the shops and other commercial establishments included in the housing project does not exceed 3% of the aggregate carpet area.
- Size of the plot, area of residential units and minimum utilization of floor area ratio (FAR) should satisfy the criteria as mentioned below.
- The stamp duty value of a residential unit in the housing project does not exceed Rs. 45 lakhs (this condition is applicable if only if the housing project is approved on or after September 1, 2019.
- The project is the only housing project on such plot of land as specified in column 2 in below table.
- Where a residential unit in the housing project is allotted to an individual, no other residential unit in the housing project shall be allotted to the individual or the spouse or the minor children of such individual.
- The assess should maintain separate books of account in respect of the housing project.

Approval date	Location of project	Area of plot of land on which project is situated	Carpet area of residential units comprised in the housing project	Utilisation of permissible Floor Area Ratio
Project approved prior to Sept. 1, 2019	Project is located in Delhi, Mumbai, Chennai or Kolkata	Not less than 1,000 square metres	Not to exceed 30 square metres	Not less than 90%
Project approved prior to Sept. 1, 2019	Project is located in any other place	Not less than 2,000 square metres	Not to exceed 60 square metres	Not less than 80%
Project approved after Sept. 1, 2019	Bengaluru, Chennai, Delhi NCR(limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Farida bad), Hyderabad, Kolkata and Mumbai (whole of Mumbai metropolitan region)	Not less than 1,000 square metres	Not to exceed 60 square metres	Not less than 90%
Project approved after to Sept. 1, 2019	Project is located in any other place	Not less than 2,000 square metres	Not to exceed 90 square metres	Not less than 80%

- Reversal of deduction if project is not completed within stipulated time- where the housing project is not completed within 3 years from the date of first approval by the competent authority and in respect of which a deduction has been claimed and allowed under this section, the total amount of deduction so claimed and allowed in some or more previous years, shall be deemed to be business income of the assessee of the previous year in which the period for completion so expires.

Section 80ID: Deduction in respect of profit and gains from business of Hotel/convention centre in NCR

Deduction available to	Limit	Remark
All assessees	100% profit is deductible for the first 5 years	The taxpayer is engaged in the business of hotel located in specified area.

Note:

- The business is a new business. It is not formed by the splitting up, or the reconstruction, of a business already in existence. If should not be formed by the transfer to a new business of machinery or plant previously used for any purpose.
- Books of account should be audited. Audit report should be uploaded one month prior to the due date of submission of return of income
- Deduction should be claimed in the return of income
- Return of income should be submitted on or before the due date of submission of return of income.
- 2/3/4 Star hotel or convention centre in NCR (i.e., Delhi, Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad)

- Construction should be completed and hotel or convention centre should start functioning during April 1, 2007 and July 31, 2010.
- Deduction is also available in the case of 2/3/4-star hotel at a World heritage site (i.e., districts of Agra, Jalgaon, Aurangabad, Kancheepuram, Puri, Bharatpur, Chhatarpur, Thanjavur, Bellary, South 24 Parganas (excluding areas falling within the Kolkata Urban Agglomeration), Chamoli, Raisen, Gaya, Bhopal, Panchmahal, Kamrup, Goalpara, Nagaon, North Goa, South Goa, Darjeeling and Nilgiri). In the case of world heritage site, the hotel should be constructed and started functioning during April 1, 2008 and March 31, 2013.

Section 80IE: Deduction in respect of undertaking established in North East States

Deduction available to	Limit	Remark
All assessees	100% profit is deductible for the first 10 years	The taxpayer whose gross total income includes profits derived from eligible undertaking.

Note:

- North eatern states includes State of Arunachal Pradesh, Assamn, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura;
- Eligible undertaking means an undertaking in any of the north eastern states which starts the following activities during the period from 1-4-2007 to 31-3-2017:
  - To manufacture or produce any eligible article or thin;
  - To undertake substantial expansion to manufacture or produce any eligible article or thing; or
  - To carry on any eligible business.
- Eligible article or thing means the artible or thing other than – (a) tobacco and manufactured tobacco substitues; or (b) pan masala; or (c) plastic carry bags or less then 20 microns; or (d) goods produced by petroleum oil or gas refineries.
- Eligible business means the business of,
  (a) Hotel (not below two star category)
  (b) Adventure and leisure sports including ropeways;
  (c) Providing medical and health services in the nature of nursing home with minimum capacity of 25 beds;
  (d) Running an old-age home;
  (e) Operating vocational training institute enterpreneurship development, nursing, fashion designing and industrial training;
  (f) Running information technology related training centre;
  (g) Manufacturing of information technology hardware; and
  (h) Bio-technology
- Substantial expansion means increase in investment of plant and machinery by 25% or more of the book value of plant and machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial expansion is under taken.
- The eligible undertaking is not formed by the splitting up or reconstruction of already existing business, except in section 33B cases.

- The eligible undertaking is not formed by transfer of plant or machinary previously used for any purpose. However, where the value of second hand plant and machinery doesn't exceed 20% of total value of plant or machinery used in that business, or, such second hand machinery is the one imported by the assessee on which no depreciation was allowed under this Act, then this conditions is not violated.

Section 80JJA: Deduction in respect of profit from business of processing of biodegradable waste

Deduction available to	Limit	Remark
All assessees	100% profit is deductible for the first 5 years	Any profits from the business of collecting and processing or treating of biodegradable waste for generating power, production of biogas, making pellets or briquette for fuel or organic manure.

Section 80JJAA: Deduction in respect of new employment

Deduction available to	Limit	Remark
All assessees	30% of additional employee cost for 3 assessment year	3 assessment year includes the assessment year in which new employment is provided by assessee.

Note:

- The books of accounts must be audited under section 44AB of Income tax Act.
- The business should not be formed by splitting up or reconstruction of an existing business. (Except the business formed as a result of re-establishment, reconstruction or revival as referred in section 33B)
- The employees should be appointed in the previous year.
- Additional employee cost means the amount payable to additional employees who are paid through an account payee cheque drawn on a bank or an account payee bank draft or using the electronic clearing system or any electronic mode of payment that direct credited to the recipient account.
- The employees whose emoluments is more than Rs. 25,000 will not be considered from the deduction of this section.
- Employee who is appointed for less than 240 days(150 days in case of business of manufacturing of apparel to footwear and leather products) then its remuneration will not be considered for the deduction.
- Assessee has to submit audit report.
- Deduction of this section is available in new tax regime also.
- Emoluments means any sum paid or payable to an employee in lieu of his employment by whatever name called, but does not include employer's contribution to pension fund/provident fund/any other fund for the benefit of employee under any law. Further, it does not include lumpsum payment at the time of termination of service, or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension, and the like.

Section 80LA: Deduction in respect of certain income of offshore banking units and international financial services centre

Deduction available to	Limit	Remark
All assessees is (a) a scheduled bank and having an offshore banking unit in a special economic zone; or (b)	For (a) and (b) 100% for first 5 year and 50% for next five years For (c) 100% for 10 consecutive years.	Deduction is available only if it is claimed in the return of income

a foreign bank and having an offshore banking unit in a special economic zone; or (c) a unit of international financial services centre.		

Note:

- The gross total income of the assessee includes any income from-
  - The offshore banking unit in a Special Economic Zone;
  - The business referred to in section 6(1) of the Banking regulation act, with an undertaking located in special economic zone or any other undertaking which develops, develops and operates or operates and maintains a special economic zone;
  - Any unit of the International Financial Services Centre from its business for which it has been approved for setting up in such a centre in a Special Economic Zone;
  - The transfer of an aircraft or ship, which was leased by a unit referred to in clause above to a person subject to condition that the unit has commenced operation on or before March 31, 2024
- The report from a Chartered Accountant in Form No. 10CCF certifying that the deduction has been correctly claimed in accordance with the provisions of this section should be submitted electronically.
- A copy of permission obtained u/s 23(1)(a) of Banking regulation Act or copy of permission/registration obtained under the International Financial Services Centre authority Act should be submitted along with the return of income.

Section 80QQB: Deduction in respect of royalty income, etc. of authors of certain books other than text books

Deduction available to	Limit	Remark
Individual who is resident in India	100% of such royalty income or Rs. 3,00,000, whichever is less	The book should be a work of literary, artistic or scientific nature

Note:

- The income must be derived by him in the exercise of his/her profession.
- Income must be either from on account of any lump sum consideration for the assignment or grant of any of his interests in the copyright of such book, or of royalty or copyright fees (whether receivable in lump sum or otherwise).
- Where the income by way of such royalty or the copyright fee is not a lumpsum consideration in lieu of all rights of the assessee in the book, then such royalty, etc., before allowing expenses, in excess of 15% of the value of such books sold during the previous year, shall be ignored.
- Where any income is earned from any source outside India, only so much of the income shall be taken into account for the purpose of this section as is brought into India by, or on behalf of, the assessee in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf.
- Author includes a joint author
- Books shall not include brochures, commentaries, diaries, guides, magazines, journals, newspapers, pamphlets, text books for schools, tracts and other publication of similar nature, by whatever name called.
- No deduction under this section shall be allowed unless the assessee furnishes a certificate in the prescribed form (Form No. 10CCD) and in the prescribed manner, duly verified by any person responsible for making such payment to the assessee, along with the return of income, setting forth such particulars as may be prescribed.

Section 80RRB: Deduction in respect of royalty on patents

Deduction available to	Limit	Remark
Individual who is resident in India	100% of such royalty income or Rs. 3,00,000, whichever is less	Individual is a patentee or co-patentee

Note:

- Patent means a patent (including a patent of addition) granted under the Patent Act, 1970.
- Patentee means the person, being the true and first inventor of the invention, whose name is entered on the patent register as the patentee, in accordance with the Patent Act, 1970, and includes every such person, being the true and first inventor of the invention, where more than one person is registered as patentee under that Act in respect of that patent.
- Gross total income of the previous year includes royalty in respect of such patent.
- Royalty, in respect of a patent, means consideration (including any lump sum consideration which would be the income of the recipient chargeable under the head "Capital gains" or consideration for sale of product manufactured with the use of patented process or of the patented article for commercial use) for–
  - (a) The transfer of all or any rights (including the granting of a licence) in respect of a patent; or
  - (b) The imparting of any information concerning the working of, or the use of, a patent; or
  - (c) The use of any patent; or
  - (d) The rendering of any services in connection with the activities referred to in Sub-clauses (a) to (c).
- Where a compulsory licence is granted in respect of any patent under the Patent Act, 1970, the income by way of royalty for the purpose of allowing deduction under this section shall not exceed the amount of royalty under the terms and conditions of a licence settled by the Controller under that Act.
- No deduction under this section shall be allowed unless the assessee furnishes a certificate in the prescribed form (Form No. 10CCD) and in the prescribed manner, duly verified by any person responsible for making such payment to the assessee, along with the return of income, setting forth such particulars as may be prescribed.
- No deduction under this section shall be allowed in respect of any income earned from any source outside India unless the assessee furnishes a certificate, in the prescribed form (Form No. 10H) from the prescribed authority along with the return of income in the prescribed manner.

Section 80TTA: Deduction in respect of interest on deposits of saving accounts

Deduction available to	Limit	Remark
Individual (other than senior citizen) or HUF (Both to Resident and Non-resident)	Rs. 10,000	Interest on deposits in a saving account with a banking company, co-operative society or post office

Note: Interest on time deposit (fixed deposits) is not covered in this section.

Section 80TTB: Deduction in respect of interest on deposits

Deduction available to	Limit	Remark
Individual being senior citizen	Rs. 50,000	Interest on deposits account with a banking company, co-operative society or post office

Note: Interest on time deposit (fixed deposits) is covered in this section.

Section 80U: Deduction in respect person with disability

Deduction available to	Limit	Remark
Individual resident in India	Fixed deduction of Rs. 75000. A higher deduction of Rs. 1,25,000 is allowed in respect of a person with severe disability (having disability of 80% or above)	The taxpayer shall have a certificate issued by the medical authority.

Note: Where the conditions of disability require reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

ILLUSTRATION 6

From the following information find out deductions under section 80C:

	Rs.
Contribution to recognized provident fund	37,500
Employers' contribution to the aforesaid fund	37,500
Life insurance premium paid on the policy taken on 15th May, 2012 on his life (sum assured Rs. 1,00,000)	25,000
Tuition fee paid for 3 children @ Rs. 13,000 per child	39,000
Deposited in State Bank of India for 6 years under a scheme notified for section 80C by the Central Government	60,000
National Saving Certificate VIII issue purchased	6,000
Life insurance premium paid on the policy taken on 15th June 2018 on the life of handicapped son, suffering from disability mentioned u/s 80U) (Sum assured Rs. 1,00,000)	21,000
Deposited in the name of his girl child Miss Isha under Sukanya Samardhi Scheme	18,000

Solution:

Computation of deduction under section 80C

	Rs.
Contribution to recognized provident fund	37,500
Life insurance premium paid on the policy taken on 15th May, 2012 on his life (subject to 10% of sum assured) Rs. 1,00,000 x 10%	10,000
Tuition fee paid for 2 children @ Rs. 13,000 per child	26,000
Deposited in State Bank of India for 6 years under a scheme notified for section 80C by the Central Government	60,000
National Saving Certificate VIII issue purchased	6,000
Life insurance premium paid on the policy taken on 15th June 2018 on the life of handicapped son, suffering from disability mentioned u/s 80U) (subject to 15% of sum assured) (Sum assured Rs. 1,00,000 x 15%)	15,000
Deposited in the name of his girl child Miss Isha under Sukanya Samardhi Scheme	18,000
Deduction u/s 80C	**1,72,500**

ILLUSTRATION 7

From the following information, compute the deduction available u/s 80C to Mr. Praveen for the assessment year 2023-24:

	Rs.
Life insurance premium paid on the policy taken on the life of his wife on 15th May, 2011 (Sum assured Rs. 2,00,000)	52,000
Life insurance premium paid on the policy taken on 18th May, 2012 on the life of his major son who is physically handicapped (Section 80U disability) (Sum assured Rs. 2,00,000)	60,000
Life insurance premium on the policy taken on the life of dependent bother	12,000
Life insurance premium on the policy taken on the life of dependent mother	8,500
Amount deposited in PPF account	40,000
Contribution to ULIP	14,000
Repayment of housing loan taken from LIC (principal amount of Rs. 9,000	27,000
Subscription to units of a mutual fund notified u/s 10(23D) which will subscribe to eligible issue of capital	7,000

Solution:

Computation of deduction under section 80C

	Rs.
Life insurance premium paid on the policy taken on the life of his wife on 15th May, 2011 (Sum assured Rs. 2,00,000) (Subject to maximum of 20% of sum assured i.e., 2,00,000 x20%	40,000
Life insurance premium paid on the policy taken on 18th May, 2012 on the life of his major son who is physically handicapped (Section 80U disability) (Sum assured Rs. 2,00,000) (Subject to maximum of 10% of sum assured i.e., 2,00,000 x10%	20,000
Life insurance premium on the policy taken on the life of dependent bother	Not eligible
Life insurance premium on the policy taken on the life of dependent mother	Not eligible
Amount deposited in PPF account	40,000
Contribution to ULIP	14,000
Principal repayment of housing loan taken from LIC	9,000
Subscription to units of a mutual fund notified u/s 10(23D) which will subscribe to eligible issue of capital	7,000
Deductions u/s 80C	**1,30,000**

ILLUSTRATION 8

From the following details compute deduction under section 80C:

	Rs.
Life insurance premium on the policy taken on the own life on 15 June 2011 (the sum assured Rs. 2,00,000)	60,000
Life insurance premium on the policy taken on the life of his wife on 1 August, 2012 (the sum assured Rs. 3,00,000	35,000

Life insurance premium on the policy taken on 10th August, 2012 on the life of his major son Ramesh who is physically handicapped (Section 80U disability) Sum assured Rs. 1,00,000	13,000
Life insurance premium on another policy taken on 1st September,2013 on the life of his major son Ramesh who is physically handicapped (Section 80U disability) Sum assured Rs. 2,00,000	36,000
Life insurance premium on the policy taken on life of daughter	18,000
Life insurance premium on the policy taken on the life of brother who is dependent on him	11,000
Life insurance premium on the policy taken on the life of dependent mother	4,000
Life insurance premium on the policy taken on the life of independent father	7,000

Solution:

	Rs.
Life insurance premium on the policy taken on the own life on 15 June 2011 (the sum assured Rs. 2,00,000) (Subject to maximum of 20% of sum assured i.e. 2,00,000 x20% if policy taken before 31 March 2012)	40,000
Life insurance premium on the policy taken on the life of his wife on 1 August, 2012 (the sum assured Rs. 3,00,000) (Subject to maximum of 20% of sum assured i.e. 3,00,000 x10% if policy taken after 31 March 2012)	30,000
Life insurance premium on the policy taken on 10th August, 2012 on the life of his major son Ramesh who is physically handicapped (Section 80U disability) Sum assured Rs. 1,00,000 (Subject to maximum of 10% of sum assured i.e., 1,00,000 x10% if policy taken before 31 March 2013)	10,000
Life insurance premium on another policy taken on 1st September,2013 on the life of his major son Ramesh who is physically handicapped (Section 80U disability) Sum assured Rs. 2,00,000 (Subject to maximum of 10% of sum assured i.e., 2,00,000 x15% if policy taken after 31 March 2013)	30,000
Life insurance premium on the policy taken on life of daughter	18,000
Life insurance premium on the policy taken on the life of brother who is dependent on him	Not available
Life insurance premium on the policy taken on the life of dependent mother	Not available
Life insurance premium on the policy taken on the life of independent father	Not available
Deduction under section 80C	1,28,000

ILLUSTRATION 9

The following are the particulars of savings and payments made by Shri S.K. Meena employed with Govt. of Rajasthan during the previous year 2022-23:

	Rs.
Deposited in public provident fund	1,30,000
Paid as tuition fee of school for his daughter	12,000
Contributed being 10% of salary to the new pension scheme of the Central Govt.	1,80,000
A matching contribution was made by Govt. of Rajasthan.	

Compute deduction under chapter VIA as available to Mr. S.K. Meena for the assessment year 2023-24.

Solution:

	Rs.	Rs.
Section 80C		
Deposited in public provident fund	1,30,000	
Paid as tuition fee of school for his daughter	12,000	1,42,000
Section 80CCD(1) Contributed being 10% of salary to the new pension scheme of the Central Govt.	1,80,000	
Less: Utilized as contribution for additional deduction u/s 80CCD(1b)	50,000	1,30,000
Total eligible amount under section 80C and 80CCD(1)		2,72,000
Section 80CCE Restriction of deduction of section 80C, 80CCD(1) to Rs. 1,50,000		**1,50,000**
Section 80CCD(1b) Additional deduction for contribution to new pension scheme		50,000
Section 80CCD(2) Contribution was made by Govt. of Rajasthan to new pension scheme		1,80,000

ILLUSTRATION 10

Determine deduction under section 80C from the following details:

	Rs.
Amount deposited in Public provident fund	55,000
Tuition fees paid on two children and one sister	27,000
Repayment of principal amount of loan taken for construction	35,000
Insurance premium paid on the life of major married handicapped daughter (Policy is taken on 1-11-2015 and value of policy is Rs. 1,00,000	20,000
Insurance premium paid on own life (value of policy is Rs. 1,50,000 taken on 1-12-2013	18,000
Insurance premium paid on the life of dependent father (value of policy Rs. 50,000)	7,000
Insurance premium due but not paid on the life of wife	12,000
Amount deposited in Sukanya Samariddhi Account scheme	15,000

Solution:

	Rs.
Amount deposited in Public provident fund	55,000
Tuition fees paid on two children (sister's fee is not allowed)	18,000
Repayment of principal amount of loan taken for construction	35,000
Insurance premium paid on the life of major married handicapped daughter (Policy is taken on 1-11-2015 and value of policy is Rs. 1,00,000 (Subject to maximum of 10% of sum assured i.e., 1,00,000 x15% if policy taken after 31 March 2013)	15,000
Insurance premium paid on own life (value of policy is Rs. 1,50,000 taken on 1-12-2013 (Subject to maximum of 10% of sum assured i.e., 1,50,000 x10% if policy taken after 31 March 2012)	15,000
Insurance premium paid on the life of dependent father (value of policy Rs. 50,000)	7,000
Insurance premium due but not paid on the life of wife	12,000

Amount deposited in Sukanya Samariddhi Account scheme	15,000
Total	1,53,000
Maximum allowed	1,50,000

ILLUSTRATION 11

Shri Alok Gupta resident in a rented house in Ajmer, the rent of which is Rs. 3,000 per month. His income for the previous year was as follows:

	Rs.
Salary received	2,40,000
Taxable income from profession	1,10,000
Long term capital gain	29,000
Interest on saving bank account in PNB	3,600
Interest on company's debenture (net)	9,900

During the previous year he paid a donation of Rs. 6,000 to Rajiv Gandhi Memorial fund and deposited Rs. 45,000 in Sukanya Samariddhi Scheme and Rs. 22,000 were spent on medical treatment of his handicapped dependent daughter. Ascertain the total income of Shri Alok Gupta for the assessment year 2023-24.

Solution:

		Rs.
Income from salary		
Salary received	2,40,000	
Less: Standard deduction	50,000	1,90,000
Income from business and profession		
Income from profession		1,10,000
Income from capital gain		
Long term capital gain		29,000
Income from other sources		
Interest on saving bank account	3,600	
Interest on debentures 9,900x100/90	11,000	14,600
Gross total income		3,43,600
Less: Deductions under Section 80C		
Sukanya Samariddhi scheme		45,000
Less: Deduction under section 80DD Medical expenses on disabled dependent person		75,000
Less: Deduction under section 80G Donation to Rajiv Gandhi memorial fund 50% of 6,000		3,000
Less: Deduction under section 80TTA Interest on saving bank account		3,600
Less: Deduction under section 80GG for rent paid (See note below)		17,200
Total Income		1,99,800

Working note:

(1) The amount of deduction under section 80DD is standard and it is assumed that disability is not severe.

(2) Deduction under section 80GG rent paid

Adjusted Gross total income

Gross total income		3,43,600
Less: Long term capital gain		29,000
Less: Deductions under Section 80C		
Sukanya Samariddhi scheme		45,000
Less: Deduction under section 80DD Medical expenses on disabled dependent person		75,000
Less: Deduction under section 80G Donation to Rajiv Gandhi memorial fund 50% of 6,000		3,000
Less: Deduction under section 80TTA Interest on saving bank account		3,600
Adjusted gross total income		1,88,000

Least of the following:

(a) Rent paid – 10% of adjusted gross total income
(3,000x12) – 10% of 1,88,000 = 17,200

(b) 25% of adjusted gross total income
25% of 1,88,000 = 47,000

(c) 5,000x12 = Rs. 60,000

ILLUSTRATION 12

From the following information compute total income of Mr. Rohit for the assessment year 2023-24

Income from salary (Computed)		1,80,000
Rent from house property		80,000
Business income		50,000
Dividend from cooperative society		2,000
Long term capital gain (computed)		1,20,000
Life insurance premium paid on his life of policy of Rs. 3,00,000		28,000
Interest on saving bank deposit		11,800
Interest accrued on National Saving Certificate VIII issue purchased in May 2022		2,200
Deposit in scheme notified under section 80C		11,000
Deposit in National Saving Scheme 1992		12,500
Donation to charitable institution approved u/s 80G		30,000

Solution:

	Rs.	Rs.
Income from Salary		
Computed taxable salary		1,80,000
Income from house property		
Rent received	80,000	
Less: 30% statutory deduction	24,000	56,000
Income from Business and Profession		
Business income		50,000
Income from capital gain		
Long term capital gain (computed)		1,20,000
Income from other sources		
Dividend from cooperative society	2,000	
Interest accrued on NSC	2,200	
Interest on saving bank account	11,800	16,000
Gross total income		4,22,000
Less: Deduction u/s 80C		
Deposit in Scheme notified u/s 80C	11,000	
Deposit in NSS	12,500	
Accrued interest on NSC	2,200	
LIP	28,000	53,700
Less: Deduction u/s 80TTA Saving bank interest		10,000
Less: Deduction u/s 80G Donation		
Actual Rs. 30,000 or 10% of Adjusted gross total income (10% of 2,38,300) whichever is lower	23,830	
50% allowed		11,915
Total Income		3,46,385

Adjusted Gros total income

Gross total income		4,22,000
Less: Long term capital gain		1,20,000
Less: Deduction u/s 80C		53,700
Less: Deduction u/s 80TTA		10,000
Adjusted gross total income		2,38,300

Deductions at a glance

Section	Assessee covered	Conditions	Amount of deduction
80C Deduction in respect of Insurance premium etc.	Individual and HUF	• Life insurance premium • Contribution to PPF, RPF, SPF • Investment in mutual fund relating to infrastructure • Children tuition fee up to 2 child • Principal amount of installment payable against housing loan • NSC issue and ULIP • 5 years or more tax saver FD with schedules bank & Post office • Accrued interest on NSC • Amount deposited under senior citizen saving scheme • Notified bonds of NABARD • Amount invested in approved debentures or equity shares in a public company engaged in infrastructure.	100% of eligible amount or Rs. 1,50,000 whichever is lower
80CCC Contribution to pension fund	Individual	• Available on contribution to pension fund (LIC or any other insurer) • Amount paid out of income chargeable to tax. • Surrender before maturity, taxable equivalent to surrender value. • Pension received from fund is taxable	Actual payment or Rs. 1,50,000 whichever is lower
80CCD Contribution to Pension fund of Central Govt.	Individual	• Taxpayer is employed by Central Government on or after 1-1-2004 • Amount is deposited in his account under pension scheme	Aggregate of contribution by employee & employer (not exceed 10% of salary each)
Aggregate amount of deduction under section 80C, 80CCC and 80CCD cannot exceed by Rs. 1,50,000			
80D	Individual HUF	• Premium is paid accordance with scheme framed by GIC and approved by CG. • Premium is not paid by cash • Policy is taken on the health of tax payer/dependent parents/souse/children & excluding grand parents and brother. • Amount paid out of income chargeable to tax. • Senior citizen -spouse/dependent parents.	Tax payer, spouse and dependent children Rs. 25,000. Parent of taxpayer Rs. 25,000 Additional amount in case of Senior citizen Rs. 25,000 or Actual amount of premium paid whichever is lower

80DD Maintenance of dependent being a person with disability	Resident Individual Resident HUF	• Available on expenditure for maintenance including medical treatment of relative being handicapped dependent. • Deposited in approved scheme • Dependent means spouse, children, parents, brother and sister.	Fixed Rs. 75,000 irrespective of actual expenditure (disability from 40% to 80%) Rs. 1,25,000 (Disability over 80%)
80DDB Medical treatment	Resident individual Resident HUF	• Actual incurred expenditure for medical treatment of specified disease (Rule 11A) • Expenses incurred for medical treatment of assessee himself or dependent/spouse/children/parent/ brother/sister of taxpayer	Actual expenses or Rs. 40,000 & Rs. 1,00,000(Senior Citizen) whichever is lower
80E Repayment of loan taken for higher education	Individual	• Loan taken from financial institutions/approved charitable institution. • For pursuing higher education • Full time UG or PG course • Loan was taken by tax payer for pursuing his own, spouse or child higher education. • Interest has been paid during the previous year	Interest amount up to 8year
80G Donation	Individual	• Explained at the end of all the deductions	
80GG Rent paid	Individual	• Taxpayer is a self-employed person or employee who have not received HRA. • Should not own any residential accommodation on a place where taxpayer resides – by taxpayer, spouse and minor child • Tax payer file declaration in form no. 10BA	Rs. 5,000 per month Or 25% of adjusted GTI Or Rent paid – 10% of adjusted GTI Whichever is lower
80GGA Donation for scientific research or rural development	All assessee who has no business & profession	• Assessee who's GTI does not include income from business and profession • Sum paid to scientific research association, approved university/college, approved association for rural development, conservation of natural resources.	100% of actual payment
80GGB & 80GGC Contribution to political parties	All assessee	• Deduction not available to local authority and judicial persons	100% of actual payment

Deduction in respect of Income			
80IA Gain from industrial undertaking engaged in infrastructure development	Indian Company	• Deduction is available to only to the business carried on (Please refer section in details as explained in this chapter itself)	
80IAB profits and gains by an undertaking or enterprise engaged in development of special economic zone		• Taxpayer is developer of SEZ • GTI includes profits derived by undertaking from any business of developing SEZ. • Such SEZ is notified on or after 1-4-2005. • Books of accounts of taxpayer are audited. • It should not have, prior to its acquisition by Indian company, been owned and used by in Indian Territorial water by a person resident in India.	100% of profits for any 10 consecutive assessment years out of 15 years beginning from the year in which SEZ has been notified by Central Government
80IAC Eligible Start up		• (Please refer section in details as explained in this chapter itself)	
80IB Gain from industrial undertaking other than infrastructure development		• (Please refer section in details as explained in this chapter itself)	
80ID Hotels and convention center in NCR		• (Please refer section in details as explained in this chapter itself)	
80JJA Profit from business of processing of bio-degradable waste	All assessee	• Business of collecting processing of biodegradable waste for generation power or production of bio-fertilizers bio-pesticides.	100% of profit for 5 years
80JJAA Employment of new workers	Indian company		30% of additional wages paid
80QQB Royalty income of authors	Individual assessee	• Authors or joint authors • Work of literary, artistic or scientific nature	Rs. 3,00,000 Or Income of royalty

		• Books does not include diaries, guide, journal magazines, paper, pamphlets, test book for school and other publication • Lumpsum payment • Income from royalty = lower of (a) Remitted in India within 6 months (b) Lump sum consideration (c) Royalty not exceeding 15% (if not lump sum consideration) of value of books sold.	Whichever is lower
80RRB Royalty on patents	Individual assessee		Same as above
80U Deduction in the case of person with disability	Individual assessee	• Disability means suffering from not less than 40% of any disability – Blindness, low vision, hearing impermanent, loco motor, mental retardation and mental illness • Certificate from medical authority	Fixed Rs. 75,000 (in case of 40% to 80% disability) & Rs. 1,25,000 (in case of 80% and over disability)

80G Donation to certain funds

A. 100% Qualifying amount and 100% deduction
B. 100% qualifying amount and 50% deduction
C. Restricted qualifying amount and 100% deduction
D. Restricted qualifying amount and 50% deduction

Calculation procedure

A. 100% Qualifying amount and 100% deduction		xxx
B. 100% qualifying amount and 50% deduction		xxx
Restricted qualifying amount = 10% of (GTI – LTCG – STCG u/s 111A – Deductions u/s 80C to 80U Except 80G	xxx	
C. Donation for family planning or games & sports	xxx @ 100%	xxx
D. Other donation	xxx @ 50%	xxx
Amount eligible for donation		Xxx

QUESTIONS

Multiple Choice Questions

Q1. Deduction are given under chapter …….. of the income tax.
(a) VIA (b) V
(c) VA (d) VII

Q2. The deductions are available from the following incomes except:
(a) Long term capital gains (b) Short term capital gains u/s 111A
(c) Winnings from lotteries, races etc (d) All of the above

Q3. For the year ended 31st march, 2023 paresh receives annual salary of ₹2,80,000. Paresh's contribution to employees recognized provident fund account is ₹59,000 and matching contribution has been made by employer. Taxable income of paresh will be:

(a) ₹1,96,400 (b) ₹2,06,400
(c) ₹3,39,000 (d) ₹2,80,000

Q4. An individual has made investments in the schemes approved u/s 80C and 80CCD of ₹2,50,000 and ₹1,00,000 respectively during the year ends 31st march, 2023. Amount that can be claimed by him as deduction out of income in AY 2023-24 is:

(a) ₹50% of ₹3,50,000 (b) ₹1,50,000 u/s 80C and ₹50,000 u/s 80CCD(1B)
(c) ₹1,50,000 (d) None of the above

Q5. A self employed person shall not be allowed deduction of more than …….. on his contribution to NPS u/s 80CCD(1)

(a) 10% of gross total income (b) 20% of gross total income
(c) 10% of total income (d) 20% of total income

Q6. Withdrawal or pension from NPS is always exempt, except:

(a) Withdrawal is partial, not exceeding 25% of employee's contribution.
(b) Amount received by a nominee on the death of an assessee
(c) The withdrawn amount is utilized for purchasing another annuity plan in the same previous year.
(d) Pension received out of NPS

Q7. The maximum possible amount of deduction u/s 80DDB for senior citizen is ₹-

(a) 75,000 (b) 1,25,000
(c) 1,00,000 (d) 60,000

Q8. Shiv's father is dependent on him and suffering with 90% disability. Shiv has incurred an amount of ₹72,500 in maintaining and medical treatment of his father. The deduction he can claim in his income tax return for AY 2023-24 is:

(a) ₹72,500 (b) ₹50,000
(c) ₹1,25,000 (d) None of the above

Q9. Sohil works in a technology company, on 1st January, 2022 he took a loan of ₹2,40,000 from his company for the higher education of his daughter. During the year 2022-23, he paid an interest of ₹ 46,000 towards the said loan and repaid principal component of ₹10,000. The deduction that he can claim u/s 80E would be:

(a) Nil (b) ₹24,000
(c) ₹46,000 (d) ₹10,000

Q10. Deduction under section 80G on account of donation is allowed to:

(a) A business assessee only (b) Any assessee
(c) Individual or HUF only (d) Any resident assessee

Q11. Mr. Kesar gave donation by way of cheque of ₹ 40,000 and by cash ₹5,000 to an approved charitable trust having recognition under section 80G. His gross total income for the assessment year 2023-24 is ₹5 lakhs. The quantum of deduction under section 80G would be:

(a) ₹45,000 (b) ₹5,000
(c) ₹40,000 (d) ₹20,000

Q12. Aryan, engaged in business, claimed that he paid ₹10,000 per month by cheque as rent for his residence. He does not own any residential building. His total income computed before deduction under section 80GG is ₹3,40,000. The amount he can claim as deduction under section 80GG is-

(a) ₹ 60,000 (b) ₹ 86,000
(c) ₹ 1,20,000 (d) ₹ 85,000

Q13. Mr. A proprietor, gave an asset of ₹2,50,000 to an institution established for charitable purpose deduction u/s 80G admissible will be:

(a) ₹ 2,50,000 (b) ₹ 1,25,000
(c) Nil (d) ₹ 1,00,000

Q14. Under the income tax act,1961, which of the following can claim deduction for any sum contributed during the previous year to a political party or electoral trust.

(a) Local authority (b) Individual
(c) Artificial juridical person (d) None of the above

Q15. For computing adjusted total income for the purpose of section 80G, what should be reduced from GTI

(a) STCG u/s 111A
(b) LTCG u/s 112 and 112A
(c) Deduction under chapter VI-A except sec 80G
(d) All of the above

Q16. ABC limited fulfilling all the conditions of operating different infrastructure facilities for claiming deduction u/s 80-IA. Find which are being not covered under infrastructure facility out of the following:

(a) Developing of toll-road
(b) Operating and maintaining of highway project
(c) Operating and maintaining of an air-port
(d) Developing of industrial park

Q17. Sudhan ltd. Incorporated in April 2021 commenced commercial production from 1.6.2022. it deployed 100 employees who were employed for 260 days during the year and recruited 50casual workmen who were employed for 100days during the financial year 2021-22. The salary paid to 100 employees was ₹ 25 lakhs and salary paid to casual workmen was ₹ 6 lakh. The quantum of deduction under 80JJAA is:

(a) ₹7.50 lakhs (b) ₹9.30 lakhs
(c) ₹25 lakhs (d) ₹6 lakhs

Q18. Under section 80QQB, the maximum deduction in respect of royalty is allowed up to:

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

Q19. When a person suffers from severe disability, quantum of deduction allowable under section 80U is-

(a) ₹ 50,000 (b) ₹ 75,000
(c) ₹ 1,25,000 (d) ₹ 1,00,000

Q20. An amount up to a maximum of ₹10,000 is deductible under section 80TTA from the gross total income of

(a) Individual only (b) HUF and individual only
(c) Company only (d) All assessee

Q21. Deduction in respect of interest on savings accounts under section 80TTA shall be allowed with respect to savings account with-

(a) Bank (b) Co-operative society
(c) Post office (d) All of the above

Q22. The quantum of deduction available to offshore banking units under section 80LA of Income Tax Act, 1961 located in special economic zone (SEZ) and satisfying all condition from the gross total income is:
(a) 100% of such income for five consecutive assessment years, relating to the previous year in which the permission was obtained
(b) 50% of such income for next five consecutive year
(c) 25% of such income for next ten years
(d) Both (a) and (b)

Q23. Priyanka during the previous year had donated the amount of ₹50,000 each in Africa fund, national children fund, national illness assistance fund and further amount of ₹30,000 in Rajiv Gandhi foundation. The amount of deduction eligible to be claimed by her as per section ..... shall be of....
(a) 80GG, ₹1,80,000 (b) 80G, ₹1,65,000
(c) 80GGB, ₹1,50,000 (d) 80G, ₹90,000

Q24. Tarun aged 51 years subscribed to health insurance for himself, wife and son and paid premium of ₹ 28,000. He also incurred medical expenditure for his parents during the year amounting to ₹32,000. He claim deduction for these expenses as per section 80D of the income tax act,1961 of:
(a) ₹57,000 (b) ₹30,000
(c) ₹28,000 (d) ₹55,000

Q25. 100% deduction in respect of donations as per section 80G without any qualifying amount of limit is available in the case of:
(a) Prime minister drought relief fund
(b) Jawaharlal Nehru memorial fund
(c) Payment to local authority for promotion of family planning
(d) Africa fund

Q26. The maximum monetary limit of deduction in respect of rent paid u/s 80GG of the act is:
(a) ₹ 5,000 p.m. (b) 25% of the adjusted total income
(c) ₹ 3,000 p.m. (d) None of the above

Very-short Answer Type Questions

1. Write any two payments in respect of which the deduction is allowed under section 80C.
2. Explain deduction for health insurance under section 80D.
3. Explain the deduction in respect of expenses on maintenance and medical treatment of handicapped dependent under section 80DD.
4. An assessee has incurred during the previous year an expenditure of Rs. 39,200 on the medical treatment of his dependent father who is mentally retarted. What deduction will you allow him in respect of this expenditure in computing his total income?
5. Explain the deduction under section 80TTA.
6. Explain the deduction under section 80TTB.
7. Can an assess get deduction under section 80C without making any payment during the previous year? Is Yes, how?
8. When can the deduction be allowed under section 80C in respect of bank deposit?

Short Answer Type Questions

1. Explain the maximum amount qualifying for deduction in respect of charitable donations.

2. Explain the amount of deduction allowable to an assessee from his gross total income in respect of rent paid.
3. Explain in short, the amount of deduction allowable to an assessee from his gross total income in respect section 80IA.
4. Explain in short, the amount of deduction allowable to an assessee from his gross total income in respect of section 80IC.

Essay Type Questions

1. Explain in detail the provisions of section 80C in respect of deductions to be given for life insurance premium, contribution to provident fund and similar other payments.
2. What deduction and rebates have been given to new Industrial undertaking under Income tax act?
3. Explain section 80G in respect of donations.

