III year - V Semester

Course code : 7BCSE1A

Elective course - I (A)

Direct Taxes

Unit-I Income tax Act, 1961 Basic Concepts. Residential Status and incomes exempt from tax

Unit-II Computation of income from - (a) Salaries (b) House property.

Unit-III Computation of income from (a) profits and gains of business (b) capital gains (c) Other Sources

Unit-IV Clubbing of income - Set off and carry forward of Loss - Various deductions from Gross Total income

Unit-V Income Tax Authorities - Powers - assessment - Types of assessment - Income tax return

Books for Reference :

1. Mehrotra & Goyal, Direct tax: Law and practice, [illegible] edition, Sahitya Bhawan, Agra

Unit - I

Introduction of Direct tax :-

• The present law of income tax is contained in the income Tax Act, 1961. The income tax Act contains the provisions for determination of taxable income, determination of tax liability, procedure for assessment, appeal, penalties and prosecutions. It also lays down the powers and duties of various income tax authorities.

• The Income Tax Law comprises The Income Tax Act 1961, Income Tax Rules 1962. Notifications and circulars issued by Central Board of Direct Taxes [CBDT], Annual Finance Acts and Judicial pronouncements by Supreme court and High courts.

Income Tax :-

Income tax is one of the main sources of Direct taxes. Every person has to pay, if his total income exceeds the limit fixed by the government every year. It is calculated on the income of previous year, but it is to be paid in the consecutive year called as assessment year.

History of Income Tax:

The income tax was introduced in India during 1860 to meet the losses incurred during that time. The need for a separate Act was felt and the Income Tax Act 1886 was enacted. The Act was amended from time to time and remained in force till 1917. In 1918 a new act was passed. The financial crunch resulting from the First world war brought to focus the inadequacies of the Act. After extensive investigation, the Act was replaced by income Tax Act 1922 which remained in force for about four decades (till 1961). After independence, the new Indian government felt that the income Tax Act needed a thorough overhaul. The matter was referred to the law commission which submitted a draft bill in 1958.

Government of India had also set up Direct Taxes Administrations Enquiry Committee to suggest measures to minimise complication and provide mechanism to prevent tax evasion. The committee submitted its report in 1959. The Government, in consultation with the ministry of law, finally passed the Income Tax Act 1961 which came into force on 1 April 1962. Central Board of Direct Taxes (CBDT) working under the control and supervision of finance Ministry, is charged with an obligation of framing rules for the administration of the Income Tax Act. These rules are known as Income Tax Rules 1962.

Every year, the Central Government makes various amendments through Union budget. These amendments pass through the parliament and get the approval of the president of India.

The following are the years during which important amendments were made in the Act :

* 1860 Introduction of Tax by Sir James Wilson
* 1886 Separate Income Tax Act passed.
* 1918 New Income Tax Act passed.
* 1922 Another Income Tax Act passed.
* 1940 Directorate of Inspection (Income Tax) was created
* 1952 Directorate of Inspection (Investigation) was created.
* 1956 Formation of Reference Law Commission.
* 1957 Submission of Report by Law Commission.
* 1958 Submission of Report by Direct Taxes administration Enquiry committee.
* 1961 Framing of Income Tax Act 1961
* 1962 Income Tax Act 1961 Brought to force on 1 April
* 1963 Central Board of Direct taxes was credited.
* 1975 Voluntary Disclosure scheme was implemented
* 1990 Gift tax bill was introduced
* 1997 Rates of Income tax was reduced significantly
* 2002 Computerised processing of returns all over the country

Assessee [Sec. 2(7)]

'Assessee' refers to any one of the following persons as per Income Tax Act

(i) Every person who is liable to pay tax
(ii) Every person whom any proceeding has been taken
(iii) Every person who is liable to pay interest or Penalty.
(iv) Every person who is entitled for refund Tax
(v) Every person who is deemed to be an assessee

Types of Assessee :-

1. Ordinary Assesee
2. Represenstive Assesee / Deemed Assesee
3. Assessee - in - default.

1. Ordinary Assessee :-

An ordinary assesee is one who is liable to pay tax or one who is liable to pay interest or Penalty or One who sustained Loss and filled return of Loss

2. Representative Assessee / Deemed Assessee

Representative assessee is a person who, besides his own income, is responsible for other income For example a guardian in case of minor child.

Gross Total Income Sec. 80B (5)

As per sec. 14, income of a Person is computed Under the following five heads of income namely income from Salaries, Income from house property, income from profits and gains of business or Profession, income from capital gain and income from other Sources.

The aggregate of income Under these heads is term as Gross Total Income.

Total Income Sec. 2 (45) :-

Total Income of an assessee is the gross total income as reduced by the amount permissible as deductions Under Sec. 80C to 80U

Gross Total income is the sum of all the five heads of income. Any Loss on the heads of income will be adjusted before calculating the gross total income. Total income can be Computed after subtracting deduction U/s 80. Usually the Liability is Computed by applying the prevailing tax rate of the relevant assessment year.

(ii) Any income derived from such land, which is used for agricultural operations. It includes process by cultivator or receiver of rent in kind as well as in cash or receipt of sale of such produce.

(iii) Any income regarded.

ⓐ Rent or revenue derived from land

ⓑ. The land situated in india.

ⓒ The land used for agricultural purposes.

Casual income :-

Any income accrued by chance or luck, which is not regular and which does not arise from any source of income is casual income.

Assessment year :- Sec 2(9)

The year, in which income of the previous year is known as assessment year. Assessment year means the period of 12 months commencing on the 1 April of every year and ending of 31st March of the immediately following year. The income of the previous year of an assessee is assessed to tax during the next year. The current assessment year starts from 1 April 2020 and ends on 31 March 2021

Previous year Sec. 3

The income in a particular year is taxable in the next year. The year in which income earned is known as the previous year

Example 01-04-2019 to 31-03-2020

From the assessment year 1989-90 onwards, all assesses are required to follow financial year i.e. 1st April to 31st March as their previous year. The uniform previous year has to be followed for all sources of income.

Residential Status

Residential Status is determined for each category of persons separately. It is to be determined for every previous year because it may change from year to year. A person may be a resident of more than one country for any previous year. It is determined by considering the number of days he has stay in india in a particular previous year.

Taxable Entities :-

All taxable entities are divided into the following into the f/o categories for the purpose of determining the residental status

1. An Individual
2. A Hindu Undivided Family.
3. A Firm
4. A Company and
5. Every other Person.

On the basis of residence the [illegible] [illegible] persons are divided into three categories viz

(i) Resident person
(ii) Not ordinary resident person
(iii) Non - resident person

However in case of firm, company, body of individual and others there are only two categories viz

(i) Resident
(ii) Non Resident

Types of Residential Status

Types of Residential Status

- For individual and HUF
  - Resident
  - Not ordinarily Resident
  - Non-Resident
- For Firm, Company BOI and others
  - Resident
  - Non-Resident

Provisions Regarding Residential Status of An Individual Assessee

Basic Conditions :-

(a) He was in india in the previous year for period or periods amounting in all to 182 day or more

(b) He was in India for 60 days or more during the previous year and he was in india periods amounting in all to 365 day 4 preceding the previous year

Additional conditions :-

(i) He was an Indian resident for at least two years out of ten previous year preceding the previous year

(ii) He was in India for a period amounting in all to 730 days or more during the seven Previous years preceding the previous year.

Resident :-

A Resident is one who satisfies any one of the basic conditions and both of the additional conditions.

Not ordinarily Resident :-

A Not ordinarily Resident is one who satisfies any one of the basic conditions and does not satisfy either one or two of the additional conditions.

Non-Resident :-

A non-Resident is one who does not satisfy any of the basic conditions. In this case it is immaterial to see whether he complies with the additional conditions.

Rule of Resident :-

Resident and ordinarily Resident

He must satisfy at least one of the basic conditions [a or b] at the same time he should satisfy both the additional conditions.

Resident and ordinarly Resident :-

Illustration : 1

Mr. Amal, an Indian citizen left India for the first time on 29-09-2019. He did not return until 31-03-2020. Determine his residential status for the Assessment year 2020-2021

Solution :-

Assessment year = 1-4-2020 to 31-03-2021

Previous year = 1-4-2019 to 31-03-2020

Calculation of PY = 1-4-2019 + 29-09-2019

April + May + June + July + Aug + Sep
30 + 31 + 30 + 31 + 31 + 29 = 182 days

4 preceding PY 365 days.

