

CS EXEC INCOME TAX PART -1
(Relevant for JUNE and DEC 2021 exams)

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CHAPTER –1

BASIC CONCEPTS

Sections covered in this chapter

Sec 1	Short title, extent & commencement	Sec 69B	Amount of investment not fully disclosed
		Sec 69C	Unexplained expenditure
Sec 2(7)	Assessee	Sec 69D	Amount borrowed or repaid on Hundi
Sec 2(9)	Assessment Year	Sec 87A	Rebate of Tax
Sec 2(17)	Company	Sec 115BBE	Tax rate of Undisclosed Incomes
Sec 2(23)	Partnership firm	Sec 172	Non-resident shipping business
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Sec 2(31)	Person	Sec 175	Assessment of person trying to alienate his assets with a view to avoid tax
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INCOME TAX IS A FORM OF DIRECT TAX

DIRECT TAX

When the person on whom incidence of tax falls also bears its impact, it is known as direct tax .Therefore incidence and impact of tax fall on the same person. e.g. **Income Tax**.

INDIRECT TAX

When the person on whom incidence of tax falls does not bear its impact, it is known as Indirect Tax. Therefore incidence and impact falls on two different persons. e.g. **GST**.

OPERATIONAL SYSTEM OF THE INCOME-TAX ACT, 1961

1) **INCOME TAX ACT, 1961**: The Indian Income – tax Act contains the law regarding computation, classification of various incomes. It also contain provisions for assessment of income, filing of appeals and also defines the powers of various income tax authorities .The Income tax Act exhaustively defines the obligations and remedies of the tax payer. It consists of **23 chapters , 298 Sections & 14 Schedules**

Finance Bill and Finance Act: The Income- tax Act is an amending statute. Every year a budget is presented by the Finance Minister in the parliament generally in February containing the financial proposals of the Central Govt. for the next financial year. One of the components of the Budget is the Finance Bill.

The Bill contains various amendments which are sought to be made in the direct taxes and Indirect taxes. When the Bill is passed by both houses of Parliament and it receives the assent of the President of India, it is known **Finance Act**.

First schedule to the annual Finance Act is divided into four parts:

Part I provides rates for current Assessment Year. For example, Part I of the Finance Act, 2020 provides income-tax rates for Assessment Year 2020-21;

Part II provides rates of TDS for the current financial year. For example, Part II of the Finance Act, 2020 provides rates of TDS for financial year 2020-21 (i.e. Assessment Year 2021-22);

Part III provides the rate of TDS under the head Income from 'Salaries' and the rates of advance tax for the current financial year. For example, Part III of the Finance Act, 2020 provides rates of advance tax for financial year 2020-21 (i.e. Assessment Year 2021-22).

Part IV provides for rules for computation of net agricultural income

2) Income tax Rules: The Income tax Act contains the various provisions of Law for computing income. To give effect to these provisions rules have been framed which are contained in the Income-tax Rules, 1962. These rules are framed by Central Board of Direct Taxes (C.B.D.T) vide power given u/s 295 of the Income-tax Act. These rules contain rates of depreciation, various income tax forms etc.

Rates of Income-tax: The Income is chargeable to tax at rates depending upon the nature of income and status of the assessee. The rates at which the taxable income is taxed are given in

- 1) The Income – tax Act; (eg. Tax on long term capital Gain, Tax on lotteries etc.)
- 2) The Finance Act.(Tax at slab rates, surcharge etc.)

3) CBDT Circulars: The top Authority for administering the working of the Department is the Central Board of Direct Taxes (CBDT). The Board may, from time to time, issue such circulars and clarifications to other income tax authorities, as it may deem fit for the proper administration of the Income Tax Act and such authorities and all other persons employed in the execution of this Act shall observe and follow such circulars and clarification of the Board.

The circulars issued by the CBDT are binding on the Income Tax Authorities except the appellate authorities. These circulars and clarification are not binding on the assessee but he can take advantage of benevolent circulars

4) JUDICIAL DECISIONS: The decisions rendered by the appellate authorities are known as judicial decisions. The following are the appellate authorities in the ascending order.

1. Commissioner of Income- tax (Appeals)
2. Income Tax Appellate Tribunal (ITAT)
3. High Court
4. Supreme Court.

Commissioner of Income – Tax (Appeals) : CIT (Appeals) is the first appellate authority. The first appeal is always filed by the assessee.

Income tax Appellate Tribunal (ITAT) : Income Tax Appellate Tribunal is the second appellate authority. The appeal may be filed to the ITAT either by the assessee or the income- tax department. Decision rendered by the ITAT is binding on all the assessees as well as the Income-tax authorities which fall under their jurisdiction, unless it is overruled by a higher authority. Decision given by the ITAT is final on disputes involving questions of fact and no further appeal lies.

High Court : If the dispute over an issue involves a question of Law, the question of law may be referred to the High court for its decision. Decision given by the High Court is binding on ITAT, all the assessees and the income-tax authorities which fall under its jurisdictions, unless it is overruled by the Supreme Court.

Supreme Court : Decisions given by the Supreme Court becomes the law of the land, binding on all the high Courts, Appellate Tribunal, the income-tax authorities and the assessee.

Section 1 : SHORT TITLE, EXTENT AND COMMENCEMENT

- This act may be called Income –tax Act,1961
- It shall extend to whole of India
- It shall come into force on 1st day of April,1962

Section 4 : CHARGE OF INCOME-TAX

- **INCOME TAX** shall be charged
- For any **ASSESSMENT YEAR**
- At **RATES** specified for that Assessment year by **FINANCE ACT**
- On **TOTAL INCOME**
- During **PREVIOUS YEAR**
- Of any **PERSON** who is an **ASSESSEE**

Section 2(31) : PERSON INCLUDES

- 1) **Individual** : The word individual includes only natural persons i.e a Human being. E.g male, female, minors, lunatic persons.
- 2) **Hindu Undivided Family:**
 - The term H.U.F is not defined under the Income-tax Act.
 - According to Hindu Law, It consists of all persons lineally descended from a common ancestor including their wives and unmarried daughter
 - H.U.F is not formed under any contract but is a creation of Law
 - It is a distinct and separate entity under Income -tax Act

3) **Company :****Sec 2(17): Company means**

- Any **Indian company**, or
- Any body corporate incorporated under the laws of a country outside India, or

Sec 2(26): Indian company means

- A company formed and registered under the Companies act, 1956, and includes
- A corporation established by or under a central, state or provincial act

Provided that the Registered office/principal office of the above is in India

4) **Firm:**

Sec 2(23) : Firm, Partner and Partnership have the meaning assigned to them in the Indian Partnership Act, 1932 and *shall include a limited liability partnership as defined in the Limited Liability Partnership Act, 2008*; but the partner shall also include any person who, being a minor, has been admitted to the benefits of partnership

According to Indian Partnership Act, 1932, partnership is relationship between persons who have agreed to share the profits of Business carried on by all or any one of them acting for all

Persons who have entered into partnership are individually called partners and collectively a firm and name under which business is carried on is called Firms name.

5) **Association of Persons or a Body of Individuals, whether incorporated or not****Association of persons**

- The term AOP is not defined under the Income-tax, Act.
- The meaning of AOP can be defined on basis of various judicial decisions
- AOP means an association in which two or more persons join in a common purpose or common action
- Any association of persons does not mean any and every combination of persons. They must come together under a common design or will

The word 'associate' means, according to the Oxford Dictionary, 'to join in common purpose or to join in an action'. Therefore, an association of persons must be one in which two or more persons join in a common purpose or common action. [CIT v. Indira Balkrishna (SC)]

Body of Individuals

- The term BOI is not defined under the Income-tax, Act.
- The meaning of BOI can be defined on basis of various judicial decisions

The words 'body of individuals' occurring in the Income-tax Act in the definition of the word 'person' in section 2(31), therefore, could only mean a conglomeration of individuals who carry on some activity with the object of earning income. [CIT v. Smt. Vandana Verma]

Differences between AOP and BOI

- 1) AOP consists of combination of Persons eg. Company and Individual, Firm and company etc. *whereas* BOI includes only combination of Individuals.
- 2) AOP is formed only when there is some common design or will *whereas* BOI may or may not have such common design or will.

Similarities between AOP and BOI

- 1) Both are to be treated as separate unit of assessment under the Income tax act.
- 2) Tax rates applicable for both are the same

6) Local authority:

- The term Local authority is not defined under the Income-tax, Act.
- According to General Clause Act, It means
 - (a) Panchayat or
 - (b) Municipality or
 - (c) Municipal committee & district Board having control of Municipal/Local funds or
 - (d) Cantonment Board

7) Artificial Juridical Person not falling within any of the preceding sub-clauses

- Any other persons not falling under preceding clauses, which have separate legal entity falls under this clause
- Any income arising to them is also taxable under Income-tax Act.
- For eg. Delhi University, private religious trusts etc.

Special Point :

1. **Explanation to Sec 2(31) :** AOP or BOI or Local Authority or AJP shall be deemed to be a Person whether or not it is established with the object of deriving Income or profit

Section 2(7) : Assessee

Assessee means a person by whom *any tax or any other sum of money is Liability* as per this Act and includes the following:

- (i) Every person in respect of whom any proceeding under the Income-tax Act has been taken
 - for assessment of income or
 - for determining the loss or
 - for determining the refund
- (ii) **A deemed assessee** - A person who is deemed to be an assessee for some other person, is called '**Deemed Assessee**'.

For example, (i) after the death of a person, his legal representative will be treated as an assessee for that income of the deceased on which tax has not been paid by the deceased before his death ; (ii) a person representing a minor or a lunatic is treated as an assessee for the income of such or minor or lunatic.

- (iii) Assessee who is deemed to be an ‘*Assessee in default*’
When a person is responsible for doing any duty under the Act and if he fails to do it, he is called an ‘Assessee in default’.

- **For example** if a person while making any payment to another person, is liable to deduct income tax thereon at source, does not deduct income tax there from, or having deducted it, does not deposit it in the Government Treasury, he will be treated as an assessee in default for that income tax.
- Likewise if an assessee does not pay advance tax, he shall be deemed to be assessee in default.

Special Point :

Sec 160 : Representative assessee means

- (i) *in respect of the income of a non-resident specified in sec 9, the agent of the non-resident, including a person who is treated as an agent under sec 163*
- (ii) *in respect of the income of a Minor, Lunatic or Idiot, the Guardian or manager who is entitled to receive such income on behalf of such minor, lunatic or idiot*

Every representative assessee shall be deemed to be an assessee for the purposes of this Act.

Section 2(9) : <u>Assessment Year</u>
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Assessment Year means the period of 12 months commencing on the first day of April every year. It is, therefore, the period from 1st April every year to 31st of March of next year.

Section 2 (34) : <u>Previous Year</u> Previous year means previous year defined under Sec 3
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Sec 3 : Previous year means the financial year immediately preceding the assessment year.

- Income-tax is Liability on the income earned during the previous year and it is assessed in the immediately succeeding financial year which is called an assessment year.
- Therefore, the income earned during the previous year 1st April 2020 to 31st March, 2021 will be assessed or charged to tax in the assessment year 2021 – 2022

Special Point :

All assesses are required to follow a uniform previous year i.e. the financial year (1st April to 31st March) as their previous year .i.e. they cannot choose calendar year as their previous year.

First previous year for a business/profession newly set-up during the financial year or for a new source of income:

- In such a case the period **beginning** from the date of setting up of the business/profession or from the date the new source came into existence, and
- **Ending** on the last day of that financial year i.e. 31st of March shall be first previous year for that business or source of income.

Case where income of previous year is assessed in the same year; As a normal rule, the income earned during any Previous year is assessed or charged to tax in the immediately succeeding assessment year.

However, in the following circumstances the income is taxed in the same year in which it is earned:

- (a) **Non-resident shipping business (Section 172)**
- (b) **Assessment of persons leaving India (Section 174).**
- (c) **Associations/ bodies formed for short duration (Sec. 174A)**
- (d) **Assessment of person trying to alienate his assets with a view to avoid tax (Section 175)**
- (e) **Discontinued business (Section 176)**

Section 172 : Non Resident Shipping Business

- Person who is a **non-resident**
- who owns a ship or ship is chartered by him
- which carries passengers, livestock, mail or goods shipped at a port in India during
- a previous year
- **7.5 %** of amount paid / Liability on account of such carriage
- Shall be **deemed** to be his **Income**
- Which shall be **chargeable to tax in the same previous year** .

Special Point:

1. **Departure after approval & tax payment only**

The master of the ship shall submit a return of income before the departure of the ship from the Indian port. Such return may be submitted within 30 days of the departure of the ship, if the Assessment Officer is satisfied that it will be difficult to submit the return before departure and if satisfactory arrangement for payment of tax has been made.

2. Unless the tax has been paid (or satisfactory arrangements have been made for payment thereof), a port clearance shall not be granted by the Collector of Customs.

3. **Right for normal assessment:** The non-resident can claim assessment of his total income for the previous year under the normal provisions of the Act. Claim for such assessment can be made during Assessment year. On such claim, any tax paid earlier on the deemed income is treated as advance payment of tax.

Section 174: Assessment of Persons Leaving India

- ❖ When it appears to the Assessing Officer that any individual may leave India
- ❖ during the current previous year or shortly after its expiry,
- ❖ and that he has no present intention of returning to India,
- ❖ the total income of the individual
 - Commencing from first day of previous year
 - Upto the probable date of his departure from India.
- ❖ Shall be **chargeable to tax in same previous year**

Special Point: Separate assessments are made for each completed previous year or part thereof included in above period

Section 174A : Association/ bodies formed for short duration

- ✓ Where it appears to the Assessing Officer
- ✓ that any association of persons or a body of individuals
- ✓ is formed for a particular event or purpose.
- ✓ and is likely to be dissolved during a previous year
- ✓ the total income of such association
 - Commencing from the first day of previous year
 - Up to the date of its dissolution
- ✓ Shall be **chargeable to tax in same previous year**

Special Point : Separate assessments are made for each completed previous year or part thereof included in above period.

Section 175 : Assessment of Persons Likely to Transfer Property to Avoid Tax

- ❖ If it appears to the Assessing Officer
- ❖ that any person is likely to sell or transfer any of his assets during a previous year
- ❖ with a view to avoiding payment of any liability
- ❖ the total income of such person
 - ✓ Commencing from the first day of previous year
 - ✓ Upto the date when the Assessing Officer commences proceedings under this section.
- ❖ shall be **chargeable to tax in same previous year**

Special Point : Separate assessments are made for each completed previous year or part thereof included in the above period.

Section 176: Discontinued Business

- Where any business or profession is discontinued in any previous year
- the total income of such business or profession
 - Commencing from the first day of previous year
 - Up to the date of discontinuance.
- Shall be **chargeable to tax in same previous year**
- at the discretion of Assessing Officer

Special points:

1. If such discretion is not exercised, the income of the discontinued business is taxed in the normal way in the assessment year immediately following the previous year of discontinuance.
2. Separate assessments are made for each completed previous year or part thereof included in above period.

P/Y FOR UNDISCLOSED SOURCES OF INCOME

1. **Cash credit [Sec.68] :** Where any sum is found credited in the books of accounts of an assessee for any previous year and assessee offers no satisfactory explanation about the nature and source thereof then the sum so credited will be charged to tax as the income of **such previous year**
2. **Unexplained investment [Sec.69] :-** Where assessee has made investment in a financial year & which are not recorded in the books of accounts and assessee offers no satisfactory explanation about the nature and sources thereof then such investment will be deemed as income of **such financial year** in which investment are made.
3. **Unexplained money [Sec.69A] :-** Where in any financial year assessee is found to be the owner of money, bullion, jewellery or other valuable article which is not recorded in the books of accounts and assessee offers no satisfactory explanation about the nature and source thereof then money and value of such bullion, jewellery, etc. is deemed to be the income of **such financial year** in which it is found.
4. **Amount of investment not fully disclosed [Sec.69 B] :-** Where in any financial year assessee has made Investments or is found to be owner of any bullion, jewellery etc. and Assessing Officer finds that the amount expended on making such investments, bullion, jewellery etc exceeds the amount recorded in the books of accounts and the assessee offers no satisfactory explanation about nature or source thereof then such excess shall be deemed to be the income of the assessee for **such financial year**
5. **Unexplained expenditure [Sec.69 C] :-** Where in any financial year assessee has incurred any expenditure and he offers no satisfactory explanation about the source thereof then the amount of such unexplained expenditure will be deemed to be the income of the assessee of **such financial year** in which amount was incurred
6. **Amount borrowed or repaid on Hundi [Sec.69 D] :-** Where any amount is borrowed on Hundi or any amount due thereon is repaid to any person otherwise than through account payee cheque then amount borrowed or repaid shall be deemed as income of the person borrowing or repaying of the **previous year** in which the amount was borrowed or repaid. Further, the amount repaid shall include the amount of interest paid on the amount borrowed.

However where any amount borrowed on a Hundi has been deemed to be the income of any person than he will not be again liable on repayment of such amount.

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

- (1) Where the total income of an assessee includes any income u/s 68, 69, 69A, 69B, 69C or 69D the income-tax payable shall @ 60% + Surcharge @ 25% of Tax + 4% HEC
- (2) Notwithstanding anything contained in this Act, no deduction in respect of any expenditure or allowance or set off of any loss shall be allowed to the assessee under any provision of this Act in computing his above income

Some important principles which explain concept of income for are given below:

- (i) **Regularity of Income:**
- To be taxable it is not necessary that a particular source of income is regular.
 - Thus even casual incomes like lotteries, winnings from races etc. are taxable.
- (ii) **Form of Income:**
- Income can be received in cash or in kind i.e. in the form of money or money worth.
 - Wherever income is received in kind like perquisites then its value has to be found as per the rules prescribed and this value shall be taken to be the income.
- (iii) **Legal Vs. Illegal Income:**
- For purposes of Income -tax, there is no difference between legal and illegal income.
 - Even illegal income is taxed just like any legal income.
 - For example the income earned from smuggling activities would also be taxable under the Act.
 - If this were not so then the illegal activity would be put at a premium because a person carrying on this activity would get immunity from payment of taxes, while an honest tax-payer carrying on a legal business would be paying taxes on his income.
- (iv) **Disputed Income:**
- Any dispute regarding the title of the income cannot hold up the assessment of the income in the hands of the recipient.
 - In such cases it is the assessing officer who decides regarding the taxability of such disputed income.
- (v) **Basis of Income:**
- Income can be taxed on receipt basis or on accrual basis.
 - In case of income from business or income from other sources the taxability would depend upon the method of accounting adopted by the assessee.
 - Income from salaries is taxable on due or received basis, whichever is earlier.
 - While in other cases, it would generally be taxed on accrual basis.

(vi) Lumpsum Receipt:

- If a receipt is an income then whether it is received in lumpsum or in installments would not effect its taxability; **for example** if a person receives arrears of salary in lumpsum amount, it would still be his income.

(vii) Surplus from Mutual activity:

A person cannot make profit out of a transaction with himself. In order to be taxable income should be received from other persons. Therefore body of persons who raise contributions from its members and utilize such contribution to earn income, which is to be utilized for the benefit of its members, then such income will not be treated as income of the body.

(viii) Diversion of Income Vs. Application of Income**Diversion of Income**

- It refers to such Income which due to compulsory obligation, is diverted before it becomes due or is received the assessee
- Only the Net amount of income received, is subjected to tax

(For eg. Mr. 'X' gets ₹10,000 monthly from property left by his deceased father. The will states that mother will be entitled to ₹4,000 out of ₹10,000. It is a case of Diversion of Income and only the net amount of ₹6,000 monthly will be taxable in the hands of Mr. X.

Application of income

- It refers to income which has become due or is received by the assessee and afterwards he meets an obligation whether compulsory or self imposed out of such income
- Gross amount of income received before obligation is met, is subjected to tax

(For eg. Mr. 'X' gets ₹10,000 monthly from property left by his deceased father. He gives ₹4,000 out of ₹10,000 to his mother for household expenses. It is a case of Application of Income and whole of ₹10,000 monthly will be taxable in the hands of Mr. X.

(ix) Pin Money: Amount of money received by wife for her personal expenses from her husband is not income in her hands**(x) Revenue and Capital receipts****Revenue receipt:**

- Receipt on account of circulating capital
- Profits arising from transaction which is entered in the ordinary course of assessee business
- Revenue receipts are chargeable to tax unless specifically exempted eg dividend income, though revenue receipt, is exempt from tax under sec 10

Capital receipt:

- Receipt on account of fixed capital
- Profits arising from transaction which is not entered in the ordinary course of assessee business
- Capital receipts are generally not chargeable to tax unless specifically taxable eg. profit on sale of capital assets, though it is capital receipt but still it is taxable under sec 45

COMPUTATION OF TOTAL INCOME

Step 1: Compute Income from each head after deducting **allowable expenses**

Section 14 : Heads of Income

For purpose of computation of Total Income, Income shall be classified under 5 heads:

1. Income under head Salaries (*Sec 15 to Sec 17*)
2. Income under head House Property (*Sec 22 to sec 27*)
3. Income under head Profits & Gains of Business or Profession (*Sec 28 to Sec 44*)
4. Income under head Capital Gains (*Sec 45 to Sec 55A*)
5. Income under head Other Sources (*Sec 56 to Sec 59*)

Step 2 : Make adjustments **under each head** for

- Clubbing of Income (*Sec 60 to Sec 64*)
- Set off of losses (*Sec 70 to Sec 80*)

Step 3 : Total of 5 heads is **Gross Total Income (G.T.I)**

Step 4 : Subtract Deductions (*Sec 80C to Sec 80 U*)

Step 5 : Balance Amount is **Total Income (T.I)**

<p><i>Sec 288A : <u>Rounding off of Total Income</u></i></p>

<p><i>Total Income shall be rounded off in the multiples of 10 and for this purpose, any paise shall be ignored and if the last digit is 5 or more, it will be rounded off to the higher multiple otherwise it will be rounded off to the lower multiple.</i></p>
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<u>Relevance of Method of Accounting for Heads of Income</u>

Salaries (Sec 15 – Sec 17)	1. Taxable on due basis or on receipt basis , whichever is earlier. 2. Method of accounting is irrelevant .
House Property (Sec 22 – Sec 27)	1. Income from house property is taxable only on accrual basis . 2. Method of accounting is not relevant .
Business Income (Sec 28- Sec 44)	1. u/s 145 assessee may follow either Cash or Mercantile system of accounting regularly employed by the assessee. 2. Exceptions : Certain payments are allowable only on actual payment basis. (a) Certain expenses on actual payment basis u/s Sec 43B (b) Preliminary Expenses u/s 35D (c) Amount in connection with Voluntary Retirement Scheme u/s 35DDA.
Capital Gains (Sec 45 – Sec 55A)	1. Income from capital gains shall be taxable during p/y in which Capital Asset is transferred (i.e) year of accrual . Exceptions : In following case, receipt basis is applicable a) Destruction of Capital Asset u/s Sec 45(1A) b) Conversion of Capital Asset u/s Sec 45(2) c) Compulsory acquisition of Capital Asset u/s Sec 45(5) d) Liquidation of company u/s Sec 46(2) 2. The method of accounting is not relevant for taxing the income under the head capital gains.
Other sources (Sec 56 to 59)	U/s 145 assessee may follow either on Cash or Mercantile system of Accounting. Exceptions : Casual incomes is taxable on receipt basis

GENERAL TAX RATES OF INCOME TAX (ASSESSMENT YEAR 2021 – 2022)
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Nature of Person	Exemption Amount	Rates of Income Tax	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%	<u>Total Income</u> <u>Rate</u>
2. <u>Senior Citizen</u> <i>(Resident & atleast 60 yrs but less than 80 yrs 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%	> 50 lakhs : 10% > 1 crore : 15% > 2 crore : 25% > 5 crore : 37%
3. <u>Very Senior Citizen</u> <i>(Resident & atleast 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	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%	Income u/s 111A & 112A surcharge @ 10%/15% only
Domestic Company	Nil	Turnover upto 400cr in p/y 18-19 : 25% Covered u/s 115BA : 25% Covered u/s 115BAA : 22% Covered u/s 115BAB : 15% Other case : 30%	>1cr upto 10 cr : 7% > 10 crore : 12%
Foreign company	Nil	40%	> 1cr upto 10 cr : 2% > 10 crore : 5%
Firm including LLP	Nil	30%	> 1 crore : 12%
Local Authority	Nil	30%	> 1 crore : 12%
Co-Op. Society	Nil	0 – 10,000 : 10% >10,000 upto 20,000 : 20% > 20,000 : 30%	> 1 crore : 12%

Special Points :**Incomes taxable at Special Rates :**

1. **Sec 111A** : STCG on listed Equity shares/Units of Equity oriented mutual funds/Business Trusts : **15%**
2. **Sec 112A** : LTCG on listed Equity shares & Units of Equity oriented mutual funds/Business Trusts in excess of 1 lakh : **10%**
3. **Sec 112** : Other LTCG : **20 %**
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** : Dividend in excess of 10 lakhs : **10%**
7. **Sec 11BBF** : Royalty income for patent developed & registered in India for resident : **10%**
8. **Sec 115BBG** : Income from transfer of Carbon Credit : **10%**

Special Points :

FA 2019 (W.e.f. A/Y 19/20) : 4% Health & Education Cess (HEC) is payable by All assesses *on tax after Surcharge*

Sec 87A : Rebate of Income Tax

- ✓ *Individual who is a Resident in India,*
- ✓ *whose Total Income is upto ₹5,00,000,*
- ✓ *shall be allowed a rebate,*
- ✓ *from Income-tax of*
- ✓ *100% of Income Tax or ₹12,500, whichever is less.*

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

Incomes at Slab rates : Apply Tax at Slab rates

Incomes at special Rates : Apply Tax at Special rates

Step 2 : Add Surcharge, if applicable**Step 3 : Subtract Marginal Relief, if applicable****Step 4 : Subtract Rebate u/s 87A for Resident Individual, if Applicable**

Step 5 : Add 4% Health & Education Cess

Step 6 : Step 1 + Step 2 – Step 3 + Step 4 – Step 5 = Total Tax Liability

Sec 288B : Rounding off of Tax Liability

Any amount payable, & amount of refund due, shall be rounded off to nearest multiple of ten rupees & for this purpose part of a rupee consisting of paise shall be ignored and thereafter if such amount is not a multiple of ten, then, if the last figure in that amount is five or more, the amount shall be increased to the next higher amount which is a multiple of ten and if the last figure is less than five the amount shall be reduced to the next lower amount which is a multiple of ten.

Computation of Tax Liability of HUF/ AOP/ BOI/ AJP

Step 1 : Bifurcate Total Income into 2 parts

Incomes at Slab rates : Apply Tax at Slab rates

Incomes at Special Rates : Apply Tax at special rates

Step 2 : Add Surcharge, if applicable

Step 3 : Subtract Marginal Relief, if applicable

Step 4 : Add 4% Health & Education Cess

Step 5 : Step 1 + Step 2 – Step 3 + Step 4 = Tax Liability

Sec 288B : Round off Tax Liability to nearest multiple of 10

Computation of Tax Liability of Firm

Step 1 : Apply Different Tax Rates on Different incomes

Step 2 : Add 12% Surcharge, if applicable

Step 3 : Subtract Marginal Relief, If applicable

Step 4 : Add 4% Health & Education Cess

Step 5 : Step 1 + Step 2 – Step 3 + Step 4 = Tax Liability

Sec 288B : Round off Tax Liability to nearest multiple of 10

Computation of Tax Liability of Domestic Company

Step 1 : Apply Tax rates on **Total Income**

Step 2 : Add :Surcharge, if applicable

Step 3 : Subtract Marginal relief ,if applicable

Step 4 : Add 4% Health & Education Cess

Step 5 : $\text{Step 1} + \text{Step 2} - \text{Step 3} + \text{Step 4} = \text{Tax Liability}$

288B : Round off tax liability to nearest multiple of 10

Computation of Tax Liability of Foreign Company
--

Step 1 : Apply Tax rates on **Total Income**

Step 2 : Add :Surcharge, if applicable

Step 3 : Subtract Marginal Relief ,if applicable

Step 4 : Add 4% Heath & Education Cess

Step 5 : $\text{Step 1} + \text{Step 2} - \text{Step 3} + \text{Step 4} = \text{Tax Liability}$

Sec 288B : Round off tax liability to nearest multiple of 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 previous year, the option shall become invalid in respect of the assessment year relevant to that previous year and other provisions of this Act shall apply, as if the option had not been exercised for the assessment year relevant to that previous year:

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 the provisions of

- 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 a Unit in the International Financial Services Centre, as per section 80LA(1A), 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.

Explanation.—For the purposes of this sub-section, the term “Unit” shall have the meaning assigned to it in clause (zc) of section 2 of the SEZ Act, 2005.

(5) Nothing contained in this section shall apply unless option is exercised in the prescribed manner by the person,—

(i) having income from business or profession, on or before the due date u/s 139(1) for furnishing the returns 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;

(ii) having income other than the income referred to in clause (i), along with the return of income to be furnished u/s 139(1) for a previous year relevant to the assessment year:

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)(iia) or u/s 32AD or u/s 33AB or u/s 33ABA or u/s 35(1)(ii) or u/s 35(1)(iia) 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)(iia), 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.

Explanation.—For the purposes of this sub-section, the term "Unit" shall have the meaning assigned to it in clause (zc) of section 2 of the SEZ Act, 2005.

(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.

MULTIPLE CHOICE QUESTIONS**BASICS CONCEPTS OF INCOME TAX**

(1) The Central Government has been empowered by entry _____ of the Union list of schedule VII of the constitution of India to levy tax on income other than agricultural income.

- | | |
|--------|--------|
| (a) 84 | (b) 81 |
| (c) 82 | (d) 84 |

(2) The Income tax act, 1961 came into force w.e.f. _____

- | | |
|----------------------------------|---------------------------------|
| (a) 1 st April, 1962 | (b) 1 st April, 1961 |
| (c) 31 st March, 1961 | (d) None of above. |

(3) Amongst the following _____ is empowered to levy tax on agricultural income.

- | | |
|------------------------|----------------------|
| (a) Central Government | (b) State Government |
| (c) Commissioner | (d) President |

(4) Circulars and Notifications are binding on the-----

- | | |
|--|----------------------------|
| (a) Central Board of Direct Taxes (CBDT) | (b) Assessee |
| (c) Income Tax Appellate Tribunal (ITAT) | (d) Income Tax Authorities |

(5) Supreme Courts precedent in binding on -----

- | | |
|----------------------------|-------------------------|
| (a) Courts | (b) Appellate Tribunals |
| (c) Income Tax Authorities | (d) All of the above. |

(6) High Court's precedents are not binding on-----

- | | |
|--------------|----------------------------|
| (a) Tribunal | (b) Income Tax Authorities |
| (c) Assessee | (d) None of the above. |

- (7) Wherever in the Act the phrase as prescribed appears it means that -----
- (a), Regulations are to be framed in this respect. (b) Rules have been framed in this respect.
(c) Regulations were earlier framed in this respect. (d) Regulations are framed in this respect.
- (8) Who amongst the following confers on the power to issue circulars and clarifications?
- (a) ITAT (b) Central Government
(c) CBDT (d) State Government
- (9) Amendments by the finance act are made applicable from
- (a) First day of next financial year (b) First day of same financial year
(c) Last day of same Accounting year (d) None of the above.

**CONCEPT OF CHARGE OF INCOME TAX, PERSON,
ASSESSEE AND EXCEPTIONS TO PREVIOUS YEAR RULE**

- (10) Income Tax is charged in -----
- (a) Financial Year (b) Assessment Year
(c) Previous Year (d) Accounting Year
- (11) A person includes:
- (a) Only Individual (b) Only Individual and HUF
(c) Individuals, HUF, Firm, Company only (d) Individuals, HUF, Company, Firm, AOP or BOI, Local Authority, Every Artificial Juridical Person
- (12) As per section 2(31), the following is not included in the definition of 'person' -
- (a) An individual (b) A Hindu undivided family
(c) A company (d) A minor
- (13) Every assessee is a person, and -
- (a) every person is also an assessee (b) every person need not be an assessee
(c) an individual is always an assessee (d) A HUF is always an assessee
- (14) Describe the status of the following person (i.e. individual, HUF, Firm, Company etc.) X and Y are legal heirs of Z. Z died and therefore X and Y carry on his business without entering into a partnership.
- (a) Firm (b) Limited Liability Partnership
(c) Company (d) Body of Individual
- (15) Assessment year can be a period of :
- (a) only more than 12 months (b) 12 months and less than 12 months
(c) only 12 months (d) 12 months and more than 12 months
- (16) Year in which income is taxable is known as _____ and year in which income is earned is known as ----
- (a) Previous year, Assessment year (b) Assessment year, Previous year
(c) Assessment year, Assessment year (d) Previous year, Previous year
- (17) The year in which the income is earned is known as
- (a) Previous year (b) Financial year
(c) Both (A) or (B) (d) None of the above.

- (18) All assesseees are required to follow:
- (a) Uniform previous year which must be calendar year only
 - (b) Uniform previous year which must be financial year only
 - (c) Any period of 12 months
 - (d) Period starting from 1st July to 30th June only
- (19) XYZ LLP falls under which----- category of person -
- (a) Individual
 - (b) Firm
 - (c) Company
 - (d) Association of person
- (20) Municipality of Delhi falls under----- category of person-
- (a) Artificial juridical person
 - (b) Local authority
 - (c) Individual
 - (d) Association of Person
- (21) Under Income Tax Act, Firm includes -
- (a) Limited liability partnership
 - (b) Limited liability company
 - (c) One person company
 - (d) Association of person
- (22) A.O.P should consist of :
- (a) Individual only
 - (b) Persons other than individual only
 - (c) Both individual and non individual persons.
 - (d) None of these
- (23) Body of individual should consist of :
- (a) Individual only
 - (b) Persons other than individual only
 - (c) Both individual and non individual persons.
 - (d) None of these
- (24) A person becomes a member of HUF by -
- (a) Contract
 - (b) Agreement
 - (c) Popularity
 - (d) Status
- (25) In order to be assessed as HUF there should be -
- (a) Partnership
 - (b) Co-Partnership
 - (c) Co-Parcenership
 - (d) Co-Ownership
- (26) Section _____ of the Income-tax Act, 1961 defines the term 'Person' :
- (a) 4
 - (b) 5
 - (c) 2(31)
 - (d) 2(32)
- (27) _____ must be one in which two or more persons join in for a common purpose or common action with the object of earning income or profits or gains.
- (a) Partnership
 - (b) Co-ownership
 - (c) Body of Individuals
 - (d) Association of Persons
- (28) Which amongst the following is Artificial Juridical Person?
- (a) Corporation
 - (b) Local Fund
 - (c) District Board
 - (d) None of these
- (29) Previous year is defined in -
- (a) Section 2(34)
 - (b) Section 2(9)
 - (c) Section 3
 - (d) Section 4

- (30) Financial year means a year commencing on -----
- (a) 31st March of the period
(b) 1st day of the April
(c) Mid of the year
(d) None of these
- (31) First previous year in case of a business/profession newly set up on 31-3-2021 would:
- (a) Start from 1st April, 2020 and end on 31st March, 2021
(b) Start from 31st March, 2021 and will end on 31st March 2021
(c) Start from 1st January, 2021 and end on 31st December, 2021
(d) Start from 1st January, 2021 and will end on 31st March, 2021
- (32) Dr. Ashok commenced medical practice on 1st September, 2020. The previous year for the profession for the assessment year 2021-22 would be -----
- (a) 1st April, 2020 to 31st March, 2021
(b) 1st September, 2020 to 31st March, 2021
(c) 1st June, 2020 to 31st March, 2021
(d) 1st September, 2020 to 31st January, 2021
- (33) Income of business commenced on 1st March, 2021 will be assessed in assessment year-
- (a) 2019-20
(b) 2021-22
(c) 2020-21
(d) 2022-23
- (34) A person follows calendar year for accounting. For taxation, he has to follow:
- (a) Calendar year only : 1st January to 31st December
(b) Financial year only : 1st April to 31st March
(c) Any of the Calendar or Financial year as per his choice
(d) He will follow extended year from 1st January to next 31st March (*a period of 15 months*)
- (35) In which of the following cases, income of previous year is assessable in the previous year itself:
- (a) Assessment of persons leaving India
(b) A person in employment in India
(c) A person who is into illegal business
(d) A person who is running a charitable institution
- (36) In which of the following cases, Assessing Officer has the discretion to assess the income of previous year in previous year itself or in the subsequent assessment year:
- (a) Shipping business of non-residents
(b) Assessment of Association of Persons or Body of Individuals formed for a particular event or purpose
(c) Assessment of persons likely to transfer property to avoid tax
(d) Discontinued business
- (37) In case of non-residents engaged in shipping business in India income earned during the financial year is -
- (a) Taxable in India the same financial year
(b) Taxable in India the relevant assessment year
(c) Not taxable in India in the same financial year
(d) Not taxable in India.
- (38) In case of non-residents engaged in shipping business-----freight paid or payable to the owner or charterer shall be deemed to be total income.
- (a) 5%
(b) 7.5 %
(c) 10%
(d) 20 %
- (39) Which amongst the following is an exception to the previous year rule ?
- (a) Business or Profession newly set up.
(b) Where a source of income newly set up.
(c) Non-resident engaged in shipping business.
(d) None of the above.

(40) Income Tax is levied on the -----of a person.

- (a) Total Income
- (b) Total Income-Debt
- (c) Gross Total Income
- (d) Net Income-Debt Perquisites

(41) The period of 12 months commencing on the 1st day of April every year is known as-----

- (a) Financial Year
- (b) Assessment Year
- (c) Previous Year
- (d) Accounting Year

(42) The charging section of the Income-tax Act, 1961, states that the income earned in a year is taxable in the next year. This is known as-----

- (a) Principle of mutuality
- (b) Previous year rule
- (c) Financial year rule
- (d) None of these.

(43) Income-tax in India is charged at the rates prescribed by -

- (a) The Finance Act of the assessment year
- (b) The Income-tax Act, 1961
- (c) The Central Board of Direct Taxes
- (d) The Finance Act of the previous year.

(44) A new business was set-up on 1st July, 2020 and trading activity was commenced from 1st September, 2020, the previous year would be the period commencing from -

- (a) 1st April, 2020 to 31st March, 2021
- (b) 1st July, 2020 to 31st March, 2021
- (c) 1st September, 2020 to 31st March, 2021
- (d) 1st October, 2020 to 31st March, 2021.

CONCEPTS OF INCOME, METHOD OF ACCOUNTING

(45) According to section 2(24) definition of 'income' is _____

- (a) Inclusive
- (b) Exhaustive
- (c) Exclusive
- (d) Descriptive.

(46) 'Income' under section 2(24) includes -

- (i) The profits and gains of a banking business carried on by a co-operative society with its members.
- (ii) Any advance money forfeited in the course of negotiations for transfer of capital asset.

Choose the correct option with reference to the above statements _

- (a) Both (i) and (ii)
- (b) Only (i)
- (c) Only (ii)
- (d) Neither (i) nor (ii).

(47) Income includes -

- (a) Profits and gains
- (b) Profit in lieu of Salary
- (c) Income from other sources
- (d) All of the above

(48) Income is divided in -----heads of Income.

- (a) 4
- (b) 5
- (c) 6
- (d) 3

(49) Income includes -

- (a) Profits or Gains
- (b) Capital gains
- (c) Lottery winnings
- (d) All of the above

- (50) The term 'income' includes the following types of incomes -
(a) Legal (b) Illegal
(c) Legal and illegal both (d) None of the above,
- (51) Which of the following income is not included in the term 'income' under the Income-tax Act, 1961
(a) Profit and gains (b) Dividend
(c) Profit in lieu of salary (d) Reimbursement of travelling expenses.
- (52) Which amongst the following is not a head of Income?
(a) Salaries (b) Income from house Property
(c) Capital gains (d) Income from exports
- (53) Amongst the following which activity will be taxable?
(a) Profits & gains of any insurance business carried on by a co-operative society. (b) Income from specific services provided by trade, professional or similar association.
(c) The profits and gains of any banking business carried on by a co-operative society. (d) All of the above.
- (54) AB & Co. received ₹2,00,000 as compensation from CD & Co. for premature termination of contract of agency. Amount so received is _
(a) Capital receipt and taxable (b) Capital receipt and not taxable
(c) Revenue receipt and taxable (d) Revenue receipt and not taxable
- (55) Subsidy if given as assistance to carry on business already commenced is a ----
(a) Revenue receipt (b) Capital receipt
(c) It is not a receipt (d) None of these
- (56) Which of the following is not included in taxable income -
(a) Income from smuggling activity (b) Casual income
(c) Gifts of personal nature subject to a maximum of ₹50,000 received in cash (d) Income received in kind.
- (57) Compensation on account of loss of profit is -
(a) Revenue receipt (b) Capital receipt
(c) Revenue expenditure (d) Capital expenditure
- (58) Out of the following, which of the capital receipt is not taxable:
(a) Capital gains of ₹ 10,00,000 (b) Amount of ₹5,00,000 won by way of lottery, games, puzzles
(c) Amount of ₹2,00,000 received by way of gift from relatives (d) Amount of ₹1,00,000 received by way of gift from a friend on marriage anniversary
- (59) In case the Keyman insurance policy is taken in name of any other person (non employee), any sum received on its maturity by such person shall be taxable under the head -
(a) Salaries (b) Profits & Gains of Business or Profession
(c) Capital Gains (d) Income from Other Sources
- (60) Method of Accounting is not relevant for ---
(a) Salaries (b) Income from House Property
(c) Capital Gains (d) All of the above

- (61) Income-tax in India is charged at the rate(s) prescribed by -
- (a) The Finance Act (b) The Income-tax Act
(c) The Central Board of Direct Taxes (d) The Ministry of Finance.
- (62) Which of the following is not included in taxable income -
- (a) Reimbursement of expenses (b) Cash gifts received from non relatives
(c) Income from illegal activity (d) Profit on sale of equity shares of unlisted company
- (63) The Central Government has notified -----Income computation and disclosure standards for computing income under the head Profits and Gains of Business and Profession -
- (a) 2 (b) 5
(c) 8 (d) 10
- (64) An individual is said to have substantial interest in a concern if he or she, along with his or her relatives, is, at any time during the previous year, beneficial owner of equity shares carrying-----or more of the voting power in a company; or entitled to -----or more of the profits of such concern.
- (a) 20% ,10% (b) 10% ,20%
(c) 10% , 10% (d) 20% ,20%

MODE OF COMPUTATION OF INCOME AND TAX
RATES FOR ASSESSMENT YEAR 2021-22

- (65) Surcharge @ 12% is payable by a domestic company if the total income exceeds.
- (a) ₹ 10 lakhs (b) ₹ 1 crore
(c) ₹ 10 crore (d) None of the above.
- (66) Surcharge @ 7% is payable by a domestic company if the total income exceeds.
- (a) ₹ 10 lakhs (b) ₹ 50 lakhs
(c) ₹ 1 crore (d) ₹ 10 crores.
- (67) The tax exemption limit for a resident senior citizen is _____. Assuming not covered u/s 115BAC
- (a) Upto ₹ 2,00,000 (b) Upto ₹ 5,00,000
(c) Upto ₹ 1,80,000 (d) Upto ₹ 3,00,000
- (68) Surcharge of 15% is payable by an individual where the total income exceeds:
- (a) ₹ 7,50,000 (b) ₹ 8,50,000
(c) ₹ 1,00,00,000 (d) None of the three
- (69) The maximum amount on which income-tax is not chargeable in case a co-operative society is:
- (a) ₹ 50,000 (b) ₹ 30,000
(c) ₹ 20,000 (d) Nil
- (70) Additional surcharge (Health & Education cess) of 4 % is payable on-
- (a) Income tax (b) Income tax plus surcharge
(c) Surcharge (d) None of the three
- (71) What is the maximum amount of income not chargeable to tax in case of AOP /BOI ?
- (a) ₹ 2,50,000 (b) ₹ 1,45,000
(c) ₹ 10,000 (d) None of these.

