

SMART NOTES INCOME TAX

FOR AY 21/22



CA SACHIN GUPTA

List of Abbreviations

A/C	Account	MF	Mutual Fund
A/Y	Assessment year	MTAX	Municipal Tax
AJP	Artificial Juridical Person	MTHS	Months
AMT	Amount	MV	Market Value
AO	Assessing Officer	NABARD	National Bank for Agricultural & Rural Development
AOP	Association of Persons	NAV	Net Annual value
AR	Actual Rent	NCR	National Capital Region
AS	Accounting Standard	NHB	National Housing Bank
ASF	Approved Superannuation Fund	NPS	National Pension Scheme
B/F	Brought Forward	NR	Non Resident
B/P	Business & Profession	P&L	Profit & Loss A/c
BOA	Books of Accounts	P&M	Plant & Machinery
BOI	Body of Individuals	P/Y	Previous Year
C&M	Control & Management	PAN	Permanent Account Number
C&R	Charitable & Religions	PFI	Public Financial Institution
CA	Chartered Acct / Capital Asset	PIO	Person of Indian Origin
CBDT	Central Board of Direct Tax	POH	Period of Holding
CCIT	Chief Commission of India	RBI	Reserve Bank of India
CDT	Corporate Dividend Tax	RDP	Rural Development Programme
CGAS	Capital Gain Account Scheme	RNOR	Resident & Not Ordinarily Resident
CGOVT.	Central Government	ROI	Return of Income
CII	Cost Inflation Index	ROR	Resident & Ordinarily Resident
COA	Cost of Acquisition	RPF	Recognised Provident fund
D/M/K/C	Delhi, Mumbai, Kolkatta, Chennai	RV	Reasonable value/ Expected rent
DA(RB)	DA forming part of Retirement Benefits	SBI	State Bank of India
ECS	Electronic Clearing Scheme	SD	Statutory Deduction
EE	Employee	SEBI	Securities & Exchange Board of India
ELSS	Equity Linked Saving Scheme	SEZ	Special Economic Zone
ER	Employer	SFC	State Financial Corporation
ESI	Employee state Insurance	SGOVT.	State Government
ESOP	Employee stock option plan	SI	Substantial Interest
F/Y	Financial Year	SICA	Sick Industrial companies Act
FIFO	First in First out	SIIC	State Industrial Investment Corporation
FMV	Fair Market Value	SIT	Stock in trade
FVC	Full Value of Consideration	SLM	Straight line Method
GAV	Gross Annual value	SP	Selling price

GTI	Gross Total Income	SPF	Statutory Provident Fund
	house property		
HP		ST	Short Term
HRA	House Rent Allowance	STCA	Short term Capital Asset
HUF	Hindu Undivided Family	STCG	Short term Capital Gain
I/O/S	Income from other Sources	STT	Security transaction tax
IDBI	Industrial Development Bank of India	TDS	Tax deducted at source
IFCI	Industrial financial corporation of India	TI	Total Income
IIT	Indian Institute of Technology	TRP	Tax Return Preparer
L&B	Land & Machinery	URPF	Unrecognised provident fund
LC	Letter of Credit	URSF	Unrecognised super annuation fund
LIT	Litre	UTI	Unit trust of India
LLP	Limited Liability Partnership	UTI	Unit trust of India
LT	Long term	VRS	Voluntary Retirement Scheme
LTC	Leave Travel Concession	WDV	Written Down Value
LTCA	Long term Capital Asset		

CHAPTER –1

BASIC CONCEPTS

Sections covered in this chapter

Sec 1	Short title, extent & commencement	Sec 172	Non-resident shipping business
		Sec 174	Assessment of persons leaving India
Sec 2	<u>Definitions</u>	Sec.174A	Associations/ bodies formed for short duration
Sec 2(7)	Assessee	Sec 175	Assessment of person trying to alienate his assets
Sec 2(9)	Assessment Year	Sec 176	Discontinued business
Sec 2(17)	Company	Sec 68	Cash credit
Sec 2(23)	Partnership firm	Sec 69	Unexplained investment
Sec 2(26)	Indian Company	Sec 69B	Amount of investment not fully disclosed
Sec 2(31)	Person		
Sec 2(34)	Previous Year		
Sec 2(45)	Total Income		
Sec 14	Heads of Income		
Sec 3	Previous Year	Sec 69C	Unexplained expenditure
Sec 4	Charge of Income Tax	Sec69D	Amount borrowed or repaid on Hundi

Section 1: SHORT TITLE, EXTENT AND COMMENCEMENT

- ❖ This act is called Income –tax Act,1961 , extend to whole of India w.e.f 1st day of April,1962

Section 4 : CHARGE OF INCOME-TAX

- ❖ **INCOME TAX** for A/Y @ **RATES** specified by **FINANCE ACT**
- ❖ On **TOTAL INCOME** during **P/Y**
- ❖ Of any **PERSON** who is an **ASSESSEE**

Section 2(31) : PERSON INCLUDES

- 1) **Individual**
- 2) **Hindu Undivided Family**
- 3) **Company** : Sec 2(17): Company means **Indian company** or **foreign company**
- 4) **Firm**: Sec 2(23) : **Firm** shall include **PF & LLP**
- 5) **AOP/BOI**, whether incorporated or not , whether for profit or not
- 6) **Local authority**: According to General Clause Act, It means Panchayat / Municipality/ Municipal committee/ district Board /Cantonment Board
- 7) **AJP not falling within any of preceding categories**

Section 2(7) : Assessee : Person by whom tax or other sum is payable & includes

- Person against whom proceeding under Income-tax taken for assessment of income/ loss/ refund
- **A deemed assessee** - A person who is deemed to be an assessee for some other person
- Assessee who is deemed to be an '**Assessee in default**'

Section 2(9) : Assessment Year

Assessment Year means the period of 12 months commencing on the first day of April every year.

Section 2 (34) : Previous year means previous year defined under Sec 3

Sec 3 : Previous year means F/Y immediately preceding assessment year.

First P/Y for a B/P newly set-up during F/Y or for new source of income:

- P/y shall be **beginning** from date of setting up of business /new source came into existence &
- **Ending** on last day of that F/Y

Cases where income of previous year is assessed in the same year

section	Sec 172 : Non resident shipping business	Sec 174: Assessment of Persons Leaving India	Sec174A : Association formed for short duration	Sec 175 : Assessment of Persons Likely to Transfer Property to Avoid Tax	Sec 176 : Discontinued Business
Applicable	Non-Resident owner/Charterer of Ship Carrying passengers, etc shipped at Indian Port during P/Y	Appears to AO that any individual may leave India during current P/Y & has no intention of returning to India	Appears to AO that any AOP formed for particular purpose. & is likely to be dissolved during P/Y	Appears to AO person is likely to sell his assets during a P/Y with a view to avoid tax liability	Where any business/ profession is discontinued in any P/Y
Income	7.5 % of amount on account of such carriage	TI of individual From first day of P/Y Upto probable date of his departure from India	TI of such association Commencing from first day of P/Y Upto date of its dissolution	TI of such person commencing from first day of P/Y Upto date of commencement of proceedings by AO	B/P income commencing from first day of P/Y Upto date of discontinuance
When taxable	Chargeable to tax in same P/Y .	chargeable to tax in same P/Y	chargeable to tax in same P/Y	chargeable to tax in same P/Y	chargeable to tax in same P/Y

P/Y FOR UNDISCLOSED SOURCES OF INCOME

In following cases if no satisfactory explanation is provided, then amount deemed as Income of P/y of discovery

1. **Cash Credit [Sec. 68] : Sum is found credited** in BOA of assessee
2. **Unexplained investment [Sec. 69] : Investment** not recorded in BOA
3. **Unexplained money [Sec. 69A] : Money, jewellery or other valuable article** not recorded in the BOA
4. **Investment not fully disclosed [Sec. 69B] : Investments/ bullion/jewellery > amount** recorded in BOA
5. **Unexplained expenditure [Sec. 69C] : Unexplained Expenditure**
6. **Amount borrowed or repaid on Hundi [Sec. 69D] : Amount borrowed /repaid on Hundi** otherwise than through A/C payee cheque

Sec 115BBE : Tax on income referred u/s 68 or 69 or 69A or 69B or 69C or 69D

If Total Income includes any income referred under above sections, income-tax shall be payable @ 60% + 25% surcharge + 4% HEC

No deduction in respect of any expenditure/allowance shall be allowed in computing his income referred under above sections.

