

INCOME TAX LAW & ACCOUNTS

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Module I

Basic Concepts: Income - Agricultural income - Person - Assessee - Assessment Year - Previous Year - Gross total income - Total income - Maximum marginal rate of tax - Residential status - Scope of total income on the basis of residential status –Exempted incomes. (10 Hours, 15 marks)

Module II

Computation of Income under Different Heads: Salaries - Allowances - Perquisites -Profit in lieu of salary - Gratuity – Pension. (20 Hours, 20 marks)

Module III

Income from house property: Annual Value of House property - Computation under different circumstances - Deduction from annual value. (15 Hours, 15 marks)

Module IV

Profits and Gains of Business or Profession: Definition - Computation - Allowable expenses and non-allowable expenses - General deductions - Provisions relating to Depreciation. (17 Hours, 15 Marks)

Module V

Capital Gains: Definition of Capital Assets - Long term and Short term - Transfers - Cost of acquisition - Cost of improvement - Exempted Capital gains. Income from Other Sources: Definition– Computation. (18 Hours, 15marks)

(Theory and problems may be in the ratio of 40% and 60%respectjvely .Only simple problems are to be expected)

Reference Books:

1. Dr. Vinod K. Singhania : Direct Taxes - Law and Practice, Taxman publication.
2. Dr. Mehrotra and Dr. Goyal: Direct Taxes - Law and Practice, Sahitya Bhavan Publication.
3. B.B. Lai: Direct Taxes, Konark Publisher (P) ltd.
4. Bhagwathi Prasad : Direct Taxes - Law and Practice. Wishwa Prakashana.
5. Dinakar Pagare : Law and Practice of Income Tax. Sultan Chand and sons
6. Gaur & Narang : Income Tax.

Income Tax

- It is a direct tax
- It is collected by Central govt.
- It is a major source of revenue to Central govt.
- Major portion of income tax collected is distributed to State govt.

History of Income Tax in India

- Introduced in 1860 by Sir James Wilson.
- 1886 another act was passed and it remained in force up to 1917.
- In 1918 new act was passed and it was replaced by another act in 1922. It remain in force till 1961.
- Indian govt. wanted an act which suit the requirements of Indian condition and a committee was formulated for that.
- Based on the recommendations of committee, the govt. of India passed Income Tax Act in September 1961.
- The act came into force with effect from 1st April 1962.

Central Board of Direct Tax (CBDT)

- It is the supreme authority of Income Tax in India.
- It is the apex body of Income Tax department.
- It is empowered to frame rules under the control of Central govt.
- It performs various statutory & administrative functions.

Basic concepts

❖ Income Section 2(24)

- Profits & gains
- Dividends
- Perquisites
- Allowances
- income from business or profession
- capital income
- winning from lottery, crossword puzzles etc.
- Generally revenue receipts from outside are treated as income

Person

- **An individual**
- **A Hindu Undivided Family (HUF)**
- **A company**
- **A firm**
- **An Association of Persons (AOP) or body of individuals (BOI)**
- **A Local Authority and**
- **Every Artificial Juridical person**

Casual Income

- Non recurring nature
- The receipt of which is accidental and without any stipulation
- Eg. Winning of lottery, crossword puzzles, horse race etc.

FIVE HEADS OF INCOME

- 1. Income from Salaries**
- 2. Income from House property**
- 3 Profit of Business or Profession**
- 4 Capital Gains ,and**
- 5 Income from Other sources**

Gross total income

Aggregate of income under the Five heads:

- 1. Income from Salaries**
- 2. Income from House property**
- 3 Profit of Business or Profession**
- 4 Capital Gains ,and**
- 5 Income from Other sources**

❖ Total income = GTI - deductions U/S 80C-80U

Assessee: Any person who is liable to pay tax on his income or any other sum of money under this Act

Assessment year (AY)

It means a period of twelve months beginning from 1st April and ending on 31st March of next year . Current AY is 2022-23.

Previous Year (PY)

It means financial year immediately preceding the assessment year.

The Current PY is 2021-22.

***Year in which income is earned PY**

***And the next year in which income is taxable is AY**

Exceptions to the General rule: Income tax is charged on Income of PY during the AY

- Income of non resident from shipping business: charged in the same year @7.5% of the freight charges.
- Income from the person leaving India.
- Income of AOP/BOI/ artificial juridical person formed for a particular purpose.
- Transfer of property to avoid tax
- On discontinuance of Business or Profession

- **Maximum marginal Rate**

It means the rate of income tax (including surcharge on income tax if any) applicable in relation to highest slab of income in case of individual, AOP or BOI as specified in the financial act of relevant year.

- **Permanent Account Number (PAN)**

A number which the assessing officer may allot to any person for the purpose of identification

TAX EVASION

- When a person reduces his TI by making **false claim or by withholding the information regarding his real income**, so that his tax liability is reduced. (**unrecorded sales**, charging personal exp as business exp. Etc.)
- It is **not only illegal but it is also immoral**, anti social and anti national practice

- **TAX AVOIDANCE**

Reducing tax incidence by availing loopholes in law.

- **TAX PLANNING**

Planning the activities without violating any legal provisions of the act, taking full advantages of exemptions, deductions, rebate and reliefs

RATE OF TAX FOR AN INDIVIDUAL AY 2022-23

Individual- Senior citizen

On ₹ 3,00,000	:Nil
Next on ₹ 2,00,000	:5%
Next on ₹ 5,00,000	:20%
Next-Balance	: 30%

Individual- Super Senior citizen

On ₹ 5,00,000	:Nil
Next on ₹ 5,00,000	:20%
Next-Balance	: 30%

Other Individual-Male/Female, HUF,AOP or BOI

On ₹ 2,50,000	:Nil
Next on ₹ 2,50,000	:5%
Next on ₹ 5,00,000	:20%
Next-Balance	: 30%

- **Health & education cess:** 4% of tax including surcharge.
- **Rebate(u/s 87A) :** An individual is entitled to rebate if the total income does not exceeds 5,00,000. The amount of rebate shall be equal to tax payable or 12500, whichever is less.

Surcharge

- When the total income exceeds 50 lakh but upto 1 crore: 10%
- When the total income exceeds 1 crore but upto 2 crore: 15%
- When the total income exceeds 2 crore but upto 5 crore: 25%
- When the total income exceeds 5 crore: 37%

New tax regime for individuals & HUF (Sec 115 BAC)

- Finance act 2020, has prescribed an alternative system with concessional tax rates, for individual & HUF.
- One who opt for new system cannot claim ant deductions or exemption available under normal provision.
- It is an optional scheme
- One can continue the earlier method of computing tax or pay tax under sec.115 BAC.

Rate of Tax U/S 115BAC

- Upto 2.5 lakh : Nil
- 2.5 lakh to 5 lakh : 5%
- 5 lakh to 7.5 lakh : 10%
- 7.5 lakh to 10 lakh : 15%
- 10 lakh to 12.5 lakh : 20%
- 12.5 lakh to 15 lakh : 25%
- 15 lakh & above : 30%

- TAX DEDUCTION AND COLLECTION ACCOUNT NUMBER (TAN):

Every person, deducting tax or collecting tax at source, who has not been allotted a TAN shall apply in duplicate in form no. 49B within 1 month from the end of the month in which tax was deducted or collected to the A.O.

Agricultural Income

Agricultural Income

**1) Any rent or revenue derived from land,
2) Which is situated in India and
3) Is used for Agricultural purpose**

**1) Any income derived from such land by agricultural operations or
2) Any process by cultivator or receiver of rent-in-kind, which renders the produce fit for the market or
3) The sale of such produce.**

Any income from a farm house.

If the following conditions are satisfied the income from land is treated as **Agricultural Income**

- The land must be situated in India.
- Land must be used for agricultural purposes.
- The receiver of income from the land should have an interest in the land.
- The direct income from agriculture is treated as agricultural income.

