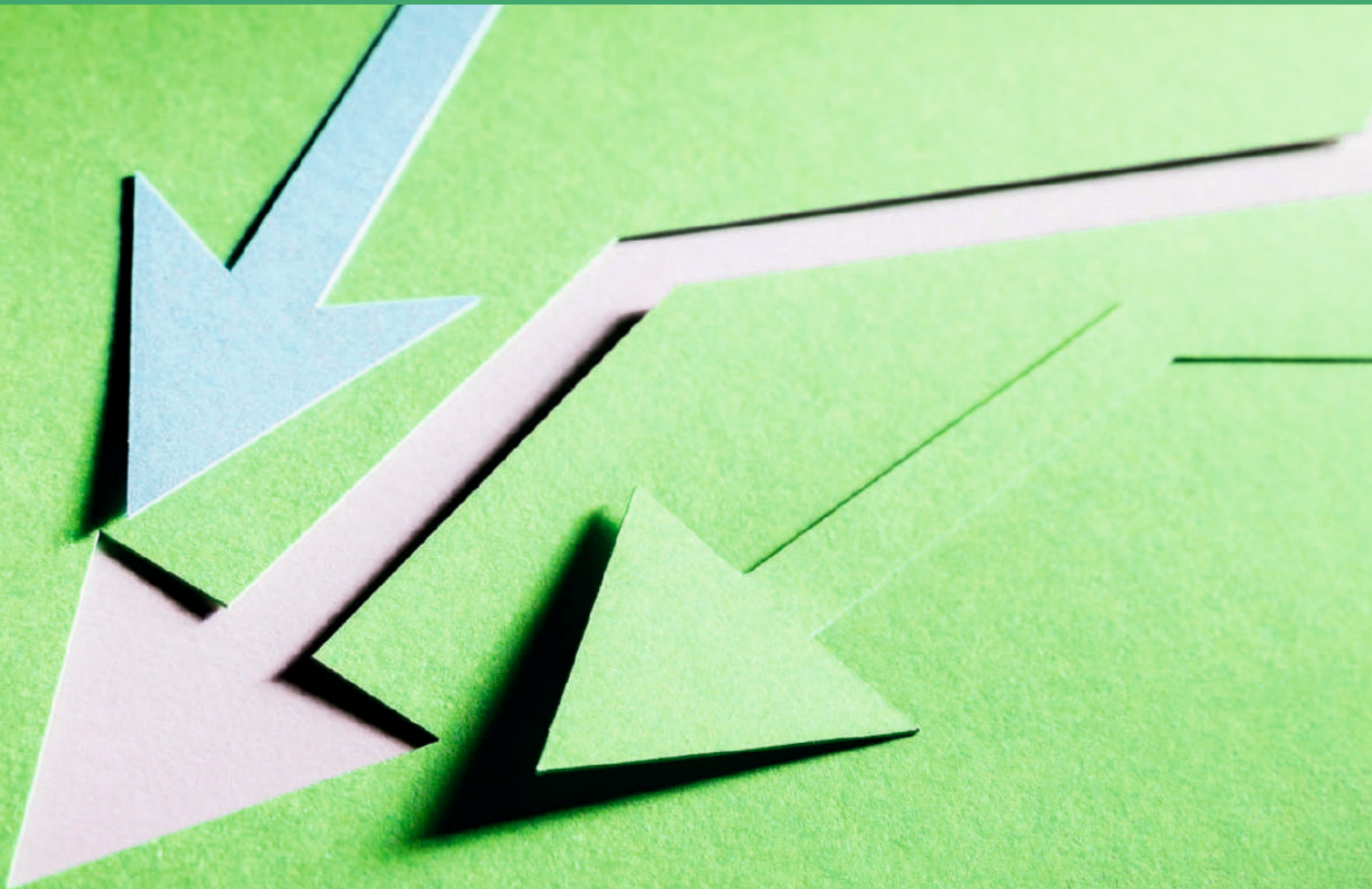


BBA
SEMESTER - 3
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Income Tax & GST



Message for the Students

Dr. Babasaheb Ambedkar Open (University is the only state Open University, established by the Government of Gujarat by the Act No. 14 of 1994 passed by the Gujarat State Legislature; in the memory of the creator of Indian Constitution and Bharat Ratna Dr. Babasaheb Ambedkar. We Stand at the seventh position in terms of establishment of the Open Universities in the country. The University provides as many as 54 courses including various Certificate, Diploma, UG, PG as well as Doctoral to strengthen Higher Education across the state.



On the occasion of the birth anniversary of Babasaheb Ambedkar, the Gujarat government secured a quiet place with the latest convenience for University, and created a building with all the modern amenities named 'Jyotirmay' Parisar. The Board of Management of the University has greatly contributed to the making of the University and will continue to this by all the means.

Education is the perceived capital investment. Education can contribute more to improving the quality of the people. Here I remember the educational philosophy laid down by Shri Swami Vivekananda:

“We want the education by which the character is formed, strength of mind is Increased, the intellect is expand and by which one can stand on one’s own feet”.

In order to provide students with qualitative, skill and life oriented education at their threshold. Dr. Babaasaheb Ambedkar Open University is dedicated to this very manifestation of education. The university is incessantly working to provide higher education to the wider mass across the state of Gujarat and prepare them to face day to day challenges and lead their lives with all the capacity for the upliftment of the society in general and the nation in particular.

The university following the core motto ‘स्वाध्यायः परमम् तपः’ does believe in offering enriched curriculum to the student. The university has come up with lucid material for the better understanding of the students in their concerned subject. With this, the university has widened scope for those students who

are not able to continue with their education in regular/conventional mode. In every subject a dedicated term for Self Learning Material comprising of Programme advisory committee members, content writers and content and language reviewers has been formed to cater the needs of the students.

Matching with the pace of the digital world, the university has its own digital platform Omkar-e to provide education through ICT. Very soon, the University going to offer new online Certificate and Diploma programme on various subjects like Yoga, Naturopathy, and Indian Classical Dance etc. would be available as elective also.

With all these efforts, Dr. Babasaheb Ambedkar Open University is in the process of being core centre of Knowledge and Education and we invite you to join hands to this pious *Yajna* and bring the dreams of Dr. Babasaheb Ambedkar of Harmonious Society come true.



Prof. Ami Upadhyay
Vice Chancellor,
Dr. Babasaheb Ambedkar Open University,
Ahmedabad.

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INCOME TAX & GST

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**BBA
SEMESTER-3
INCOME TAX & GST
BLOCK: 1**

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1.1 Introduction**1.2 Income Tax in India****1.3 Levy of tax and Charge of Income-tax****1.4 Direct & Indirect Taxes****1.5 Difference between Direct and Indirect Tax****1.6 Scheme of Income Tax****1.7 Methods of Assessing Tax****1.8 List of common Exemptions and deductions “not allowed” under New Tax rate regime****1.9 List of deductions “allowed” under new Tax rate regime****❖ Exercises**

1.1 Introduction: -

Income Tax is today an important source of revenue for governments in all the countries. It has become inevitable imposition because it has great potentials for raising funds for meeting the development needs of a nation. The major contribution of income of Government of any country is raised by tax.

1.2 Income-tax in India: -

Income Tax was first introduced in India in 1860 by the British rulers. The history of income-tax can be divided into three periods (i) 1860-1885 (ii) 1886-1914 (iii) 1914 to till date

At Present the Income-tax Act, 1961 is in force in India. In 1956, the Government referred the Income-tax act to the Law Commission which submitted its report in 1958. Direct Taxes Administration Enquiry committee was appointed in 1958 under the Chairmanship of Shri Mahavir Tyagi. On the basis of recommendations of both these bodies, the present Income Tax Act, was enacted in 1961, which came into force on 1st. Ap. 1962. This act of 1961 has since been amended number of times. The act of 1961 runs into 298 section and 12 schedules in which schedules 6 and 9 have been omitted.)

1.3 Levy of tax and Charge of income-tax: -

Income Tax is a direct tax and is administered by the Central Government. Central Board of Direct Taxes has been constitution to administer the Act. Article 256 of the constitution lays down that no tax can be imposed except by authority of law. The law of income Tax consists of Income Tax Act, 1961 and the annual Finance Act Besides, the

CBDT issues circulars and guidelines explaining and clarifying the provisions of the Act and they are binding just like the rules. The CBDT also makes rules under the Income-tax Act. Lastly, the judgements of supreme court and various High Courts as well as statutory bodies are also binding within their respective jurisdiction.

- a) Income Tax Act, 1961: It is the main enactment as regards income-Tax. It provides the structure and administration of Income-tax. By studying this Act, one can know which person has to pay Income-Tax, when and how he has to pay it. Besides, it incorporates the definitions of various types of Incomes, their computation, deductions and exemptions available and the powers of various Income-Tax authorities, procedure for assessment etc.
- b) Annual Finance Act: The finance Act is passed by Parliament every year, prescribing the rates of direct taxes for the assessment year. Thus, Income Tax Act is a Permanent Act whereas the finance Act is passed every year.
- c) Income Tax rules in exercise of powers conferred by section 295 of the Income Tax Act, at present there are 125 rules which are also subject to amendment. The rules are made by the CBDT

1.4 Direct & Indirect Taxes:

Taxes levied by governments can be classified into two categories –

- a) Direct Taxes: A tax which is borne and paid directly by the person on whom it is imposed is a direct tax, e.g., income Tax, Wealth Tax, Gift-Tax etc. it is tax which directly impact to Assessee and individual taxpayer known as direct-tax. It is directly paid by the tax payer to the government without any intermediate and it comes from his own pocket. The following are the types of direct tax: -
 - i) Income Tax under Income Tax Act, 1961
 - ii) Wealth - Tax under Wealth - Tax Act, 1957
 - iii) Gift-Tax under Gift - Tax Act, 1958
 - iv) Estate Duty under Estate Duty Act, 1953 (Cancelled now)
 - v) Expenditure Tax under Expenditure Act, 1957 (Cancelled now)
 - vi) Companies (Profit) Sur-Tax.
- b) Indirect Tax: On the other hand, if a tax is passed on by the tax payer to some other person, it is an indirect tax. It is not paid directly by the person on whom it is levied but is paid indirectly through the medium of other persons.

1.5 Difference Between Direct and Indirect Tax:

There are different Context of Differentiation Between Direct Tax and Indirect Tax are as follows.

Bases	Direct Tax	Indirect Tax
Imposition of tax	It is levied on the income or profit of a taxpayer.	An indirect tax is levied on goods and services rather than on income or profits.
Course of payment	Taxpayers pay it directly to the government.	Taxpayers pay it to the government through an intermediary.
Paying entity	Individuals and businesses	End-consumers
Rate of tax payment	Based on income and profits	Same for all taxpayers
Transferability of payment	Cannot be transferred.	Transferable
Nature of tax	Progressive tax, i.e., its rate increases with taxpayer's income.	Regressive tax, i.e., its rate decreases with increase in income.

1.6 Scheme of Income Tax:

- Exemption limit of Rs.2,50,000/-
- **Income Tax Slab for Individual who are below 60 years**

Income Tax slab	Tax Rate
Up to Rs.2.5 lakh	Nil
From Rs.2,50,001 to Rs.5,00,000	5% of the total income that is more than Rs.2.5 lakh + 4% cess
From Rs.5,00,001 to Rs.10,00,000	20% of the total income that is more than Rs.5 lakh + Rs.12,500 + 4% cess
Income of above Rs.10 lakh	30% of the total income that is more than Rs.10 lakh + Rs.1,12,500 + 4% cess

2. Income Tax Slab between 60-80 years (Senior Citizen)

Income Tax slabs	Tax Rate
Up to Rs.3 lakh	Nil
From Rs.3,00,001 to Rs.5,00,000	5% of the total income that is more than Rs.3 lakh + 4% cess
From Rs.5,00,001 to Rs.10,00,000	20% of the total income that is more than Rs.5 lakh + Rs.10,000 + 4% cess
Income of above Rs.10 lakh	30% of the total income that is more than Rs.10 lakh + Rs.1,10,000 + 4% cess

3. Income Tax Slabs for individual above 80 years (Super Senior Citizen)

Income Tax slabs	Tax Rate
Up to Rs.5 lakh	Nil
From Rs.5,00,001 to Rs.10,00,000	20% of the total income that is more than Rs.5 lakh + 4% cess
Above Rs.10 lakh	30% of the total income that is more than Rs.10 lakh + Rs.1,00,000 + 4% cess

4. New Income Tax Slab for Individual (New Regime):

Income Tax Slab	Tax Rate
Up to Rs.3 lakh	Nil
From Rs.3,00,001 to Rs.6,00,000	5% of the total income that is more than Rs.2.5 lakh + 4% cess
From Rs.6,00,001 to Rs.9,00,000	10% of the total income that is more than Rs.5 lakh + 4% cess
From Rs.9,00,001 to Rs.12,00,000	15% of the total income that is more than Rs.7.5 lakh + 4% cess
From Rs.12,00,001 to Rs.15,00,000	20% of the total income that is more than Rs.10 lakh + 4% cess
Income above Rs.15,00,001	30% of the total income that is more than Rs.15 lakh + 4% cess

1.7 Methods of Assessing Tax:

Two Methods are generally used for assessing on income viz (a) Step system (b) Slab System: -

- Step System: Step system is unjust and regressive; hence, it has been abolished.
- Slab System: This is a modern progressive method of levying income tax. The total income of Assessee is divided into different slabs and each slab is charged at a different rate.

for Old Regime, a tax rebate up to Rs.12,500 is applicable if the total income does not exceed Rs 5,00,000 (not applicable for NRIs)

In the slab systems, income tax exemption limit is

- up to Rs 2,50,000 for Individuals, HUF below 60 years aged and NRIs.
- up to Rs 3,00,000 for senior citizens aged above 60 years but less than 80 years.
- up to Rs 5,00,000 for super senior citizens aged above 80 years.

Surcharge and cess will be applicable over and above the tax rates. However, under the new tax regime rebate is up to Rs.25,000 is applicable if the total income does not exceed Rs 7,00,000. (not applicable for NRIs)

Tax rebate equivalent to an amount, tax payable is when the total income exceeds Rs 7,00,000. (not applicable for NRIs)

Income tax exemption limit is up to Rs 3,00,000 for Individuals, HUF opting for the new regime. Surcharge and cess will be applicable over and above the tax rates.

1.8 List of common Exemptions and deductions “not allowed” under New Tax rate regime:

- Leave Travel Allowance (LTA)
- House Rent Allowance (HRA)
- Conveyance allowance
- Daily expenses in the course of employment
- Relocation allowance
- Helper allowance
- Children education allowance
- Other special allowances [Section 10(14)]
- Standard deduction on salary
- Professional tax
- Interest on housing loan (Section 24)
- Deduction under Chapter VI-A deduction (80C,80D, 80E and so on) (Except Section 80CCD(2))

1.9 List of deductions “allowed” under new Tax rate regime

- Transport allowance for specially abled people
- Conveyance allowance for expenditure incurred for travelling to work
- Investment in Notified Pension Scheme under section 80CCD(2)
- Deduction for employment of new employees under section 80JJAA
- Depreciation u/s 32 of the Income-tax act except additional depreciation.
- Any allowance for travelling for employment or on transfer

❖ **EXERCISE:**

1. Answer the following questions

1. Write down the difference between direct and indirect tax.
2. Explain the new regime of income tax
3. Write down the tax scheme of an individual assessee below 60 years of age.
4. Explain the two tax systems in detail
5. Explain the meaning of direct tax with suitable examples
6. Write a note on Income Tax Act, 1961

2. Write short note on the following:

1. Slab system
2. Direct tax
3. Excise duty
4. Methods of assessing income tax
5. Income tax and surcharge
6. Indirect tax

2.1 Introduction**2.2 Assessment Year****2.3 Previous year****2.4 Assessment****2.5 Income****2.6 Gross total income****2.7 Casual Income****2.8 Dividend****2.9 Assessee****2.10 Persons****2.11 Assessment****2.12 Agricultural Income****2.13 Tax Planning****2.14 Tax Management****2.15 Differences between the Tax Planning and Tax Management****2.16 Tax Evasion****2.17 Tax Avoidance****2.18 Difference between Tax Evasion and Tax Avoidance****❖ Exercises**

2.1 Introduction:

These are certain terms used in the Income Tax Act, which need clarification and as per section 2 and 3 of the Act, which give definitions of such terms, some of which disclosed below. In order to interpret correctly various Provision of Act and these definitions need to be carefully studied.

Income tax: Tax collected by the Central Government for each financial year on the total taxable income of an Assessee earned during the previous year is called income tax.

2.2 Assessment Year:

An assessment year is a period of 12 months commencing on 1st April and ending on 31st March. It is a year in which the income of the previous year is to be assessed. The current assessment year is 2024-25 which commenced on 1st April, 2024 and will end on 31st March 2025. In some countries it is called 'Tax year' affixed period of 12 months without a change of date, viz, 1st April to 31st March. During the assessment year, the

income of the previous year is assessed according to the rates of tax prescribed by the finance Act 1997 presented as a part of Annual Budget.

2.3 Previous year:

The year in which income earned is known as the previous year. In layman's language, the current financial year is known as the previous year. The financial year starts on 1st April and ends on 31st March of the next year.

“Previous year” defined

- (1) For the purposes of this Act, “previous year” means.
 - (a) the financial year immediately preceding the assessment year; or
 - (b) if the accounts of the Assessee have been made up to a date within the said financial year, then, at the option of the Assessee, the twelve months ending on such date; or
 - (c) in the case of any person or business or class of persons or business not falling within clause (a) or clause (b), such period as may be determined by the Board or by any authority authorized by the Board in this behalf; or
 - (d) in the case of a business or profession newly set up in the said financial year, the period beginning with the date of the setting up of the business or profession and
 - (i) ending with the said financial year, or
 - (ii) if the accounts of the Assessee have been made up to a date within the said financial year, then, at the option of the Assessee, ending on that date, or
 - (iii) ending with the period, if any, determined under clause (c), as the case may be; or
 - (e) in the case of a business or profession newly set up in the twelve months immediately preceding the said financial year
 - (i) if the accounts of the Assessee have been made up to a date within the said financial year and the period from the date of the setting up of the business or profession to such date does not exceed twelve months, then, at the option of the Assessee, such period, or
 - (ii) If any period has been determined under clause (c), then the period beginning with the date of the setting up of the business or profession and ending with that period, as the case may be ; or
 - (f) where the Assessee is a partner in a firm and the firm has been assessed as such, then, in respect of the assessee's share in the income of the firm, the period determined as the previous year for the assessment of the income of the firm; or
 - (g) in respect of profits and gains from Life Insurance business, the year immediately preceding the assessment year for which annual accounts are required to be prepared under the Insurance Act, 1938, or under that Act read with section 43 of the Life Insurance Corporation Act, 1956.
- (2) Where an Assessee has newly set up a business or profession in the said financial year and his accounts are made up to a date in the assessment year in respect of a period not exceeding twelve months from the date of such setting up, then, notwithstanding anything contained in sub-clause (iii) of clause (d) of sub-section (1), the Assessee

shall in respect of that business or profession, at his option, be deemed to have no previous year for the said assessment year under that clause and such option, shall, in relation to the immediately succeeding assessment year, have effect as an option exercised under sub-clause (i) of clause (e) of sub-section (1).

- (3) Subject to the other provisions, of this section, an Assessee may have different previous years in respect of separate sources of his income.
- (4) Where in respect of a particular source of income or in respect of a business or profession newly set up, an Assessee has once exercised the option under clause (b) or sub-clause (ii) of clause (d) or sub-clause (i) of clause (e) of sub-section (1) or has once been assessed, then, he shall not, in respect of that source, or, as the case may be, business or profession, be entitled to vary the meaning of the expression “previous year” as then applicable to him, except with the consent of the Income-tax Officer and upon such conditions as the Income-tax Officer may think fit to impose.

2.4 Assessment:

Is a process of determining the correctness of the income of an Assessee and of assessing the amount of tax payable by him and procedure for imposing tax liability.

2.5 Income:

The income tax is levied on incomes; the Act does not clearly define. what is income? Income means some monetary returns periodically received from some definite source. The definition of income given in Sec. 2 (24) is inclusive and not exhaustive. It says that certain items are included in the term “Income”.

Section 2(24) income includes

- i) Profits and Gains
- ii) Dividend (W.E.F. 1-6-97, it is made fully exempt from tax)
- iii) Voluntary contributions received by a trust created for charitable or religious purpose.
- iv) The value of any perquisite or profit in lieu of salary.
- v) The value of any benefit or perquisite obtained from a company either by a director or by a person who has substantial interest in the company or by a relative of the director or of such person.
- vi) Any sum paid by such company for an obligation which would have been payable by the director or such other person, if the company had not made this payment.
- vii) Recovery of approved amount of losses and expenses of earlier years.
- viii) Any sum chargeable to income tax as income from business, Profession or vocation.

- ix) The Value of any benefit or perquisite taxable as income arising from business or profession.
- x) Any capital gain chargeable under Sec. 45
- xi) The Profit and Gains (Section - 44) of any business of insurance carried on by a mutual insurance company or by co-operative society.
- xii) Any annuity due or commuted value of any annuity paid.
- xiii) Any winnings from lotteries, cross word, Puzzles, races including horse race, card games and other games of any sort or from gambling or letting of any form
- xiv) Any sum received by the Assessee from his employers as contribution to employee's welfare fund. (W.e.f. 1-4-1988)
- xv) Illegal income is also taxable i.e., smuggling and bank robbery

2.6 Gross total income

Gross total income (GTI) is essentially the unfiltered sum of all the money you earn before any deductions or taxes are applied. Gross Total Income is the aggregate of all the income earned by you during a specified period. According to Section 14 of the Income Tax Act 1961, Income can arise from sources like salary, house property, business and professions, capital gains, and other sources. Once you have your GTI, you can then subtract allowable deductions and exemptions to arrive at your total income, which is the amount used to determine your tax liability.

What is the Total income?

Total income is the amount of money you earn that is subject to taxes. It's essentially your gross total income (GTI) minus any allowable deductions and exemptions. Total Income or TI is the income of an Assessee on which tax liability is calculated. To arrive at the total income of the Assessee one has to calculate the gross total income of the Assessee.

2.7 Casual Income: -

- i) Casual income is that income which is unexpected and unforeseen. It is not received from a regular source of income. According to the Act, any receipts which are of casual and non-recurring nature are casual incomes.
- ii) Up to the assessment year 1972-73, casual incomes were totally exempt from tax. But now casual incomes are taxable.
- iii) Gross winnings from lotteries, crossword Puzzles, races including horse races (other than income from the activity of owning and maintaining race horses.) card games and other games of any sort or from gambling or betting shall be - chargeable to income tax at a flat rate of 40% (without deducting any expenditure).
- iv) It is exempt to the extent of first Rs. 5000 only. However, the winnings from races including horse races are exempt up to Rs. 2500 only.
- v) All amount is deductible by way of expenses from such casual incomes. According to Sec, 10(3) of the Act any receipts which are of a causal and non-recurring nature including winnings from lotteries will not be taxable to the extent of five thousand rupees.

- vi) The following are not treated as casual incomes:-
 - a) Capital gain chargeable under the Act.
 - b) Receipts arising from business or Profession.
 - c) Receipts by way of addition to the remuneration of an employee, e.g., bonus, commission etc.
- vii) It must be noted that only receipts which are not likely to record will be treated as casual income, e.g. birthday gift will be treated as a casual income, but amount of tip received by a taxi driver from a passenger is not a casual income, because it is a part of his business income.

2.8. Dividend: -

As per the amendment made by the Finance Act, 1997 dividend income received on or after 1-6-97 will be considered fully exempt from AY 1998-99 [Sec. 10 (33)]

Sec. 2(22) Defined dividend. The definition of dividend given in the Act is not exhaustive, generally dividend means a share in the profits of the company given to its shareholders. But the Act has included certain other payments by the company in the meaning of the word 'dividend'. According to this definition “dividend” includes

- i) Any distribution by a company of the accumulated profits of the company. If such distribution entails the release of company's assets (bonus shares are not included in the term dividend, because it does not entail release of the enact of the company)”
- ii) (a) Any distribution of debentures or deposit certificates in any form to its shareholders by a company out of accumulated profits, whether capitalized or not and
 (b) Any distribution of shares by way of bonus to its preference shareholders out of accumulated profits whether capitalized or not.
- iii) Any distribution made by the company to its shareholders on liquidation, out of accumulated profits immediately before its liquidation, whether capitalized or not. If the company reduces its share capital and returns a part of share capital to its shareholders, then it is considered to be a dividend, to the extent to which the company possesses accumulated profits.
- iv) Payment by way of advance of loan to a shareholder (having a substantial interest in the co.) by a company in which public is not substantially interested. However, a loan or advance given to such shareholder by a money lending company is not considered 'dividend'.

Notes: In the above item (iii and (iv) 'dividend' does not include a distribution made in respect of shares issued for full cash consideration whether the holder of the share is not entitled in the event of liquidation to participate in the surplus assets. Deemed income of dividend as stated in Sec. 2(22) (e) is not exempt u/s. 10(33).

2.9 Assessee: -

Sec 2(27), An Assessee is a person by whom any tax or any other sum of money is payable under this Act, any other sum of money may include interest, penalty etc. Under sec. 2(27) the term Assessee includes.

- A) An Assessee is a person by whom any tax or any other sum of money is payable under this Act. Any other sum of money include interest, penalty, fringe benefits, etc.
- B) Every person in respect of whom any proceedings under this Act have been taken for the assessment year of
 - his income
 - Income of any other person
 - Loss sustained by him
 - Amount of refund due to him or other such person
- C) Deemed to be an Assessee would include.
 - Trustee of a trust
 - Legal representative of a non-resident
 - Legal guardian or manager on behalf of a minor, lunatics or idiot
 - Court of wards/ official trustee.
- D) Deemed to be an Assessee in default
 - A person who fails to deduct and or remit TDS
 - A person who fails to pay tax and any other sum demanded

2.10 Persons:

While defining “Assessee” we have seen that according to Law an Assessee is a person by whom any tax is payable. It hence the meaning of the term 'Person' requires clarification section 2(31) of the Act has given an inclusive definition of a person as follow:

“Person” Includes.

- i) an individual
- ii) a Hindu undivided Family
- iii) A company
- iv) A Firm
- v) An association of person, or a body of individuals, whether incorporated or no [Association of person' means an association in which persons join hands for any common objective of income, profits or gains. (C. J. T. V/S. Indra Balkrishna)]
- vi) A local authority
- vii) Every artificial Juridical person, not included in the above e.g. A statutory corporation or a Hindu ideal e.g. (Balaji of Tirupati) are assessable under this clause.
- viii) The definition has been added by the Act of 1961 and has been made exhaustive. The last sub-clause has made all artificial persons like university bar council etc. Liable to pay tax.

Company: The definition of a company given in Section 2 (17) is very wide and includes even on incorporated bodies like association as institution etc. The basic characteristic of

company's assessment is that there is no exemption limit for charging income tax. It means, that the company has to pay income tax however may be its small income. Secondly, the income tax is charged at a single flat rate on the total income of the company. According to law 'company' means

- i) Any Indian company, or
- ii) Any Company incorporated outside India.
- iii) Any institution, association or body which was assessable under this Act as a company for any assessment year commencing on or before 1-4-1970.
- iv) Any institution, association or body would be treated as company if the Board has declared it to be a company, such body may be Indian or non-Indian or it may be incorporated or not.

Indian Company: - it has been defined in Sec. 2(26) as follows: - "Indian Company" means a company formed and registered under the companies Act, 1956 and includes (1) A company formed and registered under any previous company law (except in Jammu & Kashmir) a company formed and registered under any law in force there.

- v) In case of the union territories of Dadra and Nagar Haveli, Goa, Daman and Diu and Pondicherry, a company formed and registered under law in force there. It is important to note that in all the above cases the registered office or the principal office of the company, corporation etc. Must be in Indian.

2.11 Assessment:

It is a process of determining the correctness of the income of an Assessee and of assessing the amount of tax payable by him and procedure for imposing tax liability. According to Sec. 2(8) the term assessment also includes reassessment.

2.12 Agricultural Income:

Income from agriculture is exempted from income-tax. It has to be exempted from income-tax. It has to be exempted because the Indian parliament has no powers under the constitution to Levy tax on agriculture income. Only the state legislatures have the powers to impose any tax on agricultural income. Agricultural income was totally exempt from income-tax. However, since 1973, Agricultural income is included in the total income of the Assessee for the limited purpose of determining the rate applicable to the taxable income.

Agricultural income is defined in Sec. 2(1-A) accordingly, agricultural income means.

- I. Any rent or revenue this must be (a) derived from land, (b) the land must be situated in Indian and (c) the land must be used for agricultural purposes.
- II. Any income derived from such land by agriculture, i.e., by actual cultivation or by performance of some agricultural process which makes the product fit to be taken to the market or by sale of the produce, on which no other process has been performed other than the one mentioned in.
- III. Any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land.

- IV. There are certain conditions subject to which the income derived from the farm building is treated as agricultural income: The building must be on such land or must be in immediate vicinity of such land, and it must be a building which the receiver of the rent or revenue required as a dwelling house or as store-house or as other out-building by reason of his connection with the land, and

The land must be either assessed to land revenue in India or must be subject to a local rate. If the land is not so assessed to land revenue or is not subject to a local rate, then it must fulfill either of these two conditions, viz., (1) the land must not be situated within the jurisdiction of a municipality/cantonment board having a population of not less than 10,000 persons or (ii) the land must be situated beyond a distance of 8 kms. From the local limits of a municipality or cantonment board.

We discuss below various elements of agricultural income in detail

Rent or Revenue	Income derived from such land	Income derived from building
1. It must be derived from land.	1. Income must be derived by agriculture (cultivation) or	1. The building must be occupied by the cultivator
2. The land must be situated in India.	2. Income must be derived from processing of agriculture produce.	2. It must be not he land or in the immediate vicinity of the land.
3. The land must be used for agricultural purposes.	3. Income must be derived by sale of agri. produce (I) by the cultivation or (II) by receiver of rent in kind.	3. The cultivator must require it as a dwelling house, store house or other out-building.
		4. The land must be assessed to land revenue or local rates
		5. If it is not assessed to land revenue or local rate, then it must be situated outside urban areas.

1. Rent & Revenue derived from Land: It is not necessary that the owner of the land should be cultivating the land himself. If he has given the land to any other person for cultivation, the rent received by him is treated as agricultural income. The rent may be received in cash or in kind, i.e., a share in the produce. Secondly, it is not necessary that the person receiving rent or revenue should himself be the owner of the land. If the tenant receives such rent or revenue from sub-tenancy, it will be reacted as agricultural income.

2. (i) Income derived from agriculture: Income derived from land used for agricultural purposes is treated as agricultural income. But what is 'agricultural' or 'agricultural purpose' has not been mentioned in the Act. Hence, we have to depend on the important decision of the Supreme Court in C.I.T. Vs. Raja Benoy Kumar Suhas Roy (1957) for the clarification of the term 'agricultural purpose'

- a) Basic Operations: Agriculture in its primary sense denotes the cultivation of land in strict sense of the term, tilling of the land, sowing of seeds, planting and similar operations on the land. These are basic operations which require human skill and labour.
 - b) Subsequent Operation. They include weeding, digging the soil, fencing etc. If these subsequent operations are combined with basic operations, then they would also be treated as 'agriculture'.
 - c) Agriculture produce includes in addition to food grains, vegetables, fruits plantation, tobacco, sugarcane, groundnut etc.
 - d) Forest products include those things which grow any human skill and labour, hence income from forest tress of spontaneous growth will not be included in agricultural income. However, if trees are planted and sold, it would be treated as agricultural income.
 - e) Dividend distributed by a company engaged in agriculture will not be treated as agricultural income in the hands of the shareholders.
- (ii) Income from processing of Agricultural Produce: Certain agricultural produce is not in salable state and they have to be processed to make them marketable, e g. cotton has to be ginned. Any income derived from such processing will also be treated as agricultural income.
- (iii) Income from Sale of Agriculture Produce: Income derived from sale of agricultural produce is agricultural income. It must be raised from land situated in Indian and the land must be used for agricultural purposes. No process other than the agricultural process mentioned above should have been performed on such produce. Any such manufacturing process is performed, then the income would be considered partly agricultural.

3. Income derived from building: Any income derived from a building situated on land used form agricultural purposes is also treated as agricultural income. But the following conditions must be satisfied

- 1. The building must be on the agricultural land or must be in the immediate vicinity of such land 2. The building must be required as dwelling house or as a store-house or other out building by reason of its connection with the land.
- 2. The land must be assessed to land revenue in India or must be subject to a local rate.
- 3. If the land is not assessed to land revenue or is not subject to a local rate then
 - a) Such land should be situated outside the jurisdiction of municipality of a town, which has a population of 10,000 or more, or
 - b) The land should be situated outside the limit of eight kilometers of such municipality.

(A) Non-agricultural Income- The following incomes, although derived from land, are not agriculture income because they are not covered by the above definition:

- 1. Income from mining royalties.
- 2. Income from fisheries.

3. Income from stone quarries.
4. Income from sale of earth for brick-making.
5. Income from dairying and cattle-breeding
6. Income from purchasing the standing crop.
7. Income from supply of water for irrigation purposes.
8. Income from sale of trees of spontaneous growth.
9. Remuneration of a manager of an agricultural farm.
10. Dividend from a company engaged in agriculture.
11. Income derived from land used for holding periodical markets.
12. Commission received by landlord for selling produce for an on behalf of the tenant.
13. Agricultural income received from foreign country.
14. Interest on arrears of rent in respect of agricultural land.
15. Income from sale of wild grass, seeds, trees, fruits and flowers of spontaneous growth without the intervention of human agency.
16. Income of sale produced by flooding the land with sea water.
17. Interest received by a money-lender in the form of agricultural produce
18. Income derived from land let out for storing crops.
19. Annual annuity received by a person in, consideration of transfer of agricultural land even if it is charged on land.

(B) Partly Agricultural Income: There are certain income which are neither wholly agricultural nor wholly business income. They contain some element of agricultural income defined in this Act and hence they are treated as partly agricultural. The following are such incomes;

1. A part of the income from such sugar factories which grow their own sugarcane on their farms. [C.I.T. Vs. Bhopal Sugar Industries. Ltd. (1970 & 78 ITR 209 (M.P.))]
2. Income derived from the sale of tea grown and manufactured by the seller in India is deemed to be agricultural income to the extent of 60% and the remaining 40% is taken to be non- agricultural income and hence taxable. [C.I.T. Vs. R.M. Chidambaram Pillai (1977) and 106 ITR 292 (SC.).]
3. A part of the income from sale of finished goods prepared from tobacco grown on assesses

(C) The following are considered Agricultural Income:

1. Compensation received from an insurance co. for damage caused to standing crop.
2. Income from growing flowers and creepers.
3. Shares of profit of a partner from a firm engaged in agricultural operation.
4. Interest on capital received by a partner from a firm engaged in agricultural operation.

(D) Inclusion of Agricultural Income: From assessment year 1973-74, the agricultural income of an Assessee is included in his non-agricultural income for rate purposes. Thus, though agricultural income is exempt from income-tax, but its inclusion with other income, increases the tax-liability of the Assessee.

2.13 Tax Planning:

Tax planning is a strategic process designed to optimize an individual's financial affairs in a manner that maximizes all legitimate deductions, exemptions, allowances, and rebates, ultimately resulting in a minimized tax liability. The objective is to identify the most effective tax planning strategies and apply them to one's financial situation, while remaining in full compliance with all applicable tax laws and regulations.

2.14 Tax Management:

Tax management is a critical process used by taxpayers to ensure full compliance with tax laws and regulations. It encompasses all aspects of tax-related activities, including penalties, appeals, prosecutions, and tax case settlements. Through effective tax management strategies, individuals can analyze their past, present, and future tax obligations to ensure full compliance with all applicable laws and avoid penalties and interest charges.

Unlike tax planning, tax management is a mandatory requirement for all taxpayers, making it essential to remain vigilant and up-to-date with all tax-related activities. Failure to comply with tax laws and regulations can result in interest penalties and other legal consequences. As such, taxpayers must remain fully informed and engaged with all aspects of tax management to avoid these potential risks and ensure continued compliance with all applicable tax laws and regulations.

2.15 Differences between the Tax Planning and Tax Management

Difference Between Tax Planning and Tax Management		
Aspect	Tax Planning	Tax Management
Definition	A way to lower taxes legally.	Making sure you follow tax laws.
Focus	Saving on taxes in the long term.	Dealing with current tax needs and records.
Timeline	Planning for the future.	Covers past, present, and future.
Strategies	Investing smartly, using deductions.	Accurate filing and record-keeping.
Objective	Cut taxes and manage finances better.	Stay legal and penalty-free.
Approach	Looking ahead to save on taxes.	Reacting to current tax laws.
Tools Used	Investments, life insurance, etc.	Tax software, paperwork, records.
Importance for Individuals	Key for personal wealth growth.	Ensures financial safety.
Importance for Businesses	Essential for long-term planning.	Keeps businesses legal and reputable.
Outcome	More savings, better finances.	Avoids trouble with the law.

2.16 Tax Evasion:

Tax evasion means illegally trying to pay less tax by using fraudulent methods. Tax evasion includes lying about your finances, hiding income statements, not keeping good records of transactions, saying you have more tax breaks than you really do or showing personal expenses as a part of business expenses.

Tax evasion takes place when you trick tax authorities on purpose. Here are the different tricks they use:

- Hiding Income: Not talking about all the money you make, like cash from a side job or interest from investments that you do not report.
- Overstating Deductions: Saying you spent money on things for your job that you did not really spend, or claiming tax breaks for personal stuff you do not qualify for.
- Submitting Fake Tax Forms: Sending in a tax form with wrong information on purpose.

2.17 Tax Avoidance:

Tax avoidance involves using legal tactics to reduce the amount of tax you owe. Essentially, it means using the tax system in one place to benefit yourself by paying less tax. Tax avoidance is about finding new ways to avoid paying taxes, all the while staying within the limits of the law.

- Claiming all the deductions allowed by law, like medical expenses, donations, and certain investment costs.
- Using Special Accounts: Putting money into retirement funds like the PPF or NPS, which lets you pay less tax.
- Taking Advantage of Tax Credits: Getting credits, like for education expenses, that directly lower your tax bill.

2.18 Difference Between Tax Evasion and Tax Avoidance

Parameters	Tax Evasion	Tax Avoidance
Goal	To illegally evade or avoid paying taxes.	To reduce your tax liability while staying within the boundaries of the law.
Legality	Illegal	Legal
Occurrence	After you incur a tax liability.	Before you incur a tax liability.
Methods Used	Utilizes fraudulent activities and false information	Utilizes legal deduction methods and tax provision strategies
Results	You may face penalties, fines, legal actions, and damage to your reputation.	You would not face any legal consequences.

❖ Exercises:

1. Write down the answer of following questions.
 1. Difference between tax evasion and tax avoidance
 2. Difference between tax planning and tax management

3. Explain tax management in detail
4. Write a note on agriculture income
5. Write down the difference between previous year and assessment year
6. Write a note on exceptions to previous year
7. Write a note on casual income
8. Write a note on dividend income

2. Write short note on the following:

1. Previous year
2. Assessment year
3. Income tax
4. Income
5. Gross total income
6. Tax planning
7. Tax evasion
8. Dividend income
9. Tax management
10. Agricultural income
11. Casual income
12. Total income
13. Person

3.1 Introduction**3.2 Difference between Exemption and Deduction****3.3 Fully exempted incomes (section -10)****3.4 Partially exempted incomes**

- ❖ **Keywords**
- ❖ **Exercises**

3.1 Introduction

Direct taxation is considered to be an important source of income for any country's economy but at the same time it is necessary to ensure that the flow of money in the country is maintained. The flow of money plays a very important part in keeping the economy moving. Maintaining cash flow requires not only income but also savings and investments. For this, efforts are made by the government that the tax payer spends some amount of his income in investment every year to reduce his tax burden. If the taxpayer does so, he will be able to reduce his total net taxable income. Provisions regarding deductions, concessions and exemptions are made under the Income Tax Act to provide incentives to the taxpayer.

Section 10 of the Income Tax Act deals with incomes that are exempt from taxpayer total taxable income.

Taxation laws are essential to understand how much one has earned, their tax obligations, and how much one gets in hand. However, some relaxations offered by the government help increase the buying power. Exempt income is among those relaxations which help reduce taxes. One doesn't have to pay income tax on them. Another part of such relaxation is deductions. A person can deduct specific charges from their income to reduce tax. Exempted incomes are a fundamental aspect of any tax system, serving as a means to achieve various economic, social, and policy objectives. In the realm of taxation, certain forms of income or financial transactions are granted special status, exempted from taxation, and allowed to exist outside the scope of typical income tax regulations. These exemptions are established by governments to incentivize specific behaviors, support particular groups, or stimulate economic activities.

Exempted incomes refer to specific types of earnings that are not subject to taxation. These exemptions often encompass a variety of sources, including certain allowances, grants, and benefits that the government designates as non-taxable to encourage specific activities or support particular groups.

As per the Income Tax Act, there are two types of exemptions.

- (1) Absolute exemption from taxation
- (2) Partial exemption

Taxpayer need not include such tax-exempt income while showing total gross income while filing income tax return.

3.2 Difference between Exemption and Deduction

Points	Exemptions	Deductions
Meaning	Exemption means certain income is exempt from tax, then it will not contribute to the total income of a person.	Deduction means an amount that is eligible to reduce taxable income.
What is it?	Relaxation	Concession
Concept	The exempted income is not considered as a part of total income, the whole amount is an exemption for the taxpayer.	The amount of deduction is first included in the gross income and then deducted from it to arrive at the net income.
Income is	Tax free	Tax deductible
Objective	To boost that particular section in which tax is exempted.	To promote savings and investments of the general public.
Sections	Section 10 deals with exemptions	Section 80 C to 80 U deals with deduction

3.3 Fully exempted incomes (section -10)

Section 10 of the Income Tax Act lists most tax-exempted income, which includes a list of income considered free from taxation.

1. Section 10(1)-Agricultural Income

- The amount of income, rent or revenue derived from land situated in India, which is used for agricultural purposes, income derived from the process of agriculture & income from agriculture property.
This implies that individuals who generate income from agricultural activities are exempt from paying taxes.

2. Section 10(2) & (2A)- Certain income of HUF, Partners, Company

- Section 10(2) The Income Tax Act, 1961, the sum received by a member from a Hindu Undivided Family (HUF) out of the family income or out of the income of the impartible estate is exempt from income tax.
- Section 10(2A) ensures that the share of profits a partner receives from a partnership is exempt from tax in the partner's hands, but any salary, remuneration, or interest received by the partner is subject to tax.

3. Section 10(4) & 10(4B) interest income to non-residents

Section 10(4) of the Income Tax Act, 1961 (India) provides a tax exemption for certain interest income received by non-residents.

Section 10(4)(i) This subsection states that in the case of a non-resident, any income by way of interest on certain specified securities or bonds is exempt from tax.

Section 10(4)(ii) This subsection provides an exemption for interest earned on non-resident (External) NRE bank accounts.

4. Section 10(5) Leave travel Concession

Salaried employees can claim tax relief on travel expenses for domestic trips within India thanks to the Indian Income Tax Act's Section 10(5), which gives

tax exemption for Leave Travel Concession (LTC) or Leave Travel Allowance (LTA). The exemption is valid for two trips within a four-year period and solely covers the expense of air, rail, or public transportation. The shortest path to the destination determines the actual exemption amount.

5. Section 10(7) Perquisites/allowances exemption to Govt employees serving outside India

Perquisites and allowances provided to government personnel serving outside of India are free from income tax under Section 10(7) of the Indian Income Tax Act. Housing, cost-of-living adjustments, and other government-provided benefits for abroad postings are covered by this exemption. Employees of autonomous authorities or businesses in the private sector are exempt.

6. Section 10(8A) & (8B) of Income Tax Act

Sections 10(8A) and 10(8B) of the Income Tax Act, 1961 offer tax exemptions for income earned by individuals working under international and cooperative programs. Section 10(8A) exempts income received by consultants working on technical assistance programs or employees of consultants or contractors assigned to projects covered by international agreements between India and foreign governments or organizations. These exemptions aim to facilitate international cooperation and technical assistance in India.

7. Section 10(10A) Exemption towards commuted value of pension Section

If a government employee (Central or State government employee, or an employee of a statutory corporation or local authority) receives a commuted pension, the entire amount is fully exempt from tax.

Section 10(10AA) of the Income Tax Act, 1961 in India allows tax exemption on leave encashment received by an employee at retirement or superannuation. This exemption applies to government employees and non-government employees, with the maximum exemption limit being ₹3,00,000.

8. Section 10(10BC) Exemption towards compensation received on account of any disaster

Section 10(10BC) of the Income Tax Act, 1961 allows tax exemption on compensation received from the government or an authorized agency for disaster-related damages or losses. The exemption applies to individuals or their families, and requires the compensation to be received directly from the government or a government-approved agency, specifically for relief or rehabilitation in response to a disaster. It does not cover insurance claims and requires tax filing under "Exempt Income" to ensure compliance and transparency.

9. Section 10(10C) Exemption of amount received on voluntary retirement

Employees' voluntary retirement or separation benefits are exempt from taxes under Section 10(10C) of the Income Tax Act of 1961. The maximum amount exempted is ₹5,00,000. Age 40 or older, at least 10 years of employment, and participation in a voluntary retirement plan are requirements for eligibility. It is a one-time exception that cannot be used again. The plan must reduce the workforce and forbid reemployment within the same business or organization.

**10. Exemption towards tax paid by employer on non-monetary perquisites:
Section 10(10CC)**

This exemption applies to non-monetary benefits like housing, car, and club memberships. Employers pay tax on these non-monetary perquisites, which do not contribute to the employee's total taxable income, reducing their tax liability. Employers can claim this tax amount as a deductible expense. This provision is beneficial for salaried employees receiving significant non-monetary benefits.

11. Section 10(10D) Exemption towards amount received under a Life Insurance Policy

Section 10(10D) of the Indian Income Tax Act, 1961 allows life insurance policies to be exempt from income tax, including bonuses. The exemption applies to any amount received, including maturity benefits, death benefits, or bonuses. Premium limits apply, with the maximum being 10% of the sum assured for policies issued after April 1, 2012. For policies issued between April 1, 2003, and March 31, 2012, the premium should not exceed 20%. For policies issued after April 1, 2013, the premium should not exceed 15% of the sum assured. Tax Deducted at Source (TDS) applies if the policy is not exempt.

12. Section 10(11) Exemption for amount received from Statutory & Recognized PF

Section 10(11) of the Indian Income Tax Act allows tax exemptions for amounts received from Statutory and Recognized Provident Funds. The Statutory Provident Fund (SPF) is typically applicable to government employees, and any amount received, including interest, is tax-exempt. Recognized Provident Funds (RPF) are often applicable to private sector employees, and amounts received at retirement or termination of service are also tax-exempt under certain conditions. Public Provident Funds (PPF) are also tax-exempt.

13. Section 10(13) Exemption for payment from approved superannuation fund

Section 10(13) of the Income Tax Act, 1961 allows tax exemption for payments received from an approved superannuation fund in India. The exemption covers death, retirement or termination, illness or disability, and must be approved by the Commissioner of Income Tax. Partial exemptions may be available in cases other than death, retirement, illness, or disability. The provision aims to provide tax relief on superannuation benefits, recognizing them as long-term savings for retirement or unfortunate circumstances.

14. Section 10(14) Income Tax Exemption on prescribed allowances/ benefits
Any other special type of allowances or benefits required by the employee for performing the duties of the job which are not included in section 17 and in respect of which the Central Government has declared exemption from tax.

15. Section 10(15) Exemption- Interest on certain securities

Section 10(15) of the Income Tax Act, 1961 offers tax exemptions on certain interest income earned on certain securities in India. This exemption is designed to encourage investment in government and specified financial

securities by providing tax benefits. Key points of the exemption include interest on government securities, bonds notified by the government, exemption for non-residents on foreign exchange deposits, interest on specific savings bonds, and interest income received by international financial institutions or foreign banks.

16. Section 10(16) Educational Scholarship

Section 10(16) of the Indian Income Tax Act provides tax exemption for educational scholarships. The exemption aims to help students afford higher studies by reducing the tax burden on scholarship income. Scholarships for full or partial support of education, including tuition fees, books, and accommodation, are exempt from tax. Students, both Indian residents and non-residents, can claim this exemption, provided they meet educational costs in India or abroad. The exemption is automatic and tax-friendly, promoting educational advancement without additional financial burden.

17. Section 10(17) Allowances for MPs/MLAs

Daily allowances and constituency allowances received by Members of Parliament (MPs) or Legislative Assemblies (MLAs) are exempt.

18. Section 10(17A) Award or Reward

In any award in the form of cash generated by Central or State Government for work of literature or scientific shall be exempted. Any award from any other institution apart from the government shall be exempted from tax, provided such exemption is approved by the central government.

19. Section 10(18) Pension to an individual awarded by ‘Vir Chakra’

In any award in the form of pension received by an individual or family who had been a central or state government employees and was awarded ‘Param Veer Chakra, Vir Chakra, Mahavir Chakara, shall be exempted.

20. Section 10(19) Family Pension to family members of armed forces

The widow or children or nominated pension of a member of the armed forces who died during operational duty shall be exempted.

21. Section 10(26) Incomes of scheduled tribes

In any income accrued to scheduled tribes living in tribal areas (as given in VI Schedule of constitution) of state of Manipur, Sikkim, Tripura, Mizoram, Nagaland and Arunachal Pradesh shall be exempted.

22. Section 10(30) Subsidy received from Tea Board

Any subsidy received from Tea Board to the assesses, carrying on the business of growing and manufacturing tea in India, shall be exempt from tax, provided the certificate of exemption has been presented to Income Tax officers.

23. Section 10(31) Subsidy received by planters

Any subsidy from Rubber Board office or spice board to the assessee, under any scheme for replantation of rubber plants or coffee plants etc. shall be exempt.

24. Section 10(33) Capital gain on transfer of units of US-64

Any capital gain on transfer of units US-64 shall be exempted provided such transfer is done on after 1/4/2002.

25. Section 10(34) Exemption for dividend income received from Indian Company

Section 10(34) of the Income Tax Act, 1961 allows an exemption for dividend income received from an Indian company, provided the dividend is in compliance with Section 115-O. This exemption was applicable until March 31, 2020, when the company was required to pay Dividend Distribution Tax (DDT) on distributed dividends. Post-April 1, 2020, DDT was abolished, and dividends are now taxable in the hands of shareholders at their applicable tax slab rates. Dividends from mutual funds are covered under Section 10(35), not Section 10(34).

26. Section 10(34A) Exemption towards income received by a shareholder on buy back of shares

Section 10(34A) of the Income Tax Act, 1961 allows a shareholder to receive tax exemption on income from a company's buyback of shares. This exemption applies only when the buyback is conducted by an Indian company liable to pay tax on distributed income. The tax liability for the distributed income is shifted to the company performing the buyback. The company is required to pay a 20% tax on the distributed income. However, this exemption is not applicable to listed companies whose shares are bought back. The exempt income does not form part of the shareholder's total income for the year.

27. Section 10(35) Exemption towards income received from units

Section 10(35) of the Income Tax Act, 1961 allows tax exemptions for income earned from specified units. Key entities include Mutual Funds, Administrators of Specified Undertakings, and Specified Companies. The exemption does not apply to income arising from unit transfers or dividend income from equity-oriented mutual funds declared on or after April 1, 2020. The exemption applies only to income other than gains from the sale or transfer of units.

28. Section 10(37) Exemption towards Capital Gain arising on Compulsory Acquisition of Agricultural Land situated within specified urban cities

Such exemption is available to an individual or Hindu undivided family, on short- or long-term capital gain, provided such compensation should be received on or after 1/4/2004 and land is used for agriculture preceding 2 years from compulsory acquisition.

29. Section 10(38) Long-Term Capital Gains (LTCG) from Equity Shares

LTCG from listed equity shares and equity mutual funds is exempt if subject to Securities Transaction Tax (STT).

30. Section 10(40) Grant or subsidy received from Indian companies engaged in energy sector for production, transmission or distribution of energy

31. Section 10(42) Any special type of income determined by the Central Government to any institution, body or its authorities, created or appointed by treaty

32. **Section 10(44)** Income accruing to NPS Trust under the Indian trusts act 1882.
33. **Section 10(46)** Certain specified types of income of any institution, body or its authorities approved by the Central Government which is not engaged commercial activity.

3.4 Partially exempted incomes

Partially exempted incomes refer to specific types of income where only a portion is subject to tax, while the remaining part is exempt. Tax laws in various countries often provide these exemptions to encourage specific activities, support certain sectors, or provide relief to individuals or organizations. The scope of partially exempt incomes may vary depending on the country's tax regulations.

Here are common examples of partially exempt incomes:

1. **Gratuity:** Gratuity received by non-government employees is tax free up to a maximum of Rs. 20,00,000.
2. **House rent Allowances:** The house rent actually received or the actual rent paid after deducting 10% of the salary or 40% of the salary (50% of the salary if the rented house is in Mumbai, Chennai, Kolkata or Delhi) whichever is lower will be treated as tax free.
3. **Income from LIC:** If the premium payable for any year during the tenure of the policy is more than 10%, 15% or 20% of the actual capital amount, tax exemption is available subject to certain conditions.
4. **Special allowances or benefits:** The amount of compensation received by a workman under any law covered under the Industrial Strike Act, 1947 shall be exempt from tax subject to a limit of Rs. 5,00,000.
5. **Entertainment allowances:** It is an allowance firstly included under the head salary then deduct from total income. In case of non-government employees it is fully taxable in case govt employees least of the following is exempt from tax
1. 5,000 2. 20% of basic salary; or 3. Amount of entertainment allowance granted during the previous year.
6. **Children's Education Allowance and Hostel Expenditure Allowance:** Partially taxable components aimed at supporting educational expenses for employees' children, subject to predefined limits and conditions.
7. **Special Economic Zones (SEZs) and Tax Incentives:** Businesses operating in SEZs or under special tax incentive schemes may receive partial exemptions on their incomes to encourage investment and economic activity.
8. **Royalty Income:** Royalty income from intellectual property, books, or patents may receive partial exemptions to encourage innovation.
9. **Income from Export Activities:** Some governments encourage exports by partially exempting income generated from export businesses.