Some important principles which explain the concept of income for Income-tax purpose

- (i) Even **illegal income** is taxed just like any legal income.
- (ii) **Diversion of Income** : Income which due to compulsory obligation, is diverted before it becomes due
Income after Diversion is taxable
- Application of income** : income which has become due and afterwards assessee meets an obligation whether compulsory or self imposed out of such income
Income before Application is taxable
- (iii) **Pin Money**: Money received by wife for her personal expenses from husband is not taxable
- (iv) **Revenue receipt** : Receipt on account of circulating capital. Revenue receipts taxable unless specifically exempted eg dividend income, though a revenue receipt, is exempt from tax u/s 10.

Capital receipt : Receipt on account of fixed capital. Capital receipts are generally not chargeable to tax unless specifically taxable eg. profit on sale of capital assets, though it is capital receipt but it is taxable u/s 45

- (v) **Sec 2(10) : Average rate of income-tax** means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income

Income tax calculated on total income / Total Income x 100

- (vi) **Sec 2(29C) : Maximum Marginal Rate** means rate of income-tax (including surcharge on income-tax, if any) applicable in relation to the highest slab of income in the case of individual, AOP or, BOI as specified in the Finance Act of the relevant year. **i.e 30% + 37% surcharge + 4% HEC**

RATES OF INCOME TAX (ASSESSMENT YEAR 2021– 2022)

Nature of Person	Exemption	SLAB Rates	Surcharge
1. <u>INDIVIDUAL</u> <i>(Other than 2,3 below)</i>	2,50,000	<u>Total Income</u> <u>Rate</u> 0 – 2,50,000 : NIL > 2,50,000 upto 5,00,000 : 5% > 5,00,000 upto 10,00,000 : 20% > 10,00,000 : 30%	> 50 lakhs : 10% > 1 crore : 15% > 2 crore : 25% > 5 crore : 37%
2. <u>Senior Citizen</u> (<i>Resident + min 60 yrs & < 80 years any time during p/y 20-21</i>)	3,00,000	0 – 3,00,000 : NIL > 3,00,000 upto 5,00,000 : 5% > 5,00,000 upto 10,00,000 : 20% > 10,00,000 : 30%	Surcharge on Income u/s 111A & 112A Total > 50lakhs : 10% Total >1 crores : 15%
3. <u>Very Senior Citizen</u> (<i>Resident & min 80 yrs any time during p/y 20-21</i>)	5,00,000	0 – 5,00,000 : NIL > 5,00,000 upto 10,00,000 : 20% > 10,00,000 : 30%	
HUF,AOP,BOI & AJP	2,50,000	As applicable to individual in point 1	Same as Individual
Domestic Company	NIL	• Turnover upto 400cr p/y 18-19 : 25% • Covered u/s 115BA : 25% • Covered u/s 115BAA : 22% • Covered u/s 115BAB : 15% • Other case : 30%	>1 crore : 7% > 10 crore : 12% Company u/s 115BAA/115BAB : 10% irrespective of TI
Foreign company	NIL	40%	> 1crore : 2% > 10 crore : 5%
Partnership Firm/LLP	NIL	30%	> 1 crore : 12%
Local Authority	NIL	30%	> 1 crore : 12%
Cooperative society	NIL	0 – 10,000 : 10% above 10,000 upto 20,000 : 20% above 20,000 : 30%	> 1 crore : 12%

Sec 87A : Rebate of Income Tax : Individual + Resident + Total Income upto ₹ 5 lac = upto ₹ 12,500

Computation of Tax Liability of Individual**Step 1 : Bifurcate Total Income into 2 parts**

Incomes taxable at Slab rates : Apply Tax at Slab rates

Incomes taxable at Special Rates : Apply Tax at special rates *

Step 2 : Subtract Rebate u/s 87A for Resident Individual, if Applicable

Step 3 : Add Surcharge ,If applicable

Step 4 : Subtract Marginal Relief if applicable

Step 5 : Add 4% Health & Education Cess

Step 6 : Resulting Amount is Total Tax Liability

288B : Rounding off of Tax Liability

Tax payable or refundable, shall be rounded off to nearest multiple of ten rupees & paise shall be ignored and last figure is 5 or more, increase to next multiple of 10 & if last figure is < 5 ,amount reduced to lower multiple of 10.

***Incomes taxable at Special rates**

1. Sec 111A : STCG on listed Equity shares/Equity oriented mutual funds/Business Trust : 15%
2. Sec 112 : LTCG : 20 %
3. Sec 112A : LTCA : 10%
4. Sec 115BB : Casual Incomes : 30%
5. Sec 115BBE : Income u/s 68 or 69 or 69A or 69B or 69C or 69D : 60%
6. **Sec 115BBDA : 10% [Not applicable wef 1/4/2020]**
7. Sec 11BBF : Royalty income for patent developed & registered in India for resident : 10%
8. Sec 115BBG : Carbon Credit : 10%

New Optional Taxation System Introduced for INDIVIDUAL & HUF

WEF A/Y 21/22 by FINANCE ACT, 2020

Till FY 2019-20 (AY 2020-21) there was only one regime of Taxation for Individuals and HUFs and were required to apply the Slab rate specified in the Annual Finance Act on Total Income computed after allowing many deductions and exemptions.

Finance Act, 2020 has introduced a New Optional Tax System for Individuals and HUFs u/s 115BAC of the Income Tax Act, 1961 wef A/Y 21-22 to provide for concessional rate of Slab Rates to be applied on Total Income calculated without claiming specified deductions and exemptions.

Hence, from AY 2021-22 or FY 2020-21, there are two operative tax system –

One is the Existing tax system where all the applicable deductions and exemptions are allowed and the tax rates are as per the Slab rates of tax specified in the Finance Act, 2020.

The second one is section 115BAC which is a Optional Tax System and under which many deductions and exemptions have been disallowed but lower slab tax rates are provided in the section 115BAC itself.

Sec 115 BAC : Optional Tax System for Individuals and HUF

(1) Notwithstanding anything contained in this Act, the income-tax payable in respect of the total income of **Individual or HUF**, for Assessment year beginning 2021/22, shall, at the option of such person, be computed at the rate of tax given in the following Table, if the conditions contained in sub-section (2) are satisfied, :—

Sl. No.	Total income	Rate of tax
1.	Up to Rs. 2,50,000	Nil
2.	From Rs. 2,50,001 to Rs. 5,00,000	5 %
3.	From Rs. 5,00,001 to Rs. 7,50,000	10 %
4.	From Rs. 7,50,001 to Rs. 10,00,000	15 %
5.	From Rs. 10,00,001 to Rs. 12,50,000	20 %
6.	From Rs. 12,50,001 to Rs. 15,00,000	25 %
7.	Above Rs. 15,00,000	30 %

Provided that where the person fails to satisfy the conditions contained in sub-section (2) in any P/Y, the option shall become invalid in respect of relevant p/y and other provisions of this Act shall apply, as if the option had not been exercised in the relevant P/Y:

Provided further that where the option is exercised under clause (i) of sub-section (5), in the event of failure to satisfy the conditions contained in sub-section (2), it shall become invalid for subsequent assessment years also and other provisions of this Act shall apply for those years accordingly.

