SIPOY SATISH

www.Cacwacs.wordpress.com

sipoysatish@gmail.com

INCOME TAX

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COMPUTATION OF TOTAL INCOME AND TAX LIABILITY

BASIS OF CHARGE AND RATES OF TAXES

Charge of Income-Tax
Section 4 of the Income-tax Act is the **charging section** which provides that:
(i) Tax shall be charged at the rates prescribed for the year by the annual Finance Act.
(ii) The charge is on every person specified under section 2(31);
(iii) Tax is chargeable on the total income earned during the previous year and not the assessment year. (There are certain exceptions provided by sections 172, 174, 174A, 175 and 176);
(iv) Tax shall be levied in accordance with and subject to the various provisions contained in the Act.
This section is the back bone of the law of income-tax in so far as it serves as the most operative provision of the Act. The tax liability of a person springs from this section.

Rates of Tax
Income-tax is to be charged at the rates fixed for the year by the annual Finance Act. First Schedule to the Finance Act is divided into three parts.

Part I of the First Schedule to the Finance Act, 2013 specifies the rates at which income-tax is to be levied on income chargeable to tax for the A.Y. 2013-14. (i.e. for the earlier year)

Part II of the First Schedule lays down the rate at which tax is to be deducted at source during the financial year 2013-14 i.e. A.Y. 2014-15 from income subject to such deduction under the Act;

Part III of the First Schedule lays down the rates for charging income-tax in certain cases, rates for deducting income-tax from income chargeable under the head "salaries" and the rates for computing advance tax for the financial year 2013-14 i.e. A.Y.2014-15.

Part IV contains rules for computation of Net Agricultural Income.

(Part III of the First Schedule to the Finance Act, 2013 will become Part I of the First Schedule to the Finance Act, 2014 and so on.)

Question 1: Write a note on Computation of Total Income.
Answer:
<u>Computation of Total Income</u>
Whether a particular income shall be taxed or not shall depend on the residential status and the type of

income. Residential status infact explains connection of the person with the country and types of income explains the connection of the income with the country. If the person donot have any connection and also the incomes do not have any connection with the country, the income shall not be taxable but if either the person or the income has any connection, the income is taxable.

If the income is taxable, it will be further divided into five different categories of income which are called heads of income i.e. if the income is received from the employer, it will be considered to be income under the head salary; if the income is in connection with letting out of house property, income is taxable under the head house property; if the income is from any business or profession, it is taxable under the head profits and gains of business/profession; if any capital asset (gold, land, house etc) has been transferred, income is taxable under the head capital gains; if there is any other income like interest or winnings from a lottery etc, it is covered under the head other sources.

Income shall be computed under each head i.e. expenses incurred shall be deducted from the gross receipt as per the provisions of the relevant head.

Income computed under each head shall be added up to compute the gross total income.

Certain concessions are allowed from the gross total income which are called deduction from gross total income under section 80C to 80U.

After permitting the deductions, remaining income is called total income.

Computation of total income can be shown mathematically in the manner given below:

<u>Total Income of an assessee shall be computed in the following steps:</u>
Compute the income of the assessee under all the five heads, permitting exemption/deductions of each head.

(i) Income from Salaries (Section 15 to 17)	………..
(ii) Income from House Property (Section 22 to 27)	………..
(iii) Profits and gains of Business or Profession (Section 28 to 44DB)	………..
(iv) Capital Gains (Section 45 to 55A)	………..
(v) Income from Other Sources (Section 56 to 59)	………..
Gross Total Income	………..
Deductions from gross total income [Section 80C to 80U]	………..
Total Income	………..
Total Income shall be rounded off u/s 288A in the multiples of 10 and for this purpose, any paisa 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.	………..

Question 2: Write a note on Computation of Tax Liability.
Answer:
<u>Computation of Tax Liability</u>
Tax liability of an individual, Hindu Undivided Family, association of persons, body of individual shall be computed in the manner given below:

1. Divide Total Income into four parts –

<u>(i) Long term capital gains</u> **<u>Section 112</u>**
Long term capital gains shall be taxed **<u>@ 20%</u>**

(ii) Short term capital gains on the transfer of equity shares or units of an equity oriented fund Section 111A
Such capital gains shall be taxable **@ 15%**

(iii) Casual Income
As per section 115BB, casual income shall be taxable @ 30%. As per section 2(24)(ix), casual income means any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever.

Lottery includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called.

Card game and other game of any sort includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

(iv) Any other income
Any other income is taxable at **slab rates** as per the relevant Finance Act (Finance Act 2013) and are as given below:

- **Resident individual of the age of 60 years or more at any time upto the end of relevant previous year but less than eighty years**

If total income is upto `2,50,000	NIL
On next `2,50,000	10%
On next `5,00,000	20%
On Balance amount	30%

- **Resident individual of the age of 80 years or more at any time upto the end of relevant previous year**

If total income is upto `5,00,000	NIL
On next `5,00,000	20%
On Balance amount	30%

- **Any Individual, Hindu Undivided Family, Association of Persons, Body of Individual or artificial Juridical Person**

Income shall be taxable at the slab rates given below:

If total Income upto `2,00,000	NIL
On next `3,00,000	10%
On next `5,00,000	20%
On Balance amount	30%

(The purpose of slab rates is to tax the income of poor person at lower rate)

Surcharge shall be applicable @ **10%** provided total income is exceeding **` 1 crore**.

Rebate of income-tax in case of certain individuals Section 87A
An assessee, being an individual resident in India, whose total income does not exceed five hundred thousand rupees, shall be entitled to a deduction, from the amount of income-tax (as computed before allowing the deductions under this Chapter) on his total income with which he is chargeable for any assessment year, of an amount equal to hundred per cent. of such income-tax or an amount of two thousand rupees, whichever is less.

2. Primary Education Cess and Secondary and Higher Education Cess

Primary Education Cess (PEC) shall be charged @ 2% and Secondary and Higher Education Cess (SHEC) @ 1% of income tax.

Rounding off of Tax Section 288B

Any amount payable, and the amount of refund due, shall be rounded off to the nearest multiple of ten rupees and for this purpose any 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.

Marginal Relief

Provided that in the case of persons mentioned above having total income exceeding one crore rupees, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

A person shall be eligible for marginal relief upto total income of `104,22,380 and afterwards he will not be eligible for marginal relief when slab of `2,00,000 shall be applicable.

e.g. If Mr. X has total income of `102,80,000, his tax liability shall be computed in the manner given below:

Total Income	102,80,000
Tax on `102,80,000 at slab rate	29,14,000
Add: Surcharge @ 10%	2,91,400
Tax before education cess	32,05,400
Increase in income `2,80,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000, `3,75,400 (32,05,400 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `3,75,400 – `2,80,000	95,400
Tax after marginal relief	31,10,000
Add: Education cess @ 2%	62,200
Add: SHEC @ 1%	31,100
Tax Liability	32,03,300

Capital Gains

If any capital asset has been transferred like land, building, gold, shares etc. profit shall be called capital gains and if the asset has been transferred within a period of three years, capital gains shall be short term and shall be taxable at the normal rate otherwise it will be long term capital gain and shall be taxable @ 20%.

In case of shares or units of mutual fund etc., period of three years shall be taken as one year.

If any person has transferred equity shares or units of equity oriented mutual funds and has paid securities transaction tax, in such cases long term capital gain shall be exempt from income tax under section 10(38) but short term capital gains shall be covered under section 111A and shall be taxable @ 15%.

Equity oriented mutual fund means such mutual funds in which more than 65% of the total proceeds have been invested in the equity shares of the domestic company.

Illustration 1:

Compute tax liability in the following cases for the assessment year 2014-15.

(i) Mr. X (resident) has total income of `5,00,000
(ii) Mr. X (non-resident) has total income of `5,00,000
(iii) Mrs. X (resident) has total income of `5,00,000

(iv) Mrs. X (non-resident) has total income of `5,00,000
(v) Mr. X (resident), aged 60 years has total income of `5,00,000
(vi) Mrs. X (resident), aged 60 years has total income of `5,00,000
(vii) Mr. X (non-resident), aged 60 years has total income of `5,00,000
(viii) Mrs. X (non-resident), aged 60 years has total income of `5,00,000
(ix) Mr. X (resident), aged 80 years has total income of `5,00,000
(x) Mrs. X (resident), aged 80 years has total income of `5,00,000
(xi) Mr. X (non-resident), aged 80 years has total income of `5,00,000
(xii) Mrs. X (non-resident), aged 80 years has total income of `5,00,000

Solution:

(i) Computation of Tax Liability

	`
Total Income	5,00,000
Tax on `5,00,000 at slab rate	30,000
Less: Rebate u/s 87A (30,000 or 2,000 whichever is less)	2,000
Tax before education cess	28,000
Add: Education cess @ 2%	560
Add: SHEC @ 1%	280
Tax Liability	28,840

(ii) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	30,000
Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

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

(iii) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	30,000
Less: Rebate u/s 87A (30,000 or 2,000 whichever is less)	2,000
Tax before education cess	28,000
Add: Education cess @ 2%	560
Add: SHEC @ 1%	280
Tax Liability	28,840

(iv) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	30,000
Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

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

(v) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	25,000
Less: Rebate u/s 87A (25,000 or 2,000 whichever is less)	2,000

Tax before education cess	23,000
Add: Education cess @ 2%	460
Add: SHEC @ 1%	230
Tax Liability	23,690

(vi) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	25,000
Less: Rebate u/s 87A (25,000 or 2,000 whichever is less)	2,000
Tax before education cess	23,000
Add: Education cess @ 2%	460
Add: SHEC @ 1%	230
Tax Liability	23,690

(vii) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	30,000
Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

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

(viii) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	30,000
Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

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

(ix) Computation of Tax Liability

Total Income	5,00,000
Tax Liability	Nil

(x) Computation of Tax Liability

Total Income	5,00,000
Tax Liability	Nil

(xi) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	30,000
Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

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

(xii) Computation of Tax Liability

Total Income	5,00,000
Tax on `5,00,000 at slab rate	30,000

Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

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

Illustration 2:
Compute tax liability in the following cases for the assessment year 2014-15.

(i) Mr. X (resident) has total income of `5,05,000
(ii) Mr. X (non-resident) has total income of `5,20,000
(iii) Mrs. X (resident) has total income of `5,08,000
(iv) Mrs. X (non-resident) has total income of `12,00,000
(v) Mr. X (resident), aged 60 years has total income of `22,00,000
(vi) Mrs. X (resident), aged 60 years has total income of `105,00,000
(vii) Mr. X (non-resident), aged 60 years has total income of `70,00,000
(viii) Mrs. X (non-resident), aged 60 years has total income of `4,00,000
(ix) Mr. X (resident), aged 80 years has total income of `4,99,000
(x) Mrs. X (resident), aged 80 years has total income of `103,00,000
(xi) Mr. X (non-resident), aged 80 years has total income of `12,00,000
(xii) Mrs. X (non-resident), aged 80 years has total income of `9,00,000

Solution: `

(i) Computation of Tax Liability

Total Income	5,05,000
Tax on `5,05,000 at slab rate	31,000
Add: Education cess @ 2%	620
Add: SHEC @ 1%	310
Tax Liability	31,930

(ii) Computation of Tax Liability

Total Income	5,20,000
Tax on `5,20,000 at slab rate	34,000
Add: Education cess @ 2%	680
Add: SHEC @ 1%	340
Tax Liability	35,020

(iii) Computation of Tax Liability

Total Income	5,08,000
Tax on `5,08,000 at slab rate	31,600
Add: Education cess @ 2%	632
Add: SHEC @ 1%	316
Tax Liability	32,548
Rounded off u/s 288B	32,550

(iv) Computation of Tax Liability

Total Income	12,00,000
Tax on `12,00,000 at slab rate	1,90,000
Add: Education cess @ 2%	3,800

Add: SHEC @ 1%	1,900
Tax Liability	1,95,700

(v) Computation of Tax Liability

Total Income	22,00,000
Tax on `22,00,000 at slab rate	4,85,000
Add: Education cess @ 2%	9,700
Add: SHEC @ 1%	4,850
Tax Liability	4,99,550

(vi) Computation of Tax Liability

Total Income	105,00,000
Tax on `105,00,000 at slab rate	29,75,000
Add: Surcharge @ 10%	2,97,500
Tax before education cess	32,72,500
Add: Education cess @ 2%	65,450
Add: SHEC @ 1%	32,725
Tax Liability	33,70,675
Rounded off u/s 288B	33,70,680

(vii) Computation of Tax Liability

Total Income	70,00,000
Tax on `70,00,000 at slab rate	19,30,000
Add: Education cess @ 2%	38,600
Add: SHEC @ 1%	19,300
Tax Liability	19,87,900

(viii) Computation of Tax Liability

Total Income	4,00,000
Tax on `4,00,000 at slab rate	20,000
Add: Education cess @ 2%	400
Add: SHEC @ 1%	200
Tax Liability	20,600

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

(ix) Computation of Tax Liability

Total Income	4,99,000
Tax on `4,99,000 at slab rate	Nil
Add: Education cess @ 2%	Nil
Add: SHEC @ 1%	Nil
Tax Liability	Nil

(x) Computation of Tax Liability

Total Income	103,00,000
Tax on `103,00,000 at slab rate	28,90,000
Add: Surcharge @ 10%	2,89,000
Tax before education cess	31,79,000
Increase in income `3,00,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000,`3,79,000 (31,79,000 – 28,00,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `3,79,000 – `3,00,000	79,000
Tax after marginal relief	31,00,000

Add: Education cess @ 2%	62,000
Add: SHEC @ 1%	31,000
Tax Liability	31,93,000

(xi) Computation of Tax Liability

Total Income	12,00,000
Tax on `12,00,000 at slab rate	1,90,000
Add: Education cess @ 2%	3,800
Add: SHEC @ 1%	1,900
Tax Liability	1,95,700

(xii) Computation of Tax Liability

Total Income	9,00,000
Tax on `9,00,000 at slab rate	1,10,000
Add: Education cess @ 2%	2,200
Add: SHEC @ 1%	1,100
Tax Liability	1,13,300

Illustration 3:

Compute tax liability in the following cases for the assessment year 2014-15.

(i) Mr. X (resident) has total income of `100,05,000
(ii) Mr. X (non-resident) has total income of `103,00,000
(iii) Mrs. X (resident) has total income of `104,00,000
(iv) Mrs. X (non-resident) has total income of `105,00,000
(v) Mr. X (resident), aged 60 years has total income of `106,00,000
(vi) Mrs. X (resident), aged 60 years has total income of `107,00,000
(vii) Mr. X (non-resident), aged 60 years has total income of `108,00,000
(viii) Mrs. X (non-resident), aged 60 years has total income of `104,50,000
(ix) Mr. X (resident), aged 80 years has total income of `104,25,000
(x) Mrs. X (resident), aged 80 years has total income of `104,10,000
(xi) Mr. X (non-resident), aged 80 years has total income of `104,22,380
(xii) Mrs. X (non-resident), aged 80 years has total income of `104,22,390

Solution:

(i) Computation of Tax Liability

	`
Total Income	100,05,000
Tax on `100,05,000 at slab rate	28,31,500
Add: Surcharge @ 10%	2,83,150
Tax before education cess	31,14,650
Increase in income `5,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000,`2,84,650 (31,14,650 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `2,84,650 – `5,000	2,79,650
Tax after marginal relief	28,35,000
Add: Education cess @ 2%	56,700
Add: SHEC @ 1%	28,350
Tax Liability	29,20,050

(ii) Computation of Tax Liability

Total Income	103,00,000
Tax on `103,00,000 at slab rate	29,20,000
Add: Surcharge @ 10%	2,92,000
Tax before education cess	32,12,000
Increase in income `3,00,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000, `3,82,000 (32,12,000 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `3,82,000 – `3,00,000	82,000
Tax after marginal relief	31,30,000
Add: Education cess @ 2%	62,600
Add: SHEC @ 1%	31,300
Tax Liability	32,23,900

(iii) Computation of Tax Liability

Total Income	104,00,000
Tax on `104,00,000 at slab rate	29,50,000
Add: Surcharge @ 10%	2,95,000
Tax before education cess	32,45,000
Increase in income `4,00,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000, `4,15,000 (32,45,000 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `4,15,000 – `4,00,000	15,000
Tax after marginal relief	32,30,000
Add: Education cess @ 2%	64,600
Add: SHEC @ 1%	32,300
Tax Liability	33,26,900

(iv) Computation of Tax Liability

Total Income	105,00,000
Tax on `105,00,000 at slab rate	29,80,000
Add: Surcharge @ 10%	2,98,000
Tax before education cess	32,78,000
Add: Education cess @ 2%	65,560
Add: SHEC @ 1%	32,780
Tax Liability	33,76,340

(v) Computation of Tax Liability

Total Income	106,00,000
Tax on `106,00,000 at slab rate	30,05,000
Add: Surcharge @ 10%	3,00,500
Tax before education cess	33,05,500
Add: Education cess @ 2%	66,110
Add: SHEC @ 1%	33,055
Tax Liability	34,04,665
Rounded off u/s 288B	34,04,670

(vi) Computation of Tax Liability

Total Income	107,00,000
Tax on `107,00,000 at slab rate	30,35,000
Add: Surcharge @ 10%	3,03,500
Tax before education cess	33,38,500

Add: Education cess @ 2%	66,770
Add: SHEC @ 1%	33,385
Tax Liability	34,38,655
Rounded off u/s 288B	34,38,660

(vii) Computation of Tax Liability

Total Income	108,00,000
Tax on `108,00,000 at slab rate	30,70,000
Add: Surcharge @ 10%	3,07,000
Tax before education cess	33,77,000
Add: Education cess @ 2%	67,540
Add: SHEC @ 1%	33,770
Tax Liability	34,78,310

(viii) Computation of Tax Liability

Total Income	104,50,000
Tax on `104,50,000 at slab rate	29,65,000
Add: Surcharge @ 10%	2,96,500
Tax before education cess	32,61,500
Add: Education cess @ 2%	65,230
Add: SHEC @ 1%	32,615
Tax Liability	33,59,345
Rounded off u/s 288B	33,59,350

(ix) Computation of Tax Liability

Total Income	104,25,000.00
Tax on `104,25,000 at slab rate	29,27,500.00
Add: Surcharge @ 10%	2,92,750.00
Tax before education cess	32,20,250.00
Add: Education cess @ 2%	64,405.00
Add: SHEC @ 1%	32,202.50
Tax Liability	33,16,857.50
Rounded off u/s 288B	33,16,860.00

(x) Computation of Tax Liability

Total Income	104,10,000
Tax on `104,10,000 at slab rate	29,23,000
Add: Surcharge @ 10%	2,92,300
Tax before education cess	32,15,300
Increase in income `4,10,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000, `4,15,300 (32,15,300 – 28,00,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `4,15,300 – `4,10,000	5,300
Tax after marginal relief	32,10,000
Add: Education cess @ 2%	64,200
Add: SHEC @ 1%	32,100
Tax Liability	33,06,300

(xi) Computation of Tax Liability

Total Income	104,22,380.00
Tax on `104,22,380 at slab rate	29,56,714.00
Add: Surcharge @ 10%	2,95,671.40
Tax before education cess	32,52,385.40

Increase in income `4,22,380 over `100,00,000 and increase in tax in comparison to income of `100,00,000, `4,22,385.40 (32,52,385.4 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `4,22,385.40 – `4,22,380	5.40
Tax after marginal relief	32,52,380.00
Add: Education cess @ 2%	65,047.60
Add: SHEC @ 1%	32,523.80
Tax Liability	33,49,951.40
Rounded off u/s 288B	33,49,950.00

(xii) Computation of Tax Liability

Total Income		104,22,390.00
Tax on `104,22,390 at slab rate		29,56,717.00
Add: Surcharge @ 10%		2,95,671.70
Tax before education cess		32,52,388.70
Increase in income `4,22,390 over `100,00,000 and increase in tax in comparison to income of `100,00,000, `4,22,388.70 (32,52,388.70 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `4,22,388.70 – `4,22,390)	Nil	
Tax after marginal relief		32,52,388.70
Add: Education cess @ 2%		65,047.77
Add: SHEC @ 1%		32,523.88
Tax Liability		33,49,960.35
Rounded off u/s 288B		33,49,960.00

<u>Illustration 4(A):</u> Mr. X has income asunder:

	`
• Income under the head salary	5,35,000
• Income under the head house property	2,45,000
• Income under the head business/profession	30,000
• Long term capital gains	1,10,000
• Short term capital gains	25,000
• Casual Income (winnings of lottery)	55,000

Deductions allowed under section 80C to 80U	25,000

Compute his tax liability for the assessment year 2014-15.

<u>Solution:</u>

Computation of Total Income

	`	`
Income under the head Salary		5,35,000
Income under the head House Property		2,45,000
Income under the head Business/Profession		30,000
Income under the head Capital gains		
Long term capital gains	1,10,000	
Short term capital gains	25,000	1,35,000
Income under the head Other Sources (Casual income)		55,000
Gross Total Income		10,00,000
Less: Deductions u/s 80C to 80U		25,000
Total Income		9,75,000

Computation of Tax Liability

Tax on Long term capital gains `1,10,000 @ 20% u/s 112		22,000
Tax on Casual Income `55,000 @ 30% u/s 115BB	16,500	

Tax on Normal income `8,10,000 at slab rate		92,000
Tax before education cess		1,30,500
Add: Education cess @ 2%		2,610
Add: SHEC @ 1%		1,305
Tax Liability		1,34,415
Rounded off u/s 288B		1,34,420

<u>Illustration 4 (B):</u> Presume the assessee is Mrs. X.

<u>Solution:</u>

		`
Total Income		9,75,000

Computation of Tax Liability

Tax on Long term capital gains `1,10,000 @ 20% u/s 112		22,000
Tax on Casual Income `55,000 @ 30% u/s 115BB	16,500	
Tax on Normal income `8,10,000 at slab rate		92,000
Tax before education cess		1,30,500
Add: Education cess @ 2%		2,610
Add: SHEC @ 1%		1,305
Tax Liability		1,34,415
Rounded off u/s 288B		1,34,420

<u>Illustration 4 (C):</u> Presume the assessee is Mr. X, aged 60 years.

<u>Solution:</u>

		`
Total Income		9,75,000

Computation of Tax Liability

Tax on Long term capital gains `1,10,000 @ 20% u/s 112		22,000
Tax on Casual Income `55,000 @ 30% u/s 115BB	16,500	
Tax on Normal income `8,10,000 at slab rate		87,000
Tax before education cess		1,25,500
Add: Education cess @ 2%		2,510
Add: SHEC @ 1%		1,255
Tax Liability		1,29,265
Rounded off u/s 288B		1,29,270

<u>Illustration 4 (D):</u> Presume the assessee is Mr. X, aged 80 years.

<u>Solution:</u>

		`
Total Income		9,75,000

Computation of Tax Liability

Tax on Long term capital gains `1,10,000 @ 20% u/s 112		22,000
Tax on Casual Income `55,000 @ 30% u/s 115BB	16,500	
Tax on Normal income `8,10,000 at slab rate		62,000
Tax before education cess		1,00,500
Add: Education cess @ 2%		2,010
Add: SHEC @ 1%		1,005
Tax Liability		1,03,515
Rounded off u/s 288B		1,03,520

<u>Illustration 4 (E):</u> Presume the assessee is Mrs. X (non-resident).

<u>Solution:</u> `

Total Income		9,75,000

Computation of Tax Liability

Tax on Long term capital gains `1,10,000 @ 20% u/s 112		22,000
Tax on Casual Income `55,000 @ 30% u/s 115BB	16,500	
Tax on Normal income `8,10,000 at slab rate		92,000
Tax before education cess		1,30,500
Add: Education cess @ 2%		2,610
Add: SHEC @ 1%		1,305
Tax Liability		1,34,415
Rounded off u/s 288B		1,34,420

<u>Illustration 4 (F):</u> Presume the assessee is Mr. X (non-resident) aged 60 years.

<u>Solution:</u>

		`
Total Income		9,75,000

Computation of Tax Liability

Tax on Long term capital gains `1,10,000 @ 20% u/s 112		22,000
Tax on Casual Income `55,000 @ 30% u/s 115BB	16,500	
Tax on Normal income `8,10,000 at slab rate		92,000
Tax before education cess		1,30,500
Add: Education cess @ 2%		2,610
Add: SHEC @ 1%		1,305
Tax Liability		1,34,415
Rounded off u/s 288B		1,34,420

<u>Illustration 4 (G):</u> Presume the assessee is Mr. X (non-resident) aged 80 years.

<u>Solution:</u>

		`
Total Income		9,75,000

Computation of Tax Liability

Tax on Long term capital gains `1,10,000 @ 20% u/s 112		22,000
Tax on Casual Income `55,000 @ 30% u/s 115BB	16,500	
Tax on Normal income `8,10,000 at slab rate		92,000
Tax before education cess		1,30,500
Add: Education cess @ 2%		2,610
Add: SHEC @ 1%		1,305
Tax Liability		1,34,415
Rounded off u/s 288B		1,34,420

<u>Illustration 5:</u> Compute tax liability for the assessment year 2014-15 in the following situations:

(i) Mr. X 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. X.
(iii) Presume in the above situation the assessee is Mrs. X and she is aged about 70 years.
(iv) Presume in the above situation the assessee is Mr. X and he is aged about 70 years.
(v) Presume in the above situation the assessee is Mrs. X and she is aged about 85 years.
(vi) Presume in the above situation the assessee is Mr. X 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 `3,50,000 (4,80,000 – 1,30,000) @ 20% u/s 112	70,000
Tax on `70,000 at slab rate	Nil
Tax before education cess	70,000
Add: Education cess @ 2%	1,400
Add: SHEC @ 1%	700
Tax Liability	72,100

(ii)

Total Income	5,50,000

Computation of Tax Liability

Tax on LTCG `3,50,000 (4,80,000 –1,30,000) @ 20% u/s 112	70,000
Tax on `70,000 at slab rate	Nil
Tax before education cess	70,000
Add: Education cess @ 2%	1,400
Add: SHEC @ 1%	700
Tax Liability	72,100

(iii)

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 education cess	60,000
Add: Education cess @ 2%	1,200
Add: SHEC @ 1%	600
Tax Liability	61,800

(iv)

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 education cess	60,000
Add: Education cess @ 2%	1,200
Add: SHEC @ 1%	600
Tax Liability	61,800

(v)

Total Income	5,50,000

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 education cess	10,000
Add: Education cess @ 2%	200
Add: SHEC @ 1%	100
Tax Liability	10,300

(vi)

Total Income	5,50,000

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 education cess	10,000
Add: Education cess @ 2%	200
Add: SHEC @ 1%	100
Tax Liability	10,300

(vii)

In situation (i)

Total Income	5,50,000

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 education cess	96,000
Add: Education cess @ 2%	1,920
Add: SHEC @ 1%	960
Tax Liability	98,880

In situation (ii)

Total Income	5,50,000

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 education cess	96,000
Add: Education cess @ 2%	1,920
Add: SHEC @ 1%	960
Tax Liability	98,880

In situation (iii)

Total Income	5,50,000

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 education cess	96,000

Add: Education cess @ 2%	1,920
Add: SHEC @ 1%	960
Tax Liability	98,880

In situation (iv)

Total Income	5,50,000

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 education cess	96,000
Add: Education cess @ 2%	1,920
Add: SHEC @ 1%	960
Tax Liability	98,880

In situation (v)

Total Income	5,50,000

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 education cess	96,000
Add: Education cess @ 2%	1,920
Add: SHEC @ 1%	960
Tax Liability	98,880

In situation (vi)

Total Income	5,50,000

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 education cess	96,000
Add: Education cess @ 2%	1,920
Add: SHEC @ 1%	960
Tax Liability	98,880

Deductions under section 80C to 80U shall not be allowed from Long Term Capital Gain, Short Term Capital Gains covered under Section 111A or Casual Income

Example

Mr. X has income under the head house property `25,000 and long term capital gains `2,20,000 and deductions allowed under section 80C to 80U are `2,62,000. In this case, tax liability shall be `2,060.

In the given case normal income is `25,000 hence deduction allowed under section 80C to 80U is `25,000 because deduction under section 80C to 80U cannot exceed the amount of the normal income. Accordingly normal income shall be nil and deficiency of `2,00,000 shall be allowed from the long term capital gains and remaining long term capital gains of `20,000 shall be taxed @ 20% less rebate u/s 87A plus education cess @ 2% plus SHEC @1% and tax liability shall be `2,060.

Illustration 6: Compute tax liability for the assessment year 2014-15 in the following situations:

(i) Mr. X 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. X.
(iii) Presume in the above situation the assessee is Mrs. X and she is aged about 70 years.
(iv) Presume in the above situation the assessee is Mr. X and he is aged about 70 years.
(v) Presume in the above situation the assessee is Mrs. X and she is aged about 83 years.
(vi) Presume in the above situation the assessee is Mr. X and he is aged about 83 years.
(vii) Presume in the above situation the assessee is Mr. X and he is aged about 70 years and he is non-resident.
(viii) Presume in the above situation the assessee is Mr. X and he is aged about 83 years old and he is non-resident.

Solution:

(i)

Computation of Total Income

	`	`
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 `20,000 (2,20,000 – 2,00,000) @ 20% u/s 112	4,000
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
Less: Rebate u/s 87A (47,500 or 2,000 whichever is less)	2,000
Tax before education cess	45,500
Add: Education cess @ 2%	910
Add: SHEC @ 1%	455
Tax Liability	46,865
Rounded off u/s 288B	46,870

(ii)

Total Income	4,20,000

Computation of Tax Liability

Tax on LTCG `20,000 (2,20,000 – 2,00,000) @ 20% u/s 112	4,000
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

Less: Rebate u/s 87A (47,500 or 2,000 whichever is less)		2,000
Tax before education cess		45,500
Add: Education cess @ 2%		910
Add: SHEC @ 1%		455
Tax Liability		46,865
Rounded off u/s 288B		46,870

(iii)

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
Less: Rebate u/s 87A (39,000 or 2,000 whichever is less)		2,000
Tax before education cess		37,000
Add: Education cess @ 2%		740
Add: SHEC @ 1%		370
Tax Liability		38,110

(iv)

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
Less: Rebate u/s 87A (39,000 or 2,000 whichever is less)		2,000
Tax before education cess		37,000
Add: Education cess @ 2%		740
Add: SHEC @ 1%		370
Tax Liability		38,110

(v)

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 (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
Less: Rebate u/s 87A (27,000 or 2,000 whichever is less)		2,000
Tax before education cess		25,000
Add: Education cess @ 2%		500
Add: SHEC @ 1%		250
Tax Liability		25,750

(vi)

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 (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
Less: Rebate u/s 87A (27,000 or 2,000 whichever is less)		2,000
Tax before education cess		25,000
Add: Education cess @ 2%		500
Add: SHEC @ 1%		250
Tax Liability		25,750

(vii)

Total Income	4,20,000

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 education cess	87,500
Add: Education cess @ 2%	1,750
Add: SHEC @ 1%	875
Tax Liability	90,125
Rounded off u/s 288B	90,130

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

(viii)

Total Income	4,20,000

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 education cess	87,500
Add: Education cess @ 2%	1,750
Add: SHEC @ 1%	875
Tax Liability	90,125
Rounded off u/s 288B	90,130

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

Question 4: Write a note on taxability of income of Partnership Firm/Limited Liability Partnership Firm and Domestic Company/Foreign Company.

Answer:

1. Partnership firm/LLP

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%** and casual income @ **30%** and other incomes are also taxable @ **30%**.

Surcharge shall be applicable @ **10%** provided total income is exceeding **` 1 crore**.

Marginal Relief

Provided that in the case of partnership firm/LLP having total income exceeding one crore rupees, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

Education cess is applicable @ **2%** and SHEC is applicable @ **1%**

2. Domestic Company

Long term capital gains are taxable @ **20%,** STCG u/s 111A shall be taxable @ **15%** and casual income @ **30%** and other incomes are also taxable @ **30%**.

Surcharge shall be applicable

- @ **5%** provided total income is exceeding **`100 lakhs but it is upto `1000 lakhs**
- @ **10%** provided total income is exceeding **`1000 lakhs**.

Provided that in the case of Domestic Company having total income exceeding one crore rupees/10 crores, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of one crore / 10 crores rupees by more than the amount of income that exceeds one crore rupees / 10 crores.

Education cess is applicable @ **2%** and SHEC is applicable @ **1%**

3. Foreign Company

Long term capital gains are taxable @ **20%,** STCG u/s 111A shall be taxable @ **15%** and casual income @ **30%** and other incomes are taxable @ **40%**.

Surcharge shall be applicable

- @ **2%** provided total income is exceeding **`100 lakhs but it is upto `1000 lakhs.**
- @ **5%** provided total income is exceeding **`1000 lakhs**

Provided that in the case of Foreign Company having total income exceeding one crore rupees/10 crores, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of one crore / 10 crores rupees by more than the amount of income that exceeds one crore rupees / 10 crores.

Education cess is applicable @ **2%** and SHEC is applicable @ **1%**

Illustration 7 (A): Compute tax liability of ABC Ltd. a domestic company in the following situations:

(i) The company has income under the head Business/Profession `50,000.
(ii) The company has income under the head Business/Profession `1,00,000.
(iii) The company has income under the head Business/Profession `500,00,000.
(iv) The company has income under the head Business/Profession `100,00,000.
(v) The company has long term capital gains of `50,000.
(vi) The company has long term capital gains of `200,00,000.
(vii) The company has long term capital gains of `5,00,000.
(viii) The company has long term capital gains of `10,20,000.

(ix) 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: Education cess @ 2%	300
Add: SHEC @ 1%	150
Tax Liability	15,450

(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: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

(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 @ 5%	7,50,000
Add: Education cess @ 2%	3,15,000
Add: SHEC @ 1%	1,57,500
Tax Liability	162,22,500

(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: Education cess @ 2%	60,000
Add: SHEC @ 1%	30,000
Tax Liability	30,90,000

(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: Education cess @ 2%	200
Add: SHEC @ 1%	100
Tax Liability	10,300

(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 @ 5%	2,00,000
Add: Education cess @ 2%	84,000
Add: SHEC @ 1%	42,000
Tax Liability	43,26,000

(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: Education cess @ 2%	2,000
Add: SHEC @ 1%	1,000
Tax Liability	1,03,000

(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: Education cess @ 2%	4,080
Add: SHEC @ 1%	2,040
Tax Liability	2,10,120

(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 @ 10%	33,00,000
Tax before education cess	363,00,000
Add: Education cess @ 2%	7,26,000
Add: SHEC @ 1%	3,63,000
Tax Liability	373,89,000

Illustration 7(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: Education cess @ 2%	300
Add: SHEC @ 1%	150
Tax Liability	15,450

(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: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

(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 @ 10%	15,00,000
Tax before education cess	165,00,000
Add: Education cess @ 2%	3,30,000

Add: SHEC @ 1%	1,65,000
Tax Liability	169,95,000

(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: Education cess @ 2%	60,000
Add: SHEC @ 1%	30,000
Tax Liability	30,90,000

(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: Education cess @ 2%	200
Add: SHEC @ 1%	100
Tax Liability	10,300

(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 @ 10%	4,00,000
Tax before education cess	44,00,000
Add: Education cess @ 2%	88,000
Add: SHEC @ 1%	44,000
Tax Liability	45,32,000

(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: Education cess @ 2%	2,000
Add: SHEC @ 1%	1,000
Tax Liability	1,03,000

(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: Education cess @ 2%	4,080
Add: SHEC @ 1%	2,040
Tax Liability	2,10,120

(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 @ 10%	33,00,000
Tax before education cess	363,00,000
Add: Education cess @ 2%	7,26,000

Add: SHEC @ 1%	3,63,000
Tax Liability	373,89,000

Illustration 7(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: Education cess @ 2%	400
Add: SHEC @ 1%	200
Tax Liability	20,600

(ii) Computation of Tax Liability

Income under the head Business/Profession	1,00,000
Total Income	1,00,000
Tax on `1,00,000 @ 40%	40,000
Add: Education cess @ 2%	800
Add: SHEC @ 1%	400
Tax Liability	41,200

(iii) Computation of Tax Liability

Income under the head Business/Profession	500,00,000
Total Income	500,00,000
Tax on `500,00,000 @ 40%	200,00,000
Add: Surcharge @ 2%	4,00,000
Add: Education cess @ 2%	4,08,000
Add: SHEC @ 1%	2,04,000
Tax Liability	210,12,000

(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: Education cess @ 2%	80,000
Add: SHEC @ 1%	40,000
Tax Liability	41,20,000

(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: Education cess @ 2%	200
Add: SHEC @ 1%	100
Tax Liability	10,300

(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: Education cess @ 2%	81,600
Add: SHEC @ 1%	40,800
Tax Liability	42,02,400

(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: Education cess @ 2%	2,000
Add: SHEC @ 1%	1,000
Tax Liability	1,03,000

(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: Education cess @ 2%	4,080
Add: SHEC @ 1%	2,040
Tax Liability	2,10,120

(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 education cess	462,00,000
Add: Education cess @ 2%	9,24,000
Add: SHEC @ 1%	4,62,000
Tax Liability	475,86,000

<u>Illustration 8:</u> Surender Nath (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 2014-15.

<u>Solution:</u>

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	83,000.00
Tax before education cess	2,68,000.00
Add: Education cess @ 2%	5,360.00
Add: SHEC @ 1%	2,680.00
Tax Liability	2,76,040.00

Local authority

On the whole of the total income	30%

Surcharge shall be applicable @ **10%** provided total income is exceeding **` 1 crore**.
Marginal relief shall also be allowed.

Co-operative Society

(i) Where the total income does not exceed `10,000	10% of the total income
(ii) Where the total income exceeds ` 10,000 but does not exceed ` 20,000	`1,000 plus 20% of the amount by which the total income exceeds ` 10,000
(iii) Where the total income exceeds `20,000	`3,000 plus 30% of the amount by which the total income exceeds ` 20,000

Surcharge shall be applicable @ **10%** provided total income is exceeding **` 1 crore**.
Marginal relief shall also be allowed.

Meaning of Person Section 2(31)

"Person" includes—

(*i*) an individual,

(*ii*) a Hindu undivided family,

(*iii*) a company,

(*iv*) a firm,

(*v*) an association of persons or a body of individuals, whether incorporated or not,

(*vi*) a local authority, and

(*vii*) every artificial juridical person, not falling within any of the preceding sub-clauses.

Explanation.—For the purposes of this clause, an association of persons or a body of individuals or a local authority or an artificial juridical person shall be deemed to be a person, whether or not such person or body or authority or juridical person was formed or established or incorporated with the object of deriving income, profits or gains.

Question [V. Imp.]: Discuss Partial Integration of Agricultural Income?

Or

Discuss Indirect Taxing of Agricultural Income?

Or

Under the Constitution, the power to levy a tax on agricultural income vests in the States. However, Parliament has also levied a tax on such income. Explain how this has been achieved?

Answer:

Agricultural Income Section 10(1)

Under section 10(1), any **agricultural income in India is fully exempt** from income tax but if the agricultural income is from outside India, it is chargeable to tax.

Indirect taxing of agricultural income or partial integration of agricultural income (Under the constitution, the power to levy a tax on agricultural income vests in the states. However, parliament has also levied a tax on such income. Explain how this has been achieved?)

If any person has agricultural income as well as non-agricultural income, his tax liability shall be computed in the manner given below:

1. Compute tax on the total of agricultural income and non- agricultural income considering it to be total income of the assessee.

2. Compute tax on exemption limit (`2,00,000 / 2,50,000 / 5,00,000) and agricultural income considering it to be total income.

3. Deduct tax computed under Step 2 from Step 1 and apply education cess.

4. Long term capital gain, casual income and short term capital gain u/s 111A shall not be taken into consideration for the purpose of partial integration

5. If Agricultural income is upto `5,000, or non-agricultural income is upto the limit not chargeable to tax (`2,00,000/2,50,000/5,00,000), partial integration is not applicable.

6. Partial integration is not applicable in case of a partnership firm or a company.

Illustration 9: (a) Mr. X, aged 68 years, has income under the head House Property `3,25,000, agricultural income of `1,00,000, Long term capital gain amounting to `45,000 and casual income `35,000. He is eligible for deduction under section 80C `20,000.

Compute tax liability of Mr. X for assessment year 2014-15.

Solution:

Computation of Total Income

	`
Income under the head House Property	3,25,000
Income under the head Capital Gains (Long term capital gain)	45,000
Income under the head Other Sources (Casual Income)	35,000
Gross Total Income	4,05,000
Less: Deduction u/s 80C	20,000
Total Income	3,85,000
Agricultural Income	1,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural + non-agricultural income)	
i.e. Tax on 4,05,000/- at slab rates	15,500
Step 2. Tax on (`2,50,000 + agricultural income) at slab rates	10,000
Step 3. Deduct Tax at Step 2 from Tax at Step 1	5,500

Tax on long term capital gain `45,000 @ 20% u/s 112	9,000
Tax on casual income `35,000 @ 30% u/s 115BB	10,500
Less: Rebate u/s 87A (25,000 or 2,000) whichever is less	2,000
Tax before education cess	23,000
Add: Education cess @ 2%	460
Add: SHEC @ 1%	230
Tax Liability	23,690

(b) Presume in the above question, Mr. X is Non Resident.

Solution: `

Computation of Total Income

Income under the head House Property	3,25,000
Income under the head Capital Gains (LTCG)	45,000
Income under the head Other Sources (Casual Income)	35,000
Gross Total Income	4,05,000
Less: Deduction u/s 80C	20,000
Total Income	3,85,000
Agricultural Income	1,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural + non-agricultural income)	
i.e. Tax on 4,05,000/- at slab rates	20,500
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	10,000
Step 3. Deduct Tax at Step 2 from Tax at Step 1	10,500
Tax on long term capital gain `45,000 @ 20% u/s 112	9,000
Tax on casual income `35,000 @ 30% u/s 115BB	10,500
Tax before education cess	30,000
Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

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

(c) Presume in the above question, Mr. X is resident and do not have any income from house property.

Solution: `

There will be no partial integration.

Computation of Total Income

Income under the head Capital Gains (LTCG)	45,000
Income under the head Other Sources (casual income)	35,000
Gross Total Income	80,000
Less: Deduction u/s 80C to 80U	NIL
Total Income	80,000
Agricultural Income	1,00,000

Computation of Tax Liability

Tax on long term capital gain (`45,000- 45,000)	NIL
Tax on casual income `35,000 @ 30% u/s 115BB	10,500
Less: Rebate u/s 87A (10,500 or 2,000) whichever is less	2,000
Tax before education cess	8,500
Add: Education cess @ 2%	170
Add: SHEC @ 1%	85

Tax Liability	8,755
Rounded off u/s 288B	8,760

<u>Illustration 10:</u> Mrs. X has income asunder –

Income under the head Salary	1,55,000
Income under the head Capital Gains	
Long term capital gain	27,000
Short term capital gain	59,000
Income under the head Other Sources (lottery)	7,000
Agricultural income	1,05,000
Deduction allowed under section 80C to 80U	7,000

Compute her tax liability for the assessment year 2014-15 in two situations –
(i) She is resident
(ii) She is non-resident.

<u>Solution:</u> `

(i) She is resident

Computation of Total Income

Income under the head Salary	1,55,000
Income under the head Capital Gains	
Long term capital gain	27,000
Short term capital gain	59,000
Income under the head Other Sources (lottery)	7,000
Gross Total Income	2,48,000
Less: Deduction u/s 80C to 80U	7,000
Total Income	2,41,000
Agricultural income	1,05,000

Computation of Tax Liability

Step 1. Tax on (agricultural + non agricultural income)		
i.e. Tax on ` 3,12,000/- at slab rates	11,200	
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates		10,500
Step 3. Deduct Tax at Step 2 from tax at Step 1		700
Tax on long term capital gain `27,000 @ 20% u/s 112		5,400
Tax on casual income `7,000 @ 30% u/s 115BB		2,100
Less: Rebate u/s 87A (8,200 or 2,000) whichever is less		2,000
Tax before education cess		6,200
Add: Education cess @ 2%		124
Add: SHEC @ 1%		62
Tax Liability		6,386
Rounded off u/s 288B		6,390

(ii) She is non-resident

Computation of Total Income

Income under the head Salary	1,55,000
Income under the head Capital Gains	
Long term capital gain	27,000
Short term capital gain	59,000
Income under the head Other Sources (Casual Income)	7,000
Gross Total Income	2,48,000

Less: Deduction u/s 80C to 80U	7,000
Total Income	2,41,000
Agricultural income	1,05,000

Computation of Tax Liability

Step 1. Tax on (agricultural + non agricultural income)	
i.e. Tax on ` 3,12,000/- at slab rates	11,200
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	10,500
Step 3. Deduct Tax at Step 2 from tax at Step 1	700
Tax on long term capital gain `27,000 @ 20% u/s 112	5,400
Tax on casual income `7,000 @ 30% u/s 115BB	2,100
Tax before education cess	8,200
Add: Education cess @ 2%	164
Add: SHEC @ 1%	82
Tax Liability	8,446
Rounded off u/s 288B	8,450

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

<u>Illustration 11:</u> Mr. X has agricultural income of `4,900 and non-agricultural income of `2,15,000. Compute his tax liability for the assessment year 2014-15.

<u>Solution:</u>

	`
Agricultural Income	4,900
Non Agricultural income	2,15,000

In this case, Agricultural income is upto `5000/-, thereby, partial integration shall not be applicable.

Computation of Tax Liability

Tax on `2,15,000 at slab rate	1,500
Less: Rebate u/s 87A (1,500 or 2,000) whichever is less	1,500
Tax Liability	Nil

<u>Illustration 12:</u> Mr. X has agricultural income of `5,00,000 and non-agricultural income of `2,00,000.

Compute his tax liability for the assessment year 2014-15.

<u>Solution:</u>

His tax liability shall be nil, since his non-agricultural income is `2,00,000 and partial integration is not applicable.

<u>Illustration 13:</u> Mr. X (aged 70 years) has agricultural income of `3,80,000 and non-agricultural income of `2,40,000.

Compute his tax liability for the assessment year 2014-15.

<u>Solution:</u>

His tax liability shall be nil, since his non-agricultural income is `2,40,000 and partial integration is not applicable.

<u>Illustration 14: (a)</u> Mrs. X has agricultural income of `1,00,000, income under the head salary amounting to

` 2,55,000, long term capital gain of `10,00,000 and casual income of `1,00,000 (winnings of a game show on TV).

Compute her tax liability for the assessment year 2014-15. Her date of birth is 02.04.1953.

Solution:

Computation of Total Income

		`
Income under the head Salary		2,55,000.00
Income under the head Capital Gains (LTCG)		10,00,000.00
Income under the head Other Sources (Casual Income)		1,00,000.00
Gross Total Income		13,55,000.00
Less: Deduction u/s 80C to 80U		Nil
Total Income		13,55,000.00
Agricultural Income		1,00,000.00

Computation of Tax Liability

Step 1. Tax on (agricultural + non agricultural income)		
i.e. Tax on ` 3,55,000/- at slab rates	10,500.00	
Step 2. Tax on (`2,50,000 + agricultural income) at slab rates		10,000.00
Step 3. Deduct Tax at Step 2 from Tax at Step 1		500.00
Tax on long term capital gain of `10,00,000 @ 20% u/s 112		2,00,000.00
Tax on casual income `1,00,000 @ 30% u/s 115BB		30,000.00
Tax before education cess		2,30,500.00
Add: Education cess @ 2%		4,610.00
Add: SHEC @ 1%		2,305.00
Tax Liability		2,37,415.00
Rounded off u/s 288B		2,37,420.00

Note: 1. Casual income shall include all the activities as per section 2(24)(ix).

(b) Presume in the above question, her date of birth is 01.04.1954.

Solution:

Computation of Total Income

		`
Income under the head Salary		2,55,000
Income under the head Capital Gains (LTCG)		10,00,000
Income under the head Other Sources (Casual Income)		1,00,000
Gross Total Income		13,55,000
Less: Deduction u/s 80C to 80U		Nil
Total Income		13,55,000
Agricultural Income		1,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural + non agricultural income)		
i.e. Tax on ` 3,55,000/- at slab rates	15,500	
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates		10,000
Step 3. Deduct Tax at Step 2 from Tax at Step 1		5,500
Tax on long term capital gain `10,00,000 @ 20% u/s 112		2,00,000
Tax on casual income `1,00,000 @ 30% u/s 115BB		30,000
Tax before education cess		2,35,500
Add: Education cess @ 2%		4,710

Add: SHEC @ 1%	2,355
Tax Liability	2,42,565
Rounded off u/s 288B	2,42,570

<u>Taxability of Dividends</u>

Dividend income from the domestic company shall be exempt from tax in the hands of the shareholder as per section 10(34). (However dividends from a foreign company shall continue to be taxed in the hands of the shareholder.)

As per section 115O, 115P, 115Q, the domestic company has to pay additional income tax @ 15% + surcharge @ 10% + education cess @ 2% + SHEC @ 1% and such additional income tax has to be paid maximum within 14 days from the date of declaration or distribution of dividend whichever is earlier.

Example

ABC Ltd. is a domestic company and has total income `80,00,000. It has declared the dividends of `10,00,000 and one of the shareholders Mr. Mohit Bhatia gets dividends of `25,000. In this case, tax liability of the company and Mr. Mohit Bhatia shall be:

	`
Total Income	80,00,000.00
Income tax @ 30%	24,00,000.00
Add: EC @ 3%	72,000.00
Tax Liability	24,72,000.00
Amount of Dividend	10,00,000.00
Additional Income Tax @ 15%	1,50,000.00
Add: Surcharge @ 10%	15,000.00
Add: EC @ 3%	4,950.00
Additional Income Tax	1,69,950.00

Tax liability of Mr. Mohit Bhatia shall be nil.

The company has to pay surcharge on additional income tax in every case even if total income is less than `100,00,000

<u>Meaning of domestic company</u>

As per section 2(22A), Domestic Company means an Indian company, or any other company which, has made the prescribed arrangements for the declaration and payment, within India, of the Dividend income.

<u>Meaning of prescribed arrangements for declaration and payment of dividends within India</u> **<u>Rule 27</u>**

A company shall be considered to have made prescribed arrangements if it has complied with the following conditions:

1) The share-register of the company for the shareholders shall be regularly maintained at its principal place of business within India in respect of any assessment year from a date not later than 1st April of such year.

2) The AGM for passing the accounts and for declaring the dividends shall be held only at a place within India.

3) The dividends declared, shall be payable only within India to all shareholders.

<u>Illustration 15(A):</u> ABC Ltd., a domestic company has current profits of `150 lakhs and the company has distributed dividends of `55 lakhs. Mr. X, one of the shareholder has received dividend of `7,00,000. Compute income tax liability of the company and that of shareholder.

Calculate additional income tax payable by the company also.

<u>Solution:</u>

Tax liability and additional tax liability of the company shall be as given below:

	`
Profit before tax	150,00,000.00
Income tax on `150,00,000 @ 30%	45,00,000.00
Surcharge @ 5%	2,25,000.00
Education cess @ 2%	94,500.00
SHEC @ 1%	47,250.00
Income tax liability	48,66,750.00
Dividend	55,00,000.00
Additional income tax @ 15% of `55 lakhs	8,25,000.00
Add: Surcharge @ 10%	82,500.00
Add: Education cess @ 2%	18,150.00
Add: SHEC @ 1%	9,075.00
Additional income tax	9,34,725.00
Rounded off u/s 288B	9,34,730.00

Tax liability of the shareholder shall be nil.

<u>Illustration 15(B):</u> Presume in the above case the company is the foreign company.

<u>Solution :</u>

Tax liability and additional tax liability of the company shall be as given below:

	`
Profit before tax	150,00,000.00
Income tax on `150,00,000 @ 40%	60,00,000.00
Surcharge @ 2%	1,20,000.00
Education cess @ 2%	1,22,400.00
SHEC @ 1%	61,200.00
Income tax liability	63,03,600.00

Additional income tax of the foreign company shall be nil.

Tax liability of the shareholder shall be as given below:

Dividend from foreign company	7,00,000.00
Tax on `7,00,000 at slab rate	70,000.00
Add: Education cess @ 2%	1,400.00
Add: SHEC @ 1%	700.00
Tax Liability	72,100.00

<u>Interest or dividend income from UTI or Mutual funds</u> **<u>Section 10(35)</u>**

If any person has received any interest or dividend from the UTI or Mutual Fund notified under section 10(23D), such income is exempt from income tax.

If UTI or Mutual Funds have distributed any interest or dividend, as per section 115R, 115S, 115T UTI or Mutual Funds, have to pay additional income tax (Corporate dividend tax) at the rate of 25% plus surcharge @ 10% plus education cess @ 2% plus SHEC @ 1%, if the amount is distributed to individual or Hindu Undivided Family.

If amount is distributed to any other person, rate shall be 30% plus surcharge @ 10% plus education cess @ 2% plus SHEC @ 1%.

PRACTICE PROBLEMS
TOTAL PROBLEMS 15

Problem 1.
Compute tax liability in the following cases for the assessment year 2014-15.

(i) Mr. X (resident) has total income of `4,70,000
(ii) Mr. X (non-resident) has total income of `4,70,000
(iii) Mrs. X (resident) has total income of `4,70,000
(iv) Mrs. X (non-resident) has total income of `4,70,000
(v) Mr. X (resident), aged 60 years has total income of `4,70,000
(vi) Mrs. X (resident), aged 60 years has total income of `4,70,000
(vii) Mr. X (non-resident), aged 60 years has total income of `4,70,000
(viii) Mrs. X (non-resident), aged 60 years has total income of `4,70,000
(ix) Mr. X (resident), aged 80 years has total income of `4,70,000
(x) Mrs. X (resident), aged 80 years has total income of `4,70,000
(xi) Mr. X (non-resident), aged 80 years has total income of `4,70,000
(xii) Mrs. X (non-resident), aged 80 years has total income of `4,70,000

Answer = (i) Tax Liability: `25,750; (ii) `27,810; (iii) `25,750; (iv) `27,810; (v) `20,600; (vi) `20,600; (vii) `27,810; (viii) `27,810; (ix) Nil; (x) Nil; (xi) 27,810; (xii) `27,810

Problem 2.
Compute tax liability in the following cases for the assessment year 2014-15.

(i) Mr. X (resident) has total income of `100,05,000
(ii) Mr. X (non-resident) has total income of `102,00,000
(iii) Mrs. X (resident) has total income of `90,00,000
(iv) Mrs. X (non-resident) has total income of `4,98,000
(v) Mr. X (resident), aged 60 years has total income of `4,05,000
(vi) Mrs. X (resident), aged 60 years has total income of `102,05,000
(vii) Mr. X (non-resident), aged 60 years has total income of `25,00,000
(viii) Mrs. X (non-resident), aged 60 years has total income of `4,50,000
(ix) Mr. X (resident), aged 80 years has total income of `3,80,000
(x) Mrs. X (resident), aged 80 years has total income of `110,00,000
(xi) Mr. X (non-resident), aged 80 years has total income of `99,99,000
(xii) Mrs. X (non-resident), aged 80 years has total income of `12,00,000

Answer = (i) Tax Liability: `29,20,050; (ii) `31,20,900; (iii) `26,05,900; (iv) `30,690; (v) `13,910; (vi) `31,20,900; (vii) `5,97,400; (viii) `25,750; (ix) Nil ; (x) `35,12,300; (xi) `29,14,590; (xii) `1,95,700

Problem 3.

Mr. X has income asunder:

	`
• Income under the head salary	2,40,000
• Income under the head house property	1,55,000
• Income under the head business/profession	3,30,000
• Long term capital gains	1,20,000
• Short term capital gains	35,000
• Casual income (winnings of lottery)	65,000
Deductions allowed under section 80C to 80U	45,000

Compute his tax liability for the assessment year 2014-15.

Answer = Tax Liability: `1,20,000

(b) Presume the assessee is Mrs. X.

Answer = Tax Liability: `1,20,000

(c) Presume the assessee is Mr. X, aged 65 years.

Answer = Tax Liability: `1,14,850

(d) Presume the assessee is Mrs. X (non-resident).

Answer = Tax Liability: `1,20,000

(e) Presume the assessee is Mr. X (non-resident) aged 65 years.

Answer = Tax Liability: `1,20,000

(f) Presume the assessee is Mr. X, aged 85 years.

Answer = Tax Liability: `89,100

(g) Presume the assessee is Mr. X (non-resident) aged 85 years.

Answer = Tax Liability: `1,20,000

Problem 4.

Compute tax liability for the assessment year 2014-15 in the following situations:

(i) Mr. X is resident in India and has income under the head house property `50,000 and income under the head salary `30,000 and long term capital gains `8,00,000.

(ii) Presume in the above situation the assessee is Mrs. X.

(iii) Presume in the above situation the assessee is Mrs. X and she is aged about 70 years.

(iv) Presume in the above situation the assessee is Mr. X and he is aged about 70 years.

(v) Presume in the above situation the assessee is Mrs. X and she is aged about 87 years.

(vi) Presume in the above situation the assessee is Mr. X and he is aged about 87 years.

(vii) Presume in all the above situations, the assessee is non-resident in India.

Answer = (i) `1,40,080; (ii) `1,40,080; (iii) `1,29,780; (iv) `1,29,780; (v) `78,280; (vi) `78,280; (vii) Situation (i): `1,64,800; Situation (ii): `1,64,800; Situation (iii): `1,64,800; Situation (iv): `1,64,800; (v): `1,64,800; Situation (vi): `1,64,800

Problem 5.
Compute tax liability for the assessment year 2014-15 in the following situations:

(i) Mr. X is resident in India and his incomes are as follows:
- (a) Income under the head Salary `90,000
- (b) Income under the head House Property `60,000
- (c) Long term capital gains `2,30,000
- (d) Short term capital gain under section 111A `2,40,000
- (e) Casual Income `70,000
- (f) Deduction under section 80C to 80U `2,00,000 .

(ii) Presume in the above situation the assessee is Mrs. X.

(iii) Presume in the above situation the assessee is Mrs. X and she is aged about 70 years.

(iv) Presume in the above situation the assessee is Mr. X and he is aged about 70 years.

(v) Presume in the above situation the assessee is Mr. X and he is aged about 70 years old and he is non-resident.

(vi) Presume in the above situation the assessee is Mrs. X and she is aged about 82 years.

(vii) Presume in the above situation the assessee is Mr. X and he is aged about 82 years.

(viii) Presume in the above situation the assessee is Mr. X and he is aged about 82 years old and he is non-resident.

Answer = (i) `64,890; (ii) `64,890; (iii) `55,620; (iv) `55,620; (v) `1,06,090; (vi) `21,630; (vii) `21,630; (viii) `1,06,090

Problem 6.
Compute tax liability of ABC Ltd. a domestic company in the following situations for assessment year 2014-15:

(i) The company has income under the head Business/Profession `70,000.

(ii) The company has income under the head Business/Profession `150,00,000.

(iii) The company has income under the head Business/Profession `6,00,000.

(iv) The company has income under the head Business/Profession `10,30,000.

(v) The company has long term capital gains of `700,00,000.

(vi) The company has long term capital gains of `1,50,000.

(vii) The company has long term capital gains of `6,00,000.

(viii) The company has long term capital gains of `10,30,000.

(ix) The company has casual income `400,00,000.

Answer = (i) Tax Liability: `21,630; (ii) `48,66,750; (iii) `1,85,400; (iv) `3,18,270; (v) `151,41,000; (vi) `30,900; (vii) `1,23,600; (viii) `2,12,180; (ix) `129,78,000

(b) Presume all the above situations the company is a foreign company.

Answer = (i) Tax Liability: `28,840; (ii) `63,03,600; (iii) `2,47,200; (iv) `4,24,360; (v) `147,08,400; (vi) `30,900; (vii) `1,23,600; (viii) `2,12,180; (ix) `126,07,200

Problem 7.

Gagan Das (HUF) has incomes as given below:

1. Income under the head Business/Profession `6,00,000

2. Income under the head House Property `4,00,000

3. Long term capital gains `4,50,000

4. Short term capital gains under section 111A `3,50,000

5. Casual Income `3,50,000

6. Deductions allowed under section 80C to 80U `1,25,000
   Compute tax liability of HUF for the assessment year 2014-15.

Answer = Tax Liability: `3,63,080

Problem 8.

Compute tax liability in the following situations:

(i) Mrs. X has income under the head House Property `8,42,324.
(ii) Mr. X has income under the head Business Profession `14,42,336.
(iii) Mr. X aged 66 years has long term capital gains `11,35,335.
(iv) Mr. X has long term capital gains of `13,35,334.90.
(v) Mrs. X has short term capital gains under section 111A `10,20,335.
(vi) Mrs. X, non-resident, has long term capital gains `5,40,337.
(vii) Mr. X, non-resident, aged about 66 years has winning of a lottery `7,20,000.
(viii) Mr. X aged 86 years has long term capital gains `15,65,385.
(ix) Mr. X, non-resident, aged about 90 years has winning of a lottery `10,20,000.

Answer = (i) `1,01,420; (ii) `2,70,580; (iii) `1,82,380; (iv) `2,33,880; (v) `1,26,740; (vi) `1,11,310; (vii)

`2,22,480; (viii) `2,19,470; (ix) `3,15,180

Problem 9.

Mr. X has income under the head salary `3,00,000 and income under the head house property `16,00,000 and long term capital gain `1,00,000 and agricultural income `4,00,000. Deductions allowed under section 80C to 80U `60,000.

Compute his income and tax liability for Assessment Year 2014-15.

Answer = Total Income: `19,40,000; Tax Liability: `4,86,160

(b) Presume assessee is Mrs. X and is aged 64 years.

Answer = Total Income: `19,40,000; Tax Liability: `4,75,860

Problem 10.

Mr. X has income under the head house property `3,00,000 and long term capital gain `5,00,000 and agricultural income `3,00,000. Deductions under section 80C to 80U `1,00,000.

Compute his income and tax liability for Assessment Year 2014-15.

Answer = Total Income: `7,00,000; Tax Liability: `1,03,000

(b) Presume Mr. X is aged 82 years

Answer = Total Income: `7,00,000; Tax Liability: `41,200

Problem 11.

Mrs. X has casual income `5,00,000 and short term capital gain under section 111A `7,00,000 and agricultural income `3,00,000.

Compute her tax liability for Assessment Year 2014-15.

Answer = Tax Liability: `2,31,750

(b) Presume she is non-resident and is aged 63 years.

Answer = Tax Liability: `2,62,650

Problem 12.

Mr. X has agricultural income `10,00,000 and income from business `12,00,000 and casual income `5,00,000 and he has completed the age of 80 years on 31.03.2014. Compute his tax liability Assessment Year 2014-15.

Answer = Tax Liability: `3,70,800

(b) Presume he has completed 80 years on 01.04.2014.

Answer = Tax Liability: `4,48,050

Problem 13.

Mrs. X has income as given below:

	`
Income under the head Salary	2,00,000
Income under the head House Property	1,00,000
Short Term Capital Gain	50,000
Short Term Capital Gain111A	2,00,000
Long Term Capital Gain	1,50,000
Casual Income	70,000
Deduction u/s 80C to 80U	1,10,000
Agricultural Income	5,00,000

Compute her Tax Liability for the A.Y.2014-15

Answer = Tax Liability: `91,670

(b) Presume in above she is aged 81 years.

Answer = Tax Liability: `35,540

(c) Presume in (a) above she is Non Resident and deduction u/s 80C-80U is `3,00,000.

Answer = Tax Liability: `83,430

Problem 14.

Mrs. X has income under the head house property `2,00,000 and long term capital gain `10,00,000 and agricultural income `7,00,000. Deduction under section 80C to 80U `60,000.

Compute her income and tax liability for Assessment Year 2014-15.

Answer = Total Income: `11,40,000; Tax Liability: `1,93,640

(b) Presume Mrs. X is aged 79 years and income under the head house property is `10,00,000

Answer = Total Income: `19,40,000; Tax Liability: `4,14,060

Problem 15.

ABC Ltd., a domestic company has total income of `500,00,000 and company has distributed dividend of `65,00,000 and one of the shareholder Mr. X has received dividend of `5,00,000. Compute tax liability and additional tax liability of the company and also that of the shareholder.

Answer = Income tax liability `162,22,500 and additional income tax liability `11,04,680. Tax liability of shareholder is Nil.

(b) Presume that ABC Ltd. is a foreign company.

Answer = Income tax liability `210,12,000 and additional income tax liability is nil. Tax liability of shareholder `28,840.

SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:

(i) Computation of Tax Liability

	`
Total Income	4,70,000
Tax on `4,70,000 at slab rate	27,000
Less: Rebate u/s 87A (27,000 or 2,000 whichever is less)	2,000
Tax before education cess	25,000
Add: Education cess @ 2%	500
Add: SHEC @ 1%	250
Tax Liability	25,750

(ii) Computation of Tax Liability

Total Income	4,70,000
Tax on `4,70,000 at slab rate	27,000
Add: Education cess @ 2%	540
Add: SHEC @ 1%	270
Tax Liability	27,810

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

(iii) Computation of Tax Liability

Total Income	4,70,000

Tax on `4,70,000 at slab rate	27,000
Less: Rebate u/s 87A (27,000 or 2,000 whichever is less)	2,000
Tax before education cess	25,000
Add: Education cess @ 2%	500
Add: SHEC @ 1%	250
Tax Liability	25,750

(iv) Computation of Tax Liability

Total Income	4,70,000
Tax on `4,70,000 at slab rate	27,000
Add: Education cess @ 2%	540
Add: SHEC @ 1%	270
Tax Liability	27,810

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

(v) Computation of Tax Liability

Total Income	4,70,000
Tax on `4,70,000 at slab rate	22,000
Less: Rebate u/s 87A (22,000 or 2,000 whichever is less)	2,000
Tax before education cess	20,000
Add: Education cess @ 2%	400
Add: SHEC @ 1%	200
Tax Liability	20,600

(vi) Computation of Tax Liability

Total Income	4,70,000
Tax on `4,70,000 at slab rate	22,000
Less: Rebate u/s 87A (22,000 or 2,000 whichever is less)	2,000
Tax before education cess	20,000
Add: Education cess @ 2%	400
Add: SHEC @ 1%	200
Tax Liability	20,600

(vii) Computation of Tax Liability

Total Income	4,70,000
Tax on `4,70,000 at slab rate	27,000
Add: Education cess @ 2%	540
Add: SHEC @ 1%	270
Tax Liability	27,810

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

(viii) Computation of Tax Liability

Total Income	4,70,000
Tax on `4,70,000 at slab rate	27,000
Add: Education cess @ 2%	540
Add: SHEC @ 1%	270
Tax Liability	27,810

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

(ix) Computation of Tax Liability

Total Income	4,70,000
Tax Liability	Nil

(x) Computation of Tax Liability

Total Income	4,70,000
Tax Liability	Nil

(xi) Computation of Tax Liability

Total Income	4,70,000
Tax on `4,70,000 at slab rate	27,000
Add: Education cess @ 2%	540
Add: SHEC @ 1%	270
Tax Liability	27,810

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

(xii) Computation of Tax Liability

Total Income	4,70,000
Tax on `4,70,000 at slab rate	27,000
Add: Education cess @ 2%	540
Add: SHEC @ 1%	270
Tax Liability	27,810

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

Solution 2:

(i) Computation of Tax Liability

	`
Total Income	100,05,000.00
Tax on `100,05,000 at slab rate	28,31,500.00
Add: Surcharge @ 10%	2,83,150.00
Tax before education cess	31,14,650.00
Increase in income `5,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000,`2,84,650 (31,14,650 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `2,84,650 – `5,000	2,79,650.00
Tax after marginal relief	28,35,000.00
Add: Education cess @ 2%	56,700.00
Add: SHEC @ 1%	28,350.00
Tax Liability	29,20,050.00

(ii) Computation of Tax Liability

Total Income	102,00,000.00
Tax on `102,00,000 at slab rate	28,90,000.00
Add: Surcharge @ 10%	2,89,000.00
Tax before education cess	31,79,000.00
Increase in income `2,00,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000,`3,49,000 (31,79,000 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `3,49,000 – `2,00,000	1,49,000.00
Tax after marginal relief	30,30,000.00
Add: Education cess @ 2%	60,600.00
Add: SHEC @ 1%	30,300.00

Tax Liability	31,20,900.00

(iii) Computation of Tax Liability

Total Income	90,00,000.00
Tax on `90,00,000 at slab rate	25,30,000.00
Add: Education cess @ 2%	50,600.00
Add: SHEC @ 1%	25,300.00
Tax Liability	26,05,900.00

(iv) Computation of Tax Liability

Total Income	4,98,000.00
Tax on `4,98,000 at slab rate	29,800.00
Add: Education cess @ 2%	596.00
Add: SHEC @ 1%	298.00
Tax Liability	30,694.00
Rounded off u/s 288B	30,690.00

(v) Computation of Tax Liability

Total Income	4,05,000.00
Tax on `4,05,000 at slab rate	15,500.00
Less: Rebate u/s 87A (15,500 or 2,000 whichever is less)	2,000.00
Tax before education cess	13,500.00
Add: Education cess @ 2%	270.00
Add: SHEC @ 1%	135.00
Tax Liability	13,905.00
Rounded off u/s 288B	13,910.00

(vi) Computation of Tax Liability

Total Income	102,05,000.00
Tax on `102,05,000 at slab rate	28,86,500.00
Add: Surcharge @ 10%	2,88,650.00
Tax before education cess	31,75,150.00
Increase in income `2,05,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000,`3,50,150 (31,75,150 – 28,25,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `3,50,150 – `2,05,000	1,45,150.00
Tax after marginal relief	30,30,000.00
Add: Education cess @ 2%	60,600.00
Add: SHEC @ 1%	30,300.00
Tax Liability	31,20,900.00

(vii) Computation of Tax Liability

Total Income	25,00,000.00
Tax on `25,00,000 at slab rate	5,80,000.00
Add: Education cess @ 2%	11,600.00
Add: SHEC @ 1%	5,800.00
Tax Liability	5,97,400.00

(viii) Computation of Tax Liability

Total Income	4,50,000.00
Tax on `4,50,000 at slab rate	25,000.00
Add: Education cess @ 2%	500.00
Add: SHEC @ 1%	250.00

Tax Liability	25,750.00

(ix) Computation of Tax Liability

Total Income	3,80,000.00
Tax on `3,80,000 at slab rate	Nil
Add: Education cess @ 2%	Nil
Add: SHEC @ 1%	Nil
Tax Liability	Nil

(x) Computation of Tax Liability

Total Income	110,00,000.00
Tax on `110,00,000 at slab rate	31,00,000.00
Add: Surcharge @ 10%	3,10,000.00
Tax before education cess	34,10,000.00
Add: Education cess @ 2%	68,200.00
Add: SHEC @ 1%	34,100.00
Tax Liability	35,12,300.00

(xi) Computation of Tax Liability

Total Income	99,99,000.00
Tax on `99,99,000 at slab rate	28,29,700.00
Add: Education cess @ 2%	56,594.00
Add: SHEC @ 1%	28,297.00
Tax Liability	29,14,591.00
Rounded off u/s 288B	29,14,590.00

(xii) Computation of Tax Liability

Total Income	12,00,000.00
Tax on `12,00,000 at slab rate	1,90,000.00
Add: Education cess @ 2%	3,800.00
Add: SHEC @ 1%	1,900.00
Tax Liability	1,95,700.00

<u>Solution 3:</u>

Computation of Total Income

	`	`
Income under the head Salary		2,40,000
Income under the head House Property		1,55,000
Income under the head Business/Profession		3,30,000
Income under the head Capital gains		
Long term capital gains	1,20,000	
Short term capital gains	35,000	1,55,000
Income under the head Other Sources (Casual Income)		65,000
Gross Total Income		9,45,000
Less: Deductions u/s 80C to 80U		45,000
Total Income		9,00,000

Computation of Tax Liability

Tax on Long term capital gains `1,20,000 @ 20% u/s 112		24,000
Tax on Casual Income `65,000 @ 30% u/s 115BB	19,500	
Tax on Normal income `7,15,000 at slab rate		73,000
Tax before education cess		1,16,500

Add: Education cess @ 2%		2,330
Add: SHEC @ 1%		1,165
Tax Liability		1,19,995
Rounded off u/s 288B		1,20,000

Solution 3(b):

		`
Total Income		9,00,000
Computation of Tax Liability		
Tax on Long term capital gains `1,20,000 @ 20% u/s 112		24,000
Tax on Casual Income `65,000 @ 30% u/s 115BB	19,500	
Tax on Normal income `7,15,000 at slab rate		73,000
Tax before education cess		1,16,500
Add: Education cess @ 2%		2,330
Add: SHEC @ 1%		1,165
Tax Liability		1,19,995
Rounded off u/s 288B		1,20,000

Solution 3(c):

		`
Total Income		9,00,000
Computation of Tax Liability		
Tax on Long term capital gains `1,20,000 @ 20% u/s 112		24,000
Tax on Casual Income `65,000 @ 30% u/s 115BB	19,500	
Tax on Normal income `7,15,000 at slab rate		68,000
Tax before education cess		1,11,500
Add: Education cess @ 2%		2,230
Add: SHEC @ 1%		1,115
Tax Liability		1,14,845
Rounded off u/s 288B		1,14,850

Solution 3(d):

		`
Total Income		9,00,000
Computation of Tax Liability		
Tax on Long term capital gains `1,20,000 @ 20% u/s 112		24,000
Tax on Casual Income `65,000 @ 30% u/s 115BB	19,500	
Tax on Normal income `7,15,000 at slab rate		73,000
Tax before education cess		1,16,500
Add: Education cess @ 2%		2,330
Add: SHEC @ 1%		1,165
Tax Liability		1,19,995
Rounded off u/s 288B		1,20,000

Solution 3(e):

		`
Total Income		9,00,000
Computation of Tax Liability		
Tax on Long term capital gains `1,20,000 @ 20% u/s 112		24,000
Tax on Casual Income `65,000 @ 30% u/s 115BB	19,500	
Tax on Normal income `7,15,000 at slab rate		73,000
Tax before education cess		1,16,500
Add: Education cess @ 2%		2,330

Add: SHEC @ 1%	1,165
Tax Liability	1,19,995
Rounded off u/s 288B	1,20,000

Solution 3(f):

	`
Total Income	9,00,000

Computation of Tax Liability

Tax on Long term capital gains `1,20,000 @ 20% u/s 112		24,000
Tax on Casual Income `65,000 @ 30% u/s 115BB	19,500	
Tax on Normal income `7,15,000 at slab rate		43,000
Tax before education cess		86,500
Add: Education cess @ 2%		1,730
Add: SHEC @ 1%		865
Tax Liability		89,095
Rounded off u/s 288B		89,100

Solution 3(g):

	`
Total Income	9,00,000

Computation of Tax Liability

Tax on Long term capital gains `1,20,000 @ 20% u/s 112		24,000
Tax on Casual Income `65,000 @ 30% u/s 115BB	19,500	
Tax on Normal income `7,15,000 at slab rate		73,000
Tax before education cess		1,16,500
Add: Education cess @ 2%		2,330
Add: SHEC @ 1%		1,165
Tax Liability		1,19,995
Rounded off u/s 288B		1,20,000

Solution 4: `

(i)

Computation of Total Income

Income under the head Salary	30,000
Income under the head House Property	50,000
Income under the head Capital Gains (LTCG)	8,00,000
Gross Total Income	8,80,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `6,80,000 (8,00,000 – 1,20,000) @ 20% u/s 112	1,36,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,36,000
Add: Education cess @ 2%	2,720
Add: SHEC @ 1%	1,360
Tax Liability	1,40,080

(ii)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `6,80,000 (8,00,000 – 1,20,000) @ 20% u/s 112	1,36,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,36,000
Add: Education cess @ 2%	2,720
Add: SHEC @ 1%	1,360
Tax Liability	1,40,080

(iii)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `6,30,000 (8,00,000 – 1,70,000) @ 20% u/s 112	1,26,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,26,000
Add: Education cess @ 2%	2,520
Add: SHEC @ 1%	1,260
Tax Liability	1,29,780

(iv)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `6,30,000 (8,00,000 – 1,70,000) @ 20% u/s 112	1,26,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,26,000
Add: Education cess @ 2%	2,520
Add: SHEC @ 1%	1,260
Tax Liability	1,29,780

(v)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `3,80,000 (8,00,000 – 4,20,000) @ 20% u/s 112	76,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	76,000
Add: Education cess @ 2%	1,520
Add: SHEC @ 1%	760
Tax Liability	78,280

(vi)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `3,80,000 (8,00,000 – 4,20,000) @ 20% u/s 112	76,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	76,000
Add: Education cess @ 2%	1,520
Add: SHEC @ 1%	760
Tax Liability	78,280

(vii)In situation (i)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `8,00,000 @ 20% u/s 112	1,60,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,60,000
Add: Education cess @ 2%	3,200
Add: SHEC @ 1%	1,600
Tax Liability	1,64,800

In situation (ii)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `8,00,000 @ 20% u/s 112	1,60,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,60,000
Add: Education cess @ 2%	3,200
Add: SHEC @ 1%	1,600
Tax Liability	1,64,800

In situation (iii)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `8,00,000 @ 20% u/s 112	1,60,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,60,000
Add: Education cess @ 2%	3,200
Add: SHEC @ 1%	1,600
Tax Liability	1,64,800

In situation (iv)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `8,00,000 @ 20% u/s 112	1,60,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,60,000
Add: Education cess @ 2%	3,200
Add: SHEC @ 1%	1,600
Tax Liability	1,64,800

In situation (v)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `8,00,000 @ 20% u/s 112	1,60,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,60,000
Add: Education cess @ 2%	3,200

Add: SHEC @ 1%	1,600
Tax Liability	1,64,800

In situation (vi)

Total Income	8,80,000

Computation of Tax Liability

Tax on LTCG `8,00,000 @ 20% u/s 112	1,60,000
Tax on `80,000 at slab rate	Nil
Tax before education cess	1,60,000
Add: Education cess @ 2%	3,200
Add: SHEC @ 1%	1,600
Tax Liability	1,64,800

<u>Solution 5:</u>

(i)

Computation of Total Income

Income under the head Salary		90,000
Income under the head House Property		60,000
Income under the head Capital Gains		
Long term capital gains	2,30,000	
Short term capital gains u/s 111A	2,40,000	4,70,000
Income under the head Other Sources (Casual Income)		70,000
Gross Total Income		6,90,000
Less: Deduction u/s 80C to 80U		1,50,000
Total Income		5,40,000

Computation of Tax Liability

Tax on LTCG `30,000 (2,30,000 – 2,00,000) @ 20% u/s 112	6,000
Tax on STCG `2,40,000 @ 15% u/s 111A	36,000
Tax on Casual Income `70,000 @ 30% u/s 115BB	21,000
Tax on normal income at slab rate	Nil
Tax before education cess	63,000
Add: Education cess @ 2%	1,260
Add: SHEC @ 1%	630
Tax Liability	64,890

(ii)

Total Income	5,40,000

Computation of Tax Liability

Tax on LTCG `30,000 (2,30,000 – 2,00,000) @ 20% u/s 112	6,000
Tax on STCG `2,40,000 @ 15% u/s 111A	36,000
Tax on Casual Income `70,000 @ 30% u/s 115BB	21,000
Tax on normal income at slab rate	Nil
Tax before education cess	63,000
Add: Education cess @ 2%	1,260
Add: SHEC @ 1%	630
Tax Liability	64,890

(iii)

Total Income	5,40,000

Computation of Tax Liability

Tax on LTCG (2,30,000 – 2,30,000) @ 20% u/s 112		Nil
Tax on STCG `2,20,000 (2,40,000 – 20,000) @ 15% u/s 111A		33,000
Tax on Casual Income `70,000 @ 30% u/s 115BB	21,000	
Tax on normal income at slab rate		Nil
Tax before education cess		54,000
Add: Education cess @ 2%		1,080
Add: SHEC @ 1%		540
Tax Liability		55,620

(iv)

Total Income	5,40,000

Computation of Tax Liability

Tax on LTCG (2,30,000 – 2,30,000) @ 20% u/s 112		Nil
Tax on STCG `2,20,000 (2,40,000 – 20,000) @ 15% u/s 111A		33,000
Tax on Casual Income `70,000 @ 30% u/s 115BB	21,000	
Tax on normal income at slab rate		Nil
Tax before education cess		54,000
Add: Education cess @ 2%		1,080
Add: SHEC @ 1%		540
Tax Liability		55,620

(v)

Total Income	5,40,000

Computation of Tax Liability

Tax on LTCG `2,30,000 @ 20% u/s 112		46,000
Tax on STCG `2,40,000 @ 15% u/s 111A		36,000
Tax on Casual Income `70,000 @ 30% u/s 115BB	21,000	
Tax on normal income at slab rate		Nil
Tax before education cess		1,03,000
Add: Education cess @ 2%		2,060
Add: SHEC @ 1%		1,030
Tax Liability		1,06,090

(vi)

Total Income	5,40,000

Computation of Tax Liability

Tax on LTCG (2,30,000 – 2,30,000) @ 20% u/s 112		Nil
Tax on STCG (2,40,000 – 2,40,000) @ 15% u/s 111A		Nil
Tax on Casual Income `70,000 @ 30% u/s 115BB	21,000	
Tax on normal income at slab rate		Nil
Tax before education cess		21,000
Add: Education cess @ 2%		420
Add: SHEC @ 1%		210
Tax Liability		21,630

(vii)

Total Income	5,40,000

Computation of Tax Liability

Tax on LTCG (2,30,000 – 2,30,000) @ 20% u/s 112		Nil
Tax on STCG (2,40,000 – 2,40,000) @ 15% u/s 111A		Nil
Tax on Casual Income `70,000 @ 30% u/s 115BB	21,000	
Tax on normal income at slab rate		Nil
Tax before education cess		21,000
Add: Education cess @ 2%		420
Add: SHEC @ 1%		210
Tax Liability		21,630

(viii)

Total Income	5,40,000

Computation of Tax Liability

Tax on LTCG `2,30,000 @ 20% u/s 112		46,000
Tax on STCG `2,40,000 @ 15% u/s 111A		36,000
Tax on Casual Income `70,000 @ 30% u/s 115BB	21,000	
Tax on normal income at slab rate		Nil
Tax before education cess		1,03,000
Add: Education cess @ 2%		2,060
Add: SHEC @ 1%		1,030
Tax Liability		1,06,090

<u>Solution 6:</u> `

(i) Computation of Tax Liability

Income under the head Business/Profession	70,000
Total Income	70,000
Tax on `70,000 @ 30%	21,000
Add: Education cess @ 2%	420
Add: SHEC @ 1%	210
Tax Liability	21,630

(ii) Computation of Tax Liability

Income under the head Business/Profession	150,00,000
Total Income	150,00,000
Tax on `150,00,000 @ 30%	45,00,000
Add: Surcharge @ 5%	2,25,000
Add: Education cess @ 2%	94,500
Add: SHEC @ 1%	47,250
Tax Liability	48,66,750

(iii) Computation of Tax Liability

Income under the head Business/Profession	6,00,000
Total Income	6,00,000
Tax on `6,00,000 @ 30%	1,80,000
Add: Education cess @ 2%	3,600
Add: SHEC @ 1%	1,800
Tax Liability	1,85,400

(iv) Computation of Tax Liability

Income under the head Business/Profession	10,30,000

Total Income	10,30,000
Tax on `10,30,000 @ 30%	3,09,000
Add: Education cess @ 2%	6,180
Add: SHEC @ 1%	3,090
Tax Liability	3,18,270

(v) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	700,00,000
Total Income	700,00,000
Tax on `700,00,000 @ 20%	140,00,000
Add: Surcharge @ 5%	7,00,000
Add: Education cess @ 2%	2,94,000
Add: SHEC @ 1%	1,47,000
Tax Liability	151,41,000

(vi) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	1,50,000
Total Income	1,50,000
Tax on `1,50,000 @ 20%	30,000
Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

(vii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	6,00,000
Total Income	6,00,000
Tax on `6,00,000 @ 20%	1,20,000
Add: Education cess @ 2%	2,400
Add: SHEC @ 1%	1,200
Tax Liability	1,23,600

(viii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	10,30,000
Total Income	10,30,000
Tax on `10,30,000 @ 20%	2,06,000
Add: Education cess @ 2%	4,120
Add: SHEC @ 1%	2,060
Tax Liability	2,12,180

(ix) Computation of Tax Liability

Income under the head Other Sources (Casual Income)	400,00,000
Total Income	400,00,000
Tax on `400,00,000 @ 30%	120,00,000
Add: Surcharge @ 5%	6,00,000
Add: Education cess @ 2%	2,52,000
Add: SHEC @ 1%	1,26,000
Tax Liability	129,78,000

Solution 6(b): `

(i) Computation of Tax Liability

Income under the head Business/Profession	70,000
Total Income	70,000

Tax on `70,000 @ 40%	28,000
Add: Education cess @ 2%	560
Add: SHEC @ 1%	280
Tax Liability	28,840

(ii) Computation of Tax Liability

Income under the head Business/Profession	150,00,000
Total Income	150,00,000
Tax on `150,00,000 @ 40%	60,00,000
Add: Surcharge @ 2%	1,20,000
Add: Education cess @ 2%	1,22,400
Add: SHEC @ 1%	61,200
Tax Liability	63,03,600

(iii) Computation of Tax Liability

Income under the head Business/Profession	6,00,000
Total Income	6,00,000
Tax on `6,00,000 @ 40%	2,40,000
Add: Education cess @ 2%	4,800
Add: SHEC @ 1%	2,400
Tax Liability	2,47,200

(iv) Computation of Tax Liability

Income under the head Business/Profession	10,30,000
Total Income	10,30,000
Tax on `10,30,000 @ 40%	4,12,000
Add: Education cess @ 2%	8,240
Add: SHEC @ 1%	4,120
Tax Liability	4,24,360

(v) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	700,00,000
Total Income	700,00,000
Tax on `700,00,000 @ 20%	140,00,000
Add: Surcharge @ 2%	2,80,000
Add: Education cess @ 2%	2,85,600
Add: SHEC @ 1%	1,42,800
Tax Liability	147,08,400

(vi) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	1,50,000
Total Income	1,50,000
Tax on `1,50,000 @ 20%	30,000
Add: Education cess @ 2%	600
Add: SHEC @ 1%	300
Tax Liability	30,900

(vii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	6,00,000
Total Income	6,00,000
Tax on `6,00,000 @ 20%	1,20,000
Add: Education cess @ 2%	2,400

Add: SHEC @ 1%	1,200
Tax Liability	1,23,600

(viii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	10,30,000
Total Income	10,30,000
Tax on `10,30,000 @ 20%	2,06,000
Add: Education cess @ 2%	4,120
Add: SHEC @ 1%	2,060
Tax Liability	2,12,180

(ix) Computation of Tax Liability

Income under the head Other Sources (Casual Income)	400,00,000
Total Income	400,00,000
Tax on `400,00,000 @ 30%	120,00,000
Add: Surcharge @ 2%	2,40,000
Add: Education cess @ 2%	2,44,800
Add: SHEC @ 1%	1,22,400
Tax Liability	126,07,200

<u>Solution 7:</u>

Computation of Total Income

		`
Income under the head Business/Profession		6,00,000.00
Income under the head House Property		4,00,000.00
Income under the head Capital Gains		
Long term capital gains	4,50,000	
Short term capital gains u/s 111A	3,50,000	8,00,000.00
Income under the head Other Sources (Casual Income)		3,50,000.00
Gross Total Income		21,50,000.00
Less: Deduction u/s 80C to 80U		1,25,000.00
Total Income		20,25,000.00

Computation of Tax Liability

Tax on LTCG `4,50,000 @ 20% u/s 112	90,000.00
Tax on STCG `3,50,000 @ 15% u/s 111A	52,500.00
Tax on Casual income `3,50,000 @ 30% u/s 115BB	1,05,000.00
Tax on `8,75,000 at slab rate	1,05,000.00
Tax before education cess	3,52,500.00
Add: Education cess @ 2%	7,050.00
Add: SHEC @ 1%	3,525.00
Tax Liability	3,63,075.00
Rounded off u/s 288B	3,63,080.00

<u>Solution 8:</u>

(i)

	`
Income under the head House Property	8,42,324.00
Gross Total Income	8,42,324.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,42,324.00
Rounded off u/s 288A	8,42,320.00

Computation of Tax Liability

Tax on `8,42,320 slab rate	98,464.00
Add: Education cess @ 2%	1,969.28
Add: SHEC @ 1%	984.64
Tax Liability	1,01,417.92
Rounded off u/s 288B	1,01,420.00

(ii)

Income under the head Business/Profession	14,42,336.00
Gross Total Income	14,42,336.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	14,42,336.00
Rounded off u/s 288A	14,42,340.00

Computation of Tax Liability

Tax on `14,42,340 slab rate	2,62,702.00
Add: Education cess @ 2%	5,254.04
Add: SHEC @ 1%	2,627.02
Tax Liability	2,70,583.06
Rounded off u/s 288B	2,70,580.00

(iii)

Income under the head Capital Gains (LTCG)	11,35,335.00
Gross Total Income	11,35,335.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	11,35,335.00
Rounded off u/s 288A	11,35,340.00

Computation of Tax Liability

Tax on `8,85,340 (11,35,340 – 2,50,000) @ 20% u/s 112	1,77,068.00
Add: Education cess @ 2%	3,541.36
Add: SHEC @ 1%	1,770.68
Tax Liability	1,82,380.04
Rounded off u/s 288B	1,82,380.00

(iv)

Income under the head Capital Gains (LTCG)	13,35,334.90
Gross Total Income	13,35,334.90
Less: Deduction u/s 80C to 80U	Nil
Total Income	13,35,334.90
Rounded off u/s 288A	13,35,330.00

Computation of Tax Liability

Tax on `11,35,330 (13,35,330 – 2,00,000) @ 20% u/s 112	2,27,066.00
Add: Education cess @ 2%	4,541.32
Add: SHEC @ 1%	2,270.66
Tax Liability	2,33,877.98
Rounded off u/s 288B	2,33,880.00

(v)

Income under the head Capital Gains (STCG)	10,20,335.00
Gross Total Income	10,20,335.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	10,20,335.00

Rounded off u/s 288A	10,20,340.00

Computation of Tax Liability

Tax on `8,20,340 (10,20,340 – 2,00,000) @ 15% u/s 111A	1,23,051.00
Add: Education cess @ 2%	2,461.02
Add: SHEC @ 1%	1,230.51
Tax Liability	1,26,742.53
Rounded off u/s 288B	1,26,740.00

(vi)

Income under the head Capital Gains (LTCG)	5,40,337.00
Gross Total Income	5,40,337.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	5,40,337.00
Rounded off u/s 288A	5,40,340.00

Computation of Tax Liability

Tax on `5,40,340 @ 20% u/s 112	1,08,068.00
Add: Education cess @ 2%	2,161.36
Add: SHEC @ 1%	1,080.68
Tax Liability	1,11,310.04
Rounded off u/s 288B	1,11,310.00

(vii)

Income under the head Other Sources (winning from lottery)	7,20,000.00
Gross Total Income	7,20,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,20,000.00

Computation of Tax Liability

Tax on `7,20,000 @ 30% u/s 115BB	2,16,000.00
Add: Education cess @ 2%	4,320.00
Add: SHEC @ 1%	2,160.00
Tax Liability	2,22,480.00

(viii)

Income under the head Capital Gains (LTCG)	15,65,385.00
Gross Total Income	15,65,385.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	15,65,385.00
Rounded off u/s 288A	15,65,390.00

Computation of Tax Liability

Tax on `10,65,390 (15,65,390 – 5,00,000) @ 20% u/s 112	2,13,078.00
Add: Education cess @ 2%	4,261.56
Add: SHEC @ 1%	2,130.78
Tax Liability	2,19,470.34
Rounded off u/s 288B	2,19,470.00

(ix)

Income under the head Other Sources (winning from lottery)	10,20,000.00
Gross Total Income	10,20,000.00
Less: Deduction u/s 80C to 80U	Nil

Total Income	10,20,000.00

Computation of Tax Liability

Tax on `10,20,000 @ 30% u/s 115BB	3,06,000.00
Add: Education cess @ 2%	6,120.00
Add: SHEC @ 1%	3,060.00
Tax Liability	3,15,180.00

<u>Solution 9:</u>

Computation of Total Income

	`
Income under the head Salary	3,00,000
Income under the head House Property	16,00,000
Income under the head Capital Gains (Long term capital gains)	1,00,000
Gross Total Income	20,00,000
Less: Deduction u/s 80C to 80U	60,000
Total Income	19,40,000
Agricultural Income	4,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 22,40,000/- at slab rates		5,02,000
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	50,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		4,52,000
Tax on long term capital gain `1,00,000 @ 20% u/s 112		20,000
Tax before education cess		4,72,000
Add: Education cess @ 2%		9,440
Add: SHEC @ 1%		4,720
Tax Liability		4,86,160

<u>Solution 9(b):</u>

Computation of Total Income

	`
Income under the head Salary	3,00,000
Income under the head House Property	16,00,000
Income under the head Capital Gains (Long term capital gains)	1,00,000
Gross Total Income	20,00,000
Less: Deduction u/s 80C to 80U	60,000
Total Income	19,40,000
Agricultural Income	4,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 22,40,000/- at slab rates		4,97,000
Step 2. Tax on (`2,50,000 + agricultural income) at slab rates	55,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		4,42,000
Tax on long term capital gain `1,00,000 @ 20% u/s 112		20,000
Tax before education cess		4,62,000
Add: Education cess @ 2%		9,240
Add: SHEC @ 1%		4,620

Tax Liability	4,75,860

Solution 10:

Computation of Total Income

	`
Income under the head House Property	3,00,000
Income under the head Capital gains (long term capital gains)	5,00,000
Gross Total Income	8,00,000
Less: Deduction u/s 80C to 80U	1,00,000
Total Income	7,00,000
Agricultural income	3,00,000

Computation of Tax Liability

Tax on normal income `2,00,000 at slab rate	Nil
Tax on long term capital gain `5,00,000 @ 20% u/s 112	1,00,000
Tax before education cess	1,00,000
Add: Education cess @ 2%	2,000
Add: SHEC @ 1%	1,000
Tax Liability	1,03,000

Solution 10(b):

Computation of Total Income

	`
Income under the head House Property	3,00,000
Income under the head Capital gains (long term capital gains)	5,00,000
Gross Total Income	8,00,000
Less: Deduction u/s 80C to 80U	1,00,000
Total Income	7,00,000
Agricultural income	3,00,000

Computation of Tax Liability

Tax on normal income `2,00,000 at slab rate	Nil
Tax on long term capital gain `2,00,000 (`5,00,000 – `3,00,000) @ 20% u/s 112	40,000
Tax before education cess	40,000
Add: Education cess @ 2%	800
Add: SHEC @ 1%	400
Tax Liability	41,200

Note: If non-agricultural income is upto the limit not chargeable to tax (`2,00,000/2,50,000/5,00,000), partial integration is not applicable.

Solution 11:

Computation of Total Income

	`
Income under the head Other Sources (Casual income)	5,00,000
Income under the head Capital gains (STCG u/s 111A)	7,00,000
Gross Total Income	12,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	12,00,000

Agricultural income	3,00,000

Computation of Tax Liability

Tax on STCG `5,00,000 (`7,00,000 – 2,00,000) @ 15% u/s 111A	75,000
Tax on casual income `5,00,000 @ 30%	1,50,000
Tax before education cess	2,25,000
Add: Education cess @ 2%	4,500
Add: SHEC @ 1%	2,250
Tax Liability	2,31,750

Note: On Long term capital gain, casual income and short term capital gain u/s 111A partial integration shall not be applicable.

<u>Solution 11(b):</u>

Computation of Total Income

	`
Income under the head Other Sources (Casual income)	5,00,000
Income under the head Capital gains (STCG u/s 111A)	7,00,000
Gross Total Income	12,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	12,00,000
Agricultural income	3,00,000

Computation of Tax Liability

Tax on STCG `7,00,000 @ 15% u/s 111A	1,05,000
Tax on casual income `5,00,000 @ 30%	1,50,000
Tax before education cess	2,55,000
Add: Education cess @ 2%	5,100
Add: SHEC @ 1%	2,550
Tax Liability	2,62,650

Note: On Long term capital gain, casual income and short term capital gain u/s 111A partial integration shall not be applicable.

<u>Solution 12:</u>

Computation of Total Income

	`
Income under the head Business/Profession	12,00,000
Income under the head Other Sources (Casual income)	5,00,000
Gross Total Income	17,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	17,00,000
Agricultural income	10,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 22,00,000/- at slab rates		4,60,000
Step 2. Tax on (`5,00,000 + agricultural income) at slab rates	2,50,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		2,10,000
Tax on casual income `5,00,000 @ 30% u/s 115BB		1,50,000

Tax before education cess	3,60,000
Add: Education cess @ 2%	7,200
Add: SHEC @ 1%	3,600
Tax Liability	3,70,800

<u>Solution 12(b):</u>

Computation of Total Income

	`
Income under the head Business/Profession	12,00,000
Income under the head Other Sources (Casual income)	5,00,000
Gross Total Income	17,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	17,00,000
Agricultural income	10,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 22,00,000/- at slab rates		4,85,000
Step 2. Tax on (`2,50,000 + agricultural income) at slab rates	2,00,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		2,85,000
Tax on casual income `5,00,000 @ 30% u/s 115BB		1,50,000
Tax before education cess		4,35,000
Add: Education cess @ 2%		8,700
Add: SHEC @ 1%		4,350
Tax Liability		4,48,050

<u>Solution 13:</u>

Computation of Total Income

	`
Income under the head Salary	2,00,000
Income under the head House Property	1,00,000
Income under the head Capital Gains	
Short Term Capital Gain	50,000
Short Term Capital Gain111A	2,00,000
Long Term Capital Gain	1,50,000
Income under the head Capital Gains	4,00,000
Casual Income	70,000
Gross Total Income	7,70,000
Less: Deduction u/s 80C to 80U	1,10,000
Total Income	6,60,000
Agricultural Income	5,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 7,40,000/- at slab rates		78,000
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	70,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		8,000
Tax on long term capital gain `1,50,000 @ 20% u/s 112		30,000
Tax on short term capital gain `2,00,000 @ 15% u/s 111A		30,000

Tax on casual income `70,000 @ 30% u/s 115BB	21,000
Tax before education cess	89,000
Add: Education cess @ 2%	1,780
Add: SHEC @ 1%	890
Tax Liability	91,670

<u>Solution 13(b):</u>

Computation of Total Income

	`
Income under the head Salary	2,00,000
Income under the head House Property	1,00,000
Income under the head Capital Gains	
Short Term Capital Gain	50,000
Short Term Capital Gain111A	2,00,000
Long Term Capital Gain	1,50,000
Income under the head Capital Gains	4,00,000
Casual Income	70,000
Gross Total Income	7,70,000
Less: Deduction u/s 80C to 80U	1,10,000
Total Income	6,60,000
Agricultural Income	5,00,000

Computation of Tax Liability

Tax on normal income `2,40,000 at slab rate	Nil
Tax on long term capital gain Nil (`1,50,000-150000) @ 20% u/s 112	Nil
Tax on short term capital gain ` 90,000(`2,00,000-`1,10,000) @ 15% u/s 111A	13,500
Tax on casual income `70,000 @ 30% u/s 115BB	21,000
Tax before education cess	34,500
Add: Education cess @ 2%	690
Add: SHEC @ 1%	345
Tax Liability	35,535
Rounded off u/s 288B	35,540

Note: If non-agricultural income is upto the limit not chargeable to tax (`2,00,000/ 2,50,000/5,00,000), partial integration is not applicable.

<u>Solution 13(c):</u>

Computation of Total Income

	`
Income under the head Salary	2,00,000
Income under the head House Property	1,00,000
Income under the head Capital Gains	
Short Term Capital Gain	50,000
Short Term Capital Gain111A	2,00,000
Long Term Capital Gain	1,50,000
Income under the head Capital Gains	4,00,000
Casual Income	70,000
Gross Total Income	7,70,000
Less: Deduction u/s 80C to 80U	3,00,000
Total Income	4,70,000

Agricultural Income	5,00,000

Computation of Tax Liability

Tax on normal income `50,000 at slab rate	Nil
Tax on long term capital gain `1,50,000 @ 20% u/s 112	30,000
Tax on short term capital gain `2,00,000 @ 15% u/s 111A	30,000
Tax on casual income `70,000 @ 30% u/s 115BB	21,000
Tax before education cess	81,000
Add: Education cess @ 2%	1,620
Add: SHEC @ 1%	810
Tax Liability	83,430

Note: If non-agricultural income is upto the limit not chargeable to tax (`2,00,000/ 2,50,000/5,00,000), partial integration is not applicable.

<u>Solution 14:</u>

Computation of Total Income

	`
Income under the head House Property	2,00,000
Income under the head capital gains (long term capital gains)	10,00,000
Gross Total Income	12,00,000
Less: Deduction u/s 80C to 80U	60,000
Total Income	11,40,000
Agricultural income	7,00,000

Computation of Tax Liability

Tax on normal income `1,40,000 at slab rate	Nil
Tax on long term capital gain `9,40,000 (`10,00,000 – `60,000) @ 20% u/s 112	1,88,000
Tax before education cess	1,88,000
Add: Education cess @ 2%	3,760
Add: SHEC @ 1%	1,880
Tax Liability	1,93,640

Note: If non-agricultural income is upto the limit not chargeable to tax (`2,00,000/ 2,50,000/5,00,000), partial integration is not applicable.

<u>Solution 14(b):</u>

Computation of Total Income

	`
Income under the head House Property	10,00,000
Income under the head capital gains (long term capital gains)	10,00,000
Gross Total Income	20,00,000
Less: Deduction u/s 80C to 80U	60,000
Total Income	19,40,000
Agricultural income	7,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)	
i.e. Tax on ` 16,40,000/- at slab rates	3,17,000

Step 2. Tax on (`2,50,000 + agricultural income) at slab rates	1,15,000
Step 3. Deduct Tax at Step 2 from Tax at Step 1	2,02,000
Tax on long term capital gain `10,00,000 @ 20% u/s 112	2,00,000
Tax before education cess	4,02,000
Add: Education cess @ 2%	8,040
Add: SHEC @ 1%	4,020
Tax Liability	4,14,060

Solution 15:

Tax liability and additional tax liability of the company shall be as given below:	`
Profit before tax	500,00,000.00
Income tax on `500,00,000 @ 30 %	150,00,000.00
Surcharge @ 5%	7,50,000.00
Education cess @ 2%	3,15,000.00
SHEC @ 1%	1,57,500.00
Income tax liability	162,22,500.00
Dividend	65,00,000.00
Additional income tax @ 15% of `65 lakhs	9,75,000.00
Add: Surcharge @ 10%	97,500.00
Add: Education cess @ 2%	21,450.00
Add: SHEC @ 1%	10,725.00
Additional income tax	11,04,675.00
Rounded off u/s 288B	11,04,680.00

Tax liability of the shareholder shall be nil.

Solution 15(b):

Tax liability and additional tax liability of the company shall be as given below:	`
Profit before tax	500,00,000.00
Income tax on `500,00,000 @ 40%	200,00,000.00
Surcharge @ 2%	4,00,000.00
Education cess @ 2%	4,08,000.00
SHEC @ 1%	2,04,000.00
Income tax liability	210,12,000.00

Additional income tax of the foreign company is nil.

Tax liability of the shareholder shall be as given below:

Dividend from foreign company	5,00,000.00
Tax on `5,00,000 at slab rate	30,000.00
Less: Rebate u/s 87A (30,000 or 2,000)	2,000.00
Tax before education cess	28,000.00
Add: Education cess @ 2%	560.00
Add: SHEC @ 1%	280.00
Tax Liability	28,840.00

PRACTICE MANUAL

Question 1

Choose the correct answer with reference to the provisions of the Income-tax Act, 1961.

Education cess @ 2% and secondary and higher education cess @ 1% is payable on

(a) Income-tax
(b) Income-tax plus surcharge, if any
(c) Surcharge
(d) Not payable by any assessee

Answer

(b) i.e. income tax plus surcharge if any.

Question 2

Fill in the blanks:

Where the total income of an artificial juridical person is ` 3,10,000 the income-tax payable is ` …………… and surcharge payable is ` …………..

Answer ` 11,330; surcharge – nil.

Question 3

Write short note on "Income accruing" and "Income due". Can an income which has been taxed on accrual basis be assessed again on receipt basis?

Answer

'Accrue' refers to the right to receive income, whereas 'due' refers to the right to enforce payment of the same. For e.g. salary for work done in December will 'accrue' throughout the month, day to day, but will become 'due' on the salary bill being passed on 31st December or 1st January. Similarly, on Government securities, interest payable on specified dates arise during the period of holding, day to day, but will become 'due' for payment on the specified Dates.

Income which has been taxed on accrual basis cannot be assessed again on receipt basis, as it will amount to double taxation. For example, when interest on bank deposit is offered on accrual basis, amounts received on maturity of such deposit including interest thereon cannot be treated as income again.

Question 4

An employee instructs his employer to pay a certain portion of his salary to a charity and claims it as exempt as it is diverted by over riding charge / title – Comment.

Answer

In the instant case, it is an application of income and in the nature of foregoing of salary. According to the Supreme Court judgment in *CIT v. L.W. Russel (1964) 52 ITR 91*, the salary which has been foregone after its accrual in the hands of the employee is taxable. Hence, the amount paid by the employer to a charity as per the employee's directions is taxable in the hands of the employee.

Question 5

Explain the concept of "Marginal Relief" under the Income-tax Act, 1961.

Answer

<u>Marginal Relief</u>

If surcharge is not payable upto a certain limit and after that it becomes payable, in that case increase in tax liability shall be more than the increase in income and it becomes an anomaly and in order to rectify it, marginal relief is allowed and marginal relief is equal to increase in tax minus increase in income.

e.g. If Mr. X has total income of `102,80,000, his tax liability shall be computed in the manner given below:

Total Income	102,80,000
Tax on `102,80,000 at slab rate	29,14,000
Add: Surcharge @ 10%	2,91,400
Tax before education cess	32,05,400
Increase in income `2,80,000 over `100,00,000 and increase in tax in comparison to income of `100,00,000, `3,75,400 (32,05,400 – 28,30,000), but increase in tax cannot be more than increase in income hence marginal relief shall be `3,75,400 – `2,80,000	95,400
Tax after marginal relief	31,10,000

Add: Education cess @ 2%	62,200
Add: SHEC @ 1%	31,100
Tax Liability	32,03,300

A person shall be eligible for marginal relief upto total income of `104,22,380 and afterwards he will not be eligible for marginal relief. Only when assessee is in the slab of `2,00,000.

Question 6

Describe average rate of tax and maximum marginal rate under section 2(10) and 2(29C) of the Income-tax Act, 1961.

Answer

As per section 2(10), **"Average Rate of tax"** means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income. Section 2(29C) defines **"Maximum marginal rate"** to mean the rate of income-tax (including surcharge on the income-tax, if any) applicable in relation to the highest slab of income in the case of an individual, AOP or BOI, as the case may be, as specified in Finance Act of the relevant year.

EXERCISES

1. The rates of income tax are mentioned in -
   a) Income-tax Act, 1961
   b) The Annual Finance Acts

c) Both in the Income-tax Act, 1961 and the Annual Finance Acts.

2. The surcharge applicable in the case of an individual is -
   a) 10% of tax payable
   b) 10% of tax payable if total income exceeds ` 100 lakh
   c) Nil

3. In respect of a resident assessee, who is of the age of 60 years or more at any time during the previous year 2013-14, -
   a) Higher basic exemption of ` 2,40,000 is available
   b) Higher basic exemption of ` 2,50,000 is available
   c) Higher basic exemption of ` 2,60,000 is available.

4. The rate of tax applicable to a domestic company for A.Y. 2014-15 is -
   a) 30%
   b) 35%
   c) 40%

5. The surcharge applicable to a domestic company for A.Y. 2014-15 is -
   a) 10% if total income exceeds ` 1 crore.
   b) 7.5% if total income exceeds ` 1 crore
   c) 5% if the total income exceeds ` 1crore upto `10 crore.

6. The surcharge applicable to a foreign company for A.Y. 2014-15 is -
   a) Nil
   b) 2% if the total income exceeds ` 1crore upto `10 crore.
   c) 2.5% if the total income exceeds ` 1 crore upto `10 crore..

7. The rate of tax applicable to a firm for A.Y. 2014-15 is -
   a) 30%
   b) 35%
   c) 40%

Answers

1. c **2.** b; **3.** b; **4.** a; **5.** c; **6.** b; **7.** a.

EXAMINATION QUESTIONS

IPCC MAY – 2013

Question 7(a) **(4 Marks)**

Explain the provision regarding the taxability of limited liability partnership under the Income-Tax Act, 1961.

Answer:

Limited Liability Partnership means a Partnership formed and registered under Limited Liability Partnership Act,2008.

The taxation scheme of LLPs is on the same lines as applicable for general partnership firms.
The definition of the terms “partner”, “firm” and “partnership” have been amended to include a limited liability partnership.

Taxability of income of LLP

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%** and casual income @ **30%** and other incomes are also taxable @ **30%**.

Education cess is applicable @ **2%** and SHEC is applicable @ **1%**
Since the tax treatment accorded to a LLP and a general partnership is the same, the conversion from a general partnership to an LLP will have no tax implications if the rights and obligations of the partners remain the same after conversion and there is no transfer of asset or liability after conversion.

Surcharge shall be applicable @ **10%** provided total income is exceeding **` 1 crore**.

Marginal Relief

Provided that in the case of partnership firm/LLP having total income exceeding one crore rupees, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

An LLP is eligible for deduction of remuneration paid to working partners, if the same is authorized by the partnership deed, and subject to the limits specified in section 40(b)(v), i.e., on the first ` 3 lakh of book profit or in case of loss, the limit would be the higher of ` 1,50,000 or 90% of book profit and on the balance of book profit, the limit would be 60%.

An LLP is entitled to deduction of interest paid to partners if such payment is authorized by the partnership deed and the rate of interest does not exceed 12% simple interest per annum.

Signing of Return of Income

Assessee	Circumstances	Authorised signatory
LLP	(i) in circumstances not covered under (ii) below	Designated partner
	(ii) (a) where for any unavoidable reason such designated partner is not able to sign and verify the return; or (b) where there is no designated partner.	- any partner of the LLP - any partner of the LLP

PCC NOV – 2011

Question 7 **(4 Marks)**

Discuss the taxability of agricultural income under the Income Tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?

Answer:

Under section 10(1), any **agricultural income in India is fully exempt** from income tax but if the agricultural income is from outside India, it is chargeable to tax.

Indirect taxing of agricultural income or partial integration of agricultural income (Under the constitution, the power to levy a tax on agricultural income vests in the states. However, parliament has also levied a tax on such income. Explain how this has been achieved?)

If any person has agricultural income as well as non-agricultural income, his tax liability shall be computed in the manner given below:

1. Compute tax on the total of agricultural income and non- agricultural income considering it to be total income of the assessee.
2. Compute tax on exemption limit (`2,00,000 / 2,50,000 / 5,00,000) and agricultural income considering it to be total income.
3. Deduct tax computed under Step 2 from Step 1 and apply education cess.
4. Long term capital gain, casual income and short term capital gain u/s 111A shall not be taken into consideration for the purpose of partial integration
5. If Agricultural income is upto `5,000, or non-agricultural income is upto the limit not chargeable to tax (`2,00,000/2,50,000/5,00,000), partial integration is not applicable.
6. Partial integration is not applicable in case of a partnership firm or a company.

PCC MAY – 2007

Question 3 **(9 Marks)**

The broad break-up of tax and allied details of Mrs. Rinku, born on 31st March, 1954 are as under:

	`
Long-term capital gains on sale of house	2,00,000
Short-term capital gains on sale of shares in B Ltd. (STT paid)	30,000
Prize winning from a T.V. show	20,000
Business income	2,40,000
Net agricultural income	4,40,000
Deduction allowed under section 80C to 80U	60,000

Compute the tax payable by Mrs. Rinku for the assessment year 2014-15. (Modified)

Answer.

Computation of Total Income

Business Income	2,40,000
Long term capital gain on sale of house	2,00,000
Short-term capital gains on sale of shares in B Ltd. (STT paid)	30,000
Casual Income (Prize winning from a T.V. show)	20,000
Gross Total Income	4,90,000
Less: Deduction u/s 80C to 80U	60,000
Total Income	4,30,000

Computation of tax payable by Mrs. Rinku for the A.Y. 2014-15

Particulars	`
(i) Tax on long-term capital gain of `1,30,000 (2,00,000 – 70,000) @ 20%	26,000
(ii) Tax on short term capital gain of `30,000 @ 15%	4,500
(iii) Tax on winnings of `20,000 from a T.V. show @ 30%	6,000

(iv) Tax on balance income of `1,80,000 at slab rate	Nil
Deficiency of `70,000 has been allowed from LTCG	
Less: Rebate u/s 87A (36,500 or 2,000)	2,000
Amount of tax before EC	34,500
Add: Education cess @ 2%	690
Add: SHEC @ 1%	345
Tax payable by Mrs. Rinku	**35,535**
Rounded off u/s 288B	**35,540**

(i) Mrs. Rinku has completed 60 years of age on 31st March, 2014 i.e. she has completed the age of 60 years on the last day of the previous year.

Therefore, she is entitled to the higher basic exemption limit of `2,50,000.

(ii) Partial integration is not applicable because her non-agricultural income is not exceeding the exemption limit of `2,50,000.

(b) Presume income from business is `5,00,000.

Computation of Gross Total Income

Business Income	5,00,000
Long term capital gain on sale of house	2,00,000
Short-term capital gains on sale of shares in B Ltd. (STT paid)	30,000
Casual Income (Prize winning from a T.V. show)	20,000
Gross Total Income	7,50,000
Less: Deduction u/s 80C to 80U	60,000
Total Income	6,90,000

Computation of tax payable by Mrs. Rinku for the A.Y. 2014-15

Particulars		`
(i) Tax on long-term capital gain of `2,00,000 @ 20%		40,000
(ii) Tax on short term capital gain of `30,000 @ 15%		4,500
(iii) Tax on winnings of `20,000 from a T.V. show @ 30%		6,000
(iv) Tax on balance income of `4,40,000		
Partial integration		
1. Tax on 4,40,000 + 4,40,000 = 8,80,000	1,01,000	
2. Tax on 2,50,000 + 4,40,000 = 6,90,000	63,000	
Tax at step no.1 minus tax at step no.2		38,000
Amount of tax before EC		88,500
Add: Education cess @ 2%		1,770
Add: SHEC @ 1%		885
Tax payable by Mrs. Rinku		**91,155**
Rounded off u/s 288B		**91,160**

Mrs. Rinku has completed 60 years of age on 31st March, 2014 i.e. she has completed the age of 60 years on the last day of the previous year.

Therefore, she is entitled to the higher basic exemption limit of `2,50,000.

PE-II MAY – 2006

Question 2 **(6 Marks)**

(a) The total income of Mrs. Z computed for the assessment year 2014-15 is `2,80,000, which includes the following:

	`
Long-term capital gains	30,000
Winnings from lotteries	20,000
Short-term capital gains covered by Sec. 111A	10,000

Agricultural income earned by her was `50,000.

Compute the tax payable by Mrs. Z. (Modified)

Solution:

Computation of tax payable by Mrs. Z for the A.Y. 2014-15

	`
Tax on Agricultural income and Non-agricultural income (`50,000 + `2,20,000 = 2,70,000)	7,000
Tax on Basic exemption limit and agricultural income (`2,00,000 + `50,000 = 2,50,000)	5,000
Tax on normal income (7,000 – 5,000)	2,000
Tax on long-term capital gain of `30,000 @ 20%	6,000
Tax on lottery income of `20,000 @ 30%	6,000
Tax on short-term capital gain covered u/s 111A @ 15% of `10,000	1,500
Less: Rebate u/s 87A (15,500 or 2,000)	2,000
Tax before education cess	13,500
Add: Education cess @ 2%	270
Add: SHEC @ 1%	135
Tax payable by Mrs. Z	**13,905**
Rounded off u/s 288B	**13,910**

TAXABILITY OF GIFT

SECTION 56

Any sum of money or value of property received without consideration or value of property received for inadequate consideration to be subject to tax in the hands of the recipient, being an individual or HUF [Section 56(2)(vii)]

(i) Section 56(2)(vii) brings to tax any sum of money or the value of any property received by an individual or HUF without consideration or the value of any property, received for inadequate consideration. For this purpose, "property" means immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art or bullion.

(ii) any immovable property,—

(a) without consideration, the stamp duty value of which exceeds fifty thousand rupees, the stamp duty value of such property;

(b) for a consideration which is less than the stamp duty value of the property by an amount exceeding fifty thousand rupees, the stamp duty value of such property as exceeds such consideration:

Provided that where the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same, the stamp duty value on the date of the agreement may be taken for the purposes of this sub-clause:

Provided further that the said proviso shall apply only in a case where the amount of consideration referred to therein, or a part thereof, has been paid by any mode other than cash on or before the date of the agreement for the transfer of such immovable property;";

(iii) If the stamp duty value of immovable property is disputed by the assessee, the Assessing Officer may refer the valuation of such property to a Valuation Officer. In such a case, the provisions of section 50C and section 155(15) shall, as far as may be, apply for determining the value of such property.

(iv) If movable property is received without consideration, the aggregate fair market value of such property on the date of receipt would be taxed as the income of the recipient if it exceeds ` 50,000. In case movable property is received for inadequate consideration, and the difference between the aggregate fair market value and such consideration exceeds ` 50,000, such difference would be taxed as the income of the recipient. The CBDT would prescribe the method of determination of fair market value of a movable property.

(v) The provisions of section 56(2)(vii) would apply only to property which is the nature of a capital asset of the recipient and not stock-in-trade, raw material or consumable stores of any business of the recipient. Therefore, only transfer of a capital asset, without consideration and transfer of a capital asset, for inadequate consideration would attract the provisions of section 56(2)(vii).

(vi) The table below summarises the scheme of taxability of gifts –

	Nature of asset	**Particulars**	**Taxable value**

1	Money	Without Consideration	The whole amount if the same exceeds ` 50,000
2	Immovable property	Without Consideration	The stamp duty value of the property, if it exceeds `50,000
3	Immovable property	Inadequate Consideration	The difference between the stamp duty value of the property and the consideration, if such difference exceeds `50,000
4	Movable property	Without Consideration	The aggregate fair market value of the property, if it exceeds `50,000
5	Movable property	Inadequate Consideration	The difference between the aggregate fair market value and the consideration, if such difference exceeds `50,000

(vii) However, any sum of money or value of property received –

(a) from any relative; or
(b) on the occasion of the marriage of the individual; or
(c) under a will or by way of inheritance; or
(d) in contemplation of death of the payer or donor, as the case may be; or
(e) from any local authority as defined in the Explanation to section 10(20); or
(f) from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to in section 10(23C); or
(g) from any trust or institution registered under section 12AA would be outside the ambit of section 56(2)(vii).

(viii) The term "relative" for the purpose of section 56(2)(vii) would mean –

(a) in case of an individual –
(i) spouse of the individual;
(ii) brother or sister of the individual;
(iii) brother or sister of the spouse of the individual;
(iv) brother or sister of either of the parents of the individual;
(v) any lineal ascendant or descendant of the individual;
(vi) any lineal ascendant or descendant of the spouse of the individual;
(vii) spouse of any of the persons referred to above.
(b) In case of Hindu Undivided Family, any member thereof.

Rules for determination of fair market value of the property other than immovable property

(a) Valuation of jewellery

(i) the fair market value of jewellery shall be estimated to be the price which such jewellery would fetch if sold in the open market on the valuation date;

(ii) in case the jewellery is received by the way of purchase on the valuation date, from a registered dealer, the invoice value of the jewellery shall be the fair market value;

(iii) In case the jewellery is received by any other mode and the value of the jewellery exceeds `50,000, then, the assessee may obtain the report of registered valuer in respect of the price it would fetch if sold in the open market on the valuation date.

(b) Valuation of archeological collections, drawings, paintings, sculptures or any work of art

(i) the fair market value of archeological collections, drawings, paintings, sculptures or any work of art (artistic work) shall be estimated to be price which it would fetch if sold in the open market on the valuation date;

(ii) in case the artistic work is received by the way of purchase on the valuation date, from a registered dealer, the invoice value of the artistic work shall be the fair market value;

(iii) in case the artistic work is received by any other mode and the value of the artistic work exceeds ` 50,000, then, the assessee may obtain the report of registered valuer in respect of the price it would fetch if sold in the open market on the valuation date.

(c) Valuation of shares and securities

(a) the fair market value of quoted shares and securities shall be determined in the following manner, namely;-

(i) if the quoted shares and securities are received by way of transaction carried out through any recognized stock exchange, the fair market value of such shares and securities shall be the transaction value as recorded in such stock exchange;

(ii) if such quoted shares and securities are received by way of transaction carried out other than through any recognized stock exchange, the fair market value of such shares and securities shall be,-

(1) the lowest price of such shares and securities quoted on any recognized stock exchange on the valuation date, and

(2) the lowest price of such shares and securities on any recognized stock exchange on a date immediately preceding the valuation date when such shares and securities were traded on such stock exchange, in cases where on the valuation date, there is no trading in such shares and securities on any recognized stock exchange.

(b) the fair market value of unquoted equity shares shall be the value, on the valuation date, of such unquoted equity shares as determined in the following manner namely;-

The fair market value of unquoted equity shares = $\frac{(A-L)}{PE}\times(PV)$

Where,

A= Book value of the assets in Balance Sheet drawn up on the valuation date as reduced by any amount paid as advance tax under the Income-tax Act and any amount shown in the balance sheet including the debit balance of the profit and loss account or the profit and loss appropriation account which does not represent the value of any asset.

L = Book value of liabilities shown in the Balance Sheet drawn up on the valuation date but not including the following amounts:-

(i) the paid-up capital in respect of equity shares;

(ii) the amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general body meeting of the company;

(iii) reserves, by whatever name called, other than those set apart towards depreciation;

(iv) credit balance of the profit and loss account;

(v) any amount representing provision for taxation, other than amount paid as advance tax under the Income-tax Act, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto;

(vi) any amount representing provisions made for meeting liabilities, other than ascertained liabilities;

(vii) any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares.

PE = Total amount of paid up equity share capital as shown in Balance Sheet drawn up on the valuation date.
PV = the paid up value of such equity shares.

(c) the fair market value of unquoted shares and securities other than equity shares in a company which are not listed in any recognized stock exchange shall be estimated to be price it would fetch if sold in the open market on the valuation date and the assessee may obtain a report from a merchant banker or an accountant in respect of such valuation.

Note – "Valuation date" means the date on which the respective property is received by the assessee.

Illustration 1
Mr. A, a dealer in shares, received the following without consideration during the P.Y.2013-14 from his friend Mr. B, -

(1) Cash gift of ` 75,000 on his anniversary, 15th April, 2013.

(2) Bullion, the fair market value of which was ` 60,000, on his birthday, 19th June, 2013.

(3) A plot of land at Faridabad on 1st July, 2013, the stamp value of which is ` 5 lakh on that date. Mr. B had purchased the land in April, 2007.

Mr. A purchased from his friend C, who is also a dealer in shares, 1000 shares of X Ltd. @ ` 400 each on 19th June, 2013, the fair market value of which was ` 600 each on that date.

Mr. A sold these shares in the course of his business on 23rd June, 2013.

Further, on 1st November, 2013, Mr. A took possession of property (building) booked by him two years back at ` 20 lakh. The stamp duty value of the property as on 1st November, 2013 was ` 32 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" for A.Y.2014-15.

	Particulars	`
(1)	Cash gift is taxable under section 56(2)(vii), since it exceeds ` 50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds `50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(vii)	5,00,000
(4)	Difference of ` 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of	-

(5)	his business, such shares represent the stock-in-trade of Mr. A. Appreciation in the value of immovable property between the time of its booking and its actual registration is outside the scope of section 56(2)(vii).	-
	Income from Other Sources	6,35,000

Illustration 2

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(vii) the Income-tax Act, 1961 -

(i) Akhil HUF received ` 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.

(ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ` 9,00,000.

(iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ` 100 per share. He also received jewellery worth `45,000 (FMV) from his nephew on the same day.

(iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ` 5,25,000.

(v) Ms. Kratika purchased a land from PMC Co. a partnership concern for ` 7,15,000. The stamp duty value of the same was ` 12,00,000.

Solution:

	Taxable/ Non-taxable	**Amount liable to tax (`)**	**Reason**
(i)	Taxable	75,000	Sum of money exceeding `50,000 received without consideration from a non-relative is taxable under section 56 (2) (vii). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section (56)(2)(vii). Since Nitisha is a member of the HUF, she is a relative of the HUF.
(iii)	Taxable	55,000	As per provisions of section 56(2)(vii), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ` 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (` 10,000) and jewellery (` 45,000) exceeds ` 50,000. Hence, the entire amount of `55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(vii), therefore, the same shall not be taxable.
(v)	Taxable	4,85,000	Immovable property acquired for inadequate consideration is taxable under section 56(2)(vii).

Example

(i) Mr. X has received three gifts from his three friends

(a) `55,000 in cash
(b) Land with market value `5,00,000 but the value for the purpose of charging stamp duty `4,00,000.
(c) Jewellery with market value `3,00,000

In this case, taxable amount shall be 55,000 + 4,00,000 + 3,00,000 = 7,55,000

(ii) Mr. Hitesh Kumar has received gift of `50,000 in cash from his friend, in this case it will not be considered to be his income.

(iii) Mr. Vicky Jain has received gift of `1,50,000 in cash from his brother, in this case it will not be considered to be his income.

(iv) Mr. Kamal Sapra has received gift of `1,50,000 in cash from his mother's sister, in this case it will not be considered to be his income.

(v) Mr. Akash Choudhary has received gift of `1,50,000 in cash from his father's brother, in this case it will not be considered to be his income.

(vi) Mr. Saket Mittal has received gift of `1,50,000 in cash from his cousin, in this case it will be chargeable to tax.

(vii) Mr. Vikram Bajaj has received gift of `1,50,000 in cash from brother of his spouse, in this case it will not be considered to be his income.

(viii) Mr. Harsh Arora has received gift of `1,50,000 in cash from his grand father, in this case it will not be considered to be his income.

(ix) Mr. Amanpreet Singh has received gift of `1,50,000 in cash from spouse of his brother, in this case it will not be considered to be his income.

(x) Mr. Amit Bhaskar has received gift of `1,50,000 in cash from husband of his sister, in this case it will not be considered to be his income.

(xi) Mr. Sunil Dua has received gift of `1,50,000 in cash from sister of his brother's wife, in this case it will be considered to be his income.

(xii) Mr. Akhilesh Kumar has received gift of `1,50,000 in cash from the sister of his spouse, in this case it will not be considered to be his income.

(xiii) Mr. Suresh Yadav has received gift of `5,000 in cash on his birthday from each of his eleven friends, in this case it will be considered to be his income because the total amount is exceeding `50,000.

(xiv) Mr. Ram Singh has received gift of `1,50,000 in kind from his friend, in this case it will be considered to be his income.

(xv) Mr. Naresh Kumar has received gift of `1,50,000 in cash from his friend on the occasion of his marriage, in this case it will not be considered to be his income.

(xvi) Mr. Ajay Narula has received gift of `75,000 in cash and `75,000 in kind from his fiancee, in this case gift in cash will be considered to be his income and the gift in kind shall also be considered to be his income.

<u>Gifts to the Employees</u> **<u>Section 17(2)(viii) Rule 3(7)(iv)</u>**

Gift given by the employer in kind upto `5,000 in aggregate during a particular year is exempt and excess over it is taxable. If the employer has given any voucher or token in lieu of which such gift may be received, it will also be exempt in the similar manner.

Gifts in cash or gifts convertible into cash i.e. gift cheques etc. shall be fully chargeable to tax.

<u>Gifts or Perquisites from Clients</u>   <u>Section 28</u>

The value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession.

If any person has received any gift or perquisite or benefit either in cash or in kind from any of his clients, it will be considered to be business receipt and shall be taken into consideration while computing income under the head business/profession.

Example

ABC Ltd. has engaged one Advocate with regard to its legal proceedings. The company has provided him facilities of free travelling, boarding/lodging and has incurred `25,000, it will be considered to be professional receipt of the Advocate.

<u>Scholarship</u>   <u>Section 10(16)</u>

Any scholarship received by a person for meeting the cost of education shall be exempt from income tax.

<u>Award/ Reward</u>   <u>Section 10(17A)</u>

Any award or reward whether in cash or in kind instituted by the Central Government or the State Government shall be exempt from income tax. Similarly any private award or reward shall be exempt from income tax if approved by the Central Government.

PRACTICE PROBLEMS
TOTAL PROBLEMS 5

Problem 1.
Discuss taxability in the following cases:

(i) Mr. Jeevan Chauhan has received gift of ` 50,000 in cash from his friend.

(ii) Mr. Sudhanshu Mittal has received gift of ` 2,50,000 in cash from his brother.

(iii) Mr. Vishal Jain has received gift of ` 2,50,000 in cash from his mother's sister.

(iv) Mr. Druv Goel has received gift of ` 2,50,000 in cash from his father's brother.

(v) Mr. Nimit Aggarwal has received gift of ` 2,50,000 in cash from his cousin.

(vi) Mr. Naveen Jain has received gift of ` 2,50,000 in cash from brother of his spouse.

(vii) Mr. Sachin Bhatia has received gift of ` 2,50,000 in cash from his grand father.

(viii) Mr. Sunny Arora has received gift of ` 2,50,000 in cash from spouse of his brother.

(ix) Mr. Ritesh Bansal has received gift of ` 2,50,000 in cash from husband of his sister.

(x) Mr. Mohit Singh has received gift of ` 2,50,000 in cash from sister of his brother's wife.

(xi) Mr. Rahul Kumar has received gift of ` 2,50,000 in cash from the sister of his spouse.

(xii) Mr. Hunny Jindal has received gift of `6,000 in cash on his birthday from each of his eleven friends.

(xiii) Mr. Satbeer Singh has received gift of ` 2,50,000 in kind from his friend.

(xiv) Mr. Ashok Kumar has received gift of `2,50,000 in cash from his friend on the occasion of his marriage.

(xv) Mr. Mukesh Verma has received gift of `1,00,000 in cash and `1,00,000 in kind from his fiancée.

Problem 2.

Mr. Tarun Gulati submits the particulars for the previous year 2013-14 as given below:

1. He has received a gift of `27,000 from one of his friend on 01.09.2013.
2. He has received a gift of `11,000 on 01.10.2013 from his wife Mrs. Tanya Gulati.
3. He has received a gift of `29,000 from his step daughter on 01.01.2014.
4. He has received a gift of `27,000 from grand mother of Mrs. Tanya Gulati on 07.01.2014.
5. He has received a gift of `20,000 in kind from his employer on 01.03.2014.
6. He has received gold as gift from his friend on 01.12.2013 with value `2,00,000.
7. He has received `27,000 as gift from his maternal aunt (mother's sister) on 10.12.2013.
8. He has received dividend of `2,00,000 from a domestic company on 31.03.2014.
9. He has received two gifts of `30,000 each from his neighbours on 01.06.2013.

Compute his tax liability for assessment year 2014-15.

Answer = Tax Liability: `8,450

Problem 3.

Mr. X received gift in cash `3,00,000 from son of his father's brother and gift of `1,00,000 in cash from brother of father of Mrs. X. He has agricultural income `5,00,000.

Compute his tax liability for Assessment Year 2014-15.

Answer = Tax Liability: `39,140

(b) He is aged 81 years.