❖ **Exercise**

➤ **Answer the following questions:**

1. What is exempted incomes?
2. What are the incomes which are exempted from tax?
3. State any four fully exempted incomes.
4. Give five examples of partially tax-exempt incomes.
5. Explain agricultural income as fully tax-free income.

➤ **Multiple choice questions:**

1. Foreign allowance is a _____
 - a. **Fully exempted Allowance**
 - b. Fully Taxable Allowance
 - c. partly Exempted Allowance
 - d. None of these
2. State which of the following income are exempted?
 - a. Dearness Allowances
 - b. City Compensatory Allowances
 - c. **Foreign Allowances**
 - d. Medical Allowances
3. Exemptions for newly established industrial undertaking in free trade zone is mentioned in which section?
 - a. **Section 10(A)**
 - b. Section 10(AA)
 - c. Section 10(B)
 - d. Section 10(BA)
4. The award and rewards are exempted from income tax if.
 - a. Payment is in cash
 - b. Payment is in kind
 - c. **Payment is in cash or in kind**
 - d. None of the above
5. _____ is exempted from income tax.
 - a. Interest from Indian company
 - b. Dividend from foreign company
 - c. Cooperative dividend
 - d. **Dividend from Indian company**
6. Which section of the income tax Act exempted incomes have been mentioned?
 - a. Section 80c
 - b. Section 80dd
 - c. **Section 10**
 - d. Section 2
7. HRA is _____
 - a. Fully taxable
 - b. **Partly taxable**
 - c. Fully exempted
 - d. None of these

8. Education Allowances is exempted for _____
- a. One person
 - b. Four persons
 - c. **Two persons**
 - d. None of these
9. Children hostel allowance is exempt up to per month per child for two children.
- a. Rs. 100
 - b. Rs. 200
 - c. Rs. 250
 - d. **Rs. 300**
10. Gratuity received by a government employee is _____
- a. **Fully exempted**
 - b. Partly exempted
 - c. Fully taxable
 - d. Exempted up to Rs. 1,00,000

4.1 Introduction**4.2 classification of Assessee****4.2.1. Resident but not ordinarily resident****4.2.2. Resident and Ordinarily Resident****4.2.3. Non-Resident****4.2.4. Residential Status of Hindu Undivided Family****4.2.5. A Resident status of firm and Association of Persons****4.2.6. Residential Status of Company****4.3. Tax Liability or Tax Incidence of an Assessee****❖ Exercises**

4.1 Introduction

Residential status under the Indian Income Tax Act refers to the status of an individual who is either a resident or a non-resident based on his or her physical presence in India during a financial year. An individual's residential status is important as it determines the taxability of his or her income in India.

The concept of residential status is an important aspect of the Indian Income Tax Act. It determines the taxability of an individual's income in India. Residential status refers to the status of an individual who is either a resident or a non-resident based on his or her physical presence in India during a financial year.

It is essential to determine the residential status of an individual for tax purposes, as it affects the income tax liability and compliance requirements under the Income Tax Act. This blog post will provide an overview of the criteria used to determine residential status, the categories of residential status, and their tax implications.

4.2 classification of Assessee

- Resident And Ordinarily Resident
- Resident But Not Ordinarily Resident
- Non-Resident

RESIDENT

- **BASIC CONDITIONS:**

A) IF THE INDIVIDUAL HAS STAYED IN INDIA DURING THE PREVIOUS YEAR, FOR A MINIMUM PERIOD OF 182 DAYS OR MORE

OR

B) IF THE INDIVIDUAL HAS STAYED IN INDIA FOR A TOTAL PERIOD OF 60 DAYS OR MORE DURING THE RELEVANT PREVIOUS YEAR

AND

FOR 365 DAYS OR MORE DURING 4 PRECEDING PREVIOUS YEARS IMMEDIATELY PRECEDING TO THE RELEVANT PREVIOUS YEAR.

4.2.1. Resident but not ordinarily resident (Sec. 6 (1))

Under Section 6 (1) An individual is said to be resident in India in any previous year, if he satisfies one of the following basic conditions (Which are applicable from the assessment year 1983-84).

- a) He is in Indian in the previous year for a period of 182 days or more or
- b) He is an India for a period of 60 days or more during the previous year and 365 days or more during the 4 years preceding the previous year.

The afore said rule of residence is subject to the following exceptions: -

- i) Where an individual, who is citizen of India, Leaves India, in any year for the purpose of employment, he is not treated as resident in India in that; a year unless he has been in India in that year for 182 days or more.
- ii) An Indian citizen, who is abroad (Whether rendering service outside or not) comes on a visit to India in the previous year, the period of "60 days" referred to in (b) above, is extended to 90 days. To put it differently, an Indian citizen (Whether in service or self-employed) visiting India is able to stay in India for 89 days without losing his "non-resident" status. (Sec. 6 (1))

RESIDENT BUT NOT ORDINARILY RESIDENT

- FAILURE TO SATISFY EVEN ONE OR BOTH THE ADDITIONAL CONDITIONS WILL MAKE HIM A RESIDENT BUT NOT AN ORDINARILY RESIDENT.



4.2.2. Resident and Ordinarily Resident

Under Section 6 (1) an individual is said to be resident in India in any previous year, if he satisfies any one of the following basic conditions (which are applicable from the assessment year 1983-84)

- a) He is in India in the previous year for a period of 182 days or more or
- b) He is in India for a period of 69 days or more during the previous year and 365 days or more during the 4 years preceding the previous year,

RESIDENT AND ORDINARILY RESIDENT

1 HE MUST BE A RESIDENT IN INDIA IN AT LEAST 2 YEARS OUT OF 10 YEARS PRECEDING TO THE RELEVANT PREVIOUS YEAR

AND

2 HIS TOTAL STAY IN INDIA MUST BE OF 730 DAYS OR MORE DURING 7 YEARS IMMEDIATELY PRECEDING TO THE RELEVANT PREVIOUS YEAR.



The aforesaid rule of residence is subject to following exceptions.

- i) Where an individual, who is citizen of India, leaves India in any year for the purpose of complement, he is not treated as resident in India in that year unless he has been in India in that year for 182 days or more.
- ii) An Indian citizen who is abroad (whether rendering service outside or not) comes on a visit to India in the previous year, the period of "60 days" referred to in (b) above is extended to 90 days. To put it, differently, an Indian citizen (whether in service or self-employed) visiting India is able to stay in India for 89 days without his "non-resident" status under section 6 (6), a resident individual is treated as "resident and ordinarily resident" in India if he satisfies the following two additional conditions:
 - a) He has been resident in India in at least 2 out of 10 previous years (according to basic condition noted above) preceding the relevant previous year, and
 - b) He has been in India for a period of 730 days or more during 7 years preceding the relevant previous year.

In brief it can be said that an individual becomes resident and ordinarily resident in India if he satisfies at least one of the basic conditions (i.e. (a) or (b) and the two additional conditions (i.e. (i) and (ii))

4.2.3. Non-Resident: -

An individual is nonresident in India if he satisfies none of the basic conditions i.e., none of the following conditions.

- a) He should be in India in the previous year for a period of more than 182 days, and
- b) He should be in India for a period of more than 60 days and 365 days or more during the 4 years preceding the previous year.

NON-RESIDENT

- AN INDIVIDUAL WHO DOES NOT SATISFY EVEN ONE OF THE BASIC CONDITIONS PRESCRIBED FOR RESIDENT IS TREATED AS A NON RESIDENT.

NOT SATISFYING BASIC CONDITION

4.2.4. Residential Status of Hindu Undivided Family (Sec. (1)):-

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

A H.U.F. is nonresident in India if control and management of its affairs is wholly situated outside India. H.U.F. is ordinarily resident in India if 'Karta' of the family is Resident and Ordinarily resident.

4.2.5. A Resident status of firm and Association of Persons) Sec. 6(4)) :-

A Partnership firm and an association of persons are said to be resident in India if control and management of their affair are wholly or partly situated within India during the relevant previous year. They are, however, treated as nonresident in India if control and management of their affairs are situated wholly outside India.

4.2.6. Residential Status of Company (Sec. 6 (3)) :-

The company satisfying any one of the following 2 conditions is treated as resident.

- a) If it is an Indian Company, or
- b) Control and management of its affairs is wholly situated in India.

The Foreign company, control and management of whose affairs is only partly situated in India, is a non-resident company. The company which is resident, automatically becomes and is treated as ordinarily resident.

Illustration -1 During the previous year 2023-24, X, a foreign citizen, stayed in India for just 69 days. Determine his residential status for the assessment year 2024-2025 on the basis of the following information:

- (i) During 2021-22, X was present in India for 366 days.
- (ii) During 2017-18 and 2016-17, X was in Japan for 359 and 348 days respectively and for the balance period in India.
- (iii) MRs. X is resident in India for the assessment year 2024-25.

Answer: To determine whether he is resident or not, He is resident for previous year 2023-24 as he satisfies the second condition as he was here during the previous year for 69 days and in the preceding 4 years for 366 days.

To determine whether he is ordinarily resident or not, He should satisfy both of the additional conditions.

2022-23	Nil Non-resident
2021-22	Nil Non-resident
2020-21	366 days Resident

2019-20	Nil Non-resident
2018-19	Nil Non-resident
2017-18	7 days Non-resident
2016-17	17 days Non-resident

Non-resident and earlier years, Nil

Non-resident, He was in India for less than 730 days in the 7 preceding previous yearRs. He is also non-resident in 9 out of 10 previous years preceding the previous year.

Hence, he is **resident but not ordinarily resident**.

Illustration - 2: R was born in Lahore in 1979. He has been staying in America since 1995. He came to visit India on 2.10.2023 and returns on 31.3.2024. Determine his residential status for the assessment year 2024-25.

Solution. Non-resident as he neither satisfy the first conditions of 182 days nor the 2nd conditions as although he was in India during the previous year for 181 days (i.e. more than 60 days), but he was not in India for at least 365 days in the 4 preceding previous year.

Illustration - 3: Shane Warne, an Australian cricket player, has been coming to India since 1995-96 every year to play cricket and has been staying here for about 4 months. What will be his residential status for the assessment year 2024-25.

Solution: Resident in India, as he is in India for more than sixty days in the previous year and was in India for more than 365 days in the 4 preceding previous yearRs. Further, he satisfies both the conditions of category B. He was resident in at least 2 out of 10 previous years prior to relevant previous year and was in India for 730 days or more in the 7 preceding previous yearRs. Hence, he is “resident and ordinarily resident in India”

Illustration – 4: Sam came to India first time during the P.Y. 2023-24. During the previous year, he stayed in India for (i) 50 days; (ii) 183 days; & (iii) 153 days.

Determine his residential status for the A.Y. 2024-25

Solution:

- (i) Since Sam resides in India only for 50 days during the P.Y. 2023-24, he does not satisfy any of the conditions specified in sec. 6 (1). He is, therefore, a non-resident in India for the P.Y. 2023-24.
- (ii) Since Sam resides in India for 183 days during the previous year 2023-24, he satisfies one of the conditions specified in sec. 6(1). He is, therefore, a resident in India for the P.Y. 2023-24.
- (iii) Sam resides in India only for 153 days during the previous year 2023-24. Though he resided for more than 60 days during the previous year but in 4

years immediately preceding the previous year (as he came India first time), he did not reside in India. Hence, he does not satisfy any of the conditions specified in sec. 6(1). Thus, he is a non-resident for the P.Y. 2023-24

4.3. Tax Liability or Tax Incidence of an Assessee:

The following chart highlights the provisions of tax incidence in brief, Whether tax incidence arises?

	Resident or resident and ordinarily resident.	Resident but not ordinarily resident.	Non-resident
Income received in India whether accrued in India or outside India.	Yes	Yes	Yes
Income deemed to be received in India Whether accrued in India or outside India	Yes	Yes	Yes
Income accruing or arising in India Whether received in India or outside India.	Yes	Yes	Yes
Income deemed to accrue or arise in India. Whether received in India or outside India.	Yes	Yes	Yes
Income received & accrued outside India from a business controlled in or a profession set up in India.	Yes	Yes	No
Income received and accrued outside India from a business controlled from outside India or a profession set up outside India.	Yes	No	No

It should be remembered that the first incomes are chargeable to tax in India in respect of all assesses irrespective of their residential status. The aforesaid table also highlights that tax incidences is the highest in the case of a resident or resident and ordinarily resident assessee, as income accruing in any part of the world attracts incidence of tax in India, on the other hand, tax incidence is the lowest in the case of non-resident, as income which is accrued or received or deemed to accrue or deemed to be received in India is liable to tax.

❖ **Exercises:**

1. Answer the following questions:

1. Write down the classification of residential status of an individual.
2. Write down the conditions to become a Resident as per Income Tax Act, 1961
3. When can an individual becomes non-resident? Explain.
4. When can an individual becomes an ordinarily resident? Explain.
5. When can incidence to tax be raised if an individual is an ordinarily resident?

Q -1: Shri Gajanan is an Indian citizen. He went to the USA for taking employment on 15th April, 2023 and returned to India on 2nd November, 2023. Determine the residential status of shri Gajanan for the assessment year 2024-25.

Q- 2: Ms. Damyanti “foreign citizen” remained present in India only for the following period.

Previous year	no. of days present
2020-21	65
2021-22	200
2022-23	100
2023-24	55

Find out her residential status for the assessment year 2024-25.

Q-3: Shri Ramesh is an Indian citizen. He went to the USA for taking employment on 15th April, 1999 and returned to India on 21st November, 2023 determine the residential status of shri Ramesh for the assessment year 2024-25.

Q- 4: Mr. raja a foreign citizen gives the following information.

Date of arrival	date of departure
20.04.2020	1.07.2020
1.01.2021	30.09.2023

Determine his residential status for the assessment year 2024-25

Q – 5: Mr. Nayak stayed in India for the period mentioned below after his first arrival
Determine his residential status for the assessment year 2024-25.

Accounting year	days of presence
2019-20	70 days
2020-21	130 days
2021-22	120 days
2022-23	100 days
2023-24	90 days

Q- 6 Mr. Kailash regularly going to England for company's work. He spent following days in England during last five years

Previous year	no. of days in England
31.03.2020	318 days
31.03.2021	150 days
31.03.2022	271 days
31.03.2023	310 days
31.03.2024	295 days

Prior to 1.05.2019 he never travelled abroad. Determine his residential status for the assessment year 2024-25.

Q- 7: Determine the residential status of shri Ramesh for previous year 2023-24 from the following details.

Date of arrival in India	date of departure from India
21.05.2020	02.08.2020
01.01.2021	30.10.2023
10.12.2023	05.06.2024

Sums related to Incidence to tax

Q- 8: Mr. Amarnath from Himalaya furnishes the following particulars of his income earned

During the financial year 2023-24

1. Income from agricultural income in Bangladesh Rs.420000
2. Profits from business in Agra and managed from Philippines

(50% of the profit is received outside India Rs.450000

3. Income from salary received in Nalasopara– Thane-Maharashtra Rs. 80000

4. Income from business in Taiwan, controlled from Limbdi Rs.360000

5. Profit on sale of house in Visnagar but received in Netherlands Rs.590000

Find out the total gross income for the assessment year 2024-25

- If he is resident & ordinarily resident in India
- If he is resident but not ordinarily resident in India
- If he is non-resident

Q-9: Mr. Amar from Hyderabad furnishes the following particulars of his income earned

During the financial year 2023-24

1. Salary of Rs.960000
2. Interest on debentures of Rs.48000
3. Income received during previous year in Bangladesh brought to India in the same year Rs. 800000
4. Income from business in Burma, business controlled and managed in India Rs.900000
5. Income from agriculture in Burma, received there but later on remitted to India Rs.320000
6. Interest on FD with Indian company but received outside India Rs.32000

Find out the total gross income for the assessment year 2024-25

- If he is resident & ordinarily resident in India
- If he is resident but not ordinarily resident in India
- If he is non-resident

Q-10: Mr. Anant from Mumbai furnishes the following particulars of his income earned
During the financial year 2023-24

1. Profit on sale of a house property in India but received in Japan Rs.250000
2. Interest on UK development bonds (one sixth is received in India) Rs.27000
3. Interest from property in UK received in India Rs.230000
4. Income earned from business in Japan which is controlled from Mumbai (Rs.775000 is received in India) Rs.1575000
5. Profits from a business in Mumbai and managed from outside India (50% of the profit is received outside India) Rs.50000

Find out the total gross income for the assessment year 2024-25

- If he is resident & ordinarily resident in India
- If he is resident but not ordinarily resident in India

- If he is non-resident

Q-11: Mr. Anand from methera furnishes the following particulars of his income earned

During the financial year 2023-24

1. Interest on bank fixed deposit Rs.120000 (out of which Rs.48000 is received from foreign banks)
2. Pension paid by former Indian employer in UK Rs.810000
3. Profit from business in New York (business is controlled from head office situated at Mumbai) Rs.1280000
4. Profits earned and received in earlier years at Singapore and brought back in India Rs.160000

Find out the total gross income for the assessment year 2024-25

- If he is resident & ordinarily resident in India
- If he is resident but not ordinarily resident in India
- If he is non-resident

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5.1 Introduction**5.2 Salary, perquisite and profits in lieu of salary (Section 17)****5.3 Annuity or Pension****5.4 Gratuity****5.5 Allowances****5.6 Perquisites****5.7 Provident Fund****❖ Exercise**

5.1 Introduction:

The provisions pertaining to Income under the head “Salaries” are contained in sections 15, 16 and 17.

Basis of charge (Section 15)

- Section 15 deals with the basis of charge. Salary is chargeable to tax either on ‘due’ basis or on ‘receipt’ basis, whichever is earlier.
- However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.
- If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

(1) Advance salary

Advance salary is taxable when it is received by the employee irrespective of the fact whether it is due or not. It may so happen that when advance salary is included and charged in a particular previous year, the rate of tax at which the employee is assessed may be higher than the normal rate of tax to which he would have been assessed.

(2) Arrears of salary

Normally speaking, salary arrears must be charged on due basis.

Points to consider:

- a) Salary income is chargeable to tax on “due basis” or “receipt basis” whichever is earlier.
- b) Existence of relationship of employer and employee is must between the payer and payee to tax the income under this head.
- c) Income from salary taxable during the year shall consists of following:
 - i. Salary due from employer (including former employer) to taxpayer during the previous year, whether paid or not;
 - ii. Salary paid by employer (including former employer) to taxpayer during the previous year before it became due;
 - iii. Arrear of salary paid by the employer (including former employer) to taxpayer during the previous year, if not charged to tax in any earlier year;

Exceptions - Remuneration, bonus or commission received by salary to partners from the firm is not taxable under the head Salaries rather it would be taxable under the head business or profession.

5.2 Salary, perquisite and profits in lieu of salary (Section 17)

Meaning

The meaning of the term ‘salary’ for purposes of income tax is much wider than what is normally understood. The term ‘salary’ for the purposes of Income-tax Act, 1961 will include both monetary payments (e.g. basic salary, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest free loans etc.).

Section 17(1) defined the term “Salary”. It is an inclusive definition and includes monetary as well as non-monetary items.

SALARY (Sec.17 (1) :

Salary includes:

1. Wages;
2. Annuity of pension;
3. Gratuity;
4. any fees, commission, perquisites, profit in lieu of salary or in addition to any salary or wages;
5. any advance of salary;
6. any payment received by an employee in respect of any period of leave not availed of by him;
7. Employer’s contribution towards recognized provident fund in excess of 12% of the employee’s salary and interest on provident fund in excess of 9.5% rate.
8. The aggregate of all sums comprised in the transferred balance to the extent to which it is chargeable to tax under sub-rule (4) of Rule 11.
9. The contribution made by the Central Government or any other employer in the previous year, to account of an employee, under a pension scheme

5.3 Annuity or Pension

• Meaning of annuity

As per the definition, ‘annuity’ is treated as salary. Annuity is a sum payable in respect of a particular year. It is a yearly grant. If a person invests some money entitling him to series of equal annual sums, such annual sums are annuities in the hands of the investor.

Annuity received from a present employer is to be taxed as salary. It does not matter whether it is paid in pursuance of a contractual obligation or voluntarily.

Annuity received from a past employer is taxable as profit in lieu of salary.

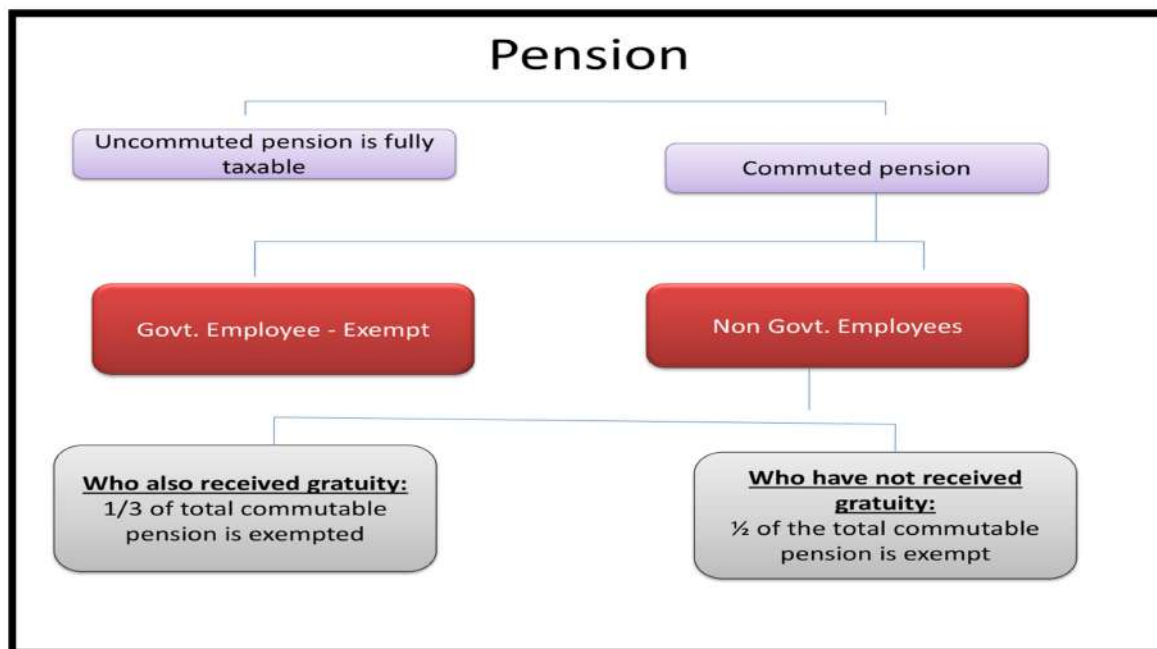
Annuity received from person other than an employer is taxable as “Income from other sources”

• Pension

Pension is of two types: commuted and uncommuted.

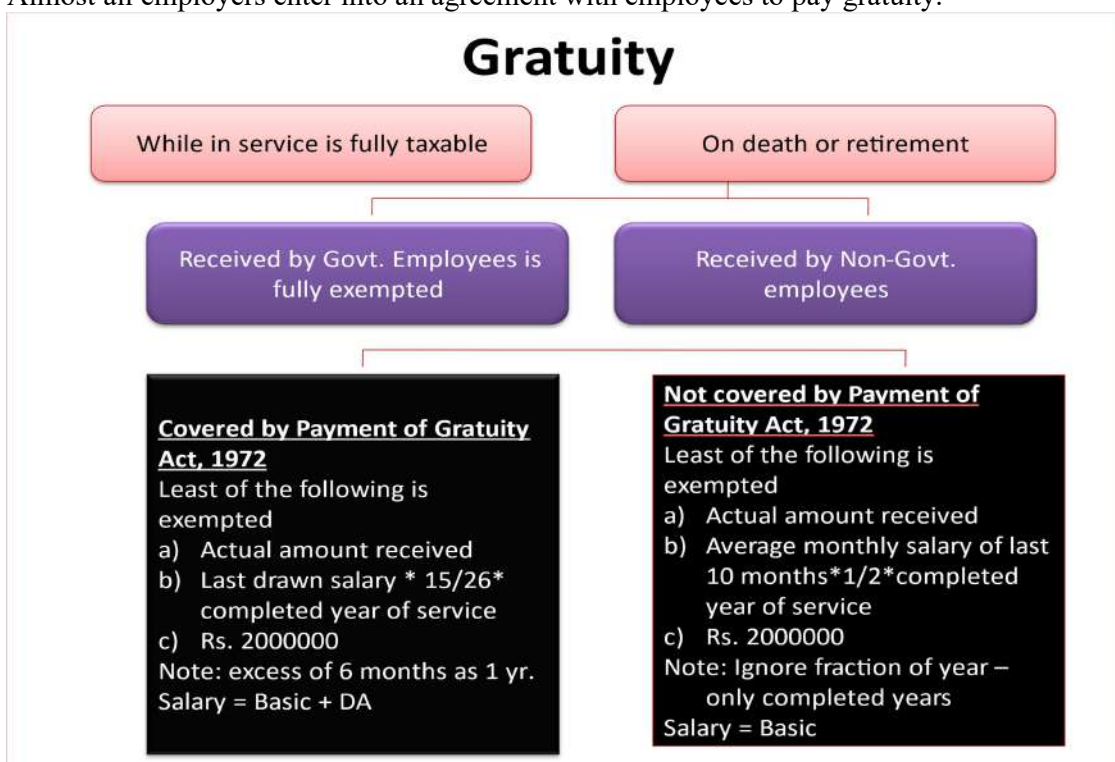
- **Uncommuted Pension:** Uncommuted pension refers to pension received periodically. It is fully taxable in the hands of both government and non-government employees.
- **Commuted Pension:** Commutation means inter-change. Commuted pension means lump sum amount taken by commuting the whole or part of the pension. Many persons convert their future right to receive pension into a lumpsum amount receivable immediately.
- **Exemption in respect of Commuted Pension**

- (a) Employees of the Central Government/local authorities/Statutory Corporation/ members of the Defense Services: Any commuted pension received is fully exempt from tax.
- (b) Non-Government Employee: Any commuted pension received is exempt from tax in the following manner:



5.4 Gratuity:

Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee. Now-a-days, gratuity has become a normal payment applicable to all employees. In fact, the Payment of Gratuity Act, 1972 is a statutory recognition of the concept of gratuity. Almost all employers enter into an agreement with employees to pay gratuity.



5.5 Allowances

Fully Taxable	Partly Taxable	Fully Exempt
(i) Entertainment Allowance (ii) Dearness Allowance (iii) Overtime Allowance (iv) Fixed Medical Allowance (v) City Compensatory Allowance (to meet increased cost of living in cities) (vi) Interim Allowance (vii) Servant Allowance (viii) Project Allowance (ix) Tiffin/Lunch/Dinner Allowance (x) Any other cash allowance (xi) Warden Allowance (xii) Non-practicing Allowance	(i) House Rent Allowance [u/s 10(13A)] (ii) Special Allowances [u/s 10(14)]	(i) Allowance granted to Government employees outside India. (ii) Allowance granted to High Court Judges (iii) Sumptuary allowance granted to High Court or Supreme Court Judges (iv) Allowance paid by the United Nations Organization (v) Compensatory Allowance received by a judge

• House Rent Allowances:

The house rent allowance is paid by an employer to his employee to enable him to meet the expenditure actually incurred on payment of rent in respect of residential accommodation occupied by him. It is exempted from income-tax to a certain extent as explained below:

Exemption: According to Sec. 10 (13A) and Rule 2 (A), the least of the following three sums is exempted from income-tax :

- The actual amount received by an employee as house rent allowance (in respect of the period during which he occupied the rented accommodation).
- Excess of amount actually paid as rent over 10% of the salary.
- An amount equal to 40% of salary and in case the residential house is situated in Mumbai, Kolkata, Delhi or Chennai, then an amount equal to 50% of the salary.

Notes: (1) 'Salary' for this purpose means basic salary only. But if dearness allowance is included in salary for retirement benefits, then D. A. will be included in the salary for this purpose.

Exempted Amount of HRA

The least of the following three sums is exempted:

- The actual H.R.A. received.
- Actual rent paid 10% of 'salary'
- 40% of 'Salary' (or 50% in case of 4 metropolitan cities).

Taxable Allowance = Total Amount received - Exempted Amount

Entertainment Allowance [Section 16(ii)] : (i) For government employees, the entertainment allowance is exempted from tax to the following extent :

- (i) Rs. 5,000 or
- (ii) 1/5 of basic salary, or
- (iii) Actual amount received, whichever is the least.

Here, 'salary' does not include any allowance, benefit or other perquisite

- **Special Allowances:**

Exemption under Certain Situations:

Details of special allowances are given in Sec. 10(14) of the Income-Tax Act and Rule No. 2BB of Income-Tax Rules. The following allowances are exempted to the extent the amount is utilised for the special purpose for which the allowance is received. Any portion of allowance not incurred for **the special purpose (i.e. saving) is considered taxable.**

- (a) **Travelling Allowance / Transfer Allowance:** It should have been provided by the employer, and expended by the employee to meet the cost of official tour or transfer expenses. Cost of Travel or Transfer includes payments for transfer, packing and transportation of personal effects. Any saving is taxable.
- (b) **Daily Allowance:** It should have been expended by the employee for meeting the daily charges incurred on a tour.
- (c) **Conveyance Allowance:** It should have been used by the employee to meet the expenditure on conveyance in performance of official duties. Any saving is taxable.
- (d) **Helper Allowance:** It should have been used by an employee to meet the expenditure on a helper, who assists him in the performance of official duties.
- (e) **Academic Allowance / Research Allowance:** It should have been used by the employee for his academic purpose.
- (f) **Uniform Allowance:** It should have been spent by the employee for purchasing/maintaining Office Uniform for official duties.

- **When exemption is subject to certain limit (U/s 10 (14):**

- (a) **Children Education Allowance:** This allowance is exempted from tax to the extent of Rs. 100 per month per child upto a maximum of two children (actual expenditure is to be ignored).
- (b) **Hostel Expenditure Allowance:** Rs. 300 per month per child upto a maximum of two children, if it is granted to meet the hostel expenditure of his child (actual expenditure is to be ignored).
- (c) **Tribal Area & Scheduled Area Allowance:** An exemption of Rs. 200 p.m. is allowed to the employees receiving this allowance for rendering services in the tribal areas of Madhya Pradesh, Tamilnadu, Uttar Pradesh, Karnataka, Tripura, Assam, West Bengal, Bihar and Orissa.
- (d) In addition to these allowances, separate rules for exemption of (d) certain allowances given to the employees performing duties at certain inconvenient places are also framed by the government, e.g. Any **Special Compensatory Allowance in the nature of High-Altitude Allowance** (exempted up to Rs. 1,060 to Rs.1,600 p.m. depending on the place), Uncongenial or Bad Climate Allowance etc. Mining/ Under-ground Allowance is exempted upto Rs. 800p.m. Counter Insurgency Allowance is exempted upto Rs. 3,900 p.m.
- (e) **Transport Allowance** (only for blind, deaf and dumb or physically handicapped employees): Allowance given to an employee (who is blind or deaf and dumb or orthopaedically handicapped) to meet transport expenses for the purpose of

commuting between his residence and the place of service is exempted @ Rs. 3,200 p.m. Actual expenses are to be ignored.

For all other employees, w.e.f. the assessment year 2024-'25, no part of transport allowance is considered exempt.

- (f) **Running Allowance** given to employees serving in transport undertakings to meet their personal expenditure. (during the course of performing their duties) is exempted to the extent of –

70% of such allowance, or

Rs. 10,000 p.m. whichever is less.

Foreign Allowance: This is an allowance generally paid by the government to an Indian citizen 'serving in a foreign country either in Embassies or in other government establishments. It is wholly exempted from income-tax. However, foreign allowance granted to Indian citizens by non-government agencies is fully taxable.

Allowances to foreign technicians: Allowances received by non-resident foreign technician are fully taxable. Their salary is also taxable.

Allowances to other foreign citizens: Allowances received by foreign citizens as diplomatic personnel, consular personnel, trade commissioners, staff of foreign mission are fully exempted from tax. Their salary is also exempted from tax.

Allowances of High Court and Supreme Court Judges:

- (a) Allowances under the High Court Judges (conditions of service) Act, 1954 are fully exempted.
- (b) Sumptuary allowance given to High Court judges and the Supreme Court judges is fully exempted.

ILLUSTRATION 1:

Mr. Santosh Paliwal is a Distribution Head employed by Abhaya Limited, Solapur. The details of his salary and other emoluments received during the previous year 2023-24 are as under:

- (i) Basic salary Rs. 4,20,000 per annum;
- (ii) Dearness allowance (treated as a part of salary for retirement benefits) Rs. 42,000 p.a.;
- (iii) Commission on sales Rs. 1,75,000;
- (iv) House rent allowance Rs. 60,000 p.a. (actual rent paid Rs. 8,000 p.m.),
- (v) Transport allowance Rs. 24,000 p.a.;
- (vi) Tour (Travel) allowance: Rs. 1,200 each for 5 trips (actual amount spent on each trip Rs. 1,000);
- (vii) Tour daily allowance: Rs. 250 per day for 60 days in the year (actual amount spent Rs. 9,600 in total);
- (viii) Uniform allowance Rs. 1,000 p.m. (for purchase and maintenance); actual amount spent for that purpose at an average rate of Rs. 750 p.m.;
- (ix) Research assistance allowance Rs. 600 p.m. (spent Rs. 9,000 during the year);
- (x) Children education allowance Rs. 9,000 (for 2 children);
- (xi) Entertainment allowance Rs. 12,000 p.a.

Computation of Income under the head of Salary

Previous Year: 2023-24]

Assessment Year: 2024-25

	Rs.	Rs.
(i) Basic Salary		4,20,000
(ii) Dearness Allowance		42,000
(iii) Commission (based on sales)		1,75,000
(iv) House-rent Allowance	60,000	
Less: Exempted 11.R.A.	32,300	27,700
(V) Transport Allowance (fully taxable)		24,000
(vi) Tour (Travel) Allowance (Rs. 1,200 x 5)	6,000	
Less: Exempted (to the extent spent: Rs. 1,000 x 5)	5,000	1,000
(vii) Tour daily allowance (Rs. 250 x 60)	15,000	
Less: Exempted (to the extent spent)	9,600	5,400
(viii) Uniform allowance (Rs. 1,000 x 12)	12,000	
Less: Exempted (to the extent spent: Rs. 750 x 12)	9,000	3,000
(ix) Research assistance allowance (Rs. 600 x 12)	7,200	
Less: Exempted (to the extent of amount spent)	7,200	....
(x) Children education allowance	9,000	
Less: Exempted (@) Rs. 100 p.m. per child for 2 children)	2,400	6,600
(xi) Entertainment allowance		12,000
Gross Salary		7,16,700
Less: Specific Deductions:		
(i) Standard deduction (as discussed later)	50,000	
(ii) Exempted 'Entertainment Allowance'	Nil	
(iii) Professional tax paid (if any)	Nil	50,000
Taxable Salary		6,66,700

5.6 Perquisites

Any additional benefit paid / allowed to a person because of his position of office, in addition to wages, is called 'perquisite' (popularly known as 'perks') "Perquisite means any casual emolument, fee or profit, attached to an office or position, in addition to salary or wages."

(A) PERQUISITES: EXEMPTED FROM TAX FOR ALL TYPES OF EMPLOYEES:

under executive instructions of the Central Board of Direct Taxes, the following benefits are completely tax free and are not included in the salary income of employees :

- (1) **Telephone / mobile** provided by an employer to an employee at his residence.
- (2) **Goods sold by an employer** to his employees at concessional rates.
- (3) **Transport facility provided** by an employer engaged in the business of carrying of passengers or goods to his employees.
- (4) **Recreational facilities**, including club facilities extended to employees in general, i.e. not restricted to a few selected employees.

- (5) **Amount spent** by the Employer on training of employees or amount paid for Refresher Management Course including expenses on Boarding and Lodging.
- (6) **Rent Free Official Residence** provided to a judge of a High Court or the Supreme Court.
- (7) **Medical facility or Medical reimbursement:**
 - (a) **Medical facility:** Free medical facilities provided to an employee or any member of his family in the hospitals (including dispensary, clinic and nursing home) owned/maintained by the employer is fully exempted.
 - (b) **Medical reimbursement:** Medical insurance premium paid by the employer is exempted. Similarly, reimbursement by the employer, of expenditure actually incurred by the employee in any hospital including dispensary, clinic and nursing home maintained by the Government or any local authority etc. or recognised by Deputy Chief Commissioner is also completely exempted.
- (8) **Interest free loan for Medical treatment** of the nature given in Rule 3A.
- (9) **Tea or snacks** provided during working hours.
- (10) **Free Meals provided during** working hours in a remote area or an off-shore installation.
- (11) **Sum payable by** an Employer to a Recognized Provident Fund or an Approved Superannuation Fund or Deposit - Linked Insurance Fund established under Coal Mines Provident Fund of the Employees Provident Fund (as per the prescribed limit of Rs .7.5 lakhs per year). Annual accretion to the employer's contribution Rs.7.5 lakhs is not taxable
- (12) **Employer's Contribution to** Staff Group Insurance Scheme.
- (13) **Perquisites allowed outside India** by Government to a Citizen of India for rendering service outside India.
- (14) **Leave Travel Concession** subject to Sec. 10(5).
- (15) **Travelling Facility to Employees** of Railways or Airlines.
- (16) **Payment of annual premium by employer** on Personal Accident Policy effected by him. (Note: Premium paid by employer towards the personal accident policy of employee is not taxable as Perquisite)
- (17) **Free Educational Facility** provided to children of employees, in an Institution owned / maintained by employer, provided free of cost / value does not exceed Rs. 1,000 per month per child Note: No limit on number of children). Any education facility to employee's, family members is not taxable if the employee is a 'non-specified' employee.
- (18) **Interest-Free / Concessional Loan** of an amount not exceeding Rs. 20,000.
- (19) **Computer/Laptop given** (not transferred) to an employee for official / personal use.
- (20) **Transfer without consideration** to an employee of a movable asset (other than Computer, Electronic Items or Car) by the employer, after using it for a period of 10 years or more.

(B) PERQUISITES TAXABLE FOR ALL TYPES OF EMPLOYEES:

Under Section 17 (2) following perquisites are taxable for all types of employees:

- (1) **The value of rent-free** accommodation provided to the assessee by his employer computed in such manner as may be prescribed [Sec. 17 (2) (i)].
- (2) **The value of any concession** in rent in respect of any accommodation provided to the assessee by his employer. [Sec. 17(2) (ii)].
- (3) **The value of any benefit or amenity** granted or provided free of cost or at concessional rate in any of the following cases –
 - (a) by a company to an employee who is a director thereof.
 - (b) by a company to an employee being a person who has a substantial interest in the company.

- (c) by any employer (including a company) to an employee to whom the provisions of paragraphs (a) and (b) of this sub-clause do not apply and whose income under the head 'Salaries' (whether due from, or paid or allowed by, one or more employers), exclusive of the value of all benefits or amenities not provided for by way of monetary payment, exceeds fifty thousand rupees [Section 17(2)(iii)]
- (4) **Any sum paid by** the employees in respect of any obligation
e.g payment of employee's income-tax, personal debt etc.]
- (5) **Any sum payable** by the employer, whether directly or through a fund (other than a recognised provident fund (i.e.. life insurance premium paid by the employer on behalf of the employer).
- (6) The value of any specified security or sweat equity shares allotted or Transferred, directly or indirectly by the employer (or former employer), free of cost or at concessional rate to the employee [Sec. 17(2)(vi)]
- (7) The amount or the aggregate of amount of any contribution made to the account of the assessee by the employer-
 - (a) in a recognised provident fund;
 - (b) in the scheme referred to in sub-section (1) of section 80CCD; and
 - (c) in an approved superannuation fund, to the extent it exceeds seven lakh and fifty thousand rupees in a previous year. [Section 17(2)(vii)]
- (8) The value of any other fringe benefit or amenity as may be prescribed [Sec. 17(2)(viii)].

PERQUISITES TAXABLE FOR SPECIFIED EMPLOYEES ONLY:

Certain perquisites are taxable in the hands of certain type of employ

Specified Employees

- (1) **Director Employee:** An employee of a company who is also a director (whether full-time or part time) in it.
- (2) **Voting Power:** An employee of a company who has a substantial interest in the company.
- (3) **Monetary Salary:** An employee whose monetary salary income is more than Rs. 50,000*

The following perquisites are taxable in the hands of specified employees only :

- (1) **Domestic Servants :** Provision by the employer of services of a sweeper, a watchman, a gardener or any other household servant is fully taxable in the hands of specified employees. [Rule 3(3)]

The taxable value shall be:

Actual cost to the employer

Less: Any amount contributed by the employee	.....
Taxable Value	.....

(2) Supply of gas, electricity or water for personal use:

- (a) Where such free facility for employee's household consumption is provided from resources owned by the employer (without purchasing from any outside agency), its valuation will be made at the **manufacturing cost per unit incurred by the employer.**
- (b) In any other case, amount paid on this account by the employer to any outside agency will be considered taxable in the hands of specified employees. The amount of value will be added to employee's salary as reduced by any token amount payable by the employee for such facilities. [Rule 3(4)]
- (3) **Free education:** Education facility provided to any household members of the employee without any charge or at a concessional rate is taxable for specified employees. [Rule 3(5)]

Valuation of Rent-free Accommodation [Rule 3(1):

For the purpose of valuation of rent-free accommodation, the employees are classified into two groups.

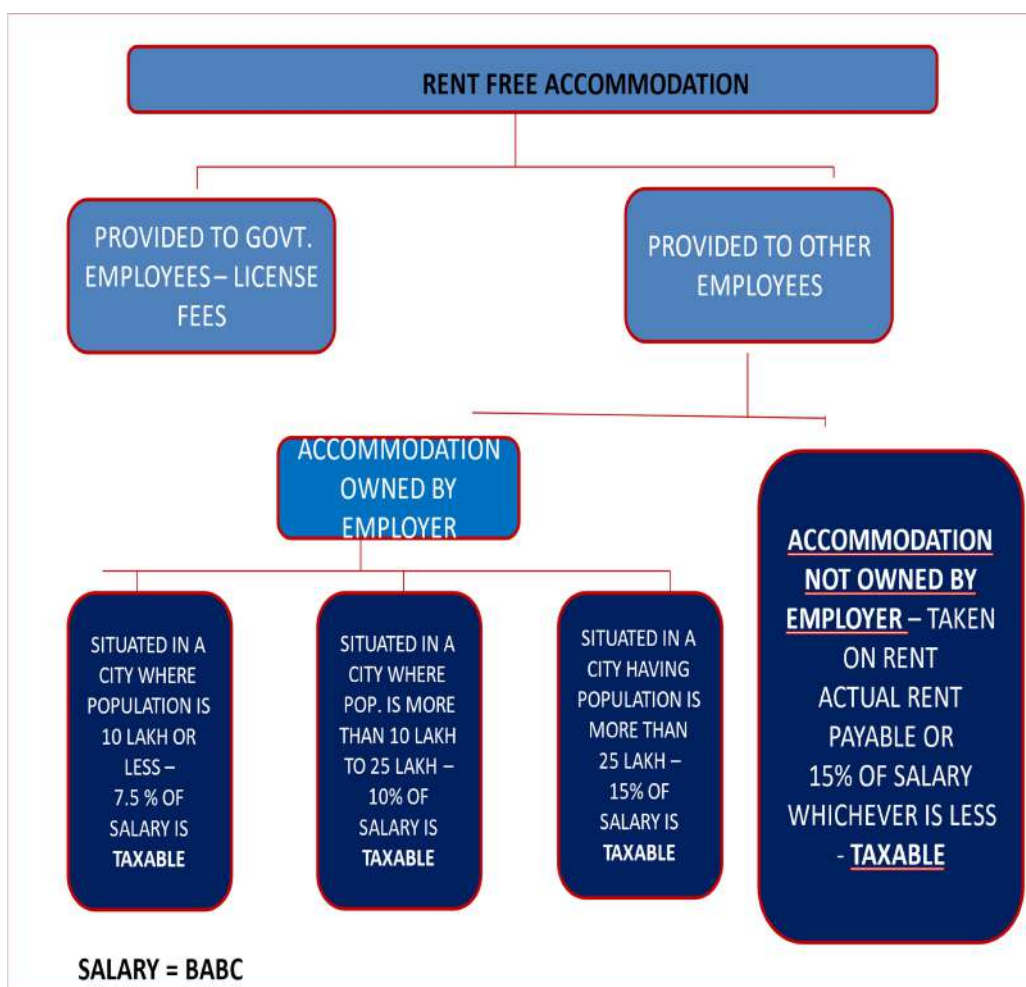
(A) Government employees, (B) Private sector employees or other employees.

(A) Government Employees: This group includes the Central and State Government.

Here, the term 'Salary' means BABC, where, B Basic salary, A = All Taxable Allowances, B Bonus, and C = Commission.

Meaning of 'Salary' for the purpose of valuation of rent-free accommodation

To be included in salary	Not to be included in salary
1. Basic salary 2. All taxable allowances 3. Dearness Allowance (if it is considered for calculation of retirement benefits) 4. Bonus, fees, commission etc. 5. Any other monetary payment (excluding lump-sum payments received at the time of termination of service)	1. Dearness allowance (if it is not considered a part of salary for calculation of retirement benefits) 2. Employer's contribution to P. F. 3. Exempted allowances 4. .Perquisites U/s 17 (2)



Population of city as per 2011 census where accommodation is provided	Where the accommodation is owned by the employer	Where accommodation is taken on lease or rent by the employer
Exceeding 40 lakhs	10 per cent of 'salary' in respect of the period during which the accommodation IS occupied by the employee	a. 10% of salary'. OR b. Lease rent (paid or payable) by employer, Whichever is less.
Exceeding 15 lakhs but not exceeding 40 lakhs	7.5 per cent of 'salary' in respect of period during which the accommodation is occupied by the employee	
Any other	5 per cent of 'salary' in respect of period during which the accommodation is occupied by the employee	

(a) Where the accommodation is unfurnished: Provisions applicable from September 1, 2023

(b) Where the accommodation is furnished:

Valuation of Furnished Accommodation:

- (1) Value Valuation of rent-free furnished accommodation will be made as follows: (1) First, find out the value of such accommodation, presuming that it is unfurnished.
- (2) Now, add 10% per annum of the original cost of furniture to the figure arrived at in (1) above, if the furniture is owned by the employer.
- (3) If the furniture is hired by the employer, then actual hire charges payable by the employer are to be added.

A Car or any other vehicle:

Valuation of the facility of Car: It is taxable in case of only those specified employees whose employers are not liable to fringe benefit tax.

Where the cubic capacity of engine	Maintenance and running expenses:	
	met or re-imbursed by employer	met by employee himself
does not exceed (1.6 litres) 1600 C.C.	Rs. 1,800 p.m. (+ Rs. 900 p.m. if chauffeur is also provided)	Rs. 600 p.m. (+ Rs. 900 p.m. if chauffeur is also provided)
exceeds (1.6 litres) 1600 C.C.	Rs. 2,400 p.m. (+ Rs. 900 if chauffeur is also provided)	Rs.900 p.m. (+ Rs. 900 if chauffeur is also provided)

Free food and beverage:

Valuation of free lunch / refreshment:

- (a) 'Food and non-alcoholic beverages' provided during working hours in remote area or in an off-shore installation is fully exempted.
- (b) 'Tea / Snacks' provided during working hours at any other place is fully exempted.

Taxable Value = Cost to the employer in excess of Rs. 50 per meal
less amount of any recovery from employee: (negative balance to be ignored). Working hours include extended office hours like overtime work on holidays.

DEDUCTIONS FROM SALARIES [Sec. 16]

While computing the taxable income under the head 'salary' the following deductions are allowed:

- (1) (Standard Deduction [Sec. 16 (i)])
- (2) Exempted Entertainment Allowance [Sec. 16 (ii)]
- (3) Tax on employment Professional Tax [Sec. 16 (iii)].

(1) Standard Deduction: [Section 16(i)]: A standard deduction of Rs. 50,000 or the amount of salary, whichever is lower is to be allowed from Gross Salary Income of an employee. The Finance Act, 2023 has allowed a significant relief to, tax payers by continuing this deduction under 'New Tax Regime', too.

(2) Entertainment Allowance (received by a government employee): We have already discussed the deductions allowed in respect of entertainment allowance from gross salary.

(3) Professional Tax [U/s 16 (iii)]: Under Article 276(2) any sum paid by an employee on account of tax on employment like profession tax levied by a State Government is allowable as deduction from salary. If the professional tax is paid by the employer on behalf of an employee, it is first included in the Gross Salary of the employee as a "perquisite" (obligatory payment) and then the same amount is allowed as deduction.

5.7 Provident Fund

Under this scheme, a fund is maintained by the employer for the benefit of the employees. Every month contribution at fixed percentage of salary is deducted from employee's salary and is credited to this fund. Similarly, the employer also contributes a fixed percentage of salary to this fund. Every year interest is credited to the fund. It goes on accumulated during the tenure of his employment. On retirement, the employee gets the total amount of the fund standing to his credit. This includes employee's contribution, employer's contribution and interest on both.

- (i) **Employee's Contribution:** The contribution of the employee is a part of his salary and tax is paid by the employee every year on the salary income. But a deduction is allowed from his total gross income under Sec. 80C in respect of his contribution. Remember that this is not deducted from salary income.
 - (ii) **Employer's Contribution:** The employer's contribution is as good as additional salary. But it is tax free either fully or to a certain extent, depending upon the type of provident fund.
 - (iii) **Annual Accretion (Interest):** Interest credited to the fund is also tax free either fully or to a certain extent, depending upon the type of fund.
- **There are four types of Provident Funds:**
 - (A) Statutory Provident Fund.
 - (B) Recognised Provident Fund.
 - (c) Unrecognised Provident Fund.
 - (D) Public Provident Fund.

The characteristics of these funds from the taxation point of view are as follows:

Provident Funds

No.	Particulars	Statutory Provident Fund	Recognised Provident Fund	Unrecognised Prov. Fund
(1)	Employee's own contribution (a type of saving)	Qualifies for deduction from total gross income U/s 80C	Contribution qualifies for deduction from total gross income U/s 80C	No amount qualifies for deduction
(2)	Employer's contribution (an additional	Fully exemption from income-tax and is not added to Salary	Exemption from income up to 12% of the salary. Moreover, employer's contribution in excess of Rs.7,50,000 per annum is taxable. The excess is added to the salary income.	Not included in the salary income (because it is fully taxable in the year when the fund is received).
(3)	Interest credited to the fund (an additional income)	Fully exemption from income tax and is not included in the salary income.	Exemption from income tax up to 9.5 %p.a. Annual accretions to the employer's contribution, in excess of Rs. 7.5 lakh is taxable the excess interest amount is included in the salary income.	Not included in the salary income. (Because it is fully taxable when the amount of fund is received).
(4)	Total Qualifying Amount U/s 80C	Employee's contribution fully qualifies along with insurance premium etc. up to Rs.1,50,000	Employee's contribution as mentioned in (1) qualifies along with insurance premium, etc. upto Rs. 1,50,000.	No P. F. contribution qualifies for deduction under Sec. 80C. Only ins. prem. etc. other than own contribution to such P.F. qualify up to Rs. 1,50,000.

ILLUSTRATION 2:

Mr. Shantanu Mahamali is the director employee of a Mumbai based company and he furnishes the following information for Assessment year 2024-25:

- (i) Basic pay Rs. 15,000 p.m., which was increased to Rs. 18,000 with effect from 1-7-2023.
- (ii) Dearness allowance calculated at 50% of basic pay.
- (iii) Other allowances:
 - Education allowance Rs. 400 p.m. (for two children)
 - Hostel allowance Rs. 1,000 p.m. (for one child studying in hostel)
 - Entertainment allowance Rs. 800 p.m.
- (iv) A motor car (engine's cubic capacity 1.4 ltrs.) is also provided to him which is used for both the purposes. All its expenses are borne by the employee.
- (v) He has been provided a residential flat, for which the company is paying rent of Rs. 12,000 p.m. The company has provided household appliances costing Rs. 3,00,000 and further has hired the furniture for which the company is paying monthly rent of Rs. 5,000.
- (vi) He retired on 31-12-2023 after completing 34 years and 9 months of service. On retirement the company has paid him the following:

Gratuity	Rs. 5,60,000
Leave encashment	Rs. 5,60,000

Refund of recognised P. F. balance Rs. 2,24,000

The following deductions were made from his salary:

- (a) Recovery of loan Rs. 24,000 (taken for construction of his house)
- (b) Professional tax Rs. 1,800.
- (c) Income-tax Rs. 16,000
- (d) P. F. contribution (15% of basic salary).
- (e)) L.I.C. premium Rs. 9,600.
- (f) Token rent for accommodation provided (for 9 month) Rs. 4,384: On 1-2-2024, he joined another company at Ahmedabad at a consolidated salary of Rs. 30,000 p.m.; Professional Tax deducted Rs. 400.

Compute his taxable salary income of the A. Y. 2024-25.

SOLUTION:

Statement of total taxable salary income

PY. 2023-24	A.Y: 2024-25	
(A) Salary from Mumbai Company (9 months):		
(1) Basic salary:		
1-4-2024 to 30-6-2025 per month (Rs. 15,000 x 3)	45000	
1-7-2024 to 31-12-2025 per month (Rs. 18,000 x 6)	108000	153000
(2) Dearness Allowance (Rs. 1,53,000 x 50%)		76500
(3) Education Allowance (Rs. 400 x 9 months)	3600	
Less: Tax free (Rs. 100 p.m. per child for maximum two children Rs. 100 x 9 months x 2)	1800	1800
(4) Hostel Allowance (Rs. 1,000 x 9 months)	9000	
Less Tax free (for one child Rs. 300 x 9 months)	2700	6300
(5) Entertainment allowance (Per month Rs. 800 x 9 months)		7200
(6) Perquisite of motor		5400
(7) Value of perquisite of House		79245
(8) Gratuity	560000	
Less: Exempted	285600	274400
(9) Leave encashment (The maximum exemption of Rs. 25,00,000)		----
(10) Accumulated balance of recognised P.P. is tax free		----
(B) Salary from Ahmedabad Company (2 months) Consolidated salary (Rs. 30,000 x 2)		60000
Gross Salary		663845

Less: Standard Deduction	50000	
Professional tax (Rs. 1,800 Rs. 400)	2200	52200
Taxable Salary		611645

ILLUSTRATION 3:

From the following details of salary income of Mrs. Chaudhary, the managing director of a company, for the financial year 2023-24, compute her taxable salary of A. Y. 2024-25.

