

**INCOME TAX PART -1**  
**(Relevant for 2021 exams)**

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## **CHAPTER –1**

### **BASIC CONCEPTS**

#### **Sections covered in this chapter**

<b>Sec 1</b>	Short title, extent & commencement	<b>Sec 69B</b>	Amount of investment not fully disclosed
		<b>Sec 69C</b>	Unexplained expenditure
<b>Sec 2(7)</b>	Assessee	<b>Sec 69D</b>	Amount borrowed or repaid on Hundi
<b>Sec 2(9)</b>	Assessment Year	<b>Sec 87A</b>	Rebate of Tax
<b>Sec 2(17)</b>	Company	<b>Sec 115BBE</b>	Tax rate of Undisclosed Incomes
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<b>Sec 69</b>	Unexplained investment	<b>Sec 115BAD</b>	New Tax system for Coop Society

### **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 1<sup>st</sup> 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.*

<b>Section 2(9) : <u>Assessment Year</u></b>
----------------------------------------------

Assessment Year means the period of 12 months commencing on the first day of April every year. It is, therefore, the period from 1<sup>st</sup> April every year to 31<sup>st</sup> of March of next year.

<b>Section 2 (34) : <u>Previous Year</u></b> <b>Previous year means previous year defined under Sec 3</b>
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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 1<sup>st</sup> April 2020 to 31<sup>st</sup> 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 (1<sup>st</sup> April to 31<sup>st</sup> 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. 31<sup>st</sup> 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)**

<b>Section 172 : Non Resident Shipping Business</b>
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- 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.

<b>P/Y FOR UNDISCLOSED SOURCES OF INCOME</b>
----------------------------------------------

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

<b>COMPUTATION OF TOTAL INCOME</b>
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**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 )**

<b><i>Sec 288A : <u>Rounding off of Total Income</u></i></b>
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<b><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></b>
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<b><u>Relevance of Method of Accounting for Heads of Income</u></b>
---------------------------------------------------------------------

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

<b>GENERAL TAX RATES OF INCOME TAX (ASSESSMENT YEAR 2021 – 2022)</b>
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Nature of Person	Exemption Amount	Rates of Income Tax	Surcharge
<b>1. <u>INDIVIDUAL</u></b> <i>( Other than 2 &amp; 3 below)</i>	<b>2,50,000</b>	<u><b>Total Income</b></u> <u><b>Rate</b></u> 0 – <b>2,50,000</b> : Nil > 2,50,000 upto 5,00,000                      : 5% > 5,00,000 upto 10,00,000                      : 20% > 10,00,000                      : 30%	<u><b>Total Income</b></u> <u><b>Rate</b></u>     
<b>2. <u>Senior Citizen</u></b> <i>(Resident &amp; atleast 60 yrs but less than 80 yrs any time during p/y 20-21)</i>	<b>3,00,000</b>	0 – <b>3,00,000</b> : Nil >3,00,000 upto 5,00,000                      : 5% >5,00,000 upto 10,00,000                      : 20% > 10,00,000                      : 30%	> 50 lakhs      : <b>10%</b>  > 1 crore      : <b>15%</b>  > 2 crore      : <b>25%</b>  > 5 crore      : <b>37%</b>
<b>3. <u>Very Senior Citizen</u></b> <i>( Resident &amp; atleast 80 yrs any time during p/y 20-21)</i>	<b>5,00,000</b>	0 – <b>5,00,000</b> : Nil > 5,00,000 upto 10,00,000                      : 20% > 10,00,000                      : 30%	
<b>HUF,AOP,BOI ,AJP</b>	<b>2,50,000</b>	0 – <b>2,50,000</b> : 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
<b>Domestic Company</b>	<b>Nil</b>	Turnover upto 400cr in p/y 18-19 : 25% Covered u/s 115BA                      : 25% Covered u/s 115BAA                      : 22% Covered u/s 115BAB                      : 15% <b>Other case</b> : <b>30%</b>	>1cr upto 10 cr      : <b>7%</b> > 10 crore                      : <b>12%</b>
<b>Foreign company</b>	<b>Nil</b>	<b>40%</b>	> 1cr upto 10 cr      : <b>2%</b> > 10 crore                      : <b>5%</b>
<b>Firm including LLP</b>	<b>Nil</b>	<b>30%</b>	> 1 crore                      : <b>12%</b>
<b>Local Authority</b>	<b>Nil</b>	<b>30%</b>	> 1 crore                      : <b>12%</b>
<b>Co-Op. Society</b>	<b>Nil</b>	0 – 10,000                      : 10% >10,000 upto 20,000                      : 20% > 20,000                      : 30%	> 1 crore                      : <b>12%</b>

**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.*

<b>Computation of Tax Liability of HUF/ AOP/ BOI/ AJP</b>
-----------------------------------------------------------

**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**

<b>Computation of Tax Liability of Firm</b>
---------------------------------------------

**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**

<b>Computation of Tax Liability of Domestic Company</b>
---------------------------------------------------------

**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

<b>Computation of Tax Liability of Foreign Company</b>
--------------------------------------------------------

**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, :—

<b>Sl. No.</b>	<b>Total income</b>	<b>Rate of tax</b>
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.

**NOTE : QUESTIONS ARE SOLVED IGNORING IMPLICATIONS OF SEC 115BAC****Illustration 1:**

Mr.Y has income as given below:

Income under the head Salary	4,00,000
Income under the head House Property	5,00,000
Income under the head Business/Profession	6,30,253
Deductions allowed under section 80C to 80U are ₹1,10,000.	
Compute the income the tax liability for previous year 2020-21.	

**Solution:**

**Computation of Total Income of Mr. Y**  
**Previous Year 2020-21, Assessment Year 2021-22**

	₹
Income under the head Salary	4,00,000.00
Income under the head House Property	5,00,000.00
Income under the Business/Profession	6,30,253.00
Gross Total Income	15,30,253.00
Less: Deduction u/s 80C to 80U	(1,10,000.00)
Total Income	14,20,253.00
Rounded off u/s 288A	14,20,250.00
<b>Computation of Tax Liability</b>	
Total Income	14,20,250.00
First 2,50,000	-
On next 2,50,000 x 5%	-
On next 5,00,000 x 20%	-
On balance 4,20,250 x 30%	-
	12,500.00
	1,00,000.00
	1,26,075.00
	2,38,575.00
Add: HEC @ 4%	9,543.00
Tax Liability	2,48,118.00
Rounded off u/s 288B	2,48,120.00

(b) Presume he has completed age of 60 years as on 31.03.2021.

**Solution:**

**Computation of Total Income of Mr. Y**  
**Previous Year 2020-21, Assessment Year 2021-22**

	₹
Income under the head Salary	4,00,000.00
Income under the head House Property	5,00,000.00
Income under the Business/Profession	6,30,253.00
Gross Total Income	15,30,253.00
Less: Deduction u/s 80C to 80U	(1,10,000.00)
Total Income	14,20,253.00
Rounded off u/s 288A	14,20,250.00
<b>Computation of Tax Liability</b>	
Total Income	14,20,250.00
First 3,00,000	-
On next 2,00,000 x 5%	-
On next 5,00,000 x 20%	-
On balance 4,20,250 x 30%	-
	10,000.00
	1,00,000.00
	1,26,075.00
	2,36,075.00

Add: HEC @ 4%	9,443.00
Tax Liability	2,45,518.00
Rounded off u/s 288B	2,45,520.00

(c) Presume he has completed age of 80 years as on 31.03.2021.

**Solution:**

**Computation of Total Income of Mr. Y**  
**Previous Year 2020-21, Assessment Year 2021-22**

	₹
Income under the head Salary	4,00,000.00
Income under the head House Property	5,00,000.00
Income under the Business/Profession	6,30,253.00
Gross Total Income	15,30,253.00
Less: Deduction u/s 80C to 80U	(1,10,000.00)
Total Income	14,20,253.00
Rounded off u/s 288A	14,20,250.00
<b>Computation of Tax Liability</b>	
Total Income	14,20,250.00
First 5,00,000	-
On next 5,00,000 x 20%	-
On balance 4,20,250 x 30%	-
	1,26,075.00
	2,26,075.00
Add: HEC @ 4%	9,043.00
Tax Liability	2,35,118.00
Rounded off u/s 288B	2,35,120.00

**Illustration 2:**

Compute tax liability in the following cases for the assessment year 2021-22.

- (i) Mr. Y(resident) has total income of ₹15,00,000
- (ii) Mr. Y(non-resident) has total income of ₹15,00,000
- (iii) Mrs. Y(resident) has total income of ₹15,00,000
- (iv) Mrs. Y(non-resident) has total income of ₹15,00,000
- (v) Mr. Y(resident), aged 60 years has total income of ₹15,00,000
- (vi) Mrs. Y(resident), aged 60 years has total income of ₹15,00,000
- (vii) Mr. Y(non-resident), aged 60 years has total income of ₹15,00,000
- (viii) Mrs. Y(non-resident), aged 60 years has total income of ₹15,00,000
- (ix) Mr. Y(resident), aged 80 years has total income of ₹15,00,000
- (x) Mrs. Y(resident), aged 80 years has total income of ₹15,00,000
- (xi) Mr. Y(non-resident), aged 80 years has total income of ₹15,00,000
- (xii) Mrs. Y(non-resident), aged 80 years has total income of ₹15,00,000

**Solution:**

***(i) Computation of Tax Liability***

Total Income	15,00,000.00
First 2,50,000	-
On next 2,50,000 x 5%	-
On next 5,00,000 x 20%	-
On balance 5,00,000 x 30%-	-
	1,50,000.00
Tax before health and education cess	2,62,500.00
Add: HEC @ 4%	10,500.00
Tax Liability	2,73,000.00

***(ii) Computation of Tax Liability***

Total Income	15,00,000.00
First 2,50,000	-

On next 2,50,000 x 5%	-	12,500.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,62,500.00
Add: HEC @ 4%		10,500.00
Tax Liability		2,73,000.00
<b>(iii) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 2,50,000	-	Nil
On next 2,50,000 x 5%	-	12,500.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,62,500.00
Add: HEC @ 4%		10,500.00
Tax Liability		2,73,000.00
<b>(iv) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 2,50,000	-	Nil
On next 2,50,000 x 5%	-	12,500.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,62,500.00
Add: HEC @ 4%		10,500.00
Tax Liability		2,73,000.00
<b>(v) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 3,00,000	-	Nil
On next 2,00,000 x 5%	-	10,000.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,60,000.00
Add: HEC @ 4%		10,400.00
Tax Liability		2,70,400.00
<b>(vi) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 3,00,000	-	Nil
On next 2,00,000 x 5%	-	10,000.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,60,000.00
Add: HEC @ 4%		10,400.00
Tax Liability		2,70,400.00
<b>(vii) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 2,50,000	-	Nil
On next 2,50,000 x 5%	-	12,500.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,62,500.00
Add: HEC @ 4%		10,500.00
Tax Liability		2,73,000.00
<b>(viii) Computation of Tax Liability</b>		
Total Income		15,00,000.00

First 2,50,000	-	Nil
On next 2,50,000 x 5%	-	12,500.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,62,500.00
Add: HEC @ 4%		10,500.00
Tax Liability		2,73,000.00
<b>(ix) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 5,00,000	-	Nil
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,50,000.00
Add: HEC @ 4%		10,000.00
Tax Liability		2,60,000.00
<b>(x) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 5,00,000	-	Nil
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,50,000.00
Add: HEC @ 4%		10,000.00
Tax Liability		2,60,000.00
<b>(xi) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 2,50,000	-	Nil
On next 2,50,000 x 5%	-	12,500.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,62,500.00
Add: HEC @ 4%		10,500.00
Tax Liability		2,73,000.00
<b>(xii) Computation of Tax Liability</b>		
Total Income		15,00,000.00
First 2,50,000	-	Nil
On next 2,50,000 x 5%	-	12,500.00
On next 5,00,000 x 20%	-	1,00,000.00
On balance 5,00,000 x 30%-		<u>1,50,000.00</u>
Tax before health and education cess		2,62,500.00
Add: HEC @ 4%		10,500.00
Tax Liability		2,73,000.00

**Illustration 3:**

Compute tax liability in the following cases for the assessment year 2021-22.

- (i) Mr. Y(resident) has total income of ₹50,05,000
- (ii) Mr. Y(non-resident) has total income of ₹52,00,000
- (iii) Mrs. Y(resident) has total income of ₹101,00,000
- (iv) Mrs. Y(non-resident) has total income of ₹85,00,000
- (v) Mr. Y(resident), aged 60 years has total income of ₹106,00,000
- (vi) Mrs. Y(resident), aged 60 years has total income of ₹57,00,000
- (vii) Mr. Y(non-resident), aged 60 years has total income of ₹108,00,000
- (viii) Mrs. Y(non-resident), aged 60 years has total income of ₹101,50,000
- (ix) Mr. Y(resident), aged 80 years has total income of ₹54,25,000
- (x) Mrs. Y(resident), aged 80 years has total income of ₹102,00,000
- (xi) Mr. Y(non-resident), aged 80 years has total income of ₹55,22,380
- (xii) Mrs. Y(non-resident), aged 80 years has total income of ₹45,00,000
- (xiii) Mr. Y(resident) has total income of ₹201,00,000
- (xiv) Mr. Y(resident) has total income of ₹205,00,000
- (xv) Mr. Y(resident) has total income of ₹501,00,000
- (xvi) Mr. Y(resident) has total income of ₹505,00,000

**Solution:**

₹

**(i) Computation of Tax Liability**

Total Income	50,05,000
Tax on ₹50,05,000 at slab rate	13,14,000
Add: Surcharge @ 10%	1,31,400
Tax before marginal relief	14,45,400
Less: Marginal Relief	(1,27,900)

**Working Note:**

Tax + surcharge on income of ₹50,05,000	14,45,400
Tax on income of ₹50,00,000	(13,12,500)
Increase in tax	1,32,900
Increase in income	5,000
Marginal Relief (1,32,900 – 5,000)	1,27,900

Tax after marginal relief	13,17,500
Add: HEC @ 4%	52,700
Tax Liability	13,70,200

**(ii) Computation of Tax Liability**

Total Income	52,00,000.00
Tax on ₹52,00,000 at slab rate	13,72,500.00
Add: Surcharge @ 10%	1,37,250.00
Tax before health & education cess	15,09,750.00
Add: HEC @ 4%	60,390.00
Tax Liability	15,70,140.00

**(iii) Computation of Tax Liability**

Total Income	101,00,000.00
Tax on ₹101,00,000 at slab rate	28,42,500.00
Add: Surcharge @ 15%	4,26,375.00
Tax before marginal relief	32,68,875.00
Less: Marginal Relief	(75,125.00)

**Working Note:**

Tax + surcharge @ 15% on income of ₹101,00,000	32,68,875
Tax + surcharge @ 10% on income of ₹100,00,000	(30,93,750)
Increase in tax	1,75,125

Increase in income	1,00,000
Marginal Relief (1,75,125 – 1,00,000)	75,125

Tax after marginal relief	31,93,750.00
Add: HEC @ 4%	1,27,750.00
Tax Liability	33,21,500.00

**(iv) Computation of Tax Liability**

Total Income	85,00,000.00
Tax on ₹85,00,000 at slab rate	23,62,500.00
Add: Surcharge @ 10%	2,36,250.00
Tax before health & education cess	25,98,750.00
Add: HEC @ 4%	1,03,950.00
Tax Liability	27,02,700.00

**(v) Computation of Tax Liability**

Total Income	106,00,000
Tax on ₹106,00,000 at slab rate	29,90,000
Add: Surcharge @ 15%	4,48,500
Tax before health & education cess	34,38,500.00
Add: HEC @ 4%	1,37,540.00
Tax Liability	35,76,040.00

**(vi) Computation of Tax Liability**

Total Income	57,00,000
Tax on ₹57,00,000 at slab rate	15,20,000
Add: Surcharge @ 10%	1,52,000
Tax before health & education cess	16,72,000.00
Add: HEC @ 4%	66,880.00
Tax Liability	17,38,880.00

**(vii) Computation of Tax Liability**

Total Income	108,00,000.00
Tax on ₹108,00,000 at slab rate	30,52,500.00
Add: Surcharge @ 15%	4,57,875.00
Tax before health & education cess	35,10,375.00
Add: HEC @ 4%	1,40,415.00
Tax Liability	36,50,790.00

**(viii) Computation of Tax Liability**

Total Income	101,50,000.00
Tax on ₹101,50,000 at slab rate	28,57,500.00
Add: Surcharge @ 15%	4,28,625.00
Tax before marginal relief	32,86,125.00
Less: Marginal Relief	(42,375.00)

**Working Note:**

Tax + surcharge @ 15% on income of ₹101,50,000	32,86,125
Tax + surcharge @ 10% on income of ₹100,00,000	(30,93,750)
Increase in tax	1,92,375
Increase in income	1,50,000
Marginal Relief (1,92,375 – 1,50,000)	42,375

Tax after marginal relief	32,43,750.00
Add: HEC @ 4%	1,29,750.00
Tax Liability	33,73,500.00

**(ix) Computation of Tax Liability**

Total Income	54,25,000.00
Tax on ₹54,25,000 at slab rate	14,27,500.00
Add: Surcharge @ 10%	1,42,750.00
Tax before health & education cess	15,70,250.00
Add: HEC @ 4%	62,810.00
Tax Liability	16,33,060.00

**(x) Computation of Tax Liability**

Total Income	102,00,000
Tax on ₹102,00,000 at slab rate	28,60,000
Add: Surcharge @ 15%	4,29,000
Tax before marginal relief	32,89,000
Less: Marginal Relief	(9,000)

**Working Note:**

Tax + surcharge @ 15% on income of ₹102,00,000	32,89,000
Tax + surcharge @ 10% on income of ₹100,00,000	(30,80,000)
Increase in tax	2,09,000
Increase in income	2,00,000
Marginal Relief (2,09,000 – 2,00,000)	9,000

Tax after marginal relief	32,80,000
Add: HEC @ 4%	1,31,200
Tax Liability	34,11,200

**(xi) Computation of Tax Liability**

Total Income	55,22,380.00
Tax on ₹55,22,380 at slab rate	14,69,214.00
Add: Surcharge @ 10%	1,46,921.40
Tax before health & education cess	16,16,135.40
Add: HEC @ 4%	64,645.42
Tax Liability	16,80,780.82
Rounded off u/s 288B	16,80,780.00

**(xii) Computation of Tax Liability**

Total Income	45,00,000.00
Tax on ₹45,00,000 at slab rate	11,62,500.00
Add: Surcharge	Nil
Tax before health & education cess	11,62,500.00
Add: HEC @ 4%	46,500.00
Tax Liability	12,09,000.00

**(xiii) Computation of Tax Liability**

Total Income	201,00,000
Tax on ₹201,00,000 at slab rate	58,42,500
Add: Surcharge @ 25%	14,60,625
Tax before marginal relief	73,03,125
Less: Marginal Relief	(5,18,750)

**Working Note:**

Tax + surcharge @ 25% on income of ₹201,00,000	73,03,125
Tax + surcharge @ 15% on income of ₹200,00,000	(66,84,375)
Increase in tax	6,18,750
Increase in income	1,00,000
Marginal Relief (6,18,750 – 1,00,000)	5,18,750

Tax after marginal relief	67,84,375
Add: HEC @ 4%	2,71,375
Tax Liability	70,55,750

**(xiv) Computation of Tax Liability**

Total Income	205,00,000
Tax on ₹205,00,000 at slab rate	59,62,500
Add: Surcharge @ 25%	14,90,625
Tax before marginal relief	74,53,125
Less: Marginal Relief	(2,68,750)

**Working Note:**

Tax + surcharge @ 25% on income of ₹205,00,000	74,53,125
Tax + surcharge @ 15% on income of ₹200,00,000	(66,84,375)
Increase in tax	7,68,750
Increase in income	5,00,000
Marginal Relief (7,68,750 – 5,00,000)	2,68,750

Tax after marginal relief	71,84,375
Add: HEC @ 4%	2,87,375
Tax Liability	74,71,750

**(xv) Computation of Tax Liability**

Total Income	501,00,000
Tax on ₹501,00,000 at slab rate	1,48,42,500
Add: Surcharge @ 37%	54,91,725
Tax before marginal relief	2,03,34,225
Less: Marginal Relief	(17,18,600)

**Working Note:**

Tax + surcharge @ 37% on income of ₹501,00,000	203,34,725
Tax + surcharge @ 25% on income of ₹500,00,000	(1,85,15,625)
Increase in tax	18,18,600
Increase in income	1,00,000
Marginal Relief (18,18,600 – 1,00,000)	17,18,600

Tax after marginal relief	1,86,15,625
Add: HEC @ 4%	7,44,625
Tax Liability	1,93,60,250

**(xvi) Computation of Tax Liability**

Total Income	505,00,000
Tax on ₹505,00,000 at slab rate	1,49,62,500
Add: Surcharge @ 37%	55,36,125
Tax before marginal relief	2,04,98,625
Less: Marginal Relief	(14,83,000)

**Working Note:**

Tax + surcharge @ 37% on income of ₹505,00,000	2,04,98,625
Tax + surcharge @ 25% on income of ₹500,00,000	(1,85,15,625)
Increase in tax	19,83,000
Increase in income	5,00,000
Marginal Relief (19,83,000 – 5,00,000)	14,83,000

Tax after marginal relief	1,90,15,625
Add: HEC @ 4%	7,60,625
Tax Liability	1,97,76,250

**Illustration 4:**

Mr. Y has gross total income ₹5,60,000 and deduction allowed under section 80C to 80U are ₹60,000.  
Compute his tax liability previous year 2020-21, assessment year 2021-22.

**Solution:*****Computation of Tax Liability***

Gross Total Income	5,60,000
Less: Deduction u/s 80C to 80U	(60,000)
Total Income	5,00,000
Tax on ₹5,00,000 at slab rate	12,500
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

(b) Presume he is a resident and is aged 62 years

**Solution:*****Computation of Tax Liability***

Gross Total Income	5,60,000
Less: Deduction u/s 80C to 80U	(60,000)
Total Income	5,00,000
Tax on ₹5,00,000 at slab rate	10,000
Less: Rebate u/s 87A	(10,000)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

(c) Presume he is a non-resident and is aged 62 years.

**Solution:*****Computation of Tax Liability***

Gross Total Income	5,60,000
Less: Deduction u/s 80C to 80U	(60,000)
Total Income	5,00,000
Tax on ₹5,00,000 at slab rate	12,500
Less: Rebate u/s 87A	Nil
Tax before health & education cess	12,500
Add: HEC @ 4%	500
Tax Liability	13,000

(d) Presume he is a non-resident and is aged 82 years.

**Solution:*****Computation of Tax Liability***

Gross Total Income	5,60,000
Less: Deduction u/s 80C to 80U	(60,000)
Total Income	5,00,000
Tax on ₹5,00,000 at slab rate	12,500
Less: Rebate u/s 87A	Nil
Tax before health & education cess	12,500
Add: HEC @ 4%	500
Tax Liability	13,000

**Illustration 5:**

Compute tax liability in the following cases for the assessment year 2021-22.

- (i) Mr. Y(resident) has total income of ₹4,70,000
- (ii) Mr. Y(non-resident) has total income of ₹5,00,000
- (iii) Mrs. Y(resident) has total income of ₹4,95,000
- (iv) Mrs. Y(non-resident) has total income of ₹4,70,000
- (v) Mr. Y(resident), aged 60 years has total income of ₹4,90,000
- (vi) Mrs. Y(resident), aged 60 years has total income of ₹4,90,000
- (vii) Mr. Y(non-resident), aged 60 years has total income of ₹4,90,000
- (viii) Mrs. Y(non-resident), aged 60 years has total income of ₹4,90,000
- (ix) Mr. Y(resident), aged 80 years has total income of ₹6,00,000
- (x) Mrs. Y(resident), aged 80 years has total income of ₹6,00,000
- (xi) Mr. Y(non-resident), aged 80 years has total income of ₹5,00,000
- (xii) Mrs. Y(non-resident), aged 80 years has total income of ₹4,90,000

**Solution:**

₹

**(i) Computation of Tax Liability**

Total Income	4,70,000
Tax on ₹4,70,000 at slab rate	11,000
Less: Rebate u/s 87A	(11,000)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

**(ii) Computation of Tax Liability**

Total Income	5,00,000
Tax on ₹5,00,000 at slab rate	12,500
Less: Rebate u/s 87A	Nil
Tax before health & education cess	12,500
Add: HEC @ 4%	500
Tax Liability	13,000

**Note:** Rebate under section 87A is not allowed to non-resident.

**(iii) Computation of Tax Liability**

Total Income	4,95,000
Tax on ₹4,95,000 at slab rate	12,250
Less: Rebate u/s 87A	(12,250)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

**(iv) Computation of Tax Liability**

Total Income	4,70,000
Tax on ₹4,70,000 at slab rate	11,000
Add: HEC @ 4%	440
Tax Liability	11,440

**Note:** Rebate under section 87A is not allowed to non-resident.

**(v) Computation of Tax Liability**

Total Income	4,90,000
Tax on ₹4,90,000 at slab rate	9,500
Less: Rebate u/s 87A	(9,500)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

**(vi) Computation of Tax Liability**

Total Income	4,90,000
Tax on ₹4,90,000 at slab rate	9,500
Less: Rebate u/s 87A	(9,500)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

**(vii) Computation of Tax Liability**

Total Income	4,90,000
Tax on ₹4,90,000 at slab rate	12,000
Add: HEC @ 4%	480
Tax Liability	12,480

**Note:** Rebate under section 87A is not allowed to non-resident.

**(viii) Computation of Tax Liability**

Total Income	4,90,000
Tax on ₹4,90,000 at slab rate	12,000
Add: HEC @ 4%	480
Tax Liability	12,480

**Note:** Rebate under section 87A is not allowed to non-resident.

**(ix) Computation of Tax Liability**

Total Income	6,00,000
Tax on ₹6,00,000 at slab rate	20,000
Add: HEC @ 4%	800
Tax Liability	20,800

**(x) Computation of Tax Liability**

Total Income	6,00,000
Tax on ₹6,00,000 at slab rate	20,000
Add: HEC @ 4%	800
Tax Liability	20,800

**(xi) Computation of Tax Liability**

Total Income	5,00,000
Tax on ₹5,00,000 at slab rate	12,500
Add: HEC @ 4%	500
Tax Liability	13,000

**Note:** Rebate under section 87A is not allowed to non-resident.

**(xii) Computation of Tax Liability**

Total Income	4,90,000
Tax on ₹4,90,000 at slab rate	12,000
Add: HEC @ 4%	480
Tax Liability	12,480

**Note:** Rebate under section 87A is not allowed to non-resident.

**Illustration 6:** Compute tax liability in the following cases for the assessment year 2021-22.

- (i) Mr. Y(resident) has total income of ₹5,05,000
- (ii) Mr. Y(non-resident) has total income of ₹4,20,000
- (iii) Mrs. Y(resident) has total income of ₹4,58,000
- (iv) Mrs. Y(non-resident) has total income of ₹12,00,000
- (v) Mr. Y(resident), aged 60 years has total income of ₹22,00,000
- (vi) Mrs. Y(resident), aged 60 years has total income of ₹105,00,000
- (vii) Mr. Y(non-resident), aged 60 years has total income of ₹70,00,000
- (viii) Mrs. Y(non-resident), aged 60 years has total income of ₹3,00,000
- (ix) Mr. Y(resident), aged 80 years has total income of ₹3,99,000
- (x) Mrs. Y(resident), aged 80 years has total income of ₹103,00,000
- (xi) Mr. Y(non-resident), aged 80 years has total income of ₹12,00,000
- (xii) Mrs. Y(non-resident), aged 80 years has total income of ₹9,00,000

**Solution:**

₹

**(i) Computation of Tax Liability**

Total Income	5,05,000.00
Tax on ₹5,05,000 at slab rate	13,500.00
Add: HEC @ 4%	540.00
Tax Liability	14,040.00

**(ii) Computation of Tax Liability**

Total Income	4,20,000
Tax on ₹4,20,000 at slab rate	8,500
Add: HEC @ 4%	340
Tax Liability	8,840

**Note:** Rebate under section 87A is not allowed to non-resident.

**(ii) Computation of Tax Liability**

Total Income	4,58,000
Tax on ₹4,58,000 at slab rate	10,400
Less: Rebate u/s 87A	(10,400)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

**(iii) Computation of Tax Liability**

Total Income	12,00,000
Tax on ₹12,00,000 at slab rate	1,72,500
Add: HEC @ 4%	6,900
Tax Liability	1,79,400

**(iv) Computation of Tax Liability**

Total Income	22,00,000
Tax on ₹22,00,000 at slab rate	4,70,000
Add: HEC @ 4%	18,800
Tax Liability	4,88,800

**(v) Computation of Tax Liability**

Total Income	105,00,000
Tax on ₹105,00,000 at slab rate	29,60,000
Add: Surcharge @ 15%	4,44,000
Tax before health & education cess	34,04,000
Add: HEC @ 4%	1,36,160
Tax Liability	35,40,160

**(vi) Computation of Tax Liability**

Total Income	70,00,000
Tax on ₹70,00,000 at slab rate	19,12,500
Add: Surcharge @ 10%	1,91,250
Tax before health & education cess	21,03,750
Add: HEC @ 4%	84,150
Tax Liability	21,87,900

**(vii) Computation of Tax Liability**

Total Income	3,00,000
Tax on ₹3,00,000 at slab rate	2,500
Add: HEC @ 4%	100
Tax Liability	2,600

**Note:** Rebate under section 87A is not allowed for non-resident.

**(viii) Computation of Tax Liability**

Total Income	3,99,000
Tax on ₹3,99,000 at slab rate	Nil
Tax Liability	Nil

**(ix) Computation of Tax Liability**

Total Income	103,00,000
Tax on ₹103,00,000 at slab rate	28,90,000
Add: Surcharge @ 15%	4,33,500
Tax before health & education cess	33,23,500
Add: HEC @ 4%	1,32,940
Tax Liability	34,56,440

**(x) Computation of Tax Liability**

Total Income	12,00,000
Tax on ₹12,00,000 at slab rate	1,72,500
Add: HEC @ 4%	6,900
Tax Liability	1,79,400

**(xi) Computation of Tax Liability**

Total Income	9,00,000
Tax on ₹9,00,000 at slab rate	92,500
Add: HEC @ 4%	3,700
Tax Liability	96,200

**Illustration 7:**

Mr. Y has income under the head Salary ₹5,00,000 and casual income ₹3,00,000 and section 80C to 80U ₹2,00,000. Compute tax liability.

**Solution : Computation of Total Income of Mr. Y Previous Year 2020-21, Assessment Year 2021-22**

Income under the head Salary	5,00,000
Income under the Other Sources (Casual income)	3,00,000
Gross Total Income	8,00,000
Less: Deduction u/s 80C to 80U	2,00,000
Total Income	6,00,000

**Computation of Tax Liability**

Tax on casual income ₹3,00,000 @ 30%	90,000.00
Tax on normal income ₹3,00,000 at slab rate	2,500.00
Tax before health & education cess	92,500.00
Add: HEC @ 4%	3,700.00
Tax Liability	96,200.00

(b) If in the above case deduction allowed under section 80C to 80U is ₹6,00,000, tax liability shall be

**Computation of Total Income of Mr. Y**  
**Previous Year 2020-21, Assessment Year 2021-22**

	₹
Income under the head Salary	5,00,000.00
Income under the Other Sources (Casual income)	3,00,000.00
Gross Total Income	8,00,000.00
Less: Deduction u/s 80C to 80U	(5,00,000.00)
Total Income	3,00,000.00
<b>Computation of Tax Liability</b>	
Tax on casual income ₹3,00,000 @ 30%	90,000.00
Less: Rebate u/s 87A	(12,500.00)
Tax before health & education cess	77,500.00
Add: HEC @ 4%	3,100.00
Tax Liability	80,600.00

**Illustration 8:** Mr. Y has casual income of ₹102,00,000 and deduction allowed under section 80C to 80U are ₹5,00,000, in this case his tax liability shall be

**Computation of Total Income of Mr. Y**  
**Previous Year 2020-21, Assessment Year 2021-22**

	₹
Income under the Other Sources (Casual income)	102,00,000.00
Gross Total Income	102,00,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	102,00,000.00

**Computation of Tax Liability**

Tax on casual income ₹102,00,000 @ 30%	30,60,000.00
Add: Surcharge @ 15%	4,59,000.00
Tax before marginal relief	35,19,000.00
Less: Marginal Relief	(19,000.00)

**Working Note:**

Tax + surcharge on income of ₹102,00,000	35,19,000
Tax + surcharge on income of ₹100,00,000	(33,00,000)
Increase in tax	2,19,000
Increase in income	2,00,000
Marginal Relief (2,19,000 – 2,00,000)	19,000

Tax after marginal relief	35,00,000.00
Add: HEC @ 4%	1,40,000.00
Tax Liability	36,40,000.00

**Illustration 9:** Mr. Y has income under the head Salary ₹70,000 and casual income ₹2,50,000 and deduction u/s 80C to 80U ₹40,000. Compute his tax liability assessment year 2021-22.

