

Taxation Paper– I

***(B.Com. BAF, BMS, BFM, BBI, M. Com.
and Other UG & PG Syllabus Applicable
for Oct 2021 & March 2022 Exam.)***

Nishikant Jha

*Ph.D., ICWA, PGDBM (MBA), M.Com., from Cambridge University
International Executive MBA., UBI Brussels, Belgium, Europe, Assistant
Professor in Accounts & Coordinator (HOD) BAF, Thakur College of Science
& Commerce, UGC Recognised, University of Mumbai. Visiting Faculty for:
M. Phil. & M. Com. DTSS & KES College Mumbai University, MBA in United
Business Institutes, Brussels Belgium, Europe, CFA & CFP Professional
Courses of USA, CIMA Professional Courses of London,
CA, CS Professional Courses of India, M. Phil. &
Ph.D. Guide [Research Supervisor] & Professor for
Research Methodology in JJT University.*

CA Sheetal Trivedi Shukla

*CA, M.Com., SELT
Assistant Professor in Accounts
Thakur College of Science and Commerce*

Revised by Ashutosh Brijesh Jadia

BAF



Himalaya Publishing House

MUMBAI • NEW DELHI • NAGPUR • BENGALURU • HYDERABAD • CHENNAI • PUNE • LUCKNOW
• AHMEDABAD • ERNAKULAM • BHUBANESWAR • INDORE • KOLKATA • GUWAHATI

© Authors

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording and/or otherwise without the prior written permission of the publishers.

Seventh Edition : 2021

Published by	: Mrs. Meena Pandey for Himalaya Publishing House Pvt. Ltd. , "Ramdoot", Dr.Bhalerao Marg, Girgaon, Mumbai - 400 004. Phone: 022-23860170/23863863, Fax: 022-23877178 E-mail: himpub@vsnl.com; Website: www.himpub.com
Branch Offices	:
New Delhi	: "Pooja Apartments", 4-B, Murari Lal Street, Ansari Road, Darya Ganj, New Delhi - 110 002. Phone: 011-23270392, 23278631; Fax: 011-23256286
Nagpur	: KundanlalChandak Industrial Estate, Ghat Road, Nagpur - 440 018. Phone: 0712-2738731, 3296733; Telefax: 0712-2721215
Bengaluru	: No. 16/1 (Old 12/1), 1st Floor, Next to Hotel Highlands, Madhava Nagar, Race Course Road, Bengaluru - 560 001. Phone: 080-32919385; Telefax: 080-22286611
Hyderabad	: No. 3-4-184, Lingampally, Besides Raghavendra Swamy Matham, Kachiguda, Hyderabad - 500 027. Phone: 040-27560041, 27550139; Mobile: 09390905282
Chennai	: No. 8/2, 2nd Madley Street, Ground Floor, T. Nagar, Chennai - 600 017. Mobile: 09345345055
Pune	: First Floor, "Laksha" Apartment, No. 527, Mehunpura, Shaniwarpath (Near Prabhat Theatre), Pune - 411 030. Phone: 020-24496323/24496333; Mobile: 09370579333
Lucknow	: House No 731, Shekhupura Colony, Near B.D. Convent School, Aliganj, Lucknow - 226 022. Mobile: 09307501549
Ahmedabad	: 114, "SHAIL", 1st Floor, Opp. Madhu Sudan House, C.G. Road, Navrang Pura, Ahmedabad - 380 009. Phone: 079-26560126; Mobile: 09377088847
Ernakulam	: 39/176 (New No: 60/251) 1st Floor, Karikkamuri Road, Ernakulam, Kochi - 682011, Phone: 0484-2378012, 2378016; Mobile: 09344199799
Bhubaneswar	: 5 Station Square, Bhubaneswar - 751 001 (Odisha). Phone: 0674-2532129, Mobile: 09338746007
Indore	: Kesardeep Avenue Extension, 73, Narayan Bagh, Flat No. 302, Illrd Floor, Near Humpty Dumpty School, Indore - 452 007 (M.P.). Mobile: 09301386468
Kolkata	: 108/4, Beliaghata Main Road, Near ID Hospital, Opp. SBI Bank, Kolkata -700 010, Phone: 033-32449649, Mobile: 09883055590, 07439040301
Guwahati	: House No. 15, Behind Pragjyotish College, Near Sharma Printing Press, P.O. Bharalumukh, Guwahati - 781009, (Assam). Mobile: 09883055590, 09883055536
DTP by	: Hansa Subhedar
Printed at	:

Preface

The present book is about the organization operation and growth of the Financial Act and Taxation system in India. A student of BBI often finds that Taxation and Financial policies can be understood much better, and they can be analysed more realistically if he has a good understanding of the actual functioning of the various parts of the financial system and taxation. The purpose of this book is to provide such an understanding of the working of the financial and taxation system.

We are happy to present the book "**Direct Taxation**" to the students of TYBA of Mumbai University. In this edition, an effort has been made to incorporate the latest examination questions at relevant places in the book.

This book contains a list of the topics covered in each chapter which will avoid the controversies regarding the exact scope of the syllabus. The text follows the term wise chapter topics pattern prescribed in the syllabus

The numerous illustrations are arranged in ascending order of difficulty containing full solutions to questions asked in various examinations of Mumbai University and Professional Examinations

Exercises contain the theory as well as practical questions

We have preferred to give the text of the section and the rule as it is and thereafter, added the comments with the intention of explaining the subject to the students in a simplified language. While making an attempt to explain in a simplified language, some mistakes of interpretation might have crept in.

This book is a unique presentation of subject matter in an orderly manner. This is a student friendly book and a tutor at home. We hope the teaching faculty and students community will find this book of great use.

We welcome constructive suggestions for improvement.

We are extremely grateful to Mr. K.N. Pandey of Himalaya Publishing House Pvt. Ltd. for their devoted and untiring personal attention accorded by them to this publication. We gratefully acknowledge the immense contributions and suggestions from various colleges. We gratefully acknowledge our deepest and sincere thanks to:

- Mr. Jitendra Singh. Trustee. Thakur College:
- Dr. Chaitali Chakraborty. Principal, Thakur College, and
- Mrs. Janki Nishikant Jha for their inspiration, support and constructive suggestions

Authors

Syllabus

Taxation - I (Direct Taxes Paper- I)

Modules at a Glance

Sr. No.	Modules	No. of Lectures
1	Definitions u/s – 2 , Basis of Charge and Exclusions from Total Income	15
2	Heads of Income –I [Salary, House Property]	15
3	Heads of Income – II [Business Profession, Capital Gain and Other Sources]	15
4	Deductions under Chapter VI – A and Computation of Total Income	15
Total		60

Sr. No.	Modules / Units
1	Definitions u/s – 2 , Basis of Charge and Exclusions from Total Income
	Definitions u/s – 2 : Section 2 – Assessee, Assessment Year, Assessment, Annual value, Business, Capital asset, Income, Person, Previous Year, Transfer Basis of Charge : Section 3 – 9 – Previous Year, Residential Status, Scope Of Total Income, Deemed Income Exclusions from Total Income: Section 10 – restricted to, Agricultural Income, Sums Received From HUF By Member, Share of Profit from Firm, Casual & Non – Recurring Receipts, Scholarships, Income of Minor Child, Allowance to Members of Parliament and Legislative Assembly. Note -Exemptions related to specific Heads of Income to be covered with Relevant Provisions.
2	Heads of Income
	Various Heads of Income Salary Income: Section 15 – 17, Including Section 10 relating to House Rent Allowance, Travel Concession, Special Allowance, Gratuity, Pension – Commutation, Leave Encashment, Compensation, Voluntary Retirement, Payment from Provident Fund Income From House Property : Section 22 – 27, Including Section 2 – Annual Value Profits & Gains From Business & Profession : Vocation Section 28-32, 36, 37, 40, 40A, 43B, 44AD, 44ADA & 44AE including.: Section 2 – Business Capital Gains : Section 45, 48, 49, 50, 54 and 55 Income from Other Sources: Section 56 – 59
3	Deductions under Chapter VI – A
	80 A- Restriction on claim in Chapter VI- A deductions 80 C – Payment of LIC/PF and other eligible investments 80CCC – Contribution to certain Pension Fund 80D – Medical Insurance Premium 80 DD- Maintenance and medical treatment of handicapped dependent 80E – Interest on Educational Loan 80 TTA- Interest on Saving Bank account 80U – Deduction in the case of totally blind or physically handicapped or mentally retarded resident person
4	Computation of Total Income
	Computation of Total Income of Individual and HUF with respect to above heads and deductions without calculations of tax liability.

Note: *Relevant Law/Statute/Rules in force and relevant Standards in force on 1st April immediately preceding commencement of Academic Year is applicable for ensuring examination after relevant year.*

Paper Pattern

Credit Based Evaluation System

Scheme of Examination

(a) Internal of Assessment – 25%

25 Marks

Sr. No.	Particulars	Marks
1.	One periodical class test*	20 Marks
2.	Active participation in routing class instructional deliveries and overall conduct as a responsible learner, mannerism and articulation and exhibit of leadership qualities in organizing related academic activities	05 Marks

(b) Semester end Examinations – 75%

75 Marks

1. Question Paper Pattern for Periodical Class Test for Courses at UG Programmes written Class Test

20 Marks

Sr. No.	Particulars	Marks
1.	Match the Column/Fill in the Blanks/Multiple Choice Questions ($\frac{1}{2}$ Marks each)	05 Marks
2.	Answer in one or two lines (Concept based Questions) (1 Mark each)	05 Marks
3.	Answer in Brief (Attempt any two of the three) (5 Marks each)	10 Marks

Question Paper Pattern

Maximum Marks: 75

Questions to be Set: 05

Duration: 2 $\frac{1}{2}$ Hrs.

All Question are Compulsory Carrying 15 marks each.

Sr. No.	Particulars	Marks
Q.1	Objective Questions (a) Sub Questions to be asked 10 and to be answered any 08 (b) Sub Questions to be asked 10 and to be answered any 07 (*Multiple choice/True or False/Match the column, Fill in the blanks)	15 Marks
Q.2	Full Length Practical Question OR	15 Marks
Q.2	Full Length Practical Question	15 Marks
Q.3	Full Length Practical Question OR	15 Marks
Q.3	Full Length Practical Question	15 Marks
Q.4	Full Length Practical Question OR	15 Marks
Q.4	Full Length Practical Question	15 Marks
Q.5	(a) Theory Questions (b) Theory Questions OR	08 Marks 07 Marks
Q.5	Short Notes To be asked 05 To be answered 03	15 Marks

Note: Full length question of 15 marks may be divided into two sub questions of 08 and 07 marks.

Contents

1.	Basic Concepts and Definitions	1	-14
2.	Residential Status, Scope of Total Income and Exempted Income	15	- 58
3.	Salary U/S 15-17	59	-113
4.	House Property [U/S 22-25]	114	-158
5.	Business and Profession [U/S 28 - 44D]	159	-205
6.	Capital gain [U/S 45 – 55]	159	-205
7.	Other Sources [U/S 56-59]	206	-237
8.	Deductions [U/S 80] and Computation of Gross		
	Total Income	238	-302
	Question Papers	303 – 315	



INTRODUCTION

“It was only for the good of his subjects that he collected taxes from them, just as the sun draws moisture from the earth to give it back a thousandfold”.

— *Kalidas in Raghuvansh eulogizing King Dalip*

The word ‘Tax’ originated from the ‘Taxation.’ which means ‘Estimate.’ Hence, ‘Income Tax’ means ‘Income Estimate,’ which helps the government to know the actual economic strength of a person. It is also a way to set up an economic standard for general people. It helps the Government to know the distribution of money among country’s people.

Income Tax has been in force in different forms since years. If we go through the history of India, we get relevant information regarding the taxation system of India. In ancient history, it is mentioned about such system which was imposed on the income, expenditure and other subjects. Even information of the same is given in Manu Smriti and Arthasastra which confirms its existence at that time.

In modern India, Income Tax came into existence in 1860 with the implementation of first Income Tax Act. After implementation of this Act, people became aware of the actual meaning of Income Tax. This Act was in force for first five years. After this, in 1865, a second Act came into force. There were major changes in this Act relative to the first. It proved itself to be a good factor for the growth of our economy. With this Act, a new concept of Agriculture Income came into existence.

After this, different new Acts was also implemented. The most important of them is the Income Tax Act, 1961. According to ruling of Income Tax Act, 1961, any person whose salary from any source of income is more than the maximum limit of unchargeable amount will be liable to pay Income Tax. There is also a provision of deduction and exemptions in Income Tax, depending upon the type of assesses, source of income, residential status and investment in saving schemes. Income tax rates are a matter of change, which is declared by Ministry of Finance, Government of India regularly, usually on annual basis. The Indian Income Tax department is governed by the Central Board for Direct Taxes (CBDT) and is part of the Department of Revenue under the Ministry of Finance.

The Government of India imposes an income tax on taxable income of individuals, Hindu Undivided Families (HUFs), companies, firms, co-operative societies and trusts (Identified as body of Individuals and Association of Persons) and any other artificial persons. Levy of tax is separate on each of the persons. The levy is governed by the Indian Income Tax Act, 1961.

In India, Constitution is the parent law. All other laws should be enacted without exceeding the framework of the Constitution and subject to norms laid down therein.

The Constitution of India empowers Central Government to levy tax on income. By virtue of this power and to achieve this objective, the Income Tax Act, 1961, was enacted in place of Income Tax Act, 1922, which was prevalent earlier.

According to Sec 1 of the Income Tax Act, the Act is to be called as “The Income Tax Act, 1961” and it extends to the whole of India. It came into force on the 1st day of April 1962. An income tax is a tax levied on the financial income of persons, corporations or other legal entities. Various income tax systems exist, with varying degrees of tax incidence. Income taxation can be progressive, proportional, or regressive. When the tax is levied on the income of companies, it is often called a corporate tax, corporate income tax, or profit tax. Individual income tax often tax the total income of the individual (with some deductions permitted), while corporate income tax often tax net incomes (the difference between gross receipts, expenses and additional write-offs).

Principles

The “tax net” refers to the types of payment that are taxed, which includes personal earnings (wages), capital gains and business income. The rates for different types of income may vary and some may not be taxed at all. Capital gains may be taxed when realized (e.g., when shares are sold) or when incurred (e.g., when shares appreciate in value). Business income may only be taxed if it is significant or based on the manner in which it is paid. Some types of income, such as interest on bank savings, may be considered as personal earnings (similar to wages) or as a realized property gain (similar to selling shares). In some tax systems, personal earnings may be strictly defined where labor, skill or investment is required (e.g., wages); in others, they may be defined broadly to include windfalls (e.g., gambling wins).

Tax rates may be progressive, regressive or flat. A progressive tax taxes are differentially based on how much has been earned. For example, the first ` 10,000 in earnings may be taxed at 5%, the next ` 10,000 at 10%, and any more income at 20%. Alternatively, a flat tax taxes all earnings at the same rate. A regressive income tax may tax income up to a certain amount, such as taxing only the first ` 90,000 earned. A tax system may use different taxation methods for different types of income. However, the idea of a progressive income tax has garnered support from economists and political scientists of many different ideologies, from Adam Smith in *The Wealth of Nations* to Karl Marx in *The Communist Manifesto*.

Personal income tax is often collected on a pay-as-you-earn basis, with small corrections made soon after the end of the tax year. These corrections take one of two forms: payments to the government, for taxpayers who have not paid enough during the tax year; and tax refunds from the government for those who have overpaid. Income tax systems will often have deductions available that lessen the total tax liability by reducing total taxable income. They may allow losses from one type of income to be counted against another. For example, a loss on the stock market may be deducted against taxes paid on wages. Other tax systems may isolate the loss, such that business losses can only be deducted against business tax by carrying forward the loss to later tax years.

Countries with no personal income tax are Andorra, Burundi, Saint Kitts and Nevis, Anguilla, Cayman Islands, Somalia, Bahamas, Kuwait, United Arab Emirates, Bahrain, Monaco, Vanuatu, Bermuda, Oman, Brunei, British Virgin Islands, Qatar, etc

The direct tax which is paid by individual to the Central Government of India is known as Income Tax. It is imposed on our income and plays a vital role in the economic growth and stability of our country. For years the Government is generating revenue through this tax system.

INCOME TAX DEPARTMENT

Income Tax Department is one of the important part of Ministry of Finance, Government of India. It is one of the important resources of Government of India through which every year it generates a huge amount of revenue for the development of the country. It also operates through its subordinate departments, which help it to perform its responsibility on time in a better manner. For understanding Income Tax Department in a better way it can be divided into three parts as given below:

(1) Introduction to Income Tax Department: Income Tax Department is one of the important parts of Ministry of Finance, Government of India. In 1860, it started working with the implementation of first Income Tax Act. After implementation of this Act, people became aware of the actual meaning of Income Tax and motto of Income Tax Department. Department followed this Act for five years after which, in 1865, second Act came into force. There was a major change in this Act relative to first Act. With this Act, the department started working with a new concept of Agriculture Income.

But the original story of Income Tax Department came into being in 1922 with the implementation of Income Tax Act, 1922. It showed a major change from the last act by imposing the charge in the year of assessment on the income of last year. It also declared that tax rates would be announced by Finance Acts.

After this, in 1956 Government revised this Act and did few changes keeping the original in its format. For its review government formed a committee. This committee made few changes and submitted Income Tax Bill in Lok Sabha in April, 1961. The then President, accepted this bill on 13th Sept., 1961. Since 1961, our government has been using this Act for running our system.

Income Tax Department of India has faced so many changes after its establishment, some of which are as follows:

Year of Events	Events
1939	Appellate functions became separate from inspecting functions and a class of AAC officers came into existence.
1940	Directorate of Income-Tax inspection came into existence.
1941	Central charge created at Kolkata.
1943	Special investigation branches set up.
1952	Directorate of Inspection — Investigation came into existence and Income Tax inspector was declared as an I.T. authority.
1953	Estate Duty Act implemented.
1954	Internal audit income implemented.
1963	Separate board of direct taxes formed.
1966	Functional scheme implemented.
1971	Direct taxes enquiry report was received.
1980	Hotel Receipt Act came into force.
1986	The I.T. Act and W.T. Act amended by taxation laws.
1990	Gift tax bill introduced.
1991	Interest Tax Act revived.
1997	Decrease in income tax rates.
2002	Computerized return system started all over India.

(2) Central Board of Direct Taxes (CBDT): Central Board of Direct Taxes came into force on 1st Jan. 1961. It has been taking care of all direct tax-related matters in India. It is working under Central Board of Revenue Act, 1963. CBDT is an important part of Department of Revenue, Ministry of Finance (India). It plays a vital role in planning and implementing direct tax policies in India. It also monitors direct tax laws followed by Income Tax Departments. CBDT works under its chairman who also works as an official secretary to the Government of India. Chairman with other members, who are also official secretary to the Government of India, constitute top management of Income Tax Department. All these members are from Indian Revenue Services.

DEFINATION IN TAXATION

- (1) Tax Laws:** Government can raise funds needed for the development and defence of the country by collecting taxes such as Income Tax, excise duties, etc., from the citizens. As the revenue collected from income Tax helps the development of the country, it is said that “income Tax is the price one pays for civilization”. Under the Constitution of India, the Central Government has the right to collect income Tax. The law governing such collection of income Tax is:

- Specified in the Income Tax Act, 1961 (“the Act”).
- Implemented according to the rules laid down in the Income Tax rules, 1962 (“the Rules”).
- Administered through the circulars issued by the Central Board of Direct Taxes (“CBDT”).
- Interpreted by the judgments of the Supreme Court and High Courts which settle the legal disputes between the government and the taxpayers.

- (2) Scheme of Act:** The Income Tax Act is divided first into chapters (from I to XXIII, i.e., 1 to 23). Each chapter is divided into sections (298 in all). Each section deals with a specific matter (“provision”) and is further divided into subsections, clauses and subclauses. Thus, S.9 (1) (v) (a) means section 9, subsection 1, clause v (five), sub clause a. An “explanation” to a section clarifies certain word or point of law in the section. A “proviso” to a section indicates an exception to the provision or a pre-condition to be satisfied or how the section is to be applied in a peculiar situation. Income Tax Act extends to the whole of India. Section 1 states that:

- This Act may be called the Income Tax Act, 1961.
- It extends to the whole of India. “India”, for the above purpose would cover the territory of India as defined under international law. Thus, the Act is applicable to persons residing in India as well as to the income arising in India.

- (3) Charge of Income Tax:**

Provision: Section 4 of the Act states that:

- Income tax shall be charged
- At the rate(s) laid down by the Finance Act
- For the assessment year

- In accordance with the subject to the provisions of this Act
- In respect of total income
- Of the previous year
- Of every person.

(4) Comments: Section 4 is called the “charging” section of the Act because it fixes the charge or liability of income Tax. The income tax liability is determined in the following manner:

- Income tax is an annual tax on income.
- The rates of income tax are not specified in the Income Tax Act. The rates of tax are laid down by the Finance Act passed by the Parliament. The Finance Act is popularly known as the “Budget”. The income tax is a permanent Act, whereas the Finance Act is passed every year. While the liability to charge income tax is imposed by the Income tax Act, the actual amount of income tax is determined by the Finance Act.
- The tax rates are laid down for each assessment year by the Finance Act.
- Total income of one financial year (previous year) is charged to tax in the succeeding financial year (assessment year).
- The total income is to be computed in accordance with the provisions of the Income Tax Act applicable for the assessment year. Thus, for the current assessment year 2021-22 the provisions of the Act as on 1st April, 2020 are to be taken into account. The process of determining the income and tax is known as assessment.
- The income earned by all types of persons (individual, firm, company, etc.) is charged to tax. The person liable to pay the tax is known as Assessee.

Person:[U/S 2(31)]

“Person” includes:

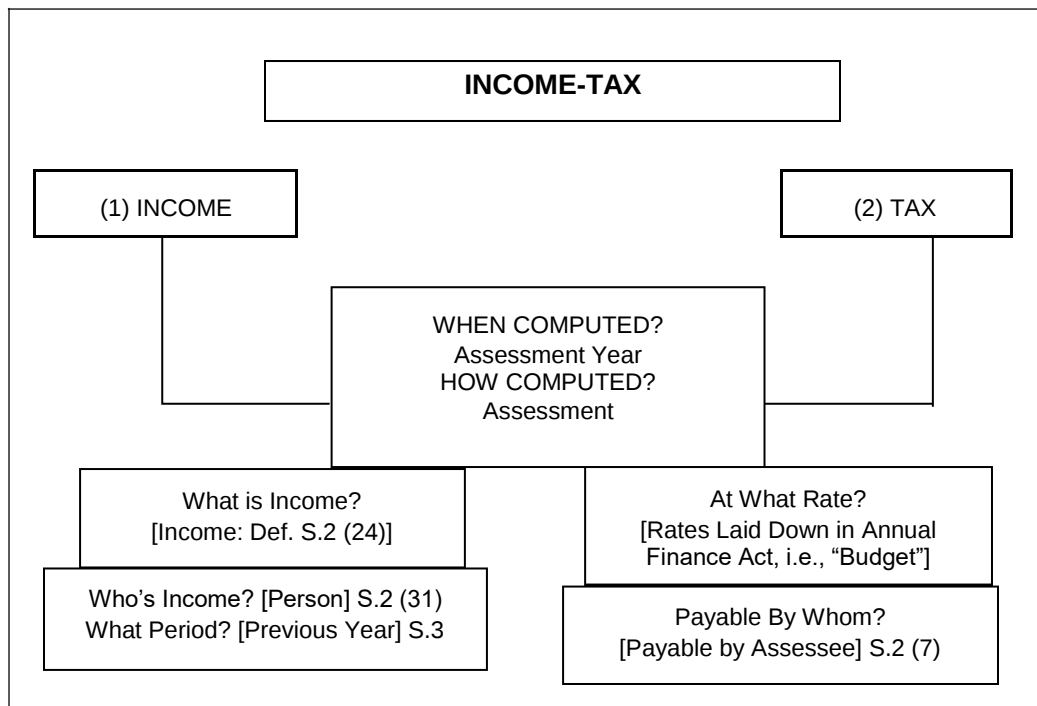
- (i) An individual
- (ii) A Hindu Undivided Family
- (iii) A Company
- (iv) A firm
- (v) An association of persons or a body of individuals, whether incorporated or not
- (vi) A local authority
- (vii) Every artificial juridical person, (not covered above.)

Explanation

The income earned by every person is taxed. A “person” is classified into different categories, such as an individual, a firm, a company etc. Each category denotes the legal status of a person:

- (1) Individual:** Individual means a natural person, i.e., a human being. It includes a male, female, even a minor or a lunatic.
- (2) Hindu Undivided Family:** A Hindu Undivided family (HUF) consists of all persons lineally descended from a Hindu ancestor (children and grandchildren), and their wives and unmarried daughters.

- (3) **A Company:** A company is defined under Section 2(17) of the Act. A company is taxable entity (person) distinct from its shareholders.
- (4) **Firm:** A firm is a taxable entity distinct from its partners.
- (5) **Association of Persons (AOP):** An “association of persons”(AOP) means an association in which two or more “persons” join in for a common purpose or a common action for earning income.
- (6) **Body of Individuals (BOI):** A body of Individuals means a team of individuals carrying on some activity with the object of earning income. An association of persons may consist of non-individuals but a Body of Individuals consists of only “individuals” or human beings and cannot have any other person (e.g., a firm, a HUF, etc.) as a member.
- (7) **Local Authority:** Local Authority means a Municipality, a District Board, Port Commissioner, or any other authority legally entitled to control or manage a municipal or a local fund.
- (8) **Artificial Juridical Person:** Any entity having a separate legal existence, not covered under any of the above categories, falls under this category, e.g., a deity, an idol, a corporation established under a special Act (e.g., Life Insurance Corporation), a university, a bar council etc.



Assessee [U/S 2(7)]

Assessee has been defined under Section 2(7). Assessee means a person by whom any tax or any other sum of money is payable under this Act. The term Assessee includes:

- (a) Every person in respect of whom any proceeding under this Act has been taken for the assessment of his income assessment of fringe benefit or of the income of any other person in respect of which he is assessable, or of the loss sustained by him or by such other person, or of the amount of refund due to him or to such other person.
- (b) Every person who is deemed to be an assessee under any provisions of this Act.
- (c) Every person who is deemed to be an assessee in default under any provisions of this Act. This definition is an inclusive. According to this definition, the term Assessee includes the following persons:
 - (i) A person by whom any amount by way of tax, interest or penalty is payable under this Act. Whether the proceedings under this Act have been taken or not will be immaterial.
 - (ii) A person against whom the proceedings under this Act has been taken. In this case, it will be immaterial whether such a person is liable or not to pay any amount by way of tax thereon.
 - (iii) A person who is required to file his return of loss and who is not required to pay any tax thereon.
 - (iv) A person who is not liable to pay tax on his net taxable income but since the tax is deducted at source he is entitled to claim for refund.
 - (v) A person who is deemed to be an assessee and who is assessable in respect of income or loss of another, e.g., the representative of non-resident, trustees in case of trust.
 - (vi) A person who is deemed to be an assessee in default. For instance, An employer who is required to deduct tax from salaries paid by him to his employees and fails to deduct such tax or after deducting tax does not pay it to the government.

Assessment Year [U/S 2(9)]

Section 2(9) of the Act defines an “assessment year” as “the period of twelve months commencing of the first day of April every year”

Explanation: An assessment year beings on 1, April of every year and ends on 31, March of nextyear. For example, the current assessment year 2021-22, has begun on 1April, 2020 and will end on 31March, 2021.

A financial year means the period of 12 months from 1, April to the following 31March. This is the accounting year of the government. The income earned by a person during one financial year is taxed in the next financial year. The year in which income is earned is called previous year and the next year in which the income is taxed is called assessment year. Thus, the total income of a person during the financial year (previous year) 2020-21 will be taxed in the next financial year (assessment year) 2021-22.

Previous Year (U/S 3)

Section 3 of the Act defines ‘previous year’ as follows: For the purpose of this Act ‘previous year’ mean the financial year immediately preceding the assessment year.

Provided that, in the case of a business or profession newly set up, or a source of incomes newly coming into existence in the said financial year, the previous year shall be the period beginning with

the date of setting up of the business or profession, or as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year.

Explanation: Income earned in one year (known as the ‘previous year’) is taxed in the next year (known as the “assessment year”). Thus the ‘previous year’ for the current assessment year 2020-21, is the financial year immediately preceding, i.e., the 12 months from 1, April, 2019 to 31, March, 2020 will be taxed in the current assessment year 2021-22.

The previous year is uniform for all persons and is to be followed in respect of all types of income irrespective of the accounting year followed by a person. Thus, if a company follows the period from 1, August to 19, July as its ‘accounting year’, it has to prepare separate account for the period 1, April to 19, March to compute its taxable income.

Income [U/S 2(24)]

Income-tax is tax on income. Still the term “income” is not been defined adequately by the Act. Its meaning is to be taken as or the understanding of a common man. However, the concept of has been a subject matter of different judicial pronouncements.

Therefore, one has to make the reference to various court judgments to define the term “Income.”

The term “Income” means the periodical monetary return coming in with some sort of regularity or expected regularity from definite source. Apart from this normal meaning of the term income, the Act has been given definition of Income U/S.2 (24) which includes the various terms of receipts as income. Hence, this definition is called as inclusive definition. Income includes:

- (1) Profits and gains
- (2) Dividend
- (3) Voluntary contributions received by:
 - (a) A charitable or religious trust.
 - (b) Any institution established wholly or partly for charitable or religious purpose.
 - (c) An approved scientific research association.
 - (d) An association or institution for promotion of sports.
 - (e) Any other notified funds or institutions, established for charitable purposes.
 - (f) Any notified trust or institution established wholly for public, religious and charitable purposes.
 - (g) Any university or educational institution or by a hospital or institution.
- (4) The value of any perquisite or profit in lieu of salary taxable under clauses 2 and 3.
- (5) The value of any benefit or perquisite whether convertible into money or not obtained from a company either by a director or person who has substantial interest in the company or relative of the director or of such person. It also includes any sum which is paid by the company which otherwise would have been payable by the director or such other persons.
- (6) The value of any benefit or perquisite whether convertible into money or not obtained by any representative assessee and any sum paid by the representative assessee in respect of any obligation of any beneficiary which otherwise would have been payable by such beneficiary.
- (7) Any sum chargeable to income tax as profits and gains of business or profession.

- (8) Any profits on sale of a license granted or made under the Imports and Exports Act, 1955.
- (9) Any cash assistance received or receivable by any person against exports under any scheme of the Government of India.
- (10) Any duty of customs or excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duties Drawback Rules, 1971.
- (11) The value of any benefit or perquisite taxable under clause (iv) of Section 28 such as interest, salary, bonus, commission or remuneration received by a partner of the partnership firm from such firm.
- (12) Any capital gains chargeable.
- (13) Profit or gains of business of insurance carried on by Mutual Insurance Company or by a co-op society computed in accordance with the provisions of this Act
- (14) Any profits and gains of any business of banking including providing credit facilities carried on by a co-op society with its members.
- (15) Any winnings from lottery, crossword puzzles, horse races, card games and other games or any sort of gambling or betting of any form or nature whatsoever.
- (16) Any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or any fund set under the provisions of Employees State Insurance Act, 1948 or any other fund for the welfare of such employees.
- (17) Any sum received under a Keyman Insurance Policy including the sum allocated by way of bonus on such policy will constitute Income. “Keyman Insurance Policy”, means life insurance policy taken by a person on the life of another person who is or was the employee of the first mentioned person or is connected in any manner whatsoever with the business of the first mentioned person.
- (18) Any sum received or receivable in cash or kind under an agreement for not carrying out an activity in relation to a business or any sum received or receivable in cash or kind under an agreement for not to share any know-how, patent, copyright, trademark, license, franchise or any other business or commercial right of similar nature or information’s or technique likely to assist in the manufacturing or processing of goods or providing services shall be treated as income under the head Profits and Gains of Business or Profession see 28 (va). Such agreements are popularly known as Non-compact agreements or exclusive right agreement.
- (19) Any sum of money exceeding ` 50,000 received without consideration (i.e., gift) by an individual or a Hindu Undivided Family from a person on or after 01-10-2009 shall be treated as income and chargeable to income tax under the head income from other sources. However, the above provision will not apply to any sum of money (gift) received:
 - (i) From any relative
 - (ii) On the occasion of the marriage of the individual
 - (iii) Under a will or by way of inheritance
 - (iv) In contemplation of death of the payer
 - (v) From a local authority
 - (vi) From any fund foundation, university other educational institution, hospital, medical institution, any trust or institution referred to in Section 10(23C)

(vii) From charitable institution registered U/S 12AA. The term 'Relative' here would include:

- Spouse of the individual
- Brother or sister of the individual
- Brother or sister of the spouse of the individual
- Brother or sister either of the parents of the individual
- Any lineal ascendant or descendant of the individual
- Any lineal ascendant or descendant of the spouse of the individual
- Spouse of the person referred to in (2) to (6)

Thus, the definition of income given above, states various aspects of income, this does not mean that only the above items expressly mentioned will be treated as income. Anything which may amount as income as per the natural and ordinary income will be treated as income even though it is not expressly included in the above definition.

To understand the concept of income in a better way, One should keep in mind the following important pointes:

- (a) Normally. Income is expected to be a periodical monetary return of regular nature from a definite source.
- (b) Income may be received in cash or kind which will be treated as different form of income.
- (c) Income may be by way of lawful means or unlawful means. It is immaterial under Income Tax Act.
- (d) Income may be taken either on accrual basis or on receipt basis depending upon the facts and nature of income.
- (e) A distribution of surplus arising from the mutual activity cannot be treated as income chargeable to tax. For example, a body of individuals consisting of workers of the factory contributed to a common fund for the benefit of the members cannot be regarded as income when certain surplus amount out of the contributions is refunded to its members.
- (f) Personal gift, such as gift at the time of marriage is not income chargeable to tax in the hands of the person who receives it. However, gifts received by professionals in appreciation of their professional skill is considered as an income.
- (g) The term income also includes loss. Loss is to be taken as minus income.
- (h) Income should be real and not fictional.
- (i) Pin money received by wife for her personal expenses is not treated as income.
- (j) Awards received by a professional sportsman are an income. However, the award received by him in the nature of gift or personal testimonial is not liable to tax.
- (k) *W.E.F.* Assessment Year 1993-94, there is change in computation of total income in case of Partnership Firms. The firm was allowed the deduction towards the interest and salary payments made to partners from the income of the firm. The partners will not be taxed on their share in the income of the firm. However, they will be liable to pay tax on salary and interest income received from such firm.

Dividend [U/S 2(22)]

The term 'dividend' as used in the Act has a wider scope and meaning than under the general law. According to Section 2(22) of the Act, the following receipts are deemed to be dividend:

- (1) **Distribution of accumulated profits, entailing the release of company's assets:** Any distribution of accumulated profits, whether capitalized or not, by a company to its shareholders is dividend, if it entails the release of all or any part of its assets. For example, if accumulated profits are distributed in cash, it is dividend in the hands of the shareholders. Where accumulated profits are distributed in kind, for example, by delivery of shares, etc., not entailing the release of company's assets, the market value of such shares on the date of such distribution is deemed dividend in the hands of the shareholder.

- (2) **Distribution of debentures, deposit certificates and bonus shares to preference shareholders:** Any distribution to its shareholders by a company of debenture stock or deposit certificate in any form, whether with or without interest, and any distribution of bonus shares to preference shareholders to the extent to which the company possesses accumulated profits, whether capitalized or not, will be deemed as dividend. The market value of such bonus shares is taxable in the hands of the preference shareholder. In the case of debentures, debenture stock, etc., their value is to be taken at the market rate and if there is no market rate they should be valued according to accepted principles of valuation.

Note: Bonus shares given to equity shareholders are not treated as dividend.

- (3) **Distribution on liquidation:** Any distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalized or not, is deemed to be dividend income.

Note: Any distribution made out of the profits of the company after the date of the liquidation cannot amount to dividend. It is a repayment towards capital. Accumulated profits include all profits of the company up to the date of liquidation whether capitalised or not. But where liquidation is consequent to the compulsory acquisition of an undertaking by the Government or by any corporation owned or controlled by the Government, the accumulated profits do not include any profits of the company prior to the 3 successive previous years immediately preceding the previous year in which such acquisition took place subject to certain exceptions.

- (4) **Distribution on reduction of capital:** Any distribution to its shareholders by a company on the reduction of its capital to the extent to which the company possessed accumulated profits, whether capitalized or not, shall be deemed to be dividend.

Exception: The same exceptions as given in case (c) above shall also apply in this case.

- (5) **Advance or loan by a closely held company to its shareholder:** Any payment by a company in which the public are not substantially interested of any sum by way of advance or loan to any shareholder who is the beneficial owner of 10% or more of the equity capital of the company will be deemed to be dividend to the extent of the accumulated profits. If the loan is not covered by the accumulated profits, it is not deemed to be dividend.

There are two exceptions to this rule:

- (i) If the loan is granted in the ordinary course of its business and lending of money is a substantial part of the company's business, the loan or advance to a shareholder is not deemed to be dividend.

- (ii) Where a loan had been treated as dividend and subsequently the company declares and distributes dividend to all its shareholders including the borrowing shareholder, and the dividend so paid is set off by the company against the previous borrowing, the adjusted amount will not be again treated as a dividend.

Advance or loan by a closely held company to a specified concern - Any payment by a company in which the public are not substantially interested in any concern (i.e., HUF/Firm/AOP/BOI/Company) in which a shareholder, having the beneficial ownership of at least 10% of the equity shares is a member or a partner and in which he has a substantial interest (i.e., at least 20% share of the income of the concern). The dividend income shall be taxable in the hands of the concern. Also, any payments by such a closely held company on behalf of, or for the individual benefit of any such shareholder will also be deemed to be dividend. However, in both cases the ceiling limit of dividend is the extent of accumulated profits.

EXERCISE

Multiple Choice Questions

1. Income Tax Act extends to:

(a) Whole of India	(b) Whole of India except Jammu and Kashmir
(c) India and Bangladesh	(d) None of these
2. Out of the following which is a revenue receipt?

(a) Premium received on issue of new shares	(b) Annuity received from former employer
(c) Interest from investments	(d) B and C
3. A.O.P should consist of:

(a) Individual only	(b) Person other than individual only
(c) Both the above	(d) None of these
4. Body of individual should consist of:

(a) Individual only	(b) Person other than individual only
(c) Both the above	(d) None of these
5. A new business was set up on 15-11-2019 and it commenced its business from 1-12-2020. The first previous year in this case shall be:

(a) 15-11-2019 to 31-3-2020	(b) 1-12-2019 to 31-3-2020
(c) 2020-21	(d) None of these

6. Shivaji University is assessable under the Income Tax Act as:

- (a) An individual (b) An artificial juridical person
(c) A local authority (d) None of these

(Ans: 1-a, 2-c, 3-c, 4-a, 5-a, 6-b)

Fill in the Blanks

1. Previous year means the _____ year immediately preceding the assessment year.
2. The first previous year of a newly set up business can be _____ 12 months.
3. An period of 12 months commencing on the first day of April every year is called _____.
4. An assessment is defined under Income Tax Act to include _____.
5. A person by whom any tax is payable under the Act is known as an _____.

(Ans: 1-Financial, 2-Less than, 3-Financial Year, 4-Tax Computation, 5-Assessee)

Match the Following Columns

Column A

1. Narayanan Murthy
2. Infosys Technologies Ltd.
3. Solapur Gram Panchayat
4. Andheri Sports Club
5. Karnataka University

Column B

- (a) Company
- (b) Association of Persons
- (c) Firm
- (d) Individual
- (e) Body of Individuals
- (f) Artificial Juridical Person
- (g) Local Authority

(Ans: 1-d, 2-a, 3-g, 4-b, 5-f)

Column A

1. Capital gains
2. Financial year immediately preceding
3. 1-4-2020 to 31-3-2021
4. Hindu Undivided Family
5. Person with tax liability

Column B

- (a) Assessment year
- (b) Income the assessment year
- (c) Assessee
- (d) Assessee in default
- (e) Previous year
- (f) Person
- (g) Remittance

(Ans: 1-b, 2-e, 3-a, 4-f, 5-c)

State Whether True or False

1. Income means any receipts in cash.
2. A company under the Income Tax Act means a company as defined under the Companies Act.

3. Previous year always indicates a period of 12 months from 1st April to 31st March.
4. Assessee means a person liable to pay tax on his income.
5. On rendering some service to a garment manufacturing unit Mangesh is given a suit as remuneration. It is not an “Income”, since he has not received anything in cash.
6. On sale of goods illegally imported from a foreign country C generated a surplus of ` 5,500. As the income is derived from an illegal activity, it is not chargeable to tax.
7. A birthday gift received by Vikas from his father ` 20,000 is not taxable as income of Vikas.
8. Out of ` 29,000 per month received by Mrs. Vidya from her husband for household expenses, she saves approximately ` 1,200 per month which is deposited by her in a bank account. ` 12,400 is “Income” of Mrs. Vidya.
9. Profit on sale of a house property is capital receipt which is, however, chargeable to tax.
10. Salary paid to Manish by his employer X Ltd, out of capital reserve is not income in the hands of Manish.
11. Income earned by an assessee during the assessment year is charged to tax during the previous year.
12. Every person does not pay Income tax.

(Ans: True – 3, 4, 5, 7, 9, 12)

Theory Questions

- (1) Explain the concept of Income Tax?
- (2) As per Income Tax Act 1961, define the followings:
 - Person
 - Assessee
 - Assessment Year
 - Previous Year
 - Income

“Life is a series of problem solving opportunities. The problems you face will either defeat you or develop you depending on how you respond to them”.

— Rick Warren

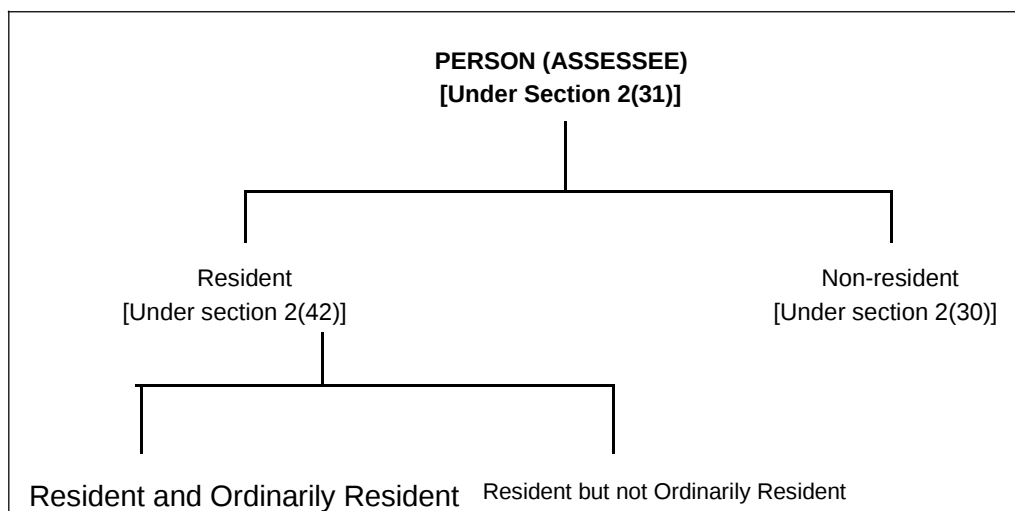


2
Chapter

**RESIDENTIAL STATUS,
SCOPE OF TOTAL INCOME AND
EXEMPTED INCOME**

RESIDENTIAL STATUS [U/S 6]

The incidence of tax on any assessee depends upon his residential status under the Act. Therefore, after determining whether a particular amount is capital or revenue in nature, if the receipt is of a revenue nature and chargeable to tax, it has to be seen whether the assessee is liable to tax in respect of that income. The taxability of a particular receipt would, thus, depend upon not only the nature of the income and the place of its accrual or receipt but also upon the assessee's residential status.



For all purposes of Income Tax, taxpayers are classified into three broad categories on the basis of their residential status; viz.,:

- (i) Resident and ordinarily resident
- (ii) Resident but not ordinarily resident
- (iii) Non-resident

The residential status of an assessee must be ascertained with reference to each previous year. A person who is resident and ordinarily resident in one year may become non-resident or resident but not ordinarily resident in another year or *vice versa*. The provisions for determining the residential status of assessee are:

Residential status of individual 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:

- (i) He is in India during the previous year for a period of 182 days or more

OR

- (ii) He is in India for 120 days or more during previous year and 365 days or more during 4 years immediately preceding the previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. [R]

If both the above conditions are not satisfied, the individual is a non-resident. [NR]

Note:

- (a) The term “stay in India” includes stay in the territorial waters of India (i.e., 12 nautical miles into the sea from the Indian coastline). Even the stay in a ship or boat moored in the territorial waters of India would be sufficient to make the individual resident in India.
- (b) It is not necessary that the period of stay must be continuous or active nor is it essential that the stay should be at the usual place of residence, business or employment of the individual.
- (c) For the purpose of counting the number of days stayed in India, both the date of departure as well as the date of arrival are considered to be in India.
- (d) The residence of an individual for Income Tax purpose has nothing to do with citizenship, place of birth or domicile. An individual can, therefore, be resident in more countries than one even though he can have only one domicile.

Exceptions:

The following categories of individuals will be treated as residents only if the period of their stay during the relevant previous year amounts to 182 days or more. In other words even if such persons were in India for 120 days in the relevant previous year and 365 days during the 4 preceding years, they will not be treated as resident.

- (1) Indian citizens, who leave India in any previous year as a member of the crew of an Indian ship or for purposes of employment outside India, or
- (2) Indian citizen or person of Indian origin** engaged outside India in an employment or a business or profession or in any other vocation, who comes on a visit to India in any previous year.

** A person is said to be of Indian origin if he or either of his parents or either of his grandparents were born in undivided India.

Not Ordinarily Resident

Only individuals and HUF can be resident but not ordinarily resident in India. All other classes of assesseees can be either a resident or non-resident. A not ordinarily resident person is one who satisfies any one of the additional conditions specified under Section 6(6):

- (i) He is a resident in any 1 out of the last 10 years preceding the relevant previous years.
- (ii) His total stay in India in the last 7 years preceding the relevant previous year is 730 days or more.

If the individual satisfies both the conditions mentioned above, he is a resident and ordinarily resident [R and OR].

But if only one or none of the conditions are satisfied, the individual is a resident but not ordinarily resident [R but NOR].

Illustration 1:

Waugh, the Australian cricketer comes to India for 100 days every year. Find out his residential status for the A.Y. 2021-22.

Solution: For the purpose of his residential status in India for A.Y. 2021-22, the relevant previous year is 2020-21.

Step 1: The total stay of Steve Waugh in the last four years preceding the previous year is 400 days (i.e., 100×4) and his stay in the previous year is 100 days. Therefore, since he has satisfied the second condition in Section 6(1), he is a resident.

Step 2: Since his total stay in India in the last seven years preceding the previous year is 700 days (i.e., 100×7), he does not satisfy the minimum requirement of 730 days in seven years. Any one of the conditions not being satisfied, the individual is resident but not ordinarily resident.

Therefore, the residential status of Steve Waugh for the assessment year 2021-22 is Resident but Not Ordinarily Resident.

Illustration 2:

Mr. Boycott, a Canadian citizen, comes to India for the first time during the P.Y. 2020-21. During the financial years 2015-16, 2016-17, 2017-18, 2018-19 and 2020-21 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the A.Y. 2021-22.

Solution: During the previous year 2020-21, Mr. Boycott was in India for 70 days and during the four years preceding the previous year 2020-21, he was in India for 355 days (i.e., $55 + 60 + 90 + 150$ days). Thus, he does not satisfy Section 6(1). Therefore, he is a Non-resident for the assessment year 2021-22.

Illustration 3:

Mr. Chow, a Japanese citizen left India after a stay of ten years on 1.06.2018. During the financial year 2018-19, he comes to India for 46 days. Later, he returns to India on 10.10.2020. Determine his residential status for the A.Y. 2021-22.

Solution: During the previous year 2020-21, Mr. Chow was in India for 173 days (i.e., $22 + 30 + 31 + 31 + 29 + 31$ days). His stay in the last four years is:

Years	No. of Days
2019-20	46
2018-19	62 (i.e., $30 + 31 + 1$)
2017-18	365 (since he left India on 01.06.2011 after ten years)
2016-17	365 (since he left India on 01.06.2011 after ten years)
Total 838	

Mr. Chow is a resident since his stay in the previous year 2020-21 is 173 days and in the last four years is more than 365 days. For the purpose of being ordinarily resident, it is evident from the above calculation, that:

- (i) His stay in the last seven years is more than 730 days.
- (ii) Since he was in India for ten years prior to 1.06.2018, he was a resident to India for more than 1 time out of the last 10 years preceding the relevant previous year.

Therefore, Mr. Chow is a Resident and Ordinarily Resident for the A.Y. 2021-22.

Illustration 4:

Mr. Dawood, an Indian citizen, leaves India on 22.9.2020 for the first time, to work as an officer of a company in France. Determine his residential status for the A.Y. 20-21.

Solution: During the previous year 2020-21, Mr. Dawood, an Indian citizen, was in India for 175 days (i.e., 30 + 31 + 30 + 31 + 31 + 22 days). He does not satisfy the minimum criteria of 182 days. Also, since he is an Indian citizen leaving India for the purposes of employment, the second condition U/S 6(1) is not applicable to him. Therefore, Mr. Dawood is a Non-resident for the A.Y. 2021-22.

Residential Status of HUF

A HUF would be resident in India if either control or management of its affairs is situated wholly or partly in India. If the control and management of the affairs is situated wholly outside India it would become a non-resident.

The expression 'control and management' referred to under Section 6 refers to the central control and management and not to the carrying on of day to day business by servants, employees or agents. The business may be done from outside India and yet its control and management may be wholly within India. Therefore, control and management of a business is said to be situated at a place where the head and brain of the adventure is situated. The place of control may be different from the usual place of running the business and sometimes even the registered office of the assessee. This is because the control and management of a business need not necessarily be done from the place of business or from the registered office of the assessee. But control and management do imply the functioning of the controlling and directing power at a particular place with some degree of permanence.

If the HUF is resident, then the status of the karta determines whether it is resident and ordinarily resident or resident but not ordinarily resident. If the karta is resident and ordinarily resident, then the HUF is resident and ordinarily resident and if the karta is resident but not ordinarily resident, then HUF is resident but not ordinarily resident.

Illustration 5:

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. Eknath, the karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2020-21 after 15 years. He comes to India on 1.4.2020 and leaves for Australia on 1.12.2020. Determine the residential status of Mr. Eknath and the HUF for A.Y. 2021-22.

Solution:

- (a) During the P.Y. 2020-21, Mr. Eknath has stayed in India for 245 days (i.e., 30 + 31 + 30 + 31 + 31 + 30 + 31 + 30 + 1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he cannot satisfy any of the conditions for being ordinarily resident. Therefore, the residential status of Mr. Eknath for the A.Y. 2021-22 is Resident but Not Ordinarily Resident.
- (b) Since the business of the HUF is transacted from Australia and nothing is mentioned regarding its control and management, it is assumed that the control and management is also wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2020-21.

Residential Status of Firms and Association of Persons

A firm and an AOP would be resident in India if the control and management of its affairs is situated wholly or partly in India. Where the control and management of the affairs is situated wholly outside India, the firm would become a non-resident.

Residential Status of Companies

A company is said to be resident in India if:

- (i) It is an Indian company as defined under Section 2(26).
- (ii) Its control and management is situated wholly in India during the accounting year.

Thus, every Indian company is resident in India irrespective of the fact whether the control and management of its affairs is exercised from India or outside. But a company, other than an Indian company, would become resident in India only if the entire control and management of its affairs is in India.

The control and management of the affairs of the company are said to be exercised from the place where the director's meetings (not shareholders' meetings) are held, decisions taken and directions issued.

Residential Status of Local Authorities and Artificial Juridical Persons

Local authorities and artificial juridical persons would be resident in India if the control and management of its affairs is situated wholly or partly in India. Where the control and management of the affairs is situated wholly outside India, they would become non-residents.

Scope of Total Income

Section 5 provides the scope of total income in terms of the residential status of the assessee because the incidence of tax on any person depends upon his residential status. The scope of total income of an assessee depends upon the following three important considerations:

- (i) The residential status of the assessee (as discussed earlier).
- (ii) The place of accrual or receipt of income, whether actual or deemed.
- (iii) The point of time at which the income had accrued to or was received by or on behalf of the assessee.

The amount of total income of the three classes of assessee would be as follows:

- (1) Resident and ordinarily resident:** The total income of a resident assessee would, under Section 5(1), consist of:
 - (a) Income received or deemed to be received in India during the previous year;
 - (b) Income which accrues or arises or is deemed to accrue or arise in India during the previous year; and
 - (c) Income which accrues or arises outside India even if it is not received or brought into India during the previous year.

In simpler terms, a resident and ordinarily resident has to pay tax on the total income accrued or deemed to accrue, received or deemed to be received in or outside India.

- (2) **Resident but not ordinarily resident:** Under Section 5(1), the computation of total income of resident but not ordinarily resident is the same as in the case of resident and ordinarily resident stated above except for the fact that the income accruing or arising to him outside India is not to be included in his total income. However, where such income is derived from a business controlled from or profession set up in India, then it must be included in his total income even though it accrues or arises outside India.
- (3) **Non-resident:** A non-resident's total income under Section 5(2) includes:
- Income received or deemed to be received in India in the previous year.
 - Income which accrues or arises or is deemed to accrue or arise in India during the previous year.

Note:

All assessee, whether resident or not, are chargeable to tax in respect of their income accrued, arisen, received or deemed to accrue, arise or to be received in India, whereas residents alone are chargeable to tax in respect of income which accrues or arises outside India.

Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
Income received/deemed to be received/accrued or arisen/deemed to accrue or arise in or outside India.	Income is received/deemed to be received/accrued or arisen/deemed to accrue or arise in India And Income which accrues or arises outside India being derived from a business controlled from or profession set up in India	Income received/deemed to be received/accrued or arisen/deemed to accrue or arise in India.

DEEMED RECEIPT AND ACCRUAL OF INCOME IN INDIA

The taxability of a certain item as income would depend upon the method of accounting followed by the assessee. This is because under the cash system of accounting, an income would be taxable only when it is received by the assessee himself or on his behalf. But under the mercantile system, it would be taxable once the assessee gets the legal right to claim the amount. However, it has been specifically provided that in the case of income from salaries, the liability to tax arises immediately when the income is due to the assessee irrespective of the method of accounting followed. Likewise, in the case of dividends, the income would be included in total income of the shareholder under Section 8 in the year in which the final dividend is declared and, in the case of interim dividend, in the year in which they are made unconditionally available to the shareholders.

Meaning of "Income Received or Deemed to be Received"

All assessee are liable to tax in respect of the income received or deemed to be received by them in India during the previous year irrespective of:

- Their residential status
- The place of its accrual.

Income is to be included in the total income of the assessee immediately on its actual or deemed receipt. The receipt of income refers to only the first occasion when the recipient gets the money under his control. Therefore, when once an amount is received as income, remittance or transmission of that amount from one place or person to another does not constitute receipt of income in the hands of the subsequent recipient or at the place of subsequent receipt.

Income Deemed to be Received

Under Section 7, the following shall be deemed to be received by the assessee during the previous year irrespective of whether he had actually received the same or not:

- (a) The annual accretion in the previous year to the balance to the credit of an employee participating in a recognised provident fund (RPF). Thus, contribution of the employer in excess of 12% of salary or interest credited in excess of 9.5% p.a. is deemed to be received by the assessee.
- (b) The taxable transferred balance from unrecognized to recognized provident fund (being the employer's contribution and interest thereon).
- (c) The contribution made by the Central Government in the previous year to the account of an employee under a pension scheme referred to under Section 80CCD.

MEANING OF INCOME 'ACCRUING' AND 'ARISING'

Accrue refers to the right to receive income, whereas, due refers to the right to enforce payment of the same. For e.g., salary for work done in December will accrue throughout the month, day to day, but will become due on the salary bill being passed on 31st December or 1st January. Similarly, on Government securities, interest payable on specified dates arise during the period of holding, day to day, but will become due for payment on the specified dates. Example: Interest on Government securities is usually payable on specified dates, say on 1st January and 1st July. In all such cases, the interest would be said to accrue from 1st July to 31st December and on 1st January, it will fall due for payment.

It must be noted that income which has been taxed on accrual basis cannot be assessed again on receipt basis, as it will amount to double taxation. For example, when a loan to a director has already been treated as dividend under Section 2(22)(e) and later dividend is declared, distributed and adjusted against the loan, the same cannot be treated as dividend income again.

With a view to removing difficulties and clarifying doubts in the taxation of income. Explanation 1 to Section 5 specifically provides that an item of income accruing or arising outside India shall not be deemed to be received in India merely because it is taken into account in a balance sheet prepared in India. Further, Explanation 2 to Section 5 makes it clear that once an item of income is included in the assessee's total income and subjected to tax on the ground of its accrual/deemed accrual or receipt, it cannot again be included in the person's total income and subjected to tax either in the same or in a subsequent year on the ground of its receipt – whether actual or deemed.

Income Deemed To Accrue or Arise in India [U/S 9]

Certain types of income are deemed to accrue or arise in India even though they may actually accrue or arise outside India. The categories of income which are deemed to accrue or arise in India are:

- (i) Any income accruing or arising to an assessee in any place outside India whether directly or indirectly:
 - Through or from any business connection in India
 - Through or from any property in India
 - Through or from any asset or source of income in India
 - Through the transfer of a capital asset situated in India.
- (ii) Income, which falls under the head “Salaries”, if it is earned in India. Any income under the head “Salaries” payable for rest period or leave period which is preceded and succeeded by services rendered in India, and forms part of the service contract of employment, shall be regarded as income earned in India.
- (iii) Income from ‘Salaries’ which is payable by the Government to a citizen of India for services rendered outside India (However, allowances and perquisites paid outside India by the Government is exempt).
- (iv) Dividend paid by an Indian company outside India.
- (v) Interest.
- (vi) Royalty.
- (vii) Fees for technical services.

(1) (a) Income from business connection: The expression “business connection” has been explained in Explanation 2 to Section 9(1)(i):

- (i) ‘Business connection’ shall include any business activity carried out through a person acting on behalf of the non-resident.
- (ii) He must have an authority which is habitually exercised to conclude contracts on behalf of the non-resident. However, if his activities are limited to the purchase of goods or merchandise for the non-resident, this provision will not apply.
- (iii) Where he has no such authority, but habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on behalf of the non-resident, a business connection is established.
- (iv) Business connection is also established where he habitually secures orders in India, mainly or wholly for the non-resident. Further, there may be situations when other non-residents control the above-mentioned non-resident. Secondly, this non-resident may also control other non-residents. Thirdly, all other non-residents may be subject to the same common control, as that of the non-resident. In all the three situations, business connection is established.

Exception

“Business connection”, however, shall not be held to be established in cases where the non-resident carries on business through a broker, general commission agent or any other agent of an independent status, if such a person is acting in the ordinary course of his business. They will however, not be considered to have an independent status in the three situations explained in (iv) above, where they are employed by such a non-resident.

The Explanation 3 provides that where a business is carried on in India through a person referred to in (ii), (iii) or (iv) mentioned above, only so much of income as is attributable to the operations carried out in India shall be deemed to accrue or arise in India.

(1) (b) and (c) Income from property, asset or source of income: Any income which arises from any property (movable, immovable, tangible and intangible property) would be deemed to accrue or arise in India, e.g., hire charges or rent paid outside India for the use of the machinery or buildings situated in India, deposits with an Indian company for which interest is received outside India, etc.

(1) (d) Income from the transfer of a capital asset: Capital gains arising from the transfer of a capital asset situated in India would be deemed to accrue or arise in India in all cases irrespective of the fact whether: (i) the capital asset is movable or immovable, tangible or intangible; (ii) the place of registration of the document of transfer, etc., is in India or outside; and (iii) the place of payment of the consideration for the transfer is within India or outside.

(2) and (3) Income from salaries: Under Section 9(1)(ii) income which falls under the head 'salaries', would be deemed to accrue or arise in India, if it is in respect of services rendered in India.

Exception under Section 9(2): Pension payable outside India by the Government to its officials and judges who permanently reside outside India shall not be deemed to accrue or arise in India. It may however, be noted here that the salary of an employee in the United Nations Organisation (UNO) or in its constituent bodies is exempt under United Nations (Privilege and Immunity) Act.

(4) Income from dividends: All dividends paid by an Indian company must be deemed to accrue or arise in India. Under Section 10(34), income from dividends referred to in Section 115-0 are exempt from tax in the hands of the shareholder. It may be noted that dividend distribution tax under Section 115-0 does not apply to deemed dividend under Section 2(22)(e), which is chargeable in the previous year in which such dividend is distributed or paid.

(5) Interest: Under Section 9(1)(v), an interest is deemed to accrue or arise in India if it is payable by:

(a) The Central Government or any State Government.

(b) A person resident in India (except where it is payable in respect of any money borrowed and used for the purposes of a business or profession carried on by him outside India or for the purposes of making or earning any income from any source outside India).

(c) A non-resident when it is payable in respect of any debt incurred or moneys borrowed and used for the purpose of a business or profession carried on in India by him. Interest on money borrowed by the non-resident for any purpose other than a business or profession, will not be deemed to accrue or arise in India. Thus, if a non-resident 'A' borrows money from a non-resident 'B' and invests the same in shares of an Indian company, interest payable by 'A' to 'B' will not be deemed to accrue or arise in India.

(6) Royalty: Royalty will be deemed to accrue or arise in India when it is payable by:

(a) The Government

(b) A person who is a resident in India except in cases where it is payable for the transfer of any right or the use of any property or information or for the utilization of services for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India; or

- (c) A non-resident only when the royalty is payable in respect of any right, property or information used or services utilised for purposes of a business or profession carried on in India or for the purpose of making or earning any income from any source in India.
- (d) Lump sum royalty payments made by a resident for the transfer of all or any rights (including the granting of a license) in respect of computer software supplied by a non-resident manufacturer along with computer hardware under any scheme approved by the Government under the Policy on Computer Software Export, Software Development and Training, 1986 shall not be deemed to accrue or arise in India.

“Computer software” means any computer programme recorded on any disc, tape, perforated media or other information storage device and includes any such programme or any customized electronic data.

The term ‘royalty’ means consideration (including any lump sum consideration but excluding any consideration which would be the income of the recipient chargeable under the head ‘Capital gains’) for:

- (i) The transfer of all or any rights (including the granting of license) in respect of a patent, invention, model, design, secret formula or process or trademark or similar property.
- (ii) The imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trademark or similar property.
- (iii) The use of any patent, invention, model, design, secret formula or process, or trademark or similar property.
- (iv) The imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill.
- (v) The use or right to use any industrial, commercial or scientific equipment but not including the amounts referred to in Section 44BB.
- (vi) The transfer of all or any rights (including the granting of license) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for the sale, distribution or exhibition of cinematographic films.
- (vii) The rendering of any service in connection with the activities listed above.

The definition of ‘royalty’ for this purpose is wide enough to cover both industrial royalties as well as copyright royalties. The deduction specially excludes income which should be chargeable to tax under the head ‘capital gains’.

(7) Fees for technical services: Any fees for technical services will be deemed to accrue or arise in India if they are payable by:

- (i) The Government.
- (ii) Person who is resident in India, except in cases where the fees are payable in respect of technical services utilized in a business or profession carried on by such person outside India or for the purpose of making or earning any income from any source outside India.
- (iii) A person who is a non-resident, only where the fees are payable in respect of services utilised in a business or profession carried on by the non-resident in India or where such services are utilized for the purpose of making or earning any income from any source in India.

Fees for technical services mean any consideration (including any lump sum consideration) for the rendering of any managerial, technical or consultancy services (including providing the services of technical or other personnel). However, it does not include consideration for any construction, assembly, mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head 'Salaries'.

Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services to be taxed irrespective of territorial nexus [Explanation to Section 9]

- (i) The Supreme Court, in *Ishikawajima-Harima Industries Ltd., v. Director of Income Tax(2010) 288 ITR 411*, observed that in order to tax the income of a non-resident assessee under Section 9(1)(vii), relating to fee for technical services, the income sought to be taxed must have sufficient territorial nexus with India, i.e., the fees paid for technical services provided by a non-resident cannot be taxed in India unless the services were utilized in India and rendered in India. This observation is not in consonance with the source rule spelt out in the law and the stand taken by India in the bilateral treaties with different countries.
- (ii) It is now clarified that such income by way of interest, royalty or fee for technical services which is deemed to accrue or arise in India by virtue of Clauses (v), (vi) and (vii) of Section 9(1), shall be included in the total income of the non-resident, whether or not the non-resident has a residence or place of business or business connection in India.

Chart Showing Scope of Total Income

Sr. No.	Nature of Income	R and OR	R but NOR	NR
1.	Income received in India	Include	Include	Include
2.	Income deemed to be received in India (Sec. 7)	Include	Include	Include
3.	Income accruing or arising in India.	Include	Include	Include
4.	Income deemed to accrue or arise in India.(Sec.9)	Include	Include	Include
5.	Income accruing or arising outside India and received (a) From business controlled from India or profession set up in India. (b) From a business controlled outside India or profession set up outside India	Include Include	Include Exclude	Exclude Exclude
6.	Past Untaxed Profit Brought in India	Exclude	Exclude	Exclude

Illustration 6:

Determine the taxability of Mr. Dhoni for the following incomes in the hands of a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2021-22

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000

Profits on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Profits on sale of plant at Germany 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (` 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Rent from property in London deposited in an Indian Bank at London, brought to India	50,000
Interest for debentures in an Indian company received in London.	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai managed from London	26,000
Pension for services rendered in India but received in Burma	4,000
Income from property situated in Pakistan received there	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	10,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian company	5,000
Agricultural income from a land in Rajasthan	15,000

Solution:

Name of Assessee: Mr. Dhoni

P.Y.: 2020-21

Legal Status: Individual

A.Y.: 2021-22

Computation of Total Income

Sr. No.	Nature of Income	R and OR	R but NOR	NR
1.	Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
2.	Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
3.	Profits on sale of shares of an Indian company received in London	20,000	20,000	20,000
4.	Dividend from British company received in London	5,000	0	0
5.	Profits on sale of plant at Germany 50% of profits are received in India	40,000	20,000	20,000

6.	Income earned from business in Germany which is controlled from Delhi (` 40,000 is received in India)	70,000	70,000	40,000
7.	Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
8.	Rent from property in London deposited in an Indian Bank at London, Brought to India	50,000	0	0
9.	Interest for debentures in an Indian company received in London	12,000	12,000	12,000
10.	Fees for technical services rendered in India but received in London	8,000	8,000	8,000
11.	Profits from a business in Mumbai managed from London Pension for services rendered in India but received in Burma	26,000 4,000	26,000 4,000	26,000 4,000
12.	Income from property situated in Pakistan received there	16,000	0	0
13.	Past foreign untaxed income brought to India during the previous year	0	0	0
14.	Income from agricultural land in Nepal received there and then brought to India	18,000	0	0
15.	Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	0
16.	Gift received on occasion of wedding	0	0	0
17.	Interest on savings bank deposit in State Bank of India	10,000	10,000	10,000
18.	Income from a business in Russia, controlled from Russia	20,000	0	0
19.	Dividend from Reliance Petroleum Limited, Indian company	0	0	0
20.	Agricultural income from a land in Rajasthan	0	0	0
Total		3,49,000	1,95,000	1,60,000

Exempted Incomes from Tax U/S 10

The Income Tax Act, 1961 has provisions whereby certain types of incomes are totally exempt from tax. Such exemption is normally available on satisfaction of various conditions mentioned in the relevant provisions. Section 10 of the Act, groups at one place various income which are totally exempted from tax. In other words, the items income given in this section not to be included in the total income of assessee.

Exemption v/s Deduction

The distinction between 'Exemptions' and 'Deductions' is very relevant in interpreting various provisions of the Income Tax Act.

'Exemption' covers all the categories of incomes which are fully and totally exempt from Income Tax. They are not to be included in the computation of 'Gross Total Income' at all.

Such exempt incomes are enumerated in Section 10. The instances are agricultural income, share from Hindu Undivided Family, share from partnership firm, interest on public provident fund, interest on certain Government securities, etc.

On the other hand, the 'Deductions' consist of all those items, which are allowed to be deducted from the different heads of incomes like in Salary Section 16, House Property Section 24, Other Sources Section 57, etc., and Section 80 or Chapter VI A from 'Gross Total Income', while computing the net taxable total income.

Exemption U/S 10

- (1) **Agriculture income: Section 10(1):** Under the Constitution of India taxation of agricultural income is the right of State Governments. Income derived from agricultural operation from land which is situated in India will be agricultural income.
Thus, income from basic operations on land like cultivation, growing crop, etc., and secondary operation like removal, digging, etc., however, income from sale of trees, breeding of live stock, fishing activities cannot be classified as agricultural income and cannot be exempted from income.
- (2) **Receipt by a member out of HUF income: Section 10(2):** Any sum received by a member of Hindu Undivided Family from the income of the family as well as the income received by an individual member from the income of the impartible estate is exempt. An HUF is separately taxed on its income.
- (3) **Share of income from partner from a firm: Section 10(2A):** Any sum received by a partner from a firm as his share in the total income of the firm is exempt from tax. A firm is separately taxed on its income.
- (4) **Interest received by a non-resident from prescribed securities: Section 10(4):**
 - (i) In case of non-resident any income by way of interest on securities or bonds notified by the Central Government on or before 1st June, including premium on redemption of such bonds is exempt from tax.
 - (ii) In case of an individual any income by way of interest on money standing to his credit in a non-resident (external) account in any bank in India in accordance with the Foreign Exchange Management Act (FEMA), or any rules made there under is exempt from tax.
- (5) **Interest on notified saving certificates: Section 10(4B):** In case of an individual being a citizen of India or a person of India origin who is a nonresident, the income from interest on notified savings certificates of the Central Government issued before the June will be exempted.
- (6) **Leave travel concession: Section 10(5):** Value of any travel concession or assistance received by or due to an individual. This exemption will be subject to prescribed conditions regarding number of journeys, etc., and the maximum exemption per head.

- (7) **Remuneration received by foreign diplomats of all categories: Section 10(6):** Remuneration is received by an individual as an official (by whatever name it's called) of an embassy, high commission, legation commission, consulate or trade representation of a foreign state or as a member of the staff of any of these offices, for services in such capacity is exempt.
- (8) **Tax paid by Government or an Indian concern in the case of a non-resident/foreign company: Section 10(6B):** The tax on income (other than salary, royalty, or fees for technical services) derived by a non-resident or a foreign company from the government or Indian concern, is borne by the said government or Indian concern the tax so borne is exempt.
- (9) **Foreign allowances and perquisites granted by Government of India to its employees posted outside India: Section 10(7):** Allowances and perquisites which are paid or allowed as such outside India by the government to a citizen of India for rendering services outside India. It must be carefully noted that this exemption is available only to the government employees.
- (10) **Remuneration received for cooperative technical assistance programme: Section 10(8):** In case of any individual, who is assigned duties, in connection with any cooperative technical assistance programme and project accordance with an agreement entered into by the Central Government and a foreign government, (if the terms of agreement provides for such exemption) the following income of such person is exempt from tax:.
- (i) Remuneration for such duties, received directly or indirectly from foreign government.
 - (ii) Another income of such individual if:
 - It accrues or arise outside India.
 - It is not deemed or accrued or arise in India.
- (11) **Income of a consultant under the technical assistant grant agreement between an international organization and government of foreign state: Section 10(8A):**
- (i) Remuneration received by him from — Agreement between an international organization and government of a foreign state.
 - (ii) Any other income if he is required to pay income tax or social security tax to the foreign government in respect of that income.
- (12) **Income of a family member of an employee of foreign government under coop. assistance programme [Section 10(9)]:** Any family member of an employee, mentioned in [Section 10(8)] and [Section 10(8A), (8B)], accompanying him to India, enjoys tax exemption in respect of foreign income or an income, not deemed to accrue or rise in India, if the family member is required to pay Income Tax (including social security tax) to the foreign government.^{3 1}
- (13) **Gratuity [Section 10(10)]:** Explanation in Next Chapter, i.e., Salary
- (14) **Commutation of pension and any payment received by way of commutation of pension by an individual out of annuity plan of LIC or any other insurer from fund set up by that corporation or insurer [Section 10(10A)]:** Explanation in Next Chapter, i.e. Salary
- (15) **Leave salary [Section 10(10AA)]:** Explanation in Next Chapter, i.e., Salary
- (16) **Retrenchment compensation [Section 10(10B)]:** Explanation in Next Chapter, i.e., Salary

- (17) **Payment under Bhopal Gas Leak Disaster and Compensation on account of disaster [Section 10(10BB) (10BC)]:** Payment received by victims of Bhopal gas leak disaster, in accordance with the provisions of the Bhopal Gas Leak Disaster Act, 1985, is not chargeable to tax. However, compensation received by an assessee in respect to an expenditure which has been incurred and allowed as a deduction from taxable income, is not exempt from Income Tax.
- (18) **Compensation on retirement of employees of a public sector company [Section 10(10C)]:** Explanation in Next Chapter, i.e., Salary
- (19) **Tax borne by the employer on non-monetary perquisite to employee [Section 10(10CC)]:** Explanation in Next Chapter, i.e., Salary
- (20) **Any amount (including bonus) received under a life insurance policy (not being keyman insurance policy) [Section 10(10D)]:** Any sum received under a Life Insurance Policy, including the sum allocated by way of bonus on such policy, shall not be included in the total income of a person. The exemption is, however, not available in respect of such policy which is specified under Section 80DDA (3) or under a Keyman Insurance Policy.
- (21) **Payment from provident fund and accumulated balance from a recognized provident fund [Section 10(11) and 10(12)]:** Explanation in Next Chapter, i.e., Salary
- (22) **Payment from an approved superannuation fund [Section 10(13)]:** Explanation in Next Chapter, i.e., Salary
- (23) **House rent allowance [Sec. 10(13A)]:** Explanation in Next Chapter, i.e., Salary
- (24) **Special allowance for expenses [Sec. 10(14)]:** Explanation in Next Chapter, i.e., Salary
- (25) **Income by way of interest exempted from tax. (Section 10(15)):** Interests on notified securities/bonds etc., are: 12-year National Saving Annuity Certificates; National Defence Gold Bonds, 1980; Special Bearer Bonds, 1991; Treasury Saving Deposit Certificates; Post Office Cash Certificates (5 years); National Plan Certificates (10 years); National Plan Saving Certificates (12 years); Post office National Saving Certificates (12 years/7 years); Post office Saving Bank Accounts; Public Account of Post office Saving Accounts Rules (interest up to ` 5,000); Post Office CTD; Fixed Deposit [Government Saving Certificates (Fixed Deposit) Rules, 1968 or Post Office (Fixed Deposit) Rules, 1968]; Special Deposit Scheme 1981; and Non-Resident Rupee Deposit Scheme.
- Note:** From A.Y. 2018-19 Post Office Saving Bank Accounts interest exempt only to the extent of ` 3,500 in the case of an individual account and ` 7,000 in the case of joint account. 7% Capital Investment Bonds, Notified Relief Bond, Gold Deposit Bond-1999.
- (26) **Scholarship (Section 10(16)):** It should be noted that what is exempt is scholarship and that to the extent it is used for meeting cost of education.
- (27) **Allowance received by member of parliament and state legislature. (Section 10(17)):** Daily allowance received by an individual by reason of his being a Member of Parliament or any State Legislature or any committee thereof. Any allowance received under the Member of Parliaments (Constitution allowance) Rules, 1986.
- (28) **Award (Section 10(17A)):** As an award given by Central or State Government for such purpose as approved by the Central Government in the public interest.

- (29) **The income of the minor up to ` 1,500: (Section 10(32)):** Any income which accrues to a minor child of an assessee is added or clubbed to the parents income under Section 64(1A) of the Act, Section 10(32), however, gives exemption from such clubbing as under: If the income of the minor child is less than ` 1,500 Entire income is exempt.
- (30) **Income of unit of US64 scheme of UTI: (Section 10(33)):** Any income of transfer of the unit of U/S 64 of UTI are exempt from tax if such transfer takes place on or after 1st April, 2002. As a corollary this also means that any loss arising on transfer of such units would also not be allowed to the set off against any other gains from sale of capital assets.
- (31) **Dividend received by shareholder from a domestic company: Section 10(34):** Any income by way of dividends referred to in Section 115-0 is exempt from tax. Section 115-0 provides for additional Income Tax to be paid by the domestic company for any amount declared.
- (32) **Interest on units of a mutual fund: Section 10(35):** Income received in respect of unit of mutual funds specified U/S 10 (23D) is exempt from tax.
- (33) **Capital gains on transfer of listed equity share: Section 10 (36):** This exemption does not have any practical utility in view of another exemption given by Section 10(38).
- (34) **Capital gains on transfer of agricultural land: Section 10 (37):** In the case of an individual or a Hindu Undivided Family (HUF) any income chargeable under the head "CAPITAL GAINS" arising from transfer of agriculture land is, exempted from tax, however, the following condition has to be satisfied:
(A) Such a land situated in an area referred to in Section 2(14) (111a) or 2(14)(111b). This refers to land other than land situated within the jurisdiction of any municipality having population of not less than ` 10,000 or any area not within 8 kilometres from the local limit of any such municipality.
- (35) **Income arising from transfer of long-term capital asset Section 10 (38):** Any income arising from transfer of a long-term capital asset being on equity shares in a company or a unit of an equity-oriented fund is exempt from tax. "EQUITY-ORIENTED FUND" is defined as a fund, where the investable funds are invested by way of equity share in domestic company to the exemption of more than 50% of the total proceeds of the fund and which has been set up under a scheme of a mutual fund specified in Section (23D).

Illustration 7:

Mr. Balaji an Indian Citizen and a professional cricketer toured South Africa, Australia, UK, West Indies and Zimbabwe on various dates. The details of departure from and arrival to India are as under:

Country	Date of Departure	Date and of Arrival
South Africa (for the first time)	31-03-2020	25-03-2020
Australia	15-04-2020	01-05-2020
UK	05-05-2020	11-07-2020
West Indies	31-08-2020	14-09-2020
Zimbabwe	01-01-2021	23-03-2021

Determine his residential status for the assessment year 2021-22. Give your working and explanation.

[MU Oct. 2004, April 2009, Modified]

Solution:

A. Ascertaining whether a resident

- (1) Mr. Balaji is an Indian citizen leaving India for 'employment'.
- (2) Mr. Balaji will be a resident only if he is in India from 1-4-2020 to 31-3-2021 for 182 days or more.
- (3) He is in India for 191 days from 1-4-2020 to 31-3-2021 (WN 2).

Conclusion: Mr. Balaji is a resident.

B. Ascertaining whether an ordinary resident

- (1) Mr. Balaji will be an ordinary resident if:
 - (a) He is a resident for at least one out of ten preceding years.
 - (b) Is in India between 1-4-2013 and 31-3-2020 for at least 730 days.
- (2) Mr. Balaji is a resident for eight years [WN 3]; He is in India for 1,833 days from 1-4-2013 to 31-3-2020 [WN 3]. He satisfies both the conditions.

Conclusion: Mr. Balaji is a resident and an ordinarily resident.

Working Notes

(1) Particulars	Departure	Arrival
Australia	15-04-2020	01-05-2020
UK	05-05-2020	11-07-2020
West Indies	31-08-2020	14-09-2020
Zimbabwe	01-01-2021	23-03-2021

(2) Stay in India during 01-04-2020 to 31-03-2021

April	15 days
May	05 days
June	Nil
July	21 days
August	31 days
September	17 days
October	31 days
November	30 days
December	31 days

January	01 day
February	Nil
March	09 days = 191 days

(3) Previous Year Days in India

2010-11	365 days (Resident)
2011-12	366 days (Resident)
2012-13	365 days (Resident)
2013-14	365 days (Resident)
2014-15	365 days (Resident)
2015-16	366 days (Resident)
2016-17	365 days (Resident)
2017-18	365 days (Resident)
2018-19	Nil (Non-resident)
2019-20	07 days (Non-resident)

Illustration 8:

Mr. Rajesh, who is born and brought up in India and an Indian citizen, went for further studies to USA on 1st March, 2020 and came back to India on 1st October, 2020 and since then he is in India. Determine his residential status for the assessment year 2021-22 giving explanation for your answer.

[MU April 96, Modified]

Solution:**A. Ascertaining whether a resident**

- (1) Mr. Rajesh is an Indian citizen coming to India on a visit.
- (2) Mr. Rajesh will be a resident only if he is in India from 1-4-2020 to 31-3-2021 for 182 days or more.
- (3) He is in India for 182 days from 1-4-2020 to 31-3-2021 (31 + 30 + 31 + 31 + 29 + 31).

Conclusion: Mr. Rajesh is a resident.

B. Ascertaining whether an ordinary resident

- (1) Mr. Rajesh will be an ordinary resident if:
 - (a) He is a resident for at least one out of ten preceding years.
 - (b) Is in India between 1-4-2010 and 31-3-2019 for at least 730 days.
- (2) Mr. Rajesh is a resident for at least two years [Assessment year 2019-20 & 2020-21 (stay exceeding 182 days each); He is in India for 1460 days from 1-4-2014 to 31-3-2021, during last seven previous years. He satisfies both the conditions.

Conclusion: Mr. Rajesh is a resident and an ordinarily resident.

Illustration 9:

Mr. Nath a person of Indian origin, who was abroad, returned to India for the first time on August 1, 2020 and again left India on February 15, 2021. What is his residential status for the assessment year 2021-22?

[MU April 98,04,05 Modified]

Solution:**A. Ascertaining whether a resident**

- (1) Mr. Nath is a person of Indian origin coming to India on a visit.
- (2) Mr. Nath will be a resident only if he is in India from 1-4-2020 to 31-3-2021 for 182 days or more.
- (3) He is in India for 199 days from 1-4-2020 to 31-3-2021 (31 + 30 + 31 + 30 + 31 + 31 + 15).

Conclusion: Mr. Nath is a resident.

B. Ascertaining whether an ordinary resident

- (1) Mr. Nath will be an ordinary resident:
 - (a) He is a resident for at least two out of ten preceding previous years.
 - (b) Is in India between 1-4-2013 and 31-3-2020 for at least 730 days.
- (2) Mr. Nath is a non-resident for all earlier years as he has come to India for the first time in 2020-21; hence, he cannot be a resident for out of ten years. Since he does not satisfy condition 1(a), there is no need to check next condition 1 (b).

Conclusion: Mr. Nath is a resident but not ordinarily resident.

Illustration 10:

Mr. Alexander of America came to India 1st time on 2nd Dec., 2000 for the purpose of establishing his finance and investment business. Since then he has lived in India as mentioned below:

Previous Year Ending	No. of Days	Pervious Year Ending	No. of Days
31-03-08	40	31-03-15	130
31-03-09	340	31-03-16	250
31-03-10	96	31-03-17	120
31-03-11	40	31-03-18	70
31-03-12	220	31-03-19	80
31-03-13	230	31-03-20	170
31-03-14	85		

In the P. Y. 2020-21 he came to India on 22nd may and returned to America on 7th August and again came to India on 3rd January and left India on 13th March. Determine his residential status for A. Y. 2021-22.

[MU Oct. 2006, April 2008, Modified]

Solution:**Working Notes**

(1) Stay in 20-21:

April	M	J	J	A	S	O	N	D	J	F	M
-	10	30	31	7	-	-	-	-	29	29	13 = 148 days
	(31-22+1)								(31-3+1)		

(2) Stay during 1/4/16 to 31/3/20

16-17	17-18	18-19	19-20
120	70	80	170 = 440 days

(3)

Previous year	Stay	Condition fulfilled	R/NR
18-19	170	6(1) (b)	R
17-18	80	6(1) (b)	R
16-17	70	6(1) (b)	R
15-16	120	6(1) (b)	R
14-15	250	6(1) (b)	R
13-14	130	6(1) (b)	R
11-13	85	6(1) (b)	R
10-11	230	6(1) (a)	R
09-10	220	6(1) (a)	R
08-09	40	None	NR

(4) Total stay during 1/4/13 to 31/3/20 = 905 days

Additional Condition U/S 6(6)

Section	Condition	Resident/No. of Days	Condition Fulfilled
6(6) (a)	Resident in at least one out of ten preceding P.Y.	Nine yrs (WN3)	Yes
6(6) (b)	Stay in India 730 days or more during 1/4/13 to 31/3/20	905 days (WN4)	Yes

Conclusion: Mr. Alexandar fulfils both conditions u/s 6(6) therefore; he is Resident and Ordinarily Resident for the previous year 2020-21 relevant to assessment year 2021-22.

Illustration 11:

Arnold has business connection with India. He gives details regarding his stay in India.

Financial Year	Days in India
11-12	126
12-13	90
13-14	85
14-15	32
15-16	310
16-17	187
17-18	189
18-19	107
19-20	125

During the financial year ending March 2021 he has stayed in India as given below:

Month	Mumbai Days	Kolkata Days	Panjim Days
Jun.	20	20	0
Sept.	3	8	0
Oct.	22	0	4
Dec.	20	0	0
Jan.	8	9	10

Determine his residential status for A.Y. 21-22.

[MU Oct. 2002, April 2010, Modified]

Solution:

Basic condition u/s 6(1):

Section	Condition	Total days	Condition fulfilled
6(1) (a)	Stay in India during previous year 20-21 182 days or more	94 days (WN1)	No
OR			
6(1) (b) (i)	Stay in India during previous year 20-21 120 days or more	124 days (WN1)	No
6(1) b(ii)	Stay in India during 1/4/16 to 31/3/20 is 365 days or more	608 days (WN1)	

Mr. Arnold fulfils both conditions u/s 6(1)(b). Therefore he is resident in India for previous year 2020-21.

Additional condition u/s 6(6)

Section	Condition	Resident/ No. of days	Condition fulfilled
6(6)(a)	Resident in at least one out of ten preceding previous year and	9 yrs (WN3)	Yes
6(6)(b)	Stay in India 730 days or more during 1/4/13 to 31/3/20	1136 days (WN4)	Yes

Conclusion: Mr. Arnold fulfils both conditions u/s 6(6). Therefore, he is Resident and Ordinarily Resident for previous year 2020-21 relevant to A.Y. 2021-22.

Working Notes:

(1) Stay in 20-21:

Jun.	Sept.	Oct.	Dec.	Jan.
30	11	16	10	27 = 94 days

(2) Stay during 1/4/16 to 31/3/20

16-17	17-18	18-19	19-20
187	189	107	125 = 608 days

(3)

Previous year	Stay	Condition fulfilled	R/NR
19-20	125	6(1) (b)	R
18-19	107	6(1) (b)	R
17-18	189	6(1) (a)	R
16-17	187	6(1) (a)	R
15-16	186	6(1) (a)	R
14-15	310	6(1) (a)	R
13-14	32	None	NR
12-13	85	6(1) (b)	R
11-12	90	6(1) (b)	R
10-11	126	6(1) (b)	R

(4) Total stay during 1/4/13 to 31/3/20 = 1136 days

Illustration 12:

Mr. Kennedy, a citizen of USA, came to India, for the first time on his appointment as a Manager of Thomas Cook & Co., on 1st April, 2011. On 1st February, 2012 he was transferred to

Singapore for three years. He comes back to India on 2nd February, 2020 and joins his original M/s. Thomas Cook & Co., as a Manager and since then he is in India.

Determine the residential status of Mr. Kennedy for the A.Y. 21-22. Give Explanation for your answer.

[MU Apr. '95,03,06, Modified]

Solution: Basic condition u/s 6(1)

Section	Condition	Total days	Condition fulfilled
6(1) (a)	Stay in India during previous year 20-21 182 days or more	365 days (WN1)	Yes
OR			
6(1) (b) (i)	Stay in India during previous year 20-21 120 days or more	No need to check because first condition is fulfilled	
AND			
	Stay in India during 1/4/16 to 31/3/20 is 365 days or more		

Since Mr. Kennedy fulfils the first condition u/s 6(1)(a), he is resident in India for previous year 2020-21.

Additional condition u/s 6(6)

Section	Condition	Resident/No. of days	Condition fulfilled
6(6) (a)	Resident in at least one out of ten preceding previous year	1 Year (WN2)	Yes
AND			
6(6)(b)	Stay in India 730 days or more during 1/4/13 to 31/3/20	365 days (WN3)	No

Conclusion: Mr. Kennedy does not fulfill any of the condition u/s 6(6). Therefore, he is Resident but not Ordinarily Resident for the P.Y. 2020-21 relevant to A.Y. 2021-22.

Working Notes:

(1) Stay in 19-20 is 365 days

(2) Previous year	Stay	Condition fulfilled	R/NR
19-20	58	None	NR
19-18	Nil	None	NR
18-17	Nil	None	NR

17-16	Nil	None	NR
16-15	307	6(1) (a)	R
15-14	Nil	None	NR
14-13	Nil	None	NR
13-12	Nil	None	NR
12-11	Nil	None	NR
11-10	Nil	None	NR

(3) Total stay during 1/4/13 to 31/3/20 = 365 days

Illustration 13:

Mr. Xavier, a UK National, came to India, for the first time on 15-4-2016. During the financial years 16-17, 16-17, 18-19, 19-20 and 20-21 he was in India for 120, 90, 3, 200, 65 days. Find his residential status for the A.Y. 21-22. Give Explanation for your answer.

[MU Oct. '95, 03,10 Modified]

Solution: Basic condition u/s 6(1)

Section	Condition	Total days	Condition fulfilled
6(1)(a)	Stay in India during previous year 20-21 182 days or more	65 days	No
OR			
6(1)(b) (i)	Stay in India during previous year 20-21 120 days or more	65 days	Yes
AND			
6(1)(b) (ii)	Stay in India during 1/4/16 to 31/3/20 is 365 days or more	413 days	Yes
		[120 + 90 + 3 + 200]	

Mr. Xavier fulfils both conditions u/s 6(1) (b). Therefore, he is resident in India for the previous year 2020-21.

Additional condition u/s 6(6)

Section	Condition	Resident/ No. of days	Condition fulfilled
6(6) (a)	Resident in at least one out of ten preceding previous year	1 Year (WN1)	No
AND			
6(6)(b)	Stay in India 730 days or more during 1/4/13 to 31/3/20	413 days (WN2)	No

Conclusion: Mr. Xavier a U.K. National is resident and Ordinarily Resident, since he doesnot fulfil both the additional conditions u/s 6(6) for the previous year 2020-21.

Working Note: (1)

Previous year	Stay	Condition fulfilled	R/NR
19-20	200	6(1)(a)	R
18-19	3	None	NR
17-18	90	None	NR
16-17	120	None	NR

(2) Total stay during 1/4/16 to 31/3/20 = 413 days

Note: Since he is a foreign national and not a person of Indian origin Section 6(1) (b) isapplicable to him.

Illustration 14:

Ms Kareena Kapoor who is an Indian citizen went for employment to Muscat on 1-4-15 and since then came on a visit for the first time to India on 1-7-19 and left for Muscat on 21-08-20. Determine her residential status for the A.Y. 2021-22. Give Explanation for your answer.

[MU Oct. '95 Modified]

Solution: Basic condition u/s 6(1)

Section	Condition	Total days	Condition fulfilled
6(1) (a)	Stay in India during previous year 20-21 182 days or more	168 days (WN1)	No
OR			
6(1) (b) (i)	Stay in India during previous year 20-21 182 days or more (WN1)	168 days	No
AND			
6(1) (b) (ii)	Stay in India during 1/4/16 to 31/3/20 is 365 days or more	1 day (WN2)	No

Working Notes:

(1) Stay in India during previous year 20-21:

A'13	M	J	J	A	S	O	N	D	J	F	M
-	-	-	31	31	30	31	30	15	-	-	- = 168 days

(2) Stay in India during 1/4/17 to 31/3/20

16-17	17-18	18-19	19-20
-	-	-	1 = 1 day

Explanation: Ms Kareena Kapoor is an Indian citizen coming to India during P.Y. for visit. Number of days u/s 6(1)(b) (i) will be 182 instead of 60.

Conclusion: Since she does not fill any condition u/s 6(i)(b) she is non-resident for the P.Y. 2020-21.

Illustration 15:

Mr. Azhar, an ex-Indian cricketer submits the following information for stay outside India for the year ending 31-03-20.

Days	Place
12-04-20 to 27-04-20	Sharjah for Asia Cup 2013
02-05-20 to 08-07-20	Summer Cricket tour of England
26-08-20 to 09-09-20	Triangular Series in Sri Lanka
10-09-20 to 01-10-20	Singapore on Holidays
03-01-21 to 25-04-21	Summer Cricket tour to South Africa

He made his debut in international cricket on 10-03-16 then in a match against West Indies he suffered a major injury necessitating two years hospitalization in employed by the Bangladesh Cricket Board as the Manager of their team. Determine his residential status for the A. Y. 2021-22. Give Explanation for your answer.