- (72) In case of Partnership firm or company and foreign company marginal relief is provided if total income exceeds ₹ _____
- (a) ₹ 1 crore (b) ₹ 80 lakhs
(c) ₹10 lakhs (d) None of these
- (73) What is the rate of Health & Education cess?
- (a) 4% (b) 3%
(c) 2% (d) There is no such tax.
- (74) The total income is rounded off to the nearest multiple of -
- (a) ₹1 (b) ₹10
(c) ₹100 (d) ₹1,000
- (75) The MMR of 42.74 % for Assessment Year 2021-22 is relevant in case of which of the following person-
- (a) Body of Individual (b) Association of Persons
(c) None of (a) and (b) (d) Both of (a) and (b)
- (76) If a firm's total Income is ₹ 1,03,00,000, the marginal relief available to the firm is -
- (a) ₹ 3,09,000 (b) ₹ 3,03,000
(c) ₹ 1,60,800 (d) None of these.
- (77) The amount of Health & Education cess to be collected along with income-tax for assessment year 2021-22 shall be _____
- (a) 2 % (b) 1%
(c) 4% (d) 3%
- (78) Resident assessee, who is of the age of 60 years or more but less than 80 years at any time during p/y is entitled to _____
Assuming covered u/s 115BAC
- (a) Exemption limit of ₹ 2,00,000 (b) Exemption limit of ₹ 2,50,000.
(c) Exemption Limit of ₹ 5,00,000. (d) Exemption limit of ₹ 3,00,000.
- (79) Surcharge of 15% is payable by an Hindu Undivided Family where the total income exceeds:
- (a) ₹ 7,50,000 (b) ₹ 8,50,000
(c) ₹ 1,00,00,000 (d) None of the three.
- (80) In case of resident HUF, what is maximum exemption limit for Assessment Year 2021-22 : Assuming covered u/s 115BAC
- (a) ₹ 3,00,000 (b) ₹ 2,50,000
(c) ₹ 5,00,000 (d) ₹ 2,20,000
- (81) In case of a female individual, who is of 59 years of age, what is the maximum exemption limit for AY. 2021-22:
- (a) ₹ 3,00,000 (b) ₹ 2,50,000
(c) ₹ 5,00,000 (d) Nil
- (82) The income-tax payable by a Resident Individual (aged 30 years) for AY. 2021-22 if his total income is ₹3,00,000 will be:
- (a) ₹ 2,500 (b) ₹2,600
(c) ₹ 5,200 (d) Nil
- (83) The income-tax payable by a Non Resident Individual (aged 30 years) for Assessment Year 2021-22 if his total income is ₹ 2,70,000 will be:
- (a) ₹ 1,040 (b) ₹ 1,000
(c) ₹ 2,080 (d) Nil

- (84) The income-tax payable by a Resident Individual (aged 30 years) for AY. 2021-22 if his total income is ₹ 3,01,500 will be:
- (a) ₹ 2,680 (b) ₹ 5,360
(c) Nil (d) ₹ 2,600
- (85) The income-tax payable by a Mrs Kavita, Non Resident Individual (aged 65 years) for AY. 2021-22 if her total income is ₹ 2,75,000 will be:
- (a) Nil (b) ₹ 1,250
(c) ₹ 1,300 (d) ₹ 520
- (86) The income-tax payable by Mr Shyam, Resident Individual (aged 25 years) for AY. 2021-22, if his total income is ₹ 4,50,000 will be :
- (a) Nil (b) ₹ 10,400
(c) ₹ 20,800 (d) ₹ 10,000
- (87) Arun, a non-resident of India celebrated his 80th birthday on 10th October 2020. If his total income for the previous year is ₹ 6,00,000, his income-tax liability for the previous year 2020-21 is -
- (a) ₹ 33,800 (b) ₹ 41,600
(c) ₹ 20,800 (d) Nil
- (88) The amount of marginal relief admissible to Mr Ram, Resident Individual (aged 25 years) for AY 2021-22 if his total income is ₹1,01,00,000 will be : Assuming not covered u/s 115BAC
- (a) ₹ 75,125 (b) ₹1,75,125
(c) ₹ 1,00,000 (d) Nil
- (89) The maximum income of ₹ _____ is not chargeable to tax in case of non-resident woman of 60 years of age.
- (a) ₹ 2,50,000 (b) ₹ 3,00,000
(c) ₹ 5,00,000 (d) ₹ 10,00,000
- (90) The tax payable is rounded off to the nearest multiple of -
- (a) ₹ 1 (b) ₹ 1,000
(c) ₹ 10 (d) ₹ 100
- (91) The income-tax payable by a Non Resident Individual (aged 30 years) for AY 2021-22 if his total income is ₹ 2,75,500 will be:
- (a) ₹ 1,330 (b) ₹ 2,650
(c) Nil (d) ₹ 1,280
- (92) The income-tax payable by a Resident Individual (aged 30 years) for AY 2021-22 if his total income is ₹5,00,000 will be:
- (a) ₹ 13,000 (b) ₹ 25,750
(c) ₹ 12,500 (d) Nil
- (93) The income-tax payable by a Non Resident Individual (aged 30 years) for AY 2021-22 if his total income is ₹ 5,00,000 will be:
- (a) ₹ 12,500 (b) ₹ 13,000
(c) ₹ 26,000 (d) Nil
- (94) The income-tax payable by a Resident Individual (aged 30 years) for AY 2021-22 if his total. income is ₹ 6,00,000 will be: Assuming not covered u/s 115BAC
- (a) ₹ 33,800 (b) ₹ 72,800
(c) ₹ 32,500 (d) ₹ 20,800

- (95) The income-tax payable by a Resident Individual (aged 30 years) for AY 2021-22 if his total income is ₹16,00,000 will be: Assuming covered u/s 115BAC
- (a) ₹ 2,26,200 (b) ₹ 3,04,200
(c) ₹ 3,15,000 (d) ₹ 3,30,000
- (96) The income-tax payable by a Non Resident Individual (aged 62 years) for AY 2021-22 if his total income is ₹2,90,000 will be:
- (a) Nil (b) ₹4,120
(c) ₹2,080 (d) ₹4,000
- (97) The income-tax payable by a Resident Individual (aged 62 years) for AY 2021-22 if his total income is ₹10,00,000 will be : Assuming not covered u/s 115BAC
- (a) ₹1,17,000 (b) ₹1,14,400
(c) ₹1,12,500 (d) ₹ Nil
- (98) The income-tax payable by a Resident Individual (aged 62 years) for AY 2021-22 if his total income is ₹5,50,000 will be: Assuming covered u/s 115BAC
- (a) ₹20,800 (b) ₹ 22,900
(c) ₹ 18,200 (d) Nil
- (99) The income-tax payable by a Resident Individual (aged 62 years) for AY 2021-22 if his total income is ₹ 15,00,000 will be: Assuming not covered u/s 115BAC
- (a) ₹ 2,60,000 (b) ₹2,70,400
(c) ₹ 2,73,000 (d) Nil
- (100) The income-tax payable by a Resident Individual (aged 80 years) for AY 2021-22 if his total income is ₹ 5,00,000 will be: Assuming not covered u/s 115BAC
- (a) Nil (b) ₹1,030
(c) ₹8,240 (d) ₹6,180
- (101) The income-tax payable by a Resident Individual (aged 80 years) for AY 2021-22 if his total income is ₹ 5,10,000 will be: Assuming covered u/s 115BAC
- (a) Nil (b) ₹ 14,040
(c) ₹1,040 (d) ₹ 2,080
- (102) An assessee, being an individual resident in India, is entitled to a deduction, from the amount of income-tax on his total income which is chargeable for an assessment year, of an amount equal to 100% of such income-tax or a lesser amount. The maximum amount of total income qualifying for such deduction is _____ and the maximum amount of deduction so available is _____
- (a) ₹5 lakh and ₹2,000 respectively (b) ₹3lakh and ₹ 2,000 respectively
(c) ₹5 lakh and ₹12,500 respectively (d) ₹ 3lakh and ₹ 5,000 respectively
- (103) Calculate Income-tax payable by an Individual (aged 30 years) for AY 2021-22 if his total income is ₹1,01,20,000: Assuming not covered u/s 115BAC
- (a) ₹33,42,300 (b) ₹32,47,180
(c) ₹ 29,37,300 (d) ₹ 29,32,500
- (104) Calculate the amount of rebate u/s 87A in case of a resident individual having total income of ₹3,00,000. Assuming covered u/s 115BAC
- (a) ₹ 30,000 (b) ₹ 12,500
(c) ₹ 2,000 (d) ₹ 2,500
- (105) The income-tax payable by a XYZ Inc a foreign company on total income of ₹12,25,500 will be :
- (a) ₹ 5,09,810 (b) ₹ 4,90,200
(c) ₹ 3,82,360 (d) ₹ 3,18,630

- (106) The income-tax payable by a XYZ Cooperative society on total income of ₹ 50,000 will be :
- (a) ₹ 12,480 (b) Nil
(c) ₹ 20,600 (d) ₹ 15,600
- (107) Total income is to be rounded off to nearest multiple of -----and tax is to be rounded off to nearest multiple of
- (a) Ten, Rupee (b) Hundred, Ten
(c) Ten, Ten (d) Rupee, Rupee
- (108) Unexplained cash credits are chargeable to tax u/s 115BBE @ _ _
- (a) 10% (b) 15%
(c) 20% (d) 60%
- (109) Long term capital Gains generally chargeable to tax u/s 112 @ _ _
- (a) 10% (b) 15%
(c) 20% (d) 30%
- (110) Short term capital gains arising on transfer of listed equity shares through recognised stock exchange are chargeable to Tax u/s 111A @ _____
- (a) 10% (b) 15%
(c) 20% (d) 30%
- (111) Income by way of dividends is -
- (a) Taxable (b) 50% Taxable
(c) Exempt (d) 50% Exempt
- (112) Income by way of royalty in respect of a patent developed and registered in India in respect of person who is resident in India is chargeable to tax u/s 115 BBF @ -
- (a) 10% (b) 15%
(c) 20% (d) 30%
- (113) For a domestic company, the minimum amount of total income liable for surcharge and the rate of surcharge applicable therein are -
- (a) ₹ 10 crore and 7% respectively (b) ₹ 1 crore and 7% respectively
(c) ₹ 1 crore and 12% respectively (d) ₹ 10 crore and 12% respectively
- (114) The total income of Atul, a resident individual, is ₹2,65,000. The rebate allowable u/s 87A would be -
- (a) ₹ 2,000 (b) Nil
(c) ₹ 750 (d) ₹1,545.
- (115) For the previous year 2020-21, taxable income of X Ltd., a domestic company (Turnover in FY 2018-19 was ₹ 260 crores) is ₹ 10,86,920. Its tax liability would be -
- (a) ₹ 2,82,600 (b) ₹ 2,71,730
(c) ₹ 3,26,080 (d) ₹ 3,39,120

ANSWER KEY

1. C	2.A	3.B	4.D	5.D	6.D	7.B	8.C	9.A	10.B
11.D	12.D	13.B	14.D	15.C	16.B	17.A	18.B	19.B	20.B
21.A	22.C	23.A	24.D	25.C	26.C	27.D	28.C	29.C	30.B
31.B	32.B	33.B	34.B	35.A	36.D	37.A	38.B	39.C	40.A
41.B	42.B	43.A	44.B	45.A	46.A	47.D	48.B	49.D	50.C
51.D	52.D	53.D	54.C	55.A	56.C	57.A	58.C	59.D	60.D
61.A	62.A	63.D	64.D	65.C	66.C	67.D	68.C	69.D	70.B
71.A	72.A	73.C	74.B	75.D	76.C	77.C	78.B	79.C	80.B
81.B	82.D	83.A	84.C	85.C	86.A	87.A	88.A	89.A	90.C
91.A	92.D	93.B	94.A	95.A	96.C	97.B	98.C	99.B	100.A
101.B	102.C	103.A	104.D	105.A	106.A	107.C	108.D	109.C	110.B
111.A	112.A	113.B	114.C	115.A					

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(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)	Resident & Not Ordinarily Resident
Sec 7	Income deemed to be received
Sec 9	Income deemed to accrue or arise in India

Need to Determine Residential Status

- A person may earn incomes from various sources. These sources may be in India or outside India. Similarly the person earning such incomes may be an Indian Citizen or foreign Citizen.
- Income tax act neither says that Indian Citizens will pay Income tax nor does it say that only Indian Income will be taxable.
- Taxability Under Income Tax act depends upon **Residential status** of the assessee i.e. whether he is a resident or non resident in India during the **previous year**

Special Points :

- 1. Residential status should not be confused with Citizenship :** A person may be a foreign citizen and still be a resident of India. Similarly an Indian citizen may be a non resident. Therefore determination of Residential status of an assessee is independent of his citizenship.
- 2. Resident for one source, resident for all Sources :** If an assessee is a resident in any year with regard to any one source of income, he will be treated as resident in that year with regard to **all other sources** of his income. He cannot have different residential status for different sources of income in same year.
Sec. 6(5)
- 3. Resident in India and other countries simultaneously :** It is not necessary that a person, who is resident in India, cannot become resident in any other country for the same assessment year. A person may be resident in more than one country at the same time.
- 4. Residential status is determined for every Assessment year separately** and can change from one A/Y to another

Determination the Residential Status of an Individual

An individual may be a :

- (a) Resident in India or
- (b) Non-resident in India.

Individual is said to be Resident in India during a Assessment year if

He satisfies **any one** of the following **THREE Basic Conditions**:

1st condition [SEC 6(1)] : He is **IN INDIA** for a period of **182 days or more** in the *relevant previous year*

OR

2nd condition[SEC 6(1)] : He is **IN INDIA** for **60 days or more** during the *relevant previous year*

AND

Has been in India for **365 days or more** during *four previous years immediately preceding the relevant previous year*

3rd Condition [Sec 6(1A)] [FA,2020]

- 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 previous year
- 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

Individual is said to be Non-resident in India if

He does not satisfy either of Basic condition under **1 or 2 or 3**

SPECIAL POINTS :

1. In computing the period of stay in India, it is not necessary that the stay should be for a **continuous period**.
e.g. if an assessee is once present in India during the relevant previous year say for 120 days & then again for 90 days, he will be satisfying the requirement of 182 days presence.
2. It is also not necessary that the stay should be only at one place. It can be at **different places** in India
3. While calculating the presence of 182 days or more, both day of arrival and day of departure should be included. But if information regarding hourly entry and hourly exit in the same previous year is also available, then a total of **24 hours will be taken as one day**.
4. India means : **Sec 2(25A)**
 - Territory of India ,
 - Its territorial waters,
 - Seabed and subsoil underlying such waters,
 - Continental shelf,
 - Exclusive economic zone and
 - Air space above its territory and territorial waters.
5. Only physical presence of assessee is relevant. His position of assets in India & residential status of family members is not relevant.

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:

- Individual, who is a **citizen of India**
- Who **leaves India** in any previous year
- For the purpose of *employment outside India*

Special point : If a person goes outside India for **business purpose** or **for training** or on **foreign tour or education purpose or temporary transfer** etc. then in such case second Basic condition **will be also be applicable**

CASE 2 :

- Individual, who is a **citizen of India**
- And also **crew member** of an **Indian ship**
- Who **leaves India** in any previous year

Explanation 2 to sec 6(1)

- *Individual, being a citizen of India and*
- *a crew member of a foreign bound ship leaving India,*
- *period of stay in India shall,*
- *in respect of such voyage,*
- *be determined in prescribed manner (RULE 126)*

Rule 126 : Computation of period of stay in India in certain cases.

- (1) For the purposes of section 6(1),
- in case of an individual,
 - being a citizen of India and
 - a member of the crew of a ship,
 - the period or periods of stay in India shall,
 - in respect of an eligible voyage,
 - not include the period computed in accordance with sub-rule (2).
- (2) The period referred to in sub-rule (1)
- shall be the period
 - beginning on date entered into Continuous Discharge Certificate
 - in respect of joining the ship
 - by the said individual for eligible voyage and
 - ending on date entered into Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Explanation : For the purposes of this rule,—

- (a) Continuous Discharge Certificate" shall have the meaning assigned to it in Merchant Shipping Act, 1958
- (b) Eligible voyage" shall mean a voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where—
- for the voyage having originated from any port in India, has as its destination any port outside India; and
 - for the voyage having originated from any port outside India, has as its destination any port in India.

CASE 3 :

- Individual who is a **Citizen of India** or is a **Person of Indian origin**, [PIO defined under Explanation to Sec 115C(e)],
- Who being outside India,
- **Comes on a visit to India** in any previous year.

Special Point: Explanation to section 115C(e)

- a) A person is said to be of Indian origin if he or either of his parent or any of his grand parent was born in **Undivided India**
- b) If a person comes to India for **permanent settlement** than Explanation 1 to 6(1) will not apply

In the Case 4, 60 days of 2nd Basic condition shall be substituted with 120 days [FA,2020]

CASE 4 :

- Individual who is Citizen of India or Person of Indian origin, [PIO defined under Explanation to Sec 115C(e)],
- Who being outside India,
- Comes on a visit to India in any previous year
- having total income, other than the income from foreign sources,
- exceeding 15 lakhs during the previous year

"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

An Individual cannot simply be called a Resident in India

If he is a Resident in India , we have to further determine whether he satisfies conditions of Sec 6(6) :

An Individual is Resident & Not Ordinarily Resident RNOR during a previous year if {Section 6(6)}

He satisfies **Either** of the following **additional conditions**:

1st condition: He has been in India for **729 days or less**, during **7 previous years** *immediately preceding the relevant previous year*.

OR

2nd condition: He is **Non Resident** in India for at least **9 out of 10 previous years** *immediately preceding the relevant previous year*.

OR

3rd condition : [FA,2020]

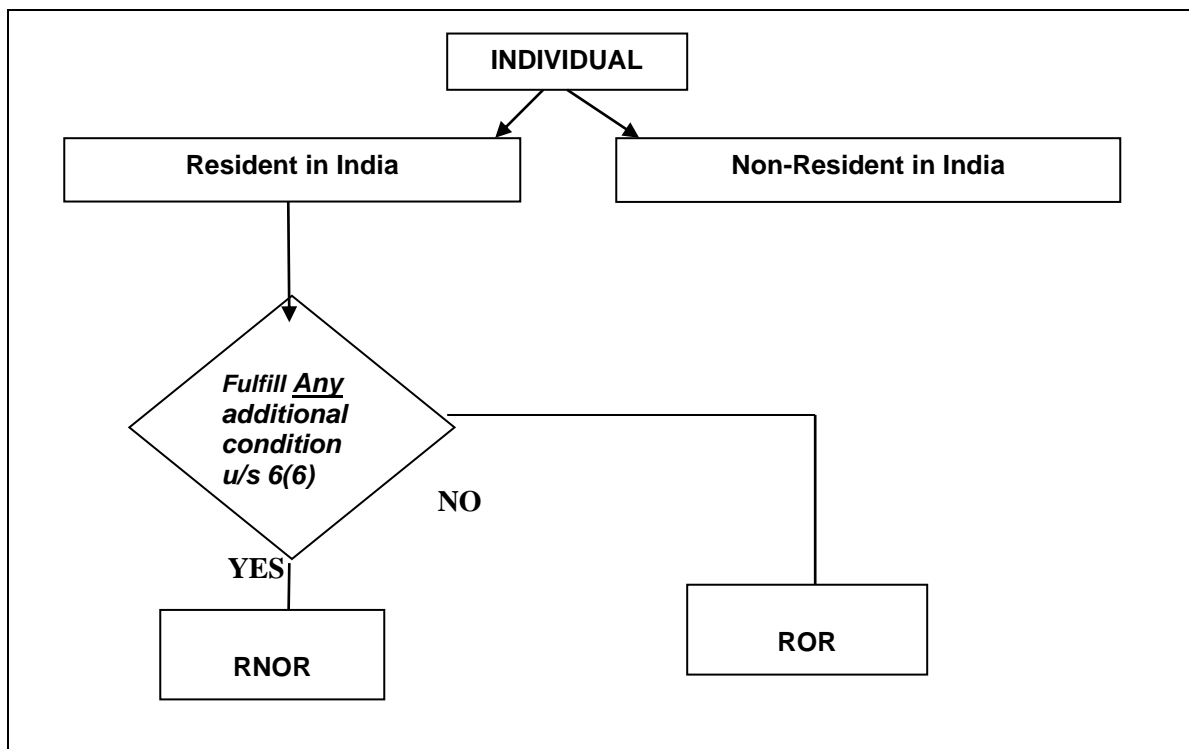
- A citizen of India, or a Person of Indian origin,
- as referred to in *Explanation 1* to Sec 6(I),
- having Total Income,
- other than the income from foreign sources,
- exceeding 15 lakhs during previous year,
- who has been in India 120 days or more but less than 182 days during the p/y

OR

4th Condition [FA,2020] : A citizen of India who is deemed to be resident in India u/s 6(1A).

Individual is said to be Resident & Ordinarily resident (ROR) in India during a previous year if

He does not satisfies Any of Additional conditions



Residential Status of Hindu Undivided Family (HUF) [Section 6(2)]

HUF is said to be a resident in India during a previous year if

Any part of the control and management of its affairs is **situated in India** during the relevant previous year

HUF is said to be a Non-Resident in India during a previous year if

No part of the control and management of its affairs is **situated in India** during the relevant previous year

HUF is resident and not ordinarily resident(RNOR) during a previous year if [Section 6(6)]

The **Karta/Manager** of the HUF satisfies **any of** the following additional conditions:

1st Condition : He is Non resident in at least 9 out of 10 p/y preceding the p/y

OR

2nd Condition : He in India for less than 730 days during 7 p/y preceding the p/y

OR**3rd condition : [FA,2020]**

- He is citizen of India, or a Person of Indian origin,
- as referred in *Explanation 1* to Sec 6(I),
- having Total Income,
- other than the income from foreign sources,
- exceeding 15 lakhs during the previous year,
- and has been in India for 120 days or more but less than 182 days during p/y

OR**4th Condition [FA,2020] : He is a citizen of India who is deemed to be resident in India u/s 6(IA).****HUF is said to be resident but ordinarily resident (ROR) during a previous year if**

The **Karta/Manager** of the HUF does not satisfy any of above additional conditions.

Special points :

- In order to determine whether a HUF is resident or non-resident, the residential status of Karta of the family during the previous year is not relevant.
- Stay of karta/manager during the *preceding previous years prior to relevant previous years* is considered for determining whether HUF is ROR or RNOR
- The place of control and management means that place where the head and brain of the HUF business (i.e. The karta) is situated, and where vital decisions concerning the HUF affairs are taken, such as, expansion or diversification of business, raising of finance, appointment and removal of staff etc.

**Residential Status of
Firm, Association of Person (AOP) , Body of Individuals (BOI) [Section 6 (2)]**

These entities may either be resident or non-resident in India for any previous year. They are not further bifurcated into ordinarily and not ordinarily residents.

Firm, AOP, BOI is said to be resident in India during a previous year if

Any part of the control and management of its affairs is **situated in India** during the relevant previous year

Firm, AOP, BOI is said to be Non-Resident in India during a previous year if

No part of the control and management of its affairs is **situated in India** during the relevant previous year

Special Point : In the case of a firm , the control and management is in the hands of the partners and therefore, if the partners generally meet in India regarding the affairs of the firm then the firm is said to be resident in India.

Residential Status of a Company [Section 6 (3)]

A company is said to be resident in India in any previous year, if—

(i) it is an Indian company or

(ii) its place of effective management, in that year, is in India.

“Place of effective management” means a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole, are in substance made.

Residential Status of other Person [Section 6 (4)]

Other assessee is said to be a resident in India during a previous year if

Any part of the control and management of its affairs is **situated in India** during the relevant previous year

Other assessee is said to be a Non-Resident in India during a previous year if

No part of the control and management of its affairs is **situated in India** during the relevant previous year

INDIAN INCOME vs FOREIGN INCOME

Particulars		Due	Received	Type of Income
Sale in Delhi	Sale price received in Delhi	India	India	Indian Income
Sale in Delhi	Sale price received in USA	India	Outside India	Indian Income
Sale in USA	Sale price received in Delhi	Outside India	India	Indian Income
Sale in USA	Sales price received in USA	Outside India	Outside India	Foreign income

Sec 5 : Scope of Total income on Basis of Residential status

	Particular of income	Indian /Foreign Income	ROR	RNOR	NR
1.	Income due in India (whether Received in India or outside India)	Indian Income	Taxable	Taxable	Taxable
2	Deemed Incomes u/s 9	Indian Income	Taxable	Taxable	Taxable
3	Income due outside India & received in India	Indian Income	Taxable	Taxable	Taxable
4	Income due outside India and received outside India				
	-From Business/profession set up in India	Foreign Income	Taxable	Taxable	Not Taxable
	-From any other source	Foreign Income	Taxable	Not Taxable	Not Taxable

INCOME RECEIVED IN INDIA

- Any income received in India is taxable **for all categories of assesses i.e. ROR, RNOR & NR**. It does not matter whether such income have become due in India or outside India
- As per **“Keshav Mills Ltd (SC)”** remittance of an already received amount does not result in its receipt at that other place.
- Thus if an assessee having received an income in a foreign country, say in Japan, remits it to his family in India, it is not an income received in India, as the income has already been received in Japan & after its receipt it is being merely remitted to India.

INCOME ACCRUE OR ARISE IN INDIA

Income **accrue or arise in India** is taxable for all **for all categories of assesses viz. ROR, RNOR & NR**. It does not matter whether such income is received in India or outside India

- As **per Ashokbhai Chimanbhai (SC)**, when the right to receive the income becomes vested in the assessee, it is said to accrue or arise.

INCOME DEEMED TO ACCRUE OR ARISE IN INDIA : SECTION 9

Income **deemed to accrue or arise in India** is taxable for all **for all categories of assesses viz. ROR, RNOR & NR**. It does not matter where such income is received in India or outside India

The following incomes shall be deemed to accrue or arise in India:

- (a) Income from a **Business connection** in India. Where by virtue of “business connection” in India, income accrues or arises outside India to any person it is deemed to accrue or arise in India.

As per R.D. Agarwal (SC) : Business connection involves a relation between a business carried on by a non-resident in foreign country which yields profits or gains and some activity in India, which contributes, directly or indirectly, to the earning of those profits or gains.”

Business connection is very well illustrated by the following examples:

- (i) Forming a local subsidiary company to sell the products of non-resident parent company
- (ii) Maintaining a branch office for the sale of goods or transacting other business in India.

Special point :

1. Following **shall not be treated as business connection** in India:

- (i) Operations confined to purchase of goods in India for purpose of exports;
- (ii) Operations confined to collection of news and views for transmission outside India by or on behalf of Non-resident who is engaged in the business of running news agency or publishing newspaper, magazines or journals;
- (iii) Operations confined to shooting of cinematograph films in India by
 - Individual who is not a citizen of India or
 - Firm which does not have any partner who is citizen of India or who is resident in India or
 - company which does not have any shareholder who is citizen of India or who is resident in India,

2. BUSINESS CONNECTION also includes – A person acting on behalf of a non-resident and who performs any one or more of the following –

Activity one – He exercises in India an authority to conclude contracts on behalf of the non-resident

Activity two – He has no such authority but maintains in India stock of goods from which he regularly delivers goods or merchandise on behalf of the non-resident.

Activity three – He secures order in India for the non-resident

3. In the case of a business **other than the business having business connection in India on account of significant economic presence**[FA,2020], of which all the operations are not carried out in India, the income of the business deemed to accrue or arise in India shall be only such part of the **income as is reasonably attributable to the operations carried out in India.**

Income attributable to the operations carried out in India, shall include income from—

- (i) such advertisement which targets a customer who resides in India or a customer who accesses the advertisement through internet protocol address located in India;
- (ii) sale of data collected from a person who resides in India or from a person who uses internet protocol address located in India; and
- (iii) sale of goods or services using data collected from a person who resides in India or from a person who uses internet protocol address located in India. **[FA,2020]**

4. Any **share or interest** in a company registered outside India shall be deemed to be situated in India, if the share or interest derives, directly or indirectly, **its value substantially from the assets located in India.**

Share or interest, shall be deemed to derive its value substantially from the assets (whether tangible or intangible) located in India, if, the value of such assets (FMV without reduction of liabilities)

- (i) exceeds 10 crores and
- (ii) represents at least 50% of the value of all the assets owned by the company

5. In the case of a foreign company engaged in the **business of mining of diamonds**, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to the display of uncut and unassorted diamond in any special zone notified by Central Government in Official Gazette.

6. INDEPENDENT BROKERS / AGENTS ARE EXCLUDED – The “business connection”, shall not include cases where the non-resident carries on business through a broker, general commission agent or any other agent of an independent status, provided that such a person is acting in the ordinary course of his business.

(b) Income from any Property, Asset or Source of income situated in India:

For instance, the house property or machinery or furniture, situated in India, is given on rent, then such rental Income shall be deemed to accrue or arise in India in hands of the owner of such property or source.

(c) Income from the transfer of any capital asset situated in India:

Any capital gain from the transfer of a capital asset, situated in India, is deemed to accrue or arise in India in hands of the owner of such Capital asset.

(d) Income under salary head payable to a citizen of India abroad by the government:

It is applicable to government employees who are **citizens of India** and are posted abroad. They render the services outside India and they are paid salary by **Indian Govt.** Such salary shall be deemed to accrue or arise in India in hands of the employee.

It is important to note that by virtue of **Section 10(7)**, all **allowances and perquisites** received by such an employee is **exempt**.

(e) Income under the head Salary for services rendered in India

If a person has **rendered services in India**, salary for **such services** will be deemed to accrue or arise in India in the hands of such employee.

(f) Dividend paid by an Indian company outside India:- Any dividend paid by an Indian company outside India is deemed to accrue or arise in India in the hand of recipient.**(g) Interest payable by:**

(i) Government; or

(ii) A person who is **resident in India**, **except** where interest is payable in respect of money borrowed and used for the purpose of business or profession carried on outside India or earning any income from any source outside India; or

(iii) A person who is a **non resident in India** **provided** interest is payable in respect of money borrowed and used for a business or profession carried on in India.

Then such interest shall be deemed to accrue or arise in India in the hands of the Recipient

(h) Royalty payable by :

(i) Government; or

(ii) A person who is **resident in India** **except** where it is payable in respect of any right/information/ property used for the purpose of a business or profession carried on outside India or earning any income from any source outside India; or

(iii) A person who is a **non resident in India** **provided** royalty is payable in respect of any right/ information/ property used for the purpose of the business or profession carried on in India or earning any income from any source in India.

Then such royalty shall be deemed to accrue or arise in India in the hands of the Recipient.

(i) Fees for technical services payable by:

(i) Government; or

(ii) A person who is **resident in India**, **except** where services are utilized for a business or profession carried on outside India or earning any income from any source outside India; or

(iii) A person who is a **non resident in India** **provided** fee is payable in respect of services for a business or profession carried on in India or earning any income from any source in India.

Then such fees shall be deemed to accrue or arise in India in the hands of the Recipient.

Special point:

1. Royalty does not include

- Lumpsum royalty Paid by resident
- For transfer of Computer software
- Supplied by a Non resident manufacturer
- Along with computer

2. Fees for Technical Services means consideration for rendering managerial, technical or consultancy services.

- (j) **Income arising outside India, being any sum of money u/s 2(24)(xviiia)[Gift of money], paid on or after 5/7/2019 by a person resident in India to a non-resident, not being a company, or to a foreign company.**

MULTIPLE CHOICE QUESTIONS

RESIDENTIAL STATUS OF INDIVIDUAL

(1) Residential status to be determined for:

- (a) Previous year
- (b) Succeeding Year
- (c) Calendar year
- (d) None of the above

(2) To claim the status of Not Ordinarily Resident for individual-

- (a) Only one basic condition needs to be satisfied.
- (b) One basic & one additional condition are to be satisfied
- (c) Need not satisfy any of the conditions.
- (d) Only additional condition is to be satisfied

(3) To claim the status of Non-resident for individual-

- (a) Only one basic condition need to be satisfied.
- (b) One basic & One additional condition is to be satisfied
- (c) Need not satisfy any of the conditions.
- (d) Only additional conditions are to be satisfied.

(4) Amongst the following which is the basic condition to identify the residential status of the individual -

- (a) Person must be in India for or more 182 days during the previous year.
- (b) Person must be in India for less than 60 days during the previous year and 365 days or more during the four years preceding the previous year.
- (c) He must be in India in nine out of ten previous years preceding that year.
- (d) All of these.

(5) Amongst the following which is the basic condition to identify the residential status of the individual -

- (a) Person must be in India for less than 180 days during the previous year.
- (b) Person must be in India for 60 days or more during the previous year and 365 days or more during the four years preceding the previous year.
- (c) He must not be in India in nine out of ten previous years preceding that year.
- (d) None of these

(6) Suresh is a foreign citizen. His father was born in Delhi in 1951 and mother was born in England in 1950. His grandfather was born in Delhi in 1922. Suresh visited India to see Taj Mahal and visit other historical places. He came to India on 1st November, 2020 for 200 days. He has never come to India before. His residential status for assessment year 2021-22 will be

- (a) Non resident in India
- (b) Not ordinarily resident in India
- (c) Resident in India
- (d) None of the above

- (7) Determine the residential status of Mr. X a foreign citizen who came to India for the first time on 15 April, 2020 for a period of just 200 days -
- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these
- (8) The following additional conditions are to be satisfied by a person to be resident and ordinarily resident in India _ (Dec. 2014)
- (a) He is a resident in at least any two out of the ten previous years immediately preceding the relevant previous year (b) He has been in India for 730 days or more during the seven previous years immediately preceding the relevant previous year
(c) Both (a) and (b) of above (d) None of the above
- (9) X, an Indian citizen, who is living in Delhi since 1980, left for Japan on 1st July, 2019 for employment. He came back to India on 1st January, 2021 on a visit and stayed for 4 months. His residential status for the assessment year 2021-22 would be -
- (a) Resident and ordinarily resident (b) Not ordinarily resident
(c) Non resident (d) Resident.
- (10) Rahul, a software engineer at ABC Ltd. left India on 10th August, 2020 for the treatment of his wife. For income-tax purpose, his residential status for the assessment year 2021-22 will be -
- (a) Resident (b) Non-resident
(c) Not ordinarily resident (d) Cannot be determined from the given information.
- (11) Determine the residential status of X for A/Y 21-22, a person of Indian origin who came for visiting India on 15th April, 2019. He left India on 30th April 2020.
- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these
- (12) If Karta is resident and ordinarily resident in India but control and management of HUF is situated partly outside India in the previous year, the HUF is -
- (a) Resident and ordinarily resident (b) Not ordinarily resident
(c) Non resident (d) Resident.
- (13) Determine the residential status of Ms.Riya a person of Indian origin who has been visiting India for 100 days every year since last 10 years -
- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these
- (14) Determine the residential status of Ms.Cook, a US citizen who has been visiting India for 100 days every year since last 10 years-
- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these
- (15) Determine the residential status of Mr. X, an Indian citizen who has left India for the first time on 15th May 2020 for the purpose of employment outside India. His Income from foreign sources is ₹20 lakhs & not assessable to Tax in any foreign country.
- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these
- (16) Determine the residential status of Mr. Prakash, an Indian citizen who has left India for the first time on 15th July 2020 for the purpose of visit outside India. He came back to India on 17th March 2021
- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these

- (17) Determine the residential status of Rahul who came to India for the first time on 15th December, 2021 for a period of just 200 days-
- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these
- (18) Rahim was citizen of Afghanistan. His mother was born in a village near Kathmandu. He came to India for first time since 1982 on 02-10-2020 for a visit of 190 days. His Income from foreign sources is ₹20 lakhs. What is the residential status of Rahim ?
- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these
- (19) An individual is said to be resident in India in a previous year (in which the February month has 29 days) if he is in India in that year for a period or periods amounting in all to : *(June, 2008)*
- (a) 182 Days or more (b) 60 Days or more
(c) 183 Days or more (d) 150 Days or more

RESIDENTIAL STATUS OF HUF

- (20) The residential status of HUF depends upon the ----
- (a) Control and management of affairs. (b) Place of residence of Karta
(c) Place of residence of Karta its members (d) Location of the head office
- (21) Determine the residential status of a HUF if HUF's control and management is wholly situated in India and Karta of HUF is a Non-resident in India for that previous year.
- (a) Resident and Ordinary Resident (ROR) (b) Resident but not ordinary resident (RNOR)
(c) Non-Resident (NR) (d) ROR or RNOR
- (22) Find the residential status of HUF whose control and management is partly in India and the Karta stays in India for 360 days during the period of 7 years.
- (a) Resident (b) Non-Resident
(c) Not Ordinarily Resident (d) Any of these
- (23) Find the residential status of HUF whose control and management is wholly outside in India and the Karta stays in India for 360 days during the period of 7 years.
- (a) Resident (b) Non-Resident
(c) Not Ordinarily Resident (d) Any of these
- (24) Find the residential status of HUF whose control and management is partly in India and the Karta stays in India for 750 days during the period of 7 years preceding the previous year and is resident in last 4 years preceding the previous year.
- (a) Resident (b) Non-Resident
(c) Not Ordinarily Resident (d) Any of these
- (25) Shyam who was born and brought up in India left for employment in Dubai on 20th August, 2020. His residential status in respect of the assessment year 2021-22 would be -
- (a) Resident and ordinarily resident (b) Non-resident
(c) Not ordinarily resident (d) None of the above.
- (26) Naresh was born in New Jersey in 1976 and his father was born in China in 1948 whereas Naresh's grandfather was born in India in 1932. Naresh visited India for the 1st time for 180 days during the previous year. His residential status is-
- (a) Resident (b) Not Ordinarily Resident
(c) Not Resident (d) Any of these

(27) Cool Bros.HUF was partly controlled from India by its Karta, Suresh who is citizen of India but stays outside India. For the purpose of managing affairs of the HUF, Suresh regularly visits India. Determine the residential status of the HUF for the Assessment Year 2021-22, if during the last 12 years Mahesh visited India for 110 days every year.

- (a) Resident
(b) Non-Resident
(c) Not ordinarily Resident
(d) Any of these

(28) Which of the following may be a 'Not Ordinarily Resident' in India

(Dec. 2012)

- (a) Partnership firm
(b) Joint stock company
(c) Association of persons
(d) Hindu Undivided Family.

(29) HUF of Rahul consisting of himself, his wife and 2 sons is assessed to income-tax. The residential status of HUF would be non-resident, when -

- (a) The management and control of its affairs is wholly in India
(b) The management and control of its affairs is wholly outside India
(c) The status of *karta* is non-resident for that year
(d) When majority of the members are nonresident.

RESIDENTIAL STATUS OF OTHER PERSON

(30) _____ will be resident in India even if its place of effective management, is outside India during the previous year.

- (a) Indian Company
(b) Foreign Company
(c) Partnership firm
(d) All of these

(31) XYZ LLP will be _____ in India if control and management of its affairs is wholly situated outside India during the previous year.

- (a) Resident
(b) Non-Resident
(c) Not Ordinarily Resident
(d) Any of these

(32) A company is said to be a resident in India in previous year, if:

- (a) It is an Indian company
(b) Its place of effective management, is in India.
(c) Either it is an Indian company or its place of effective management, is in India.
(d) It is both an Indian Company and its place of effective management, is in India.

(33) ABC Ltd. an Indian company will be _____ in India if its place of effective management is wholly situated outside India during the previous year.

- (a) Resident
(b) Non-Resident
(c) Not Ordinarily Resident
(d) Any of these

(34) An Indian company would:

- (a) be resident in India if its control and management is in India
(b) be resident in India if its place of effective management, is in India
(c) be resident in India if its place of effective management, is outside India
(d) be always resident in India irrespective of its place of effective management.

(35) _____ will be resident in India if its place of effective management, is in India during the previous year.

- (a) Indian Company
(b) Foreign Company
(c) Domestic Company
(d) All of these

(36) Residential status of an Indian company is resident and ordinarily resident for the year -

- (a)' If the entire control and management is wholly in India (b) If part of the control and management is in India
(c) Regardless of the place of control and management (d) If it is listed on recognised stock exchange.

(37) Gama Ltd. is an Indian company, It carries its business in Delhi and London. Total control and management of the company is situated in London. More than 85% of its business income is from the business in England. If so, its residential status will be -

- (a) Resident (b) Non-resident
(c) Not ordinarily resident (d) Foreign company

(38) Y Ltd. is an Indian Company. It carries on business in Mumbai and New York and its place of effective management, is situated outside India. Further, 80% of total Income of the company is from the business in London. What is the residential status of X Ltd?

- (a) Resident (b) Non-Resident
(c) Not ordinarily Resident (d) Any of these.

(39) An foreign company would be resident in India:

- (a) if its control and management is partly in India (b) if its place of effective management, is in India
(c) if its place of effective management, is outside India (d) if its control and management is wholly in India

INCIDENCE OF TAX

(40) Income which accrue outside India from a business controlled from India is taxable in case of:

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

(41) Income deemed to accrue or arise in India is taxable if the person is -

- (a) Resident (b) Not Ordinarily Resident
(c) Non Resident (d) Any of these

(42) Income which accrues outside India but is received in India is taxable if the person is -

- (a) Resident (b) Not Ordinarily Resident
(c) Non Resident (d) Any of these

(43) Income which received outside India but is deemed to accrue in India is taxable if the person is -

- (a) Resident (b) Not Ordinarily Resident
(c) Non Resident (d) Any of these

(44) Income accrued outside India and received outside India is taxable in case of:

- (a) Resident and ordinary resident (ROR) only (b) Resident but not ordinary resident (RNOR) only
(c) Non resident only (d) ROR, RNOR and Non-Resident

(45) The following income is deemed to be received in India:

- (a) Employer's contribution to a recognised provident fund in excess of 12% of salary; & interest credited thereon in excess of 9.5% p.a.; (b) Transferred balance in a recognised provident fund to the extent of employer's contribution and interest thereon;

- (c) Contribution made by the Central Government or other employer in the previous year, under a pension scheme u/s 80CCD
- (d) All of these.
- (46) Interest credited to RPF in excess of _____ is taxable as deemed receipt.
- (a) 8.00% (b) 8.50%
- (c) 9.50% (d) 9.00%
- (47) Which of the following incomes is deemed to accrue or arise in India?
- (a) Income from any business connection in India. (b) Income from a property in India.
- (c) Income through transfer of capital asset situated in India. (d) All of these.
- (48) Which of the following incomes is not deemed to accrue or arise in India ?
- (a) Income from any business connection in India. (b) Income from a salary for services rendered in India.
- (c) Income through transfer of capital asset situated outside India. (d) Dividend paid by an Indian company outside India.
- (49) Which of the following incomes is deemed to accrue or arise in India?
- (a) Income which falls under the head "Salaries", if it is earned in India. (b) Income chargeable under the head "Salaries" payable by the Government to a citizen of India for service rendered outside India.
- (c) Income by way of interest payable by the Government (d) All of these.
- (50) Which of the following incomes is deemed to accrue or arise in India ?
- (a) Income by way of fees for technical services payable by non-resident, where it is payable in respect of any services utilised in a business or profession carried on by such person in India. (b) Income by way of royalty payable by resident where it is payable in respect of any right used for the purposes of a business or profession carried on by such person outside India
- (c) Income chargeable under the head "Salaries" payable by the Indian Company to a citizen of India for service rendered outside India. (d) Income earned by a foreign company engaged in the business of mining of diamonds through or from the activities which are confined to the display of uncut and unassorted diamond in any special zone notified by the Central Government in the Official Gazette in this behalf
- (51) Income chargeable under the head "Salaries" payable by the Government to a citizen of India for service rendered outside India is taxable if the person is _____
- (a) Resident (b) Not Ordinarily Resident
- (c) Not Resident (d) Any of these
- (52) The person who concludes contracts on behalf of the non-resident is known as _
- (a) Concluding agent (b) Stocking agent
- (c) Indenting agent (d) None of these
- (53) Business activity carried on with which of the following agent is not a business connection?
- (a) Concluding agent (b) Stocking agent
- (c) Indenting agent (d) None of these

(54) Fees for technical services means any consideration for rendering of any:

- | | |
|-------------------------|-----------------------|
| (ci) Managerial service | (b) Technical service |
| (c) Consultancy service | (d) All of these |

(55) Which of the following activity will be considered as business connection in India?

- | | |
|---|---|
| (a) All the operations of a firm are not carried in India. | (b) An office set up by non-resident for carrying out business activity in India. |
| (c) The profits earned by assessee on supplies of fabricated platforms. | (d) All of these. |

(56) Employer's contribution in excess of 12% of salary is :

- | | |
|----------------------------|--------------------|
| (a) Income but not Taxable | (b) Taxable Income |
| (c) Deemed Income | (d) None of these |

(57) Mr. X is an Indian citizen. He has an income from artwork in USA and spent for medical treatment in France ₹15,000 and Income from publishing magazine in UK by collecting news and views in India (80% attributable to operations in India is ₹50,000. What will be his total Income if he is a NOR?

- | | |
|-------------|-------------|
| (a) ₹15,000 | (b) ₹40,000 |
| (c) ₹55,000 | (d) ₹65,000 |

(58) Following are the particulars of Income of Nitin -

- (i) Income from agriculture in Indonesia being invested there only : ₹12,350
(ii) Income from business in Bangladesh being controlled from India : ₹10,150.

If Nitin is NOR what is his total income?

- | | |
|-------------|-------------|
| (a) ₹12,350 | (b) ₹10,150 |
| (c) ₹22,500 | (d) ₹ 2,200 |

(59) What would be your answer in question no 58, If Nitin is Resident what is his total Income?

- | | |
|-------------|-------------|
| (a) ₹12,350 | (b) ₹10,150 |
| (c) ₹22,500 | (d) ₹ 2,200 |

(60) What would be your answer in question no 58, If Nitin is Non-Resident what is his total Income?

- | | |
|--------------|-------------|
| (a) ₹ 12,350 | (b) ₹10,150 |
| (c) ₹ 22,500 | (d) Nil |

(61) Mohit earns the following income during the previous year ended 31st March, 2021 :

(Dec. 2014)

•Interest on U.K. Development Bonds (1/4th being received in India) : ₹2,00,000

•Profits on sale of a building in India but received in Holland: ₹2,00,000

The income liable to tax for the assessment year 2020-21, if Mohit is resident and not ordinarily resident in India, is -

- | | |
|----------------|---------------|
| (a) ₹2,50,000 | (b) ₹4,00,000 |
| (c) ₹ 2,00,000 | (d) ₹50,000. |

(62) Following are the particulars of Income of Shyam -

- (i) Past untaxed profits brought in India during the previous year - ₹ 75,000
(ii) Income from agriculture in Japan being invested there only - ₹ 12,350
(iii) Income from business in Bangladesh being controlled from India - ₹10,150.

If Shyam is Resident what is his total income?

- | | |
|--------------|--------------|
| (a) ₹12,350 | (b) ₹10,150 |
| (c) ₹ 22,500 | (d) ₹ 97,500 |

(63) Profits of ₹1,00,000 for the year 2017-18 of a business in Germany remitted to India during the previous year 2020-21 (not taxed earlier) would be:

- (a) Taxable in India for ROR only (b) Not taxable in India for all (ROR, RNOR & NR)
 (c) Taxable in India for all (ROR, RNOR and NR) (d) Taxable only for RNOR and NR

(64) Profits of ₹ 2,00,000 is earned from a business in USA which is controlled in India, half of the profits being received in India. How much amount is taxable in India for a Non-resident Individual?

- (a) ₹2,00,000 (b) Nil
 (c) ₹1,00,000 (d) ₹3,00,000

(65) Dividend from American Co. of ₹2,00,000 received in USA will be taxable in case of ;

- (a) Resident and ordinary resident (ROR) only (b) Not ordinary resident (NOR) only
 (c) Non resident (NR) only (d) ROR, NOR and NR all

(66) Income of non-resident when attributed from operations in India relating to the following is taxable in India;

- (1) Profits of business
 (2) Fee for technical services
 (3) Royalty
 (4) Income from house property in India

Select the correct answer from the options given below _

(Dec. 2015)

- (a) (1) and (4) (b) (1), (3) and (4)
 (c) (1) and (3) (d) (1), (2) (3) and (4).

(67) From the following particulars of Income furnished by Mr. Prakash pertaining to the year ended 31-03-2021,-

Particulars	Amount ₹
(i) Profit on sale of shares of private limited Indian Company received in Germany	15,000
(ii) Dividend from a Japanese Company received in Japan	10,000
(iii) Agricultural income from lands in Gujarat	27,000

If Prakash is Non-Resident what is his total income?

- (a) ₹ 15,000 (b) ₹10,000
 (c) ₹ 27,000 (d) ₹25,000

(68) From the following particulars of Income furnished by Mr.Rakesh pertaining to the year ended 31-03-2021,

Particulars	Amount ~
(i) Interest received from Indian Government bonds outside India	15,000
(ii) Royalty received in India from non resident who used the rights for business outside India	10,000
(iii) Agricultural income from lands in Japan received in India If	37,000

Rakesh is Non- Resident what is his total income?

- (a) ₹15,000 (b) ₹10,000
 (c) ₹25,000 (d) ₹62,000

(69) From the following particulars of Income furnished by Mr.Sarthak pertaining to the year ended 31-03-2021,

Particulars	Amount ₹
(i) Interest received from Indian Government bonds outside India	15,000
(ii) Royalty received outside India from non resident who used the rights for business outside India	20,000
(iii) Agricultural income from lands in Japan (20% is received in India)	37,000

If Sarthak is Non- Resident what is his total income?

- (a) ₹15,000 (b) ₹20,000
 (c) ₹7,400 (d) ₹22,400

(70) From the following particulars of Income furnished by Ms.Parul pertaining to the year ended 31-03-2021,

Particulars	Amount ₹
(i) Profit on transfer of building situated in Delhi received in London	15,000
(ii) Business Income carried in Singapore received there, and subsequently remitted to India	37,000

If Parul is Non- Resident what is her total income?

- (a) ₹15,000 (b) ₹37,000
(c) ₹52,000 (d) Nil

(71) From the following particulars of Income furnished by Ms.Priya pertaining to the year ended 31-03-2021,-

Particulars	Amount ₹
(i) Profit on transfer of building situated in Delhi received in London	35,000
(ii) Business Income carried in Singapore controlled from India, received there and subsequently remitted to India	37,000

If Priya is Not ordinarily Resident what is her total income?

- (a) ₹35,000 (b) ₹37,000
(c) ₹72,000 (d) Nil

(72) Following are the particulars of income of Mr. Ram Lal , an Indian citizen-

- (i) Income from activity of purchasing goods in India and exporting to USA : ₹ 50,000
(ii) Income from the shooting of cinematograph films in India (90% attributable to the operations in India): ₹5,00,000
(iii) Dividends from foreign company received in India : 20,000.

If Mr. Ram lal is resident what is his total Income?

- (a) ₹5,00,000 (b) ₹5,70,000
(c) ₹5,20,000 (d) Nil

If Mr. Ram lal is Not Ordinarily Resident what is his total Income?

- (a) ₹ 5,50,000 (b) ₹4,70,000
(c) ₹5,20,000 (d) Nil

If Mr. Ram lal is Non-Resident what is his total Income?

- (a) ₹4,70,000 (b) ₹4,50,000
(c) ₹20,000 (d) Nil

(73) Dividends received from an Indian company in USA is _____ in case of a resident, _____ in case of a not ordinarily resident and _____ in case of a non-resident?

- (a) Taxable, exempt, exempt (b) Taxable, taxable, taxable
(c) Taxable, taxable, exempt (d) Exempt, exempt, exempt

(74) Income accruing in India in previous year is taxable for -

- (a) Resident (b) Not ordinarily resident
(c) Non-resident (d) All of the above.

(75) Every year, the residential status of an assessee -

- (a) May change (b) Will certainly change
(c) Will not change (d) None of the above.

(76) Income accruing from agriculture in a foreign country is taxable in the case of an assessee who is -

- | | |
|------------------|-----------------------------|
| (a) Resident | (b) Not-ordinarily resident |
| (c) Non-resident | (d) None of the above. |

(77) Foreign income received in India during the previous year is taxable in the case of -

- | | |
|------------------|-----------------------------|
| (a) Resident | (b) Not-ordinarily resident |
| (c) Non-resident | (d) All of the above. |

(78) Income earned and received outside India but later on remitted to India, is taxable in the case of-

- | | |
|------------------------|---|
| (a) All the assesseees | (b) Resident and ordinarily resident in India |
| (c) Non-resident | (d) None of the above. |

(79) Past untaxed profit of the financial year 2016-17 brought to India in 2020-21 is chargeable to tax in the assessment year 2021-22 in the hands of

- | | |
|---------------------------|---|
| (a) All the assesseees | (b) Resident and ordinarily resident in India |
| (c) Non-resident in India | (d) None of the above. |

(80) Total income of a person is determined on the basis of his -

- | | |
|---------------------------------|--------------------------|
| (a) Residential status in India | (b) Citizenship in India |
| (c) Both (a) and (b) above | (d) None of the above. |

(81) From the following particulars of Income furnished by Mr. Paresh pertaining to the year ended 31-03-2021,-

Particulars	Amount ₹
(i) Interest received in Japan on Indian Government bonds.	35,000
(ii) Business Income carried in Singapore controlled from India, received there and subsequently remitted to India	37,000

If Paresh is Not ordinarily Resident what is his total income?

- | | |
|-------------|-------------|
| (a) ₹35,000 | (b) ₹37,000 |
| (c) ₹72,000 | (d) Nil |

(82) From the following particulars of Income furnished by Ms.Radha pertaining to the year ended 31-03-2021,-

Particulars	Amount ₹
(i) Dividend received from shares of Indian Company	55,000
(ii) Business Income carried in Singapore controlled from India, received there, and subsequently remitted to India	37,000

If Radha is Resident what is her total income?