**Solution:**

**Computation of Total Income of Mr. Y**  
**Previous Year 2020-21, Assessment Year 2021-22**

	₹
Income under the head Salary	70,000.00
Income under the Other Sources (Casual income)	2,50,000.00
Gross Total Income	3,20,000.00
Less: Deduction u/s 80C to 80U	(40,000.00)
Total Income	2,80,000.00
<b>Computation of Tax Liability</b>	
Tax on casual income ₹2,50,000 @ 30%	75,000.00
Tax on normal income ₹30,000 at slab rate	Nil
Less: Rebate u/s 87A	(12,500.00)
Tax before health & education cess	62,500.00
Add: HEC @ 4%	2,500.00
Tax Liability	65,000.00

**(b) Presume he is non-resident.,****Solution:**

**Computation of Total Income of Mr. Y**  
**Previous Year 2020-21, Assessment Year 2021-22**

	₹
Income under the head Salary	70,000.00
Income under the Other Sources (Casual income)	2,50,000.00
Gross Total Income	3,20,000.00
Less: Deduction u/s 80C to 80U	(40,000.00)
Total Income	2,80,000.00
<b>Computation of Tax Liability</b>	
Tax on casual income ₹2,50,000 @ 30%	75,000.00
Tax on normal income ₹30,000 at slab rate	Nil
Less: Rebate u/s 87A	Nil
Tax before health & education cess	75,000.00
Add: HEC @ 4%	3,000.00
Tax Liability	78,000.00

**Illustration 10: Mr.Y has casual income ₹ 100 lakh, in this case his Tax Liability for P.Y. 2020-21****A.Y. 2021-22 shall be-****Computation of Tax Liability**

Tax on casual income ₹100,00,000 @ 30%	30,00,000.00
Add: Surcharge @ 10%	3,00,000.00
Tax before health & education cess	33,00,000.00
Add: HEC @ 4%	1,32,000.00
Tax Liability	34,32,000.00

**(b) Mr.Y has casual income ₹ 101 lakh, in this case his Tax Liability for P.Y. 2020-21 A.Y. 2021-22 shall be-**

**Computation of Tax Liability**

Tax on casual income ₹101,00,000 @ 30%	30,30,000.00
Add: Surcharge @ 15%	4,54,500.00
Tax before marginal relief	34,84,500.00
Less: Marginal Relief	(84,500.00)

**Working Note:**

Tax + surcharge on income of ₹101,00,000	34,84,500
Tax + surcharge on income of ₹100,00,000	(33,00,000)
Increase in tax	1,84,500
Increase in income	1,00,000
Marginal Relief (1,84,500 – 1,00,000)	84,500

Tax after marginal relief	34,00,000.00
Add: HEC @ 4%	1,36,000.00
Tax Liability	35,36,000.00

**(c) Mr.Y has casual income ₹ 102 lakh, in this case his Tax Liability for P.Y. 2020-21 A.Y. 2021-22 shall be-**

**Computation of Tax Liability**

Tax on casual income ₹102,00,000 @ 30%	30,60,000.00
Add: Surcharge @ 15%	4,59,000.00
Tax before marginal relief	35,19,000.00
Less: Marginal Relief	(19,000.00)

**Working Note:**

Tax + surcharge on income of ₹102,00,000	35,19,000
Tax + surcharge on income of ₹100,00,000	(33,00,000)
Increase in tax	2,19,000
Increase in income	2,00,000
Marginal Relief (2,19,000 – 2,00,000)	19,000

Tax after marginal relief	35,00,000.00
Add: HEC @ 4%	1,40,000.00
Tax Liability	36,40,000.00

**(d) Mr.Y has casual income ₹103 lakh, in this case his Tax Liability for P.Y. 2020-21 A.Y. 2021-22 shall be-**

**Computation of Tax Liability**

Tax on casual income ₹103,00,000 @ 30%	30,90,000.00
Add: Surcharge @ 15%	4,63,500.00
Tax before health & education cess	35,53,500.00
Add: HEC @ 4%	1,42,140.00
Tax Liability	36,95,640.00

**Illustration 11:**

Mr.Y has incomes as given below:

• Income under the head salary	35,000
• Income under the head house property	45,000
• Income under the head business/profession	30,000
• Long term capital gains	1,10,000
• Long term capital gains u/s 112A	5,00,000
• Short term capital gains	25,000
• Short term capital gains u/s 111A	7,00,000
• Casual Income (winnings of lottery)	55,000
• Other income	3,000

Deductions allowed under section 80C to 80U

2,00,000

Compute his tax liability for the assessment year 2021-22.

**Solution:**

₹

***Computation of Total Income***

• Income under the head salary	35,000
• Income under the head house property	45,000
• Income under the head business/profession	30,000
• Long term capital gains	1,10,000
• Long term capital gains u/s 112A	5,00,000
• Short term capital gains	25,000
• Short term capital gains u/s 111A	7,00,000
• Casual Income (winnings of lottery)	55,000
• Other income	3,000
Gross Total Income	15,03,000
Less: Deduction u/s 80C to 80U	(1,38,000)
Total Income	13,65,000

***Computation of Tax Liability***

Tax on Long term capital gains (₹1,10,000 – 1,10,000) @ 20% u/s 112	Nil
Tax on Short term capital gains (₹7,00,000 – 1,40,000) @ 15% u/s 111A	84,000
Tax on Long term capital gains 4,00,000 (5,00,000-1,00,000) @ 10% u/s 112A	40,000
Tax on Casual Income ₹55,000 @ 30% u/s 115BB	16,500
Tax on normal income	Nil
Tax before health & education cess	1,40,500
Add: HEC @ 4%	5,620
Tax Liability	1,46,120

(b) Presume he is non-resident.

**Solution:**

₹

***Computation of Total Income***

• Income under the head salary	35,000
• Income under the head house property	45,000
• Income under the head business/profession	30,000
• Long term capital gains	1,10,000
• Long term capital gains u/s 112A	5,00,000
• Short term capital gains	25,000
• Short term capital gains u/s 111A	7,00,000
• Casual Income (winnings of lottery)	55,000
• Other income	3,000
Gross Total Income	15,03,000
Less: Deduction u/s 80C to 80U	(1,38,000)
Total Income	13,65,000

***Computation of Tax Liability***

Tax on Long term capital gains ₹1,10,000 @ 20% u/s 112	22,000
Tax on Short term capital gains ₹7,00,000 @ 15% u/s 111A	1,05,000
Tax on Long term capital gains ₹4,00,000 (5,00,000-1,00,000) @ 10% u/s 112A	40,000
Tax on Casual Income ₹55,000 @ 30% u/s 115BB	16,500
Tax on normal income	Nil
Tax before health & education cess	1,83,500
Add: HEC @ 4%	7,340
Tax Liability	1,90,840

(c) Presume he is resident and is aged 62 years.

**Solution:**

₹

***Computation of Total Income***

• Income under the head salary	35,000
• Income under the head house property	45,000
• Income under the head business/profession	30,000
• Long term capital gains	1,10,000
• Long term capital gains u/s 112A	5,00,000
• Short term capital gains	25,000
• Short term capital gains u/s 111A	7,00,000
• Casual Income (winnings of lottery)	55,000
• Other income	3,000
Gross Total Income	15,03,000
Less: Deduction u/s 80C to 80U	(1,38,000)
Total Income	13,65,000

***Computation of Tax Liability***

Tax on Long term capital gains (₹1,10,000 – 1,10,000) @ 20% u/s 112	Nil
Tax on Short term capital gains (₹7,00,000 – 1,90,000) @ 15% u/s 111A	76,500
Tax on Long term capital gains ₹4,00,000 (5,00,000-1,00,000) @ 10% u/s 112A	40,000
Tax on Casual Income ₹55,000 @ 30% u/s 115BB	16,500
Tax on normal income	Nil
Tax before health & education cess	1,33,000
Add: HEC @ 4%	5,320
Tax Liability	1,38,320

(d) Presume he is resident and is aged 82 years.

**Solution:**

₹

***Computation of Total Income***

• Income under the head salary	35,000
• Income under the head house property	45,000
• Income under the head business/profession	30,000
• Long term capital gains	1,10,000
• Long term capital gains u/s 112A	5,00,000
• Short term capital gains	25,000
• Short term capital gains u/s 111A	7,00,000
• Casual Income (winnings of lottery)	55,000
• Other income	3,000
Gross Total Income	15,03,000
Less: Deduction u/s 80C to 80U	(1,38,000)
Total Income	13,65,000

**Computation of Tax Liability**

Tax on Long term capital gains (₹1,10,000 – 1,10,000)@ 20% u/s 112	Nil
Tax on Short term capital gains (₹7,00,000 – 3,90,000)@ 15% u/s 111A	46,500
Tax on Long term capital gains ₹4,00,000 (5,00,000-1,00,000) @ 10% u/s 112A	40,000
Tax on Casual Income ₹55,000 @ 30% u/s 115BB	16,500
Tax on normal income	Nil
Tax before health & education cess	1,03,000
Add: HEC @ 4%	4,120
Tax Liability	1,07,120

**Illustration 11A:**

(i) Mr Y has income under the head house property ₹5,00,000 and LTCG 112A ₹1,00,000. Compute tax payable.

**Answer:**

**Computation of Total Income**

Income under the head House Property	5,00,000.00
Income under the head Capital Gains	1,00,000.00
Gross Total Income	6,00,000.00
Less: Deduction u/s 80C	Nil
Total Income	6,00,000.00

**Computation of Tax Liability**

Tax on ₹5,00,000 at slab rate	12,500.00
Tax on Nil (₹1,00,000- ₹1,00,000) u/s LTCG 112A	Nil
Less: Rebate u/s 87A	Nil
Tax before health & education cess	12,500.00

Add: HEC @ 4%	500.00
Tax Liability	13,000.00

Note: Since total income is exceeding ₹5,00,000, rebate is not allowed.

(ii) Mr Y has LTCG 112A ₹50,50,000. Compute tax payable.

**Answer:**

**Computation of Total Income**

Income under the head Capital Gains	50,50,000.00
Gross Total Income	50,50,000.00
Less: Deduction u/s 80C	Nil
Total Income	50,50,000.00

**Computation of Tax Liability**

Tax on ₹47,00,000 (50,50,000-1,00,000-2,50,000) u/s LTCG 112A	4,70,000.00
Add: Surcharge @ 10%	47,000.00
Less: Marginal Relief	(2,000)

**Working Note:**

Tax + surcharge on income of ₹50,50,000	5,17,000	
Tax on income of ₹50,00,000	(4,65,000)	
((50,00,000-1,00,000-2,50,000) x 10%)		
Increase in tax	52,000	
Increase in income	50,000	
Marginal Relief (52,000– 50,000)	2,000	
Tax before health & education cess		5,15,000.00
Add: HEC @ 4%		20,600.00
Tax Liability		5,35,600.00

(iii) Mr Y has LTCG 112A ₹51,00,000. Compute tax payable. **Answer:**

**Computation of Total Income**

Income under the head Capital Gains	51,00,000.00
Gross Total Income	51,00,000.00
Less: Deduction u/s 80C	Nil
Total Income	51,00,000.00

**Computation of Tax Liability**

Tax on ₹47,50,000 (51,00,000-1,00,000-2,50,000) u/s LTCG 112A	4,75,000.00
Add: Surcharge @ 10%	47,500.00
Less: Marginal Relief	Nil

**Working Note:**

Tax + surcharge on income of ₹51,00,000	5,22,500	
Tax on income of ₹50,00,000	(4,65,000)	
((50,00,000-1,00,000-2,50,000) x 10%)		
Increase in tax	57,500	
Increase in income	1,00,000	
Marginal Relief (57,500– 1,00,000)	Nil	
Tax before health & education cess		5,22,500.00
Add: HEC @ 4%		20,900.00
Tax Liability		5,43,400.00

**Illustration 12:** Compute tax liability for the assessment year 2021-22 in the following situations:

(i) Mr.Y is resident in India and has income under the head house property ₹40,000 and income under the head salary ₹30,000 and long term capital gains ₹4,80,000.

- (ii) Presume in the above situation the assessee is Mrs. Y.  
 (iii) Presume in the above situation the assessee is Mrs. Y and she is aged about 70 years.  
 (iv) Presume in the above situation the assessee is Mr. Y and he is aged about 70 years.  
 (v) Presume in the above situation the assessee is Mrs. Y and she is aged about 85 years.  
 (vi) Presume in the above situation the assessee is Mr. Y and he is aged about 85 years.  
 (vii) Presume in all the above situations, the assessee is non-resident in India.

**Solution:**

₹

**(i)*****Computation of Total Income***

Income under the head Salary	30,000
Income under the head House Property	40,000
Income under the head Capital Gains (LTCG)	4,80,000
Gross Total Income	5,50,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	5,50,000

***Computation of Tax Liability***

Tax on LTCG ₹3,00,000 (4,80,000 – 1,80,000) @ 20% u/s 112	60,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	60,000
Add: HEC @ 4%	2,400
Tax Liability	62,400

**(ii)**

Total Income	5,50,000
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***Computation of Tax Liability***

Tax on LTCG ₹3,00,000 (4,80,000 – 1,80,000) @ 20% u/s 112	60,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	60,000
Add: HEC @ 4%	2,400
Tax Liability	62,400

**(iii)**

Total Income	5,50,000
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***Computation of Tax Liability***

Tax on LTCG ₹2,50,000 (4,80,000 – 2,30,000) @ 20% u/s 112	50,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	50,000
Add: HEC @ 4%	2,000
Tax Liability	52,000

**(iv)**

Total Income	5,50,000
--------------	----------

***Computation of Tax Liability***

Tax on LTCG ₹2,50,000 (4,80,000 – 2,30,000) @ 20% u/s 112	50,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	50,000
Add: HEC @ 4%	2,000
Tax Liability	52,000

**(v)**

Total Income	5,50,000
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***Computation of Tax Liability***

Tax on LTCG ₹50,000 (4,80,000 – 4,30,000) @ 20% u/s 112	10,000
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Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

**(vi)**

Total Income	5,50,000
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**Computation of Tax Liability**

Tax on LTCG ₹50,000 (4,80,000 – 4,30,000) @ 20% u/s 112	10,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

**(vii)****In situation (i)**

Total Income	5,50,000
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**Computation of Tax Liability**

Tax on LTCG ₹4,80,000 @ 20% u/s 112	96,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	96,000
Add: HEC @ 4%	3,840
Tax Liability	99,840

**In situation (ii)**

Total Income	5,50,000
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**Computation of Tax Liability**

Tax on LTCG ₹4,80,000 @ 20% u/s	96,000
112 Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	96,000
Add: HEC @ 4%	3,840
Tax Liability	99,840

**In situation (iii)**

Total Income	5,50,000
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**Computation of Tax Liability**

Tax on LTCG ₹4,80,000 @ 20% u/s 112	96,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	96,000
Add: HEC @ 4%	3,840
Tax Liability	99,840

**In situation (iv)**

Total Income	5,50,000
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**Computation of Tax Liability**

Tax on LTCG ₹4,80,000 @ 20% u/s 112	96,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	96,000
Add: HEC @ 4%	3,840
Tax Liability	99,840

**In situation (v)**

Total Income	5,50,000
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**Computation of Tax Liability**

Tax on LTCG ₹4,80,000 @ 20% u/s 112	96,000
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Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	96,000
Add: HEC @ 4%	3,840
Tax Liability	99,840

**In situation (vi)**

Total Income	5,50,000
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**Computation of Tax Liability**

Tax on LTCG ₹4,80,000 @ 20% u/s 112	96,000
Tax on ₹70,000 at slab rate	Nil
Tax before health & education cess	96,000
Add: HEC @ 4%	3,840
Tax Liability	99,840

**Illustration 13:** Compute tax liability in the following cases

- Mr. Ya resident has long term capital gains ₹3,50,000.
- Mr. Ya resident has casual income ₹3,50,000.
- Mr. Ya resident has short term capital gains u/s 111A ₹3,50,000.
- Mr. Ya non-resident has long term capital gains ₹3,50,000.
- Mr. Ya non-resident has casual income ₹3,50,000.
- Mr. Ya non-resident has short term capital gains u/s 111A ₹3,50,000.
- Mr. Ya non-resident aged 61 years has long term capital gains ₹3,50,000.
- Mr. Ya non-resident aged 61 years has casual income ₹3,50,000.
- Mr. Ya non-resident aged 61 years has short term capital gains u/s 111A ₹3,50,000.

**Solution:**

₹

**(i)**

Income under the head capital gains (LTCG)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on Long term capital gains ₹1,00,000 (₹3,50,000 – ₹2,50,000) @ 20% u/s 112	20,000
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	7,500
Add: HEC @ 4%	300
Tax Liability	7,800

**(ii)**

Income under the head other sources (casual income)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on casual income ₹3,50,000 @ 30% u/s 115BB	1,05,000
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	92,500
Add: HEC @ 4%	3,700
Tax Liability	96,200

**(iii)**

Income under the head capital gains (STCG u/s 111A)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on Short term capital gains ₹1,00,000 (₹3,50,000 – ₹2,50,000) @ 15% u/s 111A	15,000
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	2,500
Add: HEC @ 4%	100
Tax Liability	2,600

(iv)

Income under the head capital gains (LTCG)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on Long term capital gains ₹3,50,000 @ 20% u/s 112	70,000
Add: HEC @ 4%	2,800
Tax Liability	72,800

(v)

Income under the head other sources (casual income)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on casual income ₹3,50,000 @ 30% u/s 115BB	1,05,000
Add: HEC @ 4%	4,200
Tax Liability	1,09,200

(vi)

Income under the head capital gains (STCG u/s 111A)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on Short term capital gains ₹3,50,000 @ 15% u/s 111A	52,500
Add: HEC @ 4%	2,100
Tax Liability	54,600

(vii)

Income under the head capital gains (LTCG)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on Long term capital gains ₹3,50,000 @ 20% u/s 112	70,000
Add: HEC @ 4%	2,800
Tax Liability	72,800

(viii)

Income under the head other sources (casual income)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on casual income ₹3,50,000 @ 30% u/s 115BB	1,05,000
Add: HEC @ 4%	4,200
Tax Liability	1,09,200

(ix)

Income under the head capital gains (STCG u/s 111A)	3,50,000
Total Income	3,50,000

**Computation of Tax Liability**

Tax on Short term capital gains ₹3,50,000 @ 15% u/s 111A	52,500
Add: HEC @ 4%	2,100
Tax Liability	54,600

**Illustration 14:** Compute tax liability for the assessment year 2021-22 in the following situations:

(i) Mr. Y is resident in India and his incomes are as follows:

- (a) Income under the head Salary ₹1,20,000
- (b) Income under the head House Property ₹60,000

- (c) Long term capital gains ₹2,20,000  
 (d) Short term capital gain under section 111A ₹1,10,000  
 (e) Casual Income ₹90,000  
 (f) Deduction under section 80C to 80U ₹2,00,000 .  
 (ii) Presume in the above situation the assessee is Mrs. Y.  
 (iii) Presume in the above situation the assessee is Mrs. Y and she is aged about 70 years.  
 (iv) Presume in the above situation the assessee is Mr. Y and he is aged about 70 years.  
 (v) Presume in the above situation the assessee is Mrs. Y and she is aged about 83 years.  
 (vi) Presume in the above situation the assessee is Mr. Y and he is aged about 83 years.  
 (vii) Presume in the above situation the assessee is Mr. Y and he is aged about 70 years and he is non-resident.  
 (viii) Presume in the above situation the assessee is Mr. Y and he is aged about 83 years old and he is non-resident.

**Solution:**

(i)	₹	₹
<b>Computation of Total Income</b>		
Income under the head Salary		1,20,000
Income under the head House Property		60,000
Income under the head Capital Gains		
Long term capital gains	2,20,000	
Short term capital gains u/s 111A	1,10,000	3,30,000
Income under the head Other Sources (Casual Income)		90,000
Gross Total Income		6,00,000
Less: Deduction u/s 80C to 80U		(1,80,000)
Total Income		4,20,000

**Computation of Tax Liability**

Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112	Nil
Tax on STCG ₹80,000 (₹1,10,000 – 30,000) @ 15% u/s 111A	12,000
Tax on Casual income ₹90,000 @ 30% u/s 115BB	27,000
Tax on normal income at slab rate	Nil
Tax before Rebate u/s 87A	39,000
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	26,500
Add: HEC @ 4%	1,060
Tax Liability	27,560

**(ii)**

Total Income	4,20,000
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**Computation of Tax Liability**

Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112	Nil
Tax on STCG ₹80,000 (₹1,10,000 – 30,000) @ 15% u/s 111A	12,000
Tax on Casual income ₹90,000 @ 30% u/s 115BB	27,000
Tax on normal income at slab rate	Nil
Tax before Rebate u/s 87A	39,000
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	26,500
Add: HEC @ 4%	1,060
Tax Liability	27,560

**(iii)**

Total Income	4,20,000
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**Computation of Tax Liability**

Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112	Nil
Tax on STCG ₹30,000 (1,10,000 – 80,000) @ 15% u/s 111A	4,500

Tax on Casual Income ₹90,000 @ 30% u/s 115BB	27,000
Tax on normal income at slab rate	Nil
Tax before Rebate u/s 87A	31,500
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	19,000
Add: HEC @ 4%	760
Tax Liability	19,760

**(iv)**

Total Income	4,20,000
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**Computation of Tax Liability**

Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112	Nil
Tax on STCG ₹30,000 (1,10,000 – 80,000) @ 15% u/s 111A	4,500
Tax on Casual Income ₹90,000 @ 30% u/s 115BB	27,000
Tax on normal income at slab rate	Nil
Tax before Rebate u/s 87A	31,500
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	19,000
Add: HEC @ 4%	760
Tax Liability	19,760

**(v)**

Total Income	4,20,000
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**Computation of Tax Liability**

Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112	Nil
Tax on STCG (1,10,000 – 1,10,000) @ 15% u/s 111A	Nil
Tax on Casual Income ₹90,000 @ 30% u/s 115BB	27,000
Tax on normal income at slab rate	Nil
Tax before Rebate u/s 87A	27,000
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	14,500
Add: HEC @ 4%	580
Tax Liability	15,080

**(vi)**

Total Income	4,20,000
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**Computation of Tax Liability**

Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112	Nil
Tax on STCG (1,10,000 – 1,10,000) @ 15% u/s 111A	Nil
Tax on Casual Income ₹90,000 @ 30% u/s 115BB	27,000
Tax on normal income at slab rate	Nil
Tax before Rebate u/s 87A	27,000
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	14,500
Add: HEC @ 4%	580
Tax Liability	15,080

**(vii)**

Total Income	4,20,000
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**Computation of Tax Liability**

Tax on LTCG ₹2,20,000 @ 20% u/s 112	44,000
Tax on STCG ₹1,10,000 @ 15% u/s 111A	16,500
Tax on Casual income ₹90,000 @ 30% u/s 115BB	27,000
Tax on normal income at slab rate	Nil

Tax before Rebate u/s 87A	87,500
Less: Rebate u/s 87A	Nil
Tax before health & education cess	87,500
Add: HEC @ 4%	3,500
Tax Liability	91,000

**(viii)**

Total Income	4,20,000
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**Computation of Tax Liability**

Tax on LTCG ₹2,20,000 @ 20% u/s 112	44,000
Tax on STCG ₹1,10,000 @ 15% u/s 111A	16,500
Tax on Casual income ₹90,000 @ 30% u/s 115BB	27,000
Tax on normal income at slab rate	Nil
Tax before Rebate u/s 87A	87,500
Less: Rebate u/s 87A	Nil
Tax before health & education cess	87,500
Add: HEC @ 4%	3,500
Tax Liability	91,000

**Illustration 15:**

Mr. Yhas long term capital gain ₹30 lakh and normal income ₹72 lakh, in this case his tax liability shall be

Total income	102,00,000.00
LTCG ₹30,00,000 x 20%	6,00,000.00
Normal income at slab rate	19,72,500.00
Tax before surcharge	25,72,500.00
Add: Surcharge @ 15%	3,85,875.00
Tax before health & education cess	29,58,375.00
Add: HEC @ 4%	1,18,335.00
Tax Liability	30,76,710.00

**Illustration 16:**

Mr. Yhas long term capital gain ₹31 lakh and normal income ₹70 lakh, in this case his tax liability shall be

Total income	101,00,000.00
LTCG ₹31,00,000 x 20%	6,20,000.00
Normal income at slab rate	19,12,500.00
Tax before surcharge	25,32,500.00
Add: Surcharge @ 15%	3,79,875.00
Tax before marginal relief	29,12,375.00
Less: Marginal relief	(48,625.00)

Tax + Surcharge on ₹101 lakhs	29,12,375
Tax + Surcharge on ₹100 lakhs	
(₹100 lakhs can be normal income ₹70 lakhs + LTCG ₹30 lakhs or normal income ₹69 lakhs and LTCG ₹31 lakhs . It is not given in the Act what combination should be taken. Hence it is a question of law and any of the combination can be taken and it will be correct)	
If first combination is taken, income tax shall be	
Normal income ₹70 lakhs	19,12,500
LTCG ₹30 lakhs	6,00,000
Total	25,12,500
Add: Surcharge @ 10%	2,51,250
Total	27,63,750
Increase in tax (29,12,375 – 27,63,750)	1,48,625

Marginal relief (1,48,625 – 1,00,000)	48,625	
Tax before health & education cess		28,63,750.00
Add: HEC @ 4%		1,14,550.00
Tax Liability		29,78,300.00
<b><u>Second option: Normal income ₹69 lakhs and LTCG ₹31 lakhs</u></b>		
Total income		101,00,000.00
LTCG ₹31,00,000 x 20%		6,20,000.00
Normal income at slab rate		19,12,500.00
Tax before surcharge		25,32,500.00
Add: Surcharge @ 15%		3,79,875.00
Tax before marginal relief		29,12,375.00
Less: Marginal relief		(59,625.00)
Tax + Surcharge on ₹101 lakhs	29,12,375	
Tax + Surcharge on ₹100 lakhs		
(₹100 lakhs can be normal income ₹70 lakhs + LTCG ₹30 lakhs or normal income ₹69 lakhs and LTCG ₹31 lakhs. It is not given in the Act what combination should be taken. Hence it is a question of law and any of the combination can be taken and it will be correct)		
If second combination is taken, income tax shall be		
Normal income ₹69 lakhs	18,82,500	
LTCG ₹31 lakhs	6,20,000	
Total	25,02,500	
Add: Surcharge @ 10%	2,50,250	
Total	27,52,750	
Increase in tax (29,12,375 – 27,52,750)	1,59,625	
Marginal relief (1,59,625 – 1,00,000)	59,625	
Tax before health & education cess		28,52,750.00
Add: HEC @ 4%		1,14,110.00
Tax Liability		29,66,860.00

**Illustration 17 (A):** Compute tax liability of ABC Ltd. a domestic company in the following situations:

- The company has income under the head Business/Profession ₹50,000.
- The company has income under the head Business/Profession ₹1,00,000.
- The company has income under the head Business/Profession ₹500,00,000.
- The company has income under the head Business/Profession ₹100,00,000.
- The company has long term capital gains of ₹50,000.
- The company has long term capital gains of ₹200,00,000.
- The company has long term capital gains of ₹5,00,000.
- The company has long term capital gains of ₹10,20,000.
- The company has income under the head Business/Profession ₹11 crore.

**Solution:**

₹

(i) ***Computation of Tax Liability***

Income under the head Business/Profession	50,000
Total Income	50,000
Tax on ₹50,000 @ 30%	15,000
Add: HEC @ 4%	600
Tax Liability	15,600

**(ii) Computation of Tax Liability**

Income under the head Business/Profession	1,00,000
Total Income	1,00,000
Tax on ₹1,00,000 @ 30%	30,000
Add: HEC @ 4%	1,200
Tax Liability	31,200

**(iii) Computation of Tax Liability**

Income under the head Business/Profession	500,00,000
Total Income	500,00,000
Tax on ₹500,00,000 @ 30%	150,00,000
Add: Surcharge @ 7%	10,50,000
Add: HEC @ 4%	6,42,000
Tax Liability	166,92,000

**(i) Computation of Tax Liability**

Income under the head Business/Profession	100,00,000
Total Income	100,00,000
Tax on ₹100,00,000 @ 30%	30,00,000
Add: HEC @ 4%	1,20,000
Tax Liability	31,20,000

**(ii) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	50,000
Total Income	50,000
Tax on ₹50,000 @ 20%	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

**(iii) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	200,00,000
Total Income	200,00,000
Tax on ₹200,00,000 @ 20%	40,00,000
Add: Surcharge @ 7%	2,80,000
Add: HEC @ 4%	1,71,200
Tax Liability	44,51,200

**(iv) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	5,00,000
Total Income	5,00,000
Tax on ₹5,00,000 @ 20%	1,00,000
Add: HEC @ 4%	4,000
Tax Liability	1,04,000

**(viii) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	10,20,000
Total Income	10,20,000
Tax on ₹10,20,000 @ 20%	2,04,000
Add: HEC @ 4%	8,160
Tax Liability	2,12,160

**(ix) Computation of Tax Liability**

Income under the head Business/profession	11,00,00,000
Total Income	11,00,00,000
Tax on ₹11,00,00,000 @ 30%	330,00,000
Add: Surcharge @ 12%	39,60,000
Tax before health & education cess	369,60,000
Add: HEC @ 4%	14,78,400
Tax Liability	384,38,400

**Illustration 17(B): Presume in all the above situations the assessee is a partnership firm .****Solution:**

₹

**(i) Computation of Tax Liability**

Income under the head Business/Profession	50,000
Total Income	50,000
Tax on ₹50,000 @ 30%	15,000
Add: HEC @ 4%	600
Tax Liability	15,600

**(ii) Computation of Tax Liability**

Income under the head Business/Profession	1,00,000
Total Income	1,00,000
Tax on ₹1,00,000 @ 30%	30,000
Add: HEC @ 4%	1,200
Tax Liability	31,200
	500,00,000

**(ii9) Computation of Tax Liability**

Income under the head Business/Profession	
Total Income	500,00,000
Tax on ₹500,00,000 @ 30%	150,00,000
Add: Surcharge @ 12%	18,00,000
Tax before health & education cess	168,00,000
Add: HEC @ 4%	6,72,000
Tax Liability	174,72,000

**(iv) Computation of Tax Liability**

Income under the head Business/Profession	100,00,000
Total Income	100,00,000
Tax on ₹100,00,000 @ 30%	30,00,000
Add: HEC @ 4%	1,20,000
Tax Liability	31,20,000

**(v) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	50,000
Total Income	50,000
Tax on ₹50,000 @ 20%	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

**(vi) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	200,00,000
Total Income	200,00,000
Tax on ₹200,00,000 @ 20%	40,00,000
Add: Surcharge @ 12%	4,80,000
Tax before health & education cess	44,80,000
Add: HEC @ 4%	1,79,200
Tax Liability	46,59,200

**(vii) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	5,00,000
Total Income	5,00,000
Tax on ₹5,00,000 @ 20%	1,00,000
Add: HEC @ 4%	4,000
Tax Liability	1,04,000

**(viii) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	10,20,000
Total Income	10,20,000
Tax on ₹10,20,000 @ 20%	2,04,000
Add: HEC @ 4%	8,160
Tax Liability	2,12,160

**(ix) Computation of Tax Liability**

Income under the head Business/profession	11,00,00,000
Total Income	11,00,00,000
Tax on ₹11,00,00,000 @ 30%	330,00,000
Add: Surcharge @ 12%	39,60,000
Tax before health & education cess	369,60,000
Add: HEC @ 4%	14,78,400
Tax Liability	384,38,400

**Illustration 17(C):** Presume in all the above situations the assessee is a foreign company.

**Solution:**

₹

**(i) Computation of Tax Liability**

Income under the head Business/Profession	50,000
Total Income	50,000
Tax on ₹50,000 @ 40%	20,000
Add: HEC @ 4%	800
Tax Liability	20,800

**(ii) Computation of Tax Liability**

Income under the head Business/Profession	1,00,000
Total Income	1,00,000
Tax on ₹1,00,000 @ 40%	40,000
Add: HEC @ 4%	1,600
Tax Liability	41,600

**(iii) Computation of Tax Liability**

Income under the head Business/Profession	500,00,000
Total Income	500,00,000
Tax on ₹500,00,000 @ 40%	200,00,000
Add: Surcharge @ 2%	4,00,000
Add: HEC @ 4%	8,16,000
Tax Liability	212,16,000

**(iv) Computation of Tax Liability**

Income under the head Business/Profession	100,00,000
Total Income	100,00,000
Tax on ₹100,00,000 @ 40%	40,00,000
Add: HEC @ 4%	1,60,000
Tax Liability	41,60,000

**(v) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	50,000
Total Income	50,000
Tax on ₹50,000 @ 20%	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

**(vi) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	200,00,000
Total Income	200,00,000
Tax on ₹200,00,000 @ 20%	40,00,000
Add: Surcharge @ 2%	80,000
Add: HEC @ 4%	1,63,200

Tax Liability	42,43,200
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**(vii) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	5,00,000
Total Income	5,00,000
Tax on ₹5,00,000 @ 20%	1,00,000
Add: HEC @ 4%	4,000
Tax Liability	1,04,000

**(viii) Computation of Tax Liability**

Income under the head Capital Gains (long term capital gains)	10,20,000
Total Income	10,20,000
Tax on ₹10,20,000 @ 20%	2,04,000
Add: HEC @ 4%	8,160
Tax Liability	2,12,160

**(ix) Computation of Tax Liability**

Income under the head Business/profession	11,00,00,000
Total Income	11,00,00,000
Tax on ₹11,00,00,000 @ 40%	440,00,000
Add: Surcharge @ 5%	22,00,000
Tax before health & education cess	462,00,000
Add: HEC @ 4%	18,48,000
Tax Liability	480,48,000

**Illustration 18:** Y (HUF) has incomes as given below:

1. Income under the head Business/Profession ₹5,00,000
  2. Income under the head House Property ₹3,00,000
  3. Long term capital gains ₹4,00,000
  4. Short term capital gains under section 111A ₹3,00,000
  5. Casual Income ₹2,00,000
  6. Deductions allowed under section 80C to 80U ₹35,000
- Compute tax liability of HUF for the assessment year 2021-22.