[MU Apr. '97,11,12 Modified]

Solution: Basic condition u/s 6(1)

Section	Condition	Total days	Condition fulfilled
6(1)(a)	Stay in India during previous year 20-21 182 days or more	165 days (WN1)	No
OR			
6(1)(b) (i)	Stay in India during previous year 20-21 182 days or more	165 days (WN1)	No
AND			
6(1)(b) (ii)	Stay in India during 1/4/16 to 31/3/20 is 365 days or more	709 days	Yes

Working Note:

(1) Stay outside India during previous year 20-21:

A'13	M	J	J	A	S	O	N	D	J	F	M
14	29	30	7	5	28	-	-	-	28	29	31 = 201 days
(31-18+1)									(31-4+1)		

Stay in India during P.Y. is 165 days (365-201)

Explanation: In this question stay is given outside India

Example: 12th April to 27th April he was in Sharjah so 12th April and 27th April will be counted as stay outside India.

(2) Stay in India during 1/4/16 to 31/3/20

16-17	17-18	18-19	19-20
365	344	-	-

Information about previous year 20-21 is not available but it is assumed that during this period he was in India.

Mr. Azhar is employed by Bangladesh Cricket Board as coach during P.Y. he has left India on various occasions and they are for the purpose of employment. No. of days u/s 6(1) (b) (i) will be 182 days instead of 60.

Conclusion: Mr. Azhar will be Non-resident for P.Y. 2020-21 since he does not satisfy conditions u/s 6(1).

Illustration 16:

Mr. Obama an American citizen has business connection with India and stays in India as detailed below:

Previous year ending	No. of days	Previous year ending	No. of days
31-03-07	136	31-03-14	320
31-03-08	96	31-03-15	56
31-03-09	100	31-03-16	120
31-03-10	230	31-03-17	252
31-03-11	120	31-03-18	70
31-03-12	0	31-03-19	260
31-03-13	34	31-03-20	34

During the year ending March 2021 his passport shows stay in India as below:

Ahmedabad	20 days	3 hours
Baroda	40 days	4 hours
Pune	100 days	6 hours
Srinagar	20 days	20 hours

His business income in the year ending 31-03-21

Nature of Income

Income from business in America	2,00,000
Income from business in Burma controlled from India	3,00,000
Income from business in Nepal controlled from Burma	4,00,000
Income from business in Mumbai controlled from America	5,00,000
Income from business in Kolkata controlled from Mumbai	2,00,000
Income from business in Canada controlled from America	1,20,000

Determine his residential status for A.Y. 2021-22 and calculate his gross total income.

Solution:

Basic condition u/s 6(1)

Section	Condition	Total days	Condition fulfilled
6(1) (a)	Stay in India previous year 20-21 182 days or more	181 days (WN1)	No
OR			
6(1) (b) (i)	Stay in India previous year 20-21 for 120 days or more	181 days (WN1)	Yes
AND			
6(1) (b) (ii)	Stay in India during 1/4/16 to 31/3/20 is 365 days or more	616 days (WN2)	Yes

Mr. Obama fulfils both conditions u/s 6(1)(b). Therefore, he is resident in India for P.Y. 19-20. Additional condition u/s 6(6)

Section	Condition	Resident/No. of days	Condition fulfilled
6(1) (a)	Resident at least two out of one preceding P.Y.	6 years (WN3)	Yes
AND			
6(1) (b)	Stay in India during 730 days or more during 1/4/13 to 31/3/20	1112	Yes

Conclusion: Mr. Obama fulfils both conditions u/s 6(6). Therefore, he is R and OR for P.Y. 2020-21 relevant to A.Y. 2021-22.

Working Note:

(1) Stay in India during P.Y. 2020-21

Ahmedabad	20 days 3 hours
Baroda	40 days 4 hours
Pune	100 days 6 hours
Srinagar	20 days 20 hours
Total stay 181 days 9 hours	

(2) Stay in India during 2016-20.

16-17	17-18	18-19	19-20
252	70	280	34 = 616 days

(3) Previous year	Stay	Condition fulfilled	R/NR
19-20	34	None	NR
18-19	260	6(1) (a)	R
17-18	70	6(1) (b)	R
16-17	252	6(1) (a)	R
15-16	120	6(1) (b)	R
14-15	56	None	NR
13-14	320	6(1) (a)	R
12-13	34	None	NR
11-12	0	None	NR
10-11	120	6(1) (b)	R

(4) Total stay during 1/4/13-31/3/20 is 1112 days

Computation of income for P.Y. 2020-21.

Particulars	R and OR (₹)
Income from business in America	2,00,000
Income from business in Burma controlled from India	3,00,000
Income from business in Nepal controlled from Burma	4,00,000

Income from business in Mumbai controlled from America	5,00,000
Income from business in Kolkata controlled from Mumbai	2,00,000
Income from business in Canada controlled from America	1,20,000
Total	17,20,000

Illustration 17:

Mr. John a British citizen had the following income during year ended 31-03-2021.

Income from house property in India.	15,000
Income from property in Rome.	10,000
Past profit brought to India.	1,200
Income from business in Bangladesh, being controlled from India.	16,000
Interest on bank account in USA.	11,000
Salary earned and received in Tokyo.	12,000
Income earned and received in London	13,000
Dividend from British company received in India.	17,000

- Compute his Total Income for the A. Y. 2021-22, if he is:

- (i) Ordinarily resident
- (ii) Not ordinarily resident, and
- (iii) Non-resident.

[MU Oct. '07,08, Modified]

Solution:

P.Y. 2020-21

Name of Assessee: Mr. John
Legal Status: Individual

A.Y. 2021-22

Computation of Income

Particulars	R and OR	R but NOR	NR (``)
1. Income from house property in India	15,000	15,000	15,000
2. Income from property in Rome	10,000	—	—
3. Past profit brought to India Not taxable in P.Y. 09-10	—	—	—
4. Income from business in Bangladesh, being controlled from India	16,000	16,000	—
5. Interest on bank account in USA	11,000	—	—
6. Salary earned and received in Tokyo	12,000	—	—
7. Income earned and received in London	13,000	—	—
8. Dividend from British company received in India	17,000	17,000	17,000
Total Income	94,000	48,000	32,000

Illustration 18:

Miss Chilly, a foreign national, furnishes the following particulars of her income earned during the previous year relevant to A. Y. 2021-22. Find her GTI if she is:

- (1) Ordinarily resident
- (2) Not ordinarily resident
- (3) Non-resident.
- (1) Income from property in Rome received in India ₹ 1,000
- (2) Dividend from shares from foreign companies:
 - Received abroad ₹ 2,000
 - Received in India ₹ 3,000
- (3) Profit from business in Mumbai and managed from USA ₹ 4,000
- (4) Income from house property in India ₹ 5,000
- (5) Interest on bank accounts in London ₹ 6,000
- (6) Income earned in past but brought in India during the year ₹ 7,000

[MU Oct. 2000,06 Modified]

Solution:

P.Y. 2020-21

Name of Assessee: Miss Chilly

A.Y. 2021-22

Legal Status: Individual

Computation of Income

Particulars	R and OR	R but NOR	NR (₹)
1. Income from house property in Rome received in India	1,000	1,000	1,000
2. Dividend from shares from foreign companies:	2,000	Nil	Nil
• Received abroad	3,000	3,000	3,000
• Received in India			
3. Profit from business in Mumbai and managed from USA	4,000	4,000	4,000
Income from house			
4. property in India	5,000	5,000	5,000
5. Interest on bank accounts in London	6,000	Nil	Nil
6. Income earned in past but brought in India Not taxable in P.Y. 19-20 during the year.			
GTI	21,000	13,000	13,000

Illustration 19:

Mr. Anuj an India citizen furnishes following particulars of his income earned during the year P.Y. 2020-21 relevant to the A.Y. 2021-22.

Interest on UK development bond (received in India)	42,000
Profit on sale of plant in Malaysia (fully received in India)	92,000
Profit on sales of property at Bombay (received in India)	1,04,000
Income from business in Ceylon controlled from India	20,000
Rental income from property in New York deposited by a tenant in a foreign branch of Indian bank deposited there	25,000
Salary earned and received in New Zealand	38,000
Pension from employer in India received in Mauritius	60,000
- You are required to find out his total income, for A. Y. 2021-22 if he is: (i) Ordinarily resident (ii) Not ordinarily resident, and (iii) Non-resident.	

[MU Oct. 2003,12 Modified]

Solution:

P.Y. 2020-21

Name of Assessee: Mr. Anuj

A.Y. 2021-22

Legal Status: Individual

Computation of Income

Particulars	R and OR	R but NOR	NR (✓)
1. Interest on UK development bond (received in India)	42,000	42,000	42,000
2. Profit on sale of plant in Malaysia (fully received in India)	92,000	92,000	92,000
3. Profit on sales of property at Bombay (received in India)	1,04,000	1,04,000	1,04,000
4. Income from business in Ceylon controlled from India	20,000	20,000	—
5. Rental income from property in New York deposited by a tenant in a foreign branch of Indian bank deposited there	25,000	—	—
6. Salary earned and received in New Zealand	38,000	—	—
7. Pension from employer in India received in Mauritius	60,000	60,000	60,000
Total Income	3,18,000	3,81,000	2,98,000

Illustration 20:

Mr. Sandeep has earned the following income during the previous year ended 31st March, 2021.

Professional fees received in India for three months	18,000
Payment received in UK for services rendered in India	16,000
Income from business in Australia, controlled from India	14,000
Income from Agriculture in Bangladesh	12,000
Dividend from a foreign company received in UK	10,000
Amount brought into India out of the past untaxed profits earned in USA	18,000

- Compute his total income assuming:

- (1) He is Resident and Ordinarily Resident
- (2) Non-resident

[MU Oct. 2007, 12 Modified]

Solution:

P.Y. 2020-21

Name of Assessee: Mr. Anuj

A.Y. 2021-22

Legal Status: Individual

No. Item of Income	Nature of Income	OR (₹)	NR (₹)
1 Professional fees	Income received in India	18,000	18,000
2. Received in UK for services in India	Income accruing in India	16,000	16,000
3. Income from business in Australia, controlled from India	Foreign Income	14,000	Nil
4. Income from agriculture in Bangladesh	Foreign Income	12,000	Nil
5. Dividend received in UK from Foreign Co.	Foreign Income	10,000	Nil
6. Amount brought in India out of past profits Remittance	Not income	Nil	Nil
Total Income		70,000	34,000

EXERCISE**Multiple Choice Questions**

1. Residential status is to be determined for:
 - (a) Previous year
 - (b) Assessment year
 - (c) Accounting year
 - (d) None of these

2. Income which accrue or arise outside India but are received directly into India is taxable in case of
 - (a) Resident only
 - (b) Both ordinarily resident and NOR
 - (c) Non-resident
 - (d) All the assessee
3. Total income of a person is determined on the basis of his:
 - (a) Residential status in India
 - (b) Citizenship in India
 - (c) None of these
 - (d) Both of the above
4. Y. Ltd., is an Indian company whose entire control and management of its affairs is situated outside India. Y. Ltd., shall be:
 - (a) Resident in India
 - (b) Non-resident in India
 - (c) Not ordinarily resident in India
 - (d) None of these
5. A. Ltd., is registered in UK The control and management of its affairs is situated in India. A. Ltd., shall be:
 - (c) Not ordinarily resident in India
 - (d) None of these
6. M, a foreign national visited India during previous year 2020-21 for 180 days. Earlier to this he never visited India. M in this case shall be:
 - (c) Not ordinarily resident in India
 - (d) None of these
7. M. a foreign national but a person of India origin visited India during previous year 2020-21 for 181 days. During four preceding previous years he was in India for 366 days. M shall be:
 - (a) Resident in India
 - (b) Non-resident in India
 - (c) Not ordinarily resident and NOR
 - (d) None of the above
8. Income which accrues or arise outside India and also received outside India is taxable in case of:
 - (a) Resident& OR only
 - (b) Not ordinarily resident
 - (c) Both ordinarily resident and NOR
 - (d) None of the above
9. Income which accrue outside India from a business controlled from India is taxable in case of:
 - (a) Resident only
 - (b) Not ordinarily resident only
 - (c) Both ordinarily resident and NOR
 - (d) Non-resident

10. Income deemed to accrue or arise in India is taxable in case of:

- (a) Resident only (b) Both ordinarily resident and NOR
(c) Non-resident (d) All the assesseees

(Ans: 1-b, 2-d, 3-a, 4-b, 5-a, 6-b, 7-b, 8-a, 9-c, 10-d)

Fill in the Blanks

1. An individual shall be deemed to be of Indian origin if he or any of his _____ or _____ were born in undivided India.
2. HUF is said to be _____ in India if the control and management of its affairs is situated partly in India.
3. Foreign company is resident in India if the control and management of its affairs is situated _____ in India during the previous year.
4. Income which accrue or arise outside India from a business controlled from India is taxable in case of _____ and _____.
5. M, a person of Indian origin visited India on 11-11-2019 and plans to stay here for 330 days. During four years prior to Previous Year 19-20, he was in India for 759 days. Earlier to that he was never in India for Assessment Year 20-21, M shall be _____.
6. On the basis of residential status a firm can be classified into _____ or _____.

(Ans: 1. Parents, Grandparents, 2. Resident, 3. Inside, 4. Ordinary Resident, Not ordinarily Resident, 5. Non-resident, 6. Resident, Non-resident)

Match the Following Columns

Column A	Column B
1. Foreign Income	(a) Ordinarily resident
2. Income received in India	(b) Not ordinary resident
3. Foreign Business income controlled from India	(c) Non-resident
4. Remittance in India	(d) Taxable for OR, NOR, NR
5. Highest tax liability	(e) Taxable for OR, NOR
6. Least tax liability	(f) Not taxable for non-resident
	(g) Not taxable

(Ans: 1-t, 2-d, 3-e, 4-g, 5-a, 6-c)

Column A	Column B
1. An Indian company	(a) Non-resident
2. An HUF with NOR Karta	(b) Always ordinary resident
3. Citizen of India, leaving India for Employment	(c) Resident firm
4. A person who is non-resident	(d) Not ordinary resident firm

5. A foreign firm with 50% control and management in India	(e) Not ordinary resident
	(f) Resident if stay in India in last four year exceeds 365 days.
	(g) Resident only if stay in India exceeds 182 days in previous year.

(Ans: 1–b, 2–d, 3–g, 4–a, 5–c)

State Whether True or False

- Only individuals and HUFs can be resident, but not ordinarily resident in India.
- Once a person is a resident in a previous year he shall be deemed to be resident for subsequent previous year.
- Once a person is resident for a source of income in a particular previous year he shall be deemed to be resident for all other sources of income in the same previous year.
- An Indian company is always resident in India.
- A resident in India cannot become resident in any other country for the same assessment year.
- Residential status is to be determined on the basis of stay in India during assessment year.
- Incomes which accrue or arise outside India but are received directly into India are taxable only in case of resident.
- Income deemed to accrue or arise in India is taxable in case of all the assessment.
- Income which accrues or arises outside India from a business controlled from India is taxable in case of only ordinarily resident.
- Income which accrues or arises outside India and also received outside India is taxable in case of both ordinarily resident and not ordinarily resident.
- Total income of a person is determined on the basis of his citizenship in India.
- A company, whose managing director is a resident but “not ordinarily resident” is treated as “resident but not ordinarily resident in India”.
- Foreign company is always non-resident in India.

(Ans: True – 1, 3, 4, 5, 6, 8, 12)

Theory Questions

- Explain the concept of ‘residential status of an Individual’ as per Income Tax Act?
- As per Income Tax Act, 1961, Explain the followings:
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
- Explain the concept of ‘residential status of HUF’ as per Income Tax Act?
- Explain the concept of ‘residential status of company, AOP and firm’ as per Income Tax Act?

- (5) Explain the concept of 'scope of total income' u/s 5 of Income Tax Act?
- (6) As per Income Tax Act, 1961, Explain the followings:
- Income received or deemed to be received
 - Income 'accruing' and 'arising' in India
 - Exemption v/s. deduction
- (7) Explain the concept of 'exempted incomes from tax u/s 10' as per Income Tax Act?

Practical Questions

- (1) Mr. Khan, an individual residing at Delhi, left India for USA for higher studies in Architecture on March 1, 2004. During the winter vacation he came to Delhi twice, once on September 10, 2005 and again on October 1, 2017 and stayed at Delhi for two months in each year. During the year ended March 31, 2020 he did not come to India at all. What is his residential status for the previous year 2020-21? **(Ans: Non-resident)**
- (2) Mr. Nagesh a person of Indian origin, who was abroad, returned to India for the first time on August 1, 2019 and again left India on February 15, 2020. What is his residential status for the assessment year 2021-22? **(Ans: Resident but Not Ordinarily Resident)**
- (3) Mr. Bhatia, an Indian citizen staying in Bangalore takes up a job at USA. He leaves India on August 16, 2019, for USA. He has not gone out of India before that. What is his residential status for assessment year 2021-22? **(Ans: Non-resident)**
- (4) Mr. Jain an Indian citizen has settled abroad for the last twenty-five years. His stay in India in the last few years was as under:

Year	Days	Year	Days
2003-2004	170	2014-2015	196
2004-2005	59	2015-2016	125
2005-2006	110	2016-2017	105
2006-2007	39	2017-2018	121
2007-2008	210	2018-2019	157
2013-2014	182		

He did not come to India prior to 2003. Determine his residential status for the assessment year 2021-2022. Would your answer change if his stay in India in the previous year 2020-21, were only 63 days instead of 182 days?

(Ans: Resident and Ordinarily Resident and Non-resident)

- (5) Mr. Tom, a citizen of USA, came to India, for the first time, on his appointment as a Manager of James Cook & Co., on 1st April, 2003. On 1st February, 2009, he was transferred to Malaysia for three years. He returned back to India on 2nd February 2020 and joins his original M/s. James Cook & Co., as a Manager and since then he is in India. Determine the

residential status of Mr. Tom for the assessment year 2020- 2021. Give explanation to your answer. **(Ans: Resident and Ordinarily Resident)**

- (6) Robin Singh, an ex-Indian cricketer submits the following information of stay outside India for the year ending 31st March, 2020:

Days	Place
12th April, 2019 to 27th April, 2019	Sharjah for Asia Cup 2019
2nd May, 2019 to 8th July, 2019	Summer Cricket Tour to England
26th August, 2019 to 9th September, 2019	Triangular Series in Sri Lanka
10th September, 2019 to 1st October, 2019	Singapore on Holidays
3rd January, 2020 to 25th March, 2020	Summer Cricket Tour to South Africa

He made his debut in international cricket on 10th March, 2017. Then in a match against West Indies, he suffered a major injury necessitating two years hospitalization in USA. He recovered and returned back to India on 28th March, 2019. Thereafter, he was appointed by Bangladesh Cricket Board as Manager of their team. Determine his residential status with reasons for the assessment year 2020-2021. **(Ans: Non-resident)**

- (7) Mr. Jeffrey Boycott a British Citizen came to India as a commentator during the following periods:

Purpose	Period
NatWest Trophy, 2019	10-02-2019 to 20-04-2019
Winter Cricket Tour of England	06-10-2019 to 25-12-2019
Chief Guest Miss World Competition 2020	04-01-2020 to 12-01-2020
Triangular Cup 2020	02-03-2020 to 29-03-2020

Discuss with reasons the residential status of Mr. Jeffrey Boycott assuming his stay in India was 340 days in the preceding three calendar years prior to Nat West Trophy visit and 600 days in the preceding seven year. **(Ans: Resident but Not Ordinarily Resident)**

- (8) Mr. Surjit Singh, staying in Delhi leaves Delhi on 16th July, 2019, for joining an American firm as an employee. He was in India since 1st January, 2009, till he left for USA on 16th July, 2019, for the purpose of employment. Determine his residential status. **(Ans: Non-resident)**
- (9) Head Office of a Hindu Undivided Family is situated in Nepal. Family has a house in India where some of its members reside. The family is managed by Surendra, the Karta and Kirti a member (Coparcener). Surendra is a resident but not ordinary resident in India and Kirti is a resident in India. Surendra looks after the head office in Nepal and Kirti looks after the affairs of HUF in India. Determine the residential status of the family for the assessment year 2020-2021. **(Ans: Resident but Not Ordinarily Resident)**
- (10) During the previous year 2021-2020, affairs of a Hindu Undivided Family are partly managed from Jaipur and partly from Singapore. Rahul, a Karta of HUF, is resident and ordinarily

resident in India and Atul who also manages the affairs of family is a non-resident in India for the assessment year 2020-2021. (Ans: Resident and Ordinarily Resident)

- (11) Shri Ram Gopal Desai, a citizen of USA has been staying in India since 2014. He leaves India on 16th July 2019 on a visit to USA and returns on 4th January 2020. Determine his residential status for the previous year 2020-21. (Ans: Resident and Ordinarily Resident)

(M.U. B.Com. April 2008, Modified)

- (12) Professor Rajendra Bhatt a UK citizen (not a person of Indian Origin) is a visiting faculty at JNO University, provides you the details of his visit to India during the last 7 years.

Previous Year	No. of Days stay in India
2020-21	179
2018-19	195
2017-18	15
2016-17	130
2015-16	190
2014-15	100
2013-14	125

Prior to 01/04/2013 he did not visit India. Find out his Residential status for the Assessment year 2021-22. (Ans: Resident and Ordinarily Resident)

(M.U. B.Com. Oct., 2008, Modified)

- (13) Mr. Nitin Dhopat who is an Indian citizen and a professional cricketer, toured South Africa, Australia, U.K. West Indies and Zimbabwe on various dates. The details of departure from and arrival in India are as under:

Country	Date of Departure	Date of Arrival
South Africa (for the first time)	01/03/2017	25/03/2018
Australia	15/04/2019	01/05/2019
UK	05/05/2019	11/07/2019
West Indies	31/08/2019	14/09/2019
Zimbabwe	01/01/2020	23/03/2020

Determine his residential status for the Assessment year 2021-22. Give your working and explanation. (Ans: Resident and Ordinarily Resident)

(M.U. B.Com. April 2009, Modified)

- (14) Mr. Hemant Bhosale a resident of USA came to India for the first time on 1st May, 2014. He stayed here without break for 3 years and Left for Japan on 1st May, 2017. He returned to India on 1st April, 2018 and went back to U.S.A. on 1st December, 2018. He was posted back to India on 20th January, 2020 and has been in India since then. Determine his residential status for the previous year ended on 31st March, 2020 giving explanation for your answer.

(Ans: Resident and Ordinarily Resident)

(M.U. B.Com. October 2009, Modified)

- (15) Mr. Bret Lee an Australian Citizen came to India for the first time on 1st April, 2009 and started a Business in Mumbai. He went out of India on 1st April 2019 and came back to India on 1st January, 2020 and was in India thereafter. Find out his Residential status for Assessment Year 2021-22.

(Ans: Resident and Ordinarily Resident)

(M.U. B.Com. April 2010, Modified)

- (16) Mr. Charlie Farande who is an Indian citizen went for employment to Dubai on 1st April 2009 and came on a visit to India on 01-07-2019 and left for Dubai on 15-12-2019. Determine his residential status for Assessment Year 2021-22.

(Ans: Non Resident)

(M.U. B.Com. Oct., 2010, Modified)

- (17) Mr. Ronit, a foreign national, furnished the following particulars of his income for the previous year 2020-21.

Particulars

Income from agriculture in Sri Lanka	20,000
Income from agriculture in India	40,000
Salary earned and received in Sri Lanka	50,000
Salary earned in India but received in Sri Lanka	25,000
Interest on bank accounts in UK	5,000
Commission received in London for work done in India from an Indian company	3,000
Profit on sale of machinery in India (1/3rd received in Sri Lanka)	27,000
Dividend from British company received in India	9,000

- Determine scope of the total income of Mr. Ronit for the assessment year 2021-22 if he is:
 - (i) Ordinarily Resident
 - (ii) Not Ordinarily Resident, and
 - (iii) Non-resident.

(Ans: 1,39,000; 64,000; 64,000)

- (18) Amish earn the following income during the financial year 2020-2021.

Particulars

Profits earned from business in London which is controlled from India, (Half of the profit being received in India)	40,000
Income from property in USA, received there	10,000
Income from agriculture in Bangladesh, not brought into India	4,500
Interest on Bangladesh Development Bond (1/2 received in India)	30,000
Salary earned and received at London	20,000
Interest on bank accounts in India	1,500
Profit on sale of plant in London (1/2 received in Mumbai)	26,000
Profit on sale of plant in India (1/2 received in London)	36,000

- Determine the scope of his total income assuming that he is:
 - (i) Resident and Ordinarily Resident
 - (ii) Resident but not Ordinarily Resident, and
 - (iii) Non-resident.

(Ans: 1,68,000; 1,05,500; 85,500)

- (19) Sam furnishes the following particulars of his income earned during the previous year 2020-2021.

Particulars	₹
Profits from business in Mumbai which is managed from outside India	1,25,000
Income earned from business in Nepal which is controlled from India	2,00,000
Past profit of 2005-2006 brought to India in 2020-21	40,000
Profit on sale of building in India but received in Nepal	1,30,000
Income from agriculture in Nepal, received there but later on Remitted to India	60,000
Pension from a former employer in India received in Nepal	20,000
Interest on FD with a Bank in India:	
Received in India	5,000
Received abroad	4,500
Dividend on shares of Foreign Company:	
Received abroad	15,000
Received in India	12,000
Find out scope of the total income of Sam if he is Ordinary Resident, Not Ordinarily Resident and Non-resident in India for the assessment year 2020-2021.	

(Ans: 5,71,500; 4,96,000; 2,96,500)

- (20) Mr. Baker, a British citizen had the following income during the year ended on 31st March, 2021.

Particulars	₹
Income from house property in India	15,000
Income from property in Rome	10,000
Interest from bank account in India	1,200
Income from business in Nepal, being controlled from India	16,000
Interest on bank account in USA	11,000
Salary earned and received in Tokyo	12,000
Income earned and received in London	13,000
Dividend from British Company received in India	17,000

- Compute his Total Income for the assessment year 2021-2022, if he is:

- (i) Resident and Ordinarily Resident
- (ii) Resident but not Ordinarily Resident, and
- (iii) Non-resident

(Ans: 95,200; 49,200; 33,200)

- (21) Mr. Parag, an Indian citizen, furnishes the following particulars of income earned during the previous year relevant to assessment year 2021-2022.

Particulars

Professional fees received in India	11,000
Income earned in India but received in Rome	12,000
Dividend on shares of Indian companies:	
Received in India	6,000
Received abroad	7,000
Salary earned and received in Paris	14,000
Income from agriculture in Nepal	15,000
Income from business in UK controlled from India	16,000

- Compute his total income for the assessment year 2021-2022, assuming the residential status as:

- (i) Resident and Ordinarily Resident
- (ii) Resident but not Ordinarily Resident
- (iii) Non-resident

(Ans: 68,000; 39,000; 23,000)

- (22) From the following income of Mr. Rohit for the previous year 2020-21, Compute his gross total income for the assessment year 2021-22 if he is:

- (i) Resident and ordinarily resident
- (ii) Resident but not ordinarily resident
- (iii) Non resident

Income	
(1) Dividend received from Macdonalds Ltd. a USA Company in USA.	18,000
(2) Rent received from house in Kolkatta	60,000
(3) Income from agriculture in Srilanka	50,000
(4) Income from business in Dhaka, Controlled from Mumbai	60,000
(5) Rent from office property in UK credited to bank account in Switzerland	20,000
(6) Income from profession in Nairobi received in Nairobi which was set up in India	30,000
(7) Past untaxed foreign income brought to India, during the previous year	10,000
(8) Royalties from Indian Companies	40,000

(Ans: 2,78,000; 1,90,000; 1,30,000)

(M.U. B.Com. Oct 13, Modified)

- (23) Amol, an Indian film actor gives the following information of his stay outside India for film shooting.

Period	Place
12th April, 2020 to 27th April, 2020	USA
5th May 2020 to 11th July, 2020	Srilanka
26th August, 2020 to 9th September, 2020	UK
20th September, 2020 to 11th October, 2020	Newzeland
3rd January, 2021 to 25th March, 2021	South Africa

He made his debut in international films on 10th March, 2018 and went to Hollywood for 2 years and returned to India on 28th March, 2020.

Determine his residential status with reasons for assessment year 2021-22.

(Ans: Resident and Ordinarily Resident)

(M.U. B.Com. Oct 13, Modified)

“Your imagination is your preview of life’s coming attractions.”

— *Albert Einstein*



Meaning

The meaning of the term ‘salary’ for purposes of income tax is much wider than what is normally understood. Every payment made by an employer to his employee for service rendered would be chargeable to tax as income from salaries. The term ‘salary’ for the purposes of Income Tax Act 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).

- (1) **Employer-employee relationship:** Before an income can become chargeable under the head ‘salaries’, it is vital that there should exist between the payer and the payee, the relationship of an employer and an employee. Consider the following examples:
- (a) Sujatha, an actress, is employed in Chopra Films, where she is paid a monthly remuneration of ` 2 lacs. She acts in various films produced by various producers. The remuneration for acting in such films is directly paid to Chopra Films by the different producers. In this case, ` 2 lacs will constitute salary in the hands of Sujatha, since the relationship of employer and employee exists between Chopra Films and Sujatha.
 - (b) In the above example, if Sujatha acts in various films and gets fees from different producers, the same income will be chargeable as income from profession since the relationship of employer and employee does not exist between Sujatha and the film producers.
 - (c) Commission received by a director from a company is salary if the director is an employee of the company. If, however, the director is not an employee of the company, the said commission cannot be charged as salary but has to be charged either as income from business or as income from other sources depending upon the facts.
 - (d) Salary paid to a partner by a firm is nothing but an appropriation of profits. Any salary, bonus, commission or remuneration by whatever name called due to or received by partner of a firm shall not be regarded as salary. The same is to be charged as income from profits and gains of business or profession. This is primarily because the relationship between the firm and its partners is not that of an employer and employee.
- (2) **Full-time or part-time employment:** It does not matter whether the employee is a full-time employee or a part-time one. Once the relationship of employer and employee exists, the income is to be charged under the head “salaries”. If, for example, an employee works with more than one employer, salaries received from all the employers should be clubbed and brought to charge for the relevant previous years.

- (3) **Foregoing of salary:** Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income-tax. Such waiver is only an application and hence, chargeable.
- (4) **Surrender of salary:** However, if an employee surrenders his salary to the Central Government U/S 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered would be exempt while computing his taxable income.
- (5) **Salary paid tax-free:** This, in other words, means that the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer.
- (6) **Voluntary payments:** Whether the payment from an employer is based on a contract or not, it constitutes salary in the hands of the employee. However, many employers give personal gifts and testimonials to the employees.

For example, employees who complete 20 years of service may be given a wrist watch. The question arises whether the value of the watch can be taxed in the hands of the employee. Courts have taken the view that such gifts are not taxable. However, in these cases it is important that such gifts must be given to employees pursuant to a scheme applicable to employees in general. If gifts are given purely on a selective basis they may well become chargeable in the hands of the recipient. However, due to the levy of Fringe Benefit Tax, these gifts will now be exempt in the hands of the recipient, but will be taxable in the hands of the employer.

Further examples of exempted payments:

- (a) Payment made as a gift in appreciation of the personal qualities of the employee.
- (b) Payment of proceeds of a benefit cricket match to a great cricket player after he retired from test match.

DEFINITION OF SALARY

The term 'salary' has been defined differently for different purposes in the Act. The definition to what constitutes salary is very wide. As already discussed earlier, it is an inclusive definition and includes monetary as well as non-monetary items.

There are different definitions of 'salary' say for calculating exemption in respect of gratuity, house rent allowance etc.

According to Section 17(1) salary includes:

- (1) Wages and salaries including advances of salary
- (2) Annuity or pension
- (3) Gratuity
- (4) Fees and commission
- (5) Perquisites
- (6) Profits in lieu of salary or addition to salary or wages
- (7) Contribution made by the Central Government, or any other employer in the account of an employee under a new pension scheme effective from 1-4-2007.

- (8) Payment received by an employee in respect of any period of leave not availed of by him, i.e., leave encashment.
- (9) Annual accretion to the balance at the credit of an employee participating in a recognized provident fund to the extent it is taxable.
- (10) Transferred balance in a recognized provident fund to the extent it is taxable. In brief, salaries include wages, annuity, pension, fees, commission, perquisites, and profits in lieu of salary, leave encashment, and taxable contribution/interest/transferred balance in a recognized provident fund account. Since this is an 'inclusive' definition, the term salary would include other items commonly understood to indicate salary such as allowances, bonus, etc.

Basis of Charge

The following points should be noted in this regard:

- (1) Section 15 of the Act deals with the basis of charge. Salary is chargeable to tax either on 'due' basis or on 'receipt' basis whichever is earlier.
- (2) 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.
- (3) If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

Examples:

- (a) If Mr. A draws his salary in advance for the month of April 2020 in the month of March 2020 itself, the same becomes chargeable on receipt basis and is to be assessed as income of the PY 2020-21, i.e., AY 2020-2021. However, the salary for the AY 2021-22 will not include that of April 2020.
- (b) If the salary due for March 2020 is received by Mr. A later in the month of April 2020 only, it is still chargeable as income of the PY 2020-21, i.e., for the AY 2020-2021 on due basis. Obviously, salary for the AY 2021-22 will not include that of March 2021.

Place of Accrual of Salary

Under Section 9(1)(ii), salary earned in India is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

Example: If an employee gets pension paid abroad in respect of services rendered in India, the same will be deemed to accrue in India. Similarly, leave salary paid abroad in respect of leave earned in India is deemed to accrue or arise in India.

Profits in Lieu of Salary

It includes the following:

- (1) The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment.
- (2) The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the modification of the terms and conditions of employment. Usually such compensation is treated as a capital receipt.

However, by virtue of this provision, the same is treated as a revenue receipt and is chargeable as salary.

- (3) Any payment due to or received by an assessee from his employer or former employer from an unrecognized provident fund or from an unrecognized superannuation fund to the extent to which it does not consist of employee's contributions or interest on such contributions.

Example: If any sum is paid to an employee from an unrecognized provident fund it is to be dealt with as follows:

- (a) That part of the sum which represents the employer's contribution to the fund and interest thereon is taxable under salaries.
 - (b) That part of the sum which represents employee's contribution and interest thereon is not chargeable to tax since the same have already been taxed under the head 'salaries' and 'other sources' respectively on a yearly basis.
- (4) Any payment due to or received by an assessee under a Keyman Insurance policy including the sum allocated by way of bonus on such policy.
- (5) Any amount, whether in lump sum or otherwise, due to the assessee or received by him, from any person:
- (a) Before joining employment with that person.
 - (b) After cessation of his employment with that person.
- (6) Any other sum received by the employee from the employer.

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.

Loan or Advance against Salary

Loan is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified installments, the loan amount cannot be brought to tax as salary of the employee. Similarly, advance against salary is different from advance salary. It is an advance taken by the employee from his employer. This advance is generally adjusted with his salary over a specified time period it cannot be taxed as salary.

Salary Arrears

Normally speaking, salary arrears must be charged on due basis. However, there are circumstances when it may not be possible to bring the same to charge on due basis.

Example: if the Pay Commission is appointed by the Central Government and it recommends revision of salaries of employees, the arrears received in that connection will be charged on receipt basis.

Annuity

- (1) 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.
- (2) Annuity received by 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.
- (3) Annuity received from a past employer is taxable as profit in lieu of salary.
- (4) Annuity received from person other than an employer is taxable as "income from other sources".

ALLOWANCE

It is a sum of money received by the employee from his employer in addition to salary or wages.

House Rent Allowance [Sec. 10(13A)]

Exemption in respect of House Rent Allowance is regulated by rule 2A. The least of the following is exempt from tax:

- (a) An amount equal to 50 per cent of salary, where residential house is situated at Bombay Calcutta, Delhi or Madras and an amount equal to 40 per cent of salary where residential house is situated at any other place.
- (b) House rent allowance received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous? year.
- (c) The excess of rent paid over 10 per cent of salary.

Special Allowance for Expenses [Sec.10 (14)]

The provisions of Sec. 10(14) are given below:

The following allowances are exempt under Section 10(14) to the extent the amount is utilized for the specified purpose for which the allowance is received. In other words, in the cases given below the amount of exemption under Section 10(14) is:

- (1) The amount of the allowance.
- (2) The amount utilized for the specific purpose for which allowance is given, whichever is lower. Exemption is available on the aforesaid basis in the case of following allowances:
 - (a) Travelling Allowance/Transfer Allowance.
 - (b) Conveyance Allowance.
 - (c) Daily Allowance.
 - (d) Helper Allowance.
 - (e) Research Allowance.
 - (f) Uniform Allowance.

When exemption does not depend upon expenditure

In the case given below, the amount of exemption does not depend upon expenditure incurred by the employee. Regardless of the amount expenditure, the allowances given below are exempt to the extent of:

- (1) The amount of allowance
- (2) The amount specified in rule 2BB, whichever is lower.

On the above basis exemption is available in the cases of the following allowances:

- (1) Special Compensatory Allowance.
- (2) Border Area Allowance.
- (3) Tribal Area/Schedule Area Allowance.
- (4) Allowance for Transport Employees.
- (5) Children Education Allowance.
- (6) Hostel Expenditure Allowance.
- (7) Compensatory Field Area Allowance.
- (8) Compensatory Modified Area Allowance.
- (9) Counter Insurgency Allowance.
- (10) Transport Allowance.
- (11) Underground Allowance.
- (12) High Altitude Allowance
- (13) Highly Active Field Area Allowance.
- (14) Island Duty Allowance.

Allowance	Exemption
1. Conveyance/Special Allowance/Travelling Allowance	Exempt to the extent spent for official purpose. (Received-Exempt = Taxable)
2. City Compensatory Allowance	Fully Taxable
3. Dearness Allowance (D.A.) whether as per terms of employment	Fully Taxable
4. High Cost of Living allowance	Fully Taxable
5. Children's Education Allowance	Exempt upto ` 100 per month per child
6. Children's Hostel Expenditure Allowance	Exempt ` 300 p.m. per child (Max.2 Children)(Received-exempt = Taxable)
7. Leave Travel Allowance/ Concession	Actual expenses or air economy fare whichever assistances is less is exempt.
8. Fixed Medical allowance (Actual Medical Expenses-Ignore)	Fully Taxable
9. Uniform/Washing Allowance	Exempt to the extent spent for such purpose (Received-exempt = Taxable)

10. Tiffin/Lunch Allowance	Fully Taxable
11. Project Allowance	Fully Taxable
12. Servant/Peon Allowance	Fully Taxable
13. Wardenship Allowance	Fully Taxable
14. Shift Allowance	Fully Taxable
15. Daily Allowance/Helper Allowance/ Research Allowance	Exempt to the extent spent for official purposes.
16. Transport Allowance for travelling between home and office	Exempt up to ` 800 per month

PROVIDENT FUND

Provident fund scheme is a scheme intended to give substantial benefits to an employee at the time of his retirement. Under this scheme, a specified sum is deducted from the salary of the employee as his contribution towards the fund. The employer also generally contributes the same amount out of his pocket, to the fund. The contribution of the employer and the employee are invested in approved securities. Interest earned thereon is also credited to the account of the employee. Thus, the credit balance in a provident fund account of an employee. The accumulated balance is paid to the employee at the time of his retirement or resignation.

In the case of death of the employee, the same is paid to his legal heirs.

The provident fund represents an important source of small savings available to the Govt. Hence, the Income Tax Act gives certain deductions on savings in a provident fund account.

Particulars	Statutory PF	Recognised PF	Unrecognised PF
Meaning	Maintain for Government employees	Recognised by commissioner of income tax	Neither statutory PF nor recognized PF
Employees Contribution	Add to net salary and arrive at gross salary. Gross salary is taxable	Add to net salary and arrive at gross salary. Gross salary is taxable	Add to net salary and arrive at gross salary. Gross salary is taxable.
Interest on Provident Fund Balance	Exempted	Exempted upto 12% of salary. Contribution which is more than 12% of salary is taxable	Exempted
Interest on Provident Fund Balance	Exempted	Exempted upto 9.5% per annum. Interest in excess of 9.5% is taxable	Exempted

Example: Mr. A retires from service on December 31, 2019, after 25 years of service. Following are the particulars of his income/investments for the previous year 2020-21:

Particulars	
Basic pay @ ` 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) ` 8,000 per month for 9 months	72,000
Lump sum payment received from the Unrecognized Provident Fund	6,00,000
Deposits in the PPF account	40,000
Out of the amount received from the provident fund, the Employer's share was ` 3,30,000 and the interest thereon	50,000
The employee's share was ` 2,70,000 and the interest thereon	60,000

Solution: Taxable portion of the amount received from the URPF in the hands of Mr.

A for the AY 2021-22 is computed hereunder:

Amount taxable under the head Income from Salary:

Employer's share in the payment received from the Unrecognized P. F.	3,20,000
Interest on the employer's share	50,000
Total	3,70,000

Amount taxable under the head Income from Other Sources:

Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	4,30,000

Payment from Provident Fund and Accumulated Balance from a Recognized Provident Fund [Sec. 10(11) 10(12)]

Provident fund scheme is a retirement benefit scheme. Under this scheme, a stipulated sum is deducted from the salary of the employee as his contribution towards the fund. The employer also, generally, contributes simultaneously the same amount out of his pocket to the fund. The employee's and employer's contributions are invested in gilt-edged securities. Interest earned therein is also credited in the provident fund account of employees. Thus, credit balance in a provident fund account of an employee consists of employee contribution, interest on employee's contribution, employer's contribution and interest on employer's contribution. The accumulated sum is paid to the employee at the time of his retirement or resignation. In the case of death of an employee, accumulated balance is paid to his legal heirs. Since the scheme encourages personal savings at micro level and generates funds for investment at macro level, the Government provides tax incentives. There are different kinds of Provident Fund such as:

- (a) Statutory Provident Fund.
- (b) Recognized Provident Fund.
- (c) Unrecognized Provident Fund.

Payment from an Approved Superannuation Fund [Sec. 10(13)]

It means a superannuation fund which has been and continues to be approved by the Commissioner in accordance with rules contained in Part B of the Fourth Schedule. The tax treatment of contribution to any payment from the fund is as under:

- (1) Employer's contribution is exempt from tax.
- (2) Employee's contribution qualifies for tax rebate under Section 88.
- (3) Interest on accumulated balance is exempt from tax.
- (4) Section 10(13) grants exemption in respect of payment from the fund:
 - (a) To the legal heirs in the death of beneficiary.
 - (b) To an employee in lieu of or in commutation of an annuity on his retirement at or after the specified age or on his becoming incapacitated prior to such retirement.
 - (c) By way of refund of contribution on the death of the beneficiary.
 - (d) By way of refund of contribution to an employee on his leaving the service otherwise than in the circumstances mentioned in (b) to the extent to which such payment does not exceed the contribution made prior to April 1, 1962 (For instance, where the amount received by an employee does not include any contribution made prior to April 1, 1962, the whole amount is taxable).

APPROVED SUPERANNUATION FUND

It means a superannuation fund which has been and continues to be approved by the Commissioner in accordance with the rules contained in Part B of the VIth Schedule to the Income Tax Act.

Salary from United Nations Organisation

Section 2 of the United Nations (Privileges and Immunities) Act, 1947 grants exemption from income Tax to salaries and emoluments paid by the United Nations to its officials. Besides salary, any pension covered under the United Nations (Privileges and Immunities) Act and received from UNO is also exempt from tax.

Perquisites

- (1) The term 'perquisite' indicates some extra benefit in addition to the amount that may be legally due by way of contract for services rendered. In modern times, the salary package of an employee normally includes monetary salary and perquisite like housing, car, etc.
- (2) Perquisite may be provided in cash or in kind.
- (3) Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.
- (4) Perquisite may arise in the course of employment or in the course of profession. If it arises from a relationship of employer-employee, then the value of the perquisite is taxable as salary. However, if it arises during the course of profession, the value of such perquisite is chargeable as profits and gains of business or profession.

- (5) Perquisite will become taxable only if it has a legal origin. An unauthorised advantage taken by an employee without his employer's sanction cannot be considered as a perquisite under the Act.

Example: suppose A, an employee, is given a house by his employer. On 31.3.2021, he is terminated from service. But he continues to occupy the house without the permission of the employer for six more months after which he is evicted by the employer. The question arises whether the value of the benefit enjoyed by him during the six months period can be considered as a perquisite and be charged to salary. It cannot be done since the relationship of employer-employee ceased to exist after 31-3-2021. However, the definition of income is wide enough to bring the value of the benefit enjoyed by employee to tax as "income from other sources".

- (6) Income Tax paid by the employer out of his pocket on the salary of the employee is a perquisite in the hands of the employee whether the payment is contractual or voluntary.

Definition: Under the Act, the term 'perquisite' is defined by Section 17(2) to include the following:

- (a) The value of rent free accommodation provided to the assessee by his employer Section 17(2)(i).
- (b) The value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer—Section 17(2)(ii).
- (c) The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases (i.e., in case of specified employees):
 - (i) By a company to an employee in which he is a director.
 - (ii) By a company to an employee being a person who has substantial interest in the Company (i.e., 20% or more of the voting rights of the company).
 - (iii) By any employer (including a company) to an employee to whom the provisions of (i) and (ii) 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 benefits exceeds Rs.50,000 - Section 17(2)(iii).

However, the value of any benefit provided by a company free of cost or at a concessional rate to its employees by way of allotment of shares, debentures or warrants of a company directly or indirectly under any employees stock option plan or scheme shall not be treated as a perquisite under Section 17(2)(iii) only when these are offered to employees in accordance with the guidelines issued in this behalf by the Central Government.

- (d) Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee – Section 17(2)(iv).
- (e) Any sum payable by the employer whether directly or through a fund, other than a recognised provident fund or approved superannuation fund or deposit-linked insurance fund to effect an assurance on the life of the assessee or to effect a contract for an annuity – Section 17(2)(v).

- (f) The value of any other fringe benefit or amenity. It can be noted that the aforesaid definition of perquisite is an inclusive one. More terms can be added in.

Types of perquisites: Perquisites may be divided into three broad categories:

- (a) Perquisites taxable in the case of all employees
 - (b) Perquisites exempt from tax in the case of all employees
 - (c) Perquisites taxable only in the hands of specified employees.
- (a) Perquisites taxable in the case of all employees:** The following perquisites are chargeable to tax in all cases:
- (1) Value of rent-free accommodation provided to the assessee by his employer [Section 17(2)(i)]
 - (2) Value of concession in rent in respect of accommodation provided to the assessee by his employer [Section 17(2)(ii)].
 - (3) Amount paid by an employer in respect of any obligation which otherwise would have been payable by the employee [Section 17(2)(iv)].
 - (4) Amount payable by an employer directly or indirectly to effect an assurance on the life of the assessee or to effect a contract for an annuity, other than payment made to RPF or approved superannuation fund or deposit-linked insurance fund.
 - (5) The value of any other fringe benefit or amenity (excluding the fringe benefits chargeable to tax under Chapter XII-H) as may be prescribed.
- (c) Perquisites exempt from tax in all cases:** The following perquisites are exempt from tax in all cases:
- (1) Telephone 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 either free of charge or at concessional rate.
 - (4) Privilege passes and privilege ticket orders granted by Indian Railways to its employees.
 - (5) Perquisites allowed outside India by the Government to a citizen of India for rendering services outside India;
 - (6) Sum payable by an employer to a RPF or an approved superannuation fund or deposit linked insurance fund established under the Coal Mines Provident Fund or the Employees' Provident Fund Act.
 - (7) Employer's contribution to staff group insurance scheme.
 - (8) Leave travel concession.
 - (9) Payment of annual premium by employer on personal accident policy effected by him on the life of the employee.
 - (10) Refreshment provided to all employees during working hours in office premises.
 - (11) Subsidized lunch or dinner provided to an employee.
 - (12) Recreational facilities, including club facilities, extended to employees in general, i.e., not restricted to a few select employees.

- (13) Amount spent by the employer on training of employees or amount paid for refresher management course including expenses on boarding and lodging.
- (14) Medical facilities subject to certain prescribed limit.
- (15) Rent-free official residence provided to a Judge of a High Court or the Supreme Court.
- (16) Rent-free furnished residence including maintenance provided to an Officer of Parliament, Union Minister and a Leader of Opposition in Parliament.
- (17) Conveyance facility provided to High Court Judges and Supreme Court Judges.
- (18) Any benefit provided by a company free of cost or at a concessional rate to its employees by way of allotment of shares, debentures, or warrants directly or indirectly under the Employees Stock Option Plan [ESOP] or Scheme of that company offered to the employees in accordance with the guidelines issued by the Central Government.
- (19) Guest house, holiday home facility.
- (20) Gift, voucher or token given by the employer.
- (21) Motor car facility.
- (22) Credit card expenses reimbursed or paid by the employer.

However, some of the perquisites mentioned above are taxable as fringe benefits in the hands of the employer.

- (c) **Perquisites taxable only in the hands of specified employees:** The value of any benefit or amenity granted or provided free of cost or at concessional rate which have not been included in a and b above will be taxable in the hands of specified employees.

Specified employees are:

- (a) Director employee
- b) An employee who has substantial interest in the company
- (c) Employee drawing in excess of ₹ 50,000.

VALUATION OF PERQUISITES

The Income Tax Rules, 1962 contain the provisions for valuation of perquisites. It is important to note that only those perquisites which the employee actually enjoys have to be valued and taxed in his hand.

Example: suppose a company offers a housing accommodation rent free to an employee but the latter declines to accept it, then the value of such accommodation obviously cannot be evaluated and taxed in the hands of the employees.

(1) Valuation of unfurnished accommodation: There are two ways in which a rent-free accommodation may be made available by an employer to his employee. He may own the housing accommodation and may give the same to the employee free of rent. He may also hire an accommodation on rent and give the same to the employee free of rent. In both the cases, the effect is that the employee gets rent-free accommodation. Provision of rent-free accommodation is a perquisite which is taxable in the hands of all employees whether specified or non-specified.

(2) Valuation of furnished accommodation: When the accommodation provided to the employee is furnished by the employer, the computation of the value of the perquisite has to be done in the following manner:

Step 1: Compute the value of the perquisite as if the accommodation is unfurnished.

Step 2: To the value arrived at Step 1 above, add the value of furniture as follows:

- (a) If the furniture is owned by the employer, then value of furniture is to be added on the basis of 10% p.a. of the original cost of the furniture.
- (b) If the employer has taken the furniture on hire, then value of furniture is the actual hire charges borne by the employer.

(3) Valuation of accommodation provided in a hotel: Where the accommodation provided by the employer (Government or other employer) in a hotel, the value of the perquisite will be lower of:

- (a) 24% of salary paid or payable for the previous year or
- (b) The actual charges paid or payable to such hotel for the period during which such accommodation is provided.

The above value is reduced by the rent, if any, actually paid or payable by the employee.

(4) Accommodation provided at the time of transfer: Where on account of his transfer from one place to another, the employee is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value (as determined according to the above provisions) for a period not exceeding 90 days and thereafter, the value of perquisite shall be charged for both such accommodations in accordance with the valuation rules.

(5) Valuation of provision for domestic servants: The value of perquisite is determined as under:

Servants appointed by	Servants salary paid by	Value of perquisite	Taxable in the hand of
Employee	Employee	Nil	Not applicable
Employee	Employee	Actual cost incurred by the employer on the servant	All employees
Employee	Employee	Actual cost incurred by the employer on the servant	Specified employee
Employee	Employee	Nil	Not applicable

Note: Where the employee is paying any amount in respect of such servant facility, the amount so paid shall be deducted from the value of perquisite determined above.

(6) Valuation of supply of gas, electricity or water supplied by employer: The value of perquisite is determined as under:

Facility in the name of	Provided from own source	Provided from outside	Taxable in the hand of
Employee	Manufacturing cost to the employee	Amount paid to the supplier	All employees
Employee	Manufacturing cost to the employee	Amount paid to the supplier	Specified employee

Note: Where the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value of perquisite determined above.

(7) Valuation of free or concessional educational facilities: The value of perquisite is determined as under:

Facility provided to	Value of perquisite		Taxable in the hand of
Children	Provided in a school owned by the employer	Provided in any other school	Specified employee
Children	Cost of such education in similar school (exemption of ₹ 1,000 per month per child is available)	Cost of such education (exemption of ₹ 1,000 per month per child is available)	
Other household member	Cost of such education in a similar school	Cost of such education incurred	Specified employee

Note:

- (1) If the employee incurs the expenditure of school fees and the same is reimbursed by the employer, then the entire amount of reimbursement so made, shall be fully taxable in the hands of all employees.
- (2) Child includes stepchild as well as the adopted child of the employee.
- (3) "Household member" shall include:
 - (a) Spouse
 - (b) Children and their spouses
 - (c) Parents
 - (d) Servants and dependants.

(8) Valuation of other fringe benefits and amenities: In terms of provisions contained under/s 17(2)(vi), the following other fringe benefits or amenities are hereby prescribed:

- (a) Interest-free or concessional loan
- (b) Use of movable assets
- (c) Transfer of moveable assets.

(9) Medical facilities: Proviso to Section 17(2) provides that the following medical facilities will not amount to perquisites:

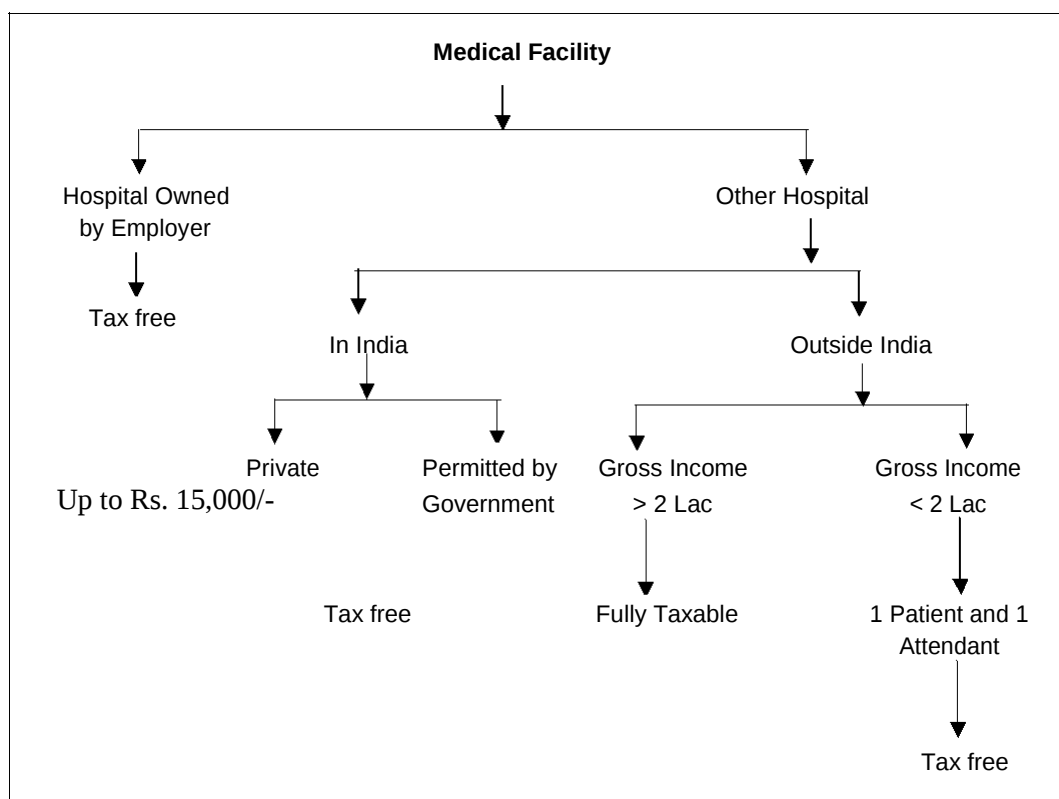
- (a) The value of any medical treatment provided to an employee or any member of his family in any hospital maintained by the employer.
- (b) Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family in any hospital maintained by the Government/local authority/any other hospital approved by the Government for the purpose of medical treatment of its employees.
- (c) Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family in respect of the prescribed disease or ailments in any hospital approved by the Chief Commissioner. However, in order to claim this benefit, the employee shall attach with his return of income a certificate from the hospital specifying the disease or ailment for which medical treatment was required and the receipt for the amount paid to the hospital.

Thus two types of facilities are covered:

- (i) Payment by the employer for treatment in a Government hospital.
- (ii) Payment by an employer for treatment of prescribed diseases in any hospital approved by the Chief Commissioner.
- (d) Any premium paid by an employer in relation to an employee to effect an insurance on the health of such employee. However, any such scheme should be approved by the Central Government or the Insurance Regulatory Development Authority (IRDA).
- (e) Any sum paid by the employer in respect of any premium paid by the employee to effect an insurance on his family under any scheme approved by the Central Government.
- (f) Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family to the extent of ₹ 15,000 in the previous year.

Note: It is important to note that this expenditure need not be incurred either in the government hospital or in a hospital approved by the Chief Commissioner.

- (g) Any expenditure incurred by the employer on the following:
 - (a) Medical treatment of the employee or any member of the family of such employee outside India.
 - (b) Travel and stay abroad of the employee or any member of the family of such employee for medical treatment.
 - (c) Travel and stay abroad of one attendant who accompanies the patient in connection with such treatment.



Example: the taxable value of the perquisite in respect of medical facilities received by Mr. Ganesh from his employer during the PY 2020-21 can be computed as follows:

- Medical premium paid for insuring health of Mr. Ganesh ` 7,000
- Treatment of Mr. Ganesh by his family doctor ` 5,000
- Treatment of Mrs. Ganesh in a Government hospital ` 25,000
- Treatment of Mr. Ganesh's grandfather in a private clinic ` 12,000
- Treatment of Mr. Ganesh's mother (68 years and dependant) by family doctor ` 8,000
- Treatment of Mr. Ganesh's sister (dependant) in a nursing home ` 3,000
- Treatment of Mr. Ganesh's brother (independent) ` 6,000
- Treatment of Mr. Ganesh's father (75 years and dependant) abroad ` 50,000
- Expenses of staying abroad of the patient and attendant ` 30,000. Limit specified by RBI ` 75,000

Particulars

Treatment of Mrs. Ganesh in a Government hospital			N.A.
Treatment of Mr. Ganesh's father (75 years and dependant) abroad	50,000		
Expenses of staying abroad of the patient and attendant	<u>30,000</u>	80,000	
Less: Exempt up to limit specified by RBI		<u>75,000</u>	5,000

Medical premium paid for insuring health of Mr. Ganesh	N.A.	
Treatment of Mr. Ganesh by family doctor		5,000
Treatment of Mr. Ganesh's mother (dependent) by family doctor	8,000	
Treatment of Mr. Ganesh's sister (dependent) in a nursing home	<u>3,000</u>	16,000
Less: Exempt up to	<u>15,000</u>	1,000
Add: Treatment of Mr. Ganesh's grandfather in a private clinic	12,000	
Add: Treatment of Mr. Ganesh's brother (independent)		<u>6,000</u>
Taxable value of perquisite		24,000

Note: Grandfather and independent brother are not included within the meaning of family of Mr. Ganesh.

(10) Payment of premium on personal accident insurance policies: If an employer takes personal accident insurance policies on the lives of employees and pays the insurance premium, no immediate benefit would become payable and benefit will accrue at a future date only if certain events take place. Moreover, the employers would be taking such policy in their business interest only, so as to indemnify themselves from payment of any compensation.

Therefore, the premium so paid will not constitute taxable perquisites in the employees' hands.

Retirement Benefits: Gratuity [Sec. 10(10)]

Gratuity is a retirement benefit. It is generally payable at the time of cessation of employment and on the basis of duration of service. Tax treatment of Gratuity is given below:

- (1) In case of Government Employees:** Any death-cum-retirement gratuity received by Government employees (i.e., Central Government Employees, State Government Employees, employees of local authority but not employees of a statutory corporation) is wholly exempt from tax under Section 10(10)(i)
- (2) In case of Employees Covered by The Payment of Gratuity Act, 1972:** Any Gratuity received by an employee, covered by the Payment of Gratuity Act, 1972, is exempt from tax to the extent of the least of the following:
 - (a) $15/26$ days' salary (7 days' salary in the case of employees of a seasonal establishment) based on salary last drawn for every completed year of services or part thereof in excess of six months [$15/26 \times 10$ Months Average Salary $\times$ No. of Years Service].
 - (b) ₹ 20,00,000.
 - (c) Actual Gratuity received.
- (3) In the case of Other Employee:** Any other Gratuity, received by an employee on retirement, death, termination, resignation or on his becoming incapacitated prior to the retirement, is exempt from the tax to the extent of the least of the following:
 - (a) $(1/2)$ half month's average salary for each completed year of service; [$1/2 \times 10$ Months Average Salary $\times$ No. of Years Service (fraction should be ignored)].

- (b) ₹ 20,00,000.
- (c) Actual Gratuity actually received.

Commutation of Pension [Sec. 10(10A)]

Pension is a periodical payment made by an employee after his retirement and is taxed as salary. Pension received from the United National Organization is not taxable. The basis of charge is given below:

- (a) **Uncommuted Pension:** It is periodical payment of pension. For instance, X gets monthly pension of ₹ 2,000. It is taxable as salary under section 15 in the hands of a Government employee as well as non – Government employee.
- (b) **Commuted Pension:** It is a lump sum payment in lieu of periodical payment. For instance, after his retirement, X gets ₹ 2,000 per month as monthly payment. As per service rule, he gets 25 per cent of his pension commuted for ₹ 60,000 (after commutation he will get the remaining 75 per cent, i.e., ₹ 1,500 by way of monthly pension) In this case, ₹ 60,000 is commuted pension which X has received in lieu of 25 per cent of his monthly pension.

Commuted pension is taxable as under:

- (i) Any commuted pension received by an Government employee (i.e., an employee of Central Government, State Government, local authority and statutory corporation) is wholly exempt from tax under Section 10(10A)(i)
- (ii) Payment in commutation of pension received by a non – Government employee:
 - In a case where the employee receives gratuity, the commuted value of one-third of the pension which he is normally entitled to receive.
 - In any other case, the commuted value of one-half of such pension is exempt from tax.

Leave Salary [Sec. 10(10AA)]

What is leave salary – As per the service rules, an employee gets different leaves. An employee has to earn leave in the first instance and only when he has leave to his credit, he can apply for leave. If a leave (standing to his credit) is not taken within a year, as per the service rules, it may lapse or it may be encashed or it may be accumulated. The accumulated leaves standing to the credit of an employee may be availed by the employee during his service time or, subject to service rules, such leaves may be encashed at the time of retirement or leaving the job. Encashment of leave by surrendering leave standing to one's credit is known as "leave salary".

Leave encashment at the time of retirement or leaving the job. If leave encashment is received at the time of leaving the job or at the time of retirement, then Section 10(10AA) provides exemption which is explained below:

- (1) Government employees getting leave encashment at the time of retirement [Sec. 10(10AA) (i)]
- (2) In the case of Central/State Government employee, any amount received as cash equivalent of leave salary in respect of period of earned leave at his credit at the time of his retirement, whether on superannuation or otherwise, is exempt from tax

NON-GOVERNMENT EMPLOYEES GETTING LEAVE ENCASHMENT AT THE TIME OF RETIREMENT [Sec. 10(10AA) (ii)]

In the case of a non –Government employee (including an employee of a local authority or public sector undertaking), leave salary is exempt from tax to the extent of the least of the following:

- (1) Cash equivalent of the leave salary in respect of the period of earned leave to the credit of employee at the time of his retirement, whether on superannuation or otherwise [Earned Leave in terms of month $\times$ Average Salary].
- (2) 10 months' "average salary" [10 Months $\times$ Average Salary].
- (3) The amount specified by the Government [i.e., ` 3,00,000].
- (4) Leave encashment actually received at the time of retirement [Actual amount received].

Retrenchment Compensation [Sec. 10(10B)]

Compensation received by a workman at the time of retrenchment is exempt from tax to the extent of the lower to the following:

- (1) An amount calculated in accordance with the provisions of Section 25F(b) of the Industrial Disputes Act, 1947.
- (2) Such amount as notified by the Government (i.e., ` 5,00,000).
- (3) The amount received.

Compensation on Retirement of Employees of a Public Sector Company [Sec 10(10C)]

- (1) Compensation is received at the time of voluntary retirement or separation.
- (2) Maximum amount of exemption is ` 5, 00,000.
- (3) Where exemption has been allowed to an employee under Section 10(10C) for any assessment year, no exemption there under shall be allowed to him in relation to any other assessment year.

Tax Borne by the Employer on non Monetary Perquisite to Employee [Sec. 10(10CC)]

A new clause (10CC) is inserted in section 10 with effect from the assessment year to exempt the amount of tax actually paid by an employer, at his option, on the income in the nature of a perquisite (not provided for by the way of monetary payment) on behalf of an employee, from being included in perquisites. Such tax paid by the employer shall not be treated as an allowable expenditure in the hands of the employer under Section 40.

Deductions from Salary

The income chargeable under the head 'salaries' is computed after making the following deductions:

- (1) **Standard Deduction [Section 16(i)]:** Provision of Standard Deduction was earlier available. However, it was abolished in the Finance Act 2005. They are usually deducted from the gross salary and claimed as an exemption. The government has proposed requisite amendments to Section 17(2)(viii) of the Income-tax Act, 1961. As a result, the effective additional benefit on account of the standard deduction would be Rs. 50,000/- p.a. for A.Y. 2021-22.
- (2) **Entertainment allowance [Section 16(ii)]:** Entertainment allowance received is fully taxable and is first to be included in the salary and thereafter the following deduction is to be made:

However deduction in respect of entertainment allowance is available in case of Government Employees. The amount of deduction will be lower of:

- (a) One-fifth of his basic salary
- (b) ` 5,000
- (c) Entertainment allowance received.

Deduction is permissible even if the amount received as entertainment allowance is not proved to have been spent. Amount actually spent by the employee towards entertainment out of the entertainment allowance received by him is not a relevant consideration at all.

- (2) **Professional tax [Section 16(iii)]:** Professional tax or taxes on employment levied by a State under Article 276 of the Constitution is allowed as deduction only when it is actually paid by the employee during the previous year.

If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is first included as salary income and then allowed as a deduction u/s 16.

Computing Income from Salary

Name of the Assessee: XYZ

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from Salary

Particulars

Income from Salary

(1) Salary

Gross = Net + Deduction

Advanced Received

Arrears Received

Voluntary Payments

Less: Exempt u/s 10

xx

(2) Allowances

Dearness Allowance

City Compensatory Allowance

Entertainment Allowance

Leave Travel Allowance

Less: exempt u/s 10(5)

House Rent Allowance

Less: exempt u/s 10(13A) U/S 10 (13A)

Least of Following

- Actual HRA Recd.

- 50 % of Salary Metro City 40% for remaining City

- Actual Rent Paid Over & Above 10% of Salary

Expense Allowance

Less: exempt u/s 10(14)

xx

(3) Annuity (less exempt U/S 10 (13))

xx

(4) Pension

(a) Uncommuted (monthly after retirement fully taxable for all employee)

(b) Commuted (lump sum value after retirement)

Less: Commuted Pension exempt u/s 10 (10A)

(a) Govt. Employee-fully exempted

(b) Non-Govt. employee

- With Gratuity, 1/3 of full commuted value

- Otherwise, 1/2 of full commuted value

xx

(5) Gratuity Gross

Less: Exempt u/s 10(10)

(a) Govt. Employee-fully Exempted

(b) Employee under Payment of Gratuity Act - least of

- Gratuity actually received

- ` 20,00,000

- $15/26 \times \text{Average Salary of last 10 month} \times \text{Completed years of services or part there}$
(Basic + DA forming part of salary)

(c) Other Employee- Lower of

- Gratuity actually received

- ` 20,00,000

- $\frac{1}{2} \times \text{Average Salary of last 10 month} \times \text{No. of years of service completed}$

xx

(6) Fess and Commission

xx

(7) Perquisites

xx

(8) Profit in lieu of salary

- Compensation for termination of Employment

- Compensation for modification of terms of employment

- Payments from employer/P.F. over and above

- Employee's own contribution + Interest (e.g. from unrecognised P.F.)

- Keyman insurance policy

Less: Exempt u/s 10:

- Compensation to workman

- Payment from statutory P.F.

- Payment from recognised P.F.

- Payment from superannuation fund.

- Retrenchment compensation

- Voluntary retirement compensation

xx

(9) Leave Encashment Gross

Less: Exempt u/s 10(10AA)

(a) Government Employees-fully exempted	
(b) Non-Govt. Employee-least of	
• Amount actually received	xx
• ` 3,00,000	
• 10 × Average Salary for last 10 months (Basic + DA part + T.O. commission)	
• Encashment of earned leave (@ 30 days p.a.)	
(10) Taxable Annual Accretion in RPF	
Employer's Contribution exceeding 12% of Basic Salary (Basic + DA part + T.O. commission)	
Interest exceeding @ 9.5% p.a.	xx
(11) Taxable Transferred Balance in PRF	xx
(12) Gross Taxable Salary (1 to 11)	xxx
Less: Deduction under S. 16	
(13) Standard Deduction	(50,000)
(14) Entertainment Allowance	
Govt. Employee- least of	
(a) Actual Allowance	
(b) ` 5,000	
(c) 1/5th of Basic Salary	
Other Employee	Nil
Profession tax	(xx)
(15) Net Taxable Salary (Gross-Deduction)	xxx

Illustration 1:

Mr. Goyal receives the following emoluments during the P.Y. ending 31.03.21.

- Basic pay ` 40,000
- Dearness Allowance ` 15,000
- Commission ` 10,000
- Entertainment allowance ` 4,000
- Medical expenses reimbursed ` 25,000
- Professional tax paid in the PY ` 3,000 (` 2,000 was paid by his employer)
- Free car facility for Mr. Goyal for which expenditure of the employer was ` 20,000.
- Mr. Goyal contributes ` 5000 towards provident fund. He has no other income. (Mr. Goyal is a State Government employee).

Solution:

Name of the Assessee: Mr Gopal

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from Salary

Particulars		
Basic Salary		40,000
Dearness Allowance		15,000
Commission		10,000
Entertainment Allowance received		4,000
Employee's contribution to RPF [Note 1]		Nil
Medical expenses reimbursed	25,000	
Less: Exempt medical expenses	<u>(15,000)</u>	10,000
Professional Tax paid by the employer		2,000
Free car facility (Note 2)		20,000
Gross Salary		1,01,100
Less: Deductions u/s 16		
u/s 16(i) Standard deduction	(50,000)	
u/s 16(ii) Entertainment allowance being lower of :		
(a) Allowance received	4,000	
(b) One fifth of basic salary [$1/5 \times 40,000$]	8,000	
(c) Statutory amount	<u>5,000</u>	(4,000)
u/s 16(iii) Professional Tax paid		(3,000)
Taxable Income from salary		44,000

Note 1: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Free car facility is liable to fringe benefit tax in the hands of the employer.

Illustration 2:

X, the general manager of Y Ltd. retired on December 31, 2020 after 30 years of service. The particulars of his incomes are as follows:

- (1) Salary ` 8000 per month from January 1, 2020.
- (2) Medical expenses reimbursed by employer: ` 26,400 for the period from 1st April 2020 which includes ` 5000 paid to a Government hospital.
- (3) X contributes 22% to a recognized provident fund and the company matches his regular contribution of 12%.
- (4) He lives in a rented house in Delhi and pays ` 4000 per month as rent, against HRA received @ 3,000/- p.m.

- (5) X received ₹ 1,50,000 as Gratuity. He is not covered by the Payment of Gratuity Act, 1972.
 (6) He received ₹ 1,60,000 for encashment of leave, being 360 days leave not availed.

Solution:

Name of the Assessee: Mr. Suhas Desai

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from Salary

Particulars			
1. Salary and Wages Basic salary (8,000×9)			72,000
2. Allowances			
House rent Allowances (3,000×9)		27,000	
Less: exempt u/s 10(13A) Least of			
(a) Actual HRA	27,000		
(b) Rent paid - 10% of salary: 36,000-10% (72,000)	28,800		
(c) 50% of Salary ₹ 72,000	<u>36,000</u>	<u>(27,000)</u>	Nil
3. Gratuity Gross Amount Received		1,50,000	
Less: exempt u/s 10(10)			
(a) Average salary for last 10 months × 1/2× years of service (8000 × 1/2×30)	1,20,000		
(b) Notified amount	20,00,000		
(c) Actual amount received	<u>1,50,000</u>	<u>(1,20,000)</u>	30,000
4. Perquisites [Reimbursement of medical expenses]			
Amount Reimbursement		26,400	
Less: Pvt. Hospital Amt. + Govt. Hospital [15,000 + 5,000]		<u>(20,000)</u>	6,400
5. Leave Encashment Amount Received		1,60,000	
Less: Exempt u/s 10(10AA) Non-Govt. employees least of			
(a) Encashment of earned leave (@30 days p.a., i.e., 12 M)	96,000		
(b) 10× average salary for last 10 months	80,000		
(c) Notified Amount	3,00,000		
(d) Amount actually received	<u>1,60,000</u>	<u>(80,000)</u>	80,000
6. Gross Total Salary			1,88,400

7. Less: Deduction under section 16	50,000
8. Net Taxable Salary	1,38,400

Note: Employer's contribution to provident fund below 12%, thus, not taxable.

Illustration 3:

Mr. Suhas Desai submits the following information pertaining to the year ending 31-03-2021:

- (1) Basic salary ` 5,000 per month.
- (2) Dearness allowances ` 3,000 per month
- (3) Bonus@ 20% on salary plus dearness allowances.
- (4) Employee contributes 12.5% of basic salary and dearness allowance to recognized Provident Fund every month. Employer also contributes an equal sum.
- (5) Interest on balance credited to his Recognized Provident Fund Account @14% per annum ` 17,500.
- (6) House rent allowance ` 10,000 per annum.
- (7) Profession tax paid by employee ` 840.
- (8) He retired from services on 31-03-2020 opting for 60% commutation of pension and received ` 2,40,000 as the only terminal benefit.

Compute his income from salaries for assessment year 2021-22.

Solution:

Name of the Assessee: Mr. X

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from Salary

Particulars		
Basic Salary (5,000 * 12month)		60,000
Dearness Allowances (3,000 * 12month)		36,000
Bonus (20% of 96,000)		19,200
Employer's contribution Recognized Provident Fund (12.5% of 96,000)	12,000	
Less: Exempted (12% of 96,000)	<u>(11,520)</u>	480
Interest on Recognized Provident Fund Taxable		
	14%	17,500
	9.5%	<u>(11,875)</u>
		5,625
House Rent Allowances	10,000	
Less: Exempted u/s 10(13A) [No Information is given about Rent Paid]	<u>(Nil)</u>	10,000
Commutation Pension Amount Received	2,40,000	
[Total Amount Due 2,40,000/60% = 4,00,000]		

Less: Exempted u/s 10(10A) [1/2 of 4,00,000]	(2,00,000)	40,000
Total Salary		1,71,305
Less: Deductions u/s 16		
16(i) Standard deduction	(50,000)	
16(iii) Profession Tax Paid	(840)	
Taxable Salary		1,20,465

Illustration 4:

Mr. Binod working in a limited company since 1st Dec 2017 on a salary scale of ` 5,000-1,000-10,000-2,000- 20,000. What amount of Basic salary he has to show in SOIFS for P. Y. 2020-21.

Solution:

1/12/17-30/11/18	5,000 p.m.
1/12/18-30/11/19	6,000 p.m.
1/12/19-30/11/20	7,000 p.m.
1/12/20-30/11/21	8,000 p.m.

April 2020 to March 2021

A	M	J	J	A	S	O	N	D	J	F	M
7	7	7	7	7	7	7	7	8	8	8	8

April 20 to November 20 $7,000 \times 8m = 56,000$

December 20 to March 21 $8,000 \times 4m = 32,000$

Basic Salary for P.Y. 2020-21 = 88,000

Illustration 5:

Ms. Sima working in a Govt. Company since 1st Sep 2017 on a salary scale of Rs. 7,000-800-11,800-1,000-20,800. What amount of Basic salary She has to show in SOIFS for P.Y. 2020-21?

Solution:**Working Note:**

1/9/17-31/8/18	7,000
1/9/18-31/8/19	7,800
1/9/19-31/8/20	8,600
1/9/20-31/8/21	9,400

April 20 to March 21

A13	M	J	J	A	S	O	N	O	J	F	M 21
8,600	8,600	8,600	8,600	8,600	9,400	9,400	9,400	9,400	9,400	9,400	9,400

April 20 to August 20 $8,600 \times 5 = 43,000$

Sept 20 to March 21 $9,400 \times 7 = 65,800$

Basic salary for P.Y.20-21

= 1,08,800

Illustration 6:

Mr. Nirav is employed as sales manager in Talent Ltd. since 2014. His salary income particulars were as below in the P. Y. ending 31-03-2021:

- (1) Basis Salary ` 15,000 per month.
- (2) Dearness allowance ` 6,000 per month.
- (3) City Compensatory Allowance per month ` 3,000. (Additional expenses for city life ` 2,500 p.m.)
- (4) Children Education Allowances ` 200 p.m. (Exemption u/s10(14) ` 1,200)
- (5) Children Hostel Allowance ` 300 p.m. (Exemption u/s 10(14) ` 3,600)
- (6) Fixed Medical Allowance ` 2,000 p.m. (amount spent for Medical treatment ` 18,700)
- (7) Motor Car Allowance ` 2,000 p.m.(Exemption u/s 10 (14) ` 23,000)
- (8) Commutation allowance ` 2,000 p.m. (amount of exemption ` 800 p.m.)
- (9) Lunch allowance ` 2,000 p.m. (amount spent on lunch ` 1,200 p.m.)
- (10) Entertainment allowance ` 1,500 p.m.
- (11) Servant Allowance ` 900 per month (wages paid to servant ` 1,200p.m.)
- (12) Picnic Allowance ` 5,000.
- (13) Refreshment Allowance ` 700 p. m. (amount saved ` 2,300)
- (14) He has paid professional tax ` 2,500 during 20-21.

Solution:

Name of the Assessee: Mr. Nirav

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars		
(1) Basic salary $15,000 \times 12$		1,80,000
(2) Dearness allowance 6000×12		72,000
(3) City compensatory Allowance 3000×12		36,000
(4) Children Education Allowance 200×12	2,400	
Less: Exemption u/s 10(4)	<u>(1,200)</u>	1,200
(5) Children Hostel Allowance 300×12	3,600	
Less: Exemption u/s 10(14)	<u>(3,600)</u>	Nil
(6) Fixed Medical Allowance 2000×12		24,000
(7) Motor car Allowance 2000×12	24,000	

Less: Exemption u/s 10(14)	<u>(23,000)</u>	1,000
(8) Commutation Allowance 2000×12	24,000	
Less: Exemption u/s 10(14) 800×12	<u>(9,600)</u>	14,400
(9) Lunch Allowance 2000×12		24,000
(10) Entertainment Allowance 15000×12		18,000
(11) Servant Allowance 900×12		10,800
(12) Picnic Allowance		5,000
(13) Refreshment Allowance 700×12		8,400
Gross Salary		3,94,800
Less: Deduction u/s 16		
16 (i) Standard Deduction		(50,000)
16 (ii) Entertainment Allowance		Nil
16 (iii) Professional Tax paid		(2,500)
Net taxable salary		3,42,300

Illustration 7:

Mr. Kuldeep is employed as production manager in Aerolite Industries Ltd., since 2016. For the P. Y. 20-21 he had following salary particulars:

(1) Basic Salary:

Upto 31 Aug ` 8,000 p.m.

Since 1st Sept. ` 9,000 p.m.

- (2) Dearness allowance ` 2,000 p.m.
- (3) City compensatory allowance/C.C.A ` 1,000 p.m. (additional expenses for city life ` 1,300 p.m.)
- (4) Children Educational Allowance ` 200 p.m. (amount of exemption ` 2,400)
- (5) Children Hostel Expenditure Allowance ` 300 p.m. (exemption ` 3,600)
- (6) Allowance to commute between residence and office ` 1,000 p.m. (amount of exemption ` 9,600)
- (7) House Rent Allowance ` 4,000 p.m. (Exemption u/s 10(13A) ` 32000)
- (8) Fixed medical Allowance ` 2,000 p.m. (amount spent for medical expenses ` 10,000)
- (9) Entertainment allowance 1,000 p.m. (amount spent on Entertainment ` 10,000)
- (10) Project Allowance ` 2,000 p.m.
- (11) Overtime allowance ` 12,000
- (12) Paternity Allowance on birth of third child ` 20,000
- (13) Travel Allowance/Tour Allowance ` 23,000 (amount spent for office purposes ` 21,000)
- (14) Motor Car Allowance/Motorcycle ` 2,000 p.m. (amount spent for office purpose ` 23,000)
- (15) He has paid professional tax ` 4,000 during 20-21 and ` 1,000 is outstanding as on 31-03-21.

You are required to calculate Income from Salary for A. Y. 21-22.

Solution:

Name of the Assessee: Mr. Kuldeep

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary**Particulars**

(1) Basic salary		
April to August 8000×5	40,000	
Sept to March 9000×7	<u>63,000</u>	1,03,000
(2) Dearness Allowance 2000×12		24,000
(3) City compensatory Allowance 1000×12		12,000
(4) Children Education Allowance 200×12	2,400	
Less: Exemption u/s 10(14)	<u>(2,400)</u>	Nil
(5) Children Hostel Allowance 300×12	3,600	
Less: Exemption u/s 10(13A)	<u>(3,600)</u>	Nil
(6) Commutation Allowance 1000×12	12,000	
Less: Exemption u/s 10 (13A)	<u>(9,600)</u>	2,400
(7) House Rent Allowance 4000×12	48,000	
Less: Exemption U/s 10(13A)	<u>(32,000)</u>	16,000
(8) Medical Allowance 2000×12		24,000
(9) Entertainment Allowance 1000×12		12,000
(10) Project Allowance 2000×12		24,000
(11) Overtime Allowance		12,000
(12) Paternity Allowance		20,000
(13) Travel Allowance/Tour Allowance	23,000	
Less: Exemption u/s 10(14)	<u>(21,000)</u>	2,000
(14) Motor Car Allowance	24,000	
Less: Exemption u/s 10(14)	<u>(23,000)</u>	<u>1,000</u>
Gross salary		2,52,400
Less: Deduction u/s 16		
16 (i) Standard Deduction		(50,000)
16(ii) Entertainment Allowance		Nil
16(iii) Professional Tax paid		<u>(4,000)</u>
Net taxable salary		<u><u>1,98,400</u></u>

Note: Expenses for city life, medical treatment, Spent on customers and outstanding professionalare not allowed as exemption or deduction.

Illustration 8:

Ms Rajshree Soni is employed with Voltas Ltd. as process controller. Her salary emoluments during the year ending 31-03-21 were:

Basic Salary: April to September ` 12,000 p.m.

October to March ` 14,000 p.m.

- (1) Dearness Allowance ` 2,000 p.m.
- (2) City Compensatory Allowance ` 1,000 p.m.
- (3) Overtime Allowance ` 21,000.
- (4) Night Shift Allowance ` 13,000.
- (5) Medical Allowance ` 2,000 p.m.
- (6) Lunch Allowance ` 1,000 p.m.
- (7) Paternity Allowance ` 20,000.
- (8) Additional High Cost of Living Allowance ` 4,000 p.m. for Dec to Jan.
- (9) Children's Educational Allowance ` 500 p.m.
- (10) Children's Hostel Expenditure Allowance ` 1,000 p.m. (Ms RajeshreeSoni has two children and both the children study in residential school near Pachgani).
- (11) House Rent Allowance ` 4,000 p.m. (Exemption U/s. 10(13A) ` 36,400).
- (12) Entertainment Allowance ` 2,000 p.m.
- (13) Expenses incidental to employment:
 - (a) Books purchased on Pneumatic Process Methods ` 21,000.
 - (b) Professional Tax ` 300 p.m.
 - (c) Railway pass and Scooter petrol etc. ` 13,400

You are required to calculate Income Form Salary of above employee for A. Y. 21-22.

Solution:

Name of the Assessee: Ms Rajshree Soni

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary**Particulars**

(1) Basic salary		
April to September $12,000 \times 6$	72,000	
October to March $14,000 \times 6$	<u>84,000</u>	1,56,000
(2) Dearness Allowance $2,000 \times 12$		24,000
(3) City compensatory Allowance $1,000 \times 12$		12,000
(4) Overtime Allowance		21,000

Salary U/S 15-17**89**

(5) Night Shift Allowance		13,000
(6) Medical Allowance 2000×12		24,000
(7) Lunch Allowance 1000×12		12,000
(8) Paternity Allowance		20,000
(9) Additional High Cost of allowance 4000×2		8,000
(10) Children's Educational Allowance 500×12	6,000	
Allowance $100 \times 2 \times 12$	<u>(2400)</u>	3,600
(11) Children's Hostel Expenditure 1000×12	12,000	
Allowance $300 \times 2 \times 12$	<u>(7200)</u>	4,800
(12) House Rent Allowance 4000×12	48,000	
Less: Exemption u/s 10(13A)	<u>(36,400)</u>	11,600
(13) Entertainment Allowance 2000×12		<u>24,000</u>
Gross Salary		3,34,000
Less: Deduction u/s 16:		
16 (i) Standard Deduction		(50,000)
16(ii) Entertainment Allowance		Nil
16(iii) Professional Tax paid		<u>(3600)</u>
Net taxable salary		<u>2,80,400</u>

Note:

- (1) Books purchased on pneumatic process method will not be taxed under income from salary since it is or personal expense.
- (2) Railway pass and Scooter petrol etc., will not be taxed under income from salary since it is a personal expense.

Illustration 9:

Mr. Rahul is employed as Head of Staff Training Center of Infosys Ltd. since 2016. His salary income particulars were as below in the P. Y. ending 31-03-21:

- (1) Basic Pay ` 1,44,000 net after deducting tax at source ` 26,000 and housing loan installments ` 60,000
- (2) Dearness Allowance 80% of basic.
- (3) Compensatory Allowances per month ` 3,000.
- (4) Children Education Allowances ` 200 p.m. (Exemption u/s 10 (14) ` 1,200)
- (5) Children Hostel Expenditure Allowance ` 300 p.m. (amount of exemption u/s 10 (14) ` 3,600)
- (6) Fixed Medical Allowance ` 2,000 p.m.
- (7) Motor Car Allowance ` 2,000 p.m. (Exemption u/s 10(14) ` 23,000).
- (8) Commutation Allowance ` 1,200 p.m. (Exemption ` 800 p.m.).
- (9) Lunch and Tiffin Allowance ` 2000 p.m.

- (10) Entertainment Allowance ` 2,500 p.m.
- (11) Servant Allowance ` 900 per month.
- (12) Picnic and Holiday Trip Allowance ` 5,000.
- (13) Refreshment Allowance ` 700 p. m.
- (14) Milk Allowance ` 22,000.
- (15) Warden Allowance ` 12,000.
- (16) Project Allowance ` 20,000.
- (17) Daughter Marriage Expenses Allowance ` 10,000
- (18) Remuneration for Lectures received from TSBC ` 23,000
- (19) Mr. Rahul is partner in Talent Info Tech and he has received salary of ` 3,000 p.m. in the capacity of a partner.
- (20) He has paid Professional Tax ` 2,500 during 20-21

You are required to calculate Income from Salary for A.Y. 21-22.

Solution:

Name of the Assessee: Mr. Rahul

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-21

Taxable Income from Salary

Particulars		
(1) Net Basic salary	1,44,000	
Add: Tax deducted at source	26,000	
Add: Loan installment	<u>60,000</u>	2,30,000
(2) Dearness Allowance (80% 2,30,000)		1,84,000
(3) City compensatory Allowance 3000×12		36,000
(4) Children Education Allowance 200×12	2,400	
Less: Exemption u/s 10(14)	<u>(1,200)</u>	1,200
(5) Children Hostel Allowance 300×12	3,600	
Less: Exemption u/s 10(14)	<u>(3,600)</u>	Nil
(6) Fixed Medical Allowance 2000×12		24,000
(7) Motor car allowance 2000×12	24,000	
Less: Exemption u/s 10(14)	<u>(23,000)</u>	1,000
(8) Commutation allowance $1,200 \times 2$	14,400	
Less: Exemption 800×12	<u>(9,600)</u>	4,800
(9) Lunch and Tiffin Allowance 2000×12		24,000
(10) Entertainment Allowance $2,500 \times 12$		30,000

Salary U/S 15-17**91**

(11) Servant Allowance 900×12	10,800
(12) Picnic and Holiday Trip Allowance	5,000
(13) Refreshment Allowance 700×12	8,400
(14) Milk Allowance	22,000
(15) Warden Allowance	12,000
(16) Project Allowance	20,000
(17) Daughter Marriage Expenses Allowance	<u>10,000</u>
Gross Salary	6,23,200
Less: Deduction u/s 16:	
16(i) Standard deduction	(5000)
16(ii) Entertainment allowance	Nil
16(iii) Professional Tax paid	<u>(2,500)</u>
Net Taxable Salary	<u><u>5,70,700</u></u>

Note:

- (1) Remuneration from TSBC ` 23,000 as visiting lecturer will not be taxed as income from salary it will be taxed under "income from other sources."
- (2) Salary from partnership firm will not be taxed under income from salary since Rahul is a partner (no employee relationship) it will be taxable under income from business or profession.

Illustration 10:

Prof. Vivek a research executive cum instructor in NMIMS gives following particulars of salary for P.Y. 20-21:

Particulars	Up to Aug.	Sept. onwards
Basic p.m.	12,000	14,000
D.A.	6,000 p.m.	70% of basic
C.C.A	20% of Basic	30% of basic
HRA	40% of Basic	7,000 per month

Note: He is not entitled to exemption for HRA Other Particulars:

- (1) Children Education Allowance ` 600 p.m. Mr. Vivek has 3 children who are pursuing school education.
- (2) Commutation Allowance ` 1,000 p. m. allowed from Sep.2019 (exemption is ` 800 p.m.)
- (3) Fixed Allowance for Medical Expenses ` 20,000 (medical expenses ` 18,000)
- (4) Entertainment Allowance ` 1,500 p.m.
- (5) Bonus received on Diwali ` 40,000 (Expenditure during Diwali festival ` 34,000)
- (6) He received ex-gratia of ` 25,000 and leave travel concession of ` 15,000 out of which the amount of exemption u/s 10 (5) is ` 12,000

- (7) Mr. Vivek contributed ` 20,000 as his own contribution to employee's provident fund recognized by income tax authorities to which his employer also makes matching contribution. Interest accretion in this fund @ 11.5% is ` 23,000.
- (8) Professional Tax paid by Mr. Vivek is ` 2,500.
- (9) Vivek is also a partner in Sanshodhan and Associates and he earns a salary as partner @ ` 5,000 p.m.
- You are required to compute his Income from Salary for A. Y. 21-22.

Solution:

Name of the Assessee: Mr. Vivek

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars		
(1) Basic:		
April to Aug 12000×5	60,000	
Sep to March 14000×7	<u>98,000</u>	1,58,000
(2) D.A.:		
April to Aug 6000×5	30,000	
Sep. to Mar 70% of 98000	<u>68,600</u>	98,600
(3) C.C.A:		
April to Aug 20% of 60,000	12,000	
Sep to Mar 30% of 98,000	<u>29,400</u>	41,400
(4) HRA		
April to Aug 40% of 60,000	24,000	
Sep to March 7000×7	<u>49,000</u>	73,000
(5) Children Education Allowance $600 \times 12 \times 3$	21,600	
Less: Exemption u/s 10(14) $100 \times 2 \times 12$	<u>(2,400)</u>	19,200
(6) Commutation Allowance 1000×7	7,000	
Less: Exemption u/s 10(5) 800×7	<u>(5,600)</u>	1,400
(7) Fixed Allowance for Medical		20,000
(8) Entertainment Allowance 1500×12		18,000
(9) Bonus received on Diwali		40,000
(10) He received Ex-gratia		25,000
(10) He received LTC	15,000	
Less: Exemption 10(5)	<u>(12,000)</u>	3,000
(11) Employer's contribution RPF	20,000	
(-) Permissible contribution 12% $(158000 + 98600)$	<u>(30,720)</u>	Nil
(12) Interest credited RPF 11.5%	23,000	

Salary U/S 15-17**93**

(-) Permissible Interest 9.5%	(19,000)	<u>4,000</u>
Gross salary		5,01,600
Less: Deduction u/s 16:		
16 (i) Standard Deduction	(50,000)	
16 (ii) Entertainment Allowance	(Nil)	
16(iii) Prof. Tax paid (2,500)		<u>(52,500)</u>
Net taxable salary		<u>4,49,100</u>

Note: No expense deductible out of medical allowance received.