- | | |
|-------------|--------------|
| (a) ₹55,000 | (b) ₹ 37,000 |
| (c) ₹92,000 | (d) Nil |

ANSWER KEY

1. A	2. B	3. C	4. A	5. B	6. A	7. C	8. C	9. C	10. A
11. B	12. A	13. B	14. C	15. C	16. A	17. B	18. B	19. A	20. A
21. D	22. C	23. B	24. A	25. B	26. C	27. A	28. D	29. B	30. A
31. B	32. C	33. A	34. D	35. B	36. C	37. A	38. A	39. B	40. D
41. D	42. D	43. D	44. A	45. D	46. C	47. D	48. C	49. D	50. A
51. D	52. A	53. D	54. D	55. B	56. C	57. B	58. B	59. C	60. D
61. A	62. C	63. B	64. C	65. A	66. A	67. A	68. D	69. D	70. A
71. C	72. (i)b,(ii)b,(iii)a	73. B	74. D	75. A	76. A	77. D	78. D	79. D	80. A
81. C	82. C								

CHAPTER – 3
INCOME UNDER HEAD HOUSE PROPERTY

Section 22 : Charging Section

- ➔ **Annual value** of property consisting of
- ➔ **Building or Lands Appurtenant thereto**
- ➔ Of which Assessee is the **Owner**
- ➔ Shall be chargeable to Tax
- ➔ Under Income from House Property.
- ➔ Building will **not include** such portion which is occupied by assessee for **HIS Business or Profession**

Special Point :

Sec 2(2): Annual value in relation to any property, means its annual value as determined under section 23

Essential Conditions for Taxable Income under this Head

- (1) Property must **consist of any buildings with or without adjoining lands**

BUILDING : The term building is not defined in the Income tax Act. As per general meaning it means a permanent structure built of bricks and/or stones, having a foundation, doors, windows etc, which may or may not have a roof.

- ◆ Stadiums & swimming pools don't have any roof, but still they can be treated as building.
- ◆ A house under construction, incapable of being let out, is not treated as building until it is completed

Lands Appurtenant thereto : This term is also not defined in the Income tax act. It means land which is attached to a building which is used as a part of building. e.g. garden, garage, car parking, cycle stand
 Land, which is not adjoining, to any building is not covered by this section. Rental income of such land is taxable under the head **income from other source**

❖ **Independent and commercial income of adjoining land**

It is taxable as income from other source or business income e.g. permanent source of drinking water in adjoining land. Commercial exploitation of such source is independent of income from building. It is income from other source. **Ramalakshmi Reddy (Mad HC)**

- (2) Assessee must be **the owner of the property**:- It is only the owner of the house property, who is liable to pay tax, under this head of income. Thus where a person is himself a tenant & and if he further let out this property (i.e. subletting), he is not taxable under this head but under the head Income from other source, as he is not the owner of the property.

➤ Ownership includes legal ownership as well as **deemed ownership**.

- ❖ If a person is owner of a building and not the owner of the land on which the building is built, even then income from such building will be taxable in his hands.

COMPUTATION OF INCOME UNDER HOUSE PROPERTY

Step 1 : Calculate **ANNUAL VALUE** of House Property

Step 2 : Allow **Deductions** u/s **Sec. 24**

Step 3 : Step 1 – Step 2 is **Income Taxable** under head House Property

Sec 23 of the Income Tax Act,1961

Annual value how determined.

23. (1) For the purposes of section 22, the annual value of any property shall be deemed to be—

- (a) the sum for which the property might reasonably be expected to let from year to year; or
- (b) where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause (a), the amount so received or receivable; or
- (c) where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (a), the amount so received or receivable :

Provided that the taxes levied by any local authority in respect of the property shall be deducted (irrespective of the previous year in which the liability to pay such taxes was incurred by the owner according to the method of accounting regularly employed by him) in determining the annual value of the property of that previous year in which such taxes are actually paid by him.

Explanation — For the purposes of clause (b) or clause (c) of this sub-section, the amount of actual rent received or receivable by the owner shall not include, subject to such rules as may be made in this behalf, the amount of rent which the owner cannot realise.

(2) Where the property consists of a house or part of a house which—

- (a) is in the occupation of the owner for the purposes of his own residence; or
- (b) cannot actually be occupied by the owner by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him,

the annual value of such house or part of the house shall be taken to be *nil*.

(3) The provisions of sub-section (2) shall not apply if—

- (a) the house or part of the house is actually let during the whole or any part of the previous year; or
- (b) any other benefit therefrom is derived by the owner.

(4) Where the property referred to in sub-section (2) consists of more than **TWO** house —

- (a) the provisions of that sub-section shall apply only in respect of **TWO** of such houses, which the assessee may, at his option, specify in this behalf;
- (b) the annual value of the house or houses, other than the houses in respect of which the assessee has exercised an option under clause (a), shall be determined under sub-section (1) as if such house or houses had been let

Section 23 : ANNUAL VALUE

Calculation of Annual Value

Step 1 : Calculate Expected Rent for the P/Y: [Sec. 23(1)(a)]

Expected Rent	=	<ol style="list-style-type: none"> i. Municipal value or Fair rental value, <i>whichever is higher</i> ii. Value determined under (i), above <i>cannot exceed</i> value of Standard Rent, if such property is governed by Rent Control Act
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Special Points :

1. Municipal Value :

Municipalities or Municipal corporations impose property/house tax on properties which are under their jurisdiction. For the purpose of levying such tax, valuation of the property is done. The valuation so determined is known as municipal value.

2. Fair rental value / Market Rental Value :

Fair rental value of the property is the rent prevailing in the market for same type of house in the same or similar locality

3. Standard Rent:

If a property is governed by the provisions of the rent control act, then the rent fixed under the rent control act is known as Standard Rent.

As per Mrs. Shiela Kaushik v CIT (S.C) : Expected value cannot exceed the standard rent.

Step 2 : Calculate Actual Rent Received/Receivable [Sec. 23(1)(b)]

Determine the rent for the period, during which the property is let out in the previous year. Even if the entire rent for the period for which property is let out, is not received during the previous year, total amount of rent will be taken for calculating value under step 2

However there is an exception to this rule.

Actual rent received or receivable will not include **Unrealised rent**

<p><i>Actual rent shall Not include Unrealised Rent provided the adjacent conditions are satisfied</i></p>	<p>Unrealised rent is rent which is receivable & which is proved to be lost & irrecoverable.</p> <ul style="list-style-type: none"> ▪ Tenancy is bonafide. ▪ Defaulting tenant has vacated or steps taken to compel him to vacate property. ▪ Defaulting tenant not occupying assessee's other property. ▪ Assessee taken reasonable steps to institute legal proceedings for recovery of unpaid rent or satisfies AO that proceedings will be useless
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Step 3 : Calculate Gross Annual Value, where

GAV = Step 1 or Step 2, *whichever is higher*

Step 4 : Calculate Net Annual Value

= Value determined in Step 3

Less : Municipal Taxes (Actually **paid** by **Owner** during P/Y)

Special Point:

- Municipal tax paid during the year is **fully deductible**, if **paid** by **owner**.
- Municipal taxes can be house tax , water tax , fire tax , education tax ,scavenging tax (cleaning tax), sewage tax ,general tax or local tax.
- If amount is paid by tenant, the amount is not deductible.
- This deduction is on payment basis. Deduction is available for the municipal tax paid whether for current year, earlier years or next years
- **Municipal tax paid can exceed the GAV. In this case Annual Value shall be negative.**

Computation of Taxable House property Income

1. Municipal value	<u>XXXX</u>
2. Fair Rental value	<u>XXXX</u>
3. Standard Rent	<u>XXXX</u>
4. Expected Rent u/s 23(1)(a) (1 or 2 , higher but cannot exceed Standard rent)	<u>XXXX</u>
5. Actual Rent u/s 23(1)(b)	<u>XXXX</u>
Gross Annual Value (GAV) (4 or 5 , higher)	<u>XXXX</u>
Less : Municipal Taxes	<u>XXXX</u>
Net Annual Value (NAV)	<u>XXXX</u>
Less : Deductions u/s 24 (a)	<u>XXXX</u>
u/s 24 (b)	<u>XXXX</u>
Amount after deduction	<u>XXXX</u>
Add : Recovery u/s 25A	<u>XXXX</u>
Taxable HP Income	<u>XXXX</u>

For calculating Annual Value, House Property is divided into 9 following categories

1. House property let out for **whole** of p/y. [Sec 23(1)]
2. House property let out but remained **vacant** for **part** of p/y. [sec 23(1)]
3. House property **let out** but remained **vacant** for **whole** of p/y.[sec 23(1)]
4. House property **not let out** but remained **vacant** for **whole** of p/y. [sec 23(1)]
5. House Property **occupied for Self residence** during p/y. [Sec. 23(2)]
6. House Property which **could not be occupied** for self residence because of business/profession or employment. [Sec. 23(2)]
7. **More than Two** house occupied for **Self residence** during p/y. [Sec. 23(4)]
8. House property Self occupied for part of p/y and let out for balance of p/y. [Sec 23(3)]
9. Property as stock in trade. [sec 23(5)]

I. HOUSE PROPERTY LET OUT FOR WHOLE OF PREVIOUS YEAR

This covers a case when the house property has been let out for entire previous year to a tenant

Annual value shall be determined as follows

Step 1 : Calculate Expected Rent for the *entire P/Y*

Step 2 : Calculate Actual Rent Received/Receivable *for entire P/Y*

Step 3 : Calculate **Gross Annual Value** (GAV = Step 1 or Step 2, *whichever is higher*)

Step 4 : **Net Annual Value** = Value as per Step 3
Less: Municipal Tax (**Actually paid by Owner** during P/Y)

2. HOUSE PROPERTY LET OUT BUT REMAINED VACANT FOR PART OF P/Y

This covers a case when the house property has been partly let out & partly vacant during the P/Y

Step 1 : Calculate Expected Rent for the *entire P/Y*

Step 2 : Calculate Actual Rent Received/Receivable for the *period property is let out*.

Step 3 : Calculate **Gross Annual Value**

Where value as per

Gross annual Value shall be

- | | | |
|--|---|---------------------|
| i. Step 2 greater than Step 1 | = | Value as per Step 2 |
| ii. Step 2 less than Step 1 (<i>Because of vacancy</i>) | = | Value as per Step 2 |
| iii. Step 2 less than step 1 (<i>Due to rent being less</i>) | = | Value as per Step 1 |

Step 4 : **Net Annual Value** = Value as per Step 3
Less Municipal Tax (**Actually paid by Owner** during P/Y)

3. HOUSE PROPERTY LET OUT BUT REMAINED VACANT FOR WHOLE OF P/Y

This covers a case where the owner wants to let out the house property during the p/y but remained vacant throughout the previous year as no suitable tenant could be found

Step 1 : Calculate Expected Rent for the **entire P/Y**

Step 2 : Actual Rent Received/Receivable will be **NIL**

Step 3 : Gross Annual Value shall be **NIL** (Sec 23(1)(c))

Step 4 : Net Annual Value = Value as per Step 3
Less Municipal Tax (Actually paid by Owner during P/Y)

4. HOUSE PROPERTY NOT LET OUT BUT REMAINED VACANT FOR WHOLE OF P/Y

This covers a case where the owner does not want to let out the house property during the p/y and therefore remained vacant throughout the previous year

Step 1 : Calculate Expected Rent for the **entire P/Y**

Step 2 : Actual Rent Received/Receivable will be **NIL**

Step 3 : Gross Annual Value shall be Step 1 (*Benefit of vacancy not available*)

Step 4 : Net Annual Value = Value as per Step 3
Less Municipal Tax (Actually paid by Owner during P/Y)

5. SELF-OCCUPIED PROPERTY [SEC. 23(2)]

- Where a property consists of a house or part of a house
- Which is in occupation of **Owner** for his own **Residence**
- **Net Annual value** of that House/Part shall be **NIL**.

Special Points :

- 1) **Sec 23(3) :** Net Annual Value shall be Nil if
 - Such House/part is not let out for any part of the previous year &
 - Owner derives no other benefit from such property
- 2) Assesse lets out his house to his employer, who reallots the house to him as rent free accommodation. In such case **NAV will not be Nil**.
- 3) Benefit of sec 23(2) is available for Individuals & HUF only

5. ONE SELF-OCCUPIED PROPERTY WHICH COULD NOT BE OCCUPIED [SEC. 23(2)]

- Where property consists of a house or part of house
- **Cannot be occupied** because of
- Employment/Business/Profession carried on at any **other place**
- Has to reside at that place in a **building not belonging to him**.
- Net Annual value of that House/Part shall be **NIL**.

Special Points :

- 1) **Sec 23(3) :** Net Annual Value shall be Nil if
 - Such House/part is not let out for any part of the previous year &
 - Assessee derives no other benefit from such property.
- 2) Where assessee did not occupy his own residential house but lives in the same town in a house owned by his father for the sake of personal convenience , annual value of such house shall not be taken as nil.
- 3) Where an official or a dignitary, has to reside in official residence as a constitutional obligation & therefore, his own residential house is kept vacant, the benefit of Section 23(2) would apply

7. ASSESSEE OWNS MORE THAN TWO HOUSE FOR HIS RESIDENCE [SEC. 23(4)]

This covers a case where the assessee has more than TWO house for self residence purpose during a p/y

Assessee, *at his option*, can treat **any TWO** house to be self occupied and the Net Annual Value of such House/s shall be **NIL**.

- Then the Other House/s which are used for self residence, shall be **Deemed to be let Out**

Calculation of Annual Value of deemed to be let out property

Step 1 : Calculate Expected Rent for the **entire P/Y**

Step 2 : Actual Rent Received/Receivable will be **NIL**

Step 3 : Gross Annual Value shall be Step 1

Step 4 : Net Annual Value = Value as per Step 3
 Less Municipal Tax (**Actually paid by Owner** during P/Y)

8. HOUSE PROPERTY SELF OCCUPIED FOR PART OF P/Y & LET OUT FOR BALANCE OF P/Y**Calculation of Annual Value**

Step 1 : Calculate Expected Rent for the **entire P/Y**

Step 2 : Calculate Actual Rent Received/Receivable for the let out period

Step 3 : Calculate **Gross Annual Value**, where
GAV = Step 1 or Step 2, *whichever is higher*

Step 4 : **Annual Value** = Value as per Step 3
Less Municipal Tax (Actually paid by Owner during P/Y)

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

- Annual Value shall be Nil of Vacant Property
- Where property consisting of any building or land appurtenant thereto
- is held as stock-in-trade and
- property or any part of the property
- is not let during whole or any part of the p/y,
- Annual value of such property or part of the property,
- for period up to **TWO YEAR** from the end of F/Y
- in which certificate of completion of construction of the property
- is obtained from the competent authority,
- Shall be taken to be NIL

ONE HOUSE USED FOR MULTIPLE PURPOSES

Where one house is used for multiple purpose and percentage of use is also specified, then annual value of each part shall be calculated as if it is a separate house property

DEDUCTIONS FROM HOUSE PROPERTY INCOME (Sec. 24)

Following **TWO** deductions are **ONLY** allowed from Net Annual Value of the house property

Sec. 24(a) : Statutory Deduction

- This is allowed at a **flat rate of 30%** of **positive Net annual value**
- If Net annual value is **Negative or Nil** then such deduction is not allowed.
- Deduction u/s 24(a) is not available from one self occupied property, whose *NAV* is taken as NIL
- This deduction is allowed to cover repair expenses of house property & similar other expenses like Insurance premium, annual charge, ground rent, land revenue, depreciation of the building etc. **Actual expenses incurred have no relevance for calculating this deduction.**

Sec. 24(b) : Interest on borrowed capital

- Interest payable on loan taken
- For the purpose of
- Purchase, construction, reconstruction, repair or renovation of house property
- is allowable as a deduction
- On **DUE BASIS**.

For computing deduction u/s 24(b), loans are divided as follows:

1) POST ACQUISITION/CONSTRUCTION LOANS

Loan taken **after** purchase or construction of House Property for ***Repair, Renovation or Reconstruction*** of house property.

Interest on such loans which become **due** during the previous year will be allowed as deduction for that previous year.

2) PRE ACQUISITION/CONSTRUCTION LOANS

Loan taken **before** purchase or construction of house property for the purpose of ***Purchase or Construction*** of House property

INTEREST FOR PRE- CONSTRUCTION / ACQUISITION PERIOD

This interest is allowed as deduction in **five equal annual installments** starting from the year of completion of construction / acquisition.

So we can say ,Pre acquisition/construction period is

- Date of loan to
- 31st march of previous year prior to previous year of construction/purchase or Date of repayment , *whichever is earlier*

For computing Limit of deduction u/s 24(b), Properties are divided into two categories

1. **Let out and vacant property**
2. **Self occupied property whose Net annual value is NIL**

1. **Deduction u/s 24(b) for let out and vacant properties**

Under this categories all types of let out properties are covered e.g. fully or partly let out, fully or partly vacant, partly self occupied and partly let out or deemed to be let out.

For these types of properties, deduction of interest u/s 24(b), calculated in above manner, is 100% **ALLOWED** without any limit.

2. **Deduction u/s 24(b) for Self occupied property whose Net annual value is NIL u/s 23(2)**

Deduction of **section 24(b)** is allowed subject to a **maximum limit of ₹30,000**.

However,

Where loan is taken **on or after 1st April,1999**

- ✓ for **purchase or construction** of
- ✓ Self occupied property
- ✓ and such purchase or construction is completed
- ✓ Within **5 years** from the end of the F/Y in which loan is taken,
- ✓ Deduction u/s 24(b) shall be allowed upto **maximum limit of 2,00,000**

Provided, the person extending the loan certifies that such interest is payable for acquisition or construction of the house .

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.
- **Interest payable outside India [SECTION 25]**
 - The interest u/s 24(b) payable **outside India**
 - shall be allowed as deduction u/s 24(b),
 - If tax on the same has been paid **or**
 - Deducted at source **or**
 - There is a person in India, who may be treated as agent of recipient for such purpose
- If interest is paid on **unpaid purchase price** to the seller then also deduction can be claimed u/s 24(b)

Sec 25A : Recovery of Arrears of Rent or Unrealised Rent

(1) The amount of arrears of rent received from a tenant or unrealised rent realised subsequently from a tenant, shall be deemed to be income from house property of f/y in which such rent is received or realised, and shall be included under the head house property”, whether assessee is owner of property or not in that f/y

(2) **A sum equal to 30% of recovery of arrears** of rent or unrealised rent shall be allowed as deduction.

OTHER CONCEPTS UNDER HEAD HOUSE PROPERTY

1. Concept of Composite Rent

- Property is let out by the assessee
- together with **Services** (e.g. electricity, gas, water etc.) or **Assets** (e.g plant, machinery or furniture)
- Rent charged by the assessee is a **consolidated sum(i.e Rent for property + Rent for services/assets)**

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
<i>Rent of letting of property</i>	<i>Rent of service ,assets</i>	Taxable under Other sources or Business
Taxable under House property	Taxable under Other sources or business	

2. DEEMED OWNERS [Section 27]

The following are deemed to be the owners of the property:

- I.** An individual who transfers any house property to his **spouse**, or to his **minor child**, for **inadequate consideration** shall be **deemed** to be the **owner** of the house property even after transfer

Exceptions to the point are:

- House transferred to spouse under an agreement to live apart.
 - House transferred to minor married daughter.
- If a person transfers the money to his spouse and then spouse purchases the house property out of that money. In this case, assessee is not treated as deemed owner of the property but any rental income arising to the spouse will be taxable for the assessee as per clubbing provisions.

- II. The holder of an Impartible estate** is deemed to be the owner of all the properties comprised in the estate. A HUF property belongs to its members. But until the partition, HUF is the holder and therefore deemed as owner under house property

- III. A member of a Co-operative Society, Company or an Association of persons** to whom a building/ flat is allotted under a house building scheme of the society, company or association, shall be deemed to be the owner of that property, although the co-operative society/ company/ association is the legal owner of that building.

- IV. Person in possession of a property:-** A person who is allowed to take the **possession** of the property by way of “power of attorney” transactions (*as per section 53A of Transfer of property Act*), will be deemed to be the deemed owner of the properties if the following conditions are satisfied :-

- Possession of the property has been handed over to the buyer.
- Sale consideration has been paid to the seller by the buyer.
- Sale deed has not been executed in favour of the buyer, although certain other documents like power of attorney / agreement to sell, have been executed.

- V.** A person, who acquires a property on **lease of 12 years or more**, shall be deemed to be owner of property. If right of extension is given to lessee, then aggregate period is considered for such purpose.

3. PROPERTY IN A FOREIGN COUNTRY

If **foreign property is taxed in India**, it will be taxable under the head ‘Income from house property’ and its annual value shall be computed as if the property is situated in India. In computing annual value of such a house property, municipal taxes levied by a **local authority of foreign country** and which have been paid are to be deducted in computing the annual value.

4. DISPUTED OWNERSHIP

Mere dispute as to ownership cannot hold up an assessment. Income tax department will decide based on the facts of each case, as to who is the owner of the property. Generally, the one, who is receiving the rent or is having the possession of the house property, shall be declared as owner and is thus taxable under this head.

5. ASSESSEE ENGAGED IN PROPERTY DEALING BUSINESS:

Supreme Court in *East India Housing and Land Development Trust Ltd. vs. CIT (1961)* held that if an assessee is dealing in purchasing and selling buildings, Rental income received from such buildings upto they are owned by the assessee will be taxable under house property

6. LETTING OUT IS SUBSERVIENT AND INCIDENTAL TO THE MAIN BUSINESS

As per *CIT v. Delhi Cloth & General Mills Co. Ltd.*, if an assessee constructs residential quarter's & lets them out to his employees & letting out of residential quarter's is only related to business, i.e. it is not main business of assessee, then income is taxable as business income & not income from house property.

- In the same way it was held in *CIT v. National News prints & Paper Mills Ltd.*, that if the assessee makes its accommodation available to Govt. for locating a branch of nationalised bank, post office, police station, central excise office etc., with the aim of carrying on its business efficiently and smoothly, rent collected is taxable as business income and not as house property income.

7. EXEMPTIONS REGARDING INCOME FROM HOUSE PROPERTY :-

1. Income from farm house. [Section 10(1)]
2. Annual value of one palace of ex-Indian Ruler. [Section 10(19A)]
3. Property used for own business or profession [Section 22]
4. One self-occupied property.[Section 22]
5. Income from property owned by:
 - (i) Local authority; [Section 10(22)]
 - (ii) Scientific Research Association; [Section 10(21)]
 - (iii) University, college etc.; [Section 10(23 C)]
 - (iv) Hospital; [Section 10(23C)]
 - (v) Games or sports association; [Section 10(23)]
 - (vi) Trade union; [Section 10(24)]
 - (vii) Charitable trust; [Section 11]
 - (viii) Political party. [Section 13A]

8. PROPERTY OWNED BY CO-OWNERS [SECTION 26]

- If a property is owned by two or more persons, who are known as co-owners
- their share in property is **definite and ascertainable**
- then the share of each co-owner in the income of the property (as computed under the head “Income from house property”)
- Shall be included in the total income of each such person.

Special point :

- 1) The benefit of Section 24(b) to the extent of ₹ 30,000 / ₹ 2,00,000 is available to each of the co-owner, **if used for own residence**
- 2) The co-owners shall be assessed as an **Association of Persons** if the share is **not** definite

9. TREATMENT OF LOSS

If House Property Income is negative, it will first be adjusted against other positive incomes under the same head, i.e. it will first be adjusted against other positive incomes of house property and if the loss can not be fully adjusted then balance will be adjusted against other incomes under other heads of income like salary income, business income etc upto Maximum ₹2,00,000. [**Section 70,71,71(3A)**]

If, still some amount is left to be adjusted, then it is carried forward for next years to be adjusted against house property income only. It means during the current year of loss, the house property losses can be adjusted against other heads of income, but during subsequent years [maximum 8 years] it can be adjusted only against house property incomes. [**Section 71B**]

MULTIPLE CHOICE QUESTIONS**BASIC CONCEPTS OF TAXABILITY OF INCOME FROM HOUSE PROPERTY**

- (1) Which is the charging section of Income from house property?
- (a) Section 15 (b) Section 22
(c) Section 56 (d) Section 28
- (2) Income from vacant plot is taxable under the head-----
- (a) Income from House Property (b) Income from Other Sources
(c) Profits & Gains of Business or Profession (d) Capital Gains
- (3) Which of following conditions need to be satisfied in order to tax any income under the head Income from house property ?
- (a) The property must consist of building or land appurtenant thereto. (b) The assessee must be the owner of such house property.
(c) The property must not be used for business or profession carried on by assessee. (d) All of the above.
- (4) Income from subletting of house property is taxable under the head-----
- (a) Income from House Property (b) Income from Other Sources
(c) Profits & Gains of Business or Profession (d) Capital Gains
- (5) In case the letting out of property is incidental to the main business, then income from such property shall be taxable as
- (a) Income from House Property (b) Income from Other Sources
(c) Profits & Gains of Business or Profession (d) Capital Gains
- (6) Annual value of property of a social club will be :
- (a) Taxable as Income from House Property (b) Taxable as Income from Other Sources
(c) Exempt from tax (d) Taxable as Profits and gains of business
- (7) In case any property is owned by an assessee and the same is given by him to the partnership firm, in which he is a partner, for carrying on the business of such firm, then the income from such property will :
- (a) Not be taxable. (b) be taxable as Income from Other Sources
(c) Be taxable as Income from house property (d) Taxable as Profits and gains of business
- (8) Income from building constructed on leasehold is taxable as :
- (a) Income from House Property (b) Income from Other Sources
(c) Profits & Gains of Business or Profession (d) Capital Gains
- (9) The assessee, who was deriving income from "House property" realised a sum of ₹ 52,000 on account of display of advertisement hoarding of various concerns on the roof of the building. The same will be taxable under:

- (a) Income from House Property
(b) Income from Other Sources
(c) Profits & Gains of Business or Profession
(d) Capital Gains
- (10) Composite rent of let-out house property is taxable as –
(a) Profits and gains from business or profession
(b) Income from other sources
(c) Income from house property
(d) Either (a) or (b) above depending upon certain conditions.

COMPUTATION OF ANNUAL VALUE - SECTION 23

- (11) Expected Rent is equal to _____ –
(a) Fair Rent
(b) Municipal Valuation
(c) Lower of Fair Rent or Municipal valuation
(d) Higher of Fair Rent or Municipal valuation subject to the maximum of Standard Rent
- (12) If Actual Rent received or receivable exceeds Expected Rent, the Gross Annual Value equals to-
(a) Actual Rent received or receivable
(b) Expected Rent
(c) Actual Rent - Expected Rent
(d) None of these.
- (13) The sum for which the property might reasonably be expected to let year to year is known as -
(a) Expected Rent
(b) Standard Rent
(c) Annual value
(d) Municipal Valuation
- (14) In which of the following cases the annual value of the house is taken to be NIL.
(a) Self occupied house.
(b) Vacancy for the whole period.
(c) If the assessee holds two house properties.
(d) Both (a) & (b) but not (c)
- (15) Sajal is the owner of a house property covered under the Rent Control Act. Municipal value ₹ 30,000, actual rent ₹ 25,000 fair rent ₹ 36,000 and standard rent is ₹ 28,000. The gross annual value of the house property will be -
(a) ₹ 30,000
(b) ₹ 25,000
(c) ₹ 36,000
(d) ₹ 28,000
- (16) Ram owns a house property in Delhi which he wants to give on rent. He seeks your help to determine the reasonable expected rent when monthly municipal value is ₹ 20,000, fair rent ₹ 25,000 and standard rent ₹ 22,000. The reasonable expected rent will be computed with reference to following amount per month -
(a) ₹ 22,000
(b) ₹ 20,000
(c) ₹ 25,000
(d) None of the above.
- (17) Find out the expected rent of house property A, if the following is given:
Municipal value = ₹ 1,00,000; Fair Rent = ₹ 88,000;
Standard Rent = ₹ 1,12,000. Actual Rent = ₹ 1,25,000
(a) ₹ 1,00,000
(b) ₹ 88,000
(c) ₹ 1,12,000
(d) ₹ 1,25,000
- (18) Find out the expected rent of house property X, if the following is given:
Municipal value = ₹ 70,000; Fair Rent = ₹ 88,000;
Standard Rent = ₹ 1,12,000. Actual Rent = ₹ 1,25,000
(a) ₹ 70,000
(b) ₹ 88,000
(c) ₹ 1,12,000
(d) ₹ 1,25,000

(19) Find out the expected rent of house property , if the following is given:

Municipal value = ₹ 70,000; Fair Rent = ₹ 88,000; Standard Rent = ₹ 60,000 Actual Rent = ₹ 1,25,000

- (a) ₹ 70,000 (b) ₹ 88,000
(c) ₹ 60,000 (d) ₹ 1,25,000

(20) Find out the expected rent of house property , if the following is given:

Municipal value = ₹ 65,000; Fair Rent = ₹ 88,000; Standard Rent = ₹ 60,000 Actual Rent = ₹ 1,25,000

- (a) ₹ 65,000 (a) ₹ 88,000
(a) ₹ 60,000 (a) ₹ 1,25,000

(21) Find the Gross Annual Value of house property, if the following is given:

Municipal value = ₹ 10,000; Fair Rent = ₹ 88,000;

Standard Rent = ₹ 92,000; Actual Rent = ₹ 89,000.

- (a) ₹ 10,000 (b) ₹ 88,000
(c) ₹ 92,000 (d) ₹ 89,000

(22) Find the Gross Annual Value of house property if the following is given:

Municipal value = ₹ 1,00,000; Fair Rent = ₹ 88,000;

Standard Rent = ₹ 92,000; Actual Rent = ₹ 89,000.

- (a) ₹ 1,00,000 (b) ₹ 88,000
(c) ₹ 92,000 (d) ₹ 89,000

(23) Find the Gross Annual Value of house property ,if the following is given:

Municipal value = ₹ 1,00,000; Fair Rent = ₹ 1,20,000;

Standard Rent = ₹ 1,50,000; Actual Rent = ₹ 1,30,000.

- (a) ₹ 1,00,000 (b) ₹ 1,20,000
(c) ₹ 1,50,000 (d) ₹ 1,30,000

(24) Find the Gross Annual Value of house property if the following is given:

Municipal value = ₹ 1,60,000; Fair Rent = ₹ 1,20,000;

Standard Rent = ₹ 1,50,000; Actual Rent = ₹ 1,55,000.

- (a) ₹ 1,60,000 (b) ₹ 1,20,000
(c) ₹ 1,50,000 (d) ₹ 1,55,000

(25) Find the Gross Annual Value of house property if the following is given:

Municipal value = ₹ 1,40,000; Fair Rent = ₹ 1,20,000;

Standard Rent = ₹ 1,50,000; Actual Rent = ₹ 1,30,000.

- (a) ₹ 1,40,000 (b) ₹ 1,20,000
(c) ₹ 1,50,000 (d) ₹ 1,30,000

(26) Calculate the Gross Annual value from the following details:

Municipal Value - ₹ 45,000; Fair rental value - ₹ 50,000;

Standard rent - ₹ 48,000; Actual Rent - ₹ 42,000.

- (a) ₹ 50,000 (b) ₹ 48,000
(c) ₹ 45,000 (d) ₹ 42,000

(27) Calculate the Gross Annual value from the following details:

Municipal Value - ₹ 45,000; Fair rental value - ₹ 50,000;

Standard rent - ₹ 48,000; Actual Rent Receivable - ₹ 75,000; Unrealised rent : ₹ 20,000

- (a) ₹ 50,000 (b) ₹ 55,000
(c) ₹ 45,000 (d) ₹ 42,000

(28) Calculate the Gross Annual value from the following details:

Municipal Value - ₹ 45,000; Fair rental value - ₹ 50,000;

Standard rent - ₹ 48,000; Actual Rent Receivable - ₹ 55,000; Unrealised rent : ₹ 20,000.

- (a) ₹ 50,000 (b) ₹ 48,000
(c) ₹ 45,000 (d) ₹ 35,000

(29) Calculate the Gross Annual value from the following details:

Municipal Value - ₹ 45,000; Fair rental value - ₹ 50,000;

Standard rent - ₹ 48,000; Actual Rent Receivable (11 months) - ₹ 46,000 Vacancy: 1 month

- (a) ₹50,000 (b) ₹46,000
(c) ₹ 45,000 (d) ₹ 48,000

(30) Calculate the Gross Annual value from the following details:

Municipal Value - ₹ 45,000; Fair rental value - ₹ 50,000;

Standard rent - ₹ 48,000; Actual Rent Receivable (11 months) - ₹ 40,000 Vacancy: 1 month

- (a) ₹50,000 (b) ₹ 40,000
(c) ₹ 45,000 (d) ₹ 48,000

(31) Find the Gross Annual Value of house property of A if the following information is given:

Municipal value = ₹ 1,40,000; Fair Rent = ₹ 1,50,000; Standard Rent = ₹ 1,44,000;

Actual Rent = ₹ 15,000; Vacancy = 11 months.

- (a) ₹ 1,40,000 (b) ₹ 1,50,000
(c) ₹ 15,000 (d) ₹ 1,44,000

(32) Find the Gross Annual Value of house property of X if the following is given -

Municipal value = ₹ 80,000; Fair Rent = ₹ 70,000; Vacancy = 12 months

- (a) ₹ 80,000 (b) Nil
(c) ₹ 70,000 (d) ₹ 10,000

(33) X is the owner of a house, the details of which are given below:

- (a) Municipal value : ₹ 30,000 (b) Actual rent : ₹ 32,000
(c) Fair rent : ₹ 36,000 (d) Standard rent : ₹ 40,000.

The gross annual value would be –

- (a) ₹ 36,000 (b) ₹ 35,000
(c) ₹ 30,000 (d) ₹ 40,000.

(34) Municipal value : ₹ 14,000; Fair rent : ₹ 14,500; Standard rent : ₹ 14,200. Actual rent as property let-out throughout previous year : ₹ 16,800. Unrealized rent of the previous year : ₹ 7,000. The annual value of the house property shall be

- (a) ₹ 9,800 (b) ₹ 7,200
(c) ₹ 14,200 (d) ₹ 7,500

(35) X is owner of house which has been let out at a monthly rent of ₹ 25,000. The fair rent of the house is ₹ 2,90,000 and standard rent is ₹ 2,60,000. The municipal value of house is ₹ 2,80,000 and municipal taxes are levied @ 10% of municipal value. The entire amount of municipal taxes are outstanding for the year ended 31-03-2021. The amount of municipal taxes to be allowed as deduction for computing the annual value will be :

- (a) ₹30,000 (b) ₹29,000
(c) ₹28,000 (d) Nil
- (36) X is owner of house which has been let out at a monthly rent of ₹25,000. The fair rent of the house is ₹2,90,000 and standard rent is ₹2,60,000. The municipal value of house is ₹2,80,000 and municipal taxes are levied @ 10% of municipal value. The entire amount of municipal taxes for the year ended 31-03-2021 are paid by the owner on 31-03-2021. The amount of municipal taxes to be allowed as deduction for computing the annual value will be :
- (a) ₹30,000 (b) ₹29,000
(c) ₹28,000 (d) Nil
- (37) X is owner of house which has been let out at a monthly rent of ₹25,000. The fair rent of the house is ₹2,90,000 and standard rent is ₹2,60,000. The municipal value of house is ₹2,80,000 and municipal taxes are levied @ 10% of municipal value. The entire amount of municipal taxes for the year ended 31-03-2021 out of which half of the municipal taxes are paid by the tenant. The amount of municipal taxes to be allowed as deduction for computing the annual value will be :
- (a) ₹30,000 (b) ₹29,000
(c) ₹14,000 (d) Nil
- (38) Bhaskar owns a house, which is self-occupied upto 31-5-2020. W.e.f. 1-6-2020, the property is let to Hari at ₹40,000 p.m. Determine the Gross Annual Value of the house if the municipal value is ₹4,15,000; Fair Rent ₹4,20,000 and standard rent is ₹4,10,000.
- (a) ₹4,00,000 (b) ₹4,20,000
(c) ₹4,10,000 (d) ₹4,15,000
- (39) Laxman owns a house, which is self-occupied upto 31-5-2020. W.e.f. 1-6-2020, the property is let to Praveen at ₹42,000 p.m. Determine the Gross Annual Value of the house if the municipal value is ₹4,15,000; Fair Rent ₹4,30,000 and standard rent is ₹4,10,000.
- (a) ₹4,20,000 (b) ₹4,30,000
(c) ₹4,10,000 (d) ₹4,15,000
- (40) Manish owns a house, which is self-occupied upto 31-5-2020. W.e.f. 1-6-2020, the property is let to Sushil at ₹42,000 p.m. Determine the Net Annual Value of the house if the municipal value is ₹4,15,000; Fair Rent ₹4,30,000 and standard rent is ₹4,10,000 and tenant has paid 10% of municipal value as municipal taxes.
- (a) ₹4,20,000 (b) ₹4,30,000
(c) ₹3,78,500 (d) ₹4,15,000

DEDUCTIONS FROM ANNUAL VALUE - SECTION 24

- (41) Which of the following deduction are to be made from income house property?
- (a) Statutory deduction (b) Interest on borrowed loan
(c) Both (a) and (b) (d) Option (a) but not (b)
- (42) The construction of a house was completed on 31st January, 2021, The owner of the house took a loan of ₹20,00,000 @ 6% p.a. On 1st May, 2020. He is not covered u/s 115BAC. In this case the deduction allowable for the previous year 2020-21 towards interest on borrowings is-
- (a) ₹22,000 (b) ₹24,000
(c) ₹1,10,000 (d) None of the above
- (43) Vikram purchased a house for his residential purpose after taking a loan in January, 2019. During the previous year 2020-21, he paid interest on loan ₹2,17,000. He is covered u/s 115BAC. While computing income from house property, the deduction is allowable to the extent of -
- (a) ₹30,000 (b) Nil
(c) ₹2,17,000 (d) ₹2,00,000.

- (44) When did pre-acquisition or pre-construction period commences -
- (a) On the 1st year when loan is borrowed (b) On the date of borrowing
(c) On the 1st April of the year when construction is completed (d) On the 31st March of the year when loan is borrowed
- (45) When did pre-acquisition or pre-construction period ends?
- (a) 31st march immediately prior to date of acquisition of property. (b) Date of repayment of loan completion of construction or
(c) (a) or (b) whichever is earlier (d) Any of these
- (46) Which of the following amount is not allowed for deduction from income from house property ?
- (a) Interest on loan borrowed for construction of house property. (b) Interest on fresh loan taken to repay original loan.
(c) Interest on unpaid interest. (d) Interest on unpaid purchase price.
- (47) The maximum limit of deduction under section 24(b) for interest on borrowed capital on or after 1-4-1999 for repairs of house property used for self occupation ,assuming not covered u/s 115BAC, is :
- (a) ₹30,000 (b) ₹ 2,00,000
(c) ₹ 50,000 (d) ₹ 60,000
- (48) The maximum limit of deduction under section 24(b) for interest on borrowed capital on or after 1-4-1999 for acquisition or construction of self occupied house property, assuming covered u/s 115BAC, is:
- (a) ₹30,000 (b) ₹ 2,00,000
(c) ₹ 50,000 (d) NIL
- (49) The maximum limit of deduction under section 24(b) for interest on borrowed capital before 1-4-1999 for construction of house property used for self occupation,assuming not covered u/s 115BAC,is:
- (a) ₹ 30,000 (b) ₹ 2,00,000
(c) ₹ 50,000 (d) ₹ 60,000
- (50) The maximum limit of deduction under section 24(b) for interest on borrowed capital on or after 1-4-1999 for construction of house property used for self occupation if the house is completed within 5 years from the end of previous year in which loan is taken ,assuming not covered u/s 115BAC, is :
- (a) ₹ 30,000 (b) ₹ 2,00,000
(c) ₹ 50,000 (d) ₹ 60,000
- (51) The maximum limit of deduction under section 24(b) for interest on borrowed capital on or after 1-4-1999 for construction of house property used for self occupation shall be ₹ 2,00,000 if -
- (a) the house is completed within 5 years from the end of previous year in which loan is taken. (b) the house is completed within 5 years from the end of previous year in which construction is started.
(c) the house is completed within 5 years from the date when the loan is taken. (d) the house is completed within 5 years from the date when construction is started.
- (52) M took a loan of ₹ 6,00,000 on 1-4-2018 from a bank for construction of a house. The loan carries an interest @ 10% p.a. The construction is completed on 30-6-2019. The entire loan is still outstanding. The pre-construction period interest will be ₹_____
- (a) ₹ 60,000 (b) Nil
(c) ₹ 75,000 (d) ₹ 90,000

- (53) S took a loan of ₹8,00,000 on 1-4-2020 from a bank for construction of let out house. The loan carries an interest @ 12% p.a. The construction is completed on 31-03-2021. The entire loan is still outstanding on 31-03-2021. The pre-construction period interest will be ₹_____, assume not covered u/s 115BAC.
- (a) ₹96,000 (b) Nil
(c) ₹1,92,000 (d) ₹1,50,000
- (54) R took a loan of ₹8,00,000 on 1-4-2018 from a bank for construction of let out house. The loan carries an interest @ 12 % p.a. The construction is completed on 31-03-2020. The entire loan is still outstanding on 31-03-2021. The pre-construction period interest allowable in Assessment Year 2021-22 will be ----- . Assume covered u/s 115BAC.
- (a) ₹ 19,200 (b) ₹38,400
(c) ₹ 96,000 (d) ₹1,92,000
- (55) X took a loan of ₹8,00,000 on 1-4-2018 from a bank for construction of a let out house. The loan carries an interest @ 12 % p.a. The construction is completed on 31-03-2020. The entire loan is still outstanding on 31-03-2021. The total interest allowable in Assessment Year 2021-22 will be _____, assume not covered u/s 115BAC.
- (a) ₹ 1,15,200 (b) ₹ 1,34,400
(c) ₹ 96,000 (d) ₹ 1,92,000
- (56) When a house property is let-out throughout the year for a monthly rent of ₹22,000 and municipal tax paid for current year is ₹24,000 and for the earlier year paid now is ₹16,000, the income from house property would be -
- (a) ₹1,68,000 (b) ₹1,56,800
(c) ₹1,84,800 (d) ₹2,24,000
- (57) X is owner of house which has been let out at a monthly rent of ₹25,000. The fair rent of the house is ₹2,90,000 and standard rent is ₹2,60,000. The municipal value of house is ₹2,80,000 and municipal taxes are levied @ 10% of municipal value. The entire amount of municipal taxes for the year ended 31-03-2021 are paid by the owner. The income from house property will be :
- (a) ₹1,90,400 (b) ₹1,76,400
(c) ₹1,62,400 (d) ₹2,72,000
- (58) S is owner of house which has been let out at a monthly rent of ₹30,000. The fair rent of the house is ₹2,90,000 and standard rent is ₹2,60,000. The municipal value of house is ₹2,80,000 and municipal taxes are levied @ 10% of municipal value. The entire amount of municipal taxes for the year ended 31-03-2021 are paid by the owner. Interest on borrowed capital is ₹2,10,000 (outstanding). The income from house property will be
- (a) ₹2,32,400 (b) ₹22,400
(c) ₹1,62,400 (d) ₹32,400
- (59) G is owner of house which has been let out at a monthly rent of ₹20,000. The fair rent of the house is ₹2,90,000 and standard rent is ₹2,60,000. The municipal value of house is ₹2,80,000 and municipal taxes are levied @ 10% of municipal value. The entire amount of municipal taxes for the year ended 31-03-2021 are paid by the owner. Interest on borrowed capital is ₹60,000 (outstanding). The income from house property will be
- (a) ₹1,02,400 (b) ₹1,62,400
(c) ₹88,400 (d) ₹1,48,400
- (60) In case of self-occupied property, statutory deduction under section 24(a) shall be :
- (a) Nil (b) ₹30,000
(c) ₹2,00,000 (d) ₹90,000
- (61) Under which of the following circumstances the income from house property is exempt from tax
- (a) Farm house (b) Trade Union
(c) One self occupied property (d) All of the above

(62) If the respective shares of income of co-owners are not definite and ascertainable, the co-owners shall be assessed as:

- | | |
|------------------|------------------|
| (a) AOP. | (b) BOI |
| (c) Joint owners | (d) Any of these |

(63) Who amongst the following is not a deemed owner?

- | | |
|--|---|
| (a) An individual who transfers his house property otherwise than for adequate consideration to his or her spouse. | (b) A member of a co-operative society, company or an AOP to whom a building or part thereof is allotted. |
| (c) The holder of impartible estate of an HUF. | (d) None of the above. |

(64) Mr. Kamal had two children Sumit and Sushmita (married with Aman) of age 15 & 17 respectively and wife named Anu. In which of the following case he will not be considered as deemed owner?

- | | |
|------------------------------------|---------------------------------------|
| (a) Transfer of property to Anu. | (b) Transfer of property to Sushmita. |
| (c) Transfer of property to Sumit. | (d) None of the above. |

(65) What are the conditions to be fulfilled in order to claim exemption of unrealized rent?

- | | |
|---|---|
| (a) The defaulting tenant is in occupation of any other property of the assessee. | (b) Steps have been taken to compel him to vacate the property. |
| (c) The tenancy is bona fide. | |

(d) Both (b) and (c)

(66) The net annual value of house let-out is ₹ 1,00,000 and actual amount spent by the assessee on repairs and insurance premium is ₹ 20,000, the amount of deduction allowed under section 24(a) shall be ₹ -----

- | | |
|--------------|--------------|
| (a) ₹ 20,000 | (b) ₹ 30,000 |
| (c) ₹ 25,000 | (d) ₹ 22,000 |

(67) X took a loan of ₹ 6,00,000 on 1-4-2018 from a bank for construction of let out house. The loan carries an interest @ 10% p.a. The construction is completed on 15-6-2021. The entire loan is still outstanding. Compute the interest allowable for the assessment year 2021-22.

- | | |
|-------------|---------------|
| (a) ₹60,000 | (b) ₹1,80,000 |
| (c) ₹84,000 | (d) ₹24,000 |

(68) B had one self occupied house property in Mumbai for residence. Fair rent of that property is ₹56,000 per annum. Municipal valuation is ₹ 28,000. Municipal taxes paid are ₹5,000 including ₹1,000 for an earlier year. The house was constructed in December, 2008 with a loan of ₹12,00,000 from a bank taken in November, 2007. During the previous year 2020-21, the assessee refunded ₹2,30,000 which includes ₹2,18,000 as current year interest. Compute the income from house property for assessment year 2021-22. Assuming covered u/s 115BAC,

- | | |
|----------------------|------------------------|
| (a) Loss of ₹ 30,000 | (b) Loss of ₹ 2,18,000 |
| (c) Nil | (d) Loss of ₹ 2,00,000 |

(69) Which out of the following is not a case of deemed ownership of house property?

- | | |
|---|--|
| (a) Transfer to a spouse for inadequate consideration | (b) Transfer to a minor child for inadequate consideration |
| (c) Holder of an impartible estate | (d) Co-owner of a property |

(70) Jagdish, after sale of his house property during August, 2019, received arrears of rent amounting to ₹ 40,000 on 2nd February, 2021. The said income is chargeable to tax under the head -----and the taxable income would be ₹-----

- | | |
|---|---|
| (a) Income from house property; ₹28,000 | (b) Income from other Sources; ₹ 28,000 |
| (c) Income from house property; ₹40,000 | (d) Income from other sources; ₹40,000 |

(71) Rakesh, after sale of his house property during August, 2019, received unrealised rent amounting to ₹80,000 on 2nd February, 2021. The said income is chargeable to tax under the head----- and the taxable income would be ₹-----

- (a) Income from house property; ₹ 56,000
(b) Income from other Sources; ₹ 56,000
(c), Income from house property; ₹ 80,000
(d) Income from other sources; ₹ 80,000
- (72) Sakshi received ₹ 30,000 as arrears of rent during the previous year 2020-21. The amount taxable under section 25A would be _____
(a) Nil
(b) ₹ 30,000
(c) ₹ 21,000
(d) ₹ 25,000
- (73) In case assessee is owner of more than one house which are self occupied by him, then at the option of the assessee:
(a) One house shall be treated as self occupied and the other house shall be deemed to let out.
(b) One house shall be treated as self occupied and the other house shall be deemed to be vacant.
(c) Both the houses shall be treated as deemed to be let out.
(d) Both the houses shall be treated as self occupied.
- (74) Rajeev owns a house property. Following are the details about the property :
Municipal value of house ₹ 72,000 per annum.
Fair rent of house ₹ 66,000 per annum.
Standard rent of house ₹ 60,000 per annum.
The house was let out at ₹ 6,000 per month but was sold on 1st January, 2021. Find out income from house property for the assessment year 2021-22.
(a) Nil
(b) ₹ 50,400
(c) ₹ 37,800
(d) ₹ 25,000
- (75) Mrs. Radha owns a house property which is let out @ ₹ 10,000 p.m. During the previous year ending 31st March 2021, she received -
(i) Arrears of rent of ₹ 30,000; and (ii) unrealised rent of ₹ 20,000.
Compute her income chargeable to tax under the head 'Income from House Property'.
(a) ₹ 84,000
(b) ₹ 1,04,000
(c) ₹ 1,25,000
(d) ₹ 1,19,000
- (76) Suresh let-out his house on 1st April, 2020 on rent of ₹ 15,000 p.m. The fair rent and the municipal value of house are ₹ 13,500 p.m. and ₹ 16,000 p.m. respectively. Municipal taxes paid for the year were ₹ 12,000. Income from house property for the assessment year 2021-22 will be -
(a) ₹ 1,26,000
(b) ₹ 1,76,000
(c) ₹ 1,05,000
(d) None of the above.
- (77) Ms. Ruby let out a property for ₹ 20,000 per month during the year 2020-21. The municipal tax on the let-out property was enhanced retrospectively. Hence, she paid ₹ 60,000 as municipal tax which included arrears of municipal tax of ₹ 45,000. Her income from house property is -
(a) ₹ 1,80,000
(b) ₹ 1,57,500
(c) ₹ 1,26,000
(d) ₹ 1,36,500
- (78) Naresh owns two house properties. First property was used half for running his business and the other half was let-out at ₹ 4,000 per month. The second property was wholly used as a residence by Naresh. Municipal value of the two properties were the same at ₹ 72,000 each per annum and local taxes @ 10%. Naresh's income from house property for the previous year 2020-21 will be -
(a) ₹ 33,600
(b) ₹ 31,080
(c) ₹ 28,560
(d) ₹ 62,160.

