CHAPTER - 1
INTRODUCTION AND DEFINITIONS

INTRODUCTION

Income tax is a tax on income. Income tax is payable by a person whose income exceeds the non-taxable limit. Thus income tax is not payable by all but only by those whose income exceeds a particular limit. Since the burden of tax directly falls on the person having taxable income it is direct tax.

The provisions of Income tax are contained in the Income Tax Act, 1961. The Act applies to the whole of India and became effective from 1st April, 1962. The Income-tax Act contains provisions for determination of taxable income and tax liability.

Income-tax Act has undergone many amendments (changes) from time to time. Amendments are made by passing a Finance Bill in the Parliament. The Finance Bill also mentions the rate of Income-tax to be charged during the Assessment Year.

DEFINITIONS

To understand Income Tax Act in a better manner we have to first learn some definitions. The definitions given by the Act have been classified into two categories viz., Exhaustive definitions and inclusive definitions.

- **Exhaustive Definitions**

These are the definitions, which are definite, specific, complete and full. These definitions are comprehensive. There is no scope for interpretation other than what is expressively given in the definition. A definition is said to be exhaustive when it starts with the term “means”. For example, definition of ‘Assessment year’.

- **Inclusive Definitions**

Inclusive definitions are not completely defined. These definitions take into consideration the general and natural meaning of the term and in addition to that include several other things as specified by law. These definitions are not exact. They provide scope for interpretation. A definition is said to be inclusive when it starts with the term “includes”. For example, definition of ‘income’ is inclusive. It is to be understood in the wider sense.

1. ASSESSEE: SEC. 2 [7].

It is an exhaustive definition. According to section 2(7) of Income-Tax Act, 1961; ***Assessee means a person by whom any tax or any other sum of money (for eg: interest or penalty) is payable under this Act.*** The term assessee includes the following:

(i) Every person in respect of whom any proceeding under this Act has been taken:

(a) for the assessment of his income or the income of any other person in respect of which he is assessable; or
(b) to determine the loss sustained by him or by such other person; or
(c) to determine the amount of refund due to him or to such other person.

(ii) Every person who is “deemed to be an assessee" under any provision of this Act;

For Example:

1] Guardian is deemed to be an assessee for the income of his minor child.
2] On the death of a person his legal representative shall be treated as "Assessee"
3] Likewise trustee and beneficiaries is assessee in case of trust.
4] An agent of non resident is treated as assessee.

(iii) Every person who is deemed to be an 'assessee in default' under any provision of Act.

For Example:

1) Person who is liable to deduct tax at source but does not deducts it or deducts it but fails to pay it to the government.
2) A person failing to pay advance tax.

2. PERSON: SEC. 2[31]

The term Person includes the following:

a) An individual;
b) A Hindu Undivided Family;
c) A company;
d) A firm;
e) An association of persons or body of individuals whether incorporated or not;
f) A local authority; and
g) Every artificial juridical person not falling within any of the preceding Categories.

Thus it is an inclusive definition. The above definition classifies the assessee according to their status. The tax liability of a person depends upon his legal status because different tax rates are prescribed for different categories.

- An **Individual** means a natural person i.e. a human being. It includes all the individuals, including a minor or a person of unsound mind.

- **Hindu Undivided Family (HUF)** consists of all persons lineally descended from a common ancestor including their wives and unmarried daughters. Though there are many members the HUF is considered as a distinct entity or unit for assessment till a partition takes place.

- A **Company** is defined in section 2(17) and it includes the following:-
  a) An Indian Company.
  b) Any body corporate incorporated under the laws of a foreign country.
  c) Any Institution, Association or Body, which is assessed or was assessable as a company for A.Y.1970-71 or before, or
  d) Any institution, Association or body, whether incorporated or not, whether Indian or Non- Indian which is declared by general or special order of Central Board of Direct Taxes to be a company.

- A **firm** means a partnership firm, whether registered or unregistered. For Income-Tax purpose a firm is treated as a separate and distinct entity from its partners.
- **Association of Person (AOP)** means two or more persons who join for a common cause with a view to earn an income. It need not be on the basis of contract.

Therefore if two or more persons join hands to carry on a business but do not constitute a partnership, they may be assessed as an **AOP**. For eg: Ganesh Co-operative Society.

- **Body of Individuals (BOI)** means a team of individuals who carry on some activity with the objective of earning some income. An **AOP** may consist of non-individuals but a **BOI** has to consist of individuals only. For eg: Jagrut Cultural Organisation, Tarun Mitra Mandal etc.

- **Local authority** means municipality, municipal council, municipal committee, district board or a body of port commissioners or any other authority legally entitled to the control and management of a municipal or local fund.

- **Artificial juridical persons** are entities that are not natural persons but are separate entities in the eyes of law. Though they may not be sued directly but they can be sued through persons managing them. Therefore God, idols and deities are artificial juridical persons. It is a residuary category and includes all other artificial persons if they do not fall within the above categories. For example: Tirupati Devasthanam, Siddhi Vinayak Trust, Shirdi Sansthan etc.

3. <u>INCOME</u>: SEC. 2[24]

Income-Tax is a tax on income. However the term "income" has not been defined adequately by the act. The term "Income" means the periodical monetary return coming in with some sort of regularity or expected regularity from definite source.

The Act has given the definition of Income u/s 2(24), which include the various items of receipts as income. Hence it is an inclusive definition.

U/S 2(24) Income includes:

a) Profits and gains

b) Dividend

c) Voluntary contribution received by
    i) a charitable or religious trust or
    II) a specified institution (e.g.: a scientific research association, a notified charitable

d) The value of any perquisite or profit in lieu of salary taxable under Section 17.

e) Special allowance or benefit specially granted to an employee to meet expenses for the performance of his duties. (e.g: Entertainment Allowance)
f) Any allowance to an employee to meet his personal expenses at office or to compensate him for the increased cost of living (e.g: Dearness Allowance)
g) Benefit or perquisite obtained from a company by a director or a person having substantial interest in the company or their representatives.

h) Benefit or perquisite obtained by a representative assessee (a trustee)

i) Any sum chargeable

i) under section 28 (compensation for termination of contract of agency)
ii) under section 41(recovery of bad debts, sale of scientific research asset)
iii) under section 59 (recovery of expenses claimed earlier)

j) Profits on sale of import license taxable u/s 28(iiia)

k) Export cash assistance received from Government taxable u/s 28(iiib)

l) Refund of customs or excise duty received or receivable against exports, taxable u/s 28(iiic)

m) Benefit or perquisite from business or profession (e.g: a gift received by a doctor from a patient), taxable u/s 28(iv)

n) Any interest, salary, bonus, commission due to or received by a partner from a firm, to the extent allowable to be deducted u/s 40(b), taxable u/s 28(v)

o) Any capital gain chargeable under section 45.

p) Profits and gains of insurance carried on by Mutual Insurance Company or by a co-operative society computed as per provisions of section 44.

q) Any winnings from lotteries, crossword puzzles, races including horse races, card games or other games or any sort of play, gambling or betting of any form of nature whatsoever.

Any sum received by the assessee from his employees as contribution to any Provident Fund or Superannuation Fund or any fund set up under Employees State Insurance Act,1948 or any other welfare fund.

b) Any sum received under a Keyman Insurance Policy including bonus on such policy.
c) Any sum received or receivable under Non-compete agreement or exclusive right agreement.
d) Any sum exceeding Rs.25,000 received without any consideration (i.e. **a gift**) by an individual or an HUF. *(This provision is however not applicable when the sum is received from relative, on occasion of marriage or under a will or by way of inheritance).*

The following features will help you to understand the meaning and concept of Income:

1) <u>Periodical Return</u>: Income do notes a periodical return "coming in" with some regularity from definite sources.

2) <u>Illegal Income</u>: Income from illegal activities such as smuggling, black marketing is also taxable.

3) <u>In Cash or Kind</u>: Income may be received in cash or in kind, i.e. by way of a thing.

4) <u>Real Income:</u> Income must be real and not imaginary. A person cannot earn income by trading with himself or from transferring his funds from one account to another.

5) <u>Outside Source:</u> Income has to arise from an outside source. Thus, a co-operative society (or a club) does not earn any income when it collects contributions from its members for common expenses, as the amounts are not received from an outsider.

6) <u>Pin money:</u> Pin money received by wife for her personal expenses is not an income.

7) <u>Loss:</u> The term income also includes loss. Loss is to be taken as negative income.

4. <u>ASSESSMENT YEAR</u> : SEC. 2[9]

"Assessment year" means a period of twelve months commencing on the first day of April every year".

An assessment year begins on 1st April every year and ends on 31st March of next year. For example the assessment year 2018-19 means the period of 12 months commencing on 1st April, 2017and ending on 31st March 2018

The assessment year is the year during which the income of previous year is determined and assessed to tax.

5. <u>PREVIOUS YEAR</u>: SEC. 2(34)

Income-Tax is payable on the income earned during the previous year and it is assessed (taxed) in the immediately succeeding financial year i.e., assessment year.

As per Section 2(34) Previous year means the Previous Year as defined in Section 3. According to section 3, ***"previous year" means the financial year immediately preceding the assessment year.***

The summary of provisions of section 3 is under:

a) Previous year means the financial year immediately preceding the assessment Year. Therefore for A.Y 2018-19 the previous year is 2017-18 i.e., the period between 01-04-2016 and 31-03-2017.

b) In case of newly set up business or profession or a new source of income coming into existence during the financial year, the previous year will be the period commencing from the date of setting up of business or profession or as the case may be the date on which the new source of income comes in to existence and ending on 31st March of the financial year. For eg :Mr. Sujay sets up a business on 1st June, 2016 Then the previous year is the period from 1st June, 2016 to 31st March, 2017and the assessment year is A.Y. 2018-19

c) In case of an existing business on 1st April, 2016 and closed on 20th February 2017 Previous Year is the period from 01-04-2016 to 20-02-2017.

From the above it is to be noted that normally previous year is a period of 12 months. But some times it can be less than 12 m

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CHAPTER - 2
BASIS OF CHARGE (Sec 4 to 9)

INTRODUCTION

Section 4 to 9 of the Income Tax Act, 1961 forms the foundation of the Income Tax Act. These sections discuss how the Income Tax is charged on the various types of incomes for different assessees.

✓ CHARGE OF INCOME TAX (Sec 4)

Section 4 is the charging section. The broad principles laid down by this section are as follows:

1) The Income Tax Act does not specify the rates at which tax is to be levied. The rates of tax are prescribed for each assessment year by the respective Finance Act (i.e. Budget) that is passed every year.
   For e.g. Tax rates for A.Y.2015 -2016are fixed by Finance Act, 2009
2) The charge of Income Tax is on every person.
3) In any particular assessment year, Income Tax is charged on the total income of the previous year.
4) By virtue of a specific provision in the Act, Income tax may be charged in respect of a period other than the previous year also.
5) Income tax shall be deducted at source or paid in advance when it is so deductible or payable under the provisions of the Act.

✓ RESIDENTIAL STATUS OF THE ASSESSEE (Sec 6)

The scope of Total Income i.e. what is to be included in total income depends upon the residential status of the assessee. Total income of the assessee includes Indian income as well as foreign income. As per the Income tax Act residential status of a person decides the chargeability of foreign income. Hence determination of residential status is very important for calculating the total income of the assessee. The assessee can be classified according to their residential status as follows

Assessee (Person)

- **Resident**
  - **Ordinarily Resident**
  - **Not Ordinarily Resident**
- **Non-Resident**

Section 2(42) defines Resident as a person who is resident in India within the meaning of section 6. Thus section 6 provides the guidelines for determining the residential status of the assessee.

✓ RESIDENTIAL STATUS OF AN INDIVIDUAL

SEC 6(1) – Resident and Non-Resident

An individual is said to be resident in India in any previous year if he satisfies ***any one*** of the following ***two*** conditions:

1) He is in India during that previous year for a minimum period of 182 days.

OR

2) (a) he is in India for a minimum period of 60 days during the previous year ***and***
   (b) he has been in India for a minimum total period of 365 days during the four years immediately preceding the relevant previous year.

Sec 2(30)- If an individual does not fulfill either of the above conditions, he will be considered as a "Non-Resident" for that assessment year.

Exceptions to Sec 6(1)

The period of 60 days of second condition shall be replaced by 182 days in case of following categories of persons:

a) An Indian citizen who leaves India in the previous year as a member of the crew of an Indian ship **or** for the purpose of Employment outside India.

b) An Indian citizen **or** a person of Indian origin who is outside India comes to visit India.

☺ ***A person is said to be of Indian origin if he, or either of his parents or grand parents were born in undivided India i.e., India, Bangladesh or Pakistan.***

Thus we can conclude that the above two categories of persons can become resident in India only if they are present in India for a minimum 182 days. As a result the second condition automatically becomes redundant (meaningless) for them.

SEC 6(6) – Resident and Ordinarily Resident

Once an individual is resident in India we have to further determine whether he is ***ordinarily resident in India*** or ***Not ordinarily resident in India.***

A Resident Individual is considered as ordinarily resident in India, if he satisfies the following **two** conditions u/s 6(6):]

1) He has been a **resident in India for at least 2 out of 10 previous years** immediately preceding the relevant previous year, and
2) He has been in India for **minimum 730 days during 7 previous years** immediately proceeding the relevant previous year.

For becoming a resident and ordinarily resident an assessee has to fulfill both the conditions. If any one of the above conditions is not fulfilled then the individual will be considered as ***"Resident but not ordinarily Resident"***

Important points for determining the residential status u/s 6(1)

1) Residential status is different from citizenship. An individual may be a citizen of USA but he can be a resident of India. Similarly an Indian citizen may be a non-resident of India.

2) Residential status is to be determined for each previous year because it changes from year to year.
3) It is not necessary that the stay should be for a continuous period. What is important is the total stay in India.
4) It is also not necessary that stay should be at one place.
5) In computing the stay of individual we should include both the day of arrival and departure as stay in India.
6) Presence in territorial waters of India is also regarded as stay in India.
7) In case of leap year consider 29 days for the month of February.

✓ RESIDENTIAL STATUS OF HUF, FIRM, AOP OR BOI

SEC 6(2) – <u>Resident and Non-Resident</u>

A HUF, Firm, AOP or BOI is said to be resident in India in any previous year if its control and management is situated either partly or wholly in India.

Thus, if control and management is wholly situated outside India then the HUF, firm, AOP or BOI is a Non-resident in India.

Control and management does not mean the head office or chief operating office. Control and management means the decisions taken regarding the affairs of HUF, firm, AOP or BOI. So control and management lies at a place from where decisions regarding the affairs of HUF, firm, AOP or BOI are taken.

SEC 6(6) – <u>Resident and Ordinarily Resident</u>

- **Ordinarily and not-ordinarily resident for HUF**

Whether the HUF is an ordinary resident or not depends upon whether its karta is an ordinary resident or not. It means the karta has to satisfy the two conditions U/S 6(6) to call the HUF resident and ordinarily resident in India. The conditions are that the karta has been resident of India for at least 2 out of 10 previous years immediately preceding the relevant previous year, and he has been in India for minimum 730 days during 7 previous years immediately preceding the relevant previous year.

- **Ordinarily and not-ordinarily resident for Firm, AOP, BOI**

In case of Firm, AOP, BOI once the assessee becomes resident it automatically becomes "Resident and Ordinarily Resident". It need not fulfill any other conditions.

✓ RESIDENTIAL STATUS OF A COMPANY

As per section 6(3) a **company is said to be resident in India** in any Previous Year if it fulfills any ***one*** of the following condition:

a) If it is an Indian company ***or***
b) If during the previous year control and management of company is situated wholly in India.

An Indian Company is always resident in India irrespective of where the control and management is situated. A foreign company can be treated as resident in India if during the Previous Year its control and management is situated wholly in India.

Control and management differs from where the head office is situated. Control and management is situated at a place where the meetings of its board of directors are held. Once a company is resident it automatically becomes ***"Resident and Ordinarily Resident"***. It need not fulfill any other conditions.

✓ INCOME DEEMED TO BE RECEIVED IN INDIA (SEC – 7)

At times though income is not actually received during the previous year but it is assumed or deemed to be received in India. Income deemed to be received in India in the previous year is also included in the taxable income of the assessee.

Section 7 states that the following incomes shall be deemed to be received in India:

a) The annual interest credited to the balance of Recognized Provident Fund (RPF) at a rate in excess of 9.5 % p.a.

b) Contribution by employer in the case of Recognized Provident Fund in excess of 12% of employee's salary.

c) Transfer of balance from unrecognized provident fund to a recognized provident fund to the extent provided under rules.

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

Certain incomes are deemed to be accrued or arised in India u/s 9 even though they may actually accrue or arise outside India. Following are such incomes deemed to accrue in India:

a) All Income accruing or arising whether directly or indirectly, through or from

1) Any business connection in India.
2) Any property in India.
3) Any assets or source of income in India.
4) Transfer of capital assets situated in India is deemed to accrue or arise in India.

However following important points should be noted:

1) In case of a business if all the operations are not carried out in India then only proportionate income of business shall be deemed to accrue or arise in India.

2) In case of Non Resident, purchasing goods in India for export, no income shall be deemed to accrue or arise in India.

3) In case of a Non Resident running a news agency or publishing newspapers, magazines or journal no income shall be deemed to accrued or arises in India from such activities provided it is confined only to collection and transmission of news.

4) In case of a Non Resident no income is deemed to accrue from shooting of any film in India. The non-resident in case of individual should not be a Indian citizen, in case of a firm no partner should be a citizen of India or resident of India and inn case of company it should not have any shareholder who is either citizen or resident of India.

b) Salary earned in India for services rendered in India is deemed to accrue or arise in India. It means it is more important to earn salary in India i.e. service should be rendered in India. We need not see whether salary is actually received in India or elsewhere.

c) Salary received by Indian nationals from the government outside India is deemed to accrue or arise in India.

d) Dividend paid by on Indian company outside India is deemed to accrue or arise in India.

e) Interest Payable by:

1) The government.
2) A resident person (excluding interest payable in respect of borrowed funds used for a business or a profession out of India)
3) A non-resident person where interest is payable in respect of borrowed funds used for business or profession carried in India, is deemed to accrue or arise in India.

f) Royalty Payable by:

1) Government
2) A resident person (except where royalties is payable in respect of business or profession carried on by him outside India or for earning any income from any source outside India.)
3) A non- resident person, where royalties is payable for a business or profession carried on by him in India or for earning any income from a source in India is deemed to accrue or arise in India.

However this provision will not apply if royalty consists of a lump sum payment

1) For transfer of data, drawing etc. outside India Imparting of information outside India under an approved agreement by central govt. made before 1 April, 1976.
2) For transfer of computer software supplied by a non resident along with computer or computer based equipment under a scheme approved by govt. of India.

g) Fees for technical services payable by:

1) Government.
2) Resident person (except fees for services utilized in the business or a profession carried outside India or for earning any income out of India).
3) A non- resident person where such fees are payable for services utilized in business or a profession carried on by him in India or for earning any income from any source in India is deemed to accrued or arises in India.

However this provision will not applied it the fees are payable under an agreement made before 1-4-76 which is duly approved by central government.

PROBLEM ON
SEC 6 – RESIDENTIAL STATUS

1. Mr. Amit an u.s citizen came to India on 1st July 2017 left India on 1st January 2018 Determine his residential status.

2. Mr. Bush an u.k citizen who leave India on 15th August 2017 & returned back to India on 26th march 2018 Determine his residential status. .

3. Mr. Chetan a Russian came to India for first time on 1st April 2017 & left Germany on 15th May 2017 he again came back to India on 18th September 2017 & left India on 20th Feb 2018 Determine his residential status.

4. Mr. Deepak an german citizen coming to India for a visit & stayed here for three months till 15th June 2017 His last 4 years status states that he comes India every year for 100 days. Determine his residential status.

5. Mr. Eshant an American citizen comes to India for a visit on 10th June 2017 till he depart for U.S i.e. 15th October 2017 he was in India. Mr.Eshant regularly coming to India for a period of 360 days in last 4 years. Determine his residential status.

6. Mr. Feroz an British citizen staying in India from 1st January 2002 till he depart to England on 1st January 2016 Determine his residential status.

7. Mr. Ganesh an citizen of U.S. informs you regarding his status of residence form India.

Arrival		Departure
11/4/2017	to	9/5/2017
18/6/2017	to	15/8/2017
17/8/2017	to	9/9/2017
10/12/2017	to	1/2/2018

8. Mr. Hemant an Indian citizen staying in Delhi takes up a job at U.S.A. He leaves India on August 16, 2017 for U.S.A. He has not gone out of India before that determine his Residential status.

9. Mr. Imran who is an Indian citizen went for employment to Muscat on 1st April 2017 and since then he come on visit for the first time to India on 1.7.17 and left for Muscat on 15.12.17

10. Mr. Jerry an American citizen, staying in Mumbai leaves Mumbai on 16th July 2017 For Joining an American firm as an employee. He was in India since 1st January 2007 till he left for U.S.A on 16.7.17.

11. Mr. KISHOR An British citizen came to India for a visit on 10th June 2017 and left India on 18th December 2017 prior to our P.Y he was in India for 3 years. Determine his residential status.

12) Mr.Nilesh is a citizen U.K (not being a person of Indian Origin), Determine his residential status for the Assessment Year 2018-19 on the assumption that during financial year 2007-08 to 2017-18 he was present in India follows:

Previous Year	Presence in India (No. of days)
2017-18	198
2017-18	192
2015-16	183
2014-15	170
2013-14	90
2012-13	130
2011-12	20
2010-11	165
2009-10	297
2008-09	179
2007-08	362

13) Mr. Om an Indian citizen has settled abroad for the last few years. His stay in India in the last few years was as under.

Year	Days	Year	Days
2007-08	39	2009-10	196
2008-09	210	2010-11	125
		2011-12	105
		2012-13	121
		2013-14	157
		2014-15	181
		2015-16	185
		2017-18	187
		2017-18	156

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CHAPTER - 3
SCOPE OF TOTAL INCOME (Sec 5)

The provisions under section 5 determine the scope of total income chargeable to tax according to the residential status, and place and time of accrual or receipt of income. These provisions can be summarized as follows:

1) Income received or deemed to be received in India is taxable in case of every person i.e., Resident and ordinarily Resident, Resident but not ordinarily resident and non-resident.

2) Income accruing or deemed to accrue or arise in India is also taxable in case of every person, i.e. Resident and ordinarily Resident, Resident but not ordinarily resident, and non-resident.

3) Income accruing or arising outside India and received outside India i.e., Foreign income, is taxable in case of ordinary resident only and not of non-resident.

In case of Resident but not ordinarily resident, it is taxable only if it is derived from a business controlled in or profession set up in India.

☺ In case of Resident and Ordinarily resident income earned all over the world is taxable.

Chart Showing Scope of Total Income

Nature of Income	R. & O.R.	R.N.O.R	N.R.
1) Income Received in India	Taxable	Taxable	Taxable
2) Income deemed to be received in India (Sec 7)	Taxable	Taxable	Taxable
3) Income accruing or arising in India	Taxable	Taxable	Taxable
4) Income deemed to accrue or arise in India (Sec 9)	Taxable	Taxable	Taxable
5) Income accruing or arising outside India and received outside India i.e. ***Foreign Income***			
a) from a business controlled from India or profession set up in India	Taxable	Taxable	Not Taxable
b) from a business controlled outside India or profession set up outside India	Taxable	Not Taxable	Not Taxable
6) Income earned and received outside India in last year but brought to India during the current P.Y. ***(Remittance)***	Not Taxable	Not Taxable	Not Taxable

PROBLEMS ON
SCOPE OF TOTAL INCOME – (SEC 05)

EX-1] Mr. Anil a foreign national provides the following particulars of his income for the A.Y.2018-19

1. Income from agriculture in Srilanka Rs. 20,000/-
2. Income from agriculture in India Rs. 40,000/-
3. Salary earned & received in Srilanka Rs. 50,000/-
4. Salary received in India but received in Srilanka Rs. 25,000/-
5. Interest on Bank A/c in U.K. Rs. 5,000/-
6. Commission received in London for work done in India Rs. 3,000/-
7. Profit on sale of machinery at India (1/3 received in Srilanka Rs. 27,000)
8. Dividend from British co. received in India Rs. 9,000/-

EX-2] Mr. Brijesh earns the following income during the previous year 2017-18

1. Profit earns from business in Paris which is controlled from India half of the profit received in India Rs. 40,000/-
2. Income from property in England received there Rs. 10.000/-
3. Income from agriculture in Nepal not brought into India Rs.30,000/-
4. Interest on Nepal development bond half received in India Rs.20,000/-
5. Salary earned & received at Paris Rs. 4,500/-
6. Interest on Bank A/c in India Rs.1,500/-
7. Profit on sale of plant on Paris half received in Delhi Rs.26,000/-
8. Profit on sale of plant in India half received at Paris Rs. 36,000/-

EX-3] Mr. Charls earns the following income during the previous year 2017-18.

1. Profit from business in Delhi which is managed from out side India Rs. 1,25,000/-
2. Income earned from business in Nepal which is controlled from India Rs. 2,00,000/-
3. Past profit of 97-98 brought to India in 2007-08 Rs. 50,000/-
4. Profit on sale of building in India but received in Nepal Rs. 1,30,000/-
5. Income from agriculture in Nepal received there but latter on remitted to India Rs.60,000/-
6. Pension from former employer in India received in Nepal Rs. 20,000/-
7. Interest on F.D with a bank in India Rs. 9,500/-(Rs. 4,500 received in abroad)
8. Dividend on Shares of a Foreign co. Rs.27,000/-(Rs.12,000 received in India)

EX-4] Mr. Dinesh earns the following income during the previous year 2017-18

1.Income from house property in India Rs.15,000/-

2. Income from property in Rome Rs.10,000/-
3. Income from Bank account in India Rs.1,200/-

4. Income from business in Bangladesh controlled from India Rs.16,000/-
5. Interest on Bank A/c in U.S.A. Rs.11,000/-
6. Salary earned &received in Tokyo Rs.12,000/-
7. Income earned & received in London Rs.13,000/-
8. Dividend from British co. received in India Rs.17,000/-

EX-5] Mr .Eknath earns the following income during the previous year 2017-18.

1. Professional fees received in India Rs. 11,000.
2. Income earned in India but received in Rome Rs.12,000.
3. Dividend on shares of Indian Co. Rs. 2,000.
4. Salary earned and received in Paris Rs. 14,000.
5. Income from Agriculture in Nepal Rs.. 15,000.
6. Income from business in U.K controlled from India. Rs. 16,000
7. Income from business in Mumbai managed & set up from Delhi Rs. 17,000.
8. Income from bank account in London remitted to India Rs.2,000.

EX-6] Mr. Farukh earns the following income during the previous year 2017-18

1. Professional fees received in India for 3 months (3,000 per month) Rs. 9,000
2. Payment received in U.K for service rendered in India Rs. 8,000.
3. Income from business in Bangladesh control from India Rs. 7,000.
4. Income from Agriculture in Indonesia Rs. 6,000.
5. Interest received in Paris in respect of securities of French company Rs. 5,000
6. Amount brought in India out of Past untax profit earned in Germany Rs. 3,000.
7. Income from property in London ownership from India Rs.3,000.
8. Salary received in America from American company formed in India Rs. 2,000.