- (1) Basic salary Rs. 4,20,000.
- (2) Bonus Rs. 45,000
- (3) Entertainment allowance Rs. 5,000.
- (4) Payment made by the employer for free supply of gas, electricity provided for personal use Rs.6250
- (5) House servant's salary reimbursed by the employer Rs. 14,400.
- (6) Free education facility provided to three children in an institution maintained by the employer; cost borne by the company for providing such education, is Rs. 39,000 of which Rs. 3,600 is recovered from her salary.
- (7) Concessional lunch facility provided during office hours (cost per dish Rs. 100 for 290 days is borne by the company); a token amount of Rs. 20 per dish is deducted from her salary.
- (8) Cost borne by the company for providing free holiday home facility at Mahabaleshwar Rs. 36,000.
- (9) The company has also paid salary of cook and watchman at Rs. 24,000 and Rs. 18,000 respectively.
- (10) Mrs. Goswami bought personal articles worth Rs. 27,500 by using the credit card provided by the employer.
- (11) The company has transferred a motor car to her name at a token price of Rs. 22,400 as against its original cost of Rs. 2,50,000 (used by the company for last 4 years. Depreciation @ 20% p. a. rate under DBM is to be considered.)
- (12) Company's contribution to Recognised Provident Fund Rs. 50,400.
- (13) Employee's contribution to Recognised Provident Fund Rs. 48,000.
- (14) Interest credited to her R. P. F. A/c @ 10.5% is Rs. 23,100.
- (15) Deposited by her in Public Provident Fund Rs. 60,000.
- (16) Professional tax paid by her Rs. 2,400.

SOLUTION:**Statement of Salary Income of Mrs. Chaudhary**

PY. 2023-24	A.Y: 2024-25	
		Rs.
(1) Basic Salary		4,20,000
(2) Bonus		45,000
(3) Entertainment Allowance		5,000
(4) Free supply of gas, electricity		6,250
(5) Reimbursement of House servant's salary		14,400
(6) Concessional education facility to children		.....
(7) Concessional lunch facility during office hours		8,700
(8) Free holiday home facility		36,000
(9) Cook's salary reimbursed by employer		24,000
(10) Watchman's salary reimbursed by employer		18,000
(11) Amount paid by employer for employee's		27,000
(12) Sale of motor (cost Rs. 2,50,000 - Dep. @ 20% p. a. rate for 4 years under DMM Rs.2 1,47,600 = WDV Rs. 1,02,400 - amount charged by the company Rs. 22,400)		80,000
(13) Employer's excess contribution to R.P.F. 80,000		
(Rs. 55,200- 1296 asic salary Rs. 50,400 exempted)		4,800
(14) Excess interest credited to RPF A/c (in excess of 9.5% p. a. rate):		2,200
23,100 x 1/10.5)		
	Gross Salary	6,91,850
Less: Specific Deductions:	Rs.	
(1) Standard deduction [Section 16(i)]	50,000	
(2) Tax-frec E. A. [Section 16 (ii)]	.....
(3) Professional tax [Sec. 16 (iii)]	2,400	52,400
	Taxable Salary	6,39,450

EXERCISE:

1. Shri Madhukar Kale (a private sector employee) receives Rs. 2,40,000 as salary and Rs. 12,000 as entertainment allowance during the year 2024-25. He had joined the present employer on 1-4-2011 and at that time entertainment allowance was allowed @ Rs. 800 per month.

Calculate the deductible (if any) amount of entertainment allowance from Gross salary.

[Ans.: Entire E.A. is taxable, because the assessee is a non-government employee and hence, nothing is to be deducted from Gross salary.]

2. Madam Gawade Prabhavati is employed in Gujarat Sachivalay. Her basic salary during the previous year 2023-24 was Rs. 64,000 p.m. She was getting entertainment allowance of Rs. 1,000 p.m. Calculate the exempted amount of entertainment allowance.

[Ans. She being a Govt. employee gets an entertainment allowance of Rs. 12,000 for the year, but the maximum amount exempt (which is to be allowed by way of specific deduction from Gross Salary) is 1/5th of basic salary or Rs. 5,000 whichever is less. So, the amount exempted is Rs. 5,000 only.]

3. Mr. Tanna Patel (a specified employee) is the General Manager of ABC Co. Ltd. From the following details, compute the taxable income from salaries for the Assessment year 2024-25

- (1) Basic Salary Rs. 20,000 p.m.
- (2) Dearness Allowance Rs. 2,000 p.m. (half of which is part of salary for retirement purposes.)
- (3) House Rent Allowance Rs. 6,000 p.m. (Actual House Rent paid at Ahmedabad Rs. 6,000 p.m.)
- (4) Education allowance for 2 children Rs. 600 p.m.
- (5) Transport allowance Rs. 2,400 p.m.
- (6) Hostel allowance for 1 child Rs. 500 p.m.
- (7) Employer's contribution to Recognised Provident Fund 12.5%.
- (8) Interest credited to the balance Recognised Provident Fund @ 10% - Rs. 50,000.
- (9) Rs. 200 p.m. is deducted from his salary as Professional Tax.

[Ans: Gross salary Rs. 3,28,960; Less: Std. deduction Rs. 50,000 and Professional Tax Rs. 2,400; Taxable salary Rs. 2,76,560.]

4. Shri Sachin Mhatre is a managing director of a company at Andheri in Mumbai Maharashtra. From the following details of Financial Year 2023-24, compute his taxable salary of A.Y. 2024-25 and investment under section 80C.

- (1) Basic Salary - Rs. 4,20,000
- (2) Dearness Allowance - 20% of basic salary (considered for retirement benefits)
- (3) Commission @ Rs. 1,500 p.m.
- (3) Bonus - Rs. 12,000
- (4) Helper Allowance (for office work) - Rs. 14,400
- (5) City Compensatory Allowance p. a. - Rs. 12,000
- (6) House Rent Allowance - Rs. 92,400 yearly (Actual rent paid Rs. 7,700 per month)
- (7) House servant's salary paid by the employer - Rs. 18,000
- (8) Payment made by the employer for free supply of gas-electricity provided for personal use - Rs. 7,500.

- (9) Concessional lunch facility provided during office hours (cost per dish Rs. 120 for 200 days is borne by the company) a token amount of Rs. 46 per dish is deducted from his salary.
- (10) The employer has provided a car (with driver), all expenses of maintenance are borne by the employee. The car is for office and private use and has 1.4 cc engine.
- (11) Company's contribution to recognised provident fund -Rs. 89,600. He has contributed to 50,400 to RPF A/c.
- (12) Interest credited to recognised provident fund account at 10.5%-Rs. 27,720.
- (13) Professional tax paid by employee - Rs. 200 monthly.
- (14) His investments are as under:
 - Life Insurance Premium - Rs. 40,000
 - National Saving Certificate ix Issue - Rs. 45,000
 - Fixed deposit in SBI for three years - Rs. 1,00,000

[Ans.: Gross Salary Rs. 6,76,460 Less: Standard deduction Rs. 50,000 and Professional Tax Rs. 2,400 = Taxable Salary Rs. 6,24,060.

5. Mr. D is working in a company at Ahmedabad as a manager (a specified employee). From the following details of financial year 2023-24, compute his taxable salary for Assessment Year 2024-25.

- (1) Basic Salary
- (2) Dearness Allowance is 25% of basic salary (considered for P.F.)
- (3) Education Allowance [for three children] 9,600
- (4) House Rent Allowance (actual rent paid Rs. 8,000 p.m.) 8,000 p.m.
- (5) Entertainment Allowance 24,000
- (6) Free lunch facility provided during office hours (for 200 days @ Rs. 75 per dish; cost is borne by company)
- (7) Company has provided a car of 1200 cc engine with driver for both purpose. All expenses are paid by company.
- (8) Commission 2,000 p.m.
- (9) Company's contribution to Recognised Provident Fund 1,04,000
- (10) Interest credited to R.P.F. account @ 14% 42,000
- (11) Professional tax paid by him 200 p.m.

[Ans.: Gross Salary Rs. 9,45,100 Less: Standard deduction Rs. 50,000 and Professional Tax Rs. 2,400 Taxable Salary Rs. 8,92,700.

6. Shri Kishorbhai is an employee in Dhrangadhra Company. Calculate his taxable income of salary from the following particulars for the A. Y. 2024-25.

- (1) Basic Salary Rs. 44,000 per month
- (2) Dearness Allowance Rs. 50,000 (Considered for retirement benefits)
- (3) Bonus Two month's basic salary
- (4) The company has paid Rs. 15,300 for family members basic medical treatment.
- (5) Entertainment Allowance Rs. 8,400
- (6) Helper Allowance Rs. 3,600
- (7) Uniform Allowance - Rs 900 per month (Actual expense Rs. 750 per month)
- (8) Education Allowance (for three children) - Rs. 2,700 has provided him a flat for which the company pays rent
- (9) The employer of Rs. 10,000 per month. The employer has spent Rs. 7,00,000 on its furnishing and also paid rent Rs. 1,658 for hired furniture.
- (10) Concessional lunch facility provided during office hours (cost per dish Rs. 120 for 120 days is borne by the company), a token amount of Rs. 20 is deductible from his salary.

- (11) The employer has provided a 1.4 c.c engine car (with driver). The car is for office and private use. All expenses of car are borne by the employee.
- (12) Company's contribution to recognised provident fund Rs. 86,700.
- (13) Interest credited to his P.F. account at 10.5% is Rs. 26,250.
- (14) The following deductions have been made from his salary –
 - * Professional Tax Rs. 2,400 (Annual).
 - * Employee's contribution in provident fund 14% of basic salary.
 - * Recovery of token rent for the accommodation @ 10% of basic salary.

[Ans. Gross Salary Rs. 8,36,915 Standard deduction Rs. 50,000 - Deduction for Professional Tax Rs. 2,400 = Taxable Salary Rs. 7,84,515.

6.1 Introduction**6.2 Section -22****6.3 Computation of Gross Annual Value (GAV)****6.4 Net Annual Value (NAV)****6.5 Gross Annual Value of Self Occupied House Property****6.6 Section -24: special deductions of HP****6.7 Section -27: Deemed ownership****❖ Exercises**

6.1 Introduction

Under the head of income from immovable property, the person in whose name the immovable property is legally registered is liable to pay income tax on the annual value of the immovable property.

Under the Income-tax Act-1961 the income from house-property is mainly divided under 8 sections.

Section-22, Section-23, Section-24, Section-25, Section-25 (a) Section-26. Section-27

6.2 Section -22

According to Section-22 of Income Tax, a person who owns a house is liable to pay income tax on the prescribed annual value of the house. (The annual value of the house is determined under Section-23.)

According to the definition given above, a person will be liable to pay tax under the title of house-property only when the following three conditions are fulfilled.

Note: The term "building" includes building and land attached thereto.

Three conditions:

- The assessee should be the owner of the immovable property.
 - The owner is the person who is entitled to receive income of his own right from the building property.
 - Even if the assessee owns only the house and does not own the land, he is liable to pay tax under the head of "house property".
 - But if the assessee owns both land and building (both land and building (held on rent)) then that income is not taxable under the head "income from house-property". Such income is taxable under the head "income from other sources".
 - Registration of sale is not required to prove ownership.

- Ownership also includes deemed owner. (Section-27)
- Land attached to the house is also included under the title of house-property.
 - Apart from house, under the head of house-property, office building, factory building, shop, godown and other commercial buildings are also included.
 - The land attached to the house also includes gardens, garages etc. built around the house.
 - But the income derived from renting out vacant land is taxable under the head 'income from other sources'.
- The building-property should not be used for business or occupation.

When an assessee uses the house-property or any part of there for his own business or occupation and that income is taxable under the head of profit or gain of business, the annual value of the house-property cannot be treated as taxable under the head of income from the house property.

Points worth keeping in mind while calculating house-property income

- (a) When the assessee is carrying on the business of renting out houses-

Even when the assessee is in the business of renting out the house, the rental income received on such house is taxable only under the house-property title. Not under the head of income of business and profession.

Exception:

But when such building-property is rented out by the assessee along with other facilities. e.g. In case of house with furniture, etc., income from rent of house is taxable under the head of business and profession income.

- (b) When the building-property is sub-let: -

When a tenant sub-lets a certain part of the house-property, the income received by that tenant is taxable under the head of income from other leases.

- (c) House-property situated abroad:

"Income from house property" received abroad for "ordinary residence" is fully taxable.

But for "resident but not ordinarily resident" and "non-resident" this income is taxable only if it is earned in India during the previous year.

- (d) When the ownership of the building-property is in dispute: -

If the ownership of a property is in dispute and the ownership of the property is pending in court, the Income-tax authorities may decide on the ownership of the property till the disposal of the suit and may collect the tax from the person

6.3 Computation of Gross Annual Value (GAV)

Gross Annual Value [Sec. 23(1)]

Though the tax under the head income from house property is tax on income yet it is not a tax upon rents but upon inherent capacity of building to yield income.

Gross Annual Value is Determined as Follows:

1) Step1: Reasonable Expected Rent of Property Is Taken It Can Be Determined by Taking in To Consideration the Following.

(A)Municipal Valuation of The Property

(B) Fair Rent of The Property

(C) Standard Rent

The higher of (a) or (b) is generally taken as expected rent or gross annual value, if however, a property is covered by rent control act, then the amount so computed cannot exceed the standard rent determined under the rent control act.

(A)**Municipal Valuation:** For Collecting Municipal Taxes, the local authority makes a periodical server of all building in its jurisdiction. such valuation may be taken or strong evidence representing the earning capacity of a building.

(B) **Fair Rent:** Fair rent is the rent which a similar property can fetch in the same or similar locality, if it is let for a year.

(C)**Standard Rent:** The standard rent is fixed under the rent control act. If the standard rent has been fixed for any property under rent control act, the owner cannot be expected to get a rent higher than the standard rent fixed under the rent control act.

{Thus, Higher Of (A) Or (B) Subject to Maximum Limit}

Step: 2

If rent actually received or receivable is more than expected rent determined under step 1, then rent actually received or receivable is taken as Gross Annual Value.

The rent actually received or receivable is taken after excluding unrealised rent and rent pertaining to vacancy.

❖ Rent which is unrealised shall be excluded from rent received / receivable only if the following conditions are satisfied:

- a) The tenancy is bonafied.
- b) The defaulting tenant has vacated or step have been taken to compel him to vacate the property.
- c) The defaulting tenant is not in occupation of any of the assesses.
- d) The assesses has taken all reasonable step to institute legal proceeding for the recovery of the unpaid rent or satisfies the assessing officer that legal proceedings would be useless.

If the owner has incurred the following expenses to earn rent other. They are deducted to arrive at rent received / receivable under Step 2.

- * Liftman's Salary.
- * Electricity Consumed.
- * Expense Of Providing Water.
- * Gardner's Salary Etc.

Step: 3

- ❖ If rent actually received or receivable is less than expected rent due to property remaining vacant, only lower amount is taken or the final amount of gross annual value.

This step is applicable if the following conditions are satisfied.

- (1) The property is let out.
- (2) The property (or any part of the P.Y.)
- (3) The actual rent received / receivable after excluding unrealised rent and rent pertaining to vacancy period is lower than the amount computed under step 1 and the decline in the actual rent is caused by vacancy and not by any other factor.
- (4) If the rent received / receivable is less than expected rent partly due to property remaining vacant and partly due to some other factor (i.e. letting out of property at lower rent unrealized rent etc.) the gross annual value is taken as

Expected rent under step. 1	xxx
loss due to vacancy (only)	Xxx
Gross Annual Value	Xxx

- ❖ If rent received / receivable is less than expected rent because of factor other than vacant step 3 is not applicable. here value under step 1 is Gross Annual Value.

❖ **Municipal Taxes / Local Taxes:**

Deduction is permissible in respect of property taxes subject to the following two conditions.

- (1) It should be borne by owner and
- (2) It should be actually paid during the Previous year

Thus, property taxes levied by a local authority are deductible on payment basis and not accrual basis. Again, it can be deducted only if the owner has paid it, if the tenant pays any part of such tax, then it cannot be deducted from the Gross Annual Value.

In absence of any information. it will be presumed that the local taxes / municipal is paid by the owner. (property tax, general tax, water and sewage tax etc.)

Even Where the Property Is Situated Outside the Country, Taxes Levied by Local Authority in That Country Are Deductible in Deciding the Annual Value of The Property.

6.4 Net Annual Value (NAV)

After finding the gross value of the property, its “Net Annual Value” is found. Local taxes are deducted from the gross annual value of the property to find the “net annual value”.

- Local tax is deducted only when it is the property owner's responsibility to pay it, not the tenant.

- When no clarification is given, it can be assumed that the local tax will be filled by the landlord.
- Only the tax paid will be deducted from the tax for the current year.
- The previous year's outstanding taxes, if paid this year, will also be received later.
- But paid in advance, will not be available after next year's taxes.
- Local taxation generally includes building tax, education tax, water tax, general tax etc.
- The amount remaining after deducting local taxes will be the net annual value.

6.5 Gross Annual Value of Self Occupied House Property

A self-occupied property is one in which the owner himself resides or the member of his family resides.

The provisions governing tax incidence on self-occupied house property may be Summerised as follows:

Self-Occupied Property	Tax Treatment
1. If the property is used by the owner for the purpose of earning on his business or profession.	Income is not taxable under this head.
2. If such property is used for residence of owner and his family. (a) If only are property is used for such purpose.	
❖ If such property is used throughout P.Y. for own residential purpose, it is not let out or put to any other use.	Nothing is taxable only interest on capital is deductible subject to maximum of Rs. 30,000/ Rs. 1,50,000.
❖ If such property could not be occupied throughout P.Y. because employment, business or profession of the owner is situated at some other place.	As above
❖ Were part of the property (being in dependent residential unit) is self-occupied and the other part is let out.	Income from the independent unit, which is self-occupied, will not be taxable, interest. Borrowed capital is deductible.
	Income from the unit which is let out is to be computed as if the unit is let out.
Where such property is self-occupied for a part of year and let out for the other part of the year.	No concession is available the house will be taken as let out property.
(2b) If more than one property is used for residential purpose.	Only one property selected by the taxpayer will be treated as self-occupied other remaining property will be deemed as let out.

6.6 Section -24: special deductions of HP

❖ Deduction From Income from House Property Section -24

Income chargeable under head income from house property is computed after making the following deductions.

(1) Statutory Deduction:

From the net annual value computed, the assesses shall be allowed a statutory deduction of a sum equal to 30% of the net annual value this deduction is allowed irrespective of any expenditure incurred by the tax payer (no deduction can be claimed in respect of expenses on insurance, Group rent, land revenue, repair collection charges, electricity ,water supply, salary of liftman etc.)

(2) Interest On Borrowed Capital:

Where the property has been acquired constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital is allowed as deduction. interest is deductible whether paid or payable.

❖ Interest attributable to the period prior to completion of construction:

It may so happen that money is borrowed earlier and acquisition or completion of construction takes place in any subsequent year mean while interest become payable. in such case interest paid payable for the period prior to the P.Y. in which the property is acquired / constructed will be aggregated and allowed in 5 successive financial year starting from the year in which the acquisition / construction was completed.

Interest will be aggregated from the date of borrowing till the end of the P.Y. prior to the P.Y. in which the house is completed and not till the date of completion of construction.

Any interest paid on outstanding amount of interest will not be allowed as deduction any amount paid for brokerage or commission for arrangement of the loan will not be allowed as deduction.

Where a fresh loan has been raised to repay the original loan. if the second borrowing has really been used merely to be repay the original loan, sold also be allowed as deduction under section 24(1).

Deduction in respect of one self-occupied house where annual value is nil

Where the annual value of one self-occupied house is nil, the assesses will not be entitled to the statutory deduction of 30% as the annual value itself is nil. however, the assesses will be allowed deduction an account of interest (including y 5th of the accumulated interest for pre-construction period) as under;

(a) Where Capital Is Borrowed Before 1/4/1999

Where loan has been taken for acquisition, construction, repairs, renewal or reconstruction actual interest payable is deducted subject to maximum of Rs 30,000 p.a.

(b) If capital is borrowed on or after 1/4/99

(1) If such loan is taken for reconstruction or renewal / repairs of the house property maximum interest of Rs 30,000 p.a. as to be allowed.

(2) If such loan taken for the purpose of purchase or construction of the house and the house is actually bought or constructed within 3 years period from the end of the financial year in which loan is taken if a certificate is given by the lender of loan in this regard maximum interest up to Rs 2,00,000 p.a. is allowed.

Assesse: Mr. X

P.Y 2023-24

Residential Status:

A. Y 2024-25

Calculation of income from house property A.Y. 2024-25

Particulars	Amt (Rs)	Amt (Rs)
Gross Annual Value	-----	
(-) Municipal Taxes Paid	-----	
Net Annual Value		-----
(-) Deduction U/S 24		
(1) Statutory Deduction @ 30% (N.A.V)	-----	
(2) Interest On Borrowed Capital	-----	-----
Taxable Income from House Property		-----

6.7 Section -27: Deemed ownership

As per section 27, the following persons through not the legal owners of a property are deemed to be the owners for the purposes of section 22 to 26:

(a) Transfer to Spouse Section 27(i)

When a person transfers the property of a house to his/her spouse without any kind of compensation, then the person transferring the property is deemed to be the deemed owner of that house.

e.g. If Mr. Patel transfers his own house to Mrs. Patel (his wife) without any compensation, in such a case Mr. Patel will be considered the owner of 4 houses.

When such a transfer is made by a person under the condition that his wife separates from her husband, then the transferee of the property is not deemed to be its presumed owner. The person in whose favor it is transferred is considered the owner of the house.

(b) Transfer to a minor child Section 27(i)

When a person transfers his house in favor of his minor child without any compensation, then the person transferring the house is deemed to be its deemed owner.

Exception:

When a transfer of a house is made in favor of a minor married daughter, the person transferring the property is not considered to be the deemed owner of the property.

Note: When a person transfers money from his husband to his wife to his minor child and out of that money that person buys a property, the person transferring the money is not considered to be the transferee of the property.

(c) Holder of an impartible estate section 27(ii)

The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate. The impartible estate, as the word itself suggests, is a property which is not legally divisible.

(d) Member of Co-operative Society etc. section 27(iii):

A member of a co-operative society to whom a house is allotted or given on lease, the member himself who owns that house-property.

(e) a person who is in possession of immovable property section 27(iiia)

Under Section 53-A of the Transfer of Property Act, if a person gets possession (or ownership) of a house or any part of a house under the performance of a specific contract, such person is deemed to be the presumed owner of the house.

(f) Person having right in a property for a period not less than 12 years [Section 27(iiib)]:

A person who acquires any right in or with respect to any building or part thereof, by virtue of any transaction as is referred to in section 269UA(f) i.e. transfer by way of lease for not less than 12 years shall be deemed to be the owner of that building or part thereof. This will not cover the case where any right by way of a lease is acquired from month-to-month basis or for a period not exceeding one year.

(1) Mr. Ram Owns Six Houses in Delhi. Details Of Which Are as Under;

Particulars	1	2	3	4	5	6
Municipal Value	20,000	24,000	36,000	42,000	48,000	45,000
Fair Rental Value	24,000	24,000	40,000	42,000	50,000	50,000
Standard Rent	-	24,000	50,000	30,000	-	48,000
Actual Rent	18,000	36,000	48,000	36,000	54,000	42,000

Compute the Gross Annual Value of the Above value For The A.Y 2024-25.

Solution:

Assesse: Mr. Ram

P.Y 2023-24

Residential Status: Ordinary Resident

A. Y 2024-25

Calculation Of Income from House Property -2024-25

Particulars	1	2	3	4	5	6
Gross Annual Value	24,000	36,000	48,000	36,000	54,000	48,000

- (2) From the following Particulars Compute the Gross Annual Value of House Property of Mr. Vishal.

Particulars	A	B	C
Annual Value as Per Municipal	21,000	21,000	21,000
Expected Fair Rent	22,500	22,500	22,500
Standard Rent	16,800	25,000	16,800
Annual Actual Value	23,500	18,000	15,000
Gross Annual Value	23,500	22,500	16,800

- (3) Mr. X Owns 3 House in Delhi Which Are as Under:

Particulars	House 1	House 2	House 3
(a) Municipal Value	1,20,000	72,000	60,000
(b) Fair Rent Value	1,50,000	75,000	75,000
(c) Standard Rent	1,30,000	80,000	72,000
(d) Rent Per Unit Annum	70,000	84,000	21,000
(e) Municipal Taxes	12,000	8,000	60,000
	Due But Not Pay	of Last Paid This Year And 9,000 Of Current Year Due but Not Paid	It Including Rs 54,000as Advance for Next Year

Compute Net Annual Value of Above 3 House For A.Y 2024-25 If There Are 2,1 And 3 Residential Units for House 1,2 And 3 Respectively.

Ans: Note Rent Received for Houses:

House: 1;70,000 2 Unit. = Rs 1,40,000 P. A

House: 2: 84,000 1 Units. = Rs 84,000 P.A

House: 3: 21,000 3 Units. = Rs 63,000 P.A

Assesse: Mr X.

P.Y 2023-24

Residential. Status: Ordinary Status

A. Y 2024-25

Calculation Of Income from House Property For. 2024-25

Particulars	House 1	House 2	House 3
Gross Annual Value	1,40,000	84,000	72,000
Municipal Taxes	-	8,000	60,000
Net Annual Value	1,40,000	76,000	12,000

- (3) Find out the gross annual value in case of the following property letout throughout the p.y. for the assessment year 2024-25.

Particulars	A	B	C	D
Municipal Value	60,000	60,000	60,000	1,20,000
Fair Rent	68,000	68,000	68,000	1,17,000
Standard Rent	62,000	62,000	70,000	1,20,000
Annual Rent	66,000	66,000	72,000	1,20,000
Unrealised Rent P.Y. 2023-24	2,000	6,000	5,000	50,000
Which could not realised and all conditions are satisfied				

Note:

Actual Rent Received = Annual Rent - Unrealised Rent

House A: 66,000 - 2,000 = Rs 64,000

House B: 66,000 - 6,000 = Rs 60,000

House C: 72,000 - 5,000 = Rs 67,000

House D: 1,20,000 - 50,000 = Rs 70,000

Note:

If in the question any unrealised rent is given for any house property than should be deducted from the annual rent before calculating gross annual value. the rules for calculation GAV remain the same.

Calculation Of Income from House Property 2024-25

Particulars	House 1	House 2	House 3	House 4
Gross Annual Value	64,000	62,000	68,000	1,15,000

(4) Determine the gross annual value of let out properties owned by Mr. Divyesh for A.Y. 2024-25.

Particulars	House 1	House 2	House 3
Municipal Value	11,200	14,400	13,200
Fair Rent	11,600	14,800	11,600
Standard Rent	11,360	14,000	11,960
Rate Of Monthly Rent	1,120	1,120	1,120
Vacancy Period	15 Days	1 Month	3 Month
Unrealised Rent	1,120	3,360	5,600
[All Conditions Are Satisfied]			

Note: Actual Rent

House 1	Rs
Rent Receivable (1,120 X 12)	13,440
(-) Unrealised Rent	1,120
(-) Rent Of Vacancy Period	560

11,760

House 2	Rs
Rent Receivable (1,120 X 12)	13,440
(-) Unrealised Rent	3,360
(-) Rent Of Vacancy Period	1,120

8960

House 3	Rs
Rent Receivable (1,120 X 12)	13,440
(-) Unrealised Rent	5,600
(-) Rent Of Vacancy Period	3,360

4,480

Gross Annual Value

House 1: 11,760

House 2: 12,880

House 3: 8,600

Working

House 2

Standard rent = Rs 14,000

(-) Rent Of Vacancy =Rs 1,120

Rs 12,880

House 3

Standard Rent = Rs 11,960

(-) Rent For Vacancy = Rs 3,360

Rs 8,600

(5) Compute taxable income under the head income from house property of Vijay Sinh in respect of let out residential house in Chandigarh, other information are as follows.

➤ Period Of Construction 18/9/2002 To 31/12/2004

➤ Municipal Taxes as Per Annum

(At The Rate Of 20% Of Annual Value as Per Municipal Records)

Expected Fair Rent Rs 27,000

Monthly Rent Rs 2,900

Expenses paid by assesses in respect of facility provided to tenant

(1) Electricity Charges Rs 2,000

(2) Water Charges and Sweepers Salary Rs 2000

Find out The Taxable Amount For A.Y 2024-25.

Solution:

Assesse: Vijay Sinh

P. Y 2023-24

Residential Status: Ordinary Resident

A.Y 2024-25

Calculation Of Income from House Property. 2024-25

Particulars	Amt (Rs)	Amt (Rs)
Municipal Value 5000-20% -100	25,000	
Fair Rent	27,000	
Actual Rent (2900 X 12) =Rs 34,800		
(-) expenses Paid by Owner Rs 4,000	30,800	
Gross Annual Value	30,800	
(-) Municipal Tax	5,000	
Net Annual Value		25,800
(-) Deduction U/S 24		
Standard Deduction (25,800 X 30/100)		7,740
Taxable Income from House Property		18,060

(6) Shri Kumar owns house property. the annual value as per municipal record is Rs.19,800.

the fair rent and annual rent receivable are same i.e.18,000 landlord bears the following expenses for tenant amenities during the year 2023-24.

Salary Of Gardner Rs 900

Lift Maintenance Rs 1000

Water Charges Rs 800

Lightings Rs 300

The landlord claims the following deduction

Municipal Tax Rs 42,00

Ground Rent Rs 656

Interest On Mortgage Loan Rs 11,300

[of which Rs. 7800 is in respect of loan for repairs and balance for personal use.]

Collection expenses Rs 2,400

Repair Charges Rs 1,000

Rent Not Received Rs 3,000

Compute Taxable Income for the Year 2024-25.

Solution:

Assesse: Shrikumar

A.Y 2024-25

Residential Status: Ordinary Resident

P.Y 2023-24

Calculation Of Income from House Property

Particulars	Amt (Rs)	Amt (Rs)
Municipal Value	19,800	
Fair Rent	18,000	
Actual Rent 18,000 – expenses Incurred by Owner –Rent Not Received I.E (18,000-3000- 3000) = Rs 12,000	12,000	
Gross Annual Value	19,800	
(-) Municipal Tax	4,200	
Net Annual Value		15,600
(-) Deduction U/S 24 Standard Deduction (15,600 X 30/100) Interest On Loan for Repair	4680 7800	12,480
Taxable Income of House Property		3,120

- (7) From the following details of house property of shri Deviprasad you are required to compute taxable income from house property for A.Y 2024-25

Particulars	House At Kalawada Road	House At Ratva Road
(1) Annual Value as Per Municipal	18,000	15,000
(2) Annual Fair Rent	16,200	12,500
(3) Standard Rent	15,000	24,000
(4) Rate of Annual Rent Receivable	33,000	21,000
(5) Unrealised Rent 2023-24	550	4,000
(6) Vacancy Period	3 Months	2 Months
(7) Local Tax Paid	2,000	2,500
(8) Interest on Loan Taken by Mortgaging Kalawad Road House to Construct the House At Raiya Road	6,000	—
(9) Interest on Loan Taken for Construction	—	3,000
(10) Interest on Loan for The Period Before Construction	7000	10,000
(11) Repair and Insurance Charges	5,000	7,000

Solution:

Assessee Deviprasad.

P.Y.: 2023-24

Residential Status: Ordinary Resident

A.Y 2024-25

Particulars	Amount (Rs)	Amount (Rs)
1: House At Kalawad Road		
Municipal Value	18,000	
Fair Rent	16,200	
Standard Rent	15,000	
Actual Rent	33,000	
(-) Unrealised Rent	550	
(-) Rent Of Vacancy	8,250	24,200
Gross Annual Value	24,200	
(-) Municipal Tax	2,000	
Net Annual Value		22,200
(-) Deduction U/S .24		
(-) Standard Deduction (22,200 X 30/100)		6,660
(-) Interest Before Construction (7000/5)		1,400

Taxable Income of house At Kalawada Road		14,140
2: House At Raiya Road		
Municipal Value	15,000	
Fair Rent	12,500	
Standard Rent	24,000	
Actual Rent	21,000	
(-) Unrealised Rent	4,000	
(-) Rent Of Vacancy	3,500	
Gross Annual Value	(15,000-3500)	11,500
(-) Municipal Taxes	2,500	
Net Value		9,000
(-) Deduction U/S 24		
Standard Deduction	2,700	
Interest Before Construction	2,000	
Interest On Capital (6000+3000)	9,000	13,700
		-4700
Loss From House Property at Raiya Road		

Therefore:

❖ Taxable Income from House Property For A.Y 2024-25

- 1) Income From House At Kalawad Road : Rs 14,140
- 2) Loss From House At Raiya Road : Rs 4,700
- Income From House Property : Rs 9440

(8) Shri mantra let out 3/4 of his house for residential purpose at monthly rent of Rs 5,000 and self-occupied the remaining portion. determine the income from house property he paid 7200 as municipal tax and Rs 15,000 as interest on loan for construction.

Assessee: Shree Mantra

A.Y 2024-25

Residential Status: Ordinary Resident

P.Y 2023-24

Calculation Of Income from House Property 2024-25

Particulars	Amt (Rs)	Amt (Rs)
1 Gross Annual Value (5000 X 12)	60,000	
(-) Municipal Tax	5,400	
Net Annual Value		54,600
(-) Standard Deduction U/S 24		

Standard Deduction 30%	16,380	
Interest On Capital	11,250	27,630
Income From Letout House		26970
2 Self occupied House Property (1/4)		
Net Annual Value		-
Less: Deduction U/S 24		
Standard Deduction		-
Interest On Capital		3750
Taxable Income From Property		23,220

(9) Manas Owns 3 Houses as Follows:

Particulars	Tap	Tyag	Mamta
	Letout	Self-occupied	Self-occupied
1) Municipal Value	9,000	20,000	40,000
2) Fair Rent	9,600	26,000	36,000
3) Rent Receivable	1,000 P.M	-	-
4) Municipal Tax Paid	1,800	10%	10% Unpaid
5) Interest On Housing Loan	4,000	6,000	3,000
6) Insurance Premium	400	1,000	2,000
7) Date Of Completion of Construction	1/4/96	31/3/2002	31/1/2003
8) Interest On Loan Paid During Constructed Period	-	10,000	12,000
9) Land Revenue	100	200	300
10) Repayment Of Housing Loan	-	10,000	12,000

The tenant (who was in possession of tap) up to 28/2/2007 has not paid 10 months' rent.

the house 'tap' was remained vacant in march 2007. Compute the taxable income of manas from house property for A.Y. 2024-25.

Solution:

Assessee: Mr Manas

P.Y. 2023-24

Residential Status: Ordinary Resident

A.Y 2024-25

Calculation of Income from House Property - 2024-25

Particulars	Amt (Rs)	Amt (Rs)
1 Letout Property (Tap)		
Municipal Value	9,000	
Fair Rent	9,600	
Actual Rent (1000 X 12)	12000	
Less Rent for Vacancy Period Rs	1,000	
Less Rent Unrealised	10,000	1,000

Particulars	Amt Rs	Amt Rs
Gross Annual Value (Rs 9,600- Rs 1000)	8,600	
Less: Municipal Tax	1,800	
Net Annual Value	6,800	
Less Deduction U/S24		
Standard Deduction	2040	
Interest On Loan	4000	6040
Income From Tap		760
Deemed Letout House Tyag		
Gross Annual Value	26,000	
Municipal Tax	2,000	
Net Annual Value		24,000
Less: Deduction U/S 24		
Standard Deduction	7200	
Interest On Housing Loan	6000	13,200
Income From Tyag		10,800
3 Self occupied House Property Mamta		
Net Annual Value	Nil	
Less: Deduction U/S 24		
Interest On Housing Loan	3000	
Interest On Loan During Constructed	2400	-5400
Loss From Mamta		(-5400)
Income From House Property (760+10,800-5400)		6160

Particulars	Amt Rs	Amt Rs
Alternative 2		
Considering Mamta as Deemed Letout		
1 Income From 'Tap'		760
2 Self occupied (Tyag)		
Net Annual Value	Nil	
Less: Deduction U/S 24		
Standard Deduction	Nil	
Interest On House Loan:	6000	-6000
3. deemed Letout (Mamta)		
Gross Annual Value	(40,000)	
Municipal Tax	-	
Net Annual Value		40,000
(-) Deduction U/S 24		
Standard Deduction	12,000	
Interest On House Loan	3,000	
Interest On Loan During Construction Period	2,400	17,400
		22,600
Income From House Properties		17,360

Note: Here the first alternative is better as income earned through it is less than 2nd alternative. therefore 'Tyag' should be considered as deemed let out house and Mamta as self-occupied house.

(10) In the year 2001-2002 Mr. Chintan claimed deduction from 7800 on account of unrealised rent (assessing officer allowed Rs 6200) on 19th July 2006 he realised Rs 3500 out of such unrealised rent from the defaulting tenant on this date he was no more owner of that property.

Find out Income from House Property of Mr. Chintan.

Solution:

2001-2002	Rs. 7800
(-) Claimed Allowed	Rs 6200

	Rs 1600 Amt Not Deducted
2023-24	Rs 3500
Less: Unrealised Rent	Rs 1600

1900 Income from House Property.

(11) From the following details of Shri Arun regarding his house property compute taxable income for A.Y. 2024-25.

(1) Letout House

(A) Annual Value as Per Municipal Record Rs. 9,000

Municipal Tax 20%

Annual Fair Rent Rs, 13,200

Value Determined Under Rent Control Act Rs, 1,20,000

Annual Rent Rs 1,44,000

(B) House Remains Vacant For 5 Months During P.Y.

Interest on loan taken for construction is Rs. 12,000 (1/5th of the capitalised interest)

(A) Total Unpaid Interest of P.Y. Rs.28,000

(2) Self occupied House

(A) Construction of house was complete on 30/9/03 and total loan taken for construction accumulated to Rs.60,000. (Loan was taken on 1/1/2000)

(B) During 06-07 a fresh loan was taken to construct 2nd floor and its outstanding interest amounted to Rs 72,000.

(C) During 06-07 another loan was taken to make repair and alteration as per 'Vastu shastra' on 1st floor and o/s interest amounted to Rs.35,000.

Note: Rent For Let-out House:

Annual Rent	Rs,1,44,000
Less 5 Months Vacancy	Rs, 60,000
Actual Rent	Rs, 84,000
Gross Annual Value =	Rs, 84,000

Solution:

Assessee: Shri Arun.

A.Y.2024-25

Residential Status: Ordinary Resident P.Y 2023-24

Particulars	Amt (Rs)	Amt (Rs)
(1) Letout House Property		
Gross Annual Value (Note)	84,000	
Less: Municipal Tax	18,000	
Net Annual Value	66,000	
Less: Deduction U/S 24:		
(1) Standard Deduction (30% Of Nav)	(19,800)	
(2) Interest Before Construction	12,000	
(3) Interest Of Previous Year	28,000	(40,000)
Income From Letout House		6200
(2) Self-occupied House:		
Net Annual Value	-	
Less: Deduction U/S 24:		
(1) 1/5 th Of Interest Before Construction	12,000	
(2) Loan For Repairs	35,000	
but the max. limit is 30,000	47,000	30,000
(3) Loan Taken for Construction. (Max. Rs 1,50,000-30,000 =1,20,000)	72,000	-10200
Total loss from house property		-9,580

Note:

Interest Before Construction For 5.0

House: Construction Was Over On 30/9/03

“ “ “ Imply 03-04

5 Years period in which interest is deducted

03-04

04-05

05-06

06-07

07-08

5 Years = Rs.60,000 = 12,000 Can Be Deducted In P.Y. 2023-24.

❖ **Exercise**

1. Shri Chanakya had constructed a house in 1993. Which was Let out at a Rent of Rs.15,000 Per Annum. The Fair Rental Value of the house was estimated to be Rs. 20,000 municipal taxes amount to Rs. 2000 (10% of the municipal value) which was payable as under.

(b) Rs 1000 By Landlord and Rs 1000 By Tenant.

(c) Rs 1200 By Landlord and Rs 800 By Tenant.

(d) Rs 2000 By Tenant.

(e) Rs 2000 By Landlord.

Solutions:

Municipal Value Rs 20,000 P.A

Fair Value Rs 20,000 P.A

Actual Value Rs 15,000 P.A

Assesse: Mr. Chanakya

P.Y 2023-24

Residential Status: Ordinary Status

A.Y 2024-25

Particulars	1	2	3	4
Gross Annual Value	20,000	20,000	20,000	20,000
(-) Municipal Tax	1000	1200	-	2000
Net Annual Value	19,000	18,800	20,000	18,000

2. Mr. Pratap owns 2 house 1 and 2 find out the Gross Value.

Particulars	House 1 Rs	House 2 Rs
Municipal Value	1,50,000	3,00,000
Annual Rent	1,80,000	3,20,000
Standard Rent	1,60,000	3,10,000
Vacancy Period	4 Months	6 Months

Solution: Actual Rent Received

House 1 = $1,80,000 - (1,80,000 \times 4/12)$

= Rs 1,20,000

House 2: $3,20,000 - 1,60,000 = 1,60,000$

$\{3,20,000 \times 6/12\}$

Gross Annual Value for House 1: 1,20,000.

Gross Annual Value for House 2: 1,60,000. Note: When the reason for reduction in actual rent is only vacancy period than the gross annual value is actual rent received.

(3) Shree Pathkar and Kunjani are co-owners of two-house property Nishant and Ankur. there share of ownership and income areas under.

Pathkar :30% Share

Kunjani : 70% Share

Following is the additional information

Particulars	Nishant	Ankur
Monthly Rent	2000	4000
Municipal Tax (20% Of Municipal Value)	6000	9000
Land Revenue (Annual)	200	1000
Insurance Premium (Annual)	320	400
Interest On Loan Taken For Repairs	10,000	5000
Vacancy Period	3 Months	-

Calculate the property income from Mr. pathkar and kunjani for A.Y. 2024-25.

Other Information Is as Follows:

Particulars	Pathkar	Kunjani
1 Gross Annual Value of Self occupied Property	4200	4500
2 Municipal Tax	400	500
3 Interest on Loan to Purchase House	2450	1100
4 Taxable Business Income	10,000	17,000

Solution:

Assessee: Mr. Pathkar and Mr. Kunjani P.Y 2023-24

Residential Status: Ordinary Resident A.Y 2024-25

Calculation Of Taxable Income Jointly Own House Property

Particulars	Amt (Rs)	Amt (Rs)
Nishant		
Municipal Value [6000/20x100]	30,000	
Actual Rent (2000x12)	24000	
(-) Vacancy Period (2000x3)	6000	18,000
Gross Annual Value	(30,000-6000)	24,000
(-) Municipal Tax		6000
Net Annual Value		18,000
Less Deduction U/S 24		
Standard Deduction	5400	
Interest On Taken for Repair	10,000	15,400
Income From Nishant	2,600	2600
Ankur		
Municipal Value (9000/20 X 100)		45,000

Actual Rent Received (12 X 4000)		48,000
Gross Annual Value	48,000	
(-) Municipal Tax	9000	
Net Annual Value	39,000	
(-) Deduction U/S 24		
Standard Deduction	11,700	
Interest On Loan for Repairs	5,000	16,700
Income From Ankur		22,300
Total Taxable Income		24900

Calculation Of Taxable Income from House Property

Particulars	Mr. Pathkar	Mr. Kunjani
Share In Income from Letout House Property 24,900=3:7	7470	17430
Self-occupied House Property		
Net Annual Value	Nil	Nil
Less Deduction U/S24		
Interest On Loan for Purchase House Property	(-2450)	(-11,00)
Taxable Income of Assesses from House Property	5020	16,330

(4) From the following information of house property of Mr. Kumar, compute income from house property for A.Y. 2024-25

Particulars	Letout House	Self-occupied
Annual Value as Per Municipal Assesses	72,000	60,000
Local Tax Paid	72,00	6,000
Date Of Completion of Construction	1/4/2005	1/4/2004
15% Loan Taken for Construction		
1 On 1/1/2003	2,40,000	3,60,000
2 On 1/1/2005	-	1,00,000
(To Complete Construction Of 2 nd Floor Which Was Completed On 1/4/2005)		
Interest Due Up To 31/3/2006 Is Dully Paid		

Solution:

(A) Interest On Letout House

1/1/2003-1/4/2005=27 Months

(a) Interest Before Construction

= 2,40,000 X 15/100 X 27/12= 81,000

❖ Deduction Of Interest Before Construction = $81,000/5$

Rs. 16,200

(b) Interest For Current Year $2,40,000 \times 15/100 = \text{Rs. } 36,000$

= Rs 52,200

(B) Interest On Self occupied House Property

1/1/2003 To 1/4/2004 = 15 Months

(a) Interest Before Construction

$= 3,60,000 \times 15/100 \times 15/12 = \text{Rs. } 67,500 \times 1/5 = \text{Rs. } 13,500$

(b) Interest For Current Year

$= 3,60,000 \times 15/100 = \text{Rs. } 54,000$

= 67,500

(c) Interest On Loan for Construction of New Floor 1.1.2005-1.4.2005=3 Months

(1) Interest Before Construction

$1,00,000 \times 15/100 \times 3/12 = \text{Rs. } 3750$

Deduction Of Interest Before Construction

$= 3750 \times 1/5 = \text{Rs. } 750$

(2) Interest For Current Year

$= 1,00,000 \times 15/100 = \text{Rs. } 15,000$

= Rs.83,250

❖ Total interest deduction for self-occupied house property will be Rs.83,250

The entire amount will be allowed as deduction because loan was taken after 1.4.1999 for construction purpose and it does not exceed Rs 1,50,000.

Particulars	Amt (Rs)	Amt (Rs)
(B) Letout House		
Gross Annual Value	72,000	
(-) Local Tax Paid	7,200	
Net Annual Value	64,800	
(-) Deduction U/S 24		
Standard Deduction	19,440	
Interest Loan	52,200	71,640
Loss From House Property		-6840
(C) Self-occupied House Property		
Net Annual Value	Nil	

Less Specified Deduction U/24		
Interest On Loan Before Construction	(-83,250)	-83,250
Loss From (Income From) house property		-90090

7.1 Introduction**7.2 Meaning of business and profession****7.3 Incomes considered under the heads of business and professions****7.4 Important points regarding computation of business or profession income****7.5 Deductions received from income under the head of business and professions****7.6 General Deductions****7.7 Depreciation (Section-32)****7.8 Audit of accounts for taxation****7.9 Statement showing taxable income of business and profession****❖ Exercises**

7.1 Introduction

Income can be categorized into five major types. 'Profit or Profit of Business or Profession' is the title of one such. More significant than any other title is its revenue, because the government receives the majority of its income tax revenue from this title. The Income-tax Act's Sections 28 through 44 contain provisions pertaining to "profits or profits of business or profession." Which expenses are permitted under this heading, and which revenues are included? Also covered in detail are audit and depreciation.

7.2 Meaning of business and profession

Business: U/S 2(13) of the Income Tax Act includes any trade, commerce, or manufacturing unit or any adventure of concern in nature of trade, commerce, or manufacture.

Business means some activity which is carried out by giving time, attention, and labour of a person either by himself or through others with an intention to make profit.

Profession: A profession is any human activity that requires any intellectual skills. e.g., activities came by doctors, solicitors, painters, etc. The act does not define either profession or vocation; it only says profession includes vocation.

Points to be considered:

- (I) If an assessee carries on more than one business in the previous year, then the total of all the businesses will be considered taxable income.
- (II) If a person is doing speculative business, then the income of such business will be treated separately, i.e., that will not combine with any non-speculative business.
- (III) The business should have been carried on the previous year; it is not necessary, however, that business should be carried on throughout the year.
- (IV) Only real profit of the business is to be taxed; imaginary or anticipated profit cannot be tax.

- (V) Receipts of capital nature cannot be taxed under this head; similarly, losses of capital nature are not allowed as deductions under this head.
- (VI) Any amount recovered in the previous year that has been deducted in any prior previous year will be considered as taxable income. For example, bad debts recovered.
- (VII) Losses incidental to be trade are deductible. If they are not of capital nature, such losses are deductible under ordinary commercial principles; for example, losses through carelessness or dishonesty of an employee, loss of stocks in transits due to natural causes, etc.
- (VIII) Income tax is chargeable even from illegal business. Eg., income from smuggling is taxable, but at the same time expenses or losses incurred in earning such income are allowed as deductions.

7.3 Incomes considered under the heads of business and professions

Under section 28 of income tax Act. The following income are chargeable to income tax under the head profit and gains of business and profession.

- (i) The profit and gains of any business or profession which was carried on by the assessed in anytime during previous year.
- (ii) Any compensation received by any person who is managing the affairs of Indian company holding or substantially for the termination of his management.
- (iii) Income derived by trade, profession or similar association for specific services performed to its member.
- (iv) Export incentives which include profit on sale of import licenses, cash, assistance duty drawback of customs and central exercise.
- (v) Value of any benefit or perquisites whether convertible in to money or not, arising during the course of carrying on any business or profession.
- (vi) Any interest, salary. Bonus, commission or remuneration due to or received by a partner of a firm from the firm in which he is partner.
- (vii) Any some whether received or receivable in cash or in kind under an agreement for not carrying out activity in relation to any business or not sharing any knowhow, patent, copyrights, Trademarks, License, franchisees or other right of similar nature.
- (viii) Any sum received under a keyman insurance policy including the sum allocated by way of bonus on such policy.
- (ix) Where speculative transactions are carried on by an assessed than such speculative business shall be deemed to be distinct and separate from any other business.

7.4 Important points regarding computation of business or profession income

- (1) The business must be carried on by the assessee, the assessee himself must manage the business. Even if the business of the assessee is managed by the manager or any other authorized person, the business is carried on by the assessee.

- (2) Income of all business taken together to be taxable income If there is more than one business or profession owned by an assessee, the total income of all of them shall be taxable under this head. If there is a loss in one of the businesses, it will be set off against the income of the other business.
- (3) The loss of the business of speculation shall not be set off against the income of other business. Speculation is an exception. Loss of speculative business cannot be set off against profit of non-speculative business.
- (4) The business must have been carried on during the previous year The assessee shall pay tax in respect of whatever period the assessee carried on the business during the previous year. The business need not have been carried on for a full year,
- (5) Profits on dissolution are not taxable:
 1. Profits on sale of properties on dissolution of business are not taxable, but profits on sale of stock are taxable. The entire business may be sold as a unit. Where the profit is included in the stock but the stock is not separable, it is not fully taxable.
- (6) Beneficial ownership of the business is also taken into account. Who is actually the recipient of taxable income in terms of income tax law? Taxability is determined accordingly. Even if the going concern is purchased and operated as its legal owner, the profit before the registration of the company is also taxable in terms of the company itself.
- (7) Expenditure in respect of any business activity is allowed against any income.

All expenses incurred during the year in respect of a single transaction of business activity are set off against the income of that transaction. Even if there are previous expenses for this transaction, it will be beneficial

- (8) The profit appealed is not taxable.
In the future of the business the liability to pay the imputed profit and income tax does not arise.
- (9) After all expenses in accordance with the general principles and methods of business:

The capital borrowed also the interest paid is clearly remunerative. The details of which are in Section-67(3) regarding assessment of firms. If a partner has invested in the firm by borrowing money with the intention of earning his share of the profits in the firm, he can earn this interest out of the profits of his share. The general principles of commerce are kept in mind while calculating the actual profit or loss of a business. Expenditure which is not recoverable under income tax law can also be recoverable under the general principles of that type of business. In case of capital loss, it is not allowed as deduction under this head.

- (10) Bad debts recovery etc. made in subsequent year is taxable.
Any deductions received in respect of expenditure losses or liabilities incurred during the previous accounting years, if recovered subsequently, shall be treated as taxable income in the year of recovery.
- (11) Discontinued business expenses not recoverable.
If a business is closed before the commencement of the accounting year, its expenses are not allowed to be offset against the income of another business.
- (12) Liability arising under contract:

Deductions other than those expressly mentioned in the Income-tax Act may also be allowed later, if those deductions are later allowed in accordance with the general principles of business accounting.

(13) Interest paid on borrowed capital:

The capital borrowed also the interest paid is clearly remunerative. The details of which are in Section-67(3) regarding assessment of firms. If a partner has invested in the firm by borrowing money with the intention of earning his share of the profits in the firm, he can earn this interest out of the profits of his share.

(14) For losses incidental to business:

As per the provisions of Section-30 to 43 of the Act, the loss of pumping is not recoverable. However, it is not enough if the loss is not a capital loss and the loss in the business is merely related to the practice. But it is also necessary to be relevant to the business.

Examples of losses that are incidental to business:

(1) Loss resulting from negligence or dishonesty by employees of a business or profession:

If the employee has not deposited the amount of cash sale or collection in the firm, similarly, if an employee embezzles or steals money from the firm, that loss is also not a capital loss and can be offset against the income of the business.

(2) Damage to the ongoing assets of a business whether due to natural causes or war or as a result of change in route or due to negligence or fraud of an employee may be treated as business loss.

(3) If there is a loss as a result of giving an amount as an advance to the employees, that amount can also be deducted from the income of the business. Such advances should be made in accordance with sound business acumen.

(15) Illegal business losses:

In terms of provisions of the Income Tax Act, illegal business losses can also be set off from the income of the business or profession. There is no power to disallow illegal business losses if the income or profits thereof are taxable.

7.5 Deductions received from income under the head of business and professions

Certain expenses are specifically allowed as deduction from income of business or profession.

- (1) Rent, rate, taxes, repairs, and insurance for the building used for the purpose of business or profession.
- (2) Repairs and insurance for machinery, plant and furniture for the purpose of business or profession.
- (3) Depreciation on any block of assets as per the rates of depreciation specified under section -32.
- (4) Expenditure on scientific research.
- (5) Expenditure on acquisition of patent or copyright, knowhow, etc. Deduction will be allowed at a flat rate of every year.