(i) 1-4-2018 - 31-03-2019 = 365 day
(ii) 1-4-2017 - 31-03-2018 = 365 "
(iii) 1-4-2016 - 31-03-2017 = 365 "
(iv) 1-4-2015 - 31-03-2016 = 365 "

1460 days.

Mr Amal satisfies the first basic conditions. Since it was the first time he left India he would have satisfied both the additional conditions. Therefore he is a Resident of India.

Incidence of Tax Scope of Income

Indian income is always taxable in india irrespective of the residential status of assessee. Foreign income is taxable in the hands of a resident [in case of a firm, an association of persons, a company and every other person] or a resident and ordinary resident [in case of an individual or HUF] in india. It is not taxable in the hands of non Resident in India

table of incidence

S. NO	Types of Income	ordinary Resident	Not ordinarily Resident	Non Resident
1.	Income received or deemed to have been received in india	Taxable	Taxable	Taxable
2.	Income which accrue or deemed to accrue in india	Taxable	Taxable	Taxable
3.	Income received or accrued outside India from a business Controled in India	Taxable	Taxable	Not Taxable
4.	Income received or accrued Outside India from a setup outside India	Taxable	Not Taxable	Not Taxable
5.	Income received or accrued outside india from any other Source	Taxable	Not Taxable	Not Taxable
6.	Income received or accrued outside India in earlier years but later on remitted to India	Not Taxable	Not Taxable	Not Taxable

Illustration.

Mr. Rajesh has received the following income during the previous year - 2019 to 2020

		Rs
Salary	Received in india for five months	15,000
Income from House property in india (Computed)		12,350
Interest on savings bank deposit in SBI		5,000
Amount brought to india out of past untaxed Profit earned in France		25,000
Income from Agriculture in malaysia being invested in india		10,000
Income from business in singapore being Controlled from India		35,000
Dividend received in Germany from French Company of which Rs 5,000 was remitted to India		50,000

you are required to compute total income of Mr. Rajesh for the Assessment year 2020 - 2021

(i) Resident and ordinarily resident

(ii) resident but not ordinarily resident

(iii) non - Resident.

Solution

Computation of the total income of Mr Rajesh for Assessment year 2020 - 2021

S.No	Particulars	Resident and ordinarily Resident	Resident but not ordinarily Resident	Non Resident
1.	Salary received in India	15,000	15,000	15,000
2.	Income from House property in India	12,350	12,350	12,350
3.	Interest on Saving Bank deposit in SBI	5,000	5000	5000
4.	Amount brought to India out of Past untaxed profit earned in France	-	-	-
5.	Income from Agriculture in Malaysia being invested in india	10000	-	-
6.	Income from business in Singapore, being Controlled from india	35,000	35,000	-
7.	Dividend received in Germany from French company	50,000	-	-
	Total Income	1,27,350	67,350	32,350

Note : Past Untaxed profit brought to India is fully exempted in the hands of all types of assessee.

★ Income from Partnership Firm Sec. 10(2a)

Any sum received by a partner as a Partner share profit from a firm which is separately assessed as such shall be fully exempted.

★ Interest Income of Non-Resident Sec 10(4) (4b)

• Interest on specified securities or bonds, inculding premium on redemption of such bonds is exempted in the hands of a non-resident.

★ Leave Travel Concession Sec 10(5)

When an employee receives travel concession from his employer once in four years

(i) where Journey is performed by air - Economy fare of the National Carrier

(ii) where Journey is performed by rail - upto air-conditioned first class rail fare

(iii) other mode - First class or deluxe fare.

* Amount Received as Compensation in Case of Any Disaster Sec 10(10BC)

Central Government, State Government or Local authority by an individual or his legal heir shall be exempted.

* Retirement compensation from a public Sector Company or any other company Sec 10(10C)

Least of amount following

(i) Amount Actual received xxx

(ii) 3 months Salary for each completed year of Service xxx

(iii) Salary last drawn multiplied by number of months Service is left from date of retirement xxx

IV Rs. 500000

* Payment from Statutory or public provident fund Sec. 10(11)

Any payment received by an employee from a provident fund to which the provident Fund Act 1925 applies or from public provident Fund Set up by Central Government shall be exempt.

* Sum Received under a life insurance Policy Sec 10 (10D)
* Income by way of tax on perks Sec 10 (10C)
* Payment from Recognised provident fund Sec 10 (12)
* Payment from approved superannuation Fund Sec. 10 (13)
* House Rent Allowance Sec 10 (13A)
* Notified Special Allowance Sec 10 (14)
* Interest on Securities Sec 10 (15)
* Educational Scholarship Sec 10 (16)
* Daily Allowance of MP's and MLA's Sec 10(17
* Awards and Rewards Sec 10 (17A)
* Pension Received by Certain Awardees / member of their family Sec 10 (18)
* Family pension to widow or children of Armed Force Sec 10 (19)
* Income from palace of a Former Ruler Sec 10 (19A)
* Income of a Local Authority Sec 10 (20)
* Income of Scientific Research Association Sec 10 (21)
* Income Received by Regimental Fund Sec 10 (23AA)

* Income of a pension fund setup by LIC or other insurer Sec 10 (23AAB)
* Income of State Level Khadi and village Industries Sec 10(23BB)
* Income of Body Formed for administration of public Religious or charitable Trusts Sec 10(23BBA)
* Income of European Economic Community Sec 10(23BBB)
* Income of a SAARC Fund For Regional Projects Sec 10 (23BBC)
* Any Income of Insurance Regulatory and Development Authority Sec 10 (23BBE)
* Exemption for Income of Central Electricity Regulatory Commission Sec 10 (23BBG)
* Any Income of the prasar Bharati Sec 10 (23BBH)
* Income of Certain Funds Sec 10 (23C)
* Income of Investor protection Fund Sec 10 (23EA)
* Certain Income of Investor protection Fund Set up by commodity Exchanges Sec 10 (23EC)
* Income of Trade Union Sec 10 (24

Unit - 2

Income From Salary

Salary - Definition Sec. 17(1)

Any amount or benefit received by an employee in consideration of his services from his employer is called Salary. It includes both monetary and non monetary benefits provided by the employer.

It includes the following:

(i) Salary wages

(ii) Any annuity or pension.

(iii) Any fees, Commission, allowances

(iv) Any advances Salary.

(v) Any leave Salary

(vi) Any Perquisites or profit in Lieu of Salary

(vii) Any amount credited to a recognized Provident fund to the extent it is taxable.

(viii) Any Contribution made by the central Government in the previous year to the account of an employee under a pension scheme referred to in sec 80CCD.

Features of Salary :-

The following are the general nature or feature of Salary.

(i) For Tax purpose there is no difference between wages and Salary.

(ii) There must be an employer - employee relationship between provider and receiver.

(iii) It may be received from more than one employer in any previous year.

(iv) It Should be a real one. Mere agreement to receive Salary will not be a Salary.

(v) It is deemed to accrue at the place where the Service is rendered.

(vi) Salary received by a partner is not taxable because there is no employer - employee relationship.

(vii) pension received by a widow or a legal heir is not taxable.

Advance Salary :-

Any amount received as advance in a previous year which was actually not due in that year is called as advance Salary. It is Taxable in the year of receipt. If an employee received any Loan it is not considered as advance Salary.

Illustration

Mr Basu Joined in an organization on 01-10-2016 at the grade Pay Rs 16,000-1000-18,000-1500-24,000. Compute his basic Salary for the Assessment year-2020-21. Salary is payble on 1st of next month

Solution :-

Computation of basic Salary

working Note-1

01-10-2016 to 30-09-2017 = 16,000
01-10-2017 to 30-09-2018 = 17,000
01-10-2018 to 30-09-2019 = 18000
01-10-2019 to 30-09-2020 = 19,500

Previous year = 01-04-2019 - 31-03-2020

01-03-2019 to 01-10-2019 = 7 months.

18,000 × 7 = 1,26,000

01-10-2019 to 1-03-2020 = 5 month

19,500 × 5 = 97,500

Computation of basic Salary

18,000 × 7 = 1,26,000
19,500 × 5 = 97500

2,23,500

Allowance :-

"Allowance" means fixed amount payble to the employee in addition to his Salary to meet Some specific purpose. The assessee may or may not spend these allowance.

Types of Allowance :-

(i) Fully taxable Allowance, (ii) Partially taxable Allowance (iii) Fully exempted Allowance.