Answer = Tax Liability: Nil

(c) He is non-resident and he has completed age of 80 years as on 31.03.2014.

Answer = Tax Liability: `41,200

Problem 4.

Mr. X received jewellery valued `5,00,000 from brother of his grand father and his agricultural income is `1,00,000.

Compute his income and tax liability for Assessment Year 2014-15.

Answer = Total Income: `5,00,000; Tax Liability: `39,140

Problem 5.

Following gifts are received by Mrs. Sweety, who is carrying on jewellery business, during the previous year 2013-14:

(i) On the occasion of her marriage on 07.09.2013, she has received `1,20,000 as gift out of which `85,000 are from relatives and balance from friends.

(ii) On 03.10.2013, she has received cash gift of `2,50,000 from cousin of her mother.

(iii) A mobile phone worth `15,000 is gifted by her friend on 21.09.2013.

(iv) She gets a cash gift of `2,40,000 from the elder brother of her husband's grandfather on 10.12.2013.

(v) She has received a cash gift of `6,00,000 from her friend on 27.01.2014.

(vi) She has received bullion, the fair market value of which was `4,75,000 on her birthday,19.01.2014.

Mrs. Sweety purchased from her friend, who is also carrying jewellery business, jewellery at ` 2,50,000 on 25.01.2014, the fair market value of which was `5,00,000 on that date.

Compute total income and tax liability of Mrs. Sweety for A.Y.2014-15.

Answer = Total Income: `15,65,000; Tax Liability: `3,08,490

SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:

(i) Mr. Jeevan Chauhan has received gift of `50,000 in cash from his friend, in this case it will not be considered to be his income.

(ii) Mr. Sudhanshu Mittal has received gift of `2,50,000 in cash from his brother, in this case it will not be considered to be his income.

(iii) Mr. Vishal Jain has received gift of ` 2,50,000 in cash from his mother’s sister, in this case it will not be considered to be his income.

(iv) Mr. Druv Goel has received gift of `2,50,000 in cash from his father’s brother, in this case it will not be considered to be his income.

(v) Mr. Nimit Aggarwal has received gift of `2,50,000 in cash from his cousin, in this case it will be chargeable to tax.

(vi) Mr. Naveen Jain has received gift of `2,50,000 in cash from brother of his spouse, in this case it will not be considered to be his income.

(vii) Mr. Sachin Bhatia has received gift of `2,50,000 in cash from his grand father, in this case it will not be considered to be his income.

(viii) Mr. Sunny Arora has received gift of `2,50,000 in cash from spouse of his brother, in this case it will not be considered to be his income.

(ix) Mr. Ritesh Bansal has received gift of `2,50,000 in cash from husband of his sister, in this case it will not be considered to be his income.

(x) Mr. Mohit Singh has received gift of `2,50,000 in cash from sister of his brother’s wife, in this case it will be considered to be his income.

(xi) Mr. Rahul Kumar has received gift of `2,50,000 in cash from the sister of his spouse, in this case it will not be considered to be his income.

(xii) Mr. Hunny Jindal has received gift of `6,000 in cash on his birthday from each of his eleven friends, in this case it will be considered to be his income because the total amount is exceeding `50,000.

(xiii) Mr. Satbeer Singh has received gift of `2,50,000 in kind from his friend, in this case it will be considered to be his income.

(xiv) Mr. Ashok Kumar has received gift of `2,50,000 in cash from his friend on the occasion of his marriage, in this case it will not be considered to be his income.

(xv) Mr. Mukesh Verma has received gift of `1,00,000 in cash and `1,00,000 in kind from his fiancee, in this case gift in cash will be considered to be his income and the gift in kind shall also be considered to be his income.

<u>Solution 2:</u>

	`
Computation of income under the head Salary	
Gift in kind from his employer (20,000 – 5,000)	15,000.00
Income under the head Salary	15,000.00
Computation of income under the head Other Sources	
Gift received from friend	27,000.00
Gifts received from neighbours	60,000.00
Gift received from friend in kind	2,00,000.00
Income under the head Other Sources	2,87,000.00
Gross Total Income	3,02,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,02,000.00
Computation of tax liability	
Tax on `3,02,000 at slab rate	10,200.00
Less: Rebate u/s 87A (10,200 or 2,000)	2,000.00
Tax before education cess	8,200.00
Add: Education cess @ 2%	164.00
Add: SHEC @ 1%	82.00
Tax Liability	8,446.00
Rounded off u/s 288B	8,450.00

Note: Dividend received by Mr. Tarun Gulati from domestic company is exempt u/s 10(34).

<u>Solution 3:</u>

`

Computation of income under the head Other Sources

Gift received from son of his father's brother	3,00,000
Gift received from bother of father's of Mrs. X	1,00,000
Income under the head Other Sources	4,00,000
Gross Total Income	4,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,00,000
Agricultural Income	5,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 9,00,000/- at slab rates		1,10,000
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	70,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		40,000
Less: Rebate u/s 87A (40,000 or 2,000)		2,000
Tax before education cess		38,000
Add: Education cess @ 2%		760
Add: SHEC @ 1%		380
Tax Liability		39,140

Solution 3(b):

Total Income	4,00,000
Agricultural Income	5,00,000
Tax Liability	Nil

Note: If non-agricultural income is upto the limit not chargeable to tax (`2,00,000/ 2,50,000/5,00,000), partial integration is not applicable.

Solution 3(c):

Total Income	4,00,000
Agricultural Income	5,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 9,00,000/- at slab rates		1,10,000
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	70,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		40,000
Add: Education cess @ 2%		800
Add: SHEC @ 1%		400
Tax Liability		41,200

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

Solution 4:

`

Computation of income under the head Other Sources

Gift in kind from brother of his grand father	5,00,000
Income under the head Other Sources	5,00,000
Gross Total Income	5,00,000
Less: Deduction u/s 80C to 80U	Nil

Total Income	5,00,000
Agricultural Income	1,00,000

Computation of Tax Liability

Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 6,00,000/- at slab rates		50,000
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	10,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		40,000
Less: Rebate u/s 87A (40,000 or 2,000)		2,000
Tax before education cess		38,000
Add: Education cess @ 2%		760
Add: SHEC @ 1%		380
Tax Liability		39,140

<u>Solution 5:</u>

Computation of Total Income of Mrs. Sweety for the A.Y. 2014-15

		`
Gift received on the occasion of marriage are exempt		--
Cash gift received from cousin of Mrs. Sweety's mother is taxable under section 56 (Cousin of Mrs. Sweety's mother is not a relative)		2,50,000
Mobile phone gifted by her friend is not taxable since it is not included in the definition of "property" under section 56		--
Cash gift received from elder brother of husband's grandfather is taxable (Brother of husband's grandfather is not a relative)		2,40,000
Cash gift from friend is taxable		6,00,000
Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds `50,000	4,75,000	
Difference of `2.5 lakh in the value of jewellery purchased from her friend, is not taxable as it represents the stock-in-trade of Mrs. Sweety. Since Mrs. Sweety is carrying jewellery business and it has been mentioned that the jewellery were subsequently sold in the course of her business, such jewellery represent the stock-in-trade of Mrs. Sweety.		Nil
Income under the head Other Sources		15,65,000
Gross Total Income		15,65,000
Less: Deduction u/s 80C to 80U		Nil
Total Income		15,65,000

Computation of Tax Liability

Tax on ` 15,65,000 at slab rate	2,99,500
Add: Education cess @ 2%	5,990
Add: SHEC @ 1%	2,995
Tax Liability	3,08,485
Rounded off u/s 288B	3,08,490

EXAMINATION QUESTIONS

PCC MAY – 2012

Question 1 **(1 Marks)**

State whether the following are chargeable to tax and the amount liable to tax.

A sum of `1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.

Answer:

As per section 56, if any gift has been received on the occasion of marriage, it will be exempt from income tax but if gift has been received by the parents of the person getting married, such gift shall be taxable hence in this case gift received by Mr. Raj is taxable because marriage is that of his son Pravin.

IPCC MAY – 2011

Question 7 **(4 Marks)**

The following details have been furnished by Mrs. Hemali, pertaining to the year ended 31.03.2014:

(i) Cash gift of `51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.

(ii) On the above occasion, a diamond necklace worth `2 lacs was presented by her sister living in Dubai.

(iii) When she celebrated her daughter's wedding on 21.02.2014, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was `51,000.

Compute the income, if any, assessable as income from other sources.

Answer:

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of `51,000 received from a non-relative is, therefore, chargeable to tax under section 56 in the hands of Mrs. Hemali.

(ii) The provisions of section 56 are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56, even though jewellery falls within the definition of “property”.

(iii) To be exempt from applicability of section 56, the property should be received on the occasion of the marriage of the individual, not that of the individual’s son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56, if the aggregate value exceeds `50,000 in a year. “Sum of money” has, however, not been defined under section 56.

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

(1)The first view is that fixed deposit does not fall within the meaning of “sum of money” and therefore, the provisions of section 56 are not attracted. Fixed deposit is also not included in the definition of “property”.

(2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of “sum of money” received.

Income assessable as “Income from other sources”

If the first view is taken, the total amount chargeable to tax as “Income from other sources” would be `51,000, being cash gift received from a friend on her Shastiaptha Poorthi.

As per the second view, the provisions of section 56 would be attracted in respect of the fixed deposit assigned and the “Income from other sources” of Mrs. Hemali would be `1,02,000 (`51,000 + `51,000).

PE-II NOV – 2008

Question 2 **(6 Marks)**

Check the taxability of the following gifts received by Mrs. Rashmi during the previous year 2013-14 and compute the taxable income from gifts for Assessment Year 2014-15:

(i) On the occasion of her marriage on 14.08.2013, she has received `90,000 as gift out of which `70,000 are from relatives and balance from friends.

(ii) On 12.09.2013, she has received gift of `18,000 from cousin of her mother.

(iii) A cell phone of `21,000 is gifted by her employer on 15.08.2013.

(iv) She gets a gift of `25,000 from the elder brother of her husband's grandfather on 25.10.2013.

(v) She has received a gift of `2,000 from her friend on 14.04.2013. (Modified)

Answer:

Computation of taxable income of Mrs. Rashmi from gifts for A.Y. 2014-15

Particulars	Taxable amount `	Reason for taxability or otherwise of each gift
• Relatives and friends	Nil	Gifts received on the occasion of marriage are not taxable.
• Cousin of Mrs. Rashmi's mother	18,000	Cousin of Mrs. Rashmi's mother is not a relative. Hence, the gift is taxable.
• Elder brother of husband's grandfather	25,000	Brother of husband's grandfather is not a relative. Hence, the gift is taxable.
• Friend	2,000	Gift from friend is taxable.
Aggregate value of gifts	**45,000**	

Since the aggregate value of gifts received by Mrs. Rashmi during the previous year 2013-14 does not exceed `50,000, the same is not chargeable to tax under section 56 of the Income-Tax Act, 1961.

Gift received from the employer in kind upto `5,000 is exempt from income tax but excess over it is taxable hence in this case taxable amount of gift shall be `16,000 (21,000 – 5,000) and it will be taxable under the head Salary.

PE-II MAY – 2008

Question 3 **(1 Marks)**

Choose the correct answer with reference to the provisions of the Income-tax Act, 1961:

Rakesh received `70,000 from his friend on the occasion of his birthday.

(a) The entire amount of `70,000 is taxable

(b) `25,000 is taxable

(c) The entire amount is exempt

(d) None of the above.

Answer:

(a) The entire amount of `70,000 is taxable.

PE-II MAY – 2005

Question 1 **(1 Marks)**

Gift of `5,00,000 received on 10th July, 2013 through account payee cheque from a non-relative regularly assessed to income-tax, is

(a) A capital receipt not chargeable to tax

(b) Chargeable to tax as income from other sources

(c) Chargeable to tax as business income

(d) Exempt upto `50,000 and balance chargeable to tax as income from other sources.

Answer:

(b) Chargeable to tax as income from other sources

ADVANCE PAYMENT OF TAX
OR
PAY AS YOU EARN SCHEME

SECTION 207 TO 219

Advance Payment of Tax [Sections 207 to 219]

Liability for payment of advance tax

(1) Tax shall be payable in advance during any financial year, in accordance with the provisions of sections 208 to 219, in respect of an assessee's current income i.e. the total income of the assessee which would be chargeable to tax for the assessment year immediately following that financial year [Section 207].

(2) Under section 208, obligation to pay advance tax arises in every case where the advance tax payable is `10,000 or more.

Note - An assessee who is liable to pay advance tax of less than ` 10,000 will not be saddled with interest under sections 234B and 234C for defaults in payment of advance tax. However, the consequences under section 234A regarding interest for belated filing of return would be attracted.

(3) In case of senior citizens who have passive source of income like interest, rent, etc., the requirement of payment of advance tax causes genuine compliance hardship. Therefore, in order to reduce the compliance burden on such senior citizens, exemption from payment of advance tax has now been provided to a resident individual –

(1) not having any income chargeable under the head "Profits and gains of business or profession"; and
(2) of the age of 60 years or more.

Such senior citizens need not pay advance tax and are allowed to discharge their tax liability (other than TDS) by payment of self-assessment tax.

Computation of advance tax

1) An assessee has to estimate his current income and pay advance tax thereon. He need not submit any estimate or statement of income to the Assessing Officer, except where he has been served with notice by the Assessing Officer.

2) Where an obligation to pay advance tax has arisen, the assessee shall himself compute the advance tax payable on his current income at the rates in force in the financial year and deposit the same, whether or not he has been earlier assessed to tax.

3) In the case of a person who has been already assessed by way of a regular assessment in respect of the total income of any previous year, the Assessing Officer, if he is of the opinion that such person is liable to pay advance tax, can serve an order under section 210(3) requiring the assessee to pay advance tax.

4) For this purpose, the total income of the latest previous year in respect of which the assessee has been assessed by way of regular assessment or the total income returned by the assessee in any return of income for any subsequent previous year, whichever is higher, shall be taken as the basis for computation of advance tax payable.

5) The above order can be served by the Assessing Officer at any time during the financial year but not later than the last date of February.

6) If, after sending the above notice, but before 1st March of the financial year, the assessee furnishes a return relating to any later previous year or an assessment is completed in respect of a later return of income, the Assessing Officer may amend the order for payment of advance tax on the basis of the computation of the income so returned or assessed.

7) If the assessee feels that his own estimate of advance tax payable would be less than the one sent by the Assessing Officer, he can file estimate of his current income and advance tax payable thereon.

8) Where the advance tax payable on assessee's estimation is higher than the tax computed by the Assessing Officer, then, the advance tax shall be paid based upon such higher amount.

9) In all cases, the tax calculated shall be reduced by the amount of tax deductible at source.

The amount of advance tax payable by an assessee in the financial year calculated by –

(i) the assessee himself based on his estimation of current income; or

(ii) the Assessing Officer as a result of an order under section 210(3) or amended order under section 210(4) is subject to the provisions of section 209(2), as per which the net agricultural income has to be considered for the purpose of computing advance tax.

Example

For the previous year 2013-14, ABC Ltd. has not paid any advance tax till 10.10.2013 and in the earlier years the company was assessed in the manner given below:

2010-11	143(3) (Scrutiny Assessment)	7,00,000
2011-12	144 (Best Judgement Assessment)	10,00,000
2012-13	ROI	8,00,000

In this case Assessing officer shall have the powers to give notice to the assessee and its estimated income shall be considered to be `10,00,000. If any assessee has received a notice in form no. 28 but he finds that his tax liability shall be less than the amount computed by the Assessing Officer, in that case he can give a reply in form no. 28A and can pay tax as per his own estimate.

Installments of advance tax and due dates

(1) Advance tax shall be payable by companies and other assessees as per the following schedule of installments:

Companies - Four installments

Due date of installment	**Amount payable**
On or before the 15th June	Not less than 15% of advance tax liability.
On or before the 15th September	Not less than 45% of advance tax liability, as

	reduced by the amount, if any, paid in the earlier installment.
On or before the 15th December	Not less than 75% of advance tax liability, as reduced by the amount or amounts, if any, paid in the earlier installment or installments.
On or before the 15th March	The whole amount of advance tax liability as reduced by the amount or amounts, if any, paid in the earlier installment or installments.

Example

For the previous year 2013-14, ABC Ltd. has estimated its tax payable to be `2,00,000, in this case advance tax shall be paid by the company as given below:

Upto 15.06.2013	30,000
Upto 15.09.2013	90,000
Upto 15.12.2013	1,50,000
Upto 15.03.2014	2,00,000

Non-corporate assessees - Three installments

Due date of installment	**Amount payable**
On or before the 15th September	Not less than 30% of advance tax liability
On or before the 15th December	Not less than 60% of advance tax liability, as reduced by the amount, if any, paid in the earlier installment.
On or before the 15th March	the whole amount of such advance tax as reduced by the amount or amounts, if any, paid in the earlier installment or installments.

Example

Mr. Raj Kumar has estimated his tax payable for previous year 2013-14 `1,00,000, in this case he should pay advance tax in the manner given below:

Upto 15.09.2013	30,000
Upto 15.12.2013	60,000
Upto 15.03.2014	1,00,000

(2) The last date for payment of the whole amount of advance tax is 15th March of the relevant financial year. However, any amount paid by way of advance tax on or before 31st March is also considered as advance tax paid for the financial year. Interest liability for late payment will arise in such a case.

(3) If the last day for payment of any installment of advance tax is a day on which the receiving bank is closed, the assessee can make the payment on the next immediately following working day, and in such cases, the mandatory interest leviable under sections 234B and 234C would not be charged.

(4) Where advance tax is payable by virtue of the notice of demand issued under section 156 by the Assessing Officer, the whole or the appropriate part of the advance tax specified in such notice shall be payable on or before each of such due dates as fall after the date of service of notice of demand.

(5) Where the assessee does not pay any installment by the due date, he shall be deemed to be an assessee in default in respect of such installment.

Payment of advance tax in case of capital gains/casual income [Proviso to section 234C]
(1) Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles etc.

(2) Since it is not possible for the assessee to estimate his capital gains, income from lotteries, etc., it has been provided that if any such income arises after the due date for any installment, then, the entire amount of tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining installments of advance tax which are due.

(3) Where no such installment is due, the entire tax should be paid by 31st March of the relevant financial year.

(4) No interest liability would arise if the entire tax liability is so paid.

Credit for advance tax [Section 219]
Any sum, other than interest or penalty, paid by or recovered from an assessee as advance tax, is treated as a payment of tax in respect of the income of the previous year and credit thereof shall be given in the regular assessment.

<u>Interest payable for deferment of advance tax</u> <u>Section 234C</u>
(1) Interest under section 234C is attracted for deferment of advance tax beyond the due dates.

(2) The interest liability would be 1% per month, for a period of 3 months, for every deferment.

(3) However, for the last installment of 15th March, the interest liability under this section would be 1% for one month.

(4) The interest is to be calculated on the difference between the amount arrived at by applying the specified percentage of tax on returned income and the actual amount paid by the due date.

<u>Interest for non-payment or short-payment of advance tax</u> <u>Section 234B</u>
(1) Interest under section 234B is attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of assessed tax.

(2) The interest liability would be 1% per month or part of the month from 1st April following the financial year upto the date of determination of income under section 143(1).

(3) Such interest is calculated on the amount of difference between the assessed tax and the advance tax paid.

(4) Assessed tax is the tax calculated on total income less tax deducted at source.

<u>Interest for payment of income tax after expiry of the last date of filing the return of income</u> <u>Section 234A</u>
If any person has paid income tax after expiry of the last date of filing of return of income, interest shall be

payable @ 1% p.m. or part of the month for the period subsequent to the last date of filing of return of income. E.g. If in the last example, income tax of `1,00,000 has been paid by Mr. Raj Kumar on 10.12.2014 and last date of filing of return of income is 30.09.2014, in this case interest payable under section 234A shall be

1,00,000 x 1% x 3 = `3,000

Also the assessee has to pay interest under section 234B and interest payable under section 234B shall be

1,00,000 x 1% x 9 = `9,000

Illustration 1: ABC Ltd. has estimated its tax payable to be `1,00,000 and the company has paid advance tax as given below:

Upto 15.06.2013	15,000
Upto 15.09.2013	45,000
Upto 15.12.2013	75,000
Upto 15.03.2014	1,00,000

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

		`
15.06.2013	27,000 – 15,000 = 12,000 x 1% x 3 =	360
15.09.2013	81,000 – 45,000 = 36,000 x 1% x 3 =	1,080
15.12.2013	1,35,000 – 75,000 = 60,000 x 1% x 3 =	1,800
15.03.2014	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 31st 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.

Illustration 2: Mr. Pradeep Chauhan 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, in this case, interest payable by him under section 234C shall be

	`
15.09.2013	57,000 – 40,500 = 16,500 x 1% x 3 = 495
15.12.2013	1,14,000 – 81,000 = 33,000 x 1% x 3 = 990

15.03.2014	1,90,000 – 1,35,000 = 55,000 x 1% x 1 = 550	
Total Interest Payable		2,035

Illustration 3: ABC Ltd. has tax liability of `7,00,000 for the previous year 2013-14 and the company has not paid any advance tax and entire tax amount was paid by the company on 31.12.2014. In this case, interest shall be calculated in the manner given below:

1. Interest in case of default/non-payment of advance tax section 234C

		`
Default in instalment payable on 15.06.2013	1,05,000 x 1% x 3 =	3,150
Default in instalment payable on 15.09.2013	3,15,000 x 1% x 3 =	9,450
Default in instalment payable on 15.12.2013	5,25,000 x 1% x 3 =	15,750
Default in instalment payable on 15.03.2014	7,00,000 x 1% x 1 =	7,000
Total interest payable		35,350

2. Interest in case of payment of tax after the end of relevant previous year section 234B

7,00,000 x 1% x 9 =	63,000

3. Interest in case of payment of tax after the last date of filing of return of income section 234A

7,00,000 x 1% x 3 =	21,000
Total Interest Payable	1,19,350

Illustration 4: Mr. X has paid advance tax as given below:

Upto September 15, 2013	`45,000
Upto December 15, 2013	`95,000

He has not estimated any capital gain but he had long term capital gains of `3,00,000 on 01.01.2014. He has paid advance tax upto 15th March 2014 `1,70,000.

His actual income other than capital gains was found to be `11,00,000.

He has filed return of income on 10.12.2014 and has paid difference of the tax on 10.12.2014.

Last date for filing of return is 31.07.2014.

Compute interest payable under section 234A, 234B and 234C.

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	1,60,000	

Tax on `3,00,000 @ 20%	60,000
Add: Education cess @ 2%	4,400
Add: SHEC @ 1%	2,200
Tax Liability	2,26,600
(Tax liability excluding capital gains `11,00,000 at slab rate + EC @ 3%	1,64,800)

Interest under section 234C

Since capital gains arises on 1st January 2014, installments for 15th September and 15th 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 September 15, 2013 (1,64,800 x 30%)	49,440	45,000	4,440 (4,400 x 1% x 3)	132
Upto December 15, 2013 (1,64,800 x 60%)	98,880	95,000	3,880 (3,800 x 1% x 3)	114

Installment for 15th 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 March 15, 2014 (2,26,600 x 100%)	2,26,600	1,70,000	56,600 (56,600 x 1% x 1)	566

Interest payable under section 234C ` 812

Interest under section 234B

56,600 x 1% x 9 `5,094

Interest under section 234A

56,600 x 1% x 5 `2,830

Illustration 5: A partnership firm made the following payments of advance tax during the financial year 2013-14:

	`
Upto September 15, 2013	8,25,000
Upto December 15, 2013	16,64,000
Upto March 15, 2014	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, 2013. What is the interest payable by the assessee under section 234B and section 234C for assessment year 2014-15? Assume that the return of income was filed on 30.09.2014 i.e. the due date and 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: Education cess @ 2%	56,600
Add: SHEC @ 1%	28,300
Tax Liability	29,14,900
(Tax liability excluding capital gains `88,00,000 x 30% + EC@ 3%	27,19,200)

Interest under section 234C

Since capital gains arises on 1st December 2013, installment for 15th 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 September 15, 2013 (27,19,200 x 30%)	8,15,760	8,25,000	Nil	Nil

Installments for 15th December and 15th 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 December 15, 2013 (29,14,900 x 60%)	17,48,940	16,64,000	84,940 (84,900 x 1% x 3 month)	2,547
Upto March 15, 2014 (29,14,900 x 100%)	29,14,900	26,23,000	2,91,900 (2,91,900 x 1% x 1 month)	2,919

Interest payable under section 234C `5,466

Interest under section 234B

2,91,900 x 1% x 6 `17,514

Illustration 6: ABC Ltd. has estimated its tax liability for assessment year 2014-15 `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 02.01.2015.

Compute interest payable under section 234A, 234B, and 234C.

Solution:

Tax payable is `4,40,000

Upto 15.06.2013	66,000
Upto 15.09.2013	1,98,000
Upto 15.12.2013	3,30,000

Upto 15.03.2014 4,40,000

Interest in case of default/non-payment of advance tax section 234C

Installments if tax payable is `10,00,000

		`
15.06.2013	1,50,000 – 66,000 = 84,000 x 1% x 3 =	2,520
15.09.2013	4,50,000 – 1,98,000 = 2,52,000 x 1% x 3 =	7,560
15.12.2013	7,50,000 – 3,30,000 = 4,20,000 x 1% x 3 =	12,600
15.03.2014	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

PRACTICE PROBLEMS
TOTAL PROBLEMS 3

Problem 1.
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 15th Sept 2013	`30,000
Upto 15th Dec 2013	`50,000
Upto 15th March 2014	`60,000

Balance amount of tax was paid on 10th Sept 2014.

Compute his tax liability for the Assessment Year 2014-15 and also interest under section 234A, 234B and 234C.

Answer = Tax Liability: `4,12,000; Interest under section 234A: `7,040; Interest under section 234B: `21,120; Interest under section 234C: `12,244

Problem 2.
XY Partnership Firm has income as given below:

1. Income from Business `20,00,000
2. Income under the head House Property `7,00,000

The firm has paid advance tax as given below:

Upto 15th June 2013	` 20,000
Upto 15th Sept 2013	` 30,000
Upto 15th Dec 2013	` 80,000
Upto 15th March 2014	`1,00,000

Balance amount of tax was paid on 10th Dec 2014.

Due date for filing of ROI in case of partnership firm is 31.07.2014.

Compute tax liability for the Assessment Year 2014-15 and also interest under section 234A, 234B and 234C.

Answer = Tax Liability: `8,34,300; Interest under section 234A: `36,715; Interest under section 234B: `66,087; Interest under section 234C: `26,564

(b) Presume the assessee is ABC Ltd. an Indian company.

Answer = Tax Liability: `8,34,300; Interest under section 234A: `22,029; Interest under section 234B: `66,087; Interest under section 234C: `37,229

Problem 3.

Mrs. X has income under the head house property `18,00,000 and she has received gift of `3,00,000 in cash from her husband's sister and `1,00,000 from her sister's husband and `1,20,000 from sister of her mother in law. She has agricultural income of `4,00,000. She has paid advance tax as given below:

Upto 15th Sept 2013	` 30,000
Upto 15th Dec 2013	` 80,000
Upto 15th March 2014	`1,00,000

Balance amount of tax was paid on 10th Dec 2014.

Compute her tax liability for the Assessment Year 2014-15 and also interest under section 234A, 234B and 234C.

Answer = Tax Liability: `4,90,280; Interest under section 234A: `19,510; Interest under section 234B: `35,118; Interest under section 234C: `13,835

SOLUTIONS
TO
PRACTICE PROBLEMS

<u>Solution 1:</u>

	`
Computation of Total Income	
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 (agricultural income + non agricultural income)		
i.e. Tax on ` 20,00,000/- at slab rates		4,30,000
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	30,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		4,00,000
Add: Education cess @ 2%		8,000
Add: SHEC @ 1%		4,000
Tax Liability		4,12,000

	Amount payable as advance tax `	**Amount actually paid by way of advance tax** `	**Shortfall** `	**Interest** `
Upto 15th Sept, 2013 (4,12,000 x 30%)	1,23,600	30,000	93,600 (93,600 x 1% x 3 month)	2,808
Upto 15th Dec, 2013 (4,12,000 x 60%)	2,47,200	50,000	1,97,200 (1,97,200 x 1% x 3 month)	5,916
Upto 15th March, 2014 (4,12,000 x 100%)	4,12,000	60,000	3,52,000 (3,52,000 x 1% x 1 month)	3,520

Interest liability under section 234C `12,244

<u>Interest under section 234B</u>

3,52,000 x 1% x 6	`21,120

<u>Interest under section 234A</u>

3,52,000 x 1% x 2	` 7,040

<u>Solution 2:</u>

	`
Computation of Total Income	
Income under the head Business/Profession	20,00,000
Income under the head House Property	7,00,000
Gross Total Income	27,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	27,00,000

Computation of Tax Liability

Tax on `27,00,000 @ 30%	8,10,000
Add: Education cess @ 2%	16,200
Add: SHEC @ 1%	8,100
Tax Liability	8,34,300

	Amount payable as advance tax	**Amount actually paid by way of advance tax**	**Shortfall**	**Interest**
	`	`	`	`
Upto 15th Sept, 2013 (8,34,300 x 30%)	2,50,290	30,000	2,20,290 (2,20,200 x 1% x 3 month)	6,606
Upto 15th Dec, 2013 (8,34,300 x 60%)	5,00,580	80,000	4,20,580 (4,20,500 x 1% x 3 month)	12,615
Upto March 15, 2014 (8,34,300 x 100%)	8,34,300	1,00,000	7,34,300 (7,34,300 x 1% x 1 month)	7,343

Interest liability under section 234C	`26,564

<u>Interest under section 234B</u>

7,34,300 x 1% x 9	`66,087

<u>Interest under section 234A</u>

7,34,300 x 1% x 5	`36,715

<u>Solution 2(b):</u>

	`
Total Income	27,00,000

Computation of Tax Liability

Tax on `27,00,000 @ 30%	8,10,000
Add: Education cess @ 2%	16,200
Add: SHEC @ 1%	8,100

Tax Liability	8,34,300

	Amount payable as advance tax	**Amount actually paid by way of advance tax**	**Shortfall**	**Interest**
	`	`	`	`
Upto 15th June 2013 (8,34,300 x 15%)	1,25,145	20,000	1,05,145 (1,05,100 x 1% x 3)	3,153
Upto 15th Sept, 2013 (8,34,300 x 45%)	3,75,435	30,000	3,45,435 (3,45,400 x 1% x 3 month)	10,362
Upto 15th Dec, 2013 (8,34,300 x 75%)	6,25,725	80,000	5,45,725 (5,45,700 x 1% x 3 month)	16,371
Upto 15th March, 2014 (8,34,300 x 100%)	8,34,300	1,00,000	7,34,300 (7,34,300 x 1% x 1 month)	7,343

Interest liability under section 234C `37,229

<u>Interest under section 234B</u>

7,34,300 x 1% x 9 `66,087

<u>Interest under section 234A</u>

7,34,300 x 1% x 3 `22,029

<u>Solution 3:</u>

		`
Computation of Total Income		
Income under the head House Property		18,00,000
Income under the head Other Sources		
Gift received from sister of her mother in law		1,20,000
Gross Total Income		19,20,000
Less: Deduction u/s 80C to 80U		Nil
Total Income		19,20,000
Agricultural Income		4,00,000
Computation of Tax Liability		
Step 1. Tax on (agricultural income + non agricultural income)		
i.e. Tax on ` 23,20,000/- at slab rates		5,26,000
Step 2. Tax on (`2,00,000 + agricultural income) at slab rates	50,000	
Step 3. Deduct Tax at Step 2 from Tax at Step 1		4,76,000
Add: Education cess @ 2%		9,520
Add: SHEC @ 1%		4,760
Tax Liability		4,90,280

	Amount payable as advance tax	**Amount actually paid by way of advance tax**	**Shortfall**	**Interest**
	`	`	`	`
Upto 15th Sept, 2013 (4,90,280 x 30%)	1,47,084	30,000	1,17,084 (1,17,000 x 1% x 3 month)	3,510

Upto 15th Dec, 2013 (4,90,280 x 60%)	2,94,168	80,000	2,14,168 (2,14,100 x 1% x 3 month)	6,423
Upto 15th March, 2014 (4,90,280 x 100%)	4,90,280	1,00,000	3,90,280 (3,90,200 x 1% x 1 month)	3,902

Interest liability under section 234C `13,835

Interest under section 234B

3,90,200 x 1% x 9 `35,118

Interest under section 234A

3,90,200 x 1% x 5 `19,510

EXAMINATION QUESTIONS

IPCC MAY – 2013

Question 7(a) **(4 Marks)**

Briefly discuss the provisions relating to payment of advance tax in case of capital gains and casual income.

Solution:

(i) If any person has not paid advance tax or has defaulted in payment of advance tax because of not estimating or because of under-estimating any capital gain or any income covered under section 2(24)(ix) i.e. casual income, no interest shall be payable under section 234C provided assessee has paid the tax correctly in the subsequent installment after accrual of such income.

Example

For the previous year 2013-14 ABC Ltd. has estimated its tax payable to be `1,00,000 and has paid the installment on 15.06.2013 and 15.09.2013 accordingly, but subsequently the company had long term capital gain of `1,00,000 on 01.10.2013 and it was not estimated by the company, in this case, if additional tax liability of `20,000 plus EC has been paid by the company in the subsequent installments in the prescribed manner, in that case, no interest shall be charged under section 234C for the default in the earlier installments.

PCC NOV – 2009

Question 5 **(4 Marks)**

Interest is chargeable under section 234A for delay or default in furnishing return of income. Discuss briefly.

Answer.

Interest for default in furnishing return of Income (Section 234A)

If any person has not paid the amount of income tax till the last date of filing the return of income, such person has to pay interest under section 234A @ 1% per month or part of the month for the period of delay beyond the last date of filing the return of income. The assessee has to pay interest under section 234B also for the same period. As per the language of the Act, interest shall be charged for delay in filing the return of income but as per decision of Delhi High Court in Dr. Prannoy Roy v. CIT (2001), interest shall be charged only if there was delay in payment of income tax i.e. if income tax has been paid till the last date of filing of return of income but return was filed after the last date, no interest should be charged under section 234A.

<u>Facts of the case of Dr. Prannoy Roy v. CIT</u>

The petitioner had earned substantial capital gains for the assessment year 1995-96 for which the return was due to be filed on 31-10-1995. However, taxes due were paid on 25-9-1995, *i.e.*, before the due date of filing of the return, but the return was filed on 29-9-1996, *i.e.*, after a delay of about 11 months. Interest had been charged under the provisions of section 234A. As per the Judgement of the High Court interest was deleted.

PCC JUNE – 2009

Question 5 **(4 Marks)**

Enlist the installments of advance tax and due dates thereon in case of companies.

Answer.

Advance tax shall be payable by companies as per the following schedule of installments:

Companies - four installments

Due date of installment	**Amount payable**
On or before the 15th June	Not less than 15% of tax payable
On or before the 15th September	Not less than 45% of tax payable
On or before the 15th December	Not less than 75% of tax payable
On or before the 15th March	The whole amount of tax payable

PCC MAY – 2008

Question 5 **(4 x 2 = 8 Marks)**

(a) Briefly discuss about the interest chargeable under Section 234A for delay or default in furnishing return of income.

(b) What are the due dates of instalments and the quantum of advance tax payable by companies?

Answer 5(a). Refer to Answer given in PCC NOV – 2009 Question No.5

Answer 5(b). Refer to Answer given in PCC JUNE – 2009 Question No.5

PCC NOV – 2007

Question 5 **(4 Marks)**

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

Answer.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc. it has been provided that if any such income arises after the due date for any installment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining installments of advance tax, which are due.

Where no such installment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

* Important : Please see notes overleaf before filling up the challan

Single Copy (to be sent to the ZAO)

CHALLAN NO./ ITNS 280

Tax Applicable (Tick One)*****

(0020) INCOME-TAX ON COMPANIES (CORPORATION TAX) ☐

(0021) INCOME TAX (OTHER THAN COMPANIES) ☐

Assessment Year ☐☐☐☐ - ☐☐

Permanent Account Number

Full Name

Complete Address with City & State

Tel. No.

Pin

Type of Payment (Tick One)

Advance Tax (100)	☐	**Surtax (102)**	☐
Self Assessment Tax (300)	☐	**Tax on Distributed Profits of Domestic Companies (106)**	☐
Tax on Regular Assessment (400)	☐	**Tax on Distributed Income to Unit Holders (107)**	☐

DETAILS OF PAYMENTS

	Amount (in Rs. Only)
Income Tax	
Surcharge	
Education Cess	
Interest	
Penalty	
Others	
Total	
Total (in words)	

CRORES	LACS	THOUSANDS	HUNDREDS	TENS	UNITS

Paid in Cash/Debit to A/c /Cheque No. Dated

Drawn on

(Name of the Bank and Branch)

Date:

Signature of person making payment

FOR USE IN RECEIVING BANK

Debit to A/c / Cheque credited on

D D - M M - Y Y

Rs.

SPACE FOR BANK SEAL

Taxpayers Counterfoil (To be filled up by tax payer)

PAN

Received from

(Name)

Cash/ Debit to A/c /Cheque No. For Rs.

Rs. (in words)

Drawn on

SPACE FOR BANK SEAL

(Name of the Bank and Branch)		
on account of	Companies/Other than Companies/Tax	
Income Tax on	(Strike out whichever is not applicable)	
Type of Payment	(To be filled up by person making the payment)	
for the Assessment Year	□□□□ - □□	Rs.

*NOTES

1. **Please use a separate challan for each type of payment.**
2. Please note that quoting your Permanent Account Number (PAN) is mandatory.
3. Please note that quoting false PAN may attract a penalty of `10,000/- as per section 272B of I.T. Act, 1961.
4. Please note that to deposit Appeal Fees either **Major Head 020 or 021** (depending upon the tax payer's status) has to be ticked under 'Tax Applicable'. Followed by this; **Minor Head: Self Assessment Tax (300)** has to be ticked under 'Type of Payment' and the amount is to filled under **Others** in 'Details of Payments'.
5. To deposit taxes, appeal fees, etc. in respect of block period cases, enter the first Assessment Year of the block period followed by the last Assessment Year of the period. For example, if the block period is 1/04/85 to 5/3/96, it would be entered as 1986-97 in the space indicated for Assessment Year. If taxes are being deposited, tick the box Self Assessment (300) under Type of Payment and fill up amount under 'Tax' while in respect of appeal fees, enter amount under 'Others'.

PLEASE USE THIS CHALLAN FOR DEPOSITING TAXES (TYPES OF PAYMENT) MENTIONED OVERLEAF. KINDLY DO NOT USE THIS CHALLAN FOR DEPOSITING TAX DEDUCTION AT SOURCE (TDS)

KINDLY ENSURE THAT THE BANK'S ACKNOWLEDGEMENT CONTAINS THE FOLLOWING:

1. 7 DIGIT BSR CODE OF THE BANK BRANCH
2. DATE OF DEPOSIT OF CHALLAN (DD MM YY)
3. CHALLAN SERIAL NUMBER

THESE WILL HAVE TO BE QUOTED IN YOUR RETURN OF INCOME.

RESIDENTIAL STATUS
&
SCOPE OF TOTAL INCOME
SECTION 5 TO 9

RESIDENTIAL STATUS AND SCOPE OF TOTAL INCOME

Determination of residential status: The residential status of a person has to be determined to ascertain which income is to be included in computing the total income.

The residential status as per the Income-tax Act are shown below –

- RESIDENTIAL STATUS UNDER THE INCOME TAX ACT, 1961
  - RESIDENT
    - RESIDENT AND ORDINARILY RESIDENT
    - RESIDENT BUT NOT ORDINARILY RESIDENT
  - NON-RESIDENT

In the case of an individual, the duration for which he is present in India determines his residential status. Based on the time spent by him, he may be (a) resident and ordinarily resident, (b) resident but not ordinarily resident, or (c) non-resident.

The residential status of a person determines the taxability of the income. E.g., income earned outside India will not be taxable in the hands of a non-resident but will be taxable in case of a resident and ordinarily resident.

Residential Status [Section 6]
The incidence of tax on any assessee depends upon his residential status under the Act. Therefore, after determining whether a particular amount is capital or revenue in nature, if the receipt is of a revenue nature and chargeable to tax, it has to be seen whether the assessee is liable to tax in respect of that income. The taxability of a particular receipt would thus depend upon not only on the nature of the income and the place of its accrual or receipt but also upon the assessee's residential status.

For all purposes of income-tax, taxpayers are classified into three broad categories on the basis of their residential status. viz

(1) Resident and ordinarily resident
(2) Resident but not ordinarily resident

(3) Non-resident

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

(1) **Residential status of Individuals:** Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

(i) He has been in India during the previous year for a total period of 182 days or more, or
(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident, otherwise the individual is a non-resident.

Note:

(a) The term "stay in India" includes stay in the territorial waters of India (i.e. 12 nautical miles into the sea from the Indian coastline). Even the stay in a ship or boat moored in the territorial waters of India would be sufficient to make the individual resident in India. (1 nautical mile = 1.1515 miles = 1.852 Kms).

(b) It is not necessary that the period of stay must be continuous or active nor is it essential that the stay should be at the usual place of residence, business or employment of the individual.

(c) For the purpose of counting the number of days stayed in India, both the date of departure as well as the date of arrival are considered to be in India.

(d) The residence of an individual for income-tax purpose has nothing to do with citizenship, place of birth or domicile. An individual can, therefore, be resident in more countries than one even though he can have only one domicile.

Exceptions:

The following categories of individuals will be treated as residents only if the period of their stay during the relevant previous year amounts to 182 days. In other words even if such persons were in India for 365 days during the 4 preceding years and 60 days in the relevant previous year, they will not be treated as resident.

(1) Indian citizens, who leave India in any previous year as a member of the crew of an Indian ship or for purposes of employment outside India, or

(2) Indian citizen or person of Indian origin* engaged outside India in an employment or a business or profession or in any other vocation, who comes on a visit to India in any previous year

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

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

(i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or

(ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

Note: In simpler terms, an individual is said to be a resident and ordinarily resident if he satisfies both the following conditions:

(i) He is a resident in any 2 out of the last 10 years preceding the relevant previous year, and
(ii) His total stay in India in the last 7 years preceding the relevant previous year is 730 days or more.

If the individual satisfies both the conditions mentioned above, he is a resident and ordinarily resident but if only one or none of the conditions are satisfied, the individual is a resident but not ordinarily resident.

Illustration 1: Steve Waugh, the Australian cricketer comes to India for 100 days every year. Find out his residential status for the A.Y. 2014-15.

Solution
For the purpose of his residential status in India for A.Y. 2014-15, the relevant previous year is 2013-14.

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

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

Therefore, the residential status of Steve Waugh for the assessment year 2014-15 is resident but not ordinarily resident.

Illustration 2: Mr. B, a Canadian citizen, comes to India for the first time during the P.Y.2009-10. During the financial years 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the A.Y.2014-15.
Solution
During the previous year 2013-14, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2013-14, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days). Thus, he does not satisfy section 6(1). Therefore, he is a non-resident for the previous year 2013-14.

Illustration 3: Mr. C, a Japanese citizen left India after a stay of 10 years on 01.06.2011. During the financial year 2012-13, he comes to India for 46 days. Later, he returns to India for 1 year on 10.10.2013. Determine his residential status for the A.Y. 2014-15.
Solution
During the previous year 2013-14, Mr. C was in India for 173 days (i.e. 22 + 30 + 31+ 31+ 28 + 31 days). His stay in the last 4 years is:

2012-13 - 46
2011-12 - 62 (i.e. 30 + 31 + 1)
2010-11 - 365 (since he left India on 01.6.2011 after 10 years)
2009-10 - 365 (since he left India on 01.6.2011 after 10 years)
838
Mr. C is a resident since his stay in the previous year 2013-14 is 173 days and in the last 4 years is more than 365 days.

For the purpose of being ordinarily resident, it is evident from the above calculations, that

(i) his stay in the last 7 years is more than 730 days and
(ii) since he was in India for 10 years prior to 01.06.2011, he was a resident in at least 2 out of the last 10 years preceding the relevant previous year.

Therefore, Mr. C is a resident and ordinarily resident for the A.Y.2014-15.

Illustration 4: Mr. D, an Indian citizen, leaves India on 22.09.2013 for the first time, to work as an officer of a company in France. Determine his residential status for the A.Y. 2014-15.

Solution

During the previous year 2013-14, Mr. D, an Indian citizen, was in India for 175 days (i.e. 30 + 31+ 30 + 31 + 31 + 22 days). He does not satisfy the minimum criteria of 182 days. Also, since he is an Indian citizen leaving India for the purposes of employment, the second condition under section 6(1) is not applicable to him.

Therefore, Mr. D is a non-resident for the A.Y.2014-15.

Illustration 5: Determine residential status of Mr. Atulya Singhal for the assessment year 2014-15, who stays in India during various financial years asunder:

Previous Years	Stay
2013-14	100
2012-13	200
2011-12	91
2010-11	90
2009-10	89
2008-09	87
2007-08	82

2006-07	91
2005-06	90
2004-05	88
2003-04	89
2002-03	86
2001-02	87
2000-01	89
1999-00	90

Solution:

Years	Status
2013-14	Resident
2012-13	Resident
2011-12	Non-resident
2010-11	Non-resident
2009-10	Non-resident

2008-09	Non-resident
2007-08	Non-resident
2006-07	Non-resident
2005-06	Non-resident
2004-05	Non-resident
2003-04	Non-resident

(a) He is non-resident in 9 out of 10 previous years preceding the previous year 2013-14.

(b) Total stay in 7 years preceding the previous year 2013-14 is 730 days.

Since the assessee is able to comply with at least one of the condition of Section 6(6)(a) as listed below, he will be considered to be NOR.

1. He is **non-resident in India** in at least **nine years out of ten previous years** preceding that year.

or

2. He has **during the seven previous years** preceding that year been in India for a period of **729 days or less**.

Illustration 6: Determine residential status of Mr. Mukesh Srivasta for the assessment year 2014-15, who stays in India during various financial years asunder:

Previous Years	Stay
2013-14	75
2012-13	197
2011-12	94
2010-11	89
2009-10	90
2008-09	89
2007-08	91
2006-07	80
2005-06	91
2004-05	86
2003-04	85
2002-03	89
2001-02	72
2000-01	69
1999-00	92

Solution:

Years	Status
2013-14	Resident
2012-13	Resident
2011-12	Non-resident
2010-11	Non-resident
2009-10	Non-resident
2008-09	Non-resident
2007-08	Non-resident
2006-07	Non-resident
2005-06	Non-resident
2004-05	Non-resident
2003-04	Non-resident

(a) He is non-resident in 9 out of 10 previous years preceding the previous year 2013-14.

(b) Total stay in 7 years preceding the previous year 2013-14 is 730 days or more.

Since the assessee is able to comply with at least one of the condition of section 6(6)(a), he will be considered to be NOR.

Illustration 7: Mr. Smith an American citizen has come to India for the first time on 10.07.2009, as an employee of a multinational company. The particulars of his arrival and departure are as given below:

Date of arrival	**Date of departure**
10.07.2009	07.08.2009
07.02.2010	27.03.2010
27.11.2010	07.01.2011
24.10.2011	31.12.2011
10.09.2012	02.01.2013
20.12.2013	13.02.2014
Not yet returned	

Determine his residential status for previous year 2009-10 to 2013-14.

Solution:

Previous Year 2009-10

{July – 22, August – 7, February – 22, March – 27}

Days of stay in India are 78, so Mr. Smith is non-resident.

Previous Year 2010-11

{November – 4, December – 31, January – 7}

Days of stay in India are 42, so Mr. Smith is non-resident.

Previous Year 2011-12
{October – 8, November – 30, December – 31}

Days of stay in India are 69, so Mr. Smith is non-resident.

Previous Year 2012-13
{September – 21, October –31, November – 30, December – 31, January – 2}

Days of stay in India are 115, so Mr. Smith is non-resident.

Previous Year 2013-14
{December – 12, January – 31, February – 13}

Days of stay in India are 56, so Mr. Smith is non-resident.

Illustration 8: Mr. Rajeev Arora an American citizen has come to India for the first time on 01.07.2010 as an executive of a multinational company. His employer has allowed him to visit USA every year and for this purpose he will be leaving India every year on 1^{st} November and shall come back on 31^{st} December, besides that he has visited Hong Kong on several occasions in connection with the official work, because he is looking after the employer's operations in Hong Kong also, with details asunder:

Date of leaving India	Date of arriving in India
10.09.2010	30.09.2010
07.02.2011	08.05.2011
11.07.2011	21.10.2011
10.02.2012	23.07.2012
11.02.2013	12.06.2013
01.02.2014	10.04.2014

Determine his residential status for the previous years 2010-11 to 2013-14.

Solution:

Previous Year 2010-11
{July – 31, August – 31, September – 11, October – 31, November – 1, December – 1, January – 31, February – 7}

Days of stay in India are 144 so Mr. Rajeev Arora is non-resident.

Previous Year 2011-12
{May – 24, June – 30, July – 11, October – 11, November – 1, December – 1, January – 31, February – 10}

Days of stay in India are 119 so he is non-resident.

Previous Year 2012-13
{July – 9, August – 31, September – 30, October – 31, November – 1, December – 1, January – 31, February – 11}

Days of stay in India are 145 so he is non-resident.

Previous Year 2013-14
{June – 19, July – 31, August – 31, September – 30, October – 31, November – 1, December – 1, January – 31, February – 1}

Days of stay in India are 176. During the preceding 4 years, his stay is for 365 days or more so he is resident. His stay during 7 years is 729 days or less, hence he is resident but not ordinarily resident.

Illustration 9: Mr. Lokesh Vermani and Mrs. Lokesh Vermani are settled outside India and they came to India on 15.10.2013 on a visit for 7 months. Both of them are Indian citizens. In the earlier years they were in India as follows:

Year	Mr. Lokesh Vermani	Mrs. Lokesh Vermani
2012 – 2013	235 Days	365 Days
2011 – 2012	330 Days	30 Days
2010 – 2011	Nil	28 Days
2009 – 2010	118 Days	120 Days

Find out the residential status of Mr. Lokesh Vermani and Mrs. Lokesh Vermani for the assessment year 2014-15.

Solution:
Both are NR for the assessment year 2014-15
Stay of Lokesh Vermani in India

Previous Year 2013-14	168 Days
{17 + 30 + 31 + 31 + 28 + 31}	

Stay of Mrs. Lokesh Vermani in India

Previous Year 2013-14	168 Days
{17 + 30 + 31 + 31 + 28 + 31}	

Since they are covered in special category they will be resident only if their stay in India in relevant previous year is 182 days or more, hence they are non–resident.

Illustration 10: On 01.06.2011 Mr. Zeen, a Malaysian citizen leaves India after stay of 10 years. During the financial year 2012-13 he comes to India for a period of 46 days. Later, he returns to India for one year on 10.10.2013.

Determine Zeen's residential status for the assessment year 2014-15.

Solution:
No. of days of stay in India

P.Y. 2013-14	173 Days
{22 + 30 + 31 + 31 + 28 + 31}	
P.Y. 2012-13	46 Days
P.Y. 2011-12	62 Days
{30 + 31 + 1}	
P.Y. 2010-11	365 Days
P.Y. 2009-10	365 Days
P.Y. 2008-09	365 Days

P.Y. 2007-08	366 Days
P.Y. 2006-07	365 Days
P.Y. 2005-06	365 Days
P.Y. 2004-05	365 Days
P.Y. 2003-04	366 Days

The person is **resident and ordinarily resident**. Mr. Zeen was in India for 60 days in 2013-14 and for 365 days or more in the 4 years immediately preceding the relevant previous year and he does not satisfy even a single condition of section 6(6)(a).

RESIDENTIAL STATUS OF HUF

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

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

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

Illustration 11: The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the karta of the HUF, who was born in Kolkata, visits India during the P.Y.2013-14 after 15 years. He comes to India on 01.4.2013 and leaves for Australia on 1.12.2013. Determine the residential status of Mr. E and the HUF for A.Y. 2014-15.

Solution

(a) During the P.Y.2013-14, Mr. E has stayed in India for 245 days (i.e. 30 + 31 + 30 + 31 + 31 + 30 + 31 + 30 + 1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he cannot satisfy any of the conditions for being ordinarily resident. Therefore, the residential status of Mr. E for the P.Y.2013-14 is resident but not ordinarily resident.

(b) Since the business of the HUF is transacted from Australia and nothing is mentioned regarding its control and management, it is assumed that the control and management is also wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2013-14.

Illustration 12: Karta of one Hindu Undivided Family comes to India every year for minimum 60 days and maximum 91 days. Determine residential status of the Hindu Undivided Family and also that of the Karta for the assessment year 2014-15.

Solution:
Hindu Undivided Family is resident since the Karta has come to India for at least 60 days but the stay of Karta during seven years can be maximum 637 days hence Hindu Undivided Family shall be considered to be resident but not ordinarily resident.

Karta in his individual capacity is non-resident because he cannot comply with even one of the two basic conditions.

Illustration 13: One Hindu Undivided Family is being managed partly from Mumbai and partly from Nepal. Dheeraj Singh (a foreign citizen), Karta of Hindu Undivided Family, comes on a visit to India every year since 1981 in month of April for 105 days.

Determine residential status of the Hindu Undivided Family and also that of the Karta in his individual capacity for the assessment year 2014-15.

Solution:
For the previous year 2013-14, the control and management of the affairs of Hindu Undivided Family is being partly managed from India. Hence Hindu Undivided Family is resident but Mr. Dheeraj Singh cannot comply with any of the conditions of section 6(6)(b), hence Hindu Undivided Family is resident and ordinarily resident.

Karta shall be considered to be resident and ordinarily resident because his stay during 7 years is 735 days. Also, he will not be non-resident in nine years out of ten years preceding the relevant previous year.

RESIDENTIAL STATUS OF FIRMS AND ASSOCIATION OF PERSONS

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

RESIDENTIAL STATUS OF COMPANIES

A company is said to be resident in India if –
(i) it is an Indian company as defined under section 2(26), or
(ii) its control and management is situated wholly in India during the accounting year.

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

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

Illustration 14: Wipro Ltd. an Indian company has most of its business outside India. Determine its residential status.
Solution:
An Indian company shall always be considered to be resident in India.

Illustration 15: Afcon Infrastructure Ltd. is a Japanese company, but it is being controlled from India. Determine its residential status for the assessment year 2014-15.
Solution:
Foreign company shall be resident in India only if its control and management is wholly in India. Hence, Afcon infrastructure Ltd. is resident company.

Illustration 16: Bista Ltd., a foreign company, has made prescribed arrangements for declaration and payment of dividend within India in accordance with section 194. Bista Ltd. carries on majority of its operations and decision making activities from Calcutta and Assam but some part of operational activities and few decisions are being taken from the place at which registered office of Bista Ltd. is located, i.e. Dhaka.

Determine its residential status for the assessment year 2014-15.

Solution:
Bista Ltd. is neither an Indian company nor its control and management is wholly situated in India. Bista Ltd. is, therefore, non–resident in India for the assessment year 2014-15.

RESIDENTIAL STATUS OF LOCAL AUTHORITIES AND ARTIFICIAL JURIDICAL PERSONS

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

SCOPE OF TOTAL INCOME

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

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

The ambit of total income of the three classes of assessees would be as follows:
(1) Resident and ordinarily resident - The total income of a resident assessee would, under section 5(1), consist of:
(i) income received or deemed to be received in India during the previous year;
(ii) income which accrues or arises or is deemed to accrue or arise in India during the previous year; and
(iii) income which accrues or arises outside India even if it is not received or brought into India during the previous year.

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

(2) Resident but not ordinarily resident – Under section 5(1), the computation of total income of resident but not ordinarily resident is the same as in the case of resident and ordinarily resident stated above except for the fact that the income accruing or arising to him outside India is not to be included in his total income. However, where such income is derived from a business controlled from or profession set up in India, then it must be included in his total income even though it accrues or arises outside India.

(3) Non-resident - A non-resident's total income under section 5(2) includes:
(i) income received or deemed to be received in India in the previous year; and
(ii) income which accrues or arises or is deemed to accrue or arise in India during the previous year.

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

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

DEEMED RECEIPT AND ACCRUAL OF INCOME IN INDIA

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

Meaning of "Income received or deemed to be received"
All assessees are liable to tax in respect of the income received or deemed to be received by them in India during the previous year irrespective of -
(i) their residential status, and
(ii) the place of its accrual.

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

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

(i) The annual accretion in the previous year to the balance to the credit of an employee participating in a recognised provident fund (RPF). Thus, the contribution of the employer in excess of 12% of salary or interest credited in excess of 9.5% p.a. is deemed to be received by the assessee.

(ii) The taxable transferred balance from unrecognized to recognized provident fund (being the employer's contribution and interest thereon).

(iii) The contribution made by the Central Government or any other employer in the previous year to the account of an employee under a pension scheme referred to under section 80CCD.

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

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

With a view to removing difficulties and clarifying doubts in the taxation of income, Explanation 1 to Section 5 specifically provides that an item of income accruing or arising outside India shall not be deemed to be received in India merely because it is taken into account in a balance sheet prepared in India.

Further, Explanation 2 to Section 5 makes it clear that once an item of income is included in the assessee's total income and subjected to tax on the ground of its accrual/deemed accrual or receipt, it cannot again be included in the person's total income and subjected to tax either in the same or in a subsequent year on the ground of its receipt - whether actual or deemed.

Income deemed to accrue or arise in India [Section 9]

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

(i) Any income accruing or arising to an assessee in any place outside India whether directly or indirectly (a) through or from any business connection in India, (b) through or from any property in India, (c) through or from any asset or source of income in India or (d) **through the transfer of a capital asset situated in India.**

> **The legislative intent of this clause is to cover incomes, which are accruing or arising, directly or indirectly from a source in India. The section codifies the source rule of taxation, which signifies that where a corporate structure is created to route funds, the actual gain or income arises only in consequence of the investment made in the activity to which such gains are attributable and not the mode through which such gains are realized. This principle which supports the source country's right to tax the gains derived from offshore transactions where the value is attributable to the underlying assets, is recognized internationally by several countries.**
>
> **Consequently, Explanation 4 has been inserted to clarify that the expression "through" shall mean and include and shall be deemed to have always meant and included "by means of", "in consequence of" or "by reason of".**
>
> **Further, Explanation 5 has been inserted to clarify that an asset or a capital asset being any share or interest in a company or entity registered or incorporated outside India shall be deemed to be and shall always be deemed to have been situated in India, if the share or interest derives, directly or indirectly, its value substantially from the assets located in India.**

(ii) Income, which falls under the head "Salaries", if it is earned in India. Any income under the head "Salaries" payable for rest period or leave period which is preceded and succeeded by services rendered in India, and forms part of the service contract of employment, shall be regarded as income earned in India.

(iii) Income from 'Salaries' which is payable by the Government to a citizen of India for services rendered outside India (However, allowances and perquisites paid outside India by the Government is exempt).

(iv) Dividend paid by a Indian company outside India.

(v) Interest (discussed in para 5 below)

(vi) Royalty (discussed in para 6 below)

(vii) Fees for technical services (discussed in para 7 below)

(1)(a) Income from business connection

The expression “business connection” has been explained in Explanation 2 to section 9(1)(i).

(i) ‘Business connection’ shall include any business activity carried out through a person acting on behalf of the non-resident.

(ii) He must have an authority which is habitually exercised to conclude contracts on behalf of the non-resident. However, if his activities are limited to the purchase of goods or merchandise for the non-resident, this provision will not apply.

(iii) Where he has no such authority, but habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on behalf of the non-resident, a business connection is established.

(iv) Business connection is also established where he habitually secures orders in India, mainly or wholly for the non-resident. Further, there may be situations when other nonresidents control the above-mentioned non-resident. Secondly, this non-resident may also control other non-residents. Thirdly, all other non-residents may be subject to the same common control, as that of the non-resident. In all the three situations, business connection is established, where a person habitually secures orders in India, mainly or wholly for such non-residents.

Exception:

"Business connection", however, shall not be held to be established in cases where the nonresident carries on business through a broker, general commission agent or any other agent of an independent status, if such a person is acting in the ordinary course of his business.

A broker, general commission agent or any other agent shall be deemed to have an independent status where he does not work mainly or wholly for the non-resident. He will however, not be considered to have an independent status in the three situations explained in (iv) above, where he is employed by such a non-resident.

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

(1) (b) &(c) Income from property, asset or source of income

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

(1)(d) Income through the transfer of a capital asset situated in India

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

Explanation 1 to section 9(1)(i) lists out income which shall not be deemed to accrue or arise in India. They are given below:

1. **In the case of a business, in respect of which all the operations are not carried out in India [Explanation 1(a) to section 9(1)(i)]** :In the case of a business 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 income as is reasonably attributable to the operations carried out in India. Therefore, it follows that such part of income which cannot be reasonably attributed to the operations in India, is not deemed to accrue or arise in India.

2. **Purchase of goods in India for export [Explanation 1(b) to section 9(1)(i)]:** In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.

3. **Collection of news and views in India for transmission out of India [Explanation 1(c) to section 9(1)(i)]:** In the case of a non-resident, being a person engaged in the business of running a news agency or of publishing newspapers, magazines or journals, no income shall be deemed to accrue or arise in India to him through or from activities which are confined to the collection of news and views in India for transmission out of India.

4. **Shooting of cinematograph films in India [Explanation 1(d) to section 9(1)(i**)]: In the case of a non-resident, no income shall be deemed to accrue or arise in India through or from operations which are confined to the shooting of any cinematograph film in India, if such non-resident is :
   (i) an individual, who is not a citizen of India or
   (ii) a firm which does not have any partner who is a citizen of India or who is resident in India ; or
   (iii) a company which does not have any shareholder who is a citizen of India or who is resident in India.

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

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

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

(5) Interest: Under section 9(1)(v), an interest is deemed to accrue or arise in India if it is payable by -
   (i) the Central Government or any State Government.
   (ii) a person resident in India (except where it is payable in respect of any money borrowed and used for the purposes of a business or profession carried on by him outside India or for the purposes of making or earning any income from any source outside India)
   (iii) a non-resident when it is payable in respect of any debt incurred or moneys borrowed and used for the purpose of a business or profession carried on in India by him. Interest on money borrowed by the non-resident for any purpose other than a business or profession, will not be deemed to accrue or arise in India. Thus, if a non-resident 'A' borrows money from a non-resident 'B' and invests the same in shares of an Indian company, interest payable by 'A' to 'B' will not be deemed to accrue or arise in India.

(6) Royalty: Royalty will be deemed to accrue or arise in India when it is payable by -
   (i) The Government; or
   (ii) a person who is a resident in India except in cases where it is payable for the transfer of any right or the use of any property or information or for the utilization of services for the

purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India; or

(iii) a non-resident only when the royalty is payable in respect of any right, property or information used or services utilised for purposes of a business or profession carried on in India or for the purposes of making or earning any income from any source in India.

Lumpsum royalty payments made by a resident for the transfer of all or any rights (including the granting of a licence) in respect of computer software supplied by a non-resident manufacturer along with computer hardware under any scheme approved by the Government under the Policy on Computer Software Export, Software Development and Training, 1986shall not be deemed to accrue or arise in India.

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

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

(i) the transfer of all or any rights (including the granting of licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property;

(ii) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property;

(iii) the use of any patent, invention, model, design, secret formula or process or trade mark or similar property;

(iv) the imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill;

(v) the use or right to use any industrial, commercial or scientific equipment but not including the amounts referred to in section 44BB;

(vi) the transfer of all or any rights (including the granting of licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for the sale, distribution or exhibition of cinematographic films;

(vii) the rendering of any service in connection with the activities listed above.

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

Consideration for use or right to use of computer software is royalty within the meaning of section 9(1)(vi)

As per section 9(1)(vi), any income payable by way of royalty in respect of any right, property or information is deemed to accrue or arise in India. The term "royalty" means consideration for transfer of all or any right in respect of certain rights, property or information. There have been conflicting court rulings on the interpretation of the definition of royalty, on account of which there was a need to resolve the following issues –

Does consideration for use of computer software constitute royalty?

(i) Is it necessary that the right, property or information has to be used directly by the payer?

(ii) Is it necessary that the right, property or information has to be located in India or control or possession of it has to be with the payer?

(iii) What is the meaning of the term "process"?

In order to resolve the above issues arising on account of conflicting judicial decisions and to clarify the true legislative intent, Explanations 4, 5 & 6 have been inserted with retrospective effect from 1st June, 1976.

Explanation 4 clarifies that the consideration for use or right to use of computer software is royalty by clarifying that, transfer of all or any rights in respect of any right, property or information includes and has always included transfer of all or any right for use or right to use a computer software (including granting of a licence) irrespective of the medium through which such right is transferred.

Consequently, the provisions of tax deduction at source under section 194J and section 195 would be attracted in respect of consideration for use or right to use computer software since the same falls within the definition of royalty.

Note - The Central Government has, vide Notification No.21/2012 dated 13.6.2012 to be effective from 1st July, 2012, exempted certain software payments from the applicability of tax deduction under section 194J. Accordingly, where payment is made by the transferee for acquisition of software from a resident-transferor, the provisions of section 194J would not be attracted if -

(1) the software is acquired in a subsequent transfer without any modification by the transferor;

(2) tax has been deducted either under section 194J or under section 195 on payment for any previous transfer of such software; and

(3) the transferee obtains a declaration from the transferor that tax has been so deducted along with the PAN of the transferor.

Explanation 5 clarifies that royalty includes and has always included consideration in respect of any right, property or information, whether or not,

(a) the possession or control of such right, property or information is with the payer;

(b) such right, property or information is used directly by the payer;

(c) the location of such right, property or information is in India.

Explanation 6 clarifies that the term "process" includes and shall be deemed to have always included transmission by satellite (including up-linking, amplification, conversion for down-linking of any signal), cable, optic fibre or by any other similar technology, whether or not such process is secret.