Answer MCQ

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

❑❑❑

Chapter 11

INCOME EXEMPT FROM TAX

SECTION-WISE STUDY

Section	Particular
10(1)	Agriculture income
10(2)	Payment received from family income of a HUF by a member
10(2A)	Share of profit from a firm
10(4)	Interest received by a non-resident from prescribed securities
10(4)	Interest received by a person who is resident outside India on amounts credited in the "Non-resident (External) account
10(4C)	Interest payable to a non-resident/foreign company by an Indian company/business trust pertaining to money borrowed from a source outside India by way of issue of rupee denominated bond during Sept 17, 2018 and March 31, 2019
10(4D)	Any income accrued or arisen to, or received by, a specified fund as a result of transfer of capital asset (referred to in section 47(viiab)), on a recognized stock exchange located in any International Financial Services Centre (and where the consideration for such transaction is paid or payable in convertible foreign exchange), to the extent such income accrued or arisen to, or is received in respect of units held by a non-resident or is attributable to the investment division of offshore banking unit.
10(4E)	Any income accrued or arisen to (or received by) a non-resident as a result of transfer of non-deliverable forward contracts or offshore derivative instruments or over-the-counter derivatives entered into with an offshore banking unit of an International Financial Services Centre, which fulfils prescribed conditions
10(4F)	Any income of a non-resident by way of royalty, on account of lease of an aircraft or ship in a previous year, paid by a unit of an International Financial Services Centre, if the unit is eligible for deduction under section 80LA for that previous year; and has commenced its operations on or before March 31, 2024
40(4G)	Any income received by a non-resident from portfolio of securities/financial products/funds, managed or administered by any portfolio manager on behalf of such non-resident, in an account maintained with an offshore banking unit in any International Financial Services Centre to the extent such income accrues or arises outside India and is not deemed to accrue or arise in India

10(5)	Leave travel concession provided by an employer to his Indian citizen employee
10(6)	Remuneration received by foreign diplomats of all categories
10(6)(vi)	Salary received by a foreign citizen as an employee of a foreign enterprise provided his stay in India does not exceed 90 days
10(6)(viii)	Salary received by a non-resident foreign citizen as a member of ship's crew provided his total stay in India does not exceed 90 days
10(6)(xi)	Remuneration received by an employee, being a foreign national, of a foreign Government deputed in India for training in a Government establishment or public sector undertaking
10(6A)	Tax paid on behalf of foreign companies
10(6B)	Tax paid by Government or an Indian concern in the case of non-resident/foreign company
10(6C)	Income arising to notified foreign companies from services provided in or outside India in project connected with the security of India
10(6D)	Any income arising to a non-resident/foreign company by way of royalty from (or fee for technical services rendered in or outside India to) the National Technical Research Organisation
10(7)	Foreign allowance granted by the Government of India to its employees posted abroad
10(10)	Death-cum-retirement gratuity
10(10A)	Commuted value of pension and any payment received by way of commutation of pension by an individual out of annuity plan of LIC or any other insurer from a fund set up by that corporation or insurer
10(10AA)	Leave salary
10(10B)	Retrenchment compensation
10(10BB)	Compensation received by victims of Bhopal gas leak disaster
10(10BC)	Compensation from the Central Government or a State Government or a local authority received by an individual or his legal heir on account of any disaster
10(10C)	Compensation received from a public sector company at the time of voluntary retirement or separation
10(10D)	Tax on perquisite paid by employer
10(11)/(12)	Amount received from statutory or recognised provident fund or public provident fund
10(11A)	Any payment from Sukanya Samriddhi Account
10(13)	Amount from an approved superannuation fund to legal heirs of the employee
10(13A)	House rent allowance subject to certain limits
10(14)	Special allowance granted to an employee
10(15)	Interest from certain exempted securities
10(15A)	Payment made by an Indian company, engaged in the business of operation of an aircraft, to acquire an aircraft on lease from a foreign enterprise if a few conditions are satisfied
10(16)	Scholarship granted to meet the cost of education
10(17)	Daily allowance of a Member of Parliament or State Legislature (entire amount is exempt) and any other allowance subject to certain conditions

10(17A)	Rewards given by the Central or State Government for literary, scientific or artistic work or attainment or for service for alleviating the distress of the poor, the weak and the ailing, or for proficiency in sports and games of gallantry awards approved by the Government.
10(18)	Pension and family pension of gallantry award winners
10(19)	Family pension received by family members of armed forces
10(19A)	Notional property income of any one palace occupied by a former ruler
10(20)	Income of local authorities
10(20A)	Any income of housing boards constituted in India for planning, development or improvement of cities, towns or villages
10(21)	Any income of an approved research association
10(22B)	Income of specified non-agencies
10(23A)	Any income (other than interest on securities, income from property, income received for rendering any specific services and income by way of interest or dividends) of approved professional bodies
10(23AA)	Any income received by any person on behalf of any Regimental Fund or non-public fund established by the armed forces of the Union for the welfare of the past and present members of such forces or their dependents.
10(23AAA)	Income of funds established for the welfare of employees
10(23AAB)	Any income of the pension fund set up by LIC or any other insurer approved by the Controller of insurance or Insurance Regulatory and Development Authority
10(23B)	Any income (other than business income) of a trust or a society approved by Khadi and Village Industries Commission
10(23BB)	Income of an authority whether known as Khadi and Village Industries Board or by any other name for the development of Khadi and Village Industries
10(23BBA)	Income arising to anybody or authority established, constituted or appointed under any enactment for the administration of public, religious or charitable trusts or endowments or societies for religious or charitable purposes.
10(23BBB)	Income of the European Economic Community derived in India by way of interest, dividends or capital gains in certain cases under the European Community International Institutional Partners Scheme, 1993
10(23BBC)	Any income of SAARC fund for Regional Projects
10(23BBD)	Any income of Secretariat of Asian Organization of Supreme Audit Institutions
10(23BBE)	Income of Insurance Regulatory Authority
10(23BBG)	Income of the Central Electricity Regulatory Commission
10(23BBH)	Income of Prasar Bharti (Broadcasting Corporation of India)
10(23C)	Income received by any person on behalf of specified national funds, approved public charitable institutions, educational institute/hospital, Swachh Bharat Kosh and Clean Ganga Fund
10(23D)	Income of a Mutual Fund set up by a public sector bank or public financial institution
10(23DA)	Any income of a securitization trust from the activity of securitization
10(23EA)	Income of investor protection fund

10(23EB)	Income of Credit Guarantee Funds Trust for small Industries
10(23EC)	Income of Investor Protection Fund by way of contributions from commodity exchange and the members thereof
10(23ED)	Any Income of Investor Protection Fund by way of contributions received from a depository
10(23EE)	Specified income of Core Settlement Guarantee Fund
10(23FA)	Income by way of dividend or long-term capital gain of venture capital fund/undertaking
10(23FB)	Income of venture capital fund/venture capital company
10(23FBA)	Any income of an investment fund other than the income chargeable under the head "Profits and gains of business or profession"
10(23FBB)	Any income referred to in section 115UB, accruing or arising to, or received by, a unit holder of an investment fund, being that proportion of income which is of the same nature as income chargeable under the head "Profits and gains of business profession"
10(23FC)	Any income of a business trust by way of interest received or receivable from a special purpose vehicle
10(23FCA)	Any income of a business trust, being a real estate investment trust, by way of renting or leasing or letting out any real estate asset owned directly by such business trust.
10(23FD)	Any distributed income (referred to in section 115UA), received by a unit holder from the business trust, not being that proportion of the income which is of the same nature as the income referred to in clause (23FC) or clause (23FCA)
10(23FE)	Certain income of wholly owned subsidiary of Abu Dhabi Investment Authority and Sovereign Wealth Fund
10(23FF)	Capital gain of a non-resident arising on transfer of share in a company resident in India by the resultant fund (and such shares were transferred from the original fund to the resultant fund in relocation, and where capital gains on such shares were not chargeable to tax if that relocation had not taken place)
10(24)	Income by way of interest on securities property income and income from other sources of a registered trade union or an association of registered trade unions
10(25)	Any income received by a person on behalf of statutory provident fund, recognised provident fund, approved superannuation fund approved gratuity fund and approved coal-mines provident fund
10(25A)	Income of Employees State Insurance Fund
10(26)	Income of a member of a scheduled tribe residing in Nagaland, Manipur, Tripura, Arunachal Pradesh, Mizoram and Ladakh from any source arising by reason of his employment therein and income by way of dividend and interest on securities.
10(26AAA)	Income of Sikkimese individual which accrues or arise to him/her from any source in the State of Sikkim or income from dividend/interest on securities from anywhere in the world (exemption not available to a Sikkimese woman who on or after April 1, 2008, marries a non-Sikkimese individual)
10(26AAB)	Income of an agricultural produce market committee or board constituted for the purpose of regulating the marketing of agricultural produce
10(26B)	Any income of a statutory corporation or of a body/institution, financed by the Government formed for promoting the interest of schedules caste/tribes

10(26BB)	Income of National Minorities Development and Finance Corporation
10(26BBB)	Income of ex-serviceman corporations
10(27)	Income of a co-operative society formed for promoting interest of members of schedules caste/tribes
10(29A)	Income of certain Commodity Boards/Authorities
10(30)	Subsidy from the Tea Board for replanting or replacement of tea bushes or for rejuvenation or consolidation of areas used for cultivation of tea in India
10(31)	Subsidy received by planters
10(32)	Income of a minor child upto Rs. 1,500 in respect of each minor child whose income is clubbed under section 64(1A)
10(33)	Capital gains on transfer of US 64
10(34A)	Any income arising to a shareholder on account of buy back of shares
10(35A)	Any income by way of distributed income referred to in section 115TA received from a securitization trust by any person being an investor of the said trust
10(36)	Capital gains on transfer of listed equity shares
10(37)	Capital gains on compensation received on compulsory acquisition of urban agricultural land
10(37A)	Capital gain arising to an individual/HUF under Andhra Pradesh Capital city land pooling Scheme, 2015
10(39)	Income of an international sporting event
10(40)	Grant received by subsidiary company from holding company
10(41)	Capital gain in the above case
10(42)	Income of notified non-profit body/authority
10(43)	Any amount received by an individual as a loan (either in lum sum or instalment) in a transaction of reverse mortgage
10(44)	Any income received by any person, or on behalf of, the New Pension System Trust
10(46)	Specified income of notified body or authority or trust or bard or commission
10(47)	Income of infrastructure debt fund
10(48)	Any income received in India in Indian currency by a foreign company on account of sale of crude oil (or any other notified goods or notified service) to any person in India
10(48A)	Any income accruing or arising to a foreign company on account of storage of crude oil in a facility in India and sale of crude oil therefrom to any person resident in India
10(48B)	Any income accruing or arising to a foreign company on account of sale of leftover stock of crude oil, if any, from the facility in India after the expiry of the agreement or the arrangement referred to in section 10(48A) (or in termination of such agreement/arrangement in accordance with the terms mentioned therein) if a few conditions (as notified by the Central Government) are satisfied
10(48C)	Any income accruing or arising to the Indian Strategic Petroleum Reserves Ltd. as a results of arrangement for replenishment of crude oil stored in its storage facility in pursuance of directions of the Central Government

10(48D)	Any income accruing or arising to an institution established for financing, the infrastructure and development (set up under an Act of Parliament and notified by the Central Government) for a period of 10 consecutive assessment years (beginning from the assessment year relevant to the previous year in which such institution is set-up)
10(48E)	Any income accruing or arising to a developmental financing institution [licensed by RBI under an Act of the Parliament referred to in clause (48D) (supra) and notified by the Central Government] for a period of 5 consecutive assessment years (beginning from the assessment year relevant to the previous year in which the developmental financing institution is set-up (the period of 5 years may be extended for another 5 years)
10(49)	Any income of the National Financial Holding Company Ltd.
10(56)	Any income (not being income chargeable as royalty or fees for technical services) arising from any specified service (or arising from any e-commerce supply or services made or provided or provided or facilitated on or after April 1, 2020) and chargeable to equalisation levy

INCOMES EXEMPT UNDER SECTION 10

The following incomes are exempted from tax under section 10. These incomes are not included in gross total income of the assessee. Burden of proof shall remain on the assessee.

SEC. 10(1) AGRICULTURAL INCOME

Section 10(1) provides that agricultural income is not to be included in the total income of the assessee. The reason for total exemption of agricultural income from the scope of central income-tax is that under the Constitution, the Central Government has no power to levy a tax on agricultural income.

Meaning:

By virtue of sec. 2(1A), agricultural income means –

1. **Rent or Revenue**: Any rent or revenue derived from a land, which is situated in India & is used for agricultural purposes

> *Tutorial Point:*
> - *Rent may be in cash or in kind.*
> - *Assessee may be the owner or tenant of such land.*

2. **Cultivation of Land**: Any income derived from such land by agriculture.
3. **Income from Process**: Any income derived from such land by the performance by–
   (a) a cultivator;
   (b) receiver of rent in kind; - of any process ordinarily employed by a them to render the produce raised or received by him fit to be taken to market.
4. **Income from Sale of Produce**: Any income derived from such land by the sale by
   (a) A cultivator of the produce raised by him; or
   (b) Receiver of rent-in-kind of the produce received by him; - in respect of which no process has been performed other than a process required to render it fit for the market.

Tutorial Point: The process must be employed only to convert 'the produce or rent in kind' in marketable form. If marketing process is performed on the 'produce or rent in kind', which can be sold in its raw form in market, then income derived from such product is partly agricultural & partly non-agricultural income.

5. Income from Let out of Agricultural House Property: Any income derived from a building subject to fulfilment of the following conditions –
   - The building should be occupied by the cultivator or receiver of rent in kind.
   - The building should be on or in the immediate vicinity of the land, being situated in India and used for agricultural purposes.
   - The building should be used as dwelling house or store-house or other out building.
   - The land is either situated in – (i) Rural area; or (ii) Urban area or assessed to land revenue / local rates.

Tutorial point:
- *Where such land or building is used for non-agricultural purpose then any income derived from such land or building shall not be treated as agricultural income.*
- *Income derived from land being let out for storing crop shall not be agricultural income.*
- *Building should be owned and occupied by the land-holder if he receives rent or revenue from the land. On the other hand, in case of cultivator or receiver of rent in kind, it is enough that the building is occupied by him.*

Instances of Agricultural (Agro) Income

1. Income from growing trade or commercial products like jute, cotton, etc. is an agro income.
2. Income from growing flowers and creepers is an agro income.
3. Plants sold in pots are an agro income provided basic operations are performed. Basics of Income Tax Act
4. Remuneration and interest to partner: Any remuneration (salary, commission, etc.) received by a partner from a firm engaged in agricultural operation is an agro income. Interest on capital received by a partner from a firm, engaged in agricultural operation is an agro income.
5. Income arising by sale of trees grown on denuded parts of the forest after replanting and by carrying on subsequent operations, are an agro income.
6. Compensation received from insurance company for damage caused by hail-storm to the green leaf of the assessee's tea garden is agricultural income. Further, no part of such compensation consists of manufacturing income; as such compensation cannot be apportioned under Rule 8 between manufacturing income and agricultural income.
7. Any fee derived from land used for grazing of cattle, being used for agricultural operation, is an agro income.
8. Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income

Instances of Non-agricultural (Non-agro) Income

1. Salary received by an employee from any business (having agricultural income) is non-agro income.
2. Dividend received from a company engaged in agricultural operation is non-agro income.
3. Income from salt produced by flooding the land with sea-water is non-agro income.
4. Income from fisheries, poultry farming, dairy farming, butter & cheese making, etc. is non-agro income.

5. Breeding & rearing of livestock is non-agro income.
6. Interest received by a moneylender in the form of agricultural produce is non-agro income.
7. Profit on sale of standing crops after harvest, where such crops were acquired through purchase is non-agro income.
8. Royalty income from mines is non-agro income.
9. Remuneration to a Director or Managing Director from a company engaged in agricultural business is non-agro income. The provision holds good even when such remuneration is on the basis of certain percentage of net profit.
10. Income earned by a cultivator from conversion of sugarcane (raised on own land) to jaggery is non-agro income to the extent to which income is related to such conversion only. This is because sugarcane itself is marketable.
11. Interest on arrears of rent receivable in respect of agricultural land is non-agro income.
12. Income from a land situated outside India is non-agro income
13. Annuity received by a person in consideration of transfer of agricultural land, is non-agro income.
14. Income on supply of water for agricultural operation is non-agro income. The provision holds good even when such income is received in the form of agro-produce.
15. Income from sale of trees and grasses grown spontaneously (without any human effort), is non-agro income

Treatment of Partly Agricultural & Partly Non-Agricultural Income

In case assessee is engaged in an integrated activity, comprising of agricultural activity as well as non-agricultural activity, then profit of such integrated activity shall be segregated into agricultural income and non-agricultural income in the following manner

Income Tax Rules	Case	Agricultural Income	Non-Agricultural Income
8	Assessee is engaged in the business of growing and manufacturing tea in India	60% of income	40% of income
E.g., If an assessee earns ₹ 5 lakh (as per sec. 28) from the business of growing & manufacturing tea in India, then his business income will be ₹ 2 lakh (i.e., 40% of ₹ 5 lakh) & agro income will be ` 3 lakh (i.e. 60% of ₹ 5 lakh)			
7A	Assessee is engaged in the business of growing and manufacturing rubber in India	65% of income	35% of income
Assessee is engaged in the business of growing and manufacturing Coffee in India			
7B(1)	Coffee grown and cured by the seller in India	75% of income	25% of income
7B(1A)	Coffee grown, cured, roasted and grounded by the seller in India, with or without mixing chicory or other flavouring ingredients	60% of income	40% of income
Salary and interest received by a partner from a firm growing and manufacturing tea, coffee or rubber: Such remuneration or interest shall be treated as partly agricultural income and partly business income as stated above.			

Any other case

For computing agricultural income from a business having both agricultural as well as non-agricultural income,

1. Assessee is required to prepare two Profit or Loss statements, one for agro-business & another for non-agro-business
2. Agro expenses debited to Agro Profit or Loss and non- agro expenses shall be debited to Non agro-business Profit or Loss

   Note: Non-apportionable expenditure, related to composite business of agriculture and non-agriculture, is fully charged to non-agricultural business.
3. Market value of any agricultural produce, which is utilised as raw material in such business, is to be treated as income for agro-business and expenditure for non-agro-business

Partially Integration Taxation Scheme

When an assessee having a both agricultural and non-agricultural income then partially integration taxation scheme is applicable. In order to apply this taxation scheme the following conditions are to be satisfied:

(1) The assessee should be an individual or HUF or BOI or AOP.

(2) The assessee has non-agricultural income exceeding the exemption limit (Rs. 2,50,000 or Rs. 3,00,000 or Rs. 5,00,000 as the case may be)

(3) The assessee has agricultural income exceeding Rs. 5,000

Computation at Tax Liability

The following steps are taken into account in order to compute the tax liability of assessee having agricultural income:

Step 1	Compute net agricultural income
Step 2	Club agricultural and non-agricultural income and compute income tax on the aggregate income
Step 3	Compute income tax on net agricultural income + first slab of income which is not chargeable to tax.
Step 4	Deduct tax calculated in step 3 from income tax calculated in step 2.
Step 5	Find balance and apply rebate under section 87A if applicable. The surcharge and Health and education cess is to be added.
Step 6	The amount derived in Step 5 is the tax liability.

Sec. 10(2) Payment received from family income of a HUF by a member

The exemption applies only in respect of a payment made by the HUF to its member

1. Out of the income of the family or
2. Out of the income of the impartible estate belonging to the family.

Sec. 10(2A) Share income of a partner

The partner's share in the total income of firm determined in accordance with profit sharing ratio will be exempt from tax.

Sec. 10(4) (ii) Interest received by a non-resident from prescribed securities

Aspersection10(4)(ii), in the case of an individual, any income by way of interest on money standing to his credit in a **Non-resident (External)Account (NREA/c)** in any bank in India in accordance Foreign Exchange Management Act, 1999(FEMA, 1999), and the rules made thereunder, would be exempt, provided such individual;

- Is a person resident outside India, as defined in FEMA,1999, or
- is a person who has been permitted by the Reserve Bank of India to maintain such account.

In this context, it may be noted that the joint holders of the NRE Account do not constitute an AOP by merely having these accounts in joint names. The benefit of exemption under section 10(4)(ii) will be available to such joint account holders, subject to fulfilment of other conditions contained in that section by each of the individual joint accountholders.

Sec. 10(4C) Interest on Rupee Denominated Bond

Interest payable to a non-resident, not being a company, or to a foreign company, is exempt if following conditions are satisfied:

- Interest is payable by any Indian company or business trust.
- Such interest is payable in respect of monies borrowed from a source outside India by way of issue of rupee denominated bond, as referred to in sec. 194LC(2)(ia).
- Such bond has been issued during 17-09-2018 and 31-03-2019

Sec. 10(4D) Income received by specified fund

any income accrued or arisen to, or received by a specified fund as a result of transfer of capital asset referred to in sec. 47(vii)(ab), on a recognised stock exchange located in any International Financial Services Centre; and Where the consideration for such transaction is paid or payable in convertible foreign exchange or as a result of transfer of securities (other than shares in a company resident in India) or any income from securities issued by a non-resident (not being a permanent establishment of a non-resident in India); and Where such income otherwise does not accrue or arise in India or any income from a securitisation trust which is chargeable under the head "Profits and gains of business or profession",

– to the extent such income accrued or arisen to, or is received, is attributable to units held by non-resident (not being the permanent establishment of a non-resident in India) or is attributable to the investment division of offshore banking unit, as the case may be, computed in the prescribed manner.

"Specified Fund" means,—

(i) a fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate—

I. which has been granted a certificate of registration as a Category III Alternative Investment Fund and is regulated under the Securities and Exchange Board of India (Alternative Investment Fund) Regulations, 2012, made under the Securities and Exchange Board of India Act, 1992 or International Financial Services Centre Authority Act, 2019;

II. which is located in any International Financial Services Centre; and

III. of which all the units other than unit held by a sponsor or manager are held by non-residents;

- However, this condition shall not be applicable where any unit holder(s), being non-resident during the previous year when such unit(s) were issued, becomes resident u/s 6(1) or 6(1A) in any previous year subsequent to that year, if the aggregate value and number of the units held by such resident unit holder or holders do not exceed 5% of the total units issued and fulfil such other conditions as may be prescribed.

(ii) Investment division of an offshore banking unit, which has been—

I. granted a certificate of registration as a Category-I foreign portfolio investor under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 made under the Securities and Exchange Board of India Act, 1992 and which has commenced its operations on or before the 31st day of March, 2024; and

II. fulfils such conditions including maintenance of separate accounts for its investment division, as may be prescribed;

Sec. 10(4E)/ (4F) Income of International financial services centre (IFSC)

- Any income accrued or arisen to, or received by a non-resident as a result of transfer of non-deliverable forward contracts or offshore derivative instruments or over-the-counter derivatives entered into with an offshore banking unit of an International Financial Services Centre as referred to in sec. 80LA(1A), which fulfils such conditions as may be prescribed;
- Any income of a non-resident by way of royalty or interest, on account of lease of an aircraft or a ship in a previous year, paid by a unit of an International Financial Services Centre, if the unit has commenced its operations on or before 31-03-2024.
- "Aircraft" means an aircraft or a helicopter, or an engine of an aircraft or a helicopter, or any part thereof;
- "Ship" means a ship or an ocean vessel, engine of a ship or ocean vessel, or any part thereof.

Sec. 10(4G) Income of IFSC

Any income received by a non-resident from portfolio of securities or financial products or funds, managed or administered by any portfolio manager on behalf of such non-resident, in an account maintained with an Offshore Banking Unit in any International Financial Services Centre, as referred to in sec. 80LA (1A), to the extent such income accrues or arises outside India and is not deemed to accrue or arise in India.

Sec.10 (5) Leave travel concession provided by an employer to his Indian citizen employee

Assistance in traveling expenses to an employee shall be tax free subject to the conditions prescribed by the Central Government. Its detailed description has been given in the chapter titled Income from Salary. According to the amendment made by the Finance Act, 2021, the cash amount given in lieu of assistance or concession in travel expenses for the tax assessment year 2022-23 will also be tax-free subject to fulfilment of prescribed conditions

Sec.10 (7) foreign allowance granted by the Government of India to its employees posted abroad

Allowances and perquisites given by the Government of India to a citizen of India abroad are tax free to the employee.

Sec.10 (10) Death-cum-retirement gratuity

Gratuity is a retirement benefit given by the employer to the employee in consideration of past services. Sec. 10(10) deals with the exemptions from gratuity income. Such exemption can be claimed by a salaried assessee. Gratuity received by an assessee other than employee shall not be eligible for exemption u/s 10(10).

Case A: Gratuity received during continuation of service Gratuity received during continuation of service is fully taxable in the hands of all employees (whether Government or non-Government employee).

Case B: Gratuity received at the time of termination of service by Government employee Gratuity received at the time of termination of service by Government employee is fully exempt from tax u/s 10(10)(i).

Tutorial Point: Government employee, here, includes employee of the Central or the State Government or local authority but does not include employee of statutory corporation.

Case C: Gratuity received at the time of termination of service by non–government (including foreign government) employee, covered by the Payment of Gratuity Act

In such case, minimum of the following shall be exempted from tax u/s 10(10) (ii):

1. Actual Gratuity received;
2. ₹ 20,00,000; or
3. 15 working days salary for every completed year of service [Arithmetically, 15/26 × Completed year of service × Salary p.m.]

Tutorial points:

a. Completed year of service includes any fraction in excess of 6 months. (e.g. 7 years 9 months will be treated as 8 years; 7 years 5 months will be treated as 7 years and 7 years 6 months will be treated as 7 years).

b. Salary here means Basic + DA, last drawn

Case D: Gratuity received at the time of termination of service by non-government employee (including foreign government employee) not covered under the Payment of Gratuity Act Gratuity received at the time of termination of service by non-government employee being not covered under the Payment of Gratuity Act shall be exempted from tax u/s 10(10)(iii) to the extent of lower of the following :

1. Actual Gratuity received;
2. ₹ 20,00,000; and
3. ½ x Completed year of service x Average Salary p.m.

Tutorial points:

a. While calculating completed year of service ignore any fraction of the year. (e.g. 7 years 9 months will be treated as 7 years only)

b. Average Salary here means, Basic + DA + Commission (being a fixed percentage on turnover) being last 10 months average salary, immediately preceding the month of retirement. (E.g. If an employee retires on 18/11/2022 then 10 months average salary shall be a period starting from Jan' 2022 and ending on Oct' 2022).*

**If DA is not forming a part of retirement benefit then the same shall not be included in salary for above purpose. However, DA itself shall be fully taxable.*

Sec.10 (10A) Commuted value of pension and any payment received by way of commutation of pension by an individual out of annuity plan of LIC or any other insurer from a fund set up by that corporation or insurer

Refer to chapter income from Salary. (Page No. 3.15)

Sec. 10(10AA) Leave Salary

Refer to chapter income from Salary. (Page No. 3.19)

Sec. 10(10B) Retrenchment Compensation

Refer to chapter income from Salary. (Page No. 3.22)

Sec. 10(10BB) Payment to Bhopal Gas Victims

Any payment made to a person under Bhopal Gas Leak Disaster (Processing of Claims) Act,1985 and any scheme framed there under will be fully exempt.

However, payments made to any assessee in connection with Bhopal Gas Leak Disaster to the extent he has been allowed a deduction under the Act on account of any loss or damage caused to him by such disaster will not be exempted.

Sec. 10(10BC) compensations received on account of disaster

1. This clause exempts any amount received or receivable as compensation by an individual or his legal heir on account of any disaster.
2. Such compensation should be granted by the Central Government or a State Government or a local authority.
3. However, exemption would not be available in respect of compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.
4. "Disaster" means a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or man-made causes, or by accident or negligence. It should have the effect of causing–
   - Substantial loss of life or human suffering; or
   - Damage to, and destruction of, property; or
   - Damage to, or degradation of, environment.

   It should be of such a nature or magnitude as to be beyond the coping capacity of the community of the affected area.

Sec.10 (10C) Compensation received from a public sector company at the time of voluntary retirement or separation

Refer chapter income from salary (Page No. 3.24)

Sec. 10(10D) Tax on perquisite paid by employer

Refer chapter income from salary (Page No. 3.34)

Sec. 10(11) amount received from statutory or public provident fund

Any payment from a provident fund to which the Provident Funds Act, 1925, applies or from any other notified provident fund set up by the Central Government is exempt Exceptions Interest accrued during the previous year in the account of an employee maintained by the fund shall not be exempted to the extent it relates to the following amount:

Case	Interest not exempted
Where employer is giving contribution	Interest not exempted Where employer is giving contribution Interest on employee's contribution (made on or after 01-04-2021) in excess of ₹ 2,50,000 per year
Where employer is not giving contribution	Interest on employee's contribution (made on or after 01-04-2021) in excess of ₹ 5,00,000 per year

Sec.10 (11A) Payment from Suknaya Smiridhi Account

Section10(11A) provides that any payment from an account opened in accordance with the Sukanya Samriddhi Account Rules, 2014, made under the Government Savings Bank Act, 1873, shall not be included in the total income of the assessee.

Accordingly, the interest accruing on deposits in, and withdrawals from any account under the said scheme would be exempt.

Sec. 10(12) Amount received from recognised provident fund or public provident fund

The accumulated balance due and becoming payable to an employee participating in a recognised provident fund, to the extent provided in rule 8 of Part A of the Fourth Schedule is exempt Exceptions Interest accrued during the previous year in the account of an employee maintained by the fund shall not be exempted to the extent it relates to the following amount:

Case	Interest not exempted
Where employer is giving contribution	Interest not exempted Where employer is giving contribution Interest on employee's contribution (made on or after 01-04-2021) in excess of ₹ 2,50,000 per year
Where employer is not giving contribution	Interest on employee's contribution (made on or after 01-04-2021) in excess of ₹ 5,00,000 per year

Sec. 10(13) Payment from Approved Superannuation Fund

Any payment from an approved superannuation fund made –

- on the death of a beneficiary; or
- to an employee in lieu of or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
- by way of refund of contributions on the death of a beneficiary; or
- by way of refund of contributions to an employee on his leaving the service (otherwise than by retirement at or after a specified age or on his becoming incapacitated prior to such retirement) to the extent to which such payment does not exceed the contributions made prior to 1-4-1962 and any interest thereon.
- by way of transfer to the account of the employee under a pension scheme referred to in sec. 80CCD and notified by the Central Government.

Sec. 10(13A) House Rent Allowance subject to certain limits

Refer to chapter Income from salary (Page No. 3.30)

Sec. 10(14) Special allowance granted to an employee

Refer to chapter Income from salary

Sec. 10(15) Interest on Securities

1. Interest, premium on redemption or other payment on notified securities, bonds or certificates
2. Interest in the hands of an individual and Hindu undivided family on Specified Capital Investment Bonds or Specified Relief Bonds
3. Interest on specified bonds to non- resident or his nominees if such bonds are purchased by a non-resident Indian in foreign exchange; and
4. The interest and principal received in respect of such bonds, whether on their maturity or otherwise, is not allowable to be taken out of India. Interest on securities held by the Issue Department of the Central Bank of Ceylon;
5. Interest payable to any bank incorporated in a country outside India and authorised to perform central banking functions in that country on any deposits made by it, with the approval of the RBI, with any scheduled bank;
6. Interest payable on a loan advanced by the Nordic Investment Bank for an approved project;
7. Interest payable to the European Investment Bank for financial co-operation agreement;
8. Interest payable by a Government, local authority, certain industrial undertakings or financial institution on money borrowed before 1/6/2001
9. Interest on securities held by the Welfare Commissioner, Bhopal Gas Victims or deposits for the benefit of the victims of the Bhopal gas leak disaster.
10. Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015
11. Interest on specified bonds issued by a local authority or by a State Pooled Finance Entity.
12. Interest received by a non-resident or a person who is not ordinarily resident, in India on a deposit made on or after 1-4-2005 in an offshore banking unit referred in the Special Economic Zones Act, 2005
13. Interest payable to a non-resident by a unit located in an International Financial Services Centre in respect of monies borrowed by it on or after 01-09-2019.

Sec. 10(15A) Income from Leasing of Aircraft

Any payment made, by an Indian company engaged in the business of operation of aircraft, to acquire an aircraft or an aircraft engine (other than a payment for providing spares, facilities or services in connection with the operation of leased aircraft) on lease from the foreign Government or a foreign enterprise under an approved agreement. The agreement must not be entered into –

- between 1-4-1997 to 31-3-1999; and
- on or after 1-4-2007. Note: "Foreign enterprise" means a person who is a non-resident.

Tutorial point : Tax paid on an agreement made between 1-4-1997 and 31-3-1999 is eligible for exemption u/s 10(6BB)

Sec. 10(16) Educational Scholarship

The value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.

Sec. 10(17) Payments to MP's and MLA's

The following incomes of Members of Parliament or State Legislatures will be exempt:

Daily Allowance- Daily allowance received by any Member of Parliament or of any State Legislatures or any Committee thereof.

Constituency Allowance of MPs- In the case of a Member of Parliament, any allowance received under Members of Parliament (Constituency Allowance) Rules,1986; and

Constituency allowance of MLAs- Any constituency allowance received by any person by reason of his membership of any State Legislature under any Actor rules made by that State Legislature

Sec.10(17A) Awards for literacy, scientific and artistic work and other awards by the Government

Any award instituted in the public interest by the Central/State Government or by any other body approved by the Central Government and are ward by Central/ State Government for such purposes as may be approved by the Central Government in public interest, will enjoy exemption under this clause.

Sec. 10(18) Pension received by recipient of gallantry awards

1. Any income by way of pension received by an individual is exempt from income-tax if–
   - Such individual was an employee of Central or State Government and
   - Has been awarded "Param Vir Chakra" or" Maha Vir Chakra" or "Vir Chakra" or such other gallantry award notified by the Central Government in this behalf.
2. In case of the death of such individual, any income by way of family pension received by any member of the family of such individual shall also be exempt under this clause.
3. Family, in relation to an individual, means–
   - The spouse and children of the individual; and
   - The parents, brothers and sisters of the individuals or any of them, wholly or mainly dependent on the individual

Sec. 10(19) Family Pension to Widow or Children of Armed Force

Family pension received by the widow or children or nominated heirs, of a member of the armed forces (including para-military forces) of the Union, where the death of such member has occurred in the course of operational duties, in such circumstances and subject to such conditions, as may be prescribed.

Sec. 10(19A) Palace of Ex-ruler

The annual value in respect of any one palace, which is in the occupation of an ex-ruler

Sec. 10(20) Income of Local Authority

Following income of a local authority is exempt –

(a) Income chargeable under the head Income from House Property, Capital Gains or Income from other Sources

(b) Income from the supply of commodities (other than water or electricity) or services, within its own jurisdiction

(c) Income from the supply of water services or electricity within or outside its jurisdiction

Sec. 10(21) Income of Scientific Research Association

Any income of a scientific research association [being approved for the purpose of Sec. 35(1)(ii)] or research association which has its object, undertaking research in social science or statistical research [being approved and notified for the purpose of Sec. 35(1)(iii)], is exempt provided such association—

(a) applies its income, or accumulates it for application, wholly and exclusively to the objects for which it is established; and

(b) invest or deposit its funds in specified investments.

Sec. 10(22B) Income of News Agency

Any income of specified news agency (Press Trust of India Ltd., New Delhi) set up in India solely for collection and distribution of news shall be exempt provided:

(a) The news agency applies its income or accumulates it for application solely for collection and distribution of news; and

(b) It does not distribute its income in any manner to its members.

Sec. 10(23A) Income of Professional Institutions

Any income (other than income chargeable under the head "Income from house property" or any income received for rendering any specific services or income by way of interest or dividends derived from its investments) of professional association shall be exempt provided

a) Such association or institution is established in India having as its object the control, supervision, regulation or encouragement of the profession of law, medicine, accountancy, engineering or architecture or other specified profession;

b) Such association or institution applies its income, or accumulates it for application, solely to the objects for which it is established; and

c) The association or institution is approved by the Central Government.

Sec. 10(23AA) Income of Regimental Fund

Any income received by any person on behalf of any Regimental Fund or Non-public Fund established by the armed forces of the Union for the welfare of the past and present members of such forces or their dependants is exempt.

Sec. 10(23AAA) Income of specified Employee Welfare Fund

Sec. 10(23AAB) Income of specified Pension Fund

Sec. 10(23B) Income of trust for Development of Khadi and Village Industries

Sec. 10(23BB) Income of Khadi and Village Industries Boards

Sec. 10(23BBA) Income of body formed for Administration of Public Religious or Charitable Trusts

Any income of anybody established under any Central, State or Provincial Act which provides for the administration of any public, religious or charitable trusts or endowments including Maths, Temples, Gurudwaras, Wakfs, Churches or other places of public religious worship or societies for religious or charitable purposes.

Sec. 10(23BBB) Income of European Economic Community

Sec. 10(23BBC) Income of SAARC Fund

Sec. 10(23BBD) Income of ASOSAI-SECRETARIAT

Sec. 10(23BBE) Income of Insurance Regulatory Authority

Sec. 10(23BBG) Income of the Central Electricity Regulatory Commission

Sec. 10(23BBH) Income of the Prasar Bharati (Broadcasting Corporation of India)

Sec. 10(23C) Income of Certain Funds

Any income received by any person on behalf of

1. The Prime Minister's National Relief Fund or the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND); [sec. 10(23C)(i)]
2. The Prime Minister's Fund (Promotion of Folk Art); [sec. 10(23C)(ii)]
3. The Prime Minister's Aid to Students Fund; [sec. 10(23C)(iii)]
4. The National Foundation for Communal Harmony; [sec. 10(23C)(iiia)]
5. The Swachh Bharat Kosh; [sec. 10(23C)(iiiaa)]
6. The Clean Ganga Fund; [sec. 10(23C)(iiiaaa)]
7. The Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund; [sec. 10(23C)(iiiaaaa)]
8. Any other charitable fund or institution notified by the prescribed authority (subject to condition) [sec. 10(23C) (iv)]
9. Any trust or institution wholly for public religious purposes or wholly for public religious and charitable purposes notified by the prescribed authority (subject to conditions) [sec. 10(23C)(v)]
10. Any university or other education institutions, (wholly or substantially financed by Government or having annual receipt of prescribed limit upto ₹ 5 crores) existing solely for education purposes and not for profit. [sec.10(23C)(iiiac), (iiiad) (vi)]
11. Any hospital or other institution (wholly or substantially financed by Government or having annual receipt upto ` 5 crores) for treatment of person suffering from illness or mental defectiveness or during convalescence or requiring medical attention or rehabilitation, existing solely for philanthropic purposes and not for profit. [sec.10(23C)(iiiac), (iiiae) and (via)]

Sec. 10(23D) Income of Mutual Fund

Any income of –

(a) A Mutual Fund registered under the Securities and Exchange Board of India Act, 1992 or regulation made thereunder;

(b) A Mutual Fund set up by a public sector bank or a public financial institution or authorised by the Reserve Bank of India and subject to certain notified conditions.

Sec. 10(23DA) Income of Securitisation Trust

Any income of a securitisation trust from the activity of securitisation

1. "Securitisation" shall have the same meaning as assigned to it,
   (a) in regulation 2(1)(r) of the Securities and Exchange Board of India (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008 made under the Securities and Exchange Board of India Act, 1992 and the Securities Contracts (Regulation) Act, 1956; or

(b) in clause (z) of sub-section (1) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002; or

(c) under the guidelines on securitisation of standard assets issued by the Reserve Bank of India;

2. "Securitisation trust" shall have the meaning assigned to it in the Explanation below sec. 115TCA

Sec. 10(23EA) Income of Investor Protection Fund

Income (by way of contribution received from recognized Stock exchange and members thereof) of Investor Protection Fund set up by the recognised Stock Exchanges in India as the Central Government may by notification in Official Gazette specify shall be exempt.

Sec. 10(23EB) Income of Credit Guarantee Fund Trust for Small Industries

Sec. 10(23EC) Income of Investor Protection Fund set up by Commodity Exchange

Sec. 10(23ED) Income of Investor Protection Fund of Depositories

Any income, by way of contributions received from a depository, of notified Investor Protection Fund set up in accordance with the regulations by a depository. However, where any amount standing to the credit of the Fund and not charged to income-tax during any previous year is shared, either wholly or in part with a depository, the whole of the amount so shared shall be deemed to be the income of the previous year in which such amount is so shared and shall, accordingly, be chargeable to income-tax.

Income of Core Settlement Guarantee Fund [Sec. 10(23EE)]

Any specified income of such Core Settlement Guarantee Fund, set up by a recognised clearing corporation in accordance with the regulations notified by the Central Government. However where any amount standing to the credit of the Fund and not charged to income-tax during any previous year is shared, either wholly or in part with the specified person, the whole of the amount so shared shall be deemed to be the income of the previous year in which such amount is so shared.

Sec 10(23FB) Income of Ventures Capital Fund or Venture Capital Company

Any income of a venture capital company or venture capital fund from investment in a venture capital undertaking. However, w.e.f. A.Y. 2016-17, the exemption is not applicable to any income of a venture capital company or venture capital fund, being an investment fund specified in clause (a) of the Explanation 1 to sec. 115UB

Sec. 10(23FBA) Non-business income of Investment Fund

Any income of an investment fund other than the income chargeable under the head "Profits and gains of business or profession"

Sec. 10(23FBB) Income of Unit holder

Any income, referred to in sec. 115UB, to a unit holder of an investment fund, being that proportion of income which is of the same nature as income chargeable under the head "Profits and gains of business or profession". For the purposes of sec. 10(23FBA) and (23FBB), "investment fund" shall have the meaning assigned to it in clause (a) of the Explanation 1 to sec. 115UB.

Sec. 10(23FBC) Income from specified fund

Any income accruing or arising to, or received by, a unit holder from a specified fund or on transfer of units in a specified fund is exempt.

- ✓ "Specified fund" shall have the same meaning as assigned to it sec. 10(4D)
- ✓ "Unit" means beneficial interest of an investor in the fund and shall include shares or partnership interests

Sec 10(23FC) Income of Business Trust

Any income of a business trust by way of

(a) interest received or receivable from a special purpose vehicle; or

(b) dividend received or receivable from a special purpose vehicle

"Special purpose vehicle" means an Indian company in which the business trust holds controlling interest and any specific percentage of shareholding or interest, as may be required by the regulations under which such trust is granted registration

Sec. 10(23FCA) Income of Real Estate Investment Trust

Any income of a business trust, being a real estate investment trust, by way of renting or leasing or letting out any real estate asset owned directly by such business trust

Sec. 10 (23FE) certain income of wholly owned subsidiary of Abu Dhabi Investment Authority and Sovereign Wealth Fund

Sec.10 (23 FE) is provided for exemption to wholly owned subsidiaries of Abu Dhabi Investment Authority (ADIA), sovereign wealth funds (SWF) and pension funds (PF) [these are referred as "specified person" hereinafter] on their income in the nature of dividend, interest and long-term capital gains arising from investment made in infrastructure in India, during the period beginning with 01.04.2020 and ending on 31.03.2024 subject to fulfilment of certain conditions.

Sec.10 (23FF) Capital Gain of Resultant Fund

Capital gain of a non-resident arising on transfer of share in a company resident in India by the resultant fund (and such shares were transferred from the original fund to the resultant fund in relocation, and where capital gains on such shares were not chargeable to tax if that relocation had not taken place).

Sec. 10(24) Income of Trade Union

Any income chargeable under the heads "Income from house property" and "Income from other sources" of –

(a) a registered union within the meaning of the Indian Trade Unions Act, 1926, formed primarily for the purpose of regulating the relations between workmen and employers or between workmen and workmen.

(b) an association of registered unions

Sec. 10(25) Income of specified Provident Funds, etc. (e.g., RPF, Superannuation fund, Approved gratuity fund)

Sec. 10(25A) Income of Employees' State Insurance Fund

Sec. 10(26) Income of member of scheduled tribe

A member of a Scheduled Tribe residing in-

1. Any area specified in the Constitution i.e., The North Cachar Hills District, The Karbi Anglong District, The Bodoland Territorial Areas District, Khasi Hills District, Jaintia Hills District or The Garo Hills District or
2. In the States of Manipur, Tripura, Arunachal Pradesh, Mizoram and Nagaland, or
3. In the Ladakh region of the state of Jammu and Kashmir is exempt from tax on his income arising or accruing–
   - From any source in the areas or States aforesaid.
   - By way of dividend or interest on securities.

Sec. 10(26AAA) Specified income of a Sikkim's Individual

The following income, which accrues or arises to a Sikkim's individual, would be exempt from income-tax–

1. Income from any source in the State of Sikkim; or
2. Income by way of dividend or interest on securities.

However, this exemption will not be available to a Sikkim's woman who, on or after 1st April, 2008, marries a non-Sikkim's individual.

Sec. 10(26AAB) Income of an Agricultural produces Market Committee

Income of an agricultural produce market committee or board constituted under any law for the time being in force for the purpose of regulating the marketing of agricultural produce is exempt.

Sec. 10(26B) Income of Corporation for promoting the Interests of the Members of the Scheduled Castes or the Scheduled Tribe or Backward Classes

Sec. 10(26BB) Income of Corporation for promoting Interest of Members of a Minority Community

Sec. 10(26BBB) Income of Corporation for the Welfare and Economic Upliftment of Ex-servicemen

Sec. 10(27) Income of a Co-operative Society for promoting the Interests of the Members of Scheduled Castes or Scheduled Tribes

Sec. 10(29A) Income of specified Boards

Any income accruing or arising to The Coffee Board; The Rubber Board; The Tea Board; The Tobacco Board; The Marine Products Export Development Authority; The Coir Board;

The Agricultural and Processed Food Products Export Development Authority and The Spices Board are allowed for exemption

Sec. 10(30) Tea Board Subsidy

The amount of any subsidy received by any assessee engaged in the business of growing and manufacturing tea in India through or from the Tea Board will be wholly exempt from tax.

Conditions:

- The subsidy should have been received under any scheme for replantation or replacement of the bushes or for rejuvenation or consolidation of are as used for cultivation of tea, as notified by the Central Government.

- The assessee should furnish a certificate from the Tea Board, as to the amount of subsidy received by him during the previous year, to the Assessing Officer along with his return of the relevant assessment year or within the time extended by the Assessing Officer for this purpose.

Sec.10 (31) subsidies from planters

Amount of any subsidy received by an assessee engaged in the business of growing and manufacturing rubber, coffee, specified commodity in India, as notified by the Central Government, will be wholly exempt from tax.

