

CMA INTER DIRECT TAX PART -2
(Relevant for JUNE and DEC 2021 exams)

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CHAPTER – 10
INCOME UNDER THE HEAD PROFIT
& GAINS OF BUSINESS OR PROFESSION

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PGBP – 1 : BASICS

Section 28 : Following Incomes are chargeable under “P/G/B/P”

- a) Profit of any Business or Profession *carried by assessee at any time* during P/Y
- b) **Partner of a Firm.**
Any Interest, Salary, Bonus, Commission, or any type of remuneration due /received from Firm.
- c) **Compensation due or received.**
➤ Termination/Modification of agreement for managing a Company.
➤ Termination/modification of terms of Agency.
➤ Vesting in Govt, management of any property/business under any law.
- d) **Non-Compete fees & Exclusivity rights.**
Any sum received/receivable in Cash or Kind under an agreement for:
1) Not carrying out any activity in relation to any business ***or profession***,
2) Not sharing any know-how, patent, copyright etc., and any similar right.
- e) **Benefits/Perquisites** in cash or kind arising from carrying on business or profession
- f) Sum received under **Keyman Insurance Policy** including bonus on such policy
- g) **Export Incentives** like
• Sale of Import license.
• Cash assistance against Export.
• Duty drawback of Customs/Excise.
• Profit on transfer of duty entitlement pass book scheme
- h) Income derived by trade, professional association from **Specific services** performed for its member.
- i) Any sum in relation to capital asset which is allowed as deduction u/s 35AD
- j) If any person receives compensation or other amount in connection with termination or modification of terms and conditions of any contracts relating to his business
- k) If any person has converted any inventory or stock in trade into a capital asset, for this purpose fair market value of the inventory as determined in prescribed manner, on the date of conversion shall be taken as Business Income

Special point : Explanation 1A to section 43(1) : Where a capital asset referred u/s 28(via) is used for the purposes of business or profession, the actual cost of such asset to the assessee shall be the fair market value which has been taken into account for the purposes of the said clause.

Special Points:

1. **Sec 2(13) : Business** includes any **Trade, Commerce** or manufacture or any **Adventure or concern** in the nature of trade, commerce or manufacture

2. **Sec 2(29BA) : Manufacture means**
 A change in non living physical object or article
 - Resulting in transformation of object or article into a **New and Distinct object or article** having a different name, character or use
 - Bringing into existence of a new object or article with a **Different chemical composition or integral structure**

3. **Sec 2(36): Profession** includes vocation

4. **Illegal Business** : From Income Tax point of view, even profits of illegal business are taxable under P/G/B/P.

5. **Speculation Business** : Where speculative transaction is of such a nature as to constitute a business, such speculation business shall be deemed to distinct & separate from any business.

6. **Business Loss** : Business Income includes business losses provided they are of revenue nature, real losses & are incidental to carrying on business

Method of Accounting (Sec. 145)

- Income under head **P/G/B/P** & Income under head **Other Sources** is to be calculated on basis of **Cash or Mercantile basis** of accounting **regularly employed** by the assessee
- The **Central Government may notify** in Official Gazette, income computation and disclosure standards to be followed by any class of assessee or in respect of any class of income.
- Where the **AO is not satisfied** about the
 - ✓ **correctness or completeness** of the accounts of assessee, or
 - ✓ where the **method of accounting** have not been regularly followed by the assessee
 - ✓ the AO may make an **assessment u/s 144**

Special point :**Income computation & Disclosure standards notified by Central Government**

- ICDS I : Accounting Policies
- ICDS II : Valuation of Inventories
- ICDS III : Construction Contracts
- ICDS IV : Revenue Recognition
- ICDS V : Tangible Fixed Assets
- ICDS VI : Effects of Changes in Foreign Exchange Rates
- ICDS VII : Government Grants
- ICDS VIII : Securities
- ICDS IX : Borrowing Costs
- ICDS X : Provisions, Contingent Liabilities and Contingent Assets

Sec 145A : Valuation of inventory

For the purpose of determining the income chargeable under the head “Profits and gains of business or profession”,—

- (i) Valuation of inventory shall be made at lower of actual cost or net realisable value computed in accordance with the income computation and disclosure standards notified u/s 145(2);
- (ii) Valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation;
- (iii) Inventory being securities not listed on a recognised stock exchange, or listed but not quoted on a recognised stock exchange with regularity from time to time, shall be valued at actual cost initially recognised in accordance with the income computation and disclosure standards notified u/s 145(2);
- (iv) Inventory being securities other than those referred to in clause (iii), shall be valued at lower of actual cost or net realisable value in accordance with the income computation and disclosure standards notified u/s 145(2):

Provided that the inventory being securities held by a scheduled bank or public financial institution shall be valued in accordance with the income computation and disclosure standards notified u/s 145(2) after taking into account the extant guidelines issued by the RBI in this regard:

Provided further that the comparison of actual cost and net realisable value of securities shall be made category-wise.

Explanation 1.—For the purposes of this section, any tax, duty, cess or fee (by whatever name called) under any law for the time being in force, shall include all such payment notwithstanding any right arising as a consequence to such payment.

Sec 145B : Taxability of certain income

(1) Notwithstanding anything to the contrary contained in section 145, the interest received by an assessee on any compensation or on enhanced compensation, as the case may be, shall be deemed to be the income of the previous year in which it is received.

(2) Any claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.

PGBP – 2 : Allowable Deductions
Section 32 : DEPRECIATION

Depreciation shall be allowed if all the following conditions are satisfied:

1. **Specified Assets** : Only the following types of assets are eligible for Depreciation.
 - Tangible Assets : Building, Machinery, Plant or Furniture.
 - Intangible Assets : Know-how, patent, copyright, trademark, licence, franchise or other rights
2. **Purpose**: The specified assets should be used for **Business or Profession** of assessee.
3. **Ownership**: The specified assets can be **Wholly or partly** owned by assessee during the previous year.
4. **Basis of Depreciation**: Depreciation shall be calculated as

[Rate of Depreciation] X [WDV of the Block Of Asset as on last day of the P/Y]

BLOCK OF ASSET

- Group of assets falling within a class of assets
- Comprising of Tangible assets and Intangible assets
- In respect of which same percentage of depreciation is prescribed.

WRITTEN DOWN VALUE (WDV)

WDV of block of assets at the beginning of relevant P/Y	A
Add : <u>Actual Cost</u> of asset belonging to that block acquired during P/Y	B
Less : <u>Money Receivable</u> on assets sold, discarded, demolished or destroyed during previous year including Scrap Value	C
WDV of the block of asset as on the last day relevant P/Y	A+B-C

Special point: Where the income of an assessee is derived in *Part from Agriculture & in Part from P/G/B/P*, for computing WDV, the total amount of depreciation shall be computed as if the entire income is derived from the business of the assessee under the head P/G/B/P

RATES OF DEPRECIATION

TYPES OF ASSETS	% Depreciation
Building :	
- Residential	5 %
- Non Residential	10 %
- Temporary Structure	40 %
Furniture & Fittings including Electrical Fittings	10%
Plant & Machinery :	
- Books owned by Professional	40%
- Books owned for Library business	40%
- Air & Water Pollution control equipments	40%
- Renewal energy device/Energy saving device	40%
- Computer including computer software	40%
- Aero planes	40%
- Life saving Medical Equipment	40%
- Motor car, buses, lorries etc used for hire (WN1)	30%
- Ships/Speed boats	20%
- Oil wells	15%
- Motor Car for Business & Profession (WN2)	15%
General rate of other machinery	15%
Intangible Assets :	25%

(WN1) : Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired between period 23.8.2019 to 31.3.2020 & put to use upto 31.3.2020 : Depreciation @ 45%

(WN2) : Motor cars other than those used in business of running them on hire, [acquired between 23.8.2019 to 31.3.2020 and put to use on or before 31.3.2020 : Depreciation @ 30%

Special Points :

1. **Plant** Includes Ships, Vehicles, Books, Scientific Apparatus & Surgical Equipment used for business or profession and does not include Tea Bushes, Live Stock, Building or furniture & fixtures.
2. Building includes Roads, Bridges, Wells, Tube wells.
3. Residential Building mean building in which **atleast 2/3rd** of built-up area is used for residential purposes.
4. Wind mills/Related Equipment/Generator or pump driven by wind mills installed wef 1/4/2014 : 40%
Otherwise : 15%

Depreciation Restricted to 50%

- ❖ Where assets **acquired** during previous year
- ❖ and **put to use** for less than 180 days in **that** previous year
- ❖ Then depreciation on that asset **restricted to 50%** of normal rate
- ❖ for **that previous year** only

Additional Depreciation**a. General Case :**

- Assessee engaged in the business of **manufacture or production** of any article or thing or “**In business of Generation, Transmission or Distribution of power**”
- **New Machinery or plant** acquired and installed (other than ships & aircraft)

b. Specific case :

- *Assessee, sets up an undertaking for manufacture or production of any article or thing,*
- *On or after the 1st day of April, 2015*
- *In any backward area notified by Central Government in this behalf,*
- *In Andhra Pradesh or Bihar or Telangana or West Bengal,*
- *Acquires and installs any new machinery or plant (other than ships and aircraft)*
- *for the purposes of the said undertaking*
- *during 1/4/15 and 31/3/2020 in the said backward area*

b. Conditions to be satisfied:

- i. P&M should not be used by any person in India or outside India before date of installation by assessee.
- ii. P&M not installed in **office premises** or in **residential accommodation** including a guest house.
- iii. P&M should not be an **office appliance** or road transport vehicle.
- iv. **Whole of actual cost** of P&M **not allowed as deduction** under P/G/B/P of any one previous year.

c. Quantum of Increased Depreciation

General case : 20% for the P/Y in which conditions are satisfied

(If acquired and put to use for less than 180 days then **10% & balance 10% next year**)

Special case : 35% for the P/Y in which conditions are satisfied

(If acquired and put to use for less than 180 days then 17.5% & balance 17.5% next year)

Proportionate Depreciation

- In case of succession of *Partnership Firm* by a **Company** u/s **47** or
 - *Conversion of Private Company or Unlisted Public Company into a LLP* u/s **47**
 - Succession of *Proprietary Concern* by a **Company** u/s **47** or
 - *Amalgamation* or *De merger* or
 - Other cases of *Succession otherwise on death*
- Depreciation allowable for the P/Y in which the above succession takes place
 - Shall be apportioned between the *Predecessor* & **Successor**
 - On the basis of Number of **days the assets used** by them during that P/Y.

Section 50 : Short Term Capital Gain for Block Assets
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Whenever a depreciable asset of block is sold, the **Sales consideration** is **Subtracted** from WDV of block to which such asset belongs.

CASE 1	CASE 2
1. All Assets of block are transferred during P/Y	1. Some Assets of block are transferred during P/Y & Sale proceeds of assets transferred > (Opening w.d.v + Actual cost)
2. Block Ceases to exist & no depreciation shall be provided for that P/Y	2. Block will Exist at NIL value & no depreciation shall be provided for that P/Y
3. Closing WDV is Short term capital Gain or Loss	3. Closing WDV is Short term capital gain

Depreciation for Undertaking engaged in Generation of Power
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Such undertaking has the option either to claim depreciation

- ❖ On W.D.V basis on block of assets **or**
- ❖ On S.L.M basis on the actual Cost of assets
- ❖ Such option has to be exercised before furnishing ROI for the assessment year in which undertaking starts to generate power. (*Once such option is exercised it will be final and later on cannot be changed*)

Sale of assets by such undertaking

- *Depreciation. Claimed and provided on **WDV basis** : **Treatment under block***
- *Depreciation Claimed and provided on **SLM basis** :*

Step 1 : Find out **Opening Value** as on 1/4/2020 (Cost of asset less deduction claimed in prior p/y)

Step 2 :

Sale price < Opening W.D.V	Sale Price > Opening W.D.V
Loss is Terminal Depreciation allowed as deduction in the P/Y of sale.	Deemed Business Income (Balancing Charge) taxable u/s 41 in P/Y of sale : Selling price or Deduction Claimed, less Capital Gain : Selling price > Cost <i>Short term or long term depending upon period of holding</i>

Section 43(1) : Actual Cost

Means actual cost of the asset to the assessee reduced by that portion of the cost, which is met directly or indirectly by any other person or authority

*If assessee incurs any expenditure for acquisition of any asset or part for which payment or aggregate of payments made to a person in a day, otherwise than by A/C payee cheque drawn on bank or A/C payee bank draft or use of ECS through bank account or by other **prescribed electronic method**, exceeds ₹10,000, such expenditure shall not be included in actual cost.*

Rule 6ABBA : CBDT has prescribed the following electronic modes

- (a) Credit Card
- (b) Debit Card
- (c) Net Banking
- (d) IMPS (Immediate Payment Service)
- (e) UPI (Unified Payment Interface)
- (f) RTGS (Real Time Gross Settlement)
- (g) NEFT (National Electronic Funds Transfer), and
- (h) BHIM (Bharat Interface for Money) Aadhar Pay.

Explanations to section 43(1)	Notional Actual Cost
Asset ceases to be used for Scientific research & now to be used for B/P of the Assessee.	Actual Cost to Assessee Less: Deduction claimed u/s.35
Asset belonging to other person is gifted or inherited by the Assessee	Actual cost to other person Less: Deduction allowed to previous owner as if only asset in block
Asset belonging to other person , used for the purpose of his business or profession is transferred to Assessee and AO is satisfied that transfer is to reduce Income tax liability	Amount determined by AO with prior approval of Joint Commissioner

Building belonging to assessee brought into B&P during P/Y	Actual cost Less Depreciation allowable as if building used for B&P since its acquisition.
Interest paid or payable for acquiring an asset	<u>Will not be added</u> to actual cost after asset first put to use.
Where an asset is acquired on which Taxes/Duty is repayable	Actual cost <u>reduced</u> by Excise, Custom Duty repayable
Where portion of cost of an asset met by Central Government, State Government, Authority or other person	
→ If Subsidy, Grant etc., is <i>directly related</i> to the asset	Actual cost <u>reduced</u> by value of subsidy
→ If Subsidy, Grant etc., is <i>not directly</i> related to an asset but a consolidated sum	Actual cost <u>reduced</u> by proportionate amount of subsidy.
Capital asset on which deduction has been allowed u/s 35AD	NIL

MISCELLANEOUS ISSUES OF DEPRECIATION

1. Is it mandatory to claim depreciation.

Explanation to Sec. 32 : Depreciation provisions shall apply whether or not the assessee has claimed deduction for depreciation.

2. Carry forward and set off of unabsorbed depreciation [Sec. 32(2)]

1. Deduct current year depreciation from current year income under P/G/B/P.
2. If current year P/G/B/P is insufficient deduct balance depreciation from other head of income for same previous year.[Except Salary & Other Incomes chargeable at special rates excluding Capital Gains]
3. Even if incomes under other heads insufficient, it is *unabsorbed depreciation* which will be carried forward for **any number** of assessment years.
4. In the next assessment years ,b/f unabsorbed depreciation will be added to current year depreciation and again step 1 to step 4 will be followed

However, if B/F losses are also there in a previous year along with B/F unabsorbed depreciation, then priority of set off shall be as follows

- 1st setoff current year depreciation
- Then setoff brought forward losses
- Then setoff unabsorbed depreciation.

Special point :

1. The business or profession of which depreciation was computed need not be carried on in the previous year in which b/f depr is set off.
2. Depreciation can be c/f only by the **same assessee**. i.e Assessee who has claimed the deduction for depreciation and the assessee who wants to carry forward the depreciation must be the same.

Exceptions to 2nd point:

- a) Firm succeeded by a company u/s 47
- b) Proprietary concern succeeded by a Company u/s 47
- c) Amalgamation or Demerger

PGBP – III : Other Allowable deductions**Section 30 : Rent, Repairs, Taxes & Insurance for Buildings used for B&P**

If assessee is a **Owner**, following deductions shall be allowed to him

- **Revenue Repairs**
- **Municipal Taxes** (*Subject to 43B*)
- **Insurance Premium** for insurance of building

If assessee is a **TENANT**, following deductions shall be allowed to him

- **Rent** & following expenses *if borne by him*
- **Revenue Repairs**
- **Municipal Taxes**
- **Insurance Premium** for insurance of building

Section 31 : Machinery, Plant & Furniture used for B&P

- ✓ Following deductions shall be allowed:
- ✓ **Revenue Repairs**
- ✓ **Insurance Premium** of such Plant, Machinery & Furniture

Asset not exclusively used for Business or Profession [Sec. 38(2)]

- Where Building, Machinery, Plant or Furniture
- **Not exclusively** used for Business or Profession
- Then deduction **u/s. 30, 31, 32**
- Shall be restricted to such **fair proportion** as AO may determine for purpose of business or profession.

Sec 32 AC : Investment Allowance for New Plant or Machinery

1.Assessee	Company engaged in the business of manufacture or production of any article or thing
2.Investment & Deduction	<p><u>WEF A/Y 15/16 upto A/Y 17/18</u></p> <p><i>Acquires and installs Eligible P&M between 1/4/14 to 31/3/2017 and actual cost > 25 crore ,than deduction @ 15% of actual cost shall be allowed</i></p> <p>If installation of the new assets are in a year other than the year of acquisition, the deduction shall be allowed in the year in which the new assets are installed.</p>
3.Eligible P&M	<p>New plant or machinery (other than ship or aircraft) Excluding :</p> <p>(i) P&M which before its installation by assessee was used either within or outside India by any other person</p> <p>(ii) P&M installed in any office premises or any residential accommodation, including guest house</p> <p>(iii) Office appliances including computers or computer software</p> <p>(iv) Any vehicle or</p> <p>(v) P&M, whole of actual cost allowed as deduction (whether by way of depreciation/otherwise) in computing income of Business/Profession of any P/Y</p>
4. Eligible P&M sold	<p>If P&M is transferred except under amalgamation or demerger, within 5 years from date of its installation, deduction allowed shall be deemed as Business Income of p/y of transfer in addition to taxability of gains arising on account of transfer of such new asset.</p> <p>Where P&M is transferred under amalgamation or demerger within 5 years from date of its installation, the above provision shall apply to amalgamated company or resulting company as they would have applied to amalgamating company or demerged company.</p>

Sec 32 AD : Investment allowance for New plant & machinery in backward area

1.Assessee	Assessee, sets up undertaking for manufacture of any article , <ul style="list-style-type: none"> • on or after 1.4.2015 • in any backward area notified by Central Government , • in Andhra Pradesh or Bihar or Telangana or West Bengal
2.Investment	<ul style="list-style-type: none"> • Acquires and installs eligible P&M • during 1/4/15 and 31/3/2020 in backward area
3.Deduction	15% of actual cost of Eligible P&M in p/y in which it is installed
4.Eligible P&M	Same as u/s 32AC
5. Eligible P&M sold	Same as u/s 32AC

Sec 33AB / ABA : Deduction for Business of Tea/Coffee/Rubber/Exploration

Section	33AB : Tea/coffee/rubber Devp. A/c.	33ABA : Site Restoration Fund
1 Assessee	Growing and Manufacturing Tea or Coffee or Rubber in India	Prospecting or Extraction or production of Petroleum or Natural Gas or both in India
2 Conditions	Deposit with NABARD or Special Deposit Account under within 6 months from end of P/Y or before due date of ROI, whichever is earlier	Deposit in SBI in a special Account or In a site restoration account before end of P/Y
3 Deduction	Amount deposited under point 2 or 40% profits of such business before 33AB, whichever is less	Amount deposited under point 2 or 20% profits of such business before 33ABA, whichever is less

Special Point : Applicable for both sections

1.	Restriction on utilization of Amount deposited	Amount withdrawn to be utilised in accordance with scheme specified . However, amount withdrawn for the purchase of following shall be deemed to be Business income. <ul style="list-style-type: none"> i. Plant & Machinery to be installed in Office or Residence, ii. Office appliance (other than computer), iii. Plant & Machinery, whole of cost allowed as deduction under PGBP in one year iv. Plant & Machinery for manufacturing an article specified in XI Schedule.
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2.	Withdrawal of Deduction	Amount withdrawn not utilised for, 1. Specified purposes, amount that is not utilised shall be Business Income of that P/Y. 2. Asset sold before 8 years from end of previous year in which acquired, deduction claimed w.r.t cost of asset, Business Income of P/Y of sale.
3.	CA Report	<i>Accounts audited by CA before the specified date u/s 44AB and assessee furnishes by that date the audit report in the prescribed form duly signed and verified</i>

Section 35 : Expenditure on Scientific Research

Scientific research carried out by assessee i.e. In-house Scientific Research (has to be related to Assessee Business)			
Pre commencement (3 years prior to date of commencement of Business)		Post commencement (On or after date of commencement)	
Prescribed Revenue expenditure 35(1)(i)	Capital Expenditure Sec35(1)(iv)	All Revenue Expenditure 35(1)(i)	Capital Expenditure Sec 35(1)(iv)
Salary(excluding perquisites) of Research Staff & Purchase of Material for scientific Research only	Any Capital expenditure except Land	All Revenue Expenditure	Any Capital expenditure except Land
Deduction in P/Y of commencement	Deduction in P/Y of commencement	Deduction in P/Y in which incurred	Deduction in P/Y in which incurred

Calculation of Deduction u/s 35

- 1.Revenue expenditure on scientific research is **100% allowed** as deduction irrespective of profits.
- 2.Capital expenditure on scientific research are allowed as deduction **subject to availability of profit.**
- 3.Set off & Carry forward **same as unabsorbed depreciation**

Section 35 (2AB)

- Company Assessee (*Engaged in Manufacture of any article except specified under XI schedule*)
- Incurred expenditure (**Except on Land & Building**) on **in house** scientific research **approved by prescribed authority**
- Weighted deduction of **100 % of such expenditure** will be allowed

Contributions/Donations for Research to Approved Associations <i>(Related or Unrelated to Assessee business)</i>
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Sec. 35(1)(ii)	Sec. 35(1)(iii)	Sec. 35 (2AA)	Sec 35(1)(iia)
<i>Approved Research association/ University /College for scientific research</i>	<i>Approved Research association /University, Institution for Social science or statistical research</i>	<i>National Laboratory or University or IIT for approved Scientific Research Programme</i>	<i>Indian company having main object of scientific research & approved by prescribed authority</i>
100% of amount paid allowed	100% of amount paid allowed	100% of amount paid allowed	100% of amount paid allowed

Special point : Deduction u/s 35 **shall not be disallowed** if subsequent to payment ,approval of such association, institution,company etc is withdrawn.

Sec 10(21) : Exemption of Income of Research Association

Any income of **Research Association** approved **u/s 35** shall be exempt provided that Research association applies its Income & Invest in funds u/s 11

SALE OF ASSET USED FOR SCIENTIFIC RESEARCH
Option 1 : Sold without using for business

Step 1 : Find out **Opening Value** as on 1/4/2020 (Cost of asset less deduction claimed in prior p/y)

Step 2 :

Sale price < Opening W.D.V	Sale Price > Opening W.D.V
Loss is allowed as deduction in the P/Y of sale.	Deemed Business Income taxable u/s 41 in P/Y of sale : Selling price or Deduction Claimed, less Capital Gain : Selling price > Cost <i>Short term or long term depending upon period of holding</i>

Special Point : Business income shall be taxable in the previous year of transfer even if business is not in existence in that previous year

Option 2 : Sold after using for business

Step 1 : The cost of asset will be added to value of block to which it belongs.

The cost added to value of block will be

Actual Cost to Assessee

Less: Deduction claimed u/s.35(1)(iv)

Step 2 : Sale price will be deducted from value of WDV of the block to which it belongs

Section 35 ABB : Expenditure for obtaining Telecommunication License

Capital Expenditure ACTUALLY INCURRED to acquire Telecom license	
<i>Before commencement of business</i>	<i>After commencement of business</i>
<u>Period of Deduction</u> Deduction shall be available from P/Y in which business commences to P/Y in which license expire	<u>Period of Deduction</u> Deduction from P/Y in which license fee actually paid to P/Y in which license expires
<u>Amount of deduction</u> = <u>License fees actually paid</u> No. of previous years in above period	<u>Amount of deduction</u> = <u>License fees actually paid</u> No. of previous years in above period

TAX TREATMENT ON SALE OF LICENSE**Option 1 : Whole license sold****Computation of Profit /Loss on sale**

Step 1 : Find out **Opening Value** as on 1/4/2020 (Cost of asset less deduction claimed in prior p/y)

Step 2 :

Sale price < Opening W.D.V	Sale Price > Opening W.D.V
Loss is allowed as deduction in the P/Y of sale.	Deemed Business Income taxable in P/Y of sale : Selling price or Deduction Claimed, less Capital Gain : Selling price > Cost <i>Short term or long term depending upon period of holding</i>

Option 2 : Part license sold**Computation of Profit /Loss on sale**

Step 1 : Find out **Opening Value** as on 1/4/2020 (Cost of asset less deduction claimed in prior p/y)

Step 2 :

Sale price < Opening W.D.V	Sale Price > Opening W.D.V
Loss is allowed as deduction in balance P/Y of life of license	Deemed Business Income taxable in P/Y of sale : Selling price or Deduction Claimed, less Capital Gain : Selling price > Cost <i>Short term or long term depending upon period of holding</i>

Special point :

Business income shall be taxable in the previous year of transfer even if business is not in existence in that previous year

Sec 35ABA : Expenditure for obtaining right to use spectrum for telecommunication services.

1. Deduction : Capital expenditure, incurred for acquiring any right to use spectrum for telecommunication services

2. Applicability of Sec 35ABB : The provisions of section 35ABB, shall apply as if for the word “licence”, the word “spectrum” had been substituted.

3. Failure to comply : Where, in a previous year, any deduction has been claimed and granted to the assessee, and, subsequently, there is failure to comply with any of the provisions of this section, then,—

(a) Deduction shall be deemed to have been wrongly allowed;

(b) AO may, notwithstanding anything contained in this Act, re-compute the total income of the assessee for the said previous year and make the necessary rectification;

Sec 35AD : Deduction of Capital Expenditure of Specified Business

Assessee	<ol style="list-style-type: none"> 1) Setting up & operating <u>Cold Chain facility</u> 2) Setting up & operating <u>Warehousing facilities</u> for storage of agriculture produce 3) Laying & operating Cross-country Natural Gas/Crude/Petroleum pipeline network for distribution, including storage facility 4) Building and operating a Hotel of two-star or above category anywhere in India <i>(Where the assessee builds a hotel of two-star or above category & subsequently, while continuing to own the hotel, transfers the operation thereof to another person, assessee shall be deemed to be carrying on Hotel Business)</i> 5) Building and operating a <u>Hospital</u> with at least one hundred beds for patients 6) Developing and building a Housing project under a scheme for slum redevelopment or rehabilitation framed by Government and notified by Board 7) Developing and building a housing project under a scheme for affordable housing framed by Government and notified by Board 8) Production of fertilizer in India & investment in a new plant or in a newly installed capacity in an existing plant 9) <i>Setting up and operating an inland container depot or a container freight station notified or approved under Customs Act</i>
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	<p>10) <i>Bee-keeping and production of honey and beeswax</i></p> <p>11) <i>Setting up and operating a warehousing facility for storage of sugar</i></p> <p>12) <i>Laying and operating a slurry pipeline for the transportation of iron ore</i></p> <p>13) <i>Setting up and operating a semi-conductor wafer fabrication manufacturing unit and is notified by the Board</i></p> <p>14) <i>Developing or operating and maintaining or developing, operating and maintaining, any infrastructure facility (on or after 1/4/17)</i> <i>Business is owned by Indian company or statutory corporation & has entered into agreement with Government / local authority</i></p> <p><i>Infrastructure facility means—</i> <i>(i) Road , toll road, bridge or rail system;</i> <i>(ii) Highway project ;</i> <i>(iii) Water supply project, water treatment system, irrigation project, sanitation and sewerage system ;</i> <i>(iv) Port, airport, inland waterway, inland port</i></p>
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Deduction if he opts	100% Capital expenditure for above business incurred after commencement including Pre commencement Capital Expenditure
Exclusions	<p>Does not include expenditure on land, goodwill or financial instrument</p> <p><i>Any expenditure for which payment or aggregate of payments made to a person in a day, otherwise than by A/y payee cheque drawn on a bank or an account payee bank draft or use of ECS through a bank A/c or by other prescribed electronic method, exceeds ₹10,000</i></p>
Conditions	<p>1. It is not set up by Splitting up or Reconstruction of existing business</p> <p>2. Atleast 80% of P&M should not be Previously used for any purpose</p> <p><u>Exception to 2nd Condition</u></p> <p>- P&M used outside India by any person other than the assessee &</p> <p>- Such P&M is imported into India &</p> <p>- No deduction of depreciation on that P&M has been allowed to any person for any period prior to the date of installation by assessee</p>
Limitations	If deduction is claimed & allowed under this section, such expenditure will not be allowed as deduction under other provision.
Sale of asset	<p>Sum received/receivable on account of destruction/ demolition/ discard/ transfer of such Capital asset shall be deemed as P/G/B/P u/s 28</p> <p>If sold after using for other business : Actual Cost = Nil</p>

Use of Asset	<p>Any asset on which deduction allowed shall be used only for specified business, for 8 years beginning with p/y in which such asset is acquired or constructed.</p> <p>Otherwise deduction allowed in one or more p/y, as reduced by depreciation allowable u/s 32, as if no deduction under this section was allowed, shall be deemed to be income under PGBP of p/y in which the asset is so used.</p> <p><i>Where any capital asset on deduction is allowed u/s 35AD is deemed to be income as above , actual cost of asset shall be actual cost, as reduced by depreciation calculated at rate in force that would have been allowable had the asset been used for business since date of its acquisition</i></p>
Set off & C/F of Loss of business (Sec 73A)	<p>-Loss of Specified Business can be set off against profits of other specified business only.</p> <p>-Unabsorbed loss will be c/f & set off against profits of specified business of subsequent A/Y</p> <p>-C/F & set off for Unlimited period of A/Y</p>

Section 35 CCA : Payment to Associations for Rural Development Plans

Deduction for payment of sum to			
Association whose object is to undertake Rural Development Program <i>approved by prescribed authority</i>	Association engaged in Training of persons for implementing Rural Development Program	Rural Development Fund set up by Central Govt.	National Urban Poverty Eradication Fund Set up by Central Govt.

Deduction u/s 35CCA **shall not be disallowed** if subsequent to payment ,approval of such institution or programme is withdrawn

35CCC : Expenditure on Agricultural extension project

(1) Where assessee incurs **any expenditure** on **agricultural extension project** notified by CBDT , then, there shall be allowed a deduction of **100% such expenditure**.

(2) Where a deduction under this section is allowed for any A/Y , such expenditure will not be allowed as deduction under any other provisions.

35CCD : Expenditure on skill development project

(1) Where a company incurs any expenditure (except land or building) on any skill development project notified by CBDT, then, there shall be allowed a deduction of **100 % such expenditure**.

(2) Where a deduction under this section is allowed for any A/Y , such expenditure will not be allowed as deduction under any other provisions.

Section 35 D: Amortization of Preliminary Expenses

1	Assessee	Indian Company or Non Corporate Resident
2	Expenditure when incurred	Before commencement of business or After commencement of business <i>for</i> - Extension of existing undertaking <i>or</i> - Setting up of new unit
3	Specified Expenditure <i>(Expenditure under point i to iv, can be incurred by assessee himself or by concern approved by CBDT)</i>	(i) Feasibility report (ii) Project report (iii) Market/Other Surveys (iv) Engineering Services (v) Legal Charges for drafting agreements For Company Assessee , also expenditure on Memorandum & Articles, Legal Fees for registration, expenses on public issue
4	Qualifying amount of Specified Expenditure	<u>Non-Corporate resident Assessee</u> A. Total of Specified expenditure or B. 5% of Cost of Project A or B, whichever is less <u>Indian Company</u> A. Total of Specified expenditure or B. 5% of Cost of Project or 5% of Capital employed, Higher A or B, whichever is less
5	Period of Deduction	Qualifying Amount in <u>5 equal annual installments</u> starting from P/Y of <i>commencement or completion of extension or setting up new unit</i> (as the case may be)
6	Compulsory Audit <i>(Not applicable for Company, Cooperative society)</i>	<i>Accounts audited by CA for the year/s in which expenditure was incurred before the specified date u/s 44AB and assessee furnishes by that date the audit report in the prescribed form duly signed and verified for the 1st year of deduction</i>

Special Points:

1. Cost of Project : Means Actual cost of **FIXED ASSETS** as per books of accounts on last day of P/Y in which business is commenced or extension is completed or new unit is Set up, as the case may be

2. Capital Employed : Means *Aggregate* of **Issued share capital, Debentures, Long term borrowings** as on the last day of same P/Y as mentioned above

3. L T Borrowings : Means

- a) Money borrowed from Govt. or IFICI or ICICI or Banking / Approved financial institution, repayable in not less than 5 years
- b) Money borrowed in foreign currency for purchase of P&M outside India, repayable after 7 years

Section 35 DD : Expenditure in case of Amalgamation or Demerger

- **Indian Company** incurs expenditure *wholly & exclusively* for amalgamation or demerger.
- Deduction shall be allowed of such expenditure in **5 equal annual installments** starting from P/Y of amalgamation or demerger

Section 35 DDA : Expenses incurred under Voluntary Retirement Scheme

- **Any assessee** incurs expenditure for payment of sum under V.R.S.
- Deduction shall be allowed of such expenditure in **5 equal annual installments** starting from the P/Y in which amount paid.

Section 35 E: Deduction for Prospecting Minerals

- **Indian Company** or **non-corporate Resident assessee** engaged in Production of any **specified mineral**.
- Incurs Expenditure for Prospecting or Extraction or Production during **year of Commercial production** or **4 p/y years prior** to such commercial production
- Expenditure does not include the following:
 1. Expenditure of a **Capital nature** on which depreciation is admissible u/s 32.
 2. Expenditure on **acquisition of site**
 3. Any expenditure which is **met directly or indirectly** by any other person or authority
- **Deduction:** 10% of qualifying expenditure allowed for 10 years starting from p/y of production

- **Maximum deduction allowed each year** : 10% of qualifying expenditure **or** Income from such Business before 35E, *whichever is less*.
- **Unallowed qualifying expenditure** carried forward for next year & added to next year installment. However after 10th year no deduction shall be allowed
- **Accounts audited by CA for the year/s in which expenditure was incurred** *before the specified date u/s 44AB and assessee furnishes by that date the audit report in the prescribed form duly signed and verified for the 1st year of deduction. (Not applicable for Company, Cooperative society)*

Special Point: For the purposes of this section,—

- (a) **“Operation relating to prospecting”** means any operation undertaken for the purposes of exploring, locating of deposits of mineral, and includes any such operation which proves to be **infructuous or abortive**

Sec. 43B: Certain deductions on Actual Payment Basis

- **Overriding other provisions of IT Act**
- **Specified Expenses** which are **allowable under other sections**
- Shall be allowed only in **Previous year** in which such expenditure is **actually paid**
- Irrespective of p/y in which liability was incurred as per method of accounting

Specified expenses :

1. Tax, duty under **any law**
2. Employer Contribution to Provident fund, superannuation fund, Gratuity fund or other welfare fund
3. Bonus or Commission to employee
4. Interest on Loan from Public Financial Institution, State Financial Corporation **or** State industrial investment corporation
5. Interest on any loan or advance from schedule bank or a co-operative bank other than a primary agricultural credit society or primary co-operative agricultural and rural development bank
6. Payment of leave Salary to employee
7. Sum payable to Indian Railways for use of railway assets

8. Sum payable by assessee as interest on any loan or borrowing from a deposit taking NBFC or systemically important non-deposit taking NBFC, in accordance with the terms & conditions of the agreement governing such loan or borrowing.*

Special point :

1. Provision of Sec. 43B Shall not apply
 - ✓ for the P/Y in which liability to pay such sum was incurred
 - ✓ If such sum is **Actually Paid** by Assessee
 - ✓ On or before the **due date of return u/s. 139(1)**
 - ✓ And evidence of such payment is furnished along with ROI

2. *

Where deduction in point 8 is allowed in computing income referred u/s 28, of A/Y 19/20, or any earlier A/Y) in which the liability to pay such sum was incurred by assessee, the assessee shall not be entitled to any deduction under this section in respect of such sum in computing the income of p/y in which the sum is actually paid by him

Deduction of any sum, being interest payable under point 8 shall be allowed if such interest has been actually paid and any interest referred to in that point which has been converted into a loan or borrowing shall not be deemed to have been actually paid.

Deposit taking NBFC means NBFC which is accepting or holding public deposits and is registered with RBI under the provisions of RBI Act, 1934

Systemically important non-deposit taking NBFC means a NBFC which is not accepting or holding public deposits and having total assets of not less than 500 crore rupees as per the last audited balance sheet and is registered with RBI under the provisions of RBI Act, 1934.

Section 36(1) : <u>Expenses allowed from Business/Profession</u>

1. Premium for insurance of **Stock in trade** used for Business or Profession.
2. Premium by *employer* for **Health insurance** of his employees by any mode other than cash under a approved scheme
3. **Bonus or Commission** to employee provided such bonus or commission is **not payable** as **Dividend**.
(Subject to sec 43B)
4. Interest on Capital Borrowed for the purpose of Business or Profession. (Subject to sec 43B)
5. **Prorata** amount of **Discount** on a **Zero Coupon Bond**.

6. **Employer** contribution towards Recognised Provident Fund or Approved Superannuation Fund or Approved Gratuity Fund. *(Subject to sec 43B)*
7. Employer contribution towards a pension scheme u/s 80CCD, on account of an employee upto 10% **Salary** of the employee in the previous year. [Refer Chapter Deductions] *(Subject to sec 43B)*
8. Sum received *by employer* as employee contribution to Provident Fund, Superannuation Fund or under other welfare fund provided such amount is **credited** by employer in account of employee **upto due date** of relevant fund

Special Point :

Sec 2(24) : Amount received by employer from employee as contribution to Provident Fund, Superannuation Fund or other welfare fund ,shall be treated as **deemed income** of such employer.

If the employer satisfies condition of sec 36(1) then he will be entitled to deduction of such amount.

9. Animals used for Business or Profession (not as S.I.T) & have died or become useless for such purpose
Deduction of Difference between actual cost to such assessee & realisation (if any) from sale of carcass of such animal.
10. **Bad debt is written off as irrecoverable** in accounts of assessee during p/y Provided such debt should have been **taken into account for computing income of any P/Y**

Special Points :

1. Where assessee deals in money lending or is a Bank, income condition need not be satisfied.
2. No deduction is allowed for provision made for bad & doubtful debt (Except Next deduction)
3. **Sec. 41(4) : Subsequent recovery of written off bad debt.**
 - ✓ Where deduction claimed upto 36(1) for any previous year
 - ✓ and subsequently amount is recovered,
 - ✓ then such amount shall be the income under P/G/B/P
 - ✓ of P/Y in which recovered.

However,

- a) **Assessee** claiming Bad Debt & who recovers the bad debt should be **same**
- b) It is not necessary business is in existence in previous year of recovery.

11. Provision for bad and doubtful debts made by—

- (a) **Bank or a co-operative bank : Upto 8.5% of Gross Total Income** (computed before making this deduction) + **upto 10% of aggregate average advances** made by rural branches of such bank
- (b) Foreign Banks/Public financial institution/State financial corporation/State industrial investment corporation/Non Banking financial company : **Upto 5% of Gross Total Income** (computed before making this deduction)

12. Special reserve created and maintained by a specified entity,**Deduction : Least of following**

- a) 20% of profits derived from **eligible business** computed under head "PGBP" (before making this deduction)
- b) Profit transferred to special reserve account:
- c) $2 \times \{[\text{Paid up share capital} + \text{General reserves as on last day of P/Y}] - [\text{Balance of special reserve A/c on 1}^{\text{st}} \text{ day of P/Y}]\}$

Special Point :**(a) "Specified entity" means ,**

- (i) Financial corporation u/s 4A of the Companies Act;
- (ii) Financial corporation which is a public sector company;
- (iii) Banking company;
- (iv) Co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank;
- (v) Housing finance company; and

(b) "Eligible business" means ,

- (i) providing **long-term finance** for
 - (A) industrial or agricultural development;
 - (B) development of infrastructure facility in India; or
 - (C) development of housing in India;

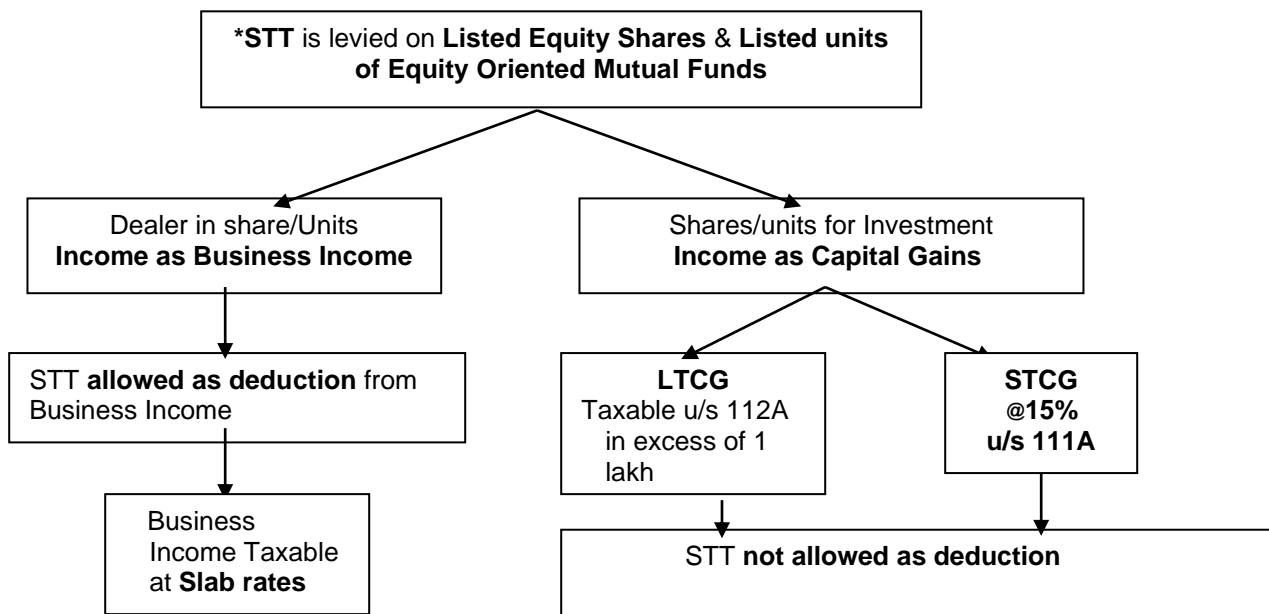
(c) "long-term finance" means any loan where the terms under which moneys are loaned for repayment along with interest during a period of not less than five years;**13. Expenditure incurred by *Company***

- for promoting Family Planning **among Employees**
- **If expenditure is Revenue Expenditure : 100% allowed** in P/Y in which incurred
- **If expenditure is Capital Expenditure : Allowed in 5 equal installments** from P/Y in which incurred

Special Points:

Sale of family planning capital assets treatment same as sale of scientific research capital asset

14. Security Transaction Tax (STT) on Transaction arising in course of Business or profession.



15. Commodities Transaction Tax (CTT) in respect of Specified Commodities Transactions if the income arising from such transactions is chargeable under Business or Profession.

Special Point :

Commodities Transaction Tax is levied on every taxable commodities transaction, being sale of commodity derivative @ **0.01 %** on value of such transaction & such tax shall be payable by the seller.