(2) For the purposes of sub-section (1), the total income of Individual or HUF shall be computed,—

(i) without any exemption or deduction under

- Sec 10(5) or Sec 10(13A) or prescribed u/s 10(14) (other than those as may be prescribed for this purpose) or u/s 10(17) or u/s 10 (32) or section 10AA or
- Section 16 or
- Sec 24(b) (in respect of the property referred in section 23(2)) or
- Section 32(1)(iia) or section 32AD or section 33AB or section 33ABA or Sec 35(1)(ii) or Sec 35(1)(iia) or Sec 35(1)(iii) or Sec 35(2AA) or section 35AD or section 35CCC or
- Section 57(iia) or
- Under any of the provisions of Chapter VI-A other than provisions of section 80CCD(2) or section 80JJAA;

(ii) Without set off of any loss,—

(a) carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in clause (i);

(b) under the head “Income from house property” with any other head of income;

(iii) by claiming the depreciation, if any, under any provision of section 32, except clause (iia) of sub-section (1) of the said section, determined in such manner as may be prescribed; and

(iv) without any exemption or deduction for allowances or perquisite, by whatever name called, provided under any other law for the time being in force.

(3) The loss and depreciation referred to in clause (ii) 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 assets which has not been given full effect to prior to the assessment year beginning on the 1st day of April, 2021, corresponding adjustment shall be made to the written down value of such block of assets as on the 1st day of April, 2020 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, 2021.

(4) In case of a person, having Unit in International Financial Services Centre, as per section 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 option is exercised in the prescribed manner by the person,—

(i) having income from PGBP, upto DDR u/s 139(1) for any A/Y wef 21/22, and such option once exercised shall apply to subsequent A/Y;

(ii) having income other than PGBP, along with the return of income to be furnished u/s 139(1) for A/Y:

Provided that the option under clause (i), once exercised for any previous year can be withdrawn only once for a previous year other than the year in which it was exercised and thereafter, the person shall never be eligible to exercise option under this section, except where such person ceases to have any income from business or profession in which case, option under clause (ii) shall be available

New Optional Taxation System Introduced for Cooperative Societies

WEF A/Y 21/22 by FINANCE ACT, 2020

Till FY 2019-20 (AY 2020-21) there was only one regime of Taxation for Cooperative society and were required to apply the Slab rate(upto 10,000,next 10,000 & balance over 20,000) specified in the Annual Finance Act on Total Income computed after allowing many deductions and exemptions. + surcharge @ 12% if Total Income > 1 crore + 4% HEC

Finance Act, 2020 has introduced a New Optional Tax System for Cooperative society u/s 115BAD of the Income Tax Act, 1961 wef A/Y 21-22 to provide for flat rate of Tax of 22% + 10% flat surcharge + 4%HEC to be applied on Total Income calculated without claiming specified deductions and exemptions.

Hence, from AY 2021-22 (or FY 2020-21, there are two operative tax system –

One is the Existing tax system where all the applicable deductions and exemptions are allowed and the tax rates are as per the Slab rates of tax specified in the Finance Act, 2020.

The second one is section 115BAD which is a Optional Tax System and under which many deductions and exemptions have been disallowed but flat tax rate of 22% is provided in the section 115BAD itself.

Sec 115BAD : Tax on income of certain Resident Co-Operative Societies

(1) Notwithstanding anything contained in this Act but subject to the provisions of this Chapter, the income-tax payable in respect of the total income of co-operative society resident in India, for assessment year beginning 2021/22, shall, at the 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 the conditions contained in sub-section (2) in computing its income in any previous year, the option shall become invalid in respect of the assessment year relevant to that previous year and subsequent assessment years and other provisions of the Act shall apply, as if the option had not been exercised for the assessment year relevant to that previous year and subsequent assessment years.

(2) For the purposes of sub-section (1), the total income of the co-operative society shall be computed,—

(i) without any deduction

- u/s 10AA or
- u/s 32(1)(ia) or u/s 32AD or u/s 33AB or u/s 33ABA or u/s 35(1)(ii) or u/s 35(1)(ia) or u/s 35(1)(iii) or u/s 35(2AA) or u/s 35AD or u/s 35CCC or
- under any of the provisions of Chapter VI-A other than sec [80JJAA](#);

(ii) without set off of any loss carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in clause (i); and

(iii) by claiming the depreciation, if any, u/s [32](#), other than u/s 32(1)(ia), determined in such manner as may be prescribed.

(3) The loss and depreciation referred to in clause (ii) 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 the assessment year beginning on the 1st day of April, 2021, corresponding adjustment shall be made to the written down value of such block of assets as on the 1st day of April, 2020 in such manner as may be prescribed, 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, 2021.

(4) In case of a person, having a Unit in the International Financial Services Centre, as referred to in sub-section (1A) of [section 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 the said section shall be available to such Unit subject to fulfilment of the conditions contained in that section.

(5) Nothing contained in this section shall apply unless option is exercised by the person in such manner as may be prescribed on or before the due date specified u/s [139\(1\)](#) for furnishing the return of income for any previous year relevant to the assessment year commencing on or after the 1st day of April, 2021 and such option once exercised shall apply to subsequent assessment years:

Provided that once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.

CHAPTER – 2

RESIDENTIAL STATUS

Sections covered in this chapter

Sec 5	Scope of Total income
Sec 6(1)	Residential status of an Individual
Sec 6(1A)	New condition
Sec 6(2)	Residential status of an HUF, Firm, AOP & BOI
Sec 6(3)	Residential status of Company
Sec 6(4)	Residential status of other assessee
Sec 6(5)	Resident for one source resident for all source
Sec 6(6)	Not ordinarily Resident
Sec 7	Income deemed to be received
Sec 9	Income deemed to accrue or arise in India

(1) Residential Status of an Individual**Basic Condition : Sec 6 (1)**

1st Condition : Atleast **182** days during P/Y

2nd condition : Atleast **60** day during P/Y

+
Atleast **365** days during preceding 4 P/Y

3rd Condition [Sec 6(1A)]

- Notwithstanding anything contained in Sec 6(1),
- Individual, being citizen of India,
- having total income,
- other than the income from foreign sources,
- exceeding 15 lakhs during p/y
- shall be deemed to be resident in India in that previous year,
- if he is not liable to tax in any other country or territory
- by reason of his domicile or residence or any other criteria of similar nature

Explanation to Sec 6(1A) : For the removal of doubts, it is hereby declared that this clause shall not apply in case of an individual who is said to be resident in India in the previous year u/s 6(1)

Taxation & Other Laws (Relaxation & Amendment of Certain Provisions) Act, 2020

Income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India

Explanation 1 to Sec 6(1) [4 cases]

In the following Case 1, Case 2 & Case 3, 60 days of 2nd Basic condition shall be substituted with 182 days

Case 1 : Indian citizen leaves India for employment abroad during P/Y

Case 2 : India citizen who is working on Indian ship leaves India during P/Y.

The numbers of days of stay in India for such person shall exclude the days from date of joining as per Continuous Discharge Certificate till date of signing off on this document.[Rule 126]

Case 3 : Indian citizen or PIO coming to India on a **visit** during P/Y.