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

   (i) the Government.

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

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

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

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

Income by way of interest, royalty or fee for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not –

(i) the non-resident has a residence or place of business or business connection in India; or

(ii) the non-resident has rendered services in India.

In effect, the income by way of fee for technical services, interest or royalty, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India.

Illustration 17: Mrs. X is a citizen of India and is employed in ABC Ltd. in India and is getting salary of `50,000 p.m. and she was transferred out of India w.e.f 01.09.2013 and for this purpose she left India on 01.09.2013 for the first time and she visited India from 27.12.2013 to 07.01.2014 and her salary for the month of Dec' 2013 was received in India. Employer and employee both have contributed @ 13% (each) of salary to the recognized provident fund and during the year interest of `50,000 was credited to the recognized provident fund @ 10% p.a.

Compute her total income and tax liability in India for assessment year 2014-15.

(b) Presume she was transferred w.e.f 01.11.2013 and she left India on 01.11.2013 for the first time.

Solution:

In this case, Mrs. X is covered in special category and her stay in India is less than 182 days hence she will be non-resident and her incomes taxable in India shall be

	`
Income accruing/arising in India 50,000 x 5	2,50,000.00
Income received in India 50,000 x 1	50,000.00
Income deemed to be received in India	
Employer contribution (50,000 x 12) x 1% (13% - 12%)	6,000.00
Interest in excess of 9.5% 50,000 /10% x 0.5% = 2,500	
Interest on employer contribution 2,500 /2 (Interest on employee contribution i.e. `1,250 shall be taxable under the head Other Sources)	1,250.00
Gross Salary	3,07,250.00
Income under the head Salary	3,07,250.00
Income under the head Other Sources	1,250.00
Gross Total Income	3,08,500.00
Less: Deduction u/s 80C Contribution to recognized provident fund (50,000 x 12) x 13%	78,000.00
Total Income	2,30,500.00

Computation of Tax Liability

Tax on `2,30,500 at slab rate	3,050.00
Add: Education cess @ 2%	61.00
Add: SHEC @ 1%	30.50
Tax Liability	3,141.50
Rounded off u/s 288B	3,140.00

Note: No rebate is allowed under section 87A because assessee is a Non-resident.

Solution (b):
In this case, Mrs. X is covered in special category and her stay in India is more than 182 days hence she will be ROR and her incomes taxable in India shall be

	`
Income accruing/arising in India 50,000 x 7	3,50,000.00
Income received in India 50,000 x 1	50,000.00
Income accruing/arising abroad / received abroad 50,000 x 4	2,00,000.00
Income deemed to be received in India	
Employer contribution (50,000 x 12) x 1% (13% - 12%)	6,000.00
Interest in excess of 9.5% 50,000 /10% x 0.5% = 2,500	
Interest on employer contribution 2,500 /2	1,250.00
(Interest on employee contribution i.e. `1,250 shall be taxable under the head Other Sources)	
Gross Salary	6,07,250.00
Income under the head Salary	6,07,250.00
Income under the head Other Sources	1,250.00
Gross Total Income	6,08,500.00
Less: Deduction u/s 80C Contribution to recognized provident fund (50,000 x 12) x 13%	78,000.00
Total Income	5,30,500.00

Computation of Tax Liability

Tax on `5,30,500 at slab rate	36,100.00
Add: Education cess @ 2%	722.00
Add: SHEC @ 1%	361.00
Tax Liability	37,183.00
Rounded off u/s 288B	37,180.00

Illustration 18: Mr. Akash Tanwar has income asunder:

1. He has income from a business in Germany amounting to `3,00,000 and half of it was received in India.

2. He has interest income of `1,00,000 from UK Development Bond and entire interest income was credited to a bank account in UK. Subsequently, the amount was transferred in India.

3. He has a business in Bombay and entire income of `3,00,000 was received in UK.

4. He has one house property in Ghaziabad and income of `5,00,000 was received in UK.

5. He has received salary income of `5,00,000 (computed) in India and half of the services were rendered in UK and half in India.

(Presume all the above incomes are computed incomes)

Compute his income presuming that he is NOR, NR and ROR.

Solution:

	ROR	**NOR**	**NR**
1. Income received in India Income accruing/arising abroad and received abroad	1,50,000 1,50,000	1,50,000 xxxxx	1,50,000 xxxxx
2. Income accruing/arising abroad and received abroad	1,00,000	xxxxx	xxxxx
3. Income accruing/arising in India	3,00,000	3,00,000	3,00,000
4. Income accruing/arising in India	5,00,000	5,00,000	5,00,000
5. Income received in India	5,00,000	5,00,000	5,00,000
Total	**17,00,000**	**14,50,000**	**14,50,000**

Illustration 19: Mr. Nishant Khurana earns the following income during the financial year 2013-14:

		`
(1)	Income from house property in London, received in India	60,000
(2)	Profits from business in Japan and managed from there (received in Japan)	9,00,000
(3)	Dividend from foreign company, received in India	30,000
(4)	Dividend from Indian company, received in England	50,000
(5)	Profits from business in Kenya, controlled from India, Profits received in Kenya	3,00,000
(6)	Profits from business in Delhi, managed from Japan	7,00,000
(7)	Capital gains on transfer of shares of Indian companies, sold in USA and gains were received there	2,00,000
(8)	Pension from former employer in India, received in Japan	50,000
(9)	Profits from business in Pakistan, deposited in bank there	20,000
(10)	Profit on sale of asset in India but received in London	8,000
(11)	Past untaxed profits of UK business of 2012-13 brought into India in 2013-14	90,000
(12)	Interest on Government securities accrued in India but received in Paris	80,000

(13) Interest on USA Government securities, received in India 20,000

(14) Salary earned in Bombay, but received in UK 60,000

(15) Income from property in Paris, received there 1,00,000

(Presume all the above incomes are computed incomes)

Determine the gross total income of Mr. Nishant Khurana if he is (i) resident and ordinarily resident, resident but not ordinarily resident, non-resident in India during the financial year 2013-14.

Solution:

		ROR	NOR	NR
(1)	Income received in India	60,000	60,000	60,000
(2)	Income accruing/arising and received outside India	9,00,000	—	—
(3)	Income received in India	30,000	30,000	30,000
(4)	Income accruing in India but exempt under section 10(34)	—	—	—
(5)	Income accruing/arising and received outside India, but business controlled from India	3,00,000	3,00,000	—
(6)	Income accruing/arising in India	7,00,000	7,00,000	7,00,000
(7)	Income accruing/arising in India	2,00,000	2,00,000	2,00,000
(8)	Income accruing/arising in India	50,000	50,000	50,000
(9)	Income accruing/arising and received outside India	20,000	—	—
(10)	Income accruing/arising in India	8,000	8,000	8,000
(11)	Past untaxed profits	—	—	—
(12)	Income accruing/arising in India	80,000	80,000	80,000
(13)	Income received in India	20,000	20,000	20,000
(14)	Income accruing/arising in India	60,000	60,000	60,000
(15)	Income accruing/arising and received outside India	1,00,000	—	—
	Gross Total Income	**25,28,000**	**15,08,000**	**12,08,000**

Illustration 20: Lensel Optics Pvt. Ltd., an Indian company has an income of `30 lakhs from a business in India. This company has a business income of `12 lakhs from outside India. Out of which 7 lakhs were received in India and balance outside India.

Compute tax liability of the Indian company for the assessment year 2014-15.

Solution: `

Income from business in India	30,00,000
Income from outside India	12,00,000
Income under the head Business/Profession	42,00,000
Gross Total Income	42,00,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	42,00,000

Computation of Tax Liability

Tax on `42,00,000 @ 30%	12,60,000
Add: Education cess @ 2%	25,200
Add: SHEC @ 1%	12,600
Tax Liability	12,97,800

Note: Indian company is always considered to be resident in India and its incomes even earned and received outside India shall be chargeable to tax in India.

Illustration 21: Cisco Systems partnership firm has an income of `3 lakhs in India and income accruing/arising abroad and also received abroad `23 lakhs. It consists of two partners. Mr. Tajender Singh who is an active partner, is staying outside India throughout the year. Mr. Virender Singh is a dormant partner and is staying in India throughout the year.

Compute tax liability of the partnership firm in India for the assessment year 2014-15.

(b) Also compute tax liability of the firm if Mr. Virender Singh is also an active partner.

Solution:

	`
(a) Partnership firm is non-resident	
Income from business/profession in India	3,00,000
Gross Total Income	3,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,00,000
Tax @ 30% + Education cess @ 2% + SHEC @ 1%	92,700
(b) Partnership firm is resident	
Income from business/profession	26,00,000
Gross Total Income	26,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	26,00,000
Tax @ 30% + Education cess @ 2% + SHEC @ 1%	8,03,400

Illustration 22: Ashish had following income during the previous year ended 31st March, 2014:

		`
(1)	Salary received in India for three months (being computed income)	25,000
(2)	Income from house property in India	18,000
(3)	Interest on savings bank deposit in SBI, in India	4,000
(4)	Amount brought into India out of the past-untaxed profits earned in Germany	20,500
(5)	Income from business in Bangladesh, being controlled from India	12,542
(6)	Dividends received in Belgium from French companies, out of which `2,500 were remitted to India	23,150

You are required to compute his gross total income for the assessment year 2014-15, if he is a

(a) resident and ordinarily resident;

(b) not ordinarily resident; and

(c) non-resident.

Presume all the above income is computed income.

Solution:

	ROR	NOR	NR
(1) Salary received in India • Taxable on receipt basis	25,000	25,000	25,000
(2) Income from house property in India • Income accruing/arising in India	18,000	18,000	18,000
(3) Interest on savings bank deposit in SBI, in India • Income accruing/arising in India	4,000	4,000	4,000
(4) Past untaxed profits brought in India • Not an income of the previous year 2013-14 hence not taxable	—	—	—
(5) Income from business in Bangladesh being controlled from India • Not taxable in case of non resident	12,542	12,542	—
(6) Dividend received in Belgium • Income accrued & received outside India	23,150	—	—
Gross Total Income	**82,692**	**59,542**	**47,000**

Illustration 23: Hemant Kumar, a foreign citizen (not being a person of Indian origin) came to India for the first time on 2nd December, 2013 for a visit of 210 days. Hemant Kumar had the following income during the previous year ended 31st March, 2014: `

(1) Salary (computed) received in India for three months	1,00,000
(2) Income from house property in London (received there)	2,75,200
(3) Amount brought into India out of the past-untaxed profits earned in Germany	80,000
(4) Income from agriculture in Sri Lanka, received and invested there	12,300
(5) Income from business in Nepal, being controlled from India	35,000
(6) Income from house property in USA received in USA (`76,000 is used in Canada for meeting the educational expenses of Hemant's daughter and ` 10,000 is later on remitted in India)	86,000

You are required to compute his total income for the assessment year 2014-15.

Solution:

Hemant Kumar is a foreign citizen. He was in India during the previous year 2013-14 for 120 (30 + 31 + 28 + 31) days. Thus, he does not satisfy the first condition of 182 days. The second condition is also not satisfied as Hemant Kumar came to India for first time during the previous year 2013-14.

Hemant Kumar is therefore non–resident in India. The total income of Hemant Kumar for the assessment year 2014-15 will be: `

(1) Salary (computed) received in India for three months • Taxable on receipt basis	1,00,000

(2) Income from house property in London (received there)	
• Not taxable as income is accruing & arising outside India and is also received outside India	—
(3) Amount brought in India out of the past untaxed-profits earned in Germany	
• Not taxable as it is not income	—
(4) Income from agriculture in Sri Lanka being invested there	
• Income accrued and received outside India	—
(5) Income from business in Nepal, being controlled from India	
• Not taxable in the case of non- resident	—
(6) Income from house property in USA received in USA (` 76,000 is used in Canada or meeting the educational expenses of Hemant's daughter and ` 10,000 is later on received in India)	
• Income accrued and received outside India	—
Gross Total Income	1,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,00,000

Illustration 24: Mr. Vineet Tyagi earns the following incomes during the financial year 2013-14.

	`
(1) Profits from a business in Japan, controlled from India, (half of the profits received in India)	40,000
(2) Income from property in Bombay, received in UK	70,000
(3) Income from a property in USA, received there but subsequently remitted to India	2,00,000
(4) Income from property in USA, received there (`50,000 remitted in India)	80,000
(5) Salary received in India for services rendered in USA	50,000
(6) Income from profession in Paris, which was set up in India, received in Paris	80,000
(7) Interest from deposit with an Indian company, received in Japan	9,000
(8) Income from profession in Bombay received in Paris	30,000
(9) Profits of business in Iran, deposited in a bank there, business controlled from India (out of `4,00,000, ` 1,00,000 is remitted in India)	4,00,000
(10) Interest on German development bonds, half of which is received in India	10,000
(11) Income from property in Canada, one-fifth is received in India	50,000

(Presume all the above incomes are computed income i.e. all the exemptions and deductions have already been allowed)

Determine the gross total income of Mr. Vineet Tyagi if he is (i) resident and ordinarily resident, (ii) resident but not ordinarily resident, (iii) non-resident in India during the financial year 2013-14.

Solution:

	ROR	NOR	NR
(1) Income accruing/arising outside India from a business controlled in India, half of the income received in India	40,000	40,000	20,000
(2) Income accruing/arising in India	70,000	70,000	70,000
(3) Income accruing/arising outside India and received outside India	2,00,000	—	—
(4) Income accruing/arising outside India and received outside India	80,000	—	—
(5) Income received in India	50,000	50,000	50,000
(6) Income accruing/arising and received outside India, but profession set up in India	80,000	80,000	—
(7) Income accruing/arising in India	9,000	9,000	9,000
(8) Income accruing/arising in India	30,000	30,000	30,000
(9) Income accruing/arising outside India and received outside India, but business controlled from India	4,00,000	4,00,000	—
(10) Income accruing/arising outside India, half received outside India and half in India	10,000	5,000	5,000
(11) Income accruing/arising outside India, 4/5th received outside India and 1/5th in India	50,000	10,000	10,000
Gross Total Income	**10,19,000**	**6,94,000**	**1,94,000**

Illustration 25: Determine the taxability of the following incomes in the hands of a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2014-15 –

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

Solution:

Computation of Gross Total Income for the A.Y.2014-15

Particulars	**Resident and ordinarily resident** `	**Resident but not ordinarily resident** `	**Non resident** `
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Profits on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Profits on sale of plant at Germany 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which ` 40,000 is received in India	70,000	70,000 -	70,000 -
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest for debentures in an Indian company received in London.	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Bombay managed from London	26,000	26,000	26,000
Pension for services rendered in India but received in Burma	4,000	4,000	4,000
Income from property situated in Pakistan received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not an income]	-	-	-
Interest on savings bank deposit in State Bank of India	10,000	10,000	10,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company [it is exempt u/s 10(34)]	-	-	-
Agricultural income from a land in Rajasthan [it is exempt u/s 10(1)]	-	-	-
Gross Total Income	3,49,000	2,15,000	2,10,000

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Problem 1 TO 10

Determine residential status of Mr. Naresh Jindal for the assessment year 2014-15, who stays in India during various financial years asunder:

Previous Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
2013-14	65	183	181	69	300	70	72	95	180	93
2012-13	91	90	87	110	97	99	94	92	91	90
2011-12	190	78	98	91	103	104	101	100	99	80
2010-11	89	120	189	196	110	98	97	96	95	90
2009-10	87	91	92	93	94	95	94	93	92	100
2008-09	86	99	92	95	99	100	101	100	99	90
2007-08	84	66	93	94	366	210	209	208	207	80
2006-07	105	210	91	93	—	0	91	92	91	90
2005-06	110	110	92	92	362	300	200	100	—	100
2004-05	112	94	93	91	10	99	88	77	66	110
2003-04	100	96	91	90	310	100	99	92	94	120
2002-03	91	199	90	89	210	92	94	96	98	130
2001-02	94	81	89	8	92	80	70	60	50	100
2000-01	97	82	88	87	88	55	65	75	85	80
1999-00	99	83	87	86	84	40	50	60	70	60

Answer = (1) ROR; (2) ROR; (3) ROR; (4) ROR; (5) ROR; (6) NOR; (7) ROR; (8) ROR; (9) ROR; (10) NR

Problem 11.

Mr. Andrew, a citizen of USA, has come to India for the first time on 01.07.2009. The particulars of his arrival and departure are as given below:

Date of arrival	**Date of departure**
01.07.2009	11.12.2009
27.03.2010	21.07.2010
10.09.2010	01.03.2011
01.01.2012	23.09.2012
01.02.2013	01.07.2013
11.02.2014	——

Determine his residential status for various years.

Answer = 2009-10 – Non-Resident (NR)
2010-11 – Resident but not ordinarily resident (NOR)
2011-12 – Resident but not ordinarily resident (NOR)
2012-13 – Resident but not ordinarily resident (NOR)
2013-14– Resident and ordinarily resident (ROR)

Problem 12.

Mr. Daniel, a citizen of U.K., has come to India for the first time on 01.07.2009. The particulars of his arrival and departure are as given below:

Date of arrival	Date of departure
01.07.2009	07.09.2009
01.01.2010	08.03.2010
11.07.2010	20.09.2010
10.02.2011	09.05.2011
01.01.2012	20.05.2012
11.03.2013	21.06.2013
27.03.2014	——

Determine his residential status for various years.

Answer = 2009-10 – Non-Resident (NR)
2010-11 – Non-Resident (NR)
2011-12 – Non-Resident (NR)
2012-13 – Resident but not ordinarily resident (NOR)
2013-14 – Resident but not ordinarily resident (NOR)

Problem 13.

Mr. Manmohan Sharma goes out of India every year for 274 days.

Determine his residential status for the previous year 2013-14.

Answer = Resident but not ordinarily resident (NOR)

Problem 14.

Mr. Rishab Patil, a citizen of Japan, has come to India for the first time on 01.10.2013 for 200 days.

Determine his residential status for the assessment year 2014-15.

Answer = Resident but not ordinarily resident (NOR)

Problem 15.

Mr. Matthew, a citizen of U.K. came to India for the first time on 01.07.2003 in connection with his employment. He left India on 01.11.2012 for taking up a job in USA. He again came to India on 01.01.2014 on a visit and left India on 01.03.2014.

Determine his residential status for the assessment year 2014-15.

Answer = Resident and ordinarily resident (ROR)

Problem 16.

Mr. Vikas Bedi, a citizen of India, is employed in Soliton Technologies, an Indian company. His employer has transferred him to his branch in Japan. Mr. Vikas Bedi left India on 29.09.2013 for his new posting in Japan.

Determine his residential status for the assessment year 2014-15.

Prior to this, Mr. Vikas Bedi was posted outside India for 11 months in the previous year 2008-09 and for 10.5 months in the year 2004-05.

Answer = Resident and ordinarily resident (ROR)

Problem 17.

Mr. Sameer Khanna, a German citizen, came to India on 23.05.2012 and left India on 30.05.2013.

Determine his residential status for the assessment year 2013-14, 2014-15.

Answer = Assessment Year 2013-14: Resident but not ordinarily resident (NOR)
Assessment Year 2014-15: Non- Resident (NR)

Problem 18.

Dr. Reddy's Labs is an Indian company and has borrowed funds from bank of America, New York for investing it in one of its projects in USA. In this case, interest paid by Dr. Reddy's Labs to bank of America shall be accruing/arising __________.

Answer = Outside India

Problem 19.

Calculate taxable income of an individual on the basis of the following informations, for the assessment year 2014-15, if he is:

(a) Ordinarily Resident

(b) Not Ordinarily Resident; and

(c) Non-Resident

	`
(i) Profit from business in Japan received in India.	10,000
(ii) Income from agriculture in Pakistan – it is all spent on the education of children there	5,000
(iii) Income accrued in India but received in England	10,000
(iv) Income from house property in Pakistan deposited in a bank there	2,000
(v) Profits of business in America deposited in a bank there. This business is controlled from India	50,000
(vi) Profits earned from business in Meerut	12,000
(vii) Past untaxed foreign income brought into India during the previous year	10,000

(Presume that all the incomes are computed incomes)

Answer: Taxable Income: Resident and ordinarily resident (ROR): `89,000;
Resident but not ordinarily resident (NOR) : `82,000;
Non-Resident (NR) : `32,000

Problem 20.

Mr. Abhishek earns the following income during the previous year 2013-14.

Compute his gross total income for assessment year 2014-15 if he is

(i) resident and ordinarily resident.

(ii) resident but not ordinarily resident.

(iii) non-resident.

		`
(1)	Income from agricultural land in Bhutan received there and remitted to India later on	40,000
(2)	Dividend from foreign company, received in India	50,000
(3)	Pension for service rendered in India, but received in Paris	15,000
(4)	Past untaxed profits of 2012-13 brought into India in 2013-14	50,000
(5)	Profits from business in Paris, deposited in bank there	1,00,000
(6)	Profits from business in Canada, controlled from India, profits received there	1,75,000
(7)	Interest on saving bank deposit in Punjab National Bank, in India	20,000
(8)	Capital gain on sale of a house in Delhi, amount received in Paris	2,00,000

Answer: Resident and ordinarily resident (ROR): `6,00,000
Resident but not ordinarily resident (NOR): `4,60,000
Non-Resident (NR): `2,85,000

Problem 21.

Mr. Brij Mohan earns the following income during the previous year 2013-14.

Compute his total income for assessment year 2014-15 if he is

(i) resident and ordinarily resident.

(ii) resident but not ordinarily resident.

(iii) non-resident.

		`
(1)	Dividend from an Indian company, received in Japan	60,000
(2)	Profit on sale of machinery in India, but received in Japan	1,20,000
(3)	Profits from business in Bombay, managed from Japan	2,25,000
(4)	Profits from business in Japan, managed from there, received there	1,45,000
(5)	Income from house property in India	1,50,000
(6)	Income from property in Japan and received there	1,50,000
(7)	Income from agriculture in Japan being invested there	75,000

(8)	Fees for technical services rendered in India but received in Japan	65,000
(9)	Interest on Government securities accrued in India but received in Japan	80,000
(10)	Interest on Japan Government securities, received in India	40,000

(Presume that all the incomes are computed incomes)

Answer: Resident and ordinarily resident (ROR): `10,50,000
Resident but not ordinarily resident (NOR): `6,80,000
Non-Resident (NR): `6,80,000

Problem 22.

Mr. Ashish Bhatia earns the following incomes during the financial year 2013-14.

		`
(1)	Profits from a business in Japan, controlled from India, half of the profits received in India	60,000
(2)	Income from agriculture in Nepal, brought to India	10,000
(3)	Income u/h house property in Bombay, received in UK	1,70,000
(4)	Income u/h house property in USA, received there but subsequently remitted to India	2,20,000
(5)	Income u/h house property in USA, received there (`50,000 remitted in India)	1,00,000
(6)	Salary received in India for services rendered in USA	60,000
(7)	Income from profession in Paris, which was set up in India, received in Paris	90,000
(8)	Interest from deposit with an Indian company, received in Japan	19,000
(9)	Income from profession in Bombay received in Paris	39,000
(10)	Profits of business in Iran, deposited in a bank there, business controlled from India (out of `4,80,000, ` 1,00,000 is remitted in India)	4,80,000
(11)	Interest on German development bonds, half of which is received in India	12,000
(12)	Income under the head house property in Canada, one-fifth is received in India	50,000

(Presume all the above incomes are computed income i.e. all the exemptions and deductions have already been allowed)

Determine the gross total income of Mr. Ashish Bhatia if he is

(i) resident and ordinarily resident,

(ii) resident but not ordinarily resident,

(iii) non-resident in India during the financial year 2013-14.

Answer: Resident and ordinarily resident (ROR): `13,10,000

Resident but not ordinarily resident (NOR): `9,34,000
Non-Resident (NR): `3,34,000

Problem 23.

Mr. X is a citizen of India and is employed in ABC Ltd and is getting a salary of `60,000 p.m. He purchased one building in India on 1st May, 2013 for `10,00,000 and its market value is `22,00,000 and value for the purpose of charging stamp duty is `13,00,000. He purchased gold for `8,00,000 and its market value is `11,00,000. He was transferred out of India w.e.f. 1st Sept, 2013 and he left India on 1st Sept,2013 and one of his friend gifted him one colour TV on this occasion, market value `1,00,000.

He has gone out of India in earlier years also.

P.Y. 2012-13	100 days
P.Y. 2011-12	200 days

He visited India from 01.02.2014 to 14.02.2014 and salary for January, 2014 was received in India. He has taken a loan from outside India on 01.01.2014 and amount was invested in shares of an Indian Company and received dividend of `30,000 outside India.

He has purchased one house property in USA in December 2013 and sold in March 2014 and there were short term capital gain of `6,00,000 and the amount was received in USA.

Compute his tax liability for the A.Y.2014-15.

Answer: Tax Liability: `1,25,660

Problem 24.

Mrs. X is employed in ABC Ltd in India and she is an American citizen and is getting a salary of `2,00,000 p.m. She purchased shares of a foreign Company on 01.07.2013 and received dividend of `3,00,000 on 01.08.2013 in India and again dividend of `2,00,000 on 01.03.2014 in USA.

She received gift of one painting in India from her friend on 01.07.2013 and its market value is `49,000 and she also received gift in cash of `49,000 from the same friend and gift of immovable property with value for the purpose of charging stamp duty is `51,000 from the same friend.

She purchased UK Development bond and interest equivalent of `2,00,000 was received in USA.

She visited USA for 182 days during P.Y.2013-14.

In the earlier year her stay in India was

P.Y. 2012-13	110 days
P.Y. 2011-12	120 days
P.Y. 2010-11	300 days
P.Y. 2009-10	182 days
P.Y. 2008-09	185 days
P.Y. 2007-08	200 days
P.Y. 2006-07	300 days

Compute her tax liability in India for the A.Y. 2014-15.

Answer: Tax Liability: `7,98,560

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Solution 1:

2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Non-Resident
2009-10 Resident
2008-09 Resident
2007-08 Resident
2006-07 Resident
2005-06 Resident
2004-05 Resident
2003-04 Resident

Total stay in 7 years preceding the relevant previous year is 732 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 2:

2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
2008-09 Resident
2007-08 Resident
2006-07 Resident
2005-06 Resident
2004-05 Resident
2003-04 Resident

Total stay in 7 years preceding the relevant previous year is 754 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 3:
2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
2008-09 Resident
2007-08 Resident
2006-07 Resident
2005-06 Non-Resident
2004-05 Non-Resident
2003-04 Non-Resident

Total stay in 7 years preceding the relevant previous year is 742 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 4:
2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
2008-09 Resident
2007-08 Resident
2006-07 Non-Resident
2005-06 Non-Resident
2004-05 Non-Resident
2003-04 Non-Resident

Total stay in 7 years preceding the relevant previous year is 772 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 5:
2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
2008-09 Resident
2007-08 Resident
2006-07 Non-Resident
2005-06 Resident
2004-05 Non-Resident
2003-04 Resident

Total stay in 7 years preceding the relevant previous year is 869 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 6:
2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
2008-09 Resident
2007-08 Resident
2006-07 Non-Resident
2005-06 Resident
2004-05 Non-Resident
2003-04 Non-Resident

Total stay in 7 years preceding the relevant previous year is 706 days.

Since the assessee is able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be NOR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 7:
2013-14 Resident
2012-13 Resident

2011-12 Resident
2010-11 Resident
2009-10 Resident
2008-09 Resident
2007-08 Resident
2006-07 Resident
2005-06 Resident
2004-05 Non-Resident
2003-04 Non-Resident

Total stay in 7 years preceding the relevant previous year is 787 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 8:
2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
2008-09 Resident
2007-08 Resident
2006-07 Resident
2005-06 Non-Resident
2004-05 Non-Resident
2003-04 Non-Resident

Total stay in 7 years preceding the relevant previous year is 781 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 9:
2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
2008-09 Non-Resident
2007-08 Resident
2006-07 Non-Resident
2005-06 Non-Resident

2004-05 Non-Resident
2003-04 Non-Resident

Total stay in 7 years preceding the relevant previous year is 774 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.
1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 10:
Mr. Naresh Jindal is in India for 60 days or more in 2013-14 but for less than 365 days in 4 years immediately preceding 2013-14, so he is non-resident in 2013-14.

Solution 11:
Stay of Mr. Andrew in various years is as given below.

In P.Y. 2009-10
{July – 31, August – 31, September – 30, October – 31, November – 30, December – 11, March – 5}

Days of stay in India are 169, so Mr. Andrew is non-resident.

In P.Y. 2010-11
{April – 30, May – 31, June – 30, July – 21, September – 21, October – 31, November – 30, December – 31, January – 31, February – 28, March – 1}

Days of stay in India are 285. So, he is resident and also he is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence he is NOR.

In P.Y. 2011-12
{January – 31, February – 29, March – 31}

Days of stay in India are 91. So, he is resident and also he is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence he is NOR.

In P.Y. 2012-13
{April – 30, May – 31, June – 30, July – 31, August – 31, September – 23, February – 28, March – 31}

Days of stay in India are 235. So, he is resident and also his stay during seven years preceding the relevant previous year is 729 days or less, hence he is NOR.

In P.Y. 2013-14
{April – 30, May – 31, June – 30, July – 1, February – 18, March – 31}

Days of stay in India are 141 and during the previous 4 years his stay is for 365 days or more so he is resident and also he is ROR because he is not able to fulfil any of the conditions of section 6(6)(a). i.e.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Hence he is ROR .

Solution 12:

In P.Y. 2009-10

{July – 31, August – 31, September – 7, January – 31, February – 28, March – 8}

Days of stay in India are 136, so Mr. Daniel is non-resident.

In P.Y. 2010-11

{July – 21, August – 31, September – 20, February – 19, March – 31}

Days of stay in India are 122, so, he is non-resident.

In P.Y. 2011-12

{April – 30, May – 9, January – 31, February – 29, March – 31}

Days of stay in India are 130, so, he is non-resident.

In P.Y. 2012-13

{April – 30, May – 20, March – 21}

Days of stay in India are 71 and also he stays for 365 days or more during 4 years preceding the relevant previous year and also he is able to comply with at least one of the conditions of section 6(6)(a) as given below.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Hence he is NOR.

In P.Y. 2013-14

{April – 30, May – 31, June – 21, March – 5}

Days of stay in India are 87 and during the previous 4 years his stay is more than 365 days. So he is resident but not ordinarily resident because he is able to fulfill at least one of the two condition given u/s 6(6)(a).

Solution 13:

Since he is out of India every year for 274 days so his days of stay in India are –

In 2013-14 91 Days

In 2012-13 91 Days

In 2011-12 92 Days

In 2010-11 91 Days

In 2009-10 91 Days

So his stay in India during the seven years immediately preceding the relevant previous year is less than 729 days, so he is resident but not ordinarily resident.

Solution 14:
Days of stay in India in P.Y. 2013-14 are 182.
{October – 31, November – 30, December – 31, January – 31, February – 28, March – 31}

So he is resident and also he will be able to comply with at least one of the conditions of section 6(6)(a) as given below.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Hence he is NOR.

Solution 15:

His days of stay in India are as under –

In P.Y. 2003-04 275 days
{July – 31, August – 31, September – 30, October – 31, November – 30, December – 31, January – 31, February – 29, March – 31}

In P.Y. 2004-05 365

In P.Y. 2005-06 365

In P.Y. 2006-07 365

In P.Y. 2007-08 366

In P.Y. 2008-09 365

In P.Y. 2009-10 365

In P.Y. 2010-11 365

In P.Y. 2011-12 366

In P.Y. 2012-13 215
{April – 30, May – 31, June – 30, July – 31, August – 31, September – 30, October – 31, November – 1}

In P.Y. 2013-14 60
{January – 31, February – 28, March – 1}

He is resident in 2013-14 but he is not able to comply with any of the conditions of section 6(6)(a) hence he is resident and ordinarily resident.

Solution 16:
His days of stay in India during 2013-14 are 182.
{April – 30, May – 31, June – 30, July – 31, August – 31, September – 29}

So Mr. Vikas Bedi is resident in previous year 2013-14 and also he is not able to comply with any of the conditions of section 6(6)(a) hence he will be considered to be ROR.

Solution 17:

His days of stay in India in year 2012-13 are 313.
{May – 9, June – 30, July – 31, August – 31, September – 30, October – 31, November – 30, December – 31, January – 31, February – 28, March – 31}
So he is resident and he is also able to comply with one of the condition of section 6(6)(a) hence he will be considered to be resident but not ordinarily resident.

His days of stay in India in 2013-14 are 60.
{April – 30 and May – 30}

So he is non–resident in the year 2013-14.

Solution 18:

It will be accruing arising abroad because if any loan has been taken by a person resident in India from outside India then interest income shall be accruing arising in India only if such resident has utilised the loan amount in India.

Solution 19:

Particulars	ROR	NOR	NR
(i) Income accruing/arising outside India but received in India	10,000	10,000	10,000
(ii) Income accruing/arising outside India and also received abroad.	5,000	--------	--------
(iii) Income accruing/arising in India	10,000	10,000	10,000
(iv) Income accruing/arising outside India and also received abroad.	2,000	--------	--------
(v) Income accruing/arising outside India and also received outside India but from a business controlled from India	50,000	50,000	--------
(vi) Income accruing/arising in India	12,000	12,000	12,000
(vii) Past profits	--------	-------	--------
Taxable Income	**89,000**	**82,000**	**32,000**

Solution 20:

Particulars	ROR	NOR	NR
(1) Income accruing/arising outside India and received outside India	40,000	-------	-------
(2) Income received in India	50,000	50,000	50,000
(3) Income accruing/arising in India	15,000	15,000	15,000
(4) Past profits	-------	-------	-------
(5) Income accruing/arising and received outside India	1,00,000	-------	-------
(6) Income accruing/arising and received outside India, but business controlled from India	1,75,000	1,75,000	-------
(7) Income deemed to be accruing/ arising in India	20,000	20,000	20,000
(8) Income deemed to be accruing/ arising in India	2,00,000	2,00,000	2,00,000
Gross Total Income	**6,00,000**	**4,60,000**	**2,85,000**

Solution 21:

Particulars	ROR	NOR	NR
(1) Income accruing/arising in India but exempt u/s 10(34)	--------	--------	--------

(2) Income accruing /arising in India	1,20,000	1,20,000	1,20,000
(3) Income accruing/arising in India	2,25,000	2,25,000	2,25,000
(4) Income accruing/arising and received outside India	1,45,000	-------	-------
(5) Income accruing/arising in India	1,50,000	1,50,000	1,50,000
(6) Income accruing/arising outside India and received outside India	1,50,000	-------	-------
(7) Income accruing/arising outside India and received outside India	75,000	-------	-------
(8) Income accruing/arising in India	65,000	65,000	65,000
(9) Income accruing/arising in India	80,000	80,000	80,000
(10) Income received in India	40,000	40,000	40,000
Gross Total Income	**10,50,000**	**6,80,000**	**6,80,000**
Less: Deduction u/s 80C to 80U	**Nil**	**Nil**	**Nil**
Total Income	**10,50,000**	**6,80,000**	**6,80,000**

Solution 22:

	ROR	**NOR**	**NR**
(1) Income accruing/arising outside India from a business controlled in India, half of the income received in India	60,000	60,000	30,000
(2) Income accruing/arising outside India and received outside India	10,000	------	------
(3) Income accruing/arising in India	1,70,000	1,70,000	1,70,000
(4) Income accruing/arising outside India and received outside India	2,20,000	------	------
(5) Income accruing/arising outside India and received outside India	1,00,000	------	------
(6) Income received in India	60,000	60,000	60,000
(7) Income accruing/arising and received outside India, but profession set up in India	90,000	90,000	------
(8) Income accruing/arising in India	19,000	19,000	19,000
(9) Income accruing/arising in India	39,000	39,000	39,000
(10) Income accruing/arising outside India and received outside India, but business controlled from India	4,80,000	4,80,000	------
(11) Income accruing/arising outside India, half received outside India and half in India	12,000	6,000	6,000
(12) Income accruing/arising outside India, $4/5^{th}$ received outside India and $1/5^{th}$ in India	50,000	10,000	10,000
Gross Total Income	**13,10,000**	**9,34,000**	**3,34,000**

Solution 23:

Since Mr. X is covered in special category and will be resident, if his stay in India in relevant previous year is 182 days or more, hence Mr. X is a non–resident as his stay in India is less than 182 days and his income taxable in India shall be

`

Income under the head Salary

Income accruing/arising in India 3,00,000.00
(60,000 x 5)
Income received in India 60,000.00
(60,000 x 1)
Gross Salary 3,60,000.00
Income under the head Salary 3,60,000.00

Income under the head Other Sources

Gift of gold (`11,00,000 – `8,00,000) 3,00,000.00

Gift of building (`13,00,000 – `10,00,000)	3,00,000.00
Income under the head Other Sources	6,00,000.00
Gross Total Income	9,60,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	9,60,000.00

Computation of Tax Liability

Tax on `9,60,000 at slab rate	1,22,000.00
Add: Education cess @ 2%	2,440.00
Add: SHEC @ 1%	1,220.00
Tax Liability	1,25,660.00

Note: STCG is received in USA is not taxable in India as the assessee is a non-resident.

Solution 24:

In this case, Mrs. X stays in India for more than 182 days during the previous year 2013-14 and also she is not able to comply with any of the conditions of section 6(6)(a), she will be considered to be ROR.

Her incomes taxable in India shall be

	`
Income under the head Salary	
Income accruing/arising in India (2,00,000 x 12)	24,00,000.00
Gross Salary	24,00,000.00
Income under the head Salary	24,00,000.00
Income under the head Other Sources	
Dividend from foreign company (Received in India)	3,00,000.00
Gift from friend (immovable property)	51,000.00
Dividend from foreign company (Received in USA)	2,00,000.00
Interest from UK Development bond (Received in USA)	2,00,000.00
Income under the head Other Sources	7,51,000.00
Gross Total Income	31,51,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	31,51,000.00

Computation of Tax Liability

Tax on `31,51,000 at slab rate	7,75,300.00
Add: Education cess @ 2%	15,506.00
Add: SHEC @ 1%	7,753.00
Tax Liability	7,98,559.00
Rounded off u/s 288B	7,98,560.00

EXAMINATION QUESTIONS

PCC MAY – 2012

Question 3 **(4 Marks)**

Discuss the correctness or otherwise of the statement – "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus".

Answer:

As per section 9, if any income is accruing and arising in India relating to royalty or technical fees etc., it will be taxable in India in case of non-resident even if the non-resident do not have any Territorial Nexus with India i.e. such non-resident do not have a residence or place of business or business connection in India and also the non-resident has not rendered services in India. E.g. If Suzuki Incorporation of Japan a non-resident company has provided technical know-how in India to Maruti Udyog Limited, an Indian company in Gurgaon and has received `300,00,000 in this case, such income is deemed to be accruing/arising in India and is taxable in India even if Suzuki Incorporation do not have any Territorial Nexus with India i.e. the company do not have place of residence or place of business in India.

IPCC NOV – 2011

Question 6 **(4 Marks)**

Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years. Find out his residential status for the assessment year 2014-2015.

Answer:

An individual is said to be resident in India in any previous year, if he complies with at least one of the following conditions:-

(a) He is in India in that year for a period amounting in all to 182 days or more, or
(b) He is in India in that year for a period amounting in all to 60 days or more and also for 365 days or more during four years preceding the relevant previous year.

Since, Brett Lee has complied with the second condition hence he is resident.

Further more, an individual shall be considered to be not ordinarily resident in India in case his stay in India is 729 days or less during preceding seven years or he is non-resident in atleast 9 years during preceding 10 years.

Since stay of Brett Lee during preceding seven years is 700 days. Hence, he is NOR.

PCC NOV – 2011

Question 5 **(5 Marks)**

Mr. David a Government employee serving in the Ministry of External Affairs left India for the first time on 31.03.2013 due to his transfer to Indian High Commission in Canada. He did not visit any time during previous year 2013-14. He has received the following income for the Previous Year 2013-14.

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(i) Salary	5,00,000
(ii) Interest on fixed deposit from bank in India	1,00,000
(iii) Income from agriculture in Pakistan	2,00,000
(iv) Income from house property in Pakistan	2,50,000

Compute his gross total income for Assessment Year 2014-15. (Modified)

Answer:

Mr. David is a non-resident in the previous year 2013-14 as he doesn't come to India during the year.

Computation of Gross total income of Mr. David for A.Y. 2014-15

	`
Income under the head Salary	
Salary income {Taxable as it is deemed to be earned in India u/s 9}	5,00,000
Income under the head Salary	5,00,000
Income under the head Other Sources	
Interest on FDR	1,00,000
Income from agriculture in Pakistan (assumed to be received outside India)	Nil
Income under the head Other Sources	1,00,000
Income under the head House Property	
Income from house property in Pakistan (assumed to be received outside India)	Nil
Gross Total Income	**6,00,000**

IPCC MAY – 2011

Question 2 **(4 Marks)**

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practicing in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?

Answer:

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

The income deemed to accrue or arise in India under section 9 comprises, *inter alia*, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

Income by way of fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India.

In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India. (inter alia means in addition to)

PCC NOV – 2010

Question 1 **(5 Marks)**

Mr. Ram an Indian citizen left India on 22.09.2013 for the first time to work as an officer of a company in Germany.

Determine the residential status of Ram for the assessment year 2014-15 and explain the conditions to be fulfilled for the same under the Income-tax Act, 1961. (Modified)

Answer.

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions –

(i) He has been in India during the previous year for a total period of 182 days or more, or
(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for atleast 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2013-14, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e. 30 + 31 + 30 + 31 + 31 + 22 days). Thereafter, he left India for employment purposes. Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2014-15.

IPCC MAY – 2010

Question 3 **(10 Marks)**

From the following particulars of Income furnished by Mr. Anirudh pertaining to the year ended 31.03.2014, compute the total income for the assessment year 2014-15, if he is:

(i) Resident and ordinary resident;
(ii) Resident but not ordinary resident;
(iii) Non-resident:

Particulars	**Amount (`)**
(a) Profit on sale of shares in Indian Company received in Germany	15,000
(b) Dividend from a Japanese Company received in Japan	10,000
(c) Income from business in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d) Dividend from RP Ltd., an Indian Company	6,000
(e) Agricultural income from lands in Gujarat	25,000

Answer. (Modified)

Computation of Total Income of Mr. Anirudh for the A.Y. 2014-15

Particulars	**Resident & ordinarily resident**	**Resident but not ordinarily resident**	**Non-Resident**
a) Profit on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
b) Dividend from a Japanese company, received in Japan.	10,000	-	-

c) Income from business in London deposited in a bank in London	75,000	-	-
d) Dividend from RP Ltd., an Indian Company [See Note (i) below]	-	-	-
e) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
TOTAL INCOME	1,00,000	15,000	15,000

Notes
(i) Dividend from Indian company is exempt under section 10(34)
(ii) Agricultural income is exempt under section 10(1).

PCC MAY – 2010

Question 1 **(2 Marks each)**

Answer the following with reasons having regard to the provisions of the Income-Tax Act, 1961 for the Assessment Year 2014-15:

(i) State the Scope of total income in the case of an individual, whose residential status is 'non-resident' with reference to section 5(2) of the Act.

(ii) Mr. X a citizen of India received salary from the Government of India for the services rendered outside India. Is the salary income chargeable to tax?

Answer.

(i) The scope of total income of a non-resident as per section 5(2) includes following incomes:

(i) any income which is received or is deemed to be received in India during the relevant previous year by or on behalf of such person; or

(ii) any income which accrues or arises or is deemed to accrue or arise to him in India during the relevant previous year.

(ii) As per Section 9, salaries payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India. Hence, salary received by Mr. X, a citizen of India, from the Government of India for services rendered outside India is chargeable to tax under the head 'Salaries'.

PCC NOV – 2009

Question 4 **(7 Marks)**

Determine the taxability of income of US based company Heli Ltd., in India on entering following transactions during the financial year 2013-14:

(i) `5 lacs received from an Indian domestic company for providing technical know how in India.

(ii) `6 lacs from an Indian firm for conducting the feasibility study for the new project in Finland.

(iii) `4 lacs from a non-resident for use of patent for a business in India.

(iv) `8 lacs from a non-resident Indian for use of know how for a business in Singapore.

(v) `10 lacs for supply of manuals and designs for the business to be established in Singapore.

Explain the rate of tax applicable on taxable income for US based company, Heli Ltd., in India. (Modified)

Answer.
A non resident is chargeable to tax in India in respect of following incomes:

(i) Income received or deemed to be received in India.
(ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, taxability of income is determined in following manner:

S. No.	Transaction details	Amount (`)
(i)	Amount received from an Indian domestic company for providing technical know how in India is taxable in India	5 Lacs
(ii)	Conducting the feasibility study for the new project in Finland for the Indian firm is not taxable in India as it is for the business outside India.	Nil
(iii)	Money received from a non resident for use of patent for a business in India is taxable in India	4 Lacs
(iv)	Money received from a non resident Indian for use of know-how for a business in Singapore is for the business outside India, therefore not taxable in India.	Nil
(v)	Payment received for supply of manuals and designs for the business to be established in Singapore is not taxable in India.	Nil
	Total Income in India	**9 Lacs**

The basic normal rate applicable for the US based company who is a foreign company is 40% In case the taxable income is more than 1 crore but upto `10 crore in the previous year, the surcharge @ 2% is applicable. The education cess, Secondary and Higher education cess is payable @ 3%.

PCC JUNE – 2009

Question 1 **(2 MARKS)**
State with reason, whether the following statements are True or False:
Mr. X, Karta of HUF, claims that the HUF is non-resident as the business of HUF is transacted from UK and all the policy decisions are taken there.
Answer.
True, A HUF is considered to be a non-resident where the control and management of its affairs are situated wholly outside India. In the given case, since all the policy decisions of HUF are taken from UK, the HUF is a non-resident.

PE-II NOV – 2009

Question 1 **(10 Marks)**
Mr. Rakesh and Mr. Anish are brothers and they earned the following incomes during the financial year 2013-14. Mr. Rakesh settled in U.K. in the year 1975 and Mr. Anish settled in Surat. Compute the gross total income for the Assessment Year 2014-15.

Sr. No.	Particulars	Mr. Rakesh	Mr. Anish
1.	Interest on U.K. development bonds, 50% of interest received in	25,000	20,000

	India		
2.	Dividend from British Company received in London	8,000	10,000
3.	Profit from a business in Mumbai, but managed directly from London	10,000	12,000
4.	Profit on sale of shares of an Indian company received in India	50,000	80,000
5.	Income from a business in Delhi	20,000	20,000
6.	Fees for technical services rendered in India, but received in London	1,00,000	-
7.	Interest on fixed deposit in SBI, Bangalore	5,000	15,000
8.	Agricultural income from a land situated in Rajasthan	25,000	25,000
9.	Income under the head House Property at Bangalore	50,400	33,600

Answer:

Computation of Total Income of Mr. Rakesh and Mr. Anish for the A.Y. 2014-15

Sl. No.	Particulars	Mr. Rakesh Non-Resident	Mr. Anish ROR
1.	Interest on U.K. Development Bonds	12,500	20,000
2.	Dividend from British Company received in London	-	10,000
3.	Profit from a business in Mumbai but managed directly from London	10,000	12,000
4.	Profit on sale of shares of an Indian company received in India	50,000	80,000
5.	Income from a business in Delhi	20,000	20,000
6.	Fees for technical services rendered in India but received in London	1,00,000	-
7.	Interest on fixed Deposit in SBI Bangalore	5,000	15,000
8.	Agricultural income from a land in Rajasthan [(Exempt u/s.10(1)]	-	-
9.	Income under the head House property at Bangalore	50,400	33,600
	Gross Total Income	**2,47,900**	**1,90,600**

Notes:

1. Dividend received from British company in London, by a non-resident assessee is not taxable income, while the same received by an ROR assessee is taxable and is not exempt under section 10(34) of Income Tax Act, 1961.

2. Agricultural income from a land situated in the State of Rajasthan, is exempted under section 10(1) of Income tax Act, 1961 in case of both non-resident and resident assessee.

PE-II MAY – 2008

Question 3 **(1 Marks)**

Choose the correct answer with reference to the provisions of the Income-tax Act, 1961:

Income accruing in Japan and received there is taxable in India in the case of –

(a) Resident and ordinarily resident only
(b) Both resident and ordinarily resident and resident but not ordinarily resident
(c) Both resident and non-resident
(d) Non-resident

Answer:

(a) Resident and ordinarily resident only

PCC MAY – 2007

Question 1 **(2 Marks)**

State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

Only individuals and HUFs can be resident, but not ordinarily resident in India; firms can be either a resident or non-resident.

Answer.

True: A person is said to be "not-ordinarily resident" in India if he satisfies either of the conditions given in sub-section (6) of section 6. This sub-section relates to only individuals and Hindu Undivided Families. Therefore, only individuals and Hindu undivided families can be resident, but not ordinarily resident in India. All other classes of assessees can be either a resident or non-resident for the purpose of income-tax. A firm can, therefore, either be a resident or non-resident.

PE-II MAY – 2006

Question 2 **(4 Marks)**

Mr. A, left for USA on 01.05.2013. He has not visited India thereafter. Mr. A borrows money from his friend Mr. B, who left India one week before Mr. A's departure, to the extent of `10 lakhs and buys shares in X Ltd., an Indian company. Discuss the taxability of the interest charged @10% in B's hands where the same has been received in New York.

Answer:

Stay of Mr. A and Mr. B during the previous year 2013-14 is less than 60 days hence both of them are non-residents as per section 6(1).

As per section 9, if any non-resident has taken loan from outside India and the loan was utilised in India in any source other than business or profession, interest received by the person who has given the loan shall not be considered to be accruing/arising in India and is not taxable in India. In the given case, loan amount was invested in the shares of an Indian company hence interest received by Mr. B shall not be considered to be income accruing/arising in India.

PE-II NOV – 2002

Question 3 **(3 Marks)**

In the year 2013-2014 (Previous year), a sailor has remained on ship for a private company owning ocean going ships as follows:

(1) Outside the territorial waters of India for 183 days.
(2) Inside the territorial waters of India for 182 days.

Is he considered to be resident or not for the Assessment Year 2014-15 (Previous Year 2013-2014). Comment.

Answer:

An individual is treated as a resident in India in any previous year if he fulfills atleast one of the following two conditions laid down in section 6(1):

(a) He is in India for a period or periods amounting to 182 days or more in that year; or

(b) In the preceding four years, he has been India for 365 days or more, and has been in India for 60 days or more in that year.

In the given case, period of stay in India is 182 days. Therefore, the sailor is treated as a resident in India for the assessment year.

PE-II MAY – 1998

Question 2 **(9 Marks)**

Mr. Nixon, an American citizen, is appointed by a multi-national company to its branch in New Delhi in 2010. Mr. Nixon has never been to India before this appointment. He arrives in Bombay on 15^{th} April, 2010 and joins the New Delhi office on 20^{th} April, 2010. His wife and children join him in India on 20^{th} October, 2010. The company allotted him a leased residence for purposes of his stay. This residence is occupied by him from the beginning of October, 2010.

On 10^{th} February, 2011, he is transferred by his employer, on deputation basis, to be the Regional Chief of his employer's operations in South East Asia having headquarters in Hongkong. He leaves New Delhi on 11^{th} February and arrives in Hongkong on 12^{th} February, 2011. Mr. Nixon leaves behind his wife and children in India till 14^{th} August, 2012, when they leave along with him for Hongkong. Mr. Nixon had come to India earlier on 15^{th} June, 2012, on two months' leave. The members of the family occupied the residence till date of departure to Hongkong.

At the end of the period of deputation, Mr. Nixon is reposted to India and joins the New Delhi office of his employer as Chief of Indian operations on 2^{nd} February, 2014.

In what residential status Mr. Nixon will be assessable, for the various years, to income tax in India?

Answer:

The period of stay of Mr. Nixon for various years is given below:

P.Y. 2010-11/ A.Y. 2011-12	Period of stay	303 days

(April – 16, May -31, June – 30, July – 31, August – 31, September – 30, October – 31, November – 30, December – 31, January – 31, February – 11)

P.Y. 2011-12/ A.Y. 2012-13	Period of stay	Nil
P.Y. 2012-13/ A.Y. 2013-14	Period of stay	61 days

(June – 16, July – 31, August – 14)

P.Y. 2013-14/ A.Y. 2014-15	Period of stay	58 days

(February – 27, March – 31)

Under section 6(1) of the Act, an individual is said to be resident in India in any previous year if he satisfies one of the following basic conditions:

(i) is in India in the previous year for a period of 182 days or more ;
(ii) is in India for a period of 60 days or more in the previous year and 365 days or more during the four years preceding the previous year.

A person will be considered to be ‘not ordinarily resident’ if he satisfies any of the following two conditions viz;

(i) he has been a non resident in India in 9 out of 10 previous years preceding the relevant previous year ; or

(ii) he has been in India for a period of 729 days or less in 7 previous years preceding the relevant previous year.

Maintenance of a residence in India or the stay of the wife and children in India are not relevant for determining the residential status of Mr. Nixon.

In the above background, Mr. Nixon’s case will be decided as under:

(i) **P.Y. 2010-11/A.Y. 2011-12:** has been in India for 303 days. He will be a resident under the basic conditions. Since his stay in seven years preceding the relevant previous year is Nil i.e. 729 days or less, hence he will be NOR

(ii) **P.Y. 2011-12/A. Y. 2012-13**: has not been in India at all ; though his wife and children continue to reside in New Delhi, he will be a non-resident for this year.

(iii) **P.Y. 2012-13/A.Y. 2013-14:** has been in India for 61 days. He satisfies one limit of the basic condition but having been in India for a period amounting to 303 days only in the four previous years preceding this year and not 365 days, he will be non-resident for this year.

(iv) **P.Y. 2013-14/A.Y. 2014-15:** has been in India for 58 days, he will be non-resident.

EXERCISES

1. If Anirudh has stayed in India in the P.Y. 2013-14 for 181 days, and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 420 days in all in the 7 years immediately preceding the current previous year , his residential status for the A.Y.2014-15 would be –
   a) Resident and ordinarily resident
   b) Resident but not ordinarily resident
   c) Non-resident

2. Raman was employed in Hindustan Lever Ltd. He received a salary at ` 40,000 p.m. from 01.04.2013 to 27.09.2013. He resigned and left for Dubai for the first time on 01.10.2013 and got salary of rupee equivalent of `80,000 p.m. from 01.10.2013 to 31.03.2014. His salary for October to December 2013 was credited in his Dubai bank account and the salary for January to March 2014 was credited in his Bombay account directly. He is liable to tax in respect of –
   a) Income received in India from Hindustan Lever Ltd;
   b) Income received in India and in Dubai;
   c) Income received in India from Hindustan Lever Ltd. and income directly credited in India;

3. A company, other than an Indian company, would be a resident in India for the P.Y.2013- 14 if, during that year, its control and management is situated –
   a) wholly in India
   b) partly in India
   c) wholly or partly in India.

4. Income accruing in London and received there is taxable in India in the case of -
   a) resident and ordinarily resident only
   b) both resident and ordinarily resident and resident but not ordinarily resident
   c) both resident and non-resident

5. When is an individual said to be "Resident and ordinarily resident" under the Income-tax Act, 1961?

6. Define royalty as per section 9 of the Income-tax Act, 1961?

7. Write short notes on -
   a) Business connection
   b) Income deemed to accrue or arise in India.

8. Discuss the provisions relating to determination of residential status of individuals.

9. When are the following income deemed to accrue or arise in India?
   a) Interest
   b) Fees for technical services.

10. Discuss the correctness or otherwise of the statement – "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus."

11. Explain the term "Business Connection" under section 9(1).

Answers
1. b; **2.** b; **3.** a; **4.** a.

INCOME UNDER THE HEAD HOUSE PROPERTY

SECTION 22 TO 27

Chargeability [Section 22]

(i) The process of computation of income under the head "Income from house property" starts with the determination of annual value of the property. The concept of annual value and the method of determination is laid down in section 23.

(ii) The annual value of any property comprising of building or land appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head "Income from house property".

Conditions for Chargeability

(i) Property should consist of any building or land appurtenant thereto.

- (a) Buildings include not only residential buildings, but also factory buildings, offices, shops, godowns and other commercial premises.
- (b) Land appurtenant means land connected with the building like garden, garage etc.
- (c) Income from letting out of vacant land is, however, taxable under the head "Income from other sources".

(ii) Assessee must be the owner of the property

- (a) Owner is the person who is entitled to receive income from the property in his own right.
- (b) The requirement of registration of the sale deed is not warranted.
- (c) Ownership includes both free-hold and lease-hold rights.
- (d) Ownership includes deemed ownership.
- (e) The person who owns the building need not also be the owner of the land upon which it stands.
- (f) The assessee must be the owner of the house property during the previous year. It is not material whether he is the owner in the assessment year.
- (g) If the title of the ownership of the property is under dispute in a court of law, the decision as to who will be the owner chargeable to income-tax under section 22 will be of the Income-tax Department till the court gives its decision to the suit filed in respect of such property.

(iii) The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax.

(iv) Property held as stock-in-trade etc.: Annual value of house property will be charged under the head "Income from house property" in the following cases also –

- (a) Where it is held by the assessee as stock-in-trade of a business;
- (b) Where the assessee is engaged in the business of letting out of property on rent;

Exceptions

(a) Letting out is supplementary to the main business

- (i) Where the property is let out with the object of carrying on the business of the assessee in an efficient manner, then the rental income is taxable as business income, provided letting is not the main business but it is supplementary to the main business.

(ii) In such a case, the letting out of the property is supplementary to the main business of the assessee and deductions/allowances have to be calculated as relating to profits/gains of business and not relating to house property.

(b) Letting out of building along with other facilities

(i) Where income is derived from letting out of building along with other facilities like furniture, the income cannot be said to be derived from mere ownership of house property but also because of facilities and services rendered and hence assessable as income from business.

(ii) Where a commercial property is let out along with machinery e.g. a cotton mill including the building and the two lettings are inseparable, the income will either be assessed as business income or as income from other sources, as the case may be.

Composite Rent

(i) Meaning of composite rent : The owner of a property may sometimes receive rent in respect of building as well as –

(1) other assets like say, furniture, plant and machinery.

(2) for different services provided in the building, for eg. –

(a) Lifts;

(b) Security;

(c) Power backup;

The amount so received is known as "composite rent".

(ii) Tax treatment of composite rent

(1) Where composite rent includes rent of building and charges for different services (lifts, security etc.), the composite rent has to be split up in the following manner –

(a) the sum attributable to use of property is to be assessed under section 22 as income from house property;

(b) the sum attributable to use of services is to charged to tax under the head "Profits and gains of business or profession" or under the head "Income from other sources".

(2) Where composite rent is received from letting out of building and other assets (like furniture) and the two lettings are not separable –

(a) If the letting out of building and other assets are not separable i.e. the other party does not accept letting out of buildings without other assets, then the rent is taxable either as business income or income from other sources;

(b) This is applicable even if sum receivable for the two lettings is fixed separately.

(3) Where composite rent is received from letting out of buildings and other assets and the two lettings are separable –

(a) If building is let out along with other assets, but the two lettings are separable i.e. letting out of one is acceptable to the other party without letting out of the other, then income from letting out of building is taxable under "Income from house property";

(b) Income from letting out of other assets is taxable as business income or income from other sources;

(c) This is applicable even if a composite rent is received by the assessee from his tenant for the two lettings.

Income from House Property Situated Outside India

(i) In case of a resident in India (resident and ordinarily resident in case of individuals and HUF), income from property situated outside India is taxable, whether such income is brought into India or not.

(ii) In case of a non-resident or resident but not ordinarily resident in India, income from a property situated outside India is taxable only if it is received in India.

Determination of Annual Value [Section 23]
This involves three steps :
Step 1 - Determination of Gross Annual Value (GAV).
Step 2 – From the gross annual value computed in step 1, deduct municipal tax paid by the owner during the previous year.
Step 3 – The balance will be the Net Annual Value (NAV), which as per the Income-tax Act is the annual value.

(i) Determination of annual value for different types of house properties

(1) Where the property is let out throughout the previous year [Section 23(1)(a)/(b)]
Where the property is let out for the whole year, then the GAV would be the higher of –
(a) Annual Letting Value (ALV) or Expected Rent and
(b) Actual rent received or receivable during the year

The ALV is the higher of fair rent (FR) and municipal value (MV), but restricted to standard rent (SR).

For example, let us say the higher of FR and MV is X. Then ALV = SR, if X>SR. However, if X<SR, ALV = X.

ALV as per section 23(1)(a) cannot exceed standard rent (SR) but it can be lower than standard rent, in a case where standard rent is more than the higher of MV and FR.

Municipal value is the value determined by the municipal authorities for levying municipal taxes on house property.

Fair rent means rent which similar property in the same locality would fetch.

The standard rent is fixed by the Rent Control Act.

From the GAV computed above, municipal taxes paid by the owner during the previous year is to be deducted to arrive at the NAV.

Illustration 1
Jayashree owns five houses in Chennai, all of which are let-out. Compute the GAV of each house from the information given below –

Particulars	House I	House II	House III	House IV	House V
Municipal Value	80,000	55,000	65,000	24,000	75,000
Fair Rent	90,000	60,000	65,000	25,000	80,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000

Solution

GAV	90,000	72,000	60,000	30,000	78,000

(2) Where let out property is vacant for part of the year [Section 23(1)(c)]: Where let out property is vacant for part of the year and owing to vacancy, the actual rent is lower than the ALV, then the actual rent received or receivable will be the GAV of the property.

(3) In case of self-occupied property or unoccupied property [Section 23(2)]:

(a) Where the property is self-occupied for own residence or unoccupied throughout the previous year, its Annual Value will be Nil, provided no other benefit is derived by the owner from such property.

(b) The benefit of exemption of one self-occupied house is available only to an individual/HUF.

(c) The expression "Unoccupied property" refers to a property which cannot be occupied by the owner by reason of his employment, business or profession at a different place and he resides at such other place in a building not belonging to him.

(d) No deduction for municipal taxes is allowed in respect of such property.

(4) Where a house property is let-out for part of the year and self-occupied for part of the year [Section 23(3)]:

(a) If a single unit of a property is self-occupied for part of the year and let-out for the remaining part of the year, then the ALV for the whole year shall be taken into account for determining the GAV.

(b) The ALV for the whole year shall be compared with the actual rent for the let out period and whichever is higher shall be adopted as the GAV.

(c) However, property taxes for the whole year is allowed as deduction provided it is paid by the owner during the previous year.

(5) In case of deemed to be let out property [Section 23(4)] :

(a) Where the assessee owns more than one property for self-occupation, then the income from any one of such property, at the option of the assessee, shall be computed under the self-occupied property category and its annual value will be nil. The other self-occupied/unoccupied properties shall be treated as "deemed let out properties".

(b) This option can be changed year after year in a manner beneficial to the assessee.

(c) In case of deemed let-out property, the ALV/Expected Rent shall be taken as the GAV.

(d) The question of considering actual rent received/receivable does not arise. Consequently, no adjustment is necessary on account of property remaining vacant or unrealized rent.

(e) Municipal taxes actually paid by the owner during the previous year can be claimed as deduction.

(6) In case of a house property, a portion let out and a portion self-occupied

(a) Income from any portion or part of a property which is let out shall be computed separately under the "let out property" category and the other portion or part which is self-occupied shall be computed under the "self-occupied property" category.

(b) There is no need to treat the whole property as a single unit for computation of income from house property.

(c) Municipal valuation/fair rent/standard rent, if not given separately, shall be apportioned between the let-out portion and self-occupied portion either on plinth area or built-up floor space or on such other reasonable basis.

(d) Property taxes, if given on a consolidated basis can be bifurcated as attributable to each portion or floor on a reasonable basis.

Notional income instead of real income
Thus, under this head of income, there are circumstances where notional income is charged to tax instead of real income. For example –
Where the assessee owns more than one house property for the purpose of self occupation, the annual value of any one of those properties, at the option of the assessee, will be nil and the other properties are deemed to be let-out and income has to be computed on a notional basis by taking the ALV/Expected Rent as the GAV.
In the case of let-out property also, if the ALV exceeds the actual rent, the ALV/Expected Rent is taken as the GAV.

(ii) Treatment of unrealised rent [*Explanation* to section 23(1)]
(1) The Actual rent received/receivable should not include any amount of rent which is not capable of being realised.

(2) However the conditions prescribed in Rule 4 should be satisfied. They are –
(a) the tenancy is *bona fide*;
(b) the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
(c) the defaulting tenant is not in occupation of any other property of the assessee;
(d) the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

(iii) Property taxes (Municipal taxes)

(1) Property taxes are allowable as deduction from the GAV subject to the following two conditions:
(a) It should be borne by the assessee (owner); and
(b) It should be actually paid during the previous year.

(2) If property taxes levied by a local authority for a particular previous year is not paid during that year, no deduction shall be allowed in the computation of income from house property for that year.

(3) However, if in any subsequent year the arrears are paid, then the amount so paid is allowed as deduction in computation of income from house property for that year.

(4) Thus, we find that irrespective of the previous year in which the liability to pay such taxes arise according to the method of accounting regularly employed by the owner, the deduction in respect of such taxes will be allowed only in the year of actual payment.

(5) In case of property situated outside India, taxes levied by local authority of the country in which the property is situated is deductible. *[CIT v. R. Venugopala Reddiar* (1965) 58 ITR 439 (Mad).*]*

Illustration 2
Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y.2013-14. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2013-14. The value of one £ in Indian rupee to be taken at ` 82.50. Compute Rajesh's taxable income for the A.Y. 2014-15.

Solution

For the P.Y.2013-14, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is be to allowed as deduction from the gross annual value.