- (6) Preliminary expenses are allowed to be written off equally are 5 years.
- (7) Expenses relating to employees such as bonus, commission, salary, employees, contribution or approved superannuation. Provident fund or approved superannuation fund contribution towards approved gratuity fund etc. will be allowed as deduction.
- (8) Interest on borrowed capital for business purpose will be allowed as deduction.
- (9) Amount of bad debt in the previous year incidence to business or profession carried on by assessee well be allowed as deduction.
- (10) Expenses incurred by a company for the purpose of promoting family planning among its employee is fully deduction if it of revenue nature. If such expenditure in 5 equal instalments commercial from the P.Y in which it was incurred.
- (11) Advertisement expenditure will be allowed as deduction. But no deduction will be allowable in respect of expenditures on advertisement in any souvenir, magazine, pamphlets etc. published by a political party.
- (12) Any expenditure on travelling for business purpose is allowed as deduction.
- (13) There are number of other expenditures where'd u/s 37 which are known as general deduction are.
- ✓ The expenditure should wholly and exclusively for the purpose of business or profession.
 - ✓ It should not be capital expenditure.
 - ✓ It should not be personal expenditure of the assessee.
 - ✓ It should be legal in nature.

7.6 General Deductions

- Legal expenses for depending any suit against business, expenses of appeal regarding sales tax.
- Amount of compensation related to business. To employees, related with business agent. MD or any other party in the interest of business.
- Insurance premium against state insurance etc.
- Subscription to trade or professional journals or membership fee for association.
- Present given to employee on Diwali.
- Royalty paid.
- Audit fees related to accounts.
- Entertainment expenses.
- Professional taxes.
- Deposit for telephone connection.
- Puja or Muhurat expenses, Chandla expenses etc.

7.7 Depreciation (Section-32)

Depreciation is the diminution in the value of the assets due to normal wear and tear.

There is various method for calculating depreciation. But the system of claiming depreciation u/s income tax act quite different from financial account.

- Assets should be owned by the assessee, such asset.
- Should be use for that business or profession, income of which is being calculated.
- Depreciation always calculated on written down value of assets, there are certain exception to it.
- Depreciation is allowed under reducing balance method only except companies in to generation and distribution of electricity.
- Depreciation is allowed on blocks of asset. Block of asset means group of assets falling with in class of assets having some rate of depreciation like.
- Tangible assets being building, machinery, plant or furniture.
- Intangible assets like patents, knowhow, trademark, license copyright etc.
- If any assets are used for less than 180 days 50% of normal rate will be charged as depreciation,

SUMS OF DEPRECIATION:

- (1) Mr. Pravin Soni owns five machines on 1/4/2005 of which 3 machine (40% Depreciation) were of book value 65,000) and book value of 2 machine (25% Depreciation) was 96,000 on 30.4.2023 a new machinery was purchased of RS 50,000 on which rate dep. Was 40% on 1.7.2023 on old machine 140% Dep) was sold for Rs 42,000.

Calculated the total admissible dep. In respect of both block of machine for A.Y. 2024-25

Calculation of Depreciation for A.Y.2024-25

Particulars	Amt (Rs)	Dep. (Rs.) Amt
(I) Block: 1 (40% Depreciation)		
Written down value on.1.4.2023 of machine	65,000	
Add: cost of new machinery purchase	50,000	
Add: expense of new machinery purchase	-	
	1,15,000	
Less: Total sale proceeds of machine sold in P.Y.	42,000	
Adjusted W.D.V of assets (base for Dep)	73,000	
Lees: Dep during (73,00×40%)	29200	29,200
W.D.V on 31/3/2024	43,800	
(II) Blocks 2 (25% Dep)		
Written down value on 1.4.2023 of machine	96,000	
Less: Depreciation (96,000×30%)	24,000	24,000
Written down value on 31-3-2024	72,000	
Admissible Depreciation During .2023-24		53,200

- (2) Following particulars are furnished by Vikash engineers relating to its accounting year ending 31/3/2024

Assets	W.D.V(1/4/2024)	Addition	Rate of Depreciation
(1) Furniture	16,250		10%
(2) Machinery	2,71,750	60,000	25%
(3) Building	5,13,825		10%
(4) Motor car	51,600		20%

New machinery was installed on 1/10/2019

The canteen building costing Rs 50,000 was destroyed by on 30.06.2023. it was constructed in sept 2000 the W.D.V of this building was Rs. 26.125, which was included in total W.D.V off building 5,13,825. Insurance co. accepted a claim of Rs. 26,000.

Calculate the depreciation allowed for A.Y.2024-25.

NOTE:

No. of days for which new machine was used between

1/10/2022	31/3/2024
October	31
November	30
December	31
January	31
February	28
March	31
	182 days

100% of normal rate of Dep. Will be calculated on Rs. 60,000

Calculation of Depreciation for A.Y 2024-25.

Particulars	Amt (Rs)	Dep. (Rs.) Amt
(1) Block: 1 Furniture (10% Depreciation)		
W.D.V as on 1/4/2023	16,250	
Less: Dep u/s 32(16,250 x 10%)	1,625	1625
W.D.V as on 31/03/2024	14,625	
(2) Block:2 Machinery (25%Dep)		
W.D.V as on 1.4.2023	2,71,750	
Add: cost of new machinery purchased 1/10/2023	60,000	
Adjusted W.D. V	3,31,750	
Less: Depreciation u/s 32 (3,31,750 x 25%)	82,938	82,938
W.D.V as on 31/3/2007	2,48,812	
(3) Block: 3 Building (10% Dep)		
W.D.V as on 1/4/2023	5,13,825	
Less: claim accepted by insurance company.	26,000	
Adjusted W.D.V	4,87,825	
Less: Dep u/s 32 (4,87,825x10%)	48,783	48,783
W.D.V. as on 31/3/2007	4,39,042	

(4) Block: 4 Motor (20%Dep) W.D.V as on 1.4.2023 Less: Dep u/s 32 (51,600x20%) Written down value on 31/3/2024	51,600 10,320 41,280	10320
Admissible Depreciation During A.Y. 2024-25		1,43,666

- (3) The book value of two building owns by Suresh Sharma as on 1/4/2023 is Rs. 1,50,000 (10%Dep) on 1/06/2023 a new building (Dep.10%) was purchased at Rs. 1,25,000 and 31/12/2023 one of the old buildings was sold for 3,00,000 calculate Depreciation allowances for A.Y. 2024-25.

Solution:

Particulars	Amt (Rs)	Dep. (Rs.) Amt
W.D.V of Building (10%Dep)	1,50,000	
Add: cost of building purchased	1,25,000	
	2,75,000	
Less: sales proceeds of building	2,75,000	
Sold / adjusted W.D.V	0,00,000	
Admissible Depreciation		Nil

Note: Because there is no value in the block of building after deducting sale proceed .no depreciation is allowed on it even though there are two building remaining in the business.

- (4) X Ltd owns 2 plants on 1/4/2023 plants A and B. The W.D.V of both worth Rs 2,37,000 on that date. Company purchases plant on 31/5/2023 for 20,000.

All the three plants were sold on 31/3/2024 for s 10,000, 15000 and 24,000 respectively. Rate of Depreciation is 25%.

Calculated the admissible depreciation for A.Y. 2024-25.

Written down value of plant	2,37,000	
Add: Purchase of new plant (plant C)	20,000	
	2,57,000	
Less: sales proceeds (ABC)	49,000	
	2,08,000	
Admissible Depreciation		Nil.

Note: Though their W.D.V of Rs 2,08,000 there is no plant left with business i.e. all the three plant, A. B and C are sold. Therefore, no depreciation will be allowed as there is no assets in the business. 2,08,000 will be treated as short term capital loss on sale of plant.

- (5) (Plant and machinery and building) following are the details of Messer mane as on 1/4/2023.

Particulars	Original Cost (Rs)	Book Value as on 2023	Rate Depreciation
(A) Plant & Machine:			
1	1,00,000	75,000	25%
2	2,00,000	1,10,000	20%

3	50,000	30,000	25%
4	80,000	40,000	20%
(B) Building:			
Factory A	1,80,000	1,50,000	5%
Factory B	6,00,000	3,00,000	10%
Factory C	9,00,000	4,52,000	10%

During the year 2023-24 following transaction were made.

- (1) On 15/4/2023 sold factory B for RS 4,00,000.
- (2) On 20/5/2023 purchase machinery 5 for RS 1,00,000 (Rate of Depreciation 25%)
- (3) On 14/11/2023 sold machinery 3 for RS. 40,000.
- (4) On 15/1/2024 purchase factory building D for RS. 20,00,000(Depreciation 10%)
- (5) On 1/6/2024 purchase patent RS 50,000.
- (6) On 1/1/2024 paid RS 40, 000 for franchises.

Calculation of Depreciation for A.Y 2024-25

Solution:

Particulars	Amount (Rs)	Depreciation (Amt)
Block: 1 Plant and machinery 25% Depreciation		
W.D.V as on 1.4.2023 (75,000+30,000)	1,05,000	
Add: cost of machine purchased	1,00,000	
	2,05,000	
Less: sale proceeds machinery 3	40,000	
Adjusted W.D.V	1,65,000	
Less: Depreciation 25% on 1,65,000	41,250	41,250
W.D.V as on 31/3/24	1,23,750	
Block: 2 Plant and Machinery (20%Dep)		
W.D.V. 1.4.2023(1,10,000+40,000)	1,50,000	
Less Depreciation 20% on 1,50,000	30,000	30,000
	1,20,000	
Block: 3 Factory Building (5%)		
W.D.V on 1/4/2023	1,50,000	
Less: Depreciation @ 5% on 1,50,000	7,500	7,500
W.D.V as on 31/03/2024	1,42,500	
Block: 4 Factory Building (10%)		
W.D.V as on 1.4.2023 (3,00,000+4,52,500)	7,52,500	
Add: cost of factory purchase on 15/1/2024	20,00,000	
Adjusted W.D.V	27,52,500	
Less: Depreciation		
$20,00,000 \times 5/100 = 1,00,000$		
$3,52,000 \times 10/100 = 35,200$	1,35,200	1,35,200
W.D.V AS on 31/3/2024	22,17,300	
Block: 5 (Intangible Assets 25%)		
Patent	50,000	
Less: Depreciation (25% on 50,000)	12,500	12,500

W.D.V as on 31/3/2024	37,500	
Franchise:	40,000	
Less: Depreciation 12.5% on 40,000	5,000	5,000
	35,000	
Total Admissible Depreciation		2,31,450

(6) Shri Bholanath is consulting physician. The summary of his cash receipt and payment account for the year ended in 31.3.24 you are required to find out his total taxable income from business and profession.

Receipt	Amount (Rs)	Payment	Amt (Rs)
To opening cash	66,000	Staff salary	50,000
Consultation fees	1,40,000	Membership fees	40,000
2004-05 5000		Tuition expenses	10,000
2005-06 5000		Expense of consulting	60,300
2006-07 1,35,000		Purchase x ray machine	90,000
Gift from client	8,000	Motor car expense	31,000
Loan from client	10,000	Sons' marriage expense	15,120
Salary from medical college	16,800	Advance income tax	10,000
Visit fees	10,000	Household expense	54,500
Sale of shares	15,000	Sub to magazines	4,000
Bank interest	2,200	Sunday expense	2,000
Gross dividend	12,000	Purchase of medicine	21,000
Loan from bank	20,000	Life insurance premium	80,000
Cash gift on son's Marriage	10,000	Audit fees	7,000
Fees of tuition class	40,000	Donation	40,000
Net int on government Security	14,000	Closing balance	90,80
Income from surgeon	90,000		
	4,54,000		4,54,000

- 1) He runs regular tuition classes for medical student.
- 2) Outstanding fees RS 6,000
- 3) Charge depreciation at 50% on x ray machine and 15%. On motor car the W.D.V of motor car on 1/4/2023 is Rs 75,000.
- 4) Half of the motor car expense in respect of personal uses.
- 5) Unrecorded consultation fees 61,500. (Detected by ITO after scrutinising passbook.)
- 6) Opening stock and closing stock of medicine is Rs. 16,000 and 8000 respectively.

- 7) L.I.C premium is in respect of his own policy Rs 50,000 and his wife policy 30,000.

Solution:

Assessee: Bholanath.

A.Y 2024-25

Resident Status: Ordinary residents P.Y 2023-24

Particulars	Amt (Rs)	Amt (Rs)
Total Income:		
Consultation fees	1,40,000	
Gift from client	8,000	
Visit fees	10,000	
Income from surgery	90,000	
Unrecorded consultation fees	61,500	
Tuition fees	40,000	3,49,500
Less: Admissible:		
Staff salary	50,000	
Membership fees	40,000	
Expense of tuition	10,000	
Expense of consulting	60,300	
Dep. On X Ray Machine	45,000	
Motor car expense	15,500	
Subs to magazine	4,000	
Sundry expense	2,000	
Expenses of medicines	29,000	
Opening 16000+21000-cl. 8000=29,000		
Audit fees	7,000	
Dep. on motor car	5,625	
		2,68,425
Taxable income business and profession		81,075

1. Nathwani solicitor Doctor given below is his income expenditure P.Y. 2023-24.

Consultant fees	1,40,000
Operation charges	4,70,000
Hospital income	55,000
Net surplus in supply of drugs	8,000
Gift in cash from patient	12,000
Payment during the year	
Wealth tax	1,22,000
Hospital expenses	2,50,000
Personal expenses	15,000
Car maintenance (¼ is for official purpose)	60,000
Purchase of instrument	60,000
Payment to public, provident fund	54,000
LIC premium	6,000
Allowable depreciation	9,000
Travelling expenses	15,000
Interest on capital	2,800

- 1) Rs. 1000 is included in salary which is paid to Dr. Zaveri's Son which is unreasonable.
- 2) Travelling expenses includes Rs. 3000 for family pilgrimage.

Find out the taxable income from business and profession for A.Y.2024-25.

Solution:

P.Y:2023-24

A.Y: 2024-25

Calculation of income from business and profession

Particulars	Amt (Rs)	Amt (Rs)
Total Income		
Consultation fees	1,40,000	
Operation charges	4,70,000	
Hospital income	55,000	
Net surplus in supply of drugs	8,000	
Gift in cash from patient	12,000	
	6,85,000	6,85,000
Less: Admissible expenditure:		
Hospital expenses	2,49,000	
Car maintenance	15,000	
Allowable depreciation	9,000	
Travelling expenses	12,000	
	2,85,000	2,85,000
Taxable income from business and profession.		4,00,000

2. Mr. Sunil is auditor; he keeps his a/c's on cash basis and his summarized cash book for year ended 31.3.24 is as follows.

Receipts	Amt (Rs)	Payment	Amt (Rs)
To balance bld	6085	By office expenses	44,100
To Audit fees		By Tuition fees expenses	11,075
2021-22 45,000		By Personal expenses	33,365
2023-24 1,00,000	1,45,000	By Membership expense	140
To income tax a/c	7,970	By LIC premium	6,200
To fees from tuition	25,500	By investment N.S.C	15,000
To Int. on investment	3,950	By Income tax	2,486
To Income from house property	4,400	By Purchase of motor car	48,450
To Director's fees	10,000	By Motor expense	6,480
To Income tax consultation fees	65,000	By municipal taxes	150
Sales tax consultations fees	10,800	By expense incurred to shift office	1,000
Int. on N. S .C	3,000	By Staff salary	27,300
		By Travelling expenses	15,000

		(including Rs 5000 for visit to family friends)	
		By Loss on card game	2,000
		By Diwali expense	2,500
		By Payment of int. Towards bank loan (Rs 20,000+ interest)	28,800
		Stipend	5,200
	2,81,750		2,81,750

Other information:

- 1) In office expense Rs 1,170 is in respect of cost of book purchase for profession.
- 2) 1/3rd of motor expenses is for profession.
- 3) Depreciation allowable for motor and furniture is Rs 995.
- 4) Outstanding audit fees Rs 10,000 for P.Y 2023-24.
- 5) Rs 1500 given by client as gift is not recorded.

Particulars	Amt (Rs)	Amt (Rs)
Total Income:		
Audit fees	1,45,000	
Income from accounting	7,970	
Fess from tuition classes	25,500	
Income tax, consultancy fees	65,000	
Sales tax consultancy fees	10,800	
Client' gift	1,500	
Total income		2,55,770
Less: Expenditure		
Office expense (44,100,1170)	42,930	
Purchase of book for profession	1,170	
Tuition expense	11,075	
Membership fees	140	
Motor expense	2,160	
Staff salary	27,300	
Travelling expenses.	10,000	
Diwali expenses	2,500	
Payment of int. on loan	2,800	
Stiphen	5,200	
Allow Dep. on motor and furniture	995	
	1,06,270	1,06,270
Taxable income from business and profession.		1,49,500

3. Following is the P & C A/c of Mr. Manshukhlal who is practicing C.A and keeps his account on Merchantile basis.

Particulars	Amt (Rs)	Particulars	Amt (Rs)
Salaries	20,000	Profession fees	
Stephen	12,000	2021-22 20,000	

Rent	6,000	2022-23,000	
Subscription	2,000	2023-24 2,00,000	2,50,000
Drawings	20,000	Salary from common collage	18,000
Motor expense	15,000	In rent from let out house	12,000
Office expense	10,000	Bank interest	12,000
Prepaid taxes	8,000	Gain from sale of shares	20,000
Travelling expense	15,000	Miscellaneous expenses	3,000
Insurance	12,000		
Income tax	5,000		
Net profit	1,90,000		
	3,15,000		3,15,000

Other information:

- (1) Taxes includes Rs. 3000 as municipal tax for let out house property and remaining is for professional purpose.
- (2) 1/3rd use of motor car is personal .value of car as on 1.4.2023 was Rs 90,000 after deduction of depreciation.
- (3) Rate of Depreciation is Rs 33 1/3rd %
- (4) Insurance premium includes Rs 8000 for medical insurance for his wife.
- (5) Outstanding fees for the year 2023-24 are 20,000.
- (6) Salary payable for P.Y 2023-24 is Rs 4000 and included in the salary of RS 20,000 is amount of RS 2000 which is for the P.Y 2023-24.

Solution:

Calculation of Income from business and profession.

Particulars	Amt (Rs)	Amt (Rs)
Total income.		
Profession fees	2,00,000	
Miscellaneous income	3,000	
O/S salary	20,000	
	2,23,000	2,23,000
Less: Admissible expenditure:		
Salary	22,000	
Stephen	12,000	
Rent	6,000	
Subscription	2,000	
Motor car (15000x2/3)	10,000	
Office expenses	10,000	
Taxes (8000-3000)	5000	
Travelling expenses	15,000	
Insurance (12000-8000)	4,000	
Dep. Is 33 1/3 rd		
[Rs 90,000x33 1/3 rd x2/3]	20,000	
	96,000	96,000
Taxable income from house property:		1,27,000

Particulars	Amt (Rs)	Amt (Rs)
Net profit as per P & L A/C		XXX
Add: Inadmissible expenses taxable	XX	
Income not recorded	XX	
Income tax	XX	
Capital expenditure	XX	
Provisions / reserves	XX	
Expense of Dep allowed	XX	
charity / Donation / Bonus payable' or'	XX	
Sales tax payable	XX	
Excess duty outstanding	XX	
Personal expense	XX	
Interest on capital	XX	
20% of payment exceeding Rs. 20,000 in cash or bearer.		
Less: Admissible expense not recorded nontaxable income under this head:		
Excess of depreciation recorded		
any other expenditure not shown in the P&L A/C.... Dr side		
Salary income		
Bad debt recorded (not deducted earlier)		
Dividend		
Sale of share		
Profit on sale of asset		
Wining of card game	XXX	XXX
Income for house property		

NOTE: Bonus, commission to employees, sales tax, excise duty or other taxes, interest on loan to financial institution or schedule bank should be deducted only on payment basis even though are in mention.

1. Mr. Kumar previous the following a/c for the P.Y ending 31/3/2024.

Trading A/C

Particulars	Amount	Particulars	Amount
Opening stock	11,000	Sales	2,84,500
Purchase	80,000	Closing stock	26,400
Wages	60,000		
Factory, rent rates and taxes	30,000		
Depreciation	15,000		
Gross profit	10,9,900		
	3,10,900		3,10,900

Profit and loss A/C

Particulars	Amount	Particulars	Amount
To salary	27,000	By gross profit	1,09,900
Est fees	6,100	Rent of staff quarters	19,000
Int. on capital	3,300	Refund of IT.	2000
Fire insurance	200	Sales machine	25,000
Bad debts	7,000	Bad debts recovered	
Income tax	6,000	Not allowed as deductible earlier	6000
Exp. On sales taxpayer	2,000	Sunday receipts	35,000
Exp. On processing	13,000		
Diwali expense	4,000		
Legal expense	7,000		
Medical expense			
Proprietor	3,000		
Staff well fair expense	2,000		
Repair of staff quarters	4,000		
Security Dep. for telephone connection	10,000		
Bonus paid to employee	20,000		
Previous for sales tax and excise duty	25,000		
General reserve	26,000		
Municipal tax for staff quarter	4,000		
Entertainment exp.	16,000		
Net profit	10,400		
	1,96,000		1,96,000

- (1) Purchase includes petty purchase of Rs 21,000 paid by bearer check.
- (2) Assesse has valued stock of cost price since the beginning of the business but from 2023-24 he has valued stock at market price which has in excess of cost price of cost price at 10%.
- (3) office salary includes Rs 10,400 paid to Proprietor.
- (4) Diwali expenses include Rs 1000 given to relatives.
- (5) Return down value of factory building as on 01/04/23 was Rs 90,000
- (6) sales tax and excise duty amounted to only Rs 20,000 which was paid on 25/06/2024.
- (7) Depreciation on machine amounted to RS 8500 under section 32 last date of filling the return is 31/07/24.

Solution:

Particulars	Amt (Rs.)	Amt (Rs.)
Net profit as per P & C A/c		10,400
Add: Inadmissible expense and taxable income not recorded.		
Purchase in excess of Rs 20,000 through bearer check (21,000 X 20/100)	4200	
Salary to Proprietor	10,400	
Interest on capital	3,300	
Diwali expenses	1,000	
Medical Expenses of Proprietor	3000	
Provision for sales tax and excise duty	5,000	
Income tax	6,000	
General reserve	26,000	58,900
		69,300
Less: Admissible Expenses and other nontaxable income under this head		
Closing stock are valued	2,400	
Refund of IT.	2,000	
Sales of machinery	25,000	
Bad debts recorded (not deducted earlier)	6,000	
Addition Dep. Under sec, 32	2500	
		37,900
Income from business and profession		31,400

Note: For building Dep. Rate is 10%

Machine is 15%

Dep. Allowable

Machine – 8500	8500
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Dep. Of factory building $90,000 \times 10\%$ = 90,00

17,500

- Depreciation deducted in trading A/C is less by 2500(17,500-15,000) RS 2500 will be deducted from net profit.
- Provisions for sales tax was Rs. 25,000 which is not allowed as deduction but in the adjustment, it is given that Rs 20,000 was paid that is 31/07/06; Rs. 20,000 is allowed and remaining 5000 disallowable.

2. Shri Ram Gopal Verma is owner of a business following is the P & L A/C for the year ending 31.3.2024.

Profit and loss A/c

Particulars	Amt (Rs)	Particulars	Amt (Rs)
Interest	1,800	Gross profit	1,22,700
Repair and renewal	2,200	Int. on debenture	10,000
Insurance	4,200	Rent from HP	36,000

Depreciation	5,600		
Compensation	10,200		
Low charges	5,700		
Labor welfare exp.	3,000		
Contribution to un recognition provident fund	800		
Subscription given to political parties	5,800		
Net profit	1,30,000		
	1,68,700		1,68,700

- 1) Interest includes Rs 200 on loan taken to purchase debenture and Rs 300 on loan for re construction of HP.
- 2) 40% of repair and renewal expense are for house property.
- 3) Depreciation includes Rs 1200 on H.P.
- 4) Insurance includes 30% for fire insurance of HP 30% for workers accident insurance and balance for life insurance.
- 5) Low charges include Rs 2000 relating to a petition file in the court.
- 6) Subscription includes RS .2000 given for election purpose to political parties.
- 7) Amount not deducted to P & S A/C are:
 - (1) Diwali expense 500.
 - (2) Theft of cash 1500.
 - (3) Expense for new telephone connection Rs.2000.
 - (4) Find out the gross total income of Mr. Ram Gopal Verma for A.Y 2024-25.

Note: contribution to approved PF / Gratuity or rec.PF is allowed as deduction but contribution to unrecognized or unapproved Pf / Gratuity is in admissible expenditure.

Solution:

- 1) Contribution to public provident fund is an investment not allowed as deduction.
- 2) Any advertisement expense / subscription given to political parties will not be allowed as deduction.

Calculating of gross total income of Mr. Ram Gopal Verma for A.Y 2024-25.

Income from business and profession		88,320
Income from house property		
Gross annual value	36,000	
(-) Municipal tax	-	
Net annual value	36,000	
Less: Deduction U/S 24		
Standard deduction 30%	10,800	
Int. on loan	300	24,900
Income from other source		

Interest on debenture	10,000	9,800
Less: interest on loan	200	1,23,020

Particulars	Amt (Rs)	Amt (Rs)
Net profit as per P & A/C		1,30,000
Add: inadmissible expenses and taxable income not recorded:		
Interest on loan for house property and security (200+300)	500	
Repair and renewal (2200x40/100)	880	
Insurance (4200x70%)	2940	
Depreciation of house property	1200	
Contribution to unrecognized Pf	800	
Subscription given to political parties	2,000	8,320
		1,38,320
Less: Admissible expenses not recorded / nontaxable income under this head		
Interest on debenture	10,000	
Rent from house property	36,000	
Diwali expense	500	
Theft of cash	1500	
Expenses of new telephone connection	2,000	50,000
Income from business and profession.		88,320

3. Mr. Rajesh Carries on this business for the year ending 31/03/24. His trading and P&C A/C were as follows:

Particulars	Amt (Rs)	Particulars	Amt (Rs)
Opening stock	20,000	Sales	1,89,000
Purchase	1,09,000	Closing stock	52,000
Salaries	6,000	Int. on jay co. Ltd deb.	2,000
Rent	11,000	Dividend from u/s	2,000
Bonus payable	3,000	Discount received	12,000
Postage and station	4,000	Race wining	12,000
Miscellaneous exp.	4,000		
Advertising exp.	22,000		
Drawings	12,000		
LIC premium	5,000		
Car expenses			
Driver's salary	6,000		
Repairs	12,000		
Property tax	4,000		
Medical expense of son's at Apollo hospital			
	3,000		
cost of NSC	3,000		
Net profit	45,000		
	26,9000		26,9000

- (1) Adv. Expenses included cost of 20 gift pack of Rs 1100 each presented to leading customer.

(2) Car was used 2/3rd for business.

(3) Property tax of Rs 4000 was in respected of Self occupied. House whose rental value is RS 18,000.

Compute gross taxable income for A.Y 2024-25 of Mr. Rajesh.

Solution:

Particulars	Amt (Rs)	Amt (Rs)
Net profit as per P & C A/C		45,000
Add: Inadmissible expenses and taxable income not recorded:		
Bonus payable	3,000	
Drawings	12,000	
LIC premium	5,000	
Car expense (18000X1/3)	6,000	
Property tax	4,000	
Medical expense of son	3,000	
Cost of national saving certificate o	3,000	36,000
		81,000
Lees: Admissible expense and taxable income under this head.		
Interest on Debenture	2,000	
Dividend from U/I	2,000	
Race wining	12,000	16,000
Income from business and profit		65,000
Income from other source		
Int. on debenture	2,000	
Race wining	12,000	14,000
		79,000

Note: Interest on loan given by wife is not allowed as deduction if she is not earning but if information is given then by Shree Dhan then is allowed as deduction.

4. Shri Raman furnishes the following information relevant to the P.Y.2023-24.

P & L A/C

Particulars	Amt (Rs)	Particulars	Amt (Rs)
Household Exp.	11,200	Gross profit	1,69,000
Bad debts	600	Commission	5,000
Provision for B.D	4,800	Sunday receipt	8,000
Fire insurance	1,000	Bad debts recovered	2,000
Salary to staff	8,000	Interest on government security	17,000
Salary to Raman	3,000		
Contribution to un approved gratuity fund	32,000		
Int. on O/D			
Int. on capital	13,000		

Int. on loan given			
By his wife	1,000		
Dep. on building and furniture	13,600		
Advertisement exp.	3,800		
Expense on new sign board	1,000		
General expense	4700		
Net profit	97,300		
	2,01,000		2,01,000

- (1) General expense included personal expense Rs .1700
- (2) Income of RS 3000 approved during P.Y 23-24 is not recorded in P& C A/C.
- (3) Mr. Raman contributes Rs 14,000 towards public provident fund.
- (4) According to IT provision dep. On building and furniture is Rs 3,000.

Solution:

Particulars	Amt (Rs)	Amt (Rs)
Net profit as per P & I A/C		97,300
Add: inadmissible expense and taxable income not recorded		
Household expenses	11,200	
Provision for B.D	4,800	
Contribution to unrecognized gratuity fund	32,000	
Interest on capital	13,000	
Interest on loan of RS wife	1,000	
Expense on neon sing board	1,000	
Excess dep. On furniture building	10,600	
General expense	1,700	
Income unrecorded	3,000	
Salary to Raman	3,000	81,300
		1,78,600
Less: Admissible expense and nontaxable income:		
Interest on government security	17,000	
Dep. On neon sign board	250	17,250
		1,61,350

- Provision for bad debt for income tax or any other provisions reserves deduction.
- Expenses for neon sign board are considered as capital expenditure in absence of any other information. the capital expenditure will not be allowed as deduction but dep. The rate of 25% will be allowed as deduction.
- Rate of depreciation applicable for A.Y 2024-25.
 - 1) Building 10%
 - 2) Furniture and fitting 10%
 - 3) Plants and machinery 15%
 - 4) Motor car 15%

5) Intangible assets 25%

- Revenue as well as capital expenditure on scientific research will be 100% allowed as deduction in the year in which it was incurred and donation for scientific research to any approved institution will be allowed to the extent of (25%)

5. Mr. X furnishes the following particulars for the P.Y relevant to the A.Y.2024-25

P & L A/C

Particulars	Amt	Particulars	Amt
Salary to staff	22,000	Gross profit	2,50,000
Entertainment exp.	13,000		
General exp.	11,000		
Bad debts	45,00		
Reserve for BD	10,000		
Adv. Expense	7,000		
Wealth tax	2,000		
Fringe benefits tax	1,000		
Exp. on acquisition of patent rights	28,000		
Machine purchased			
For scientific research	10,000		
Donation given for scientific research to approved university	2,000		
Depreciation	10,000		
Provision for IT	4,000		
Net profit	1,25,500		
	2,50,000		2,50,000

- (1) Salary to staff includes salary paid to relative which is unreasonable to the extent of RS 3100.
- (2) Provision for it is in excess to the extent of Rs. 3000.
- (3) Dep. According to provision comes to Rs. 9500
- (4) During the P.Y 2023-24 the following payments were made and the same have not been debited to P& L.
- (5) patents were acquired on 4.11.23 find out the taxable income of X for the A.Y 2024-25 due date of filling return is 31.07 relative to the A.Y

Note: if any asset is purchased on or after 4th October then it is utilized for less than 180 days allowed dep. will be 12.5(50% of normal rate)

- (1) Rs. 3000 paid on 10/6/2023 as account of o/s customer duty of the P.Y 20/4/23.
- (2) Rs. 5000 paid on 15/12/23 on a/c sales tax of the P.Y 20/04/23.

Calculation of taxable income from business and profession.

Particulars	Amt (Rs)	Amt (Rs)
Net profit as per P& c A/C		1,25,500
Add: Inadmissible expense and tax value income not recorded		
Salary	3,100	
Research for bad debts	10,000	
Wealth tax	2,000	
Fringe benefit tax	1,000	
Exp. On acquisition of patient	28,000	
Depreciation in excess	500	
Provision for income tax	4,000	48,600
		1,74,100
Less: Add admissible exp. nontaxable income		
Donation to app institution for scientific research (2000x25%)	500	
Sales tax for A.Y 2023-24	5,000	
Dep. on patient (28000x12.5%)	3,500	9,000
Income from business and profession		1,65,700

Q-6 Shri Nayan Acharya P & L A/C of P.Y

Dr			Cr
To salary	25,000	By gross profit	1,20,000
Legal charges	4,000	By discount and commission	6,000
Donation charity trust	6,000	Profit sale of share	15,000
General expense	5,000	Profit sale of Machinery	1,000
BDR	3,000	Interest on post office	
Bad debts	7,000	Saving A/C	2,000
Provision for IT	6,000	Bad debts recorded	6,000
Income tax	12,000		
Insurance	8,000		
Motor car expenses	15,000		
Sales tax (4000U/S)	12,000		
Net profit	47,000		
	1,50,000		1,50,000

Additional information:

- 1) Sale consideration machinery is RS 10,000
- 2) Insurance includes RS 3000 for Mediclaim policy and Rs 2000 for life policy.
- 3) Bad debts recovered includes Rs 1500 of bad debts disallowed in past.
- 4) 1/3rd use of motor car is for personal use.
- 5) 70% of profit on sale of shares is from the sale of shares purchased during P.Y.
- 6) W.D.V of motor car brought forward of RS 1,50,000.
- 7) Rate of depreciation on motor car is 25%.

- 8) Cost price of machinery sold during the year was RS 12,000 and total depreciation written off was Rs 3000 this was only the asset in the block of assets.

Particulars	Amt Rs	Amt Rs
Net profit as per P&C A/C		47,000
Add: inadmissible expense and taxable income not recorded		
Donation to charitable trust	6,000	
Bad debt reserve	3,000	
Provision for income tax	6,000	
Insurance	5,000	
Motor car expenses	5,000	
o/s sales tax	4,000	
Income tax	12,000	41,000
		88,000
Less: Add admissible expenses not recorded and nontaxable income		
Profit on sale of share	15,000	
Profit on sale of machinery	1,000	
Interest on post office saving account	2,000	
Bad debt recorded	1,500	
Dep. on motor car	25,000	
		44,500
Total taxable income from business and profession		43,500

❖ **Exercise:**

SUM 1:

Shri Jetha Lal Gada Is the Owner of a Plastic Factory. Help Him to Determine His Taxable Income from Business for The Assessment Year 2024-25 With the Help of Following Information.

Particulars	Amount	Particulars	Amount
To Opening Stock	500000	By Sales	8000000
To Purchase	5000000	By Rent Received	900000
To Wages	2000000	By Closing Stock	700000
To Audit Fees	20000	By Bad Debts Recovery (Of Which Rs.10000 Was Not Allowed in Previous Year)	25000
To Building Repairs (Let Out)	598000		
To Rent Collection Charges	42000		
To General Expenses	30000		
To Commission On Loan	10000		
To Bad Debts Reserve	40000		
To Bad Debts	50000		
To Interest on Capital	140000		
To Contribution to Staff Welfare Fund	50000		
To Income Tax Provision	150000		

To Depreciation (Approved)	65000		
To Reserve For Future Contingency	30000		
To Net Profit	900000		
	9625000		9625000

Sum 2:

Mr. Atmaram Bhide Has Given the Following the Details of His Profit & Loss Account for The Year Ended 31.03.2024. Help Him to Find Out His Income from Business and Profession.

Particulars	Amount	Particulars	Amount
To Income Tax	15000	By Gross Profit	732000
To Professional Tax	2000	1000by Bad Debts Recovery	10000
To Dividend Collection Exp	1000	By Income Tax Refund	3000
To Exp. Of Hout (Let Out)	5000	By Professional Tax Refund	1000
To Charity	8000	By House Rent	80000
To Discount	5000	By Dividend	12000
To Subscription	2000	By Director Fees	44000
To Legal Fees	3000		
To Worker's Salary	512000		
To Worker's Training Exp.	5000		
To Drawing	12000		
To Depreciation	78000		
To Travelling Exp.	27000		
To Interest	5000		
To Group Insurance Premium	2000		
To Net Profit	200000		
	882000		882000

Additional Information:

1. Travelling Exp. Includes Rs.21000 Of Personal Expenses.
2. Interest Includes Rs.3000 Interest on Capital and Rs.2000 Loan Interest.
3. Unpaid Sales Tax Is Rs.5000.
4. Bad Debt Recovered Rs.4000 Was Not Allowed as Bad Debts.
5. Allowable Depreciation Is Rs.75000
6. Advertisement Paid Rs.2000 Is Not Recorded in The Books.

Sum 3

Dr. Hans Hathi Has Provided the Following Profit and Loss Account of His Sweet Shop. Help Him to Calculate His Income from Business and Profession for The Assessment Year 2022-23

Particulars	Amount	Particulars	Amount
To Salaries	900000	By Gross Profit	3200000
To Bad Debts	30000	By Discount	120000
To Bad Debt Reserve	60000	By Bad Debts Reserve (50% Not Allowed in The	60000

		Past)	
To General Expenses	380000	By Interest And Dividend	300000
To Insurance Premium	150000	By Interest On Po Deposit Account	120000
To Interest On Capital	90000		
To Advance Income Tax	54000		
To Advertisement	90000		
To Donation	18000		
To Motor Car Expenses	180000		
To Telephone Expenses	36000		
To Depreciation	72000		
To Net Profit	1740000		
	3800000		3800000

Additional Information:

1. Salaries Include Rs.180000 Paid to Mr. Hathi
2. General Expenses Includes Rs.60000 For Payment Being Made for Personal Purchase of Mr. Hathi
3. Advertisement Includes Rs.54000 Spent on Purchase of New Permanent Sign Board
4. Motor Car Expenses Includes Rs.144000 Towards Personal Purpose.
5. Insurance Premium Includes Rs.60000 Of Life Insurance Premium.
6. Allowable Depreciation as Per Income Tax Is Rs.90000
7. An Unrecorded Income of Rs.120000 Of Shop After Closing Books of Accounts.

Sum 4:

Ms. Daya ben Gada Has Given the Following the Details of Her Profit & Loss Account for The Year Ended 31.03.2022. Help Her to Find Out Her Income from Business and Profession.

Particulars	Amount	Particulars	Amount
To Depreciation	8000	By Gross Profit	1264000
To Salary	800000	By Profit From The Sale of Land	28000
To Subscription	2000	By Prize From Horse Race	16000
To Taxi Rent	7000	By Birth Day Gift	21000
To Bad Debt Reserve	3000	By Bad Debt Recovered	5000
To Fitting Charge of Machine	5000	By Bank Interest	2000
To Exp. To Raise Loan	1000		
To Legal Expenses	4000		
To Sales Tax	10000		
To Purchase of Stationery	15000		
To Loss Due to Theft	10000		
To Net Profit	471000		
	1336000		1336000

Additional Information:

1. Taxi Rent Includes Rs.3000 For the Travelling Expenses of His Family.
2. 30% Of the Sales Tax Debited Is Still Unpaid.
3. A Cycle Costing Rs.3000 And Diamond (Stock in Trade) Costing Rs.7000 Are Stolen by A Worker. This Loss Is Debited to Profit and Loss Account as Theft.
4. The Closing Stock of Un-Used Stationery Is Rs.2000
5. Bad Debt Recovered Includes Rs.3000 Which Is Not Allowed as Bad Debt.
6. Allowable Amount of Depreciation Is Rs.10000
7. Audit Free Rs.2000 Is Not Recorded in The Books.

Sum 5:

Mr. Tarak Mehta Has Given the Following the Details of His Profit & Loss Account for The Year Ended 31.03.2022. Help Him to Find Out Her Income from Business and Profession.

Particulars	Amount	Particulars	Amount
To Opening Stock	242000	By Closing Stock	315000
To Purchase	1000000	By House Rent	14000
To Salary	198000	By Sales	1702555
To Depreciation on Machinery	25000	By Bad Debt Return	20000
To Interest on Capital	20000		
To Bad Debt Reserve	19000		
To Income Tax	18000		
To Advt.Exp	26000		
To Donation	16000		
To Net Profit	487555		
	2051555		2051555

Additional Information:

1. Opening Stock Is Valued At 10% More Than the Cost and The Closing Stock Is Valued At 5% More Than the Cost.
2. The Approved Depreciation on Machinery Is Rs.4000
3. The Advertisement Shown in The Above P&L Account Includes Rs.17000 As Advertisement Given in Newspaper Owned by Political Party.
4. The Opening Balance of Motor Car On 1.4.2021 Was Rs.120000, On Which 15% Depreciation Is Allowable. The Use of Motor for Business Is 2/3 Portion.
5. Good Of Market Price of Rs.19000 Were Purchased at Rs.14000 And Taken for Household Consumption Were Included in The Sales at Rs.25000
6. Mr. Tarak (Who Is an Author of a Book) Has Received Rs.10000 As Royalty.
7. Amount Of Donation Shown Above Does Not Include Rs.10000 Given as Cash Donation to Sg University.
8. The Amount of Bad Debt Returns Includes Rs.13000 Which Was Not Allowed in The Past.

8.1 Introduction

8.2 Meaning of Capital Assets

8.3 Types of Capital Assets

8.1 Introduction

Any profit or gains arising on sale or transfer of a capital asset effected during the previous year is treated as capital gain and is assessed to income- tax whether the consideration is actually received during the year or not.

The following points emerge (for taxing capital profit) from the above discussion and other relevant provisions:

- (i) there must exist a capital asset owned by an assessee;
- (ii) such capital asset must have been transferred by the assessee;
- (iii) such transfer must have taken place during the previous year,
- (iv) such transfer must have resulted into a capital profit or loss;
- (v) Such capital profit must not be exempted U/s 54, 54B, 54D, 54EC, 54EE, 54F, 54G, 54GA or 54GB.

8.2 Meaning of Capital Assets

According to Sec. 2 (14) 'Capital Asset' means

"Capital Assets" means (Positive List)	It excludes (Negative List)
<p>(a) Property of any kind held by an assessee, whether or not connected with his business or profession. The definition shows that the term 'Capital Asset' (includes all kinds of property, movable or immovable, tangible or intangible, fixed or circulating.</p> <p>(b) Any securities held by a Foreign Institutional Investor as per SEBI Act, 1992. (applicable from the A.Y. 2015-'16)</p> <p>(c) It includes any rights in on in relation to an Indian Company, including rights of management or control on any other rights whatsoever.</p> <p>(d) Any unit-linked insurance policy to which exemption U/s 10(D) does not apply</p>	<p>i) Any stock-in-trade consumable stores or raw materials held for the purpose of his business or profession.</p> <p>(ii) Personal effects' that is to say, movable property, including wearing apparel, all types of vehicles and furniture held for personal use by the assessee or any member of his family dependent on him (but jewellery, archaeological collections, drawings, paintings, sculptures or any work of art are excluded from personal property, i.e. capital gains on jewellery etc. are taxable).</p> <p>(iii) Agricultural land in India, which is not an urban agricultural land (means it must be rural agricultural land²).</p> <p>(iv) 6.5% Gold Bonds, 1977, 7% Gold Bonds, 1980 & 6.5% National Defence Gold Bonds, 1980 issued by the Central Government.*</p> <p>(v) Special Bearer Bonds, 1991* issued by the</p>

(applicable from the A. Y. 2021-22), provided that the insurance premium payable in any previous year during the term of such policy does not exceed Rs.2,50,000.	Central Government. (vi) Gold Deposit Bonds issued under Gold Deposit Scheme, 1999. (vii) Deposit Certificates issued under Gold Monetization Scheme, 2015
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8.3 Types of Capital Assets

For the purpose of income-tax assessment, capital assets are divided into two categories, viz:

(A) Short-term capital asset. (B) Long-term capital asset.

(A) Short-term capital asset [Section 2 (42A)]: Short-term capital asset means a capital asset which is held by an assessee for not more than the below mentioned specified period on the date of transfer.

(a) For Financial Assets: In the following cases, an asset **held for not more than 12 months** is treated as short-term capital asset.

- A share or security* (other than a Unit) listed in a Recognised Stock Exchange in India.
- Zero coupon bonds (whether quoted or not):
- Units of UTI (listed or unlisted).
- Units of an Equity Oriented Fund (Mutual funds - whether quoted or not) specified U/s 10 (23D);
- Unlisted Shares held for not more than 24 months** shall be treated as Short-term Capital Asset.
- For immovable property being land and building or both held for not more than 24 months** are treated as Short-term Capital Assets.

(d) For all other assets which are held by an assessee for not more 36 months.

Any profit arising from the transfer of such capital asset is known as short- term capital gain.

[4] DEFINITION OF CAPITAL GAINS

According to Section 45 (1) any profits or gains, arising from the transfer of a capital asset effected in the previous year is chargeable to income-tax under the head **"CAPITAL GAINS"**.

It is deemed to be the income of the previous year in which the transfer takes place. It is immaterial whether the profit is actually received during that year or not.

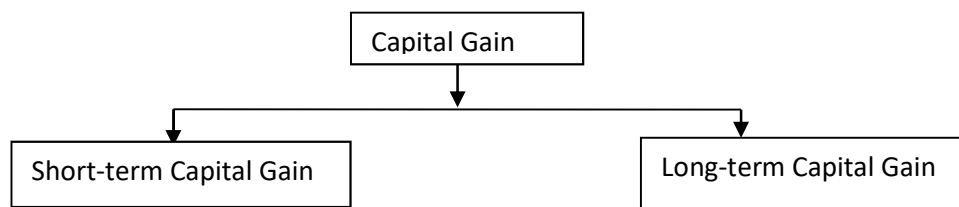
Meaning of "Transfer": As per section 2(47), Transfer, in relation to capital asset, includes

- The sale, exchange or relinquishment of the asset, or
- The extinguishment of any rights therein; or

- (iii) The compulsory acquisition thereof under any law; or
- (iv) In case of conversion of an asset into 'stock-in-trade', or
- (v) Where the possession of an immovable property is given (without making a transfer deed) as a part of a contract mentioned U/s 53 (a) of the Transfer of Property Act, 1882; or
- (vi) Where the benefits arise due to acquisition of shares or by becoming members of a Co-operative Society, Company or an Association of Persons; or
- (vii) In case of 'Zero Coupon Bonds' transfer is recognised on the date of its maturity or early encashment (redemption).

It can, thus be seen that the term 'transfer' has a wide importance. It also includes sales and exchange.

In case of immovable property, it was laid down by the Supreme Court in Alapati Venkataramaiah Vs. C.I.T. that the title to the property passes to the transferee when a conveyance is executed and registered. Hence, the capital gain is said to arise on such date.



(i) Short-term capital gain (STCG): When a capital asset has been held by the assessee for not more than 36 months (in case of Financial Assets not more than 12 months but in case of unlisted shares and immovable property being land and building or both not more than 24 months) on the date of transfer the profit or loss arising on its transfer is said to be short-term capital gain or loss. Such income is not subject to any special treatment. Capital gain is treated as normal revenue income and is included in other taxable

(ii) Long-term capital gain (LTCG): When a capital asset has been held by the assessee for more than 36 months (in case of Financial Assets more than 12 month but in case of unlisted shares and immovable property being land and builds but both for more than 24 months) on the date of transfer, the profit or loss arising out of its transfer is termed long-term capital gain or loss.

(A) Cost of Acquisition:

The cost of acquisition of an asset is the value for which it was acquired by or for the assessee. It is to be increased by expenses of capital nature for completing or acquiring the title to the property. Interest on money borrowed to acquire an asset is also considered a part of actual cost of asset.

(1) Assets acquired prior to 1-4-2001: Where the capital asset became the property of the assessee (or of the previous owner) before 1-4-2001, then, the assessee shall have option to select any one of the following:

(i) Actual cost, or (ii) Fair market value as on 1-4-2001.

(2) Where the capital asset became the property of the assessee by succession, inheritance, gift, will, partition of HUF etc. the cost of the capital asset to the previous owner or its fair market value on 1-4-2001 may be taken.

(3) On liquidation: Where the capital asset became the property of the assessee on the distribution of the capital asset of a company on its liquidation. On then the fair market value of the asset on the date of distribution is to be taken.

(4) Share or stock of a company : If the assessee became the owner on reorganisation of its share capital (like consolidation, sub-division, conversion of share into stock etc.), then the cost of acquisition is calculated with reference to the cost of acquisition of the share or stock from which such asset is derived."

(5) Cost to previous owner not ascertainable: If the cost for which the previous owner acquired the property cannot be ascertained, then the "Cost of acquisition to the previous owner" means the fair market value on the date on which he became its owner.

(6) The cost in case of additional compensation allowed by government or an authorised institution relating to compulsory acquisition of a capital asset is to be taken 'nil'.

(7) Securities in demat form : The cost of acquisition and period of holding of any security in demat form shall be determined on the basis of First-In-First-Out (FIFO) method.

(8) Bonus shares: Where the bonus shares are issued by the company to its shareholders, the cost of Bonus shares will be determined as under:

+ According to the amendment in Finance Act, 1991 under Section 47 no capital gain arises when convertible debentures are converted into shares and in future when such shares are sold, then value of such shares will be taken as cost price of the value of original debentures.

Profit on sale of bonus shares transferred shall be computed as under:

(i) If Original shares and bonus shares were acquired prior to 1-4-2001;

- a) 'Cost' of original shares will be either its actual cost or fair market value on 1st April, 2001, whichever is more.
- b) 'Cost' of bonus shares will be the fair market value on 1st April, 2001.

(ii) If Original shares were acquired before 1-4-2001 and bonus shares were allotted after 1-4-2001:

- (a) **Cost of Original Shares** will be either its actual cost or fair market value on 1-4-2001, whichever is more.
- (b) **Cost of bonus shares** will be taken to be Nil.

(iii) If Original shares and bonus shares were acquired after 1-4-2001:

(a) Cost of Original shares to be taken at their actual cost.

(b) Cost of Bonus shares will be taken to be nil.

(B) Cost of Improvement:

Cost of any improvement in relation to a capital asset means the following:

- (1) All expenditure of a capital nature incurred in making any additions or alterations to the capital asset by the previous owner of the asset.

But the conditions are:

(i) That the capital asset should have become the property of the previous owner or the assessee before 1-4-2001, and

(ii) That the fair market value of the asset on 1-4-2001 is taken as the cost of acquisition.

(2) In any other case, it means all expenditure of a capital nature incurred in making any additions or alterations to the capital asset by the assessee after it became his property.

Financial year	Cost Inflation Index (CII)	Financial year	Cost Inflation Index (CII)
2001-'02	100	2012-'13	200
2002-'03	105	2013-'14	220
2003-'04	109	2014-'15	240
2004-'05	113	2015-'16	254
2005-'06	117	2015-'17	264
2006-'07	122	2017-'18	272
2007-'08	129	2018-'19	280
2008-'09	137	2019-20	289
2009-'10	148	2020-'21	301
2010-'11	167	2021-'22	317
2011-'12	184	2022-23	331
		2023-24	331

Now, for the purpose of calculation of long-term capital gains cost of acquisition and cost of improvement are to be indexed by using the Cost Inflation Index. For this purpose, following formula is to be applied:

$$\text{Indexed cost of acquisition} = \text{Original cost} \times \frac{\text{Cost Inflation Index for the year of transfer (acquired prior to 1 - 4 - 2001)}}{\text{Cost Inflation Index for the year of purchase (acquisition or substituted cost as on 1 - 4 - 2001 OR 2001 - '02 for substitution case)}}$$

Illustration 1

Shri Narang had bought 5,000 equity shares Jay deep Ltd. in 1996 directly from his friend at a cost of Rs. 47,210. The fair market value of such shares on 1-4-2001 was Rs. 1,00,000. On 30-6-2023, Jay deep Ltd. offered right shares of Rs. 10 each at Rs. 28.80 per share in the ratio of 1: 1. Shri Narang exercised his right partially and bought only 3,000 shares out of 5,000 shares offered to him and sold his right entitlement of remaining 2,000 shares to Shri Chaurangi for a consideration of Rs. 36,000.

Shri Narang and Shri Chaurangi sold their entire holdings of shares of Jay deep Ltd on 31-1-2024 @ Rs. 128.80 per share. Relevant cost-inflation index numbers are as under:

P.Y.: 2001-'02	100
P.Y.: 2023-24	331

You are required to compute the taxable capital profit from the viewpoint of Shri Narang & Shri Chaurangi.

Solution: Computation of Taxable Capital Gain of Shri Narang

P.Y.: 2023-'24

A.Y.:2024-'25

(1) Sales price of 5,000 original shares (@ Rs. 128.80 per share)	6,44,000
Less Indexed cost of original shares (based on the fair value as an 1-4-'01 = 1,00,000 x 331 /100 =	3,31,000
Taxable Long-term Capital Profit	3,11,000
(2) (i) Sales value of 3,000 Right Shares (@ Rs. 128.80 per share)	3,86,400
Less: Cost of acquisition of Right Shares (amount paid to Jay deep Ltd. @ Rs. 28.80 per share)	86,400
Short-term Capital Profit (x)	3,00,000
ii) Consideration received on transfer of rights-entitlement	36,000
Less: Cost of right entitlement of 2,000 shares	Nil
Short-term Capital Profit (y)	36,000
Capital Profit (y) Taxable Short-term Capital Profit (x + y)	3,36,000

Computation of Taxable Capital Gain of Shri Chaurangi

P.Y.: 2023-24

A.Y.: 2024-25

Sales value of 2,000 shares (@ Rs. 128.80 per share) Rs. 2,57,600	Rs 2,57,600
So	
Less: Cost price (Price of 2000 Right Shares : Rs. 36,000 paid to Shri Narang + Amount paid to the Company @Rs. 28.80 per share Rs. 57,600)	93,600
Taxable Short-term Capital Profit	1,64,000

Note: In the absence of any information in the question it may be assumed that the shares sold are not subject to Securities Transaction Tax (STT).

[B] 'Grand-Fathering' Provision for listed shares/units acquired before 31st January, 2018:

With an intention of protecting the interest of investors, the Central Board of Direct Taxes (CBDT) has introduced grand fathering clauses to ensure that the tax is only prospective in nature, and, therefore, the tax is levied on the gains arising only after the date of removing earlier exemption granted u/s 10 (38) to the investors.

With effect from the Assessment Year 2019-'20, the method of calculating capital gain from the sale of listed equity shares, units of the mutual fund and business trust has been amended by introducing a new section 112A with 10% tax on LTCG in excess of Rs. 1 lakh on sale of listed equity shares or units of mutual fund (subject to Security Transaction Tax - STT - being paid).