*Salary of a farm manager, dividend from a company engaged in agricultural activities is not treated as agricultural income.

*Capital gain arising from transfer of agricultural land shall not be treated as agricultural income

Non Agricultural Income

- Income from market
- Stone quarries
- Mining royalties
- Land used for storing agricultural produce
- Supply of water for irrigation purpose
- Self grown grass, trees or bamboos
- Fisheries
- Sale of earth for brick making
- Remuneration received as manager
- Dividend from a company engaged in agricultural activity
- Income of a buyer of ripe crop
- Income from dairy farm, poultry farming etc.
- Income from interest on arrears of rent of agricultural land

Partly Agricultural Income

Sometimes there is composite income, which is partially agriculture and partially non agricultural. For determining the non agricultural income chargeable to tax, the market value of agricultural produce which has been raised by the assessee and which has been utilised as the raw material in such business shall be deducted.

Examples

- Profit of sugar factories: which produce sugar from cane grown on their own farm. (Average market price)
- Income from growing and manufacturing **Tea : 60% AI & 40% BI.**
- Income from growing and manufacturing of **centrifuged latex or cenex: 65 % AI & 35% BI**
- Income from growing and manufacturing of coffee:
 - * **Coffee** grown & cured by seller: **75% AI & 25% BI**
 - * **Coffee** grown, cured, roasted & grounded by seller, with or without mixing chicory or other flavourings: **60% AI & 40% BI.**

Agricultural Income & Tax liability or Integration of AI & non AI for Income tax purposes

- AI is totally exempted from liability to income tax.
- However AI is a factor in determining the tax on the non-agricultural income of an individual, HUF, AOP & BOI whose total income (excluding agricultural income) exceeds the minimum taxable limit and the net agricultural income exceeds Rs.5000.

Total Income	xxxx
+ Agricultural income (if it exceeds 5000)	<u>xxxx</u>
Aggregate income	<u>xxxx</u>
Tax on Aggregate income:	
A. Tax on income liable to tax at special rates:	
Casual Income @30%	Xxx
STCG specified in 111 A @15%	Xxx
LTCG @ 20%/10%	<u>xxx</u>
B. Tax on Balance of Income:	xxxx
Less: Tax on Agriculture Income (Net AI + 250000/300000/500000 at normal rates)	Xxx
Less: Rebate u/s 87 A	Xx
Add: Surcharge if any	<u>xxx</u>
	xxxx
Add: Health & education cess @ 4%	<u>xx</u>
Gross Tax	xxx
Less: Tax deducted at source	Xxx
Less: Advance tax paid	<u>Xxx</u>
Net Tax payable	<u>xxx</u>

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Next-Balance	: 30%

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On ₹ 5,00,000	:Nil
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Next-Balance	: 30%

Other Individual-Male/Female, HUF,AOP or BOI

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Next on ₹ 2,50,000	:5%
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- **Health & education cess:** 4% of tax including surcharge.
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RESIDENCE AND TAX LIABILITY

BASIS OF CHARGE

Residential Status of an Individual

- An individual may be:
 - 1. Resident**
 - Ordinarily Resident
 - Not Ordinarily Resident
 - 2. Non Resident**

Ordinarily resident

An individual is said to be resident in India in any previous year if he satisfies any one of the basic conditions and both the additional condition

Not Ordinarily resident

Satisfies any one of the basic conditions but does not satisfy both the additional condition

Non resident

Satisfies none of the conditions

TWO BASIC CONDITIONS

- In India, during the **PY** for a period of **182 days or more**

or

- In India for **at least 365days** during the **4 years preceding the PY** and is in India for **at least 60 days during the PY**

EXCEPTION TO THE ABOVE RULE OF 60 DAYS STAY IN INDIA

- Citizen in India & **leaves India** in any PY for the purpose of **employment** or as a **member of the crew of Indian ship**: 182 days in PY
- **If any citizen in India or a Foreign National of Indian origin**, who is living outside India, comes on a visit to India in the PY, he must have stayed in India:
 - ✓ For **at least 120 days** [if total income (other than income from foreign sources) **exceeding 15 lakhs** during the PY &
 - ✓ if total income (other than income from foreign sources) **up to 15 lakhs** during the PY, he must have stayed in India for **at least 182 days** (w.e.f from AY 2021-22)] during the PY **instead of 60 days.**

Additional Conditions

- He has been resident in India in **at least 2 out of the 10 PY** preceding the relevant PY

And

- He has been resident in India for **At least 730 days in all during the 7 PY** preceding the relevant PY

Explanations:-

- **Indian origin:** either he or his parents or his grand parents was born in undivided India.
- **Income from foreign source :** Income which accrues or arises outside India (except income derived from a business controlled in India or profession set up in India w.e.f 1/4/2021 and which is not deemed to accrue or arise in India.

DEEMED RESIDENT

- An Indian citizen, who is not liable to pay tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature, shall be deemed to be resident in India. The condition for deemed residential status applies only if the total income (other than income from foreign sources) exceeds 15 lakhs during the PY (w.e.f AY 2021-22)

RESIDENTIAL STATUS OF HINDU UNDIVIDED FAMILY (H.U.F)

Resident

Control & management of its affairs is situated wholly or partly **in India** during the relevant PY & **karta satisfies** both the **additional conditions** applicable to individual.

Not ordinarily resident

Control & management of its affairs is situated wholly or partly in India but **does not satisfy both additional conditions**

Non resident

Control & management of its affairs is situated wholly or partly **outside India**

RESIDENTIAL STATUS OF A FIRM, AOP, BOI & EVERY OTHER PERSON.

Resident

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

Non resident

Control & management of its affairs is situated wholly or partly **outside India**

RESIDENTIAL STATUS OF A COMPANY

Resident

- If it is an Indian company or
- Its place of effective management during the PY is in India

Non resident

If the company does not satisfy both the aforesaid condition

INCIDENCE OF TAX

	INCOME	O.R	N.O.R	N.R
1	Received in India	Taxable	Taxable	Taxable
2	Deemed to be received in India	Taxable	Taxable	Taxable
3	Accruing or arisen in India	Taxable	Taxable	Taxable
4	Deemed to accrue or arise in India	Taxable	Taxable	Taxable
5	Income from business/ profession outside India but controlled from India or set up in India	Taxable	Taxable	Not Taxable
6	Income from business/ profession outside India but controlled from outside India or set up outside India	Taxable	Not Taxable	Not Taxable
7	All other income outside India	Taxable	Not Taxable	Not Taxable
8	Income received or accrued or arisen outside India in earlier years but later on remitted to India during the PY	Not Taxable	Not Taxable	Not Taxable

MODULE II :COMPUTATION OF INCOME UNDER DIFFERENT HEADS:

**Salaries – Allowances – Perquisites –
Profit in lieu of salary – Gratuity –
Pension**

INCOME FROM SALARIES/ TAXABLE SALARY(U/S15-17)

Salary means any remuneration paid by an employer to his employee in consideration of his services. It includes any benefit or facilities provided by the employer.

Elements of Salary

- **Basic salary/wages**
- **Arrears of salary**
- **Advance Salary**
- **Bonus, fees, Commission(Fixed or based on turnover)**
- **Allowances**
- **Perquisites**
- **Profits in lieu of salary**
- **Excess contribution to RPF by employer over 12% of salary**
- **Excess interest received from RPF over 9.5% rate of interest**
- **Retirement Benefits-PF, Gratuity, Pension,**

COMPUTATION OF INCOME FROM SALARIES/ TAXABLE

SALARY

BASIC SALARY

+

ALLOWANCES

+

PERQUISITES

+

PROFITS IN LIEU OF SALARY

-

[STANDARD DEDUCTION+ENTERTAINMENT ALLOWANCE + PROFESSIONAL TAX]

(Deductions u/s 16)

ALLOWANCES

Payments in cash made by the employer to his employees monthly, other than salary.