Conditions:

- The subsidies should have been received from or through the Rubber Board, Coffee Board, Spices Board or any other Board in respect of any other commodity under any scheme for replantation or replacement of rubber, coffee, cardamom or other plants or for rejuvenation or consolidation of areas used for cultivation of all such commodities.
- The assessee should furnish a certificate from the Board, as to the amountof subsidy received by him during the previous year, to the Assessing Officer along with his return of the relevant assessment year or within the time extended by the Assessing Officer for this purpose.

Sec. 10(32) Exemption from tax in respect of income of minor child

If the income of a minor child is included in the total income of a taxpayer in accordance with the provisions of section 64(1A), then the income of each such child included under the said section will be exempt from tax up to Rs.1, 500.

Sec. 10 (33) Income from transfer of unit

Income transferred in the form of capital asset under the Unit Scheme of Unit Trust of India, 1964 will be exempt from tax if such transfer is made after March 31, 2002

Sec. 10 (34) Dividend Income from Domestic Company

Till the assessment year 2020-21, the dividend considered under section 2 (22) (e) was completely tax free without any limit and any dividend up to 10 lakhs.

Dividend income has been made taxable from assessment year 2021-22 and the provision of tax exemption has been repealed. Now only that dividend received in the previous year 2020-21 will be tax free in assessment year 2021-22 on which tax has been paid under section 115O and section 115 BBDA (whichever is applicable).

Sec 10 (34A) Any income arising to a shareholder on account of buy back of shares

Buyback of shares of any kind (both listed and unlisted) by a company referred to in section 115QA by July 4, 2019, which is not eligible on a recognized stock exchange, and from July 5, 2019 But the income accruing to a shareholder taxpayer will be tax free.

A company referred to in section 115QA means a company that is liable to pay additional income tax on distributed income.

Sec.10 (35A) Any income by way of distributed income referred to in section 115TA received from a securitization trust by any person being an investor of the said trust

Income received by way of income distributed by the trust to the investor of such trust as described in section 115TA. Provided that exemption from tax shall not be available in respect of such income on or after the 1st day of June, 2016

Sec 10 (36) Long-term capital gain on transfer of equity shares in certain cases

Long term capital gain arising from transfer of eligible equity shares of a company will be exempt from tax, provided the following conditions are satisfied -

1. Such shares are purchased on or after March 1, 2003 but before March 1, 2004
2. such shares have been held by the taxpayer for a period of more than 12 months
3. Qualified Equity Share means the following -
   - Equity shares of any company which is a member of the BSE-500 Index as on March 1, 2003 and the transaction of sale and purchase of such equity shares is registered on a recognized stock exchange in India
   - Equity shares of any company which have been allotted by way of public issue on or after March 1, 2003 and which have been listed on a recognized stock exchange in India before March 1, 2004.

Sec 10(37) Exemption of LTCG on Transfer of Agricultural Land

Section 10(37) of the Income Tax Act provides that any LTCG arising from the transfer of agricultural land situated in India is exempt from tax. The exemption is available only if the following conditions are met:

1. The land must be an agricultural land.
2. The land must be situated in India.
3. The transfer must be a long-term capital asset.
4. The transfer must have taken place on or after 1st April 2014.

It is important to note that the exemption is available only for LTCG and not for short-term capital gains (STCG). STCG arising from the transfer of agricultural land is taxed at the normal rates applicable to the taxpayer.

Sec 10(37A) Capital gain arising to an individual/HUF under Andhra Pradesh Capital city land pooling Scheme, 2015

If an individual or HUF taxpayer was the owner of any specified capital asset as on June 2, 2014, he transfers it under the Land Consolidation Scheme constituted in accordance with the Andhra Pradesh Capital Urban Land Consolidation Scheme Rules, 2015 and in respect of such transfer to the taxpayer If there is any income under the head capital gains, then such income will be exempt from tax.

Sec. 10(39) Income of an international sporting event

Any specified income(which is from such international event and which is notified by the central govt.) of specified persons from any international event held in India shall be fully exempted if

- Such event is approved by international regulating body of such event
- events are participated by more than two countries
- event is notified by Central Government

Sec. 10(40) Grant received by subsidiary company from holding company

The income is received by way of grant or other income from Indian holding company for the revival or reconstruction of existing power generating business is exempt.

Sec. 10(42) Income of a Non-profit Body or Authority specified by the Central Government

Any specified income arising to a body or authority which –

- has been established or constituted or appointed under a treaty or an agreement entreated into by the Central Government with two or more countries or a convention signed by the Central Government;
- is established or constituted or appointed not for the purpose of profit;
- is notified by the Central Government.

Sec. 10(43) Reverse Mortgage

Any amount received by an individual as a loan, either in lump sum or in instalment, in a transaction of reverse mortgage is exempt.

Sec. 10(44) New Pension Trust

Any income received by any person for, or on behalf of, the New Pension System Trust is exempt

Sec. 10 (46) exemption of "Specified Income" of certain bodies or authorities

Any 'Specified Income' arising to a body/authority/board /trust/commission (by whatever name called) which-

1. has been established by under central or state government, with the object of regulating any activity for the benefit of the general public
2. is not engaged in any commercial activity; and
3. is notified by the central government in the official Gazette for the purposes of this clause.

Shall be exempt

Sec. 10(47) Infrastructure Debt Fund

Any income of notified infrastructure debt fund is exempt

Sec. 10(48) any income received in India in Indian currency by a foreign company on account of sale of crude oil (or any other notified goods or notified service) to any person in India

Any income of a foreign company received in India in Indian currency on account of sale of crude oil to any person in India shall be exempt if the following conditions are satisfied

1. Such income is in pursuant to an agreement or an arrangement entered into by the Central Govt. or approved by the Central Govt.
2. Having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Govt. in this behalf; and
3. He foreign company is not engaged in any activity , other than receipt of such income, in India.

Sec. 10(48A) Storage of Crude Oil

Any income accruing or arising to a foreign company on account of storage of crude oil in a facility in India and sale of crude oil therefrom to any person resident in India provided:

(i) the storage and sale by the foreign company is pursuant to an agreement or an arrangement entered into by the Central Government or approved by the Central Government; and

(ii) having regard to the national interest, the foreign company and the agreement or arrangement are notified by the Central Government in this behalf.

Sec. 10(48B) Sale of leftover stock of crude oil

Any income accruing or arising to a foreign company on account of sale of leftover stock of crude oil, if any, from the facility in India after the expiry of the agreement or the arrangement referred to sec. 10(48A) or on termination of the said agreement or the arrangement, in accordance with the terms mentioned therein, as the case may be.

Sec. 10(48C) Income of Indian Strategic Petroleum Reserves Limited

Any income accruing or arising to the Indian Strategic Petroleum Reserves Ltd., being a wholly owned subsidiary of the Oil Industry Development Board under the Ministry of Petroleum and Natural Gas, as a result of arrangement for replenishment of crude oil stored in its storage facility in pursuance of directions of the Central Government in this behalf is exempt. However, nothing contained in this clause shall apply to an arrangement, if the crude oil is not replenished in the storage facility within 3 years from the end of the financial year in which the crude oil was removed from the storage facility for the first time.

Sec. 10(48D)/ (48E) Income of certain institutions

- Any income accruing or arising to an institution established for financing the infrastructure and development, set up under an Act of Parliament and notified by the Central Government for the purposes of this clause, for a period of 10 consecutive assessment years beginning from the assessment year relevant to the previous year in which such institution is set up [Sec. 10(48D)]
- Any income accruing or arising to a developmental financing institution, licensed by the Reserve Bank of India under an Act of the Parliament referred to in sec. 10(48D) and notified by the Central Government for this purposes, for a period of 5 consecutive assessment years beginning from the assessment year relevant to the previous year in which the developmental financing institution is set up However, the Central Government may, by issuing notification, extend the period of exemption for a further period, not exceeding 5 more consecutive assessment years, subject to fulfilment of such conditions as may be specified in the said notification;

Sec.10 (49) any income of the National Financial Holding Company Ltd

Any income of National Financial Holdings Company Limited for any previous year related to an assessment year beginning prior to 01.04.2014 entire amount of income shall be exempted

QUESTIONS

Multiple Choice Question

Q.1 The following incomes derived, received and earned during the previous year are not subject to tax being exempt under the act:

(i) Money received by an individual as a member of HUF
(ii) Share of profit received by partner from LLP
(iii) Interest on savings bank account
(iv) Income of SAARC fund

(a) (i) and (ii) (b) (i), (ii) and (iv)
(c) None of the above (d) All of the above

Q.2 Mr. Shankar received ₹50,000 as educational scholarship from Nehru memorial trust (a charitable trust). The scholarship is to assist Mr. Shankar for pursuing M.A. (history) at Jawaharlal Nehru University, New Delhi. The amount of scholarship liable to tax is:

(a) ₹ 50,000 (b) ₹ 10,000
(c) ₹ 25,000 (d) nil

Q.3 Amount received under key man insurance policy is:

(a) exempt u/s 10(10D) (b) not exempt
(c) 60% exempt u/s 10(10D) (d) none of this

Q4. A registered trade union earned income by way of interest on fixed deposit held with state bank of India of ₹5,60,000. The interest income chargeable to tax in the hands of trade union would be:

(a) ₹5,60,000 (b) Nil
(c) ₹2,60,000 (d) ₹ 3,10,000

Q.5 An electoral trust receiving voluntary contributions for the purpose of distributing to political parties registered under section 29A of the representation of the people act, 1951 must distribute..... of such contribution

(a) 100% (b) 95%
(c) 75% (d) 50%

Q.6 Mr. Sridhar employed in K L Ltd. took voluntary retirement in December 2022 and received ₹2,00,000 from national pension system trust. The amount so received chargeable to income-tax is:

(a) Nil as 100% is exempt (b) ₹ 1,20,000 as 40% is exempt
(c) ₹ 1,00,000 as 50% is exempt (d) ₹ 80,000 as 60% is exempt

Q.7 Tax holiday under section 10AA in respect of new established units is SEZ is allowed for a total period of-

(a) 5 years (b) 10 years
(c) 15 years (d) 20 years

Q.8 Incomes of a minor child up to ₹..... In respect of each minor child whose income is includible under section 64(1A) is exempt u/s 10(32)

(a) ₹ 1500 (b) ₹ 1,000
(c) ₹ 3,000 (d) ₹ 2,000

Q.9 Income of assesses engaged in the business growing and manufacturing tea in India is taxable to the extent of:

(a) 40% of such income (b) 60% of such income
(c) 70% of such income (d) 30% of such income

Q.10 Mrs. Rose derives ₹5,40,000 by way of income from sale of coffee grown and manufactured in India. The income chargeable to income tax would be:

(a) 50%, i.e. ₹ 2,70,000 (b) 25%, i.e. ₹ 1,35,000
(c) 40%, i.e. ₹ 2,16,000 (d) 60%, i.e. ₹ 3,24,000

Q.11 Scholarship received by student was ₹ 5,000 p.m. he spends ₹ 48,000 for meeting the cost of education. The balance ₹ 12,000 is...

(a) taxable (b) Casual Income
(c) Exempt (d) exempt up to ₹ 5,000

Q.12 An author was awarded by central board of direct taxes a sum of ₹ 50,000 for writing a book in hindi as I prize. Such award is ..

(a) Casual Income (b) Fully exempt
(c) Fully Taxable (d) Exempt up to ₹ 25,000

Q.13 Income from unit of UTI or Mutual fund shall be.....
(a) Exempt (b) Taxable
(c) Exempt up to ₹ 2,50,000 (d) None of above

Q.14 In case of an Individual, any income by way of interest on any money standing to his credit in a non-resident (external) A/c in any bank in India shall be ..
(a) Exempt (b) Fully Taxable
(c) Exempt up to ₹ 13,000 (d) Exempt up to ₹ 5,000

Q.15 Cricket match organized by the cricket control board of India for the benefit of Mahendra Singh Dhoni where he received ₹ 5,00,000 such receipt is ....
(a) Casual Income (b) Exempt Income
(c) Fully Taxable (d) Exempt up to ₹ 2,00,000

Essay Type Questions

1. What do you mean by income partially exempt?
2. How much number of exemptions allowed when the income of a minor child is clubbed with the income of any of his parents?
3. Enumerate any eight incomes which are totally exempt from income tax?
4. Discuss incomes exempted in the hands of non-citizen assesses?

Answer MCQ

1	2	3	4	5	6	7	8	9	10
B	D	B	B	B	D	C	C	A	B
11	12	13	14	15					
C	B	B	A	B					

❑❑❑

Chapter 12

ASSESSMENT OF INDIVIDUALS

SECTION-WISE STUDY

Section	Particular
	Normal tax rates for Individual
	Surcharge
	Health and Education Cess
	Marginal relief
115JC	Alternate Minimum Tax
115BAC	Special tax rates (New Tax regime)
	Special tax rates on LTCG, STCG , Casual Incomes

INTRODUCTION

Every assessee, who earns income beyond the basic exemption limit in a Financial Year (F.Y.), must file a statement containing details of his income, deductions, and other related information. This is called the Income tax return. Once you as a taxpayer file the income returns, the Income Tax Department will process it.

The assessee himself determines the income tax payable. The tax department has made available various forms for filing income tax return. The assessee consolidates his income from various sources and adjusts the same against losses or deductions or various exemptions if any, available to him during the year. The total income of the assessee is then arrived at. The assessee reduces the TDS and Advance Tax from that amount to determine the tax payable on such income. Tax, if still payable by him, is called self-assessment tax and must be paid by him before he files his return of income. This process is known as Self-Assessment.

Computation of total income of an assessee for the assessment year 2023-24

	₹
Income from Salary	
Income from House Property	
Income from Business and Profession	
Income from Capital Gain	
Income from Other Sources	

Gross Total Income	
Less: Deductions under chapter VIA	
Total income or taxable income	

TAX RATES

In Finance Act 2020, new tax regime under section 115BAC has been inserted with some conditions. So right now two tax regime viz. old tax regime and new tax regime is applicable. The assessee can choose at his option for any one regime. But if an assessee having income from business and profession, once choose the new tax regime, he/she cannot opt for old tax regime in future years.

In this we will gain knowledge about the normal tax rates applicable to individual taxpayers and special tax rates applicable to special incomes like long term capital gains, winnings from lottery.

TAX COMPUTATION AT A GLANCE

Computation of tax liability of ….. for the assessment year 2023-24

Particular	**Amount**
A. Tax on LTCG u/s 112@20%	
B. Tax on STCG u/s 111A @ 15%	
C. Tax on LTCG u/s 112A @ 10% (Exceeding Rs. 1,00,000)	
D. Tax on casual income u/s 115BB @ 30%	
E. Tax on other reduced income	
[Total income – (A to D above income) + Net agricultural income] xxx	
Less: Tax on (Basic exemption limit + Net agricultural income xxx	
F. Total tax (A + B + C + D + E)	
G. Less: Rebate under section 87A if applicable (Upto 12,500 from tax if total income is below Rs. 5,00,000)	
H. Balance tax	
I. Add: Surcharge if applicable	
J. Total	
K. Add: Health and Education cess @ 4%	
L. Total tax liability	
M. Less: Tax deducted at sources/Tax collected at source	
N. Less: Advance tax paid	
O. Less: Self-assessment tax paid	
P. Net tax liability	

OLD TAX REGIME : NORMAL TAX RATES FOR INDIVIDUAL:

The normal tax rates applicable to a resident individual will depend on the age of the individual. However, in case of a non-resident individual the tax rates will be same irrespective of his age. For the purpose of ascertainment of the applicable tax slab, an individual can be classified as follows:

- Resident individual below the age of 60 years.
- Resident individual of the age of 60 years or above at any time during the year but below the age of 80 years.
- Resident individual of the age of 80 years or above at any time during the year. Non-resident individual irrespective of the age.

Individuals	
(Other than senior and super senior citizen)	
Net Income Range	**Rate of Income-tax**
	Assessment Year 2023-24
Up to ₹ 2,50,000	-
₹ 2,50,000 to ₹ 5,00,000	5%
₹ 5,00,000 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%
Senior Citizen	
(who is 60 years or more at any time during the previous year)	
Net Income Range	**Rate of Income-tax**
	Assessment Year 2023-24
Up to ₹ 3,00,000	-
₹ 3,00,000 to ₹ 5,00,000	5%
₹ 5,00,000 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%
Super Senior Citizen	
(who is 80 years or more at any time during the previous year)	
Net Income Range	**Rate of Income-tax**
	Assessment Year 2023-24
Up to ₹ 5,00,000	-
₹ 5,00,000 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

Surcharge: Surcharge is levied on the amount of income-tax at following rates if total income of an assessee exceeds specified limits:-

Rate of Surcharge				
Assessment Year 2023-24				
Range of Income				
₹ 50 Lakhs to ₹ 1 Crore	*₹ 1 Crore to ₹ 2 Crores*	*₹ 2 Crores to ₹ 5 Crores*	*₹5crore s to ₹10 Crores*	*Exceeding ₹10 Crores*
10%	*15%*	*25%*	*37%*	*37%*

Note:

1) The enhanced surcharge of 25% & 37%, as the case may be, is not levied, from income chargeable to tax under sections 111A, 112A and 115AD. Hence, the maximum rate of surcharge on tax payable on such incomes shall be 15%.

2) From Assessment Year 2023-24onwards:
   - *The maximum rate of surcharge on tax payable on dividend income or capital gain referred to in Section 112, shall be15%.*
   - *The surcharge rate for AOP with all members as a company, shall be capped at15%.*

MARGINAL RELIEF

Marginal relief is available from surcharge in following manner-

a) in case where net income exceeds ₹ 50 lakh but doesn't exceed ₹ 1 Crore, the amount payable as income tax and surcharge shall not exceed the total amount payable as income tax on total income of Rs 50 Lakh by more than the amount of income that exceeds Rs 50Lakhs.

b) in case where net income exceeds ₹ 1 crore but doesn't exceed ₹ 2 crore, marginal relief shall be available from surcharge in such a manner that the amount payable as income tax and surcharge shall not exceed the total amount payable as income-tax on total income of ₹ 1 crore by more than the amount of income that exceeds ₹ 1crore.

c) in case where net income exceeds ₹ 2 crore but doesn't exceed ₹ 5 crore, marginal relief shall be available from surcharge in such a manner that the amount payable as income tax and surcharge shall not exceed the total amount payable as income-tax on total income of ₹ 2 crore by more than the amount of income that exceeds ₹ 2crore.

d) in case where net income exceeds ₹ 5 crore, marginal relief shall be available from surcharge in such a manner that the amount payable as income tax and surcharge shall not exceed the total amount payable as income-tax on total income of ₹ 5 crore by more thantheamount of income that exceeds ₹ 5crore.

Health and Education Cess : Health and Education Cess is levied at the rate of 4% on the amount of income-tax plus surcharge.

Note: A resident individual (whose net income does not exceed ₹ 5,00,000) can avail rebate under section 87A. It is deductible from income-tax before calculating education cess. The amount of rebate is 100 per cent of income-tax or ₹ 12,500, whichever is less.

NON-RESIDENT INDIVIDUAL/HUF

Net income range	*Income-tax rates*	*Health and Education Cess*
Up to ₹ 2,50,000	*Nil*	*Nil*
₹ 2,50,000 – ₹ 5,00,000	5% of (total income *minus* ₹ 2,50,000)[*]	4% of income-tax
₹ 5,00,000 – ₹ 10,00,000	₹ 12,500 + 20% of (total income *minus* ₹ 5,00,000)	4% of income-tax
Above ₹ 10,00,000	₹ 1,12,500 + 30% of (total income *minus* ₹ 10,00,000)	4% of income-tax

Surcharge: Surcharge is levied on the amount of income-tax at following rates if total income of an assessee exceeds specified limits:-

Rate of Surcharge				
Assessment Year 2023-24 ***Assessment Year 2022-23***				
Range of Income				
₹ 50 Lakhs to ₹ 1 Crore	*₹ 1 Crore to₹ 2 Crores*	*₹ 2 Crores to ₹ 5 Crores*	*₹5 crore s to ₹10 Crores*	*Exceedin g ₹ 10 Crores*
10%	*15%*	*25%*	*37%*	*37%*

However, marginal relief is available from surcharge in following manner-

a) n case where net income exceeds ₹ 50 lakh but doesn't exceed ₹ 1 Crore, the amount payable as income tax and surcharge shall not exceed the total amount payable as income tax on total income of Rs 50 Lakh by more than the amount of income that exceeds ₹ 50Lakhs.

b) in case where net income exceeds ₹ 1 crore but doesn't exceed ₹ 2 crore, marginal relief shall be available from surcharge in such a manner that the amount payable as income tax and surcharge shall not exceed the total amount payable as income-tax on total income of ₹ 1 crore by more than the amount of income that exceeds ₹ 1crore.

c) in case where net income exceeds ₹ 2 crore but doesn't exceed ₹ 5 crore, marginal relief shall be available from surcharge in such a manner that the amount payable as income tax and surcharge shall not exceed the total amount payable as income-tax on total income of ₹ 2 crore by more than the amount of income that exceeds ₹ 2crore.

d) in case where net income exceeds ₹ 5 crore, marginal relief shall be available from surcharge in such a manner that the amount payable as income tax and surcharge shall not exceed the total amount payable as income-tax on total income of ₹ 5 crore by more than the amount of income that exceeds ₹ 5crore.

Health and Education Cess: Health and Education Cess is levied at the rate of 4% on the amount of income-tax plus surcharge.

NEW TAX REGIME UNDER SECTION 115BAC : SPECIAL TAX RATE FOR INDIVIDUAL AND HUFS

The Finance Act, 2020, has provided an option to Individuals and HUF for payment of taxes at the following reduced rates from Assessment Year 2021-22 and onwards:

Total Income (Rs)	**Rate**
Up to 2,50,000	*Nil*
From 2,50,001 to 5,00,000	5%
From 5,00,001 to 7,50,000	10%
From 7,50,001 to 10,00,000	15%
From 10,00,001 to 12,50,000	20%
From 12,50,001 to 15,00,000	25%
Above 15,00,000	30%

Surcharge: Surcharge is levied on the amount of income-tax at following rates if total income of an assessee exceeds specified limits:-

Range of Income				
₹ 50 Lakhs to ₹ 1 Crore	*₹ 1 Crore to ₹ 2 Crores*	*₹ 2 Crores to ₹ 5 Crores*	*₹ 5 crores to ₹ 10 Crores*	*Exceeding ₹ 10 Crores*
10%	*15%*	*25%*	*37%*	*37%*

Notes: *The maximum rate of surcharge on tax payable on dividend income or capital gain referred to in Section 111A, Section 112, Section 112A or Section 115AD shall be 15%.*

However, marginal relief is available from surcharge in following manner-

a) in case where net income exceeds ₹ 50 lakh but doesn't exceed ₹ 1 Crore, the amount payable as income tax and surcharge shall not exceed the total amount payable as income tax on total income of Rs 50 Lakh by more than the amount of income that exceeds Rs 50Lakhs.

b) in case where net income exceeds ₹ 1 crore but doesn't exceed ₹ 2 crore, marginal relief shall be available from surcharge in such a manner that the amount payable as income tax and surcharge shall not exceed the total amount payable as income-tax on total income of ₹ 1 crore by more than the amount of income that exceeds ₹ 1crore.

c) in case where net income exceeds ₹ 2 crore but doesn't exceed ₹ 5 crore, marginal relief shall be available from surcharge in such a manner that the amount payable as income tax and surcharge shall not exceed the total amount payable as income-tax on total income of ₹2 crore by more than the amount of income that exceeds ₹ 2crore.

d) in case where net income exceeds ₹ 5 crore, marginal relief shall be available from surchargeinsuchamannerthattheamountpayableasincometaxandsurchargeshallnotexceed the total amount payable as income-tax on total income of ₹ 5 crore by more than the amount of income that exceeds ₹ 5 crore.

Health and Education Cess : Health and Education Cess is levied at the rate of 4% on the amount of income-tax plus surcharge.

The assessee opting for this scheme have been kept out of the purview of Alternate Minimum Tax (AMT). Further the provision relating to the computation, carry forward and set off of AMT credit shall not apply to these assessees.

Note: A resident individual (whose net income does not exceed ₹ 5,00,000) can avail rebate under section 87A. It is deductible from income-tax before calculating education cess. The amount of rebate is 100 per cent of income-tax or ₹ 12,500, whichever is less.

Conditions to be satisfied: The option to pay tax at lower rates shall be available only if the total income of assessee is computed without claiming following exemptions or deductions:

a) Leave Travel concession [Section10(5)]

b) House Rent Allowance [Section10(13A)]

c) Official and personal allowances (other than those as may be prescribed)[Section10(14)]

d) Allowances to MPs/MLAs [Section10(17)]

e) Allowances for income of minor[Section 10(32)]

f) Deduction for units established in Special Economic Zones (SEZ) [Section10AA];

g) Standard Deduction [Section16(ia)]
h) Entertainment Allowance [Section16((ii)]
i) Professional Tax [Section16(iii)]
j) Interest on housing loan [Section24(b)]
k) Additional depreciation in respect of new plant and machinery [Section32(1)(iia)];
l) Deduction for investment in new plant and machinery in notified backward areas [Section32AD];
m) Deduction in respect of tea, coffee or rubber business [Section33AB];
n) Deduction in respect of business consisting of prospecting or extraction orproduction of petroleum or natural gas in India [Section33ABA];
o) Deduction for donation made to approved scientific research association, university college or other institutes for doing scientific research which may or may not be related to business [Section35(1)(ii)];
p) Deduction for payment made to an Indian company for doing scientific research which may or may not be related to business [Section35(1)(iia)];
q) Deductionfordonationmadetouniversity,college,orotherinstitutionfordoingresearchin
r) Deduction for donation made for or expenditure on scientific research[Section35(2AA)];
s) Deduction in respect of capital expenditure incurred in respect of certain specified businesses, i.e., cold chain facility, warehousing facility, etc. [Section35AD];
t) Deduction for expenditure on agriculture extension project [Section35CCC];
u) Deduction for family Pension [Section57(iia)]
v) Deduction in respect of certain incomes other than specified under Section 80JJAA, 80CCD(2) and deduction under section 80LA for Unit located in IFSC [Part C of Chapter VI-A].

Total income of the assessee is calculated after claiming depreciation under section 32, other than additional depreciation, and without adjusting brought forward losses and depreciation from any earlier year (if such loss or depreciation pertains to any deduction under the aforesaid sections). Further, loss under the head house property can't be set off against other heads of Income. Moreover, such loss and depreciation will not be carried forward.

If the assessee has any unabsorbed depreciation, relating to additional depreciation, which has not been given full effect, the corresponding adjustment shall be made to WDV of the block of assets in the prescribed manner

In case the assessee has business or professional income, this option shall be exercised on or before the due date for furnishing the returns of income. Once the assessee has exercised the option for any previous year, it cannot be subsequently withdrawn for the same or any other previous year. The option once exercised for any previous year can be withdrawn only once in subsequent previous year (other than the year in which it was exercised) and thereafter, he shall never be eligible to exercise this option again except where such person ceases to have any business income.

If assessee does not have business or professional income, the option must be exercised along with the return of income for every previous year. If an assessee, after opting for Section 115BAC, claims any of prescribed deduction or allowance in any previous year, then the option to pay tax at concessional rate shall become invalid for that year.

Rounding off of total income (Section 288A)

The total income shall be rounded off to the nearest multiple of 10 rupees.

Rounding off of tax (Section 288B)

The amount of tax, interest, penalty, fine, any other sum payable shall be rounded off to the nearest multiple of 10 rupees

ILLUSTRATION 12.1

In the following cases find out the tax payable by each one for the assessment year 2023-24 assuming that assessee does not opt for new tax regime under section 115BAC:

(i) Shri Vinay Total income of ₹ 2,47,000
(ii) Shri Mayank total Income of ₹ 3,67,800
(iii) Smt. Pramila Total income of ₹ 6,01,000
(iv) Smt. Usha total Income of ₹ 13,30,000

Solution:

(i) Calculation of tax payable by Shri Vinay for Assessment year 2023-24

Tax on ₹ 2,47,000

First ₹ 2,50,000	Nil

(ii) Calculation of tax payable by Mr. Mayank for Assessment year 2023-24

Tax on total income of ₹ 3,67,800

First ₹ 2,50,000	Nil
Balance (₹ 3,67,800-₹ 2,50,000) ₹ 1,17,800x5%	5,890
Total	5,890
Less: Rebate under section 87A	5,890
Tax payable	Nil

(iii) Calculation of tax payable by Smt. Pramila for Assessment year 2023-24

Tax on total income of ₹ 6,01,000

First ₹ 2,50,000	Nil
Next ₹ 2,50,000 x 5%	12,500
Balance (₹ 6,01,000 – ₹ 5,00,000) ₹ 1,01,000 x 20%	20,200
Total	32,700
Add: Health and Education Cess @ 4%	1,308
Tax payable	34,008

(v) Calculation of tax payable by Smt. Usha for Assessment year 2023-24

Tax on total income of ₹ 13,30,000

First ₹ 2,50,000	Nil
Next ₹ 2,50,000 x 5%	12,500
Next ₹ 5,00,000 x 20%	1,00,000
Over ₹ 10,00,000 (₹ 13,30,000 – ₹ 10,00,000) ₹ 3,30,000 x 30%	99,000
Total	2,11,500
Add: Health and Education Cess @ 4%	8,460
Tax payable	2,19,960,

EXERCISE 1

In the following cases find out tax payable for assessment year 2023-24 assuming total income is : (Assessee does not opts for new tax regime under section 115BAC)

(i) Mr. Mahesh ₹ 3,15,000

(ii) Mrs. Lata ₹ 7,10,000

(iii) Mr. Satyam ₹ 14,40,000

(iv) Mr. Mukesh ₹ 5,02,000 [Ans.: (i) Nil (ii) ₹56,680 (iii) ₹ 2,54,280 (iv) ₹13,416]

ILLUSTRATION 2

Find out gross tax payable in the following situations assuming that assessee does not opt for new tax regime under section 115BAC and total income includes income of ₹ 40,000 being winning from lottery:

(i) Mr. Pratham has total income of ₹ 5,20,000

(ii) Mr. Jay has total income of ₹ 10,20,000

Solution:

(i) Calculation of tax payable by Mr. Pratham for Assessment year 2023-24

Tax on winning from lottery 40,000 x 30%	12,000
Tax on balance income (₹ 5,20,000 – ₹ 40,000) = ₹ 4,80,000	
First ₹ 2,50,000	Nil
Balance (₹ 4,80,000-₹ 2,50,000) ₹ 2,30,000x5%	11,500
Total	23,500
Add: Health and Education Cess @ 4%	940
Tax payable	24,440

(ii) Calculation of tax payable by Mr. Jay for Assessment year 2023-24

Tax on winning from lottery 40,000 x 30%	12,000
Tax on balance income (₹ 10,20,000 – ₹ 40,000) = ₹ 9,80,000	
First ₹ 2,50,000	Nil
Next ₹ 2,50,000x 5%	12,500
Balance (₹ 4,80,000-₹ 5,00,000) ₹ 4,80,000 x 20%	96,000
Total	1,20,500
Add: Health and Education Cess @ 4%	4,820
Tax payable	1,25,320

EXERCISE 2

From the following particular of Mrs. Prerna an individual calculate her tax payable assuming that she does not opt for new tax regime.

Total income ₹ 15,40,000

(Including ₹ 6,00,000 winning from horse race) [Ans.: ₹ 2,91,720]

ILLUSTRATION 3

Compute tax payable if total income is ₹ 4,32,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 4,32,000		
First	2,50,000	Nil
Balance (4,32,000-2,50,000	1,82,000 x 5%	9,100
		9,100
Less: Rebate under section 87A		9,100
Tax payable		Nil

EXERCISE 3

Compute tax payable if total income is ₹ 4,95,600 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: Nil]

ILLUSTRATION 4

Compute tax payable if total income is ₹ 4,32,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 4,32,000		
First	2,50,000	Nil
Balance (4,32,000-2,50,000	1,82,000 x 5%	9,100
		9,100
Less: Rebate under section 87A		9,100
Tax payable		Nil

EXERCISE 4

Compute tax payable if total income is ₹ 4,95,600 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

[Ans.: Nil]

ILLUSTRATION 5

Compute tax payable if total income is ₹ 6,12,500 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 6,12,500		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Balance (6,12,500 – 5,00,000)	1,12,500 x 20%	22,500
		35,000
Add: Health and Education Cess 4%		1,400
Tax payable		36,400

EXERCISE 5

Compute tax payable if total income is ₹ 5,00,300 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹13,060]

ILLUSTRATION 6

Compute tax payable if total income is ₹ 6,12,500 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 6,12,500		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Balance (6,12,500 – 5,00,000)	1,12,500 x 10%	11,250
		23,750
Add: Health and Education Cess 4%		950
Tax payable		24,700

EXERCISE 6

Compute tax payable if total income is ₹ 5,00,300 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opt for new tax regime under section 115BAC.

[Ans.: ₹ 13,030]

ILLUSTRATION 7

Compute tax payable if total income is ₹ 9,89,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 9,89,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Balance (9,89,000-5,00,000)	4,89,000 x 20%	97,800
		1,10,300
Add: Health and Education Cess 4%		4,412
Tax payable		1,14,712
Tax payable (Rounded off)		1,14,710

EXERCISE 7

Compute tax payable if total income is ₹ 8,71,900 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 90,360]

ILLUSTRATION 8

Compute tax payable if total income is ₹ 9,89,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 9,89,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Balance (9,89,000-7,50,000)	2,39,000 x 15%	35,850
		73,350
Add: Health and Education Cess 4%		2,934
Tax payable		76,884
Tax payable (Rounded off)		76,880

EXERCISE 8

Compute tax payable if total income is ₹ 8,71,900 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

[Ans.: ₹ 58,020]

ILLUSTRATION 9

Compute tax payable if total income is ₹ 10,20,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 10,20,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (10,20,000-10,00,000)	20,000 x 30%	6,000
		1,18,500
Add: Health and Education Cess 4%		4,740
Tax payable		1,23,240
Tax payable (Rounded off)		1,23,240

EXERCISE 9

Compute tax payable if total income is ₹ 17,35,500 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 3,46,480]

ILLUSTRATION 10

Compute tax payable if total income is ₹ 10,20,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 10,20,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Next	2,50,000 x 15%	37,500
Balance (10,20,000-10,00,000)	20,000 x 20%	4,000
		79,000
Add: Health and Education Cess 4%		3,160
Tax payable		82,160
Tax payable (Rounded off)		82,160

EXERCISE 10

Compute tax payable if total income is ₹ 17,35,500 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

[Ans.: ₹ 2,68,480]

ILLUSTRATION 11

Compute tax payable if total income is ₹ 36,40,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 36,40,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000

Balance (36,40,000-10,00,000)	26,40,000 x 30%	7,92,000
		9,04,500
Add: Health and Education Cess 4%		36,180
Tax payable		9,40,680
Tax payable (Rounded off)		9,40,680

EXERCISE 11

Compute tax payable if total income is ₹ 30,91,640 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 7,69,590]

ILLUSTRATION 12

Compute tax payable if total income is ₹ 36,40,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 36,40,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Next	2,50,000 x 15%	37,500
Next	2,50,000 x 20%	50,000
Next	2,50,000 x 25%	62,500
Balance (36,40,000-15,00,000)	21,40,000 x 30%	6,42,000
		8,29,500
Add: Health and Education Cess 4%		33,180
Tax payable		8,62,680
Tax payable (Rounded off)		8,62,680

EXERCISE 12

Compute tax payable if total income is ₹ 30,91,640 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

[Ans.: ₹ 6,91,590]

ILLUSTRATION 13

Compute tax payable if total income is ₹ 56,40,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 56,40,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (56,40,000-10,00,000)	46,40,000 x 30%	13,92,000
		15,04,500
Add: Surcharge @ 10%		1,50,450
		16,54,950
Add: Health and Education Cess 4%		66,198
Tax payable		17,21,148
Tax payable (Rounded off)		17,21,150

EXERCISE 13

Compute tax payable if total income is ₹ 76,70,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 24,17,840]

ILLUSTRATION 14

Compute tax payable if total income is ₹ 56,40,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 56,40,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Next	2,50,000 x 15%	37,500
Next	2,50,000 x 20%	50,000
Next	2,50,000 x 25%	62,500
Balance (56,40,000-15,00,000)	41,40,000 x 30%	12,42,000
		14,29,500
Add: Surcharge @ 10%		1,42,950
		15,72,450

Add: Health and Education Cess 4%		62,898
Tax payable		16,35,348
Tax payable (Rounded off)		16,35,350

EXERCISE 14

Compute tax payable if total income is ₹ 76,70,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 23,32,040]

Alternate Minimum Tax (AMT): In the case of a non-corporate taxpayer to whom the provisions of Alternate Minimum Tax (AMT) applies, tax payable cannot be less than 18.5% (+HEC) of "adjusted total income" computed as per section 115JC. For provisions relating to AMT refer tutorial on "MAT/AMT" in tutorial section.

Notes:

- W.e.f. Assessment Year 2019-20, In case of a unit located in an IFSC which derives its income solely in convertible foreign exchange, the rate of AMT shall be at the rate of 9% instead of existing rate of18.50%.
- W.e.f. Assessment Year 2023-24, the rate of AMT shall be 15% instead of existing rate of 18.5% in case of a co-operative society.

ILLUSTRATION 15

Compute tax payable if total income is ₹ 50,80,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 50,80,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (50,80,000-10,00,000)	40,80,000 x 30%	12,24,000
		13,36,500
Add: Surcharge @ 10%		1,33,650
Total tax (A)		14,70,150
Marginal relief		
Income tax on ₹ 50,00,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500

Next	5,00,000 x 20%	1,00,000
Balance (50,00,000-10,00,000)	40,00,000 x 30%	12,00,000
		13,12,500
Add: Income over ₹ 50 lac (50,80,000 – 50,00,000)		80,000
Total tax under marginal relief (B)		13,92,500
Relief (A-B) (14,70,150 – 13,92,500)		77,650
Tax (A) or (B) whichever is lower		13,92,500
Add: Health & Education Cess @ 4%		55,700
Tax payable		14,48,200

EXERCISE 15

Compute tax payable if total income is ₹ 51,60,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 15,31,400]

ILLUSTRATION 16

Compute tax payable if total income is ₹ 50,80,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 50,80,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Next	2,50,000 x 15%	37,500
Next	2,50,000 x 20%	50,000
Next	2,50,000 x 25%	62,500
Balance (50,80,000-15,00,000)	35,80,000 x 30%	10,74,000
		12,61,500
Add: Surcharge @ 10%		1,26,150
Total tax (A)		13,87,650
Marginal relief		
Income tax on ₹ 50,00,000		
First	2,50,000	Nil

Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Next	2,50,000 x 15%	37,500
Next	2,50,000 x 20%	50,000
Next	2,50,000 x 25%	62,500
Balance (50,00,000-15,00,000)	35,00,000 x 30%	10,50,000
		12,37,500
Add: Income over ₹ 50 lac (50,80,000 – 50,00,000)		80,000
Total tax under marginal relief (B)		13,17,500
Relief (A-B) (13,87,650 – 13,17,500)		70,150
Tax (A) or (B) whichever is lower		13,17,500
Add: Health & Education Cess @ 4%		52,700
Tax payable		13,70,200

EXERCISE 16

Compute tax payable if total income is ₹ 51,60,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 14,53,400]

ILLUSTRATION 17

Compute tax payable if total income is ₹ 1,15,16,600 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 1,15,16,600		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (1,15,16,600-10,00,000)	1,05,16,600 x 30%	31,54,980
		32,67,480
Add: Surcharge @ 15%		4,90,122
		37,57,602
Add: Health and Education Cess 4%		1,50,304
Tax payable		39,07,906
Tax payable (Rounded off)		39,07,910

EXERCISE 17

Compute tax payable if total income is ₹ 1,36,48,500 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 46,72,830]

ILLUSTRATION 18

Compute tax payable if total income is ₹ 1,15,16,600 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 1,15,16,600		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Next	2,50,000 x 15%	37,500
Next	2,50,000 x 20%	50,000
Next	2,50,000 x 25%	62,500
Balance (1,15,16,600-15,00,000)	1,00,16,600 x 30%	30,04,980
		31,92,480
Add: Surcharge @ 15%		4,78,872
		36,71,352
Add: Health and Education Cess 4%		1,46,854
Tax payable		38,18,206
Tax payable (Rounded off)		38,18,210

EXERCISE 18

Compute tax payable if total income is ₹ 1,36,48,500 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

[Ans.: ₹ 45,83,130]

ILLUSTRATION 19

Compute tax payable if total income is ₹ 1,01,40,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 1,01,40,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (1,01,40,000-10,00,000)	91,40,000 x 30%	27,42,000
		28,54,500
Add: Surcharge @ 15%		4,28,175
Total tax (A)		32,82,675
Marginal relief		
Income tax on ₹ 1,00,00,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (1,00,00,000-10,00,000)	90,00,000 x 30%	27,00,000
		28,12,500
Add: Surcharge @ 10%		2,81,250
		30,93,750
Add: Income over ₹ 1 crore (1,01,40,000 – 1,00,00,000)		1,40,000
Total tax under marginal relief (B)		32,33,750
Relief (A-B) (32,82,675-3233750)		48,925
Tax (A) or (B) whichever is lower		32,33,750
Add: Health & Education Cess @ 4%		1,29,350
Tax payable		33,63,100

EXERCISE 19

Compute tax payable if total income is ₹ 1,01,50,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

[Ans.: ₹ 33,73,500]

ILLUSTRATION 20

Compute tax payable if total income is ₹ 1,01,40,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 1,01,40,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Next	2,50,000 x 15%	37,500
Next	2,50,000 x 20%	50,000
Next	2,50,000 x 25%	62,500
Balance (1,01,40,000-15,00,000)	86,40,000 x 30%	25,92,000
		27,79,500
Add: Surcharge @ 15%		4,16,925
Total tax (A)		31,96,425
Marginal relief		
Income tax on ₹ 1,00,00,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	2,50,000 x 10%	25,000
Next	2,50,000 x 15%	37,500
Next	2,50,000 x 20%	50,000
Next	2,50,000 x 25%	62,500
Balance (1,00,00,000-15,00,000)	85,00,000 x 30%	25,50,000
		27,37,500
Add: Surcharge @ 10%		2,73,750
		30,11,250
Add: Income over ₹ 1 crore (1,01,40,000 – 1,00,00,000)		1,40,000
Total tax under marginal relief (B)		31,51,250
Relief (A-B) (31,96,425-31,51,250)		45,175
Tax (A) or (B) whichever is lower		31,51,250
Add: Health & Education Cess @ 4%		1,26,050
Tax payable		32,77,300

EXERCISE 20

Compute tax payable if total income is ₹ 1,02,00,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

[Ans.: ₹ 33,39,700]

ILLUSTRATION 21

Compute tax payable if total income is ₹ 1,02,50,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 1,02,50,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (1,02,50,000 – 10,00,000)	92,50,000 x 30%	27,75,000
		28,87,500
Add: Surcharge @ 15%		4,33,125
Total tax (A)		33,20,625
Marginal relief		
Income tax on ₹ 1,00,00,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (1,00,00,000 – 10,00,000)	90,00,000 x 30%	27,00,000
		28,12,500
Add: Surcharge @ 10%		2,81,250
		30,93,750
Add: Income over ₹ 1 crore (1,02,50,000 – 1,00,00,000)		2,50,000
Total tax under marginal relief (B)		33,43,750
Relief (A-B) (33,20,625 – 33,43,750) No relief to assessee as relied calculated is negative		0
Tax (A) or (B) whichever is lower		33,20,625
Add: Health & Education Cess @ 4%		1,32,825
Tax payable		34,53,450

EXERCISE 21

Compute tax payable if total income is ₹ 1,03,00,000 for an individual having age below 60 years for the assessment year 2023-24 assuming that the assessee opts for new tax regime under section 115BAC.