- (79) Y is the owner of a commercial property let out at ₹ 20,000 p.m. The municipal tax on the property is ₹ 25,000 annually, 50% of which is payable by the tenant. This tax was actually paid on 15-04-2021. He had borrowed a sum of ₹ 10 lacs from his cousin, resident in U.S.A. (in dollars) for the construction of the property on which interest @ 10% is payable. He has also received arrears of rent of ₹ 20,000 during the year, which was not charged to tax in the earlier years. What is the property income of X for assessment year 2021-22 ?
- (a) ₹ 82,000 (b) ₹ 73,250
(c) ₹ 83,625 (d) ₹ 88,000
- (80) During the financial year 2020-21, Mr. A received a sum of ₹ 1,80,000 (₹ 60,000 p.a.) by way of enhancement for the last three years as the Government department (tenant) enhanced the rate of rent with retrospective effect. The sum of ₹ _____ be taxable in the assessment year 2021-22
- (a) ₹ 1,80,000 (b) ₹ 1,26,000
(c) ₹ 60,000 (d) ₹ 42,000
- (81) X, an American national, is resident in India during the PY ending on 31-3-2021. He was the owner of a building located in New York. The same was on rent @ US \$12,500 p.m. The Municipal Corporation of New York was paid taxes on such building of US \$ 10,000 on 12-2-2021. The value of one US \$ in Indian rupee remained at ₹ 60 throughout the year. X wants to know his taxable income for house property for assessment year 2021-22.
- (a) ₹58,80,000 (b) ₹ NIL
(c) ₹ 63,00,000 (d) ₹ 90,00,000
- (82) When share of each co-owner in a house property is not definite, the income from such property shall be -
- (a) Taxed equally (b) Exempt from tax
(c) Taxed as association of persons (d) Taxed as body of individuals.

ANSWER KEY

1.B	2.B	3.B	4.B	5.C	6.C	7.A	8.A	9.B	10.D
11.D	12.A	13.A	14.B	15.D	16.A	17.D	18.B	19.C	20.C
21.D	22.C	23.D	24.D	25.A	26.B	27.B	28.B	29.B	30.D
31.C	32.B	33.A	34.C	35.D	36.C	37.C	38.C	39.A	40.A
41.C	42.C	43.B	44.B	45.C	46.C	47.A	48.D	49.A	50.B
51.A	52.A	53.B	54.A	55.A	56.B	57.A	58.B	59.A	60.A
61.D	62.A	63.D	64.B	65.D	66.B	67.C	68.C	69.D	70.A
71.A	72.C	73.A	74.C	75.D	76.A	77.C	78.B	79.A	80.B
81.A	82.C								

CHAPTER – 4
AGRICULTURAL INCOME

Sec. 10(1) : Agricultural Income shall be Exempt from Income Tax

Partial Integration of Agricultural Income with Non-Agricultural Income

- ♣ Applicable only for **Individual/HUF/AOP/BOI/AJP**
- ♣ Done for Computation of tax on Non-agricultural Income
- ♣ Provided **Both** of below conditions are satisfied
- ♣ Agricultural Income **exceeds ₹ 5,000 &**
- ♣ Non-Agricultural Income **exceeds Exemption Limit (As applicable)**

Computation of Tax on Non Agricultural Income

Step 1 : Calculate Tax on [Total Income + Agricultural income exempt u/s 10(1)] as per slab rates & special rates

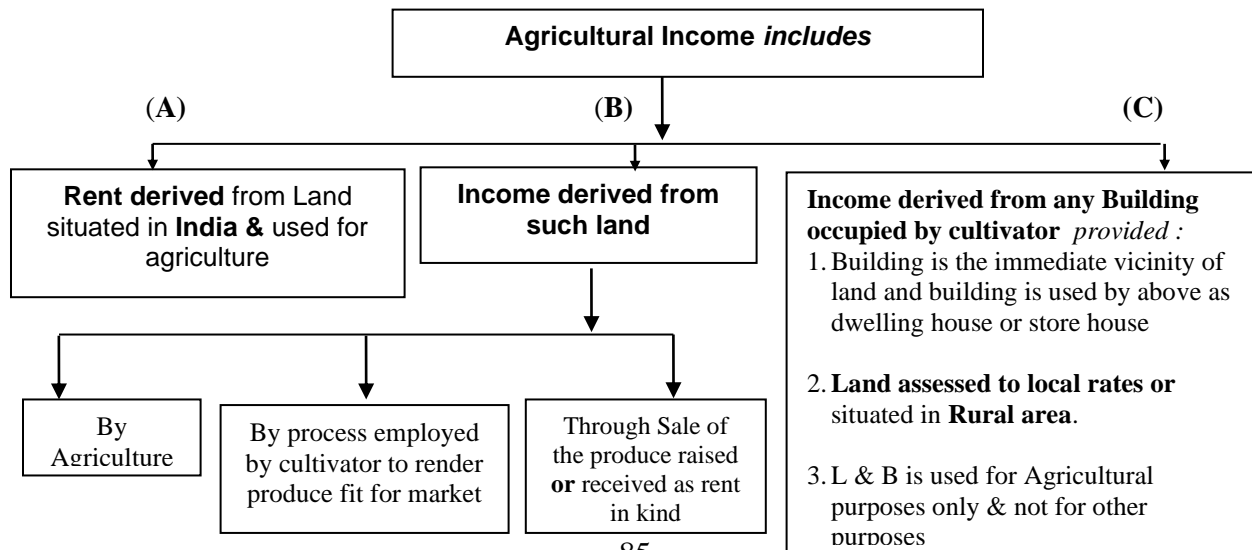
Step 2 : Subtract Agricultural Rebate i.e Tax on [Exemption limit + Agricultural income exempt u/s 10(1) at slab rates]

Step 3 : Subtract Rebate u/s 87A of max ₹12,500 if Individuals Total Income is upto ₹5 lacs & Resident during P/Y

Step 4 : Add 10% Surcharge if Total income exceeds 50 lakhs **or 15% Surcharge** if Total income exceeds 1 crore , **25% Surcharge** if Total income exceeds 2 crore, **37% Surcharge** if Total income exceeds 5 crore (subject to Marginal relief)

Step 5 : Add 4 % Health & Education Cess

Sec. 2(1A) : Definition of Agriculture Income



Special Points :

1. For meaning of Urban Area/Rural Area refer Capital Gains
2. Any income derieved from seedling or sapling grown in nursery shall also be treated as agricultural Income
3. Agricultural Income will not include Income from **transfer of land situated in Urban Area**
4. **For point C** : If such building is let out for residential or commercial purpose than such income shall not be treated as agricultural income

<u>Income which is Partially Agricultural and Partially from Business</u>
--

RULE 8		RULE 7A		RULE 7B			
<i>Growing & manufacturing TEA</i>		<i>Growing & manufacturing RUBBER</i>		<i>Growing & manufacturing COFFEE</i>			
Agrl.	Non Agrl.	Agrl.	Non Agrl.	<i>Coffee grown & cured</i>		<i>Coffee grown , cured, roasted & grounded</i>	
60%	40%	65%	35%	Agrl.	Non Agrl.	Agrl.	Non Agrl.
				75%	25%	60%	40%

Growing & Manufacture Product other than Tea ,Rubber, Coffee (Rule 7)

Agricultural Income	Non-Agricultural Income
Market Value of Agricultural produce grown or Received as rent in Kind & utilized as raw material in business Less : Cultivation expenses	Sale value of other product Less : Market value of Raw material grown & utilized for production Less : Other Business expenses

Computation of Income in case of Growing & Manufacturing Business

- a. Compute the Income from Growing & Manufacturing Operations under head P/G/B/P
- b. Then Apply *Percentage/formula* as above in order to determine Agricultural & Non Agricultural Income.

MULTIPLE CHOICE QUESTIONS**AGRICULTURAL INCOME**

- (1) Agricultural income means -
- (a) Rent or Revenue derived from land situated in India and used for agricultural purposes. (b) Income from farm building used for agricultural purpose.
- (c) Income from saplings or seedlings grown in a nursery. (d) All of the above.
- (2) Which of the following income is agricultural income -
- (a) Rent received from agricultural land (b) Income from dairy farm
- (c) Income from poultry farm (d) Dividend from a company engaged in agriculture.
- (3) Which of the following income is an agricultural income -
- (a) Income from brick making (b) Income from agriculture land situated in Pakistan
- (c) Prize from government on account of higher crop yield (d) Compensation received from insurance company on account of loss of crop.
- (4) Agriculture income includes which of the following income -
- (a) Rent derived from land. (b) Income derived from agricultural land by agricultural operations.
- (c) Income from farm building. (d) All of the above.
- (5) Which of the following is the condition for applicability of partial integration of agricultural income?
- (a) The taxpayer is a firm. (b) Agricultural income exceeds ₹ 10,000.
- (c) The non-agricultural income exceeds the maximum amount not chargeable to tax. (d) All of the above.
- (6) As per Rule 7 A income derived from the sale of Latex/ Cetex/ Block rubbers manufactured or processed from rubber plants grown by seller in India will be disintegrated between business and agricultural income in the ratio of:
- (a) 35: 65 (b) 40 : 60
- (c) 0: 100 (d) 25 : 75

(7) As per Rule 7B income derived from the sale of coffee grown & cured by seller in India will be disintegrated between business and agricultural income in the ratio of:

- (a) 35: 65 (b) 30:60
(c) 0: 100 (d) 25: 75

(8) As per Rule 7B income derived from the sale of Coffee grown, cured, roasted and grounded by seller in India will be disintegrated between business and agricultural income in the ratio of :

- (a) 35: 65 (b) 30: 60
(c) 40: 60 (d) 25: 75

(9) As per Rule 8 income derived from the sale of Tea grown & manufactured by seller in India will be disintegrated between business and agricultural income in the ratio of :

- (a) 35: 65 (b) 30: 60
(c) 40: 60 (d) 25: 75

(10) Balwinder paid ₹ 1,00,000 to Raj for purchase of standing crop (paddy). He harvested the produce, *i.e.*, by incurring expenditure of ₹ 25,000. He sold the said paddy for ₹ 1,80,000 to a trader. His other income for the year ended 31st March, 2021 was ₹ 4,60,000. The total income of Balwinder is -

- (a) ₹ 6,40,000 (b) ₹ 5,15,000
(c) ₹ 4,85,000 (d) ₹ 5,60,000

(11) Partial integration is applicable when the taxpayer is :

- (a) HUF (b) An Individual
(c) BOI/AOP/Artificial juridical person (d) Any of the above

(12) Mr. Saran has non-agricultural income of ₹ 6,50,000. Agricultural income earned of ₹ 50,000. Compute the income tax payable by him assuming not covered u/s 115BAC

- (a) ₹ 66,950 (b) ₹ 52,000
(c) ₹ 5,150 (d) ₹ 72,100

(13) Mr. Suresh has earned agricultural income of ₹ 50,000 & Business Income of 9,50,000. Compute the income tax payable by him. Assume covered u/s 115BAC

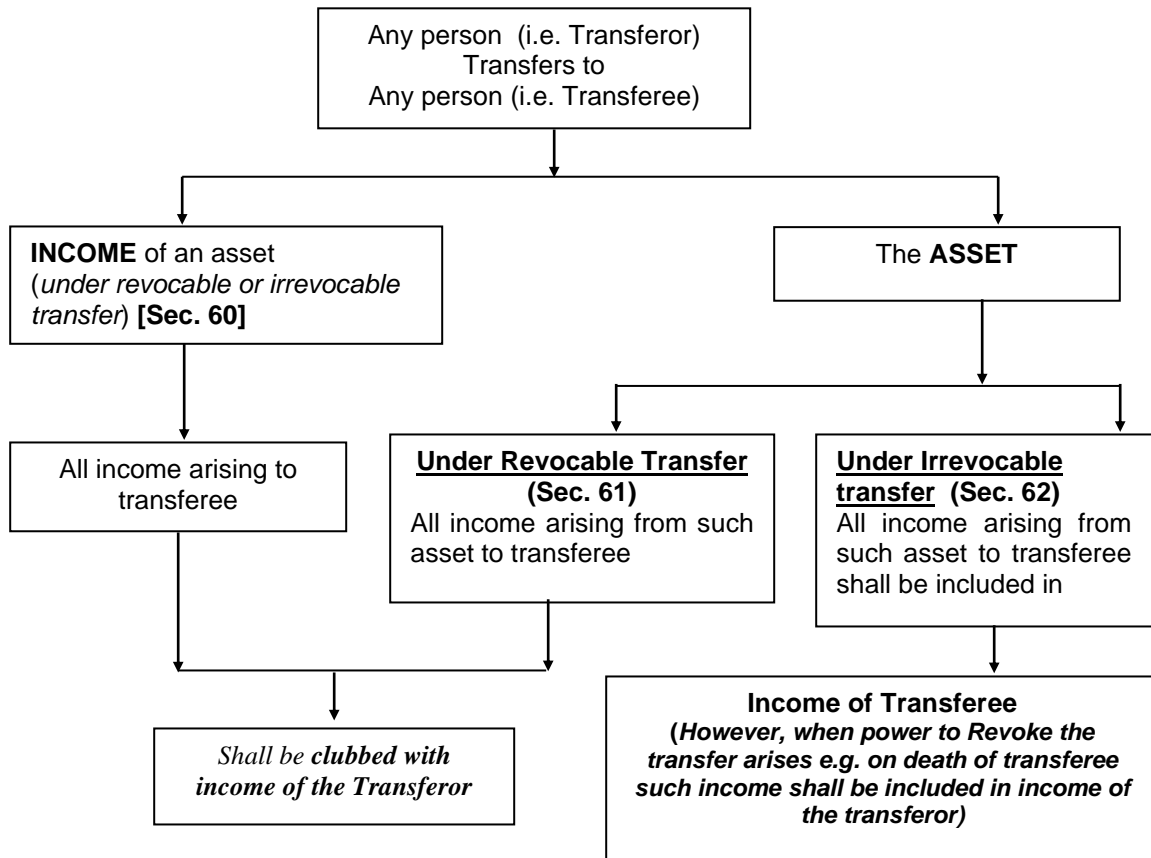
- (a) ₹ 72,500 (b) Nil
(c) ₹ 75,400 (d) ₹ 75,000

ANSWER KEY

1.D	2.A	3.D	4.D	5.C	6.A	7.D	8.C	9.C	10.B
11.D	12.B	13.C							

CHAPTER - 5
CLUBBING OF INCOME

GENERAL CLUBBING PROVISIONS



Sec. 62: Irrevocable transfer

- Transfer which is **not revocable**
- During **lifetime of Transferee &**
- Transferor derives no benefit from such income

Sec. 63: Revocable Transfer

- ❑ A transfer which
- ❑ Contains **any provision** for transfer of whole/part of the **Income or Asset** to transferor during life time of transferee *or*
- ❑ In any way, gives transferor the **right to re-assume** power over whole/part of **Income or Asset** during life time of transferee

SPECIFIC CLUBBING PROVISIONS
Sec. 64(1)(ii): Clubbing of Spouse Remuneration

- If an individual has
- **Substantial interest** in a **Concern**,
- then Salary, Fees, Commission, or other remuneration
- ***In cash or Kind***
- drawn by **Spouse** of such individual
- from **that** concern
- shall be Clubbed
- With Income of the Individual

Special Points :
1. Substantial Interest :

- a) Company :If individual himself or with **relative** hold atleast 20% of equity shares beneficially ***at any time*** during p/y
- b) Other Concern :If individual himself or with **relative** entitled to atleast 20% profits ***at any time*** during p/y

Sec 2(41): Relative in relation to an individual, means Husband, Wife, Brother or Sister or any **Lineal ascendant** or **Descendant** of that individual

- 2. If spouse has **Technical or Professional qualifications or experience** & getting the remuneration solely on application of such technical or professional knowledge, **No clubbing shall be done**
- 3. Husband & Wife **both** have Substantial interest in concern and both getting remuneration from concern, then remuneration of both shall be clubbed with that Spouse, whose **Total income is greater, before clubbing that income.**

(Once income is clubbed with either spouse, Next year income shall be clubbed with that spouse only unless AO satisfied, it is not necessary to do so)

- 4. Income to be clubbed = **Income taxable under head Salary**

64(1)(iv): Income from Asset transferred to Spouse

- If an individual transfers
- **Any asset** (*other than house property*)
- directly/indirectly to **Spouse**
- For **Inadequate consideration**
- then income from such asset arising to spouse
- shall be **clubbed**
- With **Individuals income**

Clubbing will not be done in the following cases

1. Transfer of Asset is under any **agreement to live apart** or
2. Husband & wife relationship **does not exist** either at the time of transfer of asset **or** at time of accrual of Income.

Sec. 64(1)(vi) : Income from Asset transferred to Son's wife

- ✓ If an individual transfers
- ✓ **Any asset**
- ✓ directly/indirectly to **son's wife**
- ✓ for **Inadequate consideration**
- ✓ then income arising out of such asset arising to Sons wife
- ✓ shall be clubbed
- ✓ With Individual's income

Clubbing will not be done if

The relationship father/mother in law and daughter in law **does not exist** either at the time of transfer of asset **or** at time of accrual of income

Amount to be clubbed with individual income where spouse/ son's wife invests transferred asset in Business

	X	Investment out of T/f asset in business as on 1st day of P/Y <hr style="border: 0.5px solid black;"/> Total investment by transferee as on 1st day of P/Y
Income from Business		

Amount to be clubbed with individual income where spouse/ son's wife invests transferred asset in Firm

$$\begin{array}{rcl}
 \text{Interest from firm} & \times & \text{Investment out of T/f asset in firm as on 1}^{\text{st}} \\
 & & \text{day of P/Y} \\
 & & \text{-----} \\
 & & \text{Total investment by transferee} \\
 & & \text{as on 1}^{\text{st}} \text{ day of P/Y}
 \end{array}$$

Sec. 64(1)(vii): Indirect Benefit to spouse

- If an Individual transfers
- **Any asset** to any **Person/AOP**
- For **inadequate consideration**
- for the benefit of his spouse
- then any income arising out of transferred asset
- Shall be Clubbed with Individual's income.

Sec. 64(1)(viii) : Indirect Benefit to sons wife

- If an individual transfers
- **Any asset** to any **Person/AOP**
- For **inadequate consideration**
- for the benefit of his sons wife
- then any income arising out of transferred asset
- shall be Clubbed with Individual's income.

Sec. 64(1A): Clubbing of Minor's Income

- **All incomes**
- arising to the Minor child
- shall be clubbed
- with income of that Parent
- whose **Total Income (excluding minor income)** is Greater

Special Point:

1. **If marriage of parents does not exist**, minor income will be clubbed with that parent who maintains the minor in the previous year
2. Once income is clubbed with either parent, Income of next previous year will also be clubbed with that parent only, unless AO is satisfied it is not necessary to do so because child is maintained by the other parent

3. Minor income will be taxable in the hands of minor only

- i. Minor suffering from **disability** specified in **Sec.80U**.
- ii. Income of minor arising due to **Manual work** done by him.
- iii. Income of minor arising due to application of his **skills, talent or specialized knowledge** and experience.

Special Points:

- ❖ Where minor's income is clubbed, that parent can claim exemption **u/s. 10(32)** subject to Max. **₹ 1500/- per minor child**
- ❖ If Minor attains majority during P/Y, income till date of majority to be clubbed.
- ❖ Minor child includes step and adopted child.
- ❖ Where minor income taxable in his hands, **Income on such income** shall be clubbed with parent.

Sec. 64(2) : Income from Self-Acquired property converted to Joint family Property

- ✓ Where **Self-acquired property** of the individual
- ✓ is Converted into **Joint Family Property**
- ✓ **For Inadequate Consideration**
- ✓ the income so derived by the Joint Family from such property
- ✓ Shall be **clubbed** with that individual's income
- ❖ Where **such converted property** is subsequently partitioned, then income derived by **spouse** from portion received by her, will also be clubbed with individual's income

Miscellaneous Provisions of clubbing

1. Clubbing of Income includes **Clubbing of Loss** also.
2. If transferee **Sells** the asset, then capital gain so arising shall also be clubbed.
3. If **form** of transferred asset is **Changed** by transferee, then income from such changed asset shall be clubbed.
4. **Income on Clubbed income** will **not** be clubbed.
5. Clubbing provisions are **mandatory**, even if it results in benefit to the individual or loss to the revenue.

6. **Sec. 65 :** AO can serve notice of demand of tax on clubbed income to the transferee Then the transferee shall be liable to pay tax **on portion of clubbed income.**
(This provision is also applicable in case of deemed owner u/s. 27)

<u>Procedure of Clubbing</u>

Step 1 : First compute the Income of the recipient under **that head** to which the income belongs (*after allowing deductions/allowances under that head*)

Step 2 : Amount under Step 1, is the income to be clubbed in hands of individual **under the same head of income**

Step 3 : Deductions under Chapter VI-A (Sec 80C to Sec 80U) of recipient of income **shall not be allowed** to individual with whom income is clubbed

MULTIPLE CHOICE QUESTIONS**CLUBBING IN CASE OF TRANSFER OF INCOME/
TRANSFER OF ASSETS - SECTION 60 TO 63**

(1) Transfer of income without transfer of asset would be taxable in the hands of:

- (a) Transferor only
- (b) Transferee only
- (c) Either transferor or transferee
- (d) Both transferor and transferee

(2) A transfer which contains any provision for the re-transfer, directly or indirectly, of the whole or any part of the income or asset to the transferor, regarded as:

- (a) Transfer of income without transfer of asset
- (b) Indirect transfer
- (c) Revocable transfer
- (d) Irrevocable transfer

(3) X transfers his house property to a trust for benefit of Y till his death. In this case, till death of Y, the income from house property shall be taxable in the hands of and afterwards in the hands of ----

- (a) X, Y
- (b) X, legal heirs of Y
- (c) Y, legal heirs of Y
- (d) Y, X

(4) Mr. 'X' transfers his house property to Mr. Y with a condition that 25 of the income therefrom should be handed over to him Mr. Y earns ₹1,00,000 from such house property. In this case-

- (a) Total amount ₹1,00,000 shall be assessed in the hands of X.
- (b) Only ₹25,000 will be assessed in the hands of Y.
- (c) ₹ 25,000 will be assessed in the hands of X and ₹75,000 will be assessed in the hands of Y.
- (d) Total amount ₹1,00,000 shall be assessed in the hands of Y.

**CLUBBING IN RESPECT OF INCOME OF SPOUSE,
SONS WIFE, MINOR CHILD - SECTION 64**

(5) Mr. A, a fashion designer having lucrative business, pays salary to his wife, who is a model. Remuneration received by Mrs. A shall be included in the total income of :

- (a) Mrs. A
- (b) Mr. A
- (c) Mrs. A or Mr. A (whose total income is higher before this clubbing)
- (d) Mr. A and Mrs. A proportionately.

- (6) The shares of X Ltd. are held by Mr.X : 8 %, Mrs. X : 10% and Mrs.X Father-in-law : 6%. Who amongst the following have substantial interest in X Ltd.?
- (a) Mr. X (b) Mrs. X
(c) Mr.X and Mrs. X, both (d) Neither Mr. X nor Mrs. X
- (7) If Mr. A and Mrs. A both have substantial interest in a concern and both are in receipt of remuneration from that concern, then what will be the tax consequences?
- (a) Remuneration shall be clubbed in the total income of Mr. A. (b) Remuneration shall be clubbed in the total income of Mrs. A.
(c) Remuneration shall be clubbed in the total income of that individual whose total income (before this clubbing) is higher. (d) Clubbing shall not apply.
- (8) Mr. A transferred a capital asset to Mrs. A in natural love and affection. She transferred the capital asset to her friend and she earned a capital gains of ₹2,50,000. The capital gains income shall be regarded:
- (a) Mrs. A (b) Mr. A
(c) Mrs. A or Mr. A (whose total income is higher before this clubbing) (d) Mr. A and Mrs. A proportionately.
- (9) Shyam transferred 2,000 shares of X Ltd. to Ms. Babita without any consideration. Later, Shyam and Ms. Babita got married to each other. The dividend income from the shares transferred would be -
- (a) Taxable in the hands of Shyam both before and after marriage (b) Taxable in the hands of Shyam before marriage but not after marriage
(c) Taxable in the hands of Shyam after marriage but not before marriage (d) Never taxable in the hands of Shyam.
- (10) Rishi (a Chartered Accountant) is working as Accounts Officer in Raj (P) Ltd. on a salary of ₹20,000 p.m. He got married to Ms. Pooja who holds 25 % shares of this company. What will be the impact of salary paid to Rishi by the company in the hands of Ms. Pooja -
- (a) 100% salary to be clubbed (b) 50% salary to be clubbed
(c) No amount be clubbed (d) 25% salary be clubbed.
- (11) An individual is said to have substantial interest in a concern if he or she, along with his or her relatives, is, at any time during the previous year-
- (a) Beneficial owner of equity shares carrying 20% or more of the voting power. (b) Entitled to 20% or more of the profits of such concern.
(c) Either (a) or (b) (d) Both (a) and (b)
- (12) In the above case meaning of relative of an individual does not include the following -
- (a) Grandfather's brother (b) Spouse
(c) Brother and sister (d) Grandfather-in-law of the spouse.
- (13) Income from assets transferred to spouse for inadequate consideration, clubbed in the total income of -
- (a) Transferor (b) Clubbing shall not apply
(c) Transferee (d) None of these
- (14) Income from assets transferred to son's wife for inadequate consideration, shall be included in the total income of-
- (a) Transferor (b) Son's wife
(c) Both (a) and (b) (d) Individual whose total income (before this clubbing) is higher.
- (15) In the above case, relationship between transferor and transferee should subsist at the time of -
- (a) Transfer of the asset (b) Accrual of the income
(c) Either (a) or (b) (d) Both (a) and (b)
- (16) Mr. A transfers his house property to his fiancée, in this case the income from house property shall be taxable in the hands of-

- (a) Mr. A (b) Mr. A's fiancée
(c) Such individual whose total income (before this clubbing) is higher. (d) None of the above.
- (17) Exemption of will be available u/s 10(32) to the parent in respect of minor's income clubbed with the parent.
(a) ₹1,500 (b) ₹5,000
(c) ₹ 15,000 (d) ₹ 1,00,000
- (18) In case of clubbing of income of two minor children exemption of.....will be available.
(a) ₹ 1,500 (b) ₹3,000
(c) ₹1,000 (d) None of these
- (19) Income of minor child has to be included in the income of the assessee for determining rate of income tax applicable to income of the assessee.
(a) Agricultural (b) Gross total
(c) Business (d) None of these.
- (20) Income of a minor child shall be included in the income of -
(a) That parent whose total income (before this clubbing) is greater. (b) Minor child
(c) That parent whose total income (before this clubbing) is lower. (d) That parent whose total income (after this clubbing) is greater.
- (21) Income of a minor child on account of.....shall be taxable in his hands.
(a) Any manual work done by him. (b) Any activity involving application of his skill, talent or specialized knowledge and experience.
(c) Either (a) or (b) (d) None of these
- (22) Minor child includes -
(a) Step child (b) Adopted child
(c) Both (a) & (b) (d) None of these.
- (23) Mr. Manish's, minor son Sandeep, earning interest ₹40,000 on fixed deposit with ABC Ltd., which was gifted to him by his grandfather. Manish's income is higher than that of Mrs .Manish .What will be the tax consequences?
(a) ₹ 40,000 shall be taxable in the hands of Sandeep. (b) ₹40,000 shall be clubbed in the total income of Mrs.Manish.
(c) ₹ 40,000 shall be clubbed in the total income of Mr. Manish. (d) ₹40,000 shall be taxable in the hands of ABC Ltd.
- (24) In the above case, if Sandeep is blind then, -
(a) ₹40,000 shall be taxable in the hands of Sandeep. (b) ₹ 40,000 shall be exempted.
(c) ₹40,000 shall be taxable in the hands of Mr Manish.. (d) ₹ 40,000 shall be taxable in the hands of Mrs. Manish.
- (25) Mr. A transfers ₹25,000 to Mrs. A. She purchases investments ₹20,000 in X Ltd. out of such cash transferred to her by Mr. A. She earns interest ₹5,000 from such investment. Hence this is a _____
(a) Cross transfer (b) Indirect transfer
(c) Revocable transfer (d) Irrevocable transfer
- (26) In the above case interest income ₹5,000 shall be included in the total income of -
(a) Mrs. A (b) Mr. A
(c) Mrs. A or Mr. A (whose total income is higher) (d) Mr. A and Mrs. A before this clubbing)
- (27) Mr. Y gifts 12.75% debentures worth ₹10 lakhs to Mrs. X (wife of Mr. X, his brother) and Mr. X gifted a flat worth same amount to Mrs. Y. The flat yields a rental income of ₹1,30,000 p.a. Interest income will be included in the total income of _____ and rental income will be included in the total income of.....

- (a) Mr. Y and Mrs. X respectively. (b) Mrs. Y and Mr. X respectively.
(c) Mr. X and Mr. Y respectively. (d) Mrs. Y and Mrs. X respectively.
- (28) Raj gifts ₹ 2 lakhs to his wife on 1-4-2020 which she invests in a firm on interest @ 18 %p.a. On 1-1-2021, Mrs. Raj withdraws the money and gifts it to their son's wife. In this case interest of the period 1-4-2020 to 31-12-2020 and 1-1-2021 to 31-3-2021 shall be clubbed in the total income of.....
(a) Mr. and Mrs. Raj respectively. (b) Mr. Raj
(c) Mrs. Raj and their son's wife respectively. (d) Mrs. Raj
- (29) In whose total income, the income of a minor child is included -
(a) Father (b) Mother
(c) Father and mother both (d) Parent whose total income is greater.
- (30) When the income of an individual includes ₹20,000 as the income of his minor child in terms of section 64(IA), taxable income in this respect will be -
(a) Nil (b) ₹ 20,000
(c) ₹ 18,500 (d) None of the above.
- (31) Income arising to a minor married daughter is -
(a) To be assessed in the hands of the minor married daughter (b) To be clubbed with the income of that parent whose total income, before including minor's income, is higher
(c) Completely exempt from tax (d) To be clubbed with the income of her husband.
- (32) The following income that accrue to a minor child will not be included in the total income of his parent.
(a) Income earned from fixed deposits transferred by his grand father. (b) Income earned from house property transferred by his father
(c) Income earned from agricultural land transferred by his mother (d) Income from participation in dance competition
- (33) Mr. Goel has four minor children consisting 2 daughters and 2 sons. The annual income of 2 daughters was ₹7,500 and ₹5,000 and of sons was ₹5,500 and ₹1,250 respectively. The daughter who was having income of ₹5,000 was suffering from a disability specified under section 80U. Work out the amount of income earned by minor children to be clubbed in the hands of Mr. Goel.
(a) ₹ 9,250 (b) ₹ 14,250
(c) ₹ 9,750 (d) ₹ 10,000
- (34) A proprietary business was started by Smt. Renu in the year 2017. As on 1-4-2018 her capital in business was ₹3,00,000. Her husband gifted ₹2,00,000 on 10-4-2019, which amount Smt. Renu invested in her business on the same date. Smt. Renu earned profits from her proprietary business for the Financial year 2019-2020 ₹1,50,000 which remained invested in the business. The profit earned by Mrs. Renu in financial year 2020-2021 is ₹3,90,000. Compute the income, to be clubbed in the hands of Renu's husband for the Assessment year 2021-2022.
(a) ₹2,70,000 (b) ₹1,20,000
(c) Nil (d) ₹3,90,000
- (35) Income from asset transferred to spouse will be taxable in the hands of transferor if :
(a) asset has been transferred in pursuance of an agreement to live apart; (b) asset was transferred for an adequate consideration;
(c) asset was transferred before marriage; (d) asset was transferred for inadequate consideration
- (36) Incomes of two minor children are included in the income of their father. Father is entitled to exemption under section 10(32) upto -
(a) ₹1,500 (b) ₹1,000
(c) ₹3,000 (d) ₹2,000.

CONVERSION OF SELF-ACQUIRED PROPERTY INTO JOINT FAMILY PROPERTY

- (37) If the self acquired property of an individual (being a member of HUF) is _ then the income derived by the joint family on account of such property shall be included in the total income of the individual who was the owner of such property.
- (a) Converted into joint family property. (b) Transferred by him directly or indirectly, to HUF otherwise *than for adequate consideration*.
- (c) Transferred by him, directly or indirectly to HUF for adequate consideration. (d) Either (a) or (b) Ans.(d)
- (38) Where the converted property has been the subject-matter of a partition amongst the members of the family, the income derived from such converted property as is received by -----on partition shall be deemed to arise to the individual from assets transferred indirectly by the individual to the -----and shall be clubbed in the hands of such individual.
- (a) Minor child, minor child (b) Brother, brother
- (c) Spouse, spouse (d) Sister, sister Ans.(c)
- (39) For the purposes of clubbing of income of the specified person in the income of the individual under section 64, the word 'income' includes _____
- (a) Salaries (b) Loss
- (c) Capital gains (d) Income from other sources
- (40) Mr. A gifts cash of ₹ 1,00,000 to his brother's wife Mrs. B. Mr. B gifts cash of ₹1,00,000 to Mrs. A. From the cash gifted to her, Mrs. B invests in a fixed deposit, income therefrom is ₹10,000. Aforesaid ₹ 10,000 will be included in the total income of _____
- (a) Mr. A (b) Mr. B
- (c) Mrs. A (d) Mrs B

ANSWER KEY

1.A	2.C	3.D	4.C	5.A	6.A	7.C	8.B	9.D	10.C
11.C	12.A	13.A	14.A	15.D	16.B	17.A	18.B	19.A	20.A
21.C	22.C	23.C	24.A	25.B	26.B	27.C	28.B	29.D	30.C
31.B	32.D	33.D	34.B	35.D	36.C	37.D	38.C	39.B	40.B

CHAPTER -6

SET OFF, OR CARRY FORWARD AND SET-OFF OF LOSSES

<u>Process of Setting off of losses & their Carry Forward</u>
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Step 1 : Sec. 70 : INTRA head set off (same head set off)

- ✓ **Loss** in respect of **any Source** of income under any head
- ✓ shall be **set off**
- ✓ against income of **other source** under **same head**

If loss cannot be set off under step1 ,then proceed to step 2

Step 2 : Sec. 71 : INTER head set off (Different head set off)

- ♣ **loss** under **any head**
- ♣ Shall be **set off**
- ♣ against income of **Other head**

If loss cannot be set off under step2 ,then proceed to step 3

Step 3 : Carry forward of loss to subsequent A/y & then set off

- Where all loss could not be set off under Sec.70 & Sec.71
- **That loss** which could not be set off
- Can be **Carried forward** for subsequent A/Y
- To be set off
- Against income of **same head** of subsequent A/Y

Set off & Carry forward of House Property Loss
Step 1 : Sec. 70 : INTRA head set off (Same head set off)

Loss under any property **can be set off** against **any other income** of property.

If loss cannot be fully set off , then proceed to step 2 .

Step 2 : Sec. 71 : INTER head set off (Different head set off)

Loss under head house property **can be set off** against **any income of other head** except casual incomes.

Sec 71(3A) : Where for any A/Y, Net result of computation under head "Income from house property" is a loss & assessee has income assessable under any other head of income, the assessee shall be entitled to set off such loss, to extent of ₹2,00,000, against income under the other head.

Step 3 : Sec 71B : Carry forward of House property loss to subsequent A/y & then set off

- ✓ Where Loss under House property
- ✓ could not be set off under Sec.70 & Sec.71
- ✓ **That loss can be Carried forward** u/s 71B
- ✓ for **subsequent 8 A/Y**
- ✓ to be set off
- ✓ against **Income from house property** of subsequent A/Y

Special Point : Ownership of the same house property, which resulted in loss is not necessary, in the previous year of carry forward & set off.

Set off & Carry forward of Business/profession Loss
Step 1 : Sec. 70 : INTRA head set off (Same head set off)

- Loss under **any business/profession**
- **can be set off** against
- income of **any other** business/profession

If loss cannot be fully set off , then proceed to step 2 .

Step 2 : Sec. 71 : INTER head set off (Different head set off)

Loss under head Business/Profession can be set off against any Income of other head

Except :

- a) Income from Salary
- b) Casual Incomes

Step 3 : Sec 72 : C/F of loss of Business/Profession to subsequent A/y & then set off

- ✓ Where Loss under Head Business/Profession **other than speculation**
- ✓ could not be set off under Sec.70 & Sec.71
- ✓ **That loss** can be **Carried forward u/s 72**
- ✓ for **subsequent 8 A/Y**
- ✓ to be set off
- ✓ against **Income under P/G/B/P** of subsequent A/Y

Special Point :

1. **Ownership of the same Business/profession, which resulted in loss is not necessary, in the previous year of carry forward & set off.**
2. **Unabsorbed depreciation, unabsorbed capital expenditure on scientific research, and unabsorbed capital expenditure on family planning** are *not business losses* and therefore *can be carried forward* for any number of assessment years
3. **Priority of Set off under P/G/B/P**

Step 1 : 1st set off **current previous year** depreciation, **current previous year** capital expenditure on scientific research and **current previous year** capital expenditure on family planning

Step 2 : Then set off **brought forward** business loss

Step 3: Then **brought forward** depreciation, **brought forward** capital expenditure on scientific research and **brought forward** capital expenditure on family planning

4. Sec 73A : Set off & carry forward of Business u/s 35A

(1) Any loss of specified business u/s 35AD can only be set off except against profits and of any other specified business.

(2) Where loss of specified business has not been wholly set off under sub-section (1), so much of the loss as is not so set off shall be carried forward to the following assessment year, and

- (i) It shall be set off against the profits of any specified business carried on by him for that assessment year &
- (ii) If the loss can not be wholly so set off, the amount of loss shall be carried forward to the following assessment year and so on

Set off & Carry forward of Loss of Speculation Business

Step 1 : Sec. 70 : INTRA head set off (Same head set off)

- Loss of **Speculation Business**
- **can be only set off** against
- Income of any **other Speculation Business**

Step 2 : Sec. 71 : INTER head set off (Different head set off) : NOT POSSIBLE

Step 3 : Sec 73 : Carry forward of loss of speculation business to subsequent A/y & then set off

- ✓ Where Loss of speculation Business
- ✓ could not be set as above
- ✓ **That loss** can be **Carried forward** u/s 73
- ✓ for **subsequent 4 A/Y**
- ✓ to be set off
- ✓ against **Income of Speculation Business** of subsequent A/Y

Special Point : Sec 43(5) : Speculative transaction means :

A transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled **otherwise than by the actual delivery or transfer** of the commodity or scrips.

Special Point : Following transaction shall not be treated as Speculative transaction :

- (a) A contract in respect of raw materials entered into by a person in **course of his manufacturing or merchanting business** to guard against loss through future price fluctuations in respect of his contracts for actual delivery of goods manufactured by him or merchandise sold by him or
- (b) A contract in respect of stocks/shares entered into by **dealer or investor** therein to guard against loss in his holdings of stocks and shares through price fluctuations or
- (c) A contract entered into by **member of stock exchange** in course of any transaction in nature of jobbing or arbitrage to guard against loss which may arise in ordinary course of his business as such member or
- (d) A transaction of trading in **derivatives** carried out in a **recognised stock exchange or**

(e) *An eligible transaction of trading in commodity derivatives carried out in a recognised association* which is chargeable to commodities transaction tax under Chapter VII of the Finance Act, 2013.

Proviso to Sec 43(5) :

In respect of trading in agricultural commodity derivatives, the requirement of chargeability of commodity transaction tax under Chapter VII of the Finance Act, 2013 shall not apply.

<u>Set off & Carry forward of Loss Under Head Capital Gain</u>

Step 1 : Sec. 70 : INTRA head set off (Same head set off)

Short Term Capital Loss

- Loss under head capital gain being STCL
- **can be set off** against
- Income of any Capital Asset i.e STCG or LTCG

Long Term Capital Loss

- Loss under head capital gain being LTCL
- **can be set off** against
- Income of any Long term Capital Asset i.e LTCL only

Step 2 : Sec. 71 : INTER head set off (Different head set off)

NOT POSSIBLE

Step 3 : Sec 74 : Carry forward of loss under Capital gain to subsequent A/y & then set off

- ✓ Where Loss under Capital Gain
- ✓ could not be set as above
- ✓ **That loss can be Carried forward u/s 74**
- ✓ for **subsequent 8 A/Y**
- ✓ to be set off
- ✓ against **Income of Capital Gain** of subsequent A/Y
- ✓ However STCL can be set off from **any Capital Gain** of subsequent A/y & LTCL can only be set off against LTCG of subsequent A/y only

Set off & Carry forward of Loss from Owning & Maintaining Race Horses

Step 1 : Sec. 70 : INTRA head set off (Same head set off)

- Loss from activity of **owning & maintaining race horses**
- **can be only set off** against
- Income of any **other activity** of owning & maintaining race horses

Step 2 : Sec. 71 : INTER head set off (Different head set off)

NOT POSSIBLE

Step 3 : Sec 73 : C/F of loss of speculation business to subsequent A/y & then set off

- ✓ Where Loss of owning & maintaining race horses
- ✓ could not be set as above
- ✓ **That loss** can be **Carried forward u/s 74A**
- ✓ for **subsequent 4 A/Y**
- ✓ to be set off
- ✓ against **Income of owning & maintaining** of subsequent A/Y

Special point : Assessee should carry on with the activity of owning & maintaining race horses in p/y of carry forward & set off.

Other Important sections of the chapter

1. Sec. 80 : No Loss shall be carried forward **u/s 72, 73, 73A 74, 74A**, unless ROI filed u/s.139(3)

Sec. 139(3) : For carry forward of losses **u/s. 72, 73, 73A, 74, 74A**, assessee shall have to file ROI within time u/s.139 (1)

Therefore, loss u/s. 71B, (House property Loss) can be C/f even if return not filed

2. Carry forward & set off possible against **Clubbed income** also

3. Sec 70 and 71 **are mandatory**.

4. If losses are C/f under sec 71B to 74A and are not set off against profits of succeeding year inspite of profits being there, **they cannot be set off in later years**
5. **Assessee who incurred the loss & assessee who is claiming carry forward & set off Should be SAME**

Exceptions:

a) Inheritance of Business u/s Sec. 78(2)

- ✓ **Business/Profession** carried by **one person**
- ✓ is **Inherited** by **other person**
- ✓ **losses** of predecessor
- ✓ shall be C/f by successor
- ✓ for **remaining A/Y** only

b) Amalgamation u/s 72A :

- ✓ The **accumulated loss & unabsorbed depreciation** of **Amalgamating company**
- ✓ shall be **deemed** to be
- ✓ **Loss & Depreciation** of the **Amalgamated company**
- ✓ of the **p/y of amalgamation &**
- ✓ loss shall be set off and carried forward **for further 8 A/Y** by **amalgamated company**

c) Amalgamation u/s 72AA :

- The accumulated loss & unabsorbed depreciation of **banking company /Govt company**
- shall be deemed to be
- loss & depreciation of such **amalgamated banking institution/Govt company**
- for p/y of amalgamation &
- loss shall be set off & carried forward **for further 8 A/Y** by **banking institution**

d) Sec 72AB : Business reorganisation of co-operative banks

- The accumulated loss & unabsorbed depreciation of **Predecessor Cooperative bank**
- shall be deemed to be
- loss & depreciation of **Successor cooperative bank**
- for p/y of amalgamation/Demerger &
- loss shall be set off & carried forward **for remaining A/Y** by **Successor cooperative bank**

e) Demerger u/s 72A :

- ✓ The **accumulated loss & unabsorbed depreciation** of the **Demerged company**
- ✓ shall be **deemed** to be
- ✓ **Loss & Depreciation** of the **Resulting Company**
- ✓ of the **p/y of demerger &**
- ✓ loss shall be set off & carried forward **for remaining A/Y** by **Resulting Company**

f) Conversion of Partnership firm into Company u/s 47(Xiii)

- ✓ Where a **firm is converted into a company u/s 47**
- ✓ **accumulated loss & unabsorbed depreciation of predecessor firm**
- ✓ shall be **deemed** to be
- ✓ the loss & depreciation of **successor company**
- ✓ of **P/y of conversion** and
- ✓ loss shall be set off & carried forward **for further 8 A/Y** by **Company**

g) Conversion of Private company or Unlisted Public Company into LLP u/s 72A

- ✓ Where a **Private Company or Unlisted Public Company** is converted into LLP u/s 47
- ✓ accumulated loss & unabsorbed depreciation of predecessor company
- ✓ shall be deemed to be
- ✓ loss & depreciation of successor LLP
- ✓ of **P/y of conversion** and
- ✓ loss shall be set off and carried forward **for further 8 A/Y** by LLP

h) Conversion of Sole Proprietorship into Company

- ✓ Where a **Sole Proprietary firm** is converted into **Company**
- ✓ fulfilling conditions **u/s 47**
- ✓ the **accumulated loss & unabsorbed depreciation** of the **predecessor sole proprietary firm**
- ✓ shall be **deemed** to be the
- ✓ loss or depreciation of the **successor company** of
- ✓ **P/Y of conversion** and
- ✓ loss shall be set off and carried forward **for further 8 A/Y** by **Company**

6. Losses can be carried forward for 8 Assessment Years**Exceptions:**

a) **Sec 73A : Loss of specified Business u/s 35AD can be c/f for unlimited subsequent p/y**

b) **Sec 41(5) : Loss of P/Y in which business cease to exist can be set off even after 8 subsequent P/Y but only from Deemed incomes u/s. 41**

c) Proviso to Sec 72(1)

- Business discontinued in any P/Y due to **Natural calamity, riots, accidental fire or enemy action**
- is re-established **before expiry of 3 years** from end of that P/Y
- Losses of **that P/Y including B/F losses** shall be
- C/f for set off from the year in which business re-established and subsequent 7 A/Y

7. Sec. 94(7) : Dividend Stripping

- Any person Buys **securities or units** within 3 months before Record Date &
- Sells **securities** within 3 months **Or units** within 9 months after such record date
- **Dividend/Income** on such securities/units is **Exempt**
- Then, any **LOSS** arising on such transaction **upto** the amount of **exempt dividend** will be Ignored
- **i.e. cannot be set off or Carried forward**

Record Date : Date fixed for declaration of Dividend/income by company or mutual fund

8. Sec 94(8): Bonus Stripping

- Any person Buys any units within **3 months** prior to record date
- Such person is allotted **additional units** on the basis of above units without making any payment
- He sells all or any of **such original units** while continuing to hold all or any of the additional units within **9 months** after such record date
- Then, any **LOSS** arising on such transaction **shall be ignored**

Special point : Amount of loss so ignored shall be **deemed to cost of acquisition** of such additional units held on the date of such sale

9. Carry forward and set off of losses in case of change in constitution of firm : 78(1)

- ✓ Where a **change has occurred in the constitution** of a firm,
- ✓ Due to **Retirement** or **Death** of partner
- ✓ the Firm shall not be entitled to carried forward and set off
- ✓ so much of the **loss** proportionate
- ✓ to the share of a retired or deceased partner
- ✓ **which exceeds his share of profits**, if any, in the firm in respect of previous year.

10. Carry forward & set off of losses for company other than company in which public are substantially interested : Sec 79

Sec 79(1) : Notwithstanding anything contained in this Chapter, where a change in shareholding has taken place during the previous year in the case of a company, not being a company in which the public are substantially interested, no loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than 51% of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than 51% of the voting power on the last day of the year or years in which the loss was incurred:

Provided that even if the said condition is not satisfied in case of an eligible start up as referred to in section 80-IAC, the loss incurred in any year prior to the previous year shall be allowed to be carried forward and set off against the income of the previous year if all the shareholders of such company who held shares carrying voting power on the last day of the year or years in which the loss was incurred, continue to hold those shares on the last day of such previous year and such loss has been incurred during the period of seven years beginning from the year in which such company is incorporated.

Sec 79(2) : Nothing contained in sub-section (1) shall apply,—

(a) to a case where a change in the said voting power and shareholding takes place in a p/y consequent upon the death of a shareholder or on account of transfer of shares by way of gift to any relative of the shareholder making such gift;

(b) to any change in the shareholding of an Indian company which is a subsidiary of a foreign company as a result of amalgamation or demerger of a foreign company subject to the condition that fifty-one per cent. Shareholders of amalgamating or demerged foreign company continue to be the shareholders of the amalgamated or the resulting foreign company;

(c) to a company where a change in the shareholding takes place in a previous year pursuant to a resolution plan approved under the Insolvency and Bankruptcy Code, 2016, after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner;

(d) to a company, and its subsidiary and the subsidiary of such subsidiary, where,—

(i) the Tribunal, on an application moved by the Central Government u/s 241 of Companies Act, 2013, has suspended the BOD of such company and has appointed new directors nominated by Central Government, u/s 242 of the said Act; and

(ii) a change in shareholding of such company, & its subsidiary and the subsidiary of such subsidiary, has taken place in a p/y pursuant to a resolution plan approved by Tribunal u/s 242 of Companies Act, 2013 after affording a reasonable opportunity of being heard to jurisdictional Principal Commissioner/ Commissioner.