Computation of Income from house property of Mr. Rajesh for A.Y.2014-15

Particulars	`
Gross Annual Value (£ 10,000 × 12 × 82.50)	99,00,000
Less: Municipal taxes paid (£ 8,000 × 82.50)	6,60,000
Net Annual Value (NAV)	92,40,000
Less: Deduction under section 24	
(a) 30% of NAV = 30% of ` 92,40,000	27,72,000
Income from house property	**64,68,000**

Deductions from Annual Value [Section 24]

(i) There are two deductions from annual value. They are –

(1) 30% of NAV; and

(2) interest on borrowed capital

(1) 30% of NAV is allowed as deduction under section 24(a)

(a) This is a flat deduction and is allowed irrespective of the actual expenditure incurred.

(b) In case of self-occupied property where the annual value is nil, the assessee will not be entitled to deduction of 30%, as the annual value itself is nil.

(2) Interest on borrowed capital is allowed as deduction under section 24(b)

(a) Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction.

(b) Interest payable on a fresh loan taken to repay the original loan raised earlier for the aforesaid purposes is also admissible as a deduction.

(c) Interest relating to the year of completion of construction can be fully claimed in that year irrespective of the date of completion.

(d) Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

Illustration 3

Arvind had taken a loan of ` 5,00,000 for construction of property on 01.10.2012. Interest was payable @ 10% p.a. The construction was completed on 30.06.2013. No principal repayment has been made up to 31.03.2014. Compute the interest allowable as deduction under section 24 for the A.Y.2014-15.

Solution

Interest for the year (01.04.2013 to 31.3.2014) = 10% of ` 5,00,000 = ` 50,000

Pre-construction interest =10% of ` 5,00,000 for 6 months (from 01.10.2012 to 31.3.2013)=` 25,000

Pre-construction interest to be allowed in 5 equal annual installments of ` 5,000 from the year of completion of construction i.e. in this case, P.Y.2013-14.

Therefore, total interest deduction under section 24 = 50,000+5000 = ` 55,000.

(ii) Deduction in respect of one self-occupied property where annual value is nil

(1) In this case, the assessee will be allowed a deduction on account of interest (including 1/5th of the accumulated interest of pre-construction period) as under –

(a)	Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital before 01.04.1999.	Actual interest payable subject to maximum of `30,000.
(b)	Where the property is acquired or constructed with capital borrowed on or after 01.04.1999 and such acquisition or construction is completed within 3 years from the end of the financial year in which the capital was borrowed.	Actual interest payable subject to maximum of `1,50,000, if certificate mentioned in (2) below is obtained.
(c)	Where the property is repaired, renewed or reconstructed with capital borrowed on or after 01.04.1999.	Actual interest payable subject to a maximum of ` 30,000.

(2) For the purpose of claiming deduction of ` 1,50,000 as per 1(b) in the table given above, the assessee should furnish a certificate from the person to whom any interest is payable on the capital borrowed, specifying the amount of interest payable by the assessee for the purpose of such acquisition or construction of the property.

(3) The ceiling prescribed for one self-occupied property as above in respect of interest on loan borrowed does not apply to a deemed let-out property.

(4) Deduction under section 24(b) for interest is available on accrual basis. Therefore interest accrued but not paid during the year can also be claimed as deduction.

(5) Where a buyer enters into an arrangement with a seller to pay the sale price in installments along with interest due thereon, the seller becomes the lender in relation to the unpaid purchase price and the buyer becomes the borrower. In such a case, unpaid purchase price can be treated as capital borrowed for acquiring property and interest paid thereon can be allowed as deduction under section 24.

(6) Interest on unpaid interest is not deductible.

Computation of "Income from house property" for different categories of property

(i) Property let out throughout the previous year

Particulars			**Amount**
Computation of GAV			
Step 1	Compute ALV ALV = Higher of MV and FR, but restricted to SR		
Step 2	Compute Actual rent received/receivable Actual rent received/receivable less unrealized rent as per Rule 4		
Step 3	Compare ALV and Actual rent received/receivable		
Step 4	GAV is the higher of ALV and Actual rent received/receivable		
Gross Annual Value (GAV)			A
Less:	Municipal taxes (paid by the owner during the previous year)		B
Net Annual Value (NAV) = (A-B)			C
Less:	**Deductions u/s 24**		
	(a)30% of NAV	D	
	(b) Interest on borrowed capital(actual without any ceiling limit)	E	
Income from house property (C-D-E)			F

Illustration 4

Anirudh has a property whose municipal valuation is ` 1,30,000 p.a. The fair rent is ` 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ` 1,20,000 p.a. The property was let out for a rent of ` 11,000 p.m. throughout the previous year. Unrealised rent was ` 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ` 40,000 for the year.

Compute the income from house property of Anirudh.

Solution

Computation of Income from house property of Mr. Anirudh for A.Y. 2014-15

Particulars		Amount in `	
Computation of GAV			
Step 1	Compute ALV ALV = Higher of MV of ` 1,30,000 p.a. and FR of ` 1,10,000 p.a., but restricted to SR of ` 1,20,000 p.a.	1,20,000	
Step 2	Compute actual rent received/receivable Actual rent received/receivable less unrealized rent as per Rule 4 = `1,32,000 - ` 11,000	1,21,000	
Step 3	Compare ALV of ` 1,20,000 and Actual rent received/receivable of `1,21,000	1,21,000	
Step 4	GAV is the higher of ALV and Actual rent received/receivable		**1,21,000**
Gross Annual Value (GAV)			
Less:	Municipal taxes (paid by the owner during the previous year) = 10% of ` 1,30,000		13,000
Net Annual Value (NAV)			**1,08,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV	32,400	
	(b) Interest on borrowed capital (actual without any ceiling limit)	40,000	72,400
	Income from house property		**35,600**

(ii) Let out property vacant for part of the year

Particulars			**Amount**
Computation of GAV			
Step 1	Compute ALV ALV = Higher of MV and FR, but restricted to SR		
Step 2	Compute Actual rent received/receivable Actual rent received/receivable for let out period less unrealized rent as per Rule 4		
Step 3	Compare ALV and Actual rent received/receivable		
Step 4	If Actual rent is lower than ALV owing to vacancy, then Actual rent is the GAV. If Actual rent is lower than ALV due to other reasons, then ALV is the GAV. However, in spite of vacancy, if the actual rent is higher than the ALV, then Actual rent is the GAV.		
Gross Annual Value (GAV)			A
Less:	Municipal taxes (paid by the owner during the previous year)		B
Net Annual Value (NAV) = (A-B)			C
Less:	**Deductions under section 24**		
	(a) 30% of NAV	D	
	(b) Interest on borrowed capital (actual without any ceiling limit)	E	
Income from house property (C-D-E)			F

Illustration 5

Ganesh has a property whose municipal valuation is ` 2,50,000 p.a. The fair rent is ` 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ` 2,10,000 p.a. The property was let out for a rent of ` 20,000 p.m. However, the tenant vacated the property on 31.01.2014. Unrealised rent was ` 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 8% of municipal valuation. Interest on borrowed capital was ` 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2014-15.

Solution

Computation of income from house property of Ganesh for A.Y.2014-15

Particulars		Amount in `	
Computation of GAV			
Step 1	Compute ALV		
	ALV = Higher of MV of ` 2,50,000 p.a. and FR of` 2,00,000 p.a., but restricted to SR of ` 2,10,000 p.a.	2,10,000	
Step 2	Compute Actual rent received/receivable		
	Actual rent received/receivable for let out period less unrealized rent as per Rule 4 = ` 2,00,000 - ` 20,000	1,80,000	
Step 3	Compare ALV and Actual rent received/receivable		
Step 4	In this case the actual rent of ` 1,80,000 is lower than ALV of ` 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ` 2,20,000 (` 1,80,000 + ` 40,000). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)			**1,80,000**
Less:	Municipal taxes (paid by the owner during the previous year) = 8% of `2,50,000		20,000
Net Annual Value (NAV)			**1,60,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV = 30% of ` 1,60,000	48,000	
	(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property			**47,000**

(iii) Self-occupied property or Unoccupied property

Particulars		Amount
Annual value under section 23(2)		Nil
Less:	**Deduction under section 24**	
	Interest on borrowed capital Interest on loan taken for acquisition or construction of house on or after 01.04.1999 and same was completed within 3 years from the end of the financial year in which capital was borrowed, interest paid or payable subject to a maximum of `1,50,000 (including apportioned pre-construction interest).  (ii) In case of loan for acquisition or construction taken prior to 1.4.99 or loan taken for repair, renovation or reconstruction at any point of time, interest paid or payable subject to a maximum of ` 30,000.	E
Income from house property		-E

Illustration 6

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is `25,000 p.m. The municipal valuation is ` 23,000 p.m. Municipal taxes paid is `8,000. The loan of `20,00,000 was taken on 01.01.2007 from SBI Housing Finance Ltd. The construction was completed on 30.11.2009. The accumulated interest up to 31.3.2009 is `1,50,000. During the previous year 2013-14, Poorna paid ` 1,88,000 which included `1,44,000 as interest. Compute Poorna's income from house property for A.Y. 2014-15. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

Solution

Computation of income from house property of Smt. Poorna for A.Y.2014-15

Particulars		Amount
Annual Value of one house used for self-occupation under section 23(2)		Nil
Less:	**Deduction under section 24**	
	Interest on borrowed capital	1,50,000
	Interest on loan was taken for construction of house on or after 01.04.1999 and same was completed within 3 years - interest paid or payable subject to a maximum of `1,50,000 (including apportioned preconstruction interest) will be allowed as deduction.	
	In this case the total interest is ` 1,44,000 + ` 30,000 (Being 1/5th of ` 1,50,000) = `1,74,000. However, the interest deduction is restricted to ` 1,50,000.	
Loss from house property		-1,50,000

(iv) House property let-out for part of the year and self-occupied for part of the year

Particulars			Amount
Computation of GAV			
Step 1	Compute ALV for the whole year ALV = Higher of MV and FR, but restricted to SR		
Step 2	Compute Actual rent received/receivable Actual rent received/receivable for the period let out less unrealized rent as per Rule 4		
Step 3	Compare ALV for the whole year with the actual rent received/ receivable for the let out period		
Step 4	GAV is the higher of ALV computed for the whole year and Actual rent received/receivable computed for the let-out period.		
Gross Annual Value (GAV)			A
Less:	Municipal taxes (paid by the owner during the previous year)		B
Net Annual Value (NAV) = (A-B)			C
Less:	**Deductions under section 24**		
	(a) 30% of NAV	D	
	(b) Interest on borrowed capital (actual without any ceiling limit)	E	
Income from house property (C-D-E)			F

Illustration 7

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is `5,00,000, fair rent is ` 4,20,000 and standard rent is ` 4,80,000. The property was let-out for ` 50,000 p.m. up to December 2013. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2013 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @ 12% during the year. She had paid interest of ` 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2014-15.

Solution

Computation of income from house property of Smt. Rajalakshmi for the A.Y.2014-15

Particulars		Amount in `	
Computation of GAV			
Step 1	Compute ALV for the whole year ALV = Higher of MV of ` 5,00,000 and FR of ` 4,20,000, but restricted to SR of ` 4,80,000	4,80,000	
Step 2	Compute Actual rent received/receivable Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (` 50000×9) - (`50,000 × 2) = `4,50,000 - `1,00,000 =	3,50,000	
Step 3	Compare ALV for the whole year with the actual rent received/receivable for the let out period i.e. `4,80,000 and ` 3,50,000		
Step 4	GAV is the higher of ALV computed for the whole year and Actual rent received/receivable computed for the let-out period.	4,80,000	
Gross Annual Value (GAV)			**4,80,000**
Less:	Municipal taxes (paid by the owner during the previous year) = 12% of ` 5,00,000		60,000
Net Annual Value (NAV)			**4,20,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV = 30% of ` 4,20,000	1,26,000	
	(b) Interest on borrowed capital	25,000	1,51,000
Income from house property			**2,69,000**

(v) Deemed to be let out property

Particulars		**Amount**
Gross Annual Value (GAV)		A
ALV is the GAV of house property		
ALV = Higher of MV and FR, but restricted to SR		
Less: Municipal taxes (paid by the owner during the previous year)		B
Net Annual Value (NAV) = (A-B)		C
Less: Deductions under section 24		
(a) 30% of NAV	D	
(b) Interest on borrowed capital (actual without any ceiling limit)	E	
Income from house property (C-D-E)		F

Illustration 8

Ganesh has two houses, both of which are self-occupied. The particulars of the houses for the P.Y.2013-14 are as under:

Particulars	**House I**	**House II**
Municipal valuation p.a.	1,00,000	1,50,000
Fair rent p.a.	75,000	1,75,000
Standard rent p.a.	90,000	1,60,000
Date of completion	31.03.1999	31.03.2001
Municipal taxes paid during the year	12%	8%
Interest on money borrowed for repair of property during the current year	-	55,000

Compute Ganesh's income from house property for A.Y.2014-15 and suggest which house should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

Solution:

Computation of income from house property of Ganesh for the A.Y. 2014-15

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Particulars	Amount in `	
Gross Annual Value (GAV)	**House I**	**House II**
ALV is the GAV of house property		
ALV = Higher of MV and FR, but restricted to SR	90,000	1,60,000
Less: Municipal taxes (paid by the owner during the previous year)	12,000	12,000
Net Annual Value (NAV)	**78,000**	**1,48,000**
Less: Deductions under section 24		
(a) 30% of NAV	23,400	44,400
(b) Interest on borrowed capital	-	55,000
Income from house property	**54,600**	**48,600**

OPTION 1 (House I – self-occupied and House II – deemed to be let out)
If House I is opted to be self-occupied, the income from house property shall be –

Particulars	Amount in `
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	48,600
Income from house property	**48,600**

OPTION 2 (House I – deemed to be let out and House II – self-occupied)
If House II is opted to be self-occupied, the income from house property shall be –

Particulars	Amount in `
House I (Deemed to be let-out)	54,600
House II (Self-occupied)	-30,000
(interest deduction restricted to ` 30,000)	
Income from house property	**24,600**

Since Option 2 is more beneficial, Ganesh should opt to treat House II as self-occupied and House I as deemed to be let out. His income from house property would be ` 24,600 for the A.Y. 2014-15.

(vi) House property, a portion let out and a portion self-occupied

Illustration 9

Prem owns a house in Madras. During the previous year 2013-14, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ` 8,000 p.m. Municipal value of the property is ` 3,00,000 p.a., fair rent is ` 2,70,000 p.a. and standard rent is ` 3,30,000. He paid municipal taxes @ 10% of municipal value during the year. A loan of ` 25,00,000 was taken by him during the year 2009 for acquiring the property. Interest on loan paid during the previous year 2013-14 was ` 1,20,000. Compute Prem's income from house property for the A.Y. 2014-15. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

Solution

There are two units of the house. Unit I with 2/3rd area is used by Prem for self-occupation throughout the year and no benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/3rd area is let-out through out the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2014-15

Particulars	Amount in `	
Unit I (2/3rd area – self-occupied)		

Annual Value		Nil
Less: Deduction under section 24(b) 2/3rd of ` 1,20,000		80,000
Income from Unit I (self-occupied)		**-80,000**
Unit II (1/3rd area – let out)		
Computation of GAV		
Step I – Compute ALV		
ALV = Higher of MV and FR, restricted to SR. However, in this case, SR of `1,10,000 (1/3rd of ` 3,30,000) is more than the higher of MV of ` 1,00,000 (1/3rd of ` 3,00,000) and FR of ` 90,000 (1/3rd of ` 2,70,000). Hence the higher of MV and FR is the ALV. In this case, it is the MV.	1,00,000	
Step 2 – Compute actual rent received/ receivable ` 8,000×12 = `96,000	96,000	
Step 3 – GAV is the higher of ALV and actual rent received/receivable i.e. higher of `1,00,000 and ` 96,000	1,00,000	
Gross Annual Value (GAV)		**1,00,000**
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion		
1/3rd of (10% of ` 3,00,000) = ` 30,000/3 = ` 10,000		10,000
Net Annual Value (NAV)		**90,000**
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ` 90,000	27,000	
(b) Interest paid on borrowed capital (relating to let out portion) 1/3 rd of ` 1,20,000	40,000	67,000
Income from Unit II (let-out)		**23,000**
Loss under the head "Income from house property" = ` -80,000 + ` 23,000		**-57000**

Inadmissible deductions [Section 25]

Interest chargeable under this Act which is payable outside India shall not be deducted if –

(a) tax has not been paid or deducted from such interest and

(b) there is no person in India who may be treated as an agent under section 163.

Taxability of recovery of unrealised rent & arrears of rent received

(i) Unrealised rent is deducted from actual rent in determination of annual value under section 23, subject to fulfillment of conditions under Rule 4. Subsequently, when the amount is realized, it gets taxed under section 25AA in the year of receipt.

(ii) If the assessee has increased the rent payable by the tenant and the same has been in dispute and later on the assessee receives the increase in rent as arrears, such arrears is assessable under section 25B.

Unrealised rent [Section 25AA] Arrears of rent [Section 25B]

	Unrealised rent [Section 25AA]	**Arrears of rent [Section 25B]**
(a)	Taxable in the hands of the assessee whether he is the owner of that property or not.	Taxable in the hands of the assessee whether he is the owner of that property or not.
(b)	Taxable as income of the previous year in which he recovers the unrealized rent.	Taxable as income of the year in which he receives the arrears of rent.
(c)	No deduction shall be allowed.	30% of the amount of arrears shall be allowed as deduction.
(d)	Unrealised rent means the rent which has been deducted from actual rent in any previous year for determining annual value.	Arrears of rent is in respect of rent not charged to income-tax for any previous year.

Treatment of income from co-owned property [Section 26]

(i) Where property is owned by two or more persons, whose shares are definite and ascertainable, then the income from such property cannot be taxed as income of an AOP.

(ii) The share income of each such co-owner should be determined in accordance with sections 22 to 25 and included in his individual assessment.

(iii) Where the house property owned by co-owners is self occupied by each of the co-owners, the annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of `30,000 / ` 1,50,000, as the case may be, under section 24(b) on account of interest on borrowed capital.

(iv) Where the house property owned by co-owners is let out, the income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.

Treatment of income from property owned by a partnership firm
(i) Where an immovable property or properties is included in the assets of a firm, the income from such property should be assessed in the hands of the firm only.

(ii) Hence, the property income cannot be assessed as income of the individual partner in respect of his share in the firm.

Deemed Ownership [Section 27]
As per section 27, the following persons, though not legal owners of a property, are deemed to be the owners for the purposes of section 22 to 26.

(i) Transfer to a spouse [Section 27(i)] – In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration, the transferor is deemed to be the owner of the transferred property.
Exception – In case of transfer to spouse in connection with an agreement to live apart, the transferor will not be deemed to be the owner. The transferee will be the owner of the house property.

(ii) Transfer to a minor child [Section 27(i)] – In case of transfer of house property by an individual to his or her minor child otherwise than for adequate consideration, the transferor is deemed to be the owner of the house property transferred.

Exception – In case of transfer to a minor married daughter, the transferor is not deemed to be the owner.
Note - Where cash is transferred to spouse/minor child and the transferee acquires property out of such cash, then the transferor shall not be treated as deemed owner of the house property. However, clubbing provisions will be attracted.

(iii) Holder of an impartible estate [Section 27(ii)] – The impartible estate is a property which is not legally divisible. The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.

After enactment of the Hindu Succession Act, 1956, all the properties comprised in an impartible estate by custom is to be assessed in the status of a HUF. However, section 27(ii) will continue to be applicable in relation to impartible estates by grant or covenant,.

(iv) Member of a co-operative society etc. [Section 27(iii)] – A member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/company/association, shall be deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/ association is the legal owner of that building.

(v) Person in possession of a property [Section 27(iiia)] – A person who is allowed to take or retain the possession of any building or part thereof in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act shall be the deemed owner of that house property. This would include cases where the –

(1) possession of property has been handed over to the buyer
(2) sale consideration has been paid or promised to be paid to the seller by the buyer
(3) sale deed has not been executed in favour of the buyer, although certain other documents like power of attorney/agreement to sell/will etc. have been executed.

In all the above cases, the buyer would be deemed to be the owner of the property although it is not registered in his name.

(vi) Person having right in a property for a period not less than 12 years [Section 27(iiib)] – A person who acquires any rights in or with respect to any building or part thereof, by virtue of any transaction as is referred to in section 269UA(f) i.e. transfer by way of lease for not less than 12 years, shall be deemed to be the owner of that building or part thereof.

Exception – Any rights by way of lease from month to month or for a period not exceeding one year.

Cases where income from house property is exempt from tax

Sl. No	Section	Particulars
1	10(1)	Income from any farm house forming part of agricultural income.
2	10(19A)	Annual value of any one palace in the occupation of an ex-ruler.
3	10(20)	Income from house property of a local authority.
4	10(21)	Income from house property of an approved scientific research association.
5	10(23C)	Property income of universities, educational institutions, etc.
6	10(24)	Property income of any registered trade union.
7	11	Income from house property held for charitable or religious purpose.
8	13A	Property income of any political party.
9	22	Property used for own business or profession
10	23(2)	One self-occupied property of an individual/HUF

Illustration 1: Mr. X has one house property which is let out @ `80,000 p.m. Fair rent ` 90,000 p.m., Municipal Valuation `70,000 p.m., Standard Rent `81,000 p.m. Municipal tax paid `60,000 and interest paid on loan for construction of house property is ` 50,000.

Compute his Income Tax Liability for A.Y 2014-15.

Solution:

	`
Computation of income under the head House Property	
Gross Annual Value	9,72,000.00

Working Note:	`
(a) Fair Rent (90,000 x 12)	10,80,000
(b) Municipal Value (70,000 x 12)	8,40,000
(c) Higher of (a) or (b)	10,80,000
(d) Standard Rent (81,000 x 12)	9,72,000
(e) Expected Rent {Lower of c or d}	9,72,000
(f) Rent received /receivable (80,000 x 12)	9,60,000
GAV shall be higher of (e) or (f)	9,72,000

Less: Municipal Tax	60,000.00
Net Annual Value	9,12,000.00
Less: 30% of NAV u/s 24(a)	2,73,600.00
Less: Interest on capital borrowed u/s 24(b)	50,000.00
Income under the head House Property	5,88,400.00
Gross Total Income	5,88,400.00
Less: Deduction u/s 80C to 80U	NIL
Total Income	5,88,400.00
Computation of Tax Liability	
Tax on `5,88,400 at slab rate	47,680.00
Add: EC @ 2%	953.60
Add: SHEC @ 1%	476.80
Tax Liability	49,110.40
Rounded off u/s 288B	49,110.00

Illustration 2: Mrs. X has let out one House property @ `62,000 p.m., Municipal Valuation `72,000 p.m., Fair Rent `90,000 p.m., Standard Rent `1,00,000 p.m., Municipal Tax paid `40,000 and Interest on loan taken for construction `60,000

She has completed the age of 60 years on 01.04.2014.

Compute Income Tax Liability for the A.Y 2014-15.

Solution:

`

Computation of income under the head House Property

Gross Annual Value		10,80,000.00
Working Note:	`	
(a) Fair Rent (90,000 x 12)	10,80,000	
(b) Municipal Value (72,000 x 12)	8,64,000	
(c) Higher of (a) or (b)	10,80,000	
(d) Standard Rent (1,00,000 x 12)	12,00,000	
(e) Expected Rent {Lower of c or d}	10,80,000	
(f) Rent received /receivable (62,000 x 12)	7,44,000	
GAV shall be higher of (e) or (f)	10,80,000	
Less: Municipal Tax		40,000.00
Net Annual Value		10,40,000.00
Less: 30% of NAV u/s 24(a)		3,12,000.00
Less: Interest on capital borrowed u/s 24(b)		60,000.00
Income from house property		6,68,000.00
Gross Total Income		6,68,000.00
Less: Deduction u/s 80C to 80U		NIL
Total Income		6,68,000.00

Computation of Tax Liability

Tax on `6,68,000 at slab rate	63,600.00
Add: EC @ 2%	1,272.00
Add: SHEC @ 1%	636.00
Tax Liability	65,508.00
Rounded off u/s 288B	65,510.00

Illustration 3: Compute gross annual value in the following cases for the assessment year 2014-15:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	9,000	13,000	12,000	16,000
Municipal Valuation (p.m.)	10,000	9,000	9,000	18,000
Standard Rent (p.m.)	12,000	11,000	7,000	16,000
Rent received/ receivable (p.m.)	7,000	11,500	20,000	16,500
Vacancy	1 month	1 month	2 month	2 months

Solution:

Situation 1

`

Computation of Gross Annual Value

(a) Fair Rent (9,000 x 12)	1,08,000
(b) Municipal Valuation (10,000 x 12)	1,20,000
(c) Higher of (a) or (b)	1,20,000
(d) Standard Rent (12,000 x 12)	1,44,000
(e) Expected Rent {Lower of (c) or (d)}	1,20,000
(f) Rent Received/Receivable (7,000 x 11)	77,000

If there was no vacancy, in that case rent received/receivable would have been `84,000 and

It was still less than expected rent, therefore GAV shall be expected rent.

Gross Annual Value	1,20,000

Situation 2

Computation of Gross Annual Value	`
(a) Fair Rent (13,000 x 12)	1,56,000
(b) Municipal Valuation (9,000 x 12)	1,08,000
(c) Higher of (a) or (b)	1,56,000
(d) Standard Rent (11,000 x 12)	1,32,000
(e) Expected Rent {Lower of (c) or (d)}	1,32,000
(f) Rent Received/Receivable (11,500 x 11)	1,26,500

In this case, if there was no vacancy, rent received/receivable would have been `1,38,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,26,500

Situation 3

Computation of Gross Annual Value	`
(a) Fair Rent (12,000 x 12)	1,44,000
(b) Municipal Valuation (9,000 x 12)	1,08,000
(c) Higher of (a) or (b)	1,44,000
(d) Standard Rent (7,000 x 12)	84,000
(e) Expected Rent {Lower of (c) or (d)}	84,000
(f) Rent Received/Receivable (20,000 x 10)	2,00,000

In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R

Gross Annual Value	2,00,000

Situation 4

Computation of Gross Annual Value	`
(a) Fair Rent (16,000 x 12)	1,92,000
(b) Municipal Valuation (18,000 x 12)	2,16,000
(c) Higher of (a) or (b)	2,16,000
(d) Standard Rent (16,000 x 12)	1,92,000
(e) Expected Rent {Lower of (c) or (d)}	1,92,000
(f) Rent Received/Receivable (16,500 x 10)	1,65,000

In this case, if there was no vacancy, rent received/receivable would have been `1,98,000 hence rent received/receivable is lower in this case owing to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,65,000

Illustration 4: Compute gross annual value in the following cases for the assessment year 2014-15:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	11,000	13,000	14,000	16,000
Municipal Valuation (p.m.)	12,000	11,000	9,000	18,000
Standard Rent (p.m.)	13,000	12,000	8,000	17,000
Rent received/ receivable (p.m.)	8,000	12,500	21,000	17,000
Vacancy	-	2 months	1 month	3 month
Unrealised rent	1 month	-	3 month	1 month

Solution:

Situation 1

Computation of Gross Annual Value

	`
(a) Fair Rent (11,000 x 12)	1,32,000
(b) Municipal Valuation (12,000 x 12)	1,44,000
(c) Higher of (a) or (b)	1,44,000
(d) Standard Rent (13,000 x 12)	1,56,000
(e) Expected Rent {Lower of (c) or (d)}	1,44,000
(f) Rent Received/Receivable (8,000 x 11)	88,000
GAV = Higher of (e) or (f)	1,44,000
Gross Annual Value	1,44,000

Situation 2

Computation of Gross Annual Value

	`
(a) Fair Rent (13,000 x 12)	1,56,000
(b) Municipal Valuation (11,000 x 12)	1,32,000
(c) Higher of (a) or (b)	1,56,000
(d) Standard Rent (12,000 x 12)	1,44,000
(e) Expected Rent {Lower of (c) or (d)}	1,44,000
(f) Rent Received/Receivable (12,500 x 10)	1,25,000

In this case, if there was no vacancy, rent received/receivable would have been `1,50,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,25,000

Situation 3

Computation of Gross Annual Value

	`
(a) Fair Rent (14,000 x 12)	1,68,000
(b) Municipal Valuation (9,000 x 12)	1,08,000
(c) Higher of (a) or (b)	1,68,000

(d) Standard Rent (8,000 x 12)	96,000
(e) Expected Rent {Lower of (c) or (d)}	96,000
(f) Rent Received/Receivable (21,000 x 8)	1,68,000
In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R	
Gross Annual Value	1,68,000

Situation 4

Computation of Gross Annual Value

	`
(a) Fair Rent (16,000 x 12)	1,92,000
(b) Municipal Valuation (18,000 x 12)	2,16,000
(c) Higher of (a) or (b)	2,16,000
(d) Standard Rent (17,000 x 12)	2,04,000
(e) Expected Rent {Lower of (c) or (d)}	2,04,000
(f) Rent Received/Receivable (17,000 x 8)	1,36,000
If there was no vacancy, in that case rent received/receivable would have been `1,87,000 and It was still less than expected rent, therefore GAV shall be expected rent.	
Gross Annual Value	2,04,000

Illustration 5: Mr. X has let out one house property to Mr. Y @ ` 80,000 p.m. Fair rent `90,000 p.m. Municipal valuation `80,000 p.m. and Standard rent of the house `76,000 p.m. The house remained vacant for 2 months and there was unrealised rent for 3 months. Mr. X has paid municipal tax of `60,000 and interest on loan for construction of house property is `69,000.

Compute his Income Tax Liability for A.Y.2014-15.

Solution:

Computation of income under the head house property

	`
Gross Annual Value	9,12,000.00

Working Note:

	`
(a) Fair Rent (90,000 x 12)	10,80,000
(b) Municipal Valuation (80,000 x 12)	9,60,000
(c) Higher of (a) or (b)	10,80,000
(d) Standard Rent (76,000 x 12)	9,12,000
(e) Expected Rent {Lower of (c) or (d)}	9,12,000
(f) Rent received /receivable (80,000 x 7)	5,60,000
If there was no vacancy, in that case rent received receivable would have been `7,20,000 and it was still less than expected rent ,therefore GAV shall be expected rent	
GAV	9,12,000

Less: Municipal Tax	60,000.00
Net Annual Value	8,52,000.00
Less: 30% of NAV u/s 24(a)	2,55,600.00
Less: Interest on capital borrowed u/s 24(b)	69,000.00
Income under the head House Property	5,27,400.00

Gross Total Income	5,27,400.00
Less: Deduction u/s 80C to 80U	NIL
Total Income	5,27,400.00

Computation of Tax Liability

Tax on ` 5,27,400 at slab rate	35,480.00
Add: Education cess @ 2%	709.60
Add: SHEC @ 1%	354.80
Tax Liability	36,544.40
Rounded off u/s 288B	36,540.00

Illustration 6: Compute interest allowed under section 24(b) in the following cases for assessment year 2014-15.

Situations	A	B	C	D	E
Date of loan	01.07.2010	01.07.2011	01.07.2011	01.04.2012	01.03.2013
Amount of loan	6,00,000	6,00,000	6,00,000	6,00,000	6,00,000
Rate of interest	6%	6%	6%	6%	6%
Date of completion/ Date of purchase	31.03.2013	31.03.2012	01.01.2013	01.07.2013	01.04.2013
Date of repayment	01.04.2011	01.04.2014	01.01.2014	01.12.2013	Nil

Solution: `

Situation A

Computation of interest allowed under section 24(b)

Current period interest — Nil

Prior period interest

From 01.07.2010 to 31.03.2012

(but interest will be calculated upto 31.03.2011 because the loan has been repaid on 01.04.2011)

6,00,000 x 6% x 9/12 = 27,000

Installment = 27,000/5 = 5,400

Total interest allowed — 5,400

Situation B

Computation of interest allowed under section 24(b)

Current period interest

From 01.04.2013 to 31.03.2014

6,00,000 x 6% = 36,000

Prior period interest

Since there is no prior period hence interest is nil

Total interest allowed — 36,000

Situation C

Computation of interest allowed under section 24(b)

Current period interest

From 01.04.2013 to 31.12.2013

6,00,000 x 6% x 9/12 = 27,000

Prior period interest

From 01.07.2011 to 31.03.2012

6,00,000 x 6% x 9/12 = 27,000

Installment = 27,000/5 = 5,400

Total interest allowed [27,000 + 5,400] — 32,400

<u>Situation D</u>

Computation of interest allowed under section 24(b)

Current period interest	
From 01.04.2013 to 30.11.2013	
6,00,000 x 6% x 8/12 = 24,000	
Prior period interest	
From 01.04.2012 to 31.03.2013	
6,00,000 x 6% = 36,000	
Installment = 36,000/5 = 7,200	
Total interest allowed [24,000 + 7,200]	31,200

<u>Situation E</u>

Computation of interest allowed under section 24(b)

Current period interest	
From 01.04.2013 to 31.03.2014	
6,00,000 x 6% = 36,000	
Prior period interest	
From 01.03.2013 to 31.03.2013	
6,00,000 x 6% x 1/12 = 3,000	
Installment = 3,000/5 = 600	
Total interest allowed [36,000 + 600]	36,600

<u>Illustration 7:</u> Mr. Shivang Gautam took a loan of `5,00,000 on 01.10.2010 @ 10% p.a. for construction of house which was completed on 31.03.2014.
Compute interest on capital borrowed for the previous year 2013-14.

<u>Solution:</u>

Prior period interest
From 01.10.2010 to 31.03.2013
= 5,00,000 x 10% x 30/12 = `1,25,000
Installment = `1,25,000/5 = `25,000
Current year interest
From 01.04.2013 to 31.03.2014
= 5,00,000 x 10% = `50,000
Total Interest = `25,000 + `50,000 = `75,000

<u>Illustration 8:</u> Mr. X has taken a loan of `15,00,000 on 01.07.2009 @ 12% p.a. for construction of one house which was completed on 01.05.2013 and was let out @ `60,000 p.m. w.e.f 01.07.2013 and Fair rent is `70,000 p.m. and the assessee has paid municipal tax of `30,000 in P.Y. 2013-14 and the assessee has repaid the loan amount in annual instalment of `1,00,000 starting from 01.01.2012.

Compute his income tax liability for the assessment year 2014-15.

Solution:

	`
Computation of income under the head House Property	
Gross Annual Value	7,70,000.00

Working Note:	`
(a) Fair Rent (70,000 x 11)	7,70,000
(b) Expected Rent	7,70,000
(c) Rent received /receivable (60,000 x 9)	5,40,000

If there was no vacancy, in that case rent received/receivable would have been `6,60,000 and it was still less than expected rent ,therefore GAV shall be expected rent

GAV	7,70,000	
Less: Municipal Tax		30,000.00
Net Annual Value		7,40,000.00
Less: 30% of NAV u/s 24(a)		2,22,000.00
Less: Interest on capital borrowed u/s 24(b)		2,84,400.00

Working Note: `

Current period Interest

<u>From 01.04.2013 to 31.03.2014</u>

(13,00,000 x 12% x 9/12) + (12,00,000 x 12% x 3 /12) = 1,53,000

Prior period interest

<u>From 01.07.2009 to 31.03.2013</u>

15,00,000 x 12% x 30/12 = 4,50,000

14,00,000 x 12% x 12/12 = 1,68,000

13,00,000 x 12% x 3/12 = 39,000

Instalment = 6,57,000 / 5 =	1,31,400
Total Interest = `1,53,000 + `1,31,400=	2,84,400

Income under the head house property	2,33,600.00
Gross Total Income	2,33,600.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,33,600.00

Computation of Tax Liability

Tax on normal income `2,33,600 at slab rate	3,360.00
Less: Rebate u/s 87A (3,360 or 2,000 whichever is less)	2,000.00
Tax before education cess	1,360.00
Add: Education cess @ 2%	27.20
Add: SHEC @ 1%	13.60
Tax Liability	1,400.80
Rounded off u/s 288B	1,400.00

<u>Illustration 9:</u> Mr. Vikas Kumar has constructed one house on 01.09.2013 and it was let out @ `50,000 p.m. and municipal taxes paid are `35,000. The house was constructed after taking a loan from outside India and interest allowed under section 24(b) is `2,10,000, but the assessee has not deducted tax at source.
Compute assessee's tax liability for assessment year 2014-15.

<u>Solution:</u>

	`
Gross Annual Value (50,000 x 7)	3,50,000.00
Less: Municipal Taxes	35,000.00
Net Annual Value	3,15,000.00
Less: 30% of NAV u/s 24(a)	94,500.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	2,20,500.00

Computation of Tax Liability

Tax on `2,20,500 at slab rate	2,050.00
Less: Rebate u/s 87A (2,050 or 2,000 whichever is less)	2,000.00
Tax before education cess	50.00

Add: Education cess @ 2%	1.00
Add: SHEC @ 1%	0.50
Tax Liability	51.50
Rounded off u/s 288B	50.00

Illustration 10: Presume in the above question, the person who has given the loan has one agent in India as per section 163.
Compute tax liability for the assessment year 2014-15.

Solution:

	`
Gross Annual Value (50,000 x 7)	3,50,000
Less: Municipal Taxes	35,000
Net Annual Value	3,15,000
Less: 30% of NAV u/s 24(a)	94,500
Less: Interest on capital borrowed u/s 24(b)	2,10,000
Income under the head House Property	10,500
Tax Liability	Nil

Illustration 11: Presume in the above question, the assessee has deducted tax at source.
Compute tax liability for the assessment year 2014-15.

Solution:

	`
Gross Annual Value (50,000 x 7)	3,50,000
Less: Municipal Taxes	35,000
Net Annual Value	3,15,000
Less: 30% of NAV u/s 24(a)	94,500
Less: Interest on capital borrowed u/s 24(b)	2,10,000
Income under the head House Property	10,500
Tax Liability	Nil

Illustration 12(a): Mr. Vivek Kumar has taken a loan of `5,00,000 on 01.10.1998 @ 10% p.a. for construction of a house which was completed on 01.10.2012 and the house remained self-occupied throughout the previous year 2013-14.

The assessee has income under the head salary `3,00,000.

Compute tax liability for assessment year 2014-15.

Solution:

	`
Net Annual Value	Nil
Less: Interest on capital borrowed u/s 24(b)	(30,000)

Working Note:	`
Current period Interest	
From 01.04.2013 to 31.03.2014	
5,00,000 x 10% =	50,000
Prior period interest	
From 01.10.1998 to 31.03.2012	
5,00,000 x 10% x 162/12 =	6,75,000
Instalment = 6,75,000 / 5 =	1,35,000
Total Interest = `50,000 + `1,35000 =	1,85,000
Subject to maximum `30,000	

Loss under the head House Property	(30,000)
Income under the head Salary	3,00,000
Gross Total Income	2,70,000
Less: Deduction u/s 80C to 80U	Nil

Total Income	2,70,000
Computation of Tax Liability	
Tax on `2,70,000 at slab rate	7,000
Less: Rebate u/s 87A (7,000 or 2,000 whichever is less)	2,000
Tax before education cess	5,000
Add: Education cess @ 2%	100
Add: SHEC @ 1%	50
Tax Liability	5,150

Illustration 12(b): Presume in above question, the loan was taken on 01.10.2008. The assessee has submitted a certificate confirming the amount of interest.

Solution:

	`
Net Annual Value	Nil
Less: Interest on capital borrowed u/s 24(b)	(85,000)

Working Note:	`
Current period Interest	
From 01.04.2013 to 31.03.2014	
5,00,000 x 10% =	50,000
Prior period interest	
From 01.10.2008 to 31.03.2012	
5,00,000 x 10% x 42/12 =	1,75,000
Instalment = 1,75,000 / 5 =	35,000
Total Interest = `50,000 + `35,000 =	85,000

Loss under the head House Property	(85,000)
Income under the head Salary	3,00,000
Gross Total Income	2,15,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,15,000
Computation of Tax Liability	
Tax on `2,15,000 at slab rate	1,500
Less: Rebate u/s 87A (1,500 or 2,000 whichever is less)	1,500
Tax Liability	Nil

Illustration 13: Mr. Vineet Kathuria has 3 houses which are self occupied and the details of these houses is as under.

Particulars	**House I (In `)**	**House II (In `)**	**House III (In `)**
Fair rent	1,10,000	1,20,000	1,23,000
Municipal valuation	1,24,000	1,18,000	1,12,000
Standard rent	1,10,000	1,35,000	1,29,000
Municipal taxes paid	10,000	8,000	9,000
Interest on capital borrowed on 01.04.2008 and all the necessary conditions are complied with to avail higher amount of interest.	32,000	39,000	28,000
Repair charges	10,000	3,000	8,000
Date of completion of house	01.10.2010	01.10.2010	01.10.2010

Compute income under the head house property.

Solution:

Option I

House I is Self Occupied	`
Loss	(32,000)

House II is deemed to be Let Out

Gross Annual Value	1,20,000

Working Note:	`
(a) Fair rent	1,20,000
(b) Municipal valuation	1,18,000
(c) Higher of (a) or (b)	1,20,000
(d) Standard rent	1,35,000
(e) Expected rent {Lower of (c) or (d)}	1,20,000
GAV = Expected rent	1,20,000

Less: Municipal Taxes	8,000
Net Annual Value	1,12,000
Less: 30% of NAV u/s 24(a)	33,600
Less: Interest on capital borrowed u/s 24(b)	39,000
Income	39,400

House III is deemed to be Let Out

Gross Annual Value	1,23,000

Working Note:	`
(a) Fair rent	1,23,000
(b) Municipal valuation	1,12,000
(c) Higher of (a) or (b)	1,23,000
(d) Standard rent	1,29,000
(e) Expected rent {Lower of (c) or (d)}	1,23,000
GAV = Expected rent	1,23,000

Less: Municipal Taxes	9,000
Net Annual Value	1,14,000
Less: 30% of NAV u/s 24(a)	34,200
Less: Interest on capital borrowed u/s 24(b)	28,000
Income	51,800
Income under Option I [(32,000) + 39,400 + 51,800]	59,200

Option II

House I is deemed to be Let Out

Gross Annual Value	1,10,000

Working Note:	`
(a) Fair rent	1,10,000
(b) Municipal valuation	1,24,000
(c) Higher of (a) or (b)	1,24,000
(d) Standard rent	1,10,000
(e) Expected rent {Lower of (c) or (d)}	1,10,000
GAV = Expected rent	1,10,000

Less: Municipal Taxes	10,000
Net Annual Value	1,00,000
Less: 30% of NAV u/s 24(a)	30,000
Less: Interest on capital borrowed u/s 24(b)	32,000
Income	38,000

House II is Self Occupied

Loss	(39,000)

House III is deemed to be Let Out

Income	51,800
Income under Option II [38,000 + (39,000) + 51,800]	50,800

Option III

House I is deemed to be Let Out

Income	38,000

House II is deemed to be Let Out

Income	39,400

House III is Self Occupied

Loss	(28,000)
Income under Option III [38,000 + 39,400 + (28,000)]	49,400
Third Option is the best	
Income under the head House Property	49,400

Illustration 14: Mrs. X aged 62 years is engaged in a business in her own building and furnishes the following information.

Market rent of the building is `1,00,000 p.m. and expenses incurred on repairs are `37,000 and interest on loan taken for construction of the building is `65,000 and depreciation `30,000 and municipal tax paid `30,000 and land revenue paid `10,000 and premium paid for insurance of the house `7,000. ground rent paid `8,000.

Income from business before debiting any expense of house property is `16,00,000.

Compute her income tax liability for Assessment Year 2014-15.

Solution:

	`
Income from business before debiting any expense of house property	16,00,000.00
Less: Repair of Building	37,000.00
Less: Interest on loan taken for construction of building	65,000.00
Less: Depreciation	30,000.00
Less: Municipal Taxes	30,000.00
Less: Land revenue	10,000.00
Less: Insurance premium of the house	7,000.00
Less: Ground rent	8,000.00
Income under the head Business/Profession	14,13,000.00
Gross Total Income	14,13,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	14,13,000.00

Computation of Tax Liability

Tax on `14,13,000 at slab rate	2,48,900.00
Add: Education cess @ 2%	4,978.00
Add: SHEC @ 1%	2,489.00
Tax Liability	2,56,367.00
Rounded off u/s 288B	2,56,370.00

Illustration 15: Mr. Ankit Sharma constructed one house in 1985 and it is let out for 4 months and self occupied for 6 months and vacant for 2 months during previous year 2013-14. Municipal valuation of the house is `20,000 p.m. and fair rent `18,000 p.m. Standard rent of the house is `19,000 p.m. It was let out @ `11,000 p.m. Municipal tax levied is `6,000 out of which `2,000 was paid by the tenant and `2,000 by the assessee and balance `2,000 yet to be paid.

Interest on the capital borrowed for construction of the house is `30,000.

Compute his income under the head house property for the assessment year 2014-15.

Solution: `

Computation of income from House Property of Mr. Ankit Sharma

Gross Annual Value	2,28,000

Working Note:	`
(a) Fair Rent (18,000 x 12)	2,16,000
(b) Municipal Valuation (20,000 x 12)	2,40,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent (19,000 x 12)	2,28,000
(e) Expected Rent {Lower of (c) or (d)}	2,28,000
(f) Rent Received/Receivable (11,000 x 4)	44,000
If there was no vacancy, in that case rent received/receivable would have been `66,000 and it was still less than expected rent, therefore GAV shall be expected rent.	
GAV	2,28,000

Less: Municipal Taxes	2,000
Net Annual Value	2,26,000
Less: 30% of NAV u/s 24(a)	67,800
Less: Interest on capital borrowed u/s 24(b)	30,000
Income under the head House Property	1,28,200

<u>Illustration 16:</u> Mr. Hemant Kumar has one big house. 25% of it is being used by the assessee in his own business/profession and 50% of the house is let out @ `10,000 p.m. However, it remained vacant for one month and there is unrealised rent for 1½ month. Remaining 25% is self occupied throughout the year. Fair rent of the entire house is `25,000 p.m., municipal valuation `22,000 p.m. and municipal tax paid is `22,000. Insurance premium paid is `6,000, repair charges `8,000, land revenue paid `4,000, ground rent is `3,000 and depreciation of the house is `12,000. Assessee's income under the head business/profession before charging expenditure relating to house property is `2,00,000.

Compute his total income and tax liability for assessment year 2014-15.

<u>Solution:</u> `

Computation of income under the head House Property

<u>Income from self occupied portion</u>

Income of self occupied portion	Nil

<u>Income of let out portion</u>

Gross Annual Value	1,50,000.00

Working Note:	`
(a) Fair Rent (12,500 x 12)	1,50,000
(b) Municipal Valuation (11,000 x 12)	1,32,000
(c) Expected rent {Higher of (a) or (b)}	1,50,000
(d) Rent Received/Receivable (10,000 x 9.5)	95,000
If there was no vacancy, in that case rent received/receivable would have been `1,05,000 and it was still less than expected rent, therefore GAV shall be expected rent	
GAV	1,50,000

Less: Municipal taxes	11,000.00
Net Annual Value	1,39,000.00
Less: 30% of NAV u/s 24(a)	41,700.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	97,300.00

Computation of income under the head Business/Profession

Income before debiting any expense of the house property	2,00,000.00
Less: Municipal taxes	5,500.00
Less: Insurance premium	1,500.00
Less: Repairs charges	2,000.00
Less: Land revenue	1,000.00
Less: Ground Rent	750.00
Less: Depreciation	3,000.00
Income under the head Business/Profession	1,86,250.00

Computation of Total Income

Income under the head House Property	97,300.00
Income under the head Business/Profession	1,86,250.00
Gross Total Income	2,83,550.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	2,83,550.00

Computation of Tax Liability

Tax on `2,83,550 at slab rate	8,355.00
Less: Rebate u/s 87A (8,355 or 2,000 whichever is less)	2,000.00
Tax before education cess	6,355.00
Add: Education cess @ 2%	127.10
Add: SHEC @ 1%	63.55
Tax Liability	6,545.65
Rounded off u/s 288B	6,550.00

Illustration 17: Mr. Akshat Jain has let out one house alongwith generator facility and has charged a sum of `25,000 p.m. as rent, out of which `3,000 p.m. is attributable to the generator. He has paid `2,300 and the tenant has paid `900 towards municipal taxes. The interest on the capital borrowed for construction of the house is `7,000. Mr. Akshat Jain has paid repair charge of the generator `3,400, fuel charges `5,600 and operator's salary `300 p.m.

Compute the tax liability of Mr. Akshat Jain for assessment year 2014-15.

Solution:

Computation of income under the head House Property

	`
Gross Annual Value (22,000 x 12)	2,64,000.00
Less: Municipal Taxes	2,300.00
Net Annual Value	2,61,700.00
Less: 30% of NAV u/s 24(a)	78,510.00
Less: Interest on capital borrowed u/s 24(b)	7,000.00
Income under the head House Property	1,76,190.00

Computation of income under the head Other Sources

Income from generator (3,000 x 12)	36,000.00
Less: Repair charges	3,400.00
Less: Fuel charges	5,600.00
Less: Operator Salary (300 x 12)	3,600.00
Income under the head Other Sources	23,400.00

Computation of Total Income

Income under the head House Property	1,76,190.00
Income under the head Other Sources	23,400.00
Gross Total Income	1,99,590.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,99,590.00
Tax Liability	Nil

Illustration 18: Mr. Sidhant Goel has let out his house to State Bank @ `20,000 p.m. The bank has increased the rent on 1st July, 2013 to `27,000 p.m. retrospectively w.e.f. 01.11.2012. The assessee has paid municipal taxes of `7,000 during the previous year 2013-14.

Compute income under the head House Property for assessment year 2014-15.

Solution:

Computation of income under the head House Property	`	`
Gross Annual Value (27,000 x 12)		3,24,000
Less: Municipal Taxes		7,000
Net Annual Value		3,17,000
Less: 30% of NAV u/s 24(a)		95,100
Less: Interest on capital borrowed u/s 24(b)		Nil
		2,21,900
Add: Arrears of rent (Sec 25B) (7,000 x 5)	35,000	
Less: 30% of `35,000	10,500	24,500
Income under the House Property		2,46,400

PRACTICE PROBLEMS

TOTAL PROBLEMS 25

Problem 1:

Mr. X has let out one building @ ` 90,000 p.m. and fair rent is ` 80,000 p.m. standard rent ` 1,00,000 p.m. Municipal valuation ` 81,000 p.m., Municipal Tax paid ` 70,000 p.a., Interest on loan for construction of house property ` 82,000.

He is engaged in a business and is registered under DVAT and he purchased goods for ` 15,00,000 and paid DVAT @12.5% and the goods were sold in Delhi @ profit of 20% on sale price and output Delhi VAT is 12.5%

Compute his tax liability for assessment year 2014-15 and also show the treatment for VAT. (ignore provisions of section 44AD)

Answer: Tax Liability: `1,33,900; Net VAT Payable: `46,875

Problem 2:

X Ltd. has let out one building to ABC Ltd. @ `3,00,000 p.m. and X Ltd. has paid municipal tax of `6,00,000 p.a. X Ltd. has paid interest of `3,00,000 on loan taken for construction of building. Fair rent of the building is `2,50,000 p.m. and Municipal Valuation is `2,75,000 p.m. and Standard Rent is `2,80,000 p.m.

Compute Income Tax Liability for assessment year 2014-15.

Answer: Income Tax Liability: `5,56,200

Problem 3:

XYZ Ltd. is registered under Central Excise Act / Delhi Value Added Tax Act and is engaged in manufacturing activities and the company purchased raw material for ` 300,00,000 and paid excise duty @ 10% plus EC plus SHEC Plus Central Sales Tax @ 2%.

XYZ Ltd. incurred `3,00,000 during the process of manufacturing during the year.

All the goods manufactured by the company were sold at a profit of 20% on sale price and output excise duty rate is 10% plus EC plus SHEC and output VAT rate is 12.5%.

The company has let out one building to ABC Ltd. @ `2,00,000 p.m. Fair rent is `1,80,000 p.m. and standard rent `2,20,000 p.m. The company paid municipal tax of `6,00,000 during the year.

Compute income tax Liability of XYZ Ltd. and also show tax treatment for Cenvat credit and VAT credit.

Answer: Income Tax Liability: `27,81,140

(b) Presume the goods were sold to a registered dealer in some other state and output Central sales tax was @ 2% and also raw material was purchased from Delhi and Delhi VAT was paid @ 12.5%

Answer: Income Tax Liability: `27,30,020

Problem 4.

Compute gross annual value in the following cases for the assessment year 2014-15:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	10,000	12,000	13,000	15,000
Municipal Valuation (p.m.)	11,000	10,000	8,000	17,000
Standard Rent (p.m.)	12,000	11,000	7,000	16,000
Rent received/ receivable (p.m.)	7,000	11,500	20,000	16,000
Vacancy	-	2 months	1 month	3 month
Unrealised rent	1 month	-	3 month	1 month

Answer = Gross Annual Value: Situation 1: `1,32,000; Situation 2: `1,15,000; Situation 3: `1,60,000; Situation 4: `1,92,000

Problem 5.

Mr. X has let out one house property @ `70000 per month and there is unrealised Rent of 2 months and there is vacancy of 3 month. Fair rent `60,000 per month, municipal valuation `55,000 per month and standard rent `80,000 per month. Municipal tax paid `62,000. Interest on loan for construction of the house property is `75,000.The assessee has unrealised Rent of `2,00,000 in P.Y. 2010-11 and he has recovered `1,50,000 in P.Y. 2013-14 and interest of `18,000 and he has incurred `11,000 as legal expense.

He is registered under DVAT/CST and he has purchased goods for `20,00,000 from Punjab and paid CST @ 2% and goods were sold in Delhi at a profit of 30% on sale price and DVAT is charged @ 12.5%.

Compute his tax liability for assessment year 2014-15 and show the treatment for VAT. (ignore provisions of section 44AD)

Answer: Tax Liability: `2,66,120; Net VAT Payable: `3,64,286

Problem 6.

Mr. Anil Kumar Bhaskar (non-resident) has one house with fair rent `20,000 p.m., municipal valuation `10,000 p.m., standard rent `18,000 p.m. It was let out for `12,000 p.m. but it remains vacant for 1½ months and there was unrealised rent for 2 months. Municipal taxes paid are `11,000 and interest on capital borrowed for construction of the house is `3,00,000.

Mr. Anil Kumar Bhaskar has income under the head other sources `7,00,000.

Compute his total income and tax liability for the assessment year 2014-15.

Answer = Total Income: `5,43,500; Tax Liability: `39,860

Problem 7.

Compute interest allowed under section 24(b) in the following cases for assessment year 2014-15.

Situations	**A**	**B**	**C**	**D**	**E**
Date of loan	01.07.2010	01.07.2011	01.07.2011	01.04.2012	01.03.2013
Amount of loan	5,00,000	5,00,000	5,00,000	5,00,000	5,00,000
Rate of interest	6%	6%	6%	6%	6%
Date of completion/ Date of purchase	31.03.2013	31.03.2012	01.01.2013	01.07.2013	01.04.2013
Date of repayment	01.04.2011	01.04.2014	01.01.2014	01.12.2013	Nil

Answer = Situation A: Current period interest: Nil; Prior period interest: `4,500;
Total interest allowed: `4,500
Situation B: Current period interest: `30,000; Prior period interest: Nil;
Total interest allowed: `30,000
Situation C: Current period interest: `22,500; Prior period interest: `4,500;
Total interest allowed: `27,000
Situation D: Current period interest: `20,000; Prior period interest: `6,000;
Total interest allowed: `26,000
Situation E: Current period interest: `30,000; Prior period interest: `500;
Total interest allowed: `30,500

Problem 8.

Mrs. X has taken a loan of ` 11,00,000 on 01.07.2007 at a rate of 10% per annum for construction of one house which was completed on 31.03.2009 and the house was let out at a rate of `80,000 per month w.e.f. 01.11.2012 and fair rent is `1,00,000 per month. Municipal taxes paid in previous year 2013-2014 `30,000. She has taken a fresh loan of `11,00,000 on 01.07.2012 @ 11% per annum and it was utilized to repay the original amount.

She is registered dealer under DVAT and has purchased goods for `11,00,000 which is inclusive of DVAT 12.5% and the goods were sold at a profit of 40% on sale price.

Compute her income tax liability for assessment year 2014-15 and also show the treatment of VAT. (ignore provisions of section 44AD)

Answer: Income Tax Liability: `2,42,000; Net VAT Payable: `81,482

Problem 9.

Mr. X has taken a loan on 01.07.2010 from SBI @ 11% p.a. of `15,00,000 for construction of one house which was completed on 01.11.2012 and was self occupied and municipal taxes paid in previous year 2013-2014 `32,000. He has given repayment of loan of `70,000 on 01.01.2014. He has submitted a certificate confirming the amount of interest.

He has income under the head Salary `6,00,000

Compute income tax liability for assessment year 2014-15.

Answer: Tax Liability: `16,480

Problem 10.

Mrs. X has taken a loan on 01.11.2009 from PNB @ 10% p.a. of `10,00,000 for purchase of one house which was purchased on 01.01.2010 and was self occupied and municipal taxes paid in previous year 2013-2014 `30,000. She has repaid the loan amount in annual installments of `50,000 starting from 01.01.2011. The house was vacant for 1 month in previous year 2013-14. She has submitted a certificate confirming the amount of interest.

She has short term capital gains under section 111A `10,00,000.

Compute Income Tax Liability for assessment year 2014-15.

Answer: Tax Liability: `1,10,660

Problem 11.

Mr. X is a Registered Dealer under Delhi Value Added Tax Act and he has purchased certain goods from Delhi for `22,50,000 which includes Delhi VAT @ 12.5% he sold all the goods in Delhi at a profit of 20% on sale price and output tax charged is 12.5%.

He has taken a loan of `15,00,000 from State Bank on 01.07.2011 @ 10% p.a. and the residential house was completed on 01.05.2013 and was let out w.e.f. 01.06.2013 @ 40,000 p.m. and fair rent of the house is `50,000 p.m.

He repaid half of the loan amount on 01.01.2014.

Compute his Income Tax Liability for assessment year 2014-15 and also show tax treatment for Delhi VAT. (ignore provisions of section 44AD)

Answer = Total Income: `6,01,250; Tax Liability: `51,760; VAT Payable: `62,500

Problem 12.

Mr. X (Registered Dealer) has taken a loan of `11,00,000 on 01.07.2010 @ 10% p.a. for construction of one house which was completed on 01.09.2012 and the house is self occupied during the previous year 2013-14 and Mr. X has paid municipal tax of `12,000.

The assessee has submitted a certificate confirming the amount of interest.

Mr. X is a trader and he has purchased goods for `11,00,000 and has paid VAT @ 10%. The goods were sold by him for `18,00,000 and VAT payable is @ 10%. He is eligible for VAT credit.

Other expenses incurred by him of `2,00,000.

Compute his income from business and also income from house property and also show working of VAT and compute Income Tax Liability for the assessment year 2014-15. (ignore provisions of section 44AD)

Answer: Income from Business: ` 5,00,000; Income From House Property: ` (1,48,500); Tax Liability: `13,540; Net VAT Payable: `70,000

Problem 13.

Mr. X has let out one showroom building in Pitam Pura @ 1,00,000 p.m. and has paid municipal tax `85,000 and fair rent of the house is `98,000 p.m.

He has received arrears of rent `3,00,000 relating to the previous year 2012-13.

He has also received unrealized rent of `4,00,000 of previous year 2011-12 and also interest of `20,000 on such unrealised rent and he has paid `27,000 to the advocate in connection with recovery of unrealized rent.

He is engaging in trading and has furnished informations as given below:

Raw material purchased `50,00,000 plus VAT @ 4%.

Manufacturing expenses (revenue nature) `10,00,000.

Plant & machinery acquired for `10,00,000 plus VAT @ 4% eligible for input tax credit in the year of acquisition itself. Deprecation allowed on plant and machinery is `1,50,000.

Sale price `80,00,000 plus VAT @ 4%

He has delayed payment of VAT and has paid interest of `5,000 and penalty `10,000.

Compute his income tax liability for assessment year 2014-15 and also show tax treatment for VAT under gross product variant.

Answer: Tax Liability: `8,30,850; VAT Payable: `1,20,000

Problem 14.

Mr. Aadish Talwar took a loan of ` 6,10,500 @ 7% p.a. on 01.09.2010 for construction of one house which was completed on 01.06.2013 and it was let out @ `9,000 p.m. It remained vacant for 1½ month and there is unrealised rent of `1,000. The fair rent of house is `10,000 p.m. Assessee has repaid half of the loan amount on 01.07.2012 and remaining amount on 01.02.2014. He has also paid municipal tax of `3,000. His income from salary `2,65,000.

Compute his total income and tax liability for the assessment year 2014-15.

Answer = Total Income: `2,96,220; Tax Liability: `7,850

Problem 15.

Mr. Shashank Jain has let out one house @ `25,000 p.m., but this house was vacated on 01.11.2013. The house was self occupied w.e.f. 01.01.2014. Fair rent of this house is `30,000 p.m., municipal valuation is `27,000 p.m. and standard rent is `28,000 p.m. The assessee has paid municipal taxes @ 10% of municipal valuation. Interest on capital borrowed is `42,000. Land revenue paid by the assessee is `11,000 and ground rent paid by him is `3,000. The assessee has taken a loan for payment of municipal tax and interest paid on loan is `500.

Compute his income under the head house property and tax liability for assessment year 2014-15.

Answer = Income under the head House Property: `1,70,520; Tax Liability: Nil

Problem 16.

Mr. Mayank Garg has two houses one of which is self occupied throughout the year. Its fair rent is `10,000 p.m., municipal valuation `11,000 p.m. and standard rent is `10,500 p.m. Municipal taxes paid are `6,000 and interest on capital borrowed is `41,000. The assessee has taken the loan for construction of the house on 01.04.1998.

Second house is self occupied for 4 months and let out for 8 months @ of `45,000 p.m. Its fair rent is `20,000 p.m., municipal valuation is `18,000 p.m. and standard rent `15,000 p.m. Municipal taxes paid are `20,000 and interest on capital borrowed is `45,000. The assessee has taken the loan for construction of the house on 01.04.1998.

Compute his income under the head house property for the assessment year 2014-15.

Answer = Income under the head House Property: ` 1,63,000

Problem 17.

Mr. Yuvraj Singh has 2 houses. First is self occupied with fair rent `20,000 p.a., municipal valuation is `55,000 p.a.. Fair rent as per Rent Control Act is `50,000 p.a.. However the house remains vacant for 2 months Architect has issued completion certificate on 01.07.2011. Mr. Yuvraj Singh has taken loan for addition to house `3,50,000 on 01.04.2013 @ 13% p.a. The loan was repaid on 01.03.2014 and assessee has submitted a certificate from the person from whom he has taken the loan certifying that the amount of interest claimed by Mr. Yuvraj Singh is correct. In the earlier years, the house was let out and the assessee has recovered unrealised rent of `2,000 in the previous year 2013-14. The assessee has also incurred legal expenses of `350.

The second house is also self-occupied. However its similar building rent is `64,000 p.a. and rent determined by municipality for charging house tax is `66,000 p.a. Its standard rent is `6,000 p.m. municipal tax payable are `5,000.

He has long term capital gains `20,00,000.

Compute his income tax liability for Assessment Year 2014-15.

Answer = Income Tax Liability: `3,69,830

Problem 18.

Mr. Shivam Sharma occupied two flats for his residential purposes, particulars of which are as follows:

Particulars	**Flat I** (in `)	**Flat II** (in `)
Municipal Valuation	95,000 p.a.	50,000 p.a.
Fair Rent	1,25,000 p.a.	45,000 p.a.
Fair Rent under Rent Control Act	85,000 p.a.	Not available
Municipal taxes paid	10%	10%
Fire Insurance paid	1,500	650
Ground rent due	700	900
Land revenue paid	600	800
Interest payable on capital borrowed for purchase of flat	45,000	Nil

Income of Mr. Shivam Sharma from his proprietary business–warehousing corporation is `7,00,000. Determine the total income and tax liability for the assessment year 2014-15 on the assumption that he contributes `70,000 towards public provident fund account, you are informed that Mr. Shivam Sharma could not occupy flat for 2 months commencing from December 1st, 2013 and that he has attained the age of 82 on 23.08.2013.

Answer = Total Income: `6,31,500; Tax Liability: `27,090

Problem 19.

Mr. Prateek Singhal and Mr. Yashpal Singh constructed their houses on a piece of land purchased by them at New Delhi. The built up area of each house was 1,000 sq. ft. ground floor and an equal area at the first floor.

Mr. Prateek Singhal started construction of the house on 01.04.2012 and completed it on 31.03.2013. Mr. Prateek Singhal occupied the entire house on 01.04.2013. Mr. Prateek Singhal has availed a housing loan of `25 lakhs @ 12% p.a. on 01.04.2012 and has also submitted a certificate from the lender certifying the amount of interest.

Mr. Yashpal Singh started construction on 01.04.2012 and completed it on 30.06.2013. Mr. Yashpal Singh occupied the ground floor on 01.07.2013 and let out the first floor for a rent of `20,000 per month. However, the tenant vacated the house on 31.12.2013 and Mr. Yashpal Singh occupied the entire house during the period 01.01.2014 to 31.03.2014. Mr. Yashpal Singh has availed a housing loan of `15 lakhs @ 10% p.a. on 01.07.2012 and has also submitted a certificate from the lender certifying the amount of interest.

Following are the other information:

		`
(i) Fair rental value of each unit (Ground floor / first floor)		1,20,000 Per annum
(ii) Municipal value of each unit (Ground floor / first floor)		92,000 Per annum
(iii) Municipal taxes paid by	Prateek Singhal - 10,000	
	Yashpal Singh - 10,000	
(iv) Repair and maintenance charges paid by	Prateek Singhal - 30,000	
	Yashpal Singh - 32,000	

No repayment was made by either of them till 31.03.2014. Compute income from house property for Prateek Singhal and Yashpal Singh for the previous year 2013-14 (assessment year 2014-15).

Answer = Prateek Singhal: ` (1,50,000); Yashpal Singh: ` (92,000)

Problem 20.