Allowance chart :-

	Fully Taxable	Partly Taxable Exempted.	Fully Exempted
1.	Dearness allowance cost of Living / interim relief allowance	House rent allowance	Foreign Allowance [to government Servant for Services out side India]
2.	City / compensatory Allowance	Entertainment Allowance	Sumptuary allowance to High court / supreme Court Judges
3.	Project Allowance	Hill allowance	out-of-pocket or outfit allowance for NCC officials
4.	Fixed Medical Allowance	Tribal area / Scheduled area Allowance	Allowances to employees of UNO
5.	Tiffin allowance	Education Allowance	Transport Allowance
6.	Servant allowance	Hostel Allowance	Sumptuary allowance to UPSC chairman members.

Provisions Regarding partially Taxable Allowances

Conveyance Allowance :-
Excess amount received over the actual amount spent is taxable.

children Education Allowance :-
Rs 100 per month child maximum of two children are allowed as exemption.

Entertainment Allowance for Government Employees
Least Amount
(i) $1/5$ th of Basic Salary.
(ii) Rs 5000
(iii) Actual amount Received
Deduction can not be claimed by the non-government employees.

Helper Allowance :-
Excess amount received over the actual amount spent is taxable.

Hostel Allowance :-
Rs 300 P.M. Per child maximum of two children is allowed as exemption.

House Rent Allowance :- Sec. 10 (13A)
Least of the following three as exemption

(i) Actual H.R.A xxx
(ii) 40% or 50% of Salary xxx
(40% in case of ordinary cities)
(50% metro cities)
(iii) Rent Paid - 10% of Salary xxx.

Allowance - Illustration:

Mr. Aravind received the following from xy Ltd. during the p.y 2019 - 2020. Compute his taxable Salary.

Basic	Rs 10,000 Pm
Dearness allowance	Rs 6,000 Pm
City compensatory allowance	Rs. 2,000 Pm
Bonus	Rs 5,000 Pa

Commission 2% on Turnover (Turnover during 2019-20 Rs 10,00,000.)

Solution :-

Taxable Salary Mr. Aravind

Ay. 2020 - 2021

Particular		Amount
Basic Salary		1,20,000
D.A	6000 x12	72,000
C.C.A	2000x12	24,000
Bonus		5,000
Commission	1000000 x 2/100	20,000
Taxable Salary		2,41,000

Illustration:

Mr. Victor received the following from XY Ltd., Chennai during the P.Y 2019-2020. Basic Salary Rs 8000 p.m. DA Rs 4000 (50% forms part of retirement benefits), Bonus Rs [illegible] Commission 3% on turnover (turnover during the P.Y Rs 300000) H.R.A Rs 6000 p.m. (Actual rent paid Rs 6500 p.m. in Chennai) Find taxable H.R.A

Solution:

Calculation of exempted HRA

(i) Actual HRA 6000x12 = 72,000

(ii) 50% of Salary 153000 x 50/100 = 76,500

(iii) Rent Paid - 10% of Salary = 62,700

6500x12 = 78000

10% Salary 153000 = 15300 → 62,700

Salary means

Basic 8000 x 12 = 96000

DA 4000 x 12 = 48000

Commission 300000 x 3/100 = 9000

153000

Computation of Taxable HRA

Actual HRA = 72000

Less Exempted = 62,700

Taxable HRA = 9,300

Illustration:

Mr. Mathan has five children, he receives an educational allowance of Rs 1500 p.m and a hostel allowance of Rs 2000 p.m. None of his children is studying. Compute his taxable allowances.

Solution

Calculation of Taxable Allowances

Education allowance	1500×12	= 18000	
Less Exemption	100×12×2	= 2400	15,600
Hostel allowances	2000×12	= 24000	
Less Exemption	300×12×2	= 7200	16800
Taxable allowance		=	32,400

Illustration

Mr. Kathiram is working in Sun Network Ltd. Chennai. He is paid the following emoluments every months.

Basic Pay	Rs	6,000
Bonus	Rs.	30,000
DA (50% enters into retirement benefits)	Rs	4,000
Educational allowance	Rs	1,000
Hostel Allowance		800
C.C.A		2500
Entertainment Allowance		1000
Transport allowance		1,000
H.R.A (while the actual rent he pays is 6000 pm)		5,000

Solution:

Computation of the Gross Salary of Mr. [illegible] [illegible] [illegible]

Basic Salary	6000 × 12	=	72,000
Bonus		=	10,000
DA	4000 × 12	=	48,000
Education allowance 1000 × 12 = 12000			
Less: Exemption 100 × 2 × 12 = 2400			9600
Hostel allowance 800 × 12 = 9600			
(−) Exemption 300 × 2 × 12 = 7200			2,400
City Compensation allowance	2500 × 12	=	30,000
Entertainment Allowance	1000 × 12	=	12,000
Transport allowance	1000 × 12	=	3,600
House Rent Allowance			$\boxed{12000}$
Gross Salary		=	2,??,???

Working note HRA

Basic Pay 6000 × 12 = 72000

D.A 50% 48000 × $\frac{50}{100}$ = 24000

96000

10% = 9600

Least of the following is exempt

(i) Actual HRA 5000 × 12 = 60000

(ii) 50% Salary 96000 × $\frac{50}{100}$ = $\boxed{48000}$

(iii) Rent paid − 10% of salary

(72000 − 9600) = 62400

Taxable HRA = Actual HRA − Least amount

60000 − 48000 = $\boxed{12000}$

Entertainment allowance :-

Mr. David is a government employee gets Rs 80000 p.a as basic pay. In addition he receives Rs 20000 as E.A Calculation under Entertainment allowance.

Solution :-

Calculation of Deduction under E.A

(i) Actual Entertainment Allowance Received	20000
(ii) Maximum Limit	$\boxed{5000}$
(iii) 20% basic Salary	16,000

whichever is less Can be deducted : $\boxed{5,000}$

Salary $= 80000 \times \frac{20}{100}$

Perquisites Sec. 17(2) :-

"perquisites" means any casual emoluments or benefits attached to an officer in addition to Salary or wages. The perquisite value reduces the expenditure that the employee would have otherwise incurred in obtaining these benefits and amenities. The important feature of a perquisite is that an employee should have a right to the same. Simply, perquisites are the benefits in addition to the normal Salary.

Types of Perquisites:

(i) Perquisites taxable in all cases

(ii) Perquisites taxable in Specified cases

(iii) Exempted Perquisites

Various Kinds of Perquisites:

Taxable for all (specified and unspecified)	Taxable for Specified employee only	Exempted for all (specified & unspecified) with certain limits
1. Rent free house a. Furnished house b. Unfurnished house	1. Motor car	1. Medical facility a. Free medical - full exemption b. Reimbursement c. Approved/Government Employer Hospital - full exemption d. medical facility out side India - As permitted by RBI
2. House at concessional rent	2. Domestic Servants a. Watchman b. Gardener c. Sweeper d. Any personal attendant e. Cook	2. Interest free/concessional loan - loan amount not exceeding 2000
3. Any obligation of employee paid by employer	3. Supply of gas, electricity and water	3. Interest free loan for medical treatment of the nature given in rule 3A Fully amount is exempted.
4. Any amount paid by employer to effect an assurance on the life of employee	4. Education facility	
5. Free meal	5. Transport facility (other than rail ways and Airline)	
6. Gift		
7. Club facility		
8. Credit card and add on card		
9. Use of movable assets computers and laptops		
10. Interest free loans.		

Illustration :-

Mr. Arul furnishes the following particulars,

	₹
Basic Pay	15,000 P.m.
DA (50% enters into retirement benefits)	6,000 P.m.
CCA	3,000 P.m.

He is paid an educational allowance Rs 300 p.m. for his children He is provided with a rent-free unfurnished accommodation. The fair rental value of the house is Rs 48000 P.a Compute Gross Salary if the population is

a. Less than 10 Lakhs

b. between 10 to 25 Lakhs

c. More than 25 Lakhs.

Solution

Computation of Gross Salary of Mr. Arul

Particular	< 10 Lakhs ₹	Between 10-25 Lakhs	> 25 Lakhs
Basic Pay	180000	180000	180000
DA	72000	72,000	72000
C.C.A	36000	36000	36000
Education allowance	21,600	21,600	21,600
RFA			
7.5% of Salary	20,520		
10% of Salary		27,360	
15% of Salary			41,040
	3,30,120	3,36,960	350640

Working Note 1

Education allowance

2000x12 = 24,000

Less Exemption 100x12x2 = 2,400

21,600

Working Note 2

For RFA, Salary means

Basic Pay	1,80,000
D.A 72000 x 50% / 100	36,000
C.C.A	36,000
Educational Allowance	21,600
	2,73,600

Motor Car

Illustration:- A big car owned by employee has been used partly for private purposes and partly for official purposes. The employee drives car himself. The employer has spent Rs 75,000 during the previous year on running and maintance of the car. Find out the perquisite value of the car.