The Finance Act, 2018 has introduced the 'grand-fathering provisions' in respect of such specified securities bought before 1st February, 2018. No indexation benefit is to be allowed in case of such transactions. The method to determine the Cost of Acquisition has been specifically prescribed in such case.

Cost of Acquisition (COA) will be calculated as under:

Step 1: Select the **lower value (L)** out of - Fair **Market Value (F)** as on

31st January, 2018, or the Actual **Selling Price (S)**;

Step 2: Select the higher value out of (that is to be taken as the 'Cost of Acquisition' **COA** for this purpose) –

Original Cost of **Acquisition (P)** (if bought on or before 31st January, 2018), **or**

the lower value **(L)** determined as per **Step 1**

[C]General Exemption:

(1) In case of capital gain arising out of transfer of assets mentioned in Sec. 2(47) (e.g., distribution of capital assets on partition of HUF etc.) 'no tax is levied because it is not treated as transfer.'

(2) Capital gain arising from the transfer of residential house property [Sec. 54]:

Exemption can be claimed by the transferor (being an individual or HUF) the following conditions:

- (1) The asset transferred is a residential house (long-term), the income of which is chargeable under the head "Income from House Property."
- (2) The house-property transferred is a long-term capital asset. (i.e., it must have been held for a period of more than 24 months before sale or transfer)
- (3) To get the benefit of exemption under section 54, the assessee will have to purchase or construct another one residential house (or two houses). For this purpose, he has to purchase another one residential house (or two houses) within a period of 1 year before the transfer or within 2 years after the date of transfer. Alternatively, another house (or two houses) can be constructed within 3 years from the date of transfer. In case of compulsory acquisition, the above time limit of 1 year, 2 years and 3 years is to be considered from the date of receipt of compensation (whether original or additional).
- (4) **With effect from 1-4-2020, an assessee having long-term capital gain upto Rs. 2 crores, arising from transfer of a residential house, a one-time opportunity being provided, to utilize such LTCG for the purchase or construction of maximum two residential houses in India, at his option.**
- (5) **New Asset** to be acquired: The transferor has purchased or constructed upto two residential houses in India within a period of one year before or **two years after the date of transfer** or has completed construction* of upto two residential houses in India **within a period of three years** from the date of such transfer.
- (6) The new residential house or houses (either purchased or constructed) have not been transferred within a period of three years from the date of purchase or

completion of construction. In such case, the exemption will stand cancelled in the year of such transfer.

Amount of Exemption:

- (a) If the amount of the capital gain does not exceed the cost of the new houses, the entire capital gain would be considered exempt.
- (b) If the amount of the capital gain exceeds the cost of the new houses, the excess of capital gain (which could not be reinvested) would be considered taxable.

(3) Capital Gains on Transfer of Agricultural Land (Sec. 54 B) :

Capital gain arising from transfer of agricultural land is exempted from tax if the following conditions are fulfilled:

- (i) It was being used by the assessee being an individual or his parent a Hindu Undivided Family for agricultural purposes in the two years before transfer.
- (ii) The assessee should have purchased any other land for agricultural purposes within a period of two years' after the date of transfer. In case compulsory acquisition of land within a period of two years* from the date of receipt of compensation (whether original or additional).
- (iii) If the whole of capital gain is not so reinvested, then the balance is chargeable to tax.

If the new land purchased is transferred within three years, then the old exempted capital gain is subject to tax along with the new capital gain, if any.

(4) Capital gain exempted on compulsory acquisition (Sec. 54-D):

Where any land or building or any right there in forming a part of an industrial undertaking belonging to the assessee is acquired compulsorily under any law, then the capital gain (short-term or long-term) is exempted from tax. The conditions are identical with those discussed above in connection with residential house and agricultural land.

[5] Capital gains not to be charged on investment in certain bonds (Sec. 54 EC)

As already explained earlier Sec. 54 provides exemption only in respect of long-term capital gain arising on transfer of a residential house property, while Sec. 54 EC provides exemption in respect of any long-term capital asset (being land or building or both).

Conditions: Exemption under this section is available only if the following conditions are satisfied:

- (1) (1) Asset (or assets) transferred by any tax-payer is a long-term capital asset being land or building or both, may be situated in India or outside India).

- (2) Such asset (or assets) has been transferred during the previous year.
- (3) The assessee must have invested the whole or any part of capital gain, **within a period of six months** from the date of transfer, in the **long-term specified assets**.
- (4) Investment made in long-term specified assets (considered for the purpose of exemption under this section) shall not be eligible for deduction under Sec. 80C.

(6) Capital gains not to be charged if invested in Units of a Specified Fund [Sec. 54-

Eligibility: All Assessee are eligible to claim.

Conditions:

- (1) Transfer of Long-term Capital Asset (called Original Asset)
- (2) He has invested the whole (or any part) of capital gains in long-term specified assets (issued before 1-4-2019 as may be notified by the central government to finance 'start-ups').
- (3) Time Limit for Investment: Investment shall be made on or after 1-4-2016 in the Long - term Specified Asset, any time with six months after the date of transfer of Original Asset.
- (4) **Limit of Investment amount in New Asset :**
 - (a) Investment made in the Long- Term Specified Asset by an Assessee during any financial year **does not exceed Rs. 50 lakhs.**
 - (b) Investment made by an Assessee in the Long-term Specified Asset, from Capital Gains arising from the transfer of one or more Original Assets, during the financial year in which the Original Asset or Assets are transferred and in the subsequent financial year does not exceed Rs. **50 lakhs.**

Amount of Exemption:

Cost of LT Specified Asset:

Exemption

(a) \geq Capital Gain

Entire Capital Gain

(b) Capital Gain

% of Investment/Capital Gain

Note: Cost means the amount invested in such Specified Asset out of Capital Gain received or accruing as a result of the transfer of the Original Asset.

(7) Capital gains on transfer of a long-term capital asset other than a residential house property [Sec. 54-F]:

Conditions:

- (1) The asset is transferred by an individual or H.U.F.
- (2) The asset transferred is any long-term capital asset other than a residential house.

- (3) The assessee has purchased one residential house property in India within 1 year before or 2 years after the date of transfer, or has constructed within 3 years after the date of transfer, one residential house.
- (4) The assessee should not sell or transfer the new house within 3 years from the date of its purchase or completion of construction.
- (5) On the date of transfer of original asset, the assessee:
 - (a) Does not own more than one residential house, other than the new house (bought in advance to avail the exemption).
 - (b) does not purchase within two years or construct within three years after that date any residential house, other than new house, and
 - (c) Income from such residential house is chargeable under the head "Income from house property".

Amount of Exemption:

- (1) If the cost of new house is not less than the net consideration of the asset sold, then the whole amount of capital gain is exempted.
- (2) If the cost of new house is less than the net consideration of the asset sold, then only the proportionate amount is exempted.

Exempted

$$\text{Capital Gain} = \left(\frac{\text{Ami. Invested in new house} \times \text{Total long-term Capital Gain}}{\text{Net Consideration of the asset sold Capital Gain}} \right)$$

(8) Exemption in respect of Capital Gain on transfer of assets in cases of shifting of industrial undertaking from urban area [Sec. 54-G]:

Conditions:

- (1) A short-term/long-term capital asset being plant-machinery, land or building or any right therein used for the purpose of an industrial undertaking situated in an urban area is transferred.
- (2) The reason of such transfer must be shifting of industrial undertaking from urban area to non-urban (rural) area.
- (3) The assessee has within 1 year before or 3 years after the date of transfer
 - (i) purchased new plant or machinery for the purpose of the shifted undertaking,
 - (ii) purchased land or building or constructed building in the new area, where the industrial undertaking is shifted,

- (iii) Shifted the original asset and transferred the establishment to such area.
 - (iv) Incurred expenses for specified purposes as instructed by the Central Govt.
- (4) New Assets acquired as per point no. (3) Must not be sold during next **three years**.

Amount of Exemption:

- (1) If the amount of capital gain is equal to or less than the total of (i) to (iv) as stated in point (3) above, the entire amount is exempted.
- (2) If the amount of capital gain is more than the total of (i) to (iv) as stated in point (3) Above, the excess over the total of (i) to (iv) is considered taxable.

Illustration 2:

From the following particulars of income of Shri Chanakya, determine his income under the head capital gain for the assessment year 2024-25:

- (1) Shri Chanakya had purchased a residential house for Rs. 4,68,000 on 1-1-2006. He sold this house on 1-4-2023 for Rs. 18,81,000. This was the only house owned by him. A part of the sale proceeds was utilised by him for the education of his son and Rs. 5,60,000 was used on 31-12-2023 to acquire another residential house.
- (2) On 31-12-2023, he sold some of the Securities for Rs. 3,53,725 which were purchased by him on 1-3-2004 for 65,400. Rs. 1,00,000 of the sales price was invested on 1-2-24 in 5-year Bonds (notified by the government).

Relevant Cost Index for long term Capital Gain are as follows:

P.Y. 2003-'04	109
P.Y. 2005-'06	117
P.Y. 2023-24	331

Solution:

Statement of Income under the Head Capital Gain of Shri Chanakya

Individual	Previous Year: 2023-24
Ordinary Resident	Assessment Year: 2024-25

	Rs.	Rs.
(1) Sale of self-occupied Residential house (1-4-2023)	18,81,000	Nil
Less: Specific deduction		
Indexed cost of acquisition [Rs. 4,68,000 x 331/117]	13,24,000	
Long-term capital gain from Self-occupied Residential house	5,57,000	
Less: Exemption U/s 54 (Note 1)	5,57,000	
Taxable Capital Gain from S. O. house		
(2) Sale of securities (31-12-2023)	3,53,725	55,125
Less: Specific Deductions		
Indexed cost of acquisition [Rs. 65,400 x 331/109]	1,98,600	
Long-term Capital Gain from Govt. Securities	1,55,125	
Less : Exemption U/s 54-EC (Note 2) Actual Investment	1,00,000	
Total Taxable Capital Gain		55,125
		55,125

Illustration 3:

Compute the capital gains chargeable to tax of Shree Janakkumar from the following details for the A.Y. 2024-25:

Serial No.	Date of Purchase	Selling (Rs.)	Transfer Price Charges (Rs.)	Cost (Rs.)	Particulars of assets	Index of year of purchase
1	1-1-'88	49,11,000	23,000	3,00,000	Only self-occupied house	100
2.	1-6-2015	4,97,760	....	1,62,560	Shares of X Ltd.	254
3.	1-3-2014	3,12,800	4,000	2,64,000	Shares of Y Ltd.	220
4.	1-9-2005	41,56,100	11,000	14,04,000	Jewellery	117
5.	1-1-2023	.....	.....	8,76,000	Residential House for self-occupation (new)	

He had sold old self-occupied house on 15-3-2024. The cost inflation index of financial year 2023-24 is 331 (CIF as on 1-4-2001 was 100).

On 1-4-2001, the fair market values of self-occupied house and jewellery were Rs 12,00,000 and Rs. 12,50,000 respectively. Shares of both the companies (sold directly on 1-11-2023) were not subject to securities transaction tax (STT).

Solution:**Computation of Taxable Capital Gains**

P.Y.: 2023-24

A.Y. : 2024-25

	Rs.	Rs.
(1) Long-term Capital Gain (on direct sale of shares):		
Sales value of shares of X Ltd.	4,97,760	
Less: Specific Deductions:		
(i) Transfer expense		
(ii) Indexed Cost Rs. $\left[1,62,560 \times \frac{331}{254} \right]$ 2,11,840	2,11,840	
Taxable Long-term Capital Gain (Note 1)		2,85,920
(2) Long-term Capital Gain (House):		
(1) Sales value of Self-occupied Old house	49,11,000	
Less: Specific Deductions:		
(i) Transfer expense 23,000		
(ii) Indexed cost of acquisition		
Rs. $12,00,000 \times \frac{331}{220} = 39,72,000$	39,95,000	
Long-term Capital Gain	9,16,000	
Less: Exemption U/s 54 (Note 3)	8,76,000	
Taxable Long-term Capital Gain		40,000

(3) Long-term Capital Loss		
(On direct sale of shares of Y Ltd.) Sales Value	3,12,800	
Less: Specific Deductions:		
(1) Transfer expenses 4,000		
(2) Indexed Cost of Acquisition		
= Rs. 2,64,000 x $\frac{331}{220}$ = 3,97,200	4,01,200	
Long-term Capital Loss (Note 1)		-88,400
(4) Taxable Long-term Capital Gain :		
Sales value of Jewellery	41,56,100	
Less: Specific Deductions:		
(i) Transfer expense 11,000		
(ii) Indexed cost of acquisition		
Rs. 14,04,000 x $\frac{331}{220}$ = 39,72,000	39,83,000	
Taxable Long-term Capital Gain		1,73,100
Total Taxable Capital Gain		4,10,620

Use the following information to answer the next question.

On 31st December, 2023, Mr. B sold his jewellery for Rs. 14,98,692. It was bought for Rs. 4,52,000 in 2004-'05. Transfer charges were incurred @ 2.5% of sales price. On 1st March, 2024, Rs. 1,00,000 was invested in 5 years Bonds of NHAI and relevant cost inflation index numbers of 2004-'05 and 2023-24 are 113 and 331 respectively.

What would be the taxable amount of capital profit for the A.Y. 2024-25?

(i) Rs. 10,46,692;

(ii) Rs. 10,09,225;

(iii) Rs. 6,09,225;

(iv) Rs. 37,225.

Use the following information to answer the next question.

In P.Y. 2018-'19, Mr. C had claimed an exemption of Rs. 1,50,000 under Section 54 by making investment in the construction of another residential house property (on 10th June, 2022), out of total long-term capital gain of Rs. 2,00,000 earned on transfer of old residential house property. The new house property is also sold out in P.Y. 2023-24 for Rs. 1,75,000

What would be the taxability of capital gain for the A.Y. 2024-25

- (i) Rs. 2,00,000 of long-term capital gain is considered taxable;
- (ii) Rs. 1,75,000 is considered taxable as short-term capital gain;
- (iii) Rs. 1,50,000 is considered taxable as long-term capital gain and Rs. 25,000 as short-term capital gain;
- (iv) Rs. 1,50,000 is considered taxable as long-term capital gain.

Use the following information to answer the next question.

Mr. D does not own any house-property. On 1st July, 2023, he has sold his investment in unlisted shares for Rs. 7,39,350 (which he had bought in the year 2004-'05 for Rs. 1,86,450). With a view to claim exemption U/s 54 F. Mr. D deposited Rs. 4,00,000 with a nationalised bank (under 'Capital Gains Account Scheme, 1988') and bought a plot of land for Rs. 3,39,350, However, the construction of the house could not be commenced until 31st March, 2024. Relevant cost inflation index numbers of years 2004-05 and 2023-24 are 113 and 331 respectively.

Use the following information to answer the next question.

What would be the taxable long-term capital profit for the A.Y. 2023-24?

- (i) Rs. 1,93,200;
- (ii) Rs. 4,00,000;
- (iii) Rs. 4,62,000;
- (iv) Rs. Nil.

Mr. E suffered a short-term capital loss of Rs. 25,000 on sale of shares during the P. Y. 2023-24 and made a long-term capital profit of Rs. 75,000 on sale of jewellery in the same year. The 'brought forward long-term capital loss of P.Y. 2016-'17 amounted to Rs. 15,000.

What would be his taxable income under the head 'Capital Profit for the A.Y. 2024-25?

(i) Rs. 35,000;

(ii) Rs. 75,000;

(iii) Rs. 60,000;

(iv) Rs. 50,000.

Solution :

1.(i) Computation of Taxable Capital Gains of Mr. A	Rs.
Capital gain calculated by the assesses	9,01,200
+Original cost of house	2,00,400
+Additional cost of construction	<u>2,00,400</u>
Total Sales Value of House	13,01,600
Less: Specific Deductions:	
(1) Indexed cost of acquisition. (as fair MV on 1-4-2001 is less than the cost, cost is taken) $\text{Rs. } 2,00,000 \times \frac{331}{100} =$	6,62,000
(2) Indexed cost of improvement $\text{Rs. } 2,00,400 \times \frac{331}{167} =$	<u>3,97,200</u>
	<u>10,59,200</u>
Long-term Capital Gain (Taxable)	<u>2,42,400</u>

Answer (i) from given answers is correct.

2. (iv); Computation of Taxable Capital Gains of Mr. B:	Rs.
Total Sales Value of Jewellery: On 31-12-2023 Rs.	14,98,692
Less: Selling expenses (2.5%)	<u>37,467</u>
Net consideration on sale of jewellery	14,61,225

Less: Indexed cost of acquisition $\left(Rs\ 4,52,000 \times \frac{331}{167} \right)$	13,24,000
Long-term capital gain	1,37,225

Less: Exemption U/s 54-EC (to the extent of amount of capital gain invested in 5 year Bonds of NHAI)	<u>1,00,000</u>
Taxable long-term Capital Gain	<u>37,225</u>

Answer (iv) from given answers is correct.

3.(ii) Taxability of capital gain from the view-point of Mr. C:

According to one of the conditions of Sec 54, if the new house property is transferred within a period of 3 years from the date of its purchase or construction, the amount of capital gain arising there from, together with amount of capital gains exempted earlier, will be chargeable to tax as short-term capital gain in the year of sale of the new house property.

From the view-point of Mr. C. total of exemption of Rs. 1,50,000 claimed under Sec. 54 in the P.Y. 2018-19 plus profit of Rs. 25,000 arising on transfer of new house is now Payable as short-term capital gain (in short, actual sale price of Re 1,75,000) in the A.Y. 2024-25.

∴ Answer (ii) from given answers is correct.

4 (iv); Computation of Taxable Capital Gains of Mr. D: Rs

Total Sales value of unlisted shares	7,39,350
--------------------------------------	----------

Less: Indexed Cost of acquisition $\left(Rs\ 1,086,000 \times \frac{331}{113} \right)$	<u>5,46,150</u>
Long-term Capital Gain	1,93,200

Less : Exemption U/s 54-F (exemption is available in proportion to investment of net consideration Amount deposited under capital gain A/c scheme is deemed to have been invested in house-property + Cost of land Rs. 4,00,000+ 3,39,350 Rs. 7,39,350 of entire net consideration has been invested and hence, 100% exemption is granted)

	1,93,200
Taxable long-term Capital Gain	Nil

(i); Answer. (iv) from given answers is correct.

Taxability of Capital gain from the view-point of Mr. E:	Rs
Long term capital Gain for Current year	75,000
Less: Short term Capital loss for current year	<u>25,000</u>
	50,000
Less : Set-off of brought forward long-term capital loss of earlier P.Y.	<u>15,000</u>
Taxable income under the head capital gains	<u>35,000</u>

Answer (i) from given answers is correct.

❖ Exercise

1. Shri Ashish Pandya provides the following details pertaining to previous year 2023-24.

Compute taxable capital gain for the A. Y. 2024-25

Cost inflation index for the financial year 2023-24 is 331

Sr. No.	Name of Asset	Date of Sales	Sales Price (Rs.)	Date of purchase	Purchase price (Rs.)	Transfer charges (Rs.)	Cost inflation index of year of purchase
1.	Self residential house (only one)	31-12-23	57,86,000	1-7-'90	1,80,000	15,000	100
2.	Kotak Mahendra Bank's 400 listed equity shares	1-1-24	5,36,808	1-8'-05	1,20,000	-	117
3.	TISCO's listed 250 equity shares	1-2-24	2,47,000	1-2'14	2,20,000	-	220
4.	Jewellery	31-3-24	58,00,480	1-12-'05	15,95,880	10,000	117
5.	Self residential house	-	-	1-1'24	4,48,000	-	-

The fair market value of the self-residential house was Rs. 16,00,000 on 1-4-2001. The shares of both the companies were subject to S.T.T. on respective dates of sales. The fair market value of equity shares of Kotak Mahendra Bank on 31-1-2018 was Rs. 1,113 per share and fair Market Value of TISCO's shares on 31-1-2018 was Rs. 747.25 per share.

[Ans.: Total taxable long-term capital profit Rs. 14,21,248.]

2. Ku. Shital Kumari sold her following assets during the year ending 31 March, 2024.

Assets	Date of Purchase	Purchase Price (Rs.)	Date of Sales	Sales Price (Rs.)	Transfer Expense (Rs.)
(1) Residential House (Only one)	10-7-'97	2,00,000	10-6-23	53,48,750	33,750
(2) X Ltd. Shares (unlisted)	1-8-11	1,52,168	1-10-23	3,15,446	1,800
(3) Y Ltd. shares (unlisted)	1-12-'00	2,00,000	1-10-23	7,01,500	1,500
(4) Jewellery	1-10-04	7,50,000	21-9-23	28,29,405	3,000
(5) Debentures	10-7-'04	2,00,000	2-2-24	2,42,000	2,000
(6) Motor-car (personal use)	15-10-'11	3,10,000	12-12-23	2,75,000	-
(7) New Flat	30-12-'11	10,00,000	-	-	-

Other Information :

(1) She had incurred Rs. 2,40,000 in year 2014-'15 for additional construction in the house.

(2) The fair market value of assets on 1-4-2001 were as under:

Residential house Rs.14,00,000

Jewelry Rs. 9,35,075

Y Ltd. Shares Rs. 1,60,000

(3) No Security Transaction Tax (STT) has been paid on sale of both shares.

(4) Relevant Index Nos.

2001-'02	100
2004-'05	113
2011-'12	184
2014-'15	240
2023-'24	331

(5) She has purchased a new flat immediately after she sold the residential house. Calculate the Taxable capital gain for the A. Y. 2024-25.

[Ans.: Total taxable long-term capital Profit = Rs. 2,05,289]

3. Find out the taxable capital gain and exemption U/s 54 F for the A. Y 2024-25 from the details given below by Anamika:

Assets	Date of Purchase	Purchase Price (Rs)	Sales Price (Rs)	Sales Expenses (Rs)
(1) Land situated in Surat City	1-1-'02	1,00,000	6,32,000	750
(2) Jewellery	1-1-'06	4,83,915	14,34,802	-
(3) Unlisted Shares of Bardoli Sugar Factory	1-1-'11	2,07,215	10,00,340	900
(4) Listed debentures of a company	1-1-'11	1,26,650	2,27,000	350
(5) Unlisted debentures of company	1-1-'14	2,61,237	4,06,478	-
(6) Residential flat	2-11-'23	29,58,896	-	-

On 1-11-2023, all the above assets (excluding residential flat) were sold. Security transaction tax has not been charged on sales of all the securities. The cost-inflation Index numbers are as under :

2001-'02: 100

2010-'11:167

2005-'06: 117

2023-'24:331

[Ans.: Taxable Long-term Capital Profit Rs. 2,40,000; Exempted L. T. Capital Profit (U/s 54F) Rs. 9,60,000.]

4. Shri Tarak Mehta has provided the following details for P.Y. 2023-24. Compute taxable capital gain for the A.Y. 2024-25.

Sr. No.	Assets	Date of Sale	Selling Price (Rs.)	Date of Purchase	Purchase Price (Rs.)	Transfer Expenses (Rs.)
1.	Residential House	25-3-24	1,04,70,000	1-10-95	3,00,000	25,000
2.	Listed Equity Shares	1-3-'24	10,50,400	1-9-'05	8,80,800	2,400
3.	Personal Motor Car	1-3-'24	4,50,000	1-2-'14	4,00,000	5,000

4.	Jewellery	28-2-24	39,00,000	1-11-20	31,00,000	30,000
5.	Residential House	-	-	1-2-23	9,00,000	-

The fair market value of the self-residential house was Rs. 35,00,000 as on 1-4-2001. The listed shares of the company were subject to S.T.T. The Fair Market Value of listed shares an on 31-1-2018 was Rs. 8,50,000.

F.Y.	2001-'02	2005-'06	2013-'14	2019-'20	2023-'24
Index	100	117	220	289	331

[Ans. : Taxable income under the head 'Capital Profits' Rs. 7,70,000]

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9.1 Introduction**9.2 Income Chargeable Under the Head****9.3 Other Incomes under the Head****9.4 Kinds of Securities****9.5 Wholly Tax-Free Securities****9.6 Grossing Up Of Interest****9.7 Deductions Allowed****9.8 Provisions for Casual Incomes****❖ Exercise**

9.1 Introduction

Income from other sources is the last head of income and the fifth head of income. It is called residual head of income as any income not included in first four heads of income would form the part of this head of income. And it will be taxable under income from other sources. The related provisions to income from other sources are contained in Sections 56 to 59 of the Act.

9.2 Income Chargeable Under The Head

Under Section 56(1), income of every kind which is not to be excluded from the total income under the Act, shall be chargeable to income-tax under the head "Income from Other Sources", if it is not chargeable to income-tax under any of the other four heads. Any income which satisfies the following conditions is considered taxable under the head "Income from Other Sources."

- (1) It should be an income.
- (2) It must not be an exempted income under any provision of this Act.
- (3) It must not have been included under any of the first four heads of income.

[1] Dividends [Section 56(2) (i)]

The following payments or distribution by a company to its shareholders are deemed as dividends to the extent of accumulated profits of the company

- (i) Any distribution entailing the release of the company's assets;
- (ii) Any distribution of debentures, debenture - stock, deposit certificates and bonds to preference shareholders;
- (iii) Any distribution on liquidation of the company;
- (iv) Any distribution on reduction of capital
- (v) Any payment by way of advance or loan to a shareholder (having beneficial ownership) holding not less than 10% of the equity shares

[2] Any winning from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature. [Section 56(2) (ib)]

- [3] Any sum recovered from employees towards their share of contribution to P. F. and Welfare Fund Account. (provided it is not taxable under the head "Profits or Gains of Business or Profession.") [Section 56(2)(ic)]
- [4] Interest on securities [Section 56(2) (id)]
- [5] Income from machinery, plant or furniture belonging to the assessee and let on hire. (if the said income is not chargeable under the head 'Profits and Gains of Business or Profession'.) [Section 56(2) (ii)]
- [6] Income from letting of building, if inseparable from letting of plant, machinery etc. is also chargeable under this head. It is not chargeable under the head "Profits and Gains of Business or Profession", e.g. income from letting out cinema building along with machinery, furniture etc. [Section 56(2)(iii)]
- [7] Any sum received under a Keyman Insurance Policy including bonus [Section 56(2)(iv)]
- [8] Advance money forfeited on failed negotiation for transfer of capital asset.
- [9] Any compensation or other payment due to or received by any person in connection with termination of employment or received by any terms and relating to his employment.
- [10] Money / Property received without consideration or for inadequate consideration. [Section 56(2) (x)]:

Explanation: For the purpose of this clause, "**relative**" means:

(i) In case of an individual:

- (1) Spouse of the individual;
- (2) Brother or sister of the individual;
- (3) Brother or sister of the spouse of the individual;
- (4) Brother or sister of either of the parents of the individual;
- (5) Any lineal ascendant or descendant of the individual;
- (6) Any lineal ascendant or descendant of the spouse of the individual;
- (7) Spouse of the person referred to in the above points (2) to (6).

(ii) in case of a hindu Undivided family, any member thereof

For the purpose of taxability of gifts following conditions must have been satisfied:

- (1) Such gift is received by an individual or a HUF.
- (2) Such gift is received on or after the 1st April, 2017.
- (3) **Exceptions:** Such clause of taxability of gift shall not apply to any sum of money or any property received –
 - i. from a 'relative'.
 - ii. on the occasion of the marriage of the individual'.
 - iii. by way of will / inheritance.
 - iv. in contemplation of death of the payer or donor.
 - v. from a local authority.

- vi. receipt from an individual by a Trust created/established solely for the benefit of relatives of the Individual.
- vii. from a 'charitable institution trust registered under section 12A

Notes:

(1) Asset/Property for this purpose means the following capital assets;

- (i) Immovable property being land or building or both;
- (ii) Shares and Securities;
- (iii) Jewellery;
- (iv) Archaeological collections;
- (v) Drawings;
- (vi) Paintings;
- (viii) Sculptures;
- (viii) any work of art or
- (ix) bullion.

(2) Stamp Duty value on the date of agreement may be taken if-

- (a) Date of Agreement fixing the amount of consideration for transfer of immovable property and date of registration are not same,
- (b) Consideration or part thereof has been paid by any mode other than cash, on or before the date of agreement for the transfer of such property.

• **Additional Explanation:**

- (1) If an individual / HUF gets a gift of agricultural land situated in a rural area in India, it is not chargeable to tax in the hand of recipient as such land is not considered a 'capital asset'.
- (2) As motor car and other vehicles are not included in the list of assets specified in Section 56 (2) (vii), its gift is not taxable in the hands of a recipient:
- (3) As the section is applicable to the movable assets (except land and building) mentioned in the list of assets under per Sec. 56(2)(vii), the entire difference of aggregate fair market value and the total consideration (Purchase price) paid is considered taxable if it exceeds Rs. 50,000.

[11] Interest on compensation or enhanced compensation [Section 56(2) (vii)]

[12] Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if - (a) such sum is forfeited; and (b) the negotiations do not result in transfer of such capital asset. [Section 56(2) (ix)].

Illustration 1:

Discuss the taxability of the following receipts under the Income-Tax Act:

- (1) Saumya, an individual, gets Rs. 1,00,000 as a birthday gift from her grandfather.

- (2) Radhe received on 19-9-2023, gifts each of Rs. 21,000 from his friends Shiva and Krishna.
- (3) Mohit received on 2-3-2024, gift of Rs. 51,000 from his sister living in U. K.

Solution:

(1) Gift from grandfather on birthday	<p>1. Any sum received from a 'relative' is not subject to tax.</p> <p>2. 'Relative' includes lineal ascendant or descendant of the individual.</p> <p>3. Since grandfather is a lineal ascendant, the gift is fully exempted.</p>
(2) Gift from friends	<p>1. Any sum of money, aggregate value of which exceeds Rs. 50,000 is received during the previous year without consideration, by an individual or a HUF from any person(s), then the whole of the aggregate of such sum will be taxable</p> <p>2. Since the aggregate of sums received from friends does not exceed Rs. 50,000, it is exempted from tax.</p>
(3) Gift from sister	Gift received from a 'relative' is not taxable 'Relative' includes sister of the individual. Hence a gift of Rs. 51,000 from sister living UK. fully exempted.

9.3 OTHER INCOMES UNDER THE HEAD

The incomes given above are mentioned in Section 56 (2) of the Act. In addition, some other incomes given below are chargeable under this head:

- (1) Interest on loans, deposits etc. in addition to interest on securities.
- (2) Agricultural income from land situated outside India.
- (3) Income from letting vacant plot of land etc
- (4) Income from sub-letting a house by a tenant.
- (5) Royalties or copyright fee etc. for literary, artistic work [Sec.180,Rule 9(2)].
- (6) Consideration for developing any know-how. [Sec. 180 (A)]
- (7) Unexplained cash, investments and cash credits.
- (8) Directors' fees, commission received by a director etc. and gratuities paid to director who is not employee of the company.
- (9) Interest on foreign government securities.
- (10) Salary, commission etc. receivable from foreign government.
- (11) Examinership fees received by an individual working in the capacity of an examiner.
- (12) Any casual income other than specified in Section 56(2)(ib).
- (13) Insurance commission.
- (14) Royalty income of an author.

- (15) Interest on "Advance Tax paid" and on "Income Tax Refunds"
- (16) Salary and allowance received by a member of Parliament, Assembly etc.
- (17) Income of other persons to be included in the Total Gross Income of an assessee (U/s 60 to 64).
- (18) Amount withdrawn from the account under National Saving Scheme.
- (19) Interest received or due on National Savings Certificates, Kisan Vikas Patra and Indira Vikas Patra.
- (20) Interest due on Social Security Certificates.
- (21) Rent of mines and royalty.
- (22) Family pension received by family members of a deceased employee.
- (23) Interest on employee's contribution to unrecognised provident fund.
- (24) Income received after the closure of the business.
- (25) Annuity payable under a will, contract, trust deed (excluding annuity payable by employer).
- (26) Annuity payable to the lender of a trademark.
- (27) Compensation received for use of business assets
- (28) Income from racing establishments.

Illustration 2:

Shri A has earned the following incomes during the financial year 2023-24. Mention the appropriate head of income under which they are taxable:

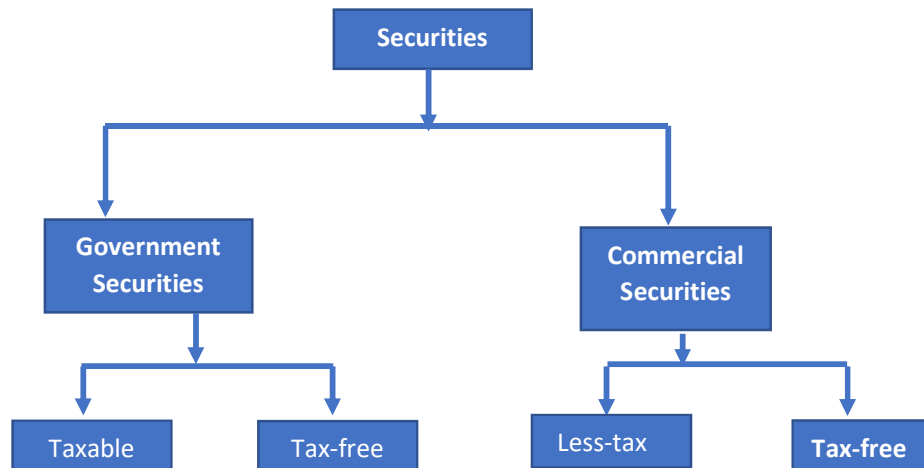
- (1) Annual godown rent of Rs. 1,80,000.
- (2) Fair rental value of self-occupied house Rs. 60,000.
- (3) Interest on Bank Fixed Deposits Rs. 44,000.
- (4) Interest on debentures of Indian Companies Rs. 8,000.
- (5) Speculation profit (from shares) Rs. 3,00,000.
- (6) Profit on sale of unquoted shares bought before 24 months Rs. 30,000.
- (7) Sitting fees received as a director of a company Rs. 12,000.
- (8) Income from orchards Rs. 50,000.
- (9) Profit on sale of old furniture (for personal use) Rs. 10,000.
- (10) Lottery Income Rs. 1,00,000.
- (11) Interest on P. O. S. B. A/c Rs. 2,500.
- (12) Accrued interest on Indira Vikas Patra Rs. 17,211.

Solution:

(1) Income from House-Property; (2) Income from House-property; (3) Income from Other Sources; (4) Income from other sources; (5) Business income (6) Capital Gains (long-term); (7) Income from other sources; (8) It is not a taxable income; (9) It is not an income; (10) Income from other sources (11) Exempted income (upto its specified limit); (12) Income from other sources.

9.4 Kinds of Securities:

Securities are divided into two parts, viz.: (i) Government Securities and (ii) Commercial Securities. They are further subdivided into 'less-tax' and 'tax-free' securities. They are shown in the chart below:



We now discuss each of them in detail:

- (1) **Less-tax Commercial Securities:** Such securities are liable to deduction of tax at source. The authority issuing securities deducts income-tax at prescribed rate while paying interest to the securityholders. The income-tax so deducted will be deposited in the name of the assessee with the income-tax department and a TDS Certificate will be issued to the investor.
- (2) **Tax-free Government Securities :** Tax-free securities means such securities on which no tax is deducted at source by the authority which makes tax: Interest on such securities is not even included in the total income of the assessee Payment of interest to the securityholder. Interest on such securities is also taxable. There are two of tax-free government securities : (1) Wholly exemption on such Securities is not even included in the total income of the assessee for any purpose the list of such securities is given later in this chapter. (2) Securities not subject to deduction of tax at source: while making payment of interest on such securities, tax is not deducted at source.
- (3) **Tax-free Commercial Securities:** Tax-free security issued by a non- government concern is not really tax-free. Of course, the tax is not deducted from interest paid to the securityholder. But the income-tax is paid to the government by the company in addition to the interest assured to the securityholder and a TDS Certificate will be issued to the investor. For an example, if A has purchased 10% Tax-free debentures of Rs. 90,000 of B Ltd., then the company will pay Rs. 9,000 to A by way of interest, without deducting tax. But the company will pay tax to the government at 10% (ignoring E.C. and S.H.E.C.) on gross interest. Thus, the tax payable by the company would be Rs. 1,000 (ignoring E.C. and S.H.E.C.). The gross interest would be equal to: $\text{Rs. } 9,000 \times 100/90 = \text{Rs. } 10,000$. The total

interest income of the securityholder is treated as Rs. 10,000. This will be included in his total income. This is known as 'grossing-up'

Chargeability of Interest on Securities

	Government Securities		Government Securities	
	Wholly Tax-free	Taxable	Tax-free	Lees-free
(1) Tax deducted at source	Not deducted	Not deducted	Tax deducted	Tax deducted
(1) Included in total Income	Not included	Included in total income	Included in total income	Included in total income
(2) Grossing up	No grossing up	No grossing up	grossing up is required	Grossing up is required

9.5 Wholly Tax-free Securities:

The following securities **are totally exempted from tax U/s 10(15)** and the interest on such securities is not even included in the total gross income :

- [1] Income by way of interest, premium on redemption or other payment on following securities, bonds, annuity certificates, savings certificates and other notified certificates:
 - i. Gold Deposit Bonds issued by the Central Government under Gold Deposit scheme of 1999 (or Deposit Certificates under the Gold Monetisation Scheme, 2015); National Defence Gold Bonds, 1980 and Special Bearer Bonds, 1991.
 - ii. 10.5% Tax-free Bonds of HUDCO., 9.25% Tax-free Bonds of RECL and 10.5% Tax-free Bonds of NHPCL.
 - iii. reasury Savings Deposit Certificates (10 years)
 - iv. Post Office Cash Certificates (5 years)
 - v. 12 years National Savings Annuity Certificate
 - vi. National Plan Certificates and National Plan Savings Certificate & P. O. Fixed Deposits Certificates under Rules, 1968.
 - vii. Post Office Cumulative Time Deposit Scheme, 1981
 - viii. Interest on P. O. Savings Bank Account (exemption only to the extent of Rs. 3,500 in case of an individual account and Rs. 7,000 in case of a joint account.
 - ix. Post office National Savings Certificates (12 years/7 years).
 - x. Special Deposit Scheme, 1981
 - xi. National Plan Savings Certificates (12 years)
 - xii. 8% Tax Free Bonds of India Infrastructure Finance Company Ltd.
 - xiii. Interest on Bonds or Debentures issued by Indian Railway Finance Corporation Ltd., HUDCO and Power Finance Corporation.
 - xiv. NRI Bonds, 1988 issued by State Bank of India. NRI Bonds (second series) issued by state Bank of India.

- xv. Tax Free Bonds issued by NHAL, Indian Railway Finance Corporation Ltd., HUDCO and Power Finance Corporation.
- [2] Interest on 7% Capital Investment Bonds.
- [3] Interest on 9% Relief Bonds, 1987 held by individual and HUF.
- [4] Securities held by the Issue Department of the Central Bank of Ceylon.
- [5] Interest payable to a foreign bank (performing central banking functions in foreign country) on any deposits made by it, with the approval of the Reserve Bank of India, with any scheduled bank of India.
- [6] Interest on notified Bonds of local authority or by State Pooled Finance Entity (eg. Tax free Ahmedabad Municipal Corporation Bonds and Nagpur Municipal Corporation Bonds)
- [7] Interest payable on notified debentures of public sector companies.
- [8] Interest on deposit made by retired government employees and employees of public sector companies in specific schemes approved by the governments.
- [9] Interest received by a non-resident or resident but not ordinarily resident in India on deposit made after 31-3-2005 in an Offshore Banking Unit.

9.6 Grossing up of Interest:

When interest is deducted at source from interest on securities the amount of interest included in the total income of the assessee is the gross interest, which means the net interest received + tax deducted at source. Thus, "grossing up" means adding the tax paid to the government by security issuing authority to the net amount of interest received by the assessee.

The following rules must be remembered in this respect:

- (1) **Tax free-Government Securities** : There will be no grossing up of interest received in case of tax-free government securities. This is because no tax is deducted at source from interest on such securities.
- (2) **Less-tax Commercial Securities** : Tax is always deducted at source on less-tax government securities. If the net interest is given, then it must be grossed up. But if the rate of interest is given, then the amount of interest calculated at that rate gives gross interest and it should not be grossed up.
- (3) **Tax-free Commercial Securities** : In such case, the assessee receives the amount of interest at prescribed rate and the company pays income-tax on his behalf in addition to the interest paid. Thus, in such cases grossing always be done, whether amount of interest received is given or interest is given.

Illustration 3:

From the following particulars of income of Smt. Patel for the year ending 31st March, 2024, calculate the taxable income under the head 'Income Other Sources':

	Rs.
(1) Interest (gross) on debentures of A Ltd.	45,000
(2) Interest received on listed debentures of B Ltd. (T.D.S. rate 10%)	36,000
(3) Interest received on Rs. 5,00,000 8% Tax-free Relief Bonds of Reserve Bank of India	40,000
(4) Interest received on 8% Bonds of Rs. 4,00,000 of IDBI	28,800

(TDS rate 10%)	
(5) Dividend received (TDS rate 10%) on Equity shares of C Ltd. and D Ltd. [Rs. 5,400+ Rs. 1,800]	7,200
(6) Gross amount of bank interest	26,200

She has paid Rs. 4,200 as interest on loan taken for making investment in debentures of B Ltd.

Solution:

Computation of 'Income from Other Sources of Smt. Patel

Previous Year: 2023-24,

Assessment Year: 2024-25

	Rs
(1) Gross Interest on Debentures of A Ltd.	45,000
(2) Gross Interest on Debentures of B Ltd. (Int. received Rs. 36,000 x 100/90)	40,000
(3) Interest on 8% Tax-free Relief Bonds issued by RBI is fully exempted.	...
(4) Gross interest on 8% Bonds of IDBI (Rs. 28,800 × 100/90)	32,000
(5) Dividend on shares of Ltd. (Note 1: Rs. 5,400 x 100/90)	6,000
(6) Dividend shares of D Ltd. (Note 1: Rs. 1,800 x 100/90)	2,000
(7) Bank interest	26,200
Total Income from 'other sources'	1,51,200
Less: Specific deduction Int. on loan taken for purchase of debentures of B Ltd. (Note 2)	4,200
Taxable Income from Other Sources	1,47,000

Note: (1) Dividend income is also to be grossed up. (2) Int, on loan taken to purchase securities is allowed on a specific deduction irrespective of the fact whether income is earned or not on such investments

Bond Washing Transactions: Generally, adopted practice by high-income class assesses to evade the tax by transferring securities (including stocks a high-income class and relatives (low income class assesses) just before the record date of payment of interest dividend and transferring back within a period of 3 months after such date (in case of unit within a period of 9 months) is called bond washing transaction. To prevent evasion of t in this manner, Section 94 provides that in such cases the interest income will be added to the income of the transferor instead of its legal owner (transferee). The assessing officer can compel the transferor to submit such details of transfers made by him and the minimum time allowed to the assessee is 28 days from the date of receipt of such notice.]

9.7 Deductions Allowed

The following deductions are allowed while computing income chargeable under this head (Sec. 57):

- (1) In the case of interest, any reasonable sum paid by way of commission or remuneration for the purpose of realising such interest on behalf of the assessee. Deduction in the case of dividend income or income from mutual fund, is allowable only in respect of interest on loan taken for making such

- investment to the extent of 20% of such dividend income. Deduction from collecting dividend (bank commission etc.) is not allowable.
- (2) Interest on the money borrowed for investment in securities or foreign company's shares. It is also allowed as a deduction in cases where no interest or dividend is received.
 - (3) In case of income from letting of machinery, plant or furniture, the following expenses are admissible, namely (a) current repairs actual (b) insurance premium (c) depreciation (d) carried forward unabsorbed depreciation.
 - (4) In the case of income in the form of family pension, the deduction is allowed @ 33 1/3% of such income or Rs. 15,000, whichever is less.
 - (5) If the royalty income received by authors is less than Rs. 25,000, then a deduction of 25% of the income or maximum Rs. 5,000 is available as deduction for expenses. If expenses exceed this limit, then they are allowed in excess of Rs.5,000 or 25% on the basis of documentary evidence.
 - (6) In the case of income by way of interest received on compensation or on enhanced compensation a 50% deduction is to be allowed.
 - (7) Any other expenditure expended wholly and exclusively for the purpose of earning such income (excluding those incurred to earn lottery income and other casual incomes). Such expenditure should not be of capital nature nor should it be the personal expenses of the assessee.

9.8 Provisions for Casual Incomes

- (1) Income from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form is taxable.
- (2) Gross winning from lotteries, crossword puzzles, races including horse races (other than income from the activity of owning and maintaining race horses). card games and other games of any sort or from gambling or betting of any nature now chargeable to tax at a flat rate of 30%.
- (3) No expenditure or deduction is allowable in respect of such casual incomes.
- (4) Tax @ 30% is to be deducted at source in respect of lottery income. crossword puzzles, income from games etc. (provided it exceeds Rs. 10,000)

Illustration 4:

Kumari Hiral has furnished the following particulars of her investments for year ending 31st March, 2024:

- (1) Rs. 10,000 6% Port Trust Bonds.
- (2) Rs. 3,00,000 10% Redeemable Debentures of H.D.F.C. Ltd. [T.D.S. at @10% (Listed)].
- (3) Rs. 4,50,000 10% Government loan.
- (4) Rs. 2,40,000 15% Cumulative Preference Shares of Century Ltd.
- (5) Rs. 2,70,000 10% Tax-free Debentures of Ambuja Ltd. [Unlisted: T.D.S at 10%]

On 1-6-2023, she sold her Port Trust Bonds for Rs. 15,000 and purchased Rs. 45,000 12% Tax-free Debentures of Rajmoti Ltd. for Rs. 42,000 by cash [T.D.S@ 10%]. On 1-8-2023, she sold 10% Government loan at par.

Interest on investments becomes due every year on 1st January and 1st July.

Preference dividend was received on 31-12-2023.

She has paid Rs. 500 as commission to her bank for collection of interest on various investments and she has also paid bank commission of Rs. 1,056 for selling and buying of securities of Port Trust Bonds, Govt. Loan and Debentures of Rajmoti Ltd.

Compute her taxable income under the head "Income from Other Sources" for A.Y. 2024-25.

Solution:

Statement of Income from Other Sources of Kumari Hiral

Previous Year: 2023-24,

Assessment Year: 2024-25

(1) Gross Interest on 10% Redeemable Debentures (listed) of H.D.F.C. Ltd. (Rs. 3,00,000 x 10%)	30,000
(2) Gross Interest on 10% Government Loan (for six months) (Rs. 4,50,000 × 10% × 6/12)	22,500
(3) Dividend on 15% cumulative pref. shares of Century Ltd. (Rs. 2,40,000 x 15%)	36,000
(4) Gross Interest on 10% (tax-free) Debentures of Ambuja Ltd. (unlisted) [Rs. 2,70,000 x 10/100 × 100/90]	30,000
Gross Interest on 12% (tax-free) Debentures of Rajmoti Ltd. [Rs. 45,000 x 12/100 x 100/90]	6,000
Gross Income From Other Sources	1,24,500
Less: Specific Deductions	
Bank Commission for collection of Interest	500
Taxable Income From Other Sources	1,24,000

Notes: (1) Brokerage paid on purchase and sale of securities is not deductible. (2) When the rate of interest is given for less-tax Government or commercial securities, then there is no need for grossing up and so rate of T.D.S. given is ignored. But in case of tax-free debentures, the T.D.S rate is to be taken into account. In this example, T.D.S is not to be considered for the purpose of H.D.F.C. Red. debentures. (3) The 6% Port Trust Bonds are sold before the half yearly interest became due on 1-7-2023. Hence, its interest has not been received. But Debentures of Rajmoti Ltd. are purchased on 1-6-2023, and so interest due on both dates (1-7-2023 and 1-1-2024) has been received and considered taxable. (4) Remember that interest is always calculated on face value of securities and not on its purchase price.

Illustration 5:

Shri Akram has furnished the following particulars of his investments for the year ending 31st March, 2024:

- (1) Rs. 45,000 10% Tax-free Debentures of X Ltd. (T.D.S. at 10%).
- (2) Rs. 54,000 7% Gujarat Government loan.
- (3) Rs. 5,000 6.5% Treasury Savings Deposit Certificates. On 31-7-2023, he had sold Rs. 2,000 7% Gujarat Govt. loan out of Rs. 54,000 held on 1-4-2023 and invested Rs. 45,000 in 10% Tax free Debentures of X Ltd. (T.D.S. 10%) purchased at par on that date. He h borrowed Rs. 30,000 at 15% per annum interest. Interest was paid on 30 June and 31st December.
- (4) Dividend received on shares of foreign companies Rs. 1,20,000.
- (5) He had received the following agricultural income during previous yes
- (A) From Agricultural land situated in India Rs. 85,000.
- (B) From land situated outside India Rs. 3,25,000.

Calculate his taxable income for the A.Y. 2024-25 under the head "Inc from Other Sources."

Solution:

Statement of Income from Other Sources of Shri Akram

[Previous Year: 2023-24]

[Assessment Year: 2024-25]

	Rs.	Rs.
(1) (i) Gross Interest on tax-free debentures of X Ltd. (Rs. 45,000 x 10% x 100/90): Annual	5,000	
(ii) Gross Interest on tax-free debentures of X Ltd. Purchased on 31-7-2023 for 6 months: (Rs. 45,000 x 10% x 100/90 x 6/12)	2,500	7,500
(2) Gross Interest on Gujarat Govt. Loan:		
(i) For 6 months on Rs. 54,000 on 30-6-2023 (Rs. 54,000 x 7% x 6/12)	1,890	
(ii) For 6 months on Rs. 34,000 on 31-12-2023 (Rs. 34,000 x 7% x 6/12)	1,190	3,080
(3) Dividend from foreign companies (taxable: No grossing up)		1,20,000
(4) Foreign Agricultural Income		<u>3,25,000</u>
Total Income from Other Sources		4,55,580
Less: Specific Deductions:		
Interest on loan (for purchase of tax-free Debentures of X Ltd.) (Rs. 30,000 x 15% x 8/12)		<u>3,000</u>
Taxable Income from Other Sources		4,52,580

Notes: (1) Income from Agricultural land situated in India is exempted from tax (2) Interest on 6.5% Treasury Savings Certificate is fully exempted.

❖ **Exercise:**

1. Fill in the Blanks:

- (1) Any income which does not fall under the first four heads of income _____ is under the head _____.
- (2) Any gift received by an individual from his 'relative' (as prescribed in the Income Tax Act) is fully _____.
- (3) Nirgun received Rs. 43,200 as net interest (after TDS @10%) on unlisted debentures on 12-01-2024, The gross interest taxable under the head 'Income from Other Sources' shall be Rs. _____.
- (4) The casual incomes like lottery, cross word puzzle, races, card games etc. are taxable @ _____.
- (5) Any gift received on the occasion _____ of the _____ exempted. of the is fully exempted.
- (6) Dividend declared by a foreign company and received by an ordinary resident in India is fully _____.

2. From the following information, calculate the income from other sources of Shri X for the year ended on 31-3-2024:

The following were the investments on 1-4-2023:

- (1) 8% Municipal Corporation Bonds (1st Series) of Rs. 50,000.
- (2) 10% Tax-free Listed Debentures of Rs. 27,000. (T.D.S. @ 10%)
- (3) 6% Tax-free Government Securities of Rs. 10,000.
- (4) 12% Preference Shares of Rs. 80,000.
- (5) 10% Tax-free (Unlisted) debentures of Rs. 27,000. (T.D.S. @ 10%)

Interest on the above becomes due on 31st December each year. On 31-8-2023, he had sold Rs. 10,000 6% Tax-free Government Securities for Rs. 7,500 and on the same day purchased Rs. 10,000, 8% Municipal Corporation Bonds (2nd Series) for Rs. 9,500. The required balance of amount for such purchase was borrowed at 15% interest p.a. He had paid Rs. 60 for brokerage on the purchase and sale of securities and Rs. 50 for collection of interest. Dividend on preference shares was declared in March, 2024.

[Ans.: Gross income from other sources Rs. 20,400 and taxable income Rs. 20,175]

3. Shri Jagdish Mathur is an Indian citizen and ordinary resident. Prepare a statement showing his taxable income from other sources from the details his income for the year 2023-24 given below:

- (1) He has received on 15-4-2023, the total accumulated amount of Rs. 6,805 from unrecognised provident fund, of which the employer's contributions was Rs. 2,80,000 and interest thereon was Rs. 60,000. (He had retired on 31-3-2023 and the employer and employee were contributing equally to unrecognised P.F.)

(2)	Agricultural income from land in U.P.	Rs.6,000
(3)	Prize from cross-word puzzles	Rs. 5,500
(4)	Interest received on govt. securities	Rs.1,800
(5)	Interest received on tax-free commercial securities (Rate of T.D.S 10%)	Rs. 3,600
(6)	Amount of third prize received for participating in Motor car race	Rs. 50,000
(7)	Loss in card games	Rs. 20,000
(8)	Interest on deposits in foreign companies (in dollars) and its rupee value was	Rs. 3,500
(9)	Remuneration received for working as a judge in a beauty contest	Rs. 25,000
(10)	Interest due on Kisan Vikas Patra and Indira Vikas Patra during the previous year was Rs. 16,425 and Rs. 8,640 respectively.	
(11)	Remuneration received for working as an examiner in University examination	Rs.24,000
(12)	Interest on savings bank account	Rs. 1,400
(13)	Interest earned on post office savings bank account (Jointly held with his spouse)	Rs.6,450
(14)	Interest on 7% Capital Investment Bonds	Rs.21,000
(15)	Debenture interest received from Indian companies (T.D.S. 10%)	Rs. 13,500
(16)	Income from Royalty (after deducting expenses)	Rs. 7,200
(17)	Gift received from his uncle	Rs. 1,25,000

He has paid interest of Rs. 1,500 on bank loan taken for making investments debentures of Indian companies. He has paid interest of Rs. 3,000 on bank loan taken for making investment in shares of companies from whom no dividend income is received.

Bank commission paid from transferring interest on deposits in foreign companies to India Rs. 350.