**Solution:**

₹

₹

**Computation of Total Income**

Income under the head Business/Profession		5,00,000.00
Income under the head House Property		3,00,000.00
Income under the head Capital Gains		
Long term capital gains	4,00,000	
Short term capital gains u/s 111A	3,00,000	7,00,000.00
Income under the head Other Sources (Casual Income)		2,00,000.00
Gross Total Income		17,00,000.00
Less: Deduction u/s 80C to 80U		(35,000.00)
Total Income		16,65,000.00

**Computation of Tax Liability**

Tax on LTCG ₹4,00,000 @ 20% u/s 112	80,000.00
Tax on STCG ₹3,00,000 @ 15% u/s 111A	45,000.00
Tax on Casual income ₹2,00,000 @ 30% u/s 115BB	60,000.00
Tax on ₹7,65,000 at slab rate	65,500.00
Tax before health & education cess	2,50,500.00
Add: HEC @ 4%	10,020.00
Tax Liability	2,60,520.00

## CHAPTER – 2

### RESIDENTIAL STATUS

#### Sections covered in this chapter

<b>Sec 5</b>	Scope of Total income
<b>Sec 6(1)</b>	Residential status of an Individual
<b>Sec 6(2)</b>	Residential status of an HUF, Firm, AOP & BOI
<b>Sec 6(3)</b>	Residential status of Company
<b>Sec 6(4)</b>	Residential status of other assessee
<b>Sec 6(5)</b>	Resident for one source resident for all source
<b>Sec 6(6)</b>	Resident & Not Ordinarily Resident
<b>Sec 7</b>	Income deemed to be received
<b>Sec 9</b>	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**:

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

**OR**

**2<sup>nd</sup> 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*

#### **3<sup>rd</sup> 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 2<sup>nd</sup> 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 2<sup>nd</sup> 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**:

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

**OR**

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

**OR**

**3<sup>rd</sup> condition : [FA,2020]**

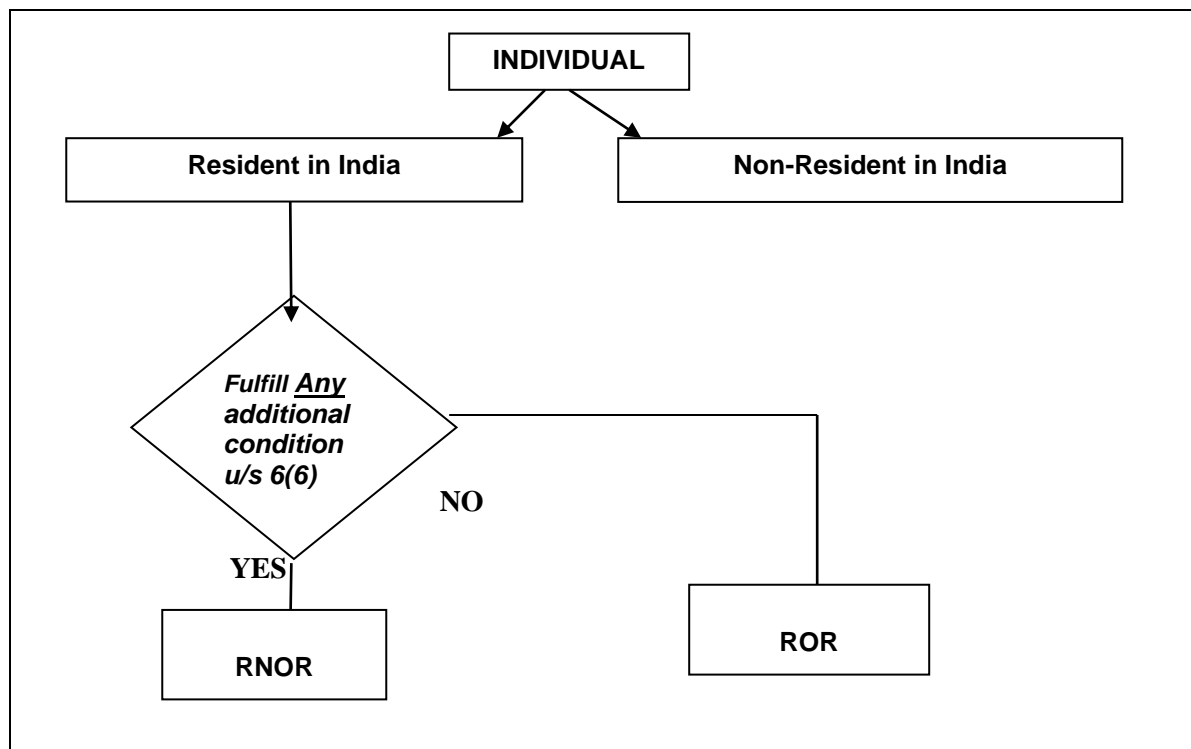
- A citizen of India, or a Person of Indian origin,
- as referred to in *Explanation 1 to Sec 6(I)*,
- having Total Income,
- other than the income from foreign sources,
- exceeding 15 lakhs during previous year,
- who has been in India 120 days or more but less than 182 days during the p/y

**OR**

**4<sup>th</sup> 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:

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

**OR**

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

**OR****3<sup>rd</sup> 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****4<sup>th</sup> 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.	<b>Income due in India</b> (whether Received in India or outside India )	Indian Income	Taxable	Taxable	Taxable
2	<b>Deemed Incomes u/s 9</b>	Indian Income	Taxable	Taxable	Taxable
3	<b>Income due outside India &amp; received in India</b>	Indian Income	Taxable	Taxable	Taxable
4	<b>Income due outside India and received outside India</b>				
	<b>-From Business/profession set up in India</b>	Foreign Income	Taxable	Taxable	Not Taxable
	<b>-From any other source</b>	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.**

**QUESTION FOR PRACTICE**

**Question 1 :** For the A/y 21-22, X is a non resident in India. From the below information, find out his income chargeable to tax for the A/y 21-22.

- |                                                                                                                                                                                                |                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 1. Royalty received by him outside India from Govt. of India:                                                                                                                                  | 50,000                  |
| 2. Technical fees received from A Ltd. (an Indian company) in Germany for advise given by him in respect of a project situated in USA:                                                         | 85,000                  |
| 3. Income from a business situated in Sri Lanka (goods are sold in Sri Lanka, sale consideration is received in Sri Lanka but business is controlled partly in Sri Lanka and partly in India): | 1,50,000                |
| 4. Income from a business connection in India (received outside India):                                                                                                                        | 2, 25,000               |
|                                                                                                                                                                                                | <b>[Ans : 2,75,000]</b> |

**Question 2 :** Mr. X is resident and ordinarily resident for the A/y 2021-22. He gives the following information in respect of his income for p/y 20-21. Find out Taxable Income

- |                                                                                                                                                                        |                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 1. Capital gain on sale of house situated in Delhi (Sale consideration received in Nepal):                                                                             | 60,000                  |
| 2. Salary received in Bangladesh for rendering services in Delhi:                                                                                                      | 75,000                  |
| 3. Interest received from UP Govt. (paid to him in Bangladesh, the money is utilized by the Government in Sri Lanka):                                                  | 45,000                  |
| 4. Royalty received from A Ltd (A Foreign Company which is non resident in India) outside India .Royalty is paid for a manufacturing business situated out side India: | 85,000                  |
|                                                                                                                                                                        | <b>[Ans : 2,65,000]</b> |

**Question 3:** The following are the particulars of Income of R for the previous year 2020-21.

- |                                                                                                             |          |
|-------------------------------------------------------------------------------------------------------------|----------|
| 1. Rent from a property in Delhi received in USA:                                                           | 1,00,000 |
| 2. Income from a business in USA controlled from Delhi:                                                     | 1,40,000 |
| 3. Income from business in Bangalore controlled from USA:                                                   | 2,40,000 |
| 4. Rent from a property in USA received there but subsequently remitted to India:                           | 90,000   |
| 5. Interest from deposits with an Indian company received in USA:                                           | 30,000   |
| 6. Profits for the A/Y 2018-19 of a business in USA remitted to India during p/y 20-21 (Not taxed earlier): | 95,000   |
| 7. Gift received from his parents:                                                                          | 50,000   |

Compute R's income for A/y 21-22 if he is

(a) Resident & ordinarily resident (b) Resident & not ordinarily resident (c) Non Resident in India.

**[Ans : (a) 6,00,000, (b) 5,10,000, (c) 3,70,000]**

**Question 4 :** Discuss whether the following incomes are taxable in India or not in the hands of non resident.

1. A non resident purchases goods from Delhi and sells these goods in USA.
2. A non resident is engaged in the publication of magazine from USA. Some of the news published in the magazine are collected from India.
3. X Ltd., a non resident foreign company is engaged in the business of shooting a cinematograph film in India. The film after its completion is sold to another non-resident in USA. None of the shareholder of X Ltd. is an Indian citizen or resident in India.
4. A non-resident owns a commercial building in Mumbai which is transferred to another non resident in France. The consideration is payable in a foreign currency in France.
5. A non-resident owns a residential house in Chennai which is given on rent to a foreign embassy. Rent is however, payable outside India in a foreign currency.
6. Interest on loan is paid by the government of India to a non resident in London.
7. Y Ltd. a non resident gets royalty from Z Ltd., a non resident outside India. Royalty is however payable by Z Ltd. in relation to business of manufacturing carried on by it in Bangalore.
8. A Ltd., a non resident, gets interest from B Ltd., an Indian company, outside India. The capital was borrowed by B Ltd., for the purpose of a business carried on by it outside India.
9. C, a non resident Indian is presently appointed by the government of India in its embassy at Iran. Salary for rendering services is paid to him in a foreign currency outside India.
10. D, a non resident Indian, is presently appointed by an Indian company in its foreign branch at Nigeria. Salary is paid to him outside India in a foreign currency.

[Ans : (i) No, (ii) No, (iii) No, (iv) Yes, (v) Yes, (vi) Yes, (vii) Yes, (viii) No, (ix) Yes, (x) No]

### **SOLVED QUESTIONS FOR PRACTICE**

**Question 5 :** Mr.Sharma, an Indian citizen left India for the first time on 21-09-2019 for employment in Britain. During the previous year 2020-21 he comes to India on 5-5-2020 for 150 days. Determine the residential status of Mr.Sharma for assessment years 2020-21 and 2021-22. His Total Income of P/Y 20/21 excluding Income from Foreign sources is 10 lakhs.

Will your answer be different if his Total Income during P/Y 20/21 excluding Income from Foreign sources is 20 lakhs

**Solution :****A/Y 20/21 (P/Y 19/20)**

During the previous year 2019-20, Mr. Sharma was in India for 174 days (30+31+30+30+30+21) and therefore, does not satisfy the first condition of 182 days. As regards the second condition, although he was here in the four preceding previous year for more than 365 days as he was permanently in India but for the relevant previous year 2019-20 he should have been here for 182 days instead of 60 days as he is a citizen of India and leaves India in 2019-20 for employment abroad.

He neither satisfies the first, nor the second condition and is therefore, Non- Resident in India for A/Y 20/21

**A/Y 21/22 (P/Y 20/21)**

During the previous year 2020-21 he visits India for 150 days. His Total Income is 10 lakhs excluding Income from foreign sources. In this case also, the period of 60 days will be substituted by 182 days. Therefore, he will be a **Non-Resident in India** even for previous year 2020-21.

**Assumption**

During the previous year 2020-21 he visits India for 150 days. His Total Income is 20 lakhs excluding Income from foreign sources. In this case, the period of 60 days will be substituted by 120 days. His stays exceeds 120 days during P/y 20/21. Further His stay during 4 prior p/y exceeds 365 days. Therefore, he will be a **Resident in India** for previous year 2020-21.

Further as per Sec 6(6), He shall be deemed as **RNOR for A/Y 21/22**

**Question 6 :** Mr.Jain, an Indian citizen, left India for the first time on 21-09-2020 for employment in France.. Determine the residential status of Mr.Jain for assessment years 2021-22. His Total Income of P/Y 20/21 excluding Income from Foreign sources is 20 lakhs. Further he is not chargeable to Tax in any other Foreign country.

What will be your answer if his Total Income excluding Income form Foreign sources is Rs.10 lakhs during p/y 20/21

**Solution :** During the previous year 2020-21, Mr. Jain was in India for 174 days (30+31+30+30+30+21) and therefore, does not satisfy the first condition of 182 days u/s 6(1). As regards the second condition, although he was here in the four preceding previous year for more than 365 days as he was permanently in India but for the relevant previous year 2020-21 he should have been here for 182 days instead of 60 days as he is a citizen of India and leaves India in 2020-21 for employment abroad.

He neither satisfies the first, nor the second condition of sec 6(1). However his Total Income excluding Income from foreign sources is 20 lakhs and He is also not chargeable to Tax in any foreign country. Therefore he will be deemed as resident for A/Y 21/22 u/s 6(1A). Further He will be also be deemed as Not Ordinarily Resident for A/Y 21/22 u/s 6(6).

**Assumption :** If Mr.Jain Total Income is 10 lakhs during p/y 20/21, then he will not be covered u/s 6(1A) and will not be deemed as resident for A/Y 21/22. Therefore he will be Non resident for A/Y 21/22

**Question 7 :** Mr. Goel, a citizen of India left India on 06-06-2006 for employment abroad. He did not come to India up to previous year 2017-18. During 2018-19 and 2019-20, he visited India for 145 days and 195 days respectively. In the previous year 2020-21 he comes to India on 7-4-2020 and left on 30-11-2020. Determine his residential status for A/Y 2021-22.

**Solution : Basic conditions u/s 6(1) :**

Previous year 2020-21 : Stay in India is for 238 days (24+31+30+31+31+30+31+30) He is, therefore, Resident in India.

**Additional conditions u/s 6(6) :**

<u>Previous year</u>	<u>No. of days' stay</u>
2019-20	195
2018-19	145
2017-18	Nil
2016-17	Nil
2015-16	Nil
2014-15	Nil
2013-14	Nil

Total stay : 340 days

Stay in India is less than 730 days in 7 previous years prior to previous year 2020-21

**He is therefore, “Not Ordinarily Resident in India”.**

**Question 8 :** Z an Indian citizen leaves India for the first time on September 20, 2018 for the purpose of employment. He comes to India for a visit of 146 days on April 10, 2019. He comes back finally on Jan 16, 2021. Find out the residential status of Z for the assessment year 2021-22. Assume his Total Income is Rs.20 lakhs excluding Income from foreign sources during P/y 20/21

**Solution:** During the previous year 2020-21 (and the ten preceding years) Z is in India as follows –

Previous year	Presence in India (number of days)	Resident (R) or non-resident (NR)	Presence for minimum days to become resident
2020-21	76	R	----
<b>2019-20</b>	<b>146</b>	NR	182
<b>2018-19</b>	<b>173</b>	NR	182
<b>2017-18</b>	<b>365</b>	R	----
<b>2016-17</b>	<b>365</b>	R	----
<b>2015-16</b>	<b>366</b>	R	----
<b>2014-15</b>	<b>365</b>	R	----
<b>2013-14</b>	<b>365</b>	R	----
2012-13	365	R	----
2011-12	366	R	----
2010-11	365	R	----

Z is in India for a period of 76 days during the p/y 2020-21, He comes back into India permanently and not on a Visit. He is not covered under Explanation 1 to Sec 6(1). Hence 60 days will not be substituted either with 182 days or 120 days. Therefore, He is resident in India for A/Y 2021-22 as he fulfills the 60+365 condition. Besides, he is in India for 2145 days during 7 years prior to 2020-21 (i.e. during April 1, 2013 and March 31, 2020) & he is not non resident in India for 9 year out of 10 prior p/y. He is therefore, **Resident & ordinarily resident in India for the A/Y 2021-22 as he does not fulfill any additional condition u/s 6(6)**

**Question 9 :** Mr. Aggarwal, an Individual, is resident but not ordinarily resident in India for the assessment year 2021-22 (previous year 2020-21). During the previous year 2020-21, the affairs of Aggarwal (HUF) whose karta is Mr. Aggarwal since 2000 are partly managed from Delhi and partly from Nepal. Determine the residential status of Mr. Aggarwal (HUF) for the assessment year 2021-22.

**Solution :** As during the previous year 2020-21, the affairs of Mr. Aggarwal (HUF) are partly managed from India. The family will be treated as resident in India. A resident family may be not ordinarily resident if karta of the family satisfies any of the additional conditions laid down in section 6(6).

Mr. Aggarwal is resident but Not ordinarily resident in India for the assessment year 2021-22 in his individual capacity, he is satisfying any of the additional conditions as Karta of Mr. Aggarwal (HUF).

Therefore, Mr. Aggarwal (HUF) is **resident but not ordinarily resident** in India for A/Y 2021-22.

**Question 10 :** Abhishek earns the following income during the financial year 2020-21

	₹
(a) Interest from an Indian company received in London.	1,000
(b) Pension from former employer in India received in USA.	4,000
(c) Profits earned from a business in Paris which is controlled in India, half of the profits being received in India.	20,000
(d) Income from agriculture in Bhutan and remitted to India.	5,000
(e) Income from property in England received there.	4,000
(f) Past foreign untaxed income brought to India.	10,000

Compute his income for the Assessment year 2021-22, if he is:

- Resident and ordinarily resident in India.
- Not ordinarily resident in India.
- Non-resident in India.

**Solution: Taxable Income for the A/Y 2021-22**

		ROR ₹	RNOR ₹	NR ₹
(1)	Income deemed to accrue/arise in India			
	Interest from India Company	1,000	1,000	1,000
	Pension from employer in India.	4,000	4,000	4,000
(2)	Income Received in India			
	50% of profits of business in Paris.	10,000	10,000	10,000
(3)	Income earned and received outside India			
	From a business controlled from India			
	50% of Profits of Business in Paris	10,000	10,000	-
(4)	Income earned and received outside India			
	Other than (3)			
	Income from Agriculture in Bhutan.	5,000	-	-
	Income from property in England.	4,000	-	-
	<b>TOTAL</b>	<b>34,000</b>	<b>25,000</b>	<b>15,000</b>

Question 11 : The following is the income of Shri Ramesh for the p/y 2020-21	₹
(a) Profits from business in France received in India.	5,000
(b) Income from house property in Japan received in India	500
(c) Income from house property in Sri Lanka deposited in a Bank there.	1,000
(d) Profits of business established in Pakistan deposited in a Bank there, this business is Controlled in India (out of ₹ 20,000 a sum of ₹ 10,000 is remitted in India.	20,000
(e) Income from profession in India but received in China.	2,000
(f) Profits earned from business in Nagpur.	6,000
(g) Income from agriculture in England, It is all spent on the education of children in London	5,000
(h) Past untaxed foreign income into during the previous year.	10,000

From above particulars ascertain the taxable income of Shri Ramesh for p/y 2020-21, If he is

- Resident and ordinarily resident,
- Not ordinarily resident, and
- Non-resident.

**Solution: Taxable Income of Shri Ramesh for the A/Y 2021-22**

		R&OR (₹)	NOR (₹)	NR (₹)
1	Income received in India, wherever accrues (i) Profit from business in France received in India (ii) Income from house property in Japan received in India	5,000 500	5,000 500	5,000 500
2	Income accrued in India wherever received (i) Profit earned from business in Nagpur (ii) Income from profession in India but Received in China.	6,000 2,000	6,000 2,000	6,000 2,000
3	Income accrued and received outside India (i) Income from house property in Sri Lanka deposited in bank there. (ii) Profit of business in Pakistan, deposited there, business being controlled from India. (iii) Income from agriculture in England.	1,000 20,000	-- 20,000	-- --
4	Past untaxed foreign income brought to India during the previous year.	5,000	--	--
		--	--	--
	Total Income	39,500	33,500	13,500

**Question 12 :** During the financial year 2020-21, Om Prakash had the following income:

(a) Salary income received in India for service rendered in Nepal	10,000
(b) Income from profession in India, but received in Pakistan.	3,000
(c) Property income in Ukraine (out of which ₹3,000 was remitted to India).	6,000
(d) Profits earned from business in Bangalore.	5,000
(e) Agriculture income in Iran.	10,000
(f) Profits from business carried on at Nepal but controlled from India.	20,000
(g) Past untaxed profits remitted to India during the previous year from U.S.A.	90,000

Compute the Income of Om Prakash for the assessment year 2021-22 if he is (i) resident and ordinarily resident, (ii) Not ordinarily resident, and (iii) Non-resident in India.

**Solution: Computation of Taxable Income of Om Prakash for the Assessment year 2021-22**

		R&OR (₹)	NOR (₹)	NR (₹)
1	Income received in India wherever accrues Salary received in India for Services rendered in Nepal	10,000	10,000	10,000
2	Income accrued in India wherever received (i) Profit earned from business in Bangalore (ii) Income from profession in India but Received in Pakistan.	5,000 3,000	5,000 3,000	5,000 3,000
3	Income accrued and received outside India (i) Property income in Ukraine (ii) Agriculture income in Iran (iii) Profit of business Carried in Nepal but controlled from India. (iv) Past untaxed profits remitted to India.	6,000 10,000 20,000 ---	-- -- 20,000 --	-- -- -- --
	Total Income	54,000	38,000	18,000

**Question 13 :** Y is non-resident in India. From the information given below find out his income chargeable to tax for the assessment year 2021-22:

	₹
1. Royalty received by him outside India from the Government of India.	17,000
2. Technical fees received from C Ltd. (an Indian company) in France for advise given by him in respect of a project situated in UK	1,17,000
3. Income from a business situated in Bangladesh (Goods are sold in Bangladesh, sale consideration is received in Bangladesh but business is controlled partly in Bangladesh and partly in India)	2,17,000
4. Income from a business connection in India (it is received outside India)	3,17,000

**Solution:**

(i) As royalty is received from the Government of India, it is deemed to accrue or arise in India. It is Indian income. It is always taxable	17,000
(ii) Technical fees are received in France. The project in respect of which it is paid is situated in UK. It is foreign income. It is not taxable in the case of a non resident	-----
(iii) Income is received in Bangladesh as goods are sold in Bangladesh. It arises in Bangladesh. It is foreign income. It is not taxable in the case of a non – resident	-----
(iv) As the business connection is situated in India, it is deemed accrue or arise in India. It is Indian Income. It is taxable	<u>3,17,000</u>
Total	<u>3,34,000</u>

**Question 14:** The following are the particulars of income of S for the previous year 2020–21

	₹
(a) Rent from a property in Delhi received in U.S.A	80,000
(b) Income from a business in USA controlled from Delhi	1,20,000
(c) Income from a business in Bangalore controlled from USA	1,80,000
(d) Rent from a property in USA received there but subsequently remitted to India	60,000
(e) Interest from deposits with an Indian company received in USA	20,000
(f) Profits for the year 2018-19 if a business in USA remitted to India during the previous year 2020-21 (Not taxed earlier)	75,000
(g) Gifts received from his parents.	45,000

Compute his Income for the assessment year 2020-21 if he is :

- Resident and ordinarily resident in India.
- Non ordinarily resident in India
- Non-Resident in India

**Solution:** Computation of Income of S for the Assessment year 2021-22

Particulars	ROR	RNOR	NR
Rent from property in Delhi	80,000	80,000	80,000
Income from Business in Bangalore	1,80,000	1,80,000	1,80,000
Interest from Indian company	20,000	20,000	20,000
India from business in U.S.A	1,20,000	1,20,000	--
Rent from property in U.S.A.	60,000	--	--
Total	4,60,000	4,00,000	2,80,000

**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"> <li>i. <b>Municipal value</b> or <b>Fair rental value</b>, <i>whichever is higher</i></li> <li>ii. Value determined under (i), above <b><i>cannot exceed</i></b> value of <b>Standard Rent</b>, if such property is governed by Rent Control Act</li> </ol>
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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**

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

<u>Where value as per</u>	<u>Gross annual Value shall be</u>
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
- 31<sup>st</sup> 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 1<sup>st</sup> 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 <b>can be separated</b>		Where rent of property and rent of services / assets <b>cannot be separated</b>
<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**]

**QUESTIONS FOR PRACTICE**

**Question 1:** Following are the particulars of house properties of Mr. Sanjay for previous year 2020-21, Compute his income from house properties assuming he has opted for Sec 115BAC.

	House A	House B
Annual Rental Value	36,000	24,000
Municipal Valuation	30,000	24,000
Municipal tax	2,500	1,200
Actual Repairs Expenses	1,500	2,500
Interest on money borrowed to renovate the building	3,200	--
Insurance premium	400	275
Ground rent	250	150
Vacancy period	3 months	--
Rent collection charges	1,000	600

Both the above houses were let out for residential purpose. Insurance premium of House A and ground rent of house B are still outstanding. Repairs expenses of the house A and the municipal tax of house B were paid by the tenants.

**Solution :**

	House-A (let out) ₹	House B (let out) ₹
Annual Rental value	27,000	24,000
Municipal Tax	<u>2,500</u>	<u>--</u>
Net Annual Value	24,500	24,000
Less: Deduction u/s 24		
(a) Statutory deduction @ 30%	7,350	7,200
(b) Interest on money borrowed	<u>3,200</u>	<u>--</u>
Income from house property	<u>13,950</u>	<u>16,800</u>

Aggregate income from house A and house B (₹ 13,950 + ₹ 16,800) = ₹ 30,750

Gross annual value of house A has been determined after deduction of rent of vacancy period.

**Question 2:** Three brothers Suresh, Ramesh and Ganesh having equal share are co-owners of a house property consisting of six identical units, the property was constructed on 31<sup>st</sup> May, 2014. Each of them occupies one unit for his residence and the other three units are let out at a rent of ₹5,000 per month per unit. The municipal value of the house property is ₹3,00,000 and the Municipal taxes are 20% of such Municipal Value, which were paid during the year.

The other expenses were as follows.

	₹
(i) Repairs	20,000
(ii) Collection charges	5,000
(iii) Insurance premium (paid)	11,000
(iv) Interest payable on loan taken for construction of house	1,20,000

One of the let out units remained vacant for three months during the year. Suresh could not occupy his units for six months as he was transferred to Mumbai. He does not own any other house. The other income of Suresh, Ramesh and Ganesh are ₹60,000; ₹80,000; and ₹70,000 respectively.

Compute the income under the head “Income from House property” and the total income of three brothers assuming none of them have opted for Sec 115BAC

**Solution :****Let out property (50% i.e. 3 units)**

	₹	₹
Gross annual value		
(a) Municipal value (50% of ₹ 3,00,000)	1,50,000	
(b) Actual rent (5,000 X 12 X 3) 1,80,000 – 15,000 (Vacancy of one unit for 3 months)	1,65,000	1,65,000
Less: Municipal taxes paid (50% of ₹ 1,20,000)		<u>30,000</u>
		1,35,000
Net annual value		
Less: Deduction u/s 24		
(a) Statutory deduction @ 30%	40,500	
(b) Interest on Loan (50%)	<u>60,000</u>	<u>1,00,500</u>
Income from let out property		<u>34,500</u>

Therefore, share of each co-owner is  $1/3^{\text{rd}}$  of 34,500 : 11,500

**Self occupied property**

	Suresh (₹)	Ramesh (₹)	Ganesh (₹)
Annual value	Nil	Nil	Nil
Less: Deduction u/s 24 (b)			
Interest on loan (₹ 60,000 / 3 = 20,000)			
Restricted to maximum ₹ 30,000 for each co-owner	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Income from self occupied property	<u>-20,000</u>	<u>-20,000</u>	<u>-20,000</u>

**Computation of the Total Income of the three brothers**

	Suresh (₹)	Ramesh (₹)	Ganesh (₹)
Income from house property			
Let out portion	11,500	11,500	11,500
Self occupied portion	<u>-20,000</u>	<u>-20,000</u>	<u>-20,000</u>
Net Income from house property	- 8,500	- 8,500	- 8,500
Other Income	<u>60,000</u>	<u>80,000</u>	<u>70,000</u>
Total Income	<u>51,500</u>	<u>71,500</u>	<u>61,500</u>

**Question 3:** X owns a house property. It is used by him throughout the previous year for his (and his family member) residence. Municipal value of the property is ₹2,65,000, whereas fair rent is ₹2,76,000 and standard rent is ₹2,50,000.

The following expenses are incurred by X: repairs : ₹25,000, municipal tax : ₹15,000, insurance : ₹2,500; interest on capital borrowed to construct the property : ₹1,45,000; interest on capital borrowed by mortgaging the property for daughter's marriage: ₹25,000. Income of X from business is ₹5,10,000.

Find out the net income of X assuming he has not opted for Sec 115BAC

**Solution :**

	₹
Gross annual value	Nil
Less : Municipal tax	Nil
Net annual value	Nil
Less ;Interest on borrowed capital (maximum : ₹ 30,000)	- 30,000
Property income	- 30,000
Business income	<u>5,10,000</u>
Net Income	<u>4,80,000</u>

**Question 4:** Kamal has a house property in Delhi whose particulars are as under:

	₹
Municipal value	4,00,000
Standard rent	4,50,000
Municipal taxes paid	50,000
Interest on Money borrowed for acquiring the house after 1-4-2014	1,60,000
Period of occupation for own residence	2 months
Actual rent for 10 months	45,000 p.m.

Compute the income from house property assuming he has opted for Sec 115BAC.

**Solution:**

Computation of income from house property

Gross annual value shall be higher of following two

(a) Expected rent (Municipal value ₹ 4,00,000 or FRV

₹ 5,40,000 whichever is higher i.e. ₹ 5,40,000 but

restricted to standard rent i.e. ₹ 4,50,000)

4,50,000

(b) Actual rent received or receivable (45,000 X 10)

4,50,000

4,50,000

Less: Municipal taxes paid

50,000

Net annual value

4,00,000

Less: Deduction u/s 24

(a) Statutory deduction @ 30%

1,20,000

(b) Interest on money borrowed for acquisition houses

1,60,000

2,80,000

Income from house property

1,20,000

**Question 5:** Manish owns a house property in Delhi which is let out for ₹15,000 p.m. The municipal value of which is ₹2,00,000 and municipal taxes were 20% of municipal valuation. He paid during the previous year municipal tax of 6 year which relate to past 5 years as well as for the current year. The other expenses of the property were as under :

	₹
Repair	8,000
Insurance premium	4,000
Interest for purchase of house	25,000
Ground rent due	4,000

Compute income of Manish from house property assuming he has opted for sec 115BAC.

**Solution :**

Gross Annual value higher of the following two

	₹	₹
(a) Expected rent	2,00,000	
(b) Actual rent received or receivable	<u>1,80,000</u>	
Therefore, gross annual value	2,00,000	
Less Municipal taxes paid		<u>2,40,000</u>
Net annual value		-40,000
Less Deduction u/s 24		
(a) Statutory deduction @ 30%		Nil
(b) Interest	<u>-25,000</u>	<u>-25,000</u>
Income from house property		<u>-65,000</u>

**Question 6:** X had claimed a deduction of ₹86,000 on account of unrealized rent pertaining to prior previous year and the same was allowed by the assessing Officer. On December 20, 2020 he recovers ₹6,000 from the defaulting tenant (expenses on recovery is ₹500) what will be the tax treatment ?

**Solution:** ₹6,000 – 30% i.e ₹4,200 recovered from the defaulting tenant is chargeable to tax as income under the head “Income from house property ” in the year of recovery (i.e., previous year 2020-21)

Actual Expenditure of ₹500 is not deductible.

₹4,200 is chargeable to tax as property income of the previous year 2020-21 even if X is not the owner of any house property.

**UNSOLVED QUESTIONS FOR PRACTICE**

**Question 1 :** Mr. Sharma owns a residential house property in Delhi. It has two equal residential units- unit 1 and unit 2. While Unit1 is self occupied by Mr. Sharma for residential purpose, unit2 is let out (Rent being 6,000 Pm, rent of 2 months could not be recovered). Municipal value of property is ₹1,30,000, Standard Rent is ₹1,25,000 and fair rent is ₹1,40,000. Municipal tax is imposed @ 12% which is paid by him. Other expenses for the Previous year being repairs: ₹250, Insurance: ₹600, interest on capital (borrowed during 2010) for construction the property: ₹63,000. Find out the Income of Mr. Sharma assuming he has not opted for Sec 115BAC. **[Ans : Loss of ₹ 23,210]**

**Question 2 :** Suresh owns a house property in Mumbai. From the particulars given below compute the income from house property for A/Y 21/22 assuming he has opted for Sec 115BAC.

Municipal Value	2,00,000
Fair Rent	2,52,000
Standard Rent	2,40,000
Actual Rent (per month)	23,000
Municipal taxes	20% of municipal value
Municipal taxes paid during the year	50% of tax levied
Expenses on repair	30,000
Insurance Premium	6,000

Suresh had borrowed a sum of ₹12,00,000 @ 10% pa on 01-07-2017 and the construction of the property was completed on 28-02-2019. **[Ans : 41,200]**

**Question 3 :** Arun is an employee of Y ltd working in Pune .He owns two residential houses. The first is in Delhi and was constructed on 31-12-2010. This has been let out on a rent of ₹3000 p.m to a company which has allotted the house to its employee.

The employee could not occupy the house for two months during previous year 20-21, although company had paid rent of full previous year 20-21. The Second house is in Pune which was constructed on 1-3-2020 and has been occupied by him for his own residence since then .He took a loan of ₹90,000 on 1-8-2018 @ 8% pa. for the purpose of construction of this house.

The entire loan is still outstanding.

The other details are as follows

	First House	Second House
Municipal Value	24,000	18,000
Municipal taxes	10% of municipal value	8% of municipal value
Expenses on Repair	1500	4500
Fire Insurance premium	500	1000
Ground Rent	250	650
Interest on Loan	-----	7200

The ground rent of the Delhi house and municipal tax & Land revenue of the Pune house are unpaid. Arun was transferred to Chennai on 1-12-2020 where he resides in a house at a monthly rent of ₹5,000 and his house at Pune was let out on same day on a rent of ₹2000 pm.

Compute House property Income of Arun assuming he is covered u/s 115BAC.

[Ans : 32,160]

**Question 4 :** Ramesh owns a House property ( Municipal valuation : ₹1,45,000, Fair rent : ₹1,36,000, Standard rent : ₹1,24,000). It is let out throughout the previous year (rent being ₹8,000 per month upto November 15, 2020 and ₹14,000 per month thereafter). The Property is transferred by Ramesh to Suresh on January 31, 2021. Find out Gross annual Value of the property in hands of Ramesh & Suresh for Assessment year 21-22.

[Ans : 1,03,333, 28,000]

**Question 5 :** Laxman has a house property situated in Kolkata. From the following particulars, compute the Income from house property for assessment year 21-22 assuming he is covered u/s 115BAC.

Municipal Value	90,000
Fair Rent	1,10,000
Standard Rent	1,00,000

The House property was let out w.e.f 1-4-20 for the ₹8,000 pm, which was vacated by tenant on 30-09-20. It remained vacant for two months w.e.f 1-12-2020, it was let out for ₹11,000 Pm.

Municipal taxes paid	20% of Municipal Valuation
Insurance Premium Paid	₹6,000
Interest on money borrowed for purchase of house property	₹30,000

[Ans : 21,800]

**Question 6 :** Hari has two house property situated in Jaipur. Property A is self occupied for first Six month i.e. from 1-04-2020 to 30-09-2020 and w.e.f 1-10-2020, it is let out for ₹10,000 per month. Property B is let out w.e.f 1-4-2020 at rent of ₹12,000 pm and w.e.f 1-10-2020, it was self occupied as Hari shifted his residence from Property A to Property B.