Three types:

1. Taxable allowance
2. Allowance exempted up to specified limit.
3. Fully exempted allowances.

TAXABLE ALLOWANCES

- Dearness allowance & dearness pay
- City Compensatory allowance
- Fixed medical allowances
- Tiffin allowances
- Servant allowance
- Non practicing allowances
- Hill allowances: If the place is located at less than 1000 m height from sea level
- Warden allowances & Proctor allowances
- Deputation allowances
- Overtime allowances

ALLOWANCES EXEMPTED UPTO SPECIFIED LIMIT

HOUSE RENT ALLOWANCE(HRA)

An allowance granted to an assessee by his employer to meet the payment of rent of residential accommodation,

(Rule 2A)Least of the Following amounts Shall be exempt

1. HRA actually Received by the assessee or
2. Excess of rent paid over 10% of salary due to him for the relevant period or
3. (i)If the accommodation is situated in Mumbai,Kolkata,Delhi or Chennai- 50% of the Salary due to the assessee
(ii)If accommodation is situated at any other place - 40% of salary due to the assessee

➤ **SALARY HERE MEANS: BP+DA(If the terms of employment provide)+Commission based on turnover**

➤ **If the assessee is living in his own house or in a house where no rent is paid HRA is Fully taxable**

□ ENTERTAINMENT ALLOWANCE

Amount granted as Entertainment allowance by the employer is included under the head Salaries

■ Least of the following is allowed as deduction .

(a) In case Of GOVT.Employees [Sec 16(ii)]

(i) Actual amount received OR

(ii) $1/5^{\text{th}}$ of basic salary OR

(iii) Rs5000

(b) Non-Govt .Employees NIL

Salary means: Basic salary exclusive of any allowance, benefits or perquisite

TYPES OF SPECIAL ALLOWANCES

▶ Those which are exclusively to be incurred in the performance of duties of his Office. Exempt to the extend actually spent.

▶ Those which are to meet Personal Expenses These are Exempt upto Specified limit

THOSE WHICH ARE EXCLUSIVELY TO BE INCURRED IN THE PERFORMANCE OF DUTIES OF HIS OFFICE.

■ **Travelling Allowance**

Cost of travel on tour or transfer

■ **Daily Allowance**

Cost on tour or on transfer to meet the ordinary daily charges

■ **Conveyance allowance..**

Cost on conveyance in the performance of duties of an Office

- **Helper Allowance**

Cost on helper for the performance of official duties

- **Academic Allowance**

For academic research and other professional pursuits

- **Uniform Allowance**

To meet the expense on the purchase or maintenance of uniform etc.

They are Exempt to the extend actually spent

THOSE WHICH ARE TO MEET PERSONAL EXPENSES
- THESE ARE EXEMPT UPTO SPECIFIED LIMIT

■ **Running Allowance**

Granted by the employer to those working in Transport system to meet Personal expenses while on duty

70% of such allowance

or

Rs 10,000 p.m.whichever is less

provided that no daily allowance is received

- **Education allowance**

To meet Educational expenses of children ..Rs 100p.m.per child upto maximum of 2 Children

- **Hostel allowance**

**To meet hostel expenses of children..
Rs 300per month per child upto maximum of 2 Children p.m**

- **Transport allowance** ..To meet the commutation expenses between the place of residence & place of duty .. Employee is **handicapped**: Exempted upto **RS.3200pm**
- **Tribal area allowances** : upto Rs.200 p.m, in Madhya Pradesh, Tamil Nadu, U.P, Karnataka, Tripura, Assam, West Bengal, Bihar & Orrisa.
- **Compensatory Field area allowances**: Upto Rs.2600 p.m
- **Compensatory modified Field area allowances**: Upto Rs.1000 p.m
- **Underground allowance**: Upto Rs.800 p.m

SPECIAL COMPENSATORY ALLOWANCES IN THE NATURE OF:

Special compensatory (hill area) allowances, High altitude allowances, uncongenial allowances, Snow bound area allowances, avalanche allowances

- I. **Rs.800 p.m** : Manipur, Arunachal pradesh, Sikkim, U.P, Himachal Pradesh & Jammu & Kashmir.
- II. **Rs.7000 p.m** :Siachen area of Jammu & Kashmir.
- III. **Rs.300 p.m**: located at a height of 1000m or more above the sea level

SPECIAL COMPENSATORY ALLOWANCES IN THE NATURE OF:

Border area allowances, remote locality allowances,
Difficult area allowances, Disturbed area allowances.

A. Rs.1300p.m

- i. Little Andaman, Nicobar & Narcondum islands.
- ii. North & middle of Andamans.
- iii. Throughout Lakshadweep & Minicoy Islands.
- iv. All places on or north of certain points of demarcation line in Arunachal Pradesh.
- v. Throughout Chintuipui District of Mizoram & areas beyond 25 km from Lunglei town of Mizoram.
- vi. Specified areas in H.P, J&K, U.P
- vii. Throughout Sikkim state

b. Rs. 1100 p.m : Installation in the continental shelf of India & the exclusive economic zone of India .

c. Rs. 1050 p.m:

- i. Throughout Arunachal Pradesh other than areas covered above (A, iv)
- ii. Throughout Nagaland
- iii. South Andaman
- iv. Throughout Lunglei District (excluding areas beyond 25 km from Lunglei town) of Mizoram.
- v. Specified areas in H.P, J&K,

D. Rs.750 p.m :

Throughout Aizawal District of Mizoram, Tripura, Manipal & specified areas of H.P & J&K

E.Rs.300 p.m : Jog falls in Shimoga District of Karnataka.

F. Rs.200 p.m: Throughout HP except provided above & Assam & Meghalaya.

FULLY EXEMPTED ALLOWANCES

- **Foreign allowances:** Paid by Indian govt. to an Indian citizen outside India for rendering service abroad. Not available to non govt. employees
- **Sumptuary Allowances to High court or Supreme court Judges**
- **Allowances from UNO:** Paid by UN Organization to its employees.
- **Per-diem Allowance:** paid for the purpose of use of hotel, boarding, lodging facility to an employee.

PERQUISITES

- The term Perquisite means **any benefit** attached to an office or position **in addition to salary** or wages
- For Income tax purpose benefits **received in kind** and which are **convertible into cash** are perquisites .
- Perquisites **received in cash** are called as **allowances**.

□ Perquisites are of 3 types:

- Taxable in all cases
- Taxable for specified employees only &
- Tax-free perquisites

VALUATION OF PERQUISITES

Those perquisites which are either taxable in all cases or in specified cases are to be valued.

1. VALUATION OF RESIDENTIAL ACCOMMODATION

• Govt. Employees

- (a) Unfurnished... Amount fixed by the Govt.
- (b) Furnished..

•(b) **Furnished..**

	Amt. determined above
Add:	10%of Cost of furniture OR Hire charges(if any)
Minus	Amount paid or payable by the employee (if any)
	Value of Accommodation

OTHER EMPLOYEES/NON-GOVT. EMPLOYEES

❖ ACCOMMODATION OWNED BY THE EMPLOYER

Unfurnished

Cities having population	
➤ exceeding 25 lakh as per 2001 census	15% of salary for the period of use
➤ 10 lakh but less than 25 lakh	10% of salary for the period of use
➤ Other Places	7.5% of salary for the period of use

If it is Furnished

ADD: 10% of Cost of Furniture Or Hire charges

Minus: any amount paid or payable by the employee

ACCOMMODATION TAKEN ON RENT BY THE EMPLOYER

	Actual rent <u>or</u> 15% of salary for the period in use whichever is less
Add	<u>If it is Furnished</u> 10% of Cost of Furniture Or Hire charges
Minus	any amount paid or payable by the employee
	Value of Accommodation

Accommodation provided in a hotel (govt. or non gov.) : Its value shall be:

❑ Provided on his **transfer**-period in aggregate **does not exceed 15 days- value:nil**

❑ **Other Cases: Value of perquisites shall be:**

24% of the salary paid or payable for the PY

or

Actual charges paid or payable to such hotels

Whichever is lesser

❖ If any amount is paid or payable by the employee shall be reduced from the above amount and the balance shall be the value of perquisites.