PIO = Himself or Parents or Grand parents born in undivided India
[Explanation to Sec 115C(e)]

In the Case 4, 60 days of 2nd Basic condition shall be substituted with 120 days

CASE 4 :

- **Citizen of India or PIO**
- **Comes on a visit to India in any p/y**
- **having TI, other than the income from foreign sources,**
- **exceeding 15 lakhs during p/y**

Income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India). and which is not deemed to accrue or arise in India

Additional condition : Sec 6 (6)

1st Condition : Upto 729 days in *preceding 7 P/Y*

2nd Condition : Non Resident in Min 9 out of *preceding 10 P/Y*

3rd condition :

- Citizen of India, or PIO,
- as referred to in *Explanation 1* to Sec 6(I),
- having TI,
- other than the income from foreign sources,
- exceeding 15 lakhs during p/y,
- who has been in India 120 days or more but less than 182 days during the p/y

OR

4th Condition : A citizen of India who is deemed to be resident in India u/s 6(1A).

SUMMARY

Status	Basic Condition	Additional Conditions
ROR	Either	Neither
RNOR	Either	Either
NR	Neither	NA

2) Residential Status of HUF : 6(2) + 6(6)

ROR	<i>Any part</i> of C&M situated in India during P/Y & <u>Karta/Manager</u> Not satisfying any of additional conditions
RNOR	<i>Any part</i> of C&M situated in India during P/Y & <u>Karta/Manager</u> satisfying any additional condition u/s 6(6)
NR	<i>No part</i> of C&M situated in India during P/Y

(3) Residential status of Firm, AOP & Other Non Corporate Assessee : 6 (2)

Resident	<i>Any part</i> of C&M situated in India during the P/Y
Non resident	<i>No part</i> of C&M situated in India during the P/Y

(4) Residential status of Company : 6(3)

Resident	Indian Company or Foreign Company + Place of effective management(POEM) in India during P/Y
Non Resident	Foreign Company + Place of effective management(POEM) outside India during P/Y

(5) Residential status of Other Assessee : 6(4)

Resident	Any part of C&M situated in India during P/Y
Non Resident	No part of C&M situated India during P/Y

Scope of Total Income : Sec 5

Types of Income	ROR	RNOR	NR
Indian Income			
- Due in India & Received any where	Yes	Yes	Yes
- Due outside & <u>Received</u> in India	Yes	Yes	Yes
Foreign income (Due outside & received outside)			
- Business controlled / Profession set up from India	Yes	Yes	No
- Other Case	Yes	No	No

Sec 9 : Following Income deemed as accrue or arise in India (Indian income)

1.	Income from a Business Connection in India <i>Significant Economic Presence of a non-resident in India shall constitute "business connection" in India</i>
2.	Income from property asset or source in India
3.	Capital gain from Capital asset situated in India
4.	Salary from Services rendered in India
5.	Salary to Indian citizen from Govt of India (<i>Sec 10(7) : Allowance & Perquisite exempt</i>)
6.	Dividend from Indian company

7.	Interest/Royalty/Fee for Technical services from Government of India
8.	Interest/Royalty/Fee for Technical services from Resident (Except money/service is utilized for earning income outside India)
9.	Interest /Royalty/Fees for Technical services from Non resident (Provided money/service is utilized for Indian business/profession)
10.	Sum of money as gift, paid outside india by resident to non-resident or to foreign company

<u>Sec 7 : Following Income deemed as received in India (Indian income)</u>
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1.	Employer contribution to RPF > 12% of salary of ee
2.	Interest credited in RPF > 9.5% pa
3.	Employer contribution to NPS > 10% of salary of ee

CHAPTER – 3
INCOME UNDER THE
HEAD HOUSE PROPERTY

Sec 22 : Annual Value of Building owned is taxable under HP(except used for Business/Profession)

(1) Municipal value	XXXXXX
(2) Fair Rental value	XXXXXX
(3) Standard Rent (1 or 2, Higher, cannot exceed 3)	XXXXXX
(4) Expected Rent	XXXXXX
(5) Actual Rent Received/Receivable (Excluding Unrealised rent) Rule 4	XXXXXX
(4 or 5) Higher : GAV	XXXXXX
Less : Municipal taxes (Paid by Owner during P/Y)	(XXXXXX)
NAV	XXXXXX
Less : Deductions	
24 (a) : 30% of Positive NAV Actual expenses have no relevance	(XXXXXX)
24 (b) : Interest Due on borrowed Capital	(XXXXXX)
Interest due during p/y + Interest for Preconstruction/prepurchase period	
Amount after deduction	XXXXXX
Add : Recovery u/s 25A	XXXXXX
Amount Taxable under HP	XXXXXX

Deduction u/s 24(b)

Type of Property	Deduction u/s 24(b) on Due basis	Purpose of loan
Let out property	100%	Construction, Purchase, Repair, Renovation, Reconstruction
Residential property whose NAV =NIL	Max 30,000	Construction, Purchase, Repair, Renovation, Reconstruction
Residential property whose NAV =NIL	Max 2,00,000	<ul style="list-style-type: none"> loan is wef 1/4/99 for purchase or construction purchase or construction is completed Within 5 years from end of f/y in which loan is taken Lender certifies loan is for Purchase or construction

IF Assessee has opted for New Tax System u/s 115BAC, Deduction u/s 24(b) shall not be allowed from Self Residential Property covered u/s 23(2)

Special Points

- Interest on **unpaid interest** is not deductible.
- Interest on a **fresh loan** raised merely to **repay the original loan** taken for the above purpose is allowable as a deduction under this section.
- **Brokerage or commission** paid for arranging the loan is not deductible.
- If **arrears of interest** is paid during the previous year, no deduction is available in respect of arrears as it has already been claimed on due basis in earlier years.
- Similarly **interest paid in advance** is not fully deductible in one year, as deduction is on accrual basis.
- If interest is **payable outside India** then it must be paid after TDS as per the requirement of Section 25 of Income Tax Act, otherwise the deduction shall not be allowed.
- If interest is paid on **unpaid purchase price** to the seller then also deduction can be claimed u/s 24(b).

TAX TREATMENT OF VARIOUS PROPERTY

Type of House Property	(1) Fully let out	(2) HP partly let out & partly vacant			(3) Fully vacant	(4)
		Case 1 AR > ER	Case 2 AR < ER (Rent less)	Case 3 AR < ER (Due to vacancy) 23(1)(c)	Intention to let out 23(1)(c)	No Intention to let out
(1) ER	Entire P/Y	Entire P/Y	Entire P/Y	Entire P/Y	Entire P/Y	Entire P/Y
(2) AR	Let out period	Let out period	Let out period	Let out period	Nil	Nil
GAV	1 or 2, Higher	AR	ER	AR	NIL	ER
Less : M. Tax	Paid + Owner	Paid + Owner	Paid + Owner	Paid + Owner	Paid + Owner	Paid + Owner
NAV	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx
Less: 24(a): SD	30% of NAV	30% of NAV	30% of NAV	30% of NAV	NIL	30% of NAV
Less: 24 (b) : Interest DUE of P/Y+ Pre ownership period	Fully allowed	Fully allowed	Fully allowed	Fully allowed	Fully allowed	Fully allowed

Amount after Deduction	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx
Add : 25A	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx
Income taxable under HP	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx

	(5) Self Residence	(6) Not occupied due to B/P/E	(7) More than 2 residence property Sec 23(4)		(8) Partly let out & Partly self residence
	Sec 23(2)	Sec 23(2)	Residence Upto 2	Deemed to let out	
(1) ER	NA	NA	NA	Entire P/y	Entire P/Y
(2) AR	NA	NA	NA	Nil	Let out period
GAV	NA	NA	NA	RV	1 or 2, Higher
Less : M. Tax	NA	NA	NA	Paid + Owner	Paid + Owner
NAV	NIL	NIL	Nil		
Less: 24(a): SD	NA	NA	NA	30% of NAV	30% of NAV
Less: 24 (b) : Interest DUE of P/Y+ Pre ownership period	Max 30,000/ Max 2,00,000	Max 30,000/ Max 2,00,000	Max 30,000/ Max 2,00,000	Fully allowed	Fully allowed
Amount after Deduction	xxxx	xxxx	xxxx	xxxx	xxxx
Add : 25A	xxxx	xxxx	xxxx	xxxx	xxxx
Taxable	xxxx	xxxx	xxxx	xxxx	xxxx

Sec 23(5) : Annual value building as Stock In Trade

- NAV shall be Nil of Vacant Property held as stock-in-trade and
- is not let during whole or any part of p/y,
- for period up to **2 YEARS** from end of F/Y
- in which certificate of completion of construction of property is obtained from competent authority,

Sec 25 : Deduction of Interest payable outside India

- ❖ Shall be allowed only if
- ❖ Tax deposited on such Interest income or
- ❖ TDS deducted out of such interest income or
- ❖ some person is treated as agent in India of recipient

Sec 25A : Recovery of Unrealised Rent/Arrears of rent

- Recovered amount **taxable under HP** in P/Y of receipt
- **Whether or not** assessee is **owner of such property** in p/y of receipt
- **30% deductions** allowed from recovered account .

Sec 26 : House Property Owned by Co-owners

- ✓ If the share of each co-owner
- ✓ Is **definite & ascertainable**
- ✓ **Each co-owner** shall be taxable for **his portion** in HP
- ✓ **Otherwise** HP income taxable **in hands of AOP**

Sec 27 : Deemed Owners

- ❖ **Individual** transfers House Property to **Spouse** for **inadequate consideration** except ,HP transferred under an **agreement to live apart**
- ❖ HP transferred to **minor** except **minor married daughter** .
- ❖ **Holder** of **impartible** estate.
- ❖ **Member** of Co-op society, Company to whom flat is allotted under house building scheme
- ❖ **Person** allowed to take **Possession u/s 53A of Transfer of Property Act.**
- ❖ A person acquiring House property on lease for **12 years or more**

Special point :

1.If assessee is dealing in business of letting out,rental income will be chargeable under PGBP

2.If letting is subservient & incidental to running of main business than rental income will be chargeable under P/G/B/P.

3. Treatment of Composite Rent is done as under

Where rent of property and rent of services / assets can be separated		Where rent of property and rent of services / assets cannot be separated
Rent of letting of property	Rent of service ,assets	Taxable under Other sources or Business
Taxable under House property	Taxable under Other sources or business	

CHAPTER - 4
INCOME UNDER THE HEAD SALARIES

(1) Master-Servant Relationship:

For income to be taxable under this head, there should be relationship of Master & Servant between the payer and payee.

(2) Sec 15: Charging Section

- (a) Salary is chargeable to tax on **Due or Receipt basis**, *whichever is earlier*
- (b) **Advance salary** is taxable in the previous year of **Receipt**
- (c) **Arrears of salary** is taxable in the previous year of **Receipt**

(3) Computation of Taxable salary

Step 1 : Compute Gross Salary [After claiming Exemptions]

- (A) Basic Salary
- (B) Bonus
- (C) Commission
- (D) Allowances
- (E) Perquisites
- (F) Leave travel concession
- (G) Medical facilities
- (H) Retirement benefit
- (I) Profit in lieu of salary

Step 2 : Less : Deductions

Sec 16(ia) : Standard Deduction : Max 50,000

Sec 16(ii) : Entertainment Allowance

Central & State Govt employee

Minimum of following 3

- (a) Actual Entertainment Allowance
- (b) 5,000
- (c) 20% of **Basic Salary**

Sec 16(iii) : Tax on Employment

- Amount **Paid** during P/Y

Step 3 : TAXABLE SALARY (Step 1 – Step 2)

COMPONENTS OF GROSS SALARY

(A) Basic Salary : Monetary Amount received monthly or otherwise is called Basic Salary.

(B) Bonus : It is reward for good services and also is paid by employer on certain occasions like Diwali etc
: It is taxable in P/Y of Receipt

(C) Commission : Incentives given by employer so that employee works efficiently. It is
 : Generally given as % of Sales, Net profit of employer etc.
 : All types of commission are **Fully taxable**

(D) Allowances : Extra monetary amount given by employer
 : For meeting (Personal or official) expenses of employee
 : **Allowances less exemption** is included in Gross Salary

Types of Allowances

I	Entertainment allowance	Deduction u/s 16(ii) "Discussed Earlier"
II.	House Rent Allowance	Exemption u/s 10(13A) allowed to All Employees - Minimum of following (a) Actual HRA (b) Rent Paid – 10% of Salary (c) 50% Salary : [Accommodation in D/M/K/C] 40% Salary : [Accommodation other City] - Salary = Basic + DA(RB) + Commission fixed % of turnover - Due Basis for which Accommodation taken on Rent - Exemption calculated Period Wise
III.	Special allowance under Rule 2BB(1) for Official Purpose	Exemption u/s 10(14) Amount Spent for Official Purpose
1	Travelling Allowance	Cost of travel on tour or transfer
2	Daily Allowance	Daily expenses on tour or transfer
3	Conveyance allowance	Cost of travel for official duties
4	Helper Allowance	Cost of Helper for official duty
5	Academic Allowance	Cost of Research & training for employees
6	Uniform Allowance	Cost of purchasing & maintaining uniform for official duty

	Special allowance under Rule 2BB(2) for Personal Purpose	Exemption u/s 10(14) Actual Amount or specified limit, less
1	Children Education allowance (For cost of Education of children)	₹ 100 Pm / per child Subject to max of 2 child
2	Hostel Expenditure Allowance (For cost of Hostel expenses of children)	₹ 300 Pm / per child Subject to max of 2 children
3	Tribal Area allowance (Employee residing Tribal Area)	₹ 200 pm
4	Transport Allowance (Cost of travel between home & office)	₹3,200 Pm for Blind/Handicap/Deaf/Dumb only
5	Allowance for Transport employee (Employee working in transport undertaking)	70% of allowance or 10,000 pm , less
6	Underground allowance (Employee working in underground mines)	₹ 800 Pm
IV.	Other Allowances 1. Dearness Allowance 2. Lunch Allowance	Fully Taxable

	3. City compensatory Allowance 4. Servant Allowance 5. Medical Allowance etc.	
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(E) PERQUISITES : Facilities Provided by Employer to Employee**Types of Perquisites (Sec 17(2))**

- ❖ **Rent free** Accommodation **provided** by Employer
- ❖ **Concessional** accommodation **provided** by employer
- ❖ Sum **paid** by Employer for **obligation** of employee
- ❖ LIC policy /Annuity policy premium **payable** by employer
- ❖ Fringe benefits
- ❖ **Value of ESOP/Sweat Equity**
- ❖ Perquisites taxable for **Specified Employees**
- ❖ **Employer contribution to ASF,RPF & NPS exceeding 7.5 lakh & Interest on such excess amount**

1st Perquisite : Rent free accommodation (RFA)

Central/State Govt. Employee		
Unfurnished Accommodation	Furnished Accommodation	
(A)	Other than in a Hotel	In a Hotel
License fees determined by Central/State Govt.	Value as per (A) Add : 10% p.a of actual cost of furniture(owned) or Actual hire charges (hired)	24% RFA Salary or Actual charges of Hotel Whichever is less.