[Ans.: Gross income from other sources Rs. 2,22,545 and taxable income Commission Rs, 350]

4. Shri Jayant Vyas presents the following particulars of his income for the previous year 2023-24

Find out his taxable income under the head "Income from Other Sources." the A. Y. 2024-25.

- (i) Interest received Rs. 9,900 on less-tax debentures of 'A Co.' (T.D.S. 10%).
- (ii) Interest (Gross) on bank deposit Rs. 17,000.
- (iii) Gross dividend on 10% Preference share of 'A Ltd.' Rs. 15,000.
- (iv) Net income from horse race is Rs. 11,200 (T.D.S. 30%)

[Ans.: Total taxable income under the head 'Income from Other Sources'Rs.59,000]

5. From the following details of Shri Anandbhai Joshi, find out the taxable Income under the head "Income from Other Sources" for the A.Y. 2024-25:

- (i) Rs. 40,000 as interest earned on Gold Deposits Bonds, 1999.
- (ii) Rs. 24,000 as gross dividend earned on shares of Reliance Power Co. Ltd.
- (iii) Rs. 39,375 as interest received on less-tax debentures of "Ashtha Ltd" (T.D.S. 10%)
- (iv) Rs. 44,100 as interest received on less-tax debentures of "Garden Warelli Ltd., Surat (T.D.S. rate is 10%).
- (v) Investment in 10% Rs. 10,40,000 less tax debentures of "Chennai Ltd" (T.D.S. 10%). On 1-7-2023, these debentures were sold and settled the bank loan taken to purchase the debentures of Ellizabeth Ltd.
- (vi) Royalty received as an author Rs. 1,89,000 net (after deduction of Rs. 21,000 as expenses).
- (vii) Investment in 10% Rs. 5,40,000 tax-free debentures of Delhi Ltd. (T.D.S. 10%)
- (viii) Net income from horse race is Rs. 35,000 (T.D.S. 30%).
- (ix) Interest from Bank Term Deposit (Gross) Rs. 68,000.
- (x) On 1-6-2022, he purchased Rs. 5,40,000 12% tax-free debentures of Ellizabeth Ltd. (T.D.S. 10%) For this purpose, he borrowed a loan from the bank for Rs. 4,00,000 at 12% p.a. interest rate.
- (xi) Rs. 28,080 has been received as ground rent.

Interest on all the securities was received on 30th June and 31st December Every year. Rs. 1,380 was paid for collection of interest.

[Ans.: Gross Income under the head Income from other sources Rs. 6,35,830; Taxable Income from other sources (after allowing specific deductions of 10 months interest on loan Rs. 40,000 + Collection charges Rs. 1,380 = Rs. 41,380) Rs. 5,94,450]

6. From the following information of Shri Mohit, compute his taxable come under the head of "Income from other sources" for the financial year 2023-24.

	Rs.
(1) Dividend received on 10% Preference Shares of Indian Companies (TDS rate 10%)	18000
(2) Interest earned on fixed deposit with Bank of India	18600
(3) Interest on 7% Capital Investment Bonds.	7000
(4) Income of rent from sub-tenant	36000
(5) Net income received on winning from horse-race (T.D.S. 30%)	140000
(6) Dividend received on shares of foreign companies	8400
(7) Interest received on 10% tax free debentures of Rima Ltd. (TDS 10%)	27000
(8) Interest credited in Public Provident Fund account.	5400
(9) Received family pension ³	70000
(10) Dividend received on the units of Unit Trust of India	2000

He has paid interest of Rs. 6,500 on bank loan taken for purchasing shares of Indian companies. Bank Commission of Rs. 600 was paid for the collection of interest.

[Ans.: Gross Income Rs. 6,70,000 and Taxable income under the head 'Income from Other Sources' Rs. 6,65,000 (specific deductions of Rs. 5,000)]

7. From the following data of Pankaj for the previous year ended 31-3-2024, compute the Income from Other Sources:

	Rs.
(1)	
(2) Directors Fee from a Company	10,000
(3) Interest on Bank Deposit	3,000
(4) Income from undisclosed Source	1,12,000
(5) Winning from Lotteries (Net of Taxes @ 30%)	35,000
(6) Royalty on book written by him	41,000
(7) Lectures in Seminars	5,000
(8) Interest on loan given to a relative	7,000
(9) Interest on debenture of a Company	3,588
(10) Interest on Post Office Saving Bank Account	2,500
(11) Interest on Deposit Certificate issued under the Gold Monetisation Scheme	9,000
(12) Interest on Government Securities	2,200
(13) Interest on Monthly Income Scheme of Post Office	33,000

He paid Rs. 3,000 for typing the manuscript of book written by him.

[Ans. Taxable Income under the head Income from Other Sources Rs. 237,187; Typing charges Rs.3,000]

10.1 Introduction**10.2 Deductions In Respect of Payments****10.3 Deductions In Respect of Certain Incomes****10.4 Deductions In Respect of Donations****10.5 Relief****❖ Exercise**

10.1 Introduction:

Taxation plays an important role in the development of any nation. Taxation is a source of revenue for the Government. In an ancient time, taxes were paid to the Kings and nowadays, the government levies taxes from the individual and companies. To arrive at the taxable income of the assessee, the deductions mentioned in chapter VIA were deducted based on the fulfilment of several conditions mentioned in the respective section from the Gross total income of the assessee in the old tax regime. To encourage savings and investments, the income tax department lists various deductions under section 80 in the old tax regime. By taking advantage of such deductions, the assessee can try to reduce the tax liability.

[Note: As per New Tax regime section 115BAC, the assessee cannot take advantage of deductions covered in Chapter VIA of Income Tax Act, 1961. Only deductions u/s 80CCD (2) and 80CCH are allowed if an assessee opt for New Tax Regime.]

10.2 Deduction In Respect of Payments:

10.2.1 Section 80C: Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc.

This deduction applies to Individuals and HUF. It does not apply to Companies or firms. An assessee can benefit from this deduction if he made payments in the previous year on specified investments/contributions/deposits. The Actual amount invested in specified investments/contributions/deposits is considered for claiming the deduction.

The following investments qualify for the deduction under this section.

- Payment made by an individual to effect or to keep in force life insurance policy for himself, spouse, and child, and in case of HUF, premium paid for any member of the HUF is considered.
- Any payment made to the Life Insurance Corporation or any other insurer to keep in effect or force a contract for a notified annuity plan.
- An employee's contribution to a recognized provident fund.
- An employee's contribution to an approved superannuation fund.
- An employee's contribution to any Public provident fund.
- Any payment made as tuition fees (but not donation) to any university/college/educational Institution in India for full-time education (for a maximum of 2 children).

- Amount spent on Purchase of National Saving Certificate (VIII Issue or IX issue).
- The amount spent as deposited under Senior Citizens Saving Scheme Rules, 2004.
- The amount deposited in the time deposits scheme in post office for the period of five year.
- Senior Citizen Savings Scheme Rules, 2004.
- Any sum paid for the notified annuity plan of LIC (i.e., New Jeevan Dhara, New Jeevan) or any other insurer.
- Amount invested in term deposits for a fixed period for at least 5 years with a scheduled bank.
- The amount spent to acquire the notified units of Mutual Fund or UTI.
- The Amount spent on the Purchase of NABARD-issued notified bonds.
- Any amount spent for participating in the Unit-linked Insurance Plan of UTI.
- Any payment made as a subscription to the National Housing Bank's notified pension fund or Home Loan Account Scheme.
- The amount invested in approved debentures and equity shares of a public sector company who is engaged in infrastructure including the power sector or units of a mutual fund proceed, which are used to develop, maintain a new infrastructure facility.
- **Amount of Deduction:**

The amount of deduction that can be claimed under this section should not exceed Rs. 1,50,000. [The aggregate amount of deduction that can be claimed u/s 80C, 80CCC and 80CCD (1) should not exceed Rs.1,50,000]

10.2.2 Section 80CCC: Deduction in respect of contribution to certain Pension funds.

This deduction applies to individuals only. To claim this deduction, Amounts must be paid or deposited into an annuity plan offered by LIC of India or another insurance company to receive pension benefits. This amount must be paid from the income chargeable to tax. The maximum amount limit is Rs. 1,50,000 under this section. Any amount of pension received by the assessee/his nominee from this fund shall be taxable to the recipients of pension in the year of receipt of pension. The assessee claims the deduction and surrenders the annuity before its maturity date, there after the surrender value will be taxable for the assessee/nominee in the year of the receipt.

[Note: The aggregate amount of deduction that can be claimed u/s 80C, 80CCC and 80CCD (1) should not exceed Rs.1,50,000]

10.2.3 Section 80CCD: Deduction in respect of contribution to pension scheme of Central Government.

The deduction applied to individuals only. An individual who is employee of central Government or employed by other employer on or after 1-4-2004 are eligible for this deduction. Under this section, by making contribution to the pension scheme notified by Central Government (the National Pension Scheme (NPS) and the Atal Pension Yojana (APY)), an individual can get deduction up to 10% from Gross Total Income. The Maximum amount of deduction is 10 % of their Salary in case of Salaried Person while in case of other person, it is up to 10% of Gross Total Income.

[Note: The aggregate amount of deduction that can be claimed u/s 80C, 80CCC and 80CCD (1) should not exceed Rs.1,50,000]

10.2.4 Section 80D: Deduction in respect of Health Insurance Premia.

- This deduction applies to individuals and HUF. In Order to Claim this deduction, medical insurance premiums should be paid (payment should be other than cash) for the individual himself or his spouse or dependent children or parents while members of HUF are covered in the case of HUF. This amount of premium must be paid from the income chargeable to the tax.

An individual is also eligible for the following deductions:

- Any amount paid as a premium to Medical Insurance Schemes of the General Insurance Corporation approved by the Central Government or other insurer or approved by IRDA (Payment should be other than cash) and Payment for the preventive health examination (payment in cash or any other method – subject to limit).
- As per this section, the maximum amount of deduction should not exceed Rs. 25,000 (A maximum deduction of Rs. 5,000 is allowed for preventive health check-ups). An individual can also claim additional deductions up to Rs. 25,000 per year for the premium paid for the Parents.
- If no payments have been made to sustain an insurance policy for the health of a super senior citizen (80 years or more) than any payment made for medical expenses related to such person that does not more than Rs. 50,000 shall be allowed as a deduction under this section.

10.2.5 Section 80DD: Deduction in respect of maintenance including medical treatment of a dependant who is a person with disability.

This deduction applies to resident Individuals and Resident HUF. Under this section, the assessee can claim deduction for the expenditure incurred in respect of medical treatment, training, and rehabilitation of a disable dependent person or the amount paid under any schemes/plan framed by the LIC or another insurance company. Under this section, Individual dependent means spouse, children, parents, brothers, and sisters of the individual while for the HUF, dependent means any member of HUF. To claim this deduction, the assessee must produce the medical certificate of disability as certified by a medical authority. Under this section, the deduction amount varies as per the level of disability, which is mentioned below.

Amount of Deduction:

- Rs. 75,000 fixed deductions for dependents with disability
- Rs. 1,25,000 fixed deductions for dependents with severe disability (80% or more).

10.2.6 Section 80DDB: Deduction in respect of medical treatment, etc.

Under this section, both resident individuals and resident HUFs can claim deduction in respect of the expenditure incurred on medical treatment of notified diseases. An individual can claim this deduction for expenditure incurred on medical treatment of himself or his dependent (spouse, children, parents, brothers and sisters). Dependent in the context of HUF refers to any dependent HUF member. The amount of deduction is Rs. 40,000 or the actual amount paid, whichever is minimum. In the

case of senior citizens, the amount of deduction is Rs. 1,00,000 or the actual amount paid, whichever is the minimum. The amount received from insurance or the amount reimbursed by the employer will be subtracted from the aforesaid deduction amount, and the remaining amount is allowed as a deduction.

Under this section, the deduction is permitted only, if the assessee has obtained a prescription for the medical treatment from a neurologist, oncologist, urologist, haematologist, immunologist, or another specialist as directed. [Specified disease includes (a) Neurological diseases (with a disability level of 40% and above), such as Ementia, Dystonia Musculorum Deformans, Motor Neuron Disease, Ataxia, Chorea, Hemiballismus, Parkinson's Disease, Aphasia (b) Cancers (c) Full-blown Acquired Immuno-Deficiency Syndrome (AIDS) (d) Chronic Renal failure (Kidney failure) (e) Thalassaemia]

10.2. 7 Section 80E: Deduction in respect of Interest on Loan taken for Higher Education

Under this section, Individuals can claim deduction in respect of payment of interest on education loans taken for the higher education.

The following points should be considered in order to claim the deduction under this section.

- The education loads must be taken by the Assessee for himself or his spouse, or a student for whom they are a legal guardian.
- The loan must be taken from a financial institution or a recognized charitable institution for higher education (higher education means any course of study pursued after passing the Senior Secondary Examination or its equivalent).
- The assessee pay interest on this education loan.
- The amount of interest should be deducted from the income chargeable to the income tax.
- There is no limit on the amount of interest that can be claimed as a deduction. The actual Interest amount paid during the year can be deductible under this section.
- Under this section, the deduction is allowed for the initial assessment year and seven assessment years immediately succeeding the initial assessment year or until interest is paid by the assessee in full, whichever is earlier.

10.2.8 Section 80EE: Deduction in respect of interest on loan taken for residential house property

This deduction applies to individuals only. As per this section, the assessee can claim a deduction up to Rs. 50,000 for making payment of interest on a loan taken from a housing finance company or a bank with a view to purchase of residential house property.

The following points must be considered to claim the deduction under this section.

- The loan must be taken by the assessee for the acquisition of the resident house Property.
- The assessee does not own any residential house property on the date of sanction of loan.

- The house property should not be worth more than Rs. 50 lakhs.
- The housing loan must have been approved between 1-4-2016 to 31-3-2017.
- The maximum amount of loan should not be worth more than Rs. 35 lakhs.

❖ **Amount of Deduction:**

Actual amount of interest payable on such loan during the previous year or Rs. 50,000, whichever is lower.

[Note: If an individual is availing the benefit of this deduction, such interest shall not be deductible under the provisions of any other law.]

10.2.9 Section 80GG: Deductions in respect of Rents paid

The following points should be considered to claim a deduction under this section.

- This deduction applies to individuals only.
- The assessee does not receive any amount of House Rent Allowances.
- An Individual can claim a deduction for house rent if he is residing in a rented house, and the payment of house rent should be deducted from his gross total income.
- Assessee/spouse/minor child/HUF of which he is a member should not own any residential house at a place where the assessee resides, perform the office duties or employment, or conduct his business/profession;
- The assessee does not own any residential house at any other location for which he can receive the benefits under section 23(2)(4).
- He should provide a declaration in form 10BA detailing the expenses he incurred in order to pay the rent of the house.
- **Amount of deduction:**
 - The amount of deduction is lower from the following:
 - a. Rs. 5,000 per month
 - Or
 - b. 25% of Total Income for the year
 - Or
 - c. Rent paid in excess of 10% of Total Income

10.3 Deductions In Respect of Certain Incomes

10.3.1 Section 80QBB: Deduction in respect of royalty income, etc., of authors of certain books other than text-books.

The following points must be considered to claim this deduction:

- This deduction applies to residents of India.
- He is an author or joint author.
- The book written by him should be either literary, artistic, or scientific in nature. However, brochures, commentaries, diaries, guides, journals,

magazines, newspapers, pamphlets, textbooks for schools, tracts, and other publications of similar nature, under whatever name, will not be considered “books”, though.

- The gross total income includes any income earned through Royalty or Copyright, and this income must be derived by him in the exercise of his profession.
- If such income is received outside of India and shall be brought to India in the form of Convertible Foreign Exchange within 6 months from the end of the previous year in which such income is earned or within such further period allowed by competent authority in this behalf, such income is also eligible for deduction by the assessee.
- If royalties or copyright fees are not paid in one lump amount, the deduction is limited to 15% of the value of books (before deducting costs related to that revenue) sold during the previous year.
- To Claim this deduction, the assessee should furnish a certificate in the prescribed form and in the prescribed manner, duly verified by any person responsible for making such payment to the assessee along with the return of income, setting forth such particulars as may be prescribed.
- The amount of deduction is the actual amount Received or Rs. 3,00,000, whichever is lower.

10.3.2 Section 80RRB: Deduction in respect of Royalty on Patents.

- This deduction applies to the resident individual only.
- To claim deduction under this section, the resident individual must be a patentee (the true and first inventor of the invention, whose name is entered on the patent register as the patentee, in accordance with the Patents Act, 1970).
- The income of the previous year of the assessee should include the income received by way of royalty in respect of a patent registered on or after the 1st day of April, 2003 under the Patents Act, 1970.
- Compulsory licensing of Patents is the most important.
- The assessee should furnish a certificate in the prescribed form duly signed by the prescribed authority for verifying the details of the royalty on patents.
- The amount of deduction is Actual amount received or Rs. 3,00,000, whichever is lower.
- If such income is received outside of India and shall be brought to India in the form of Convertible Foreign Exchange within 6 months from the end of the previous year in which such income is earned or within such further period allowed by competent authority in this behalf, such income is also eligible for deduction by the assessee.

10.3.3 Section 80TTA: Deduction in respect of Interest on Deposits in Savings account

This section applies to individuals or Hindu Undivided Family. To claim this deduction, the Gross Total Income of the assessee should include any income earned

through interest on deposits in a saving account with a banking company or a co-operative society (engaged in carrying on the business of banking) or a post office. Interest earned on savings accounts are eligible for deduction under this section while interest earned on fixed deposits, recurring deposits or any other investment income are not eligible for the deduction. Interest on Post Office Saving Bank accounts is exempt up to Rs. 3,500 (in case of single account) and Rs. 7,000 (in case of joint account).

- **Amount of Deduction:**

The actual interest amount on such deposit or Rs. 10,000, whichever is lower/minimum.

[Note: While calculating the total income of any partner of the firm or any member of the association or any individual of the body, if the income received under this section is obtained from a deposit made into a savings account owned by, or on behalf of, a firm, an association of persons or a body of individuals, no deduction shall be made for that income.]

10.4 Deductions In Respect Of Donations

10.4.1 Section 80G: Deduction in respect of donations to certain funds, charitable institutions, etc.

This deduction applies to all the Assessee. Donations should be given to specific organizations and institutions (registered under section 80G). Donations of Rs. 2,000 or more should be given via cheque, draft, or electronic transfer (should not be paid in cash). However, cash donations up to Rs. 2,000 shall qualify for the deduction. The amount of deduction should not be more than 10% of Adjusted Gross Income for this purpose. To avail of the benefit of this deduction, the donor must receive an original receipt from the organization or institution receiving the donation.

[1] Any amount donated to the following institution/organization is allowed as a deduction without any limit.

(a) 100% of Donations is allowed if the donation given to the following institutions.

- National Defence fund set up by the Central Government
- Prime Minister's Armenia Earthquake Relief Fund
- Prime Minister National Relief Fund
- National Foundation for Communal Harmony
- National Blood Transfusion Council or State Council for Blood Transfusion
- Approved University or Educational institution for National eminence
- Zila Saksharta Samiti
- Army Central Welfare Fund or the Indian Naval Benevolent Fund or Air Force Central Welfare Fund
- Fund set by State Government for providing medical relief to poor
- Andhra Pradesh Chief Minister Cyclone Relief Fund
- National illness assistance fund

- Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund
- National Sports Fund
- Technology Development and Application Fund
- National trust for Welfare of persons with Autism, Cerebral Palsy, and Mental Retardation
- Swachh Bharat Kosh
- National Children's Fund
- Funds set up by the government of Gujarat for providing relief to victims of earthquake
- National Cultural fund
- Clean Ganga fund
- National Fund for Control of Drug Abuse

(b) 50% of Donations is allowed if the donation given to the following institutions.

- Jawaharlal Nehru Memorial fund
- Indira Gandhi Memorial Trust
- Prime Minister's Drought Relief Fund
- Rajiv Gandhi Foundation

- [2] (a) After the qualifying limit of 10% of adjusted gross total income, a 100% deduction is permitted for the following deduction.
- Donation to the Government or any approved local authority, institution, or association to be utilized for promoting family planning
 - Any sum paid by the assessee, being a company, in the previous year as donations to Indian Olympic Association or to any other association or institution established in India and notified by the Central Government for the development of infrastructure for sports and games
- (b) After the qualifying limit of 10% of adjusted gross total income, a 50% deduction is permitted for the following deduction.
- Any other approved fund or any institution which satisfies the conditions mentioned in section 80G(5).
 - Notified Donation given to temple, mosque, gurudwara, church or other place for the purpose of renovation or repair.
 - Government or any local authority to be utilized for any charitable purpose other than the purpose of promoting family planning.
 - Any authority constituted in India with a view to dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or for both.

[Note: Adjusted Gross Total Income = Gross Total Income – Long Term Capital Gain – Short Term Capital Gain u/s 111A – deduction u/s 80C to 80U (except 80G) + Income u/s 115A, 115AB, 115AC and 115AD]

10.4.2 Section 80U: Deduction in case of a person with disability

This deduction applies to resident individuals. During the previous year, at any time, an assessee should be certified as a person with a disability by the medical authority. To avail benefit of this deduction, the assessee should furnish a copy of certificate of disability, issued by the medical authority in the prescribed form along

with the return of income, in respect of the assessment year for which the deduction has been claimed.

A fixed amount of Rs. 75,000 is allowed as a deduction for the assessee suffering from disability and A fixed amount of Rs. 1,25,000 is allowed as a deduction for the assessee suffering from severe disability (80% or more).

10.5 Reliefs

Sometimes the tax burden is increased on the taxpayers in certain circumstances. In order not to increase the burden on the taxpayer, the relief is given to the tax payer in the following circumstances.

(1) when salary is paid in advance or in arrears:

Sometimes, the arrears of the salary or advance salary is paid to the employee with the salary of current period. Thus, the arrears of salary or advance salary along with the salary of current period is become taxable for the assessee and as a result, tax liability of the assessee is increased for that particular year in which such amount is received. In such circumstances, Relief is granted to the assessee under section 89(1) of Income Tax Act, 1961 and Rule 21-A. As per this section, the assessee can add such amount in respective year for which it concerns and thereby the assessee has to pay small amount of taxes.

In Order to get the benefit of relief under section 89(1), the assessee has to compulsory fill the form of 10E. The details of arrears of Salary or Advance salary is mentioned in the Rule 21-A.

(2) In Case of Double Taxation:

Due to LPG reforms, the limitation of boundaries of countries are removed. Business expansions and sources of incomes are increased for the individual. Sometime, it may also possible that any individual of one country may receive income from another country. In such circumstances, individual needs to pay taxes in both the countries as per the tax laws of respective counties. To avoid this problem, benefit of double taxation relief is given to the assessee u/s 90 and u/s 91. Indian Government has signed the Double Taxation Avoidance Agreement (DTAA) with more than 94 countries which will save individuals from paying double taxation on the same income earned by individual.

- **Section 90:** As per Double Taxation Avoidance Agreement (DTAA), the relief is given to individual/entities in the following two ways.
 - (1) **Exemption Method:** Instead of two countries, only one country will collect the taxes from the Taxpayer.
 - (2) **Tax Credit method:** Both countries will levy taxes from the individual according to their existing law, but the country in which individual is resident will allow the credit for the tax amount payable in the source country against taxes paid in the resident country.
- **Section 91:** If India has not signed DTAA with any country, then the amount of lowest tax is allowed as a tax relief to the tax payers.

❖ **Exercise:**

• **Long Questions:**

- (1) Explain the Deduction Under Section 80C.
- (2) Discuss the Deduction in respect of health insurance premium.
- (3) Explain the Deduction Under Section 80E.
- (4) Discuss the Deduction in respect of Donations to certain funds, charitable institutions, etc. in brief.
- (5) Explain Relief in Income Tax Act.

• **Write Short Notes:**

- (1) Section 80DD
- (2) Section 80DDB
- (3) Section 80EE
- (4) Section 80GG
- (5) Section 80QQB
- (6) Section 80RRB
- (7) Section 80U
- (8) Section 80CCC

• **MCQ**

- (1) The Maximum deduction amount is _____ u/s 80C of the Income Tax Act, 1961.
(a) Rs. 1,00,000
(b) Rs. 2,00,000
(c) Rs. 1,25,000
(d) **Rs. 1,50,000**
- (2) Under Section 80E of Income Tax Act, 1961, _____ amount of deduction is allowed for interest on an education loan.
(a) 2,00,000
(b) 4,00,000
(c) 10% of Salary
(d) **Actual Amount of Interest**
- (3) Which section provides deduction in case of a person with disability?
(a) Section 80C
(b) Section 80GG
(c) Section 80G
(d) **Section 80U**
- (4) Interest on Post Office Saving Bank accounts is exempt up to _____ in case of single account.
(a) Rs. 7,000
(b) Rs. 5,000
(c) Actual amount
(d) **Rs. 3,500**
- (5) Under Section 80U, fixed amount of _____ is allowed as a deduction for an assessee suffering from severe disability (80% or more).
(a) Rs. 75,000
(b) Rs. 60,000
(c) Rs. 1,00,000

- (d) **Rs. 1,25,000**
- (6) Under Which Section, amount deposited in time deposit scheme in the post office for 5 years qualifies the deduction?
- (a) Section 80CCD
 - (b) Section 80GG
 - (c) Section 80TTA
 - (d) **Section 80C**
- (7) The maximum deduction allowed is _____ under section 80D for the premium of health insurance paid for assessee or his spouse and dependent children.
- (a) Rs. 35,000
 - (b) Rs. 30,000
 - (c) Rs. 20,000
 - (d) **Rs.25,000**
- (8) The full form of DTAA is _____
- (a) Dual Tax Agreement Avoidance
 - (b) Dual Treaty Avoidance Agreement
 - (c) **Double Taxation Avoidance Agreement**
 - (d) None of the above

11.1 Introduction**11.2 The Process of Determining Total Taxable Income****11.3 The income to be included in Gross Total Income of Individuals****11.4 Deductions available for an individual Assessee from his total gross income****11.5 Income of other persons included in the total income of the Assessee / Clubbing
of income****11.6 Undisclosed Income****11.7 Set off and Carry Forward of losses****11.8 Carry forward of the losses****11.9 Treatment of Income received as a member from partnership firms or AOP****11.10 Introduction to Assessment proceedings and tax collection****11.11 Income Tax Return (ITR)****11.12 Fees for delay in filing return of income:****11.13 Types of income tax Returns****11.14 Permanent Account Number (PAN)****11.15 Types of Assessments****11.16 Recovery of Tax****11.17 Advance payment of Tax:****11.18 Levy of Interest****❖ Exercises**

11.1 Introduction

Total gross incomes of the individuals Assessee are the inclusion or summation of incomes of major five heads of incomes. The computation of total tax liability of the individuals Assessee is based on gross incomes, deductions, reliefs, tax rate ad slabs, and tax credits.

11.2 The Process of Determining Total Taxable Income:

Residential status of individuals, Incomes of all major five heads, incomes of specific heads and their calculation, inclusion of incomes of spouse or minor children, set-up and carry forward of losses, calculations of gross total incomes, deducting deductions from gross total incomes, Determination of total taxable incomes, Computation of income tax at prescribed rate, deducting Amounts of compensation and relief, Calculate and addition of the surcharge, education Cess and secondary and higher

education tax, deduct advance tax and tax deducted at source (TDS) and Preparation of income statement.

11.3 The income to be included in Gross Total Income of Individuals:

1. Individuals Income
2. The income of spouse or minor children
3. Income of a Hindu undivided family
4. Income as a partner from partnership firm
5. Income as a member of group of persons and body of persons

11.4 Deductions available for an individual Assessee from his total gross income:

1. Section 80C: Deduction in respect of Life insurance premiums paid, contributions made to provident funds and other eligible investments and deductions during the previous year up to a maximum of ₹ 1,50,000.
2. Section 80 CCC: Deduction in respect of premium paid under an annuity plan during the previous year up to a maximum ₹ 1,50,000
3. Section 80 CCD: Deduction in respect of Contribution to Central Government Pension Scheme Up to 10% of salary + Employer's contribution up to 20% of salary deducted from the total gross income.
4. Section 80D: Deduction in respect of insurance premiums paid for Mediclaim or medical treatment and Premium up to ₹ 25,000 can be deducted as full deduction. It includes Assesses, spouse or dependent children's insurance policy and additional 25,000 for dependent parents.
 1. Resident senior citizen will get a maximum of ₹ 50,000.
5. Section 80DD: Deduction to an individual or HUF in respect of medical treatment of disabled dependent up to a prescribed amount of ₹75,000 on the medical expenses incurred for the medical treatment of a dependent permanently disabled or blind person.
6. Section 80 DDB: Deduction in respect of the medical expenses of Assessee or dependent relatives a prescribed amount of ₹75,000 and the amount is paid under a recognized scheme, UTI or LIC towards medical treatment of a permanently dependent disabled or blind person.
7. Section 80E: Deduction in respect of the interest on education loans paid by the Assessee himself/spouse's/children's during the previous year and deduction available for in computing the total income for the initial assessment year and for the subsequent seven assessment years.
8. Section 80EE: Deduction in respect of interest on loan taken for residential building a Maximum of ₹ 50,000. This deduction will be available in FY 2017-18 and subsequent years; The sanctioned amount of loan not more than Rs 35 lakh

and the hire purchase value not more than ₹ 50 lakh and there is no other residential house on the date of section.

9. Section 80GG: Deduction in respect of rent paid when HRA is not available then
Amount of Rs.5,000 per month OR/
Rent paid in excess of 10% of Adjusted Gross Income OR /
Amount of Rs.25% of Adjusted Gross Income, (which is low).
10. Section 80QBB: Deduction available in respect of royalty income of writing a book with a 100% of the Lump sum royalty amount or ₹3,00,000 whichever is lower and in case of yearly royalty's income less than 15% of the selling price of the book.
11. Section 80 RRB: Deduction available in respect of royalty income from patents with a 100% of the royalty amount of the patent or ₹3,00,000 whichever is lower.
12. Section 80TTA: Deduction available in respect of interest on certain savings accounts of actual income or maximum of ₹ 10,000.
13. Section 80TTB: Deduction available in respect of interest income on fixed deposits by senior citizens with an Actual interest income or ₹ 50,000 whichever is less.
14. Section 80G: Deduction available in respect of amount given as a donation and charity with a 50% of the donation. In case of Family planning, education Institute, Prime Minister's National Relief Fund, National Foundation for Communal Harmony, etc. are available 100% of the donation and deduction should not exceed 10% of revised total gross income.
15. Section 80U: Deduction available in respect Permanently physically handicapped and mentally disturb or blind Assessee of a 75,000 and with a severe disability will get deduction of ₹ 1,25,000.

11.5 Income of other persons included in the total income of the Assessee / Clubbing of income (section 60 to 65).

- (1) According to Section 60: Transfer of income means without transferring of property still transferring of income shall be taxed as being included in the total gross income of the transferee or Assessee. For example, father gives the right to receive the income from the house to son without transferring ownership that called rental income of fathers. Its summaries as follows

The Assessee must continue to own the property and transferred the right to receive income from that property to other with revocable transfer and changes at any time.

- (2) According to section 61 of revocable transfer: it means transfers of property to another person with revocable transfer therefore the income of that property shall be considered as an income of transferor. Conditions of revocable transfer are as follows: transferred property by trust which is revocable transfer and can cancel

during the lifetime of the beneficiary made before 1-4-1961 and is liable to cancellation during 6 years or to be re-transferred the income directly or indirectly or in whole or in part a right to re-establish a right to the property.

- (3) According to Section 64 refers that Addition of income of spouse or minor child: While calculating the total gross income of person includes the wife/Husband's and children's income.

A firm in which a person has a close interest at least 20% profit or voting rights. And if any other remuneration received in cash or in any kind shall be added to the gross income. if it is paid for the technical professional services then it will not be added to the gross income.

Exclusion: when both husband and wife are partners in a professional firm then the income of each will be separately assessed and as per Section 64 (1) (ii) added to the income of the husband or wife whose other income is higher.

As per Section 64 (1) (5), If a person transfers property to his wife or husband without sufficient consideration the income considered as an incomes of property owner/ persons. Exception of this section in the following circumstances: when there is a transfer of property before the marriage, ownership is taken by sufficient consideration, transfer property under a legal separation agreement, if the transferee is not the wife/ husband of the transferor on the date the income is due, which has been purchased out of the savings received for such house expenses and Gift of co-parcenary properties of a Hindu undivided family.

As per Section 64 (1) (5), any person transfers property directly or indirectly to daughter-in-law On or after 1-6-1973 without adequate consideration then it will be considered as the income of the transferee.

Exception: on transfer date and income is payable date the daughter-in-law and mother-in-law must be related. It cannot apply to future daughter-in-law before the son's marriage.

As per Section 64 (1) (vii) and (viii), Transfer of the benefit to wife or daughter-in-law without adequate consideration then the benefits to the wife /husband / daughter-in-law of that person transmitted. Even though shall be added to the income of the transferee.

Including all income of Minor children, unmarried minor daughter, step child and adopted child in the total income of a person but in some cases: Income earned by the minor child himself by physical order or through his own intellectual skill or special experience will not be included. A minor child having any one or more of the disabilities as per section 80U then his income will not be added.

As per Section 64 (1A), The minor income to be included in the parents Income whom income is higher. But if the parents live separately then it will be added to the income of one with minor children have. when the income of a person also includes the income of a minor child (other than a child with permanent physical disability referred to in section 80U) out of an amount up to ₹ 1,500 (per minor) is exempt from tax under Section 10(32).

As per Section 64 (2), A member of a Hindu undivided family on or after 31-12-1969 converted own property into H.U.F. then the income of that H.U.F will be added.

Exception: transferred house property to the minor married daughter then the income of that house property shall not be added.

As per Section 65, Self-payment of other's tax: a person deriving income from a property or from membership of a partnership firm and the income is included in the income of another taxable person and the tax in respect of his income which was to be paid by the taxpayer actually paid by Assessee and in the case of loss, it will be deducted from the income of the Assessee.

11.6 Undisclosed Income

- (a) as per Section 68, Unexplained Deposits in the books of accounts of the taxable person and cannot explain from where the amount was received. Then the amount will be considered as his income and will be taxable.
- (b) As per Section 69, Undisclosed Investments made by taxpayer during the previous year and No entry in his books of account, not any disclosure thereof and explanation to the Income-tax Officer is not satisfactory. Then The cost of the investments will be the income of the taxpayer.
- (c) as per Section 69A, Unexplained Income or money such as Any money, gold, silver, jewelry or other valuables found to be the owner and not recorded in the books of accounts then income will be considered and taxable.
- (d) As per Section 69B, when Assessee not shown Investments in the books at full value such as any investments or valuables like gold and silver is known to own and spent more than the amount recorded in the book and appears to the Income-tax Officer and does not give any explanation of such additional expenditure shall be added to the income.
- (e) as per Section 69C, when a taxable person not disclosed the expenditure incurred from where the amount was derived or the explanation is not satisfactory. Then the whole or part of that expenditure will be treated as taxable income.
- (f) as per Section 69D, When an Assessee has done a transaction using Hundis/ note other than a crossed cheque on account-pay then all the amount including interest shall be added to the income.

11.7 Set off and Carry Forward of losses

Provisions regarding Set off and Carry Forward of losses are laid down in Sections 70 to 80 of the Income Tax Act. These provisions are of three types:

1. Set off **of losses** against the same income head or under a single head called Inter-source.
2. Set off **of losses** against income under other heads
3. carry-forward of loss to the next assessment year when it is not possible to Set off **of losses** fully against the current year's income.

- **Set off of losses**

(1) As per Section 70, Set off of losses against same head therefore the income-tax is levied on the total income of taxable persons and Loss of one Income heads to other Income heads under any single head other than capital gains.

Exception:

- (1) Loss of speculation business only be set-off against the profit of the speculation business and not set-off against income of any other non-speculation business
- (2) Special business losses: Special business losses are not set off against the income of any other business and such losses are set off against the income of any other special business.
- (3) loss from owing and maintaining Horse race are not allowed to set-off against any other income under the income from other sources head.
- (4) There is a no set-off of losses allowed against lottery prizes money, word-competition prizes and income from card games and under the head of income from other sources.
- (5) Any loss on exempt income shall not be allowed to be set off against income from any other source.
- (6) A short-term capital loss is allowed to be set off against long-term capital gains. But long-term capital losses are not allowed to be set off against short-term capital gains.

(2) As per section 71, Set off of losses against other head of the incomes / **Inter-head adjustment:** If there is a loss under any head then set off against the income of another head under the same year.

Exception:

- (1) A short-term and long-term capital loss not allowed to be set off against income of other heads. But losses of other heads are allowed to be offset against the short-term and long-term capital gain.
- (2) As per Section 71B, (Loss under the head of income from house-property): Loss arising from computation of income from house-property with personal residence house up to ₹ 2,00,000 is allowed to be carried off against income of any other head of the same year.

If there is no sufficient other heads income then such residual loss to be carried forward for a maximum of next eight years and such carry forward is allowed only against the income from the house property.

1. Nature of loss: Speculative loss

Can be set-off against the other income under the same head?

cannot be set-off against Profits of non-speculative business and only set-off against the profit of the speculation business.

Can be set-off against the income from other heads?

Cannot be set-off against income from other heads.

2. Nature of loss: Non-speculative business loss

Can be set-off against the other income under the same head?

set-off against the profit of the speculation business.

Can be set-off against the income from other heads?

Can be set-off against income from other heads except salary incomes.

3. Nature of loss: Loss of special business

Can be set-off against the other income under the same head?

only set-off against the profit of the other special business.

Can be set-off against the income from other heads?

Cannot be set-off against any other income from other heads or other business.

4. Type of loss: Capital loss: Short term capital loss and long-term capital loss

Can be set off against other income under the same head?

Can be set-off against the long-term capital gains while cannot be Set-off against short-term capital gain.

Can be set-off against the income from other heads?

cannot be Set-off against income under other heads.

5. Type of loss: loss arising from owing and maintaining Horse race

Can be set off against other income under the same head?

cannot be set-off against any other income under the Income from other sources.

Can be set-off against the income from other heads?

cannot be set-off against any other income under the Income from other heads.

6. Nature of loss: Loss arising under the income from house property (including residential).

Can be set off against other income under the same head?

cannot be set-off against the income of other houses under the same head.

Can be set-off against the income from other heads?

Can be set-off against the any incomes or income from other heads.

11.8 Carry forward of the losses

- (1) According to Section 72, Business Losses: A loss is coming out while computing the income from business and profession (other than loss of speculative business) and such loss is to set off against income of all other heads and the remaining loss can be carried forward to maximum period of 8 years. Any other loss or A discontinued business loss can be carried forward to income from other business and profession.
- (2) According to Section 72(3), Business losses can be carried forward up to eight years thereafter.

Speculative business Losses can be set-off against only the speculative profits. According to Section 73, If such loss cannot be set off in the assessment year then it Can be carried forward only for the next four years.

- (3) cumulative loss of the head of capital gains cannot be set-off against Income from any other head. Long- term capital losses can be carried forward up to 8 years and allowed to be carried forward only against long-term capital gains in future. Short-term capital losses are also carried forward up to a maximum of 8 years and allowed to be set off against any future capital gains.
- (4) Loss of income from house property head is allowed to be carried forward for a maximum period of 8 years and set off only against future income from house property heads.
- (5) In case of loss of some specific income cannot be set off or carried forward against income from other sources. Such special sources of incomes are as follows: Lottery proceeds, Prizes of word-composition contests, wining from horse races, Card games and any other games, Gambling, betting etc.

Provision regarding carry forward of various types of losses.

Types of losses	For how many years can the income to be carried forward?	Can be set-off against the which heads?
1. Business Loss (Non-Speculative)		
1.1 Unclaimed Depreciation	indefinite period only	Against any income (except salary income) only against business profits
1.2 Expenditure on scientific research		
1.3 Capital expenditure		
1.4 Expenditure on family planning		
1.5 Uncovered Investment Allowance and Development Allowance	Up to 8 years	
1.6 Remaining Business Loss other than above all	Up to 8 years	only against business profits (profit of speculation business)
2. Losses of speculation	Up to 4 years	Only from the profits of the speculation business

3. Loss of income from capital gains head		Anyone who meets in the future Up to 8 years
Short-term capital losses	Up to 8 years	Against future long term capital gains only
Long-term capital losses	Up to 8 years	Against future long term capital gains only
4. Loss on owing and maintaining the horse race	Up to 4 years	Only against the income from that activity
5. Loss of income from house property head.	Up to 8 years	Only income from house property head.

11.9 Treatment of Income received as a member from partnership firms or AOP.

- (1) Share received as a member of a Hindu Undivided Family (HUF):
Income received from the Hindu Undivided Family to the Assessee as a family member is not taxable. However, the Assessee transferred self-acquired properties to the HUF after 31st December, 1969 and the income arising from such properties shall be taxable. If the other members of HUF don't have a right of partition of the HUF, then the income of the HUF is assessable as an individual income.
- (2) Interest incomes and portion of profits from partnership firm:
Interest, salary, bonus and commission received from the partnership firm by a partner is taxable as income from business and profession. A Share in profits of a partnership firm shall not be included in member or partner income if the partnership firm is liable to pay tax on its profits.
- (3) Income from Association of Persons (AOP): The amount received as a member from an association of persons is taxable as an Income from business or profession of Assessee Subject to certain conditions.

The following are the rates of income tax of an individual for the assessment year 2023-24:

Individual less than 60 years of age		Individual 60 years or more but less than 80 years		Individual 80 years of age or more	
Up to ₹ 2,50,000	Nil	Up to ₹ 3,00,000	Nil	Up to ₹ 5,00,000	Nil
₹ 2,50,001 - 5,00,000	5% above ₹ 2,50,000	₹ 3,00,001 - 5,00,000	5% above ₹ 3,00,000	₹ 5,00,001 – ₹ 10,00,000	20% above ₹ 5,00,000
₹ 5,00,001 - 10,00,000	12,500 + 20% above ₹ 5,00,000	₹ 5,00,001 - 10,00,000	10,000 + 20% above ₹ 5,00,000	Above ₹ 10,00,000	₹ 1,00,000 + 30% above ₹ 10,00,000
Above ₹ 10,00,000	1,12,500 + 30% above ₹ 10,00,000	Above ₹ 10,00,000	1,10,000 + 30% above ₹ 10,00,000		

The following are the rates of New Tax Regime u/s 115BAC of an individual for the assessment year 2023-24:

Individual less than 60 years of age		Individual 60 years or more but less than 80 years		Individual 80 years of age or more	
Up to ₹ 3,00,000	Nil	Up to ₹ 3,00,000	Nil	Up to ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 6,00,000	5% above ₹ 3,00,000	₹ 3,00,001 – ₹ 6,00,000	5% above ₹ 3,00,000	₹ 3,00,001 – ₹ 6,00,000	5% above ₹ 3,00,000
₹ 6,00,001 – ₹ 9,00,000	₹ 15,000 + 10% above ₹ 6,00,000	₹ 6,00,001 – ₹ 9,00,000	₹ 15,000 + 10% above ₹ 6,00,000	₹ 6,00,001 – ₹ 9,00,000	₹ 15,000 + 10% above ₹ 6,00,000
₹ 9,00,001 – ₹ 12,00,000	₹ 45,000 + 15% above ₹ 9,00,000	₹ 9,00,001 – ₹ 12,00,000	₹ 45,000 + 15% above ₹ 9,00,000	₹ 9,00,001 – ₹ 12,00,000	₹ 45,000 + 15% above ₹ 9,00,000
₹ 12,00,001 – ₹ 15,00,000	₹ 90,000 + 20% above ₹ 12,00,000	₹ 12,00,001 – ₹ 15,00,000	₹ 90,000 + 20% above ₹ 12,00,000	₹ 12,00,001 – ₹ 15,00,000	₹ 90,000 + 20% above ₹ 12,00,000
Above ₹ 15,00,000	₹ 1,50,000 + 30% above ₹ 15,00,000	Above ₹ 15,00,000	₹ 1,50,000 + 30% above ₹ 15,00,000	Above ₹ 15,00,000	₹ 1,50,000 + 30% above ₹ 15,00,000

Rates of Surcharge under the Old tax regime and New tax regime.

Total Incomes	Old tax regime	New tax regime
Up to Rs. 50 Lakh	Nil	Nil
Above Rs. 50 Lakh and up to Rs. 1 Crore	10%	10%
Above Rs. 1 Crore and up to Rs. 2 Crore	15%	15%
Above Rs. 2 Crore and up to Rs. 5 Crore	25%	25%
Above Rs. 5 Crore	37%	25%

Note: The enhanced surcharge of 25% & 37%, as the case may be, is not levied, from income chargeable to tax under sections 111A, 112, 112A and Dividend Income. Hence, the maximum rate of surcharge on tax payable on such incomes shall be 15%, except when the income is taxable under section 115A, 115AB, 115AC, 115ACA and 115E.

2. Rebate u/s 87A: Resident Individuals are also eligible for a Rebate of up to 100% of income tax subject to a maximum limit depending on tax regimes as under:

Health & Education cess @ 4% shall also be paid on the amount of income tax plus Surcharge (if any)

11.10 Introduction to Assessment proceedings and tax collection

It is very important to know the tax assessment procedure. When and how to file income tax return? What is permanent account number? How is assessment procedure and payment work? What is Advance Tax? And what is Self-Assessment Tax etc.

What is assessment?

Assessment means determining the total taxable income of an Assessee and determining the tax liability or the amount of refund. Thus, the process of determining the total income, tax liability and refundable amount is called assessment procedure.

According to the different section of the income tax Act, Assessee determines the total income, tax liability and amount of income tax return. This all the step is called assessment procedure.

The tax payer is responsible for filing the return of income. Assessee whose income exceeds the maximum limit of non-taxable income should fill his income tax return and send it to the Income Tax Officer then verified by the Income Tax Officer. A simple process of filing the income tax and tax liability is called Assessment.

11.11 Income Tax Return (ITR).

Every Assessee whether a company / firm / AOP prepare statement of income for filing income tax. Income Tax Return is statement of incomes of particular year and inclusion or recording of a revenue and expenses. Accountant prepare Income Tax Return with the objective of calculating tax liability of particular year. if the income of the Assessee, exceeds the minimum tax-free limit then it is mandatory to fill in the details of income in the prescribed form and submit it to the Income Tax Office. Any individual or HUF whose total income before deductions under Sections 10A, 10B, 10BA, 10C, 80C to 80U and 10(38) exceeds the maximum tax-free limit then it is mandatory to file an Income Tax Return.

- **Forms for income tax return for Assessment Year 2023-24:**

ITR 1 (SAHAJ) is applicable to An Assessee whose incomes includes salary and pension, house property, income from other sources, lottery and horse racing, dividend, interest and Agricultural income up to Rs. 5,000. An Assessee whose gross income not exceeding Rs. 50 lakhs excluding carried forward of losses from previous year.

ITR 2 is applicable to Individual or Hindu Undivided Family not having any income under the head Income from business or profession and not eligible for filing under ITR-1.

ITR 3 is applicable to individual or a Hindu undivided family having income under the head Income from business or profession and not eligible for filing under ITR-1, ITR-2 and ITR-4.

ITR 4 (SUGAM) is applicable to individual or a Hindu undivided family and A firm other than limited liability partnership firm whose income from business or profession is up to Rs. 50 lakhs and computed under the presumptive basis section 44AD, 44ADA or 44AE and also have income from salary/ pension, one house property, income from other sources, interest, dividend and agriculture income up to Rs. 5000.

ITR 5 is applicable to the Assessee other than individual, Hindu Undivided Family, Company and other persons who are eligible to file ITR-7.

ITR 6 is applicable to the Assessee other than the companies exempt under section 11.

ITR 7 is applicable to the all the persons including company who are liable to fill a form of income tax under any section 139(4a) to (d).

If the total gross income of the Assessee for the previous year 2022-23 is more than the tax-free limit then he is required to file the return within the following due dates.

Time limit for filing return of income Section 139 (1)

1. If a company has to furnish a report under section 92 E regarding international transactions have to file their ITRs by 30th November of the assessment year.
2. Any other company which has not carried on any international or specified domestic transactions have to file their ITRs by 30th October of the assessment year.
3. When the assessee is any person other than the company whose accounts are required to be audited under section 44AB have to file their ITRs by 30th September of the assessment year.
4. A working partner of a firm whose accounts are required to be audited have to file their ITRs by 30th November of the assessment year.
5. For any other assessee other than the company have to file their ITRs by 31st July of the assessment year (audit not required).

Category of tax payer	Due dates for tax filing
Individuals / HUF/ AOP/BOI who are not subject to tax audits under the Income Tax Act of 1961	have to file their ITRs by the 31st of July.
Taxpayers who are required to get their accounts audited under the Income Tax Act of 1961, except for those involved in transfer pricing cases,	have to file their ITRs by the 31st of October.
Taxpayers who are involved in transfer pricing cases and have to furnish a report under section 92E of the Income Tax Act,	have to file their ITRs by the 30th of November.

1961,	
The last date for filing revised or belated ITRs for the financial year 2023-24	31st of December.

11.12 Fees for delay in filing return of income:

The provision of section 234F with effect from assessment year 2023-24 is as follows.

- 1) Any assessee who is liable to file a return and delays in filing his return within the time limit specified in section 139(1) which is 31st July 2024. You can still file the belated return by 31st December 2024 but you will have to pay a fine of Rs 5,000 for late filing and after 31st December you have to pay a fine of 10,000.
- 2) Small taxpayers get some relief – if their total income is less than Rs 5 lakh, the fine for late filing will be only Rs 1,000.
- 3) This applies to belated returns filed after the due date but on or before December 31st of the assessment year. the income tax department has reduced the maximum penalty for late filing of returns from Rs. 10,000 to Rs. 5,000.
- 4) There are no late fees for First time income tax filler.
- 5) As per section 234A, A taxpayer who have unpaid tax liability will have to pay Interest on tax liability 1% per month. Section 234B interest on delayed payment of advance tax. Section 234C interest on delayed payment of instalments of advance tax
- 6) Return of income for the any assessment year after the last date of that assessment year. Then there is a penalty fee and interest will have to be paid on the outstanding tax.
- 7) There is also a provision of punishment for wilful non-filing of returns or Penalty of non-compliance (Section 271F).

11.13 Types of income tax Returns

1) Return of Loss:

If an Assessee has incurred a loss under income from business or profession, income from capital gains and loss from the horse's race during the previous year and such loss is set-off / carried forward in the previous year then file a return under section 139 (3).

2) Belated Return

According to Section 139 (4), If no return has been filed within the period mentioned above, the belated return in respect of any assessment year shall be filed by the last date of that assessment year or before the completion of the assessment of income tax, whichever is earlier.

3) Revised Return

Complete the Revised return concerning the return submitted under section 13 (1), specifically for the correction of any omissions or inaccuracies. According to section 139 (5), if an individual discovers any omissions or inaccuracies after submitting their return, they can file a revised return before the conclusion of the assessment year or prior to the finalization of their income-tax assessment, whichever comes first.

4) Defective or Incomplete Return

According to Section 139 (9), if the income tax officer determines that the return is defective, they must notify the Assessee to correct the error within 15 days of receiving the notification, or within any further time frame the income tax officer may specify. If this is not done, the income tax officer has the authority to take the appropriate action, assuming that the Assessee has not submitted a return and that it is therefore invalid.

11.14 Permanent Account Number (PAN)

This is an identity of each assessee under section 139 (A). PAN is ten alphanumeric characters given for the purpose of taxpayer identification. There is mandatory requirement of PAN by assessee is as follows.

- 1) Anyone who was taxable in the prior year, either personally or through another person, is accountable to the Assessee for their income.
- 2) A permanent account number must be obtained by any individual whose business's gross sales or gross receipts for the preceding year exceeded Rs. 5,00,000 or more.
- 3) The application for a Permanent Account Number must be submitted by each individual who submits an income return under sub-section 48 of section 139.
- 4) All owners are required to submit a return pertaining to fringe benefits.
- 5) Any individual who receives any income during the approved fiscal year for which income tax deduction at the source is required?
- 6) Any individual who conducts financial transactions totaling at least Rs. 2,50,000 throughout the financial year.

Who can verify income tax returns through sign.

The following persons are authorized to sign and certify the return of income.

- 1) In the case of individual.
 - (i) the person himself or
 - (ii) any other person authorized by him while the assessee is abroad or
 - (iii) the guardian or any other competent person when the person is mentally unstable or
 - (iv) any other person authorized by him when for any other reason the person is unable to sign.

- 2) Karta or, in his absence, any family member in the case of a Hindu undivided family.
- 3) The managing director, any other director, or any other authorized individual's income tax return of the firm Assessee.
- 4) The managing partner's or any other partner's income tax return for the company.
- 5) By a designated partner on behalf of a limited liability partnership firm
- 6) The Chief Officer's income tax return for the Local Self-Government Organization.
- 7) The Chief Administrative Officer's income tax return for the political party.
- 8) by any member or principal officer in any other association.
- 9) Any other individual by that individual or another authorized individual.

11.15 Types of Assessments

The assesses income tax returns may be assessed in any of the following ways:

1) self-assessment

When an assessee fills and sends his return of income by self-assessment under section 139 (1) then it is called self-assessment.

As per Section 140A, taxpayers have to pay tax before filing their return. In making this calculation, TDS is deducted from the total income tax and the shortfall after deducting tax deducted at source has to be paid along with interest. In this case, interest at the rate of 1% on the unpaid tax has to be paid every month. It is an easy way for taxpayers to pay tax and file returns. The Income Tax Department gives its consent in this regard under Section 143(1). According to the self-assessment mode, the person who has been evaluated is to fill return income on section 139 or late dates, or return income or return income for section 148 or return under section 153. the self-assessment, penalty can reach the maximum amount of taxes and interest, even if taxes are completely or partially behind, including interest.

2) In regular assessment

- (i) Assessment of income of the assessee without calling him in person.
- (i) (ii) assessment of his income by calling the assessee in person and
- (ii) involves an assessment of sound judgment.

1) As per Section 143(1), Assessment of income without summoning the assessee in person.

- (i) The income-tax officer is not allowed to call the Assessee or request to view the books of accounts or other documents if he believes the return that was submitted in response to a notice served under section 139 or section 141 (1) is accurate. According to the return itself, the Assessee will either evaluate and submit the claim that was submitted but doesn't seem to have been credited, or they will fix any mathematical errors by making the necessary adjustments.