Accommodation provided at site

[mining site or an onshore oil exploration site or a project execution site or a dam site or power generation site or an off shore site]

1. Temporary nature- area not exceeding 800 sq.ft.- located not less than 8km away from local limit of any municipality or
2. Is located in remote area

The value of such accommodation shall be nil.

- ❖ **Remote area:** located at least 40 kms away from town having population not exceeding 20000 as per latest all India census.

Accommodation at the time of transfer

- On account of transfer accommodation will be provided in the new place of posting and if he retains the accommodation of other place, **value of perquisite shall be taken for the accommodation which has lower value.**
- This benefit shall be available only for a period of **90 days**, after **its expiry** value of perquisites shall be **charged for both the accommodation.**

Salary here is:

1. Basic salary (excluding advances or arrear of salary received).
2. Taxable allowances.
3. Bonus
4. Commission.
5. Any other payments in cash. (excluding DA not entering into retirement benefits of the employee, employer's contribution to RPF, allowances exempted from tax and value of perquisites.)

VALUATION OF PERQUISITES -INTEREST FREE LOAN

Loan amount does not exceeds Rs 20,000- Value Nil

Loan for specified medical treatment(cancer, tuberculosis, AIDS etc.)- Value Nil

Loan for any other purpose except discussed above:

The value shall be the sum equal to the interest computed at the rate charged per annum by Sbi

❖ FREE FOOD -

Provided during working hours is exempt upto **Rs 50** per meal.

Tea & Snack provided during working hour- **Value: nil**

❖ Gift

In kind: up to **Rs 5000** exempt

In cash or convertible into cash: **Taxable**

❖ **Club Expenses:** Actual amount incurred- amt paid by the employee

❖ Use of Movable Asset other than (Laptops & Computers)

- Asset owned by the employer: **10%p.a.** of the actual cost. If used for **more than 10 years: Value Nil**
- Asset on rent.. **Actual rent – Amt paid or recovered from employee**

❖ Valuation of Transfer of Movable Asset

	Computer & Electronic items	Motor cars	Other movable items
Cost of assets	xxxx	xxxx	xxxx
Less Depreciation	@50% WDV	@20% WDV	@10% SLM
Less Amt. recovered from employee	xxx	xxx	xxx
Value of Perquisite	xxxx	xxxx	xxxx

ALLOTMENT OF SWEAT EQUITY SHARES

Sweat equity shares are the shares issued by the company to its employees or directors, either at discount or for consideration other than cash

The value of such shares allotted to employees

Value of perquisite:-

FMV of shares- Amt. received from the employee

PERQUISITES TAXABLE IN CASE OF SPECIFIED EMPLOYEES

❖ **Specified Employee means who satisfy any of the following 3 conditions :**

- 1. A Director cum employee or**
- 2. An employee having substantial interest in the Co.-not less than 20% voting power or**
- 3. Any other employee with a taxable salary exceeding Rs 50,000 excluding the value of perquisites.**

- ❑ **Sweeper, watchman, gardener & personal attendant:** Salary paid- Amt. recovered from the employee
- ❑ **Gas, electricity & water:** Amt paid to agency paid- Amt. recovered from the employee
- ❑ **Transport facility:** Provided to any employee or any member in household for pvt. Journey free of cost:
Value of perquisite: **Value at which such benefit is offered to public- amt. recovered from the employee**
- In case of an employee of **an Airline or the Railways** the value of transport facility shall be **NIL**

□ Facility of motor car

Car owned or hired by employer:

Office Duties: Nil

PRIVATE PURPOSE:

Actual amt. incurred for running & maintenance of motor car	xxx
Remuneration if any paid to chauffeur	xxx
Add Depre. @10% p.a of the actual cost	xxx
Less Amt. charged from the employee	xxx
	<hr/>
Value of Perquisite	xxx

Car owned or hired by the employer:

Partly official & partly personal

Expenses met by employer

Small car (cc less than 1.6 litre): 1800 p.m

Large car (cc exceeds 1.6 litre): 2400 p.m

It **chauffeur** is also provided, add 900 p.m

Expenses met by employee

Small Car: 600 p.m

Large car : 900 p.m

It **chauffeur** is also provided, add 900 p.m

Car owned by the employee:

- Official purpose: **Value Nil.**
- Private/ personal purpose: value equal to **amt. reimbursed.**
- **Partly for official & partly for personal, Value of perquisite:**
 - **Small car:** Amt. reimbursed - (1800 p.m +900p.m Chauffeur)
 - **Large car:** Amt. reimbursed - (2400 p.m +900p.m Chauffeur)

EDUCATIONAL FACILITY

Where educational institution is itself owned by the employer or educational facilities are provided in another institution by the employer and the value per child doesn't exceed Rs 1,000p.m. Taxable Value ...nil

If it exceeds Rs 1,000 p.m..... Taxable Value...Cost of such education in a similar institution in or near the locality

TAX FREE PERQUISITES

Medical benefits

Tea or snacks provided in the office

Residential accommodation provided at site.

Telephone & mobile expenses

Scholarship to employees & their children

Cost of refresher course

Facility of conveyance from residence to office & vice-versa

Tax paid by the employer on the value of perquisites

Perquisites to the govt. employee posted abroad.

Employers contribution to staff group insurance scheme

Laptops & computer: personal use of employee or his household.

Rent free house & conveyance facility provided to supreme court & high court judge

Leave travel concession

LEAVE TRAVEL CONCESSION SEC 10(5)

The employee is entitled to exemption in respect of the value of travel concession or assistance received by or due to him from his employer or former employer for himself & his family:-

- ✓ On leave to any place in India
- ✓ To any place in India after retirement from service or after the termination of his service

EXEMPTION SHALL BE ALLOWED SUBJECT TO THE FOLLOWING:

- ❑ Air: amount not exceeding the air economy fare (shortest route) or actual amount spent, whichever is less.
- ❑ Where places are **connected by rail** and journey is performed by any mode other than air: an amount not exceeding the air conditioned first class rail fare (shortest route) or actual amount spent, whichever is less..

NOT CONNECTED BY RAIL:

- Where a recognised public transport system exists, an amount not exceeding the first class or deluxe class fare on such transport by the shortest route to the place of destination or actual amount spent, whichever is less.; &
- Where no recognised public transport system exists, an amount equivalent to the air-conditioned first class rail fare, for the distance of the journey by the shortest route, as if the journey has been performed by rail or actual amount spent, whichever is less.

Medical Benefits: Treatment in India

- Treatment of employee or his family member in employer's hospital: **Fully exempt**
- Any sum paid by the employer towards the expenditure incurred by the employee on medical treatment of employee or his family in
 - ❖ **Govt. hospital or govt approved hospital : Fully exempt**
 - ❖ **In respect prescribed diseases or ailments approved by chief commissioner**
- **Fully Exempt**
- Payment or reimbursement of premium in respect of health insurance of the employee or any member- **Fully Exempt**

Medical treatment outside India:

The following expenditure incurred by the employer on the treatment of the employee or his family members outside India is also tax free perquisite.

1. **Expense on medical treatment** to the extent permitted by RBI.
2. **Expense on stay abroad** of the employee or any members of the family for medical treatment with 1 attendant permitted by RBI.

Travel expense of the patient & 1 attendant **shall be tax free if GTI does not exceeds 200000.**

3. Reimbursement of expenditure actually incurred by the employee for purpose specified in 1 & 2 is exempt, subject to the same condition as stated above.