Illustration 11:

Mr. Penpusher retired from Government Service on 30-9-2020. From 1-11-2020 he joined as Superintendent of a Nursing Home. He furnishes the following particulars for the P.Y. ending 31-3-2021.

- (1) Basic pay upto 30-9-2020 ` 2,60,000
- (2) Entertainment Allowance from Government upto 30-9-2020 ` 5,000.
- (3) Pension p.m. from 1-10-2020 @ 1,500 ` 9,000
- (4) Leave Salary in respect of earned leave to his credit ` 13,500.
- (5) Gratuity ` 1,10,000.
- (6) Provident Fund ` 1,50,000
- (7) Commuted Pension ` 32,000
- (8) Salary from Nursing Home ` 30,000

You are required to compute his taxable salary for the A. Y. 21-22.

Solution:

Name of the Assessee: Mr. Penpusher

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars		
(1) Basic pay		2,60,000
(2) Entertainment Allowance		5,000
(3) Uncommuted Pension (1500 × 6)		9,000
(4) Leave Salary on Retirement	13,500	
Less: Exemption u/s 10(10AA)	<u>(13,500)</u>	Nil
(5) Gratuity on Retirement	1,10,000	
Less: Exemption u/s 10(10)	<u>(1,10,000)</u>	Nil
(6) Provident Fund on retirement	1,50,000	
Less: Exemption u/s 10(11)	<u>(1,50,000)</u>	Nil
(7) Commuted Pension	32,000	
Less: Exemption u/s 10(10A)	<u>(32,000)</u>	Nil

(8) Salary from nursing home		30,000	
Gross Salary			3,04,000
Less: Deduction u/s 16			
16(i) Standard deduction		(50,000)	
16(ii) Entertainment Allowance least of			
(a) 1/5 of Basic	52,000		
(b) Amount Actually Received	5,000		
(c) Maximum	5,000		
Whichever is less		(5,000)	
16(iii) Professional Tax paid	(N/A)		55,000)
Net Taxable Salary			<u>2,49,000</u>

Illustration 12:

Mr. Madhavaraj who is employed as personal secretary, gives following information regarding his salary income in the P. Y. 20-21:

- (1) Basic salary ` 10,000 p.m. (received for 11 months and outstanding for 1 month)
- (2) City compensatory allowance ` 1,000 p.m.
- (3) Dearness allowance 2,000 p.m.
- (4) Lunch allowance ` 1,500 p.m. (lunch expenses ` 17,000)
- (5) Medical allowance 400 p.m.
- (6) Children education allowance ` 2,000 p.m. (Madhvaraj has 2 children and he has spent ` 22,000 for their education)
- (7) Bonus ` 50,000
- (8) He has been given rent-free accommodation at Vasant Vihar, Thane along with furniture etc. Perquisite value according to the Income Tax rules is ` 22,000.
- (9) He has taken a life insurance policy but premium of ` 12,000 is paid by employer.
- (10) His employer has paid following expenses on behalf of Madhvraj:
 - (a) Electricity and water bills ` 21,000.
 - (b) Personal servant salary ` 12,000.
 - (c) Hotel and club bills ` 6,000.
 - (d) Professional tax ` 2,500.

You are required to calculate his Income from Salary for A. Y. 21-22.

Solution:

Name of the Assessee: Mr. Madhavaraj

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars		
(1) Basic Salary $10,000 \times 12$		1,20,000
(2) City compensatory allowance 1000×12		12,000
(3) Dearness allowance 2000×12		24,000
(4) Lunch allowance $1,500 \times 12$		18,000
(5) Medical allowance 400×12		4,800
(6) Children education allowance 2000×12	24,000	
Less: Exemption u/s 10(13) (100×12)	<u>(2,400)</u>	21,600
(7) Bonus (assumed as received)		50,000
(8) Rent free accommodation		22,000
(9) Life insurance premium paid by employer		12,000
(10) Expenses paid by employer		
(i) Electricity and water bills		21,000
(ii) Personal servant salary		12,000
(iii) Hotel and club bills		6,000
(iv) Professional tax		<u>2,500</u>
Gross Salary		3,25,900
Less: deduction U/s 16		
16 (i) Standard deductions		(50,000)
16(iii) Professional tax		<u>(2,500)</u>
Net Taxable Salary		<u>2,73,400</u>

Illustration 13:

Mr. Dhanraj, who is employed as chief purchase manager, gives following information regarding his salary income in the P.Y. 20-21:

- (1) Basic salary ` 10,000 p.m. up to 31 August
- (2) Basic salary ` 12,000 p.m. from September
- (3) Inflation allowance ` 3000 p.m.
- (4) Monthly allowance for lunch ` 1,000 (lunch expenses Rs. 17000)
- (5) Medical allowance 2,000 p.m. (amount saved ` 3,400 only)
- (6) Motor car allowance ` 3,000 p.m. ( ` 26,800 out of this for Office purposes)
- (7) Commission earned ` 40,000 but received ` 26,000 only
- (8) Bonus demanded ` 50,000 but received only ` 40,000
- (9) He has been allotted a 1,000 sq. feet concessional rent bungalow at Vasai along with air conditioner, furniture etc. The perquisite value according to the Income Tax rules is ` 2,100 only.

- (10) He has taken a life insurance policy (with profit) for sum assured of ₹ 5,00,000 with quarterly premium of ₹ 4,000 with the condition that all the premiums are to be paid by his employer. All the premiums are paid by his employer.
- (11) His employer has also paid his children's school fees amounting to ₹ 13,000 and his electricity, water and gas bills amounting to ₹ 13,600
- (12) Employer has also paid professional tax of ₹ 6,000.
- (13) Mr. Dhanraj is also a partner in a marketing consultancy firm where he gets a salary of ₹ 5,000 p.m.

You are required to calculate his salary income for A. Y. 21-22.

Solution:

Name of the Assessee: Mr. Dhanraj

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars

(1) Basic salary		
April 12 to August 12 $10,000 \times 5$	50,000	
September 09 to March 10 $12,000 \times 7$	<u>84,000</u>	1,34,000
(2) Inflation allowance $3,000 \times 12$		36,000
(3) Monthly allowance $1,000 \times 12$		12,000
(4) Medical allowance $2,000 \times 12$		24,000
(5) Motor car allowance $3,000 \times 12$	36,000	
Less: Amount spent for office	<u>(26,800)</u>	9,200
(6) Commission earned (due basis)		40,000
(7) Bonus (Receipt basis)		40,000
(8) Perquisite value of bungalow at Vasai		2,100
(9) LIC premium paid by employer $(4,000 \times 4)$		16,000
(10) Expenses paid by employer		
(i) Children's school fees	13,000	
(ii) Water and gas bill	13,600	
(iii) Professional tax	<u>6,000</u>	<u>32,600</u>
Gross salary		3,45,900
Less: deduction U/s 16		
16(i) Standard deduction		(50,000)
16(iii) Professional tax		<u>(6,000)</u>
Net taxable salary		<u>2,89,900</u>

Note: Salary received as a partner of firm is taxable as income from business.

Illustration 14:

Mr. Lloyd gives following information regarding his salary income:

- (1) Basic salary ` 4,000 p.m.
- (2) Dearness allowance ` 2,000 p.m. (part of salary)
- (3) Bonus ` 20,000
- (4) Turnover commission 2% (Turnover being ` 4,00,000)
- (5) Lloyd's contribution to Provident fund ` 1,000 p. m.
- (6) Employer's contribution to Provident fund ` 1,000 p.m.
- (7) Interest credited to Provident Fund @ 11% ` 5,500
- (8) He has paid professional tax at ` 60 p.m.

- (1) Recognised provident fund (RPF)
- (2) Statutory/Govt. Provident fund (SPF/GPF)
- (3) Unrecognised provident fund (URPF)

Solution:

Name of the Assessee: Mr. Lloyd

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars	RPF	SPF	URPF
(1) Basic salary (4000×12)	48,000	48,000	48,000
(2) Dearness allowance (part of salary) (2000×12)	24,000	24,000	24,000
(3) Bonus	20,000	20,000	20,000
(4) Turnover commission ($2\% \times 4,00,000$)	8,000	8,000	8,000
(5) Lloyd's contribution to PF	Nil	Nil	Nil
(6) Employer's contribution to PF	12,000	Nil	Nil
(Basic + DA part + T.O. commission) ($48,000 + 24,000 + 8,000$)	(9600)	-	-
(7) Interest credited to PF @ 11%	5,500	Nil	Nil
(-) permissible interest @9.5%	(4,750)	-	-
Gross Salary	1,03,150	1,00,000	1,00,000
Less: Deduction U/s 16			
16(i) Standard deduction	(50,000)	(50,000)	(50,000)
16(iii) Professional tax paid (60×12)	(720)	(720)	(720)
Net taxable salary	52,430	49,280	49,280

Illustration 15:

Five employees have provided information for the P.Y. ending 31.03.2021:

	Jignesh	Suresh	Mahesh	Paresh	Ramesh
Date of retirement	30-June	31 Aug.	30 Nov.	28 Feb.	Working
Period of service	35 yrs	31yr 4mth	28yr 6mth	26yr 9m	15yrs
Basic salary p.m.	2,500	3,600	3,400	3,600	6,000
Dearness allowance (part of salary) p.m.	1,000	Nil	8,000	4,000	10,000
Dearness allowance (not part of Sal.) pm	1,050	1,600	Nil	6,000	5,000
Pension per month	2,000	3,000	2,000	2,400	Nil
Gratuity received	1,20,125	1,23,000	3,55,000	1,28,000	1,00,000
Leave enc. Recd.	30,000	40,000	70,000	35,000	20,000
Leave taken	27 mths	21 mths	24.5 mths	27 mths	7 mths
Professional tax p.m.	150	200	200	300	Nil

You are required to calculate Income from Salary for A.Y. 21-22.

All the employees are covered by the Payment of Gratuity Act. 1972

Solution:

Name of the Assessee:

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars	Jignesh	Suresh	Mahesh	Paresh	Ramesh
Basic Salary	7,500	18,000	27,200	39,600	72,000
D.A. part of salary	3,000	Nil	64,000	44,000	1,20,000
D.A. not of salary	3,150	8,000	Nil	66,000	60,000
Pension	18,000	21,000	8,000	2,400	Nil
Gratuity Received: Taxable	28,250	30,000	1,70,846	Nil	10,0000
Leave encashment Taxable	2,000	4,000	30,100	35,000	20,000
Gross salary	61,900	81,000	3,00,146	1,87,000	3,72,000
Less deduction U/s 16					
16(i) Standard Deduction	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
16(iii) Professional tax	(450)	(1,000)	(1,600)	(3,300)	Nil
Taxable Salary	11,450	30,000	2,48,546	1,33,700	3,22,000

Gratuity Exempt	Jignesh	Suresh	Mahesh	Paresh	Ramesh
(1) Monthly Salary = Basic + DA (p.o.s.) + DA for retirement month	4,550	5,200	11,400	13,600	-
(3) Period of service Fully (Rounding allowed)	35 yrs	31yr	28 yr	27 yr	Taxable
(3) Exemption: Least of (a) 15/26 days salary × period of Service.	91,875	93,000	1,84,154	2,11,846	
(b) Actual gratuity	1,20,125	1,23,000	3,55,000	1,28,000	
(c) Maximum	20,00,000	20,00,000	20,00,000	20,00,000	

Leave Encashment	Jignesh	Suresh	Mahesh	Paresh	Ramesh
(a) Exemption: Least of Avg. Monthly (b) × leave saved (c) Avg. Monthly salary × 10 Leave encashment recd. Maximum amount	28,000 35000 30,000 3,00,000	36,000 36000 40,000 3,00,000	39,900 1,14,000 70,000 3,00,000		
(b) Monthly salary preceding 10 months Basic DA (p.o.s.) Turnover Commission Total in 10 months Avg. Salary (Total/10)	25,000 10,000 Nil 3,500	36,000 Nil Nil 3,600	34,000 80,000 Nil 11,400		Taxable
(c) Leave saved/Leave credit 1 month per year minus leave taken	(35-27) 8 months	(31-21) 10 months	(28-24.5) 3.5 months	(26-27)	Working

Illustration 16:

Mr. Bhupati retired from service after 38 years and 9 months service on 31st Oct. 2020. He gives following salary particulars:

- (1) Basic ₹ 4,000 p.m.
- (2) Participating Dearness pay ₹ 620 p.m.
- (3) Dearness allowance (none participating) 60% of basic.
- (4) Gratuity received ₹ 1,95,000

- (5) Leave encashment received ` 33,000
- (6) Pension ` 3,000 p.m.
- (7) Leave taken 31 months.101
- (8) Professional Tax ` 80 p.m.

- (a) Government employee
- (b) Employee covered under the payment of Gratuity Act 1973.
- (c) Any other employee.

Solution:

Name of the Assessee: Mr. Bhupati

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars	Government	POG Act	Others
(1) Basic salary (4000×7)	28,000	28,000	28,000
(2) D.A. part of salary (620×7)	4,340	4,340	4,340
(3) D.A. not part of salary ($60\% \times 28,000$)	16,800	16,800	16,800
(4) Gratuity Received	1,95,000	1,95,000	1,95,000
Less: Exemption U/S 10(10)	(1,95,000)	(1,57,950)	(87,780)
(5) Leave encashment	33,000	33,000	33,000
(–) Exemption u/s 10(10AA)	(33,000)	(32,340)	(32,340)
6) Uncommuted pension (3000×5)	15,000	15,000	15,000
Gross Salary	64,140	1,01,850	1,72,020
Less: Deduction u/s 16			
16(i) Standard deductions	(50,000)	(50,000)	(50,000)
16(iii) Professional tax	(560)	(560)	(560)
Net taxable salary	13,580	61,290	1,21,460

Illustration 17:

Three retiring employees have provided following information for P.Y. 20-21:

Particulars	Tom	Dick	Harry
Date of retirement	30-Sep	31 Dec.	30 Nov
Period of service	34yrs8m	38 yrs	28yrs4m
Basic salary p.m. `	12,500	8,600	7,400
Dearness allowance p.m. `	2,500	3,000	2,000

Pension p.m.Rs./Uncommuted Pension	4,000	3,000	2,000
Gratuity received	2,70,000	2,30,000	2,00,000
Leave encashment received `	40,000	65,000	60,000
Leave taken	29 months	28.5 Months	24months
Professional tax paid p.m. `	80	80	80

You are required to calculate Income from Salary for A.Y 21-22. Employees are neither covered by payment of gratuity act 1973 nor are they Govt. employees.

Solution:

Name of the Assessee: Mr. Tom, Dick, Harry

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars	Tom	Dick	Harry
(1) Basic salary (12500 × 6) (8,600 × 9) (7400 × 8)	75,000	77,400	59,200
(2) Dearness allowance (assumed as part of salary) (2500 × 6) (3000 × 9) (2000 × 8)	15000	27,000	16,000
(3) Pension (uncommuted) (4000 × 6) (3000 × 3) (2000 × 4)	24,000	9,000	8,000
(4) Gratuity received	2,70,000	2,30,000	2,00,000
Less: Exempt u/s 10(10)	(2,55,000)	(2,20,400)	(1,31,600)
(5) Leave encashment received	40,000	65,000	60,000
Less: Exempt u/s 10(10AA)	(40,000)	(65,000)	(37,600)
Gross salary	1,29,000	1,23,000	1,74,000
Less: Deduction u/s 16			
16(i) Standard deductions	(50,000)	(50,000)	(50,000)
16(iii) Professional tax paid (80 × 6) (80 × 9) (80 × 8)	(480)	(720)	(640)
Net taxable salary	78,520	72,280	1,23,360

Working Note:

(1) Calculation of Exemption of Gratuity u/s 10(10)

[Employee neither govt. employee nor P.G. Act]

Particulars	Tom	Dick	Harry
(a) Average salary (Basic + DA part)	15,000	11,600	9,400
(b) Completed year of service (fraction ignored)	34	38	

(c) Exemption least of			
(i) $1/2 \times \text{Avg. salary} \times \text{Completed year of service}$	2,55,000	2,20,400	1,31,600
(ii) Actual amount received	2,70,000	2,30,000	2,00,000
(iii) Maximum	10,00,000	10,00,000	10,00,000

(2) Calculation of Exemption of leave encashment U/s 10(10AA) (Not a govt. employee)

Particulars	Tom	Dick	Harry
(A1 Average salary (Basic +DA part)	15,000	11,600	9,400
(2) Leave eligible (1mth for 1 full year)	34	38	28
(c) Leave taken	(29)	(28.5)	(24)
(d) Leave credit	5	9.5	4
Exemption least of			
(i) Average salary $\times$ leave credit	75,000	1,10,200	37,600
(ii) Average salary $\times 10$	1,50,000	1,16,000	94,000
(iii) Actual received	40,000	65,000	60,000
(i) Maximum	3,00,000	3,00,000	3,00,000

Illustration 18:

Mrs. Rawadi Devi a Government employee retired from service on 28 Feb. 2021. She was working as librarian in Ministry of Finance, Government of India. She furnishes following particulars for P.Y. 20-21:

- (1) Basic salary (net after tax at source, life insurance, prof, tax) ₹ 4,000 p.m.:
 - (a) Tax deducted at source ₹ 600 per month
 - (b) Life Insurance deducted at source ₹ 1,000 per month
 - (c) Professional tax deducted at source ₹ 100 per month
- (2) D.A 115% of basic pay.
- (3) C.C.A ₹ 1,400 per month.
- (4) Uncommuted Pension per month ₹ 3,000
- (5) She commuted 1/6 of her pension under government rules @ ₹ 43,000.
- (6) House Rent allowance ₹ 700 per month (exemption ₹ 6,200)
- (7) Gratuity received ₹ 83,000
- (8) Leave encashment received ₹ 17,000

You are required to calculate her Income from salary for A.Y. 21-22.

Solution:

Name of the Assessee: Mrs. Rawadi Devi

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Taxable Income from Salary

Particulars		Govt. Employee
(1) Basic salary (4000×11)	44,000	
Add: Tax deducted at source (600×11)	6,600	
Life Insurance (1000×11)	11,000	
Professional tax (100×11)	1,100	
Gross basic salary		62,700
(2) D.A. ($115\% \times 62,700$)		72,105
(3) City compensatory allowance ($1,400 \times 11$)		15,400
(4) Uncommuted pension		3,000
(5) Commuted pension	43,000	
Less: Exemption u/s 10(10A)	(43,000)	Nil
(6) House Rent allowance (700×11)	7,700	
Less: Exemption u/s 10(14)	(6,200)	1500
(7) Gratuity received	83,000	
Less: Exemption u/s 10(10)	(83,000)	Nil
(8) Leave encashment received	17,000	
Less: Exemption u/s 10(10AA)	(17,000)	Nil
Gross salary		1,54,705
Less: Deduction u/s 16		
16(i) Standard deduction		(50,000)
16(iii) Professional tax (100×11)		(1,100)
Net taxable salary		1,03,605

EXERCISE**Multiple Choice Questions**

1. M, a chartered accountant is employed with M Ltd, as an internal auditor and request the employer to call the remuneration as internal audit fee. M shall be chargeable to tax for such fee under the head.

- (a) Income from salaries
 - (b) Profit and gain from business and profession
 - (c) Income from other sources
 - (d) None of these
2. M, who is entitled to a salary of ` 20,000 p.m. took an advance of ` 50,000 against the salary in the month of March 2019. The gross salary of M, for the assessment year 2021-22 shall be
- (a) 2,90,000
 - (b) 2,40,000
 - (c) 50,000
 - (d) None of these
3. M, who is entitled to salary of ` 12,000 p.m., took advance salary from his employer for the month of April and May 2020, along with salary of March, 2020 on 31-3-2020. The gross salary of M for the assessment year 2021-22 shall be
- (a) ` 1,44,000
 - (b) ` 1,68,000
 - (c) ` 24,000
 - (d) None of these
4. Salary of M becomes due on 1st of next month and it is paid on 7th of that month. For the assessment year 2021-22, the salary of M shall be taken from
- (a) April 2018 to March 2019
 - (b) March 2019 to February 2020
 - (c) April 2019 to March 2020
 - (d) None of these
5. M. Ltd. announced increase in D.A. on 21-3-2021 with retrospective effect from 21-3-2011 and the same were paid on 6-04-2021. The arrears of D.A. shall be taxable in the previous year.
- (a) 2018-19
 - (b) 2020-21
 - (c) In respective previous years to which these relate
 - (d) None of these
6. Uncommuted pension received by a Government employee is
- (a) Exempt
 - (b) Taxable
 - (c) 1/3 is exempt
 - (d) None of these
7. M, claimed the exemption of gratuity in the past to the extent of ` 2,50,000. He was entitled to the gratuity from the present employer amounting to ` 2,00,000 in the previous year 2020-21. M, can claim exemption to the maximum extent of
- (a) ` 2,00,000
 - (b) Nil
 - (c) ` 1,00,000
 - (d) None of these
8. Employee M is neither a govt. employee nor covered under Payment of Gratuity Act, 1972. He has completed 16 year and 8 months of service. The number of completed years considered for Gratuity exemption shall be

- (a) 17 year (b) 16 years
(c) 16 years and 8 month (d) None of these
9. Compensation received on voluntary retirement is exempt under Sec. 10 (10 C) to the maximum extent of
(a) ` 2,40,000 (b) ` 3,00,000
(c) ` 5,00,000 (d) None of these
10. M is entitled to children education allowance@ ` 80 p.m. per child for 3 children amounting ` 240p.m. it will be exempt to the extent of:
(a) ` 200 p.m. (b) ` 160 p.m.
(c) ` 240 p.m. (d) None of the above
- (Ans: 1-a, 2-b, 3-b, 4-c, 5-b, 6-a, 7-c, 8-b, 9-c, 10-b)

Fill in the Blanks

- Salary received by the partner from the firm in which he is a partner is taxable under the head _____.
- Income under the head salary is taxable only if there is a relationship of _____ and _____ between the payer and the payee.
- 'Profit in lieu of Salary' is taxable under the head _____ (Salaries/Profits from business).
- Compensation payable to an employee on termination of service is a capital receipt. It is _____ (Taxable/Non-taxable).
- A Ltd. Paid salary of ` 2,00,000 to employee M and undertakes to pay the income tax amounting to ` 6,120 during the previous year 2020-21 on behalf of M. the gross salary of M shall be _____.
- Medi-claim insurance premium paid by employer on the behalf of employee is a _____ (Tax/Taxable) perquisite.
- Employer's contribution to recognised perquisite provident fund during the previous year in excess of _____ of basis salary is taxable as salary.
- Amount notified as exempt gratuity for a non-govt. employee is _____.
- _____ of commuted pension 'received (along with gratuity) by a non-Govt. employee is exempt from tax.
- Leave encashment received while in service is _____ (taxable/exempt)

(Ans: 1- Business, 2- Employer, Employee, 3- Salary, 4- Taxable, 5- 2,06,120, 6- Taxable, 7- 12.5%, 8- 10,00,000, 9- 1/3, 10- Taxable)

Match the Following Column

Column A	Column B
1. Salary to partner by firm	(a) Capital Gains
2. Salary of a M.P /MLA	(b) Profits in lieu of salary
3. Value of a rent-free accommodation	(c) Business Income
4. Receipts from Keyman Insurance Policy	(d) Tax free perquisites
5. Professional Tax	(e) Pperquisites
	(f) Income from other sources
	(g) Deduction from salary

(Ans: 1-c, 2-f, 3-e, 4-b, 5-g)

Column A	Column B
1. Notified amount of exempt gratuity	(a) ` 5,000
2. Notified amount of exempt leave Encashment	(b) ` 35,0000
3. Notified amount of exempt retrenchment Compensation	(c) ` 2,00,000
4. Notified amount of exempt entertainment allowance to govt. employees	(d) ` 5,00,000
5. Medical reimbursement not taxable upto	(e) ` 3,00,000
	(f) ` 15,000
	(g) ` 10,000

(Ans: 1-b, 2-e, 3-d, 4-a, 5-f)

State Whether True or False

1. M a chartered accountant is employed with M Ltd., as a Manager-Taxation and requests the employer to call the remuneration as tax consultancy fee. M shall be chargeable to tax for such fee under the head Income from Salaries.
2. Salary of M becomes due on 1st of next month and it is paid on 7th of that month. For assessment year 2021-22, the salary of M shall be taken from April 2020 to March 2021.
3. The Government of India announced increase in the D.A on 15-3-2020 with retrospective effect from 1-5-2020 and the arrears were paid on 6-4-2021. The arrears of D.A shall be taxable in the previous year 2020-21.
4. Gratuity on retirement shall be fully exempt in the case of employees of Central Govt., State Govt., and Local Authorities.
5. An employee is covered under Payment of Gratuity Act, 1972. Salary for the purpose of calculating exemption U/S 10 (10) shall be the average Salary of last 10 months.

6. An employee is covered under Payment of Gratuity Act, 1972. If the employee has completed service of 16 years 6 months and 5 days, the number of completed years for calculating exemption U/S 10 (10) shall be taken as 16 years.
7. An employee is covered under Payment of Gratuity Act, 1972. For the purpose of computing 15 days' salary for exemption U/S 10 (10), the number of days in a month shall be taken as 30 days.
8. An employee is neither a Government employee nor covered under Payment of Gratuity Act, 1972. Salary for the purpose of calculating half month for calculating exemption U/S 10 (10) shall be taken as average salary of 10 months preceding the month of retirement.
9. An employee is neither a Government employee nor covered under Payment of Gratuity Act, 1972. If the employee has completed 16 years and 8 months of service, the number of completed years for calculating exemption U/S 10 (10) are taken as 17 years.
10. An employee is neither a Government employee nor covered under Payment of Gratuity Act, 1972. The maximum amount of gratuity exempt U/S 10 (10) shall be ` 10,00,000.
11. M who claimed the exemption of gratuity in the past to the extent of ` 8,50,000 was entitled to the gratuity from the present/second employer amounting to ` 2,00,000 in the previous year 2020-21. M shall be entitled to exemption U/S 10 (10) are taken as 17 years.
12. On commuted pension received by a Govt. employee is exempt.
13. Commuted pension received shall be fully exempt in case of Government employees or an employee of local authority or an employee of statutory corporation.
14. An employee was entitled to gratuity. He also got 60% of his pension commuted and received a sum of ` 1,20,000 as commuted pension. The exemption in his case shall be ` 80,000.
15. An employee, who was not entitled to gratuity, got 30% of his total pension commuted in the past. He wishes to commute another 25% of his total pension in the previous year. He shall be allowed exemption to the extent of 25%.
16. Salary for exemption of leave encashment shall be taken as average Salary of 10 months immediately preceding the month of retirement.
17. The maximum exemption in case of leave encashment for a non-govt. employees shall be ` 10,00,000.
18. An employee availed the exemption of leave encashment of ` 1,00,000 in the past. He received from the second employer a sum of ` 2,50,000 as encashment of leave on his retirement. He will be entitled to exemption to the extent of ` 2,50,000.
19. Compensation received on voluntary retirement is exempt under 10 (10C) to the maximum extent of ` 3,50,000.
20. A is entitled to children education allowance @ ` 80 p.m. per child for 3 children amounting ` 240p.m. it will be exempt to the extent of ` 200 p.m.
21. M is entitled to hostel expenditure allowance of ` 600 p.m. for his 3 children @ ` 200 per child. The actual expenditure is ` 300 per child per month. The exemption in this case shall be ` 400p.m.
22. M is entitled to a transport allowance of ` 1000 p.m. for commuting from his residence to office and back. He spends ` 600 p.m. The exemption shall be ` 600 p.m.

23. M is entitled to 6,000 as fixed medical allowance p.a. He spends Rs. 4,000 on his medical treatment and ` 1,000 on the medical treatment of his major son not dependant on him. The exemption in this case shall be ` 4000.
24. Entertainment allowance in case of Govt. employee is first included in full in gross salary and thereafter deduction is allowed from gross salary under Section 16(ii).
25. During the previous year, an employee was reimbursed ` 21,000 as medical expenses incurred by him which includes ` 7,000 spent in Govt. hospital. The taxable perquisite in this case shall be ` 21,000.
26. Employer's contribution to statutory provident fund shall be exempt upto 12% of salary.
27. Interest credited to statutory provident fund shall be fully taxable.
28. Employer's contribution to unrecognized provident fund shall be fully taxable in the year of contribution.
29. Tea and snacks are provided to employees during office hours. The value of this perquisite shall be nil, only if the cost is upto ` 50 per head per day.
30. Professional tax of ` 2,500 payable by the employee but paid by the employer is an exempt perquisite.

(Ans: True- 1,2,3,4,5,8,10,13,16,17,20,21,22,24,29)

Theory Questions

1. Discuss the Taxability of the Receipt of Advance Salary.
(C.A. - May, 89)
2. Indicate the circumstances where provisions for Medical Facilities or Reimbursement of Medical expenses by an employer to employee will not be treated as perquisite.
(C.A. - Nov., 93, 2000)
3. Write short note on Profits in lieu of Salary.
(C.A. - Nov., 94, Nov., 02)
4. Write short note on specified Employee.
(C.A. - Nov., 97)

Practical Questions

1. Mr. Gopi joined as a Director of Balco Ltd., New Delhi on 1st April, 2010 and received the following emoluments during the previous year ended 31st March, 2021.
Salary ` 2,90,000; Dearness Allowance ` 24,000 (considered for retirement benefits); Bonus ` 40,000; House Rent ` 60,000 (` 40,600 exempt). Besides above, the employer provides perquisites valued at ` 22,000. He and his employer each contributes 12.5% of salary towards Recognised Provident Fund. The interest credited to the fund for the previous year @ 13.5% amounted to ` 27,000.
Determine his Income from Salary for assessment year 2021-22 (Ans: 4,04,970)
2. Mr. Abbas Ali Baig was the General Manager of P&G Ltd. He retired on December 31, 2020 after thirty years of service. Following information is available:

- (a) Salary ` 5,000 p.m. up to December 31, 2020. House rent allowance ` 2,000 p.m. up to December 31, 2020. He resides in his own house.
- (b) Mr. Baig and his family went to his home town and the expenses of ` 5,600 being the cost of first class rail ticket were reimbursed by the employer. This is as per the prescribed conditions.
- (c) Mr. Baig contributes 20 per cent being 10 per cent regular and 10 per cent additional voluntary contribution, to recognised provident fund and the company matches his regular contribution.
- (d) He received ` 75,000 as gratuity. He is not covered under the Payment of Gratuity Act. His salary for the calendar years ending December 31, 2017, 2018, 2019 was as follows:
- Year ending December 31, 2017 ` 36,000
 - Year ending December 31, 2018 ` 42,000
 - Year ending December 31, 2019 ` 60,000
- (e) He received ` 50,000 for encashment of leave, being 10 months leave not availed of.
Compute Net taxable salary of Mr. Baig for the assessment year 2021-22. (**Ans:** 68,600)
3. Mr. Ketan was the Finance Manager of a company Stockscam Ltd. since January, 2008. He was entitled to a basic salary of ` 9,000 p.m. He also received ` 1,500 p.m. as dearness allowance, ` 200 p.m. as city compensatory allowance; ` 500 p.m. as entertainment allowance; and ` 400 p.m. as house rent allowance. He resides with his parents at their house. He contributed ` 1,000 p.m. to the recognised provident fund of the company. The company also contributed an equal amount. He retired voluntarily on 31-12-2020. He received the following amounts on retirement:
- (a) Gratuity - ` 80,000 (He is not covered under the Payment of Gratuity Act).
- (b) Compensation for voluntary retirement under a scheme approved by the Central Government: ` 1,80,000.
- (c) Payment of ` 2,00,000 as accumulated balance from Recognised Provident Fund.
- (d) Payment of ` 3,00,000 from an approved Superannuation Fund in lieu of an annuity. His pension was fixed at ` 4,000 p.m. On 1-2-2020 he commuted 1/2 of the pension for ` 1,50,000. Compute the income of Mr. Ketan under the head-salaries for the previous year 2020-21. (**Ans:** 1,62,400)
4. Mr. Dutta is employed with Cybertech Ltd. He provides the following information for the assessment year 2021-22:
- (1) Net salary per month ` 9,000.
 - (2) Income tax deducted at source ` 900 per month,
 - (3) Professional tax deducted at source ` 100 per month.
 - (4) He has been employed since 1st April, 1980 and received entertainment allowance of ` 750 per month, since that date.
 - (5) Perquisite value of water, gas and electricity ` 10,000.
 - (6) Received bonus during the year in respect of earlier year ` 6,000.

- (7) Received arrears of salary for 2009-10, ₹ 6,000.
 - (8) The employer paid L.I.C. premium of Mr. Dutta amounting to ₹ 5000.
 - (9) Took advance salary of ₹ 10,000, on account of marriage of his son and loan of ₹ 6,000.
 - (10) Mr. Dutta, who is also a director in the company, received ₹ 2,000 as directors' sitting fees during the year.
 - (11) Mediclaim premium paid by the company ₹ 2,500.
 - (12) He incurred the expenses incidental to employment, such as purchase of books, car expenses etc. amounting to ₹ 12,000.
 - (13) He received ₹ 16,000 as salary from M/s. Reema Perfumes (a partnership firm), where he is a partner.
 - (14) He also received an amount of ₹ 8,000 for his work as an agent for the Life Insurance Corporation of India as commission and traveling allowance.
 - (15) Compute his total taxable salary for the assessment year 2021-22. (Ans: 1,69,300)
5. Mr. Sagar joined a company TGC Ltd. On June 1, 2020 and was paid the following emoluments and allowed perquisites as under:

Emoluments:

- (a) Basic Pay: ₹ 50,000 per month
- (b) Dearness Allowance: ₹ 20,000 per month
- (c) Bonus: ₹ 1,00,000 per month

Perquisites:

- (a) Furnished accommodation owned by the employer and provided free of cost. Taxable value of this rent free furnished accommodation was ₹ 2,20,000.
- (b) Motorcar owned by the company along with Chauffeur for official and personal use, the taxable value being ₹ 36,000.
- (c) The company paid medical insurance premium of Mr. Sagar amounting to ₹ 15,000. Before joining the company TGC Ltd., he was a Central Government Employee and retired on May 31, 2019. He was paid the following emoluments and perquisites till May 31, 2020 by the Government:
 - Basic Salary: ₹ 96,000 p.a.
 - Dearness Allowance: ₹ 6,000 p.a.
 - Entertainment Allowance since 2006: ₹ 24,000 p.a.
 - From June 1, 2020 he receives the monthly pension of ₹ 3,000 from the Government.
 - He received ₹ 30,000 as Leave Salary in respect of earned leave at his credit. He received ₹ 1,20,000 as gratuity.
 - Compute the taxable salary of Mr. Sagar for the assessment year 2021-22.

(Ans: 20,18,800)

6. Suraj is a resident individual retired from AB Co. Ltd. on February 1, 2021 after 20 years and 9 months of service. He joined PQ Co. Ltd. on the same day, i.e., February 1, 2021 and remained in service till March 31, 2021, when he furnished the following information:
Salary and allowances from April 1, 2020 to January 31, 2021 from AB Co. Ltd.:

Particulars	₹
Basic Salary p.m.	8,000
Dearness allowance considered for retirement benefits p.m.	1,000
Commission @ 4% on turnover of ₹ 1,00,000 achieved by Suraj	4,000
Gratuity received (not covered by the Payment of Gratuity Act, 1972)	1,05,000

Salary and Allowances from PQ Co. Ltd.:

Basic Salary p.m.	6,000
Entertainment allowances p.m.	800
Fixed medical allowances p.m.	200
House rent allowances p.m.	500
Leave salary received	3,000
Suraj resides in his own house.	

Compute Suraj's salary income, for the assessment year 2021-22.

(Ans: 1,23,000)

7. Mr. Dharmesh Gandhi, an employee of Tata Ltd., covered by the Payment of Gratuity Act, 1972, retires on 31st January 2021, after 35 years and 7 months service. At the time of retirement his employer paid him gratuity of ₹ 65,000 and he received ₹ 50,000 being the accumulated balance of Recognised Provident Fund. The due date of salary and allowances etc. was 1st day of the next month and were paid on due date. He was entitled to monthly pension of ₹ 400 with effect from 1st day of February, 2020, which becomes due on the last day of the month. Compute the taxable income of Mr. Dharmesh for the Assessment Year 2021-22 on the basis of the following further information:

- Basic Salary ₹ 2,500 p.m.
- House Rent Allowance ₹ 400 p.m. Taxable value is 50% of the amount received.
- Project Allowance paid during the year ₹ 12,000.
- Bonus paid during the year ₹ 3,600.
- In retirement, on encashment of earned leave at his credit of 15 months he received ₹ 37,500.

(Ans: 71,677)

8. Mr. Chatur who is currently employed with JSM Ltd. furnishes you with the following information:

- (a) The details of monthly salary for the year ended 31-3-2021 are as under:

- Basic Salary per month ₹ 5,000
- Dearness Allowance per month:

- From 1-4-2019 to 31-12-2019 25% of Basic
 - From 1-1-2020 to 31-3-2020 32% of Basic
 - Professional Tax Deducted per month ` 120
- (b) Taxable Conveyance Allowance ` 3,500
- (c) Bonus @ 20% on Basic plus Dearness Allowance.
- (d) Mediclaim Premium paid by employer on behalf of Mr. Chatur ` 2,800
- Compute his taxable salary for the assessment year 2021-22. (Ans: 97,560)
9. X, the general manager of Y Ltd., retired on December 31, 2020 after 30 years of service. The particulars of his income are as follows:
- (a) Salary ` 8,000 per month from January 1, 2020. House Rent Allowance ` 3,000 per month from January 1, 2020.
 - (b) Medical expenses reimbursed by employer: ` 21,000 for the period April 1, 2020 which includes ` 5,000 paid to a Government Hospital.
 - (c) The employer provides him a car and driver for official and personal use. The perquisite is valued at ` 5,400.
 - (d) X contributes 22% (12% regular and 10% additional voluntary contribution) to a recognised provident fund and the company matches his regular contribution of 12%.
 - (e) He lives in a rented house in Delhi and pays ` 4,000 per month as rent.
 - (f) X received ` 1,50,000 as gratuity. He is not covered by the payment of Gratuity Act, 1972.
 - (g) He received ` 1,60,000 for encashment of leave, being 10 months leave not availed of.
- Compute X's Income for the assessment year 2021-22. (Ans: 1,88,400)
10. Mr. Pravin Kothari is working in Kots Foods Private Ltd. Co., drawing Basic Salary of ` 9,000 p.m. He gets the following further benefits.
- (a) Motor car is provided for both official and personal purposes with driver. Perquisite value of car used for personal purpose is ` 12,000.
 - (b) Medical facility provided in hospital belonging to the employer value of facility availed ` 19,000.
 - (c) Rent free accommodation at Malegaon. Perquisite value of which is ascertained to ` 21,000.
 - (d) Gas, water and electricity bills amounting to ` 15,000 for personal use is paid by employer.
 - (e) Sweeper, Cook and Watchman provided at a salary of ` 600 p.m. each.
 - (f) Education for children provided in school run by employer. Cost of such education similar institution is ` 23,000 which is treated as taxable perquisite value.

- (g) Holiday trip for self and family provided. Cost of such stay and travel is ` 21,400. The entire cost was borne by employer.

You are required to ascertain the income chargeable to tax under the head Income from Salaries for A.Y. 2021-22.

(Ans: 2,22,000)

“Believe - it can be done. When you believe something can be done, really believe, your mind will find the ways to do it. Believing there is a solution, paves the way to a solution.”

– Dr. David Schwartz





Chargeability [U/S 22]

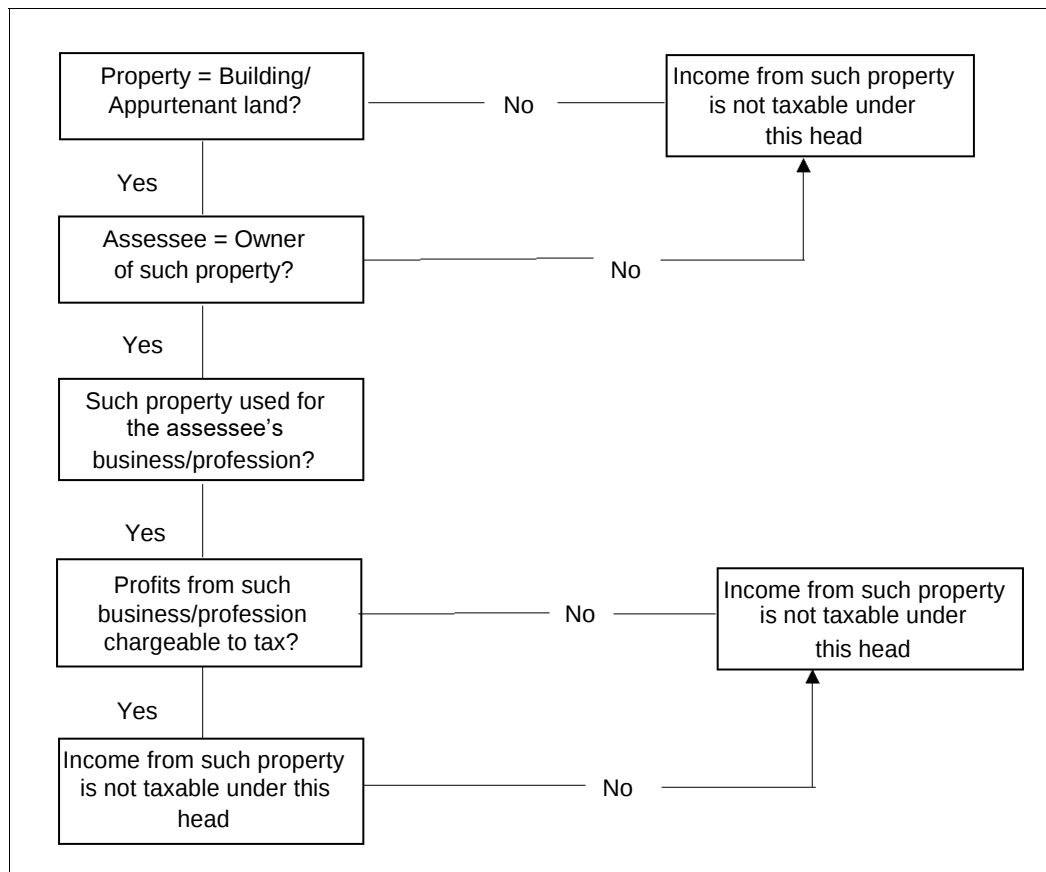
- (i) The process of computation of income under the head “Income from house property” starts with the determination of annual value of the property. The concept of annual value and the method of determination are laid down in Section 23.
- (ii) The annual value of any property comprising of building or land appurtenant thereto, of which the assessor is the owner, is chargeable to tax under the head “Income from house property”.

Conditions for Chargeability

- (1) Property should consist of any building or land appurtenant thereto:
 - (a) Buildings include not only residential buildings, but also factory buildings, offices, shops, godowns and other commercial premises.
 - (b) Land appurtenant means land connected with the building like garden, garage, etc.
 - (c) Income from letting out of vacant land is, however, taxable under the head “Income from other sources”.
- (2) Assessee must be the owner of the property:
 - (a) Owner is the person who is entitled to receive income from the property in his own right.
 - (b) the requirement of registration of the sale deed is not warranted.
 - (c) Ownership includes both freehold and leasehold rights.
 - (d) Ownership includes deemed ownership.
 - (e) The person who owns the building need not also be the owner of the land upon which it stands.
 - (f) The assessee must be the owner of the house property during the previous year. It is not material whether he is the owner in the assessment year.
 - (g) If the title of the ownership of the property is under dispute in a court of law, decision as to who will be the owner chargeable to Income Tax under Section 22 will be of the Income Tax Department till the court gives its decision to the suit filed in respect of such property.
- (3) The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax.

- (4) Property held as stock-in-trade, etc. Annual value of house property will be charged under the head “Income from house property” in the following cases also:
- Where it is held by the assessee as stock-in-trade of a business.
 - Where the assessee is engaged in the business of letting out of property on rent.

Basic conditions for assessing (charging) an income under this head



Exceptions

- Letting out is supplementary to the main business:
 - Where the property is let out with the object of carrying on the business of the assessee in an efficient manner, then the rental income is taxable as business income, provided letting is not the main business but it is supplementary to the main business.
 - In such a case, the letting out of the property is supplementary to the main business of the assessee and deductions/allowances have to be calculated as relating to profits/gains of business and not relating to house property.
- Letting out building along with other facilities:

- (i) Where income is derived from letting out of building along with other facilities like furniture, the income cannot be said to be derived from mere ownership of house property but also because of facilities and services rendered and hence, assessable as income from business/other sources.
- (ii) Where a commercial property is let out along with machinery, e.g., a cotton mill including the building and the two lettings are inseparable, the income will either be assessed as business income or as income from other sources, as the case may be.

Composite Rent

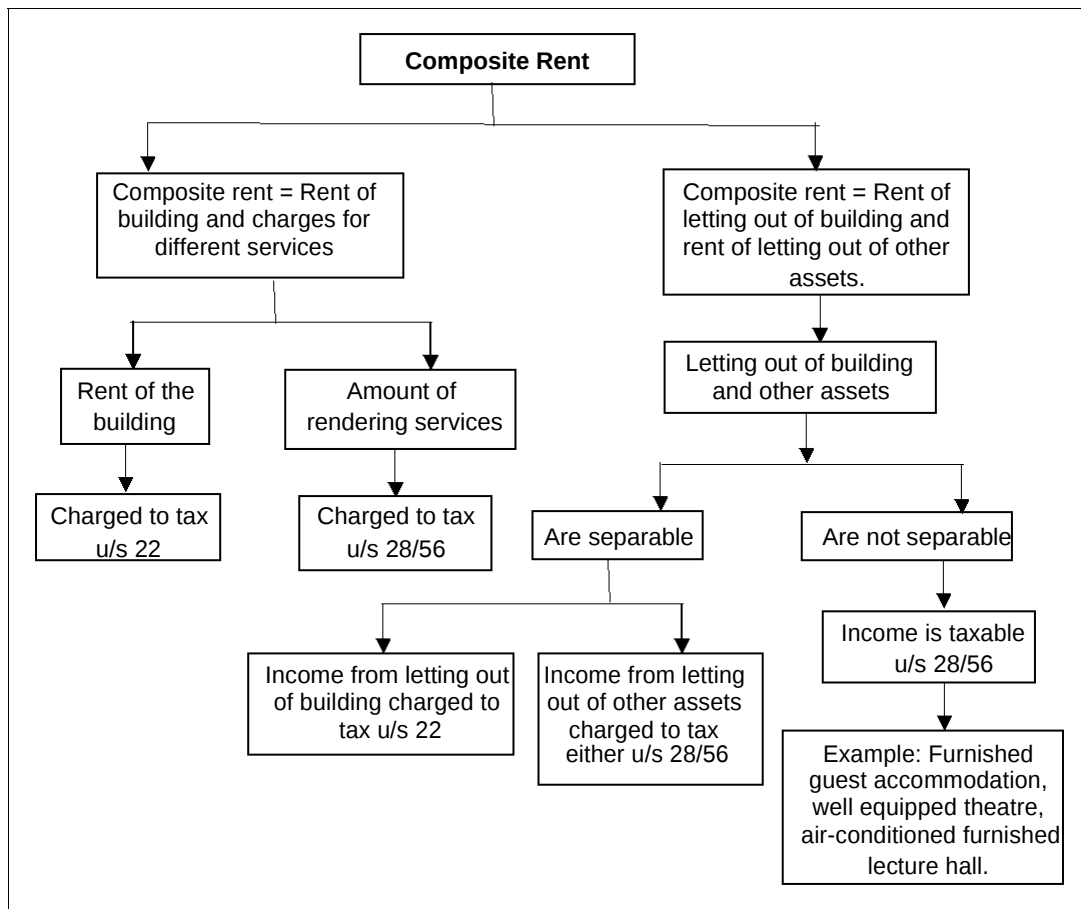
- (1) Meaning of composite rent:** The owner of a property may sometimes receive rent in respect of building as well as:

- (a) Other assets like say, furniture, plant and machinery.
- (b) For different services provided in the building, for example:
 - Lifts
 - Security
 - Power backup

The amount so received is known as “composite rent”.

- (2) Tax treatment of composite rent:**

- (a) Where composite rent includes rent of building and charges for different services (lifts, security, etc.), the composite rent has to be split up in the following manner:
 - The sum attributable to use of property is to be assessed under Section 22 as income from house property;
 - The sum attributable to use of services is to be charged to tax under the head “Profits and gains of business or profession” or under the head “Income from other sources”.
- (b) Where composite rent is received from letting out of building and other assets (like furniture) and the two lettings are not separable:
 - If the letting out of building and other assets are not separable, i.e., the other party does not accept letting out of buildings without other assets, then the rent is taxable either as business income or income from other sources.
 - This is applicable even if sum receivable for the two lettings is fixed separately.
- (c) Where composite rent is received from letting out of buildings and other assets and the two lettings are separable:
 - If building is let out along with other assets, but the two lettings are separable, i.e., letting out of one is acceptable to the other party without letting out the other, then income from letting out of building is taxable under “Income from house property”;
 - Income from letting out of other assets is taxable as business income or income from other sources;
 - This is applicable even if a composite rent is received by the assessee from his tenant for the two lettings.



Income from House Property Situated Outside India

- (i) In case of a resident in India (resident and ordinarily resident in case of individuals and HUF), income from property situated outside India is taxable, whether such income is brought into India or not.
- (ii) In case of a non-resident or resident but not ordinarily resident in India, income from a property situated outside India is taxable only if it is received in India.

Annual Value

Once all the condition mentioned in Section 22 are satisfied, the 'annual value' of the house property taxed under the head 'Income From House Property'. This is a peculiar head of income. It charges to tax a notional amount called annual value (AV), i.e., the estimated value of income expected if the property is rented. AV indicates the capacity of the property to produce income.

Annual Value is RLV or Actual Rent

AV, broadly speaking, may be either of the following two amounts:

- (1) **Reasonable Lettable Value (RLV):** This is the expected rent, i.e., the sum for which the property might reasonably be expected to let from year-to-year.

- (2) **Actual Rent (A.R):** This is the actual rent received or receivable by the owner in respect of a property which is actually let.

Reasonable Lettable Value (RLV)

- (1) RLV is to be computed whether the property is actually let or not.
- (2) RLV is a notional figure. But it is not fictitious figure. It must be computed on some reasonable, i.e., logical basis. It must be computed on a long-term basis it indicates the expected rent from year-to-year.
- (3) RLV may be estimated on the basis of the (a) fair rent or (b) municipal valuation:
 - (a) Fair rent is the rent fetched by a similar house in the same locality.
 - (b) Municipal valuation is the gross rateable value fixed by the Municipality for levy of the property taxes. At times the Net Municipal value is available which is after deduction of allowance of say, 10% from gross value.
 - (c) The standard rent fixed under the Rent Control Act.
Thus, if Net Municipal value ` 10,000 (i.e., ` 9,000 $\times$ 100/90.) The gross value is to be considered for ascertaining the Reasonable Lettable Value.
 - (d) Standard rent is the rent fixed under the Rent Control Act, if any, applicable to the area in which the property is situated. Standard rent is not mentioned in the Income Tax or Rules.

However, as per court judgments, the Reasonable Lettable Value cannot exceed the standard Rent Control Act if applicable.

Actual Rent

- (1) Actual rent is applicable only if the property is actually let. Thus, actual rent is irrelevant in case of property is not rented but is self-occupied or is unoccupied or is deemed to be let.
- (2) Actual rent means the actual rent received or receivable. Actual rent means the rent actually received or receivable in respect of the property let for the period of letting. Actual rent depends on:
 - (i) Area or portion let
 - (ii) The period of letting. Actual rent will be different depending on whether the entire property is let throughout the year, or the property is let for part of the year and so.
- (3) The amount of actual rent would not include the amount of rent which the owner cannot realize to the extent allowable under the Income Tax Rules (i.e., unrealized rent or bad debts).
- (4) Expenses, such as water charge, lift maintenance, etc., incurred by the owner on providing amenities to the tenant, and are deducted from the actual rent received to arrive at the actual rent for property.
- (5) Actual rent is computed as shown below:

Annual rent	xx
Less: Allowable Unrealised Rent	(xx)
= Actual Rent (AV)	xx

Annual Value depends on use of Property

Under Section 23, the Annual Value (AV) depends upon the use of the property, i.e., whether the property is let out entirely, or let out but remains vacant partly, or self-occupied or un-occupied or is deemed to be let. This is briefly outlined below, and explained in detail:

- (1) **LOP:** In case of a let out property (LOP), Annual Value is higher than the Reasonable Lettable Value or Actual Rent.
- (2) **VLOP:** In case of let out property which was vacant for sometimes during the year (VLOP), basically, the AV is the same as in (1) above, i.e., Annual Value is higher than the Reasonable Lettable Value or Actual Rent, but with one exception. The Annual Value is taken as the Actual Rent, if the Actual Rent is lower than the RLV due to such Vacancy [Section 23(1)(c)].
- (3) **One SOP:** The Annual Value will be taken as Nil, in respect of either a house in the occupation of the owner for his own residence, i.e., a self-occupied house [SOP] [Section 23(2)(a)], or a house which cannot be occupied by the owner because of his working elsewhere. The AV cannot be taken as Nil, in case of such house SOP, if the (or any part) is let during the year or any other benefit is derived from the property by the owner (Section 23.3). [only a house remaining vacant due to employment elsewhere can be treated as a house remaining vacant due to any other reasons cannot be treated as an SOP].
- (4) **Other SOP treated as DLOP:** In case more than one house is used by the owner for self-occupation, he can choose only one house whose annual value is to be taken as NIL as explained above. The income from other self-occupied houses is to be computed as if let out, i.e., deemed to be let out property [DLOP] [Section 23(4)].

NET ANNUAL VALUE

- (1) **Deducting Municipal taxes paid:** The Annual Value computed as above is known as the Gross Annual Value or GAV. From the GAV, the taxes levied by any local authority (Municipality) in respect of the property, shall be deducted, in the previous year in which such taxes are actually paid by the owner. Such deduction can be made irrespective of the previous year in which the liability to pay such taxes was incurred by the owner according to the method of accounting employed by him. According to Section 27(vi), such taxes include Service taxes levied by the local authority in respect of the property.
- (2) **No Deduction:** The taxes cannot be deducted to the extent:
 - (a) They are not levied by a local authority (Municipality, Grampanchayat, cantonment board, etc.), e.g., taxes levied by the state government.
 - (b) They are not paid by the owner (e.g., borne by the tenant)
 - (c) They are not actually paid during the previous year.
 - (d) They relate to a SOP whose annual value is taken as Nil.
- (3) **NAV = Gross Income from HP:** After such municipal taxes borne and actually paid by the owner are deducted from the gross Annual Value, we arrive at Net Annual Value [NAV]. Net Annual Value indicates the amount of gross income subject to tax under the head 'Income from House Property'.

Standard Deduction

A lump sum amount equals to 30% of the Net Annual Value (NAV), can be deducted on account of all expenses on property (repairs, collection charges, ground rent, insurance land revenue, state taxes and so on, except interest explained below) such deduction is allowed on notional basis, irrespective of who (owner or tenant) bears the expenses or the amount of actual expenses incurred. Thus, income from property is truly a deemed income – both the gross income (annual value) and expenses allowed (Standard deduction) are deemed and actual figure.

INTEREST

(1) The interest payable on amount borrowed for:

- (i) Acquisition
- (ii) Construction
- (iii) Repairs
- (iv) Renewal
- (v) Reconstruction of property can be deducted from the Net Annual Value.

This is the only deduction allowed from NAV, addition to standard deduction. Interest is allowable on accrual basis, whether actually paid or not, irrespective of the method of accounting followed by the assessee. The purpose of borrowing must be related to the property, i.e., its purchase, construction, repairs, renewal or reconstruction if loan is taken by mortgaging the house but for any other reason, e.g., daughter's marriage, the interest cannot be deducted.

(2) Interest payable for pre-construction period:

(a) Where property has been:

- Constructed.
- Purchased with borrowed funds, the interest payable for the period prior to acquisition or construction, can be deducted in five equal installment beginning with the previous year in which property is acquired or constructed and four succeeding years.

(b) However, any amount already allowed as deduction under any other provision of the Act cannot be claimed again.

(c) Interest is to be aggregated from the date of borrowing till the end of the previous year prior to the year in which the house is completed (and not till the date of completion of construction).

(d) Thus, if a loan is taken on 1st April, 2011 and the construction is completed on 15th March, 2021:

- Interest from 1st April, 2011 (the date of borrowing) to 31st March, 2019 (the previous year prior to the year in which the construction is completed) will be treated as interest for pre-construction period whose 1/5th amount will be allowed in current previous year 2020-21.

- Entire interest from 1st April, 2020 to 31st March, 2021 will be treated as interest for current previous year 2020-21 even though the house is completed only towards the end of the year.
- (e) It should be noted that:
- A new loan can be taken specifically to repay the original loan taken for purchase/construction of a house. The interest on such new loan can also be deducted as explained above.
 - If interest is not paid in time, the late payment charges or interest on interest cannot be deducted.
 - Brokerage paid for arranging the house loan cannot be deducted.
 - Only simple, and not compound, interest can be deducted.
 - A certificate from the lender specifically the amount of interest should be furnished by the assessee.
- (3) Amount Deductible: In case of one house whose annual value is taken as Nil (being a house used for self occupation or lying vacant due to the owner residing at workplace away from such house), interest can be claimed up to:
- (a) ` 30,000 if the loan taken for acquisition, construction, repairs or renewals (where loan is taken before 01/04/99).
- (b) Up to `2,00,000 if such property is acquired or constructed within three years from the end of the financial year in which the capital was borrowed, in case of loan after 1st April, 1999. [Note that higher limit of `2,00,000 applies only to loans taken for acquisition or construction; and not for repairs, renewal, reconstruction, etc., for interest on loan taken for repairs and renewal max. limit of interest allowable under SOP is 30,000 even if loan taken after 01/04/09]. In case other type of property any amount of interest can be claimed

Interest not Deductible

Any interest payable outside India on which tax has not been paid or deducted and in respect of which there is no person in India who may be treated as an agent u/s 163, shall not be deducted in computing income from house property. (This is to prevent avoidance of tax by the person receiving the amount of interest. Thus, A can deduct interest payable to B outside India, only if tax on such interest has been paid or deducted or recoverable from an agent of B in India).

Rent Unrealised up to 31-3-2001 Now Received

Besides NAV, another type of receipt taxable as “income from house property” is rent not realised in earlier years, now realized. This is subject to the following condition laid down under Section 25 A:

- (1) Such rent is taxable in the hands of the assessee who was granted deduction u/s 24 in respect of unrealized rent in any earlier years, i.e., up to 31-3-2001.
- (2) Such rent is taxable even if the assessee is not the owner of the concerned house in the year of its receipt.
- (3) No deduction u/s 23 or 24 (taxes, standard deduction, etc.), is allowed from such rent.

Rent Unrealised After 1-4-2001, Now Received

Rent is taxable u/s 25 AA if the following conditions are fulfilled:

- (1) Rent not realized earlier now received is taxable in the hands of the assessee who was granted deduction u/s 24 in respect of unrealized rent after 1-4-2001.
- (2) Such recovery of rent is taxable even if the assessee is not the owner of the concerned house in the year of recovery.
- (3) No deduction (tax, standard deduction, etc.), is allowed from such receipt. (Such receipt does not form any part of the NAV. Hence, standard deduction, allowed on NAV, is not claimable on such receipt).

Arrears of Rent

Section 25 B provides that arrears of rent will be taxed in the year of receipt as explained below:

- (1) The arrears of rent are received by owner of any house property let to a tenant,
- (2) Such arrears were not charged to tax earlier.
- (3) The arrears received (after deducting 30% standard deduction) shall be charged as “Income from House Property”.
- (4) The amount is taxed in the year of receipt
- (5) The amount is taxed, even if the assessee is not the owner of that property in the year of receipt.

PROPERTY MAY BE LET OUT, SELF-OCCUPIED OR VACANT

Computation of annual value is the first step in the computation of income from house property. This indicates the gross income taxable as Income from House Property. The next step is to compute the deduction of standard allowance and interest from the annual value, to arrive at the net taxable income. Income from house property arises whether the property arises is let out, or self-occupied or vacant. The annual value and various deductions allowed depends upon whether the property is let out or self-occupied or vacant during the previous year, either entirely or partly. The computation of income under the head Income from House Property is, therefore, discussed under the following categories:

- (A) Any Let Out Property (LOP)
- (B) Let Out Property Partly Vacant (VLOP)
- (C) One Self-occupied Property (SOP)
- (D) Additional SOP Deemed to be Let Out Property (DLOP)

Determination of Annual Value [u/s 23]: This involves three steps:

Step 1 – Determination of Gross Annual Value (GAV).

Step 2 – From the gross annual value computed in step 1, deduct municipal tax paid by the owner during the previous year.

Step 3 – The balance will be the Net Annual Value (NAV), which as per the Income Tax Act is the annual value.

(1) Determination of annual value for different types of house properties:

- (a) Where the property is let out throughout the previous year [Section 23(1) (a)/(b)] Where the property is let out for the whole year, then the GAV would be the higher of:
- Annual Letting Value (ALV).
 - Actual rent received or receivable during the year. The ALV is the higher of Fair Rent (FR) and Municipal Value (MV), but restricted to Standard Rent (SR).

(2) Treatment of unrealised rent [Explanation to Section 23(1)]:

- (a) The actual rent received/receivable should not include any amount of rent which is not capable of being realised.
- (b) However, the conditions prescribed in Rule 4 should be satisfied. They are:
- The tenancy is bona fide.
 - The defaulting tenant has vacated or steps have been taken to compel him to vacate the property.
 - The defaulting tenant is not in occupation of any other property of the assessee³
 - The assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

(3) Property taxes (Municipal Taxes):

- (a) Property taxes are allowable as deduction from the GAV subject to the following two conditions:
- It should be borne by the assessee (owner).
 - It should be actually paid during the previous year.
- (b) If property taxes levied by a local authority for a particular previous year are not paid during that year, no deduction shall be allowed in the computation of income from house property for that year.
- (c) However, if in any subsequent year the arrears are paid, then the amount so paid is allowed as deduction in computation of income from house property for that year.
- (d) Thus, we find that irrespective of the previous year in which the liability to pay such taxes arise according to the method of accounting regularly employed by the owner.
- (e) In case of property situated outside India, taxes levied by local authority of the country in which the property is situated is deductible.

Illustration 1:

Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y. 2020-21. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal tax paid to the Municipal Corporation of London is £ 8,000 during the P.Y. 2020-21. The value of one £ in Indian rupee to be taken at Rs. 82.50. Compute Rajesh's taxable income for the A.Y. 2021-22.

Solution: For the P.Y. 2020-21, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. A municipal tax paid in London is being too allowed as deduction from the GAV.

Computation of income from house property of Mr. Rajesh for A.Y. 2021-22.

Particulars

Gross Annual Value ($\text{₹ } 10,000 \times 12 \times 82.50$)	99,00,000
Less: Municipal Taxes Paid ($\text{₹ } 8,000 \times 82.50$)	(6,60,000)
Net Annual Value (NAV)	92,40,000
Deduction u/s 24	
Less: (a) 30% of NAV = 30% of `92,40,000	(27,72,000)
Income from House Property	64,68,000

Illustration 2:

Arvind had taken loan of ` 5,00,000 for construction of property on 1.10.2018. Interest was payable @ 10% p.a. The construction was completed on 30.6.2019. No principal repayment has been made up to 31.3.2020. Compute the interest allowable as deduction u/s 24 for the A.Y. 2021-22.

Solution: Interest for the year (1.4.19 to 31.3.20) = 10% of `5,00,000 = `50,000
Pre-construction interest = 10% of ` 5,00,000 for six months (from 1.10.19 to 31.3.20) = ` 25,000

Pre-construction interest to be allowed in five equal annual installments of ` 5,000 from the year of completion of construction, i.e., in this case, P.Y. 2020-21

Therefore, total interest deduction u/s 24 = 50,000 + 5,000 = ` 55,000.

Computation of income from house property for different categories of property

Income from House Property

Particulars	LOP	VLOP	SOP	DLOP
(1) Gross Annual Value (GAV): (i) Reasonable Lettable Value (RLV): (a) Fair Rent (b) Municipal Value (c) Higher of (a) and (b) (d) Standard Rent, if any (e) Lower of (c) and (d) (ii) Annual Rent (AR): Rent Received/Receivable (–) Unrealized Rent GAV =	Higher of (a) and (b)	Higher of (a) and (b), but AR if < RLV due to vacancy	Nil	RLV
(2) Deduction of Municipal Taxes paid by Owner:	Y	Y	X	X

(3) Net Annual Value: NAV =	(1) – (2)	(1) – (2)	Nil	(1) – (2)
(4) Deductions Value: (i) Standard Deduction: (30% of NAV) (ii) Interest Payable: (a) Entire (b) Loan taken up 30.3.1999 (c) Loan taken after 30.3.1999	Y	Y	N Max. 30K Max. 2.0L	Y
(5) Addition: (i) Unrealized Rent now Received (u/s 25A) (ii) Arrears of Rent (u/s 25B) (–) Standard Deduction (30% of Arrears) Taxable Income from House Property	X X XXX	X X XXX	X X XXX	X X XXX

Illustration 3:

Mr. Paramveer is the owner of a residential house known as “Guru Kripa” at Ghatkopar. The house was occupied by three tenants namely, Mr. Qureshi, Mr. Ramanand and Mr. Sadanand. The other particulars of the house are given below tenant-wise for the year ended 31st March, 2021.

Name of the Tenant	First Unit Qureshi	Second Unit Ramanand	Third Unit Sadanand
Gross Ratable Value	12,000	14,000	15,000
Fair Rent	9,000	15,000	16,000
Actual Rent Received	11,400	11,000	18,000
Municipal Taxes Paid	3,240	3,780	4,080
Expenses on Repairs	1,000	Nil	Nil
Expenses of Collection of Rent	Nil	500	Nil

The repairs cost of the first and second unit is to be borne by tenants themselves. Owner Mr. Paramveer is to bear municipal taxes only in respect of the first unit while Ramanand and Sadanand reimbursed the municipal taxes paid by the owner. Compute the income from the house property of Mr. Paramveer for the A.Y. 2021-22.

Solution:

Name of the Assessee: Mr. Paramveer

P.Y.: 2020-21

Legal Status: Individual

A.Y.: 2021-22

Residential Status: R and OR

Computation of Income from House Property

Units Let Out Names of the Tenant	1 Qureshi	2 Ramanand	3 Sadanand
(1) Gross Annual Value	12,000	15,000	18,000
(2) Less: Municipal Taxes paid borne by the owner.	3,240	Nil	Nil
(3) Net Annual Value	8,760	15,000	18,000
(4) Less: Deductions u/s 24 (30% of Annual Value)	(2,628)	(4,500)	(5,400)
Income from House Property	6,132	10,500	12,600
Income from House Property = (1 + 2 + 3)	₹ 29,232		

Illustration 4:

Mr. Keval is the owner of the house in Thane, Ratable Value of this is ascertained at ₹ 36,000. He incurred the following expenses:

- (1) Municipal taxes paid ₹ 6000.
- (2) Interest paid to HDFC ₹ 1,88,000.

He borrowed the funds from HDFC for the purpose of construction of this house. The house is occupied by Mr. Keval for his own residence. Determine the income under the head "Income from House Property" for the assessment year 2021-22 on the assumption that:

- (a) The above loan taken and acquisition of the house property was prior to 1st April, 1999.
- (b) The above loan taken and acquisition of the house property was on 1st April, 2001.

Solution:

Name of the Assessee: Mr. Keval

P.Y.: 2020-21

Legal Status: Individual

A.Y.: 2021-22

Residential Status: R and OR

Computation of Income from House Property

(a) Income from self-occupied House Property on the assumption that loan taken and acquisition was prior to 1st April, 1999.

Particulars	₹	₹
Annual Value		Nil
Less: Deduction u/s 24		
Interest on borrowed funds	1,88,000	
(Allowed up to ₹ 30,000)		(30,000)
Loss from Self-occupied House Property		(30,000)

(b) Income from self-occupied House Property on the assumption that loan taken and acquisition was on 1st April, 2001.

Particulars	`	`
Annual Value		Nil
Less: Deduction u/s 24		
Interest on borrowed funds	1,88,000	
(Allowed up to `2,00,000)		(2,00,000)
Loss from Self-occupied House Property.		(2,00,000)

Illustration 5:

Rakesh furnishes the following particulars in respect of his House Properties let out for the P.Y. 2020-21. Determine their net annual value for A.Y. 2021-22.

Particulars	Name of the Property			
	E (`)	F (`)	G (`)	H (`)
Municipal Value	4,00,000	3,00,000	1,50,000	2,00,000
Fair Rent	4,20,000	3,70,000	1,80,000	2,60,000
Standard Rent under Rent Control	3,50,000	3,80,000	1,70,000	2,80,000
Annual Rent Receivable	3,60,000	4,80,000	2,44,000	2,90,000
Annual Rent Received (net of unrealised rent)	3,00,000	4,20,000	2,04,000	2,40,000
Municipal Taxes	40,000	36,000	16,500	20,000
	Paid	Payable	Paid by Tenant	Disputed

Solution:

Name of the Assessee: Mr. Rakesh

P.Y.: 2020-21

Legal Status: Individual

A.Y.: 2021-22

Residential Status: R and OR

Income from House Property

Particulars	E (`)	F (`)	G (`)	H (`)
Municipal Value (Ratable value)	4,00,000	3,00,000	1,50,000	2,00,000
Fair Rent	4,20,000	3,70,000	1,80,000	2,60,000
Reasonable letting value (Higher of MV, FR)	4,20,000	3,70,000	1,80,000	2,60,000
Standard Rent	3,50,000	3,80,000	1,70,000	2,80,000
Reasonable letting value (Lower of RLV, SR)	3,50,000	3,70,000	1,70,000	2,60,000

Rent Recd/Receivable (Net of Unrealised rent)	3,00,000	4,20,000	2,04,000	2,40,000
Gross Annual value (Higher of RLV, RR)	3,50,000	4,20,000	2,04,000	2,60,000
Less: Municipal tax paid by owner during P.Y. 19-20	(40,000)	Nil	Nil	Nil
Net Annual Value	3,10,000	4,20,000	2,04,000	2,60,000

Illustration 6:

Mr. Sehwag owns a house property at Malad at S.V. Road. He has let it out to Mr. Yuvraj who has occupied it for business purposes. The details regarding this property are:

- (1) Date of commencement of construction 1-07-16
- (2) Date of completion of construction 31-3-17
- (3) Ratable Value (MV) ` 1,50,000
- (4) Fair Rent ` 1,60,000
- (5) Rent per month ` 15,000
- (6) Unrealized rent ` 15,000
- (7) Municipal taxes paid during the year of:
 - (a) P.Y. 18 -19 ` 5,000
 - (b) P.Y. 19-20 ` 12,000
 - (c) P.Y. 20-21 ` 12,000
- (8) Interest on Outstanding Municipal taxes ` 1,200
- (9) Actual repairs expenses are ` 1,500
- (10) Interest on construction loan paid to Dena Bank ` 51,000
- (11) Interest on construction loan outstanding to Dena Bank ` 9,000

You are required to calculate income from house property for A.Y. 2021-22

Solution:

Name of the Assessee: Mr. Sehwag

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	
Municipal Value	1,50,000
Fair Rent	1,60,000
Reasonable letting value (Higher of MV, FR)	1,60,000
Standard Rent	NA

Reasonable letting value (lower of RLV, SR)	1,60,000
Annual Rent (Net of Unrealised)	1,65,000
Gross Annual value (Higher of RLV, AR)	1,65,000
Loss due to vacancy	Nil
Gross annual value	1,65,000
Less: Municipal tax paid by owner during P.Y. 2020-21	(29,000)
Net Annual value	1,36,000
Less: Deduction u/s 24	
Standard deduction (30% of NAV)	(40,800)
Interest on loan of P.Y. 2020-21	(60,000)
Income from House Property	35,200

Notes:

(a) Interest on O/S municipal tax and actual repairs are not allowed as deduction.

(b) Annual Rent = $(12 \times 15,000) = 1,80,000 - 15,000 = 1,65,000$

↓	↓
Rent p.m.	Unrealised

Illustration 7:

Mr. Zahir Khan owns a bungalow at Panvel near Mumbai. He has let it out to Mr. Aashish who has occupied it for residential purposes. The property remained vacant for two months. The details regarding this property are:

- (1) Date of completion of construction 23rd Dec.2017
- (2) Ratable Value ` 65,000
- (3) Rent per month ` 5,000
- (4) Most reasonable rent according to locality ` 60,000
- (5) Unrealised rent ` 5,000
- (6) Municipal taxes paid;
 - P.Y. 19 -20` 2,000
 - P.Y. 20 -21` 2,000
- (7) Municipal taxes penalty paid ` 1,200, Actual repair expenses ` 3,000 are paid/borne by tenant.
Interest on construction loan ` 16,000 including advance interest for P.Y. 20-21` 6,000
You are required to calculate income from house property for A.Y. 21-22.

Solution:

Name of the Assessee: Mr. Zahir Khan

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	₹
Municipal Value	65,000
Fair Rent	60,000
Reasonable letting value (Higher of MV, FR)	65,000
Standard Rent	NA
Reasonable letting value (lower of RLV, SR)	65,000
Annual Rent (Net of Unrealised)	55,000
Gross annual value (Higher of RLV, AR)	65,000
Loss due to vacancy	(10,000)
Gross annual value	55,000
Less: Municipal tax paid by owner during P.Y. 20-21	(4,000)
Net annual value	51,000
Less: Deduction u/s 24	
Standard deduction (30% of NAV)	(15,300)
Interest on loan of P.Y. 20-21	(10,000)
Income from House Property	25,700

Notes:

- (a) Municipal tax penalty, actual repair expenses and adv. interest of 20-21 are not allowed as deduction
- (b) Property was vacant for two months ($3 \times 5,000$) 1,000 is deducted as loss due to vacancy.

Illustration 8:

Saurav owns three houses, information regarding which for P.Y. 20-21 is as below:

Particulars	House 1 (₹)	House 2 (₹)	House 3 (₹)
Ratable value	60,000 p.a.	80,000 p.a.	10,000 p.m.
Fair rent p.a.	50,000	80,000	1,50,000
Rent	6,000 p.m.	8,000 p.m.	Not Applicable
Vacancy period	Nil	4 months	Nil
Occupancy status	Let out	Let out	Self-residence
Municipal tax paid	4,000	4,000	Nil
Interest on housing loan	20,000	Nil	35,000
Year in which loan taken	2009	2010	1998

You are required to calculate his income from house property for A.Y. 21-22.

Solution:

Name of the Assessee: Mr. Saurav

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	House 1 (₹)	House 2 (₹)	House 3 (₹)
Municipal Value	60,000	80,000	Since, H3
Fair Rent	50,000	80,000	is self-occupied
Reasonable Letting Value (Higher of MV, FR)	60,000	80,000	for residence its NAV will be Nil
Standard Rent	NA	NA	under Section 23
Reasonable Letting Value (Lower of RLV, SR)	60,000	80,000	
Annual Rent (Net of Unrealised)	72,000	96,000	
Gross Annual Value (Higher of RLV, AR)	72,000	96,000	
Loss due to vacancy	Nil	(32,000)	
Gross Annual Value	72,000	64,000	
Less: Municipal tax paid by owner during P.Y. 2020-21	(4,000)	(4,000)	
Net Annual Value	68,000	60,000	Nil
Less: Deduction u/s 24 Standard deduction (30% of NAV)	(20,400)	(18,000)	Nil
Interest on loan	(20,000)	Nil	(30,000)
Income from H/P	27,600	42,000	(30,000)

Illustration 9:

Mr. Harbhajan owns following house properties in Mumbai, information regarding which for P.Y. 2020-21 as below:

Particulars	Bandra (₹)	Juhu (₹)	Colaba (₹)
Municipality Assessable Value p.a.	5,00,000	12,00,000	4,00,000
Fair Rent p.a.	5,00,000	13,00,000	4,20,000
Rent p.a.	5,40,000	15,00,000	Nil
Vacancy period	3 months	Nil	Nil

Municipal tax paid (2020-21)			
17-18	23,000	10,000	20,000
18-19	46,000	60,000	20,000
19-20	23,000	30,000	20,000
Unrealized rent/bad debt	40,000	Nil	Nil
Interest on housing loan			
17-18	20,000	10,000	20,000
18-19	66,000	3,00,000	1,56,000
19-20	10,000	Nil	20,000
Year in which loan taken	2008	2009	2011
Unrealised rent recovered	Nil	40,000	Nil
Arrears of rent received	50,000	Nil	Nil
Expenses to recover unrealised rent	Nil	(15,000)	Nil

Colaba House is occupied by Harbhajan for his residential use. You are required to calculate his Income From House Property for A.Y. 21-22.

Solution:

Name of the Assessee: Mr. Harbhajan

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	Bandra (₹)	Juhu (₹)	Colaba (₹)
Municipal Value	5,00,000	12,00,000	4,00,000
Fair Rent	5,00,000	13,00,000	4,20,000
Reasonable Letting Value (Higher of MV, FR)	5,00,000	13,00,000	Nil
Standard Rent	-	-	Nil
Reasonable Letting Value (Lower of RLV, SR)	5,00,000	13,00,000	Since this Self
Actual Rent	5,00,000	15,00,000	occupied for
(Net of unrealised) Gross Annual Value (Higher of RLV, AR)	5,00,000	15,00,000	residence Its NAV will be NIL u/s 23
Loss due to vacancy	(1,35,000)	-	
Gross Annual Value	3,65,000	15,00,000	
Less: Municipal tax paid	(92,000)	(1,00,000)	
Net Annual Value	2,73,000	14,00,000	Nil

Less: Deduction u/s 24 Standard deduction (30% of NAV)	(81,900)	(4,20,000)	Nil
Interest on Loan of P.Y. 19-20	(10,000)	-	(20,000)
Sub Total	1,81,100	9,80,000	(20,000)
Add: Unrealised rent recovered	-	40,000	-
Add: Arrears of rent	50,000	-	-
Less: 30% Standard deduction	(15,000)	-	-
Income From House Property	2,16,100	10,20,000	(20,000)

Notes: Municipal tax paid for all three years are allowed as deduction.

Interest on loan 11-12, 12-13 and expense to recover unrealised rent are not allowed as deduction.

Loss due to Vacancy = $5,40,000 \times 3 / 12 = 1,35,000$

Rent receivable = $5,40,000 - 40,000 = 5,00,000$

Illustration 10:

Mr. Sunil owns several houses for which following information is given:

	House 1	House 2	House 3	House 4	House 5	House 6
Ratable Value	30,000	40,000	60,000	2,40,000	2,00,000	1,20,000
Fair Rent	35,000	44,000	90,000	4,00,000	8,00,000	1,20,000
Rent	3,000	48,000	21,000	3,00,000	3,00,000	—
	per month	per annum	Per quarter	p.a.	p.a.	
Vacancy period	Nil	2 month	1.5 month	Nil	2 months	12
Self-occupied	Nil	Nil	Nil	Nil	6 months	Nil
Mun. tax paid	4,000	5,000	1,00,000	10,000	Nil	20,000
Unrealised rent	3,000	8,000	5,000	Nil	1,00,000	Nil
Interest on loan for construction	10,000	Nil	Nil	Nil	Nil	36,000
Arrears of Rent						
Received	1,00,000	Nil	Nil	50,000	Nil	Nil
Unrealised Rent						
Received	Nil	10,000	Nil	Nil	Nil	Nil

You are required to calculate his Income from House Property for A.Y. 2021-22.

Solution:

Name of the Assessee: Mr. Sunil

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	H1	H2	H3	H4	H5	H6
Municipal value	30,000	40,000	60,000	2,40,000	2,00,000	H6
Fair Rent	35,000	44,000	90,000	4,00,000	8,00,000	is self
Reas. Letting Value (Higher of MV, FR)	35,000	44,000	90,000	4,00,000	8,00,000	occupied
Standard Rent	NA	NA	NA	NA	NA	
Reas. Letting Value (Lower of RLV, SR)	35,000	44,000	90,000	4,00,000	8,00,000	
Annual rent (Net of unrealised)	33,000	40,000	79,000	3,00,000	2,00,000	
Gross Annual Value (Higher of RLV, AR)	35,000	44,000	90,000	4,00,000	8,00,000	
Loss due to vacancy	Nil	(8,000)	(10,500)	-	(2,00,000)	
Gross Annual Value	35,000	36,000	79,500	4,00,000	6,00,000	
Less: Municipal tax	(4,000)	(5,000)	(10,000)	-	(1,00,000)	
Net annual value Less: Deduction u/s 24	31,000	31,000	69,500	4,00,000	5,00,000	Nil
Standard deduction	(9,300)	(9,300)	(20,850)	(1,20,000)	(1,50,000)	Nil
Interest on Loan	(10,000)	Nil	Nil	Nil	Nil	(36,000)
Sub Total Add: Unrealised rent	11,700	21,700	48,650	2,80,000	3,50,000	(36,000)
recovered	Nil	10,000	-	-		
Add: Arrears of rent	1,00,000	Nil	-	50,000	-	
Less: 30% Standard						
deduction	(30,000)	Nil	-	(15,000)	-	
Income from H/P	81,700	31,700	48,650	3,15,000	3,50,000	(36,000)

Illustration 11:

Mr. KarsanGhavari owns several houses for which following information is given:

Particulars	House 1	House 2	House 3	House 4	House 5
Ratable Value p.a.	50,000	80,000	25,000	55,000	40,000
Fair Rent p.a.	50,000	70,000	Nil	60,000	40,000
Rent	3,000 p.m.	60,000 p.a.	4,000 p.m.	6,000 p.m.	4,200 p.m.
Municipal tax paid	3,000	10,000	2,000	10%	Nil

Unrealised rent (eligible)	3,000	Nil	4,000	Nil	Nil
Interest on loan for construction	40,000	Nil	Nil	50,000	Nil

You are required to calculate Income from House Property for A.Y. 2021-22.

Solution:

Name of the Assessee: Mr. Karsan

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	H1 (₹)	H2 (₹)	H3 (₹)	H4 (₹)	H5 (₹)
Municipal value	50,000	80,000	25,000	55,000	40,000
Fair Rent	50,000	70,000	-	60,000	40,000
Reas. Letting Value (Higher of MV, FR)	50,000	80,000	25,000	60,000	40,000
Standard Rent	NA	NA	NA	NA	NA
Reas. Letting Value (lower of RLV, SR)	50,000	80,000	25,000	60,000	40,000
Annual Rent (Net of unrealised)	33,000	60,000	44,000	72,000	50,400
Gross Annual Value (Higher of RLV, AR)	50,000	80,000	44,000	72,000	50,400
Loss due to vacancy	Nil	Nil	Nil	Nil	Nil
Gross Annual Value	50,000	80,000	44,000	72,000	50,400
Less: Municipal tax	(3,000)	(10,000)	(2,000)	(5,500)	Nil
Net annual value	47,000	70,000	42,000	66,500	50,400
Less: Deduction u/s 24					
Standard deduction (30% of NAV)	(14,100)	(21,000)	(12,600)	(19,950)	(15,120)
Interest on loan	(40,000)	-	-	(50,000)	-
Income from H/P	(7,100)	49,000	29,400	(3450)	35,280

Illustration 12:

Shri Rajesh owns five house properties.

(a) **First house** Is at Mahavir Nagar and it is self-occupied for residence. Its details are:

- Municipal Value ₹ 50,000

- Municipal tax ` 8,000
 - Fire Insurance ` 2,000
 - Interest on loan taken on 1-4-08 @ 16% p.a. for renovation principal being ` 90,000
 - Annual Charge sent abroad after deducting tax at source ` 12,000.
- (b) **Second house** Is at Raj Nagar which is generally vacant. His daughter Miss. Nayana occupied it at irregular intervals along with her medical co-eds.
The details being:
- Municipal Value ` 95,000
 - Fair Rent ` 1,00,000
 - Repairs ` 70,000
 - Interest on loan taken for repairs sent abroad without deducting tax at source ` 20,000
- (c) **Third house** Which was vacant for two months, is at Ahmednagar, the details being:
- Rent Received ` 1,00,000
 - Municipal Value ` 1,00,000
 - Municipal Taxes paid during 12-13 for:
 - 10-11 ` 14,600 (Including penalty ` 600)
 - 11-12 ` 13,000
 - Repairs, Painting ` 24,000
 - Interest on loan against mortgaging property for contesting in Civic Elections ` 25,000.
- (d) **Fourth house** Consisting of four flats, is at Sikka Nagar. Rent per month per flat ` 450. Tenants used these flats for residential purposes. One flat was vacant for six months.
- (e) **Fifth house** Is at Camp Pune, which is occupied by assessee himself for commission agency business. Municipal taxes paid amounted to ` 15,000 to Pune Mahanagar Palika. It would fetch ` 18,000 p.m. if let out. His income from business as commission agent is ` 6,00,000 Calculate his Income from House Property for A.Y. 2021-22 stating your assumptions.

Solution:

Name of the Assessee: Shri Rajesh

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	House 1	House 2	House 3	House 4	House 4
	DLOP	SOP	LOP	DLOP (3 flats)	(1 flat)
Municipal Value	50,000	Since H2	1,00,000	Nil	
Fair Rent	Nil	is SOP	Nil	Nil	
Reas. Letting Value (↑ of MV, FR)	50,000	its NAV	1,00,000	Nil	

Standard Rent	N/A	u/s 23	NA	NA	
Reas. Letting Value (↑ of RLV and SR)	50,000	is Nil	1,00,000	Nil	
Annual Rent	Nil		1,20,000	16,200	5,400
GAV (↑ of RLV and AR)	50,000		1,20,000	16,200	5,400
Loss due to vacancy	Nil		(20,000)	Nil	(2,700)
GAV	50,000		1,00,000	16,200	2,700
(-) Municipal tax	(8,000)		(27,000)	Nil	Nil
NAV	42,000	Nil	73,000	16,200	2,700
(-) Deduction u/s 24 Standard deduction					
(30% of NAV)	(12,600)	Nil	(21,900)	(4800)	(810)
Interest on loan	(14,400)	Nil	Nil	Nil	Nil
Sub Total	15,000	Nil	51,100	11,340	1,890

Taxable Income from House Property 19,330

Note: House 5 'Business Income': As House-5 Used for own business purpose therefore this will be calculated in business income and expenses of this house will be business expenses.

House 2 Interest paid abroad without deduction of TDS not allowed as deduction

Illustration 13:

The following are the particulars in respect of a new property owned by Manoj which was let out from 1-04-2008 onwards. The property was not subject to rent control.

Particulars

Fair Rent	60,000
Actual rent receivable	6,000 p.m.
Municipal tax payable for the year	11,000
Interest on borrowal paid during the year	28,000
Interest on borrowal prior to 1-4-2019 (prior Period Interest)	21,000

The property remained vacant from 1-1-2020 to 30-6-2020 and no rent was received for this period. Rent for two months in the financial year 2020-21, was not paid by the tenant, and the assessee has taken action as prescribed in the rules and claimed ` 12,000 as unrealized rent. Compute the Income from House Property for A.Y. 2021-22.

Solution:

Name of the Assessee: Manoj

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	₹
Municipal value	-
Fair Rent	60,000
Reasonable Letting Value (Higher of MV, FR)	60,000
Standard Rent	NA
Reasonable Letting Value (lower of RLV, SR)	60,000
Annual Rent (Net of unrealised)	72,000
Gross Annual Value (Higher of RLV, AR)	72,000
Loss due to vacancy	(18,000)
Gross Annual Value	54,000
Less: Municipal tax paid by owner during P.Y.	Nil
Net annual value	54,000
Less: Deduction u/s 24	
Standard deduction (30% of NAV)	(16,200)
Interest on loan of P.Y.	(28,000)
Income from House Property	9,800

Illustration 14:**(AR less than RLV in spite of vacancy):**

Avinash has a residential property, details of which are given below:

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

The following expenses were paid by A:

- (1) Municipal taxes ₹ 10,000.
- (2) Collection charges ₹ 8,000.
- (3) Insurance ₹ 10,000. The house remained vacant for one month during the year. Compute his income from house property for the assessment year 2021-22.

Solution:

Name of the Assessee: Avinash

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	
(1) Gross Annual Value (GAV)	
(a) Reasonable Lettable Value (RLV)	1,15,000
(b) Actual Rent (AR) [10,000 × 11]	1,10,000
GAV = AR as it is less than RLV due to loss of 10,000 caused by vacancy	1,10,000
(2) Less: Municipal Taxes Paid By Owner	10,000
(3) Net Annual Value [NAV]	1,00,000
(4) Less: Deduction u/s 24	
Standard Deduction [30% of NAV]	30,000
(5) Income from Let Out Property	70,000

Illustration 15:

(AR more than RLV in spite of vacancy) Refer above Illustration. Compute Avnish's income from house property for the assessment year 2021-22, if the "Municipal Valuation" of his property is 1,00,000.

Solution:

Name of the Assessee: Avnish

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	
(1) Gross Annual Value (GAV)	
(a) Reasonable Lettable Value (RLV)	1,00,000
(b) Actual Rent (AR) [10,000 × 11]	1,10,000
GAV = AR, Since AR is more than RLV in spite of vacancy	1,10,000
(2) Less: Municipal Taxes Paid By Owner	10,000
(3) Net Annual Value [NAV]	1,00,000
(4) Less: Deduction u/s 24	
Standard Deduction [30% of NAV]	30,000
(5) Income from Let out Property	70,000

Illustration 16:

(Unrealised Rent + Arrears): Compute the Income from House Property from the following particulars in respect of a property owned by Mustafa which was let out from 1-4-2019 onwards:

Particulars	
Fair Rent	70,000
Actual rent receivable	7,500 p.m.
Rent actually received (for ten months only due to vacancy period of two months)	75,000
Municipal taxes paid (including arrears for earlier years)	14,400
Interest on borrowal paid during the year	23,000
Collection charges	3,400
Unrealised rent claimed as deduction in earlier year, but received during the year	11,000
Arrears of rent for earlier years received during the year	8,000
Expenditure on repairs to property	3,000
Ground rent paid	4,500
Insurance premium paid, relating to the property.	2,200
Expenditure incurred on collecting unrealised rent	3,500

Solution:

Name of the Assessee: Mustafa	P.A. No.:
Legal Status: Individual	P.Y.: 2020-21
Residential Status: R and OR	A.Y.: 2021-22

Statement of Income from House Property

Particulars	
(1) Reasonable Lettable Value (RLV)	
(a) Fair Rent	70,000
(2) Actual Rent (AR)	
(a) Rent receivable for let-out period	75,000
(3) Gross Annual Value	75,000
AR, as it is higher than RLV (in spite of vacancy)	
(4) <i>Less: Municipal Taxes Paid</i>	14,400
(5) Net Annual Value (NAV)	60,600
<i>Less: Deduction u/s 24:</i>	

(a) Standard Deduction (30% of NAV)	18,180	
(b) Interest on loan	<u>23,000</u>	<u>41,180</u>
		19,420
Add: Unrealised rent now received		<u>11,000</u>
		30,420
Add: Arrears of rent now received	8,000	
Less: Standard Deduction (30% of 8,000)	<u>2,400</u>	<u>5,600</u>
Income from House Property		<u><u>31,020</u></u>

Illustration 17:

(Loss Due to Interest: SOP): Xavier has a house in Mumbai, which he used for his own residence in the previous year 2020-21, due to his transfer to Nagpur, he could not occupy this house in the previous year 2020-21. He stays in a rented house in Nagpur. Following further information is available in connection with Mumbai House.

Particulars

Reasonable letting value of Mumbai House	36,000
Repairs expenditure	1,000
Interest for above house (loan taken in March 1999)	30,970

Calculate house property income of Mr. Xavier assuming that Xavier has derived no benefit from Mumbai House during the assessment year 2021-22.

Solution:

Name of the Assessee: Mr. Xavier

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Mumbai house is not let-out during, the previous year 2020-21; it is an SOP (i.e., a house remaining unoccupied due to employment elsewhere).

Particulars

Net Annual Value	Nil
Less: Deduction u/s 24 (Interest)	(30,000)
Income from House Property (Loss)	(30,000)

Note: Interest is limited to `30,000 because the loan is taken before 1-4-1999.