Other Employee				
Unfurnished Accommodation			Furnished Accommodation	
(B)		(C)		
If Owned by employer		Not owned (e.g Rent or lease)	Other than Hotel	In a Hotel
Population of city	RFA Salary	Rent Payable by employer or 15% RFA salary Whichever is less	Value (B) or (C) Add :	Same as for Govt employee
Upto 10 lakhs	7.5%		10% p.a of actual cost of furniture etc (owned)	
> 10 lakhs but upto 25 lakhs	10%		or	
> 25 lakhs	15%		Actual hire charges payable (hired)	

Special points :

- (a) RFA Salary on **DUE BASIS** for period for accommodation provided
- (b) RFA Salary from **ALL EMPLOYERS** during above period
- (c) **RFA Salary = Basic + DA(RB) + Bonus + All Commission + All taxable allowances + Other monetary payment** (except perquisites)
- (d) Accommodation in a **HOTEL** upto **15 DAYS** on **TRANSFER** is exempt.
- (e) New accommodation provided on transfer while retaining old accommodation
1st 90 days : **Either** of accommodation taxable
After 90 days : **Both** accommodation taxable.
- (f) Accommodation in **REMOTE AREA** and provided on **MINING SITE, OIL EXPLORATION SITE, POWER GENERATION SITE, DAM SITE, PROJECT EXECUTION SITE** is **EXEMPT**

2nd Perquisite : Concessional Accommodation

Step 1 : Calculate value as if accommodation is **provided rent free**.

Step 2 : Deduct **Rent charged by employer**.

Step 3 : Remaining amount is **value of Concessional accommodation**.

3rd Perquisite : LIC Policy & Annuity Policy

- Taken by **Employer**
- Premium **PAYABLE** during previous year
- is taxable as perquisites in hand of employee.

4th Perquisite: Obligation of employee

- **PAID** by employer
- is taxable as perquisites in hands of employee

5th Perquisite : Fringe benefits

1) Interest free or concessional loans

The valuation of perquisite is done on **maximum outstanding monthly balance** at **rate of interest charged by SBI** as on **1st day of P/Y**. Any **interest is charged** from employee, **reduce such rate** from SBI rate

Exemption : The following loans are not taxable perquisite

1. **Medical Loans** taken for treatment of diseases under **Rule 3A**.
2. Small loans i.e. Total amount of loan is **upto ₹ 20,000** in P/Y.

2) Use of Movable Assets

Laptop/Computers	Exempt as per Rule 3
Telephone including mobile	Exempt as per Rule 3
Motor Cars	Taxable under Perquisites for <i>Specified Employees</i>

Other Movable Assets	<p><u>If owned by employer</u> : 10% p.a of original cost</p> <p><u>In other cases</u> : 100% of hire charges payable by employer for such assets</p>
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3) Transfer of Movable assets

Computer & Electronic Items	Motor Car	Other Assets
<p>Actual cost to Employer</p> <p>Less :</p> <p>50% on WDV for each completed year of use by employer</p> <p>Less : Amt recovered from employee.</p>	<p>Actual cost to Employer</p> <p>Less :</p> <p>20% on WDV for each completed year of use by employer</p> <p>Less : Amt. recovered from employee</p>	<p>Actual cost to Employer</p> <p>Less :</p> <p>10% on SLM for each completed year of use by employer</p> <p>Less : Amt. recovered from employee</p>

4) Travelling, Tour, Accommodation & Other Expenses

OFFICIAL TOUR		
Employee	Household Member	
	Facility maintained by employee & not available for all employees	Other Cases
Exempt	Value at which similar services provided by other agencies to public	Actual expenditure of employer

PRIVATE TOUR	
Employee/Household Member	
Facility maintained by employee & not available for all employees	Other Cases
Value at which similar services provided by other agencies to public	Actual expenditure of employer

5) Free Meals, Tea & Snacks

FREE MEALS/NON ALCHOLIC BEVERAGES			TEA AND SNACKS	
Office premises or At eating joints by voucher		Other Case		
Office Hours	Non Office Hours	Actual expenditure of employer	Office Hours	Non Office Hours
Nil, if value upto ₹ 50/- per meal (If value > 50 excess taxable)	Actual expenditure of employer		Nil	Actual expenditure of employer

6) **Gift, Vouchers or token.**

<i>In Kind</i>		<i>In Cash</i>
Aggregate value upto ₹5,000 during P/Y	Aggregate value > ₹ 5,000/- during P/Y	Any amount
Exempt	Perquisite Value = (Actual value – 5,000/-)	Fully Taxable

7) **Expenditure on credit card including membership & annual fees**

<i>Official purpose</i>	Other Purposes
Nil, Provided: a) Details of expenditure maintained by employer and b) Employer certifies that expenditure for official purpose	Expenditure of employer <i>Less:</i> Amount recovered from employee

8)

Club membership & club expenses (including annual or periodic fees)

<i>official purpose</i>	Other Purposes
Nil, Provided : a) Details of expenditure maintained by employer & b) Employer certifies that expenditure for official purpose	Expenditure of employer <i>Less :</i> Amt. recovered from employee

6th Perquisite : Sweat equity shares/ESOP**Value of Perquisite :**

FMV of ESOP/Sweat Equity on date on which the **option is exercised** by assessee

Less : Amount recovered from the assessee in respect of such shares/security

7th Perquisites taxable for Specified Employee**Specified Employee**

- | |
|--|
| (a) Employee is director of his employer company or |
| (b) Employee holds at least 20% equity shares of his employer company or |
| (c) Employee Taxable salary exceeds 50,000 pa. (<i>Excluding non monetary payment</i>) |

1. Motor Car

1. Motor Car owned/ hired by employer & expenses met by Employer		
<i>Official purpose</i>	<i>Private purpose</i>	<i>Partly official & partly private</i>
Exempt <i>(Provided specified documents are maintained by employer)</i>	Sum total of : 10% of cost of car (if owned) or Hire charges (if hired) Actual running & maintenance expenses + Actual remuneration to chauffeur Less: Amt recovered from employee	Car upto 1.6 Lit. 1,800 p.m + 900 pm for chauffeur (If any) Car > 1.6 Lit. 2,400 p.m + 900 p.m for chauffeur (If any)

2. Motor Car owned/ hired by employer & Expenses met by Employee		
<i>Official purpose</i>	<i>Private purpose</i>	<i>Partly official & partly private</i>
Exempt	Sum total of Actual remuneration to chauffeur 10% of cost of car (if owned) or hire charges (if hired) Less: Amt recovered from employee	Car upto 1.6 Lit. 600p.m + 900 pm for chauffeur. (If any) Car > 1.6 Lit. 900 p.m + 900 pm for chauffeur (If any)

3. Motor Car owned by employee & expenses met by Employer		
<i>Official purpose</i>	<i>Private purpose</i>	<i>Partly official & partly private</i>
EXEMPT <i>(If specified documents are maintained by employer)</i>	Amount paid by employer	Actual Exp. of employer Less : 1,800 pm + 900 pm (car upto 1.6Lit) OR 2,400 pm + 900 pm (car > 1.6 Lit)

4. Other Conveyance owned by employee & expenses met by Employer		
<i>Official purpose</i>	<i>Private purpose</i>	<i>Partly official & partly private</i>
EXEMPT <i>If specified documents maintained by employer)</i>	Expenditure paid by employer	Actual Exp. of employer Less : 900 pm

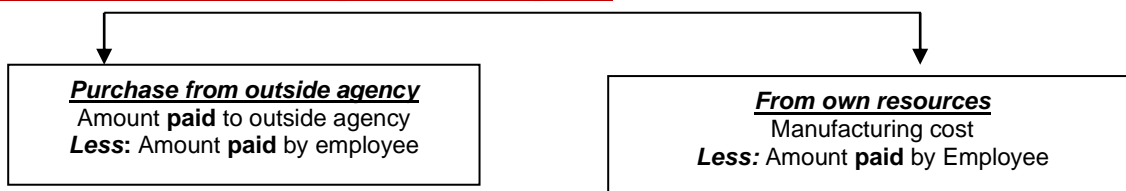
Special Points :

- a) Where
- more than one**
- motorcar is for both official & private purposes

Value of One Car = Value as per **partly official & partly private**Value of Other Cars = Value as per **private purpose**b) **Specified Documents :**

- a) Employees should maintain details of date of journey, destination, mileage, expenditure incurred
 b) And employer gives certificate that expenses incurred wholly & exclusively for official purpose.