Explanation.—For the purposes of this section,—

(i) a company shall be a subsidiary of another company, if such other company holds more than half in nominal value of the equity share capital of the company;

(ii) “Tribunal” shall have the meaning assigned u/s 2 of the Companies Act, 2013.

MULTIPLE CHOICE QUESTIONS

INCOME FROM UNDISCLOSED SOURCES & ITS TAXABILITY

- (1) The following shall be regarded as income from undisclosed sources:
- (a) Cash credits
 - (b) Unexplained investments
 - (c) Unexplained money
 - (d) All of these
- (2) Unexplained cash credits is chargeable to tax-
- (a) At slab rates
 - (b) @ 15%
 - (c) @ 25%
 - (d) @ 60%
- (3) Mr. X is found to be the owner of unexplained investments of ₹6,00,000. His tax liability will be _____
- (a) ₹33,800
 - (b) ₹4,68,000
 - (c) ₹51,500
 - (d) ₹1,64,800

PROVISIONS FOR SET-OFF OR CARRY FORWARD AND SET-OFF - SECTION 70 TO 74A

- (4) If a person is eligible to claim:
- (1) unabsorbed depreciation
 - (2) current scientific research expenditure
 - (3) current depreciation
 - (4) brought forward business loss
- The order of priority to set-off would be
- (Dec. 2015)
- (a) (4), (3), (2) & (1)
 - (b) (2), (3), (4) & (1)
 - (c) (3), (4), (1) & (2)
 - (d) (1), (2), (3) & (4)
- (5) Choose the correct answer from the following -
- (a) Loss from business of owning and maintaining racehorses can be set off against any income.
 - (b) Loss from lottery, card games etc. can be set off against any income.
 - (c) Speculation business loss can be set off only against speculation business income.
 - (d) Long-term capital loss can be set off against long-term or short-term capital loss.
- (6) Long term capital loss can be set off from which of the following:
- (a) Short term capital gain only
 - (b) Long term capital gain only
 - (c) Income from business or profession
 - (d) Income from salary
- (7) Loss from house property can be carried forward and set off in the subsequent 8 Assessment years:
- (a) Only if return of loss is filed within due date
 - (b) Even if return of loss is filed after due date
 - (c) It does not matter when return is filed
 - (d) Carry forward of loss from house property is not allowed at all.

- (8) Loss under the head "Profits and Gains of business or profession" cannot be set off against -
- (a) Income under the head salaries. (b) Income under the head capital gains.
(c) Income under the head house property. (d) All of the above.
- (9) Loss arising under the head capital gain cannot be set-off against -
- (a) Income under the head salaries. (b) Income under the head "Profits and gains of business or profession".
(c) Income under the head house property. (d) All of the above.
- (10) Loss arising from specified business can be set-off from -
- (a) General business profits (b) Speculation business profits
(c) Both general business profits and speculation (d) Profits of specified business business profits
- (11) Loss from specified business can be carried forward for-
- (a) 4 Years (b) 8 Years
(c) Indefinite period (d) None of the above
- (12) Loss from house property and losses in speculation business can be carried forward respectively for -
- (a) 8 Years and 4 Years (b) 4 Years and 8 Years
(c) 8 Years and 8 Years (d) 4 Years and 4 Years
- (13) Loss under the head 'Profits & Gains of Business or Profession (except speculation business loss) and loss under the head capital gains can be carried forward respectively for -
- (a) 8 Years and 4 Years (b) 8 Years and 8 Years
(c) 4 Years and 8 Years (d) 4 Years and 4 Years
- (14) The sequence applicable for set off of losses shall be -
- (a) (i) Inter source set-off; (ii) Inter head set-off; and (iii) Set-off of brought forward losses. (b) (i) Inter head set-off; (ii) Inter source set-off; and (iii) Set-off of brought forward losses.
(c) (i) Set-off of brought forward losses; (ii) Inter source set-off; and (iii) Inter head set-off. (d) (i) Set-off of brought forward losses; (ii) Inter head set-off; and (iii) Inter source set-off.
- (15) A company engaged in business of purchase and sale of shares of other companies shall not be deemed to be speculation business if -
- (a) The principal business of the company is business of trading in shares or banking or granting of loans & advances. (b) The gross total income of the company consists mainly of income under heads "Income from house property", "Capital Gains" and "Income from other sources"
(c) Both (a) and (b) (d) Either (a) or (b)
- (16) Short term capital loss can be set-off against:
- (a) Short term capital gain (b) Long-term capital gain
(c) Income under any other head (d) Either (a) or (b)
- (17) Brought forward losses (except speculation business loss) under Profits & Gains of Business or profession can be set-off against
- (a) Income from house property. (b) Income from any other head.
(c) Profits of any business (except speculation business profit). (d) Profits of any business/profession (including speculation business profit).
- (18) Loss incurred in activity of owning and maintaining race horses can be set-off against only:
- (a) Any Income under the head 'Income from other Sources'. (b) Only income from owning and maintaining race horses.
(c) Income from speculation business. (d) Income under head house property.

- (19) Which of the following losses available after inter source set-off, cannot be set-off from incomes in other heads in the same assessment year -
- (a) Speculation losses (b) Loss from specified business
(c) Loss under the head capital gains (d) All of the above
- (20) To carry forward and set-off losses, a loss return must be filed by the assessee within the stipulated time and gets the loss determined by the Assessing Officer. However, this condition is not applicable to -
- (a) Loss from house property (b) Loss from speculation business
(c) Loss from discontinued business (d) Loss from capital assets
- (21) Mr. X has earned salary income of ₹5,00,000 and he has suffered loss from house property amounting ₹2,00,000. Speculation business loss - ₹1,00,000 Find out the gross total income.
- (a) ₹5,00,000 (b) ₹3,00,000
(c) ₹2,00,000 (d) 4,00,000
- (22) Mr. X has earned salary income of ₹5,00,000 and he has suffered loss from house property amounting ₹2,00,000. General business loss - ₹1,00,000 Find out the gross total income.
- (a) ₹5,00,000 (b) ₹3,00,000
(c) ₹2,00,000 (d) 4,00,000
- (23) Mr. X has earned general business income of ₹5,00,000 and he has suffered loss from house property amounting ₹2,00,000. Specified business loss under Section 35AD - ₹1,00,000 Find out the gross total income.
- (a) ₹5,00,000 (b) ₹3,00,000
(c) ₹2,00,000 (d) ₹4,00,000
- (24) Mr. X has earned Long term capital gains on sale of gold : ₹7,20,000, Short term capital loss of ₹2,00,000. General business income of ₹5,00,000 Find out the gross total income.
- (a) ₹10,20,000 (b) ₹5,00,000
(c) ₹12,20,000 (d) 5,20,000
- (25) Ashish has speculation business loss brought forward of the assessment years 2015-16 ₹1,00,000; 2016-17 ₹70,000 and 2017-18 ₹60,000. He has income from the same speculation business for the assessment year 2021-22 ₹5,40,000. His total income chargeable to tax would be -
- (a) ₹3,10,000 (b) ₹4,10,000
(c) ₹4,80,000 (d) ₹4,40,000
- (26) Find out the gross total income of Mr. A from the following information Income from salaries ₹80,000; Loss from house property ₹50,000; Profit from textile trade ₹40,000; Loss from Automotive trade ₹50,000.
- (a) ₹20,000 (b) ₹70,000
(c) ₹30,000 (d) Nil
- (27) Mr. Rajeev have income from cloth business ₹1,00,000; Loss from agriculture ₹50,000; Long-term capital gain ₹60,000 and short term capital loss ₹80,000 find out his gross total income.
- (a) ₹50,000 (b) ₹1,00,000
(c) ₹80,000 (d) ₹30,000
- (28) Mr. G has profit from speculation business ₹80,000; Profit from business A ₹1,00,000; Loss from business B ₹1,50,000 find out his gross total income.
- (a) ₹80,000 (b) ₹1,00,000
(c) ₹1,50,000 (d) ₹30,000
- (29) Mr. Ramesh had incurred loss in activity of owning and maintaining racehorses ₹90,000; Winnings from lottery (net) ₹70,000; Loss in card game of assessment year 2011-12 ₹4,000 find out his gross total income .
- (a) ₹1,00,000 (b) ₹6,000
(c) ₹10,000 (d) Nil

- (30) If an individual, having a sales turnover of ₹60 lakh files his return of income for the assessment year 2021-22 after the due date, showing unabsorbed business loss of ₹23,000 and unabsorbed depreciation of ₹45,000, he can carry forward to the subsequent assessment years –
- (a) Both unabsorbed business loss of ₹23,000 and unabsorbed depreciation of ₹45,000
- (b) Only unabsorbed business loss of ₹23,000
- (c) Only unabsorbed depreciation of ₹45,000
- (d) Neither unabsorbed business loss of ₹23,000 nor unabsorbed depreciation of ₹45,000.
- (31) What can be the maximum amount of negative income of a self occupied house under the head "Income from house property".
- (a) ₹30,000
- (b) ₹1,00,000
- (c) ₹1,50,000
- (d) ₹2,00,000
- (32) XYZ & Company, a partnership firm has three partners, X, Y and Z having equal share in profits of the firm. X retired on 31-12-2020, profits of the firm for year ending 31-3-2021 were ₹1,50,000 and brought forward business losses for assessment year 2020-21 was ₹1,20,000 and unabsorbed depreciation ₹40,000. Find the amount of brought forward loss that cannot be carried forward?
- (a) ₹2,500
- (b) ₹3,333
- (c) ₹15,833
- (d) Nil
- (33) In the above case find out the amount of accumulated loss/unabsorbed depreciation that can be carried forward to the next assessment year?
- (a) ₹66,671
- (b) ₹7,500
- (c) ₹5,833
- (d) Nil
- (34) Short-term capital loss can be set-off from -
- (a) Short-term capital gains
- (b) Long-term capital gains
- (c) Both short-term and long-term capital gains
- (d) Any income of the previous year.
- (35) Mr. B incurred short-term capital loss of ₹10,000 on sale of shares through the National Stock Exchange. Such loss can be set-off from -
- (a) Only against short-term capital gains
- (b) Against both short-term capital gains and long term capital gains
- (c) Against any head of income
- (d) None of the above.
- (36) Mr X has received the following incomes: (i) Salary received as a partner from a partnership firm ₹7,50,000. (ii) Loss on sale of shares listed in BSE ₹3 lakhs. Shares were held for 15 months and SIT paid on sale. (iii) Long-term capital gain on sale of land ₹5 lakhs. His Gross total income will be -
- (a) ₹12,50,000
- (b) ₹9,50,000
- (c) ₹7,50,000
- (d) ₹5,00,000
- (37) Loss from the activity of owning and maintaining race horses could be set-off -
- (a) Against income under any of the five heads of income
- (b) Only against income under the head 'income from other sources'
- (c) Only against income under the head 'profits gains of business or profession'
- (d) Only against income from same and
- (38) For the previous year 2020-21, an assessee suffered a business loss of ₹2,50,000. His income from other sources is ₹1,80,000. His due date of return was 3rd July, 2021 but he submitted the return on 9th September, 2021. The assessee in this case
- (a) Shall be allowed to carry forward the loss of ₹70,000
- (b) Shall not be allowed to carry forward any loss
- (c) Shall be allowed to set-off current year business loss to the extent of ₹1,80,000 but shall not be allowed to carry forward the balance loss of ₹70,000
- (d) Shall not be allowed to set-off the business loss to the extent of ₹1,80,000 and would be liable to tax on ₹1,80,000

**CARRY FORWARD & SET-OFF LOSS IN CASE OF AMALGAMATION,
DEMERGER & BUSINESS REORGANISATION**

- (39) Business loss of an amalgamating company shall :
- | | |
|--|--|
| (a) be carried forward and set-off in the hands of amalgamated company unconditionally | (b) be carried forward and set-off in the hands of amalgamated company subject to certain conditions |
| (c) not be carried forward | (d) be allowed to be carried forward only by amalgamating company |
- (40) In case of amalgamation *uls* 72A, after fulfilling prescribed conditions accumulated loss can be carried forward for _
- | | |
|--|---|
| (a) Further 8 years in the hands of amalgamating company | (b) Further 8 years in the hands of amalgamated company |
| (c) Further 4 years in the hands of amalgamating company | (d) Further 4 years in the hands of amalgamated company |
- (41) The accumulated loss shall not be set off or carried forward and the unabsorbed depreciation shall not be allowed in the assessment of the amalgamated company unless the amalgamated company fulfills which of the following conditions.
- | | |
|---|---|
| (a) holds continuously for a minimum period of 5 years from the date of amalgamation at least 3/4 th of the book value of fixed assets of the amalgamating company acquired in a scheme of amalgamation; | (b) continues the business of the amalgamating company for a minimum period of 5 years from the date of amalgamation; |
| (c) fulfils such other conditions as may be prescribed to ensure the revival of the business of the amalgamating company or to ensure that the amalgamation is for genuine business purpose. | (d) All of these |
- (42) In case of demerger after fulfilling prescribed conditions *uls* 72A, the accumulated loss can be carried forward for the
- | | |
|--|---|
| (a) Remaining period out of 8 years in the hands of resulting company. | (b) Further 8 years in the hands of resulting company. |
| (c) Further 8 years in the hands of demerged undertaking. | (d) Remaining period out of 8 years in the hands of demerged undertaking. |
- (43) In case of reorganization of business whereby firm is succeeded by a company fulfilling conditions given *uls* 47, the accumulated loss and unabsorbed depreciation can be carried forward in the hands of successor company for -----
- | | |
|-------------------------------------|---------------------|
| (a) Remaining period out of 8 years | (b) Further 8 years |
| (c) Remaining period out of 4 years | (d) Further 4 years |
- (44) In case of amalgamation of banking company under section 72AA, accumulated loss and unabsorbed depreciation can be carried forward in the hands of amalgamated company for _
- | | |
|-------------------------------------|-------------------------------------|
| (a) Remaining period out of 8 years | (b) Remaining period out of 4 years |
| (c) Further 8 years | (d) Further 4 years |
- (45) In case of amalgamation of co-operative banks, after fulfilling the prescribed conditions, accumulated loss and unabsorbed depreciation can be carried forward and set-off for -----
- | | |
|--|--|
| (a) Further 8 years in the hands of successor co-operative bank. | (b) Remaining period out of 8 years in the hands of amalgamated co-operative bank. |
| (c) Further 4 years in the hands of successor co-operative bank. | (d) Further 4 years in the hands of predecessor co-operative bank. |
- (46) In case of demerger of co-operative banks as per prescribed conditions accumulated loss can be carried forward and set off in the hands of resulting co-operative bank for _
- | | |
|--------------------------------------|--------------------------------------|
| (a) Further 8 years | (b) Further 4 years |
| (c) Remaining period out of 8 years. | (d) Remaining period out of 4 years. |

- (47) In case of succession of any business/profession otherwise than by inheritance, the losses can be carried forward and set-off ,-
- (a) Only by the person incurring the loss. (b) Only by the successor.
(e) Partly by the person incurring the loss and partly by the successor. (d) None of the above.

(48) A partnership firm with 4 equal partners brought forward depreciation of ₹ 3 lakh and business loss of ₹ 3 lakh relating to assessment year 2020-21. On 1st April, 2020, two partners retired. The amount that assessee-firm can set-off against its income for the assessment year 2021-22 would be

- (a) Unabsorbed depreciation of ₹3 lakh *plus* brought forward business loss of ₹3 lakh. (b) Unabsorbed depreciation 'nil' *plus* brought forward business loss ₹3 lakh.
(c) Unabsorbed depreciation ₹3 lakh *plus* brought forward business loss 'nil'. (d) Unabsorbed depreciation ₹3 lakh *plus* brought forward business loss of ₹1.50 lakh.

(49) In which of the following case loss can be carried forward without furnishing the return of loss?

- (a) Loss from house property. (b) Losses under the head Profits & Gains of Business or Profession except speculation business loss.
(c) Losses under Profits & Gains of Business or Profession including speculation business loss. (d) Losses under the head Capital Gains.

(50) In the case of a closely-held company (not being a company in which the public are substantially interested), the losses incurred in any year prior to the previous year can be carried forward and set off if -

- (i) on the last day of the previous year, the shares of the company carrying not less than..... of the voting power;
(ii) were beneficially held by persons who beneficially held shares of the company carrying not less than -----of the voting power on the last day of the year(s) in which the loss was incurred.
- (a) 25% ,25% (b) 51% ,51%
(c) 75% ,75% (d) 50% ,50%

ANSWER KEY

1.B	2.D	3.B	4.D	5.C	6.B	7.B	8.A	9.D	10.D
11.C	12.A	13.B	14.A	15.D	16.D	17.D	18.B	19.D	20.A
21.D	22.B	23.B	24.A	25.C	26.C	27.B	28.D	29.A	30.C
31.D	32.A	33.B	34.C	35.B	36.B	37.D	38.C	39.B	40.B
41.D	42.A	43.B	44.C	45.B	46.C	47.A	48.D	49.A	50.B

CHAPTER -7
INCOME UNDER HEAD OTHER SOURCES

Sec. 56(1) : CHARGING SECTION

- ➔ Income of **every kind**
- ➔ Not **Excluded** from Total Income
- ➔ **Not chargeable** to tax under **other 4 heads**
- ➔ Shall be chargeable to Income Tax under **Income from Other Sources**.

Examples :

1. Rental Income from **vacant land**
2. Income from **sub-letting** of house property
3. Interest on loan/deposits.
4. Agricultural Income **outside India**
5. **Family** pension.
6. **Insurance** Commission
7. Income from **Undisclosed** sources
8. **Royalty**(If not covered under P/G/B/P)
9. Receipt of **LIC money**(If not exempt u/s 10(10D))
10. **Director fees/Commission**
11. **Director salary** if not chargeable under salary
12. Salary to MP/MLA etc

Special point : Exemption u/s 10(17) :

The following allowances to MP/MLA are exempt from tax

1. **Member of Parliament** : Daily Allowances or Other Allowances
2. **Member of Legislative Assembly** : Daily Allowance and Constituency Allowance

Sec. 56(2): Following Incomes SHALL BE chargeable under head Other Sources

1. **Dividend** Income
2. Winnings from **Lotteries**, cross word puzzles , card games etc.
3. Interest on **Securities** ,if not chargeable under P/G/B/P

4. Income from **letting of Plant, Machinery or Furniture**, if income not chargeable under P/G/B/P
5. Income from composite **letting of BUILDING** together with Plant, Machinery or Furniture, which is inseparable from letting of such building, if such income not chargeable under P/G/B/P
6. Sum received under **Keyman Insurance Policy**, if not chargeable under salary or P/G/B/P
7. Sum/**Property** received as **Gifts** by **Individual & HUF** .
8. **Share premium in excess of fair market value received by Closely Held Company.**
9. **Interest received on compensation** or on enhanced compensation
10. **Advance or other money** received in course of negotiations for transfer of a capital asset, if such sum is forfeited & negotiations do not result in transfer of such capital asset.
11. **Any compensation or other payment**, due to or received by any person, by whatever name called, in connection with the termination of his employment or the modification of the terms and conditions.

<u>Method of Accounting (Sec. 145)</u>

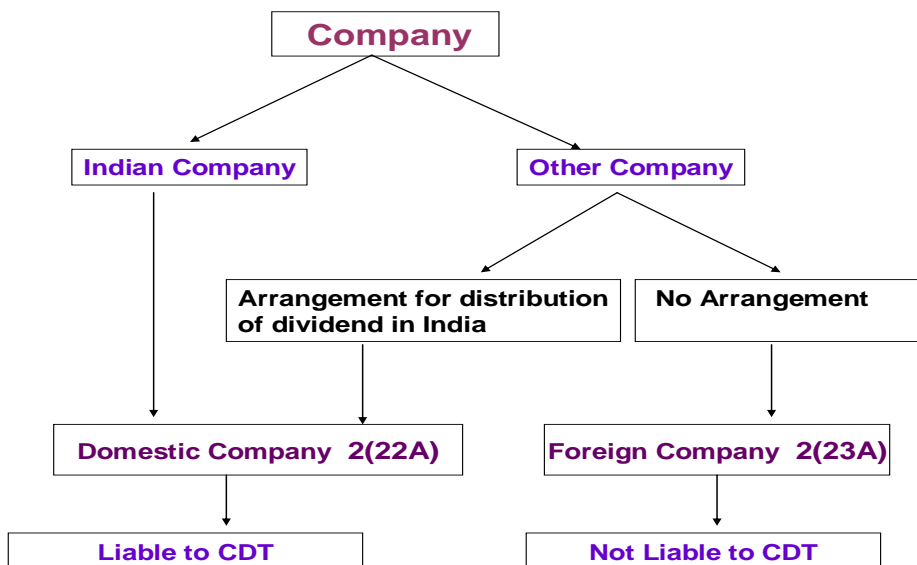
Income under head **Other Sources** is to be calculated on basis of **Cash or Mercantile basis** of accounting **regularly employed** by the assessee

1. <u>Taxation of Dividend Received from Companies</u>

1. As per Sec 1150 ,Domestic company was liable to pay CDT on dividend Actual or Deemed. **However this section is not applicable wef 1/4/2021 [FA,2020]**

Therefore Dividend from domestic company will now will be taxable in hands of shareholder.

2. Dividend **includes Deemed dividend** u/s. 2(22) (a), (b), (c), (d) & (e).
3. Dividend includes both **Interim & final** dividend.



Sec. 2(22): Dividend Includes :

Distribution by a Company to				
Sec. 2(22)(a)	Sec. 2(22)(b)		Sec.2(22)(c)	Sec. 2(22)(d)
<i>ANY Shareholder</i>	<i>ANY Shareholder</i>	<i>Preference Share Holders</i>	<i>Equity Shareholder</i>	<i>Equity Shareholder</i>
All or part of its Assets	Debentures , debenture-stock, deposit certificate with or without interest.	Bonus shares	Any money or asset on its liquidation	Any money or asset on Reduction of its capital

Sec. 2(22)(e) : Loan/Advance by closely held company

- ✓ Closely held Company
- ✓ Gives loan or Advance
- ✓ To **Specified** Shareholder **or**
- ✓ To **CONCERN** in which specified shareholder is a partner/member & has substantial interest *or*
- ✓ To **Any person** on behalf or benefit of specified shareholder

Special Points:

1. **Specified Shareholder Means** beneficial owner holding **atleast 10% voting** in the company
2. **Substantial Interest means:** If at **any time** person entitled to **atleast 20% income** of that concern (**20% voting power**, in case of company).
3. **Sec 2(18) : Company in which the public are substantially interested (Widely held company)**

A company is said to be a company in which the public are substantially interested if

- a. It is owned by Government or Reserve Bank of India or
 - b. Its atleast 40% shares are held by the Government or the RBI or
 - c. Non profit company or
 - d. company whose principal business is to accept deposits from its members or
 - e. Public company & its equity shares were listed on last day of P/Y on recognised stock exchange
- A company not covered under above categories is a closely held company**

Sec 115QA : <u>Tax on Distributed Income to Shareholders.</u>
--

Domestic company shall pay tax on distributed income on buy-back of shares from shareholder

Special point :

- (i) *Distributed income" means consideration paid by company on buy-back of shares as reduced by amount which was received by the company for issue of such shares.*
- (ii) *Sec 10(34A) : Any income arising to shareholder, on account of buy back of shares by company u/s 115QA is exempt.*

The provisions of section 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, 1992.

<u>Taxation of Income Received from Mutual funds</u>

1. As per Sec 115R ,Domestic mutual funds were liable to pay Distribution Tax on Income distributed to unitholders. **However this section is not applicable wef 1/4/2021 [FA,2020]**

Therefore Income received by unit holders on Mutual fund units will now will be taxable in hands of unitholders.

2. Winnings from Lotteries, Crossword Puzzle, Races including horse races, Card games & other games of any sort or from gambling or betting of any form

Sec. 194B : T.D.S on lottery , Crossword Puzzles, Card Game or Other game

1.	Rate of TDS	30%
2.	Exemption Limit	Aggregate upto ₹10,000 in a P/Y

Sec. 194BB: T.D.S on Horse Races

1.	Rate of TDS	30%
2.	Exemption Limit	Aggregate upto ₹10,000 in P/Y

Special Points :

- (a) Deduction u/s Sec 80 C to Sec 80 U **will not** be available from such **Incomes**.
- (b) **Sec. 58: No Deduction** shall be allowed from **such incomes**
- (c) **Amount included in Total Income is Gross amount of Winning & not Net amount received after TDS**

$$\text{Gross Amount to be included in Total Income} = \frac{\text{Net Amount Received after TDS} \times 100}{100 - \text{TDS rate}}$$

3. Interest

Income from Interest on Securities is chargeable under head other sources.(If not chargeable under P/G/B/P)

Sec. 10(15) : Interest Exempt from Tax

1. Interest on Notified bonds/certificates
 - Post office Saving Bank account upto ₹3,500 / ₹7,000 in joint account in P/Y
 - Post office Time deposit
 - Special Bearer Bonds
2.
 - Notified Capital Investment Bond
 - Notified Relief Bonds of RBI

3. Notified Bond/Debenture of **Public Sector Companies**. Eg Rural Electrification Corporation Limited , Indian Railway Finance Corporation Limited
4. Bonds of **Local Authority**, i.e. Municipal Bonds.
5. Interest on Gold **Deposit Bonds/certificated** issued under Gold Deposit scheme 1999/Gold monetization scheme, 2015
6. **Any income by way of interest payable to a non-resident by a unit located in International Financial Services Centre in respect of monies borrowed by it .**

Section 14A : Expenditure of **any exempt income** is not allowed as a deduction from taxable income

Sec. 193: TDS on Interest on Securities

1.	Rate of TDS	10%
2.	Exception No TDS in following cases	<p>1. Interest on securities of Central or State Government <i>Exception : TDS will apply to interest exceeding Rs.10,000 payable on 8% Savings (Taxable) Bonds, 2003 or 7.75% Savings (Taxable) Bonds, 2018 during financial year</i></p> <p>2. Interest on Listed securities which are in Demat form</p> <p>3. Interest to Resident Individual or Resident HUF on debenture of company in which public are substantially interested, if (a) Total interest during p/y is upto 5,000 & (b) Interest is paid by account payee cheque</p>

Sec. 194A: TDS on Interest other than “Interest on Securities

1.	Type of Payment	Interest other than “Interest on Securities
2.	Payer	Any person (Individual/HUF subjected to tax audit for prior P/Y or Other Payer)
3.	Payee	Resident
4.	Rate of TDS	10%
5.	Exception No TDS in following cases	<p>1. Interest by firm to a partner</p> <p>2. Interest by coop. society (<i>other than coop bank</i>) to member</p> <p>3. Interest by bank on saving account</p> <p>4. Interest paid to banks/financial corporations</p>

		5. Interest paid on compensation awarded by motor accidents claims tribunal upto 50,000
6.	Exemption Limit	Payer Bank/Post office : Interest upto ₹40,000 in P/Y Other Payer : Aggregate upto ₹ 5,000 in P/Y For Deposit of senior citizen : Limit is Rs.50,000

Amount to be included in Total Income is Gross amount & not Net amount received after TDS

$$\text{Gross Amount to be included in Total Income} = \frac{\text{Net Amount Received after TDS} \times 100}{100 - \text{TDS rate}}$$

Computation of Taxable Interest to be included in IOS

Step 1 : Determine whether Assessee owns security on **Due date of interest** because Interest on security is receivable by person who owns the security on Due date.

Step 2 : Determine whether security are purchased from **Company or Market/broker**

If security are purchased from Company :

Interest receivable for period = **Date of purchase to Due date**

If security are purchased from Market/broker :

Interest receivable for period = **Interest declared on due date**

Step 3 : Then apply the **Method of accounting** (Cash or Mercantile)

Sec 94(1) : Bond Washing Transactions

- ✓ If **owner of security**(Transferor)
- ✓ **Sells** security before record date &
- ✓ **Acquires** the same after record date
- ✓ Interest received by transferee
- ✓ **Deemed** as Income of transferor

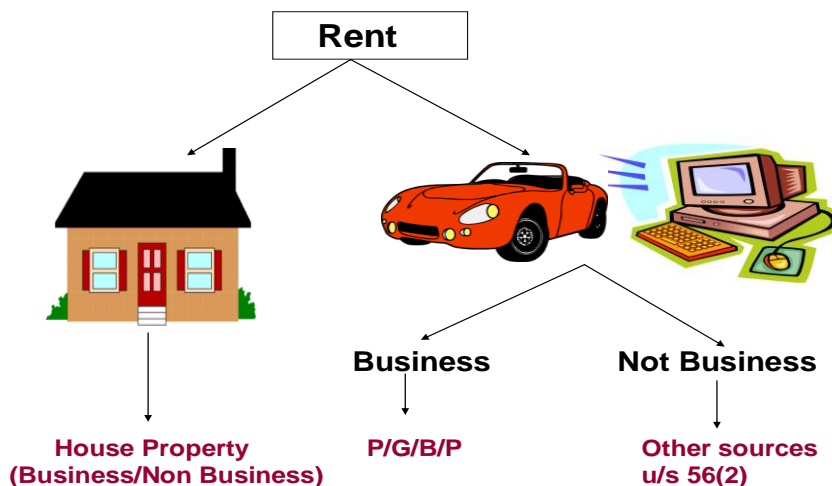
However Deeming provisions of sec 94(1) is not applicable if

1. If there is **no avoidance** of Income tax **or**
2. Avoidance of Income tax was **exceptional & not systematic** & there was not any avoidance during last **three preceding P/Y**

4. Income from letting of Machinery, Plant or Furniture belonging to assessee

If P&M etc. is **NOT** let out as part of assessee's business activity than income arising from such hire will be taxable under other Sources

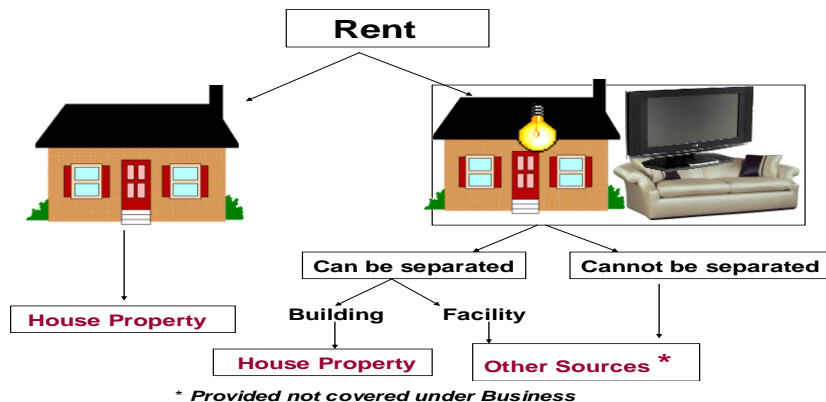
If letting is as part of his business activity than under P/G/B/P



5. Income from composite letting of machinery, plant furniture and buildings

If letting of building is inseparable from letting of P&M etc. and such letting is **NOT** as part of his business activity, than income arising from such letting will be taxable under other sources.

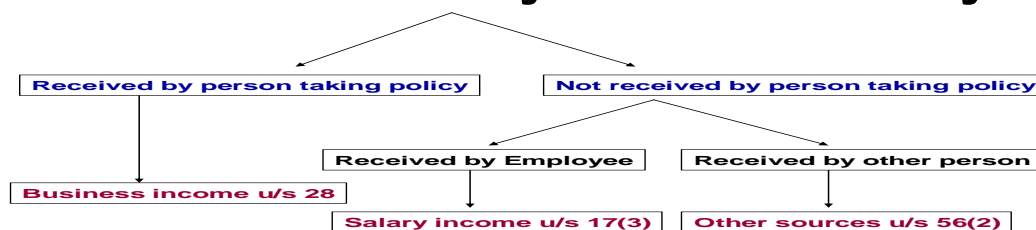
If letting is as part of his business activity than under P/G/B/P



6. Sum received under Keyman insurance policy including Bonus

Any sum received under above policy including bonus is taxable under other sources provided not chargeable under head salary or P/G/B/P

Sum received under Keyman Insurance Policy



7. Sum/Property received as Gifts

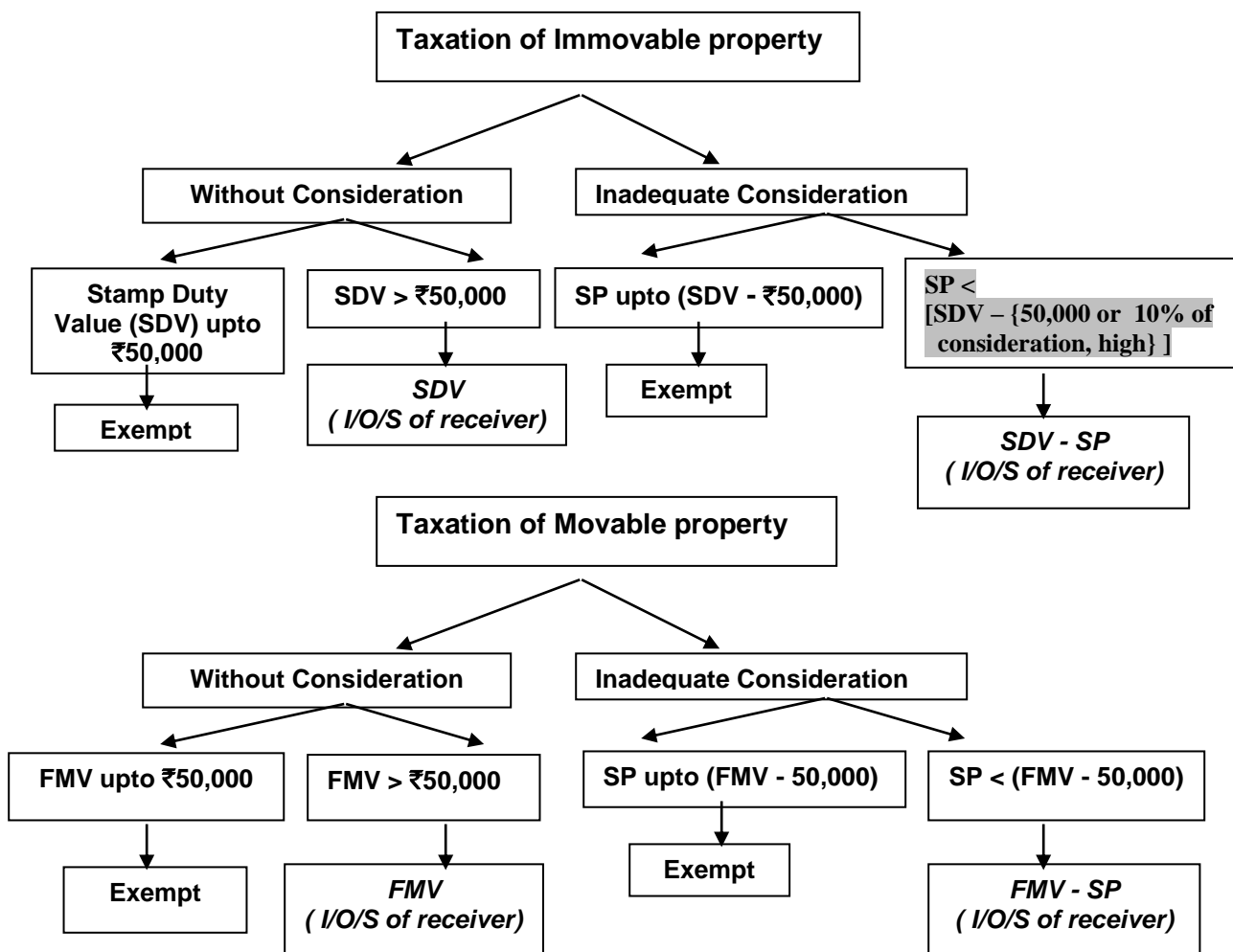
A. Taxation of Monetary Gifts

- ☐ **Sum of money** received by **ANY PERSON**
- ☐ **Without consideration**
- ☐ In excess of ₹ 50,000/-
- ☐ in a previous year
- ☐ the **whole** of such sum
- ☐ Shall be included in **income of receiver** under head I/O/S

B. Taxation of Non Monetary Property as Gift/Inadequate consideration

Property means following Capital asset of the assessee, namely

1. *Immovable property being land or building or both;*
2. *Shares and securities;*
3. *Jewellery;*
4. *Archaeological collections;*
5. *Drawings;*
6. *Paintings;*
7. *Sculptures;*
8. *Bullion;*
9. *Any work of art*



Special Point :

1. **Sec 49(4) : If Property is taxable in hands of recipient under I/O/S then its Stamp value / FMV will be taken as its Cost of Acquisition**

2. **Sum of Money/Property received from following will not be included in Income**

- a. From **RELATIVE**
- b. On **Marriage** of Individual.
- c. Under **will** or **inheritance**.
- d. Received in **contemplation of death** of payer/donor
- e. From/By **Trust** registered u/s 12A/12AA/12AB
- f. From **Local authority** u/s 10(20)
- g. From/By any **university /educational institution/hospital/trust/institution** u/s 10(23C)
- h. **From such class of persons and subject to such conditions, as may be prescribed.**

RULE 11UAC :

- Any immovable property (land or building or both),
- received by Resident of unauthorised colony
- in NCR of Delhi,
- where Central Government by notification in Official Gazettee,
- regularised the transactions of such immovable property
- based on latest Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration
- for conferring or recognising right of ownership or transfer or mortgage in regard to such immovable property in favour of such resident.

Explanation. "Resident" means a person having physical possession of property on basis of a registered sale deed or Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration in respect of a property in unauthorised colonies and includes their legal heirs but does not include tenant, licensee or permissive user.

3. RELATIVE : For above purpose "Relative" means**In case of individual :**

- (a) Spouse of the individual
- (b) Brother or sister of the individual
- (c) Brother or sister of spouse of the individual
- (d) Brother or sister of either of the parents of the individual
- (e) Any lineal ascendant or descendant of the individual
- (f) Any lineal ascendant or descendant of the spouse of the individual
- (g) Spouse of the persons referred to in clause (ii) to (vi)

In case of HUF : Any member thereof

4. Where the date of agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same, the SDV on the date of agreement may be taken

Above provision shall apply only in a case where the amount of consideration, or a part thereof, has been paid by way of account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed, on or before the date of agreement for transfer of such immovable property.

(8) : Interest received on Compensation for Compulsory acquisition of capital Asset

- ♦ Interest received by an assessee on **Compensation** or on **Enhanced Compensation** shall be **deemed** to be the income of the **previous year in which it is received**.

- ♦ **Sec 57 :** A deduction of **50%** of such income shall be allowed & no deduction shall be allowed under any other clause of this section.

(9) : Share premium in excess of fair market value to be treated as income of Closely Held Company

- Where a company, not being a company in which the public are substantially interested,
- Receives, From a resident
- Any consideration for issue of shares that exceeds
- Face value of such shares
- Excess of aggregate consideration received for such shares over FMV of shares
- Shall be treated as income

(10) : Advance Money forfeited on Capital Asset on or after 1/4/2014

If Advance or other money is forfeited under negotiations for transfer of capital asset, it is included in Income of receiver under Other sources.

Sec 57 : Deductions available from Income under Other Sources

1: Collection Charges against taxable Dividend/Interest :

Any reasonable sum paid by way of commission or remuneration for realising such **dividend/interest**

2. Deduction against Income from letting of Plant, machinery etc

Revenue Repair ,Insurance , Depreciation of Building ,Machinery, Plant or Furniture

3. Deduction against family pension

1/3rd of Pension **OR** ₹15,000/-, *whichever is less*

If assessee is covered u/s 115BAC then deduction of family pension shall not be allowed.
[FA,2020]

4. Any Revenue Expenditure

Any other expenditure (**not being a capital expenditure**) expended **wholly and exclusively** for the purpose of earning such income.

- 5. A deduction of 50%** shall be allowed from interest received on compensation for compulsory acquisition of capital asset. No other deduction shall be allowed from such income.

Special Points :**1. FAMILY PENSION**

- Regular Amount payable by Employer,
- To Legal Heir of Deceased Employee
- Is Taxable under other sources
- Deduction u/s 57 is available against such pension

However following pension are exempt from tax

10(18)	Pension received by Individual or Family Pension by family member <i>if</i> Individual has been in service of C/S Govt. & awarded Vir Chakra or Mahavir Chakra or Param Vir Chakra or other notified gallantry awards.
10(19)	Family pension received by widow or children or heir on death of member of armed forces during duty

2. Interest on money borrowed to earn income taxable under other sources, is allowed as a deduction u/s 57.

3. Following proviso shall be inserted in section 57 by the Finance Act, 2020, w.e.f. 1-4-2021 :

Provided that no deduction shall be allowed from the dividend income, or income in respect of units of a Mutual Fund other than deduction on account of interest expense, and in any previous year such deduction shall not exceed 20% of the dividend income, or income in respect of such units, included in the total income for that year, without deduction under this section.

Sec 58 : <u>No deduction of following expenses from Income from Other Sources</u>
--

- Personal Expenses of Assessee.
- Expenditure referred to in **Sec. 40(a) or 40A [Refer PGBP]**
- Expenditure or allowance for earning income from Lottery, Crossword Puzzles etc., (*except Income from owning & maintaining race horses*)

Sec 59 : If an expense is allowed as deduction from Other sources in any P/Y, recovery of any amount out of that expense shall be taxable as Income from other sources in p/y of receipt

OTHER IMPORTANT POINTS**Sec 115BBG. : Transfer of Carbon Credit**

(1) Where the total income of an assessee includes any income by way of transfer of carbon credits, the income-tax payable shall be the aggregate of—

- (a) Amount of income-tax calculated on the income by way of transfer of carbon credits, @ 10% and
- (b) Amount of income-tax with which the assessee would have been chargeable had his total income been reduced by the amount of income referred to in clause (a).

(2) Notwithstanding anything contained in this Act, no deduction in respect of any expenditure or allowance shall be allowed to the assessee under any provision of this Act in computing his income u/s 115BBG

Explanation : Carbon credit in respect of one unit shall mean reduction of one tonne of carbon dioxide emissions or emissions of its equivalent gases which is **validated by UN Framework on Climate Change and which can be traded in market at its prevailing market price.**

Sec 115BBF : Tax on income from Patent

- (1) Where the total income of a resident in India & a patentee includes royalty income in respect of a patent developed & registered in India, income-tax payable on such income shall be @ 10%.
- (2) **No deduction of any expenditure or allowance** shall be allowed to eligible assessee under any provision of this Act in computing above income.
- (3) The eligible assessee **may exercise option for taxation** of income by way of royalty under this section on or before the due date u/s 139(1) for furnishing return of income for the relevant P/Y.
- (4) Where eligible assessee opts for this section for any p/y & offers income for taxation for any of 5 subsequent p/y succeeding the p/y not in accordance with above provisions, then, assessee shall not be eligible to claim benefit of of this section for 5 p/y subsequent to p/y which such income has not been offered to tax in accordance with above provision.

Special point :

- (1) "Developed" means at minimum 75% of expenditure incurred in India by eligible assessee for any invention in respect of which patent is granted under Patents Act, 1970
- (2) "lump sum" includes an advance payment on account of such royalties which is not returnable;
- (3) "patentee" means the person, being the true & first inventor of invention, whose name is entered on patent register as the patentee, in accordance with Patents Act
- (4) "Royalty", in respect of patent, means consideration (including any lump sum consideration but excluding any consideration which would be chargeable under "Capital gains")

MULTIPLE CHOICE QUESTIONS

- (1) Income of every kind, which is not to be excluded from the total income under this Act and not charged to income-tax under any of the other four heads, shall be chargeable to income-tax under the head _____ -
- (a) Income from salaries (b) Income from House Property
(c) Profits and gains from business and profession (d) Income from Other Sources
- (2) Which is the charging section for income chargeable under the head Income from other sources?
- (a) Section 15 (b) Section 28
(c) Section 22 (d) Section 56
- (3) John, engaged in fertiliser trade received rent by sub-letting a building. This will be taxable under the head -
- (a) Income from house property (b) Income from capital gains
(c) Income from profits & gains of business & profession (d) Income from other sources.
- (4) Under the Income-tax Act, 1961, dividend derived from the shares held as stock-in-trade are taxable under head -
- (a) Income from other sources (b) PGBP
(c) Capital gains (d) Either capital gains or PGBP.
- (5) Which of the following incomes are chargeable under the head 'Income from other sources'?
- (a) Dividends (b) Winnings from lotteries
(c) Betting (d) All of these
- (6) Agriculture income received from outside India will be -
- (a) Taxable under the head Profit and Gains of Business or Profession (b) Taxable under the head Income from othersources
(c) Exempt from tax (d) None of these
- (7) Ram was dealing in the business of lotteries. He himself won a lottery. Income earned from such lottery will be
- (a) Taxable under the head Profit and Gains of Business or Profession (b) Taxable under the head Income from other sources
(c) Exempt (d) None of these
- (8) Salary paid to a member of parliament will be –
- (a) Taxable under the head Profit and Gains of Business or Profession (b) Taxable under the head Income from other sources
(c) Exempt (d) None of these
- (9) Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset is forfeited and the negotiations do not result in transfer of such capital asset will be taxable under the head -
- (a) Profit and Gains of Business or Profession (b) Income from other sources
(c) Capital gains (d) Income from house property
- (10) Arun entered into an agreement with Brij for sale of a building for ₹ 20 lakh in June; 2020. Arun received advance of ₹ 2 lakh. Subsequently, the agreement was cancelled and Arun forfeited the advance money. The advance money is -
- (a) To be reduced from the cost of acquisition (b) To be reduced from indexed cost of acquisition
(c) Taxable as capital gains (d) Taxable as income under the head 'income from other sources
- (11) Ram received ₹ 7lakh by way of enhanced compensation in March, 2021. A further sum of ₹ 2lakh decreed by the court is due but not received till 31st March, 2021. The amount of income chargeable to tax for A/Y 2021-22 would be -----
- (a) ₹ 3,50,000 (b) ₹ 7,00,000
(c) ₹ 9,00,000 (d) ₹ 4,50,000

- (12) Shashi received ₹10,000 as directors fee from a company. This amount will be taxable under the head _____
- (a) Profit and Gains of Business or Profession (b) Income from other sources
(c) Exempt (d) None of these
- (13) An assessee earned interest on post office savings bank account : ₹6,000. Such sum shall be taxable under the head:
- (a) Salaries (b) Profit & Gains of Business & Profession
(c) Capital Gains (d) Income from Other Sources
- (14) Ram owned a machinery. He let it on hire to Raghav for ₹2,40,000 p.a. Such amount shall be taxable under head:
- (a) Income from other sources (b) Income from house property
(c) Income from Business and profession (d) Any of the above
- (15) Income from letting on hire of plant, machinery or furniture is chargeable under the head -
- (a) Income from other sources. (b) Profits and gains of Business or Profession.
(c) Capital Gains. (d) Either (a) or (b)
- (16) Under which head income from letting on hire of machinery etc. will be taxed if the same is not chargeable under the head 'Profits and gains of Business and Profession'
- (a) Income from Other Sources. (b) Salaries
(c) Capital Gains (d) Income from House Property
- (17) Income earned by an assessee from letting on hire machinery, plant or furniture belonging to him and also buildings, and where letting of buildings is inseparable from the letting of the said machinery, plant or furniture shall be taxable under the head:
- (a) Income from other sources (b) Income from house property
(c) Income from Business and profession (d) Any of the above
- (18) Any sum received by employer from employees as contribution to certain funds is taxable under the head:
- (a) Salaries (b) Profit & Gains of Business & Profession
(c) Capital Gains (d) Income from Other Sources

DIVIDEND, DEEMED DIVIDEND AND ITS TAXABILITY

- (19) Amount paid to or received by a shareholder in proportion to its shareholding in a company out of the total sum so distributed is known as:
- (a) Share (b) Dividend
(c) Bonus (d) Profit
- (20) The date fixed by a company for entitlement of dividend or by a mutual fund administration/ specified company for entitlement of dividend or bonus units is known as :
- (a) Due date (b) Record date
(c) Expiry date (d) None of these
- (21) Rashmi held 1,000, 12% Preference shares of ₹100 each in Rose Ltd. Dividend was received by her on 25th March, 2021. Calculate the amount chargeable to tax.
- (a) Exempt (b) ₹12,000
(c) ₹120 (d) None of the above
- (22) Deemed dividends as given in Section 2(22), which provides" dividend" includes _
- (a) Distribution of accumulated profits, entailing release of assets by the company to its shareholders. (b) Distribution of debentures/ deposit-certificates to shareholders or bonus shares to preference shareholders to an extent to which the company possesses accumulated profits.