Specified Commodities Transaction means a transaction of sale of commodity derivatives in respect of commodities, other than agricultural commodities, traded in recognised associations.

16. *Expenditure incurred by a co-operative society engaged in the business of manufacture of sugar for purchase of sugarcane at a price which is equal to or less than price fixed or approved by Government.*

Sec. 37(1) : GENERAL DEDUCTION

If an expenditure fulfills ALL the below conditions it will allowed u/s 37(1)

- If not covered under Sec. 30 to Sec. 36
- If incurred during P/Y wholly & exclusively for B/P
- If not of Capital Nature
- If Not a personal expense of Assessee

Special Points:

1. Expenditure of any purpose which relates to any **Offence or which is prohibited by law** shall not be allowed a deduction
2. **Sec 37(2B)** : Expenditure on advertisement in any Newspaper, Magazine, Souvenir, Pamphlet etc. of a political party is not allowed as deduction
3. *Any expenditure incurred on corporate social responsibility u/s 135 of Companies Act, 2013 shall not be allowed as deduction u/s 37(1)*

PGBP – IV : Disallowances**Sec. 40(a) : Expenses not deductible****Overriding Sec 30 to Sec 38****1. Expenditure to Non Resident without TDS**

- Expenditure during P/Y of Interest ,Royalty, fees for technical services or other sum chargeable under this act (other than salary)
- **Payable to Non-Resident**
- No Deduction of **such expenses** shall be allowed if
- Tax has been not been deducted at source **or** after deduction has not been deposited ***upto due date of return(DDR) u/s 139(1)***
- However, **if deducted in later p/y or deducted earlier but deposited after DDR**, then deduction will be allowed in p/y in which it is actually deposited

2. Expenditure to Resident

- Incurs *Any Expenditure subject to TDS* during P/Y
- **Payable to a Resident**
- **30% of such expenditure** shall be disallowed allowed if
- Tax has not been deducted at source or after deduction has not been deposited ***Upto Due Date of Return u/s 139(1)***

- However ,if deducted in later p/y or deducted earlier but deposited after above DDR , then 30% of such expenditure shall be allowed as deduction in previous year in which it is actually deposited.

Special point : *If Payer fails to deduct tax for above payment to resident/non resident payee but is not deemed as assessee in default as resident payee has directly paid the tax , than it shall be deemed that payer has deducted & paid the tax on such sum on date of furnishing of return of income by the resident payee*

3. **Income Tax** shall not be allowed as deduction.
4. Royalty / Licence fee / Service fee / Privilege fee / Service charge by State Government undertaking to State Government

Special point :

State Government undertaking includes—

- (i) Corporation established under any Act of State Government
- (ii) Company in which more than 50% of paid-up equity share capital is held by State Government
- (iii) Undertaking in which State Government has the right to appoint the majority of the directors

5. Tax u/s.10(10CC) on **Non Monetary Perquisite** shall not be allowed deduction.
6. Any consideration to a non-resident for a specified service on which equalisation levy is deductible & such levy has not been deducted or after deduction, has not been paid upto due date u/s 139(1)

Provided for such consideration, the equalisation levy has been deducted in any subsequent year or has been deducted during P/Y but paid after due date u/s139(1), such sum shall be allowed as deduction in computing income of P/Y in which such levy has been paid.

Sec. 40A(2) : Expense greater than Market value
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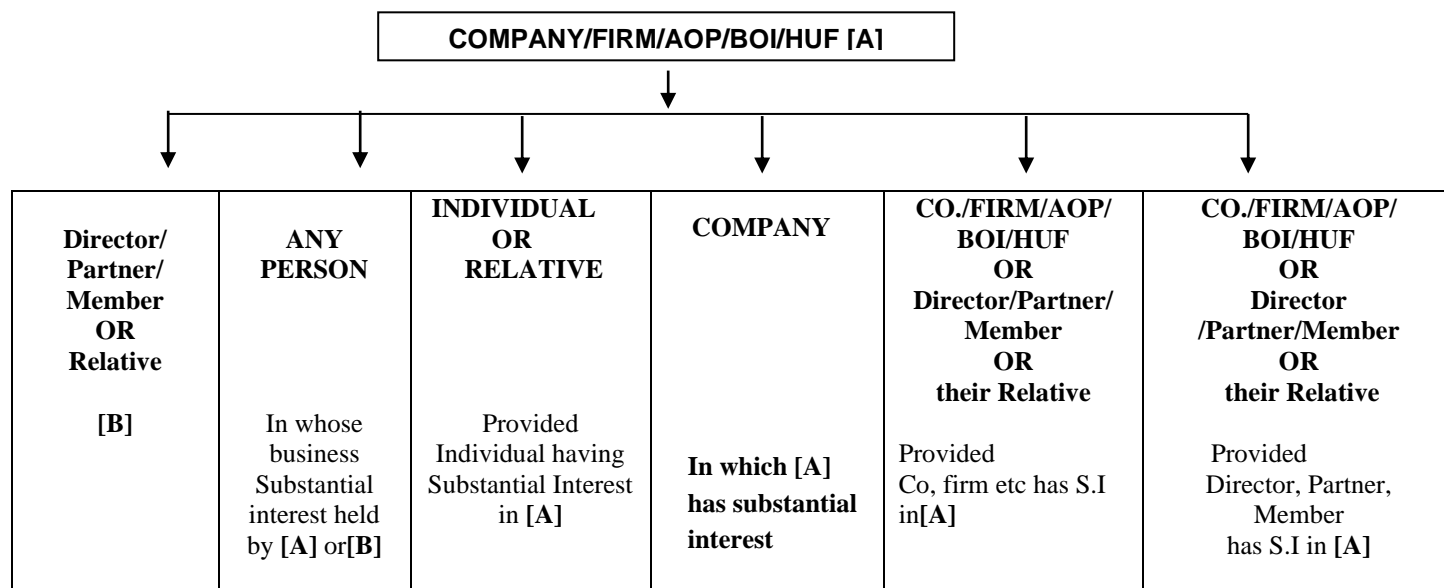
- ☐ **Expenditure** by which payment made /is to be made to **Specified Person**
- ☐ AO may disallow so much expenditure as he consider **Excessive or Unreasonable**
- ☐ Having regard to
- ☐ **FMV** of goods or service for which payment made or **legitimate** needs of business.

Special Points :**1. Specified Persons :**

i. Where assessee is an **Individual**.

- His Relative
- Entity *In which such Individual or his Relative has Substantial Interest*

ii. Where Assessee is :

**2. A Person has Substantial Interest in**

- ➔ Company, if he holds *at any time* during the P/Y beneficial ownership of **at least 20% Equity** Shares in that company
- ➔ Other than company, if he is *at any time* during the P/Y entitled to **at least 20% profits**

3. Disallowance u/s 40A(2) shall be made in respect of a specified domestic transaction referred to in section 92BA, if such transaction is not at arm's length price as defined in 92F.**Sec. 40A(3): Expenditure in cash**

- Where the assessee incurs any expenditure
- For which a payment or aggregate of payments
- Exceeding ₹10,000
- Made to a person
- In a day,

- Otherwise than by account payee bank cheque or
- Account payee bank draft or
- ECS through bank Account
- other prescribed electronic method,
- No deduction shall be allowed in respect of such expenditure.

Special Point : The limit for Payment for plying, hiring or leasing goods carriages is ₹35,000

Special Point :

- Where an **expenditure is allowed** during any previous year
- and in subsequent previous year
- the assessee makes payment in respect thereof
- in excess of ₹10,000
- otherwise than by an account payee cheque or account payee bank draft or electronic clearing system through a bank account or other prescribed electronic method
- the payment so made
-
- shall be **Deemed to be P/G/B/P** Income of subsequent P/Y
-

Exceptions to Sec. 40A(3) : Rule 6DD

No disallowance in the following cases even if payment greater than 10,000 is made otherwise by Account payee cheque or Account payee bank draft or electronic clearing system through a bank account or other prescribed electronic method

- a) Payment to Banks, LIC
- b) To Government.
- c) Payment through letter of credit, telegraphic transfer, bill of exchange, ECS, credit card or debit card
- d) Payment to cultivator or producer of agriculture, forest, animal husbandry, dairy, poultry farming or fish products.
- e) Payment for purchase of products manufactured by producer without aid of power in a cottage industry.
- f) Payment in a village or town not served by any bank on date of payment to a person who resides in such village or carrying on his business, profession or vocation in such village
- g) Payment to an employee or his legal heir of gratuity, retrenchment compensation or similar terminal benefit provided aggregate of such amount does not exceed ₹ 50,000

Sec. 40A(7) : Disallowance for Gratuity

No deduction shall be allowed of any provision made by the Assessee being an Employer for payment of Gratuity to his employees unless provision made

- Towards **Approved** Gratuity Fund *or*
- For payment of gratuity actually becoming payable during P/Y

Sec 40A(9):Employer contribution towards funds required by law

No deduction shall be allowed of sum paid by employer towards the setting up/formation or as contribution to any fund not required to be kept under law

Sec. 40(b) : Salary /Interest by Firm to Partner

- ✓ Partnership firm/LLP shall be allowed deduction of
- ✓ Salary, Bonus, commission or other remuneration to **Working Partner** and
- ✓ Interest to **Any Partner**
- ✓ *Subject to certain conditions*

Working Partner : Individual who is actively engaged in conducting the affairs of Business or Profession of the firm of which he is a partner.

Analysis of sec 40(b)

Type	Salary/Bonus/Commission/other Remuneration		Interest on Capital
Partner	Working Partner		All Partner
Partnership deed	Authorized by the terms of Partnership Deed		Authorized by the terms of Partnership Deed
Prospective	Such payment should relate to period after date of Partnership Deed.		Such payment should relate to period after date of Partnership Deed
Amount of deduction	Book Profits	Maximum Deduction	Upto 12 % P.a
	First 3,00,000 (Including Loss)	₹ 1,50,000 or 90% Book profits <i>(whichever is more)</i>	
	Balance Book profit	60% of Book Profit	

Computation of Book Profits

1. **Compute Net profit** of firm under head **P/G/B/P** after making adjustments as per **Sec 29 to 43**
2. **Add Remuneration** to working partner (if Debited to P&L A/C)

Tax treatments in Hands of Partner

Type of Payment	Working Partner	Non working Partner
Salary from firm	Taxable to extent allowed as deduction to firm	Not Taxable
Interest from firm	Taxable upto 12%	Taxable upto 12%
Share of Profit	Exempt u/s 10(2A)	Exempt u/s 10(2A)

PGBP –V : Missl**Sec 41 : Deemed Profits Chargeable to tax****Sec. 41(1): Recovery of Loss/Deductions etc. allowed earlier**

- Deduction allowed in any P/Y for **loss/Expense** or **Trading liability**
- Subsequently during any P/Y, *same assessee or his successor*
- Obtains any amount in respect of such loss/expense (in cash or other manner) or some benefit in respect of such trading liability through remission or cessation thereof
- Then such amount or benefit shall **deemed to be P/G/B/P** of P/Y in which received

Special Points : *Provision of sec 41(1) will apply even if business is not in existence*

Sec. 41(2) : Balancing Charge (*discussed earlier*)

Sec. 41(3) : Sale of Capital Asset used for Scientific Research. (*discussed earlier*)

Sec. 41(4) : Recovery of Bad Debt. (*discussed earlier*)

Sec. 41(5) : Loss of P/Y in which business cease to exist can be **set off** from Deemed incomes u/s. 41(1), (3), (4). (*Exception to rule that business loss can be carried forward for 8 years only*)

Sec. 44AA : Maintenance of accounts

Sec 2(12A):Books or books of accounts includes ledgers, day-books, cash books, account-books and other books, whether kept in the written form or as print-outs of data stored in a floppy, disc, tape or any other form of electro-magnetic data storage device

Specified Profession		Non specified Profession / Business	
Gross Receipts exceeds ₹1,50,000 for All 3 years preceding P/Y OR where profession is <i>newly setup</i> in P/Y, gross receipts is likely to exceed ₹1,50,000 for that P/Y	Other case	Gross Receipt > ₹10,00,000 (For Individual/HUF ₹25,00,000 Or Income from P/G/B/P > ₹1,20,000 (For Individual/HUF ₹2,50,000 in Any of 3 years preceding P/Y's or where profession is <i>newly setup</i> in P/Y, above limits are likely to exceed for that P/Y	Other case
Specified books of accounts has to be maintained for that P/Y	Such books of accounts has be maintained that will enable the AO to compute his TI (i.e. Cash Book, & Ledger)		Not required to maintain any books of accounts

Special Points :

- Specified profession** : Legal, Medical, Engineering, Architectural, Accountancy, Technical Consultancy, Interior decoration or **other notified profession**
- Specified books of accounts** :
 - Journal (if accounts on mercantile basis).
 - Cash Book & Ledger.
 - Carbon copies of bill issued exceeding ₹25
 - Original bills or receipts received for exp. incurred exceeding ₹50
 - Payment vouchers prepared and signed for exp. incurred upto ₹50

These books are required to be kept and maintained for 6 years from end of relevant A/Y
- A person carrying on **Medical Profession**, in addition to above shall maintain :
 - A **daily case register** in Form 3C.
 - A **stock register** showing inventory as on the 1st and last day of p/y of stock of drugs, medicines and other consumable accessories used for profession.

Sec. 44AB: Compulsory Audit of Accounts
BUSINESS Case 1 :

Aggregate of all amounts received including amount received for sales, turnover or gross receipts during the p/y, in cash, does not exceed 5% of the said amount; and

Aggregate of all payments made including amount incurred for expenditure, in cash, during the p/y does not exceed 5% of the said payment,

Compulsory audit of accounts for **that P/Y** in which Sales/Gross receipts **exceed ₹5 crores**

Business Case 2 : Not Covered under case 1

Compulsory audit of accounts for **that P/Y** in which Sales/Gross receipts **exceed ₹1 crore**

PROFESSION:

Compulsory audit of accounts for **that P/Y** in which Fees/Gross receipts **exceeds ₹50 lakhs**

Special Points:

Accounts have to be audited u/s. 44AB by a CA **one month** before due date u/s 139(1) and also the audit report is to be furnished on or before the said date.

COMPUTATION OF P/G/B/P ON PRESUMPTIVE BASIS

		SEC 44AD	SEC 44AE
1.	Overriding	Sec 28 to 43C	Sec 28 to 43C
2.	Assessee	Resident Individual, Resident HUF or Resident Partnership Firm Excluding LLP	Any Assessee (Resident/Non Resident)
3.	Business	Any Business except business u/s 44AE EXCEPTION : <i>(i) Specified Profession u/s 44AA or</i> <i>(ii) income of commission or brokerage</i> <i>(iii) Agency business</i>	Plying, Hiring or Leasing goods carriage
4.	Limitations	<i>Provided Gross receipts/turnover does not exceeds 2 Cr</i>	<i>Owns not more than 10 goods carriage at any time during p/y</i>

5.	Deemed P/G/B/P	<p>8 % of Gross Receipts/ Turnover in P/Y</p> <p>Exception : 6% of Total turnover /Gross receipts received by A/c payee cheque or A/c payee bank draft or use of ECS through a bank A/c or by other prescribed electronic method during p/y or before due date u/s 139(1) of that p/y.</p>	<p><u>For Heavy goods vehicle</u> ₹1,000 per ton of gross vehicle Weight/unladen weight, per month Or part owned in p/y or amount claimed to have been actually earned from such vehicle, whichever is higher;</p> <p><u>Other than heavy goods vehicle</u> ₹7,500 per month or part owned In p/y or amount claimed to have been actually earned from such vehicle, whichever is higher</p> <p>Heavy goods vehicle means goods vehicle having gross weight/Unladen weight is more than 12,000 kgs (more than 12 tonne)</p>
6.	Deductions under PGBP	No deduction u/s Sec. 30 to 38 shall be allowed from Deemed income	No deduction u/s Sec. 30 to 38 shall be allowed from Deemed income
7.	B/F losses	Set off of Brought Forward losses Shall be available	Set off of Brought Forward losses Shall be available
8.	Benefits	<p>If assessee declares Deemed income or any amount higher, then no requirement to maintain books u/s 44AA or to get audit u/s 44AB*</p> <p>*Sec 44AB shall not apply to person, who declares profits for p/y u/s 44AD and his total sales, turnover/gross receipts in business does not exceed ₹2 crores in such p/y</p>	<p>If assessee declares Deemed income or any amount higher, then no requirement to maintain books u/s 44AA or to get audit u/s 44AB</p>
9.	Limit for 44AA/44AB	The turnover of such business will not be added to turnover of other business for applicability of Sec 44AA/44AB of other business	The turnover of such business will not be added to turnover of other business for applicability of Sec 44AA/44AB of other business

Special point :

1. Sec 44AD : Where assessee declares profit for any P/Y u/s 44AD & he declares profit for any of 5 P/Y succeeding such P/Y not in accordance with sec 44AD, he shall not be eligible to claim the benefit of this section for 5 subsequent P/Y from P/Y in which the profit has not been declared.

Eligible assessee to whom above provisions are applicable & whose total income exceeds exemption limit, shall be required to keep and maintain such books of account u/s 44AA & get them audited and furnish a report of such audit as required u/s 44AB.

2. Sec 44AE : Assessee covered u/s 44AE & disclosing lower profits than deemed profits, shall be required to keep and maintain such books of account u/s 44AA & get them audited and furnish a report of such audit as required u/s 44AB.

Sec 44ADA : Profits and gains of profession on presumptive basis.

- 1. Overriding** : Notwithstanding anything contained in **sections 28 to 43C**
- 2. Assessee** : Resident in India, who is engaged in specified profession u/s 44AA & whose Gross receipts is upto 50 lakh in a P/Y.
- 3. Sum Deemed as business profits** : 50% of Total Gross Receipts in P/Y or sum higher claimed to have been earned by the assessee
- 4. Deductions** : Deduction u/s 30 to 38 shall be deemed to have been allowed and no further deduction under those sections shall be allowed.
- 5. WDV of block** : The WDV of any asset used for purposes of profession shall be deemed to have been calculated as if the assessee had claimed and had been actually allowed the deduction in respect of the depreciation for each of the relevant A/Y.
- 6. Lower Profits** : An assessee who claims that his profits from profession are lower than deemed profits & whose total income exceeds exemption limit shall be required to keep & maintain such books of account and other documents u/s 44AA and get them audited and furnish a report of such audit as required u/s 44AB.

Sec 43CA : Sale consideration in case of Real Estate Transactions

- Consideration on transfer of land or building or both
- Not being a capital asset
- is less than the Stamp duty valuation by any authority of a State Government ,then
- Such value shall be deemed to be full value of the consideration for computing Business Profits

Option available to Assessee

- Assessee can claims before AO that
- Stamp duty Valuation exceeds FMV of property
- On the date of transfer &
- Such value has not been disputed in any Appeal/Revision or
- No reference is made before any authority, court or the High Court, Than
- AO may refer the valuation of Asset to a Valuation Officer and
- Provisions of Wealth tax Act shall apply

Valuation of Valuation Officer

- *Valuation of valuation officer is less than Stamp Duty Valuation,*
- *the value of valuation officer shall be*
- *taken as the full value of the consideration*

Special point : Where Date of agreement for transfer of asset and Date of registration of such transfer are different, the Stamp duty Value on date of Agreement shall be considered if consideration or part thereof has been **received by way of an account payee cheque or an account payee bank draft or by use of ECS through a bank account** or by other **prescribed electronic method** on or before date of agreement for transfer of the asset.

Proviso to 43CA(1):

Where the value adopted or assessed or assessable by the authority for the purpose of payment of stamp duty does not exceed **110%** of the consideration received or accruing as a result of the transfer, the consideration so received or accruing as a result of the transfer shall, for the purposes of computing profits and gains from transfer of such asset, be deemed to be the full value of the consideration.

Sec 43AA : Taxation of foreign exchange fluctuation

(1) Subject to the provisions of section 43A, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, as the case may be, and such gain or loss shall be computed in accordance with the income computation and disclosure standards notified u/s 145(2).

(2) For the purposes of sub-section (1), gain or loss arising on account of the effects of change in foreign exchange rates shall be in respect of all foreign currency transactions, including those relating to—

- (i) monetary items and non-monetary items;
- (ii) translation of financial statements of foreign operations;
- (iii) forward exchange contracts;
- (iv) foreign currency translation reserves.

Sec 43CB. : Computation of income from construction and service contract

(1) The profits and gains arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method in accordance with the income computation and disclosure standards notified u/s 145(2):

Provided that profits and gains arising from a contract for providing services,—

- (i) with duration of not more than ninety days shall be determined on the basis of project completion method;
- (ii) involving indeterminate number of acts over a specific period of time shall be determined on the basis of straight line method.

(2) For the purposes of percentage of completion method, project completion method or straight line method referred to in sub-section (1)—

- (i) the contract revenue shall include retention money;
- (ii) the contract costs shall not be reduced by any incidental income in the nature of interest, dividends or capital gains.”.

<u>Some Sections applicable for Non residents</u>
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Sec	44B	44BB	44BBA	44BBB
Overriding	Overriding sec 28 to 43A	Overriding sec 28 to 43A	Overriding sec 28 to 43A	Overriding sec 28 to 43A
Assessee	Non Resident	Non Resident	Non Resident	Foreign company
Business	Operation of Ships	Supply of P&M on hire for prospecting/ extraction/production of mineral oils	Operation of Aircraft	Civil construction
% deemed as Income	7.5 % Indian Income (<i>Due in India + Due outside received in India</i>)	10% Indian Income (<i>Due in India + Due outside received in India</i>)	5 % Indian Income (<i>Due in India + Due outside received in India</i>)	10 % Income due in India
Option to claim Lower profits	NO	Yes Provided books u/s 44AA , audit u/s 44AB & scrutiny u/s 143(3) for that A/Y	No	Yes Provided books u/s 44AA , audit u/s 44AB & scrutiny u/s 143(3) for that A/Y

SOLVED QUESTIONS FOR PRACTICE

Question 1: WDV of the block having two machines namely A & B as on 1-4-2020 is ₹6,00,000. Machine Z was acquired on 5-11-2020 for ₹3,00,000 and put to use on the same date. Machine Z is sold on 28-3-2021 for ₹4,00,000.

Solution :

	₹
W.D.V of the block as on 1-4-2019	6,00,000
Addition during the year of Machine Z for less than 180 days	<u>3,00,000</u>
	9,00,000
Less: Machine Z sold during the year	<u>4,00,000</u>
W.D.V as on 31-3-2021 for the purpose of charging depreciation	5,00,000
Depreciation on ₹5,00,000 @ 15%	<u>75,000</u>
W.D.V as on 1-4-2021	<u>4,25,000</u>

Question 2 : V owns the following machinery as on 1-4-2020:

Machinery	WDV as on 1-4-2020 ₹	Rate of Depreciation %
Machinery A	70,000	15
Machinery B	1,64,000	15
Machinery C	84,000	15

He acquires a new machinery i.e. machinery D for ₹60,000 on 2-11-2020.

Machinery B and Machinery C are sold on 15-3-2021 for consideration of ₹1,80,000 and ₹40,000 respectively. Compute the depreciation for the assessment year 2021-22 and also indicate if there is any Short-term capital gain/loss.

Solution : Block of Machinery (15%)

	₹
Written down value of the block as on 1-4-2020	3,18,000
Add: Additions during the year (put to use for less than 180 days)	<u>60,000</u>
	3,78,000
Less: Sale proceeds of Machinery B and Machinery C	<u>2,20,000</u>
WDV of the block as on 31-3-2021	1,58,000
Depreciation @ 15% on ₹98,000	14,700
@ 7.5% on ₹60,000	<u>4,500</u>
WDV value of the block as on 1-4-2021	<u>1,38,800</u>

In this case there will be no short term capital gain / loss.

Question 3 : An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was ₹5,00,000 and written down value ₹4,50,000 sold said asset during 2020-21 after 2 years. What will be the tax treatment if the asset is sold for :

- ₹ 3,50,000
- ₹ 4,80,000
- ₹ 6,00,000

Solution :

- (i) ₹4,50,000 – ₹3,50,000 = ₹1,00,000 will be allowed as terminal depreciation in the p/y 2020-21.
- (ii) ₹4,80,000 – ₹4,50,000 = ₹30,000 shall be balancing charge and taxable as business income as per section 41(2) for P/Y 2020-21
- (iii) ₹5,00,000 – ₹4,50,000 = ₹50,000 shall be balancing charge and hence taxable as business income
 ₹6,00,000 – ₹5,00,000 = ₹1,00,000 shall be short term capital gain for P/Y 2020-21

Question 4 : Determine the amount of disallowance in the cases given below –

- Generally G pays salary to his employees by account payee cheques. Salary of December 2020 is however, paid to three employees A, B and C by bearer cheques (payment being ₹6,000, ₹20,000 and ₹20,500, respectively).
- G Ltd. Purchases goods on credit from H Ltd. On May 6, 2020 for ₹86,000 which is paid as follows
 - ₹5,000 in cash on May 11, 2020 ;
 - ₹30,000 by a bearer cheque on May 31, 2020 ;
 - ₹41,000 by an account payee cheque.
- J Ltd. Purchases goods on credit from A Ltd, on May 10, 2020 for ₹16,000 and on May 30, 2020 for ₹15,000. The total payment of ₹31,000 is made by a crossed cheque on June 1, 2020.
- A Ltd. Purchases goods on credit from a relative of a director on June 20 2020 for ₹50,000 (market value : ₹42,000). The amount is paid in cash on June 25, 2020.
- B Ltd. purchases raw material on credit from A who holds 20 % equity share capital in B Ltd. (The amount of bill being ₹36,000, market price being ₹19,000). It is paid in cash on July 26, 2020

Solution :

- ₹20,500 being 100% of salary paid by bearer cheque to C will be disallowed .
- Nothing will be disallowed out of payment of ₹5,000 in cash on May 11, 2020, as payment does not exceed ₹10,000. 100% of ₹30,000 will be disallowed. Nothing will be disallowed out of ₹41,000.
- The amount of payment exceeds ₹10,000 ,therefore entire amount shall be diallowed..
- Out of the payment of ₹50,000 ₹8,000 (being the exceed payment to a relative) shall be disallowable under section 40A(2). As the payment is made in cash and the remaining amount exceed ₹10,000, 100% of the balance (i.e., ₹42,000) shall be disallowable under section 40A(3).
- Out of the payment of ₹36,000, ₹17,000 (being the excess payment to a person holding a substantial interest) shall be disallowed under section 40A(2). The remaining amount (i.e., ₹19,000) exceeds ₹10,000. Therefore disallowed u/s 40A(3).

Question 5 : JK & Co. a partnership firm engaged in the business of civil construction has a Gross receipt of ₹32,00,000 from such business. The partnership deed provides for payment of salary ₹3,000 p.m. to each of the partners i.e. J and K. The firm uses machinery for the purpose of its business and the WDV of the machinery as on 1-4-2020 is ₹2,00,000. The machinery is eligible for depreciation @ 15%. Compute the profits from the business, if the firm opts for the scheme under section 44AD.

Solution : As per section 44AD the profits will be computed as under:
8% of gross receipts i.e. ₹32,00,000 = ₹2,56,000

Question 6 : Arjun Singh is the owner of a business. Following is his P & L A/c for year ended on 31-3-21:

	₹		₹
Establishment charges	5,110	Gross profit	50,870
Rent, rates and taxes	2,900	Interest on Govt. Securities (Gross)	5,350
Sundry expenses	7,050	Rent from property	5,400
House hold expenses	1,880		
Provision for bad debts	1,200		
Loss on sale of motor car (used for private purpose)	1,800		
Insurance premium (including life insurance of ₹1790 of Arjun Singh)	2,880		
Interest on bank loan	1,380		
Provision for Depreciation	6,400		
Net profit	31,020		
	<u>61,620</u>		<u>61,620</u>

Additional information :

- Bad debts written off during the year – ₹650
- Admissible depreciation as per Income tax rules – ₹1,600
- The assessee is running his business in a rented property, half of which is used by him for his own residence. Rent of ₹2,400 in respect of entire house is included in rent, rate and taxes. The balance of ₹500 is on municipal tax paid for property given on rent.
- Compute the Gross total Income of Sri Arjun Singh for the assessment year 2021-22. Not covered u/s 115BAC

Solution :

Income from house property

Rent received	₹	5,400
Less: Municipal taxes		<u>500</u>
		4,900
Less: Statutory deduction @ 30%		<u>1,470</u>
		<u>3,430</u>

Profit and gains from business or profession

Profit as per P & L Account		31,020
Add: Inadmissible expenses		
Rent	1,200	
Household expenses	1,880	
Provision for bad debts	1,200	
Loss on sale of car	1,800	

Life insurance premium	1,790	
Provision for depreciation	6,400	
M. Taxes for let out house property	<u>500</u>	<u>14,770</u>
		45,790
Less Expenses allowed but not debited to P & L A/c		
Bad debts	650	
Depreciation	<u>1,600</u>	<u>2,250</u>
		43,540
Less: Incomes not taxable under this head but Credited to P & L A/c.		
Interest on govt. securities	5,350	
Rent from property	<u>5,400</u>	<u>10,750</u>
Income from Business		<u>32,790</u>
<u>Income from other sources:</u>		
Interest on Govt. securities		<u>5,350</u>
Gross Total Income (3,430 + 32,790 + 5,350)		<u>41,570</u>

Question 7 : Mr. Avinash furnishes the following particulars of his income for the A/Y 2021-22.
Not covered u/s 115BAC

Profit and Loss Account for the year ending 31-3-2021

Particulars	Amount ₹	Particulars	Amount ₹
To Office expenses	12,400	By Gross Profit	2,98,000
To General expenses	12,000	By Sundry Receipts	19,000
To Legal Expenses	8,000	By Custom Duties	
To Depreciation on Machinery	11,000	recovered back from Govt.	
To staff Salary	21,000	(earlier not allowed as	
To bonus to staff	15,000	deduction)	15,300
To contribution to approved gratuity fund	16,000	By bad debts recovered (earlier	
To O/s liability for Custom Duties	18,000	allowed as deduction)	3,000
To Audit Fees	21,000	By Gift from son	40,000
To Net Profit	<u>2,40,900</u>		
	<u>3,75,300</u>		<u>3,75,300</u>

Other information :

1. Bonus to employees according to the Payment of Bonus Act 1965, comes to ₹4,200.
2. Depreciation on machinery shown in the profit and loss account is calculated according to the income tax provisions.
3. General expense includes payment of ₹9,000 to an approved educational institute for the purpose of carrying on scientific research in natural science. The research is, however now related to the business of the assessee.
4. During the previous year Mr. Avinash also made a capital expenditure of ₹5,000 for the purpose of carrying on a scientific research related to his business. This expenditure is however not recorded in the profit and loss account.

5. Outstanding liability in respect of custom duty amounting to ₹10,500 was paid on 10-4-2021, ₹1,000 on 10-5-2021, ₹2,000 on 30-6-2021, ₹1,000 on 10-7-2021 and ₹3,500 is still outstanding. The return is furnished on 31-7-2021
6. No tax has been deducted at source on the audit fees of ₹21,000

Determine the taxable income of Mr. Avinash for the assessment year 2021-22 assuming he, annually deposits ₹10,000 in a public provident fund account and his turnover for P/Y 2020-21 was ₹30,00,000.

Solution: Computation of Business Income of Mr. Avinash for the Assessment Year 2021-22

	₹	₹
Profit and Gains from business or profession		
Net profit as per P & L A/c		2,40,900
Add:		
Outstanding for custom duty	3,500	
Audit fees as tax has not been deducted at sources (30% of 21,000)	<u>6,300</u>	<u>9,800</u>
		2,50,700
Less:		
Custom duties recovered back	15,300	
Gift from son	40,000	
Capital expending on scientific research	5,000	
Additional deduction of 50% for scientific research	<u>4,500</u>	<u>64,800</u>
Income from business		1,85,900
Less: Deduction u/s 80C		<u>10,000</u>
Taxable income		<u>1,75,900</u>

Question 8 : State with reason whether the following expenses are admissible a deduction while computing income from business or profession:

- (i) Stock in trade was lost in fire, amounting to ₹12,000 and was debited to profit and loss Account.
- (ii) Amount spent on successful suit filed against a person for infringing trade mark of assessee – ₹10,000
- (iii) Interest paid to bank ₹15,000 in connection with overdraft obtained for paying dividend
- (iv) Entertainment expenses of ₹28,000 incurred during the previous year.
- (v) Capital expenditure of ₹1,00,000 has been incurred towards promotion of family planning amongst employees of ABC Ltd.
- (vi) ₹20,000 were spent in the previous year in connection with statutory income tax proceedings.
- (vii) ₹3,000 spent in connection with installation of a new telephone connection.
- (viii) Traveling expenses of a Director of ABC Ltd. ₹20,000 incurred on a tour to U.S.A in connection with the negotiation of purchase of a new machinery.
- (ix) Compensation paid to the widow and children of deceased employees of the factory on the order of labour Court

Solution :

- (i) Loss of stock in trade by fire is deduction from profit and gains of business or profession
- (ii) Amount spent on a suit field for infringing the trade mark of ₹10,000 is fully admissible because it is a commercial expediency for security or registration of trade mark.

- (iii) Interest of ₹15,000 paid to bank for overdraft for payment of dividend is allowed
- (iv) Entertainment expenditure is covered under section 37(1) hence fully allowed.
- (v) Expenditure on promotion of family planning incurred by a company amongst its employees is allowed but if it is of capital nature then $\frac{1}{5}^{\text{th}}$ of the amount spent is allowed in the previous year in which it is incurred and balance in four equal installments in next four previous years. In this case ₹20,000 is allowed in the current previous year and balance in next four previous year (₹ 20,000 each year)
- (vi) Amount spent on income tax is allowed as legal charges. Hence ₹20,000 is deductibles.
- (vii) ₹3,000 is allowed as deduction which is incurred for installation of a new telephone connection.
- (viii) Traveling expenses of a director are fully allowed because the tour was for business purposes. It may also be treated as part of the cost of new machine, if the assessee so desires.
- (ix) Compensation paid to the widow & children of deceased employee as per order of court are fully allowed.

Question 9 : Mr. Vinod carries on his own business. For the year ending 31-3-2021, his Trading/Profit & loss account was as follows:-

	₹		₹
Opening stock	20,000	Sales	2,89,000
Purchases	1,09,000	Closing stock	52,000
Salaries	6,000	Interest on Jay Co. Ltd	
Rent	11,000	Debentures	2,000
Bonus	3,000	Dividend from UTI	2,000
Printing & Postage and stationery	4,000	Discount received	12,000
Miscellaneous expenses	4,000	Race winning (Gross)	12,000
Advertisement expense	22,000		
Drawings	12,000		
LIC Premium	5,000		
Car expenses:			
Driver's Salary	6,000		
Petrol & repair	12,000		
Property tax	4,000		
Medical expense of son with			
Disability at Apollo hospital	3,000		
Cost of NSC (VIII series)	3,000		
Net Profit	<u>1,45,000</u>		
	<u>3,69,000</u>		<u>3,69,000</u>

Other information :

- (a) Advertisement expenses included cost of 20 gift packs of ₹1100 each presented to esteemed customers on occasion of Diwali.
- (b) Assume: Taxes deducted at source on dividends and debentures are 'Nil'
- (c) The car was used both for business and personal purposes. $\frac{2}{3}^{\text{rd}}$ is for business purposes.
- (d) The property tax of ₹ 4,000 was in respect of his self occupied house whose rental value is ₹18,000.
- Compute GTI and TI of Mr. Vinod for assessment year 2021-22 showing the incomes under various heads. Not covered u/s 115BAC

Solution : Computation of Total Income of Mr. Vinod for the Assessment year 2021-22

	₹	₹	₹
<u>Profit and gains from business or profession</u>			
Net profit as per P & L A/c.		1,45,000	
Add: expenses/ Payments not admissible			
Drawings.	12,000		
LIC premium	5,000		
<u>Car expenses</u>			
Driver salary (1/3)	2,000		
Petrol (1/3)	4,000		
Property tax	4,000		
Medical expenses	3,000		
Cost of NSC	<u>3,000</u>	<u>33,000</u>	
	1,78,000		
Less: Incomes which are not taxable under this head			
Interest on debentures	2,000		
Dividend from U.T.I	2,000		
Horse race income	<u>12,000</u>	<u>16,000</u>	
Income from business			1,62,000
<u>Income from other sources</u>			
Interest	2,000		
Dividend from U.T.I.	2,000		
Horse race income	12,000		<u>16,000</u>
Gross total income			1,78,000
Less: Deduction under Chapter VIA			
U/s 80C (LIC :₹5,000 + NSC :₹3,000)		8,000	
U/s 80DD		<u>75,000</u>	<u>83,000</u>
Taxable Income			<u>95,000</u>

Question 10 : X furnishes the following particulars for the previous year relevant to A/Y 2021-22.**Profit and Loss A/c for the year ending 31-3-2021**

	₹		₹
To salary to staff	22,000	By gross profit	2,50,000
To entertainment expenses	13,000		
To general expenses	11,000		
To bad debts	4,500		
To reserve for bad debts	10,000		
To advertising expenses	7,000		
To interest on X capital A/c	3,000		
To acquisition of patent's rights	28,000		
To telephone expenses	12,000		
To depreciation	10,000		
To provision or Income Tax	4,000		
To Net Profit	<u>1,25,500</u>		
	<u>2,50,000</u>		<u>2,50,000</u>

Other information :

- Salary to staff includes salary paid to a relative which is unreasonable to the extent of ₹3,100.
- Provision for income tax is excessive to the extent of ₹3,000
- Depreciation according to the income tax provision comes to ₹9,500
- During the previous year 2020–21 the following payment were made and the same have not been debited to profit and loss account of 2020–21.
 - ₹3,000 paid on 10-6-2020 on account of outstanding customs duty of the previous year 19-20, and
 - ₹5,000 paid on 15-6-2021 on account of outstanding custom duty of the previous year 2020-21
- Patents were acquired on 4-11-2020

Find out the taxable income of X for the A/Y 2021–22. Due date of filling return of income of assessment year 2020-21 and 2021-22 is 31st July of the relevant A/Y. Not covered u/s 115BAC

Solution : Computation of Taxable Income of X for the Assessment year 2021-22

	₹	₹
Profit and gains from business or profession		
Net profit as per P & L A/c		1,25,500
Add: Expenses / payments not admissible		
Salary to a relative	3,100	
Depreciation (in excess of Income – tax provision)	500	
Provision for Income – tax (full amount)	4,000	
Interest on X capital A/c	3,000	
Reserve for bad debts	10,000	
Expenditure on acquisition of patent rights	<u>28,000</u>	<u>48,600</u>
		1,74,100
Less: Custom duty for assessment year 2019-20	5,000	
Depreciation on patent rights 12 ½ % of ₹ 28,000	<u>3,500</u>	<u>8,500</u>
Income from business / Gross total income		<u>1,65,600</u>

Question 11 : Shri Mihir furnished the following information relevant for the assessment year 2021-22: Not covered u/s 115BAC

Profits & loss A/c for the year ending 31-3-2021

	₹		₹
Household expenses	11,200	Gross profit	2,69,000
Bad debts	600	Commission	5,000
Provision for bad debts	4,800	Sundry receipts	8,000
Fire Insurance	1,000	Bad debts recovered (earlier	
Salary to staff	8,000	allowed as deduction)	2,000
Salary to Mihir	3,000	Interest on Govt. securities	17,000
Contribution to URPF	32,000		
Interest on overdraft	6,000		
Interest on capital	13,000		
Interest on loan given by			
Mihir's brother	1,000		
Depreciation on building and			

furniture	13,600	
Advertisement		
Revenue expenses	3,800	
Capital expenses on Neon sign board	1,000	
General expenses	4,700	
Net profit	<u>1,97,300</u>	
	<u>3,01,000</u>	<u>3,01,000</u>

Other information :

- General expenses include personal expense of ₹1,700
- Income of ₹3,000, accrued during previous year ending 31-3-2021 is not recorded in the profit and loss A/c
- Mihir contributes ₹14,000 towards public provident fund
- Depreciation on building and furniture comes to ₹3,000 according to the tax provision. Determine the taxable income of Shri Mihir for the assessment year 2021-22.

Solution : Computation of Taxable Income of Shri Mihir for A/Y 2021-22

	₹	₹
Profit and gains from business or profession		
Net profit as per P & L A/c		1,97,300
Add: Expenses / payments not admissible		
General Expenses	1,700	
Depreciation (in excess of tax provision i.e. ₹13,600 – ₹3,000)	10,600	
House hold expenses	11,200	
Provision from bad debts	4,800	
Salary to Mihir	3,000	
Contribution towards URPF	32,000	
Capital expenditure on Neon sign board	1,000	
Interest on capital	<u>13,000</u>	<u>77,300</u>
		2,74,600
Add: Income not recorded in P & L A/c		<u>3,000</u>
		2,77,600
Less : Interest on government securities		17,000
Less : Depr on Neon sign board @ 10%		<u>100</u>
Business income		2,60,500
Income from other sources: interest on government Securities		<u>17,000</u>
Gross total income		2,77,500
Less: Deduction under section 80C (PPF)		<u>14,000</u>
Taxable Income		<u>2,63,500</u>

Question 12 : G (Age :68 years) a Resident individual, furnishes following particulars relevant for the A/Y 2021-22 : Not covered u/s 115BAC

PROFIT AND LOSS ACCOUNT
for the year ending 31st March, 2021

	₹		₹
Salary to staff	34,000	Gross profit	6,86,000
General expenses	48,000	Commission and discount	2,17,200
Bad debts written off	15,000	Sundry receipts	43,000
Reserve for losses	2,000	Short term profit on sale of investment	31,000
Fire insurance premium (office premises)	4,200		
advertisement	2,400		
add : outstanding	<u>1,600</u>		
interest on G's Capital	3,500		
Interest on Bank Loan	14,500		
Expenditure on acquisition of a Patent right acquire and put to use on June 30, 2020	17,000		
Lump sum Consideration for acquiring Know how on March 3, 2021	60,000		
Depreciation on plant and machinery	28,000		
Provision for outstanding Custom Duty	13,000		
Net profit	<u>7,34,000</u>		
	<u>9,77,200</u>		<u>9,77,200</u>

Other information :

- Advertisement expenditure includes ₹3,400 being cost of 2 diaries (cost of each being ₹1,700) presented to customers
- Depreciation on plant and machinery according to income tax provision comes to ₹29,700.
- Salary to staff includes payment of ₹ 8,000 to a relative which is unreasonable to the extent of ₹3,000.
- General expenses include (a) expenditure of ₹4,800 incurred by G on training of his employees (b) Commission of ₹10,000 for securing a business order, and (c) compensation of ₹6,000 paid to an employee while terminating his service in the business interest.
- Out of outstanding Custom duty, ₹3,000 is paid July 31, 2021 and ₹8,000 is paid on October 3, 2021. The balance is not paid as yet. Due date of filling return of income is July 31, 2021.
- Income of G from company deposit is ₹12,000, which is not shown in the profit and loss account.

Determine the taxable income and tax liability of G for the assessment year 2021-22, assuming that insurance premium paid by G on the life insurance policy of Mrs.G is ₹3,200.