Solution:-

Taxable perquisite Value of car

Amount spent by the employer = 75,000

Less: Amount related to official Use Rs 2400x12 = 28,800

46,200

Calculation of exempted gratuity

1. 15 days Salary for every Completed year of Service

1. $8000 \times \frac{15}{26} \times 33$ = $\boxed{1,52,308}$

2. Maximum Limited = 20,00,000

3. Actual gratuity = 2,50,000

Least of the above ie Rs 1,52,308

Taxable Gratuity

Actual Gratuity Received	2,50,000
Less Exemption	1,52,308
Taxable Gratuity =	97,692

Pension Sec. 17 (1) & (11)

Pension is the periodical payment made by the employer to an employee after his/her retirement. If the employee desires, he can convert it into a Lump Sum. If it is received Periodically, it is called pension or uncommuted Pension. If it is received as a Lump Sum it is called Commuted pension.

Illustration :-

Compute the taxability of pension

In the following Cases

a, Mr A retires on 30-09-19 from a private Company and his pension was fixed at Rs 2000 Pm. he did not Commute any part of his pension

b, Mr. B retires from Tamil nadu Govt Service on 30-08-19 and his pension was fixed at Rs 6000 Pm. He got one-third of his pension Commuted by which he received for Rs 90,000

Solution :-

Case (a) Mr. A retired on 30-09-2019 and he is eligible for pension from 01-10-2019 So he is to get pension from 01-11-2019

- Taxable pension - 2000 x 5 = 10,000

Case (b) Mr. B. is government employee. The Commuted value received by a govt employee is fully exempted from tax. The Uncommuted portion - 6,000 x 2/3 = Rs 4,000

Therefore, the taxable amount

= 4,000 x 6 = 24,000

Leave Salary :-

Illustration :-

Mr John retired on 31.03.2019 after 22 years of service and received Rs 1,50,000 as leave encashment for 15 months. His employer allowed him 60 days leave for each year of his service. During his service he has encashed 14 months leave. He received basic salary of Rs 12000 p.m along with a DA of Rs 4000 p.m. The DA has entered into retirement benefit for the past 12 months.

Solution :-

Working Note:1 Average Salary for 10 months

Basic = 12000
DA = 4000
16000

Working Note : 2 Calculation of leave due

It is to be taken 1 month for each year of service if he/she allowed more than 30 days.

Leave salary due 22 × 1	= 22 months
	= 14 months
Less Leave already availed	8 months

Working Note 3 Least of the following

(i) 10 month average salary = 10 × 16000	= 1,60,000
(ii) Cash equivalent to his leave due 16000 × 8 mon	= 1,28,000
(iii) Notified limit	= 3,00,000
(iv) Actual amount received	= 1,50,000

Therefore exempted amount is = 1,28,000

Calculation of Leave Salary

Leave Salary Received	1,50000
Less Exemption	1,28,000
	22,000

Provident Fund :-

Provident fund is a welfare Scheme for the benefit of the employees. It is a Scheme Under which the employee regularly contributes Certain amount towards the fund. The employer also Contributes Certain amount towards this fund. These contributions are deposited or invested in order to accumulate as more money. Interest there on is also credited to this fund.

(i) Employee's Contribution
(ii) Employer's Contribution
(iii) Interest on employee's Contribution.
(iv) Interest on employer's contribution.

Types of provident fund :-

The following are some of the important types of provident funds.

(i) **Statutory provident Fund :- [SPF]**

Statutory provident fund is the oldest type of fund. It is set up under the provision of the Provident funds Act 1925. Govt & Semi - Govt organisation, Railways, Universities and local authorities maintain this types of provident fund.

Recognised Provident fund. :- [RPF]

Recognised provident fund is a fund recognised by the Commissioner of income - tax. Any establishment employing 20 or more persons can maintain this fund.

Unrecognised provident Fund :-

It is a provident fund scheme which is not recognised by the commissioner of income-tax. Both employer and the employee contribute towards this fund.

Public provident fund :- [URPF]

Besides the other fund, the govt has established one fund for the benefit of any member of the public for both salaried or self employed called as public provident fund. The minimum contribution to this fund is Rs.500 and the maximum Rs.70000 per year. It is repayable with interest only after a period of 15 years.

Contribution provident fund :- [CPF]

Contributed provident fund is opened by the organisation but it is volunteer fund. In this employee-employer relationship is also required. A simple account (like RD) has to be opened into bank or any financial trust.

Deduction from Gross Salary Sec.16

There are three deductions allowed from gross salary.

1. Standard Deduction
2. Entertainment allowance Sec 16(ii)
3. professional Tax Sec 16(iii)

Standard Deduction :-

Standard Deduction is Rs 4000 or the amount of Salary, whichever is lower

Entertainment allowance :-

Entertainment allowance is fully taxable for all employees. So it should be added while calculating the gross salary. If the assessee is a government employee he/she can claim the least of the following three as deduction but no amount will be allowed as deduction for non Govt employee.

(i) 20% of the basic salary

(ii) maximum limit Rs 5,000

(iii) Actual E.A

This deduction is allowed for all govt employees irrespective of actual expenditure

Professional tax sec. 16(iii)

If the professional tax or tax on employment is paid by either the employee or the employer, it can be claimed as deduction. But if it is paid by the employer, it is taxable

Deductions Sec. 80C :-

Savings are important for the economic development of any country. In order to promote savings a deduction up to Rs 1,00,000 is allowed from total income if the tax payer put his savings in the following items:

(i) Employee's Contribution to SPF, PPF (restricted to Rs 70000 if it is PPF)

Format to Compute Taxable Salary:-

Computation of Taxable Salary
Assessment year 2020-2021

Particular	Amount
Basic Salary	xxx
Fees	xxx
Bonus	xxx
Commission	xxx
Allowances	xxx
Perquisites	xxx
Gratuity	xxx
Pension	xxx
Gross Salary	xxx
Less: Deductions u/s 16	
Standard Deduction	xxx
Entertainment Allowance	xxx
Professional tax	xxx
Taxable Salary.	xxx

Calcuation :-

Salary means

Basic Pay	1,44,000
D.A (75%)	54,000
Commission Turnover	20,000
Total Salary =	2,18,000

Employer's contribution to PF 15%

Excess over 12% is taxable. ∴ 3% is taxable if it is RPF

$2,18,000 \times 3/100$ = Rs. 6,540.

Interest on PF is at 13%.

Excess over 9.5% is taxable Therefore 3.5%

(13-9.5) is taxable.

$3900 \times \frac{3.5}{13} = 1,050$

Illustration :-

Mr. Selvaraj, an employee of Tamil Nadu Govt has furnished the following particulars for the P.y. 2019-20

	Rs.
Basic Salary	7,000 Pm
D.A (60% enter into retirement benefit)	4,000 Pm
Commission (1% on turnover)	12,000 Pm
C.C.A	2,400 Pm
Medical allowance	1,600 Pm
Entertainment allowance	600 Pm
LIC Premium paid by the employer	1,800 Pm
Professional tax paid by the employer	1500 Pm

Compute his taxable Salary.

Solution :-

Deduction of Entertainment

(i) 20% of basic $84000 \times \frac{20}{100} = 16800$
(ii) Maximum 5,000
(iii) Actual EA 7,200

The least of the above is 5000 can be claimed for deduction

Computation of the Taxable Salary of Mr Selvaraj
AY 2020 - 2021

Particular	Amount	Amount
Basic Pay		84000
Dearness Allowance		48000
Commission		12,000
C.C.A		28,800
Medical Allowance		19,200
Entertainment Allowance		7,200
LIC premium paid by the employer		1,800
Professional tax paid by the employer		1,500
Gross Salary		2,02,500
Less Deduction U/S 16		
Standard deduction	40,000	
Entertainment Allowance	5,000	
Professional tax Sec 16 (iii)	1,500	46,500
		156,000

Computation of the Taxable Salary of Mr. Raja AY 2020-2021

Particular	Amount	Amount
Basic Pay		1,80,000
D.A		36,000
Bonus		10,000
Commission		25,000
Entertainment Allowance		24,000
Educational Allowance		3,600
Transport Allowance		12,000
Car		28,800
Rent free Accommodation		30,460
Gas electricity water		8,600
Professional tax		2,000
Gross Salary		3,60,460
Less Deduction 16		
Standard deduction	40,000	
EA	–	
Professional Tax	2,000	42,000
		3,18,460

For RFA Salary

Basic	1,80,000
DA	–
Bonus	10,000
Commission	25,000
EA	24,000
Education A	3600
Transport A	12,000
	2,54,600

Population is 20 Lakhs, 10% of salary,

$254600 \times \frac{10}{100} = 25,460$

Add: 10% cost of furniture $= 5,000$

$30,460$

Unit - II

Income from House property

Introduction :-

Section 22 to 27 of the Income Tax Act, 1961 deal with the computation of the taxable income from house property. This is the Second head of income. Income from House Property is not based on the actual income, but it is based upon the national income or the annual value of that property.