Mrs. Kavita is the owner of a house property. She borrowed `60,000 from life insurance corporation of India on 1st September 2007 @ 15% p.a. for the construction of this house. The construction was completed on 31.03.2009. Since then the house is under her self-occupation. On 1st June 2013 the house was let out @ `3,000 p.m. The tenant vacated the house on 1st August 2013. She occupied the house for self-occupancy. The house is again let out @ `3,500 p.m. from 1st October 2013.

Other particulars of the house for the previous year 2013-14.

	`
Municipal Valuation	22,000 p.a.
Municipal taxes disputed, hence not paid	2,200 p.a.
Ground rent for the previous year 2013-14 outstanding	3,200
Insurance premium paid	1,200
Refund of first loan instalment to LIC on 01.10.2013	15,000

Compute the income from house property for assessment year 2014-15.

Answer = Income under the head House Property: `11,025

Problem 21.

Bhupesh owns a residential house property. It has two identical units—unit I and unit II. Unit I is self–occupied by Bhupesh and his family members, unit II is let out (rent being `7,500 per month, this unit remained vacant for one month during which it was self-occupied). Municipal value of the property is `1,30,000. Standard rent is `1,40,000 and fair rent is `1,53,000. Municipal taxes is imposed @ 12% (on municipal value) which is paid by Bhupesh. Other expenses for the previous year 2013-14 being repairs `5,100 and insurance `6,300.

Bhupesh borrowed `9,00,000 on 01.07.2010 from LIC @ 12% p.a. to construct the property. Construction of the house was completed on 30.06.2012. The entire loan is still unpaid.

Compute the total income and tax liability of Mr. Bhupesh for the assessment year 2014-15 on the assumption that income of Bhupesh from other sources is `2,90,000.

Answer = Total Income: `2,39,390; Tax Liability: `2,000

Problem 22.

Dinesh has a house property situated in Mumbai which has two units. Unit I has a floor area of 70% whereas the unit II has a floor area of 30%. Both the units were self-occupied by the assessee. As the assessee was allowed a rent free accommodation by his employer w.e.f. 01.04.2013, he vacated both of the units and let out unit I at a rent of `13,000 p.m. and unit II for `5,000 p.m. unit I remained vacant for 1½ months whereas unit II was vacant for one month. Other particulars of the house property are asunder:

	`
Municipal Valuation	1,55,000
Fair Rent	1,75,000
Standard Rent	1,65,000
Municipal taxes paid	35,000
Ground rent due	15,000

Compute income from house property for the assessment year 2014-15.

Answer = Income under the head House Property: `1,09,550

Problem 23.

Saurabh is the owner of a residential house whose construction was completed on 31.08.2009. It has been let out from 01.01.2010 for residential purposes. Its particulars for the financial year 2013-14 are given below:

		`
(i)	Municipal Valuation (p.a.)	68,000
(ii)	Expected Fair Rent (p.a.)	75,000
(iii)	Standard Rent under the Rent Control Act (p.m.)	7,200
(iv)	Actual Rent (p.m.)	7,200
(v)	Municipal taxes paid (including `7,000 paid by tenant)	21,000
(vi)	Water/sewerage benefit tax, levied by State Government paid under protest	5,100
(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 source (non-resident has agreed to pay income-tax on such interest direct to the Government)	20,000
(viii)	Stamp duty and registration charges incurred in respect of the lease agreement of the house	2,500
(ix)	The unrealised rent for previous year 2012-13 amounts to `42,000. There is recovery of `22,000 from the defaulting tenant. Legal charges for the recovery of rent	4,500

Compute income from house property for the assessment year 2014-15.

Answer = Income under the head House Property: `72,680

Problem 24.

Mr. Surender Jaswal has three houses with details given below:

House I

It is self occupied with fair rent of `20,000, municipal valuation `55,000, rent as per Rent Control Act is `50,000. However the house remains vacant for 2 months. Architect has issued completion certificate on 01.07.2011. Loan taken for addition to the house `5,00,000 on 01.04.2013 @ 13% p.a. and loan amount was repaid on 01.03.2014. The assessee has submitted a certificate from the person from whom he has taken the loan certifying the amount of the interest claimed.

In the earlier years the house was let out and the assessee has recovered unrealised rent of `2,000 in the previous year 2013-14 and interest on such unrealised rent also amounting to `250. However the assessee has incurred legal expenses of `350.

House II

It is self occupied. Its similar building rent is `64,000 and rent determined by municipality for charging house tax is `66,000 and its fair rent under Rent Control Act (p.m.) is `6,000. Municipal taxes payable `5,000.

The assessee has also recovered unrealised rent of `2,000 in the previous year 2012-13 but the expenses thereon are paid in the year 2013-14 amounting to `200.

House III

It is let out @ `50,000 p.m. and fair rent is `60,000 p.m. Water tax and house tax paid to municipality is `11,000. Insurance premium paid `6,500 and expenses on repairs `3,000.

Interest on capital borrowed for purchase of house is `55,000.

He has long term capital gains of `3,50,000.

Compute his total income and tax liability for assessment year 2014-15.

Answer = Total Income: `7,68,970; Tax Liability: `94,650

Problem 25.

Determine the income head under which the following incomes shall be taxable.

(i) Mr. Atul Gandhi has income from letting out house property.
(ii) Mr. Mandeep Singh has sold one house property.
(iii) ABC Ltd. has 500 flats for the purpose of sale/purchase.
(iv) Mr. Tushar Jain has let out an open land.
(v) ABC Ltd. has 500 flats for the purpose of letting out.
(vi) ABC Ltd. has constructed flats within its premises for letting out to the employees.
(vii) Mr. Amit Ahuja is engaged in the business of providing paying guest accommodation in his own building.
(viii) Mr. Vinod Jain is engaged in the business of warehousing.
(ix) Mr. Kuldeep has sublet one house property.
(x) Mr. Kartik Guglani has let out his hotel building.

Answer = (i) House Property; (ii) Capital Gains; (iii) Business/Profession; (iv) Other Sources; (v) House Property; (vi) Business/Profession; (vii) Business/Profession; (viii) Business/Profession; (ix) Other Sources; (x) House Property

SOLUTIONS

TO

PRACTICE PROBLEMS

<u>Solution 1:</u>

		`
Computation of income under the head House Property		
Gross Annual Value		10,80,000

Working Note:	`
(a) Fair Rent (` 80,000 x 12)	9,60,000
(b) Municipal Valuation (` 81,000 x 12)	9,72,000
(c) Higher of (a) or (b)	9,72,000
(d) Standard Rent (` 1,00,000 x 12)	12,00,000
(e) Expected Rent {Lower of (c) or (d)}	9,72,000
(f) Rent received (`90,000 x 12)	10,80,000
GAV = Higher of (e) or (f)	10,80,000

Less: Municipal Tax	70,000
Net Annual Value	10,10,000
Less: 30% of NAV u/s 24(a)	3,03,000
Less: Interest on capital borrowed u/s 24(b)	82,000
Income under the head House Property	6,25,000

Computation of income under the head Business/Profession

Income from business (` 15,00,000 x 20/80)	3,75,000
Income under the head Business/Profession	3,75,000
Income under the head House Property	6,25,000
Gross Total Income	10,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	10,00,000

Computation of Tax Liability

Tax on `10,00,000 at slab rate	1,30,000	
Add: Education cess @ 2%		2,600
Add: SHEC @ 1%		1,300
Total tax liability		1,33,900

Calculation of VAT

Goods purchased	15,00,000
DVAT @ 12.5%	1,87,500
Purchase price	15,00,000
Profit (` 15,00,000 x 20/80)	3,75,000
Sale Price	18,75,000
Output Tax 12.5%	2,34,375

Calculation of Net VAT

Output VAT	2,34,375
Less: Input VAT Credit	1,87,500
Net VAT payable	46,875

<u>Solution 2:</u>

		`
Computation of income under the head House Property		
Gross Annual Value		36,00,000.00

Working Note:	`

(a) Fair Rent (2,50,000 x 12)	30,00,000
(b) Municipal Value (2,75,000 x 12)	33,00,000
(c) Higher of (a) or (b)	33,00,000
(d) Standard Rent (2,80,000 x 12)	33,60,000
(e) Expected Rent {Lower of (c) or (d)}	33,00,000
(f) Rent received /receivable (3,00,000 x 12)	36,00,000
GAV shall be higher of (e) or (f)	36,00,000

Less: Municipal Tax	6,00,000.00
Net Annual Value	30,00,000.00
Less: 30% of NAV u/s 24(a)	9,00,000.00
Less: Interest on capital borrowed u/s 24(b)	3,00,000.00
Income under the head House Property	18,00,000.00
Gross Total Income	18,00,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	18,00,000.00

Computation of Tax Liability

Tax on `18,00,000 @ 30%	5,40,000.00
Add: Education cess @ 2%	10,800.00
Add: SHEC @ 1%	5,400.00
Tax Liability	5,56,200.00

<u>Solution 3.</u>

	`
Purchase Price	300,00,000.00
Add: Excise Duty @ 10%	30,00,000.00
Add: EC @ 2%	60,000.00
Add: SHEC @ 1%	30,000.00
	330,90,000.00
Add: Central Sales Tax @ 2%	6,61,800.00
	337,51,800.00

Since, Profit is 20% of sale price,

Cost of (300,00,000 + 6,61,800 + 3,00,000) `309,61,800 is 80% of Sale Price

Hence, Sale Price shall be 309,61,800 x 100% / 80% = `387,02,250

Goods sold	387,02,250.00
Add: Excise Duty @ 10%	38,70,225.00
Add EC @ 2%	77,404.50
Add :SHEC @ 1%	38,702.25
	426,88,581.75
Add: VAT @ 12.5%	53,36,072.72
Selling Price	480,24,654.47

Net Tax Payable

	Excise Duty	EC @ 2%	SHEC @ 1%	DVAT
Output Tax	38,70,225	77,404.50	38,702.25	53,36,072.72
Input Tax	30,00,000	60,000.00	30,000.00	Nil
Net Tax Payable	8,70,225	17,404.50	8,702.25	53,36,072.72
Rounded off	8,70,225	17,405.00	8,702.00	53,36,073.00

Computation of income under the head House Property

Gross Annual Value (2,00,000 x 12)	24,00,000.00

Working Note:	`
(a) Fair Rent (1,80,000 x 12)	21,60,000
(b) Standard Rent (2,20,000 x 12)	26,40,000
(c) Expected Rent (lower of (a) or (b)	21,60,000
(d) Rent Received/Receivable (2,00,000 x 12)	24,00,000
GAV = Higher of (c) or (d)	24,00,000

Less: Municipal Tax	6,00,000.00
Net Annual Value	18,00,000.00
Less: 30% of NAV u/s 24(a)	5,40,000.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	12,60,000.00
Income under the head Business/Profession (387,02,250 – 309,61,800)	77,40,450.00
Gross Total Income	90,00,450.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	90,00,450.00

Computation of Tax Liability

Tax on `90,00,450 @ 30%	27,00,135.00
Add: Education cess @ 2%	54,002.70
Add: SHEC @ 1%	27,001.35
Tax Liability	27,81,139.05
Rounded off u/s 288B	27,81,140.00

<u>Solution 3(b):</u>

	`
Purchase Price	300,00,000.00
Add: Excise Duty @ 10%	30,00,000.00
Add: EC @ 2%	60,000.00
Add: SHEC @ 1%	30,000.00
	330,90,000.00
Add: VAT @ 12.5%	41,36,250.00
	372,26,250.00

Since, Profit is 20% of sale price,

Cost of (300,00,000 + 3,00,000) `303,00,000 is 80% of Sale Price

Hence, Sale Price shall be 303,00,000 x 100% / 80% = `378,75,000

Goods sold	378,75,000.00
Add: Excise Duty @ 10%	37,87,500.00
Add EC @ 2%	75,750.00
Add :SHEC @ 1%	37,875.00
	417,76,125.00
Add: CST @ 2%	8,35,522.50
Selling Price	426,11,647.50

Net Tax Payable

	Excise Duty	EC @ 2%	SHEC @ 1%	DVAT	CST
Output Tax	37,87,500	75,750	37,875	---	8,35,522.50
Input Tax	30,00,000	60,000	30,000	41,36,250	---
Net Tax Payable	7,87,500	15,750	7,875	---	Nil

Balance VAT credit	---	---	---	33,00,727.50

(Tax credit for DVAT can be set off from output CST. 41,36,250 – 8,35,522.50 = 33,00,727.50)

Computation of income under the head House Property

Gross Annual Value (2,00,000 x 12)	24,00,000.00

Working Note:	`
(a) Fair Rent (1,80,000 x 12)	21,60,000
(b) Standard Rent (2,20,000 x 12)	26,40,000
(c) Expected Rent (lower of (a) or (b))	21,60,000
(d) Rent Received/Receivable (2,00,000 x 12)	24,00,000
GAV = Higher of (c) or (d)	24,00,000

Less: Municipal Tax	6,00,000.00
Net Annual Value	18,00,000.00
Less: 30% of NAV u/s 24(a)	5,40,000.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	12,60,000.00
Income under the head Business/Profession (378,75,000 – 303,00,000)	75,75,000.00
Gross Total Income	88,35,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	88,35,000.00

Computation of Tax Liability

Tax on `88,35,000 @ 30%	26,50,500.00
Add: Education cess @ 2%	53,010.00
Add: SHEC @ 1%	26,505.00
Tax Liability	27,30,015.00
Rounded off u/s 288B	27,30,020.00

<u>Solution 4:</u>

<u>Situation 1</u>

Computation of Gross Annual Value

	`
(a) Fair Rent (10,000 x 12)	1,20,000
(b) Municipal Valuation (11,000 x 12)	1,32,000
(c) Higher of (a) or (b)	1,32,000
(d) Standard Rent (12,000 x 12)	1,44,000
(e) Expected Rent {Lower of (c) or (d)}	1,32,000
(f) Rent Received/Receivable (7,000 x 11)	77,000
GAV = Higher of (e) or (f)	1,32,000
Gross Annual Value	1,32,000

<u>Situation 2</u>

`

Computation of Gross Annual Value

(a) Fair Rent (12,000 x 12)	1,44,000
(b) Municipal Valuation (10,000 x 12)	1,20,000
(c) Higher of (a) or (b)	1,44,000
(d) Standard Rent (11,000 x 12)	1,32,000
(e) Expected Rent {Lower of (c) or (d)}	1,32,000
(f) Rent Received/Receivable (11,500 x 10)	1,15,000

In this case, if there was no vacancy, rent received/receivable would have been `1,38,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,15,000

<u>Situation 3</u>

Computation of Gross Annual Value

	`
(a) Fair Rent (13,000 x 12)	1,56,000
(b) Municipal Valuation (8,000 x 12)	96,000
(c) Higher of (a) or (b)	1,56,000
(d) Standard Rent (7,000 x 12)	84,000
(e) Expected Rent {Lower of (c) or (d)}	84,000
(f) Rent Received/Receivable (20,000 x 8)	1,60,000

In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R

Gross Annual Value	1,60,000

<u>Situation 4</u>

Computation of Gross Annual Value

	`
(a) Fair Rent (15,000 x 12)	1,80,000
(b) Municipal Valuation (17,000 x 12)	2,04,000
(c) Higher of (a) or (b)	2,04,000
(d) Standard Rent (16,000 x 12)	1,92,000
(e) Expected Rent {Lower of (c) or (d)}	1,92,000
(f) Rent Received/Receivable (16,000 x 8)	1,28,000

If there was no vacancy, in that case rent received/receivable would have been `1,76,000 and it was still less than expected rent, therefore GAV shall be expected rent.

Gross Annual Value	1,92,000

<u>Solution 5:</u> `

Income under the head House Property

Gross annual value	7,20,000.00

Working Note:	`
(a) Fair rent (60,000 x 12)	7,20,000
(b) Municipal valuation (55,000 x 12)	6,60,000
(c) Higher of (a) or (b)	7,20,000
(d) Standard Rent (80,000 x 12)	9,60,000
(e) Expected Rent {Lower of (c) or (d)}	7,20,000
(f) Rent Received (70,000 x 7)	4,90,000

If there was no vacancy , then Rent Receivable shall be 70,000 x 10 = 7,00,000, which is lower than the expected rent , hence the GAV shall be 7,20,000

Less: Municipal taxes paid	62,000.00
Net Annual Value	6,58,000.00
Less: 30% of NAV u/s 24(a)	1,97,400.00
Less: Interest on capital borrowed u/s 24(b)	75,000.00
	3,85,600.00
Unrealised rent recovered of 2009-10 section 25AA	1,50,000.00
	5,35,600.00
Income under the head Business and Profession	
Sales (20,40,000 / 70%)	29,14,286.00
Purchases (20,00,000 + 40,000)	20,40,000.00
Profit	8,74,286.00
Income under the head House Property	5,35,600.00
Income under the head Business/Profession	8,74,286.00
Income from other sources	18,000.00
Gross Total Income	14,27,886.00
Less: Deduction u/s 80C to 80U	NIL
Total Income	14,27,886.00
Rounded off u/s 288A	14,27,890.00

Computation of Tax Liability

Tax on `14,27,890 at slab rate	2,58,367.00
Add: EC @ 2%	5,167.34
Add: SHEC @ 1%	2,583.67
Tax Liability	2,66,118.01
Rounded off u/s 288B	2,66,120.00

Treatment of DVAT

Output VAT (29,14,286 x 12.5%)	3,64,285.75
Input tax credit	Nil
VAT Payable	3,64,285.75
Rounded off	3,64,286.00

<u>Solution 6:</u>

	`
Gross Annual Value	2,16,000.00

Working Note:	`
(a) Fair Rent (20,000 x 12)	2,40,000
(b) Municipal Valuation (10,000 x 12)	1,20,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent (18,000 x 12)	2,16,000

(e) Expected Rent {Lower of (c) or (d)}	2,16,000
(f) Rent Receivable = (12,000 x 8.5)	1,02,000

If there was no vacancy, in that case rent received/receivable would have been `1,20,000 and it was still less than expected rent, therefore GAV shall be expected rent.

GAV	2,16,000
Less: Municipal Tax	11,000.00
Net Annual Value	2,05,000.00
Less: 30% of NAV u/s 24(a)	61,500.00
Less: Interest on capital borrowed u/s 24(b)	3,00,000.00
Loss under the head House Property	(1,56,500.00)
Income under the head Other Sources	7,00,000.00
Gross Total Income	5,43,500.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	5,43,500.00

Computation of Tax Liability

Tax on `5,43,500 at slab rate	38,700.00
Add: Education cess @ 2%	774.00
Add: SHEC @ 1%	387.00
Tax Liability	39,861.00
Rounded off u/s 288B	39,860.00

Solution 7:

`

Situation A

Computation of interest allowed under section 24(b)

Current period interest	Nil
Prior period interest	
From 01.07.2010 to 31.03.2012	
(but interest will be calculated upto 31.03.2011 because the loan has been repaid on 01.04.2011)	
5,00,000 x 6% x 9/12 = 22,500	
Instalment = 22,500/5 = 4,500	
Total interest allowed	4,500

Situation B

Computation of interest allowed under section 24(b)

Current period interest	
From 01.04.2013 to 31.03.2014	
5,00,000 x 6% = 30,000	
Prior period interest	
Since there is no prior period hence interest is nil	
Total interest allowed	30,000

Situation C

Computation of interest allowed under section 24(b)

Current period interest

From 01.04.2013 to 31.12.2013

5,00,000 x 6% x 9/12 = 22,500

Prior period interest

From 01.07.2011 to 31.03.2012

5,00,000 x 6% x 9/12 = 22,500

Instalment = 22,500/5 = 4,500
Total interest allowed [22,500 + 4,500] 27,000

Situation D

Computation of interest allowed under section 24(b)

Current period interest
From 01.04.2013 to 30.11.2013
5,00,000 x 6% x 8/12 = 20,000
Prior period interest
From 01.04.2012 to 31.03.2013
5,00,000 x 6% = 30,000
Instalment = 30,000/5 = 6,000
Total interest allowed [20,000 + 6,000] 26,000

Situation E

Computation of interest allowed under section 24(b)

Current period interest
From 01.04.2013 to 31.03.2014
5,00,000 x 6% = 30,000
prior period interest
From 01.03.2013 to 31.03.2013
5,00,000 x 6% x 1/12 = 2,500
Instalment = 2,500/5 = 500
Total interest allowed [30,000 + 500] 30,500

Solution 8:

	`
Income under the head House Property	
Gross annual value	12,00,000.00

Working Note:	`
Fair rent (1,00,000 x 12)	12,00,000
Rent received (80,000 x 12)	9,60,000
Higher shall be the GAV i.e.	12,00,000

Less: Municipal taxes paid	30,000.00
Net Annual Value	11,70,000.00
Less: 30% of NAV u/s 24(a)	3,51,000.00
Less: Interest on capital borrowed u/s 24(b)	1,21,000.00

Working Note:	
Prior period interest	Nil
Current year interest 11,00,000 x 11% = 1,21,000	

Income under the head House Property	6,98,000.00
Income under the head Business/Profession	
Sales (9,77,778/60%)	16,29,630.00
Purchases (11,00,000/112.5%)	9,77,778.00
Profit	6,51,852.00
Gross Total Income (6,98,000 + 6,51,852)	13,49,852.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	13,49,852.00
Rounded off u/s 288A	13,49,850.00

Computation of Tax Liability

Tax on `13,49,850 at slab rate	2,34,955.00
Add: Education cess @ 2%	4,699.10
Add: SHEC @ 1%	2,349.55
Tax Liability	2,42,003.65
Rounded off u/s 288B	2,42,000.00

Treatment of DVAT

Output VAT (16,29,630 x 12.5%)	2,03,704.00
Less: Input tax credit (9,77,778 x 12.5%)	1,22,222.00
VAT Payable	81,482.00

<u>Solution 9:</u>

Income under the head House Property	`
Gross Annual Value	NIL
Less: Municipal taxes paid	NIL
Net Annual Value	NIL
Less: 30% of NAV u/s 24(a)	NIL
Less: Interest on capital borrowed u/s 24(b)	1,50,000.00

Working Note:	`
<u>Prior period interest</u>	
<u>01.07.2010 to 31.03.2012</u>	
15, 00,000 x 11 % x 21/12= 2,88,750	
Installment 2,88,750/5 =	57,750
<u>Current year interest</u>	
15,00,000 x 11% x 9/12 = 1,23,750	
14,30,000 x 11% x 3/12 = 39,325	1,63,075
	2,20,825
Subject to maximum of 1,50,000.	

Loss under the head House Property	(1,50,000.00)
Income under the head Salary	6,00,000.00
Gross Total Income	4,50,000.00
Less: Deduction u/s 80C	70,000.00
Total Income	3,80,000.00

Computation of Tax Liability

Tax on `3,80,000 at slab rate	18,000.00
Less: Rebate u/s 87A (18,000 or 2,000 whichever is less)	2,000.00
Tax before Education cess	16,000.00
Add: Education cess @ 2%	320.00
Add: SHEC @ 1%	160.00
Tax Liability	16,480.00

<u>Solution 10:</u>

Income under the head House Property	`
Gross Annual Value	NIL
Less: Municipal taxes paid	NIL
Net Annual Value	NIL
Less: 30% of NAV u/s 24(a)	NIL
Less : Interest on capital borrowed u/s 24(b)	88,750.00

Working Note:	`
Prior period interest	Nil

Current year interest		
From 01.04.2013 to 31.03.2014		
8,50,000 x 10% x 9/12 = 63,750		
8,00,000 x 10% x 3/12 = 20,000	83,750	
Loss under the head House Property		(83,750.00)
Income under the head capital gains (STCG u/s 111A)		10,00,000.00
Gross Total Income		9,16,250.00
Less: Deduction u/s 80C		Nil
Total Income		9,16,250.00

Computation of Tax Liability

Tax on `7,16,250(`9,16,250 – 2,00,000) @ 15%	1,07,437.50
Add: Education cess @ 2%	2,148.75
Add: SHEC @ 1%	1,074.38
Tax Liability	1,10,660.63
Rounded off u/s 288B	1,10,660.00

<u>Solution 11:</u>

Purchase Price	22,50,000.00
VAT (22,50,000 x 12.5% / 112.5%)	2,50,000.00
Purchase price net of Tax	20,00,000.00
Input tax credit	2,50,000.00

Since, Profit is 20% of sale price,

Cost of `20,00,000 is 80% of Sale Price

Hence, Sale Price shall be 20,00,000 x 100% / 80% = `25,00,000

Goods sold in Delhi	25,00,000.00
Add: VAT @ 12.5%	3,12,500.00
Selling Price	28,12,500.00
Output tax	3,12,500.00
Less: Input tax credit	2,50,000.00
Net VAT Payable	62,500.00

Computation of income under the head House Property

Gross Annual Value		5,50,000.00
Working Note:	`	
(a) Fair Rent (50,000 x 11)	5,50,000	
(b) Expected Rent	5,50,000	
(c) Rent Received/Receivable (40,000 x 10)	4,00,000	
If there was no vacancy, in that case rent received/receivable would have been `4,40,000 and it was still less than expected rent, therefore GAV shall be expected rent.		
GAV	5,50,000	
Less: Municipal Tax		Nil
Net Annual Value		5,50,000.00
Less: 30% of NAV u/s 24(a)		1,65,000.00
Less: Interest on capital borrowed u/s 24(b)		1,83,750.00

Working Note:

Prior period interest

<u>From 01.07.2011 to 31.03.2013</u>

= (15,00,000 x 10% x 1) + (15,00,000 x 10% x 9/12)

= `1,50,000 + `1,12,500 = `2,62,500
Installment = `2,62,500/5 = `52,500
Current period interest
From 01.04.2013 to 31.03.2014
= (15,00,000 x 10% x 9/12) + (7,50,000 x 10% x 3/12)
= `1,12,500 + `18,750 = `1,31,250
Total interest on capital borrowed
= `52,500 + ` 1,31,250 = `1,83,750

Income under the head House Property	2,01,250.00
Income under the head Business/Profession (25,00,000 – 20,00,000)	5,00,000.00
Gross Total Income	7,01,250.00
Less: Deduction u/s 80C {Repayment of housing loan}	1,00,000.00
Total Income	6,01,250.00

Computation of Tax Liability

Tax on `6,01,250 at slab rate	50,250.00
Add: Education cess @ 2%	1,005.00
Add: SHEC @ 1%	502.50
Tax Liability	51,757.50
Rounded off u/s 288B	51,760.00

Solution 12:

Computation of VAT payable

	`
Output tax (18,00,000 x 10%)	1,80,000.00
Less: Tax credit (11,00,000 x 10%)	1,10,000.00
Net VAT payable	70,000.00

Computation of income under the head House Property

Net Annual Value	Nil
Less: Interest on capital borrowed u/s 24(b)	1,48,500.00

Working Note:	`
Current period interest	
01.04.2013 to 31.03.2014	
11,00,000 x 10% =	1,10,000
Prior period interest	
From 01.07.2010 to 31.03.2012	
11,00,000 x 10% x 21/12 =	1,92,500
Instalment = 1,92,500/5 =	38,500
Total interest = 1,10,000 + 38,500 =	1,48,500

Loss under the head House Property	(1,48,500.00)

Computation of income under the head Business/Profession

Sale	18,00,000.00
Less: Cost of goods sold	11,00,000.00
Less: Expenses	2,00,000.00
Income under the head Business Profession	5,00,000.00
Less: Loss under the head House Property	(1,48,500.00)
Gross Total Income	3,51,500.00
Less: Deduction u/s 80C to 80U	Nil

Total Income	3,51,500.00

Computation of Tax Liability

Tax on `3,51,500 at slab rate	15,150.00
Less: Rebate u/s 87A (15,150 or 2,000 whichever is less)	2,000.00
Tax before Education cess	13,150.00
Add: EC @ 2%	263.00
Add: SHEC @ 1%	131.50
Tax liability	13,544.50
Rounded off u/s 288B	13,540.00

<u>Solution 13:</u>

	`	`
Gross Annual Value		12,00,000.00

Working Note:	`
(a) Fair rent (98,000 x 12)	11,76,000
(b) Rent receivable (1,00,000 x 12)	12,00,000
GAV {Higher of (a) or (b)}	12,00,000

Less: Municipal Taxes		85,000.00
Net Annual Value		11,15,000.00
Less: 30% of NAV u/s 24(a)		3,34,500.00
Less: Interest on capital borrowed u/s 24(b)		Nil
		7,80,500.00
Add: Arrears of rent (Sec 25B)	3,00,000	
Less: 30% of `3,00,000	90,000	2,10,000.00
		9,90,500.00
Add: Unrealised Rent		4,00,000.00
Income under the head House Property		13,90,500.00
Income under the head Other Sources		20,000.00

Computation of income under the head Business/profession

Sale price	80,00,000.00
Less: Purchase price	50,00,000.00
Less: Manufacturing expenses	10,00,000.00
Less: Depreciation on plant and machinery	1,50,000.00
Less: Interest on delayed payment of VAT	5,000.00
Income under the head Business/Profession	18,45,000.00
Gross Total Income	32,55,500.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	32,55,500.00

Computation of Tax Liability

Tax on `32,55,500 at slab rate	8,06,650.00	
Add: Education cess @ 2%		16,133.00
Add: SHEC @ 1%		8,066.50
Tax Liability		8,30,849.50
Rounded off u/s 288B		8,30,850.00

Raw material purchased	50,00,000.00
Add : VAT @ 4%	2,00,000.00
	52,00,000.00

Sale Price	80,00,000.00
Add: VAT @ 4%	3,20,000.00
	83,20,000.00

Plant and Machinery

Purchased	10,00,000.00
Add: VAT 4%	40,000.00
	10,40,000.00

Net Tax Payable

Output Tax	3,20,000.00
Less: Tax credit	2,00,000.00
Net Tax Payable	1,20,000.00

<u>Solution 14:</u>

	`
Gross Annual Value	1,00,000.00

Working Note: `

(a) Fair Rent (10,000 x 10)	1,00,000
(b) Expected Rent	1,00,000
(c) Received/Receivable = 9,000 x 8.5 = 76,500 – 1,000 =	75,500

If there was no vacancy, in that case rent received/receivable would have been `89,000 and it was still less than expected rent, therefore GAV shall be expected rent.

GAV 1,00,000

Less: Municipal taxes	3,000.00
Net Annual Value	97,000.00
Less: 30% of NAV u/s 24(a)	29,100.00
Less: Interest on capital borrowed u/s 24(b)	36,680.88

Working Note:

Current Period interest

<u>From 01.04.2013 to 31.01.2014</u>

= 3,05,250 x 7% x 10/12 = `17,806.25

Prior period interest

<u>From 01.09.2010 to 31.03.2013</u>

<u>From 01.09.2010 to 30.06.2012</u>

= 6,10,500 x 7% x 22/12 = `78,347.5

<u>From 01.07.2012 to 31.03.2013</u>

= 3,05,250 x 7% x 9/12 = `16,025.63

Total = `94,373.13

Instalment = `94,373.13/5 = `18,874.63

Total interest = `17,806.25 + `18,874.63 = `36,680.88

Income under the head House Property	31,219.12
Income under the head Salary	2,65,000.00
Gross Total Income	2,96,219.12
Less: Deductions u/s 80C	Nil
Total Income (rounded off u/s 288A)	2,96,220.00

Computation of Tax Liability

Tax on `2,96,220 at slab rate	9,622.00
Less: Rebate u/s 87A (9,622 or 2,000 whichever is less)	2,000.00
Tax before Education cess	7,622.00
Add: Education cess @ 2%	152.44

Add: SHEC @ 1%	76.22
Tax Liability	7,850.66
Rounded off u/s 288B	7,850.00

Solution 15:

	`
Gross Annual Value	3,36,000.00

Working Note:

	`
(a) Fair Rent (30,000 x 12)	3,60,000
(b) Municipal Valuation (27,000 x 12)	3,24,000
(c) Higher of (a) or (b)	3,60,000
(d) Standard Rent (28,000 x 12)	3,36,000
(e) Expected rent {Lower of (c) or (d)}	3,36,000
(f) Rent Receivable (25,000 x 7)	1,75,000

If there was no vacancy, in that case rent received/receivable would have been `2,25,000 and it was still less than expected rent, therefore GAV shall be expected rent

GAV	3,36,000

Less: Municipal Tax	32,400.00
Net Annual Value	3,03,600.00
Less: 30% of NAV u/s 24(a)	91,080.00
Less: Interest on capital borrowed u/s 24(b)	42,000.00
Income under the head House Property	1,70,520.00
Gross Total Income	1,70,520.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,70,520.00
Tax Liability	Nil

Solution 16:

	`
Income from self occupied house	
Net Annual Value	Nil
Less: 30% of NAV u/s 24(a)	Nil
Less: Interest on capital borrowed u/s 24(b)	30,000
Income from self occupied house	(30,000)
Income from partly self occupied and partly let out house	
Gross Annual Value	3,60,000

Working Note:

	`
(a) Fair Rent (20,000 x 12)	2,40,000
(b) Municipal Valuation (18,000 x 12)	2,16,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent (15,000 x 12)	1,80,000
(e) Expected Rent	1,80,000
(f) Rent Receivable (45,000 x 8)	3,60,000
GAV = Higher of (e) or (f)	3,60,000

Less: Municipal taxes	20,000
Net Annual Value	3,40,000
Less: 30% of NAV u/s 24(a)	1,02,000
Less: Interest on capital borrowed u/s 24(b)	45,000
Income from House Property	1,93,000
Income under the head House Property	1,63,000
[`1,93,000 + `(30,000)]	

Solution 17:

	`
Option I	
House I is self-occupied	
Income from house I	(30,000.00)
House II is deemed to be let out	
Gross Annual Value	66,000.00

Working Note:	`
(a) Fair Rent	64,000
(b) Municipal Valuation	66,000
(c) Higher of (a) or (b)	66,000
(d) Standard Rent (6,000 x 12)	72,000
(e) Expected rent {Lower of (c) or (d)}	66,000
GAV = Expected Rent	66,000

Less: Municipal taxes	Nil
Net Annual Value	66,000.00
Less: 30% of NAV u/s 24(a)	19,800.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house II	46,200.00
Income under option I [46,200 + (30,000)]	16,200.00

Option II	
House I is deemed to be let out	
Gross Annual Value	50,000.00

Working Note:	`
(a) Fair Rent	20,000
(b) Municipal Valuation	55,000
(c) Higher of (a) or (b)	55,000
(d) Standard Rent	50,000
(e) Expected Rent {Lower of (c) or (d)}	50,000
GAV = Expected Rent	50,000

Less: Municipal taxes	Nil
Net Annual Value	50,000.00
Less: 30% of NAV u/s 24(a)	15,000.00
Less: Interest on capital borrowed u/s 24(b)	41,708.33

Working Note:
Current period interest
From 01.04.2013 to 28.02.2014
3,50,000 x 13% x 11/12 = `41,708.33

Income from house I	(6,708.33)
House II is self occupied	
Income from house II	Nil
Income under option II	(6,708.33)
Option II is better	
Income under the head House Property	(6,708.33)
Add: Unrealised rent received	2,000.00
Loss under the head House Property	(4,708.33)
Income under the head Capital Gains (LTCG)	20,00,000.00

Gross Total Income	19,95,291.67
Less: Deduction u/s 80C	Nil
Total Income	19,95,291.67
Rounded off u/s 288A	19,95,290.00

Computation of Tax Liability

Tax on `17,95,290 (`19,95,290 – `2,00,000) @ 20%	3,59,058.00
Add: Education cess @ 2%	7,181.16
Add: SHEC @ 1%	3,590.58
Tax Liability	3,69,829.74
Rounded off u/s 288B	3,69,830.00

Solution 18:

`

Option I

Flat I is self occupied

Income	(30,000.00)

Flat II is deemed to be let out

Gross Annual Value	50,000.00

Working Note:	`
(a) Fair Rent	45,000
(b) Municipal Valuation	50,000
(c) Higher of (a) or (b)	50,000
Expected Rent	50,000
GAV = Expected Rent	50,000

Less: Municipal taxes	5,000.00
Net Annual Value	45,000.00
Less: 30% of NAV u/s 24(a)	13,500.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income	31,500.00
Income under option I [(30,000) + 31,500]	1,500.00

Option II

Flat I is deemed to be let out

Gross Annual Value	85,000.00

Working Note:	`
(a) Fair Rent	1,25,000
(b) Municipal Valuation	95,000
(c) Higher of (a) or (b)	1,25,000
(d) Standard Rent	85,000
(e) Expected Rent {Lower of (c) or (d)}	85,000
GAV = Expected Rent	85,000

Less: Municipal taxes	9,500.00
Net Annual Value	75,500.00
Less: 30% of NAV u/s 24(a)	22,650.00
Less: Interest on capital borrowed u/s 24(b)	45,000.00
Income	7,850.00

Flat II is self occupied

Income	Nil

Income under option II is `7,850
Hence Option I is better.

Computation of Total Income

Income under the head House Property	1,500.00
Income under the head Business Profession	7,00,000.00
Gross Total Income	7,01,500.00
Less: Deduction u/s 80C	70,000.00
Total Income	6,31,500.00

Computation of Tax Liability

Tax on `6,31,500 at slab rate	26,300.00
Add: Education cess @ 2%	526.00
Add: SHEC @ 1%	263.00
Tax Liability	27,089.00
Rounded off u/s 288B	27,090.00

<u>Solution 19:</u>

`

Computation of income from House Property of Mr. Prateek Singhal

Net annual value is Nil	Nil
(Since house is self – occupied)	
Less: Deduction u/s 24(b)	1,50,000
Interest paid on borrowed capital	
25,00,000 @ 12% = `3,00,000	
As per second proviso to section 24(b)	
interest deduction restricted to `1,50,000	
Loss under the head "House Property"	(1,50,000)

Computation of income from house property of Mr. Yashpal Singh

<u>Ground Floor (Self Occupied)</u>

Net Annual Value	Nil
Less: 30% of NAV u/s 24(a)	Nil
Less: Interest on capital borrowed u/s 24(b)	86,250

Working Note:
Current period interest
<u>From 01.04.2013 to 31.03.2014</u>
= 15,00,000 x 10% x 1/2 = `75,000
Prior period interest
<u>From 01.07.2012 to 31.03.2013</u>
= 15,00,000 x 10% x 9 / 12 = 1,12,500
1,12,500 allowed in 5 equal instalments
= 1,12,500 / 5 = ` 22,500 per annum
= 22,500 / 2 = `11,250
Total interest = `75,000 + ` 11,250 = `86,250

Income from house property	(86,250)

<u>First Floor (Let Out)</u>

Gross Annual Value	1,20,000

Working Note: `

(a) Fair Rent (1,20,000 x 9/12)	90,000
(b) Municipal Value (92,000 x 9/12)	69,000
(c) Higher of (a) or (b)	90,000
(d) Expected Rent	90,000
(e) Rent Received/Receivable = 20,000 x 6	1,20,000
GAV = Higher of (d) or (e)	1,20,000

Less: Municipal taxes	5,000
Net Annual Value	1,15,000
Less: 30% of NAV u/s 24(a)	34,500
Less: Interest on capital borrowed u/s 24(b)	86,250

Working Note:
Current period interest
<u>From 01.04.2013 to 31.03.2014</u>
= 15,00,000 x 10% x 1/2 = `75,000
Prior period interest
<u>From 01.07.2012 to 31.03.2013</u>
= 15,00,000 x 10% x 9 / 12 = 1,12,500
1,12,500 allowed in 5 equal instalments
= 1,12,500 / 5 = ` 22,500 per annum
= 22,500 /2 = `11,250
Total Interest = `75,000 + `11,250 = `86,250

Income from house property	(5,750)
Loss under the head "income from house property" of Mr. Yashpal Singh (Both ground floor and first floor)	(92,000)
Loss under the head house property of Mr. Yashpal Singh	(92,000)

<u>Solution 20:</u>

`

Computation of income under the head House Property

Gross Annual Value	27,000

Working Note:	`
(a) Municipal Valuation	22,000
(b) Expected Rent	22,000
(c) Rent Received/Receivable (3,000 x 2) + (3,500 x 6)	27,000
GAV = Higher of (b) or (c)	27,000

Less: Municipal taxes	Nil
Net Annual Value	27,000
Less: 30% of NAV u/s 24(a)	8,100
Less: Interest on capital borrowed u/s 24(b)	7,875

Working Note:
= [(60,000 x 15% x 6/12) + (45,000 x 15% x 6/12)] = `7,875

Income under the head House Property	11,025

<u>Solution 21:</u>

<u>Computation of income of Unit-I</u>

Since the unit is self-occupied throughout the year. Hence its income shall be computed under section 23(2), accordingly there will be loss `30,000.

<u>Computation of income of Unit-II</u>

It will be considered to be partially self-occupied and partially let out and income shall be computed under section 23(3) in the manner given below:

	`
Gross Annual Value	82,500.00

Working Note:	`
(a) Fair Rental Value	76,500
(b) Municipal Valuation	65,000
(c) Higher of (a) or (b)	76,500
(d) Standard Rent	70,000
Expected Rent {Lower of (c) or (d)	70,000
(e) Expected Rent	70,000
(f) Rent Received/Receivable (7,500 x 11)	82,500
GAV = Higher of (e) or (f)	82,500

Less: Municipal taxes	7,800.00
Net Annual Value	74,700.00
Less: 30% of NAV u/s 24(a)	22,410.00
Less: Interest on capital borrowed u/s 24(b)	72,900.00

Working note:
Current period interest
<u>From 01.04.2013 to 31.03.2014</u>
= 9,00,000 x 12% = `1,08,000
Prior period interest
<u>From 01.07.2010 to 31.03.2012</u>
= 9,00,000 x 12% x 21 / 12 =1,89,000
Installment = 1,89,000 / 5 = 37,800
Total interest= 1,08,000 + 37,800 = 1,45,800
Interest allowed for one unit = 1,45,800 / 2 = `72,900

Loss from house property	(20,610.00)
Loss under the head House Property is	
(`20,610) + (`30,000)	(50,610.00)
Income under the head Other Sources	2,90,000.00
Gross Total Income	2,39,390.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	2,39,390.00

Computation of Tax Liability

Tax on `2,39,390 at slab rate	3,939.00
Less: Rebate u/s 87A (3,939 or 2,000 whichever is less)	2,000.00
Tax before education cess	1,939.00
Add: Education cess @ 2%	38.78
Add: SHEC @ 1%	19.39
Tax Liability	1,997.17
Rounded off u/s 288B	2,000.00

Note: Since condition regarding certificate has not been complied with hence interest has been allowed maximum to the extent of `30,000.

<u>Solution 22:</u>

<u>Unit I</u>

	`
Gross Annual Value	1,36,500

Working Note:	`
(a) Fair Rental Value (1,75,000 x 70%)	1,22,500
(b) Municipal Valuation (1,55,000 x 70%)	1,08,500
(c) Higher of (a) or (b)	1,22,500
(d) Standard Rent (1,65,000 x 70%)	1,15,500
(e) Expected Rent {Lower of (c) or (d)}	1,15,500
(f) Rent Received/Receivable (13,000 x 10.5)	1,36,500
In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R	
GAV	1,36,500

Less: Municipal taxes (35,000 x 70%)	24,500
Net Annual Value	1,12,000
Less: 30% of NAV u/s 24(a)	33,600
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	78,400

<u>Unit II</u>

Gross Annual Value	55,000

Working Note:	`
(a) Fair Rental Value (1,75,000 x 30%)	52,500
(b) Municipal Valuation (1,55,000 x 30%)	46,500
(c) Higher of (a) or (b)	52,500
(d) Standard Rent (1,65,000 x 30%)	49,500
(e) Expected Rent {Lower of (c) or (d)}	49,500
(f) Rent Received/Receivable (5,000 x 11)	55,000
In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R	
GAV	55,000

Less: Municipal taxes (35,000 x 30%)	10,500
Net Annual Value	44,500
Less: 30% of NAV u/s 24(a)	13,350
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head house property	31,150
Total income from house property (78,400 + 31,150)	1,09,550

<u>Solution 23:</u>

	`
Gross Annual Value	86,400

Working Note:	`
(a) Fair Rental Value	75,000
(b) Municipal Valuation	68,000
(c) Higher of (a) or (b)	75,000
(d) Standard Rent (7,200 x 12)	86,400
(e) Expected Rent {Lower of (c) or (d)}	75,000
(f) Rent Received/Receivable (7,200 x 12)	86,400
GAV = Higher of (e) or (f)	86,400

Less: Municipal taxes	14,000
Net Annual Value	72,400
Less: 30% of NAV u/s 24(a)	21,720
Less: Interest on capital borrowed u/s 24(b)	Nil
Interest paid to non-resident without deducting tax at source is not deductible	
Income from house property	50,680
Add: Recovery of unrealised rent sec 25AA	22,000
Income under the head House property	72,680

Solution 24:

`

Option I

House I

It is assumed to be self-occupied

Income from house property I	(30,000.00)

Interest on the capital borrowed = `59,583.33

(5,00,000 x 13% x 11/12 = 59,583.33).

But subject to maximum of `30,000

Interest upto `1,50,000 is allowed only if the loan is taken for purchase or construction of the house i.e. if the loan is taken for reconstruction, higher amount is not allowed.

House II

Assumed to be let out house

Gross Annual Value	66,000.00

Working Note:	`
(a) Fair rent	64,000
(b) Municipal Valuation	66,000
(c) Higher of (a) or (b)	66,000
(d) Standard Rent (6,000 x 12)	72,000
(e) Expected Rent {Lower of (c) or (d)}	66,000
GAV = Expected Rent	66,000

Less: Municipal taxes	Nil
Net Annual Value	66,000.00
Less: 30% of NAV u/s 24(a)	19,800.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property II	46,200.00

Option II

House I

Assumed to be let out

Gross Annual Value	50,000.00

Working Note:	`
(a) Fair rent	20,000
(b) Municipal Valuation	55,000
(c) Higher of (a) or (b)	55,000
(d) Standard Rent	50,000
(e) Expected Rent {Lower of (c) or (d)}	50,000
GAV = Expected Rent	50,000

Less: Municipal Taxes	Nil
Net Annual Value	50,000.00
Less: 30% of NAV u/s 24(a)	15,000.00
Less: Interest on capital borrowed u/s 24(b)	59,583.33
Income from house property I	(24,583.33)

House II

Assumed to be self occupied

Income from house II	Nil

Income under option I = (30,000) + 46,200 = `16,200

Income under Option II = (`24,583.33)

Hence option II is better.

<u>House III</u>

Gross Annual Value	7,20,000

Working Note:	`
(a) Fair rent (60,000 x 12)	7,20,000
(b) Expected Rent	7,20,000
(c) Rent Received/Receivable (50,000 x 12)	6,00,000
GAV = Expected Rent	7,20,000

Less: Municipal Taxes	11,000.00
Net Annual Value	7,09,000.00
Less: 30% of NAV u/s 24(a)	2,12,700.00
Less: Interest on capital borrowed u/s 24(b)	55,000.00
Income from house III	4,41,300.00

Income under the head House Property

House I and II option II	(24,583.33)
House III	4,41,300.00
Recovery of unrealised rent (house I)	2,000.00
Income under the head House Property	**4,18,716.67**

Computation of Total Income

Income under the head House Property	4,18,716.67
Income under the head Capital Gains (long term capital gain)	3,50,000.00
Income from Other Sources	250.00
Gross Total Income	7,68,966.67
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,68,966.67
Rounded off u/s 288A	7,68,970.00

Computation of Tax Liability

Tax on `4,18,970 at slab rate	21,897.00
Tax on `3,50,000 @ 20% u/s 112	70,000.00
Tax before education cess	91,897.00
Add: Education cess @ 2%	1,837.94
Add: SHEC @ 1%	918.97
Tax Liability	94,653.91
Rounded off u/s 288B	94,650.00

<u>Solution 25:</u>

(i) Income under the head House Property.
(ii) Income under the head Capital Gains.
(iii) Income under the head Business/Profession.
(iv) Income under the head Other Sources.
(v) Income under the head House Property.
(vi) Income under the head Business/Profession.
(vii) Income under the head Business/Profession.
(viii) Income under the head Business/Profession.
(ix) Income under the head Other Sources.
(x) Income under the head House Property.

EXAMINATION QUESTIONS

IPCC MAY – 2012

Question 2 **(4 Marks)**

Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income Tax Act, 1961.

Answer:

Unrealised Rent [Explanation to Section 23(1) read with Rule 4]

- While computing gross annual value of a let out property, the unrealized rent is to be deducted from actual rent received or receivable.
- The unrealized rent is deductible only on the fulfilment of the conditions prescribed under Rule 4.
- If the unrealized rent is subsequently recovered, it is taxable under section 25AA, in the year in which it is recovered and the deduction like legal expense etc is not allowed from unrealized rent so recovered.

Rule 4 – Unrealised rent means the rent which the owner cannot realize. It shall be equal to the amount of rent payable but not paid by a tenant of the assessee and so proved to be lost and irrecoverable where,—

(a) the tenancy is bonafide.
(b) the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property.
(c) the defaulting tenant is not in occupation of any other property of the assessee.
(d) the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

Section 25AA – Where the assessee cannot realise rent from a property let to a tenant and subsequently the assessee has realised any amount in respect of such rent, the **amount so realised shall be deemed to be income chargeable under the head "Income from house property"** and accordingly charged to income-tax as the income of that previous year in which such rent is realised whether or not the assessee is the owner of that property in that previous year. If the assessee has **incurred any expenditure on recovery, it will not be allowed to be deducted.** If the assessee has received any interest, it will be considered to be income under the head other sources.

PCC MAY – 2012

Question 1 **(5 Marks)**

Mr. Vaibhav owns five houses at Cochin. Compute the gross annual value of each house from the information given below:

`

	House-I	House-II	House-III	House-IV	House –V
Municipal value	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair rent	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard rent	1,08,000	N.A.	1,44,000	N.A.	78,000
Actual rent received/ receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000

Answer:

<u>House I</u>

Computation of Gross Annual Value

	`
(a) Fair Rent	1,50,000
(b) Municipal Valuation	1,20,000
(c) Higher of (a) or (b)	1,50,000
(d) Standard Rent	1,08,000
(e) Expected Rent {Lower of (c) or (d)}	1,08,000
(f) Rent Received/Receivable	1,80,000
(g) Higher of (e) or (f) shall be GAV	1,80,000

<u>House II</u>

Computation of Gross Annual Value

	`
(a) Fair Rent	2,40,000
(b) Municipal Valuation	2,40,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent	N.A
(e) Expected Rent {Lower of (c) or (d)}	2,40,000
(f) Rent Received/Receivable	2,10,000
(g) Higher of (e) or (f) shall be GAV	2,40,000

<u>House III</u>

Computation of Gross Annual Value

	`
(a) Fair Rent	1,14,000
(b) Municipal Valuation	1,10,000
(c) Higher of (a) or (b)	1,14,000
(d) Standard Rent	1,44,000
(e) Expected Rent {Lower of (c) or (d)}	1,14,000
(f) Rent Received/Receivable	1,20,000
(g) Higher of (e) or (f) shall be GAV	1,20,000

<u>House IV</u>

Computation of Gross Annual Value

	`
(a) Fair Rent	84,000
(b) Municipal Valuation	90,000
(c) Higher of (a) or (b)	90,000
(d) Standard Rent	N.A
(e) Expected Rent {Lower of (c) or (d)}	90,000
(f) Rent Received/Receivable	1,08,000
(g) Higher of (e) or (f) shall be GAV	1,08,000

<u>House V</u>

Computation of Gross Annual Value

	`
(a) Fair Rent	80,000
(b) Municipal Valuation	75,000
(c) Higher of (a) or (b)	80,000
(d) Standard Rent	78,000
(e) Expected Rent {Lower of (c) or (d)}	78,000
(f) Rent Received/Receivable	72,000
(g) Higher of (e) or (f) shall be GAV	78,000

IPCC NOV – 2010

Question 7 **(2 Marks each)**

Explain briefly the applicability of section 22 for chargeability of income tax for:

(i) House property situated in foreign country and

(ii) House property with disputed ownership.

Answer:

Applicability of section 22 for chargeability of income-tax for –

(i) House property situated in foreign country

A resident assessee is taxable under section 22 in respect of annual value of a house property situated in foreign country. A resident but not ordinarily resident or a non resident is taxable in respect of income from such property if the income is received in India during the previous year. Once incidence of tax is attracted under section 22, the annual value will be computed as if the property is situated in India.

(ii) House property with disputed ownership

If the title of ownership of the house property is under dispute in a court of law, the decision about who is the owner lies with the Income tax Department. The assessment cannot be held up for such dispute. Generally, a person who receives the income or who enjoys the possession of the house property as owner, though his claim is under dispute, is assessable to tax under section 22.

IPCC NOV – 2009

Question 2 **(6 MARKS)**

Mr. Raman is a co-owner of a house property alongwith his brother.

Municipal value of the Property	1,60,000
Fair Rent	1,50,000
Standard Rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is `25,000 out of which `21,000 have been paid. Interest on the unpaid interest is `450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is `5,000.

The Municipal taxes of `5,100 have been paid by the tenant.

Mr. Raman has 50% share in the house property.

Compute the income from this property chargeable in the hands of Mr. Raman for A.Y. 2014-15.(Modified)

Answer.

Computation of income from house property of Mr. Raman for A.Y. 2014-15

	`	`
Gross Annual Value		1,80,000
Working Note:		
(a) Municipal value of property	1,60,000	
(b) Fair rent	1,50,000	
(c) Higher of (a) and (b)	1,60,000	
(d) Standard rent	1,70,000	
(e) Annual Letting Value / Expected Rent [lower of (c) and (d)]	1,60,000	
(f) Actual rent [15,000 x 12]	1,80,000	

(g) Gross Annual Value [higher of (e) and (f)]	1,80,000	
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV u/s 24(a)	54,000	
(ii) Interest on housing loan u/s 24(b)		
Interest on loan taken from bank	25,000	
Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		**96,000**
50% share taxable in the hands of Mr. Raman		**48,000**

Notes:
Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24..

PCC NOV – 2009

Question 3 **(7 Marks)**
Mrs. Indu, a resident and ordinarily resident individual, owns a house in U.S.A. She receives rent @ $ 2,000 per month. She paid municipal taxes of $ 1,500 during the financial year 2013-14.

She also owns a two storied house in Mumbai, ground floor is used for her residence and first floor is let out at a monthly rent of `10,000. Standard rent for each floor is `11,000 per month.

Municipal taxes paid for the house amounts to `7,500. Mrs. Indu had constructed the house by taking a loan from a nationalized bank on 20.06.2010. She repaid the loan of `54,000 including interest of `24,000.

The value of one dollar is to be taken as `45.

Compute total income from house property and also tax liability of Mrs. Indu for assessment year 2014-15.
(Modified)

Answer.
Computation of Income from House Property of Mrs. Indu for the Assessment Year 2014-15

		`
GAV of the house in USA		
($2000 p.m. x `45 per USD x 12 months)		10,80,000.00
Less: Municipal taxes paid ($1500 x `45 per USD)		67,500.00
Net Annual Value		**10,12,500.00**
Less: Statutory deduction under section 24(a) @ 30% of NAV		3,03,750.00
Income from House property		7,08,750.00
GAV of house at Mumbai (let out portion)- Ist Floor		
Rent received (`10,000 x 12)	1,20,000	
Annual Letting Value/Expected Rent	1,20,000	
Gross Annual Value		1,20,000.00

Less: Municipal taxes paid (1/2 of `7,500)	3,750.00
Net Annual Value (NAV)	**1,16,250.00**
Less: Statutory deduction under section 24(a) @ 30% of NAV	34,875
Interest on Housing loan (1/2 of `24,000) 24(b)	12,000
Income from House property	69,375.00
GAV of house at Mumbai (self occupied portion) – Ground Floor	Nil
Less: Municipal taxes	Nil
Net Annual Value	Nil
Less: Statutory deduction under section 24(a) @ 30% of NAV	Nil
Interest on Housing Loan (1/2 of `24,000) 24(b)	(12,000.00)
Loss from House property	(12,000.00)
Income from House property	**7,66,125.00**
Gross Total Income	**7,66,125.00**
Less: Deduction u/s 80C (Repayment of housing loan)	30,000.00
Total Income (rounded off 288A)	**7,36,130.00**

Computation of Tax Liability

Tax on `7,36,130 at slab rate	77,226.00
Add: Education cess @ 2%	1,544.52
Add: SHEC @ 1%	772.26
Tax Liability	79,542.78
Rounded off u/s 288B	79,540.00

PCC NOV – 2008

Question 3 **(9 Marks)**

Mr. X owns one residential house in Mumbai. The house is having two units. First unit of the house is self occupied by Mr. X and another unit is rented for `8,000 p.m. The rented unit was vacant for 2 months during the year.

The particulars of the house for the previous year 2013-14 are as under:

Standard rent	` 1,62,000 p.a.
Municipal valuation	` 1,90,000 p.a.
Fair rent	` 1,85,000 p. a
Municipal tax	15% of municipal valuation
Light and water charges paid by the tenant	` 500 p.m.
Interest on borrowed capital	` 1,500 p.m.
Insurance charges paid by Mr. X	` 3,000 p.a.
Repairs	` 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2014-15. (Modified)

Answer.

Computation of Income from house property for A.Y. 2014-15

(A) Rented unit (50% of total area)

	`
Gross Annual Value	**80,000**

Working note:	`

(a) Fair rent (`1,85,000 x ½)	92,500		
(b) Municipal valuation (`1,90,000 x ½)	95,000		
(c) Higher of (a) or (b)	95,000		
(d) Standard rent (`1,62,000 x ½)	81,000		
(e) Expected rent (lower of (c) or (d)	81,000		
(f) Rent received or receivable (`8,000 x 10)	80,000		
Since, owing to vacancy the actual rent received is lower than the annual letting value, the actual rent received is the Gross Annual value i.e. `80,000			
Less: Municipal taxes (15% of `95,000)			14,250
Net Annual value			**65,750**
Less: Deductions under section 24			
(i) 30% of net annual value u/s 24(a)		19,725	
(ii) Interest on borrowed capital (`750 x 12) u/s 24(b)		9,000	28,725
Taxable income from let out portion			**37,025**
(B) Self occupied unit (50% of total area)			
Annual value		Nil	
Less: Deduction under section 24			
Interest on borrowed capital (`750 x 12) u/s 24(b)		9,000	(9,000)
Income from House property			**28,025**

Notes:

(i) It is assumed that both the units are of identical size. Therefore, the rented unit would represent 50% of total area and the self-occupied unit would represent 50% of total area.

(ii) No deduction will be allowed separately for light and water charges, insurance charges and repairs.

PCC MAY – 2008

Question 4 **(6 Marks)**

Mr. Kalpesh borrowed a sum of `30 lakhs from the National Housing Bank towards purchase of a residential flat. The loan amount was disbursed directly to the flat promoter by the bank. Though the construction was completed in May, 2014, repayments towards principal and interest had been made during the year ended 31.03.2014.

In the light of the above facts, state:

(i) Whether Mr. Kalpesh can claim deduction under Section 24 in respect of interest for the assessment year 2014-15. (Modified)

Answer.

Interest on borrowed capital is allowed as deduction under section 24(b) Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction under section 24(b). Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction. It is stated that the construction is completed only in May, 2014. Hence, deduction in respect of interest on housing loan cannot be claimed in the assessment year 2014-15.

PCC MAY – 2007

Question 4 **(14 Marks)**

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2013 and came to India for the first time on 16.03.2013. She left for USA on 23.09.2013.

She returned to India again on 27.03.2014. While in India, she had purchased a show room in Mumbai on 22.04.2013, which was leased out to a company on a rent of `25,000 p.m. from 01.05.2013. She had taken loan from a bank for purchase of this show room on which bank had charged interest of `97,500 upto 31.03.2014.

She had received the following gifts from her relatives and friends during 01.04.2013 to 30.06.2013:

- From parents of husband	` 51,000
- From married sister of husband	` 11,000
- From two very close friends of her husband, `1,51,000 and `21,000	`1,72,000

Determine her residential status and compute the total income chargeable to tax alongwith the amount of tax payable on such income for the Assessment Year 2014-15. (Modified)

Answer.

As per section 6(1), an individual is considered to be resident in India if he stays in India for 182 days or more or he stays in India for 60 days or more during the relevant previous year and also for 365 days or more during 4 years preceding the relevant previous year.

Since Miss Charlie is not able to comply with any of the condition mentioned above, she is non-resident in previous year 2013-14.

Her stay in India during the previous year 2013-14 and in the preceding four years is as under:-

P.Y. 2013-14	
01.04.2013 to 23.09.2013	- 176 days
27.03.2014 to 31.03.2014	- 5 days
Total	181 days
Four preceding previous years	
P.Y. 2012- 2013 [16.03.2013 to 31.03.2013]	- 16 days
P.Y. 2011- 2012 [01.04.2011 to 31.03.2012]	- Nil
P.Y. 2010- 2011 [01.04.2010 to 31.03.2011]	- Nil
P.Y. 2009- 2010 [01.04.2009 to 31.03.2010]	- Nil
Total	16 days

Computation of total income of Miss Charlie for the A.Y. 2014-15

	`
Income from house property	
Show room located in Mumbai remained on rent from 01.05.2013 to 31.03.2014 @ `25,000/- p.m.	
Gross Annual Value [25,000 x 11]	2,75,000
Less: Municipal taxes	Nil
Net Annual Value	**2,75,000**
Less: Deduction under section 24	
30% of NAV 24(a)	(82,500)
Interest on loan 24(b)	(97,500)
Income under the Head House Property	**95,000**

Income from other sources

Gifts received from non-relatives is chargeable to tax as per section 56(2) if the aggregate value of such gifts is in excess of `50,000.

- `51,000 received from parents of husband would be exempt,

since parents of husband fall within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- `11,000 received from married sister of husband is exempt, since sister falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- From two friends of husband `1,51,000 and `21,000 aggregating to `1,72,000. Since the aggregate of `1,72,000 exceeds `50,000, the entire amount is taxable under section 56(2).	1,72,000
Income under the head Other Sources	1,72,000
Total Income	**2,67,000**

Computation of tax payable by Miss Charlie for the A.Y. 2014-15

	`
Tax on total income of `2,67,000	6,700
Add: Education cess @ 2%	134
Add: SHEC @ 1%	67
Tax Liability	**6,901**
Rounded off u/s 288B	**6,900**

Notes –

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. Rebate under section 87A is not allowed to non-resident.

PE-II NOV – 2003

Question 2 **(12 Marks)**

Mr. A and B constructed their houses on a piece of land purchased by them at New Delhi. The built up area of each house was 1,000 sq. ft. ground floor and an equal area in the first floor.

A started construction on 01.04.2012 and completed on 31.03.2013. A occupied the entire house on 01.04.2013. A has availed a housing loan of `20 lakhs @ 12% p.a. on 01.04.2012 and has also submitted a certificate from the lender certifying the amount of interest.

B started construction on 01.04.2012 and completed on 01.07.2013. B occupied the ground floor on 01.07.2013 and let out the first floor for a rent of `15,000 per month. However, the tenant vacated the house on 31.12.2013 and B occupied the entire house during the period 01.01.2014 to 31.03.2014. B has availed a housing loan of `12 lakhs @ 10% p.a. on 01.07.2012 and has also submitted a certificate from the lender certifying the amount of interest.

Following are the other information:				`
(i) Fair rental value of each unit (Ground floor / First floor)				1,00,000 per annum
(ii) Municipal value of each unit (Ground floor / First floor)				72,000 per annum
(iii) Municipal taxes paid by	A	-	8,000	
	B	-	8,000	

(iv) Repair and maintenance charges paid by	A	-	28,000
	B	-	30,000

No repayment was made by either of them till 31.03.2014. But they have submitted a certificate confirming the amount of interest.

Compute income from house property for A and B for the assessment year 2014-15. (Modified)

Answer:

Computation of income from House Property of Mr. A	`
Net Annual Value	Nil
Less: 30% of NAV 24(a)	Nil
Less: Interest on capital borrowed u/s 24(b)	1,50,000
Interest paid on borrowed capital	
= 20,00,000 @ 12 % = `2,40,000	
Interest deduction restricted to `1,50,000	
Loss under the head "House Property"	(1,50,000)

Computation of income from House Property of Mr. B

Ground floor (self occupied)

Net Annual Value	Nil
Less: 30% of NAV u/s 24(a)	Nil
Less: Interest on capital borrowed u/s 24(b)	69,000

Working Note:
Prior period interest
From 01.07.2012 to 31.03.2013
= 12,00,000 x 10% x 9 / 12 = 90,000
90,000 allowed in 5 equal instalments
= 90,000 / 5 = ` 18,000 per annum
= 18,000 / 2 = `9,000
Current period interest
From 01.04.2013 to 31.03.2014
= 12,00,000 x 10% x 1/2 = `60,000
Total Interest = `60,000 + ` 9,000 = `69,000

Income from House Property	(69,000)
First floor (Let out)	
Gross Annual Value	90,000

Working Note:	`
(a) Fair Rent (1,00,000 x 9/12)	75,000
(b) Municipal Valuation (72,000 x 9/12)	54,000
(c) Higher of (a) or (b)	75,000
(d) Expected Rent	75,000
(e) Rent Received/Receivable (15,000 x 6)	90,000
GAV = Higher of (d) or (e)	90,000

Less: Municipal taxes	4,000
Net Annual Value	86,000
Less: 30% of NAV u/s 24(a)	25,800
Less: Interest on capital borrowed u/s 24(b)	69,000

Working Note:
Prior period interest
From 01.07.2012 to 31.03.2013
= 12,00,000 x 10% x 9 / 12 = 90,000
90,000 allowed in 5 equal instalments
= 90,000 / 5 = ` 18,000 per annum
= 18,000 / 2 = `9,000
Current period interest
From 01.04.2013 to 31.03.2014
= 12,00,000 x 10% x 1/2 = Rs.60,000
Total Interest = `60,000 + ` 9,000 = `69,000

Income from House Property	(8,800)
Loss under the head "Income from House Property" of Mr. B (Both ground floor and first floor)	(77,800)

PE-II MAY – 2002

Question 3 **(6 Marks)**

Mr. Ramesh owns a house property which is let out. During the previous year ending 31.03.2014 he receives (i) arrears of rent of `30,000 and (ii) unrealised rent of `20,000.