EX-7] Mr. Guru earns the following income during the previous year 2017-18

1. Income from property in Rome received in India Rs. 1,000.
2. Dividend from shares from foreign Co.
   a) received abroad Rs. 2,000. b) Received in India Rs. 3,000
3. Profit from business in Mumbai managed from U.S.A. Rs. 4,000.
4. Income from house property in India Rs. 5,000.
5. Income from Bank A/c in London Rs. 6,000.
6. Interest earned in past but brought in India Rs. 7,000
7. Salary received in America from a employer in India Rs. 8,000.
8. Profit from business in Dubai control from America Rs. 9,000

EX-8] Mr. Haresh earns the following income during the A.Y 2018-19

1. Professional fees earned in India received in Australia Rs. 18,000.
2. Payment received in London for service rendered in Dubai Rs. 15,000.
3. Interest income received in India from company located in France Rs. 22,000.
4. Salary received in Muscat from employer in India Rs. 4,000.
5. Interest on bank A/c in Dubai from Indian branch Rs. 2,000.
6. Income for business in Thailand controlled from America 50% received in India Rs. 50,000.

7. Dividend from Indian co. received in France Rs. 8,000.
8. Income from business in U.K set up in America amount received in India Rs.10,000

EX-9] Mr. Jayesh earns the following income during the previous year 2017-18
1. Interest on U.K development Bond Rs.42,000.
2. Profit on sale of plant in Malaysia fully received in India Rs.92,000.
3. Profit on sale of property at Mumbai received here. Rs.1,04,000.
4. Income from business in Taiwan control from Kalyan Rs.20,000
5. Rent income from property in New York deposited in foreign Bank Rs. 25,000.
6. Salary earned & received in Newzeland Rs.38,000.
7. Pension from employer in India received in Mauritious Rs.10,000.
8. Income from property in London control from Goa Rs.12,000

EX-10] Mr. Kiran earns the following income during the Previous year 2017-18
1. Income on Company deposit in India Rs.70,000.
2. Income deemed to be earned in India Rs. 31,000.
3. Income from business situated in Japan control from Kalyan (30% received in India Rs. 65,000.
4. Salary received in India for service rendered outside India Rs. 92,000.
5. Interest received from State govt. of Punjab Rs. 70,000.
6. Royalty received in India in respect of technology used outside India Rs. 50,000.
7. Interest received from foreign co. outside India Rs. 20,000.
8. Pension from former employer in India received in Nepal Rs. 30,000.

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CHAPTER - 4
EXEMPT / NON-TAXABLE INCOME (Sec 10)

INTRODUCTION:

Section 10 of the Income-Tax Act contains a list of items that are totally exempt from tax, i.e. they are tax-free income. In other words these items do not form part of total income and hence ignored while computing total income.

***1.* AGRICULTURAL INCOME [U/S 10(1)]**

Agricultural Income means any income derived from land that is used for agricultural purposes and assessed to land revenue in India. Such income must satisfy the following three conditions.

a) Rent or revenue should be derived from land.
b) The land must be used for agricultural purposes.
c) The land should be situated in India. Income derived from agricultural land situated outside India is not exempt u/s 10.

The following are some of the examples of incomes that are not Agricultural Income:

i) Dividend from company engaged in Agricultural activities
ii) Income from forest trees of spontaneous growth.
iii) Income from stone quarries.
iv) Royalty income of Mines, etc.

2. RECEIPT FROM HUF [U/S 10 (2)]

Any sum received by an individual as a member of HUF out of the estate of income of the family is exempt from tax and not included in the total income of the individual. This is to avoid double taxation, as HUF is a separate taxable entity under the Act.

3. PARTNER'S SHARE IN THE PROFITS OF THE FIRM [U/S 10(2A)]

The share of a partner in the profits of the firm that is separately assessed as a firm is exempted from tax. This is again to avoid double taxation.

4. LEAVE TRAVEL CONCESSION [U/S 10(5)]

Leave Travel Concession is exempt to the following extent:

1) in the case of an individual ,

2) the value of any travel concession or assistance received by or due to him,

3) from his employer for himself and his family, in connection with his proceeding on

leave to any place in India.

4) or, from his employer or former employer for himself and his family, for proceeding to any place in India after retirement from service or after the termination of his service.

5) Subject to the conditions prescribed as to the number of journey and the amount exempt per head.

'Family' of the individual includes:
a) his spouse and children and
b) his parents, brothers and sisters who are mainly dependent upon him.

The amount of exemption is amount of leave travel concession received or actual amount spent whichever is less.

5. FOREIGN ALLOWANCES AND PERQUISITES TO GOVERNMENT EMLOYEES OUTSIDE INDIA [U/S 10(7)]

Any allowance paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be totally exempt from tax.

6. GRATUITY [U/S 10(10)]

Gratuity is a lump- sum amount paid to an employee, on the basis of the duration of his employment, on termination of service due to retirement, resignation death etc.

However, Gratuity received while still in service is not exempt from tax but taxed as Income from salary.

A) <u>Gratuity to Government Employees</u>:

Gratuity received by any employee of the Central Government, State government, Union, Local authority or the defence services is fully exempt from tax.

B) <u>Gratuity received under Payment of Gratuity Act, 1972:</u>

Any Gratuity received by a person covered under payment of Gratuity Act, 1972 is exempt from tax to the extent of the following:

Least of the following amount is exempt

i) Actual gratuity received

ii) Salary last drawn x $\frac{15 \text{ days}}{26 \text{ days}}$ x completed years of service

iii) Rs. 3,50,000

Important points

a)	Part of year exceeding 6 months is treated as a completed year.
b)	Salary means Basic + DA

C) <u>Gratuity to any other employees</u>:

In case of any other employees gratuity received shall be exempt to the following extent:

Least of the following amounts is exempt

i) Actual gratuity received
ii) 1/2 x Average Salary x Full completed years of service

iii) Rs. 3,50,000

Important points

a) Completed years of service means only completed years i.e. part of year even if more than 6 months is to be ignored.

b) Average salary means the average of salary for last 10 months immediately before the month of retirement.

c) Salary means Basic + D.A + Commission.

7. PENSION [U/S 10(10A)]

Pension is a monthly payment made by the employer to his employee after his retirement. It is taxable under the head "salaries".

Pension can be divided into two group:

a) <u>Uncommuted Pension</u>:

Uncommuted pension means the monthly pension received. This is taxable u/s 15 in case of all the employees on due basis under the head, salaries.

b) <u>Commuted pension</u>:

Commuted pension means receipt of one time lump sum amount in lieu of monthly pension.

i) Commuted pension is fully exempt in case of state government and central government employees.

ii) Where the employee receives gratuity, then 1/3 rd of full value of commuted pension is exempt.

iii) Where employee does not receive any gratuity, then 1/2 of full value of commuted pension is exempt.

c) <u>Commuted Pension from LIC</u>:

Commuted pension received from the pension fund set up by the life insurance corporation of India is fully exempt.

Pension

Uncommuted Pension
(Taxable in all cases)

Commuted Pension

Government
(Fully Exempt)

Non-Government

Received Gratuity

Not Received Gratuity

(I/3 of Full value is exempt) (I/2 of Full value is exempt)

8. LEAVE SALARY [U/S 10(10AA)]

Leave encashment ***received while in service is taxable*** under the head "salaries" in case of all employees.

Taxability of leave salary received at the time of retirement is as follows:

Government Employees:

Any payment received by government employee as encashment of leave salary at the time of retirement is ***fully exempt*** from tax.

Other Employees:3

In case of other employees leave salary received at the time of retirement is exempt to the extent of the least of the following amounts:

a) Encashment of earned leave, not exceeding 30 days per each completed year of service with the employer from whose services he is retiring, standing to the credit of the employee at the time of retirement;
b) 10 months average salary on the basis of salary drawn for the last 10 months immediately preceding the previous year.
c) Actual amount received
d) Rs. 3,00,000

9. RETRENCHMENT COMPENSATION [U/S 10(10B)]

Any compensation received by an employee on account of retrenchment (removal from job) under the Industrial Disputes Act, 1947 will be exempt from income tax subject to the following extent:

Least of the following amounts is exempt

a) Actual amount received.
b) Amount calculated as per industrial dispute Act, 1947, i.e 15 days Average Salary for every completed year of services or part thereof in excess of 6 months.
c) Rs. 5,00,000.

10. COMPENSATION RECEIVED ON VOLUNTARY RETIREMENT SCHEME

*[U/S 10(10C)]*Any amount received as compensation by an employee of:

a) a public sector company,
b) approved private sector company
c) Central Government or State Government
d) Local authority
e) Indian Institute of Technology

at the time of his voluntary retirement, under any approved scheme is exempt upto maximum Rs. 5,00,000.

However, where an exemption has been allotted to an employee under

Section 10(10C) for any earlier assessment year, no such exemption will be allotted in respect of any other assessment year. ***In short this exemption is available only once during the lifetime of an assessee.***

12. **TAX BORNE BY THE EMPLOYER ON NON-MONETARY PERQUISITES PROVIDED TO EMPLOYEE: [U/S 10 (10 CC)]**

Any amount of tax borne by the employer on the non-monetary perquisites provided to the employee shall be exempt u/s 10(10 CC). Thus the tax obligation of the employee towards non-monetary perquisite (i.e perquisite in kind) paid by the employer, will not be treated as perquisite u/s 17 (2).

12. ANY SUM RECEIVED UNDER A LIFE INSURANCE POLICY: [U/S 10(10D)]

Any sum received under a life insurance policy including the sum allocated by way of bonus on such policy is exempt. However exemption shall not be allowed if sum is received under Section 80 DDA or under "Keyman Insurance Policy".

13. HOUSE RENT ALLOWANCES [U/S. 10 (13A)]

Any house rent allowance (H.R.A) received by the employee is exempt to the following extent Least of the following amounts is exempted.

A. *House is situated in Mumbai/ Delhi/ Chennai/ Kolkata*

a) 50% of Salary.
b) Actual H.R.A. received.
c) Rent paid less 10% of Salary.

B. *House is situated in other cities*

a) 40% of Salary.
b) Actual H.R.A. received.
c) Rent paid less 10% of Salary.

☺ ***Where employee does not pay any rent or stays in his own house then exemption of H.R.A is not allowed.***

14. SPECIAL ALLOWANCE FOR EXPENSES [Sec. 10 (14)]

Following are the special allowances that are exempt to the extent of amount received or limit specified whichever is less.

a) <u>Children education allowance</u>:

Amount of exemption is actual amount received per child or Rs. 100 p.m. per child, whichever is less. Exemption is available for maximum 2 childrens.

b) <u>Hostel expenditure allowance</u> :

Amount of exemption is actual amount received per child or Rs. 300 p.m. per child, whichever is less. Exemption is available for maximum 2 childrens.

c) <u>Transport allowance for traveling between home and office</u>:

Amount of exemption is as follows:

i) <u>Normal Employee:</u>

Actual amount received or Rs. 800 p.m. whichever is less.

ii) <u>Blind or Handicapped Employee:</u>

Actual amount received or Rs. 1600 p.m. whichever is less.

d) Other Allowance (Under Rule 2 BB):

In case of Travelling or Transfer allowance, conveyance allowance, outstation allowance, Research allowance, uniform allowance etc. amount of allowance received or actual amount spent whichever is less is exempt.

☺ ***The above exemptions are notional i.e., actual amount spent is not to be considered while calculating exemptions.***

15. DAILY ALLOWANCES RECEIVED BY MP OR MLA [U/S 10 (17)]

Daily allowance received by a MP or MLA is fully exempt from tax. Similarly all other allowances received by a MP or MLA is exempt from tax maximum up to Rs.2,000 p.m.

16. AWARDS [Sec. 10 (17A)]

Awards received whether in cash or kind shall be exempt as stated below:

a) Any award instituted in the public interest by the Central Government or instituted by any other Body and approved by the Central Government.
b) a reward by Central Government or any State Government for such purpose which is approved by the Central Government.

17. INCOME OF A MEMBER OF A SCHEDULED TRIBE [Sec. 10 (26)]

In the case of a member of Scheduled Tribe residing in the states of Nagaland, Manipur, Tripura, Arunachal Pradesh, Assam, Jammu and Kashmir and Mizoram etc the following incomes are exempt from tax:

a) Income from any source in the above areas or
b) Income by way of dividend or interest on securities.

18. INCOME OF MINOR [Sec. 10 (32)]

In case of the income of a minor child which is clubbed with that of the parent U/S 64 (1A), such income is exempted from tax upto Rs. 1,500/- in respect of each minor child whose income is clubbed.

19. TAX TREATMENT OF PROVIDENT FUND

Sr. No.	Particulars	Statutory Provident Fund	Recognized Provident Fund	Unrecognized Provident Fund	Public Provident Fund
1.	Employer's Contribution	Wholly exempt From tax	Exempt upto 12% of salary. Any excess over it, is taxable under " Salaries"	Exempt from Tax	N.A

2.	Interest Credited to Provident Fund	Wholly exempt from tax	Exempt upto 9.5% p.a., any excess over it, is taxable under " Salaries"	Exempt from Tax	Wholly exempt from tax
3.	Refund of accumulated balance on retirement	Wholly exempt from tax	Wholly exempt from tax subject to certain conditions.	**a)**Employer's contribution and interest thereon is taxable under " Salaries" **b)**Employee's own contribution is exempt, **c)**Interest there on is taxable under " Income from other sources"	Wholly exempt from Tax

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CHAPTER - 5
SALARY INCOME (Sec. 15 to 17)

INTRODUCTION

Salary means and includes remuneration received or receivable as per the contract of employment. It means that remuneration will be treated as salary only when it is received out of employer and employee relationship. Even if a person gets regular remuneration but without a contract of employment then the same cannot be considered as salary income.

The employment may be either a full time assignment or a part time job. Likewise, a person may have more than one employment. The salary is taxable irrespective of the intervals at which it is received, like daily basis, monthly basis or weekly basis, etc.

Sections 15, 16 & 17 of the Income- Tax Act deals with the computation of income under the head "Salaries".

Basis of charge (Section 15)

As per section 15, following income shall be chargeable to Income Tax under the head "Salaries".

a) ***any salary due*** from an employer or a former employer to an assessee in the previous year whether paid or not.

b) ***any salary paid or allowed*** to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him.

c) ***any arrears of salary paid or allowed*** to him in the previous year by or on behalf of an employer or former employer if not charged to income tax for any earlier previous year.

Definition of salary (Section 17)

Section 17 (1) gives an inclusive definition of salary.

Salary includes:
1. Wages and salaries.
2. Annuity/ pension
3. Any gratuity
4. Any fees, commission, perquisites or profits in lieu of or in addition to salary or wages
5. Any advance of salary
6. Any payment received by an employee in respect of any periods of leave not availed by him.
7. The annual accretion to the balance at the credit of an employee participating in a Recognized Provident Fund to the extent to which it is chargeable to tax.
8. Transferred balance in a recognized provident Fund to the extent it is taxable.

- ***Wages and Salaries*:** Wages and Salaries means payment by the employer to the employee for the services rendered as per the terms of employment. Conceptually there is no difference between salary and wages.
- ***Annuity*:** Annuity means annual payment made by the employer or anybody else on behalf of employer to the employee.
- ***Pension*:** Pension means a periodic remuneration received from the former employer on retirement, death, etc. Pension is always taxable as salary income subject to exemption under Section 10 (10A).
- ***Gratuity*:** Gratuity means payment received by the employee from the employer in consideration of past services at the time of retirement, resignation, termination etc. Gratuity received is always taxable as salary income subject to the exemption provided under Section 10 (10).
- ***Fees*:** Any fee or commission paid or payable to the employee shall be fully taxable as income from salaries. Commission may be a fixed amount or a percentage of turnover / net profit.

<u>Summary of Section 15</u>

1) Salary will be always taxable on receipt or due basis whichever is earlier.
2) Where any salary paid in advance is included in the total income of any person for any previous year, it shall not be included again in the total income of the person when the salary becomes due.
3) Any salary, bonus, commission or remuneration, by whatever name called, due to or received by, a partner of a firm from the firm shall not be taxable under the head

"Salaries" as there is no employer-employee relationship. It will however be taxable under the head "Income from business or Profession".

4) The expression paid includes every receipt by the employee from the employer whether it was due to him or not.
5) Arrears of salary are taxable on receipt basis and not on due basis
6) If the salary is payable on monthly basis, it normally becomes due at the end of the month although it is paid in the next month. In this case, it will be taxable on 'due' basis because 'due' is earlier than 'receipt'
7) It is important to note that tax is computed on gross Salary. Hence in case whenever Net salary is given, we have to add back all the deductions to arrive at gross salary.

Gross Salary = Net Salary + P.F deduction+ income tax deduction + profession tax deduction etc.

***Perquisites* [Section 17 (2)]**

Perquisites are the benefits or amenities in cash or kind provided by the employer to the employee whether free of cost or at concessional rate. In other words we can say perquisite means personal advantage. In simple words perquisite are the benefits in kind in addition to normal salary.

For Income-Tax purpose perquisites can be classified into three categories:

(A) perquisites taxable in all cases
(B) perquisites taxable in case of specified employees only
(C) Tax-free perquisites

(A) <u>Perquisites taxable in all cases</u>

The following perquisites are taxable in all cases:

1) Value of rent free accommodation provided by the employer to the employee.
2) Value of concession in rent in respect of accommodation provided by the employer to the employee.
3) Sum paid by employer in respect of any obligation payable by the employee.
4) Sum payable by employer to affect an assurance of life of the assessee. However, this is not applicable to sums paid as employer's contribution to a recognized provident fund, an approved superannuation fund or deposit linked insurance fund etc.
5) Value of any other fringe benefit or amenity.

(B) <u>Perquisites taxable in case of specified employees only</u>

The value of any benefit given free of cost or at a concessional rate to a specified employee is taxable as perquisite and included in the salary of specified employee.

The following are perquisites taxable in case of specified employees only:

1) Provision of Motor Car,
2) Gas, electricity or water provided free of cost.
3) Free education facilities for family members of employee.
4) Free transport facilities.
5) Free domestic servants such as sweeper, watchmen, Gardner, cook, etc.
6) Payment of club bills.

<u>Meaning of Specified Employee</u>
Specified employee means

a) A director who is an employee of the company

b) An employee having a substantial interest in the company (an employee holding 20% or more voting power by virtue of his shareholding)

c) Any other employee whose income from Salary (excluding non-monetary benefits and after deductions under section 16) is more than Rs.50,000 during the previous year.

(C) <u>Tax-free Perquisites</u>

Section 17 provides that following perquisites tax-free i.e., they are not taxable at all.

1) Value of medical treatment, provided to employee or any member of his family in a hospital maintained by employer.
2) Reimbursement of medical expenses incurred by employee on treatment of himself or his family members in a govt. hospital or an approved hospital.
3) Any sum paid by an employer directly to a hospital approved by IT department for medical treatment of employee or his family member.
4) Reimbursement of medical expenses upto Rs.15,000 incurred by employee on medical treatment of himself or his family member in the previous year.
5) Premium on employee health insurance under any scheme approved by the Central Government.
6) Premium on medi-claim insurance on the health of employee or his family member.
7) Expenditure incurred by employer on
   a) Medical treatment of employee or his family member outside India
   b) Travel or stay abroad of the employee or his family member for medical treatment
   c) Travel and stay abroad of one attendant who accompanies the patient in connection of such treatment.
   d) Such exemptions will be available only to the extent permitted by RBI.
   e) Expenditure by travel shall be exempt only if the gross total income of such an employee does not exceed Rs. 2,00,000 in previous year.
8) Reimbursement of expenses specified in 7) above.
9) The value of benefit provided by a company under employees stock options scheme.
10) Refreshments provided during office hours.
11) Concession on sale of goods manufactured by employer.
12) Free telephone including mobile phones.
13) Premium on personal accident.
14) Free education to children of employees at employer's educational institute (upto Rs.1,000 each)
15) Interest free loan upto Rs. 20,000.

16)Rent free official residence provided to the judges of High Court or Supreme Court.
17)Amount spent on training of employees.
18)Use of health club, sport club facility.

Allowances

Allowances means a fixed amount regularly paid to an employee in addition to his salary for various purposes. Allowances are allowed to meet the expenses for performance of duties or to meet the increased standard of living. Allowances are exempt to the extent provided under section 10.***(Covered under Chapter 3)***

***Deductions from Salaries u/s S*ection 16**

***1) <u>Entertainment allowance</u>* <u>u/s. 16(ii)</u>**

Entertainment Allowance is first included for calculating 'Gross Salary' under the head 'Salaries' and thereafter a deduction is given subject to the following limits.
This deduction is allowed only to Government Employees.

Amount of deduction is the least of the following:
1) 20% or 1/5th of Basic Salary
2) Rs. 5,000.
3) Amount of entertainment allowance actually received.

***2) <u>Professional Tax</u>* <u>u/s. 16(iii)</u>**

As per section 16(iii) deduction shall be allowed on account of payment of tax on employment i.e., professional tax. Deduction is allowed only if actual payment is made.
It is important to understand the following Points for calculating the Income from salaries'

SALARIES AT GLANCE

An income can be taxed under the head "Salaries" only if there is employer and employee relationship.

1. In case net salary is given then first it has to be grossed up.

2. If the lecturer of college is appointed as warden of college and gets additional salary then it is taxed under the head "Salaries". But if he sets question paper of a University the remuneration received will not be taxed under "Salaries" but under "Income from other Sources".

3. Fees received by Director for attending Board Meeting is taxable as "Income from other sources "and not under the head "Salaries ".

4. Bonus is taxable on receipt basis. It is taxable only in the year in which bonus is actually received.

5. Pension received by widow or family members of deceased person is taxable as income from other sources.

6. LIC Premium of employee paid by employer is taxable as a perquisite.

7. Income tax / Profession tax payable by employee but paid by employer is a taxable perquisite.

8. Awards received by employee from employer directly or indirectly connected with employees duties are liable for tax as salary income.

9. Reimbursement of expenses incurred by the employee in connection with his employment duties is not salary income. e.g. Purchase of books, periodicals, newspaper, etc.

PROBLEMS ON INCOME FROM SALARY

1) Compute the taxable salary of Mr. AJAY, as resident Indian citizen, for the Assessment Year 2018-19.
1) Basic salary of Rs. 13,000 per month.
2) Dearness allowances of Rs. 3,000 p.m..
3) Rent free furnished house provided by employer (taxable value Rs.30,000)
4) Bonus Rs. 15,000. 5) Salary for 3 months taken in advance Rs. 39,000.
6) Education allowance received for 3 children @ Rs.40 p.m.
(exempt under rules for only 2 children).

2) Mr. BIJOY joined as a Director of ABC Ltd. New Delhi on 1st April 2011 and received the following emoluments during the previous ended on 31st March 2017 Salary Rs.2,90,000, Dearness Allowance Rs. 24,000 (considered for retirement benefits), Bonus Rs. 40,000, house rent allowances Rs. 60,000 (Rs. 40,000 exempt). Besides above the employer provides perquisites valued at Rs. 22,000. He and his employer each contributes 12.5% of salary towards recognized provident fund. The interest credited to fund for the previous year @ 13.5% amount to Rs. 27,000. Determine the income from salary for Assessment Year 2018-19

3) Mr. CHETAN is a lecturer in a college at Mumbai. The details of his salary and other expenses for the previous year 2017-18 are as follows:

a) Basic Salary 50000 p.m.
b) Dearness Allowances 20000 p.m.
c) City compensatory allowance 2000 p.m.
d) Education allowance for his son. 1000 p.m.
(Exempt under rules @ Rs. 100 p.m. for 2 children)
e) House Rent allowance 5000 p.m.
Exempt u/s 10 (13A) 2000 p.m.
f) Remuneration from Mumbai university for acting as examiner Rs. 13,000 and remuneration from Delhi University for acting as a paper setter Rs. 1500.
g) Allowance for looking after the evening shift of the college Rs. 2500 p.m.
h) He incurred an expenditure of Rs. 1,000 for attending a seminar at Nagpur Expenditure was reimbursed by the college.
i) During the year he spent Rs. 3,000 on purchase of books for teaching purposes.
j) He was maintained a scooter for the whole year, for coming to and going back from college Cost of maintenance during the year was Rs.1,2000.

Determine the taxable salary for the assessment year 2018-19.

4) Compute the income of Mr. DON employed of HALMARK Ltd. at Mumbai for the year ended 31st March 2017 under the head salaries.

1) Net Salary received @ Rs. 10,000 per month.
2) Income tax deducted Rs. 2,000 p.m.
3) Provident fund contribution deducted Rs. 600 p.m.
4) Profession tax deducted Rs. 50 p.m.
5) He was re-imbursed medical expenses amounting to Rs.21,000.
6) Life insurance premium paid on his behalf by employer was Rs. 19,600
7) He was given a fridge costing Rs. 28,000 by the company for personal use. As per rules, the perquisites is to be valued at 10% of the cost of asset.

5) Mr. ESHANT Retired from Government services on 30.9.2017 From 1.11.2017 he joined as Superintendent of Nursing Home. He furnishes the following particular for the previous year ending 31.3.2018 Compute his taxable salary for the Assessment Year 2018-19

a) Basic salary recd.	9,00,000
& D.A. recd. upto 30.9.2017	600,000
b) Entertainment allowance. from Government upto 30.9.2017	15,000
c) Pension p.m. from 1/10/2017 @ 1,5000	9,0000
d) Leave salary in respect of earned leave to his credit	1,35,000
e) Gratuity recd.	1,10,000
f) Commuted pension recd.	32,000
g) Salary from nursing home	30,000

6) Mr. GULSHAN was the Finance Manager of a company stocks cam Ltd. since Jan 1999. He was entitled to a basic salary of Rs.9,000 p.m., he also received Rs. 1,500 p.m. as dearness allowances, Rs. 200 p.m. as city compensatory allowance, Rs. 500 p.m. as entertainment allowance and Rs. 400 p.m. as house rent allowance. He resides with his parents at their house. He contributed Rs. 1000 p.m. to the recognized provident fund of the co. The company also contributed an equal amount. He retire voluntarily on 31.12.2017 He received the following amount on retirement.

a) Gratuity Rs. 80,000 (exempt Rs.70,000)

b) Compensation for voluntary retirement under a scheme approved by the Central Govt. Rs. 1,80,000.(exempt upto 5,00,000)

c) Payment of Rs. 2,00,000 as accumulated balance from recognized provident fund.

d)His pension was fixed at Rs.4,000 p.m..

e) on 1.2.2017 he commuted 1/2 of the pension for 1,50,000 (exempt 100000.) Compute the salary income for the previous year 2017-18.

7) Mr. IMTIAZ who is currently employed with JSM Ltd furnishes you with the following information.

1) The detail of monthly salary for the year ended 31.3.2017 are as under:

Basic salary per month	Rs. 25,000
Dearness allowance per month	
From 1/4/2017 to 31/12/2017	25% of basic
From 1/1/2018 to 31/03/2018	32% of basic
Profession tax deducted per month	Rs.1200
Taxable conveyance allowance	Rs.35,000
Bonus @ 20% on Basic plus Dearness allowance	
Mediclaim premium paid by employer on behalf of Mr. IMTIAZ	Rs. 2,0000

Compute his taxable salary for the Assessment Year 2018-19.

8) Mr. JOHN is employed with Cybertech Ltd. He provides the following information for the Assessment Year 2018-19.

1) Net salary per month Rs. 19,000

2) Income tax deducted at source Rs. 1900 per month.

3) Professional tax deducted at source Rs. 1100 per month

4) He has been employed since 1st April 1998 and received entertainment allowances of Rs. 1750 per month, since that date.

5) Perquisite value of water, gas and electricity Rs.10,000.

6) Received bonus during the year in respect of earlier year Rs. 16,000

7) Received arrears of salary for 20014-15 Rs. 16,000.

8) The employer paid L.I.C premium of Mr.john amounting to Rs.15,000

9) Took advance salary of Rs.10,000, on account of marriage of his son, and loan of Rs. 6,0000.