The other details of the above two house Properties are as under:-

	Property A	Property B
Municipal taxes paid	30,000	24,000
Insurance Premium Paid	3,000	4,000
Interest on money borrowed for purchase of house property	35,000	40,000

Compute the Income from House property for A/y 21-22 assume he is covered u/s 115BAC. [Ans : 72,000]

**Question 7 :** Mr. Y constructed a house property in Mumbai consisting of two units on a Leasehold land. The Construction was completed on 30-06-2014 and its municipal valuation was at ₹80,000. He let out one of them for commercial purposes and was himself residing in the other. The self occupied portion was 2/5 of the house. Rent is fixed at ₹6000 Pm. His expenses relating to the property for the Previous Year 2020-21 are as under :-

Municipal taxes	6,000
Ground Rent	2,000
Fire Insurance	600
Interest on loan for Construction of house	30,000
Purchase of car	10,000

Compute the Income from House property assume he is not covered u/s 115BAC.

[Ans : 17,880]

**Question 8 :** X , a Chartered Accountant , has a House property situated in Delhi, which has 4 identical units, unit 1 was used by him for his professional purposes Unit 2 was let out for residential purpose at ₹5,000 pm, unit 3 & unit 4 were self occupied. Other Particulars are as under :

Date of Completion 31-01-2015

Municipal taxes Paid ₹20,000

Interest on Money borrowed for construction of House property : ₹60,000

Compute his Income under head House property assume he is not covered u/s 115BAC. [Ans : Loss 6,500]

**Question 9 :** Mr. A & B constructed their house on a piece of Land purchased by them at New Delhi. The built up area of each house was 1000 sq.ft. on ground floor and an equal area in the first floor. A started the construction on 01-04-2019 and completed on 31-03-2020. B started the construction on 01-04-2019 and completed the construction on 30-06-2020.

A occupied the entire house on 01-04-2020. B occupied the Ground floor on 01-07-2020 and let out the first floor for a rent of ₹15,000 Per month. However the tenant vacated the house on 31-12-2020 and B occupied entire house during the Period 01-01-2021 to 31-03-2021.

₹

Following are the other information :

1 Fair rental value of each unit (Ground floor/ First floor)	1,00,000
2 Municipal value of each unit (Ground floor/ First floor)	72,000
3 Municipal taxes paid by A	8,000

4 Municipal taxes paid by B	8,000
5 Repair & Maintenance charges paid by A	28,000
6 Repair & Maintenance charges paid by B	30,000

A has availed the housing Loan of ₹ 20 Lacs @12% P.a on 01-04-2019. B has availed a housing loan of ₹12 Lacs @ 10% p.a on 01-07-2019. No repayment was made by either of them till 31-03-2021. Compute Income from House property for A and B for the previous year 2020-21 assuming

Case 1 : Both have not opted for Sec 115BAC

Case 2 : Both have opted for Sec 115BAC

**Ans: [Case1 : Loss 2,00,000, loss 77,800] [Case2 : Nil, loss 6,900]**

**Question 10 :** Mr Goel owns a house in Delhi construction of which was completed on 01-07-2013. Half portion is let out for residential purposes on a monthly rent of ₹8,000. However, this portion remained vacant for three Months (From 01-01-2021 to 31-03-2021) during previous year 2020-21. 1/4<sup>th</sup> portion is used by Mr.Goel for the purpose of his profession while the remaining 1/4<sup>th</sup> portion is used for his own residence for the full year. The other expenses regarding the house were:

	₹
1 Municipal Taxes	: 10,000
2 Repairs	: 5,000
3 Interest on Loan for renovation of house	: 40,000
4 Fire Insurance Premium	: 4,000

Compute the taxable "Income from House property" for assessment year 2021 -22 assuming he has not opted for Sec 115BAC. **[Ans :16,900]**

**Question 11 :** A owns a house property in Mumbai. 60% of the house property is self occupied for residence and 40% is let out on a monthly rent of ₹5,000. Let out portion was also self occupied from 01-10-2020 to 31-12-2020. However w.e.f 01-01-2021 entire house was Let out for ₹12,500 pm. The construction of the house property was completed on 31-12-2014. The following expenses were incurred for the above house property during the year ending 31-03-2021.

	₹
Municipal tax paid	
For Financial Year 2018-19	5000
For Financial Year 2019-20	10,000
For Financial Year 2020-21	15,000
Land Revenue due	6,000
Interest on money borrowed for construction of House property:	₹18,000

Compute Income under Head House property of A for Assessment year 21-22 assuming he has opted for Sec 115BAC. **[Ans : 66,000]**

**Question 12 :** X owns a house property at Mumbai, which is Let out for residential purpose, particulars of which are as follows:-

Rent for Period 01-04-2020 to 31-03-2021 : ₹96,000

It includes amount charged for different amenities

Water Charges: ₹8,000

Electric Charges: ₹24,200

Lift Charges: ₹12,000

Security Charges: ₹11,000

Rent of one month could not be collected

Municipal tax paid by tenant	:	₹ 3,000
Municipal Valuation	:	₹ 36,000
Fair Rent	:	₹ 38,000
Standard Rent	:	₹ 39,000
Expenditure on Repair (met by tenant)	:	₹ 2,000

X recovers of ₹ 8,000 on account of unrealized rent relating to p/y 2017/18 from the defaulting tenant (Expenditure on recovery of rent: ₹600) Compute Income from House property in hands of X for assessment year 21-22 assuming he has opted for Sec 115BAC. [Ans : 32,200]

**Question 13 :** Mr. X has a house property in Delhi which consists of two units. Unit A has 60% floor area, whereas unit B has 40% floor area. Unit A was self occupied by Mr. X for 8 months and w.e.f 1-12-20, it was let out for ₹10,000 p.m. Unit B was also meant for self occupation but it was also let out w.e.f 01-10-20 for ₹8,000 pm.

The other particulars of the house property were as under :

Municipal taxes paid	:	₹40,000
Insurance Premium	:	₹ 4,000
Interest on money borrowed	:	₹20,000

Compute Income from House property for assessment year 21-22 assuming he has opted for Sec 115BAC.

[Ans : 1,03,200 [Unit A: 55,200, Unit B: 48,000]

**Question 14 :** Krishan constructed a house property in old Delhi consisting of two units on a leasehold land. The construction was completed on 30-6-2015 and its municipal valuation was at ₹80,000. He let out one of them for commercial purpose and was himself residing in the other. The self-occupied portion was 2/5<sup>th</sup> of the house. Rent is fixed at ₹6,000 per month. His income from other sources is ₹25,000.

His expenses relating to the property for the previous year 2020-21 were as under:

	₹
Municipal taxes	6,000
Ground taxes	1,000
Fie Insurance	400
Collection charges	2,000
Interest on loan for	
(i) Construction of house	30,000
(ii) Purchase of car	20,000

Calculate his Total Income assuming he has not opted for Sec 115BAC.

[Ans : ₹ 42,880]

**Question 15 :** Bachan is owner of a residential house whose construction was completed on 31-8-2014. It has been let out from 1-1-2015 for residential purpose. Its particulars for the financial year 2020-21 are given below:

	₹
(i) Municipal valuation	65,000
(ii) Expected fair rent (p.a)	72,000
(iii) Standard rent under the rent control Act (p.m)	7,000
(iv) Actual rent (p.m.)	7,000

(v) Municipal taxes paid (including ₹5,000 paid by tenant)	20,000
(vi) Water/Sewerage benefits tax, levied by State Government paid under protest	5,000
(vii) Interest on loan taken for the construction of the house. The interest has been paid Outside India to a non-resident without deduction of tax at sources (non resident had agreed to pay income tax on such interest direct to the government)	15,000
(viii) Legal charges for the recovery of rent	4,000
(ix) Stamp duty and registration charges incurred in respect of lease agreement of house	2,000
(x) There is recovery of ₹10,000 from the defaulting tenant of unrealized rent belonging to previous year 2017-18 .	

Compute income from house property for the assessment year 2021-22 assuming he has opted for sec 115BAC. **[Ans : 55,300]**

**Question 16 :** Mr. Govind owns a house at kolkatta whose Municipal value is ₹60,000 and fair rent is ₹72,000 p.a. During the previous year 2020-21 the house was vacant from 1-4-2020 to 30-6-2020. It was let out for residential purpose on 1-7-2020 @ ₹7,500p.m.He makes the following expenditures in respect of the house property.

Municipal taxes : ₹18,000; Repairs ₹12,000; Fire Insurance premium ₹10,000; land revenue ₹4,000 and ground rate ₹4,000 were paid during the year.

A loan of ₹1,35,000 was taken on 1-4-2011 @ 10%p.a. for the construction of the house which was completed on 21-3-2016. Nothing was repaid on loan account so far. Find out his taxable income from house property for the assessment year 2021-22 assuming he has not opted for sec 115BAC.

**[Ans : 21,150]**

**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

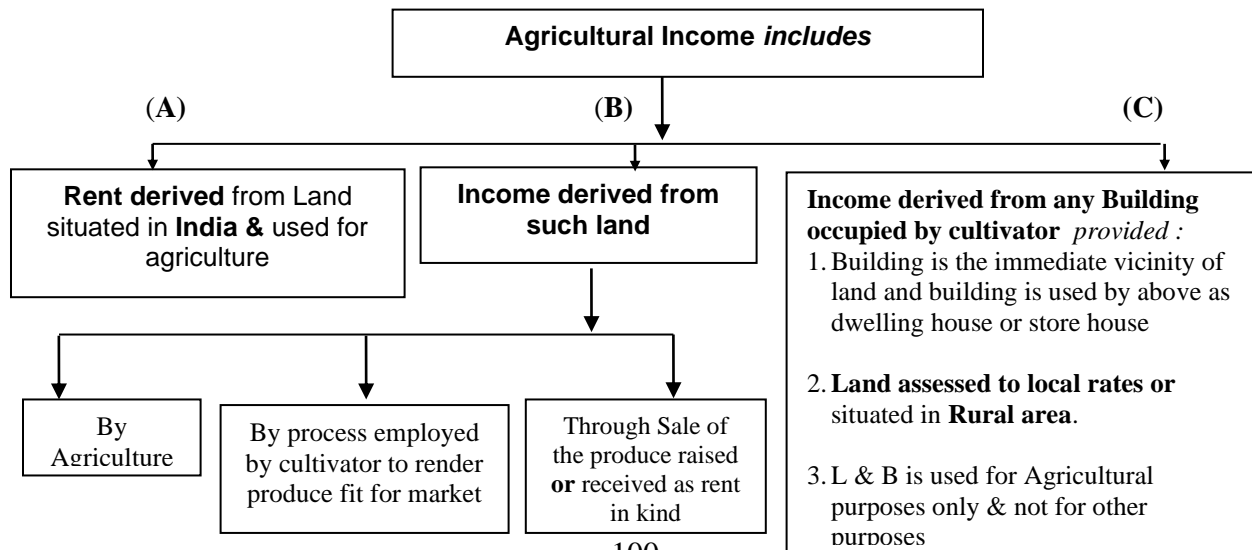
**Step 2 : Subtract** Agricultural Rebate i.e Tax on [Exemption limit + Agricultural income exempt u/s 10(1) at slab rates ]

**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

**Income which is Partially Agricultural and Partially from Business**

RULE 8		RULE 7A		RULE 7B			
<i>Growing &amp; manufacturing TEA</i>		<i>Growing &amp; manufacturing RUBBER</i>		<i>Growing &amp; manufacturing COFFEE</i>			
Agrl.	Non Agrl.	Agrl.	Non Agrl.	<i>Coffee grown &amp; cured</i>		<i>Coffee grown , cured, roasted &amp; 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	Sale value of other product
Less : Cultivation expenses	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.

**QUESTIONS FOR PRACTICE****Assume in all cases Assessee is not covered u/s 115BAC****Question 1 :** Mr. X, a resident, has provided the following particulars of his income for the P.Y.2020-21.

i. Income from salary (computed)	₹3,40,000
ii. Income from house property (computed)	₹2,00,000
iii. Agricultural income from a land in Jaipur	₹1,80,000
iv. Expenses incurred for earning agricultural income	₹1,20,000
Compute his tax liability assuming his age is -	
(a) 35 years	
(b) 75 years	

**Solution : Computation of total income of Mr. X for the A.Y.2021-22****(a) Computation of tax liability (age 35 years)**

Particulars	₹	₹
Income from salary		3,40,000
Income from house property		2,00,000
Net agricultural income [₹ 1,80,000 – ₹ 1,20,000]	60,000	
Less: Exempt under section 10(1)	(60,000)	Nil
<b>Gross Total Income</b>		<b>5,40,000</b>
Less: Deductions under Chapter VI-A		Nil
<b>Total Income</b>		<b>5,40,000</b>

His tax liability is computed in the following manner:

**Step 1:** ₹ 5,40,000 + ₹ 60,000 = ₹ 6,00,000.

Tax on ₹ 6,00,000 32,500

**Step 2:** ₹ 60,000 + ₹ 2,50,000 = ₹ 3,10,000.

Tax on ₹ 3,10,000 3,000

**Step 3:** ₹ 32,500 – ₹ 3,000 29,500

Tax before HEC 29,500

Add : HEC @ 4% 1,180

Tax Liability 30,680

**(b) Computation of tax liability (age 75 years)****Step 1:** ₹ 5,40,000 + ₹ 60,000 = ₹ 6,00,000.

Tax on ₹ 6,00,000 30,000

**Step 2:** ₹ 60,000 + ₹ 3,00,000 = ₹ 3,60,000.

Tax on ₹ 3,60,000 3,000

**Step 3:** ₹ 30,000 – ₹ 3,000 27,000

Tax before HEC 27,000

Add : HEC @ 4% 1,080

Tax Liability 28,080

**Question 2 :** Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute X's business income and agricultural income.

**Solution :** Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

Business income = Sales - Market value of 70 % of sugarcane produce – manufacturing expenses  
 = [₹25 lacs - ₹ 22 lacs – ₹ 1.5 lacs = ₹1.5 lacs]

Agricultural income = Market value of sugarcane produce – Cost of cultivation  
 = [₹10 lacs + ₹ 22 lacs] – [₹ 5 lacs + ₹ 14 lacs]  
 = ₹ 32 lacs – ₹ 19lacs  
 = ₹ 13 lacs.

**Question 3 :** Mr. X is engaged in growing & manufacturing of rubber. These are then sold in the market for ₹ 30 lacs. The cost of growing rubber plants is ₹ 10 lacs and that of manufacturing latex is ₹ 8 lacs. Compute his total income.

**Solution :** The total income of Mr.X comprises of agricultural income and business income.

Total profits from the sale of latex	= ₹ 30 lacs – ₹ 10 lacs – ₹ 8 lacs = ₹ 12 lacs.
Agricultural income	= 65% of ₹ 12 lacs. = ₹ 7.8 lacs
Business income	= 35% of ₹ 12 lacs. = ₹ 4.2 lacs

**Question 4:** Mr. X has estates in rubber, tea and coffee. He derives income from them. He has a nursery wherein he grows and sells the plants. For the previous year ending 31.03.2021, he furnishes the following particulars of his income from estates and sale of plants. You are requested to compute the taxable income and tax liability for the assessment year 2021-22: ₹

(i) Growing and manufacturing of rubber	5,00,000
(ii) Sale of coffee grown and cured	3,50,000
(iii) Growing and manufacturing of tea	7,00,000
(iv) Sale of plants from nursery	1,00,000

He has long term capital gain on the sale of agricultural land in Delhi ₹3,13,500. He has received rent of ₹7,000 p.m. by letting out one farm house near Delhi and he has incurred ₹20,000 on the repairs of the farm house. He has not paid municipal taxes for the last ten years in connection with farm house and MCD has issued him a notice for selling of farm house, hence he has paid municipal tax of ₹90,000.

**Solution :**

(a) Income from growing &amp; manufacturing of Rubber {Rule 7A}

[Agricultural income 65% and business income 35%]

3,25,000

1,75,000

(b) Income from Coffee grown and cured {Rule 7B}

[Agricultural income 75% and business income 25%]

2,62,500

87,500

(c) Income from growing and manufacturing of Tea {Rule 8}

[Agricultural income 60% and business income 40%]

4,20,000

2,80,000

(d) Income from growing and selling of plants

1,00,000

-----

**Total****11,07,500****5,42,500****Computation of Income under the head House Property**

₹

Gross Annual Value (7,000 x 12)

84,000.00

Less: Municipal Taxes

90,000.00

Net Annual Value

(6,000.00)

Less: 30% of NAV u/s 24(a)

Nil

Less: Interest on capital borrowed u/s 24(b)

Nil

Loss under the head House Property

(6,000.00)

In this case loss of ₹6,000 can be set off either from long term capital gain or from business income, if loss is set off from Long term capital gain, there is tax saving of ₹6,000 x 20% = ₹1,200 and if it is set off from normal income, there is tax saving of ₹6,000 x 30% = ₹1,800, hence it is beneficial to set it off from business income hence after set off, business income shall be

5,42,500 – 6,000 =

5,36,500.00

**Computation of Total Income**

Income under the head Business/Profession

5,36,500.00

Income under the head Capital gain (LTCG)

3,13,500.00

Gross Total Income

8,50,000.00

Less: Deduction under section 80C to 80U

Nil

Total Income

8,50,000.00

**Computation of Tax Liability**

Tax on total of Agricultural + non-agricultural income

(11,07,500 + 5,36,500)

3,05,700.00

Tax on 2,50,000 + agricultural income

(2,50,000 + 11,07,500)

2,19,750.00

Tax on Normal Income (3,05,700 – 2,19,750)

85,950.00

Tax on long term capital gain ₹3,13,500 @ 20% u/s 112

62,700.00

Tax before HEC

1,48,650.00

Add: HEC @ 4%

5,946.00

Tax Liability

1,54,596.00

Rounded off u/s 288B

1,54,600.00

**Question 5:** Mr. X is employed in MP Agricultural University and getting basic pay ₹20,000 p.m. He claims that it is his agricultural income. Discuss.

**Solution:** Income from an agricultural university cannot be considered to be agricultural income rather it is his income under the head salary.

**Question 6:** Mr. X has sold his agricultural land in Delhi and there are long term capital gains of ₹10,00,000. Mr. X claims it to be his agricultural income. Discuss.

**Solution:** Income from sale of agricultural land cannot be considered to be agricultural income and accordingly it is chargeable to tax under the head capital gains.

**Question 7:** Mr. X holds shares in ABC Ltd., an Indian Company, which is engaged in agricultural operations. He has received dividends of ₹1,20,000 from ABC Ltd. and claims that it is his agricultural income. Discuss.

**Solution:** Dividend from a company which is engaged in agricultural operations cannot be considered to be agricultural income rather it is dividend income of the recipient and dividend income is taxable from under other sources

**Question 8 :** Mr. X (non-resident, aged 78 years) has incomes as given below:

- (i) Income under the head Salary ₹3,00,000
- (ii) Income under the head House Property ₹1,20,000
- (iii) Income from long term capital gains ₹50,000
- (iv) Casual income ₹30,000
- (v) Agricultural income ₹60,000
- (vi) Deductions under section 80D to 80U ₹1,40,000
- (vii) He is entitled to 80C of ₹20,000

Compute his total income and tax liability for the assessment year 2021-22.

**Solution :**

	₹
Income under the head Salary	3,00,000
Income under the head House Property	1,20,000
Income under the head Capital Gains (LTCG)	50,000
Income under the head Other Sources (Casual Income)	30,000
Gross Total Income	5,00,000
Less: Deduction u/s 80C	20,000
Less: Deduction u/s 80D to 80U	1,40,000
Total Income	3,40,000
Agricultural income	60,000

#### Computation of Tax Liability

Tax on (2,60,000 + 60,000)	3,500
i.e. Tax on (2,50,000 + 60,000)	3,000
Tax on normal income (3,500 – 3,000)	500
Tax on Long term capital gain ₹50,000 @ 20% u/s 112	10,000
Tax on casual income ₹30,000 @ 30% u/s 115BB	9,000
Tax before HEC	19,500
Add: HEC @ 4%	780
Tax Liability before rebate	20,280
Less : Rebate u/s 87A	NIL
Total	20,280

**Note:** Benefit of the slab rate for senior citizen & Rebate u/s 87A is not available to non-resident assessee.

**Question 9 :** Mrs. X (aged 58 years) has income and losses as given below:

- (i) Income from growing and manufacturing of Rubber ₹3,00,000
- (ii) Income from growing and curing coffee ₹2,00,000
- (iii) Income under the head Salary ₹2,40,000
- (iv) Loss under the head House Property ₹1,00,000
- (v) Income from short term capital gains ₹40,000
- (vi) Income from long term capital gains ₹50,000
- (vii) Casual income ₹60,000

Compute her total income and tax liability for the assessment year 2021-22.

**Solution :**

	Agricultural Income	Business Income
Income from growing&manufacturing of Rubber{ Rule 7A }		
Agricultural income 65% and business income 35%	1,95,000	1,05,000
Income from Coffee grown and cured { Rule 7B }		
Agricultural income 75% and business income 25%	1,50,000	50,000
Total	3,45,000	1,55,000

### Option I

#### House property loss can be set off from normal income

	₹
Income under the head Salary	2,40,000
Loss under the head House Property	(1,00,000)
Income under the head salary after adjusting house property loss	1,40,000
Income under the head Business/Profession	1,55,000
Income under the head Capital	
Gains Short term capital gains	40,000
Long term capital gains	50,000
Income under the head Other Sources (Casual Income)	60,000
Gross Total Income	4,45,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	4,45,000
Agricultural income	3,45,000

#### Computation of Tax Liability

Tax on (3,35,000 + 3,45,000) at slab rates	48,500
Tax on (2,50,000 + 3,45,000) at slab rates	31,500
Tax on normal income (48,500 – 31,500)	17,000
Tax on Long term capital gain ₹50,000 @ 20% u/s 112	10,000
Tax on casual income ₹60,000 @ 30% u/s 115BB	18,000
	45,000
Tax before Rebate u/s 87A	12,500
	32,500
Add: HEC @ 4%	1,300
Tax Liability	33,800

### Option II

#### House property loss can be set off from LTCG

	₹
Income under the head Capital Gains (LTCG)	50,000
Loss under the head House Property	50,000

Income under the head Capital Gains (LTCG) after adjusting house property loss	Nil
Income under the head Capital Gains (STCG)	40,000
Income under the head Salary	2,40,000
Loss under the head House Property	50,000
Income under the head salary after adjusting house property loss	1,90,000
Income under the head Business/Profession	1,55,000
Income under the head Other Sources (Casual income)	60,000
Gross Total Income	4,45,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,45,000
Agricultural Income	3,45,000

**Computation of Tax Liability**

Tax on (3,85,000+3,45,000) at slab rates	58,500
Tax on (2,50,000 + 3,45,000) at slab rates	<u>31,500</u>
Tax on normal income (58,500 – 31,500)	27,000
Tax on casual income ₹60,000 @ 30% u/s 115BB	<u>18,000</u>
Tax before Rebate u/s 87A	45,000
Less : Rebate u/s 87A	<u>12,500</u>
	32,500
Add: HEC @ 4%	<u>1,300</u>
Tax Liability	33,800

Tax liability is same in both the options. Therefore, house property loss can be set off either from income of normal business or from income of long term capital gain.

**Question 10 :** Mrs. X (resident but not ordinarily resident) have incomes as given below:

- Income from growing and manufacturing of Tea in India ₹10,00,000
  - Income from house property situated outside India ₹3,50,000, received outside India.
  - Income from agriculture in Nepal ₹1,50,000, received in India
  - Income from business in Paris, which was set up in India and income is received in Paris ₹1,00,000
- Compute her total income and tax liability for the assessment year 2021-22.

**Solution :**

	<b>Agricultural Income</b>	<b>Business Income</b>
Income from growing and manufacturing of Tea {Rule 8}		
Agricultural income 60% and business income 40%	6,00,000	4,00,000
Total	6,00,000	4,00,000
Income under the head business/Profession		4,00,000
Income from agriculture in Nepal but received in India		1,50,000
Income under the head Other Sources		1,50,000
Gross Total Income		5,50,000
Less: Deductions u/s 80C to 80U		Nil
Total Income		5,50,000
Agricultural income	6,00,000	

**Computation of Tax liability**

Tax on (5,50,000 + 6,00,000) at slab rates	1,57,500
Tax on (2,50,000 + 6,00,000) at slab rates	82,500
Tax on normal income (1,70,000 – 95,000)	75,000
Add: HEC @ 4%	3,000
Tax Liability	78,000

**Question 11:** Mr. X (resident but not ordinarily resident) have incomes and losses as given below:

- (i) Loss from house I in India ₹80,000
- (ii) Income from house II in India ₹1,00,000
- (iii) Carried forward loss assessment year 2000-01 from house III in India ₹50,000
- (iv) Income under the head Business/Profession in India ₹2,20,000
- (v) Royalty received in the UK for use of formula in U.K. ₹30,000
- (vi) Long term capital gains in India ₹1,00,000
- (vii) Income from agriculture in Indonesia but received in India and subsequently invested it in Indonesia ₹50,000
- (viii) Income from agriculture in India ₹2,00,000

Compute his total income and tax liability for the assessment year 2021-22.

**Solution :**

	₹
Income from House II	1,00,000
Loss from House I	80,000
Income under the head House Property	20,000
Income under the head Business/Profession	2,20,000
Income under the head Capital Gains (LTCG)	1,00,000
Income under the head Other Sources	
{ Income from agriculture in Indonesia, received in India }	50,000
Gross Total Income	3,90,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,90,000
Agricultural Income	2,00,000

**Computation of Tax Liability**

Tax on ( 2,90,000 + 2,00,000) at slab rates	12,000
Tax on (2,50,000 + 2,00,000)	10,000
Tax on normal income (12,000 – 10,000)	2,000
Tax on Long term capital gain ₹1,00,000 @ 20% u/s 112	20,000
Tax before Rebate u/s 87A	22,000
	12,500
Add : HEC 4%	9,500
	380
Tax Liability	9,880

**Question 12 :**

A partnership firm XY has agricultural income ₹2,00,000, income under the head business/profession ₹1,00,000 and long term capital gains ₹10,000.

Compute its tax liability for the assessment year 2021-22.

**Solution :**

	₹
Income under the head Business/Profession	1,00,000
Income under the head Capital Gains (LTCG)	10,000
Gross Total Income	1,10,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,10,000
Agricultural income	2,00,000

**Computation of Tax Liability**

Tax on ₹1,00,000 @ 30%	30,000
Tax on Long term capital gain ₹10,000 @ 20% u/s 112	2,000
Tax before HEC	32,000
Add: HEC @ 4%	1280
Tax Liability	33,280

**Note:** Partial integration is not applicable in case of a partnership firm or a company.

**Question 13:**

A partnership firm A & Co. has agricultural income ₹20,00,000 and its partner Mr. A has received ₹5,00,000 being his share in the profits of partnership. Mr. A has income under the head house property ₹2,75,000.

Compute tax liability of the partnership firm and also that of Mr. A.

**Solution :****Computation of Tax Liability of Partnership firm**

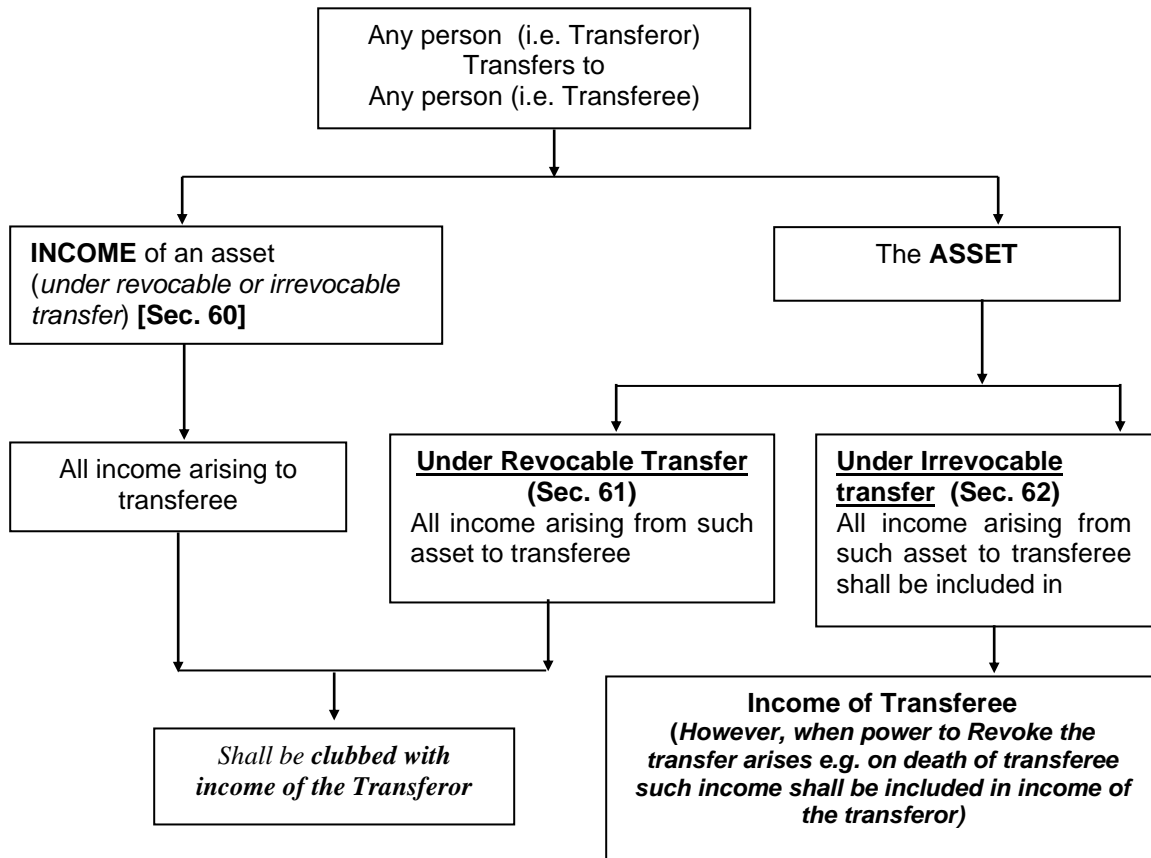
	₹
Agricultural income	20,00,000
Tax liability	Nil

**Computation of Tax Liability of Mr. A**

Share of profit from partnership firm {exempt u/s 10(2A)}	Nil
Income under the head House Property	2,75,000
Gross Total Income	2,75,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,75,000
Tax on ₹2,75,000 at slab rate	1,250
Less : Rebate u/s 87A	1,250
Tax Liability	Nil

**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 <b>1<sup>st</sup> day of P/Y</b> <hr style="border: 0.5px solid black;"/> Total investment by transferee as on <b>1<sup>st</sup> day of P/Y</b>
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)

**[Sec 65 not in syllabus for CA Inter]**

<b><u>Procedure of Clubbing</u></b>
-------------------------------------

**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

**QUESTIONS FOR PRACTICE****Assume in all cases Assessee is not covered u/s 115BAC**

**Question 1 :** Income of X (age : 31 years) and Mrs. X (age : 30 years) for the previous year 2020-21 is follows –

	X ₹	Mrs.X ₹
Taxable Salary from B ltd.	5,20,000	Nil
Business income	10,00,000	1,60,000
Bank interest	3,70,000	40,000
Total income	18,90,000	2,00,000
Tax	3,94,680	NIL

X is employed by B ltd.(Salary being ₹ 40,000 per month and one month's salary as bonus ) without any technical or professional qualification. Mrs. X holds 20 % equity share capital in B ltd. from March 20, 2021. Find out the net income of X and Mrs. X for the A/Y 2021-22.

**Solution :** In this case Mrs.X has substantial interest in B ltd for sometime during P/Y 2020-21, Her husband X is employed by B ltd. during 2020-21 on ₹40,000 per month without any professional qualification. ₹5,20,000 shall be included in income of Mrs.X. It may be noted that this rule of clubbing is applicable even if it is beneficial to the taxpayer. Before clubbing the tax liability of X and Mrs. X is ₹ 3,94,680.

After applying the aforesaid rule of clubbing,Tax liability of X & Mrs. X will be ₹ 2,88,410 as shown below :

	X	Mrs. X
Salary of P from B ltd.	--	5,20,000
Business income	10,00,000	1,60,000
Bank interest	3,70,000	40,000
Gross total income	13,70,000	7,20,000
Net income	13,70,000	7,20,000
Tax	2,23,500	56,500
Add : HEC (4%)	8,940	2,260
Tax liability	2,32,440	58,760

If X has technical or professional qualification to justify the remuneration, then the above clubbing provisions are not applicable. If X does not have technical / professional qualification, then his salary shall be included in the income of Mrs.X (who has substantial share holding in the employer-company for a few days during the previous year) even if the resulting tax liability is lower.

In such a case, it is incorrect to state that the clubbing is applicable only if it is beneficial to the revenue or income will be included in the hands of that spouse whose income is higher

**Question 2 :** A and B form a partnership firm on April1,2020 (Profit sharing ratio :2:3) by investing ₹10 lakh and ₹15 lakh respectively. The investment has been financed from the following sources –

	A ₹	B ₹
Gift from Mrs. A	6,60,000	--
Gift from Mrs. B	--	8,00,000
Past saving of A and B	3,40,000	7,00,000

For the ending March 31, 2021, share of profit from the firm is as follows –

	A ₹	B ₹
Interest on capital @ 12 % pa	1,20,000	1,80,000
Salary as working partner	24,000	24,000
Share of profit	1,08,000	1,62,000

Find out the income chargeable to tax in the hands of A and Mrs. A.

**Solution :**

	A ₹	MrsA ₹
Share of profit {exempt under section 10(2A)}	Nil	--
Salary from the firm	24,000	--
Interest on capital {₹ 1,20,000 X ₹ 6.6 lakh / ₹10 lakh}	40,800	79,200
Business income	<u>64,800</u>	<u>79,200</u>

**Question 3 :** A proprietary business was started by Smt.Jain in the year 2016. As on 01.04.2019 her capital in business was ₹4,00,000. Her husband gifted ₹3,00,000, on 10.04.2019, which Smt.Jain invested in her business on the same date. Smt.Jain earned profits from her proprietary business for the f/y 2019-20, ₹2,50,000 and f/y 2020-21 ₹4,90,000.

Compute the income to be clubbed in the hands of Smt Jain husband for the assessment 2021-22.