Solution :

	₹	₹
Profit as per profit and loss account		7,34,000
Add : Inadmissible expenditure		
Salary to staff (salary paid to a relative to the extent is treated as excess or unreasonable)	3,000	
Reserve for losses	2,000	
Interest on capital	3,500	
Depreciation on Patent Right (amount deductible is 25% of ₹17,000, ie, ₹4,250; therefore mount inadmissible is ₹17,000 – ₹4,250)	12,750	
Depreciation on know-how (50% of 25% of ₹60,000 , as it is put to use for les than 180 days, is deductible which comes to ₹7,500 ; amount not deductible is ₹52,500)	52,500	
Outstanding custom duty {₹3,000 paid on or before July 31, 2021 is deductible. The balance is not deductible for the previous year ending March 31, 2021 }	10,000	
		<u>83,750</u>
		8,17,750
Less : Provisions for depreciation on plant and machinery (ie., ₹29,700 – ₹28,000)		<u>1,700</u>
		8,16,050
Less : Short term capital gain on sale of investment		<u>31,000</u>
Business income		<u>7,85,050</u>

Computation of Net Income :

Profits and Gains of Business and Profession	7,85,050
Capital gains	31,000
Income from other sources	<u>12,000</u>
Gross total income	8,28,050
Less : Deduction under section 80C(Payment of insurance premium)	<u>3,200</u>
Net income	<u>8,24,850</u>
Tax on Net Income	74,970.00
Add : HEC (4% of tax)	<u>2,998.80</u>
Tax liability (rounded off)	<u>77,970.00</u>

Question 13 : R (age:26 years), a resident individual furnishes the following :

Profit and Loss Account for the year ending March 31, 2021

	₹		₹
Office expenses	11,000	Gross profit	8,78,000
Telephone Deposit	8,000	Sundry receipts	8,000
Salary to staff	42,000		
Depreciation	28,000		
Traveling expenses	43,000		
Los of cash by an employee through embezzlement	5,000		
Amount transferred to Special reserve account	7,500		
Expenditure on Diwali	7,100		
Interest and legal expenses	44,000		
Sundry expenses	8,500		
Net profit	<u>6,81,900</u>		
	<u>8,86,000</u>		<u>8,86,000</u>

Other information :

- Salary to staff includes payment of ₹12,000 out of India on which tax has not been deducted at sources nor paid to the Government.
- Depreciation value of plant and machinery on April 1, 2020 is ₹1,10,000 (rate of depreciation :15%)
 - A plant whose WDV on April 1, 2020 is ₹17,440 is sold during previous year for ₹11,000.
 - A machinery (cost price ₹20,000) whose written down value on April 1, 2020 is ₹2,350 is sold during the previous year for ₹15,000.
 - During the year, R purchase a new plant for office ₹1,22,670 which is eligible for depreciation at the rate of 15%. The plant is installed and put to use on May 15, 2020
- Traveling expenses includes ₹10,000 being hotel expenditure of an employee in respect of an official visit to Mumbai for 5 days.
- Expenditure on the occasion of Diwali includes a gift of ₹2,000 to Mrs. R.
- Interest includes a payment of ₹3,000 out of India on Which tax has not been deducted
- Sundry expenses includes expenditure of ₹1,000 on maintenance of guest house in Delhi for the purpose of carrying on the business and ₹4,000 being employer's contribution towards EPF out of which ₹600 is paid after the due date of submission of return of income.
- Legal expenses includes the following payments :
 - Payments of ₹4,000 to B, an Employee of R, for filing income tax appeal.
 - Payment of ₹5,000 to C, not being an employee of R, for preparation of return of income.
 - Payment of ₹11,000 to D, an advance who is not an employee of R, for filing income tax appeals and giving tax advice.
 - Payment of ₹2,000 to E, a Chartered accountant who is not an employee of R for obtaining tax advice.

Determine the taxable income of R for A/Y 2021-22 assuming that sundry receipts includes ₹5,000, being amount of insurance policy received from the Life Insurance Corporation of India at the time of maturity of the policy (i.e., December 5, 2020) {Amount of Insurance premium last paid on June 5, 2020 : ₹400} Not covered u/s 115BAC

Solution:

	₹	₹
Net profit as per profit and loss account		6,81,900
Add: Inadmissible expenses		
Salary paid outside India {not deductible as tax has not been deducted at sources }	12,000	
Depreciation (taken separately)	28,000	
Traveling expenses { fully deductible under section 37(1) }	--	
Gift to Mrs. R on the occasion of Diwali	2,000	
Payment of interest out of India {not deductible as tax is not deducted at sources }	3,000	
Expenditure on maintenance of guest house {deductible under section {37(1) }	--	
Employer's contribution towards EPF which is paid after due date of submission of return income	600	
Legal expenses in respect of income tax matters {such expenses are fully deductible }	--	
Amount transferred to special reserve account	<u>7,500</u>	<u>53,100</u>
		7,35,000
Less: Depreciation		<u>31,000</u>
		7,04,000
Less: Amount credited but not taxable (amount of insurance policy)		<u>5,000</u>
Income under the head "Profits and gains of business or profession"		6,99,000
Income from other sources		<u>Nil</u>
Gross total income		6,99,000
Less: Deduction under section 80C {Payment of Insurance premium }		<u>400</u>
Net income		<u>6,98,600</u>
Tax on Net income		52,220.00
Add: HEC (4% of tax)		<u>2,088.80</u>
Tax liability (rounded off)		<u>54,310.00</u>

Question 14 : Z (age:39 years) furnishes the following particulars of his income relevant for A/Y 21/22:
Not covered u/s 115BAC

PROFIT AND LOSS ACCOUNT for the year ending March 31, 2021

	₹		₹
Staff to salary	2,31,000	Gross profit	10,86,000
Advertisement	8,000	Rent of house property	2,40,000
Repairs to house property	20,000	Dividends from a foreign Co.	12,500
Municipal tax of house property	30,000	Profit on sale of import License	63,800
Fire insurance			
-House property	16,000		
-Office and godown	20,000		
Office expenses	4,500		
Life insurance premium on own life policy	3,000		
Depreciation			
-House property	60,000		
-Business assets	13,400		
Income tax	6,000		
Patent rights { 1/2 of ₹70,000 Being cost of such right acquired on April 6, 2020 }	35,000		
Income tax penalty	1,000		
Interest on capital borrowed			
-for business	3,800		
-for reconstruction of house property	50,000		
-for investment in shares	2,000		
Rent paid to Z (for using 25 per cent portion for business purpose)	1,00,000		
Net Profit	7,98,600		
	<u>14,02,300</u>		<u>14,02,300</u>

Z owns a house property (outside the jurisdiction of any Rent Control Act), erection of which was completed in March 2000; there are three residential units in the house. Unit 1 (consisting of 50 per cent of the carpet area) is let out to a tenant of ₹ 20,000 per month. Unit 2 (25 per cent of the carpet area) is used by Z for own residential purpose. Unit 3 (25%) is utilized by him for his business purpose. Determine the taxable income and tax liability of Z for A/Y 2021-22. During the previous year 2020-21, Z has received a gift of ₹2,79,500 by cheque from his non resident friend.

Solution :**Business income**

Net profit as per profit and loss account		₹	₹
Add : Inadmissible expenses :			7,98,600
Repairs to house property (Inadmissible amount is $\frac{3}{4}$ of ₹ 20,000)	15,000		
Municipal taxes (inadmissible amount is $\frac{3}{4}$ of ₹ 30,000)	22,250		
Fire insurance of house property (Inadmissible amount is $\frac{3}{4}$ of ₹ 16,000)	12,000		
Life insurance premium (personal expenses not admissible)	3,000		
Depreciation on house property (inadmissible amount is $\frac{3}{4}$ of ₹ 60,000)	45,000		
Income tax and income tax penalty (₹ 6,000 + ₹ 1,000)	7,000		
Patent right {i.e., amount in excess of 25% of ₹ 70,000}	17,500		
Interest on capital borrowed for :			
House property ($\frac{3}{4}$ of ₹ 50,000)	37,500		
Investment in share	2,000		
Rent paid to Z	<u>1,00,000</u>		<u>2,61,500</u>
			10,60,100
Less : income not taxable as business income			
Rent of house property	2,40,000		
Dividend	<u>12,500</u>		<u>2,52,500</u>
Business profit			8,07,600

INCOME FROM OTHER SOURCES

Dividend (i.e. ₹ 12,500 – ₹ 2,000)	10,500		
	<u>2,79,500</u>		<u>2,90,000</u>

INCOME FROM HOUSE PROPERTY

Unit 1			
Fair rent (₹ 2,0000 X 12)			2,40,000
Less : Municipal taxes (50% of ₹ 30,000)			<u>15,000</u>
Annual value of unit 1			2,25,000
Less : deduction under section 24			
Standard deduction (30% of ₹ 2,25,000)			67,500
Interest (50% of ₹ 50,000)			<u>25,000</u>
Income of unit 1 (a)			<u>1,32,500</u>
Unit 2 (self occupied)			
Annual value			Nil

Less : municipal taxes	Nil
Net annual value	Nil
Less : deduction under section 24	
Standard deduction	Nil
Interest on borrowed capital (25% of ₹ 50,000)	<u>12,500</u>
Interest of unit 2 (b)	<u>- 12,500</u>
Total income from house property (a) + (b)	<u>1,20,000</u>

COMPUTATION OF NET INCOME

Income from house property	1,20,000
Profits and gains of business profession	8,07,600
Income from other sources	<u>2,90,000</u>
Gross total income	12,17,600
Less : Deduction under section 80C {payment of life insurance premium}	<u>3,000</u>
Net income	<u>12,14,600</u>

Tax on net income	1,76,880.00
Add : HEC (4% of tax)	<u>7,075.20</u>
Tax liability (rounded off)	<u>1,83,960.00</u>

Question 15 : Y (age :34years) is a businessman in Delhi. Determine his net income and tax liability on the basis of the following profit and loss account for the year ending 31, 2021. Not covered u/s 115BAC

	₹		₹
Opening stock	1,04,000	Sales	92,51,000
Purchases	80,08,750	Closing stock	2,10,000
Salaries and wages	1,75,000		
Rent and rates	1,31,000		
Commission	21,500		
Household expenses	20,000		
Income tax for 2017-18	36,100		
Advertisement	5,000		
Postage and telegram	4,000		
Interest on own capital	84,000		
Reserve for bad debts	3,400		
Depreciation on furniture	18,000		
Net profit	<u>8,50,250</u>		
	<u>94,61,000</u>		<u>4,61,000</u>

Other particulars :

- Closing stock and opening stock has consistently been valued at 10 % below cost price.
- Depreciation on furniture as per tax provisions is ₹17,200.

3. Amount of sales includes a sum of ₹41,250 representing the value of goods withdrawn for the use of Y's family members. These goods were purchased at cost of ₹27,850. Market value of these goods is ₹45,240.
4. Household expenses include a contribution of ₹1,000 towards public provident fund.
5. On September 20, 2020 Y has received a gift of ₹96,000 from a friend settled in UK.

Solution:

	₹	₹
Net profit as per profit and loss account		8,50,250
Add : Inadmissible expenses		
House hold expenses	20,000	
Income tax	36,100	
Interest on capital	84,000	
Reserve for bad debts	3,400	
Excessive depreciation on furniture i.e., (₹ 18,000- ₹ 17,200)	800	<u>1,44,300</u>
		9,94,550
Less : Notional profit on goods withdrawn by Y (i.e., ₹ 41,250 – ₹ 27,850)		<u>13,400</u>
		9,81,150
<u>Adjustment in respect of valuation of stock so as to bring them at cost</u>		
Add : 1/9 of ₹ 1,04,000		<u>23,333</u>
		10,04,483
Less : 1/9 of ₹ 1,04,000		<u>11,556</u>
Business income		9,92,927
Any other income {gift from a friend is income,}		<u>96,000</u>
Gross total income		10,88,927
Less : Deduction under section 80C		<u>1,000</u>
Net income (rounded off)		<u>10,87,930</u>
Tax on Net income		1,38,879.00
Add : HEC (4 %)		<u>5555.16</u>
Tax payable		<u>1,44,430</u>

Notes :

1. Goods withdrawn by the owner is not treated as sale. Profit on this national sale (i.e. ₹41,250 – ₹27,850) is therefore excluded while computing net income. This is because of the fact that one cannot make profit by selling goods to oneself.
2. Stock is valued by Y at 10% below cost. Therefore for computing taxable income, amount of closing and opening stock is worked out at cost (as shown under) and necessary adjustment is made accordingly.

Closing stock shown in books	₹
Closing stock at cost price (i.e. $2,10,000 \times 100 \div 90$)	2,10,000
Amount added to book profit	2,33,333
Opening stock shown in books	23,333
Opening stock at cost price (i.e. $1,04,000 \times 100 \div 90$)	1,04,000
Amount deducted from book profit	1,55,556
	11,556

Question 16 : From the profit and Loss Account of Y (age : 35 years) for the year ending March 31, 2021, ascertain his total income and tax liability for A/Y 2021-22 :

	₹		₹
General expenses	13,400	Gross profits	3,15,500
Bad debts	22,000	Commission	8,600
Advance tax	8,000	Brokerage	37,000
Insurance	600	Sundry receipt	2,500
Salary to staff	26,000	Bad debt recovered	
Salary to Y	45,000	(earlier allowed as deduction)	11,000
Interest on overdraft	4,000	Interest on debentures (i.e. net	
Interest on loan to Mrs. Y	42,000	amount ₹22,500 + tax deducted	
Interest on capital of Y	23,000	at source : ₹2,500)	25,000
Depreciation	48,000	Interest on deposit with a	
Advertisement expenditure	7,000	company (net interest	
Contribution to employee's		: ₹11,700 + tax deducted at source	
recognized provident fund	13,000	: ₹1,300)	13,000
Net Profit	1,60,600		
	4,12,600		4,12,600

Other Information :

1. The amount of depreciation allowable ₹37,300 as per the Income-tax Rule. It includes depreciation on permanent sign board.
2. Advertisement expenditure includes ₹3,000, being cost of permanent sign board fixed on office premises.
3. Income of ₹4,500, accrued during the p/y is not recorded in the Profit and Loss Account.
4. Y pays ₹6,000 as premium on own life insurance policy of ₹70,000

5. General expenses include (a) ₹500 given to Mrs. Y for arranging a party in honour of a friend who has recently come from Canada (b) ₹1,000 being contribution to a political party.
6. Loan was taken from Mrs. Y for payment of arrears of income-tax.
7. Interest on debentures is paid to Y on December 31, 2020

Solution :

	₹	₹
Net profit & Loss Account		1,60,600
Add: Inadmissible expenses:		
Expenses for arranging personal party	500	
Contribution to a political party	1,000	
Advance tax	8,000	
Salary to Y	45,000	
Interest on capital to Y	23,000	
Interest on loan taken for payment of income-tax	42,000	
Capital expenditure on advertisement	3,000	
Excess depreciation (i.e., ₹ 48,000 – ₹ 37,300)	<u>10,700</u>	<u>1,33,200</u>
		2,93,800
Add: Income not recorded in the Profit and Loss Account		<u>4,500</u>
		2,98,300
Less: Income credited to the Profit and Loss Account but not chargeable under the head "Profit and gains of business or profession."		
Interest on debentures	25,000	
Interest on company deposit	<u>13,000</u>	<u>38,000</u>
Business income		<u>2,60,300</u>
<u>COMPUTATION OF NET INCOME OF Y</u>		
Profit and gains of business or profession		2,60,300
Income from other source (interest on debentures and company Deposit)		<u>38,000</u>
Gross total income		2,98,300
Less: Deductions		
Under section 80C(payment of insurance premises)		6,000
Deduction under section 80GGC (being contribution to a political party)		<u>1,000</u>
Net income		<u>2,91,300</u>
Tax on net income		2,065
Less Rebate u/s 87A		<u>2,065</u>
		Nil
Less : Prepaid tax (i.e., advance tax + tax deducted at source)		<u>11,800</u>
Tax Refundable (rounded off)		<u>11,800</u>

Question 17 : Find out the Gross Total Income of Shri Sunder Kumar on the basis of following particulars -

PROFIT & LOSS ACCOUNT
for the year ended 31st March, 2021.

	₹		₹
Interest	1,800	Gross profit b/d	1,22,700
Repairs and Renewals	2,200	Interest on debenture of an	
Insurance	4,200	Institution (gross)	10,000
Depreciation	5,600	Rent from house property	36,000
Compensation	10,200		
Law charges	5,100		
Labour Welfare expenses	3,800		
Subscription	5,800		
Net profit	<u>1,30,000</u>		
	<u>1,68,700</u>		<u>1,68,700</u>

Interest includes ₹200 on loan for purchasing debentures of a company and ₹300 on loan taken for reconstruction of house property let out.

- (i) The expenses relating to house property let out are 40% of the repairs and renewal expenses.
- (ii) Depreciation includes ₹1,200 on house property let out.
- (iii) Compensation was paid to an employee whose dismissal was in business interest.
- (iv) Insurance includes 30% for fire insurance of the house property let out 30% for workers accident insurance and the balance for life insurance.
- (v) Law charges includes ₹2,000 relating to a petition filed against breach of contract and the balance regarding sales tax appeal.
- (vi) Subscription includes ₹2,000 given for election purpose to political parties.
- (vii) Not covered u/s 115BAC

The amount not debited to profit and loss account are as follows

- (viii) Expenses incurred on the occasion of Diwali ₹500
- (ix) Theft of cash from iron safe ₹1,500
- (x) Expense for new telephone connection in the business ₹2,000

Solution :

Income from house property

	₹	₹
Rent from house property		36,000
Less: Municipal taxes		<u>Nil</u>
		36,000
Less: (i) Statutory deduction @ 30%	10,800	
(ii) Interest	300	<u>11,100</u>
Income from house property		<u>24,900</u>

Profit and gains of Business of Profession

Net profit as per P & L A /c 1,30,000

Add: inadmissible expenses

- (i) Interest on loan for securities and house property (200 + 300) 500
- (ii) Repairs and renewals of property (40%) 880
- (iii) Depreciation on house property 1,200

(iv) Fire insurance premium on house property	1,260	
(v) Life Insurance premium	1,680	
(vi) Subscription to political parties	2,000	<u>7,520</u>
		1,37,520

Less: Income not taxable under this head

(i) Interest on Debentures	10,000	
(ii) Rent from house property	<u>36,000</u>	<u>46,000</u>
		91,520

Less: Expenses allowable but not debited to P & L A/c

(i) Diwali expenses	500	
(ii) New telephone expenses	2,000	
(iii) Loss of cash due to theft	<u>1,500</u>	<u>4,000</u>
Business income		87,520

Income from other sources

Interest on debentures (10,000 - 200)	9,800
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Computation of Gross Total Income

(i) Income from house property	₹24,900
(ii) Profits and gains of business or profession	87,520
(iii) Income from other sources	<u>9,800</u>
Gross total income	<u>1,22,220</u>

Question 18 : XYZ Ltd., an Indian company, furnishes following particulars for assessment year 2021-22:

Not covered u/s 115BAC

Profit and Loss account for the year ending March 31, 2021

	₹		₹
Salary to staff	2,40,000	Gross profit	15,58,000
Expenses on issue of shares for setting up an industrial undertaking (cost of project : ₹10 lakh)	18,000	Rent of flats given to officers	12,000
Expenditure on promotion of family planning among employees	3,000	Sundry receipts	5,000
Sales tax	2,000	Interest on bank deposits	17,000
Contribution to a National Laboratory for carrying out approved scientific research	1,06,000	Capital gains on sale of short-term investment	3,000
Gratuity fund	5,000		
Reserve for future losses	20,000		
Bad debts written off	3,000		
Reserve for payment of advance income-tax	13,000		
Car expenses	9,000		
Depreciation :			

➤ Machinery	18,000		
➤ Car	3,000		
➤ Furniture	5,000		
➤ Building	3,000		
Office expense	7,500		
Rent and repairs of building	3,000		
Municipal taxes and ground rent of flats given to officers	7,000		
Sundry expenses	11,000		
Stationery expenses	5,000		
Income-tax	500		
Dividend tax	11,200		
Net profit	11,01,800		
	15,95,000		15,95,000

Other information :

1. Expenditure on family planning includes capital expenditure of ₹2,500.
2. Car is utilized partly for private purpose by a director. In the past years, one-fourth of this expenditure was disallowed.
3. Sundry expenses include ₹9,000 being payment of printing bill to relative of the managing director ;payment is unreasonable to the extent of ₹4,700.
4. Salary includes payment of ₹21,000 in cash to an employee. It also includes “medicclaim” insurance premium for the benefit of employees of ₹15,000 out of which ₹6,000 is paid in cash.
5. Though amount of depreciation on building, car and furniture is calculated as per tax provisions, depreciation in respect of machinery is excessive to the extent of ₹2,000.
6. ₹1,06,000 being payment to National Laboratory is qualified for weighted deduction u/s 35(2AA).
7. The company has deposited ₹2,40,000 with Maruti Udyog Ltd. on March 1, 2021 for purchasing Maruti 800 car. The car is likely to be delivered by June 2021. The said amount is not debited to Profit and Loss Account.
8. During the previous year 2020-21, the company pays ₹15,00,000 as compensation to employees on voluntary retirement under the voluntary retirement scheme of the company. The amount is not debited to the P&L A/c.
9. The company deposits ₹10,000 in National Housing Bank.
10. On March 16, 2021 the company gets a refund of sales tax of ₹3,000 (it was allowed as deduction for the previous year 2016-17). The amount is not credited to the profit and loss account, as the commissioner’s appeal against the refund is still pending in the Delhi High Court.

Determine the taxable income of the assessee-company for the assessment year 2021-22.

Solution:

	₹	₹
Profit as per Profit and Loss Account		11,01,800
Add: Sales tax refund [it is taxable under section 41(1) even if the matter is still pending]		3,000
Add: Inadmissible expenditure:		
Expenses on issue of shares [1/5 of ₹18,000 is deductible under section 35D]	14,400	
Expenditure on family planning [amount deductible is revenue expenditure plus one-fifth of capital expenditure] Allowable = 500 + 1/5 of 2,500 = 1,000, Disallowed 3,000-1,000	2,000	
Reserve for future losses	20,000	
Reserve for advance tax	13,000	
Car expenses (i.e., 1/4 of ₹9,000)	2,250	
Depreciation on machinery	2,000	
Depreciation on car (1/4 of ₹3,000 as car is used partly for private purposes)	750	
Payment of printing bill to a relative of the director	4,700	
Payment of ₹21,000 in cash (100% of ₹21,000)	21,000	
Mediclaime insurance premium paid in cash [if it is paid by cheque, it is deductible]	6,000	
Income-tax (not deductible)	500	
Dividend tax (not deductible)	11,200	97,800
Balance		12,02,600
Less: Compensation paid under voluntary retirement scheme [1/5 of ₹15,00,000 is deductible in 5 years under section 35DDA]	3,00,000	
Weighted Deduction in respect of contribution to National Laboratory [amount deductible is ₹1,59,000 being 150% of ₹1,06,000; as the amount debited to P&L A/c is ₹1,06,000 the balance of ₹53,000 is deducted]	53,000	3,53,000
Balance		8,49,600
Less: Income taxable under other heads		
Capital gains	3,000	
Interest on bank deposits	17,000	20,000
Business income		8,29,600
COMPUTATION OF NET INCOME		
Profits and gains of business or profession		8,29,600
Capital gains		3,000
Income from other sources (interest on bank deposit)		17,000
Gross total income		8,49,600
Less: Deductions under sections 80C to 80U		Nil

Net income		8,49,600
Tax on ₹ 8,49,600 @ 30%		2,54,880
Add: HEC (4% of tax)		10,195.20
Tax liability		2,65,080.00

Notes:

1. The company cannot claim any deduction under section 80C.
2. It has been assumed that letting out of residential flats to employees is incidental to main business of the company. Therefore, rental income is not taxable under head "Income from house property".
3. Amount deposited with Maruti Udyog Ltd. is not deductible.

Question 19 : Mr. Inder Kumar Sharma furnishes the following manufacturing profit and loss account for the previous year ending 31-3-2021 Not covered u/s 115BAC

Particulars	Amount ₹	Particulars	Amount ₹
To Stock	11,000	By Sales	2,84,500
To Purchases	80,000	By Stocks	26,400
To manufacturing wages	65,900		
To Factory Rent Rates and Taxes	30,000		
To Depreciation	15,000		
To Gross profit	1,09,000		
	3,10,900		3,10,900

Profit and Loss Account

Particulars	Amount ₹	Particulars	Amount ₹
To Office Salaries	27,000	By Gross profit B/D	1,09,000
To Establishment Expenses	6,100	By Rent of staff quarters	19,000
To Interest on Capital	3,300	By Refund of income-tax penalty	2,000
To Fire Insurance	200	By sale of a machinery	25,000
To Bad debts	7,000	By Recovery of Bad debts, not allowed as deduction earlier	6,000
To Income tax	6,000	By Sundry Receipts	35,000
To Expense on Sales tax proceedings	2,000		
To Expenses of income-tax proceedings	13,000		
To Diwali Expenses	4,000		
To Legal Expenses	7,000		
To Medical Expenses of proprietor	3,000		
To Staff Welfare Expenses	2,000		
To Repair of Staff quarters	4,000		
To Security Deposit for			

telex connection	10,000		
To Bonus payable to Employees	20,000		
To Provision for Tax: Custom Duty	25,000		
To Municipal taxes for staff quarters	4,000		
To General Reserve	26,000		
To Entertainment expenses	16,000		
To Net profit	10,400		
	1,96,000		1,96,000

You are required to compute the taxable profits from business after taking the following into consideration:

- (i) Purchase include a petty purchase of ₹21,000. Its payment was made by a crossed cheque.
- (ii) Assessee has always valued the stock at cost price but since 2020-21 he has valued it at market price which was in excess of the cost price by 10%.
- (iii) Office salaries paid include ₹10,400 to the proprietor of the business
- (iv) Diwali expense include gifts of ₹1,000 made to the relatives.
- (v) The written down value (WDV) of the block consisting of machinery as on 1-4-2020 is ₹59,000. Machinery whose WDV as on 1-4-2020, was ₹5,000 was sold for ₹25,000 during the year.
- (vi) The written down value (WDV) of the block consisting of factory buildings as on 1-4-2020 is ₹90,000.
- (vii) Custom Duties amounting to only ₹20,000 were paid on or before 31-7-2021.

Solution : Computation of Income from Business of Mr. Inder Kumar Sharma for A/Y 2021-22

	₹	₹
Net profit as per P&L A/c		10,400
Add: Items to be added back		
Opening stock over valued	Nil	
Purchases not through an account payee cheque	21,000	
Depreciation shown in P & L A/c	15,000	
Salary paid to self	10,400	
Interest on capital	3,300	
Income-tax	6,000	
Diwali expenses (gift to relatives)	1,000	
Medical expenses of proprietor	3,000	
Bonus not paid to staff(allowed on paid basis)	20,000	
Provision for Custom Duty (not paid upto last date of filling of I.T. return)	5,000	

Transfer to General Reserve	26,000	1,10,700
		1,21,100
Less: Items to be deducted		
Closing to be deducted	2,400	
Refund of Income-tax penalty	2,000	
Sale of machinery	25,000	
Bad debts recovered	6,000	
Depreciation allowed on machinery (as per income tax)	5,100	
Depreciation on building	9,000	49,500
Income from business		71,600

- As the method of valuation of stock was changed only during 2020-21, it is assumed that opening stocks of this year are not over valued.
- Cash/crossed cheque or draft payment for any expenses (including those for purchases) in excess of ₹10,000 shall be disallowed in full.
- Depreciation @ 15% of (WDV ₹59,000 – sale price ₹25,000) i.e. ₹34,000 is ₹5,100.
- It is clear that the business is being run by Mr. Inder Kumar Sharma as a sole proprietor.

CHAPTER – 11
INCOME UNDER THE
HEAD CAPITAL GAINS

Sections covered in this chapter

Sec 45(1)	Basis of charge
Sec 45(IA)	Destruction of Capital Asset
Sec 45(2)	Conversion of Capital Asset into SIT
Sec 45(2A)	Transfer of Demat Securities
Sec 45(3)	Transfer of capital asset by Partner to Firm
Sec 45(4)	Transfer of capital asset by Firm to Partner
Sec 45(5)	Compulsory acquisition of Capital Asset
Sec 46(1)(2)	Liquidation of Company
Sec 46A	Buy back of own shares
Sec 47	Transfers not regarded as transfers
Sec 50B	Slump sale
Sec 50C	Real estate transaction
Sec 54	Exemptions from capital gains
Sec 55	Cost of acquisition and cost of improvement
Sec 55A	Reference to valuation officer
Other sections	
Sec 2(14)	Capital asset
Sec 2(47)	Transfer
Sec 10(37)	Capital gain exempt on Compulsory acquisition of Urban agrl. land
Sec 111A	STCG @ 15% on shares, units

Sec. 45(1): Charging Section

- ➔ Any Profit or Gains arising from
- ➔ **TRANSFER**
- ➔ Of a **CAPITAL ASSET**
- ➔ Effected in a Previous year
- ➔ Shall be chargeable to Income Tax
- ➔ Under the Head Capital Gains
- ➔ In the **Previous Year in which transfer** took place

Sec. 2(14) : Capital Asset

Capital asset means—

(a) *Property of any kind held by assessee, whether or not connected with his business or profession*

(b) *Any securities held by Foreign Institutional Investor(FII) which has invested as per SEBI regulation but does not include—*

1. *Any stock-in-trade [other than securities referred to in sub-clause (b)]*

2. Personal Effects

- Movable property (**including** wearing apparel & furniture)
- for **personal use** of
- assessee **or** for dependent family member.

Personal effects **excludes** the following

- a. **Jewellery**
- b. Archaeological collections
- c. Drawings
- d. Paintings
- e. Sculptures
- f. Any work of art

Special Point

Jewellery Includes	
Ornaments of Gold, Silver, Platinum or Other precious Metal	Precious or Semi-precious stones
With or without precious/semi-precious stones & whether or not worked into wearing apparel	Whether or not set in furniture, utensil or other article and whether or not worked into wearing apparel

3. Agricultural Land in India situated in **RURAL AREA****Following types of Agricultural Lands are Capital Assets**

- a) Agricultural Land situated in Urban area of India
- b) Agricultural land situated outside India

Sec 2(1A) : URBAN AREA

*(a) Any area within the **Jurisdiction** of a municipality /Municipal corporation/cantonment board and which has a population of **atleast 10,000** OR*

(b) Any area within the distance, measured aerially,

*(I) Upto 2 kms from local limits of **above jurisdiction** having population > 10,000 but upto 1,00,000 or*

*(II) Upto 6 kms from local limits of **above jurisdiction** having population > 1,00,000 but upto 10,00,000 or*

*(III) Upto 8 kms, from the local limits of **above jurisdiction** having population of > 10,00,000.*

Special point : "Population" means the population according to the last preceding census

4. Gold Deposit Bonds/Certificates issued under Gold deposit scheme,1999 or Gold Monetisation scheme,2015

Section 2(47): Transfer Includes

- (a) **Sale, Exchange or Relinquishment** of Capital Asset
- (b) **Extinguishment** of any right in a Capital Asset
- (c) **Compulsory Acquisition** of Capital Asset under Any law
- (d) **Conversion** of Capital Asset into Stock in trade of Business
- (e) Any transaction in which **possession of Immovable Property** is given u/s.53A of Transfer of Property Act
- (f) Any transaction (whether by way of transferring membership/shares in a Coop. Society, Company), which has effect of transferring of Immovable Property
- (g) Maturity or Redemption of a **zero coupon bond**

Types of Capital Gains

There are 2 types of Capital Gains

1. **Short Term Capital Gain (STCG):** It arises on transfer of Short Term Capital Assets
2. **Long Term Capital Gain (LTCG) :** It arises on transfer of Long Term Capital Assets

CAPITAL ASSETS					
-Listed Security (other than unit of MF) on recognised stock exchange in India - Unit of UTI or Equity oriented fund - Zero Coupon Bonds		Unlisted shares / Immovable property		Other Capital Asset	
Held for a period <u>Upto 12 months</u> preceding date of transfer	Held for period <u>more than 12</u> months preceding date of transfer	Held for a period <u>Upto 24</u> <u>months</u> preceding date of transfer	Held for a period <u>more</u> <u>than 24</u> months <u>preceding</u> date of transfer	Held for a period <u>Upto</u> <u>36 months</u> <u>preceding</u> date of transfer	Held for a period <u>more than</u> <u>36</u> months <u>preceding</u> date of transfer
<i>Short Term Capital Asset</i>	<i>Long term Capital Asset</i>	<i>Short Term Capital Asset</i>	<i>Long term Capital Asset</i>	<i>Short Term Capital Asset</i>	<i>Short Term Capital Asset</i>

Section 48 : Computation of Capital Gains

Short Term Capital Gain	Long Term Capital Gain
FULL VALUE OF CONSIDERATION (Received or accruing on transfer of STCA)	FULL VALUE OF CONSIDERATION (Received or accruing on transfer of LTCA)
Less : Expenditure Incurred (Wholly & exclusively for transfer)	Less : Expenditure Incurred (Wholly & exclusively for transfer)
: Cost of Acquisition of STCA	: <u>Indexed</u> Cost of Acquisition of LTCA
: Cost of improvement of STCA	: <u>Indexed</u> Cost of Improvement of LTCA

Special Points : No deduction of Security transaction tax whether paid on purchase or sale

Indexed Cost of Acquisition

$$\text{Cost of Acquisition of Capital Asset} \times \frac{\text{Cost inflation index (of financial year in which asset transferred)}}{\text{Cost inflation index (of 1st financial year in which asset held by Assessee) or (of financial year 2001-02), whichever is later}}$$

In case of a capital asset land or building or both, FMV of such asset on 1/4/2001 shall not exceed the stamp duty value, wherever available, of such asset as on 1/4/2001.

Indexed Cost of Improvement

$$\text{Cost of Improvement} \times \frac{\text{Cost inflation index (of financial year in which asset transferred)}}{\text{Cost inflation index (of financial years in which improvement has taken place by Assessee or/and Previous Owner)}}$$

Cost Inflation Index

Financial Year	Cost Inflation Index	Financial Year	Cost Inflation Index
2001-02	100	2011-12	184
2002-03	105	2012-13	200
2003-04	109	2013-14	220
2004-05	113	2014-15	240
2005-06	117	2015-16	254
2006-07	122	2016-17	264
2007-08	129	2017-18	272
2008-09	137	2018-19	280
2009-10	148	2019-20	289
2010-11	167	2020-21	301

Special Points:

- ✓ In case of **LTCA**, we take **Indexed** cost of Acquisition and **Indexed** cost of Improvement.
- ✓ However, where LTCA consists of **Debentures & Bonds** (*other than capital indexed bonds of Government & sovereign gold bonds issued by RBI*), No indexation is to be done

Section 55(2): COST OF ACQUISITION

Types of Capital Asset		Cost of Acquisition	2(42A) : Period of holding
A	1) Goodwill of business	N I L <i>[If Self generated]</i> Or Purchase price <i>[If acquired by purchase]</i> <i>FMV on 1.4.2001 is not available when such assets are purchased upto 31.3.2001</i>	Date of Purchase/Self development To Date of Transfer
	2) Trademark, Brand name of business		
	3) Tenancy Rights		
	4) Stage Carriage permits (route permit)		
	5) Loom Hours		
	6) Right to manufacture any article		
	7) Right to carry any Business or profession		
B	Shares purchased from company	Amount actually paid to company	Date of Allotment by Company To Date of Transfer
	Shares purchased from Broker/Market	Amount actually paid to broker including brokerage	Date of broker note To Date of Transfer
	Shares purchased from other person	Amount actually paid	Date of Contract of purchase To Date of Transfer
	Right Shares subscribed by original shareholder	Amount Actually paid to company	Date of Allotment by Company To Date of Transfer
	Offer of right shares not subscribed but renounced	Nil	Date of offer To Date of Renouncement
	Person purchasing renounced offer	Amount paid to Seller of right and Company	Date of allotment of right shares To Date of Transfer
	Bonus Shares/Other Asset allotted free of cost	Nil <i>FMV on 1.4.2001 available if such assets are acquired upto 31.3.2001</i>	Date of allotment of bonus shares To Date of transfer
C	Other Capital Assets	Cost of Acquisition <i>FMV on 1.4.2001 available if such assets purchased upto 31.3.2001</i>	Date of Acquisition To Date of Transfer

Section 55(1) : Cost of Improvement

A	Capital Assets	Cost of improvement
	- Goodwill of Business - Right to manufacture, produce or process any article or thing - Right to carry on any business	<p style="text-align: center;">NIL <i>(Whether capital asset is Self generated or purchased)</i></p>
B	Other Capital Assets	<ul style="list-style-type: none"> • All Capital Expenditure incurred by • on improvement of Capital Asset • On or after 1.4.2001

COMPUTATION OF CAPITAL GAINS IN CERTAIN CASES

Section 45(1A): Insurance Compensation on Damage/Destruction of Capital Asset

- **Overriding Sec. 45(1)**
- Where any person **receives** at any time during previous year
- Any *money or other asset*
- Under insurance from an Insurer
- On account of Damage or destruction of Capital Asset **due to**,
 - Flood, Typhoon, Cyclone, Earthquake or other Natural Disaster,
 - Riot or Civil Disturbance or
 - Accidental Fire or Explosion or
 - Enemy action or action taken from combating enemy (*whether or no war declared*)

Then Capital Gains shall be chargeable in hands of such person in **Previous year** in which money or other asset is **Received** from Insurer.

Special Points

1. Period of Holding : **Date of Acquisition to Date of Destruction**
2. Full value of Consideration : **Value of Money + FMV of asset on date of receipt**
3. Indexation : **P/Y of Holding to P/Y of Destruction**

Section 45(2): Conversion of Capital Asset into Stock in Trade

- **Overriding Sec. 45 (1)**
- Where assessee Converts a Capital Asset into Stock in Trade
- Capital Gain arising on above transfer
- shall be chargeable in hands of Assessee
- In P/Y in which such SIT is **Sold or otherwise transferred**

Special Points:

1. Period of Holding : **Date of Acquisition to Date of conversion of asset to SIT**
2. Full value of Consideration : **FMV of such Capital Asset on Date of conversion**
3. Indexation : **P/Y of Holding to P/Y of conversion**
4. Where **Sale price is greater than FMV** on date of conversion then (Sale Price – FMV) is taxable under head P/G/B/P

Section 45(2A): Capital Gain on Transfer of Securities

- Where any person had at anytime during previous year
- Any **beneficial interest** in any securities
- Then profit or gains arising from Transfer made by **depository**, of such beneficial interest
- Shall be chargeable under Capital Gains in previous year of transfer

Special Points:

1. Capital Gain shall be taxable in hands of person having **beneficial interest** and not in the hands of Depository who is the registered Shareholder.
2. Period of Holding & Cost of acquisition : Calculated on **FIFO basis**

Section 45(3) : Capital Gain on transfer of Capital Asset to Firm etc.

- ☐ Where a person **transfers** a **Capital Asset**
- ☐ To a firm, AOP or BOI
- ☐ In which he is/or becomes partner or member
- ☐ By way of Capital Contribution **or Otherwise**
- ☐ Shall be chargeable to Capital Gain in hands of such person in the previous year of transfer.

Special Points:

1. Period of Holding : Date of acquisition by partner/member to Date of transfer to firm/AOP/BOI
2. Full value of consideration : Amount recorded in books of account of Firm/AOP/BOI
3. Indexation : P/Y of Holding to P/Y of Transfer

Section 45(4): Capital Gains on transfer of Cap Asset on dissolution of Firm etc

- Where a Firm, AOP or BOI transfers a Capital Asset by way of distribution
- To its Partner or Members
- On its dissolution **or otherwise**
- Shall be chargeable to Capital Gains to such Firm, AOP or BOI, in the previous year of transfer.

Special Points:

1. Period of Holding : Date of acquisition of asset to date of transfer by Firm/AOP/BOI
2. Full value of Consideration : FMV on date of such transfer
3. Indexation : P/Y of Holding to P/Y of Transfer
4. “Dissolution or Otherwise” : Otherwise means something like dissolution

Section 45(5): Compulsory Acquisition of an Asset

- ❑ **Overriding Sec. 45 (1)**
- ❑ Where a Capital Asset is **Compulsorily acquired** under **ANY law or**
- ❑ Where consideration for transfer is to be determined or approved by **Central Government or RBI**.
- ❑ It shall be chargeable to Capital Gain in the Previous year in which the compensation or part thereof is **FIRST received** by the assessee.

Special Points:

1. Period of Holding : Date of acquisition to Date of compulsory acquisition
2. Full value of Consideration : **Full** amount of compensation/consideration
3. Indexation : P/Y of Holding to P/Y of Compulsory Acquisition

4. Enhanced Compensation :

- a) Where the amount of compensation is increased by any
 - Court or tribunal
 - Such increased amount shall be deemed as Capital Gain,
 - Of the P/Y in which such amount is **Received** by the Assessee.
- b) The nature of capital gain of Enhanced compensation is **SAME** as for original compensation.
- c) Cost of acquisition. & Cost of improvement of enhanced compensation will be **NIL**.
- d) Expenses incurred for enhanced compensation can be **deducted** as transfer expenses

4. Reduced Compensation

- If Subsequently compensation is reduced by court than
- Cap Gain of original compensation recomputed by taking the reduced compensation.

5. Enhanced compensation received by other person

- Where due to death of person who made transfer *or* for other reason,
- Enhanced compensation is received by other person,
- Deemed to be Capital Gain of the person receiving the same. (*ST or LT depending upon original*)

Sec 45(5A) : Capital gain in case of Joint Development Agreements

- Notwithstanding anything contained in sec 45(1),
- Individual or HUF,
- Transfer of land or building or both,
- under a **specified agreement**,
- capital gains shall be chargeable **in p/y**
- in which **certificate of completion for whole/part of project is issued** by competent authority
- FVC shall be **SDV** (on date of issue of certificate) of his share, being land or building or both in project, as increased by consideration received in cash, if any,

Special point :

1. If assessee transfers his share in project on or before date of issue of certificate , **Section 45(5A) shall not apply** & capital gains shall be deemed to be income of **p/y in which such transfer takes place** & other provisions of this Act shall apply
2. **Specified agreement** means a registered agreement in which person owning land or building or both, agrees to allow another person to develop a real estate project in consideration of a share, being land or building or both in such project, whether with or without payment of part of consideration in cash;

3. **SDV means** the value adopted or assessed or assessable by any authority of Government for purpose of payment of stamp duty of an immovable property
4. **Sec 49(7) :** If **sec 45(5A)** is applicable, **cost of acquisition** of such asset, shall be amount which is deemed as FVC under the section.

Special point :

Consequential Amendments:

Cost of Acquisition of the Share in Project (Section 49(7)):

Where the capital gain arises from the transfer of a capital asset, being share in the project, in the form of land or building or both, referred u/s 45(5A), the cost of acquisition of such asset, shall be the amount which is deemed as full value of consideration in that sub-section.

TDS on Monetary Consideration (Section 194IC):

Notwithstanding anything contained in section 194-IA, any person responsible for paying to a resident any sum by way of consideration, not being consideration in kind, under the agreement referred u/s 45(5A), shall at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to 10% of such sum as income-tax thereon

<u>SEC 50B : Slump Sale</u>

In case of slump sale, profits on such sale shall be chargeable under capital Gains in the P/Y in which slump sale is effected.