10) Mr. john who is also a director in the company received Rs. 2,0000 as director's sitting fees during the year

11) Medi-claim premium paid by the company Rs. 12,500

12) He incurred the expenses incidental to employment, such as purchase of books, car expenses etc. amounting to Rs. 12,000

13) He received Rs. 16,000 as salary from M/s. Reema perfumes (a partnership firm) where is a partner.

14) He also received an amount of Rs. 8,000 for his work as an agent for the Life Insurance Corporation of India as commission and travelling allowance Compute

his total taxable salary for the assessment year 2018-.19.

9) From the following details of Mr. LALIT who is a bank employee, compute his salary income for the year ended 31/3/2018.
Salary Rs. 15,800 p.m.., D.A Rs. 12,500/- p.m..; Office allowance Rs. 11,400/- p.m..; Lunch Allowance Rs. 1,250/- p.m..; Bonus Rs. 12,000/- Medical expense reimbursement Rs.18,000/-; Profession tax deducted from salary Rs.1,000/- per month.

10) Following particulars are furnished by Mr. MANOJ for the ended 31st Mar, 2018.
1) Net salary received after deduction of tax at source and own contribution of Recognized Provident Fund is Rs. 82,000/
2) Tax deducted at source from salary Rs. 9,000/-
3) Own contribution to Recognized Provident Fund Rs. 6,000/-
4) Employer's contribution to Recognized Provident Fund Rs.10,000/-
5) Travelling expenses for self and wife for proceeding on leave to home district Rs. 8,000/-
6) The value of car perquisite provided Rs.8,000/
7) Cost of subsidies lunch provided by the employer to the employee Rs. 6,000/-. Compute his salary income for Assessment Year 2018-19

11) Mr. Naresh an employee of M/s. ABC Ltd., Mumbai since 1994 furnished the following particulars of her income for the year ending 31st March, 2018
1) Salary Rs. 26,500/- p.m..
2) Entertainment allowance Rs. 1800/- p.m.
3) Bonus equal to 3 months Basic salary.
4) Commission @0.1% on the net profit of the company. Net profit of the company amounted to Rs. 9,00,00,000/- for the year.
5) She purchased books amounting to Rs. 800/- for her duty in the office.
6) She had taken a loan of Rs. 25,000/- in 2010 for purchase of a house. The company deducts Rs. 500/- per month for her salary.
7) During the office hours she was given a car for her exclusive use.2000 p.m.
8) Profession tax deducted from salary Rs. 850/-
Prepare Statement of Salary Income

12) Mr. OM, the technical Manager of Concept Consulting Engineering Pvt. Ltd. gives you the following particulars for the year ended 31st March, 2018.
1) Salary Rs. 16,500/- p.m.
2) Dearness Allowance Rs. 12,400/- p.m.
3) Hose Rent Allowance Rs. 3,400/- p.m. (out of which Rs.3,300/- p.m. is exempt under section 10 (13A)
4) Bonus Rs. 18,000/-
5) He received Entertainment Allowance Rs. 1500/- p.m.
6) Value of perquisite on account of free use of car Rs. 3000/- p.m.
7) He spent Rs. 500/- on technical books and Rs. 2500/- on Profession Tax

8) He has taken loan of Rs. 20,000/- in May'09 for the purpose of the marriage of his son and the company is deducting Rs. 1,000/- p.m. from his salary and not charging any interest.

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ASSIGNMENT PROBLEMS

PROBLEMS ON INCOME FROM SALARY

Ex.1) Mrs. Asha is the export manager of HI-TECH India Ltd. since 1st Jan1998, She provides you the following information for the previous year ended 31st March 2018
a)Salary @ Rs.38,000 per month. b) Ex-gratia Rs.37,000.
c) House Rent Allowance Rs..22,000 (Exempt u/s10(13A) Rs.7,000.
d) Entertainment allowance @ Rs.2,000 per month. e) Arrears of salary Rs. 28,000.
f) Company deducted profession tax from salary Rs.2,400.
She was on leave for 1 month and went to Kashmir on31st March 2018 She took the salary of April in advance. Compute the taxable income under the head "Salaries" of Mrs. Asha for the A.Y. 2018-19

Ex.2) Mr. Sushilkumar who was working as commissioner of Income Tax, retired on31st Dec, 2017 Following are the particulars of his income relating to the year ending on 31st March 2018

a) Salary received Rs.9,000 per month.
b) Entertainment allowance received Rs.500 p.m..(He spent on entertainment Rs.350 p.m.. on an average.)
c) During the month of Jan2018, he received gratuity amounting to Rs.95, 000.
d) He received Rs.70,000 the value of commuted pension on15th Jan 2018.
e) He receives un-commuted pension from Government with effect 1st Jan 2018 which becomes due on every last day of the month at the rate of Rs.3,200 p.m.
f) He received arrears of salary of Rs.9, 400 on 29th March 2018
g) He incurred the expenses incidental to Employment such as purchase of books, car expenses etc. amounting to Rs.15, 280.

You are required to compute his taxable income the for the Assessment Year 2018-19

Ex.3) Mr. Tarun shah is working as an accounts officer in a Government Department at Mumbai, since 1982. During the year he received Rs.148,000 as salary Rs. 21,000 as ex-gratia and Rs.14500 as entertainment allowance. He was provided with rent free furnished accommodation perquisite value of which was ascertained at Rs.18,500 conveyance allowance of Rs.4,200 was received and actual expenses incurred were Rs.4000 , profession tax paid during the year was Rs. 1080.
You are required to ascertain the income chargeable to tax under the head "Salaries" of Mr. Tarun Shah for the Assessment Year 2018-19

Ex.4) Mr. Prashant was appointed on1st June 2016 as a civil engineer with Shilpayan Agencies. During the year he received.

a) Salary @ Rs.15000 per month.
b) Bonus Rs.16,000
c) Ex-gratia Rs.10,400.
d) Conveyance allowance @ Rs. 9,00 per month (Exempt Rs.800,per month).
e) Award from Thane municipal corporation for presentation of best design Rs.5,0000,
f) Employer's contribution to recognized provident fund in excess of the prescribed limits was Rs. 2,000.
g) House rent allowance @ Rs. 6,000 p.m. (Exempt Rs.1400 p.m.)

You are required to ascertain the taxable income under the head," Salaries" of Mr. Prashant for the Assessment Year 2018-19

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CHAPTER - 6
INCOME FROM HOUSE PROPERTY

BASIS OF CHARGE (SEC 22)

Section 22 of the Income-Tax Act defines the basis of charge under the head "Income from House Property". It states that the "Annual value of the property consisting of any buildings or lands appurtenant thereto, of which the assessee is the owner, shall be chargeable to Income-tax under the head "Income from House Property". This is, however not applicable to the property occupied for the purpose of any business or profession carried on by the owner, profits of which are chargeable to income-tax.

Following 3 conditions should be satisfied before charging any income from property as "Income from House Property".

(A) <u>Income should arise and originate from house property</u>
1) House property means the building or the land appurtenant (connected) thereto.
2) Income from vacant land or plot is not taxed as "Income from House property" but "Income from other source".
3) "Building" includes residential house as well as commercial premises like offices, godown, cinema hall etc.
4) "Land appurtenant thereto" means approach roads, garden, parking space, garage etc.
5) Annual value of foreign property is taxable in case of ordinary Resident.

(B) <u>Assessee must be owner of property</u>
1) Assessee must be the owner of the house property.
2) Income from sub-letting of property is not taxed as "Income from house property" but as "Income from other sources".

3) The term "owner" includes a ***deemed owner*** who may not be a legal owner.

(C) <u>Property should not be occupied for own business</u>
Section 22 specifically excludes from its scope the annual value of such portions of property,
(a) as the owner may occupy for the purpose of any business or profession carried on by him and,

(b) Profits of which are chargeable to income-tax.

In the following cases, income is chargeable as profits of Business and not as Income from House Property

(1) Rent from staff quarters built by a company and let out to its employees.

(2) Income derived from (a) Hotel Rooms or paying Guest Accommodation (b) Business Centres which provide temporary office rooms with services and facilities (c) rent from Safe Deposit Vaults

- ✓ ***Annual Value (Sec.23)***

Once all the conditions under section 22 are satisfied the *"annual value"* of house property is taxed under the head "Income from House Property".
In determining the annual value there are four factors that are normally taken into consideration. These are as follows:

a) *<u>Actual Rent:</u>*
Actual rent means actual rent received. Actual rent is rent receivable less unrealised rent and vacancy period rent.

ACTUAL RENT = Annual Rent – Unrealised rent – Vacancy period rent

b) *<u>Municipal Rateable Value</u> :*

It is the value fixed by the municipality for levying municipal taxes on house property. We always consider Gross Rateable (Municipal) value for determining annual value.

Sometimes in the problem net rateable value is given. Net rateable value is determined after allowing deduction of 10% from gross rateable value. So first we have to convert the net rateable value into gross rateable value.

Formula for converting net rateable value into gross rateable value

$$\text{Gross rateable value} = \frac{\text{Net rateable value}}{90} \times 100$$

c) ***Fair Rent:***
Fair rent is the rent earned by a similar house property in the same locality.

d) ***Standard Rent:***
Standard rent is the rent fixed under the Rent control Act. If standard rent is applicable to house property then Reasonable Letting Value **(RLV)** cannot exceed standard rent.

- ***REASONABLE LETTING VALUE (RLV)***

Reasonable letting value is the expected rent for which the property might be reasonably given on rent.

Computation of RLV

a) *When Standard rent is not applicable*
If standard rent is not applicable to a house property then RLV is equal to Fair rent or Municipal ratable value whichever is higher.

b) *When Standard rent is applicable*
If standard rent is applicable to the property then follow the following steps for calculating RLV.

Step 1 : Calculate higher of Fair rent or Municipal Rateable value.
Step 2 : Calculate standard rent.

RLV is amount calculated in step 1 or step 2 whichever is less.

- ***COMPUTATION OF GROSS ANNUAL VALUE***

Gross annual value is computed under 5 different conditions. These are as follows:

(A) *Let out Property (LOP)*
In case of LOP gross annual value is Reasonable letting value **(RLV)** or Actual rent **(AR)** whichever is higher.

(B) *Self occupied Property (SOP)*
Self occupied property means the house property occupied by the owner for his own residence. Gross annual value of a self occupied property is taken to be **NIL.**

(C) *Deemed to be let out Property (DLOP)*

In case assessee has more than one self occupied property then he can choose only one house as self-occupied. The other houses shall be considered as deemed to be let out property. In other words gross annual value of other houses shall be calculated assuming they are let out property.
In case of DLOP gross annual value will be Reasonable letting value **(RLV)** as actual rent is not applicable since the property is deemed to be let out.
It is important to note that assessee should exercise his option in such a manner that the taxable income is minimum.

(D) ***Partly let out & Partly self occupied property***

Where a house property is partly let out and partly self occupied, its annual value shall be determined as if it was let out. Hence the reasonable letting value shall be taken for full year but actual rent received or receivable shall be taken only for the period it was actually let out.

(E) ***Vacant House property (VHP)***

Whenever an assessee owns a property and it cannot actually be occupied during the year because of his employment or business or profession, the annual value of such house shall be taken to be NIL.

However for claiming the annual value as NIL assessee has to fulfill following conditions:

1. Such house should not be actually let out by assessee during the year.
2. Assessee must not own any other house property.
3. Assessee should stay at some other place in a rented house.

Section 23(1)(c) enumerates that if actual rent received is less than Reasonable letting value, Actual rent received will be taken as Gross Annual Value subject to the conditions that reduction in rent is due to vacancy and not due to any other factor. If the reduction in rent is due to some other factor then provision of section 23(1)(c) are not applicable and Reasonable letting value (RLV) will be the GAV. However in such case the loss due to vacancy is adjusted to such Gross Annual Value as per CBDT circular 14/2001.

➢ ***COMPUTATION OF NET ANNUAL VALUE (NAV)***

From the Gross Annual Value (GAV) the amount of municipal taxes paid by the owner in the previous year are deducted to arrive at Net Annual Value (NAV).

Thus, ***Net Annual Value (NAV) = GAV – Municipal Taxes paid by owner.***

Amount of Municipal taxes can be deducted only if following conditions are fulfilled.

1) They are actually paid by owner

2) The amount of tax is paid during the previous year.

It is very important to note that in case of Self Occupied Property (SOP) or Vacant House Property (VHP), municipal taxes paid are not deducted as GAV is NIL. Hence automatically the NAV is also NIL.

✓ ***Deductions u/s 24 from Income from House Property***

A) *Standard deduction @ 30% of NAV.*

A deduction is allowed on notional basis of an amount equal to 30% of Net annual value **(NAV)**. This deduction is available irrespective of the actual expenditure incurred to earn the income.

☺ ***Incase of Self occupied property NAV is nil, hence standard deduction is not allowed for SOP.***

B) *Interest on loan borrowed.*

(i) Annual interest payable A deduction is allowed for interest on loan borrowed for i) acquisition ii) Construction iii) repairs iv) renewal or v) reconstruction of property from **Net Annual Value**. It is important to note that this deduction is allowed on accrual basis and hence the date of the actual payment is not important. If loan is taken by mortgaging the property for any other reason like daughter's marriage or son's higher education then the deduction is not allowed.

(ii) Pre-construction period interest

Interest on loan borrowed during the construction period of the house property or for the period prior to acquisition of the property, is deductible in five equal instalments commencing from the previous year in which the construction of property is completed or the acquisition is over.

Pre-construction interest is to be aggregated from the date of borrowing till the end of the previous year prior to the year in which the construction is completed.

Thus if a loan is taken on 1st April 2002 and the construction is completed on 15th March, 2005 then interest from 1st April, 2002 (the date of borrowing) to 31st March, 2004 (the previous year prior to the year in which the construction is completed) will be treated as pre-construction period interest. 1/5th amount will be allowed in current previous year 2004-2005 and entire interest from 1st April,2004 to 31st March,2005 will be treated as interest for the current previous year 2004-05 even though the house is completed only towards the end of the year.

'Maximum deduction of interest in case of Self occupied house property or Vacant house property is as follows:

a) where Loan is taken before 1.4.99 for i) acquiring ii) Constructing iii) repairing iv) renewing or v) reconstructing the SOP then maximum deduction is Rs. 30,000

b) Where loan is taken after 1.4.99 for i) acquiring ii) Constructing the SOP and acquisition or construction of property is completed within 3 years from the end of financial year in which loan was borrowed then maximum deduction is Rs. 1,50,000.

c) However if loan is taken after 1.4.99 for i) repairing ii) renewing or iii) reconstructing the SOP the maximum deduction is Rs. 30,000.

d) The maximum deduction of Rs. 30,000 or Rs. 1,50,000 includes both annual interest and pre-construction interest.

e) There is no maximum limit on deduction in case of LOP or DLOP.

- ***Amount not deductible from Income from House Property*** ***(Sec25)***

Any interest on loan payable outside India on which tax has not been paid or deducted at source or in respect of which there is no person in India who may be treated as an agent, then such interest shall not be allowed as deduction while computing the income chargeable under the head "Income from House Property".

- ***Recovery of unrealized rent previously allowed as deduction for A.Y 2001-2002 or earlier years.*** ***(Sec 25A)***

Where a deduction has been allowed in respect of unrealized rent for AY 2001-2002 or earlier and the same is subsequently recovered during the previous year, the amount so received will be chargeable to tax under the head, "Income from house property". However no deductions will be allowed from the amount of the rent received. The amount so received is taxable in the previous year in which it is received, even though the house is not owned by the assessee in the year of receipt.

- **Recovery of unrealised rent previously allowed as deduction for**

A.Y 2002-03 and subsequent years. (Sec 25AA)

Where the assessee cannot realise the rent for AY 2002-03 or of any subsequent years from property let to a tenant and, subsequently the assessee has realised any amount in respect of such rent, the amount so realised shall be accordingly charged to income tax as income of the previous year in which such rent is realised. The amount so received is taxable in the previous year in which it is received, even though the house is not owned by the assessee in the year of receipt. No deductions will be allowed from the amount of the rent received.

- **Arrears of rent received** **(Sec 25B)**

Section 25 B states that arrears of rent received by the owner of house property, which has not been charged to income tax in any previous year, will be charged to tax in the previous year in which such rent is received under the head " Income from House property ". The amount is taxable even if the assessee is not the owner of property in the year of receipt.

However, a deduction is allowed in respect of 30% of such amount received as arrears of rent.

- ***Property owned by Co-owners*** ***(Sec. 26)***

Sometimes the property consisting of buildings or the buildings and lands appurtenant thereto is owned by two or more persons, who are known as co-owners. In such cases, if their respective shares are definite and ascertainable, the share of each such person in the income from the property, as computed in accordance with Sections 22-25, shall be included in his total income.

Where the house property owned by the co-owners is self occupied by each of the co-owner, the annual value of the property for each of such co-owner shall be nil and each of the co-owner shall be entitled to the deduction of Rs. 30,000 or 1,50,000 under section 24(b) on account of interest on borrowed money.

As regards the property or part of the property which is owned by co-owners is let out, the income from such property or part thereof shall be first computed as if this property / part is owned by one owner and thereafter the income so computed shall be apportioned amongst each Co-owner as per their definite share.

PROBLEMS ON INCOME FROM HOUSE PROPERTY

Ex.1) A.N.KHAN has three residential properties, details of which are given below.

Particulars	Residential Property		
	I (Rs.)	II (Rs.)	III (Rs.)
Municipal Valuation	10,000	10,000	10,000
Rent Received /Receivable	12,000	12,000	15,000
Fair Rent	14,000	14,000	14,000

Standard rent under Delhi Rent control Act	18,000	13,000	N.A

The following expenses were paid by A:.N.khan.
Municipal taxes @ 10%. Collection charges Rs. 210, Repairs Rs. 570, White-washing and paint Rs. 1, 240.
Compute his "income from house property" for the Assessment Year 2018-19.

Ex.2) Mr. Mehra owns a house at Delhi, which is let-out. Fair rent of the house is Rs. 2,40,000,municipal valuation 2,50,000 whereas actual rent received is Rs. 30,000 p.m.. He also received Rs. 10,000p.m. from the tenant for charges towards lift, generator and security. He makes the following expenditure in respect of the house property.

Particulars	Rs.	Particulars	Rs.
Municipal taxes paid by Mehra	4,0000	Repairs	2,000
Fire insurance	2,400	Land revenue	3,800
Collection charges	500	Ground rent paid	2,000

Interest on borrowed capital during the previous year 2017-18 is Rs. 40 000.
Funds borrowed on April 1, 2010 4,00,000 @ 10% interest p.a were used for construction of the house which was completed on March 31, 2017 Compute the income earned by Mr. Mehra from his let-out house property during the Assessment Year 2018-19.

Ex.3) Aditya has a residential property, details of which are given below.

Particulars	Rs.
Municipal valuation	1,15,000
Rent receivable p.m.	10,000

The following expenses were paid by A: 1) Municipal taxes Rs. 10,000 2) Collection charges Rs. 8,000 3) Insurance Rs. 10,000. The house remained vacant for 1 month during the year. Compute this 'income from house property' for the Assessment Year 2018-19..

Ex.4) The following are the particulars in respect of property owned by Vijay which was let out throughout during the A.Y 2018-19.

Particulars	Rs.
Municipal valuation	2,10,000
Reasonable rent	2,60,000
Standard Rent	2,70,000
Actual rent receivable at Rs.25000 p.m.	3,00,000
Municipal taxes paid	2,6000
Interest on Loans for construction	1,10,000
Collection charges	1,400

The property remained vacant from1/9/2017 To 31/10/2017 and no rent was received for this period. Compute the income from House property.

Ex.5) The following are the particulars in respect of a new property owned by Vinit which was let out from1/4/2011 onwards. The property was not subject to rent control.

Particulars	Rs.

Fair rent	60,000
Actual rent receivable at Rs. 9000 p.m.	
Municipal taxes payable for the year	11,000
Interest on borrowal paid during the year	28,000
Interest on borrowal paid prior to 1/4/2012	21,000

The property remained vacant from1/4/2017 to 30/6/2017 and no rent was received for this period. Rent for 2months in the financial year 2012-13 was not paid by the tenant, and claimed Rs. 12, 000 as unrealized rent, Compute the income from House property

Ex.6) Compute the income from House property from the following particulars in respect of a new property owned by Mukesh which was let out from 1/4/2013 onwards

Particulars	**Rs.**
Fair rent	6,00,000
Actual rent receivable	75,000 p.m.
Rent actually received (for 10 months only due to vacancy period of 2 months)	7,50,000
Municipal taxes paid (including arrears for earlier years)	15,000
Interest on borrowal paid during the year	25,000
Interest on borrowal paid prior to 1/4/2013	20,000
Collection charges	3,400
Unrealized rent claimed as deduction in earlier year, but received during the year 2017-18	11,000
Arrears of rent for earlier years received during the year.	8,000
Expenditure on repairs to property	4,500
Ground rent paid	2,200
Insurance premium paid, relating to the property	3,500

Ex.7) Compute the income from House property from the following particulars in respect of a house property owned by Sachin.

Particulars	**Rs.**
Date of completion of construction 31/3/2011	
Monthly rent	6,000
Date from which let out 1/4/2011	
Fair rent	40,000
Ground rent payable for the year 2017-18 but not paid	2,200
Ground rent for the year 2017-18 paid on 1/9/2017	2,200
Interest on borrowed capital payable for pre-construction period.	19,400
Interest on borrowed capital payable for the year 2017-18	17,400
Vacancy period (no rent received for this period) 1/9/2017 to 28/2/2018.	
Municipal tax paid.	4,900

Ex.8) Compute the income from House property from the following particulars in respect of a house property owned by Hary.

Particulars	

Date of which let out	1/4/2010
Rent received	Rs. 4,125 p.m. upto 31/7/2017 Rs. 4,800 p.m. From 1/11/2017
Vacancy period (no rent received)	1/8/2017 to 31/10/2017
Fair rent	Rs. 45,000
Municipal taxes paid (including arrears)	11,400
Insurance premium paid (covering damage to property)	Rs. 2,150
Arrears of rent received on 1/8/2017	11,800
Unrealized rent for 2006-07now realized	9,000
Expenditure on realizing unrealized rent	3,000
Land revenue paid to Government	800

Ex.9) Madan has a residential property, details of which are given below.

Particulars	Rs.
Municipal valuation	1,00,000
Fair rent p.m.	15,000
Standard Rent p.m.	9,600
Municipal taxes paid @ 20% of municipal valuation	
Interest on Loans for purchase of this house	20,000
Rent receivable p.m..	10,000

The house property was vacated by the tenant on the last day of Oct.2017 It could then be let out only from 1st of Jan,2018 at Rs.14,000 p.m. Rent for March 2018 could not be realized (the conditions under the relevant income tax rules were satisfied). Compute his 'income from house property' for the Assessment Year 2018-19.

Ex.10) Mr.Srinivas is an owner of two house, both of which are used by him for his own residence. Particulars of these house are as follows:

Particulars	House I	House II
Fair Rent	150000	200000
Municipal taxes – due	1,8000	2,0000
- paid	1,5000	1,5000
Repairs	800	900
Insurance premium – due	500	750
- paid	400	500
Interest on borrowed funds taken for constructing properties	16,000	12,000
Ground Rent due	150	200

Ex.11) Mr Vinayak and his son are equal owners of two houses one at Mumbai and another at Pune. They furnished following particulars of the houses for the year ended March 31,2018

I) Mumbai House : This house is let-out for Rs.4,00,000(rent recd.) per year. They incurred following expenses in connection with this house.

a) Municipal taxes paid Rs.5,400 subsequently recovered from the tenant Rs. 4,000.
b) Interest paid on loan taken from H.D.F.C for repairs of his house Rs. 5,0000.

I) Pune House : This house is occupied by Mr. Vinayak and his son for their own residence. Municipal valuation of the house is Rs.90,000 and fair rent is Rs.95,000 per year. During the year the interest on loan taken for reconstruction of this house amounted to Rs. 50,000.
You are required to compute taxable income of Mr. Vinayak and his son under the head income from house property for the Assessment Year 2018-19.

Ex.12) Kishor, has occupied three houses for his own residential purposes, particulars of which are as follows :

Particulars	House –I	House- II	House III
Standard Rent p.m. Municipal valuation p.m.. Fair Re nt p.m.. Municipal taxes paid Repairs Interest paid on loan taken against Houses for meeting personal expenses	18,000 11,500 15,000 1,2000 2,000 2,200	20,000 30,000 25,000 2,4000 Nil 2,500	Not Applicable 30,000 35,000 3,6000 4,200 3,000

Compute the income from house property for X, for the Assessment Year 2018-19 ,House - 1 in his home-town was vacant throughout the year as he resided in House-III in Mumbai where he works. House II in VASHI was used by him only for 2 months in summer vacation.

ASSIGNMENT PROBLEMS

INCOME FROM HOUSE PROPERTY

Ex.1) Mr. Kunal is the owner of two houses properties. From the following information furnished by him for the year ending 31st March 2018 compute his taxable income for the Assessment Year 2018-19

Particulars	Property No.1	Property No.2
Nature of Occupancy	Self – occupied	Let out for business
Annual Rateable value p.m.	20,000	30,000
Construction Commenced on	1/4/2006	1/4/2007
Construction completed on	1/4/2009	28/2/2009
Municipal taxes paid for the period 1/4/2017 to 31/3/2018	Rs. 8,000	Rs. 9,600
Insurance premium paid for the period 1/10/2017 to 30/9/2018	2,000	2,000
Interest on Loan borrowed for construction	Rs. 6,0000	6,0000
Rent received	-----------	Rs.30000 p.m.

Ex. 2) Mr. Paramveer is the owner of a residential house known as, "Guru Kripa" at Ghatkopar. The house was occupied by three tenants namely, Mr.Qureshi, Mr.Ramanand and Mr.Sadanand. The other particulars for the house are given below tenant-wise for the year ended 31st March 2018.

Particulars	**First Unit**	**Second Unit**	**Third Unit**
Name of the Tenant	**Qureshi**	**Ramanand**	**Sadanand**
Gross Rateable value	12,000	14,000	15,000
Fair Rent	9,000	15,000	16,000
Actual rent Received	11,400	10,800	18,000
Municipal taxes paid	3,240	3,780	4,050
Expenses on Repairs	1,000	Nil	Nil
Expenses of collection of rent	Nil	500	Nil

The repair cost of the first and second unit is to be borne by tenants themselves. Owner Mr. Paramveer is to bear Municipal taxes only in respect of the first unit, while Ramanand and Sadanand reimbursed the municipal taxes paid by the owner. Compute the income from the house property of Mr. Paramveer for the Assessment Year 2018-19

Ex.3) Mr. Shekhar has occupied two houses for his own residential purposes viz.Shanti bhuvan and Ganesh Bhuvan, particulars of which are as follows

Particulars	Shanti Bhuvan	Ganesh Bhuvan
Municipal valuation	80,000	40,000
Fair Rent	1,00,000	44,000
Municipal taxes paid	10%	10%
Interest on borrowed capital	10,000	16,000
Fire insurance	500	300
Ground Rent	750	1,000
Land Revenue	3,850	2,000

You are required to ascertain which property should be treated as self-occupied and determine taxable income for the P.Y. 2017-18 of Mr. Shekhar, assuming both the loans were taken prior to 1st April 2010

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CHAPTER-7
PROFITS AND GAINS OF BUSINESS OR PROFESSION

Introduction

This is one of the important heads of Income. Under this head we are required to consider the profits and gains of a business or profession carried on by the assessee.

✓ ***Business***

Under sec.2 (13) Business is defined as "any trade, commerce, or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

The above definition of business is inclusive and not exhaustive. Hence any activity carried on with a view to earning profit would be covered by the term business. Thus profits from a) trade b) commerce c) manufacture or d) any adventure or concern in trade, commerce and manufacture would be taxed under the head "Profits and gains from business".
The activities specifically included in the definition are explained below.