**Solution:**

	₹
Capital as on 01.04.2020 (4,00,000 + 3,00,000 + 2,50,000)	9,50,000.00
Total profits	4,90,000.00
Amount to be clubbed (4,90,000 x 3,00,000 / 9,50,000)	1,54,736.84

**Question 4 :** Mr.X transferred 2,000 debentures of ₹100 each of XYZ Ltd. to Mrs.X on 03.04.2020 without consideration. The company paid interest of ₹30,000 in September, 2020 which was deposited by Mrs.X with ABC Finance Co. in October, 2020. ABC Finance Co. paid interest of ₹3,000 upto March, 2021. How would both the interest income be charged to tax in A/Y 2021-22?

**Solution :** As per section 64(1), income arising from assets transferred without adequate consideration by an individual to his spouse is liable to be clubbed in the hands of the individual, but if there is accretion to the asset, any income on such accretion should not be clubbed.

Therefore, ₹30,000, being the interest on debentures received by Mrs.X in September, 2020 will be clubbed with the income of Mr.X, since he had transferred the debentures of company without consideration to her.

However, the interest of ₹3,000 upto March 2021 earned by Mrs.X on the interest of the debentures deposited by her with ABC Finance Company shall be taxable in her individual capacity and will not be clubbed with the income of Mr. X.

**Question 5 :** A settled 1/4th share of his property under a trust for the education and maintenance of his minor daughter, P. Under the terms of the trust deed, the income accruing to the trust, after meeting the expenses of maintenance and education of P, was to be accumulated and paid over to her on her attaining majority. The Assessing Officer assessed the income arising from 1/4th share of the property, settled for the benefit of P, in the hands of A. Examine the correctness of the assessment.

**Solution :** As per section 64(1A), all income of minor child are to be clubbed with the income of the parent. Even if the trust is created for the benefit of the minor child, the income of the trust shall be clubbed with the income of the parent. In the present case, the income accruing to the trust shall be clubbed with income of Mr. A.

**Question 6 :** H, a mentally retarded minor, has a total income of ₹1,20,000 for the assessment year 2021-22. The total income of his father L and of his mother R for the relevant assessment year is ₹2,40,000 and ₹1,80,000 respectively. Discuss the treatment to be accorded to the total income of H for relevant assessment year.

**Solution :** Section 64(1A) provides that all income accruing or arising to a minor child has to be included in the income of that parent, whose total income is greater. However, the income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the income of the parents but shall be assessed in the hands of the child. Thus, the total income of H has to be assessed in his hands and cannot be included in the total income of either his father or his mother.

**Question 7 :** Mr. Z gifted a house property to Miss. Shweta on 15.03.2020. Miss Shweta married Mr. Z's son S on 01.02.2021. The income from the gifted property was ₹1,30,000, which was added by the Assessing officer in the hands of Mr. Z under the provisions of section 64(1). Is this inclusion justified in law?

**Solution :** The inclusion of the income from property in the hands of Mr. Z is not correct. Under section 64(1), the income arising directly or indirectly to the son's wife from assets transferred to her by such individual otherwise than for adequate consideration is taxable in the hands of the individual. The relationship of father-in-law/mother-in-law and the daughter-in-law should subsist both at the time of transfer of asset and at the time of accrual of income.

Therefore if assets are transferred before marriage to the would be daughter-in-law for inadequate consideration, then there will be no clubbing even after the marriage. Since Shweta was not the daughter-in-law on the date of the transfer by Mr. Z, the income from the transferred property cannot be taxed in the hands of Mr. Z.

**Question 8 :** Mr. X gifts ₹1 lakh to his wife Mrs. X on April 1, 2020 which she invests in a firm on interest rate of 14% per annum. On January 1, 2021, Mrs. X withdraws the money and gift it to her son's wife. She claims that interest which has accrued to the daughter-in-law, from January 1, 2021 to March 31, 2021 on investment made by her is not assessable in her hands but in the hands of Mr. X. Is this correct? What would be the position, if Mrs. X has gifted the money to minor grandson, instead of the daughter-in-law?

**Solution :** Section 64(1) provides that in computing the total income of any individual, there shall be clubbed all such income as arises directly or indirectly to the son's wife, of such individual, from assets transferred directly or indirectly to the son's wife by such individual otherwise than for adequate consideration.

There is an indirect transfer by Mr. X to the daughter-in-law and therefore, the interest income shall be clubbed with income of Mr. X.

If Mrs. X had gifted the money to her minor grandson, then the interest income arising to the minor shall be clubbed under section 64(1A) in the total income of that parent (son/daughter-in-law) whose total income (before including such income) is higher.

**Question 9 :** Income of A (age: 31 year) and Mrs. A (age: 30 years) for the previous year 2020-21 is follows

	A ₹	Mrs A ₹
Salary from B Ltd	2,30,000	Nil
Business income	2,00,000	16,000
Bank interest	37,000	4,000
Total Income	<b>2,67,000</b>	<b>20,000</b>

A is employed by B Ltd without any technical or professional qualification. Mrs. A holds 20 % equity share capital in B Ltd. from March 20, 2021. Find out the net income of A and Mrs. A for the A/Y 2021-22.

[Ans : 2,37,000, 2,00,000]

**Question 10 :** X and Mrs. X hold 20 % and 30 % equity shares in C Ltd. respectively. They are also employed from April 1, 2020 in Bombay branch of C Ltd. (monthly salary being ₹20,000 and ₹10,000 respectively) without any technical / professional qualification.

Other incomes of X and Mrs. X are as ₹2,60,000 and ₹2,90,000 respectively. Find out the net income of X and Mrs. X for the A/Y 2021-22.

[Ans : 2,60,000, 5,50,000]

**Question 11 :** X (age: 40 years) gifts ₹10 Lakhs to Mrs. X (age: 31 years). She deposits the same in a bank @8% pa. Y is minor child of X and Mrs. X. Y has a bank deposit of ₹70,000 (rate of interest 8.25 %) which was gifted to him by his grandfather.

Other income of X and Mrs. X is as follows- X : ₹4,00,000 [ Taxable Salary : ₹3,10,000, bank FD interest : ₹90,000], Mrs. X : ₹1,90,000 ( interest as company deposits). Out of interest income, Mrs. X deposits ₹10,000 in Public Provident Fund. X's contribution to the recognised provident fund is ₹20,000. Find out income chargeable to tax for the assessment year 2021-22.

[Ans : 4,64,280, 1,80,000]

**Question 12 :** A and B are minor sons of X and Mrs. X. Business income of X is ₹2,40,000. Income from house property of Mrs. X is ₹1,50,000. Income of A and B from stage acting is ₹90,000 and ₹1,00,000 respectively. Besides interest on company deposits of A and B (deposit was made out of income from acting) is ₹30,000 and ₹1,000 respectively.

A and B have received the following birthday gifts- on May 20, 2020, gift received by B from his grandfather: ₹80,000.

On September 14, 2020, gift received by A- ₹60,000 from X's friend and ₹35,000 from a relative. Find out the income of X, Mrs X, A and B for the A/Y21-22.

[Ans : 3,28,500, 1,50,000, 90,000, 1,00,000]

**CHAPTER -6**

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

<b><u>Process of Setting off of losses &amp; their Carry Forward</u></b>
--------------------------------------------------------------------------

**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 :** 1<sup>st</sup> 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.*

<b><u>Set off &amp; Carry forward of Loss Under Head Capital Gain</u></b>
---------------------------------------------------------------------------

**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 LTCG 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)

[Sec 78(1) not in syllabus for CA Inter]

- ✓ 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. Sec 79 : Carry forward & set off of losses for company other than company in which public are substantially interested [Sec 79 not in syllabus for CA Inter]**

**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.

**QUESTIONS FOR PRACTICE****Question 1 :** Varun, a businessman of Delhi, furnishes the following information for A/Y 21-22:

	₹
Income from house property (computed)	2,60,000
Business profits (before claiming the following deduction)	2,34,000
Current depreciation allowance	1,08,000
Unabsorbed depreciation allowance of the previous year :	
2013-14	13,000
2001-02	3,500
Unabsorbed business loss of the previous years:	
2013-14	9,000
2000-10	4,000
Current scientific research expenditure	1,06,000

Determine the net income of Varun for the assessment year 2021-22.

**Solution :**

Business profits		2,34,000
Less : Current scientific research expenditure		<u>1,06,000</u>
		1,28,000
Less : Current depreciation allowance		<u>1,08,000</u>
		20,000
Less : Brought forward business loss of the previous year		
2000-01	Nil	
2013-14	<u>9,000</u>	9,000
		11,000
Less : Unabsorbed depreciation of the previous year 2001-02 and 2013-14 to the extent of business profits		<u>11,000</u>
Business profits		Nil
Income from house property		2,60,000
Less : Unabsorbed depreciation of 2001-02 and 2013-14 to the extent not adjusted against business profits (i.e., ₹13,000 + ₹3,500 – ₹11,000)		<u>5,500</u>
Gross Total Income		2,54,500
Less : Deduction under section 80C to 80U		<u>Nil</u>
Net Income		<u>2,54,500</u>

**Question 2 :** M furnishes the following particulars of his income for the previous year 2020-21:

	₹
1. Income from salary (computed)	68,000
2. Income from house A	36,000
3. Loss from house B	24,000
4. Loss from house C	22,000
5. Profit from business A	60,000
6. Profit from business B	70,000
7. Profit from share business (speculative)	82,000
8. Loss from silver business (speculative)	94,000

9. Long-term capital gain on sale of shares on which STT paid	22,000
10. Short term capital loss on sale of land	44,000
11. Income from card games	22,000
12. Winnings from lotteries (gross)	60,000
13. Income from horse races in Delhi (gross)	40,000
14. Loss from horse races Bangalore	21,000

Compute the Gross Total Income of M for the assessment year 2021-22.

**Solution :**

	₹	₹
<b>Income from Salary</b>		68,000
<b>Income from house property</b>		
Income from house A	36,000	
Loss from house B	(-) 24,000	
Loss from house C	(-) <u>22,000</u>	(-) 10,000
<b>Income from Business</b>		
Business A	60,000	
Business B	<u>70,000</u>	1,30,000
Profit from speculation business	82,000	
Less: Loss from speculation business	(-) <u>94,000</u>	
Carried forward speculation loss	(-) <u>12,000</u>	
<b>Capital Gains</b>		
Long term capital gain	Exempt	
Less: Short term capital loss	(-) <u>44,000</u>	
Capital loss carried forward	(-) <u>44,000</u>	
<b>Income from other sources</b>		
Incoming from card games	22,000	
Winning from lotteries	60,000	
Income from horse races	<u>40,000</u>	
	1,22,000	<u>1,22,000</u>
<b>Gross total Income</b>		<u>3,10,000</u>

**Question 3 :** Y submits the following information for p/y 2020-21 relevant to assessment year 2021-22:

	₹
1. Profit from Business A situated in Delhi	1,50,000
2. Profit from Business B situated in Bombay	1,00,000
3. loss from Business C carried in New York (the business is controlled from India but profits are not received in India)	60,000
4. Unabsorbed depreciation of business C	35,000
5. Income from house property situated in India	10,000
6. Income from house property situated in London (rent received in London)	20,000

Find out the Gross Total Income of Y for the assessment year 2021-22 if he is (a) Resident in India (b) Not ordinary resident in India and (c) Non-resident in India

**Solution :**

	Resident ₹	NOR ₹	Non Resident ₹
<u>Business Income</u>			
Business A (Profit)	1,50,000	1,50,000	1,50,000
Business B (Profit)	<u>1,00,000</u>	<u>1,00,000</u>	<u>1,00,000</u>
	2,50,000	2,50,000	2,50,000
Business C (Loss); (Controlled from India but received out of India)	<u>-60,000</u> 1,90,000	<u>-60,000</u> 1,90,000	<u>Nil</u> 2,50,000
Unabsorbed depreciation of business C	<u>-35,000</u> 1,55,000	<u>-35,000</u> 1,55,000	<u>Nil</u> 2,50,000
Income from house property	-		
Property in India	10,000	10,000	10,000
Property in London	20,000	--	--
Gross Total income	1,85,000	1,65,000	2,60,000

**Question 4 :** From the following details, compute the Gross total Income of X for the A/Y 2021-22.

	₹
1. Taxable income from salary	80,000
2. Income from house property House 'A' (let out)	-95,000
House 'B' (self occupied, interest on Borrowed money)	- 9,000
3. Short term capital gain	12,000
4. Loss from long-term assets	25,000
5. Interest on securities (Gross)	10,000

**Solution :**

	₹	₹
1. Taxable income from salary		80,000
2. Income from house property House A (let out)	- 95,000	
House B (self-occupied)	<u>-9,000</u>	-1,04,000
3. Income from capital gains: Short term capital gain		12,000
4. Long term capital loss to be carried forward	-25,000	
5. Income from other Sources: Interest on Securities (Gross)		<u>10,000</u>
Gross Total Income		<u>Nil</u>

**Question 5 :** For the assessment year 2021-22, P age: 40 years, a non resident individual furnishes the following information :

	₹
Income from house property	2,18,500
Business income	1,05,000
Short term capital gains	4,22,000
Long term capital gains	2,02,500
Income from owning and maintaining race horses	1,15,000
Income from card games	2,16,000

Besides, P has the following brought forward losses / allowance :

Brought forward business loss of the assessment year 2014-15	1,12,000
Unabsorbed depreciation allowance of the assessment year 2012-13	2,06,000
Long term capital loss in respect of the assessment year 2017-18	2,47,200
Brought forward loss from the activity of owning and maintaining race horses of the assessment year 2017-18	1,25,000
Speculation losses of the assessment year 2015-16	30,000

Determine the net income of X for the assessment year 2021-22.

**Solution :**

	₹	₹
<u>Income from house property</u>		2,18,500
Business income	1,05,000	
Less : Brought forward business loss of the assessment year 2013-14	<u>- 1,12,000</u>	Nil
Business loss to be carried forward to next assessment year	<u>- 7,000</u>	
Long term capital gains	2,02,500	
Less : Brought forward long term capital loss	<u>- 2,02,500</u>	Nil
Short term capital gains		4,22,000
Income from owning and maintaining race horses	1,15,000	
Less : loss from owning and maintaining race horses of the assessment year 2017-18	<u>- 1,15,000</u>	Nil
Income from card games		<u>2,16,000</u>
Total		8,56,500
Less : Unabsorbed depreciation allowance		<u>2,06,000</u>
Gross total income		6,50,500
less : deduction under section 80C to 80U		<u>Nil</u>
Net income		<u>6,50,500</u>

**Question 6 :** H submits the following information relevant for the p/y ending March 31, 21 :

	₹
Profit of Business A carried on in India	1,80,000
Loss of Business B carried on in India	- 1,30,000
Profit of business C carried on in Canada (income is earned and received in Canada and business is controlled from Canada)	1,40,000
Loss of business D carried on in Canada (though profits are not received in India, business is controlled from Delhi)	- 1,70,000
Unabsorbed depreciation of Business D	1,52,000
Income from property situated in India	1,12,000
Income from property situated in Canada (rent is received in Canada)	1,17,000

Determine the net income of H for the assessment year 2021-22 on the assumption that he is (a) residential and ordinarily resident in India, (b) resident and not ordinarily resident in India, and (c) non resident in India.

**Solution :**

	<b>ROR</b> ₹	<b>RNOR</b> ₹	<b>NR</b> ₹
<u>Business income</u>			
Business A	1,80,000	1,80,000	1,80,000
Business B	- 1,30,000	- 1,30,000	- 1,30,000
Business C	1,40,000	Nil	Nil
Business D {business income earned and received out of India is not taxable in the hands of non resident ; loss arising from such business is therefore, non deductible}	- 1,70,000	- 1,70,000	Nil
Income from property situated in India	1,12,000	1,12,000	1,12,000
Income from property situated in Canada	<u>1,17,000</u>	--	--
Profit before depreciation	2,49,000	- 8,000	1,62,000
Unabsorbed depreciation of Business D	<u>1,52,000</u>	Nil	Nil
Business income / loss	97,000	- 8,000	1,62,000
Gross total income	97,000	Nil	1,62,000
Less : Deduction under section 80C to 80U	<u>Nil</u>	Nil	Nil
Net income / loss	<u>97,000</u>	Nil	1,62,000
Unabsorbed depreciation C/f		1,52,000	
Business loss C/F		8,000	

**Question 7 :** Naresh, an individual, submits the following information relevant for the A/Y 2021-22 :

	Profit( ₹)	Loss ( ₹)
Salary income	42,000	
Income form house property		
House A	15,000	
House B		17,000
House C		21,000
Profits and Gains of business or Profession :		
Business A	8,000	
Business B		18,000
Business C ( speculative)	11,000	
Business D ( speculative)		23,000
Capital gains :		
Short term- capital gains	6,000	
Short term- capital loss		28,000
Long term capital gains on sale of building	12,500	
Income from other sources :		
Income from card games	8,000	
Loss from card games		7,010
Loss on maintenance of race horses		6,000
Interest on securities	4,000	

Determine the net income of Naresh for the assessment year 2021-22.

**[Ans : 27,000]**

**Question 8 :** Om Prakash submits the following information relevant for the P/Y ending March 31, 21 :

Profit of Business A carried on in India	80,000
Loss of Business B carried on in India	(-) 30,000
Profits of business C carried on in Canada (income is earned and received in Canada) and business is controlled in Canada	40,000
Loss of Business D carried on in Canada (though profits are not received in India, Business is controlled from India)	(-) 70,000
Unabsorbed depreciation of Business D	52,000
Income from property situated in India	12,000
Income from property situated in Canada (rent is received in Canada)	17,000

Determine the net income of Om Prakash for A/Y 2021-22 on assumption that he is (a) resident & ordinarily resident in India, (b) resident & not ordinarily resident in India, and (c) non-resident in India.

[Ans: a) TI = NIL ,unabsrb depr : 3,000 b) TI =Nil, Unabsrb depr : 52,000 c) income : 62,000]

**Question 9:** Shyam Sunder (age: 40 years), a non-resident individual, furnishes the following information:

Income from house property	18,500
Business income	5,000
Short – term capital gains	22,000
Long term capital gains	2,500
Income from owing and maintaining race horses	15,000
Income form card games	16,000
Besides, X has the following brought forward losses/ allowances:	
Brought forward business loss of the assessment year 2015-16	12,000
Unabsorbed depreciation allowance of the assessment year 2011-12	6,000
Long – term capital loss in respect of the assessment year 2017-18	47,200
B/F loss from activity of owning & maintaining race horses of A/Y 2019-20.	25,000
Speculation losses of the assessment year 2017-18	30,000

Determine the net income of Shyam Sunder for the assessment year 2021-22.

Ans : 50,500 , LTCL of ₹44,700 c/f , Loss of O/M race horses C/f ₹10,000 , Speculation loss of ₹30,000 not c/f , Business loss of ₹7000 c/f

**Question 10:** A submits the following particulars of his income and loss for the A/Y 2021-22:

1. Income from house property (computed)	7,000
2. Income from interest from a firm	1,500
3. Profit from cloth business (before depreciation)	40,000
4. Income from speculation business	3,200
5. Long-term capital gain	9,100
6. Dividend from UTI (units are held as stock-in-trade) (Gross)	2,000
7. Current year's depreciation	2,000

The following items have been brought forward from the preceding year

- (i) Loss from cloth business ₹10,000 (ii) unabsorbed depreciation ₹7,500.(iii) loss from speculation ₹7,000  
(iv) short-term capital loss ₹4,200 (v) long-term capital loss ₹11,400

You are required to compute his gross total income and deal with the carry forward losses.

[Ans : GTI = 29,000, Speculative Loss c/f ₹3,800, LTCL c/f ₹2,300, STCL c/f 4,200]

**Question 11:** From the following particulars, compute the Gross Total Income for C for A/Y 21-22

(i) Loss under the head 'house property' from a house which is let out	15,000
(ii) Income from business	20,000
(iii) Profit from speculation business	5,000
(iv) Long-term capital gains from building	30,000
(v) Short-term capital loss	7,000
(vi) Loss under the head 'Income from other Sources'	12,000

[Ans: 21,000]

**Question 12 :** Mr. A submits the following particulars pertaining to the A.Y.2021-22:

Particulars	₹
Income from salary	4,00,000
Loss from self-occupied property	(-) 70,000
Business loss	(-) 1,00,000
Bank interest (FD)	80,000

Compute the taxable income of Mr. A for the A.Y.2021-22.

**Solution : Computation of taxable income of Mr. A for the A.Y. 2021-22**

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Income from house property	(-) 70,000	3,30,000
Business income	(-) 1,00,000	
Income from other sources (interest on fixed deposit with bank)	80,000	
Business loss to be carried forward	(-) 20,000	-
Gross total income [See Note below]		3,30,000
Less: Deduction under chapter VIA		Nil
Taxable income		3,30,000

**Note:** Gross Total Income includes salary income of ₹ 3,30,000 after adjusting house property loss. Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

**Question 13 :** Mr. B, a resident individual, furnishes the following particulars for the P.Y. 2020-21:

Particulars	₹
Income from salary (Net)	45,000
Income from house property	(24,000)
Income from business – non-speculative	(22,000)
Income from speculative business	(4,000)
Short-term capital gains	(25,000)
Long-term capital gains	19,000

**Solution :** The total income chargeable to tax for the A.Y. 2021-22 is calculated as under:

Particulars	Amount ₹	Amount ₹
Income from salaries	45,000	
Income from house property	(24,000)	21,000
Profits and gains of business and profession		
Business loss to be carried forward [Note 1]	(22,000)	
Speculative loss to be carried forward [Note 2]	(4,000)	
Capital Gains		
Long term capital gain	19,000	
Short term capital loss	(25,000)	
Short term capital loss to be carried forward [Note 3]	(6,000)	
Taxable income		21,000

**Note 1:** Business loss cannot be set-off against salary income. Therefore, loss of ₹22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.

**Note 2:** Loss of ₹4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.

**Note 3:** Short term capital loss can be set off against both short term capital gain and long term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

**Question 14 :** During the P.Y. 2020-21, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y. 2019-20	(96,000)
Short term capital loss of A.Y. 2020-21	(37,000)
Long term capital gain	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2021-22?

**Solution :** The capital gains taxable are as under:

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short term capital loss of the A.Y.2020-21	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long term capital loss of A.Y.2019-20	(75,000)	
[See Note below]		Nil
Taxable short-term capital gains		1,13,000

**Note:** Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long term capital loss of A.Y. 2019-20 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) has to be carried forward to the next year to be set-off against long-term capital gains of that year.

**Question 15 :** Mr. D has the following income for the P.Y. 2020-21

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2018-19)	96,000

What is the taxable income in the hands of Mr. D for the A.Y. 2021-22?

**Solution :** The taxable income is calculated as under:

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss from the activity of owning and maintaining race horses	<u>96,000</u>	
Loss from the activity of owning and maintaining race horses to be carried forward to A.Y.2022-23	<u>(21,000)</u>	
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	<u>50,000</u>	35,000
Taxable business income		<u>35,000</u>

**Note:** Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

**Question 16 :** Mr. E has furnished his details for the A.Y.2021-22 as under:

Particulars	₹
Income from salaries	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2019-20	(30,000)
Winning from lotteries	20,000

What is the taxable income of Mr. E for the A.Y. 2021-22?

**Solution :** Computation of taxable income of Mr. E for the A.Y.2021-22

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less: Loss from non-speculation business	<u>(40,000)</u>	20,000
Short-term capital gain		80,000
Winning from lotteries		20,000
Taxable income		<u>2,70,000</u>

**Note:** Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

**Question 17 :** Compute the gross total income of Mr. F for the A.Y.2021-22 from the information given below –

Particulars	₹
Net income from house property	1,25,000
Income from business (before provided for depreciation)	1,35,000
Short term capital gains on sales of shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2020-21)	(90,000)
Income from tea business	1,20,000
Dividend from Indian companies carrying on agricultural operations	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

**Solution :** The gross total income of Mr. F for the A.Y. 2021-22 is calculated as under:

Particulars	₹	₹
Income from house property		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Income from the capital gains		
Short term capital gains	56,000	
Long term capital loss from property (cannot be set off)	Nil	56,000
Gross Total Income		2,93,000

**Note:** Dividend from Indian companies is exempt from tax. 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax.

**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.

<b><u>Method of Accounting (Sec. 145)</u></b>
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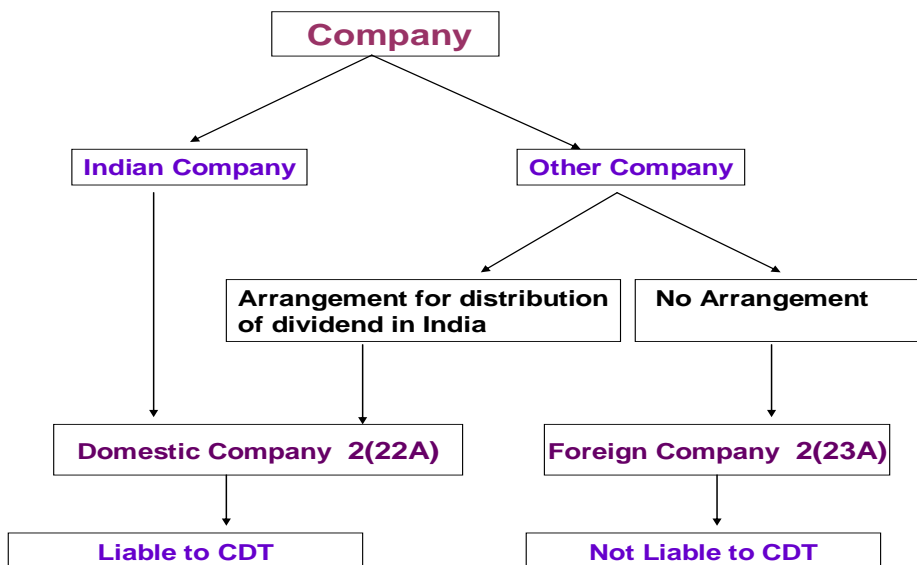
Income under head **Other Sources** is to be calculated on basis of **Cash or Mercantile basis** of accounting **regularly employed** by the assessee

<b>1. <u>Taxation of Dividend Received from Companies</u></b>
---------------------------------------------------------------

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 <b>Assets</b>	<b>Debentures</b> , debenture-stock, deposit certificate with or without interest.	<b>Bonus</b> shares	Any money or asset on its <b>liquidation</b>	Any money or asset on <b>Reduction of its capital</b>

**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**

<b>Sec 115QA : <u>Tax on Distributed Income to Shareholders.</u></b>
----------------------------------------------------------------------

***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.

<b><u>Taxation of Income Received from Mutual funds</u></b>
-------------------------------------------------------------

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**

<b>1.</b>	<b>Rate of TDS</b>	30%
<b>2.</b>	<b>Exemption Limit</b>	Aggregate upto ₹10,000 in a P/Y

**Sec. 194BB: T.D.S on Horse Races**

<b>1.</b>	<b>Rate of TDS</b>	30%
<b>2.</b>	<b>Exemption Limit</b>	Aggregate upto ₹10,000 in P/Y

**Special Points :**

- Deduction u/s Sec 80 C to Sec 80 U **will not** be available from such **Incomes**.
- Sec. 58: No Deduction** shall be allowed from **such incomes**
- 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**

- 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 <b>Central or State Government</b> <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 <b>Listed securities</b> which are in <b>Demat</b> form</p> <p>3. <i>Interest to Resident Individual or Resident HUF on debenture of company in which public are substantially interested, if</i>  <i>(a) Total interest during p/y is upto 5,000 &amp;</i>  <i>(b) Interest is paid by account payee cheque</i></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.	<b>Exception</b>  <i>No TDS in following cases</i>	1. Interest by firm to a partner 2. Interest by coop. society( <i>other than coop bank</i> ) to member 3. Interest by bank on saving account 4. Interest paid to banks/financial corporations 5. Interest paid on compensation awarded by motor accidents claims tribunal upto 50,000
6.	<b>Exemption Limit</b>	<b>Payer Bank/Post office</b> : Interest upto ₹40,000 in P/Y <b>Other Payer</b> : Aggregate upto ₹ 5,000 in P/Y  <b>For Deposit of senior citizen</b> : 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

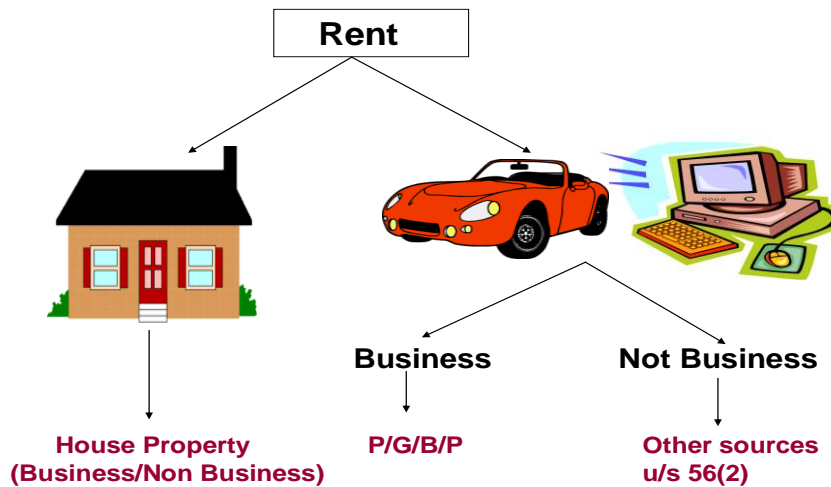
However Deeming provisions of sec 94(1) is not applicable if

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

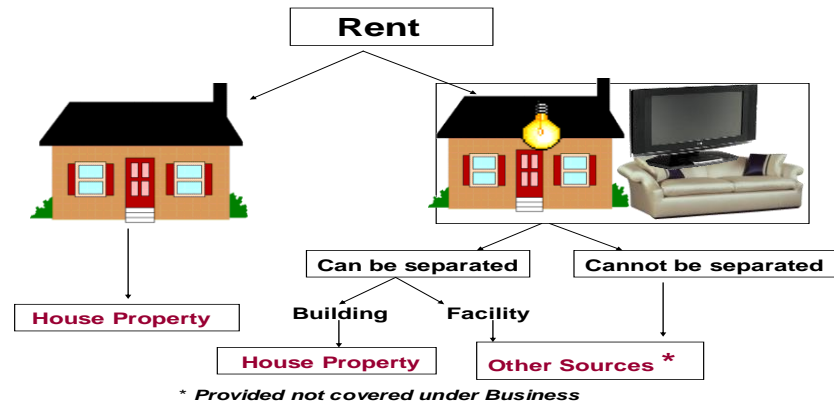
*If letting is as part of his business activity than under P/G/B/P*



#### 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.

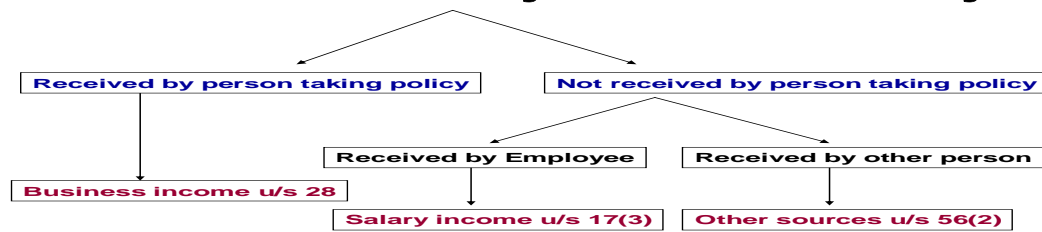
*If letting is as part of his business activity than under P/G/B/P*



### 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

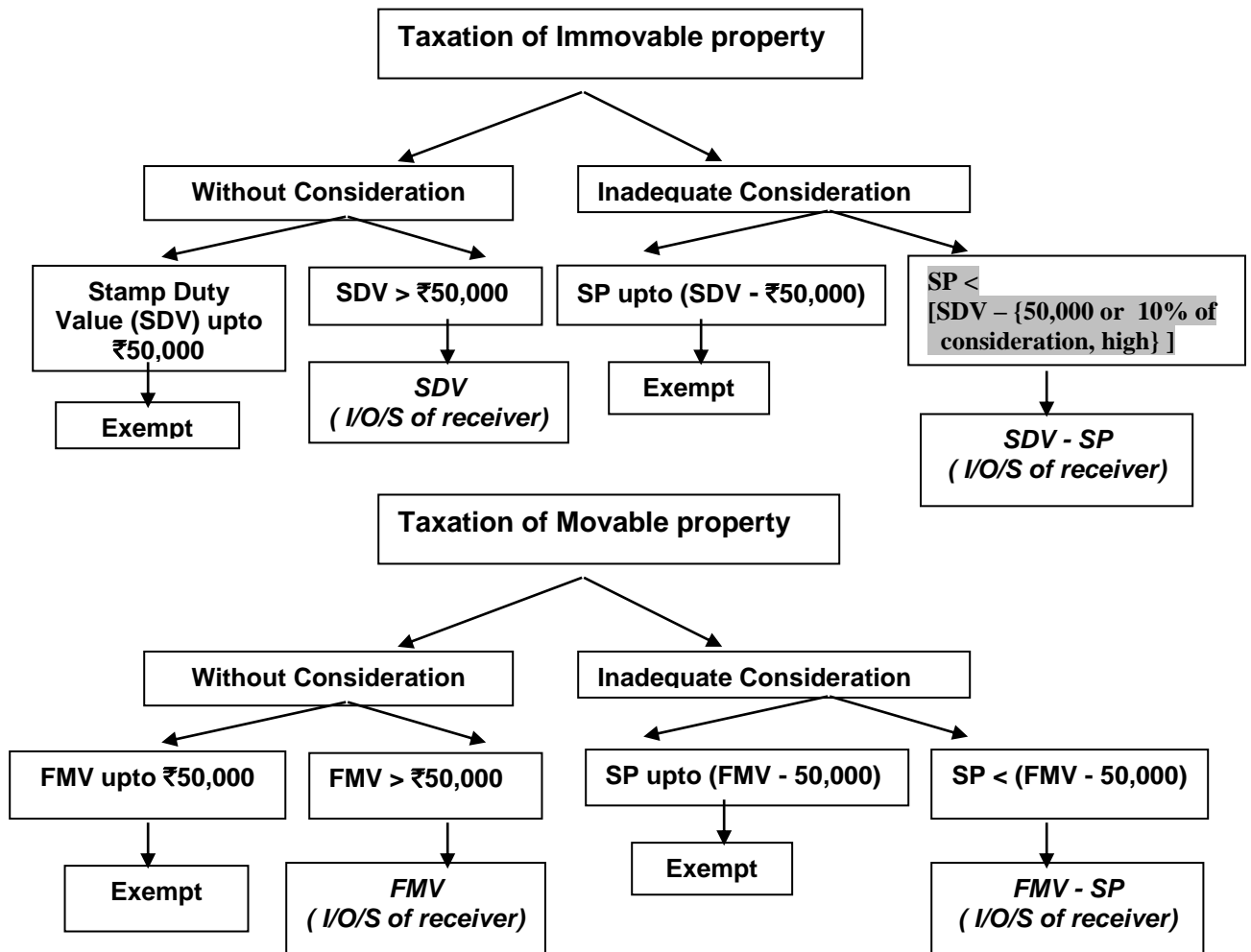
#### A. Taxation of Monetary Gifts

- ☐ 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**

1/3<sup>rd</sup> 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**

<b>10(18)</b>	<b>Pension</b> received by Individual or <b>Family Pension</b> 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.
<b>10(19)</b>	<b>Family pension</b> 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 : No deduction of following expenses from Income from Other Sources**

- 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")

**QUESTIONS FOR PRACTICE**

**QUESTION 1 :** Mr. Sanjay Anand has taken a loan of ₹1,00,000 @ 10%. The amount was invested by him in the securities of one company. During the year he has received gross interest of ₹18,000 and has paid collection charges to the bank ₹500. He has paid interest ₹10,000 on the loan taken by him for investment and has long term capital gain of ₹2,00,000.