- c) Vehicle provided by employer to employee for journey from his residence to his office or other place of work & back shall not be regarded as perquisite.

2) **Sweeper, Gardener, Watchman or Personal attendant**Value of perquisite : Actual cost to employer **Less** Amount paid by employee3) **Supply of Gas, Electricity or Water provided to Employee**4) **Educational facilities to employee children & members of household**A) **Facility in Educational institutions maintained by employer or in other educational institutions due to employment**

To whom	Cost of education in similar school in similar locality	Value of Perquisite
Employee child	upto ₹1,000 p.m per child	Fully exempt
	greater than 1,000 p.m per child	Cost of education in similar school in same locality less 1,000 pm
Household members	Limit of ₹1,000 irrelevant	Cost of education in similar school in same locality

B) **Facility in any other educational institutions**

To whom	Value of Perquisite
Employee child	Actual Cost to Employer
Household members	Actual Cost to Employer

Education facility **to employee** in any form like training, seminars, conference etc. is fully exempt.

5) Free or concessional tickets provided to employees of transport undertakings for private journeys

- Employees of airlines and railways: **Exempt** in hands of employees
- Employee of other transport undertaking : Value at which such benefit or amenity is provided by the employer to public

8th Perquisite :

Employer contribution to ASF, RPF & NPS exceeding 7.5 lakh & Interest on such excess amount

(F) LEAVE TRAVEL CONCESSION IN INDIA (LTC) :

Exemption u/s 10(5) read with rule 2B		
Journey by Air	Journey by Rail	Journey by other modes
<i>Minimum of following</i>	<i>Minimum of following</i>	<u>Connected by Rail</u> <i>Same as column 2</i>
i. Actual LTC	i. Actual LTC	<u>Not Connected by Rail</u> <i>Minimum of following</i>
i. Actual expenditure	ii. Actual expenditure	i) Actual LTC
ii. Air economy fare of Air India by shortest route	ii. AC 1st class RAIL FARE by shortest route	ii) Actual expenditure
		iii) Deluxe fare of Public transport by shortest route OR Similar AC 1st class rail fare by shortest route

Special Points :

1. Exemption available on **twice** from calendar year 2014 to 2017, 2018 to 2021 & so on
2. **ONLY ONE** exemption carried forward in 1st Calendar Year of succeeding block.
3. LTC available for a **TWO** children born on or after 01.10.1998. However, this restriction shall not apply in respect of children born before 1-10-1998 and also in case of multiple births after one child.
4. Family means : Spouse & Children
 - ❖ Parents, brother, sisters of employee who are **dependent** on employee.

(G) MEDICAL FACILITIES (Proviso to sec 17(2))

MEDICAL FACILITIES IN INDIA (to EMPLOYEE / Family Members)			
Hospital maintained by employer	In Govt Hospital or local authority hospital or Govt. approved hospital or Hospital approved by CCIT (For <i>prescribed disease</i> only)	Premium paid for Health Insurance under approved scheme	Other case
Fully Exempt	Fully Exempt	Fully Exempt	<u>Fully taxable</u>

MEDICAL FACILITIES OUTSIDE INDIA

On Medical Expenses for Patient	On stay abroad of Patient along with one attendant (total two persons)	On Travel of Patient along with one attendant (total two persons)
<i>Tax free to extent permitted by RBI</i>	<i>Tax free to extent permitted by RBI</i>	<i>Tax free if employee's GTI UPTO ₹2 lac (before including such travel expenses)</i>

(H) RETIREMENT BENEFITS

1)Gratuity 2)Pension 3)Leave salary 4)Retrenchment compensation 5)Voluntary Retirement 6) Provident fund

1. GRATUITY

Gratuity to be included under Salary = Amount of Gratuity less Exemption u/s. 10(10)

Employee	Central/ State/ Local Authority	Employee covered under payment of Gratuity Act, 1972	Other Employees
Exemption Amount	100% of Gratuity Exempt	Minimum of Following: i. Actual Gratuity received. ii. ₹20,00,000 iii. [15 X Completed yrs of service <i>Including part</i> excess 6 mths] X [last month salary / 26]	Minimum of Following: i. Actual Gratuity received. ii. ₹20,00,000 iii. [15 X Completed yrs of service <i>Excluding part</i>] X [Average monthly salary / 30]

Definition of Salary	N.A	Salary (as per Gratuity Act.) Basic Salary + 100% DA	Salary : Basic Salary + DA (RB) + Commission as fixed % of turnover
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SOME SPECIAL POINTS:

- ❖ The limit of ₹ 10,00,000 shall be **reduced** by exemption claimed in earlier P/Y
- ❖ Gratuity received from **more than one employer in the same P/Y**, the limit of ₹ 20,00,000 would apply to the **aggregate of gratuity**
- ❖ Any gratuity paid to an employee, while he **continues to remain in service** with the same employer is taxable under the head “Salaries”

2. PENSION

- ❖ **Uncommuted pension i.e. the periodical/monthly pension:**

It is **100% taxable** for All Employees

- ❖ **Commuted pension i.e. lumpsum pension:**

Though it is **taxable**, **exemption u/s 10(10A)** can be claimed

Exemption u/s 10(10A):

Treatment for employees of Government, local authorities & Statutory Corporations:

Commuted pension is **100% exempt**

Treatment in the case of Other Employees

Commuted pension is **exempt** to the following extent:

(a) **If receives Gratuity** : 1/3 of **Normal commuted** value

(b) **If he does not receive gratuity** : 1/2 of **Normal commuted** value

NCV = $\frac{\text{Actual Commuted pension} \times 100}{\% \text{ of commutation}}$

3. LEAVE SALARY

Exemption u/s 10(10AA)

I. Central Government/ State Govt. Employees

It is fully **exempt** from tax.

II. Other Employees

(i.e. Private employees including employees of local authority and statutory corporation)

It is exempt to the extent of the minimum of the following four amounts:

- (a) Leave encashment actually received
- (b) ₹3,00,000
- (c) $10 \times \text{Average Monthly Salary}$
- (d) $\frac{\text{Unavailed Leave} \times \text{Average Monthly Salary}}{30}$

Unavailed leave =

Step 1 : [Total Leaves entitled by employer] or
[30 days leave per Completed Year of Service, Excluding part] *whichever is less*

Step 2 : Leaves **actually** taken

Step 3 : Step 1 – Step 2 is **unavailed leave**

Meaning of Salary: Basic + DA (RB) + Commission at fixed % of turnover

Average Monthly Salary: is average of salary of 10 months **immediately preceding** date of retirement.