PROFITS IN LIEU OF SALARY

It includes:

- ❖ Any compensation received by an assessee in connection **with termination** of his employment
- ❖ Any amount due or received from employer or former employer
- ❖ Any payment made from the **unrecognized provident Fund to the extent of the Employer's contribution and interest thereon.**
- ❖ Any amount received under A **Keyman Insurance Policy** including the amount of bonus
- ❖ Any payment due or received from any person before joining any employment with that person or after cessation of employment with that person

PROVIDENT FUND

- **Statutory PF:** maintained by govt & semi govt. offices like universities, nationalised banks, educational institutions etc.
- **Recognised PF:** scheduled banks, factories & several other business.
- **Unrecognised PF:** approved by PF commissioner but not by commissioner of income tax, maintained by pvt.sector org.
- **Public PF:** Every individual (including salaried person) can subscribe to this fund any amount being not less than 500 & not more than 150000 in a year.

AMOUNT WHICH IS INCLUDED IN INCOME

SPF	RPF	UNRECOGNISED PF
Employer's contribution & interest not included	Included: <ul style="list-style-type: none">➤ Employer's contribution in excess of 12% of employees salary➤ Interest on PF in excess 9.5% are included in employees income	Employer's contribution & interest not included



Here salary includes:

Basic salary+ DP+ commission based on turnover

DEDUCTIONS FROM SALARY (SEC 16)

Standard deduction: 50000 [u/s 16 (ia)]

Entertainment allowance [u/s 16 (ii)]

Tax on employment [u/s 16 (iii)]

INCOME FROM SALARY: RETIREMENT

When employee retires from service or leaves a job & joins the other or he is retrenched, he receives some special payments from employer

1. Gratuity Sec10(10)
2. Pension & Commuted value of pension Sec10(10A)
3. Earned leave salary Sec10(10AA)
4. Compensation on retrenchment Sec10(10B)
5. Compensation on voluntary retirement Sec10(10C)
6. Amount of provident fund. Sec10(11)(12)

GRATUITY:

Sum of money paid by an employer to an employee for service rendered in the company.

For exemption of death cum retirement gratuity, employees are classified into:

- Govt. employees
- Non Govt employees
- ✓ Non Govt employees covered by payment of gratuity act, 1972.
- ✓ Non Govt employees not covered by payment of gratuity act, 1972.

GOVT. EMPLOYEES OR LOCAL
AUTHORITY EMPLOYEES

GRATUITY: FULLY EXEMPTED

NON-GOVT.EMPLOYEES-COVERED BY THE PAYMENT OF GRATUITY ACT,1972

LEAST OF THE FOLLOWING IS EXEMPT

1. 15/26 DAYS SALARY LAST DRAWN , FOR EVERY COMPLETED
YEAR OF SERVICE (7 DAYS IN CASE SEASONAL
ESTABLISHMENT)(more than 6months service taken as 1 year)

or

2. Rs 20,00,000 or

3. GRATUITY ACTUALLY RECEIVED

❖ Here SALARY=BP+DA

NON-GOVT.EMPLOYEES-NOT COVERED BY THE PAYMENT OF GRATUITY ACT,1972

LEAST OF THE FOLLOWING IS EXEMPT

➤ **1/2 MONTH'S SALARY BASED ON AVERAGE SALARY OF LAST 10 MONTHS PRECEEDING THE RETIREMENT OR DEATH , FOR EACH YEAR OF COMPLETED SERVICE (PART OF A YEAR WILL NOT BE CONSIDERED) or**

➤ **Rs 20,00,000 or**

➤ **GRATUITY ACTUALLY RECEIVED**

❖ **Here SALARY=BP+DA(AS PER THE TERMS)+COMMISSION BASED ON TURNOVER**

PENSION

- ❑ It is a payment made by the employer after the retirement/ death of the employee as a reward for past service.
- ❑ It is normally paid as a periodic payment on monthly basis but employer may also allow an employee to forgo a portion of the pension and receive lumpsum amount by surrendering such portion of pension. This is known as commutation of pension.
- ❑ It may be fully or partly commuted.

Treatment of Pension

1. UNCOMMUTED (MONTHLY) PENSION: TAXABLE FOR ALL EMPLOYEES
2. COMMUTED PENSION
 - a) GOVT. EMPLOYEES: EXEMPT
 - b) NON GOVT. EMPLOYEE
- ✓ IF HE IS IN RECEIPT OF GRATUITY: COMMUTED VALUE OF 1/3 OF THE PENSION IS EXEMPT
- ✓ IF HE IS NOT IN RECEIPT OF GRATUITY: COMMUTED VALUE OF 1/2 OF THE PENSION IS EXEMPT

EARNED LEAVE SALARY

1. LEAVE ENCASHED DURING SERVICE:
TAXABLE FOR ALL EMPLOYEES
2. LEAVE ENCASHED AT THE TIME OF
RETIREMENT:
 - a) GOVT. EMPLOYEES: **EXEMPT**

b) NON GOVT. EMPLOYEES

LEAST OF THE FOLLOWING IS EXEMPT:

1. Amount of **Salary on the basis of average salary for the approved period for which earned leave has not been availed**

2. **Maximum 10 months salary on the basis of average salary drawn**

3. **300000**

4. **Leave salary actually received**

- ❖ Salary= B/P+ DA (if part of salary)+ commission if fixed % on turnover
- ❖ Average monthly salary is to be computed on the basis of average of 10 month's immediately preceding retirement.
- ❖ Approved period means at the rate of 30 days for every years of service

Retrenchment Compensation

Least of the following is exempted:-

1. 15days average pay for each year served
2. 5,00,000
3. Amount received

Service period: Completed year+ 1yr excess over 6 months

Average Pay:

Monthly salary: based on last 3 months pay

Weekly wages: last 4 completed weeks

Daily wages :last 12 full working days

Salary here:-

1. Remuneration in money
2. Allowances
3. Value of house accommodation, Supply of light, water, medical attendance, other amenity or service or any concessional supply of food grains or other articles
4. Travel concession

Does not include:-

Bonus, contribution to provident or pension fund & gratuity

Compensation on Voluntary Retirement

Least of **the** following is exempted:-

1. 3 month's salary for each year served
 2. Salary at the time of retirement multiplied by balance month of service left before retirement.
 3. 5,00,000
 4. Amount received
- **Only completed years months ignored**
 - **Salary= B/P+ DA(as per the terms of employment)+ Commission based on turnover**

Lump Sum amount received from Provident Fund

- Statutory PF: Exempt
- RPF: Exempt if service period was at least continuous 5 years or if the service period was less on account of his ill health or other reasons beyond his control
- URPF
 1. Employers contribution: Taxable U/H salary
 2. Interest on (1) above: Taxable U/H salary
 3. Employees Contribution: Exempt
 4. Interest on (3)above: Taxable U/H Income from other sources

INCOME FROM HOUSE PROPERTY

• Annual value of any Property is assessable under this head based on the following 3 conditions.