Compute his tax liability for assessment year 2021-22.

**Solution:**

	₹
Gross Interest	18,000
Less:	
(i) Bank Charges u/s 57	500
(ii) Interest paid for borrowing the amount u/s 57	10,000
Income under the head Other Sources	7,500
Income under the head Capital Gains (LTCG)	2,00,000
Total Income	2,07,500

***Computation of Tax Liability***

Tax on ₹7,500 (₹2,00,000 -2,00,000) @ 20% u/s 112	Nil
Tax on ₹7,500 at slab rate	Nil

**QUESTION 2 :** Mrs.Goel is getting family pension of ₹7,000 p.m. and has incurred ₹50 p.m. as bank collection charges. She also has dividend income from domestic company of ₹7,00,000 and bank collection charges are ₹1,000. She has long term capital gain of ₹3,89,000. He is not covered u/s 115BAC

Compute her tax liability for assessment year 2021-22.

**Solution:**

	₹	₹
Family Pension	84,000	
(7,000 x 12)		
Less: Deduction u/s 57	15,000	69,000
1/3 of ₹84,000 or ₹15,000 whichever is less		
Dividend income		<u>7,00,000</u>
Income under the head other sources		7,69,000
Income under the head Capital Gains		
Long term capital gain		<u>3,89,000</u>
Gross Total Income		11,58,000
Less: Deduction u/s 80C to 80U		Nil
Total Income		<u>11,58,000</u>

***Computation of Tax Liability***

Tax on ₹3,89,000 @ 20% u/s 112	77,800
Tax on ₹7,69,000 at slab rate	<u>66,300</u>
	1,44,100
Add: HEC @ 4%	<u>5,764</u>
Tax Liability	1,49,864
Rounded off u/s 288B	<b>1,49,860</b>

**QUESTION 3 :** Mr. Naresh Goyal has one factory building along with machines and furniture in Mumbai which has been let out @ ₹50,000 p.m. Repair charges of the building is ₹7,000 and that of furniture fixtures are ₹4,000, insurance premium paid ₹3,000 and depreciation is ₹27,000.

Compute his income under the head other sources.

**Solution:**

	₹
Gross Rent (50,000 x 12)	6,00,000
Less: Repair of building	7,000
Less: Repair of Furniture and fixtures	4,000
Less: Insurance premium	3,000
Less: Depreciation	27,000
Income under the head Other Sources	5,59,000

**QUESTION 4 :** Mr. Nitin Kumar has one factory building with machines and furniture, which has been let out @ ₹50,000 p.m. and repair charges of the building are ₹10,000, insurance premium ₹ 7,000 and repair charges of plant & machinery is ₹3,000. Insurance premium ₹1,000 and depreciation with regard to building plant & machinery etc. is ₹12,000.

Compute his income under the head other sources.

**Solution:**

	₹
Gross Rent (50,000 x 12)	6,00,000
Less: Repair of building	10,000
Less: Insurance premium	7,000
Less: Repair of plant and machinery	3,000
Less: Insurance premium	1,000
Less: Depreciation	12,000
Income under the head other sources	5,67,000

**QUESTION 5 :** Mrs.Parul has received incomes as given below during the previous year 2020-21:

1. Interest on savings bank account with State Bank ₹ 15,500 (gross).
2. Interest from Government securities ₹1,000 on 01.01.2019 (collection charge paid to bank @ 1.5%).
3. Interest from ABC Ltd on non listed debentures ₹4,000 (gross) on 01.03.2020 (collection charge paid to the bank ₹30).
4. Interest credited to post office savings bank account during the year ₹ 230.
5. Interest credited to public provident fund during the year ₹ 12,000.
6. Interest received from XYZ Ltd on listed debentures ₹ 5,000 (gross).  
(Collection charge ₹30) The amount was invested by taking a loan of ₹1,00,000 @ 7% p.a.

Mrs. Parul has income from house property ₹2,30,000.

Compute her tax liability for the assessment year 2021-22. Assuming covered u/s 115BAC

**Solution :****Income under the head other sources**

	₹
Gross interest from State Bank of India	15,500.00
Interest from Government securities {₹1,000 – ₹15}	985.00
Interest from ABC Ltd {₹4,000 – ₹30}	3,970.00
Interest on P.O.S.B (exempt u/s 10(15))	Nil
Interest on PPF	Nil
Interest from XYZ Ltd. {Gross interest = ₹5,000 Less: Collection charges = ₹30 Less: Interest paid on loan = ₹7,000}	(2,030.00)
Income under the head Other Sources	18,425.00
Income under the head House Property	2,30,000.00
Gross Total Income	2,48,425.00
Less: Deduction u/s 80TTA (₹15,500 or ₹10,000 whichever is less)	10,000.00
Total Income (rounded off u/s 288A)	2,38,430.00

**Computation of tax liability**

Tax on ₹2,38,430 at slab rate	NIL
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**QUESTION 6 :** Mr. Prakash Garg has income from business of owning and maintaining race camels ₹60,000, loss from owning and maintaining race horses ₹7,000 and income from horse races ₹7,000. He has brought forward business loss of ₹8,000 of the assessment year 2010-11 and brought forward business loss of ₹7,000 of the assessment year 2018-19.

Compute his tax liability for the assessment year 2021-22. Assume not covered u/s 115BAC

**Solution :**

	₹
Income under the head Business/Profession	60,000
Less: Brought forward business loss	7,000
Income under the head Business/Profession	53,000
Income under the head Other Sources (horse races)	7,000
Gross Total Income	60,000
Less: Deductions u/s 80C to 80U	Nil
<b>Total Income</b>	<b>60,000</b>

**Computation of tax liability**

Tax on ₹7,000 @ 30%	2,100
Tax on ₹53,000 at slab rate	Nil
Less: Rebate u/s 87A	2,100
Tax after rebate	NIL

**QUESTION 7 :** Mr. Rohit Kumar has income from owning and maintaining of race horses ₹ 6 lakhs and loss from horse races ₹ 10 lakhs.

Determine his tax liability for the assessment year 2021-22.

Assume covered u/s 115BAC

**Solution**

	₹
Income under the head Other Sources	6,00,000
Gross Total Income	6,00,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	6,00,000
Tax on ₹6,00,000 at slab rate	22,500
Add: HEC @ 4%	900
Tax Liability	<b>23,400</b>

**Note:** Loss from casual income has no tax treatment and hence it is dead loss.

**QUESTION 8 :** Mr. Arun Goel has loss from owning and maintaining of race horses ₹ 6 lakhs and income from owning and maintaining of race camels ₹ 6 lakhs.

Determine his tax liability for the assessment year 2021-22.

Assume not covered u/s 115BAC

**Solution :**

	₹
Income under the head Business/Profession	6,00,000
Gross Total Income	6,00,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	6,00,000
Tax on ₹6,00,000 at slab rate	32,500
Add: HEC @ 4%	1,300
Tax Liability	33,800
Carry forward loss from owning and maintaining race horses	6,00,000

**QUESTION 9 :** Find the tax liability of Mrs. Gupta (age 40 years), a resident individual, for the assessment year 2021-22. From the following particulars of her incomes and spending for P/Y ending March 31<sup>st</sup>, 2021.

	₹
Income from house property (Computed)	1,20,000
Dividend from UTI	35,000
Pension (gross)	90,000
Interest on bank FD (gross)	14,000
Dividend from foreign company	36,000
Gift received from her sister	26,000
Winnings from lotteries (gross)	70,000
Long-term capital gain	1,20,000
Payment for purchase of National Savings Certificates (VIII issue).	35,000
Assume covered u/s 115BAC	

**Solution :**

	₹
Income from House Property	<u>1,20,000</u>
<b>Computation of income under the head Other Sources</b>	
Dividend from UTI	35,000
Pension (no deduction as covered u/s 115BAC)	90,000
Interest on bank FD	14,000
Dividend from foreign company	36,000
Winning from lottery	70,000
Income under the head Other Sources	<u>2,45,000</u>
Income under the head Capital Gains (LTCG)	<u>1,20,000</u>
<b>Gross Total Income</b>	<u>4,85,000</u>
Less: Deduction u/s 80C	35,000
<b>Total Income</b>	<u>4,50,000</u>

**Computation of Tax Liability**

Tax on Long term capital gain ₹1,20,000 @ 20% u/s 112	24,000
Tax on casual income ₹70,000 @ 30% u/s 115BB	21,000
Tax on ₹2,60,000 at slab rate	<u>500</u>
Tax before Rebate u/s 87A	45,500
Less : Rebate u/s 87A	<u>12,500</u>
Tax before HEC	33,000
HEC @ 4%	<u>1,320</u>
<b>Tax Liability</b>	<u>34,320</u>

**QUESTION 10 :** ABC Ltd. a closely-held company has bonus share capital of ₹10 lakhs, General Reserves of ₹6 lakhs and current profits of ₹2 lakhs. The company has given a loan of ₹9 lakhs to one of the shareholders, who is beneficial owner of equity shares holding 10% of the voting power.

Compute amount of dividend in the hands of shareholder.

**Solution :** In this case dividend under section 2(22)(e) shall be ₹8 lakhs i.e. to the extent of the accumulated profits of the company excluding capitalized profits. It shall be taxable in hands of shareholder under IOS.

**QUESTION 11 :** Mr. Rohit Aggarwal is beneficial owner of equity shares holding 10% of the voting power in ABC Ltd, a closely held company. He is partner in a partnership firm XY and has 20% share in the firm. The company has given a loan of ₹5 lakhs to the firm and company's accumulated profits are ₹6 lakhs.

Compute amount of dividend in the hands of shareholder and the firm.

**Solution :** In this case deemed dividend is ₹5 lakhs as per section 2(22)(e). It shall be taxable in hands of receiver under IOS.

**QUESTION 12 :** Mr. Kapoor is holding 10% equity shares in ABC Ltd, a closely-held company and he has taken a loan of ₹3 lakhs on 01.10.2020. The loan was repaid after ten days. The company has accumulated profits of ₹10 lakhs.

Compute amount of dividends in the hands of Mr. Kapoor.

**Solution :** In this case deemed dividend shall be ₹3 lakhs. Because if any loan is taken it is dividend, even if it is repaid in the same year or at any other time. It shall be taxable in hands of shareholder under IOS

**QUESTION 13 :** ABC Ltd. is a company in which public are not substantially interested. The company has Bonus share capital of ₹5 lakh and General Reserve of ₹7 lakh and the company has given a loan of ₹8 lakh to one of the shareholders who is holding 10% of the voting power.

Compute amount of dividend taxable in the hands of shareholder.

**Solution :** In this case there will be deemed dividend of ₹7 lakhs. It shall be taxable in hands of shareholder under IOS.

**QUESTION 14 :** There is a partnership firm XY. Mr. Suresh Kumar is holding 10% of the voting power of the closely held company and he has 20% share in profits of the firm. A loan of ₹3 lakh has been given to this partnership firm by the company having General Reserve of ₹10 lakhs.

Compute amount of dividend and discuss its taxability.

**Solution :** In this case, deemed dividend shall be ₹3 lakhs and It shall be taxable in hands of shareholder under IOS

**Question 15:** Mrs. X who draws a salary of ₹20,000 p.m. received the following gifts during P/Y 2020-21:

- (a) Gifts of ₹5,00,000 from a friend.
  - (b) Gifts of jewellery worth ₹3,00,000 from her father
  - (c) Gifts of ₹51,000 each received from her 4 friends on the occasion of her marriage.
  - (d) Gifts of ₹1,00,000 from her mother's sister.
  - (e) Gifts of ₹60,00 from her father's brother.
  - (f) Gifts of ₹50,000 from her husband's friend
  - (g) Gifts of ₹21,000 from her mother's friend.
  - (h) Gifts of ₹26,000 from her brother's father in law.
  - (i) Gifts of ₹1,21,000 from her husband's brother.
  - (j) Gifts of ₹26,000 from her employer.
  - (k) Scholarship of ₹1,20,000 from a charitable institution registered under section 12AA.
- Compute total income for the assessment year 2021-22. Assume not covered u/s 115BAC

**Solution**

**Income under the head salary**

	₹
Salary 20,000 X 12	2,40,000
Add: Cash gift from employer	<u>26,000</u>
	2,66,000
Less: deduction	<u>50,000</u>
	<b>2,16,000</b>

**Income from other sources**

(i) Gift from a friend is included	5,00,000
(ii) Gift of jewellery exempt as from relative	--
(iii) Gifts received from her 4 friends are exempt as they have been received on the occasion of her marriage	--
(iv) Gift from her mother's sister is exempt as the donor is covered in the definition of relative	--
(v) Gift from her father's brother is exempt as the donor is Covered in the definition of the relative	--
(vi) Gift of ₹50,000 from her husband's friend is taxable	50,000
(vii) Gift of ₹21,000 from her mother's friend is includable	21,000
(viii) Gift from her brother's father in law is taxable as the donor is not covered in the definition of relative	26,000
(ix) Gift from her husband's brother is exempt as the donor is not covered in the definition of the relatives	--
(x) Gift from her employer is taxable as income from salary	--
(xi) Gift in the form of scholarship from charitable institution registered u/s 12AA	<u>Exempt</u>
	<b><u>5,97,000</u></b>
<b>Total income</b>	<b>8,13,000</b>

**Question 16 :** Shri Arun is a businessmen dealing in chemicals. On 1-4-2019 the position of his investments was as under.

1. ₹24,000 7 1/2% Government of India Loan, 2002.
2. ₹36,000 9% (Tax free) Debentures of Birla Jute Mills Ltd. (listed).
3. ₹10,000 12% debentures of G Ltd.
4. Interest on National Saving Certificate (VIII issue) due ₹3,860
5. ₹25,000 10% Rajasthan Government Loan
6. ₹10,000 Capital investment Bonds.

The due dates of interest of all the above securities are 1<sup>st</sup> May and 1<sup>st</sup> November, Calculate income from other sources for the assessment year 2021-22.

[Ans : (1,800+3,600+1,200+3,860+2,500=12,972)]

**Question 17:** Shri Manish furnishes the following particulars of his incomes for the previous year 20-21  
Compute income under the head “income from Other Sources.”

	₹
(i) Dividend on equity shares	600
(ii) Dividend on preference shares (gross)	3,200
(iii) Income from letting on hire of building and machinery under one composite lease	17,000
(iv) Interest on Bank Deposits	2,500
(v) Directors sitting fees received	1,200
(vi) Ground rent received	600
(vii) Income from undisclosed sources	10,000
(viii) Winnings from lotteries (gross)	10,000
The following deductions are claimed by him	
(a) Collection charges of preference dividend	200
(b) Allowable depreciation on Building and Machinery	4,000
(c) Fire Insurance on Building and Machinery	100

[Ans : 41,000]

**Question 18 :** Shri Karan furnishes the following particulars of his income for F/Y ending 31-3-2021.

- (i) Dividends from UTI : ₹2,000
- (ii) Dividends received from Assam Tea Co. Ltd : ₹3,000 (60% of income of the company is agricultural income)
- (iii) Amount received in connection with winning from a horse race : ₹5,600.
- (iv) Amount received in connection with winning from lottery : ₹28,000.  
Cost of lottery tickets purchased : ₹2,000.
- (v) Directors fees received: ₹20,000.
- (vi) He has rented a residence of ₹2500 per month. Half portion of this house was sub-let on a monthly rent of ₹2500 p.m.

Compute his taxable income for the assessment year 2021-22.

[Ans : 88,000]

**Question 19 :** From the following particulars submitted by Abhishek, compute his income from other sources for the assessment year 2021-22.

	₹
Director's meeting fees received from Y Ltd.	3,000
Agricultural income from land situated in India	10,000
Agricultural income from Nepal	15,000
Interest:	
(a) from bank on FDR	12,000
(b) on post office saving account	600
(c) on government securities	1,200
(d) on Public Provident Fund a/c	4,000
(e) On National Saving Certificate VIII issue	3,000
Dividend from A Limited declared on 25-8-2020	8,000
Lottery prize received after T.D.S	28,000
Rent from sub-letting of a flat	12,000
(Rent paid to landlord for the flat is ₹6,000)	

Abhishek spent ₹600 for realizing the rent. He had also spent ₹10,000 for the purpose of lottery ticket.

[Ans : 87,600]

## 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)]

<b>COMPUTATION OF INCOME UNDER HEAD SALARY</b>
------------------------------------------------

**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.

<b>Section 17(1): Salary Includes</b>
---------------------------------------

- (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 1<sup>st</sup> October, 2019 to 30<sup>th</sup> September, 2020. From 1<sup>st</sup> October, 2020 to 30<sup>th</sup> 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.

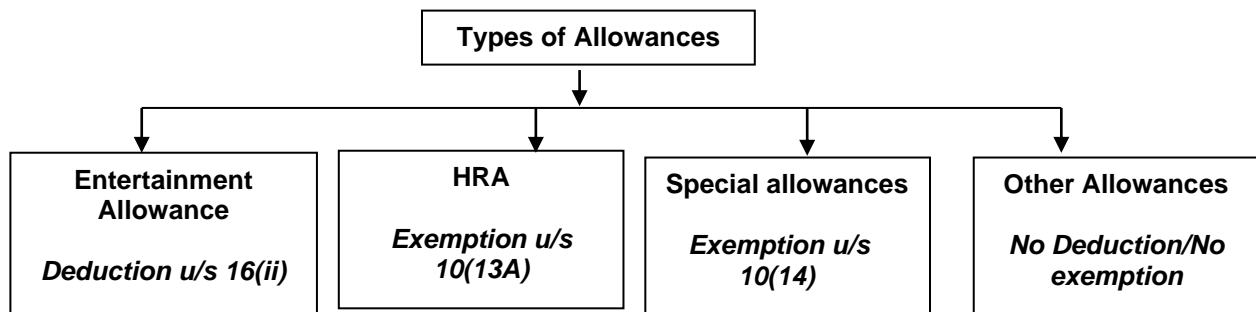
**COMMISSION**

- 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. <b>Rule 2BB (1)</b> - Granted to meet official expenses  <b>Exemption :</b> Actual amount of allowance <b>or</b> <b>Amount Spent for official purpose</b> <i>whichever is less</i>	- Prescribed allowances u/d. <b>Rule 2BB(2)</b> - Granted to meet personal expenses  <b>Exemption:</b> Actual amount of allowance <b>or</b> <b>Specified Limit , whichever is less</b>

Allowance specified under rule 2BB(1)			Allowance specified under rule 2BB(2)		
1	<b>Travelling Allowance</b>	Allowance to meet cost of travel on tour <b>or</b> on transfer	1	<b>Children Education Allowance</b>	<b>₹ Max 100/- pm per child</b> (max. 2 child)
2	<b>Daily Allowance</b>	Granted to meet ordinarily daily charges on tour <b>or</b> on transfer	2	<b>Hostel Expenditure Allowance</b>	<b>₹ Max 300/- pm per child</b> (max. 2 child)
3	<b>Conveyance Allowance</b>	Granted to meet expenditure on conveyance for office duty <i>provided</i> free conveyance is not provided by the employer	3	<b>Tribal Area Allowance</b>	For employees working in Madhya Pradesh, Tamilnadu, U.P, Bihar, Karnataka, Tripura, Assam, West Bengal, Orissa  <b>₹Max 200/- pm</b>
4	<b>Helper Allowance</b>	Granted to meet expenditure on helper where helper engaged for performance of office duty	4	<b>Transport Allowance</b>  <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	<b>Academic Allowance</b>	Granted for encouraging Academic, Research & training in Education & Research Institutions	5	<b>Allowance for Transport Employees only</b>	Allowance to meet personal expenditure of such employee during his duty  <b>70% allowance or ₹10,000/-pm , whichever is less</b> Exemption only if employee not receiving daily allowance
6.	<b>Uniform allowance</b>	Granted to meet expenditure on purchase or maintenance of uniform for office	6	<b>Underground Allowance</b>	Employee working in unnatural climate in underground mines <b>₹800/- pm.</b>
			7	<b>Counter Insurgency Allowance</b>	<b>For armed forces ₹3,900/- pm</b>
<b><u>Special Point:</u></b> 1. <b><u>Travelling allowance</u></b> shall include sum paid for transfer, packing and transportation of personal effects on such transfer  2. <b><u>Conveyance allowance</u></b> will be exempt only if free conveyance is not provided			8	<b>Island duty allowance</b>	<b>For armed forces working in Andaman &amp; Lakshadweep islands ₹3250/-Pm</b>
			9	<b>High altitude allowance</b>	<b>For armed forces</b> 9000 to 15000 ft : <b>₹1060 p.m</b> Above 15000 ft : <b>₹1600 p.m</b>

**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*)

<b><u>1<sup>st</sup> PERQUISITE : RENT FREE ACCOMMODATION</u></b>
-------------------------------------------------------------------

***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 :**

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

<b>Other Employee</b>			
<b>Unfurnished Accommodation</b>		<b>Furnished Accommodation</b>	
<b>(B)</b>		<b>(C)</b>	
<b>If Owned by employer</b>		<b>Not owned (e.g Rent or lease)</b>	<b>Other than in Hotel</b>
Population ( <i>as per 2001 census</i> ) of city in which house provided	<b>RFA salary</b>	Rent paid / Payable by employer	Value <b>(B)</b> or <b>(C)</b> <b>Add :</b> 10% p.a of actual cost of furniture etc <b>(if owned)</b> <b>or</b> Actual hire charges payable <b>(if hired)</b>
Upto 10 lakhs	<b>7.5%</b>	<b>or</b> <b>15% of RFA salary</b>	Same as for Govt employee
More than 10 lakhs but upto 25 lakhs	<b>10%</b>	<b>Whichever is less.</b>	
More than 25 lakhs	<b>15%</b>		

**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. 2<sup>nd</sup> PERQUISTE : 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

**3<sup>rd</sup> PERQUISTE : 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

**4<sup>th</sup> PERQUISTE : 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

**5<sup>th</sup> 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 **1<sup>st</sup> 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

<b>Laptop/Computers</b>	<b>Exempt</b> as per Rule 3
<b>Telephone including mobile</b>	<b>Exempt</b> as per Rule 3
<b>Motor Cars</b>	<b>Taxable</b> under Perquisites for <i>Specified Employees</i>
<b>Other Movable Assets</b>	<p><u>If owned by employer</u> : <b>10% p.a of original cost</b></p> <p><u>In other cases</u> : <b>100% of hire charges</b> 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

<b>COMPUTER &amp; ELECTRONIC ITEMS</b>	<b>MOTOR CAR</b>	<b>OTHER MOVABLE ASSETS</b>
Actual cost to Employer <b>Less :</b>	Actual cost to Employer <b>Less :</b>	Actual cost to Employer <b>Less :</b>
<b>50% reduction on WDV basis</b> (for each completed year asset used by employer)	<b>20% reduction on WDV</b> basis (for each completed year asset used by employer)	<b>10% reduction on SLM basis</b> (for each completed year asset used by employer)
<b>Less : Selling Price</b>	<b>Less : Selling Price</b>	<b>Less : Selling Price</b>

**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)*

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

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

**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 &amp; exclusively for official purpose</i>	<i>Other Purposes</i>
<b>Nil,</b> <i>Provided:</i> a) Details of date & nature of expenditure maintained by employer <b>and</b> b) Employer certifies that expenditure incurred for official purpose	<b>Amount paid or reimbursed by employer</b>  <i>Less: Amount recovered from employee</i>

**Special point :** Credit card includes **add on card**

### h) Club membership & Club Expenses

<b>Club membership &amp; club expenses (including annual or periodic fees)</b>	
<i>Paid or reimbursed wholly &amp; exclusively for official purpose</i>	<i>Other Purposes</i>
<b>Nil, Provided :</b> a) Details of date & nature of expenditure maintained by employer and b) Employer certifies that expenditure incurred for official purpose	<b>Amount paid or reimbursed by employer</b>  <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

## **6<sup>TH</sup> 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

## **7<sup>TH</sup> 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/-**

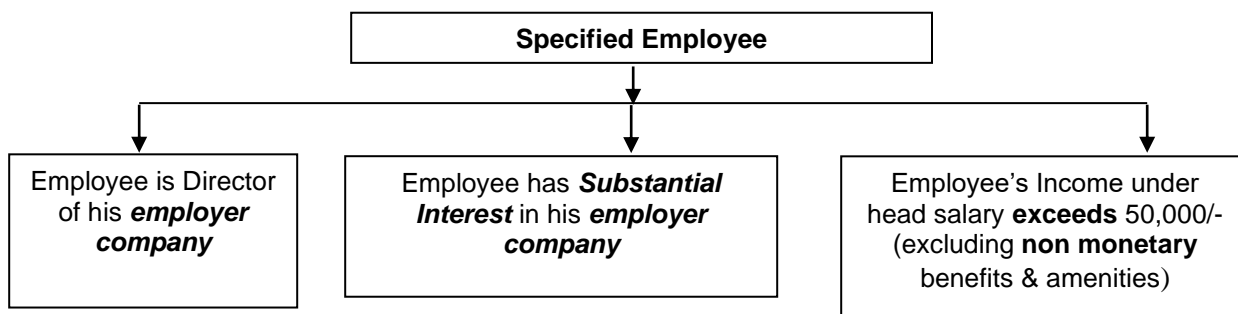
**APPROVED SUPERANNUATION FUND**

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**.

<b>Approved Superannuation Fund</b>			
<b><i>Employees Contribution</i></b>	<b><i>Employer's Contribution</i></b>	<b><i>Interest on accumulated balance</i></b>	<b><i>Payment of Accumulated balance</i></b>
Deduction <b>80C</b> from <b>GTI</b> is available to employee	Excess of ₹1,50,000 treated as Perquisite	Exempt from Tax	Exempt from tax u/s <b>10(13)</b> , if <ul style="list-style-type: none"> <li>• on death ,</li> <li>• on retirement ,</li> <li>• after specified age <b>or</b></li> <li>• becoming incapacitated before retirement</li> <li>• Transfer employee account under pension scheme u/s 80CCD</li> </ul>

**8<sup>th</sup> 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**

<b>a) <u>Valuation of Motor Car</u></b>
-----------------------------------------

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**

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

<b>2. Motor Car owned/ hired by employer &amp; expenses met by Employee</b>		
<i>Exclusively for official purpose</i>	<i>Exclusively for private purpose</i>	<i>Partly official &amp; partly private</i>
<b>Exempt</b>	Sum total of : <b>a) Actual</b> running & maintenance expenses  <b>b) Actual</b> remuneration to chauffeur (If borne by employer)	<b>Car upto 1.6 Lit.</b> 600p.m + 900 pm for chauffeur. (If any)  <b>Car &gt; 1.6 Lit.</b> 900 p.m + 900 pm for chauffeur (If any)

<b>3. Motor Car owned by employee &amp; expenses met by Employer</b>		
<i>Exclusively for official purpose</i>	<i>Exclusively for private purpose</i>	<i>Partly official &amp; partly private</i>
<b>Nil</b> (Provided specified documents maintained by employer)	<b>Amount paid by employer</b>	<u>Actual Exp.</u> of employer  <b>Less :</b> 1,800 pm + 900 pm ( <b>car upto 1.6Lit</b> ) OR 2,400 pm + 900 pm ( <b>car &gt; 1.6 Lit</b> ) <b>Higher deduction</b> for official expenses if specified documents are maintained

<b>4. Other Conveyance owned by employee &amp; expenses met by Employer</b>		
<i>Exclusively for official purpose</i>	<i>Exclusively for private purpose</i>	<i>Partly official &amp; partly private</i>
<b>Nil</b>  <i>(Provided specified documents are maintained by employer)</i>	<b>Expenditure</b> paid by employer  <b>Perquisite taxable for all employees</b>	<u>Actual Exp.</u> of employer  <b>Less : 900 pm</b>  <b>Higher deduction for official expenses if specified documents are maintained</b>

**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.

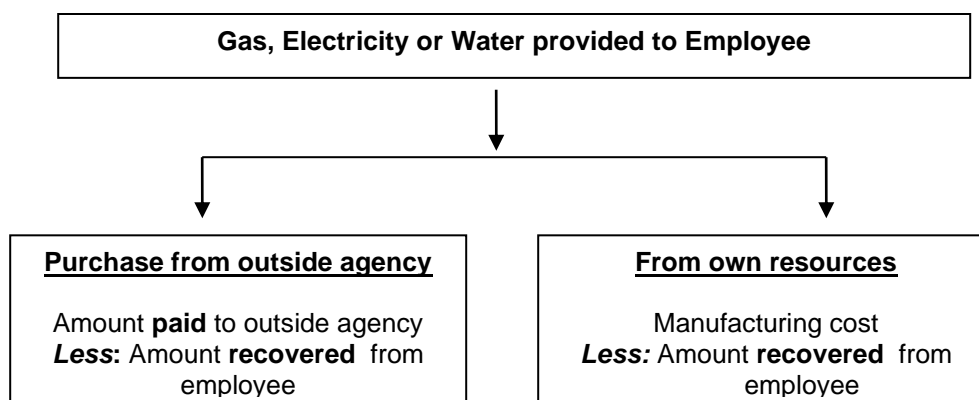
<b>b) <u>Sweeper, Gardener, Watchman or Personal attendant</u></b>
--------------------------------------------------------------------

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 **3<sup>rd</sup> 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	upto ₹1,000 p.m per child	Fully exempt
	greater than ₹1,000 p.m per child	Cost of education in similar school in same locality less : 1,000 pm/per child
Household members	Limit of ₹1,000 irrelevant	Cost of education in similar school in same locality

B) Facility in any other educational institutions

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

**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> <b>i.</b> Actual concession <b>ii.</b> Amount actually incurred by employee <b>iii. Air economy fare of National Carrier by shortest route</b>	<i>Minimum of following</i> <b>i.</b> Actual concession <b>ii.</b> Amount actually incurred by employee <b>iii. AC 1<sup>st</sup> class RAIL FARE by shortest route</b>	<u><b>Connected by Rail</b></u> <i>Same as column 2</i> <u><b>Not Connected by Rail</b></u> <i>Minimum of following</i> <b>i.</b> Actual concession <b>ii.</b> Amount actually incurred by employee <b>iii. Deluxe fare of such transport by shortest route (where recognised transport exists)</b> <b>OR</b> <b>Similar AC 1<sup>st</sup> class rail fare by shortest route (if recognised transport does not exists)</b>

**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))**

<b>MEDICAL FACILITIES IN INDIA ( to EMPLOYEE / Family Members)</b>			
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	<del>Exempt upto ₹15,000/- in P.Y</del>  <b><u>DELETED WEF A/Y 19/20</u></b>

<b>MEDICAL FACILITIES OUTSIDE INDIA to Employee / Family member</b>		
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 <b>RBI</b>	Tax free to extent permitted by <b>RBI</b>	Tax free if employee's <b>GTI</b> 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)
<b>Exemption Amount</b>	100% of Gratuity received is <b>Exempt</b>	<b>Minimum of Following:</b> i. Actual Gratuity received. ii. ₹20,00,000 iii. $[15 \times \text{Completed yrs of service including part excess 6 mths}] \times [\text{last month SALARY}/26]$	<b>Minimum of Following:</b> i. Actual Gratuity received. ii. ₹20,00,000 iii. $[15 \times \text{Completed yrs of service excluding part}] \times [\text{Average monthly SALARY} / 30]$
<b>Definition of Salary</b>	N.A	<b>SALARY</b> = Basic Salary + <b>100% DA</b>	<b>SALARY</b> = Basic + DA(retirement Benefits) + Commission % of turnover

<b>Special point</b>			<p><b>1.</b> 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><b>2.</b> <b>Average Monthly Salary</b> = Average of last <b>10 months</b> immediately <b><u>preceding the month</u></b> 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 : 1/3<sup>rd</sup> 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):**

<b>Types of Employee</b>	<ul style="list-style-type: none"> <li>▪ Employees of Central or State Govt or Local Authority or Statutory corporation</li> <li>▪ Company or Co-operative Society</li> <li>▪ Declared University, IIT, Notified IIM or Notified institutions</li> </ul>
<b>Conditions to be satisfied</b>	<ul style="list-style-type: none"> <li>▪ Compensation received on Voluntary Retirement <b>and</b></li> <li>▪ The scheme of Voluntary Retirement should be as per <b>rule 2BA</b>.</li> </ul>
<b>Amount of Exemption</b> Least of following	<ul style="list-style-type: none"> <li>- <b>Actual Compensation received/receivable</b></li> <li>- <b>5,00,000</b></li> <li>- 3 months <b>Total SALARY X</b> Completed years of service (Part Ignored)</li> <li>- Current <b>SALARY</b> per month <b>X</b> Balance months of service left</li> </ul> <p style="text-align: center;"><b>SALARY = Basic + DA(retirement Benefits) + Commission % of turnover</b></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

<b>Statutory Provident Fund (SPF)</b>			
<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)

<b>Recognised Provident Fund (RPF)</b>			
<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 <b>SALARY</b>  <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**

<b>Un Recognised Provident Fund (URPF)</b>			
<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 <b>NOT</b> available to employee	Not Taxable	Not Taxable	<b>Taxable in P/Y of Receipt</b> - Employers contribution + interest on it taxable as <b>profit in lieu of salary u/s 17(3)</b> - Interest on Employee contribution <b>taxable under I/O/S</b>

<b>Public Provident Fund (PPF)</b>			
<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 <b>GTI</b> is available to assessee	No employers contribution	Exempt from Tax	Fully exempt <b>10(11)</b>

**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***

<b>INCOME DEEMED TO BE RECEIVED IN INDIA: (Section 7)</b>
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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.