Trade: Trade basically means exchange of goods for money or goods.
Commerce: Commerce means a regular activity of trading on a large scale. It includes related activities (aids to trade) of transportation, storage, marketing banking and so on.
Manufacture: Manufacture means making of articles by means of labour and or machines. It denotes conversion of raw materials into finished goods.
Adventure or Concern: Any transaction with a profit motive can be called as an adventure or concern in the nature of trade, commerce or manufacture and treated as business. For e.g: buying of shares or land as stock in trade (for re-sale) so as to earn profits. An 'adventure' involves risks–a risk that the capital invested may be lost, a risk that there may not be any regular return or even no return at all on the investment and so on.

✓ ***Profession***

Profession means an occupation requiring using intellectual skill or manual skill or both e.g a chartered accountant, a lawyer, an engineer, a doctor. It may be noted that if these persons are employed by any association and they receive monthly remuneration by way of salary, it is taxed under the head "Income from salary" and not as "Income from business or profession".

Under sec.2(36) of the Income Tax Act ,"Profession is defined to include vocation".

Vocation is an activity in which an assessee has developed a special skill and makes use of such skill for earning income, for example, a singer, a dancer, a painter , a magician.

✓ ***Income from illegal business***

The Income–tax Act does not make any distinction between legal income or illegal income, moral income or immoral income. The income tax Act levies tax on income from business even if it is an illegal business. For example, if there is prohibition, and business is carried on of supplying wine, the income arising therefore will be chargeable to tax under the head income from business. Even in case of smugglers, if the department is able to prove that they have earned some income, it can be taxed under the head income from business.

✓ ***Profits Computed As per Assessees Method of Accounting***

Income from business or profession is to be computed according to the method of accounting- cash or mercantile employed by the assessee. If accounts are kept on cash basis, income received in cash during the previous year is taxable, after deducting expenditure paid in cash during the year. If accounts are kept on mercantile basis, income which has accrued during the previous year is taxable, after deducting expenses which too have accrued during the year. This rule is, of course, subject to any provision to the contrary contained in the Income tax Act.

✓ ***Basis of Charge (Sec. 28)***

Section 28 states the following incomes shall be chargeable to income tax under the head “Profits and gains of business or profession”:

1) Profits and gains from business or profession, carried on by the assessee at any time during the previous year.
2) Any compensation or other payment due to or received by an assessee, for loss of agency, due to termination or modification of the terms and conditions of such agency.
3) Income derived by a trade, profession or similar association from specific services rendered for its members.
4) Profits on sale of import license.
5) Cash assistance granted under any export scheme of government.
6) Refund of custom or excise duty against exports.
7) Value of any benefit or perquisite, whether convertible into money or not, arising from business or profession.
8) Interest, salary, bonus, commission, or remuneration received by a partner from the firm where he is a partner.
9) The following sums received or receivable in cash or in kind under an agreement for
   a) not carrying out any activity in relation to any business or,
   b) not sharing any know-how, patent, copyright, trade mark, license franchise or any other business or commercial right of similar nature or information or technique likely to assist the manufacture or processing of goods of provision of services.
10) Income from speculative transactions.
11) Any sum, received by an assessee on key man insurance policy including bonus.

✓ ***How to compute income from business or profession (Sec 29)***

The income referred to in Sec.28 shall be computed in accordance with the provisions contained in sec. 30 to 43 D. These sections states which are the allowable expenses and which are not allowable. These sections also state the conditions to be fulfilled for allowing the expenses.

✓ ***Rent, rates, taxes, repairs & insurance for buildings (Sec 30)***

In respect of rent, rates, taxes, repairs & insurance for premises, used for the purpose of business or profession the following shall be allowed:
a) If the assessee has occupied the premises as tenant, the rent of the premises and the cost of repairs, the amount of repairs.
b) If the assessee is owner of premises then the amount of current repairs.
c) Any sum paid on account of Land Revenue, Local Rates of municipal taxes.
d) The amount of any premium paid in respect of insurance against any risk of damage or destruction of the premises.

Therefore, if an assessee is the owner of the premise, no notional rent is allowed as deduction.

- ✓ ***Repairs and Insurance of Plant and Machinery & Furniture (Sec 31)***

In respect of repairs and insurance of machinery, plant or furniture used for the purpose of the business or profession, the following deductions shall be allowed:
a) The amount paid on account of current repairs thereto;
b) The amount of any premium paid in respect of insurance against risk of damage or destruction thereof.

- ✓ ***Depreciation (Sec 32)***

Depreciation means loss or fall in the value of an asset. This occurs because of wear and tear and due to actual use. Under section 32 the assessee has to claim the deduction of depreciation in computing his income under the head " profits and gains from business or profession ".

To claim this, the assessee must satisfy the following two conditions:

a) Assessee must be the owner of the asset.
b) The asset must be used for the purpose of business or profession during the previous year.

Regarding depreciation the following important points must be noted:

1) Depreciation is allowed in respect of Building, Machinery, Plant or Furniture, being tangible assets, and Know-how, patents, copyrights, Trade marks, licenses, franchises or any other business or commercial rights of similar nature, being intangible assets acquired on or after the 1-4-1998.
   The term plant includes ships, vehicles, books, scientific apparatus and surgical equipment's used for the purpose of business or profession.
2) No depreciation is allowed on imported motor car which is acquired on or after 1st March, 1975 but before 1st April, 2001.
   However the restriction does not apply :
   a) If the assessee carries on a business of running the car on the hire for tourist, or
   b) If the assessee is using the car outside India in his business or profession in another country.
3) The amount of depreciation is required to be ascertained at the rates prescribed under the Income- tax Rules.
4) Depreciation will be calculated on the closing written down value of **"Block of Assets "**. Block of Assets" means a group of assets falling within a class of assets, in respect of which the same percentage of depreciation is prescribed.

5) If the closing WDV is negative then it is treated as NIL. Hence the amount of depreciation is also NIL.
6) In case of any asset falling within a Block of Asset is acquired by the assessee during the previous year and is put to use for a period of less than 180 days in that previous year, the amount of depreciation in respect of such asset shall be restricted to 50% of the amount calculated at the prescribed rate of depreciation applicable to that Block of Asset.

Calculation of "Written down value of Block of Assets"		
	Opening WDV of all the assets falling within the block	XXX
Add :	Cost of assets falling within the block acquired during the year	XXX
		XXX
Less :	Sale proceeds of the assets falling Within the block	XXX
	Closing WDV of the Block of Assets	XXX

Rates of Depreciation	
a) Building used for residential purposes	5%
b) Building used for Non-residential purpose like office, factory, godown etc.	10%
c) Furniture and fittings used for general purposes	10%
d) Plant and machinery used for general purposes	25%
e) Motor Car other than those used in tourist business	20%
f) Know-how, patents, copyrights, trademarks, etc (intangible assets)	25%
g) Computers	60%

✓ ***Expenditure on Scientific Research (Sec 35)***

Following are the provisions u/s 35 as regards to expenditure incurred on scientific research.

1) Any expenses, capital or revenue incurred on in-house research carried on by assessee is allowed as deduction, provided the research work relates to the business of the assessee.
2) Any revenue expenditure incurred for scientific research 3 years prior to commencement of business can be claimed as deduction in the first year of commencement of business.
3) All capital expenses ***(except expenditure on acquisition of land)*** incurred on Scientific Research related to the business carried on by the assessee shall be allowed as a deduction in the year in which they are incurred. This capital expenditure is allowed to be deducted in full but no depreciation is allowed u/s 32 in respect of such asset during the previous year or subsequent years.

4) Any capital expenditure incurred for scientific research 3 years prior to commencement of business can be claimed as deduction in the first year of commencement of business.
5) Where an assessee pays any sum to a National laboratory or a University or Indian Institute of Technology or a specified person for carrying out an approved scientific research, is eligible for weighted deduction of 125%. **For eg:** If assessee pays Rs. 10,000 then he will be allowed a deduction of Rs. 12,500 i.e.125% of amount paid.
6) In case of a company engaged in the business of biotechnology or in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipments, computers, telecommunication equipment's, chemicals or any other article or thing notified by the Board, incurs any expenditure on scientific research (excluding the cost of land and building) or in-house research and development facility as approved by the prescribed authority, a weighted deduction of 150% of such expenditure shall be allowed.

- ***Other Deductions***

✓ ***Insurance [Sec 36 (1) (i)]***

The amount of insurance premium paid to cover the risk of damage or destruction of stocks, cattle and on health of employees under an approved scheme is allowable as deduction in computation of the income from business or profession.

✓ ***Bonus or Commission paid to Employees [Sec 36 (1) (ii)]***

Any amount of bonus and commission for services rendered paid to the employees is an allowable deduction. However such bonus and commission would not have been paid to him as profits or dividend.

✓ ***Interest on Borrowed Capital [Sec 36 (1) (iii)]***

Deduction is allowed in respect of interest paid on borrowed capital for the purpose of business or profession. But, interest paid by the firm to its partners will be a permissible deduction within limits specified u/s 40 (b).

✓ ***Contribution to Recognized Provident Fund or an Approved Super Annuation Fund [Sec 36 (1) (iv)]***

The contribution to Recognized Provident Fund or an Approved Super Annuation Fund Within the limits as specified under the Act will be an allowable deduction.

✓ ***Contribution to an Approved Gratuity Fund [Sec 36 (1) (v)]***

Any amount which is contributed by an assessee being the employer to an approved gratuity fund will be allowed as deduction.

Such fund must be created by the employer for the exclusive benefit of his employees under an irrevocable trust.

✓ ***Contributions received from Employees [Sec 36 (1) (va)]***

Any amount of Contributions received from Employees towards any fund for the welfare of employees such as provident fund, superannuation fund etc. will be treated as income as per Section 2 (24) (x). However, deduction is available u/s 36 (1) (va) in respect of such sums which are credited by the employer, to the employee's account in the relevant fund, on or before the due date, ad prescribed under the Act, Rules, Order or Notification with reference to the respective fund. Intention of these provision is that employer must be regular in depositing the employees contribution to the various funds.

✓ ***Animals used for Business [Sec 36 (1) (vi)]***

Deduction is allowable in respect of animals used for the purpose of business or profession. If such animals have died or have become permanently useless the amount of deduction will be the difference between the actual cost to the assessee of the animals and the amount realised, if any, in respect of carcasses of animals.

✓ ***Bad Debts [Sec 36 (1) (vii) & 36 (2)]***

The amount of bad debt or part thereof which has been written off as irrecoverable in the accounts of the assessee for the previous year shall be allowed as a deduction provided such deduction is approved by Income Tax Officer **(ITO)**.

✓ ***Recovery of Bad Debts***

a) If bad debts written off earlier and allowed as deduction by ITO are recovered during the subsequent year then it is to be treated as business income.
b) If bad debts written off earlier but not allowed as deduction by ITO and recovered during the subsequent year is to be ignored.

✓ ***General Deductions (Sec.37)***

This section applies to expenditures not covered by any of the deductions discussed above. The expenditure must satisfy the following conditions in order to claim deduction under this section:

1) The expenditure should not be of the nature prescribed u/s 30 to 36.
2) Expenditure should not be in the nature of capital expenditure.
3) It should not be personal expenditure of assessee.
4) It should be incurred wholly and exclusively for the purpose of business or profession of the assessee.
5) It should not be for a purpose which is an offence or prohibited by law(eg:bribe paid)

Examples of expenses allowable u/s 37

On the basis of above principles, the following are some of the expenses or losses allowed as deduction based on the decision of various High courts /Supreme courts.

1) Cost of raw material, wages, freight, royalties, salaries etc.
2) Loss of stock by theft or fire, flood, earthquakes.
3) Embezzlement of cash and stock by employees.
4) Legal expenses to oppose any case.
5) Reasonable remuneration paid to working family members.
6) Fees and subscription.
7) Sales tax, custom duty, excise duty, Octroi, profession tax etc.
8) Fees to technical consultants.
9) Commission and brokerage.
10) Rebates, discount allowed to customers.
11) Expenditure for registration of trademark.
12) Employee's welfare expenditure.

13)Compensation paid to employees for injury during working hours.
14)Travelling expenses incurred in connection with business (including foreign travel)
15)Expenses incurred on the occasion of Diwali, Pooja, Dashara, etc.
16)Guarantee fees, brokerage or commission paid for loan or finance.
17)Telephone deposit paid under OYT scheme is allowed as deduction in the year of payment.
18)Damages paid for failure to fulfill the contract in time.
19)Damages paid to a worker in order to dismiss him in the interest of business.
20)Presentation articles or gifts for advertisement purpose.
21)Cash shortage found at the end of the day.

Examples of expenses not allowable u/s 37

However, the following cannot be allowed as deduction

1) Penalty and damage paid in connection with infringement of law,
2) Donations and charities.
3) Income Tax, Advance Income Tax, Wealth Tax, estate duty.
4) Legal expenses incurred to defend criminal liability.
5) Fines, penalty etc. resulting from contravention of any law. eg: Factory Act or P.F. Act.
6) Drawing of goods by the proprietor.
7) Depreciation in excess of prescribed limit.
8) Expenses of personal nature/ drawings/LIC/ULIP/PPF etc.
9) Expenses of capital nature.
10) Expenditure incurred by an assessee for any purpose, which is an offence, or which is prohibited by law.

✓ ***Advertisement in Political Souvenir***

Expenses on advertisement in any souvenir, brochure, pamphlet etc. published by a political party are not allowed as deduction.

✓ ***Expenses not deductible [Sec 40(a)]***

The following sum payable outside India are disallowed in case of all assessees

1) Interest, royalty, salaries paid outside India on which tax is not paid or deducted at source.
2) Any tax levied on the profits of the business i.e. Income tax.
3) Any wealth tax paid in India as per wealth tax act 1957 or under any similar law in a foreign country.
4) Any contribution to a provident fund or any other fund, where effective arrangement is not made for the deduction of tax at source from any payment made from the fund which is taxable.
5) Any tax paid by employer on perquisites provided to employee.

✓ ***Remuneration paid by firm to the Partners [Sec 40(b)]***

While computing the income of the firm any payment of salary, bonus commission or remuneration to any partner is allowable as deduction provided it does not exceed the ceiling and it is provided in the partnership deed. Any payments in excess of such specified ceiling will be disallowed u/s 40 (b).

If salary bonus commission or remuneration paid to a partner who is not a working partner will be disallowed.

The ceiling which has been provided on remuneration to working partner is as stated below:

A) In case of **a Firm engaged in profession** the maximum remuneration allowable as deduction shall be ascertained as follows:

In case of loss or Book profit upto Rs. 1,00,000 for the year	
In case of book-profit exceeding Rs. 1,00,000 but not exceeding Rs. 2,00,000 for the year.	
In case of Book- profit exceeding Rs. 2,00,000 for the year.	

B) In case of **a Firm carrying on the business other than the profession** the maximum remuneration allowable as deduction shall be ascertained as follows:

In case of loss or Book profit upto Rs. 75,000 for the year	
In case of book-profit exceeding Rs. 75,000 but not exceeding Rs.1,50,000 for the year.	
In case of Book- profit exceeding Rs.1,50,000 for the year.	

The remuneration paid to the working partner of the firm within the limit specified as above is allowable as business expenditure. The excess payment over the above limit specified shall be disallowed. However, such payment must be authorized by the partnership deed.

✓ ***Interest paid by firm to the Partners [Sec 40(b)]***

While computing the income of the firm any payment of interest to the partners on their capital shall be allowed as deduction provided such payment of interest is authorized by the partnership deed and such amount of interest does not exceed the amount calculated at the rate of 12% ***(18% till 31st May2002)*** simple interest. If such payment exceeds the limit specified it is disallowed u/s 40(b). Similarly payment of interest if not authorized by the partnership deed, the whole amount of such amount of interest is disallowed u/s.40(b).

✓ ***Expenditure or Payments not deductible in certain circumstances (Sec 40 A)***

➢ ***Payment made to certain persons which are unreasonable or excessive [Sec 40A (2)]***

If the assessee has made a payment in respect of any expenditure to the following person

1) Any relative in case of individual.
2) Directors in case of a company.
3) Partner in case of a firm.
4) A member in case of H.U.F etc.

and if the Income tax officer **(ITO)** regards such payments to be in excessive or unreasonable then such expenses are disallowed.

- ***Payment in excess of Rs.20,000 made in cash [Sec.40A (3)]***

When (A) payment is made in excess of Rs.20,000 (B) otherwise than by a crossed cheque or crossed demand draft (C) in respect of a revenue expenditure (D) then 100% of such expenditure shall not be allowed as deduction. In short we can say that 100% of expenses paid for in cash or by bearer cheque are disallowed. This provision is applicable only for revenue expenses.

For example if an assessee has incurred an revenue expenditure of Rs.27,000 in cash then 100% of such expenditure i.e. Rs.27000 (Rs.27000 x 100%) will be disallowed

Provision for gratuity on Retirement [Sec.40A(7)

A mere provision in the accounts for an estimated amount on account of gratuity which may become payable to the present employees at the time of their retirement, termination etc. in future is a contingent liability and not an actual liability. Hence it cannot be deducted. However, the provision (a) for contribution to an approved gratuity fund or b) for gratuity, which has actually become due and payable during the previous year in respect of the employees on their retirement or termination during the previous year, is allowable.

- ***Contributions to Non-Statutory funds [Sec.40A(9)]***

No deduction shall be allowed in respect of any sum paid by the assessee, as an employer, towards the setting up or formation of, or as contribution to, any fund, trust, company, association of person (AOP), registered society or other institution, for any purpose. ***However deduction will be allowed if the payment is towards statutory fund such as recognized provident fund.***

✓ ***Deduction allowed only on payment basis. (Sec 43 B)***

Following expenses are allowed as deduction only on payment basis.

i) Tax, duty, cess fee etc.

ii) Bonus/ commission paid to employees

iii) Interest on loan from financial Institution

iv) Interest on term loan taken from schedule bank.

v) Leave salary paid to employee

The above 5 payments are allowed as deduction if they are actually paid during the previous year or before the date of furnishing the return of income.

vi) Employers contribution to PF/ Superannuating fund on or before the due date as may be specified. Any payment after due date will not be allowed as deduction.

How to compute Income from Business or Profession.

✓ ***When Profit & Loss A/c is given***

Net profit disclosed by such Profit and Loss Account is considered as a basis of computation of business income. Following procedure should be adopted to decide taxable business income.

a) Consider Net profit/ Loss as per profit and Loss Account as the starting point.

b) Add to the Net profit (or deduct from loss) the items which are disallowed.

c) Deduct from the profit or add to loss those incomes which are credited to Profit and Loss account but which are not taxable under this head. For example, interest on securities, rent from house property rent from letting of machinery etc.

d) Consider the additional information as provided by the assessee.

e) Find out the taxable income after giving effect for the adjustments.

✓ ***When Receipts and Payments A/c is given***

a) Consider all the incomes on receipts side which are taxable.

b) Find out all the allowable expenses given on the payments side.

c) Deduct all the allowable expenses from taxable income to find out taxable business profits.

PROBLEMS ON PROFIT ON BUISNESS OR PROFESSION

Q.1) Mr.Maheshwari is the proprietor of Ocena Laundry. He furnishes you the following Receipts and Payments account for the year ended 31st March, 2018.

Receipts	Rs.	Payments	Rs.
To cash on hand	1,500	By Washing Charges	90,000
To Laundry receipts	1,40,000	By Salary	25,000
To Ironing receipts	30,000	By Electricity Charges	6,000
To Refund from L.I.C on life policy	5,400	By Rent	12,000
To winnings from lottery	10,000	By Compensation for loss of clothes	1,200
		By Income –tax	10,000
		By Purchase of Lottery tickets	4,000
		By Tailoring charges	3,600
		By Sundry Expenses	1,200
		By Closing Balance	33,900
	1,86,900		**1,86,900**

Compute taxable business income of Mr.Maheshwari for the Assessment Year 2018-19.

Q.2) Ms. Anuradha, a playback singer, entrusts her accounts to you for computation of income from business for the Assessment Year 2018-19 An analysis of bank account reveals the following.

Particulars	**Rs.**
Concert Receipts	24,000
Receipts from film producers	78,000
Royalty from HMV and Music India	10,000
Amount from LIC on maturity of policy	26,000
Cost of train and air tickets for party taken on concert tour to Delhi	14,000
Payments to accompanying artist in above party	8,000
Other receipts on above tour	65,000
Car expenses on traveling to local concerts	18,000
Rent paid (half premises used for rehearsals etc.)	9,000
Collections from students being trained in music in spare time	12,000

Q.3) Following is the P& L A/c of Bombay Mart, owned by Mr.Pratish, for the year ended Mar31,2018

To Salaries	18,000	By Gross profit	48,000
To Printing & stationery	2,000	By Sales – tax refund	2,000
To conveyance	4,500		
To Interest on loan	2,500		
To interest on capital	2,500		
To Bad debts	1,000		
To Donations for charity	500		
To net profit	19,000		
	50,000		**50,000**

1) Salaries include Rs.6, 000 paid to Mr. Pratish as his salary.
2) Personal expenditure of printing Mr. Pratish Greeting cards Rs.500 has been included in total printing & stationery expenditure.
3) Interest on loan includes interest towards personal loan Rs.1000.
Compute the Business income earned by Mr. Pratish during the previous year 2017-18.

Q.4) Following is the Profit and Loss account of M/s. Vishal Traders, owned by Mr. Vishal, for the year ended March 31, 2018

	Rs.		**Rs.**
To Salaries	15,400	By Gross profit	76,000
To stationery	600	By Income tax refund	4,000
To Provision for bad debts	3,000		
To Rent	9,000		
To depreciation To Membership fees	12,000		
a) Royal Health Club	1,500		
b) Indian Merchants Association	1,000		
To Provision for tax	12,500		

To net profit	25,000 **80,000**		**80,000**

1 Rent has been paid to Mrs. Vishal. Reasonable rent for the same premises at market rate would be Rs. 6,000.

2) Depreciation as per income tax Rules is Rs. 10,800.
3) Salaries include salary to proprietor Rs.2000.

Compute the taxable business income of Mr. Vishal for the Assessment Year 2018-19

Q.5) Mr. Prabhakaran furnishes the following information for computing his income from business for A.Y.2018-19.

Particulars	**Rs.**	**Particulars**	**Rs.**
Office expenses	78,000	Gross profit	3,70,000
Telephone deposit (OYT scheme)	8,000	Sales – tax refund	10,000
Staff health insurance (paid in cash)	1,500		
Salary	35,000		
Depreciation	9,500		
Traveling	2,000		
Loss of cash by theft	1,200		
Expenses on Diwali	800		
Interest	4,000		
Net profit	2,40,000		
	3,80,000		**3,80,000**

1) Salary includes Rs. 10,800 paid to Mr. Balu out of India on which no tax has been deducted at source .

2) Depreciation vide Income tax Rules Rs. 10,000.

3) Travelling expenses allowable Rs. 1,100.

4) Interest includes Rs. 3,000 paid to Mr. Jay out of India on which no tax has been deduced at source.

Q.6) Mr. Satyajeet furnishes the following profit and loss account for the year ended 31st March 2018

Particulars	**Rs.**	**Particulars**	**Rs.**

Salary	28,000	Gross profit	1,90,000
General expenses	3,000	Interest	6,000
Reserve for bad debts	1,500	Dividends	4,000
Patents acquired (1/4/2017)	21,000		
Cost of know how (1/4/2017)	6,000		
Depreciation on building	6,500		
Building extension (1/10/2017)	40,000		
Rent	6,000		
Printing & Stationery	4,000		
Conveyance	3,000		
Sales – tax	7,000		
Net profit	74,000		
	2,00,00		**2,00,000**

1) Deprecation on building as per Income tax rules Rs.4,000.
2) Salary includes payments to Charulata, a relative of Rs.10,000 which is excessive to the extent of Rs.6,000.
3) Income tax rules prescribe deprecation on intangible assets @ 25%.

Q.7) Shri Arunkumar has prepared the following profit and loss account for the year ended 31st March 2018. You are required to ascertain his income for the Assessment Year 2018-19.

Particulars	**Rs.**	**Particulars**	**Rs.**
Salaries	6,000	Gross profit	1,90,000
Rent	2,400	Rent from house property	6,000
Loss of cash by theft	2,000		
Discount	1,000		
Charity	500		
Reserve for bad debts	1,000		
Gifs & presents	500		
Life insurance premium	7,000		
Interest on loan	2,000		
Interest on capital	3,000		
Repairs – House property	500		
Income – tax	2,000		
Net profit	28,100		
	56,000		**56,000**

1) Salaries include own salary Rs.2000.
2) L.I.C. premium include premium paid for staff Rs.3000.
3) Gifts Rs.300 is personal in nature.

Q.8) The following is the Profit and Loss account of Dhandapani for the year ended March 31,2018

Particulars	**Rs.**	**Particulars**	**Rs.**

Opening stock	55,000	Sales	180,000
Purchases	40,000	Closing stock	20,000
Wages	60,000	Gift from father	10,000
Rent	6,000	Sale of Jewellery	17,000
Repairs of car	3,000	Income tax refund	3,000
Wealth tax	2,0000		
Medical expenses	3,000		
General expenses	10,000		
Dep-car as per IT Rules	4,000		
Income tax paid	3,000		
Profit for the year	26,000		
	2,30,00		**2,30,000**

1) Mr. Dhandapani carries on his business from rented premises half of which is used as his residence.
2) The use of car was ¾ for business and ¼ for personal use.
3) Medical expenses were incurred for treatment during Mr. Dhandapani sickness.
4) Wages include Rs.2500 per month for driver of car for 10months
compute his income from business.

Q.9) M/s. Bharat Chemical Industries, Mumbai furnishes the following Profit &Loss account for the year ended 31st March 2018

Particulars	**Rs.**	**Particulars**	**Rs.**
To Salary	12,600	By Gross profit	68,400
To Sundry expenses	3,000	By Rent Received (50% of house)	24,000
To Electricity	400		
To Interest on loan for purchase of house	3,000		
To Donation	500		
To Income tax	1,200		
To Repairs to house property	2,500		
To Municipal tax on property	20,000		
To Net profit	49,200		
	92,400		**92,400**

1) 50% of the house property is used for business, and 50% is let out.
2) Municipal taxes were due on 31/3/2017 Rs.15,000 were paid on 29/7/2017 The balance is still outstanding. The due date of return is 31/10/2017
3) Donation is given to a religious trust.
Compute taxable income for the Assessment Year 2018-19

Q.10) From the Profit and loss account of Hum-Tum traders, a proprietary concern, for the year ending March31, 2018, compute the taxable income from business for the Assessment Year 2018-19

Particulars	Rs.	Particulars	Rs.
Salaries	36,000	Gross profit	96,000
Rent	12,000	Dividends	5,000
Power & Water	2,200	Profit on sale of shares	20,000
Rates & taxes	2,500		
Car expenses	9,000		
Entertainment	3,000		
Repairs	6,000		
Depreciation	8,000		
Trade Expenses	6,500		
Legal expenses	3,500		
Net profit	32,300		
	1,21,00		**1,21,000**

1) Salaries include Rs.12, 000 to the proprietor.
2) Rent includes Rs.6, 000 paid to proprietor for his premises occupied by the concern.
3) Car expenses include Rs.3, 600 conveyance allowance paid to the proprietor.
4) Trade expenses include (a) donation for charity. Rs. 1500 (b) Diwali pooja expenses Rs.1,000.
5) Legal expenses include Rs.500 litigation expenses in connection with the proprietor's personal property.