1. Assessee is the owner of the property

2. Property means Building & attached Land

3. Property not used by the owner for business or Profession

Main points –while assessing AV

- **Income from house property situated abroad: Taxable only for residents**
- **Property owned by co-owners: chargeable individually .**
- **Composite rent-building let out with facilities like electricity,water,lift etc.-rent belonging to the building is taxed U/H income from house property.**
- **Sub-letting is chargeable as Income from other sources .**
- **Paying guest accommodation is business income**

□ COMPUTATION OF INCOME FROM HOUSE PROPERTY

I COMPUTATION OF GROSS ANNUAL VALUE

II COMPUTATION OF ANNUAL VALUE

**III COMPUTATION OF INCOME FROM HOUSE
PROPERTY**

I COMPUTATION OF GROSS ANNUAL VALUE(GAV)

GAV = Expected Rent Or Actual Rent
Whichever is Greater

Expected Rent = Municipal Value or Fair Rent
Whichever is Greater subject to
Standard Rent fixed as per Rent Control Act

Expected Rent can not be more than Standard
Rent

II COMPUTATION OF ANNUAL VALUE

- $AV = GAV$ minus the Following :
 1. Municipal tax paid by the owner irrespective of the PY for which it is paid. MT includes water tax, Fire tax, educational cess ,local authority tax etc.
 2. **Unrealised Rent as per Rule 4 .**

Vacancy

- House remains vacant for full year: **Value nil**
- House remain vacant for part of the year

If $AR(\text{for the let out period}) < ER$ (due to vacancy), then $GAV=AR$

III COMPUTATION OF INCOME FROM HOUSE PROPERTY

- INCOME FROM HOUSE PROPERTY = AV minus the Following:

1. 30% of AV as Standard deduction

2. Interest for the PY. (Paid or Not)on loans taken for purchasing, constructing, repairing the house property .

3. 1/5 of interest for pre-construction period or pre-acquisition period

pre-construction period =Date of borrowing to 31st March preceding the date of completion or date of repayment whichever is earlier.

Self occupied House

- Annual value of 2 self occupied house is nil.
- Deduction can be made towards interest on loan as follows:-
 - ✓ Where such property is acquired or constructed, repaired, renewed, **the maximum limit of interest deductible is 30000**
 - ✓ Where such property is acquired or constructed, **with money borrowed after 31-03-1999, the maximum limit of interest deductible is 200000**(w.e.f.AY 2015-16) provided acquisition or construction is **completed within 5 years** from the end of financial year in which capital was borrowed.

A part of the house self occupied
throughout the year.

- AV of the part of the self occupied= Nil
- AV of let part is calculated as usual

House self occupied for a part of the year & let out for the remaining period

- In such a case house will be treated as let out house & calculation will be made as usual

More than 2 house self occupied

Where owner occupies more than 2 houses, for his residence, **the annual value of 2 house (of his choice) is nil** & other house or houses shall be **deemed to be let out.**

Module III

Profits and gains of business or
profession

- **Business:** Includes any trade, commerce or manufacture.
- **Profession:** Activities of earning livelihood which require intellectual skill or manual skill. Eg. Lawyer, Musician, Doctor, insurance agent etc.

INCOMES CHARGEABLE UNDER THE HEAD PROFITS AND GAINS OF BUSINESS OR PROFESSION

1. Revenue or profit from business or profession.
2. Amount due or received as compensation for termination of management or agency or modification of its terms and conditions.
3. Income of an association from specific services performed for its members.
4. Profit on sale of import licence.
5. Cash assistance received from the govt. for exports.
6. Income from speculative transactions.
7. Value of any benefits or perquisites arising from any business or the exercise of a profession.
8. Any sum received under keyman insurance policy including bonus.

COMPUTATION TAXABLE INCOME FROM BUSINESS

	Profit as per P&L a/c		-----
Add	Expenses or losses disallowed but charged in P&L a/c		
	Income taxable as business income but not credited to the P&L a/c	-----	
	Expenses in excess of the allowed amount charged in P&L a/c	-----	
	Under valuation of closing stock or over valuation of opening stock	-----	-----
Less	Expenses or losses allowed but not debited to P&L a/c	-----	
	Income not taxable as business income but credited to the P&L a/c	-----	
	Income exempted from tax but credited in P&L a/c	-----	
	Under valuation of opening stock or over valuation of closing stock	-----	-----
	Taxable Income from Business		-----

❖ List of Usual Disallowed Expenses

- Income tax, Provision for income tax
- Wealth tax
- GST if not paid before the due date of filing returns
- Provision for gratuity / Provision for doubtful debts/ Provision for discount on Drs.
- Interest on capital
- Life Insurance Premium
- Personal Expenses
- Capital Expenditure

- Payment in cash exceeding Rs 10,000/day in aggregate per person
- Transfer to Reserves
- Donations, charity, presents & gifts (not for business.)
- Expenses on issue of shares, debentures etc.
- Dividend paid, Proposed dividend, interim dividend
- Loss on sale of fixed Assets/investments
- Any royalty or service fee etc. paid by a state govt. undertaking to a state govt.

- **Excess Depreciation**
- **Contribution to political parties**
- **Penalty for infringement of law (interest for delay in payment of GST is not a penalty).**
- **Interest on loan for payment of income tax.**
- **Litigation expenses not related to business.**
- **Excessive payments to relatives or associates.**
- **Advertisement in a souvenir of a political party.**
- **Any payment of interest, royalty or fees for technical services made outside India without deduction of tax at source.**

List of Usual Disallowed Incomes

- 1. Interest on securities/deposits**
- 2. Dividends**
- 3. Rent from house Property**
- 4. Profit on sale/revaluation of assets**
- 5. Income-tax refunds**
- 6. Gifts from relatives**
- 7. Capital Receipts**
- 8. Agricultural Income**
- 9. Bad debts written off recovered (If bad debts were not allowed earlier)**

List of Usual Allowed Expenses/General Deductions allowed

- **All expenses for conduct of business**
- **Depreciation as per Income-tax rules**
- **Loss on robbery**
- **Expenses related to income-tax Proceedings**
- **Bad debts written off**
- **Interest on borrowed capital.**

- **contributions to PF or any Statutory Fund
Other than Simply any Staff welfare Fund**
- **Provision against risk of damage to stock or
assets**
- **Loss due to non recovery of advances**
- **Expenditure on promotion of family planning
(if capital expenditure only 1/5th is
allowable**

Provisions Relating to Depreciation

❖ **Depreciation is Chargeable both on tangible assets (P&M, Building etc.) & Intangible assets (Patent, Trade mark etc.)**

Two Essential conditions for charging depreciation are :

- **Asset should be owned wholly or partly by the assessee.**
- **It should be used for the Assessee's own business or Profession**

❖ **Computation of Depreciation for Income tax purpose is different from the depreciation of Financial accounting**

- 1. Depreciation is calculated on block of assets-Block of assets means assets comprising both tangible & Intangible assets in respect of which the same % of depreciation is prescribed.**
- 2. Depreciation is always calculated on WDV on all assets except assets engaged in generation and distribution of power.**
- 3. If the asset is used for less than 180 days in the PY , depreciation is charged @ 50 % of the normal rate.**

Brief List of Rates Of depreciation

w.e.f A.Y 2006-07

- **Buildings used for residential Purpose..... 5%**
- **Other buildings..... 10%**
- **Furniture & Fittings.....10%**
- **Machinery & Plant..... 15%**
- **Motor cars (other than used in.....15%**
a business of running them on hire)
- **Motor buses, motor lorries & cars used in business
of running them on hire.....30%**
- **Books.....40%**
- **Other books.....60%**
- **Computers including software40%**
- **Intangible assets.....25%**

Additional depreciation on Plant & machinery

- ❖ On new P&M purchased after 31-3-2005 Additional depreciation @20% is to be allowed.

TEA DEVELOPMENT ACCOUNT, COFFEE DEVELOPMENT ACCOUNT AND RUBBER DEVELOPMENT ACCOUNT [SEC 33AB]

- Deduction is allowed from profit of assessee growing tea, coffee & rubber in India.
- Assessee should deposit in a special account with NABARD in accordance with the scheme approved by the board.

Deduction is:

Amount so deposited or 40% of the profit whichever is less

EXPENDITURE ON SCIENTIFIC RESEARCH [SEC 35]

- Revenue expenditure incurred by the assessee by himself : Fully deducted
- Capital expenditure incurred by the assessee by himself(excluding land) : Fully deducted.
- Contribution made to an approved research association, university, college or other institutions : Deduction- 150% of the amount contributed.
- Sum paid for scientific research to a company: Deduction- 100% of the amount paid.
- Sum paid for social or statistical research: Deduction- 100% of the amount paid.
- Sum paid to a National Laboratory or a recognised university or an Indian Institute of Technology (approved by the prescribed authority) Deduction- 150% of the amount paid.
- Expenditure on in-house research: Deduction- 150% of expenditure upto 31.3.2017.