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### **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 wef 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 wef 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
<b>RETIREMENT BENEFITS EXEMPTIONS</b>			
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
<b>ALLOWANCES</b>			
7.	Exemption u/s 10(13A) and Rule 2A from House Rent Allowance	Not Allowed	Allowed
8.	<b>Exemption u/s 10(14)(i) and Rule 2BB</b>		
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
<b>Exemption u/s 10(14)(ii) and Rule 2BB</b>			
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
<b>Perquisites</b>			
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.	<b>DEDUCTIONS u/s 16</b>		
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 <b>employer</b> 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.

**QUESTIONS FOR PRACTICE**

**Question 1 :** Rajesh retires on 4-1-2021 after serving AB Company Ltd. for a period of 17 years and 11 months. At the time of retirement, his basis salary was ₹4,400 per month and he was also entitled to Dearness Allowance of ₹800 pm. On his retirement, he received ₹80,000 as gratuity.

Compute the amount of gratuity exempt from tax and the amount to be included in gross salary. He is covered under the payment of Gratuity Act.

**Solution :** The exemption shall be to the extent of the minimum of the following three amounts :

- (a) Amount of gratuity received ₹80,000.
- (b) 15 days' salary for every year of service i.e.  $15/26 \times 5200 \times 18 = ₹54,000$
- (c) ₹20,00,000

Therefore ₹54,000 shall be exempt from tax and the balance ₹26,000 shall be included in the gross salary.

**Question 2 :** Mr. Kamal, a marketing specialist of Chennai, is working with two companies, viz, A co and B Co. He retires from A Co. on November 30, 2013 (salary at the time of retirement : ₹9,600) and receives ₹4,00,000 as gratuity out of which ₹3,00,000 is exempt under section 10(10). He also retires from B.Co. on December 10, 2020 after 38 years and 8 months of service and receives ₹3,90,000 as death cum retirement gratuity. His average basic salary drawn from B. Co. for the preceding 10 months ending on November 30, 2019 is ₹18,200 per month.

Besides, he received ₹1,000 per month as dearness allowance, 80 % of which forms part of salary for the purpose of computation of retirement benefits and 6 % commission on turnover achieved by him. Total turnover achieved by him during 10 months ending on November 30, 2020 is ₹2,00,000. Determine amount of gratuity exempt for the assessment year 2021-22.

**Solution :** Salary of the purpose of computation of exempt gratuity.

	₹
Basic salary of 10 months (₹18,200 X 10)	1,82,000
Dearness allowance of 10 months (80% of ₹ 1,000 X 10)	8,000
Commission @ 6% of turnover of preceding 10 months (i.e., 6% of ₹ 2,00,000)	12,000
Total	<u>2,02,000</u>

Average monthly salary (₹2,02,000 / 10) : 20,200

Amount of exempt gratuity is the least of the following :

- a. ₹ 17,00,000 (i.e., ₹ 20,00,000 – ₹ 3,00,000, being amount of exempt gratuity received from A Co.).
- b. ₹ 3,83,800 {being half month's salary for each completed year of service (i.e., ₹ 20,200 X ½ X 38)} and
- c. ₹ 3,90,000 (being amount of gratuity received from B. Co.).

₹ 3,83,800 being the least is exempt from tax. Therefore ₹6,200 is chargeable to tax as salary for the assessment year 2021-22.

**Question 3 :** Arun retired on 15-4-2020 from X Company Ltd. He was entitled to a pension of ₹20,000 p.m. At the time of retirement he got 75% of the pension commuted and received ₹4,50,000 as commuted pension. Compute the taxable portion of the commuted pension if

- (i) He is also entitled to gratuity.
- (ii) He is not entitled to gratuity

**Solution :**

1. 75% of commuted pension is equal to ₹4,50,000. Hence commuted value of 1/3 of the pension would amount to  $₹4,50,000 \times 100 / 75 \times 1/3 = ₹2,00,000$ ; ₹2,00,000 would, therefore be exempt and balance ₹2,50,000 would be taxable.
2. 75% of commuted pension is equal to ₹4,50,000 Hence commuted value of 50% of pension amount to  $4,50,000 \times 100 / 75 \times 1/2 = ₹3,00,000$  Therefore, ₹3,00,000 would be exempt and ₹1,50,000 would be taxable.

**Question 4 :** A retired from service w.e.f. 1-11-2020 after serving for 18 years and 9 months. At the time of retirement he was entitled to the following remuneration :

(a) Salary ₹5,000 per month.

(b) Dearness Allowance @ 20% of Salary (60% of which forms part of salary for retirement benefits).

On retirement, he received a sum of ₹1,50,000 as gratuity. He was entitled to a pension of ₹2,500 per month w.e.f 1-11-2020. From 1-1-2021 he got 60% of his pension commuted and received a sum of ₹1,50,000 as commuted pension. Compute his Gross Salary for the assessment year 2021-22.

**Solution :**

**Computation of Gross Salary of A for the A/Y 2021-22**

	₹	₹
Basic Salary (5,000 x 7)		35,000
Dearness Allowance @ 20%		7,000
Gratuity received	1,50,000	
Less: Exempt	<u>50,400</u>	99,600
Uncommuted Pension		
(2,500 x 2) (i.e. for November and December 2019)	5,000	
(1,000 x 3) (i.e. from January 2020 to March 2020)	<u>3,000</u>	8,000
Commuted Pension received	1,50,000	
Less: Exempt $(1,50,000 \times 100 / 60 \times 1/3)$	<u>83,333</u>	<u>66,667</u>
Gross Salary		<u>2,16,267</u>

**Question 5 :** Nitin was employed with PQR Ltd. He retired w.e.f. 1-2-2021 after completing a service of 24 years and 4 months. He submits the following information:

Basic Salary	₹5,000 per month (at the time of retirement )
Dearness Allowance	100% of basic Salary (40% of which forms part of Salary for retirement benefits).
Last increment	₹500 w.e.f. 1-7-2020

His pension was determined at ₹3,000 per month. He got 50% of the pension commuted w.e.f. 1-3-2021 and received a sum of ₹1,00,000 as commuted pension. In additions to this, he received a gratuity of ₹2,50,000 and leave encashment amounting to ₹56,000 on account of accumulated leave of 240 days. He was entitled to 40 days leave for every year of service.

Compute his Gross Salary for A/Y 2021-22 assuming that he is not covered under payment of Gratuity Act.

**Solution : Computation of Gross Salary for the A/Y 2021-22**

	₹	₹
Basic Salary (4,500 x 3 + 5,000 x 7)		48,500
Dearness Allowance (100%)		48,500
Uncommuted Pension (3,000 x 1 + 1,500 x 1)		4,500
Commuted Pension		
Amount Received	1,00,000	
Less: Exempt (1,00,000 x 100/50 x 1/3 )	<u>66,667</u>	33,333
Gratuity :		
Amount received	2,50,000	
Less: Exempt (see WN 1)	<u>81,480</u>	1,68,520
Leave Encashment		
Amount received	56,000	
Less: Exempt (see WN 2)	<u>NIL</u>	<u>56,000</u>
Gross Salary		<u>3,59,353</u>

**Working Note 1 :**

Gratuity exempt is calculated as follows:

1. Actual amount received: 1,20,000
2. Half month salary for each completed year of service =  $6,790/2 \times 24 = 81,480$   
AMS =  $(48,500 + 19,400) / 10 = 6,790$
3. Specified limit: 20,00,000

**Working Note 2 :**

Exempt leave encashment is as follows:

1. Actual amount received	:	56,000
2. 10 months average salary (10 x 6,790)	:	67,900
3. Cash for unavailed leave on 30 days basis	:	Nil
4. Amount specified	:	3,00,000

Unavailed leave as per Income tax act

Step 1: leaves entitled by employer ( 960 days) or Leaves on 30 days basis (720 days)

*Whichever is less* : 720 days

Step 2: Leaves availed : 720 days

Step 3: 720 days - 720 days = Nil

**Question 6 :** Arvind is entitled to a basic salary of ₹5,000 p.m. and Dearness allowance of ₹1,000 p.m. months. 40% of which forms part of retirement benefits. He is also entitled to HRA of ₹2,000 p.m. He actually pays ₹2,000 p.m. as rent for a house in Mumbai. Compute the taxable HRA. Assume not covered u/s 115BAC

**Solution :** The minimum of the following three amounts shall be exempt u/s 10(13A).

(i) Actual HRA received (2,000 x 12)	24,000
(ii) Rent paid in excess of 10% of salary (24,000 – 6,480)	17,520
(iii) 50% of salary	32,400

Therefore ₹17,520 shall be exempt and the balance ₹6,480 shall be included in gross salary

**Question 7 :** Sanjay is employed by X ltd. up to November 30, 2020 on the following monthly salary (place of posting : Delhi)

	Upto May 31, 2020 ₹	From June 1, 2020 ₹
Basic salary	4,000	5,000
Dearness allowance @ 30 % of basic salary (60 % of dearness allowance is part of salary for computing retirement benefits)	1,200	1,500
Dearness pay (not part of salary for computing retirement benefits)	600	600
Commission	1,000	1,000
House Rent allowance	2,000	3,500

With effect from December 1, 2020, he joins Y Ltd. on monthly salary of ₹10,000 (place of posting : Ludhiana). Besides, he gets dearness allowance @ ₹4,000 per month (10 per cent of which is considered of provident fund contribution) and house rent allowance @ ₹6,000 per month.

Rent paid per month by Sanjay is as follows

	Delhi ₹	Ludhiana ₹
From January 1, 2020 to July 31, 2020	500	--
August 1, 2020 to December 31, 2020	2,900	--
January 2021	--	1,000
February 1, 2021 to June 30, 2021	--	6,000

Determine the amount of chargeable house rent allowance for the assessment year 2021-22. Assume not covered u/s 115BAC

**Solution : House rent allowance chargeable to tax**

	April 2020 and May 2020	June and July 2020	August to November 2020	December 2020	January 2021	February and March 2021
Basic salary	4,000 pm	5,000 pm	5,000 pm	10,000 pm	10,000 pm	10,000 pm
Dearness allowance (Retirement Benefit)	720	900	900	400	400	400
Salary	4,720	5,900	5,900	10,400	10,400	10,400
50% of salary	2,360	2,950	2,950	5,200	--	--
40% of salary	--	--	--	--	4,160	4,160
Actual HRA	2,000	3,500	3,500	6,000	6,000	6,000
Excess of rent paid over 10% of salary	28	Nil	2310	1860	Nil	4960
Amt. exempt from tax	28	Nil	2,310	1,860	Nil	4,160
Amount chargeable to tax	1,972 pm	3,500 pm	1,190 pm	4,140 pm	6,000 pm	1,840 pm

Amount chargeable for the assessment year 2021-22 comes to (49,000 – 19,476) : ₹ 29,524.

**Question 8 :** Raja, an employee of PQR (P)Ltd. Posted at Pune (population : 19 Lakh), draws ₹3,00,000 as basic salary, ₹10,000 as dearness allowance (forming part of salary) and ₹5,000 as commission besides, the company provides a rent free unfurnished accommodation at Pune. The house is owned by the company. Fair rent of the accommodation is ₹50,000 per annum. Determine the taxable value of the perquisite.

**Solution :** Value of the Perquisite in respect of rent free accommodation owned by the employer depends upon salary of an employee. Salary for the purpose of computation of the perquisite value works out to be ₹3,15,000 (i.e., ₹3,00,000 + ₹10,000 + ₹5,000). Fair rent value of accommodation is not taken into consideration.

As the accommodation is situated in a city having population exceeding 10 lakh but not exceeding 25 lakh, 10% of salary, ₹31,500 is taxable value for the perquisite.

**Question 9 :** Rakesh, a Regular employee of A Ltd. gets the following emoluments during p/y 2020/21 :

Basic salary : ₹6,000 per month (which has been increased to ₹7,000 per month from January 1, 2020) ; Dearness allowance ₹4,000 per month (72 % of which is part of salary for computing retirement benefits); education allowance : ₹550 per month per child for 4 children ; medical allowance : ₹400 per month ; transport allowance : ₹2,300 per month (out of which ₹100 per month is used for covering the journey between office and residence and ₹250 per month is used for the other used for other purpose).

Besides, he gets ₹4,500 per month as house rent allowance up to November 30, 2020 (rent paid at Ghaziabad : ₹5,500 per month) with effect from December 1, 2020, he has been provided a furnished flat by the employer at Delhi (rent paid by employer : ₹7,500 per month; rent of furniture provided : ₹500 ;rent recovered from Rakesh : 900 per month .

Find out salary chargeable to tax on the assumption that with effect from January 1, 2021, he joins part-time employment with B Ltd. (salary ₹2,000 per months) with the permission of A Ltd. (without leaving the job of A Ltd.) Assume not covered u/s 115BAC

<b>Solution :</b>	₹	₹
Basic salary (₹ 6,000 x 9 + ₹ 7,000 x 3)		75,000
Dearness allowance (₹ 4,000 x 12)		48,000
Education allowance (₹ 550 x 4 x 12)	26,400	
Less: Exemption (₹ 100 x 2 x 12)	<u>2,400</u>	24,000
Medical allowance (₹ 400 x 12)		4,800
Transport allowance (₹ 2,300 x 12)	27,600	
Less: exemption	<u>Nil</u>	27,600
House rent allowance (₹4,500 x 8)	36,000	
Less: Exempt [ WN 1]	<u>28,416</u>	7,584
Furnished house [ WN 2]		6,368

Salary from B Ltd. (₹ 2,000 x 3)	<u>6,000</u>
Gross Salary	1,99,352
Less : Deduction u/s 16(ia)	<u>50,000</u>
Taxable Salary	<u>1,49,352</u>

**Working Note 1 :** House rent allowance exempt from tax –

Salary for this purpose is ₹8,880 per month(i.e basic salary:6,000 pm + DA:72% of 4,000 pm)

- a) ₹3,552 pm (40% of ₹8,880)
  - b) ₹4,500 pm (Actual HRA)
  - c) ₹4,612 pm (₹5,500 -10% of 8,880)
- Whichever is lower

Hence, amount exempt from tax is ₹3,552 pm from April 1,2020 to Nov 30,2020 i.e 28,416

**Working Note 2 :** Valuation of perquisite of furnished flat

Rakesh has been provided a furnished flat at Delhi with effect from December 1,2020.

Salary for this purpose from December 1,2020 to March 31,2021 is as follows

Basic Salary ( ₹ 6000 x1 + ₹ 7,000 x 3)	= 27,000
Dearness allowance (72% of ₹ 4,000 x 4)	= 11,520
Education allowance{ (₹550x4 – ₹100x2) x 4 }	= 8,000
Medical allowance(₹400 x 4)	= 1,600
Transport allowance{ ₹2,300 x 4 }	= 9,200
HRA not received during Dec,2019 to Mar, 2020	= Nil
Salary from B ltd.(₹2,000 x 3)	= <u>6,000</u>
Total salary	<u>63,320</u>

Lease rent of 4 months( ₹7,500 x 4): ₹ 30,000.

The perquisite shall be calculated as follows:

Value of unfurnished flat( 15% of ₹ 63,320 or ₹ 30,000,less)	9,498
Add: Rent of furniture	<u>500</u>
Value of rent free furnished flat	9,998
Less: Rent paid by Rakesh (900 x 4)	<u>3,600</u>
Value of perquisite	<u>6,368</u>

**Question 10 :** Rahul is employed with PQR Ltd. on a monthly salary of ₹20,000 per month. The company provides him with the following benefits:

- (a) A company owned accommodation is provided to him in Delhi.
- (b) The company has given him a housing loan of ₹5,00,000 on which it charged interest @ 6% per annum. The entire loan is still outstanding. ( Assume the interest charged by SBI is 10% p.a.)
- (c) He is allowed to use video camera belonging to the company. The company had purchased this camera for ₹60,000 on 1-5-2017. This camera was sold to him on 1-8-2020 for ₹30,000.

- (d) The company had purchased a car on 16-7-2017 for ₹2,50,000. This car is sold to Rahul on 14-7-2020 for ₹30,000.

Compute income from salary of Rahul for the Assessment year 2021-22.

**Solution :**

		₹
Salary (20,000 X 12)		2,40,000
Value of accommodation (15% of salary)		36,000
Value for housing loan		20,000
Value for use of video camera for 4 month (60,000 X 10/100 X 4/12)		2,000
Benefit of sale of camera		
W.D.V on basis of straight line method (60,000 – 18,000		
Depreciation for 3 completed years)	42,000	
Less: Amount recovered	<u>30,000</u>	12,000
Benefit on sale of car	1,60,000	
W.D.V. (see note)	<u>30,000</u>	<u>1,30,000</u>
Gross Income from Salary		4,40,000
Less : Deduction u/s 16(ia)		<u>50,000</u>
Taxable Salary		<u>3,90,000</u>

Note- The car has been used from 16-7-2017 to 14-7-2020 and the completed years in this case are two. Therefore, the WDV shall be determined as under:

Original Cost	2,50,000
Less : Depreciation for first year @ 20%	<u>50,000</u>
W.D.V.	2,00,000
Less : Depreciation for second year	<u>40,000</u>
	<u>1,60,000</u>

**Question 11 :** Find out the taxable value of the perquisite for the A/Y 2021-22 in the following cases :-

1. A is an employee in the accounts Department of X Ltd. On November 27, 2020, he attends a seminar on "Tax" Seminar fee of ₹3,500 is paid by X Ltd.
2. B's son is a student of Eight class of DAV, Ghaziabad. ₹17,800 being tuition fees of B's son is paid / reimbursed by Y Ltd. where B is employed. There is no arrangement between Y Ltd. and DAV, Ghaziabad.
3. Bharti Public school, Pune is owned and maintained by Z Ltd. C is an employee of Z Ltd. The following family members of C are students in Bharti Public School

	Cost of education in a similar institution	Amount charged from C
A ,daughter of C	₹ 5,500 per month	₹ 800 per month
B, dependent brother of C	₹ 6,000 per month	₹ 1,600 per month

4. Suppose in (3) Bharti public school is not owned / maintained by Z Ltd. As per arrangement of Z Ltd. with the school, family members of employees of Z Ltd. can have educational facility in the school. 100 seats are reserved for this purpose for which the company annually pays ₹ 10 Lakh to the school (No separate billing by the school to the employees of Z Ltd. Family members of C are given in the table in (3) (supra).

**Solution :**

- Expenditure on training / education of an employee is not chargeable to tax ₹3,500 is, therefore, not chargeable to tax in the hands of A.
- ₹ 17,800, being tuition fees / paid reimbursed by Y Ltd., is taxable in the hands of B.
- School is maintained by the employer. Amount taxable in the hands of C will be as follows—  

	₹
A (daughter of C) { 12 X (₹ 5,500 – ₹1000 - ₹800) }	44,400
B (brother of C) { 12 X (₹ 6,000 – ₹ 1,600) }	<u>52,800</u>
	<u>97,200</u>
- The taxable amount will be the same as is given in (3) (supra).

**Question 12 :** Find out the taxable value of the perquisite in respect of medical facility cases –

- A, gets a fixed medical allowance of ₹ 600 per month from his employer.
- B, a director in the employer company, gets medical treatment in dispensary maintained by his employer. The expenditure on medical treatment provided to B and his family members during the previous year 2020-21 is as follows :

	₹
B, Mrs. B and minor child of B	9,100
Major son of B (not dependent upon B)	2,700
Parents of B (dependent upon B)	3,000
Parents of Mrs. B (dependent upon B)	12,000
Brother of B (dependent upon B)	6,000
Sister of B (not dependent upon B)	17,000

Besides, he gets reimbursement of ordinary medical expenses paid to a private medical practitioner :

Treatment of B, Mrs. B and their children	2,000
Treatment of father of B	3,700
Treatment of father of Mrs. B	3,000

- C (Salary : ₹2,40,000) pays “medi claim” health insurance premium (which is later on reimbursed by his employer) as follows :

On C's life	800
On Mrs. C's life	600

On the life of C's father (not dependent upon C)	1,000
On the life of major son of C(dependent upon C)	2,700
On the life of brother of C (dependent upon C)	400
On the life of father of Mrs. C ( dependent upon C)	500
On the life of grandfather of C (dependent upon C)	1,000

4.D, (Salary: ₹3,60,000) gets the following reimbursement from his employer during the previous year 2020-21

Reimbursement of expenses incurred for caesarean operation of Mrs. D in a hospital approved by the Chief Commissioner 28,600

Reimbursement expenses of eye's treatment (including surgical operation) in a hospital approved by the Chief Commissioner 2,700

Reimbursement of ordinary medical expenses paid to a private nursing home 16,200

#### Solution :

- Fixed medical allowance of ₹600 per month (i.e., ₹7,200) is chargeable to tax. It is an allowance and not a perquisite. It is taxable irrespective of the fact whether A is a specified or non-specified employee.
- The perquisite will be chargeable to tax as under :

	Value of medical facility provided in a dispensary maintained by the employer		Reimbursement of expenses paid to a private medical practitioner
	Exempt From tax	Taxable	Taxable
B, Mrs. B and Minor child of B	9,100	----	2,000
Major son of B	2,700	----	----
Parents of B	3,000	----	3,700
Parents of Mrs.B	----	12,000	3,000
Brother of B	6,000	----	----
Sister of B	----	17,000	----
Total	20,800	29,000	8,700
Less: Exempt	20,800	NIL	NIL
Taxable	NIL	29,000	8,700

- Reimbursement of mediclaim insurance premium shall be taxable as under:

	Not taxable	Taxable
On C's life	800	----
On Mrs.C's life	600	----
On the life of C's father	----	1,000
On the life of C's major son	2,700	----

On the life of C's dependent brother	400	----
On the life of Mrs C's father	----	500
On the life of C's Grandfather	----	1,000
Total	4,500	2,500

4. Reimbursement of expenses will be taxable as under:

	Not taxable	Taxable
Operation of Mrs.D	28,600	----
Eyes treatment	2,700	----
Private nursing home bills	----	16,200
Total	<b>31,300</b>	<b>16,200</b>
Less : Not Taxable	31,300	NIL
Taxable	----	<b>16,200</b>

**Question 13 :** For the previous year 2020-21, Ganesh submits the following information. Basic Salary ; ₹1,20,000; dearness allowance: ₹40,000 (46 % of which is part of salary for retirement benefits); commission ₹6,000 (i.e. 1 % of ₹ 6,00,000, being turnover achieved by him ) and children education allowance for his 2 children : ₹7,200.

The employer contributes ₹20,000 towards provident fund to which a matching contribution is made by him. interest credited in the provident fund account on March 15, 2021 @ 11% comes to ₹93,500. Income of Ganesh from other sources is ₹1,16,000. Assume not covered u/s 115BAC

Find out the net income of Ganesh for the assessment year 2021-22 if the provident fund is (a) statutory provident fund, (b) recognized provident fund, (c) unrecognized provident fund.

**Solution :**

	SPF ₹	RPF ₹	URPF ₹
Basic salary	1,20,000	1,20,000	1,20,000
Dearness allowance	40,000	40,000	40,000
Commission [1% of ₹ 6,00,000]	6,000	6,000	6,000
Education allowance [₹ 7,200 – ₹ 100 x 2 x 12]	4,800	4,800	4,800
Employer's contribution towards recognized provident fund in excess of 12% of salary (Salary for this purpose is ₹ 1,20,000 + 46% of ₹ 40,000 + ₹ 6,000)	-	2,672	--
Interest credited to recognized provident fund account in excess of 9.5% per annum (i.e. ₹ 93,500 X 1.5/11)	-	12,750	---
<b>Gross Salary</b>	<b>1,70,800</b>	<b>1,86,222</b>	<b>1,70,800</b>
Less: Deduction u/s 16(ia)	50,000	50,000	50,000
Income from salary	<b>1,20,800</b>	<b>1,36,222</b>	<b>1,20,800</b>
Income from other sources	<u>1,16,000</u>	<u>1,16,000</u>	<u>1,16,000</u>
Gross total income	2,36,800	2,52,222	2,36,800
Less: Deduction under section 80C	<u>20,000</u>	<u>20,000</u>	<u>Nil</u>
Net income (rounded off)	2,16,800	2,32,220	2,36,800

**Note :** Ganesh can claim deduction under section 80C in respect of his contribution towards statutory/recognized provided fund ,no deduction is however available in respect of his contribution towards unrecognized provident funds.

**Question 14 :** Mrs. Sharma was an employee in a company. The following particulars are available regarding her income for the year ending 31-3-2021.

- (i) Salary ₹3,000 per month.
- (ii) Dearness Allowance ₹300 per month.
- (iii) She retires from service on 1-1-2021 after 26 years of completed service and received a pension of ₹1,500 per month & gratuity of ₹52,000 (her average monthly pay for the last ten months was ₹3,000)
- (iv) She also received ₹52,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution ₹20,000, Employer's contribution ₹20,000, Interest on employee's contribution ₹6,000, Interest on employer's contribution ₹6,000)

Compute the taxable income under head the "Salaries" of Mrs. Sharma for the assessment year 2021-22 assuming that the salary and pension is due on the last day of the month. She is not covered under Payment of Gratuity Act. Assume covered u/s 115BAC

<b>Solution :</b>	₹
Salary (3,000 x 9)	27,000
D.A. (300 x 9)	2,700
Pension (1,500 x 3)	4,500
Gratuity (52,000-39,000)	13,000
Lumpsum received from unrecognized provident fund (only employer's Contribution and interest)	<u>26,000</u>
Gross Salary	73,200
Less: Deduction u/s 16(ia)	<u>NIL</u>
<b>Income from Salaries</b>	73,200

**Income from other sources**

Interest on Employee's contribution	<u>6,000</u>
<b>Total Income</b>	<u>79,200</u>

**Question 15 :** Mrs Jain is an employee of a private college in Delhi. She is in the grade of ₹14,500-400-16,500-600-19,500 since 1-1-2019. She gets ₹2,000 per month as dearness allowance and CCA is ₹100 p.m. She has been provided with a furnished accommodation by the college. The college is not the owner of this house. The rental value of the house is ₹2,500 p.m. and the furniture costing ₹4,000 has been provided by the college.

She has been provided with the facility of a gardener, a watchman and a servant who are paid by the college ₹150 per month each. She contributes 10% of her pay to the statutory provident fund to which the college also contributes 10%. She purchased books of her subject for ₹1,000 and paid employment tax of ₹500 during the financial year 2020-21.

Her salary becomes due on the first day of the next month. Determine her income under the head “Salaries” for the assessment year 2021-22. Assume not covered u/s 115BAC

**Solution :**

	₹
(i) Salary (14,900 x 10 + 15,300 x 2)	1,79,600
(ii) Dearness allowance	24,000
(iii) City compensatory allowance	1,200
(iv) Value of rent free furnished house (27,120 + 400)	27,520
(v) Perquisite value of car	Nil
(vi) Gardener	1,800
(vii) Watchman	1,800
(viii) Servant	1,800
	<u>1,800</u>
Gross salary	2,37,720
Less : Standard Deduction u/s 16(ia)	50,000
Less: Employment tax u/s 16 (iii)	<u>500</u>
Income from salary	<u>1,87,220</u>

**Question 16 :** Kapil has been in service of AB (P) Ltd. since. January 1994, in Delhi. During the financial year ending 31-3-2021, Kapil received from the company salary @ ₹9,000 p.m., dearness allowance @ ₹1,500 p.m , city compensatory allowance @ ₹200 p.m. entertainment allowance @ ₹500 per month and house rent allowance @ ₹2,500 p.m. He resides in the house property owned by his HUF for which he pays a rent of ₹3,000 p.m. He has been in receipt of entertainment allowance of ₹500 p.m from company since January, 2010.

He contributes ₹1,000 p.m. to the recognized provident fund. The company is also contributing an equal amount. He retires from the service of the company on 31-12-2020 when he was allowed gratuity of ₹1,20,000 and pension of ₹4,000 pm.

On 1-2-2021, he got one half of the pension commuted and received ₹1,50,000 as commuted pension. He also received ₹2,00,000 as the accumulated balance of the recognized provident fund. Compute his income under the head salary for the assessment year 2021-22 .Assume not covered u/s 115BAC

**Solution:**

	₹
Salary (9,000 x 9)	81,000
Dearness allowance (1,500 x 9)	13,500
City compensatory allowance (200 x 9)	1,800
Entertainment allowance (500 x 9)	4,500
House rent allowance ( <i>see I</i> )	3,600
Pension for 1 month	4,000
Pension for 2 month	4,000
Out of commuted pension (1,50,000 – 1,00,000)	<u>50,000</u>
Gross salary	1,62,400
Less : Deduction u/s 16(ia)	<u>50,000</u>
Income from salary	<u>1,12,400</u>

1. HRA will be exempt to the minimum of the following 3 amounts

- a. 50% of salary i.e 40,500
- b. Rent paid less 10% of salary i.e  $3,000 - 900 = 2,100 \times 9 = 18,900$
- c. HRA received:  $2,500 \times 9 = 22,500$

Exemption is ₹18,900, balance  $22,500 - 18,900 = 3,600$  is taxable

2. Gratuity exemption is as follows:

Minimum of the following 3 amounts

- a. 1,20,000
- b.  $9,000/2 \times 27 = 1,21,500$
- c. 20,00,000

i.e 1,20,000, Taxable  $1,20,000 - 1,20,000 = \text{Nil}$

3. As Kapil is receiving gratuity, commuted pension upto 1/3 will be exempt and the balance taxable. 50% of the pension commuted is ₹1,50,000. Therefore, 100% would be ₹3,00,000 and 1/3 would be ₹1,00,000.

**Question 17 :** Mrs. Jain (age : 28 years) is offered an employment by ABC Ltd. at a basic salary of ₹24,000 per month. Other allowance according to rules of the company are : dearness allowance : 18 % of basic pay (not forming part of salary for calculating retirement benefits), bonus: 1 months basic pay ; project allowance : 6 % of basic pay.

The company gives Mrs. Jain an option either to take a rent-free unfurnished accommodation of Mumbai for which the company would directly bear the rent of ₹15,000 per month, or accept a house allowance of ₹15,000 per month and find out own accommodation.

If Mrs. Jain opts for house rent allowance she will have to pay ₹15,000 per month for an unfurnished house. Which one of the two option should be opted by Mrs. Jain in order to minimise her tax bill ? Her income from other source is ₹1,70,000

**Solution :** For determining which one is a better option, taxable income is calculated under two options.

	RFA ₹	HRA ₹
Basic salary (₹ 24,000 x 12)	2,88,000	2,88,000
Dearness allowance (18% of ₹2,88,000)	51,840	51,840
Bonus	24,000	24,000
Project allowance (6% of ₹2,88,000)	17,280	17,280
Rent free accommodation [see WN 1]	49,392	----
House rent allowance [see WN 2]	---	<u>36,000</u>
Gross salary	4,30,512	4,17,120
Less: Deduction u/s 16(ia)	<u>50,000</u>	<u>50,000</u>
Income from salary	3,80,512	3,67,120
Mrs. Jain should, therefore, opt for HRA		

**Working Notes :**

1. Salary for the purpose of calculation of RFA is ₹3,29,280 ( $2,88,000 + 24,000 + 17,280$ ) Lease rental of house is ₹1,80,000. As lease rental of the house exceeds 15% of salary, 15% of salary i.e 49,392 is taxable value of RFA

2. HRA exemption is calculated as follows:

a. Actual HRA: 1,80,000

b. Rent paid -10% of salary : 1,80,000-10% of 2,88,000 =1,51,200

c. 50% of salary: 2,88,000 x 50% =1,44,000

Least is ₹1,15,200, is exempt from tax.

Taxable HRA is 1,80,000 -1,44,000=36,000

**Question 18 :** Mrs. Sharma (age : 60 years) is a part time lecturer in private college Delhi. During the year 2020-21, she gets basic salary of ₹12,300 up to June 30, 2020 and ₹12,700 afterwards. She gets 30 % of basic salary as house rent allowance, ₹1,630 per month as dearness allowance (71 % of it forms part of salary for computation of retirement benefits) and ₹500 per month as conveyance allowance which is entirely used for personal purposes. On July 10, 2020, the employer transfers a music system to Mrs Sharma on her completing 10 years of service (cost of music system purchased on September 1, 2019 : ₹ 22,470) for ₹7,500.

She is member of the statutory provident fund to which both the employer and employee contribute @ 12 % of basic salary. Apart from the minimum contribution she makes an additional contribution of ₹600 per month to the public provident fund. During the previous year 2020-21, ₹65,698 is paid to her for checking answer sheets of different universities.

Determine the taxable income of Mrs. Sharma for the assessment year 2021-22 on the assumption that she pays rent of ₹4,000 per month. Assume not covered u/s 115BAC

**Solution :**

Basic salary (i.e. 12,300 x 3) + (12,700 x 9)		1,51,200
House rent allowance (i.e., 30% of ₹1,51,200) :	₹ 45,360	
Less: Exempt [see WN 1]	<u>₹ 31,488</u>	13,872
Dearness allowance (i.e., ₹1,630 x 12)		19,560
Conveyance allowance (i.e., ₹500 x 12)		6,000
Employer's contribution to statutory provident fund		----
Sale of movable asset (₹22,470-₹7,500)		<u>14,970</u>
Gross salary		2,05,602
Less: Deduction u/s 16(ia)		<u>50,000</u>
Net salary		1,55,602
Income from other sources		<u>65,698</u>
Gross total income		2,21,300
Less: Deduction under section 80C		<u>25,344</u>
Net income (rounded off)		<u>1,95,960</u>

**Working Note 1 : Exemption u/s 10(13A)**

Salary for HRA (basic + 71% DA)	upto 30 June,20	from July,20
	13,457	13,857
a.HRA received	3,690	3,810
b.Rent paid-10% salary	2,654	2,614
c.50% of salary	<u>6,729</u>	<u>6,929</u>
Exempt	2,654	2,614

**Question 19 :** Ram Prasad (age 52 years) a sales manager of XYZ (P.) Ltd., which is engaged in manufacturing computers ,gives the following particulars of his income relevant for the A/Y 2021-22

	₹
Basic salary	12,000 pm
Bonus	12,000
Commission	7,000
Entertainment allowance	3,000

A rent-free unfurnished house has been provided in Madras lease rent of the house : ₹1,50,000 per annum. The employer pays a sum of ₹400 an account of professional tax on behalf of him. Employer's contribution towards recognized provident fund is ₹18,000 per annum. Contribution towards provident fund ₹39,000. Payment of insurance premium by Ram Prasad on his wife insurance policy ₹5,000, payment by Mrs. Ram Prasad on Ram Prasad's Insurance policy: ₹4,000. Interest received on company deposit : ₹2,03,400.