- (ii) The Assessee is informed in writing if he is responsible for charging the amount of tax interest. The Assessee will have 30 days to respond to the income tax officer's suggested changes and provide an explanation or correction. The adjustments to the income calculation are only made after considering the assessee's explanation. The Income Tax Officer may determine the taxability by putting the suggested amendment into effect if the Assessee fails to disclose anything.
- (iii) the assessee is informed in writing even if he has to refund the amount of overpaid tax.
- (iv) If the amount of tax interest is not due and the Assessee is not to receive a refund, no written notification may be sent to him after a year has passed since the due date of the financial year in which the return was filed. The assessment of his income will only be considered complete once the income tax return has been accepted.

2) As per Section, 143(3), Assessment of income after obtaining explanation in writing or hearing the assessee in person.

However, the Assessing Officer may summon the Assessee and request evidence from him by notice under Section 143(2) if he is not satisfied with the following issues. The Assessee must either (1) not have understated any income, (2) not have computed excess loss, or (3) have underpaid tax. The income-tax officer will determine the assessee's income or loss by order, and the amount owed or refunded will be determined. However, the Assessee has the right to challenge such an evaluation. Six months after the deadline of the financial year in which the return is filed, such notice may be given.

3) Assessment of income with sound judgment as per Section 144:

- (i) if any person under section 139 (1) or 139 (G) or 139 (5) Failure to file return or revised return or delayed return despite receipt of required notice or
- (ii) cannot furnish audited accounts or
- (iii) if a person complies with a direction to audit the accounts or
- (iv) fails to appear in person or to give further evidence despite service of notice under section 143 (2) or
- (v) If it is determined that the accounts filed to the income tax officer are lacking or inadequate, the income tax officer will use all available information to determine the taxpayer's income or loss. Ex-parte assessment is another name of it. However, he will act honorably and fairly in the process. (Section 144). The Assessee receives a show-cause notice about this. Additionally, the Assessee is given a chance to present arguments.

• According to the provisions of the Section 154, Rectification of Error:

Errors that are obviously incorrect, unclear, and unsupported by evidence may be fixed. If an error is evident from the record, the Income-tax Officer may amend an order issued under any section of the Income-tax Act or an intimation sent or allegedly sent under section 143 (1). An order that has already been appealed and is pending cannot be changed by the income tax officer. Any order pertaining to error correction needs to be in writing. The Assessee must be given a prior notice and a chance to make

amends if fixing the error increases tax liability or decreases refund amount. The Assessee will receive a demand notice from the income tax officer following the issuance of the error rectification order. An income-tax authority has the authority to correct any errors made in assessment orders, appeals, or reconsideration applications, either on his own behalf or on the assessee's behalf. An error made by another income tax officer cannot be fixed by any income tax officer.

11.16 Recovery of Tax

- 1) Tax Deduction at source: Tax is deducted while paying money to taxable persons only in the following cases.
 - 1) Salary
 - 2) Interest on securities
 - 3) Other interest income
 - 4) Lottery or word creation contest prize proceeds
 - 5) Payment of contractors and sub-contractors resident in India
 - 6) Income from prize money in horse racing
 - 7) Insurance Commission
 - 8) Payment to non-residents
 - 9) Payment of amount deposited under National Savings Scheme
- 2) Source of interest income on securities in accordance with section 193's provision to deduct income tax at the 10% of current rate. Certain authorized deposits and government securities are exempt from that clause. This includes gold bonds, national savings certificates, and securities held in registered demat form, among others. If the amount of interest due on the security is Rs. 10,000 or more, the person who is responsible for paying it must deduct income tax at the appropriate rate. However, tax is not to be withheld at the source if the debenture holder's annual interest payment is less than Rs. 5,000.
- 3) Income from Other Interest (Section 194): The payer must deduct 10% income tax from interest paid on amounts other than security interest.
- 4) Lottery Income: If the total prize money from a lottery, crossword puzzle, card game, or horse race exceeds Rs. 10,000, 30% of the total prize money is withheld at the place of origin as income tax.
- 5) Payments to non-residents: 10% of the total amount paid to non-resident foreign national players is subject to income tax deductions at the source. Non-resident sports association bodies are subject to a similar clause.

11.17 Advance payment of Tax:

In certain circumstances the Income-tax Officer may levy the tax in instalments in the previous year of the assessment year. There is a provision in this regard as follows. (Sections 208 to 209):

- 1) Advance tax is required when a taxpayer estimates his own income for the current financial year, including capital gains and incidental income, and the amount of income tax he must pay is Rs. 10,000 or more.

- 2) A senior citizen who is 60 years of age or older and does not have any taxable income under the business or profession income category is not required to pay advance tax.
- 3) The advance tax amount must be paid in four instalments by each assessee on June 15, September 15, December 15, and March 15.
- 4) Last date for payment and percentage of amount payable

Last date of instalments to be paid in the relevant previous year	Minimum amount payable by all types of assesseees
On or before 15th June	15% of the total advance tax payable
On or before 15th September	45% (i.e. another 30%) of the total advance tax payable
On or before 15th December	75% (i.e. another 30%) of the total advance tax payable
On or before 15th March	100% of the total advance tax payable (i.e. balance 25%)

- 5) Advance tax payments made after March 15th but before March 31st will be considered advance tax for the applicable prior year.
- 6) The first working day following a bank holiday will be regarded as the deadline for advance tax payment if the deadline falls on that day.
- 7) In order to pay the advance tax, the resident assessee must compute his own income. He may also recalculate his estimated current income at the time of payment.

11.18 Levy of Interest

If the advance tax due is not paid in full by the aforementioned dates, the difference will be subject to simple interest at the rate of 1% per month or a portion of any given month. (Section 234 B) The advance tax, however, will be calculated at a rate of 1% per month, accounting for the tax that was underpaid on the dates of advance tax payment, if the taxpayer has paid tax in advance as per personal estimate and that amount is less than 90% of the tax due at the time of regular assessment. From April 1st of the year until his entire income is assessed including incomplete months as full months, then interest will be charged.

In case of delay in payment of instalments of advance tax under section 234C interest is payable as follows.

- (i) Simple interest at the rate of 1% per month shall be payable if the amount paid in respect of the first instalment payable by 15th June is less than 12% of the total advance tax.
- (ii) If the amount paid in respect of the second instalment payable by 15th September is less than 36% of the total advance tax, simple interest at the rate of 1% per month shall be payable.
- (iii) If the amount paid in respect of the third instalment payable by 15th December is less than 75% of the total advance tax, simple interest at the rate of 1% per month shall be payable.
- (iv) If less than 100% of the total advance tax is paid by 15th March, simple interest at the rate of 1% per month shall be payable.

If the tax so advanced by the assessee exceeds the amount determined at the time of regular assessment, the Government shall pay simple interest at the rate of 0.5% per month or 6% per annum from the beginning of the assessment year till the date of sanction of refund.

Fees for delay in filing of return of income:

If an assessee, as per the provisions of section 139, delays in filing his return of income within the prescribed time limit, he has to pay the following fee.

- (a) If the return is filed by 31st December of the same assessment year late fees have to be paid.
- (b) in any other case Rs. 10,000 has to be paid as a fee. But if the total taxable income of the defaulting assessee does not exceed five lakhs, the fee to be paid by him shall be Rs. 1,000.

❖ Exercises

1. Write a short note on the following.

- a. Fees for delay in filing return of income
- b. Concealed or undisclosed income.
- c. Provisions of set-off and carry-forwards of losses.
- d. Deductions in respect of payment for individual Assessee.
- e. Deductions in respect of income for individual assesses.
- g. Rates of income tax of an individual.
- h. Rates of New Tax Regime u/s 115BAC of an individual.

2. Write the answers to the following questions.

- 1. “Loss of one head of income can be set off against income of any other head of income.” Explain the statement and state the exceptions.
- 2. What points should be kept in mind regarding assessment of income of a person?
- 3. State the rates of income tax of total taxable income of an individual.
- 4. Explain the provision regarding set-off and carry forward of losses.
- 5. Explain the Treatment of Income received as a member from partnership firms or AOP.
- 6. Write a short note on Assessment proceedings and tax collection.
- 7. What is Income Tax Return (ITR).
- 8. Explain the Fees for delay in filing return of income.
- 9. Explain the Types of income tax Returns.
- 10. What is Permanent Account Number (PAN)?
- 11. Explain the Types of Assessments in details.
- 12. Explain the Recovery of Tax.
- 13. What is Advance payment of Tax? Explain.
- 14. Write a short note on Levy of Interest.

12.1 Introduction**12.2 Characteristics of Indirect Tax****12.3 Constitutional Validity of Indirect Tax****12.4 Advantages and disadvantages of indirect tax****12.5 Types of indirect tax****❖ Exercise**

12.1 Introduction

India's taxation system is comprehensive, comprising both direct and indirect taxes. This system ensures a balanced approach to revenue collection, allowing for the provision of public services and infrastructure development.

• Direct Taxes

Direct taxes are levied directly on the income or wealth of individuals and entities. The most significant direct taxes in India include:

1. Income Tax:

- Applied to the income of individuals, Hindu Undivided Families (HUFs), and businesses.
- Progressive tax rates based on income slabs.
- Includes taxes on salaries, business profits, capital gains, and other income.

2. Corporate Tax:

- Levied on the net income of companies.
- Different rates for domestic and foreign companies.
- Includes Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT).

3. Wealth Tax:

- Abolished in 2015, it was previously levied on the net wealth of individuals, HUFs, and companies.

• Indirect Taxes

Indirect taxes are levied on the consumption of goods and services. These taxes are collected by intermediaries (such as retailers) from the end consumers. Some key indirect taxes include:

1. Goods and Services Tax (GST):

- Introduced on July 1, 2017, to replace multiple indirect taxes.

- Comprehensive tax on the manufacture, sale, and consumption of goods and services.
- GST Structure:
- CGST (Central GST): Collected by the Central Government.
- SGST (State GST): Collected by the State Governments.
- IGST (Integrated GST): Collected by the Central Government on inter-state transactions and imports.
- UTGST (Union Territory GST): Collected by Union Territories.
- Simplifies the tax system and reduces the cascading effect of taxes.

2. Customs Duty:

- Tax on imports and exports of goods.
- Includes Basic Customs Duty, Additional Customs Duty, and Special Additional Duty.
- Aimed at protecting domestic industries and generating revenue.

3. Excise Duty:

- Previously levied on the manufacture of goods within India.
- Now mostly replaced by GST, but still applicable to certain products like petroleum and tobacco.

4. Value Added Tax (VAT):

- Previously levied on the sale of goods at each stage of production/distribution.
- Now replaced by GST for most goods, but still applicable to certain items in some states.

• Characteristics of Indirect Tax

Indirect taxes are those taxes that are levied on goods and services, rather than on income or property. These taxes are typically collected by businesses or intermediaries from the consumer, and the tax burden is ultimately passed on to the consumer. In India, indirect taxes form a major part of the revenue system, and their legal structure is governed by several acts, rules, and provisions.

• Below are the key characteristics of indirect taxes in India:

1. Tax on Consumption

Nature of Tax: Indirect taxes are consumption-based taxes, meaning they are levied on goods and services when they are consumed or used. The tax is not directly paid by the consumer at the time of earning income but is paid when the consumer purchases goods or services.

Example: Taxes like **Goods and Services Tax (GST)**, **Excise Duty**, **Customs Duty**, and **Value Added Tax (VAT)** (before GST) are all consumption-based taxes.

2. Burden Shifted to the Consumer

Taxpayer vs. Consumer: Unlike direct taxes, where the taxpayer is the one who bears the burden (e.g., income tax), the burden of indirect taxes is passed on to the end consumer. The business or intermediary collects the tax and remits it to the government.

Example: A manufacturer or retailer collects GST from the consumer at the time of sale but does not bear the tax liability themselves. They act as a collector on behalf of the government.

3. Multilevel Taxation

GST's Multilevel Structure: Under the **Goods and Services Tax (GST)** regime, there is a multilevel tax structure where tax is levied at every stage of production or distribution. This is known as the value-added tax (VAT) model, where tax is imposed on the value added at each stage of the supply chain.

GST Tax Composition: GST comprises multiple tax components, including:

CGST (Central Goods and Services Tax),

SGST (State Goods and Services Tax),

IGST (Integrated Goods and Services Tax) for inter-state transactions.

4. Destination-Based Taxation (Under GST)

Shift to Destination-Based Tax: Before the introduction of GST, taxes like VAT and excise were generally production-based, where the tax was levied at the point of manufacture or sale. However, with GST, the system was switched to a **destination-based** taxation model. This means that the tax is collected by the state where the goods or services are consumed, rather than where they are produced.

Example: If goods are manufactured in Delhi and sold to a consumer in Mumbai, the tax revenue from the sale is collected by the state of Maharashtra, not Delhi.

5. Cascading Effect and Prevention (Under GST)

Cascading Tax: In older tax systems, such as VAT and excise, taxes were levied on goods at each stage of production, but businesses were not allowed to claim a credit for the taxes paid on their inputs. This resulted in a "cascading effect," where taxes were paid on taxes, increasing the cost of goods and services.

Input Tax Credit (ITC): With the introduction of GST, the **Input Tax Credit (ITC)** mechanism was introduced. ITC allows businesses to claim credit for taxes paid on inputs (raw materials, services, etc.), which can be set off against the tax liability on outputs (finished goods or services). This prevents the cascading effect and reduces the overall tax burden.

Legal Basis: The provision for ITC is laid out in **Section 16 of the GST Act, 2017**, and helps avoid double taxation of goods and services.

6. Exemption and Concessions

Exemptions: Some goods and services are exempt from indirect taxes to reduce the financial burden on essential items or to encourage certain sectors. These exemptions are provided by the government through laws and are typically designed to make essential goods and services more affordable.

Examples of Exemptions: Under **GST**, items like basic foodstuffs (e.g., rice, wheat, pulses) and healthcare services are exempt from tax.

Excise and VAT Exemptions: Prior to GST, excise duty exemptions were provided for goods produced in specific regions or for certain industries, such as the handicrafts industry.

7. Rate Variations

Tax Rate Variations: Indirect taxes often have multiple rates depending on the type of goods or services being taxed. The rates can vary based on classification (luxury vs. essential goods), or the nature of the service (e.g., tax on restaurant services vs. educational services).

GST Rates: Under the **GST Act**, goods and services are categorized into different slabs:

5%, 12%, 18%, and 28% GST rates, with some items taxed at **0%** (exempted) and others at a special rate (e.g., **3%** for gold).

Special Taxes: There are also **cesses** (additional taxes), like the **cess on luxury goods and sin goods** (e.g., tobacco, carbonated drinks) under GST.

8. Legal Framework

Acts and Regulations: Indirect taxes in India are governed by various legal provisions, such as:

The **Central Excise Act, 1944** (for excise duties),

The **Customs Act, 1962** (for customs duties),

The **Goods and Services Tax (GST) Act, 2017** (for GST),

The **Central Sales Tax Act, 1956** (for inter-state trade before GST).

GST Council: The **GST Council** (established under Article 279A of the Constitution) is responsible for recommending GST rates, exemptions, and other significant matters. The GST Council is composed of the Union Finance Minister and State Finance Ministers.

9. Indirect Tax Collection by Intermediaries

Role of Intermediaries: In indirect taxation, businesses act as intermediaries who collect taxes on behalf of the government. These intermediaries, such as manufacturers, traders, and service providers, are responsible for ensuring that the taxes are collected from the consumer and paid to the government.

Example: A retailer sells a product to a consumer and collects GST on the sale. The retailer then remits this tax to the government after deducting any applicable input tax credits.

10. Ease of Administration and Compliance

Simplified Compliance (Under GST): The introduction of GST has simplified tax administration by consolidating multiple taxes (such as VAT, excise, and service tax) into a single system. This has made it easier for businesses to comply with tax regulations, as they no longer need to file separate returns for each tax.

GST Returns and Filing: Businesses are required to file GST returns electronically, reducing the paperwork and enhancing transparency. The filing process is centralized, and taxpayers can manage their compliance through the **GST portal**.

E-Tracking: The GST system has also incorporated e-invoicing and e-way bills to track goods and services during transit, which reduces tax evasion.

11. Increased Revenue Generation

Broader Tax Base: Indirect taxes, especially GST, have helped increase the tax base by taxing more goods and services across the economy. This broadens the tax base and generates revenue from a wide range of economic activities.

Higher Compliance: With GST's digitized system, tax evasion has become harder, and compliance has improved, further boosting revenue collection for both the central and state governments.

12. Regulatory Authorities

Central Board of Indirect Taxes and Customs (CBIC): The CBIC is the primary authority responsible for regulating and administering indirect taxes, including GST, excise duty, and customs duty.

State Authorities: States also have their own tax authorities, which administer state-level taxes such as VAT, state excise duties, and SGST (State Goods and Services Tax).

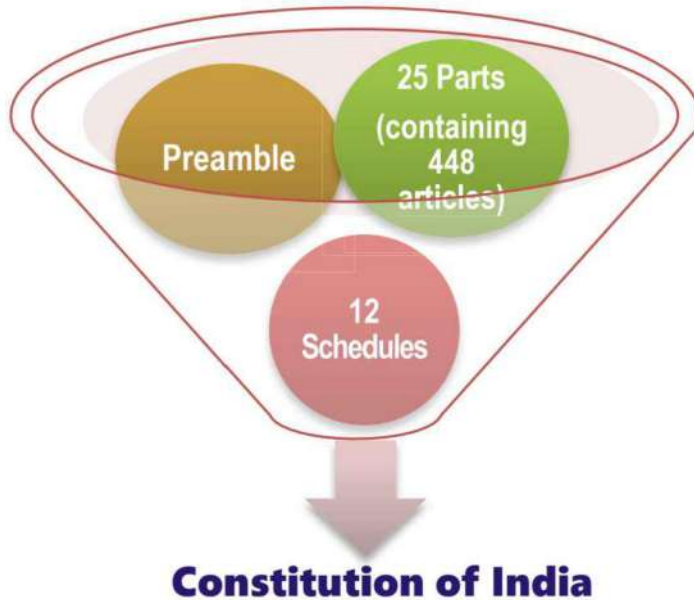
Conclusion

Indirect taxes in India have several distinct characteristics that make them a vital part of the country's revenue system. From being consumption-based to being levied at multiple levels in the production chain, indirect taxes are designed to be passed on to the final consumer. The introduction of GST in 2017 marked a significant shift in India's indirect tax landscape, bringing with it a more streamlined, transparent, and efficient system. The key features of indirect taxes—such as exemptions, varied rates, and a multilevel taxation structure—are all aimed at optimizing revenue generation, ensuring equitable taxation, and minimizing tax evasion.

Constitutional Validity of Indirect Taxes

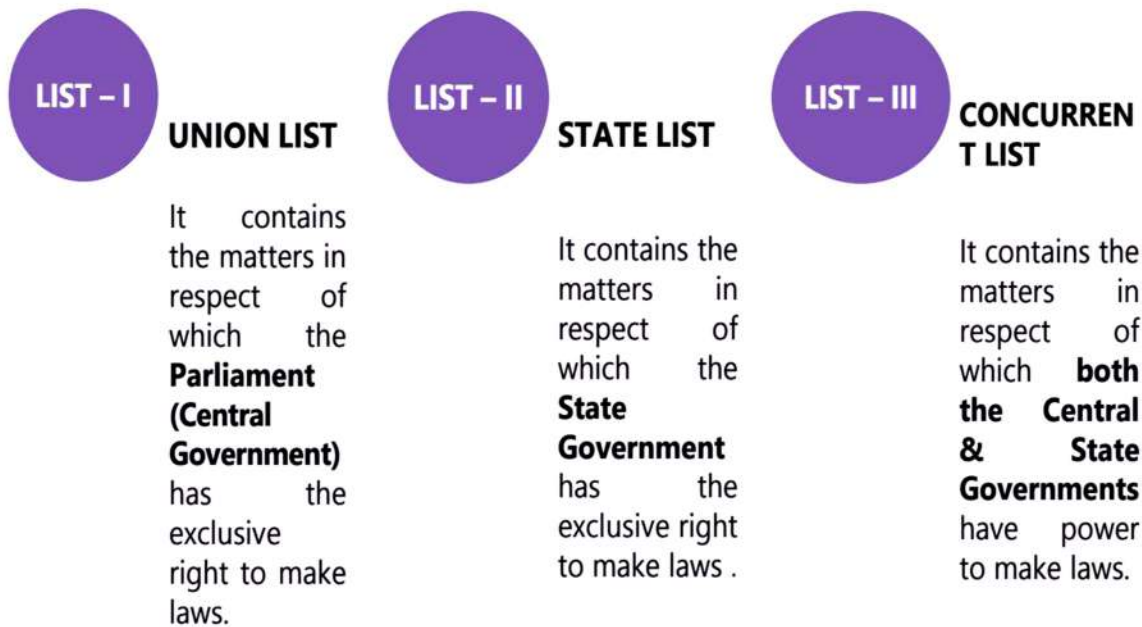
- Power to levy and collect taxes whether, direct or indirect emerges from the Constitution of India.

- In case any tax law, be it an act, rule, notification or order is not in conformity with the Constitution, it is called ultra vires the Constitution and is illegal and void.
- The constitution of India is the supreme law of India. It consists of preamble, articles and schedules.



Significant provisions of the Constitution relating to taxation

- ✓ **Article 265:**
Article 265 states that "**no tax shall be levied or collected except by authority of law**".
- ✓ **Article 245:**
Subject to the provisions of this Constitution, Parliament may make laws for the whole or any part of the territory of India, and the legislature of a State may make laws for the whole or any part of the State.
- ✓ **Article 246:**
It gives the respective authority to Union and State Governments for levying tax. Seventh Schedule to Article 246 contains three lists which enumerate the matters under which the Union and the State Governments have the authority to make laws :



- Entries 82 to 91 of List I enumerate the subjects where the Central Government has power to levy taxes.
- Entries 45 to 63 of List II enumerate the subjects where the State Governments have the power to levy taxes.
- Parliament has a further power to make any law for any part of India not comprised in a State even if such matter is included in the State List.
- Income tax is levied by virtue of Entry 82.
- Taxes on income other than agricultural income and customs duty vide Entry 83 [Duties of customs including export duties of the Union List].
- Power to levy Goods and Services Tax [GST] has been conferred by Article 246A of the Constitution which was introduced by the Constitution [101st Amendment] Act, 2016.

Constitution [101st Amendment] Act, 2016:

Need for amendment -

- Introduction of the GST required amendment in the Constitution so as to enable integration of the central excise duty including additional duties of customs, State VAT and certain State specific taxes and service tax levied by the Centre into a comprehensive Goods and Services Tax and to empower both Centre and the States to levy and collect it.
- Consequently, Constitution [101st Amendment Act], 2016 was passed.
- It has 20 sections.
- Newly inserted Article 279A empowering President to constitute GST Council was notified on 12.09.2016.
- Remaining provisions were notified with effect from 16.09.2016

Key changes in brief -

- Concurrent powers on Parliament and State Legislatures to make laws governing taxes on goods and services.

- Levy of integrated goods and services tax on inter-State transactions of goods and services to be levied and collected by the Central Government and apportioned between the Union and the States in the manner provided by Parliament by Law as per the recommendation of the GST Council.
- Principles for determining the place of supply and when a supply takes place in the course of inter-State trade or commerce shall be formulated by the Parliament, by law.
- GST will be levied on all supply of goods and services except alcoholic liquor for human consumption.
- On the following products GST shall be levied, from a date that will be notified on the recommendations of the GST Council:



- The Union Government shall retain the power to levy duties of excise on the aforesaid products besides tobacco and tobacco products manufactured or produced in India.
- Article 279A of the Constitution empowers the President to constitute a joint forum of the Centre and States namely, Goods & Services Tax Council [GST Council].
- The provisions relating to GST Council came into force on 12th September, 2016. President constituted the GST Council on 15th September, 2016.
- The Union Finance Minister is the Chairman of this Council and Ministers in charge of Finance/Taxation or any other Minister nominated by each of the States & UTs with Legislatures are its members. Besides, the Union Minister of State in charge of Revenue or Finance is also its member. The function of the Council is to make recommendations to the Union and the States on important issues like tax rates, exemptions, threshold limits, dispute resolution etc.
- The concept of 'declared goods of special importance' under the Constitution is done away with. Presently, certain restrictions are placed on the powers of States in regard to tax on such goods.
- Transitional provisions to take care of any inconsistency with respect to any law relating to tax on goods or services or both, in force in any State. Such tax to continue to be in force until amended or repealed or until one year from commencement of GST, whichever is earlier.

Advantages & Disadvantages of Indirect Taxes

Indirect taxes, particularly after the introduction of Goods and Services Tax (GST) in 2017, play a significant role in India's economy. These taxes are levied on goods and

services, rather than on income or wealth, and are ultimately paid by consumers. Here's an overview of the key advantages and disadvantages of indirect taxes in India, supported by relevant statistical data.

Advantages of Indirect Taxes in India

1. Wider Tax Base

Indirect taxes help broaden the tax base as they apply to both individuals and businesses, irrespective of income levels. This allows the government to collect taxes from a larger portion of the population.

With the introduction of GST, the number of indirect tax payers has increased significantly. As of 2023, over 1.5 crore GST registrants were recorded in India, compared to around 40 lakh VAT payers in the pre-GST era. [Source: Ministry of Finance, GST Council official reports.]

2. Revenue Generation

Indirect taxes form a major source of revenue for the government. The implementation of GST has streamlined the tax structure, leading to improved revenue collection.

In the financial year 2022-2023, India collected ₹16.61 lakh crore in GST revenue, a substantial increase from ₹7.42 lakh crore in the pre-GST era (2016-17). This reflects a 123% growth in tax revenue, indicating the efficiency and reach of the new tax regime. [Source: Ministry of Finance, Government of India, GST Revenue Reports (2023).]

3. Encourages Savings

Indirect taxes are primarily levied on consumption, and as a result, people may choose to save more and consume less to avoid higher tax burdens on goods and services.

According to the Reserve Bank of India (RBI), India's household savings rate has been around 20% of GDP over the last few years. Although this is not solely due to indirect taxes, it reflects a broader trend where increased consumption costs (due to taxes) can encourage saving. [Source: RBI Annual Reports, Economic Survey of India.]

4. Simplified Collection Process

The GST system simplifies tax collection by shifting the responsibility to businesses, which act as intermediaries. The digitization of the GST system has streamlined the process and reduced administration costs.

GST has helped reduce the number of indirect taxes from 17 different taxes to a single, unified system. According to the GST Council, around 95% of businesses are now filing GST returns electronically, significantly reducing manual intervention and errors. [GST Council, Ministry of Finance.]

5. Boost to Exports

Indirect taxes, particularly GST, incentivize exports by allowing businesses to claim refunds on taxes paid on inputs, making Indian goods more competitive in international markets.

Exports grew by 25% in the financial year 2021-2022 to ₹31.5 lakh crore (\$420 billion) from ₹25.2 lakh crore in 2020-21, driven partly by the tax rebate mechanism under GST for exported goods. [Source: Ministry of Commerce and Industry, Government of India, Export-Import Data.]

6. Reduction in Tax Evasion

GST's digital infrastructure has made it difficult to evade taxes. The use of e-invoicing, e-way bills, and a centralized tracking system has reduced evasion and enhanced compliance.

According to the Finance Ministry, tax evasion under GST has been reduced by 40-50% compared to the previous indirect tax regime. The implementation of the e-way bill system alone has helped recover ₹5,000 crore worth of evaded taxes in 2020. [Source: Ministry of Finance, GST Implementation Reports.]

❖ Disadvantages of Indirect Taxes in India

1. Regressive Nature

Indirect taxes tend to disproportionately affect low-income individuals because they are levied on consumption, which is a larger portion of their income. This makes indirect taxes less equitable than direct taxes.

According to the National Institute of Public Finance and Policy (NIPFP), the poorest 20% of households in India spend around 65% of their income on consumption, compared to the richest 20%, who spend only 35%. Thus, indirect taxes place a higher burden on lower-income groups. [Source: Ministry of Finance, GST Implementation Reports.]

2. Inflationary Pressure

Increases in indirect taxes can contribute to inflation by raising the prices of goods and services. This can particularly hurt low and middle-income consumers, as it leads to an increase in their cost of living.

According to the Ministry of Finance, inflation in India spiked to 7.79% in April 2022, driven partly by higher fuel prices due to indirect taxes. Fuel taxes (Excise and GST) make up around 45% of the retail price of petrol and diesel. [Ministry of Finance, Reserve Bank of India (RBI), Consumer Price Index (CPI) inflation data.]

3. Complexity in Compliance

Despite efforts to simplify the tax system, compliance with the GST and indirect tax structure can still be complex for small businesses due to the need for detailed record-keeping, filing multiple returns, and navigating different tax rates.

A survey by the Confederation of Indian Industry (CII) in 2021 found that 60% of SMEs in India struggled with the compliance burden under GST, particularly with the need for detailed documentation and reconciliation of input and output taxes. [Confederation of Indian Industry (CII), SME Survey on GST Compliance (2021).]

4. Impact on Small Businesses

Smaller businesses may face challenges in adhering to the tax structure, especially with the compliance costs and regulatory burdens associated with the GST system. These businesses often lack the resources to manage tax documentation or invest in software.

According to a 2018 report by the World Bank, 30-40% of small businesses in India were unregistered under the GST system, largely due to the complexity and costs associated with compliance. [Source: World Bank Report on GST Compliance and Small Enterprises (2018).]

5. Economic Distortion

High indirect taxes on certain goods and services can distort consumption patterns. This may discourage the consumption of certain goods (e.g., luxury items) while encouraging the consumption of others, leading to inefficiencies.

Under GST, the government has imposed higher taxes (28%) on luxury goods such as cars and high-end electronic devices. This has led to a 4% drop in luxury car sales in India in 2022, according to the Society of Indian Automobile Manufacturers (SIAM). [Source: Society of Indian Automobile Manufacturers (SIAM), Annual Reports (2022).]

6. Increased Cost of Living

Indirect taxes, particularly on essential goods and services, can lead to an increase in the cost of living, especially for lower-income groups. Even though some essential items are exempt under GST, the overall increase in prices can still strain budgets.

The Consumer Price Index (CPI) for food inflation in India saw an increase of 5.59% in 2021, mainly due to higher indirect taxes on food items and fuel. This puts a significant strain on households, especially those in rural and lower-income urban areas. [Source: Ministry of Statistics and Programme Implementation (MoSPI), Consumer Price Index Data (2021).]

7. Tax Evasion (Before GST)

In the pre-GST era, indirect taxes like VAT and excise duties were often evaded through underreporting of sales and misclassification of goods to reduce taxes. This led to significant revenue leakage.

Before GST, the Indirect Tax Research and Analysis (ITRA) estimated that 30-40% of excise and VAT revenue was lost due to evasion, particularly in industries like textiles, tobacco, and alcohol. [Source: ITRA, Ministry of Finance, Pre-GST Tax Evasion Report (2016).]

While indirect taxes in India have significant advantages, including broadening the tax base, increasing revenue generation, and reducing tax evasion, they also come with notable disadvantages, such as their regressive nature, potential inflationary pressure, and the compliance burden on small businesses. The introduction of GST has led to major improvements, such as simplified collection and increased transparency, but challenges remain, particularly for lower-income groups and small enterprises.

❖ Types of Indirect Taxes

Indirect taxes in India have evolved significantly over the years, adapting to economic, political, and social changes. These taxes, which are levied on goods and services rather than on income or wealth, have played a crucial role in the country's revenue generation. Below is an overview of the various types of indirect taxes in India, highlighting their history and transformation from colonial times to the present GST system.

1. Pre-Independence Era: Colonial Taxation

- Colonial Legacy: Under British rule, the Indian taxation system was heavily focused on indirect taxes, which served as a key revenue stream for the colonial government.
- Customs Duties: Tax levied on imports and exports. Customs duties formed a significant part of India's tax structure under British rule.
- Excise Duties: These were taxes on domestically produced goods, with notable taxes like the Salt Tax and excise duties on goods such as alcohol. The Salt Tax became a symbol of resistance, culminating in the famous Salt March led by Mahatma Gandhi in 1930.
- Sales Tax: Various forms of sales tax were applied to goods like textiles and agricultural produce. However, the system was fragmented, with inconsistent tax rates across different regions.

2. Post-Independence Era: Initial Reforms (1947–1970s)

- Sales Tax System: After independence, India continued with a state-based sales tax system. In 1956, the Central Sales Tax Act was introduced to regulate interstate sales and improve tax uniformity.
- Excise and Customs Duties: These taxes remained crucial for central government revenue. Central Excise Duty was imposed on the manufacture of goods within India, while customs duties continued to apply on imports.
- Challenges: The tax system was still fragmented and inefficient, with each state having its own set of rules for sales tax, leading to complications in interstate trade and compliance.

3. 1980s–1990s: Expanding the Tax Base and Reform

- Introduction of VAT (Value Added Tax): In 2005, India moved towards modernizing its indirect tax system by introducing Value Added Tax (VAT). VAT replaced the old sales tax system in many states and reduced the cascading effect of taxes (tax on tax) by allowing businesses to claim credits for taxes paid on inputs.

- Service Tax: In 1994, India introduced Service Tax to tax services, starting with a limited range. Over the years, the scope expanded to include over 100 services, marking a shift toward a more diverse tax base.
- CENVAT (Central Value Added Tax): Introduced to integrate excise duties with VAT, CENVAT aimed at reducing the complexities of multiple tax systems.
- Excise Duty Reforms: The Excise Duty system was reformed to simplify the taxation process, especially for the manufacturing sector.

4. The Pre-GST Period (2000s)

- Service Tax Growth: Service tax became an important component of India's tax structure. The list of taxable services expanded significantly, from telecommunications to financial services, reflecting the growing service sector in the economy.
- VAT Spread Across States: VAT became widespread across states, but the varying VAT rates and rules created challenges, particularly for businesses operating in multiple states.
- Excise Duties and Luxury Goods: Excise duties on luxury goods, such as high-end cars and tobacco products, were periodically revised, often leading to higher prices and affecting inflation.

5. The GST Era (2017 – Present)

The Goods and Services Tax (GST), introduced on July 1, 2017, represents the most significant overhaul of India's indirect tax system, bringing about far-reaching changes. GST consolidated a wide array of taxes into a single system, simplifying the taxation process and improving compliance.

a. Goods and Services Tax (GST)

- A Unified Tax System: GST replaced multiple indirect taxes such as VAT, service tax, excise duties, and several other state-level taxes. The goal was to create a more uniform and efficient tax structure.
- Dual GST System: GST in India follows a dual structure, meaning it consists of:
- Central GST (CGST): Levied by the central government for intra-state transactions.
- State GST (SGST): Levied by state governments for intra-state transactions.
- Integrated GST (IGST): Levied by the central government on inter-state transactions.
- Multiple Tax Slabs: GST has four primary tax rates: 5%, 12%, 18%, and 28%, with essential goods and services typically falling under the lower slabs and luxury or non-essential items taxed at higher rates.
- Impact of GST:
- Revenue Growth: GST has significantly boosted India's tax revenue. GST collections for the year 2022-2023 were over ₹16 lakh crore, showing substantial growth from the pre-GST era.
- Simplified Compliance: GST has streamlined tax filing processes, and digital platforms now enable businesses to file returns electronically. This has helped improve transparency and reduce tax evasion.

b. Customs Duty

- Customs Duty remains an important form of indirect taxation, particularly on imports and exports. India continues to levy customs duties on a wide range of goods, including luxury items, raw materials, and essential commodities.
- Forms of Customs Duty: Includes Basic Customs Duty (BCD), Anti-Dumping Duty, and Countervailing Duty (CVD).

c. Excise Duty

- Excise Duty has been largely subsumed under GST for most goods, but excise duties on petroleum products, alcohol, and tobacco remain outside the GST framework. These continue to be a major source of revenue for both the central and state governments.

d. State-Specific Indirect Taxes

- Certain state-specific taxes, such as Entertainment Tax, Luxury Tax, and Stamp Duty, still exist, although many of these have been replaced by GST in most cases.

India's indirect tax system has evolved from colonial-era customs and excise duties to the comprehensive GST system that we have today. The introduction of GST in 2017 was a landmark reform, simplifying tax administration, broadening the tax base, and making compliance easier through digital platforms. While challenges such as ensuring equitable tax rates for all sectors and businesses remain, the shift to a unified tax structure has greatly improved transparency, boosted revenue, and facilitated easier interstate trade.

❖ Exercise

• Multiple Choice Questions (MCQs)

1. Which of the following is an example of an indirect tax?

- a) Income Tax
- b) Property Tax
- c) Goods and Services Tax (GST)
- d) Inheritance Tax

Answer: c) Goods and Services Tax (GST)

2. What is the primary characteristic of an indirect tax?

- a) It is paid directly by the taxpayer to the government
- b) It is levied on goods and services
- c) It is paid by the government on behalf of taxpayers
- d) It is not related to consumption or sales

Answer: b) It is levied on goods and services

3. Which of the following taxes was subsumed by GST?

- a) Income Tax
- b) Sales Tax
- c) Wealth Tax

d) Property Tax

Answer: b) Sales Tax

4. What does GST stand for?

a) General Sales Tax

b) Goods and Services Tax

c) Goods Specific Tax

d) Goods Standard Tax

Answer: b) Goods and Services Tax

5. Which of the following is not an example of an indirect tax in India?

a) Service Tax

b) Excise Duty

c) Income Tax

d) Customs Duty

Answer: c) Income Tax

- **Short Answer Questions**

1. What is an indirect tax?
2. How does Goods and Services Tax (GST) benefit the Indian economy?
3. What is the difference between direct and indirect taxes?
4. Give one example of an indirect tax that is levied at the state level in India.
5. What was the significance of the introduction of GST in India?

- **Long Answer Questions**

1. Explain the concept of indirect taxes and discuss their importance in India's tax system.
2. Describe the history of indirect taxes in India, from the colonial period to the present.
3. How has the Goods and Services Tax (GST) impacted India's economy since its implementation?
4. Compare the earlier sales tax system with the Goods and Services Tax (GST) system in India.
5. Discuss the challenges faced by India in the implementation of the Goods and Services Tax (GST).

13.1 Introduction**13.2 Meaning of Goods and Service Tax (GST)****13.3 History of GST****13.4 Salient Features of the GST****13.5 Structure of GST****13.6 Observance and Applicability of GST Laws****13.7 Advantages, Challenges and Limitation of GST****13.8 Difference between Indirect Tax and GST Structure****13.9 GST Council****13.10 GST Registration****❖ Exercises**

13.1 Introduction:

Tax is the main source of revenue for the government to use these funds for welfare programs of the nation such as national defense, healthcare, education, infrastructure, economic development and many more public works to provide better facilities to citizens. That is true that the main objective of taxation is to fund government expenditure, but it is not the only objective, taxation policy has some non-revenue objectives.

Thus, taxation is the process of collecting money by governments from individuals as well as businesses within their jurisdiction to fund public expenditures and services. This type of tax has to be collected through various types of taxes like income tax, sales tax, property tax, corporate tax etc. On the basis of its nature, it is divided into two main categories, namely, (i) Direct Tax and (ii) Indirect Tax.

Direct Tax is a tax which imposed and levied directly from the person who is responsible for the same. The person on whom the tax is imposed is responsible for bearing the burden and payment thereof. No intermediary is involved in such tax. Income tax, Wealth of Property tax and corporate tax are the examples of direct tax.

Indirect Tax is exactly opposite of direct tax. In this tax, the liability of the tax is paid by the third person to the government and afterwards it shifted to the consumers. Service tax, sales tax, Value Added Tax (VAT), central excise duty, custom duty etc. are the name of indirect taxed which was levy in India before July, 2017. But now it replaces by Goods & Service Tax which is well known by GST.

GST is the abbreviation of Goods & Service Tax which was introduced in the year 1954 in France and has adopted by 160 countries across the world within 60 years of its introduction. Basically the concept of GST is renowned as single tax instead of multi-stage indirect tax. In India, on 1st July, 2017, GST was introduced first time and decided

to introduce dual tax structure system where both central and state government collect taxes on goods and services.

13.2 Meaning of Goods and Service Tax (GST):

GST is India's biggest tax reform in 60 years. It is an act that many countries across the world have adopted this Act. India, with its wide diversity, has adopted this much talked about act in its unique way. India has converged excellently the "One Nation One Tax" slogan with the diverse nature of transactions and inequalities that exist in our nation.

GST Act is centrally governed by a GST Council which is represented by the Finance Minister and representatives of all other States. GST Council shall be responsible for all major decisions regarding the act.

In simple language, "GST is single tax which is levied on Supply of Goods or Services or both."

13.3 History of GST:

About 20 years ago, in the year 2000, under the leadership of Atal Bihari Vajpayee who was honored as father of GST, the concept of GST has been emerged by first discussion of empowered committee aiming to replace the complex tapestry of various taxes with a single, streamlined process. The history of GST in India can be described as follows:

- **2000:** Proposed by the Atal Bihar Vajpayee- led government and committee was formed to design GST model.
- **2004:** An empowered committee of State Finance Minister was set up to develop a framework of GST.
- **2006:** The announcement of GST's planned start in 2010 signaled a significant commitment to tax reform.
- **2011:** The release of the first discussion paper and the drafting of GST legislation demonstrated progress in the genesis of GST in India under 115th constitutional Amendment Bill.
- **2013-2014:** The review of GST law and the introduction of new amendments highlighted the challenges in reforming the tax system.
- **2015-2016:** The passage of the GST law by Parliament and the establishment of the GST Council were landmark moments in the history of GST in India.
- **2017:** The official start of GST on July 1, 2017, was a historic achievement, marking a new era in taxation.
- **2018-2021:** The implementation of the E-way bill and other regulatory changes underscored the ongoing evolution of the history of GST in India.

13.4 Salient Features of the GST:

Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in India. Here are some of the salient features of GST:

- **One Nation, One Tax:** GST replaced multiple indirect taxes levied by the Central and State Governments, such as excise duty, service tax, value-added tax (VAT), and others. It brought uniformity in the tax structure across India, eliminating the cascading effect of taxes.
- **Dual Structure:** GST operates under a dual structure, comprising the Central GST (CGST) levied by the Central Government and the State GST (SGST) levied by the State Governments. In the case of Inter-state transactions, Integrated GST (IGST) is applicable, which is collected by the Central Government and apportioned to the respective State. Import of goods or services would be treated as inter-state supplies and would be subject to IGST in addition to the applicable customs duties.
- **Destination-based Tax:** GST is a destination-based tax, levied at each stage of the supply chain, from the manufacturer to the consumer. It is applied to the value addition at each stage, allowing for the seamless flow of credits and reducing the tax burden on the end consumer.
- **Input Tax Credit (ITC):** GST allows for the utilization of input tax credit, wherein businesses can claim credit for the tax paid on inputs used in the production or provision of goods and services. This helps avoid double taxation and reduces the overall tax liability.
- **Composition Scheme:** The composition scheme is available for small taxpayers with a turnover below a prescribed limit (currently ₹ 1.5 crores and ₹ 75 lakhs for special category state). Under this scheme, businesses are required to pay a fixed percentage of their turnover as GST and have simplified compliance requirements.
- **Online Compliance:** GST introduced an online portal, the Goods and Services Tax Network (GSTN), for registration, filing of returns, payment of taxes, and other compliance-related activities. It streamlined the process and made it easier for taxpayers to fulfill their obligations.
- **Anti-Profiteering Measures:** To ensure that the benefits of GST are passed on to the consumers, the government established the National Anti-Profiteering Authority (NAA). The NAA monitored and ensured that businesses do not engage in unfair pricing practices and profiteering due to the implementation of GST. All GST anti-profiteering complaints are now dealt by the Competition Commission of India (CCI) from 1st December, 2022.

13.5 Structure of GST:

GST Council decides the framework of the structure of GST. It comprises four-tier system depends upon the essentiality of the goods. It ensures that all essential goods and a few edibles are included in the lower tax bracket. At the same time, high-value

goods and services are placed in the upper tax bracket and include the following rate of GST.

- **Four-Tier Tax Structure:** The tax structure under GST is divided into four rates:

Tax Rate	Goods or Services
5%	Essential goods, such as food items and life-saving drugs
12%	Goods such as certain apparel items, packaged food, nuts, medicines, etc.
18%	Goods such as electronic items, consumer durables, and most services
28%	Luxury and sin goods such as cars, tobacco, and aerated drinks

Furthermore, under GST structure, two main points are taken into consideration.

- Types of transaction &
- Types of GST

Types of Transactions: Under GST, the type of transaction will be important factor as it will be decided on the basis of transaction that what type or which GST will be levied.

- **Inter-State Supply:** When there is a transaction/s of supply of goods or services or both between to different states or countries than such transactions are known as Inter- State Supply and IGST is to be collected on it at full rate of GST.

For example: Mr. A of Ahmedabad supplies or sold the goods of Rs. 50,000 to Mr. B of Jaipur. Here two states, that is, Gujarat and Rajasthan have been involved, therefore, it becomes Inter-State transaction.

- **Intra-State Supply:** When there is a transaction/s of supply of goods or services or both within the same state than such transactions are known as Intra- State Supply and both CGST & SGST are to be charged on it at equal rate of GST, which means full rate of GST is divided equally between CGST & SGST.

For example: Mr. A of Ahmedabad supplies or sold the goods of Rs. 50,000 to Mr. B of Rajkot. Here two cities of same state, that is, Gujarat have been involved, therefore, it becomes Intra-State transaction.

Types of GST: There are four types of the taxes levied by government, which are as follows:

- **CGST:** When goods or services or both are to be supplied **within** the same state than CGST is to be charged by Central Government.
- **SGST:** When goods or services or both are to be supplied **within** the same state than SGST is to be charged by State Government.
- **UTGST:** When goods or services or both are to be supplied **within** the same union territory than UTGST is to be charged by Union territory.

- **IGST:** When goods or services or both are to be supplied **between** two states or countries than IGST is to be charged by Central Government.

**Therefore, Place of supply is play very important role to charge GST.*

13.6 Observance and Applicability of GST Laws:

GST Act of 2016:

- GST was primarily established under the 101st Constitution Amendment Act of 2016. GST is further governed by CGST, SGST & IGST.
- GST shall subsume various existing taxes across the country and introduce a single taxation system that will allow businesses to conduct business across the country by paying uniform taxes.
- There shall be 3 types of taxes under the GST; CGST, SGST and the IGST
- CGST – Central GST is levied by the Central Government
- SGST – State GST is levied by the State Government
- IGST – Integrated GST is levied for Inter-state supply of goods and services.

CGST Act of 2017:

This Act was approved by the President on 12th of April, 2017. It allows for the levying and collection of taxes on the intra-State provision of goods or services, or both by the Central Government, and on matters relevant thereto or incidental thereto.

- It extends to the whole of India except the State of Jammu and Kashmir.
- CGST shall be applied on all forms of supply, viz., all forms of supply of goods or services or both such as sale, transfer, barter, exchange, licence, rental, lease or disposal agreed to by two parties.
- It also includes import of services agreed to by two parties
- Maximum tax levy of 20%, based on the item that is being supplied.

SGST Act of 2017:

The GST Act allows the States to frame their own laws regarding GST. This act has made provisions for levy and collection of tax on Intra-State supply of goods or services or both.

SGSTs usually comprise various chapters with various provisions for tax sharing.

SGST Act deals with the following sections:

Chapter I - Preliminary
 Chapter II - Administration
 Chapter III - Levy and Collection Of Tax
 Chapter IV - Time and Value Of Supply
 Chapter V - Input Tax Credit
 Chapter VI - Registration
 Chapter VII - Tax Invoice, Credit and Debit Notes
 Chapter VIII - Accounts and Records
 Chapter IX - Returns

Chapter X - Payment of Tax
Chapter XI - Refunds
Chapter XII - Assessment
Chapter XIII - Audit
Chapter XIV - Inspection, Search, Seizure And Arrest
Chapter XV - Demands and Recovery
Chapter XVI - Liability to Pay in Certain Cases
Chapter XVII - Advance Ruling
Chapter XVIII - Appeals and Revision
Chapter XIX - Offences and Penalties
Chapter XX - Transitional Provisions
Chapter XXI – Miscellaneous

IGST:

Under GST, IGST is a tax imposed on all supplies of goods and/or services between States and will be regulated by the IGST Act. In both cases of import into India and export from India, IGST will refer to any supply of goods and/or services.

Under IGST, exports would have been zero-rated. The tax would be levied by the federal and state governments.

In addition to the Goods and Services Tax Act 2017, as stated above, it is also important to understand the following Acts which have been laid out in the GST Act. Out of these 18 Acts, 4 are specifically related to GST and another 14 are not directly related to GST, but few of the words used in those Acts have been integrated into the GST Act.

(Source: <https://www.creditmantri.com/gst-act-and-rules/>)

13.7 Advantages, Challenges and Limitation of GST:

13.7.1 Advantages of GST:

Because of the deficiencies in existing tax system, it becomes necessary to introduce such kind of taxable system which removes all defects of it; and the outcome is GST. Following are the reasons because of which GST is came into force by 2017:

1. To remove multipoint tax system:

To replace the complex system of multiple tax system like VAT, CENVAT, Excise duty, Service Tax etc. the much easier tax structure has been created.

2. To remove Cascading effect of tax:

Due to old tax structure, the tax on tax led to the rise in the price of the price of goods. To remove such cascading effect, GST came into existence.

3. To remove Double tax system on goods and services:

There is no double taxation in India. Still some of the goods were taxed twice. To such ambiguity, GST as a uniform tax came into force.

4. To develop the system of set off of losses under one common rule:

An advantage of set off of losses was not available in the previous tax structure. GST allows such set off of losses.

13.7.2 Challenges and Problems faced by GST:

The main agenda of GST is to implement single point tax collection system so that it becomes easier for the tax payer as well as for the respective government. However, the implementation of GST has not been smooth, and it has faced several challenges and problems in GST return filing as well. Some of them are described as follows:

1. Increase the cost of software system:

Under GST, the tax payer have to file tax online only, therefore, businesses have to track GST updates regularly which consumes money and time to train employee to use GST software efficiently.

2. Increase compliance cost:

The burden of GST registration, GST returns filing, maintaining records and audit are the part of GST compliance which involved substantial cost and bear by business. The high compliance costs have made it difficult for SMEs to operate and compete with larger business.

3. Not covered all goods:

There are still some products like petroleum crude, high speed diesel, motor spirit (Petrol), natural gas and aviation turbine fuel, are not covered under GST. No relaxation has been provided on them with implementation of GST.

4. Blockage of working capital:

It is commonly known that working capital is most essential part to meet regular business transactions. Input Tax Credit is one of the most significant features of GST, under which businesses to claim a credit for the tax paid on the inputs used in the production of goods or services. However, several issues have arisen with the ITC mechanism under GST. The major issue is the delay in receiving the ITC refund which resulted into the situation of blockage of working capital.

History is witness that bringing about change in any field is not easy. In GST also, the government is trying to smoothen process to GST. It is important to take a leaf from global economies that have implemented GST before us, and who overcame from the hurdles and experienced the advantages of having a unified tax system and easy input credits.

13.8 Difference between Indirect Tax and GST Structure:

Though GST is indirect tax, but the structure of it is very fresh and new as compare to the system of past indirect tax. The followings are the major difference of them.

Sr. No.	Main difference	Indirect Tax	GST
1	Structure to collect tax	Indirect tax consists of multi-stages to collect tax under different names of taxes.	GST has a single stage for collection of tax with formula. "One Nation, One Tax".
2	Legislation	Separate laws have been made for different types of indirect tax.	There is only one act, named, "GST Act", under which it works.
3	Tax rate	Separate tax rate has been calculated for different types of indirect tax.	Tax rate remains same across all states in the form of SGST and CGST. IGST is a total of these two taxes.
4	Cascading effect	There is a problem of cascading effect of tax under this method.	The situation of cascading effect is not arises under GST.
5	Tax burden	Under this system, the tax burden is very high.	Under GST, tax burden is relatively low.
6	Cost of product	Cost of product is very high due to this tax system.	Due to elimination of cascading effect, cost of product becomes lower than pre GST.
7	Compliance	Tax compliance is complex because of multiplicity of laws and their provisions to be followed.	Tax compliance is easy as only one law is obeyed including other taxes.

13.9 GST Council:

Goods & Services Tax Council (GST Council) is a constitutional body comprising 33 members from the centre, state and union territories, for making recommendations related to Goods and Service Tax to improve economics and policy of goods and services.

In the Parliament, in order to implement GST, 122nd Constitutional Amendment Bill (CAB) was introduced which was passed by Rajya Sabha and Lok Shabha on 3rd August, 2016 and 8th August, 2016 respectively. This CAB was approved by honorable president after getting approval from more than 15 States on 8th of September, 2016.

As per the evidence available on its official website, GST Council had to be constituted by the President within 60 days of the commencement of the constitution, 101st Amendment Act, 2016, as per Article 279A(1) of the Constitution. The notification for bringing into force Article 279A with effect from 12th September, 2016 was issued on 10th September, 2016.

Finance Minister is the chairperson of the GST council; currently Smt. Nirmala Sitharaman has this responsibility. This body is made from 33 members, including the Union Finance Minister, Ministers of State, and the Finance Ministers of all the states and

union territories of India. Out of total member, 2 members are from the centre and 31 members are from 28 states and 3 Union territories with legislation.

13.10 GST Registration:

All businesses are required to obtain a GST identification number in every state the business has been registered. The first step in adoption of this new taxation regime is to assess whether the business is liable to register and accordingly obtain the GST registration.

Under Goods and Services Tax (GST), businesses whose turnover exceeds the threshold limit of Rs.40 lakh or Rs.20 lakh or Rs.10 lakh as the case may be, must register as a normal taxable person. It is called GST registration. For certain businesses, registration under GST is mandatory.

The 3 types of GST registration are Regular, Composition, and Casual. Regular registration is for businesses that carry out regular activities and have a turnover exceeding the threshold limit. Composition registration is for businesses with turnover below the threshold limit and wish to pay tax at a fixed rate.