Sec 2(42C) : Slump Sale means

- Transfer of one or more **Undertaking**
- As a result of sale for **lumpsum** consideration
- **Without values** being assigned to **individual assets and liabilities**

Special Points:

- 1) **Full value of consideration** : Sale price of the undertaking
- 2) **Period of holding** : **Date of ownership of the undertaking to Date of slump sale**
However if Undertaking is LTCA , no indexation will be done.
- 3) **Cost of Acquisition** : **Net Worth i.e**
Value of assets of undertaking
Less : Value of liability of Undertaking

4. Value of assets

Type of Assets	Value to be Taken
Non depreciable Asset	Book Value
Depreciable asset (A)- (B)	Actual Cost of assets forming part of the undertaking (A) Less : Depr allowed on that assets assuming that assets were only assets in the block (B)

5. WDV OF BLOCK shall be reduced by the following amount (A) – (B)
6. Revaluation of assets shall not be taken into account for valuation of assets
7. Every assessee, in the case of slump sale, shall furnish in the prescribed form a report of CA before **the specified date u/s 44AB** indicating the computation of the net worth of the undertaking or division, as the case may be, and certifying that the net worth of the undertaking or division, as the case may be, has been correctly arrived at in accordance with the provisions of this section.

Section 51: Forfeiture of Advance Money

- Where any Capital Asset
- Was on any *previous occasion* subject matter of negotiation for the transfer
- Any advance or other money received by Assessee
- Is **forfeited** by him
- Then such amount **shall be deducted** from Cost/WDV/FMV of such Capital Asset

Proviso to Sec 51 : wef 1/4/2014

If Advance or other money forfeited under negotiations for transfer, is included in Total Income of for any previous year u/s 56(2), then, such sum shall not be deducted from cost / WDV / FMV

Section 46(1): Distribution of assets by Company to its shareholders in liquidation

- **Overriding Sec. 45**
- Where any asset of a Company
- Is distributed to its shareholders
- On its liquidation
- Such distribution will **NOT** be regarded as a Transfer
- In the hands of the company

Section 46(2)

- Where a shareholder on liquidation of a company
- Receives any money or other assets from a company
- He shall be chargeable under Capital Gain in the **Previous year** in which above is **Received**

Special Points:

- 1) **Period of Holding** : **Date of acquisition of shares to Date of liquidation**
- 2) **Full value of Consideration** : **Money received**
Add : MV of assets received as on date of distribution
Less : Deemed dividend u/s. 2(22)(c)
- 3) **Indexation** : **P/Y of Holding to P/Y of Liquidation**
- 4) **Sale of Assets received on liquidation** : **Cost of acquisition shall be FMV on date of distribution of such asset**

Section 46A : Capital Gain on purchase by Company of its own Share/Specified securities (Buy Back)

- Where a shareholder or holder of specified securities,
- Received any consideration from company for purchase of its own shares or specified securities,
- Shall be chargeable to Capital Gain in year in which shares /securities are purchased by company.

Special Points:

- 1) **Period of Holding** : **Date of acquisition of Shares/Securities to Date of buy back by company**
- 2) **Full value of Consideration** : **Amount Received from the company**
- 3) **Indexation** : **P/Y of Holding to P/Y of Buy Back**
- 4) **Buy Back exempt in hands of shareholder u/s 10(34A) if TAX paid by Domestic company on buy back of shares u/s 115QA**

The provisions of section 115QA shall not apply to such buy-back of shares (being the shares listed on recognised stock exchange), for which public announcement has been made on or before the 5th day of July, 2019 as per SEBI (Buy-back of Securities) Regulations, 2018 made under SEBI Act.

Section 47 : Transactions not regarded as Transfer

- ⇒ **Overriding Sec. 45**
- ⇒ Transactions referred to in Sec. 47, will not be regarded as transfer
- ⇒ And therefore **No Capital Gain** will arise in hands of **transferor**.

1. Distribution of Any Capital Asset on Total or Partial partition of H.U.F.
2. Transfer of Any Capital Asset under Gift or Will (*Does not include transfer under a gift of shares, debentures allotted by company to its employees under E.S.O.P*)
In the above cases, there will be no transfer and no Capital Gain will arise in hands of **transferor**. However, when **transferee** transfers the above Capital Assets, he will be chargeable to Capital Gains.

Computation of capital gains in hands of transferee,

1. Cost of Acquisition to transferee in above cases. (Sec 49(1))	<i>Cost to previous owner</i> who had actually purchased the Capital Asset
2. Period of Holding. (Sec 2(42A))	Period of holding will include <i>period of holding of previous owner</i>
3. Indexation	P/Y of Holding to P/Y of transfer

3. Transfer of Any Capital Asset by amalgamating company to amalgamated **Indian** company in a scheme of amalgamation.
4. Transfer of **Shares of Amalgamating Company** by shareholder of such Company to Amalgamated Indian Company in a scheme of Amalgamation provided transfer is made in consideration of allotment to him of shares in Amalgamated Company except where shareholder itself is the amalgamated company

For the purpose of computing capital gains on transfer of shares of Amalgamated company

1 Cost of acquisition of shares in Amalgamated Company	<i>Cost of acquisition of shares in Amalgamating Company</i>
2. Period of Holding	Period of holding of shares in Amalgamated Company <i>will include period of holding shares in Amalgamating Company</i>
3. Indexation	P/Y of Holding shares in Amalgamated Company to P/Y of transfer

5. Transfer of Capital Asset by Demerged company to Resulting **Indian** company in a scheme of Demerger.
6. Transfer/ issue of Share by resulting company to shareholders of the de merged company if the transfer/ issue is made in consideration of Demerger of the undertaking.

Special Points : For computing capital gain on transfer of shares in resulting company

1. Cost of Acquisition of shares in Resulting company.	Cost of acq. of shares in De merged co. X <u>Book value of assets T/F in Demerger</u> Net worth of De merged company
2. Cost of Acquisition of shares of Demerged company.	Reduce Original cost by above
3. Period of Holding of shares in Resulting company	Period of holding of shares in Resulting Co. will include <i>holding period of shares in Demerged company</i>
4. Indexation	P/Y of Holding shares in Resulting Company <u>to</u> P/Y of transfer

7. Any transfer by way of conversion of **Debentures** of a company into Shares of that company.

Special Points: If converted shares are transferred:

1. Cost of Acquisition of shares	Cost of that part of Debenture , which is so converted
2. Period of Holding of Shares	<i>Period of holding will include period of holding of Debentures</i>
3. Indexation	P/Y of allotment of shares <u>to</u> P/Y of transfer

8. Any transfer by any person to Government, University, National Museum, National Art Gallery or to other notified museum or institution of Capital Asset being **work of art, archaeological, scientific or art collection, books, manuscript, drawing, painting, photograph or print.**

9. Transfer of Any Capital Asset on conversion of a firm to a company , **Provided**

- **All the assets and liabilities** of the firm become the assets & liability of company
- All partners becomes shareholder of company in the **same proportion** of their Capital Account.
- The partners should receive **only shares allotted** by company as consideration for transfer.
- Aggregate shareholding of partners in the company should **be atleast 50%** of total voting power and should be **maintained for 5 yrs** from date of conversion.

10. Transfer of Any capital asset by a private company or unlisted public company to limited liability partnership
Or Any transfer of a shares held in the company by a shareholder

as a result of conversion of company into a LLP **Provided**

- All **assets & liabilities** of company become assets & liabilities of LLP
- **All shareholders** of the company **become the partners** of LLP
- The shareholders of company **receive consideration** in form of **share in profit and capital contribution** in LLP.
- Capital contribution & profit sharing ratio in LLP are in **same proportion** of shareholding in company on date of conversion.
- Aggregate of profit sharing ratio of shareholders in LLP shall **be atleast 50%** and should be **maintained for 5 years** from date of conversion
- Turnover of company in **any of 3 P/Y** preceding p/y of conversion **upto 60,00,000.**

11. Transfer of Any Capital Asset on conversion of Sole proprietary concern to a company , **Provided**
- **All assets & liabilities** of sole proprietary concern become the asset and liabilities of company.
 - Shareholding of sole proprietor in company should **be at least 50%** of total voting power and should be **maintained for 5 years** from date of succession.
 - The sole proprietary should receive **only shares allotted** by company as consideration for transfer.
12. Transfer of a capital asset in a transaction of Reverse Mortgage under a scheme made and notified by the Central Government.
13. Transfer of sovereign gold bonds issue by RBI by way of redemption by Individual Assessee.
14. Any transfer of a capital asset, being
- (a) bond or Global Depository Receipt referred u/s 115AC(1) or
 - (b) rupee denominated bond of an Indian company; or
 - (c) derivative,
- made by a non-resident on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transaction is paid or payable in foreign currency, shall not be treated as a transfer for the purpose of charging capital gains
15. Any transfer by way of conversion of preference shares of a company into equity shares of that company.

Special point : *Where the capital asset, being equity share of a company, became the property of the assessee in consideration of a transfer as above, the cost of acquisition of the asset shall be deemed to be that part of the cost of the preference share in relation to which such asset is acquired by the assessee.*

Miscellaneous Provisions of Capital Gains

Section 55A : Reference to Valuation Officer.

- For ascertaining **FMV** of Capital Asset
- U/S **45(1A), 45 (2), 45 (4), 46 (2), Exchange of asset u/s 2(47) & 50C**
- The Assessing Officer may
- Refer the valuation of Capital Asset to **valuation officer** in **following cases**

Case 1	Case 2
<i>Where value claimed by assessee is according to estimate by a registered valuer</i>	<i>Where value claimed by assessee is not according to estimate by a registered valuer</i>
If AO is of opinion that Value claimed by assessee is at variance with its Fair Market Value	If AO is of opinion that <ul style="list-style-type: none"> • Fair Market Value exceeds • value claimed by assessee • by more than 15% or by ₹25,000, <i>whichever is less</i>

Section 50C: FVC for Real Estate Transactions

- ✓ Sale consideration on transfer of Land or Building or both
- ✓ **Is Less than**
- ✓ Value determined by Stamp valuation authority for payment of stamp duty
- ✓ then value so **assessed or assessable** shall be
- ✓ **Deemed** to be FVC
- ❖ Assessee claims
- ❖ that Stamp Valuation
- ❖ **exceeds** FMV of property on date of transfer and
- ❖ It has not been disputed in any appeal or by any court
- ❖ AO may refer the valuation of above capital asset
- ❖ to valuation officer u/s 55A

Then,

- Valuation determined by valuation officer u/s. **50C**
- **Is less than**
- Stamp valuation
- then **value u/s 50C** shall be **Deemed** to be FVC

Proviso to sec 50C

*Provided also that where the value adopted or assessed or assessable by the stamp valuation authority does not exceed **110%** of the consideration received or accruing as a result of the transfer, the consideration so received or accruing as a result of the transfer shall, for the purposes of section 48, be deemed to be the full value of the consideration.*

Sec 50CA : Full value of consideration for transfer of share other than quoted share

- If consideration
- For transfer of share of company
- other than quoted share,
- is less than fair market value(FMV) of such share (determined in prescribed manner)
- FMV shall be
- deemed to be consideration

Special point :

Quoted share means the share quoted on any recognised stock exchange with regularity from time to time, where the quotation of such share is based on current transaction made in the ordinary course of business.

The provisions of this section shall not apply to any consideration received or accruing as a result of transfer by such class of persons and subject to such conditions as may be prescribed.[FA,2019]

Sec 50D : Fair market value deemed to be full value of consideration in certain cases

Where the consideration as a result of transfer of a capital asset by assessee is not ascertainable , FMV of asset on the date of transfer shall be deemed as full value of consideration

Tax Rates on Capital Gains for A/Y 2021–22

Short Term Capital Gain (STCG)		
10(37)	111A	other STCG
Exempt	15%	Taxable at slab rate

Long Term Capital Gain (LTCG)			
10(37)	112A	Listed securities <i>other than Units of MF OR Zero Coupon Bonds</i>	Other LTCG
Exempt	10%	20% (with Indexation) OR 10% (without indexation) <i>whichever is lower</i>	20%

Special points :

1. Section 10(37) : Income exempt from compulsory acquisition of land

- Individual or HUF
- Compulsory acquisition of **urban agricultural land (LTCA or STCA)**
- Used for **2 yrs before date of transfer** for agricultural by individual or his parents or HUF
- Compensation received shall be **exempt**
- from capital gains

2. Sec 10(37A) : Capital gain form land pooling scheme

- Individual or HUF
- Owner of specified capital asset as on 2/06/14
- transfer of specified capital asset
- Land Pooling Scheme (scheme)
- covered under Andhra Pradesh Capital City Land Pooling Scheme

3. **Sec 111A : STCG on Equity shares/units of EOMF/Business trust**

- Any assessee transfers **Short Term Capital Asset**
- being **Equity shares or Units in Equity oriented Mutual Fund** or **units of Business trust**
- and such transaction is chargeable to security transaction Tax,
- then such STCG shall be chargeable @15%

4. **Sec 112A : LTCG on Equity shares/units of EOMF/Business trust**

Upto A/Y 18/19, such LTCG was exempt u/s 10(38) but from A/Y 19/20, Sec 112A has been introduced and now LTCG on above transaction will be taxable @ 10% in excess of ₹1,00,000.

While computing such LTCG ,indexation benefits will not be allowed (Sec 48).

Salient features of Sec 112A

1. Securities transaction tax(STT) has been paid on acquisition and transfer of equity share in company & been paid on transfer of such capital asset in case of unit of equity oriented fund or a unit of business trust.

2. Deduction under Chapter VI-A(80 C to 80U) shall not be allowed from LTCG u/s 112A

3.Rebate u/s 87A shall not be allowed from the Tax payable u/s 112A.

4. Individual or HUF who is a resident, & total income as reduced by such long-term capital gains is below the maximum amount which is not chargeable to income-tax, then, the long-term capital gains u/s 112A shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax.

Sec 55(2) : Cost of acquisition if Sec 112A is Applicable

In case of LTCA being **equity share** or **unit of EOMF** or **unit of business trust** referred u/s 112A, acquired before 1/2/2018 shall be higher of—

- (i) Cost of acquisition of such asset; and
- (ii) lower of—
 - (A) Fair market value of such asset; and
 - (B) Full value of consideration as a result of the transfer of capital asset.

Fair market value means —

- (i) For capital asset listed on any recognised stock exchange on 31/1/2018, **highest price of capital asset quoted on such exchange on 31/1/2018:**

Provided that where there is no trading in such asset on such exchange on 31/1/2018, highest price of such asset on such exchange on date immediately preceding the 31/1/2018 when such asset was traded on such exchange shall be the fair market value;

(ii) in case where capital asset is unit which is not listed on recognised stock exchange on 31/1/2018, **Net Asset Value (NAV) of such unit as on 31/1/2018;**

(iii) in case where the capital asset is an equity share in a company which is—

(A) not listed on recognised stock exchange on 31/1/2018 but listed on such exchange on date of transfer;

(B) listed on a recognised stock exchange on date of transfer and which became property of assessee in consideration of share which is not listed on such exchange as on 31/1/2018 by way of transaction not regarded as transfer u/s 47,

An amount which bears to the cost of acquisition the same proportion as CII for F/Y 2017-18 bears to the CII for first year in which asset was held by assessee or for F/Y 2001/02, whichever is later

5. Concept of Shifting of exemption limit

- **Individual or HUF (Resident)**
- **[Total Income] - [LTCG u/s 112] - [STCG u/s 111A - [LTCG u/s 112A]**
- Is less than **Exemption Limit**
- Such **deficiency** shall be reduced
- From **LTCG u/s 112 or STCG u/s 111A or LTCG u/s 112A and**
- Tax shall be payable on balance of capital gains

6. Restriction of deduction u/s 80C to 80U

- ♦ Deduction from **Sec. 80C to 80U**
- ♦ Shall **not** be allowed
- ♦ **[LTCG u/s 112], or [STCG u/s 11A 15%] or [LTCG u/s 112A]**

EXEMPTIONS FROM CAPITAL GAINS (SEC 54 to 54H)

Section		54 : Transfer of Residential Property	54B : Transfer of Agricultural Property	54EC : Transfer of LTCA	54EE : Investment in units of start up India fund
1	Assessee	Individual or HUF	Individual <i>or</i> HUF	Any Assessee	Any Assessee
2	Capital Asset Transferred	Residential House	Urban Agricultural Land used by assessee / parent for agricultural purpose for min 2 years prior to date of transfer.	Land or Building	Any Capital Asset
3	Nature of CA	LTCA	STCA or LTCA	LTCA	LTCA
4	New Asset	One Residential house in India Assessee may, at his option, purchase or construct TWO residential houses in India, provided LTCG does not exceed ₹2 crore	Agricultural Land (any area)	Investment in specified bond, redeemable after five years Specified bonds means bond of NHAI/RECL/Other notified Bonds (PFCL/IRFC) Max Investment in specified bonds in F/Y of Transfer & Subsequent F/Y is 50 lakhs	Units issued before 1/4/19 of startup India fund as notified by Central Government
5	Time period of New Asset	Within 1 year before or within 2 years after transfer or construct within 3 yrs after transfer	Within 2 yrs after transfer	Within 6 months of transfer	Within 6 months of transfer
6	Capital Gain Account Scheme	Deposit in CGAS on or before Due Date of Return (DDR) u/s. 139(1)	-Do-	NA	NA
7	Exemption	LTCG invested in New asset + Deposited in CGAS upto DDR	-Do-	LTCG invested in Specified Bonds upto 6 months of transfer	LTCG invested in Specified Units upto 6 months of transfer
8	Transfer of New Asset	If New Asset transferred within 3 years from date of purchase/ construction, then Cost of acquisition of new asset Reduced by Capital Gain exempted earlier	-Do-	If New Asset is t/f or converted into money within 3 years from date of acquisition., then exempt LTCG taxable in p/y of transfer/ conversion of new asset Loan taken on security of new asset amounts to conversion into money	If New Asset is t/f or converted into money within 3 years from date of acquisition., then exempt LTCG taxable in p/y of transfer/ conversion of new asset Loan taken on security of new asset amounts to conversion into money

Section		54F : Transfer of LTCA	54GB: Capital gain on transfer of Residential property <i>For Eligible start up upto 31/3/21</i>
1	Assessee	Individual or HUF	Individual or HUF
2	Capital Asset Transferred	Any Capital Asset (Other than Residential house)	Residential property (a house or a plot of land)
3	Nature of CA	LTCA	LTCA
4	New Asset	One Residential house in India	Subscription in Equity shares of Eligible company & company has utilised this amount for purchase of new asset i.e New Plant & Machinery Exceptions (i) P&M which, before its installation used by other person (ii) P&M installed in office premises or residential accommodation, including guest-house (iii) any office appliances including computers (iv) any vehicle or (v) P&M the whole of the actual cost of which is allowed as 100% deduction under PGBP Eligible Company means (i) Indian Company incorporated between 1st April of P/Y of capital gain upto due date of return u/s 139(1) (ii) Engaged in business of eligible start up (iii) company in which assessee has more than 25 % share capital
5	Time period of New Asset	Within 1 year before or within 2 yrs after transfer or constructed within 3 yrs after transfer	Company has within 1 year from date of subscription in Equity shares by assessee purchased new asset
6	CGAS deposit upto DDR	Available	Available
7	Exemption	LTCG X (Cost of new asset + Amount deposit in CGAS) ----- Net Consideration	LTCG X (Cost of new asset + Amount deposit in CGAS) ----- Net Consideration
8	Transfer of New Asset	If New Asset t/f within 3 yrs from date of purchase/ construction, then Exempt Capital Gains taxable in P/Y of transfer of new asset.	If Equity shares or New Asset t/f within 3 yrs from date of purchase/ construction, then Exempt Capital Gains taxable in P/Y of transfer of Equity shares/New asset

Section		54D : Compulsory Acquisition of Land & Building	54G : Transfer under shifting of Industrial Undertaking	54GA: Transfer of industrial undertaking to SEZ
1	Assessee	Any Assessee	Any Assessee	Any Assessee
2	Capital Asset Transferred	Compulsory acquisition of Land & Building used for Industrial undertaking in Any Area & Used by Assessee for Business for 2 years immediately prior to date of acquisition	Plant & Machinery / Land & Building used for Industrial undertaking in Urban Area	Plant & Machinery / Land & Building used for Industrial undertaking in Urban Area
3	Nature of CA	STCA or LTCA	STCA or LTCA	STCA or LTCA
5	New Asset	Land/Building for shifting of undertaking <u>in any area</u>	Plant/Machinery & Land/Building Including expenses on t/f for shifting of undertaking in <u>Rural Area</u>	Plant/Machinery & Land/Building Including expenses on t/f For shifting of undertaking to SEZ in <u>any area</u>
6	Time period of New Asset	Within 3 years after transfer	Within 1 year before or within 3 yrs of transfer	Within 1 year before or within 3 yrs of transfer
7	Exemption	Same as Sec. 54.	Same as Sec. 54.	Same as Sec. 54.
8	Transfer of New Asset	Same as Sec. 54.	Same as Sec. 54.	Same as Sec. 54.

COMMON POINT FOR ALL EXEMPTIONS

Non utilization of balance in Capital Gain A/c. Scheme:

- Amount deposited is not utilized wholly or partly for specified purpose by specified time.
- Exemption claimed on unutilized amount is taxable as Capital Gain of P/Y in which specified time expires.

Section 54H : Extension of time for acquiring new asset

- ✓ Where transfer of capital asset is by compulsory acquisition under any law.
- ✓ Time limits for acquiring new asset & for depositing in CGAS shall be
- ✓ Computed from date of receipt of compensation and not from the date of compulsory acquisition

Sec 54GB : Eligible business means a business which involves innovation, development, deployment, or commercialisation of new products, processes or service driven by technology or intellectual property.

Eligible start-up means a company engaged in eligible business and satisfies the following conditions:

- It is incorporated during April 1, 2016 and March 31, 2021
- The total Turnover of its business does not exceed Rs 25 crore in any of the previous years during April 1, 2016 and March 31, 2021.
- It holds the certificate of eligible business from the Inter-Ministerial Board of Certification as notified by the Central Gov

SOLVED QUESTIONS FOR PRACTICE

Question 1 : State, giving reason, whether the asset is Short term or Long term in the cases given below –

1. L purchase a house property on March 10, 2020 and transfers it on June 6, 2021
2. M purchase listed shares in an Indian Company on March 10, 2019 and transfers it on June 6, 2021
3. N acquires units of equity oriented mutual fund on July 7, 2019 and he transfers these units on July 10, 2020 & purchase diamonds on September 12, 2017 and gifts the same to his friend P on December 31, 2019. P transfers the asset on October 20, 2020.
4. P purchase shares in a company through a NSE broker (Date of purchase by the broker: November 21, 2019 the company transfers shares in the name of P : January 5, 2020). These shares are transferred by P on December 20, 2020.

Solution :

Taxpayer	Asset	Minimum period to become long-term capital asset	Short term or long term
L	House property	24 months	Short term
M	Listed Shares	12 months	Long term
N	Units of EOMF	12 months	Long term
P	Diamonds	36 months	Long term
P	Listed Shares	12 months	Long term

Question 2 : State, giving reasons the assessment year for which capital gain is chargeable to tax in the cases given below –

1. K sells a house property to Q as per sale deed dated March 30, 2021. The documents are, however, registered on April 6, 2021.
2. H sells a house property to C as per agreement to sale dated May 6, 2020, A pays the consideration on the same day. The possession is given on June 1, 2020, the sale deed is yet to be registered.
3. V sells shares to M on March, 1, 2020. Transfer deed is signed on the same day. Share certificates are delivered at the time of signing the transfer deed. Shares are, however, transferred in the name of M in the records of the company on May 10, 2020.

Solution :

1. **“Transfer” takes effect** from the date of execution of the sale deed (and not from the date of registration). Therefore in this case transfer takes place during the p/y 2020-21 and, consequently Capital Gain is taxable for the A/Y 2021-22.

2. Even if sale deed is not registered, an immovable property is transferred when the three conditions of section 53A of the Transfer of property Act are satisfied. The three conditions are satisfied on June 1, 2020. Therefore capital gains is taxable for the A/Y 2021-22.

3. When a movable property is delivered pursuant to a contract to sell, the ownership is transferred. In this case, ownership is transferred on March 1, 2021 and, consequently Gain is taxable for the assessment year 2021-22.

Question 3 : T purchased a house on 28-6-2002 for ₹1,10,000 and paid ₹10,000 for getting the property registered in his name. On 15-6-2010, he spent ₹80,000 on improvement of the house. The house was sold on 21-10-2020 for ₹10,00,000. Commission of ₹4,000 was paid on the sale of the house. Compute the capital gains.

	₹	₹
Solution:		
Sale consideration		10,00,000
Less: 1. Expenses of transfer	4,000	
2. Indexed cost of acquisition – ₹1,20,000 x $\frac{301}{105}$	3,44,000	
3. Indexed cost of improvement – ₹80,000 x $\frac{301}{167}$	1,44,192	4,92,192
Long-term capital gain		<u>5,07,808</u>

Question 4 : D required a residential house on 1-9-1989 for ₹1,00,000. He spent ₹25,000 on 1-8-1991 for the improvement of this house property. A further amount of ₹50,000 was spent by him on 15-11-2004 on improvement of the house. D gifted the said property to his son E on 12-10-2010. E also spent the following amounts on improvement of the house.

Date of expenditure	Amount ₹
15-7-2013	50,000
15-6-2020	40,000

E sold the above house on 30-11-2020 for a sum of ₹15,00,000. Expenses on transfer were 2% of the sale consideration. Compute the capital gain for the assessment year 2021-22, assuming the fair market value of the house as on 1-4-2001 to be ₹3,00,000.

	₹	₹
Solution :		
Sale consideration		15,00,000
Less: 1. Expenses on transfer	30,000	
2. Indexed cost of acquisition – ₹3,00,000 x $\frac{301}{100}$	9,03,000	
3. Indexed cost of improvement		
(i) by the previous owner - ₹50,000 x $\frac{301}{113}$	1,33,186	
(ii) by the assessee - ₹50,000 x $\frac{301}{220}$	68,409	
- ₹40,000	40,000	11,74,595
Long term capital gain		<u>3,25,405</u>

Question 5 : M owns a house property which was purchased by him on 1-6-1987 for ₹3,00,000. The said property was destroyed by fire on 3-4-2020 and M received a sum of ₹18,00,000 for the insurance company during the year. The market value of the above property as on 1-4-2001 was ₹4,00,000.

a) Compute the capital gain for the assessment year 2021-22.

b) What shall be the capital gain if the asset was destroyed by fire on 3-3-2020 and the compensation was received during the previous year 2020-21.

Solution:

a (Assessment year 2021-22)

Consideration Price	₹	18,00,000
Less: Index cost of acquisition – ₹4,00,000 x $\frac{301}{100}$		<u>12,04,000</u>
Long term capital Gain		<u>5,96,000</u>

b) (Assessment year 2020-21)

Although the asset was destroyed on 3-3-2020 i.e. in the previous year 2019-20 but there will be no capital gains during A/Y 20/21 as the compensation was received during the P/Y 20-21 i.e A/Y 21/22

(Assessment year 2021-22)

Consideration Price	₹	18,00,000
Less: Indexed cost of acquisition – ₹4,00,000 x $\frac{289}{100}$		<u>11,56,000</u>
Long term capital Gain		<u>6,44,000</u>

** The Capital Gain will be taxable in P/Y 2020-21 but indexation will be done till the year of destruction i.e. P/Y 2019-20.*

Question 6 :

J purchase a house property for ₹76,000 on June 30, 1987. The following expenses are incurred by him for making additions / alteration to the house property :

	₹
a. Cost of construction of first floor in 1989-90	1,10,000
b. Cost of construction of the second floor in 2002-03	3,40,000
c. Alteration / reconstruction of the property in 2010-11	1,67,000

Fair market value of the property on April 1, 2001 is ₹4,50,000. The house property is sold by J on June 15, 2020 for ₹30,00,000 (expenses incurred on transfer : ₹10,000)

Solution :**Computation of Long Term Capital Gain**

	₹	₹
Sale consideration		30,00,000
Less :		
Expenses on transfer	10,000	
Indexed cost of acquisition (WN1)	13,54,500	
Indexed cost of improvement (WN2)	<u>12,75,667</u>	<u>26,40,167</u>
Long term capital gain		<u>3,59,833</u>

WN1: Indexed cost of acquisition

$$4,50,000 \times 301/100 = 13,54,500$$

WN2: Indexed cost of improvement

- Ist floor in 89-90 : Not considered
- 2nd floor in 02-03 : $3,40,000 \times 301/105 = 9,74,667$
- Alteration/reconst in 10-11 : $1,67,000 \times 301/167 = 3,01,000$

Question 7 : On July 1, 2020, S holds the following unlisted equity shares in T Ltd.

Shares	Date of acquisition	Total investment
1,000 original shares	April 10, 1985	1,00,000
500 bonus shares I	May 6, 1987	Nil
750 bonus shares II	October 5, 2002	Nil
1125 Bonus shares III	May 10, 2018	Nil

On September 30, 2020, S transfers the above noted 3,375 shares @ ₹900 per shares (fair market value on April 1, 2001 is ₹8 per shares). Find out the capital gains chargeable to tax for the A/Y 2021-22.

Solution:

	Original Shares ₹	Bonus Shares I ₹	Bonus Shares II ₹	Bonus Shares III ₹
Sale consideration	9,00,000	4,50,000	6,75,000	10,12,500
Less :				
Indexed cost of acquisition				
*(₹ 1,00,000 x 301/ 100)	*3,01,000	**12,040	Nil	Nil
** (₹ 8 x 500 x 301/ 100)				
Cost of acquisition	<u>9,00,000</u>	<u>4,50,000</u>	<u>6,75,000</u>	<u>10,12,500</u>
Long term capital gain				
Short term capital gain				

Question 8 : Farhan holds 1,000 unlisted equity shares in G Ltd, since 1988 (cost of acquisition : ₹10,000, fair market value on April 1, 2001 : ₹14,000). G Ltd Offers 2,000 rights shares of ₹10 each to Farhan on May 1, 2020 at a premium of ₹50. Farhan subscribes for 800 rights shares and renounces 1,200 shares in favour of Javed by transferring the right entitlement for a consideration of ₹4,800. Farhan sells 1,800 shares in G Ltd. on March 30, 2021 @ ₹200 per shares.

Solution : Capital Gains in hands of Farhan for A/Y 2021-22

	₹
Sale proceeds of 1,000 original shares	2,00,000
Less : Indexed cost of acquisition ($\text{₹}14,000 \times 289/100$)	<u>40,460</u>
Long term capital gain	<u>1,59,540</u>
Sale proceeds of 800 rights shares ($\text{₹}200 \times 800$)	1,60,000
Less : Cost of acquisition {i.e., $\text{₹}60 \times 800$ }	<u>48,000</u>
Short term capital gains	<u>1,12,000</u>
Sale proceeds of Right Entitlement of 1,200 share	4,800
Less : Cost of acquisition	<u>Nil</u>
Short term capital gain	<u>4,800</u>

Question 9 : The central Government acquires a house property owned by Abhishek on October 17, 2013. This property was purchased on April 10, 1988 for ₹76,000 (cost of improvement incurred during 2004-05 : ₹40,000 and fair market value for 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, 2021. Expenditure incurred by Abhishek for the getting compensation fixed : ₹2,000. Being aggrieved against the award, Abhishek files an appeal.

The Bombay court, as per order dated August 1, 2021 enhanced the compensation from ₹5,67,000 to ₹8,50,000. (legal expenditure incurred in court's proceeding : ₹10,000). Abhishek receives the additional compensation of ₹2,83,000 on April 15, 2022. Compute the income under the head "Capital Gains"

Does it make any difference if the additional compensation is received by Abhishek's son after the death of Abhishek?

Solution : A/Y 2021-22, i.e., relevant to the p/y 2020-21, in which initial compensation (or part thereof) is received for the first time

	₹
Initial compensation	5,67,000
Less : Indexed cost of acquisition (WN1)	2,90,400
Indexed cost of improvement (WN2)	77,876
Expenditure	<u>2,000</u>
Long term capital gain	<u>1,96,724</u>

WN 1: Indexed cost of acquisition:

$$1,32,000 \times 220/100 = 2,90,400$$

WN 2: Indexed cost of improvement :

$$40,000 \times 220/113 = 77,876$$

Assessment Year 2023-24

Additional compensation : 2,83,000

Less:

COA NIL

COI NIL

Expenditure : 10,000

LTCG 2,73,000

If the additional compensation is received by Abhishek's son, it will be taxable in the hands of son

Question 10 : A, B and C partners of a firm. On March 10, 2021, the firm is dissolved. The following assets distributed to partners:

	Residential House (taken by A)	listed govt securities (taken by B)	Car (taken by C)
	₹	₹	₹
Fair market value on March 10, 2021	18,60,000	50,000	30,000
Agreed value as per dissolution deed	11,70,000	46,000	32,000
Cost of acquisition	40,000	5,000	--
Cost of acquisition as per section 50 (i.e., written down value)	--	--	8,000
Year acquisition	1989-90	2004-05	1993-94.
Fair market value on April 1, 2001	3,00,000	N.A	N.A.

Determine the amount of chargeable of chargeable capital gains of the firm for the assessment year 2021-22.

Solution :

	Residential House ₹	Government securities ₹	Car ₹
Sale proceeds (being fair market value on the data of transfer; agreed value is not relevant)	18,60,000	50,000	30,000
Less : Indexed cost of acquisition ₹ 3,00,000 X 301 / 100 ₹ 5,000 X 301 / 105)	<u>9,06,010</u>	<u>14,333</u>	
Cost of acquisition (i.e., written down value in case of car)	--	--	8,000
Short term capital gain	--	--	22,000
long term capital gain	<u>9,53,990</u>	<u>35,667</u>	--

Question 11 : W owns a piece of land situated in Noida (date of acquisition ; March 1, 2003, cost acquisition : ₹21,800. On March 30, 2021, the price of land is transferred for ₹4 lakh.

Find out the capital gains chargeable to tax in the following situations –

1. The value adopted by stamp duty authority is ₹5.5 lakh. W does not dispute it.
2. The value adopted by the stamp duty authority is ₹5.75 lakh. W files an appeal under the Stamp Act and stamp duty valuation has been reduced to ₹4.90 lakh by the Allahabad High Court.
3. The value adopted by the Stamp duty authority is ₹5.60 lakh. W does not challenge it under the stamp act. However, he claims before the assessing officer that ₹5.60 lakh is more than the fair market value of the land. The assessing Officer refers it to Valuation Officer determines ₹5.25 lakh as fair market value.
4. In situation (3) suppose the value adopted by the Valuation officer is ₹6.10 lakh.

Solution :

	Situation			
	(1)	(2)	(3)	(4)
	₹	₹	₹	₹
Full valuation of consideration	5,50,000	4,90,000	5,25,000	5,60,000
Less : Indexed cost of acquisition { ₹21,800 X 301 / 105 }	<u>62,493</u>	<u>62,493</u>	<u>62,493</u>	<u>62,493</u>
Long term capital gains	<u>4,87,507</u>	<u>4,27,507</u>	<u>4,62,507</u>	<u>4,97,507</u>

Question 12 : A sells agriculture land situated within the municipal limits of Calcutta for ₹30,00,000 on July 4, 2020, which was purchased by him on March 1, 2002 for ₹4,00,000. On July 15, 2021 he purchases agricultural land in rural area for ₹4,30,000 and deposits ₹10,80,000 in a deposit account for availing exemption under section 54B.

He purchases another agricultural land (situated within the limit of Delhi Municipal Corporation) on June 30, 2022 for ₹8,47,000 by withdrawing from the deposit account. Amount left in the deposit account is withdrawn on July 10, 2022. The agricultural land in rural area is transferred on April 1, 2023 for ₹4,90,000 and the land in Delhi is transferred on July 17, 2023 for ₹8,70,000. Determine the amount of capital gains.

Solution :

Assessment year 2021-22

	₹
Sale proceeds	30,00,000
Less: Indexed cost acquisition { ₹4,00,000 X 301 / 100 }	<u>12,04,000</u>
Balance	17,96,000
Less: Exemption under section 54B	
• Cost of agriculture land purchased on July 15, 2021	: 4,30,000
• Amount deposited in the deposit account	: <u>10,80,000</u>
Long term capital gains	<u>2,86,000</u>

Assessment year 2024-25 (i.e., relevant to the previous year in which 2 years from the date of sale of agriculture land expires)

Amount of exemption by depositing in the deposit account	:	10,80,000
Less: Amount utilized in purchasing agriculture land up to July 3, 2023	:	<u>8,47,000</u>
Long term capital gains		<u>2,33,000</u>

Assessment year 2024-25 (i.e., Relevant to the previous year 2023-24 in which the new asset is transferred before the expiry of 3 years)

	<u>Agricultural Land in Rural Area</u>	<u>Agricultural land in Urban Area</u>
Sale proceeds	Not taxable	8,70,000
Less : Cost of acquisition after deduction of the amount of exemption u/54B as the asset is transferred within 3 years {i.e. ₹4,30,000 – ₹4,30,000}		
Short term capital gain	<u>Not taxable</u>	<u>Nil</u> 8,70,000

Question 13 : C Ltd. a manufacturing company, purchases a factory building on May 6, 2002 for ₹20 lakh (prior to this the company used the same building as a tenant for about 5 years). The building is compulsory acquired by the Government on April 20, 2020 for which a sum of ₹60 lakh is paid as compensation on March 18, 2021. Compute the amount of capital gain chargeable to tax for A/Y 2021-22 taking into consideration the following information –

1. On April 1, 2020 the company owns two building (rate of depreciation: 10 %) one of which is acquired by the Government during 2020-21. The depreciated value of the block on April 1, 2020 is ₹21.35 lakh.
2. The company purchases a factory building on April 6, 2020 for ₹15 lakh.

Does it make difference if the factory building is purchased on March 31, 2021?

Solution : As the compensation is received on March 18, 2021, Capital Gain is taxable for **A/Y 21-22 as follows**

	₹
Sale consideration	60,00,000
Less: Cost of acquisition as per section 50 [being the depreciated value] of block on April 1, 2020	<u>21,35,000</u>
Short-term capital gain	38,65,000
Less: Exemption under section 54D	<u>15,00,000</u>
Short-term capital gain for assessment year 2021-22	<u>23,65,000</u>

In this case the amount of capital gain will be reduced if the new building is purchased in the p/y 20-21 (i.e. in the year which the old building was acquired by the government). Suppose the new building is purchased on March 31, 2020 then as per section 50, the acquisition of the building acquired by the government will increase and the capital gain shall be determined as follows

	₹
Sale consideration	60,00,000
Less: Cost of acquisition as per section 50 [being the depreciated value of block on April 1, 2020 and cost of building purchased during 2020-21, i.e. ₹21.35 lakh + ₹15 Lakh]	<u>36,35,000</u>
Short-term capital gain	23,65,000
Less: Exemption u/s 54D	<u>15,00,000</u>
Short-term capital gain	<u>8,65,000</u>

Question 14 : Z Ltd sells the following assets –

	Agricultural Land January 31, 2021	Bonus shares (unlisted) November 7, 2020	House property (let out) March 25, 2021
Date of acquisition	May 9, 2003	April 4, 2004	June 6, 2012
	₹	₹	₹
Sale consideration	9,00,000	2,50,000	5,80,000
Purchase consideration	70,000	Nil	1,00,000

The agricultural land is situated in urban area and used for agricultural purpose since 1993.

Z Ltd. Invests in the following assets on April 2, 2020 –

1. Bonds of the National Highways Authority of India (redeemable on June 1, 2026): ₹5,00,000.
2. Non-convertible Bonds (redeemable on May 10, 2028) of the Rural Electrification Corporation ₹5,00,000.
3. Agricultural land ₹75,000.

Find out the capital gain chargeable to tax.

Solution :

	Land ₹	Bonus shares ₹	House property ₹
Sale consideration (a)	9,00,000	2,50,000	5,80,000
Indexed cost of acquisition (b) *70,000 / 109 X 301 **1,00,000 / 200 X 301	*1,93,303	Nil	**1,50,500
LTCTG [before any exemption] (C)	7,06,697	2,50,000	4,29,500
Less : Exemption under section 54B	75,000	---	---
54EC	<u>6,31,697</u>	<u>2,50,000</u>	<u>1,18,303</u>
Income under the head "Capital gains"	NIL	NIL	3,11,197

There is no order of priority when exemption is not available under any other section. If exemption is available under any other section, then exemption should be first given under that section and thereafter u/s 54EC

Question 15 : C sells agricultural land situated in an urban area for ₹6,30,000 (brokerage paid @ 2 %) on March 31, 2021 (cost of acquisition : ₹1,05,000 on March 1, 2004; it was used for agricultural purposes since 2001) On March 31, 2021 he owns one residential house property. On April 6, 2021, he purchases the following assets –

- a. Agricultural land: ₹1,50,000 ; and
- b. Residential house property : ₹5,00,000.

Find out the capital gains chargeable to tax for the A/Y 2021-22.

Solution :

	₹
Sale consideration	6,30,000
Less:	
Indexed cost of acquisition (i.e. ₹1,05,000 x 301 /109)	2,89,954
Brokerage (2% of ₹6,30,000)	<u>12,600</u>
Long-term capital gain	<u>3,27,446</u>
Less: Exemptions	
Under section 54B	1,50,000
Under Section 54F	
[i.e., ₹3,27,446 x ₹5,00,000/ (₹6,30,000 – ₹12,600)]	<u>2,65,181</u>
Long-term capital gains	<u>87,735</u>

UNSOLVED QUESTIONS FOR PRACTICE

Question 1 : In following cases, Determine whether the asset held was short term or long term capital asset.

- a) R holds 1000 shares in G Ltd; which goes into liquidation on 31-10-2020. R purchased these shares on 31-1-2020. The company made the payment to R on 31-3-2021.
- b) R got a diamond ring by way of gift from his uncle on 1-1-2020. This ring was purchased by his uncle on 30-12-2017. R sold this ring on 31-12-2020.
- c) R acquires 1000 unlisted shares in G Ltd, on 28-2-2020. He surrenders these shares to the company on 31-8-2020 in pursuance of scheme of amalgamation. He is allotted 500 shares in S Ltd; the amalgamated company in lieu of such shares surrendered. R sells these shares on 31-3-21.
- d) R acquires 1000 listed shares in G Ltd on 29-3-2020. He is allotted 500 shares of a resulting company S Ltd; in the scheme of demerger on 1-4-2020. He transfers these shares on 30-3-21.

[Ans : a) STCA b) LTCA c) STCA d) LTCA]

Question 2 : The income of X (age 45 yrs) who is blind, for the P/Y 2020-21, is as under:-

	₹
1. Income from house property	4,32,000
2. Income from interest on loan	27,000
3. Income from interest on bank term deposits	10,000
4. Long-term capital gains	2,00,000
Not Covered u/s 115BAC	

He is eligible for deduction of ₹10,000 u/s 80C on account of PPF and ₹75,000 under section 80U.

Compute his tax liability.

[Ans : Tax Rounded off 48,570]

Question 3: X, a resident of India, aged 66 year, submits the following information for the P/Y 2020-21:

	₹
1. Income from salary	2,76,000
2. Interest on Saving Deposits with Banks	34,000
3. Long-term capital gains	1,10,000
4. Short-term capital gains on the sale of equity shares on which Transaction tax has been paid	10,000
Not Covered u/s 115BAC	

He pays ₹5,000 Life insurance premium on a policy of ₹40,000 (Policy issued 1.4.2017) and deposits ₹22,000 in Public Provident Fund account. Compute the tax liability by X for the A/Y 21-22.