Determine the taxable income for the assessment year 2021-22 on the assumption that Ram Prasad is neither a director in the employer-company nor a shareholder. Assume covered u/s 115BAC

**Solution:**

	₹
Basic salary (₹ 12,000 x 12)	1,44,000
Bonus	12,000
Commission	7,000
Entertainment allowance	3,000
Rent-free House [see WN 1 below]	24,900
Employer's contribution towards recognized provident fund (i.e., ₹18,000 – 12% of ₹1,44,000)	720
Professional tax paid by employer	<u>400</u>
Gross salary	1,92,020
Less: Deduction u/s 16	
Standard Deduction	Nil
Entertainment allowance	Nil
Professional tax	<u>Nil</u>
Income from salary	1,92,020
Income from other source (interest on company deposit)	<u>2,03,400</u>
Gross total income	3,95,420
Less: Deduction under section 80C [see WN 3]	<u>44,000</u>
Net income (rounded off)	<u>3,51,420</u>

**Working Notes:**

- Salary for the purpose of calculation of RFA is ₹1,66,000 (1,44,000 + 12,000 + 7,000 + 3,000). Lease rental of house is ₹1,50,000. As lease rental of the house exceeds 15% of salary, 15% of salary i.e. 24,900 is taxable value of RFA.
- Deduction u/s 80C  
RPF : 39,000  
Insurance on LIP of wife : 5,000 : Total = 44,000

**Question 20 :** Naresh, who was working with X Ltd (Delhi), died on 30-11-2020 in an accident while going back from office. His emoluments before death were as under:

Basic Salary ₹5,000 p.m. w.e.f. 1-1-2020, DA 100% of basic salary (20% of DA forming part of salary for retirement benefits). HRA ₹3,000 p.m. He paid ₹1,000 p.m. as rent, children's education allowance ₹130 p.m. per child for two children. He contributed 10% of his salary to PF to which his employer contributes equally. On his death, his account of salary and allowance was settled till 30-11-2020. Besides, his widow received the following amounts :

	₹
Gratuity for 12 years and 5 months service	42,000
Family pension w.e.f. 1-12-2020	2,000
Payments from recognized provident fund	1,20,000
Leave encashment of accumulated leave of 210 days	49,000

(He was entitled to 40 days leave for each completed year of service)

Compute his total income of Naresh. Also compute total income of Mrs. Naresh assuming she has no other income in the previous year. Assume not covered u/s 115BAC

**Solution : Computation of total income of deceased Naresh for the A/Y 2021-22****Income from salary**

Basic salary 5,000 x 8			40,000
D.A. 100% of basic			40,000
House rent allowance			
Actual received	24,000		
Less: Exempt minimum of 3 limits			
(1) Actual	24,000		
(2) Rent paid – 10% of salary			
8,000 – 4,800	3,200		
(3) 50% of salary	24,000	3,200	20,800
Children Education allowance			
Actual received 130 x 2 x 8	2,080		
Less: Exempt 100 x 2 x 8	1,600		480
Gross salary			1,01,280
Less: Deduction u/s 16(ia)			50,000
Income from Salary / Gross total income			51,280
Less: Deduction u/s 80C – Contribution to PF			4,800
Total income			46,480

**Computation of Income of Mrs.Naresh****Income from other sources**

Repayment from PF of husband			Fully exempt
Gratuity received	42,000		
Less: Exempt minimum of 3 limits			
(1) Actual	42,000		
(2) Formula: $6,000 \times 12/2$	36,000		
(3) Limit	<u>20,00,000</u>	<u>36,000</u>	6,000
Leave Encashment			<u>Exempt</u>
Family pension $200 \times 4$		8,000	
Less: Standard Deduction (1/3 or 15,000,less)		<u>2,667</u>	<u>5,333</u>
Total income			<u>11,333</u>

**Question 21:** Mr. X received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation.

**Solution:**

Voluntary retirement compensation received ₹ 7,00,000

Less: Exemption under section 10(10C) [Note 1] ₹(5,00,000)

Taxable voluntary retirement compensation ₹ 2,00,000

**Note 1:** Exemption is to the extent of least of the following:

- (i) Compensation actually received = ₹ 7,00,000
- (ii) Statutory limit = ₹ 5,00,000
- (iii) Last drawn salary  $\times 3 \times$  completed years of service  
 $= (20,000 + 5,000) \times 3 \times 30 \text{ years} = ₹ 22,50,000$
- (iv) Last drawn salary  $\times$  remaining months of service  
 $= (20,000 + 5,000) \times 6 \times 12 \text{ months} = ₹ 18,00,000$

**Question 22:** Mr. X is employed in ABC Ltd. getting basic pay ₹30,000 p.m. and employer has paid him following allowances.

1. Servant allowance ₹500 p.m. but the employee has saved ₹100 p.m.
2. Lunch allowance ₹300 p.m.
3. Cash allowance ₹500 p.m.
4. Overtime allowance ₹400 p.m.
5. Outstation allowance ₹700 p.m.
6. Special allowance ₹1,700 p.m.
7. Conveyance allowance (personal use) ₹200 p.m.

Compute employee's Gross Salary and Tax Liability for the Assessment Year 2021-22. Assume not covered u/s 115BAC

**Solution: ₹**

Basic Salary  $(30,000 \times 12)$  : 3,60,000

Servant Allowance :  $(500 \times 12)$  : 6,000

Lunch Allowance  $(300 \times 12)$  : 3,600

Cash Allowance  $(500 \times 12)$  : 6,000

Overtime Allowance  $(400 \times 12)$  : 4,800

Outstation Allowance  $(700 \times 12)$  : 8,400

Special Allowance  $[1,700 \times 12]$  : 20,400

Conveyance Allowance (200 x 12) : 2,400  
 Gross Salary : 4,11,600  
 Less: Standard Deduction u/s 16(ia) : (50,000)  
 Income under the head salary : 3,61,600  
 Gross Total Income : 3,61,600  
 Less: Deduction u/s 80C to 80U : Nil  
 Total Income : 3,61,600

***Computation of Tax Liability : NIL***

**Question 23 :** Mr. X receives the following emoluments during the previous year ending 31.03.2021.

Assume covered u/s 115BAC

Basic pay : ₹ 40,000

Dearness Allowance : ₹ 15,000

Commission : ₹ 10,000

Entertainment allowance : ₹ 4,000

Medical allowance : ₹ 10,000

Professional tax paid : ₹ 3,000 (₹ 2,000 was paid by his employer)

He has no other income.

Determine the income from salary for A.Y. 2021-22, if Mr. X is a State Government employee.

**Solution:**

**Computation of Salary of Mr. X for the A.Y. 2021-22**

Basic Salary : 40,000

Dearness Allowance : 15,000

Commission : 10,000

Entertainment Allowance received : 4,000

Medical allowance : 10,000

Professional tax paid by the employer : 2,000

**Gross Salary : 81,000**

Less :

Standard Deduction u/s 16(ia) : Nil

Entertainment allowance u/s 16(ii) : Nil

Professional tax paid under section u/s 16(iii) : Nil

**Income from Salary : 81,000**

**Question 24 :** Mr. X is employed in ABC Ltd. getting gross salary ₹9,00,000, but it is increased to ₹11,00,000 in previous year 2020-21 w.r.e.f. previous year 2018-19. Compute Tax Liability and relief under section 89. Assume not covered u/s 115BAC

**Tax Rate of Previous Year 2018-19 for individual**

If total income is upto ₹2,50,000 : NIL

On next ₹2,50,000 : 5%

On next ₹5,00,000 : 20%

On Balance amount : 30%

**Solution:****Step 1. Previous Year 2020–21**

Salary : 11,00,000

Add: Arrears for previous year 2018-19 : 2,00,000

Gross Salary : 13,00,000

Less: Standard deduction u/s 16(ia): (50,000)

Income under the head Salary : 12,50,000

Tax before health &amp; education cess : 1,87,500

Add: HEC @ 4% : 7,500

Tax Liability : 1,95,000

**Step 2. Previous Year 2020–21**

Salary : 11,00,000

Gross Salary : 11,00,000

Less: Standard deduction u/s 16(ia) : (50,000)

Income under the head Salary : 10,50,000

Tax before health &amp; education cess : 1,27,500

Add: HEC @ 4% : 5,100

Tax Liability : 1,32,600

**Step 3.** Difference between Step 1 and Step 2 (1,95,000 – 1,32,600) : 62,400**Step 4. Previous Year 2018–19**

Salary : 9,00,000

Add: Arrears : 2,00,000

Gross Salary : 11,00,000

Less: Standard deduction u/s 16(ia) : (40,000)

Income under the head Salary : 10,60,000

Tax before health &amp; education cess : 1,30,500

Add: HEC @ 4% : 5,220

Tax Liability : 1,35,720

**Step 5. Previous Year 2018–19**

Salary : 9,00,000

Gross Salary : 9,00,000

Less: Standard deduction u/s 16(ia) : (40,000)

Income under the head Salary : 8,60,000

Tax before health &amp; education cess : 84,500

Add: HEC @ 4% : 3,380

Tax Liability : 87,880

**Step 6.** Difference between Step 4 and Step 5 (1,35,720 – 87,880) : 47,840**Step 7.** Relief under section 89 Step 3 – Step 6 (62,400 – 47,840) : 14,560

Tax after adjusting relief u/s 89 [1,98,120 – 14,560] : 1,83,560

**Question 25:** Mr. X, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2020-21:

- (i) Salary : ₹46,000 per month
- (ii) Rent free accommodation owned by the company
- (iii) Housing loan of ₹6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)
- (iv) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. X : ₹4,750
- (v) A wooden table and 4 chairs were provided to Mr. X at his residence. These were purchased on 01.05.2017 for ₹ 60,000 and put to use on 01.06.2017 and sold to Mr. X on 01.08.2020 for : ₹30,000
- (vi) Personal purchases through credit card provided by the company amounting to ₹10,000 was paid by the company. No part of the amount was recovered from Mr. X.
- (vii) An ambassador car which was purchased by the company on 16.07.2017 for ₹2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2020 for ₹80,000.

Compute the Total Income of Mr. X and the tax thereon for the Assessment Year 2021-22. Assume not covered u/s 115BAC

**Solution:**

**Computation of Taxable Income of Mr. X for the Assessment Year 2021-22**

Salary (46,000 x 12) : 5,52,000.00

Rent Free Accommodation : 84,800.00

**Working Note:**

15% of rent free accommodation salary

Rent Free Accommodation salary = ₹5,52,000

Value of unfurnished house : 82,800

Add: 10% of cost of furniture (60,000 x 10% x 4/12) : 2,000

Perquisite value of furnished house : 84,800

Perquisite of interest on loan : 3,000.00

**Working Note:**

10.5% is taxable which is to be reduced by actual rate of interest charged i.e. [10.5% - 5% = 5.5%]

(6,00,000 x 5.5%) = ₹33,000

Gift given on the occasion of wedding anniversary : Nil

Sale of Table and Chairs : 12,000.00

**Working Note:**

Perquisite on sale of table and chairs

Cost : 60,000

Less: Dep. on straight line method @ 10% for 3 years : (18,000)

Written down value : 42,000

Less: Amount paid by the assessee : (30,000)

Perquisite value of Table and chairs : 12,000

Credit Card Facility : 10,000.00

Sale of Ambassador Car : 80,000.00

**Working Note:**

Original cost of Car : 2,50,000

Less: Dep. from 16.07.2016 to 15.07.2017 : (50,000)

Less: Dep. from 16.07.2017 to 15.07.2018 : (40,000)

Written down value : 1,60,000

Less: amount received from the assessee : (80,000)  
 Perquisite value of Ambassador car : 80,000

Gross Salary : 7,71,800  
 Less: Standard Deduction u/s 16(ia) : (50,000)  
 Income under the head Salary : 7,21,800  
 Gross Total Income : 7,21,800  
 Less: Deduction u/s 80C to 80U : Nil  
 Total Income : 7,21,800

**Computation of tax liability**

Tax on ₹7,21,800 at slab rate : 56,860.00  
 Add: HEC @ 4% : 2,274.40  
 Tax Liability : 59,134.40  
 Rounded off u/s 288B : 59,130

**Note:** It is assumed that furniture (wooden table and 4 chairs) were provided to Mr. X at his residence on April 1st, 2020 or earlier.

**Question 26:** Mr. X is employed in ABC Ltd. getting basic pay ₹12,000 p.m. and dearness allowance ₹5,000 p.m. forming part of salary. He has contributed ₹3,000 p.m. to the recognised provident fund and employer has also contributed an equal amount. During the year interest of ₹25,000 was credited @ 8.5% p.a. Employer has provided rent free accommodation to the employee for which rent paid by the employer is ₹5,000 p.m. The employee has encashed one month leave and was allowed leave salary of ₹17,000. Compute his income under the head salary for the previous year 2019-20.

**Solution:**

Basic Pay (12,000 x 12) : 1,44,000  
 Dearness Allowance (5,000 x 12) : 60,000  
 Leave Salary : 17,000  
 Rent free accommodation : 33,150

**Working Note:**

15% of rent free accommodation salary or rent paid whichever is less  
 Rent free accommodation salary  
 = Basic Pay + Dearness Allowance + Leave Salary  
 = 1,44,000 + 60,000 + 17,000 = 2,21,000  
 15% of rent free accommodation salary : 33,150  
 Rent paid = 5,000 x 12 60,000  
 Perquisite value of rent free accommodation : 33,150  
 Employer's contribution to recognised provident fund in excess of  
 12% of retirement benefit salary : 11,520  
 (36,000 – 24,480)  
 Gross Salary : 2,65,670  
 Less: Standard Deduction u/s 16(ia) : (50,000)  
 Income under the head Salary : 2,15,670

**Question 27:** Mr. X Aged is employed in Central Government getting basic pay ₹14,000 p.m., dearness allowance ₹5,000 p.m., House rent allowance ₹4,000 p.m. w.e.f. 01.07.2020. However, employee is residing in the house of his parents. Employer has paid cash allowance ₹300 p.m., medical allowance ₹250 p.m. and entertainment allowance ₹400 p.m. Employer has paid professional tax ₹75 p.m. on behalf of the employee. Employee has saved ₹35 p.m. out of entertainment allowance. Compute employee's income under the head Salary and Tax Liability for the Assessment Year 2021-22. Assume covered u/s 115BAC

**Solution:**

Basic Pay (14,000 x 12) : 1,68,000.00  
 Dearness allowance (5,000 x 12) : 60,000.00  
 House rent allowance : 36,000.00  
 Cash Allowance (300 x 12) : 3,600.00  
 Medical Allowance (250 x 12) : 3,000.00  
 Entertainment Allowance (400 x 12) : 4,800.00  
 Professional tax paid by employer (75 x 12) : 900.00

Gross Salary : 2,76,300.00

Less: 16(ii) Entertainment Allowance : Nil

Less: 16(iii) Professional Tax : Nil

Less: Standard Deduction u/s 16(ia) : Nil

Income under the head salary : 2,76,300.00

Gross Total Income : 2,76,300.00

Less: Deduction u/s 80C to 80U : Nil

Total Income : 2,76,300.00

**Computation of Tax Liability**

Tax on ₹2,76,300 at slab rate : 1,315

Less : Rebate u/s 87A : 1,315

Tax liability : Nil

**Question 28:** Mr. X joined ABC Ltd. on 01.07.2013 in the pay scale of 21,000 – 1,200 – 28,200 – 1,400 – 39,400 – 1,600 – 49,000. The employer has allowed him 3 increments in advance at the time of joining. The employee's salary is due on the 1st of next month.

Employee was allowed dearness allowance @ ₹7,000 p.m., during the previous year 2019-20 and @ ₹9,000 p.m. in 2020-21. Compute Tax Liability for the Assessment Year 2021-22. Assume covered u/s 115BAC

**Solution: ₹**

**Computation of income under the head Salary**

Basic Pay [(32,400 x 4) + (33,800 x 8)] 4,00,000

**Working Note: ₹**

01.07.2013 – 30.06.2014 = 24,600 p.m.

01.07.2014 – 30.06.2015 = 25,800 p.m.

01.07.2015 – 30.06.2016 = 27,000 p.m.

01.07.2016 – 30.06.2017 = 28,200 p.m.  
 01.07.2017 – 30.06.2018 = 29,600 p.m.  
 01.07.2018 – 30.06.2019 = 31,000 p.m.  
 01.07.2019 – 30.06.2020 = 32,400 p.m.  
 01.07.2020 – 30.06.2021 = 33,800 p.m.

Dearness allowance [(7,000 x 1) + (9,000 x 11)] : 1,06,000

Gross Salary : 5,06,000  
 Less: Standard Deduction u/s 16 (ia) : NIL  
 Income under the head Salary : 5,06,000  
 Gross Total Income : 5,06,000  
 Less: Deduction u/s 80C to 80U : Nil  
 Total Income : 5,06,000

#### **Computation of Tax Liability**

Tax on ₹5,06,000 at slab rate : 13,100  
 ADD : 4% HEC : 524  
 Tax liability : 13,620

**Question 29 :** Mr. X is employed in ABC Ltd. getting basic pay ₹22,000 p.m. and the employee has paid professional tax ₹200 p.m. and the employer has provided him motor car for official as well as personal use and its engine capacity is 1.2 litres and it is a chauffeur driven car and all expenses are met by the employer himself. Compute Tax Liability for the Assessment Year 2021-22. Assume not covered u/s 115BAC

#### **]Solution: ₹**

Basic Pay (22,000 x 12) : 2,64,000  
 Motor Car {Sec 17(2)(iii) Rule 3(2)} [(1,800 + 900) x 12] : 32,400  
 Gross Salary : 2,96,400  
 Less: Standard Deduction u/s 16(ia) : (50,000)  
 Less: 16(iii) Professional Tax : (2,400)  
 Income under the head Salary : 2,44,000

#### **Computation of Tax Liability : Nil**

**Question 30:** Mr. X is employed in ABC Ltd. getting basic pay ₹12,000 p.m. dearness allowance ₹2,000 p.m. medical allowance ₹200 p.m. entertainment allowance ₹300 p.m. Employer has paid professional tax of ₹100 p.m. on behalf of the employee. Employer incurred ₹3,00,000 on his treatment outside India but RBI permitted ₹2,80,000. Amount incurred on stay is ₹1,00,000 but permitted by RBI is ₹90,000. Expenditure incurred on travelling is ₹1,10,000. He has income under the head house property ₹50,000 and deduction allowed under section 80C to 80U is ₹10,000. Compute the Total Income. Assume covered u/s 115BAC

#### **Solution:**

Basic Pay (12,000 x 12) : 1,44,000  
 Dearness Allowance (2,000 x 12) : 24,000  
 Medical Allowance (200 x 12) : 2,400  
 Entertainment Allowance (300 x 12) : 3,600  
 Professional Tax (100 x 12) : 1,200  
 Treatment outside India (3,00,000 – 2,80,000) : 20,000

Stay aboard (1,00,000 – 90,000) : 10,000  
 Gross Salary : 2,05,200  
 Less: Standard Deduction u/s 16(ia) : Nil  
 Less: Deduction u/s 16(ii) : Nil  
 Less: Deduction u/s 16(iii) : Nil  
 Income under the head Salary : 2,05,200

Income under the head house property : 50,000

Gross Total Income : 2,55,200

Since gross total income is exceeding ₹2,00,000 hence expenditure on travelling shall be taxable and shall be as given below:

Basic Pay (12,000 x 12) : 1,44,000  
 Dearness Allowance (2,000 x 12) : 24,000  
 Medical Allowance (200 x 12) : 2,400  
 Entertainment Allowance (300 x 12) : 3,600  
 Professional Tax (100 x 12) : 1,200  
 Treatment outside India (3,00,000 – 2,80,000) : 20,000  
 Stay aboard (1,00,000 – 90,000) : 10,000  
 Travelling : 1,10,000  
 Gross Salary : 3,15,200  
 Less: Standard Deduction u/s 16(ia) : Nil  
 Less: Deduction u/s 16(ii) : Nil  
 Less: Deduction u/s 16(iii) : Nil  
 Income under the head Salary : 3,15,200  
 Income under the head house property : 50,000

Gross Total Income : 3,65,200  
 Less: Deduction u/s 80C to 80U : (10,000)  
 Total Income : 3,55,200

***Computation of Tax Liability***

Tax on ₹3,55,200 at slab rate : 5,260  
 Less : Rebate u/s 87A : 5,260  
 Tax liability : Nil

## CHAPTER - 9

### ADVANCE TAX

#### Sections covered in this chapter

<b>Sec 207</b>	Liability for payment of advance tax
<b>Sec 208</b>	Advance tax if 10,000 or more
<b>Sec 209</b>	Computation of advance tax
<b>Sec 210</b>	Computation of advance tax by AO
<b>Sec 211</b>	Due date of advance tax
<b>Sec 234B</b>	Interest for non payment of advance tax
<b>Sec 234C</b>	Interest for deferment of advance tax
<b>Proviso to sec 234C</b>	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**

<b>Due Date of installment</b>	<b>% of Advance Tax</b>
<b>Upto 15 June</b> of current financial year	<b>Atleast 15%</b> of advance tax liability
<b>Upto 15 September</b> of current financial year	<b>Atleast 45%</b> of advance tax liability
<b>Upto 15 December</b> of current financial year	<b>Atleast 75%</b> of advance tax liability
<b>Upto 15 March</b> of current financial year	<b>Atleast 100%</b> 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 <sup>th</sup> June is less than 12% of Tax as per ROI	1% Pm	<b>3</b>	15% of Tax as per ROI Less Advance tax paid upto 15 <sup>th</sup> June
Advance tax paid upto 15 <sup>th</sup> Sept is less than 36% of Tax as per ROI	1% Pm	<b>3</b>	45% of Tax as per ROI Less Advance tax paid upto 15 <sup>th</sup> Sept.
Advance tax paid upto 15 <sup>th</sup> Dec is less than 75% of Tax as per ROI	1% Pm	<b>3</b>	75% of Tax as per ROI Less Advance tax paid upto 15 <sup>th</sup> Dec
Advance tax paid upto 15 <sup>th</sup> March is less than 100% of Tax as per ROI	1% Pm	<b>1</b>	100% of Tax as per ROI Less Advance tax paid upto 15 <sup>th</sup> March

**For assessee covered u/s 44AD & 44ADA**

Advance tax paid upto 15 <sup>th</sup> March is less than 100 % of Tax as per ROI	1% Pm	<b>1</b>	100% of Tax as per ROI Less Advance tax paid upto 15 <sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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

**QUESTIONS FOR PRACTICE**

**Question 1:** Mr. Goel has estimated his tax liability to be ₹1,35,000 and has paid advance tax accordingly but subsequently his tax liability was found to be ₹1,90,000. Compute interest liability u/s 234C

**Solution :** Interest payable by him under section 234C

					₹
15.06.2020	28,500-	20,250	= 8,200 x 1% x 3	=	246
15.09.2020	85,500-	60,750	= 24,700 x 1% x 3	=	741
15.12.2020	1,42,500-	1,01,250	= 41,200 x 1% x 3	=	1,236
15.03.2021	1,90,000-	1,35,000	= 55,000 x 1% x 1	=	550
Total Interest Payable					2,773

**Question 2:** DEF Ltd. has estimated its tax liability for A/y 21-22 to be ₹1,00,000 and the company has paid advance tax accordingly. However, the company has computed its tax payable to be ₹1,80,000 at the time of filing the return of income. Compute interest payable by the company under section 234C

**Solution:**

Installments if tax payable is ₹1,80,000

					₹
15.06.2020	27,000-	15,000	= 12,000 x 1% x 3	=	360
15.09.2020	81,000-	45,000	= 36,000 x 1% x 3	=	1,080
15.12.2020	1,35,000-	75,000	= 60,000 x 1% x 3	=	1,800
15.03.2021	1,80,000-	1,00,000	= 80,000 x 1% x 1	=	800
Total Interest Payable					4,040

The interest so computed has to be paid at the time of self assessment i.e. at the time of filing the return of income. The amount of tax payable should be paid as advance tax and if there is any deficiency, it should be paid upto 31<sup>st</sup> March of that particular previous year otherwise assessee has to pay interest under section 234B also and if tax is paid after the last date of filing the return of income, assessee has to pay interest under section 234A also.

**Question 3:** DEF Ltd. has tax liability of ₹7,00,000 for the previous year 2020-21 and the company has not paid any advance tax and entire tax amount was paid by the company on 31.12.2021. Compute interest u/s 234A/B/C

**Solution :**

**1. Interest in case of default/non-payment of advance tax section 234C**

	₹
Default in instalment payable on 15.06.2020 $1,05,000 \times 1\% \times 3 =$	3,150
Default in instalment payable on 15.09.2020 $3,15,000 \times 1\% \times 3 =$	9,450
Default in instalment payable on 15.12.2020 $5,25,000 \times 1\% \times 3 =$	15,750
Default in instalment payable on 15.03.2021 $7,00,000 \times 1\% \times 1 =$	7,000
Total interest payable	<b>35,350</b>

**2. Interest in case of payment of tax after the end of relevant previous year section 234B**

$7,00,000 \times 1\% \times 9 =$	63,000
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**3. Interest in case of payment of tax after the last date of filing of return of income section 234A**

$7,00,000 \times 1\% \times 3 =$	21,000
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Total Interest Payable	1,19,350
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**Question 4 :** Mr. Y has paid advance tax as given below:

Upto 15.6.2020	₹15,000
Upto 15.9.2020	₹45,000
Upto 15.12.2020	₹95,000
Upto 15.03.2021	₹1,70,000

He had long term capital gains of ₹3,00,000 on 01.01.2021 and his income under the head business/profession is ₹11,00,000.

He has filed return of income on 10.12.2021 and has paid difference of the tax on 10.12.2021.

Last date for filing of return is 31.07.2021.

Compute interest payable under section 234A, 234B and 234C.

Assume not covered u/s 115BAC

**Solution:****Computation of Tax Liability**

Normal Income	₹ 11,00,000
Long term capital gains	3,00,000
Total Income	14,00,000

Tax on ₹11,00,000 at slab rate	1,42,500
Tax on ₹3,00,000 @ 20%	60,000
Add: HEC @ 4%	8,100
Tax Liability	2,10,600
(Tax liability excluding capital gains ₹11,00,000 at slab rate + HEC @ 4%)	(1,48,200)

**Computation of Interest under section 234C**

Since capital gains arises on 1<sup>st</sup> January 2021, installments for 15<sup>th</sup> June, 15<sup>th</sup> September and 15<sup>th</sup> December shall be checked without including tax on capital gain and shall be as given below:

	Amount payable as advance tax ₹	Amount actually paid by way of advance tax ₹	Shortfall ₹	Interest ₹
Upto 15.06.2020 (1,48,200 x 15%)	22,230	15,000	7,230 (7,200 x 1% x 3)	216
Upto 15.09.2020 (1,48,200 x 45%)	66,690	45,000	21,690 (21,600 x 1% x 3)	648
Upto 15.12.2020 (1,48,200 x 75%)	1,11,150	95,000	16,150 (16,100 x 1% x 3)	483

Installment for 15<sup>th</sup> March shall be including tax on capital gains and is as given below:

	Amount payable as advance tax ₹	Amount actually paid by way of advance tax ₹	Shortfall ₹	Interest ₹
Upto 15.03.2021 (2,10,600 x 100%)	2,10,600	1,70,000	40,600 (40,600 x 1% x 1)	406

**Interest payable under section 234C**

1,753

**Interest under section 234B**

40,600 x 1% x 9

3,654

**Interest under section 234A**

40,600 x 1% x 5

2,030

**Question 5:** A partnership firm made the following payments of advance tax during financial year 2020-21:

Upto 15.6.2020	4,15,000
Upto 15.9.2020	8,25,000
Upto 15.12.2020	16,64,000
Upto 15.3.2021	26,23,000

The income returned by the firm is ₹88,00,000 under the head “profits and gains of business or profession” and ₹9,50,000 by way of long term capital gains on sale of a property effected on December 1, 2020. What is the interest payable by the assessee under section 234B and section 234C for assessment year 2021-22? Assume that return of income was filed on 30.09.2021 i.e. due date & tax was fully paid on self assessment.

**Solution:**

**Computation of Tax Liability**

	₹
Business income	88,00,000
Long term capital gains	9,50,000
Total Income	97,50,000
Tax on ₹88,00,000 @ 30%	26,40,000
Tax on ₹9,50,000 @ 20%	1,90,000
Add: HEC @ 4%	1,13,200
Tax Liability	29,43,200
(Tax liability excluding capital gains ₹88,00,000 x 30% + HEC@ 4%)	27,45,600

**Interest under section 234C**

Since capital gains arises on 1<sup>st</sup> December 2020, installment for 15<sup>th</sup> June & 15<sup>th</sup> September shall be checked without including tax on capital gain and shall be as given below:

	Amount payable as advance tax ₹	Amount actually paid by way of advance tax ₹	Shortfall ₹	Interest ₹
Upto 15.06.2020 (27,45,600 x 15%)	4,11,840	4,15,000	Nil	Nil
Upto 15.09, 2020 (27,45,600 x 45%)	12,35,520	8,25,000	4,10,520 4,10,500 x 1% x 3 months	12,315

Installments for 15<sup>th</sup> December and 15<sup>th</sup> March shall be including tax on capital gains and is as given below:

	Amount payable ₹	Amount actually paid ₹	Shortfall ₹	Interest ₹
Upto December 15, 2020 (29,43,200 x 75%)	22,07,400	16,64,000	5,43,400 (5,43,400 x 1% x 3 months)	16,302
Upto March 15, 2021 (29,43,200 x 100%)	29,43,200	26,23,000	3,20,200 (3,20,200 x 1% x 1 month)	3,202
<b>Interest payable u/s 234C</b>				<b>31,819</b>

**Interest under section 234B**

3,20,200 x 1% x 6

**Question 6:** ABC Ltd. has estimated its tax liability for assessment year 2021-22 ₹4,40,000 and has paid advance tax accordingly but actual tax liability was found to be ₹10,00,000.

The company has paid balance amount on 02.01.2021.

**Interest in case of default/non-payment of advance tax section 234C**

**Solution :**

Tax payable is ₹4,40,000	
Upto 15.06.2020	66,000
Upto 15.09.2020	1,98,000
Upto 15.12.2020	3,30,000
Upto 15.03.2020	4,40,000

Installments if tax payable is ₹10,00,000

15.06.2020	1,50,000 – 66,000 = 84,000 x 1% x 3 = 2,520
15.09.2020	4,50,000 – 1,98,000 = 2,52,000 x 1% x 3 = 7,560
15.12.2020	7,50,000 – 3,30,000 = 4,20,000 x 1% x 3 = 12,600
15.03.2021	10,00,000 – 4,40,000 = 5,60,000 x 1% x 1 = 5,600
Total interest payable u/s 234C	28,280

**Interest in case of payment of tax after the end of the relevant previous year section 234B**

10,00,000 – 4,40,000 = 5,60,000	₹
5,60,000 x 1% x 10 =	56,000

**Interest in case of payment of tax after the last date of filing of return of income section 234A**

5,60,000 x 1% x 4 =	₹ 22,400
Total interest payable (28,280 + 56,000 + 22,400)	1,06,680

**Question 7:** Mr. X has incomes as given below:

1. Income under the head house property ₹15,00,000
2. Gift of a painting from a friend with market value ₹2,00,000
3. Gift of shares and securities from Mrs. X valued ₹3,00,000
4. Agricultural income ₹3,00,000

He has paid advance tax as given below:

Upto 15 <sup>th</sup> June 2020	₹15,000
Upto 15 <sup>th</sup> Sept 2020	₹30,000
Upto 15 <sup>th</sup> Dec 2020	₹50,000
Upto 15 <sup>th</sup> March 2021	₹60,000

Balance amount of tax was paid & return of income was filed on 10<sup>th</sup> Sept 2021.

Compute his tax liability for the A/Y 2021-22 and also interest under section 234A, 234B and 234C. Assume not covered u/s 115BAC

**Solution :**

	₹
<b>Computation of Total Income</b>	
Income under the head House Property	15,00,000
Income under the head Other Sources	
Gift in kind received from a friend	2,00,000
Gross Total Income	17,00,000

Less: Deduction u/s 80C to 80U	Nil
Total Income	17,00,000
Agricultural Income	3,00,000

**Computation of Tax Liability**

Step 1. Tax on (17,00,000 + 3,00,000) at slab rates	4,12,500
Step 2. Tax on (₹2,50,000 + 3,00,000) at slab rates	22,500
Step 3. Deduct Tax at Step 2 from Tax at Step 1	3,90,000
Add: HEC @ 4%	15,600
Tax Liability	4,05,600

	Amount payable ₹	Amount actually paid ₹	Shortfall ₹	Interest ₹
Upto 15 <sup>th</sup> June, 2020 (4,05,600 x 15%)	60,840	15,000	45,840 (45,800 x 1% x 3 months)	1,374
Upto 15 <sup>th</sup> Sept, 2020 (4,05,600 x 45%)	1,82,520	30,000	1,52,520 (1,52,500 x 1% x 3 month)	4,575
Upto 15 <sup>th</sup> Dec, 2020 (4,05,600 x 75%)	3,01,275	50,000	2,51,275 (2,51,200 x 1% x 3 month)	7,536
Upto 15 <sup>th</sup> March, 2021 (4,05,600 x 100%)	4,05,600	60,000	3,45,600 (3,45,600 x 1% x 1 month)	3,456

**Interest liability under section 234C** ₹16,941

**Interest under section 234B**  
3,45,600 x 1% x 6 ₹20,736

**Interest under section 234A**  
3,45,600 x 1% x 2 ₹ 6,912