[Ans.: ₹ 33,81,690]

PARTIALLY INTEGRATION TAXATION SCHEME ON AGRICULTURAL INCOME

When an assessee having a both agricultural and non-agricultural income then partially integration taxation scheme is applicable. In order to apply this taxation scheme the following conditions are to be satisfied:

(1) The assessee should be an individual or HUF or BOI or AOP.

(2) The assessee has non-agricultural income exceeding the exemption limit (₹ 2,50,000 or ₹ 3,00,000 or ₹ 5,00,000 as the case may be)

(3) The assessee has agricultural income exceeding ₹ 5,000

COMPUTATION AT TAX LIABILITY IN CASE WHERE ASSESSEE HAS AGRICULTURAL INCOME

The following steps are taken into account in order to compute the tax liability of assessee having agricultural income:

Step 1 Compute net agricultural income

Step 2 Club agricultural and non-agricultural income and compute income tax on the aggregate income

Step 3 Compute income tax on net agricultural income + first slab of income which is not chargeable to tax.

Step 4 Deduct tax calculated in step 3 from income tax calculated in step 2.

Step 5 Find balance and apply rebate under section 87A if applicable. The surcharge and Health and education cess is to be added.

Step 6 The amount derived in Step 5 is the tax liability.

ILLUSTRATION 22

Compute tax liability where assessee (Age 48 Year) has following incomes and does not opt for new tax regime:

Agricultural income	₹ 60,000
Other taxable total income	₹ 3,50,000

Solution:

Computation of tax liability for the assessment year 2023-24

Particular	Amount	Amount
Tax on (Total Income + Agricultural income)		
(3,50,000+60,000) = ₹ 4,10,000		
First ₹ 2,50,000	Nil	
Balance [₹ 4,10,000 – 2,50,000] x 5%	8,000	8,000
Less: Tax on (Minimum exemption limit + Agricultural income)		
(2,50,000 + 60,000) = ₹ 3,10,000		
First ₹ 2,50,000	Nil	
Balance (3,10,000 – 2,50,000)x5%	3,000	3,000
		5,000
Less: Rebate under section 87A		5,000
Tax payable		Nil

EXERCISE 22

Compute tax liability where assessee (Age 52 Year) has following incomes and does not opt for new tax regime:

Agricultural income	₹ 80,000
Other taxable total income	₹ 4,10,000

[Ans.: ₹ Nil]

ILLUSTRATION 23

Compute tax liability for the assessment year 2023-24 of Mr. Deepak (Age 25 Year) having the following incomes:

Agricultural income	₹ 1,50,000
Other taxable total income	₹ 4,80,000

Assume (1) he opts for old tax regime or (2) he opts for new tax regime under section 115BAC.

Solution:

(1) Assessee opts for old tax regime

Computation of tax liability for the assessment year 2023-24

Particular	Amount	Amount
Tax on (Total Income + Agricultural income)		
(4,80,000+1,50,000) = ₹ 6,30,000		
First ₹ 2,50,000	Nil	
Next ₹ 2,50,000 x 5%	12,500	
Balance [₹ 6,30,000 – 5,00,000] x 20%	26,000	38,500
Less: Tax on (Minimum exemption limit + Agricultural income)		
(2,50,000 + 1,50,000) = ₹ 4,00,000		
First ₹ 2,50,000	Nil	
Balance (4,00,000 – 2,50,000)x5%	7,500	7,500
		31,000
Add: Cess 4%		1,240
Tax payable		32,240

Note: As we can see, tax on total income of ₹ 4,80,000 payable is Nil and agricultural income form India is also tax free but an assessee having both income have to pay tax as calculate above. Means we can say agricultural income is not fully exempt from tax.

(2) He opts for new tax regime

Particular	Amount	Amount
Tax on (Total Income + Agricultural income)		
(4,80,000+1,50,000) = ₹ 6,30,000		
First ₹ 2,50,000	Nil	

Next ₹ 2,50,000 x 5%	12,500	
Balance [₹ 6,30,000 – 5,00,000] x 10%	13,000	25,500
Less: Tax on (Minimum exemption limit + Agricultural income)		
(2,50,000 + 1,50,000) = ₹ 4,00,000		
First ₹ 2,50,000	Nil	
Balance (4,00,000 – 2,50,000)x5%	7,500	7,500
		18,000
Add: Cess 4%		740
Tax payable		18,720

EXERCISE 23

Compute tax liability of Mr. Vijay (Age 58 Year) for the assessment year 2023-24 having the following incomes:

Agricultural income ₹ 4,00,000
Other taxable total income ₹ 8,80,000

Assume (1) he opts for old tax regime or (2) he opts for new tax regime under section 115BAC

[Ans. (1) ₹ 1,60,160 (2) ₹ 1,09,200]

ILLUSTRATION 24

Mr. Bhavesh, a salaried employee has earned gross salary of ₹ 540,000 and ₹ 7,800 from saving bank interest during the previous year 2022-23. He has deposited in PPF amounting to ₹ 90,000 during the year. Compute the total income and tax payable by Bhavesh for the assessment year 2023-24, if Bhavesh:

(a) does not opt to be taxed under section 115BAC.
(b) opts to be taxed under section 115BAC.

Solution:

(a) If Bhavesh does not opts for section 115BAC and select old tax regime

Computation of total income for the assessment year 2023-24

Particular	**₹**	**₹**
Income from salary		
Gross salary	5,40,000	
Less: Standard deduction	50,000	4,90,000
Income from other sources		
Saving bank interest		7,800
Gross total income		4,97,800
Less: Deduction under section 80C		
PPF	90,000	

Under section 80TTA		
Saving bank interest	7,800	97,800
Total income		4,00,000

Calculation of tax payable for the assessment year 2023-24

Particular	₹	₹
Tax on Total income of ₹ 4,00,000		
First	2,50,000	Nil
Balance	1,50,000 x 5%	7,500
		7,500
Less: Rebate under section 87A		7,500
Tax payable		Nil

(b) If Bhavesh opts for new tax regime under section 115BAC

Computation of total income for the assessment year 2023-24

Particular	₹	₹
Income from salary		
Gross salary		5,40,000
Income from other sources		
Saving bank interest		7,800
Gross total income		5,47,800
Less: Deductions		Nil
Total income		5,47,800

Calculation of tax payable for the assessment year 2022-23

Particular	₹	₹
Tax on Total income of ₹ 5,47,800		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Balance	47,800 x 10%	4,780
		17,280
Add: Health and Education Cess		691
Tax payable		17,971
Tax payable (Rounded off)		17,970

EXERCISE 24

Mr. Shiv (Age 62 Year) has a rental income from house property of ₹ 80,000 per month. He earned interest on fixed deposit of ₹ 35,000 and interest on saving bank of ₹ 10,000. He invested ₹ 1,50,000 in tax saver mutual fund.

Compute total income and tax payable for Mr. Shiv for the assessment year 2023-24 assuming that Mr. Shiv:

(a) Does not opt for new tax regime.

(b) opts for new tax regime. [Ans.: (a) ₹ 14,976 (b) ₹35,568]

ILLUSTRATION 25

From the following particulars of Mr. K.L. Jain, an individual calculate his total income and net tax payable by him for the assessment year 2023-24:

(i) Rent from let out house ₹ 20,000 per month

(ii) Profit of own business ₹ 11,20,000

(iii) Net Agricultural income ₹ 80,000

(iv) Income from interest on securities (Gross) ₹ 15,000

(v) Income from lottery ₹ 50,000

[Raj. Uni. B.Com. 1998 modified]

Solution:

Computation of total income of Mr. K.L. Jain for the assessment year 2023-24

Particular	Amount	Amount
Income from House property		
Rent received (GAV) 20,000x12	2,40,000	
Less: Municipal tax paid	Nil	
Net annual value	2,40,000	
Less: Standard deduction	72,000	1,68,000
Income from Business and Profession		
Profit of own business		11,20,000
Income from Capital gain		
Long term capital gain		60,000
Income from other sources		
Interest on securities	15,000	
Income from lottery	50,000	65,000
Gross total income/total income		14,13,000
Total income		14,13,000
Add: Agricultural income for taxation purpose		80,000
Total income including agricultural income		14,93,000

Calculation of tax payable

Tax on income from lottery ₹ 50,000 x 30%	15,000
Tax on long term capital gain ₹ 60,000 x 20%	12,000
Tax on balance income (₹ 14,93,000 – 50,000 – 60,000) = ₹ 13,83,000	
First ₹ 2,50,000	Nil
Next ₹ 2,50,000 x 5%	12,500
Next ₹ 5,00,000 x 20%	1,00,000
Balance over ₹ 10,00,000 (13,83,000 – 10,00,000) = 3,83,000 x 30%	1,14,900
Total	2,54,400
Less: Tax on agricultural income (₹ 2,50,000 + 80,000) = ₹ 3,30,000	
First ₹ 2,50,000 Nil	
Balance ₹ 80,000 x 5% = ₹ 4,000	4,000
	2,50,400
Add: Health and Education Cess	10,016
Tax payable	2,60,416

EXERCISE 25

From the following particulars of Mr. M.K. Shah an individual calculate his total income and net tax payable by him for the assessment year 2023-24:

(i) Salary ₹ 30,000 per month
(ii) Income from House property (Computed) ₹ 84,000
(iii) Profit from profession ₹ 6,70,000
(iv) Short term capital gain ₹ 40,000
(v) Long term capital gain ₹ 1,00,000
(vi) Net Agricultural income ₹ 6,00,000
(vii) Rent of Land ₹ 10,000 per month
(viii) Deposit in PPF ₹ 1,10,000 [Ans.: ₹ 2,74,768]

ILLUSTRATION 26

From the following details, calculate gross tax payable in each case for the assessment year 2023-24 assuming that assessee did not opt tax regime u/s 115BAC.

Particular	Om	Jai	Jagdish
Age	58 Year	64 Year	84 Year
Salary per month	1,50,000	1,00,000	-
Business income	4,50,000	7,00,000	8,50,000
Interest on saving bank account	35,000	45,000	55,000

Interest on Fixed deposit (Gross)	20,000	20,000	20,000
Contribution to PPF	90,000	90,000	60,000
Accrued interest on NSC	20,000	25,000	25,000
Eligible equity shares purchased	30,000	50,000	50,000

Solution:

Computation of total income for the assessment year 2023-24

Particular	**Om**	**Jai**	**Jagdish**
Age	58 Year	64 Year	84 Year
Income from salary			
Salary (Annual)	18,00,000	12,00,000	-
Less: Standard deduction	50,000	50,000	-
Net taxable salary	17,50,000	11,50,000	
Income from business and profession	4,50,000	7,00,000	8,50,000
Income from other sources			
Interest on saving bank account	35,000	45,000	55,000
Interest on fixed deposit	20,000	20,000	20,000
Accrued interest on NSC	20,000	25,000	25,000
Taxable Income from other sources	75,000	90,000	1,00,000
Gross total income	**22,75,000**	**19,40,000**	**9,50,000**
Less: Deduction under chapter VIA			
Section 80C			
Contribution to PPF	90,000	90,000	60,000
Accrued interest on NSC	20,000	25,000	25,000
Eligible equity shares purchased	30,000	50,000	50,000
Total	1,40,000	1,65,000	1,35,000
Allowed deduction u/s 80C	1,40,000	1,50,000	1,35,000
Less: 80TTA Interest on SB	10,000	-	-
Less: 80TTB Interest for senior citizen (Maximum ₹ 50,000)	-	50,000	50,000
Total Income	**21,25,000**	**17,40,000**	**7,65,000**

Calculation of tax payable

Particular	Om	Jai	Jagdish
Age	58 Year	64 Year	84 Year
First ₹ 2,50,000/₹3,00,000/₹ 5,00,000	Nil	Nil	Nil
Next ₹ 2,50,000x5% Next ₹ 2,00,000 x 5%	12,500	10,000	Nil
Next ₹ 5,00,000 x 20%	1,00,000	1,00,000	
Balance ₹ 2,65,000 x 20%			53,000
Balance over ₹ 10,00,000 11,25,000 @ 30%	3,37,500		
7,40,000 @ 30%		2,22,000	
	4,50,000	3,32,000	53,000
Add: Health and education cess @ 4%	18,000	13,280	2,120
Tax payable	**4,68,000**	**3,45,280**	**55,120**

EXERCISE 26

From the following details calculate gross tax payable in each case for the assessment year 2023-24 assuming that assessee did not opt tax regime under section 115BAC

Particular	Shiv	Parvati
Age	63 Year	58 year
Salary per month	60,000	50,000
Rent from house property	1,20,000	-
Income from business and profession	90,000	7,00,000
Long term capital gain	-	1,00,000
Interest on saving bank	42,000	22,000
Interest on fixed deposit (gross)	40,000	25,000
Contribution to PPF	80,000	80,000
LIP paid	26,000	20,000
Tax saver bonds purchased	10,000	60,000
Repayment of housing loan – Principal amount	50,000	-
- Interest amount	24,000	-

Solution:

Computation of total income for the assessment year 2023-24

Particular	Shiv	Parvati
Age	63 Year	58 year
Income from Salary		
Salary	7,20,000	6,00,000
Less: Standard deduction	50,000	50,000
(a)	6,70,000	5,50,000
Income from House property		
Rent received (GAV)	1,20,000	
Less: M.T. paid	-	
Net annual value	1,20,000	
Less: 30% of NAV	36,000	
Less: Interest on loan	24,000	
(B)	60,000	-
Income from Business and Profession (C)	90,000	7,00,000
Income from capital gain		
Long term capital gain (D)	-	1,00,000
Income from other sources		
Interest on saving bank account	42,000	22,000
Interest on Fixed Deposit	40,000	25,000
(E)	82,000	47,000
Gross total Income (A + B + C + D + E)	9,02,000	1,39,700
Less: Deductions under chapter VIA		
80C : Contribution to PPF	80,000	80,000
LIC Paid	26,000	20,000
Tax saver bond	10,000	60,000
Principal amount of housing loan	50,000	-
	1,66,000	1,60,000
Allowed deduction u/s 80C	1,50,000	1,50,000
80TTA	-	10,000
80TTB	50,000	-
Total Income	7,02,000	12,37,000

[Ans.: ₹ Shiv 52,120 Parvati ₹ 1,80,540]

GRADED PROBLEMS

ILLUSTRATION 27

Mr. Dinesh Karthik, a resident individual aged 45, furnishes the following information pertaining to the year ended 31-3-2023:

(i) He is a partner in Badrinath & Co. He has received the following amounts from the firm:

Interest on capital at 15%	₹ 3,00,000
Salary as working partner (at 1% of firm's sales)	₹ 90,000
Share in profit of firm	₹ 45,000

(ii) He is engaged in a business in which he manufactures wheat flour from wheat. The profit and loss account pertaining to this business (summarized form) is as under:

	₹		₹
To Salaries	1,20,000	By Gross profit	12,50,000
To Bonus	48,000	By Interest on Bank FD (Net of TDS 5,000)	45,000
To Car expenses	50,000	By Agricultural income	60,000
To Machinery repairs	2,34,000	By Pension from LIC Jeevandhara	24,000
To Advance Tax	70,000		
To Depreciation on Car	3,00,000		
To Depreciation on Machinery	1,25,000		
To Net Profit	4,32,000		
	13,79,000		13,79,000

Opening WDV of assets are as under:

Car	₹ 3,00,000
Machinery	₹ 6,50,000

Additions to machinery

New purchased on 23-9-2022	₹ 2,00,000
New purchased on 12-11-2022	₹ 3,00,000

(All assets added during the year were put to use immediately after purchase)

One fifth of the car expenses are towards estimated personal use of the assessee.

(iii) In March, 2021, he had sold a house at Chennai, Arrears of rent relating to this house amounting ₹ 75,000 was received in February 2023.

(iv) Details of his saving and investments are as under: Life insurance premium of ₹ 50,000 for policy in the name of his major son employed in LMN Ltd. at a salary of ₹ 6,00,000 per annum

Contribution to Pension fund of National Housing bank ₹ 70,000

Medical Insurance premium for his father aged 70 , who is not dependent on him ₹ 22,000

You are required to compute the total income of Mr. Dinesh Karthik for the assessment year 2023-24 and the tax payable by him. [IPCC MAY 2010 Modified]

Solution:

Computation of total income of Mr. Dinesh for the assessment year 2023-24

Particular	Amount	Amount
Income from House property		
Arrear received	75,000	
Less: 30% of arrear received 75,000 x 30%	22,500	52,500
Income from Business and Profession		
Income from Firm:		
Interest on capital 3,00,000 $x \frac{12}{15}$	2,40,000	
Salary as working partner	90,000	
Share in profit of firm	Exempt	3,30,000
Income from business:		
Net profit as per Profit & Loss	4,32,000	
Add: Disallowed exp		
Car exp. 50,000 x 1/5	10,000	
Advance tax	70,000	
Depreciation on car as per P &L	3,00,000	
Depreciation on machinery as per P &L	1,25,000	
	9,37,000	
Less: Interest on bank FD	45,000	
Less: Agricultural Income	60,000	
Less: Pension from LIC Jeevandhara	24,000	
Less: Depreciation allowed (Note 1)	1,86,000	
Less: Additional Depreciation allowed (Note 2)	70,000	5,52,000
Income from other sources		
Pension from LIC Jeevandhara	24,000	
Interest on bank FD (₹ 45,000 + 5000)	50,000	74,000
Gross total income		10,08,500
Less: Deductions under chapter VIA		
Section 80C LIP	50,000	
Section 80CCC Pension fund contribution	70,000	
Section 80D Medical insurance premium	22,000	1,42,000
Total Income		8,66,500
Add: Agricultural income for tax calculation purpose		60,000
Total income including agricultural income		9,26,500

Computation of tax payable

First ₹ 2,50,000	Nil	
Next ₹ 2,50,000 @ 5%	12,500	
Balance (9,26,500 – 5,00,000) x20%	85,300	97,800
Less: Tax on Agricultural Income (₹ 2,50,000 + 60,000) = ₹ 3,30,000		
On ₹ 60,000 x 5%		3,000
		94,800
Add: Education and Health Cess @4%		3,792
		98,592
Less: Advance Tax paid		70,000
Less: TDS		5,000
Tax payable		23,592

Note: 1 Depreciation : Block @ 15%

On Car @ 15% ₹ 3,00,000 x 15%	45,000	
Less: Personal use 1/5 of 45,000	9,000	36,000
On Machine @ 15%		
Op. WDV	6,50,000	
Add: Addition		
23-09-2022 full	2,00,000	
12-11-2022 half year dep.	3,00,000	
	11,50,000	
Depreciation ₹ 8,50,000 x 15%	1,27,500	
₹ 3,00,000 x 15% x ½	22,500	1,50,000
Total allowable depreciation		1,86,000

Note: 1 Additional Depreciation on machine

Depreciation ₹ 2,00,000 x 20%	40,000	
₹ 3,00,000 x 20% x ½	30,000	70,000

QUESTIONS

Multiple Choice Questions

Q 1. Arjun has a salary income of ₹4,60,000 he also received an interest of ₹18,000 on his fixed deposit (after deducting TDS @ 10%) and ₹2,000 on his savings account with SBI. He deposited ₹50,000 in PPF account. The net income tax liability of arjun is:

(a) ₹13,390 (b) ₹15,330
(c) ₹16,270 (d) Nil

Q 2. During the year 2022-23, Basu won ₹ 4,00,000 from a motor car rally out of which he deposited 1,50,000 in his PPF account. He does not have any other income. Net tax payable by basu for AY 2023-24
(a) ₹1,24,800 (b) ₹15,450
(c) ₹1,23,600 (d) None of the above

Q 3. Total income tax including education cess payable in case of a resident individual as 58 years whose computed total income ₹3,40,000 fopr assessment year 2021-22 shall be:
(a) ₹ 9,270 (b) ₹ 2,080
(c) Nil (d) ₹ 4,635

Q 4. Ms. Margi has business income of ₹9,46,000 and is eligible to claim deduction of section 80C, 80CCD(2), 80G and 80JJAA to the extent of ₹40,000, ₹60,000, ₹1,90,000 and ₹76,000 respectively. What will be her normal tax liability and tax liability u/s 115BAC ignoring health and education cess.
(a) ₹ 28,500 at normal rated and ₹40,500 u/s 115BAC
(b) ₹ 28,500 at normal rated and ₹46,500 u/s 115BAC
(c) ₹ 30,500 at normal rated and ₹46,500 u/s 115BAC
(d) ₹ 29,500 at normal rated and ₹40,500 u/s 115BAC

Q 5. The total income of shri Ganesh for the A.Y 2023-24 is ₹2.5 cr. Which includes STCG u/s 111A of ₹90 lakh. The surcharge will be levied on income tax @:
(a) 15% on income tax on STCG u/s 111A and 25% on income tax on other income of 1.6 cr.
(b) 25% on income tax on other income of 1.6 cr and no surcharge on income tax on STCG
(c) 15% on income tax on total income.
(d) None of the above.

Very-short Answer Type Questions

1. Who is senior citizen for income tax purpose?
2. Who is super senior citizen for income tax purpose?
3. How is total income of an assessee rounded off?
4. What is the minimum taxable limit of the total income tax for an individual assessee?
5. Write a short note on net agricultural income.
6. What are the rate of tax applicable on an individual in case of long-term capital gain?
7. What are the rate of tax applicable on an individual in case of lottery winning income?
8. Explain the rabate under section 87A.

Short Answer Type Questions

1. On which incomes tax is calculated at special rates?
2. How the tax is calculated on agricultural income.
3. Compute the tax liability of an individual (age 62 years) if his total income is Rs. 5,60,000 and he opts for old tax regime.
4. Compute the tax liability of an individual (age 58 years) if his total income is Rs. 5,60,000 and he opts for old tax regime.

5. Compute the tax liability of an individual (age 62 years) if his total income is Rs. 5,60,000 and he opts for new tax regime.
6. Compute the tax liability of an individual (age 58 years) if his total income is Rs. 5,60,000 and he opts for new tax regime.

Essay Type Questions

1. Explain total income and method of computation of tax in brief for an individual.
2. What do you mean by casual income? Explain the provisions of Income Tax act in respect of tax liability to its determination.
3. Explain in detail minimum alternate tax.
4. What do you mean by net agricultural income? Explain the provisions of the Income Tax Act with regard to its tax determination.

Numerical Questions

1. From the following information of Mr. Ratan calculate total income and tax payable for the assessment year for both tax regime:

   Salary ₹ 30,000 per month
   Rent received ₹ 10,000 per month
   Saving bank interest ₹ 8,000
   Deposit in PPF ₹ 70,000
   Long term capital gain(Computed) ₹ 60,000 [Ans.: Old Tax regime ₹ 3,328, New Tax regime ₹ 22,984]

2. Compute total income and tax liability of Mr. Pranay (Age 62 year) for the assessment year 2023-24 from the following information:

   Income from business and profession ₹ 7,20,000
   Income from FD Interest ₹ 28,000
   Deposit in PPF ₹ 58,000
   Mediclaim insurance premium paid ₹ 22,000
   Assume that assessee has opted old tax regime. [Ans.: ₹ 39,520]

3. Compute total income and tax liability of Mr. Pranay (Age 62 year) for the assessment year 2023-24 from the following information:

   Income from business and profession ₹ 7,20,000
   Income from FD Interest ₹ 28,000
   Deposit in PPF ₹ 58,000
   Mediclaim insurance premium paid ₹ 22,000
   Assume that assessee has opted new tax regime. [Ans.: ₹ 32,792]

4. From the following information, compute total income and tax payable of Mr. Jayant for the assessment year 2023-24 assuming that he has opted old tax regime and age is 53 year

   Salary received ₹ 40,000 per month
   Interest on House property paid ₹ 88,000 per annum
   Long term capital gain on sale of building (computed) ₹ 2,60,000

Short term capital gain on sale of Jewellery (computed) ₹ 72,000
Winning from Lottery ₹ 3,00,000
Agricultural income ₹ 1,30,000
Investment in tax saver FD ₹ 1,52,000 [Ans. : ₹ 1,48,408]

5. From the following information, compute total income and tax payable of Mr. Jayant for the assessment year 2023-24 assuming that he has opted new tax regime and age is 53 year

Salary received ₹ 40,000 per month
Interest on House property paid ₹ 88,000 per annum
Long term capital gain on sale of building (computed) ₹ 2,60,000
Short term capital gain on sale of Jewellery (computed) ₹ 72,000
Winning from Lottery ₹ 3,00,000
Agricultural income ₹ 1,30,000
Investment in tax saver FD ₹ 1,52,000 [Ans. : ₹ 1,72,848]

Answer MCQ

1	2	3	4	5
D	A	C	B	C

❑❑❑

Chapter 13

ASSESSMENT OF HINDU UNDIVIDED FAMILIES

SECTION-WISE STUDY

Section	Particular
2(31)	Person Definition
171	Assessment after partition of a Hindu undivided family
115BAC	New tax regime for HUF

INTRODUCTION

A Hindu undivided family (HUF) is treated as a separate entity for the purpose of assessment under the income-tax Act, 1961. It is included in the definition of the term "person" under section 2(31). The levy of income-tax is on "every person". Therefore, income-tax is payable by a HUF.

MEANING OF HUF

The term Hindu Undivided Family (or Joint Hindu Family) is not defined in the Income-tax Act. The term HUF has the same meaning as in Hindu law. A Hindu Undivided Family (HUF) consists of all persons lineally descended from a common ancestor including their wives and unmarried daughters.

Tutorial Note: Only those undivided families are covered here, to which Hindu law applies.

1. An HUF is not the creation of a contract. Its membership arises from status.
2. Jain families are also treated as Hindu undivided family for the purpose of Income-tax Act. However, Muslimundivided family cannot be treated as HUF.
3. Once a family is assessed as Hindu undivided family, it will continue to be assessed as such till its partition.

ESSENTIAL REQUIREMENTS OF AN HUF

An assessee shall be assessed as HUF if the following conditions are satisfied:

1. **Joint family property:** There should be a joint family property, which consists of either ancestral property or any property acquired with the aid of ancestral property.

   Ancestral property: It is a property, which a man inherits from any of the three immediate male ancestors i.e.

- His father;
- His grandfather; and
- His great grand father

Notes:

a. Property inherited from any other person (e.g. father in law, uncle, etc.) is not an ancestral property.

b. In the following cases income of ancestral property is taxable as income of HUF -

1. Family of widow-mother and sons (minor or major)
2. Family of husband and wife having no child.
3. Family of two or more brothers.
4. Family of uncle and nephew.
5. Family of mother, son and son's wife.
6. Family of a male and his late brother's wife.

2. **Coparcener:** There should be a coparcener. Coparcener means any person who satisfies two tests:

- He/she acquires by birth an interest in joint family property; and
- He/she has right to enforce partition.

MEMBER OF HUF V/S COPARCENER

i. Coparcener must be a member of the family but a member may or may not be the coparcener of the family.

> **Tutorial point:** All coparcener must be the member of the family but all members need not be coparcener of the family.
>
> i. Coparcener acquires interest in the property of the HUF by birth. A person may acquire membership inHUF otherwise than by birth.

ii. Member of the family who is not a coparcener of the family has no right to claim partition.

> **Tutorial point:** A child in the womb of his mother is entitled to share of HUF property, on partition.

SCHOOL OF HINDU LAW

There are two schools of Hindu law -

1. Dayabhaga School of Hindu Law; and
2. Mitakshara School of Hindu Law

Law	Dayabhaga School of Hindu Law	Mitakshara School of Hindu Law
Applicable to	Rules of Dayabhaga school prevails in the State of West Bengal and Assam	Rules of Mitakshara school prevail over rest ofIndia.
Features		
Interest inproperty	As per this thought, a son acquires interest in ancestral property only after the death of his father.	As per this thought, a son acquires interest in ancestral property as soon as he is born.

	Tutorial point: A son does not acquire interest in the ancestral property mere by birth.	**Tutorial point:** A son acquires an equal interest in the ancestral property with his father mere by birth.
Right to claim partition	Since son has no interest in ancestral property,he cannot claim partition till his father is alive. **Tutorial point:** Father enjoys an absolute right to dispose of the property of the family.	Since son acquires interest in ancestral property by his birth, therefore he can claim partition atany time.
Fluctuation in coparcenary interest	The coparcenary interest does not fluctuate on every birth or death of a male member. It fluctuates only on death of the father.	The coparcenary interest fluctuates on every Birth or death of a male member.
Note: After Hindu Succession (Amendment) Act 2005, the daughter (in the same manner as the son) of a coparcener shall by birth become a coparcener in her own right. The female heir can demand the partition of coparcenary property		

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF HUF

There is no specific provision in Income-tax Act for computation of total income of HUF. Total income and tax liability of HUF shall be computed in same manner as in case of an individual.

Tutorial point:

Tax rate, health & education cess	: As in case of an individual
Residential Status	: Refer chapter "Residential Status"
Computation of income under various heads	: As usual, however, HUF cannot have any income under the head'Salaries'.
Clubbing of income	: As usual Sec. 64(1) & (1A) are not applicable in case of an HUF as it isspecifically applicable to individual. Specially refer sec. 64(2).
Set off & Carry forward of losses	: As usual
Deductions	: Refer chapter "Deductions & Relief"
Return and Assessment	: As usual
Advance tax	: As in case of an individual
Alternative Tax Regime u/s 115BAC	: Available

Following points shall be considered

1. **Remuneration to member of HUF due to investment of HUF fund:** Where joint fund is invested in a company or a firm, fees or remuneration received by any member of HUF as a director or partner from such company or firm by virtue of such investment shall be treated as income of the HUF. On the other hand, where such remuneration or fees is received by virtue of service rendered by such member (in his personal capacity)then such amount shall be taxable in hands of such member

2. **Income from ancestral property may not be taxed in the hands of HUF in certain cases:** As per Dayabhaga school, son has no right in the property during the life time of father, hence income arising from ancestral property to father, having no brother as coparcener, shall be treated as income of father and not of HUF.

3. **Remuneration to Karta:** Any genuine (not excessive) remuneration paid to the *Karta* for conducting businessof the HUF is allowed expenditure in the hands of the HUF provided such remuneration is paid under a bonafide agreement and is in the interest of the family business.

4. **Personal income of the members:** Income of the member of HUF acquired in his personal capacity shall notbe taxable in the hands of HUF.

Tutorial point: *'Stridhan' is an absolute property of a woman, income there from is not taxable in the hands of HUF.*

5. **Income from impartible estate:** Though the impartible estate belongs to the family, income arising there from is taxable in the hands of the holder of the 'estate' and not in the hands of the HUF.

PARTITION OF HUF (SEC. 171)

Partition means –

Case	Partition
Where the property admits of a physical division	A physical division of the property. **Tutorial point:** Mere physical division of the income without a physical division of the property producing the income shall not be deemed to be a partition.
Where the property does not admit of aphysical division	Such division as the property admits of. **Tutorial point:** Mere severance of status shall not be deemed to be apartition.

Partial Partition means a partition, which is partial as regards the persons constituting the Hindu undividedfamily, or the properties belonging to the Hindu undivided family, or both.

Person entitled to share on partition

Following persons can claim share on partition:

Case	Person who can claim share on partition
Any	Coparceners
Any	A child in the womb of his mother at the time of partition
Partition between sons after the death of father	Mother – gets an equal share to that of son
Partition between father and sons	Wife - gets an equal share to that of a son (apart from that ofhusband)

ASSESSMENT AFTER PARTITION OF A HINDU UNDIVIDED FAMILY

An HUF assessed as such shall be deemed (for the purposes of this Act) to continue to be an HUF, except where a finding of partition has been given under this section [Sec. 171(1)]

1. **Inquiry by Assessing Officer:** Where, at the time of making assessment, it is claimed by or on behalf of anymember of an HUF that a partition (whether total or partial), has taken place among the members of

such family, the Assessing Officer shall make an inquiry after giving notice of the inquiry to all the members of the family [Sec. 171(2)]

2. **Record of findings:** On the completion of the inquiry, the Assessing Officer shall record his findings as to whether there has been a total or partial partition of the HUF and if there has been such a partition, the date onwhich it has taken place [Sec. 171(3)]

3. **Assessment upto the period of partition:** Where a finding of total or partial partition has been recorded by the Assessing Officer under this section, and the partition has taken place during the previous year —

   - the total income of the HUF in respect of the period up to the date of partition shall be assessed as if no partition had taken place; and
   - each member shall be jointly and severally# liable for tax on the income so assessed. [notwithstanding anything contained in sec.10(2)] [Sec. 171(4)]

   # The liability of any member or group of members shall be computed according to the portion of the joint family property allotted to him or it at the partition [Sec. 171(7)]

4. **Partition after the expiry of previous year:** Where the finding of total or partial partition has been recorded by the Assessing Officer and the partition took place after the expiry of the previous year, the total income of the previous year of the joint family shall be assessed as if no partition had taken place. [Sec. 171(5)]

5. **Notice of partition after assessment:** If the Assessing Officer finds after completion of the assessment of HUF, that the family has already effected a partition (whether total or partial) the Assessing Officer shall proceed to recover tax from every person who was a member of the family before the partition, and every suchperson shall be jointly and severally liable for tax on the income so assessed. [Sec. 171(6)]

6. **Collection of penalty, interest, fine, etc.:** The provisions of this section shall apply in relation to the levy and collection of penalty, interest, fine or other sum (if any) in respect of any period up to the date of the partition,whether total or partial, as they apply in relation to the levy and collection of tax. [Sec.171(8)]

   Treatment in case of partial partition taken place after 31-12-1978 [Sec. 171(9)]

   - Where a partial partition has taken place among the members of an HUF after 31-12-1978, then -
   - No claim that such partial partition has taken place shall be inquired into u/s 171(2)
   - No finding regarding partition shall be recorded u/s 171(3).
   - such family shall continue to be liable to be assessed under this Act as if no such partial partition had taken place;
   - each member or group of members of such family immediately before such partial partition and the family shall be jointly and severally* liable for any tax, penalty, interest, fine or other sum payable under this Act bythe family.

     *. Liability of any member or group of members aforesaid shall be computed according to the portion of the joint family property allotted to him or it at such partial partition.

Tutorial point: Even though such tax, penalty etc. relates to the period, before or after such partial partition.

TAX RATES FOR HUF

Net income range	*Income-tax rates*	*Health and Education Cess*
Up to ₹ 2,50,000	*Nil*	*Nil*
₹ 2,50,000 – ₹ 5,00,000	5% of (total income *minus* ₹ 2,50,000) [*]	4% of income-tax
₹ 5,00,000 – ₹ 10,00,000	₹ 12,500 + 20% of (total income *minus* ₹ 5,00,000)	4% of income-tax
Above ₹ 10,00,000	₹ 1,12,500 + 30% of (total income *minus* ₹ 10,00,000)	4% of income-tax

ALTERNATIVE TAX REGIME (SEC. 115 BAC)

The alternative tax regime (Sec. 115 BAC) is applicable to HUF. With following condition –

A. total income of the assessee shall be computed:

1. without any exemption or deduction under following provisions –

Deduction not available under following section	**Details**
24(b) in respect of self occupied property	Interest on borrowed capital Note- deduction is available in respect of other properties like let out, deemed to be let out
32(1)(iia)	Additional depreciation
32 AD	Investment allowance
33 AB	Tea/rubber/coffee development allowance
33ABA	Site restoration fund
35(2AA) or 35(1)(ii)/(iia)/(iii)	Scientific research through outside institutions
35AD	Capital expenditure in respect of specific business
35CCC	Agricultural extension project
Deduction under section VIA	Exception- deduction u/s 80JJAA and deduction u/s 80 LA is available

1. without set off of any loss;
   a. carried forward or depreciation from any earlier AY, if such loss or depreciation is attributable to any of the deductions referred above
   b. under the head " Income from house property" with any other head of income
2. by claiming the depreciation if any , u/s 32 (except additional depreciation) determined in prescribed manner;

B. the assessee is required to exercise the option (in prescribed manner) to avail the benefits of this sections

RATE OF TAX

Under this tax regime, income tax shall be computed at option of the assessee considering the following rate

Total income	Rate of tax
Up to ₹ 2,50,000	Nil
From ₹ 2,50,001 to ₹ 5,00,000	5%
From ₹ 5,00,001 to ₹ 7,50,000	10%
From ₹ 7,50,001 to ₹ 10,00,000	15%
From ₹ 10,00,001 to ₹ 12,50,000	20%
From ₹ 12,50,001 to ₹ 15,00,000	25%
Above ₹ 15,00,000	30%

Surcharge: Surcharge is levied on the amount of income-tax at following rates if total income of an assessee exceeds specified limits:-

Rate of Surcharge				
Assessment Year 2023-24				
Range of Income				
₹ 50 Lakhs to ₹ 1 Crore	*₹ 1 crores to ₹ 2 Crores*	*₹ 2 crores to ₹ 5 Crores*	*₹ 5 crores to ₹ 10 Crores*	*Exceeding ₹ 10 Crores*
10%	*15%*	*25%*	*37%*	*37%*

ILLUSTRATION 1

The Following particulars are provided by the Karta of HUF. You are required to compute the total income of this family and the net tax payable for the AY 2023-24 under the old tax regime:-

1.	Business profits (it includes profit of Rs 40,000 from an industrial undertaking established on 1-6-2003 in a backward state)	₹1,90,000
2.	Salary received by a member of family	₹15,000
3.	Fees received by a Karta as director of a company	₹6,000
4.	Municipal valuation of let-out house property	₹12,000
5.	Local tax on above property	₹600
6.	Interest and dividend received during previous year 2022-23 in December 2022 from:	
	a) Interest from unlisted debenture	₹ 4,500
	b) Dividend from UTI	₹ 10,000
7.	Amount received from the transfer of preference shares in may 2022 which were purchased in 2001-02 for ₹ 7,500	₹22,925
8.	Amount received from the transfer of a house, purchased in 2001-02 for ₹12,500	₹ 1,09,425
9.	Profits from firm	₹14,000
10.	Interest on capital from the firm	₹9,570
11.	Salary to a member as working partner	₹24,000
12.	Donation to an approved educational institution	₹20,000
13.	Purchased N.S.C. VIIIth issue	₹22,000
14.	Medical insurance premium paid by cheque on insurance of male members	₹7,500

Cost inflation indices for the year 2001-02 and 2022-23 are 100 and 331 respectively.

(RU B.Com 1998, MDSU B.com 2012,2018 & MLSU B.com., 2017)

Solution:

Computation of Total Income of Hindu Undivided Family
For the AY 2023-24

Income from house property		
GAV being Municipal Valuation	12,000	
Less. Municipal Tax	600	
Annual Value	11,400	
Less. Standard Deduction @ 30% of AV	3,420	7,980
Income from Business Profession		
Profit of Own Business (including profits of industrial undertaking in backward states)	1,90,000	
Interest from Firm	9,570	1,99,570
Income from Capital gains:		
Sale price of shares	23,975	
Less: Cost of Acquisitions ₹ 7500*331/100	24,825	
	(850)	
Sale price of Building	1,11,175	
Less. Cost of Acquisitions ₹ 12500*331/100	41,375	
LTCG	69,800	68,950
Income from other sources:		
Dividends from Units of UTI	10,000	
Interest from unlisted debentures (grossed up)	5,000	15,000
Gross Total Income		2,91,500
Deductions		
a. Deductions u/s 80C @10%	22,000	
b. Deductions u/s 80IB	-	
c. Deduction u/s 80D	7,500	
d. Deductions u/s 80G @50% on Rs 19,305	9,652	39,152
Total Income		2,52,348
Rounded off		2,52,350
Computation of Tax Payable		
Tax on reduced income of ₹ 1,83,400 (₹ 2,52,350- ₹68,950)		Nil
Add. Tax on LTCG @ 20% on ₹ 2,350 (68950-66,600)		470
Add. Health and education cess @ 4% on Rs 470		18.80
Gross tax Payable		488.80
Less TDS from a. Unlisted debentures (5000 @ 10%)	500	
b. Dividend from UTI (10000@10%)	1000	1500
Net tax refundable		1011.20
Rounded off		1010

Tutorial Notes.

1. Deduction u/s 80G eligible for 50% of 10% Adjusted GTI (2,91,500 -68,950-22,000-7,500= 1,93,050)
2. Profits from firm is exempted
3. Deduction u/s 80D 25,000 or 7,500 WEL

EXERCISE 1

The following particulars are provided by the Karta of HUF Shri Mukesh Kumar, you are required to compute the total income and tax payable of this family for the AY 2023-24 under old tax regime:

1.	Business profit	₹ 1,20,000
2.	Rent of the house property let-out	₹ 30,000
3.	Local tax on above property	₹ 2,000
4.	Long term capital gain from the transfer of Land & Building (computed)	₹90,000
5.	Short term capital gain from transfer of listed equity share in December,2022 through a recognized stock exchange	₹ 50,000
6.	Dividend	₹ 4,000
7.	Profits from firm	₹ 55,000
8.	Interest on capital from the firm	₹ 25,000
9.	Salary received by the member of family from the firm	₹ 35,000
10.	Directors fees received by the karta	₹ 10,000

During the previous year the family donated ₹ 15,000 to a charitable institution. The institution is approved for income tax rebate by the income tax department. Assume that the family has paid by cheque ₹ 15,000 for medical insurance premium of members during the PY 2022-23.