[Ans : Tax Rounded off : 6,030]

Question 4 : From following information of Rahul (age 55 yrs), Compute his tax liability for A/Y21-22 :

1. Listed shares acquired in G Ltd for ₹6,00,000 on 15-3-2019 and sold for ₹8,60,000 on 1-11-2020 through a recognised stock exchange.
2. Listed shares acquired in S Ltd for ₹1,40,000 on 5-6-2001 sold for ₹5,82,000 on 1-12-2020 but such sale was not routed through a recognised stock exchange.
3. Income under the head salary ₹2,30,000.

[Ans : Total Income = 6,67,400 , Tax Rounded off : 42,120]

Question 5 : X purchases a property on April 1, 1996 for ₹95,000. He enters into an agreement for sale of the property to A on November 1, 2002 and receives ₹10,000 as advance. A could not, however, keep his promise and advance of ₹10,000 given by him is forfeited by X. Later on he gifts the property to his friend Y on May 15, 2009. The following expenses are incurred by X and Y for renewal of the property:

	₹
Addition of two rooms by X during 1997-98	25,000
Addition of first floor by X during 2006-07	40,000
Addition of second floor by Y during 2016-17	80,000
Fair market value on April 1, 2001	5,00,000

Y enters into an agreement to sell the property for ₹8,50,000 to B on April 1, 2016 after receiving an advance of ₹50,000. B could not pay the balance within the stipulated time of two months and Y forfeits the advance of ₹50,000 as per agreement with B. Y ultimately finds a buyer in C to whom property is transferred for ₹18,75,000 on December 1, 2020. Compute the capital gain chargeable to tax in the hands of Y for A/Y 21-22.

[Ans : LTCG = 2,10,199]

Question 6 : Mr. Mahesh owns several assets but does not own any residential house. He sells the following assets and requested you to compute his capital gains for the A/Y 21-22.

1. Share (purchase in April, 2002 for ₹60,000, (FMV as on 31/1/2019 is ₹30,000) sold through recognized stock exchange on 15-12-20 for ₹1,60,000.
2. On 1-4-2001, he had agreed to sell the Jewellery to Ramesh for ₹2,80,000 which was purchased in 1995 for ₹1,50,000. However the sale could not be effected as Ramesh backed out. He now sold the jewellery on 15-7-2020 for ₹18,20,000 and incurred ₹20,000 incidental selling expenses on account of brokerage and commission. He also invested ₹2,00,000 on 20-10-2020 in a deposit Account with a public sector bank under the CGAS. In Dec, 20 he also purchased a small residential house for ₹10,00,000.

3. Debentures (listed) (purchased in September, 2003 for ₹20,000 sold on 1-12-2020 for ₹80,000.

4. Sold his personal motor car (purchased in August, 2012 for ₹70,000) on 15-3-2021 for ₹1,00,000.

Ans : 1) Shares : LTCG u/s 112A 1,00,000 2) Jewellery : 9,57,200 – Exemption u/s 54F 6,38,133 = 3,19,067 , Debentures : 60,000 – 60,000 (Exemption u/s 54F) = Nil 4) Motor car not taxable

Question 7 : Rakesh lives in Bangalore. He owns not only house properties in and around Bangalore but cultivable land near Mangalore. He lives in a house which had been bought by him in January, 2006 for ₹2,31,000. The agriculture land measuring 10 hectares is being cultivated by his father for over 15 years. Its fair market value as on 1-4-2001 was ₹8,00,000. The residential house is sold by him for ₹13,00,000 in December, 2020 and another house brought within three months at a price of ₹3,00,000 to be used for residential purpose.

Agriculture land is also sold for ₹38,00,000 in January, 2021. On 30-6-2021 he bought another agriculture farm for ₹5,00,000 which will be cultivated by him. Gold ornaments were also sold by him in November, 2020 for ₹3,80,000 the fair market price thereof as on 1-4-2001 being ₹30,000. He bought fresh jewellery for ₹80,000 within six months of sales. You are required to compute taxable capital gains of Ashok for the assessment year 2021-22.

Ans : Residential House : 7,05,718 – 3,00,000 (Exemption u/s 54) = 4,05,718, Agri Land : LTCG:13,92,000 – Exemption u/s 54B 5,00,000 = 8,92,000, Jewellery : LTCG : 2,89,700

Question 8 : H sold his car for ₹1,50,000 on 16-4-2020. It was purchased by him on 15-4-2010 for ₹1,00,000. He spent ₹25,000 by way of capital repairs on it on 30-3-2012. He had applied for 5,000 shares of J Ltd. and paid ₹5 per share at the time of application. The shares were allotted to him on 17-6-2020. These shares were forfeited by J Ltd. on 15-12-2020 as he failed to pay call money.

He holds 5,000 listed share of K ltd. which he sold on 20-9-2020 for ₹200 per share and paid brokerage of ₹4,000. Out of the 5,000 shares sold by him, 2500 shares were purchased by him on 18-1-2003 for ₹1,00,000 for which he paid brokerage of ₹2,000. The balance shares were bonus shares which were allotted to him on 15-10-2019. The market value of shares on 31/1/2018 is ₹100 per share. He is not a dealer in shares and the car was for his personal use. Compute his capital gains for assessment year 21-22i.

[Ans :No Capital Gain on sale of car as Personal Asset, STCL on forfeited shares:(25,000) , LTCG on Original shares u/s 112A : 2,46,000 , STCG on bonus shares :4,98,000]

Question 9 : A, B and C are three brothers, holding certain shares in X Ltd. From the following particulars, compute the capital gain and business income of A, B and C.

(a) A acquired 10,000 unlisted shares from his father by way of gift on 1-7-2004, when the market value was ₹6,00,000. The father had acquired these shares in 2001 for ₹1,00,000. The market value of these shares on 1-4-2001 was ₹1,50,000. A began to deal in shares w.e.f. 1-9-2020. He converted the above shares into stock in trade and credited his capital account in the books with ₹5,00,000. The market value of these shares as on 1.9.2020 was ₹10,00,000. These shares were sold by A on 25-3-2021 for ₹11,00,000. He invested ₹4,00,000 into residential house property on 30-4-2021 as he does not own any house.

(b) B purchased 10,000 shares from his father on 15-1-2003 @ ₹40 per share. He also started dealing in shares w.e.f. 15-6-2020. The market value of these shares on 15-6-2020 was ₹13,00,000. 50% of the shares were sold by B on 30-3-2021 for ₹7,50,000, out of which he deposited a sum of ₹1,50,000 under capital gain scheme on 16-7-2021 for purchase of a residential house as he also does not own any house.

(c) C acquired 10,000 shares by way of will from his father on 11-4-2011. The father had acquired these shares in 2001-02 for a sum of ₹2,00,000. The market value as on 11-4-2011 was ₹7,00,000. These share was sold by C on 29-3-2021 for ₹8,00,000 through a recognized stock exchange.

[Ans: a) LTCG 5,48,500 : - Exemption u/s 54F : 2,19,400 = 3,29,200 , Business Income = 1,00,000, b) LTCG 76,667 - Exemption u/s 54F :17,692 = 58,975 ,Business Income = 1,00,000, c) LTCG u/s 112A is 6,00,000]

Question 10 : Avinash with his friend Bhavesh started a partnership firm to run the business of dealing in shares w.e.f. 1-5-2020. Avinash contributed ₹10,00,000 in cash as his capital contribution while Bhavesh has contributed some listed shares in companies which were held by him as investments. The cost of these shares to Bhavesh in 2001-02 was ₹2,00,000 while their market value on 1-5-2020 was ₹12,00,000. It was agreed to credit Bhavesh's capital a/c for these shares with ₹8,00,000.

In the course of the business during year 20-21, 50% of these shares were sold for ₹7,50,000 and the securities transaction tax of ₹550 was paid by the firm.

You are required to compute capital gains/ profit or gain from the business and profession, if any arising out of these transaction in the hands of partners and firm for A/Y 21-22.

[Ans : LTCG to Bhavesh : ₹1,98,000 , Business Income of Firm = ₹3,49,450]

Question 11 : Abhishek acquired the urban agriculture land from his father by way of gift on 15-4-2005. The market value of the land as on the date of gift was ₹5,00,000. The father had acquired the above land in 1997 for ₹1,00,000. The market value of the land as on 1-4-2001 was ₹3,00,000. Abhishek had been regularly using the agriculture land for agriculture purpose.

The said agricultural land was compulsorily acquired by the government on 15-1-2016. The compensation price was fixed at ₹12,00,000, which was received on 20-4-2020. Abhishek purchased an agricultural land on 30-4-2020 for ₹2,50,000. As he has only one residential house property, he deposited a sum of ₹2,00,000 under the capital Gain scheme on 29-7-2021.

Compute taxable capital gain.

[Ans : Exempt u/s 10(37)]

Question 12 : Mr. Prakash holds 500 shares of XYZ Ltd. which were allotted to him on 22-4-2010 @ ₹30 per share. On 22-7-2020 XYZ Ltd. made right issue to the exiting shareholders at the rate of one share for every five shares held @ ₹20 per share.

Mr. Prakash instead of exercising his right to obtain right shares, has exercise his right of renouncement by renouncing the said right entitlement in favour of Mr. Kureshi @ ₹13 per right share entitlement on 4-8-20.

(i) Determine the nature and amount of capital gain, If any, taxable in the hands of Mr. Prakash.

(ii) What will be the cost acquisition of shares purchased by Mr. Kureshi.

[Ans:(i)STCG ₹1,300 (ii) ₹ 3,300]

CHAPTER – 12

DEDUCTIONS

Sections covered in this chapter

Sec 80C	Deduction of LIC premium
Sec 80CCC	Contribution to pension fund
Sec80CCD	Contribution to notified pension scheme
Sec 80CCE	Limit of 1.5 lac
Sec 80D	Medical insurance premium
Sec 80DD	Medical treatment of disabled relative
Sec 80ddb	Medical treatment for specified disease
Sec 80E	Interest on loan for higher education
Sec 80EE	Interest on loan taken for Residential House Property
Sec 80EEA	Interest on loan taken for certain house property
Sec 80EEB	Deduction in respect of purchase of electric vehicle
Sec 80G	Donations
Sec 80GG	Deduction of rent paid
Sec 80GGA	Contribution for scientific research, rural devp. etc
Sec 80GGB	Contribution to political party by company
Sec 80GGC	Contribution to political party by non corporate
Sec 80-IA	Industrial undertaking engaged in infrastructure
Sec 80-IAB	Assessee engaged in devp. of SEZ
Sec 80-IC	Manufacturing in specified areas
Sec 80-ID	Operation of Hotels and Convention Centres
Sec 80-IE	Manufacturing of specified article in specified area
Sec 80 JJA	Business of collecting/processing bio degradable waste
Sec 80JJAA	Employment of new workmen
Sec 80QOB	Deduction of Royalty from Books
Sec 80RRB	Deduction of Royalty from patents
Sec 80TTA	Deduction of interest of saving account
Sec 80U	Deduction for person with disability

Basis Rules while computing deductions

1. Deductions are NOT allowed from :

- a) LTCG u/s 112 @ 10%
- b) LTCG u/s 112A @ 10%
- c) STCG u/s 111A @ 15%
- d) Casual incomes u/s 115BB @ 30%
- e) Dividend income u/s 115BBDA @ 10%
- f) Patent income u/s 115BBF @ 10%
- g) Undisclosed income u/s 115BBE @ 60%
- h) Income from transfer of carbon credit u/s 115BBG @ 10%

2. **Total Deductions u/s 80C to 80U cannot exceed amount of GTI**

Sec. 80C : Deduction for life insurance premium ,PF contributions etc.

- Available to an **Individual or HUF**
- Amount **deposited** in **specified investments/securities**
- Deduction **1,50,000** or **Amount deposited/invested , whichever is less**

List of Specified Investments/securities

1. Life insurance premium on life of **himself ,spouse** and any child (*If H.U.F ,for any member*)

Special Point :

1. **Premium > 10%** of capital sum assured shall be ignored for **policy issued on or after 1/4/2012**
2. **Premium > 20%** capital sum assured shall be ignored for **policy issued upto 31/3/2012**
3. **Premium > 15%** of capital sum assured shall be ignored for person with ***disability u/s 80U or suffering from disease u/s 80DDB for policy issued on or after 1.4.2013 (Refer Working Note 1)***
2. Contribution by an **employee** to Statutory Provident Fund or Recognized Provident Fund or Approved superannuation fund
3. Contribution by an **person** to Public Provident Fund for himself ,spouse and any child
4. Subscription to **NSC VIII issue including interest accrued** (*Refer working note 2*)
5. Contribution in **ULIP**
6. **Tuition Fee Paid by an individual**
 - ✓ For **any two** children of such individual
 - ✓ At the time of admission or thereafter
 - ✓ For **full time education** (*Excluding development fees & donation*)
 - ✓ To University, College, School, Other Education Institution **situated in India**
7. Subscription to Deposit scheme of **National Housing Bank**
8. Contribution to Deposit Scheme of :
 - Public Sector Co. engaged in Long Term Finance for Residential Houses in India.
 - Authority in India, Providing Housing accommodation

9. **Payment for Purchase/ Construction of Residential House Property**
 (i) **Installment** under Scheme of any authority ,board
 (ii) **Repayment** of amount borrowed by **assessee** from:
- Central/State govt. ,any bank ,LIC, NHB
 - Public Companies/ Co-Op Society
 - From employer i.e Public Co, University, College, Local Authority or Co-op. society
- (iii) **Stamp duty, registration fees** for transfer of house property
10. Subscription to **Equity shares** or **Debentures** of a **Public company** registered in India **or** to a **public financial institution** which utilizes the proceeds for infrastructural business u/s **80IA**
11. Sum deposited in a **scheduled bank** for **atleast 5 years** under notified Cgovt scheme
12. Subscription to bonds of **NABARD**
13. Contribution to ELSS,2005
14. *Deposit in Senior citizen saving scheme ,2004*
15. *Deposit in 5 year time deposit in an account under post office time deposit rules,1981*
16. *Subscription, in the name of any specified person, in deposit scheme notified by C Government*
- Specified Person : Individual or any girl child of that individual, or any girl child for whom such person is legal guardian**
17. Employee of Central Government, as contribution to specified account of pension scheme u/s 80CCD
 (a) for fixed period of not less than 3 years; and
 (b) As per scheme notified by Central Government in Official Gazette

Specified account” means an additional account u/s 20(3) of Pension Fund Regulatory and Development Authority Act, 2013

Special point :

1. **Exemption u/s 10(10D) :** Sum received under LIC policy including bonus is exempt

Exceptions : The following amount is taxable under Other Sources

- (i) Sum received under policy u/s 80DD.
 (ii) Sum received under Keyman Insurance Policy.
 (iii) Sum received under life Insurance policy where annual **premium greater than specified % of sum insured** (*However such sum received on death is exempt*).

2. Sec 194DA : TDS on LIC payments

Any person responsible for paying to a resident any sum under a life insurance policy, including bonus, other than amount exempt u/s 10(10D), shall, at time of payment, deduct TDS @ 5 % on the amount of income comprised in payment. 14.05.2020 to 31.03.2021 : 3.75%

Provided No TDS if aggregate amount during P/Y is less than 1,00,000.

3. Interest Accrued on NSC VIII issue

1. Interest accrued every year is **included in Income under IOS of each P/Y**
2. Interest excluding last year is **deemed to be reinvested** and therefore allowed as **deduction u/s 80C**

Sec. 80CCC : Deduction for Contribution to Pension Fund

- Amount paid by **Individual** during P/Y
- *out of his income chargeable to tax*
- in **annuity plan** of any insurance company for receiving Pension
- Amount paid or **₹1,50,000**, whichever is less

Special Points: If assessee or nominee receives pension or other amount on Surrender, such amount will be taxable in P/Y in which received.

Sec. 80CCD : Deduction for Contribution to Central Govt Notified Pension Scheme (N.P.S)

- ➔ Individual employed by **any Employer** or *Individual*
- ➔ Deposits any amount during p/y under a **Pension scheme notified by C govt.**
- ➔ **Deduction to Employee of his own contribution[Sec 80CCD(1)] :**
Employee contribution to NPS or 10% of Salary, *whichever is less*
- ➔ **Additional deduction to employee of employer contribution [Sec 80 CCD(2)] :**
CGovt Employee : Employer contribution to NPS or 14% of Salary , *whichever is less*
Other Employee : Employer contribution to NPS or 10% of Salary , *whichever is less*

→ **Deduction to Other Individual [Sec 80CCD(1)]** : *Contribution to NPS or 20 % of GTI ,whichever is less*

Additional deduction u/s 80CCD(IA)

An assessee , shall be allowed additional deduction upto 50,000 for amount deposited in NPS to both employee and non employee

Special Points :

1. **Salary** = Basic + DA(retirement Benefits) + Commission % of turnover
2. If amount standing to credit of assessee in his account, in respect of which a deduction has been allowed is received including accrued thereon by the assessee or his nominee, in any P/Y—
 - (a) on account of closure or his opting out of pension scheme or
 - (b) as pension received from annuity plan purchased or taken on such closure or opting out,
 such amount shall be deemed as income of assessee or his nominee, in P/Y of receipt
3. Amount received by nominee, on death of assessee, under point (a) above, shall not be deemed as income of nominee.
4. **Sec 10(12A)** : Any payment from NPS Trust to employee on closure of his account or on his opting out of the pension scheme u/s 80CCD, upto 60% of the total amount payable to him is Exempt.
5. **Sec 10(12B)** : Any payment from NPS Trust to employee under pension scheme referred u/s 80CCD, on partial withdrawal made out of his account in accordance with terms & conditions, specified under PFRDA Act, 2013 and its regulations, upto 25% of amount of contributions made by him ,is exempt

Sec 80CCE : 80C + 80CCC + 80CCD(1) cannot exceed ₹1,50,000

Sec 80CCG : Investment made under an Equity Savings Scheme.

- 1) **Assessee** : Individual resident in India
- 2) **Investment** : Acquisition of Listed Equity Shares or listed units of an Equity Oriented fund during p/y in accordance with scheme notified by the Central Government
- 3) **Deduction** : 50% of amount invested in such equity shares or such units or 25,000 ,whichever is less

4) **Period** : 3 consecutive p/y beginning with p/y of investment

5) **Conditions** :

- (i) GTI of the assessee is upto 12 lacs
- (ii) Assessee is a new retail investor as specified under the scheme
- (iii) Investment is made in such listed equity shares as may be specified under the scheme
- (iv) Investment is locked-in for a period 3yrs from date of acquisition in accordance with the scheme

6) **Breach of conditions** : If the assessee, in any previous year, fails to comply with any condition as above, the deduction originally allowed shall be deemed to be the income of the assessee of such previous year

Special point :

1. No deduction under this section shall be allowed for 1st time investors wef A/Y 18/19

Exception : Assessee, who has claimed deduction u/s 80CCG upto A/Y 17/18, shall be allowed deduction for balance no of A/Y

2. Where an assessee has claimed and allowed a deduction under this section for any assessment year in respect of any amount, he shall not be allowed any deduction under this section for any subsequent assessment year.

Sec. 80D : <u>Deduction of Health Insurance Premium</u>
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- ☐ Available to **Individual or HUF**
- ☐ Premium **paid for health insurance /preventive health check up/medical expenditure** during P/Y
- ☐ *Out of Income chargeable to tax*
- ☐ by any mode ***other than cash (except for preventive health check up/medical expenditure)***

1) INDIVIDUAL

- **For Himself, spouse, Dependent children**

a) Health Insurance

b) Contribution to Central Government Health Scheme ***or to other notified scheme***

Maximum Deduction for (a) + (b) is ₹25,000

Upto **₹25,000** extra deduction if any of above person is ***a senior citizen***

c) Payment made on account of preventive health check-up *

- d) *Medical expenditure on health of Senior Citizen upto ₹50,000* and no amount has been paid for health insurance of such member

Maximum Deduction : (a) + (b) + (c) + (d) = ₹50,000

- For Parent/s

- a) Health Insurance

Maximum Deduction for (a) is ₹25,000

but Upto **₹25,000** extra deduction either parent is *senior citizen*

- b) Payment made on account of preventive health check-up *

- c) *Medical expenditure on health of a Senior Citizen upto ₹50,000 and no amount has been paid for health insurance of such member*

Maximum Deduction : (a) + (b) + (c) = ₹50,000

***Maximum deduction for preventive health check-up is upto 5,000 within overall limit**

2) H.U.F

- (a) For Health insurance of any member

Maximum Deduction for (a) is ₹25,000

but Upto **₹25,000** extra deduction if member is a *Senior Citizen*

- (b) *For Medical expenditure on health of a member who is a very senior citizen upto 30,000 and no amount has been paid for health insurance of such member*

Maximum Deduction : (a) + (b) = 30,000

Special Point:

1. Dependant: means a person who is dependent for support/maintenance on Assessee
2. Senior Citizen: Individual Resident in India & age of **60 years or more** at any time during P/Y
3. Where health insurance premium is paid in lump sum in a p/y for more than a year, then, subject to the provisions of this section, there shall be allowed for each of the relevant p/y, a deduction equal to the appropriate fraction of the amount.

Sec. 80U: Deduction in case of a person with Disability

- Individual, Resident in India
- Suffering from disability *at any time* during the previous year
- Amount of deduction

Flat Amount : ₹ 75,000 In case of **Disability** only
: ₹1,25,000 In case of **Severe Disability**

Special Points :
1. Disability & Severe disability:

Person with Disability: means a person suffering from at least **40%** of the following disability, as certified by medical authority

Blindness, Low vision, leprosy, Hearing impairment, Locomotor disability Mental retardation/Illness

Severe Disability : means at least **80%** of the above Disabilities

2. For claiming deduction, certificate obtained from medical authority to be furnished with ROI for relevant P/Y

Sec. 80 DD: Medical Treatment of Handicapped Dependant Relatives

- ⇒ Individual or HUF (*Resident in India*)
- ⇒ **Incurred Expenditure** for medical treatment (*including nursing, training etc.*) or **Amount deposit** under approved scheme for annuity of any insurer
- ⇒ For **Disabled Dependent Relative**
- ⇒ Amount of deduction
Flat Amount : ₹75,000 in case of **Disability** only
: ₹1,25,000 in case of **Severe Disability**

Special Points:
1. Dependant Relative

Individual : Spouse, Children, Parents, Brothers & Sisters of the Individual

HUF : Any member of HUF

Who is Dependent wholly or mainly on such individual or HUF for his support & maintenance and not claimed deduction u/s. 80U

3. If disabled dependent dies before the individual, the amount deposited shall be deemed to be income of the assessee of the previous year in which such amount is received by the assessee
(Exception to 10(10D))

4. For claiming deduction, certificate from **medical authority** to be furnished with ROI for relevant P/Y

Sec. 80 DDB : Deduction in respect of Medical Treatments

- Individual or HUF (*Resident in India*)
 - Incurred Expenditure for Medical Treatment of **Specified Disease**
- for **Himself** or **Dependant Relative** (*Incase of HUF , for any member of HUF*)
- Amount paid or **₹40,000/-** whichever is less
₹1,00,000/- (If any of above is *Senior Citizen*)

Special Points:

1. *For claiming deduction assessee should obtains the prescription for such medical treatment from a neurologist, an oncologist, a urologist, a haematologist, an immunologist or such other specialist, as may be prescribed*
2. Dependant Relative: Same as 80DD
3. Senior Citizen: Individual Resident in India & age of **60 years or more** at any time during P/Y

Sec. 80E : Deduction for repayment of loan for Higher Education

- ❖ Available to Individual
- ❖ for Loan taken from Financial Institution(Including Banks) or approved Charitable Institution for
- ❖ pursuing **Higher education** for HIMSELF or RELATIVE
- ❖ Deduction : Actual **Interest paid** during p/y (*out of his income chargeable to tax*)

Special Points:

1. Period of deduction : 8 A/Y beginning from A/Y of 1st payment of Interest
2. Higher Education : means any course of study after passing the Senior Secondary Examination or its equivalent from any Recognised.school, board or university
3. Relative means Spouse & children or the student for whom the individual is the legal guardian

Sec 80EE : Interest on loan taken for Residential House Property

Assessee	Individual who has taken a loan from any financial institution for the purpose of acquisition of a residential house property
Deduction	Interest payable during P/Y upto 50,000
Conditions	<p><i>(i) loan is sanctioned by financial institution between 1/4/16 & upto 31/3/17</i></p> <p><i>(ii) Loan sanctioned is upto ₹35,00,000</i></p> <p><i>(iii) Value of residential house property is upto ₹50,00,000</i></p> <p><i>(iv) Assessee does not own any residential house property on date of sanction of loan</i></p> <p><i>(4) If deduction is allowed under this section than such interest shall not be allowed under any other provisions of the Act for the same or any other assessment year.</i></p> <p><i>"Financial institution" means a banking company to which the Banking Regulation Act, applies or a housing finance company"</i></p> <p><i>"Housing finance company" means a public company formed or 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" .</i></p>

Sec 80EEA : Deduction in respect of interest on loan taken for certain house property

(1) In computing the Total Income of Individual not eligible to claim deduction u/s 80EE, deduction shall be allowed of interest payable on loan taken by him from any financial institution for the purpose of acquisition of a residential house property.

(2) The deduction shall not exceed ₹1,50,000 and shall be allowed in computing the total income wef A/Y 20/21

(3) The deduction shall be subject to the following conditions, namely:—

- (i) Loan has been sanctioned by financial institution between 1/4/19 to 31/3/21
- (ii) Stamp duty value of residential house property does not exceed 45 lakhs
- (iii) Assessee does not own any residential house property on the date of sanction of loan.

(4) Where a deduction is allowed under this section, deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.

Sec 80EEB : Deduction in respect of purchase of electric vehicle

(1) In computing the total income of Individual, deduction shall be allowed of interest payable on loan taken by him from any financial institution for the purpose of purchase of an electric vehicle.

(2) The deduction shall not exceed ₹1,50,000 and shall be allowed in computing the Total income wef A/y 20/21

(3) The deduction shall be subject to the condition that loan has been sanctioned by the financial institution between 1/4/19 to 31/3/23.

(4) Where a deduction is allowed under this section, deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.

(5) For the purposes of this section,—

(a) Electric vehicle means a vehicle which is powered exclusively by electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle & has such electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy;

(b) Financial institution means a banking company to which Banking Regulation Act, 1949 applies, or any bank or banking institution referred u/s 51 of that Act and includes any deposit taking NBFC or a systemically important non-deposit taking NBFC.

Sec. 80G: Deduction in respect of Donation etc

- Deduction under this section is available to **All Assesseees**. However donations in **Kind are not** eligible for deduction.
- *No deduction shall be allowed under this section in respect of donation of any sum exceeding ₹2,000 unless such sum is paid by any mode other than cash.*

The following donations are eligible for deduction

100% deduction without qualifying Limit

- 1) National Defence Fund
- 2) Army/Naval/Air Force Welfare Fund.
- 3) National Cultural Fund
- 4) National Sports Fund
- 5) National Children Fund

- 6) National Foundation for communal Harmony.
- 7) National Illness Assistance Fund.
- 8) National Trust for Welfare of Person with Mental Retardation & Mental Disabilities.
- 9) National/State Blood Transfusion Council.
- 10) Maharashtra CM Earthquake Relief Fund.
- 11) Andhra Pradesh CM Cyclone Relief Fund.
- 12) Gujarat Fund for Earthquake Relief.
- 13) PM National Relief Fund.
- 14) Chief Minister Relief Fund for the state or Lieutenant Governor relief Fund for union territory.
- 15) Africa (Public Contribution India) Fund.
- 16) Any Fund set by State Government for Medical Relief of Poor.
- 17) Zila Saksharta Samiti of a District.
- 18) Approved University/Education Institution of National Eminence.
- 19) Fund for technology Development Set by Central Government
- 20) **National Fund for Control of Drug Abuse**
- 21) **Swachh Bharat Kosh, set up by Central Government, other than sum spent by assessee for Corporate Social Responsibility u/s 135 of Companies Act, 2013**
- 22) **Clean Ganga Fund, set up by Central Government, where such assessee is resident, other than the sum spent by assessee for Corporate Social Responsibility u/s 135 of Companies Act, 2013**

50% Deduction without qualifying Limit

1. Jawaharlal Nehru Memorial Fund.
2. Prime Minister Drought Relief Fund.
3. Indira Gandhi Memorial trust.
4. Rajiv Gandhi Foundation.

100% Deduction subject to Qualifying Limit

- i. Govt./Local authority for promoting Family Planning.
- ii. Sum paid by **Company** to Indian Olympic Association or their notified Institutions for development of Infrastructure for sports or sponsorship of sports in India.

50% Deduction subject to Qualifying Limit

- i. Govt/Local Authority for any Charitable Purpose (*except Family Planning*).
- ii. Approved Charitable Institution, which **has obtained approval u/s 80G(5)**.
- iii. Authority engaged in planning, development of cities, towns
- iv. Corporation established by C Govt or S Govt. for promoting interest of minority community.
- v. Notified Temple, Church, Mosque, Gurdwara or other place notified by CG of Artistic Importance for **Renovation/Repairs**.

Qualifying Limit : 10%

	Gross Total Income
	Less :
a)	LTCG
b)	STCG u/s 111A
c)	All deductions u/s. Chapter VI-A (Except 80G)

Sec. 80GG: Deduction of Rent paid

- Available to Individual (other than salaried employee) **or** If Individual is Salaried employee *he should not be entitled to HRA* in order to claim deduction u/s 80GG.
- In respect of **Rent paid**
- For his **Residential Accommodation**
- **Amount of Deduction**
 - (a) Rent paid – 10% of Adjusted total Income
 - (b) 25% of Adjusted total Income
 - (c) ₹5,000/- per month

Whichever is less

Special Points:

1. Deduction shall be available only if
 - **Assessee/ Spouse/ Minor Child** does not own residential accommodation **at a place** where assessee ordinarily resides or carries on Business or Profession **AND**
 - **Assessee** also does not own residential accommodation **at other place** Which is assessed as self occupied property i.e. value as NIL

2. Adjusted Total Income :

	Gross Total Income
	Less :
a)	LTCG
b)	STCG u/s 111A
c)	All deductions of Chapter VI-A (other than 80GG)

Sec. 80GGA : Donation for Scientific Research or Rural Development

- ♣ Available to All Assessee (*provided no P/G/B/P Income*)
- ♣ For payment made to certain Institutions
- ♣ **100%** of sum paid to such Institutions is allowed as deduction
- ♣ *Provided amount greater than ₹10,000 shall be paid by any mode other than cash.*
[wef 1/6/2021 limit reduced to ₹2,000]

Donations to Institutions		
Approved Research association or University, college for Scientific , Social Science or Statistical Research	Public Sector Company or Local Authority or Association approved by National committee for Social & Economic welfare	Association engaged in approved Prog. for Rural Development or to Rural development fund

Special Point :

1. Deduction u/s 80GGA **shall not be disallowed** if subsequent to payment , approval of such institution or project is withdrawn

2. *Claim of assessee for a deduction in the return of income for any assessment year filed by him, shall be allowed on the basis of information relating to such sum furnished by the payee to the prescribed income-tax authority or the person authorised by such authority, subject to verification in accordance with the risk management strategy formulated by the Board from time to time*

Sec. 80GGB : Contribution to Political Parties

- ♦ Assessee being a **Indian Company**
- ♦ Sum **contributed** to Any Political Party / **Electoral Trusts**
- ♦ **100% of Sum Paid** is allowed as deduction
- ♦ *Provided paid by mode other than Cash*

Sec. 80GGC : Contribution to Political Parties

- ♦ Any Assessee **other than Indian Company**, (except institution funded by Govt.)
- ♦ Sum **contributed** to Any Political party/ **Electoral Trusts**
- ♦ **100% of Sum Paid** is allowed as deduction
- ♦ *Provided paid by mode other than Cash*

Special Point :**1. Sec 13A : Exemption of Income of Political Party**

Following Incomes of **Political Party** (*Registered under Representation of People Act*) is **Exempt**

- Income from **house property**
- Income from **other sources**
- **Capital gains**
- **Voluntary contributions** received from any person
- **Provided**
 - (a) **Books of account** and documents are maintained to enable AO to compute its income
 - (b) For **voluntary contribution**, other than contribution by way of electoral bond, **in excess of ₹20,000**, Name & address of contributor is maintained
 - (c) **Accounts** of such political party are **audited** by CA
 - (d) Donation > ₹2,000 is received by such political party only by A/c payee cheque drawn on bank or A/c payee bank draft or use of ECS through a bank A/c or through electoral bond
 - (e) **Treasurer submits a report** under Representation of the People Act, for F/Y
 - (f) Political party furnishes a return of income for p/y u/s 139(4B) on or before the due date under that section.

2. Electoral trusts - Sec 2(22AAA) : Trust approved by Board in accordance with scheme of C. govt.**Sec 13B. Exemption of Income of Electoral trust**

Any voluntary contributions received by an electoral trust during a previous year shall be **exempt** if

- (a) such electoral trust distributes to any political party, registered under Representation of People Act, during previous year, 95% aggregate donations received by it during previous year along with surplus, if any, brought forward from any earlier previous year; and
- (b) such electoral trust functions in accordance with the rules made by the Central Government

Profits Based Deductions (Part C of Chapter VI-A)**Sec 80IAB : Development of SEZ**

1. **Eligibility :** Any assessee carrying on the business of developing a Special economic zone notified under Special Economic Zone Act
2. **Amount of deduction:** 100% of profits for any **10 years out of 15 years** starting from the year in which SEZ is notified by the central govt.
3. **No deduction to developer**, if development of SEZ begins wef 1/4/17.

Sec 80LA : Income of off shore banking unit / International financial services centre

- Where GTI of scheduled bank or bank incorporated under foreign laws &
 - having an Offshore Banking Unit in SEZ,
 - there shall be allowed , deduction of
 - (a) 100% of income for 5 consecutive A/Y beginning with the A/Y relevant to p/y in which permission under Banking Regulation Act, 1949 or permission or registration under SEBI Act,1992 or any other relevant law was obtained, and thereafter;
 - (b) 50% of such income for 5 consecutive A/Y.
-
- Where GTI, of Unit of International Financial Services Centre,
 - there shall be allowed, a deduction of
 - 100%. of income for any 10 consecutive A/Y, at option of assessee, out of 15 years, beginning with p/y in which permission, under Banking Regulation Act, 1949 or permission under SEBI Act,1992 or any other relevant law was obtained.

80-IAC : Special provision in respect of specified business

(1) **Assessee & Deduction** : Where the GTI of an eligible start-up, includes any income from eligible business, , deduction is allowed of 100% such income derived from such business for 3 consecutive A/Y

(2) **Option of 3 A/Y** : The deduction may, at the option of assessee, be claimed by him for any three consecutive A/Y out of 7 years beginning from the year in which the eligible start-up is incorporated.

(3) **Conditions** : This section applies to a start-up which fulfils the following conditions, namely:—

- (i) it is not formed by splitting up, or reconstruction, of existing business:
- (ii) it is not formed by transfer to new business of machinery or plant previously used for any purpose.

Explanation 1 : Any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose, if all the following conditions are fulfilled, namely:—

- (a) such machinery or plant was not, at any time previous to date of installation by assessee, used in India;
- (b) such machinery or plant is imported into India;
- (c) no deduction of depreciation on such machinery or plant has been allowed or is allowable in computing total income of any person for any period prior to date of installation by assessee.

Explanation 2 : Where in the case of a start-up, any machinery or plant or any part thereof previously used for any purpose is transferred to a new business & total value of machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used in the business, then, for the purposes of clause (ii) of this sub-section, the condition specified therein shall be deemed to have been complied with.

Explanation.—For the purposes of this section,—

(i) "Eligible business" means a business carried out by an eligible start-up engaged in innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation

(ii) "Eligible start-up" means a company or LLP engaged in eligible business which fulfils the following conditions, namely:—

- (a) it is incorporated between 1/4/2016 to 31/3/2021
- (b) Total turnover does not exceed 25 crore rupees in the P/Y in which deduction is claimed; and
- (c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in Official Gazette by the Central Government.

Sec 80IBA : Deductions in respect of profits and gains from housing projects.

(1) **Assessee** : Where the GTI of an assessee includes any Income from business of developing & building **housing projects**, there shall be allowed, a deduction of 100% of the income derived from such business.

(2) **Conditions** : **Housing project** shall be a project which fulfils the following conditions, namely:—

- (a) Project is approved by competent authority after 1/6/2016, but upto 31/3/2021;
- (b) Project is completed within 5 years from date of approval by competent authority:

Provided that,—

- (i) If approval of housing project is obtained more than once, the project shall be deemed to have been approved on date on which building plan was first approved by competent authority; and
- (ii) Project shall be deemed to have been completed when certificate of completion of project as a whole is obtained in writing from competent authority;
- (c) Carpet area of shops & other commercial establishments included in housing project does not exceed 3% of aggregate carpet area;
- (d) Project is on plot of land measuring not less than—
 - (i) 1000 sq metres, where such project is located in Bengaluru, Chennai, Delhi NCR (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad Kolkata and Mumbai ; or
 - (ii) 2000 sq metres, where such project is located in any other place;
- (e) Project is the only housing project on the plot of land as specified in clause (d);
- (f) Carpet area of the residential unit comprised in the housing project does not exceed—
 - (i) 60 sq metres, where such project is located within Bengaluru, Chennai, Delhi NCR (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad, Kolkata and Mumbai; or
 - (ii) 90 sq metres, where such project is located in any other place;
- (g) Stamp duty value of a residential unit in the housing project does not exceed ₹45 lakh ;
- (h) Where residential unit in housing project is allotted to individual, no other residential unit in housing project shall be allotted to individual or his spouse or his minor children;
- (i) Project utilises—
 - (I) not less than 90% of floor area ratio permissible in respect of the plot of land , where such project is located in Bengaluru, Chennai, Delhi NCR (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad, Kolkata and Mumbai ; or
 - (II) not less than 80% of such floor area ratio where project is located in any other place ; and
- (j) Assessee maintains separate books of account in respect of the housing project.

(3) **Restriction** : Nothing contained in this section shall apply to any assessee who executes the housing project as a works-contract awarded by any person (including Central Government or State Government).

(4) **Reversal** : Where the housing project is not completed within 5 year period & in respect of which a deduction is allowed under this section, the total amount of deduction claimed in one or more p/y shall be deemed to be income of assessee chargeable under PGBP of p/y in which period for completion so expires.

(5) **Deduction under other section** : Where deduction is claimed & allowed under this section for any p/y, deduction to the extent of such amount shall not be allowed under any other provisions of this Act.

(6) **Meaning of terms** : For the purposes of this section,—

- (a) "Floor area ratio" means the quotient obtained by dividing the total covered area of plinth area on all the floors by the area of the plot of land;
- (b) "Housing project" means a project consisting predominantly of residential units with such other facilities & amenities as competent authority may approve subject to the provisions of this section;
- (c) "Residential unit" means an independent housing unit with separate facilities for living, cooking and sanitary requirements, distinctly separated from other residential units within the building, which is directly accessible from an outer door or through an interior door in a shared hallway and not by walking through the living space of another household.

Sec 10AA : Newly Established units in Special Economic Zones

1	Assessee	Undertaking engaged in Export of any Article/compute software
2	Conditions	Manufacture on or after p/y 05/06 upto p/y 20/21 in SEZ
3	Amount of Exemption	(a) 100% profit for 5 consecutive A/Y from A/Y of commencement of production (b) 50% profit for next 5 consecutive A/Y (c) Next 5 consecutive A/Y: Amount transferred to SEZ reinvestment reserve or 50% of profits ,whichever is less
4.	Computation of Profits	$\frac{\text{Profit of 10AA Undertaking}}{\text{Export turnover of 10AA undertaking}} \times \frac{\text{Total turnover of undertaking}}{\text{ET = Consideration brought into India within 6 months \& extension}}$
5	Restriction of other Tax Benefits	Unabsorbed depreciation, scientific research expenditure or family planning expenditure or business losses or capital gain losses can be c/f., for A/Y after expiry of the tax holiday period.
6	Option not to claim Tax holiday	Assessee can choose not the claim benefits for any A/Y during tax holiday period provided declaration filed before due date of ROI for relevant A/Y
7.	Limitation	Where a deduction under this section is claimed & allowed u/s 35AD, for any A/Y, no deduction shall be allowed u/s 35AD in relation to such specified business for the same or any A/Y year.

Special Point :

Explanation : For the removal of doubts, it is hereby declared that the amount of deduction under this section shall be allowed from the total income of the assessee computed in accordance with the provisions of this Act, before giving effect to the provisions of this section and the deduction under this section shall not exceed such total income of the assessee.

Sec 80IC : Manufacturing in specified areas

1. **Eligibility :** - Any assessee engaged in manufacturing or production
 - The manufacturing should be in Himachal Pradesh, Uttaranchal
 - It should start manufacturing within the specified period only
2. **Amount of deduction** : 100% of profits for **5 years** starting from the year in which starts operation
 : 25% of profits for **next 5 years (30% for Company)**

Sec 80IE : Manufacturing of specified article in specified area

1. **Eligibility :** - Any undertaking engaged in manufacturing or producing any **Eligible article or thing** or substantial expansion of such manufacturing
 - The manufacturing should be in **North -Eastern states**(i.e Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura)

Eligible Article or thing means the article or thing other than Tobacco, Pan masala, Plastic carrybags ,etc

2. **Amount of deduction:** 100% of profits for any **10 consecutive A/Y** starting from the year in which the undertaking starts to manufacture or produce such article or thing or completes substantial expansion 3.
3. **Conditions to be fulfilled:** It should start manufacturing between 1st April ,2007 and 1st April,2017

Sec. 80JJAA: Deduction for additional employee cost

1. **Assessee :** Where GTI of assessee carrying on business to whom section 44AB applies
2. **Deduction :** 30% of additional employee cost for such business in P/Y, allowed for **3 P/Y** from p/y in which such employment is provided.
3. **Conditions :** No deduction shall be allowed
 - (a) If business is formed by splitting up, or reconstruction, of existing business:
 - (b) If business is acquired by way of transfer from other person or as result of any business reorganisation;

(c) unless the assessee furnishes the report of CA, before the specified date referred u/s 44AB giving such particulars in the report as may be prescribed

4. Meaning :

(i) **Additional employee cost** means Total Emoluments paid or payable to additional employees employed during p/y

Provided that in the case of existing business, additional employee cost shall be *nil*, if—

- (a) There is no increase in number of employees from total number of employees employed as on last day of preceding year;
- (b) Emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of ECS through a bank account

Provided further that in first year of new business, emoluments paid or payable to employees employed during that P/Y shall be deemed to be additional employee cost;

(ii) **Additional employee means** an employee who has been employed during p/y & whose employment has effect of increasing the total number of employees employed by employer as on last day of preceding year, but does not include—

- (a) Employee whose total emoluments are more than ₹25,000 pm or
- (b) Employee for whom entire contribution is paid by Government under Employees' Pension Scheme under EPF Act, 1952 or
- (c) Employee employed for less than 240 days during p/y or

For business of manufacturing of apparel or footwear or leather products, instead of 240 days, 150 days will be applicable

- (d) Employee who does not participate in RPF

(iii) **Emoluments means** any sum paid or payable to employee *in lieu* of his employment, but does not include—

- (a) Any contribution by employer to pension fund/provident fund/other fund for benefit of employee under any law.
- (b) Any lump-sum payment to employee at time of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension

Sec 80M : Deduction in respect of certain intercorporate dividends.

(1) Where the GTI of a domestic company in any p/y includes any income by way of dividends from any other domestic company or a foreign company or a business trust,

there shall, in accordance with and subject to the provisions of this section,

be allowed in computing the total income of such domestic company, a deduction of an amount equal to so much of the amount of income by way of dividends received from such other domestic company or foreign company or business trust as does not exceed the amount of dividend distributed by it on or before the due date.