Annual Value :-

Annual value is a notional income. For determining the annual value, the various factors like municipal value, fair rental value annual rental value, Standard rent, Unrealised rent and loss due of vacancy are taken into consideration. It may be defined as the Sum for which the property might reasonably be expected to let from year to year.

Factors Determining the Annual Value :-

The following factors are to be taken into consideration for determining the Gross Annual Value (GAV) of the house property.

Municipal Rental Value :- (MRV)

It refers to the value determined by the municipal authorities for levying municipal taxes on House property.

Fair Rental Value :- (FRV)

Fair Rental value of the property is the rent fetched by a Similar property in the Same or Similar Locality.

Standard Rent :- (SR)

The maximum amount rent fixed Under the Rent Control Act which a person can Legally recover from his tenant.

Expected Rental value :- (ERV)

The Expected Rental value is computed on the basis of the following three factors.

(i) Municipal Rental Value (MRV)
(ii) Fair Rental Value (FRV)
(iii) Standard Rental value (SRV)

Municipal Rental Value and fair rental Value whichever is higher Subject to a maximum of Standard rent is called Expected Rental Value.

Composite Rent :-

The amount received by the owner towards rent for house as well as for Various amenities provided to the tenant, Such as Lift Security, electricity, water etc is called composite rent.

Unrealised Rent : (URR)

The rent which could not be realised by the owner from the tenant is called URR. It should be deducted from actual rent rent received or receivable (ARR) Subject to the following conditions

(i) The tenancy is bonafide.
(ii) The defaulting tenant has vacated or Steps have been taken to Compel him to Vacate the property.
(iii) The defaulting tenant should not occupy any other property of the assessee.
(iv) The assessing officer is Satisfied with all the steps by taken by the assessee with regard to institute legal proceedings for the recovery of the unpaid rent.

Loss Due to Vacancy :- (LDV)

Vacancy means the period for which no one has occupied the house property. The loss of rent that arises due to this is called Loss due to Vacancy.

Computation of Income from House property :-

(1) Let out property (LOP)
(2) Self occupied property (SOP)
(3) Deemed to be Let out property (DLOP)
(4) Partly Let out and partly Self occupied Property (PLOP and PSOP)

Format for computation of House Property Income :-

Particulars	Amount	Amount
Gross Annual Value [GAV]		xxx
Less Municipal Tax - paid by the owner		xxx
		xxx
Net Annual Value		
Deduction U/S 24		
1. Standard deduction - 30% of NAV	xxx	
2. Interest on borrowed capital - paid or due	xxx	xxx
		xxx
Income from House Property.		

Note:

1. Gross Annual Value is taken as nil for one Self-occupied house
2. municipal tax due is also not allowed
3. Municipal tax paid by the owner is allowed. Paid by the tenant is not allowed.
4. Standard deduction should be given for all houses compulsorily [except for self-occupied houses] 30% on net Annual Value. It will not be mentioned in the problem.
5. Joint expenses should be separated on municipal valuation.
6. For Self-occupied house, on "Interest on borrowed capital" is allowed.
7. Self-occupied will always show "Loss of House Property Income"

Let out property [LOP]:-

The house which has been let out by the owner to the tenant for residential or commercial purpose is called let out property. For computing annual value of let out property the property may be classified under the following four heads

a. Let out without URR and vacancy.
b. Let out with vacancy only.
c. Let out with URR only
d. Let out with both URR and Vacancy

Rule -1 When Annual Rental Value (ARV) is not Given:-

When Annual Rental Value is not given in the problem, the Expected Rental Value is the Gross Annual Value of that property.

GAV = ERV

ERV = MRV or FRV whichever is higher subject to Standard Rent.

Step -1 = MRV or FRV whichever is higher

Step -2 = Step 1 answer or SRV whichever is less ERV.

ERV is Gross Annual value.

Illustration

From the following Particulars, Calculate the Gross Annual Value.

Municipal rental Value	(MRV)	3,00,000
Fair Rental Value	(FRV)	2,80,000
Standard Rental Value	(SRV)	3,50,000

Solution : Computation of Gross Annual Value

Particular	Amount	Amount
Municipal rental Value	3,00,000	
Fair Rental Value	2,80,000	
whichever is High	$\boxed{3,00,000}$	
Standard Rental Value	3,50,000	
whichever is Less	$\boxed{3,00,000}$	
Expected Rental Value		3,00,000

Therefore Gross Annual Value = $\boxed{3,00,000}$

Illustration when Annual Rental Value is Given :-

Particular	Amount	
Municipal rental Value	xxx	whichever is higher
Fair Rental Value	xxx	
higher	xxx	WEL
Standard rental value	xxx	
Less	xxx	WEH
Annual Rental Value	xxx	
Gross Annual Value =	xxx	

Illustration

From the following particulars calculate the Gross Annual Value

Particulars	House I	House II	House III
Municipal Rental value	10000	22000	33000
Fair Rental Value	14,000	24000	35000
Standard Rental Value	18,000	23000	34000
Annual Rental Value	20,000	30000	30000

Solution :-

Computation of Gross Annual Value

Particular	House 1	House 2	House 3
Municipal rental Value	10000	22000	33000
Fair Rental Value	14 000	24000	35000
whichever is higher	14,000	24000	35000
Standard Rental Value	18000	23000	34000
whichever is less	14,000	23000	34000
Annual Renal Value	20,000	30000	30000
which ever is higher	20,000	30000	34000
Therefore Gross Annual Value	20000	30000	34000

Rule - III LOP with Vacancy only :-

when let out property is given with vacancy period its gross annual value can be computed as under.

ERV = MRV or FRV whichever is higher subject to Standard Rent

ARV = Annual Rental Value
LDV = Loss Due to vacancy.

The following steps tobe adopted to arrive at at gross the annual value if the house property is not let out and there is Vacancy only

Step I : Compute ERV
Step II : Compare ERV with ARV to find out whichever is higher.
Step III : Deduct Loss Due to Vacancy (LDV) from the higher value
ie. ERV or ARV whichever is higher minus LDV

GAV = ERV / ARV whichever is higher - LDV.

Illustration

From the following particulars GAV.

Particulars	House 1	House 2
Municipal Rental Value	30000	48,000
Fair Rental Value	24000	36,000
Standard Rental Value	NIL	30000
Actual Rental Value	48,000	39000
Vacant (in months)	3	2

Solution :-

Computation of the Gross Annual Value

Particulars	Amount	Amount
Municipal Rental Value Fair Rental Value	30,000 24000 WEH	48,000 36000 WEH
Notional Rental value Standard Rental Value	30,000 -	48000 30,000 WEL
Expected Rentalvalue Annual Rental Value	30,000 48,000 WEH	30,000 39000 WEH
G	48,000	39000
(-) Vacancy period. House (1) $\frac{48000}{12} = 4000$ $4000 \times 3 =$ House - (2) $\frac{39000}{12} = 3,250$	12000	(3250x2) 6500
Gross Annual Value	36,000	32,500

Let out property with Vacany and unrealised Rent :-

If vacancy an unrealised rent is given in the Same problem, than one can find its gross annual value through the following steps.

Find ARR ie Actual Rent Received after unrealised rent and vacancy

Find ARR ie Actual Rent - Unrealised rent only

Find the ERV and then compare and determine the GIAV as per following use.

IF APR (or ARR(U)) > ERV Then GAV = ARR

otherwise GAV = ERV - LDV

Illustration

From the following Particulars, Calculate the Gross Annual Value

Particulars	House I	House II	House III
Municipal Rental Value	18,000	18,000	18,000
Fair Rental Value	24,000	24,000	24,000
Standard Rental Value	NIL	NIL	NIL
Annual Rental Value	36,000	36,000	36,000
Unrealised Rent	3000	3000	15,000
Vacancy (in months)	1	5	1

Solution :-

Particular	House I	House II	House III
Municipal Rental Value Fair Rental Value	18000 24000 WEH	18000 24000 WEH	18000 24000 WEH
Standard rent	24000 —	24000 —	24000 —
Annual Rental Value	24000 36000	24000 36000	24000 36000 WEH
	36000	36000	36000
(-) Unrealise Rent	3000	3000	15000
	33000	33000	21000
(-) Vacancy	3000	15000	15000
Gross Annual Value	30000	18000	6000

Unit - III

Depreciation

Section 32 of the income Tax 1961, deals with depreciation. Though the word 'Depreciation' is not defined by the Income Tax, it provides the rate of depreciation, methods of Depreciation and the Procedure to compute the amount of Depreciation to arrive at the profit. It is essential to calculate "Income from business or profession".