(Total Income ₹ 2,86,100 Net tax payable ₹ 5630)

ILLUSTRATION 2

The following details have been provided by Shri Rajiv Choudhary, the Karta of a HUF. You are required to compute the total income of the family and its tax liability for the AY 2023-24 under new alternative tax regime u/s 115 BAC:

1.	Dividend from Indian Company	₹ 1,50,000
2.	Interest received on govt. securities	₹ 20,000
3.	Loss from House Property	₹ (30,000)
4.	Profits from the business of purchase and sale of share (STT paid)	₹ 50,00,000
5.	Security transaction paid on above	₹ 25,000
6.	STCG	₹ 1,25,000
7.	LTCG u/s 112	₹ 10,000
8.	LTCL u/s 112	₹ 11,300
9.	Interest paid on loan taken to purchase Govt Securities	₹ 5,000
10.	Donation to approved institutions	₹ 10,000

11. Premium paid on life insurance policy of Karta (taken in 2011) ₹ 2,00,000
12. Deposited into Sukanya Samridhi scheme ₹ 20,000
13. Deposited into PPF fund account ₹ 50,000

Solution:

Computation of Total income of HUF under new tax regime for the AY 2023-24

Loss from House property (computed)		-30,000	
Income from Business			
Profit from business of purchase and sale of shares		55,00,000	
Less. Security transactions tax		25,000	54,75,000
Income from Capital gains			
STCG		1,25,000	
LTCG	10,000		
LTCL	(11,300)		
Loss to be carried forward	(1,300)		1,25,000
Income from other sources			
Dividend from Indian company		1,50,000	
Interest on Govt. securities	20,000		
Less. Interest on loan purchase for securities	5,000	15,000	1,65,000
Gross Total income / Total Income			57,65,000

Computation of tax liability of HUF under new tax regime For the AY 2023-24

Tax on first 2,50,000	NIL
Tax on next 2,50,000 @ 5%	12,500
Tax on next 2,50,000 @ 10%	25,000
Tax on next 2,50,000 @ 15%	37,500
Tax on next 2,50,000 @ 20%	50,000
Tax on next 2,50,000 @ 25%	62,500
Tax on balance 42,65,000 @ 30%	12,79,500
	14,67,000
Add. Surcharge @ 10% on ₹ 14,67,000	1,46,700
	16,13,700
Add. Health and education cess @ 4%on ₹16,13,700	65,548
Gross tax payable	16,78,248
Less. TDS on dividend income (1,50,000@10%)	15,000
Net tax payable	16,63,248
Net tax payable (rounded off)	16,63,250

Tutorial notes.

1. Deduction of 80 C and 80 G are not allowed due to 115BAC
2. Under new tax regime loss from House property not set off with other income head.
3. LTCL can be set off only from LTCG
4. STT is allowable expenses in case of income generated from business activities otherwise in case of capital gain it is not allowable
5. Surcharge of 10% is applicable if the total income is more than 50,00,000 but less than 1 crore.

EXERCISE 2

Compute the total income and tax payable by a HUF for the A.Y. 2023-24 under the new alternative tax regime u/s 115 BAC from the following particulars:

1.	Income from House Property (Computed)	₹ 50,000
2.	Income from business & profession	₹ 8,00,000
3.	Interest on bank deposits in saving bank account	₹ 40,000
4.	Life insurance premium paid by him	₹ 25,000
5.	Gross agricultural income	₹ 30,000
6.	Expenditure incurred on agricultural operations	₹ 16,000
7.	Tax levied by state Govt. on agricultural income	₹ 2,000
8.	Donation to charitable institutions	₹ 15,000

Assume that two members of the family have their individual taxable income exceeding ₹ 2,50,000.

(GTI(non agricultural) ₹ 8,90,000, Total Income ₹ 9,02,000, Tax payable ₹62,090)

ILLUSTRATION 3

Sagar & Sons is a HUF , whose Karta is Shri Sagar. Karta and his three sons Gourav, Mahendra and Ajay are Co-parceners in the family. For the year ending 31 March 2023 incomes of the family and its co- parceners were as follows :-

1.	Income from Business :		
	a.	Profits from business of family	₹ 3,50,000
	b.	Half share in the profits of a firm in which Sagar is a partner as Representative of the family	₹ 9,500
	c.	Income from the legal profession carried on by Ajay	₹ 15,000
2.	Income from house property :		
	a.	Municipal value of the ancestral house which is used by the family For residence	₹ 9,500
	b.	Rent received from a house in the name of Sagar (purchased Out of family funds)	₹ 15,000
3.	Commission of Gourav by virtue of being the manger of a company		₹ 45,000
4.	Interest on Govt. securities :		
	a.	In the name of Gourav (investment made out of his commission)	₹ 8,400

b.	In the name of all Co- parceners (Investment made out of family funds)	₹ 6,000
5.	Income from dividends on share in Indian companies :	
a.	On shares purchased in the name of Sagar out of family funds	₹ 10,000
b.	On shares purchased in the name of Sagar's Wife out of her Stridhan	₹ 5,000
6.	LTCG	₹ 30,000
7.	Deposited in Mutual funds scheme of UTI	₹ 12,000
8.	Donation in National child fund	₹ 8,000

Compute the total income and total tax payable by HUF for the AY 2023-24 under old tax regime.

Solution:

Computation of Total Income of m/s Sagar & Sons (a HUF)
for the AY 2023-24

Particular	Amount	Amount
Income from House property		
a. Let out house	15,000	
Less. local taxes	Nil	
Annual value	15,000	
Less. Standard Deduction @30%	4,500	
	10,500	
b. Annual value of S.O. House	Nil	10,500
Income from Business & profession		
a. Profits of family business	3,50,000	
b. Share in the profits of firm (exempt)	Nil	3,50,000
Income from capital gain		
Long term capital gain (computed)		30,000
Income from other source		
a. Interest on Govt. securities	6,000	
b. Dividend on shares	10,000	16,000
GTI		4,06,500
Less. Deduction allowed		
a. u/s 80C	12,000	
b. u/s 80G	8,000	20,000
Total Income		3,86,500

Computation of Tax Payable

Tax on reduced income :	
Reduced income = 3,86,500-30000= 3,56,500	
Tax on first ₹ 2,50,000	Nil

Tax on balance ₹ 1,06,500@ 5%	5,325
Tax on LTCG @ 20% on ₹ 30,000	6,000
	11,325
Add. Health and Education cess @ 4% on 11,325	453
Tax payable	11778
Less. TDS on Dividend (10000 @10%)	1,000
Tax payable	10778
Net tax payable (rounded off)	10780

EXERCISE 3

A HUF family of which Mukesh is the Karta consists of the Karta and his three brother (Pushpendra, Prashant & Praveen) as co-parceners. The family and the co- parceners had the following incomes for the year ended 31-3-2023.

1. Income from business
   - a. Family business income ₹ 2,50,000
   - b. Half share of income in a firm in which Pushpendra is partner in a Representative capacity ₹ 15,000
   - c. Interest on capital from the firm ₹ 8,000
   - d. Income from profession of Praveen as a lawyer ₹ 10,000
2. Income from house property
   - a. Rent from ancestral house ₹ 1,20,000
   - b. rent from property in the name of Pushpendra (Bought in 1979 out of family funds) ₹ 25,000
3. Salary of Prashant as manger of a company ₹ 1,00,000
4. Interest received on Govt. Securities :
   - a. In the name of Prashant (investment made out of his salary) ₹ 5,000
   - b. In the name of all co- parceners (Investment made out of family funds) ₹ 70,000
5. Dividend received in may 2022 on shares of Indian companies;
   - a. In the name of Pushpendra bought out of family funds ₹ 15,000
   - b. In the name of Pushpendra' s wife bought out of Stridhan ₹ 5,200

Family paid ₹ 50,000 as life insurance premium on the policies taken on the lives of the male members Family donated ₹ 60,000 to charitable institutions. Compute the total income and tax payable by the family under old tax regime. (GTI ₹ 4,44,500 , Total income ₹ 3,74,775 & Net tax Payable ₹ 6,490)

ILLUSTRATION 4

A HUF comprising Ajay and his son Aditya has given the following details in its assessment proceeding for the year ended on 31 March 2023:

1. HUF has established a new industrial unit in January, 2005 in backward district of A category. The profits of the unit for the year ended 31 March 2023 are ₹ 7,50,000. The profits have been calculated after debiting ₹ 30,000 for donation to approved institutions , ₹ 65,000 for medical insurance of co-parceners member (65 Years) and ₹ 5,000 as interest on loan taken for the payment of wealth tax.
2. Ajay is managing director in a company and gets salary of ₹7,000 per month. HUF has purchased 1,000 shares of ₹ 100 each in this company. Company has declared a dividend of ₹ 5,000 on 10th January 2023 which was received by family on 1 June 2023.
3. A theatre has been leased with machinery and furniture at a rent of ₹ 30,000 per month. The depreciation allowable on its assets for the previous year 2022-23 is ₹ 72,000. This asset has been partitioned on 1 Dec. 2022.
4. The net agricultural income of HUF in India in previous year 2022-23 is ₹ 50,000
5. HUF has made the following payments also during the previous year 2022-23
   a. Deposited in PPF ₹ 10,000
   b. NSC purchased for ₹ 14,000
   c. ₹ 20,000 were spent during the previous year on the treatment and nursing of wife of a Co-parceners member dependent on HUF. The wife of Co- parcener is suffering from 60% disability

Compute total income and net tax payable by HUF for the assessment year 2023-24 under old tax regime.

Solution:

Computation of total income of HUF for the year 2023-24

Particular			Amount	Amount
Income from business & profession				
Net profit as per P &L a/c (given)			7,50,000	
Add. Expenses and payments disallowed				
a.	Charitable donations		30,000	
b.	Medical insurance of coparceners		50,000	
c.	Interest on loan for payment of wealth tax		5,000	8,35,000
Income from other sources				
a.	Income from lease of a theatre house			
	Lease amount	3,60,000		
	Less. Depreciation allowable	72,000	2,88,000	
b.	Dividend		5,000	2,93,000
	GTI			11,28,000
	Less. Deductions:			
a.	Deductions u/s 80C		24,000	
b.	Deductions u/s 80D		50,000	
c.	Deductions u/s 80DD		75,000	
d.	Deduction u/s 80G		15,000	1,64,000
Total income(non –agricultural)				9,64,000
Add. Net Agricultural income				60,000
Total income				10,24,000

Computation of tax payable by HUF for the A.Y. 2023-24

Tax on total income of ₹ 10,24,000	
On first ₹ 2,50,000 @ nil	Nil
On next ₹ 2,50,000 @ 5%	12,500
On next ₹ 5,00,000 @ 20%	1,00,000
On balance 24,000 @30%	7,200
	1,19,700
Less . Tax on agricultural income	
₹ 60,000+2,50,000 = 3,10,000 tax on ₹ 60000@5%	(3,000)
	1,16,700
Add. Health & educational cess @ 4% on 1,16,700	4,668
Tax payable	1,21,368
Net tax payable (rounded off)	1,21,370

EXERCISE 4

There is a HUF with shri Sachindra as its Karta. Shri Sachindra three brothers – Shailendra, Lucky and Monu are the other members of the family. The following are the particulars of the income of the family and its members for the A.Y. 2023-24.

1. Taxable income from the ancestral house property was ₹ 1,89,000. Taxable income from a house purchased in the name of Sachindra from family fund was ₹61,000 and taxable income from house purchased by lucky in his own name from his saving and money borrowed by him from a friend was ₹ 50,000.
2. ₹ 5,00,000 have been invested out of family fund in a firm in the name of Monu and Monu's share in the firms profit of 2022-23 is ₹ 45,000, excluding interest on capital which of ₹ 41,000. During the PY Monu as the manager of firm received Rs,20,000 as salary.
3. Shri Sachindra is Engineer. He took ₹ 1,00,000 from the family funds for establishing his profession on which no interest is charged. His taxable income from the profession for PY 2022-23 was ₹ 45,000
4. Out of the family funds shares of an Indian company have been purchased in the name of Shailendra. The amount of dividends received on these shares on PY was ₹ 5,000. On the shares of the company purchased by Shailendra out of his personal income dividend of ₹ 1,000 was received.
5. Monu is CS and he has been given ₹ 1,50,000 out of family funds for running a office at 15% p.a. interest. Monu taxable income from this office in PY was ₹ 75,000
6. Net agricultural income of the family is ₹ 15,000
7. During the PY the family purchased NSC VIII issue for ₹ 35,000

Compute the total income of the family for the AY 2023-24 and tax payable by the family?

(Total Income ₹ 2,98,500, net tax payable ₹ 1,740)

ILLUSTRATION 5

Mr. Ram (aged 56) is Karta of his HUF. The HUF consists of himself, his wife and two sons Mr. C (aged 28) and minor D (aged 16). The HUF is assessed to income tax and has business from the year 2010-11 onwards.

The business income of HUF for the year ended 31.3.2023 is ₹ 5,00,000 (computed). Mr. Ram is employed in a private company and his salary income for the same period is ₹ 6,10,000(computed).

You are requested to answer the following treating each of them as independent situations:

1. Mr. C gave cash gift of ₹ 1,00,000 to the HUF of Mr. Ram. What would be the total income of HUF?
2. The HUF has one house property fetching rent of ₹ 10,000 per month and some movable assets. There is a proposal to make a partial partition of HUF by allotting the house property to Mr. C is it advisable to do a partial partition?
3. Minor D earned ₹ 70, 000 by use of his special skill and talent. How would his income be taxed?
4. A car owned personally by Mr. ram was blended with HUF during the year. It was leased out for a monthly rent of ₹ 10,000 from 1-10-2022. How would this income be taxed?

Solution :

1. Cash gift of ₹ 1,00,000 by Mr. C, Ram's major son, to the HUF of Mr. Ram would not be taxable in the hands of HUF, since gifts from a relative of the HUF does not fall within the scope of income taxable u/s 56(2)(x).
2. Partial partition (after 31.12.1978) is not recognized and the HUF, which has been hitherto assessed to tax, shall continue to be liable to be assessed as if no such partial partition has take place.

   The rental income in this case would be continue to be assessed in the hand of the HUF, even after partial partition. Therefore , it is not advisable to do a partial partition.
3. Income of ₹ 70,000 earned by Minor D by use of his special skill and talent would be taxable in his individual hands. It will not be included in the hands of his parent by virtue of the exception to sec. 64(1A).
4. As per sec. 64(2), where a member of the HUF blends his self –acquired property for inadequate consideration with the HUF, income derived there form is deemed to arise to the transferor-member and not to the HUF. In this case, Mr. Ram has blended his personal property (car) with the HUF.

Since there is no consideration in case of blending, the income of car computed in the prescribed manner, (which can be as per presumptive provision or lease rental of ₹ 60,000 "10000*6 month" less depreciation) would be deemed as the income of Mr. ram.

EXERCISE 5

A HUF consists of Mr. Dharmendra and his two sons , Harsh and Sourya. Following are the particulars in respect of income of the family for the previous year 22-23

1. Profits from cloths business ₹ 8,00,000 after deducting ₹ 1,50,000 for salary of the Karta and ₹ 75,000 for on interest on capital of the family
2. The family purchased share in a company in the name of Harsh and ₹3,500 were received as dividend on these share during PY
3. Agricultural income of ₹ 50,000 , LTCG (computed) ₹ 25,000 on listed shares, STCG on listed shares ₹ 12,000 and casual income of ₹ 75,000
4. Interest on Govt. securities ₹ 7,500 and loss in speculation business ₹ 25,000
5. ₹ 30,000 was paid as premium on a life insurance policy of ₹ 1,80,000 taken on 1st may 2021 on the life of Karta and ₹50,000 was paid as donation to approved institutions.

Compute the total income of the family for the AY 2023-24 and net tax payable under new tax regime. Assume that securities transaction tax is payable on sale of shares.

(Total income ₹ 10,48,000 , Net tax payable ₹68,190)

QUESTIONS

Multiple Choice Questions

Q1. RSHUF consists of R Karta, Y and S co-parceners, D, the daughter of a co-parcener and w, the wife of Karta as members. The following can demand the partition of RSHUF:

(a) D (b) R, Y and S
(c) W (d) (a) and (b)above

Q2. An HUF decided to go for partial partition on 20.12.2021. It now contends that HUF should now be assessed accordingly in the P.Y.2022-23. The assessing officer did not record any claim for partial partition as partial partition is not recognized if effected after.....

(a) 31.3.1960 (b) 31.12.1969
(c) 31.12.1978 (d) 31.3.1969

Q3. The provisions of AMT under chapter XIIBA shall not apply to an individual, a HUF etc., if the adjusted total income of such person does not exceed:

(a) ₹ 10,00,000 (b) ₹25,00,000
(c) ₹5,00,000 (d) ₹20,00,000

Q4. The special rates applicable u/s 115BAC allows deduction or exemption of the following except:

(a) Transport allowance granted to a divyang employee to meet expenditure for the purpose of commuting between place of residence and place of duty
(b) Any allowance granted to meet the cost of travel on tour or on transfer
(c) Conveyance allowance granted to meet the expenditure on conveyance in performance of duties of an office
(d) Additional depreciation under clause (iia) of sub section (1) of section 32

Q5. An assessee exercise the option U/S 115 BAC is not allowed to set off loss:

(a) Carried forward losses or depreciation from any earlier AY, if such loss or depreciation is attributable to any of the deductions not allowable u/s 115BAC
(b) Under the head " Income from House property" with any other head of income
(c) Both (a) & (b)
(d) None of these

Short Answer Type Questions

1. Can a female member become Karta of HUF?
2. What do you mean by " Partial partition" of the HUF?
3. Give name of two schools in HUF?
4. Define residential status of HUF?
5. Define meaning of Impartible estate?

Essay Type Questions

1. What do you mean by a HUF? Discuss the incomes which are not treated as income of a HUF?
2. Explain the whole process for assessment of HUF?
3. What is complete and partial partition of HUF?

Answer MCQ

1	2	3	4	5
D	C	D	D	C

❑❑❑

Chapter 14

ASSESSMENT OF FIRMS

SECTION-WISE STUDY

Section	Particular
2(23)	Definition of firm
184	Partnership firm assessed as such
40(b)	Interest and remuneration to partner

DEFINITION AND MEANING OF PARTNERSHIP FIRM

In India, partnership firm is governed by Indian partnership act 1932.

According to section 4 of Indian Partnership Act, 1932, partnership means "the relationship between the persons who have agreed to share profit of business carried on by all or any of them acting for all." All persons who have entered into partnership with one another are called individually 'Partners' and collectively a 'Firm' and the name under which business is carried on is called the 'Firm Name'.

According to Income-tax act section 2(23)

'Firm' shall have the meaning assigned to it in the Indian Partnership Act, 1932, and shall include a limited liability partnership as defined in the Limited Liability Partnership Act,2008;

'Partner' shall have the meaning assigned to it in the Indian Partnership Act, 1932, and shall include;

i. Any person who, being a minor , has been admitted to the benefits of partnership; and

ii. A partner of a limited liability partnership as defined in the LLP act,2008

'Partnership' shall have the meaning assigned to it in the Indian Partnership Act, 1932 and shall include LLP as defined in the LLP act, 2008.

Note: Firm includes limited liability partnership.

TYPES OF FIRMS

Firms are divided into the following two categories for the purpose of taxation under the Income Tax Act.

1. Firms that are to be assessed as a Firm.
2. Firms that are assessed to tax as an association of persons.

PARTNERSHIP FIRM ASSESSED AS SUCH (PFAS) (SECTION 184)

1. Firm's assessment can be made (as a firm) if:
   (i) The partnership is evidenced by an instrument(it may be partnership deed or any other formal document from which the existence of the partnership can be proved)
   (ii) The individual share of partner must be specified in the instrument. In other words, individual share of profit in the profit of partnership must clearly be given in the instrument of partnership.
2. A certified copy of the instrument should accompany the first return of income of a firm. Section 184 requires that the copy of the instrument shall be certified in writing by all partners other than minors.
3. If once a firm is assessed as a firm for any assessment year, it shall continue to be assessed as a firm for every subsequent year if there is no change in the constitution of the firm.
4. If a change occurs in the constitution of the firm or profit sharing ratio during any previous year a certified copy of the revised instrument along with return of income of the relevant assessment year should be furnished.

ASSESSMENT IN CASE OF NON- COMPLIANCE OF SECTION 184

According to section 185, following shall be the consequences of non- compliance of section 184

If a firm fails to comply with the provision 184, the firm shall be assessed as association for persons but the following disallowance of deductions will apply:

(i) No deduction by way of payment of interest, salary, bonus, commission or remuneration, by whatever name called, made by firm to its partners shall be allowed in computing the income chargeable under the head "Income form business and profession".

(ii) such interest, salary, bonus, commission or remuneration shall not be chargeable to tax in the hands of partners under the head profits and gain of Business and profession

ASSESSMENT OF FIRM

General Rules and procedure

Assessment of firm involves the following;

1. Computation of total taxable income of the firm
2. Computation of tax payable by firm
3. Procedure for making assessee pay tax

In the process of dealing with the assessment of firm, certain rules and regulations are followed which are discussed as under-

A.) Residential Status:

Status of the firm may be classified into following two categories.

Resident – A firm is said to be resident when its business transactions are controlled and managed wholly or partially from India

Non- resident – A firm is said to be non-resident when its business transactions are controlled and managed wholly outside India.

A firm cannot be Not-ordinarily resident.

B.) Taxability of Income:

To determine taxability of an income, following two rules are important:

(i) All revenue receipts are taxable unless specifically exempted.

(ii) All capital receipts are exempt unless specifically taxable.

C.) Taxability Income under various Heads of Income:

According to section 14 of Income tax Act, there are five heads of income. However, only following four heads of income are applicable in case of firms:

i. Income from House property.

ii. Income from Business or Profession.

iii. Income from capital gain.

iv. Income from other source.

D.) Separate Entity:

A firm has separate entity and therefore, taxed separately.

E.) Registration of firm:

For taxation, there is no distinction between registered and unregistered firm.

F.) Partner's share:

While partner's income is computed for taxation purpose, his share in firm's income is not included in the total income of the partner.

G.) Salary , Bonus, Commission or remuneration payment:

Any salary, Bonus, commission or remuneration by whatever name called which is due to or received by the partner, is allowed as deduction subject to certain restrictions. A detailed discussion covered later in this chapter

H.) Payment of Interest:

Any firm if pays interest to any partner, may claim deduction of such interest from its total income but the rate of interest cannot exceed 12% per annum. A detailed discussion covered later in this chapter

I.) Tax Rate:

The firm's income is taxed at a flat rate of 30% plus surcharge (12% if net income exceed ₹ 1 crore) and plus Health and Education cess @4%.

J.) Alternate Minimum Tax:

Any firm including a limited liability partnership is subject to AMT at the rate of 18.5% of adjusted total income.

K.) Deductibility of remuneration/Interest:

Remuneration and interest to the partners of the firm are deductible subject to the fulfillment of the following conditions:

i. These are otherwise deductible u/s 36 and 37

ii. Conditions prescribed u/s 184 are satisfied

iii. Conditions prescribed u/s 40(b) are satisfied

PROVISION OF SECTION 40(B) REMUNERATION AND INTEREST TO PARTNERS

Following are the provision of section 40(b)-

Interest to partner	Remuneration to partners
1) Interest is allowed to working or non-working partners	1) Remuneration is allowed to working partners only.
2) Must be authorized by partnership deed.	2) Must be authorized by partnership deed
3) Interestpayable must be on or after the partnership deed	3) Remuneration payable must be on or after the partnership deed
4) Maximum rate of interest is 12% per annum (simple interest)	4) Maximum limit : a. If **Book profit is negative**i.e. in case of loss Rs 1,50,000
	b. In case of **Book profit is positive**i.e. in case of profit On the **first ₹ 3,00,000** of book profit ₹ 1,50,000 or 90% of book profit } Whichever is more
	On the balance of the book profit 60% of book profit

Explanation regarding section 40 (b)

1. Working partner is an individual who is actively engaged in conducting the affairs of business or profession of the firm of which he is a partner.

2. Partner in a firm a representative capacity (that is on behalf and for the benefit of another person) and not in his personal capacity then, interest paid by the firm to such individual in his personal capacity and not as a representative capacity will not be subject to the conditions and ceiling as prescribed for disallowance. But interest paid by the firm to such individual as representative partner or person represented shall be subject to the conditions and ceiling as prescribed

> *Example: Ram is a partner in a firm in a representative capacity for and on behalf of his HUF. Supposing the firm pays interest of ₹ 5,000 to Ram in his personal capacity and not in his capacity as the representative of HUF. It will be allowed as deduction and the prescribed ceiling will not apply. However , if such payment is made to Ram as a representative partner of if the firm has paid the interest directly to the HUF, then the payment will be subject to the conditions and ceiling as prescribed.*

3. Interest is paid to an individual partner who is not the representative partner and the interest received by him is on behalf of or for the benefit of another person, then such interest payment shall be allowed without applying the ceiling limits.

Example: Shyam is a partner of a firm in his individual capacity and is not a representative partner. Interest is paid by the firm to him in respect of a deposit made by his wife. This will be allowed as a deduction because such interest is received by him purely on behalf of another person.

4. Book profit is the net profit arrived at as per profit and loss account for the relevant previous year after making adjustments as provided by section 28 to 44D and adding remuneration to partners, if debited to profit and loss account.

COMPUTATION OF BOOK PROFIT

Book profit means the net profit , as shown in the profit and loss account and after making the additions and deduction as per section 28 to 44D of the Act and increased by the total remuneration paid or payable to all the partners of the firm if such amount has been deducted while computing the net profit. Interest paid/payable to partners in excess of 12% shall also be disallowed as per section 40 (b)

Steps to calculate Book profit:

1. Profit or loss is calculated by preparing profit and loss account, if profit or loss given, then ,it is taken as base
2. The necessary adjustments mentioned in section 28 to 44D are made in profit and loss account.
3. The remuneration given to the partners is added in net profit.

The final amount so arrived shall be the book profit of the firm.

Tutorial notes

1. *Following items are not included in book profit of the firm*
   - a. *Income from House property*
   - b. *Income from capital gain*
   - c. *Income from other sources*
2. *Following items are not to be deducted from book profit of the firm*
   - a. *Deduction u/s 80C to 80U from gross total income.*
   - b. *Brought forward of business losses.*

Proforma for computation of Book Profit

Particulars		₹
Net profit as per profit and loss account		
Add.		
1.	Expenses disallowed but debited to profit and loss a/c (not covered u/s 28 to 44D)	
2.	Incomes which are taxable under the head of Business and profession (not credited to P & L a/c)	
3.	Remuneration of partners, if debited to P & L a/c	
4.	Disallowance of interest in excess of 12% p.a.	
Less.		
1.	Incomes not taxable under the head income from business and profession but credited to P & L a/c	
2.	Expenses /losses allowed but not debited to P & L a/c	
Book profit		

Tutorial notes:
In computing book profit, trade losses brought forward are not deducted while unabsorbed depreciation brought forward is deducted. But in order to set off the losses, it is necessary to deduct the trade losses brought forward before the unabsorbed depreciation. Therefore, after making other adjustments, the book profit should be such that both brought forward trade losses and unabsorbed depreciation can be reduced, then the entire amount of unabsorbed depreciation should be deducted and the brought forward trade losses should not be reduced.

Example:

Profit after other adjustment	*₹ 6,00,000*
Carried forward losses	*₹ 4,00,000*
Unabsorbed Depreciation	*₹ 2,00,000*
Order to set off:	
Profit after other adjustment	*₹ 6,00,000*
Less. Carried forward losses	*₹ 4,00,000*
	₹ 2,00,000
Less. Unabsorbed Depreciation	*₹2,00,000*
	Nil
Add. Carried forward losses	*₹ 2,00,000*
Book profit	*₹ 2,00,000*

1. Computation of Total Income of the firm

Firstly compute the income from business and profession head and then other heads of income (i.e. Income from house property, capital gains and income from other source) is computed. The resultant amount is the Gross Total Income (GTI) of firm.

Incomes exempt under section 10 to 13-A shall be ignored while computing income under various heads of income as stated above.

From the GTI of the firm, deductions allowed u/s 80C to 80U shall be deducted and the balance shall be the total income of the firm. It is to be noted that deductions u/s 80G, 80 GGA, 80 GGC, 80 IA, 80 IAB, 80 IB, 80 IC, 80 ID, 80 IE, 80 JJA and 80 JJAA only are applicable to a firm.

The deduction under the above mentioned section will not be allowed against STCG (u/s111A) and LTCG (u/s 112).

Computation of Total Income of firm for the assessment year 2023-24 of M/s …… (Name of firm)

Particulars			₹
Book profit			
Less. Remuneration paid to working partners:			
a.	Actual remuneration	Whichever is less	
b.	Statutory limits (u/s 40 b)		
Income from business and profession			
Add. Income from House property			
Income from capital gain			

Income from other sources	
GTI (Gross Total Income)	
Less. Deduction u/s 80 C to 80 U (as applicable to firm)	
Total Taxable Income	

2. Computation of tax liability of the firm

Firm is liable to pay tax on total income with the flat rate @30%.There is no minimum tax free limit for the firm. The entire LTCG amount is taxed @ 20% under section 112. But LTCG of those shares on which STT has been paid is taxable under section 112A. Capital gains under section 112A are tax free up to Rs 1, 00,000 and the rest of the gains are taxed @ 10%. STCG under section 111A is taxed @15%. Income won in lotteries, crosswords, races, sports, gambling and betting is taxed @ 30%. Income from unexplained sources is taxed at 60%.

The option to tax the income of the patent @ 10% under section 115BBF can be adopted.

Surcharge: If the total income of the firm exceeds Rs 1 crore, then a surcharge of 12% of the tax amount will be payable. The Marginal relief can be given on the amount of tax and surcharge if the total income is just a little more than ₹ 1 crore. For which the following process is followed.

Tax on total income of ₹1 crore + (Total income – ₹ 1 crore)

Alternative Minimum Tax: The provisions of Alternate Minimum Tax are compulsorily applicable to every firm (including LLP). The firm will be liable to pay Alternative Minimum Tax @18.5% and Health and Education Cess @ 4% i.e. total 19.24% on the total adjusted income.

If the adjusted total income of the firm is more than ₹1 crore then the provisions of surcharge will apply i.e. the tax rate will be @ 21.548 %(18.50%+2.22%+0.828).

Tutorial notes: If the amount of regular tax is more than the amount of Alternate Minimum Tax, then the firm will have to pay the amount of regular tax.
If the firm has not availed tax exemption under section 10 AA or income deduction of section 80 HH to section 80 JJA, then the amount of regular income tax of the firm will be higher i.e. the provisions of Alternative Minimum Tax will not be applicable.

Computation of tax liability of firm for the assessment year 2023-24

Particulars		₹
1.	Tax on winning from lotteries , card games, cross word puzzles, horse race etc. and other casual income @30%	
2.	Tax on long – term capital gainu/s 112 @ 20%	
3.	Tax on long – term capital gain u/s 112A @ 10%(excess of ₹1,00,000)	
4.	Tax on short-term capital gain @ 15% (liable for STT or u/s 111A)	
5.	Tax on other taxable income @ 30%	
Add. Surcharge @ 12% (if applicable)		
Add. Health and education cess @4%		
Tax payable		

Computation of partner's income from the firm

1.	Share of profit	It is exempt u/s 10(2A) so, it will not include in partners income
2.	Remuneration	Any remuneration received by a partner as per ceiling limit u/s 40(b) shall be taxable under the head of business income of partners and excess of the amount admissible u/s 40(b), the excess amount shall not be included in the taxable income of the partner as it must have already been included in the firms total income.
3.	Interest	Partners receives interest as per provisions of partnership deed not exceeding 12% p.a. then, such interest is treated as business income and included under head " Income from business and profession"
4.	Rent	The rent received by the partner will be taxable under the head "Income from House property".

ILLUSTRATION 14.1

The following is the profit and loss account of partnership firm of X, Y & Z assessed firm, for the year ended 31st march 2023. Compute 'Book Profits' for the AY 2023-24.

Particulars	₹	Particulars	₹
General expenses	7,00,000	Gross profit	28,75,000
Entertainment expenses	2,75,000	Interest on bank deposits	1,45,000
Advertising	4,45,000	Excise duty refund	1,80,000
Rent , rates and taxes	2,90,000		
Salary to Partners			
X- ₹ 1,00,000			
Y- ₹ 1,50,000			
Z- ₹ 1,75,000	4,25,000		
Interest on capital			
X- @20% ₹ 40,000			
Y- @10% ₹ 20,000			
Z- @15% ₹ 30,000	90,000		
Donation	4,36,000		
Income tax	49,000		
Net profits	4,90,000		
	32,00,000		32,00,000

Other information:

1. General expenses included ₹ 1,25,000 which is inadmissible
2. Advertising includes ₹ 1,45,000 for advertising in a souvenir of a political party
3. Payment of interest on capital and salary to partners is provided for in the partnership deed.

Solution:

Computation of book profit for the AY 2023-24

Particulars	₹	₹
Net profits as per profit and loss account		4,90,000
Add:		
1. General expenses to the extent inadmissible	1,25,000	
2. Expenditure on advertising in a publication of political party	1,45,000	
3. Salary to partners	4,25,000	
4. Interest on capital in excess of 12%		
X: (₹ 40,000*8/20) = 16,000		
Z: (₹ 30,000*3/15) = 6,000	22,000	
Donations	4,36,000	
Income tax	49,000	12,02,000
Less:		
Interest on bank deposits		1,45,000
Book profits		15,47,000

EXERCISE 14.1

The following is the profit and loss account of partnership firm of Rohit, Gill & Surya assessed firm, for the year ended 31st march 2023. Compute 'Book Profits' for the AY 2023-24.

Particulars	₹	Particulars	₹
General expenses	3,00,000	Gross profit	20,59,000
Entertainment expenses	1,80,000	Interest on bank deposits	2,50,000
Advertising	2,40,000		
Rent , rates and taxes	1,00,000		
Salary to Partners			
Rohit- ₹ 3,00,000			
Gill- ₹ 2,50,000			
Surya - ₹ 2,75,000	8,25,000		
Interest on capital			
Rohit- @18% ₹ 35,000			
Gill- @16% ₹ 24,000			
Surya- @12% ₹ 25,000	84,000		
Donation	3,00,000		
Income tax	30,000		
Net profits	2,50,000		
	23,09,000		23,09,000

Other information:

1. General expenses included ₹ 1,75,000 which is inadmissible
2. Advertising includes ₹ 2,50,000 for advertising in a souvenir of a political party
   Payment of interest on capital and salary to partners is provided for in the partnership deed
   (Book Profit ₹15, 97,667)

ILLUSTRATION 14.2

Rajiv and Sagar are partners in firm. They share profit and loss in the ratio of 2:1. From the following profit and loss account compute the total income of the firm and the amount which will be included in the income of partners:

Profit and loss A/c

Particular	₹	Particular	₹
To interest on capital @ 20%		By Business Profit	70,000
Rajiv	15,000	By interest received	18.000
Sagar	9,000	By STCG	90,000
To remuneration to working Partners		By Loss	
Rajiv	1,00,000	Rajiv	14,000
Sagar	75,000	Sagar	7,000
	1,99,000		1,99,000

The interest on capital and the remuneration paid to working partners are in accordance with the partnership deed.

Solution :

Computation of Business Income
For the A Y 2023-24

Particulars	₹
Business Profit	70,000
Less. Interest on capital to the extent allowable to partners	
Rajiv	9,000
Sagar	5,400
Book Profit	55,600
Less. Remuneration to working partne₹	
90% of 55,600 or ₹1,50,000 (WEH)	1,50,000
Business Loss	94,400
Computation of total income of the firm	
Short term capital gain	90,000
Income from other sources(18000*100/90)	20,000
	1,10,000
Less. Business Loss	94,400
Total income of the firm	15,600

Computation of income of partners from firm

Particulars	Rajiv	Sagar
Interest (to the extent deducted in computation of income of firm)	9,000	5,400
Remuneration	90,000	60,000
Profits and gains of business & profession	99,000	65,400

EXERCISE 14.2

Goverdhan and Sai are partners in a firm. The profit and loss account of the firm for the year ended as on 31 March 2023 is as under:

Profit and Loss Account

Particulars	₹	Particulars	₹
Interest on capital @ 12%		Receipts from business	4,00,000
Goverdhan	7,000		
Sai	21,000		
Remuneration to partners :			
Goverdhan	1,80,000		
Sai	60,000		
Depreciation	25,000		
Misc. expenses	1,00,000		
Net Profit :			
Goverdhan	3,500		
Sai	3,500		
	4,00,000		4,00,000

Other information ae as under:

1). The remuneration to partners and interest on capital are as per the deed of partnership.

2). Out of the Misc. expenses of ₹ 1, 00,000, a sum of ₹ 15,000 is not allowed for deduction.

3). Depreciation allowable is ₹ 30,000

On the basis of above information, compute the taxable income from business and profession of the firm for the AY 2023-24.

(Taxable income of firm ₹33, 000)

ILLUSTRATION 14.3

Seeta, Geeta and Reeta are partners in a firm sharing profits and losses in the ratio of 3:2:1 respectively. The firm's profit and loss account for the year ending on 31st march 2023 showed a net profit of ₹ 3, 00,000 after deducting the following amounts:-

1. Remuneration ₹ 50,000 paid to Seeta who is a sleeping partner in the firm.
2. ₹ 50,000 paid for purchase of a patent right.

3. ₹ 5,000 for partnership deed expenses
4. Commission on sales paid to Geeta ₹ 1,50,000
5. Interest on capital ₹ 5,000, ₹ 3,000 & ₹ 1,000 paid to Seeta, Geeta and Reeta respectively.
6. ₹ 8,000 paid to Geeta on account of rent for the portion of the building owned by her which is used for firm's office.
7. Donation to approved institutions ₹ 30,000

The net profit includes ₹ 15,000 being interest received from Government securities. The remuneration to partners and interest on capital are as per deed of partnership.

The firm received a gift of 1000 equity shares of reliance gas private limited from sarita on 10 February,2023, the fair market value of which was ₹ 50,000 on that day. The firm has not shown these shares in the books of accounts.

Compute the total income of the firm for the AY 2023-24 and calculate the tax payable.

Solution:

Computation of total income of the firm
For the AY 2023-24

Particulars			₹
1.	Income from business and profession		
Net profit as per P & L A/c			3,00,000
Add: Expenses allowed :			
i.	Remuneration to Seeta	50,000	
ii.	Patent right expenses	50,000	
iii.	Partnership deed expenses	5,000	
iv.	Commission to Geeta	1,50,000	
v.	Donation	30,000	2,85,000
			5,85,000
Less. i. Depreciation on patent right @25% of ₹ 50,000			12,500
ii.	incomes not taxable under this head : Interest on Government securities		15,000
Book Profit			5,57,500
Less. Remuneration allowable to partners: ₹ 3,00,000 @90% = 2,70,000 ₹ 2,57,500@ 60% = 1,54,500 Total 4,24,500 or Actual remuneration (Commission to Geeta) 1,50,000			1,50,000
Income from business and profession			4,07,500
2.	Income from other sources		
Gift of shares taxable u/s 56(2)(x)		50,000	
Interest on Govt securities		15,000	65,000
Gross total income			4,72,500

Less. Deduction u/s 80 G @50% of ₹ 30,000	15,000
Total Income	4,57,500
Tax payable by the firm	
On ₹ 4,57,500 @ 30%	1,37,250
Add. Health and Education cess @4% on ₹ 1,37,250	5,490
Tax payable	1,42,740

EXERCISE 14.3

Dharmendra, Harshwardhan and Shouryaraj are partners in a firm sharing profits and losses in the ratio of 1:2:3 respectively. The firm's profit and loss account for the year ending on 31st march 2023 showed a net profit of ₹ 5, 00,000 after deducting the following amounts:-

1. Remuneration ₹ 1,00,000 paid to Dharmendra who is a sleeping partner in the firm.
2. ₹ 70,000 paid for purchase of a patent right.
3. ₹ 10,000 for partnership deed expenses
4. Commission on sales paid to Harshwardhan ₹ 1,20,000
5. Interest on capital ₹ 15,000, ₹ 13,000 & ₹ 12,000 paid to Dharmedra, Harshwardhan and Shouryaraj respectively.
6. ₹ 20,000 paid to Harshwardhan on account of rent for the portion of the building owned by her which is used for firm's office.
7. Donation to approved institutions ₹ 50,000

The net profit includes ₹ 25,000 being interest received from Government securities. The remuneration to partners and interest on capital are as per deed of partnership.

Compute the total income of the firm for the AY 2023-24 and calculate the tax payable.

(Total income 6, 87,500 and Tax payable 2, 14,500)

ILLUSTRATION 14.4

P, Q and R, are equal partners in a firm. From the following profit and loss account for the year ending on 31st march 2023, compute the total income of the firm for the AY 2023-24

Profit and loss Account

Particulars	₹	Particulars	₹
Salaries to staff	25,000	Gross profit	1,00,000
Interest on capital		Commission	15,000
P 2,000		Rent from house property	5,000
Q 1,000		Interest (gross)	10,000
R 500	3,500		
General Expenses	15,000		
Salary to P	2,000		

Commission to Q	3,000		
Municipal taxes in respect of let out property	1,000		
Depreciation allowance	2,500		
Bad debt reserve	3,000		
Net profit			
P 25,000			
Q 25,000			
R 25,000	75,000		
	1,30,000		1,30,000

There is no provision for remuneration or interest on capital of the partners in the partnership deed.

Solution:

Statement showing the computation of taxable income from Business and of the firm
For the AY 2023-24

	Amount
Net profit as per profit and loss A/c	75,000
Add: Inadmissible expenses -	
1. Interest on capital to partners	3,500
2. Salary to P	2,000
3. Commission to Q	3,000
4. Bad debt reserve	3,000
5. Municipal taxes in respect of let out property	1,000
	87,500
Less. Incomes not taxable under this head	
1. Rent from house property	5,000
2. Interest	10,000
Income from business	72,500

Statement showing the computation of total income of the firm
For the AY 2023-24

1. Income from house property		
GAV being rent received	5,000	
Less. Municipal tax	1,000	
4,000		
Less. 30% of standard deduction	1,200	2,800
2. Income from business and profession		72,500
3. Income from other sources (interest)		10,000
Total income of firm		85,300

EXERCISE 14.4

Bhupesh, Dinesh and Umesh, are equal partners in a firm. From the following profit and loss account for the year ending on 31st march 2023, compute the total income of the firm for the AY 2023-24

Profit and loss Account

Particulars	₹	Particulars	₹
Salaries to staff	50,000	Gross profit	1,50,000
Interest on capital		Commission	50,000
Bhupesh 15,000		Rent from house property	40,500
Dinesh 17,000		Interest (gross)	10,000
Umesh 13,000	45,000		
General Expenses	20,000		
Salary to Bhupesh	20,000		
Commission to Dinesh	30,000		
Municipal taxes in respect of let out property	10,000		
Depreciation allowance	12,500		
Bad debt reserve	3,000		
Net profit			
P 20,000			
Q 20,000			
R 20,000	60,000		
	2,50,500		2,50,500

There is no provision for remuneration or interest on capital of the partners in the partnership deed.