Illustration 18:

Mr. Sachin has occupied three houses for his own residential purposes, particulars of which are as follows:

Particulars	House I	House II	House III
Standard Rent	18,000	20,000	Not Applicable
Municipal Valuation	11,500	30,000	30,000
Fair Rent	15,000	25,000	35,000
Municipal taxes paid	1,200	2,400	3,600
Repairs	2,000	Nil	4,200
Interest paid on loan taken against houses for meeting personal expenses	2,200	2,500	3,000

Compute the income from house property for Sachin for the assessment year 2021-22. House I in his home-town was vacant throughout the year as he resided in House III in Mumbai where he works. House II in Vashi was used by him only for two months in summer vacation.

Solution: As Sachin occupied three houses for his residential purposes, only one house (as per his choice) can be treated as self-occupied property and other two houses will be treated as "deemed to be let out property". House III should be treated as self-occupied property as it has the highest Gross Annual Value. House I and II will be deemed to be let-out properties.

Name of the Assessee: Mr. Sachin

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	House I	House II
(1) Gross Annual Value (Note)	15,000	20,000
(2) <i>Less: Municipal taxes</i>	1,200	2,400
(3) Net annual value	13,800	17,600
(4) <i>Less: Deductions u/s 24</i>		
Standard Deductions (30%)	(4,140)	(5,280)
(5) Income from House Property	9,660	12,320
Computation of Income from House Property		
• Income from House I (DLOP)	9,660	
• Income from House II (DLOP)	12,320	
• Income from House III (SOP)	Nil	
Total Income from House Property	21,980	

Notes:

- (1) **Interest:** Interest on loan is not allowed as deduction as loan is taken for meeting personal expenses.
- (2) **House III:** Income from House III will be Nil as it is a self-occupied property.
- (3) **House I:** in case of House I, GAV is decided as follows: higher of:

- (a) Municipal Valuation ₹ 11,500.
- (b) Fair Rent ₹ 15,000 i.e., ₹ 15,000. This is lower than standard rent and hence taken as the GAV. Note that the GAV can be lower than standard rent, but cannot be higher than standard rent.
- (4) House II:** In case of House II, GAV is decided as follows: higher of:
- (a) Municipal Valuation ₹ 30,000.
- (b) Fair Rent ₹ 25,000, i.e., ₹ 30,000. This is higher than standard rent (₹ 20,000) and hence the standard rent is taken as the GAV, because the GAV cannot be more than standard rent. House II cannot be treated as vacant SOP, as he owns more than one residential house.

Illustration 19:

Mr. Pedro and his three sons – Congo, Bongo and Chongo are equal co-owners of a house property, consisting of 20 (Twenty) residential flats. Out of the above one flat each is occupied by Pedro and his sons for own residential purpose (self-occupied). The balance 16 (Sixteen) flats are let out at the rent of ₹ 2,000 per month per flat.

The reasonable letting value of each flat is ₹ 10,000 per annum. The municipal taxes paid for each flat is @ 50% of the reasonable letting value.

The following expenses were incurred by them during the year ended 31st March, 2020 in respect of the property:

- (1) Fire Insurance Premium ₹ 12,000 (for 20 flats)
- (2) Interest on Money Borrowed for Construction of Property ₹ 60,000 (for 20 flats)

Compute the income from house property chargeable in the hands of all the co-owners for the Assessment Year 2021-22.

[MU Oct. 2005, Modified]

Solution:

Name of the Assessee: Mr. Pedro
 Legal Status: Individual
 Residential Status: R and OR

P.A. No.:
 P.Y.: 2020-21
 A.Y.: 2021-22

Statement of Income from House Property**[I] 16 Flats [LOP]:**

(1) Gross Annual Value	
(a) Reasonable Letting Value (16 × 10,000)	1,60,000
(b) Annual Rent (16 × 12 × 2,000)	3,84,000
Gross annual value (higher)	3,84,000
Less: Municipal taxes borne by owner (16 × 5,000)	(80,000)
(2) Net annual value	3,04,000
(3) Less: Deductions u/s 24	
(a) Standard Deduction (30% of ₹ 3,04,000)	(91,200)
(b) Interest on Borrowed Funds (60,000/20 × 16)	(48,000)

(4) Net income from Mumbai House Property	1,64,800	
Share of each co-owner (1,64,800 / 4)		
[II] Each SOP Flat:		41,200
(5) Annual Value [SOP]	Nil	
(6) Less: Interest Deducted u/s 24 (60,000/20)	(3,000)	
(7) Net income of each co-owner from SOP flat		(3,000)
(8) Net income of each co-owner from House Property (D – G)		38,200

Illustration 20:

(Not SOP throughout the year): Ram owned a house property at Madras which was occupied by him for the purpose of his residence. He was transferred to Delhi in June 2019 and therefore he let out the property with effect from July 1, 2019 on a monthly rent of ₹ 3,000. The municipal tax payable in respect of property @ 25% of the ratable value was ₹ 6,000 of which 50 per cent was paid by him before March 31, 2020. Fair rent of the property is ₹ 20,000. Interest on money borrowed for the construction of the property amounted to ₹ 20,000. Compute the income from house property for the assessment year 2021-22.

[C. A. Inter, May 1997, modified]

Solution:

Name of the Assessee: Mr. Ram

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	
(1) Gross Annual Value	
(a) Reasonable Lettable Value (RLV)	
(i) Fair Rent	20,000
(ii) Municipal Value (6,000 × 100/25)	24,000
RLV, higher of (i) and (ii)	24,000
(b) Actual Rent (3,000 × 9) (AR)	27,000
GAV is AR which is higher than RLV	27,000
Less: Municipal Tax Paid By Owner (50% of ₹ 6,000)	3,000
(2) Net Annual Value [NAV]	24,000
Less: Deductions u/s 24	
(a) Standard Deduction (30% of ₹ 24,000)	(7,200)
(b) Interest Payable	(20,000)
(3) Income from House Property [Loss] (A – B)	(3,200)

Note: House owned by Mr. Ram is let out for nine months and is self-occupied for three months. Annual value of house cannot be taken as Nil, as the house has been let for sometime during the year. Since the above house was let during the year, its annual value will be computed u/s 23(1)(b). It will be the Reasonable Lettable Value or its Actual Rent, whichever is higher. The Reasonable Lettable Value is ₹ 24,000 ($6,000 \text{ tax} \times 100/25$). Hence, the GAV will be the actual rent.

Illustration 21:

(Partly for Business; Partly Let Out; Partly Vacant) Mr. Sumeet is the owner of a house property. One-third of the house is used for business and the remaining is let-out at the rate of ₹ 3,000 per month. The property was vacant for four months. Following additional information is available to you.

Particulars	₹
Municipal Taxes paid	1,500
Interest on funds borrowed for repairs	6,000
Repairs (borne by tenant)	2,000
Municipal ratable value	48,000

Mr. Sumeet receives during the year unrealised rent of the previous year, i.e., 2018-19 ₹ 750. You are required to ascertain the income chargeable to tax under the head 'income from House Property' of Mr. Sumeet for the assessment year 2021-22.

Solution:

Name of the Assessee: Mr. Sumeet

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	₹
(1) Gross Annual Value (Let out Part)	
(a) Municipal Value ($48,000 \times 2/3$)	32,000
(b) Actual Rent ($3,000 \times 8$)	24,000
GAV under S. 23(1)(c) in respect of 2/3 property chargeable under Sec.22	24,000
(2) Less: Municipal taxes ($1,500 \times 2/3$)	1,000
(3) Net annual value	23,000
(4) Less: Deductions u/s 24	
(a) Standard deduction (30% of ₹ 23,000)	(6,900)
(b) Interest on borrowed funds ($6,000 \times 2/3$)	(4,000)
(5) Income from House Property	12,100
(6) Add: Unrealised rent received during the year (S. 25A)	750
(7) Income from House Property	12,850

Notes:

- (1) One-third of the House owned by Mr. Suneet used for business is not chargeable under the head 'Income from House property U/S 22.
- (2) Remaining house (2/3) will be charged under the head 'Income from House Property u/s 22. This portion is partly let out (for eight months) and partly vacant. Hence its annual value will be computed as in the case of a partly vacant let out property [VLOP] u/s 23(1)(c), i.e., the pro-rata actual rent of such portion (₹ 24,000) if it is lower than the pro-rata annual value of such portion (₹ 32,000) due to loss caused by vacancy (₹ 12,000).
- (3) The municipal taxes and interest would also be deducted pro-rata related to such portion of property chargeable under income from HP only. The remaining amount of municipal tax and interest can be deducted under the head 'Income from business'.
- (4) Unrealised rent is taxed u/s 25A assuming that it was allowed to be deducted as unrealised rent earlier.

Illustration 22:

(SOP + LOP): Mr. Kunal is the owner of two house properties. From the following information furnished by him for the year ending 31st March, 2020, compute his taxable income for the Assessment Year 2021-22.

Particulars	Property No. 1	Property No.2
Nature of Occupancy	Self-occupied	Let out for business
Annual Ratable Value	₹ 20,000	₹ 30,000
Construction Commenced on	1-4-2008	1-4-2009
Construction Completed on	1-4-2010	28-2-2011
Municipal taxes paid for the period		
1-4-2019 to 31-3-2020	₹ 8,000	₹ 9,600
Insurance premium paid for the period		
1-10-2019 to 30-9-2020	₹ 2,000	₹ 2,000
Interest on loan borrowed for construction	₹ 6,000	₹ 6,000

Solution:

Name of the Assessee: Mr. Kunal

Legal Status: Individual

Residential Status: R and OR

P.A. No.:

P.Y.: 2020-21

A.Y.: 2021-22

Statement of Income from House Property

Particulars	
(1) Let out Property	
Gross Annual Value	
Annual Ratable Value	30,000
Less: Municipal Taxes Paid By Owner	9,600
Net Annual Value [NAV]	20,400
Less: Deductions u/s 24	
(a) Standard Deduction (30% of ` 20,400)	6,120
(b) Interest Payable 6,000	12,120
Income from Let Out Property	8,280
(2) One SOP Not Let Anytime	
Net Annual Value	Nil
Less: Deduction (u/s 24)	Nil
Interest on loans for construction	(6,000)
Income from SOP (Loss due to interest)	(6,000)
(3) Total Income from House Property (A + B)	2,280

Illustration 23:

(SOP + LOP + Business): Binay owns a building consisting of three identical units whose construction was completed on March 31, 2020. The building was occupied from April 1, 2019 onwards. The particulars pertaining to the three units for the year ended March 31, 2020 are given below:

Particulars	Unit I	Unit II	Unit III
Fair rent	1,60,000	70,000	1,60,000
Rent received		72,000	
Municipal taxes:			
• paid		5,000	
• due but not yet paid	3,000		3,000
Land revenue due but outstanding	1,200	1,200	1,200
Ground rent due, not yet paid	2,400	2,400	2,400

Nature of occupation:

- **Unit I:** Self-occupied for residence
- **Unit II:** Let out for residence
- **Unit III:** Used for own business.

On April 1, 2012 he had borrowed a sum of ₹ 5,00,000 bearing interest at 12 per cent per annum for construction of this building. The total cost of construction of the building ₹ 12,00,000. Compute the income from house property of Binay for the A/Y 2021-22.

[CA Inter Nov. 1993, Modified]

Solution:

Name of the Assessee: Mr. Kunal

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars

(1) Income from SOP

(Unit 1- Fully SOP)

Gross Annual Value (GAV) NIL

Less: Deduction u/s 24

Interest payable (24,000)

Income from SOP (24,000)

(2) Income from LOP

(Unit 2- LOP)

Gross Annual Value (GAV)

(a) Reasonable Lettable Value (RLV) – Fair Rent 70,000

(b) Actual Rent (AR) 72,000

GAV-AR which is more than RLV. 72,000

Less: Municipal Taxes Paid By Owner (5,000)

Net Annual Value [NAV] 67,000

Less: Deduction u/s 24

(a) Standard Deduction [30% of NAV] (20,100)

(b) Interest payable (24,000)

Income from LOP 22,900

(3) Total Income [Loss] from HP (A + B) (1,100)

Notes:

- (1) House Property has three units. Income from Unit III, used for business is not taxable under the head income from House Property. Income from Units I and II will be computed according to provisions of Section 23(2)(a) [SOP] and Section 23(1) [LOP] respectively.
- (2) Interest on loan for Unit I and II is calculated as follows:
 - (a) Interest for current year = $5,00,000 \times 12\% \times 1/3 = 20,000$
 - (b) Interest for pre-construction period = $20,000 \times 1/5 = 4,000$
= 24,000

Illustration 23:

(Many Houses): Compute the income from the following houses belonging to Mr. Gharwala:

Particulars/House No.	1	2	3	4	5	6
Nature of Occupation	Let	Let	Let	Let	Let	Let
Municipal Valuation (after deducting taxes @ 10% of gross value)	27,000	27,000	27,000	27,000	27,000	27,000
Actual Rent per Month	3,000	3,750	3,000	3,000	3,000	4,000
Months Let Out	12	10	12	9	12	12
Months' Rent Received	12	10	12	8	8	8
Whether unrealised rent allowable	NA	NA	NA	No	Yes	No
Fair Rent	42,000	42,000	42,000	42,000	42,000	42,000
Standard Rent	39,000	39,000	50,000	Not	Not	Not
Municipal Taxes @ 5%	paid	due	paid	Applicable paid by tenant	Applicable paid	Applicable paid

Solution:

Name of the Assessee: Mr. Gharwala

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Statement of Income from House Property

Particulars	[1] LOP	[2] LOP	[3] LOP	[4] LOP	[5] LOP	[6] LOP
(A) Mun. Value (27,000 × 100/90)	30,000	30,000	30,000	30,000	30,000	30,000
(B) Fair Rent	42,000	42,000	42,000	42,000	42,000	42,000
(C) ↑ of A and B	42,000	42,000	42,000	42,000	42,000	42,000
(D) Stand. Rent	39,000	39,000	50,000	N.A.	N.A.	N.A.
(E) RLV:	39,000	39,000	42,000	42,000	42,000	42,000
(F) Actual Rent	36,000	37,500	36,000	27,000	24,000	48,000
(G) GAV	39,000	37,500	42,000	42,000	42,000	48,000
(H) Municipal Taxes Paid by Owner	1,500	Nil	1,500	Nil	1,500	1,500

(I) NAV	37,500	37,500	40,500	42,000	40,500	46,500
(J) Less: Standard Deduction (30%)	11,250	11,250	12,150	12,600	12,150	13,950
(K) Income from House						
Property	26,250	26,250	28,350	29,400	28,350	32,550

Notes:

- (1) **House 1:** This is a Let out Property [LOP]. The GAV is computed as follows:
- RLV is ₹ 42,000, i.e., the Fair Rent.
 - However, the RLV cannot exceed Standard Rent ₹ 39,000.
 - Hence, GAV = ₹ 39,000, as RLV is higher than Actual Rent.
 - Municipal taxes @ 5% of ₹ 30,000 are deducted as paid by the owner during the year.
- (2) **House 2:** This is Partly Vacant Let out Property [VLOP]. The RLV is the Standard Rent ₹ 39,000. However, in such case, the Actual Rent [AR] is taken to be the Gross Annual Value [GAV], as the AR (₹ 37,500) is less than the RLV (₹ 39,000) owing to loss (₹ 7,500) caused by such vacancy. Hence, GAV = Actual Rent = ₹ 37,500. Municipal taxes @ 5% of ₹ 30,000 are not deducted as these are still due and have not been paid by the owner during the year.
- (3) **House 3:** This is and Let Out Property [LOP]. The GAV is computed as follows:
- RLV is ₹ 42,000, i.e., Fair Rent.
 - While the GAV cannot exceed Standard Rent ₹ 50,000; it can be less than the standard rent.
 - Hence, GAV = ₹ 42,000, as [RLV] is higher than Actual Rent [AR].
 - Municipal taxes @ 5% of ₹ 30,000 are deducted as paid by the owner during the year.

EXERCISE**Multiple Choice Questions**

- M has taken a house on rent and sublets the same to A. Income from such house property shall be taxable under the head.
 - Income from house property
 - Income from other source
 - Business income
 - None of the above
- Municipal valuation of the house is ₹ 1,00,000 fair rent ₹ 1,20,000. Standard rent ₹ 1,10,000 and actual rent received is ₹ 1,25,000. The gross annual value in this case shall be:
 - ₹ 1,10,000
 - ₹ 1,20,000
 - ₹ 1,40,000
 - None of these
- Municipal valuation of the house is ₹ 1,20,000, fair rent ₹ 1,40,000, standard rent ₹ 1,30,000 and actual rent received is ₹ 1,25,000. The gross annual value in this case shall be.
 - ₹ 1,30,000
 - ₹ 1,25,000
 - ₹ 1,40,000
 - None of the above

4. A has two house properties. Both are self-occupied. The annual value of:
(a) Both house shall be nil (b) One house shall be nil
(c) No house shall be nil (d) None of the above
 5. An assessee has borrowed money for purchase of a house and interest is payable outside India. Such interest shall:
(a) Be allowed as deduction.
(b) Not to be allowed as deduction
(c) Be allowed as deduction if the tax is deducted at source
(d) None of the above
 6. Municipal tax is deducted from
(a) Net annual value (b) Gross annual value
(c) Municipal value (d) None of the above
 7. In case the property is owned by co-owner and it is self-occupied by all co-owners. The annual value of:
(a) Such house property be nil
(b) For each co-owner shall be nil
(c) Only for one co-owner will be nil
(d) None of the above
 8. A house property with fair rent ` 1,20,000 is neither let out nor self-occupied throughout the previous year. Its annual value shall be
(a) ` 1,20,000 (b) Nil
(c) ` 60,000 (d) None of the above
 9. Unrealized rent is a deduction from
(a) Gross annual value (b) Net annual value
(c) Municipal value (d) None of the above
 10. A property is owned by co-owners and it is self-occupied by all co-owners. In this case interest on money borrowed after 1-4-2000 for acquiring the house shall be allowed.
(a) To the extent of `2,00,000 as the case may be for the total property income.
(b) To each co-owner, to the extent of `2,00,000 as the case may be
(c) No deduction of interest shall be allowed
(d) None of the above.
- (Ans: 1-b, 2-d, 3-a, 4-b, 5-c, 6-b, 7-b, 8-a, 9-a, 10-a)

Fill in the Blanks

1. In case of self-occupied property, the deduction on account of interest on the money borrowed for the purpose of construction of such house property cannot exceed ` _____.
2. Fair rent of house is ` 1,50,000, standard rent ` 1,20,000 and annual rent shall be _____.

3. Municipal taxes are deductible from the gross annual value only when they _____ (are paid/accrued)
4. Income is taxable under the head house property only when the assessee is the (Owner/Occupant) of such house property.
5. Arrears of rent shall be deemed to be income of the previous year in which such rent _____ (is received/accrued) after deducting _____ (30%, 1/3rd) of such amount.
6. For a self-occupied house property occupied on July 1, 2007 for which housing loan, was availed, if the interest up to March 31, 2007 is ` 90,000 and thereafter the interest payable is ` 3,000 per month, the deduction available under Section 24. 'In respect of interest for the year ended March 31, 2008 is ` _____.'
7. An assessee, after sale of house property, receiving arrears of rent, (is/is not) chargeable to tax; the same computed in the stipulated manner, shall be chargeable to tax as _____ (income from other sources/income from house property/question does not arise since there is not chargeability to tax).
8. Income of the property can be taxed under the head house property only when the owner does not occupy the property for his _____ or _____.
9. Reasonable Lettable Value cannot exceed _____.
10. Net annual value of SOP is _____.

(Ans: 1. 2,00,000/-, 2. 1,20,000/-, 3. paid, 4. Owner, 5. Received 1/3, 6. 1,26,000/-, 7. Income from house property, 8. Residence, Business/Profession 9. Actual Rent received, 10. Nil)

Match the Following Columns

Column A	Column B
1. Net Annual	(a) Fully deductible
2. Gross Annual Value	(b) Gross Annual Value less Municipal Taxes paid
3. Standard deduction on income from HP	(c) 1/3 rd of Net Annual Value
4. Interest on loan for let out property	(d) Fair Rent less and Municipal Taxes
	(e) Higher of Fair Rent and Municipal Valuation, where standard rent is not applicable.
	(f) Deductible in five equal installments
	(g) 30% of Net Annual Value

(Ans: 1-b, 2-e, 3-g, 4-a)

Column A	Column B
1. Unrealised rent received during the previous year	(a) No standard deduction allowed
2. Depreciation of house property	(b) Zero for one SOP
3. Interest on loan for SOP	(c) Cannot exceed fair
4. Reasonable letting value	(d) Cannot exceed standard rent
5. Net Annual Value	(e) Not allowed as deduction from Income from HP
	(f) No restriction on deductible interest
	(g) Deduction restricted to ` 30,000 or ` 2,00,000 as applicable

(Ans: 1–e, 2–e, 3–g, 4–a, 5–b)

State Whether True or False

1. M gifted his house property to his wife in 2006. Mrs. M has let out the house property @ ` 20,000 p.m. The income from such house property will be taxable in the hands of Mrs. M.
2. C transferred his house property to his wife an agreement to alive apart. Income from such house property shall be taxable in the hands of Mrs. C.
3. M has taken a house property on lease for 20 years from G and let out the same to S. Income from such house arising to M shall be taxable as income under the head other sources.
4. M is a member of Shilpa Cooperative Society which is the owner of flats constructed by it. One of the flats is allotted to M. The income from such house property shall be taxable in the hands of Shilpa cooperative Society.
5. M is owner of building although the land was taken by him on lease. The income from such house property shall be taxable under the head: income from other sources.
6. M has taken a house on rent and sublets the same to G. Income from such house property shall be taxable in the hands of M under the head: income from other sources.
7. A has two house properties. Both are self-occupied. The annual value of both houses shall be nil.
8. Municipal tax is a deduction from net annual value.
9. In case the property is owned by co-owners and it is let, income from such property shall be computed separately for each co-owner.
10. In case the property is owned by co-owners and it is self-occupied by all co-owners; the annual value for each co-owner shall be nil.
11. In the above case, total deduction to all co-owners for interest on money borrowed shall be allowed up to the maximum of ` 30,000, ` 2,00,000 as the case may be.
12. Unrealised rent is a deduction from net annual value.
13. An assessee has borrowed money for purchase of a house and interest is payable outside India. Such interest shall be allowed as deduction, without any further conditions.

(Ans: True 1, 2, 6, 8, 9, 10, 11, 12)

Theory Questions

1. Interest paid by the assessee on borrowed capital in the construction of the property till the date of letting out – is it admissible expenditure under the provisions of Income Tax Act.
(C.A. Inter – May 1989)
2. Discuss the Provisions of Income Tax Act regarding unoccupied residential house?
(C.A. Inter – May 92)
3. Ownership is the Criterion for assessment of income from property under Section 22. However, there are instances in which the income from property is assessable in the hands of the assessee, who is not the legal owner thereof. Enumerate these cases. (Hint: Deemed Owner of House Property Section 27)
(C.A. Inter – May 95, CA Inter – Nov., 91)
4. How is income from self-occupied property or property meant for owner occupation, but remaining wholly or partly unoccupied computed? Discuss?
(C.A. Inter – May 98)
5. Write short note on:
(a) Income from Self-occupied House Property. (C.A. Inter – Nov., 2000)
6. Discuss Tax liability of Arrears of Rent.
(C.A. PE - II Nov., 2002)

Practical Questions

1. Lakdawala completed construction of a residential house on 1.4.2019. Interest paid on loans borrowed for purpose of construction during the two year prior to completion was ` 20,000. The house was let out on a monthly rent of ` 4,000. Annual corporation tax paid is ` 6,000. Interest paid during the year is ` 15,000 Amount spent on repairs is ` 2,000. Fire insurance premium paid is ` 1,500. The property was vacant for three months. Annual letting value as per corporation records is ` 30,000. Compute the income chargeable under the head “Income from house property” for the Assessment year, 2021-22.
(Ans: ` 2,000)
(C.A. Inter – May 90)
2. Ram owned a house property at Chennai which was occupied by him for the purpose of his residence. He was transferred to Mumbai in June, 2019 and therefore, he let-out the property with effect from 1st July, 2019 on a monthly rent of ` 3,000. The corporation tax payable in respect of the property was ` 6,000 of which 50 per cent was paid by him before 31.3.2020. Interest on money borrowed for the construction of the property amounted to ` 20,000. Compute the income from house property for the assessment year 2021-22.
(Ans: Loss ` 3,200)
(C.A. Inter – May 97)
3. Arvind commenced construction of a residential house intended exclusively for his residence, on 1.11.2017. He raised a loan of ` 5,00,000 at 16 per cent interest for the purpose of construction on 1.11.2017. Finding that there was an over-run in the cost of construction he raised a further loan of ` 8,00,000 at the same rate of interest on 1.10.2018. What is the interest allowable u/s. 24 assuming that the construction was completed at 31.3.2019?

(Hint: Int for Pre-const. Period $\` 5,00,000 \times 16\% \times 5/12 = 33,333/5 \text{ yrs} = \` 6,667)$

(Ans: Loss ` 1,50,000)

(C.A. Inter – May 2000)

4. Mr. Chetan has let out the house property for ` 75,000. Municipal valuation of the house is ` 60,000, whereas fair rent of the property is ` 68,000. Mr. Chetan has borrowed a loan of ` 50,000 @ 15% on 1st April, 2019 for the purpose of his daughter's marriage by mortgaging the house property. Following are the expenses incurred by him during F.Y. 2020-21:

Municipal Taxes	20% of Municipal Valuation
Repairs	7,500
Annual Charge	1,700
Land Revenue (outstanding)	500
Insurance	650
Collection charges	150

Annual charge of ` 1,700 is payable by Mr. Chetan to his mother as per will of his father.

Compute the taxable income for the assessment year 2021-22.

(Ans: ` 44,100)

5. Shri Bhushan owns two house properties in Mumbai of which he uses second property for his personal use. His total income from sources other than property is ` 30,000. The following are the particulars in respect of the properties:

Year of Construction	2011	2012
Particulars	Building No. 1	Building No. 2
Municipal Ratable Value (Net)	36,000	16,000
Rent received (for ten months)	52,000	Self-occupied
Local Taxes	4,000	4,000
Actual Repairs	2,000	200
Ground Rent	400	—
Fire Insurance Premium	Nil	300
Vacancy	Two Months	N.A.
Collection Charges	3,000	Nil

Compute the total income of Shri Bhushan for the assessment year 2021-22.

(Ans: ` 33,600)

6. Mr. Vidyadhar is the owner of three house properties in Baroda, the particulars of which are given as under:

Particulars	House I	House II	House III
Actual rent Received	40,000	Dwelling House	19,000
Fair Rent	40,000	52,000	19,650
Total Municipal Tax	3,000	5,000	2,250
Municipal Tax paid by Tenant	—	3 months	—
Vacancy	1,000	—	150
Collection Charges	400	750	740
Insurance Premium	1,90,000	1,19,000	1,500

Income from other sources ` 5,00,000.

Compute income from house property for the assessment year 2014-15 assuming:

- (a) That the loan taken and acquisition of dwelling house was prior to 1st April, 1999
- (b) That the loan taken and acquisition of dwelling house was on 1st April, 1999.

(Ans: `37,275)

7. Mr. Shridhar and Mrs. Veena are equal owners of residential house property namely, "Shivneri" consisting of ten residential units situated at Pune. They borrowed loan of ` 2,50,000 from Mr. Ajay a resident of Rangoon @ 15% p.a. interest. The tax was not deducted at source nor he is assessed to tax in India. The borrowed funds are used for construction of house property 'Shivneri'. All the ten units were let out at a monthly rent of ` 650 per month per residential unit.

Municipal taxes of ` 16,800 were paid during the year. Other payment in respect of the said property are as under:

Fire Insurance	960
Land Revenue	600
Repairs	1,700
Ground Rent	2,400
Collection Charges of Rent	1,800

Mr. Shridhar is employed with M/s. Sharp Consultants on a monthly salary of ` 15,000 p.m. He got two months' salary as bonus. He incurred the expenses of ` 15,000 on the purchase of Technical books, which are useful for performing his duties. Compute Gross Total Income of Mr. Shridhar for the assessment year 2014-15.

(Ans: ` 5,340)

8. Shri DwarkadasVed owns a house property known as Gokul Dham situated at Gandhidham, Gujarat. Municipal ratable value of the house is ` 3,000. Municipal taxes are 30% of municipal ratable value. During the previous year he could not occupy this house because of his employment in Mumbai. House remained vacant and no any other benefit is derived from this house. He paid interest of ` 35,000 to HDFC on loan borrowed for the purpose of acquiring this house. He is employed with M/s. Accurate Enterprises on a monthly salary of ` 7,500 per month.

You are required to compute his taxable income for assessment year 2021-22 assuming:

- (a) That the HDFC Loan taken and acquisition of house property was prior to 1st April, 1999

(Ans: ` 60,000)

- (b) That the HDFC Loan taken and acquisition of house property was on 1st April, 1999.

(Ans: ` 55,000)

9. Shri Rajnikant owns two houses in Mumbai. The house No. 1 is self-occupied with other four co-owners, whereas the house No. 2 of which he is the only owner is let out at ` 3,200 p.m. Compute his income from house property with the help of following further information for the assessment year 2021-22.

Particulars	House No. 1 (₹)	House No. 2 (₹)
Fair Rent	60,000	38,000
Municipal Ratable Value (Net)	50,000	36,000
Municipal Taxes	3,500	6,000
Fire Insurance Premium	425	1,000
Expenditure on repairs	1,100	5,000

During the previous year 2020-21 Shri Rajnikant could not occupy house No. 1 for three months due to his overseas visit. (Ans: ₹ 22,680)

10. Miss Supriya is the owner of two house properties, viz., “Ushakiran” and “Vasundhara”. Ushakiran was let out at an annual rent of ₹ 18,000 while its municipal valuation was ₹ 26,000. ₹ 2,000 was paid for municipal taxes. Cost of repairs was to be borne by the tenant. Miss. Supriya has borrowed ₹ 2,00,000 for construction of this property from Mr. Kennedy an American resident @ 10% p.a. Interest was payable quarterly. No tax has been deducted from interest payable. Mr. Kennedy is neither assessed to tax in India nor any other person is taxable as his representative in India. She further informs that ₹ 3,000 has been paid as salary to a watchman. House “Vasundhara” has been self-occupied. Interest on borrowed funds for the purpose of acquisition of house “Vasundhara” amounts to ₹ 19,000. This loan was taken prior to 1st April, 1999. Compute the income under the head, “Income from house property” of Miss. Supriya for the assessment year 2021-22. (Ans: ₹ 22,200)
11. Mr. Kamlesh owns a house namely, “Kamdhenu” which was let out for the part of the year for residential purposes and was self-occupied for the remaining period of the year. It was let out on monthly rent of ₹ 5,000 from 1st August, 2019 to 30th November, 2019. The information in respect of the house, “Kamdhenu” is as follows:
- Municipal Value of the house ₹ 38,000
 - Municipal Taxes paid ₹ 11,400
 - Interest on money borrowed for the construction of this house ₹ 10,000
 - Land Revenue Payable ₹ 600
 - Ground Rent Payable ₹ 1,800
 - Fire Insurance Premium paid ₹ 1,200
 - Repairing Expenses incurred ₹ 4,560
- From above information compute taxable income of Mr. Kamlesh for year ending 31-3-2020. (Ans: ₹ 8,620)
12. Mr. Vinay is a retired government employee getting a pension @ ₹ 4,000 per month. He owns two houses known as “Sudarshan” and “Govardhan”. House “Sudarshan” was occupied by him for his own residence up to 31st October, 2019 and thereafter, w.e.f. 1st November, 2019. It was let out on a monthly rent of ₹ 900 p.m. Other particulars of this house are as under:

Interest on funds borrowed for construction of this house	₹ 5,000
Cost of Repairs and alterations	₹ 4,800
Insurance paid	₹ 180
Ground Rent	₹ 360
Municipal taxes for the financial year 2020-21 paid on 11th May, 2020	₹ 1,800

House “Govardhan” was let out on a monthly rent of ₹ 800 p.m. up to 31st August, 2019 and was self-occupied from 1st September, 2019. He paid ₹ 4,250 towards repairs, ₹ 530 towards insurance and ₹ 120 as land revenue. Municipal taxes amounting ₹ 1,500 were outstanding as on 31st March, 2020. From the above information you are required to compute the gross total income of Mr. Vinay for the assessment year 2021-22. (Ans: ₹ 2,200) GTI: 45,800

13. The following are the particulars in respect of a new property which is owned by Mr. Haresh and was let out from 1-4-2000 onwards:

Particulars	₹
Actual rent receivable p.m. (which is more than fair rent of ₹ 60,000)	7,500
Rent actually received (for ten months only due to vacancy period of two months)	75,000
Municipal taxes paid (including arrears for earlier years)	14,400
Interest on borrowed paid during the year	23,000
Collection charges	3,400
Unrealised rent (Prior to A.Y. 2009-10 claimed as deduction in earlier year, but received during the year 2020-21)	11,000
Arrears of rent for earlier years received during the year	8,000
Expenditure on repairs to property	3,000
Ground rent paid	4,500
Insurance premium paid, relating to the property	2,200
Expenditure incurred on collecting unrealised rent	3,500
Compute the Net taxable income of Mr. Haresh for A.Y. 2014-15.	

(Ans: ₹ 36,020)

“You’ve got to win in your mind before you win in your life.”

— John Addison



Introduction

The tax payable by an assessee on his income under this head is in respect of the profits and gains of any business or profession, carried on by him or on his behalf during the previous year. The term “business” has been defined in Section 2(13) to “include any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture”. But the term “profession” has not been defined in the Act. It means an occupation requiring some degree of learning. Thus, a painter, a sculptor, an author, an auditor, a lawyer, a doctor, an architect and, even an astrologer are persons who can be said to be carrying on a profession but not business. The term ‘profession’ includes vocation as well [Section 2(36)]. However, it is not material whether a person is carrying on a ‘business’ or ‘profession’ or ‘vocation’ since for purposes of assessment, profits from all these sources are treated and taxed alike.

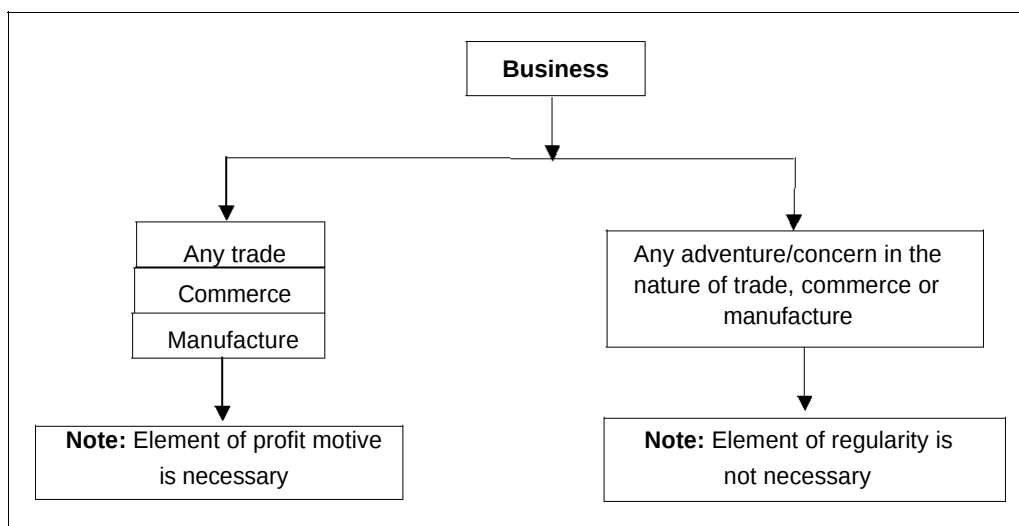
Meaning of Business or Profession Income

- (a) Business necessarily means a continuous exercise of an activity; nevertheless, profit from a single venture in the nature of trade would also be assessable under this head if the venture had come to an end or after the entire cost had been recouped.

Example, where a person had purchased a piece of land, got it surveyed, laid down a scheme of development, divided it into a number of building plots and sold some of the plots from time to time, though he would not be charged tax on a notional profit made on the individual sale of plots, he would be liable to pay tax on the surplus after all the plots have been sold and the venture has come to an end or after he has recovered the cost of all the plots and expenditure incidental thereto and has a surplus left.

- (b) Profits may be realized in money or in money’s worth, i.e., in cash or in kind. Where profit is realised in any form other than cash, the cash equivalent of the receipt on the date of receipt must be taken as the value of the income received in kind. Capital receipts are not generally to be taken into account while computing profits under this head. Payment voluntarily made by persons who were under no obligation to pay anything at all would be income in the hands of the recipient, if they were received in the course of a business or by the exercise of a profession or vocation. Thus, any amount paid to a lawyer by a person who was not a client, but who has been benefited by the lawyer’s professional service to another would be assessable as the lawyer’s income.
- (c) Application of the gains of trade is immaterial. Gains made even for the benefit of the community by a public body would be liable to tax. To attract the provisions of Section 28, it is necessary that the business, profession or vocation should be carried on at least for some

- time during the accounting year but not necessarily throughout that year and not necessarily by the assessee-owner personally, but it should be under his direction and control.
- (d) The charge is not on the gross receipts but on the profits and gains in their natural and proper sense. Profits are ascertained on ordinary principles of commercial trading and commercial accounting. According to Section 145, income has to be computed in accordance with the method of accounting regularly and consistently employed by the assessee. The assessee may account for his receipts on the cash basis or mercantile basis.
 - (e) The Act, however, contains certain provisions for determining how the income is to be assessed. These must be followed in every case of business or profession. The illegality of a business, profession or vocation does not exempt its profits from tax: the revenue is not concerned with the taint of illegality in the income or its source. Income is taxable even if the assessee is carrying on the business, profession or vocation without any profit motive. The liability to tax arises once income arises to the assessee; the motive or purpose of earning the income is immaterial. Thus, profit motive is not essential for describing the income from that activity as income from business or profession.
 - (f) The profits of each distinct business must be computed separately but the tax chargeable under this section is not on the separate income of every distinct business but on the aggregate profits of all the business carried on by the assessee. Profits should be computed after deducting the losses and expenses incurred for earning the income in the regular course of the business, profession, or vocation unless the loss or expenses is expressly or by necessary implication, disallowed by the Act.
 - (g) Income arising from business assets which are temporarily let out e.g., an oil mill, cinema theatre, hotel, ginning or textile factory, rice mill or jute press would be assessable as business income. But if the commercial asset is permanently let the income is taxable as income from house property or income from other sources, depending on the facts and circumstances of the case.



Basis of Charge

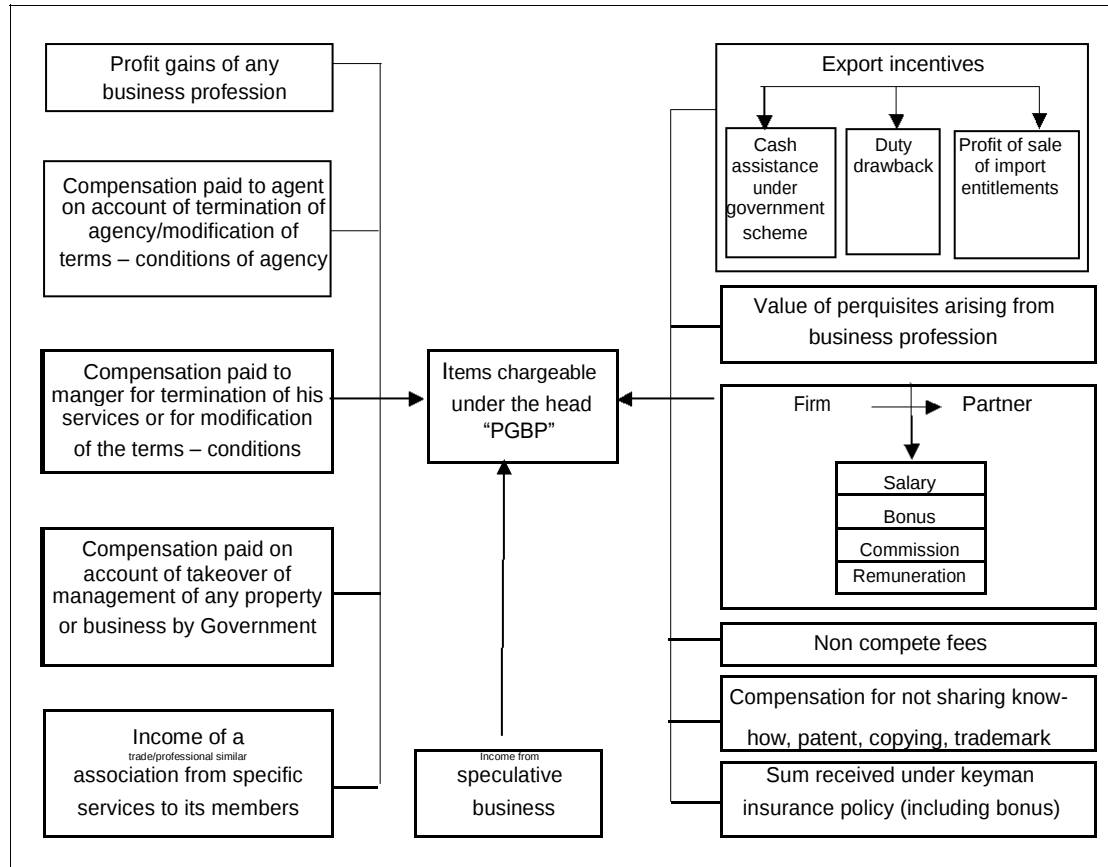
The various items of income chargeable to tax as income under the head 'profits and gains of business or profession' are as under:

- (1) Income arising to any person by way of profits and gains from the business, profession or vocation carried on by him at any time during the previous year.
- (2) Any compensation or other payment due to or received by:
 - (a) Any person, by whatever name called, managing the whole or substantially the whole of:
 - The affairs of an Indian company.
 - The affairs in India of any other company at or in connection with the termination of his management or office or the modification of any of the terms and conditions relating thereto.
 - (b) Any person, by whatever name called, holding an agency in India for any part of the activities relating to the business of any other person at or in connection with the termination of the agency or the modification of any of the terms and conditions relating thereto.
 - (c) Any person, for or in connection with the vesting in the Government or any corporation owned or controlled by the Government under any law for the time being in force, of the management of any property or business.

By taxing compensation received on termination of agency or on the takeover of management (which is a capital receipt) as income from business, Section 28(ii) provides exception to the general rule that capital receipts are not income taxable in the hands of the recipient.

- (3) Income derived by any trade, professional or similar associations from specific services rendered by them to their members. It may be noted that this forms an exception to the general principle governing the assessment of income of mutual associations such as chambers of commerce, stockbrokers' associations, etc. As a result a trade, professional or similar association performing specific services for its members is to be deemed as carrying on business in respect of these services and on that assumption the income arising there from is to be subjected to tax. For this purpose, it is not necessary that the income received by the association should be definitely or directly related to these services.
- (4) Profits on sale of a license granted under the Imports (Control) Order, 1955 made under the Imports and Exports (Control) Act, 1947.
- (5) Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of the Government of India.
- (6) Any Customs duty or Excise duty drawback repaid or repayable to any person against export under the Customs and Central Excise Duties Drawback Rules, 1971.
- (7) Any profit on the transfer of the Duty Entitlement Passbook Scheme, being Duty Remission Scheme, under the export and import policy formulated and announced under Section 5 of the Foreign Trade (Development and Regulation) Act, 1992.

- (8) Any profit on the transfer of Duty Free Replenishment Certificate, being Duty Remission Scheme, under the export and import policy formulated and announced under Section 5 of the Foreign Trade (Development and Regulation) Act, 1992.
- (9) The value of any benefit or perquisite whether convertible into money or not, arising from business or the exercise of any profession.
- (10) Any interest, salary, bonus, commission or remuneration, by whatever name called, due to or received by a partner of a firm from such firm will be deemed to be income from business. However, where any interest, salary, bonus, commission or remuneration by whatever name called, or any part thereof has not been allowed to be deducted under Section 40(b), in the computation of the income of the firm the income to be taxed shall be adjusted to the extent of the amount disallowed. In other words, suppose a firm pays interest to a partner at 20% simple interest p.a. The allowable rate of interest is 12% p.a. Hence, the excess 8% paid will be disallowed in the hands of the firm. Since the excess interest has suffered tax in the hands of the firm, the same will not be taxed in the hands of the partner.
- (11) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy will be taxable as income from business. "Keyman insurance policy" means a life insurance policy taken by a person on the life of another person who is or was the employee of the first mentioned person or is or was connected in any manner whatsoever with the business of the first mentioned person.
- (12) Any sum whether received or receivable, in cash or kind, under an agreement:
- (a) For not carrying out any activity in relation to any business.
 - (b) Not to share any know-how, patent, copyright, trademark, license, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision for services. However, the above subclause (a) shall not apply to:
 - Any sum, whether received or receivable, in cash or kind, on account of transfer of the right to manufacture, produce or process any article or thing or right to carry on any business, which is chargeable under the head "Capital gains".
 - Any sum received as compensation, from the multilateral fund of the Montreal Protocol on Substances that Deplete the Ozone layer under the United Nations Environment Programme, in accordance with the terms of agreement entered into with the Government of India.

Basic of charge Sec: 28**Answer in Brief**

State whether the following receipts are taxable, giving reasons:

- (1) M is an agent of R Ltd. he gets a compensation of ` 30,000 for termination of his agency from R Ltd.
- (2) MV is trade association of motor manufactures. MV gets a payment of ` 70,000 from its members for advising them on how to reduce the cost of manufacturing.
- (3) A profit of ` 3,50,000 is earned by R sale of license granted under the imports (Control) Oder, 1955.
- (4) A sum of ` 37,000 is received by S as cash assistance against exports from the government of India.
- (5) M exports goods outside India. During the previous year 2020-21, it gets as customs duty drawback of sum of ` 95,000.
- (6) A car owned by a partnership firm is used by one of the partners for private purposes.
- (7) M is a partner in ABC, a partnership firm. He gets ` 2,000 per month as salary from the firm.

- (8) M gets a sum of ₹ 60,000 from R Ltd. for not carrying out the activity of selling goods in Mumbai period of two years from April 1, 2019.

Solution:

- (1) ₹ 30,000 is treated as “income” of M being compensation for termination of agency [Section 28(h)]
- (2) ₹ 70,000 is treated as “income” of MV being income derived by a trade association from specific services performed for its members. [Section 28(iii)]
- (3) ₹ 3,50,000 is as “income” of S Ltd. being profits on sale of a licence granted under the import (control) Order, 1955. [Section 28(iia)]
- (4) ₹ 37,000 is treated as “income” of S Ltd. being cash assistance received by any person against exports under any scheme of the government of India. [Section 28(iib)]
- (5) ₹ 95,000 is treated as “income” of M Ltd. being any duty of customs re-paid as drawback against exports. [Section 28(iic)]
- (6) The perquisite value of the car is “income” in the hands of the partner being the value of any non-monetary benefit arising from business. [Section 28(iv)]
- (7) ₹ 2,000 per month is treated as “income” of M being the remuneration received by a partner from a firm [Section 28(v)].
- (8) ₹ 60,000 is treated as “income” of M Ltd. being any sum received for not carrying out any activity in relation to any business. [Section 28(va)].

Computation of Business Income

S.29 provides that the income referred to in Sec.28 above shall be computed in accordance with the provisions contained in Sections 30 to 43D.

Thus, the profits have to be separately worked out as provided in the Income-tax Act; the net profit shown by the Profit and Loss account of the assessee is not the amount of taxable income. The book profit is just the starting point for computing the taxable income. For computing the taxable income, the accounting profits must be adjusted in the following manner:

- (a) Deduct amounts expressly allowed to be deducted from net profits *vide* Sections 30 to 37 of the Act, if not already deducted in the profit and loss account,
- (b) Add back amounts expressly disallowed *vide* Sections 40 and 40A, if already deducted in the profit and loss account.

The resulting figure will be the taxable income from business/profession. The deductions expressly allowed and disallowed as well as the manner of computation from accounts are discussed below.

Deductions Expressly Allowed

- (a) The following specific deductions are allowed while computing the taxable profits:
 - Rent, rates, taxes and insurance of building u/s 30.
 - Repairs and insurance of machinery and furniture u/s 31.
 - Depreciation u/s 32.
 - Specific expenses and allowances u/s 36.

Other expenses, not specifically covered above are allowed U/S 37.

- (b) The specific deductions u/s 30, 31, 32 and 36 are allowed subject to the following rules:
- The expenditure must be 'paid' according to the method of accounting employed (i.e. paid in cash under cash accounting; and paid or accrued under mercantile accounting);
 - The expenditure must be related to the business carried on by the assessee during the previous year.
 - The expenditure may be capital or revenue in nature. (However, this does not apply to the general deduction u/s 37).

Rent, Repairs, Taxes and Insurance of Building [U/S-30]

The deduction allowed u/s 30 pertains to:

- The rent and cost of repairs undertaken to be borne in respect of premises occupied as a tenant.
- Current repairs of premises occupied by the assessee otherwise than as a tenant.
- Land revenue, local rates or municipal taxes.
- Insurance premium against risk of damage or destruction of premises.

If the rented premises are used partly for business and partly for residence, only the proportionate amount of such expenses pertaining to the portion used for business can be deducted.

However, capital expenditure on repairs will not be allowed as deduction u/s 30. The same will not be allowed as deduction under any other provisions. Thus, such expenditure, being capital expenditure, is not deductible u/s 37(1). It will not be added to the written down value of the block of asset u/s 43(6), as no "asset" is acquired. Consequently depreciation will not be available.

Concept Tester

State whether the following expenditure can be deducted while computing profits of business by Mr. ABC:

- (1) Rent of ₹ 10,000 paid for office premises.
- (2) National rent (municipal value) of ₹ 10,000 debited to the profit and loss account by ABC for use of 50% of ABC's residential house as branch office.
- (3) 1/3rd of the premises taken on rent (₹ 12,000) is used by ABC as office and rest is used for his residence.

Solution:

- (1) Yes; rent for office can be deducted u/s 30.
- (2) No; as only actual expenditure can be claimed.
- (3) ABC can claim 1/3rd of 12,000 i.e., ₹ 4,000 u/s 30 read with S.38.

Repairs and Insurance of Machinery and Furniture [U/S 31]

The deduction allowed u/s 31 pertains to:

- (1) Current repairs to machinery, plant or furniture used for the purpose of business.
- (2) Insurance premium against risk of their damage or destruction.

If the assessee uses the machinery or furniture partly for business and partly for his personal purpose, only the proportionate amount of repairs and insurance in respect of the business use can be deducted [u/s 38].

Concept Tester

Whether the following expenditure can be deducted while computing profits of business by Mr.

ABC:

- (1) Replacement of worn out part of machinery used in factory.
- (2) Repairs of ₹ 12,000 in respect of firefighting equipment in the factory, which was however, never actually used for a long time there was no fire in the factory.

Solution:

- (1) Yes; replacement of a part amounts to repairs and can be deducted u/s 31.
- (2) Yes; entire repairs of ₹ 12,000 can be deducted as the equipment is kept for use for the purpose of business though not actually used during the year.

Depreciation [U/S 32]

Section 32 allows a deduction in respect of depreciation resulting from the diminution or exhaustion in the value of certain capital assets. The Explanation to this section provides that deduction on account of depreciation shall be made compulsorily, whether or not the assessee has claimed the deduction in computing his total income:

(a) The assets in respect of which depreciation is claimed must belong to either of the following categories, namely:

- (i) Buildings, machinery, plant or furniture, being tangible assets.
- (ii) Know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature, being intangible assets acquired on or after 1st April, 1998.

The depreciation in the value of any other capital assets cannot be claimed as a deduction from the business income. No depreciation is allowable on the cost of the land on which the building is erected because the term 'building' refers only to superstructure but not the land on which it has been erected. The term 'plant' as defined in Section 43(3) includes books, vehicles, scientific apparatus and surgical equipment. The expression 'plant' includes part of a plant (e.g., the engine of a vehicle); machinery includes part of machinery and building includes a part of the building. However, the word 'plant' does not include an animal, human body or stock-in-trade. Thus, plant includes all goods and chattels, fixed or movable, which a businessman keeps for employment in his business with some degree of durability. Similarly, the term 'buildings' includes within its scope roads, bridges, culverts, wells and tube wells.

(b) The assets should be actually used by the assessee for purposes of his business during the previous year: The asset must be put to use at any time during the previous year.

The amount of depreciation allowance is not proportionate to the period of use during the previous year.

- **Asset used for less than 180 days:** However, it has been provided that where any asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, depreciation shall be allowed at

50% of the allowable depreciation according to the percentage prescribed in respect of the block of assets comprising such asset. It is significant to note that this restriction applies only to the year of acquisition and not for subsequent years. If the assets are not used exclusively for the business of the assessee but for other purposes as well, the depreciation allowable would be a proportionate part of the depreciation allowance to which the assessee would be otherwise entitled. This is provided in Section 38. Depreciation would be allowable to the owner even in respect of assets which are actually worked or utilized by another person, e.g., a lessee or licensee. The deduction on account of depreciation would be allowed under this section to the owner, who has let on hire his building, machinery, plant or furniture provided that letting out of such assets is the business of the assessee. In other cases where the letting out of such assets does not constitute the business of the assessee, the deduction on account of depreciation would still be allowable under Section 57(ii).

- (c) **The assessee must own the assets, wholly or partly:** In the case of buildings, the assessee must own the superstructure and not necessarily the land on which the building is constructed. In such cases, the assessee should be a lessee of the land on which the building stands and the lease deed must provide that the building will belong to the lessor of the land upon the expiry of the period of lease. Thus, no depreciation will be allowed to an assessee in respect of an asset which he does not own but only uses or hires for purposes of his business.

However, in this connection, students may note that the Explanation 1 to Section 32 provides that where the business or profession of the assessee is carried on in a building not owned by him but in respect of which the assessee holds a lease or other right of occupancy, and any capital expenditure is incurred by the assessee for the purposes of the business or profession or the construction of any structure or doing of any work by way of renovation, extension or improvement to the building, then depreciation will be allowed as if the said structure or work is a building owned by the assessee. Depreciation is allowable not only in respect of assets “wholly” owned by the assessee but also in respect of assets “partly” owned by him and used for the purposes of his business or profession.

Specific Deductions

This section authorizes deduction of certain specific expenses. The items of expenditure and the conditions under which such expenditures are deductible are:

- (1) **Insurance premium on stocks [Section 36(1) (i)]:** If insurance policy has been taken out against risk, damage or destruction of the stock or stock of the business or profession, the premium paid is deductible. But the premium in respect of any insurance undertaken for any other purpose is not allowable under the clause.
- (2) **Insurance on health of employees [Section 36(1) (ib)]:** This clause seeks to allow a deduction to an employer in respect of premium paid by him by cheque to effect or to keep in force an insurance on the health of his employees in accordance with a scheme framed by:
 - (i) The General Insurance Corporation of India and approved by the Central Government.
 - (ii) Any other insurer and approved by the IRDA.
- (3) **Bonus and Commission [Section 36(1) (ii)]:** These are deductible in full provided the sum paid to the employees as bonus or commission shall not be payable to them as profits or dividends if it had not been paid as bonus or commission. It is a provision intended to safeguard against a private company or an association escaping tax by distributing a part of its

profits by way of bonus amongst the members, or employees of their own concern instead of distributing the money as dividends or profits.

- (4) **Interest on borrowed capital [Section 36(1) (iii)]:** In the case of genuine business borrowings, the department cannot disallow any part of the interest on the ground that the rate of interest is unreasonably high except in cases falling under Section 40A. Under Section 36(1), deduction of interest is allowed in respect of Capital borrowed for the purposes of business or profession in the computation of income under the head “Profits and gains of business or profession”. Capital may be borrowed for several purposes like for acquiring a capital asset, or to pay off a trading debt or loss etc. The scope of the expression ‘for the purposes of businesses’ is very wide, Capital may be borrowed in the course of the existing business as well as for acquiring assets for extension of existing business. Explanation 8 to Section 43(1) clarifies that interest relating to a period after the asset is first put to use cannot be capitalized. Interest in respect of capital borrowed for any period from the date of borrowing to the date on which the asset was first put to use should normally be capitalized. However, there was scope for the assessee to claim it as revenue expenditure. It has now been provided that no such deduction shall be allowed in respect of any amount of interest paid, in respect of capital borrowed for acquisition of new asset for extension of existing business or profession (whether capitalized in the books of account or not) for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use. It is significant to note here that even after the amendment the scope for claiming such interest as revenue expenditure in respect of existing business still exists.
- (5) **Discount on Zero Coupon Bonds (ZCBs) [Section 36(1)(iiia)]:** Section 36(1)(iiia) provides deduction for the discount on ZCB on *pro rata* basis having regard to the period of life of the bond to be calculated in the manner prescribed. The Explanation seeks to provide the meaning of the expression ‘discount’ as a difference of the amount received or receivable by an infrastructure capital company/infrastructure capital fund/public sector company on issue of the bond and the amount payable by such company or fund on maturity or redemption of the bond. The expression ‘period of life of the bond’ has been defined to mean the period commencing from the date of issue of the bond and ending on the date of the maturity or redemption.
- (6) **Contributions to provident and other funds [Section 36(1)(iv) and (v)]:** Contribution to the employees’ provident and other funds are allowable subject to the following conditions:
- The fund should be settled upon a trust.
 - In case of Provident or superannuation or a Gratuity Fund, it should be one recognized or approved under the Fourth Schedule to the Income Tax Act.
 - The amount contributed should be periodic payment and not an *ad hoc* payment to start the fund.
 - The fund should be for exclusive benefit of the employees. The nature of the benefit available to the employees from the fund is not material; it may be pension, gratuity or provident fund.
- (7) **Allowance for animals [Section 36(1)(vi)]:** This clause grants an allowance in respect of animals which have died or become permanently useless. The amount of the allowance is the difference between the actual cost of the animals and the price realised on the sale of the

animals themselves or their carcasses. The allowance under the clause would thus, recoup assessee's entire capital expenditure in respect of the animal.

- (8) Bad debts [Section 36(1) (vii) and subsection (2)]:** These can be deducted subject to the following conditions:
- (a) The debts or loans should be in respect of a business which was carried on by the assessee during the relevant previous year.
 - (b) The debt should have been taken into account in computing the income of the assessee of the previous year in which such debt is written off or of an earlier previous year or should represent money lent by the assessee in the ordinary course of his business of banking or money lending.
- (9) Expenses on family planning [Section 36(1)(ix)]:** Any expenditure of revenue of bona fide nature incurred by a company for the purpose of promoting family planning amongst its employees will be allowed as a deduction in computing the company's business income; where the expenditure is of a capital nature, one-fifth of such expenditure will be deducted in the previous year in which it was incurred and in each of the four immediately succeeding previous years. This deduction is allowable only to companies and not to other assessees. The assessee would be entitled to carry forward and set off the unabsorbed part of the allowance in the same way as unabsorbed depreciation. The capital expenditure on promoting family planning will be treated in the same way as capital expenditure for scientific research for purposes of dealing with the profit or loss on the sale or transfer of the asset including a transfer on amalgamation.
- (10) Banking cash transaction tax [Section 36(1) (xiii)]:** The Finance Act, 2008 has, through Chapter VII, introduced a tax called banking cash transaction tax, as an anti tax-evasion measure, in respect of every taxable banking transaction entered into on or after 1.6.2008, at the rate of 0.1% of the value of every such taxable banking transaction. Taxable banking transaction means - a transaction, being withdrawal of cash (by whatever mode) on any single day from an account (other than a savings bank account) maintained with any scheduled bank, exceeding, ` 25,000, in case such withdrawal is from the account maintained by any individual or HUF; ` 1,00,000, in case such withdrawal is from the account maintained by a person other than any individual or HUF; or a transaction, being receipt of cash from any scheduled bank on any single day on encashment of one or more term deposits, whether on maturity or otherwise, from that bank, exceeding ` 25,000, in case such term deposit or deposits are in the name of any individual or HUF; ` 1,00,000, in case such term deposit or deposits are by any person other than any individual or HUF. However, banking cash transaction tax is not leviable if the amount of term deposit or deposits is credited to any account with the bank. Section 36(1)(xiii) provides for deduction of any amount of banking cash transaction tax paid by the assessee during the previous year on the taxable banking transactions entered into by him.

General Expenditure [U/S 37]

This is a residuary section under which only business expenditure is allowable but not the business losses, e.g., those arising out of embezzlement, theft, destruction of assets, misappropriation by employees etc. (These are allowable under Section 29 as losses incidental to the business). The deduction is limited only to the amount actually expended and does not extend to a reserve created against a contingent liability.

Conditions for Allowance

The following conditions should be fulfilled in order that a particular item of expenditure may be deductible under this section:

- (a) The expenditure should not be of the nature described in Sections 30 to 36.
- (b) It should have been incurred by the assessee in the accounting year.
- (c) It should be in respect of a business carried on by the assessee the profits of which are being computed and assessed.
- (d) It must have been incurred after the business was set up.
- (e) It should not be in the nature of any personal expenses of the assessee.
- (f) It should have been laid out or expended wholly and exclusively for the purposes of such business.
- (g) It should not be in the nature of capital expenditure. (The principles to be followed for distinguishing capital expenditure from revenue are discussed below.)
- (h) The expenditure should not have been incurred by the assessee for any purpose which is an offence or is prohibited by law.

This section is thus limited in scope. It does not permit an assessee to make all deductions which a prudent trader would make in ascertaining his own profit. It might be observed that the section requires that the expenditure should be wholly and exclusively laid out for purpose of the business but not that it should have been necessarily laid out for such purpose.

Therefore, expenses wholly and exclusively laid out for the purpose of trade are, subject to the fulfillment of other conditions, allowed under this section even though the outlay is unnecessary.

Expenses Expressly Disallowed

By dividing the assesses into distinct groups, this section places absolute restraint on the deductibility of certain expenses as follows:

(1) Sums payable outside India, etc. [u/s 40(a)] – In the case of any assessee, the following expenses are not deductible:

- (a) Any interest (not being interest on loan issued for public subscription before the 1st day of April, 1938), royalty, fees for technical services or other sum chargeable under this Act, which is payable, outside India; or in India to a non-resident, not being a company or to a foreign company, on which tax is deductible at source under Chapter XVIIIB and such tax has not been deducted or, after deduction, has not been paid during the previous year, or in the subsequent year before the expiry of the time prescribed under Section 200(1). It is also provided that where in respect of any such sum, where tax has been deducted in any subsequent year, or has been deducted in the previous year but paid in any subsequent year after the expiry of the time prescribed under Section 200(1), such sum shall be allowed as a deduction in computing the income of the previous year in which such tax has been paid.
- (b) Any interest, commission or brokerage, fees for professional services or fees for technical services payable to a resident, or amounts payable to a contractor or sub-contractor, who are residents, for carrying out any work (including supply of labour for carrying out any work), on which tax is deductible at source under Chapter XVIIIB and such tax has not been deducted or, after deduction, has not been paid during the previous year, or in the subsequent year

before the expiry of the time prescribed under Section 200(1). However, in respect of such sum, where tax has been deducted in any subsequent year or, has been deducted in the previous year but paid in any subsequent year after the expiry of the time prescribed under Section 200(1), such sum shall be allowed as a deduction in computing the income of the previous year in which such tax has been paid.

- (c) Any sum paid on account of securities transaction tax under Chapter VII of the Finance (No.2) Act, 2007.
- (d) Any sum paid on account of fringe benefit tax under Chapter XII-H.
- (e) Any sum paid on account of tax or cess levied on profits on the basis of or in proportion to the profits and gains of any business or profession; any sum paid outside India (on account of any rate or tax levied) which is eligible for tax relief u/s 90 or deduction from the income-tax payable u/s 91 is not allowable and is deemed to have never been allowable as a deduction u/s 40(a). However, the tax payers will continue to be eligible for tax credit in respect of income-tax paid in a foreign country in accordance with the provisions of Section 90 or Section 91, as the case may be. Any sum paid outside India (on account of any rate or tax levied) and eligible for relief under new Section 90A will not be allowed as a deduction.
- (f) Any sum paid on account of wealth tax. For the purpose of this disallowance the expression 'wealth Tax' means the wealth Tax chargeable under Wealth Tax Act, 1957, or any tax of similar nature or character chargeable under any law in any country outside India or any tax chargeable under such law with reference to the value of the assets of, or the capital employed in a business or profession carried on by the assessee, whether or not the debts of business or profession are allowed as a deduction in computing the amount with reference to which such tax is charged, but does not include any tax chargeable with reference to the value of any particular asset of the business or profession.
- (g) Any sum which is chargeable under the head 'Salaries' if it is payable outside India or to a non-resident and if the tax has not been paid thereon nor deducted there from under Chapter XVII-B.
- (h) Any contribution to a provident fund or the fund established for the benefit of employees of the assessee, unless the assessee has made effective arrangements to make sure that tax shall be deducted at source from any payments made from the fund which are chargeable to tax under the head 'Salaries'.
- (i) Tax paid on perquisites on behalf of employees is not deductible – In case of an employee, deriving income in the nature of perquisites (other than monetary payments); the amount of tax on such income paid by his employer is exempt from tax in the hands of that employee. Correspondingly, such payment is not allowed as deduction from the income of the employer. Thus, the payment of tax on perquisites by an employer on behalf of employee will be exempt from tax in the hands of employee but will not be allowable as deduction in the hands of the employer.

(2) Interest paid by Firm to Partners [U/S 40(b)]: In the case of any firm assessable as such the following amounts shall not be deducted in computing the income from business of any firm:

- (a) Any salary, bonus, commission, remuneration by whatever name called, to any partner who is not a working partner. (In the following discussion, the term 'remuneration' is applied to denote payments in the nature of salary, bonus, and commission).

- (b) Any remuneration paid to the working partner or interest to any partner which is not authorized by or which is inconsistent with the terms of the partnership deed.
- (c) It is possible that the current partnership deed may authorize payments of remuneration to any working partner or interest to any partner for a period which is prior to the date of the current partnership deed. The approval by the current partnership deed might have been necessitated due to the fact that such payment was not authorised by or was inconsistent with the earlier partnership deed. Such payments of remuneration or interest will also be disallowed.

However, it should be noted that the current partnership deed cannot authorize any payment which relates to a period prior to the date of earlier partnership deed. Next, by virtue of a further restriction contained in subclause (iii) of Section 40(b), such remuneration paid to the working partners will be allowed as deduction to the firm from the date of such partnership deed and not for any period prior thereto. Consequently, if, for instance, a firm incorporates the clause relating to payment of remuneration to the working partners, by executing an appropriate deed, say, on July 1, but effective from April 1, the firm would get deduction for the remuneration paid to its working partners from July 1 and onwards, but not for the period from April 1 to June 30. In other words, it will not be possible to give retrospective effect to oral agreements entered into vis a vis such remuneration prior to putting the same in a written partnership deed.

- (d) Any interest payment authorised by the partnership deed falling after the date of such deed to the extent such interest exceeds 12% simple interest p.a.
- (e) Any remuneration paid to a partner, authorised by a partnership deed and falling after the date of the deed in excess of the following limits: In the case of a firm carrying on a business or profession referred to or notified u/s 44A: on the negative income or first ` 3 lakhs of the book profit ` 1,50,000 or @ 90% of the profit whichever is more and on remaining profit @60% of the book profit.

(3) Payments by AOP/BOI to members [U/S 40 (ba)]: Any payment of interest, salary, commission, bonus or remuneration made by an association of persons or body of individuals to its members will also not be allowed as a deduction in computing the income of the association or body. Where interest is paid by an AOP or BOI to a member who has paid interest to the AOP/BOI, the amount of interest to be disallowed under clause (ba) shall be limited to the net amount of interest paid by AOP/BOI to the partner. Where an individual is a member in an AOP/BOI on behalf of another person, interest paid by AOP/BOI shall not be taken into account for the purposes of clause (ba). But, interest paid to or received from each person in his representative capacity shall be taken into account. Where an individual is a member in his individual capacity, interest paid to him in his representative capacity shall not be taken into account.

(4) Excessive Payments to Relatives [U/S 40A (2)]: Provides that where the assessee incurs any expenditure in respect of which a payment has been or is to be made to a relative or to an associate concern so much of the expenditure as is considered to be excessive or unreasonable shall be disallowed by the Assessing Officer. While doing so he shall have due regard to the market value of the goods, service of facilities for which the payment is made; or the legitimate needs of the business or profession carried on by the assessee; or the benefit derived by or accruing to the assessee from such a payment. The word “relative” as defined in the Section 2(41) of the Act, means, in relation to individual, the spouse, brother or sister of any lineal ascendant or descendant of that individual. Whether the assessee is a firm, H.U.F. or an association of persons the relationship will have to be

reckoned for the purpose, with reference to the partners of the firm and the members of the family or association. Similarly, where the assessee is a company the relationship will have to be reckoned with reference to the directors or persons having substantial interest in the company. A person shall be deemed to have a substantial interest in a business or profession if in a case where the business or profession is carried on by a company, such person is, at any time during the previous year, the beneficial owner of equity shares carrying not less than 20% of the voting power and in any other case such person is, at any time during the previous year, beneficially entitled to not less than 20% the profits of such business or profession.

(5) Expenses exceeding ₹10,000 paid in Cash [U/S 40A (3)]:

- (a) Payment is made in excess of ₹10,000.
- (b) Otherwise than by a account payee cheque drawn on a bank or an account payee bank draft.
- (c) In respect of a revenue expenditure.
- (d) 100% of such expenditure is not allowed as deduction. Thus, 100% of expenses paid for in cash or by bearer cheques are disallowed. Thus, provision applies only to deductible revenue expenses including purchase of goods.

(6) Provision for Gratuity on Retirement [U/S 40A (7)]: A mere provision in the accounts for an estimated amount on account of gratuity which may become payable to the present employees at the time of their retirement, termination, etc., in future is a contingent liability and not an actual liability. Hence, it cannot be deducted. However, the provision:

- (a) For contribution to an approved gratuity fund.
- (b) For gratuity which has actually become due and payable during the previous year in respect of the employees on their retirement or termination during the previous year is allowable.

(7) Contributions to Non-statutory Funds [U/S 40A (9)]: No deductions shall be allowed in respect of any sum paid by the assessee, as an employer, towards the setting up or formation of, or as contribution to, any fund, trust, company, association of persons, registered society or other institution, or for any purpose, except where such sums are paid to statutory fund such as recognized provident fund or an approved gratuity fund or an approved superannuation fund or as required by any other law.

SECTION 43B

Following expenses allowable only if paid before the due date of filing the return of income:

- (1) Any tax, duty, cess or fee under any law for the time being in force.
- (2) Any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees.
- (3) Any sum payable as bonus or commission to employee for services rendered.
- (4) Any sum payable by the assessee as interest on any loan or borrowing from any public financial institution or a State financial corporation or a State industrial investment corporation, in accordance with the terms and conditions of the agreement governing such loan or borrowing.

- (5) Any sum payable by the assessee as interest on any loan or advances from a scheduled bank in accordance with the terms and conditions of the agreement governing such loan or advances.
- (6) Any sum payable by the assessee as an employer in lieu of any leave at the credit of his employee.

Format of Computation of Income from Business/Profession

Name of Assessee – Mr. XYZ

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Business/Professional Income

Particulars	`	`
(a) Incomes: (From receipt and Payment Account)		
• Fees/Gifts Received from clients	XX	
• Retainership fees	XX	
• Certification fees	XX	XX
(b) Less: Expenses: (From Receipt and Payment Account)		XXX
• Rent, rates and taxes of property	XX	
• Repairs and Insurance of house property	XX	
• Expenditure on scientific research	XX	
• Cost of acquiring patents or copyrights	XX	
• Expenditure on know-how	XX	
• Preliminary expenses	XX	
• Payment of bonus	XX	
• Advertisement expenses	XX	(XX)
Income from Business or Profession		XXX

OR

Particulars	`	`
Net Profit/Loss as per P and L A/ c		XXX
(a) Add: Expenses inadmissible: (Deduct in case of loss)		
• Losses of earlier years	XX	
• Capital losses	XX	
• Income tax, surtax, penalty, etc.	XX	

• Wealth tax	XX	
• Gift tax	XX	
• Estate duty	XX	
• Capital expenditure	XX	
• Personal expenses/Household expenses/Drawings	XX	
• Donations	XX	
• Gifts and presents to others	XX	
• Reserves or Provision for Bad and Doubtful Debts	XX	
• Advertisement in souvenir of political party	XX	
• Bonus to employees declared but not paid upto due date of filing return	XX	
• Any tax, duty, cess not paid upto the due date of filing return	XX	
• Rent, rates and taxes of house property	XX	
• Repairs and Insurance of house property	XX	
• Expenditure on Scientific Research	XX	
• Cost of acquiring patents or copyrights	XX	
• Expenditure on know-how	XX	
• Preliminary expenses	XX	
• Payments in excess of ₹10,000 made by cash	XX	
• Provision for payment of gratuity	XX	
• Any provision or reserve not admissible	XX	XX
		XXX
(b) Add: Amount not credited to P and L A/c but taxable under this head		
• Deemed Income	XX	
• Any other chargeable profit	XX	XX
		XXX
(c) Less: Income credited to P and L A/c but not chargeable under this head		
• Salary Income	XX	
• Income from House Property	XX	
• Capital Gain	XX	
• Income Chargeable under the head "Income from other Sources"	XX	
• Income tax, wealth tax, gift tax, estate duty, surtax, TDS refunds, bad debts, excise duty recovered (if earlier disallowed as deduction)	XX	XX
		XXX

(d) Less: Expenses/Losses allowed but not charged to P and L A/c		
• Depreciation	XX	
• Expenditure on Scientific Research	XX	XX
Income from Business or Profession		XXX

Illustration 1:

Mr. Abhay is a practicing chartered accountant in Mumbai. For the year ended 31st March, 2020, his receipts and payments were as under:

Particulars**Receipts**

Fees received from clients	50,000
Retainership fees	12,000
Interest on fixed deposits with banks	3,000
Interest on fixed deposits with public limited companies	5,000
Rent received for sub-letting table space	1,200

Payments

Salaries to assistants	6,000
Rent and electricity for office	9,600
Telephone charges	3,600
Printing and stationery	1,200
Car hire and taxi fare	3,000
Life Insurance premium	3,000
Income tax	5,000
Gifts, presents, charity, etc.	1,000
Computer purchased	40,000

Compute his income from profession for the assessment year 2021-22 assuming that 20% of the telephone charges, car hire and taxi fare is for personal use.

Solution:

Name of Assessee – Mr. Abhay

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Professional Income

Particulars			
(a) Receipts taxable under “Professional Income”			
(1) Fees from clients	50,000		
(2) Retainer ship fees	12,000	62,000	(A)
(b) Less: Expenses Allowable			
(1) Salaries to assistants		6,000	
(2) Rent and electricity for office		9,600	
(3) Telephone charges	3,600		
Less: 20% for personal use	(720)	2,880	
(4) Printing and stationery		1,200	
(5) Car hire and taxi fare	3,000		
Less: 20% for personal use	(600)	2,400	
		<u>22,110</u>	(B)
Taxable Income from Profession [A-B]		<u>39,920</u>	

Notes:

- (1) Interest and rent for sub-letting are not professional receipts. They will be taxed as income from other sources.
- (2) Life insurance premium, income tax and gifts, etc. are not professional expenses and hence, cannot be deducted.
- (3) The depreciation on typewriter is not considered in absence of details.

Illustration 2:

The following is the Trading and Profit and Loss account of Govinda for the year ending 31st March, 2021:

Particulars	`	Particulars	`
To opening stock	32,000	By sales	4,20,000
To purchase	3,60,000		
To gross profit	76,000	By closing stock	48,000
	4,68,000		4,68,000
To salaries and wages	36,400	By Gross Profit	76,000
To rent paid	10,800	By dividends	3,200
To insurance premium	2,890		
To printing and stationery	1,700		
To advertisement	720		
To household expenses	26,000		
To net profit	690		
	79,200		79,200

An analysis of the expenses revealed the following:

- (1) Salaries and wages include ` 18,000 paid as salary to the proprietor and ` 400 paid to proprietor's domestic servant.
- (2) Rent includes ` 1,800 being hostel charges of the proprietor's son.
- (3) Insurance premium includes ` 1,600 paid as life insurance premium on a policy on the life of the proprietor's wife.
- (4) ` 1,000 paid as penalty imposed by income tax officer has been wrongly included in salaries. Compute the income from business for the assessment year 2021-22.

Solution:

Name of Assessee – Mr. Govinda

P.A.No.:

Legal Status – Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Business Income

Particulars		
(1) Net profit as per P and L A/c		690
(2) Add: Expenses disallowed		
(a) Salary to the proprietor	18,000	
(b) Salary to domestic servant – personal expenditure	400	
(c) Hostel charges of son – personal expenditure	1,800	
(d) Life Insurance premium (personal)	1,600	
(e) Household expenses	26,000	
(f) Income tax penalty (for breach of law)	1,000	48,800
(3) Less: Dividends (exempted)		(3,200)
(4) Business Income (1+2-3)		46,290

Illustration 3:

Following is the P and L a/c of Shri Gajanan for the year ending 31-03-21:

Particulars		Particulars	
To Salary to Staff	1,60,000	By Gross Profit	4,00,000
To Sundry Expenses	13,000	By Discount received	58,000
To Telephone & Postage	6,000	By Commission earned	12,000
To Transport charges	8,000	By Rent from Let out Bldg.	20,000
To Salary to proprietor	50,000	By Capital Gains	28,000
To Rent for business premises	17,000	By Sundry business income	20,000

To R.D.D.	20,000	By Agricultural income	42,000
To Mun. tax on let out property	4,000		
To Legal Expenses	2,000		
To Interest on Capital	60,000		
To Interest on Bank O/D	22,000		
To Depreciation	16,000		
To Dis. Allowed to Customers	12,000		
To Donation	5,000		
To Electricity and Water	7,000		
To Bad debt.	5,000		
To Net Profit	1,73,000		
Total	5,80,000	Total	5,80,000

Depreciation allowed according to Income tax rules amounted to ` 10,000. Calculate Income from Business for the P.Y. 20-21 relevant to A.Y.- 20-21.

Solution:

Name of Assessee – Shri Gajanan

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Business Income

Particulars		
Income		
Gross profit	4,00,000	
Discount Recd.	58,000	
Commission earned	12,000	
Sundry business income	<u>20,000</u>	4,90,000
Less: Expenses		
Salary	1,60,000	
Sundry Expenses	13,000	
Telephone & postage	6,000	
Transport charges	8,000	
Rent for Business Premises	17,000	
Legal Expenses	2,000	
Int. on Bank O/D	22,000	

Disc. Allowed to customers	12,000	
Elec and Water	7,000	
Bad debt	5,000	
Dep.	10,000	(2,62,000)
Taxable IFBF		2,28,000
OR		
Net Profit as per P and L A/c		1,73,000
Add: Expenses inadmissible:		
Salary to proprietor	50,000	
R.D.D.	20,000	
Municipal Taxes on house let out	4,000	
Interest on capital	60,000	
Depreciation	16,000	
Donation	5,000	1,55,000
		3,28,000
Less: Incomes considered separately:		
Rent received	20,000	
Capital Gains	28,000	
Agricultural income	42,000	90,000
Net Taxable Income		2,28,000

Illustration 4:

Following is the Trading and P and L a/c. of Mr. Sunil for the year ending 31-03-21:

Particulars	`	Particulars	`
To Opening Stock	2,00,000	By Sales	26,00,000
To Purchases	15,00,000	By Closing Stock	2,40,000
To Salary and Wages	3,40,000	By Dis. and Rebates earned	1,30,000
To Rent paid for factory	1,30,000	By Div. from Indian Co.	60,000
To Interest on Capital	2,00,000	By Receipt from H.U.F.	1,40,000
To Sundry Expenses	1,00,000		
To Depreciation	3,00,000		
To Net Profit	4,00,000		
Total	31,70,000	Total	31,70,000

- (1) Opening and closing stocks were consistently undervalued by 20%.
 (2) Depreciation allowable according to I. Tax Rules amounted to ₹ 2,50,000.

Calculate Income from business for the P.Y. 19-20 relevant to A.Y. 20-21.

Solution:

Name of Assessee – Mr. Sunil

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Business Income

Particulars		
Net profit as per P and L A/C		4,00,000
Add: Amount debited to P and L or Disallowed as business Exps.		
Opening Stock wrong value	2,00,000	
Interest on capital	2,00,000	
Depreciation	<u>3,00,000</u>	7,00,000
Less: Amount credited to P&L or Not a business income		
Closing stock wrong	2,40,000	
Div. from Indian co.	60,000	
Receipt from HUF	<u>1,40,000</u>	(4,40,000)
Less: Depreciation as per IT		(2,50,000)
Less: Opening stock		(2,50,000)
Add: Closing stock		<u>3,00,000</u>
Taxable Income from business		<u><u>4,60,000</u></u>

Illustration 5:

Following is Profit and Loss Account of Vignesh for the year ending 31-03-21

Particulars		Particulars	
To Salaries	4,80,000	By Gross Profit	19,20,000
To Rent	96,000	By Commission received	34,000
To Depreciation	50,000	By Dis. allowed by Suppliers	12,000
To Municipal Tax on HP	57,600	By Gift from Suppliers for Target achievement	1,000
To Transport and Travelling	1,92,000	By Rent from let out building	50,000
To Bad Debts	76,800	By Perquisites provided by Customers	20,000

To Reserve for Doubtful Debts	1,34,400	By Compensation received from Customers for cancellation of order	60,000
To Interest on Business loans	19,200	By Compensation for Premature termination of C and F agency	2,17,000
To Sundry Expenses	1,15,200		
To Net Profit	10,53,800		
Total	24,67,000	Total	24,67,000

Additional information:

- (1) Trading account disclosed ` 3,30,000 and ` 4,20,000 as opening and closing stocks.

These were consistently undervalued by 25%

- (2) Depreciation allowable amounted to ` 60,000.

Calculate Business Income for the P.Y. 20-21 relevant to A.Y. 21-22.

Solution:

Name of Assessee – Mr. Vignesh

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Business Income

Particulars		
Net profit as per P and L		10,53,800
Add: Amt. debited to P and L a/c not allowed as deduction		
Depreciation as per A/C	50,000	
Municipal tax on HP	57,600	
Reserve for doubtful debts	1,34,400	
Interest credit to Vignesh	96,000	
Opening stock wrong value	<u>3,30,000</u>	6,68,000
Less: Amount credited to P and L a/c not taxable as business Income		
Rent from let-out bldg	50,000	
Closing stock	<u>4,20,000</u>	(4,70,000)
Add: Closing stock true value		5,60,000
Less: Depreciation as per I.Tax		(60,000)
Less: Opening stock true value		<u>(4,40,000)</u>
Taxable Income from business		<u><u>13,11,800</u></u>

Illustration 6:

Following is P and L A/c of Mr. Patel an exporter and importer, for year ending 31-03-21

Particulars	`	Particulars	`
To Opening Stock	54,00,000	By Sales Domestic 3,60,00,000 Export 1,50,00,000	5,10,00,000
To Purchases Domestic 2,30,00,000 Imports 1,20,00,000	3,50,00,000	By Closing Stock 73,00,000 1,50,00,000	73,00,000
To Custom duty paid on import	10,00,000	By Discount and Rebates earned	1,20,000
To Salary and Wages	23,40,000	By Dividend from Indian Co	60,000
To Rent for Bonded warehouse	5,00,000	By Receipt from H.U.F.	1,40,000
To Interest on Capital	20,00,000	By Gift from Supplier for Lifting goods for export	2,00,000
To Shipping freight and Documentation	89,000	By Prize from Customer for Promptness	3,00,000
To Depreciation	3,00,000	By Family Pension from wife's Employer	48,000
To R.D.D.	3,09,000	By Free samples received from Indirect exporters	14,00,000
To Net Profit	1,86,10,000	By Cash compensatory Subsidy @2%	7,80,000
		By custom duty draw-back After export formalities	8,00,000
		By Sale of Import License	34,00,000
Total	6,55,48,000	Total	6,55,48,000

Additional information:

(1) Depreciation allowed as per IT rules amounted to ` 62,00,000.

(2) Salary and wages include salary to proprietor Mr. Patel ` 3,00,000

Calculate Income from Business Profession for the P.Y. 20-21 relevant to A.Y. 21-22.

Solution:

Name of Assessee – Mr. Patel

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Business Income

Particulars	`	`
Net profit as per P&L A/C		1,86,10,000
Add: Amt. debited to P&L A/C not allowed as deduction		
Salary and wages	3,00,000	
Interest on capital	20,00,000	
Depreciation	3,00,000	
R.D.D.	<u>3,09,000</u>	29,09,000
Less: Amount credited to P&L A/C not Taxable as business income		
Dividend from Indian co.	60,000	
Receipt from H.U.F.	1,40,000	
Family pension from wife's Employer	<u>48,000</u>	(2,48,000)
Less: Depreciation as per I.Tax		<u>(62,00,000)</u>
Taxable Income from business		<u><u>1,50,71,000</u></u>

Illustration 7:

Following is Trading and P and L A/c of an Income tax assessee for the year ending 31-03-21.

Particulars	`	Particulars	`
To Cost of goods Sold	6,84,000	By Sales	40,60,000
To Octroi and Taxes	45,600	By Commission	2,00,000
To Salary	5,82,400	By Rent received From House Property	1,50,000
To Pantry expenses	98,000	By Winnings in Horse Race	1,00,000
To Subscriptions to Papers	3,600	By Share in Income from Partnership firm	
		Salary 2,00,000	
		Interest 1,50,000	
		Net profit 1,50,000	5,00,000
To Printing and stationery	3,19,200		
To Advertising and publicity	3,64,800		
To office lease payments	4,10,400		
To Petty Cash Expenses	72,960		
To Compensation to trader	68,400		
To Advocates Fees	63,840		
To Customs Duty Paid	2,85,000		

To Int. paid to money lender	54,720		
To Commission on sales	59,280		
To Loss in Transit	77,520		
To Travelling Exp. for Off. Staff	7,296		
To Depreciation	68,400		
To Bad debts	63,840		
To Repairs of Fixed Assets	82,080		
To Trf. To Contingency Reserve	8,664		
To Donation	1,00,320		
To Entertainment Expenses	95,760		
To Reserve for Future losses	9,120		
To Net Profit	13,84,800		
Total	50,10,000	Total	50,10,000

Additional Information:

- (1) Depreciation Allowed as per I.T. Rules amounted to ` 1,65,000
- (2) A supplier has given a gift of Hero Honda motor cycle valued at ` 34,000 for achieving 1,000 purchases points. But assessee thinks it is not taxable as it is received in kind. Hence no entry is made in the P and L A/c
- (3) Some of the allowable business expenses were not recorded in the above P and L Account. These amounted to ` 11,000.

You are required to calculate Total Income for A.Y. 21-22.

Solution:

Name of Assessee – Mr. Patel

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Business Income

Particulars		
Net profit as per P&L A/C		13,84,800
Add: Amount debited to P&L A/C not allowed as bus. Exp:		
Depreciation	68,400	
Transfer to contingency reserve	8,664	
Donation	1,00,320	
Reserve for future losses	<u>9,120</u>	1,86,504

Less: Amount credited to P&L A/C not taxable as business income

Rent recd from house property	1,50,000	
Winning in horse race	1,00,000	
Share in income from partnership		
Firm: Net profit (exempt)	<u>1,50,000</u>	(4,00,000)
Add: Unrecorded credit Right Suppliers gift on achieving Purchases		34, 000
Less: Unrecorded Right Debit Allowable business expense		(11,000)
Less: Depreciation as per IT rules		<u>(1,65,000)</u>
Taxable Income from business		<u><u>10,29,304</u></u>

Illustration 9:

Following is P and L A/c of Mr. Rehmat Patel for financial year ending 31-03-21:

Particulars	`	Particulars	`
To Remuneration to Staff	16,23,000	By Gross Profit	22,30,000
To Rent paid	1,20,000	By Discount received	8,000
To Rebates to Customers	80,000	By Commission earned	3,000
To Legal Expenses	35,000	By Dividend from MM Ltd.	22,000
To Municipal Tax	18,000	By Gift Received	26,000
To Salary to proprietor	29,000	By Sundry income	26,000
To Depreciation	58,000	By Agricultural income	1,35,000
To Carriage Outward	2,200	By Share in profit from firm	45,000
To Bad Debts and RDD	23,200	By Export incentives	32,000
To Reserve for compensation	50,000	By LIC amount received	12,00,000
To Int. Credited to Rehmat	29,000	By Bad debt Recovered of L/Y	10,000
To Interest On Bank Loan	5,800	By Bad debt Recovered	
To Sundry Expenses	34,800	(of 2012) disallowed earlier	14,000
To Net Profit	20,51,000	(of 2010) allowed earlier	18,000
		(of 2009) (Only ` 12000 allowed earlier)	25,000
		By Personal Bad debt recovered	1,00,000
		By sales tax refund	21,000
		By Excise duty refund	22,000

		By Custom duty refund	23,000
		By Octroi refund	12,000
		By Income Tax Refund	1,00,000
		By Int on Income tax refund	2,000
		By Sales tax penalty refund	12,000
		By Excise penalty refund	4,000
		By I-tax penalty refund	7,000
		By Recovery of Advertisement Exps. from suppliers	12,000
		By Recovery of salary excessively paid in 2012	30,000
		By Creditors written back	10,000
Total	41,59,000	Total	41,59,000

Additional Information:

- (1) Out of gift received, ₹ 5,000 is from a supplier for meeting volume commitment and balance is from relatives on birthday celebration.
- (2) Life insurance policy amount received consists of ₹ 9,00,000 from key man Insurance policy and remaining ₹ 3,00,000 from personal endowment policy.
- (3) Agricultural income represents foreign agricultural income ₹ 1,00,000 and balance from land at Patiala.
- (4) Rent paid represents rent for a bungalow occupied by owner for his residence.
- (5) Legal expenses are for:
 - (a) For personal legal suit ₹ 15,000.
 - (b) For business suits against customers ₹ 20,000.
- (6) Closing debtors amounted to ₹ 2,00,000 and RDD is created at 8%
- (7) One of the customer has claimed ₹ 1,00,000 as compensation for non delivery of goods and the case is sub-judice. Therefore 50% of contingent compensation is provided this year.
- (8) Out of sundry income ₹ 10,000 is directors fees received from MM Ltd and balance is for sale of old Raddi and empty packing materials.

Calculate Rehmat Patel's income from business for A.Y. 21-22.