SOME SPECIAL POINTS

- ❖ The limit of ₹ 3,00,000, shall be reduced by exemption claimed in **earlier P/Y**
- ❖ Leave encashment **from more than one employer** in the same previous year, the limit of ₹ 3,00,000 would apply to the aggregate of leave encashment
- ❖ Amount paid to the legal heirs of the deceased employee is not taxable

4. RETRENCHMENT COMPENSATION**Exemption u/s.10 (10B) :**

Minimum of following is exempt

- i) Actual Compensation received.
- ii) ₹5,00,000/-.
- iii) $15/26 \times \text{Average pay} \times \text{Completed yrs of service including part} > 6 \text{ months.}$

Average Pay : Average of last 3 calendar months preceding date of retrenchment

Pay includes all but does not include bonus

5. COMPENSATION ON VOLUNTARY RETIREMENT**Exemption u/s 10(10C)**

Conditions to be Satisfied	The scheme of Voluntary Retirement should be in accordance with rule 2BA.
Amount of Exemption Minimum	<ul style="list-style-type: none"> - Actual Compensation received/receivable - 5,00,000 - 3 months Total SALARY X Completed years of service (Part Ignored) - Current SALARY per month X Balance months of service left.

Special Points : [Rule 2BA]:

- ❖ completed **10 YRS OF SERVICE** or **40 YRS OF AGE**[not applicable for public sector company employee]
- ❖ Scheme applicable to **ALL EMPLOYEE** (except Directors)
- ❖ Scheme to result in **OVERALL REDUCTION** in existing strength of employees.
- ❖ **Vacancy** caused by voluntary retirement should **not be filled up**.
- ❖ Retiring employee shall **NOT BE EMPLOYED** in other concern of same management.

1. Meaning of Salary : Basic + DA(RB) + Commission fixed % of turnover

2. Exemption under 10(10C) can be claimed only **Once by the Assessee.**

6. TAX TREATMENT OF PROVIDENT FUNDS

Statutory Provident Fund (SPF)			
<i>Employees Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on Provident Fund</i>	<i>Payment of Accumulated balance</i>
Deduction u/s 80C is available to employee	Exempt from Tax	Exempt from Tax	Exempt from Tax u/s 10(11)

Recognised Provident Fund (RPF)			
<i>Employees Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on Provident Fund</i>	<i>Payment of Accumulated balance</i>
Deduction u/s 80C is available to employee	Exempt upto 12% of Salary <i>Excess</i> taxable under Salary u/s 17(1)	Exempt upto 9.5% p.a. <i>Excess</i> taxable under Salary u/s 17(1)	Exempt u/s 10(12) if : i. Service atleast 5 yrs <i>or</i> ii. Termination due to ILL health , iii. Closure of ER business , other reason beyond employee control or iv. Existing balance T/F to new employer RPF A/c. <i>If none of above situations exist, then amount treated as URPF</i>

Salary for the purpose of R.P.F : Basic + DA(RB) + Commission fixed % of turnover

Unrecognised Provident Fund(URPF)			
<i>Employees Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on Provident Fund</i>	<i>Payment of accumulated balance</i>
No deduction u/s 80C	Exempt	Exempt	Employers contribution + interest taxable under salary u/s 17(3) in p/y of payment Interest on Employee contribution taxable as I/O/S

Public Provident Fund (PPF)			
<i>ASSESSEE Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on Provident Fund</i>	<i>Payment of Accumulated balance</i>
Deduction u/s 80C is available to assessee	No employers contribution	Exempt from Tax	Fully exempt 10(11)

(I) Profits in lieu of salary [Section 17(3)]

Profit in lieu of salary				
Terminal /retrenchment Compensation	Keyman Insurance Policy	Amount during Pre & Post employment	Payment from URPF or from URSF	Other sums
Amount in connection with termination of employment	Amount includin Bonus)	Amount from ER before joining or after leaving	employer contribution and Interest	All other sums from employer

Other sections : Sec 10(6) : Remuneration to Foreign citizens from services in India is Exempt

1.	Purpose	Diplomatic Personnel or trade representative in India	Employee of a foreign Enterprise	Non-resident ship's crew	Trainee of foreign Government
2.	Condition	Not engaged in other business, profession or employment in India & Indian officials in that foreign country enjoys a similar exemption	Foreign enterprise is not engaged in any business in India	-----	Training in office of Government/Govt company/statutory corporation.
3.	Stay in India	Any no of days	Upto 90 days	Upto 90 days	Any no of days

Sec. 89(1) : Relief Where any portion of Salary is received in arrears or in advance

Step 1: Calculate the tax payable of the previous year in which the arrears/advance Salary is received

- On Total income inclusive of additional salary.
- On Total income exclusive of additional salary.

The difference between (a) and (b) is the tax on additional salary included in the total income.

Step 2: Calculate the tax payable of every previous year to which the additional salary relates

- On total income including additional salary of that particular previous year.
- On total income excluding additional salary.

Calculate difference between (a) & (b) for every P/Y to which additional salary relates & aggregates same.

Step 3: The excess between the tax on additional salary as calculated under step 1 and 2 shall be the relief admissible u/s 89(1). If there is no excess, no relief is admissible.

If the tax calculated in step 1 is less than tax calculated in step 2, the assessee need not apply for relief.

SUMMARY OF EXEMPTIONS & DEDUCTIONS UNDER EXISTING & NEW SYSTEM

S. No.	Nature of Exemption/Deduction Relating to Head Salaries	New System of TAX u/s 115BAC	Existing System of TAX
RETIREMENT BENEFITS EXEMPTIONS			
1.	Leave Salary u/s 10(10AA)	Allowed	Allowed
2.	Gratuity u/s 10(10)	Allowed	Allowed
3.	Commutation of Pension u/s 10(10A)	Allowed	Allowed
4.	Retrenchment Compensation u/s 10(10B)	Allowed	Allowed
5.	VRS Compensation u/s 10(10C)	Allowed	Allowed
6.	Leave Travel Concession U/s 10(5)	Not Allowed	Allowed
ALLOWANCES			
7.	Exemption u/s 10(13A) and Rule 2A from House Rent Allowance	Not Allowed	Allowed
8.	Exemption u/s 10(14)(i) and Rule 2BB		
9.	Travelling Allowance	Allowed	Allowed
10.	Conveyance Allowance	Allowed	Allowed
11.	Daily Allowance	Allowed	Allowed
12.	Helper Allowance	Not Allowed	Allowed
13.	Any allowance granted for encouraging the academic, research and training pursuits in educational and research institutions	Not Allowed	Allowed
14.	Uniform Allowance	Not Allowed	Allowed
Exemption u/s 10(14)(ii) and Rule 2BB			
15.	Children Education Allowance	Not Allowed	Allowed
16.	Hostel Expenditure Allowance	Not allowed	Allowed
17.	Tribal Area Allowance	Not allowed	Allowed
18.	Transport Allowance to Handicapped/Deaf/Dumb/Blind employee	Allowed	Allowed
19.	Transport Allowance to other than above employees	Not allowed	Not Allowed
Perquisites			
20.	Free food and beverage through vouchers provided to the employee upto 50/meal/Tea & snacks	Not allowed	Allowed
21.	Other Exemptions from perquisites eg Use of Computers ,Laptops etc	Allowed	Allowed
22.	DEDUCTIONS u/s 16		
23.	Standard Deduction u/s 16(ia)	Not Allowed	Allowed
24.	Entertainment Allowance u/s 16(ii)	Not Allowed	Allowed
25.	Professional Tax u/s 16(iii)	Not Allowed	Allowed