Requirement of GST registration:

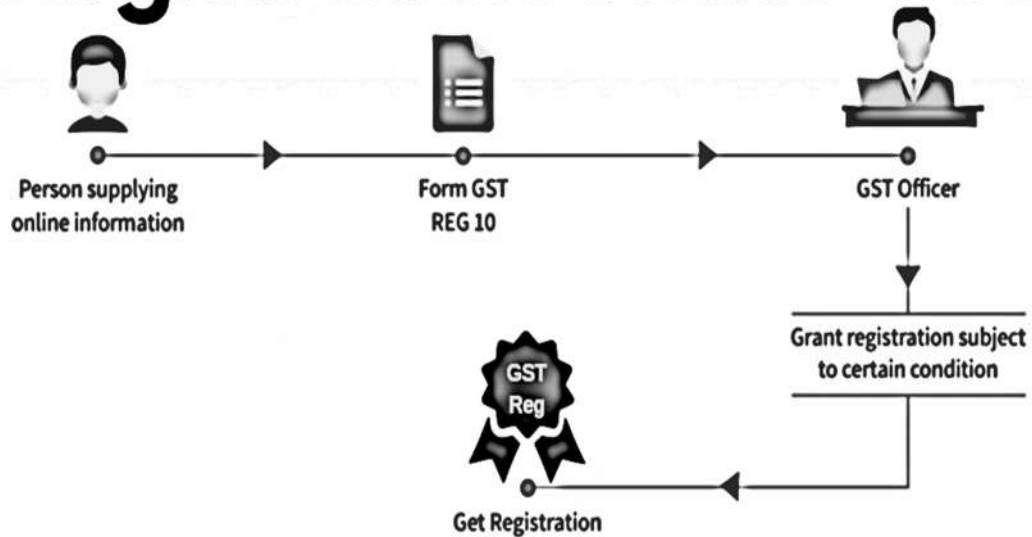
The following documents are required for the GST registration:

- Permanent Account Number [PAN]
- Valid Indian mobile number
- Place of business
- Jurisdiction details like license, business registration details etc.
- Valid Bank account number from India
- IFSC of the same bank and branch
- Details of at least one proprietor/ partner/ director/ trustee/ karta with PAN
- An authorized signatory person who is an Indian resident with PAN



Procedure for registration under GST:

Procedure for Registration Under GST



Person/assesse/business man who wants to register himself into GST required the above mentioned documents and follows the procedure of GST registration in the following steps:

- **Online portal:** GST system is worked fully on online platform, therefore, first of all person open the GST portal and the website is <https://www.gst.gov.in/>. After open this website, person should select the option of GST registration.
- **GST form:** After the selection of GST registration, person should fill up the form as per the requirement and upload all necessary documents for the registration.
- **GST Officer:** The next step after the submission is, authorized GST officer verify all the documents and grant registration subject to certain condition.
- **GSTIN:** at last, if all the documents are satisfactory fulfill all the condition, GST Identification Number (GSTIN) provided to the person.

❖ Exercises:

• Answer the followings:

1. What is GST? Discuss the history of it in detail.
2. Define GST and explain its characteristics.
3. Explain structure of GST in detail.
4. Write a short note on, 'Types of GST'.
5. Explain legislative framework of GST.

6. Discuss pros and cons of GST in detail.
7. Give the difference between old Indirect Tax and GST.
8. Write a short note on 'GST Council'.
9. Which kinds of documents are required in GST registration?
10. Explain the process of GST registration in detail.

● **Fill in the blanks:**

1. _____ is a tax which imposed and levied directly from the person who is responsible for the same. **(Direct Tax)**
2. Under _____ the liability of the tax is paid by the third person to the government and afterwards it shifted to the consumers. **(Indirect Tax)**
3. GST is the abbreviation of _____. **(Goods & Service Tax)**
4. GST was introduced first in the year _____ in France. **(1954)**
5. In India, on _____, GST was introduced first time and decided to introduce _____ structure system. **(1st July, 2017, dual tax)**
6. _____ is single tax which is levied on Supply of Goods or Services or both. **(GST)**
7. In India, _____ is known as father of GST. **(Atal Bihari Vajpayee)**
8. ITC is the abbreviation of _____. **(Input Tax Credit)**
9. When there is a transaction/s of supply of goods or services or both within the same state than such transactions are known as _____. **(Intra- State Supply)**
10. When there is a transaction/s of supply of goods or services or both between to different states or countries than such transactions are known as _____. **(Inter- State Supply)**
11. The full form of CGST _____. **(Central Goods and Service Tax)**
12. The full form of SGST _____. **(State Goods and Service Tax)**
13. The full form of UTGST _____. **(Union Territory Goods and Service Tax)**
14. The full form of IGST _____. **(Integrated Goods and Service Tax)**
15. GST was primarily established under the _____ Act of 2016. **(101st Constitution Amendment)**
16. Goods & Services Tax Council (GST Council) is a constitutional body comprising _____ members. **(33)**
17. _____ is the chairperson of the GST council. **(Finance Minister)**
18. CGST is to be charged by _____. **(Central Government)**
19. When goods or services or both are to be supplied within the same state than _____ & _____ tax applied. **(SGST, CGST)**
20. When goods or services or both are to be supplied between two states, _____ tax is applied. **(IGST)**

14.1 Introduction**14.2 Goods****14.3 Services****14.4 Aggregate Turnover****14.5 Person & Taxable Person****14.6 Business****14.7 Place of Business****14.8 Supply, Taxable Event, Place of Supply & Time of Supply****14.9 Taxable Territory & Non- Taxable Territory****14.10 Reverse Charge Mechanism****14.11 Composition Scheme****14.12 Taxability of E- Commerce Transactions****14.13 Tax Exemptions of GST****14.14 Rate of Goods and Service Tax****14.15 Supply of Zero Rate****14.16 Input Tax & Input Tax Credit (ITC)****14.17 Debit Notes & Credit Notes****14.18 Tax Return & Various Returns under GST****14.19 E-way bill****14.20 Audit Structure of GST****14.21 Assessment, Offences, and Penalties under GST****❖ Exercises**

14.1 Introduction:

The contents of the GST are like an ocean, from which basics of its meaning, history, importance, characteristics, structure, applicability, advantages, challenges etc. of GST have been taken in the previous chapter, named GST- I. Further important definitions covered under GST, rates of GST, zero rated supply, concept of Input Tax Credit and its related terms, E-way bill, E-commerce transactions, audit structure including assessment, offence and penalties will be included in this chapter 14.

14.2 Goods:

14.2.1 Definition of Goods:

The definition of Goods is given under section 2(52) of CGST Act, where Goods means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

14.2.2 Intangible Goods:

As it is mentioned in definition of ‘Goods’ that all kind of movable property is considered as goods than intangible properties like, sale of copyright, trade mark, royalty collected on mining lease, carbon credit are the examples of intangible assets which are treated as goods under CGST Act.

14.2.3 Actionable Claim:

In the definition of goods, it is clearly cited that actionable claims are also treated as goods and the example of it are as follows:

- Lottery ticket (before draw)
- Insurance policy
- Claim for arrears of rent
- Claims for future rents (these can be assigned)
- Unsecured loans
- Option to purchase securities or movable/immovable property
- Claim for unpaid dower (in case of Muslim woman getting divorce)
- A claim in profit by partner in firm, dividend declared
- Right to sue for infringement of brand or copyright
- Reward points earned by customer on purchases made by him under loyalty programme.
- Assignment or sale of secured or unsecured debt.

14.2.4 Supply of goods at future date:

Any transfer of title in goods under an agreement which stipulates that property in goods will pass at a future date upon payment of full consideration as agreed, is a supply of goods – Para 1(c) of Schedule II of CGST Act.

The financial lease or hire purchase of goods should get covered under ‘supply of goods’, in view of aforesaid specific definition. It can be financial lease, operating lease etc.

(<https://www.taxmann.com/post/blog/understanding-the-supply-of-goods-and-services-a-comprehensive-guide>)

14.3 Services:

As per under section 2(102) of CGST Act, service means, anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.

In simple language, “services” includes facilitating or arranging transactions in securities. It is a term which excluded (i) goods (ii) money and (iii) securities, but comprises activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.

14.4 Aggregate Turnover:

As per CGST Act, under Section 2(6), ‘Aggregate Turnover’ defines as follows:

“Aggregate turnover” means;

Aggregate value of all

- (i) Taxable supplies,
- (ii) Exempt supplies,
- (iii) Exports of goods or services or both and
- (iv) Inter-State supplies of persons having same PAN, to be computed on all India bases

Aggregate Turnover excludes

- (i) Central tax, State tax, Union territory tax, integrated tax and cess;
- (ii) Inward supplies on which tax is payable under RCM

Explanation:

In common jargon, Turnover is the total volume of a business. But under GST, it refers the annual turnover of a business at PAN level with a few inclusions and exclusions. Also, a business whose aggregate turnover in a financial year exceeds Rs.40 lakhs (or Rs.20 lakh for special category states, Pondicherry, and Telangana) has to mandatorily register under GST. For service providers, this limit is Rs.20 lakhs (for normal category states) and Rs.10 lakh (for special category states).

Elements of Aggregate Turnover:

On the basis of total business activities for GST purpose, some key points are given in the definition:

- **Taxable Supplies:** This takes account of the total value of all taxable goods and services supplied within a financial year. It signifies the principal revenue generating activities subject to GST.
- **Exempt Supplies:** This refers to the total value of goods and services that are exempt from GST. Including exempt supply in aggregate turnover helps to provide comprehensive view of all business activities, though there are not subject to GST purview.
- **Exports:** This covers the value of supply of goods and services outside India. Exported goods and services are subject to zero-rated supply, though that will also be added to the overall turnover.

- **Inter-state Supplies:** This embraces the total value of goods and services supplied between state borders within India. It is also crucial for determining compliance with Integrated GST regulations.

14.5 Person & Taxable Person:

Here, person includes individuals, HUF, company, firm, LLP, an AOP/ BOI, any corporation or Government Company, body corporate incorporated under laws of foreign country, co-operative society, local authority, government, trust, and artificial juridical person. A person who carries on any business at any place in India and who is registered or required to be registered under the GST Act and engages in economic activity including trade and commerce is known as 'taxable person'.

❖ **GST registration is mandatory for-**

- Any person who supplies goods with a turnover of Rs. 40 lakhs or more (Rs. 20 lakhs for Special Category states) per year is required to register for GST.
- Any person who supplies services with a turnover of Rs. 20 lakhs or more (Rs. 10 lakhs for Special Category states) per year is required to register for GST.
- Every person who is registered under an earlier law like Excise, VAT, Service Tax etc.) needs to register under GST too.
- When a business which is registered has been transferred to someone/demerged, the transferee shall take registration with effect from the date of transfer.
- A person making inter-state supplies.
- Any non-residential taxable person, agents of a supplier, input service distributors, e-commerce operator.
- Any person who have paying tax under the reverse charge mechanism.
- Person supplying online information and database access or retrieval (OIDAR) services from a place outside India to a person in India, other than a registered taxable person.
- **Note:** If your turnover is supply of only exempted goods/services which are exempt under GST, this clause does not apply.
- It is also note that budget 2023 substitutes section 23 of the CGST Act retrospectively w.e.f. 1st July, 2017. This amendment clarifies that persons mentioned in section 23 don't have to obtain registration even if they fall under any conditions mentioned in sections 22(1) and 24 of the CGST Act. Central Board of Indirect tax and Customs (CBIC) is yet to notify this change.

14.6 Business:

The definition of Business has been given under section 2(17) of CGST Act, which includes following:

Sr. No.	Comprises in the definition of the Business	Examples
a	any trade, commerce, manufacture, profession,	✓ Company manufacturing turbines for export and local sale

	vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;	<ul style="list-style-type: none"> ✓ Banks providing financial services to its customers ✓ Provision of CA services to client such as audit and consultancy ✓ An artist earning income for dance performances ✓ Gambling in a Derby ✓ Charitable hospital providing free medicines to farmers <p>Note: Pecuniary benefit means monetary benefits. It's a benefit or compensation that is quantifiable in monetary terms. The primary significance of this term is economic gain by the entity.</p>
b	any activity or transaction in connection with or incidental or ancillary to (a) above;	<ul style="list-style-type: none"> ✓ Provisions of lockers for rent to customers in the Bank premises as Banks have high security ✓ Turbine Manufacturing company letting out R&D facilities to research units towards improvement of product and expansion
c	any activity or transaction in the nature of(a) above, whether or not there is volume, frequency, continuity or regularity of such transaction;	<ul style="list-style-type: none"> ✓ Mr. A gambles for the first time in Derby and wins ✓ Sale of mangoes by a farmer during summer in flea market ✓ Sale of old newspapers by a CA firm
d	supply or acquisition of goods including capital assets and services in connection with commencement or closure of business;	<ul style="list-style-type: none"> ✓ Services rendered by a Company Secretary to incorporate a Company ✓ Real estate agent helping Company to acquire factory godown for a commission
e	provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members	<ul style="list-style-type: none"> ✓ Cooperative society formed for lending loans to farmers ✓ Recreation club formed by apartment owners
f	admission, for a consideration, of persons to any premises;	<ul style="list-style-type: none"> ✓ PVR selling movie tickets ✓ Entry / Admission fee collected by Art exhibitions to display artifacts, paintings and sculptures made by artists ✓ Museums run by Governments for an entry fee to public to display objects of historical significance
g	services supplied by a person as the holder of an office which has been accepted by him in the	<ul style="list-style-type: none"> ✓ Consultancy service provided by a Company CFO regarding Mergers to another company

	course or furtherance of his trade, profession or vocation;	
h	services provided by a race club by way of total is at or a license to bookmaker in such club	✓ A totalizator is the fixed commission earned by any racing club irrespective of the outcome persisting the same, which is a taxable income
i	Any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities.	✓ Acquisition of land for Metro construction by the State Government from the landowners for some compensation ✓ Government running BBMP service for the welfare of citizens

(Source: <https://cleartax.in/s/business-under-gst>)

14.7 Place of Business:

The definition of Place of Business has been given under section 2(85) of CGST Act, which includes:

- a) a place from where the business is ordinarily carried on, and includes a warehouse, a godown or any other place where a taxable person stores his goods, supplies or receives goods or services or both; or
- b) a place where a taxable person maintains his books of account; or
- c) a place where a taxable person is engaged in business through an agent, by whatever name called;

From the above definition, it can be concluded that physical location or premises where a business carries out its core operations and activities.

Elements of Place of Business:

1. It is a tangible space like a building, industrial unit, office, store etc.
2. Some business activity directly connected to the supply of goods or services happens at this place.
3. It should be specific, identifiable premises with a unique address.
4. The place must be owned, rented or otherwise occupied legally by the business.
5. Day-to-day functioning and management of the business occurs at this place.

Types of Place of Business:

- 1. Principal Place of Business:** It refers the head office of the business where business can conduct their fundamental operation like management and decision making, main accounting as well as financial related functions, critical suppliers and business partners, including main trading activities etc. and which is registered under GST process.
- 2. Additional Place of Business:** It mentions the place other than the primary place of business. Generally, no need to register it, but in some cases like mentioned following need to register itself under GST.

- If it is apart from the main office and it is manufacturing plant
- Warehouse or storage place where goods supplies
- Branch office, retail stores or distribution hubs in other cities
- Co-working space leased to provide services.

3. Temporary Place of Business: It refers temporary set up established to achieve specific task by vendor or supplier to supply goods or services or both only for certain period of time.

14.8 Supply, Taxable Event, Place of Supply & Time of Supply:

14.8.1 Supply:

Under GST, Supply is considered a taxable event for charging tax. The liability to pay tax arises at the 'time of supply of goods or services'. Thus, determining whether or not a transaction falls under the meaning of supply is important to decide GST's applicability.

Meaning of Supply: Supply includes sale, transfer, exchange, barter, license, rental, lease and disposal. If a person undertakes either of these transactions during the course or furtherance of business for consideration, it will be covered under the meaning of Supply under GST.

Elements of Supply: From the above discussion of meaning of supply we can say that supply has five important elements:

1. Supply is done for a consideration.
2. Supply is done in course of furtherance of business.
3. Supply of Goods or Services or both which are movable.
4. Supply should be made by taxable person.
5. Supply should be taxable supply.

Different Types of Supply:

- 1. Taxable supply:** Taxable supply refers to a supply of goods and/or services which is chargeable under GST. Supply which is exempt or supply which is subject to nil rate of tax, is not treated as a taxable supply. However, for the purpose of computation of aggregate turnover exempt supply shall be included.
- 2. Zero rated supply:** Zero rated supply is a supply of any goods and/or services on which no tax payable but input tax credit is pertaining to that supply is admissible. Supply by way of export of goods is treated as zero rated supply. Zero rated supply also includes supply of goods and/or services to a Special Economic Zone (SEZ) developers or a Special Economic Zone unit.
- 3. Exempt supply:** Exempt supply means supply of any goods and/or services which are not taxable under GST. These supplies are exempt by virtue of exemption notifications issued under section 11.
- 4. Continuous supply:** "Continuous supply of goods" means a supply of goods which is provided continuously or on recurrent basis, under a contract.

14.8.2 Taxable event:

The very first basis for the charge of tax in any taxing statute is the taxable event. It refers to the point on which the levy of tax gets attracted. In fact, taxable event is that event, which on its occurrence creates or attracts liability to pay tax.

14.8.3 Time of Supply:

Normally, GST is payable when supply is made or when payment is received, whichever comes earlier. GST of current month is payable by 20th of following month. However, a few persons can pay tax on quarterly.

14.8.4 Place of Supply:

Place of supply plays a very important role to charge GST. There are two ways to supply the goods or services or both, on the basis of which the decision of liability of GST is to be determined.

- **Inter-State Supply:** When there is a transaction/s of supply of goods or services or both between two different states or countries than such transactions are known as Inter-State Supply and IGST is to be collected on it at full rate of GST.
- **Intra-State Supply:** When there is a transaction/s of supply of goods or services or both within the same state than such transactions are known as Intra-State Supply and both CGST & SGST are to be charged on it at equal rate of GST, which means full rate of GST is divided equally between CGST & SGST.

14.9 Taxable Territory & Non-Taxable Territory:

As per the charging section 65(51), “**Taxable Territory**” means the territory to which the provisions of this chapter apply, that is, the whole of territory of India other than the state of Jammu and Kashmir.

Under CGST Act, clause 2(79), “**Non-taxable territory**” means the territory which is outside the taxable territory.

14.10 Reverse Charge Mechanism:

Generally, the supplier of goods or services is liable to pay GST; these kinds of transactions are known as **Forward Charge Mechanism**. But in some cases, like import and other notified supplies of goods or services or both, GST is payable by person who is recipient (receiver) of the goods or services or both. The collection mechanism when recipient of supply is made liable to pay tax is called “**Reverse Charge Mechanism (RCM)**”. As per section 2(98) of CGST Act, “The Reverse Charge Mechanism” means the liability to pay tax by the recipient of supply of goods or services or both instead of supplier of such goods and/or services under section 9(3) & 9(4) of the Act or under section 5(3) & 5(4) of IGST Act. The time of supply is the point when the supply is liable to GST. In RCM the recipient is liable to pay GST. Thus the time of supply for supplies under RCM is different from the supplies which are under forward charge. Some examples of notified goods and services are as follows:

Notified goods & services under RCM:

Sr. No.	Particulars	Supplier	Recipient
❖ GOODS			
1	Unshelled/unpeeled cashew nuts.	Agriculturist	Any registered person is liable to pay tax
2	Bidi wrapper leaves		
3	Tobacco Leaves		
4	Silk Yarn	Any person who manufactures silk yarn from raw silk	
5	Used vehicles/ old or used goods/ waste and scrap/seined and confiscated goods	Government (Central/State/Local)	
6	Lottery ticket supply	Government(State/ Local/union territory)	Lottery Distributor or selling agent
❖ SERVICES			
1	GTA services	Goods Transport Agency	Any of the following taxable person <ul style="list-style-type: none"> • Factory • Co-operative Society • Person registered under GST
2	Sponsorship services	Any person	Corporate, partnership firm
3	Legal service	Advocates or legal firm	Any business entity
4	Service of directors (Not Employee)	Director of a company	Company or body corporates
5	Services by insurance agent	Insurance company	Insurance agent
6	Services by author, photographer, artist, etc.	Author, artist, music composer	Publisher, Producer, music company

(Source:<https://assets1.clearartax-cdn.com/finfo/wg-utils/retool/a9d92873-d290-42e3-a771-164e1970f403.pdf>)

14.11 Composition Scheme:

- A simplified scheme (which is also known as Composition Scheme) is available to a taxpayer if his aggregate turnover of the preceding financial year does not exceed Rs. 1 crore.

- However, in the case of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Himachal Pradesh, this limit is Rs. 75 lakh. The scheme is optional.
- The scheme is **not available to supplier of services** except supply of food for human consumption.
- Further, this scheme is not available to the manufacturer of certain goods like ice-cream, pan masala, tobacco products.
- A dealer opting for Composition scheme cannot make Inter-State supply. No Input tax credit available to composition dealers.
- Moreover, a dealer under composition scheme is not eligible to supply of goods through an e-commerce portal.
- No input tax credit is available to the person who gets supply of goods or services or both from a dealer under composition scheme.
- A person opting for composition scheme is required to file quarterly GST return.
- A person who is under composition scheme is not allowed to charge GST in his invoice.

Such a person will have to pay tax on his portal turnover as follows:

Supplier	Rate of GST
Manufacturer (Other than manufacturers of ice-cream, pan masala, tobacco products, etc.)	1% of turnover (0.5% + 0.5%)
Traders or any other supplier eligible for composition levy	1% of turnover (0.5% + 0.5%)
Supplier of goods/drinks/ restaurant services	5% of turnover (2.5% + 2.5%)

14.12 Taxability of E- Commerce Transactions:

The Government may on the recommendation of the council, by notification specify categories of services, the tax on Intra-State Supplies of which shall be paid by the ‘**Electronic Commerce Operator (ECO)**’, if such services are supplied through it and all the provisions of this act shall apply to such ECO as if he is **Deemed Supplier** liable for paying the tax in relation to the supply of such services.

What is ECO?

ECO means any person who owns, operates or manages digital or electronic facility or platform for electronic commerce. The electronic commerce means the supply of goods or services or both, including digital products over digital or electronic network.

Categories of ECO Services notified by Government:

The section 9(5) empowers the Government to notify the services, the tax on Intra-State supplies of which shall be paid by ECO, if such services are supplied through it. The Government has notified the following categories of services supplied through ECO for this purpose-

- a) Services by way of transportation of passengers by a radio-taxi, motorcab, maxicab and motor cycle;
- b) Services by way of providing accommodation in hotels, inns, guest houses, clubs, campsites or other commercial palaces meant for residential or lodging purposes, except where the person supplying such service through electronic commerce operator is liable for registration under section 22(1) of the CGST Act.
- c) Services by way of house-keeping, such as plumbing, carpentering etc, except where the person supplying such services through ECO is liable for registration under section 22(1) of CGST Act.

14.13 Tax Exemptions of GST:

When there is no GST to be collected on goods and services as per the policy mandate by government is called GST exemption. Exempted supply of goods and services comprises the following three types of supply of goods & services.

- Supplies taxable at a 'NIL' rate of tax (0% tax);
- Supplies that are wholly or partially exempted from CGST or IGST, by way of a notification amending Section 11 of CGST Act or Section 6 of IGST Act;
- Non-taxable supplies as defined under Section 2(78) – supplies that are not taxable under the Act (For Example Alcoholic liquor for human consumption).

Types of Exemptions:

There are two types of tax exemptions in GST.

- (I) **Absolute Exemption:** When exemptions are made without any conditions then it is called **absolute exemption**. For Eg. Transmission or distribution of electricity by an electricity transmission or distribution utility.
- (II) **Conditional Exemption:** When exemptions are subject to certain conditions then it is called **conditional exemption**. For Eg. Health care services by a clinical establishment by way of providing room [other than Intensive Care Unit (ICU)/ Critical Care Unit (CCU)/ Intensive Cardiac Care Unit (ICCU)/ Neonatal Intensive Care Unit (NICU)] having room charges exceeding Rs. 5000 per day.

List of GST exemptions: (Source: <https://www.bajajfinserv.in/gst-exemption>)

Sr. No.	Goods & Services	Items
1	Fresh Product	Vegetables, fruits and other perishables that are not subject to any form of processing
2	Dairy Product	Milk (other than flavored milk), butter milk, curd and unbranded natural honey
3	Grains & Cereals	All types of unprocessed cereals and grains such as wheat, rice & barley
4	Educational Services	Fees for schooling, college and vocational training services provided by an educational institution
5	Health services	All types of healthcare services provided by a clinical

		establishment or by an authorized medical practitioner
6	Books & Newspapers	Printed books, newspapers and journals excluding those that contains advertising
7	Handloom & Handicraft Items	Specific handloom products, handmade carpets, and other handicraft goods subject to conditions
8	Services by Charitable Organizations	Services offered by entities registered under section 12AA of the Income tax act, 1961 for charitable purpose
9	Agriculture services	Services related to cultivation, harvesting, supply of farm labour, leasing of agriculture machinery and warehouse service for storing produce
10	Transport services	Public transport services that are not air-conditioned and do not serve for tourism, conducted tours, charter or hire
11	Residential Renting	Renting of residential dwellings for use as a residence exempting commercial and business rentals
12	Personal services	Such as salaried employment, funeral, burial, crematorium service and religious service
13	Financial services	Such as interest on loans, deposits or saving accounts and insurance policy provided by RBI agencies
14	Electricity	Which is outside the purview of GST, to keep it affordable for domestic and industrial use
15	Water Supply	Exempt for domestic use, subject to condition in case of industrial use
16	Government Services	Like local authorities except for those specifically taxed like advertising, parking fees and tolls
17	Educational Material	Printed materials as map, charts and educational aids that are crucial for learning process
18	Unprocessed Food Items	Fish, meat, eggs
19	Live Animals	Except those specifically bred for food or leather, such as certain breeds of dogs, horses and ornamental fish
20	Plants & Flowers	Live plants and fresh flowers, encouraging the horticulture and floriculture sectors
21	Art & Antiques	Original art pieces, antiques over the 100 years old and natural treasures supporting the arts and preserving cultural heritage
22	Renting for religious purpose	Renting of precincts of religious place meant for public
23	Indigenous Handicraft goods	Exemption extend to support traditional artisans and craft people
24	Life Saving Services & Goods	Blood and blood derivatives, vaccines and life-saving drugs

14.14 Rate of Goods and Service Tax:

GST rates refer to the tax percentage rate that is applicable to different goods and services supplied in India. The rate of GST can be categorized into four tier tax system. It means basically 5%, 12%, 18% & 28% are main rates to be imposed on tax payer. In addition, there are few lesser- used GST rates such as 0.25% & 3% and in case of composition scheme, slightly lower rates of 1.5%, 5% or 6% are applicable. Besides, compensation cess will be payable on pan masala, coal, aerated water and motor cars. There is no Education cess or Swachh Bharat cess or Krishi Kalyan Cess on GST. Below stated details is the summary of GST rates.

1) For Goods:

Type	Intra-State Supply			Inter-State Supply
	CGST	SGST/UTGST	Total	IGST
I	0.125%	0.125%	0.25%	0.25%
II	1.5%	1.5%	3%	3%
III	2.5%	2.5%	5%	5%
IV	6%	6%	12%	12%
V	9%	9%	18%	18%
VI	14%	14%	28%	28%

2) For Services:

Type	Intra-State Supply			Inter-State Supply
	CGST	SGST/UTGST	Total	CGST
I	2.5%	2.5%	5%	5%
II	6%	6%	12%	12%
III	9%	9%	18%	18%
IV	14%	14%	28%	28%

It may be noted that 18% GST rate is applicable on most of the Services. A few services are taxable at lower rate of 5% or 12%, whereas, some services are taxable at higher rate of 28%.

3) Summary:

GST Rate	Goods	Services
0% or No Tax	<ul style="list-style-type: none"> Essential Commodities: (Food items: Milk, vegetables, curd, salt, bread, natural honey, Non Food items: Handloom, Bangles, Judicial papers, stamps, printed books and newspaper) 	<ul style="list-style-type: none"> Lodge and Hotel services carry a tariff below Rs. 1,000
5%	<ul style="list-style-type: none"> Food items: Fish fillet, Coffee, Skimmed milk powder, Frozen vegetables, Pizza bread, Spices, 	<ul style="list-style-type: none"> Restaurants in hotels that carry room tariffs less than Rs. 7,000 Non-AC and Standalone AC

	<p>Tea, Sliced dry mango, Cashew nuts, Unbranded namkeen, Milk food for babies, edible mixtures, etc</p> <ul style="list-style-type: none"> • Non Food items: Agarbatti, Fertilizers, Coal, Ayurvedic medicines, Kerosene, Insulin, Plastic waste etc. 	<p>restaurants and the once that serve liquor</p> <ul style="list-style-type: none"> • Special flights for pilgrims • Takeaway foods • Newspaper printing • Small restaurants • Transportation services like railway and airways • Supply of tour operator service • Transport via radio taxis and cabs • Tailoring services, etc
12%	<ul style="list-style-type: none"> • Food items: Ghee, cheese, butter, frozen meat products, fruit juices, pickles, namkeen, sausages, and instant food mixes, etc. • Non Food items: umbrella, tooth powder, sewing machine, handbags, pouches, purses, jewelry box, artificial yarn, nuts, fruits, medicine, cell phones, wooden frames for the mirror, photographs or paintings, Art work of iron, etc. 	<ul style="list-style-type: none"> • Building construction for sale • Business-class air tickets • Guesthouses • Inns and hotels with room tariffs less than Rs. 7,000 • Mining and drilling for crude or natural gas • Metro and monorail construction • Pollution control or effluent treatment plants, etc.
18%	<ul style="list-style-type: none"> • Food items: Pastries and cakes, cornflakes, pasta, flavored refined sugar, preserved vegetables, ice cream, chocolate, mineral water, soups, oil powder, sauces • Non Food items: Washing Machine, detergents, glassware, safety glass, pumps, mirror, light fittings, etc. 	<ul style="list-style-type: none"> • Restaurant in hotels that carry room tariffs of more than Rs. 7,500 • IT and Telecom services • Outdoor catering • Water parks • Financial services, etc.
20%	<p>Items like: Dishwasher, Sunscreen, Dye, tobacco, Bidis, Cigarette, Pan Masala, etc., automobiles, aircraft for personal use, ceramic tiles</p>	<ul style="list-style-type: none"> • Betting on casinos • Gambling • Hotel stay bill above Rs. 7,500 • Racing • Five-star hotels • Cinema and entertainment, etc.

14.15 Supply of Zero Rates:

As the name suggested, as per section 16 of IGST Act, 2017, when 0% rate is applicable on supply of goods or services or both under GST is called zero rate supply. It includes the following situation where the rate of GST is zero:

- Export of goods or services or both;
- Supply of goods or services or both to a Special Economic Zone (SEZ)

The objective of zero rated supplies is to make Indian exports more competitive in the global market, and to encourage the development of SEZ as hubs of economic activity. Accordingly, while no tax would be payable on such Supplies, they will be eligible to claim the corresponding Input Tax Credit and utilized such credit for discharge of other output taxes or alternatively, they may claim a refund of these taxes.

Moreover, some terminologies like nil rated supply, exempted supply, zero rate supply and non-GST are look like a similar but there is a major difference between them. It becomes necessary to understand the difference between them.

Supply	GST applicable	Types of Supply	Eligibility for ITC	Examples
Nil rate	0%	Intra or Intra State	Not available	Fresh fruits, vegetables, milk etc.
Exempted	-	Intra or Intra State	Not available	Education, health, public transport etc.
Zero rated	0%	Export or SEZ	Available	Export, Software, handicraft, jewellery etc.
Non-GST	0%	Other side the purview of GST	Not available	Alcohol, petroleum, electricity etc.

14.16 Input Tax & Input Tax Credit (ITC):

Input credit means while paying tax on output, you can deduct the tax already paid on input and pay the balance, when you buy a product/service from a registered dealer you pay tax on the purchase. On sale, you collect tax. You adjust the tax paid at the time of purchase with the amount of output tax (tax on sales) and the outstanding tax liability (tax on sales on purchases) owed to the government. This method is called utilization of input tax credit.

For example- Mr. X is a manufacturer, his payable tax on output (final product) is Rs. 3500. and he is already paid tax on input Rs. 2000, than he can claim input credit of Rs. 2000 and he needs to only Rs. 1500 as a tax.

Thus, 'Input Tax Credit' or 'ITC' means the Goods and Services Tax (GST) paid by a taxable person on any purchase of goods and/or services that are used or will be used for business. ITC can be reduced from the GST payable on the sales by the taxable person only after fulfilling some conditions. These conditions given under the GST law are more

or less in line with the pre-GST regime, except for a few additional ones such as GSTR-2B.

Those who claim for ITC:

Only Registered dealer/ supplier of goods or services or both can claim for ITC, which are subject to some conditions.

- The supplier/dealer should be in possession of tax invoice
- The stated goods/services have been received
- Returns have been filed.
- Tax collected has been paid by the supplier to the government.
- When goods are received in installments ITC can be claimed only when the last lot is received.
- ITC will not be allowed if depreciation is claimed on the tax component of the capital good.
- No one can claim for ITC, who is registered under composition scheme.

14.17 Debit Notes & Credit Notes:

14.17.1 Debit Note:

Debit Note is a document/voucher given by a party to other party stating that such other party's account is debited in the books of purchaser.

For example: Mr. Ghanshyam purchases goods from Mr. Hiren, after receiving the material, Mr. Ghanshyam finds that the goods contain some defective goods of value of Rs. 15,000. Now Mr. Ghanshyam has to reduce the liability standing in his books as payment due to creditor Mr. Hiren. Therefore Mr. Ghanshyam sends a debit note amounting amounted to Rs. 15,000 to Mr. Hiren stating that he has debited his account in his books.

Debit note is also known as supplementary invoice under section 34(3) of CGST Act, where it is issued by recipient of supply to registered supplier.

Situations where debit notes are issue:

1. If the value of goods/services charged in previous invoice was less;
2. If GST charged in previous invoice was less;
3. If recipient of goods returned the goods to supplier

Registered person (issuer) shall declare the details of such debit note in the return for the month during which such debit note has been issued and the tax liability shall be adjusted in such manner as may be prescribed.

14.17.2 Credit Note:

Credit Note is a document/voucher given by a party to other party stating that such other party's account is credited in the books of sender. Here, credit note is issued by registered supplier to the recipient of supply.

For example: in above given example the Mr. Hiren finds out that the material dispatched is defective. Therefore he issues credit note to Mr. Ghanshyam, thereby reducing the amount of debtors. It is opposite of debit note.

As per GST Act, under section 34(1), following are the situations where credit notes are issue:

1. If the value of goods/services charged in previous invoice was excess; or
2. If GST charged in previous invoice was excess; or
3. Supplied goods or services were deficient from what mentioned in previous invoice; or
4. Goods returned by the recipient

Supplier shall declare such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier, and the tax liability shall be adjusted in such manner as may be prescribed. [Section 34(2) CGST Act]

After the issue of credit note, GST liability of supplier will get reduced. However, no reduction in output tax liability of the supplier shall be permitted, if the incidence of tax and interest on such supply has been passed on to any other person.

14.18 Tax Return& Various Returns under GST:

A GST return is a form that must be filed by a registered taxpayer for each GSTIN registered under the Goods and Services Tax (GST) Act. Also, GSTIN status should be active if the taxpayer files returns regularly.

There are 13 returns under GST. They are the GSTR-1, GSTR-3B, GSTR-4, GSTR-5, GSTR-5A, GSTR-6, GSTR-7, GSTR-8, GSTR-9, GSTR-10, GSTR-11, CMP-08, and ITC-04. However, all returns do not apply to all taxpayers. Taxpayers file returns based on the type of taxpayer/type of registration obtained.

The number and types of GST returns that a business/professional must file depends on the registered type of taxpayer. These types include regular taxpayers, constituted taxable persons, e-commerce operators, TDS deductors, non-resident taxpayers, input service distributors (ISD), casual taxable persons, etc. The above mentioned types of GST can be described as follows:

Types of Tax Return

Sr. No.	GST Return	Description
1	GSTR-1	This return is for reporting outward supplies or sales
2	GSTR-3B	A summary return that includes details of both outward and inward supplies, along with the payment of taxes
3	GSTR-4	Designed for taxpayers under the Composition Scheme, it provides a summary of their turnover and tax liability

4	GSTR-5	Filed by non-resident foreign taxpayers engaged in taxable activities in India
5	GSTR-5A	Filed by online information and database access or retrieval (OIDAR) service providers
6	GSTR-6	For Input Service Distributors to report the distribution of input tax credit (ITC) among their units
7	GSTR-7	For taxpayers required to deduct Tax Deducted at Source (TDS) under GST
8	GSTR-8	Filed by e-commerce operators to report supplies made through their platform
9	GSTR-9	An annual return that provides a consolidated summary of all monthly/quarterly returns filed during the financial year
10	GSTR-10	A final return filed when a taxpayer's GST registration is canceled or surrendered
11	GSTR-11	Filed by persons having Unique Identity Number (UIN) to claim a refund of taxes paid on their purchases
12	CMP-08	A quarterly return for taxpayers under the Composition Scheme to report their tax liability
13	ITC-04	Filed by taxpayers who are manufacturers to report the details of goods sent to a job worker and received back
• In addition to these GST returns, there are also statements of input tax credit available to taxpayers		
14	GSTR-2A (Dynamic)	Provides a dynamic view of inward supplies as reported by the suppliers
15	GSTR-2B (Static)	Offers a static view of inward supplies based on the supplier's return

(Source: <https://www.indiafilings.com/learn/gst-return-types-of-gst-returns/>)

14.19 E-way bill:

Basically, a bill is a receipt or document issued by a carrier giving details and instructions Consignment of goods relating to shipment and details including name Consignor, consignee, place of origin, destination and route of the goods.

E-Way Bill an essential document for movement of goods and it consist of details such as name of consignor, consignee, transporter, the point of origin of the movement of goods and its destination. Electronic Way Bill (e-way bill) is basically a compliance mechanism wherein by way of a digital interface the person causing the movement of goods uploads the relevant information prior to the commencement of movement of goods and generates e-way bill on the GST portal. Section 68 of the CGST Act, 2017 obligations that the Government may require the person in charge of a conveyance carrying any consignment of goods of value exceeding such amount as may be specified to carry with him such documents and such devices as may be prescribed. Rule 138 of the CGST Rules, 2017 delivers for the e-way bill mechanism and in this context it is important to note that “information is to be furnished prior to the commencement of movement of goods” and “It is to be issued whether the movement is in relation to a supply or for reasons other than supply”.

Important points regarding E- way Bill:

- E-Way Bill is mandatory for Inter-State movement of goods of consignment value exceeding Rs.50,000 in motorized conveyance.
- Registered GST Taxpayers can register in the e-Way Bill Portal using GSTIN.
- Unregistered Persons/ Transporters can enroll in the e-Way Bill System by providing their PAN and Aadhaar card.
- Supplier/ Recipient/ Transporter can generate the e-Way Bill.
- Vehicle number can be entered/updated in PART - B of Form EWB - 01 by those who have generated the e-Way Bill or by the Transporter.
- QR code is provided in the e-Way Bill to facilitate quick verification.
- Certain goods have been exempted from e-Way Bill and the list is available as Annexure to Rule 138 of CGST Rules. E-Way Bill is not required for transport through non-motorized conveyance.

Mode of generate E-way Bill:

- E-way bill can generate in four ways:
 - a) Web (Online)
 - b) Android App - The IMEI of the phone and the registered mobile number has to be given.
 - c) SMS based (through registered Mobile Number).
 - d) Excel based upload is provided for bulk generation.
- If the E-Way Bill is generated with wrong information it can be cancelled and new e-Way Bill can be generated.
- Provision for Cancellation of E-Way Bill within 24 hours by the person who have generated the E-Way Bill.
- The Recipient can reject the E-Way Bill within 72 hours of generation.
- Alert messages are also issued to the users through online and SMS.
(Source:<https://services.gst.gov.in/services/ewaybill/ewaybillsystem>)

14.20 Audit Structure of GST:

The process to check the correctness of the books of account of business, specially, true and fair view of financial statement which helps to many investors related to that is known as auditing. It is mandatory for companies to maintain credibility, transparency and compliance in financial reporting.

GST Audit:

As per section 2(13) “audit” means an examination of records, returns and other documents maintained or furnished by the registered person under this Act or the rules made there under or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act.

Types of Audit:

1. Turnover based Audit: As per Section 35(5) of CGST Act, entities with GST registration must get annual GST audit conducted by an authorized auditor if their aggregate annual turnover exceeds prescribed threshold limit which is currently:

- Rs. 2 crores for normal business entities
- Rs. 1 crore for registered persons paying tax under the composition scheme

Chartered Accountant or Cost Accountant who is appointed by tax payer can do this audit within 31st December of every fiscal year. Reporting of such audit requires form 9C.

2. General Audit: General audit, under section 65 & rule 101, assesses overall compliance with regards to timely registrations, accurate tax computations, timely uploading of purchase and sale details on GSTN portal, matching supplier data and availing/utilizing valid input tax credit by commissioner CGST/SGST or any officer appointed by him. Such audit shall be completed within 3 months (subject to extension of 6 months after request) and findings of the audit required in form GST ADT- 02.

3. Special Audit: As per section 66, this kind of audit is conducted for specific reasons upon an order from the commissioner involving inspection of records, stocks checking for suspected evasions like fake billing, misuse of input tax credits etc. Timing available for such audit is 90 days which is subject to extension of more 90 days after request. To report of such audit form GST ADT- 04 is available.

Qualification of an Auditor:

GST auditor must be Chartered Accountant or Cost Accountant and must be fulfill the following criteria:

- He must have valid Certificate of Practice (COP)
- He should not be an employee or director of the company
- He should not have been convicted previously
- He should not audit more than specified number of audits

GST Audit Process:

The registered person audited must be informed at least 15 days in advance about the audit. The key steps in the GST audit process comprise:

1. **Audit Planning & Preparation:** Understanding company business, gathering information, documents, returns, ledgers etc. to devise audit tests
2. **Examination & Evaluation:** Detailed checks and analysis of records, purchases, sales, taxes paid, refund claimed, reconciling books and physical stock takes
3. **Draft Audit Report:** Fact finding observations, deficiencies and recommendations are documented along with time limit to submit response
4. **Final Audit Report:** After considering auditee reply, auditor submits final audit observations classifying them as short payment/excess refunds or procedural violations
5. **Follow up Action:** Where audit has detected tax loss, further tax and penalty is recovered following principles of natural justice

Consequences of Non Compliance in GST Audit

If the registered person (supplier) does not follow the audit report and does not pay additional tax with interest or demanded penalty or is found attempting to evade tax through fraudulent actions like fake invoices. The following action can be taken as per GST law:

- Cancellation of GST registration
- Heavy amount of fines between Rs. 10,000 to Rs. 1,00,000
- Imprisonment of 6 months to 5 years

14.21 Assessment, Offences, and Penalties under GST:

14.21.1 Assessment:

Normally, there are two types of assessment, (i) self-assessment which is done by tax payer, (ii) assessment done by tax authorities comprises provisional assessment, summary assessment, scrutiny of returns, best judgement assessment for non-filers and unregistered persons.

i) Self-Assessment: When any tax-payer who has registered himself in GST calculates the tax payable and furnishes a return for each tax period.

Self-assessment is a procedure where every person who is a registered taxable person under GST can assess his tax liability on his own and furnish returns for each taxation period. As per under Section 59 of the GST act, Self-assessment states, “Every registered person shall self-assess the taxes payable under this Act and furnish a return for each tax period.”

ii) Assessment by Tax Authorities: It includes the following assessment.

a) Provisional Assessment: The tax payer can request the officer for provisional assessment if he is unable to determine the following types of value and rates.

- Do not know how to calculate transaction value
- Do not understand inclusion or not of certain receipt
- Do not able to classifying the goods or services
- Do not able to identify any notification is applicable or not

For provisional assessment, tax payer has to write application and provisional order will be received within 90 days from the date of application. And final order will be taking within 6 months from the communication of provisional order.

b) Summary Assessment: Summary assessment is done in certain special cases, such as when the tax authorities have doubt that the taxpayer is trying to avoid tax or when there is a threat to revenue. For this assessment, there should be evidence available with the proper officer that tax is payable and remains unpaid.

c) Scrutiny of returns: As per the provision of section 61 of CGST Act, the appropriate officer may verify the return and inform the taxpayer, if any oddness is noticed and clarification is required.

In such case, the tax payer has to give an explanation to the officer and if it is satisfactory, no further action will be taken.

But if explanation is not given by tax payer or it is not satisfactory than following action will be taken by officer within 30 days.

- Audit is done by Departmental Audit Team or Chartered Accountant or Cost Accountant for investigation, search or seizure and action for demand and recovery of tax.

d) Best Judgement Assessment: The Assessing officer under this assessment has an obligation to make an assessment of the total income or less of a taxpayer to the best of his judgment in the following cases.

- **Assessment of non-filers of returns:** Under section 62, in case if a taxpayer fails to deliver the returns even after the notice under section 46, a GST officer is required to conduct an assessment. The GST officer in this case assess the tax liability of the taxpayer to the best of his judgement taking into consideration all the relevant materials that are available.

The officer can issue an assessment order within a period of five years from the date of furnishing of annual return for the financial year for which the tax has not been paid. After receiving this order, if the concerned taxpayer furnished a valid return within 30 days from the issue of assessment order, the order can be withdrawn

- **Assessment of Unregistered Person:** Under section 63, if in case any taxpayer fails to obtain a GST registration or whose registration has been cancelled under section 29(2) even if he is liable to be registered and pay tax, the GST officer can process his or her tax liability to the best of his judgement. This has to be done for the relevant period for which the tax is unpaid. The officer can issue an assessment order within five years from the date specified under section 44 for furnishing annual return for the financial year for which taxes are unpaid.

14.21.2 Offences:

An offence is an act which is prohibited by any law and therefore, if convicted, is a punishable act. There are 21 offences which are liable to pay penalty under section 122 of CGST Act, 2017.

- i. Making supply without invoice or with false or incorrect invoice
- ii. Issuing an invoice without making any supply
- iii. Not paying tax collected for a period exceeding 3 months
- iv. Not paying tax collected in contravention of CGST/SGST Act for a period exceeding 3 months
- v. Non deduction or lower deduction of tax at source or not depositing tax deducted at source
- vi. Availing / utilizing ITC without actual receipt of goods &/or services
- vii. Non collection or lower collection of or non-payment of tax collectible at source
- viii. Fraudulently obtaining any refund
- ix. Furnishing false information or falsification of financial records or furnishing of fake accounts / documents with intent to evade tax
- x. Failure to register despite being liable to pay tax

- xi. Furnishing false information regarding registration particulars either at time of applying for registration or subsequently
- xii. Obstructing or preventing any official in discharge of his duty
- xiii. Transporting goods without prescribed documents
- xiv. Suppressing turnover leading to tax evasion
- xv. Failure to maintain accounts / documents in the manner specified in the act or failure to retain accounts / documents for the period specified in the act
- xvi. Failure to furnish information / documents required by an officer in terms of the act / rules or furnishing false information / documents during the course of any proceedings
- xvii. Supplying / transporting / storing any goods liable for confiscation
- xviii. Issuing invoice or document using GSTN of another person
- xix. Tampering or destroying any material evidence
- xx. Disposing of / tampering with goods detained / seized / attached under the act
- xxi. Availing / distributing ITC by input tax distributor in contravention of the act & rules

14.21.3 Penalties:

Penalty is a punitive act, if a person breaks a law, contract or regulation in criminal and civil law. From the following whichever is higher penalty will be applicable for above 21 offences discussed above:

ii) Rs 10,000

iii) Tax evaded/tax not deducted/tax not collected/input tax credit availed wrongly/refund claimed fraudulently

Besides, penalty can be defined in two main categories:

i) Minor breach of law: In this breach, the tax liability is below Rs. 5000. Furthermore, a minor breach is one which contains documentation errors or omissions which can be easily corrected. In case of a minor breach, the GST Act does not impose heavy penalties. In such cases, the tax authorities usually issue a warning and do not charge a monetary penalty.

ii) Major breach of law: On the other hand, major breach of law is that which involved GST amount is more than Rs. 5000. In such cases, monetary penalties and imprisonment might happen depending on the tax amount involved.

❖ Exercises:

- **Explain the following terms :**
 1. Goods
 2. Services
 3. Aggregate Turnover
 4. Person & Taxable person
 5. Business
 6. Place of Business
 7. Supply

8. Taxable Event
9. Place of Supply
10. Time of Supply
11. Taxable Territory & Non-taxable Territory

• **Answer the followings:**

1. Write a short note on, “Reverse Charge Mechanism”.
2. What is composition scheme? Explain it in detail.
3. What is ECO? Write a short note on, “Taxability of E-Commerce Transactions”.
4. Explain the types of exemption under GST with examples.
5. Explain the various rate of GST of goods and services with example.
6. Write a short note on, “Supply of Zero Rate”.
7. Give the difference between Nil Rate Supply, Exempted Supply, Zero Rated Supply and Non-GST.
8. Write a short note on, “Input Tax Credit (ITC)”.
9. Write a short note on, “Debit Note & Credit Note” in the context of GST.
10. Explain any five GST return.
11. Write a short note on, E- Way Bill.
12. Explain audit structure of GST in detail.
13. Explain GST audit procedure.
14. What are consequences of non-compliance of GST audit?
15. Explain the types of assessment under GST.
16. Write a short note on, “Offence”, under GST.
17. Which kind of penalties impose under the law of GST, if the tax payer is a part of 21 offences prescribed under GST law.

• **Fill in the blanks:**

1. The definition of Goods is given under section _____ of CGST Act. **[2(52)]**
2. Claim for arrears of rent is a example of _____ under the definition of goods. **[Actionable claim]**
3. A _____ includes facilitating or arranging transactions in securities other than goods, money securities. **[Service]**
4. The aggregate value of taxable supplies, exempt supplies, export of goods or services or both or any inter-state supplies of person having same PAN in India is known as _____. **[Aggregate turnover]**
5. A person who carries on any business at any place in India and who is registered or required to be registered under the GST Act and engages in economic activity including trade and commerce is known as _____. **[Taxable person]**
6. OIDAR is stands for _____. **[Online Information and Database Access or Retrieval]**
7. The definition of Business has been given under section _____ of CGST Act. **[2(17)]**
8. A place where a taxable person maintains his books of account is a _____. **[Place of Business]**
9. _____ refers temporary set up established to achieve specific task by vendor or supplier to supply goods or services or both only for certain period of time. **[Temporary Place of Business]**

10. _____ includes sale, transfer, exchange, barter, license, rental, lease and disposal. [**Supply**]
11. _____ refers to the point on which the levy of tax gets attracted. [**Taxable event**]
12. When there is a transaction/s of supply of goods or services or both between two different states or countries than such transactions are known as _____. [**Inter- State Supply**]
13. _____ tax will be collected if the transaction/s is/are inter-state transaction. [**IGST**]
14. _____ means the territory which is outside the taxable territory. [**Non-taxable territory**]
15. Under _____, recipient of supply is liable to pay the tax. [**Reverse Charge Mechanism**]
16. _____ is available to a taxpayer if his aggregate turnover of the preceding financial year does not exceed Rs. 1 crore. [**Composition Scheme**]
17. No input tax credit is available to the person who gets supply of goods or services or both from a dealer under _____. [**Composition scheme**]
18. The full of ECO is _____. [**Electronic Commerce Operator**]
19. When exemptions are made without any conditions then it is called _____. [**absolute exemption**]
20. In case of _____, 1.5%, 5% or 6% rates of GST are applicable. [**Composition scheme**]
21. As per section _____ of _____ Act, 2017, when 0% rate is applicable on supply of goods or services or both under GST is called zero rate supply. [**16, IGST**]
22. Only _____ of goods or services or both can claim for ITC. [**Registered dealer/ supplier**]
23. _____ is a document/voucher given by a party to other party stating that such other party's account is debited in the books of purchaser. [**Debit Note**]
24. _____ is a document/voucher given by a party to other party stating that such other party's account is credited in the books of sender. [**Credit Note**]
25. There are _____ main returns under GST. [**13**]
26. _____ is mandatory for Inter-State movement of goods of consignment value exceeding Rs.50,000 in motorized conveyance. [**E-Way Bill**]
27. As per section _____, "audit" means an examination of records, returns and other documents maintained or furnished by the registered person under GST Act. [**2(13)**]
28. _____ must be Chartered Accountant or Cost Accountant. [**GST auditor**]
29. A _____ is an act which is prohibited by any law and therefore, if convicted, is a punishable act. [**Offence**]
30. _____ is a punitive act, if a person breaks a law, contract or regulation in criminal and civil law. [**Penalty**]

युनिवर्सिटी गीत

स्वाध्यायः परमं तपः

स्वाध्यायः परमं तपः

स्वाध्यायः परमं तपः

शिक्षण, संस्कृति, सद्भाव, दिव्यबोधनुं धाम
डॉ. बाबासाहेब आंबेडकर ओपन युनिवर्सिटी नाम;
सौने सौनी पांज मणे, ने सौने सौनुं आत्म,
दशे दिशां स्मित वहे छो दशे दिशे शुभ-लाभ.

अत्मज्ञ रही अज्ञानना शाने, अंधकारने पीवो ?
कहे बुद्ध आंबेडकर कहे, तुं था तारो दीवो;
शारदीय अजवाणा पछोंच्यां गुर्जर गामे गाम
ध्रुव तारकनी जेम जणहणे अकलव्यनी शान.

सरस्वतीना मयूर तमारे इणिये आवी गळेके
अंधकारने उडसेलीने उजसना कूल मळेंके;
बंधन नही को स्थान समयना जवुं न घरथी दूर
घर आवी मा हरे शारदा दैन्य तिमिरना पूर.

संस्कारोनी सुगंध मळेंके, मन मंदिरने धामे
सुખनी टपाल पछोंये सौने पोताने सरनामे;
समाज केरे दरिये लांकी शिक्षण केरुं वलाश,
आवो करीये आपण सौ
भव्य राष्ट्र निर्माणि...
दिव्य राष्ट्र निर्माणि...
भव्य राष्ट्र निर्माणि



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