Solution:

Name of Assessee – Mr. Rehmat Patel

Legal Status - Individual

Residential Status – R and OR

P.A.No.:

P/Y – 2020-21

A/Y – 2021-22

Computation of Business Income

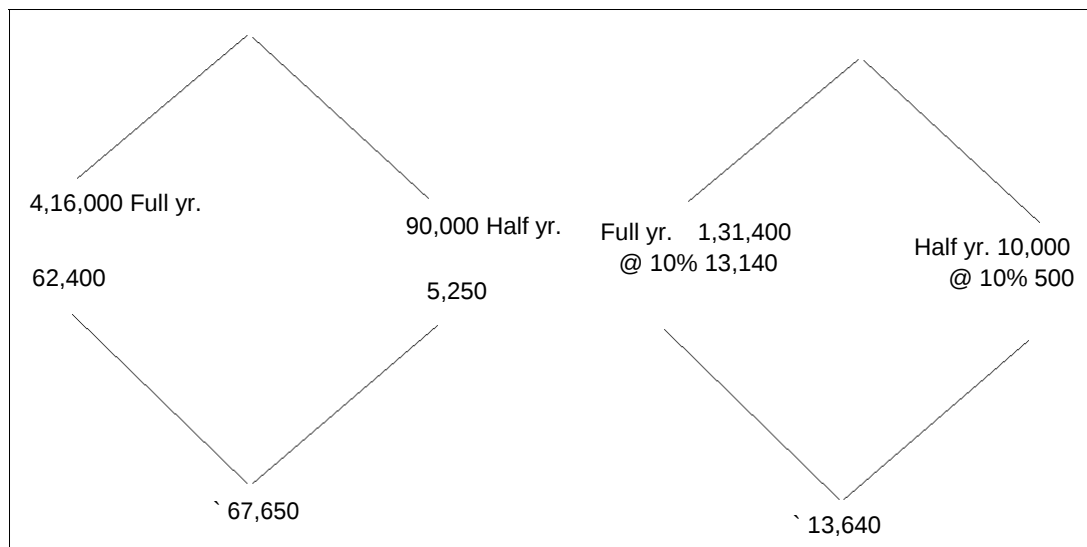
Particulars	`	`
Net profit as per P&L A/C		20,51,000
Add: Amount debited to P&L A/C not allowed		
Rent paid	1,20,000	
Legal expenses	15,000	
Salary to proprietor	29,000	
Bad debts and RDD	16,000	
Reserve for compensation	50,000	
Int. credited to Rehmat	<u>29,000</u>	2,59,000
Less: Amount credited to P&L not taxable as business income		
Gift Received	21,000	
Sundry Income	10,000	
Agriculture Income	1,35,000	
Share in profit from firm	45,000	
Dividend from MM ltd.	22,000	
LIC amount received	3,00,000	
Bad debt of 2010 disallowed earlier	14,000	
Bad debt of 2008 not allowed earlier	13,000	
Personal Bad debt recovered	1,00,000	
Income tax refund	1,00,000	
Int. on income tax refund	2,000	
Sales tax penalty refund	12,000	
Excise penalty refund	4,000	
I-tax penalty refund	<u>7,000</u>	<u>(7,85,000)</u>
Taxable Income from business		<u><u>15,25,000</u></u>

Illustration 10:

Following is the P and L A/c of Shri Gunjan for the year ending 31-03-21:

Particulars	`	Particulars	`
To Salary to staff	1,60,000	By Gross Profit	3,90,000
To Sundry Expenses	13,000	By Discount received	68,000
To Telephone and postage	6,000	By Bad debt recovered	12,000
To Transport charges	8,000	By Rent from Building Let out (8 months)	20,000
To Salary to proprietor	50,000	By Capital Gains	28,000

To Rent for business premises	17,000	By Sundry income from business	30,000
To R.D.D.	20,000	By Agricultural income	32,000
To Municipal tax on LOP	4,000	By Sales Tax Refund	10,000
To Legal Expenses	2,000		
To Interest on capital	60,000		
To Interest on Loan	22,000		
To Depreciation	16,000		
To Dis. Allowed to Customers	12,000		
To Donation	5,000		
To Electricity and Water	7,000		
To Bad debt	8,000		
To Net Profit	1,80,000		
Total	1,91,710	Total	1,91,710



Additional Information

(1) Fixed assets register disclosed following information:

(a) Opening WDV on 1-04-20

- Machinery ` 4,67,000
- Furniture ` 1,23,400
- Purchases

(b) Machinery:

- 20 April 19 ` 34,000

- 14 Oct 19` 40,000
- 3 Mar 20` 30,000

(c) Furniture:

- 30 Aug 19` 20,000
- 2 Oct 19` 10,000

(d) Disposals:

- On 20 Sep 19 One machinery was sold for ` 85,000
- On 20 Feb 20 One furniture was sold for ` 12,000

- (2) Interest on loan is for loan taken for acquisition of let out property.
 (3) Out of bad debt recovered only ` 10,000 belonged bad debts allowed earlier.
 (4) Sales tax refund includes sales tax penalty refund ` 2,000 and interest on such refund ` 700
 (5) Salary to staff includes salary paid to Gunjan's wife ` 30,000
 (6) Donation is given to University of Mumbai which is approved by UGC
 (7) Rate of depreciation on machinery 15% and Furniture 10%

You are required to calculate Income for the P.Y 20-21 relevant to A.Y. 21-22.

Solution:

Name of Assessee – Shri Gunjan

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Business Income

Particulars		
Net profit as per P&L A/C		1,80,000
Add: Amount debited to P&L A/C not allowed as business income		
Salary to proprietor	50,000	
R.D.D.	20,000	
Municipal tax on Lop	4,000	
Interest on capital	60,000	
Interest on Loan	22,000	
Depreciation	16,000	
Donation	<u>5,000</u>	1,77,000
Less: Amount credited to P&L A/C not taxable as business income		
Bad debt recovered	2,000	
Rent from bldg let out	20,000	
Capital Gains	28,000	

Agriculture income	32,000	
Sales tax Refund	<u>2,000</u>	(84,000)
Less: Dep. allowed as per Income Tax (WN1)		<u>(81,790)</u>
Taxable Income from business		<u><u>1,91,210</u></u>

W.N.1: Calculation of depreciation U/S 32

Particulars	Machinery 15%		Furniture 10%	
	H1	H2	H1	H2
Opening WDV	4,67,000	–	1,23,400	–
Add: Purchase	34,000	70,000	30,000	–
Less: Sale value	(85,000)	–	(12,000)	–
WDV for depreciation	4,16,000	70,000	1,41,400	–
Depreciation	62,400	5,250	14,140	–
Total depreciation	67,650		14,140	
Closing WDV	4,18,350		1,27,260	
Depreciation U/S 32	81,790			

Illustration 11:

Following is the receipts and payments of CA Mr. Ramesh for year ended 31-03-21.

Receipts	`	Payment	`
To Balance b/f	7,500	By Salaries	19,000
To Professional fees	1,57,000	By Telephone expenses	800
To Salary as a part-time lecturer in a college	19,000	By Subscription to ICAI	2,750
To Rent received from rented house	24,500	By Car Petrol	14,000
To Received from his father's HUF being his share	33,140	By Car Driver's Salary	24,000
To Prize received from Lions Club for best member of the year	6,000	By Purchase of motor car	1,40,000
To I-Tax consultation fee	23,000	By Advance tax	40,000
To Certification fee 2	4,000	By Personal drawings	62,500
To Mgmt consultation fee	33,000	By Office Expenses	8,290
To Audit Fee from KY LTD (TDS@ 5%)	47,500	By Exp. For rented house:	
		Municipal taxes	6,000
		Repairs	1,500

		Insurance of building	1,600
		Rent collection charges	2,2000
To Prize received as best member of ICAI	10,000	By car repairs and insurance	7,000
		By Interest on car loan	15,000
To Loan for car purchase	1,00,000	By Rent (office)	4,500
		By Donations	10,000
		By Balance c/f	1,25,500
Total	4,84,640	Total	4,84,640

Additional Information:

- (1) A third of car expenses are to be disallowed.
 (2) Depreciation on car allowable is ` 28,000 before adjusting for personal use.

You are asked to calculate his total income for A.Y. 21-22.

Solution:

Name of Assessee – CA Mr. Ramesh

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Professional Income**Particulars**

Professional income		
Professional fees	1,57,000	
Income-Tax consultation fees	23,000	
Certification fees	24,000	
Management consultation fees	33,000	
Audit fees [W.N1]	50,000	
Price recd as best member of ICAI	<u>10,000</u>	2,97,000
Less: Professional Expenses:		
Salaries	19,000	
Telephone expenses	800	
Rent (office)	4,500	
Subscription to ICAI	2,750	
Car Expenses	58,667	
Office Expenses	<u>8,290</u>	<u>(94,007)</u>
Taxable Income from profession		<u>2,02,993</u>

Illustration 12:

Following is the receipts and payments of Dr. Rajiv for the year ended 31-03-21.

Receipts	`	Payment	`
To Balance b/f		By Salaries	24,000
Cash-in-Hand 1,500			
Cash-with-bank 3,000	4,500		
To Consulting fees	4,08,100	By Bonus to staff	2,400
To Visit fees	14,500	By Printing and Stationery	3,600
To Gift from patients	40,000	By Rent of Clinic	12,000
To Rent from Subletting	95,000	By Electricity	11,150
To Fees from Air India	1,00,000	By Car Expenses	30,000
To Interest on bank FD (TDS ` 2,100)	17,900	By Int. on car loan	15,000
		By Drawings	48,000
		By Contribution to an app. College for Donation	8,000
		By Purchases	3,36,000
		By Misc. Expenses	2,850
		By Balance c/d Cash in Hand 54,000 Cash with Bank 1,00,000 FD with Bank 33,000	1,87,000
Total	6,80,000	Total	6,80,000

Additional Information:

- (1) **Purchases represent:** Medicines`50,000, Motor Car`2,56,000 and Books`30,000.
 (2) **Depreciation allowable:** Motor Car`25,600, Books`25,000 and Equipments`23,000, You are asked to calculate his professional income for A.Y. 21-22.

Solution:

Name of Assessee – Dr. Rajiv
 Legal Status - Individual
 Residential Status – R and OR

P.A.No.:
 P/Y – 2020-21
 A/Y – 2021-22

Computation of Professional Income

Particulars		
Professional Income		
Consulting fees	4,08,100	
Visit fees	14,500	
Gift from patients	40,000	
Fees from Air India	<u>1,00,000</u>	5,62,600
Less: Professional Expense:		
Salaries	24,000	
Bonus to staff	2,400	
Printing and Stationary	3,600	
Rent of clinic	12,000	
Electricity	11,150	
Car expenses	30,000	
Int. on car loan	15,000	
Purchase of Medicine	50,000	
Miscellaneous expenses	2,850	
Depreciation on car	25,600	
Book	25,000	
Equipments	<u>23,000</u>	<u>(2,24,600)</u>
Taxable Income from Profession		<u><u>3,38,000</u></u>

EXERCISE

Multiple Choice Questions

- Salary, bonus, commission or remuneration due to or received by a working partner from the firm is taxable under the head.
 - Income from salaries
 - Business Income
 - Other sources
 - None of the above
- Perquisite received by the assessee during the course of carrying on his business or profession is taxable under the head
 - Salary
 - Business/Professional Income
 - Other sources
 - None of the above
- Interest on capital or loan received by a partner from a firm is:
 - Exempt u/s 10 (2A)
 - Taxable as business and profession income

- (c) Taxable as income from other source.
 - (d) None of the above
4. Under the head Business or profession, the method of accounting which an assessee can follow shall be:
- (a) Mercantile system only (b) Cash system only
 - (c) Mercantile or cash system (d) Hybrid system
5. Export incentive received by an assessee is:
- (a) Exempt (b) Taxable as business income
 - (c) Exempt up to certain limits (d) None of the above
6. Manoj who was carrying on agency business, received a sum of ₹ 5,00,000 from his principle for termination of agency. Compensation so received shall be:
- (a) Exempt as it is capital receipt
 - (b) Fully taxable as business income
 - (c) Taxable as income from other sources
 - (d) None of the above
7. Depreciation is allowed in case of:
- (a) Tangible fixed assets only
 - (b) Intangible assets only
 - (c) Tangible and intangible assets
 - (d) Washing assets only
8. If the assets of a particular block is acquired and put to use during the previous year for less than 180 days, the assessee shall be entitled to depreciation:
- (a) At normal rate (b) At 50% of normal rate
 - (c) No depreciation is allowed (d) None of these
9. Which of the following tax is allowed as a deduction while computing the business income?
- (a) Wealth tax (b) Income tax
 - (c) Sales tax (d) None of the above
10. Where the amount of an expenditure claimed as deduction exceeds ₹ 10,000, it should be paid by:
- (a) Crossed cheque (b) Accounting payee cheque/draft
 - (c) Cash (d) None of these
11. Where the amount of expenditure claimed as deduction exceeds ₹ 10,000 and it is not made by account payee cheque/draft
- (a) 20% of such payment shall be disallowed
 - (b) 100% of such payment shall be disallowed
 - (c) 20% of the excess over ₹ 10,000 of such payment shall be disallowed
 - (d) None of the above

12. Expenditure incurred on family planning amongst the employee is allowed to:

- (a) Any assessee
- (b) A company assessee
- (c) An assessee which is a company or cooperative society
- (d) None of the above

(Ans: 1-c, 2-c, 3-a, 4-d, 5-b, 6-b, 7-a, 8-b, 9-c, 10-a, 11-b, 12-b)

Fill in the Blanks

1. Profit on sale of import license is taxed under the head_____.
2. Income of a business from trading business is ` 5,00,000 and his loss from speculative business is ` 1,00,000, during the same previous year. Net business income taxed during the previous year will be `_____.
3. Depreciation under Income Tax is charged at the prescribed rate on the written down value of the_____ (block of asset/individual assets)
4. If any asset is used for less than_____ days in the year of acquisition, the depreciation rate will be only 50% of the normal rate.
5. Discount on zero coupon bonds is deductible from business income on (pro-rata/accrued basis) basis.
6. Family planning expenditure of capital nature can be claimed by a company in _____ equal installments.
7. Advertisement in_____ souvenir is expressly disallowed while computing business income.
8. Remuneration paid by a firm to a _____ partner is disallowed while computing the income of the firm.
9. Expenses exceeding_____ paid in cash are disallowed.
10. Deduction for bonus or commission to employee is allowed only on_____ basis even if books of account are maintained on the mercantile basis.

(Ans: 1. Business, 2. 5,00,000/-, 3. Block of Asset, 4. 180, 5. Accrual basis, 6. Five, 7. Political, 8. Partner, 9. 10,000/-, 10. Paid)

Match the Columns

Column A	Column B
1. Compensation received on	(a) Set off against other income possible termination of agency during subsequent year.
2. Capital expenditure on repair of factory building.	(b) Business Income
3. Negative WDV of a Block of asset.	(c) No depreciation claim
4. Unabsorbed Depreciation	(d) Deductible as expenditure when paid
5. Bonus to employees.	(e) Not allowed as business deduction

(Ans: 1-b, 2-e, 3-c, 4-a, 5-d)

Column A	Column B
1. Interest on capital borrowed	(a) Deduction on payment/due basis
2. Discount on zero coupon bond	(b) Not deductible at all
3. Provision for Bad debt	(c) Deductible only on payment
4. Fees for technical service paid outside India	(d) Deductible on pro-rata basis
5. Interest on loan from any public financial institution	(e) Deductible if tax is deducted at source

(Ans: 1-b, 2-d, 3-b, 4-e, 5-a)

State whether True or False

- Salary, bonus, commission or remuneration due to received by a working partner from the firm is taxable under the head: Business and Profession.
- Perquisite received by the assessee during the course of carrying on his business or profession is taxable under the head: salary.
- Export incentives received by an assessee are exempt.
- Income of trade or profession association from specific service performed for its members shall be taxable under the head: income from other sources.
- Interest on capital received by a partner from firm shall be exempt u/s 10(2A).
- Under the head Business and Profession, the method of accounting which an assessee can follow shall be cash system only.
- Any sum received by an employer from keyman insurance policy taken on the life of the employee shall be exempt.
- M, who was carrying on agency business, received a sum of ` 10,00,000 from his principle for termination of agency. Compensation amount so received shall be exempt as it is capital receipt.
- Where the machinery is used by the assessee for the purpose of carrying on business and profession, he shall be entitled to deduction under Section 31 on account of any type of repairs of the machinery.
- Depreciation is allowed in case of tangible assets only.
- If the asset of a particular block is acquired and put to use as on 1-11-2019, the assessee shall be entitled to depreciation for the proportionate period of 5 month upto 31-3-2020.
- Mahesh acquired an asset for ` 25,00,000 which included ` 5,00,000 as excise duty for which the assessee has claimed CENVAT Credit. The actual cost of acquisition to be included in the block of asset shall be ` 25,00,000.
- Unabsorbed depreciation which could not be set off in the same assessment year, can be carried forward indefinitely.
- Expenditure incurred on acquisition of patents and copyright after 31-3- 2018 is subject to depreciation under Section 32.

15. Lump sum payment for acquisition of technical knows after 31-3-2018 shall be subject to deduction in 3 equal installments.
16. Interest incurred before the commencement of the production is to be treated as revenue expenditure.
17. Expenditure incurred on purchase of chickens to be used by the assessee for the purpose of carrying on his poultry business can be deducted in the previous year 2018-19, when all chickens were killed, due to bird-flu.
18. Expenditure incurred on family planning amongst the employees is allowed to any assessee.
19. Capital expenditure incurred on family planning amongst the employees of the company assessee is allowed as deduction in 10 equal installments.
20. Deduction under Section 37(1) shall be allowed even of those expenditure which are of capital nature if used for the purpose of business.
21. Deduction under Section 40(b) shall be allowed on account of salary/remuneration paid to any partner.
22. Interest on capital of or loan from partner of a firm is allowed as deduction to the firm @ 12%.
23. A Firm's business income is nil/negative. It shall not be allowed any deduction on account of remuneration to working partner.
24. Wealth Tax is subject to provision of section 43B.

(Ans: True: 1, 2, 3, 8, 9, 10, 11, 13)

Practical Questions

1. Mr Prabhakaran furnishes the following information for computing his income from business.

Profit and Loss Account for the year ended 31st March, 2021

Particulars	`	Particulars	`
To Office expenses	78,000	By Gross Profit	3,70,000
To Telephone deposit (OYT scheme)	8,000	By Sales - tax refund	10,000
To Staff health insurance (paid in cash)	1,500		
To Salary	35,000		
To Depreciation	9,500		
To Traveling	2,000		
To Loss of cash by theft	1,200		
To Expenses on Diwali	800		
To Interest	4,000		
To Net Profit	2,40,000		
Total	25,5,700	Total	25,5,700

Other information:

- (a) Salary includes ` 10,800 paid to Mr. Balan out of India on which no tax has been deducted at source.
- (b) Depreciation vide Income-tax Rules: ` 10,000.
- (c) Traveling expenses allowable ` 1,100.
- (d) Interest includes ` 3,000 paid to Ms. Jaya out of India on which no tax has been deducted at source.

(Ans: 2,55,200/-)

2. Satyajit furnishes the following Profit and Loss Account for the year ended 31st March, 2021.

Particulars	`	Particulars	`
To Salary	28,000	By Gross profit	1,90,000
To General expenses	3,000	By Interest	6,000
To Reserve for bad debts	1,500	By Dividends	4,000
To Patents acquired (1-4-2019)	21,000		
To Cost of know how (1-4-2019)	6,000		
To Depreciation on building	6,500		
Building Extension (1-10-2019)	40,000		
To Rent	6,000		
To Printing and Stationery	4,000		
To Conveyance	3,000		
To Sales- Tax	7,000		
To Net Profit	74,000		
Total	2,00,000		2,00,000

Further Information:

- (a) Depreciation on building as per Income - tax Rules is ` 4,000.
- (b) Salary includes payment to Charulata, a relative, of ` 10,000, which is excessive to the extent of ` 6,000.
- (c) Income-tax Rules prescribe depreciation on intangible assets @ 25%. **(Ans: 1,40,250/-)**

3. From the Profit and Loss Account of Hum - Tum Traders, a proprietary concern, for the year ending March 31, 2020, compute the taxable income from business for the A/Y 2021-22.

Particulars	`	Particulars	`
To Salaries	36,000	By Gross profits	96,000
To Rent	12,000	By Dividends	5,000
To Power and Water	2,200	By Profit on sale of Shares	20,000
To Rates and taxes	2,500		

To Car expenses	9,000		
To Entertainment	3,000		
To Repairs	6,000		
To Depreciation	8,000		
To Trade expenses	6,500		
To Legal expenses	3,500		
To Net Profit	32,300		
Total	50,900	Total	50,900

Other particulars:

- (a) Salaries include ` 12,000 to the proprietor.
- (b) Rent includes ` 6,000 paid to the proprietor for his premises occupied by the concern.
- (c) Car expenses include ` 3,600 conveyance allowance paid to the proprietor.
- (d) Trade expenses include:
- Donation for charity ` 1,500
 - Diwali pooja expenses ` 1,000.
- (5) Legal charges include ` 500 litigation expenses in connection with the proprietor's personal property.
- (Ans: 31,900/-)**

4. The following is the Profit and Loss A/c of Dhandapani for the year ending 31st March, 2021.

Particulars	`	Particulars	`
To Opening Stock	15,000	By Sales	80,000
To Purchases	40,000	By Closing Stock	20,000
To Wages	20,000	By Gift from father	10,000
To Rent	6,000	By Sale of Jewellery	17,000
To Repairs of car	3,000	By Income - tax refund	3,000
To Wealth tax	2,000		
To Medical expenses	3,000		
To General expenses	10,000		
To Depreciation - car as per IT Rules	4,000		
To Income tax paid	1,000		
To Profit for the year	26,000		
Total	20,000	Total	20,000

Further Information:

- (a) Mr Dhandapani carries on his business from rented premises half of which is used as his residence.
- (b) The use of car was 3/4 for business and 1/4 for personal use.
- (c) Medical expenses were incurred for treatment during Mr. Dhandapani's sickness.
- (d) Wages include ₹ 250 per month for driver of car for 10 months. Compute his income from business. **(Ans: 7,375/-)**

Q.5. From the following Profit and Loss Account of X for the year ending 31st March, 2021 compute his business income:

Particulars	₹	Particulars	₹
To Office Salaries	15,000	By Gross Profit	1,30,000
To General Expenses	8,500	By Interest on bank Deposits	4,100
To Interest on Capital of X	3,000	By Interest on company Deposits	7,600
To Bad Debt Reserve	5,000	By Refund of Income Tax for A.Y. 2020-21	1,000
To Depreciation	15,000		
To Advertisement	9,000		
To Fire Insurance Premium	1,200		
To Donation	5,000		
To Advance Income Tax	4,000		
To Sales Tax paid	5,000		
To Income Tax for 2020-21	3,000		
To Net Profit	69,000		
Total	89,300	Total	89,300

Following additional information is given:

- (a) Allowable depreciation was ₹ 10,000.
- (b) General Expenses include furniture purchased worth ₹ 2,500.
- (c) Office salaries include salaries paid to Mrs. X ₹ 3,000 Mrs. X ₹ 6,000 B.Com. Writes the accounts of business.
- (d) Advertisements include ₹ 2,500 for the advertisement in souvenir of a political party.

(Ans: 86,300/-)

6. Mr. Sunny owns a soap factory at Pune Following is the Profit and Loss Account prepared by him for the accounting year 2020-21.

Particulars	`	Particulars	`
To Sales Tax (incurred during year)	2,000	By Gross Profit	75,000
To Advertising	5,000	By House Property Income	5,000
To Bonus	8,000		
To Commission	2,000		
To Depreciation	6,000		
To Donation to National			
Defence Fund	1,000		
To Embezzlement by an employee	2,000		
To General Expenses	5,000		
To Salary to Staff	10,000		
To Office Expenses	5,000		
To Discount to Retailer	3,000		
To Sundry Expenses	5,000		
To Net Profit			26,000
Total	80,000	Total	80,000

Compute his business income for the assessment year 2021-22. Further particulars:

- Sales tax paid during the year was ` 400. Total bonus paid during the year was ` 8,000 debited in the books and ` 11,000 provided for in preceding year but paid in the current year.
- Office expenses include ` 1,050 paid as bribe.
- General expenses include ` 1,000 being the municipal taxes in respect of house property.

(Ans: 24,050/-)

7. Alok furnishes the following Trading, Profit and Loss Account for the previous year ending 31st March 2021.

Particulars	`	Particulars	`
To Stock	2,40,000	By Sales	19,76,900
To Purchases	16,60,000	By Stock	4,60,000
To Freight and duty	50,000		
To Manufacturing wages	1,20,000		
To Rent, rates and taxes	45,000		
To Depreciation	48,000		
To Gross Profit	2,73,900		
	24,36,900		24,36,900
To Office Salaries	66,000	By Gross Profit B/d	2,73,900
To Interest on capital	12,000	By Rent of staff quarters	19,000

To Bad debts	9,000	By Refund of income tax penalty	1,100
To Income-tax	11,000	By Sundry receipts	35,000
To Expenses of income-tax case	16,000	By Recovery of bad debts, not allowed to be deducted in earlier years	6,000
To Diwali expenses	3,000	By Sale price of an old machinery	25,000
To Legal expenses	6,000		
To Medical expenses of A in the Govt. hospital	11,000		
To Staff welfare expenses	4,000		
To Repairs of staff quarters	11,000		
To Security deposit for OYT	15,000		
To Advance against bonus to employees	30,000		
To Sales Tax and excise duty	40,000		
To Donation	14,000		
To General reserve	11,000		
To Entertainment expenses	11,000		
To Net Profit	90,000		
Total	3,60,000	Total	3,60,000

You are required to compute the taxable profits from business after taking the following into consideration:

- Purchases include a purchase of ₹ 28,000, whose payment was made by a bearer cheque.
- Office salaries include ₹ 18,000 paid to the proprietor of the business.
- Diwali expenses include gifts of ₹ 1,500 made to relatives.
- The written down value of the block consisting of machinery as on 1-4-2019 is ₹ 80,000.
- The written down value of the block consisting of factory building as on 1-4-2019 ₹ 1,20,000. An addition was made to building on 1-8-2019 at a cost of ₹ 40,000. The newly added building was destroyed by fire and the insurance company paid ₹ 41,000 as insurance compensation.
- Out of amount debited, Sales Tax and excise duty, amounting to ₹ 30,000 was paid on 25-4-2020.
- Municipal tax was due on 31-3-2020.
- Rates of depreciation are as follows: Machinery 25%, Factory Building 10%.

(Ans: 1,76,400/-)

8. Following is the P and L A/c of Mr. Amar for the year ended 31st March, 2020. You are required to ascertain his Gross Total Income chargeable to tax for the assessment year 2021-22:

Profit and Loss A/c for the year ended 31st March, 2020

Particulars	`	Particulars	`
To Salaries	62,000	By Gross Profit	3,19,000
To Conveyance and Traveling	12,355	By Rent from House Property	1,20,000
To Guest House Expenses	14,645	By Dividend from Indian Companies	28,000
To Entertainment Expenses	13,000		
To Reserve for Bad Debts	12,500		
To Interest on Capital	23,000		
To Provision for Depreciation	35,500		
To Life Insurance Premium	17,000		
To Repairs to House Property	25,000		
To Municipal Tax (House Property)	30,000		
To Gifts to Staff	14,000		
To Net Profit	2,08,000		
Total	1,10,500	Total	1,10,500

Inadvertently following expenses were not recorded:

- Telephone expenses ` 24,500.
- Electricity expenses ` 32,500.
- It has been mentioned that salary of ` 14,000 has been paid to Mr. Ajit, son of Mr. Amar He served as a clerk. Salary has been considered reasonable. **(Ans: 24,050/-)**

9. Mr. Vishram is the owner of lodge, viz. "VISHRAM DHAM". Following is his Profit & Loss A/c for the period 31-3-2021. Compute his taxable income from business.

Particulars	`	Particulars	`
To Boarding Expenses (Food etc.)	2,26,750	By Lodging Charges	6,85,000
To Salary to Staff	2,42,000	By Boarding Charges	3,40,000
To Bonus to Staff	44,200	By Recovery of Incidental charges from customers	75,000
To Interest on Capital	1,03,800		
To Depreciation on:			
Motor Car 21,800			
Building 33,000			
Furniture 11,200			
Crockeries 22,000	88,000		
To Fire Insurance Premium	11,250		
To Telephone Expenses	32,750		

To Repairs and Maintenance	68,000		
To Fees to Association of Tourism	10,750		
To Extension of Building	30,000		
To Net Profit	2,42,500		
Total	3,88,100	Total	3,88,100

Depreciation on Building, Motor Car, Furniture and Crockeries is ascertained ` 90,000 as per the provisions under the Income Tax Act. Salary to staff includes ` 2,000 paid for meeting personal expenses of the employee. ` 11,800 interest paid on loan has been wrongly included under the head Boarding expenses (Food etc.). (Ans: 3,76,300/-)

10. Following is the Account of receipts and payments of Dr. Doshi of "MANAS CLINIC" for the year ended 31st March, 2021.

Receipts and Payments A/c for the year ended 31st March, 2021

Particulars	`	Particulars	`
To Balance B/f		By Salaries	44,000
Cash-in-Hand 1,500		By Bonus to staff	4,400
Cash with Bank 3,000	4,500	By Printing and Stationery	13,600
To Consulting Fees	1,85,000	By Rent of Clinic paid to wife	12,000
To Visit fees	14,500	By Electricity	11,150
To Gift from patients	6,000	By Car expenses	30,000
To Winnings from horse races	10,000	By Drawings	48,000
To Amount received under		By Donations	18,000
Keyman Insurance Policy	30,000	By Purchase of equipments	12,000
By Misc. Expenses	12,000	By Balance C/d	
Cash-in Hand 2,600			
Cash with Bank 42,250	44,850		
Total	2,50,000	Total	2,50,000

- ` 6,000 is considered as a reasonable rent of the clinic.
- Miscellaneous expenses are incurred for personal purposes.
- Donations are eligible for deduction u/s 80G.
- Half of the car expenses are for personal use.
- Depreciation allowable according to Income-tax Act is ` 4,000.

Compute income from business or profession of Dr. Doshi for the assessment year 2021-22

(Ans: 1,23,350/-)

"The history of the world is the history of a few people who had faith in themselves"

– Swami Vivekanand



6 Chapter

CAPITAL GAINS *[Sections 45-55]*

Introduction

“Capital Gain” is a part of the Taxable Income. It is not an income in general sense as Capital Gains is the profit earned on sale of capital assets or an investment. Capital Gain in fact is brought total net by the deeming fiction created u/s 2(24)(vi) while defining the term Income.

Thus, for capital gains, the discussion begins with the definition of capital asset and transfer and Profit and Loss from such transfer, then the various circumstances under which capital gains tax is levied are enumerated. There are certain transactions, which are not to be regarded as transfer for the purposes of capital gains. These transactions have also been discussed in this unit. For computing long-term capital gains, knowledge of cost inflation index is necessary. Again, there is a separate method of computation of capital gains in respect of depreciable assets. Also, there are exemptions from capital gains under certain circumstances. All these are discussed in this unit. Section 45 provides that any profits or gains arising from the transfer of a capital asset is to be charged as capital gain.

Basis of Charge [u/s 45]

Normally, only revenue receipts are taxed. As an exception to this normal rule, gain arising from sale of capital assets is subject to tax. Capital gains mean any profits or gains arising from the transfer of a capital asset. Such gains are taxed under the head ‘Capital gains’ in the previous year in which the transfer of the capital asset takes place. Thus, income is charged under the head ‘Capital gains’, if the following conditions are satisfied:

- (1) There should be a ‘capital assets’.
- (2) There should be a ‘transfer’ of such capital assets.
- (3) Such transfer should take place in the ‘previous year’.
- (4) There should be profit/loss or gains.

There Must be a Capital Asset Includes Any Property [u/s 2(14)]

“Capital assets” is the property of any kind, held by the assessee, whether or not connected with this business or profession. ‘Property’ may be fixed or circulation, movable or immovable and tangible or intangible. Land, building, vehicles, goodwill, leasehold rights, licenses, patent, trademarks etc. are some of the examples of capital assets.

Excludes Specific Assets

The following are the assets, however, excluded from the definition of “capital assets”:

- (1) Any stock in trade, consumable stores or raw material held for the purpose of business or profession. (whose sale is taxed as profits from business).
- (2) Personal effects of the assessee, i.e.,
 - (a) Movable property, including wearing apparel and furniture;

- (b) Held for his personal use or for the use of any member of his family dependent upon him.
- (c) Excluding jewellery, ornaments of gold, silver, platinum or any precious metal (even if worked or sewed into any wearing apparel); precious or semi-precious stones; archaeological collections; drawings; paintings; sculpture or any work of art.
[Jewellery includes, "Ornaments made up of gold, silver, platinum or any other precious metal, whether or not containing any semi-precious stone, and whether or not worked or sewn into any wearing apparels.
It also include precious or semi-precious stones, whether or not containing any furniture, utensil or article worked or sewn into wearing apparel.]
- (3) Agricultural land in India which is not situated in an urban area, i.e.,
 - (a) In any area within the jurisdiction of a municipality or a cantonment board having a population of 10000 or more; or
 - (b) In any notified area, within 8 kilometers of an area in 3(a) above.
- (4) 6½ per cent gold Bonds, 1977 or 7 per cent gold bonds, 1980 or National Defence Gold Bonds, 1980 issued by the Central Government.
- (5) Special Bearer Bonds, 1991.
- (6) Gold Deposit Bonds Issued under the Gold Deposit Scheme, 1999.

Concept Tester 1: State whether following are capital assets; giving reasons:

- (1) Washing machine used in house.
- (2) Gold coins used for Puja of goddess Laxmi in Puja room in the house.
- (3) Silver utensils used in the kitchen or dining room.
- (4) Self-occupied house property.
- (5) Agriculture land situated in Nepal.

Solution:

- (1) No, as washing machine used in house is a 'personal effect'.
- (2) Yes, as gold coins used for pooja cannot be called a 'personal effect'. (not connected with the 'person' or the assessee)
- (3) No, as these are utensils for personal use and not ornaments though made of silver.
- (4) Yes, as the house is not a 'movable property' and hence not a personal effect.
- (5) Yes, as the agricultural land is situated outside India.

Concept Tester 2: Whether the following are capital assets within the definition of Section 2(14)?

- | | |
|-----------------------------|------------------------------------|
| (1) Goodwill of a business | (2) A self-occupied house property |
| (3) Personal car | (4) Utensils |
| (5) Vacant land | (6) Gems and jewellery |
| (7) Shares of Reliance Ltd. | (8) Debentures of Satyam Ltd. |

Solution:

- | | |
|-------------------------------|---------------------------|
| (1) Yes (includes intangible) | (2) Yes (immovable) |
| (3) No (movable, personal) | (4) No (personal) |
| (5) Yes | (6) Yes (vide definition) |
| (7) Yes | (8) Yes |

Definition of Transfer

Capital gains or losses arise only when a capital assets is transferred in the previous year. Hence, it is necessary to understand the term, transfer. The word 'transfer' implies both. A transfer by act of both the parties and a transfer by operation of law. As per Section 2(47), transfer in relation to capital assets includes:

- (1) The sale, exchange or relinquishment or the assets;
- (2) The extinguishment of any right therein;
- (3) The compulsory acquisition thereof under any law;
- (4) The conversion of a capital assets by the owner thereof into stock-in-trade of a business carried on by him;
- (5) Any transaction involving the allowing of the possession of any immovable property to be taken or retained in part performance of a contract of the nature referred to in Section 52A of the Transfer of Property Act, 1882;
- (6) Any property which has the effect of transferring or enabling the enjoyment of any immovable property (by becoming a member of, or acquiring shares in co-operative society, company or other association of person or by way of agreement or in any other manner whatsoever);
- (7) Maturity or redemption of a Zero Coupon Bond.

Transaction Treated as Transfer [u/s 2(47)]

- (1) **Sale/exchange/relinquishment:** Sale means transfer of ownership in exchange for a price. Exchange is a transfer in kind, i.e., a mutual transfer of ownership of one asset for the ownership of another by two persons. Relinquishment means giving up, abandoning or surrendering. For example, transfer of building by Mr. X to Mr. Y who in turn transfer his machinery to Mr. X; or conversion of debenture into preference shares. Though there may be only one transfer by way of exchange, capital gains may arise to both the parties. Relinquishments mean giving up or abandoning of capital assets. Examples are surrender of tenancy rights; surrender of share by co-owner; renouncement of entitlement to rights shares, etc.
- (2) **Extinguishments:** Extinguishment means termination, extinctions; thus, amount received on maturity of fixed deposit with bank; amount paid by company to shareholder on reduction of share capital or redemption of preference shares are examples of such extinguishment.
- (3) **Compulsory acquisition:** Actually, transfer of asset is voluntary. However, as an exception, compulsory acquisition under a law is treated as a transfer. Acquisition of immovable property under Land Acquisition Act; nationalisation of industrial undertaking, etc. are some examples. Compulsory acquisition under a law is treated as a transfer, e.g., acquisition of immovable property under Land Acquisition Act.
- (4) **Conversion into stock:** Conversion of capital asset into stock-in-trade is treated as a transfer. Thus, if an investor in shares starts a business of dealing in shares and treats his existing share investment as a stock-in-trade of the new business, such conversion is treated as a transfer.
- (5) Any transaction involving the allowing of the possession of an immovable property to be taken or retained in part performance of a contract of the nature referred u/s 53A of the Transfer of Property Act, 1882.
- (6) Any transaction whether by way of acquiring shares or member of co-operative society, company, AOP enabling any immovable property.
- (7) **Part performance into contract:** Normally, transfer of a immovable property is complete only on registration of the conveyance deed. Giving possession to the purchaser of the immovable property

against the full payment of the purchase price is only a part performance of the contract. Still such part performance is treated as full-fledged transfer and the gains are brought to tax.

- (8) **Flats in co-operative societies:** Flats in a group housing scheme are owned by a co-operative societies and allotted to individual members for occupation. On sale of flat, only the right of occupation is transferred.
- (9) **Zero coupon bonds:** According to Section 2(48), Zero coupon bond means a bond issued by any infrastructure capital company or infrastructure capital fund or public sector company on or after 1-6-2005 and notified by the Central Government. No payment or benefit is receivable on such bonds before maturity or redemption.

Computing Period of Holding [u/s 2(42A)]

The period of holding of the asset is to be computed from the date of acquisition to the date immediately preceding its transfer. However, Section 2(42A) lays down the provisions for determining the period for which any capital asset is held by the assessee:

- (1) In case of the shares held in a company in liquidation, the period subsequent to the date on which the company goes into liquidation should be excluded from period of holding.
- (2) In the case of the capital asset which becomes the property of the assessee in the circumstances mentioned in Section 49(1) (e.g. gift, will, etc.), the period for which the asset was held by the previous owner should be included in the period of holding the capital assets in the hands of assessee.
- (3) In the case of the share in the Indian company which becomes the property of the assessee in the scheme of amalgamation, the period for which the share in the amalgamating company was held by the assessee should be included.
- (4) In the case of a capital asset being a share or shares in an Indian Company, which becomes the property of the assessee in consideration of a demerger, the period of holding of shares in the demerged company shall be included in the total period of holding of shares in the resulting company by the assessee.
- (5) In case of the capital asset being:
 - (a) Trading or clearing rights of recognized stock exchange in India acquired or
 - (b) Equity shares or share in the company allotted by a person pursuant to demutualization or corporatization of the recognized stock exchange in India there shall be included by calculating the period for holding of trading or clearing rights, the period for which the person was a member of the recognized stock exchange in India immediately prior to such demutualization or corporatization. This provision makes the process of demutualization and corporatization of stock exchanges tax neutral.
- (6) In case of a capital asset, being any specified security or sweat equity shares, allotted to transfer directly or indirectly, by the employer free of cost or at concessional rate to his employees, the period shall be counted from the date of allotment or transfer of such specified security or sweat equity shares.

Date of Transfer – Why Important?

The date of transfer on which the asset is transferred is important, because:

- (a) It determines the previous year in which the gains are taxed as income, and
- (b) It determines whether the gains are short-term or long-term.

Date of Transfer Determines the Previous Year

Normally, capital gains are taxed in the year in which the transfer takes place. The year in which the consideration is received is not important. The previous year of transfer is the previous year in which the gains from such transfer are taxed under the head 'capital gains'.

Short-term Capital Assets [u/s 2(42A)]

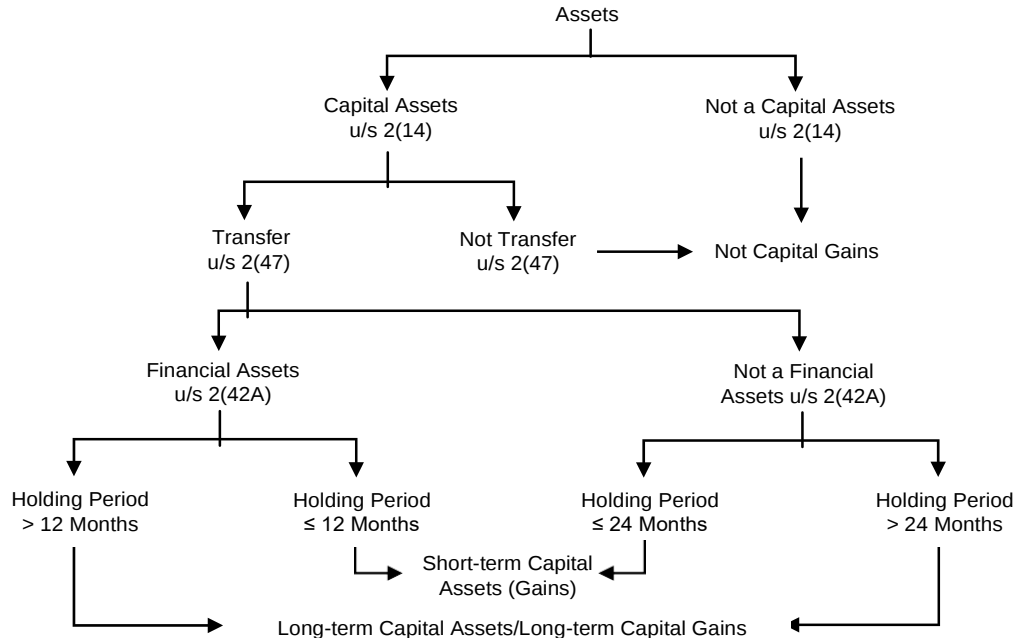
Capital assets are divided into two types – short-term assets and long-term assets. Normally, “short-term capital assets” means capital assets held by an assessee for not more than 24 months immediately prior to its date of transfer. However, in the following cases, an asset held for not more than 12 months, is treated as short-term capital asset.

- (1) Equity or preference shares in a company (whether the shares are quoted or not).
- (2) Securities (like debentures, Government securities) listed on a recognized stock exchange in India.
- (3) Units of Unit Trust of India (whether quoted or not).
- (4) Unit of mutual funds specified under Section 10(230) (whether quoted or not).
- (5) Zero Coupon Bond.

Long-term Capital Assets [u/s 2(29A)]

An asset other than short-term capital asset is regarded as long-term capital asset. Thus, shares/securities/units held for more than 12 months or any other asset held for more than 24 months are long-term assets. Gains from transfer of long-term capital assets give rise to long-term capital gains.

Chargeability of Capital Gain



Concept Tester 3: Classify the gains arising from the following into short-term capital gains and long-term capital gains:

- (1) Mr. Arvind purchases a building on 1-1-2018 and sells it on 1-1-2021.
- (2) Mr. Arvind purchases a building on 1-1-2020 and sells it on 1-1-2021.
- (3) Mr. Arvind acquires shares on 1-5-2019 and sells them on 1-3-2020.
- (4) Mr. Arvind acquires shares of UTI on 1-5-2018 and sells them on 1-4-2020.

Solution:

- (1) Long-term capital gains; as the capital asset is held for more than 24 months.
- (2) Short-term capital gains; as the capital asset is held for less than 24 months.
- (3) Short-term capital gains; as the shares were held for less than 12 months.
- (4) Long-term capital gains; as the units were held for more than 12 months.

Concept Tester 4: An assessee acquired a house property on 27-11-2019 and sold it on 25-11-2020. Ascertain whether the asset will be treated as a long-term or short-term capital asset?

Solution:

The period of holding will be:

27-11-2019 to 26-10-2020	12 months
27-10-2020 to 24-11-2020	29 days
Total period of holding	12 months 29 days

Since the period of holding is less than 24 months, the house property will be treated as short-term capital asset.

Computation of Capital Gains [u/s 48]

The method of computation of Capital Gain is provided u/s 48. Capital Gain is computed as “Short-term Capital gain” and “Long-term Capital gain” depending upon the period of holding Capital Asset.

Worksheet: Computation of Short-term Capital Gains

The method of computing of Short-term Capital Gain involves the following steps:

- (1) Find out the full value of consideration received or accruing as a result of transfer of Capital Asset.
- (2) Deduct from the ‘Full Value of Consideration’ so arrived,
 - (a) Expenditure incurred in connection with transfer of Capital Asset,
 - (b) Cost of acquisition of the Asset, and
 - (c) Cost of improvement of the Asset.
- (3) The balance is the taxable short-term capital gain or loss.

Step	What is to be Computed?	Amount (`)
1	Full Value of Consideration	xx
2	Less: Transfer expenses	(xx)
3	Less: Cost of Acquisition	(xx)
4	Less: Expenses on Acquisition	(xx)
5	Less: Cost of Improvement	(xx)
6	Short-term Capital Gains	xxx

Full Value of Consideration [u/s 45]

The starting point for computation of Capital Gains u/s 45 is the full value of consideration received or accruing as a result of transfer of the Capital Asset.

Thus, the consideration for transfer of Capital Asset is what the transferor receives in lieu of the asset transferred, i.e., money or money's worth, and the term 'full value of consideration' used in Section 45, deals with not only sale but also with other types of transfer such as exchange, where consideration is other than money. Thus, where the consideration of transfer is in kind, or partly in cash and partly in kind, the fair market value of the property received in exchange, as on date of exchange shall be deemed to be the value of consideration received.

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

- (1) **Damage/Destruction of Capital Asset [u/s 45(1A)]:** Any value of money or the fair market value of the asset received from the insurer, as insurance compensation shall be deemed to be the full value of consideration of the capital asset.
- (2) **Conversion of Asset into Stock-in-trade [u/s 45(2)]:** The fair market value of the asset on the date of such conversion or treatment shall be deemed to be the full value consideration.
- (3) **Transfer of Asset by a Partner to the Firm/BOI/AOP [u/s 45(3)]:** The value of the asset recorded in the books of accounts of the firm/BOI/AOP on the date of such transfer shall be deemed to be full value of consideration.
- (4) **Distribution of Assets on Dissolution of the Firm/BOI/AOP [u/s 45(4)]:** The fair market value of the capital asset on the date of such distribution shall be deemed to be the full value of consideration.
- (5) **Compulsory Acquisition [u/s 45(5)]:** The amount of compensation received as determined by Central Government or RBI and the enhanced compensation received subsequently shall be treated as full value of consideration. However, the cost of acquisition for enhanced compensation as determined by the Court would be treated as NIL.
- (6) **Repurchase of Mutual Fund Units referred in Section 80CCB:** The difference between the repurchase price of units and the capital value shall be deemed to be the Capital Gain.

Consideration Received/Receivable

"Consideration" means the value received for the transfer. The value received may be money or money's worth. Consideration may be received immediately; or may be payable after some time; or even in installments over many years. The entire consideration, received or receivable, is taken into account for computing capital gains in the year of transfer itself. Thus, capital gains are taxed on accrual basis and not on cash basis, irrespective of the assessee's method of accounting.

Full Value

"Full Value" means the "whole" entire or complete value". It may not be the adequate price or market price. It shows, without any deductions, the gross consideration for the transfer of the capital asset, i.e., what the transferor receives in lieu of the asset he gives up.

Employees Stock Option Plan (ESOP)

Where shares, debentures or warrants are allotted by a company directly or indirectly, to its employees under Employees Stock Option Plan or Scheme, and such shares are transferred by the employee by way of gift, the market value on the date of such transfer shall be deemed to be the full value of the consideration received or accruing as the result of transfer.

Expenditure on Transfer [Section 48]

The first item which is required to be deducted from full value of consideration is the expenditure incurred wholly and exclusively in connection with the transfer of Capital Assets, so as to arrive at the taxable capital gain.

- (1) Expenditure incurred by the transferor wholly or exclusively in connection with the transfer of a capital asset can be deducted from full value of consideration.
- (2) The words “expenditure incurred wholly and exclusively in connection with such transfer” mean expenditure which is necessary to effect the transfer, e.g., brokerage or commission paid for securing a purchaser; cost of stamp, registration fees borne by the vendor; travelling expenses incurred in connection with transfer, etc.
- (3) However, expenditure already claimed as deduction under other heads, is not deductible.

Actual Cost of Acquisition [Section 55(2)]

Cost of acquisition of an asset is the value for which the asset was acquired by the assessee. Expenses of capital nature for completing or acquiring the titles to the property are the part of the cost of acquisition.

Following are treated as acquisition expenses:

- (1) Interest on moneys borrowed to purchase asset is part of actual cost of asset.
- (2) Litigation expenses incurred for compelling the company to register the shares in the name of the assessee would be of capital nature, forming a part of the cost of acquisition of the shares.

Following are not treated as cost of acquisition:

- (1) Ground rent cannot be said to be expenditure incurred by the assessee for the acquisition of the capital asset.
- (2) Estate duty paid in respect of inherited property can neither be treated as a part of the cost of acquisition of property nor as cost of improvement.

Cost of Improvement

It is an expenditure incurred by the assessee which of capital nature such expenditure may be for addition or alteration of capital assets after the date of acquisition.

Cost of improvement is defined as follows:

- (1) Cost of improvement in relation to goodwill of a business or a right to manufacture, produce or process any article or thing is taken to be nil.
- (2) Cost of improvement in relation to any other capital asset means all expenses of capital nature incurred in making any addition/alteration to the capital assets by the assessee [or the previous owner in cases specified in Section 49(1)].

Excludes

Cost of improvement does not, however, include the following:

- (1) Any expenditure which is deductible in computing the income chargeable under any other heads; and
- (2) Expenditure incurred prior to April 1, 2001 (where the capital assets become the property of the assessee or the previous owner before April 1, 2001 irrespective of whether the assessee opts for treating the fair market value as on 1-4-2001 as his cost of acquisition or not).

Examples

- (1) Cost of improvement includes any expenditure incurred to protect, cure or complete the title to the capital assets. In other words, any expenditure incurred to increase the value of the capital asset is treated as cost of improvement. In the case of investment in shares, expenses incurred in getting title to the shares secured, perfected or complete indicate the cost of improvement of the assets.
- (2) Expenditure incurred in legal proceeding in a civil court for enhancement of compensation in the case of compulsory acquisition is taken as cost of improvement.

Illustration 1: Mr. Manoj is a member of MGA HUF. The HUF purchased a flat for ₹ 90,000 on 1st April 2020. There was a complete partition of the HUF on 1st November 2018 and the flat was allotted to Manoj. Manoj sold the flat on 15th March 2021 for ₹ 1,70,000. Determine the amount of chargeable capital gains in the case of Manoj.

Solution:

Name of Assessee: Mr. Manoj		
Legal Status: Individual		
P/Y: 2020-21	Residential Status: R&OR	A/Y: 2021-22
Particulars		₹
Sale consideration		1,70,000
Less: Cost of acquisition		(90,000)
Short-term Capital Gain		80,000

Note: Since flat was acquired in one of the circumstances mentioned in Section 49(1), cost of the previous owner (HUF) is taken as cost of acquisition. The period of holding (1st April 2020 - 15th March 2021) is less than 24 months and hence these are short-term gains.

Illustration 2: Mr. Rahul purchased residential flat on 2nd May 2020 for ₹ 10,00,000. He paid on the same day the stamp duty and registration charges of ₹ 48,750 on purchase of flat. He sold the said flat on 17th April 2021 for ₹ 12,00,000. The cost inflation index for financial year 2020-21 is 301 and for financial year 2021-22 is 317. Compute his capital gain chargeable to tax for Assessment Year 2021-22.

Solution:

Name of Assessee: Mr. Rahul		
Legal Status: Individual		
P.Y.: 2020-21	Residential Status: R&OR	A.Y.: 2021-22
Particulars		₹
Income from Capital Gains		
Full value of flat sold		12,00,000
Less: Purchase price of flat		10,00,000
Stamp duty and registration		48,750
		(10,48,750)
Short-term Capital Gains		1,51,250

Note: Since the capital asset is held for less than 24 months, it is short-term capital asset. Hence, cost inflation index is not applicable.

Deemed Cost of Acquisition

Section 49 provides for determination of the cost of acquisition in certain cases where the assessee concerned has not paid or incurred any cost in acquiring the asset. The 'cost of acquisition' in such cases shall be deemed to be the cost for which the previous owner of the asset acquired it, plus the cost of improvement of the asset (after 1-4-1981) incurred or borne by the previous owner or the assessee.

Cost to Previous Owner [u/s 49(1)]

- (1) Special rules apply when a capital asset becomes the property of the assessee:
 - (a) on distribution of asset on the total or partial partition of a Hindu undivided family;
 - (b) under gift or will;
 - (c) by succession, inheritance or devolution;
 - (d) on distribution of asset on dissolution of a firm, body of individuals or other association of persons where such dissolution had taken place before 1-4-1987;
 - (e) on distribution of asset on the liquidation of a company;
 - (f) under a transfer to a revocable or an irrevocable trust;
 - (g) by a wholly-owned Indian subsidiary company from its holding company;
 - (h) by an Indian holding company from its wholly-owned subsidiary company;
 - (i) in a scheme of amalgamation, by the amalgamating company to the amalgamated company which comes under Section 47(vi)/(via);
 - (j) by a Hindu Undivided Family where one of its members has converted his self-acquired property into Joint family property after 31-12-1969.
- (2) In the above cases, cost to the previous owner would be taken as cost of acquisition of the assessee.
- (3) Where the previous owner has also acquired the property in the above manner, the previous owner of the property means the last previous owner who acquired the property by means other than those discussed above. For example, if Lav acquires a house property in 1990 from his father Ram under a will, the cost of property to the father will be taken as the cost of acquisition of Lav at the time of sale of property by Lav. If, however, the father of Lav has acquired the property from a partnership firm on its dissolution in 1985, cost to the partnership firm will be taken as the cost of acquisition of Lav at time of its sale by Lav.
- (4) Cost of any improvement of the asset incurred by the previous owner, or the assessee, will be added to such cost.
- (5) In case the cost to the previous owner cannot be ascertained, the fair market value of the asset as on the date it became the property of the previous owner is taken to be the cost of acquisition to the previous owner.

Cost of Sweat Equity Shares

Where the capital gain arises from the transfer of specified security on sweat equity shares, the cost of acquisition of such security on shares shall be the fair market value which has been taken into account while computing the value of fringe benefits.

Cost of Shares Acquired by Conversion on Debentures [u/s 49(2A)]

On the sale of shares received on conversion of debentures of a company into shares of that company, the cost of acquisition of such shares is to be taken as that part of cost of debenture which has been appropriated towards the shares. For example, Mahesh has subscribed to 100 partly convertible debentures

of Reliable Petro Limited for ₹ 10 each in 1999. He received 20 shares of ₹ 10 each in 2000. The value of debenture after conversion is ₹ 5 each. The cost of 20 shares is, therefore, ₹ 500 (value of debentures Appropriated towards shares = Original value debentures ₹ 1,000 Less Value of debentures after conversion ₹ 500 = ₹ 500)

Cost of Shares Allotted in a Scheme of Demerger [u/s 49(2C)]

‘Demerger’, broadly speaking, means transfer of a part (unit, division or undertaking) by company A (known as demerged company) to company B (known as resulting company). The cost of an acquisition of the shares in resulting company shall be the amount which bears to the cost of acquisition of shares held by assessee in the Demerged company the same proportion as the net book value of the asset transferred in a demerger bears to the net worth shall mean the aggregate of the paid-up share capital and general reserves as appearing in the books of accounts of the demerged company immediately before the demerger. Thus, the cost of acquisition of the shares in company B (in the above example) will be equal to:

$$\text{Cost of a acquisition of shares in A} = \frac{\text{Net Book Value Asset of A Ltd. in Demerger}}{\text{Net Worth of A before Demerger}}$$

It should be noted that –

- (1) The period of holding of the shares in resulting company shall be counted from the date of acquisition of shares in the demerged company, in order to find out whether or not they are long-term capital asset.
- (2) The indexing will start from the date of allotment of shares in the resulting company.

Cost of Original Shares Held in Demerged Company [u/s 49(2D)]

The cost of acquisition of the original shares held by the shareholder in the demerged company. In the above example, company A are deemed to have been reduced by the amount as so arrived u/s 49(2c).

Depreciable Asset [u/s 50]

Capital Gain u/s 50 in relation to depreciable assets shall arise under two situations:

- (a) Where the entire block of asset does not to exist u/s 50(1).
- (b) Where entire block of assets cease to exist u/s 50(2).

Capital Assets invariably include depreciable assets and such transfer of depreciable asset would result into short-term capital gains or loss irrespective of period of holding. Section 50 deals with the method for computation of capital gain arising on transfer of Capital Asset.

The term depreciable assets refers to Capital Assets forming a part of block of asset in respect of which depreciation is allowed under Income Tax Act, 1965.

- (1) **Applicable to Depreciable Asset:** This special rules are applicable only to capital asset belonging to any block of depreciable asset (plant, machinery, building, etc.). There are two cases in which capital gains arises – (a) when, out of a block of asset, only some assets are transferred or (b) when all asset are transferred.
- (2) **Case A: Transfer of Some Asset in a Block [u/s 50(1)]:** It deals with these cases where in some of the assets within the block of an assets continue to exist but the written down value of the block of the asset is reduced to NIL. This is due to the reason that aggregate consideration received on sale of one or more asset exceeds the expenditure incurred wholly and exclusively in connection with such transfer. Written down value of block of asset at the beginning of the previous year and actual cost of asset falling within that block of asset acquired during the previous year.

(a) **Transfer of Some Assets:** In this case, asset belonging to a block are transferred [but the block of asset does not cease to exist as in the B].

(b) **Computation of Capital Gains:** Capital gains are computed as follows:

Step	What is to be Computed?	How it is to be Computed?
1	Full value consideration	Gross consideration received/receivable
2	Less: Transfer expenses	Brokerage
3	Less: Opening WDV of block	WDV at beginning of previous year
4	Less: Cost of addition to block	Addition to block during previous year
5	Short-term capital gain	[1 – 2 – 3 – 4]

(c) **Short-term Capital Gains:** The excess, if any, is taxed as capital gains. Such gains are deemed to be short-term capital gains.

(3) **Case B: Transfer of All Assets in a Block [u/s 50(2)]:** It deals with these cases where the entire block of assets ceases to exist because all the assets in the block are transferred during the previous year. In such a case, cost of acquisition of block of asset is the written down value of the block of asset at the beginning of the year and the actual cost of any asset within the block acquired during the year. If the sale proceeds received falls short of cost of acquisition, the shortfall to be allowed as short-term capital loss, but if such proceeds are in excess of cost of acquisition, the excess will be taxed as deemed short-term capital gain.

(a) **Transfer of All Assets:** In this case, a block of asset ceases to exist because all assets in that block are transferred during the previous year.

(b) **Computing Cost of Acquisition:** The cost of acquisition in such a case is the total of the following:

- (i) Written down value of block of asset at beginning of the previous year; and
- (ii) Actual cost of any asset in that block of asset acquired during the previous year;

(c) **Short-term Capital Loss:** If the consideration received is less than the cost of acquisition and expenditure on such transfer, the shortfall will be short-term capital loss.

(d) **Short-term Capital Gains:** On the other hand, if consideration so received exceeds the cost of acquisition and expenditure on the transfer, the excess will be chargeable to tax as short-term capital gains.

Capital Gains on Transfer of Depreciable Assets [Empty Block]

Step	What is to be Computed?	How is to be Computed?
1	Full value of consideration	Gross consideration received/receivable
2	Less: Transfer expenses	Brokerage
3	Less: Opening WDV	WDV at beginning of previous year
4	Less: Cost of acquisition	Additions to block during previous year
5	Short-term capital gain/loss	[1 – 2 – 3 – 4]

Special Provision for Computation of Capital Gains in Case of Depreciable Assets [Section 50]

Capital Asset invariably include depreciable assets and such transfer of depreciable asset would result into a short-term Capital gain or loss irrespective of period of holding, Section 50 deals with the method for computation of capital gain arising on transfer of capital asset.

The term Depreciable Asset refers to Capital Asset forming a part of block of assets in respect of which depreciation is allowed under the Income Tax Act, 1961.

Capital Gains u/s 50 in relation to depreciable assets shall arise under two situations:

- (a) Where the entire block of asset does not cease to exist u/s 50(1).
- (b) Where entire block of asset ceases to exist u/s 50(2).

Where the Entire Block of Asset Does Not Cease to Exist u/s 50(1)

It deals with those cases wherein some of the assets within the block of an assets continue to exist, but the written down value of the block of the asset is reduced to NIL. This is due to the reason that aggregate consideration received on sale of one or more asset exceeds the expenditure incurred wholly and exclusively in connection with such transfer, written down value of block of asset at the beginning of the previous year and actual cost of asset falling within that block of asset acquired during the previous year.

Where Entire Block of Asset Ceases to Exist u/s 50(2)

It deals with those cases where the entire block of assets ceases to exist because all the assets in the block are transferred during the previous year. In such a case, cost of acquisition of block of asset is the written down value of the block of asset at the beginning of the year and the written down value of the block of asset at the beginning of the year and the actual cost of any asset within the block acquired during the year. If the sale proceeds received falls short of cost of acquisition, the shortfall is allowed as short-term capital loss, but if such proceeds are in excess of cost of acquisition the excess will be taxed as deemed short-term capital gain.

Illustration 3: (STCG When Block of Asset Does Not Cease to Exist): Mr. Ashok runs his own business of manufacturing and selling switches. He owns a block of assets being plant and machinery which fall in the general category. On 1-4-2020, the written down value of the block was ₹ 16,00,000. During the financial year 2020-21, the company sells some items of plant and machinery for ₹ 1,50,000. Thereafter, during the financial year 2020-21 the company purchases plant and machinery for ₹ 50,000 and disposes of certain items for ₹ 14,00,000, expenditure incurred for effecting the sale being ₹ 10,000. Rate of Depreciation is 7.7586%.

Determine the amount of depreciation and capital gain/loss for the assessment year 2021-22.

Solution: Since all the assets left in the relevant block of asset are not sold at the end of the F.Y. 2020-21, the provisions of Section 50(1) of the Income Tax Act, 1961 will apply. In order to determine the capital gain/loss, we have to derive the opening balance of the block of asset as on 1-4-2020 in the following manner:

Particulars	₹
Opening balance of the blocks as on 1-4-2020	16,00,000
Add: Purchases during the year	Nil
	16,00,000
Less: Sale Proceeds of asset sold	1,50,000
	14,50,000
Less: Depreciation for the year @ 7.7586%	1,12,500
WDV as on 31-3-2020	13,37,500

Calculation for Depreciation

Particulars	₹
Computation of Capital Gain for A.Y. 2021-22	
WDV as on 31-3-2020	13,37,500
Add: Purchases during the year	50,000
	13,87,500
Less: Sale Proceeds during the year ₹ 14,00,000 restricted to ₹ 13,87,500	13,87,500
Written down value of block on date of sale	Nil
Depreciation	Nil

Name of Assessee: Mr. Ashok

Legal Status: Individual

P.Y.:2020-21

Residential Status: R&OR

A.Y.:2021-22

Computation of Capital Gain

Particulars	₹	₹
Sale Consideration		14,00,000
Less: WDV of Block + Purchases for the year	13,87,500	
Expenses incurred for effecting sale	10,000	13,97,500
Deemed Short-term Capital Gain u/s 50(1)		2,500

Illustration 4: Mr. Rahim owns the following assets on April 1, 2016 (rate of depreciation: 15 per cent):

Assets	Written Down Value on April 1, 2020	Date of Acquisition
Plant A	3,00,000	April 1, 2017
Plant B	2,00,000	May 10, 2016
Plant C	5,00,000	March 13, 2019

During the previous year 2015-16 the following plants are purchased/sold by X:

Assets	Rate of Depreciation	Date of Purchase/Sale	Selling Price (₹)	Cost Price (₹)	Date When the Asset is Put to Use
Plant D	15%	March 10, 2021	—	4,08,000	March 30, 2021
Plant E	15%	March 1, 2021	—	200,000	March 30, 2021
Plant A	15%	April 1, 2020	6,00,000	—	—
Building A	10%	June 10, 2020	—	2,00,000	July 5, 2020
Plant C	15%	May 10, 2020	1,2,50,000	—	—
Plant F (Second-hand)	40%	June 10, 2020	—	15,00,000	December 31, 2020

Determine the amount of depreciation and capital gain/loss for the assessment year 2021-22 (expenditure incurred on sale of plants A and C is ₹ 10,000). Assume that additional depreciation is not available.

Solution:

Name of Assessee: Mr. Rahim

Legal Status: Individual

Residential Status: R&OR

P.Y.:2020-21

A.Y.:2021-22

Computation of Capital Gain

First block: Plant (rate of depreciation: 15%)		₹
Depreciated value of the block on April 1, 2015 (₹ 3,00,000 + 2,00,000 + 5,00,000)		10,00,000
Add: Cost of plant (falling in this block) acquired during the previous year 2020-21 (i.e., Plant D: ₹ 4,08,000 + Plant E: ₹ 20,00,000)		4,28,000
		14,28,000
Less: Sale consideration of plants A and C sold during the previous year 2020-21 (i.e., ₹ 6,00,000 + 12,50,000; subject to a maximum of ₹ 14,28,000)		14,28,000
Written down value		Nil
Depreciation on first block		Nil
Capital gain on sale of plants A and C		
Sale consideration		18,50,000
Less: Cost of acquisition	₹	
Depreciated value of the block on April 1, 2020	10,00,000	
Cost of assets falling in the block acquired during the previous year	4,28,000	
Expenses on transfer	10,000	14,38,000
Short-term capital gain		4,12,000

Depreciation on other assets will be determined as under:

Name of assets	Second Block Plant	Third Block Building
Rate of depreciation	40%	10%
	₹	₹
Depreciated value on April 1, 2020	15,00,000	2,00,000
Add: Cost of assets purchased during 2020-21	—	—
Less: Sale consideration of assets transferred during the year	—	—
Written down value	15,00,000	2,00,000
Depreciation [*40% of 50% of ₹ 15,00,000, as Plant F is purchased during the previous year and put to use for less than 180 days]	3,00,000	20,000

Illustration 5: Reliance Ltd. owns the following assets on April 1, 2020.

Assets	Rate of Depreciation	Depreciated Value on April 1, 2020 (₹)
Plant A	15%	4,05,000
Plant B	15%	1,95,000
Plant C	15%	7,05,700

On June 10, 2020, it acquires Plant D for ₹ 20,000 (rate of depreciation: 15%). Plant D is not eligible for additional depreciation. The company sells the following assets during the year 2020-21

Assets	Sale Consideration (₹)	Expenses on Transfer (₹)
Plant A	2,12,000	12,000
Plant B	6,17,500	—
Plant C	4,30,000	—
Plant D	95,000	200

Determine the amount of depreciation and capital gain for assessment year 2020-21. Is it possible to avoid tax on capital gain?

Solution:

Name of Assessee: Reliance Ltd.

Legal Status: Company

P.Y.:2020-21

Residential Status: R&OR

A.Y.:2021-22

Computation of Capital Gain

Name of Assets	(₹)	(₹)
First block: Plant (rate of depreciation 15%)		
Depreciated value of Plants A, B and C (₹ 4,05,000 + 1,95,000 + 7,05,700)		13,05,700
Add: Cost of plant D acquired during the year		20,000
		13,25,700
Less: Sale consideration of Plants A, B, C and D (i.e., ₹ 2,12,000 + 6,17,500 + 4,30,000 + 95,000, but subject to a maximum of ₹ 13,25,700)		13,25,700
Written down value		Nil
Depreciation		Nil
Capital Gain Computation:		
Sale consideration of Plants A, B, C and D (₹ 2,12,000 + 6,17,500 + 4,30,000 + 95,000)		13,54,500
Less: Cost of acquisition		
Depreciated value of the block on April 1, 2020	13,05,700	
Cost of assets acquired during the year 2020-21	20,000	13,25,700
Balance		28,800
Less: Expenses on transfer		12,200
Short-term capital gain		16,600

Notes:

- (1) Tax on short-term capital gains can be avoided if the company purchases another plant (eligible for depreciation at the rate of 15%) during the previous year 2020-21 of ₹ 16,600 or more. Assuming X Ltd. acquires another plant (rate of depreciation: 15%) of ₹ 15,000 during the previous year 2020-21, the amount of chargeable short-term capital gains will be reduced to ₹ 1,600, though the amount of depreciation will remain nil. If, however, cost of such plant is ₹ 40,000, short-term capital gain will be reduced to nil. In such a case, depreciation can be claimed on ₹ 11,200.

- (2) In the aforesaid case, if plants A, B, C and D are transferred for less than ₹ 13,25,700, the deficiency would be treated as short-term capital loss.

Illustration 6: Mukesh owns two machines (A) and (B) eligible for depreciation at 25%. The WDV of these machines on 1-4-20 was ₹ 25,000 and ₹ 40,000 respectively. Find out the capital gains, if any, in the following alternative cases:

- (1) Another machine (C) costing ₹ 1,30,000 was added during the year 2020-21. Machine (A) was sold for ₹ 4,75,000.
- (2) In case (1), assume that machine (A) was sold for ₹ 1,90,000.
- (3) There were no additions during the year. Both the machine (A) and (B) were sold for ₹ 75,000.
- (4) In case (3), assume that both the machine were sold for ₹ 60,000.

Solution:

Name of Assessee: Mr. Mukesh

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

Computation of Capital Gain

- (1) Part of block sold and consideration exceed cost of block.

Particulars	₹	₹
Sales consideration		4,75,000
Less: Opening WDV (25,000 + 40,000)	65,000	
Addition during year	1,30,000	(1,95,000)
Short-term Capital Gain		2,80,000

Note: The block continues to exist, but at nil value for the purpose of calculations of depreciation.

- (2) Part of block sold, but consideration less than cost of block.

Particulars	₹	₹
Sales consideration		1,90,000
Less: Opening WDV (25,000 + 40,000)	65,000	
Addition during year	1,30,000	(1,95,000)
Capital Gain		NA

Note: No capital gain or loss arises because (1) block continues to exist and (2) consideration is less than the cost of the block. Depreciation will be charged on WDV of ₹ 5,000 (1,95,000 - 1,90,000).

- (3) Entire block sold, consideration exceed cost of block.

Particulars	₹
Sales consideration	75,000
Less: Opening WDV (25,000 + 40,000)	65,000
Short-term Capital Gain	10,000

- (4) Entire block sold, consideration less than cost of block.

Particulars	₹
Sales consideration	60,000

Less: Opening WDV (25,000 + 40,000)	65,000
Short-term Capital Loss	(5,000)

Explanatory Notes: Thus, see 50.

- (i) Short-term capital gain arise when consideration exceed cost of block, whether part or entire block issold.
- (ii) Short-term capital loss arises only when considerations is less than the cost of block and the entire block issold.
- (iii) No short-term capital loss arises even when consideration is less than the cost of block if only part of block issold.
- (iv) Depreciation will be changed when consideration is less than closing WDV of block of assets.

Fair Market Value on 1-4-2001

- (1) **Option:** In the following cases, the assessee may take his option, either the actual cost or the fair market value of the asset (other than a depreciable asset), as on April 1, 1981 as cost of acquisition:
 - (a) where the capital asset became the property of the assessee before April 1, 1981: or
 - (b) where the capital asset became the property of the assessee by any mode referred to in Section 49(1) and the capital asset became the property of previous owner before April 1, 1981.
- (2) **Option Not Available:** This option not available on:
 - (a) Depreciable asset: or
 - (b) Intangible asset (e.g., goodwill of a business, tenancy rights, etc.)
- (3) **Meaning:** Fair Market Value means [u/s 2(22B)]:
 - (a) The price which the asset would ordinarily fetch on sale in the open market on the relevant date; or
 - (b) Where such price cannot be ascertained, the price is determined under the Income Tax Rules.
- (4) **Example:** Suppose Mr. Murari purchase shares on April 10, 1999 at ₹ 400 per share. He sells the shares @ ₹ 2,000 per shares. He has the option to take the fair value (FV) of the shares as on April 1, 2001 as his cost of acquisition. If such FV is ₹ 1,000 per share, he should exercise the option so as to pay less tax on capital gains. If the FV of the shares, on the other hand, on April 1, 2001 is only ₹ 100 per share, he can opt to deduct his actual cost from the sales value.

Computation of Long-term Capital Gains

In case of long-term capital gain, the cost of acquisition and cost of improvement, in relation to capital asset shall be indexed as per cost of Inflation Index. The method of computing Long-term Capital Gain involve the following steps:

Step	What is to be Computed?	₹
1	Full value of consideration	xx
2	Less: Transfer expenses	(xx)
3	Less: Indexed cost of acquisition	(xx)
4	Less: Indexed expenses on acquisition	(xx)
5	Less: Indexed cost of IMPROVEMENT	(xx)
6	Long-term capital gains	xxx

Indexed Cost

Index cost is relevant only for computing long-term capital gains. Index cost means original cost as adjusted for inflation shown by a price index. Thus, suppose the original cost of an asset was ₹ 100 in March 2002. The price index shows that ₹ 100 of March 2002 is equivalent to ₹ 939 in March 2014 if this

asset is sold in March. If this asset is sold in March 2014 for ₹ 1000, the indexed cost of this asset will be taken as ₹ 939; the capital gains will be taken as ₹ 61 (₹ 1000 less Indexed cost ₹ 939). This helps to tax only the real gains earned by the assessee on sale of an asset.

Note: (a) Provision 3 to Section 48, however, provides that for computing long-term capital gain on transfer of debentures of bonds except capital index bonds, the cost of acquisition and cost of improvement shall not be indexed. (b) Provision to Section 48 provides that, no deduction shall be allowed in respect of any sum paid on account of required transaction tax.

Cost Inflation Index (CII)

“Cost of Inflation Index” for any year means such index as the Central Government may have regard to seventy-five per cent of average rise in the Consumer Price Index for urban non-manual employees of the immediately preceding previous year to such P.Y.

The indexed cost is computed with the help of Cost Inflation Index (CII). Indexing is applied to both the cost of acquisition as well as cost of improvement. As the Central Government may, having regard to seventy-five per cent of the average rise in the consumer price index for urban non-manual employees for the immediately preceding previous year to such previous year, by notification in official Gazette, specify in this behalf. The base previous year for the CII is 2001-02.

The Central Government has notified the “CII” for the purpose of long-term capital gain as follows:

Previous Year	CII	Previous Year	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	2016-17	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		

Indexed Cost of Acquisition

“Indexed cost of acquisition” is the amount which bears to the cost of acquisition the same proportion as the Cost Inflation Index [CII] for the year in which the asset is transferred bears to the cost inflation index for the first year in which the asset was held by the assessee or for the year beginning on April 1, 2001, whichever is later. Thus,

$$\text{Indexed Cost of Acquisition} = \text{Cost of Acquisition} \times \frac{\text{CII of the year of transfer of the assets}}{\text{CII of the year of acquisition of the assets}}$$

Indexed Cost of Acquisition

- (1) For post-April 2001 asset, indexation starts with the year from which asset is held (irrespective of the year in which cost is paid) for pre-April 2001 asset, CII for year in which sale price is received).
- (2) Indexation ends with the year in which asset is transferred (irrespective of the year in which sale price is received).
- (3) Same index applies for all the 12 months of a particular financial year. No pro-rata adjustment is done, depending upon the month in which asset is acquired/transferred.

Indexed Cost of Improvement

Indexed cost of improvement is defined as an amount which bears to the cost of improvement, the same proportion as the cost inflation index for the year in which the asset is transferred bears to the cost inflation index for the year in which the improvement to the asset took place. Thus,

$$\text{Indexed Cost of Improvement} = \text{Cost of Improvement} \times \frac{\text{CII for the year of transfer of the assets}}{\text{CII for the year of improvement of the assets}}$$

Indexation Not Applicable

Indexation is not applicable in the following cases:

- (1) Short-term assets.
- (2) Transfer of shares in or debenture of an Indian company by a non-resident assessee.
- (3) Transfer of a bond or a debenture (other than capital index bonds issued by the Government).

Computation of Indexed Cost of Acquisition/Improvement [u/s 49(1)]

Computation of indexed cost of acquisition/improvement depends on the following factors:

- (1) How the capital asset is acquired by the assessee (whether directly or in a mode mentioned in Section 49(1)).
- (2) When the capital asset is acquired by the assessee or the previous owner (whether before OR after April 1, 2001).

Asset Directly Acquired by Assessee after 1-4-2001

If a capital asset is acquired by the assessee after April 1, 2001, when such asset is transferred in the current previous year 2020-21 (whose CII is 289), its cost will be determined as shown below:

- (a) Cost of Acquisition = Indexed cost acquisition $\times \frac{301}{\text{CII for year acquisition}}$
- (b) Indexed cost of Improvement = Cost of improvement $\times \frac{301}{\text{CII for year of improvement}}$

Asset Directly Acquired by Assessee before 1-4-2001

If a capital asset is directly acquired by the assessee before April 1, 2001, when such asset is transferred in the current previous year 2020-21 (whose CII is 289), its cost will be determined as shown below:

- (a) Indexed Cost of Acquisition

$$= \text{Higher of cost of acquisition or FMV on 1-4-2001} \times \frac{301}{100}$$

Note: 100 is the CII for 2001-02.
- (b) Indexed Cost of Improvement

$$= \text{Cost of improvement after 1-4-2001} \times \frac{301}{\text{CII for year of improvement}}$$

Note: Cost of Improvement before 1-4-2001 is to be ignored.

Asset Acquired by Assessee u/s 49(1) before 1-4-2001

If a capital asset is acquired by the assessee in a mode mentioned in Section 49(1) before April 1, 2001. When such asset is transferred in the current previous year 2020-21 (whose CII is 301), the cost will be determined as shown below.

(a) Indexed Cost of Acquisition

$$= \text{Higher of cost acquisition to previous owner or FMV on 1-4-1981} \times \frac{301}{100}$$

(b) Index Cost of Improvement

$$= \text{Cost of improvement after 1-4-1981} \times \frac{301}{\text{CII for year of improvement}}$$

Illustration 7 (Assets Acquired Directly after 1-4-2001): Determine the amount of taxable capital gains in respect of the following transaction:

Murari sells a residential house property in Pune for ₹ 25,00,000 on April 23, 2020 which was purchased by him on April 20, 2006 for ₹ 9,90,000. **[MU, Oct. 2003-06, Modified]**

Solution:

P.Y.:2020-21	Name of Assessee: Murari Legal Status: Individual Residential Status: R&OR	A.Y.:2021-22
Particulars		₹
Sales consideration		25,00,000
Less: Indexed cost of acquisition		
= Cost of acquisition × $\frac{\text{CII for year of transfer [2020 - 21]}}{\text{CII for year of acquisition [2006 - 07]}}$		
= ₹ 9,90,000 × $\frac{301}{122}$		24,42,541
Long-term Capital Gain		57,459

Illustration 8 (Urban Agriculture Land acquired after 1-4-1981): Michael sells agricultural land situated within the municipal limits of Mumbai for ₹ 25,00,000 on July 1, 2020 which was purchased by him in June 2003 for ₹ 9,00,000. Determine his liability, if any, for capital gains. **[CS Inter, Modified]**

Solution:

P.Y.:2020-21	Name of Assessee: Michael Legal Status: Individual Residential Status: R&OR	A.Y.:2021-22
Particulars		₹
Sales consideration		25,00,000
Less: Indexed cost of acquisition		
= Cost of acquisition × $\frac{\text{CII for year of transfer [2020 - 21]}}{\text{CII for year of acquisition [2003 - 04]}}$		

Capital Gains [Sections 45-55]**175**

$= ₹ 9,00,000 \times \frac{301}{109}$	24,85,321
Long-term Capital Gain	14,679

Note: Urban agricultural land is capital asset.

Illustration 9 (Transfer expenses): On November 2, 2020, Manoj sells gold for ₹ 5,02,000 (cost of acquisition on March 10, 2004: ₹ 1,04,000). Expenses on purchase and transfer are ₹ 1,100 and 2,000 respectively. Find out the amount of capital gains, if any. **[CIMA, Modified]**

Solution:

Name of Assessee: Manoj			
Legal Status: Individual			
P.Y.:2020-21	Residential Status: R&OR	A.Y.:2021-22	
Particulars		₹	
Sales consideration		5,02,000	
Less: Expenses on transfer		2,000	
Net sale consideration		5,00,000	
Less: Indexed cost of acquisition, i.e. = ₹ 1,05,100 × $\frac{301}{109}$		2,78,660	
Long-term capital gain		2,21,340	

Note: Expense on sale are deducted from sale price. Expense on purchase are added to the cost of acquisition.

Illustration 10 (Cost of improvement): X sells the following capital assets during the previous year 2020-21.

House

Sale consideration	₹ 6,40,500
Year of acquisition	2001-02
Cost of acquisition	₹ 1,18,000
Cost of improvement incurred in 2004-05	₹ 1,05,407

[MU, Oct. 07, 09; March 08, 11 Modified]

Solution:

Name of Assessee: X			
Legal Status: Individual			
P.Y.:2020-21	Residential Status: R&OR	A.Y.:2021-22	
Particulars		₹	₹
Sales consideration			6,40,500
Less: Indexed cost of acquisition = ₹ 1,18,000 × $\frac{301}{100}$		3,55,180	
Indexed cost of improvement = ₹ 1,05,407 × $\frac{301}{113}$		2,88,431	6,43,611
Long-term capital gain			3,111

Illustration 11: Mrs. Prerana sells the following capital asset during the previous year 2020-21:

- (a) Sale consideration on 14-05-2020 is ₹ 16,00,000.
- (b) These capital assets were acquired in the year 2001-02 ₹ 2,70,000.
- (c) Brokerage paid is ₹ 3,289 on sale of Capital Assets.

Compute the Capital Gain for A.Y.2021-22.

[Cost Inflation Index: 2001-2002: 100, 2020-2021: 301].

[CA InterModified]

Solution:

The above problem covers a situation wherein the assessee acquired/purchased the capital asset after 1st April, 2001. Therefore, for finding out Indexed cost of acquisition, the actual cost of acquisition would be taken.

Name of Assessee: Mrs. Prerana		
Legal Status: Individual		
P.Y.:2020-21	Residential Status: R&OR	A.Y.:2021-22
Particulars		₹
Income from capital gains		
Sale consideration		16,00,000
Less: (1) Indexed cost of acquisition		
$= \frac{\text{Cost of Acquisition}}{\left(\frac{\text{Cost Inflation Index when asset is transferred}}{\text{Index in which asset is acquired}} \right)}$ $= \frac{2,70,000}{100} \times 301$		8,12,700
(2) Brokerage paid on sale		3,289
Long-term capital gain		7,84,011

Illustration 12 (Asset directly acquired before 1-4-2001): Rao owns a residential house at Mumbai since 2001 (income is taxable under Section 22). The house is sold by him for ₹ 10,00,000 on June 30, 2020 (cost of acquisition: ₹ 3,00,000, fair market value on April 1, 2001: ₹ 5,10,000). Determine the amount of capital gains chargeable to tax.

[ICWA InterModified]

Solution:

Name of Assessee: Rao		
Legal Status: Individual		
P.Y.:2020-21	Residential Status: R&OR	A.Y.:2021-22
Particulars		₹
Sales consideration		10,00,000
Less: Index of acquisition = Cost of acquisition or FMV 1-4-2001		
$\times \frac{\text{CII for transfer [2020-21]}}{\text{CII 2001-02}}$ $= ₹ 5,10,000 \times \frac{301}{100}$		15,35,100
Long-term capital loss		(5,35,100)

Note: FMV on 01-04-2001 is higher than cost of acquisition and hence considered for indexation.

Illustration 13 (Cost of improvement before and after 1-4-2001): Amitabh purchase a house property for ₹ 50,000 on April 30, 1997. The following expenses are incurred by him for making additions/alterations to the house property:

Particulars	₹
(a) Cost of construction of first floor in 1999-00	2,00,000
(b) Cost of construction of second floor in 2002-03	3,40,000
(c) Alteration/reconstruction of the property in 2009-10	2,90,000

Fair market value of property on April 1, 2001 is ₹ 4,50,000. The house property is sold by Amitabh on August 15, 2020 for ₹ 30,70,000 (expenses incurred on transfer: ₹ 10,000). Calculate capital gains.

[MU, March, 06, 07; Oct. 08, 09, 12, 14, 15; April, 09, 10, 13, 16 Modified]

Solution:

Name of Assessee: Amitabh

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

Particulars	₹	₹
Sales consideration		30,70,000
Less: Expenses on transfer	10,000	
Indexed cost of acquisition [WN(c)]	13,54,500	
Indexed cost of improvement [WN(d)(i)]	9,74,667	
Indexed cost of improvement [WN(d)(ii)]	5,89,797	29,28,964
Long-term capital gain		1,41,036

Working Notes:

Indexed cost of acquisition:

(a) Fair market value on April 1st, 2001 (actual cost of acquisition is ignored as it is lower than fair market value on April 1st, 2001) = ₹ 4,50,000.

(b) Cost inflation index for 2001-02 = 100

(c) Cost inflation index for 2020-21, i.e., the year in which asset is transferred = 301

$$= \frac{4,50,000}{100} \times 301 = ₹ 13,54,500$$

(a) Indexed cost of improvement

Particulars	₹
(i) Construction of first floor in 1999-00 (ignore cost incurred before April 1st, 2001)	Nil
(ii) Construction of second floor in 2002-03 $\left(3,40,000 \times \frac{301}{105} \right)$	9,74,667
Alteration/reconstruction in 2009-10 $\left(2,90,000 \times \frac{301}{148} \right)$	5,89,797

Illustration 14: Mr. Ram purchases one Bungalow for ₹ 51,000 in the year 1993-94. He constructs two additional rooms in the year 1995-96 by spending ₹ 1,00,000. He dies on 1st October, 1999 and as per his will, the house is transferred to his son Mr. Krishna. Mr. Krishna spends ₹ 35,000 for repairs in the year

2000-01 and constructs an additional floor in the year 2005-06 for ₹ 40,000. Mr. Krishna sells the above house property for ₹ 1,15,00,000 on 30th March, 2020, brokerage being paid ₹ 11,001. The fair market value of the property as on 1st April, 2001 is ₹ 2,00,000. Find out the amount of Capital Gain taxable in the hands of Mr. Krishna for A.Y. 2021-22.

[Cost Inflation Index: 2001-02: 100, 2005-06: 117, 2020-21: 301]

[CA InterModified]

Solution:

The above problem covers the case where capital asset is acquired by the assessee before 1st April, 2001 without any consideration u/s 49(1). Therefore, the assessee may at his option, either take actual Cost of Acquisition or FMV as on 1-4-2001.

In the above case, Cost of acquisition to the previous owner is ₹ 51,000 whereas Fair Market Value is ₹ 2,00,000. Therefore, Cost of acquisition is ₹ 2,00,000.

Name of Assessee: Krishna

Legal Status: Individual

P.Y.:2020-21

Residential Status: R&OR

A.Y.:2021-22

Computation of Capital Gain

Particulars	₹	₹
Sales consideration		1,15,00,000
Less: Indexed cost of acquisition	22,50,000	
Indexed cost of improvement	1,02,905	
Brokerage	11,001	23,63,906
Long-term capital gain		91,36,093

Working Notes:

$$\frac{2,00,000}{100} \times 301 = 22,50,000$$

$$\frac{40,000}{117} \times 301 = 1,02,906$$

Illustration 15 [Acquisition of assets before April 1, 1981; covered u/s 49(1)]: Gupta purchased a house property for ₹ 30,000 on June 20, 1993. He gets the first floor of the house constructed in 1994-95 by spending ₹ 20,000. He dies on December 22, 2000. The property is transferred to Mrs. Gupta by his will. Mrs. Gupta spends ₹ 25,000 and ₹ 26,700 during 2009-10 and 2014-15 respectively for reconstruction of the property. Mrs. Gupta sells the house property for ₹ 12,50,000 on February 15, 2021. Brokerage paid by Mrs. Gupta is ₹ 12,500. The fair market value of the house on April 1, 2001 is ₹ 1,60,000. Ascertain capital gains

[CS InterModified]

Solution:

Name of Assessee: Gupta

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.:2021-22

Particulars	₹	₹
Sales consideration	12,50,000	
Less: Expenses on transfer	(12,500)	12,37,500

Less:		
Expenditure on transfer		
Indexed cost of acquisition [WN(a)]	4,81,000	
Indexed cost of improvement [WN(b)]	33,846	5,14,846
Long-term capital loss		(7,22,654)

Working Notes:

(a) Indexed cost of acquisition:	
Cost to the previous owner	30,000
Fair market value on 1st April, 2001	1,60,000
Cost inflation index for 2001-02	100
Cost inflation index for 2020-21	301
$\therefore$ Indexed cost of acquisition $\left(1,60,000 \times \frac{301}{100}\right)$	4,81,000
(b) Indexed cost of improvement:	
Cost of improvement ₹ 20,000 + ₹ 25,000 before 1st April, 2001 (not considered)	
Cost of improvement incurred in 2014-15	26,700
Cost inflation index for 2014-15	240
Cost inflation index for 2020-21	301
$\therefore$ Indexed cost of improvement $\left(26,700 \times \frac{301}{240}\right)$	33,486

Illustration 16 [Acquisition of asset after April 1, 2001, covered u/s 49(1); originally acquired by the previous owner before April 1, 2001]: X purchase a property on April 1, 1995 for ₹ 50,000. Later on, he gifts property to his friend Y on June 10, 2004. The following expenses are incurred by X and Y for renewals of the property.

Particulars	
Addition of one room by X during 1998-99	30,000
Addition of two rooms by X during 2002-03	40,000
Addition of four rooms by Y during 2009-10	1,15,000

Fair market value of the property on April 1, 2001 is ₹ 65,000.

The property is sold for ₹ 19,00,000 on November 30, 2020. Compute the capital gain chargeable to tax in the hands of Y for the assessment year 2021-22. **[CS InterModified]**

Solution:

Name of Assessee: X	
Legal Status: Individual	
P.Y.: 2020-21	Residential Status: R&OR
	A.Y.: 2021-22

Computation of Capital Gain in the Case of Y in Assessment Year 2017-18

Particulars		
Sales consideration		19,00,000
Less:		
(i) Indexed cost of acquisition (WN1)	1,73,141	
(ii) Indexed cost improvement (WN2)	1,14,667	
(iii) Indexed cost of improvement (WN2)	2,01,250	4,89,058
Long-term capital gain		14,10,942

Working Notes:

- (1) Indexed cost of acquisition:
- | | |
|---|----------|
| Cost of acquisition to the previous owner (a) | 50,000 |
| Fair market value on 1st April, 2001 (b) | 65,000 |
| Cost to the previous owner or fair market value on April 2001 [(a) or (b) whichever is maximum] | 65,000 |
| Cost inflation index for 2004-05 (i.e., the first year in which property is held by the assessee) | 113 |
| Cost inflation of 2020-21 | 301 |
| Indexed cost for acquisition = $65,000 \times \frac{301}{113}$ | 1,73,141 |
- (2) Indexed cost of improvement:
- Expenditure before 1st April, 2001 = 30,000 (to be ignored).
- Expenditure incurred on or after 1st April, 2001
- (i) During 2002-03 by previous owner (Indexed improvement = $40,000 \times \frac{301}{105}$) = ₹ 1,14,667
- (ii) During 2009-10 by assessee (indexed cost of improvement = $1,15,000 \times \frac{301}{172}$) = ₹ 2,01,250

Illustration 17: Mr. Sagar sells the following capital assets during the previous year 2020-21

Particulars	Non-listed Share	House Property
Sale consideration	24,00,000	6,80,000
Year of acquisition	2012-13	2005-06
Cost of acquisition	2,90,000	18,000
Cost of improvement incurred in 2011-12	—	70,000

[MU Modified]

Solution:

Name of Assessee: Sagar
 Legal Status: Individual
 Residential Status: R&OR
 P.Y.: 2020-21
 A.Y.: 2021-22

Computation of Capital Gain

Particulars	Non-listed Share	House Property
Sale consideration	24,00,000	6,80,000
Less:		
Indexed cost of acquisition [WN (1) & (2)]	4,74,402	47,947
Indexed cost of improvement [WN (3)]	Nil	1,14,511
Long-term capital gain (Income under the head "Capital gain")	19,25,598	5,17,542

Working Notes:

- (1) Indexed cost acquisition of share is determined as under:
- $$2,90,000 \times \frac{301}{184} = ₹ 4,74,402$$
- (2) Indexed cost of acquisition of house property is determined as under:
- $$18,000 \times \frac{301}{113} = ₹ 47,947$$

(3) Indexed cost of improvement is determined asunder:

$$₹ 70,000 \times \frac{301}{184} = ₹ 1,14,511$$

Illustration 18: Mr. Suraj purchases a house property for ₹ 26,000 on May 10, 1992. He gets the first floor of the house constructed in 1997-98 by spending ₹ 40,000. He dies on September 12, 1998. The property is transferred to Mrs. Suraj by his will. Mrs. Suraj spends ₹ 30,000 and ₹ 26,700 during 1999-00 and 2005-06 respectively for renewals/reconstruction of the property. Mrs. Suraj sells the house property for ₹ 31,50,000 on March 15, 2021 (brokerage paid by Mrs. Suraj is ₹ 11,500). The fair market value of the house on April 1, 2001 is ₹ 1,60,000. **[ICWA InterModified]**

Solution:

Name of Assessee: Suraj

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

Particulars		
Sale consideration		31,50,000
Less:		
Expenditure on transfer	11,500	
Indexed cost of acquisition [see WN 1]	4,81,600	
Indexed cost of improvement [see WN 2]	68,689	5,61,789
Long-term capital gain		25,88,211

Working Notes:

(1) Indexed cost of acquisition:	
Cost to the previous owner	26,000
Fair market value on April 1, 2001	1,60,000
Cost inflation index for 2001-02	100
Cost inflation index for 2020-21	301
Indexed cost of acquisition (i.e., ₹ 1,60,000 × $\frac{301}{100}$)	4,81,600
(2) Indexed cost of improvement:	
Cost of improvement incurred prior to April 1, 2001 (not considered)	—
Cost of improvement incurred in 2005-06	26,700
Cost inflation index for 2005-06	117
Cost inflation index for 2020-21	301
Indexed cost of improvement (i.e., ₹ 26,700 × $\frac{301}{117}$)	68,689

Illustration 19: Ramesh purchases a property on April 1, 1996 for ₹ 95,000. He enters into an agreement for sale of the property to Satish on November 1, 2003 and receives ₹ 10,000 as advance. Satish could not, however, keep his promise and advance of ₹ 10,000 given by him is forfeited by Ramesh. Later on, he gifts the property to his friend Umesh on May 15, 2005. The following expenses are incurred by Ramesh and Umesh for renewal of the property:

Particulars	Cost ₹
Addition of two rooms by Ramesh during 1998-99	25,000
Addition of first floor by Ramesh during 2003-04	40,000
Addition of second floor by Umesh during 2010-11	1,15,000
Fair market value of the property on April 1, 2001	1,15,000

Umesh enters into an agreement to sell the property for ₹ 8,50,000 to Suresh on April 1, 2003 after receiving an advance of ₹ 50,000. Suresh could not pay the balance within the stipulated time of two months and Umesh forfeits the advance of ₹ 50,000 as per agreement with Suresh. Umesh ultimately finds a buyer in Rakesh to whom property is transferred for ₹ 15,75,000 on December 1, 2020. Compute the capital gain chargeable to tax in the hands of Umesh for the assessment year 2021-22.