COMMODITIES TRANSACTION TAX (CTT)

A new tax called CTT is to be levied @0.01% on a transaction of sale of commodity derivative in respect of commodities other than agricultural commodities, traded in recognised associations

MODULE IV

- **Capital gains: Definition of Capital Assets – Long term and Short term – Transfers –Cost of acquisition – Cost of improvement – Exempted Capital gains.**

CAPITAL GAINS

- CAPITAL GAINS...

Any profit arising from the sale of a capital asset

- CAPITAL ASSET

Property of any kind held by an assessee whether for personal use or for business or profession.

Eg: L&B, P&M, Investment, Goodwill, leasehold rights, jewellery, shares, manufacturing licence etc.

SHORT TERM CAPITAL ASSET

Capital asset held by an assessee for not more than 36 months immediately before the date of transfer.

LONG TERM CAPITAL ASSET

Capital asset held by an assessee for more than 36 months immediately before the date of transfer

- **TRANSFER**

Means Sale, exchange, compulsory acquisition under law ,conversion in to Stock –in- trade etc.

- **Capital Asset doesn't include the following**
 - **Stock in Trade, stores etc.**
 - **Personal Items...Clothes, Utensils, Furniture etc. (Except Jewellery, Paintings, drawings etc.)**
 - **Agricultural land Situated in India**
 - **Gold Bonds**
 - **Special bearer bonds**
 - **Gold Deposit bonds**

COMPUTATION OF CAPITAL GAINS

COMPUTATION OF SHORT TERM CAPITAL GAINS (STCG)

$$\begin{aligned} \text{STCG} = & \text{FULL VALUE OF CONSIDERATION(SALES VALUE)} \\ & \text{Less Cost of Acquisition} \\ & \text{Less Cost of Improvement} \\ & \text{Less selling Expenses} \end{aligned}$$

COMPUTATION OF LONG TERM CAPITAL GAINS (LTCG)

$$\begin{aligned} \text{LTCG} = & \text{FULL VALUE OF CONSIDERATION(SALES VALUE)} \\ & \text{Less Indexed Cost of Acquisition} \\ & \text{Less Indexed Cost of Improvement} \\ & \text{Less selling Expenses} \end{aligned}$$

❖ Indexed Cost of Acquisition=

Cost of Acquisition X CII of the year in
which the
asset is sold

CII of the year
in which the asset
is Purchased



.....
Indexed Cost of Improvement =

Cost of Improvement X CII of the year
in which the asset
is sold

CII of the year in which the
Improvement took place

CII MEANS COST INFLATION INDEX

□ Cost of Acquisition OF ASSET Acquired
before 1-4-2001

Cost of Acquisition = Cost of asset or its fair market value on 1-4-2001 whichever is higher

□ Cost of Improvement before 1-4-2001

It will be ignored while computing capital gain

Capital Gains on sale of Shares

- **When shares are sold after holding them for more than 12 months ,it will be treated as LTCG**

Cost of Bonus Shares

After 1st April 1981 : NIL

Cost of Acquisition of Right Share: Actual
amount paid

Conversion of Capital Asset into Stock in Trade

There are 2 outcomes:

Capital gain = FMV - indexed cost of acquisition.

Indexed cost of acquisition

$$= \text{Cost} \times \frac{\text{CII of the year of conversion}}{\text{CII of the year of acquisition}}$$

Profit or loss from business

$$= \text{sales consideration} - \text{FMV}$$

Capital Gain Exempted from Tax

An assessee gets an exemption from capital gain tax, if he invests it in specified assets.

Capital Gain arising on Transfer of **House Property (Sec 54)**

1. Owned by individual or HUF
 2. Used for residential purpose
 3. Income from such house is chargeable under the head H/P
 4. Asset held by assessee for a period exceeding 36 months before transfer
 5. .
- ✓ Assessee has within a period of 1 year before or 2 year after the date of transfer **purchased a residential house**
or
 - ✓ Within a period of 3 years of transfer, constructed a residential house.

Amount of Exemption:

1. Actual cost of new house (2 house)
 2. Amount deposited in the Capital Gain Account Scheme (CGAS)
- ❖ *The new house purchased or constructed should not be transferred within 3 years of its purchase or construction. If it is transferred exemption given earlier will be withdrawn.*

Capital Gain arising on transfer of **Agricultural Land (Sec 54B)**

Situated in urban area is exempted subject to the following conditions:

1. Owned by individual or HUF
2. Held by assessee for atleast 2 years preceding the date of transfer for agricultural purpose
3. The assessee has **purchased the an agricultural land** within a period of 2 years of transfer

Amount of Exemption

- Cost of new agricultural land purchased
 - Amount deposited in CGAS on or before the due date of furnishing the return.
-
- ❑ The new agricultural land acquired should not be transferred within a period of 3 years of its purchase.

Capital Gain on compulsory acquisition of land or building (SEC 54D)

For the purpose of industrial undertaking is exempt if the following conditions are satisfied:

1. The asset is held by the assessee for atleast 2 years immediately preceding the transfer.
2. The assessee has within a period of 3 years after the transfer **purchased the land or building** or constructed any other buildings

Amount of Exemption:

1. Cost of such land or building acquired.
 2. Amount deposited in CGAS.
- ❖ The new assets should not be transferred within a period of 3 years of its purchase. If transferred benefits of exemption will be withdrawn.

**Capital Gain arising from transfer of long term capital asset land or building or both only & invested in specified asset
(Sec 54EC)**

Transferred **within 6 months** from the due date of transfer, the amount invested in capital asset will be exempted **upto 50 Lakhs**.

Specified assets are:

- Bonds issued by the **National Highway Authority of India (NHAI)** redeemable after 5 years, or
- The bonds issued by **Rural Electrification Corporation Ltd.** Redeemable after 5 years.
- Investment in notified bond redeemable after 5 years

Capital gain on the transfer of any capital asset
invested in units of a specified fund (w.e.f AY 2017-
18) (Sec 54EE)

- Its objective is to promote start up ecosystem in the country.
- Provision of this section are same as discussed in Sec 54EC except the asset in which LTCG should be invested
- Asset of investment: A unit or units, issued before 1/4/2019, of such fund as may be notified by the Central govt. in this behalf.

Capital gain on transfer of long term asset other than Residential House (Sec 54F)

- The assessee within 1 year before or within 2 year after the date of transfer, **purchase a residential house** or construct a new house within 3 years of such transfer.
- Income of newly acquired residential house is chargeable under the head income from H/P.
- Assessee does not own more than 1 residential house on the date of transfer other than mentioned above

Amount of Exemption :

- **Cost of new house more than net consideration :**
Entire **Capital gain exempt**.
- **Cost of new house less than the net consideration** the exemption will be granted proportionately
= Amt invested in new house X Capital Gain
Net consideration
- If any amount is deposited in CGAS, the aggregate of the cost of new house & the amount so deposited shall be deemed to be the cost of new residential house and proportionate amount as given above shall be exempt

Capital Gain on transfer of asset on shifting industrial undertaking from urban area to non urban area (Sec 54 G)

- The capital gain utilised to acquire P&M, L&B within a period of 1yr or 3 yr after the date of transfer.
- The newly acquired asset must be held for 3 yr.

Amount of Exemption:

- The cost of new asset acquired
- The amount invested in CGAS

Capital Gain on shifting of industrial undertaking from urban area to a Special Economic zone (Sec 54 GA)

- The cost of new asset acquired within 1 year before or 3 year after the date of transfer
- The amount invested in CGAS

Capital Gain on Transfer of Residential Property (Sec 54 GB)

- Transfers residential property or plot of land
- Utilises net consideration for subscription of equity shares or
- Purchase of new P&M within 1 year or
- Deposit in specified bank

Amount of Exemption:

$$= \text{Capital Gain} \times \frac{\text{Investment in new asset}}{\text{Net Consideration}}$$

INCOME FROM OTHER SOURCES

Any income which is taxable under the Act but doesn't find place under any of the four heads is taxable under this head.