Q.11) The following is the profit and loss a/c of Mr. Thekedar for the year ending 31st March,2017.you are required to ascertain his income from business for the Assessment Year 2018-19

Particulars		Rs.	Particulars	Rs.
Salaries		10,800	Gross profit	35,672
Sundry expenses		1,200	Discount	751
Reserve for bad debts		3,000	Commission	1,205
Insurance		450	Sundry Business Receipts	52
Advertising		2,500		
Income – tax		2,375		
Loss on theft of stock		1,200		
Interest on capital		1,000		
Interest on bank loan		1,550		
Charity		150		
Life insurance premium		550		
Loss of cash by fire		1,500		
Depreciation				
Building	1,000			
Furniture	200	1,200		
Difference in trial balance		105		
Net profit for the year		10,100		
		37,680		**37,680**

Depreciation as per Income- tax Rules: Building – Rs.800 and furniture – Rs. 150, Salaries including amount drawn by Mr. Thekedar during the year against profit Rs.6000. income-tax include amount paid towards sales tax Rs1000.

Q.12) Dr. Suresh is a medical practitioner. Besides his own practice he works as a part time physician in a private hospital for which he receives a monthly remuneration. He is also a consultant physician for XYZ & Co. Ltd. on a monthly retainership. The doctor maintains a record of his receipts and payments.

The following information is extracted from his records for the year ending 31st March,2018

Particulars	**Rs.**
Receipts Consultation fee Receipts	60,000
Gross remuneration from the private hospital	24,000
Retainer ship fee from XYZ & Co.	6,000
Gifts from Patients	10,000
Payment Rent and electricity charges for the clinic	12,000
Telephone charges	2,400
Printing and stationery	500
Car maintenance expenses	12,000
Wages of clinical assistant	3,600
Drivers salary	3,600
Life insurance premium	2,400

1)Depreciation according to Income tax Rules on furniture – Rs.3000, on Car – Rs.6,000.

2) 1/3 of the use of the car and the telephone is attributable to personal and private purposes. 3) Eletricity charges include residence chargesRs.2000. Prepare a statement of total income of Dr. Suresh for the Assessment Year 2018-19

Q.13) Mr. Saudagar furnishes following information for computation of his income from business for the Assessment Year 2018-19

Profit & loss Account for the year ended 31st March,2018

Particulars	**Rs.**	**Particulars**	**Rs.**
Sundry Expenses	68,000	Gross profit	3,11,000
Salary	55,000	Gift from mother	15,000
Bonus & Commission paid	20,000		
Contribution to:			
- approved gratuity fund	5,500		
- statutory provident fund	7,500		
Office expenses	41,000		
Depreciation	50,000		
Net profit	79,000		
	3,26,000		**3,26,000**

Further Information:- (1) Depreciation as per Income-tax Rules is Rs. 54,000. and balance on 30-11-2018

(2) Bonus of Rs. 3,750 was due on 31-3-2018 Out of this, 3,000 was paid on 25-10-18

(3) Sundry expenses include:- (a) Interest on term loan from bank: Rs.RS 3,000 paid on 4-6-17. Rs. 2,000 paid on 31-12-18

(b) Advance income tax Rs. 3,700 paid on 15-9-18.

(c) Excise duty Rs. 3,500 paid on 5-11-18
(4) The due date for furnishing his income is 31-10-18

Q.14) Mr. Aamir is a practicing Chartered Accountant in Mumbai. For the year ended 31st March 2018 his receipts and payments were as under:-

Particulars	Rs.
Receipts	
Fees received from clients	50,000
Retainership fees	12,000
Interest on fixed deposit with bank	3,000
Interest on fixed deposit with Public ltd. companies.	5,000
Rent received for sub-letting table space	1,200
Payments	
Salaries to assistants	6,000
Rent and electricity charges for office	9,600
Telephone charges	3,600
Printing and stationery	1,200
Car hire and Taxi fare	3,000
Life insurance premium	3,000
Income tax	5,000
Gift, presents, charity etc.	1,000
Typewriter purchased	4,500

Compute his income from profession for the A.Y. 2018-19
1)LIC include personal premium RS.1000.
2)Gifts personal in natureRs.500
3)20% of telephone charges, car hire and taxi fair are for personal use.

Q.15) Following is the Receipt and Payment account for the year ended March 31, 2018 of Mr. Raj, a practicing lawyer.

Receipts	Rs.	Payment	Rs.
To Balance b/f	8,500	By Salaries	25,000
To Professional fees	2,10,000	By Office Rent	6,000
To Salary As a Law Lecturer	900	By Subscriptions for the legal publications	3,000
To Lottery Prize	6,000		
To Received from his fathers H.U.F.being his share	9,500	By Printing & Stationery	7,200
		By Advance tax	60,000
To Gifts received from clients	20,000	By Purchase of type writer	5,000
		By Personal drawing	35,000
		By Purchase of car (15-10-14)	90,000
		By Office expenses	12,000
		By Balance c/d	11,700
	2,54,900		**2,54,900**

Other relevant particulars are:-
(1) Depreciation on car is allowed at 20%.
(2) 1/3 of the car use has been for personal purposes.
(3) Depreciate Typewriter by 12.5%.

Determine the taxable business income of Mr. Raj for the Assessment year 2018-19

ASSIGNMENT PROBLEMS

INCOME FROM BUSINESS/PROFESSION

Q.1) The following is the Trading and Profit & Loss A/c of Govinda for the year ending March 31,2018

Particulars	Rs.	Particulars	Rs.
To Opening Stock	32,000	By Sales	4,20,000
To Purchase	3,60,000	By Closing Stock	48,000
To Gross Profit	76,000		
	4,68,000		**4,68,000**
To Salaries & Wages	36,400	By Gross Profit	76,000
To Rent paid	10,800	By Dividends	3,200
To Insurance Premium	2,890		
To Printing & Stationery	1,700		
To Advertisement	720		
To Household expenses	26,000		
To Net Profit	690		
	79,200		**79,200**

An analysis of the expenses revealed the following :-

1) Salaries and Wages include Rs. 18,000 paid as salary to the proprietor and 400 Paid to the proprietors domestic servant.
2) Rent include Rs. 1,800 being hostel charges of the proprietors son.
3) Insurance premium include Rs.1,600 paid as life insurance premium on a policy on the life of the proprietors wife.
4) Rs.1,000 paid as penalty imposed by Income-tax officer has been wrongly included in salaries. Compute the income from business for the Assessment Year 2018-19.

Q.2) The following is the income and expenditure account of Dr. Dhanvantari for the year ending 31-3-2018.

Expenditure	Rs.	Income	Rs.
To Salaries to staff	12,000	By Consultation fees	40,000
To Laboratory expenses	6,000	By Visiting fees	10,000
To Rent of consulting room	6,000	By Gift from patients	4,000
To Purchase of medicines	4,500	By Sale of medicines	8,000
To Income tax	3,500	By Rent from House property	12,000
To Car expenses	3,640		
To Membership fees	200		
To Municipal Tax – house	1,200		
To Repairs	1,800		
To Printing Charges	400		
To Charity	150		
To Sundry Expenses	750		
To Surplus for the year	33,860		
	74,000		**74,000**

Compute his taxable income from profession for the Assessment Year 2018-19 after taking into consideration following information. a) Gifts include Rs.1000 from his relatives in personal capacity. b) The car was used entirely for the profession. d) Repairs related to house property.
e) Depreciation on car, surgical equipment and furniture allowable as deduction under Income Tax Rules Rs.4,500.

Q.3) From the following profit & loss account of MR.RAJ for the year ending 31st March 2018 Compute his business income.

Particulars	Rs.	Particulars	Rs.
To Office Salaries	15,000	By Gross profit	1,30,000
To General expenses	8,500	By Interest on Bank Deposits	4,100
To Interest on Capital of X	3,000		7,600
To Bad debts reserve	5,000	By Interest on Company Deposits	
To Depreciation	15,000		1,000
To Advertisement	9,000	By Refund of Income-tax for A.Y2015-16.	
To Fire Insurance Premium	1,200		
To Donation	5,000		
To Advance Income Tax	4,000		
To Sales tax paid	5,000		
To Income tax for 2015-16	3,000		

To Net Profit	69,000 **1,42,700**		**1,42,700**

Information given is :

1) Allowable depreciation was Rs.10,000.

2) General expenses include furniture purchased worth Rs.2,500.

3) Office Salaries include salaries paid to Mrs. X Rs.3,000 ,Mrs.X,B.com.write the accounts of business.

4) Advertisement includes Rs.2,500 for the advertisement in souvenir of a political party.

CHAPTER - 8
CAPITAL GAINS

✓ ***Basis of Charge [Sec 45(1)]***

Any profit or gain arising from the transfer of capital asset affected in the previous year is chargeable to income-tax under the head "Capital Gains" and shall be deemed to be the income of the previous year in which transfer took place.

Capital gains means any profits or gains arising from the transfer of a capital asset. Such gains are taxed under the head 'Capital Gains' in the previous year in which the transfer of the capital asset takes place. ***Thus--, income is charged under the head 'Capital Gains', if the following conditions are satisfied:***

(1) There should be a 'capital asset'.

(2) There should be a 'transfer' of such capital asset during the 'previous year'.

(3) There should be profits or gains on transfer of capital asset.

✓ ***Capital Asset [Sec,2(14)]***

"Capital asset" is defined to mean property of any kind, held by the assesses, whether or not connected with his business or profession. 'Property' may be tangible or intangible. Land, Building, Vehicles, Goodwill, tenancy right, leasehold rights, licenses, patents, trademarks etc. are some example of capital assets.

The following assets are, however, excluded from the definition of "Capital assets".

(1) Any stock-in-trade, consumable stores or raw material held for the purpose of business or profession as these will be taxed under the head business income.

(2) Personal effects of the assessee, i.e

(a) movable property, including wearing apparel and furniture.

(b) Held for personal use by the assessee or any member of his family dependent on him.

Jewellery is treated as a Capital asset even though it is movable and used for personal use.
Similarly a house property in which an assessee lives and used by him for his personal use is treated as capital asset because it is an immovable property.

(3) Agricultural land in India, which is not situated in an urban area i.e.

(a) in any area within the jurisdiction of a municipality or a cantonment board having a population of 10,000 or more; or

(b) in any notified area, within 8 Kilometers of an area in 3 (a) above.

(4) 6 ½ per cent Gold Bonds, 1997or 7 percent Gold Bonds, 1980 or National Defense Gold Bonds, 1980 issued by the Central Government.

(5) Special Bearer Bonds, 1991.

(6) Gold Deposit Bonds issued under the Gold Deposit Scheme,1999.

✓ ***Transfer of Capital Asset [(U/s. 2(47)]***

Capital gains or losses arise only when a capital asset is transferred in the previous year. Hence, it is necessary to understand the term, ***Transfer***.

As per section 2(47) transfer in relation to capital asset includes:

1) Sale, Exchange or relinquishment ***(to give up or surrender the rights voluntarily)*** of the asset or
2) The extinguishments ***(termination)*** of rights in the Capital asset.
3) Compulsory acquisition of the capital asset under the law
4) Conversion of capital asset into stock in trade of a business.
5) Any transaction, allowing the possession of any immovable property to be taken or retained in the part performance of a contract referred u/s 53 A of Transfer of Property Act, 1882. ***(i.e, contract of Power of Attorney)***
6) Transaction enabling the enjoyment of immovable property by becoming a member of a Co-op. Society, company or other association of person.

✓ ***Types of Capital Assets***

Capital assets are of two types i.e., *short term capital asset* **and** *long term capital asset***.** **Assets are classified on the basis of period of holding. Classification of capital assets can be understood from the following table.**

	Short term	Long term
Shares & securities of listed co., Units of U.T.I or units of mutual fund specified u/s 10(23D)	less then **12** month	more then **12** month
Other assets	less then **36** month	more then **36** month

✓ ***Computation of Capital Gain (sec. 48)***

The method of computation of Capital Gain is provided u/s 48. Capital Gain is computed as ***'Short-Term Capital Gain'*** or ***'Long-Term Capital Gain'*** depending upon the period of holding of Capital Asset.

✓ ***Computation of Short-term Capital Gain/ Loss***

Full Value of consideration received or receivable		xxx
Less : a) Expenses incurred with reference to transfer capital asset. Eg: Brokerage etc.	xxx	
b) Cost of acquisition of capital asset	xxx	
c) Cost of improvement of capital Asset	xxx	xxx
Short term capital gain / loss		xxx

✓ ***Computation of long-term capital gain/ loss***

Full Value of consideration received or receivable		xxx
Less : a) Expenses incurred with reference to transfer capital asset. Eg: Brokerage etc	xxx	
b) Indexed Cost of acquisition of capital asset	xxx	
c) Indexed Cost of improvement of capital asset	xxx	xxx
Long term capital gain / loss		xxx

✓ ***Full value of Consideration***

Full value of consideration means what the transferor is entitled to receive as consideration for capital asset transferred i.e. money or money's worth.

The term **'full value of consideration'** used in section 45, deals with not only sale but also with other types of transfer such as exchange where consideration is other than money. Thus where the consideration of transfer is in kind, or partly in cash and partly in kind, the fair market value of the property received in exchange as on date of exchange shall be deemed to be the value of consideration received.

Full value of consideration as described under specific situation u/s 45 is as follows:

1) Damage/Destruction of Capital Asset [u/s 45(1A)]

Any value of money or the fair Market Value of the asset received from the insurer, as compensation shall be deemed to be the full value of consideration of the capital asset.

2) Conversion of Asset into stock in Trade [u/s 45(2)]

The fair Market value of the asset on the date of such conversion shall be deemed to be the full value consideration.

3) Transfer of Asset by a Partner to the firm/BOI/AOP [u/s 45(3)]

The value of the asset recorded in the books of accounts of the firm/BOI/AOP on the date of such transfer shall be deemed to be full value of consideration.

4) Distribution of Assets on Dissolution of the firm/BOI/AOP [u/s 45(4)]

The Fair Market Value of the Capital asset on the date of such distribution shall be deemed to be the full value of consideration.

5) Compulsory Acquisition [u/s 45(5)]

The amount of compensation received as determined by Central Government or RBI and the enhanced compensation received subsequently shall be treated as Full Value of consideration. However, the cost of acquisition for enhanced compensation as determined by the court would be treated as NIL.

✓ ***Expenses on transfer***

We have to deduct from Full Value of consideration the expenditure incurred wholly and exclusively in connection with the transfer of Capital Asset. Such expenditure includes the following expenses:

a) Commission or Brokerage
b) Stamp duty
c) Registration charges or fees
d) Amount paid to tenants for vacating and for handing over possession of the Capital Asset.
e) Legal expenses for preparation of conveyance deed.
f) Expenses on travel in connection with transfer of asset.

✓ ***Cost of acquisition [Sec 55(2)]***

Cost of acquisition is the price which the assessee has paid, or the amount which the assessee has incurred, for acquisition of the asset. Expenses incurred for acquisition of title to the property are part of the cost of acquisition.

Table showing Cost of Acquisition

Sr. No	*Type of Capital Asset*	*Cost of Acquisition*
1.	**Goodwill, Trademark, Brand Name etc. of a business.** **a) If it is purchased** **b) If self-generated**	**Amount of** *'Purchase Price'* **paid** ' NIL '
2.	**Original Shares**	**Amount actually paid for acquiring the shares.**
3.	**Right Shares**	**Amount actually paid for acquiring the right shares.***(including cost incurred for purchasing the rights)*
4.	**Bonus Shares**	' NIL '
5.	**Right Entitlement**	' NIL '

Where the capital asset was acquired by the assessee before the 1st April, 1981 the assessee may take at his ***option either actual cost or the Fair Market Value*** of the asset as on 1st April, 1981 whichever is higher as the cost of acquisition.

✓ ***Deemed cost of acquisition***

In some cases the assessee might have not 'acquired' the property 'himself' but might have become owner of the property under the modes specified u/s 49(1):

1) Distribution of asset on partition of a HUF
2) Receipt of asset under a gift, will or by inheritance.
3) Distribution of assets on dissolution of a firm or liquidation of a company.
4) Transfer of assets by a Company to its subsidiary company.
5) Transfer of assets by a Subsidiary company to its holding company.
6) Transfer of assets to a amalgamated company etc.

In the above cases, ***Cost to the previous owner*** should be taken as cost of acquisition of the assessee.

In case cost of previous owner cannot be ascertained then *Fair market value* on the date on which previous owner acquired the asset shall be taken as cost of capital.

✓ ***Cost of improvement***

It is an expenditure incurred by the assessee which is of capital nature. Such expenditure may be for addition or alteration of Capital Asset after the date of acquisition. Thus the cost of improvement u/s 55 (1) (b):

1) In relation to Goodwill of a business or a right to manufacture, produce or process any article or thing should be taken as **NIL**.
2) In relation to any other Capital asset means capital expenditure incurred in making any additions or alterations to capital asset on or after 1-4-81 by the assessee or the previous owner.

Cost of improvement incurred by the assessee or the previous owner before 1-4-81 is to be completely ignored.

✓ ***Cost Inflation Index (CII)***

'Cost Inflation Index' is declared by the Central Government for each previous year by a notification in the official Gazette. The Central government has notified the "Cost Inflation Index" for the purpose of long term capital gain as follows :

Previous Year CII	**Previous Year CII**	**Previous Year CII**	**Previous Year CII**	**Previous Year CII**	**Previous Year CII**
1981-82 100	1987-88 150	1993-94 244	1999-2000 389	2005-06 497	2011-12 785
1982-83 109	1988-89 161	1994-95 259	2000-01 406	2006-07 519	2012-13 852
1983-84 116	1989-90 172	1995-96 281	2001-02 426	2007-08 551	2013-14 939
1984-85 125	1990-91 182	1996-97 305	2002-03 447	2008-09 582	2014-15 1052
1985-86 133	1991-92 199	1997-98 331	2003-04 463	2009-10 632	2015-16 1081
1986-87 140	1992-93 223	1998-99 351	2004-05 480	2010-11 711	2017-18

If the property is acquired by the assesse under any of the mode specified U/s.49 (1) then the *calculation of Indexed cost of acquisition* **is as follows:**

a) If the asset was acquired by the present owner before 1-4-81

$$\frac{\text{COA of previous owner or FMV as on 1-4-81 whichever is higher}}{100} \quad X$$

b) If the asset was acquired by the present owned after 1-4-81

i) The asset was purchased by original owner before 1-4-81

$$\frac{\text{COA of previous owner or FMV as on 1-4-81 whichever is higher}}{\text{C.I.I of the year in which present owner acquired the asset.}} \quad X$$

ii) The asset was acquired by original owner after 1-4-81

$$\frac{\text{COA of previous owner}}{\text{C.I.I of the year in which present owner acquired the asset.}} \quad X$$

✓ ***Computation of capital gain on conversion of capital asset into stock in trade***

As per section 45 any conversion of capital asset into stock in trade is transfer. So when the asset is converted into stock in trade we have to compute capital gain. But the capital gain will be taxable only in the years in which the stock in trade (i.e. the converted capital asset) is actually sold. It means if asset is converted into stock in trade during previous years 1998-99 and this Stock in trade is sold during 2002-03 then the capital gain will be computed into 2002-03.

For computation of capital gains the period of holding will be taken from the date of original purchase till the date of conversion of that asset into stock in trade. Accordingly in case of long term capital gain indexation will be applicable only upto the date of conversion. The full value of consideration will be the fair market value of the asset on the date of conversion and not the actual selling price.

However the difference between actual selling price & fair market value on date of conversion will be taxed as business income in the P.Y. in which the stock is actually sold.

✓ ***Computation of Capital gains in case of depreciable assets.***

In case of depreciable assets capital gain can arise under the following two conditions i.e., a) where the block still exist and b) where the block does not exist.

A) <u>Where the Block still Exist</u>

a) When the Block of asset still exist and full value of consideration (FVC) is more than WDV on the date of transfer, there will be short term capital gain.
b) If the Block still exist and full value of consideration of asset sold is less than the WDV on the date of sale then there is neither capital gain nor capital loss.

B) <u>Where the block does not exist</u>

a) When the block does not exist and the full value of consideration is more then the WDV on the date sale. In such a case there will be short term capital gain.

b) When the block does not exist and the full value of consideration is less then the WDV on the date sale. In such a case there will be short term capital loss.

It is very important to note that in case of depreciable asset there can be only short term capital gain or loss i.e. no long term gain or loss.

✓ ***Compulsory Acquisition of Property***

When a Capital asset is transferred by way of compulsory acquisition under any law, the compensation received from Central Government or the prescribed authority would be deemed to be full value of consideration. It is to be noted that the compensation received is taxable in the year of Receipt and not in the year of transfer.

Additional compensation given by court, tribunal etc. will also be taxable under the head Capital gain in the previous year in which such enhanced compensation is received. In case of additional compensation received cost of acquisition and cost of improvement shall be taken as NIL. However any litigation expenses incurred are deductible as expenses on transfer.

✓ ***Important points***

1. U/s.55 (2) surplus arising on sale or transfer of goodwill of a profession is not chargeable to tax.

2. Whenever a capital asset is transferred by a partner to the partnership firm, the value recorded in the books of accounts is taken as full value of consideration. The fair market value on the date of transfer is ignored. [Sec. 45(3)]

✓ When a capital asset is transferred by a firm on its dissolution to the partner the fair market value on the date of dissolution is taken as full value of consideration.

Computation of capital gain on conversion of capital asset into stock in trade

As per section 45 any conversion of capital asset into stock in trade is transfer. So when the asset is converted into stock in trade we have to compute capital gain. But the capital gain will be taxable only in the years in which the stock in trade (i.e the converted capital asset) is actually sold. It means if asset is converted into stock in trade during previous years 1998-99 and this
Stock in trade is sold during 2002-03 then the capital gain will be computed into 2002-03.

For computation of capital gains the period of holding will be taken from the date of original purchase till the date of conversion of that asset into stock in trade. Accordingly in case of long term capital gain indexation will be applicable only upto the date of conversion. The full value of consideration will be the fair market value of the asset on the date of conversion and not the actual selling price.

However the difference between actual selling price & fair market value on date of conversion will be taxed as business income in the P.Y. in which the stock is actually sold.

✓ ***Important points***

3. U/s.55 (2) surplus arising on sale or transfer of goodwill of a profession is not chargeable to tax.

4. Whenever a capital asset is transferred by a partner to the partnership firm, the value recorded in the books of accounts is taken as full value of consideration. The fair market value on the date of transfer is ignored. [Sec. 45(3)]

When a capital asset is transferred by a firm on its dissolution to the partner the fair market value on the date of dissolution is taken as full value of consideration.

PROBLEMS ON INCOME FROM CAPITAL GAINS

Prob.1. Determine the amount of taxable capital gains in respect of the following transactions: MITAL sells a residential house property in Pune for Rs. 1,26,30,000 on April 23, 2017 which was purchased by him on April 20, 1991 for Rs.17,00,000.

Prob.2 On November 2, 2017 miss. POOJA sells gold for Rs. 51,,02,000 (Cost of Acquisition on march 10,1997: 9,04,000). Expenses on purchase and transfer are Rs.1,100 and 20,000 respectively. Find out the amount of Capital gains.

Prob.3 Sachin sold the capital assets during the previous year 2017-18

House	Rs.

Sale consideration	1,10,00,000
Year of Acquisition	1986-87
Cost of Acquisition	1,18,000
Cost of improvement incurred in 1999-2000	5,05,407

Prob.4. KETAN owns a residential house at Mumbai since 2000 The house is sold by him for Rs. 30,00,000 on June 30, 2017 cost of acquisition: Rs. 3,00,000 fair market value on April 1, 2001: Rs. 5,10,000. Determine the amount of capital gain chargeable to tax.

Prob.5. YOGESH purchase a house property for Rs. 50,000 on April 30,1978. The following expenses are incurred by him for making additions house property:

Particulars	Rs.
a) Cost of Construction of first floor in 1980-81	2,00,000
b) Cost of construction of second floor in 1983-84	3,40,000
c) Alteration/ reconstruction of the property in 1990-91	2,90,000

Fair market value of the property on April 1, 1981 is Rs. 4,50,000. The house property is sold by YOGESH on August 15,2017 Rs. 1,25,70,000 & expenses incurred on transfer: Rs. 1,00,000. Calculate capital gains.

PROB.6 Mr. Gavaskar purchased a residential house on 1-6-1979 for Rs. 5,00,000. He incurred expenses of Rs. 50,000 towards cost of improvement on 2-7-1983. The fair market value of the house on 1-4-1981 was Rs. 4,50,000. He sold the house on 10-10-2016 for Rs. 90 lakhs. The cost inflation index for F.Y. 1981-82 is 100, for F.Y. 1983-84 is 116 and for F.Y. 2017-18 is You are required to compute his Capital Gain for Assessment Year 2018-19.

PROB.7 Mr. Kamlesh purchased a house property for Rs. 5,00,000 on 27 August, 1978. He made the following additions / alterations to the house property.

Cost of construction of 1st floor in Financial Year 1983-84 Rs. 3,00,000

Cost of construction of 2nd floor in Financial Year 1990-91 Rs. 4,00,000

Fair Market Value of the property on 1-4-1981 was Rs. 6,00,000. He sold the property on 20th October, 2015 for Rs. 1,95,00,000. He paid the brokerage of Rs. 55,000 for the sale transaction. The Cost Inflation Index for Financial Year 1981-82 is 100, for Financial Year 1983-84 is 116, for Financial Year 1990-91 is 182. Compute the Capital gain of Mr. Kamlesh chargeable to tax for the Assessment Year 2018-19

PROB.8 Mr. Parag Purchased a residential flat on 2-5-2012 for Rs. 10,00,000. He paid on the same day the stamp duty and registration charges of Rs. 48,750 on purchase of flat. He sold the said flat on 17-3-2018 for Rs. 52,00,000. The cost inflation index for F.Y. 2012-13 is 785. Compute his Capital Gain Chargeable to tax for assessment year 2018-19..

PROB.9 Mr. Dinesh Kamble purchased a house property for Rs. 1,25,000 on 16th August, 1971. He made the following addition to the house property. Cost of Construction of 1st floor in financial year 1985-86 Rs. 2,25,000.

The fair market value of the property on 1-4-1981 was Rs. 3,50,000. He sold the property on 15th September, 2016 for Rs. 55,00,000. He paid brokerage of Rs. 25,000 for the sale transaction. The cost inflation index for F.Y. 1981-82 is 100, for F.Y. 1985-86 is 133 and for

F.Y. 2017-18.Compute the capital gains Mr. Dinesh Kamble chargeable to tax for Assessment Year 2018-19.

PROB.10 Dinesh purchased a vacant site for Rs. 3,00,000 in April, 1990. He constructed a residential building during the year 2004-05 in the said site for Rs. 15,00,000. He carried out some further extension of a construction in the year 2007-08 for Rs. 5,00,000. Dinesh sold the residential building for Rs. 65,00,000 in January, 2016. Compute his long term capital gain, for the assessment year 2018-19 based on the above information. The cost inflation index are as follows:

Financial Year	Cost Inflation Index
1990-91	182
2002-03	447
2004-05	480
2007-08	551

PROB.11 Ms. Vimla sold a residential building at Jodhpur for Rs. 25,00,000 on 1-7-2017. The building was acquired for Rs. 7,50,000 on 1-6-96.
She paid brokerage @ 2% at the time of sale of the building. She invested Rs. 17 lakhs in purchase of a residential building in December, 2017
Compute her taxable capital gain.
Cost Inflation Index: 1996-97 – 305

PROB.12 Mr. Prakash Shetye purchased a house property for Rs. 15,00,000 on 5th October, 1972. He constructed a first floor during the financial year 1986-87 for Rs. 5,50,000. He made improvement in the financial year 1992-93 for Rs. 8,00,000. He constructed 2nd floor during the financial year 2003-04 for Rs. 12,00,000. He sold the property on 1-2-2017 for Rs. 350 lakhs. He paid brokerage of Rs. 50,000 for the sale transaction. Fair Market Value of property as on 1-4-81 was 16,00,000. Investment in new house property was Rs. 25 lakhs on 10-3-2018 & purchase govt. bonds for 5,00,000. Compute his Capital Gain for the Assessment year 2018-19. Relevant cost inflation indices are as follows:

Financial Year	Cost Inflation Index
1981-82	100
1986-87	140
1992-93	223
2003-04	463

PROB.13 Mr. Sunder furnishes the following particulars for the previous year ending 31-3-2018 and request you to compute the taxable capital gain:

i) He had a residential house, inherited from father in March, 1990, the fair market value of which as on 1-4-81 is Rs. 5 lakhs. It was acquired by his father in 1970.
ii) In the year 1992-93, further construction and improvements cost Rs. 6 lakhs.
iii) On 10-5-2016 the house was sold for Rs. 90 lakhs. Expenditure in connection with transfer Rs. 50,000.
iv) On 20-12-2017, he purchased a residential house for Rs. 15 lakhs.