[IPCC Modified]

Solution:

	Name of Assessee: Umesh	
	Legal Status: Individual	
P.Y.: 2020-21	Residential Status: R&OR	A.Y.:2021-22

Computation of Capital Gain in the Case of Umesh

Particulars	₹
Sale consideration	15,75,000
Less: Indexed cost of acquisition [see WN 1]	1,67,222
Indexed cost of improvement [see WN 2]	3,17,734
Long-term capital gain	10,90,044

Working Notes:

(1) Indexed cost of acquisition is determined asunder:	₹
Cost of acquisition to the previous owner (a)	95,000
Fair market value on April 1, 2001 (b)	1,15,000
Cost to the previous owner or fair market value on April 1, 2001 [(a) or (b), whichever is more]	1,15,000
Less: Advance money forfeited by Umesh (amount forfeited by the previous owner shall not be considered)	50,000
Amount to be considered for indexation	65,000
Cost inflation index for 2005-06 (i.e., the first year in which property is held by the assessee)	117
Cost inflation index for 2020-21	301
Indexed cost of acquisition (i.e., ₹ 65,000 × $\frac{301}{117}$)	1,67,222
(2) Indexed cost of acquisition is determined as under:	
Expenditure incurred prior to April 1, 2001 (it shall be ignored)	Nil
Expenditure incurred on or after April 1, 2001	
During 2003-04 (indexed cost of improvement: ₹ 40,000 × $\frac{301}{109}$)	1,10,459
During 2010-11 (indexed cost of improvement: ₹ 1,15,000 × $\frac{301}{167}$)	2,07,275
	3,17,734

Illustration 20 [Acquisition of asset after April 1, 2001; covered u/s 49(1); originally acquired by the previous owner to after April 1, 2001]: X owns the following shares:

Cost of acquisition	₹ 1,40,000
Date of acquisition	10-3-2012

These shares are gifted by X to his son Y on April 1, 2008. On July 7, 2020, these assets are sold by Y for ₹ 3,00,000. Compute the capital gain chargeable to tax in the hands of Y for the assessment year 2021-22.

Solution:

Particulars	₹
Sales consideration	3,00,000
Less: Cost of acquisition to the previous owner	
Indexed cost of acquisition =	
Cost of Previous Owner × $\frac{\text{CII for year of transfer [2020 - 21]}}{\text{CII for year of acquisition by assessee [2008 - 09]}}$	
$= 1,40,000 \times \frac{301}{137}$	3,07,591
Long-term capital loss	(7,591)

Illustration 21: Mr. Suresh owned the following assets as on 31-3-2021. These assets were acquired by him on 1st April, 06 and 1st July, 2007 respectively.

- (1) Gold of ₹ 1,62,000.
- (2) House property worth ₹ 90,000.

Mr. Suresh gifted the above properties to Mr. Ravi on 14th May, 2007. Mr. Ravi was in need of funds and therefore sold both these assets on 6th June, 2020 at ₹ 12,05,000 and ₹ 6,00,000 respectively.

Compute the Capital Gain chargeable to tax in the hands of Mr. Ravi for AY. 2021-22.

[Cost Inflation Index: 2007-08: 129, 2020-21 = 301]

Solution:

Name of Assessee: Ravi		
Legal Status: Individual		
P.Y.: 2020-21	Residential Status: R&OR	A.Y.: 2021-22
Particulars	₹	₹
Income from Capital Gain		
(1) Income from Sale of Gold (Long-term Capital Gain)	8,27,000	
(2) Income from Sale of House Property (Long-term Capital Gain)	3,90,000	
Income under the head Capital Gain		12,17,000

W.N. 1: Income from Sale of Gold and House Property (Long-term Capital Asset)

Particulars	Gold ₹	HP ₹
Sale consideration	12,05,000	6,00,000
Less: Indexed cost of acquisition		

$= \frac{\left(\frac{\text{Cost of Acquisition to previous owner}}{\text{Cost Inflation Index for the first year in which the asset was held by assessee}} \right) \times \left(\frac{\text{Cost Inflation Index for the year in which asset is transferred}}{\text{Cost Inflation Index for the first year in which the asset was held by assessee}} \right)}{\text{Cost Inflation Index for the first year in which the asset was held by assessee}}$ $= \frac{1,62,000}{129} \times 301 \text{ and } \frac{90,000}{129} \times 301$		
Long-term capital gain	3,78,000	2,10,000
	8,27,000	3,90,000

Capital Gain in Certain Special Cases

In the following cases, capital gains are determined/computed in a different manner.

Receipt of Insurance Claim [u/s 45(1A)]

Normally, insurance claim received on account of destruction of asset is not chargeable to tax as “destruction” does not amount to transfer. However, u/s 45(1A) lays down an exception to this rule, by taxing certain types of insurance compensation as capital gains.

When Taxable as Capital Gains

Insurance claims are taxed if the following two conditions are satisfied –

- (1) Compensation is received because of ‘damage to’ or ‘destruction of’ any capital asset.
- (2) Such damage or destruction is due to; or
 - (a) Flood, typhoon, hurricane, cyclone, earthquakes or other natural disasters
 - (b) Riots or civil disturbance; or
 - (c) Accidental fire explosion; or
 - (d) Action by an enemy or action taken in combating an enemy (whether with or without a declaration of war).

How Taxable?

- (1) Above gains arising from receipt of money or other asset under any insurance from an insurer shall be chargeable to Income Tax under the head “Capital Gains”.
- (2) Gains shall be deemed to be the income of such person for the previous year in which such money or other asset is received.
- (3) For this purpose, the value of any money or the fair market value of other asset (on the date of receipt) shall be deemed to be the full value of the consideration received or accruing as a result of transfer of such asset.
- (4) Other rules (cost of acquisition) etc. are the same as explained earlier.

Illustration 22: A capital asset acquired on 20/04/05 for ₹ 1,25,000 was completely destroyed in a fire on 12-07-2011. A sum of ₹ 11,50,000 was received from the insurance company on 16-12-2020.

Calculate the amount of Capital Gain.

[Cost Inflation Index: 2005-06: 117, 2011-12: 184, 2020-21: 301.]

Solution:

Computation of Capital Gain	
Particulars	₹
Full value of consideration	11,50,000
Less: Indexed cost of acquisition	
$= \left(\frac{\text{Cost of Acquisition}}{\text{Cost Inflation Index for the year of destruction}} \right) \times \left(\text{Cost Inflation Index for year of claim received} \right)$ $= \left(\frac{1,25,000 \times 301}{117} \right)$	3,21,581
Long-term capital gain	8,28,419

Note: Though the capital assets was destroyed during the year 2011-12, Capital gain shall be chargeable in the year the insurance money is received, i.e., 2020-21. However, indexation of cost of acquisition should be done with respect to the year in which the asset is destroyed, i.e., 2005-06.

Illustration 23: Reliance Ltd. has insured its machinery for ₹ 4,00,003 on 1-5-2012. A fire broke out on 10-8-2020 causing much damage to the machinery. The WDV of the machinery on 1-4-2020 was ₹ 1,26,563. The insurance company settled claim in the following manner on 15-3-2021.

- (1) New Machinery – cost ₹ 6,00,000 given by the Insurance company on 15-3-2021. Similar machine had a fair Market value of ₹ 5,00,000 on the date of fire, viz., 10-8-2020.
 - (2) Installation charges ₹ 1,00,000 paid by the Insurance company.
- Determine the capital gains, presuming that this machinery was the only asset in the relevant block.

[CS Inter, Modified]**Solution:**

Name of Assessee: Reliance Ltd.		
Legal Status: Company		
P.Y.: 2020-21	Residential Status: R&OR	A.Y.: 2021-22
Particulars		₹
(A) Full value of consideration		
(1) FMV of asset on date of destruction	5,00,000	
(2) Cash (for installation)	1,00,000	
		6,00,000
(B) WDV on 01-04-2020		(1,26,563)
(C) Short-term Capital Gain (A – B)		4,73,437

When Not Taxable as Capital Gains

- (1) If the condition mentioned are not satisfied, then Section 45(1A) is not applicable and, consequently, insurance compensation (if it is a capital receipt) will not be chargeable to tax. For example, insurance compensation received for loss of machinery involved in road accident while being transported, will not be taxed, being a capital receipt, since the reason for destruction is not covered in one of the conditions mentioned above.
- (2) However, if the insurance compensation is a revenue receipt (e.g., for loss of stock-in-trade), then it may be taxed, not as capital gains, but as income from business.

Conversion of Capital Asset in to Stock-in-trade [u/s 45(2)]

- (1) Conversion of investment into stock-in-trade will be treated as transfer under Section 2(47). It will be treated as transfer in the year in which capital asset is converted into stock-in-trade. [Normally, such conversion would not be treated as transfer, as transfer arises only between two different persons.]
- (2) The notional capital gain arising from transfer by way of conversion of a capital asset into stock-in-trade will be chargeable to tax in the year in which the stock-in-trade is sold. [Normally, capital gain would have been taxed in the year of transfer, i.e., such conversion.]
- (3) For the purpose of computing the capital gains in such cases, the fair market value of the capital asset on the date on which it was converted or treated as stock-in-trade shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of the capital asset. [Normally, consideration would be Nil, as no consideration is received/receivable].
- (4) Period of holding of the asset runs from the date of acquisition of the asset to the date of such conversion.
- (5) In case of a short-term asset, cost is computed.
- (6) In case of long-term asset, indexed cost is computed as for the purpose of indexation, year of conversion is taken as the year of transfer.
- (7) Business incomes from such converted stock-in-trade arises in the year in which such stock is sold. Business income is equal to sale value of stock less fair market value of the asset on the date of conversion.

Illustration 24: Mr. Ketanbhai acquires shares in Global Ltd. on 1-5-2007 for ₹ 1,50,000, as an investment. He starts a shares brokerage firm Gafla & Co. on 1-6-2011 and converts the above shares as stock-in-trade on this date. The fair market value of these shares on 1-6-2011 is ₹ 3,00,000. He sells these shares on 1-6-2020 for ₹ 10,00,000.

- (a) State the taxability of these transactions. [Cost inflation index: 2007-08: 129; 2011-12: 184; and 2020-21: 301]
- (b) What would be the taxability, if these are not sold but held as stock-in-trade as on 31-3-2020?

Solution:

Name of Assessee: Mr. Ketanbhai

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

(1) Capital Gain on Sale of Capital Asset Converted into Stock-in-trade [Taxed in Previous Year 2013-14]

Particulars	₹
Full value of consideration [Fair market value on 1-06-2011]	3,00,000
Less: Indexed cost of acquisition [Long-term asset held for more than 36 months]	
= Cost of Acquisition × $\frac{\text{CII for year of conversion (2011-12)}}{\text{CII for year of acquisition (2007-08)}}$	
= ₹ 1,50,000 × $\frac{184}{129}$	(2,13,953)
Capital Gains	86,047

(2) Business Income on Sale of Stock [Taxed in Previous Year 2020-21]

Particulars	₹
Sales value of stock	10,00,000
Less: Fair market value on date of conversion	(3,00,000)
Business income	7,00,000

Note: Thus, the total surplus on sale (Sale price ₹ 10,00,000 – Indexed cost ₹ 1,99,000 = 8,01,000) is divided into two parts: Business Profit CSP 10,00,000 – FMV ₹ 13,00,000 = ₹ 7,00,000; and Capital Gains (FMV ₹ 3,00,000 indexed cost ₹ 1,99,000) = 1,01,000.

(3) If still held as stock-in-trade on 31-03-2017, there would be neither capital gain or business income in P.Y. 2020-21.

Illustration 25: Mr. Hanumant converts his assets acquired on 16th July, 2001 of ₹ 70,000 into stock-in-trade on 31st Dec., 2004. The fair market value as on 31st Dec., 2004 is ₹ 14,80,000.

The stock-in-trade was subsequently sold in the previous year for ₹ 18,00,000 on 16th July, 2020. Determine the amount of Capital Gain.

[Cost Inflation Index: 2001-02: 100, 2004-05: 115, 2020-21: 301]

Solution:

Name of Assessee: Mr. Hanumant

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

Computation of Capital Gain

Particulars	₹
Full value of consideration (Fair market value as on the date of conversion)	14,80,000
Less: Indexed cost of acquisition = $\frac{70,000}{100} \times 115$ [Note (b)]	80,500
Long-term capital gain	13,99,500

Computation of Business Income

Particulars	₹
Sale consideration	18,00,000
Less: Fair market value as on date of conversion	14,80,000
Business Income	3,20,000

Notes:

- Section 45(2) provides that for computation of capital gains, the fair market value of the asset on the date of such conversion or treatment will be deemed to be the full value of consideration received. However, any profit or gain arising from such transfer shall be chargeable as capital gains.
- It may be noted in the year 04-05, assets held converted into stock-in-trade and then the asset was held upto 16th July, 2020.

Transfer of Security by Depository [u/s 45(2A)]

- Where any person has had at any time previous year any beneficial interest in any securities, then any profits or gains arising from transfer made by the depository or participant of such beneficial interest in respect of securities shall be chargeable to income tax as the income of the beneficial owner of the previous year in which such transfer took place. [Normally, since the depository is

deemed to be the registered owner of securities under the Depositories Act, 1996, gains would be taxed in its hands.]

- (2) The cost of acquisition and the period of holding of any such (demat) securities shall be determined on the basis of the first-in-first-out (FIFO) method.
- (3) For this purpose, beneficial owner means a person whose name is recorded as such with a depository. Depository means a company registered under the Companies Act and which has been granted a certificate of registration under the Securities and Exchange Board of India (SEBI) Act.

Transfer of Assets between Firm and Partner [u/s 45(3), 45(4)]

- (1) On transfer of a capital asset by partner to firm as capital contribution—
 - (a) Capital gains accrues to the partner who transfers the asset;
 - (b) Such gains are taxed as his income in the year of such transfer;
 - (c) The full value of the consideration for transfer is taken to be amount recorded in the books of account of firm as the value of the capital asset.
- (2) In case of transfer by way of distribution of the capital asset by firm, on dissolution—
 - (a) Capital gains are taxed in the hands of such firm;
 - (b) Gains are taxed in the previous year when such transfer takes place;
 - (c) The fair market value of asset as on the date of transfer is deemed to be the full value of the consideration.
- (3) The above rules also apply to transfer of asset between an association of persons and its members or between a body of individuals and its members.
- (4) Except above, other rules of computation are applicable as explained earlier.
- (5) The above special rules do not apply to transfer of asset between a company or a co-operative society and its members.

Illustration 26 (Capital Assets Converted into Capital in Partnership Firm): Rakesh has gold ornaments costing ₹ 50,000 purchased in 2001, as investment. On 1st December, 2020, he entered into partnership with Subhash and contributed the said gold ornaments by way of his capital at an agreed value of ₹ 15,00,000, the market value on that date being ₹ 8,00,000. Would Rakesh be liable to tax on capital gain?

Solution: Under Section 45(3), any profits or gains arising from the transfer of a capital asset by a person to a firm in which he is or becomes a partner, by way of capital contribution or otherwise, is chargeable to tax as his income of the previous year in which such transfer takes place. The capital gains chargeable to tax in the hands of Rakesh for the assessment year 2021-22 (assessment year relevant to year in which transfer takes place) will be calculated as under:

Name of Assessee: Rakesh	
Legal Status: Individual	
P.Y.: 2020-21	Residential Status: R&OR
A.Y.: 2021-22	
Particulars	₹
Full value of consideration (Amount recorded in books of firm as value of the gold ornaments)	15,00,000
Less: Indexed cost of acquisition $\left(50,000 \times \frac{301}{100} \right)$	1,50,500
Long-term capital gain	13,49,500

Illustration 27: Ms. Sita and Ms. Geeta formed a partnership firm. Soon after formation of the firm, Ms. Sita brought on 14th August, 2020 of the previous year the following assets as her capital contribution:

Particulars	Gold (₹)	Silver (₹)
Fair market value on the date of transfer by Ms. Sita to firm	6,40,000	11,72,000
Amount recorded in books of account (agreed value)	17,00,000	11,50,000
Actual cost	1,30,000	11,12,000
Year of acquisition	2004-05	2019-20

₹ 28,50,000 is credited in the capital account of Ms. Sita in the firm. Is Ms. Sita chargeable to tax in this case?

[Cost Inflation Index: 2004-05: 113, 2020-21: 301]

Solution:

Name of Assessee: Ms. Sita Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2017-18

Particulars	Gold (₹)	Silver (₹)
Full value of consideration	17,00,000	11,50,000
Less: Indexed cost of acquisition		
(For gold being long-term capital asset)		
$= \left(\frac{\text{Cost of Acquisition}}{\text{Cost Inflation Index of the year of Acquisition}} \right) \times \left(\frac{\text{Cost Inflation Index for the year to transfer}}{\text{Cost Inflation Index of the year of Acquisition}} \right) = \frac{1,30,000 \times 301}{113}$		
Less: Cost of acquisition for silver		
(Short-term capital asset) (So no indexation)	3,46,283	
Long-term Capital Gain	13,53,717	11,12,000
Short-term Capital Gain		38,000

Total Income under the head Capital Gains = ₹ 13,53,717.

Note: Whenever a capital asset is transferred by a partner to the partnership firm, the value recorded in the books of accounts is taken as full value of consideration and the fair market value on the date of transfer is considered irrelevant for calculation of Capital Gain [Sec. 45(3)].

Illustration 28: Mamta, Samta and Kavita are three partners of a firm M/s. Technova Engineers. On 29th March, 2021 of the previous year, the firm is dissolved. The following assets are distributed among partners.

Particulars	Residential House (Taken by Mamta) (₹)	Gold (Taken by Samta) (₹)	Land (Taken by Kavita) (₹)
Fair market value on 29th March, 2014	5,00,000	1,60,000	2,40,000
Agreed value as per dissolution deed	12,70,000	46,000	32,000
Cost of acquisition	3,00,000	5,000	8,000
Year of acquisition	2001-02	2010-11	2003-04

Determine the amount of chargeable capital gains of the firm for A.Y. 2021-22.

[Cost Inflation Index: 2001-02: 100, 2003-04: 109, 2010-11: 167, 2020-21: 301]

[IPCC Modified]

Name of Assessee: Technova Engineers

Legal Status: Partnership Firm

P.Y.: 2020-21

Residential Status: R&OR

A.Y.:2017-18

Computation of Capital Gain

Particulars	Residential House (Taken by Mamta) (₹)	Gold (Taken by Samta) (₹)	Land (Taken by Kavita) (₹)
Full value of consideration (Fair market value)	5,00,000	1,60,000	2,40,000
Less: Indexed cost of acquisition			
$= \frac{\text{Cost of Acquisition}}{\text{Cost Inflation Index for 2001-02}} \times \frac{\text{Cost Inflation Index for the year of transfer}}{\text{Cost Inflation Index for year of Acquisition}}$			
Residential House	$\frac{3,00,000}{100} \times 301$	9,03,000	
Gold	$\frac{5,000}{167} \times 301$	9,012	
Land	$\frac{8,000}{109} \times 301$		22,092
Long-term Capital Gain/(Loss)	(4,03,000)	1,50,988	2,17,908

Whenever a Capital asset is transferred by a firm on its dissolution to the partner, the fair market value as on the date of dissolution is taken as full value of consideration for computation of Capital Gain.

Illustration 29: X and Y are two partners of a firm, A & Co. on January 1, 2008. B joins the firm and brings shares in a company as his capital contribution. Fair market value of these shares on 1st January, 2021 is ₹ 1,86,000, whereas amount credited to B's account is ₹ 1,10,000. Assuming that the cost of acquisition in 2006-07 of these shares was ₹ 48,000, find out the amount of chargeable capital gain for the assessment year 2021-22.

[Cost inflation index: 2006-07: 122; and 2020-21:301]

[CS Inter, Modified]**Solution:**

Particulars	₹
Full value of consideration [Value credited in firm's books]	1,10,000
Less: Indexed cost of acquisition [Long-term asset held for more than 36 months]	
$= \text{Cost of acquisition} \times \frac{\text{CII for the year of transfer [2020 -21]}}{\text{CII for year of acquisition [2006 -07]}}$	

$= ₹ 48,000 \times \frac{301}{122}$	1,18,426
Long-term capital loss	(8,426)

Compensation on Compulsory Acquisition of an Asset [u/s 45(5)]

When Applicable?:

These provisions apply to a capital asset transferred:

- (1) By way of compulsory acquisition under any law; or
- (2) For a consideration which is approved or determined by central Government or the Reserve Bank of India.

Initial Compensation Taxed When Received:

- (1) The capital gain is taxed in the previous year in which such compensation (or part thereof) is first received. [Normally, capital gain would be taxed in the year in which the capital asset is transferred].
- (2) In such cases, capital gain is computed by taking the initial compensation as the full value of consideration.
- (3) Holding period of the asset, in such cases, runs up to the date of compulsory acquisition [and not the date of receipt of consideration].
- (4) For indexation, the year of transfer [and not the year of receipt] is taken to be the year of compulsory acquisition.

Enhanced Compensation Taxed When Received:

If any such compensation is enhanced by a court, Tribunal or any authority, then it will be taxable as follows:

- (1) It shall be taxable in the previous year in which enhanced compensation is received.
- (2) It is taxed in the hands of the assessee or his successor.
- (3) Cost of acquisition and the cost of improvement shall be taken as nil (as these costs were already deducted from the initial compensation).
- (4) Litigation expenses for getting the compensation enhanced are deductible as expenses on transfer.
- (5) Such capital gain will be short-term or long-term depending upon whether the original capital gain was short-term or long-term. Reduction in compensation where such amount of the compensation is subsequently reduced by any court Tribunal or other authority, the capital gain of that year, in which the compensation received was taxed, shall be recomputed accordingly.

Illustration 30: Mahindra Ltd. has an industrial undertaking in New Bombay. An industrial plot owned by the company (cost of acquisition in 2002-03: ₹ 1,00,000) is compulsorily acquired by the Government of Maharashtra on December 15, 2009. The State Government pays ₹ 5,00,000 on March 23, 2021 as compensation under an award. Determine the amount of capital gains chargeable to tax.

Name of Assessee: Mahindra Ltd.

Legal Status: Company

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

Capital Gain on Compulsory Acquisition (PREVIOUS year 2020-21)

Particulars	₹
Compensation from the Government (received on 23-03-2021)	5,00,000
Less: Indexed cost of acquisition [long-term assets]	
= Cost of original acquisition $\times \frac{\text{CII for the year of compulsory acquisition (2009 - 10)}}{\text{CII for year of original acquisition (2002 - 03)}}$	
= ₹ 1,00,000 $\times \frac{148}{105}$	(1,40,952)
Long-term capital gains	3,59,048

Illustration 31: The Central Government acquires the property of Mr. Jayakishan on 1-6-2019. It was purchased by him on 1-1-2003 for ₹ 3,98,000. He had incurred expenses of ₹ 99,500 on making capital alterations to it during May 2008. A compensation of ₹ 10,00,000 was awarded to Mr. Jayakishan, which he received on 1-6-2000. He filed a suit against the Government for increasing the amount of compensation. The High Court increased the compensation by ₹ 2,00,000 on 1-1-2012 which was actually received by Mr. Jayakishan on 1-1-2021. He had incurred ₹ 10,000 as legal expenses in this connection. Calculate the amount of taxable capital gains.

[Cost Inflation Index: 2001-02:100; 2012-13:200; 2017-18: 272; 2018-19:280; 2019-20:289; 2020-21:301;

And 2021-22:317].

[IPCC Modified]

Solution:

Name of Assessee: Mr. Jayakishan

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

Capital Gain on Compulsory Acquisition of Capital Asset (Previous Year)

Particulars	₹
Full value of consideration [initial compensation received on 01-06-2020]	10,00,000
Less: Indexed cost of acquisition [long-term asset held for more than 36 months]	
= Cost of acquisition $\times \frac{\text{CII for the year of transfer [2019 - 2020]}}{\text{CII for year of acquisition [2012 - 13]}}$	5,75,110
= ₹ 3,98,000 $\times \frac{289}{200}$	
Less: Indexed cost of improvement	
= Cost of Improvement $\times \frac{\text{CII for the year of transfer [2019 - 2020]}}{\text{CII for year of acquisition [2008 - 09]}}$	2,09,894
	(7,85,004)

$= ₹99,500 \times \frac{289}{137}$	
Long-term capital gains	2,14,996

Capital Gain on Receipt of Enhanced Compensation

Particulars	₹	₹
Extra compensation received on 01-01-2021	2,00,000	
Less: Legal expenses	(10,000)	1,90,000
Less: Cost of acquisition		Nil
Long-term capital gain		1,90,000

Illustration 32: Manik owns a building (cost: ₹ 1,00,000, date of purchase: June 6, 2002). It is acquired by the Central Government on April 28, 2011. On May 10, 2011, the Government award ₹ 20 lakhs as compensation, which is paid on May 10, 2011. He files an appeal in the High Court to get the enhancement. The High court increase the compensation from ₹ 20 lakhs to ₹ 32 lakhs. After paying additional compensation of ₹ 12 lakhs on October 10, 2012, the Government files an appeal in the Supreme Court. By an order dated March 20, 2021, the Supreme Court reduces the compensation from ₹ 32 lakhs to 25 lakhs. ₹ 7 lakhs is refunded by Manik to the Government. Examine the taxability during the various years involved.

[CS Inter Modified]**Solution:**

Name of Assessee: Mr. Manik

Legal Status: Individual

P.Y.: 2010-11

Residential Status: R&OR

A.Y.: 2011-12

Particulars	₹
Sale consideration (Being the amount of initial compensation)	20,00,000
Less: Indexed cost of acquisition [$₹ 1 \text{ lakh} \times 184 \div 105$]	(1,75,238)
Long-term capital gain	18,24,762

P.Y.: 2020-21

Computation of Capital Gain

A.Y.: 2021-22

Particulars	₹
Additional compensation	12,00,000
Less: Cost acquisition	Nil
Long-term capital gain	12,00,000

P.Y.: 2020-21

Recomputation of Income in Assessment Year 2021-22

A.Y.: 2021-22

Particulars	₹
Revised additional compensation	5,00,000
Less: Cost of acquisition	Nil
Long-term capital gain	5,00,000

The capital gain will be recomputed in the assessment year 2020-21 and excess tax paid earlier will be refunded by the assessing officers on the basis of Supreme Court orders.

Illustration 33: The Central Government acquires a house property owned by Mr. Naresh on 10th September, 2001. This property was purchased on April 10, 2001 for ₹ 1,32,000 (cost of improvement incurred during 2005-06: ₹ 40,000). The Government awards ₹ 17,67,000 as compensation which is received on 4th May, 2019. Being aggrieved against the award, Mr. Naresh files an appeal. The Court, as per order dated 1st April, 2020 enhanced the compensation from ₹ 17,67,000 to ₹ 20,50,000. Mr. Naresh receives the additional compensation of ₹ 2,83,000 on 15th April, 2020, compute the income under the head "Capital Gains".

[Cost Inflation Index: 2001-02: 100; 2005-06: 133; 2011-12: 426; 2020-21: 301]

Solution:

Name of assessee: Naresh

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

Computation of Capital Gain

Particulars	₹	₹
Full value of consideration (Initial)		17,67,000
Less: Indexed cost of acquisition		
$\left(\frac{\text{Cost of Acquisition or FMV as on 1.4.01}}{\text{Cost Inflation Index of year acquired}} \times \frac{\text{Cost Inflation Index in the year acquired by government}}{\text{Actually Acquired Year}} \right)$ $= 1,32,000 \times \frac{301}{100}$	3,97,320	
Less: Indexed cost of improvement		
$\left(\frac{\text{Cost of Improvement incurred after 1.4.2001}}{\text{Cost Inflation Index in which year the improvement took place}} \times \frac{\text{Cost Inflation Index for year of transfer to the Govt.}}{\text{}} \right)$ $= \frac{40,000}{117} \times 301$	1,02,906	5,00,226
Long-term capital gain		12,66,774

P.Y.: 2020-21

Computation of Capital Gain

A.Y.: 2021-22

Particulars	(₹)
Additional compensation received	2,83,000
Less: Cost of acquisition	Nil
Less: Cost of improvement	Nil
Long-term capital gain	2,83,000

Illustration 34: The Central Government acquires a house property owned by Rajan on October 17, 2012. This property was purchased on April 10, 1996 for ₹ 76,000 (cost of improvement incurred during 2005-06: ₹ 40,000 and fair market value of the property on April 1, 2001 was ₹ 1,32,000). The Government awards ₹ 5,67,000 as compensation out of which ₹ 1,00,000 is received on May 4, 2020 and ₹ 4,67,000 is received on April 1, 2020. Expenditure incurred by Rajan for getting compensation fixed: ₹ 2,000. Being aggrieved against the award, Rajan files an appeal. The Bombay Court, as per order dated August 1, 2020, enhanced the compensation from ₹ 5,67,000 to ₹ 8,50,000 (legal expenditure incurred in Court's proceedings: ₹ 10,000). Rajan receives the additional compensation of ₹ 2,83,000 on April 15, 2020. Compute the income under the head "Capital gains". Does it make any difference if the additional compensation is received by Rajan's son after the death of Rajan? **[IPCC Modified]**

Solution:

Assessment year 2021-22, i.e., relevant to the previous year 2020-21 in which initial compensation (or part thereof) is received for the first time.

	Name of Assessee: Rajan	
	Legal Status: Individual	
P.Y.: 2020-21	Residential Status: R&OR	A.Y.: 2021-22

Computation of Capital Gain

Particulars	(₹)
Initial compensation	5,67,000
Less: Indexed cost of acquisition (Note 1)	2,64,000
Indexed cost of improvement (Note 2)	1,06,548
Expenditure	2,000
Long-term capital gain	1,94,452

Notes:

- (1) Indexed cost of acquisition is computed as follows:

$$₹ 1,32,000 \times \frac{200^{**}}{100^{***}} = ₹ 2,64,000$$

* Fair market value on April 1, 2001.

** Cost inflation index for 2012-13 (i.e., the year in which property is acquired).

*** Cost inflation index for 2001-02.

- (2) Indexed cost of improvement is computed as follows:

$$₹ 40,000 \times \frac{301^{**}}{113^{***}} = ₹ 1,06,548$$

* Cost of improvement.

** Cost inflation index of the year in which property is acquired (i.e., 2012-13).

*** Cost inflation index of the year in which improvement took place.

Assessment Year 2021-22

(i.e., relevant to the previous year 2020-21 in which additional compensation is received)

Particulars	(₹)
Additional compensation	2,83,000
Less: Cost of acquisition	Nil
Cost of improvement	Nil

Expenditure	10,000
Long-term capital gain	2,73,000

Note: If the additional compensation is received by Rajan's son, it will be taxable in the hands of son.

When After Receipt of Compensation, Later on it is Reduced: The tax treatment of reduction in compensation (after receipt of compensation) is given below:

Illustration 35: Rajeev purchases a house property in 2005. It is compulsorily acquired by the Government on April 20, 2006 (indexed cost of acquisition is ₹ 40,000).

Compensation paid by the Government on May 6, 2011: ₹ 6,00,000.

The Delhi High Court increases the compensation from ₹ 6,00,000 to ₹ 9,30,000 on the appeal filed by Rajeev legal expenditure incurred by Rajeev ₹ 10,000). The Government on June 10, 2011 pays the additional compensation of ₹ 3,30,000 but the Government files an appeal in the Supreme Court against the judgment of the Delhi High Court.

The Supreme Court reduces the quantum of compensation from ₹ 9,30,000 to ₹ 7,50,000 by its judgment dated March 20, 2020. Rajeev repays ₹ 1,80,000 to the Government on April 6, 2020. Legal expenditure incurred by Rajeev in Supreme Court is ₹ 25,000. **[CS InterModified]**

Solution: In this case, income would be computed as follows:

Name of Assessee: Mr. Rajeev

Legal Status: Individual

P/Y: 2020-21

Residential Status: R&OR

A/Y: 2021-22

Computation of Capital Gain

	(₹)
Assessment year 2011-12:	
Sale consideration (being the original compensation)	6,00,000
Less: Indexed cost of acquisition	40,000
Long-term capital gains	5,60,000
Assessment year 2012-13:	
Sale consideration (being the additional compensation awarded by Delhi High Court)	3,30,000
Less: Indexed cost of acquisition	Nil
Less: Expenses on transfer	10,000
Long-term capital gains	3,20,000
Recomputation of income of the assessment year 2021-22 after the verdict of the Supreme Court.	
Sale consideration (₹ 7,50,000 minus ₹ 6,00,000 being the original compensation)	1,50,000
Less: Indexed cost of acquisition	Nil
Less: Expenses on transfer (₹ 10,000 + 25,000)	35,000
Long-term capital gains	1,15,000

Note: The Assessing Officer can re-compute the income of the assessment year 2021-22 within 4 years from the end of the year in which order of the Supreme Court, reducing the compensation, is passed (i.e., March 31, 2018, being 4 years from the last day of the year in which March 20, 2014 falls).

Computation of capital gains in the case of non-resident (First Proviso to Sec. 48): First proviso to Section 48 is applicable only in the case of a non-resident. Under this provision, capital gains is calculated in foreign currency in some cases.

- **Conditions:** To avail the benefit of this provision, the following conditions should be satisfied.

Condition 1 The taxpayer is a non-resident (maybe an Indian or foreign citizen, or a corporate assessee or a non-corporate assessee but not being an assessee covered by Sections 115AC and 115AD).

Condition 2 He acquires shares in (or debentures of) an Indian company (maybe public limited or private limited) by utilising foreign currency.

Condition 3 The asset may be short-term or long-term.

- **Rule of computation:** If the aforesaid conditions are satisfied, then the following procedure shall be adopted to determine capital gain (it may be noted that the procedure given below is applicable without any exception whenever the above conditions are satisfied).
 - (a) Capital gain shall be computed in the same foreign currency which was initially utilised in acquiring shares or debentures.
 - (b) Capital gain so calculated in the foreign currency shall be reconverted into Indian currency.
 - (c) The benefit of indexation shall not be available.
 - (d) The aforesaid manner of computation of capital gain shall be applicable in respect of capital gain accruing or arising from every re-investment thereafter in (and sale of) shares in (or debentures of) an Indian company.
 - (e) The aforesaid mode of computation is applicable only when the above-mentioned conditions are satisfied. In no other case, the above procedure is applicable.
- **How to determine capital gain?:** In order to understand the method of computation of capital gain, it is imperative to know the meaning of: (a) average exchange rate and (b) buying rate.
 - (a) **Average exchange rate:** It is the average of the telegraphic transfer buying rate and telegraphic transfer selling rate of the foreign currency initially utilized in the purchase of the said asset.
For this purpose, telegraphic transfer buying/selling rate in relation to a foreign currency is rate of exchange adopted by the State Bank of India for purchasing or selling such currency where such currency is made available by that bank through telegraphic transfer.
 - (b) **Buying rate:** It is telegraphic transfer buying rate of such currency.
 - (c) **Mode of computing capital gain:** Capital gain shall be determined as under—

	Conversion Rate	Conversion Rate of Which Date is Applicable	Computation
Sale consideration	Average exchange rate	Date of transfer	Find out sale consideration in Indian currency and convert it into foreign currency at “average exchange rate” on the date of transfer (suppose it is x).
Cost of acquisition	Average exchange rate	Date of acquisition	Find out the cost of acquisition in Indian currency and convert it into foreign currency at “average exchange rate” on the date of acquisition (suppose it is y).
Expenditure on sale	Average exchange rate	Date of transfer	Find out the expenditure on transfer in Indian currency and convert it into foreign currency at “average exchange rate” on the date of transfer (not on the date when expenditure is incurred) (suppose it is z).
Capital gain	Buying rate	Date of transfer	(x-y-z) will be reconverted into Indian currency at “buying rate” on the date of transfer.

Exemption of Capital Gain on Compensation Received on Compulsory Acquisition of Urban Agriculture Land [u/s 10(37)]

Capital gain (whether short-term or long-term) will be exempt to tax if the following conditions u/s 10(37) are satisfied:

- (1) The assessee is an individual or a Hindu Undivided family.
- (2) He owns an agriculture land situated in urban area mentioned in Section 2(14)(iii)(a)(b).
- (3) There is transfer of the agriculture land, by way of compulsory acquisition or the consideration for transfer is approved or determined by the Central Government or RBI.
- (4) The agriculture land was used by the assessee (and/or his parents if the land was owned by an individual) for agriculture purpose during 2 years immediately prior to the date of transfer.
- (5) The asset may be long-term capital asset or short-term capital asset.
- (6) Capital gain arises from compensation (and/or additional compensation) or consideration which is received by the assessee after March 31, 2005.

Repurchase of Units under ELSS [u/s 45(6)]

- (1) These provisions apply to units referred to in u/s 80CCB(2), i.e., units issued under Equity Linked Savings Scheme (ELSS) or a Trust.
- (2) Capital gain arises to assessee when such units are repurchased by the Fund or Trust.
- (3) Capital gain are taxed in the year such units are repurchased or the plan is terminated.
- (4) Capital gain are equal to Repurchase price of units Less capital value of such units, i.e., amount invested by the assessee in such units.

Non-resident [u/s 48 – 1st Provision]

When Applicable?: To avail the benefit of this provision, the following conditions should be satisfied:

- (1) The taxpayer is a non-resident (but not covered by Sections 115AC and 115AD);
- (2) He transfers shares in (or debentures of) an Indian company;
- (3) Such asset were acquired by him by utilizing foreign currency;

Rules of Computation: If the above conditions are satisfied, the capital gain are computed in the following manner:

- (1) **Computing in FC:** Capital gain shall be first computed in the same foreign currency (FC) which was initially used in acquiring shares or debentures.
- (2) **Converting Consideration, Transfer Expenses and Cost in FC:** Thus, the full value of consideration, the transfer expenses and the cost of acquisition, expressed in Rupees, are converted in the foreign currency. Originally used to acquire the asset, in the following manner—
 - (a) Consideration is converted using the average exchange rate on date of transfer.
 - (b) Transfer expenses are converted using the average exchange rate on the date of transfer (not the date of incurring the expenditure).
 - (c) Cost of acquisition is converted using the average exchange rate on the date of acquisition.
- (3) **Gains in Terms of FC:** Capital gain is then calculated in terms of foreign currency (consideration Less Transfer expenses Less Cost of an acquisition).
- (4) **Converting FC gains in `:** Capital gain so calculated in the foreign currency is then converted into Indian currency by using the buying exchange rate on the date of transfer.

- (5) **FC Rates:** Conversion between rupee and foreign currency shall be made by using the Telegraphic Transfer [TT] buying and selling rates adopted by the State Bank of India, on the relevant dates. Averages Exchange Rate means the average of the buying and selling rate.
- (6) **No Indexation:** The benefit of indexation shall not be available.
- (7) **Gains from Reinvestment:** Capital gain accruing or arising from every reinvestment thereafter in (and sale of) shares in (or debentures of) an Indian company, shall also be computed as above.

Capital Gain on Foreign Exchange Asset by NR

No.	What is to be Computed?	How?	Rate on Date of	₹	US\$
1	Full value of consideration (VC)		VC in ₹		
2	Converted consideration	$[1] \times \text{AR}$	Transfer		VC in \$
3	Less: Transfer Expenses (TE)			TE in ₹	
4	Converted transfer expenses	$[3] \times \text{AR}$	Transfer		TE in \$
5	Less: Cost of acquisition (CA)			CA in ₹	
6	Converted cost of acquisition	$[5] \times \text{AR}$	Acquisition		CA in \$
7	Long-term capital gains (\$)	$[2] - [4] - [6]$			LTCG in \$
8	Long-term capital gains (₹)	Buying Rate $\times$ [7]	Transfer	LTCG in ₹	

Illustration 36: Medona, a non-resident Indian, remits US\$ 40,000 to India on September 16, 2009. The amount is partly utilised on October 3, 2009 for purchasing 10,000 shares in A Ltd., an Indian company at the rate of ₹ 12 per share. These shares are sold for ₹ 29 per shares on January 30, 2021. You are required to compute capital gains chargeable to tax for the assessment year 2020-21 on the assumption that telegraphic transfer buying and selling rate of US\$ adopted by the State Bank of India were as follows:

Date	Buying (1 US\$)	Selling (1 US\$)
16-09-1989	18	20
03-10-1989	19	21
30-01-2017	58	60

[CS Inter, Modified]

Solution: Capital gain of foreign exchange of non-resident (Previous Year 2020-21)

Name of Assessee: Medona

Legal Status: Individual

P.Y.: 2020-21

Residential Status: Non-resident

A.Y.: 2021-22

Computation of Capital Gain

Particulars	₹	US \$
Full value of consideration [10,000 shares $\times$ ₹ 58]	5,80,000	
Converted consideration @ 58 per US\$ – Average rate on 30-01-2021		10,000
Less: Cost of acquisition [10,000 shares $\times$ ₹ 12]	(1,20,000)	
Converted cost @ 20 per US\$ – average rate on 03-10-2009		(6,000)
Long-term Capital Gain US\$		4,000
Long-term Capital Gain in Indian currency		
Converted @ ₹ 58 per US\$ buying rate on 30-01-2020 (4,000 $\times$ 58)	2,32,000	

Note: In such cases, the change in the exchange rate is like change in cost of inflation. Hence, no separate adjustment for cost inflation index is necessary.

Goodwill: Capital Assets covered under these provisions are applicable to:

- Goodwill of a business → Trade mark or brand name associated with business.
- Patents Rights to manufacture, process of produce any article or things.
- Tenancy Rights to carry on any business → stage carriage permits → lorry permits.

Computation of Cost for above capital assets

Particulars	Cost of Acquisition	Cost of Improvement
Purchased	Purchase price	Nil
Acquired as mode u/s 49(1)	Cost of previous owner	Nil
Self-generated	Nil	Nil

Computation of Capital Gains:

(1) Capital gain on transfer of goodwill/tenancy rights/lorry permits etc.

Sale consideration	xx
Less: Expenses on transfer [cost of acquisition/improvement]	(xx)
Capital gain/Loss	xxx

Illustration 37: Vijay transfers the following assets on May 15, 2020:

Particulars	Cost (₹)	Fair Market Value on April 1, 2001 (₹)	Sale Consideration (₹)
Land (acquired in 1998)	20,000	45,000	1,25,000
Goodwill of a business	—	10,000	1,75,000
Tenancy rights (Self-generated)	—	30,000	2,00,000

Determine the amount of capital gains chargeable to tax for the assessment year 2021-22. Does it make any difference if the goodwill is of a profession?

Solution:

Name of Assessee: Vijay

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

Computation of Capital Gain

Particulars	Land (₹)	Goodwill (₹)	Tenancy right (₹)
Sale consideration	1,25,000	1,75,000	2,00,000
Less: Indexed cost of acquisition in the case of land (i.e., ₹ 45,000 × $\frac{301}{100}$)	1,35,450	Nil	Nil
Long-term capital (loss)/Gain	(10,450)	1,75,000	2,00,000

It will not make any difference, if the goodwill is of a profession. Sale of self-generated Goodwill of the profession will not attract Capital Gain.

Illustration 38: Compute the capital of gains in the following cases: (Answer in brief)

- (1) Monu commenced business on 01-04-2001. He sold this business on 01-10-2020 and received, *inter alia* (among others), ₹ 5,00,000 towards goodwill.

- (2) Monu had acquired a business on 01-04-2001 by paying ₹ 2,00,000 towards goodwill. He sold this business on 01-08-2020 and received ₹ 10,00,000 towards Goodwill.
- (3) Monu is staying in a rental flat since July 2005. The landlord paid ₹ 10,00,000 to Monu as compensation for surrender of tenancy, in June 2020.
- (4) Monu purchased tenancy right on 01-07-2001 for ₹ 2,50,000. He transferred the tenancy right on 01-06-2020 for ₹ 27,50,000.
- (5) Vinu is a lawyer practicing in Mumbai since 2005. He transfers his practice to Gonu on 25-09-2020 and charges ₹ 7,50,000 towards goodwill.

[ICWA Inter, Modified]

Solution:

Name of Assessee: Monu

Legal Status: Individual

P.Y.:2020-21

Residential Status: R&OR

A.Y.:2021-22

(1) Transfer of self-generated goodwill of business: Entire amount of ₹ 5,00,000 is taxable as long-term capital gain (cost of self-generating goodwill is taken as nil).

(2) Transfer of purchased goodwill:

Particulars	₹
Sale consideration	10,00,000
Less: Indexed cost of acquisition (purchased goodwill) = $2,00,000 \times \frac{301}{100}$	6,02,000
Long-term capital gain	3,98,000

(3) Transfer of self-generated tenancy right: Entire amount of ₹ 10,00,000 is taxable term capital gain (cost of self-generated asset is taken as nil).

(4) Transfer of purchased tenancy right:

Particulars	₹
Sale consideration	27,50,000
Less: Indexed cost of acquisition (purchased right) = $2,50,000 \times \frac{301}{100}$	7,52,500
Long-term capital loss	19,97,500

(5) Transfer of self-generated goodwill of profession: Self-generated goodwill of a profession is not taxable, u/s 55 does not mention it.

Bonus Shares [u/s 55(2)(aa)]

- (1) The cost of acquisition of any bonus shares shall be taken to be nil (w.e.f. 01-04-2006).
- (2) The period of holding such bonus shares is to be calculated from the date of allotment of such share for treating them as short-term or long-term.

Cost of Original and Bonus Shares

No.	Situation	Cost of Acquisition	
		Original Shares	Bonus Shares
(A)	Original shares and bonus shares acquired before 1-4-2001	Actual cost or fair market value on 1-4-2001, whichever is more	Fair market value on 1-4-2001

(B)	Original shares acquired before 1-4-2001, but bonus shares allotted on or after 1-4-2001	Actual cost or fair market value on 1-4-2001 whichever is more	Nil
(C)	Original shares and bonus shares acquired on or after 1-4-2001	Actual cost	Nil

Note: Indexation will be applicable if the gain are long-term capital gain.

Illustration 39: Mr. Sharewalla has the following unlisted shares:

- (1) 1000 shares in A Ltd. purchased on January 1997 for ₹ 2,000. He had paid brokerage @ 5%.
- (2) He received 500 shares as Bonus share's in A Ltd. On 01-01-2005.
He sold all his share in A Ltd. on 01-01-2021 (@ ₹ 90 per share. Brokerage paid was @ 3.33%. Fair market value of each share on 01-04-2001 was ₹ 10. [Cost inflation index for 2001-02: 100; 2020-21: 301]

Solution:

Name of Assessee: Mr. Sharewalla

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R&OR

A.Y.: 2021-22

(1) Capital gain on sale of shares originally purchased [Previous year 2020-21]

Particulars	₹
Full value of consideration [1,000 share × ₹ 90]	90,000
Less: Expenses on transfer [3.33% × 90,000] Brokerage	3,000
	87,000
Less: Indexed cost of acquisition [Long-term asset held for more than 12 months]	
= Cost of Acquisition × $\frac{\text{CII for the year of transfer [2020 - 21]}}{\text{CII for year of acquisition /2001}}$	
= [1,000 shares × ₹ 10 (fair market value on 01-04-2001)] × $\frac{301}{100}$	30,100
Long-term capital gain	56,900

(2) Capital gain on sale of bonus [Previous year 2020-21]

Particulars	₹
Full value of consideration [500 shares × ₹ 90]	45,000
Less: Expenses on transfer [3.33% × 45,000]	(1,500)
	43,500
Less: Cost of acquisition	Nil
Long-term capital gain	43,500

Right Shares/Entitlement [u/s 55(2)(aa)]

- (1) The cost of right entitlement in the hand of the original shareholder is deemed to be nil. The amount realized by the original shareholder by selling (renouncing) his right entitlement will be the capital gain in his hand (since the cost is taken as nil). The period of holding the rights entitlement will run from the date of offer made by the company to the date of renouncement.

- (2) The cost of the right shares acquired by the original shareholder is the price actually paid by him to the company for acquiring the rightshares.
- (3) Where however, the renouncee acquires, his cost of the right share is equal to the cost incurred by him for purchasing the right entitlement plus the price paid by him to the company for acquiring the rightshare.

Ascertaining Date of Acquisition of Right

Situation	Particulars	Count Period of Holding from
1	When the assessee subscribes to right share	Date of allotment
2	When the assessee renounces the right to subscribe	Date of offer of such right
3	When a person in whose favour the above right to subscribe has been renounced subscribes to the shares	Date of allotment

Illustration 40: Manoj purchased 1000 non-listed shares of Rs.10/- each in A Ltd. on August 10th, 2010 for ₹ 8,000. On May 17, 2012, he gets 500 bonus shares and on October 20, 2019 acquires 1,500 right shares at the rate of ₹ 11 per share. He sells 3,000 shares in A Ltd. on February 12, 2021 at the rate of ₹ 110 per share (brokerage on sale 1 per cent). Ascertain the amount of capital gain chargeable to tax for the assessment year 2021-22.

Solution:

Name of Assessee: Manoj

Legal Status: Individual

P.Y.:2020-21

Residential Status: R&OR

A.Y.:2021-22

A Ltd.

Particulars	1,000 Original Shares (₹)	Bonus Shares (₹)	1,500 Right Shares (₹)
Sale consideration @ ₹ 110 each	1,10,000	55,000	1,65,000
Less: Expenses on transfer @ 1%	(1,100)	(550)	(1,650)
Less: Indexed cost of acquisition	1,08,900	54,450	1,63,350
$= \left[8,000 \times \frac{301}{200} \right]$	12,040	—	
$= \left[1,500 \times \frac{301}{389} \right]$			15,623
Long-term capital gain	96,860	54,450	1,47,727

Illustration 41: Mr. Lee owns the following depreciable assets on 31/03/2020.

Particulars	Rate of Depreciation	WDV on 31/03/2020 (₹)	Date of Purchase
Building	10%	20,000	01/04/2019
Furniture	15%	40,000	01/04/2019
Machinery	20%	50,000	01/06/2019

During the year 2020-21, the transactions of purchase/sale were as follows:

- (1) Half of the building was sold for ₹ 25,000 on 01-07-2020.
- (2) Some furniture was purchased on 01-12-2019 for ₹ 10,000.
- (3) The entire machinery was sold for ₹ 35,000 on 11-03-2021.

Calculate the amount of depreciation and amount of capital gain/loss, if any.

[Modified, T.Y. BAF, Sem VI, May 2008]

Solution:

P.Y.:2020-21

Name of Assessee: Mr. Lee

A.Y.:2021-22

Computation of Total Income

Particulars	₹
(1) Building (10%)	
Full value of consideration	25,000
(-) WDV opening	(20,000)
Short-term capital gain	5,000
(2) Furniture (15%)	
Opening WDV	40,000
Add: Purchased during the year	10,000
Less: Depreciation	(6,750)
Net Block	43,250
(3) Machinery @20%	
Full value of consideration	35,000
Less: Opening W.D.V.	(50,000)
Short-term capital loss	(15,000)

Note: Amount of depreciation = ₹ 6,750. Amount of capital loss = (10,000) [15,000 + (15,000)]

Illustration 42: Raghavan owned a residential house at Madurai, the original cost of which was ₹ 1,00,000. It was acquired on 1/9/2001. He sold the house on 1.6.2020 for ₹ 18,00,000 and purchased another house on 30/1/2021 at Tiruchi for ₹ 6,00,000. The second house at Tiruchi was sold by him for ₹ 18,00,000 on 30/6/2021. Discuss the impact of these transactions with regard to assessment to capital gains.

Cost inflation index:

2001-02	100
2020-21	301
2021-22	317

[T.Y. B.Com., MU, PU, NU Modified]

Solution:

Name of Assessee: Mr. Raghavan

Legal Status: Individual

P.Y.:2020-21

Residential Status: R&OR

A.Y.:2021-22

Computation of Capital Gain on the Sale of First House at Madurai

Particulars	(₹)
Sale consideration	18,00,000
Less: Indexed cost of acquisition $1,00,000 \times 301 \div 100$	3,01,000
Long-term capital gain	14,99,000
Less: Deduction u/s.54 Residential building at Tiruchi acquired within 2 years after the transfer	6,00,000
Taxable long-term capital gain	8,99,000

Legal Status: Individual
P/Y:2021-22 Residential Status: R&OR A/Y:2022-23

Computation of Capital Gain on Sale of House at Tiruchi

Particulars	(`)
Sale consideration	18,00,000
Less: Cost of acquisition	Nil
Taxable short-term capital gain	18,00,000

Notes:

- (1) Since the assessee had acquired property at Tiruchi subsequently, it is assumed that he has complied with the conditions of Section 54 and hence the entire capital gain reinvested in construction or acquisition of another residential house is deducted under Section 54.
- (2) As the assessee has sold the house at Tiruchi on 30-06-2021, within three years after the date of acquisition, clause (i) of Section 54(1) has to be applied; the earlier exemption will be revoked and the cost of acquisition will be taken as Nil.

Illustration 43: Mr. Sawant purchases a house property for ` 40,000 on 10/5/1992. He gets the first floor of the house constructed in 1997-98 by spending ` 90,000. He dies on 12/9/2004. The property is transferred to Mrs. Sawant by his will. Mrs. Sawant spends ` 1,60,000 and ` 53,400 during 2005-06 and 2006-07 respectively for renewals of the property. Mrs. Sawant sells the house property for ` 2,50,00,000 on 15/3/2021. Mrs. Sawant paid brokerage of ` 1,10,000 for the sale transaction. She purchased a new residential house for ` 98,78,219 on 18/03/2021. The fair market value of the house on 1/4/2001 is ` 6,00,000. The cost inflation index for F.Y.2001-02 is 100, for F.Y.2004-05 is 113, for F.Y.2005-06 is 117, for F.Y. 2006-07 is 122, and F.Y. 2020-21 is 301.

You are required to compute the amount of capital gains.

[MU, TYBAF, April 2013, Modified]

Solution:

Name of Assessee: Mr. Sawant

Legal Status: Individual

P/Y – 2020-21

Residential Status: R&OR

A/Y – 2021-22

Computation of Capital Gains

Particulars	`	`
Full Value of Sales Consideration		2,50,00,000
Less: Brokerage		1,10,000
Net Sales Consideration		2,48,90,000
Less:		
(1) Indexed Cost of Acquisition (2004-05) $(6,00,000 \times 301/113)$	15,98,230	
(2) Indexed Cost of Improvement (2005-06) $(1,60,000 \times 301/117)$	4,11,624	
(3) Indexed Cost of Improvement (2006-07) $(53,400 \times 301/122)$	1,31,749	21,41,603
Long-term Capital Gain		2,27,48,397
Less: Exemption under Section 54		98,78,219
Taxable Long-term Capital Gain		1,28,70,178

Exercises

Multiple Choice Questions

- Short-term capital gain arise on transfer of shares and unit held by the assessee for not more than _____.
 (a) 12 months from the date of acquisition (b) 36 months from the date of acquisition
 (c) 24 months from the date of acquisition (d) 54 months from the date of acquisition.
- Distribution of assets at the time of partial or complete partition of HUF shall _____.
 (a) Neither be regarded as transfer in the hands of HUF nor in the hands of coparceners
 (b) Be regarded as a transfer in the hands of HUF for capital gain purposes
 (c) Be regarded as a transfer in the hands of coparceners (members of HUF)
 (d) All of the above
- Cost of improvement of goodwill of a business shall be _____.
 (a) Nil
 (b) The capital expenditure incurred
 (c) Capital expenditure incurred on or after 1/4/01
 (d) Additional expenditure incurred
- In case of long-term capital gain, the amount to be deducted from sale consideration shall be _____.
 (a) Indexed cost of acquisition (b) Market value on 1/4/01
 (c) Cost of acquisition (d) All of the above
- In case of compulsory acquisition, the indexation of cost of acquisition or improvements shall be done till the _____.
 (a) Year in which full compensation is received
 (b) Year in which part or full compensation is received
 (c) Previous year of compulsory acquisition
 (d) All of the above
- Exemption under section 54 shall be available to _____.
 (a) Individual only (b) Individual + HUF
 (c) All assessees (d) None of the above

(Ans.: 1. (a), 2. (a), 3. (a), 4. (a), 5. (c), 6. (b))

Fill in Blanks

- Income from Profit and Gains of business or profession is ₹ 3,00,000 and his loss from speculative business is ₹ 3,00,000, during the same previous year. Net business income taxed during the previous year will be _____.
- _____ mean income from the transfer of a _____.
- Unit of Mutual fund held for 6 months is treated as _____ capital asset.
- Transfer of depreciable assets gives rise to _____ capital gains.
- The _____ arising from transfer by way of conversion of an asset into stock-in-trade will be chargeable to tax in the year when the stock is _____.
- Capital gains or loss on transfer of depreciable asset is always _____.
- Enhanced compensation for compulsory acquisition is allowable in _____ in which it is _____.

(Ans.: 1. ₹ 3,00,000, 2. Capital Assets, 3. short, 4. Short term, 5. Capital gain, 6. Short term, 7. Previous year, Received)

Match the Following Columns

Column A	Column B
1. Furniture hold for personal use	(a) Indexation applicable
2. Diamonds	(b) Indexation not applicable
3. Conversion of capital asset into stock-in-trade	(c) CG taxable in the year when stock is sold
4. Enhanced compensation on compulsory acquisition	(d) It is a Capital Asset
	(e) It is not a Capital Asset
	(f) Short-term capital gain
	(g) Conversion of stock is not transfer
	(h) Long-term capital gain
	(i) Cost of acquisition is Nil. Cost of improvement is Nil

(Ans: 1. (e), 2. (d), 3. (c), 4. (g))

State Whether the Following Statements are True or False

1. Capital Gain on Transfer of depreciable asset is always short-term capital gain. (Ans.: True)
2. Any amount received as consideration for the relinquishment of such property is a transfer. (Ans.: True)
3. Enhanced compensation in case of compulsory acquisition is not taxable in the previous year in which it is received. (Ans.: True)
4. Transfer does not include compulsory a question under law. (Ans.: True)
5. Short-term capital gain arises when net consideration does not exceed WDV plus addition of depreciable assets. (Ans.: True)
6. Personal effects do not include jewellery. (Ans.: False)
7. In the case of compulsory acquisition, the indexation of cost of acquisition shall be done based on the Cost Inflation Index for the previous year in which the compensation is received. (Ans.: False)
8. The Cost Inflation Index number of the previous year 2009-10 is 632. (Ans.: True)
9. When the entire block of the depreciable assets is transferred after 36 months, there will be short-term capital gain or loss. (Ans.: True)
10. There will be long-term capital gain, if plant and machinery is transferred after it is held for less than 12 months. (Ans.: False)
11. Short-term capital gain is gain arising from the transfer of an asset which is held for less than 12 months. (Ans.: False)
12. Capital gain arises from the transfer of any asset. (Ans.: False, any Capital asset)
13. Depreciable assets are treated as capital assets for capital gain purposes. (Ans.: True)
14. Jewellery held as stock-in-trade is treated as capital assets for capital gain purposes. (Ans.: False, Stock-in-trade)
15. Trade mark or brand name is treated as capital assets for capital gain purposes. (Ans.: True)
16. Short-term capital gain is gain arising from the transfer of any asset, which is held by the assessee for not more than 12 months from the date of its acquisition. (Ans.: False, 12 months from the date of its acquisition in case of shares and securities, but 36 months for other Capital Assets)
17. There will be long-term capital gain, if Plant and Machinery is transferred after it is held for more than 12 months. (Ans.: False, more than 36 months)
18. Period of holding of bonus shares shall be counted from the date of holding of original shares. (Ans.: False, the date of allotment of such bonus shares)

19. Period of holding of right shares shall be counted from the date of the application for right shares by the assessee. (Ans.: False, the date of allotment of right shares)
20. Securities transaction tax paid by the seller of shares shall be allowed as deduction as expenses of transfer. (Ans.: False, not to be allowed as deduction)
21. Securities transaction tax paid by the purchaser of shares shall form part of the cost of such shares. (Ans.: False, not form part of the cost of such shares)
22. Where the capital asset becomes the property of the assessee in any manner given under section 49(1), the cost of acquisition of such assets shall be the market value of the asset as on the date of acquisition by the assessee. (Ans.: False, cost for which the previous owner of the property acquired it)
23. If the shares are acquired on conversion of debentures, the cost of acquisition of such shares shall be cost of acquisition of the debentures. (Ans.: True)
24. The cost of acquisition of the employees' stock option shall be market value of the shares on the date of transfer. (Ans.: False, nil on price at which it was offered to employees)
25. If the tenancy rights are acquired before 1-4-1981, the cost of their acquisition shall be the market value as on 1-4-1981. (Ans.: False, cost for which it was acquired by assessee)
26. If the bonus shares are acquired before 1-4-1981, the cost of acquisition of such bonus shares shall be market value of such bonus shares on the date of allotment. (Ans.: False, market value as on 1-4-2001)
27. Cost of improvement of goodwill of a business shall be taken as Nil. (Ans.: True)
28. Where the entire block of the depreciable asset is transferred after 36 months, there will be short-term capital gain or loss. (Ans.: True)
29. In the case of compulsory acquisition, the indexation of cost of acquisition shall be done based on the Cost Inflation Index for the previous year in which compensation is received. (Ans.: False, in the previous year in which compulsory acquisition was made)
30. Conversion of debentures into shares shall be regarded as transfer for capital gain purpose. (Ans.: False, not to be regarded as transfer for capital gain purpose)
31. If goodwill of a profession which is self-generated is transferred, there will be capital gain. (Ans.: False, there will not be any capital gain)
32. Where a company purchases its own shares, there will be capital gain to the company. (Ans.: False, to the shareholder)

Rewrite the Statements after Choosing the Correct Option

1. Mr. Suhas sold shares of Larsen and Toubro Ltd. held as an investment on 15th March, 2010 which he had purchased on 1st April, 2009. The resultant gain will be _____.
 (a) Short-term Capital Gain
 (b) Long-term Capital Gain
 (c) Business Income
 2. The following asset is excluded from the definition of Capital Asset u/s 2(14):
 (a) Machinery
 (b) Stock of raw materials
 (c) Livestock
- (Ans.: 1. (a), 2. (b))

State, Giving Reason, Whether the Asset is Short-term or Long-term in the Cases Given Below

1. Ram purchases a house property on April 10th, 2008 and transfers it on July 6th, 2014.
2. Seeta purchases shares in an Indian company on April 10th, 2012 and transfers it on July 6th, 2014.
3. Ravi acquires units of a mutual fund on August 7th, 2012 and transfers them on August 10th, 2014.
4. Raja purchases diamonds on October 12, 2008 and gifts the same to his friend B on December 31, 2008. B transfers the assets on November 20th, 2014.

(Ans.: Only (1) – short term)

State, Giving Reason, Whether the Capital Gain is Taxable in the Following Cases

1. A house property is purchased by a Hindu undivided family in 1940 for ₹ 1,00,000. It is given to Karta in 2013-14 at the time of partition of the family.
2. Yasmin purchases gold in 1981 for ₹ 25,000. In 2013-14, it is gifted to his daughter at the time of her marriage.
3. Zakir purchases 100 convertible debentures in 1993 which are converted into 1,000 shares in May 2014 by the company.

(Ans.: 1. No, distribution on partition; 2. No, gift; 3. No, conversion is not transfer)

Answer the Following

1. Ms. Rekha purchased equity shares worth ₹ 7,00,000 on 1/1/13 and sold them for ₹ 7,50,000 on 31/3/2014. She claims the gain as short-term capital gain. Is she right? [Oct. 2009, T.Y.B.Com. Modified]

(Ans.: No, it is long-term capital gain as the shares were held for more than 12 months)

2. Miss Swati purchased equity shares worth ₹ 10,50,000 on 05/01/2013 and sold them for ₹ 11,00,000 on 25/03/2014. She claims the gain as short-term capital gain. Is she right? [April 2009, Modified]

(Ans.: No, it is long-term capital gain as the shares were held for more than 12 months)

3. Mr. Suraj purchased a house property on 1st June 2012 and sold it on 1st July 2014. He treats this property as a long-term capital asset. Is his claim correct?

[Oct. 2008, Modified] (Ans.: No, it is long-term capital gain as the shares were held for more than 12 months)

4. Mrs. Ratna purchased a house property on 1st May 2013 and sold it on 1st February 2014. She treats this property as a long-term capital asset. Is her claim correct? [April 2008, Modified]

(Ans.: No, it is short-term capital gain)

5. Sagar purchased equity shares worth ₹ 1,80,000 on 18th December 2013 and sold them for ₹ 2,20,000 on 25th December 2013. He claims the gain as exempt as it is a capital receipt. Is he right? [Oct. 2007, Modified]

(Ans.: No. It is long-term capital gain as financial asset is held for more than 1 year)

6. Mr. Ravi Vyas purchased a residential flat on 1st March 2012 on 30th November 2014. He claims the capital gain as long-term. Is he correct? [Oct., 2006, Modified]

([Ans.: No, as the capital asset is held for a period of less than 36 months, it is short-term capital asset])

Theory Questions

1. What is “Capital Assets” as per Income Tax Act, 1961? Whether the following are Capital Assets within definition of Sec. 2(14):

- | | |
|------------------------------|----------------------|
| (a) Goodwill of a business | (b) Vacant land |
| (c) A house for personal use | (d) Jewellery |
| (e) Personal scooter | (f) Shares of ABLtd. |
| (g) Debenture of XY Ltd. | (h) Utensils |

[MU, April 2005]

2. Explain the term “Transfer of a Capital Asset” u/s 2(47)? [Modified CA Inter, Nov. 1997,02]
3. Define the following terms:
 - (a) Cost of Acquisition
 - (b) Cost of Improvement
 - (c) Short-term Capital Assets
 - (d) Long-term Capital Assets
4. Explain the five situations covered u/s 49(1)?
5. Briefly explain the provisions for computation of capital gain of Bonus Shares and Right Shares?
6. What is capital assets? What are specific exclusions from the definition of capital assets? [MU, April 06, T.Y.BAF]
7. Write short notes on:
 - (a) Computation of capital gain in case of conversion of capital assets into stock-in-trade
 - (b) Computation of capital gain on transfer of firm's assets to partners and *viceversa*.

[Modified CA Inter]

Practical Questions

1. Mr. Avinash acquired gold ornaments in 1994 for ₹ 50,000. The market value of gold ornaments as on 1-4-2001 was ₹ 5,00,000. The above gold was converted into stock-in-trade, to start a business of gold ornaments on 15-6-2019, when the market value was ₹ 15,00,000. The above gold ornaments were sold on 15-2-2021 for ₹ 20,00,000.

Compute capital gain and other income taxable for the Assessment Year 2021-22.

(Ans.: LTCG = 4,45,000; Business Income = 20,00,000 – 15,00,000 = 5,00,000)

2. Manohar gifted diamond worth ₹ 2,00,000 to his wife Mrs. M on 1-11-1995. It was acquired by him on 1-5-1981 for ₹ 1,00,000. On 1-4-2016, Mrs. M sold these diamonds for ₹ 4,00,000 and invested the same in a plot for ₹ 6,00,000. The remaining amount was paid by her out of her own funds. The plot was sold for ₹ 7,00,000 on 28-12-2016. Compute the income chargeable to tax in the hands of Mr. M and Mrs. M on the sale of diamonds as well as plot if CII for 1995-96 is 281.

(Ans.: Diamonds – LTCG = ₹ 96,797 clubbed in Mr. M's hands, Plot in ratio of amount invested, i.e., 2 : 4;
STCG M = ₹ 33,333; Mrs. M = ₹ 66,667)

3. Mr. Manoj has the following depreciable block of assets:

Particulars	₹
W.D.V. of Plant 'A' and 'B' at the beginning of assessment year 2016-17	35,596
During the financial year ending on 31-3-2017, Mr. Manoj:	
(a) acquires new plant 'C' for	3,00,000
(b) sells plant 'A' for	6,00,000
(c) Expenses on transfer	10,000

Compute his liability for capital gain tax.

(Ans.: STCG = ₹ 2,54,404)

4. Ms. Kareena has the following depreciable assets:

Particulars	₹
(a) Written down value of block of assets consisting of plants 'A', 'B' and 'C' as on 1-4-2016	15,00,000
(b) Cost of new plant 'D' acquired during the previous year ending on 31-3-2017	5,00,000
(c) Plant - 'A', 'B', 'C' and 'D' transferred during the previous year ending on 31-3-2017	35,00,000

Compute the amount of taxable capital gains.

(Ans.: Short-term capital gains = ₹ 15,00,000)

5. Ms. Simran is the owner of the following assets as on 1-4-2016:

Block: Plant and Machinery – Rate 25%

Assets	Cost of Acquisition (₹)	Date of Acquisition	WDV as on 1-4-2013 (₹)
Machinery A	2,00,000	1-4-2007	17,500
Machinery B	2,50,000	1-5-2008	22,000
Machinery C	20,000	31-7-2010	15,000

During the previous year 2016-17, he acquired Machinery on 3-6-2016 for ₹ 10,000 and sold Machinery A for ₹ 82,000 on 1-8-2016.

Calculate the amount of depreciation and capital gain for the assessment year 2017-18.

(Ans.: STCG = ₹ 17,500; Depreciation = Nil as block value = 64,500 (54,500 + 10,000) less than sale price ₹ 72,000)

6. Mr. Rajeev furnishes the following particulars and requests your advice as to the liability to capital gains for the assessment year 2017-18.

Jewellery purchased by him on March 10, 1995 for ₹ 1,05,000 was sold by him for a consideration of ₹ 2,85,000 on November 2, 2016.

He incurred expenses	₹
At the time of purchase	2,000
At the time of sale (for brokerage)	4,000

On these facts, compute the capital gains chargeable to tax.

[Modified CA Inter]

(Ans.: LTC Loss = ₹ 1,06,926)

7. The following data is available in respect of 4 assesseees A, B, C and D.

(Depreciation @ 25%)

Particulars	A	B	C	D
Depreciated value of the block on 1-4-2016	1,70,000	90,000	1,50,000	1,70,000
Add: Cost of Plant A purchased during April-September 2016	2,00,000	2,00,000	2,00,000	80,000
Less: Sale proceeds of plant sold during April-September 2016	50,000	1,90,000	3,90,000	20,000
Add: Cost of plant B purchased during October 2016 to March 31, 2017	2,20,000	2,20,000	2,20,000	2,20,000
Less: Sale proceeds of plant sold during October 2016 to March 31, 2017	50,000	2,10,000	Nil	4,37,000
Written down value of the block as on 31-3-2017	4,70,000	90,000	1,60,000	Nil

Calculate: (a) Depreciation for the previous year 2016-17. (b) Written down value of the block of assets as per Income-tax Act as on 1-4-2016. (c) Short-term capital gains, if any.

(Ans.: WDVA = ₹ 3,77,500; B = ₹ 78,750; C = ₹ 1,40,000; D = Nil; STCG – D = ₹ 7,000)

8. From the following data of Mr. X relating to his asset's dealings during the previous year ended 31st March, 2016, you are required to compute his Capital Gains chargeable to tax under the Income Tax Act, 1961 (any three items):

Particulars of Assets	Mode of Acquisition	Date and Cost of Acquisition	Date and Cost of Improvement	Date and Proceeds of Sale	Transfer Expenses (₹)	Market Value as on 1-4-1981 (₹)
Shares of A Ltd.	Off-market	30-6-2006 ₹ 1,00,000	—	30-9-2016 ₹ 4,10,000	Brokerage 800 (Purchase) 1500 (Sale)	—
Residential Flat	Gifted by father on 1-6-1985	1-1-1960 ₹ 1,00,000 (to father)	1-4-1980 (Furniture) ₹ 50,000	1-1-2017 ₹ 11,00,000 (incl. ₹ 11 lakhs for Furniture)	Brokerage 1,45,000	4,00,000 (Furnished) 3,75,000 (Unfurnished)
200 shares of P Ltd.	Off-market	1-1-2006 ₹ 8,500 ₹ 1,250 as brokerage	—	31-8-2015 ₹ 12,750	450	—
Personal Car	Self	15-10-1996 ₹ 8,00,000	1-1-2001 ₹ 25,000 (L.P. Gas base)	1-7-2015 ₹ 3,00,000	—	—
Business Truck	Self	15-6-2003 (Cost) ₹ 30,00,000 1-4-2006 (WDV) ₹ 6,48,000	1-1-2005 ₹ 1,25,000 (capacity enlarged)	15-9-2015 ₹ 5,00,000	Brokerage 5,000	—

Cost inflation indices:

Previous Year	Index		
1981-82	100	2005-06	497
1985-86	133	2006-07	519
2003-04	463	2014-15	1024
		2016-17	301

[MU, PU, NU Modified, T.Y.BAF, Sem-. VI, Nov. 2008]

9. Rahim sells a residential building on 14-05-149 for ₹ 13,00,000. From the data given below, find out his income under the head “Capital gains” for the A.Y.17-18.

Particulars	₹
Cost of plot of land (acquired in 1985-86)	60,000
Cost of construction (incurred in 1987-88)	1,96,000
Cost of additional construction (incurred in 93-94)	27,875
Cost of repairs (incurred in 99-00)	20,000
Expenditure on transfer	2,500

10. Suresh sells following capital asset during P.Y. 16-17 details being:

Asset transferred	Debenture in XYZ
Date of acquisition	7 Dec. 2013
Date of transfer	12 Oct. 2016
Cost of acquisition	₹ 12,000
Sale consideration	₹ 25,000
Expenses on transfer	₹ 250 brokerage

Calculate Capital gains indicating its nature for A.Y. 17-18.

11. X purchased a building on 20 Dec. 87 for ₹ 2,00,000 at Kolhapur. He died on 23 January, 97 and according to his will, his son Y became the owner of property. Y sells this property on 15 August, 2016 for ₹ 23,00,000.

The other details of the property are:

Addition of two rooms during 88-89 by X at a cost	43,000
Addition of first floor during 98-99 by Y at a cost	4,00,000

Calculate capital gain chargeable to tax for the A.Y. 17-18.

12. On Maharashtra Day 1983, Mr. Joshi got a lottery of ₹ 15,00,000. Using this amount, he acquired following assets during 83-84 at cost indicated:

Jewellery	2,32,000
Shares in Indian Company Private Ltd.	1,15,000
House for self-residence	7,02,500

Jewellery was gifted to his wife during 83-84 but shares were gifted to her during 92-93. During the year 95-96, Mr. Joshi died and Mrs. Joshi inherited the house also.

On 1 st May, 2016, she sold all these assets at the consideration shown below:

Jewellery	6,70,000
Share in Indian Company Private Ltd. (Expenses on transfer ₹ 8,000)	8,90,000
House (Expenses on transfer 2%)	22,00,000

You are required to calculate capital gain chargeable to tax for the A.Y. 17-18.

13. The Government compulsorily acquired land of Mr. Balaji in September 2000 and paid compensation of ₹ 15,00,000 in August 2006. The land was acquired by Mr. Balaji in May 1989 for ₹ 3,32,000. Mr. Balaji claimed more compensation and court awarded additional compensation of ₹ 4 lakhs in February 2012 and it was paid in March 2016.

Compute the taxable capital gain from the above transaction indicating the relevant assessment year. Expenses in connection with compulsory acquisition was ₹ 3,20,000 and for obtaining enhancement of was ₹ 40,000.

14. (a) X converts his capital asset (acquired on June 10, 1987 for ₹ 1,50,000, into stock-in-trade on March 10, 1994 (fair market value: ₹ 4,80,000) and subsequently sells the stock-in-trade so converted for ₹ 8,00,000, on June 10, 2016.

Determine the amount of capital gain and business income.

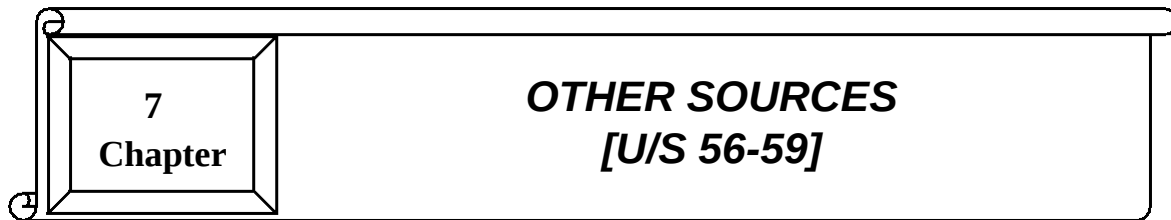
- (b) Y converts his capital asset (acquired in 1975 ₹ 80,000 but fair market value as on 1-4-81 ₹ 95,000) into stock-in-trade on March 31, 1990 (fair market value on the date of conversion: ₹ 3,00,000) and sells the stock-in-trade on March 31, 2017 for ₹ 15,00,000.

Find out taxable income indicating separately business income and capital gains.

15. Compute the capital gains in the following cases:

- (a) M commenced business on 1-4-81. He sold this business on 1-4-2016 and received, *inter alia* ₹ 5,00,000 towards goodwill.
- (b) M had acquired a business from V on 1-4-1991 by paying ₹ 2,00,000 towards goodwill. He sold this business on 1-4-2016 and received, *inter alia* ₹ 5,00,000 towards goodwill.
- (c) M is staying in a rented flat since July 1995. The land-lord paid ₹ 10,00,000 to M as compensation for surrender of tenancy, in June 2016.
- (d) M purchased tenancy rights on 1-7-1981 for ₹ 2,50,000. He transferred the tenancy rights on 1-6-2016 for ₹ 1,75,000.
- (e) Visalawyer practicing in Mumbai since 1985. He transfers his practice to Gon25-09-2011 and charges ₹ 7,50,000 towards goodwill.





INTRODUCTION

This is the last Head of Incomes so far as classification of income is concerned. This is a residual head of income chargeable to tax. Income of every kind which is not exempt from tax must be charged to tax by classifying under a proper head of income. Any such income if it cannot be classified or cannot be included under the head salaries, income from house property, profits and gains of business or profession and capital gains, shall be classified and shall be included under the head “Income from Other Sources” as a matter of last resort. Thus, this is the residual head of income.

The characteristics of the income which are chargeable under this head are:

- (1) It must be an income, i.e., the receipt must be of a revenue nature and not of a capital nature. E.g., daily allowance given by a father to son is not taxable under this head as it is not an income at all.
- (2) The income must not be exempt under any other provision of the Act, e.g., interest on post office savings bank account, interest on public provident fund, daily allowance to member of Parliament, which are exempt u/s 10.
- (3) The income must not fall under any of the other four heads of income, viz.:
 - (i) Salaries
 - (ii) Income from house property
 - (iii) Income from business or profession
 - (iv) Capital gains

Basis of Charge [U/S 56(1)]

This section lays down that income of every kind which is not to be excluded from the total income and which is not chargeable under any of the specified heads (u/s 14) shall be chargeable to Income Tax under the head “Income from Other Sources”.

Section 56 (1) states that:

- (a) Income of every kind
- (b) Which is not to be excluded from the total income under this Act (e.g., income exempt u/s 10)
- (c) If it is not chargeable to Income Tax under any other head (Salaries, income from house properties, profits and gains of business or profession or capital gains)
- (d) Shall be charged to Income Tax under the head - income from other sources.

Specific

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

- (a) Dividends
- (b) Winnings from lotteries, crossword puzzles, races, including horse races, card games, other games, bettings, gambling, etc.
- (c) Any sum received by the assessee from his employees as contribution to any staff welfare schemes.
- (d) Interest on securities, if not taxable as profits and gains of business or profession.
- (e) Income from machinery, plant, or furniture belonging to the assessee let on hire.
- (f) Income from letting of machinery, plant, or furniture jointly with letting of building, where both lettings are inseparable.
- (g) Receipts from Keyman Insurance Policy (including Bonus), if not taxed under any other head. It should be noted that income under this head should be computed either on 'due' or 'receipt' basis, depending on the method of accounting regularly employed by the assessee.
- (h) Amount exceeding ` 50,000 received without considerations, from non-relatives, after 1-9-2007.

Dividends [Covered by Sections 2(22) (a) to (e)]

Dividends received from a domestic company or Unit Trust of India or any other recognised Mutual Fund are exempt u/s 10(33). Dividends from a foreign company or from a co-operative society (limited by shares) or deemed dividends (loan by a private limited company to a substantial shareholder out of reserves) are taxed under this head. The following points should be noted in this connection:

- (a) Dividend is taxable under this head, even if shares are held as business assets by a dealer in shares.
- (b) As explained earlier, under Section 8, final dividend is taxable when it is declared. Interim dividend is taxable when it is made unconditionally available to the shareholders, e.g., when dividend warrant is issued by the company.
For the current assessment year 2020-21, e.g.:
 - (i) Final dividend declared by a foreign company, coop. society, etc., in its Annual General Meeting held on 31-10-2019 will be taxed in the hands of its shareholders.
 - (ii) Interim dividend by a foreign company, coop. society, etc., whose dividend warrants are posted during the previous year 2020-21 will be taxed in the hands of the shareholders. Thus, if interim dividend is declared on 25-3-2019; dividend warrants are posted on 10-4-2019 then such interim dividend will be taxed during the current assessment year 2021-22.
- (c) Dividend paid by an Indian company is deemed to accrue or arise in India [Section 9(1)(iv)].
- (d) Gross amount of dividend, i.e., net dividend received plus the tax deducted at source (TDS), if any, is included in taxable income.

- (e) Dividend is taxable even if it is paid out of the exempt income of the company, e.g., out of agricultural income of the company or out of capital profits or paid in kind.
- (f) Dividend is payable to and taxable in the hands of the person whose name appears on the register of shareholders on the specified date. Such a person need not be a shareholder throughout the year.
- (g) The following shall not be treated as “dividends”:
 - (i) Any payment made by a company on purchase of its own shares in accordance with the provisions of Section 77A of the Companies Act;
 - (ii) Any distribution of shares under the scheme of demerger by the resulting company to the shareholders of the demerged company whether or not there is a reduction of capital demerged company.

Winnings from Lotteries, etc.

The amount of winnings from lotteries, crossword puzzles, card games, and betting and gambling taxed under Section 56. “lottery” includes prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangements by whatever name called (e.g., prizes under “Playwin”). “cardgame” includes any game show, an entertainment programme on television or electronics mode, in which people compete to win prizes (e.g., Kaun Banega Crorepati). Such winnings are chargeable to tax at a flat rate of 30% under Section 115BB.

Employees Contribution to Staff Welfare Schemes

Section 2(24) which defines “income” states that the contributions from employees towards provident fund, superannuation fund, employees state insurance fund, etc., are to be included in the income of the employer. If the employer is not a businessman, such contributions are included under this residuary head of income.

Interest on Securities

If a person is a dealer in securities, income therefrom is taxed as business income. Otherwise, interest from securities is taxable under this head of income. Securities refer to bonds, debentures, etc., which are secured against property of the borrower. Interest on securities means [Section 2.(28B)]:

- (a) Interest on any security of the:
 - (i) Central Government
 - (ii) State Government.
- (b) Interest on debentures or other securities for money issued by or on behalf of:
 - (i) A local authority
 - (ii) A company or
 - (iii) A corporation established by a Central, State or Provisional Act.

Income from Machinery, Plant or Furniture Let Out

Income from machinery, plant, furniture let on hire is taxable under this, if not taxable as income from business.

Income from Machinery, etc., with Building Let Out

When an assessee lets on hire machinery, plant or furniture and also building and the letting building is inseparable from letting of machinery, plant or furniture, the income is taxable under this head, if not taxable as income from business, e.g., an auditorium or cinema theatre let along with seating facilities, air-conditioners, equipment, security, etc.

Keyman Insurance Policy

Any sum received under a “Keyman Insurance Policy” including any bonus on such policy, is taxable under this head, if not charged as “Income from Salaries” or “Income from Business”.

Receipts without Considerations

- (1) **Conditions:** Receipts without considerations (i.e., gifts) are taxable u/s 56(2) (v), under the head “Income from other sources”, if the following conditions are satisfied:
 - (a) The amount is received by an individual or Hindu Undivided Family.
 - (b) The amount is without any considerations (i.e., it is a gift).
 - (c) The amount received exceeds ` 50,000.
 - (d) The amount is received on or after September 1, 2007.
 - (e) The amount is not covered by the exceptions (listed below).
- (2) **Exceptions:** Sections 56(2) (v) does not cover the amount received:
 - (a) Before September 1, 2007.
 - (b) Against any consideration.
 - (c) From any relative [see below].
 - (d) On the occasion of the marriage of the individual.
 - (e) Under a will or by way of inheritance.
 - (f) In contemplation of death of the donor.
 - (g) Which does not exceed ` 50,000 (at a time).
- (3) **Meaning of relative:** The term “relative” means:
 - (a) Spouse of the individual
 - (b) Brother and sister of the individual
 - (c) Brother or sister of the spouse of the individual
 - (d) Brother or sister of either of the parents of the individual.
 - (e) Any lineal ascendant or descendant of the individual.
 - (f) Any lineal ascendant or descendant of the spouse of the individual.
 - (g) Spouse of the person referred to in (b) to (f)

Example: Thus, if amount is received by an individual, say A, ‘relatives’ would include the following:

- (a) Mrs A
- (b) Brother/sister of A

- (c) Brother/sister of Mrs. A
 - (d) Brother/sister of father/mother of A
 - (e) Grandparents or children or grandchildren of A
 - (f) Grand parent or children or grandchildren of Mrs. A
 - (g) Spouse of the above persons
- (4) Concept Tester:** Discuss the taxability if M receives the following gifts:
- (a) On 2-9-2019 he gets a gift of ` 25,000 from his friend A.
 - (b) On 10-10-2019 he gets a gift of ` 10,000 from his friend A
 - (c) On 1-1-2020 he gets a New Year gift of ` 25,001 from C.
 - (d) On 1-3-2020 he gets a gift on his birthday of ` 50,000 from D.
- (5) Concept Tester:** X receives the following gifts:
- (a) Gift of ` 10 lakh received from a friend on 1-8-2019.
 - (b) Gift of 10,000 US \$ (converted into ` 4,55,000 on same day) received from one another friend on 2-9-2019.
 - (c) Gift of ` 2 lakh received from grandmother on account of natural love and affection on 6-9-2019.
 - (d) Gift of ` 45,000 received from brother of grandfather on 10-10-2019.
 - (e) Gift of ` 2,80,000 received from friends at a time of his marriage on 5-12-2019.
 - (f) On 1-11-2019 X purchased a computer from his friend for ` 35,000 (market value of computer is ` 80,000)
- (6) Other Taxable Items:** In addition to the above, the following items of income are taxable under this head:
- (1) Agricultural income from a place outside India.
 - (2) Casual income, winnings from races.
 - (3) Annuity payable under a will, contract or trust deed.
 - (4) Annuity payable to a holder of a trademark.
 - (5) Rent from property not owned by the assessee, i.e., income from subletting earned by a tenant
 - (6) Ground rent.
 - (7) Rent of a vacant plot of land.
 - (8) Salaries and allowances paid to a Member of Parliament (MP) or MLA.
 - (9) Family pension paid to a member of family of a deceased employee.
 - (10) Directors's board meeting fees.
 - (11) Directors's commission for standing as a guarantor to bank or underwriting shares of a new.
 - (13) Remuneration from a non-employer, e.g., examination fees received by a teacher, from University honorarium for lectures as visiting lecturer.

- (14) Insurance commission.
- (15) Income from royalty on book, trademark, etc.
- (16) Royalty and rent from mining.
- (17) Interest on bank deposits and loans.
- (18) Interest on securities issued by a foreign government.
- (19) Refund of deposit and interest under National Savings Scheme 1987 (NSS) under Section 80CCA.
- (20) Refund of principal invested under equity linked savings scheme under Section 80CCB.
- (21) Interest on Income Tax refunds by the Income Tax department.
- (22) The lump sum amount received by an employee on his retirement by way of interest contributions to an unrecognised provident fund.
- (23) Interest earned before commencement of business or during constructions period.
- (24) Income from undisclosed sources.
- (25) Dividend from foreign company
- (26) Interest on Post Office Savings A/c in excess of ` 3,500.

(7) Concept Tester:

- (a) Mr. Arun receives ` 1,00,000 from his parents; ` 50,000 from his friend Sunil and ` 5,000 from another friend Gandhi on the occasion of his birthday. Compute the sum taxable in the hands of Mr. Arun.

Ans: "In the given case ` 1,00,000 received from parents is exempt as they are covered within the definition of the term 'relative'. However, out of ` 55,000 received from friends on the occasion of his birthday, the whole amount received is taxable and does not qualify for deduction of ` 50,000".

- (b) Raman received ` 5 lakh from his relatives and the parents of his wife on the occasion of their marriage. He also received one car, some jewellery and a sum of ` 1,50,000 from persons, other than relatives on the said occasion. His grandfather registers in his favours land worth ` 10 lakh after a month, as his gift. Discuss the taxability.

Ans: Gift received on the occasion of marriage of an individual is fully exempt irrespective of whether they are relatives or not. Therefore, Raman cannot be taxed in respect of gifts received on the occasion of the marriage. As regards land registered one month after marriage taxability does not arise because Section 56 charged any sum of money received without consideration and not gifts-in-kind. Therefore, all gifts-in-kind are not taxable.

BOND-WASHING TRANSACTIONS AND DIVIDEND STRIPPING [SECTION 94]

- (a) A bond-washing transaction is a transaction where securities are sold sometime before the due date of interest and after the due date is over. This practice is adopted by persons in the higher income group to avoid tax by transferring the securities to their relatives/ friends in the lower income group just before the due date of payment of interest. In such a case, interest would be taxable in the hands of the transferee, who is the legal owner of securities. In order to discourage such practice, Section 94(1) provides that where the owner of a security transfer

- the security just before the due date and interest is received by the transferee, such interest income will be deemed to be the income of the transferor and would be taxable in his hands.
- (b) In order to prevent the practice of sale of securities-cum-interest, Section 94(2) provides that if an assessee who has beneficial interest in securities sells such securities in such a manner that either no income is received or income received is less than the sum he would have received if such interest had accrued from day-to-day, then income from such securities for the whole year would be deemed to be the income of the assessee.
- (c) Section 94(7) provides that where:
- (i) Any person buys or acquires any securities or unit within a period of three months prior to the record date.
 - (ii) Such persons sells or transfers:
 - Such securities within a period of three months after such date
 - Such unit within a period of nine months after such date,
 - (iii) The dividend or income on such securities or unit received or receivable by such person is exempted, then, the loss, if any, arising therefrom shall be ignored for the purposes of computing his income chargeable to tax. Such loss should exceed the amount of dividend or income received or receivable on such securities or unit.

APPLICABLE RATE OF TAX IN RESPECT OF CASUAL INCOME [SECTION 115BB]

- (a) This section provides that in respect of income by way of winnings from lotteries, crossword puzzles, races including horse races or card games and other games of any sort or from gambling or betting of any form, a flat rate of 30% plus surcharge plus educational cess plus secondary and higher educational cess are applicable.
- (b) No expenditure or allowances can be allowed from such income.
- (c) Deduction under Chapter VI-A is not allowable for such income.
- (d) Adjustment of unexhausted basic exemption limit is also not permitted against such income.

DEDUCTIONS ALLOWABLE [SECTION 57]

The income chargeable under the head “Income from other sources” be computed after making the following deductions:

- (a) In the case of dividends (other than dividends referred to in Section 115-O) [which are exempt u/s 10(34)] or interest on securities, any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realizing such dividend or interest on behalf of the assessee.
- (b) Where the income consists of recovery from employees as contribution to any provident fund, etc., in terms of Clause (x) of Section 2(24), then, a deduction will be allowed in accordance with the provisions of Section 36(1) (va), i.e., to the extent the contribution is remitted before the date under the respective Acts.

- (c) Where the income to be charged under this head is from letting on hire of machinery, plant and furniture, with or without building, the following items of deductions are allowable in the computation of such income:
 - (i) The amount paid on account of any current repairs to the machinery, plant or furniture.
 - (ii) The amount of any premium paid in respect of insurance against risk of damage or destruction of the machinery or plant or furniture.
 - (iii) The normal depreciation allowance in respect of the machinery, plant or furniture, due thereon.
- (d) In the case of income in the nature of family pension, a deduction of a sum equal to 33 1/3 per cent of such income or ` 15,000, whichever is less, is allowable. For the purposes of this deduction “family pension” means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death.
- (e) Any other expenditure not being in the nature of capital expenditure laid out or expended wholly and exclusively for the purpose of making or earning such income.