(Total income of firm 1, 48,850)

ILLUSTRATION 14.5

Ajay and Vijay are two partners having profit sharing ratio (1:2) of ajayvijay co. (a limited liability partnership LLP). The profit and loss account of the LLP for the year ending 31st March 2023 is as follows:

Particulars	₹	Particulars	₹
Cost of goods sold	12,00,000	Sales	23,25,000
Salary to staff	3,00,000	LTCG (according to sec.48)	40,000
Depreciation	80,000	Other business receipts	31,000
Remuneration to partners			
Ajay	2,00,000		
Vijay	1,60,000		
Interest on capital @ 14%			
Ajay	28,000		

Vijay	14,000		
Other expenses	3,93,000		
Net profit	21,000		
	23,96,000		23,96,000

Others information:

1. The LLP completed all legal formalities to get the status of 'firm'.
2. The LLP is not eligible for deduction u/s 80-IB
3. The LLP has given donation of ₹ 80,000 to notified public charitable trust by cheque which is included in other expenses
4. Salary and interest is paid to partners as per the partnership deed.
5. Depreciation allowable u/s 32 is ₹ 78,000.
6. Income and investment of ajay and vijay are as follows:

Particulars	**Ajay**	**Vijay**
Interest on company deposits	30,000	15,000
Dividend from companies registered outside India	7,000	11,000
LTCG	2,80,000	30,000
STCG	3,000	(6,000)
Winning from lottery	4,000	-
Contribution towards home loan account of the National Housing Bank	-	60,000

Find out net income and tax liability on total income of the LLP and partners for the AY 2023-24.

Solution:

Computation of Total Income and Tax Liability of Ajay Vijay Co. (LLP)
For the AY 2023-24

Particulars	**₹**
Net profit	21,000
Adjustments:	
1. Depreciation	2,000
2. Remuneration to partners	3,60,000
3. Interest to partners	6,000
4. Other expenses (Donation)	80,000
5. LTCG	(40,000)
Book profit	4,29,000
Less. Remuneration to partners	
90% of ₹ 3,00,000 + 60% of ₹ 1,29,000 = 3,47,400 Or remuneration as per deed ₹ 3,60,000, whichever is less	3,47,400
Business Income	81,600
Long term Capital Gain	40,000

Gross Total Income	1,21,600
Less. Deduction u/s 80G (50% of 10% of Business income ₹81,600)	4080
Net income	1,17,520
Tax computation of Ajay vijay Co.	
Tax on LTCG of ₹ 40,000 @ 20%	8,000
Tax on ₹ 77,520 @ 30%	23,256
	31,256
Add. Health and education cess @ 4%	1,250
Tax liability	32,506
Rounded off	32,510

Computation of Income and tax of Ajay and Vijay
for *AY 2023-24*

Business income	**Ajay**	**Vijay**
Remuneration from Ajay vijay co. (₹ 3,47,000 divided in the ratio 5:4)	1,93,000	1,54,400
Interest	24,000	12,000
Business income	2,17,000	1,66,400
Capital gain (LTCG+ STCG)	2,83,000	24,000
Income from other sources		
Ajay ₹ 30,000+ ₹ 7,000+ ₹ 4,000	41,000	
Vijay ₹ 15,000+ ₹ 11,000		26,000
Gross Total Income	5,41,000	2,16,400
Less. Deduction u/s 80C	-	60,000
Net income	5,41,000	1,56,400
Tax on LTCG (20% on ₹ 2,80,000)	56,000	
On winning from lottery (30% of Rs 4,000)	1,200	
On balance 5% on ₹ 7,000	350	
Total	57,550	
Add. Health and education cess	2,302	
Tax liability	59,852	
Rounded off	59,850	

EXERCISE 14.5

A and B are two partners having profit sharing ratio (1:2) of AB co. (a limited liability partnership LLP). The profit and loss account of the LLP for the year ending 31st March 2023 is as follows:

Particulars	₹	Particulars	₹
Cost of goods sold	10,00,000	Sales	18,25,000
Salary to staff	1,91,000	LTCG (according to sec.48)	50,000
Depreciation	50,000	Other business receipts	75,000
Remuneration to partners			
A	1,50,000		
B	2,60,000		
Interest on capital @ 20%			
A	40,000		
B	24,000		
Other expenses	1,85,000		
Net profit	50,000		
	19,50,000		19,50,000

Others information:

1. The LLP completed all legal formalities to get the status of 'firm'.
2. The LLP is not eligible for deduction u/s 80-IB
3. The LLP has given donation of ₹ 50,000 to notified public charitable trust by cheque which is included in other expenses
4. Salary and interest is paid to partners as per the partnership deed.
5. Depreciation allowable u/s 32 is ₹ 48,000.
6. Income and investment of A and B are as follows:

Particulars	A	B
Interest on company deposits	25,000	5,000
Dividend from companies registered outside India	5,000	2,500
LTCG	3,00,000	2,50,000
STCG	15,000	(10,000)
Winning from lottery	4,000	50,000
Contribution towards home loan account of the National Housing Bank	-	20,000

Find out net income and tax liability on total income of the LLP and partners for the AY 2023-24.

(Book profit ₹ 4, 87,600, Net income ₹ 1, 49,788 Tax payable ₹ 41,530, Tax payable A ₹63, 650 and Tax payable ₹ 67,830)

ILLUSTRATION 14.6

There are two partners Dharmesh and Suresh in a firm of chartered accountants. The income and expenditure account of the firm for the year ended 31st march 2023 is as under:

Particulars	₹	Particulars	Rs
Office expenses	1,10,000	Receipts from clients	3,23,000
Salary to employees	70,000		
Salary to Dharmesh	48,000		
Salary to Suresh	72,000		
Interest on capital @ 24%			
Dharmesh ₹ 6,000			
Suresh ₹ 9,000	15,000		
Net profit	8,000		
	3,23,000		3,23,000

Other information is as under:

1. There was no provision in the partnership deed on 1-4-2022 for payment of interest on capital and salary to partners. On 1st June, 2022 the partnership deed was amended. Accordingly with effect from 1-4-2022 salary of ₹ 4,000 per month was allowed to Dharmesh and salary of ₹ 6,000 per month was allowed to Suresh and interest on capital was allowed @24% per annum to each partner.
2. During the financial year 2022-23 a long-term capital assets was sold by the firm and on the cost inflated indices a long term capital gain of ₹ 1, 75,000 was computed.

On the basis of the above information compute the total income and tax liability of the firm.

(M.D. Uni. B.com, 1997, 2001, 2016; Kota Uni.B.com, 2016 & M.G.S.U. B.com, 2017)

Solution:

Computation of income from profession of the firm
For the AY 2023-24

Net profit as per Income & Expenditure account of the firm		8,000
Add. Items disallowed:		
Salary to partners	1,20,000	
Interest on capital (only excess amount)		
Dharmesh (6,000-2,500)	3,500	
Suresh (9,000-3,750)	5,250	1,28,750
Book profit		1,36.750
Less. Remuneration to partners 90% of 1,36,750 or 1,50,000 WEH 1,50,000 or 1,00,000 (WEL)		1,00,000
Profit from profession		36,750
Computation of the total income of the firm For the AY 2023-24		
1. Profits from profession		36,750
2. Capital gain (Long term)		1,75,000

Gross total income	2,11,750
Less. Deduction	Nil
Total income	2,11,750
Computation of Tax Liability of the firm	
Tax on LTCG on ₹ 1,75,000 @ 20%	35,000
Tax on reduced total income on ₹ 36,750 @ 30%	11,025
	46,025
Add. Health and education cess @ 4% on ₹ 46,025	1841
Tax payable by the firm	47,866
Rounded off	47,870

Working notes:

1. Calculation of admissible interest on capital
   Capital of partners
   Dharmesh = 6,000* 100/24 = 25,000
   Suresh = 9,000* 100/24= 37,500
   Interest @ 12% for 10 months
   Dharmesh 25,000@12% *10/12= 2,500
   Suresh 37,500 @ 12% * 10/12= 3,750
2. Remuneration is Admissible only for 10 month u/s 40(b).

EXERCISE 14.6

There are two partners D and S in a firm of chartered accountants. The income and expenditure account of the firm for the year ended 31st march 2023 is as under:

Particulars	₹	Particulars	₹
Office expenses	50,000	Receipts from clients	2,44,000
Salary to employees	45,000		
Salary to D	75,000		
Salary to S	45,000		
Interest on capital @ 20%			
D ₹ 10,000			
S ₹ 7,000	17,000		
Net profit	12,000		
	2,44,000		2,44,000

Other information is as under:

1. There was no provision in the partnership deed on 1-4-2022 for payment of interest on capital and salary to partners. On 1st June, 2022 the partnership deed was amended. Accordingly with effect from 1-4-2022

salary of ₹ 5,000 per month was allowed to Dharmesh and salary of ₹ 8,000 per month was allowed to Suresh and interest on capital was allowed @20% per annum to each partners.

2. During the financial year 2022-23 a long term capital assets was sold by the firm and on the cost inflated indices a long term capital gain of ₹ 2, 50,000 was computed.

On the basis of the above information compute the total income and tax liability of the firm.

(Total income ₹ 2, 70,500 and tax liability ₹ 58,400)

ILLUSTRATION 14.7

From the following information compute the total income of the firm and net tax payable by it for the AY 2023-24.

1. Income from business & profession ₹ 90,000 after deducting remuneration and interest on capital to working partners and whole amount is deductible u/s 40(b) as it does not exceed the prescribed limits.
2. The business income includes a sum of ₹ 50,000 being profits of new industrial undertakings established in January, 2004 in a backward district of A category. It also includes ₹ 18,000 a profits from the business of poultry farming.
3. Long term capital gain on sale of house property. The house was purchased in 2001-02 for ₹ 25,000 and it was sold in December 2022 for ₹ 1,00,000
4. Long term capital gain on sale of unlisted shares. The shares were purchased in April 2001 for ₹ 47,000 and were sold in July ,2022 for the ₹ 1,50,000
5. Short term capital gain ₹ 10,000 on listed equity shares which were sold in December 2022 through a recognized stock exchange.
6. Interest received on unlisted debentures ₹ 18,000
7. Winnings from horse race received ₹ 49,000
8. Loss from house property ₹ 15,000
9. Donation to approved charitable institution ₹ 15,000

The cost inflation indices for the years 2001-02 and 2022-23 are 100 and 331 respectively.

Solution:

Computation of Total Income of the firm
For the AY 2023-24

Particular	Amount	Amount
1. Income from house property		
Income from let out property		(15,000)
2. Incomes from business and profession		90,000
3. Incomes from capital gain :		
a. LTCG from HP		
Sale price	1,00,000	
Less. Indexed cost of acquisition ₹ 25,000 *331/100	82,750	17,250
b. LTCG from shares		

Sale price	1,50,000	
Less. Indexed cost of shares 47,000* 331/100	1,55,570	(5,570)
c. STCG u/s 111 A		10,000
4. Income from other sources		
a. Interest received from unlisted debentures Grossed up (18,000/90*100)	20,000	
b. Winning from horse race Grossed up (49,000*100/70)	70,000	90,000
GTI		1,86,680
Less. Deduction		
Sec. 80G (50% of 10% adjusted GTI i.e. 1,86,680-11,680-10,000-70,000)=4,750		4,750
Total income		1,81,930
Computation of tax payable by firm		
a. Tax on winning from horse race		21,000
b. Tax on LTCG @ 20% of 11,680		2,336
c. Tax on STCG u/s 111 A @ 15% on ₹ 10,000		1,500
d. Tax on remaining Rs 90,250@30%		27,075
		51,911
Add. Health and educations cess @ 4%		2,076
Gross tax payable		53,987
Less. TDS (21,000+ 2,000)		23,000
Net tax payable		30987
Rounded off		30990

EXERCISE 14.7

From the following information compute the total income of the firm and net tax payable by the firm for the AY 2023-24:

1. Profit from a small scale industrial undertakings established in rural area in august, 1990 ₹ 2, 00,000. Interest on capital @ 12% and salary @ ₹ 3,000 per month to each working partner is payable as per partnership deed. X, Y and Z are ₹ 1, 00,000, ₹ 2, 00,000 and ₹ 3, 00,000 respectively. Interest and remuneration to partners has not been charged
2. Profit on the sale of listed equity shares ₹ 18,200. These shares were purchased in February, 2022 for ₹ 20,000 and were sold in December, 2022 for the ₹ 38,200 through a recognized stock exchange.
3. Profit on the sale of house property ₹ 1, 08,400. The house property was purchased in 2001-02 for ₹ 2, 50,000 and it was sold in July, 2022 for ₹3, 58,400.
4. Interest received on unlisted debentures on august 25,2022 of a company ₹ 11,700
5. Loss from house property ₹ 8,000. The loss was on account of interest on loan taken to construct the property

6. Winnings from horse- race ₹ 12,500 on December 10, 2022
7. Interest received from bank ₹ 4,000
8. Donation to national foundation for communal harmony ₹ 10,910
9. Donation to charitable institutions ₹ 20,000
10. The firm received a gift of 2,000 equity shares of Dalmia private limited from Shri Ramesh on 1 December 2022, the fair market value of which was ₹ 54,000 on that day.

The cost inflation index for the year 2001-02 and 2022-23 are 100 and 331 respectively.

(Kota University B.com. 2008)

(Total income of firm ₹ 1, 32,215 and net tax payable ₹ 33,360)

Assessment of reconstituted firm

According to Section 187(2) of the Income Tax Act, the following circumstances are considered to be a change in the organization of the firm -

1. When one or more partners cease to be partners in the firm or one or more persons become partners in the firm, provided that at least one of the old partners remains a partner in the firm even after the change.
2. When the partners remain the same but their profit and loss ratio changes.

Taxation after change in organization

According to Section-187(1), when there is a change in the organization of a firm, then at the time of assessment, tax is assessed on the income of the firm which is the organization. As far as the distribution of firm income tax among the partners is concerned, the income of the previous year is distributed among those partners who had the right to receive this income.

Assessment in case of succession of one firm by another firm

According to Section - 188 of the Income Tax Act, when the ownership of a firm passes to another firm, then in such a case income tax has to be paid by the former firm on the income of the firm before the change in ownership and on the subsequent income by the successor firm.

Dissolution of a firm

Complete cessation of business is known as discontinuance of business. Change in constitution of the firm or change of ownership is not discontinuance of business. However, where the business of the firm is split up on dissolution and portions or branches of the business are divided among the partners, there is discontinuance of the old business and it does not make any impact even if such portions or branches carry their business by the partners. Provisions regarding the assessment of such business are as under:

1. Where the business or profession carried on by the firm is discontinued or where a firm is dissolved, the assessment shall be made of the total income of the firm as if no such discontinuance or dissolution had taken place.
2. Every person who was a partner and the legal representative of a deceased partner in the firm shall be jointly and severally liable for the amount of the tax, penalty or other sum payable by the firm.
3. In spite of the fact that dissolution of firm has taken place, and the proceedings in respect of an assessment year have commenced, the proceedings may be continued against person mentioned in (ii) above.

Assessment of Limited Liability Partnership

Notwithstanding anything contained in the LLP act, 2008, where any tax due from a LLP in respect of any income of any previous year or from any other person in respect of any income of any previous year during which such other person was a LLP cannot be recovered, in such case, every person who was a partner of the LLP at any time during the relevant previous year, shall be jointly and severally liable for the payment of such tax unless he proves that the non-recovery cannot be attributed to any gross neglect, misfeasance or breach of duty on his part in relation to the affairs of the LLP.

Tax due includes penalty, interest or any other sum payable under the act.

Some of the important provision regarding to assessment of LLP are as under –

1. The income of the LLP shall be taxed at the flat rate of 30% (12% surcharge if total income exceeds ₹ 1 crore and 4% health and education cess in all cases). LTCG and STCG shall be taxable as per section 112/112A and 111A.
2. The remuneration and interest paid by LLP to its partners shall be allowed as section 40(b).
3. The share of profit received by the partner of LLP shall be exempt u/s 10 (2A).
4. The remuneration and interest received by partner of LLP shall be taxable as per section 28.
5. There will be no implication under the Income Tax Act, where a partnership firm is converted in to a LLP.
6. Capital gains shall be exempt when a company is converted into a LLP.
7. The liability of the partners of LLP shall be joint and several for the payment of such tax unless he proves that the non- recovery cannot be any gross neglect, misfeasance or breach of duty on his part in relation to the affairs of the LLP.
8. Section 44AD is not applicable to a LLP.

QUESTIONS

Multiple Choice Questions

Q1. Profit earned during the year by a partnership firm is ₹ 1,40,000. The maximum amount of remuneration deductible from profit is–

(a) ₹ 1,50,000 (b) ₹ 1,40,000
(c) ₹ 1,26,000 (d) ₹ 50,000

Q2. Under the Income tax act, 1961 interest on capital received by a partner from a partnership firm is chargeable under the head-

(a) Profits and gains of business or profession (b) Income from other sources
(c) Capital gains (d) None of these

Q3. A non- professional firm M/s Gour has book profit of ₹ 9,36,000. The admissible remuneration to working partners for income tax purpose shall be –

(a) ₹ 6,51,600 (b) ₹ 6,81,600
(c) ₹ 2,70,000 (d) None of these

Q4 When a partnership firm has total sales of ₹ 90 lakhs, the maximum amount deductible as salary of working partners on basis of presumptive income determine u/s 44AD is-

(a) ₹ 5,22,000 (b) ₹ 3,60,000
(c) ₹ 3,30,000 (d) Nil

Q5 The book profit of a partnership firm is ₹ 1,20,000. The actual remuneration paid to working partner is ₹ 3,54,000. The allowable deduction u/s 40(b) towards remuneration to partners is –

(a) ₹ 1,50,000 (b) ₹ 3,54,000
(c) ₹ 1,08,000 (d) ₹ 1,20,000

Q6. Salary received by partners from his partnership firm is considered is his personal assessment as-

(a) Income from salary (b) Profit from business or profession
(c) Income from other source (d) Exempted income

Q7 A partnership firm had net profit of ₹ 6,20,000 before deducting interest on capitals to partners @15% of ₹1,50,000 and working partners salary of ₹ 1,80,000 (as per deed of partnership) , total income of firm chargeable to tax will be :

(a) ₹ 1,10,000 (b) ₹ 3,20,000
(c) ₹ 2,90,000 (d) ₹ 1,00,000

Q8 Mr. Radhey is partner in tools & Co. a partnership firm in Mumbai. He received ₹ 30,000 as share income from the firm for the year ended 31.3.2022. he also received interest at 12% per annum the capital invested in the firm and the amount being ₹ 24,000-
His income from the firm includible in individual assessment is:

(a) ₹ 54,000 (b) ₹ 24,000
(c) ₹ 30,000 (d) Nil

Q9 In which case a partnership firm is not entitled to carry forward and set off so much of the losses proportionate to the share of a retired or deceased person exceeding his/her share of profits , if any, in the firm in respect of the PY:

(a) When the public are not substantially interested in firm
(b) When the business or profession is succeeded by another person
(c) When a change occurred in constitution of the firm
(d) None of above

Q10 Under the Income –tax Act1961,LLP is chargeable to tax @

(a) 30% plus SEC or AMT @18.5% plus HEC
(b) 30% plus HEC or AMT @ 17.5%
(c) 30% plus HEC or MAT @ 18.5% plus HEC
(d) 30% plus HEC or MAT @ 18.5%

Q11 From tax point of view, a Limited Liability Partnership (LLP) is treated as-

(a) Sole trader concern (b) General partnership firm
(c) Private Limited company (d) Public Limited Company

Q12 Provision of Section 115JC are not at all applicable to –

(a) LLPs (b) Companies
(c) Partnership Firms (d) Individuals

Q13 The credit for AMT can be carried forward for set off up to a maximum period of ..... assessment year succeeding the assessment year in which credit becomes allowable –

(a) 10 (b) 15 (c) 18 (d) 20

Q14 If an LLP claims deduction u/s 35AD , the provisions of AMT u/s 115JC will apply when the adjusted total income exceeds-

(a) No limit (b) ₹ 10 Lakhs
(c) ₹ 20 Lakhs (d) ₹ 3 Crore

Q15. The maximum amount on which income tax is not chargeable in case of firm:

(a) ₹ 1,60.000 (b) ₹ 1,80,000

(c) ₹ 2,00,000 (d) Nil

Very Short Answer Type Questions

1. Write meaning of Book Profit.
2. To what extent remuneration given to active partner by a firm is allowed u/s 40(b)
3. Residential status of firm?
4. Can the remuneration given by a firm to its active partners in case of loss be allowed u/s 40(b)? If so, to what extent?
5. Taxable income of the firm is ₹ 1, 50, 00,000. Find out the tax payable by it for the AY 2023-24?

Short Answer Type Question

1. A firm earned 5,00,000 as profit after allowing interest of ₹ 2,50,000 on their capital @ 20%. Partners Ram has been given remuneration of ₹ 2,00,000 and Shayam has been given remuneration of ₹ 1,50,000. Both are active partners and interest and remuneration are in accordance to partnership deed. Calculate the tax payable by the firm?
2. Explain in brief the provisions of set off and carry forward of losses by a firm?
3. Explain in brief the provisions of section 40(b).
4. State the two conditions to be fulfilled for the partnership firm to be assessed as firm
5. A, B and C are partners of a firm sharing profit and loss in the ratio of 7:5:3. In the previous year 2021-22 the firm incurred a loss of ₹ 2, 10,000.

   On 30th November 2023, B retired from the firm though A and C continued the business agreeing to share profit and loss in the ratio 7:3. In previous year 2022-23 , the firm made a profit of ₹ 3, 15,000, determine the taxable profit of the year for AY 2023-24.

Essay Type Questions

1. Explain with example the term Book profit in relation to the assessment of firms.
2. Explain the procedure of computation of total income of the firm. Give a proforma and suh computation.
3. Explain in details provision of section 184 in relation to the assessment of the firm.
4. What are the dissolutions of partnership firm? Explain the provisions of the income tax act in respect of assessment of the firm after its dissolution.

Numerical Questions

1. The profit and loss account of a partnership firm carrying on business for the year ended on 31st march, 2023:

Particulars	₹	Particulars	₹
Cost of goods sold	4,95,000	Sales	6,75,000
Remuneration to partners	52,500	Rent of house property	25,000
Interest to partners	30,000	Interest on securities (gross)	30,000
Municipal taxes of house	2,500		
Other expenses	1,05,000		
Net profit	45,000		
	7,30,000		7,30,000

Other information is as under:

1. Only ₹ 11,500 are allowed as deduction in respect of interest to partners
2. ₹ 24,000 are disallowed as deduction in respect of other expenses
3. The particulars of shares of private companies , transferred to firm from different persons without consideration or for inadequate consideration during the PY 2022-23 in the month of December , are as follows:

a. 100 shares from Suresh without consideration , the fair market value of which is ₹ 15,000
b. 50 shares from Dinesh without consideration , the fair market value of which is ₹ 30,000
c. 200 shares from mukesh for a consideration of ₹ 20,000 the fair market value of which is ₹ 50,000
d. 100 shares from Ramesh for a consideration of ₹ 30,000 for fair market value is ₹ 60,000

Ascertain the total income and tax liability of the firm?

(MLSU B.com., 1997, MDSU B.com., 1999 and Kota B.com., 2009)

(Total Income ₹ 1, 40,750, net tax payable ₹ 40,910)

2. S and M are equal partners in a firm. The profit and loss account of the firm for the year ending as on 31st march, 2023 is as under:

Particulars	₹	Particulars	₹
Interest on capital @24%		Business profit	2,25,000
S	24,000	Rent form house property	20,000
M	36,000	Profit on sale of house property	85,000
Remuneration to working partners			
S	48,000		
M	36,000		
Donation to charitable institutions	15,000		
Share of profit			
S	85,500		
M	85,500		
	3,30,000		3,30,000

The other information is as under:

1. The remuneration and interest on capital paid to a partners are in accordance with the partnership deed.
2. S paid interest to the firm on drawings for household expenses ₹ 3,000. It is included in the profit of the firm
3. M borrowed money from a money lender to contribute capital in the firm and paid him ₹ 30,000 as interest.
4. S purchased a car for ₹ 1,50,000 in sept. 2022. The car is used for going to and coming back from the firm and other personal purpose. The use of car for personal purpose may be taken as 25%. The expenses for running and maintaining the car may be assumed ₹ 16,000.
5. House property sold during the PY was purchased in June, 2001 for ₹ 55,000. It was sold for ₹ 1,40,000 during the PY

Compute the total income of the firm and the amount which will be included in the income of partner for the AY 2023-24. The cost inflation index for the year 2001-02 and 2022-23 are 100 and 331 respectively.

(RU B.Com (Hons.) Pt-II 1999, 2000& MLSU B.com. 2002 & Bikaner B.Com., 2007)

(Total income ₹ 1,18,750, taxable income for S ₹ 31,125 and M ₹24,000)

3. The profit and loss account of the firm of M/S A and B , sharing profits and losses in the ratio of 3:2 for the previous year ending on 31st march, 2022 are as follow:

Particulars	₹	Particulars	₹
Cost of goods sold	6,45,000	Sales	10,50,000
Remuneration to partners	3,00,000	Dividends	30,000
Remuneration to employees	1,50,000	LTCG	1,80,000
Interest to partners	15,000		
Other expenses	1,20,000		
GST outstanding	10,000		
Net profit	20,000		
	12,60,000		12,60,000

Additional information is given below:

1. Other expenses include following:
   a. Entertainment expenses ₹ 40,000
   b. Mobiles, costing of ₹ 2,500 each given to ten dealers who exceeded the sales target fixed under sales promotion scheme.
   c. ₹ 35,000 paid in cash to an advertising agency
2. Outstanding GST was paid on 14thjuly, 2023.
3. The firm is not evidenced by instrument
4. Other incomes of A ₹ 1,00,000 and B ₹ 81,000

You are required to compute for the AY 2023-24

Total income of the firm and tax liability of the firm on its total income.

(Total income ₹ 3, 40,500 and tax liability ₹ 86,080)

4. The profit and loss account of M/S XY pottery works for the year ending on 31st march, 2023 is:

Particulars	₹	Particulars	₹
Stock	1,50,000	Sales	4,50,000
Purchase	1,30,000	Stock	25,000
Penalties and fines	59,000	Rent from house property	12,000
Office expenses	4,000		
Selling expenses	10,000		
Interest to partners	6,000		
Net profit	1,28,000		
	4,87,000		4,87,000

Further information is as under:

1. Interest of ₹ 6,000 @ 8% has been paid to X on capital
2. Penalties and fines have been levied because of illegal sale and purchase of raw materials
3. Remuneration payable to partners: X ₹ 2, 00,000 and Y ₹ 1, 00,000 has not been debited to profit and loss account.
4. X and Y are equal partners in the firm

Compute tax payable by the firm and the total income of the partners.

(Book profit ₹ 1, 75,000, GTI ₹ 25,900, Tax payable ₹ 8,080 and Income of partner X ₹ 1, 11,000 and Y ₹ 52,500)

5. A and B are partners in a firm assessed as such. They share profits and losses in the ratio of 60% and 40% respectively. The firm runs a small –scale industrial undertaking. The profit and loss account for the financial year 2022-23 is as under:

Particulars	Rs	Particulars	Rs
Salaries and wages	5,00,000	Gross profit	14,50,000
Advertisement	2,00,000	LTCG	4,00,000
Travelling expenses	1,50,000	Recovery of bad debts	50,000
Depreciation as IT act	80,000		
Approved donation by cheque	70,000		
Interest payable	2,00,000		
General expenses	4,00,000		
Net profit	3,00,000		
	19,00,000		19,00,000

Additional information:

1. 25% plant and machinery of the industrial undertaking is old.
2. Salaries and wages include the sum ₹ 90,000 and ₹ 60,000 paid to A and B respectively
3. Interest payable includes:
   a. Interest to A on a deposit made by his minor son X amounting to ₹ 30,000 @ 15% ₹ 30,000 is the amount of interest.
   b. Interest to B amounting to ₹ 30,000@ 12%
   c. Interest of ₹ 10,000 payable to industrial development bank of India on loan taken for the industrial undertaking.
4. Travelling expenses include visit of A to Mumbai for business purpose for 15 days where his hotel bill was ₹ 5,000 per day.
5. Salary and interest payments have been authorized by partnership deed.
6. Y a minor son of B has been admitted to the benefits of partnership in another firm. He has received salary and interest amounting to ₹ 40,000 and ₹ 15,000 from that firm out of which salary of ₹ 10,000 and interest of ₹ 5,000 has been disallowed to the firm
7. Income from mutual fund (gross) : A ₹ 30,000 B ₹ 50,000
8. A purchased NSC VIII issue on 31 march 2023 for ₹ 40,000 and B deposited ₹ 60,000 in public provident fund during the financial year 2022-23

Compute for the AY 2023-24 (a) total income of the firm (b) tax liability of the firm on its total income, (c) total income of the partners.

(Total income ₹ 4, 76,500, Tax liability ₹ 1, 07,070incomes of A ₹ 78,500 and B ₹ 38,500)

Answer MCQ

1	2	3	4	5	6	7	8	9	10
A	A	A	D	A	B	B	B	C	A
11	12	13	14	15					
B	B	B	B	D					

❑❑❑

Chapter 15

TAX DEDUCTION OR COLLECTION AT SOURCE

SECTION-WISE STUDY

Section	Particular
192	Salary
192A	Premature EPF withdrawal
193	Interest on securities
194	Payment of any dividend
194A	Interest other than "Interest on securities"
194A	Interest other than "Interest on securities" u/s 193
194B	Income by way of winnings from lotteries, crossword puzzles, card games and other games of any sort
194BA	Income from online games
194BB	Income from horse races
194C	Payment to contractor/sub-contractor (HUF/Individuals)
194C	Payment to contractor/sub-contractor (Others)
194D	Insurance commission (Domestic Companies)
194D	Insurance commission (Other than companies)
194DA	Payment in respect of life insurance policy
194E	Payment to non-resident sportsmen/ sports association
194EE	Payment in respect of deposit under National Savings scheme
194F	Payment on account of repurchase of unit by Mutual Fund or Unit Trust of India
194G	Commission, etc., on sale of lottery tickets
194H	Commission or brokerage
194-I	Rent - Plant & Machinery
194-I	Rent - Land or building or furniture or fitting
194-IA	Payment for transfer of immovable property other than agricultural land

194-IB	Payment of rent by individual or HUF not liable to tax audit
194-IC	Payment that are made under Joint Development Agreement (JDA) to Individual/HUF
194J	Amount paid towards fees for technical services
194J	Amount paid as royalty for sale/distribution/exhibition of cinematographic films
194J	Amount paid by way of fee for professional services
194K	Income in respect of units payable to resident person, example- dividends
194LA	Payment of compensation on acquisition of certain immovable property
194LB	Payment of interest on infrastructure bonds to Non-Resident Indians
194LC	Payment of interest by an Indian Company or a business trust in respect of money borrowed in foreign currency under a loan agreement or by way of issue of long-term bonds
194LD	Payment of interest on rupee denominated bond of an Indian Company or Government securities toa Foreign Institutional Investor or a Qualified Foreign Investor
194LBA(1)	Certain income distributed by a business trust among its unit holder
194LBB	Investment fund paying an income toa unit holder
194LBC	Income in respect of investment made in a securitisation trust
194M	Payments by Individual/HUF not liable to deduct TDS under Section194C, 194H, and 194J
194N	Cash withdrawal exceeding a certain amount
194N	Cash withdrawal for those persons who have not filed ITR for three previous years immediately preceding the previous year
194O	Payment by the e-commerce operator to e-commerce participant
194P	Deduction of tax by specified bank in case of senior citizen having age of 75 or more
194R	Perquisite or benefit to a business or profession
194S	Payment on transfer of Virtual Digital Asset
195	Income in respect of investment made by a Non-resident Indian Citizen
195	Income by way of long-term capital gains referred to in Section 115E in case of a Non-resident Indian Citizen
195	Income by way of long-term capital gains referred to in sub-clause (iii) of clause (c) of sub-Section (1) of Section 112
195	Income by way of long-term capital gains as referred to in Section 112A
195	Income by way of short-term capital gains referred to in Section 111A
195	Any other income by way of long-term capital gains
196B	Income from units (including long-term capital gain on transfer of such units) to an offshore fund
196C	Income from foreign currency bonds or GDR of an Indian company (including long-term capital gain on transfer of such bonds or GDR)
196D	Income of foreign Institutional Investors from securities
206C	Tax collection at source

INTRODUCTION

A person is responsible for making payment of income, is also responsible to deduct tax at source and deposit the same to the Government treasury within stipulated time. The recipient of income will get only net amount after deduction of tax. Although recipient gets only net amount but he is liable to pay tax on gross amount and TDS is adjusted against tax liability.

SECTION 190: DEDUCTION AND ADVANCE PAYMENT

Although an assessee has to assess his income in the assessment year, but as per section 190 of income tax act tax on such income is payable in the previous year itself in the following manner:

(i) Tax deducted at source (TDS): Tax is deducted by payer from the amount paid to payee and it is deposited in the government treasury by the payer on behalf of the payee.

(ii) Tax collected at source (TCS) : In certain cases, tax is collected at source by the seller from buyer or a person from his license/lessee etc. at the time of debiting the amount to account of buyer/licensee/lessee or the receipt of payment whichever is earlier.

(iii) Advance tax : An assessee has to pay advance tax in installments in previous year itself as prescribed dates and percentage.

The taxes paid as advance tax or deducted or collected in the previous year itself are known as prepaid taxes. Such prepaid taxes are deductible from the total tax due from the assessee.

Persons liable to deduct tax at sources:

Any person, other than an individual or HUF has responsibility for TDS on all payment mentioned under section 192 to 206C.

In case of individual and HUF is covered under section 44AB (a) or (b) regarding audit i.e., whose gross receipt does not exceed 5% of gross receipts and cash payment does not exceed 5% of total payments from total sales in case carrying business or Rs. 50,00,000 from gross receipt in case of carrying profession then such individual or HUF is also liable to deduct tax at source during the previous year 2023-24.

PAN of recipient:

It has been provided in the act that if recipient fails to provide his/her PAN before the date of actual payment then rate of TDS will be 20% whatever the rate of TDS is mentioned in the act. Recipient should always provide PAN in his own interest as it will be easier to provide tax credit of TDS in his own assessment.

Deduction of tax from Salary (Section 192):

Section	Income	Threshold Limit	TDS Rate
192	Salary	Slab rates	As per tax slab

Any person who is responsible for paying any income chargeable under the head salary is liable to deduct tax under section 192. Tax shall be deducted at the time of payment on the estimated income of the employee for that financial year. The TDS is to be made at the average of income tax computed on the basis of the rates in force for the financial year in which the payment is made.

Steps of calculation of TDS on salary:

(A) First of all, Basic salary and all taxable allowances, taxable perquisites, bonus, gratuity, pension, compensation etc. will be added.

(B) House rent allowance will be exempted as per rules but if rent paid by the employee is more than 3,000 per month then the employee should produce a certificate of rent paid to the employer. Employee has to provide name, address and permanent account number of the landlord/landlords where the aggregate rent paid during the previous year exceeds ₹ One lac. Exemption pertaining to house rent allowance shall be calculated by the employer on the basis of specified limits provided by section 10(13A).

(C) The value of perquisites to be calculated and included in taxable salary as per rule 3.

(D) An employer shall have an option to pay tax on behalf of an employee without making any deduction from his income on the income in nature of perquisites, where theses are not provided for by way of monetary payment.

For the purpose of paying tax by the employer, tax shall be determined at the average of income tax computed on the basis of the rates in force for the financial year, on the income chargeable under the head 'salaries' including the value of non-monetary perquisites and the tax so payable shall be construed as if it were, a tax deductible at source from the income under the head 'salaries'.

(E) If amount payable on retirement as provident fund which is taxable and more than ₹ 50,000 then the tax will be deducted at source @ 10% on amount payable.

(F) If salary is received in foreign currency then employer will convert it into Indian currency.

(G) If employee withdraw the amount of provident fund before completion of 5 years and same is more than by ₹ 50,000 then the tax will be deducted at source @ 10% on amount payable.

(H) The employer has to estimate the tax liability from salary income and other incomes earned by employee (if information are provided) and same should be deducted in 12 monthly equal installments.

(I) Deferring TDS or tax payment in respect of income pertaining to Employee Stock Option plan (ESOP) of start-ups [Sub-section 1(c) inserted under section 192 [w.e.f. assessment year 2021-22]:

ESOPs have been a significant component of the compensation for the employees of start-ups, as it allows the founder and start-ups to employ highly talented employees at a relatively low salary with balance being made up via ESOP

Currently ESOs are taxed as perquisites under section 17(2) of the Act read with rule 3(8)(iii) of the Rules. The taxation of ESOPs is split into two components:

(i) Tax on perquisites as income from salary at the time of exercise.

(ii) Tax on income from capital gain at the time of sale.

The tax on perquisites is required to be paid at the time of exercising of option which may lead to cash flow problem as these benefits of ESOP is in kind.

In order to ease the burden of payment of taxes by the employees of the eligible start ups or TDS by the start up employer, the finance act, 2020, has inserted sub section (1C) in section 192 to clarify that for the purpose of deducting or payment tax under section 192(1) or 192(1A) thereof, as the case may be, a person, being an eligible start-up referred to in section 80IAC, responsible for paying any income to the assessee being perquisite of the nature specified in section 17(2)(vi), in any previous year relevant to the assessment year 2021-22 or subsequent assessment year, deduct or pay as the case may be, tax on such income within 14 days-

(i) After the expiry of 48 months from the end of the relevant assessment year, or

(ii) From the date of the sale of such specified, security or sweat equity share by the assessee; or

(iii) From the date of which the assessee ceases to be the employee of the person. Whichever is the earlier on the basis of rates in force of the financial year in which the said specified security or sweat equity share is allotted or transferred.

(J) Deductions from gross salary under section 16 : Following deductions to be allowed:

(a) Standard deduction of ₹ 50,000 will be allowed to individual salaried employees;

(b) Entertainment allowance only for government employees under section 16(ii);

(c) Employment tax paid during the year under section 16(iii).

(K) Income or loss of house property head: Maximum loss allowed in this head is ₹ 2,00,000. There are two types of loss in this head and both are allowed while computing TDS from salary. First one is adjustment of interest of self occupied property. If employee has paid interest on loan taken for the purpose of purchase or construction of a house for his own residence.

Here it is important that if assessee opts for new tax regime there will be no loss from self occupied property as interest on loan for house allowed to be set off. This loss cannot be set off from other heads of income but will be carried forward and set off according to the provision section 71(B).

(L) Loss of any other head or source is not allowed to set off for the purpose of TDS from salary.

(M) Other incomes of employee: An employee (at his option) can declare his other incomes to the employer. He cannot declare negative incomes (except house property loss).

(N) Deductions under section 80C to 80U:

		Old tax regime	New tax regime
(i)	For investment in PF, PPF, LIC, NSC, KVP, tax saver mutual fund etc. upto ₹ 1,50,000 [Section 80C]	Allowed	Not Allowed
(ii)	For deposit in pension scheme of LIC [Section 80CCC] upto ₹ 1,50,000	Allowed	Not Allowed
(iii)	For employee own contribution to New pension scheme [Section 80CCD(1)] upto ₹ 1,50,000	Allowed	Not Allowed
(iv)	Total of deduction under section 80C, 80CCC and 80CCD(1) will not exceed ₹ 1,50,000	Allowed	Not Allowed
(v)	For employers contribution to new pension scheme [Section 80CCD(2)]	Allowed	Allowed
(vi)	Additional deduction of ₹ 50,000 for contribution in new pension scheme [Section 80CCD(1b)	Allowed	Not Allowed
(vii)	For medical insurance premium, preventive health check up and medical expenditure incurred on the health [Section 80D]	Allowed	Not Allowed
(viii)	Expenditure for maintenance including medical treatment of dependent handicapped person [Section 80DD]	Allowed	Not Allowed
(ix)	Expenditure for treatment of special diseases [Section 80DDB]	Allowed	Not Allowed
(x)	Amount of interest paid for education loan for higher education [Section 80E]	Allowed	Not Allowed
(xi)	Interest on loan to acquire to new residential house property [Section 80EEA]	Allowed	Not Allowed

(xii)	Interest on loan to purchase electronic vehicle [Section 80EEB]	Allowed	Not Allowed
(xiii)	Donations not subjected to qualifying amount [Section 80G]: The benefit of deduction under section 80G can only be claimed through the employer in case the donation is made only to the funds of which deductions are allowed without any maximum limit.	Allowed	Not Allowed
(xiv)	For rent paid by employee [Section 80GG]	Allowed	Not Allowed
(xv)	Donation for scientific research and rural development [Section 80GGA]	Allowed	Not Allowed
(xvi)	For interest on saving bank deposit account [Section 80TTA]	Allowed	Not Allowed
(xvii)	Deduction in respect of interest on deposit in case of senior citizens [Section 80TTB]	Allowed	Not Allowed
(xviii)	For blind and handicapped employees [Section 80G]	Allowed	Not Allowed

(O) Salary from more than one employer where during the financial year, an assessee:

(a) Is employed simultaneously under more than one employer, or

(b) Has changed the employment during the previous year.

He may furnish to the employer of his choice or the subsequent employer such details of salaries due or received by him from other employer(s), the tax deducted at source there from and such other particulars as may be prescribed in form No. 12B. In this case, the employer, so chosen, shall take into account these details while making deduction of tax at source.

(P) Employer to furnish a statement to employee [Section 192(2C)]: A person responsible for paying any income chargeable under the head 'Salaries' shall furnish to the person to whom such payment is made, a statement giving correct and complete particulars of perquisites or profits in lieu of salary provided to him and the value thereof in Form No. 12BA, if the amount of salary paid or payable to the employee is more than ₹ 1,50,000.

Salary for this purpose shall have the same meaning as is given in rule 3 for valuation of rent free accommodation.

(Q) CBDT rules to be followed for deduction of tax at source:

Every year CBDT issues a circular giving guidelines to be followed by employers in computing tax to be deducted at source from salary. These guidelines are to be taken into consideration while computing taxable salary for the purpose of deduction of tax at source.

(R) Computation of tax liability

Tax rates for previous year 2023-24 are as follows:

Old tax regime

Super senior citizen (age 80 years or more)

	Tax rates
First ₹ 5,00,000	Nil
Next ₹ 5,00,000	20%
Balance over ₹ 10,00,000	30%

Senior Citizens (age 60 years or more but less than 80 years)

	Tax rates
First ₹ 3,00,000	Nil
Next ₹ 2,00,000	5%
Next ₹ 5,00,000	20%
Balance over ₹ 10,00,000	30%

For male or female below 60 years or NRI

	Tax rates
First ₹ 2,50,000	Nil
Next ₹ 2,50,000	5%
Next ₹ 5,00,000	20%
Balance over ₹ 10,00,000	30%

New tax regime for all individuals/HUF

	Tax rates
First ₹ 3,00,000	Nil
Next ₹ 3,00,000	5%
Next ₹ 3,00,000	10%
Next ₹ 3,00,000	15%
Next ₹ 3,00,000	20%
Balance over ₹ 15,00,000	30%

(S) Rebate under section 87A:

Old tax regime: For the assessment year 2024-25 under section 87A an assessee, being an individual resident in India, whose total income does not exceed ₹ 5,00,000, shall be entitled to a rebate from the amount of income tax, of an amount equal to 100% of such income tax or an amount of ₹ 12,500 whichever is less.