Reasons For allowing Depreciation :-

1. To arrive at real business profit.
2. To determine the book value of an asset in a given period of time.
3. To know the real position of assets in order to arrange for its replacements or renewal after a Period of time by setting aside a specified amount out of each year's profit.

Conditions to claim Depreciation :-

1. Asset should be owned by the assessee.
2. Asset should be used for the purpose of business or profession.
3. Assets should be used during the current previous year - 2019-2020.
4. Depreciation can be claimed on both tangible and Intangible assets.
5. If an assets is sold during the current previous year, no depreciation should be allowed.

Depreciation :-

The Income Tax Act 1961 does not define the term depreciation. The normal explanation or definitions applicable in accounting terms is used as such. It Simply refers to decrease in value of an asset. The decrease in the value may be because of wear to tear. Obsolescence.

Asset :-

Asset refers to any property owned by the assessee during the course of business. It includes both tangible assets and intangible assets. Tangible assets like plant, machinery, furniture, electrical/electronic items, and buildings. Intangible assets means assets like patents, know-how trademarks, franchises and other business or commercial rights. Block of assets refers to those assets which comes under the same category with the same rate of depreciation.

Example.

Asset whether tangible or intangible with same rate of depreciation will be considered block.

Asset	Rate of Dep.
Buildings	10
Plant and machinary	25
Patents (purchased after 01-04-1998)	25

In the above example, there will be three block of assets as follows.

For Tangible assets — Block 1 – 10%

Block 2 – 25%

For Intangible Assets — Block 3 – 25%

Written Down Value :-

Particular	Amount
Written Down value on (1-4-19)	xxx
Add: Additions during 2019-2020	xxx
Less: Sales during 2019-2020	xxx
Value as on 31-03-2020	xxx

Rate of Depreciation - Intangible Assets :-

Type of Intangible Assets	If acquired Before 1-4-98	If acquired After 1-4-98
Patent/copy rights and other Assets	1/4 th allowed	25%
Technical know-how	Usually 1/16 th If know-how is developed in Indian laboratory or institution - 1/3 rd is allowed.	25%

Illustration

Calculate depreciation from the following information for assessment year 2020-2021

Assets	WDV as on 01-04-19	Addition During 19-20	Realise from scrap	Rate of Dep
Hotel Buildings	7,50,000	2,50,000	1,00,000	10%
Furniture	3,00,000	1,00,000	NIL	10%
Calculators	5,000	NIL	NIL	15%
Plant & machinery	10,00,000	5,00,000	2,00,000	15%

Adjustments :-

1. Hotel building additions were made during Dec. 2019
2. plant & machinery additions were made during February - 2020.

Solution :-

Particulars	Value	Dep	Total
10% Block			
Hotel building value 1-4-19	7,50,000		
Add Additions during 19-20	2,50,000		
	10,00,000		
Less Realised due to scrap	1,00,000		
Value as on 31-03-20	9,00,000		
Dep (900000 - 2,50000) @ 10%		65000	
Dep (250000 @ 10% at 50% only		12,500	77,500
WDV of furniture on 1-4-19	5000		
WDV of P&M on 1-4-19	1000000		
Add Additions	5,00,000		
	15,05,000		
Less Realised due to scrap	2,00000		
	13,05,000		
15% on (13,05000 - 5,00000)		1,20,750	
15% on 5,00000 = 75000 x 50/100		37,500	1,58,250
			2,75,750

Note -1 only 50% of the total depreciation is allowed since it is used for less than 180 days.

Unit - III

Income from Business or profession

Introduction:-

Sec 28 to 44 of the Income Tax Act 1961 deals with the provision regarding the computation of profits and gain of a business or a profession. This is the Third head of income. It provided adequate tax revenue to the Govt. Therefore, it is considered to be the most important head among the five heads of Income.

Business Sec 2(13) :-

According to Sec 2(13) the term business refers to any trade, commerce, and manufacture. Any single activity or series of activities in the nature of trade or manufacture is considered as business. Similarly neither repetition nor continuity of transaction is necessary. The main motive of any business is to earn profit.

Profession sec. 2(36) :-

profession is an occupation, which requires specialized knowledge or intellectual skill in a particular field of activity. Those activities that earn livelihood is earned through their intellectual skill is called

* Excise duty
* Foreign tour expenses of Director
* Fines of delayed performance of Contract
* Gift to employees
* Income tax appeal expense
* legal expenses for Company's Assets
* Salary paid to outside India after deducting TDS
* Sales tax etc.
* Sales tax appeal expenses.

Expenses are not allowed under Section.

* Fees Paid to increase the authorized Capital.
* interest or penalty Paid under income tax Act
* Fine paid for traffic offences
* Litigation expenditure for registration of Shares
* Payment for acquision of goodwill
* Expenditure incurred in shifting the registered office
* Donation to political parties.
* Any Charity given.

Disallowed Expenses U/S 40A:

* Payment made to relatives
* Payment exceeding Rs. 10000 otherwise than account payee cheque, draft or any electronic mode for expenses other than plying, hiring or leasing goods Sec. 40A(3)
* Payment exceeding Rs 35000 other than account payee cheque, draft or electronic mode for expenses of plying, hiring or leasing goods Sec 40A(3)
* Provision of gravity.
* personal expenses.
* Any provision or reserve.

Treatment of Depreciation

If depreciation in P&L A/C and in Adjustment	If depreciation in P&L A/C only	If depreciation in Adjustment only
Add dep. in P&L A/C and Subtract dep in Adjustment	Ignore Depreciation Given in P&L A/C	Subtract Depreciation Given in Adjustment

Format For Computing Income from Business

Particulars	Amount	Amount
Net profit as per P&L Account		xxx
Add		
1. Expenses not allowed but debited	xxx	
2. Income not allowed but credited	xxx	
3. Over valuation of opening stock	xxx	
4. Under valuation of closing stock	xxx	
		xxx
		xxx
Less		
1. Admissible Expenses but not debited	xxxx	
2. Non business Income credited	xxxx	
3. Under valuation of opening stock	xxx	
4. Over valuation of closing stock	xxx	
		xxxx
Taxable Business Income		xxxx

Illustration

Mr. Arul has given you the following Profit & Loss A/c for the year ended 31st march 2020. Compute his taxable income from business for the AY - 2020 - 2021

Particulars	Amount	Particulars	Amount
To opening stock	40000	By Sales	1,60000
To purchases	1,00,000	By closing stock	50000
To preliminary Exp	10,000		
To Bad depts	3,000		
To provision for bad debts	2,000		
To Income Tax	3000		
To wealth tax	4,000		
To Sales tax	5,000		
To Donation	6000		
To Excise duty	1000		
To Net profit	36000		
	2,10,000		2,10,000

Solution :-

Computation of Income from business of Mr Arul for the AY - 2020 - 2021

Particulars	Amount	Amount
Net profit as per P&L A/C		36000
Add Expenses not allowed but debited		
Preliminary exp	10000	
Provision for bad debts	2000	
Income Tax	3,000	
wealth Tax	4000	
Donation	6000	25,000
		61,000
Less: (Income not related but Credited) Preliminary exp		2000
		59,000

Note:

1. wealth tax is not an allowable expenses.
2. Under valuation of closing stock decrease the profit by Rs 12,500 (50,000 x 20/80)
3. Under valuation of opening stock increases the profit by Rs 2,000 (6,000 x 25/75)

Illustration

From the following P&L a/c of Mr. Arun Calculate his income from business for PY-2019-20

Particulars	Amount	Particulars	Amount
To Salary	8,000	By Gross profit	65,000
To postage	2,000	By Dividend from Shares of x Co	15,000
To Municipal Tax	1,000		
To preliminary Exp	5,000		
To patent	8,000		
To copy right	6,000		
To Statistical research exp	6,000		
To capital expenses on Scientific research	4,000		
To Net profit	40,000		
	80,000		80,000