Note: The Supreme Court held in *CIT v. s. Rajindra Prasad Moody [1978] 115 ITR 519*, that in order to claim deduction under section 57 in respect of any expenditure, it is not necessary that income should in fact have been earned as a result of the expenditure. In this view of the matter, the Court held that the interest on money borrowed for investment in shares which had not yielded any taxable dividend was admissible as a deduction under Section 57 under the head, “Income from other sources”.

DEDUCTIONS NOT ALLOWABLE [SECTION 58]

No deduction shall be made in computing the “Income from other sources” of an assessee in respect of the following items of expenses:

- (a) In the case of any assessee:
 - (i) Any personal expense of the assessee.
 - (ii) Any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.
 - (iii) Any payment taxable in India as salaries, if it is payable outside India unless tax has been paid thereon or deducted at source.
- (b) In addition to these disallowances, Section 58(2) specifically provides that the disallowance of payments to relatives and associate concerns and disallowance of payment exceeding ` 10,000 made otherwise than by account payee cheques or drafts covered by Section 40A will be applicable to the computation of income under the head ‘Income from other sources’ as well.
- (c) Income Tax and Wealth-Tax paid.
- (d) No deduction in respect of any expenditure or allowance in connection with income by way of earnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever shall be allowed in computing the said income.

The prohibition will not, however, apply in respect of the income of an assessee, being the owner of race horses, from the activity of owning and maintaining race horses, expenses incurred shall be allowed even in the absence of any stake money earned. Such loss shall be allowed to be carried forward in accordance with the provisions of Section 74A.

DEEMED INCOME CHARGEABLE TO TAX [SECTION 59]

The provisions of Section 41(1) are made applicable, as far as may be, to the computation of income under this head. Accordingly, where a deduction has been made in respect of a loss, expenditure or liability and subsequently any amount is received or benefit is derived in respect of such expenditure incurred or loss or trading liability allowed as deduction, then it shall be deemed as income in the year in which the amount is received or the benefit is accrued.¹⁴⁵

METHOD OF ACCOUNTING [SECTION 45]

Income chargeable under the head “Income from other sources” has to be computed in accordance with the cash or mercantile system of accounting regularly employed by the assessee. However, deemed dividend u/s 2(22)(e) is chargeable to tax on payment basis under Section 8, irrespective of the method of accounting followed by the assessee.

Format of Computation of Income from Other Sources

Name of the Assessee: Mr. X Y Z

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Particular	`	`
(1) Other Incomes:		
Directors' fees less expenses if any	XX	
Directors' commission for underwriting shares, etc.	XX	
Royalty on books less expenses if any	XX	
Examinership less remunerations from university/board	XX	
Agriculture income from foreign country agricultural land	XX	
Salary of MP/MLA	XX	
Commission for procuring insurance	XX	
Amount received under Keyman Insurance Policy	XX	
Withdrawal from NSS, 1987 A/C/Annuity from LIC	XX	
Gifts in excess of ` 50,000, (subject to exception)	XX	
Tips received by hotel waiter, taxi driver, etc.	XX	
Income from undisclosed sources	XX	XX
(2)		XXX
Family Pension	XX	
Less 33 1/3% or ` 15,000 whichever is less	XX	XX

(3) Income on Shares, Securities and Assets		XXX
Dividend Income from Foreign Companies Coop. Soc. etc.,	XX	
Interest on Deposits, Loans, Govt. Securities, etc.,	XX	
Less Expenses incurred like Collection Charges, Interest, etc.	XX	
Income from let out Assets, sub letted House Property	XX	
Less Expenses incurred like Collection Charges, Depreciation, Interest on capital borrowed etc.	XX	XX
(4) Casual Incomes		XXX
Winning from lotteries, horse race, card games, gambling, crossword puzzle, award, prize, etc	XX	
Income of nonprofessional writers, inventors, designers, etc	XX	XX
Income from Other Sources		XXX

Illustration 1:

Mr. Narshimha is the Managing Director of M/s. Hindustan Food Products Pvt. Ltd. He furnishes you the following information for the year ended 31st March, 2020. You are requested to compute his income under the head. "Income from other sources".

Particulars

(1) Directors' board meeting fees	6,875
(2) Interest on fixed deposits with Bank of India	1,250
(3) Honorarium for an article published in a newspaper, "Money"	2,500
(4) Dividend on shares of Impex India Ltd.	7,375
(5) Commission for underwriting shares of a new company	54,750

Solution:

Name of the Assessee: Mr. Narshimha

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Computation of Income from Other Sources

Particulars

(1) Directors' Board Meeting Fees	6,875
(2) Interest on fixed deposits with Bank of India	1,250
(3) Honorarium for an article	2,500
(4) Dividend on shares of Impex India Ltd.	7375
Less: Exempted u/s 10(34)	<u>(7375)</u> Nil
(5) Commission for underwriting shares	54,750
Taxable Income from other sources	<u>65,375</u>

Illustration 2:

Mr. Vivek provides you the following information for the year ended 31/03/ 2020:

- (a) Received ` 10,000 as award from Mahatma Phule Krishi Vikas Mandal instituted in public interest by Government of Maharashtra in respect of scientific study on dry farming.
- (b) Examinership fees received from Banaras University ` 12,500.
- (c) Salary @ ` 13,500 p.m. from Chattrapati Sikshan Mandal being a lecturer on college. Profession tax deducted at source ` 1,440.
- (d) Royalty from Vikas Prakashan ` 42,000 for writing a book on “Commercialisation of Agriculture-A need of the day”.
- (e) Received ` 5,000 from HUF as a member of HUF and ` 10,000 as a share in profit of the firm M/s. Milan Traders. He did not receive any remuneration or interest from the firm. Compute the total taxable income from other sources of Mr. Vivek for the assessment year 2021-22.

Solution:

Name of the Assessee: Mr. Vivek
 Legal Status: Individual
 Residential Status: R and OR

P.A. No.:
 P.Y.: 2020-21
 A.Y.: 2021-22

Computation of Income from Other Sources

Particulars		
(1) Award received from Mahatma Phule Krishi Vikas Mandal	10,000	
Less: Exempted u/s 10(17A)	<u>(10,000)</u>	Nil
(2) Examinership fees	12,500	
(3) Royalty from Vikas Prakashan		42,000
(4) Received amount from HUF	5,000	
Less: Exempted u/s 10(2)	<u>(5,000)</u>	Nil
(5) Received share in profit	10,000	
Less: Exempted u/s 10(2A)	<u>(10,000)</u>	Nil
Taxable Income from Other Sources		<u>54,500</u>

Illustration 3:

Mr. Mokashi is a Heart Specialist. He provides you the following information for the year ended 31st March, 2020.

Particulars	
(1) Interest on fixed deposits with Mumbai Chemicals Ltd.	12,250
(2) Consultation and Visiting fees	35,000
(3) Paid bank charges to State Bank of India for collection of interest	50
(4) Winning from lotteries	7,500

(5) Interest on PPF A/c with State Bank of India	678
(6) Interest on National Savings Certificate VIII th Issue	10,300

Solution:

Name of the Assessee: Mr. Mokashi
 Legal Status: Individual
 Residential Status: R and OR

P.A. No.:
 P.Y.: 2020-21
 A.Y.: 2021-22

Computation of Income from Other Sources

Particulars		
(a) Interest on fixed deposits with Mumbai Chemical Ltd.	12,250	
Less: Deduction u/s 57 Bank Charges	<u>(50)</u>	12,200
(b) Winning from Lotteries		7,500
(c) Interest on PPF A/c with State Bank of India	678	
Less: Exempted u/s 10(11)	<u>(678)</u>	Nil
(d) Interest on National Savings Certificate		<u>10,300</u>
Taxable Income from Other Sources		<u>30,000</u>

Illustration 4:

Mr. Akshay lives in a rented house property, viz., Gokul Dham the annual rent of which is ` 12,000 per annual. Half of the property has been sub letted by him at a monthly rent of ` 750. During the year he received:

Particulars	
(1) Interest on	
Post Office Savings Bank A/c.	2,450
PPF A/c with State Bank of India	8,775
Fixed deposit with Bank of Baroda	11,875
Interest on National Savings Certificate	2,125
(2) Winning from crossword puzzle in newspaper, "DAILY"	8,000
(3) Dividend from Indian Companies.	6,172
(4) Compute his income from other sources for assessment year 2021-22.	

Solution:

Name of the Assessee: Mr. Akshay
 Legal Status: Individual
 Residential Status: R and OR

P.A. No.:
 P.Y.: 2020-21
 A.Y.: 2021-22

Computation of Income from Other Sources

Particulars		
(1) Income from subletted property	12,000	
Less: Deduction u/s 57	<u>(9,000)</u>	3,000
(2) Post Office Savings Bank A/c.	2,450	
Less: Exempted u/s 10(15)	<u>(2,450)</u>	Nil
(3) P.P.F. A/c with State Bank of India	8,775	
Less: Exempted u/s 10(11)	<u>(8,775)</u>	Nil
(4) Fixed deposit with Bank of Baroda		11,875
(5) Interest on National Savings Certificate		12,125
(6) Winning from crossword puzzle		8,000
(7) Dividend from Indian Companies	6,172	
Less: Exempted u/s 10(34)	<u>(6,172)</u>	Nil
Taxable Income from other Sources		35,000

Illustration 5:

Mr. Yashpal Sharma gives following information for P.Y. 2020-21:

- (a) He has let his spare office machinery and furniture at a monthly rent of ₹ 8,000. He spent ₹ 5,000 on the repair of machinery, furniture during the P.Y. Depreciation allowable in respect of these assets as per IT Rules ₹ 22,000. Insurance on machinery and furniture ₹ 1,000.
- (b) Rent received from letting out a building at Borivali along with plant and machinery, under a composite lease ₹ 30,000 p.m:
 - (i) His expenditures on above were:
 - Collection charges to realized rent ₹ 800
 - (ii) Depreciation:
 - Building ₹ 20,000
 - Plant and Machinery ₹ 15,000
 - (iii) Insurance:
 - Building ₹ 3,000
 - Plant and machinery ₹ 3,400
 - (iv) Repairs:
 - Building ₹ 3,000
 - Machinery ₹ 4,000
 - Municipal taxes on building ₹ 20,000

- (c) Rent received From Mulund building ` 60,000
- (i) Expenses were:
- Municipal tax ` 4,000
 - Insurance ` 600
- (d) He has another house on tenancy basics at his native place, which is entirely sublet at ` 15,000 (expenses ` 3,000).
- (e) He has open plot of land at Panvel which is let out at ` 2,000 p.m. (expenses incurred ` 4,500).
- (f) Interest on loan for acquisition of Borivali building ` 1,10,000.
- (g) Interest on loan by mortgaging Borivali building for sending his son to foreign education ` 60,000.

You are required to calculate income from other sources for A.Y. 2021-22.

Solution:

Name of the Assessee: Mr. Yashpal Sharma

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Computation of Income from Other Sources

Particulars	`	`
(1) Rent from Office Plant and Machinery:	96,000	
Less: Deduction u/s 57		
Repairs	(5,000)	
Depreciation	(22,000)	
Insurance	<u>(1,000)</u>	68,000
(2) Rent from Borivali building:		
With plant and machinery	3,60,000	
Less: Deduction u/s 57		
Collection charges	(800)	
Dep. on bldg.	(20,000)	
Dep. on P and M	(15,000)	
Insurance on bldg.	(3,000)	
Insurance on P and M	(3,400)	
Repairs on bldg.	(3,000)	
P and M	(4,000)	
Municipal tax on bldg.	(20,000)	
Interest on loan	<u>(1,10,000)</u>	1,80,800

(3) Rent from sublet house at native place	15,000	
Less: Deduction u/s 57 expense	<u>(3,000)</u>	12,000
(4) Rent from open plot of land	24,000	
Less: Deduction u/s 57 expense	<u>(4,500)</u>	<u>19,500</u>
IFOS		<u>2,80,300</u>

Note:

- (1) Rent from Mulund bldg. is taxable under IFHP.
- (2) Interest on loan ` 60,000 paid for son's education is not allowed as deduction.

Illustration 6:

Mr. Maninder gives following information:

- (1) He is owner of reputed brand Video Camera. He has bought it for his personal use. Occasionally he lets this camera. During the P.Y. he has let it 30 times @ ` 1,000 each. Depreciation allowable ` 3,000. Other necessary expenses ` 2,300.
- (2) He is running coaching classes as he acquired new split air-conditioning machines, he has let his two old window air-conditioning machines for ` 1,600 p.m. for eight months. Depreciation eligible is ` 12,000 and repair expenses ` 2,300.
- (3) He is also owner of an open plot of land at Jogeshwari. He let it to Empire Circus Company on a monthly rent of ` 60,000 for ten months only. He has provided sanitation facility and electricity connection on this open land:
 - (a) His expenses were:
 - Water charges paid to Municipality ` 4,000.
 - Expenses on maintenance of Sanitation Facility ` 12,000
 - Watchman Salary ` 12,000
 - Rent Collection charges ` 1,200
 - Interest on loan on mortgage of above land (loan being raised for his son's marriage) ` 33,000.

- (4) Income from following sources:

(a) Agricultural land in India used for agricultural purpose	` 2,00,000
(b) Agricultural land in India not used for agricultural purpose	` 20,000
(c) Agricultural land in Nepal used for agricultural purpose	` 2,00,000
(d) Agricultural land in Nepal not used for agricultural purpose	` 20,000

You are required to calculate income from other sources for A.Y. 2021-22.

Solution:

Name of the Assessee: Mr. Maninder

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Computation of Income from Other Sources

Particulars			
(1) Rent from Video Camera	(1000 × 30)	30,000	
Less: Deduction u/s 57			
Depreciation		(3,000)	
Other necessary expenses		<u>(2,300)</u>	24,700
(2) Rent from AC	(1600 × 8)	12,800	
Less: Deduction u/s 57			
Depreciation		(12,000)	
Repair expenses		(2,300)	(1,500)
(3) Rent from plot at Jogeshwari	(60,000 × 10)	6,00,000	
Less: Deduction u/s 57			
Water charges		(4,000)	
Expenses on maintenance		(12,000)	
Watchman salary		(12,000)	
Rent collection charges		<u>(1,200)</u>	5,70,800
(4) Agricultural land in India used for Agri-purpose Exempt u/s 10(1)			Nil
Agri. Land in India not used for Agri-purpose			20,000
Agri. Land in Nepal used for Agri-purpose			2,00,000
Agri. Land in Nepal not used for Agri-purpose			<u>20,000</u>
Income from other sources			<u>8,34,000</u>

Note: Interest on loan for son's marriage is not allowed as deduction.

Illustration 7:

Mr. Chetan gives following information.

- (1) He borrowed ₹ 1,00,000 on 1st April, 2009 and invested it in ₹ 1,10,000 10% Indian Government Bonds. Interest is payable on half-yearly basis. He paid collection charge of ₹ 80 to collect the year's interest. He has paid interest of ₹ 8,000 on his borrowing.
- (2) He invested ₹ 2,00,000 in ₹ 2,50,000 8% Marmugoa Port Trust Bonds. Afterwards these were pledged with Bharat Cooperative Bank for encashing yearly interest warrants.
- (3) He has fixed deposit in Saraswat Cooperative Bank. He received interest of ₹ 8,950 after deducting tax at source of ₹ 1,050.
- (4) He received a gift of ₹ 1,00,000 from his maternal grandfather. (Expenses on throwing a party to family members ₹ 6,000)
- (5) He has following incomes from post office schemes:
 - Accrued Interest on National Savings Certificates viii Issue ₹ 12,000
 - Interest on Post Office Savings Bank/POSB ₹ 3,000

- Interest on Post Office Cumulative Time Deposits/POCID ₹ 2,000
 - Interest on Post Office Recurring Deposit/PORD ₹ 1,000
 - Income on Post Office Monthly Income Plan/POMIP ₹ 12,000
- (6) He let his old computers @ ₹ 1,200 p.m. (expenses incurred ₹ 3,000)

You are required to calculate income from other sources A.Y. 2021-22.

Solution:

Name of the Assessee: Mr. Chetan

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Computation of Income from Other Sources

Particulars		
(1) Interest on Indian govt. Bonds	(10% × 1,10,000)	11,000
Less: deduction u/s 57		
Collection charges	(80)	
Interest on loan	<u>(8000)</u>	2,920
(2) Interest on Port Trust Bond	(8% × 2,50,00)	20,000
(3) Interest on FD with Saraswat Bank	8,950	
Add: TDS	<u>1,050</u>	10,000
(4) Gift from maternal grandfather (Relative)		Not taxable
(5) Accrued interest on NSC.		12,000
(6) Interest on Post Office Savings Bank/POSB	Exempt U/S 10(15)	
(7) Int. on post office cum. time deposit		2,000
(8) Int. on post office recurring deposit		1,000
(9) Income on post office monthly Income Plan		12,000
(10) Rent of old computers (1,200 × 12)	14,400	
Less: deduction u/s 57 expenses	<u>3,000</u>	<u>11,400</u>
IFOS		<u>71,320</u>

Illustration 8:

Mr. Badani gives following information regarding amount received from Life Insurance Corporation and others in the P.Y. 19-20:

- (1) Keyman life insurance policy amount received ₹ 3,40,000. This could not be taxed under the head income from salary or income from business.
- (2) Life insurance policy amount received on self-policy sum assured ₹ 3,00,000 and maturity bonus ₹ 4,20,000 (the policy was endowment policy).
- (3) Life insurance policy amount received ₹ 5,40,000 including bonus ₹ 2,40,000 as nominee on policy belonging to his father after death of his father (the policy was whole life policy).

- (4) ₹ 25,000 received as 1st instalment on self-money back Life Insurance Policy.
 (5) Commission, etc., received from LIC (Mr. Badani is LIC agent and uses his spare time for this purpose).

Particulars	
1st year Commission	32,000
Renewal Commission	36,000
Gratuity after completing 15 years of LIC Agency	50,000
(6) He had retired from govt. service in the year 2009. He is in receipt of pension from Govt. @ ₹ 6,000 p.m. in the P.Y. 19-20.	
(7) His wife was working as primary school teacher and she has retired in the year 2000. She died on 2nd April, 2010. He also received family pension after her death from her employer @ ₹ 2,500 p.m.	
(8) Agricultural income from India ₹ 2,00,000.	
(9) Award received from Govt. of India, the award being considered to be in public interest ₹ 90,000.	
(10) Gift from a relatives on his 60th birthday ₹ 98,000 (Expenses on 60th birthday celebrations ₹ 28,000).	
(11) He received ₹ 30,000 as his share in Hindu Undivided Family. Badani and Sons.	

You are required to calculate income from other sources for A.Y. 2021-22.

Solution:

Name of the Assessee: Mr. Badani
 Legal Status: Individual
 Residential Status: R and OR

P.A. No.:
 P.Y.: 2020-21
 A.Y.: 2021-22

Computation of Income from Other Sources

Particulars		
(1) Keyman insurance policy		3,40,000
(2) Maturity amt. and bonus of endowment policy Exempt u/s 10[10D]		Nil
(3) Amount received from LIC on father's death Exempt u/s 10[10D]		Nil
(4) 1st instalment of self-money back policy Exempt u/s 10[10D]		Nil
(5) Income from LIC agency		
(a) 1st yr. commission	32,000	
(b) Renewal commission	36,000	
(c) Gratuity for 15 years	<u>50,000</u>	1,18,000
(6) Pension from wife's employer (2,500 × 12)	30,000	
Less: deduction u/s 57		
$1/3 \times 30,000 = ₹ 10,000$		

Capital Gains [Sections 45-55]**Taxation Paper 23A**

or ` 15,000 whichever is less	<u>(10,000)</u>	20,000
(7) Agricultural Income from India Exempt u/s 10(1)		Nil
(8) Award from Central Govt. in public int Exempt u/s 10(17A)		Nil
(9) Gift from relatives on birthday Not taxable u/s 56 (2)		Nil
(10) Amt. received as share from Badani and Sons HUF Exempt u/s 10(2)		<u>Nil</u>
IFOS		<u>5,76,000</u>

Note:

- (1) Keyman insurance policy:
 - (i) If Keyman insurance policy is taken by employer and on maturity amt. is received by employee than maturity amt. is taxable in the hands of employee under income from salary.
 - (ii) If Keyman insurance policy is taken by a Co., premium paid will be debited to P and L A/c as business exps. and maturity amt. is received by the Co. then it will be taxable under IFBP.
 - (iii) Under any other circumstances maturity amt. will be taxable under income from other sources.
- (2) It is assumed that commission from LIC business is not taxed under IFBP it is included in IFOS.
- (3) Pension recd. from govt. ` 72,000 will be taxed under IFS.

Illustration 9:

Mr. Charanjeet Singh's information regarding his income in P.Y. 20-21 is as follows:

Particulars	`
(1) Interest on Debentures/Bonds in GK Ltd.	23,000
(2) He has incurred following expenses to earn this interest:	
Int. on loan borrowed for purchasing above debentures sent abroad without deducting tax at source	20,000
Interest on loan paid in India	1,000
Collection charges	80
(3) Interest on listed Debentures in GT Ltd., (Net after TDS)	17,800
Tax deducted at source	2,200
(4) Interest on Capital Borrowed for investing in above debentures	26,000
(5) Collection charges	90
(6) Interest on Fixed Deposit in Maharashtra Bank	7,800
(7) Interest on Cumulative Deposit in Gujarat Bank (Net)	13,470
Tax deducted at source while receiving above interest	1,530
(8) Interest credited in Savings Bank in Karnataka Bank	550
(9) Interest on Fixed Deposit in Kandivali Industries Pvt. Ltd., (Net)	53,880

Tax deducted at source while receiving above interest	10.2%
(10) Interest on Fixed Deposit in L & T Ltd.,	2,500
(11) Interest on India Vikas Patra	30,000
(12) Accrued interest on Kisan Vikas Patra	3,000
(13) Interest on Post Office savings bank account	7,540
(14) Interest on 7% Capital Investment Bonds	3,000
(15) Interest on 10% National Relief Bonds/Relief Bonds	2,000
(16) Int. on 15-year Public Provident Fund/PPF (In Central Bank/SBI)	12,000
(17) Interest on Japan Govt. Bonds	10,000
(18) Advance Income Tax paid for A.Y. 20-21	5,000
(19) Income Tax Refund Received from Income Tax	1,000

You are required to calculate Income from other sources for A.Y. 20-21.

Solution:

Name of the Assessee: Mr. Charanjeet Singh

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Computation of Income from Other Sources

Particulars		
(1) Int. on debentures in GK Ltd.,	23,000	
(-) deduction u/s 57 Int. on loan paid in India	(1000)	
Collection charges	<u>(80)</u>	21,920
(2) Int. on debentures in GT Ltd., Net	17,800	
Add: TDS	2,200	
Less: Deduction u/s 57		
Int. on amt borrowed	(26,000)	
Collection charges	<u>(90)</u>	(6,090)
(3) Int. on FD in Maharashtra Bank		7,800
(4) Int. on cum. deposit in Gujarat Bank Ltd.	13,470	
Add: T.D.S.	<u>1,530</u>	15,000
(5) Int. on Savings Bank		550
(6) Int. on FD in Kandivali Net	89.8	53,880
Add: TDS	10.2	<u>6,120</u>
(7) Int. on FD in L & T Ltd.		2,500
(8) Int. on India Vikas Patra		30,000

Capital Gains [Sections 45-55]**Taxation Paper**

(9) Accrued int. on Kisan Vikas Patra	3,000
(10) Int. on Post Office Savings Bank A/c (7,540 – 3,500)	4,040
(11) Int. on 7% Capital Invst Bond Exempt u/s 10(15)	Nil
(12) Int. on 10% National Relief Bond Exempt u/s 10(15)	Nil
(13) Int. on 15 years PPF Exempt u/s 10(11)	Nil
(14) Int. on Japan Govt. Bond.	10,000
(15) Advance IT paid for A.Y. 20-21 Not allowed	Nil
(16) Income Tax Refund from Income Tax Not taxable	<u>Nil</u>
IFOS	<u>1,48,720</u>

Note:

- (1) Advance IT for A.Y. 20-21 is not allowed as deduction
- (2) Refund of IT for earlier yrs is not taxable as income
- (3) Int. on loan paid abroad without deducting tax at source is not allowed as deduction.

Illustration 10:

Mr. Kiran More, a Technical Director of a reputed concern, gives you the following information for the P.Y. 19-20:

- (1) Received ` 35,800 as Int. on Fixed Deposits with Bank of India (TDS 105%)
- (2) Received ` 24,000 Agricultural Income
- (3) Received ` 4,450 Interest on Company Deposit (Tax deducted at source ` 550)
- (4) Received ` 1,500 Interest on Deposit in Post Office Savings Bank.
- (5) Received ` 2,100 Dividend from Reliance Industries Ltd., @ 21% on 100 shares of ` 100 each purchased by him at ` 170 each.
- (6) Received Directors' Board Meeting fees ` 200 per meeting. During the previous year Mr. Kiran More attended five meetings.
- (7) Received family pension after the death of Mrs. Kiran More ` 2,500 per month.
- (8) Received interest on Konkan Railway Corporation Bonds ` 2,000
- (9) Received interest on PPF A/C kept at State Bank of India ` 12,000
- (10) Received LIC policy amount on maturity of policy of Mr. Kiran More ` 3,00,000.
- (11) Received private tuition fees ` 15,000 and expenses incurred ` 2,000
- (12) Received winning in horse race ` 4,000

You are required to calculate his income from other sources for A.Y. 20-21

Solution:

Name of the Assessee: Mr. Kiran More

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Computation of Income from Other Sources

Particulars			
(1) Int. on fixed deposit	89.5	35,800	
Add: TDS	10.5	<u>4,200</u>	40,000
(2) Agricultural Income Exempt u/s 10(1)			Nil
(3) Int. on company – deposit		4,450	
Add: TDS		<u>550</u>	5,000
(4) Int. on deposit in post office Exempt u/s 10(15)			Nil
(5) Dividend from Reliance Industries Exempt u/s 10(34)			Nil
(6) Received Directors' Board Meeting (200 × 5)			1,000
(7) Family pension (2500 × 12)		30,000	
Less: deduction: (1/3 × 30,000) or (15,000)		<u>10,000</u>	20,000
(8) Int. on Konkan Railway Corporation Bonds Exempt			Nil
(9) Int. on PPF A/c Exempt			Nil
(10) Received LIC policy amount Exempt u/s 10[10D]			Nil
(11) Received private tuition fees		15,000	
Less: deduction u/s 57		<u>(2,000)</u>	13,000
(12) Received winning in horse race			<u>4,000</u>
IFOS			<u>83,000</u>

Illustration 12:

MastanShakaal gives following information regarding his incomes for P.Y.20-21.

Particulars

(a) Interest Incomes

Interest on loan given to wife	1,20,000
Interest on loan given to brother	1,00,000
Interest on loan given to friend	20,000
Interest on deposits in IDBI (Net of TDS 10.5%)	17,900
Dividend on Preference shares with Infosys Ltd.	14,000
Dividend from Tempelton Mutual Fund	3,000
Interest on deposits in Maharashtra State Housing Boards	16,000
Interest on deposits in Cooperative Society	11,000
Dividend from UTI Mutual Fund	10,000
Interest on Deposits in National Deposit Scheme	17,000
Interest on deposits in Post Office Savings Bank	50,000
Interest on Indira Vikas Patra	18,900

Interest on deposits Public Provident Fund	20,000
Interest on Fixed Deposit in National Co. Ltd. (Net of TDS 10.5%)	8,950
(b) Minor Children's Income `	
First son's income from Deposits	17,000
Second son's income from Debentures	1,200
Daughter's income (received as First prize in Singing Completion)	40,000
(c) Casual Incomes Amount	(`)
Lottery prize from Orissa	600
Winnings in daily lotteries	700
Winnings in Horse race in India	13,700
Winnings in Horse race in Dubai	15,000
Winnings in TV Game show "Kaun Banega Crorepati"	10,000
(d) He has earned ` 3,00,000 from a particulars activity. He is ready to pay tax without showing details of source of this income.	
You are required to calculate his Income From Other Sources for A.Y. 20-21.	

Solution:

Name of the Assessee: Mr. MastanShakaal

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Computation of Income from Other Sources

Particulars		
(1) Int. on loan given to wife		1,20,000
(2) Int. on loan given to brother		1,00,000
(3) Int. on loan given to friend		20,000
(4) Int. on deposits in IDBI	89.5	17,900
Add: TDS	10.5	<u>2,100</u>
(5) Dividend on pref. Share of Infosys Ltd. Exempt u/s 10(34)		Nil
(6) Dividend on Tempelton Mutual Fund Exempt u/s 10(35)		Nil
(7) Int. on deposits in Maharashtra State Housing Board		16,000
(8) Int. on deposits in Cooperative Society		11,000
(9) Dividend from UTI Mutual Fund Exempt u/s 10(35)		Nil
(10) Int. on deposits in National Deposit Scheme		17,000
(11) Int. on deposits in post office savings bank (50,000-3,500)		46,500
(12) Int. on Indira Vikas Patra		18,900

(13) Int. on deposits PPF Exempt u/s 10(11)			Nil
(14) Int. on FD in National Co. Ltd.	89.5	8,950	
Add: TDS	10.5	<u>1,050</u>	10,000
(15) (a) Income of 1st minor son from deposit		17,000	
Less: Exemption u/s 10(32)		<u>1,500</u>	15,500
` 17,000 or ` 1,500 whichever is less			
(b) Second son income from debenture		1,200	
Less: Exemption u/s 10(32)			
` 1,200 or ` 1,500 whichever is less		<u>1,200</u>	Nil
(16) Lottery price from Orissa			600
(17) Winnings in daily lotteries			700
(18) Winnings in Horse race in India		13,700	
(+) TDS		<u>8,800</u>	22,500
(19) Winnings in Horse race in Dubai			15,000
(20) Winnings in "Kaun Banega Crorepati"			10,000
(21) Income from Undisclosed Sources			<u>3,00,000</u>
IFOS			<u>7,43,700</u>

Notes:

- (1) Income of minor daughter from singing will be taxable in her own hands. Since it is earned by her own skill and talent.
- (2) In absence of information it is assumed that income of Mr. MastanShakaal is lower than income of Mr. MastanShakaal and income of minors is clobbered in the hands of father.

Illustration 13:

Mr. Kamat is a Member of Parliament. In P.Y. 20-21 he had the following incomes:

- (1) As a member of Parliament he received a salary of ` 3,000 p.m. and daily allowance of ` 5,100 for attending various sessions.
- (2) He has the following information regarding his investment income:
 - (a) 10% Pref. Shares of ` 10 each Agra Sugar Works Ltd., of the face value of ` 5,100. (Dividend received)
 - (b) 1,000 Equity shares of ` 10 each in Dwindle Ltd., (Dividend not received)
 - (c) A 10% fixed deposit of ` 10,000 is held by him in Indian Banks. Interest is credit annually.
 - (d) Interest on post office savings bank deposit ` 100
 - (e) Interest on deposits with IFCI ` 500
 - (f) Dividend from foreign company ` 700
- (3) He has a plot of land for constructing his house. On account of shortage of funds, he could not get this house constructed and hence let out the plot at ` 1,500 per month. Interest on

- loan taken against mortgage of this plot amounts to ` 7,600, loan being taken for his son's marriage.
- (4) He has let machinery and furniture and building to Mr. Wagle at a monthly rent of ` 25,000. He spent ` 15,000 on the repair of machinery, furniture and also building during the previous year. He had appointed two employees for ` 5,000 p.m. each to take care of the P and M, etc.
- (5) Employees' provident fund deducted from their salary ` 14,400, out of which ` 13,200 was paid within the due date to the credit of employees account.
- (6) One employee has embezzled ` 10,000 cash in A.Y. 18-19 which was allowed as deduction. The police had caught the employee and got back ` 5,000.
- Compute the income from other sources of Shri Kamat for A.Y.21-22.

Solution:

Name of the Assessee: Mr. Kamat

P.A. No.:

Legal Status: Individual

P.Y.: 2020-21

Residential Status: R and OR

A.Y.: 2021-22

Computation of Income from Other Sources

Particulars		
(1) Salary as MLA		36,000
(2) Daily allowance Exempt u/s 10(17)		Nil
(3) Preference share dividend Exempt u/s 10(30)		Nil
(4) Int. on fixed deposit		1,000
(5) Int. on post office savings bank Exempt u/s 10(15)		Nil
(6) Int. on deposit with IFCI		500
(7) Dividend from foreign Co.		700
(8) Rent received on plot		18,000
(9) Int. on loan taken Not allowed		Nil
(10) Let out machinery and furniture	3,00,000	
Less: deduction u/s 57 Exp.	(15,000)	
Salary of employees	<u>(1,20,000)</u>	1,65,000
(11) Employee PF deducted	14,400	
(-) deposited with govt. within due date	<u>13,200</u>	1,200
(12) Amt. recovered back from employees		<u>5,000</u>
IFOS		<u><u>2,27,400</u></u>

EXERCISE

Multiple Choice Questions

- Income under the head income from other sources is taxable on
 - Due basis
 - Receipt basis
 - On the basis of method of accounting regularly employed by the assessee
 - None of the above
- Dividends declared by Unit Trust of India is:
 - Fully exempt in the hands of unitholders
 - Fully taxable in the hands of unitholders
 - Taxable but deduction is allowed under section 80
 - None of the above
- If no system of accounting is followed, interest on securities is taxable on
 - Due basis
 - Receipt basis
 - Hybrid basis
 - None of the above
- For computing lottery income the assessee shall:
 - Be entitled to any deduction for purchase of lottery tickets
 - Not entitled to any deduction for purchase of lottery tickets
 - Be entitled to deduction up to 10% of total purchase of tickets
 - None of the above
- The legal heir of the deceased who received family pension is allowed a standard deduction from such pension to the extent of:
 - 1/3rd of such pension, subject to maximum of ` 25,000
 - 1/3rd of such pension or ` 15,000 whichever is less
 - 1/3rd of such pension or ` 15,000 whichever is more
 - None of the above
- Gift received by an individual ` 70,000 from his relative M shall be:
 - Fully exempt
 - Fully taxable
 - Exempt up to ` 50,000
 - None of the above

(Ans: 1-c, 2-a, 3-c, 4-c, 5-b, 6-c)

Fill in the Blanks

- Any gift received by an individual from his relative is fully_____.
- An income which does not fall under the first four heads of income is taxable under the head_____.

3. Amount exceeding ` _____ received without consideration from non-relatives, after 1-4-2006 is taxable under the head income from other sources.
4. Agricultural income from Bangladesh is taxable under the head _____.
5. Dividends from a _____ (Domestic/Foreign) company on which dividend distribution tax has been paid will not be chargeable to tax.
6. Family pension received by member of the family of government employee who has been awarded 'Param Vir Chakra' is _____ (Exempt/Taxable) income.
7. Share of income received by a member of HUF is _____ (Exempt/Taxable) income.
8. Scholarship to meet _____ is exempt.
9. Amount received under a life insurance policy is _____ from tax but amount received under a Keyman insurance policy _____ from tax.
10. _____ allowance and _____ allowance received by a member of Legislature Assembly are exempt from tax.

(Ans: 1. Taxable, 2. other sources, 3. 50,000, 4. other sources, 5. Domestic, 6. Exempt, 7. Exempt, 8. Education, 9. Exempt, Taxable, 10. Daily, Travelling)

Match the Following

Column A	Column B
1. Dividend from domestic Company	(a) Lesser of 1/3 or ` 15,000
2. Dividend from Foreign Company	(b) Exempt from Tax
3. Income from interest on securities by a dealer	(c) Agriculture income
4. Taxable gift to non-relatives	(d) Sundry income
5. Standard deduction on family pension	(e) Business income
6. Compensation received from insurance company for damage to crop	(f) Exceeding ` 50,000
7. Manufacture of salt-from sea water	(g) Taxable as other sources
	(h) Lesser of 1/3 or ` 25,000
	(i) Non agriculture income

(Ans: 1-b, 2-g, 3-e, 4-f, 5-a, 6-c, 7-i)

State Whether True or False

1. Income under the head income from other sources is taxable on due basis.
2. Dividend declared by a domestic company is fully exempt in the hands of shareholders.
3. Dividend declared by Unit Trust of India is fully taxable in the hands of shareholders.
4. Winning from lotteries, crossword puzzles, horse races and other races, card games, etc., are casual income and hence fully exempt.

5. For computing lottery, crossword puzzles horse races, card games income, etc., the assessee shall be entitled to deduction for purchase of ticket/any expenditure incurred for earning such income.
6. The legal heir of the deceased who receives family pension is allowed a standard deduction from such family pension received to the extent of 1/3rd of such pension or ` 12,000 whichever is less.

(Ans: True 2,)

Theory Questions

- (1) Explain the concept of 'Deductions Expressly Allowed' under other sources of income?
- (2) As per Income Tax Act, 1961, define the followings:
 - (a) Dividends [covered by Sections 2(22)]
 - (b) Other sources of income
- (3) Explain the concept of 'Basis of Charge' under income from other sources.
- (4) Explain the concept of 'Specific Deductions' under income from other sources income?
- (5) Explain the concept of 'deemed income chargeable to tax [Section 59]' under income from other sources.
- (6) Explain the concept of 'Deductions Expressly Disallowed' under income from other sources.

Practical Questions

1. Mr. Richard is non-resident. He has earned following amounts during the previous year ended 31st March, 2020:
 - (a) Income from agricultural land in Sri Lanka ` 1,50,000 received in Sri Lanka.
 - (b) Dividend from Foreign Companies received ` 5,000.
 - (c) Dividend from Indian Companies received:
 - Final dividend from Pace Constructions Ltd. ` 15,000.
 - Interim dividend from Glindia Ltd., ` 12,400 was actually paid by the company on 30th June, 2018.
 - (d) Winning from lotteries ` 1,00,000 (TDS ` 35,000).
 - (e) As on 1st April, 2020 his investments was as follows:
 - 10% Mumbai Municipal Debentures ` 50,000.
 - 15% Debentures in Telco Ltd., of ` 1,00,000.
 - 7% Port Trust Bonds of ` 30,000.
 - 9% Maharashtra Government Loan of ` 40,000.

Compute the Gross Total Income of Mr. Richards for the A/Y 2021-22. (Ans: 1,65,700)

2. Professor Godbole of Bombay University has received following receipts during the year ended 31st March, 2020:
 - (a) Salary income ` 1,42,000 (Gross).

- (b) Interest on National Saving Certificate VIIIth issue ` 770.
- (c) ` 3,185 as interest on Post Office Savings Bank.
- (d) Received ` 30,000 from LIC on maturity of policy.
- (e) Examinership fees ` 3,350 received from the Institute of Chartered Accountants of India, New Delhi.
- (f) Income by way of Dividends from Indian Companies:
 - National Rayon Ltd., ` 750
 - Reliance Industries Ltd., ` 685
 - Oswal Agro Ltd., ` 315
- (g) Winning from crossword puzzles ` 8,880.

Compute the gross taxable income of Mr. Godbole for the A/Y 2021-22.

(Ans: O/S 13,000, GIT: 1,55,000)

3. Mr. Ramakant provides you the following information for the financial year 2020-21:
- (a) Salary @ ` 6,000 p.m.
 - (b) Bonus for the year ` 2,000 was declared.
 - (c) Honorarium for playing cricket from Mulund Gymkhana ` 5,000.
 - (d) Received an award of Man of the Match of ` 5,000.
 - (e) Arjun Award of ` 10,000 instituted in the public interest by Government of Maharashtra for showing proficiency in sports.
 - (f) He owns the following securities on 1-4-2019:
 - 15% Mumbai Port Trust Bonds – ` 15,000.
 - (Interest payable annually).
 - 10% Bonds of Narmada Cement Ltd. – ` 12,800.
 - (g) Interest on:
 - Fixed Deposit with State Bank of India – ` 12,800.
 - Interest Accrued on Indira Vikas Patra – ` 11,200.

Compute Mr. Ramakant's total income for the assessment year 2021-22.

(Ans: O/S 37,530, GIT: 1,09,530)

4. Mr. Sunil is the owner of M/s. Hotel Trupti. He informs you that:
- (a) Income from business ` 1,15,000.
 - (b) Recovered ` 5,000, which was allowed as a deduction on embezzlement of cash by cashier in earlier previous year. This has not been accounted in the books of Hotel Trupti.
 - (c) Income by way of interest on debentures amounted to ` 12,000. He paid ` 6,000 as interest on amount borrowed for purchase of Debentures to Mr. Reagan, an American resident. No tax has been deducted at source nor there is any representative assessee in India.

- (d) Received ` 35,000 royalty from Deepak Prakashan for writing a book on Hotel Management. He incurred the expenses for preparing manuscripts and purchase of certain books for reference ` 12,000. These expenses are bonafide and reasonable.
- (e) Mr. Sunil took Anand Bhavan on rent of ` 2,000 p.m. He subletted this property to Mr. Sanjay at ` 2,500 per month *w.e.f.*, 1st April, 2020.
- (f) Accrued interest on Indira Vikas Patra amounts to ` 15,000.
- (g) Directorship fees from Impex Associates Pvt. Ltd., received ` 12,000.
- (h) Interest on deposits with ACC Ltd., ` 12,000.
- Calculate his total income for the assessment year 2021-22. **(Ans: 74,000)**
5. Mr. Jayantrao provides you the following information for the year ended 31st March, 2020:
- (a) Received ` 12,000 from HUF as a member of HUF.
- (b) Salary @ ` 12,000 p.m. from Marathwada Krishi Mahavidyalaya being a lecturer in the college.
- (c) Examinership fees received from Pune University ` 13,750.
- (d) Royalty from Anmol Prakashan ` 32,250 for writing a book on “Progress and Problems of Agriculture in India”.
- (e) Received an award of ` 25,000 from Krishi Vikas Mahamandal Instituted in public interest by Government of Maharashtra in respect of “Scientific Study of Krishi Udyog”.
- Compute the gross total income of Mr. Jayantrao for the A/Y 2021-22. **(Ans: 19,000)**
6. Mr. Abhimanyu provides you the following information for the assessment year 2021-22:
- (a) Received ` 8,800 from one of the tenants on 17th August, 2020. Deduction was allowed in the earlier years in respect of unrealized rent. The house in which this tenant was staying was sold in January, 2020.
- (b) Received ` 2,00,000 from LIC under Keyman Insurance Policy. This sum is neither chargeable to tax under the head “Salaries” nor under the head “Profits and Gains of Business or Professions”.
- (c) Net income from subletting a house property @ ` 500 per month.
- (d) Withdrawals from Public Provident Fund Account ` 34,000.
- (e) He owns the following shares and securities as on 1-4-2020:
- ` 15,000 7% Gujarat State Loan
 - ` 40,000 10% Debentures of Mumbai Port Trust
 - ` 10,000 8% Preference shares of Shakti Chemicals Pvt.Ltd.,(Dividends received on 26th December, 2020)
 - ` 5,000 10% Preference shares of Godrej and Boyce India Ltd.,(Dividend received on 21st February, 2021)
 - Equity shares of ` 100 each in Deepak Fertilizers Ltd., 10% Dividend was declared in AGM held in November, 2020. Equity Shares were sold in March, 2021.

- Interest in respect of the securities became due on 31st December, 2020 and was duly received by 16th January, 2021.

Following expenses were incurred by him:

- (i) Collection charges paid to the Bank of India for collection of interest on securities ` 78.
- (ii) Interest on loan borrowed from Bank of India against the pledge of ` 40,000 10% Debentures of Mumbai Port Trust, for the purpose of purchasing a motorcar, paid ` 3,575.

On the basis of the above information, you are required to compute the Gross Total Income of Mr. Abhimanyu for assessment year 2021-22. **(Ans: 2,19,772)**

7. Mr. Sandeep is the owner of M/s. Sangam Power Laundry. He provides you the following information for the previous year ended 31st March, 2020:
- (a) Income from business ` 57,500.
 - (b) ` 12,500 were recovered from cashier which was allowed as business expenditure being embezzlement of cash in earlier previous year. This was not accounted in the books of M/s. Sangam Power Laundry.
 - (c) Mr. Sandeep took Pushpak Bhavan on rent of ` 1,000 p.m. He subletted this property to Mr. Vinod at ` 1,500 p.m. w.e.f., 1st April, 2020.
 - (d) Accrued interest on fixed deposit with Saraswat Cooperative Bank Ltd., ` 8,500.
 - (e) Interest on fixed deposits with DCM Toyato Pvt. Ltd., ` 6,500.
 - (f) Directorship fees from Sudarshan Chemicals ` 3,000.
 - (g) Interest on debentures amounted to ` 6,000. He paid ` 3,000 as interest on amount borrowed for purchase of Debentures to Mr. Phillips, a German resident. No tax has been deducted at source nor there is any representative assessee in India.

Determine the gross taxable income of Mr. Sandeep for the A/Y 2021-22. **(Ans: 1,26,000)**

8. Mr. Niranjana provides you the following information for the period ending on 31st March, 2020:
- (a) Gross salary of ` 90,000 from M/s. Instant Chemicals Pvt. Ltd., professional tax was deducted at source ` 1,440.
 - (b) Income from units of "Unit Trust of India" ` 4,980.
 - (c) Withdrawals of ` 50,000 from PPF account with SBI.
 - (d) Winnings from lotteries ` 5,000.
 - (e) Income by way of dividend from Indian companies:
 - M/s. Lucky Electronics Pvt. Ltd., ` 650.
 - M/s. Apple Industries Ltd., ` 4,460.
 - (f) Dividend from Foreign Companies ` 14,460.

You are required to compute the gross taxable income of Mr. Niranjana for the assessment year 2021-22. **(Ans: O/S 19,460, GIT: 1,08,020)**

9. Mr. Vasantrao is having taxable income from house property ` 32,000. He also received the following amounts during the year ended on 31st March, 2020:

- (a) Dividend from Voltas Ltd., ` 1,500.
- (b) Interest on fixed deposits with Bank of India ` 2,500.
- (c) Interest on post office savings bank account ` 3,333.
- (d) Winnings from lotteries ` 1,00,000 from which tax was deducted at source ` 35,000 and net amount received ` 65,000.
- (e) A gift from father out of natural love and affection ` 11,000.
- (f) Received ` 70,000 from LIC under Keyman insurance policy.

You are required to ascertain the gross total income chargeable to tax for the assessment year 2021-22.

Ans: O/S 1,72,500, GIT: 2,14,500)

10. Mr. Vivek provides you the following information for the year ended 31st March, 2020:
- (a) Received ` 10,000 as award from Mahatma Phule Krishi Vikas Mandal instituted in public interest by Government of Maharashtra in respect of scientific study on dry farming.
 - (b) Examinership fees received from Banaras University ` 12,500.
 - (c) Salary @ ` 13,500 p.m. from ChattrapatiSikshan Mandal being a lecturer in college. Professional tax deducted at source ` 1,440.
 - (d) Royalty from Vikas Prakashan ` 42,000 for writing a book on “Commercialisation of Agriculture – A need of the Day”.
 - (e) Received ` 5,000 from HUF as a member of HUF and ` 10,000 as a share in profit of the firm M/s. Milan Traders. He did not receive any remuneration or interest from the firm.

Compute the gross total income of Mr. Vivek for the assessment year 2021-22.

(Ans: 54,500)

“Optimists are right. So are pessimists. It’s up to you to choose which you will be”.

— Harvey Mackay



7 Chapter	DEDUCTIONS U/S 80 AND COMPUTATION OF GROSS TOTAL INCOME
--	--

INTRODUCTION

In addition, to provide certain incentives, the law allows certain deduction to be made while computing the total income. These items are allowed to be deducted after computing the gross total income. They are known as deduction.

Deduction in Respect of life Insurance Premium, Deferred Annuity, Contribution to Provident Fund, Subscription to certain Equity shares or Debentures u/s 80C

Section 80C Provides for a deduction from the Gross Total Income, of savings in specified modes of investments or Specified Savings.

The Following are the Investments/Contributions Eligible for Deduction.

(1) Premium paid on insurance on the life: Of the individual, spouse or child (minor or major) and in the case of HUF, any member thereof. This will include a life policy and an endowment policy. However, where the annual premium on insurance policies, other than a contract for deferred annuity, exceeds 20% of actual capital sum assured shall not be included in gross qualifying amount. From A.Y. 2020-21 the above limit of 20% is reduced to 10% for policies issued on or after 1/4/2018. For the purpose of calculating the actual capital sum assured under this clause:

- (a) The value of any premiums agreed to be returned.
- (b) The value of any benefit by way of bonus or otherwise, over and above the sum actually assured, shall not be taken into account.

(2) Premium paid to effect and keep in force a contract for a deferred annuity: On the life of the assessee and/or his or her spouse or child, provided such contract does not contain any provision for the exercise by the insured of an option to receive cash payments in lieu of the payment of the annuity.

It is pertinent to note here that a contract for a deferred annuity need not necessarily be with an insurance company. It follows therefore that such a contract can be entered into with any person.

(3) Deferred Annuity by Government: Amount deducted by or on behalf of the Government from the salary of a Government employee for securing a deferred annuity or making provisions for his spouse or children. The excess, if any, over one-fifth of the salary is to be ignored.

(4) Contribution to Statutory Provident Fund: To which the Provident Funds Act, 1925 applies.

(5) Contributions made to any Public Provident Fund: Set up by the Central Government and notified in his behalf (i.e., the Public Provident Fund established under the Public Provident Fund Scheme, 1968). Such contribution can be made in the name of any persons mentioned in (1) above.

(6) Contribution by an employee to a Recognized Provident Fund.

(7) Contribution by an employee to an Approved Superannuation Fund.

(8) NSS: Subscription to any such security of the Central Government or any such deposit schemes as the Central Government as may notify in the Official Gazette.

(9) NSC VIII Issue: Subscription to any Savings Certificates under the Government Savings Certificates Act, 1959 notified by the Central Government in the Official Gazette (i.e., National Savings Certificate (VIII Issue) issued under the Government Savings Certificates Act, 1959).

(10) ULIP of UTI: Contributions in the name of any person specified in (1) above for participation in the Unit-linked Insurance Plan of Unit Trust of India.

(11) ULIP of LIC (Dhanraksha): Contributions in the name of any person mentioned in (1) above for participation in any Unit linked Insurance Plan of the LIC Mutual Fund, referred to in section 10(23D) in this behalf.

(12) Annuity Plan (Jeevan Dhara and Jeevan Akshay): Contributions to approved annuity plans of LIC (New Jeevan Dhara and Jeevan Akshay) or any other insurer as the Central Government may, by notification in the Official Gazette, specify in this behalf.

(13) Equity Linked Saving Scheme of any Mutual Fund: Subscription to any units of any mutual fund referred to in section 10(23D) or from the Administrator or the specified company under any plan formulated in accordance with such scheme notified by the Central Government;

(14) Notified Pension Fund: Contribution by an individual to a pension fund set up by any Mutual Fund referred to in section 10(23D) or by the Administrator or the specified company as the Central Government may specify (i.e., UTI-Retirement Benefit Pension Fund set up by the specified company referred to in section 2(h) of the Unit Trust of India and Kothari Pioneer Pension Plan by Kothari Mutual Fund)

(Transfer of Undertaking and Repeal) Act, 2002 as a pension fund).

For the purposes of (13) and (14) above:

(a) “Administrator” means the Administrator as referred to in clause (a) of Section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002.

(b) “Specified company” means a company as referred to in clause (h) of Section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002.

(15) Deposit Scheme of NHB: Subscription to any deposit scheme or contribution to any pension fund set up by the National Housing Bank.

(16) Subscription to any such deposit scheme of a public sector company which is engaged in providing long-term finance for construction: Purchase of houses in India for residential purposes or any such deposit scheme of any authority constituted in India by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both. The deposit scheme should be notified by the Central Government.

(17) Payment of tuition fees: by an individual assessee at the time of admission or thereafter to any university, college, school or other educational institutions within India for the purpose of full-time education of any two children of the individual. This benefit is only for the amount of tuition fees for full-time education and shall not include any payment towards development fees or donation or payment of similar nature and payment made for education to any institution situated outside India.

(18) Any payment made towards the cost of purchase or construction of a new residential house property: The income from such property:

- (a) Should be chargeable to tax under the head “Income from house property”.
- (b) Would have been chargeable to tax under the head “Income from house property” had it not been used for the assessee’s own residence.

The approved types of payments are as follows:

- (a) Any installment or part payment of the amount due under any self-financing or other schemes of any development authority, Housing Board or other authority engaged in the construction and sale of house property on ownership basis.
- (b) Any installment or part payment of the amount due to any company or a cooperative society of which the assessee is a shareholder or member towards the cost of house allotted to him.
- (c) Repayment of amount borrowed by the assessee from:
 - (i) The Central Government or any State Government.
 - (ii) Any bank including a co-operative bank.
 - (iii) The L.I.C.
 - (iv) The National Housing Bank.
 - (v) Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes which is eligible for deduction under section 36(1)(viii).
 - (vi) Any company in which the public are substantially interested or any cooperative society engaged in the business of financing the construction of houses.
 - (vii) The assessee’s employer, where such employer is an authority or a board or a corporation or any other body established or constituted under a Central or State Act.
 - (viii) The assessee’s employer where such employer is a public company or Public Sector Company or a university established by law or a college affiliated to such university or a local authority or a co-operative society.
- (d) Stamp duty, registration fee and other expenses for the purposes of transfer of such house property to the assessee. Inadmissible payments: However, the following amounts do not qualify for rebate:
 - (i) Admission fee, cost of share and initial deposit which a shareholder of a company or a member of a co-operative society has to pay for becoming a shareholder or member.
 - (ii) The cost of any addition or alteration or renovation or repair of the house property after the completion of the house or after the house has been occupied by the assessee or any person on his behalf or after it has been let out.
 - (iii) Any expenditure in respect of which deduction is allowable under Section 24.

(19) Infrastructure equity shares or debentures: Forming part of any eligible issue of capital approved by the Board on an application made by a public company or as subscription to any eligible issue of capital by any public financial institution in the prescribed form. Eligible issue of Capital: This means an issue made by a public company formed and registered in India or a public financial institution and the entire proceeds of the issue are utilized wholly and exclusively for the purposes of

any business referred to in section 80- IA(4). Public company shall have the meaning assigned to it in Section 3 of the Companies Act, 1956.

Public financial institution shall have the meaning assigned to it in Section 4A of the Companies Act, 1956. The Proceeds of which will be utilized wholly and exclusively for developing, maintaining and operating an infrastructure or for generating and distributing power or for providing telecommunication services.

(20) Infrastructure Units: Subscription to any units of any mutual fund referred to in Section 10(23D)] and approved by the Board on an application made by such mutual fund in the prescribed form.

It is necessary that the subscription to such units should be subscribed only in the eligible issue of capital of any company.

(21) 5 years term deposit with Schedule Bank:

- (a) For a period of not less than five years with a scheduled bank.
- (b) Which is in accordance with a scheme framed and notified by the Central?

Government in the Official Gazette

(22) Post Office CTS: Any sum deposited in a 10 year or 15 year account under Post Office Saving Bank (CDT) Rules, 1959 in the name of assessee himself or in case of HUF any member of the family.

(23) Any subscription to bonds issued by National Bank for Agricultural and rural development as: The central government may notify.

(24) 5 year Term Deposit in an account under post office term deposit rule, 1981

(25) Deposit in any account under the Senior Citizens Savings Scheme Rules, 2004.

Deduction under section 80C is available only to an individual or HUF.

The maximum qualifying amount is ` 1.50 lakh in respect of deductions under Section 80C along with Sections 80CCC (in respect of contribution to approved pension fund) and 80CCD (contribution to pension scheme of Central Government).

Deductions in Respect of Contribution to certain Pension Funds U/S 80CCC

- (a) Where an assessee, being an individual, has in the previous year paid or deposited any Amount out of his income chargeable to tax to effect or keep in force a contract for any annuity Plan of LIC of India or any other insurer for receiving pension from the fund referred to in clause (23AAB) of Section 10, he shall be allowed a deduction in the computation of his total Income.
- (b) For this purpose, the interest or bonus accrued or credited to the assessor's account shall not be reckoned as contribution.

Deduction under section 80C is available only to an individual or HUF.

**The maximum qualifying amount is ` 1.50 lakh** (However, the overall limit of `1,50,000 prescribed in Section 80CCE will continue to be applicable i.e., the maximum Permissible deduction under Sections 80C, 80CCC and 80CCD put together is ` 1,50,000).

- (c) Where any amount standing to the credit of the assessee in a fund referred to in clause (23AAB) of Section 10 in respect of which a deduction has been allowed, together with

interest Or bonus accrued or credited to the assessor's account is received by the assessee or his Nominee on account of the surrender of the annuity plan in any previous year or as pension received from the annuity plan, such amount will be deemed to be the income of the assessee. Or the nominee in that previous year in which such withdrawal is made or pension is received. It will be chargeable to tax as income of that previous year.

- (d) Where any amount paid or deposited by the assessee has been taken into account for the purposes of this section, a deduction under Section 80C shall not be allowed with reference to such amount.

Deduction In Respect Of Medical Insurance Premia U/S 80 D

Deduction under this Section is available to:

- (1) An individual
- (2) An HUF
- (3) AOP or BOI

The deduction shall be allowed from the total income of the assessee in respect of the amount paid by cheque in the previous year as stated below:

- (a) Where the assess is an individual, any sum paid to effect or to keep in force an insurance on the health of the assessee or on the health of the assessee or on the health of the wife or husband, dependent parents or dependent children of the assessee.
- (b) Where the assessee is a Hindu undivided family, any sum paid to effect or in force an insurance on the health of any member of the family.
- (c) Where the assessee is an association of persons or a body of individual consisting in either case, only of husband and wife governed b; the system of community of property in force in the Union Territories Dadra and Nagar Haveli and Goa, Daman and Div, any sum paid to effect or to keep in force an insurance on the health of any member of such association or body or on the health of the dependent children of such an association or body.

This deduction is allowed if insurance premia is paid in accordance of the scheme framed in this behalf by the general insurance corporation of India and approved by the central government or any other insurer approved by insurance regulatory and development authority.

The Actual Amount of Deduction shall be as follows:

- (a) If such premia does not exceed ` 50,000/-100%
- (b) If such premium exceed ` 25,000/- .....` 25000/- only.

However in respect of insurance and health of the assessee or on the health of the wife or husband or dependent parents or any members of the family in case of Hindu undivided family and such person is a senior citizens the permissible deduction will be ` 50,000/- instead of ` 25,000/- Senior citizens here means an individual resident in India and who is of the age of 60 years or more any time during the relevant previous years.

Deduction in respect of Maintenance including Medical Treatment of a Dependent Handicapped u/s 80DD

Deduction under this Section is available to:

- (1) An individual
- (2) An HUF

Deduction under this Section is available for:

- (a) The assessee who has incurred an expenditure for the medical treatment including nursing, training and rehabilitation of a dependent (Spouse, children, parents, brother sister of an Individual or member of HUF) being a person of disability.
- (b) The assessee has paid or deposited under any scheme framed in this behalf by LIC or any other insurer, or administrator or specified company and approved by board in this behalf, for maintenance of dependent, being a person of with disability. Person with severe disability means a person with 80% or more of one or more disabilities as referred to in section 56 of the persons with disabilities Act, 1995.

Amount of deduction:

- (a) A fixed amount of deduction of ₹ 75,000.
- (b) A higher deduction of ₹ 1,25,000 shall be allowed for a person with severe disability.

Deduction in Respect of Interest on Loan taken for Higher Education U/S 80E

Deduction under this Section is available to:

- (1) An individual

Purpose of Loan:

The loan is taken from financial institution for the purpose of his education or his relative (Spouse, children or the students for whom the individual is the legal guardian)

Amount of deduction:

- (a) An amount paid by the individual during the previous year by way of “Interest on such loan”, out of his income chargeable to tax.
- (b) The above deduction is allowed:
 - From the assessment year relevant to the previous year in which the assessee start paying the interest on loan and immediately succeeding 7 A.Y.
 - Until the above interest is paid in full... whichever is earlier.

Financial Institution means a banking company or a notified financial institution or approved charitable institution u/s 10(23C) or section 80(2)(a).

Deduction for an Income of Handicapped Assessee U/S 80U

Deduction is available to the following persons:

- (1) **Individual:** The assessee is an individual (may be citizen of India or a Foreign country)

(2) **Resident in India:** He is resident in India.

(3) **With disability:** He is a person suffering from not less than 40% of the prescribed disability.

Certified by Medical Authority:

The assessee must furnish a copy of the certificate issued by the medical authority along with the return of income. Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

Amount of Deduction:

If the above conditions are satisfied then the fixed deduction of Rs. 75,000 is available.

A higher deduction of ₹ 1,25,000 is available is allowed in respect of a person with severe disability (i.e., over 80%).

RETURN OF INCOME

Income Tax Return

“Income Tax Return” is a term which is often used when we talk about income tax. It is a way by which we pay this tax. When total annual income of a person, including all sources, is more than maximum unchargeable limitation (At present it is ₹ 2,00,000/-) then that person is liable to pay income tax.

Filing of Return of Income-Sector u/s 139

139(1) Due date for filing ROI	139 (3) Loss returns
139(1A) Filing of returns by employees	139 (4) Belated returns
139(1B) Electronic returns	139 (5) Revised returns
139(4A) Return trust	139 (9) Defective returns
139(4B) Return by political parties	
139(4C) Return by certain institutions	
139(4D) ROI by approved scientific research institutions	

Various Income Tax Return Forms with their usage

Form No Heading:

- ITR 1 For Individuals having Income from Salary/Pension/Family pension and Interest.
- ITR 2 For Individuals and HUFs not having Income from Business or Profession.
- ITR 3 For Individuals/HUFs being partners in firms and not carrying out business or profession under any proprietorship.
- ITR 4 For individuals and HUFs having income from a proprietary business or profession.
- ITR 5 For firms, AOPs and BOIs.
- ITR 6 For Companies other than companies claiming exemption under section 11.

- ITR 7 For persons including companies required to furnish return under section 139(4A), or section 139(4B) or section 139(4C) or section 139(4D).
- ITR 8 Return for Fringe Benefits.

Due dates

According to Sec.139 (1):

- (a) Every person being a company or firm.
- (b) Being a person other than a company or a firm, if his total income or the total income of any other person in respect of which he is assessable to tax during the previous year exceeded the maximum amount which is not chargeable to income tax, shall furnish a return of income within the due dates stipulated hereunder.

Assessee Due date

- (1) In case of a person being:
 - (a) Company.
 - (b) A person whose accounts are required to be audited 30th September of relevant under this Act or under any other Law; assessment year.
 - (3) Working partner of a firm whose accounts are so required to be audited.
- (2) In the case of any other assessee 31st July of relevant assessment year.

Income Tax Return Filing

There are following steps that must be followed for income tax return filing:

- See the Heads of Income and decide which type of assessee you are
- Select return form according to the type of assessee from the list
- Before filing form pls. read the form carefully
- Use black ball pen or any other as instructed in form
- There should not be any overwriting on the form
- Fill name, father's name, date of birth as mentioned in your educational certificates
- Put signature of authorized person (pls. see the list of authorised signatory) on the form at right place
- Use your own PAN/TAN/GIR number for filing the income tax return
- Use correct options/code to show your status in the income tax return form
- Assessment year must be mentioned on return form clearly. Assessment year is the last financial year for which tax has to pay
- Mention your all source of income with income amount clearly and correctly
- Calculate your taxable amount including surcharges and deducting rebate from your income
- Attached all required documents for getting deduction/rebate or exemption in tax

- After filling form pls. recheck that all the information given by you is correct and on proper place
- Don't give any wrong information in the form
- Go to income tax department and submit the form to concerning income tax assessing officer
- File your income tax return before the last date of return filing. Last date for an individual having only salary income is 30th June as well as last date for individual having business income (if auditing not required) is 31st august.

Income Tax Rates

For individuals, HUF, Association of Persons (AOP) and Body of individuals (BOI):

For Assessment Year 2021-22

Taxable income slab (₹) Rate (%)

Basic Exemption limit for individuals Up to 2,00,000; Up to 2,50,000 (for Senior Citizen Aged 60 Years) and Up to 5,00,000 (for Senior Citizen Aged 80 Years)

For Individuals, HUF/AOP/BOI/AJP (Not being senior citizens up to 60 years)

2,50,001 - 5,00,000	@05%
5,00,001 - 10,00,000	@ 20%
10,00,001- upwards	@ 30%

For Senior Citizen aged 60 years and above:

3,00,001 - 5,00,000	@05%
5,00,001 - 10,00,000	@ 20%
10,00,001- upwards	@ 30%

For Senior Citizen aged 80 years and above:

5,00,001 - 10,00,000	@ 20%
10,00,001- upwards	@ 30%

Note: With Deductions of Chapter VI or Section 80 of Income Tax Act

INCOME TAX CALCULATOR

How to calculate tax

Example 1: Let us take a case where the Assessee's income is ₹6,10,000.

According to the Income Tax Slab, the first 2,50,000 is not taxable.

The next ₹ 2,50,000 is taxable @05%

The next ₹ 1,10,000 is taxable @20%

Therefore, the net Income Tax Payable is 12,500 + 22,000 = 34,500.

Example 2: Let us take a case where the assessee is women aged 65 years and whose taxable income is ₹ 7,50,000.

According to the Income Tax Slab, the first 3,00,000 is not taxable.

The next ` 2,00,000 is taxable @05%.

The next ` 2,50,000 is taxable @20%

Therefore, the net Income Tax Payable is 10,000 + 50,000 = 60,000

Example 3: Let us take a case where the assessee is senior citizen aged 85 years and whose taxable income is ` 15,00,000.

According to the Income Tax Slab, the first 5,00,000 is not taxable.

The next ` 5,00,000 is taxable @20%

The next ` 5,00,000 is taxable @30%

Therefore, the net Income Tax Payable is 1,00,000 + 1,50,000 = 2,50,000

COMPUTATION OF TOTAL INCOME

The last step in assessment is to compute the total income (or net taxable income). Total income basically means the net amount = gross total income less deductions.

Steps Involved in Computation of Total Income for the Current Assessment Year:

- (1) **Determine Assessment Year:** Total income is to be computed for the current assessment year, i.e., 2021-22. The current assessment year 2021-22 is made up of the financial year of the government i.e. from 1-4-2020 to 31-3-2021.
- (2) **Determine Previous Year:** Previous year means the financial year 'previous' to the assessment year. The financial year 2020-21 i.e., from 1-4-2020 to 31-3-2021 is the previous year relevant to the current assessment year 2021-22. The total income earned by a person from whatever source during the period from 1-4-2020 to 31-3-2021 will be taxed in the current assessment year.
- (3) **Determine Legal Status of the Person:** A person whose income is taxable means an individual, A HUF, a company or a firm, and association of person, a body of individual, a local authority or an artificial juridical person.
- (4) **Determine Residential Status:** An individual or a HUF may be:
 - (a) Resident or an ordinarily resident
 - (b) Resident but not ordinarily
 - (c) Non-resident in India.

Any other person (firm, AOP, Company etc) may be (a) resident in India or (b) non-resident in India.
- (5) **Ascertain Whether Receipt is in Nature of Income:** A receipt in the nature of a capital receipt can't be taxed. Only a revenue receipt covered by the definition of income in the Act or which normally denoted income is taxable under the Act.
- (6) **Determine Place of Accrual of Income:** Income may be accrued or received, in India or outside India. Under the Act, some items may be deemed to be income received or deemed to have accrued in India.

- (7) **Determine Scope of Total Income:** Scope of income depends upon the residents of person and a place of accrual of income. Thus:
- (a) Indian income is taxable in all cases, whether an ordinarily resident or not ordinarily resident or a non-resident.
 - (b) Foreign income of an ordinarily resident is only taxable.
 - (c) Foreign income of a non-resident is not taxable at all.
 - (d) Foreign income of a not ordinarily resident is taxable only if it is derived from a business controlled from or a profession set up in India.
- (8) **Exclude Exempt Income:** The items listed in Sec 10 of the Act are to be excluded while computing the total income
- (9) **Classify Income under Various Head:** Income to be classified under various heads i.e. salary, income from house property, profit and gains of business of profession, capital gains and income from other sources. The rules of computation of income under each head are different.
- (10) **Compute Total Income:** Total income is to be computed by adding up income from all sources and deducting from such "Gross Total Income", claims under Chap VI A, to arrive at the "Net Taxable Income". Computation of total income is to be done in following Form:

Format for Computation of Total Income

Name of Assessee – Mr. XYZ

P.A.No.:

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Total Income

Particulars

(i) Income from salary		xx
(ii) Income from House Property Let out property	xx	
Self occupied Property	xx	xx
(iii) Income from business/profession		xx
(iv) Income from Capital Gains		
Long term Capital gain (to be computed separately)	xx	
Short term capital gain	xx	xx
(v) Income from other sources		xx
Gross Total Income		xxxx
Less: deduction under chapter VI A		
(a) U/S 80C	xx	
(b) U/S 80CCC	xx	
(c) U/S 80D	xx	
(d) U/S 80DD	xx	
(e) U/S 80E	xx	
(e) U/S 80U	xx	(xx)
Net Taxable Income		xxxx

OR
(Alternate Method)

Rs 0 - Rs 2,50,000	Nil
Rs 2,50,000 - Rs 5,00,000	5%
Rs 5,00,000 - Rs 7,50,000	10%
Rs 7,50,000 – Rs 10,00,000	15%
Rs 10,00,000 – Rs 12,50,000	20%
Rs 12,50,000 – Rs 15,00,000	25%
Above 15,00,000	30%

Without any Deductions of Chapter VI or Section 80 of Income Tax Act

Illustration 1:

Mr. Ganesh Bhat, having PAN AACP 211G, who is employed as secretary in a company gives following information regarding his income in the P.Y. 2020-21

- (1) Basic salary ` 5,000 P.M.
- (2) City compensatory allowance ` 1,000 p.m..
- (3) Dearness allowance ` 2000 p.m.
- (4) Lunch allowance ` 1,000 p.m. (Lunch expenses ` 10,500)
- (5) Medical allowance 400 p.m.
- (6) Children Education allowance ` 400p.m. (Exemption U/s 10 (14) ` 2,400)
- (7) House Rent allowance ` 2,000 p.m. (Exemption U/s 10 (13A) ` 19,000)
- (8) Bonus received ` 20,000.
- (9) Arrears of salary net ` 25,000 and tax deducted at source ` 5,000.
- (10) Leave Travel Concession received ` 20,000 but spent on train traveling during tour ` 18,700.
- (11) He has paid professional tax at ` 150 per month.
- (12) He owns a house property at Mangalore which is occupied by tenant as resident, the details being:
 - (a) Ratable Value ` 80,000 p.a.
 - (b) Fair Rent ` 95,000 p.a.
 - (c) Rent per month ` 8,000
 - (d) Unrealised rent 1 month
- (13) Municipal taxes paid:
 - (e) P.Y. 19-20 ` 12,000
 - (f) P.Y. 20-21 ` 12,000
- (14) Interest on construction loan paid to HDFC ` 51,000.
- (15) Interest on construction loan outstanding to HDFC ` 9,000.
- (16) Mr. Ganesh Bhat has deposited ` 12,000 into Approved pension fund of ICICI and paid medical Insurance premium as specified below:
 - (a) Self Mediclaim Policy ` 5,000 paid by cheque.
 - (b) Wife's Mediclaim Policy ` 1,000 paid by cash.

(c) Dependent Son Medclaim Policy ` 2,500 paid by cheque.

(d) Dependent mother's Medclaim Policy ` 3,000 paid by bearer Cheque (mother's age 68

Capital Gains ^{years)} **[Sections 45-55]**

259

(e) Dependent minor brother's Medclaim Policy ` 3,000 paid by crossed account payee cheque.

You are required to calculate his Total Income for A. Y. 2021-22.

Solution:

Name of Assessee – Mr. Ganesh Bhat
Legal Status - Individual
Residential Status – R and OR

P.A.No.: AACP 211G
P/Y – 2020-21
A/Y – 2021-22

Computation of Total Taxable Income

Particulars		
(1) Income from Salary		1,19,700
(2) Income from House property		(10,300)
(3) Income from Business or profession		-
(4) Income from Other sources		-
Gross Total Income		1,29,400
Less: Deduction U/S 80		
80 CCC pension fund	(12,000)	
80 D Medical premium	(10,500)	(22,500)
Net taxable Income		1,06,900
Tax payable		Nil

W.N.1. Eligible amount of medical premium u/s 80D:

Self	5000
Dependent son	2500
Senior Mother	3000
Total	10,500

- Therefore, deduction U/S 80(D) = 10500

OR
(Alternate Method)

Rs 0 - Rs 2,50,000	Nil
---------------------------	------------

Therefore, tax payable is Nil.

Annexure 1: Statement of Taxable Income from Salary

Particulars		
(1) Basic Salary [5000 × 12]		60,000
(2) City compensatory allowance [1000 × 12]		12,000
(3) Dearness allowance [2000 × 12]		24,000
(4) Lunch allowance (1000 × 12)		12,000
(5) Medical allowance (400 × 12)		4,800
(6) Children Education allowance (400 × 12)	4,800	
Less: Exemption U/S 10(14)	(2,400)	2,400
(7) House Rent allowance (2000 × 12)	24,000	
Less: Exemption U/S 10(13A)	(19,000)	5,000

(8) Bonus Received

20,000

Capital Gains [Sections 45-55]

261

Computation of Gross Total Income**252**

(9) Arrears of Salary Net	25,000	
Add: Tax deducted at Source	<u>5,000</u>	30,000
(10) leave travel concession	20,000	
Less: Exemption U/S 10(5)	<u>(18,700)</u>	<u>1,300</u>
Gross Salary		1,71,500
Less: deduction U/S 16		(50,000)
16 (i) standard deduction		<u>(1,800)</u>
16 (iii) professional tax (150 × 12)		<u>1,19,700</u>
Taxable Income from Salary		

Note: Lunch expenses are not allowed as deduction**Annexure 2: Taxable Income from House Property**

Particulars	
Municipal value	80,000
Fair Rent	95,000
Reasonable letting value (RLV)	95,000
(Higher of MV, FR)	88,000
Annual Rent [W.N.1]	<u>95,000</u>
Gross Annual Value (Higher of RLV, AR)	(24,000)
Less: Municipal tax paid by Ganesh during P.Y. 20-21	<u>71,000</u>
Net Annual Value NAV	
Less: deduction U/S 24	(21,300)
Standard deduction (30% of NAV)	<u>(60,000)</u>
Int. on loan (51,000 + 9000)	<u>(10,300)</u>
Income from House property	

W.N.1. Actual Rent Received:

Annual Rent = 8000 × 12 = 96,000

Unrealised Rent = 8000 × 1 = 8,000

Net of realised Rent = 88,000

Illustration 2:

Mr. Makarand Desai has following income in the P.Y. ending 31-03-21:

- (1) Basic Salary ` 4,000 p.m. (net)
- (2) Amount Deducted at Source:
 - (a) Income Tax ` 500 p.m.
 - (b) Life insurance premium ` 3,000
 - (c) Professional Tax ` 200 p.m.

- (3) Dearness allowance ` 6,000 p.m.
- (4) House rent allowance ` 4,000 per month subject to exemption U/s 10 (13A) @ 50% of Basic
- (5) Arrears received from employer ` 23,000
- (6) Mr. Makarand Desai owns a house property details are:
 - (a) Rent p.a. ` 60,000
 - (b) Rent of 2 months could not be collected due to tenant's insolvency and hence considered to be bad debt.
 - (c) Municipal value gross ` 48,000 but net ` 44,000
 - (d) Interest on housing loan:
 - Paid for the year 20-21 ` 3,000
 - Outstanding for the year 20-21 ` 2,000
 - Paid for the year 20-21 ` 1,000
 - (e) Other expenses on the house:
 - Insurance premium ` 400
 - Collection charge ` 120
 - Annual charge ` 2,300
- (7) Amount paid into LIC pension fund:
 - (a) 23 Aug 2020 ` 3,000
 - (b) 25 October 2020 ` 7,200 (inclusive of overdue interest ` 300)
- (8) During the year 20 - 21 he pays the following by cheque to get tax benefit:
 - (a) Insured person Mediclaim premium Makarand 1,000
 - (b) Mrs. Makarand (not dependent upon Makarand) 2,000
 - (c) Son (not dependent upon Makarand) 800
 - (d) Daughter (dependent upon Makarand) 1,500
 - (e) Father (not dependent upon Makarand) (senior Citizen) 1,000
 - (f) Mother (dependent upon Makarand) (Senior Citizen) 6,000
 - (g) Grandparents (dependent upon Makarand) (Senior Citizens) 500
 - (h) Father of Mrs.: Makarand (dependent upon Makarand) 800
 - (i) Brother (dependent upon Makarand) 900

You are required to calculate his Total Income for A.Y. 2021-22.

Solution:

Name of Assessee – Mr. Makarand Desai

Legal Status - Individual

Residential Status – R and OR

P.A.No.:

P/Y – 2020-21

A/Y – 2021-22

Computation of Total Taxable Income

Particulars	
(1) Income from Salary	1,20,300
(2) Income from House property	7,200
(3) Income from Business or profession	-
(4) Income from Other Sources	-
Gross Total Income	1,27,500
Less: Deduction U/S 80	
80 C Specified investment – life insurance premium	(3,000)
80 CCC pension fund	(9,900)
80 D Medical premium (1000 + 2000 + 1500 + 1000 + 6000)	(11,500)
Net taxable Income	1,03,100
Tax payable	Nil
Less: Income tax paid	(6,000)
Refund due	6,000

Note:

- (1) Insurance premium, collection charges and Annual charge are not allowed as deduction.
- (2) Interest on housing loan of 19-20 and over due int. of pension plan is not allowed as deduction.
- (3) Medical premium of independent son, grandparents, in laws and brother is not allowed as deduction.

Annexure 1: Statement of Income from Salary

Particulars		
(1) Basic Salary	48,000	
Add: Amount deducted		
Income tax	6,000	
Life Insurance premium	3,000	
Professional tax	2,400	59,400
(2) Dearness allowance (6000 × 12)		72,000
(3) House Rent allowance (4000 × 12)	48,000	
Less: Exemption U/S 10(13A)	(29,700)	18,300
(4) Arrears of Salary		23,000
Gross Salary		1,72,700
Less: Deduction U/S 16		
16 (i) standard deduction		(50,000)
16 (iii) professional tax		(2,400)
Net taxable Salary		1,20,300

Annexure 2: Statement of Income from House Property

Particulars	`
(1) Municipal value	48,000
(2) Fair Rent	-
(3) Reasonable letting value RLV (Higher of MV, FR)	48,000
(4) Standard Rent	NA
(5) Reasonable letting value RLV (lower of RLV, SR)	48,000
(6) Annual Rent (Net of unrealised Rent)	50,000
Gross Annual value (Higher of RLV, AR)	50,000
Less: Municipal tax paid by owner during P.Y. 19-20	(4,000)
Net Annual value	46,000
Less: Deduction U/S 24	
Standard deduction	(13,800)
Interest on loan	(25,000)
Income from house property	7,200

Working Note:

Mediclaime u/s 80D	Amt deposited	Maximum	Deduction
Self, Spouse and Dep. child	4500	15,000	4,500
Senior citizen parent	7000	20,000	7,000
			11,500

Illustration 3:

Mr. Rameshwar, having PA No AACP 2000 RH gives you following information regarding his income in the P.Y. 20-21.

Particulars	`	Particulars	`
Basic salary p.m.	20,000	Receipt From Hindu	50,000
Professional tax deducted p.m.	200	Undivided Family (Mr. Rameshwar is member of HUF) Int. on post office saving bank	1,500
Dearness allowance p.m.	4,000	Int. on Canra bank S.B. bank	1,500
House rent allowance p.m.	3,000	Interest accrued on N.S.C.	4,000
Bonus	8,000	Interest on 7% Capital	1,400
Advance salary	12,000	Investment Bond Int. on 10% National Relief Bond	1,800

Arrears of Salary	40,000	Interest on 10.5% Konkan Railway	1,500
Medical allowance p.m.	2,000	Corporation Bond Interest on Debenture	3,600
Medical expenses incurred	20,000	Dividend from MN Co. Ltd.	9,000
Children's education allow. pm 200 Children edu. allow. exemption 100	100	Interest on FD in Dena Bank	9,200
Interest on Bank Deposit	3,000	Interest on Company Deposit	1,600
Agri. Income From Gujarat	40,000	Interest on loan given to a private party	2,600
Agri. Income From Bihar	80,000	Gift from Friends on Birthday	26,000
HRA exemption	23,000		
Salary as partner of a firm	20,000		
Interest on Govt. Securities	3,000		
Interest from PPF	5,000		

(1) He has paid Medical insurance premium by cheque on self and family ` 12,000

(2) Amount paid towards LIC Pension Plan ` 12,700

You are required to calculate his net taxable income for A.Y. 21-21.

Solution:

Name of Assessee – Mr. Rameshwar

P.A.No.: AACP 2000 RH

Legal Status - Individual

P/Y – 2020-21

Residential Status – R and OR

A/Y – 2021-22

Computation of Total Taxable Income

Particulars	
Income from Salary	3,33,800
Income from other sources	28,500
Income from Business	20,000
Gross Total Income	3,82,300
Less: Total deduction U/S 80	
80 D Medical Insurance premium	(12,000)
80 CCC pension fund	(12,700)
80 C Int. Accrued on N.S.C	(4,000)
Net taxable Income	3,53,600

Tax payable on 3,53,600
 Basic Exemption (i.e. 2,50,000) + Taxable Income
 Tax payable on ` 83,600 @ 5%
 Income tax payable 4,180

OR
(Alternate Method)

Rs 0 - Rs 2,50,000	Nil
Rs 2,50,000 – 3,53,600	5%

Therefore, tax payable is Rs 4,180.

Annexure 1: Statement of Income from Salary

Particulars		
Basic Salary (20000 × 12)		2,40,000
Dearness allowance (4000 × 12)		48,000
House Rent allowance (3000 × 12)	36000	
(–) Exemption U/S 10(13A)	<u>(23000)</u>	13,000
Bonus		8,000
Advance Salary		12,000
Arrears of Salary		40,000
Medical Allowance (2000 × 12)		24,000
Children's Education Allowance (200 × 12)	2,400	
(–) Exemption U/S 10 (100 × 12)	<u>(1200)</u>	1200
Agriculture Income from Gujarat Exempt		
Gross Salary		3,86,200
Less: deduction U/S 16		
16 (i) standard deduction		(50,000)
16 (ii) Professional tax paid		<u>(2,400)</u>
Income from salary		3,33,800

Annexure 2: Statement of Income from Other Sources

Particulars	
Interest on Govt. securities	3,000
Receipt from HUF as member of family	Exempt u/s 10(2)
Int. on post office saving Bank	Exempt u/s 10(15)
Int. on Canara bank SB. Bank	1,500
Int. Accrued on N.S.C	4,000
Int. on 7% capital Investment Bond	Exempt u/s 10(15)
Int. on 10% National Relief Bond	Exempt u/s 10(25)
Int. on 10.5% Konkan Railway	Exempt u/s 10(15)
Int. on debenture	3,600

Capital Gains/Sections 45-51 Computation of Gross Total Income**253**

Dividend from MN Co. Ltd	Exempt u/s 10(34)
Int. on FD in Dena Bank	9,200
Int. on company deposit	1,600
Int. on loan given to private party	2,600
Gift from friends on Birthday	Not Taxable
Agriculture Income from Gujrat and Bihar	Exempt u/s 10(1)
Int. on Bank Deposit	3,000
IFOS	28,500

Illustration 4:

Binod is working in a limited company since 1st Nov 12 on a salary scale of ` 5,000-1,000-10,000-2,000-20,000 he is also entitled to D.A. of 60% of basic pay and CCA of 40% basic. He received a bonus of ` 30,000 and Salary in lieu of Leave ` 20,000. Salary of one month becomes due on 5th of next month. He has following other incomes:

Particulars	`
Interest on Deposits under National Deposit Scheme	7,000
Interest on Deposits with Y Ltd	6,000
Interest on units of UTI	2,500
Interest on deposit with State Housing Board	1,500
Interest on 9 per cent Relief Bonds	2,200
Interest on deposits with IDBI	1,000
Dividend from RCC Inc. USA	5,000
Interest on Deposits under National Savings Scheme, 1993	4,300

He has deposited ` 14,000 in pension fund set up by LIC of India and he has paid medical insurance premium of ` 4,000. He has donated ` 3,000 to approved association for family planning.

You are required to calculate his Total Income for A.Y. 2021-22.

Solution:

Name of Assessee – Mr. Binod	P.A.No.:
Legal Status - Individual	P/Y – 2020-21
Residential Status – R and OR	A/Y – 2021-22

Computation of Total Taxable Income

Particulars	`
Income from Salary	3,52,000
Income from Other Sources	24,800
Gross Total income	3,76,800
Less: deduction U/S 80	

Capital Gains [Sections 45-55]**Taxation Paper 189**

80 CCC pension funds	(14,000)
80 D Medical Insurance	<u>(4,000)</u>
Net taxable Income	<u>3,58,800</u>
Tax payable on 2,50,000	Nil
On 1,08,800 @05%	5,440
Total	5,440
Total Tax Payable	5,440 Round off to ` 5,440

Annexure 1: Statement of Income from Salary

Particulars	
Basic Salary	1,76,000
DA (60% of Basic)	1,05,600
CCA (40% of Basic)	70,400
Bonus	30,000
Salary in lieu of leave	20,000
Gross/ Salary	4,02,000
16 (i) standard deduction	
Taxable Salary	(50,000)
	3,52,000

Working Note:

A'20	M	J	J	A	S	O	N	D	J'21	F	M
14	14	14	14	14	14	14	16	16	16	16	16
Basic Salary of 19-20											1,78,000
Less: Basic Salary of Mar'20 due on 5/4/20											(16,000)
Add: Basic Salary of Mar'20 due on 5/4/221											14,000
Taxable Basic Salary											1,76,000
1-11-12	to		31-10-13		5,000 p.m.						
1-11-13	-		31-10-14		6,000						
1-11-14	-		31-10-15		7,000						
1-11-15	-		31-10-16		8,000						
1-11-16	-		31-10-17		9,000						
1-11-17	-		31-10-18		10,000						
1-11-18	-		31-10-19		12,000						
1-11-19	-		31-10-20		14,000						
1-11-20	-		31-10-21		16,000						

Annexure 2: Statement of Income from Other Sources

Particulars	₹
Int. on deposit under National Deposit Scheme	7000
Int. on deposit with Y Ltd	6000
Int. on unit of UTI	Exempt U/S 10 (35)
Int. on deposit with state housing board	1,500
Int. on 9% Relief Bond	Exempt U/S 10(15)
Int. on deposit with IDBI	1,000
Dividend from RCC Inc. USA	5,000
Int. on deposit under NSS, 1993	4,300
IFOS	24,800

Illustration 5:

.Mr. Abid Husain gives following information for P.Y. 2020-21:

(1) Gross Salary Income	5,03,000
(2) Professional Tax paid on salary income	3,000
(3) Other incomes:	
Interest on Bonds issued by a Trading company	4,500
Interest on Deposits under National Deposit Scheme	3,000
Dividend on shares in Swag at Co-operative Society Ltd.	2,000
Interest on Deposits with Bank of Baroda	5,500
Dividend from VCC Co. Ltd.	6,000
Interest on units of UTI	4,100
Int. on Deposits under Post office (monthly Income Scheme)	7,500
Int. from Sane co-op. Society of which the assessee is a member	3,500
Interest on Central Govt Loan 2011	2,400
Interest on Srilanka Govt Securities	7,000

You are required to calculate his total income for A.Y. 2021-22.

Solution:

Name of Assessee – Mr. Abid Husain	P.A.No.:
Legal Status - Individual	P/Y – 2020-21
Residential Status – R and OR	A/Y – 2021-22

Computation of Total Taxable Income

Particulars	`
Income from Salary	4,50,000
Income from Other Sources	35,400
Gross Total Income /Net Taxable Income	4,85,400

Annexure 1: Statement of Income from Salary

Particulars	`
Gross Salary	5,03,000
Less: 16 (i) standard deduction	(50,000)
16(iii) Professional Tax	(3,000)
Taxable salary	4,50,000

Annexure 2: Statement of Income from Other Sources

Particulars	`
(1) Interest on bonds issued by a trading company	4,500
(2) Interest on Deposits under National Deposit Scheme	3,000
(3) Dividend on shares in Swagat Co-operative society Ltd.	2,000
(4) Interest on deposits with Bank of Baroda	5,500
(5) Dividend from VCC Co. Ltd	Exempt U/S 10(34)
(6) Interest on Units of UTI	Exempt U/S 10(35)
(7) Int. on deposits under post office (Monthly Income Scheme)	7,500
(8) Int. from sane co-op society of which the assessee is a member	3,500
(9) Interest on Central Govt loan 2011	2,400
(10) Int. on Srilanka Govt. Securities	7,000
IFOS	35,400

Illustration 6:

Dr. X is a resident individual. His income and expenditure account for the year ending March. 31, 2021 is given below:

(IPCC 2010 Modified)

Payments	`	Receipts	`
Salary to staff	3,78,000	Consultation fees	11,85,000
Cost of medicine	6,35,000	Cost of medicines recovered	7,85,000
Rent	66,000	Stock of medicine	25,000
Administrative cost	1,98,000	Interest on Post Office MIS	86,400

Advance tax	2,40,000	Interest on Term Deposit (net of TDS ` 3,000)	27,000
Membership fees	5,000	Rent received	20,000
Depreciation on apparatus	42,500	Winning from lotteries (net of TDS ` 3,000)	7,000
Net profit	5,70,900		
Total	21,35,400	Totals	21,35,400

- He has deposited ` 70,000 in PPF.
 - He received salary of ` 1,50,000 and commission of ` 50,000 from a nursing home in which Dr. (Mrs.) X also an equal partner.
 - He received fees of ` 50,000 from University of Trinidad as lecturer.
 - Received pension of ` 84,000 from LIC Jeevan Suraksh.
 - Paid ` 22,500 by cheque as Mediclaim insurance premium for his medical treatment.
 - He paid LIC premium of ` 80,000 for his own life.
 - Advance Tax includes ` 3,000 paid for municipal tax for the house let out to a tenant.
 - Depreciation as per Income-tax Rules to be computed as follows:
 - WDV as on April 1, 2020 ` 3,00,000.
 - Rate of depreciation @ 15 per cent.
 - Cost of lottery tickets amounting to ` 350 has not been debited to income and expenditure account.
- You are required to compute the total income and tax payable thereon by X for A.Y. 2021-22.

Solution:

Computation of income of X for the assessment year 2021-22

Particulars	
Income from house properly [$\text{` } 20,000 - \text{` } 3,000 - 30\% \text{ of ` } 17,000]$	11,900
Income from profession [see Note 1]	8,68,000
Income from other sources (fee from University: ` 50,000 + interest on PO MIS: ` 86,400 + interest on term deposit before TDS: ` 30,000 + pension from LIC: ` 84,000 + winning from lottery before TDS ` 10,000)	<u>2,60,400</u>
Gross total income	11,40,300
Less: Deductions	
Under section 80C ($\text{` } 70,000 + \text{` } 80,000$, subject to a maximum of ` 1,00,000)	(1,00,000)

Capital Gains [Sections 45-55]**Taxation Page 278**

Under section 80D

(15,000)**Net Income****10,25,300**

Tax on net income

Income –Tax Up to Rs. 2,50,000 to Rs. 5,00,000 = Rs. 2,50,000 @ 05%

12,500

Next Rs. 5,00,000 @ 20%

1,00,000

Next Rs. 25,300 @ 30%

7,590**Tax liability (Round off)****1,20,090****Less TDS + Advance Tax (240000-3000)****2,43,000****Refund receivable****(1,22,910)****OR
(Alternate Method)**

Rs 0 - Rs 2,50,000	Nil
Rs 2,50,000 - Rs 5,00,000	5% (i.e. Rs. 12,500)
Rs 5,00,000 - Rs 7,50,000	10% (i.e. Rs. 25,000)
Rs 7,50,000 - Rs 10,00,000	15% (i.e. Rs. 37,500)
Rs 10,00,000 - Rs 12,50,000	20% (i.e. Rs. 5,060)

Therefore, the taxable income is Rs. 80,060 .