- (c) Distribution to shareholders on liquidation to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation. (d) All of the above.
- (23) Which of the following distributions by a company to its shareholders are not considered as deemed dividends?
 (a) Debentures (b) Debenture Stock
 (c) Shares issued for full cash consideration (d) Bonus shares
- (24) A private limited company engaged in manufacturing activity had general reserve of ₹ 20 lakh. It granted a loan of ₹ 5 lakh to a director who held 13% shareholding cum voting rights in the company. The said loan was re-paid by him before the end of the year. The amount of deemed dividend arising out of the above transaction is -
 (a) ₹ 2,60,000 (b) ₹ 2,40,000
 (c) ₹ 5,00,000 (d) Nil.
- (25) Mr. X resident individual 45 years of age gives the following information pertaining to the assessment year 2021-22 :
- | Particulars | ₹ |
|--|-----------|
| Dividend from shares of Indian company | 12,50,000 |
| Expenses incurred on collecting such dividends | 12,500 |
- Determine the amount of Total Income and tax liability for the assessment year 2021-22 assuming not covered u/s 115BAC
- (a) ₹ 1,95,000 (b) ₹ Nil
 (c) ₹ 26,000 (d) ₹ 1,30,000
- (26) X Ltd. reduced its share capital and for that distributed to its shareholders an amount of ₹ 55,00,000. The company possessed accumulated profits of ₹ 35,00,000 as on the date of distribution. What shall be the amount to be assessed as deemed dividend?
 (a) ₹ 55,00,000 (b) ₹ 35,00,000
 (c) ₹ 20,00,000 (d) NIL
- (27) ABC Pvt. Ltd. gave a loan of ₹ 5,00,000 to its shareholder. The shareholder was the beneficial owner of equity shares of the company as he held 14% of the voting power of the Company. The company possessed accumulated profits of ₹ 3,00,000 as on the date of advancement of loan. What shall be the amount to be assessed as deemed dividend?
 (a) ₹ 5,00,000 (b) ₹ 3,00,000
 (c) ₹ 2,00,000 (d) Nil
- (28) ABC Ltd. gave a loan of ₹ 9,00,000 to its shareholder. The shareholder was the beneficial owner of equity shares of the company as he held 12% of the voting power of the Company. The company possessed accumulated profits of ₹ 1,00,000 as on the date of advancement of loan. What shall be the amount to be assessed as deemed dividend?
 (a) ₹ 9,00,000 (b) ₹ 1,00,000
 (c) ₹ 8,00,000 (d) NIL
- (29) As per section 2(22)(e), loan/ advances given by a closely held company to a concern in which its shareholder has substantial interest, then to the extent of accumulated profits held by the private company (capitalised accumulated profits not included), it shall be considered as deemed dividend . A person is deemed to have a substantial interest:
 (a) If he holds 20% of voting power (equity shares) in the company; (b) If he is beneficially entitled to 20% or more of the income of such concern.
 (c) Either (a) or (b) (d) None of these.
- (30) ABC Pvt. Ltd. gave a loan of ₹ 9,00,000 to PQR & Co. 'C', a shareholder of ABC Pvt. Ltd. was holding 20% of the voting power (equity shares) in the concern PQR & Co. The company possessed accumulated profits of ₹ 5,20,000 as on the date of advancement of loan to the PQR & Co. What shall be the amount to be assessed as deemed dividend ?

- (a) ₹ 3,80,000 (b) ₹ 9,00,000
(c) ₹ 5,20,000 (d) Nil
- (31) ABC Pvt. Ltd. gave a loan of ₹ 9,00,000 to PQR & Co. The company possess nil accumulated profits as on the date of advancement of loan to PQR & Co., then what shall be the amount to be assesseed as deemed dividend ?
- (a) ₹ 3,80,000 (b) ₹ 9,00,000
(c) ₹ 5,20,000 (d) Nil
- (32) ABC Pvt. Ltd. gave a loan of ₹ 9,00,000 to PQR & Co. The company possess accumulated profits of ₹ 11,00,000 as on the date of advancement of loan to PQR & Co., then what shall be the amount to be assesseed as deemed dividend?
- (a) ₹ 3,80,000 (b) ₹ 9,00,000
(c) ₹ 5,20,000 (d) Nil
- (33) Dividend received from a foreign company (net) ₹ 8,000. Nothing has been paid to the Government of India out of tax deducted at source. Calculate the amount to be included while computing income under the head 'Income from Other Sources'.
- (a) Nil (b) ₹ 8,000
(c) ₹ 11,428 (d) ₹ 2,400
- (34) The maximum limit of exemption is case of lotteries or crossword puzzles or card game is :
- (a) ₹ 2,500 (b) ₹ 50,000
(c) ₹ 10,000 (d) ₹ 5,000
- (35) The maximum limit of exemption in case of horse races is:
- (a) ₹ 2,500 (b) ₹ 10,000
(c) ₹ 5,000 (d) ₹ 1,000
- (36) Winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature, taxable under the head 'Income from other sources' after grossing up is taxed without allowing basic exemption limit at flat rate of :
- (a) 30% (b) 20%
(c) 10% (d) 15%
- (37) Winnings from lotteries (gross) ₹ 90,000. Calculate the amount to be included while computing income under the head 'Income from Other Sources'.
- (a) ₹ 90,000 (b) ₹ 1,20,000
(c) ₹ 27,000 (d) ₹ 1,17,000
- (38) Winnings from horse race (net) ₹ 35,000. Calculate the amount to be included while computing income under the head 'Income from Other Sources'.
- (a) ₹ 35,000 (b) ₹ 50,000
(c) ₹ 10,500 (d) ₹ 60,500
- (39) Miss. Z received an amount of ₹ 35,000 on 1-12-2020 in connection with winning from camel races. Cost of race tickets purchased was ₹ 2,000. Calculate amount to be included under the head 'Income from Other Sources':
- (a) ₹ 35,000 (b) ₹ 50,000
(c) Nil (d) ₹ 10,000
- (40) ₹ 30,000, 11% securities (unlisted) of a textile company. What shall be the amount of interest income earned from securities to be taxable under the head of Income from Other Sources?
- (a) ₹ 30,000 (b) ₹ 3,300
(c) ₹ 26,700 (d) Not taxable

- (41) An assessee received an income of ₹ 9,000 as interest on securities of a listed paper manufacturing company. What shall be the amount of interest income earned from securities to be taxable under head Income from Other Sources?
- (a) ₹ 9,000 (b) ₹ 10,000
(c) ₹ 8,100 (d) Not taxable
- (42) Rashmi received rent of ₹ 60,000 from letting a residential building (in Mumbai) along with plant and machinery (letting out building is inseparable from letting of plant and machinery). She expended ₹ 6,000 for repairs and insurance of the buildings and plant and machinery. The WDV of building was ₹ 2,00,000 as on 1-4-2020 and the plant and machinery was purchased on 9th May 2020 for ₹ 20,000. Amount taxable is :
- (a) ₹ 54,000 (b) ₹ 41,000
(c) ₹ 60,000 (d) ₹ 44,000
- (43) If interest on securities is received after deduction of tax at source then the amount to be included in the total income is:
- (a) Gross interest (b) Net interest
(c) No amount to be included (d) None of these
- (44) Sum received under a Keyman insurance policy including bonus received by Keyman who is not an employee shall be taxable under the head:
- (a) Income from other sources (b) Income from house property
(c) Income from Business and profession (d) Any of the above

TAXABILITY OF GIFTS

- (45) Akash received a gift of ₹ 35,000 each on 22th May, 2020 from his three friends. The amount chargeable to tax in this case would be _
- (a) ₹ 50,000 (b) ₹ 1,05,000
(c) Nil (d) ₹ 55,000
- (46) Cash gifts exceeding ____ shall be chargeable under the head income from other sources:
- (a) ₹ 5,000 (b) ₹ 20,000
(c) ₹ 50,000 (d) ₹ 25,000
- (47) The taxability of gift shall not apply if this gift is received from:
- (a) Relative (b) Local authority
(c) By way of inheritance (d) All of these
- (48) Mrs. X received the following gifts during the year. Which gifts shall be included in computing the income from other sources?
- (a) Gift of ₹ 26,000 from her employer. (b) Gift of ₹ 21,000 on 1st December from her mother's friend.
(c) Gift of ₹ 1,21,000 from her husband's brother. (d) Gift of ₹ 60,000 on 25th November from her father's brother.
- (49) Mrs. X received the following gifts during the year. Which gifts shall not be included in computing the income from other sources?
- (a) Scholarship of ₹ 1,20,000 from a charitable institution registered under section 12AA. (b) Gifts of ₹ 51,000 each received from her four friends on the occasion of her marriage on 21st October.
(c) Gift of ₹ 1,41,000 from her husband's brother. (d) All of the above.
- (50) Which of the following income will be taxable as income from other sources -
- (a) Purchase of house from husband for inadequate consideration (b) Purchase of painting from registered dealer at invoice value less than fair market value
(c) Cash gift from a non-resident friend on marriage anniversary (d) All of the above.

- (51) Riya received gift of jewellery, fair market value of which is ₹ 3,00,000 on 17th October from her fiancée. What will be the taxable amount?
- (a) Nil (b) ₹ 3,00,000
(c) ₹ 2,50,000 (d) ₹ 50,000
- (52) Mahesh received a watch worth ₹ 60,000 from his cousin grandfather (brother of his grandfather). What will be the taxable amount?
- (a) Nil (b) ₹ 60,000
(c) ₹ 10,000 (d) ₹ 50,000
- (53) If A receives ₹ 31,000 from B and ₹ 20,000 from C, then, what will be the taxable amount?
- (a) Nil (b) ₹ 1,000
(c) ₹ 51,000 (d) ₹ 50,000
- (54) Suresh received a share of ₹ 60,000 from his cousin grandfather (brother of his grandfather). What will be the taxable amount?
- (a) Nil (b) ₹ 60,000
(c) ₹ 10,000 (d) ₹ 50,000
- (55) Nita received a gift from his sister in Netherlands of ₹ 2,50,000. What will be the taxable amount?
- (a) Exempt (b) ₹ 2,50,000
(c) ₹ 2,00,000 (d) ₹ 50,000
- (56) Ram received ₹ 70,000 from his friend on the occasion of his birthday.
- (a) The entire amount of ₹ 70,000 is taxable (b) ₹ 20,000 is taxable
(c) The entire amount is exempt (d) None of the above.
- (57) Hema received a cash gift of ₹ 80,000 from her friend on her 25th wedding anniversary. Amount taxable is :
- (a) Exempt (b) ₹ 80,000
(c) ₹ 30,000 (d) ₹ 50,000
- (58) Gift of ₹ 5,00,000 received on 10th July, 2020 through account payee cheque from a non-relative regularly assessed to income-tax, is -
- (a) A capital receipt not chargeable to tax (b) Chargeable to tax as income from other sources
(c) Chargeable to tax as business income (d) Exempt upto ₹ 50,000 and balance chargeable to tax as income from other sources.
- (59) Mr. A received cash gift worth ₹ 55,000 from his grandfather's brother, on the occasion of the marriage of his son. What will be the taxable amount -
- (a) ₹ 55,000 (b) Nil
(c) ₹ 50,000 (d) ₹ 5,000
- (60) Mr. X received a Watch worth ₹ 55,000 from his employer on the occasion of his birthday. What will be the tax consequences?
- (a) ₹ 55,000 taxable in the hand of X, as income from salaries (b) ₹ 55,000 taxable in the hands of X, as Business Income
(c) ₹ 55,000 taxable, as income from other sources (d) None of these
- (61) On 5th February, 2021 Raj gets a gift of motor car from a relative Mahesh. Fair market value of the car is ₹ 3,60,000. The amount taxable in the hands of Raj under section 56 is -
- (a) ₹ 3,60,000 (b) ₹ 3,10,000
(c) Nil (d) ₹ 50,000

- (62) X & Co. received a gift of 900 shares of ABC Pvt. Ltd. at a consideration of ₹ 1,60,000. The aggregate fair market value of shares is ₹ 2,30,000. What will be the taxable amount under the head Income from Other Sources?
- (a) Nil (b) ₹ 50,000
(c) ₹ 70,000 (d) ₹ 1,60,000
- (63) XYZ Pvt. Ltd. issued 1,00,000 shares. The face value of shares is ₹ 200, Fair Market value ₹ 190 and issue price ₹ 210. Calculate the amount to be considered as income in hands of XYZ Pvt. Ltd. as per section 56(2).
- (a) Nil (b) ₹ 20,00,000
(c) ₹ 10,00,000 (d) ₹ 5,00,000
- (64) If in the above case, face value of shares is ₹ 200, Fair Market value ₹ 190 and issue price ₹ 198. Calculate the amount to be considered as income in hands of XYZ Pvt. Ltd. as per section 56.
- (a) Nil (b) ₹ 20,00,000
(c) ₹ 10,00,000 (d) ₹ 5,00,000
- (65) ABC Pvt. Ltd. issued 1,00,000 shares. The face value of shares is ₹ 200, Fair Market value ₹ 220 and issue price ₹ 230. Calculate the amount to be considered as income in hands of ABC Pvt. Ltd. as per section 56.
- (a) Nil (b) ₹ 20,00,000
(c) ₹ 10,00,000 (d) ₹ 5,00,000
- (66) XYZ Pvt. Ltd. issued shares. Mr. R, resident of India, purchased the shares at a consideration of ₹ 5,00,000. The fair market value of such shares was of ₹ 4,50,000. What will be the taxable amount under the head Income from Other Sources?
- (a) Nil (b) ₹ 50,000
(c) ₹ 4,50,000 (d) ₹ 5,00,000
- (67) Sandep received the following income during financial year 2020-21 : Director's fees ₹ 5,000, income from agricultural land in Pakistan ₹ 15,000, rent from let-out of land in Jaipur ₹ 20,000, Interest on deposit with HDFC Bank ₹ 1,000 and dividend from Indian company ₹ 5,000. His income from other sources is -
- (a) ₹ 41,000 (b) ₹ 46,000
(c) ₹ 31,000 (d) ₹ 26,000
- (68) Rishi received the following gifts during the previous year:
- (i) ₹ 50,000 from his employer
(ii) ₹ 1,00,000 from mother's sister
(iii) ₹ 10,000 from his friend on the occasion of his marriage
(iv) ₹ 60,000 in the form of scholarship from a registered charitable trust. The amount of taxable gift under the head 'income from other sources' is _____
- (a) Nil (b) ₹ 50,000
(c) ₹ 1,50,000 (d) ₹ 2,10,000
- (69) Easy(Pvt.) Ltd. issued 10,000 equity shares to Paresh at ₹ 18 per share when the fair market value of each share was determined at ₹ 11 per share. The tax implication of the transaction is -
- (a) ₹ 70,000 taxable as income for Easy (Pvt.) Ltd (b) ₹ 20,000 taxable as income Paresh
(c) ₹ 10,000 taxable as income for Paresh (d) Nil

DEDUCTIONS IN COMPUTING INCOME FROM OTHER SOURCES

- (70) Interest on compensation/ enhanced compensation shall _
- (a) be taxable in the year of receipt. (b) be taxable in the year of accrual.
(c) be taxable receipt/ accrual, whichever is earlier. (d) not be taxable.

- (71) Sarthank has received a sum of ₹ 3,40,000 as interest on enhanced compensation for compulsory acquisition of land by State Government in May, 2020, of this, only ₹ 12,000 pertains to the current year and the rest pertains to earlier years. The amount chargeable to tax for the assessment year 2021-22 would be -
- (a) ₹ 12,000 (b) ₹ 6,000
(c) ₹ 3,40,000 (d) ₹ 1,70,000
- (72) Fixed deduction available in respect of income of interest on compensation/ enhanced compensation shall be:
- (a) 50% (b) 30%
(c) Nil (d) 100%
- (73) Assessee received interest on enhanced compensation of ₹ 50,000 as per court decree in December 2020. Out of the said amount a sum of ₹ 35,000 relates to preceding financial years. The taxable income is:
- (a) ₹ 25,000 (b) ₹ 15,000
(c) ₹ 17,500 (d) ₹ 35,000
- (74) Incomes taxable under the head of Income from Other Sources are:
- (a) Interest on bank deposits and loans. (b) Interest on foreign Government securities.
(c) Agricultural income received from outside India (d) All of the above.
- (75) Which of the following income is not taxable under the head income from other sources?
- (a) Income from letting of Building. (b) Income from sub letting.
(c) Director's fees. (d) Commission received by the director on giving bank guarantee for the company.
- (76) Royalty received from a publisher by Nisha was of ₹ 42,700. She spent ₹ 2,700 on books, stationery, typing, etc. Calculate the amount of income chargeable to tax under head Income from other sources?
- (a) Exempt (b) ₹ 42,700
(c) ₹ 40,000 (d) ₹ 2,700
- (77) Mr. Ram was earning income from sub-letting of motor car to his friend. Such income shall be taxable under which head of income?
- (a) Income from other sources (b) Income from house property
(c) Income from Business and profession (d) Any of the above
- (78) The amount deductible from family pension is upto _____
- (a) ₹ 15,000 or 1/3rd of family pension whichever is less (b) ₹ 15,000 or 1/2 of family pension whichever is less
(c) ₹ 10,000 or 1/3rd of family pension whichever is less (d) No deduction.
- (79) Ms. Sushila is in receipt for family pension of ₹ 15,000 p.m. during 2020-21. Income chargeable to tax for assessment year 2021-22 of Ms. Sushila is _____. Assume covered u/s 115BAC
- (a) ₹ 1,80,000 (b) ₹ 1,20,000
(c) ₹ 1,65,000 (d) Nil.
- (80) X took a house on lease for 10 years and let it further to a tenant for his residence at a monthly rent of ₹ 2,400. He incurred following expenses during year: Lease rent: ₹ 1000 p.m., Salary of Watchman : ₹ 200 p.m. and Interest on loan taken to pay for acquisition of lease : ₹ 200 p.m. Compute income chargeable under head Income from other sources?
- (a) ₹ 12,000 (b) ₹ 28,800
(c) ₹ 16,800 (d) Nil

- (81) What is the taxability of dividend income under section 2(22)(a) to 2(22)(e) in hands of shareholders?
- (a) Dividend tax @ 12.5% (b) Exempt u/s 10(34) upto ₹ 10,00,000.
(c) Dividend tax @ 12.5% + Surcharge + Health & Education Cess (d) Taxable
- (82) What is the taxability of dividend income under section 2(22)(a) to 2(22)(e) in hands of company?
- (a) Dividend distribution tax @ 15% (b) No Dividend distribution tax
(c) Dividend distribution tax @ 15% on the gross amount of dividends + 12% Surcharge + 4% HEC (d) None of these
- (83) Company is not liable to pay dividend distribution tax under section 115-0 wef
- (a) 1/4/21 (b) 1/4/22
(c) 1/4/20 (d) 1/4/23
- (84) Foreign dividend income is taxable in hands of ?
- (a) ROR (b) NR
(c) RNOR (d) Exempt
- (85) What is the taxability of dividend from units of Mutual fund?
- (a) Exempt u/ s 10(34) (b) Not Taxable
(c) Taxable (d) None of these
- (86) Interim Dividend declared by a company is accrued in which of the following year?
- (a) Previous year in which it is declared. (b) Previous year in which it is given.
(c) Financial year in which it is actually given. (d) None of these.
- (87) In which year dividend declared by a company or distributed or paid by it u/ s 2(22) is deemed to be the income?
- (a) Previous year in which it is declared. (b) Previous year in which it is given.
(c) Previous year, in which it is so declared, distributed or paid, as the case may be. (d) None of these.
- (88) "Specified foreign company" means:
- (a) Foreign company in which Indian company holds 26% or more in nominal value of the equity share capital of the company. (b) Foreign company in which Indian company holds 51% or more in nominal value of the equity share capital of the company.
(c) Company which is registered in India. (d) None of these.
- (89) Dividend received by an Indian company from specified foreign companies shall be taxable at :
- (a) 15% + Surcharge 12% +HEC @ 4 %. No deduction allowed in respect of any expenditure or allowance under any provision. (b) 15% + Surcharge 12% + HEC @ 4%. Deduction allowed in respect of any expenditure or allowance under any provision.
(c) 10% +Surcharge 12% + HEC@ 4%. No deduction allowed in respect of any expenditure or allowance under any provision. (d) 10% + Surcharge 12% + HEC @ 4%. Deduction allowed in respect of any expenditure or allowance under any provision.
- (90) In order to be entitled to concessional rate of tax for dividend received from a foreign company, the Indian company should have the following minimum shareholding in such foreign company -
- (a) 10% (b) 25%
(c) 26% (d) 51 %
- (91) An assessee earned income of interest on securities amounting to ₹ 65,000. He paid a reasonable sum of ₹ 32,000 as commission to a banker for realising such interest on behalf of the assessee. Such amount of expenditure shall be:

- (a) Allowed (b) Disallowed
(c) Partly allowed and partly disallowed (d) Any of the above

(92) The deduction for family pension under section 57 is _____ for assessee covered u/s 115BAC

- (a) One third of the family pension (b) ₹ 15,000
(c) One third of the family pension or ₹ 15,000, less (d) Not allowed

(93) Family pension received by a widow of a member of the armed forces where the death of the member has occurred in the course of the operational duties in the circumstances and subject of prescribed conditions, is -

- (a) Exempt upto ₹ 3,00,000 (b) Exempt upto ₹ 3,50,000
(c) Totally exempt under section 10(19) (d) Totally chargeable to tax

(94) Family pension received by Mr. Ram from the Government of Madhya Pradesh was of ₹ 15,000. Calculate the amount of income chargeable to tax under the head of income from other sources?

- (a) ₹ 15,000 (b) ₹ 10,000
(c) ₹ 5,000 (d) Nil

(95) X, a defence personnel, died in a war. His wife received the family pension of ₹ 7,500 per month during the year 2020-21. Calculate the amount of income chargeable to tax under the head of income from other sources?

- (a) ₹ 90,000 (b) ₹ 75,000
(c) ₹ 15,000 (d) Nil

(96) If in the above case, B did not die in a war then calculate the amount of income chargeable to tax?

- (a) ₹ 90,000 (b) ₹ 75,000
(c) ₹ 15,000 (d) Nil

(97) Sanjay died on 23rd July, 2020 while being in Central Government service. In terms of rules governing his service, his widow Mrs. Sunder is paid a family pension of ₹ 10,000 per month and dearness allowance of 40% thereof. Compute taxable income for the assessment year 2021-22. Assume not covered u/s 115BAC

- (a) ₹ 1,68,000 (b) ₹ 1,20,000
(c) ₹ 1,53,000 (d) ₹ 1,05,000

(98) Amounts that are not deductible while computing Income from Other Sources:

- (a) Personal expenses of the assessee; Wealth tax paid by assessee. (b) All disallowances under section 40A.
(c) Interest/ Salaries payable outside India on which tax has not been paid or deducted. (d) All of the above.

(99) Which of the following amount is not deductible while computing income from other sources?

- (a) Any sum paid on account of Income tax. (b) Any personal expenses of the assessee.
(c) Any sum paid on account of wealth tax. (d) All of the above

(100) An assessee earned an income of ₹ 65,000 from lottery. Expenditure incurred by him in regard to earn this income was of ₹ 18,000. Deduction of such amount of expenditure shall be:

- (a) Allowed (b) Disallowed
(c) Partly allowed and partly disallowed (d) Any of the above

(101) The transaction whereby owner of securities transfers his securities to another person and such that the income of such security becomes due to such other person and the owner avoids tax thereon is known as :

- (a) Bond Washing (b) Bonus stripping
(c) Dividend stripping (d) All of these

- (102) Where any person buys/acquires any securities or unit within 3 months prior to record date, and sells/transfers the same within 3 months (9 months in case of unit) after record date and the dividend income thereon is exempt, then, while computing his income chargeable to tax, the loss, if any, arising to him on account of such purchase and sale shall be ignored to the extent of dividend or income from securities/unit. Such transaction made to avoid tax is known as:
- (a) Bond Washing (b) Bonus stripping
(c) Dividend stripping (d) All of these
- (103) Chander purchased units of UTI worth ₹ 15,46,000 on 1-5-2020. He received dividend of ₹ 2,00,000 on such units on 1-6-2020 (Record date: 31-5-2020). He sold the units on 31-11-2020 for ₹ 12,00,000. His other income under the head 'Capital Gains' is ₹ 10,00,000. Compute his total income for the assessment year 2021-22.
- (a) ₹ 8,54,000 (b) ₹ 10,00,000
(c) ₹ 13,46,000 (d) Nil
- (104) Where any person buys/ acquires any units within 3 months prior to record date; he is allotted bonus units thereon and he sells any of the original units within a period of 9 months after record date, while continuing to hold any of the bonus units, then, the loss, if any, arising to him on account of purchase and sale of original units shall be ignored in computing his total income and the loss so ignored shall be deemed to be the cost of purchase or acquisition of such bonus units as are held by him on the date of such sale. Such transaction made to avoid tax is known as :
- (a) Bond Washing (b) Bonus stripping
(c) Dividend stripping (d) All of these
- (105) X received a royalty of ₹ 1,00,000 from a book of stories written by him. He claimed ₹ 12,000 as expenditure on stationery and typing. He let-out of his buildings along with plant, machinery and furniture for ₹ 50,000 per month. He claimed the following expenses as deduction for this building - Insurance : ₹ 10,000; repairs : ₹ 15,000; depreciation: ₹ 40,000. Interest credited to his recurring deposit account and cumulative time deposit account in post office were ₹ 32,000 and ₹ 48,000 respectively. Compute the income taxable.
- (a) ₹ 6,55,000 (b) ₹ 7,03,000
(c) ₹ 7,80,000 (d) Nil
- (106) Compute income taxable under head income from other sources:
- | | |
|--|----------|
| Interest on bank saving deposits | ₹ 3,000 |
| Winnings from lotteries (net) | ₹ 35,000 |
| Interest on Post office savings bank account | ₹ 5,000 |
- (a) ₹ 54,500 (b) ₹ 43,000
(c) ₹ 35,000 (d) ₹ Nil
- (107) Compute income taxable under head income from other sources:
- | | |
|--|----------|
| Dividend from shares of Indian company | ₹ 3,000 |
| Winnings from lotteries (net) | ₹ 70,000 |
| Rental Income of Plant and machinery | ₹ 51,000 |
- (a) ₹ 1,51,000 (b) ₹ 1,21,000
(c) ₹ 1,54,000 (d) ₹ 1,24,000
- (108) Compute income taxable under head income from other sources received by Mr. X :
- | | |
|---|----------|
| Cash gift received from his brother on occasion of his marriage anniversary | ₹ 75,000 |
| Winnings from lotteries (net) | ₹ 70,000 |
| Forfeited advance money received on occasion of transfer of capital asset | ₹ 51,000 |
- (a) ₹ 1,96,000 (b) ₹ 1,51,000
(c) ₹ 1,75,000 (d) ₹ 1,00,000

(109) Mrs. Lalita, 70 years old, received ₹ 30,000 every month from SBI under reverse mortgage scheme by mortgaging her residential house property. She also received monthly family pension of ₹ 15,000. Her total income for the assessment year 2021-22 is -----

(a) ₹ 5,40,000

(b) ₹ 1,80,000

(c) ₹ 1,65,000

(d) ₹ 3,60,000

(110) The dividend received by an individual from a company is _____

(a) Taxable @ slab rates

(b) Taxable at special rate of 10%

(c) Exempt

(d) None of the above

ANSWER KEY

1.D	2.D	3.D	4.A	5.D	6.B	7.B	8.B	9.B	10.D
11.A	12.B	13.D	14.A	15.D	16.A	17.A	18.D	19.B	20.B
21.B	22.D	23.C	24.C	25.A	26.B	27.B	28.D	29.C	30.C
31.D	32.B	33.B	34.C	35.B	36.A	37.A	38.B	39.A	40.B
41.A	42.B	43.A	44.A	45.B	46.C	47.D	48.B	49.D	50.B&C
51.B	52.A	53.C	54.B	55.A	56.A	57.B	58.B	59.A	60.A
61.C	62. C	63. B	64. A	65. C	66. B	67. A	68. A	69. A	70. A
71. D	72. A	73. A	74. D	75. A	76. C	77. A	78. A	79. D	80. A
81. D	82. B	83. C	84. A	85. C	86. A	87. C	88. A	89. A	90. C
91. A	92. D	93. C	94. B	95. D	96. B	97. C	98. D	99. D	100. B
101. A	102. C	103. A	104. B	105. A	106. A	107. A	108. B	109. C	110. A

CHAPTER - 8

INCOME UNDER HEAD SALARIES

Employer & Employee Relationship

- Relationship between employer and employee should be of Master and Servant
- Employer (Master) directs what & how the work is to be performed.
- Employee (Servant) is bound to follow the instructions i.e. he has no free will
- Any benefit (cash or kind) received by employee from employer, will always be chargeable under head salaries

Special Point :

1. **A member of Parliament (M.P) or of State Legislature (M.L.A)** is not treated as an employee of the Government. Salary and allowances received by him are, therefore, not chargeable to tax under the head salaries but under the head Income from other sources
2. **Remuneration by Partner of a Firm:** *Any form* of remuneration received by a partner from his firm will not be chargeable to tax under salaries but under head P/G/B/P.
3. **Director of a Company:** Ordinary director is generally not an employee therefore his remuneration will be chargeable under head Other Sources or P/G/B/P, as the case may be. If **Director** is an employee e.g. managing director, then his remuneration will be chargeable under head Salary

Section 15 : Basis of Charge

Following income shall be chargeable to tax under the head salaries-

- a) Any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not;
- b) Any salary paid to him in the previous year by or on behalf of an employer or a former employer, though not due or before it became due to him;
- c) Any arrears of salary paid to him in the previous year by or on behalf of an employer or a former employer, if not charged to income tax for any earlier previous year.

Explanation : Where any salary paid in advance is included in the total income of any person for any previous year it shall not be included again in the total income of the person when the salary becomes due

CONCLUSION

Method of accounting of employee has no relevance while computing taxable salary income

Salary is chargeable to Income Tax on **RECEIPT or DUE BASIS**, *whichever is earlier*

Special Points: However following are taxable on Receipt basis

1. **Arrears of Salary** : If not charged to tax in an earlier previous year, taxable in previous year of receipt. [However assessee can claim relief u/s 89(1)]
2. **Advance Salary** : Will be taxable first in the previous year of receipt and therefore not taxable in the previous year in which it becomes due. [However assessee can claim relief u/s 89(1)]

COMPUTATION OF INCOME UNDER HEAD SALARY
--

Step 1: Calculate GROSS SALARY

(Gross salary includes various elements of salary u/s 17 after allowing exemptions available against them)

Step 2 : Allow deductions u/s 16 (ia), (ii) & (iii)

Step 3 : Step 1 – Step 2 is Income taxable under head Salary.

Section 17(1): Salary Includes

- (a) Wages;
- (b) Any Annuity or Pension;
- (c) Any Gratuity;
- (d) Any fees, commission, perquisites or profits in lieu of salary or wages;
- (e) Any advance of salary;
- (f) Any payment received by an employee for any period of leave not availed by him;
- (g) The annual credit to employee account in RPF, to the extent to which it is chargeable to tax;
- (h) Transferred balance of an employee participating in RPF, to the extent it is chargeable to tax;
- (i) Contribution made by Central Govt. or **any other employer** to account of employee under a pension scheme referred u/s 80CCD

DEDUCTIONS FROM GROSS SALARY**Section 16(ia) : STANDARD DEDUCTION**

₹50,000 or Amount of Gross Salary, whichever is less.

Section 16(ii) : ENTERTAINMENT ALLOWANCE

It is first included in the gross salary (ignoring the amount of deduction available) & then a deduction is available u/s 16(ii)

The deduction available is calculated as under:

In case of Government employees i.e. employees of Central & State Govt.

The deduction from gross salary shall be the *minimum of the following three amounts*:

- I. Actual entertainment allowance
- II. ₹ 5,000
- III. 20% of basic salary.

In case of other employees

Deduction on account of Entertainment Allowance is **NOT ALLOWED**

Special Points:

- **Salary** for this purpose is **basic salary** only. That means all allowances; commissions & perquisites will have to be ignored.
- **Actual expenditure incurred by an employee for entertainment purpose is not relevant.** Deduction is to be calculated only as per above-mentioned provisions.

Section 16(iii) : TAX ON EMPLOYMENT

Employment/professional tax paid is allowed as deduction in the **Previous Year** of **Actual Payment**

Special point:

1. The constitution has given powers to state govts to levy tax on profession, trade, employment. Such tax payable by a person cannot exceed ₹2,500 pa.
2. If professional tax is paid by the employer, then first it will be included in employee Gross salary as a perquisite, being a monetary obligation of the employee fulfilled by the employer. And then deduction will be allowed to employee u/s 16(iii).

SEC 115BAC : NEW TAX SYSTEM WEF AY 21/22**Deduction u/s 16 is not allowed for assessee opting Sec 115BAC**

Salary in Grade system: Certain employers appoint employees under grade system of salary. Under this system, the annual increment is already mentioned in the grade.

For eg, if an employee joins service on 1/10/19 & his grade is [10,000 - 1,000 - 15,000 - 1,500 - 21,000]

This means starting salary shall be 10,000 from 1st October, 2019 to 30th September, 2020. From 1st October, 2020 to 30th September, 2021, his salary shall be 10,000 plus 1,000 i.e ₹11,000.

After salary reaches 15,000 thereafter annual increment shall be ₹1,500.

BASIC SALARY / PAY

Basic salary/pay is minimum remuneration payable on monthly basis in money terms. It is the base on which all the other benefits like allowances and perquisites are decided by the employer. **It is Fully taxable.**

WAGES

- Wages generally relate to manual work, whereas Salary relate to non-manual work.
- Wages can be hourly wages, daily wages, monthly wages, piece rate wages etc.
- From point of view of tax, wages are treated just like salary and, therefore wages is also taxable under head salary.

BONUS

- ✓ Bonus can be of different types. It can be based on **performance**, **fixed** or can also be paid on certain **occasions** eg Diwali etc.
- ✓ All types of Bonus are **fully taxable**.
- ✓ Bonus is taxable on **receipt basis**. Therefore, it will be included in the gross salary only in the previous year in which the bonus is received.

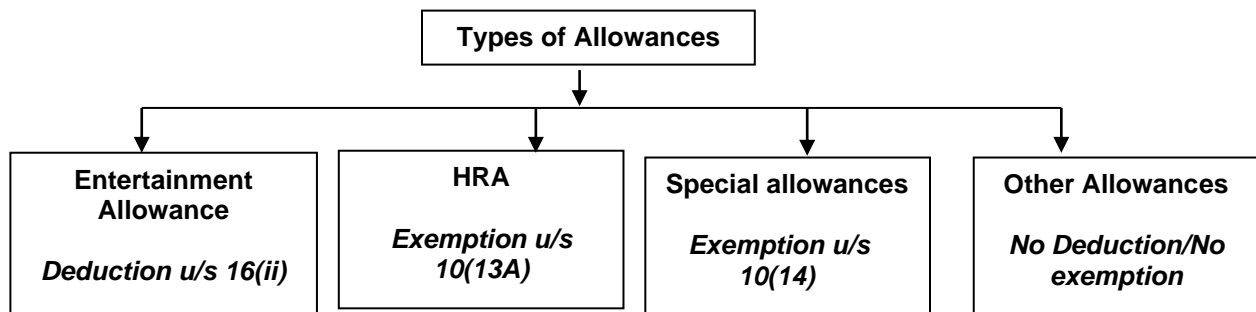
COMMISSION

- Any commission payable by employer to the employee is **fully taxable** as salary.
- Commission payable can be a fixed sum e.g. ₹600 p.m., ₹5000 p.a. & like that. It can also be on percentage basis like 3% of turnover achieved or say 2% of net profits of the company etc.
- All types of commissions including purchase commissions are **fully taxable**.

ALLOWANCES

What is an Allowance:

Payments in cash made by the employer to his employees monthly, other than basic salary, are called an allowance. It is a fixed sum of money paid regularly in addition to salary for the purpose of meeting some particular expenditure (*whether personal or official*) of an employee.



HOUSE RENT ALLOWANCE [SECTION 10(13A)]

House rent allowance is given by employer to the employee to meet the expenditure in respect of residential accommodation occupied by the employee

H.R.A to be included under head Salary = HRA received *less* exemption u/s 10(13A)

Exemption u/s. 10(13A):

Minimum of following is exempt

1. Actual HRA
2. Rent paid *less* 10% of **Salary**
3. 50% of **Salary** : If rented accommodation in Delhi, Mumbai, Kolkata, Chennai ;
40% of **Salary** : In other cities

SPECIAL POINTS:

- **Meaning of Salary :** As per **Income Tax Act**
- **Period of Salary :** Salary is to be **taken on due basis** for period during which the accommodation is taken on rent by the employee in the previous year e.g. if house is taken on rent by assessee only for eight months during the previous year ,salary will be taken only for eight months.
- **As Salary is to be taken on due basis,** the salary of any other period is not to be included by the employee even though it may be received and taxed during the previous year.
- **No exemption of HRA if:**
 - a) Employee living in his own house **or** at other place with no rental obligation **or**
 - b) Rent paid is upto or less than 10% of salary.

SPECIAL ALLOWANCES [Sec. 10(14)]**All the special allowances can be divided into two categories as follows**

Section 10(14)	
- Prescribed allowances u/d. Rule 2BB (1) - Granted to meet official expenses Exemption : Actual amount of allowance or Amount Spent for official purpose <i>whichever is less</i>	- Prescribed allowances u/d. Rule 2BB(2) - Granted to meet personal expenses Exemption: Actual amount of allowance or Specified Limit , whichever is less

Allowance specified under rule 2BB(1)			Allowance specified under rule 2BB(2)		
1	Travelling Allowance	Allowance to meet cost of travel on tour or on transfer	1	Children Education Allowance	₹ Max 100/- pm per child (max. 2 child)
2	Daily Allowance	Granted to meet ordinarily daily charges on tour or on transfer	2	Hostel Expenditure Allowance	₹ Max 300/- pm per child (max. 2 child)
3	Conveyance Allowance	Granted to meet expenditure on conveyance for office duty <i>provided</i> free conveyance is not provided by the employer	3	Tribal Area Allowance	For employees working in Madhya Pradesh, Tamilnadu, U.P, Bihar, Karnataka, Tripura, Assam, West Bengal, Orissa ₹Max 200/- pm
4	Helper Allowance	Granted to meet expenditure on helper where helper engaged for performance of office duty	4	Transport Allowance <i>Employee is Blind, handicap, Dear or Dumb)</i> <i>Other employee</i>	Granted to meet expense on commuting between place of duty & residence. Max ₹3,200/- pm NIL

5	Academic Allowance	Granted for encouraging Academic, Research & training in Education & Research Institutions	5	Allowance for Transport Employees only	Allowance to meet personal expenditure of such employee during his duty 70% allowance or ₹10,000/-pm , whichever is less Exemption only if employee not receiving daily allowance
6.	Uniform allowance	Granted to meet expenditure on purchase or maintenance of uniform for office	6	Underground Allowance	Employee working in unnatural climate in underground mines ₹800/- pm.
			7	Counter Insurgency Allowance	For armed forces ₹3,900/- pm
<u>Special Point:</u> 1. <u>Travelling allowance</u> shall include sum paid for transfer, packing and transportation of personal effects on such transfer 2. <u>Conveyance allowance</u> will be exempt only if free conveyance is not provided			8	Island duty allowance	For armed forces working in Andaman & Lakshadweep islands ₹3250/-Pm
			9	High altitude allowance	For armed forces 9000 to 15000 ft : ₹1060 p.m Above 15000 ft : ₹1600 p.m

Other Allowances are fully taxable

- Dearness Allowance/Pay
- City Compensatory Allowance
- Medical Allowance
- Lunch/ Tiffin Allowance
- Overtime Allowance, Night shift allowance
- Servant Allowance etc

Allowances Received By Below Are Fully Exempt

- Citizen of India who is a Govt. Employee for services outside India **Sec. 10(7)**
- High Court /S.C Judges
- UNO Employees

PERQUISITES : [Sec17(2)]

The term 'perquisite means any benefit, attached to an office or position in addition to salary or wages

- Perquisite denotes a personal advantage. For example, if an employee is provided with a servant only for helping him in official duties, it is not a perquisite, as there is no personal benefit to the employee. But if the same servant helps the employee in his domestic obligations only. Then it is a perquisite, being a personal advantage.

- Perquisite can be given in cash or kind. If it is given in kind it should be capable of being measured in terms of money. Reimbursement of any expenses incurred by the employee, in cash, is also treated as perquisite and not allowance.
- Perquisites received from a person other than an employer is taxable under the head **Profits and gains from business or profession** or **Income from other source**, as the case may be.

Sec 17(2) : Perquisites includes :

- 1) Value of **Rent Free Accommodation PROVIDED** to the employee by his employer
- 2) Value of **Concessional accommodation PROVIDED** to employee by his employer
- 3) Sum **PAID** by employer for meeting **Employee obligation**
- 4) Sum **PAYABLE** by employer for employee **Life insurance** or for **Contract of annuity**
- 5) Value of prescribed **fringe benefit or amenity**
- 6) Value of any specified security or sweat equity shares allotted directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee
- 7) Amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds 1,50,000/-
- 8) Value of any benefit or amenity **Provided** free of cost or at concessional rates
(*Taxable for Specified Employee only*)

<u>1st PERQUISITE : RENT FREE ACCOMMODATION</u>

Provided to the employee or to any member of his household will be taxable in the hand of the employee

Member of household

- Spouse(s),
- Children & their spouses ,
- Parents,
- Servants &
- Dependents

Valuation of perquisite is done as follows :

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 etc (if owned) or Actual hire charges (if hired)	24% RFA Salary or Actual charges paid/payable to hotel by employer Whichever is less.

Other Employee			
Unfurnished Accommodation		Furnished Accommodation	
(B)	(C)		
If Owned by employer		Other than in Hotel	In a Hotel
Population (<i>as per 2001 census</i>) of city in which house provided	RFA salary	Value (B) or (C) Add : 10% p.a of actual cost of furniture etc (if owned) or Actual hire charges payable (if hired)	Same as for Govt employee
Upto 10 lakhs	7.5%		
More than 10 lakhs but upto 25 lakhs	10%		
More than 25 lakhs	15%		
		Not owned (e.g Rent or lease) Rent paid / Payable by employer or 15% of RFA salary Whichever is less.	

Special Points**1. Salary for the purpose of Rent free accommodation (RFA SALARY)****Inclusions:**

1. Basic Salary
 2. DA/DP (if for retirement benefits)
 3. Bonus & commission
 4. Taxable portion of allowances
 5. Other monetary payments (*Excludes lumpsum payments at the time of leaving the service like Gratuity, Leave salary, VRS etc*)
- Salary to be taken on **DUE BASIS** during period for which accommodation occupied by employee. Thus advance salary or arrears of salary, though taxable during previous year are to be ignored.
 - Salary to include **salary from more than one employer** during above period

Exclusions:

1. **Employer** contribution to Provident Fund
2. **Perquisites u/s. 17(2)**
2. No perquisite if accommodation provided in a **Hotel for period upto 15 days &** provided on **transfer of employee** from one place to another
3. If New Accommodation is provided on transfer while retaining Old Accommodation.
For First 90 days : Accommodation having lower value shall be taxable
After 90 days : Both Accommodation shall be taxable
4. Accommodation includes a house, flat, farmhouse, accommodation in a hotel, motel, service apartment, guesthouse, caravan, mobile home, ship.
5. Hotel includes licensed accommodation in the nature of Motel, service apartment or guest house.

6. 2nd PERQUISITE : CONCESSIONAL ACCOMMODATION

Provided to the **employee or to any member of his household** will be taxable in the hand of the employee

Step 1: Determine the value of the accommodation (furnished or unfurnished) as if accommodation is provided Rent Free

Step 2 : Deduct the **amount recoverable** from the employee as rent from step 1

Step 3 : The balance amount is perquisite in respect of concessional accommodation

3rd PERQUISITE : SUM PAID BY EMPLOYER FOR MEETING EMPLOYEE OBLIGATION

Where any **Obligation** is paid by employer (directly or through reimbursement), which would have been payable by employee if employer did not paid it, **actual amount paid** by employer is perquisite taxable in hands of the employee

E.g. Gas, water, electricity Bills, Income Tax, Professional tax, children education expenses of the employee which are paid/reimbursed by the employer

4th PERQUISITE : SUM PAYABLE FOR LIC OR ANNUITY OF EMPLOYEE

- ✓ Sum Payable by the employer
- ✓ for Life Insurance Policy or Annuity policy taken by him
- ✓ for the benefit of the employee
- ✓ is a perquisite in the hand of the employee

5th PERQUISITE : FRINGE BENEFITS OR AMENITY

Fringe benefits or amenity provided to **employee** or **member of household** is taxable in hands of the employees

It includes the following benefits

- a) Interest free/Concessional loans
- b) Use of movable assets
- c) Transfer of movable assets
- d) Travelling, Tour, Accommodation & Other Expenses Paid or Reimbursed by Employer
- e) Free Meals, Tea & Snacks
- f) Gift, Vouchers or token
- g) Expenditure on Credit Card
- h) Club membership & Club Expenses
- i) Other benefits

a) Interest Free Or Concessional Loans made available by Employer

If a loan (interest free or at concessional rates) is made available by employer to employee or to any member of his household, such will be a perquisite chargeable to tax

The valuation of perquisite is done as follows

Step 1: Determine **Maximum outstanding** monthly balance of the loan on the last day of each month

Step 2: Find out rate of interest charged by *State bank of India* for **similar loan** on the **1st day** of the **previous year**

Step 3: Determine interest for each month on the above rate applied on balance determined under step 1

Step 4: Total of step 3 is the value of the perquisite

If however, some interest is charged from employee, reduce such rate from the SBI rate

Exemption : The following loans are not taxable perquisite

1. Medical Loans taken for treatment of **any person** for diseases specified in **Rule 3A** e.g. cancer, AIDS or diseases of heart, blood, liver, skin, eye, ear, nose etc. requiring surgical operation.

*If loan is reimbursed under medical insurance scheme, then **such amount** reimbursed shall be treated as taxable perquisite*

2. Small loans i.e. Total amount of loan is **upto ₹ 20,000** in the current previous year. The loan may be taken for **any purpose**.

3. Advance salary & Advance against salary

Advance salary is taxed as per section 15 on receipt basis. If any salary paid in advance is included in the total income of any person for any previous year it shall not be included again in the total income of the person when the salary becomes due.

Advance against salary is not considered to be income rather it is a loan. However, loan involves valuation of perquisite with respect to interest free loan i.e. from the date the loan is given to the date it is repaid, the employee shall be subject to perquisite u/s section 17(2) & Rule 3.

b) 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>

Special Point :

- ♦ As per circular no. 15/ 2001, use of an asset which is older than 10 years shall be exempt from tax.
- ♦ The taxable amount shall be reduced by amount *recovered from employee* against this facility.

c) Sale of Movable assets belonging to employer to employee/ household member

COMPUTER & ELECTRONIC ITEMS	MOTOR CAR	OTHER MOVABLE ASSETS
Actual cost to Employer Less :	Actual cost to Employer Less :	Actual cost to Employer Less :
50% reduction on WDV basis (for each completed year asset used by employer)	20% reduction on WDV basis (for each completed year asset used by employer)	10% reduction on SLM basis (for each completed year asset used by employer)
Less : Selling Price	Less : Selling Price	Less : Selling Price

Special Point :

1. Complete year here does not mean either calendar year or financial year. It means complete 365 days
2. As per clarification by ***circular no. 15/2001*** electronic gadgets in this case means the data storage and handling devices like computer, digital diaries and printers. They do not include household appliances like washing machines, micro-wave ovens, mixers, TV etc.

d) Travelling, Tour, Accommodation & Other Expenses Paid or Reimbursed by Employer
(Such expenses shall not include LTC provided by employer)

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

Special Point :

In case above facility is not provided free of cost , Deduct amount paid/recovered from Employee

e) Free Meals, Tea & Snacks

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

Special Point :

In case Meal is not provided free of cost , Deduct amount recovered from Employee

f) Gift, Vouchers or token

Gift, Voucher or token on ceremonial or Other occasions		
In Kind		In Cash
Aggregate value upto ₹5,000 during P/Y	Aggregate value more than ₹5,000/- during P/Y	Any amount
Exempt	Perquisite Value = (Actual value – 5,000/-)	Fully Taxable

g) Expenditure on Credit Card

Expenditure on credit card including membership & annual fees	
<i>Paid or reimbursed wholly & exclusively for official purpose</i>	<i>Other Purposes</i>
Nil, <i>Provided:</i> a) Details of date & nature of expenditure maintained by employer and b) Employer certifies that expenditure incurred for official purpose	Amount paid or reimbursed by employer <i>Less: Amount recovered from employee</i>

Special point : Credit card includes **add on card**

h) Club membership & Club Expenses

Club membership & club expenses (including annual or periodic fees)	
<i>Paid or reimbursed wholly & exclusively for official purpose</i>	<i>Other Purposes</i>
Nil, Provided : a) Details of date & nature of expenditure maintained by employer and b) Employer certifies that expenditure incurred for official purpose	Amount paid or reimbursed by employer <i>Less : Amount recovered from employee</i>

Special Point:

1. **Initial fees of corporate membership** of a club is not taxable as perquisite.
2. Use of **Health club, sports & similar facility** provided **uniformly to all employees** is not perquisite.

i) Any other benefit or perquisite

Valuation shall be done on the basis of cost to the employer under an **arms length transaction** as reduced by the employees contribution

6TH PERQUISITE : SWEAT EQUITY SHARES / SPECIFIED SECURITY

Sweat Equity shares means

- ✓ Equity shares issued by a company to its employees or directors
- ✓ at a discount or for consideration other than cash
- ✓ for providing know-how or value additions

Value of Perquisite :

Fair Market Value of sweat equity shares/specified security on the date on which the option is exercised by the assessee

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

Special Point : FMV means value determined in accordance with the method as may be prescribed

7TH PERQUISITE : Employer Contribution to Approved Superannuation Fund

Value of Perquisite : Employer contribution to Superannuation fund during the p/y *in excess of* **₹1,50,000/-**

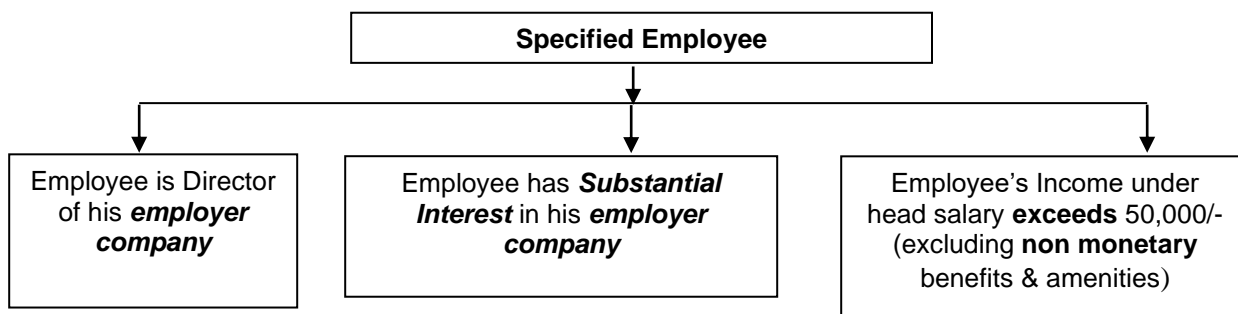
APPROVED SUPERANNUATION FUND

The purpose of this fund is to provide for annuities to employees on their retirement or to their widows, children or dependents on the death of such employee.