(2) Where any deduction, in respect of the amount of dividend distributed by the domestic company, has been allowed under sub-section (1) in any previous year, no deduction shall be allowed in respect of such amount in any other previous year.

Explanation.—For the purposes of this section, the expression “due date” means the date one month prior to the date for furnishing the return of income under sub-section (1) of section 139.

Sec. 80QBB: Deduction from Royalty Income

1. Individual Resident in India, who is author of a **Book**

Book is work of Literary, artistic or Scientific Nature

(Text Books for schools, Magazines ,newspaper, Journals, Guides, Pamphlets excluded)

2. Income from Royalty or copyright fee
 - in **lumpsum** or
 - *If not in lumpsum then royalty in excess of 15% of books sold during p/y shall be ignored*
3. **Amount of Deduction : Eligible Royalty income** or **₹ 3,00,000/-** *whichever is less*

Special Points:

1. Where **Royalty is earned from outside India** , deduction only for that foreign exchange brought into India within 6 months from end of P/Y or within extended time
2. For claiming deduction following certificate are to be attached with return
 - from **Payer**
 - from **RBI** for Foreign Royalty

Sec. 80RRB: Deduction in respect of Royalty on Patents

1. Individual Resident in India
2. Income from **Royalty in respect of a patent**
3. **Amount of Deduction : Eligible Royalty Income** or **₹3,00,000/-**, *whichever is less*

Special Points:

1. **Patentee: True and 1st inventor** under patents act & includes Co-patentee.
2. Where **Royalty is Earned from outside India**, deduction only for that foreign exchange brought into India within 6 months from end of P/Y or within extended time
3. For claiming deduction following certificate are to be attached with return
 - from **Controller General** under patent Act
 - from **RBI** for Foreign Royalty

Sec 80TTA : Deduction of Interest on Deposits in Savings account
Deduction 80TTA not allowed to assessee referred u/s 80TTB

1. **Assessee** : Individual or HUF
2. **Type of Income** : Interest on deposits (not being time deposits) in a savings account with
 - (a) Banking including Co-operative bank
 - (b) Post Office
3. **Deduction** : Interest income or ₹10,000 , whichever is less

Special Point : *Where interest is derived in a savings account on behalf of Firm/AOP/BOI, no deduction shall be allowed of such interest to partner of firm or member of AOP/BOI.*

Section 80TTB : Deduction of interest on deposits for senior citizens.

Where GTI of an assessee, being a senior citizen, includes any income by way of interest on deposits with—

(a) a banking company to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act);

(b) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or

(c) a Post Office,

there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction—

(i) in a case where the amount of such income does not exceed in the aggregate ₹50,000, the whole of such amount; and

(ii) in any other case, ₹50,000

DEDUCTION QUESTIONS**Question 1:** Mr. X has income under the head Business/Profession ₹19,90,000.

His investments are as given below:

1. Investment in NSC ₹50,000
2. Investment in PPF in name of Mrs. X : ₹5,000
3. Payment of premium for LIC policy taken in the name of dependent father & its premium paid is ₹11,000
4. Payment of premium for LIC policy taken in the name of independent son and its premium paid is ₹6,000 (sum assured ₹1,00,000)
5. Payment of premium for LIC policy taken in the name of independent married daughter and its premium paid is ₹21,000 (sum assured ₹1,00,000)

Compute Total Income for A.Y. 2021-22.

Solution:

Income under the head business/profession	19,90,000
Gross Total Income	19,90,000
Less: Deduction u/s 80C	
1. Investment in NSC	50,000
2. Investment in PPF in the name of Mrs. X	5,000
3. Payment of premium for LIC policy taken in the name of dependent father	NIL
4. Payment of premium for LIC policy taken in the name of independent son	6,000
5. Payment of premium for LIC policy taken in the name of independent married daughter (allowed 10% of sum assured)	10,000
Total Income	19,19,000

Question 2: Mrs.X is employed by State Government since 01.01.2020 and is getting basic pay of ₹30,000 p.m. She has contributed ₹3,000 p.m. to the notified pension scheme of Central Government and employer has also contributed an equal amount. She has paid premium of Jeevan Suraksha Policy ₹3,000. Compute her Total Income for the assessment year 2021-22.

Solution:

	₹	₹
Basic Pay (30,000 x 12)		3,60,000.00
Contribution to the pension fund by State Government (3,000 x 12)		36,000.00
Gross Salary		3,96,000.00
Income under the head Salary		3,96,000.00
Gross Total Income		3,96,000.00
Less: Deduction u/s 80CCC		3,000.00
Less: Deduction u/s 80CCD		72,000.00
Contribution of the Central Government	36,000	
Contribution by Mrs.X	36,000	
Total	72,000	
Total Income		3,21,000.00

Question 3: Mr. X has income under the head Business/Profession ₹7,00,000 and income under the head house property ₹2,00,000 and he has deposited ₹1,00,000 in notified pension scheme. Compute Total Income

Solution :

Income under the head Business/Profession	7,00,000
Income under the head House Property	2,00,000
Gross Total Income	9,00,000
Less: Deduction u/s 80CCD	1,00,000
Total Income	8,00,000

Question 4: Mr. X has income under the head Business/Profession ₹5,00,000 and LTCG of ₹ 2,00,000, STCG u/s 111A ₹3,00,000 and casual income of ₹ 1,00,000.

He is paying rent for a house of ₹ 40,000 p.m. He has deposited ₹ 30,000 in home loan account scheme of National Housing Bank.

He has complied with all the condition of section 80GG.

Compute Total Income for A.Y. 2021-22.

Solution:

	₹
Income under the head Business/Profession	5,00,000
Computation of income under the head Capital Gain	
Long Term Capital Gain	2,00,000
Short Term Capital Gain u/s 111A	3,00,000
Income under the head capital gain	5,00,000

Computation of income under the head Other Sources

Casual income	1,00,000
Income under the head Other Sources	1,00,000

Gross Total Income	11,00,000
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Less:

Deduction u/s 80C	30,000
Deduction u/s 80GG	60,000

Working Note:

Least of the following:

1. 60,000

2. $25\% \times 5,70,000 = 1,42,500$

3. $₹4,80,000 - 57,000 = 4,23,000$

AGTI = GTI – LTCG – STCG 111A – Deduction u/s 80C to 80U
(except 80GG)

= $11,00,000 - 2,00,000 - 3,00,000 - 30,000$

= 5,70,000

Total Income	10,10,000
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Question 5 : Mrs. X is author of one book of scientific nature and its print price is ₹500 and total copies sold are 2000 and she has received royalty @ 50%.

She has taken a loan from State Bank in 2014 for pursuing bachelor's degree in Engineering and she has given repayment of principal amount ₹80,000 and interest ₹20,000 to State Bank. (payment of interest was given for the first time in financial year 2017-18)

She has paid tuition fee of her son for whole time education ₹ 3,000 in India

Compute Total Income A.Y. 2021-22.

Solution:

	₹
Income under the head Other Sources	
500 x 50% x 2000	5,00,000.00
Gross Total Income	5,00,000.00
Less: Deduction u/s 80C	
Tuition Fee	3,000.00
Less: Deduction u/s 80E	
Payment of Interest	20,000.00
Less: Deduction u/s 80QQB	
500 x 15% x 2000	1,50,000.00
Total Income	3,27,000.00

Question 6 : Mr. X has taken a loan of ₹10,00,000 from S.B.I @ 10 % p.a. on 01.07.2016 for construction of one residential house which was completed on 01.07.2018. It was let out @ ₹ 55,000 p.m. w.e.f 01.04.2020 and Mr. X has paid Municipal tax of ₹20,000 though the amount due is ₹30,000.

He has repaid Principal amount of ₹70,000 on 01.07.2020.

He has Agricultural income of ₹3,00,000 and unadjusted loss of house property of P.Y.2011-12 ₹10,000 and P.Y. 2012-13 ₹21,000

He has invested ₹10,000 in NSC and ₹5,000 in Public Provident Fund and ₹5,000 in Post Office 5 Year Time Deposit.

Compute his Total Income for the A.Y. 2021-22.

Solution : Computation of income under the head House Property

Gross Annual Value	6,60,000.00
Less: Municipal Tax	20,000.00
Net Annual Value	6,40,000.00
Less: 30% of NAV u/s 24(a)	1,92,000.00
Less: Interest on capital borrowed u/s 24(b)	1,29,750.00

Working Note:

Prior period interest

From 01.07.2016 to 31.03.2018

$$= (10,00,000 \times 10\% \times 9/12) + (10,00,000 \times 10\% \times 1)$$

$$= ₹75,000 + ₹1,00,000 = ₹1,75,000$$

$$\text{Installment} = ₹1,75,000/5 = ₹35,000$$

Current period interest

From 01.04.2020 to 31.03.2021

$$= (10,00,000 \times 10\% \times 3/12) + (9,30,000 \times 10\% \times 9/12)$$

$$= ₹25,000 + ₹69,750 = ₹94,750$$

Total interest on capital borrowed

$$= ₹35,000 + ₹94,750 =$$

$$₹1,29,750$$

Income under the head House Property	3,18,250.00
Brought forward Loss of P.Y.2012-13	21,000.00
Income under the head House Property	2,97,250.00
Gross Total Income	2,97,250.00
Less: Deduction u/s 80C	
Repayment of Housing loan	70,000.00
NSC	10,000.00
PPF	5,000.00
Post Office Time Deposit	5,000.00
Total Income	2,07,250.00

Question 7 : Mr. X has taken a loan of ₹12,00,000 @ 10 % p.a. on 01.07.2016 and the house completed on 01.05.2020. It was let out @ ₹ 30,000 p.m. w.e.f 01.08.2020 and the loan was repaid in annual installment of ₹40,000 starting from 01.01.2018. Mr. X has STCG 111A ₹10,00,000.

He has paid premium of life policy ₹40,000 and sum assured is ₹1,00,000. He has paid premium of Jeevan Suraksha Policy ₹20,000.

Compute his Total Income for the A.Y. 2021-22

Solution : Computation of income under the head House Property

	₹
Gross Annual Value	2,40,000
Less: Municipal Tax	NIL
Net Annual Value	2,40,000
Less: 30% of NAV u/s 24(a)	72,000
Less: Interest on capital borrowed u/s 24(b)	1,94,000

Working Note:

Prior period interest

From 01.07.2016 to 31.03.2020

$$= (12,00,000 \times 10\% \times 6/12) + (12,00,000 \times 10\% \times 1) + (11,60,000 \times 10\% \times 1) + (11,20,000 \times 10\% \times 1) + (10,80,000 \times 10\% \times 3/12)$$

$$= ₹60,000 + ₹1,20,000 + ₹1,16,000 + ₹1,12,000 + ₹27,000 =$$

$$₹4,35,000 \text{ Installment} = ₹4,35,000/5 = ₹87,000$$

Current period interest

From 01.04.2020 to 31.03.2021

$$= (10,80,000 \times 10\% \times 9/12) + (10,40,000 \times 10\% \times 3/12)$$

$$= ₹81,000 + ₹26,000 = ₹1,07,000$$

Total interest on capital borrowed

$$= ₹87,000 + ₹1,07,000 =$$

$$₹1,94,000$$

Income under the head House Property	(26,000)
STCG u/s 111A	10,00,000
Gross Total Income	9,74,000
Less: Deduction u/s 80C to 80U	NIL
Total Income	9,74,000

Note: Deduction under section 80C to 80U is not allowed from STCG u/s 111A.

Question 8 : Mr. X is a Practicing Chartered Accountant and he started his practice from 01.04.2020 and he has income from profession ₹8,00,000.

He has LTCG of ₹3,00,000, STCG 111A of ₹1,00,000, casual income ₹2,00,000.

Investment and donations are as given below:-

- NSC ₹10,000.
- Medi-claim premium (by cheque) of ₹15,000.
- Prime Minister's National Relief Fund ₹10,000. (Paid by cheque)
- Rajiv Gandhi Foundation ₹8,000. (Paid by cheque)
- Donation to Birla Temple (Notified u/s 80G) ₹1,60,000. (Paid by cheque)
- Charitable institution (Notified u/s 80G) ₹40,000. (Paid by cheque)
- Social organization (Notified u/s 80G) ₹20,000. (Paid by cheque)
- MCD ₹10,000. (Paid by cheque)

Compute Total income for A.Y. 2021-22.

(b) Presume in the above question the assessee has given donation to the Government also for family planning is ₹ 20,000.

(c) Presume in the above question the assessee has given donation to the Government also for family planning is ₹ 3,00,000.

Solution :

Income under the head business / profession	₹ 8,00,000.00
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Computation of income under the head Other Sources

Casual income	2,00,000.00
Income under the head other sources	2,00,000.00

Computation of income under the head Capital Gain

Long term capital gain	3,00,000.00
Short term capital gain 111A	1,00,000.00
Income under the head capital gain	4,00,000.00

Gross Total Income	14,00,000.00
Less: Deductions	
Deduction u/s 80C for NSC	10,000.00
Deduction u/s 80D for Mediclaim policy	15,000.00
Deduction u/s 80G	
Prime Minister National Relief Fund	10,000.00
Rajiv Gandhi Foundation (50% of ₹8,000)	4,000.00
Donations	48,750.00

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U

(except 80G)

$$= 14,00,000 - 3,00,000 - 1,00,000 - 25,000$$

$$= 9,75,000$$

Qualifying amount = 10% of AGTI or donation whichever is less

$$= 97,500 \text{ or } 2,30,000 \text{ whichever is less}$$

$$= 97,500$$

50% of qualifying amount = 48,750

Total Income	13,12,250.00
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Solution (b):

	₹
Gross Total Income	14,00,000.00
Less: Deductions	
Deduction u/s 80C for NSC	10,000.00
Deduction u/s 80D for Mediclaim policy	15,000.00
Deduction u/s 80G	
Prime minister national relief fund	10,000.00
Rajiv Gandhi Foundation	4,000.00
Donations	58,750.00

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U

(except 80G)

$$= 14,00,000 - 3,00,000 - 1,00,000 - 25,000$$

$$= 9,75,000$$

Qualifying amount = 10% of AGTI or donation whichever is less

$$= 97,500 \text{ or } 2,50,000 \text{ whichever is less}$$

$$= 97,500$$

50% of qualifying amount = 77,500 x 50% + 20,000

$$= 58,750$$

Total Income	13,02,250.00
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Solution (c):

	₹
Gross Total Income	14,00,000.00
Less: Deductions	
Deduction u/s 80C for NSC	10,000.00
Deduction u/s 80D for Mediclaim policy	15,000.00
Deduction u/s 80G	
Prime minister national relief fund	10,000.00
Rajiv Gandhi Foundation	4,000.00
Donations	97,500.00

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U

(except 80G)

= 14,00,000 – 3,00,000 – 1,00,000 – 25,000

= 9,75,000

Qualifying amount = 10% of AGTI or donation whichever is less

= 97,500 or 5,30,000 whichever is less

= 97,500

100% deduction is allowed 97,500

Total Income	12,63,500.00
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Question 9 : Mr. X has income from business ₹7,00,000.

Mr. X has incurred ₹65,000 on the treatment of his dependent brother who is suffering from a disease notified under Rule 11DD and he has received claim under medi-claim policy ₹35,000.

Compute his income and tax liability for A/Y 2021-22. Not covered u/s 115BAC

(b) Presume assessee incurred ₹65,000 on the treatment of his independent brother.

Solution :

	₹
Income under the head Business/Profession	7,00,000
Gross Total Income	7,00,000
Less: Deduction u/s 80DDB (40,000 – 35,000)	5,000
Total Income	6,95,000

Computation of Tax Liability

Tax on ₹6,95,000 at slab rate	51,500
Add: HEC @ 4%	2,060
Tax Liability	53,560

Solution (b):

	₹
Income under the head Business/Profession	7,00,000
Gross Total Income	7,00,000
Less: Deduction u/s 80DDB	Nil
Total Income	7,00,000

Computation of Tax Liability

Tax on ₹7,00,000 at slab rate	52,500
Add: HEC @ 4%	2,100
Tax Liability	54,600

Note: Deduction under section 80DDB is not allowed in case assessee incurred expenditure on treatment of his independent brother.

Question 10 : Mrs. X has let out one house property @ ₹1,00,000 p.m. and she has paid municipal tax of ₹1,00,000.

She has taken a Medi-claim policy in the name of Mr. X and paid premium of ₹18,000 by cheque

She has also taken a Medi-claim policy in the name of her Father in law. Who is aged 66 years and paid premium of ₹16,000 by cheque.

She has incurred ₹21,000 on the treatment of her brother who is dependent on her and suffering from severe disability.

She has purchased N.S.C. in P.Y. 2018-19 and there is accrued interest of ₹30,000 and also there is accrued interest of PPF ₹10,000

She has taken Jeevan Suraksha Policy in the name of Mr. X and paid premium of ₹19,000.

She has taken a loan in 2013-14 from SBI for the education of his son who is studying in B.com (Hons) in SRCC and she had paid principal amount of ₹60,000 and interest ₹10,000 in P.Y.2020-21.

Compute her Total Income for the A.Y.2021-22.

Solution :**Computation of income under the head House Property**

	₹
Gross Annual Value	12,00,000
Less: Municipal Tax	1,00,000
Net Annual Value	11,00,000
Less: 30% of NAV u/s 24(a)	3,30,000
Less: Interest on capital borrowed u/s 24(b)	NIL
Income under the head House Property	7,70,000
Income under the head other sources	30,000
Gross Total Income	8,00,000
Less: Deductions	
Deduction u/s 80C for NSC	30,000
Deduction u/s 80CCC for Jeevan Suraksha Policy	NIL
Deduction u/s 80D for Mediclaim Policy	16,000
Deduction u/s 80DD for Severe Disability	1,25,000
Deduction u/s 80E for Education Loan Interest	10,000
Total Income	6,19,000

Question 11 : Mr. X has received royalty of ₹5,00,000 in connection with a patent right registered in his name. Other information is as given below:

1. He has donated ₹ 30,000 to a political party.
2. He donated ₹10,000 to Delhi University notified under section 80G
3. He donated ₹10,000 to Government for the purpose of promoting family planning.
4. He paid premium of medi-claim policy ₹6,000 by cheque in name of his major married independent son.
5. LIC premium paid ₹25,000 (Policy value ₹1,00,000)
6. Repayment of housing loan to Indian Bank ₹50,000
7. Payment made to LIC pension fund notified under section 80CCC ₹20,000

Compute income tax liability for A.Y 2021-22.

Solution :

	₹
Income under the head Other Sources	
Royalty received in connection with a patent right	5,00,000.00
Gross Total Income	5,00,000.00
Less: Deduction u/s 80C	
LIC premium (allowed 10% of sum assured)	10,000.00
Repayment of housing loan to Indian Bank	50,000.00
Less: Deduction u/s 80CCC	
LIC Pension Fund	20,000.00
Less: Deduction u/s 80D	
Premium of medi-claim policy by cheque in the name of his major married independent son.	Nil
Less: Deduction u/s 80G	
Donation to Delhi University	10,000.00
Family planning	9,000.00

Working Note:

Donation to Government for promoting family planning : 10,000

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U

(Except section 80G)

= 5,00,000 – 10,000 – 50,000 – 20,000 – 30,000 – 3,00,000

= 90,000

Qualifying amount = 10% of AGTI or donation whichever is less = 9,000 or 10,000

100% of qualifying amount = ₹9,000

Less: Deduction u/s 80GGC Donation to a political party	30,000.00
Less: Deduction u/s 80RRB	3,00,000.00
Total Income	71,000.00
Tax Liability	Nil

Question 12 : Mr. X has incomes asunder:

	₹
1. Rent from letting out one house property	3,00,000
2. Long term capital gains	2,00,000
He has donated ₹5,000 to MCD which is notified under section 80G and has donated ₹4,000 to National Children's Fund and ₹2,000 to the Government for promotion of family planning norms.	
He has invested ₹6,000 in NSC. He is aged about 67 years.	
Compute his total income for the assessment year 2021-22.	
Not covered u/s 115BAC	

Solution :

Computation of income under the head House Property

Gross Annual Value	3,00,000
Less: Municipal taxes	Nil
Net Annual Value	3,00,000
Less: 30% of NAV u/s 24(a)	90,000
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	2,10,000

Computation of Total Income

Income under the head House Property	2,10,000
Income under the head Capital Gains (LTCG)	2,00,000
Gross Total Income	4,10,000
Less: Deduction u/s 80C {NSC}	6,000
Less: Deduction u/s 80G	
(i) National Children Fund {100% of ₹4,000}	4,000
(ii) Other Donations u/s 80G	4,500

Working Note:

	₹
MCD	5,000
Family planning	2,000
	<u>7,000</u>

AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)

$$= 4,10,000 - 2,00,000 - 6,000 = 2,04,000$$

Qualifying amount = 10% of AGTI or donation whichever is less

$$= 20,400 \text{ or } 7,000$$

$$= 7,000$$

Deduction = 50% of ₹5,000 + ₹2,000

$$= ₹4,500$$

Total Income

3,95,500

Computation of Tax Liability

Tax on LTCG ₹ 97,500 (2,00,000 – 1,02,500) @ 20% u/s 112

Tax on ₹1,95,500 at slab rate

Tax before cess

Add: HEC @ 4%

Tax Liability

Nil

19,500

780

20,280

Question 13 : Mr. X has short term capital gain of ₹6 lakhs and he has donated ₹20,000 by cheque to a charitable institution which is notified under section 80G and he has spent ₹25,000 on the treatment of his handicapped dependent brother.

Compute his total income & tax liability for the assessment year 2021-22.

Solution :

Income under the head Capital Gains (STCG)

Gross Total Income

Less: Deduction u/s 80DD

Less: Deduction u/s 80G

₹ 6,00,000

6,00,000

75,000

10,000

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)

= 6,00,000 – 75,000 = 5,25,000

Qualifying amount = 10% of AGTI or donation, whichever is less

= 52,500 or 20,000

= 20,000

Deduction = 50% of ₹20,000

= ₹10,000

Total Income

5,15,000

Computation of Tax Liability

Tax on ₹5,15,000 at slab rate

Add: HEC @ 4%

Tax Liability

15,500

620

16,120

Question 14 :

Mr. X has incomes asunder:

1. He has income from Business/Profession ₹1,22,000.

2. He has long term capital gains of ₹1,00,000.

3. He has donated ₹10,000 to MCD for family planning and has donated ₹3,000 to a charitable institution notified under section 80G.

Compute his total income for the assessment year 2021-22. Not covered u/s 115BAC

Solution :**Income under the head Other Sources**

Income under the head Other Sources

Income under the head Business/Profession

Income under the head Capital Gains {LTCG}

Gross Total Income

Less: Deduction u/s 80G

Nil

1,22,000.00

1,00,000.00

2,22,000.00

11,100.00

Working Note:

MCD for family planning	₹ 10,000
Charitable institution	3,000
	<u>13,000</u>

Adjusted GTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)

$$= ₹2,22,000 - ₹1,00,000 = ₹1,22,000$$

Qualifying amount = 12,200 or 13,000 whichever is less

$$= ₹12,200$$

Deduction = 50% of ₹2,200 + ₹10,000 = ₹11,100

Total Income

2,10,900.00

Computation of Tax Liability

Tax on Long term capital gain ₹10,900 (1,00,000 – 89,100) @ 20% u/s 112

2,180.00

Tax on ₹1,10,900 at slab rate

Nil

Tax before cess

2,180.00

Less : Rebate u/s 87A

2,180.00

Tax Payable

NIL

Question 15 : Mr. X has incomes asunder:

1. Short term capital gains on sale of a capital asset ₹5,00,000.
 2. Mr. X has donated ₹7,000 to the Prime Minister's National Relief Fund and ₹20,000 to Birla temple which is notified under section 80G. (Paid by cheque)
- Compute his total income for the assessment year 2021-22. Not covered u/s 115BAC

Solution :

Income under the head Capital Gains {STCG}

5,00,000

Gross Total Income

5,00,000

Less: Deduction u/s 80G

(i) Prime Minister's National Relief Fund

7,000

(ii) Other donations

10,000

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)

$$= 5,00,000$$

Qualifying amount = 10% of AGTI or donation whichever is less

$$= 50,000 \text{ or } 20,000 \text{ whichever is less}$$

$$= 20,000$$

50 % of the qualifying amount (i.e. 10,000)

Total Income

4,83,000

Computation of Tax Liability

Tax on ₹4,83,000 at slab rate

11,650

Less : Rebate u/s 87A

11,650

Tax Liability

Nil

Question 16 :

Mr. X has incomes asunder:

	₹
1. Income from Business/Profession	1,00,000
2. He has long term capital gains	2,50,000
5. He has income from other sources	1,10,000
6. He has donated ₹10,000 to National Defence Fund	
7. He has donated ₹ 5,000 to charitable institution notified under section 80G.	

Compute his total income for assessment year 2021-22. Not covered u/s 115BAC

Solution :

	₹
Income under the head Business/Profession	
Income under the head Business/Profession	1,00,000.00
Income under the head Other Sources	
Income under the head Other Sources	1,10,000.00
Income under the head Capital gains	
Long term capital gains	2,50,000.00
Income under the head Capital Gains	2,50,000.00
Gross Total Income	4,60,000.00
Less: Deduction u/s 80G	
(i) National Defence Fund	10,000.00
(ii) Charitable institutions	2,500.00
Working Note:	
AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)	
= 4,60,000 – 2,50,000 = 2,10,000	
Qualifying amount = 10% of AGTI or donation whichever is less	
= 21,000 or 5,000	
= 5,000	
50% of the qualifying amount = 2,500	
Total Income	4,47,500.00
Computation of Tax Liability	
Tax on long term capital gains ₹2,47,500 (₹2,50,000 – ₹2,500) @ 20% u/s 112	49,500.00
Tax on normal income ₹1,97,500 at slab rate	Nil
Tax before rebate	49,500.00
Less : Rebate u/s 87A	12,500.00
Tax Payable	37,000.00

Question 17 :

Mr. X has incomes asunder:

Long Term Capital Gains: ₹1,00,000

Short Term Capital Gains: ₹2,55,000

Casual income: ₹10,000

Donations given to charitable institutions notified under section 80G ₹45,000 paid by cheque and donation to MCD for family planning ₹3,000 paid by cheque.

Compute his total income for the assessment year 2021-22.

Solution :

₹

Computation of income under the head Capital Gains

Short term capital gains	2,55,000.00
Long term capital gains	1,00,000.00
Income under the head Capital Gains	3,55,000.00

Computation of income under the head Other Sources

Casual income	10,000.00
Income under the head Other Sources	10,000.00
Gross Total Income	3,65,000.00
Less: Deduction u/s 80G	14,750.00

Working Note:

₹

Charitable institutions	45,000
Family planning	3,000
	<u>48,000</u>

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)

$$= 3,65,000 - 1,00,000 = 2,65,000$$

Qualifying amount = 10% of AGTI or donation whichever is less

$$= 26,500 \text{ or } 48,000$$

$$= 26,500$$

Deduction = 50% of 23,500 + 3,000

$$= 11,750 + 3,000 = 14,750$$

Total Income	3,50,250.00
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Computation of Tax Liability

Tax on LTCG ₹1,00,000 @ 20% u/s 112	20,000.00
Tax on casual income ₹10,000 @ 30% u/s 115BB	3,000.00
Tax on normal income ₹2,40,250 at slab rate	<u>Nil</u>
	23,000.00
Tax before rebate	<u>12,500.00</u>
Rebate u/s 87A	10,500.00
ADD : HEC @ 4%	<u>420.00</u>
Tax Liability	<u>10,920.00</u>

Question 18 : Mr. X is engaged in the business of manufacturing chemicals and has income under the head business/profession of ₹5,00,000 and has paid rent of ₹10,000 p.m. for taking a house on rent because he did not have any house in his name or in the name of his spouse or minor child or the Hindu Undivided Family of which he is a member. He has invested ₹75,000 in NSC which were taken in the name of his spouse. Compute his total income and tax liability for assessment year 2021-22.

Solution .

₹

Income under the head Business/Profession	5,00,000
Gross Total Income	5,00,000
Less: Deduction u/s 80C	75,000
Less: Deduction u/s 80GG	24,000

Working Note:**Least of the following:**

(i) ₹1,20,000 – 10% of ₹4,25,000 = ₹77,500

(ii) ₹24,000

(iii) 25% of ₹4,25,000 = ₹1,06,250

(AGTI = ₹5,00,000 – ₹75,000 = ₹4,25,000)

Total Income

4,01,000

Computation of Tax Liability

Tax on ₹4,01,000 at slab rate

7,550

Less : Rebate u/s 87A

7,550

Tax Liability

Nil**Question 19 :**

During the previous year 2020-21, Mr. X has income under the head house property ₹4,00,000. He has donated ₹12,000 to a notified institution for the purpose of scientific research.

Compute his total income and tax liability for the assessment year 2021-22.

Solution :

	₹
Income under the head House Property	4,00,000
Gross Total Income	4,00,000
Less: Deductions u/s 80GGA	12,000
Total Income	3,88,000

Computation of Tax Liability

Tax on ₹3,88,000 at slab rate

6,900

Less: Rebate u/s 87A

6,900

Tax Liability

Nil

Question 20 : Mr. X is engaged in the business of collecting and processing bio-degradable waste since 01.07.2018 and has income of ₹4,10,000 from this business. He has received income of ₹2,80,000 from subletting also. He has paid premium of medi-claim policy of ₹11,000. It was paid by cheque and the policy was taken in the name of his father. Compute his total income & Tax liability for assessment year 2021-22

Solution :

	₹
Income under the head Business/Profession	4,10,000
Income under the head Other Sources	
Income from subletting	2,80,000
Income under the head Other Sources	2,80,000
Gross Total Income	6,90,000
Less: Deduction u/s 80JJA	4,10,000
Less: Deduction u/s 80D	11,000
Total Income	2,69,000
Tax on ₹2,69,000 at slab rate	450
Less : Rebate u/s 87A	450
Tax Liability	NIL

CHAPTER – 13
TAX DEDUCTED AT SOURCE

Sections covered in this chapter

Sec 191	Direct payment
Sec 192	TDS on salary
Sec 193	TDS on interest on security
Sec 194	TDS on dividend
Sec 194A	TDS on other interest
Sec 194B	TDS on lottery, crossword puzzles etc
Sec 194BB	TDS on horse races
Sec 194C	TDS on contractor
Sec 194D	TDS on insurance commission
Sec 194E	TDS on payment to NR sportsman or sports Association
Sec 194G	TDS on commission on sale of lottery tickets
Sec 194H	TDS on commission & Brokerage
Sec 194I	TDS on rent
Sec 194 IA	TDS on acquisition of immovable property
Sec 194J	TDS on fees for professional/technical services
Sec 194LA	TDS on compulsory acquisition of immovable property
Sec 195	TDS on Non resident
Sec 195A	Tax free payments
Sec 196	No TDS if payments to specified payees
Sec 197	Certificate for no TDS/lower rates
Sec 197A	Self declaration
Sec 198	TDS is deemed Income
Sec 199	Credit of TDS
Sec 200	Duty of person deducting tax
Sec 201	Consequences of failure to Deduct/Pay TDS
Sec 203	TDS certificates
Sec 203A	TAN
Sec 203AA	Annual Tax deduction/Deposit statement
Sec 205	Bar against direct demand on Assessee
Sec 206AA	Deductee to disclose PAN

Sec 191 : Direct Payment

- Where **Tax has not been deducted**
- as per provisions of TDS
- Income tax shall be payable
- **By the assessee directly as advance tax or otherwise**

Special point :

1. For the purposes of paying income-tax directly by the assessee if the income of the assessee in any assessment year wef A/Y 21/22, includes income of the nature specified u/s 17(2)(vi) and such specified security or sweat equity shares referred to in the said clause are allotted or transferred directly or indirectly by the current employer, being an eligible start-up referred to in section 80-IAC, the income-tax on such income shall be payable by the assessee within 14 days—

- (i) after the expiry of 48 months from the end of the relevant A/Y; or
- (ii) from the date of the sale of such specified security or sweat equity share by assessee; or
- (iii) from the date of the assessee ceasing to be the employee of the employer who allotted or transferred him such specified security or sweat equity share, whichever is the earliest.

2. If any person who is required to deduct any sum in accordance with the provisions of this Act or does not deduct, or after so deducting fails to pay whole/any part of tax but the **assessee has paid such tax directly**, then, such person **shall not be deemed** to be an assessee in default u/s 201

Sec 192 : TDS on Salary

1.	Type of Payment	Salary
2.	Payer	Any employer
3.	Payee	Any Employee
4.	Time of TDS	Payment
5.	Rate of TDS	Slab rates + Health & Education cess
7.	Exemption Limit	₹2,50,000, ₹3,00,000, ₹5,00,000 (as the case may be) or ₹2,50,000 in case covered u/s 115BAC
6.	Other provisions	<p>Where a person employed with more than one employer, may furnish details of previous salary to other employer.</p> <p>Employee may also disclose other income & TDS on them or loss from HP for same p/y to employer</p> <p>In both cases employer shall take the above and then deduct tax</p>

Special point :

1. The payer shall, for the purposes of estimating income of the assessee or computing tax deductible, shall obtain from the assessee the evidence or proof or particulars of prescribed claims (including claim for set-off of loss) under the provisions of the Act in such form and manner as may be prescribed.

2. For the purposes of deducting or paying tax u/s 192, a person, being an eligible start-up u/s 80-IAC, responsible for paying any income to assessee being perquisite of the nature specified u/s 17(2)(vi) in any p/y relevant to the assessment year, beginning A/Y 21/22, shall deduct or pay, as the case may be, tax on such income within 14 days—

(i) after the expiry of 48 months from the end of the relevant assessment year; or

(ii) from the date of the sale of such specified security or sweat equity share by the assessee; or

(iii) from the date of the assessee ceasing to be the employee of the person,

whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted or transferred.

Sec 194 : <u>TDS on Dividend</u>

1.	Type of Payment	Any dividend(actual or deemed u/s 2(22))
2.	Payer	principal officer of Domestic company
3.	Payee	Resident
4.	Time of TDS	Payment
5.	Rate of TDS	10% 14.05.2020 to 31.03.2021 : 7.5%
6.	Exemption Limit	NO TDS if payment to Individual shareholder by any mode other than cash & if aggregate of dividend distributed or paid or likely to be distributed or paid during the f/y by does not exceed `5,000 NO TDS for dividend paid to (a) LIC of India (b) General Insurance Corporation of India (c) any other insurer in respect of any shares owned by it or in which it has full beneficial interest.

Sec 193 : TDS on Interest on Security : Refer Income from other sources

Sec 194A : TDS on Other Interest : Refer Income from other sources

Sec 194B : TDS on Lottery Income etc : Refer Income from other sources

Sec 194BB : TDS on Horse Races etc : Refer Income from other sources

Sec 192A : TDS on Provident Fund Payment

1.	Type of Payment	Payment of Recognised Provident fund Balance [Which is not exempt u/s 10(12)]
2.	Payer	Trustees under EPF Act,1952
3.	Payee	Employee
4.	Time of TDS	Payment
5.	Rate of TDS	10% TDS @ Maximum Marginal rate if payee does not disclose his PAN to Payer
6.	Exemption Limit	Less than 50,000

Sec 194 C : Payment to Work Contractor

1.	Type of Payment	Payment to Work Contractor/Sub contractor
2.	Payer	Any person (<i>Ind/HUF only if total sales, gross receipts or turnover from business exceeds 1.5 crores or from profession exceeds fifty 50 lakhs</i>)
3.	Payee	Resident Contractor
4.	Time of TDS	Payment or credit, earlier
5.	Rate of TDS	<p>Contractor Ind/HUF : 1% 14.05.2020 to 31.03.2021 : 0.75% Other case : 2% 14.05.2020 to 31.03.2021 : 1.5%</p> <p><i>NO TDS for payment of transportation expenses to contractor if owns upto 10 goods carriages at any time during P/Y & discloses his PAN</i></p>
6.	Exemption Limit	₹30,000 per payment & ₹1,00,000 in aggregate for financial year
7.	Other provisions	<p>No TDS by Ind/HUF if payment for personal purpose</p> <p>Work shall include—</p> <ul style="list-style-type: none"> (a) advertising; (b) broadcasting & telecasting including production of programmes for such broadcasting or telecasting; (c) carriage of goods or passengers by any mode of transport other than by railways; (d) catering; (e) manufacturing or supplying product according to requirement of customer by using material purchased from such customer or its associate, being a person placed similarly in relation to such customer as is the person placed in relation to the assessee u/s 40A(2)(b), <p>but does not include manufacturing or supplying a product according to requirement of a customer by using material purchased from a person, other than such customer or associate of such customer.</p>

Sec 194 D : TDS on Insurance Commission

1.	Type of Payment	Insurance commission
2.	Payer	Any person
3.	Payee	Resident
4.	Time of TDS	Payment or credit, whichever earlier
5.	Rate of TDS	10% 14.05.2020 to 31.03.2021 : 3.75%
6.	Exemption Limit	Aggregate ₹15,000 in a Previous Year

Sec 194 E : TDS on Payment to Non Resident Sportsmen/Sport Association

1.	Type of Payment	Income u/s 115BBA
2.	Payer	Any person
3.	Payee	Non resident sportsmen/Sport association <i>or Entertainer</i>
4.	Time of TDS	Payment or credit, whichever earlier
5.	Rate of TDS	20%
6.	Exemption Limit	NIL

Sec 115BBA : Income of Non Resident Sportsmen/Sport Association

(1) Where the total income of an assessee being

(a) A sportsman (including athlete), who is foreign citizen & non-resident, includes any income from

- Participation in India in any game (other than casual income u/s 115BB) or sport or
- Advertisement or
- Contribution of articles relating to any game or sport in India in newspapers, magazines or journals

(b) A non-resident sports association, (other than casual income u/s 115BB) ,

(c) An entertainer,(foreign Citizen & non-resident) includes any income from his performance in India.

Such income shall be taxable @ **20%**

(2) It shall not be necessary for assessee to furnish a return of his income u/s 139(1) if

- His total income during P/Y consisted only of income referred to as above and
- TDS was deducted u/s 194E

Sec 194 G : TDS on lottery Commission

1.	Type of Payment	Commission on sale of lottery ticket
2.	Payer	Any person
3.	Payee	Any person
4.	Time of TDS	Payment or credit, whichever earlier
5.	Rate of TDS	5% 14.05.2020 to 31.03.2021 : 3.75%
6.	Exemption Limit	₹ 15,000

Sec 194 H : TDS on Commission/Brokerage

1.	Type of Payment	Commission/Brokerage
2.	Payer	Any person (Ind/HUF only if total sales, gross receipts or turnover from business exceeds 1.5 crores or from profession exceeds fifty 50 lakhs)
3.	Payee	Resident
4.	Time of TDS	Payment or credit, whichever earlier
5.	Rate of TDS	5% 14.05.2020 to 31.03.2021 : 3.75%
6.	Exemption Limit	Aggregate ₹15,000 in P/Y

Sec 194 I : Payment of Rent

1.	Type of Payment	Rent
2.	Payer	Any person (Ind/HUF only if total sales, gross receipts or turnover from business exceeds 1.5 crores or from profession exceeds fifty 50 lakhs)
3.	Payee	Resident
4.	Time of TDS	Payment or credit, earlier
5.	Rate of TDS	<u>Rent of P&M</u> : 2 % <u>Rent of L&B or F/F</u> : 10% 14.05.2020 to 31.03.2021 : 1.5% 14.05.2020 to 31.03.2021 : 7.5%
6.	Exemption Limit	Aggregate ₹2,40,000 in P/Y No deduction shall be made under this section where rent is paid to real estate investment trust, in respect of any real estate asset, owned directly by such business trust.

Sec 194 IB : Payment of Rent

1.	Type of Payment	Rent of land/Building
2.	Payer	Individual/HUF not subjected to tax audit in last p/y
3.	Payee	Resident
4.	Time of TDS	Credit to A/C of payee for last month of p/y or last month of tenancy, if property vacated, or payment earlier.
5.	Rate of TDS	5% 14.05.2020 to 31.03.2021 : 3.75%
6.	Exemption Limit	₹50,000pm
7.	Conditions	1.No TAN required by payer 2.If section 206AA, is applicable, deduction shall not exceed rent payable for last month of p/y or last month of tenancy

Sec 194 IC : Consideration under collaboration agreement

1.	Type of Payment	Consideration(Monetary), under collaboration agreement u/s 45(5A)
2.	Payer	Any person
3.	Payee	Individual or HUF,Resident
4.	Time of TDS	Payment or credit,earlier
5.	Rate of TDS	10% 14.05.2020 to 31.03.2021 : 7.5%
6.	Exemption Limit	Nil
7.	Conditions	1.No TAN required by payer 2.If section 206AA, is applicable, deduction shall not exceed rent payable for last month of p/y or last month of tenancy

Sec 194 J : TDS on fees for Professional / Technical services/ Royalty

1.	Type of Payment	Fees for Professional/Technical services/Royalty/ Remuneration to non employee director/Non compete fees
2.	Payer	Any person <i>(Ind/HUF only if total sales, gross receipts or turnover from business exceeds 1.5 crores or from profession exceeds fifty 50 lakhs)</i>
3.	Payee	Resident
4.	Time of TDS	Payment or credit, whichever earlier
5.	Rate of TDS	2% if payment to person engaged only in business of call centre 14.05.2020 to 31.03.2021 : 1.5% 2% for fees for technical services (not being professional services) 14.05.2020 to 31.03.2021 : 1.5% 2% for royalty where such royalty as consideration for sale, distribution or exhibition of cinematographic films 14.05.2020 to 31.03.2021 : 7.5% 10% in other case 14.05.2020 to 31.03.2021 : 7.5%
6.	Exemption Limit	Aggregate ₹30,000 in a P/Y for each payment

7.	Other provisions	No TDS by Ind/HUF if payment for personal purpose
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Sec 194K : TDS on Income in respect of units

1.	Type of Payment	Any income in respect of units of a Mutual Fund
2.	Payer	Any person
3.	Payee	Resident
4.	Time of TDS	Payment or Credit,earlier
5.	Rate of TDS	10% 14.05.2020 to 31.03.2021 : 7.5%
6.	Exemption Limit	(i) where the amount of such income/aggregate of amounts of such income credited or paid or likely to be credited or paid during f/y by the person responsible for making the payment to the account of, or to, the payee does not exceed `5,000 or (ii) if the income is of the nature of capital gains.

Sec 194 IA : TDS on Payment for Transfer of Immovable property other than Compulsory Acquisition

1.	Type of Payment	Consideration for transfer of any Immovable Property (other than Rural Agricultural land)
2.	Payer	Any Person
3.	Payee	Resident
4.	Time of TDS	Payment or credit, earlier
5.	Rate of TDS	1% 14.05.2020 to 31.03.2021 : -0.75%
6.	Exemption Limit	Consideration less than ₹50,00,000 in P/Y
7.	Conditions	Deductor need not apply for TAX DEDUCTION ACCOUNT NUMBER(TAN) Consideration for transfer of immovable property shall include all charges like club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of immovable property.