You are requested to

(a) state, how they should be dealt with as per the provisions of the Act, and

(b) compute the income chargeable under the head "Income from house property". (Modified)

Answer:

(a) As per provisions of section 25B, arrears of rent will be charged to tax as income from house property in the previous year in which such rent is received, after deducting a sum equal to 30% of such amount. The taxability shall be there whether Mr. Ramesh remains as the owner of the property in the concerned year or not. In this case, it shall be taxed as income from house property in the year of receipt of such arrear rent.

(b) As per the provisions of section 25AA, the unrealised rent when received, it shall be deemed to be the income chargeable under the head "Income from house property" and shall be charged to tax in the year of receipt. In this case also, the taxability shall be there, irrespective of the fact whether Mr. Ramesh is the owner of property or not in the year of receipt. The section does not provide for any deduction thereunder.

Computation of income from house property

	`
Arrears of rent	30,000
Less : Deduction @ 30% of `30,000/- u/s 25B	9,000
	21,000
Add : Unrealised rent received	20,000
Income from house property	41,000

PE-II NOV – 2001

Question 1 **(12 Marks)**

From the following particulars furnished by Mr. Kiran for the previous year ending 31.03.2014. Compute the taxable income and tax liability for assessment year 2014-15:

(i) He owns a house property at metro city. The fair rental value per annum is ` 27,000 and the municipal value is ` 24,000.

(ii) The house was let out from 01.04.2013 to 31.08.2013 @ `2,100 per month. From 01.09.2013 Mr. Kiran occupies the house for his residence.

(iii) Expenditure incurred on property and paid:

(a) Municipal tax	`4,000
(b) Fire insurance	`2,500
(c) Land revenue	`4,600
(d) Repairs	`1,000

(iv) Interest paid on borrowings for construction:

(a) For the current year	`21,600
(b) Instalment of prior period	`12,960

He has long term capital gains of `5,00,000. (Modified)

Answer:

Computation of income under the head House Property	`
Gross Annual Value	27,000.00

Working Note:	`
(a) Fair Rent	27,000
(b) Municipal Valuation	24,000
(c) Higher of (a) or (b)	27,000
(d) Expected rent	27,000
(e) Rent Received/Receivable (2,100 x 5)	10,500
GAV = Higher of (d) or (e)	27,000

Less: Municipal taxes	4,000.00
Net Annual Value	23,000.00
Less: 30% of NAV u/s 24(a)	6,900.00
Less: Interest on capital borrowed u/s 24(b) (21,600 +12,960)	34,560.00
Loss from house property	(18,460.00)
Income under the head Capital Gains (LTCG)	5,00,000.00
Income under the head Capital gains after adjusting loss from house property	4,81,540.00
Gross Total Income	4,81,540.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,81,540.00

Computation of Tax Liability

Tax on `2,81,540 (`4,81,540 – `2,00,000) @ 20% u/s 112	56,308.00
Less: Rebate u/s 87A (56,308 or 2,000 whichever is less)	2,000.00
Tax before education cess	54,308.00
Add: Education cess @ 2%	1,086.16
Add: SHEC @ 1%	543.08
Tax Liability	55,937.24
Rounded off u/s 288B	55,940.00

PE-II MAY – 2000

Question 4 **(7 Marks)**

Arvind commenced construction of a residential house intended exclusively for his residence, on 01.11.2012. He raised a loan from PNB of `5,00,000 at 16 per cent interest for the purpose of construction on 01.11.2012. Finding that there was an over-run in the cost of construction he raised a further loan of `8,00,000 at the same rate of interest on 01.10.2013. The assessee has submitted a certificate confirming the amount of interest. What is the interest allowable under section 24, assuming that the construction was completed by 31.03.2014? (Modified)

Answer:

Since the house was for self-occupation only, the annual value of the property would be 'nil' under section 23(2). The interest allowable for the current year has to be considered with respect to both the loans.

Interest on loan borrowed after 01.04.1999 is eligible for deduction subject to a maximum of `1,50,000 in the case of self occupied property.

Prior period interest (upto 31.03.2013)	
(5,00,000 x 16% x 5 / 12)	33,333
This is to be allowed over 5 years beginning with assessment year 2014-15. Amount allowable for each year	6,667
Interest eligible for deduction for the assessment year 2014-15	
Prior period interest : One-fifth of `33,333	6,667
Interest on first loan : Current year interest : 5,00,000 @ 16%	80,000
Interest on second loan : 8,00,000 @ 16% x 6/12	64,000
Total interest	1,50,667
Limited to	1,50,000

Therefore, interest allowable under section 24 would be `1,50,000.

PE-II NOV – 1999

Question 3 **(14 Marks)**

Pritam occupied two flats for his residential purposes, particulars of which are as follows:

Particulars	**Flat I(in `)**	**Flat II(in `)**
Municipal Valuation	90,000	45,000
Fair Rent	1,20,000	40,000
Fair rent under Rent Control Act (i.e. Standard Rent)	80,000	Not available
Municipal taxes paid	10% of municipal valuation	10% of municipal valuation
Fire insurance paid	1,000	600
Interest payable on capital borrowed for purchase of flat	40,000	Nil

Income of Pritam from his Proprietary business–Pritam Warehousing Corporation is `6,50,000.

Determine the taxable income and tax liability for the assessment year 2014-15 on the assumption that he contributes `70,000 towards public provident fund account, you are informed that Pritam could not occupy flat for 2 months commencing from December 1st, 2013 and that he has attained the age of 65 on 23.08.2013. (Modified)

Answer: `

Income shall be computed as per Section 23(4)

Option I

Flat I is Self Occupied Sec 23(2)	
Income	(30,000.00)
Flat II is Let out Sec 23(1)	
Gross Annual Value	45,000.00

Working Note:	`
(a) Fair Rent	40,000
(b) Municipal Valuation	45,000
(c) Expected Rent {Higher of (a) or (b)	45,000
GAV = Expected Rent	45,000

Less: Municipal taxes	4,500.00
Net Annual Value	40,500.00
Less: 30% of NAV u/s 24(a)	12,150.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income	28,350.00
Income under Option I	(1,650.00)

Option II

Flat I is Let out Sec 23(1)	
Gross Annual Value	80,000.00

Working Note:	`
(a) Fair Rent	1,20,000
(b) Municipal Valuation	90,000
(c) Higher of (a) or (b)	1,20,000
(d) Standard Rent	80,000
(e) Expected Rent {Lower of (c) or (d)}	80,000
GAV = Expected Rent	80,000

Less: Municipal taxes	9,000.00
Net Annual Value	71,000.00
Less: 30% of NAV u/s 24(a)	21,300.00
Less: Interest on capital borrowed u/s 24(b)	40,000.00
Income	9,700.00
Flat II is Self occupied Sec 23(2)	
Income	Nil
Income under Option II is	9,700.00

Hence Option I is better.

Computation of Gross Total Income

Income under the head House Property	(1,650.00)
Income under the head Business/Profession	6,50,000.00
Gross Total Income	6,48,350.00
Less: Deduction u/s 80C {Contribution in Public provident fund}	70,000.00
Total Income	5,78,350.00

Computation of Tax Liability

Tax on `5,78,350 at slab rate	40,670.00

Add: Education cess @ 2%	813.40
Add: SHEC @ 1%	406.70
Tax Liability	41,890.10
Rounded off u/s 288B	41,890.00

EXERCISES

1. Ganesh is a member of a house building co-operative society. The society is the owner of the flats constructed by it. One of the flats is allotted to Ganesh. The income from that flat will be assessed in the hands of

a) Co-operative Society
b) Ganesh
c) Neither of the above.

2. Vacant site lease rent is taxable as

a) Income from house property
b) Business income
c) Income from other sources or business income, as the case may be

3. Treatment of unrealized rent for determining income from house property

a) To be deducted from annual letting value
b) To be deducted from actual rent
c) To be deducted under section 24 from annual value

4. Municipal taxes to be deducted from GAV should be

a) Paid by the tenant during the previous year
b) Paid by the owner during the previous year
c) Accrued during the previous year

5. Deduction under section 24(a) is

a) 1/3rd of NAV
b) repairs actually incurred by the owner
c) 30% of NAV

6. Interest on borrowed capital accrued up to the end of the previous year prior to the year of completion of construction is allowed

a) as a deduction in the year of completion of construction
b) in 5 equal annual installments from the year of completion of construction
c) In the respective year in which the interest accrues

7. The ceiling limit of deduction under section 24(b) in respect of interest on loan taken on 01.04.2011 for repairs of a self-occupied house is

a) ` 30,000 p.a.
b) ` 1,50,000 p.a.
c) No limit

8. Where an assessee has two house properties for self-occupation, the benefit of nil annual value will be available in respect of –

a) Both the properties
b) The property which has been acquired/constructed first
c) Any one of the properties, at the option of the assessee

9. Leena received ` 30,000 as arrears of rent during the P.Y. 2013-14. The amount taxable under section 25B would be –

a) 30,000
b) 21,000
c) 20,000

10. Vidya received ` 90,000 in May, 2013 towards recovery of unrealised rent, which was deducted from actual rent during the P.Y. 2012-13 for determining annual value. The amount taxable under section 25AA for A.Y.2014-15 would be –

a) 90,000
b) 63,000
c) 60,000

11. Ganesh and Rajesh are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year on loan (taken for acquisition of property during the year 2004) is ` 1,62,000. The amount of allowable deduction in respect of each co-owner is –

a) 1,62,000

b) 75,000
c) 1,50,000

12. An assessee, who was deriving income from house property, realised a sum of ` 52,000 on account of display of advertisement hoardings of various concerns on the roof of the building. He claims that this amount should be considered under the head "Income from house property" and not "Income from other sources". How do you deal with the following issue under the provisions of the Income-tax Act, 1961?

13. Ram owned a house property at Chennai which was occupied by him for the purpose of his residence. He was transferred to Mumbai in June, 2013 and therefore, he let out the property w.e.f. 01.07.2013 on a monthly rent of ` 8,000. The corporation tax payable in respect of the property was ` 2,000 of which 50% was paid by him before 31.3.2014. Interest on money borrowed for the construction of the property amounted to ` 12,000. Compute the income from house property for the A.Y.2014-15.

14. What do you understand by "Composite Rent"? What is the tax treatment of Composite Rent under the Income-tax Act, 1961?

Answers
1. b; **2.** c; **3.** b; **4.** b; **5.** c; **6.** b; **7.** a; **8.** c; **9.** b; **10.** a; **11.** c, **13.** ` 37,700

DEDUCTION FROM GROSS TOTAL INCOME

SECTION 80C TO 80U

DEDUCTIONS FROM GROSS TOTAL INCOME

DEDUCTIONS IN RESPECT OF CERTAIN PAYMENTS

Examples
1. Life Insurance Premium paid
2. Contribution to Provident Fund/ Pension Fund
3. Medical insurance premium paid
4. Payment of interest on loan taken for higher education
5. Rent paid
6. Donation to certain funds, charitable institutions, etc.
7. Contribution to political parties

DEDUCTIONS IN RESPECT OF CERTAIN INCOMES

Examples
1. Profits and gains from industrial undertakings or enterprises engaged in infrastructure development
2. Profits and gains by an undertaking / enterprises engaged in development of special economic zone.
3. Certain income of co-operative societies
4. Royalty income etc. of authors of certain books other than text books.
5. Royalty on patents.

OTHER DEDUCTIONS

Deduction in case of a person with disability

General Provisions

Chapter VI-A contains deductions from gross total income. The important point to be noted here is that if there is no gross total income, then no deductions will be permissible. This Chapter contains deductions in respect of certain payments, deductions in respect of certain incomes and other deductions.

Section 80A: (i) Section 80A(1) provides that in computing the total income of an assessee, there shall be allowed from his gross total income, the deductions specified in sections 80C to 80U.

(ii) According to section 80A(2), the aggregate amount of the deductions under this chapter shall not, in any case, exceed the gross total income of the assessee. Thus, an assessee cannot have a loss as a result of the deduction under Chapter VI-A and claim to carry forward the same for the purpose of set-off against his income in the subsequent year.

(iii) Section 80A(3) provides that in the case of AOP/BOI, if any deduction is admissible under section 80G/80GGA/80GGC/80-IA/80-IB/80-IC/80-ID/80-IE, no deduction under the same section shall be made in computing the total income of a member of the AOP or BOI in relation to the share of such member in the income of the AOP or BOI.

(iv) The profits and gains allowed as exemption/deduction under section 10AA or under any provision of Chapter VIA under the heading "C.- Deductions in respect of certain incomes" in any assessment year, shall not be allowed as deduction under any other provision of the Act for such assessment year [Sub-section (4)];

(v) The deduction, referred to in (iv) above, shall not exceed the profits and gains of the undertaking or unit or enterprise or eligible business, as the case may be [Sub-section (4)];

(vi) No deduction under any of the provisions referred to in (iv) above, shall be allowed if the deduction has not been claimed in the return of income. [Sub-section (5)];

(vii) The transfer price of goods and services between such undertaking or unit or enterprise or eligible business and any other business of the assessee shall be determined at the market value of such goods or services as on the date of transfer [Sub-section (6)].

(viii) For this purpose, the expression "market value" has been defined to mean,-

(a) in relation to any goods or services sold or supplied, the price that such goods or services would fetch if these were sold by the undertaking or unit or enterprise or eligible business in the open market, subject to statutory or regulatory restrictions, if any;

(b) in relation to any goods or services acquired, the price that such goods or services would cost if these were acquired by the undertaking or unit or enterprise or eligible business from the open market, subject to statutory or regulatory restrictions, if any;

(ix) Where a deduction under any provision of this Chapter under the heading "C – Deductions in respect of certain incomes" is claimed and allowed in respect of the profits of such specified business for any assessment year, no deduction under section 35AD is permissible in relation to such specified business for the same or any other assessment year.

In short, once the assessee has claimed the benefit of deduction under section 35AD for a particular year in respect of a specified business, he cannot claim benefit under Chapter VI-A under the heading "C.- Deductions in respect of certain incomes" for the same or any other year and vice versa.

Section 80AB: This section provides that for the purpose of calculation of deductions specified in Chapter VI-A under the heading "C - Deductions in respect of certain incomes", the net income computed in accordance with the provisions of the Act (before making any deduction under Chapter VI-A) shall alone be regarded as income received by the assessee and which is included in his gross total income. Accordingly, the deductions specified in the aforesaid sections will be calculated with reference to the net income as computed in accordance with the provisions of the Act (before making deduction under Chapter VI-A) and not with reference to the gross amount of such income. This is notwithstanding anything contained in the respective sections of Chapter VI-A.

Section 80AC - Furnishing return of income on or before due date mandatory for claiming exemption under sections 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID and 80-IE

(i) Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing benefit under the following sections –

(1) Section 80-IA applicable to undertakings or enterprises engaged in infrastructure development, etc.

(2) Section 80-IAB applicable to undertakings or enterprises engaged in any business of developing a special economic zone.

(3) Section 80-IB applicable to certain industrial undertakings other than infrastructure development undertakings.

(4) Section 80-IC applicable to certain undertakings or enterprises in certain special category States.

(5) Section 80-ID applicable to undertakings engaged in the business of hotels and convention centres in specified area.

(6) Section 80-IE applicable to certain undertakings in North-Eastern States.

(ii) The effect of this provision is that in case of failure to file return of income on or before the stipulated due date, the undertakings would lose the benefit of deduction under these sections.

Section 80B(5): "Gross total income" means the total income computed in accordance with the provisions of the Act without making any deduction under Chapter VI-A. "Computed in accordance with the provisions of the Act" implies—

(i) that deductions under appropriate computation section have already been given effect to;
(ii) that income of other persons, if includible under sections 60 to 64, has been included;
(iii) the intra head and/or inter head losses have been adjusted; and
(iv) that unabsorbed business losses, unabsorbed depreciation etc., have been set-off.

Let us first consider the deductions allowable in respect of certain payments.

Deduction in respect of payments
Deduction in respect of investment in specified assets [Section 80C]
(i) Section 80C provides for a deduction from the Gross Total Income, of savings in specified modes of investments.

(ii) Deduction under section 80C is available only to an individual or HUF.

(iii) The maximum qualifying amount is ` 1 lakh in respect of deductions under section 80C along with sections 80CCC (in respect of contribution to approved pension fund) and 80CCD(1) (Contribution of employee-assessee to pension scheme of Central Government).

(iv) The following are the investments/contributions eligible for deduction –

(1) Premium paid on insurance on the life of the individual, spouse or child (minor or major) and in the case of HUF, any member thereof. This will include a life policy and an endowment policy.

However, where the annual premium on insurance policies, other than a contract for deferred annuity, **issued on or before 31.3.2012,** exceeds 20% of the actual capital sum assured, only the amount of premium as does not exceed 20% will qualify for rebate.

For the purpose of calculating the actual capital sum assured under this clause,
(a) the value of any premiums agreed to be returned or
(b) the value of any benefit by way of bonus or otherwise, over and above the sum actually assured, shall not be taken into account.

However, the deduction under section 80C for premium or other payment made on insurance policy, other than a contract for a deferred annuity, shall be restricted to the 10% of the actual sum assured, in case the insurance policy is issued on or after 1st April, 2012.

Also, Explanation to section 80C(3A) has been introduced to provide that, in respect of the life insurance policies to be issued on or after 1st April, 2012, the actual capital sum assured shall mean the minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking into account –
(1) the value of any premium agreed to be returned; or
(2) any benefit by way of bonus or otherwise over and above the sum actually assured which is to be or may be received under the policy by any person.

In effect, in case the insurance policy has varied sum assured during the term of policy then the minimum of the sum assured during the life time of the policy shall be taken into consideration for calculation of the "actual capital sum assured" for the purpose of section 80C, in respect of life insurance policies to be issued on or after 1st April, 2012.

The following is a tabular summary of the amendments effected in section 10(10D) and section 80C -

From A.Y.2013-14			
In respect of policies issued between 01.04.2003 and 31.3.2012		In respect of policies issued on or after 01.04.2012	
Exemption u/s 10(10D)	Deduction u/s 80C	Exemption u/s 10(10D)	Deduction u/s 80C
Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 20% of "actual capital sum assured".	Premium paid to the extent of 20% of "actual capital sum assured" qualifies for deduction u/s 80C.	Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% of "minimum capital sum assured" under the policy on the happening of the insured event at any time during the term of the policy.	Only premium paid to the extent of 10% of "minimum capital sum assured" qualifies for deduction u/s 80C.

Provided that where the policy, issued on or after the 1st day of April, 2013, is for insurance on life of any person, who is—

(*a*) a person with disability or a person with severe disability as referred to in section 80U, or

(*b*) suffering from disease or ailment as specified in the rules made under section 80DDB, the provisions of this sub-section shall have effect as if for the words "ten per cent.", the words "fifteen per cent." had been substituted.

(2) Premium paid to effect and keep in force a contract for a deferred annuity on the life of the assessee and/or his or her spouse or child, provided such contract does not contain any provision for the exercise by the insured of an option to receive cash payments in lieu of the payment of the annuity.

It is pertinent to note here that a contract for a deferred annuity need not necessarily be with an insurance company. It follows therefore that such a contract can be entered into with any person.

(3) Amount deducted by or on behalf of the Government from the salary of a Government employee for securing a deferred annuity or making provisions for his spouse or children. The excess, if any, over one-fifth of the salary is to be ignored.

(4) Contributions to any provident fund to which the Provident Funds Act, 1925 applies.

(5) Contributions made to any Provident Fund set up by the Central Government and notified in his behalf (i.e., the Public Provident Fund established under the Public Provident Fund Scheme, 1968). Such

contribution can be made in the name of any persons mentioned in (1) above. The maximum limit of investment is ` 1,00,000 in a year.

(6) Contribution by an employee to a recognised provident fund.

(7) Contribution by an employee to an approved superannuation fund
(8) Subscription to any such security of the Central Government or any such deposit scheme as the Central Government as may notify in the Official Gazette.

(9) Subscription to any Savings Certificates under the Government Savings Certificates Act, 1959 notified by the Central Government in the Official Gazette (i.e. National Savings Certificate (VIII Issue) issued under the Government Savings Certificates Act, 1959).

(10) Contributions in the name of any person specified in (1) above for participation in the Unit-linked Insurance Plan 1971.

(11) Contributions in the name of any person mentioned in (1) above for participation in any Unit linked Insurance Plan of the LIC Mutual Fund, referred to in section 10(23D) in this behalf.

(12) Contributions to approved annuity plans of LIC (New Jeevan Dhara and New Jeevan Akshay, New Jeevan Dhara I and New Jeevan Akshay I, II and III) or any other insurer (Tata AIG Easy Retire Annuity Plan of Tata AIG Life Insurance Company Ltd.) as the Central Government may, by notification in the Official Gazette, specify in this behalf.

(13) Subscription to any units of any mutual fund referred to in section 10(23D) or from the Administrator or the specified company under any plan formulated in accordance with such scheme notified by the Central Government;

(14) Contribution by an individual to a pension fund set up by any Mutual Fund referred to in section 10(23D) or by the Administrator or the specified company as the Central Government may specify (i.e. UTI-Retirement Benefit Pension Fund set up by the specified company referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 as a pension fund).

For the purposes of (13) and (14) above –

(i) “Administrator” means the Administrator as referred to in clause (a) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002.
(ii) “specified company” means a company as referred to in clause (h) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002.

(15) Subscription to any deposit scheme or contribution to any pension fund set up by the National Housing Bank i.e., National Housing Bank (Tax Saving) Term Deposit Scheme, 2008.

(16) Subscription to any such deposit scheme of a public sector company which is engaged in providing long-term finance for construction, or purchase of houses in India for residential purposes or any such deposit scheme of any authority constituted in India by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both. The deposit scheme should be notified by the Central Government. The Central Government has, vide Notification No.2/2007 dated 11.1.2007, specified the public deposit scheme of HUDCO, subscription to which would qualify for deduction under section 80C.

(17) Payment of tuition fees by an individual assessee at the time of admission or thereafter to any university, college, school or other educational institutions within India for the purpose of full-time

education of any two children of the individual. This benefit is only for the amount of tuition fees for full-time education and shall not include any payment towards development fees or donation or payment of similar nature and payment made for education to any institution situated outside India.

(18) Any payment made towards the cost of purchase or construction of a new residential house property. The income from such property –

(i) should be chargeable to tax under the head "Income from house property";
(ii) would have been chargeable to tax under the head "Income from house property" had it not been used for the assessee's own residence.

The approved types of payments are as follows:

(i) Any installment or part payment of the amount due under any self-financing or other schemes of any development authority, Housing Board or other authority engaged in the construction and sale of house property on ownership basis; or

(ii) Any installment or part payment of the amount due to any company or a cooperative society of which the assessee is a shareholder or member towards the cost of house allotted to him; or

(iii) Repayment of amount borrowed by the assessee from:

(a) The Central Government or any State Government;
(b) Any bank including a co-operative bank;
(c) The Life Insurance Corporation;
(d) The National Housing Bank;
(e) Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes which is eligible for deduction under section 36(1)(viii);
(f) Any company in which the public are substantially interested or any cooperative society engaged in the business of financing the construction of houses;
(g) The assessee's employer, where such employer is an authority or a board or a corporation or any other body established or constituted under a Central or State Act;
(h) the assessee's employer where such employer is a public company or public sector company or a university established by law or a college affiliated to such university or a local authority or a co-operative society.

(iv) Stamp duty, registration fee and other expenses for the purposes of transfer of such house property to the assessee.

Inadmissible payments: However, the following amounts do not qualify for rebate:
(i) admission fee, cost of share and initial deposit which a shareholder of a company or a member of a co-operative society has to pay for becoming a shareholder or member; or
(ii) the cost of any addition or alteration or renovation or repair of the house property after the completion of the house or after the house has been occupied by the assessee or any person on his behalf or after it has been let out; or
(iii) any expenditure in respect of which deduction is allowable under section 24.

(19) Subscription to equity shares or debentures forming part of any eligible issue of capital approved by the Board on an application made by a public company or as subscription to any eligible issue of capital by any public financial institution in the prescribed form.

Eligible issue of capital means an issue made by a public company formed and registered in India or a public financial institution and the entire proceeds of the issue are utilised wholly and exclusively for the purposes of any business referred to in section 80-IA(4).

A lock-in period of three years is provided in respect of such equity shares or debentures. In case of any sale or transfer of shares or debentures within three years of the date of acquisition, the aggregate amount of deductions allowed in respect of such equity shares or debentures in the previous year or years preceding the previous year in which such sale or transfer has taken place shall be deemed to be the income of the assessee of such previous year and shall be liable to tax in the assessment year relevant to such previous year.

A person shall be treated as having acquired any shares or debentures on the date on which his name is entered in relation to those shares or debentures in the register of members or of debenture-holders, as the case may be, of the public company.

(20) Subscription to any units of any mutual fund referred to in section 10(23D) and approved by the Board on an application made by such mutual fund in the prescribed form. It is necessary that such units should be subscribed only in the eligible issue of capital of any company.

(21) Investment in term deposit.

(1) for a period of not less than five years with a scheduled bank; and
(2) which is in accordance with a scheme framed and notified by the Central Government in the Official Gazette now qualifies as an eligible investment for availing deduction under section 80C.
Scheduled bank means -
(1) the State Bank of India constituted under the State Bank of India Act, 1955, or
(2) a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959, or
(3) a corresponding new bank constituted under section 3 of the -
(a) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, or
(b) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, or
(4) any other bank, being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934.

(22) Subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette).

(23) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and

(24) deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.

Termination of Insurance Policy or Unit Linked Insurance Plan or transfer of House Property or withdrawal of deposit:

Where, in any previous year, an assessee :

(i) terminates his contract of insurance referred to in (1) above, by notice to that effect or where the contract ceases to be in force by reason of not paying the premium, by not reviving the contract of insurance,-

(a) in case of any single premium policy, within two years after the date of commencement of insurance; or
(b) in any other case, before premiums have been paid for two years; or

(ii) terminates his participation in any Unit Linked Insurance Plan referred to in (10) or (11) above, by notice to that effect or where he ceases to participate by reason of failure to pay any contribution, by not reviving his participation, before contributions in respect of such participation have been paid for five years, or

(iii) transfers the house property referred to in (18) above, before the expiry of five years from the end of the financial year in which possession of such property is obtained by him, or receives back, whether by way of refund or otherwise, any sum specified in (18) above, then, no deduction will be allowed to the assessee in respect of sums paid during such previous year and the total amount of deductions of income allowed in respect of the previous year or years preceding such previous year, shall be deemed to be income of the assessee of such previous year and shall be liable to tax in the assessment year relevant to such previous year. Further, where any amount is withdrawn by the assessee from his account under the Senior Citizens Savings Scheme or under the Post Office Time Deposit Rules before the expiry of a period of 5 years from the date of its deposit, the amount so withdrawn shall be deemed to be the income of the assessee of the previous year in which the amount is withdrawn.

Accordingly, the amount so withdrawn would be chargeable to tax in the assessment year relevant to such previous year. The amount chargeable to tax shall would also include that part of the amount withdrawn which represents interest accrued on the deposit. However, if any part of the amount so received or withdrawn (including the amount relating to interest) has been subject to tax in any of the earlier years, such amount shall not be taxed again.

Illustration 1

Mr. A, aged about 61 years, has earned a lottery income of ` 1,20,000 (gross) during the P.Y. 2013-14. He also has a business income of ` 30,000. He invested an amount of ` 10,000 in Public Provident Fund account and ` 24,000 in National Saving Certificates. What is the total taxable income of Mr. A for the A.Y.2014-15?

Solution

Computation of total taxable income of Mr. A for A.Y.2014-15

Particulars	`	`
Profits and gains from business or profession		30,000
Income from other sources - lottery income		1,20,000
Gross Total Income		1,50,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C - Deposit in Public Provident Fund	10,000	
- Investment in National Saving Certificate	24,000	
	34,000	
Restricted to		30,000
Total Income		**1,20,000**

Note: Though the value of eligible investments is ` 34,000, however, deductions under chapter VIA cannot exceed the gross total income exclusive of long term capital gains, short term capital gains covered under section 111A, winnings of lotteries etc of the assessee.

Therefore, the maximum permissible deduction u/s 80C = ` 1,50,000 – ` 1,20,000 = ` 30,000.

Illustration 2

An individual assessee, resident in India, has made the following investments during the previous year 2013-14:

Particulars	`
Contribution to the public provident fund	50,000
Investment in units of eligible mutual funds	40,000
Insurance premium paid on the life of the spouse (policy taken on 01.04.2011) (Assured value ` 1,00,000)	25,000

What is the deduction allowable under section 80C for A.Y.2014-15?

Solution

Computation of deduction under section 80C for A.Y.2014-15

Particulars	`
Deposit in public provident fund	50,000
Investment in units of mutual funds	40,000
Insurance premium paid on the life of the spouse	

(Maximum 20% of the assured value ` 1,00,000, as the policy is taken before 01.04.2012)	20,000
Total	1,10,000
However, the maximum permissible deduction is restricted to	1,00,000

Note: As per section 80CCE, total deduction under section 80C, 80CCC and 80CCD(1) cannot exceed `1,00,000

Deduction in respect of contribution to certain pension funds [Section 80CCC]

(i) Where an assessee, being an individual, has in the previous year paid or deposited any amount out of his income chargeable to tax to effect or keep in force a contract for any annuity plan of LIC of India or any other insurer for receiving pension from the fund referred to in section 10(23AAB), he shall be allowed a deduction in the computation of his total income.

(ii) For this purpose, the interest or bonus accrued or credited to the assessee's account shall not be reckoned as contribution.

(iii) The maximum permissible deduction is ` 1,00,000 (However, the overall limit of ` 1,00,000 prescribed in section 80CCE will continue to be applicable i.e. the maximum permissible deduction under sections 80C, 80CCC and 80CCD(1) put together is ` 1,00,000).

(iv) Where any amount standing to the credit of the assessee in a fund referred to in clause (23AAB) of section 10 in respect of which a deduction has been allowed, together with interest or bonus accrued or credited to the assessee's account is received by the assessee or his nominee on account of the surrender of the annuity plan in any previous year or as pension received from the annuity plan, such amount will be deemed to be the income of the assessee or the nominee in that previous year in which such withdrawal is made or pension is received. It will be chargeable to tax as income of that previous year.

(v) Where any amount paid or deposited by the assessee has been taken into account for the purposes of this section, a deduction under section 80C shall not be allowed with reference to such amount.

Deduction in respect of contribution to pension scheme of Central Government [Section 80CCD]

(i) A "New Restructured Defined Contribution Pension System" applicable to new entrants to Government service has been introduced. As per the scheme, it is mandatory for persons entering the service of the Central Government on or after 1st January, 2004, to contribute ten per cent their of salary every month towards their pension account. A matching contribution is required to be made by the Government to the said account. The benefit of this scheme is available to individuals employed by any other employer also on or after 1st January, 2004.

(ii) To give effect to the new pension scheme of the Central Government, a new section 80CCD has been inserted.

(iii) This section provides a deduction for the amount paid or deposited by an employee in his pension account subject to a maximum of 10% of his salary.

(iv) The contribution made by the Central Government or any other employer in the previous year to the said account of an employee, is allowed as a deduction in computation of the total income of the assessee. However, the deduction is restricted to 10% of the employee's salary.

(v) The entire employer's contribution would be included in the salary of the employee. However, deduction under section 80CCD would be restricted to 10% of salary.

(vi) This deduction is now extended also to self-employed individuals. The deduction in the case of a self-employed individual would be restricted to 10% of his gross total income in the previous year.

(vii) Further, the amount standing to the credit of the assessee in the pension account (for which deduction has already been claimed by him under this section) and accretions to such account, shall be taxed as income in the year in which such amounts are received by the assessee or his nominee on –

(a) closure of the account or
(b) his opting out of the said scheme or
(c) receipt of pension from the annuity plan purchased or taken on such closure or opting out.

(viii) However, the assessee shall be deemed not to have received any amount in the previous year if such amount is used for purchasing an annuity plan in the same previous year.

(ix) No deduction will be allowed under section 80C in respect of amounts paid or deposited by the assessee, for which deduction has been allowed under section 80CCD(1).

Limit on deductions under sections 80C, 80CCC & 80CCD(1) [Section 80CCE]

This section restricts the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) to ` 1 lakh. It may be noted that the employer's contribution to pension scheme, allowable as deduction under section 80CCD(2) in the hands of the employee, would be outside the overall limit of ` 1 lakh stipulated under section 80CCE.

Illustration 3

The basic salary of Mr. A is ` 20,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A.

Solution

Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD

(a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1) (viii). Therefore, ` 36,000, being 15% of basic salary of ` 2,40,000, will be included in Mr. A's salary.

(b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD (1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, salary for the purpose of deduction under section 80CCD, in this case, would be –

Particulars	`
Basic salary = ` 20,000 × 12 =	2,40,000
Dearness allowance = 40% of ` 2,40,000 = `96,000	
50% of DA forms part of pay = 50% of ` 96,000	48,000
Salary for the purpose of deduction under section 80CCD	2,88,000
Deduction under section 80 CCD (1)	28,800
Deduction under section 80CCD(1) = 10% of ` 2,88,000 (as against actual contribution of ` 36,000, being 15% of basic salary of ` 2,40,000)	

` 28,800 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ` 1 lakh under section 80CCE.

(c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD (2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ` 28,800, even though the entire employer's contribution of ` 36,000 is included in salary under section 17(1)(viii).

However, this deduction of employer's contribution of ` 28,800 to pension scheme would be outside the overall limit of ` 1 lakh under section 80 CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ` 1 lakh.

Illustration 4

The gross total income of Mr. X for the A.Y.2014-15 is ` 5,00,000. He has made the following investments/payments during the F.Y.2013-14 –

Particulars	`
(1) Contribution to PPF	70,000
(2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3) Repayment of housing loan taken from Standard Chartered Bank	25,000
(4) Contribution to approved pension fund of LIC	10,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2014-15.

Solution

Computation of deduction under Chapter VI-A for the A.Y.2014-15

Particular	`
Deduction under section 80C	
(1) Contribution to PPF	70,000
(2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3) Repayment of housing loan	25,000
	1,40,000
Deduction under section 80CCC	
(1) Contribution to approved pension fund of LIC	10,000
	1,50,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80 CCD(1) has to be restricted to ` 1 lakh	
Deduction allowable under Chapter VIA for the A.Y.2014-15	1,00,000

One time deduction for investment by a resident individual in listed equity shares as per notified scheme [New section 80CCG]

(i) In the Budget Speech, a new scheme was proposed to be introduced to encourage flow of savings in financial instruments and improve the depth of domestic capital market.

(ii) Accordingly, new section 80CCG has been introduced to provide for a one-time deduction to a resident individual who has acquired listed equity shares or listed units of an equity oriented fund in a previous year in accordance with a scheme notified by the Central Government.

(iii) The deduction would be 50% of amount invested in such equity shares or ` 25,000, whichever is lower. The maximum deduction of ` 25,000 would be available on investment of ` 50,000 in such listed equity shares.

(iv) The following conditions have to be satisfied for claiming the above deduction–

a) The gross total income of the assessee for the relevant assessment year should be less than or equal to ` 12 lakh.

b) The assessee should be a new retail investor as per the requirement specified under the notified scheme.
c) The investment should be made in such listed shares or listed units of equity oriented fund as may be specified under the notified scheme.
d) The minimum lock-in period in respect of such investment is three years from the date of acquisition in accordance with the notified scheme.

The deduction shall be allowed in accordance with, and subject to, the provisions of this section for three consecutive assessment years, beginning with the assessment year relevant to the previous year in which the listed equity shares or listed units of equity oriented fund were first acquired.

In addition to the above, other conditions may also be prescribed, subject to fulfillment of which, deduction under section 80CCG can be claimed.

(v) If the individual, after having claimed such deduction, fails to comply with any of the conditions in any previous year, say, he sells the shares before three years, then, the deduction earlier allowed shall be deemed to be the income of the previous year in which he fails to comply with the condition. The income shall, be liable to tax for the assessment year relevant to such previous year.

(vi) If deduction has been claimed and allowed under this section for any assessment year, the assessee would not be allowed any deduction under this section for any subsequent assessment year.

"Equity oriented fund" shall have the meaning assigned to it in the Explanation to clause (38) of section 10.

Deduction in respect of medical insurance premium [Section 80D]
(i) As per section 80D, in case of an individual, a deduction is allowed in respect of premium paid to effect or keep in force an insurance on the health of self, spouse and dependent children or any contribution made to the Central Government Health Scheme or such other scheme as may be notified by the Central Government in this behalf, up to a maximum of ` 15,000 in aggregate. A further deduction of ` 15,000 is also allowed in case the premium is paid for the health insurance taken for the health of parents.

An increased deduction of ` 20,000 (instead of ` 15,000) shall be allowed in case any of the persons mentioned above is a senior citizen i.e. an individual resident in India of the age **of 60 years or more at any time during the relevant previous year.**

Further, deduction would be allowed only if the payment of insurance premium is made in any mode other than cash.

(ii) Section 80D has been amended to provide that deduction to the extent of ` 5,000 shall be allowed in respect payment made on account of preventive health check-up of self, spouse, dependent children or parents made during the previous year. However, the said deduction of ` 5,000 is within the overall limit of ` 15,000 or ` 20,000, as the case may be.

(iii) In effect the maximum deduction allowable under this section in any assessment year shall be to the extent of ` 15,000 for self, spouse and dependent children (` 20,000 in case any of the persons are senior citizen) in respect of the following payments made –

(1) to effect or keep in force an insurance on the health of self, spouse or dependent children.
(2) on account of contribution to the Central Government Health Scheme or such other scheme as may be notified by the Central Government in this behalf.
(3) on account of preventive health check-up of self, spouse or dependent children.

(iv) A further deduction up to ` 15,000 (` 20,000 in case either of parents are senior citizens) is allowable –

> **(1) to effect or keep in force an insurance on the health of parents.**
> **(2) on account of preventive health check-up of parents.**

(v) The maximum deduction allowable in respect of expenditure on preventive health check-up of self, spouse, dependent children and parents would be ` 5,000.

(vi) Further it is provided that, for claiming such deduction under section 80D, the payment can be made:

> **(1) by any mode, including cash, in respect of any sum paid on account of preventive health check-up;**
> **(2) by any mode other than cash, in all other cases.**

(vii) In the case of a HUF, deduction is allowed under this section in respect of premium paid to insure the health of any member of the family. The maximum deduction available to a HUF would be ` 15,000 and in case any member is a senior citizen, ` 20,000.

(viii) The other conditions to be fulfilled are that such premium should be paid by any mode, other than cash, in the previous year out of his income chargeable to tax. Further, the medical insurance should be in accordance with a scheme made in this behalf by –

> **(a) the General Insurance Corporation of India and approved by the Central Government in this behalf; or**
> **(b) any other insurer and approved by the Insurance Regulatory and Development Authority.**

Illustration 5

Mr. A, aged 40 years, paid medical insurance premium of ` 12,000 during the P.Y.2013-14 to insure his health as well as the health of his spouse. He also paid medical insurance premium of `17,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ` 2,400 to Central Government Health Scheme during the year. He has incurred `3,000 in cash on preventive health check-up of himself and his spouse and `4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y.2014-15.

Solution

Deduction allowable under section 80D for the A.Y.2014-15

	Particulars	`	`
		Actual Payment	Maximum deduction allowable
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	12,000	12,000
(ii)	Contribution to CGHS	2,400	2,400
(iii)	Exp. on preventive health check-up of self & spouse	3,000	6,00
		17,400	15,000
B.	Premium paid and medical expenditure incurred for father, who is a senior		
(i)	citizen	17,000	17,000
(ii)	Mediclaim premium paid for father, who is over 60 years of age	4,000	3,000
	Expenditure on preventive health check-up of father	21,000	20,000
	Total deduction under section 80D (15,000 + 20,000)		35,000

Notes

(1) The total deduction under A. (i), (ii) and (iii) above should not exceed ` 15,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ` 600, being (` 15,000 – ` 12,000 – ` 2400).
(2) The total deduction under B. (i) and (ii) above should not exceed ` 20,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ` 3,000, being (` 20,000 – ` 17,000).
(3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ` 3,600 (i.e., ` 600 + ` 3,000), which is less than the maximum permissible limit of `5,000.

Illustration 6

Mr. Y, aged 40 years, paid medical insurance premium of ` 12,000 during the P.Y.2013-14 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ` 21,000 during the year to insure the health of his father, aged 67 years, who is not dependent on him. He contributed `2,400 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y.2014-15.

Solution

Deduction allowable under section 80D for the A.Y.2014-15

	Particulars	`
(i)	Medical insurance premium paid for self, spouse and dependent children	12,000
(ii)	Contribution to CGHS	2,400
(iii)	Mediclaim premium paid for father, who is over 60 years of age (` 21,000 but restricted to ` 20,000, being the maximum allowable)	20,000
		34,400

Note – The total deduction under (i) and (ii) above should not exceed ` 15,000. In this case, since the total of (i) and (ii) (i.e., ` 14,400) does not exceed ` 15,000, the same is fully allowable under section 80D.
However, had the medical insurance premium paid for self, spouse and children been ` 14,000 instead of `12,000, then, the total of ` 16,400 (i.e., ` 14,000 + ` 2,400) under (i) and (ii) above would be restricted to `15,000. In such a case, the total deduction allowable under section 80D would be ` 35,000 [i.e., ` 15,000 [(i) & (ii)] + ` 20,000 (iii)].

Deduction in respect of maintenance including medical treatment of a dependent disabled [Section 80DD]

(i) Section 80DD provides deduction to an assessee, who is a resident in India, being an individual or Hindu undivided family. Any amount paid for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability, or any amount paid or deposited under a scheme framed in this behalf by the Life Insurance Corporation or any other insurer or the Administrator or the Specified Company as referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, for the maintenance of a dependant, being a person with disability, qualifies for deduction.

(ii) The benefit of deduction under this section is also available to assessees incurring expenditure on maintenance including medical treatment of persons suffering from autism, cerebral palsy and multiple disabilities.

(iii) The quantum of deduction is ` 50,000 and in case of severe disability (i.e. person with 80% or more disability) the deduction shall be ` 1,00,000.

(iv) The term ‘dependent’ has been defined to include in the case of an individual, the spouse, children, parents, brothers and sisters of the individual and in the case of a Hindu Undivided Family (HUF), a member thereof, who is wholly or mainly dependent on the assessee and has not claimed any deduction under section 80U in the computation of his income.

(v) For claiming the deduction, the assessee shall have to furnish a copy of the certificate issued by the medical authority under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 along with the return of income under section 139.

(vi) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned in the original certificate in order to continue to claim the deduction.

Illustration 7

Mr. X is a resident individual. He deposits a sum of ` 25,000 with Life Insurance Corporation every year for the maintenance of his handicapped grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2014-15.

Solution

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant relative.

Illustration 8

What will be the deduction if Mr. X had made this deposit for his dependant father?

Solution

Since the expense was incurred for a dependant disabled relative, Mr. X will be entitled to claim a deduction of `50,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ` 1,00,000.

Deduction in respect of medical treatment etc. [Section 80DDB]

(i) This section provides deduction to an assessee, who is resident in India, being an individual and Hindu undivided family. Any amount actually paid for the medical treatment of such disease or ailment as may be specified in the rules made in this behalf by the Board for himself or a dependent, in case the assessee is an individual or for any member of a HUF, in case the assessee is a HUF will qualify for deduction.

(ii) The amount of deduction under this section shall be equal to the amount actually paid or ` 40,000, whichever is less, in respect of that previous year in which such amount was actually paid. In case the amount is paid in respect of a senior citizen, **i.e., a resident individual of the age of 60 years or more at any time during the relevant previous year,** then the deduction would be the amount actually paid or `60,000, whichever is less.

(iii) The term ‘dependent’ includes in the case of an individual, the spouse, children, parents, brothers and sisters of the individual and in the case of a Hindu undivided family (HUF), a member of the HUF, who is wholly or mainly dependent on such individual or HUF for his support and maintenance.

(iv) No such deduction shall be allowed unless the assessee furnishes with a return of income, a certificate in such form, as may be prescribed, from a neurologist, an oncologist, a urologist, a hematologist, an immunologist or such other specialist, as may be prescribed, working in a Government hospital.

(v) The term “Government hospital” will also include approved hospitals for the treatment of Government servants.

(vi) The deduction under this section shall be reduced by the amount received, if any, under an insurance from an insurer, or reimbursed by an employer, for the medical treatment of the assessee or the dependent.

Deduction in respect of interest on loan taken for higher education [Section 80E]

(i) Section 80E provides deduction to an individual-assessee in respect of any interest on loan paid by him in the previous year out of his income chargeable to tax.

(ii) The loan must have been taken for the purpose of pursuing his higher education or for the purpose of higher education of his or her relative i.e. spouse or children of the individual or *the* student for whom the individual is the legal guardian.

(iii) “Higher education” means any course of study (including vocational studies) pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central Government or State Government or local authority or by any other authority authorized by the Central Government or State Government or local authority to do so. Therefore, interest on loan taken for pursuing any course after Class XII or its equivalent, will qualify for deduction under section 80E.

(iv) The loan must have been taken from any financial institution or approved charitable institution.

(v) The deduction is allowed in computing the total income in respect of the initial assessment year (i.e. the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan) and seven assessment years immediately succeeding the initial assessment year or until the interest is paid in full by the assessee, whichever is earlier.

(vi) “Approved charitable institution” means an institution established for charitable purposes and approved by the prescribed authority under section 10(23C) or an institution referred to in section 80G(2)(a).

(vii) “Financial institution” means –

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

(2) any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf.

Illustration 9

Mr. B has taken three education loans on April 1, 2013, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (`)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (`)	1,00,000	40,000	80,000
Annual repayment of interest (`)	20,000	10,000	18,000

Compute the amount deductible under section 80E for the A.Y.2014-15.

Solution

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.
Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ` 20,000 + ` 10,000 + ` 18,000 = ` 48,000

Deduction in respect of interest on loan taken for residential house property Section 80EE

(*1*) In computing the total income of an assessee, being an individual, there shall be deducted, in accordance with and subject to the provisions of this section, interest payable on loan taken by him from any financial institution for the purpose of acquisition of a residential house property.

(*2*) The deduction under sub-section (*1*) shall not exceed one lakh rupees and shall be allowed in computing the total income of the individual for the assessment year beginning on the 1st day of April, 2014 and in a case where the interest payable for the previous year relevant to the said assessment year is less than one lakh rupees, the balance amount shall be allowed in the assessment year beginning on the 1st day of April, 2015.

(*3*) The deduction under sub-section (*1*) shall be subject to the following conditions, namely:—

(*i*) the loan has been sanctioned by the financial institution during the period beginning on the 1st day of April, 2013 and ending on the 31st day of March, 2014;

(*ii*) the amount of loan sanctioned for acquisition of the residential house property does not exceed twenty-five lakh rupees;

(*iii*) the value of the residential house property does not exceed forty lakh rupees;

(*iv*) the assessee does not own any residential house property on the date of sanction of the loan.

(*4*) Where a deduction under this section is allowed for any interest referred to in sub-section (*1*), deduction shall not be allowed in respect of such interest under any other provisions of the Act for the same or any other assessment year.

(*5*) For the purposes of this section,—

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

(*b*) "housing finance company" means a public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

Deduction in respect of donations to certain funds, charitable institutions etc. [Section 80G]
(i) Where an assessee pays any sum as donation to eligible funds or institutions, he is entitled to a deduction, subject to certain limitations, from the gross total income.

(ii) The following table gives the details of the institutions and funds to which donations can be made for the purpose of claiming deduction under section 80G, the qualifying amount and the deductions allowable -

Eligible institutions / funds	**Permissible deduction**
1	**2**
1. The National Defence Fund set up by the Central Government.	100%
2. The Jawaharlal Nehru Memorial Fund.	50%
3. Prime Minister's Drought Relief Fund.	50%
4. Prime Minister's National Relief Fund.	100%
5. Prime Minister's Armenia Earthquake Relief Fund.	100%
6. The Africa (Public Contributions-India) Fund.	100%
7. The National Children's Fund.	100%

8. Indira Gandhi Memorial Trust.	50%
9. Rajiv Gandhi Foundation.	50%
10. The National Foundation for Communal Harmony.	100%
11. Approved University or educational institution of national eminence.	100%
12. Maharashtra Chief Minister’s Earthquake Relief Fund.	100%
13. Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of the Gujarat earthquake.	100%
14. Any Zila Saksharta Samiti for primary education in villages and towns and for literacy and post-literacy activities	100%
15. National Blood Transfusion Council or any State Blood Transfusion Council whose sole objective is the control, supervision, regulation or encouragement of operation and requirements of blood banks.	100%
16. Any State Government Fund set up to provide medical relief to the poor.	100%
17. The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependents.	100%
18. The National Illness Assistance Fund.	100%
19. The Chief Minister’s Relief Fund or Lieutenant Governor’s Relief Fund.	100%
20. The National Sports Fund set up by the Central Government.	100%
21. The National Cultural Fund set up by the Central Government.	100%
22. The Fund for Technology Development and Application set up by the Central Government.	100%
23. National Trust for welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities.	100%
24. Any Institution or Fund established in India for charitable purposes fulfilling certain prescribed conditions under section 80G(5)	50% subject to qualifying limit
25. The Government or any local authority for utilisation for any charitable purpose other than the purpose of promoting family planning.	50% subject to qualifying limit
26. An authority constituted in India or under any other law enacted either for dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or both.	50% subject to qualifying limit
27. Any Corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community.	50% subject to qualifying limit
28. The Government or to any approved local authority, institution or association for promotion of family planning.	100% subject to qualifying limit
29. Notified temple, mosque, gurdwara, church or other place of historic, archaeological or artistic importance or which is a place of public worship of renown throughout any State or States.	50% subject to qualifying limit
30. Sum paid by a company as donation to the Indian Olympic Association or any other association/institution established in India, as may be notified by the Government for the development of infrastructure for sports or games, or the sponsorship of sports and games in India.	100% subject to qualifying limit
31. Andhra Pradesh Chief Minister’s Cyclone Relief Fund	100%

(iii) The conditions mentioned in item No. 24 above are as follows:

(1) The institution or fund is:

(a) constituted as a public charitable trust, or
(b) registered under the Societies Registration Act, 1960 or under any corresponding law or under section 25 of the Companies Act, 1956, or
(c) a University established by law or
(d) any other educational institution recognized by the Government or
(e) an institution financed wholly or in part by the Government or a local authority.

(2) Where such Institution or Fund derives any income, such income should not be liable to inclusion in its total income under the provisions of section 10(23AA), 10(23C) or 11 or 12.

The Institution, referred to in the above clauses of section 10 are as follows :

(i) Regimental fund or Non-public Fund established by the armed forces of the Union for the welfare of its members and their dependants [Section 10(23AA)]
(ii) The Prime Minister Fund (Promotion of Folk Art) [Section 10(23C)]
(iii) The Prime Minister Aid to Students Fund [Section 10(23C)]
(iv) National Foundation for communal harmony [Section 10(23C)]
(v) Charitable Trusts and Institutions [Sections 11 and 12].

However, it may be noted that the assessee will not lose the benefit of deduction if :
(a) subsequent to the donation, any part of the income of the Institution has become chargeable to tax due to non- compliance with any of the provisions of section 11 or section 12 or section 12A.
(b) as a result of the operation of section 11(1)(*c*), exemption under section 11 or section 12 is denied to the institution.

(3) No part of the income or assets of the Institution or Fund is transferable or applicable at any time for any purposes other than charitable purpose. Such charitable purpose however does not include any purpose the whole or substantially the whole of which is of a religious nature.

For the purposes of this section, an association or institution having as its object the control, supervision, regulation or encouragement in India of such games or sports as the Central Government may, by notification in the Official Gazette, specify in this behalf, shall be deemed to be an institution established in India for a charitable purpose.

(4) The Institution or Fund is not expressed to be for the benefit of any particular religious community or caste. An institution or fund established for the benefit of women and children or of Scheduled Castes, Backward classes or Scheduled Tribes is not however to be treated as an institution or fund for the benefit of a religious community or caste.

(5) The Institution or Fund maintains regular accounts of its receipt and expenditure.

(iv) Section 80G(4) clarifies that the limits prescribed therein will apply with reference to aggregate amount of donations qualifying for deduction and not with reference to the quantum of deduction admissible. For applying the qualification limit, all the eligible donations should be aggregated and the sum total should be limited to 10% of the adjusted gross total income.

The excess shall be ignored in computing the aggregate in respect of which deduction is allowable.

Adjusted gross total income means the gross total income as reduced by the following:
(1) amount of deductions under sections 80C to 80U (but not including section 80G),

(2) Any income on which income tax is not payable,

(3) Long term capital gains

(4) Short-term Capital Gains u/s 111A and

(5) Income referred to in sections 115A, 115AB,115AC, 115AD and 115D.

(v) Where an assessee has claimed and has been allowed any deduction under this section in respect of any amount of donation, the same amount will not qualify for deduction under any other provision of the Act for the same or any other assessment year [Sub-section (5A)].

(vi) Where an institution or fund incurs expenditure of a religious nature for an amount not exceeding 5% of its total income in that previous year, such institution or fund shall be deemed to be a fund or institution to which the provisions of this section apply.

(vii) Donations in kind shall not qualify for deduction.

(viii) No deduction shall be allowed in respect of donation of any sum exceeding `10,000 unless such sum is paid by any mode other than cash.

(ix) The deduction under section 80G can be claimed whether it has any nexus with the business of the assessee or not.
(x) In respect of donations made after 31.3.1992 to any institution or fund, such institution or fund must be approved by the Commissioner in accordance with the rules made in this behalf.

(xi) As per Circular No.2/2005 dated 12.1.2005, in cases where employees make donations to the Prime Minister’s National Relief Fund, the Chief Minister’s Relief Fund or the Lieutenant Governor’s Relief Fund through their respective employers, it is not possible for such funds to issue separate certificate to every such employee in respect of donations made to such funds as contributions made to these funds are in the form of a consolidated cheque. An employee who makes donations towards these funds is eligible to claim deduction under section 80G. It is, hereby, clarified that the claim in respect of such donations as indicated above will be admissible under section 80G of the Income-tax Act, 1961 on the basis of the certificate issued by the Drawing and Disbursing Officer (DDO)/Employer in this behalf.

Deduction in respect of rent paid [Section 80GG]
(i) This section provides for deduction in respect of rent paid.

(ii) The following conditions have to be satisfied for claiming deduction under section 80GG -
(1) The assessee should not be receiving any house rent allowance exempt under section 10(13A).
(2) The expenditure incurred by him on rent of any furnished or unfurnished accommodation should exceed 10% of his total income arrived at after all deductions under Chapter VI A except section 80GG.
(3) The accommodation should be occupied by the assessee for the purposes of his own residence.
(4) The assessee should fulfil such other conditions or limitations as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations.
(5) The assessee or his spouse or his minor child or an HUF of which he is a member should not own any accommodation at the place where he ordinarily resides or perform duties of his office or employment or carries on his business or profession; or
(6) If the assessee owns any accommodation at any place other than that referred to above, such accommodation should not be in the occupation of the assessee and its annual value is not required to be determined under section 23(2)(a) or section 23(4)(a).
(7) The assessee should file a declaration in Form 10BA, confirming the details of rent paid and fulfillment of other conditions, with the return of income.

(iii) The deduction admissible will be the least of the following:
(1) Actual rent paid minus 10% of the total income of the assessee before allowing the deduction, or
(2) 25% of such total income (arrived at after making all deductions under Chapter VI A but before making any deduction under this section), or
(3) Amount calculated at ` 2,000 p.m.

Total income for the above purpose will not include long term capital gains, **Short Term Capital Gains u/s 111A** if any, and any income referred to in sections 115A to 115D except casual income.

Illustration 10

An assessee, whose total income is `46,000, paid house rent at `1,200 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable under section 80GG.

Solution

The deduction under section 80GG will be computed as follows:

(i) Actual rent less 10 per cent of total income

$(14{,}400) - \frac{(10 \times 46{,}000)}{100}$ = ` 9,800

(ii) 25 per cent of total income

$\frac{25 \times 46{,}000}{100}$ = ` 11,500(B)

(iii) Amount calculated at ` 2,000 p.m.= ` 24,000(C)

Deduction allowable (least of A, B and C) = ` 9,800

Deduction in respect of donations for scientific research and rural development [Section 80GGA]

(i) Section 80GGA grants deduction in respect of the donations made for scientific research or rural development by any person not having income chargeable under the head “Profits and gains of business or profession”.

(ii) The following donations would qualify for deduction under this section -

(1) Any sum paid by the assessee in the previous year to a research association which has, as its object, the undertaking of scientific research or to a University, college or other institution to be used for scientific research; and

(2) Any sum paid by the assessee in the previous year to an association or institution which has as its object the undertaking of any programme of rural development to be used for carrying out any programme of rural development approved by the prescribed authority for purposes of section 35CCA or to an institution or association which has as its object the training of persons for implementing programmes of rural development.

It is, however, essential that in respect of both the aforesaid donations, the association or institution to which the donation is given must be approved by the prescribed authority; in the case of donation for scientific research, the donation must be to the institution approved under section 35(1)(ii) whereas in the case of donation for rural development the institution or association must be approved by the prescribed authority under section 35CCA(2) of the Income-tax Act, 1961.

(3) Any sum paid to a Research Association which has as its object the undertaking of research in social science or statistical research, University, College or other institution to be used for research in social science or statistical research.
Such Research Association, University, College or institution must be approved under section 35(1)(iii).

(4) Any sum paid to a public sector company or a local authority or to an association or institution approved by the National Committee for carrying out any eligible project or scheme.

However, the assessee must furnish a certificate referred to in section 35AC from such public sector company or local authority or association or institution.

The expression "National Committee" and "eligible project or scheme" shall have the meanings respectively assigned to them in the Explanation to section 35AC.

Note – It has been clarified that the deduction to which an assessee is entitled in respect of any sum paid to a Research association, university, college or other institution or to an association or institution for carrying out the programme of rural development, or to a public sector company, or to a local authority or to an association or institution for carrying out the eligible project or scheme referred to in section 35AC, respectively, shall not be denied merely on the ground that subsequent to the payment of such sum by the assessee the approval granted or, as the case may be, the notification has been withdrawn.

(5) Any sum paid to a rural development fund set up and notified under section 35CCA.

(6) Any sum paid by the assessee in the previous year to National Urban Poverty Eradication Fund (NUPEF).

(iii) Restrictions on deduction -

(1) No deduction under this section would be allowed in the case of an assessee whose gross total income includes income which is chargeable under the head "Profits and gains of business or profession."

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

(3) No deduction shall be allowed in respect of donation of any sum exceeding ` 10,000 unless such sum is paid by any mode other than cash.

Deduction in respect of contributions given by companies to political parties [Section 80GGB]
(i) This section provides for deduction of any sum contributed in the previous year by an Indian company to any political party or an electoral trust.

No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

(ii) For the purposes of this section, the word "contribute" has the same meaning assigned to it under section 293A of the Companies Act, 1956, which provides that –

(a) a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to effect public support for a political party shall also be deemed to be contribution for a political purpose;
(b) the expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.

(iii) "Political party" means a political party registered under section 29A of the Representation of the People Act, 1951.

Illustration 11

During the P.Y.2013-14, ABC Ltd., an Indian company,

(1) contributed a sum of ` 2 lakh to an electoral trust; and

(2) incurred expenditure of ` 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure? If so, what is the quantum of deduction? Company paid the amount through cheque.

Solution

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ` 2,25,000 under section 80GGB in respect of sum of ` 2 lakh contributed to an electoral trust and ` 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ` 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

Deduction in respect of contributions given by any person to political parties [Section 80GGC]

(i) This section provides for deduction of any sum contributed in the previous year by any person to a political party or an electoral trust.

(ii) However, the deduction will not be available to a local authority and an artificial juridical person, wholly or partly funded by the Government.

No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

(iii) "Political party" means a political party registered under section 29A of the Representation of the People Act, 1951.

Deduction in respect of incomes

Deductions in respect of profits and gains from undertakings or enterprises engaged in infrastructure development, etc. [Section 80-IA]

(i) **Applicability:** Section 80-IA(1) provides a ten year tax holiday to an assessee, whose gross total income includes any profits and gains derived by an undertaking or enterprise from an eligible business i.e., business referred to in sub-section (4), namely :

(1) Infrastructure facility - Any enterprise carrying on the business of :

(a) developing

(b) operating and maintaining; or

(c) developing, operating and maintaining any infrastructure facility.

Conditions: However, such enterprise must fulfil the following conditions :

(i) It must be owned by a company registered in India or by a consortium of such companies or by an authority or a board or a corporation or any other body established or constituted under any Central or State Act.

(ii) It has entered into an agreement with the Central or a State Government or a local authority or statutory body for (i) developing or (ii) operating and maintaining, or (iii) developing, operating and maintaining a new infrastructure facility.

(iii) It starts operating and maintaining such infrastructure facility on or after 01-04-1995.

(iv) However, where an enterprise which developed such infrastructure facility transfers it to another enterprise on or after 1-4-1999, and such transferee enterprise operates and maintains it according to the agreement drawn up with the Government, etc., this section will apply to the transferee enterprise for the unexpired period of deduction (which was available to the first enterprise).

Meaning of "infrastructure facility": For this purpose, 'infrastructure facility' means :

(i) a road, including toll road, a bridge or a rail system*;*

(ii) a highway project including housing or other activities being an integral part of the highway project;

(iii) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system; and

(iv) a port, airport, inland waterway or inland port or navigational channel in the sea.
Note – 1. Structures at the ports for storage, loading and unloading etc. will be included in the definition of port for the purpose of section 80-IA, if the concerned port authority has issued a certificate that the said structures form part of the port.

2. Effluent treatment and conveyance system is a part of water treatment system and would accordingly, qualify as an infrastructure facility for the purpose of section 80-IA.

3. The CBDT has, vide *Circular No. 4/2010 dated 18.5.2010*, clarified that widening of an existing road by constructing additional lanes as a part of a highway project by an undertaking would be regarded as a new infrastructure facility for the purpose of section 80- IA(4)(i). However, simply relaying of an existing road would not be classifiable as a new infrastructure facility for this purpose.

(2) **Telecom undertakings:** Any undertaking providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service or network of trunking (NOT), broadband network and internet services on or after 1 April, 1995 but on or before 31 March, 2005.
Meaning of "domestic satellite": 'Domestic satellite' has been defined by sub-section (12)(a) as "a satellite owned and operated by an Indian company for providing telecommunication services."

(3) **Industrial parks / Special Economic Zones:** Any undertaking which develops, develops and operates, or maintains and operates an industrial park or develops, or develops and operates, or maintains and operates, a special economic zone.

Conditions:
(i) The undertaking begins to operate an industrial park or special economic zone in accordance with the scheme framed and notified by the Central Government.

(ii) The scheme is notified by the Government for the period beginning on 01-04-1997 and ending on (i) 31-03-2011 for industrial parks and (ii) 31.3.2006 for SEZs.

Rule 18C lays down the following eligibility criteria for Industrial Parks to claim benefit under section 80-IA (4)(iii) -

(1) The undertaking should begin to develop, develop and operate or maintain and operate an industrial park any time during the period from 1.4.2006 to 31.3.2009.
(2) The undertaking and the Industrial Park should be notified by the Central Government under the Industrial Park Scheme, 2008.
(3) The undertaking should continue to fulfill the conditions envisaged in the Industrial Park Scheme, 2008.

(iii) However, where an undertaking develops an industrial park on or after 1.4.1999 or a special economic zone on or after 1.4.2001 and transfers the operation and maintenance to another undertaking (transferee undertaking), the deduction to the transferee undertaking shall be available for the remaining period in the ten consecutive assessment years, in such a manner as would have been available to the transferor undertaking, as if the operation and maintenance were not so transferred to the transferee undertaking.

(4) **Power undertakings:** Any undertaking which
(i) is set up in any part of India for the generation or generation and distribution of power.
However, such undertaking must begin to generate power at any time during the period between 01.04.1993 and **31.3.2014**.

(ii) starts transmission or distribution by laying a network of new transmission or distribution lines at any time during the period from 01.04.1999 and **31.3.2014**. However, the deduction shall be allowed only in respect of profits derived from the laying of such network of new lines for transmission or distribution.
(iii) undertakes substantial renovation and modernisation of the existing network of transmission or distribution lines at any time during the period beginning on 01.04.2004 and ending on **31.03.2014**.

'Substantial renovation and modernisation' means an increase in the plant and machinery in the network of transmission or distribution lines by at least fifty per cent of the book value of such plant and machinery as on 1st April, 2004.

Telecom and Power undertakings should fulfill the following conditions:
(a) It is not formed by splitting up or reconstruction of a business already in existence. However, this condition shall not apply in the case of an undertaking which is formed as a result of reconstruction, re-establishment or revival of the business of any undertaking which has been discontinued in any previous year due to extensive damage or destruction of any building, machinery, plant or furniture owned by the assessee and used for the purposes of such business. Further, the reason for damage or destruction is due to any natural calamity or other unforeseen circumstances such as the following:

(i) Flood, typhoon, hurricane, cyclone, earthquake or other natural calamity, or

(ii) riot or civil disturbance, or

(iii) accidental fire or explosion, or

(iv) enemy action or action taken in combat,
and such business is re-established or revived within 3 years from the end of such previous year.

(b) The undertaking should not be formed by the transfer of machinery or plant previously used for any purpose.

However, these conditions do not apply in case of transfer, either in whole or in part, of machinery or plant previously used by a State Electricity Board. This is irrespective of whether or not such transfer is in pursuance of the splitting up or reconstruction of such State Electricity Board or reorganisation of the State Electricity Board under Part XIII of the Electricity Act, 2003.