New tax regime: the amount of rebate under section 87A for financial year 2023-24 has been modified. A resident individual with taxable income upto ₹ 7,00,000 will received a ₹ 25,000 tax relief. Means an assessee being an individual resident in India, whose total income does not exceed ₹ 7,00,000 shall be entitled to a rebate from the amount of income tax, of an amount equal to 100% of such income tax or an amount of ₹ 25,000 whichever is less under new tax regime.

(T) Surcharge :

Income	%
Below 50 Lacs	Nil
50 Lac to 1 crore	10%
1 crore to 2 crore	15%
2 crores to 5 crores	25%
Above ₹ 5 crores	37%

(U) Marginal relief: The total amount payable as income tax and surcharge on total income exceeding ₹ 50 lacs or ₹ 1 crore or 2 crores or ₹ 5 crores shall not exceed the total amount payable as income tax (either without surcharge or surcharge at lower rate, as the case may be) on a total income of ₹ 50 lacs or 1 crores or 2 crores or 5 crores by more than the amount of income that exceeds ₹ 50 lacs or 1 crores or 2 crores or 5 crores.

(V) Health and Education Cess: On the amount of tax and surcharge (after marginal relief, if any) a health and education cess @ 4% will also be added. Now the amount so arrived will be tax liability of an individual.

(W) If employee does not provide PAN to employer than the amount of TDS will be at above normal rates or TDS @ 20% on income after basic exemption limit whichever is more.

ILLUSTRATION 15.1

Name of assessee	Mr. Vijay
Income from salary (Computed) per annum	18,00,000
Investment in PPF	1,30,000
Employee's contribution to NPS	50,000
Employer's contribution to NPS	50,000

Determine the amount of tax to be deducted at source every month by the employer if:

(a) Vijay does not opt for new tax regime

(b) Vijay opts for new tax regime under section 115BAC.

Solution:

Computation of total income of Mr. Vijay for the assessment year 2024-25

	Old tax regime	New tax regime
Income from Salary (computed)	18,00,000	18,00,000
Gross total income	18,00,000	18,00,000
Less: Deduction under section		
80C	1,50,000	Nil
80CCD(1b) ₹ 50,000 (₹ 20000 taken in 80C)	30,000	Nil
80CCD(2) Employer's contribution to NPS	50,000	50,000
Total income	15,70,000	17,50,000

(a) Computation of tax under old tax regime

First ₹ 2,50,000		Nil
Next ₹ 2,50,000	2,50,000 x 5%	12,500
Next ₹ 5,00,000	5,00,000 x 20%	1,00,000
Balance (15,70,000 – 10,00,000)	5,70,000 x 30%	1,71,000
		2,83,500
Add: Health and Edu. Cess 4%		11,340
Tax payable		2,94,840

Per month TDS = $\frac{2,94,840}{12} = 24,570\ per\ month$

(b) Computation of tax under new tax regime

First ₹ 3,00,000		Nil
Next ₹ 3,00,000	3,00,000 x 5%	15,000
Next ₹ 3,00,000	3,00,000 x 10%	30,000
Next ₹ 3,00,000	3,00,000 x 15%	45,000
Next ₹ 3,00,000	3,00,000 x 20%	60,000
Balance (17,50,000 – 15,00,000)	2,50,000 x 30%	75,000
		2,25,000
Add: Health and Edu. Cess 4%		9,000
Tax payable		2,34,000

Per month TDS = $\frac{2,34,000}{12} = 19,500\ per\ month$

EXERCISE 15.1

Name of assessee	Mr. Prakash
Salary received	2,00,000 per month
Investment in PF	1,90,000
Additional investment in NPS	50,000
Employer contribution to NPS	2,00,000
Interest on loan taken for purchase of self occupied house	1,70,000

Determine the amount of tax to be deducted at source every month by the employer if:

(a) Prakash does not opt for new tax regime

(b) Prakash opts for new tax regime under section 115BAC.

Solution:

Computation of total income of Mr. Prakash for the assessment year 2024-25

	Old tax regime	New tax regime
Income from Salary		
Salary received (2,00,000 x 12)	24,00,000	24,00,000
Employer contribution to PF	2,00,000	2,00,000
Gross salary	26,00,000	26,00,000
Less: Standard Deduction	50,000	50,000
Net Salary	25,50,000	25,50,000
Income from House Property		
GAV/NAV	0	0
Less: Interest on loan	1,70,000	0

Income from house property	(1,70,000)	0
Gross total income	23,80,000	25,50,000
Less: Deduction under section		
80C	1,50,000	Nil
80CCD(1b) ₹ 50,000	50,000	Nil
80CCD(2) Employer's contribution to NPS	2,00,000	2,00,000
Total income	19,80,000	23,50,000

(a) Computation of tax under old tax regime on total income of ₹ 19,80,000

First ₹ 2,50,000		Nil
Next ₹ 2,50,000	2,50,000 x 5%	12,500
Next ₹ 5,00,000	5,00,000 x 20%	1,00,000
Balance (19,80,000 – 10,00,000)	9,80,000 x 30%	2,94,000
		4,06,500
Add: Health and Edu. Cess 4%		16,260
Tax payable		4,22,760

Per month TDS = $\frac{4,22,760}{12} = 35,230\ per\ month$

(b) Computation of tax under new tax regime on total income of ₹ 23,50,000

First ₹ 3,00,000		Nil
Next ₹ 3,00,000	3,00,000 x 5%	15,000
Next ₹ 3,00,000	3,00,000 x 10%	30,000
Next ₹ 3,00,000	3,00,000 x 15%	45,000
Next ₹ 3,00,000	3,00,000 x 20%	60,000
Balance (23,50,000 – 15,00,000)	8,50,000 x 30%	2,55,000
		4,05,000
Add: Health and Edu. Cess 4%		16,200
Tax payable		4,21,200

Per month TDS = $\frac{4,21,200}{12} = 35,100\ per\ month$

- **Section 192A : TDS on Premature EPF withdrawal**

Section	Income	Threshold Limit	TDS Rate
192A	Payer of interest on securities Payee/Recipient : a resident person holding securities	Threshold limit ₹50,000	TDS @ 10% , Without a PAN number is now 20%

Securities on which interest is not subject to tax deduction:

(a) Debenture issued by any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank) or any other institution or authority or a public sector company notified by the Central Government.

(b) Any security of the Central/State Government [However, interest exceeding ₹ 10,000 payable during a financial year on 8% savings (taxable) bonds, 2003 or 7.75% savings (taxable) bonds 2018 (popularly known as relief bonds) are subject to deduction at sources);

(c) Securities beneficially owned by the Life insurance Corporation of India or the General Insurance Corporation of India or to any of the four companies formed by virtue of the schemes framed under section 16(1) of the General Insurance Business (nationalization) Act, 1972 or any other insurer;

(d) Interest on debenture upto ₹ 5,000 paid or payable by a widely held company by an account payee cheque to a resident individual or a resident Hindu Undivided family, and

(e) Any listed demat securities;

(f) 4¼ % of National defence bonds 1972 where the bonds are held by a resident individual.

(g) Interest on investment from Armed force fund

(h) 4% National defence loan, 1968 and 1972

(i) 7-year National saving certificates (IV issue);

(j) National development bonds

(k) If the holder furnishes a declaration in writing in duplicate in Form No. 15G verfified in the prescribed manner to the payer of such income to the effect that the tax on his estimated total income will be Nil and the interest on securities and dividend will not be exceed by ₹ 50,000 than there will be no TDS.

- **Section 193 : TDS from interest on securities**

Section	Income	Threshold Limit	TDS Rate
193	Interest on securities	Threshold limit ₹ 10,000	TDS rate 10%

- **Section 194 : TDS on Payment of any dividend**

Section	Income	Threshold Limit	TDS Rate
194	The Principal officer of an Indian company or a company which has made the prescribed arrangements for the declaration and payment of dividend (including dividend or preference share) within India	Threshold limit ₹ 5,000	TDS rate 10%

Recipient: Resident share holders

Situations No TDS or Lower TDS :

(A) No tax to be deducted at source:

(1) Where the dividend is payable to a shareholder :

(a) Who is an individual;

(b) It is paid by any mode other than cash; and\

(c) The amount of such dividend or, as the case may be, the aggregate amount of such dividend distributed or paid or likely to be distributed or paid during the financial year by the company to the shareholder does not exceed ₹ 5,000.

(2) Where the dividend is credited or paid to –

(a) Life Insurance Corporation of India

(b) General Insurance Corporation of India or any of four companies formed under it;

(c) Any other insurer

(d) A "business trust", by a special purpose vehicle referred to in the Explanation to section 10(23FC);

(e) Any other person as may be notified by the Central Government in the official Gazette in this behalf.

In respect of shares owned by them, or in which they have full beneficial interest.

(B) Any Other case

(1) The recipient of dividend may apply to the Assessing Officer in new form No. 13 and obtain from him such certificate, as may be appropriate, authorising the payer either not to deduct tax at all or to deduct tax at a lower rate [Section 197];

(2) Where a self-declaration under form no. 15G/15H is furnished by a particular person [Section 197A(1A), (1B) and 1(C)] : A person, other than a company or firm may furnish a declaration in writing in duplicate in new form no. 15G to the payer to the effect that there is no tax payable on his total income. In this case, the payer shall not deduct any tax at source.

- **Section 194A TDS on Interest other than "Interest on securities"**

Section	Income	Threshold Limit	TDS Rate
194A	Any person paying interest other than, interest on securities (not being an individual or a Hindu Undivided family whose total sales, turnover or gross receipts from the business or profession carried on by him exceeds ₹ 1 crore in the case of business or ₹ 50 lacs in the case of profession during the financial year immediately preceding the financial year in which the income to be credited or paid).	40,000 50,000 (For senior citizens)	10%

No TDS on following interest :

(a) Where the amount of interest credited or paid (or likely to be credited or paid) during a financial year does not exceed for the previous year 2023-24:

(i) Interest paid or payable by bank/co-operative bank/post office ₹ 40,000 (₹ 50,000 if recipient is senior citizen);

(ii) Any other person ₹ 5,000

(b) Where interest is credited or paid to any banking company, co-operative bank, public financial institutions, the Life Insurance Corporation, the Unit Trust of India, an insurance company or a cooperative society carrying on the business of insurance or (or institutions notified before April 1, 2020);

(c) Where interest is credited or paid in respect of deposits (other than time deposits) with a banking company or (interest to non-members on deposit) with a co-operative bank;

(d) Where interest is credited or paid in respect of deposit (by non-members) with a primary agricultural society etc;

(e) Where interest is credited or paid by the firm to its partner or partners;

(f) Interest referred to in section 10(23FC);

(g) Where interest is credited or paid by the Central Government under different provisions of the direct taxes;

(h) Where interest is credited or paid in respect of deposit under the schemes of Post Office(Time deposits), Post office (Recurring deposits), Post office monthly income account, Kisan Vikas Patra, National Saving certificates VIII issue and Indira Vikas Patra;

(i) Interest paid or payable by an offshore banking unit on deposits (or borrowings) made on or after April 1, 2005 by a person who is resident but not ordinarily resident in India.

(j) Where income is payable in relation to Zero coupon bonds by an infrastructure capital company or infrastructure capital fund or infrastructure debt fund or public sector company or scheduled bank;

(k) Where interest is credited or paid by a co-operative society (other than a co-operative bank) to its members or to any other co-operative society;

(l) Where interest is credited on compensation awarded by the Motor Accidents claims Tribunal if the amount of payment or the aggregate amount of such payment does not exceed ₹ 50,000.

- **Section 194B: TDS on winning from lottery, crossword puzzle, card game**

Section	Income	Threshold Limit	TDS Rate
194B	The person responsible for paying to any person any income by way of winning from any lottery or crossword puzzle, card game and other game of any sort	10,000	30%

Note:

(1) TDS when winning are wholly in kind or partly in cash and partly in kind: Where the winning are wholly in kind or partly in kind and partly in cash but the part of cash is not sufficient to meet the liability of deduction of tax in respect of whole of the winnings, the person responsible for paying shall before releasing the winning ensure that tax has been paid in respect of winning. This prizes offered in various contests in tele-serials, in lucky draws for promoting sales of NSCs, KVP etc. and similar sales promotion activity will attract provisions of TDS.

(2) "Lottery" includes winning from prizes awarded to any person by draw of lots or by chance or any other manner whatsoever under any scheme or arrangement by whatever name called.

(3) "Card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

(4) Lower TDS provisions are not applicable for this section.

- **Section 194BA : Income from online games**

Section	Income	Threshold Limit	TDS Rate
194BA	Income from online games	NA	30%

- **Section 194BB: TDS on winning from horse races**

Section	Income	Threshold Limit	TDS Rate
194BB	Any person paying winnings from horse race to any person.	10,000	30%

Note: Lower TDS provisions are not applicable for this section.

- **Section 194C: TDS on Payment to contractor/sub-contractor (HUF/Individuals)**

Section	Income	Threshold Limit	TDS Rate
194C	Any of the following persons responsible for paying any sum to a resident contractor is supposed to deduct tax at source under section 194C, if the other conditions are satisfied	Single contract or payment 30,000 Aggregate contract or payment 1,00,000	1%
		Single contract or payment 30,000 Aggregate contract or payment 1,00,000	2%

(a) The Central Government and any State Government; or

(b) Any local authority; or

(c) Any corporation established by or under a Central, State or Provincial Act; or

(d) Any company ; or

(e) Any co-operative society; or

(f) Any authority, constituted in India by or under any law, engaged either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both; or

(g) Any society registered under the Societies Registration Act; or

(h) Any trust; or

(i) Any university or an institution declared to be a university; or

(j) Any Government of a foreign state or a foreign enterprise or any association or body established outside India or

(k) Any firm;

(l) Any individual or a Hindu Undivided family or an AOP or a BOI.

Meaning of work [Explanation (iv) to section 194C(7)(iv)]:

(a) Advertising

(b) Broadcasting and telecasting including production of programmes for such broadcasting or telecasting;

(c) Carriage of goods or passengers by any mode of transport other than by railways;

(d) Catering;

(e) Manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, being a person placed similarly in relation to such customer as is the person placed in relation to the assessee under the provisions contained in section 40A(2)(b).

No TDS [Section 194C(5)]: In the following cases tax is not required to be deducted at source. No deduction shall be made from the amount of any sum credited or paid or likely to be credited or paid to the account of or to the contractor, if such sum does not exceed ₹ 30,000.

However, where the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the financial year exceeds ₹ 1,00,000, the person responsible for paying such sums shall be liable to deduct income tax under this section.

Thus, the tax will be required to be deducted at source where the amount credited or paid to a contractor exceeds ₹ 30,000 at one time or 1,00,000 in the aggregate during a financial year in spite of the factor that separate contracts are entered into with that person.

Transport operators: If recipient (may be an individual, firm, company or any other person) is a transport contractor (who is in the business of plying, hiring or leasing goods carriages) and satisfied the following conditions, tax is not deductible.

- Recipient owns 10 (or less than 10) goods carriages at any time during the financial year.
- He gives a declaration to this effect to the deductor.
- Besides, he furnishes his PAN to the deductor.

Deductors who make payments to transporters without deducting TDS (as they have quoted PAN) are required to intimate these PAN details to the Income tax department in the prescribed format [Form No. 26Q]

- **Section 194D: TDS on Insurance commission:**

Section	Income	Threshold Limit	TDS Rate
194D	Insurance commission (Domestic Companies)	15,000	10%
194D	Insurance commission (Other than companies)	15,000	5%

Any person paying insurance commission to a resident person.

Lower deduction: The recipient can made an application in form No. 13 to the assessing officer to get a certificate of lower TDS or no TDS.

- **Section 194DA TDS on life insurance policy:**

Section	Income	Threshold Limit	TDS Rate
194DA	Any person responsible for paying to a resident any sum under a life insurance policy (including bonus) to a resident person	1,00,000	5%

Note:

(1) Provisions of this section are not applicable if the payment is exempt in the hands of recipient under section 10(10D).

(2) No/lower TDS – If the recipient submits form no. 15G/15H under section 197A, tax is not deductible.

(3) In the following cases TDS provisions of section 194DA are applicable:

(a) Any payment under a keyman insurance policy;

(b) Any payment under section 80DD(3) or section 80DDA(3);

(c) Any payment under insurance policy issued during April 1, 2003 to March 31, 2012 where annual insurance premium is more than 20% of capital sum assured;

(d) Any payment under insurance policy issued after March 31, 2012 where annual insurance premium is more than 10% of capital sum insured.

(e) Any payment under insurance policy issued after March 31, 2023 to a person covered under section 80U or 80DDB where annual insurance premium is more than 15% of capital sum assured, or

(f) Any payment under unit linked plan (ULIP policy) issued on or after Feb 1, 2021 if insurance premium payable in any previous year during the term of such policy exceeds ₹ 2.50 lakh.

In case of death of a person, in case of point (c), (d), (e) and (f) above, tax is not deductible.

- **Section 194E: TDS on Payment to non-resident sportsmen/ sports association**

Section	Income	Threshold Limit	TDS Rate
194E	Payment to non-resident sportsmen/ sports association or foreign entertainer	NA	20%

Where any person is liable to pay any income to any non-resident and non-citizen sportsmen (including an athlete) or non-resident and non-citizen entertainer; tax rate + surcharge + cess all should be deducted at the time of credit of such income to the account of the payee or at the time of its payment there of in cash or by issue of cheque or draft or by any other mode, whichever occurs earlier. In the case of sportsman, the income must have been earned by way of:

(i) Participation in India in any game (excluding any card game and other games of gambling or betting) or sports or

(ii) Advertisement; or

(iii) Contribution of articles relating to any game or sports in India in newspapers, magazines or journals.

- **Section 194EE: TDS on Payment in respect of deposit under National Savings scheme**

Section	Income	Threshold Limit	TDS Rate
194EE	The person liable for paying to any person any amount standing to the credit of such person under National Saving Scheme (to which section 80CCA was applicable) together with interest with interest accrued thereon, shall deduct income tax there on such amount at the time of its payment	2,500	10%

Note:

- The provisions of this section are not applicable where the payment is made to legal heirs of the deceased deposit or
- A person, other than a company or firm may furnish in new form No. 15G or 15H to the payer for non-deduction of tax at source provided that conditions are satisfied.
- Form No. 15G or 15H shall not be valid if it does not contain the PAN of the declarant. In case any declaration becomes invalid, the deductor shall deduct the tax @ 20%.

- **Section 194F : TDS on Payment on account of repurchase of unit by Mutual Fund or Unit Trust of India**

Section	Income	Threshold Limit	TDS Rate
194F	Payment on account of repurchase of unit by Mutual Fund or Unit Trust of India	Threshold limit NA	20%

- **Section 194G: TDS on Commission, etc., on sale of lottery tickets**

Section	Income	Threshold Limit	TDS Rate
194G	Where any income by way of commission, remuneration or prize [by whatever name called] on lottery tickets if paid to a person who	15,000	5%

	has been stocking, distributing purchasing or selling lottery tickets, then the person responsible for paying such income shall deduct tax either at the time of its credit to the account of the payee or at the time of payment of such income in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.		

Note: No TDS/Lower TDS : The assessee can make an application in Form No. 13 to the assessing officer and obtain from him such certificate as may be appropriate authorising the payer to deduct tax at nil rate or at a lower rate.

- **Section 194H : TDS on Commission or brokerage**

Section	Income	Threshold Limit	TDS Rate
194H	Any person paying commission or brokerage (not being an individual or a HUF whose total sales, turnover or gross receipts on by him exceed ₹ 1 crore in case of business or ₹ 50 lacs in the case of profession during the financial year immediately preceding the financial year in which the income is to be credited or paid to any resident person	15,000	5%

Note:

(1) No TDS/Lower TDS: The recipient can make an application in form no. 13 to the assessing officer to get a certificate of lower tax deduction or no tax deduction.

(2) Meaning of commission or brokerage includes any payment received or receivables, directly or indirectly by a person acting on behalf of another person:

(a) For services rendered (not being professional services), or

(b) For any services in the course of buying or selling of goods, or

(c) In relation to any transaction relating to any asset, valuable article or thing, not being securities.

(3) The expression "professional services" means services rendered by a person in the course of carrying on a legal medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or such other profession as is notified by the board for the purpose of section 44AA.

- **Section 194-I : TDS on rent**

Section	Income	Threshold Limit	TDS Rate
194-I	Rent - Plant & Machinery	2,40,000	2%
194-I	Rent - Land or building or furniture or fitting	2,40,000	10%

Any person paying rent (not being an individual or a HUF whose total sales, turnover or gross receipts from the business or profession carried on by him exceeds ₹ 1 crore in the case of business or ₹ 50 lacs in the case of profession during the financial year immediately preceeding the financial year on which the rent is to be created or paid to a resident person.

Note: Meaning of rent: Rent means any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of (either separately or together) any –

(a) Land; or
(b) Building (including factory building) or
(c) Land appurtenant to a building (including factory building); or
(d) Machinery; or
(e) Plant; or
(f) Equipment; or
(g) Furniture or
(h) Fitting.

Where or not any or all of the above are owned by the payee.

- **Section 194IA : TDS on Payment for transfer of immovable property other than agricultural land**

Section	Income	Threshold Limit	TDS Rate
194-IA	Any person (being a transferee) liable for paying (other than the person referred to in section 194LA) to a resident transferor any sum by way of consideration property (other than agricultural land in rural area in India), is liable to TDS at the time of payment or at the time of giving credit or the transferor whichever is earlier.	50,00,000	1%

Note: TAN number is not required for this section for depositing the TDS to government.

- **Section 194IB: TDS on Payment of rent by individual or HUF not liable to tax audit**

Section	Income	Threshold Limit	TDS Rate
194-IB	An individual or a Hindu Undivided family [other than those referred to in the second proviso to section 194I i.e., who are not covered under the provisions of section 44AB (a) or (b)] responsible for paying to a resident any income by way of rent exceeding ₹ 50,000 for a month or part of a month during the previous year, shall deduct TDS.	50,000	5%

Note: For this section, assessee need not required TAN number for deposit TDS.

- **Section 194IC: TDS on Payment that are made under Joint Development Agreement (JDA) to Individual/HUF**

Section	Income	Threshold Limit	TDS Rate
194-IC	Any person responsible for paying to a resident (i.e., individual or HUF only) any sum by way of consideration, not being consideration in kind, under the agreement referred to in section 45(5A)	NA	10%

As per section 45(5A), there should be specified agreement entered into by the assessee being an individual or a HUF with the developer.

"Specified agreement" means a registered agreement in which a person owning land or building or both, agrees to allow another person to develop a real estate project on such land or building or both, in consideration

of a share being land or building or both such project whether with or without payment of part of the consideration in cash.

- **Section 194J: TDS on Fees for professional or technical services**

Amount paid towards fees for technical services		30,000	2%
Section	Income	Threshold Limit	TDS Rate
194J	Amount paid as royalty for sale/distribution/exhibition of cinematographic films	30,000	2%
194J	Amount paid by way of fee for professional services	30,000	10%

Any person other than an individual or HUF, who is responsible for paying to a resident any sum by way of :

(a) Fees for professional services,

(b) Fee for technical services,

(c) An remuneration or fee or commission by whatever name called, other than those or which tax is deductible under section 192, to a director for a company,

(d) Royalty or

(e) Any sum referred in section 28(va) which related to non-compete payment for not carrying out any activity in relation to any business or not sharing any know-how, patent copyrights, trade marks etc.

Meaning of professional services: 'Professional services' means services rendered by a person in the course of carrying on legal, medical engineering or architectural profession or profession of accountancy or technical consultancy or interior decoration or advertising or any other profession notified under section 44AA or under this section by CBDT.

'Fee for technical services' means any consideration (including any lumpsum consideration) for the rendering of any managerial, technical or consultancy services (including the provisions of services of technical or other personnel) but does not include consideration for any construction, assembly, mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head "Salaries".

Note:

- The recipient can me an application in Form No. 13
- Any fee paid through regular banking channels to any chartered accountant, lawyer, advocate or solicitor who is resident who do not have any agent or business connection or permanent establishment in India may not be subject to the provisions of tax deduction at source under section 194J.

- **Section 194K : TDS on Income in respect of units payable to resident person, example- dividends**

Section	Income	Threshold Limit	TDS Rate
194K	Any person responsible for making payment to a resident of any income in respect of units of a mutual fund or of UTI is liable to deduct tax at source	NA	10%

Note:

1. Recipient can make an application in Form No. 13 to the assessing officer to get a certificate of lower tax deduction or no tax deduction.
2. Recipient can submit a declaration in Form No. 15G or 15H under section 197A.

- **Section 194LA : TDS on Payment of compensation on acquisition of certain immovable property**

Section	Income	Threshold Limit	TDS Rate
194LA	If Government acquires the land and building (other than agricultural land) of a resident person and compensation is paid for the same or the compensation in increased by the court and payment in more than ₹ 2,50,000	2,50,000	10%

The provisions are not applicable when award is exempt from levy of income tax under section 96 of the Right to fair compensation and transparency in land acquisition, rehabilitation and resettlement Act 2013.

- **Section 194M : TDS on Payments by Individual/HUF not liable to deduct TDS under Section194C, 194H, and 194J**

Section	Income	Threshold Limit	TDS Rate
194M	Any person, being an individual or a HUF (other than those who are required to deduct income tax as per the provisions of section 194C, Section 194H or section 194J) responsible for paying any sum to any resident:	50,00,000	5%

(a) For carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract

(b) By way of commission (not being insurance commission referred to in section 194D) or brokerage or

(c) By way of fee for professional services

during the financial year.

- **Section 194N: TDS on Cash withdrawal exceeding a certain amount**

Section	Income	Threshold Limit	TDS Rate
194N	If any assessee withdraws the amount from banks, post office or co-operative society engaged in banking business more than ₹ 1 crore during the previous year then the tax will be deducted.	Co-operative society – 3 Crore, Others -1 crore	2%
194N	Cash withdrawal for those persons who have not filed ITR for three previous years immediately preceding the previous year	if exceeds ₹20 / if exceeds ₹ 1 crore	2% / 5%

- **Section 194O : TDS on Payment by the e-commerce operator to e-commerce participant**

Section	Income	Threshold Limit	TDS Rate
194O	Where sale of goods or provisions of services of an e-commerce participant is facilitated by an e-commerce operator through its digital or electronic facility or platform (by whatever name called) such e-commerce operator shall deduct TDS.	5,00,000	1%, Without PAN 5%

TDS time : at the time of credit of amount of sale or services or both to the account of an e-commerce participant or

At the time of payment thereof to such e-commerce participant by any mode, whichever is earlier.

Note:

(1) "E-commerce operator" means a person who owns, operates or manages digital or electronic facility or platform for electronic commerce. Ex, Flipkart, Amazon etc.

(2) "E-commerce participant" means a person resident in India selling goods or providing services or both, including digital products, through digital or electronic facility or platform for electronic commerce;

(3) For the purpose of sub-section (1) any payment made by a purchaser of goods or recipient of services directly to an e-commerce participant for the sale of goods or provision of services or both, facilitated by an e-commerce operator, shall be deemed to be the amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sale of services for the purpose of deduction of income tax under this sub-section.

(4) No TDS shall be deducted under this section, if all following three conditions are satisfied:

(a) E-commerce participant is an individual or HUF.

(b) Gross amount of sale or services or both during the previous year does not exceed ₹ 5 lakh

(c) E-commerce participant has furnished his PAN or AADHAR number to the e-commerce operator.

- **Section 194R : TDS on Perquisite or benefit to a business or profession**

Section	Income	Threshold Limit	TDS Rate
194R	Any person responsible for providing to a resident, any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession, by such resident, shall, before providing such benefit or perquisite, as the case may be, to such resident, ensure that tax has been deducted in respect of such benefit or perquisite.	20,000	10%

Note:

(1) When such benefit or perquisite:

- Is wholly in kind, or
- Partly in kind and partly in cash, but such part of cash is not sufficient to meet the liability of deduction of tax in respect of whole of such benefit or perquisite, then, the person responsible for

providing such benefit or perquisite shall, before releasing the benefit of perquisite, ensure that tax required to be deducted has been paid in respect of the benefit or perquisites.

(2) Non- applicability of this section : This section shall not apply:

- In case of a resident where the value or aggregate of value of the benefit or perquisite provided or likely to be provided to such resident during the financial year does not ₹ 20,000
- And the to a person being an individual or a HUF, whose total sales, gross receipts or turnover does not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, during the financial year immediately preceding the financial year in which such benefit or perquisite, is provided.

- **Section 194S : TDS on Payment on transfer of Virtual Digital Asset**

Section	Income	Threshold Limit	TDS Rate
194S	Any resident any sum by way of consideration for transfer of virtual digital asset, is responsible for deduction tax at source under section 194S. For meaning of "virtual digital asset",	Specified Persons- 50,000, Others- 10,000	1%

Note:

- Who is deductee - Any resident person who is recipient of consideration for transfer of a virtual digital a deductee under section 194S.
- Tax is deductible at the time of credit of consideration to the account of the residentpayee or at the time of payment of such sum by any mode, whichever is earlier.
- Specified person- "Specified person" means a person -
  a. being an individual/HUF [if his total sale/gross receipts/turnover does not exceed ₹ 1 crore (in the case of business) or ₹ 50 lakh (in the case of profession) during the financial year immediately preceding the financial year in which virtual digital asset is transferred;
  b. being an individual/HUF not having any income under the head "Profits and gains of business a profession"
- Non-applicability of section 203A/206AB – Provisions pertaining to TAX under section 203A and higher tax deduction in the case of non-filers under section 206AB shall not apply to a specified person.
- Overlapping between section 194O and 194S- In case of a transaction where tax is deductible under section 194O along with section 194S them the tax shall be deducted under section 194S.

- **Section 195 : TDS from Other sums**

  The provisions of section 195 are given below-

  Any person (resident or non-resident) responsible for making payment to a non-resident.

Section	Income	Threshold Limit	TDS Rate
195	**Income in respect of investment made by a Non-resident Indian Citizen**	**NA**	**20%**
195	Income by way of long-term capital gains referred to in Section 115E in case of a Non-resident Indian Citizen	NA	10%
195	Income by way of long-term capital gains referred to in sub-clause (iii) of clause (c) of sub-Section (1) of Section 112	NA	10%

195	Income by way of long-term capital gains as referred to in Section 112A	NA	10%
195	Income by way of short-term capital gains referred to in Section 111A	NA	15%
195	Any other income by way of long-term capital gains	NA	20%

- **Section 196A : TDS on any income payable to non-resident unitholders**

Section	Income	Threshold Limit	TDS Rate
196A	Any person responsible for paying to a non-resident (other than foreign company) or to a foreign company at the time of payment/credit.	NA	20%

- **Section 196B: TDS on Income from units (including long-term capital gain on transfer of such units) to an offshore fund**

Section	Income	Threshold Limit	TDS Rate
196B	Where any income is payable in respect of units referred to in section 115AB or by way of long-term capital gain arising from the transfer of such units to an Offshore fund, the person responsible for making the payment shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier.	NA	10%

- **Section 196C: TDS on Income from foreign currency bonds or GDR of an Indian company (including long-term capital gain on transfer of such bonds or GDR)**

Section	Income	Threshold Limit	TDS Rate
196C	Any person responsible for paying income/long-term capital gain from GDR/bonds	NA	10%

- **Section 196D : TDS on Income of foreign Institutional Investors from securities:**

Section	Income	Threshold Limit	TDS Rate
196D	Any person responsible for paying any income in respect of securities referred to in section 115AD(1)(a) (not being income referred to section 194LD) to a foreign institutional investor shall deduct tax thereon.	NA	20%

TAX COLLECTION AT SOURCE (SECTION 206C)

Under section 206C tax has to be collected at source on following transactions:

Profit and gains from the business of trading in Alchoholic liquor, Forest Product, etc.

(a) Sale of certain specified goods: Every person, being a seller shall, at the time of debiting of the amount payable by the buyer to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier, collect from the buyer as income tax, the sum specified in the following table on the goods mentioned therein:

Sr.	Nature of goods	Rate
1	Alcoholic liqour for human consumption	1%
2	Tendu leaves	5%
3	Timber obtained under a forest lease	2.5%
4	Timber obtained by any mode other than under a forest lease	2.5%
5	Any other forest produce not being timber or tendu leaves	2.5%
6	Scrap	1%
7	Minerals, being coal or lignite or iron ore	1%

No surcharge or health and education cess shall be added to the above rates. Hence, tax will be collected at source at the basic rate.

(b) **Sale of motor vehicle exceeding the value of ₹ 10,00,000 [Section 206C(1F)]:** Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10,00,000, shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 1% of the sale consideration as income-tax.

(c) **Parking lot, toll plaza or mining and quarrying [section 206C(1C)]:** Every person who grants a lease or a license or enters into a contract or otherwise transfers any right or interest either in whole or in part in-

- Any parking lot, or
- Toll plaza, or
- Mine or quarry

To another person, other than a public sector company for the use of such parking lot or toll plaza or mine or quarry for the purpose of business shall, at the time of debiting of the amount payable by the licesee or lessee to the account of the licensee or lessee or at the time of receipt of such amount from the licensee or lessee in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, collect from the licensee or lessee of any such licence, contract or lease of the nature specified in column (2) of the table below, a sum equal to the percentage, specified in the corresponding entry in column (3) of the said table of such amount as income tax:"

Sr. No.	Nature	Rate
1	Parking lot	2%
2	Toll plaza	2%
3	Mining and quarrying	2%

(d) Remittance out of India and on overseas tour programme package [Section 206C(1G)]

Every person-

(1) Being an authorized dealer, who receives an amount, for remittance out of India from a buyer, being a person remitting such amount out of India under the Liberalized remittance Scheme of the Reserve Bank of India;

(2) Being a seller of an overseas tour programme package, who receives any amount from a buyer, being the person who purchases such package,

Shall be responsible to collect tax at source.

TCS shall be collected at the time of debiting the amount payable by the buyer or at the time of receipt of such amount from the said buyer, by any mode, whichever is earlier.

5% of the amount or aggregate of the amounts in excess of ₹ 7,00,000 remitted by the buyer in a financial year.

(e) Seller to collect tax from consideration received from buyer [Section 206C(1H)] :

Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding ₹ 50,00,000 in any previous year other than the goods being exported out of India or goods covered in section 206C(1) or (1F) or (1G).

QUESTIONS

Multiple Choice Questions

Q1. The deduction of tax at source from the salary shall be made at the time of:
- (a) Accrual of salary
- (b) Payment of salary
- (c) Credit of payment of the salary, whichever is earlier
- (d) Credit or payment of the salary, whichever is later

Q2. Deduction of tax from salary as per section 190 shall be:
- (a) @10% of salary
- (b) @20% of salary
- (c) At the average rate of income tax computed on the basis of rates in force for the financial year in which the payment is made
- (d) At the maximum marginal rate of 30%

Q3. No deduction of tax at source on interest on listed debentures is to be done by the widely held company:
- (a) If the interest is paid by cheque
- (b) If the interest is paid by account payee cheque and the amount of interest paid or payable during the financial year does not exceed ₹ 5,000
- (c) Same as (b), but interest is paid or payable to an individual who is resident in India.
- (d) Same as (b), but interest is paid or payable to any person who is resident in India.

Q4. R has won a state government lottery of ₹1,00,000 on 11.10.2022. The state government should deduct tax on such winning amounting to:
- (a) ₹30,000
- (b) ₹33,000
- (c) ₹34,320
- (d) ₹31,200

Q5. P, an individual, whose turnover of the business for the preceding year exceeded ₹1 crore, has engaged a contractor for building his residential house. On 5.11.2022, p has made a payment of ₹1,00,000 to the contractor (an individual). P should deduct the tax at source amounting to:

(a) ₹2,060 b) ₹1,000
(c) ₹10,000 (d) Nil

Q6. S Ltd., a firm of contractors has given some works contract to R Ltd., a sub-contractor. On 6.10.2022, it has made a payment of ₹4,00,000 to R Ltd. S Ltd., should deduct tax amounting to

(a) ₹8,000 (b) ₹4,160
(c) ₹4,000 (d) ₹6,000

Q7. No tax is to be deducted at source if the amount credited/paid to the contractor during the relevant previous year does not exceed:

(a) ₹30,000
(b) ₹1,00,000
(c) ₹30,000 at one time or ₹1,00,000 in aggregate in the financial year
(d) ₹30,000 at one time or ₹1,25,000 in aggregate in the financial year

Q8. G Ltd., has taken a house on rent @ ₹15,000 p.m., from E an individual a salaried employee. G ltd., should deduct tax on account of such rent paid/credited amounting to

(a) ₹36,000 (b) ₹18,540
(c) ₹18,000 (d) Nil

Q9. A Ltd., has taken a showroom on rent @ ₹30,000 p.m. from B Ltd., should deduct tax at source amounting to:

(a) 27,000 (b) 56,160
(c) 36,000 (d) 37,440

Q10. Payment of ₹ 2,00,000 was made to Krishna Roadways Pvt. Ltd. owing nine heavy goods carriages and having PAN which was furnished by them to the payer of freight GG Carriers. the amount of tax to be deducted by the payer on such amount is ..... as per section.....

(a) ₹ 2,000 , 194C (b) ₹ 10,000, 194C
(c) ₹ 4,000, 194C (d) Nil because PAN furnished, 194C(6)

Q.11 The electronic payment of taxes is mandatory for :

(a) All corporate assessees
(b) Other assesses subject to compulsory audit u/s 44AB
(c) Both (a) and (b)
(d) None of above

Q.12 If a payee eligible for commission exceeding ₹ 50,000 does met furnish his PAN to the year, tax is deductible at source at

(a) Nil rate (b) 20%
(c) 10% (d) 30%

Q.13 The liability to deduct tax at source on insurance commission will arise when the commission paid or payable to an agent for the year exceeds –

(a) ₹ 5,000 (b) ₹ 10,000
(c) ₹ 15,000 (d) ₹ 20,000

Q.14 If a person responsible for deduction of tax at source, after deduction, fails to deposit the same into the Government treasury, be will be liable to pay interest @-

(a) 1% p.m. or part of the month (b) 1.5% p.m. or part of the month
(c) 2% p.m. or part of the month (d) 15% p.m. or part of the month

Q.15 Every person being Banking company or a Co-operative Society engaged in carrying on business of banking or a post-office shall deduct tax@2%, where the aggregate of sum in cash exceeds ₹…….. during the PY

(a) ₹ 50,000 (b) ₹ 2,50,000
(c) ₹ 10,00,000 (d) ₹ 5,00,000

Q.16 The quarterly return if TDS relating to payments made to non-resident and the foreign company being a unit holder of mutual funds is to be filed in return form number:

(a) 24Q (b) 27Q
(c) 26Q (d) 22Q

Q.17 The rate of collection of TCS on Tendu leaves is:

(a) 1% (b) 5%
(c) 2.5% (d) 2%

Q.18 Samar Purchased a "Honda Accord" car for ₹ 28,00,000 from a dealer. The dealer should collect tax at sources of ₹ ……..

(a) ₹ 56,000 (b) ₹ 1,40,000
(c) ₹ 28,000 (d) ₹ 5,600

Q.19 The form for filing TCS return is Form…..

(a) 27C (b) 27EQ
(c) 26EQ (d) 28EQ

Q.20 TCS is collected at the time of sale of certain goods other than Motor Vehicle when:

(a) Amount payable by the buyer (b) At the time of receipt of such amount
(c) (a) or (b) whichever is earlier (d) None of the above

Very Short Answer Type Questions

1. What do you mean by deduction of tax at source?
2. At what rate will the deduction of tax at source made on winning from horse rate?
3. Enumerate any two incomes on which tax is deducted at source.
4. Under which section, deduction of tax at source from salaries is made?
5. What do you mean by tax collected at source?

Short Answer Type Questions

1. At what rate TDS to be made on interest on securities?
2. State the rates of relating under section 194J.
3. State the rates relating to collection of tax at source.

Essay Type Questions:

1. What do you mean by deduction of tax source? Explain the provisions of the Income Tax Act about it.
2. What are the provisions regarding deduction of tax at source under the head "Salaries"?

3. Explain the provisions of TDS for interest on securities, dividend, lottery and horse race income.
4. What do you mean by TCS? Explain the provisions of the income tax act about it.

Answer MCQ

1	2	3	4	5	6	7	8	9	10
B	C	C	A	D	D	C	D	A	D
11	12	13	14	15	16	17	18	19	20
C	B	C	B	B	B	B	C	B	C

❑❑❑

Chapter 16

ADVANCE PAYMENT OF TAX

SECTION-WISE STUDY

Section	Particular
208	Scheme of advance tax
209	Advance tax liability
210	Procedure to pay advance tax
211	Due dates of payment of advance tax
234A	Interest for delay in filing the return of income
234B	Interest for default in payment of advance tax
234C	Interest for default in payment of instalment(s) of advance tax

INTRODUCTION

Generally, tax on the income earned in the previous year is paid in the respective assessment year, but in certain cases, an assessee may be required to pay tax during the previous year itself,as Advance tax. The scheme of advance tax is based on the concept "Pay as You Earn". Under this scheme assessee needs to estimate its income and tax liability of the previous year and pay tax on basis of such estimation in the previous year itself. For instance, income earned during the previous year 2022-23 is normally taxable in the assessment year 2023-24; however under the scheme of advance tax, assessee is required to pay tax on estimated income of previous year 2022-23 in the previous year itself.

SCHEME OF ADVANCE TAX (SEC.208)

Where the advance tax liability of the assessee is ₹ 10,000 or more he is liable to pay advance tax. Every assessee is liable for payment of advance tax.

> **Tutorial Note-** Sec.208 shall not apply to an individual person resident in India, who has attained the age of 60 years or more at any time during the previous year and has no taxable income in such business and profession head.