Sec 194 LA : TDS on Compensation on Compulsory Acquisition of Immovable Property

1.	Type of Payment	Compensation on Acquisition of Immovable Property (other than Rural Agriculture land)
2.	Payer	Any person
3.	Payee	Resident

4.	Time of TDS	Payment or credit, whichever earlier
5.	Rate of TDS	10% 14.05.2020 to 31.03.2021 : 7.5%
6.	Exemption Limit	₹2,50,000 No TDS if payment under award/ agreement exempted from levy of income-tax u/s 96 of Right to Fair Compensation & Transparency in Land Acquisition, Rehabilitation & Resettlement Act, 2013

194LBA : Certain income from units of a business trust

(1) Where any distributed income referred u/s 115UA, being of the nature referred to in clause (23FC) or clause (23FCA) of **section 10**, is payable by a business trust to its unit holder being a resident, the person responsible for making the payment shall at the time of credit of such payment to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax thereon @ 10%.

(2) Where any distributed income referred u/s 115UA, being of the nature referred u/s 10(23FC), is payable by a business trust to its unit holder, being a non-resident (not being a company) or a foreign company, the person responsible for making the payment shall at the time of credit of such payment to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax thereon at the rate of 5% in case of income of the nature referred to in sub-clause (a) and 10% in case of income of the nature referred to in sub-clause (b), of the said clause.

(2A) Nothing contained in sub-sections (1) and (2) shall apply in respect of income of the nature referred to in sub-clause (b) of clause (23FC) of **section 10**, if the special purpose vehicle referred to in the said clause has not exercised the option u/s 115BAA.

(3) Where any distributed income referred u/s 115UA, being of the nature referred u/s 10(23FCA), is payable by a business trust to its unit holder, being a non-resident (not being a company), or a foreign company, the person responsible for making the payment shall at the time of credit of such payment to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax thereon at the rates in force

Sec 194M : Payment of certain sums by certain Individuals or HUF

(1) Individual or HUF (other than who are required to deduct TDS u/s 194C, u/s 194H or u/s 194J)

- responsible for paying any sum to resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract, by way of commission (not being insurance commission u/s 194D) or brokerage or by way of fees for professional services during F/Y,
- shall, at the time of credit of such sum or at the time of payment, whichever is earlier,

- deduct an amount @ 5% of such as income-tax thereon: **14.05.2020 to 31.03.2021 : 3.75%**

Provided that no such deduction under this section shall be made if aggregate of such sum during a f/y does not exceed ₹50 lakhs.

(2) The provisions of section 203A shall not apply to a person required to deduct tax in accordance with the provisions of this section.

Sec194N : Payment of certain amounts in cash

Every person, being,—

(i) Banking company to which Banking Regulation Act, 1949 applies including any bank or banking institution referred to in section 51 of that Act

(ii) Co-operative society engaged in carrying on the business of banking; or

(iii) Post office,

- paying aggregate sum, in cash, in excess of ₹1 crore during p/y, to any person
- from one or more accounts maintained by recipient with it shall,
- at the time of payment of such sum,
- deducts amount @ 2% of sum exceeding ₹1 crore, as income-tax:

Provided that in case of a recipient who has not filed the returns of income for all of the three assessment years relevant to the three p/y, for which the time limit of file return of income u/s 139(1) has expired, immediately preceding the previous year in which the payment of the sum is made to him, the provision of this section shall apply with the modification that—

(i) the sum shall be the amount or the aggregate of amounts, as the case may be, in cash exceeding ₹20 lakhs during the p/y ; and

(ii) the deduction shall be—

(a) @2% of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash exceeds 20 lakhs during the p/y but does not exceed ₹1 crore or

(b) @5% of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash exceeds ₹1 crore during the p/y:

Provided that nothing contained in this sub-section shall apply to any payment made to,—

- (i) Government;
- (ii) Banks or post office;
- (iii) any business correspondent of bank
- (iv) any white label ATM operator of bank

Provided further that the Central Government may specify in consultation with the Reserve Bank of India, by notification in the Official Gazette, the recipient in whose case the first proviso shall not apply or apply at reduced rate, if such recipient satisfies the conditions specified in such notification:

Central Government has specified

1. **Cash Replenishment Agencies (CRA's) and Franchise agents of White Label ATM Operators (WLATMO's)**
maintaining a separate bank account from which withdrawal is made only for the purposes of replenishing cash in ATM's operated by such WLATMO's.
2. **Commission agent or Trader, operating under Agriculture Produce Market Committee (APMC), and registered under any Law relating to Agriculture Produce Market of concerned State,**
who has intimated his account number through which he wishes to withdraw cash in excess of `1 crore in p/y along with his PAN and the details of p/y and has certified to the banking company or co-operative society or post office that the withdrawal of cash from the account in excess of `1 crore during p/y is for the purpose of making payments to farmers on account of purchase of agriculture produce.
3. **Authorised dealer and its franchise agent and sub-agent and Full-Fledged Money Changer (FFMC) licensed by the RBI and its franchise agent**

Such persons should maintain a separate bank account from which withdrawal is made only for the purposes of -

- (i) purchase of foreign currency from foreign tourists or non-residents visiting India or from resident Indians on their return to India, in cash as per the directions or guidelines issued by RBI or
- (ii) disbursement of inward remittances to the recipient beneficiaries in India in cash under Money Transfer Service Scheme (MTSS) of the RBI.

Sec 194O : Payment of certain sums by e-commerce operator to e-commerce participant.

(1) Notwithstanding anything to the contrary contained in any of the provisions of Part B of this Chapter, where sale of goods or provision of services of an e-commerce participant is facilitated by an e-commerce operator through its digital or electronic facility or platform (by whatever name called), such e-commerce operator shall, at the time of credit of amount of sale or services or both to the account of an e-commerce participant or at the time of payment thereof to such e-commerce participant by any mode, whichever is earlier, deduct income-tax at the rate of 1% **(14.05.2020 to 31.03.2021 : 0.75%)** of the gross amount of such sales or services or both.

Explanation.—For the purposes of this sub-section, any payment made by a purchaser of goods or recipient of services directly to an e-commerce participant for the sale of goods or provision of services or both, facilitated by an e-commerce operator, shall be deemed to be the amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sale or services for the purpose of deduction of income-tax under this sub-section.

(2) No deduction under sub-section (1) shall be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of an e-commerce participant, being an individual or Hindu undivided family, where the gross amount of such sale or services or both during the previous year does not exceed five lakh rupees and such e-commerce participant has furnished his PAN or Aadhaar number to the e-commerce operator.

(3) Notwithstanding anything contained in Part B of this Chapter, a transaction in respect of which tax has been deducted by the e-commerce operator under sub-section (1), or which is not liable to deduction under sub-section (2), shall not be liable to tax deduction at source under any other provision of this Chapter: Provided that the provisions of this sub-section shall not apply to any amount or aggregate of amounts received or receivable by an e-commerce operator for hosting advertisements or providing any other services which are not in connection with the sale or services referred to in sub-section (1).

(4) If any difficulty arises in giving effect to the provisions of this section, the Board may, with the approval of the Central Government, issue guidelines for the purpose of removing the difficulty.

(5) Every guideline issued by the Board under sub-section (4) shall be laid before each House of Parliament, and shall be binding on the income-tax authorities and on the e-commerce operator.

(6) For the purposes of this section, e-commerce operator shall be deemed to be the person responsible for paying to e-commerce participant.

Explanation : For the purposes of this section,—

(a) “electronic commerce” means the supply of goods or services or both, including digital products, over digital or electronic network;

(b) “e-commerce operator” means a person who owns, operates or manages digital or electronic facility or platform for electronic commerce;

(c) “e-commerce participant” means a person resident in India selling goods or providing services or both, including digital products, through digital or electronic facility or platform for electronic commerce;

(d) “services” includes “fees for technical services” and fees for “professional services”, as defined in the Explanation to section 194J. ’

Sec 195 : TDS on Payment to Non Resident

1.	Type of Payment	Payment other than salary
2.	Payer	Any person
3.	Payee	Non resident
4.	Time of TDS	Payment or credit, whichever earlier
5.	Rate of TDS	Prescribed rates

Sec 195A : Tax Free Payments

- Where under an agreement
- **TDS** is to be borne by **Payer**
- Then Payment made to payee
- will be treated as **net amount after TDS**

$$\text{Gross Amount to be included in Total Income} = \frac{\text{Net Amount Received} \times 100}{100 - \text{TDS rate}}$$

$$\text{TDS} = \text{Gross Amount} - \text{Net Amount}$$

Sec 196 : No TDS if payments to Specified Payee

No deduction of tax shall be made by any person from any sums payable to

- ✓ **Government**
- ✓ **Reserve Bank of India**
- ✓ **Corporation** established under **Central Act** which is exempt from income-tax on its income
- ✓ **Mutual Fund** specified u/s 10(23D)

Sec 197 : Certificate for No deduction or deduction at lower rates

- Assessee can make an application to AO
- For deduction of tax at lower rates/No deduction (*Except for Sec 194B , 194BB , 194E*)
- AO is satisfied that assessee application is justified
- Grant the assessee a certificate for deduction of tax at lower rates/No deduction

Special Point:

1. Upon furnishing of such certificate ,person responsible for deducting tax shall deduct tax at lower rates or deduct no tax, as the case may be.
2. Certificate will be valid until it is cancelled by AO

Sec 197A : Self Declaration for No deduction of Tax

- **Individual**, who is **resident** in India
- having income liable for deduction u/s **193, 194 or 194A or 194I**
- furnishes **declaration** in writing
- In **duplicate** in **prescribed form** to the payer
- **no deduction of tax** shall be made by Payer

Special point : This declaration shall be made only if

- a) **Tax** on his **estimated Total income** of the previous year is **NIL** &
- b) Aggregate **such incomes** during previous year **does not exceed Exemption limit**

Sec 198 : Tax deducted is Income Received

- All sums deducted under TDS provisions shall
- for the purpose of computing the income of an assessee
- be deemed to be income received

Special point :

This section is not applicable if payment u/s 192(1A) is applicable (i.e Tax on non monetary perquisite paid by employer is not deemed as income of employee)

Sec 199 : Credit for Tax Deducted

- ✓ Any TDS deducted & paid to Central Government by payer
- ✓ Shall be treated as **payment of tax on behalf of payee &**
- ✓ Payee shall get the **Credit of Tax deducted**

Sec 201 : Consequences of Failure to Deduct / Pay TDS

- ✓ Where any person
- ✓ who is required to deduct TDS
- ✓ **does not deduct, or after deducting fails to pay**
- ✓ the **whole or any part** of the tax
- ✓ then, such person be deemed to be an **Assessee in default** and liable to **Penalty u/s 221** upto the amount of **Tax in Arrears** and
- ✓ ***Liable to pay Interest @ 1% pm or part***
- ✓ ***for period from Due date of deduction TO Date of actual Deduction AND***
- ✓ ***Interest @ 1.5% Pm or part***
- ✓ ***for the period from Date of actual deduction TO Date of actual deposit***
- ✓ ***and such interest shall be paid before furnishing the statement u/s 200***

Sec 203 : Certificate for Tax Deducted

- ✓ Every person deducting TDS
- ✓ Shall, within **Prescribed period & Prescribed form**
- ✓ furnish to Payee
- ✓ a Certificate of deduction
 - Specifying the amount so deducted
 - Rate of TDS and
 - Other prescribed particulars

Sec 203A : Tax deduction Account Number (TAN)

- ✓ Every person, liable to deduct tax
- ✓ Shall apply to the Assessing Officer
- ✓ for the allotment of TAN in **prescribed form**
- ✓ TAN shall be quoted in all
- ✓ **Challans** for the Deposit of TDS
- ✓ **Certificates** furnished under section 203

- ✓ **Statements** u/s section 200
- ✓ other documents

Sec 205 : Bar against direct demand on Assessee

- ✓ **Where tax is deductible**
- ✓ assessee shall not be called upon to pay the tax himself
- ✓ to the extent to which **tax has been deducted from that income**

Sec 206AA : Requirement to furnish Permanent Account Number

- ✓ Any person entitled to receive any amount on which tax is deductible (Deductee)
- ✓ shall furnish his **Permanent Account Number (PAN)**
- ✓ to the person responsible for deducting such tax (Deductor)

*If Deductee does not disclose his PAN, TDS will be deducted at **Higher of the following rate***

- **Applicable TDS rate or 20%**

Provided that where the tax is required to be deducted u/s 194O, instead of "20%.", it is "5%."

MISSL PROVISIONS

1. Sec 206C : Tax Collected at Source (TCS)

Every person, being a seller shall, at the time of debiting of the amount payable by the buyer to the account of the buyer or at the time of receipt of such amount from the said buyer in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, collect from the buyer of goods, a sum equal to the specified percentage of such amount as income-tax

Following are the items on which collection of TCS applicable:

Category A

1. Alcoholic liquor for human consumption : 1%
2. Tendu leaves : 5%
3. Timber obtained under a forest lease : 2.5%
4. Timber obtained by any mode other than under a forest lease : 2.5%
5. Any other forest produce not being timber or tendu leaves : 2.5%
6. Scrap : 1%
7. Minerals being coal or lignite or iron ore : 1%
8. Scrap Batteries : 1%

Category B (grant of lease/license of the following)

Parking lot, toll plaza, mining and quarrying : 2%

Category C

Bullion exceeding 2 lakhs, jewellery exceeding 5 lakhs, other goods& services exceeding 2 lakhs : 1%

Category D

Motor vehicle exceeding 10 lakhs : 1%

Every person,—

(a) being an authorised dealer, who receives an amount, for remittance out of India from a buyer, being a person remitting such amount out of India under the Liberalised Remittance Scheme of the RBI;

(b) being a seller of an overseas tour program package, who receives any amount from a buyer, being the person who purchases such package,

shall, at the time of debiting the amount payable by the buyer or at the time of receipt of such amount from the said buyer, by any mode, whichever is earlier, collect from the buyer, a sum equal to 5% of such amount as income-tax:

Provided that the authorised dealer shall not collect the sum, if the amount or aggregate of the amounts being remitted by a buyer is less than 7 lakh in a f/y and is for a purpose other than purchase of overseas tour program package:

Provided further that the sum to be collected by an authorised dealer from the buyer shall be equal to 5% of the amount or aggregate of the amounts in excess of 7 lakh remitted by the buyer in a financial year, where the amount being remitted is for a purpose other than purchase of overseas tour program package:

Provided also that the authorised dealer shall collect a sum equal to 1.5% of the amount or aggregate of the amounts in excess of 7 lakh remitted by the buyer in a financial year, if the amount being remitted out is a loan obtained from any financial institution as defines u/s 80E, for the purpose of pursuing any education:

Provided also that the authorised dealer shall not collect the sum on an amount in respect of which the sum has been collected by the seller:

Provided also that the provisions of this sub-section shall not apply, if the buyer is,—

- (i) liable to deduct tds under any other provision of this Act and has deducted such amount;
- (ii) the Central Government, a State Government, an embassy, a High Commission, a legation, a commission, a consulate, the trade representation of a foreign State, a local authority as defined in the Explanation to clause (20) of section 10 or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein.

Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding 50 lakh in any p/y, other than the goods being exported out of India or goods covered in sub-section (1) or sub-section (1F) or sub-section (1G) shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 0.1 per cent of the sale consideration exceeding 50 lakh as income-tax:

Provided that if the buyer has not provided the PAN or the Aadhaar number to the seller, then the provisions of clause (ii) of sub-section (1) of section 206CC shall be read as if for the words "5%", the words "1%" had been substituted:

Provided further that the provisions of this sub-section shall not apply, if the buyer is liable to deduct tds under any other provision of this Act on the goods purchased by him from the seller and has deducted such amount.

Explanation.—For the purposes of this sub-section,—

- (a) "buyer" means a person who purchases any goods, but does not include,—
 - (A) the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or
 - (B) a local authority as defined in the Explanation to clause (20) of section 10; or
 - (C) a person importing goods into India or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein;
- (b) "seller" means a person whose total sales, gross receipts or turnover from the business carried on by him exceed ten crore rupees during the financial year immediately preceding the financial year in which the sale of goods is carried out, not being a person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein.

2. 206CC : Requirement to furnish Permanent Account number by collectee

(1) Notwithstanding anything contained in any other provisions of this Act, any person paying any sum or amount, on which tax is collectible at source under Chapter XVII-BB (herein referred to as collectee) shall furnish his Permanent Account Number to the person responsible for collecting such tax (herein referred to as collector), failing which tax shall be collected at the higher of the following rates, namely:—

- (i) at twice the rate specified in the relevant provision of this Act; or*
- (ii) at the rate of 5%.*

3. Sec 206A : Furnishing of statement of payment of any income to residents without deduction of tax.

Any banking company or co-operative society or public company referred to in the proviso to section 194A(3) responsible for paying to a resident any income not exceeding ₹40,000, where the payer is a banking company or a co-operative society, and ₹5,000 in any other case by way of interest (other than interest on securities), shall prepare such statement in such form, containing such particulars, for such period, verified in such manner and within such time, as may be prescribed, and deliver or cause to be delivered

4. Sec 269SU : Acceptance of payment through prescribed electronic modes.

Every person, carrying on business, shall provide facility for accepting payment through prescribed electronic modes, in addition to the facility for other electronic modes, of payment, if any, being provided by such person, if his total sales, turnover or gross receipts, as the case may be, in business exceeds ₹50 crores during the immediately preceding p/y.

Rule 119AA : Every person, carrying on business, if his total sales, turnover or gross receipts, as the case may be, in business exceeds ₹50 crores during the immediately preceding p/y shall provide facility for accepting payment through following electronic modes, in addition to the facility for other electronic modes of payment, if any, being provided by such person, namely:—

- (i) Debit Card powered by RuPay;
- (ii) Unified Payments Interface (UPI) (BHIM-UPI); and
- (iii) Unified Payments Interface Quick Response Code (UPI QR Code) (BHIM-UPI QR Code)..

5. Sec 271DB : Penalty for failure to comply with provisions of section 269SU.

(1) If a person who is required to provide facility for accepting payment through the prescribed electronic modes of payment referred to in section 269SU, fails to provide such facility, he shall be liable to pay, by way of penalty, a sum of ₹5,000, for every day during which such failure continues:

Provided that no such penalty shall be imposable if such person proves that there were good and sufficient reasons for such failure.

(2) Any penalty imposable under sub-section (1) shall be imposed by the Joint Commissioner of Income-tax.

CHAPTER – 14
INCOMES WHICH ARE EXEMPT

SECTION	NATURE OF INCOME
10(2)	Sum received by member of HUF out of family Income
10(10BC)	Any amount received or receivable from Central Govt or State Govt or local authority by an Individual or his legal heir by way of compensation on account of any Disaster
Sec10(11A)	Any payment from an account, opened in accordance with the Sukanya Samriddhi Account Rules, 2014 made under the Government Savings Bank Act, 1873
10(16)	Scholarship to meet cost of education
10(17A)	Payment in Cash or Kind - For Award in public interest by Central Govt., or State Govt, or by body approved by Central Govt. - For Reward by Central Govt., or State Govt, for purpose approved by Central Govt.
10(19A)	Annual value of one palace in occupation of an ex ruler provided such annual value was exempt before 28.12.1971
10(20)	The following incomes of Local authority -House property -Capital gains -Other sources -Trade/Business income from supply of : - water /electricity within or outside its jurisdictional area - any other service within own jurisdictional area
10(22B)	Income of Specified news agency set up in India solely for collection and distribution of news, <i>provided</i> does not distribute its income to its members
10(23A)	Income of professional associations/institutions provided certain conditions are fulfilled. <i>However, the following incomes are not exempt</i> -Income from house property -Investment Incomes -Income from specific services to its member
10(23C)	Income of certain institutions like - Notified funds - Educational institutions not for profit - Hospital treating specified ailments not for profit - Fund /institutions for charitable purposes , having importance throughout India/States
10(24)	Following income arising to a registered trade union -House property -Income from other sources
10(39)	Any specified Income arising from any International sporting event held in India if such event is -approved by international body regulating such sport -has participation by more than two countries -is notified by central govt for this clause

10(43)	Amount received by an Individual as a loan, either in lumpsum or in instalment, in a transaction of reverse mortgage referred in sec 47
10(45)	Any allowance or perquisite, as may be notified by the Central Government in the Official Gazette in this behalf, paid to the Chairman or a retired Chairman or any other member or retired member of the Union Public Service Commission .
10(46)	Any specified income arising to a body or authority or Board or Trust or Commission which— (a) Has been established or constituted by or under a Central, State or Provincial Act, or constituted by the Central Government or a State Government, (b) With the object of regulating or administering any activity for the benefit of general public (c) Not engaged in any commercial activity (d) Notified by Central Government in Official Gazette
10(47)	Any income of an infrastructure debt fund, set up in accordance with the guidelines as may be prescribed, which is notified by the Central Government in the Official Gazette for the purposes of this clause
10(48)	Any income received in India in Indian currency by a foreign company on account of sale of crude oil, any other goods or rendering of services, as may be notified by the Central Government, to any person
10(48A)	Any income accruing or arising to a foreign company on account of storage of crude oil in a facility in India and sale of crude oil therefrom to any person resident in India:
10(48B)	Any income accruing or arising to a foreign company on account of sale of leftover stock of crude oil, if any, from the facility in India after the expiry of the agreement or the arrangement
10(48C)	Any income accruing or arising to the Indian Strategic Petroleum Reserves Limited, being a wholly owned subsidiary of the Oil Industry Development Board under the Ministry of Petroleum and Natural Gas, as a result of arrangement for replenishment of crude oil stored in its storage facility in pursuance of directions of the Central Government in this behalf: Provided that nothing contained in this clause shall apply to an arrangement, if the crude oil is not replenished in the storage facility within three years from the end of the financial year in which the crude oil was removed from the storage facility for the first time.
10(50)	Any income arising from any specified service provided on or after the date on which the provisions of Chapter VIII of Finance Act, 2016 comes into force <i>or arising from any e-commerce supply or services made or provided or facilitated on or after 1/4/21 and chargeable to equalisation levy under that Chapter.</i>

INCOME OF CHARITABLE & RELIGIOUS TRUST

Sec 12A : In order to claim exemption of its Income u/s 11 & 12, a Charitable/Religious trust should fulfill below condition

- Trust should be created for a lawful purpose
- Trust should be for **Charitable or Religious purpose**
- Property should be held under trust
- Person in receipt of income has made an application for registration of the trust/ institution in prescribed form & manner to Principal Commissioner/Commissioner & such trust is registered u/s 12AA
- **Sec 12(1)(ac) :** *Person in receipt of the income has made an application in prescribed form and manner to the Principal CIT or CIT, for registration of trust,—*
 - (i) *where the trust is registered u/s 12AA, within 3 months from the 1st day of April, 2021;*
 - (ii) *where the trust is registered u/s 12AB and the period of the said registration is due to expire, at least 6 months prior to expiry of the said period;*
 - (iii) *where the trust has been provisionally registered u/s 12AB, at least six months prior to expiry of period of the provisional registration or within 6 months of commencement of its activities, whichever is earlier;*
 - (iv) *where registration of the trust has become inoperative due to the first proviso of section 11(7), at least 6 months prior to the commencement of the assessment year from which the said registration is sought to be made operative;*
 - (v) *where the trust has adopted or undertaken modifications of the objects which do not conform to the conditions of registration, within a period of 30 days from the date of the said adoption or modification;*
 - (vi) *in any other case, at least 1 month prior to the commencement of the previous year relevant to the assessment year from which the said registration is sought, and such trust or institution is registered u/s 12AB;*
- Accounts should be audited if TI before exemption u/s 11 & 12 Exceeds exemption amount, *before the specified date referred u/s 44AB and the person in receipt of the income furnishes by that date the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed;*
- Trust should not be created for the benefit of particular community or caste
- Person in receipt of the income has furnished return of income for p/y u/s 139(4A), within the time allowed under that section.

Sec 2 (15) : Charitable & Religious purpose includes

- 1) Relief to the poor,
- 2) Education,
- 3) **YOGA**
- 4) Medical relief,
- 5) **Preservation of environment (including watersheds, forests and wildlife)**
- 6) **Preservation of monuments or places or objects of artistic or historic interest and**
- 7) **Advancement of any other object of General Public Utility**

Any other object of General Public Utility shall not be a charitable purpose if it involves the carrying on of

- (a) Any activity in nature of Trade, commerce or business or,
- (b) Any activity of rendering of any service in relation to any trade, commerce or business for a fees or any other consideration, irrespective of the nature of use of the income from such activity or retention of such income ,unless

(i) **Such activity is undertaken in course of actual carrying out of such advancement of any other object of general public utility and**

(ii) **Aggregate receipts from such activity during the P/Y, do not exceed 20% of the total receipts, of the trust or institution undertaking such activity or activities, of that previous year.**

Various Types of Income of a Trust

1. Income from property held under trust
2. Voluntary contributions (donations) not forming part of Corpus
3. Voluntary contributions (donations) forming part of Corpus.
4. Anonymous donations
5. Business Income

1.

Section 11

Income From Property Held Under Trust



APPLIED for Charitable or Religious purpose in India

Amount of Exemption

Income applied is at least 85% : **100%**
 Income applied less than 85% : **Amount applied + 15%**

INCOME APPLIED for charitable or religious purpose means

- Income **actually applied** for Charitable or Religious purposes in India
- Income **deemed to be applied** for Charitable or Religious purpose in India

Income Deemed to be Applied :

a) Where income not applied due to non-receipt of Income during previous year : Such income should be applied for Charitable & Religious purpose during P/Y of actual receipt **or** during next P/Y

b) Where income not applied due to other reasons : Such income should be applied for Charitable & Religious purpose during P/Y next to previous year to which such income relates

Special Points :

1. Option (under (a) or b) has to be exercised by the trust in writing to AO

2. Any amount credited or paid, out of income referred to in clause (a) or clause (b), to any other trust or institution registered u/s 12AA, being contribution with a specific direction that they shall form part of the corpus of trust or institution, shall not be treated as application of income for charitable or religious purposes.

3. For the purposes of determining the amount of application under clause (a) or clause (b), provisions of section 40(a)(ia) and section 40A(3)(3A) shall, mutatis mutandis, apply as they apply in computing the income chargeable under the head Profits and gains of business or profession.

Additional exemption for Income accumulated or set apart in excess of 15%

- Where 85% income not applied (actual or deemed) for charitable & religious purpose
- then ***additional exemption*** shall be available for such amount
- which is accumulated or set apart for application in future year

Provided Notice is given to A.O in **Form 10 on or before due date of return u/s 139(1)** specifying period and purpose for which such income is accumulated.

However, **period cannot exceed 5 yrs** from P/Y in which such income is derived and Money so accumulated or set apart is invested or deposited specified manner

2. **Voluntary contribution (Donations) not forming part of corpus (Sec.12) :**
(Same treatment as income from property held under trust)

3. **Voluntary contributions (Donation) forming part of corpus [Sec. 11] :**
100% exempt irrespective of the fact whether applied or not

4. **Anonymous donations :** Means any voluntary contribution where a person receiving such contribution **does not maintain** a record of the identity indicating the name and address of the person making such contribution and such other particulars as may be prescribed.

115BBC : Tax treatment of Anonymous Donation

(1) Income-tax shall be payable @ 30% on the aggregate of anonymous donations received in excess of the **higher of the following** :

5% of the total donations received by assessee or 1,00,000

(2) The provisions of sub-section (1) shall not apply to any anonymous donation received by

(a) any trust or institution created wholly for religious purposes

(b) any trust or institution created or established wholly for religious and charitable purposes other than any anonymous donation made with a specific direction that such donation is for any university or other educational institution or any hospital or other medical institution run by such trust or institution.

5. Business Income

- Business income arising from business carried on by trust
- is also Exempt u/s. 11
- Provided
 - Such business is incidental to the attainment of objectives of the trust **and**
 - Separate books of accounts of such business are maintained.

Special Point : However If income shown in accounts of such business undertaking is less than income determined by AO, then **such excess will not be exempt**.

Section 13: Cases when Exemption u/s 11 or 12 is Not Available

Income used for <i>private religious purpose</i> , not for public benefit	Trust created for benefit of <i>particular religious community</i>	During P/Y income used for benefit of <i>specified person u/s. 13(3)</i>	Funds not invested in specified manner
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In above cases Income of such trust will be taxable at maximum Marginal rate

Sec. 13(3): Specified Persons

1. Author of Trust.
2. Person contributed greater than 50,000/- during P/Y
3. Trustee/Manager of trust
4. Relatives of above persons
5. Concern in which above persons has **Substantial interest** (i.e. atleast 20% of equity shares/profits of)

Sec 12AB : Procedure for Fresh registration

(1) The Principal CIT or CIT, on receipt of an application made u/s 12A(1)(ac), shall,—

(a) where application is made under sub-clause (i) of the said clause, pass an order in writing registering the trust for a period of 5 years;

(b) where application is made under sub-clause (ii) or sub-clause (iii) or sub-clause (iv) or sub-clause (v) of the said clause,—

(i) call for such documents or information from the trust or make such inquiries as he thinks necessary in order to satisfy himself about—

(A) the genuineness of activities of trust ; and

(B) the compliance of such requirements of any other law by the trust as are material for the purpose of achieving its objects;

(ii) after satisfying himself about the objects of the trust and genuineness of its activities under item (A) and compliance of the requirements under item (B), of sub-clause (i),—

(A) pass an order in writing registering the trust for a period of five years; or

(B) if he is not so satisfied, pass an order in writing rejecting such application and also cancelling its registration after affording a reasonable opportunity of being heard;

(c) where application is made under sub-clause (vi) of the said clause, pass an order in writing provisionally registering the trust for three years from the assessment year from which the registration is sought,

and send a copy of such order to the trust .

(2) All applications, pending before Principal CIT or CIT on which no order has been passed under clause (b) of sub-section (1) of section 12AA before the date on which this section has come into force, shall be deemed to be applications made under sub-clause (vi) of clause (ac) of sub-section (1) of section 12A on that date.

(3) The order under clause (a), sub-clause (ii) of clause (b) and clause (c), of sub-section (1) shall be passed, in such form and manner as may be prescribed, before expiry of the period of three months, six months and one month, respectively, calculated from the end of the month in which the application was received.

(4) Where registration of a trust has been granted under clause (a) or clause (b) of sub-section (1) and subsequently, the Principal CIT or CIT is satisfied that the activities of such trust are not genuine or are not being carried out in accordance with the objects of the trust, he shall pass an order in writing cancelling the registration of such trust after affording a reasonable opportunity of being heard.

(5) Without prejudice to the provisions of sub-section (4), where registration of a trust has been granted under clause (a) or clause (b) of sub-section (1) and subsequently, it is noticed that—

(a) the activities of the trust are being carried out in a manner that the provisions of sections 11 and 12 do not apply to exclude either whole or any part of the income of such trust due to operation of sub-section (1) of section 13; or

(b) the trust has not complied with the requirement of any other law, as referred to in item (B) of sub-clause (i) of clause (b) of sub-section (1), and the order, direction or decree, by whatever name called, holding that such non-compliance has occurred, has either not been disputed or has attained finality,

then, Principal CIT or the CIT may, by an order in writing, after affording a reasonable opportunity of being heard, cancel the registration of such trust or institution

CHAPTER – 15

RETURNS & ASSESSMENTS

Sec.139(1): Furnishing of Return of Income

- Every Person
 - ✓ Being a company or a firm
 - ✓ Being a person other than a company or firm , if his **Gross Total Income** before exemption u/s **10(38)** or **u/s 54** or **u/s 54B** or **u/s 54D** or **u/s 54EC** or **u/s 54F** or **u/s 54G** or **u/s 54GA** or **u/s 54GB** exceeds exemption limit of 2.5lacs/3lacs/5lacs
- Shall file return of income
- On or before **due date**
- In the **prescribed form**
- **Verified** in the prescribed manner
- And containing **prescribed particulars**

Mandatory filing of return
Case 1:

- *ROR ,who is not required to furnish a return u/s 139(1)*
- *Holds, Any asset (including any financial interest in any entity) located outside India or*
- *has signing authority in any account located outside India; or*
- *shall furnish ,Return of income or loss, on or before the due date,*

Case 2 :
Persons who during P/Y

- (i) *Has deposited aggregate amounts exceeding `1 crore in one or more current accounts maintained with banking company or a co-operative bank; or*
- (ii) *Has incurred aggregate expenditure exceeding `2lakh for himself or other person for travel to foreign country; or*
- (iii) *Has incurred aggregate expenditure exceeding `1lakh towards consumption of electricity; or*
- (iv) *Fulfil such prescribed conditions .*

DUE DATE OF FILING RETURN OF INCOME

<u>Assessee required to furnish a report u/s 92E</u>	: 30th Nov. OF A/Y
<u>Assessee is a Company</u>	: 30th October OF A/Y
<u>Other than Company</u>	
1) Accounts audited under this act. or any other law	: 31st October OF A/Y
2) Partner a firm & Firms accounts are audited under this act or any other law	: 30th October OF A/Y
3) Other assessee	: 31ST JULY OF A/Y

Special Point : Sec 92E: Every person who has entered into an **international transaction** during P/Y shall obtain a **report from accountant** & furnish such report on or before **specified date** in the prescribed form duly signed and verified in prescribed manner by such accountant & setting forth prescribed particulars

Sec 234F : Fees for Late filing of Return (wef A/Y 18/19)

Person required to file return u/s 139, fails to file within time u/s 139(1), he shall pay, by way of fee, of
 (a) ₹5,000, if the return is furnished upto 31st December of A/Y;
 (b) ₹10,000 in other case:

Special point : If total income upto 5 lakhs, fee shall not exceed ₹1,000.

Sec. 139(3) : Return of Loss

- Loss under
 - **Business/Profession**
 - **Speculation**
 - **Specified Business u/s 35AD**
 - **Capital Gains or**
 - **Owning & maintaining race horses**
- Can be carried forward only if
- return of Loss is furnished
- Within due date prescribed u/s. 139(1)

Special points:

- 1. Return filed u/s 139(3) shall be deemed to be return filed u/s. 139(1)**
- 2. If loss return not filed within due date, then loss cannot be carried forward**
- 3. Set off of Losses :** Sec. 139(3) restricts only carry forward of losses. Therefore, losses **can be set off** even if ROI filed after due date
- 4. Unabsorbed Depreciation:** Sec. 139(3) deals with C/f of losses only. Therefore, unabsorbed depreciation **can be C/f** if ROI filed after due date
- 5. Loss under Head House Property:** Loss of HP **can be C/f** even if ROI filed after due date
- 6. Loss Return furnished u/s. 142(1):** Loss determined under return u/s. 142 (1) **cannot** be C/f

Sec. 139(4) : Belated Return

- ✓ Person **not** furnished ROI
- ✓ within time allowed u/s. 139(1) or 142(1)
- ✓ He **may** still furnish ROI
- ✓ At any time **before**
- ✓ Upto end of relevant A/Y **or** completion of Assessment , *whichever is earlier*

Sec. 139(5) : Revised Return

- ✓ Person having furnished ROI u/s. 139(1) *or* 139(4)
- ✓ Discovers any **Omission or Wrong statement**
- ✓ **May** furnish **Revised ROI**
- ✓ At any time **before**
- ✓ one year from end of relevant A/Y **or** completion of Assessment , *whichever is earlier*

Special Points :

- ❖ Revised return substitutes original return
- ❖ Loss return u/s. 139(3) can be revised
- ❖ Return can be revised any number of times
- ❖

Sec. 139(4A): ROI of Charitable or Religious Trust

- Total Income of a trust
- before Exemption u/s. 11 & 12 **Exceeds** Exempted amount
- Then it shall file ROI
- Within time allowed u/s. 139(1)
- Return filed u/s 139(4A) shall be deemed to be return u/s. 139(1)

Sec. 139(4B): ROI of Political Party

- Total Income of party
- before Exemption u/s. 13A **Exceeds** Exempted amount
- Then it shall file ROI
- Within time allowed u/s. 139(1)
- Return filed u/s 139(4A) shall be deemed to be return u/s. 139(1)

Sec 139(4C): ROI by Assessee Claiming Exemption u/s 10

- Total income of
 - Research association u/s. 10(21) or
 - News Agency u/s. 10(22B) or
 - Profession associations u/s. 10(23A) or
 - Funds, Trusts, University, Hospitals etc u/s 10(23C) or
 - Trade Unions, Associations u/s. 10(24)
 - **Body, Trust u/s 10(46)**
 - **Infrastructure Debt Fund u/s 10(47)**
- Before Exemption u/s.10 **Exceeds** Exempted amount.
- Then such Assessee shall file ROI
- Within time allowed u/s. 139(1)

Sec 139(4D): ROI by various institutions

- Every university, college or other institution
- Referred in **sec 35(1)(ii) & 35(1)(iii)**
- Which is not required to furnish return of income or loss under any other provisions
- Shall furnish the return in respect of its income or loss in every previous year
- And it shall be deemed to be a return u/s 139(1)

Sec 139(6) : Particulars to be furnished with the return of income

As per section 139(6), the prescribed form of return of income, shall in certain prescribed cases, require the assessee to furnish the particulars of:

- 1) Income exempt from tax;
- 2) *Assets of the prescribed nature and value, held by him as a beneficial owner or otherwise or in which he is a beneficiary.*
- 3) Details of bank account and credit card held ;
- 4) Expenditure exceeding prescribed limits incurred under prescribed heads; and
- 5) Such other outgoings, as may be prescribed

Sec. 139(9) : Defective Return

ROI shall be regarded as defective unless it is filed in prescribed form with all columns & annexures duly filled in.

Special Points:

1. Notice by AO to rectify defect

- If AO considers ROI to be defective,
- he **may** intimate assessee to rectify the defect
- within 15 days from the date of receiving the intimation
- AO can also extend the time limit of 15 days upon application by the assessee

If defect is not rectified within above time period then return treated as *void-ab-initio*. (invalid)

2. Unsigned return is not invalid return but *void-ab-initio*. (invalid)

Sec. 140 : Verification of ROI

1. Individual

- Present in India : Himself
- Absent from India : Either himself or authorised person
- Mentally Incapacitated : Legal Guardian
- Other reasons : Authorised Person

(Where ROI is verified by an authorised person, attach Power of Attorney with ROI)

2. Partnership Firm

- ☐ If there is a Managing Partner : **Managing Partner.**
☐ Due to unavoidable reasons MD cannot verify **or** If no Managing Partner: **Any partner (not a minor)**

3. Limited Liability partnership

- ✓ By **Designated Partner** or
 ✓ Due to unavoidable reason such designated partner cannot verify **or** If no designated partner : **Any partner or any other person, as may be prescribed for this purpose**

4. Company

If there is Managing Director	No MD or he cannot sign due to unavoidable reasons	Where company is Non-resident	Company being wound-up	Company whose management taken over by C or S Govt	Where, an application for corporate insolvency resolution process has been admitted by Adjudicating Authority under the Insolvency & Bankruptcy Code, 2016,
By Managing Director himself	By any Director <i>or any other person, as may be prescribed for this purpose</i>	By any person duly authorised	By the liquidator	By Principal Officer	By insolvency professional appointed by such Adjudicating Authority

5. HUF

- By the Karta himself
 ➤ If Karta is absent from India or Mentally incapacitated : By Any Adult member

6. Political Party : By Chief Executive Officer of the Party

7. Local Authority : By the Principal Officer of the authority

8. AOP/BOI : By any member or Principal Officer of such AOP/BOI

9. Any other Assessee : By that person or a person who is competent to act on his behalf

Sec. 139A : Permanent Account Number (PAN)

Application for allotment of PAN shall be made in the following cases

- 1) If **total income** of the person **exceeds exemption limit** of 2.5lacs/3lacs/5lacs
- 2) If **total sales, turnover** or **receipts** are or likely to **exceed 5 lakhs** in any p/y
- 3) If return is to be filed **u/s 139(4A)**

- 4) Being a resident, other than individual, which enters into financial transaction of aggregating to ₹2,50,000 or more in f/y; or
- 5) Who is managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of person in pt 4

Time limit for making an application

For point (1) ,(4) ,(5) : Upto 31st May of A/Y relevant to P/Y whose Income exceeds exemption limit

For point (2) & (3) : Before the end of F/Y

Every person who is required to furnish or intimate or quote his PAN under this Act, and who,—

- (a) *has not been allotted a PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar number in lieu of PAN, and such person shall be allotted a PAN in such manner as may be prescribed;*
- (b) *has been allotted a PAN, and who has intimated his Aadhaar number, may furnish or intimate or quote his Aadhaar number in lieu of the PAN.*

Every person entering into such transaction, as may be prescribed, shall quote his PAN or Aadhaar number, as the case may be, in the documents pertaining to such transactions and also authenticate such PAN or Aadhaar number, in such manner as may be prescribed.

Special points:

1. **PAN Suo Moto By AO** : Having regard to prescribed transactions, AO may also allot a PAN to any person whether tax is payable by him or not
2. **PAN under Central Govt. Directions** : for collecting any useful information ,central govt. may direct any class of persons to apply for allotment of PAN
3. **Voluntary application of PAN** : Any person not required under this section to apply for a PAN may also apply for allotment of PAN

Cases where PAN has to be quoted

- ❖ In all returns, correspondences with any Income Tax authority
- ❖ In all challans for payment of any sum due under this act
- ❖ In documents relating to **PRESCRIBED TRANSACTIONS**

<u>Prescribed Transactions where PAN has to be Quoted : Rule 114B</u>		
	Particulars of Transactions	Value of Transaction
1. 2.	Sale & Purchase of Immovable property Payment to a dealer for purchase of bullion or jewellery	> ₹10,00,000 or SDV > 10 lacs
3.	Sale/Purchase of Securities	> ₹1,00,000
4. 5.	Time deposit with any bank Deposit with post Office Saving Banks	> ₹50,000 or >5 lacs in F/Y
6. 7. 8. 9. 10. 11. 12.	Cash Payment for purchase of bank draft, pay order, banker cheque from any bank during one day Cash Deposit in any bank/Post office in one account in a day Payment to Mutual Fund for purchase of units Payment to company for acquiring shares Payment to company for acquiring debentures or bonds Payment to RBI for acquiring bonds Payment of life insurance premium to an insurer in F/Y	> ₹50,000
13. 14.	Cash Payment of Hotel/Restaurant bill at one time Cash payment for travel to foreign country/purchase of foreign currency	> ₹50,000
15.	Sale or Purchase of unlisted shares	> ₹1,00,000 per transaction
16.	Sale or purchase of goods & services	> ₹2 lakhs per transaction
17. 18. 19. 20. 21.	Sale/Purchase of Motor vehicle (other than 2 wheelers) Application for installation of Telephone/Cellular Opening an Account with any bank Application for Credit/Debit Card Opening a Demat Account	Any value

Special Points : A person does not have PAN Has to give declaration in Form 60

139B : Scheme for submission of returns through Tax return Preparers

- Every person Other than
- A company or person required to get his accounts audited under any law
- May furnish his return
- Through Tax Return Preparers
- Authorised to act under scheme framed by CBDT

Special Points :

1. Every TRP shall assist, the person furnishing the return, in manner as specified in scheme and affix his signature on such return
2. TRP shall not include
 - Officer of schedule bank in which assessee has current a/c or has regular dealings or
 - a Legal practitioner in civil courts or
 - a Chartered accountant or
 - an employee

139AA : Quoting of Aadhaar number

1) Every person who is eligible to obtain Aadhaar number shall, w.e.f 1/7/17, quote Aadhaar number—

- (i) in PAN Application;
- (ii) in return of income:

Provided that where the person does not possess Aadhaar Number, Enrolment ID of Aadhaar application form shall be quoted

(2) Every person who has been allotted Pan UPTO 1/7/17, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority in such form and manner as may be prescribed, on or before a ***date to be notified*** by Central Government in the Official Gazette:

This date has further been extended by the Central Government, vide this notification to 31st March 2021

Provided on failure to intimate Aadhaar number, PAN allotted shall be deemed to be invalid & other provisions of this Act shall apply, as if person had not applied for allotment of PAN

In case of failure to intimate the Aadhaar number, the PAN allotted to the person shall be made inoperative after the date so notified in such manner as may be prescribed

Income Tax Authorities & Assessment**Income Tax Authorities(Appointment,jurisdiction,power) Sec 116**

The following are the income-tax authorities who are statutorily empowered to administer the law of Income-tax:

- (i) CBDT
- (ii) Directors-General/Chief Commissioners
- (iii) Directors/Commissioners/Commissioner(Appeals);
- (iv) Additional Directors /Additional Commissioners/ Additional Commissioner (Appeals);
- (v) Joint Directors/Joint Commissioner.
- (vi) Deputy Directors/ Deputy Commissioners/ Deputy Commissioners(Appeals);
- (vii) Assistant Directors/Assistant Commissioner ;
- (viii) Income-tax (Assessing) Officers;
- (ix) Tax Recovery Officers;
- (x) Inspectors of Income-tax.