Tax treatment of Superannuation Fund

Annuities received by **employee** are **taxable as Salary income**, while those received by the **widow etc.** is taxable under **Other sources**.

Approved Superannuation Fund			
<i>Employees Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on accumulated balance</i>	<i>Payment of Accumulated balance</i>
Deduction 80C from GTI is available to employee	Excess of ₹1,50,000 treated as Perquisite	Exempt from Tax	Exempt from tax u/s 10(13) , if <ul style="list-style-type: none"> • on death , • on retirement , • after specified age or • becoming incapacitated before retirement • Transfer employee account under pension scheme u/s 80CCD

8th PERQUISITES : TAXABLE IN HANDS OF SPECIFIED EMPLOYEE ONLY

- **Sec 2(32) : Substantial Interest** in relation to company means beneficial ownership of atleast 20% Equity shares of the company
- Salary for above purpose is to be taken on **due basis or received basis**, whichever is earlier.

The following perquisites provided by Employer to **Employee or to any Member of his household** are taxable perquisite in the hands of specified employee only.

- a) **Motor Car**
- b) **Sweeper, Gardener, Watchman or Personal attendant**
- c) **Supply of Gas, Electricity or Water provided to Employee**
- d) **Educational facilities to employee children & members of household**
- e) **Free or concessional tickets provided to employee of transport undertakings**

a) <u>Valuation of Motor Car</u>

The prerequisite of Motor car is divided into 4 Cases

1. **Motor car** owned/Hired by **employer** & **expenses** incurred by **Employer**
2. **Motor car** owned/Hired by **employer** & **expenses** incurred by **Employee**
3. **Motor car** owned by **employee** & **expenses** incurred by **Employer**
4. **Other conveyance** owned by **employee** & **expenses** by **Employer**

1. Motor Car owned/ hired by employer & expenses met by Employer		
<i>Exclusively for official purpose</i>	<i>Exclusively for private purpose</i>	<i>Partly official & partly private</i>
Nil (Provided specified documents are maintained by employer)	Sum total of : a. Actual running & maintenance expenses b. Actual remuneration to chauffeur c. 10% of cost of car (if owned) or hire charges (if hired) 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>Exclusively for official purpose</i>	<i>Exclusively for private purpose</i>	<i>Partly official & partly private</i>
Exempt	Sum total of : a) Actual running & maintenance expenses b) Actual remuneration to chauffeur (If borne by employer)	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>Exclusively for official purpose</i>	<i>Exclusively for private purpose</i>	<i>Partly official & partly private</i>
Nil (Provided specified documents maintained by employer)	Amount paid by employer	<u>Actual Exp.</u> of employer Less : 1,800 pm + 900 pm (car upto 1.6Lit) OR 2,400 pm + 900 pm (car > 1.6 Lit) Higher deduction for official expenses if specified documents are maintained

4. Other Conveyance owned by employee & expenses met by Employer		
<i>Exclusively for official purpose</i>	<i>Exclusively for private purpose</i>	<i>Partly official & partly private</i>
Nil <i>(Provided specified documents are maintained by employer)</i>	Expenditure paid by employer Perquisite taxable for all employees	<u>Actual Exp.</u> of employer Less : 900 pm Higher deduction for official expenses if specified documents are maintained

Special Points

- Applicable for Case 1 :** Where **more than one** motorcar is provided by employer and the employee is allowed to use them for both official & private purposes (i.e. not exclusively for official purposes).
 - Value of One Car = Value as per **partly official & partly private**
 - Value of Other Cars = Value as per **private purpose**
- Specified Documents :**
 - Employer should maintain complete details of date of **journey, destination, mileage, amount of expenditure** incurred
 - And employer gives certificate that expenses incurred **wholly & exclusively for official purpose**.
- Vehicle provided by employer to the employee for journey from his residence to his office or other place of work & back shall not be regarded as perquisite.

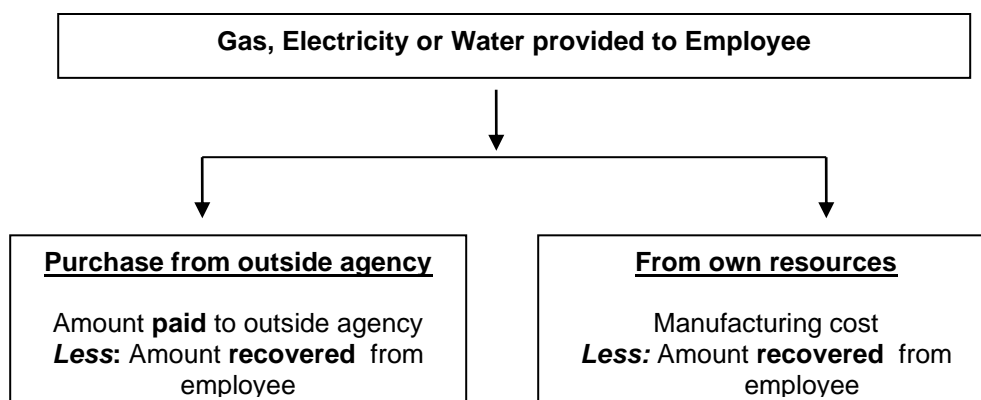
b) Sweeper, Gardener, Watchman or Personal attendant

Engaged by **employer & provided** to employee/household member , such perquisite shall be taxable for all specified employee

Value of perquisite : Actual cost to employer **Less** Amount **paid** by employee.

Special point : Cost to employer shall be salary payable to such person by employer

c) Supply of Gas, Electricity or Water provided to Employee



Special point

If Electricity, gas & water connections are in the **name of employee** and employer is bearing the expenditure either directly or indirectly then it will be covered under **3rd perquisite of Sec 17(2)** i.e obligation of employee paid by employer and therefore will be taxable for all employees

d) 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	<i>upto ₹1,000 p.m per child</i>	Fully exempt
	<i>greater than ₹1,000 p.m per child</i>	Cost of education in similar school in same locality less : 1,000 pm/per child
Household members	<i>Limit of ₹1,000 irrelevant</i>	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

Special Points :

- (a) If any amount is recovered from employee, reduce the value by that amount
 (b) Education facility to employee in any form like training, seminars, conference etc. is fully exempt.

e) 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

Special point : If any amount is recovered from employee, reduce the value by that amount

LEAVE TRAVEL CONCESSION IN INDIA : SECTION 10(5)

- Travel concession or assistance due or received from employer
- For himself or family member
- For travel to any place in India
- During Service or on leave or after retirement or after termination
- **Value to be included in salary :**

Amount of concession due or received
Less : exemption u/s. 10(5)

Exemption u/s 10(5)		
Journey by Air	Journey by Rail	Journey by other modes
<i>Minimum of following</i> i. Actual concession ii. Amount actually incurred by employee iii. Air economy fare of National Carrier by shortest route	<i>Minimum of following</i> i. Actual concession ii. Amount actually incurred by employee iii. AC 1st class RAIL FARE by shortest route	<u>Connected by Rail</u> <i>Same as column 2</i> <u>Not Connected by Rail</u> <i>Minimum of following</i> i. Actual concession ii. Amount actually incurred by employee iii. Deluxe fare of such transport by shortest route (where recognised transport exists) OR Similar AC 1st class rail fare by shortest route (if recognised transport does not exists)

Special Points :

- Exemption available** on **twice** in a block of **FOUR CALENDAR YEARS** : 1986-89, 1990-93, 1994-97, 1998-2001, 2002-05, 2006- 09, **2010- 2013 , 2014-2017,2018-2021**
- No exemption claimed or only one exemption claimed in a block, then **ONLY ONE** exemption carried forward in Calendar Year succeeding end of block.

Exemption only for the fare: - The exemption is strictly limited to expenses on air fare, rail fare, bus fare only. No other expenses, like scooter charges at both ends, portage expenses [money paid for carrying luggage] during the journey and lodging / boarding expenses will qualify for exemption.
- 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 incase of multiple births after one child.
- Family for the above purpose means Spouse & Children & Parents, brother, sisters of employee who are **dependent** on employee. **Explanation to Sec 10(5)**
- In case the LTC is encashed without performing the journey, the entire amount received by the employees would be taxable

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	Exempt upto ₹15,000/- in P.Y <u>DELETED WEF A/Y 19/20</u>

MEDICAL FACILITIES OUTSIDE INDIA to Employee / Family member		
Medical Expenses of Patient	Stay Expenses of Patient and One attendant (total two persons)	Travel Expenses of Patient with One attendant (total two persons)
Tax free to extent permitted by RBI	Tax free to extent permitted by RBI	Tax free if employee's GTI UPTO ₹2,00,000/- (<i>before including such travel expenses</i>)

Special Points :

- Family for above purpose means
 - Spouse & children of employee
 - Parents, brother & sister of employee who are dependent on employee.
- Hospital includes dispensary, clinic or nursing home.
- Expenditure on medical treatment by the employer can be by way of payment or as reimbursement.
- Medical allowance is fully taxable.

RETIREMENT BENEFITS

Retirement benefits consists of following

1. Gratuity
2. Pension
3. Leave salary
4. Compensation on voluntary retirement/Retrenchment compensation
5. Provident fund / Superannuation funds

GRATUITY

Gratuity is a kind of retirement benefit, like provident fund or pension. It is a payment, which is intended to help an employee after his retirement whether the retirement is the result of the completion of age of retirement or some physical disability. The general principle underlying gratuity schemes is that by faithful service over a long period the employee is entitled to claim a certain amount as retirement benefit. Thus it is earned by an employee as a reward for long and meritorious service.

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

Exemption u/s. 10(10):

Type of Employee	Employee of Central & State Govt., Local Authority	Employee covered under payment of Gratuity Act, 1972	Other Employees (not covered under earlier categories)
Exemption Amount	100% of Gratuity received is 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 = Basic Salary + 100% DA	SALARY = Basic + DA(retirement Benefits) + Commission % of turnover

Special point			<p>1. Commission received as a fixed percentage of turnover would form part of the salary [<i>Gestetner Duplicators Pvt. Ltd. v CIT (SC)</i>]</p> <p>2. Average Monthly Salary = Average of last 10 months immediately <u>preceding the month</u> of leaving service</p>
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SPECIAL POINTS:

- Where an employee had received gratuity in any earlier years and had claimed exemptions u/s 10(10) in respect of the gratuity received earlier also, he will still be entitled to this exemption but the limit of ₹10,00,000 shall be reduced by the amount of exemption availed in the earlier year.
- If gratuity is received from more than one employer in the same previous year, the limit of ₹10,00,000 would apply to the aggregate of gratuity received from one or more employers
- Any gratuity paid to an employee, while he continues to remain in service with the same employer is taxable under the head “Salaries” because gratuity is exempt only on retirement or on his becoming incapacitated or on termination of his employment or death of the employee.

PENSION

- Refers to Periodic Payment made by the employer after retirement or death of the employee as a reward for past services rendered by the employee
- Pension can be **Uncommuted** or **Commuted**

TAX TREATMENT OF UNCOMMUTED PENSION

Pension payable to an employee **periodically** e.g. **every month**, after retirement from service. This pension is known as uncommuted pension.

- It is **Fully Taxable** in the hand of all employees, whether government or non-government.

TAX TREATMENT OF COMMUTED PENSION

Sometimes the employee wants to have a **lump-sum payment** in lieu of certain portion of monthly pension, which he would have otherwise received monthly. The lump-sum payment which he receives on foregoing the monthly pension is known as commuted value of the pension. Commutation is done having regards to age of recipient, state of his health, rate of interest and tables of mortality.

- Though it is also **taxable**, exemption u/s 10(10A) can be claimed by the employee

Exemption u/s 10(10A):

✓ Treatment for employees of Government, local authority & Statutory Corporations :

Commutated pension received by these employees is **100% Exempt**

✓ Treatment in the case of Other Employees

Commutated value of pension received is **exempt** to the following extent:

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

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

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

SPECIAL POINTS:

- The pension discussed above is different from “**Family Pension**”
While the pension paid by the employer to the employee is known as pension, the monthly payment by the employer to the family of such employee after his/her death is known as family pension.

The family pension is taxable as Income from other source

Deduction against such family pension : 1/3rd of family pension or ₹15,000, *whichever is less*.

- Pension received from a United Nations organization is not taxable.
- Exemption of Commuted pension is also available to Judges of High courts and Supreme Court.

LEAVE SALARY

Employees are entitled to various types of leave on the job. These leaves may either be availed by the employee or may not be availed. If they are not availed, they can also be encashed.

Such leave which the employee gets encashed is taxable under head salary

Encashment of leave during tenure of service:

Leave encashment by an employee, while he continues to be in service, is **fully taxable** for all categories of employees [Whether Govt. employee or a Private employee]

Encashment of unavailed leave at the time of retirement/ resignation

This is also taxable but employee can claim exemption u/s **Section 10(10AA)**

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 X **Average Monthly SALARY**
- (d) **Unavailed Leave** X **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 + **leaves** encashed while in service

Step 3 : Step 1 – Step2 is **unavailed leave**

Meaning of Salary: Basic + DA(retirement Benefits) + Commission % of turnover

Average Monthly Salary: is to be calculated on the basis of the average of salary (as valued above) drawn by the employee during the period of 10 months **immediately preceding the date of his retirement.**

SOME SPECIAL POINTS

- Exemption to Govt employee will still be available if he joins a private organisation after retiring from government service.
- If the employee had availed **exemption of leave salary in earlier previous year**, then the limit of ₹ 3,00,000, shall be reduced by the amount of exemptions availed earlier.
- Where the leave encashment is received by the employee from **more than one employer in the same previous year**, the limit of ₹3,00,000 would apply to the aggregate of leave encashment received from one or more employers.
- Any **leave salary to the legal heirs** of the deceased employee in respect of earned leave standing to the credit of such employee at the time of his death is not taxable (both for private and Govt. employees).
- Even if there is **voluntary retirement** (e.g resignation) from services, the provisions of section 10(10AA) will apply.

RETRENCHMENT COMPENSATION

- Compensation received at the time of retrenchment under Industrial dispute Act *or under any other act or rule, order or notification*
- Amount of Compensation to be included under Head Salary
Amount of Retrenchment Compensation Less Exemption u/s10 (10B)

Exemption u/s.10 (10B) :

Minimum of following is exempt

- i) Actual Compensation received.
- ii) ₹5,00,000/-.
- iii) $[15 \times \text{Completed yrs of service including part excess of 6 mths}] \times [\text{Average Monthly Salary}/26]$

Average Monthly salary : Average of last 3 months preceding date of retrenchment

Salary includes all but does not include bonus & employers PF contribution

Special point

- ✓ If compensation received by workman in accordance with **specified scheme of Central government**, then such compensation is **fully exempt**.

COMPENSATION ON VOLUNTARY RETIREMENT

- Refers to compensation received on voluntarily retirement or termination of service before the date of actual retirement.
- Voluntary retirement compensation to be included under head Salary

= Voluntary Retirement Compensation *Less* Exemption u/s.10(10C)

Exemption u/s. 10(10C):

Types of Employee	<ul style="list-style-type: none"> ▪ Employees of Central or State Govt or Local Authority or Statutory corporation ▪ Company or Co-operative Society ▪ Declared University, IIT, Notified IIM or Notified institutions
Conditions to be satisfied	<ul style="list-style-type: none"> ▪ Compensation received on Voluntary Retirement and ▪ The scheme of Voluntary Retirement should be as per rule 2BA.
Amount of Exemption Least of following	<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 <p style="text-align: center;">SALARY = Basic + DA(retirement Benefits) + Commission % of turnover</p>

Special Points :

1. **[Rule 2BA]** : The scheme of Voluntary Retirement should be framed in accordance with below guidelines.
 - i. Employee should have completed **10 yrs of service or 40 yrs of age**. [This condition is not applicable in the case of an employee of a public sector company]
 - ii. Scheme should be applicable to **all employee** (except Directors)
 - iii. Scheme should be drawn to result in **overall reduction in existing strength of employees**.
 - iv. **Vacancy** caused by voluntary retirement should not be **filled up**.
 - v. Retiring employee shall not be employed in other concern of same management.

If the guidelines are not followed , exemption shall not be available

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

TYPES OF PROVIDENT FUND

Provident fund is of four types:

- I. **Statutory Provident Fund:** Statutory provident fund is set up under the provisions of the Provident Funds Act, 1925. Generally, this provident fund is maintained by Govt., Semi-Govt. offices like local authorities, universities, other recognised educational institutions, statutory corporations and nationalized banks, etc.
- II. **Recognised Provident Fund:** This provident fund is meant for private sector employees. This fund is set up under the employee provident fund and miscellaneous act, 1952. According to this act, any establishment employing 20 or more employees is under an obligation to register itself under this act. An employer employing less than 20 persons, can also start a P.F. scheme if both employer and employee want to do so.

An establishment who wants to start a R.P.F scheme has two alternatives.
 - a) Set up provident fund as per *scheme mentioned under the P.F. Act, 1952*.
 - b) Set up Provident fund under its *own scheme*. In this case approval of the provident fund commissioner is required together with approval of commissioner of Income Tax. If both the approval is granted, it is called Recognised provident fund
- III. **Unrecognised Provident Fund:** It is that provident fund which is set up under own scheme (as in (b) above) and which is not approved by Commissioner of Income tax.
- IV. **Public Provident Fund:** This fund is set up under Public provident act, 1968. Every individual (including a salaried employee) can contribute to this fund. An account under this scheme can be opened at a branch of the State Bank of India or at a branch of any of the authorized nationalized banks. The accumulated sum is repayable after 15 years. This provident fund carries compound interest (tax-free) at prescribed rate. Interest is credited every year but is payable only at the time of maturity.

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 from GTI is available to employee	Not Taxable	Not Taxable	Exempt 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 from GTI is available to employee	Exempt upto 12% of SALARY <i>Excess Taxable under Salary</i>	Exempt upto 9.5% p.a <i>Excess Taxable under Salary</i>	Exempt u/s 10(12) <i>(Refer special point below)</i>

Note : SALARY = Basic + DA(retirement Benefits) + Commission % of turnover

Un Recognised Provident Fund (URPF)			
<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 NOT available to employee	Not Taxable	Not Taxable	Taxable in P/Y of Receipt - Employers contribution + interest on it taxable as profit in lieu of salary u/s 17(3) - Interest on Employee contribution taxable under 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 from GTI is available to assessee	No employers contribution	Exempt from Tax	Fully exempt 10(11)

Special point : Accumulated balance of RPF is exempt only if :

- i. Service of atleast 5 yrs (Current employer & Former employer) **OR**
- ii. Termination due to :
 - ILL health **or**
 - Discontinuance of employer business **or**
 - Other reason beyond employee control **or**
- iii. Takes up new employment & Accumulated balance transferred to new RPF A/c under new employer.

If none of above situations exist, then amount shall be treated as if PF is unrecognised since Beginning

INCOME DEEMED TO BE RECEIVED IN INDIA: (Section 7)

Following incomes shall be deemed to be received in India in P/Y even in absence of actual receipt:

- (i) **Interest credited to RPF**, in excess of **9.5% pa.**
- (ii) **Employer Contribution** to a **RPF** in excess of **12% of salary** of the employee;
- (iii) **Transferred balance** in a **RPF** to the extent specified.
- (iv) **Employer Contribution** to the account of an employee under a **pension scheme u/s 80CCD.**

TRANSFERRED BALANCE

Where the employee is a **member of unrecognised provident fund**, which is accorded recognition by the Commissioner of Income tax for the first time, the outstanding balance under unrecognised fund is transferred to recognised provident fund. Such balance is called transferred balance. **which is taxable in p/y of Conversion**

To calculate the taxable amount, if any, the Unrecognised provident fund shall be treated as recognised fund since the beginning.

Calculation of Transferred balance

It Includes the following

1. Employer contribution in URPF in excess of 12% till date of conversion
2. Interest in excess of 9.5% till date of conversion

Special point : Employee shall be eligible for deduction u/s 80C for all contributions **after the date of recognition**, but no deduction shall be available on the contributions prior to recognition.

Other related amendments/circulars/notifications relating to Sec 115BAC

1. Amendments in Rule 3

Inserted by Income Tax (Thirteenth Amdt.) Rules, 2020, w.e.f. 1-4-2021 and shall apply w.e.f. A/Y 2021-22

RULE 3 : Exemption provided in the first proviso in respect of free food and non-alcoholic beverage provided by such employer through paid voucher shall not apply to an employee, being an assessee, who has exercised option under sub-section (5) of section 115BAC.

ANALYSIS

Assessee opting for Sec 115BAC will be entitled to all exemptions available from perquisites under Rule 3 except the below exemption

Food and non-alcoholic beverages provided by such employer during working hours at office or business premises or through paid vouchers which are not transferable and usable only at eating joints, to the extent the value thereof in either case does not exceed fifty rupees per meal or to tea or snacks provided during working hours or to free food and non-alcoholic beverages during working hours provided in a remote area or an off-shore installation.

2. Amendments in Rule 2BB

Inserted by the Income Tax (Thirteenth Amendment) Rules, 2020, w.e.f. 1-4-2021 and shall A/Y 2021-22

Rule 2BB(3) : Notwithstanding anything contained in sub-rule (1) and (2), an employee, being an assessee, who has exercised option under sub-section (5) of section 115BAC shall be entitled to exemption only in respect of the allowances mentioned in sub-clauses (a) to (c) of sub-rule (1) and at serial no. 11 of the Table below sub-rule (2) to the extent and subject to the conditions, if any, specified therein.

ANALYSIS

If assess opts for Sec 115BAC, then he will not be eligible to claim exemption from any allowance except the following

1. Travelling allowance
2. Daily Allowance
3. Conveyance allowance
4. Transport Allowance (For blind, handicapp, deaf or dumb employee)

3. Clarification in respect of option under section 115BAC of the Income-tax Act, 1961
[Notification No. 38/2020]

Section 115BAC inserted by the Finance Act, 2020 w.e.f. A/Y 21-22, inter alia, provides that a person, being individual or HUF having income other than income from business or profession", may exercise option in respect of a previous year to be taxed under the said section 115BAC alongwith his return of income to be furnished u/s 139(1) of the Act for each year. The concessional rate provided under section 115BAC of the Act is subject to the condition that the total income shall be computed without specified exemption or deduction, setoff of loss and additional depreciation.

2. Representations expressing concern regarding TDS has been received stating that as the option is required to be exercised at the time of filing of return, the deductor, being an employer, would not know if the person, being an employee, would opt for taxation under section 115BAC of the Act or not. Hence, there is lack of clarity regarding whether the provisions of section 115BAC of the Act are to be considered at the time of deducting tax.

3. In order to avoid the genuine hardship in such cases, the Board, in exercise of powers conferred under section 119, hereby clarifies that an employee, having income other than the income under the head "profit and gains of business or profession" and intending to opt for the concessional rate u/s 115BAC of the Act, may intimate the deductor, being his employer, of such intention for each previous year and upon such intimation, the deductor shall compute his total income, and make TDS thereon in accordance with the provisions of section 115BAC of the Act. If such intimation is not made by the employee, the employer shall make TDS without considering the provision of section 115BAC of the Act.

4. It is also clarified that the intimation so made to the deductor shall be only for the purposes of TDS during the previous year and cannot be modified during that year. However, the intimation would not amount to exercising option in terms of sub-section (5) of section 115BAC of the Act and the person shall be required to do so along with the return to be furnished under sub-section (1) of section 139 of the Act for that previous

year. Thus, option at the time of filing of return of income under sub-section (1) of section 139 of the Act could be different from the intimation made by such employee to the employer for that previous year.

5. Further, in case of a person who has income under the head "profit and gains of business or profession" also, the option for taxation under section 115BAC of the Act once exercised for a previous year at the time of filing of return of income under sub-section (1) of section 139 of the Act cannot be changed for subsequent previous years except in certain circumstances.

Accordingly, the above clarification would apply to such person with a modification that the intimation to the employer in his case for subsequent previous years must not deviate from the option under section 115BAC of the Act once exercised in a previous year.

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

OTHER THEORETICAL POINTS OF THE CHAPTER

(1) 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 URSE	Other sums
From employer/former employer in connection with termination or for modification of terms of employment	Amount received under above (including Bonus)	Amount from employer before joining or after leaving his service.	On account of employer contribution and Interest thereon.	All other sums due or received from employer

(2) KEYMAN POLICY OF LIC

- **Sec 10(10D) : Keyman insurance policy" means** a life insurance policy taken by a person on life of keyman *and includes such policy which has been assigned to a person, at any time during the term of the policy with or without any consideration.*

‘Keyman’ is an Employee/Director/Other person whose service are perceived to have a significant effect on the profitability of the business.

‘Keyman Insurance Policy’ is an insurance policy taken by a organisation on the life of keyman in order to protect the business against the financial loss, which may occur from his premature death.

- **Sec 10(10D)** exemption for Life insurance receipts is **not available** for Keyman Insurance Policy.
- Any sum received by company from such policies is taxable under **Business or profession u/s 28**
- Any sum received by the employee is taxable as **profits in lieu of salary u/s 17(3)**
- In cases of other persons such as a Chairman, or a Director, where the employer-employee relationship does not subsist the amount received is taxable as **income from other sources u/s 56(2)**

(3) Remuneration for extra duties:

Where an employee does some extra work for his employer, and gets some extra payment from him, it is taxable as salary income.

(4) Voluntary payments to employees:

Any voluntary payment by employer to his employee is taxable as salary income if these payments are made with reference to his services. This receipt is taxable even though payment may not be the legal obligation of the employer.

(5) Salary & Residential Status :

- Income under the head “Salaries” is deemed to accrue or arise at the place where the service in respect of which it accrues is rendered.
- **Under Section 9 :** Salary in respect of service rendered in India is deemed to accrue or arise in India even if it is paid outside India
- **Pension paid abroad** is deemed to accrue in India, if it is paid in respect of services rendered in India.
- **leave salary paid abroad** in respect of leave earned in India is deemed to accrue or arise in India.
- **However, there is a departure from the aforesaid rule.**
Salary paid by the Indian Government to an Indian national is deemed to accrue or arise in India, even if service is rendered outside India. Deeming provisions of section 9 are applicable only in respect of salary and not in respect of allowances and perquisites paid or allowed by the Government to Indian nationals working abroad, as such allowances and perquisites are exempt under section 10(7)

(6) Overtime payments:

Just like remuneration for extra duties, any payment for extra time worked is also taxable as salary income.

(7) Salary To Foreign Citizens : Sec 10(6)

Following remuneration to **foreign citizens** is exempt from tax

1. Salary of Diplomatic Personnel:

- ✓ Remuneration as an
- ✓ official or staff
- ✓ of an **Embassy, High commission, or trade representation** of a foreign State,

Special point :

Exemption is available if

- b. Corresponding Indian officials in that foreign country enjoys a similar exemption &
- c. they are not engaged in any other business, profession or employment in India

2. Salary of Foreign Employees :

- ✓ Remuneration as an **employee of a foreign enterprise**
- ✓ for services rendered by him during his stay in India

Special point :

Exemption is available if

- a. The **Foreign enterprise is not engaged in any business** in India &
- b. His stay in India **does not exceed a period of 90 days** in such previous year

3. Salary received by a ship's crew :

- ✓ Remuneration received by non-resident
- ✓ as ship's crew,

Special point : Exemption is available if

provided his total stay in India **does not exceed 90 days** during the previous year, is exempt from tax.

4. Remuneration of a foreign trainee :

- ✓ Remuneration by employee of a foreign Government
- ✓ during his stay in India
- ✓ if remuneration is received in connection with training
- ✓ in an office owned by (a) Government or (b) Govt company (c) statutory corporation

(8) Sec.89(1) : Relief when salary is paid in arrears or in advance, etc.

Where, by reason of any portion of assessee's salary being paid in arrears or in advance or by reason of his having received in any one f/y salary for more than 12 months, his income is assessed at a rate higher than that at which it would otherwise have been assessed, relief to be granted u/s 89(1) shall be as under:

(A) : Where any portion of the assessee's 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

- a. On Total income inclusive of additional salary.
- b. 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

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

Calculate the difference between (a) and (b) for every previous year to which the additional salary relates and aggregates the 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.

(9) Foregoing of salary and Surrender of salary

Foregoing of Salary

Section 15 taxes salary on "due" basis even if it is not received. If, therefore, an employee foregoes his salary, it does not mean that salary so foregone is not taxable. Once salary has accrued to an employee its subsequent waiver does not make it exempt from tax liability.

Surrender of salary : If an employee opts to surrender his salary to the central government under the voluntary surrender of Salaries (exemption from Taxation) Act, 1961, the salary so surrendered would be excluded while computing employees taxable income. Benefit of tax exemption in respect of salary so surrendered is available to all employees whether they are employed in private sector or public sector.

MULTIPLE CHOICE QUESTIONS**CHARGEABILITY**

Q 1 to Q18 : Assume Assessee not covered u/s 115BAC

(1) Which is the charging section of Income under the head salaries?

- | | |
|----------------|----------------|
| (a) Section 10 | (b) Section 15 |
| (c) Section 5 | (d) Section 4 |

(2) Which of the following income is chargeable to income tax under the head salaries?

- | | |
|-----------------------|--------------------|
| (a) Salary due | (b) Advance Salary |
| (c) Arrears of Salary | (d) All of these. |

(3) Any salary due from an employer or a former employer to an assessee in the previous year whether paid or not is known as -

- | | |
|-----------------------|--------------------|
| (a) Salary due | (b) Advance Salary |
| (c) Arrears of Salary | (d) All of these. |

(4) Income is taxable under the head salaries only if there exists -----relationship between the payer and payee.

- | | |
|-------------------------|-----------------------|
| (a) Employer - Employee | (b) Principal -Agent |
| (c) Agent - Principal | (d) All of the above. |

- (5) A teacher receives remuneration for setting question paper for examination. What is the chargeability position of this remuneration? Choose the most appropriate answer.
- (a) It will be chargeable under the head salaries. (b) It will be chargeable under the head income from other sources.
- (c) It will not be charged to tax under any head. (d) It will be allowed as deduction.
- (6) Which section gives the definition of salary?
- (a) Section 15 (b) Section 17(1)
- (c) Section 10 (d) None of these.
- (7) Which amongst the following is not included under the inclusive definition of salary?
- (a) Wages (b) Any annuity or pension
- (c) Employer's contribution in RPF in excess of 12 % of salary (d) None of these.
- (8) Mr. X joins a job on 1-7-2020 at monthly salary of ₹25,000. His salary becomes due on last day of each month. His taxable salary for AY 2021-22 will be -
- (a) ₹2,25,000 (b) ₹1,85,000
- (c) ₹1,75,000 (d) ₹2,00,000
- (9) Mr. X joins a job on 1-7-2020 at monthly salary of ₹20,000. His salary becomes due on first day of next month. His taxable salary for AY 2021-22 will be-
- (a) ₹1,20,000 (b) ₹1,10,000
- (c) ₹1,60,000 (d) ₹2,40,000
- (10) Mr. X joins a job on 1-7-2019 at monthly salary of ₹20,000 in A Ltd. He got an increment of ₹1,000 in the month of July 2020. His salary becomes due on last day of each month. His taxable salary for AY 2021-22 will be-
- (a) ₹1,99,000 (b) ₹2,49,000
- (c) ₹2,09,000 (d) ₹2,52,000
- (11) Mr. X joins a job on 1-7-2019 at monthly salary of ₹20,000 in A Ltd. He got an increment of ₹ 1,000 in the month of July 2020. His salary becomes due on first day of next month. His taxable salary for AY 2021-22 will be-
- (a) ₹2,08,000 (b) ₹1,98,000
- (c) ₹2,48,000 (d) ₹2,52,000
- (12) Salary of X (₹40,000 per month) becomes due on the last day of the month but is paid on 7th of next month. Also, Salary of April, 2021 and May, 2021 is received in advance in March, 2021. What will be his gross total income for A.Y. 2021-22?
- (a) ₹5,10,000 (b) ₹4,80,000
- (c) ₹4,40,000 (d) ₹5,60,000
- (13) Mr. X joins a job in the grade of ₹20,000-500-25,000-1,000-40,000-1,500-60,000 on 1-7-2009 which becomes due on last day of each month. His taxable salary for AY 2021-22 will be -----
- (a) ₹2,59,000 (b) ₹2,97,000
- (c) ₹3,09,000 (d) ₹3,21,000
- (14) Mr. A joins a job in the grade of ₹ 20,000-500-25,000-1,000-40,000-1,500-60,000 on 1-7-2009 which becomes due on first day of next month. His taxable salary for AY 2021-22 will be-
- (a) ₹3,08,000 (b) ₹2,97,000
- (c) ₹2,58,000 (d) ₹3,21,000

- (15) Which of the following income is taxable under the head 'income from salary' - (Dec. 2011)
- (a) Salary received by a partner from firm (b) Salary received by a Member of Parliament
(c) Salary of a Government Officer (d) None of the above.
- (16) Mr. X joins a job in the grade of ₹ 20,000-500-25,000-1,000-40,000-1,500-60,000 on 1-7-2009 which becomes due on first day of next month. He is also dearness allowance of 100% of salary. His taxable salary for AY 2021-22 will be-
- (a) ₹ 6,16,000 (b) ₹ 5,94,000
(c) ₹ 5,66,000 (d) ₹ 6,42,000
- (17) Pankaj joins service on 1st April 2016 in the grade of 15,000 - (1,000) - 18,000 - (2,000) - 26,000. He shall be paying tax for the year ended on 31st March, 2021 on the total salary of - (Dec. 2015)
- (a) ₹ 2,40,000 (b) ₹ 1,90,000
(c) ₹ 2,28,000 (d) ₹ 1,80,000
- (18) Anjan joins a service in the grade of ₹ 25,600 - 39,100 plus grade pay of ₹ 15,000 on 01-08-2019. He also gets dearness allowance @ 107% of salary. His tax liability for assessment year 2021-22 will be - (Dec. 2014)
- (a) ₹ 38,450 (b) ₹ 36,970
(c) Nil (d) ₹ 38,540

ALLOWANCES

- (19) ----- is granted to an employee by his employer to meet expenditure actually incurred on payment of rent.
- (a) Dearness Allowance (b) House Rent Allowance
(c) City Compensatory Allowance (d) None of these.
- (20) Which amongst the following is a fully taxable allowance for assessee covered u/s 115BAC?
- (a) Conveyance allowance (b) Travelling allowance
(c) Daily Allowance (d) Research allowance
- (21) For an employee in receipt of hostel expenditure allowance for his three children, the maximum annual allowance exempt under Section 10(14) is-----Assuming not covered u/s 115BAC
- (a) ₹ 10,800 (b) ₹ 7,200
(c) ₹ 9,600 (d) ₹ 3,600
- (22) For an employee in receipt of education allowance for his three children, the maximum annual allowance exempt under Section 10(14) is ----- Assuming not covered u/s 115BAC
- (a) ₹ 1,200 (b) ₹ 2,400
(c) ₹ 4,800 (d) ₹ 1,600
- (23) Sheila is an employee in a private company. In the previous year she received salary ₹1,80,000 and house rent allowance of ₹ 60,000. She is residing with her parents. Her taxable house rent allowance will be -----Assuming not covered u/s 115BAC
- (a) Nil (b) ₹ 60,000
(c) ₹ 42,000 (d) ₹ 18,000
- (24) Pappu employed in Megha Ltd., Delhi. He is paid house rent allowance of ₹ 9,000 per month in financial year 2019-20. His salary for the purpose of computation of house rent allowance relief may be taken as ₹ 20,000 per month. Pappu pays actual rent of ₹ 10,000 per month. How much of the house rent allowance is tax-free ----- Assuming not covered u/s 115BAC
- (a) ₹ 108,000 (b) ₹ 1,20,000
(c) ₹ 96,000 (d) ₹ 60,000

- (25) Children education allowance received by an employee from his employer is ₹ 80 per month per child for 3 children. Taxable education allowance will be ----- Assuming covered u/s 115BAC
- (a) ₹ 960 (b) ₹ 840
(c) Nil (d) ₹ 1,200
- (26) Nandan, a handicapped employee receives ₹ 1,500 per month as transport allowance from his employer. His actual expenditure on transport is ₹ 1,000 per month. The amount of transport allowance taxable under the head income from salaries will be ----- Assuming covered u/s 115BAC
- (a) ₹ 18,000 (b) Nil
(c) ₹ 6,000 (d) ₹ 8,000.
- (27) Calculate the exempt HRA from the following details : X is entitled to a Basic salary of ₹ 50,000 p.m. and dearness allowance of ₹ 10,000 p.m., 40% of which forms part of retirement benefits. He is also entitled to HRA of ₹ 20,000 p.m. He actually lives with his parents in Mumbai and pays rent of ₹ 20,000 p.m. Assuming not covered u/s 115BAC
- (a) Nil (b) ₹ 1,75,200
(c) ₹ 64,800 (d) ₹ 2,40,000
- (28) Prakash purchased a residential house property in Ahmedabad on loan for which he paid an interest of ₹ 50,000 during the previous year. He is working in Delhi and getting an HRA of ₹ 4,000 per month. He can claim exemption/ deduction for ----- Assuming not covered u/s 115BAC
- (a) Only HRA (b) Only interest paid
(c) Either interest paid or HRA but not both (d) Both HRA and interest paid.
- (29) X received children education allowance of ₹ 500 pm for 1 of his children. Calculate taxable amount of children education allowance for the assessment year 2021-22 if entire ₹ 500 is spent by X. Assuming not covered u/s 115BAC
- (a) Nil (b) ₹ 4,800
(c) ₹ 6,000 (d) ₹ 3,600
- (30) Karan, a resident of Meerut, receives ₹ 38,000 per annum as basic salary. In addition, he gets ₹ 12,000 p.a. as dearness allowance, which does not form part of basic salary, 5% commission on turnover achieved by him (turnover achieved by him during the relevant previous year is ₹ 6,00,000) and ₹ 7,000 per annum as house rent allowance. He, however, pays ₹ 8,000 per annum as house rent. The quantum of house rent allowance exempt from tax is _____. Assuming covered u/s 115BAC
- (a) Nil (b) ₹ 8,000
(c) ₹ 7,000 (d) ₹ 1,200
- (31) Naresh a resident of Jaipur, receives ₹ 25,000 p.m. as basic salary. In addition, he gets ₹ 10,000 p.m. as dearness allowance, which form part of basic salary and ₹ 18,000 pm as house rent allowance. He, however, pays ₹ 20,000 p.m. as house rent. The quantum of house rent allowance taxable is _____. Assuming not covered u/s 115BAC
- (a) ₹ 48,000 (b) ₹ 6,000
(c) Nil (d) ₹ 24,000
- (32) The maximum exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty shall be _____
- (a) Nil (b) ₹ 1,400 per month
(c) ₹ 1,600 per month (d) ₹ 1,800 per month
- (33) The maximum exemption in respect of transport allowance granted to an blind employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty shall be _____
- (a) ₹ 1,600 per month (b) Nil
(c) ₹ 3,200 per month (d) ₹ 20,000 per month

- (34) Rajesh, an employee of transport company receives ₹ 25,000 p.m. as basic salary. In addition, he gets ₹ 12,000 p.m. as transport allowance to meet his personal expenditure incurred in course of his official duty of running the transport from one place to another. He has expended ₹ 60,000 for the said purpose during the previous year. He is not in receipt of daily allowance. The quantum of transport allowance taxable is _____. Assuming not covered u/s 115BAC
- (a) ₹ 43,200 (b) ₹ 24,000
(c) ₹ 1,44,000 (d) ₹ 84,000
- (35) Raghav an employee of XYZ Ltd. receives ₹25,000 p.m. as basic salary. In addition, he gets ₹12,000 p.m. as dearness allowance and ₹15,000 p.m. as uniform allowance. He has expended ₹ 60,000 to meet expenditure incurred on purchase and maintenance of uniform during the previous year. His taxable salary is _____. Assuming covered u/s 115BAC
- (a) ₹ 3,00,000 (b) ₹ 4,44,000
(c) ₹ 6,24,000 (d) ₹ 5,64,000
- (36) Rishi an employee of XYZ Ltd. receives ₹ 25,000 p.m. as basic salary. In addition, he gets ₹ 15,000 p.m. as dearness allowance and ₹240 p.m. as for three children as education allowance. His taxable salary is _____. Assuming covered u/s 115BAC
- (a) ₹ 4,80,000 (b) ₹ 4,82,880
(c) ₹ 4,38,640 (d) ₹ 4,88,640
- (37) Kailash an employee of XYZ Ltd. receives ₹ 30,000 p.m. as basic salary. In addition, he gets ₹ 10,000 p.m. as dearness allowance, not forming part of salary and ₹ 2,000 p.m. as fixed medical allowance. His taxable salary is ----- Assuming not covered u/s 115BAC
- (a) ₹ 4,54,000 (b) ₹ 5,04,000
(c) ₹ 4,80,000 (d) ₹ 3,84,000
- (38) Neha is an employee in a private company. In the previous year she received salary ₹ 1,80,000 and entertainment allowance ₹ 12,000. She spent ₹ 6,000 on entertainment. Under section 16(ii), she is entitled to deduction of _____. Assuming not covered u/s 115BAC
- (a) ₹ 12,000 (b) ₹ 6,000
(c) ₹ 5,000 (d) Nil.
- (39) Raghav receives ₹ 50,000 as basic salary from the government during the financial year 2020-21 and receives ₹ 9,000 by way of entertainment allowance which he spends in full for official purposes. The amount deductible under section 16(ii) in respect of the allowance will be _____. Assuming covered u/s 115BAC
- (a) ₹ 5,000 (b) ₹ 9,000
(c) ₹ 10,000 (d) Nil
- (40) Ravi is receiving ₹ 10,000 as medical allowance from his employer. Out of this, he spends ₹5,000 on his own medical treatment, ₹ 2,000 on the medical treatment of his dependent wife and another ₹3,000 for the medical treatment of his major son who is not a dependent on him. The amount of medical allowance taxable in his hand is _____. Assuming not covered u/s 115BAC
- (a) ₹ 10,000 (b) ₹ 5,000
(c) ₹ 3,000 (d) Nil

PERQUISITES

- (41) Any benefit or an amenity provided to the employee by the employer directly or indirectly whether in cash or in kind in addition to salary & wages is known as -----
- (a) Perquisite (b) Allowance
(c) Deduction (d) Exemption
- (42) Who amongst the following is considered to be a specified employee?
- (a) An director employee of the company. (b) An employee having the substantial interest in the company.
(c) An employee whose income chargeable under the head salary excluding value of all non-monetary benefits exceeds ₹ 50,000. (d) All of the above.