The following procedure is to be adopted to compute advance tax payment:

Computation of Advance Tax liability (Sec. 209)

Particulars	Amount
Estimated Gross Total Income	******
Less: Deduction under Chapter VIA	*****
Estimated Total Income	******
Gross tax liability on estimated total income	*****
Less. Rebate u/s 87 A	*****
Tax liability after Rebate	*****
Add. Surcharge (if applicable)	*****
Tax and surcharge payable	****
Add: Health & Education cess	*****
Tax liability after cess	*****
Less. Tax deducted or Collected at Source/ other Rebate & Relief	*****
Advance Tax Liability	*****

Procedure to pay Advance Tax

1. On Assessee's own assessment{Sec. 210 (1)}
2. On receipt of order from the Assessing officer {Sec.210(3) or (4)}

1. On Assessee's own assessment

Procedure	
1 Instalment	**Subsequent Installments**
✓ Calculate advance tax liability according to sec. 209	✓ Check if estimate of income made earlier requires revision
✓ Where the advance tax payable is ₹ 10,000 or more, an appropriate % thereof should be deposited	✓ If not, deposit appropriate amount of II , III & IV instalment of advance tax
	✓ If estimate of income needs revision, then make a revised estimate and compute tax liability thereon.
	✓ Determine advance tax payable after deducting amount paid in earlier instalment
	✓ Deposit such advance tax

2. On receipt of order from the Assessing Officer {Sec.210(3) or (4)}

a. In the case of a person who has been already assessed by way of a regular assessment in respect of the total income of any previous year, the Assessing Officer , if he is of the opinion that such person is liable to pay advance tax, may serve an order under section 210(3) requiring the assessee to pay advance tax.

b. For this purpose, the total income of the latest PY in respect of which the assessee has been assessed by way of regular assessment or the total income returned by the assessee in any return of income for any subsequent PY, whichever is higher, shall be taken as the basis for computation of advance tax payable.

c. The above order can be served by the AO at any time during the financial year but not later than the last date of February

Procedure to be followed by assessee on receipt of such order

Case	Advance tax to be paid by the assessee	Whether intimation to AO is required
Where income estimated by the AO is correct	On the basis of the order of the AO	No
Where assessee estimates his current income to be higher than that estimated by the AO	On the basis of his own estimate	NO
Where assessee estimates his current income to be lower than that estimated by the AO	On the basis of his own estimate	Yes, assessee shall submit his own estimate of current income to the AO

Tutorial note: As per sec. 210(4), AO can revise his order to pay advance tax at any time before 1 march of the relevant previous year.

Due date for payment of advance tax (Sec. 211)

Assessee	Due date of instalment (PY)	Minimum amount payable
An eligible assessee in respect of an eligible business referred to in sec.44 AD or 44 ADA	On or before March 15	100% of advance tax liability
Other Assessee	On or before June 15	Up to 15% of advance tax liability
	On or before September 15	Up to 45% of advance tax liability
	On or before December 15	Up to 75% of advance tax liability
	On or before March 15	Up to 100% of advance tax liability

Tutorial Notes:

1. Every income including capital gain, winning from lotteries, dividend, etc. Is subject to advance tax. However, it is not possible to estimate the capital gain, casual gain or dividend or where income under Head " Profits and gains of business or profession" accrues for the first time, therefore, where the assessee has paid the whole of the amount of tax payable in respect of such income- (a) as part of the remaining instalments of advance tax which were due; or (b) where no instalment were due, by March 31 of the FY immediately preceding the AY- then it is deemed that all the provisions compiled
2. While calculating advance tax , net agricultural income shall also be taken into consideration for computing tax liability
3. If any assessee does not pay any instalment within due date he shall be deemed to be an assessee in default in respect of such instalment (sec. 218)
4. Any sum, other than a penalty or interest, paid by an assessee as advance tax shall be treated as a payment of tax and credit for such shall be given to the assessee in the regular assessment (sec.219)

INTEREST ON NON-PAYMENT OF ADVANCE TAX

Under the Income-tax Act, different types of interests are levied for various kinds of delays/defaults. In this part, you can gain knowledge about the provisions of section 234A, 234B and 234C dealing with interest levied for (i) delay in filing the return of income; (ii) non-payment or short payment of advance tax; and (iii) non- payment or short payment of individual instalment or instalments of advance tax (ie, deferment of advance tax).

Manner of computation of interest under the Income-tax Act Before understanding the provisions of section 234A, 234B and 234C it is important to understand the provisions of Rule 119A which gives the manner of computation of interest under the Income-tax Act.

As per Rule 119A, while calculating the interest payable by the taxpayer or the interest payable by the Central Government to the taxpayer under any provision of the Act, the following rule shall be followed:

a) where interest is to be calculated on annual basis, the period for which such interest is to be calculated shall be rounded off to a whole month or months. For this purpose any fraction of a month shall be ignored and the period so rounded off shall be deemed to be the period in respect of which the interest is to be calculated;

b) where the interest is to be calculated for every month or part of a month comprised in a period, any fraction of a month shall be deemed to be a full month and the interest shall be so calculated;

c) the amount of tax, penalty or other sum in respect of which such interest is to be calculated shall be rounded off to the nearest multiple of one hundred rupees. For this purpose, any fraction of one hundred rupees shall be ignored and the amount so rounded off shall be deemed to be the amount in respect of which the interest is to be calculated.

E.g., If we want to compute interest under section 234A on ₹ 8,489 for 3 months and 10 days, then as per Rule 119A discussed above, while computing the amount liable to interest, any fraction of ₹ 100 is to be ignored and, hence, we will ignore ₹ 89 and the balance amount will come to ₹ 8,400. Interest will be computed on ₹8,400. Further, the period of 10 days will be considered as full month and, hence, interest will be computed for 4 months.

INTEREST FOR DELAY IN FILING THE RETURN OF INCOME [SECTION 234A]

Under section 234A, interest is levied for delay in filing, the return of income,filing of an updated return or filing of a return in response to notice issued undersection 142(1).

Basic Provisions

Interest under section 234A is levied for delay in filing the return of income. In other words, if the taxpayer files the return of income after the due date specified in this regard or files an updated return, interest under section 234A will be levied.

Rate of Interest

Interest under section 234A is levied for delay in filing the return of income. Interest is levied at 1% per month or part of a month. The nature of interest is simple interest. In other words, the taxpayer is liable to pay simple interest at 1% per month or part of a month for delay in filing the return of income.

Period of levy of interest under section 234A Interest under section 234A is levied from the period commencing on the date immediately following the due date of filing the return of income and ending on the

date of furnishing the return of income, or in case where no return has been furnished, on the date of completion of the assessment under section 144.

It should be noted that while computing the period of levy of interest, penalties fraction of a month is considered as full month.

Amount Liable to Interest under Section 234A

Interest under section 234A is levied on the amount of tax as determined under section 143(1) and where regular assessment is made, the tax on total income as determined under such regular assessment as reduced by advance tax, tax deducted/ collected at source, relief claimed under various sections like sections 89/90/90A/91 and tax credit claimed under section 115JAA/115JD.

Note:

1. Tax on total income determined under section 143(1) shall not include the additional income-tax, if any, payable under section 140B or section 143.
2. Tax on total income determined under regular assessment shall not additional income-tax payable under section 140B

INTEREST FOR DEFAULT IN PAYMENT OF ADVANCE TAX [SECTION 234B]

Section 234B provides for levy of interest for default in payment of advance tax

Basic Provisions

a) Interest under section 234B is levied in following two cases: When the taxpayer has failed to pay advance tax though he is liable to payadvance tax, or

b) Where the advance tax paid by the taxpayer is less than 90% of the assessed tax

(Meaning of assessed tax is discussed later). As per Section 208 of the Act, advance tax shall be payable by the taxpayer during the financial year if estimated tax liability of assessee during that year is **₹ 10000 or more,**

Rate of Interest

Under section 234B, interest for default in payment of advance tax is levied at 1% per month or part of a month. The nature of interest is simple interest. In other words, the taxpayer is liable to pay simple interest at 1% per month or part of a month for default in payment of advance tax

Amount Liable for Interest

Interest under section 234B is levied on the amount of unpaid advance tax. Ifthere is a shortfall in payment of advance tax, then interest is levied on the amount bywhich advance tax is short paid. The amount of unpaid/short paid advance tax iscomputed as follows:

Particulars	Amount
Assessed tax*	
Less: Advance tax paid (if any)	
Amount of unpaid/short paid advance tax	

(*) Assessed tax means the amount of tax as determined under section 143(1) and where regular assessment is made, the tax on total income as determined under such regular assessment as reduced by tax

deducted/collected at source, relief/ deduction of tax claimed under various sections like sections 89/90/90A/91 and tax credit claimed under section 115JAA/115JD.

Tax on total income determined under section 143(1) shall not include the additional income-tax, if any, payable under section 140B or section 143 and tax on total income determined under regular assessment shall not include the additional income-tax payable under section 140B.

Period of Levy of Interest

Interest under section 234B is levied from the first day of the assessment year i.e. from 1st April till the date of determination of income under section 143(1) or when a regular assessment is made, then till the date of such a regular assessment

In a case where the income is increased on account of assessment/re- computation, interest under section 234B will be levied on the differential amount from the first day of the assessment year till the date of assessment/re-computation. In a case where and application is made to Settlement Commission, interest under section 234B will be levied on the differential amount from the first day of the assessment year till the date of making the application. Further, if the income as declared in the application is increased by the Settlement Commission, interest under section 234B will be levied on the differential amount from the first day of the assessment year till the date of such order. If as a result of rectification order of the Settlement Commission, income is increased/decreased, interest will also be increased/decreased accordingly

If the taxpayer has paid any tax before completion of assessment, then interest will be levied as follows:

(a) Upto the date of payment of self-assessment tax, interest will be computed on the amount of unpaid advance tax.

(b) From the date of payment of self-assessment tax, interest will be levied on the unpaid amount of advance tax after deducting the self-assessment tax paid by the taxpayer

INTEREST FOR DEFAULT IN PAYMENT OF INSTALMENT(S) OF ADVANCE TAX (SECTION 234C)

Section 234C provides for levy of interest for default in payment of instalment(s) of advance tax. Before getting into the detailed provisions of section 234C, lets recall the provisions relating to payment of advance tax by a taxpayer.

As per section 208, every person whose estimated tax liability for the year exceeds ₹ 10,000, shall pay his tax in advance in the form of "advance tax" by following dates

Any tax paid till 31st March will be treated as advance tax.

Basic Provisions

Interest under section 234C is levied, if advance tax paid in any instalment(s) is less than the required amount. In other words, interest under section 234C in case of deferment of different instalments of advance tax is levied in following cases:

(A) In case of taxpayers (other than those who opted for presumptive taxation scheme under section 44AD or section 44ADA), interest shall be levied- If advance tax paid on or before 15th June is less than 12% of advance tax payable If advance tax paid on or before 15th September is less than 36% of advance tax-payable If advance tax paid on or before 15th December is less than 75% of advance tax payable

If advance tax paid on or before 15th March is less than 100% of advance tax payable

(B) In case of taxpayers who opted for presumptive taxation scheme of Section 44AD or section 44ADA interest shall be levied if advance tax paid on or before 15th March is less than 100% of advance tax payable

No levy of interest if shortfall in payment of advance tax is due to capital gains or winning from lottery, etc. Interest under section 234C is not levied, if, the shortfall in payment of advance tax is due to failure to estimate the amount of capital gains or income referred to insection 2(24)(ix) (i.e. winning from lotteries, crossword puzzle, etc.) or income from anew business or income referred to in section 115BBDA (i.e., dividend received from domestic company exceeds ₹ 10,00,000) and the taxpayer pays the required advance tax on such income as a part of immediately following instalments or till 31st March, ifno instalment is pending

Rate of Interest

Interest under section 234C for default in payment of instalment(s) of advance tax is charged at 1% per month or part of a month. The nature of interest is simple interest. In other words, the taxpayer is liable to pay simple interest @ 1% per month or part of a month for short payment/non-payment of individual instalment(s) of advance tax

Status	By 15th June	By 15th September	By 15th December	By 15th March,
Taxpaypers (other than those who opted for presumptive taxation scheme of section 44AD or section 44ADA)	Upto 15% of advance tax	Upto 45% of advance tax	Upto 75% of advance tax	Upto 100% of advance tax
Taxpayers who opted for presumptive taxation scheme of section 44AD or section 44ADA	Nil	Nil	Nil	Upto 100% of advance tax
Period of levy of interest	3 months	3 months	3 months	1 month

Amount Liable for Interest

Interest under section 234C is levied on the short paid amount of instalment(s) of advance tax.

ILLUSTRATION 16.1

In the following cases find out advance the tax payable by each one for the assessment year 2024-25 assuming that assessee does not opt for new tax regime under section 115BAC:

(i) Shri Vinay Total income of ₹ 2,47,000
(ii) Shri Mayank total Income of ₹ 3,67,800
(iii) Smt. Pramila Total income of ₹ 6,01,000
(iv) Smt. Usha total Income of ₹ 13,30,000

Solution:

(i) Calculation of advance tax payable by Shri Vinay for Assessment year 2024-25

Tax on ₹ 2,47,000

First ₹ 2,50,000	Nil

(ii) Calculation of advance tax payable by Mr. Mayank for Assessment year 2024-25

Tax on total income of ₹ 3,67,800

First ₹ 2,50,000	Nil
Balance (₹ 3,67,800-₹ 2,50,000) ₹ 1,17,800x5%	5,890
Total	5,890
Less: Rebate under section 87A	5,890
Tax payable	Nil

(iii) Calculation of advance tax payable by Smt. Pramila for Assessment year 2024-25

Tax on total income of ₹ 6,01,000

First ₹ 2,50,000	Nil
Next ₹ 2,50,000 x 5%	12,500
Balance (₹ 6,01,000 – ₹ 5,00,000) ₹ 1,01,000 x 20%	20,200
Total	32,700
Add: Health and Education Cess @ 4%	1,308
Tax payable	34,008

(iv) Calculation of advance tax payable by Smt. Usha for Assessment year 2024-25

Tax on total income of ₹ 13,30,000

First ₹ 2,50,000	Nil
Next ₹ 2,50,000 x 5%	12,500
Next ₹ 5,00,000 x 20%	1,00,000
Over ₹ 10,00,000 (₹ 13,30,000 – ₹ 10,00,000) ₹ 3,30,000 x 30%	99,000
Total	2,11,500
Add: Health and Education Cess @ 4%	8,460
Tax payable	2,19,960,

EXERCISE 16.1

In the following cases find out advance tax payable for assessment year 2024-25 assuming total income is : (Assessee does not opts for new tax regime under section 115BAC)

(i) Mr. Mahesh ₹ 3,15,000
(ii) Mrs. Lata ₹ 7,10,000
(iii) Mr. Satyam ₹ 14,40,000
(iv) Mr. Mukesh ₹ 5,02,000

{Tax Payable (1) Nil, (2) ₹ 56,680 (3) ₹ 2,54,280 (4)₹ 13,416}

ILLUSTRATION 16.2

Find out advance tax payable in the following situations assuming that assessee does not opt for new tax regime under section 115BAC and total income includes income of ₹ 40,000 being winning from lottery:

(i) Mr. Pratham has total income of ₹ 5,20,000

(ii) Mr. Jay has total income of ₹ 10,20,000

Solution:

(i) Calculation of advance tax payable by Mr. Pratham for Assessment year 2024-25

Tax on winning from lottery 40,000 x 30%	12,000
Tax on balance income (₹ 5,20,000 – ₹ 40,000) = ₹ 4,80,000	
First ₹ 2,50,000	Nil
Balance (₹ 4,80,000-₹ 2,50,000) ₹ 2,30,000x5%	11,500
Total	23,500
Add: Health and Education Cess @ 4%	940
Tax payable	24,440

(ii) Calculation of advance tax payable by Mr. Jay for Assessment year 2024-25

Tax on winning from lottery 40,000 x 30%	12,000
Tax on balance income (₹ 10,20,000 – ₹ 40,000) = ₹ 9,80,000	
First ₹ 2,50,000	Nil
Next ₹ 2,50,000x 5%	12,500
Balance (₹ 4,80,000-₹ 5,00,000) ₹ 4,80,000 x 20%	96,000
Total	1,20,500
Add: Health and Education Cess @ 4%	4,820
Tax payable	1,25,320

EXERCISE 16.2

From the following particular of Mrs. Prerna an individual, calculate her advance tax payable assuming that she does not opt for new tax regime.

Total income ₹ 15,40,000

(Including ₹ 6,00,000 winning from horse race) {Tax Payable ₹2,91,720}

ILLUSTRATION 16.3

Compute advance tax payable if total income is ₹ 4,32,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation ofadvance tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 4,32,000		
First	2,50,000	Nil
Balance (4,32,000-2,50,000	1,82,000 x 5%	9,100
		9,100
Less: Rebate under section 87A		9,100
Tax payable		Nil

EXERCISE 16.3

Compute advance tax payable if total income is ₹ 4,95,600 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

(Tax Payable ₹ Nil)

ILLUSTRATION 16.4

Compute advance tax payable if total income is ₹ 4,32,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 4,32,000		
First	2,50,000	Nil
Balance (4,32,000-2,50,000	1,82,000 x 5%	9,100
		9,100
Less: Rebate under section 87A		9,100
Tax payable		Nil

EXERCISE 16.4

Compute advance tax payable if total income is ₹ 4,95,600 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

(Tax Payable ₹ Nil)

ILLUSTRATION 16.5

Compute advance tax payable if total income is ₹ 6,12,500 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of advance tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 6,12,500		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Balance (6,12,500 – 5,00,000)	1,12,500 x 20%	22,500
		35,000
Add: Health and Education Cess 4%		1,400
Tax payable		36,400

EXERCISE 16.5

Computeadvance tax payable if total income is ₹ 5,00,300 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

(Tax Payable Rs 13,060)

ILLUSTRATION 16.6

Compute advance tax payable if total income is ₹ 6,12,500 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 6,12,500		
First	3,00,000	Nil
Next	3,00,000 x 5%	15,000
Balance (6,12,500 – 6,00,000)	12,500 x 10%	1,250
		16,250
Less: Rebate under section 87A		16,250
Tax payable		Nil

EXERCISE 16.6

Compute advance tax payable if total income is ₹ 5,00,300 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

(Tax Payable ₹ Nil)

ILLUSTRATION 16.7

Compute instalments of advance tax payable if total income is ₹ 9,89,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of advancetax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 9,89,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Balance (9,89,000-5,00,000)	4,89,000 x 20%	97,800
		1,10,300
Add: Health and Education Cess 4%		4,412
Tax payable		1,14,712
Tax payable (Rounded off)		1,14,710

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 1,14,710	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	17,207	17,207
15 Sept	45%	51,620	(51,620- 17,207) = 34,413
15 Dec	75%	86,033	(86,033 – 51,620) = 34,413
15 March	100%	1,14,710	(1,14,710 – 86,033) = 28,677

EXERCISE 16.7

Compute instalments of advancetax payable if total income is ₹ 8,71,900 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

(Tax Payable Rs 90,360, Instalments I – Rs 13,554, II-Rs 27,108, III- ₹ 27,108 & IV- ₹ 22,590)

ILLUSTRATION 16.8

Compute instalment of advance tax payable if total income is ₹ 9,89,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 9,89,000		
First	3,00,000	Nil
Next	3,00,000 x 5%	12,500
Next	3,00,000 x 10%	30,000

Balance (9,89,000-9,00,000)	89,000 x 15%	13,350
		58,350
Add: Health and Education Cess 4%		2,334
Tax payable		60,684
Tax payable (Rounded off)		60,680

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 60,680	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	9,102	9,102
15 Sept	45%	27,306	(27,306 – 9,102) = 18,204
15 Dec	75%	45,510	(45,510 – 27,306) = 18,204
15 March	100%	60,680	(60,680 – 45,510) = 15,170

EXERCISE 16.8

Compute instalments of advance tax payable if total income is ₹ 8,71,900 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

(Tax Payable ₹ 43,880, instalments I – Rs 6,582, II-Rs 13,164, III- ₹ 13,164 & IV- ₹ 10,970)

ILLUSTRATION 16.9

Compute instalment of advance tax payable if total income is ₹ 10,20,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 10,20,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (10,20,000-10,00,000)	20,000 x 30%	6,000
		1,18,500
Add: Health and Education Cess 4%		4,740
Tax payable		1,23,240
Tax payable (Rounded off)		1,23,240

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 1,23,240	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	18,486	18,486
15 Sept	45%	55,458	(55,458 – 18,486) = 36,972
15 Dec	75%	92,430	(92,430 – 55,458) = 36,972
15 March	100%	1,23,240	(1,23,240 – 92,430) = 30,810

EXERCISE 16.9

Compute instalment of advance tax payable if total income is ₹ 17,35,500 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

(Tax Payable ₹ 3,46,480, instalments I – Rs 51,972, II-Rs 1,03,944, III- ₹ 1,03,944 & IV- ₹ 86,620)

ILLUSTRATION 16.10

Compute instalments of advance tax payable if total income is ₹ 10,20,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 10,20,000		
First	3,00,000	Nil
Next	3,00,000 x 5%	12,500
Next	3,00,000 x 10%	30,000
Balance (10,20,000-9,00,000)	1,20,000 x 15%	18,000
		63,000
Add: Health and Education Cess 4%		2,520
Tax payable		65,520
Tax payable (Rounded off)		65,520

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 65,520	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	9,828	9,828
15 Sept	45%	29,484	(19,656 – 9,828) = 19,656
15 Dec	75%	49,140	(49,140 – 29,484) = 19,656
15 March	100%	65,520	(65,520 – 49,140) = 16,380

EXERCISE 16.10

Compute instalment of advance tax payable if total income is ₹ 17,35,500 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

(Tax Payable ₹ 2,29,480, instalments I – Rs 34,422, II-Rs 68,844 III- ₹ 68,844 & IV- ₹ 57,370)

ILLUSTRATION 16.11

Compute instalments of advance tax payable if total income is ₹ 36,40,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	**₹**	**₹**
Tax on Total income of ₹ 36,40,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (36,40,000-10,00,000)	26,40,000 x 30%	7,92,000
		9,04,500
Add: Health and Education Cess 4%		36,180
Tax payable		9,40,680
Tax payable (Rounded off)		9,40,680

Advance tax instalment to be paid

Date for advance tax	**Cumulative % of advance tax of ₹ 9,40,680**	**Amount of advance tax which should be paid upto the date**	**Advance tax payable**
15 June	15%	1,41,102	1,41,102
15 Sept	45%	4,23,306	(4,23,306 – 1,41,102) = 2,82,204
15 Dec	75%	7,05,510	(7,05,510 – 4,23,306) = 2,82,204
15 March	100%	9,40,680	(9,40,680 – 7,05,510) = 2,35,170

EXERCISE 16.11

Compute instalments of advance tax payable if total income is ₹ 30,91,640 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

(Tax Payable ₹ 7,69,590, instalments I – Rs 1,15,439, II-Rs 2,30,877 III- ₹ 2,30,877 & IV- ₹ 1,92,397)

ILLUSTRATION 16.12

Compute instalments of advance tax payable if total income is ₹ 36,40,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 36,40,000		
First	3,00,000	Nil
Next	3,00,000 x 5%	12,500
Next	3,00,000 x 10%	30,000
Next	3,00,000 x 15%	45,000
Next	3,00,000 x 20%	60,000
Balance (36,40,000-15,00,000)	21,40,000 x 30%	6,42,000
		7,92,000
Add: Health and Education Cess 4%		31,680
Tax payable		8,23,680
Tax payable (Rounded off)		8,23,680

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 8,23,680	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	1,23,552	1,23,552
15 Sept	45%	3,70,656	(3,70,656 – 1,23,552) = 2,47,104
15 Dec	75%	6,17,760	(6,17,760 – 3,70,656) = 2,47,104
15 March	100%	8,23,380	(8,23,380 – 6,17,760) = 2,05,920

EXERCISE 16.12

Compute instalments of advance tax payable if total income is ₹ 30,91,640 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

(Tax Payable ₹ 6,52,590, instalments I – Rs 97,888, II-Rs 1,95,777 III- ₹ 1,95,777 & IV- ₹ 1,63,148)

ILLUSTRATION 16.13

Compute instalments of advance tax payable if total income is ₹ 56,40,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 56,40,000		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (56,40,000-10,00,000)	46,40,000 x 30%	13,92,000
		15,04,500
Add: Surcharge @ 10%		1,50,450
		16,54,950
Add: Health and Education Cess 4%		66,198
Tax payable		17,21,148
Tax payable (Rounded off)		17,21,150

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 17,21,150	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	2,58,173	2,58,173
15 Sept	45%	7,74,518	(7,74,518 – 2,58,173) = 5,16,345
15 Dec	75%	12,90,863	(12,90,863 – 7,74,518) = 5,16,345
15 March	100%	17,21,150	(17,21,150 – 12,90,863) = 4,30,287

EXERCISE 16.13

Compute instalments of advance tax payable if total income is ₹ 76,70,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

(Tax Payable ₹ 24,17,840, instalments I – Rs 3,62,676, II-Rs 7,25,352 III- ₹ 7,25,352 & IV- ₹ 6,04,460)

ILLUSTRATION 16.14

Compute instalments of advance tax payable if total income is ₹ 56,40,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 56,40,000		
First	3,00,000	Nil
Next	3,00,000 x 5%	12,500

Next	3,00,000 x 10%	30,000
Next	3,00,000 x 15%	45,000
Next	3,00,000 x 20%	60,000
Balance (56,40,000-15,00,000)	41,40,000 x 30%	12,42,000
		13,92,000
Add: Surcharge @ 10%		1,39,200
		15,31,200
Add: Health and Education Cess 4%		61,248
Tax payable		15,92,448
Tax payable (Rounded off)		15,92,450

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 15,92,450	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	2,38,868	2,38,868
15 Sept	45%	7,16,603	(7,16,603 – 2,38,868) = 4,77,735
15 Dec	75%	11,94,338	(11,94,338 – 7,16,603) = 4,77,735
15 March	100%	15,92,450	(15,92,450 – 11,94,338) = 3,98,112

EXERCISE 16.14

Compute instalments of advance tax payable if total income is ₹ 76,70,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

(Tax Payable ₹ 22,89,140, instalments I – Rs 3,43,371, II-Rs 6,86,742 III- ₹ 6,86,742 & IV- ₹ 5,72,285)

ILLUSTRATION 15

Compute instalments of advance tax payable if total income is ₹ 1,15,16,600 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 1,15,16,600		
First	2,50,000	Nil
Next	2,50,000 x 5%	12,500
Next	5,00,000 x 20%	1,00,000
Balance (1,15,16,600-10,00,000)	1,05,16,600 x 30%	31,54,980
		32,67,480

Add: Surcharge @ 15%		4,90,122
		37,57,602
Add: Health and Education Cess 4%		1,50,304
Tax payable		39,07,906
Tax payable (Rounded off)		39,07,910

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 39,07,910	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	5,86,187	5,86,187
15 Sept	45%	17,58,560	(17,58,560 – 5,86,187) = 11,72,373
15 Dec	75%	29,30,933	(29,30,933 – 17,58,560) = 11,72,373
15 March	100%	39,07,910	(39,07,910 – 29,30,933) = 9,76,977

EXERCISE 16.15

Compute instalments of advance tax payable if total income is ₹ 1,36,48,500 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee does not opt for new tax regime under section 115BAC.

(Tax Payable ₹ 46,72,830, instalments I – Rs 7,00,925, II-Rs 14,01,849 III- ₹ 14,01,849 & IV- ₹ 11,68,207)

ILLUSTRATION 16.16

Compute instalments of advance tax payable if total income is ₹ 1,15,16,600 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

Solution:

Calculation of tax payable for the assessment year 2024-25

Particular	₹	₹
Tax on Total income of ₹ 1,15,16,600		
First	3,00,000	Nil
Next	3,00,000 x 5%	12,500
Next	3,00,000 x 10%	30,000
Next	3,00,000 x 15%	45,000
Next	3,00,000 x 20%	60,000
Balance (1,15,16,600-15,00,000)	1,00,16,600 x 30%	30,04,980
		31,54,980
Add: Surcharge @ 15%		4,73,247
		36,28,227
Add: Health and Education Cess 4%		1,45,129
Tax payable		37,73,356
Tax payable (Rounded off)		37,73,360

Advance tax instalment to be paid

Date for advance tax	Cumulative % of advance tax of ₹ 37,73,360	Amount of advance tax which should be paid upto the date	Advance tax payable
15 June	15%	5,66,004	5,66,004
15 Sept	45%	16,98,012	(16,98,012 – 5,66,004) = 11,32,008
15 Dec	75%	28,30,020	(28,30,020 – 16,98,012) = 11,32,008
15 March	100%	37,73,360	(37,73,360 – 28,30,020) = 9,43,340

EXERCISE 16.16

Compute instalments of advance tax payable if total income is ₹ 1,36,70,000 for an individual having age below 60 years for the assessment year 2024-25 assuming that the assessee opts for new tax regime under section 115BAC.

(Tax Payable ₹ 45,46,000, instalments I – Rs 6,81,900, II-Rs 13,63,800 III- ₹ 13,63,800 & IV- ₹ 11,36,500)

ILLUSTRATION 16.17

Name of assessee	Mr. Roshan Dangi
Total income for the previous year 2023-24	9,30,000
Due date of filing of return	31 July 2024
Date on which return was filed	11 Dec. 2024
Tax deducted at source	50,000
Advance tax paid	20,000

Calculate tax and interest payable by assessee under section 234A if assessee does not opt for new tax regime.

Solution:

Computation of tax payable

Tax on total income ₹ 9,30,000	
First ₹ 2,50,000	Nil
Next ₹ 2,50,000 x5%	12,500
Balance ₹ 4,30,000 x 20% (9,30,000 – 5,00,000)	86,000
	98,500
Add: Health and Education Cess 4%	3,940
	1,02,440
Less: TDS	50,000
Less: Advance Tax paid	20,000
Tax payable	32,440
Amount of tax on which interest u/s 234A is payable	32,400

Income tax return filed	11 Dec. 2024
Due date of return	31 July 2024
Gap between due date and return filing	5 months
Interest under section 234A $32{,}400\ x\ \frac{1}{100} x\ 5\ months$	1,620

EXERCISE 16.17

Name of assessee	Mrs Latika Jain
Total income for the previous year 2023-24	21,60,000
Due date of filing of return	31 July 2024
Date on which return was filed	29 Nov. 2024
Tax deducted at source	2,00,000
Advance tax paid	2,50,000

Calculate tax and interest payable by assessee under section 234A if assessee does not opt for new tax regime. (Tax Payable ₹ 28,920,Interest U/S 234 A Rs 1,156)

ILLUSTRATION 16.18

Name of assessee	Mr. Kapil
Income declared	₹ 14,50,000
Assessed income by assessing officer	₹ 17,10,000
Tax deducted at sources	₹ 2,60,000
Tax regime selected	Old
Due date of ITR	31 July 2024
Actual date of filing of return	15 Dec. 2024
Date of completion of assessment	15 Jan. 2025

Calculate tax and interest payable by assessee under section 234A if assessee does not opt for new tax regime.

Solution:

Computation of tax payable

Tax on total income ₹ 17,10,000	
First ₹ 2,50,000	Nil
Next ₹ 2,50,000 x5%	12,500
Next ₹ 5,00,000 x 20%	1,00,000
Balance ₹ 7,10,000 x 30% (17,10,000 – 10,00,000)	2,13,000
	3,25,500

Add: Health and Education Cess 4%	13,020
	3,38,520
Less: TDS	2,60,000
Tax payable	78,520
Amount of tax on which interest u/s 234A is payable	78,500
Period for which interest is payable u/s 234A After 31 July i.e., 1 Aug. 2024 to 15 Dec. 2024	5 months
Interest under section 234A $78{,}500\ x\ \frac{1}{100} x\ 5\ months$	3,925

EXERCISE 16.18

Name of assessee	Mr. Rakshit
Income declared	₹ 4,60,000
Assessed income by assessing officer	₹ 5,06,000
Tax regime selected	Old
Due date of ITR	31 July 2024
Actual date of filing of return	20 Aug. 2024
Date of completion of assessment	10 Oct. 2024

Calculate tax and interest payable by assessee under section 234A if assessee does not opt for new tax regime. (Tax Payable ₹ 14,248, Interest U/S 234 A Rs 142)

ILLUSTRATION 16.19

Name of assessee	Mr. Rajesh
Income assessed by assessing officer	₹ 10,30,000
TDS	₹ 50,000
Tax regime selected by A.O.	New
Due date of ITR	31 July 2024
Actual date of filing of return	Not filed
Date of completion of assessment	15 Jan. 2025

Calculate tax and interest payable by assessee under section 234A as per new tax regime.

Solution:

Computation of tax payable

Tax on total income ₹ 10,30,000		
First ₹ 3,00,000		Nil
Next ₹ 3,00,000	3,00,000 x 5%	15,000
Next ₹ 3,00,000	3,00,000x10%	30,000

Balance (10,30,000 – 9,00,000)	1,30,000 x 15%	19,500
		64,500
Add: Cess 4%		2,580
		67,080
Less: TDS		50,000
Tax payable		17,080
Amount on which interest is to be charged		17,000

*In case where income tax return is not filed, than interest under section 234A is calculated after 31 July to date of assessment by Assessing officer.

Period of Interest 1 Aug. 2024 to 15 Jan. 2025 6 months

Interest

$$17{,}000\ x\ \frac{1}{100} x6 = 1{,}020$$

EXERCISE 16.19

Name of assessee	Mrs. Kartik
Income assessed by assessing officer	₹ 26,10,000
TDS	₹ 4,20,000
Tax regime selected by A.O.	New
Due date of ITR	31 July 2024
Actual date of filing of return	Not filed
Date of completion of assessment	10 Feb. 2025

Calculate tax and interest payable by assessee under section 234A as per new tax regime.

(Tax Payable ₹ 82,320, Interest U/S 234 A Rs 5,761)

ILLUSTRATION 16.20

Name of assessee	Mr. Shyam
Payment of advance tax	
On 15 June 2023	15,000
On 15 Sept. 2023	26,000
On 15 Dec. 2023	30,000
On 15 March 2024	16,000
On 27 March 2024	8,000
Declared income as per old tax regime	13,60,000
Income assessed by Assessing Officer on 25-1-2024	14,10,000
TDS	1,10,000

Calculate tax and interest payable by assessee under section 234B and 234C as per old tax regime.

Solution:

Computation of tax payable

Tax on total income ₹ 14,10,000		
First ₹ 2,50,000		Nil
Next ₹ 2,50,000	2,50,000 x 5%	12,500
Next ₹ 5,00,000	5,00,000x20%	1,00,000
Balance (14,10,000 – 10,00,000)	4,10,000 x 30%	1,23,000
		2,35,500
Add: Cess 4%		9,420
		2,44,920
Less: TDS		1,10,000
Tax payable		1,34,920
90% of assessed tax	1,34,920 x90%	1,21,428
Advance tax paid (15,000 + 26,000 + 30,000 + 16,000 + 8,000)		95,000
Advance tax paid is less than 90% of assessed tax. So interest will be charged u/s 234B on shortfall of tax	1,34,920 – 95,000	39,920
Rounded off to ₹ 100		39,900
Interest u/s 234B from 1 April 2024 to 25-1-2025	39,900x 1% x10 months	3,990

Computation of interest under section 234C

Tax on estimated income of ₹ 13,60,000		
First ₹ 2,50,000		Nil
Next ₹ 2,50,000	2,50,000 x 5%	12,500
Next ₹ 5,00,000	5,00,000 x 20%	1,00,000
Balance (13,60,000 – 10,00,000)	3,60,000 x30%	1,08,000
		2,20,500
Add: Cess 4%		8,820
		2,29,320
Less: TDS		1,10,000
Tax payable		1,19,320

Date of advance tax	%	Advance tax payable	90% of tax payable	Adv. Tax deposited	Shortfall	Rounded off to ₹ 100	Interest
15-06	15%	17,898	16,108	15,000	2,898	2,800	2,800 x1%x3 = 84
15-09	30%	53,694	48,325	41,000	12,694	12,600	12,600x1%x3= 378
15-12	30%	89,490	80,541	71,000	18,490	18,400	18,400x1%x3=552
15-03	25%	1,19,320	1,19,320	87,000	32,320	32,300	32,300x1% = 323
							1,337

EXERCISE 16.20

Name of assessee	Mrs. Savitri
Payment of advance tax	
On 15 June 2023	26,000
On 15 Sept. 2023	15,000
On 15 Dec. 2023	30,000
On 15 March 2024	20,000
On 27 March 2024	10,000
Declared income as per new tax regime	12,80,000
Income assessed by Assessing Officer on 20-1-2024	13,20,000

Calculate tax and interest payable by assessee under section 234B and 234C as per old tax regime.

(Tax Payable ₹ 1,18,560, Interest U/S 234 B Rs 1,750 & U/S 234 C ₹798)

ILLUSTRATION 16.21

Name of assessee	Mr. Rakesh
Tax payable	92,700
Payment of advance tax	
On 15 June 2023	17,200
On 15 Sept. 2023	20,800
On 15 Dec. 2023	15,500
On 15 March 2024	20,500

Calculate amount of interest under section 234C.

Solution:

Computation of interest under section 234C

Date of advance tax	%	Advance tax payable	90% of tax payable	Adv. Tax deposited	Shortfall	Rounded off to ₹ 100	Interest
15-06	15%	13,905	12,515	17,200	Nil	Nil	Nil
15-09	30%	71,715	37,544	38,000	Nil	Nil	Nil
15-12	30%	69,525	62,573	53,500	16,025	16,000	16,000x1%x3=480
15-03	25%	92,700	83,430	74,000	18,700	18,700	18,700x1% = 187
							667

EXERCISE 16.21

Name of assessee	Mrs. Lata Jain
Tax payable	1,07,800
Payment of advance tax	

On 15 June 2023	12,800
On 15 Sept. 2023	40,400
On 15 Dec. 2023	Nil
On 15 March 2024	20,800

Calculate amount of interest under section 234C. (Interest u/s 234 C ₹ 798)

QUESTIONS

Multiple Choice Questions

Q1. The advance tax is payable by the assessee if the advance tax payable during the financial year:
(a) Exceeds ₹ 5,000 (b) Exceeds ₹ 10,000
(c) Is ₹10,000 or more (d) Exceeds ₹10,000

Q2. The first installment of advance tax in case of a company assessee should be made:
(a) On or before 15thJune of the relevant financial year
(b) On or before 15th July of the relevant financial year
(c) On or before 15th August of the relevant financial year
(d) On or before 15th September of the relevant financial year

Q3. The amount of advance tx payable by any assessee on or before 15th june shall be:
(a) 30% of the advance tax payable (b) 15% of the advance tax payable
(c) 12% of the advance tax payable (d) 25% of the advance tax payable

Q4. All assesses has to make the payment of advance tax:
(a) In 3 installments (b) In 4 installments
(c) Every month (d) Every quarter of the financial year

Q5. An assessee who is covered under section 44AD/44ADA has to make payment of advance tax of such income:
(a) In 4 installments (b) In 3 installments
(c) Every month (d) In one installment

Q6. Advance tax is payable by:
(a) A company assessee only
(b) An assessee other than individual or HUF
(c) an assessee other than an individual who is a senior citizen and does not have income under the head PGBP
(d) all assesses

Q7. Advance tax can:
(a) be paid after 15th march of the relevant financial year
(b) not be paid after 15th march
(c) be paid after 15th march but by 31st march of the relevant financial year
(d) be paid after 15th march but by 20th march of the relevant financial year

Q.8 Ram Ltd. reports total income of ₹ 20 lakhs for the year ended 31st march 2023. The total tax liability payable before 15th September, 2022 by way of advance tax
(a) ₹ 92,700 (b) ₹ 1,85,400 (c) ₹ 2,80,000 (d) ₹ 3,09,600

Q.9 A senior citizen is not liable to pay advance tax if he does not have income from:
(a) Interest on securities
(b) Capital gain
(c) Profits and gains from business or profession
(d) All of above

Q.10 Interest payable u/s 234 C is computed at
(a) compounded interest @ 1% p.m. (b) simple interest @ 1% p.a.
(c) compound interest @ 1% p.a (d) simple interest @ 1% p.m.

Q.11 Interest for default in payment of installments of advance tax is levied u/s-
(a) 234A (b) 234B (c) 234C (d) 234D

Q.12 Interest for deferment in payment of advance tax u/s 234C is calculated on the tax liability computed on-
(a) Assessed Income (b) Returned Income
(c) Disputed Income (d) Appealed Income

Q.13 Interest is payable to assessee on refund under the Income-Tax Act, 1961 at the rate of-
(a) 5% P.A. (b) 6% P.A. (c) 9% P.A. (d) 12% P.A.

Q.14 The liability to pay interest u/s 234B would arise when the advance tax plus TDS/TCS to the credit of the assessee is less than –
(a) 75% of the assessed tax (b) 90% of the assessed tax
(c) 60% of the assessed tax (d) 100% the assessed tax

Very Short Answer Type Questions

1. What is advance payment of tax?
2. When and how much has an individual assessee, to pay advance tax?
3. When does the liability to pay advance tax arise?
4. Mention the prescribed date of first instalment of advance tax payable by an individual assessee. Also mention the percentage of tax payable.
5. When and how much has an assessee to pay advance tax who declare his income under section 44AD?
6. Explain the provisions of interest under section 234A.

Shor Answer Type Questions

1. How is the advance tax calculated by the assessee?
2. On what dates the instalments of advance tax become due?
3. What is "Pay as you earn" scheme?
4. How is the advance tax calculated by the Assessing Officer?
5. Mention the dates and percentage of instalments of advance tax payable by an individual assessee.
6. Mr. Vikas estimated his income for the previous year ₹ 20,00,000. Calculate the amount of advance tax payable by Mr. Vikas in instalment. Assume he opts for old scheme.

Solution:

Tax on 20 Lacs		
First	2,50,000	Nil
Next	2,50,000x 5%	12,500
Next	5,00,000 x20%	1,00,000
Balance (20,00,000 – 10,00,000)	10,00,000 x 30%	3,00,000
		4,12,500
Add: Cess 4%		16,500
		4,29,000

Tax

15 June	15%	64,350
15 Sept.	30%	1,28,700
15 Dec.	30%	1,28,700
15 March	25%	1,07,250

7. Mr. Jay estimated his income for the previous year ₹ 20,00,000. Calculate the amount of advance tax payable by Mr. jay instalments. Assume he opts for new tax regime.

Solution:

Tax on 20 Lacs		
First	3,00,000	Nil
Next	3,00,000x 5%	15,000
Next	3,00,000 x10%	30,000
Next	3,00,000 x15%	45,000
Next	3,00,000 x20%	60,000
Balance (20,00,000 – 15,00,000)	5,00,000 x 30%	1,50,000
		3,00,000
Add: Cess 4%		12,000
		3,12,000

Tax

15 June	15%	46,800
15 Sept.	30%	93,600
15 Dec.	30%	93,600
15 March	25%	78,000

Essay Type Questions

1. What do you understand by "pay as you earn scheme"? State clearly the important provisions of income tax act regarding it.
2. State the liability to pay advance tax.

3. How does an assessee make an estimate and in what manner is the amount so estimated deposited in the treasury as per section 210 of the Income Tax act?
4. When does the liability for advance tax arises? How is it computed and paid?

Answer MCQ

1	2	3	4	5	6	7	8	9	10
C	A	B	B	D	C	C	C	C	D
11	12	13	14						
C	B	B	B						

❑❑❑