Particular	Amount	Amount
		39,50,000
Less: professional Expenses.		
Establishment Exp	30,000	
Rent of clinic	1,20,000	
Staff Salary	4,80,000	
Electricity	60,000	
Books (Depreciation on book is allowed at 40%)	4,000	6,94,000
		32,56,000

Illustration

From the following Receipts and Payments account of Dr. Rajesh. Compute his professional income for the Previous year 2019-2020

Receipts	Amount	Payment	Amount
Balance b/d	6,000	By Salary to Staff	1,80,000
To consalation fees	7,50,000	By Rent of clinic	60,000
To Sales of Medicine	94,500	By Purchase of Medicine	70,000
To Interest on deposits	55,500	By Surgical Equipment	2,30,000
To visiting fees	60,000	By purchase of car	4,00,000
		By balance c/d	60,000
	19,00,000.		10,00,000

Computation of income from profession of Dr. Rajesh for the AY 2020-2021

Particular	Amount	Amount
Professional Receipts.		
Consultation fees	7,50,000	
Visiting fees	60,000	
Sale of Medicine	94,500	
		9,04,500
Less Professional Expenses		
Salary to Staff.	1,80,000	
Rent of clinic	60,000	
Purchase of Medicine	70,000	
Depreciation on Surgical Equipment	34,500	
Depreciation on Car	60,000	
		4,04,500
Income from proffession =		5,00,000

Format for lawyer profession income :

Particulars	Amount	Amount
Professional Receipt/Income :		
Legal fees	xxx	
Special commission fee	xxx	
Gift from client	xxx	
Legal opinion fees.	xxx	
		xxxx
Less		
Professional Payments/Exp		
Rent of champer	xxx	
office Expenses	xxx	
Books for profession	xxx	
Salary to Staff	xxx	
Purchase of Stamp paper	xxx	
Court fee Stamp	xxx	
Electricity Charges	xxx	
Telephone expenses	xxx	
Traveling expenses	xxx	
Depreciation on type writter	xxx	
		xxxx
		xxxx

Illustration

From the following receipts and Payment account of Mr. Sakthivel, an Advocate, Calculate his income from Profession.

Receipts	Amount	Payment	Amount
To balance b/d	5000	By Staff Salary	8000
To Legal fees	48,000	By car exp	4000
To Gift from clients	12,000	By Life Insurance	2,000
To Interest on FD	10000	By Rent of Chamber	6000
		By Books	4,000
		By balance c/d	51000
	75,000		75000

Solution

Computation of Income from Profession of Mr. Sakthivel for the Ay - 2020-2021

Particulars	Amount	Amount
Professional Receipts :-		
Legal fees	48,000	
Gift from clients	12,000	60000
Less: Professional Expenses.		
Staff Salary	8000	
Car Expenses	4000	
Rent of Chamber	6000	
Depreciation on books @ 40%	1600	19600
Income from profession.		40,400

Format for A Chartered Accountant Income

Particulars	Amount	Amount
Professional Receipts / Income :-		
Audit fees	xxx	
Accountancy work	xxx	
Financial consultancy fee	xxx	
Gift from client	xxx	
Appellate Tribunal Appearance fee	xxx	xxxx
Less: Professional payment / Expenses		
office Expenses	xxx	
office Rent	xxx	
Salary to staff	xxx	
Stipends given to trainee	xxx	
Institute fee	xxx	
Electricity bill	xxx	
Subcription for journals	xxx	
Printing and Stationary	xxx	
Travelling expenses etc	xxx	xxxx
Professional Income =		xxxx

Illustration:-

Mr. Harsha, a chartered Accountant Submits his income and expenditure account for the year ending with 31.03-2020.

Expenditure	Amount	Income	Amount
To Salary to Staff	36,000	By Audit fees	1,15,000
To car Expenses	10,000	By income from accountwork	25,000
To purchase of Type Writter	20000	By Gift from client	10000
To Repairs of office	6000	By Divend	20000
To Depreciation on car	12000	By Loan from a client (Interest free loan)	30000
To income Tax	26000		
To Surplus	90000		
	200000		200,000

Compute his income from profession for the Previous year 19-2020

Additional Information:-

(i) Car is Partly used for private purpose (50%)

(ii) One third of the repair expenses was Spent toward the repair of his residence.

Solution:-

Computation of the professional Income of Mr. Harsha for the AY 2020-2021

Particulars	Amount	Amount
Professional Income:		
Audit fees	1,15,000	
Income from accountancy work	25,000	
Gift from clients	10,000	
		150000
Less Professional Expenses		
Salary to Staff	36,000	
Car Expenses (10000 x 50/100)	5,000	
Purchase of type writer 20000 x 15/100	3,000	
Repairs (6,000 x 2/3)	4,000	
Depreciation on car (12500 x 50/100	6,000	
		54,0
		96,00

Unit III

Income from Capital Gains

Capital Gains u/s 45(1)

"Any profits or gains arising from the transfer of capital assets is taxable under the head capital gains in the previous year in which the transfer has taken place."

Conditions for Gains to be charged under Capital Gains:

* There should be capital assets.
* The capital asset should be transferred by the assessee.
* Such transfer should take place during previous year.
* The profit or gains should arise as a result of this transfer.
* Such profit or gain should not be exempted from tax under Section 54, 54B, 54D, 54EC, 54F and 54G & 54GA.

Capital Assets :-

Capital assets means any kinds of property held by an assessee. It may or may not be relevant to his business or profession For example the goodwill, the Leasehold rights, Share of partner in partnership License from Govt, to manufacture goods etc are Considered as capital assets. It may be movable or immovable, fixed or circulating. tangible Assets or intangible.

Types of Capital Assets:

Capital Assets canbe classified into two types namely ① Short term capital Asset ② Long term capital Asset.

Short term Capital Assets Sec 2 (42A)

Short term capital Assets are those assets which are held by an assessee for not more than 36 months immediately before the date of transfer. However case of a Financial assets like Share, debentures and securities if it is held for not more than 12 months immediately before the date of transfer. it is also considered as a Short term capital assets.

Long term capital Assets : Sec. 2 (29A) :-

Those capital assets which are held by an assessee for more than 36 months before the date of transfer are long-term capital Assets It is held for more than 12 months before the date of transfer, they are treated as Long term Capital Assets.

Illustration :-

Mr. Kumar redeemed 5000 units of a dept Oriented mutual fund on 20th Sep. 2018 @ Rs 45. The units were acquired by him in 2003-04 @ 10%. Calculate Capital Gain for the Py - 2019-2020 [C II 2003-04 : 109 2019-2020 : 289]

Solution :

Computation of long term capital Gain

Particulars	Amount	Amount
Sales consideration (5000 × 45)		2,25,000
Less : Indexed cost acquisition		
5000 × 10 = 50,000 × 289/109		1,32,569
Long term capital gains		= 92,431

Illustration

Mr Ashok had bought a residental house on 01-01-2019 for Rs 10,00,000. Further he spent Rs 1,00,000 to repair the house on 10-10-2019. He sold the property on 01-02-2020 for Rs 15,00,000. He paid a brokerage of Rs 15,000 Compute the Capital gain for the Previous year 2019-2020.

Solution:-

Computation Capital gain.

Particulars	Amount	Amount
Sales Consideration		15,00,000
Less: Expense of transfer		15000
Net consideration		14,85,000
Less: Cost of acquisition	10,00,000	
Cost of improvement	1,00,000	11,00,000
Short term capital Gain		3,85,000

Illustration

From the following Particulars, compute the taxable capital of Mr. Sakthivel for the Previous year - 2019-2020.

Particulars	Land	Debentures
Year of purchase	2012-13	2017-2018
Year of Sale	2019-20	2019-2020
	Rs	Rs
Cost of acquisition	1,00,000	1,50,000
Cost of Improvement in 2016-2017	20000	—
Selling exp	—	4500
Sale consideration	4,20,000	2,25,000

CII 2012-2013; 200 2016-17; 264 2017-18; 2[illegible]
[illegible]

Solution

Computation of capital gain

Land.

Particulars	Amount
Sales consideration	4,20,000
Less: indexed cost of acquisition $100000 \times 289 / 200 =$	1,44,500
Indexed cost of improvement $20,000 \times 289/264 =$	21,894
Long term capital gains	2,53,606

Computation of capital gain

Debenture

Particulars	Amount	Amount
Sales Consideration		2,25,000
Less Expense of transfer		4500
Net Sales consideration		2,20,500
Less: Cost of acquisition		150,000
		70,500

Unit - III [c]

Income from other sources

Income from other Sources :-

Income from other Sources includes all the residual income that Cannot be placed in other heads of income. These usually inculde interest income from Savings bank accounts, fixed deposits, recurring deposits, family pension etc.