- (43) Rent free accommodation provided to employee by the employer is
- (a) Exempt from tax. (b) Taxable in case of specified employees *only*.
(c) Taxable in case of non specified employee. (d) Taxable whether the employee is a specified employee or non specified employee.
- (44) Any sum paid by the employer in respect of any obligation, for which such payment would have been payable by the employee is
- (a) Exempt from tax. (b) Taxable in case of specified employees only.
(c) Taxable in case of non specified employee. (d) Taxable whether the employee is a specified employee or non specified employee.
- (45) The amount of any contribution to an approved superannuation fund by the employer in respect of the employee is exempt from tax upto -
- (a) ₹1,00,000 (b) ₹1,50,000
(c) ₹2,00,000 (d) Nil
- (46) Credit card facility provided to employee by the employer is _
- (a) Exempt from tax. (b) Taxable in case of specified employees only.
(c) Taxable in case of non specified employees only. (d) Taxable whether the employee is a specified employee or non specified employee.
- (47) Shyam receives ₹50,000 p.m. as basic salary from the government during the financial year and has been provided rent free accommodation in Jaipur (population exceeds 25 lakhs). The license fee determined by the Government for such accommodation is ₹1,000 p.m. The market rent of such accommodation is ₹5,000 p.m. The taxable value of rent free accommodation will be _____
- (a) ₹12,000 (b) ₹60,000
(c) ₹ 90,000 (d) Nil
- (48) Kapil gets salary of ₹ 12,000 p.m. and is provided with rent-free unfurnished accommodation at Pune (population 20 lakh). House is owned by employer, fair rental value of which is ₹ 1,400 p.m. House was provided with effect from 1st July, 2020. Value of the perquisite of rent-free accommodation will be -
- (a) ₹ 21,600 (b) ₹ 10,800
(c) ₹ 16,200 (d) ₹ 12,600
- (49) Satish is employed as chief engineer in Gama Ltd., Chennai w.e.f. 1st April, 2020 for a consolidated salary of ₹ 60,000 per month. He is provided with rent-free unfurnished accommodation owned by the employer from 1st July, 2020 onwards. The value of taxable perquisite is _____
- (a) ₹ 1,08,000 (b) ₹ 81,000
(c) ₹ 72,000 (d) ₹ 54,000
- (50) Paresh receives ₹ 25,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹ 10,000 p.m. (not forming part of retirement benefit) and has been provided rent free accommodation in Jaipur (population exceeds 25 lakhs) which is owned by employer. The market rent of such accommodation is ₹5,000 p.m. The taxable value of rent free accommodation will be _____
- (a) ₹63,000 (b) ₹ 45,000
(c) ₹ 60,000 (d) ₹ 30,000
- (51) Rakesh receives ₹ 25,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹ 10,000 p.m. (forming part of retirement benefit) and has been provided rent free accommodation in Alwar (population is ₹ 15lakhs) which is owned by employer. The market rent of such accommodation is ₹ 5,000 p.m. The taxable value of rent free accommodation will be -
- (a) ₹42,000 (b) ₹31,500
(c) ₹ 60,000 (d) ₹ 63,000

- (52) Sunny receives ₹ 15,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹5,000 p.m. forming part of retirement benefit and has been provided rent free accommodation, which is owned by employer, in small city (population is 8 lakhs). The market rent of such accommodation is ₹ 1,000 p.m. The taxable value of rent free accommodation will be _____
- (a) ₹ 18,000 (b) ₹ 13,500
(c) ₹ 12,000 (d) ₹ 36,000
- (53) Ravi receives ₹ 25,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit and has been provided rent free accommodation, which is taken on rent, in a city (population is 8 lakhs). The employer has paid monthly rent of ₹ 4,000. The taxable value of rent free accommodation will be -
- (a) ₹ 36,000 (b) ₹ 48,000
(c) ₹ 72,000 (d) ₹ 45,000
- (54) Chhavi receives ₹ 25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit and has been provided rent free accommodation, which is taken on rent, in Delhi (population exceeds 25 lakhs). The employer has paid monthly rent of ₹ 10,000. The taxable value of rent free accommodation will be -
- (a) ₹ 36,000 (b) ₹ 48,000
(c) ₹72,000 (d) ₹ 1,20,000
- (55) Chavi receives ₹ 25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit and has been provided, accommodation owned by employer in Delhi (population exceeds 25 lakhs). The employer has charged rent of ₹ 4,000 p.m. from Chavi. The taxable value of concessional accommodation will be -
- (a) ₹ 24,000 (b) ₹ 48,000
(c) ₹ 72,000 (d) Nil
- (56) Kavita receives ₹ 25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided accommodation owned by employer with effect from 1st October 2020 in Delhi (population exceeds 25 Lakhs). The market rent of such accommodation is ₹2,000p.m. The taxable value of rent free accommodation for A/Y 2021-22 will be -
- (a) ₹36,000 (b) ₹12,000
(c) ₹72,000 (d) ₹ 48,000
- (57) Riya receives ₹ 25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided accommodation in hotel in Delhi (population exceeds 25 lakhs). The employer has paid monthly rent of ₹8,000 for such hotel accommodation. The taxable value of concessional accommodation for AY 2021-22 will be -
- (a) ₹ 1,15,200 (b) ₹ 96,000
(c) ₹ 72,000 (d) ₹ 48,000
- (58) Sarita receives ₹25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided accommodation in Delhi (population exceeds 25 lakhs) with effect from 01-04-2020. The accommodation is owned by employer. The employer has also provided furniture original cost ₹ 50,000 (WDV ₹ 40,500) with effect from 1-10-2020. The market rent of such accommodation is ₹12,000 p.m. The taxable value of concessional accommodation for AY 2021-22 will be -
- (a) ₹ 74,500 (b) ₹ 77,500
(c) ₹ 76,050 (d) ₹ 74,025
- (59) Remote area means an area that is located at least _____kilometers away from a town having a population not Exceeding_____based on latest published all-India census.
- (a) 20, 40,000 (b)40, 20,000
(c) 40, 40,000 (d) 20, 20,000

- (60) When the employee is provided accommodation in a hotel for a period not exceeding _____ days on account of his transfer from one place to another, then the value of such perquisite shall be Nil.
- (a) 10 (b) 15
(c) 90 (d) 60
- (61) Accommodation provided to employee working at mining site which, being of a temporary nature and having plinth area not exceeding -----sq. feet, is located not less than -----kms. away from the local limits of any municipality or a cantonment board shall not be taxable.
- (a) 800, 8 (b) 1000, 8
(c) 800,40 (d) 800 ,20
- (62) Where on account of transfer of employee from one place to another, he is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value for a period not exceeding days.
- (a) 60 (b) 90
(c) 30 (d) 120
- (63) Ramesh, an employee of Gauri & Co. of Delhi, received the following payments during the previous year ended 31st March, 2021 :
Basic salary : ₹ 2,40,000 and dearness allowance: 40% of basic salary (40% forming part of salary). Rent-free unfurnished accommodation provided by employer for which rent paid by employer being ₹ 50,000. The value of taxable perquisite in the hands of Ramesh will be -----
- (a) ₹ 41,760 (b) ₹50,000
(c) ₹ 36,000 (d) ₹ 52,500.
- (64) Employer provides a car (below 1.6 Ltr. capacity) along with a driver to X partly for official and partly for personal purpose. The expenses incurred by the company are: Running and maintenance expenses - ₹32,000 & Driver's salary : ₹36,000. The Taxable value of Car facility for assessment year 2021-22 will be-
- (a) ₹ 21,600 (b) ₹ 10,800
(c) ₹ 32,400 (d) ₹ 39,600
- (65) Garima receives ₹ 2,500 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹ 1,500 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6 lts) owned by employer for her personal use. Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹ 15,000. The taxable value of car facility for AY 2021-22 will be -----
- (a) ₹ 15,000 (b) ₹ 21,600
(c) ₹ 28,800 (d) Nil
- (66) Reshma receives ₹50,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹25,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6 Lts) owned by employer for her personal use. The original cost of car is ₹6,00,000 (WDV ₹5,10,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹ 75,000. The salary of driver paid by the employer - ₹96,000. The taxable value of car facility for AY 2021-22 will be _____. Assuming not covered u/s 115BAC
- (a) ₹ 2,31,000 (b) ₹39,600
(c) ₹ 2,22,000 (d) ₹1,71,000
- (67) Sushma receives ₹50,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹ 25,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6Lts) owned by employer for her personal use as well as official use. The original cost of car is ₹6,00,000 (WDV ₹ 5,10,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹75,000. The salary of driver paid by the employer – ₹ 96,000. The taxable value of car facility for A/Y 2021-22 will be _____
- (a) ₹2,31,000 (b) ₹39,600
(c) ₹2,22,000 (d) ₹1,71,000

- (68) Karishma receives ₹25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity does not exceed 1.6 Lts) owned by employer for her personal use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The taxable value of car facility will be -
- (a) ₹1,08,000 (b) ₹32,400
(c) ₹1,04,500 (d) ₹33,600
- (69) Shraddha receives ₹25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity does not exceed 1.6Lts) owned by employer for her personal as well as official use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The taxable value of car facility will be-
- (a) ₹1,08,000 (b) ₹32,400
(c) ₹1,04,500 (d) ₹33,600
- (70) Neerja receives ₹25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity does not exceed 1.6Lts) owned by employer for her personal use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The employer recovers ₹2,000 p.m. from the employee. The taxable value of car facility will be-
- (a) ₹1,08,000 (b) ₹84,000
(c) ₹80,500 (d) ₹32,400
- (71) Sheela receives ₹30,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6 Lts) owned by employer for her official use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The taxable value of car facility will be -
- (a) Nil (b) ₹84,000
(c) ₹80,500 (d) ₹32,400
- (72) Katrina receives ₹30,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6lts) owned by employer for commuting between office and residence. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The taxable value of car facility will be -
- (a) ₹32,400 (b) ₹84,000
(c) ₹80,500 (d) Nil
- (73) Priya receives ₹30,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6lts) owned by employer for her personal use. The car is self driven by her. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the Priyanka on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The taxable value of car facility will be-
- (a) ₹31,500 (b) ₹10,800
(c) ₹35,000 (d) ₹21,600
- (74) Sunny receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided motor car (engine capacity exceeds 1.6lts) owned by employer for his personal as well as official use. The car is self driven by him. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by Sunil on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The taxable value of car facility will be -
- (a) ₹31,500 (b) ₹10,800
(c) ₹35,000 (d) ₹21,600

- (75) Prashant receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided motor car (engine capacity does not exceed 1.6lts) owned by employer for his personal as well as official use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by Prashant on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer amounted ₹48,000. The taxable value of car facility will be _____
- (a) ₹83,000 (b) ₹ 18,000
(c) ₹ 10,800 (d) ₹ 7,200
- (76) Sahil receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He owns a motor car (engine capacity does not exceed 1.6 Its) which is used by him for personal purposes. The original cost of car is ₹3,50,000. Expenditure incurred by employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer amounted ₹48,000. The taxable value of car facility will be -
- (a) ₹73,000 (b) ₹ 55,000
(c) ₹ 40,600 (d) Nil
- (77) Abdul receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He owns a motor car (engine capacity does not exceed 1.6 Lts) which is used by him for personal as well as official purposes. The original cost of car is ₹3,50,000. Expenditure incurred by employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer amounted ₹48,000. The taxable value of car facility will be _____
- (a) ₹33,400 (b) ₹73,000
(c) ₹40,600 (d) ₹32,400
- (78) Kapil receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He owns a motor car (engine capacity exceeds 1.6 Lts) which is used by him for personal as well as official purposes. The original cost of car is ₹3,50,000. Expenditure incurred by employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer amounted ₹48,000. The taxable value of car facility will be _____
- (a) ₹33,400 (b) ₹73,000
(c) ₹40,600 (d) ₹32,400
- (79) Mr. A is provided with two cars, to be used for official and personal work by his employer ABC Ltd. The following information is available from the company records:

	Car 1 ₹	Car2 ₹
Engine Capacity	1.8Its	1.8Its
Cost of the Car	6,00,000	4,00,000
Running and maintenance (Borne by the company)	40,800	28,000
Salary of driver (Borne by the company)	24,000	24,000

The taxable monetary emoluments of Mr. A are ₹ 90,000. The taxable 'Perk' in respect of Cars on the assumption car 2, is exclusively used by "A" for personal purpose will be -

- (a) ₹1,31,600 (b) ₹1,57,200
(c) ₹72,000 (d) ₹2,16,800
- (80) Mr. Ramesh is provided with two cars, to be used for official and personal work by his employer ABC Ltd. The following information is available from the company records:

	Car 1 ₹	Car2
Engine Capacity	1.8 Its	₹ 1.6 Its
Cost of the Car	12,00,000	8,00,000
Running and maintenance (Borne by the company)	40,800	28,000
Salary of driver (Borne by the company)	96,000	84,000

The taxable monetary emoluments of Mr. A are ₹9,00,000. The taxable 'Perk' in respect of Cars will be -

- (a) ₹2,31,600 (b) ₹2,89,200
(c) ₹4,48,800 (d) ₹72,000

(81) Jasmeet receives ₹ 30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided cook for which the actual cost to employer is ₹ 60,000. Jasmeet has paid ₹ 20,000 to the cook. The taxable value of cook perquisite will be -

- (a) ₹60,000 (b) ₹80,000
(c) ₹40,000 (d) Nil

(82) Manoj receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided free electricity facility for which the actual cost to employer is ₹58,000. The employer has recovered ₹8,000 from Manoj on account of such facility. The taxable value of electricity perquisite will be -

- (a) ₹58,000 (b) ₹66,000
(c) ₹50,000 (d) Nil

(83) Mahesh receives ₹ 30,000 p.m. as basic salary from Delhi Public School. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. His son is studying in the school for which the employer charges ₹ 200 p.m. The cost of such education in a similar institution in the locality is ₹ 3,500 p.m. The taxable value of education facility will be -

- (a) ₹ 39,600 (b) ₹27,600
(c) ₹ 42,000 (d) Nil

(84) Aadish is an employee of Moon Public School. His daughter, Zara, is studying in the said school at a concessional fees of ₹ 600 per month (Actual fee : ₹ 4,000 per month). The amount taxable in the hands of Aadish will be -

- (a) ₹ 48,000 (b) ₹ 7,200
(c) Nil (d) ₹ 40,800.

(85) Ashok took an interest-free loan of ₹ 15,000 from B Ltd. (the employer). Assuming that the market rate of interest on similar loan is 10%. the taxable value of the perquisite in the hands of Ashok will be -

- (a) ₹ 150 (b) ₹ 1,500
(c) Nil (d) None of the above.

(86) During the previous year, Varun received a watch worth ₹ 20,000 from his employer. The taxable value of the watch will be _

- (a) ₹ 15,000 (b) ₹ 20,000
(c) Nil (d) None of the above.

(87) Rajesh receives ₹ 30,000 p.m. as basic salary from Delhi Public School. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. His son is studying in the school for which the employer charges ₹ 200 p.m. The cost of such education in a similar institution in the locality is ₹ 1,200 p.m. The taxable value of education facility will be-

- (a) ₹14,400 (b) ₹12,000
(c) ₹16,800 (d) Nil

(88) Suresh is pilot of Jet airways. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided transport facility in the conveyance owned by the company. The amount charged to general public on account of such facility is ₹25,000. The employer has recovered ₹5,000 from Suresh. The cost to employer is ₹18,500. The taxable value of transport facility will be -

- (a) ₹ 25,000 (b) ₹ 20,000
(c) ₹ 18,500 (d) Nil

- (89) Kalu is employee of ABC Roadways Pvt. Ltd. engaged in transportation of passengers. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided transport facility in the conveyance owned by the company. The amount charged to general public on account of such facility is ₹25,000. The employer has recovered ₹5,000 from Kalu. The cost to employer is ₹18,500. The taxable value of transport facility will be -
- (a) ₹25,000 (b) ₹20,000
(c) ₹18,500 (d) Nil
- (90) "Family" for the purpose of medical facility means –
- (a) spouse of that individual (b) Children of that individual
(c) Parents, brothers and sisters of the individual (d) All of the above or any of them wholly or mainly dependent on the individual.
- (91) Ms. Priya is provided with an interest free loan by her employer for the purchase of a house. The value of the perquisite shall be -
- (a) Simple interest computed at the rate charged by the Central Government to its employees on 1st April of the previous year (b) Simple interest computed at the rate charged by State Bank of India on 1st April of the previous year
(c) Simple interest computed at the rate charged by National Housing Bank on 1st April of the previous year (d) Simple interest computed at the rate determined by the employer on 1st April of previous year.
- (92) Kamlesh is employee of Apollo Hospitals Pvt. Ltd. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has incurred an expenditure of ₹25,000 on medical treatment of his minor child and ₹75,000 on medical treatment of his brother not dependent on Kamal in the hospital maintained by the employer. The taxable value of medical facility will be -
- (a) ₹25,000 (b) ₹75,000
(c) ₹85,000 (d) ₹60,000
- (93) Any sum paid by the employer in respect of an expenditure incurred by an employee on his medical treatment or treatment of any of his family member *in private hospital* is exempt upto -
- (a) ₹15,000 (b) Nil
(c) ₹30,000 (d) ₹60,000
- (94) Everest Ltd. reimburses the following expenditure on medical treatment of the son of an employee Karan. The treatment was done at UK :
- (i) Travelling expenses ₹1,15,000.
(ii) Stay expenses at UK permitted by RBI ₹45,000 (Actual expenses ₹70,000). (iii) Medical expenses permitted by RBI ₹50,000 (Actual expenses ₹70,000).
The taxable perquisites in the hands of Karan, if his annual income from salary was ₹1,56,000 will be -
- (a) ₹2,55,000 (b) ₹45,000
(c) ₹1,60,000 (d) Nil
- (95) Mr. M was granted an option on 1-7-2019 by the company to purchase 500 equity shares at a price of ₹250 per share. The period during which the option can be exercised to purchase 500 shares at a pre-determined price of ₹ 250 per share commencing on 1-7-2019 and ending on 31-3-2021. Mr. M exercised the option on 15-3-2020 to purchase 500 shares. Fair market value on the said date was ₹ 500 on the Bombay Stock Exchange and ₹ 600 on the National Stock Exchange. The NSE has recorded the higher volume of trading in that share. The company has allotted him 500 shares on 24th April, 2020. The fair market value on the date of allotment was ₹800 per share on NSE and ₹850 on the BSE, that has recorded the higher volume of trading in that share. The taxable value of employees stock option plan will be -
- (a) ₹ 1,25,000 (b) ₹ 1,75,000
(c) ₹2,75,000 (d) ₹3,00,000

- (96) Ashish is employee of ABC Pvt. Ltd. He receives ₹ 30,000 p.m. as basic salary. He is also provided dearness allowance of ₹ 15,000pm. forming part of retirement benefit. The employer has provided interest free loan of ₹ 1,00,000 on 1-4-2020 for medical treatment of specified diseases. The rate of interest charged by SBI on such loan is 12% p.a. The entire loan is outstanding during the previous year. The taxable value of perquisite will be -
- (a) ₹12,000 (b) ₹1,00,000
(c) ₹1,12,000 (d) Nil
- (97) Interest-free loan to an employee, where the amount of loan does not exceed anyone of the following, shall be treated as the tax-free perquisite in all cases under section 17(2) -
- (a) ₹ 10,000 (b) ₹15,000
(c) ₹ 20,000 (d) ₹ 25,000
- (98) A Ltd. has advanced an interest free loan of ₹ 5,00,000 to B for purchase of car on 1-5-2020. B has been repaying the loan in instalments of ₹ 20,000 p.m. on the 1st of next month. Compute the value of perquisite on account of interest assuming the interest charged by SBI is 10% p.a.
- (a) ₹ 34,833 (b) ₹ 36,667
(c) ₹ 40,000 (d) ₹ 50,000
- (99) Prashant obtained interest-free loan of ₹ 20,000 from his employer company for purchasing a two-wheeler. The market rate of interest on such loan is 20% per annum. The lending rate of State Bank of India is 12.5% and that of the private sector banks is 16%. The taxable amount of this perquisite will be computed at the rate of -
- (a) 20% (b) 16%
(c) 12.5% (d) Nil rate.
- (100) Ankit obtained interest-free loan of ₹ 2,00,000 from his employer company for purchasing a four-wheeler on 1-10-2020. The market rate of interest on such loan is 20% per annum. The lending rate of State Bank of India is 12.5% and that of the private sector banks is 16%. The entire loan is outstanding as on 31-03-2021. The taxable amount of this perquisite for AY 2021-22 will be-
- (a) ₹ 12,500 (b) ₹25,000
(c) ₹ 20,000 (d) ₹ 16,000
- (101) Gift to an employee, where the amount of gift is below anyone of the following, shall be treated as the tax-free perquisite in all cases under section 17(2) -
- (a) ₹ 5,000 (b) ₹50,000
(c) ₹ 25,000 (d) ₹ 20,000
- (102) The value of free food and non-alcoholic beverages provided by the employer to an employee during working hours provided in a remote area shall be -
- (a) Exempt upto ₹ 50 per meal. (b) Fully taxable
(c) Fully exempt (d) Exempt upto ₹ 20,000
- (103) Ram Lal is employee of ABC Pvt. Ltd. He receives ₹ 30,000 p.m. as basic salary. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. The employer has provided free refreshment during working hours. The expenditure incurred by the employer is ₹ 25,000. The company works for 300 days during the year. The taxable value of perquisite will be -
- (a) ₹ 25,000 (b) ₹ 10,000
(c) ₹ 15,000 (d) Nil
- (104) Shyam lal is employee of ABC Pvt. Ltd. He receives ₹ 30,000 p.m. as basic salary. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. The employer has provided free lunch during office hours and cost per meal is ₹ 150. The company works for 300 days during the year. The taxable value of perquisite will be -
- (a) ₹45,000 (b) ₹ 30,000
(c) ₹15,000 (d) Nil

- (105) Suresh is employee of ABC Pvt. Ltd. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has provided health club facility for which expenditure incurred by the employer is ₹45,000 and ₹15,000 is recovered from the employee. The taxable value of perquisite will be -
- (a) ₹45,000 (b) ₹30,000
(c) ₹60,000 (d) Nil
- (106) Ganesh is employee of ABC Pvt. Ltd. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has paid credit card fees of ₹15,000 and also amount of ₹35,000 on account of credit card bills of purchases made by Ganesh for his personal purposes. ₹5,500 is recovered from Ganesh by the employer. The taxable value of perquisite will be -
- (a) ₹44,500 (b) ₹50,000
(c) ₹29,500 (d) Nil
- (107) Supriya is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has provided furniture original cost ₹1,25,000 (WDV ₹1,00,000) for her personal use with effect from 1st August 2019. The taxable value of perquisite for AY 2021-22 will be-
- (a) ₹12,500 (b) ₹10,000
(c) ₹8,333 (d) ₹6,667
- (108) Aarti is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has provided computer original cost ₹65,000 (WDV ₹26,000) for her personal use with effect from 1st July 2020. The taxable value of perquisite for AY 2021-22 will be-
- (a) ₹6,500 (b) ₹2,600
(c) ₹4,875 (d) Nil
- (109) Kavita is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has transferred motor car on 1st September 2020 for ₹25,000. The car was purchased by the employer on 1st October, 2018 for ₹3,00,000. The taxable value of perquisite for AY 2021-22 will be-
- (a) ₹2,15,000 (b) ₹1,71,000
(c) ₹2,45,000 (d) ₹2,45,250
- (110) Aysha is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has transferred furniture on 1st September 2020 for ₹5,000. The furniture was purchased by the employer on 1st October, 2017 for ₹2,00,000. The taxable value of perquisite for AY 2021-22 will be
- (a) ₹1,55,000 (b) ₹1,57,000
(c) ₹1,36,667 (d) ₹1,42,150
- (111) Joy Ltd. transfers a Honda city car to hits employee Mr. Happy after using it for 4 years and 10 months, for ₹2,10,000. Cost of the car is ₹10,00,000. The value of taxable perquisite in the hands of employee is -
- (a) ₹1,17,680 (b) ₹1,99,600
(c) Nil (d) ₹7,90,000
- (112) Priya is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has transferred computer on 1st September 2020 for ₹5,000. The computer was purchased by the employer on 1st October, 2019 for ₹50,000. The taxable value of perquisite for AY 2021-22 will be-
- (a) ₹45,000 (b) ₹17,917
(c) ₹50,000 (d) Nil

PROFITS IN LIEU OF SALARY, GRATUITY, EARNED LEAVE SALARY, PENSION,
LEAVE TRAVEL CONCESSION AND VRS COMPENSATION

- (113) In which of the following case the gratuity received is not taxable?
- (a) Government employees (b) Employees covered by Payment of Gratuity Act, 1872
(c) Any other employee (d) None of these.
- (114) Under Section 10(10) of Income-tax Act, 1961, maximum amount of gratuity received which is not chargeable to tax for employee not covered under Gratuity Act shall be -
- (a) ₹ 3,50,000 (b) ₹ 20,00,000
(c) ₹ 2,50,000 (d) ₹ 10,00,000
- (115) What is the exemption limit in case of employees covered by the Payment of Gratuity Act, 1972?
- (a) ₹ 3,00,000 (b) ₹ 3,50,000
(c) ₹ 20,00,000 (d) ₹ 10,00,000
- (116) Suresh is an employee of XYZ Ltd. He retired on 17th Nov. 2020 after rendering service of 38 years, 6 month and 1 day. Calculate the number of completed years if Suresh is covered under the Payment of Gratuity Act.
- (a) 37 years (b) 39 years
(c) 38 years (d) 38 years 6 months 7 days.
- (117) Payal is an employee of ABC Pvt. Ltd. She receives ₹ 50,000 p.m. as basic salary. She is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. She received gratuity of ₹ 25,000 during the continuity of employment. The taxable portion of gratuity will be -
- (a) ₹ 25,000 (b) ₹ 15,000
(c) ₹ 12,500 (d) Nil
- (118) Mr. Sunil is a private sector employee. He received ₹ 12,00,000 as gratuity. He retired on 16th February 2021 after rendering 25 years and 7 months of service. His basic salary was ₹ 30,000 p.m. His dearness allowance was ₹ 15,000 p.m. (40% forms part of retirement benefit). He is not covered under Payment of Gratuity Act, 1972. The amount of gratuity exempt will be -
- (a) ₹ 5,40,000 (b) ₹ 10,00,000
(c) ₹ 4,50,000 (d) ₹ 20,00,000
- (119) Mr. Raj Mohan is a government employee. He received ₹ 25,00,000 as gratuity. He retired on 16th February 2021 after rendering 25 years and 7 months of service. His basic salary w.e.f. 01-10-2020 was ₹ 30,000 per month (prior to that ₹ 25,000 p.m.). His dearness allowance was ₹ 15,400 p.m. The amount of gratuity taxable will be -
- (a) Nil (b) ₹ 18,19,000
(c) ₹ 20,85,000 (d) ₹ 25,00,000
- (120) Mr. Krishna is a private sector employee. He received ₹ 18,00,000 as gratuity. He retired on 16th February 2021 after rendering 25 years and 7 months of service. His basic salary was ₹ 30,000 p.m. His dearness allowance was ₹ 15,000 p.m. He is covered under Payment of Gratuity Act, 1972. The amount of gratuity exempt will be -
- (a) Nil (b) ₹ 20,00,000
(c) ₹ 18,00,000 (d) ₹ 6,75,000
- (121) Mr. Prakash is a private sector employee. He received ₹ 10,00,000 as gratuity. He retired on 10th January 2021 after rendering 22 years and 8 months of service. His basic salary was ₹ 40,000 p.m. His dearness allowance was ₹ 20,000 p.m. (Nothing forms part of retirement benefit). He is not covered under Payment of Gratuity Act, 1972. The amount of gratuity taxable will be -
- (a) ₹ 4,40,000 (b) ₹ 20,00,000
(c) ₹ 5,60,000 (d) NIL

- (122) The maximum exemption under section 10(10AA) in case of leave encashment is - (June, 2011)
- (a) ₹ 3,50,000 (b) ₹3,00,000
(c) ₹ 10,00,000 (d) ₹5,00,000
- (123) For the purpose of calculation of average salary in case of exemption of leave encashment the average salary drawn during the period of 10 months immediately preceding theof retirement.
- (a) Month (b) Date
(c) Week (d) Year
- (124) What is the annual leave entitlement specified in the Income Tax Act?
- (a) 1.5 months (b) 40 days
(c) 30 days (d) None of these.
- (125) The amount of exemption for leave encashment in case of Government employee is -
- (a) Actual amount of leave encashment received. (b) Fully exempted from tax
(c) ₹ 3,00,000 (d) 10 months average salary preceding the month of retirement
- (126) Salary received in lieu of unavailed leave during service shall be -
- (a) Fully taxable (b) Fully exempted
(c) Partially taxable (d) None of the above.
- (127) Mr. Bansal was employed in M/ s. ABC & Associates. After completing 40 years and 7 months of service he retired on 31st October 2020. The particulars are as under-
- (i) Salary at the time of retirement - ₹ 10,000 p.m,
(ii) Average monthly salary for 10 months ending on 31st October 2020 - ₹9,500 p.m.
(iii) Leave entitlement – 1.5 months for each completed year of service.
(iv) Leave encashment received for 25 months on basis of salary at the time of retirement - ₹2,50,000. The amount of Leave encashment exempt will be -----
- (a) ₹2,50,000 (b) ₹95,000
(c) ₹ 47,500 (d) ₹3,00,000
- (128) Mr. Kamal was employed in M/ s ABC & Associates. He received ₹1,00,000 as earned leave salary. He retired on 16th February 2021 after rendering 24 years and 7 months of service. His basic salary was ₹15,000 p.m. His dearness allowance was ₹10,000 p.m (forms part of retirement benefit). Leave entitlement 1.5 months for each completed year of service. The amount of taxable earned leave salary:
- (a) Nil (b) ₹1,00,000
(c) ₹25,000 (d) ₹50,000
- (129) Where the employee is not in receipt of gratuity what will be the exemption?
- (a) 1/3rd of the commuted value of the pension which he is entitled to receive (b) 1/2 of Commuted value of the pension which he is entitled to receive
(c) Wholly exempt (d) Wholly taxable
- (130) Bimal is employed in a factory at a salary of ₹2,400 per month. He also gets dearness allowance @ ₹ 600 per month and bonus @ ₹200 per month. He retired on 31st December, 2020 and received ₹75,000 as gratuity under the Payment of Gratuity Act, 1972 after serving 31 years and 4 months in that factory. The amount of gratuity exempt under the Income tax Act, 1961 will be –
- (a) ₹75,000 (b) ₹53,654
(c) ₹21,346 (d) ₹20,00,000.
- (131) X retired on 15-4-2020 from a company. He was entitled to a pension of ₹4,000 p.m. At the time of retirement, he got 75% of the pension commuted and received ₹1,20,000 as commuted pension. Compute the taxable portion of the commuted pension if he is entitled to gratuity.

- (a) ₹ 66,667 (b) ₹ 53,333
(c) ₹ 1,20,000 (d) ₹ 78,667
- (132) Anand is entitled to get a pension of ₹6,000 per month from a private company. He gets 60% of the pension commuted and receives ₹3,60,000. He also receives ₹2,00,000 as gratuity from the same employer. The taxable portion of commuted value of pension will be -
- (a) ₹ 1,60,000 (b) Nil
(c) ₹ 3,60,000 (d) ₹ 60,000
- (133) Suresh is entitled to get a pension of ₹600 per month from a private company. He gets three-fifth of the pension commuted and received ₹36,000. He did not receive gratuity. The taxable portion of commuted value of pension is
- (a) ₹ 16,000 (b) ₹ 6,000
(c) ₹ 18,000 (d) ₹ 12,000.
- (134) An employee of a company, who was entitled for a gratuity of ₹ 8,00,000, also received ₹12,00,000 by commuting 40% of his pension. The taxable amount of commuted pension is -
- (a) ₹ 2,00,000 (b) ₹ 4,00,000
(c) ₹ 12,00,000 (d) ₹ 22,00,000
- (135) Mr. Goyal retires from a Private service on 1st August 2020. At the time of his retirement after 28 years and 8 months of service, he was getting the salary of ₹34,000 per month. He gets pension of ₹10,000 per month upto 31st December 2020. With effect from 1st January 2021 he gets 4/5th of his pension commuted for ₹12,00,000. Determine his gross salary taxable for A/Y 2021-22 will be _____
- (a) ₹ 6,42,000 (b) ₹ 6,66,000
(c) ₹ 5,86,000 (d) ₹ 1,92,000
- (136) Rohit retires from private service on 30th April, 2020 and his pension has been fixed at ₹1,500 p.m. He gets 1/2 of his pension commuted during January, 2021 and receives ₹75,000. He also gets ₹60,000 as gratuity. The total pension taxable including commuted value will be -
- (a) ₹ 16,500 (b) ₹ 41,500
(c) ₹ 39,250 (d) ₹ 14,250
- (137) What is the specified limit in case of exemption for retrenchment compensation under section 10(10B).
- (a) ₹ 3,00,000 (b) ₹ 4,00,000
(c) ₹ 3,50,000 (d) ₹ 5,00,000
- (138) The exemption of Voluntary Retirement compensation is available to an employee who has completed -----years of service or completed.....years of age except in case of employees of public sector company.
- (a) 10,40 (b) 10,50
(c) 8,40 (d) 10,58
- (139) The maximum amount of compensation received at the time of voluntary retirement exempt from tax is -
- (a) ₹ 2,00,000 (b) ₹ 5,00,000
(c) ₹ 10,00,000 (d) The actual amount received as compensation.
- (140) Mr. Aman avails the benefit of LTC and went by air (economy class) on a holiday in India on 25-01-2021 along with his wife and three children consisting of son aged 2 years and twin daughters of 6 years age. Total cost of tickets reimbursed by his employer was ₹1,00,000 (₹ 55,000 for 2 adults and ₹ 45,000 for the three children). The amount taxable in hands of Amit will be -
- (a) ₹ 15,000 (b) ₹ 1,00,000
(c) ₹ 45,000 (d) ₹ 55,000

- (141) Which of the following is not correct about the approved superannuation fund _
- | | |
|---|---|
| (a) Employees' contribution qualifies for deduction under section 80C | (b) Any amount contributed by the employer is exempt from tax |
| (c) Interest on accumulated balance is exempt from income-tax | (d) Under some circumstances, payments from the fund are chargeable to income-tax |
- (142) Statutory provident fund is set up under the provisions of the Provident Funds Act, 1925 is applicable to -----
- | | |
|------------------------------|------------------------------------|
| (a) Government organizations | (b) Semi-Government organizations, |
| (c) Local authorities, | (d) All of the above |
- (143) Mr. Sharma retires from a Private service on 31st August 2020. At the time of his retirement after 28 years and 4 months of service, he was getting the salary of ₹34,000 per month. He gets ₹5,00,000 (including accumulated interest of ₹1,00,000) from recognised provident fund. The employer and Mr. Jain has made a matching contribution. Compute his Income from salary for Assessment Year 2021-22. Assuming not covered u/s 115BAC
- | | |
|---------------|---------------|
| (a) ₹1,36,000 | (b) ₹6,36,000 |
| (c) ₹3,86,000 | (d) ₹3,36,000 |
- (144) Mrs. Meetu retired from service with Earth Ltd. on 31st January, 2021. She received the following amounts from unrecognised provident fund: (i) Own contribution ₹ 1,50,000; (ii) Interest on own contribution ₹ 21,000; (iii) Employer's contribution ₹ 1,10,000; and (iv) interest on employer's contribution ₹ 15,000. How much of the receipt is chargeable to tax as income from salary .
- | | |
|---------------|---------------|
| (a) ₹21,000 | (b) ₹15,000 |
| (c) ₹1,25,000 | (d) ₹1,71,000 |
- (145) Mr. Bansal retires from a Private service on 1st August 2020. At the time of his retirement after 28 years and 4 months of service, he was getting the salary of ₹34,000 per month. He gets ₹5,00,000 (including accumulated interest of ₹ 1,00,000) from unrecognised provident fund. The employer and Mr. Bansal has made a matching contribution. Compute his Income from salary for Assessment Year 2021-22. Assuming not covered u/s 115BAC
- | | |
|----------------|----------------|
| (a) ₹ 1,36,000 | (b) ₹ 6,36,000 |
| (c) ₹ 3,86,000 | (d) ₹ 3,36,000 |
- (146) Deduction u/s 80C on employee's contribution is not available in case of :
- | | |
|---------------------------------|-------------------------------|
| (a) Statutory Provident Fund | (b) Recognised Provident Fund |
| (c) Unrecognised Provident Fund | (d) Public Provident Fund |
- (147) Employer's contribution to recognised provident fund is taxable in excess of _____ of salary:
- | | |
|---------|-----------|
| (a) 12% | (b) 9.50% |
| (c) 9 % | (d) 8.50% |
- (148) For the year ended 31st March, 2020, Prakash receives a salary of ₹2,80,000. His contribution to employee's recognised provident fund account is ₹59,000 and matching contribution has been made by employer. Taxable income of Prakash will be _____. Assuming not covered u/s 115BAC
- | | |
|----------------|-----------------|
| (a) ₹ 1,96,400 | (b) ₹2,46,400 |
| (c) ₹ 3,39,000 | (d) ₹ 2,80,000. |
- (149) Lump sum payment at the time of retirement or termination of service received from unrecognised provident fund to the extent it consists of interest on employees contribution is :
- | | |
|---------------------------|---|
| (a) Taxable as salary | (b) Taxable under Income from other sources |
| (c) Fully exempt from tax | (d) Taxable as business Income |
- (150) Mr. R (65 years) submits the following information for the Assessment year 2021-22 :
- Gross salary - ₹ 8,80,000
- Income from other sources - ₹ 60,000

Contribution to PPF - ₹ 70,000

Compute the tax liability of R. Assuming not covered u/s 115BAC

- | | |
|--------------|--------------|
| (a) ₹ 74,000 | (b) ₹ 97,000 |
| (c) ₹ 76,960 | (d) ₹ 99,970 |

(151) Government of India paid salary of ₹ 5lakh and allowances/perquisites valued at ₹ 2.20 lakh to a person who is citizen of India for the services rendered by him outside India for 5 months during the previous year. His total income chargeable to tax would be Assuming not covered u/s 115BAC

- | | |
|---------------|---------------|
| (a) ₹7,20,000 | (b) ₹5,00,000 |
| (c) ₹6,10,000 | (d) Nil |

(152) Rohit is employed in a company with annual salary of ₹ 8,60,000 (computed). The company paid income-tax of ₹ 37,000 on his non-monetary perquisites. He paid ₹1,20,000 to recognised provident fund during the year 2020-21 His total income would be

- | | |
|---------------|----------------|
| (a) ₹7,77,000 | (b) ₹ 7,40,000 |
| (c) ₹7,97,000 | (d) ₹ 7,60,000 |

(153) Anil is employed in a company with annual salary of ₹ 8,60,000 (computed). The company paid income-tax of ₹ 37,000 on his monetary perquisites. He paid ₹ 1,20,000 to recognised provident fund during the year 2020-21. His total income would be

- | | |
|---------------|---------------|
| (a) ₹7,77,000 | (b) ₹7,40,000 |
| (c) ₹7,97,000 | (d) ₹7,60,000 |

ANSWER KEY

1.B	2.D	3.A	4.A	5.B	6.B	7.D	8.C	9.B	10.A
11.B	12.A	13.A	14.C	15.C	16.C	17.B	18.A	19.B	20.D
21.B	22.B	23.B	24.C	25.B	26.B	27.B	28.D	29.B	30.A
31.A	32.A	33.C	34.A	35.C	36.B	37.A	38.D	39.D	40.A
41.A	42.D	43.D	44.D	45.B	46.D	47.A	48.B	49.B	50.B
51.A	52.A	53.B	54.C	55.A	56.A	57.B	58.A	59.B	60.B
61.A	62.B	63.A	64.C	65.D	66.A	67.B	68.A	69.B	70.B
71..A	72.D	73.C	74.B	75.B	76.A	77.C	78.A	79.A	80.A
81.A	82.C	83.A	84.D	85.C	86.B	87.D	88.D	89.B	90.D
91.B	92.B	93.B	94.C	95.B	96.D	97.C	98.B	99.D	100.A
101.A	102.C	103.D	104.B	105.D	106.A	107.C	108.D	109.A	110.A
111.B	112.A	113.A	114.B	115.C	116.B	117.A	118.C	119.A	120.D
121.C	122.B	123.B	124.C	125.B	126.A	127.C	128.B	129.B	130.B
131.A	132.A	133.B	134.A	135.A	136.C	137.D	138.A	139.B	140.A
141.B	142.D	143.A	144.C	145.C	146.C	147.A	148.A	149.B	150.C
151.B	152.B	153.A							

CHAPTER - 9

ADVANCE TAX

Sections covered in this chapter

Sec 207	Liability for payment of advance tax
Sec 208	Advance tax if 10,000 or more
Sec 209	Computation of advance tax
Sec 210	Computation of advance tax by AO
Sec 211	Due date of advance tax
Sec 234B	Interest for non payment of advance tax
Sec 234C	Interest for deferment of advance tax
Proviso to sec 234C	Advance tax in case of capital gain/casual income

Sec 207 : Liability for payment of Advance Tax

- Tax shall be payable
- **in ADVANCE**
- during any financial year
- on **Total Income** which would be chargeable in following assessment year
- as per sections 208 to 219

Special point : Advance Tax is not applicable for Individual who is a Senior Citizen & does not have any income chargeable under head "Profits and Gains of business or profession."

Sec 208 : When liability arises

- Advance tax shall be payable during a financial year
- where amount of **Advance tax Liability**
- during that year is **10,000 or more**

Sec 209 : Computation of Advance tax Liability

- Step 1 : Estimate TOTAL INCOME** of the current financial year
- Step 2 : Compute Tax** on such Estimated income at applicable rates
- Step 3 : Add Health & Education cess @ 4%**
- Step 4 : Deduct Estimated T.D.S**
- Balance is advance tax liability during the financial year**

Special point : For computing liability for advance tax, income-tax calculated shall not be reduced by TDS during the said F/Y if payer has paid such income without deduction of tax.

Sec 210 : Payment of Advance Tax
Payment by assessee on his own

- Every person who is liable to pay advance tax u/s 208
- Shall **on his own**
- Pay Advance tax on his income
- on or before due date u/s 211
- Calculated in manner u/s 209

Increase or decrease of subsequent installments

- A person who pays any installment of advance tax
- May increase or reduce advance tax payable in remaining installment
- In accordance with estimate of current income

Sec 211: Due dates for Payment of Advance Tax

Due Date of installment	% of Advance Tax
Upto 15 June of current financial year	Atleast 15% of advance tax liability
Upto 15 September of current financial year	Atleast 45% of advance tax liability
Upto 15 December of current financial year	Atleast 75% of advance tax liability
Upto 15 March of current financial year	Atleast 100% of advance tax liability

Special point

1. *Where assessee declares profits u/s 44AD or u/s 44ADA, 100% advance tax can be paid on or before the 15th March of the F/Y*
2. *Any amount paid by way of advance tax on or before 31st day of March shall also be treated as advance tax paid during F/Y ending on that day for all the purposes of this Act.*

Sec 234C: Interest for Deferment of Advance Tax

Conditions	Rate	Months	Amount on which interest payable
Advance tax paid upto 15 th June is less than 12% of Tax as per ROI	1% Pm	3	15% of Tax as per ROI Less Advance tax paid upto 15 th June
Advance tax paid upto 15 th Sept is less than 36% of Tax as per ROI	1% Pm	3	45% of Tax as per ROI Less Advance tax paid upto 15 th Sept.
Advance tax paid upto 15 th Dec is less than 75% of Tax as per ROI	1% Pm	3	75% of Tax as per ROI Less Advance tax paid upto 15 th Dec
Advance tax paid upto 15 th March is less than 100% of Tax as per ROI	1% Pm	1	100% of Tax as per ROI Less Advance tax paid upto 15 th March

For assessee covered u/s 44AD & 44ADA

Advance tax paid upto 15 th March is less than 100 % of Tax as per ROI	1% Pm	1	100% of Tax as per ROI Less Advance tax paid upto 15 th March
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Proviso to Sec 234C: Payment of Advance tax in case of Capital Gain/Casual income etc
No interest liability will arise u/s 234C if advance tax is paid as follows

Any shortfall in payment of Tax due on returned income where such shortfall is on account of under-estimate or failure to estimate—

- (a) Capital gains or
- (b) Casual Income or
- (c) PGBP in cases where the income arises under said head for first time or
- (d) Income u/s 115BBDA

and assessee has paid whole of amount of tax payable in respect of such income, in remaining instalments of advance tax which are due or where no such instalments are due, by 31st day of March of financial year:

Sec 234B: Interest for Non Payment of Advance tax

- ✓ If advance tax **not paid** or
- ✓ If advance tax paid is less than 90% of **tax as per ROI**
- ✓ Interest shall be payable @ **1% per month or part** of the month
- ✓ From 1st April of the following financial year
- ✓ Upto the date of payment of self assessment tax
- ✓ **Interest shall be payable on Tax as per ROI less Tax paid**

Sec 234A : Interest for defaults in furnishing Return of Income

- ✓ Where the Return of Income for any assessment year
- ✓ Is furnished after the due date
- ✓ Interest shall be payable @ **1% per month or part** of the month
- ✓ From date after **Due date of return** to **Date of payment of tax**
- ✓ On **Tax as per ROI less Tax Paid**

Sec 244A : Interest on Refund

- ✓ Where refund of any amount becomes due to the assessee under this Act,
- ✓ he shall be entitled to receive,
- ✓ in addition to the said amount
- ✓ Interest @ **0.5 % pm or part**
- ✓ from the 1st April of assessment year to the date on which the refund is granted

Special point :

- 1) No interest u/s 244A shall be receivable if the amount of refund is *less than 10% of the tax*
- 2) If the proceedings resulting in the refund are *delayed for reasons attributable to the assessee*, whether wholly or in part, the period of the delay so attributable to him shall be excluded from the period for which interest is payable

Sec 210 : Payment of Advance Tax on order of AO

- If **AO** is of opinion that any person is liable to pay advance tax
- **Then he issue an order** u/s 210 requiring him
- To pay advance tax
- Provided that person has already been assessed by way of **Regular assessment**
- Such order can be passed any time during the financial year but not later than last date of February

Special Point :

Sec 2(40) : Regular Assessment means the assessment made under **section 143(3)** or **section 144**

Computation of advance tax by AO

For computing advance tax AO shall take the **higher of following** as current income

- Total income of the **latest previous year** for which the assessee has been assessed by way of regular assessment

OR

- Total income declared in return by assessee for any previous year **after the above previous year**

Amendment of order by AO

- AO can also amend his original order for payment of advance tax , If
- subsequent to passing of his original order
- Return of income is filed by assessee or regular assessment is made for later previous year
- Then AO shall amend his order
- However amended order has to be served upto last day of February only

Assessee can also estimate his income after receiving AO order

- If after receiving the order u/s 210
- Assessee estimates his income to be less than estimate of AO,
- Then assessee can submit his own estimate and pay advance tax on such lower estimate
- However if assessee estimates his income to be higher ,than
- there is no need to submit estimate, and assessee will pay advance tax on such higher estimate

MULTIPLE CHOICE QUESTIONS

- (1) Which of the following assessee is not liable to pay advance tax u/s 207 during the FY 2020-21 -
- | | |
|--|---|
| (a) A senior citizen having income chargeable under the head 'profits and gains of business or profession' | (b) A senior citizen not having income chargeable under the head 'profits and gains of business or profession' |
| (c) A super senior citizen having income chargeable under the head 'profits and gains of business or profession' | (d) A resident individual not being senior citizen having income chargeable under the head 'profits and gains of business or profession'. |
- (2) Under section 208, it is obligatory for an assessee to pay advance tax where the tax payable is -
- | | |
|----------------------|------------------------|
| (a) ₹ 10,000 or more | (b) More than ₹ 10,000 |
| (c) ₹ 5,000 or more | (d) ₹ 8,000 or more. |
- (3) Tax is payable in advance only by -
- | | |
|---------------------|------------------------|
| (a) Foreign Company | (b) One person company |
| (c) Indian Company | (d) All of the above |
- (4) In case of individual assessee, amount of advance tax payable in the third installment (i.e. on or before 15th December) shall be-
- | | |
|---|---|
| (a) 30% of total advance tax payable | (b) 75% of total advance tax - Advance tax paid in earlier installments |
| (c) 45% of total advance tax - Advance tax paid in earlier installments | (d) 60% of total advance tax - Advance tax paid on earlier installments |
- (5) In case of individual assessee, amount of advance tax payable in the first installment (i.e. on or before 15th June) shall be-
- | | |
|---|---|
| (a) 15% of total advance tax payable | (b) 75% of total advance tax - Advance tax paid in earlier installments |
| (c) 45% of total advance tax - Advance tax paid in earlier installments | (d) 30% of total advance tax - Advance tax paid on earlier installments |
- (6) In case of individual assessee, amount of advance tax payable in the last installment (i.e. on or before 15th March) shall be-
- | | |
|--|---|
| (a) 30% of total advance tax payable | (b) 75% of total advance tax - Advance tax paid in earlier installments |
| (c) 100% of total advance tax - Advance tax paid in earlier installments | (d) 60% of total advance tax - Advance tax paid on earlier installments |
- (7) In case of Company assessee, amount of advance tax payable in the third installment (i.e. on or before 15th December) shall be-
- | | |
|---|---|
| (a) 15% of total advance tax payable | (b) 75% of total advance tax - Advance tax paid in earlier installments |
| (c) 45% of total advance tax - Advance tax paid in earlier installments | (d) 60% of total advance tax - Advance tax paid on earlier installments |
- (8) In case of Foreign Company, amount of advance tax payable in the second installment (i.e. on or before 15th September) shall be-
- | | |
|---|---|
| (a) 15% of total advance tax payable | (b) 75% of total advance tax - Advance tax paid in earlier installments |
| (c) 45% of total advance tax - Advance tax paid in earlier installments | (d) 60% of total advance tax - Advance tax paid on earlier installments |

- (9) In case of Firm assessee, amount of advance tax payable in the first installment (*i.e.* on or before 15th June) shall be -
- (a) 15% of total advance tax payable (b) 75% of total advance tax - Advance tax paid in earlier installments
- (c) 45% of total advance tax - Advance tax paid in earlier installments (d) 60% of total advance tax - Advance tax paid on earlier installments
- (10) Calculate advance tax payable by Sanjay on or before 15th September, 2020 from the following: Rent from house property ₹ 46,000 per month; municipal taxes paid by him ₹ 32,000 -
- (a) ₹ Nil (b) ₹ 4,200
- (c) ₹ 4,430 (d) ₹ 2,670
- (11) Raghav, aged 62 years, has pension income of ₹ 2,40,000 and rental income (computed) of ₹ 3,60,000 for the financial year 2020-21. How much amount he must have paid as advance tax in September, 2020 -
- (a) ₹ 12,000 (b) ₹ 10,000
- (c) ₹ 30,000 (d) Nil
- (12) An assessee liable to pay advance tax is not liable to pay interest under section 234B, if advance tax paid by him is not less than -
- (a) 90% of advance tax payable by him (b) 80% of advance tax payable by him
- (c) 100% of advance tax payable by him (d) 70% of advance tax payable by him.
- (13) If an assessee fails to pay advance tax as required under the Act, or the advance tax paid by him is less than of the assessed tax, he shall be liable to pay interest u/s 234B.
- (a) 80% (b) 90%
- (c) 95% (d) 98%
- (14) Suraj (P) Ltd. reports total income of ₹ 20 lakh for the year ended 31st March, 2021. (Tax Rate 30%). The total tax liability payable before 15th September, 2020 by way of advance tax is -
- (a) ₹ 93,600 (b) ₹ 2,80,800
- (c) ₹ 1,85,000 (d) ₹ 3,12,000
- (15) An individual needs to pay ₹ 1,00,000 as advance tax. By 15th of December, how much amount must be paid by the individual:
- (a) ₹ 30,000 (b) ₹ 75,000
- (c) ₹ 1,00,000 (d) Nil
- (16) ABC Ltd. whose due date of filing the return for the assessment year 2021-22 was 30-9-2021 failed to file his return. The Assessing Officer completed his assessment on 25-12-2022 and determined a tax liability of ₹ 2,20,000 (without giving credit for advance tax or TDS). ABC Ltd. had paid an advance tax of ₹ 40,000 and TDS of ₹ 18,000. Determine the interest payable by 'ABC Ltd.' under section 234B.
- (a) ₹ 30,000 (b) ₹ 24,300
- (c) ₹ 60,000 (d) ₹ 23,400
- (17) The following particulars are furnished by Ms. Priya for the financial year 2020-21 (assessment year 2021-22) :
- | | |
|---|------------|
| Tax on total income (paid on 31-7-2021) | ₹ 1,50,000 |
| Date of filing the return | 31-7-2021 |
| Due date for filing the return | 31-7-2021 |
- Compute the total interest payable under sections 234C.
- (a) ₹ 1,350 (b) ₹ 2,700
- (c) ₹ 1,500 (d) ₹ 7,575

(18) Interest payable under section 234C is computed at –

- (a) Compound interest @ 1% per month
(b) Simple interest @ 1% per annum
(c) Compound interest @ 1% per annum
(d) Simple interest @ 1% per month.

(19) Interest for default in payment of installment(s) of advance tax is levied under section-

- (a) 234A
(b) 234B
(c) 234C
(d) 234D.

(20) Interest for deferment in payment of advance tax u/s 234C is calculated on the tax liability computed on -

- (a) Assessed income
(b) Returned income
(c) Disputed income
(d) Appealed income

(21) An assessee is required to make payment of interest where he failed to make the payment, of demand before the expiry of 30 days from the service of notice of demand @ -

- (a) 1% for every month or part thereof till the date of payment
(b) 2% p.m. Till the date of payment
(c) 1.5% p.m. till the date of payment
(d) 1.25% for every month or part thereof till the date of payment.

ANSWER KEY

1.B	2.A	3.D	4.B	5.A	6.C	7.B	8.C	9.A	10.A
11.D	12.A	13.B	14.B	15.B	16.B	17.D	18.D	19.C	20.B
21.A									