Cost Inflation Index

1981-82 100

1989-90	172
1992-93	223

PROB.14 Mr. Vinod Mohite purchased a Residential house on 1-6-1979 for Rs. 1,00,000. He incurred expenses of Rs. 50,000 towards cost of improvement on 2-7-1983 on this house. The fair market value of the house on 1-4-1981 was Rs. 1,50,000. He sold the house on 10-10-2017 for Rs. 40,00,000. He purchased a new Residential house for Rs. 20,00,000 on 15-3-2017
The cost inflation index for financial year 1981-82 is 100, for financial year 1983-84 is 116 You are require compute his income from Capital gain for the Assessment year 2018-19

Prob.16 Mr. Anil purchased a flat for Rs. 3,20,000 on 6th April 2001. On 31st April 2002 he spent Rs.1,00,000 for interior decoration and renovation of flat. On 27 August,2017 he sold that flat for Rs.5,75,000 selling expenses amount to Rs.10,000. Compute capital gains.

Prob.17. Mr Xavier purchased a capital asset on 27-06-1988 for Rs.1,00,000. He sold the asset on 27-07-2017 for Rs.3,70,000. selling expenses were Rs..15,000. Compute long term capital gain.

Prob.18. Mr. Barthwal purchased a house property in 1978 for Rs. 1,92,000. He constructed an additional room in 1980 for Rs. 25,000 and carried out certain renovation in September 1992 at Rs. 3,50,000. The FMV as on 1.4.81 was Rs. 1,81,000. The property was sold during the previous year for Rs. 20,50,000.
compute the Capital Gain

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CHAPTER - 9
INCOME FROM OTHER SOURCES

- ✓ ***DIVIDEND INCOME (SEC- 8)***

Dividend is exempt u/s 10(34). However dividend is taxable if it is not exempt u/s 10(34). The provisions for taxability of dividend are as follows.

Type of Dividend	Year of chargeability in the hands of the assessee
Final Dividend	Previous year in which the dividend is declared by the company.
Interim Dividend	Previous year in which the dividend is unconditionally made available by the company.
Deemed Dividend u/s 2(22)	Previous year in which such dividend is distributed or paid by the company.

✓ ***Basis of Charge (Sec 58)***

U/S 56(1) the following condition must be satisfied before an income can be taxed under the head *"Income from other sources"*

1) There must be an income.
2) Such income is not exempt u/s 10.
3) Such income is not chargeable to tax under any other head i.e. salaries, Income from House Property, Profits & Gains of business of business or Profession or Capital Gains.

✓ ***Specific Incomes included under Income from other sources. [Sec 56(2)]***

Sec. 56(2) provides that following income, in particular, shall be taxed as "Income from other sources":

1) Dividend
2) Winning from lotteries, crossword puzzles, races including horse races, card games, other games, betting's, gambling etc.
3) Any sum received by the assessee from his employees as contribution to any staff welfare schemes.
4) Interest on securities, if not taxable as profits and gains of business & profession.
5) Income from machinery, plant, or furniture belonging to the assessee let on hire.
6) Income from letting a machinery, plant, or furniture jointly with letting of building, where both letting are inseparable.
7) Receipts from Keyman Insurance Policy (Including bonus), if not taxed under any other head.

It should be noted that income under this head should be computed either on 'due' or 'receipt' basis, depending on the method of accounting regularly employed by the assessee.

✓ ***Other incomes, which are included under the head "Income from other sources"***

Following are some of the example of the other incomes which are normally charged to tax under this head.

1) Income from sub- letting of a house property by a tenant.
2) Casual income including winning from horse races.
3) Agriculture income from a place outside India.
4) Income from royalty.
5) Rent of a vacant plat of land.
6) Family pension paid to a member of family of a deceased employee.
7) Directors sitting fees received for attending board meetings.
8) Insurance Commission.
9) Interest on National Savings Certificates, Bank Deposits, Securities issued by foreign government, Deposit with companies etc.
10) Examination fees received by teacher from other university or College.
11) Income from undisclosed sources.
12) Directors commission for standing as a guarantor to bankers for underwriting shares of a new company.

13)Interest received on income tax refunds from the Income tax department.

✓ ***Deductions from 'Income from other Sources'. sec. 57.***

According to Section 57 following deductions are allowed while computing "Income from Other Sources".

➢ **Expenses for realisation of Dividends and Interest.**

1) ***Collection Charges:*** Any reasonable sum paid by way of commission or remuneration to a banker or any other person for realizing such dividend or interest.

2) ***Interest on loans*****:** Interest on money borrowed for the purpose of investments in shares or securities can be claimed as deduction.

➢ **Repairs, Insurance and Depreciation on assets let out.**

1) Deduction for rent, rates, repairs, and insurance for building.
2) Deduction in respect of insurance premium and current repairs of plant, machinery or Furniture.
3) Depreciation in respect of building, machinery, plant or furniture.

➢ **Standard deduction on Family Pension**

Standard deduction similar to salary income is allowed from family pension received. The deduction is equal to Rs. 15,000 or 1/3rd of such income whichever is less.

➢ **In case of any other income**

Any other expenditure, which is wholly & exclusively incurred for the purpose of earning such income, provided the same is not unreasonable and excessive, not of personal nature and not of capital nature.

✓ ***Expenses disallowed (Sec. 58)***

The following expenses are expressly disallowed:

1) Personal expenses of the assessee.
2) Any taxable salary or interest paid outside India on which no tax is paid or deducted at source.
3) Restriction of Sec. 40A like unreasonable payment to relatives.
4) 100% of cash expenditure in excess of Rs. 20,000.
5) Wealth tax paid.
6) In case of lottery income / Cross word Puzzles / winning from horse race no deduction is available.

✓ ***Incomes exempt u/s 10.***

The following interests are exempted u/s 10:

a) Interest on P.P.F. A/c.
b) Interest on post office savings bank a/c.
c) Interest on 5 years Relief Bonds 1993.
d) Interest on 12 years National Savings Annuity Certificate.
e) Interest on notified Debentures of Public Sector Companies.

f) Interest on Post office National savings certificate (7 years / 10 years).
g) Interest on Treasury Savings Deposit Certificate.
h) Amount received on maturity of LIC/ NSC / ULIP.

PROBLEMS ON INCOME FROM OTHER SOURCES

Prob:-1 Mr. Sachin submits the following particulars for computation of his income chargeable under the head income from other sources.

1. Dividend from World-Cup Ltd. A foreign company: Net Rs. 10,000. Tax deducted at source Rs. 2,000. Interest paid on loan taken for the purpose of investment in shares of World Cup Ltd. Rs. 1,500. Collection charges debited by bank for realization of the dividend cheque: Rs. 100.
2. Rent for letting plant and machinery on hire- Rs. 60,000. Collection charges in respect of rent- Rs.3,000. Fire insurance premium Rs. 4,000. Repairs & Maintenance – Rs. 2,500. Depreciation as per income tax rules Rs. 10,000.
3. Winning from Horse Races- Rs. 5,000.

Prob:-2 Mrs. Batliboi is a professor of Law in M.K. Colleges. The particulars of her income for the year ending 31-3-2O18 as follows:

1. Salary – Rs. 4,000 p.m.
2. Royalty from books- Rs. 25,000. Expenses on typing etc. were Rs. 2,000.
3. Honorarium received from a management institute as a visiting lecturer- Rs. 3,000. Conveyance for visiting the institute- Rs. 200.
4. Family pension of Rs. 42,000 on death of her husband from his employer.
5. Examinership fees from the University of Mumbai- Rs. 1,000.
6. She received the 'Dronacharya' Award of Rs. 10,000 for the 'Best Teacher of the Year' from the State Government. Compute Gross Taxable Income

Prob:-3 From the following information, compute the income under-"Income from other sources", of Mr. Dilip.

1. Income from agricultural land in India- Rs. 12,000.
2. Income from agricultural land in Nepal- Rs. 10,000.
3. Mr. Dilip is a tenant of Mr. Sunil in respect of a Bunglow in Goa. Mr. Dilip has in turn rented the Bunglow to Kapil for a rent for Rs. 1,000 per month. Dilip pays rent Rs. 500 per month to Mr. Sunil.
4. Interest earned: (a) Interest on deposits with banks- Rs. 500. (b) Interest on public provident fund Rs.1, 000. (c) Interest on Government Securities (Net- Rs. 12,000; Tax Deducted at source Rs.1, 200).
5. Lottery Prize- (Net Rs.50,000; Tax Deducted at source Rs.20,000). He had purchased lottery tickets worth Rs. 3,000.
6. He received a refund from the income tax department pertaining to year 2015-16 amounting to Excess Income Tax Rs. 2,000 and interest Rs. 500 Rs..

Prob:- 4 Mr. Richard is a resident. He has earned following amounts during the previous year ended 31st March 2018

1. Income from agricultural land in Sri Lanka Rs. 1, 50,000.

2. Dividend from Foreign Companies received Rs. 5,000/-
3. Dividend from Indian Companies received:
a) Final dividend from Pace Construction Ltd. Rs.15, 000.
b) Interim dividend from Glindia Ltd. Rs. 12,400
4. Winnings from lotteries Rs. 1, 00,000 (T.D.S Rs. 35,000/-)
5. As on 1st April, 2015 his investment was as follows:
a) 10% Mumbai Municipal Debenture Rs. 50,000/-
b) 15% Debentures in Telco Ltd. of Rs. 1,00,000/-
c) 8% Port Trust Bonds of Rs.30,000/-
d) 9% Maharashtra Govt. Loan of Rs.40,000/-
Compute the Gross Total Income of Mr. Richards for the Assessment Year 2018-19

Prob.5. Professor Godbole of Bombay University has received following receipts during the year ended 31st March 2018.
1. Salary income Rs. 1, 42,000 (Gross).
2. Interest on National Saving Certificates VII Issue Rs. 770/-
3. Rs. 3,185 as interest on Post Office Saving Bank.
4. Received Rs. 30,000 from L.I.C. on maturity of policy.
5. Examinership fees Rs. 3,350 received from the Institute of Chartered Accountant of India, New Delhi.
6. Income by way of Dividend from Indian Companies: 2800
7. Winning from crossword puzzles Rs. 8,880/-
8.rent from sub-letting house 5000 p.m rent paid to owner 4000 p.m.
9.gift from friend 55000 on birthday.
10 Royalty recd. From manan prakashan for writing books on accountancy.10,000
Compute the gross taxable income of Mr. Godbole for the Assessment Year 2018-19.

ASSIGNMENT PROBLEMS

INCOME FROM OTHER SOURCES

Prob.1. Miss Priti is a social worker.
Her other income is as follows:
1) Interest on Bank deposits Rs. 12,500/-
2) Dividend on Shares of Indian Companies: Rs. 500 from Larson and Tarbo Ltd.
   a. Rs. 750 from Amarnath Textiles Ltd. Rs.1,500 from Bindal Agro Ltd.
   b. She paid Rs. 25/- for collection charges and Rs. 2,000 as interest on loan borrowed for purchase of Bindal Agro shares.
3) Dividend from Unit Trust of India Rs. 47,000/-

4) Accured Interest on NSC Rs. 17,800/-
5) Dividend from foreign companies Rs. 14,500/-

Compute Miss Priti,s Gross Total Income for the Assessment Year 2018-19

Prob.2. Mr Ramakant provides you the following information for the P.Y. 2017-18

1. Salary @ Rs. 6,000 p.m.
2. Bonus for the year Rs. 2,000 was declared.
3. Honorarium for playing cricket from Mulund Gymkhana Rs. 5,000 /-
4. Received an award of Man of the Match of Rs. 5,000/-
5. Arjun Award of Rs.10,000 instituted in the public interest by Government of Maharashtra for Showing proficiency in Sports.
6. He Owns the following securities on 1-4-2011:
   15% Mumbai Port Trust Bonds – 15,000/-(interest payable annually)
   10% Bonds of Narmada Cement Ltd – Rs. 7,500/-
7. Interest on: Fixed Deposit with State Bank of India – Rs. 12,800/-
   Interest Accrued on GOVT. OF INDIA BOND – Rs. 11,200/-

Compute Mr. Ramakant's total income for the Assessment Year 2018-19

Prob.3. Mr Jayant Rao provides you the following information for the ended 31st March 2018

1. Received Rs. 12,000 p.m. from H.U.F.as a member of H.U.F.
2. Salary @ Rs. 12,000 p.m. from Marathawada Krishi Mahavidhalaya being a lecturer in the college.
3. Examinership fees received from Pune University Rs. 13,750.
4. Royalty from Anmol Prakashan Rs. 32,250 for writing a book on 'Progress & Problem of Agriculture in respect of 'Scientific Study of Krishi Udyog'.
5. Received an award of Rs. 25,000/- from Krishi Vikas Mahamandal instituted in public interest by Government of Maharashtra in respect of "Scientific Study of Krishi udyog".

Compute the gross total income of Mr Jayant Rao for the Assessment Year 2018-19

Prob.4. Mr Natrajan provides you with the following information for the period ending on 31st March 2018..

a) Gross salary of Rs. 90,000/- from M/s Instant Chemicals Pvt. Ltd profession tax was deducted at source Rs. 1,440/-
b) Income from units of "Unit Trust of India" Rs. 4,980/-
c) Withdrawals of Rs. 50,000/- from P.P.F. A/c with S.B.I.
d) Winnings from lotteries Rs. 5,000/-
e) Income by way of Dividend from Indian Companies.
i M/s Lucky Electronics Pvt. Ltd Rs. 650/- ii M/s Apple Industries Ltd Rs. 4,460/-
f) Dividend from Foreign Companies Rs. 14,460/-

You are required to compute the gross taxable income of Mr Natrajan for the assessment year 2018-19

Prob.5. Mr Vasantrao is having taxable income from house property Rs. 32,000/-.
He also received the following amounts during the year ended on 31st March. 2018

a) Dividend from Voltas Ltd. Rs. 1,500/-

b) Interest on fixed deposits with Bank of India Rs. 2,500/-
c) Interest on post office saving bank account Rs. 3,333/-
d) Winnings from lotteries Rs. 1,00,000/- from which tax was deducted at source Rs. 35,000/- and net amount received Rs. 65,000/-
e) A gift from father out of natural love and affection Rs. 51,000/- You are required to ascertain the Gross total income chargeable to tax for the Assessment Year 2018-19

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CHAPTER- 10
DEDUCTION TO BE MADE IN COMPUTING TOTAL INCOME

DEDUCTIONS IN RESPECT OF LIFE INSURANCE PREMIA, DEFERREDANNUITY, CONTRIBUTION TO PROVIDENT FUND, SUBSCRIPTION TO CERTAIN EQUITY SHARES OR DEBENTURES ETC.

Deduction under this section is available to an Individual **or a** Hindu Undivided family

1) SPECIFIED SAVINGS QUALIFYING FOR DEDUCTION U/S 80C

Section 80C enumerates following sums paid or deposited in the previous year by the assessee.

1. Life Insurance premium paid

2. Non commutable deferred annuity
3. Deferred Annuity by Government
4. Contribution to Statutory PF
5. Contribution to Public Provident Fund
6. Contribution to recognize Provident Fund
7. Contribution to Superannuation Fund
8. Post Office CTD
9. NSS
10. NSC VIII Issue
11. ULIP of UTI
12. ULIP of LIC (Dhanraksha)
13. Annuity plan
14. Equity Linked Saving Scheme of any Mutual Fund
15. Notified Pension Fund
16. Deposit Scheme of NHB
17. Housing Finance Deposit
18. Tuitions Fees of any 2 Children
19. New House
20. Infrastructure Debentures and shares
21. Infrastructure units
22. Senior citizen saving scheme
23. Saving depoists upto 5 yrs.

Deduction in this respect up to 1,50,000

2) <u>DEDUCTION IN RESPECT OF CONTRIBUTION TO CERTAIN PENSION FUNDS (U/S 80 CCC)</u>

1. Deduction under this section is available to an individual only.

2. Where an assessee has paid or deposited in the previous year any sum out of his income chargeable to tax, under an annuity plan of Life Insurance Corporation or any other Insurer for receiving pension from the fund set up by the said corporation, will be allowed as a deduction in the computation of his total income.

3. **<u>The amount of deduction is actual amount paid/deposited or Rs. 1,50,000/- whichever is less. However the limit under this section, is subject to the aggregate limit of Rs. 1,50,000 together with Section 80C.</u>**

3) <u>DEDUCTION IN RESPECT OF MEDICAL INSURANCE PREMIA (U/S 80D)</u>

Deduction under this Section is available to:

1. An individual
2. An HUF
3. AOP or BOI

The deduction shall be allowed from the total income of the assessee in respect of the amount paid by cheque in the previous year.

The ACTUAL AMOUNT OF DEDUCTION shall be as follows:-

The amount of deduction is Rs. **25,000** for self, spouse, dependent children. Further deduction of Rs. **25,000** is available for parents. Additional deduction of Rs. **5,000** is available in case of insurance on an individual being a resident of India attaining the age of 65 years anytime during the previous year or more.

Deduction	Individual		HUF
	Self, Spouse, Dependent Children	Parents	Member
General	**Rs. 25,000**	**Rs. 25,000**	**Rs. 25,000**
Additional, on health of resident in India aged 65 years or more	**Rs. 5,000**	**Rs. 5,000**	**Rs 5,000**
Total	**Rs. 30,000**	**Rs.30,000**	**30,000**

4) DEDUCTION IN RESPECT OF MAINTENANCE OF A HANDICAPPED (U/S 80DD)

1) **Eligible Assessee:** Section 80DD provides deduction to an assessee, who is a resident in India. Being an individual or Hindu undivided family.

2) Eligible Payment: Any amount paid for the medical treatment (including nursing), training and rehabilitation of a dependent, being a person with disability, or any amount paid or deposited under a scheme framed in this behalf by the Life Insurance Corporation or any other specified insurer or the maintenance of a dependent, being a person with disability, qualifies for deduction. The benefit of deduction under this section is also available to assessees incurring expenditure on maintenance of a dependent, being a person with disability, qualifies for deduction. The benefit of deduction under this section is also available to assessees incurring expenditure on maintenance including medical treatment of person suffering from autism, cerebral palsy and multiple disabilities.

3) Claim: The quantum of deduction is Rs. 75,000 and in case of severe disability (i.e. person with 80% or more disability) the deduction shall be Rs. 1, 25,000

4) Dependent: The term 'dependent' has been defined to include in the case of an individual, the spouse, children, parents, brothers and sister of the individual and in the case of a Hindu Undivided Family (HUF), a member thereof, who is wholly or mainly dependent on the assessee and has not claimed any deduction under section 80U in the computation of his income.

5) DEDUCTION IN RESPECT OF INTEREST ON LOAN FOR HIGHER EDUCATION (U/S 80E)

1) Conditions: Deduction under section 80E is available if the following conditions are satisfied:

1. The assessee is an individual.
2. He had taken a loan from any financial institution (i.e., a banking company or notified financial institution) or an approved charitable institution [i.e., an institution approved for the purpose of section 10(23C0 or 80G (2)(a)].
3. The loan was taken for the purpose of pursuing higher education [i.e., full-time studies for any graduate or post-graduate course in engineering course in applied sciences or pure sciences including mathematics and statistics].

4. The loan was taken by the individual for the purpose of pursuing his own higher education or the higher education of spouse or any child.
5. Amount is paid by the individual during the previous year by way of payment of interest on such loan.
6. Such amount is paid out of his income chargeable to tax.

2) Amount Of Deduction: The amount deductible is the **<u>amount paid during the year by way of interest</u> thereon.**

3) Period: The first year in which the deduction is available is the year in which the person starts paying the interest. The deduction is available for a maximum period of <u>8 years</u> or till the loan is paid in full, whichever is earlier.

6) <u>DEDUCTION ON INTEREST ON DEPOSITS IN SAVINGS ACCOUNT [S.80TTA]</u>

1) Section 80TTA provides that in case the gross total income of an assessee, being an individual or a Hindu Undivided Family, includes any income by way of an interest on deposits in a saving account (not being time deposits, which are deposits repayable on expiry of fixed periods), **<u>deduction upto Rs. 10,000</u>** in aggregate shall be allowed while computing the total income of such assessee. Such deduction shall be allowed in case the saving account is maintained with:
   i. A banking company to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act);
   ii. A co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
   iii. A post office.

7) <u>DEDUCTIONS IN THE CASE OF PERSON WITH DISABILITY U/S 80U.</u>

The deduction is allowed only to an individual who will satisfy the following conditions:-

1. Such an individual an the end of the previous year, is suffering from a disability.
2. Every individual claiming a deduction under this section shall furnish a copy of the certificate issued by the Medical authority.
3. An individual satisfying the above condition shall be **<u>allowed a deduction of RS.75,000. However, if such an individual is person with SEVERE disability, the amount of deduction would be RS.1,25,000.</u>**

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Ch.10- COMPUTING TOTAL INCOME

Name: Status

Previous Year: 2017-18 Assessment Years: 2018-19

Computation of Total Income

Particulars	Refer	Rs.
A) Income from Salary 1.Gross Taxable Salary 2.Deduction U/S 16	Chapter 5	

a. Profession Tax		
b. Entertainment Allowance(Govt.)		
c. Total Deduction (a + b)		
3.Net Taxable Salary (1-2)		×××
B) Income From House Property	Chapter 6	
a. ALV (Higher of FV & MV; Not <SR		
b. annual Rent (Gross-Vacancy-Unrealizable)		
1.Gross Annual Value(GAV)		
2. Less: Municipal Tax Paid by Owner		
3. Net Annual Value(NAV) (1-2)		
4. Standard Deduction (30% ×(3))		
5. Interest		
6.Unrealised Rent(Taxed)		
7. Net Arrears Taxed		
8. Final Income From HP (3-4-5+6+8)		
9. Income From all HPs		×××
C) Income From Business/ Profession	Chapter 7	
I) Receipts & Payment Account		
1. Business Receipts vide R&P A/c		
2. Less: Payment Vide R & P A/c		×××
3.Net Business Income(1-2)		
II) Profit &Loss Account		
1.Net Profit Vide Profit & Loss A/c		
2. Total Additions		
3. total Deductions		
4.Net Business Income (1+2-3)		×××
D) Short Term Capital Gains	Chapter 8	
1. Consideration		
2. Transfer Expenses		
3. Cost(Original + Improvement)		
4. Short Term Capital Gain (1-2-3)		×××
E) Income From Other Sources	Chapter 9	
1. Lottery / Races/ Betting /Games Prizes		
2. Interest on NSC (eligible u/s 80c)		
3. Other Interest		
4. Misc. Income		
5. Income from Other sources (1+2+3+4)		×××
F) Gross Total Income (Excluding LTCG)		×××
G) Deduction U/CH VIA	Chapter 10	
1. Deduction U/S 80C (Saving)	××	
2.Deduction U/S 80CCC (Cont to Pension Fund) 80C + 80CCC (up to Rs. 1,50,000)	××	
3.Dedcution U/S 80D (up to Rs. 25,000 + 25,000+ 5000 for self +parent+ senior citizen) (medical Premium)	××	
4.Deduction U/S 80DD (up to 75,000 / 1,25,000) (medical treatment)	××	

5.Deduction U/S 80E (Interest on Education Loan)	××	
6. Deduction U/S 80 TTA (10,000) (Interest on Saving Bank A/c)	××	
7. Deduction U/S 80U (up to Rs. 75,000 / 1,25,000) (Physical Handicapped Assesses)	××	
8.Total Deduction U/CH VIA (1to 6)	××	×××
9. Deduction Limited to AGTI Less Lottery etc. (F-E1)		×××
H) Net Income (GTI Less Deductions) (F-G8)	Chapter 8	
I) Add: Long Term Capital Gains		
1. Consideration		
2. Transfer Expenses		×××
3. Indexed Acquisition Cost (AC 939/CII)		×××
4. Indexed Improvement Cost (IC 939/CII)		
5. Long Term Capital Gains(LTCG) (1-2-3-4)		
J) Net Taxable Income (H+I)		

OBJECTIVES QUESTIONS

1. Basic Concepts

Q.1) Multiple Choice Questions

1. Income-tax Act extends to
   (a) **Whole of India** (b) Whole of India except Jammu & Kashmir
   (c)India and Bangladesh (d) None of these

2. Out of the following which is a revenue receipt ?
   (a) Premium received on issue of new shares
   (b) Annuity received on issue former employer
   (c) Interest from investments
   (d) None of these

3. A.O.P. should consist of :
   (a) Individual only (b) Persons other than individual only
   (c) Both the above (d) None of these

4. Body of individual should consist of :
   (a) Individual only (b) Persons other than individual only
   (c) Both the above (d) None of these

5. A new business was set up 15-11-2008 and it commenced its business from 1-12-2008. The first previous year in this case shall be:
   (a) 15-11-2008 to 31-3-2009 (b) 1-12-2008 to 31-3-2009
   (c) 2008-2009 (d) None of these

6. Shivaji Unversity is assessable under the Income Tax Act as
   (a) An individual **(b) An artificial juridical person**
   (c) A local authority (d) None of these

Q.2) Fill in the blanks :

1. Previous year means the ____________ year immediately preceding the assessment year.
2. The first previous year of a newly set up business can be _________ 12 months.
3. A period of twelve months commencing on the first day of April every year is called __________.
4. An assessment is defined under Income-Tax Act to include _________.
5. A person by whom any tax is payable under the act is known as an __________.

Ans:- (Financial, Less than, Assessment year, Reassessment, Assessee)

Q.3) Match the following columns :

Column A	Column B
1. Narayanan Murthy 2. Infosys Technologies Ltd. 3. Solapur Gram-panchayat 4. Andheri Sports Club 5. Karnataka University	(a) Company (b) Association of Persons (c) Firm (d) Individual (e) Body of Individuals (f) Artificial Juridical Person (g) Local Authority

Ans: (1:d), (2:a), (3:g), (4:b), (5:f)

Column A	Column B
1. Capital Gains	(a) Assessment year 2008-09

2. Financial year immediately preceding the assessment year. 3. 1-4-2008 to 31-3-2009. 4. Hindu Undivided Family 5. Person with tax liability	(b) Income (c) Assessee (d) Assessee in default (e) Previous year (f) Person (g) Remittance

Ans: (1:b), (2:e), (3:a), (4:f), (5:c)

Q.4) State whether true or false

Discuss, giving reasons, whether the following statements are true or not :

1. Income means any receipt in cash.
2. A company under the Income – Tax Act means a company as defined under the Companies Act.
3. Previous year always indicates a period of 12 months from 1st April to 31st March.
4. Assessee means a person liable to pay tax on his income.
5. On rendering some service to a garments manufacturing unit M is given a suit as remuneration. It is not an "Income", since he has not received anything in cash.
6. On Sale of goods illegally imported from a foreign country C generates a surplus of Rs. 5,500. As the income is derived from an illegal activity, it is not chargeable to tax.
7. A birthday gift received by V from his father Rs. 20,000 is not taxable as income of V.
8. Out of Rs. 29,000 per month received by Mrs. V from her husband for household expenses, she saves approximately Rs.1,200 per month which is deposited by her in a bank account. Rs.12,400 is "Income" of Mrs. V.
9. Profit on sale of a house property is capital receipt which is, however, chargeable to tax.
10. Salary, paid to M by his employer X Ltd. out of capital reserve, is not income in the hands of M.
11. Income earned by an assessee during the assessment year is charged to tax during the previous year.
12. Every person does not have to pay Income tax.