Notes:**Particulars**

Computation of income from profession –

Net profit as per income and expenditure account

5,70,900

Add: Advance tax

2,40,000

Less: Interest on PO MIS (taxable as income from other sources)

(86,400)

Less: Interest on TD (taxable as income from other sources)

(27,000)

Less: Winning from lotteries (taxable as income from other sources)

(7,000)

Less: Rent Received (taxable as income from house property)

(20,000)

Add: Excess depreciation (45,000 – 42,500)

2,500

Add: Income from firm

2,00,000

8,68,000**Illustration 7:**

From the following details compute the total income of X of Delhi and tax payable for the assessment year 2021-22:

(IPCC Nov. 2009 Modified)**Particulars**

Salary including dearness allowance

3,35,000

Bonus

11,000

Salary of servant provided by the employer

12,000

Rent paid by X for his accommodation

49,600

Bills paid by the employer for gas, electricity and water

provided free of cost at the above flat

11,000

Capital Gains [Sections 45-55]

274

- (a) X was provided with company's Car (self driven) also for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer. Perquisite Value ₹ 14,400.
- (b) X purchased a flat in a co-operative housing society for ₹ 4,75,000 in April 2020, which was financed by a loan from LIC of ₹ 1,60,000 @ 15 per cent interest, his own savings of ₹ 85,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable was ₹ 3,500 per month. The following particulars are relevant.
- (c) Municipal taxes paid: ₹ 4,300 per annum.
Society charged for passage lights, watchman's salary: ₹ 1,900 per annum.
- (d) Insurance: ₹ 860.

The following information is also available:

- (1) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- (2) In the year 2003-04 he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11 at the time of gift. The gifted amounts were advanced to B, who pays interest at the rate of 19 per cent per annum.
- (3) X received a gift of ₹ 25,000 each from four friends.
- (4) He contributed ₹ 5,600 to public provident funds and ₹ 4,000 to unit linked insurance plan.
- (5) He received national award for humanitarian work from the Central Government in the form of a land whose fair market value is ₹ 5,00,000 as on March 31, 2021.

Solution:

Computation of total income of X

Salary income [see Note 1]	3,33,400
Income from house property [see Note 2]	2,390
Income from other sources [see Note 4]	<u>1,08,000</u>
Gross total income	4,43,790
Less: Deductions	
Under Section 80C [₹ 5,600 + ₹ 4,000]	<u>(9,600)</u>
Net Income	<u>4,34,190</u>
Tax liability [Rs. 9,209.5, Roundoff to Rs. 9,210]	9,210

Notes:

(1) Computation of salary income:

Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of servant provided by employer	12,000

Capital Gains [Sections 45-55]**Taxation Page 276**

Perquisite value of gas, electricity and water provided free of cost	11,000
Perquisite value of car	<u>14,400</u>
Total	3,83,400
16 (i) standard deduction	(50,000)
Taxable Salary	<u>3,33,400</u>

(2.) Computation of house property income:

Gross annual value [$\text{₹ } 3,500 \times 12$]	42,000
Less: Municipal taxes paid	4,300
Net annual value	37,700
Less: Deductions under section 24	
Standard deduction [30% of $\text{₹ } 37,700$]	(11,310)
Interest on borrowed capital [15% of $\text{₹ } 1,60,000$]	<u>(24,000)</u>
House property income	<u>2,390</u>

(3) Computation of income from other sources

Interest income on gift to wife ($\text{₹ } 30,000 @ 19\%$)	5,700
Interest income on gift to minor child [$(\text{₹ } 20,000 @ 19\%) - \text{₹ } 1,500$]	2,300
Gift from friends [$\text{₹ } 25,000 \times 4$]	1,00,000
Income from other sources	1,08,000

(4) National award for humanitarian work from the Central Government is exempt from tax.

(5) The following assumptions have been made:

- House is not provided by employer
- LIC's loan is not paid so far.

Illustration 8:

(1) From the following particulars of X for the previous year ending March 31, 2021 compute the income under the head "income from other sources".

(IPCC Nov. 2009 Modified)

Particulars	
(a) Directors fee from a company	10,000
(b) Interest on bank deposits	3,000
(c) Income from undisclosed source	12,000
(d) Winnings from lotteries (net) [TDS $\text{₹ } 15,000$]	35,000
(e) Royalty on a book written by him	8,000
(f) Lectures in seminars	5,000
(g) Interest on loan given to a relative	7,000
(h) Interest on debentures of a company (listed in a recognized stock exchange)	
Net of taxes @ 10%	3,600

(i) Interest on post office savings bank account	500
(j) Interest on Government securities	2,200
(k) Interest on monthly income scheme of post office	33,000
(2) X is a co-ownser of a house property along with his brother.	
(a) Municipal value of the property	1,60,000
(b) Fair rent	1,50,000
(c) Standard rent under the Rent Control Act	1,70,000
(d) Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000 out of which ₹ 21,000 have been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, X and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.

The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of X for A.Y. 2021-22.

Solution:

1. Computation of income from other sources	₹
Directors fee from company	10,000
Interest on bank deposits Income	3,000
from undisclosed source	12,000
Winnings from lotteries (gross)	50,000
Royalty on a book written by him	8,000
Lectures in seminars	5,000
Interest on loan given to relative	7,000
Interest on debentures of a listed company	4,000
(gross) Interest on post office savings bank	500
account Interest on Government securities	2,200
Interest on monthly income scheme of post office	33,000
Income from other sources	1,34,700
2. Computation of house property income in the hands of X	
Gross annual value [$\frac{1}{2}$]	90,000
Less: Municipal taxes paid by co-	Nil
ownerNet annual value	90,000
Less: Deduction under section	
24Standard deduction [30% of ₹	(27,000)
90,000]	
• Interest on borrowed capital	(12,500)
• Interest on original loan ($\frac{1}{2}$)	(2,500)
• Interest on fresh loan ($\frac{1}{2}$)	48,000
House property income	

Illustration 9:

Dr. (Mrs.) X, a resident individual (60 years), is running a clinic. Her income and expenditure account for the year ending March 31, 2021 is as under:

(IPCC 2009 Modified)

Particulars	₹	Particulars	₹
Medicine consumed	5,38,400	Consultation and medical charges	18,84,020
Staff salary	3,80,000	IT refund (principal: ₹ 5,000 + interest: ₹ 450)	5,450
Clinic consumables	1,10,000	Divided from units of UTI	10,500
Rent paid	90,000	Winning from game show on TV net of TDS (TDS: ₹ 15,000)	35,000
Administrative expenses	2,55,000	Rent	27,000
Amount paid to scientific Research association approved under section 35	1,50,000		
Net profit	4,38,570		
Total	19,61,970	Total	19,61,970

- (1) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house.
- (2) Clinic equipments are:
 - (a) April 1, 2019 Opening W.D.V. – ₹ 5,00,000
 - (b) December 7, 2019 Acquired (cost) – ₹ 2,00,000
- (3) Rent received relates to a property situated at Surat. Gross annual value ₹ 27,000.
The municipal tax of ₹ 2,000 paid in December 2019, has been included in administrative expenses.
- (4) She received salary ₹ 7,500 per month from Full Cure Hospital which has not been included in the consultation and medical charges.
- (5) Dr. (Mrs.) X availed loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000 and interest thereon ₹ 55,000 during the year 2020-21.
- (6) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/donation) to the university for full time education of her daughter.
- (7) An amount of ₹ 18,000 has also been paid by cheque on March 27, 2020 for her medical insurance premium.

From the above, compute the total income and tax payable thereon by Dr. (Mrs.) X for the assessment year 2021-22.

Solution:

Computation of income of Dr. (Mrs.) X and Her Tax Liability

Particulars	₹
Salary ($7,500 \times 12$)	40,000
Income from house property ($27,000 - 2,000 - 30\%$ of $25,000$)	17,500
Income from profession [see Note 1]	2,65,120
Income from other sources [see Note 2]	<u>50,450</u>
Gross total income	3,73,070
Less: Deductions	
Under Section 80C [i.e., tuition fees for full time education of daughter]	(1,00,000)
Under Section 80D [$18,000$, subject to maximum of $15,000$]	(15,000)
Under Section 80E [i.e., interest on loan taken for higher education of daughter]	<u>(55,000)</u>
Net taxable income	<u>2,03,070</u>
Tax on net income	
Income Tax	
On $2,03,070$ @ 05% [after excluding exemption limit of $2,50,000$]	2,653.5
Total	2,653.5
Tax liability (Round Off)	2,650
Less: Tax deduction at source under Section 194B	15,000
Tax Refundable (Rounded off)	(12,350)
Note 1: Computation of income from profession	
Net profit as per income and expenditure account	4,38,570
Adjustments	
Less: Income-tax refund	(-) 5,450
Less: Divided from UTI	(-) 10,500
Less: Winnings	(-) 35,000
Less: Rent received	(-) 27,000
Less: Weighted deduction in respect of contribution to an approved scientific research association [25% of $1,50,000$]	(-) 37,500
Add: Rent for her residential house	(+) 30,000
Add: Municipal tax paid relating to residential house situated	

Capital Gains [Sections 45-55]**Taxation Page 290**

at surat included in administrative expenses	(+) 2,000
Less: Depreciation [15% of `5 lakh and 7.5% of `2 lakh]	<u>(-) 90,000</u>
Income from profession	<u><u>2,65,120</u></u>

Note 2: Income from other sources

Interest on income -tax refund	450
Divided from UTI [exempt]	Nil
Winnings from TV game show [` 35,000 + ` 15,000]	<u>50,000</u>
Total	<u>50,450</u>

Illustration 10:

(1) X is an area manager of a private sector company. During the previous year 2020-21, he gets following emoluments from his employer:

(IPCC 2009 Modified)

Basic salary	
Up to August 31, 2019	` 20,000 pm
From September 1, 2019	` 25,000 pm
Transport allowance	` 2,000 pm
Contribution to recognised provident fund	15 per cent of basic salary and DA
Children education allowance	` 500 pm for two children
City compensatory allowance	` 300 pm
Hostel expenses allowance	` 380 pm for two children
Tiffin allowance (actual expenses ` 3,700)	` 5,000 pa
Tax paid on employment	` 2,500
Compute taxable salary of X for the assessment year 2021-22.	

(2) Y owns one residential house in Mumbai. The house is having two units. First unit of the house is self occupied by Y and another unit is rented for ` 8,000 pm. The rented unit was vacant for 2 months during the year. The particular of house for the previous year 2020-21 are as under :

Standard rent	` 1,62,000 pa
Municipal valuation	` 1,90,000 pa
Fair rent	` 1,85,000 pa
Municipal tax	15% of municipal valuation
Light and water charges	` 500 pm
Interest on borrowed capital	` 1,500 pm
Lease money	` 1,200 pa
Insurance charges	` 3,000 pa
Repairs	` 12,000 pa

Compute income from house property of Y for the assessment year 2021-22.

Solution:

- (1) Salary income of X- The information given in the question is not complete and clear. The following assumptions have been made to answer the question:
 - (a) Employer contributes 15% of basic salary and DA towards recognized provident fund.
 - (b) Salary and allowances become due for payment on the last day of each month.
 - (c) Transport allowance is given to meet out expenditure on commutation between office and residence.
 - (d) Tax on employment comes under article 276(2) of the Constitution. It is paid by the employer.
 - (e) The amount of dearness allowance is not given. It is assumed that dearness allowance is nil.

Computation of salary income of X

Basic salary [$\text{₹ } 20,000 \times 5 + \text{₹ } 25,000 \times 7]$	2,75,000
Dearness allowance	Nil
Transport allowance [$(\text{₹ } 2,000 - \text{₹ } 800) \times 12]$	14,400
Employer's contribution towards recognized provident fund [3% of $(\text{₹ } 2,75,000 + \text{nil})]$	8,250
Children education allowance [$(\text{₹ } 500 - \text{₹ } 100) \times 12 \times 2]$	9,600
City compensatory allowance [$\text{₹ } 300 \times 12]$	3,600
Children hostel allowance [$\text{₹ } 380 - \text{₹ } 300) \times 12 \times 2]$	1,920
Tiffin allowance [fully taxable, no exemption is available]	5,000
Tax paid by employer on employment	2,500
Gross salary	3,20,270
Less:	
16 (i) standard deduction	(50,000)
Tax on employment [sec. 16(iii)]	(2,500)
Income from salary chargeable to tax	3,67,770

- (2) Property income of Y- The following assumptions have been made to answer the question, as the information given is not complete:
 - (a) The house owned by Y has two independent residential units of equal size.
 - (b) The rented unit was vacant for two months during the previous year. During the period the unit was vacant, X did not use it for his residential purposes. The unit was lying vacant as a suitable tenant was not available.
 - (c) Capital was borrowed by X for purchase, construction, repairs, etc., of the house property.
 - (d) Municipal tax of the two residential units is paid by X during the previous year.
 - (e) The expenditure on light and water is incurred by X. Nothing is recovered from the tenant. In other words, rent of $\text{₹ } 8,000$ per month is rent of building and it does not include any recovery on account of light and water charges.

Computation of property income	Unit 1 – self occupied	Unit 2 – let out
Municipal value (MV)	95,000	95,000
Fair rent (FR)	92,000	92,000
Standard rent (SR)	81,000	81,000
Annual rent	Nil	96,000
Unrealized rent	Nil	Nil
Loss due to vacancy	Nil	16,000
Computation of gross annual value		
Step I – Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	81,000	81,000
Step II – Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	Nil	96,000
Step III – Amount computed in Step II, whichever is higher	81,000	96,000
Step IV – Loss due to vacancy	Nil	16,000
Step V – Gross annual value is Step III minus Step IV [*under Section 23(2), annual value of one self occupied property is nil]	Nil	80,000
<i>Less:</i> Municipal tax [15% of `95,000]	Nil	14,250
Net annual value	Nil	65,750
<i>Less:</i> Deduction under section 24		
Standard deduction [30% of net annual value]	Nil	19,725
Interest on borrowed capital [` 1,500 × 12, ½ is deductible from let out unit and ½ is deductible for self-occupied unit]	9,000	9,000
Income from house property	(-) 9,000	37,025
	[(-) ` 9,000 + ` 37,025 = ` 28,025]	

Illustration 11:

X working as Manager (Sales) with A Ltd., provides the following information for the year ending March 31, 2020:

(PCC 2007 Modified)

Capital Gains/Section 45-51 Computation of Gross Total Income**231**

Basic salary	1,44,000
Dearness allowance (50 per cent of it is meant for retirement benefits)	1,44,000
Commission as a percentage of turnover of the employer company	0.5%
Turnover of the employer company	50,00,000
Bonus	45,000
Gratuity	30,000
Own contribution towards recognised provident fund	30,000
Employer's contribution towards recognized provident fund 20% of basic salary	
Interest credited in the recognized provident fund account @ 15 % p.a.	15,000
Gold ring worth ` 10,000 was given by employer on his 25th wedding anniversary.	
Music system purchased on April 2, 2019 by the employer- company for and was given to him for personal use.	85,000
Two old heavy goods vehicles owned by him were leased a transport company against the fixed charges of ` 6,500 per month. Books of account are not maintained.	
Received interest of ` 5,860 on bank fixed deposit, dividend of ` 1,260 from shares of Indian companies and interest of ` 7,540 from the debentures of Indian companies.	
Made payment by cheques of ` 15,370 towards premium on life insurance policies and ` 12,500 for Mediclaim insurance policy.	
Invested in 6 year NSC: ` 30,000 and in FDR of SBI for 7 year: ` 50,000.	

Solution:**Computation of income**

Salaries [see Note 1]	4,07,000
Profits and gains of business or profession (` 3,500 × 2 × 12, computed under section 44AE)	84,000
Income from other sources (i.e., fixed deposit interest: ` 5,860 + interest on debentures: ` 7,540)	13,400
Gross total income	5,04,400
Less: Deductions	
Under Section 80C (RPF: ` 30,000 + NSC: ` 30,000 + fixed deposit: ` 50,000 + insurance premium: ` 15,370, subject to maximum of ` 1,00,000)	(1,00,000)
Under Section 80D (i.e., Mediclaim insurance policy)	(12,500)
Net income	3,91,900
Tax on net income	
Income-tax (3,91,900 – 2,00,000)@ 10%	19,910

Capital Gains [Sections 45-55]**Taxation Paper**

Add: Education cess @ 2%	384
Add: Secondary and higher education cess @ 1%	192
Tax liability (rounded off)	19,760

Note 1:**Computation of salary income**

Basic salary	1,44,000
Dearness allowance	1,44,000
Commission on turnover	25,000
Bonus	45,000
Gratuity (taxable if received while in service)	30,000
Employer's contribution towards provident fund 20% of ` 1,44,000: ` 28,800 [less: 12% of salary, i.e., ` 1,44,000 + 50% of Rs. 1,44,000 + 25,000 = ` 28,920]	Nil
Interest credited @ 15% (` 15,000 $\times$ 5.5)	5,500
Gold ring (` 10,000 – ` 5,000)	5,000
Music system (10% of ` 85,000)	8,500
Total	4,07,000

The following assumptions have been made:

- (1) Tax was not deductible and it was not deducted from interest on fixed deposits and interest on company deposits with different companies.
- (2) Fixed deposit of Rs. 50,000 is eligible for deduction under section 80C.
- (3) The taxpayer is Manager (sales) of the employer company. It is assumed that the entire turnover of the company is achieved by the taxpayer.

Illustration 12:

From the following particulars furnished by X for the year ending March 31, 2020, you are requested to compute his total income and tax payable for the A.Y. 2021-22:

(PE II 2005 Modified)

- (a) X retired on December 31, 2013 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.
- (b) He was paid a salary of ` 25,000 per month and house rent allowance of ` 6,000 per month. He paid rent of ` 6,500 per month during his tenure of service.
- (c) On retirement, he was paid a gratuity of ` 3,50,000. He was not covered by the Payment of Gratuity Act. His average salary in this regard may be taken as ` 24,500. X had not received any other gratuity at any point of time earlier, other than this gratuity.

- (d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by X at the time of his retirement. A sum of ` 3,15,000 was received by him in this regard. His average salary may be taken as ` 24,500.
- (e) After retirement, he ventured into textile business and incurred a loss of ` 80,000 for the period up to March 31, 2020.
- (f) X has invested ` 22,500 in recognised provident fund, ` 40,000 in public provident fund and ` 37,500 in National Savings Certificates.

Solution:

Computation of salary income

Basic salary [` 25,000 × 9]	2,25,000
House rent allowance [see Note I]	18,000
Gratuity [see Note II]	43,750
Leave encashment [see Note III]	70,000
Gross salary/Net salary	<u>3,56,750</u>

Computation of total income:

Salary income	<u>3,56,750</u>
Gross total income	<u>3,56,750</u>
Less: Deduction under section 80C	<u>1,00,000</u>
Net taxable income	<u>2,56,750</u>

Computation of tax:

Tax on total income	5,675
Add: Education cess (2% of `5,675)	114
Add: Secondary and higher education cess [1% of `5,675]	57
Tax payable (rounded off)	5,870

Notes:

- (1) House rent allowance is exempt from tax to the extent of least of the following three sums:
- ` 12,500 per month (being 50% of monthly basic salary).
 - ` 6,000 per month (being house rent allowance).
 - ` 4,000 per month (being the excess of rent paid over 10% of salary, i.e., ` 6,500 – 10% of ` 25,000). ` 4,000 per month (being the least) is exempt from tax. Therefore, total amount taxable is ` 18,000 (being ` 2,000 × 9).
- (2) Gratuity, exempt from tax, is the least of the following:
- ` 3,50,000 (being amount of gratuity received).
 - ` 3,06,250 (being ` 24,500 × 25 × 1/2).
 - ` 10,00,000.

₹ 3,06,250 (being the least) is exempt from tax. Therefore, amount taxable is ₹ 43,750 (i.e., ₹ 3,50,000 – ₹ 3,06,250).

(3) Leave encashment is exempt from tax to the extent of least of the following:

(a) Period of earned leave to the credit of the employee at the time of retirement × Average monthly salary (i.e., ₹ 24,500 × 25 × 1/2)	3,06,250
(b) 10 months × Average monthly salary (i.e., ₹ 24,500 × 10)	2,45,000
(c) Maximum amount not taxable	3,00,000
(d) Amount received from employer	3,15,000
Amount not taxable	2,45,000
Amount taxable (₹ 3,15,000 – ₹ 2,45,000)	70,000

Exercise

Multiple Choice Question

- Deduction u/s 80 C in respect of LIP, Contribution to provident fund, etc. is allowed to:
 - Any assessee
 - An individual
 - An individual or HUF
 - An individual or HUF who is resident in India
- Deduction u/s 80-C is allowed to the maximum of:
 - ₹ 70,000
 - ₹ 1,00,000
 - ₹ 1,40,000
 - None of the above
- For claiming deduction u/s 80-C in respect of life insurance premium, it can be paid by assessee for:
 - Himself only
 - Himself or spouse
 - Himself spouse and any child
 - None of the above
- In the case of HUF, deduction u/s 80 C in respect of life insurance premium shall be allowed for:
 - Karta of HUF
 - Any member of HUF
 - Karta and Coparcener of the HUF
 - None of the above
- An assessee has paid life insurance premium of ₹ 25,000 during the previous year for a policy of ₹ 1,00,000 he shall:

- (a) Not be allowed deduction u/s 80 C
 - (b) Be allowed deduction u/s 80 C to the extent of 20% of the capital sum assured i.e ` 20,000
 - (c) Be allowed deduction for the entire premium as per the provisions of section 80C
 - (d) None of the above
6. For claiming deduction u/s 80 C, the payment or deposit should be made:
 - (a) Out of any income
 - (b) Out of any income chargeable to income tax
 - (c) During the current year out of any sources.
 - (d) None of the above
7. Annual interest accrued on NSCs VIII issue shall be:
 - (a) Exempt
 - (b) Taxable only in VIth year
 - (c) Taxable on the basis of annual accrual
 - (d) None of the above
8. Deduction u/s 80 - C in respect of tuition fee is allowed to:
 - (a) An individual only
 - (b) Individual or HUF
 - (c) Any assessee
 - (d) None of the above
9. Deduction u/s 80-C for tuition fee shall be allowed for the purpose of:
 - (a) Any full time education in a school or college
 - (b) Any full or part time education
 - (c) Any part time education in a college abroad
 - (d) None of the above
10. Deduction u/ s 80 C in respect of tuition fee is allowed to an individual for:
 - (a) Any of his child
 - (b) Any of his minor children
 - (c) Any two children of such individual
 - (d) None of the above
11. Deduction u/ s 80 C in respect of term deposit with a scheduled bank is allowed if the term deposit is for a period:
 - (a) Not less than 3 years
 - (b) Not less than 5 years
 - (c) Not less than 2 years
 - (d) None of the above:
12. Deduction under section 80 CCC is allowed to the extent of:
 - (a) ` 2,00,000
 - (b) ` 1,00,000
 - (c) ` 4,00,000
 - (d) ` 10,000

13. Deduction in respect of contribution for annuity plan to certain pension fund under 80 CCC is allowed to:

- (a) Any assessee (b) Individuals only
(c) Individual or HUF (d) None of the above

14. Deduction u/s 80 D in respect of medical insurance premium is allowed to:

- (a) Any assessee (b) An individual or HUF
(c) Individual only (d) None of the above

(Ans: 1-c, 2-b, 3-c, 4-b, 5-b, 6-c, 7-a, 8-b, 9-a, 10-a, 11-a, 12-d, 13-a, 14-b)

Match the Column

Column A	Column B
1. Deduction from GTI, included in	(a) Sec 80 E
2. Exempt income are laid down in	(b) Sec 80 U
3. Deduction based on contribution to pension Funds	(c) Sec. 80
4. Deduction based on interest paid on loan for Higher education	(d) Sec 80 C
5. Deduction for handicapped individual	(e) Sec. 80 DD
	(f) Sec. 10
	(g) Sec. 80 CCC

(Ans: 1-c, 2-f, 3-g, 4-a, 5-b)

Column A	Column B
1. Maximum total deductions	(a) Amount paid
2. Maximum contribution to pension funds	(b) Gross Total Income
3. Maximum claim for medi-claim by a senior citizen	(c) ` 15,000
4. Maximum interest claim on loan for higher education u/s 80 E	(d) ` 50,000
5. Deduction for a severely handicapped resident individual	(e) ` 1,00,000
	(f) ` 75,000
	(g) ` 20,000

(Ans: 1-b, 2-e, 3-g, 4-a, 5-f)

State Whether True or False

1. Deduction u/s 80C in respect of LIP, contribution to provident fund, etc. is allowed to any assessee.
2. Deduction u/s 80C is allowed from gross total income.

3. For claiming Deduction u/s 80C in respect of L.I.P., premium can be paid by assessee for himself, spouse and any child.
4. For claiming Deduction u/s 80C, for life insurance premium if the payment is made by the assessee for his child, then the child must be dependent and unmarried.
5. An assessee has paid life insurance premium of ` 25000 during the previous year for a policy of ` 1,00,000. He shall be allowed deduction for the entire premium as per the provision of section 80C.
6. For claiming Deduction u/s 80C in respect of P.P.F, the contribution must be paid by individual in the P.P.F account of himself only.
7. The annual interest accrued on NSCs VIII issue shall be taxable as “Income from other sources” but also eligible for deduction u/s 80C.
8. Deduction u/s 80C in respect of tuition fee is allowed to an individual or HUF.
9. Deduction u/s 80C in respect of tuition fee is allowed to an individual for any number of his children.
10. Deduction u/s 80C in respect of tuition fee is allowed to the maximum extent of ` 12000 per child for maximum of 2 children.
11. Deduction u/s 80D in respect of medical insurance premium is allowed to any person who is resident in India.
12. Deduction u/s 80D is allowed only if the premium is paid to Life Insurance Corporation.
13. The premium u/s 80D can be paid by an individual, for his dependent brother.
14. The payment for insurance premium u/s 80D can be made in cash.
15. The quantum of deduction allowed u/s 80D shall be limited to ` 1,00,000.
16. Where the medical insurance premium is paid to effect an insurance in relation to a senior citizen, the deduction allowed shall be ` 1,15,000.
17. Deduction u/s 80U in case of permanent physical disability is allowed to an individual who is citizen of India.
18. The quantum of maximum deduction allowed u/s 80U is ` 50,000.
19. Deduction u/s 80U shall be allowed only when the assessee is suffering from a permanent disability at the beginning of the previous year.

(Ans: True- 2, 3, 4, 8, 9, 11, 17)

Answer in One Sentence

1. Is it right to say that an Indian Company is always a resident in India?
2. Is a foreign company always non-resident in India?
3. What is the maximum amount exempt in case of leave encashment?
4. An employer received ` 5,00,000 under Keyman Insurance Policy taken on the life of an employee. How will such amount be treated in the hands of employer under the income-tax Act.

5. As per the agreement with its trade union, the due date of the payment of the salaries by a concern is the 5th of the next month. The salary for March 2020 was paid on 10-4-2021. Will such payment be disallowed under Section 43B? Why?
6. Which type of person can be a resident and not ordinarily resident in India?
7. Under which head of income will the fees received by M, an Internal Auditor of a Private Ltd. Company for performing the yearly Internal Audit, taxed?
8. For the purposes of exemption of leave encashment, which salary is taken into account?
9. M was granted deduction by the Income tax officer of unrealized rent to the extent of ` 40,000 in past. His actual claim for such unrealized rent was ` 60,000. He has been able to recover during the current previous year ` 45,000 out of such unrealised rent. On what amount is he liable to be taxed during the current previous year?
10. What is the rate at which interest on loan or capital of partner of a firm is allowed as deduction to the firm?
11. Will the sale of the flat by its builder subject to tax the head capital gains?
12. For the purposes of computation of capital gains what will be the full value of consideration where a capital assets is converted into stock-in-trade?
13. Mr. Nakamuch, President of Sony- India went to Tokyo, his home town on leave of 2 months. He claims that the salary during such leave periods does not arise from any service rendered in India. Hence, it is not taxable in India. Comment.
14. Explain the taxability of dividend paid by a co-operative society in the hands of the member.
15. Can deduction u/s 80U be claimed by an individual who is not Ordinarily Resident in India?
16. Give 2 examples of entities covered under the category - Artificial Juridical Person.
17. What is the maximum amount that can be claimed as deduction under Section 80D?
18. What is the head of Income under which Interest on Capital received by a Partner is taxed?
19. A sum received under which type of Life Insurance Policy is not exempt from Tax?
20. What is the head of Income under which salary received by a working partner from firm is taxed?
21. A firm has loss from business. Will it still be allowed deduction for the remuneration paid to its working partners?
22. To what extent is the employer's contribution to Statutory Provident Fund exempt?
23. In which previous year will the conversion of a capital asset into a stock-in-trade result into Capital Gains?
24. In whose hands is the income which accrues outside India from the business controlled from India not taxed?
25. Discuss the taxability of pension received by a soldier who was awarded Mahavir Chakra.

Theory Questions

1. How do you arrive at "Gross Total Income"? Is the assessee eligible to claim deductions under section 80 if his gross Total Income results into loss? Cite a suitable example.

2. (a) Explain, "Deduction u/s 80U is available to resident".
(b) State the amount of deduction available u/s 80U stating conditions thereof.
3. Section 10 of the Income Tax gives the items of income totally exempt from tax whereas Section 80 gives the items of deductions. Distinguish between the two by giving suitable illustrations.
4. Distinguish between exemption and deduction under Chapter VI - ? Give 3 illustration of each.
5. Explain Deduction u/s 80C in detail.
6. Mention the deductions available under Chapter VI-A .of the Act.
7. Define:
 - (a) Grass Total Income
 - (b) Net total Income chargeable to tax.
8. Explain the deduction available u/s 80 D in detail.
9. Who is entitled to claim the deduction u/s 80 CCC? Explain the provisions of this section in detail.
10. Distinguish between 80D and 80DD deduction under Chapter VI-A? Give illustration of each.
11. Define Gross Total Income.
12. Mr. Ameya Patwardhan has paid Medical Insurance premium of his brother who is totally dependent on him. Can he claim deduction u/s 80D?
13. Explain in brief deduction u/s. 80 DD.
14. Write a short note on deduction in respect of interest on loan taken for higher education u /s. 80E.

Practical Questions

1. Mr. Rohit provides you the following particulars for the year ending 31-03-2021. You are required to compute the eligible deduction u/s 80C for Mr. Rohit for A.Y. 2021-22:
 - (a) Investment in NSC ` 8,000.
 - (b) Housing Loan Principal Repayment ` 22,000 to HDFC Bank.
 - (c) ` 40,000 Life insurance premium paid against policy of sum assured ` 1,50,000.
 - (d) Contribution to PPF ` 40,000.
 - (e) Annual premium of ` 10,000 paid for ULIP of UTI.
 - (f) Tution fees of ` 10,000 for the son doing BMS, and for daughter ` 45,000 doing her MS in USA.

(Ans: 1,20,000)
2. Mr. Bhushan is the owner of M/s. Technocraft. He informs you that:
 - (a) Income from Business ` 1,15,000.
 - (b) Directorship fees from Thane Food Corporation Ltd. received ` 5000.
 - (c) Interest on deposit with companies ` 30,000.
 - (d) Mr. Bhushan pays ` 18,000 towards pension fund of LIC.

Compute the Net taxable Income of Mr. Bhushan for the assessment year 2021-22 from the above information. (Ans: 1,50,000)

3. Mr. Ashok owns a self-occupied house known as “Girnar”. The notional rent of the house is ` 12,000 p.a. The Municipal Taxes paid for this property are ` 2,000. He is employed with M/s. Tecnova Ltd. on a salary of ` 10,000 per month. There is no any other income. He paid ` 11,000 to General Insurance Corporation in respect of Medical Insurance for self, his wife and children. You are required to calculate his taxable income for the assessment year 2021-22. (Ans: 1,09,000)

4. Following is the information of Mr. Jayant for the Assessment year 2021-22:

- (a) Annual salary of ` 54,000.
 (b) Winnings from lottery ` 1,00,000 (Gross) and net amount received ` 65,000 after TDS of ` 35,000.
 (c) During the previous year, he made the payment by cheque to General Corporation for Medical Insurance as detailed below:

Particular	`
For Self	1,450
For Wife	1,450
For minor school going children	5,700
For father who is senior citizen	6,400
For mother who is working as bank manager	1,450
Total	16,450

- (4) The employer deducted from his annual salary of ` 54,000 the following:

Particular	`
Profession Tax	840
Provident Fund	4,500

Compute the taxable income of Mr. Jayant for the assessment year 2021-22.

(Ans: 1,09,000)

5. Mr. Harshad is a leading doctor of Mumbai. His income from profession is ` 92,000. During the year he made certain donations particulars of which are enlisted as under:

- (a) Annual salary of ` 1,54,000.
 (b) Winnings from lottery ` 3,00,000 (Gross) and net amount received ` 2,65,000 after TDS of ` 35,000.
 (c) During the previous year, he made the payment by cheque to General Corporation for Medical Insurance as detailed below:

Particular	`
For Self	1,450
For Wife	1,450
For minor school going children	5,700

For father who is senior citizen	6,400
For mother who is working as bank manager	1,450
Total	16,450

(d) The employer deducted from his annual salary of ` 1,54,000 the following:

Particular	`
Profession Tax	840
Provident Fund	4,500

Compute the taxable income of Mr. Harshad for the assessment year 2021-22.

(Ans: 1,09,000)

6. Mr. Ajit is a general manager of M/S. Ankush Gears Pvt. Ltd. He draws a salary @ ` 11,000 p.m. Employer paid ` 4,275 as school fees of Mr. Ajit's son. He paid ` 4,375 to general Insurance Corporation in respect of Medical Insurance for self and his wife. He owns a house property which was let out at an annual rent of ` 45,000. He paid ` 9,000 as municipal taxes.

During the year he donated:

- (a) ` 5,000 for construction of dharmashala for Hindu community only.
- (b) ` 3,000 to a student.
- (c) ` 5,000 to Jawaharlal Nehru Memorial Fund.

Compute on the basis of the above information Net Taxable Income of Mr. Ajit for the assessment year 2021-22.

(Ans: 1,52,825)

7. Mr. Yogesh is the owner of M/s. Kisan Fertilizers. The net income revealed by P & L A/c was ` 2,50,000. On detailed scrutiny it was revealed that P & L A/c was credited by ` 35,000 received on account of maturity of L.I.C. Policy and ` 20,000 as interest on fixed deposit with Agro Chemicals Ltd. It was further noticed that P & L A/c was debited by the following amounts:

Investment made to:

- (a) Pension Fund ` 25,000.
- (b) Housing loan principal amount ` 15,000.

Compute on the basis of the above information total taxable income of Mr. Yogesh for the assessment year 2021-22.

(Ans: 2,50,000)

8. Mr. Mungerilal is the purchase manager of Wanar Vanaspati Pvt. Ltd. His net taxable income under the head salaries is ` 1,36,000. Particulars of his other income are as follows:

Particular	`
(a) Income from units of Unit Trust of India	4,000
(b) Income from Company Deposit Scheme	1,000
(c) Dividend from Indian Companies	4,000
(d) Dividend from Foreign Companies	2,000

(e) Interest on P.P.F. A/c with S.B.I.	1,500
(f) Interest on fixed deposit with Bank of Maharashtra	3,000
(g) Interest on Central Government Securities	2,000
(h) Contribution to LIC towards premium u/s 80CCC	10,000
(i) Deposits in PPF Account made during the year	70,000
(j) ICICI tax saving bonds eligible for Sec. 80C	30,000
(k) He has paid interest on educational loan	15,000.

You are required to compute his net taxable income for the A.Y. 2021-22.

(Ans: 88,000)

9. Mr. Keshav Inamdar owns a house property. The net taxable income under the head Income from House Property is ascertained at ` 45,000. His income from other sources is ` 35,000 the particulars of which are as follows:

Particular	
(a) Dividend on shares of the Thane Janta Sahakari Bank Ltd.	1,000
(b) Interest on Fixed Deposits with post office	2,000
(c) Interest on National Savings Certificate VIIIth issue	1,500
(d) Interest on Govt. Sec.	5,500
(e) Interest on Fixed deposits with the Merchant's Co-operative Bank Ltd.	3,000
(f) Income from units of U.T.I.	13,000
(g) Interest on company Deposit	1,000
(h) Deposited in PPF for self and spouse	14,000

He incurred expenses ` 25,000 for maintains for handicapped.

10. Mr. Avdhoot is the sales manager of M/s. Arihant Engineers. His net taxable income under the head salaries is ` 67,000. Particulars of his other income and payments are as follows:

Particular	
(a) Income from Magnum of SBI Mutual Fund specified U/S 10 (23D)	10,000
(b) Income from interest on fixed deposit with:	
(i) The Thane Janata Sahakari Bank Ltd.	7,500
(ii) Abhinav Sahakari Bank Ltd.	6,600
(iii) Bank of Baroda	5,900
(c) During the previous year, he made the payment by cheque to General Insurance Corporation for Medical Insurance of his minor son and daughter amounting ` 2,000.	
(d) Deposit in Units of a Mutual Fund approved by the board 80,000 U/S 80C of Income Tax Act.	
(e) Deposits in PPF ` 3,000	

Compute his net taxable income for the assessment year 2021-22.

11. Mr. Vijay Joshi, a Director of Goodluck Construction Limited gives you the following information for the year ended 31st March, 2021.

Particular	₹
Basic Salary (per annum)	4,80,000
Dearness Allowance (per annum)	2,88,000
Ex-gratia received	1,20,000
Arrears if salary received (not taxed earlier)	30,000
House Rent Allowance (per annum)	72,000
(Exempt ₹ 40,000 per annum)	
Club expenses of Mr. Vijay Joshi paid by Employer	7,500
Profession Tax deducted from Salary (per annum)	2,500
Provident Fund deducted from Salary (per annum)	48,000
Particulars of owned house (let out)	
Fair Rent (per annum)	2,40,000
Rent received (per annum)	2,50,000
Municipal tax paid (including ₹ 5,000 for 18-19)	25,000
Interest on borrowed capital for construction of property (Loan taken in 2008-09)	
---- paid during the year	22,000
---- due but not paid	11,000

Other information

He had taken a loan from Bank of Maharashtra for higher education of his daughter, who is pursuing MBA course in Mumbai University. On which he paid interest of ₹ 52,000 during the year.

Compute the Taxable income of Mr. Vijay Joshi for the Assessment Year 2021-22.

(Ans: 9,79,500)

(M.U. B.Com. March 2013 – Modified)

12. Mr. Vijay Parkar is partially blind (75% disability). He works with Maharashtra Furnitures. For the year ended 31st March, 2020, he gives you following information:

Particular	₹
Basic Salary (per annum)	4,80,000
Commission received (per annum)	3,00,000
House Rent Allowance (per annum)	1,20,000
(Exempt House Rent Allowance ₹ 42,900)	
Servant's salary allowance (per annum)	60,000
Transport Allowance (Exempt transportation allowance ₹ 19,200)	39,600

Capital Gains [Sections 45-55]**Taxation Paper**

Reimbursement of Medical Expenses	30,000
Profession Tax Deducted	2,500

Particulars of Owned House

Let Out	
Municipal Valuation (per month)	80,000
Rent received (per month)	1,00,000
(House was vacant for three months)	
Municipal Taxes Paid	
--- by owner	50,000
--- by tenant	10,000

Interest on capital borrowed for purchase of house

Paid during the year	1,20,000
Interest outstanding on 31st March, 2020	60,000

Other Information

He had taken loan from Bank of Maharashtra for higher education of his son studying for engineering degree in Dehradun. During the year he paid ₹ 40,000 as interest on this loan, Compute his taxable income for Assessment Year 2021-22.

(Ans: 7,15,000)**(M.U. B.Com. Oct 2012 – Modified)**

13. Mr. Anshuman Bansode works with the Government of Maharashtra. He gives you following information for the year ended 31st March, 2020.

Particular	₹
Basic Salary (Gross)(Per annum)	3,00,000
Dearness Allowance (Per annum)	1,45,500
House Rent Allowance (Exempt u/s 10 `30,000)(Per annum)	60,000
Entertainment Allowance (spent on entertainment ` 12,000)	12,000
Conveyance Allowance (spent on conveyance for official purpose ` 28,000) (per annum)	48,000
Arrears of salary (not taxed earlier)	2,00,000
Profession tax deducted from salary (per annum)	2,500
Employees provident fund deducted from salary (per annum)	30,000

Other Information

He received ₹ 20,000 from LIC of India as maturity value of life insurance policy taken on his life. He had taken a loan from State Bank of India for higher education of his daughter pursuing an engineering degree course of Delhi University. During the year he had paid ₹ 50,000 as principal and ₹ 7,000 as interest.

Compute his taxable income for Assessment Year 2021-22.

(Ans: 6,63,000)**(M.U. B.Com. Oct 2011 – Modified)**

14. Mr. Ravindra is employed with Victory Enterprises. He provides you with following information for the year ended 31st March, 2020.

Net Salary (after deducting income tax, profession tax, installment of loan from Employer)	25,000 per month
Income tax deducted from salary	1,800 per month
Profession tax deducted from Salary	200 per month
Installment of loan deducted from salary	2,000 per month
Bonus received from employer	30,000
Loan taken from employer for higher education of son	1,50,000
Reimbursement of medical expenses incurred	27,400
He received dividend from the NKGSB Co-operative Bank	8,000
He received net interest ` 10,764 on fixed deposits with Bank (TDS ` 1,236)	
He paid Life Insurance premium for his son	24,000

Compute his total taxable income for the Assessment Year 2021-22. **(Ans: 3,84,000)**

(M.U. B.Com. Oct 2010 – Modified)

15. Dr. Miling Deshmukh is employed with BKC College, Pune. He gives you the following information for the year ended 31st March, 2021.

Basic Salary	4,00,000 per annum
Dearness Allowance	2,00,000 per annum
Perquisite value of Rent Free house	12,000 per annum
Arrears of salary (not taxed earlier)	1,80,000
S.Y.B.Com. examination remuneration	
Received from college	10,500
Profession tax deducted from salary	2,500
Remuneration received from Pune University	
For being Ph.D. Guide	10,000

He spent ` 6,000 on purchase of books useful for the purpose of his employment.

He received Best Teacher Award ` 11,000 from Government of Maharashtra.

He received gift from father ` 75,000.

He paid LIC premium for his son ` 60,000 by cash.

He had taken from State Bank of India for higher education of his son pursuing Mumbai University's engineering degree course. For which he paid interest of ` 50,000 during the year.

Compute his taxable income for the Assessment Year 2021-22. **(Ans: 7,00,000)**

(M.U. B.Com. April 2010 – Modified)

16. Mr. Santosh Bhosale who is physically disabled person (50% disability) as certified by medical authority is employed with Roshan College of Commerce. He furnishes the following information for the previous year 2020-21. Compute his taxable income for A.Y. 2021-22.

Basic Salary	₹ 10,000 p.m.
DA	₹ 3,500 p.m.
Arrears of Salary (not taxed earlier)	₹ 10,000
Medical Expenses reimbursement	₹ 12,000
Leave Salary received	₹ 14,000
Examinership fees received from college	₹ 2,000
Fees for setting T.Y.B.Com. papers for Mumbai University	₹ 4,000

Royalty received from Chetna Publication for writing book on Accountancy ₹ 20,000.

Expenses incurred for writing manuscript of this book ₹ 4,000. Profession Tax paid ₹ 2,500.

(Ans: 1,55,500)

(M.U. B.Com. Oct 2009 – Modified)

17. Mr. Dinesh Karnik (senior citizen), a severely handicapped person (89%) took voluntary retirement on 1st January, 2020 after completing 20 years of service in a private company. He furnishes the following information for the year ended 31st March, 2019.

- Basic salary ₹ 25,000 p.m.
- Dearness Allowance @ 50% of Basic Salary.
- House Rent Allowance received ₹ 1,000 p.m. (Exempt ₹ 4,000).
- Voluntary retirement compensation received ₹ 8,00,000 (Exempt ₹ 5,00,000).
- Gratuity received (fully exempt) ₹ 2,00,000.
- Commuted Pension (1/3rd Exempt) ₹ 90,000.
- Uncommuted Pension ₹ 5,000 p.m.
- Leave encashment 2 months basic (Exempt upto 10 months)
- Profession tax paid ₹ 2,500.
- He had given a loan of ₹ 2,00,000 to his friend. During the previous year 19-20 he received ₹ 15,000 as interest on loan.
- He paid Medical Insurance premium on 1st February, 2020 of Rs. 22,000 by cheque.

Compute the Net Taxable Income of Mr. Dinesh Karnik for A.Y. 2021-22. (Ans: 6,10,000)

(M.U. B.Com. April 2009 – Modified)

18. Mr. Sachin Abhyankar is an employee of Godrej Ltd. He furnishes the following information for the year ended 31st March, 2021.

- (a) Basic Salary (Net of Profession Tax and T.D.S.)

01-04-2019 to 31-11-2019	₹ 24,000 p.m.
01-12-2019 to 31-03-2020	₹ 30,000 p.m.

- (b) Tax Deducted at Source
- | | |
|--------------------------|--------------|
| 01-04-2020 to 31-11-2020 | ₹ 1,000 p.m. |
| 01-12-2020 to 31-03-2021 | ₹ 2,000 p.m. |
- (c) Profession Tax ₹ 2,500 p.a.
- (d) Bonus received in Oct., 2020 ₹ 48,000 p.a.
- (e) Conveyance Allowance received ₹ 2,000 p.m.
(Exempt u/s 10 @ ₹ 800 per month)
- (f) Dearness Allowance @ 65% of Basic Salary
- (g) Loan from employer for daughter's marriage ₹ 1,00,000
- (h) Interest received on Bank saving account ₹ 3,000
- (i) Interest received on Government securities ₹ 7,000
- (j) LIC premium paid by Mr. Abhyankar ₹ 10,000 in cash
- (k) He paid medical insurance premium of ₹ 5,000 in cash
- Compute his Net Taxable Income for Assessment Year 2021-22. (Ans: 5,93,200)
(M.U. B.Com. April 2009 – Modified)

19. Mr. Rahul Deshmukh works with the Central Railway. He gives you following information for the year ended 31st March, 2021.

Particulars	Amount (₹)
Basic salary	50,000 per month
Dearness allowance	15,000 per month
Received arrears of salary	40,000
Conveyance allowance received (Amount spent ₹ 18,000)	25,000
Reimbursement of medical expenses in Govt. Hospital	48,000
Profession tax deducted from salary	2,500 per annum
Other Information:	
Dividend received from Bank of India	10,000
Interest received from Government securities	25,000
Royalty received	60,000

He paid by cheque mediclaim premium of ₹ 18,000 on health of himself, spouse and children.

He had taken loan from SBI for higher education of his son who is pursuing MBA with Mumbai University. During the year 2020-21 he paid ₹ 60,000 as interest on this loan.

Compute his taxable income for the Assessment year 2021-22.

(M.U. B.Com. Oct 13 – Modified)

20. Mr. Nilesh works for Jolly Brothers Ltd. He gives you following information for year ended 31st March, 2021.

Particulars	Amount (₹)
Basic salary (per annum)	2,40,000
Dearness allowance (per annum)	60,000
Bonus received	25,000
Advance salary received	24,000
House rent allowance (exempt house rent allowance ₹ 7,500)	15,000
Perquisite value of free lunch at work place	6,000
Profession tax deducted from salary	2,500
Employees provident fund contribution deducted from salary	20,000
Details of owned house (Let out):	
Municipal valuation (per annum)	36,000
Fair rent (per annum)	42,000
Rent received (per annum)	48,000
Property tax paid	8,000
Interest on borrowed capital	18,000

Compute the Taxable Income of Mr. Nilesh for Assessment Year 2021-22.

(M.U. B.Com. Oct 13 – Modified)

21. Mr. OjasKothare is a physically disabled person (90% disability). He is employed with Mumbai Printers. He gives you following information for the year ended 31st March, 2021.

Particulars	Amount (₹)
Basic Salary	6,00,000 per annum
Bonus	
Entertainment Allowance	48,000 per annum
House Rent Allowance (Exempt House Rent Allowance ₹ 17,900)	1,20,000 per annum
Conveyance Allowance (Amount Spent on official conveyance ₹ 21,600)	24,000 per annum
Perquisite Value of Subsidised meal at workplace	24,000 per annum
Profession Tax Deducted	25,000

Particulars of Owned House	
Let Out	
Municipal Valuation (per month)	75,000
Rent Received (per month)	60,000
Municipal Taxes Paid During the Year	
(a) For Previous Year 2020-21	24,000
(b) for Previous Year 2018-19	12,000
Interest paid on Borrowed Capital for construction of House	1,70,000

Other Information

- He completed his graduation in engineering in 2008.
- For this he had taken an education loan from Corporation Bank in 2006.
- During the year he paid `80,000 as interest on this loan.
- Compute his taxable income for Assessment Year 2021-22. (Ans: 12,54,800)

(M.U. B.Com. April 12 – Modified)

- Mr. Mirajkar is a owner of two houses. He provides you the information of these two houses for the year ended 31/03/2021, as under:
 - The first house was a let out property. The municipal valuation was ` 1,25,000 and the actual rent received was ` 18,000 per month. He paid interest on housing loan of ` 20,000. He also paid municipal taxes of ` 16,000.
 - The second house was a self occupied property. The municipal valuation was ` 1,00,000 and municipal taxes paid by him was ` 12,000. He paid ` 30,000 as interest on housing loan and ` 45,000 towards principal repayment of the housing loan.
 He also received the following income during the year.

Particulars	Amount (₹)
Interest on Fixed Deposit with Bank of India	1,06,000
Directors sitting Fees from Rx Ltd.	50,000
Dividend from Tata Sons Ltd.	15,000
Dividend from The Saraswat Co-op Bank Ltd.	14,000

He paid mediclaim premium of ` 15,000 by cheque to the New India Assurance Co. Ltd.

You are required to compute his total taxable income for the Assessment year 2021-22.

(M.U. B.Com. Oct 13 – Modified)

- Mr. Sanglikar gives you the following information for the year ended 31st March, 2021.

Profit and Loss A/c for the year ended 31st March, 2021

Debit	`	Credit	`
To Salaries	3,20,000	By Gross profit	14,00,000
To Printing Expenses	50,000	By Winning From Lotteries	30,000
To Conveyance	60,000	By NSC Interest Accumulated	20,000
To Rent	48,000	By Dividend from Indian Companies	20,000
To Entertainment Expenses	30,000		
To Advertisement Expenses	90,000		
To Depreciation	64,000		
To Advance Income Tax	20,000		
To Embezzlement by employee	4,000		
To Personal Expenses	56,000		
To Staff Welfare Expenses	1,30,000		
To Net Profit	5,98,000		
Total	14,70,000	Total	14,70,000

Other Information

- (a) Depreciation allowable as per Income Tax Rules is ` 65,000.
 (b) Half of the rent is attributable towards his residential flat.
 (c) Staff welfare expenses include `30,000 incurred for medical treatment of his dependent physically handicapped sister.

You are required to compute his total taxable income for the Assessment year 2021-22.

(M.U. B.Com. Oct 13 – Modified)

24. Mr. Anil, a physically handicapped person (78%) is the proprietor of A & Co. Following is the Profit and Loss Account for the year ended 31st March, 2021.

Debit	`	Credit	`
To Salaries	2,00,000	By Gross Profit b/d	10,00,000
To Salary to Proprietor	1,20,000	By Commission Received	70,000
To Conveyance	90,000	By Gift from father	1,00,000
To Interest	80,000	By Bank FD interest Received	20,000
To MVAT Paid	70,000	By PPF Interest Received	25,000
To Income Tax Paid	20,000		
To Wealth Tax Paid	30,000		
To LIC Premium Paid	40,000		
To Depreciation	50,000		
To Net Profit	5,15,000		
Total	12,15,000	Total	12,15,000

Additional Information

- (a) Depreciation as per Income Tax rules is ` 60,000.
(b) Calculate his Total Income for the Assessment Year 2021-22.

(M.U. B.Com. Oct 13 – Modified)

25. Shri Prateek is a severally handicapped person (86%) is the proprietor of PK and Co.
Following is the profit and loss account for the year ended 31st March, 2021.

Debit	`	Credit	`
To Salaries	2,85,200	By Gross Profit	10,38,200
To Conveyance	66,100	By Interest Accrued on National Savings	
To General Expenses	45,950	Certificates (NSC's)	12,500
To Interest Paid	1,16,100	By Gift from friend	51,000
To MVAT	46,250	By Duty drawback received	1,28,300
To Advertising Expenses	31,000		
To Provision for Doubtful Debts	15,000		
To Contribution to PPF	60,000		
To Depreciation	45,000		
To Net Profit	5,19,400		
Total	12,30,000	Total	12,30,000

Additional Information

- (a) Depreciation charged is found to be in excess of ` 6,000 as per the Income Tax Laws.
(b) Advertising expenses of ` 31,000 are paid in cash to M/s Bright Advertising.
(c) General expenses include ` 7,500 being Medical expenses incurred for Shri Prateek.
(d) MVAT include ` 15,000 paid towards penalty for delay in filing of returns.

Compute the Net Taxable Income of Shri Prateek for Assessment Year 2021-22. **(Ans: 4,29,000)**

(M.U. B.Com. April 13 – Modified)

26. Mr. Surendra, Proprietor of S & Co. furnishes you the following information for the year ended 31/03/2021:

Profit and Loss Account for the Year ended 31st March, 2021

Debit	`	Credit	`
To Salaries	1,40,000	By Gross Profit	7,80,000
To Conveyance	30,000	By Income from Mutual Fund	10,000
To Printing Expenses	20,000	By Interest on Bank Fixed Deposit	19,000
To Staff Welfare	60,000	By Gift from friend	21,000

To Investment in P.P.F.	70,000		
To Depreciation	30,000		
To Income Tax	40,000		
To Motor Car Expenses	25,000		
To Advertisement	15,000		
To Accounting Charges	10,000		
Net Profit	3,90,000		
Total	8,30,000	Total	8,30,000

Additional Information

- (a) Salaries include salary to proprietor ` 36,000.
- (b) Depreciation as per Income Tax rules ` 31,000.
- (c) 1/5th of motor car expenses are considered personal.
- (d) He paid mediclaim insurance premium by cheque ` 10,000.

You are required to compute his taxable income for assessment Year 2021-22. (Ans: 4,82,00)

(M.U. B.Com. Oct 12 – Modified)

27. Mr. Vijay, Proprietor of V and co furnishes you the following information for the year ended 31-03-2021:

Profit and Loss Account for the year ended 31st March, 2021

Debit	`	Credit	`
To Salaries	1,80,000	By Gross Profit	8,90,000
To Conveyance	30,000	By Dividend from Indian companies	9,000
To Interest on Loan	11,000	By Gift from Father	51,000
To Interest on Proprietor's Capital	19,000	By Dividend from co-operative Bank	10,000
To Repairs and Maintenance	18,000		
To Wealth Tax	12,000		
To Interest and Penalty on Wealth Tax	3,000		
To Travelling Expenses	27,000		
To Depreciation	35,000		
To Life Insurance Premium	55,000		
To Staff Welfare	40,000		
To Advertisement	10,000		
To Net Profit	5,20,000		
Total	9,60,000	Total	9,60,000

Additional Informations

- (a) Depreciation as per Income Tax Rules ` 40,000.
- (b) Travelling Expenses include expenses for visiting his native place ` 8,000.
- (c) Medclaim insurance premium for his wife paid by cheque ` 15,000.

You are required to compute his total taxable Income for assessment year 2021-22.

(M.U. B.Com. April 12 – Modified)

28. From the following Profit and Loss Account of Mr. Shaswat Hegde, a senior citizen, compute his total Taxable Income for the Assessment Year 2021-22.

Profit and Loss Account for the year ended 31st March 2021

Payments	`	Receipts	`
To Salaries	76,000	By Gross Profit b/d	3,32,000
To Fire Insurance Premium	11,000	By Interest on Deposits with State Bank of India	
To Staff Welfare expenses	18,000	(Gross Interest ` 20,000)	18,000
To Postage and Telegram	3,000	By Amount received on Maturity of LIC policy	50,000
To Interest on proprietors capital	4,000		
To Travelling expenses	37,000		
To Miscellaneous expenses	21,000		
To Repairs and Maintenance	7,000		
To Donation	5,000		
To Advertisement expenses	20,000		
To Reserve for doubtful debts	5,000		
To Depreciation	10,000		
To Sales Tax paid	4,000		
To Advance Income Tax	3,000		
To Income Tax paid for P.Y. 2020-21	1,000		
To Net Profit	1,75,000		
Total	4,00,000	Total	4,00,000

Additional Information

Depreciation as per Income Tax Rules is ` 15,000.

Mr. Shaswat paid for self, medical Insurance Premium of `16,000 by cheque.

Advertisement expenses include ` 15,000 spent on advertising in a magazine published by a political party.

Repairs and maintenance include personal expenses of ` 2,000. (Ans: 1,36,000)

(M.U. B.Com. April 2008, Modified)

29. Mrs. Prafulla provides the following profit and Loss Account for the year ended 31/03/2021.

Profit and Loss Account for the year ended 31st March, 2021.

Expenses	`	Income	`
To Salaries	2,00,000	By Gross Profit b/d	8,08,000
To Printing and Stationery	10,000	By U.T.I. dividend	10,000
To Advertisement expenses	40,000	By Winning from lottery	15,000
To Rent	50,000	By Gift from father	5,000
To Motor car expenses	30,000		
To Personal drawings	50,000		
To Embezzlement by an employee	5,000		
To Staff welfare expenses	25,000		
To Donations	15,000		
To Income Tax	9,000		
To Depreciation	30,000		
To Sales Tax paid	4,000		
To Net Profit	3,70,000		
Total	8,38,000	Total	8,38,000

Additional Information

Depreciation as per Income Tax Rules is ` 35,000.

50% of the rent is paid for her residential house.

Personal drawings includes her personal life Insurance premium of ` 5,000.

Printing includes ` 2,000 paid for printing birthday cards for her daughter's birthday.

Compute total taxable Income of Mrs. Prafulla for assessment year 2021-22.

(M.U. B.Com. Oct., 2008, Modified)

30. Mr. Kulkarni gives you the following information for the year ended 31st March, 2021.

Profit and Loss Account for the year ended 31/3/2021

Expenses	₹	Income	₹
To Salaries to Staff	2,00,000	By Gross Profit	10,00,000
To Salary to Mr. Kulkarni	60,000	By Winnings from horse racing	1,00,000
To General Expenses	1,50,000	By Dividend from Co-operative Bank	20,000
To Conveyance	70,000	By Interest on P.P.F. Account	40,000
To Rent of premises	1,00,000	By Old Debts Recovered	38,000
To Fire Insurance Premium	27,000		
To Reserve for Doubtful Debts	20,000		
To Income Tax	15,000		
To Contribution to P.P.F.	50,000		
To Depreciation	70,000		
To Net Profit	4,36,000		
Total	11,98,000	Total	11,98,000

Other Information

- Depreciation allowable under Income Tax Rules is ₹ 60,000.
- General Expenses include ₹ 10,000 for gifts to staff.
- Old debts in respect of which recovery is made were not allowed as deduction in the past, though they were written off in books.

Compute his total taxable income for Assessment Year 2021-22.

(Ans: 4,63,000)

(M.U. B.Com. April 2009, Modified)

31. Mr. Moholkar furnishes you the following information for the year ended 31/03/2021.

Profit and Loss Account for the year ended 31st March, 2021

Expenses	₹	Income	₹
To Salaries	1,60,000	By Gross Profit	7,00,000
To Printing and Stationery	25,000	By Winnings from Lotteries	15,000
To Conveyance	30,000	By N.S.C. Interest Accrued	10,000
To Rent	24,000	By Dividend from Indian Company	10,000
To Entertainment Expenses	15,000		
To Advertisement Expenses	45,000		
To Depreciation	32,000		
To Advance Income Tax	10,000		
To Embezzlement by an employee	2,000		
To Donations	28,000		
To Staff welfare Expenses	65,000		
To Net Profit	2,99,000		
Total	7,35,000	Total	7,35,000

Other Information

- (a) Depreciation allowable as per Income Tax Rules is ` 35,000.
- (b) Half of the Rent is attributable towards his residential flat.
- (c) Staff Welfare expenses include ` 15,000 incurred for his own medical treatment.
- (d) He spent ` 100 for purchase of lottery tickets.

You are required to compute his total taxable income for the Assessment Year 2021-22.

(M.U. B.Com. October 2009, Modified)

32. Mr. Shivaji Raje, proprietor of SR and Co. furnishes you the following information for the year ended 31-03-2021:

Profit and Loss Account for the year ended 31st March, 2021

Expenses	`	Income	`
To Salaries	80,000	By Gross Profit	4,10,000
To Fire Insurance Premium	12,000	By Interest on Fixed Deposit with Bank of India	8,000
To Staff Welfare Expenses	20,000	By Interest on Public Provident Fund	15,000
To Interest on Proprietor's Capital	5,000		
To Salary to Proprietor	12,000		
To General Expenses	22,000		
To Advertisement	15,000		
To Provision for Bad debts	7,000		
To Travelling Expenses	40,000		
To Repairs and Maintenance	5,000		
To Investment in Public Provident Fund	70,000		
To Advance Income Tax	8,000		
To Audit Fees	15,000		
To Depreciation	13,000		
To Net Profit	1,09,000		
Total	4,33,000	Total	4,33,000

Additional Information

- (a) Depreciation as per Income Tax Rules ` 16,000.
- (b) Advertisement includes advertisement of ` 10,000 in a Souvenir published by a political party.
- (c) Repairs and Maintenance Expenses are fully incurred for residential house of Proprietor.
- (d) He paid Mediclaim Insurance of ` 18,000 by Cheque for himself.

You are required to compute his total Taxable income for the Assessment Year 2021-22.

(Ans: 1,23,000)

(M.U. B.Com. April 2010, Modified)

33. Mr. Rajaram Raje, proprietor of RR & Co. provides you the following information for the year ended 31st March, 2021.

Profit and Loss Account for the year ended 31st March, 2021

Expenses	₹	Income	₹
To Salaries	1,50,000	By Gross Profit	5,07,000
To Bad Debts written off	10,000	By Income tax refund (including interest ₹ 2000)	18,000
To Printing Expenses	11,000	By UTI Dividend	40,000
To Conveyance	30,000	By Gift from a friend	10,000
To General Expenses	43,000		
To Sales tax penalty	9,000		
To Fire Insurance Premium	4,000		
To Wealth Tax	6,000		
To Depreciation	20,000		
To Repairs and Maintenance	8,000		
To Net Profit	2,84,000		
Total	5,75,000	Total	5,75,000

Additional Information

- Depreciation as per Income Tax Rules – ₹ 22,000.
- General expenses include payment of labour charges for business ₹ 23,000 paid in cash on 16-08-2020.
- Salaries include salary to proprietor – ₹ 48,000.
- Printing expenses include ₹ 8,000 for printing of marriage invitation cards for his son.
- He paid tuition fees to a school of ₹ 15,000 for his school going daughter.
- He paid interest of ₹ 45,000 on education loan taken from Bank of India for his son, pursuing post-graduate degree in medicine from University of Mumbai.

You are required to compute his total taxable income for the Assessment Year 2021-22.

(Ans: 2,50,000)

(M.U. B.Com. Oct., 2010, Modified)

34. Mrs. Alka Avhad is a physically disable person (85% disability). She gives you the following information for Previous Year 2020-21.

Particulars of Owned Houses	House 1 (Self Occupied) `	House 2 (Let out) `
Municipal Valuation (per month)	20,000	30,000
Rent received (per month) (House No. 2 was vacant for two months)	Nil	32,000
Municipal Taxes		
Paid by Owner	26,000	Nil
Paid by tenant	Nil	30,000
Other Expenses		
Repairs	12,500	Nil
Details of Borrowed Capital (Both loans taken on 1-4-2005)		
Interest paid during the year	1,60,000	1,44,000
Principal repaid	20,000	36,000

Other information

She received ` 48,000 as family pension during the year. She received bank fixed deposit interest of ` 2,27,000 during the year.

Compute her taxable income for Assessment Year 2021-22.

(Ans: 34,000)

(M.U. B.Com. Oct, 2011 – Modified)

35. Mrs. Bharati Bhagat is partially blind (60% disability). She gives you following information for previous year 2020-21.

Particulars of Owned Houses	House 1 (Self occupied) `	House 2 (Let Out) `
Municipal Valuation per month	25,000	25,000
Rent Received per month (House 2 was vacant for two months)	Nil	28,000
Municipal Taxes:		
Outstanding on 31-03-2020	12,000	14,000
Other Expenses:		
Maintenance Charges	6,000	6,000
Interest on Borrowed Capital: (Both loans taken on 1-4-99)		
Paid during the year	30,000	36,000
Outstanding on 31-03-2013	6,000	Nil

Other information

(a) She received a gift from her brother ` 80,000 on her birthday.

(b) Interest accrued on NSCs ` 1,20,000

Compute her taxable income for Assessment Year 2021-22.

(Ans: 94,000)

(M.U. B.Com. April, 2011 – Modified)

36. Mrs. Gayatri Soman owns two houses in Mumbai. The particulars of her Income from properties for the year ended 31st March 2021 is as follows:

(a)

Particulars	House Property I		House Property II	
	Self-Occupied		Let out	
(1) Nature of occupancy	✓		✓	
(2) Fair rent	✓	4,00,000	✓	6,00,000
(3) Municipal valuation	✓	4,20,000	✓	6,10,000
(4) Rent received	✓	Nil	✓	6,50,000
(5) Municipal taxes paid on 15/3/2020	✓	30,000	✓	40,000
(6) Fire Insurance Premium paid	✓	8,000	✓	10,000
(7) Rent collection charges	✓	—	✓	8,000
(8) Land Revenue payable	✓	2,000	✓	3,000
(9) Interest paid on loan taken for construction of house property	✓	1,60,000	✓	1,50,000
(10) Date on which loan taken		26-11-2005		22-10-2004
(11) Repayment of principal amount of loan	✓	30,000	✓	Nil

(b) Mrs. Gayatri Soman also received the following other income:

(i) Dividend from Mafatlal Industries ` 10,000.

(ii) Interest on fixed deposits with Bank of India ` 20,000

(c) Mrs. Gayatri paid Medical Insurance premium of ` 18,000 for self by cheque.

Compute her Net Taxable Income for the Assessment Year 2021-22.

(Ans: 1,02,000)

(M.U. B.Com. April 2008, Modified)

37. Mr. Kedar Patwardhan owns two house properties. Following are the details regarding these houses for the year ended 31/03/2021.

(a) **House Property I:** Self occupied:

(i) Annual value ` 4,00,000.

(ii) Municipal Taxes paid ` 20,000.

(iii) Loan from ICICI Bank of ` 15,00,000 for acquiring the house property in 2014.

(iv) Interest paid on the above loan ` 1,80,000 for the year.

(v) Repayment of Principal amount on housing loan during the year Rs. 30,000.

(b) **House Property II:** Let out:

(i) Fair rent ` 3,25,000.

(ii) Actual rent received ` 30,000 per month.

- (ii) Municipal Taxes paid ` 18,000.
- (iv) Collection charges paid ` 500.
- (v) Interest paid on loan for construction of house property ` 40,000.

(c) His other income was as follows:

- (i) Interest on Public Provident Fund is ` 6,000.
- (ii) Dividend from Reliance Industries Ltd. ` 3,000.

(d) Mr. Patwardhan is physically handicapped (upto 30%).

Compute the Net Taxable Income of Mr. Patwardhan for the Assessment year 2021-22.

(Ans: 19,400)

(M.U. B.Com. Oct., 2008, Modified)

38. Mr. Ganesh Shinde furnishes the following information of his Income and investments for the previous year 2020-21.

Information regarding his House property

Particulars	House I (Letout) `	House II (SOP) `
Fair Rent	90,000	60,000
Gross Municipal Valuation	80,000	50,000
Rent Received	1,00,000	—
Municipal Taxes		
(a) Paid by the Tenant	5,000	—
(b) Paid by the owner	10,000	10,000
Interest (due but not paid) on capital borrowed for Construction of House Property	20,000	20,000

Other Information

- (a) He received interest from Debentures in Tata Steel Ltd. ` 25,000.
- (b) He received Dividend from UTI ` 5,000.
- (c) He paid premium of ` 25,000 towards approved pension plan of LIC of India.
- (d) He donated ` 7,500 to Mumbai Municipal Corporation for promoting family planning.

Compute the Net Taxable Income of Mr. Ganesh Shinde for the Assessment Year 2021-22.

(M.U. B.Com. April 2009, Modified)

39. Mr. DilipRaje (Senior Citizen) has let out his house property situated at pune for residential purpose, the details of which for the year ended 31st March, 2021 are as follows:

Particular	₹
(1) Fair Rent	2,75,000
(2) Gross Municipal Valuation	2,60,000
(3) Actual Rent Received	3,00,000
(4) Municipal Taxes paid by the Tenant	10,000
(5) Collection Charges incurred	5,000
(6) Repair Expenses	4,500
(7) Insurance premium paid for insuring the property	2,800
(8) Interest paid on Funds Borrowed for purchasing the property (Loan was taken in May 1998)	35,000

Following are the details of his other Income earned by him during the previous year 2020-21:

- (a) Interest accrued on Fixed deposits with Bank ₹ 10,000
- (b) Interest accrued on Public Provident Fund A/c. ₹ 2,000
- (c) Dividend from Saraswat Co.op. Bank Ltd. ₹ 5,000
- (d) Dividend from Raymonds Ltd. (Indian Company) ₹ 4,000

During the previous year 2020-21 he made following investments and payments:

- (a) Investments in NSC ₹ 70,000.
- (b) Investments in Public Provident Fund ₹ 60,000.
- (c) Paid ₹ 25,000 by cheque as premium towards medical Insurance Policy for self.

Compute the Net Taxable Income of Mr. DilipRaje for A. Y. 2021-22. (Ans: 70,000)

(M.U. B.Com. October 2009, Modified)

40. Mr. Dharma Bhatkar gives you following information regarding house property owned by him, for previous year 2020-21.

Particulars	House I (Self Occupied) ₹	House II (Deemed to be Let Out) ₹
Rent (per month)	10,000	8,000
Municipal Valuation (per month)	15,000	10,000
Municipal Taxes paid	12,000	10,000
Municipal Taxes Outstanding	6,000	NIL
Repairs	12,000	8,000
Interest on Borrowed capital (Loan taken on 1-4-2004)	40,000	28,000

Other Information

- (a) Rent received from sub-letting tenancy premises ₹ 90,000
- (b) Rent paid to landlord on above tenancy premises ₹ 12,000
- (c) Medclaim Insurance paid by Cheque for his minor son ₹ 17,000

Compute his Taxable Income for the assessment year 2021-22. (Ans: 72,000)

(M.U. B.Com. April 2010, Modified)

41. Mr. Arjun Waingankar gives you following information for previous year 2020-21:

Particulars of Owned Houses	House I (Self Occupied) `	House II (Let Out) `
Fair Rent (per month)	20,000	20,000
Municipal Valuation (per month)	24,000	24,000
Rent received (per month)	Nil	25,000
House II was vacant for 3 months		
Municipal taxes paid by owner	25,000	25,000
Other Expenses:		
Ground rent	6,000	6,000
Interest on Borrowed Capital (Loan taken on 1-4-2002)	2,00,000	2,00,000
Other Information:		
Rent received from hiring of machinery		4,00,000
Repairs to machinery		10,000
Mediclaime Insurance paid by cheque for his Depend ant mother (Senior Citizen)		20,000

Compute his taxable income for the assessment year 2021-22.

(1,60,000)

(M.U. B.Com. Oct., 2010, Modified)

“The history of the world is the history of a few people who had faith in themselves.”

— Swami Vivekananda



QUESTION PAPERS

UNIVERSITY QUESTION PAPERS

[As per Old Assessment Year's]

Taxation – III (Direct Taxes-I)

Con. 4658-10 November 2010 (REVISED COURSE) (2 Hours)

[Total Marks: 60]

N.B.:

- (1) Question Nos. 1 and 2 are **compulsory**.
- (2) Attempt any **one** question from Question Nos. 3 and 4.
- (3) Attempt any **one** question from Question Nos. 5 and 6.
- (4) **Each** question carries 15 marks.
- (1) Mr. Sunil Bane celebrated his 65th birthday on 31st March, 2014. From the following information compute his taxable income and taxes payable for Assessment Year 2014-15.

[15 Marks]

Profit and Loss Account for the Year Ended 31st March 2014

Particulars	₹	Particulars	₹
To Salaries	2,40,000	By Gross Profit b/d	9,81,000
Stationery and Printing	12,000	MVAT Refund	16,000
Rent	36,000	Dividend Received from State Bank of India	26,000
MVAT paid	46,000	Interest Accrued on NSCs	30,000
Advertising	45,000	VIIIth Issue (NSC's purchased in P. Y. 2013-14)	
Expenses for marriage of his daughter	80,000		
Advance Income Tax Paid for A.Y. 2014-15	42,000		
Depreciation	30,000		
Net Profit c/d	5,22,000		
Total	10,53,000	Total	10,53,000

Additional Information

- (a) Rent includes rent paid for his home ` 12,000.
- (b) Advertising includes ` 15,000 paid for advertisement in a sovenior of a political party.
- (c) Depreciation allowable as per the Income Tax Laws is ` 45,000.

(2) Rewrite the following sentences by selecting correct option:

[15 Marks]

- (a) Total income of a person is determined on the basis of his:
 - Residential status in India
 - Citizenship of India
 - Residential status and citizenship both.
- (b) Income that has accrued outside India but received in India is taxable in the hands of:
 - Only ordinarily resident persons
 - Only ordinarily residents and not ordinarily resident persons
 - All assesseees irrespective of their residential status.
- (c) Entertainment allowance received by a non-government employee is:
 - Deductible u/s. 16 up to ` 5,000
 - Fully taxable
 - Taxable after deducting amount spent on entertainment.
- (d) In the hands of an employee reimbursement of medical expenses by the employer is:
 - Fully taxable
 - Fully exempt
 - Exempt up to ` 15,000.
- (e) For a self occupied house property, only allowable deduction is:
 - Municipal taxes paid
 - Interest on Borrowed Capital
 - Standard Deduction.
- (f) Salary received by a partner of a partnership firm is:
 - Exempt u/s. 10
 - Taxable as Salary Income
 - Taxable as 'Profits and Gains of Business and Profession'.
- (g) Any death cum retirement gratuity received by a government employee is:
 - Fully taxable
 - Fully exempt
 - Partly exempt.
- (h) Daily allowance received by a member of Parliament is:
 - Exempt u/s. 10

- Taxable as 'Income from Other Sources'
 - Taxable as salary.
- (i) If an assessee paid ` 25,000 as labour charges by a bearer cheque, then:
- Full amount is allowed as business expenditure
 - Full amount is disallowed as business expenditure
 - ` 5,000 shall be disallowed.
- (j) Maximum deduction u/s. 80D for medical insurance premium paid for a senior citizen is:
- ` 10,000
 - ` 15,000
 - ` 20,000
- (k) Cash gifts received by an individual on occasion of his marriage are:
- Fully exempt
 - Fully taxable
 - Exempt up to ` 50,000.
- (l) Cash, assistance received by an exporter is taxed as:
- Income from other sources
 - Salary, Income
 - Profits and Gains of Business or Profession.
- (m) The maximum deduction admissible against family pension received is 33.33% or:
- ` 15,000 whichever is more
 - ` 15,000 whichever is less
 - ` 50,000 whichever is more
- (n) Deduction u/s. 80E for interest on Educational Loan can be claimed by:
- Only individuals
 - Only individuals and Hindu Undivided Families
 - Only Hindu Undivided Families
- (o) Mrs. Shalini Salunke (age 66) is non-resident for A.Y. 2014-15. Her income will be exempt from income tax if it does not exceed:
- ` 1,60,000
 - ` 1,90,000
 - ` 2,50,000.

Either

- (3) Professor Mrs. Bhide is working with Gandhi College, Pune. She provides the following information for the year ended 31-3-2014: **[15 Marks]**
- Salary ` 25,000 per month
 - Arrears of salary ` 24,000

- Entertainment allowance ` 2,000 per month
- Medical Reimbursement by the college ` 24,000
- Leave salary received ` 20,000 during the year
- Examinership fees received from his college ` 4,000
- Fees for setting T.Y. B.A. papers from Mumbai University ` 8,000
- Royalty for writing book ` 40,000
- Expenses incurred for writing manuscripts, proof reading are ` 8,000.
- Deductions from salary:
- Profession tax ` 2,000
- Income tax ` 10,300

She had taken from Bank of India a loan for higher education of her daughter pursuing Pune University's Medical Degree Course. For which she paid interest of ` 48,000 during the year.

She incurred expenditure of ` 30,000 for the medical treatment of her handicapped dependent mother (85% disabled).

Compute the total Income and tax of Mrs. Bhide for the assessment year 2014-15.

OR

- (4) Mr. Ramesh, a disabled person as is certified by medical authority (50% disability) furnishes the following information regarding his house property. [15 Marks]

Particulars	House I	House II
Fair Rent	80,000	1,20,000
Municipal valuation	1,10,000	1,00,000
Rent received	1,20,000	-
Municipal tax:		
Paid by Tenant	8,000	-
Paid by Mr. Ramesh	12,000	10,000
Interest on borrowed capital for the purpose of construction of house property:		
(a) Paid to HDFC	10,000	14,000
(b) Paid to friend	6,000	4,000
Ground rent	2,000	-
Insurance premium paid	1,500	-

The details of his other incomes are:

- (a) (i) Rent from subletting ` 1,20,000
(ii) Rent paid to landlord ` 40,000

- (b) Bank Interest from SBI ₹ 40,000
 (c) Interest from Post Office saving a/c. ₹ 5,000

During the previous year 2013-14 he paid Mediclaim premium by crossed cheque:

- (1) For his dependant father ₹ 12,000
 (2) For his dependant brother ₹ 8,000

You are required to compute net taxable income for the assessment year 2014-15.

Either

- (5) Mr. Mangesh, a American citizen had the following income during the year ended on 31st March, 2014: [15 Marks]

- (a) Income from house property in India ₹ 30,000
 (b) Income from property in Germany ₹ 20,000
 (c) Interest, from bank account in India ₹ 2,400
 (d) Income' from business in Nepal being controlled from India ₹ 32,000
 (e) Interest on bank account in U.S.A. ₹ 22,000
 (f) Salary earned and received in Tokyo ₹ 24,000
 (g) Income earned and received in London ₹ 26,000
 (h) Dividend from British Company received in India ₹ 34,000

Compute his Total Income for the assessment year 2014-15 if he is:

- (i) A resident and ordinarily resident
 (ii) A resident but not ordinarily resident
 (iii) A non-resident.

OR

- 6 (a) Define and explain the following as per the provisions of the Income Tax Act, 1961:
 (Any two)
 (i) Assessee
 (ii) Assessment year
 (iii) Person
 (b) Enumerate and explain in brief the deductions available u/s. 24 of the Income Tax Act, 1961 in computing income from House, Property.

(REVISED COURSE) November 2011

N.B.:

- (1) Question No. 1 and Question No. 2 are compulsory.
- (2) Attempt any one question from Q. No. 3 and Q. No. 4.
- (3) Attempt any one question from Q. No. 5 and Q. No. 6
- (4) Each question carries 15 marks.
- (1) From the following particulars of Mr. Dyaneshwar Borkar (Age 50 years), compute his taxable income and tax payable for assessment year 2014-15. [15 Marks]

Profit and Loss Account for the year Ended 31-3-2014

Particulars	Amount `	Particulars	Amount `
To Salaries	3,00,000	By Gross Profit b/d	15,16,000
To Sundry Expenses	24,000	By MAVT Refund	20,000
To Rent for Premises	60,000	By Interest Received from ICICI Bank Ltd	35,000
To Motor Car Expenses	72,000	By Interest on PPF A/c (Reinvested)	45,000
To Income Tax Paid	1,45,000		
To MAVT Paid	1,20,000		
To Bank Interest	3,60,000		
To Depreciation	80,000		
To Net Profit	4,55,000		
Total	16,16,000	Total	16,16,000

Additional Information

- (a) The business is conducted in premises owned by his wife. The reasonable rent for such premises is ` 36,000
- (b) Details of Bank Interest debited to Profit and Loss A/c are as follows.

Particular	To Scheduled Bank	To Non-scheduled Bank
Paid during the year	1,20,000	1,20,000
Outstanding on 31-3-2014	60,000	60,000
Total	1,80,000	1,80,000

- (c) Details of income tax paid are as under.

Particular	Amount `
Self-assessment Tax for AY 2013-14	90,000
Advance Tax paid for AY 2014-15	55,000
Total	1,45,000

- (d) 50% of motor car expenses should be considered personal .
- (e) Depreciation as per Income Tax Rules is ` 1,05,000.
- (f) Life Insurance premium paid during the year ` 50,000.
- (2) (a) Rewrite the following statements after choosing correct option:
- (i) Mr. Jagdish took voluntary retirement from Acme Chemicals and receive ` 14,00,000 as compensation under approved voluntary retirement scheme:
The amount exempt u/s 10 is:
- ` 14,00,000
 - ` 7,00,000
 - ` 5,00,000
- (ii) Free lunch given to employees at place of work is:
- ` Taxable perquisite
 - ` Tax free perquisite
 - ` Taxable at 50% of the cost.
- (iii) Jigar a businessman purchased a machinery on 21st September 2012 and commissioned it on 5th October 2012. The rate at which he can claim depreciation is:
- Normal rate prescribed.
 - 50% of normal rate prescribed
 - Nil
- (iv) Mrs. Gunjan Kerkar received a cash gift from her fater-in-law ` 80,000. The amount of gift to be included in her taxable income is:
- Nil
 - ` 80,000
 - ` 50,000
- (v) Maximum deduction allowed u/s 80 CCC for contribution to Annuity plan for certain pension funds is:
- ` 10,000
 - ` 20,000
 - ` 1,00,000
- (2) (b) Rewrite the statement after selecting the correct option given at the end of the question.
- [5 Marks]**
- (i) Profit on sale of import license is taxed under the head _____ .
- (ii) Amount exceeding ` _____ received without consideration from non-relatives after 1-4-2007 is taxable under the head Income From Other Sources.
- (iii) An Indian company is _____ when the control and management is wholly outside India.

- (iv) Uncommuted pension received by a non-government employee is ` 3,00,000, along with gratuity amount of ` 2,00,000 . The taxable value of pension is _____.
- (v) The upper monetary limit for claiming exemption from gratuity received is ` _____

Option: (Salaries: Income from Other Sources, Business Income, Resident, Non-resident, Not Ordinarily Resident, ` 1,00,000, ` 2,00,000, ` 50,000, ` 3,00,000, ` 5,00,000, ` 10,00,000)

(2) (c) Match the column and rewrite the statement

[5 Marks]

Column I	Column II
Term deposit with Scheduled Bank for five years	Not Taxable
Income from Race Horses	Exempt Income
Temporary cash from financial Institution.	80 C
Dividend from Indian company	Business Income
Deduction for handicapped individual.	Income from Other Sources

- (3) Mr. Chandu gives these particulars of his income for the year ending 31-3-2014. Net salary (after deduction of TDS and own contribution.

[15 Marks]

Particular	`
@ 15% to recognized provident fund)	1,18,900
Tax deducted at source	4,350
Employers contribution to recognized provident fund	21,750
Interest credited to Recognised provident fund @ 16%	20,000
Allowance for holiday trip	2,525
Research allowance of Mr. Chandu (Actual exp. ` 5,000)	7,000
Reimbursement of medical expenses	18,000
House Rent allowance received (exempt u/s 10 ` 2,000)	18,000
Profession tax paid	2,500
Dividend from co-operative society	2,500
Dividend received from Dena Bank	5,000

Mr. Chandru paid ` 11,200 under an annuity plan to life Insurance corporation for receiving pension. Compute his taxable income for the Assessment Year 2014-15.

- (4) Mr.Kedar owns jointly with his wife, 2 residential houses and one bungalow. The 2 houses are let out and the bungalow is occupied by them for their residence. The rental value of the 2 let out houses is ` 1,68,000 p.a. each and that of the bungalow ` 40,000 other details regarding properties are as follows:

(15 Marks)

(a)

Houses Let-out	₹
Rent received	15,000 pm per house
Municipal taxes paid	29,000 per house
Fire insurance premium paid	2,000 per house

Interest on loan taken for construction of both the houses ₹ 30,000

Particular (b) Bungalow (self occupied property)	₹
Municipal taxes paid	4,000
Fire insurance premium paid	100
Interest on loan for construction of bungalow	40,000

Mr. Kedar also had the following investments:

- (i) 14% debentures in KBC Ltd. ₹ 1,50,000.
- (ii) 11% fixed deposits with Canara Bank ₹ 1,00,000.

He had paid ₹ 8,000 as mediclaim insurance.

He had also contributed ₹ 20,000 towards approved pension plan. Compute Taxable Income of Mr. Kedar for Assessment Year 2014-15.

- (5) (a) Mr. Aditya, an Indian citizen has settled abroad for the last 26 years. His passport reveals his stay in India as under.

Year ending	Number of days
31-3-2005	170 days
31-03-2006	170 days
31-03-2007	110 days
31-3-2008	39 days
31-3-2009	310 days
31-3-2010	196 days
31-3-2011	125 days
31-3-2012	107 days
31-3-2013	225 days
31-03-2014	185 days

Determine his residential status of Mr. Aditya for the Assessment Year 2014-15.

- (b) Total earning of Mr. Raju for the year ended 31-3-2014 was as under:
- (i) Income from house property in Sweden ` 14,000.
 - (ii) Income from business in Sweden, controlled from Sweden ` 50,000
 - (iii) Interest from bank accounts in India ` 20,000.
 - (iv) Profits of a business in India ` 50,000.
 - (v) Remittances from U.K. ` 40,000
 - (vi) Share of profit from partnership firm as a partner ` 1,04,000
 - (vii) Pension received in India ` 10,000.

Determine total Income of Mr. Raju for the Assessment Year 2014-15, if he is:

- (1) Resident and Ordinarily Resident.
- (2) Resident and Not Ordinarily Resident.
- (3) Non-resident.

OR

- (6) (a) Define and explain the following as per the provision of Income Tax Act 1961: **(Any two)**
[8 Marks]

- (i) Person
- (ii) Assessee
- (iii) Previous Year.

- (b) Explain the following: **(Any two)** [7 Marks]

- (i) Recovery of Arrears of Rent
- (ii) Preconstruction interest on loan for house property.
- (iii) Taxable Perquisites.

N.B.:

- (1) Questions Nos. 1 and 2 are compulsory.
 - (2) **Figures** to the **right** indicate **full** marks.
 - (3) Use of only **simple** calculator is **permitted**.
 - (4) Attempt any **one** question from Question Nos. 3 and 4.
 - (5) Attempt any **one** question from Question Nos. 5 and 6.
- (1) From the following Income and Expenditure Account of Dr. Sachin compute his total Taxable Income for Assessment year 2013-2014 and the amount of Tax Liability:

Receipts	`	Payments	`
To Staff Salaries	1,80,000	By Consulting Fees	5,50,000
To Dispensary Expenses	78,000	By Visit Fees	50,000
To Dispensary Rent	70,000	By Gifts from Patients	60,000
To Purchase of Medicines	41,500	By Sale of Medicines at the Dispensary	60,000

To Income Tax	55,000	By Rent from House Property	1,20,000
To Professional Fees to other Doctors	32,000	By Retainer Fees from Municipal Hospital	60,000
To Car Expenses (Profession)	39,400		
To Membership Fees	2,000		
To Municipal Tax for Rented House	12,000		
To Interest on Housing Loan for Rented House	20,000		
To Printing and Stationery	6,500		
To VAT paid on Medicines	3,000		
To Depreciation	58,000		
To Professional Tax paid	2,500		
To Surplus for the year	2,99,600		
Total	9,00,000	Total	9,00,00

Additional Information

- Depreciation as per Income Tax Rules ` 45,000.
 - Gifts from patients include ` 10,000 from his father in personal capacity.
 - Half of Municipal Tax for Rented house is recovered from tenant.
 - He paid ` 30,000 to Nationalised Bank towards Principle of Housing loan.
 - He paid Medical Insurance Premiums of ` 8,000 by Credit Card.
 - He deposited ` 25,000 in PPF and also paid LIC Premium of ` 50,000
- (2) (a) State whether following statements are True or False.
- An India Company may be consider as Non Resident.
 - Mr. Patil, Kurta of HUF, claims that the HUF is Non Resident as the business of HUF is transacted from Dubai and all the policy decisions are taken there.
 - Entertainment Allowance in case of government employee is first included in full in gross salary and thereafter deduction is allowed from gross Salary under Section 16(ii).
 - Municipal Taxes is allowed as deduction even if it is paid by tenant.
 - Depreciation is allowed even if it is not claimed by the business.
 - An Assessee can never a loss from lottery Income.
 - Deduction is allowed under Section 80 E upto ` 30,000.
- (2) (b) Match the following:

A	B
Mumbai Municipal Corporation	Non Taxable Perquisites
Foreign Income	No Depreciation claim
Expenses on Training of Employees	Standard Deduction of 50%

Unrealised Rent Received	Not allowed as deduction
Negative WDV of a Block of Assets	Not Taxable for Non-resident
Provision for Bad debts	Not allowed as Business deduction.
Expenses for Purchase of Lottery Ticket	Fully Taxable
Interest on Compensation	Local Authority.

- (3) Mr. Rohit was the General Manager of a Private Limited Company since January, 1986. He was entitled from the Company for the following benefits:
- Basic Salary of ` 19,000 P.M.
 - Dearness Allowance of ` 2,500 P.M. (not eligible for retirement benefit)
 - Entertainment Allowance of ` 1,000 P.M.
 - City compensatory Allowance of ` 800 P.M.
 - House Rent Allowance of ` 1200 P.M. He resides with his parents at their home.
 - Gratuity of ` 1,20,000 (He is not covered under Payment of Gratuity Act).
 - Payment of ` 5,00,000 from accumulated balance from statutory Provident Fund.
 - He contributed ` 1,000 P.M. to statutory Provident Fund where company also contributed equal amount.
 - He retired on 31/12/2012 and his Pension was fixed at ` 6,000 P.M. On 1st March 2013 he computed 50% of the Pension for 2,00,000.
 - Professional Tax deducted was ` 2,200

During the year he also received following Income:

- Interest on Postal savings bank A/C. ` 2,000.
- Accrued Interest on NSC of ` 16,500
- Interest on loan given to friends ` 25,000

During the year he Purchased NSC of ` 70,000. Compute the total Income for Assessment year 2013-2014 of Mr. Rohit.

OR

- (4) Mr. Pawar is the owner of various house properties. The details of which for previous year 2012-13 are as following:
- House Property 'A'** is occupied by himself for his own residence. The Municipal valuation of the property is ` 1,15,000 and Fair Rent is ` 1,65,000. The municipal taxes of ` 13,000 were paid. The Construction started on 01/01/2010 and was completed on 31/03/2012. Loan interest of ` 20,000 P.A. is payable which Mr. Pawar paid regularly.
 - House Property 'B'** was received by him from his father under will. The property was also used by him for his own residence. The Fair Rent was ` 45,000 and Municipal valuation is ` 55,000. He paid Municipal taxes of 5,000 on 1st April 2013 and ` 4,000 is still payable. Interest on loan for this house property paid was ` 8,000.
 - House Property 'C'** is let out on a monthly Rent of ` 8,000. The Municipal valuation is ` 90,000 and Fair Rent is ` 85,000. He paid Municipal tax of ` 5,000 and ` 3,000 was

paid by tenant. The house remained vacant for 2 months during the year. He had taken a loan for construction to the extent of ₹ 35,000.

Mr. Pawar also earn following Income:

- (a) Rent for open plot of land ₹ 35,000
- (b) Winning from horse race ₹ 80,000
- (c) Dividend from co-operative society ₹ 4,500

Compute total Income for the Assessment year 2013-2014.

(5) (a) Mr. John a British citizen came to India for the first time on 1st April, 2008.

(i) Further on 1st February, 2009 he was again transferred to his home country by his present company for three years.

(ii) He comes back to India on 2nd February, 2012 and remain in India there after.

(iii) Determine the residential status of Mr. John for the Assessment year 2013-2014.

(b) Mr. Tom a citizen of USA had following income during the year ended on 31st March 2013:

- (i) Salary earned and received in USA 40,000
- (ii) Professional Fees earned in USA for six months 1,20,000
(For 3 months received in India)
- (iii) Income from Agriculture in Sri Lanka 50,000
- (iv) Interest on bank A/c in India 10,000
- (v) Amount brought into India out of Past Untaxed Profits earned in USA 50,000

Compute his total Income assuming:

- (a) He is Resident and ordinarily Resident
- (b) Non Resident.

(6) Define and explain the following terms:

- (a) Body of Individual
- (b) Assessment year
- (c) Non Resident
- (d) Deduction

**“Worrying does not empty Tomorrow of its Trouble, It Empties Today of its
Strength” – Corrio Ten Boom**