LIST OF INCOMES CHARGEABLE UNDER THE HEAD INCOME FROM OTHER SOURCES

- ✓ Dividends:
- ✓ Winning from Lotteries, crossword puzzles, card games, reality shows ,gambling or betting
- ✓ Any sum received by the assessee from his employees as contribution to any PF or superannuation fund or any fund set up under ESI act,1948.
- ✓ Income by way of interest on securities
- ✓ Income from machinery, plant or furniture let on hire if the income is not chargeable to income tax act under the head 'Profit & Gains of Business or Profession'

✓ An individual or HUF receives, in any PY from any person or persons:

Assets	Amount to be included in income
1. Any sum of money without consideration exceeds 50,000	Full amount
<p>2. Any immovable property</p> <ul style="list-style-type: none"> ▪ without consideration, stamp duty value of which exceeds 50,000 ▪ For a consideration 	<p>The stamp duty value of such property</p> <p>The stamp duty value of such property as exceeds such consideration, if the amount of such excess is more than the higher of the following amounts:</p> <ul style="list-style-type: none"> ✓ The amount of 50000; & ✓ The amount equal to 5% of the consideration

3. Any property other than immovable property

- **without consideration**, the aggregate fair market value of which exceeds 50,000.

- **For a consideration** which is less than the aggregate fair market value of the property by an amount exceeding 50,000.

The whole amount of the aggregate fair market value

The aggregate fair market value of the property as exceeds such consideration.

But above provisions shall not apply to any sum of money or any property received:

- From a relative or
- Under a will or by way of inheritance; or
- On the occasion of marriage of the individual; or
- From any local authority or
- From any trust or institution registered u/s 12A or 12 AA
- From any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred u/s 10(23).

Continuation of income chargeable:

- ✓ Remuneration received by a teacher or a lawyer for doing examination work.
- ✓ Agricultural income from a land situated outside India.
- ✓ Rent of land not appurtenant to any building.
- ✓ Income from market, ferries & fisheries.
- ✓ Income from leasehold properties.
- ✓ Remuneration received for writing articles in Journals.

- ✓ Interest on securities
- ✓ Income from letting of machinery, plant, furniture, building etc. if it is not chargeable under the head profit & gains of business or profession.
- ✓ Income received under keyman insurance policy including bonus: not taxable under P&G of business or Profession or under salary.
- ✓ Royalties

- ✓ **Gifts from non-relatives**
- ✓ **Director's fees, commission**
- ✓ **Income from sub-letting the property**
- ✓ **Bank interest**
- ✓ **Amount received from Unrecognised PF**
- ✓ **Income from undisclosed sources**
- ✓ **Salary of MP, MLAS, etc.**
- ✓ **Family pension**
- ✓ **Tips received by the waiter or taxi driver, not being given by his employer.**

INTEREST ON SECURITIES

1. Tax-Free Govt. Securities:

The interest on which is fully exempt from tax. Neither included in total income nor it is taxed.

Interest on the following securities, bonds, deposits are fully exempt from tax:

For all assesseees

- ❖ Twelve year National savings Annuity certificates.
- ❖ National Defence gold bond, 1980.
- ❖ Special bearer bond, 1991.
- ❖ Treasury savings deposit certificate (10 years)
- ❖ Post office cash certificates (5 years).
- ❖ National plan certificates (10 years)
- ❖ National plan saving certificates (12 years).
- ❖ P.O national savings certificates (12/7 years)

- ❖ P.O savings bank account
 - Individuals a/c: Max exemption 3500
 - Joint a/c : Max exemption 7000
- ❖ P.O cumulative Time Deposit account (15 years)
- ❖ FD schemes governed by govt. saving certificates & post office.
- ❖ Special deposit schemes, 1981.
- ❖ Public amount in P.O upto 5000
- ❖ Gold deposit bonds, 1999.
- ❖ Bonds issued by local authority & specified by central govt.

B. For individuals & HUF: Interest on 7% Capital investment bonds

C. Interest on notified bonds or debentures of public sector companies.

D. Interest on securities held by the welfare commissioner of Bhopal gas victims, in the RBI.

2. Less Tax Govt. Securities These are taxable Govt. securities but no tax is deducted at source. Hence interest on such securities will not be grossed up.
3. Tax –free Non –Govt. /commercial Securities: These are issued by Statutory corporations, Companies etc. These are called tax free because the assessee doesn't have to pay tax from his pocket ,but the employer will pay the same and it is deemed to have been paid on behalf of the assessee, hence the amount of tax paid on any interest is added up in his income
4. Less Tax Non-Govt /commercial Securities : They are taxable Securities. Tax is deducted at source and balance is given to the assessee.

Formulae to find out Gross Amount

1. In case of an individual

❖ Tax free Govt. Securities : Exempt

❖ Less Tax Govt. Securities:

Not to be grossed up .

❖ Interest received on Savings (taxable) Bonds, if interest exceeds 10,000 :

Interest received X 100/90 (1/4/2020 to 13/5/2020)

Or Interest received X 100/92.5 (14/5/2020 to 31/3/2021)

❖ Interest received on debentures of a local authority or corporation or company listed in a recognized stock exchange in India :

Interest received $\times 100/90$ (1/4/2020 to 13/5/2020)

Or Interest received $\times 100/92.5$ (14/5/2020 to 31/3/2021)

❖ Interest received on other securities & debentures :

Interest received $\times 100/90$ (1/4/2020 to 13/5/2020)

Or Interest received $\times 100/92.5$ (14/5/2020 to 31/3/2021)

❖ On income from winning from lotteries & crossword puzzles:

Interest received $\times 100/70$

2. In the case of a Company:

Where the company is a domestic company:

❖ **On interest on securities:**

Interest received X 100/90 (1/4/2020 to 13/5/2020)

Or Interest received X 100/92.5 (14/5/2020 to 31/3/2021)

On interest other than interest on securities

Interest received X 100/90 (1/4/2020 to 13/5/2020)

Or Interest received X 100/92.5 (14/5/2020 to 31/3/2021)

❖ **On income from winning from lotteries & crossword puzzles:**

Interest received X 100/70

Deductions allowed from income from other sources

- Any sum paid by way of commission or remuneration to a bank or any other person for the purpose of realising such income on behalf of the assessee.
- The amount credited by the employer to the employees account before the due date, to any PF, if employees contribution to the fund is treated as income.
- Collection charges on interest earned
- Income from letting of machinery ,furniture or building: Current repair charges, depreciation, insurance premium are deductible.

- In the case of Family pension: **1/3 of such income or Rs 15,000 whichever is less is deductible.**
- From Interest on Compensation **50% of the same can be deducted.**
- Interest on loan taken for purchasing the securities
- In case of income from **subletting** of a house, **rent, repair charges** etc. can be deducted.
- Any other expenditure incurred wholly or exclusively for the purpose of earning an income is deductible.

Deductions Disallowed from income from other sources

- **Personal expenditure**
- **Payment of interest in foreign country without deducting tax.**
- **Payment of wealth tax**
- **Expenses related to lottery earnings, card games, cross word puzzles etc.**
- **Expenses related to exempted incomes**

Bond Washing Transactions

- **Method to avoid tax adopted by high income group of assesseees.**
- **Sell securities a few days before the due dates to close friends or relatives , and re-purchase after a few days of the due dates.**
- **If they are of low income group ,both the persons can escape from tax.**
- **To prevent this method of avoiding tax ,the Assessing officer can include such income in the Total income of the actual owner**