TRUE: 7, 9, 12

FALSE: 1, 2, 3, 4, 5, 6, 8, 10, 11

2. <u>Residence and Scope of Total Income</u>

Q.1) Multiple Choice Question

1. Residential status is to be determined for:
   (a) Previous year (b) Assessment year
   (c) Accounting year (d) None of these

2. Income which accrue or arise outside India but are received directly into India are taxable in case of
(a) Resident only (b) Both ordinarily resident and NOR
(c) Non-resident **(d) All the assesses**

3. Total Income of a person is determined on the basis of his :
(a) Residential status in India (b) Citizenship in India

(c) None of these (d) Both of the above

4. Y. Ltd., is an India company whose entire control and management of its affairs is situated outside India. Y. Ltd., shall be :
(a) Resident in India (b) Non-resident in India
(c) Not ordinarily resident in India (d) None of these

5. A. Ltd., is registered in U.K. The control and management of its affairs is situated in India. R. Ltd. shall be :
(a) Resident in India (b) Non-resident
(c) Not ordinarily resident in India (d) None of these

6. M, a foreign national visited India during previous year 2008-09 for 180 days. Earlier to this he never visited India. M in this case shall be :
(a) Resident in India **(b) Non-resident**
(b) Not ordinarily resident in India (d) None of these

7. M, a foreign national but a person of Indian origin visited India during previous year 2008-09 for 181 days. During 4 preceding previous year he was in India for 366 days. M shall be
(a) Resident in India **(b) Non-resident in India**
(c) Not-ordinarily resident in India (d) None of the above

8. Income which accrue or arise outside India and also received outside India is taxable in case of
(a) Resident only (b) Not ordinarily resident
(c) Both ordinarily resident and NOR (d) None of the above

9. Income which accrue outside India from a business controlled from India is taxable in case of :
(a) Resident only (b) Not ordinarily resident only
(c) Both ordinarily resident and NOR (d) Non-resident
10. Income deemed to accure or arise in India is taxable is case of:
(a) Resident only (b) Both ordinarily resident and NOR
(c) Non-resident **(d) All the assesses**

Q.2) Fill in the blanks:
1. An individual shall be deemed to be of Indian origin if he or any of his __________ or ___________ were born in undivided India.
2. HUF is said to be ___________ in India if the control and management of its affairs is situated partly in India.
3. Foreign company is resident in India if the control and management of its affairs is situated __________ in India during the previous year.
4. Income which accrue or arise outside India from a business controlled from India is taxable in case of ______________ and _________.

5. M, a person of India origin visited India on 11-11-2008 and plans to stay here for 330days. During 4 years prior previous year 2008-09, he was in India for 756 days. Earlier to that he was never in India. For assessment year 2009-10, M shall be _______.
6. On the basis of residential status a firm can be classified into_________ or _______.

ANS: 1) Parents OR Grandparents 2) Resident 3)Wholly 4) Residents; Not Ordinarily residents 5) Non-Resident 6) Resident firm; Non Resident Firm

Q.3) Match the following columns

Column A	Column B
1. Foreign income	a) Ordinary resident
2. Income received in India	b) Not ordinary resident
3. Foreign Business income controlled from India	c) Non-resident
	d) Taxable for OR, NOR, NR
4. Remittance in India	e) Taxable for OR,NOR
5. Highest tax liability	f) Not taxable for non-resident
6. Least tax liability	g) Not taxable

1:f, 2:d, 3:e, 4:g, 5:a, 6:c

Column A	Column B
1. An Indian company	a. Non-resident
2. A HUF with NOR karta	b. Always ordinary resident
3. Citizen of India, leaving India for employment	c. Resident
	d. Not ordinary resident firm
4. A person who is not resident	e. Not ordinary resident
5. A foreign firm with 50% control and management in India	f. Resident if stay in India in last 4 yrs. exceeds 365 days
	g. Resident only if stay in India exceeds 182 days in previous year

1:b, 2:e, 3:g, 4:a, 5:c

Q.4) State whether true or false
1. Only individuals and HUFs can be resident, but not ordinary resident in India.
2. Once a person is a resident in a previous year he shall be deemed to be resident for subsequent previous year.
3. Once a person is resident for a source of income in a particular previous year he shall be deemed to be resident for all other sources of income in the same previous year.
4. An India company is always resident in India.
5. A resident in India cannot become in any other country for the same assessment year.
6. Residential status is to be determined on the basis of stay in India during assessment year.
7. Income which accrue or arise outside India but are received directly into India are taxable only in case of resident.
8. Income deemed to accrue or arise in India is taxable in case of all the assessees.
9. Income which accrues or arises outside India from a business controlled from India is taxable in case of only not ordinarily resident.

10. Income which accrues or arises India and also received outside India is taxable in case of both ordinarily resident and not ordinarily resident.
11. Total income of a person is determined on the basis of his citizenship in India.
12. A company, whose managing director is a resident but "not ordinarily resident" is treated as "resident but not ordinarily resident in India".
13. A foreign company is always non-resident in India.

True: 1,3,4,8
False: 2,5,13
6) False; During previous year
7) False; All the assesses
9) False; Both ordinarily resident & not ordinarily resident
10) False; Resident only
11) False: Residential status in India
12) False; only an individual/ HUF can be RNOR

3. Heads of Income

Q.1) Fill in the blanks:

1. As per S.14 of the income-tax Act, there are ___________ heads of income.
2. Income computed under each head, when added together is called _______ (Gross / Net) total income.
3. Expenses incurred by an assessee in relation to exempt income are ___________ (Deductible / Non-deductible) as per sec. 14A of income Tax Act.
4. Rent received from tenant of a house property is classified as _________ .
5. Lottery prize won is charged to tax under the head _________ (income from Other Sources / Capital Gains).

Ans:- (1) 5, (2) Gross, (3) Non-deductible, (4) Income from House Property, (5) Income from other sources, classified and computed under different heads.

Q.2) State whether true or false

1. Perquisites received by employees are taxed as income from other sources. **False**
2. Profit made on sale of old house is taxed either as business income or capital gains. **False**
3. All heads of income as defined under S.14 are mutually exclusive. **True**
4. Rules for computation of income under all heads are the same. **False**
5. Gross Total Income is the sum total of income of the assessee, during the previous year, from all sources, classified and computed under different heads. **True**

4. Salaries

Q.1) Multiple choice Questions

1. M, a charted accountant is employed with M Ltd., as an internal auditor and requests the employer to call the remuneration as internal audit fee. M shall be chargeable to tax for such fee under the head.
(a) Income from salaries (b) Profit and gains from Business and Profession
(c) Income from other sources (d) None of these

2. M, who is entitled to a salary of Rs.20,000 p.m. took an advance of Rs.50,000 against the salary in the month of March 2009. The gross salary of M for assessment year 2009-10 shall be :
(a) 2,90,000 **(b) 2,40,000**
(c) 50,000 (d) None of these

3. M, who is entitled to salary of Rs. 12,000 p.m. took advance salary from his employer for the months of April and May 2009, along with salary of March, 2009 on 31-3-2009. The gross salary of M for the assessment year 2009-10 shall be
(a) Rs.1,44,000 **(b) Rs.1,68,000** (c) Rs.24,000 (d) None of these

4. Salary of M becomes due on 1st of next month and it is paid on 7th of that month. For the assessment year 2009-10, the salary of M shall be taken from
(a)April 2008 to March 2009 **(b) March 2008 to February 2009**
(c) April 2009 to March 2010 (d) None of these

5. M Ltd. announced increases in D.A. on 21-3-2008 with retrospective effect from 21-3-2003 and the same were paid on 6-04-2008. The arrears of D.A. shall be taxable in the previous year.
(a) 2007-08 **(b) 2008-09**
(c) In respective previous years to which these relate (d) None of these

6. Un-commuted pension received by a Government employee is
(a) Exempt **(b) Taxable** (c) 1/3 is exempt (d) None of these

7. M claimed the exemption of gratuity in the past to the extent of Rs. 2,50,000. He was entitled to the gratuity from the present employer amounting to Rs. 2,00,000 in the previous year 2008-09. M can claim exemption to the maximum extent of
(a) Rs. 2,00,000 (b) Nil **(c) Rs. 1,00,000** (d) None of these

8. Employee M is neither a government employee nor covered under payment of Gratuity Act, 1972. He has completed 16 years and 8 months of service. The number of completed years considered for gratuity exemption shall be
(a) 17 years **(b)16 years**
(c) 16 years and 8 months (d) None of these

9. Compensation received on voluntary retirement is exempt under sec. 10(10 C) to the maximum extent of
(a) Rs. 2,40,000 (b) Rs. 3,00,000
(c) Rs. 5,00,000 (d) None of these

10. M is entitled to children education allowance @ Rs. 80 p.m. per child for 3 children amounting Rs. 240 p.m. it will be exempt to the extent of:

(a) Rs. 200 p.m. **(b) Rs. 160 p.m.**
(c) Rs. 240 p.m. (d) none of the above

11. Entertainment allowance in case of government employee is
(a) Fully exempt
(b) Fully taxable
(c) Exempt upto certain limits mentioned in sec. 16 (ii)
(d)First included in full in gross salary and thereafter deduction allowed from gross salary undersection16 (ii)

Q. 2) Fill in the Blanks

1. Salary received by the partner from the firm in which he is a partner is taxable under the head -------------.
2. Income under the head salary is taxable only if there is a relationship of ----------and ---------between the payer and the payee.
3. 'Profits in lieu of Salary' is taxable under the head ------------(Salaries/Profits from business).
4. Compensation payable to an employee on termination of service is a capital receipt. It is -----------------(Taxable / Non-taxable)
5. A Ltd. paid salary of Rs. 2,00,000 to employee M and undertakes to pay the income-tax amounting to Rs. 6,120 during the previous year 2008-09 on behalf of M. The gross salary of M shall be ------------.
6. Medi-claim insurance premium paid by employer on, the behalf of employee is a -------------(Tax-free / Taxable) perquisite.
7. Employer's contribution to recognized perquisite provident fund during the previous year in excess of ------------- of basic salary is taxable as salary.
8. Amount notified as exempt gratuity for a non-government employee is -----------------.
9. ---------------- of commuted pension received (along with gratuity) by a non-government employee is exempt from tax.
10. Leave encashment received while in service is ---------------- (taxable / exempt)

(1) Business income (2) Employer; Employee (3) Salaries (4) Taxable (5) 2,06,120 (6) Tax-free (7) 12% (8) Rs. 3,50,000 (9) 1/3 (10) taxable.

Q. 3) Match the following columns.

Column A	Column B
1) Salary to partner by firm	a) Capital Gains
2) Salary of a M.P. / MLA	b) Profits in lieu of salary
3) Value of rent-free accommodation	c) Business income
4) Receipts from Keyman Insurance Policy	d) Tax-free perquisites
5) Professional Tax	e) Perquisites
	f) Income from other sources
	g) Deduction from salary

(1): 1- (c), 2- (f), 3- (e), 4- (b), 5-(g)

Column A	Column B
1. Notified amount of exempt gratuity	Rs. 5,000
2. Notified amount of exempt leave encashment	Rs. 3,50,000
3. Notified amount of exempt retrenchment compensation	Rs. 2,00,000
4. Notified amount of exempt entertainment allowance to govt. employees	Rs. 5,00,000
	. Rs. 3,00,000
5. Medical reimbursement not taxable upto	. Rs. 15,000
	. Rs. 10,000

(2): 1- (b), 2- (e), 3- (d), 4- (a), 5- (f)

Q. 4) State whether true or false

1. M a chartered accountant is employed with M Ltd., as an Manager-Taxation and requests the employer to call the remuneration as tax consultancy fee. M shall be chargeable to tax for such fee under the head income from salaries.
2. Salary of M becomes due on 1st of next month and it is paid on 7th of that month. For assessment year 2009-10, the salary of M shall be taken from April 2008 to March 2009.
3. The Govt. of India announced increase in the D.A on 15-3-2008 with retrospective effect from 1-5-2004 and the arrears were paid on 6-4-2008. the arrears of D.A shall be taxable in the previous year 2008-09.
4. Gratuity shall be fully exempt in the case of employees of central Govt., State Govt. and local Authorities.
5. An employee is covered under Payment of Gratuity Act, 1972. Salary for the purpose of calculating exemption u/s 10(10) shall be taken as 16 years.
6. An employees is covered under payment of Gratuity Act, 1972. if the employee has completed service of 16 years 6 month and 5 days, the number of completed years for calculating exemption u/s 10(10) shall be taken as 16 years.
7. An employee is covered under payment of Gratuity Act, 1972. for the purpose of computing 15 days' salary for exempting u/s 10(10), the number of days in a month shall be taken as 30 days.
8. An employees is neither a Government nor covered under Payment of Gratuity Act, 1972. salary for the purpose of calculating half month for calculating exempting u/s 10 (10) shall be taken as average salary of 10 month preceding the month of retirement.
9. An employee is neither a Government employee nor covered under Payment of Gratuity Act, 1972. if the employee has completed 16 years and 8 months of service, the number of completed years for calculating exemption u/s 10(10) shall be Rs. 3,50,000.
10. An employee is neither a Government employee nor covered under Payment of Gratuity Act, 1972. The maximum amount of gratuity exempt u/s 10(10) shall be Rs. 3,50,000.
11. M who claimed the exemption of gratuity in the past to the extent of Rs. 2,50,000 was entitled to the gratuity from the present / second employer amounting to Rs. 2,00,000 in the previous year 2008-09. M shall be entitled to exemption to the maximum extent of Rs. 2,00,000.
12. Pension received by a Govt. employee is exempt.
13. Commuted pension received shall be fully exempt in case of Government employee or an employee of local authority or an employee of statutory corporation.

14. An employee was entitled to gratuity. He also got 60% of his pension commuted and received a sum of Rs. 1,20,000 as commuted pension. The exemption in his case shall be Rs. 80,000.
15. An employee who was not entitled to gratuity, got 30% of his total pension commuted in the past. He wishes to commute another 25% of his total pension in the previous year. He shall be allowed exemption to the extent of 25%.
16. Salary for exemption of leave encashment shall be taken as average salary of 10 months immediately preceding the month of retirement.
17. The maximum exemption in case of leave encashment for a non-govt. employee shall be Rs. 3,00,000.
18. An employee availed the exemption of leave encashment of Rs. 1,00,000 in the past. He received from the second employer a sum of Rs. 2,50,000 as encashment of leave on his retirement. He will be entitled to exemption to the extent of Rs. 2,50,000.
19. Compensation received on voluntary retirement is exempt under 10(10C) to the maximum extent of Rs. 3,50,000.
20. A is entitled to children education allowance @ Rs. 80 p.m. per child for 3 children amounting Rs. 240 p.m. it will be exempt to the extent of Rs. 200 p.m.
21. M is entitled to Hostel expenditure allowance of Rs. 600 p.m. for his 3 children @ Rs. 200 per child. The actual expenditure is Rs. 300 per child per month. The exemption in this case shall be Rs. 400 p.m.
22. M is entitled to a transport allowance of Rs. 1000 p.m. for commuting from his residence to office and back. He spends Rs. 600 p.m. the exemption shall be Rs. 600 p.m.
23. M is entitled to Rs. 6,000 as fixed medical allowance p.a. he spends Rs. 4,000 on his medical treatment and Rs.1,000 on the medical treatment of his major son not dependent on him. The exemption in this case shall be Rs. 4,000.
24. Entertainment allowance in case of Government employee is first included in full in gross salary and thereafter deduction is allowed from gross salary under section 16 (ii).
25. During the previous year, an employee was reimbursed Rs. 21,000 as medical expenses incurred by him which includes Rs. 7,000 spent in Govt. hospital. The taxable perquisite in this case shall be Rs. 21,000.
26. Employer's contribution to statutory provident fund shall be exempt upto 12% of salary.
27. Interest credited to statutory provident fund shall be fully taxable.
28. Employer's contribution to unrecognized provident fund shall be fully taxable in the year of contribution.
29. Tea and snacks are provided to employees during office hours. The value of this perquisite shall be Nil, only if the cost is upto Rs. 50 per head per day.
30. Professional tax of Rs. 2,500 payable by the employee but paid by the employer is an exempt perquisite.

[True: 1,3,4,8,13,17,24]
2. False: March 2008 to February 2010 **5. False;** last drawn salary
6. False; 17 years **7. False**; 26 days **9. False;** 16 years
11. False; Rs. 1,00,000 (Maximum Rs. 3,50,000- Already claimed Rs. 1,00,000)
12. False; taxable **14. False;** Rs. 66,667 [1/3 × (1,20,000 × 100 ÷ 60)]
15. False; 20% (Total exemption 50% - Already claimed 30%)

16. False; Average Salary of 10 months immediately preceding the date of retirement.
18. False; Rs. 2,00,000 (Maximum Rs. 3,50,000 – Already claimed Rs. 1,00,000)
19. False; Rs. 5,00,000
20. False; Rs. 160 p.m. (80 p.m. × Max.2 children)
21. True; (200 p.m. × Max.2 children)
22. False; Rs. 800 p.m. (Fixed allowance, irrespective of actual expenses)
23. False; NIL – being fixed allowance
25.False; NIL – spent in Govt. hospital fully exempt + other Medical expenses upto Rs. 15,000.
26. False; fully exempt
27. False; fully exempt
28. False; taxable in the year of transfer/ withdrawal.
29. False; NIL, in all cases
30. False; included in gross salary as perquisite ; but allowed as deduction u/s 16 (iii)

5. INCOME FROM HOUSE PROPERTY

Q. 1) MULTIPLE CHOICE QUESTIONS

1. M has taken a house on rent and sublets the same to A. income from such house property shall be taxable under the head.
   (a) Income from house property **(b) Income from other sources**
   (c) Business income (d) None of the above
2. Municipal valuation of the house is Rs. 1,00,000 fair rent Rs. 1,20,000, standard rent Rs. 1,10,000 and actual rent received or receivable is Rs. 1,40,000. The Gross Annual Value in this case shall be
   (a) Rs. 1,10,000 (b) Rs. 1,20,000
   (c) Rs. 1,40,000 (d) None of the above

3. Municipal valuation of the house is Rs. 1,20,000, fair rent 1,40,000, standard rent Rs. 1,30,000 and actual rent received or receivable is Rs. 1,25,000. The gross annual value in this case shall be
   (a) 1,30,000 (b) 1,25,000
   (c) 1,40,000 (d) None of the above

4. A has two house properties. Both are self-occupied. The annual value of
   (a) Both house shall be nil **(b) One house shall be in**
   (c) No house shall be nil (d) None of the above

5. 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 to be allowed as deduction
   (c) Be allowed as deduction if the tax is deducted at source
   (d) None of the above

6. Municipal tax is deducted from
   (a) Net annual value **(b) Gross Annual Value**

(c) Municipal Valuation (d) None of the above

7. In case the property is owned by co-owners and it is self occupied by all co-owners. The annual value of
(a) Such house property be nil **(b) For each co-owner shall be nil**
(c) Only for co-one owner will be nil (d) None of the above

8. A house property with fair rent Rs. 1,20,000 is neither let out nor self occupied through out the previous year. Its annual value shall be
(a) Rs. 1,20,000 (b) nil
(c) Rs. 60,000 (d) None of the above

9. Unrealised rent is a deduction from
(a) Gross annual value (b) Net annual value
(c) Municipal value (d) None of the above

10. A property is owned by co-owners and it is self occupied by all co-owners. In this case interest on money borrowed after 1-4-2000 for acquiring the house shall be allowed.
a. To the extent of Rs. 1,50,000 as the case may be for the total property income
b. To each co-owner, to the extent of Rs. 1,50,000 as the case may be
c. No deduction of interest shall be allowed
d. None of the above

Q.2) FILL IN THE BLANKS

1. In case of self-occupied property, the deduction on account of interest on the money borrowed for the purpose of construction of such house property cannot exceed Rs.-----------
2. Fair rent of house is Rs. 1,50,000, standard rent Rs. 1,20,000 and annual rent Rs. 1,30,000 Municipal taxes paid for 6 yrs. In advance is Rs. 1,00,000. the annual value shall be ---------
3. Municipal taxes are deductible from the gross annual value only when they ------------- (are paid / Accrue)
4. Income is taxable under the head house property only when the assessee is the ----------- (owner / occupant) of such house property.
5. Arrears of rent shall be deemed to be income of the previous year in which such rent --------(is received / accrues) after deducting ------------ (30% / 1/3) of such amount.
6. For a self-occupied house property occupied on July 1, 2007 for which housing loan was availed, if the interest up to March 31, 2007 is Rs. 90,000 and thereafter the interest payable is Rs. 3,000 per month, the deduction available under section 24 in respect of interest for the year ended March 31, 2008 is Rs. --------------
7. An Assessee, after sale of house property, receiving arrears of rent, ------------ (is / is not) chargeable to tax; the same computed in the stipulated manner, shall be chargeable to tax as --------------- (income from other sources / income from house property / question does not arise since there is not chargeability to tax)
8. Income of the property can be taxed under the head house property only when the owner does not occupy the property for his ----------- or ----------
9. Reasonable lettable value cannot exceed ---------------.

10. Net annual value of SOP is ----------------.

(1) Rs. 1,50,000 (2) Rs. 30,000 (3) are paid (4)Owner (5) is received; 30% (6) Rs. 54,000 (7) is; income from house property (8) Business; Profession (9) standard rent (10) Nil.

Q. 3) MATCH THE FOLLOWING COLUMNS

Column A	Column B
1. Net Annual Value 2. Gross Annual Value 3. Standard deduction on income from H.P. 4. Interest on loan for let out property 5. Pre-acquisition interest on property	1. Fully deductible 2. Gross Annual Value less municipal taxes paid 3. 1/3 of Net Annual Value 4. Fair rent less Municipal Taxes 5. Higher of Fair rent and municipal valuation, where standard rent is not applicable 6. Deductible in 5 equal installments 7. 30% of Net Annual Value

[(1): 1- (b), 2- (e), 3- (g), 4- (a), 5- (f)]

Column A	Column B
1) Unrealised rent received during the previous year **2)** Depreciation of house property **3)** Interest on loan for SOP **4)** Reasonable letting value **5)** Net Annual Value	1. No standard deduction allowed 2. Zero for one SOP 3. Cannot exceed free rent 4. Cannot exceed standard rent 5. Not allowed as deduction from income from H.P. 6. No restriction on deductible interest 7. Deduction restricted to 30,000 or 1,50,000 as applicable

[(2): 1- (a), 2- (e), 3- (g), 4- (d), 5- (b)]

Q. 4) STATE WHETHER TRUE OR FALSE

1. M gifted his house property to his wife in 2006. Mrs. M has let out the house property @ Rs. 20,000 p.m. The income from such house property will be taxable in the hands of Mrs. M.
2. C transferred his house property to his wife with an agreement to live apart. Income from such house property shall be taxable in the hands of Mrs. C.
3. M has taken a house property on lease for 20 years from G and let out the same to S. Income from such house arising to M shall be taxable as income under the head other sources.
4. M is a member of Shilpa Co-operative society which is the owner of flats constructed by it. One of the flats is allotted to M. the income from such house property shall be taxable in the hands of shilpa co-operative society.
5. M is owner of building although the land was taken by him on lease. The income from such house property shall be taxable under the head : income from other sources.

6. M has taken a house on rent and sublets the same to G. Income from such house property shall be taxable in the hands of M under the head: income from other sources.
7. A has two house properties. Both are self-occupied. The annual value of both houses shall be nil.
8. Municipal tax is a deduction from net annual value.
9. In case the property is owned by co-owners and it is let, income from such property shall be computed separately for each co-owner.
10. In case the property is owned by co-owner and it is self occupied by all co-owners; the annual value for each co-owner shall be nil.
11. In case the above case, total deduction to all co-owners for interest on money borrowed shall be allowed upto the maximum of Rs. 30,000 / Rs. 1,50,000 as the case may be.
12. Unrealized rent is a deduction from net annual value.
13. An assessee has borrowed money for purchase of a house and interest is payable outside India. Such interest shall be allowed as deduction, without any further conditions.

Ans: True : 2,6,10

1.False; M as he will be treated as deemed owner and liable to tax.

3.False; Income from house property as M is the deemed owner.

4.False; M as deemed owner.

5. False; Income from house property.

7. False; any one house shall be nil.

8. False; Deducted from Gross annual value.

9. False; It will be first computed ignoring the co-ownership and then distributed amongst co-owners.

11. False; allowed to each co-owner to the extent of Rs.30,000/ Rs. 1,50,000 as the case may be.

12. False; Deduction from gross annual value.

13. False; be allowed as deduction if tax is deducted at source.

6] PROFITS OF BUSINESS

Q. 1] MULTIPLE CHOICE QUESTIONS

1. Salary, bonus, commission or remuneration due to or received by a working partner from the firm is taxable under the head.
   (a) Income from salaries (b) Other sources
   (c) Business income (d) None of the above

2. 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 / Professional income (d) None of the above

3. Interest on capital or loan received by a partner from a firm is:
   (a) Exempt u/s 10 (2A) **(b) Taxable as business and profession income**
   (c) Taxable as income from other sources (d) None of the above

4. Under the head Business or 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 (d) Hybrid system

5. Export incentives received by an assessee are
   (a) Exempt **(b) Taxable as business income**
   (c) Exempt (d) None of the above

6. M, who was carrying on agency business, received a sum of Rs. 5,00,000 from his principal for termination of agency. Compensation so received shall be
   (a) Exempt as it is assets only **(b) Fully taxable as business income**
   (c) Taxable as income from other sources (d) None of the above

7. Depreciation is allowed in case of
   (a) Tangible fixed assets only (b) Intangible assets only
   (c) Tangible and intangible assets (d) Wasting assets only

8. If the asset of a particular block is acquired and put to use during the previous year for less than 180 days, the asses see shall be entitled to depreciation
   (a) At normal rate **(b) At 50% of normal rate**
   (c) No depreciation is allowed (d) None of these

9. Which of the following tax is allowed as a deduction while computing the business income?
   (a) Wealth tax (b) Income tax
   (c) Sales tax (d) None of the above

10. Where the amount of an expenditure claimed as deduction exceeds Rs. 20,000, it should be paid by
    (a) Crossed cheque **(b) Account payee cheque / draft**
    (c) Cash (d) None of these
11. Where the amount of an expenditure claimed as deduction exceeds Rs. 20,000 and it is not made by account payee cheque / draft.
    (a) 20% of such payment shall be disallowed
    (b) 100% of such payment shall be disallowed
    (c) 20% of the excess over Rs. 20,000 of such payment shall be disallowed
    (d) None of the above

12. Expenditure incurred on family planning amongst the employees is allowed to
    (a) Any assessee
    (b) A company assessee
    (c) An assessee which is a company or cooperative society
    (d) None of the above

Q. 2) FILL IN THE BLANKS

1) Profit on sale of import license is taxed under the head --------------------.
2) Income of a business from trading business is Rs. 5,00,000 and his loss from speculative business is Rs. 1,00,000, during the same previous year. Net business income taxed during the previous year will be Rs. -----------------.
3) Depreciation under Income-tax is charged at the prescribed rate on the written down value of the --------------------- (block of asset / individual asset)
4) If any asset is used for less than ------------ days in the year of acquisition, the depreciation rate will be only 50% of the normal rate.
5) Discount on zero coupon bond is deductible from business income on ------------- (pro-rata / accrued basis) basis.
6) Family planning expenditure of capital nature can be claimed by a company in -------------- equal instalments.
7) Advertisement in ------------- souvenir is expressly disallowed while computing business income.
8) Remuneration paid by a firm to a --------------- partner is disallowed while computing the income of the firm.
9) Expenses exceeding ------------ paid in cash are disallowed.
10) Deduction for bonus or commission to employees is allowed only on ------------- basis even if books of account are maintained on the mercantile basis.