Appointment of Income-tax Authorities (Section 117)

The Central Government may appoint such persons as it thinks fit to be income-tax authorities.

POWERS OF CENTRAL BOARD OF DIRECT TAXES (CBDT)

- (i) **Power to make Rules:** It has the power to make rules (u/s 295) for carrying out the purposes of this Act. The Rules may be made for whole or any part of India.
- (ii) **To issue instructions:** It may issue orders, instructions and directions to all officers and persons employed in the execution of the Act (Section 119).
- (iii) **Power to relax mandatory provisions:** The Board is empowered to relax the provision relating to the charge of mandatory interest for defaults of TDS or payment of advance tax or defaults in furnishing return etc
- (iv) **Power to admit belated refund application:** To avoid genuine hardship, the Board may authorise any income-tax authority, not being Commissioner (Appeals) to admit belated application or claim for any exemption, deduction, refund or any other relief.
- (v) **Power to decide jurisdiction:**
- (vi) **Power to disclose information:** The Board may disclose information relating to any assessee, to any officer, authority, or body performing any functions under any tax law

POWERS OF Principal Director-General or Director-General or Director of Income-Tax

(a) *To appoint an income-tax authority below rank of an Assistant Commissioner (Sec 117):*

(b) *To delegate powers of AO to Joint Commissioner (Section 120):*

(c) *To transfer cases (Section 127):*

(d) *Enquiry into concealment [Section 131(1A)]:* If he has reason to suspect that any income has been concealed by any person, within his jurisdiction, he is empowered to make any enquiry or investigation

(e) *Search and seizure [Section 132(1)]:* As a consequence of information in his possession has reason to believe that

(a) Any person to whom notice has been issued of discovery, inspection, production of documents etc or

(b) Any person is in possession of undisclosed income or property,

he is empowered to authorise enter and search any building, place, vessel, vehicle or aircraft, where he has reason to suspect about their availability and seize any such books of accounts, other documents, money, bullion, jewellery or other valuable article or thing found as a result of such search.

(f) *To requisition books of account/Assets etc. (Section 132A) :* Where any books of account or documents have been taken into custody by any officer or authority under any other law and there are reason to believe that

(i) any person, required to produce such accounts/documents has failed to do so, or

(ii) such accounts or documents will be useful for any proceeding under income-tax law but such person would not produce them on their return by the officer or authority under any other law, or

(iii) income or property which has not been disclosed by any person from whose possession such assets have been taken into custody by any officer or authority under any other law,

he may require such officer or authority under any other law to deliver such books of account or documents or such assets to the requisitioning officer under income-tax law.

(g) *To make any enquiry (Section 135):*

Powers of Chief Commissioner or Commissioner of Income-Tax

(i) *To appoint income-tax authority below AC (Section 117)*

(ii) *To delegate the powers of AO to Deputy Commissioner (Section 120)*

(iii) *To transfer case (Section 127)*

(iv) *Power regarding discovery, production of evidence etc. (Section 131):* Chief Commissioner or Commissioner has the same powers as are vested in Court under Code of Civil Procedure

(v) *Search and seizure (Section 132)*

(vi) *To requisition books of accounts etc. (Section 132A)*

(vii) *Power of survey (Section 133A)*

- An income-tax authority may enter, after sunrise and before sunset,
- any office, or any other place (where business or profession is carried on or where any books of accounts etc relating to business are kept),
- for the purpose of verifying whether tax has been deducted or collected at source
- Provided that such place is within the limits of the area assigned to him,
- He may also require the deductor or the collector to afford him facility to inspect such books of
- account or other documents
- The income-tax authority may also place marks of identification, impound or retain in his custody books of account or other documents

(viii) *To make any enquiry (Section 135):*

(ix) *Disclosure of information respecting assessee (Section 138):*

(x) *To sanction reopening of the assessment after the expiry of four years [Section 151(2)]:*

(xi) *To approve withholding of refund in certain cases (Section 241):*

(xii) *Set-off of refund against arrears of tax (Section 245):*

(xiv) *To revise any order passed by AO which is prejudicial to revenue (Sec263):*

(xv) *Revision of any order passed by a subordinate authority on application by assessee or suo motu (Section 264):*

Powers of Commissioner of Income-Tax (Appeals)

The Commissioner of Income-tax (Appeals) is an appellate authority. It is vested with the judicial powers:

(1) *Power regarding discovery, production of evidence (Section 131):*

(2) *Power to call for information (Section 133):* The Commissioner of Income-tax (Appeals) may, for the purposes of this Act:

- (a) require any firm to furnish him with a return of the names and addresses of the partners of the firm and their respective shares;
- (b) require any HUF to furnish him with a return of the names and addresses of the manager and the members of the family;
- (c) require any person whom he has reason to believe to be a trustee, guardian or agent, to furnish him with a return of the names of the persons for or of whom he is trustee, guardian or agent, and of their addresses;
- (d) require any assessee to furnish a statement of the names and addresses of all persons to whom he has paid in any previous year rent, interest, commission, royalty or brokerage, or any annuity together with particulars of such such payments made;

(3) *Power to inspect register of companies (Section 134):*

(4) ***Set-off of refund against arrears of tax (Section 245):***

(5) ***Disposal of appeal (Section 251):*** In disposing of an appeal, the Commissioner (Appeals) has the following powers:

(a) in an appeal against an order of assessment he may confirm, reduce, enhance or annul the assessment, or he may set aside the assessment and refer back to AO

.

(b) in an appeal against an order imposing a penalty, he may confirm or cancel such order or vary it so as either to enhance or reduce the penalty.

(6) ***Imposition of penalty (Section 271):*** The Commissioner (Appeals) may impose penalty for not producing the books of accounts or other documents or for concealment of income

Types of Assessment

- (a) Self assessment (Section 140A)
- (b) Regular assessment (Section 143)
- (c) Best judgement assessment (Section 144)
- (d) Income escaping assessment or re-assessment (Section 147)
- (e) Precautionary assessment.
- (f) Assessment in case of search or requisition (Section 153A)

(A) SELF ASSESSMENT (SECTION 140A)

- Every person before submitting return
- Has to make **Self assessment of his income** and determine tax, Interest & fees on basis of return
- Such Tax is known as Self Assessment Tax & has to be paid before ROI is filed
- Proof of payment of Self Assessment Tax has to be attached with ROI

Inquiry before Assessment u/s 142

1. Issue of notice to assessee to submit return (if not submitted earlier)

In a case where a person has not made a return of his income before the end of relevant A/Y, AO may serve a notice after the end of relevant A/Y requiring such person to furnish his return of income.

The AO may ask to produce, such accounts or documents and to furnish in writing and verified in the prescribed manner information in such form and on such points or matters (including a statement of all assets & liabilities, whether included in the accounts or not).

However, previous approval of Joint Commissioner shall be obtained before requiring assessee to furnish a statement of all assets and liabilities not included in the accounts.

Further, AO shall not require production of accounts relating to a period more than 3 years prior to p/y.

2. Make Inquiry and give opportunity of being heard u/s 142(2)

3. Give direction to get books of accounts audited u/s 142(2A) to (2D):

Having regard to the nature and complexity of the accounts volume of the accounts, doubts about the correctness of accounts, multiplicity of transaction in the accounts of the assessee and the interests of the revenue,

assessing officer is of the opinion that it is necessary to order audit

then with the previous approval of Chief Commissioner or Commissioner the Assessing Officer may direct an assessee to get his accounts audited by an accountant even if the accounts have earlier been audited.

ESTIMATION OF VALUE OF ASSETS BY VALUATION OFFICER (SECTION 142A)

(1) The AO may, for the purposes of assessment or reassessment, make a reference to a Valuation Officer to estimate the value, including FMV, of any asset, property or investment and submit a copy of report to him.

(2) The Valuation Officer shall, estimate the value of the asset, property or investment after taking into account such evidence as the assessee may produce and any other evidence in his possession gathered, after giving an opportunity of being heard to the assessee.

(3) The AO may, on receipt of the report from the Valuation Officer, and after giving assessee an opportunity of being heard, take into account such report in making the assessment or reassessment.

Processing of Return/Intimation to Assessee u/s 143(1)

Where a return has been made u/s 139(1), or u/s 142(1), such return shall be processed in following manner, namely:—

(a) Total income or loss shall be computed after making following adjustments, :—

- (i) Arithmetical error in the return;
- (ii) Incorrect claim apparent from any information in return;
- (iii) Disallowance of loss claimed, if return of P/Y for which set off of loss is claimed was furnished beyond the due date u/s 139(1);
- (iv) Disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in return;
- (v) Disallowance of deduction claimed u/s 10AA, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID or section 80-IE, if the return is furnished beyond the due date u/s 139(1); or
- (vi) Addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return:

Provided also that no adjustment shall be made under sub-clause (vi) in relation to a return furnished for the assessment year commencing on or after the 1st day of April, 2018

Provided that no such adjustments shall be made unless an intimation is given to assessee of such adjustments either in writing or in electronic mode:

Provided further that the response received from assessee, if any, shall be considered before making any adjustment, and in a case where no response is received within 30 days of the issue of such intimation, such adjustments shall be made

- (b) Tax, *Interest & fees*, if any, shall be computed on the basis of the total income computed under clause (a);
- (c) Sum payable by, or Refundable to, the assessee shall be determined after adjustment of the tax, *interest & fees*, if any
- (d) Intimation shall be prepared or generated and sent to the assessee specifying sum payable or refundable and
- (e) Amount of refund due to the assessee in pursuance of the determination under clause (c) shall be granted to assessee:

Provided that an intimation shall also be sent to the assessee in a case where the loss declared in the return by the assessee is adjusted but no tax *or interest* or fees is payable by, or no refund is due to, him:

Provided further that no intimation under this sub-section shall be sent after the expiry of one year from the end of F/Y in which the return is made.

Special Point :

1. Acknowledgement of return shall be deemed to be intimation in a case where no sum is payable or refundable to assessee.

2. Sec 143(1D) : Notwithstanding anything contained in sec143(1), the processing of a return shall not be necessary, where a notice has been issued to the assessee u/s 143(2)

Provided that the provisions of this sub-section shall not apply to any return furnished for A/Y 17/18 onwards

(B) SCRUTINY (REGULAR) ASSESSMENT [SECTION 143(2) & (3)]

- Where a return has been, the AO shall, if he considers necessary or expedient to ensure that
- the assessee has not understated the income or
- has not computed excessive loss or
- has not underpaid the tax in any manner,
- serve on the assessee a notice requiring him,
- on a date to be specified therein,
- either to attend his office or to produce
- any evidence on which the assessee may rely in support of the return

Provided that no notice shall be served on assessee after **expiry of 6 months from the end of F/Y** in which the return is furnished.

AO shall, by an order in writing, make an assessment of the total income or loss, and determine the sum payable or refundable

Provisions of E Scrutiny Assessment

The Central Government may make a scheme, by notification in the Official Gazette, for the purposes of making assessment of total income or loss of the assessee u/s 143(3) or 144 so as to impart greater efficiency, transparency and accountability by—

(a) eliminating the interface between the Assessing Officer and the assessee in the course of proceedings to the extent technologically feasible;

(b) optimising utilisation of the resources through economies of scale and functional specialisation;

(c) introducing a team-based assessment with dynamic jurisdiction.

(3B) The Central Government may, for the purpose of giving effect to the scheme made under sub-section (3A), by notification in the Official Gazette, direct that any of the provisions of this Act relating to assessment of total income or loss shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the notification:

Provided that no direction shall be issued after the 31st day of March, 2022.

(C) BEST JUDGEMENT ASSESSMENT U/S 144

The AO, after taking into account all relevant material which he has gathered, and after giving the assessee an opportunity of being heard,

makes the assessment of the total income or loss to the best of his judgment and determine the sum payable by the assessee on the basis of such assessment in the following cases:

- If any person fails to make the return required u/s 139(1)
- When a person fails to comply with all the terms of a notice u/s 142(1) or
- fails to comply with a direction u/s 142(2A) for getting the accounts audited, or
- fails to comply with all the terms of a notice issued u/s 143(2).

Prior to the proceedings the AO should issue a show cause notice to the assessee. However if the assessee has already issued notice under section 142(1) and the assessee has not complied with the terms then AO can proceed further without issuing a show cause notice.

Further AO cannot assess the income below returned income and cannot assess losses higher than the returned losses. A refund cannot be granted under section 144.

The AO can also reject accounts book u/s 145 and can make best judgment assessment u/s 144 if:

- The accounts books are incorrect, false or incomplete.
- If the accounting method employed is such that profit cannot be derived from it correctly.
- Where the method of accounting adopted is not followed regularly or
- Income has not been computed in accordance with notified standards or
- income computation and disclosure standards notified by the government are not followed

(D) INCOME ESCAPING ASSESSMENT OR RE-ASSESSMENT (SECTION 147)

If AO has reason to believe that any income chargeable to tax has escaped assessment for any A/Y, he may

– assess or reassess income which has escaped assessment or

– recompute the loss or depreciation allowance or any other allowance,

Assessing Officer shall serve on assessee a notice requiring him to furnish, within such period, as may be specified in the notice,

a return of his income or the income of any other person in respect of which he is assessable under this Act during P/Y corresponding to the relevant A/Y,

<i>Cases</i>	<i>upto 4 years from the end of relevant A/Y</i>	<i>Beyond 4 years but upto 6 years from end of the relevant A/Y</i>
Where assessment order passed u/s 143(3) or 147	Notice can be issued for any amount of escaped income Notice by AC or DC or by AO with approval of JC	Notice can be issued only if escaped income is of ₹ 100,000 or more. Notice by AO with approval CCIT or CIT
Where no assessment order passed u/s 143(3) or 147	Notice can be issued by AO whatever be the amount.	Notice can be issued by the AO with approval JC only when the amount is likely to be ₹100,000 or more

However, the time lime of 6 years is not sufficient in cases where assets are located outside India because gathering information regarding such assets takes much more time on account of additional procedures and laws of foreign jurisdictions.

Therefore, the time limit for issue of notice for reopening an assessment has been increased to 16 years, where the income in relation to any asset (including financial interest in any entity) located outside India, chargeable to tax, has escaped assessment.

(e) Precautionary Assessment

Where it is not clear as to who has received the income and prima facie, it appears that the income may have been received either by A or by B or by both together, the Assessing Officer can commence proceedings against both A and B to determine the question as to who is responsible to pay the tax [Lalji Haridas v. I.T.O (S.C.)].

Time limit for completion of Assessment/Reassessment (Sec 153)

<i>Section reference</i>	<i>New time limit</i>
Regular assessment u/s 143 Best judgment assessment u/s 144 Sec 153(1)	12 months from the end of the AY in which which income was first assessable
Reassessment u/s 147 Sec 153(2)	12 months from the end of the financial year in which notice for reassessment is served
An order of fresh assessment as a result of an order u/s 254 or 263 or 264 setting aside or cancelling assessment Sec 153(3)	9 months from the end of the financial year in which such in which such order is received by prescribed authorities <i>Provided that where the order u/s 254 is received by Principal CCIT or CCIT or Principal Commissioner or Commissioner or, the order u/s 263 or u/s 264 is passed by Principal CIT or CIT on or after 1/4/19 : Time limit will be 12 months</i>
Where effect to an order u/s 250 or u/s 254 or u/s 260 or u/s 262 or u/s 263 or u/s 264 is to be given by AO, wholly or partly, otherwise than by making a fresh assessment or	Such effect shall be given within 3 months from the end of the month in which order u/s 250 or u/s 254 or u/s 260 or u/s 262 is received by Principal CCIT or CCIT or Principal CIT or CIT, as the case may be, the order u/s 263 or u/s 264 is passed by the

reassessment.	Principal CIT or CIT
Assessment u/s 153A	21 months from the end of the financial year in which the last of the authorisations for search u/s 132 or for requisition u/s 132A was executed
Assessment u/s 153C	21 months from the end of the financial year in which the last of the authorisation for search u/s 132 or requisition u/s 132A was executed

Rectification of mistake (sec 154)

With a view to rectifying any mistakes apparent from the record, an income-tax authority referred to in Section 116 may amend

- any order passed by it under provisions of this Act or
- any intimation or deemed intimation

This power of rectification can be exercised by the authorities either on their own motion or at the instance of the assessee.

Time limit

The time limit for rectification of mistakes is a period of 4 years from the end of F/Y in which the order sought to be amended was passed.

Chapter 16 **Taxation of Company**

(1) In case of Domestic company :

Domestic Company	Rate of Income-tax
(i) Where its total turnover or the gross receipt in p/y 2017-18 does not exceed ₹400 crore;	25%
Company u/s 115BA Company u/s 115BAA Company u/s 115BAB	25% 22% 15%
Surcharge -If total income exceeds ₹1 crore but does not exceed ₹10 crores -If total Income exceeds ₹10 crores Subject to marginal relief	7% 12%

(2) In case of Foreign company:

Foreign company	Foreign Company
Rate of income tax	40
Surcharge -If total income exceeds ₹1 crore but does not exceed ₹10 crores -If total Income exceeds ₹10 crores Subject to marginal relief	2% 5%

SEC 115JB : Minimum Alternate Tax

Basic provisions of MAT

Tax liability of a company will be higher of the following:

- Tax liability computed as per the normal provisions of Income-tax = Normal Tax .
- Tax computed @ 15% (plus surcharge and cess as applicable) on book profit = MAT.

Note: MAT is levied @9% (plus surcharge and cess as applicable) in case of a company, being a unit of an International Financial Services Centre and deriving its income solely in convertible foreign exchange.

Applicability and non-applicability of MAT

MAT are applicable to every company whether public or private and whether Indian or foreign.

MAT shall not apply to

- life insurance business u/s 115B,
- Shipping income liable to tonnage taxation u/s 115V to 115VZC.
- *Company which has exercised the option referred u/s 115BAA or u/s 115BAB*

Meaning of book profit*

As per Explanation 1 to section 115JB(2) "book profit" for the purposes of section 115JB means net profit as shown in the statement of P&L prepared in accordance with Schedule III to Companies Act, 2013 as increased and decreased by certain items prescribed in this regard. The items to be increased and decreased are as follows :

Computation of book profit (Table A)

<i>Particulars</i>	<i>Amount</i>
Net profit as per statement of profit and loss prepared in accordance with Schedule III to Companies Act, 2013	XXXXXX
<i>Add : Following items (If they are debited to the statement of profit and Loss A/c</i>	
Income-tax paid/payable and the provision thereof	XXXXXX
Amounts carried to any reserves by whatever name called	XXXXXX
Provisions for unascertained liabilities	XXXXXX
Provisions for losses of subsidiary companies	XXXXXX
Dividends paid/proposed	XXXXXX
Expenditure related to incomes which are exempt under section 10,11& 12	XXXXXX
The amount or amounts of expenditure relatable to, income, being share of the taxpayer in the income of an association of persons or body of individuals, on which no income-tax is payable in accordance with the provisions of section 86.	XXXXXX

Notional loss on transfer of a capital asset, being share or a special purpose vehicle to a business trust in exchange of units allotted by that trust u/s 47(xvii)

Notional loss resulting from any change in carrying amount of said units or the amount of loss on transfer of units u/s 47(Xvii)

XXXXXX

Expenditure relatable to income by way of royalty in respect of patent chargeable to tax u/s 115BBF

XXXXXX

Amount of depreciation debited to P & L A/c

XXXXXX

Deferred tax and the provision thereof

XXXXXX

Provision for diminution in the value of any asset

XXXXXX

The amount standing in revaluation reserve relating to revalued asset on the retirement or disposal of such an asset if not credited to statement of profit and loss

XXXXXX

The amount of gain on transfer of units referred u/s 47(Xvii)

XXXXXX

Less : Following items (if credited to the statement of P&L)

Amount withdrawn from any reserve or provision if credited to P&L account

(XXXXXX)

Incomes which are exempt u/s 10, 11 and 12

(XXXXXX)

Amount of depreciation debited to statement of profit and loss (excluding the depreciation on revaluation of assets)	(XXXXXX)
Amount withdrawn from revaluation reserve and credited to statement of profit and loss to the extent it does not exceed the amount of depreciation on revaluation of assets	(XXXXXX)
The amount of income, being the share of the taxpayer in the income of an association of persons or body of individuals, on which no income-tax is payable in accordance with the provisions of <u>section 86</u> , if any such amount is credited to the statement of profit and loss	XXXXXX
<p>The amount of income accruing or arising to a taxpayer being a foreign company, from :</p> <p>(a) the capital gains arising on transactions in securities; or</p> <p>(b) the interest, royalty or fees for technical services chargeable to tax at the rate or rates specified in Chapter XII</p> <p>if such income is credited to the statement of profit and loss and the income-tax payable on above income is less than the rate of MAT.</p>	XXXXXX
<p>The amount (if any, credited to the statement of profit and loss) representing</p> <p>(a) notional gain on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust referred to in clause (xvii) of <u>section 47</u>; or</p> <p>(b) notional gain resulting from any change in carrying amount of said units; or</p> <p>(c) gain on transfer of units referred to in clause (xvii) of <u>section 47</u>,</p> <p>The amount representing notional gain on transfer of units u/s 47(xvii) computed by <u>taking into account</u> the cost of the shares exchanged with units referred to in the said clause or the carrying amount of the shares at the time of exchange where such shares are carried at a value other than the cost through statement of profit and loss, as the case may be;</p>	XXXXXX
Income by way of royalty in respect of patent chargeable to tax u/s 115BBF	XXXXXX

Amount of unabsorbed depreciation and loss brought forward in case of company against whom an application for corporate insolvency resolution process has been admitted.

Amount of brought forward loss or unabsorbed depreciation, whichever is less as per books of account (in case of a company other than the company undergoing insolvency proceedings) (XXXXXX)

Profits of a sick industrial company till its net worth becomes zero/positive (XXXXXX)

Deferred tax, if credited to statement of profit and loss (XXXXXX)

Book profit to be used to compute MAT XXXXX

MAT credit

As discussed in earlier part, a company has to pay higher of normal tax liability or liability as per MAT provisions. If in any year the company pays liability as per MAT, then it is entitled to claim credit of MAT paid over and above the normal tax liability in the subsequent year(s). The provisions relating to carry forward and adjustment of MAT credit are given in section 115JAA.

Provided that where the amount of Foreign Tax Credit ('FTC') allowed against the MAT exceeds the amount of such FTC admissible against the tax payable by the assessee under normal provisions of the Income-Tax Act, then, while computing the amount of FTC under this sub-section, such excess amount shall be ignored.

Adjustment of carried forward MAT credit

As discussed earlier, a company is entitled to claim MAT credit i.e. excess of MAT paid over the normal tax liability. The credit of MAT can be utilised by the company in the subsequent year(s). The credit can be adjusted in the year in which the liability of the company as per the normal provisions is more than the MAT liability. The set off in respect of brought forward MAT credit shall be allowed in the subsequent year(s) to the extent of the difference between the tax on its total income as per the normal provisions and as per the MAT provisions.

Period for which MAT credit can be carried forward

As discussed earlier, the company can carry forward the MAT credit for adjustment in subsequent year(s), however, the MAT credit can be carried forward only for a period of 15 years after which it will lapse. In other words, if MAT credit cannot be utilised by the company within a period of 15 years (immediately succeeding the assessment year in which such credit was generated), then such credit will lapse. No interest is paid to the taxpayer in respect of such credit.

Report from chartered accountant

Every company to whom the provisions of section 115JB applies is required to furnish a report from a chartered accountant in Form No. 29B certifying that the book profit has been computed in accordance with the provisions of section 115JB. The report should be furnished *before the specified date referred to in section 44AB*. Audit report in Form No. 29B shall be filed electronically.

ANNEXURE**Sec 115BA : Tax on income of certain manufacturing Domestic Companies**

(1) Income-tax payable by domestic company, wef A/Y 17/18, shall, at its option, be computed @ 25%, if conditions contained in sub-section (2) are satisfied.

(2) For the purposes of sub-section (1), the following conditions shall apply, namely:—

- (a) Company has been set-up & registered on or after 1/3/2016;
- (b) Company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it; and
- (c) Total income of the company has been computed,—
 - (i) without any deduction u/s 10AA or u/s 32(1)(iia) or u/s 32AC or u/s 32AD or u/s 33AB or u/s 33ABA or u/s 35(1)(ii)(iia)(iii) or u/s 35(2AA)(2AB) or u/s 35AC or u/s 35AD or u/s 35CCC or u/s 35CCD or u/s 80C to 80U (profit based) other than u/s 80JJAA;
 - (ii) without set off of any loss c/f from any earlier A/Y if such loss is attributable to any of the deductions referred to in sub-clause (i); and
 - (iii) depreciation u/s 32, other than clause (iia) of sub-section (1) of the said section, is determined in the manner as may be prescribed.

(3) The loss referred to in sub-clause (ii) of clause (c) of sub-section (2) shall be deemed to have been already given full effect to and no further deduction for such loss shall be allowed for any subsequent year.

(4) Nothing contained in this section shall apply unless the option is exercised by the person in the prescribed manner on or before the due date u/s 139(1) for furnishing the first of returns of income which the person is required to furnish under the provisions of this Act:

Provided that once the option has been exercised for any p/y, it cannot be subsequently withdrawn for the same or any other p/y.

Provided further that where the person exercises option u/s 115BAA, the option under this section may be withdrawn.

Sec 115BAA : Tax on income of certain domestic companies

(1) The income-tax payable of domestic company, wef A/Y 20/21, shall, at option of such person, be computed @22%, if the conditions contained in sub-section (2) are satisfied:

Provided that where the person fails to satisfy conditions contained in sub-section (2) in any p/y, the option shall become invalid in respect of that p/y and subsequent years and other provisions of the Act shall apply, as if the option had not been exercised for the p/u and subsequent years.

(2) For the purposes of sub-section (1), the total income of the company shall be computed,—

- (i) without any deduction u/s 10AA or u/s 32(1)(ia) or u/s 32AC or u/s 32AD or u/s 33AB or u/s 33ABA or u/s 35(1)(ii)(ia)(iii) or u/s 35(2AA)(2AB) or u/s 35AC or u/s 35AD or u/s 35CCC or u/s 35CCD or u/s 80C to 80U (profit based) other than u/s 80JAA or u/s 80M;
- (ii) without set off of any loss c/f or depreciation from any earlier year, if such loss or depreciation is attributable to any of the deductions referred to in clause (i);
- (iii) without set off of any loss or allowance for unabsorbed depreciation deemed so under section 72A, if such loss or depreciation is attributable to any of the deductions referred to in clause (i); and
- (iv) by claiming the depreciation, if any, u/s 32, except clause (ia) of sub-section (1) of the said section, determined in such manner as may be prescribed.

(3) The loss and depreciation referred to in clause (ii) and clause (iii) of sub-section (2) shall be deemed to have been given full effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year:

Provided that where there is a depreciation allowance in respect of a block of asset which has not been given full effect to prior to A/Y beginning 20/21, corresponding adjustment shall be made to the WDV of such block of assets as on the 1st day of April, 2019 in the prescribed manner, if the option under sub-section (5) is exercised for a previous year relevant to the assessment year beginning on the 1st day of April, 2020.

(4) In case of a person, having a Unit in the International Financial Services Centre, u/s 80LA, which has exercised option under sub-section (5), the conditions contained in sub-section (2) shall be modified to the extent that the deduction under section 80LA shall be available to such Unit subject to fulfilment of the conditions contained in the said section.

(5) Nothing contained in this section shall apply unless the option is exercised by the person in the prescribed manner on or before the due date specified u/s 139(1) for furnishing the returns of income for A/Y commencing 20/21 and such option once exercised shall apply to subsequent assessment years:

Provided that in case of a person, where the option exercised by it under section 115BAB has been rendered invalid due to violation of conditions contained in sub-clause (ii) or sub-clause (iii) of clause (a), or clause (b) of sub-section (2) of said section, such person may exercise option under this section:

Provided further that once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.

Sec 115BAB : Tax on income of new manufacturing domestic companies

(1) The income-tax payable by domestic company, wef AY 20/21 shall, at the option, be computed @ **15%**, if the conditions contained in sub-section (2) are satisfied:

Provided that where the total income includes any income, which has neither been derived from nor is incidental to manufacturing or production of an article or thing and in respect of which no specific rate of tax has been provided separately under this Chapter, such income shall be taxed @ **22%** and no deduction or allowance in respect of any expenditure or allowance shall be allowed in computing such income:

Provided further that the income-tax payable in respect of the income of the person deemed so under second proviso to sub-section (6) shall be computed @ **30%**:

Provided also that the income-tax payable in respect of income being STCG derived from transfer of a capital asset on which no depreciation is allowable under the Act shall be computed @ **22%**:

Provided also that where the person fails to satisfy the conditions contained in sub-section (2) in any previous year, the option shall become invalid in respect of that p/y and subsequent years and other provisions of the Act shall apply to the person as if the option had not been exercised for that previous year and subsequent years.

(2) For the purposes of sub-section (1), the following conditions shall apply, namely:—

(a) the company has been set-up and registered wef 1/10/19, and has commenced manufacturing or production of an article or thing upto 31/3/2023 and,—

(i) the business is not formed by splitting up, or the reconstruction, of a business already in existence:

(ii) does not use any machinery or plant previously used for any purpose.

Explanation 1.—Any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled, namely:—

(A) such machinery or plant was not, at any time previous to the date of the installation used in India;

(B) such machinery or plant is imported into India from any country outside India; and

(C) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the person.

Explanation 2.—Where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of such machinery or plant or part thereof does not exceed twenty per cent of the total value of the machinery or plant used by the company, then, for the purposes of sub-clause (ii) of this clause, the condition specified therein shall be deemed to have been complied with;

(iii) does not use any building previously used as a hotel or a convention centre, as the case may be, in respect of which deduction under section 80-ID has been claimed and allowed.

Explanation.—For the purposes of this sub-clause, the expressions "hotel" and "convention centre" shall have the meanings respectively assigned to them in clause (a) and clause (b) of sub-section (6) of section 80-ID;

(b) the company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.

Explanation.—The business of manufacture or production of any article or thing referred to in clause (b) shall not include business of,—

(i) development of computer software in any form or in any media;

(ii) mining;

(iii) conversion of marble blocks or similar items into slabs;

(iv) bottling of gas into cylinder;

(v) printing of books or production of cinematograph film; or

(vi) any other business as may be notified by the Central Government in this behalf; and

(c) the total income of the company has been computed,—

(i) without any deduction u/s 10AA or u/s 32(1)(ia) or u/s 32AC or u/s 32AD or u/s 33AB or u/s 33ABA or u/s 35(1)(ii)(ia)(iii) or u/s 35(2AA)(2AB) or u/s 35AC or u/s 35AD or u/s 35CCC or u/s 35CCD or u/s 80C to 80U (profit based) other than u/s 80JJAA or u/s 80M;

(ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so under section 72A where such loss or depreciation is attributable to any of the deductions referred to in sub-clause (i);

Explanation.— In case of an amalgamation, the option under sub-section (7) shall remain valid in case of the amalgamated company only and if the conditions contained in sub-section (2) are continued to be satisfied by such company; and

(iii) by claiming the depreciation u/s 32, except clause (ia) of sub-section (1) of the said section, determined in such manner as may be prescribed.

Explanation.—For the purposes of clause (b), the “business of manufacture or production of any article or thing” shall include the business of generation of electricity.

(3) The loss referred to in sub-clause (ii) of clause (c) of sub-section (2) shall be deemed to have been given full effect to and no further deduction for such loss shall be allowed for any subsequent year.

(4) If any difficulty arises regarding fulfilment of the conditions contained in sub-clause (ii) or sub-clause (iii) of clause (a) of sub-section (2) or clause (b) of said sub-section, as the case may be, the Board may, with the approval of the Central Government, issue guidelines for the purpose of removing the difficulty and to promote manufacturing or production of article or thing using new plant and machinery.

(5) Every guideline issued by the Board under sub-section (4) shall be laid before each House of Parliament, and shall be binding on the person, and the income-tax authorities subordinate to it.

(6) Where it appears to the Assessing Officer that, owing to the close connection between the person to which this section applies and any other person, or for any other reason, the course of business between them is so arranged that the business transacted between them produces to the person more than the ordinary profits which might be expected to arise in such business, Assessing Officer shall, in computing the profits and gains of such business for the purposes of this section, take the amount of profits as may be reasonably deemed to have been derived therefrom:

Provided that in case the aforesaid arrangement involves a specified domestic transaction u/s 92BA, the amount of profits from such transaction shall be determined having regard to arm's length price as defined in clause (ii) of section 92F:

Provided further that the amount, being profits in excess of the amount of the profits determined by the Assessing Officer, shall be deemed to be the income of the person.

(7) Nothing contained in this section shall apply unless the option is exercised by the person in the prescribed manner on or before the due date specified u/s 139(1) for furnishing the first of returns of income for A/Y commencing on or after 1st day of April, 2020 and such option once exercised shall apply to subsequent assessment years:

Provided that once the option has been exercised for any p/y, it cannot be subsequently withdrawn for the same or any other previous year.

Explanation.—For the purposes of section 115BAA and this section, the expression "unabsorbed depreciation" shall have the meaning assigned to it in clause (b) of sub-section (7) of section 72A.

ASSESSMENT OF OTHER PERSONS

- (1) **Any sum received by a member of a HUF** out of the income of the family shall be exempt from tax. However, the said exemption is subject to the provisions of section 64(2).

(2) Computation of income of firm:

- (a) Partners share in the total income of the firm, which is assessed as such, shall be exempt from tax.
- (b) Interest and remuneration received by partner is business income and is chargeable to tax under Profits and Gains of Business and Profession. However, any payment of remuneration to partners, not allowed as deduction to the firm, shall not be taxed in the hands of partners.
- (c) As per section 40(b), in computing the income under the head Profits and Gains of Business and Profession of a firm assessed as such, the following amounts shall be disallowed -
- Any salary, bonus, commission or remuneration to any non-working partner;
 - Any interest paid to any partner in excess of 12 simple interest p.a. ;
 - Remuneration to *working partner* or interest to *any partner*, which is not authorised by the partnership deed, or, which relates to period prior to the date of partnership deed;
 - Remuneration paid to working partners during the previous year is disallowed to the extent it exceeds, in aggregate, the following limits:

Book profits	Allowable Remuneration
On first ₹ 3,00,000 of book profits, or, in case of a loss.	₹ 1,50,000, or, 90% of book profits, whichever is more.
On balance of the book profits	60% of the book profits.

(3) Assessment as a firm [Section 184] :

- (a) A firm shall be assessed as a firm for the purposes of this Act, if -
- Partnership is evidenced by an instrument; and
 - Individual shares of the partners are specified in that instrument.
- (b) A certified copy of the partnership deed shall accompany the first return of income of the firm and in case, there is any change in constitution of the firm or the shares of the partners are revised, then revised deed must be furnished after such change.

- (4) **Assessment when Section 184 not complied with [Section 185] :** If a firm fails to fulfil aforesaid conditions, then, no deduction shall be allowed to the firm in respect of interest, salary, bonus, commission or remuneration paid by such firm to any partner thereof; and such interest, salary, bonus, commission or remuneration shall not be chargeable to tax under section 28(v) in hands of partner.

- (5) **Change in constitution of a firm [Section 187] :** the assessment shall be made on the firm as constituted at the time of making the assessment. There is a change in the constitution of the firm if -

- (a) one or more of the partners cease to be partners or one or more new partners are admitted, in such circumstances that one or more of the persons who were partners of the firm before the change continue as partner or partners after the change; or
- (b) all the partners continue with a change in their respective shares or in the shares of some of them.

Provided that nothing contained in clause (a) shall apply to a case where the firm is dissolved on the death of any of its partners.

- (6) **Succession of one firm by another firm [Section 188] :** Where a firm carrying on a business or profession is succeeded by another firm, and the case is not one covered by Section 187, separate assessments shall be made on the predecessor firm and the successor firm in accordance with the provisions of Section 170.

- (7) **According to Section 188A**, Every person who was, during the previous year, a partner of a firm, and the legal representative of any such person who is deceased, shall be jointly and severally liable along with the firm for the amount of tax, penalty or other sum payable by the firm for the assessment year to which such previous year is relevant, and all the provisions of this Act, so far as may be, shall apply to the assessment of such tax or imposition or levy of such penalty or other sum.

(8) Distinction Between AOP and BOI :

	AOP	BOI
(1)	It is voluntarily created by 2 or more persons.	It is created by operation of law.
(2)	Its members may consist of companies, firms, HUFs or individuals.	Only individuals can be the members of body of individuals.
(3)	In order to constitute an association, persons must join in for a common purpose and common action and their object must be to produce income.	Body of individuals merely receives the income jointly and is assessable in the like manner and to the same extent as the beneficiaries.
(4)	It is assessed in own capacity and not as a representative assessee.	It is assessed as a representative assessee.
(5)	Co-heirs, co-legatees or co-donees are examples of AOP.	Co-executors or co-trustees are examples of BOI.

- (9) **Computation of income of AOP/BOI** : As per section 40(ba) in computing the income of an Association of persons or body of individuals under the head, 'Profits and gains of business or profession', any bonus, commission, salary or interest or remuneration to its member shall not be allowed as deduction. The income of an AOP /BOI is taxable at MMR *i.e.* 35.88% except in the following cases -

- If shares of members in such AOP /BOI is indeterminate/unknown and any member is chargeable to tax at rate higher than MMR, income of AOP /BOI is taxable at such higher rate;
- If shares of members in such AOP /BOI is determinate and known and any member is chargeable to tax at rate higher than MMR, income of AOP /BOI to the extent of such members' share is taxable at such higher rate, and, balance income is taxable at MMR ;
- If none of the members of such AOP /BOI has other income exceeding maximum amount not chargeable to tax, the total income of such Association of persons or Body of Individuals shall be taxable at the normal rates applicable in case of an individual.

In case (c) above, members' share in total income of AOP /BOI will be included in his total income and rebate will be allowed to the member at average rate of income-tax computed on such share income.

If income of AOP /BOI is not chargeable to tax, members' share in such income will be taxable in the hands of the members and no rebate will be allowed.

ALTERNATE MINIMUM TAX

The provisions of AMT will apply to every non-corporate taxpayer who has claimed (i) deduction under section 80H to 80RRB (except 80P), (ii) deduction under section 35AD and (iii) deduction under section 10AA. Thus, the provisions of AMT are not applicable to a non-corporate taxpayer who has not claimed any deduction under above discussed sections. However, following points should be kept in mind in this regard.

- ☐ The provisions of AMT shall apply to an individual or a Hindu undivided family or an association of persons or a body of individuals (whether incorporated or not) or an artificial juridical person only if the adjusted total income (discussed later) of such person exceeds Rs. 20,00,000.(Section 115JEE)
- ☐ The provisions of AMT shall apply to every other person (i.e., other than an individual or a HUF or an AOP/BOI or an artificial juridical person) irrespective of its income. For definition of a person refer to section 2(31).
- ☐ The provisions of this section shall not apply to a person who has exercised the option referred to in section 115BAC or section 115BAD

Rate of AMT

In case of non-corporate taxpayer, AMT is levied @ 18.5% of adjusted total income (discussed later). Surcharge and cess as applicable will also be levied.

However, AMT is levied @ 9% in case of a non-corporate assessee being a unit located in International Financial Services Centre and deriving its income solely in convertible foreign exchange. Surcharge and cess as applicable will also be levied. (Applicable from Assessment Year 2019-20)

Meaning of adjusted total income

In case of a non-corporate taxpayer, adjusted total income is computed in following manner :

Particulars	(Rs.)
Taxable income of the taxpayer	XXX
Add : Amount of Deduction claimed under section 80H to 80RRB(Except 80P)	XXX
Add: Amount of deduction claimed under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32)	XXX
Add: Amount of deduction claimed under section 10AA	<u>XXX</u>
<i>Adjusted total income</i>	XXX

Tax liability in case of a non-corporate taxpayers to whom the provisions of AMT apply

As per the concept of AMT, the tax liability of a non-corporate taxpayer to whom the provisions of AMT applies will be higher of the following:

- Tax liability computed as per the normal provisions of the Income-tax Law, i.e., tax computed on the taxable income of the taxpayer at the tax rate applicable to him. Tax computed in above manner can be termed as normal tax liability.
- Tax computed @ 18.5% (plus surcharge and cess as applicable) on adjusted total income. The tax computed by applying 18.5% (plus surcharge and cess as applicable) on adjusted total income is called AMT.

Note: AMT is levied @ 9% in case of a non-corporate assessee being a unit located in International Financial Services Centre and deriving its income solely in convertible foreign exchange. Surcharge and cess as applicable will also be levied. (Applicable from Assessment Year 2019-20)

AMT credit

As discussed in earlier part, a non-corporate taxpayer to whom the provisions of AMT applies has to pay higher of normal tax liability or liability as per the provisions of AMT. If in any year the taxpayer pays liability as per AMT, then he is entitled to claim credit in the subsequent year(s) of AMT paid above the normal tax liability.

Provided that where the amount of Foreign Tax Credit ('FTC') allowed against the AMT exceeds the amount of such FTC admissible against the tax payable by the assessee under normal provisions of the Income-Tax Act, then, while computing the amount of FTC under this sub-section, such excess amount shall be ignored.

Adjustment of carried forward AMT credit

As discussed earlier, a non-corporate taxpayer to whom the provisions of AMT applies is entitled to claim AMT credit of excess AMT paid over the normal tax liability. The credit of AMT can be utilised by the taxpayer in the subsequent year(s). The credit can be adjusted in the year in which the liability of the taxpayer as per the normal provisions is more than the AMT liability. The set off in respect brought forward AMT credit shall be allowed in the subsequent year(s) to the extent of the difference between the tax on his total income as per the normal provisions and the liability as per the AMT provisions.

Period for which AMT credit can be carried forward

As discussed earlier, a non-corporate taxpayer (to whom the provisions of AMT applies) can carry forward the AMT credit for adjustment in subsequent year(s), however, the AMT credit can be carried forward only for a period of 15 years after which it will lapse. In other words, if AMT credit cannot be utilised by the non-corporate taxpayer within a period of 15 years (immediately succeeding the assessment year in which such credit was generated), then such credit will lapse. No interest is paid to the taxpayer in respect of such credit.

Report from Chartered Accountant

Every person to whom this section applies shall obtain a report, before the specified date referred to in section 44AB, in such form as may be prescribed, from an accountant referred to in the Explanation below sub-section (2) of section 288, certifying that the adjusted total income and the alternate minimum tax have been computed in accordance with the provisions of this Chapter and furnish such report by that date