Charge of Tax :-

Income tax is an annual charge upon a person deriving such income during the tax year, which is chargeble to tax under any provision of income Tax.

1. Pay income Tax.
2. Deduct or collect the tax-at-Source and deposit it.
3. Pay tax in advance
4. Pay default Surcharge and penalties
5. Pay fees.

Income chargeable under other sources

Specific Income:

(i) Dividends.

(ii) Interest on securities.

(iii) money won from lotteries, crossword puzzles, races including horse races, card games etc

(iv) Any sum received by the assessee from his employees as contribution to staff welfare scheme.

(v) Income from letting of machinery, Plant or furniture if it is not taxed under the Profits and gains of business or profession.

(vi) Income from letting of plant, machinery or furniture along with building, which is in separate from letting

(vii) Any sum received under a keyman Insurance policy.

(viii) Gifts.

Particulars	Amount	Amount
Family pension		
family pension received	xxx	
Less: 1/3 of such family pension or maximum limit 15,000 whichever is Less	xxx	xxx
Royalty Authors		
Actual amount Received	xxx	
Less Actual Expenditure	xxx	xxx
Examinership Remuneration		
Actual amount Received	xxx	
Less: Actual Expenditure	xxx	xxx
Any other Income like Director Fees, Honorarium etc		
Actual amount received	xxx	
Less Actual Expenditure	xxx	xxx
Taxable income from other sources.		xxxx

Illustration:

Mr. Viji has furnished the following Particulars of his incomes for the previous year. Calculate the income from other sources

(i) Dividend from a foreign company	22,000
(ii) Dividend from Domestic company	12,000
(iii) Dividend from Cooperative Society	10,000
(iv) Dividend from Wheels India Ltd at Chennai	5,000

Solution

Computation of income from other Sources

Particulars	Amount
Dividend from foreign company	22,000
Dividend from Domestic company	Exempted
Dividend from Cooperative Society	10,000
Dividend from Wheels India Ltd at Chennai	Exempted
Income from other sources	32,000

Illustration:-

Compute the income from other Sources from the following information

(i) winning received from Lottery	10,500
(ii) winning from Lottery	5,000
(iii) winning from horse races	1,500
(iv) winning from crossword puzzles	3,500
(v) Amount received from horse race	21,000

Computation of income from other sources.

Particulars	Amount	Amount
winning received from lottery	10500×100/70	15,000
		5,000
winning from lottery		1,500
winning from horse race		
winning from crossword puzzle		2,500
Amount received from horse race,	21,000 × 100/70	30,000
Income from other sources.		54,000

Unit-IV

Clubbing of income

Clubbing of income:-

Section 60 to 65 of the income tax Act, 1961 deal with the provisions relating to the clubbing of incomes. With a view to avoid or minimize tax a person transfers his income to some other persons. This Practice leads to tax evasion and tax avoidance. In order to curtail these practices, clubbing Provisions have been incorporated by the law makers. As per the provisions, incomes of other persons are to be inculded in the assessee's total income.

Transfer of income without transfer of Assets

Sec 60:

If an assessee transfers any income from an asset without the transfer of ownership of the Asset, than the income from the asset shall be inculded in the total income of the transferor.

Revocable Transfer of Asset Sec 61 :-

Revocable transfer means a transfer containing any provision for the retransfer directly or indirectly of the whole or any part of the income or assets to the transfer which in any way, gives the transferor a right to re-assume power directly or indirectly over the whole or any part of the income or assets.

Income of Spouse Sec 64 :-

Spouse means husband or wife. Any income received by the spouse by way of salary commission, fees etc from a concern in which the individual has got a substantial interest then such income of the spouse will be included in the total income of an individual. In case of a company, substantial interest means individual, individually or along with his relatives having 20% or more of equity shares in the company.

Income from Assets Transferred to a Person or an AOP of the benefit of Spouse Sec 64(1)(vii)

If an individual has transfered an asset directly or indirectly to a person or AOP for the immediate or deffered benefit of his/her spouse without adequate consideration, any income from transferor

Income of minor child:-

All income of the minor child shall be in ... in the income of the parent, whose other income is higher.

(a) manual work done by him.
(b) application of his skills, talent or specialized knowledge and experience.
(c) Suffering from any disability of the nature specified u/s 80U

Illustration

From the following information compute the income of Mr. Baskar and Mrs. Baskar for the Assessment year 2020-2021

Income of Mr Baskar.

1. Income from his own business 4,50,000
2. Income from interest on Debenture (gross) 3,0,000

Income of Mrs. Baskar

1. Income from Salary (computed) 3,00,000
2. Income from House property 60,000
3. Income from interest on debentures (gross) transferred by Mr. Baskar 10,000

Set off and carry forward of Losses

Set off and carry forward of Losses :-

Income Tax is charged on the total income of an assessee. An assessee can have different sources and different heads of income. when aggregating these sources or heads, it is not necessary that every source shall result profit. If there is loss in any source, it can be adjusted aginst the income from another sources subject to the following conditions.

(i) Intra head Adjustment

(ii) inter head Adjustment

(iii) Carry from and set-off of losses.

Speculation Losses:-

Any losses in respect of speculative business shall not be set off against any other speculation loss can be set off against speculation income only. However, non-speculative loss can be set off against speculative income.

Set off of Losses : Diagram

Set off of Loss

Loss from House property	1. Income from HP 2. Any from other head up to Rs. 200000
Loss from BP	1. Income from other BP 2. Any other head Except Salaries
Loss from speculation business	income from speculation business
Loss from specified Business	Income from other specified business
Short term capital loss	1. Short term capital gain 2. Long term capital gain
Long term capital Loss	Long term capital gain
Loss from Horse Race	Income from Horse Race
Loss from Lottery, Cross word puzzles, Gambling Card, Games Betting	Cannot be set off against Any other income

Unit-V

Income tax Authorities
Powers

Income Tax Authorities Chart

Central Board of Direct Taxes

↓

Cheif Commissioner of income tax

Commissioner of income tax

↓

Joint Commissioner of income tax

Deputy commissioner of income tax

Assistant Commissioner of income Tax

Income tax officer

Income tax inspector

* power to makes rules.
* power to issue instructions and directions.
* power to authorise income tax authorities to admit application
* power to relax compliance of certain requirement.
* Power to appoint below the rank of Assistant Commissioner
* Power to authorize the staff to execute a particular function.
* Power to declare company.
* Power to direct authority higher in rank to Perform function of authority lower in rank.
* Power to settle dispute regarding Jurisdiction
* Power to Search and Seizure.

chief commissioner of income tax

* Power to make enquiry
* Power to investigate into concealment of income
* Power to requisite book of accounts
* Power to order for conducting Survey

Commissioner of income tax:

* Power to discover and produce evidence
* power to call for information
* Power to inspect registers of companies
* power to conduct appellate proceeding
* Power to impose penalty.

Joint commissioners / Deputy

* power to discover and produce evidence
* Power to Search and Seizure
* power to order for survey
* power to inspect register of companies
* Power to instruct income tax officers and inspectors of income tax.
* Power to give instructions to subordinate.

Income Tax officers:-

* Power to make assessment
* Power to impose penalty
* Duty to carry out all instructions given by immediate Superior
* Power to issue direction for getting accounts audited
* Power to reassess escaped income
* Power to grant refunds

Assessment :-

Assessment of income is nothing but calculation of total income and its tax liability. How to calculate income the procedure of submission of income etc.

Type of Assessment :-

1. Self assessment
2. Assessment on the basis of retorn
3. Regular assessment / Security Assessment
4. Best Judgement assessment
5. Reassessment on Income escaping assessment
6. protective on precautionary assessment.

Self Assessment Sec. 140A

If an assessee finds that Some amount is payble as tax after adjusting. TDS and advance tax, he can deposit the Same with a challan for self assessment before filing the return of Income.

Reassessment or income Escaping Assessment:

If the AO feels that any income has escaped assessment for any assessment year, he may assess or reassess such income considering provisions of section 148 to 153

* where no return of income has been furnished by an assessee, although his total income is above the non-taxable limit.

Protective or Precaution Assessment:

Protective or precaution Assessment is Comes into Picture when the AO is not clear about the person who has received the Income.

Permanent Account Number :-

Permanent Account Number is an alphanumeric Code given in the form of a laminated card to a person by the income tax department. It is mandatory when filing income tax returns, tax deduction at source or any other Communication with income tax department. It is used for the purpose of identification of the assessee.