Ans:- (1) Business income (2) 5,00,000 (3) block of asset (4) 180 (5) pro-rate (6) 5 (7) political (8) Non-working (9) Rs. 20,000 (10) Payment.

Q. 3) MATCH THE FOLLOWING COLUMNS

Column A	Column B
1) Compensation received on termination of agency	1) Set off against other incomes possible during subsequent years
2) Capital expenditure on repairs of factory building	2) Business income
3) Negative WDV of Block of asset	3) No depreciation claim
4) unabsorbed depreciation	4) Deductible as expenditure when paid
5) bonus to employees	5) Not allowed as business deduction

[(1): 1- (b), 2- (e), 3- (c), 4 – (a), 5- (d)]

Column A	Column B
1. Interest on capital borrowed	a) Deductible on payment / due basis
2. Discount on zero coupon bond	b) Not deductible at all
3. Provision for Bad debt	c) Deductible only on payment
4. Fees for technical services paid outside India	d) Deductible on pro-rata basis
5. Interest on loan from any public financial institution	e) Deductible if tax is deducted at source

[(2): 1- (a), 2-(d), 3-(b), 4- (e), 5- (c)]

Q. 4) STATE WHETHER TRUE OR FALSE

1. Salary, bonus, commission or remuneration due to or received by a working partner from the firm is taxable under the head: Business & Profession.
2. Perquisite received by the assessee during the course of carrying on his business or profession is taxable under the head: salary.
3. Export incentives received by an assessee are exempt.
4. Income of trade or professional association, from specific service performed for its members shall be taxable under the head: Income from other sources.
5. Interest on capital received by a partner from firm shall be exempt u/s 10 (2A).
6. Under the head business & profession, the method of accounting which an assessee can follow shall be cash system only.
7. Any sum received by an employer from keyman insurance policy taken on the life of the employee shall be exempt.
8. M, who was carrying on agency business, received a sum of Rs. 10,00,000 from his principal for termination of agency. Compensation amount so received shall be exempt as it is capital receipt.
9. Where the machinery is 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 any type of repairs of the machinery.
10. Depreciation is allowed in case of tangible assets only.
11. If the asset of a particular block is acquired and put to use as on 1-11-2008, the assessee shall be entitled to depreciation for the proportionate period of 5 months upto 31-3-2009.
12. M acquired an asset for Rs. 25,00,000 which includes Rs. 5,00,000 as excise duty for which the assessee has claimed CENVAT credit. The actual cost of acquisition to be included in the block of asset shall be Rs. 25,00,000.
13. Unabsorbed depreciation which could not be set off in the same assessment year, can be carried forward indefinitely.
14. Expenditure incurred on acquisition of patents and copyrights after 31-.3-1998 is subject to depreciation under section 32.
15. Lumpsum payment for acquisition of technical know after 31-3-1999 shall be subject to deduction in 3 equal installments.
16. Interest incurred before the commencement of the production is to be treated as revenue expenditure.
17. Expenditure incurred on purchase of chickens to be used by the assessee for the purpose of carrying on his poultry business can be deducted in the previous year 2008-09, when all chickens were killed, due to bird-flu.
18. Expenditure incurred on family planning amongst the employees is allowed to any assessee.
19. Capital expenditure incurred on family planning amongst employees of the company assessee is allowed as deduction in 10 equal instalments.
20. Deduction under section 37 (1) shall be allowed even of those expenditure which are of capital nature if used for the purpose of business.
21. Interest on capital of or loan from partner of a firm is allowed as deduction to the firm @ 12%.
22. Deduction under section 40(b) shall be allowed on account of salary / remuneration paid to any partner.

23. Wealth Tax is subject to provisions of section 43B.

Ans:- True: 1,13,14,17

2. False; Business & Profession
3. False; Taxable under section 28
4. False; Taxable under the Head : business and profession
5. False; Taxable under the Head : business and profession
6. False; Cash or mercantile (accrual)
7. False; Taxable under the head business and profession
8. False; fully taxable under the head business and profession
9. False; only Current repairs other than expenditure in the nature of capital expenditure
10. False; Tangible and intangible assets. (e.g. patents, Know-how etc.)
11.False; @ 50% of normal rate
12.False; Rs. 20,00,000. (25,00,000 – 5,00,000)
15. False; depreciation U/s 32
16.False; capitalized
18. False; a company assessee
19. False; in 5 equal Instalments
20. False; Revenue nature
21; False; 12% p.a. or at the rate mentioned in partnership deed whichever is less
22. False; Working partner only
23. False; Rs. 50,000 minimum allowed
24. False; Wealth tax is not claimable as expenses, at all. u/s 40(a)

7] CAPITAL GAINS

Q. 1. MULTIPLE CHOICE QUESTIONS

1. Capital gain arises from the transfer of
   (a) Any asset (b) Any fixed asset
   (c) Any capital asset (d) Land and buildings only

2. Which asset is not treated as capital asset for capital gain purposes.
   (a) Motor car for business use (b) Jewellery
   (c) Tenancy rights **(d) Plant and Machinery held as stock in trade**

3. Short-term capital gain arise on transfer of shares and units held by the assessee for not more that
   (a) 36 months from the date of acquisition
   (b) 12 months from the date of acquisition
   (c) 54 months from the date of acquisition (d) None of the above
4. Tick from the following, the capital assets, where there will be long-term capital gain, if such asset is transferred after it is held for 14 month.
   (a) Plant and Machinery (b) Jewellery
   (c) Units of UTI (d) None of the above

5. Distribution of assets at the time of partial or complete partition of HUF shall
   a. Be regarded as a transfer in the hands of HUF for capital gain purposes
   b. Be regarded as a transfer in the hands of coparceners (member of HUF)

c. **Neither be regarded as transfer in the hands HUF nor in the hands of coparceners**
d. None of the above

6. The assessee is allowed to opt for market value as on 1-4-81 in case of
   (a) All capital assets **(b) All capital assets other than depreciable asset**
   (c) Only house properties (d) None of the above
7. Cost of improvement of goodwill of a business shall be
   (a) Nil
   (b) The capital expenditure incurred
   (c) Capital expenditure incurred on or after 1-4-81
   (d) None of the above

8. In case of long term capital gain, the amount to be deducted from sale consideration shall be
   (a) Cost of acquisition (b) Indexed cost of acquisition
   (c) Market value on 1-4-81 (d) None of the above

9. Conversion of capital asset into stock in trade will result into capital gain of the previous year:
   (a) In which such conversion took place
   (b) In which such converted asset is sold or otherwise transferred
   (c) In which such converted asset was purchased
   (d) None of these

10. Where capital asset is converted into stock in trade then for the purpose of computation of capital gain, the full value of consideration shall be
    (a) The market value of the asset on the date of sale of such asset
    (b) The market value of the asset on the date of conversion of such asset
    (c) The sale consideration
    (d) None of the above

11. In case of compulsory acquisition, the indexation of cost of acquisition or improvement shall be done till the
    (a) Previous year of compulsory acquisition
    (b) Year in which full compensation is received
    (c) Year in which part or full compensation is received
    (d) None of the above

12. Exemption under section 54, shall be available:
    (a) All assesses (b) Individual only
    (c) Individual + HUF (d) None of the above

13. The exemption under section 54, shall be available.
    (a) To the extent of capital gain invested in the HP
    (b) Proportionate to the net consideration price invested

(c) To the extent of amount actually invested
(d) None of the above

14. For claiming exemption under Sec. 54, the assessee should purchase residential property
   (a) 2 years before the date of transfer
   (b) 3 years after the date of transfer
   (c) 1 year before or 2 years after the date of transfer
   (d) None of the above

15. If the assessee wishes to deposit money under capital gain scheme for claiming exemption under sec. 54, it should be deposited within
   (a) Six months from the date of transfer
   (b) Within six months form the end of the relevant previous year
   (c) Due date of furnishing the return of income u/s 139 (1)
   (d) None of the above

Q. 2) FILL IN THE BLANKS

1) ---------------- means any profits or gains arising from the transfer of a capital asset.
2) ---------------- of a zero coupon bond is regarded as a transfer of capital asset.
3) An asset other than a ------------ capital asset is regarded as a long-term capital asset.
4) Units of Unit Trust of India held for 14 months is treated as ------------ capital asset.
5) Capital gains are taxed on ------------, irrespective of the assessee's method of accounting.
6) Transfer of depreciable assets gives rise to ------------- capital gains.
7) Cost of improvement in relation to goodwill of a business is taken to be -----------------.
8) Option of substituting fair market value as on 1-4-81 as cost of acquisition is not available on ---------------- and ------------- assets.
9) Indexed cost of Acquisition = cost of Acquisition × $\frac{\text{CII for year of ---------}}{\text{CII for year of ----------}}$
10) The capital gain arising from transfer by way of conversion of a capital asset into stock-in-trade will be chargeable to tax in the year when the stock is -----------------.

Ans:- (1)Capital Gains (2)Redemption/Maturity (3) Short-term (4)Long-term (5)Accrual basis (6) Short-term (7) Nil (8) Depreciable; Intangible (9) Transfer; Acquisition (10) Sold

Q. 3) MATCH THE FOLLOWING COLUMNS

Column A	**Column B**
a) House for personal use	i) Long term capital asset
b) Personal car	ii) Short term capital asset
c) compulsory acquisition of an asset	iii) Not a capital asset
d) Equity shares of Infosys Ltd. held for 14 months	iv) Capital asset
	v) Not a transfer
e) CII	vi) Treated as transfer
	vii) Cost inflation index

[1- (d), 2-(c), 3-(f), 4-(a), 5- (9)]

Column A	**Column B**
1. Capital gain on conversion of capital asset into stock 2. Computing gains on enhanced compensation on compulsory acquired 3. Computing gains on capital asset acquired before 1-4-81 4. Short term capital asset 5. jewellery	1. Cost of acquisition and improvement shall be taken as nil 2. Indexation not applicable 3. Not a capital asset 4. Charged when stock is sold 5. Not a transfer 6. Fair market value on 1-4-81 can be substituted for cost of acquisition 7. Capital asset

[1-(d), 2-(a), 3-(f), 4-(b), 5-(g)]

Q. 4) STATE WHETHER TRUE OR FALSE

1. Capital gain arises from the transfer of any asset.
2. Land is treated as capital assets for capital gain purposes.
3. Depreciable assets are treated as capital assets for capital gain purposes.
4. Jewellery held as stock in trade is treated as capital assets for capital gain purpose.
5. Goodwill of a business is treated as capital assets for capital gain purposes.
6. Trade mark or brand name is treated as capital assets for capital gain purposes.
7. Shor-term capital gain is gain arising from the transfer of any asset which is held by the assessee for not more than 12 months from the date of its acquisition.
8. There will be long-term capital gain, if plant and machinery is transferred after it is held for more than 12 months.
9. There will be long-term capital gain, if preference shares of an Indian Company are
10. transferred after being held for more than 12 months.
11. Securities transaction tax paid by the seller of shares shall be allowed as deduction as Expenses of transfer.
12. Securities transaction tax paid by the purchaser of shares shall form part of the cost of such Shares.
13. Where the capital asset become the property of the assessee in any manner given under Section 49(1), the cost of acquisition of such assets shall be the marker value of the asset as On the date of acquisition by the assessee.
14. If the shares are acquired on conversion of debentures the cost of acquisition of such shares Shall be cost of acquisition of the debentures.
15. The cost of acquisition of the employees stock option shall be market value of the shares on the date of offer.
16. The cost inflation index number of the previous year 2008-09 is 551.

17. where the entire block of the depreciable asset is transferred after 36 months, there will be Short-term capital gain or loss.
18. In the case of compulsory acquisition, the indexation of cost of acquisition shall be done Based on the cost Inflation Index for the previous year in which compensation is received. Conversion of debentures into shares shall be regarded as transfer for capital gain purpose.

Ans:- True: 2,3,5,6,9,13,16

1.False; any capital asset
4. False; stock-in-trade
7.False; 12 months from the date its acquisition in case of shares, units and any other listed securities and for not more than 36 months in case of other assets
8.False; more than 36 months.
10. False; not be allowed as deduction.
11. False; not form part of the cost of such shares
12. False; cost for which the previous owner of the property acquired it
14. False; nil or price at which it was offered to employee
15. False; 582
17. False; in the p.y. in which compulsory acquisition was made
18. False; not be regarded as transfer for capital gain purpose

Q. 8] INCOME FROM OTHER SOURCES

Q. 1) MULTIPLE CHOICE QUESTIONS

1) Income under the head income from other sources is taxable on
   (a) Due basis
   (b) Receipt basis
   (c) On the basis of method of accounting regularly employed by the assessee
   (d) None of the above

2) Dividend declared by unit Trust of India is
   a) Fully exempt in the hands of unit holders
   b) Fully taxable in the hands of unit holders
   c) Taxable but deduction is allowed under sec. 80
   d) None of the above

3) If no system of accounting is followed, interest on securities is taxable on
   (a) Due basis (b) Receipt basis
   (c) Hyrbid basis (d) None of the above

4) For computing lottery income, the assessee shall
   (a) Be entitled to any deduction for purchase of lottery tickets
   (b) Not entitled to any deduction for purchase of lottery tickets
   (c) Be entitled to deduction upto 10% of total purchase of tickets
   (d) None of the above

5) The legal heir of the deceased who receives family pension is allowed a standard deduction from such pension to the extent of
   (a) 1/3 of such pension, subject to maximum of Rs. 25,000.
   (b) 1/3 of such pension or Rs. 15,000 whichever is less
   (c) 1/3 of such pension or Rs. 15,000 whichever is more
   (d) None of the above

6) Gift received by an individual Rs. 70,000 from his relative M shall be
   (a) Fully exempt (b) Fully taxable
   (c) Exempt upto Rs. 50,000 (d) None of the above

Q. 2) FILL IN THE BLANKS

1) Any gift received by an individual from his relative is fully ------------.
2) An income which does not fall under the first four heads of income is taxable under the head --------------.
3) Amount exceeding Rs. ------------- received without consideration from non-relatives, after 1-4-2006 is taxable under the head income from other sources.
4) Agricultural income from Bangladesh is taxable under the head-------------.
5) Dividends from a ------------- (Domestic/Foreign) company on which dividend distribution tax has been paid will not be chargeable to tax.
6) Family pension received by member of the family of the government employee who has been awarded ' Param Vir Chakra' is ------------ (Exempt / Taxable) income.
7) Share of income received by a member of HUF is ------------- (Exempt / Taxable) income.
8) Scholarships to meet ------------- are exempt.
9) Amount received under a Life Insurance policy is ------------- from tax but amount received under a Keyman Insurance Policy is ------------- from tax.
10)--------------- allowance and ------------ allowance received by a member of Legislative Assembly are exempt from tax.

Ans:- (1)Exempt (2) Income from other sources (3)50,000 (4)Income from other sources (5)Domestic (6)Exempt (7) Exempt (8) Cost of education (9) Exempt; not exempt (10) Daily; constituency

Q. 3) MATCH THE FOLLOWING COLUMNS

Column A	Column B
1) Dividend from Domestic Company	1) Lesser of 1/3 or ` 15,000
2) Dividend from foreign company	2) Exempt from tax
3) Income from interest on securities by a dealer	3) Agricultural income
	4) Sundry income
4) Taxable gift to non-relatives	5) Business income
5) Standard deduction on family pension	6) Exceeding ` 50,000
6) Compensation received from insurance company for damage to crop	7) Taxable as other sources
	8) Lesser of 1/3 or 25,000
7) Manufacture of salt-from sea-water	9) Non-agricultural income

[1-(b), 2-(g), 3-(e), 4-(f), 5-(a), 6-(c), 7-(i)]

Q. 4) STATE WHETHER TRUE OR FALSE

1) Income under the head income from other sources is taxable on due basis
2) Dividend declared by a domestic company is fully exempt in the hands of shareholders
3) Dividend declared by Unit Trust of India is fully taxable in the hands of shareholders.
4) Winning from lotteries, cross word puzzles, house races & other races, card game, etc. are casual income & hence fully exempt.
5) For computing lottery, cross word puzzles races, card games income etc., the assessee shall be entitled to deduction for purchase of ticket/any expenditure incurred for earning such income.
6) The legal heir of the deceased who received family pension is allowed a standard deduction from such family pension received to the extent of 1/3rd of such pension or Rs. 12,000 whichever is less.

True:2,
1.False; on the basis of method of accounting regularly employed by the assessee
3.False; fully exempt in the hands of Unit holders
4.False; fully taxable
5.False; not entitled to any deduction for purchase/any expenditure
6.False; 1/3rd of such pension or Rs. 15,000 whichever is less

9. DEDUCTION FROM GROSS TOTAL INCOME
Q.1) MULTIPLE CHOICE QUESTIONS

1. Deduction u/s 80 c in respect of LIP, Contribution to provident fund, etc. is allowed to:
(a) Any assessee (b) An individual
(c) An individual or HUF (d) An individual or HUF who is resident in India

2. Deduction u/s 80-C is allowed to the maximum of
(a) Rs. 70,000 **(b) Rs. 1,00,000**
(c) Rs. 1,40,000 (d) None of the above

3. For claiming deduction u/s 80 – C in respect of life insurance premium, it can be paid by assessee for
(a) Himself only (b) Himself or spouse
(c) Himself, spouse and any child (d) None of the above

4. In the case of HUF, deduction u/s 80 C in respect of life insurance premium shall be allowed for:
(a) Karta of HUF **(b) Any member of HUF**
(c) Karta and Coparcaner of the HUF (d) None of the above

5. An assessee has paid life insurance premium of Rs. 25,000 during the previous year for a policy of Rs. 1,00,000. he shall:
(a) Rs. 1,00,000. he shall
(b) Not be allowed deduction u/s 80 C
(c) Be allowed deduction u/s 80 C to the extent of 20% of the capital sum assured i.e. Rs. 20,000

(d) None of the above

6. For claiming deduction u/s 80 C, the payment or deposit should be made:
(a) Out of any income **(b) Out of any income chargeable to income tax**
(c) During the current year out of any source (d) None of the above

7. Annual interest accrued on NSCs VIII issue shall be
(a) Exempt (b) Taxable only in VIth year
(c) Taxable on the basis of annual accrual (d) None of the above

8. Deduction u/s 80 – C in respect of tuition fee is allowed to
(a) An individual only (b) Individual or HUF
(c) Any assessee (d) None of the above

9. Deduction u/s 80-C for tuition fee shall be allowed for the purposes of :
(a) Any full time education in a school or college
(b) Any full or part time education
(c) Any part time education in a college abroad
(d) None of the above

10. Deduction u/s 80 C in respect of tuition fee is allowed to an individual for
(a) Any of his children (b) Any of his minor children
(c) Any two children of such individual (d) None of the above

11. Deduction u/s 80 C in respect of term deposit with a scheduled bank is allowed if the term deposit is for a period.
(a) Not less than 3 years **(b) Not less than 5 years**
(c) Not less than 2 years (d) None of the above

12. Deduction under section 80 CCC is allowed to the extent of :
(a) Rs. 2,00,000 **(b) Rs. 1,00,000**
(c) Rs. 4,00,000 (d) Rs. 10,000

13. Deduction in respect of contribution for annuity plan to certain pension fund under 80 CCC is allowed to
(a) Any assessee **(b) Individuals only**
(c) Individual or HUF (d) None of the above

14. Deduction u/s 80 D in respect of medical insurance premium is allowed to
(a) Any assessee **(b) An individual or HUF**
(c) Individual only (d) None of the above

15. Deduction u/s 80 D is allowed to an individual for premium paid to insure the health of
(a) Individual himself
(b) Individual and his family
(c) Individual, his spouse, dependent parents and dependent children

(d) None of the above

16. The payment for insurance premium under section 80 D should be:
(a) In cash **(b) By any mode other than cash**
(c) Cash / by cheque (d) None of the above

17. The quantum of deduction allowed under section 80 D shall be limited to:
(a) Rs. 20,000 (b) Rs. 10,000
(c) Rs. 15,000 (d) None of the above

18. Deduction u/s 80 DD in case of dependent with serve disability shall be allowed
(a) To the extent of actual expenditure
(b) Rs. 50,000
(c) Rs. 75,000 irrespective of actual expenditure
(d) None of the above

19. deduction under section 80 DD shall be allowed :
(a) To the extent of actual expenditure / deposit or Rs. 40,000 whichever is less
(b) For a sum of Rs. 50,000 irrespective of actual expenditure or deposit
(c) For a sum of Rs. 40,000 irrespective of any expenditure incurred or actual deposited
(d) None of the above

20. Deduction u/s 80 E shall be allowed in respect of amount paid by way of interest on loan taken from
(a) Any person
(b) Any relative
(c) Financial institution or approved charitable institution
(d) None of the above

21. The deduction u/s 80 E is allowed for repayment of interest to the extent of:
(a) Rs. 25,000 (b) Rs. 40,000
(c) Any amount (d) None of the above

22. Deduction u/s 80 E shall be allowed for the higher education of
(a) Assessee himself **(b) Assessee, spouse and children**
(c) Assessee and dependent children (d) None of the above

23. Deduction u/s 80 U in case of person with disability is allowed to
(a) An individual who is citizen of India **(b) An individual who is resident of India**
(c) Any individual assessee (d) None of the above

24. The quantum of deduction allowed u/s 80 U is:
(a) Rs. 40,000 **(b) Rs. 50,000**
(c) Rs. 60,000 (d) Rs. 70,000

Q. 2) FILL IN THE BLANKS

1) Deduction under sec. 80 of the chapter VI A of the income tax act are allowed form -------- (Gross total income/ Net income).
2) Gross total income, for the purpose of computing maximum limit of chapter VI A (Sec. 80) deduction does not include ------------ (Income from speculation business / long term capital gains)
3) Deduction u/s 80 C in respect of tuition fee is allowed to the maximum extent of ----------- for two children.
4) Payment of life insurance premium in excess of --------- of the sum assured shall not be included in the amount deductible under section 80 C.
5) Deduction u/s 80 C in respect of time deposit in post office is allowed it the deposits is for a period of ----------- years.
6) Deduction claimed in the past u/s 80 C in case of ULIP Dhanaraksha is withdrawn if a ULIP plan is terminated before contribution were made for -------------- years.
7) Total deduction u/s 80 C and u/s 80 CCC cannot exceed Rs. --------------
8) Maximum amount of deduction u/s 80 D for mediclaim insurance premium of a resident senior citizen is Rs. -----------------.
9) Deduction u/s 80 DD in respect of maintenance of a handicapped dependent is allowed to ------------ or ---------------- only.
10) Amount deductible u/s 80 DD for maintenance of a handicapped dependent is Rs. -----------.
11) deduction u/s 80 E is available for interest on loan for higher education to ---------- only.
12) The deduction u/s 80 E for payment of interest on loan for higher education is allowed for a maximum period of ------------ years.
13) Deduction u/s 80 U for handicapped individual is not available if the individual is suffering from less than --------------- disability.
14) Amount deductible u/s 80 U in respect of a person with severe disability is ------------.

[(1) Gross total income, (2) long term capital gains, (3) Rs. 1,00,000 (4) 20%, (5) 5, (6) 5, (7) 1,00,000, (8) 20,000, (9) Individual; HUF, (10) 50,000, (11) Individuals, (12) 8, (13) 40%, (14) Rs. 1,00,000.]

Q. 3) MATCH THE FOLLOWING COLUMNS

Column A	Column B
1. Deductions from GTI, included in	**1.** Sec 80 E
2. Exempt incomes are laid down in	**2.** Sec 80 U
3. Deduction based on contribution to pension funds	**3.** Sec 80
	4. Sec 80 C
4. Deduction based on interest paid on loan for higher education	**5.** Sec 80 DD
	6. Sec 10
5. Deduction for handicapped individual	**7.** Sec 80 CCC

[1-(c), 2-(f), 3-(g), 4-(a), 5-(b)]

Column A	Column B

1. Maximum total deductions 2. Maximum contribution to pension funds 3. Maximum claim for medi-claim by a senior citizen 4. Maximum interest claim on loan for higher education u/s 80 E 5. Deduction for a severely handicapped resident individual	1. Amount paid 2. Gross Total income 3. Rs. 15,000 4. Rs. 50,000 5. Rs. 1,00,000 6. Rs. 75,000 7. Rs. 20,000

[1-(b), 2-(e), 3-(g), 4-(a), 5-(f)]

Q. 4) STATE WHETHER TRUE OR FALSE

1) Deduction u/s 80C in respect of LIP, contribution to provident fund, etc., is allowed to any assessee.
2) Deduction u/s 80 C is allowed from gross total income.
3) For claiming deduction u/s 80C in respect of L.I.P., premium can be paid by assessee for himself, spouse and any child.
4) For claiming deduction u/s 80C, for life insurance premium if the payment is made by the assessee for his child, then the child must be dependent and unmarried.
5) An assessee has paid life insurance premium of Rs. 25,000 during the previous year for a policy of Rs. 1,00,000. he shall be allowed deduction for the entire premium as per the provisions of section 80C.
6) For claiming deduction u/s 80C in respect of P.P.F., the contribution must be paid by the individual in the P.P.F., account of himself only.
7) The annual interest accrued on NSCs VIII issue shall be taxable as "Income from other sources", but also eligible for deduction u/s 80 C.
8) Deduction u/s 80C in respect of tuition fee is allowed to an individual or HUF.
9) Deduction u/s 80C in respect of tuition fee is allowed to an individual for any number of his children.
10) Deduction u/s 80C in respect of tuition fee is allowed to the maximum extent of Rs. 12,000 per child for maximum of 2 children.
11) Deduction under section 80D in respect of medical insurance premium is allowed to any person who is resident in India.
12) Deduction u/s 80D is allowed only if the premium is paid to Life Insurance Corporation.
13) The premium under section 80D can be paid by an individual, for his dependent brother.
14) The payment for insurance premium under section 80D can be made in cash.
15) The quantum of deduction allowed under section 80D shall be limited to Rs. 1,00,000.
16) Where the medical insurance premium is paid to effect an insurance in relation to a senior citizen, the deduction allowed shall be Rs. 1,15,000.
17) Deduction u/s 80 U in case of permanent physical disability is allowed to an individual who is citizen of India.
18) The quantum of maximum deduction allowed u/s 80 U is Rs. 50,000.
19) Deduction u/s 80U shall be allowed only when the assessee is suffering from a permanent disability at the beginning of the previous year.

True: 2,3,7

1.False; an individual of HUF

4.False; may be married or unmarried and dependent or not dependent

5.False; be allowed Deduction u/s 80C to the extent of 20% of the capital sum assured i.e. Rs. 20,000
6.False; himself, spouse or any child
8.False; an individual only
9.False; any two children of such individual
10.False; upto to Rs. 1,00,000 for 2 children
11.False; an individual or HUF
12.False; General Insurance Corporation or any other insurer
13.False
14.False; by cheque
15.False; Rs. 15,000
16.False; Rs. 20,000
17.False; an individual who is resident in India
18.False; Rs. 1,00,000
19.False; any time during the previous year