Also, this condition shall not apply to second-hand machinery or plant imported by the assessee if the following conditions are fulfilled:

(i) Such machinery or plant was not used in India prior to the date of installation by the assessee.

(ii) No deduction on account of depreciation was allowed to any person prior to the date of installation by the assessee.

Further, where the total value of any plant or machinery previously used and now transferred to the new business does not exceed 20% of the total value of the machinery or plant used in the new business, such plant or machinery will be considered as new for this purpose.

(5) Undertakings owned by an Indian company and set up for reconstruction or revival of a power generating plant

(i) Clause (v) provides that the benefit under this section is available to an undertaking owned by an Indian company and set up for reconstruction or revival of a power generating plant.

(ii) Such Indian company should be formed before 30.11.2005 with majority equity participation by public sector companies for the purposes of enforcing the security interest of the lenders to the company owning the power generating plant.

(iii) Such Indian company should have been notified before 31.12.2005 by the Central Government for the purposes of this clause.

(iv) Such undertaking should begin to generate or transmit or distribute power before 31.3.2011.

(ii) Rate of Deduction

(1) The amount of deduction available will be 100% of the profits and gains derived from such business for ten consecutive assessment years commencing at any time during the periods specified in (iii) below.

(2) However, in case of telecom undertakings covered under (2) above, the deduction will be 100% for the first 5 assessment years and thereafter 30% for the further 5 assessment years.

(iii) Period of tax holiday/concession

(1) The assessee has the option to claim deduction for any 10 consecutive assessment years out of 15 years beginning from the year in which the undertaking or the enterprise develops or begins to operate the eligible business.

(2) The assessee may also claim deduction for 10 out of 15 years beginning from the year in which an undertaking undertakes substantial renovation and modernization of the existing transmission or distribution lines.

(3) In case of an infrastructure facility being a public facility like –

(i) a road, including a toll road, bridge or rail system; or

(ii) a highway project including housing or other activities which are an integral part of the highway project; or

(iii) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system, the assessee can claim deduction for any 10 consecutive assessment years out of 20 years beginning from the year of operation.

(iv) Other provisions

(1) For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years [Sub-section (5)].

(2) Where housing or other activities are an integral part of a highway project and the profits and gains have been calculated in accordance with the section, the profits shall not be liable to tax if the following conditions have been fulfilled:

(a) The profit has been transferred to a special reserve account; and

(b) the same is actually utilised for the highway project excluding housing and other activities before the expiry of 3 years following the year of transfer to the reserve account;
(c) The amount remaining unutilised shall be chargeable to tax as income of the year in which the transfer to the reserve account took place [Sub-section (6)].

(3) The deduction shall be allowed to the industrial undertaking only if the accounts of the industrial undertaking for the relevant previous year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant along with his return of income [Sub-section (7)].

(4) Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services then the profits and gains of the eligible business shall be computed as if the transfer was made at market value. However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit [Sub-section (8)].

(5) The deductions claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year no deduction in respect of such profits will be allowed under any other section under this chapter [Sub-section (9)].

(6) The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IA and any other person is so arranged that the transaction produces excessive profits to the eligible business [Sub-section (10)].

(7) The section empowers the Central Government to declare any class of industrial undertaking or enterprise as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in the Official Gazette [Sub-section (11)].

(8) In the case of any amalgamation or demerger, by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company, deduction under this section will be available as follows:

(a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/demerger.

(b) The provisions of this section will apply to the amalgamated/resulting company as they would have applied to the amalgamating/demerged company if the amalgamation/demerger had not taken place [Sub-section (12)].

However, such transfer of benefit of deduction to the amalgamated/resulting company would not be available in respect of any enterprise or undertaking which is transferred in a scheme of amalgamation or demerger effected on or after 1.4.2007 [Sub-section (12A)].

(9) The deduction under section 80-IA would not be available in respect of any SEZ notified on or after 1.4.2005 in accordance with the Industrial Park Scheme, 2002 and notified schemes for SEZs, referred to in section 80-IA(4)(c)(iii) [Sub-section (13)].

(10) The tax holiday under section 80-IA would not be available in relation to a business referred to in sub-section (4) which is in the nature of a works contract awarded by any person (including the Central or State Government) and executed by the undertaking or enterprise referred to in section 80-IA(1).

Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of SEZ [Section 80-IAB]

(i) Sub-section (1) provides for a deduction of 100% of profits and gains derived by an undertaking or an enterprise from any business of developing a SEZ for 10 consecutive assessment years.

(ii) The deduction is available to an assessee, being a Developer, whose gross total income includes any profits and gains derived by an undertaking or an enterprise from any business of developing a SEZ, notified on or after 1st April, 2005 under the SEZ Act, 2005.

(iii) Developer means -

(a) a person who, or

(b) a State Government which has been granted a letter of approval by the Central Government under section 3(10) of the SEZ Act, 2005.

A developer includes –

(a) an authority and

(b) a Co-developer.

(iv) Co-developer means -

(a) a person who, or

(b) a State Government which has been granted a letter of approval by the Central Government under section 3(12) of the SEZ Act, 2005.

(v) The deduction shall be allowed only if the accounts are audited by a Chartered Accountant and the audit report is furnished along with the return of income.

(vi) The assessee has the option of claiming the said deduction for any ten consecutive assessment years out of fifteen years beginning from the year in which a SEZ has been notified by the Central Government.

(vii) In a case where an undertaking, being a Developer, who develops a SEZ on or after 1.4.2005 and transfers the operation and maintenance of such SEZ to another Developer, the deduction under sub-section (1) shall be allowed to such transferee Developer for the remaining period in the ten consecutive assessment years as if the operation and maintenance were not so transferred to the transferee Developer.

(viii) The profits and gains from the eligible business should be computed as if such eligible business were the only source of income of the assessee during the relevant assessment year.

(ix) Where any goods or services held for the purposes of eligible business are transferred to any other business carried on by the assessee or, where any goods held for any other business are transferred to the eligible business and, in either case, if the consideration for such transfer as recorded in the accounts of the eligible business does not correspond to the market value thereof, then the profits eligible for deduction shall be computed by adopting market value for such goods or services. In case of exceptional difficulty in this regard, the profits shall be computed by the Assessing Officer on a reasonable basis.

Where due to the close connection between the assessee and the other person or for any other reason, it appears to the Assessing Officer that the profits of eligible business is increased to more than the ordinary profits, the Assessing Officer shall compute the amount of profits on a reasonable basis for allowing the deduction. The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IAB and any other person is so arranged that the transaction produces excessive profits to the eligible business.

(x) The deduction under this section should not exceed the profits of such eligible business of the undertaking or the enterprise.

(xi) Further, where any amount of profits of an undertaking or enterprise is allowed as deduction under this section, no deduction under any other provision of Chapter VI-A is allowable in respect of such profits.

(xii) The Central Government may notify that the benefit conferred by this section shall not apply to any class of industrial undertaking or enterprise with effect from any specified date.

(xiii) Where any undertaking of an Indian company which is entitled to the deduction under this section is transferred before the expiry of the period of deduction to another Indian company in a scheme of amalgamation or demerger, no deduction shall be admissible to the amalgamating or demerged company for the previous year in which the amalgamation or demerger takes place and the amalgamated or the resulting company shall be entitled to the deduction as if the amalgamation or demerger had not taken place.

Deductions in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings, etc. [Section 80-IB]

(i) Applicability

This section will be applicable to assesses, whose gross total income includes any profits and gains derived from any of the following business activities -

(1) An industrial undertaking including a small scale industrial undertaking (SSI)

(2) A ship

(3) A hotel, multiplex theatre or convention centre.

(4) Any company carrying on scientific and industrial research and development

(5) An undertaking which begins commercial production or refining of mineral oil or commercial production of natural gas in licensed blocks.

(6) An undertaking engaged in construction and development of housing projects approved by a local authority

(7) An industrial undertaking deriving profits from the business of setting up and operating a cold chain facility for agricultural produce.

(8) An undertaking deriving profits from the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains.

(9) An undertaking operating and maintaining a hospital in a rural area.

(ii) Conditions to be fulfilled, amount of deduction and period of deduction

The rate and period of deduction and the conditions required to be satisfied by the different categories of businesses are given below :

(1) Industrial undertakings [Sub-sections (2), (3), (4) and (5)]

Conditions: In order to be eligible to claim deduction under section 80-IB, an industrial undertaking must fulfill the following conditions:

(i) It is not formed by splitting up, or the reconstruction of, an existing business.

(ii) It is not formed by the transfer to a new business of any plant or machinery previously used for any other purpose.

In order to satisfy this condition, the total value of the plant or machinery so transferred should not exceed 20% of the value of the total plant or machinery used in the new business.

For the purpose of this condition, machinery or plant would not be regarded as previously used if it had been used by any person other than the assessee provided the following conditions are satisfied:

(a) such plant or machinery was not used in India at any time prior to the date of its installation by the assessee;
(b) the plant or machinery was imported into India from a foreign country;
(c) no deduction in respect of depreciation of such plant or machinery has been allowed to any person at any time prior to the date of installation by the assessee.

(iii) It manufactures or produces any article or thing (except those specified in the Eleventh Schedule) or operates a cold storage plant, in any part of India. However, in the case of an SSI, restriction regarding goods specified in the Eleventh Schedule shall not apply.

(iv) In case of a manufacturing industrial unit, it should employ 10 or more workers (if manufacture is carried on with the aid of power), or 20 or more workers (if manufacture is carried on without the use of power).

Rate and period of deduction : The rate and period of deduction for different categories of industrial undertakings are given below :

(i) The amount of deduction for an industrial undertaking will be 25% of the profits and gains derived from such industrial undertaking for a period of 10 consecutive assessment years starting with the initial assessment year, i.e. the assessment year relevant to the previous year in which the industrial undertaking begins to manufacture or produce articles or things. In the case of a company, the rate of deduction will be 30%. Again, where the assessee is a cooperative society, the period of 10 consecutive years will become 12 consecutive assessment years.

However, in order to claim the amount of deduction specified here, the assessee must fulfil the following conditions:

(a) It must have begun to manufacture or produce articles or things or operate the plants at any time between 01-04-1991 and 31-03-1995, or such further period as specified by the Central Government in the Official Gazette with respect to such class of industries.
(b) In case of an SSI, the period specified for the above purpose is 01-04-1995 and 31-03-2002.
"Small-scale industrial undertaking" means an industrial undertaking which is, as on the last day of the previous year, regarded as a small-scale industrial undertaking under section 11B of the Industrial (Development and Regulation) Act, 1951.

(ii) In case of the following categories of industrial undertakings, the amount and period of deduction will be 100% of the profits and gains derived from the industrial undertaking for the initial 5 assessment years and thereafter 25% of such profits and gains (in case of a company, the rate is 30%):

(a) an industrial undertaking located in an industrially backward State specified in the Eighth Schedule. In this case, the total period of deduction should not exceed 10 consecutive assessment years provided the industrial undertaking begins manufacture or production of articles or things or operation of cold storage plant between 1-4-1993 and 31-3-2004. Where the industrial undertaking is a co-operative society, the deduction will be available for 12 assessment years (instead of 10), including the initial assessment year [Sub-section (4)]

However, the terminal date for setting up of industrial undertakings in the State of Jammu and Kashmir is 31.3.2012. A negative list has also been provided in Part C of the Thirteenth Schedule to specify the commodities which should not be manufactured or produced by such undertakings. The list includes Cigarettes/cigars of tobacco, manufactured tobacco and substitutes, distilled/brewed alcoholic drinks and aerated branded beverages and their concentrates.

The Eighth Schedule specifies the following to be industrially backward States and Union Territories: (1) Arunachal Pradesh (2) Assam (3) Goa (4) Himachal Pradesh (5) Jammu & Kashmir (6) Manipur (7) Meghalaya (8) Mizoram (9) Nagaland (10) Sikkim (11) Tripura (12) Andaman and Nicobar Islands (13) Dadra and Nagar Haveli (14) Daman & Diu (15) Lakshadweep (16) Pondicherry.
In case of notified industries in the North-eastern region of India, the amount of deduction will be 100% of the profits and gains for 10 consecutive assessment years. However, no such deduction shall be allowed to any undertaking or enterprise which is eligible for claiming benefit under section 80-IC.

"North-eastern region" means the region comprising the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.

(b) an industrial undertaking located in such industrially backward districts of Category A or B, as the Central Government may, having regard to the prescribed guidelines, specify in the Official Gazette.

In case of Category A industries, the total period of deduction is 10 consecutive assessment years (except in case of a co-operative society where it is 12 years) provided the undertaking begins manufacture or production of articles or things or operation of cold storage plant between 01-10-1994 and 31-03-2004.

In case of Category B industries, the total period of deduction is 8 consecutive assessment years (except in case of a co-operative society where it is 12 years) provided the undertaking begins manufacture or production of articles or things or operation of cold storage plant between 01-10-1994 and 31-03-2004.

(2) Ships [Sub-section (6)]
Conditions: In order to claim deduction under this section, the following conditions must be fulfilled:
(i) It should be owned by an Indian company and should be wholly used for its business purposes.
(ii) It was not owned or used in Indian territorial waters by any person resident in India prior to the date of its acquisition by the Indian company.
(iii) It was brought into use by the Indian company at any time between 1.4.91 and 31.3.95.

Rate and period of deduction: The amount of deduction will be 30% of the profits and gains derived from such a ship for a period of 10 consecutive assessment years including the initial assessment year i.e., the assessment year relevant to the previous year in which the ship is first bought into use.

(3) Hotels [Sub-section (7)]
Conditions: In order to claim deduction under this section, the following conditions must be fulfilled:
(i) The business of the hotel is not formed by splitting up, or the reconstruction of, an existing business or by the transfer to the new business of a building previously used as a hotel or of any plant or machinery previously used for any purpose.
(ii) The business of the hotel is owned and carried on by a company registered in India with a paid up capital of not less than ` 5,00,000.
(iii) The hotel is approved by the prescribed authority.

Rate and period of deduction: The rate and period of deduction for different categories of hotels are given below.
(i) In case of hotels located in a hilly area or a rural area or a place of pilgrimage or such other place as the Central Government, having regard to the need for development of infrastructure for tourism in any place or such other considerations, may specify in the Official Gazette, the amount of deduction will be 50% of the profits and gains derived from such business.

The deduction will be available for a period of 10 consecutive assessment years beginning with the initial assessment year i.e. the assessment year relevant to the previous year in which the business of the hotel starts functioning.

In order to claim the deduction, the hotel must start functioning at any time between 01.04.1990 and 31.03.1994 or between 01.04.1997 and 31.03.2001, and should be approved by the prescribed authority for the purpose of deduction under this clause.
However, hotels situated within the municipal jurisdiction of Calcutta, Chennai, Mumbai and Delhi which has started functioning between 01.04.1997 and 31.03.2001 would not be eligible for this deduction.

“Hilly area” means any area located at a height of one thousand metres or more above the sea level.

“Place of pilgrimage” means a place where any temple, mosque, gurudwara, church or other place of public worship of renown throughout any State or States is situated.

“Rural area” means any area other than -
(a) an area which is comprised within the jurisdiction of a municipality or a cantonment board which has a population of not less than 10,000 according to the preceding census of which relevant figures have been published before the first day of the previous year; or

(b) an area within such distance not being more than 15 kilometers from the local limits of any municipality or cantonment board referred to in sub-clause (i), as the Central Government may, having regard to the stage of development of such area including the extent of, and scope for, urbanisation of such area and other relevant considerations specify in this behalf by notification in the Official Gazette.

(ii) In case of hotels located in any place other than those specified in (i) above, the amount of deduction will be 30% of the profits and gains derived from such business. The deduction will be available for a period of 10 consecutive assessment years beginning with the initial assessment year.

In order to claim the deduction, the hotel must start functioning at any time between 01-04-1991 and 31-03-1995 or between 01-04-1997 and 31-03-2001, and should be approved by the prescribed authority for the purpose of deduction under this clause. However, hotels situated within the municipal jurisdiction of Calcutta, Chennai, Mumbai and Delhi which have started functioning between 01-04-1997 and 31-03-2001 would not be eligible for this deduction.

(4) Companies carrying on scientific and industrial research and development [Subsections (8) & (8A)]
(i) The company is registered in India.
(ii) The company has the main object of scientific and industrial research and development.
(iii) The company is approved by the prescribed authority at any time before 01-04-1999.

Rate and period of deduction: Deduction will be calculated at 100% of the profits and gains from such business for 5 assessment years including the initial assessment year.

Sub-section (8A) provides for deduction in case of a company carrying on scientific research and development if such company fulfils the following conditions:

(i) It is registered in India.
(ii) It has the main object of scientific and industrial research and development.
(iii) It is for the time being approved by the prescribed authority at any time after 31.03.2000 but before 01.04.2007.
(iv) It fulfils such other conditions as may be prescribed.
The amount of deduction shall be 100% of the profits and gains of such business.
The deduction will be available for a period of 10 consecutive assessment years starting with the initial assessment year i.e. the assessment year relevant to the previous year in which the company is approved by the prescribed authority.

(5) Undertakings engaged in commercial production or refining of mineral oil or commercial production of natural gas in licensed blocks [Sub-section (9)]
Conditions: In order to claim deduction under the section, the undertaking should be engaged in commercial production or refining of mineral oil or commercial production of natural gas in licensed blocks. The following further conditions should be fulfilled –

(1) In case of an undertaking engaged in commercial production of mineral oil –

(i) Where such operations are carried out in the North Eastern Region, it has begun commercial production before 1.4.1997.
(ii) Where such operations are carried out in any part of India, it begins commercial production on or after 1.4.1997.
A sunset clause for tax holiday in respect of certain undertakings engaged in commercial production of mineral oil has now been inserted. Accordingly, the above deduction for commercial production of mineral oil will not be available for blocks licensed under a contract awarded after 31.3.2011 under the New Exploration Licensing Policy or in pursuance of any law for the time being in force or by the Central or a State Government in any other manner.

(2) In case of an undertaking engaged in refining of mineral oil, it begins refining of mineral oil on or after 1-10-1998 but not later than 31.3.2012.

(1) the blocks are licensed under the VIII Round of bidding for award of exploration contracts ("NELP-VIII") under the New Exploration Licensing Policy announced by the Government of India vide Resolution No.O-19018/22/95-ONG.DO.VL, dated 10th February, 1999; or

(2) the blocks are licensed under the IV Round of bidding for award of exploration contracts for Coal Bed Methane blocks and begins commercial production of natural gas on or after 1st April, 2009.

Note – All blocks licensed under a single contract to be treated as a single "undertaking"

For the purposes of claiming deduction under sub-section (9), all blocks licensed under a single contract, which has been awarded –

(1) under the New Exploration Licencing Policy announced by the Government of India vide Resolution No.O-19018/22/95-ONG.DO.VL, dated 10.2.1999 or

(2) in pursuance of any law for the time being in force or

(3) by Central or a State Government in any other manner shall be treated as a single "undertaking".
This definition of "undertaking" will be applicable both in relation to mineral oil and natural gas.

Rate and period of deduction: The deduction will be allowed at 100% of the profits and gains from such business for 7 consecutive assessment years including the initial assessment year i.e. the assessment year relevant to the previous year in which the undertaking commences the commercial production or refining of mineral oil.

(6) Housing projects [Sub-section (10)]

Conditions: In order to be eligible to claim deduction under section 80-IB, an undertaking developing and building housing projects must fulfil the following conditions:

(i) The undertaking has commenced or commences development and construction of the housing project on or after 01.10.1998. The housing project should be completed within 4 years from the end of the financial year in which the project is approved by the local authority. In respect of projects approved by the local authority before 01.04.2004, the construction should be completed on or before 31.03.2008. On account of the large scale widespread downturn and the consequent slump in the housing sector, the period for completion of housing projects to qualify for tax benefit under section 80-IB has been extended from 4 years to 5 years from the end of the financial year in which the housing project is approved by the local authority, in case of housing projects approved on or after 1.4.2005. For this purpose, the date of approval would be the date on which the building plan is first approved by the local authority and the date of completion of the housing project would be the date on which the completion certificate is issued by such authority.

(ii) The projects must be approved before 31.3.2008 by a local authority.

(iii) The project is on a plot of land which is at least one acre.
In order to encourage the reconstruction and redevelopment of slum dwellings, the conditions that the construction should be completed within 4 years and that the minimum plot size should be one acre have been relaxed. The relaxation is in respect of housing projects carried out in accordance with a scheme framed by the Central Government or a State Government for reconstruction or redevelopment of existing buildings in areas declared to be slum areas. Such a scheme should be notified by the Board in this behalf.

(iv) The residential unit has a maximum built-up area of 1000 sq.ft. (if such residential unit is situated in Delhi or Mumbai or within 25 km from the municipal limits of these cities) or 1500 sq.ft. at any other place.

(v) the built-up area of the shops and other commercial establishments included in the housing project should not exceed five percent. of the aggregate built-up area of the housing project or 2000 sq. ft., whichever is less.

The expression “built-up area” has been defined to mean the inner measurements of the residential unit at the floor level, including the projections and balconies, as increased by the thickness of the walls but not including the common areas shared with other residential units.

The above restrictions regarding built-up area of shops and other commercial establishments have been relaxed in respect of housing projects approved on or after 1.4.2005. The permissible builtup area of shops and other commercial establishments included in the housing project has been increased from 5% of the aggregate built-up area or 2,000 sq. feet, whichever is lower, to 3% of the aggregate built-up area of the housing project or 5,000 sq. ft., whichever is higher.

However, these benefits are not available in respect of a housing project approved by the local authority before 1st April, 2005.

(vi) The undertaking which develops and builds the housing project shall not be allowed to allot more than one residential unit in the housing project to the same person, not being an individual. Where the person is an individual, no other residential unit in such housing project should be allotted to any of the following persons:-

(1) the individual himself or spouse or minor children of such individual;

(2) the Hindu undivided family in which such individual is the karta
(3) any person representing such individual, the spouse or minor children of such individual or the Hindu undivided family in which such individual is the karta.

Rate and period of deduction: The deduction will be allowed at 100% of the profits derived from such project in any previous year relevant to any assessment year.

Note – The main aim of the tax concession under section 80-IB(10) is to provide tax benefit to the person undertaking the investment risk i.e. the actual developer. However, any person undertaking pure contract risk is not entitled to the tax benefit. Accordingly, the benefit under sub-section (10) would not be available to any undertaking which executes the housing project as a works contract awarded by any other person (including the Central or State Government).

(7) Cold chain facilities for agricultural produce [Sub-section (11)]
Conditions: In order to claim deduction under this section, the assessee must fulfil the following conditions:
(i) The industrial undertaking should be deriving profit from the business of setting up and operating a cold chain facility for agricultural produce.
(ii) The undertaking must begin to operate such facility on or after 1-4-1999 but before 1-4-2004.

For the purposes of this section, "cold chain facility" means a chain of facilities for storage or transportation of agricultural produce under scientifically controlled conditions including refrigeration and other facilities necessary for the preservation of such produce.

Rate and period of deduction: The amount of deduction will be 100% of the profits and gains derived from such industrial undertaking for a period of 5 consecutive assessment years starting with the initial assessment year i.e. the assessment year relevant to the previous year in which the industrial undertaking begins to operate the cold chain facility. Thereafter, the deduction allowable is 25% of such profits and gains (30% in case of a company) for the next 5 assessment years

Where the assessee is a co-operative society, the period of 10 consecutive years will become 12 consecutive assessment years.

(8) Undertakings engaged in handling of foodgrains etc. [Sub-section (11A)]
Conditions: In order to claim deduction, the undertaking should fulfill the following conditions:
(i) It should be deriving profits from the business of processing, preservation and packaging of fruits or vegetables or from the integrated business of handling, storage and transportation of foodgrains.

(ii) It should begin to operate such business on or after 1.4.2001.

(iii) The benefit of deduction under sub-section (11A) has now been extended to an undertaking deriving profit from the business of processing, preservation and packaging of meat or meat products or poultry or marine or dairy products, if it begins to operate such business on or after 1.4.2009.

Rate and period of deduction: The amount of deduction shall be 100% of the profits and gains derived from such business for 5 assessment years beginning with the initial assessment year i.e. the assessment year relevant to the previous year in which the undertaking begins such business. Thereafter, the deduction allowable is 25%. In the case of a company, the rate of 25% shall be substituted by 30%. The total period of deduction should not exceed 10 consecutive assessment years.

(9) Undertakings operating and maintaining a hospital in a rural area [Sub-section (11B)]

(i) The profits derived by an undertaking from the business of operating and maintaining a hospital in a rural area is eligible for a deduction of hundred per cent of such profits and gains.

(ii) The deduction is available for a period of five consecutive assessment years beginning from the initial assessment year (i.e. assessment year relevant to the previous year in which the undertaking begins to provide medical services).

(iii) The undertaking would be eligible for the deduction if such hospital -

(a) is constructed during the period beginning on the 1st October, 2004 and ending on 31st March, 2008;

(b) has at least one hundred beds for patients; and

(c) is constructed in accordance with the regulations in force of the local authority.

(iv) Further, for claiming the deduction, the assessee has to file along with the return of income, an audit report in the prescribed form and in the prescribed manner, duly signed and verified by a chartered accountant.

(10) Undertakings operating and maintaining a hospital located anywhere in India, other than the excluded area [Sub-section (11C)]

(i) Sub-section (11C) provides a five year tax holiday to hospitals set up in other than the excluded areas. Excluded area means the area comprising the urban agglomerations of Greater Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore and Ahmedabad, the districts of Faridabad, Gurgaon, Ghaziabad, Gautam Budh Nagar and Gandhi Nagar and the city of Secunderabad.

(ii) To be eligible for this benefit, the hospital should be constructed and should start functioning between 01.04.2008 to 31.03.2013. Further, it should have at least 100 beds for patients. For claiming this benefit, it is necessary that the audit report signed and verified by a Chartered Accountant certifying that deduction has been correctly claimed should be filed along with the company's return of income.

(iii) The construction of the hospital should be in accordance with the regulations or bye-laws of the local authority. The hospital shall be deemed to have been constructed on the date on which a completion certificate in respect of such construction is issued by the local authority concerned.

(iii) Other Provisions

(1) For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years.

(2) The accounts of the industrial undertaking for the relevant previous year should be audited by a chartered accountant and the assessee should furnish the audit report in the prescribed form, duly signed and verified by such accountant along with the return of income.

(3) Where any goods held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or *vice versa*, and if the consideration for such transfer does not correspond with the market value of the goods, then, the profits and gains of the eligible business shall be computed as if the transfer was made at market value. However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

(4) The deduction claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year, no deduction in respect of such profits will be allowed under any other section under this Chapter.

(5) Where it appears to the Assessing Officer that the assessee derives more than ordinary profits from the eligible business due to close connection between him and any other person, or due to any other reason, the Assessing Officer may consider such profits as may be reasonable for the purpose of computing deduction

under this section. The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IB and any other person is so arranged that the transaction produces excessive profits to the eligible business.

(6) The section empowers the Central Government to declare any class of industrial undertaking or enterprise as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in the Official Gazette.

(7) In the case of any amalgamation or demerger, by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company, deduction under this section will be available as follows:

(a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/demerger.

(b) The provisions of this section will apply to the amalgamated/resulting company as they would have applied to the amalgamating/demerged company, if the amalgamation/ demerger had not taken place.

Special provisions in respect of certain undertakings or enterprises in certain special category States [Section 80-IC]

(i) This section allows tax holiday to the new undertakings or existing undertakings on their substantial expansion in the states of Himachal Pradesh, Uttaranchal, Sikkim and North- Eastern States.

(ii) For this purpose, substantial expansion means increase in the investment in plant and machinery by at least 50% of the book value of the plant and machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial expansion is undertaken.

(iii) The tax holiday in the states of Himachal Pradesh and Uttaranchal will be 100% for the first five assessment years and 25% (30% in the case of a company) for the next five assessment years.

(iv) However, tax holiday in the states of Sikkim and North-Eastern States will be 100% for ten assessment years commencing from the initial assessment year.

(v) For the purpose of exemption, two classifications have been made and the Thirteenth Schedule and Fourteenth Schedule have been inserted in the Income-tax Act. The said Schedules specify the list of articles and the States for the purposes of availing deduction under this section.

(vi) The first classification is applicable to undertakings or enterprises which manufacture or produce any article or thing, not being any article or thing specified in the 13th Schedule (namely, tobacco, aerated beverages, pollution causing paper and paper products etc.) in any export processing zone or integrated infrastructure development centre or industrial growth centre or industrial estate or industrial park or software technology park or industrial areas or theme park in these States as notified by the Board.

(vii) The second classification is applicable to those undertakings or enterprises which manufacture or produce article or thing specified in the 14th Schedule only in these States without any specification of the specified zone, area etc.

(viii) The period during which the undertakings in different States should begin or should have begun to manufacture or produce are given hereunder –

Himachal Pradesh and Uttaranchal	From 07.01.2003 and ending before 01.04.2012
Sikkim	From 23.12.2002 and ending before 01.04.2007
North-Eastern States	From 24.12.1997 and ending before 01.04.2007

(ix) No benefit to these undertakings will be available under any of the sections in Chapter VIA in relation to the profits and gains of such undertakings.

(x) While computing the total period of 10 years the period for which the benefit under section 80IB has already been availed, if any, shall also be included.

(xi) The other conditions such as that it should not be formed by splitting or reconstruction of a business already in existence, or by transfer to a new business of plant and machinery previously used for any purpose are the same as are applicable for claiming benefit under section 80IA.
(xii) Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services then the profits and gains of the eligible business shall be computed as if the transfer was made at market value. However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

(xiii) The deductions claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year no deduction in respect of such profits will be allowed under any other section under this chapter.

(xiv) The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IC and any other person is so arranged that the transaction produces excessive profits to the eligible business.

Tax holiday in respect of profits and gains from the business of hotel or business of building, owning and operating a convention centre in NCR [Section 80-ID]
(i) Section 80-ID provides for a deduction of 100% of profits and gains derived by an undertaking from the eligible business i.e. business of hotel or business of building, owning and operating a convention centre in a specified area, for a period of 5 consecutive assessment years beginning from the year in which such hotel starts functioning or convention centre starts operating on a commercial basis.

(ii) However, such hotel or convention centre should be constructed at any time during the period from 01.04.2007 to 31.07.2010.

(iii) Specified area means the National Capital Territory of Delhi and the districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad. This is to boost the construction activity in NCR in view of the upcoming Common Wealth Games in 2010.

(iv) The benefit of this five year tax holiday has now been extended to new two, three or four star hotels located in specified districts having a World Heritage Site. The specified districts are Agra, Jalgaon, Aurangabad, Kancheepuram, Puri, Bharatpur, Chhatarpur, Thanjavur, Bellary, South 24 Parganas, Chamoli, Raisen, Gaya, Bhopal, Panchmahal, Kamrup, Goalpara, Nagaon, North Goa, South Goa, Darjeeling and Nilgiri. For availing this benefit, the hotel should be constructed and should start functioning between 1.4.08 to 31.3.2013.

(v) "Convention centre" means a building of a prescribed area comprising of convention halls to be used for the purpose of holding conferences and seminars, being of such size and number and having such other facilities and amenities, as may be prescribed.

Rule 18DE prescribes the following conditions to be fulfilled by a convention centre in order to be eligible for deduction under section 80-ID:

(a) the convention centre shall have a minimum covered plinth area of 25,000 sq. mts;
(b) it shall have minimum of 3,000 seating capacity;
(c) there shall be minimum of 10 convention halls;
(d) the convention centre shall have convention halls, whether called conference halls or seminar halls or auditorium for holding seminars and conferences;
(e) each convention hall of the convention centre shall be equipped with modern public address system, slide and power-point projection system and LCD projector or video screening facility;
(f) the convention centre shall have a documentation centre with computers and printers, telephone with STD or ISD facilities, e-mail, photocopy and scanning facility along with trained operators to provide these facilities;
(g) the convention centre shall be completely centrally air-conditioned;
(h) the convention centre shall have adequate parking facility and other public convenience as per local building regulations and should also fulfill all local building regulations in respect of fire and safety.

In addition to the above facilities, the convention centers may have the following:
(a) an amphitheatre and landscaped open spaces for outdoor conference or seminar related activities;
(b) a kitchen, dining facility, cafeteria or restaurant only to support events in the convention centre.

(vi) “Hotel” means a hotel of two-star, three-star or four-star category as classified by the Central Government;

(vii) Such business should not be formed by the splitting up, or the reconstruction, of a business already in existence. It should not be formed by the transfer to a new business of a building previously used as a hotel or convention center. Further, it should not be formed by the transfer to a new business of machinery or plant previously used for any purpose exceeding 20% of the total value of machinery and plant used in the business.

(viii) For this purpose, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose if the following conditions are fulfilled:
(a) such machinery or plant was not at any time used in India;
(b) such machinery or plant is imported into India from any country outside India; and
(c) no deduction on account of depreciation has been allowed in respect of such machinery or plant to any person earlier.

(ix) The profits and gains from the eligible business should be computed as if such eligible business were the only source of income of the assessee during the relevant assessment year.

(x) The deduction under this section should not exceed the profits of such eligible business of the undertaking.

(xi) The deduction shall be allowed only if the accounts are audited by a Chartered Accountant, who is also required to certify that the deduction has been correctly claimed.
Further, the audit report should be furnished along with the return of income.

(xii) Further, where any amount of profits of an undertaking or enterprise is allowed as deduction under this section, no deduction under any other provision of Chapter VI-A or section 10AA is allowable in respect of such profits.

(xiii) Where any goods or services held for the purposes of eligible business are transferred to any other business carried on by the assessee or, where any goods held for any other business are transferred to the eligible business and, in either case, if the consideration for such transfer as recorded in the accounts of the eligible business does not correspond to the market value thereof, then the profits eligible for deduction shall be computed by adopting market value for such goods or services. In case of exceptional difficulty in this regard, the profits shall be computed by the Assessing Officer on a reasonable basis.

(xiv) Similarly, where due to the close connection between the assessee and the other person or for any other reason, it appears to the Assessing Officer that the profits of eligible business is increased to more than the ordinary profits, the Assessing Officer shall compute the amount of profits on a reasonable basis for allowing the deduction. The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-ID and any other person is so arranged that the transaction produces excessive profits to the eligible business.

(xv) The Central Government may notify that the benefit conferred by this section shall not apply to any class of undertaking with effect from any specified date.

Tax holiday in respect of profits and gains from eligible business of certain undertakings in North-Eastern States [Section 80-IE]

(i) This section provides for an incentive to an undertaking which has during the period between 1st April, 2007 and 1st April, 2017, begun or begins, in any of the North-Eastern States (i.e., the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura) –

(1) to manufacture or produce any eligible article or thing;
(2) to undertake substantial expansion to manufacture or produce any eligible article or thing;
(3) to carry on any eligible business.

(ii) Eligible article or thing means the article or thing other than the following –

(a) goods falling under Chapter 24 of the First Schedule to the Central Excise Tariff Act, 1985 which pertains to tobacco and manufactured tobacco substitutes;
(b) pan masala as covered under Chapter 21 of the First Schedule to the Central Excise Tariff Act, 1985;
(c) plastic carry bags of less than 20 microns; and
(d) goods falling under Chapter 27 of the First Schedule to the Central Excise Tariff Act, 1985 produced by petroleum oil or gas refineries.

(iii) Substantial expansion means increase in the investment in the plant and machinery by at least 25% of the book value of plant and machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial expansion is undertaken.

(iv) Eligible business means the business of -

(a) hotel (not below two star category);
(b) adventure and leisure sports including ropeways;
(c) providing medical and health services in the nature of nursing home with a minimum capacity of 25 beds;
(d) running an old-age home;
(e) operating vocational training institute for hotel management, catering and food craft, entrepreneurship development, nursing and para-medical, civil aviation related training, fashion designing and industrial training;
(f) running information technology related training centre;
(g) manufacturing of information technology hardware; and
(h) Bio-technology.

(v) Where the gross total income of an assessee includes any profits and gains derived by such an undertaking, a deduction of 100% of the profits and gains derived from such business for 10 consecutive assessment years commencing with the initial assessment year shall be allowed in computing the total income of the assessee. Initial assessment year means the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce articles or things, or completes substantial expansion.

(vi) However, the following conditions have to be fulfilled by the undertaking for claiming benefit of deduction under this section -

(1) It should not be formed by splitting up, or the reconstruction, of a business already in existence (except in circumstances provided in section 33B)

(2) It should not be formed by the transfer to a new business of machinery or plant previously used for any purpose exceeding 20% of the total value of machinery and plant used in the business.

(vii) For this purpose, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose if the following conditions are fulfilled:

(a) such machinery or plant was not at any time used in India;

(b) such machinery or plant is imported into India from any country outside India; and

(c) no deduction on account of depreciation has been allowed in respect of such machinery or plant to any person earlier.

(viii) Where deduction has been allowed under this section in computing the total income of the assessee, no deduction shall be allowed under any other section contained in Chapter VIA or section 10AA in relation to the profits and gains of the undertaking.

(ix) Further, no deduction shall be allowed to any undertaking under this section, where the total period of deduction inclusive of the period of deduction under this section, or under section 80-IC or under the second proviso to sub-section (4) of section 80-IB, as the case may be, exceeds 10 assessment years.

(x) The profits and gains from the eligible business should be computed as if such eligible business were the only source of income of the assessee during the relevant assessment year.

(xi) The deduction under this section should not exceed the profits of such eligible business of the undertaking.

(xii) The deduction shall be allowed only if the accounts are audited by a Chartered Accountant, who is also required to certify that the deduction has been correctly claimed.
Further, the audit report should be furnished along with the return of income.

(xiii) Where any goods or services held for the purposes of eligible business are transferred to any other business carried on by the assessee or, where any goods held for any other business are transferred to the eligible business and, in either case, if the consideration for such transfer as recorded in the accounts of the eligible business does not correspond to the market value thereof, then the profits eligible for deduction shall be computed by adopting market value for such goods or services. In case of exceptional difficulty in this regard, the profits shall be computed by the Assessing Officer on a reasonable basis.

The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IE and any other person is so arranged that the transaction produces excessive profits to the eligible business.

(xiv) Similarly, where due to the close connection between the assessee and the other person or for any other reason, it appears to the Assessing Officer that the profits of eligible business is increased to more than the ordinary profits, the Assessing Officer shall compute the amount of profits on a reasonable basis for allowing the deduction.

(xv) The Central Government may notify that the benefit conferred by this section shall not apply to any class of undertaking with effect from any specified date.

(xvi) Where any undertaking of an Indian company which is entitled to the deduction under this section is transferred before the expiry of the period of deduction to another Indian company in a scheme of amalgamation or demerger, no deduction shall be admissible to the amalgamating or demerged company for the previous year in which the amalgamation or demerger takes place and the amalgamated or the resulting company shall be entitled to the deduction as if the amalgamation or demerger had not taken place.

Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste [Section 80JJA]

(i) This section provides for deduction in respect of profits and gains from the business of collecting and processing bio-degradable waste.

(ii) The deduction is allowable where the gross total income of an assessee includes any profits and gains derived from any of the following businesses –

(1) collecting and processing or treating of bio-degradable waste for generating power, or
(2) producing bio-fertilizers, bio-pesticides or other biological agents, or
(3) producing bio-gas, or
(4) making pellets or briquettes for fuel or organic manure.

(iii) The deduction allowable under this section is an amount equal to the whole of such profits and gains for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the business commences.

Deduction in respect of employment of new workmen [Section 80JJAA]

(i) In order to encourage the employers to further generate more employment opportunities, section 80JJAA provides an incentive in the form of a special deduction against business profits of a company.

(ii) Where the gross total income of an assessee, being an Indian company, includes any profits and gains derived from the manufacture of goods in a factory, there shall, subject to the conditions specified in sub-section (2), be allowed a deduction of an amount equal to thirty per cent of additional wages paid to the new regular workmen employed by the assessee in such factory, in the previous year, for three assessment years including the assessment year relevant to the previous year in which such employment is provided.

(iii) The following conditions have to be fulfilled in order to be eligible for the deduction provided in the section:

(1) The assessee should be an Indian company.
(2) Its gross total income should include profits and gains derived from the manufacture of goods in a factory.
(3) The factory should not have been hived off or transferred from another existing entity.
(4) The factory should not have been acquired by the assessee company as a result of amalgamation with another company.
(5) The assessee should furnish along with the return of income a report of a chartered accountant in Form No. 10DA giving the prescribed particulars.
(6) In case of a new undertaking, in the first previous year, it employs more than 100 regular workmen.
(7) In the case of an existing undertaking, the number of regular workers employed during the relevant previous year is equal to or at least 110% of the regular workmen employed in such undertaking as on the last day of the preceding year.

(iv) **Meaning of "Workman":** 'Workman' shall have the meaning assigned to it in section 2(s) of the Industrial Disputes Act, 1947 i.e., any person (including an apprentice) employed in any industry to do any manual, unskilled, skilled, technical, operational, clerical or supervisory work for hire or reward, whether the terms of employment be express or implied, and for the purposes of any proceedings under this Act in relation to an industrial dispute, includes any such person who has been dismissed, discharged or retrenched in connection with, or as a consequence of, that dispute, or whose dismissal, discharge or retrenchment has led to that dispute, but does not include any such person—

(1) who is subject of the Air Force Act, 1950, or the Army Act, 1950, or the Navy Act, 1957; or
(2) who is employed in the police service or as an officer or other employee of a prison; or
(3) who is employed mainly in a managerial or administrative capacity; or
(4) who, being employed in a supervisory capacity, draws wages exceeding one thousand six hundred rupees per menses or exercises, either by the nature of the duties attached to the office or by reason of the powers vested in him, functions mainly of a managerial nature.

(v) Meaning of "Regular Workmen"- The section defines regular workmen as not including:

(1) a casual workman; or
(2) a workman employed through contract labour; or
(3) any other workman employed for a period of less than 300 days during the previous year.

(vi) "factory" shall have the same meaning as assigned to it in clause (m) of section 2 of the Factories Act, 1948.

Deduction in respect of certain income of Offshore Banking Units and International Financial Services Centre [Section 80LA]

(i) This section is applicable to the following assessees -

(a) a scheduled bank having an Offshore Banking Unit in a SEZ; or
(b) any bank, incorporated by or under the laws of a country outside India, and having an Offshore Banking Unit in a SEZ; or
(c) a Unit of an International Financial Services Centre (IFSC).

(ii) The deduction will be allowed on account of the following income included in the gross total income of such assessees

(a) income from an Offshore Banking Unit in a SEZ; or
(b) income from the business referred to in section 6(1) of the Banking Regulation Act, 1949, with –
  (1) an undertaking located in a SEZ or
  (2) any other undertaking which develops, develops and operates or develops, operates and maintains a SEZ; or
(c) income from any Unit of the IFSC from its business for which it has been approved for setting up in such a Centre in a SEZ.

(iii) The deduction allowable from such income is -

(a) 100% of such income for 5 consecutive assessment years beginning with the assessment year relevant to the previous year in which –
  (1) the permission under section 23(1)(a) of the Banking Regulation Act, 1949 was obtained; or
  (2) the permission or registration under the SEBI Act, 1992 was obtained; or
  (3) the permission or registration under any other relevant law was obtained.
(b) Thereafter, 50% of such income for the next 5 consecutive assessment years.

(iv) The following conditions have to be fulfilled for claiming deduction under this section-

(a) The report of a Chartered Accountant in Form no.10CCF certifying that the deduction has been correctly claimed in accordance with the provisions of this section, should be submitted along with the return of income.

(b) A copy of the permission obtained under section 23(1)(a) of the Banking Regulation Act, 1949 should also be furnished along with the return of income.

Deduction in respect of income of co-operative societies [Section 80P]

(i) Under this section, certain specified income of a co-operative society would be allowed as a deduction, provided such income is included in the gross total income of the society.

(ii) The following items of income would be fully allowed as deduction -

(1) income from the business of banking or providing credit facilities to its members; or

(2) income from a cottage industry; or

(3) income from the marketing of the agricultural produce grown by its members; or

(4) income derived from the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture or for the purpose of supplying them to its members; or

(5) income from processing without the aid of power, of the agricultural produce of its members; or

(6) the business income of labour co-operative societies and societies engaged in fishing and other allied pursuits, such as catching, curing, processing, preserving, storing and marketing of fish or the purchase of materials and equipment in connection therewith for the purpose of supplying them to their members. However, the exemption in respect of this type of income will be available only in the case of those co-operative societies which, under their rules and by-laws, restrict the voting rights to members who constitute the labour force or who actually carry on the fishing or other allied activities, the co-operative credit societies which provide financial assistance to the society and the State Government.

(iii) This section also provides that in case of a co-operative society being a primary society engaged in supplying milk, oilseeds, fruits or vegetables raised by its members to a federal milk co-operative society or the Government or a local authority or a Government company or a corporation established by or under a Central, State or Provincial Act (being a company or corporation engaged in supplying milk, oilseeds, fruits or vegetables, as the case may be, to the public), the whole of the amount of profits and gains of such business would be exempt from tax by way of deduction from the gross total income of the co-operative society.

(iv) Further, a co-operative society which is engaged in activities other than or in addition to those mentioned above, is not liable to pay any income tax on the first ` 50,000 of its business income arising from other activities. The limit is ` 1,00,000 in the case of consumer co-operative societies. Thus, a co-operative society which is engaged in any business activity besides any of the business activities mentioned in (1) to (6) of (ii) above would not be liable to pay any income tax on the whole of its income derived from any of the activities specified and also on the first ` 1,00,000 or ` 50,000, as the case may be, of its business income from activities other than those aforesaid.

(v) Any income arising to a co-operative society by way of any interest and dividends derived from its investments with any other co-operative society is deductible in full under this section.

(vi) Any income arising to a co-operative society by way of 'Interest on securities' or 'Income from house property' (chargeable under section 22) is fully deductible under this section where the gross total income of the co-operative society does not exceed ` 20,000 and it is not a housing society or an urban consumer's society or a society carrying on transport business or a society engaged in the performance of any manufacturing operations with the aid of power.

Thus, a majority of small co-operative societies would not have to pay any income-tax.

(vii) The income derived by a co-operative society from the letting out of godowns or warehouses for storage, processing or facilitating the marketing of commodities is fully allowable as deduction.

(viii) Further, where the co-operative society is also entitled to the deduction available under section 80-IA, the deduction under this section shall be allowed with reference to the gross total income as reduced by the deduction allowable under section 80-IA.

(ix) The benefit under section 80P has been withdrawn in respect of all co-operative banks, other than primary agricultural credit societies (i.e. as defined in Part V of the Banking Regulation Act, 1949) and primary co-operative agricultural and rural development banks (i.e. societies having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities). This is for the purpose of treating cooperative banks at par with other commercial banks, which do not enjoy similar tax benefits. The scope of the definition of 'income' as given in section 2(24) has accordingly been widened to include within its ambit, the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members.

(x) Regional Rural Banks not eligible for deduction under section 80P: The CBDT has, through Circular No. 6/2010 dated 20.9.2010, reiterated that Regional Rural Banks are not eligible for deduction under section 80P of the Income-tax Act, 1961 from the assessment year 2007-08 onwards. It has also been clarified that the Circular No. 319 dated 11-1-1982 deeming any Regional Rural Bank to be cooperative society stands withdrawn for application with effect from A.Y.2007-08.

This is consequent to the amendment in section 80P by the Finance Act, 2006, providing specifically that w.e.f. 01-04-2007, the provisions of section 80P will not apply to any cooperative bank other than a Primary Agricultural Credit Society or a Primary Cooperative Agricultural and Rural Development Bank. The same has been further clarified by this circular.

Deduction in respect of royalty income, etc., of authors of certain books other than text books [Section 80QQB]

(i) Under section 80QQB, deduction of up to a maximum ` 3,00,000 is allowed to an individual resident in India in respect of income derived as author i.e. the deduction shall be the income derived as author or ` 3,00,000, whichever is less.

(ii) This income may be received either by way of a lumpsum consideration for the assignment or grant of any of his interests in the copyright of any book.

(iii) Such book should be a work of literary, artistic or scientific nature, or of royalties or copyright fees (whether receivable in lump sum or otherwise) in respect of such book.

(iv) However, this deduction shall not be available in respect of royalty income from textbook for schools, guides, commentaries, newspapers, journals, pamphlets and other publications of similar nature.

(v) Where an assessee claims deduction under this section, no deduction in respect of the same income may be claimed under any other provision of the Income-tax Act, 1961.

(vi) For the purpose of calculating the deduction under this section, the amount of eligible income (before allowing expenses attributable to such income) shall not exceed 15% of the value of the books sold during the previous year. However, this condition is not applicable where the royalty or copyright fees is receivable in lump sum in lieu of all rights of the author in the book.

(vii) For claiming the deduction, the assessee shall have to furnish a certificate in the prescribed manner in the prescribed format, duly verified by the person responsible for making such payment, setting forth such particulars as may be prescribed.

(viii) Where the assessee earns any income from any source outside India, he should bring such income into India in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf for the purpose of claiming deduction under this section.

(ix) The competent authority shall mean the Reserve Bank of India or such other authority as is authorised under any law for the time being in force for regulating payments and dealings in foreign exchange.

Deduction in respect of royalty on patents [Section 80RRB]

(i) This section allows deduction to a resident individual in respect of income by way of royalty of a patent registered on or after 01.04.2003 up to an amount of ` 3 lakhs.

(ii) This deduction shall be available only to a resident individual who is registered as the true and first inventor in respect of an invention under the Patents Act, 1970, including the co-owner of the patent.

(iii) This exemption shall be restricted to the royalty income including consideration for transfer of rights in the patent or for providing information for working or use thereof in India.

(iv) The exemption shall not be available on any consideration for sale of product manufactured with the use of the patented process or patented article for commercial use.

(v) In respect of any such income which is earned from sources outside India, the deduction shall be restricted to such sum as is brought to India in convertible foreign exchange within a period of 6 months or extended period as is allowed by the competent authority (Reserve Bank of India). For claiming this deduction the assessee shall be required to furnish a certificate in the prescribed form signed by the prescribed authority, alongwith the return of income.

(vi) No deduction in respect of such income will be allowed under any other provision of the Income-tax Act, 1961.

(vii) Where the patent is subsequently revoked or the name of the assessee was excluded from the patents register as patentee in respect of that patent, the deduction allowed during the period shall be deemed to have been wrongly allowed and the assessment shall be rectified under the provisions of section 155.

(viii) The period of 4 years for rectification shall be reckoned from the end of the previous year in which the order of the revocation of the patent is passed.

Deduction in respect of interest on deposits in savings accounts [New Section 80TTA]

(i) Section 80TTA has been introduced to provide that in case the gross total income of an assessee, being an individual or a Hindu Undivided Family, includes any income by way of an interest on deposits in a saving account (not being time deposits, i.e. deposits repayable on expiry of fixed periods), deduction up to ` 10,000 in aggregate shall be allowed while computing the total income of such assessee. Such deduction shall be allowed in case the saving account is maintained with:

> **(1) a banking company to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act);**
> **(2) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or**
> **(3) a post office.**

(ii) However, if the aforesaid income is derived from any deposit in a savings account held by, or on behalf of, a firm, an AOP/BOI, no deduction shall be allowed in respect of such income in computing the total income of any partner of the firm or any member of the AOP or any individual of the BOI.

(iii) In effect, the deduction under this section shall be allowed only in respect of the income derived in form of the interest on the saving bank deposit (other than time deposits) made by the individual or Hindu Undivided Family directly.

Illustration 12

Mr. Gurnam, aged 62 years, earned professional income (computed) of ` 5,50,000 during the year ended 31.03.2014. He has earned interest of ` 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2014-15 from the following particulars:

(i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ` 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2013 and the sum assured on life of his dependent parents is ` 1,25,000.

(ii) Life insurance premium of ` 25,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ` 1,75,000 and the life insurance policy was taken on 18.04.2011.

(iii) Life insurance premium paid by cheque of ` 22,500 for insurance of his life. The insurance policy was taken on 08.09.2013 and the sum assured is ` 2,00,000.

(iv) Subscription to long-term infrastructure bonds amounting to ` 25,000.

(v) Premium of ` 16,000 paid by cheque for health insurance of self and his wife.

(vi) ` 1,500 paid in cash for his health check-up and ` 4,500 paid in cheque for health checkup for his parents.

(vii) Paid interest of ` 6,500 on loan taken from bank for MBA course pursued by his daughter.

(viii) A sum of ` 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

(ix) Contribution ` 10,500 made in cheque to an electoral trust.

Solution

Computation of total income of Mr. Gurnam for the Assessment Year 2014-15

Particulars	`	`	`
Professional Income (computed)			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
Less: **Deduction under Chapter VIA**			
Under section 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
- major son	25,000		
- self ` 22,500 restricted to 10% of ` 2,00,000	20,000	45,000	
Under section 80D (See Note 3)			

Premium paid for health insurance of self and wife by cheque	16,000		
Payment made for health check-up:			
- Self ` 1,500			
- His Parents ` 4,500			
` 6,000 restricted to	5,000	21,000	
Under section 80E For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80GGC Contribution to electoral trust		10,500	
Under section 80TTA (See Note 5) Interest on savings bank account ` 14,500 restricted to		10,000	93,000
Total Income			**4,71,500**

Notes:

(1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect of ` 15,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

As per the amendment made by Finance Act, 2012, deduction shall be allowed in respect of premium paid for life insurance only to the extent of 10% of sum assured in respect of insurance policy issued after 01.04.2012. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore in the present case, deduction of ` 25,000 is allowable in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ` 1,75,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ` 2,00,000 since, the policy was issued after 01.04.2012 and the premium amount exceeds 10% of sum assured.

(2) Deduction under section 80CCF for subscription to long-term infrastructure fund was allowed up to A.Y. 2012-13.
Therefore, no deduction for the same is allowable for A.Y. 2014-15.

(3) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to ` 20,000. Further, as per amendment made by Finance Act, 2012, deduction up to ` 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, deduction of ` 16,000 is allowed in respect of premium paid for health insurance of self and wife, since Mr. Gurnam is a senior citizen and the payment is made by cheque. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is ` 17,500 (`16,000 + ` 1,500), which is less than ` 20,000. Further, deduction up to a maximum of ` 5,000 is allowable in respect of health check-up of self and his parents. This implies that ` 3,500 is allowable for health check-up of parents which falls within the additional limit of ` 20,000 for mediclaim premium and expenditure on preventive health check-up of parents.

(4) As per the Finance Act, 2012, no deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ` 10,000. Therefore, no deduction is allowed under section 80G in respect of donation made to institution approved therein.
However, there is no such restriction for contribution to an electoral trust which qualifies for deduction under section 80GGC. (Now condition is here that donation should be made in cash only)

(5) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ` 10,000. Therefore, a deduction of ` 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ` 14,500.

Other Deductions

Deduction in the case of a person with disability [Section 80U]

(i) Section 80U harmonizes the criteria for defining disability as existing under the Income tax Rules with the criteria prescribed under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995.

(ii) This section is applicable to a resident individual, who, at any time during the previous year, is certified by the medical authority to be a person with disability. A deduction of ` 50,000 in respect of a person with disability and ` 1,00,000 in respect of a person with severe disability (having disability over 80%) is allowable under this section.

(iii) The benefit of deduction under this section has also been extended to persons suffering from autism, cerebral palsy and multiple disabilities.

(iv) The assessee claiming a deduction under this section shall furnish a copy of the certificate issued by the medical authority in the form and manner, as may be prescribed, along with the return of income under section 139, in respect of the assessment year for which the deduction is claimed.

(v) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

Illustration 1: Mr. X has income under the head Business/Profession `19,90,000.

His investments are as given below:

1. Investment in NSC `50,000

2. Investment in PPF in name of Mrs. X `5,000

3. Payment of premium for LIC policy taken in the name of dependent father and its premium paid is `11,000

4. Payment of premium for LIC policy taken in the name of independent son and its premium paid is `6,000 (sum assured `1,00,000)

5. Payment of premium for LIC policy taken in the name of independent married daughter and its premium paid is `21,000 (sum assured `1,00,000)

Compute Income Tax liability for the A.Y. 2014-15.

Solution:

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

Computation of Tax Liability

Tax on `19,19,000 at slab rate	4,05,700
Add: Education cess @ 2%	8,114
Add: SHEC @ 1%	4,057
Tax Liability	4,17,871
Rounded off u/s 288B	4,17,870

Illustration 2: Mr. X furnishes you the following information:

Raw material purchased `5,00,000 plus VAT @ 4%.

Manufacturing expenses (revenue nature) `2,00,000.

Sale price `18,00,000 plus VAT @ 4%

Plant & machinery acquired `2,50,000 plus VAT @ 4%. Depreciation is allowed @ 15%.

He has made the investments as given below:

(i) Fixed deposit with State Bank for two years `5,000.

(ii) Investment in National Saving Certificates `5,000.

(iii) Deposit in Public Provident Fund Account in the name of major married independent son `5,000.

(iv) Deposit in Public Provident Fund Account in the name of minor son `5,000.

(v) Payment of premium for LIC policy in name of major married independent daughter `5,000. (sum assured `1,00,000).

(vi) Payment of premium for LIC policy in name of major married independent son `5,000. (sum assured `20,000)

(vii) Investment in Home Loan Account Scheme of National Housing Bank `5,000 (Investment was made out of past savings).

(viii) Investment in units of Mutual Funds notified under section 10(23D) `5,000. (Investment was made out of current income exempt from income tax).

(ix) Investment in Equity Shares of Infrastructure Companies `5,000.

(x) Payment of Tuition fees of his son to a private coaching centre for coaching in taxation `5,000.

Compute his income and tax liability for assessment year 2014-15 and also show VAT treatment in two situations (i) Gross Product Variant. (ii) Consumption Variant. (ignore provisions of section 44AD)

Solution:

	`	`
(i) Computation of VAT liability under gross product variant		
Sale price		18,00,000.00
Output VAT @ 4%		72,000.00

Less: Input tax credit		
-on Raw material (5,00,000 x 4%)		20,000.00
Vat Liability		52,000.00

Note: No tax credit is available on input tax paid on capital goods under gross product variant.

Computation of income under the head Business/profession

Sale price		18,00,000.00
Less: Purchase Price		5,00,000.00
Less: Manufacturing expenses		2,00,000.00
Less: Depreciation on plant and machinery (2,60,000 x 15%)		39,000.00
Income under the head Business/profession		10,61,000.00
Gross Total Income		10,61,000.00
Less: Deduction u/s 80C		37,000.00
National Saving Certificate	5,000	
Public Provident Fund	10,000	
LIC Premium (allowed 10% of sum assured)	7,000	
Home Loan Account Scheme	5,000	
Units of Mutual Funds	5,000	
Equity Shares of Infrastructure Companies	5,000	
Total Income		10,24,000.00

Computation of Tax Liability

Tax on `10,24,000 at slab rate	1,37,200.00
Add: Education cess @ 2%	2,744.00
Add: SHEC @ 1%	1,372.00
Tax Liability (Rounded off u/s 288B)	1,41,320.00

(ii) Computation of VAT liability under consumption variant

Sale price	18,00,000.00
Output VAT @ 4%	72,000.00
Less: Input tax credit	
-on Raw material (5,00,000 x 4%)	20,000.00
-on capital goods (2,50,000 x 4%)	10,000.00
VAT Liability	42,000.00

Computation of income under the head Business/profession

Sale price		18,00,000.00
Less: Purchase Price		5,00,000.00
Less: Manufacturing expenses		2,00,000.00
Less: Depreciation on plant and machinery (2,50,000 x 15%)		37,500.00
Income under the head Business/profession		10,62,500.00
Gross Total Income		10,62,500.00
Less: Deduction u/s 80C		37,000.00
National Saving Certificate	5,000	
Public Provident Fund	10,000	
LIC Premium	7,000	
Home Loan Account Scheme	5,000	
Units of Mutual Funds	5,000	
Equity Shares of Infrastructure Companies	5,000	
Total Income		10,25,500.00

Computation of Tax Liability

Tax on `10,25,500 at slab rate	1,37,650.00
Add: Education cess @ 2%	2,753.00
Add: SHEC @ 1%	1,376.50
Tax Liability (Rounded off u/s 288B)	1,41,780.00

Illustration 3: Mr. X is a dealer registered under DVAT Act and he has purchased goods for `5,00,000 plus DVAT @ 5% processing expense `3,00,000. He purchased one plant and machinery for `2,50,000 paid DVAT @ 12.5% and sold the goods at a profit of 40% of cost price. Tax credit on plant and machinery is allowed in three equal installments and rate of depreciation is 15% and output VAT is 12.5%.

He has made the following investments:-

- NSC `10,000
- Investment in post office 5 year time deposit account `15,000
- Payment of premium for life policy in the name of major married independent son ` 30,000 (sum assured `90,000)
- Paid premium of ` 11,000 for Jeeven Suraksha policy taken in name of Mr. X.

Compute income tax liability for A.Y 2014-15 and also show the working of VAT.

Answer

	`
Purchase Price	5,00,000.00
Add: VAT @ 5%	25,000.00
Total	5,25,000.00

Computation of sales value

Purchase	5,00,000.00
Processing expense	3,00,000.00
Depreciation on Plant and Machinery (2,50,000 x 15%)	37,500.00
Total	8,37,500.00
Profit @ 40%	3,35,000.00
Assessable Value	11,72,500.00
Add: DVAT @ 12.5%	1,46,563.00
Selling price	13,19,063.00

Income under the head Business/Profession		3,35,000.00
Gross Total Income		3,35,000.00
Less: Deduction u/s 80C		
NSC	10,000	
Investment in 5 years post office	15,000	
Payment of premium of LIC	9,000	34,000.00
Less: Deduction u/s 80CCC		11,000.00
Total Income		2,90,000.00

Computation of Tax Liability

Tax on `2,90,000 at slab rate	9,000.00
Less: Rebate u/s 87A (9,000 or 2,000 whichever is less)	2,000.00
Tax before education cess	7,000.00
Add: EC @ 2%	140.00

Add: SHEC @ 1%	70.00
Tax Liability	7,210.00

Calculation of VAT

Output Tax	1,46,563.00
Less Input tax credit (25,000 + 1/3 x 31,250)	35,417.00
Net VAT Payable	1,11,146.00

Illustration 4: Mrs. Mridula Jain is employed in Central Government since 01.01.2013 and is getting basic pay of `30,000 p.m. She has contributed `3,000 p.m. to the notified pension scheme of Central Government and employer has also contributed an equal amount. She has paid premium of Jeevan Suraksha Policy `3,000.

Compute her tax liability for the assessment year 2014-15.

Solution:

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

Computation of Tax Liability

Tax on `3,21,000 at slab rate	12,100.00
Less: Rebate u/s 87A (12,100 or 2,000 whichever is less)	2,000.00
Tax before education cess	10,100.00
Add: Education cess @ 2%	202.00
Add: SHEC @ 1%	101.00
Tax Liability	10,403.00
Rounded off u/s 288B	10,400.00

Illustration 5: Mr. X has income under the head Business/Profession `7,00,000 and income under the head house property `2,00,000 and he has deposited `1,00,000 in notified pension scheme, in this case his income and tax liability shall be

Income under the head Business/Profession	7,00,000
Income under the head House Property	2,00,000
Gross Total Income	9,00,000
Less: Deduction u/s 80CCD	90,000
Total Income	8,10,000

Computation of Tax Liability

Tax on `8,10,000 at slab rate	92,000

Add: Education cess @ 2%	1,840
Add: SHEC @ 1%	920
Tax Liability	94,760

Illustration 6: Mr. X is a Dealer in Delhi and is registered under DVAT Act/ CST Act and he has submitted the information as given below:-

- Purchased goods 'A' from Punjab for `2,04,000 and it is inclusive of CST at the applicable rate and local VAT at Punjab is 12.5%.
- He sold goods 'A' in Delhi at a profit of 20% on purchase price and charged DVAT @12.5%.
- Purchased goods 'B' from Delhi for `12,00,000 plus DVAT @12.5% and sold goods at a profit of 40% on sale price and output DVAT is 12.5%. 1/3rd of the goods were sold in Delhi, 1/3rd to a dealer registered under CST Act in U.P. and 1/3rd to a consumer in M.P.
- Purchased goods 'C' from Delhi ` 3,60,000 inclusive of VAT @ 4% and goods were sold under interstate sale, to dealer in U.P. who is registered under Local VAT but not under CST Act, at a profit of 40% on Purchase price.

Mr. X has paid premium of `4,000 of medi-claim policy by cheque for each of the persons given below:
(i) Self (ii) Spouse (iii) Dependent son (iv) Dependent daughter (v) Independent son (vi) Dependent brother (vii) Independent father (viii) Independent mother (ix) Dependent grand father who is a senior citizen.

Compute his total income and tax liability for A.Y. 2014-15 and also show the treatment for VAT. (ignore provisions of section 44AD)

Solution:

Goods 'A'	`
Purchase price	2,04,000.00
Sale in Delhi	
Sale Price (2,04,000 x 120%) (Cost + Profit)	2,44,800.00
Output Tax @12.5%	30,600.00
Goods 'B'	
Purchase Price	12,00,000.00
DVAT @12.5%	1,50,000.00
	13,50,000.00
Sale in Delhi	
Sale Value (Cost + Profit) (12,00,000 x 1/3 x 100/60)	6,66,667.00
Output Tax @ 12.5%	83,333.00
Sale in U.P.	
Sale Value (Cost + Profit) (12,00,000 x 1/3 x 100/60)	6,66,667.00
CST @ 2%	13,333.00
Sale in M.P.	
Sale Value (Cost + Profit)	6,66,666.00

(12,00,000 x 1/3 x 100/60)	
CST @ 12.5%	83,333.00

<u>Goods 'C'</u>

Purchase price	3,46,154.00
(Exclusive of VAT)	
(3,60,000 x 100/104)	
Add: DVAT @ 4%	13,846.00
Purchase price	3,60,000.00
Tax Credit allowed	13,846.00

<u>Sale in UP to a dealer registered under Local VAT but not under CST Act.</u>

Sale Price (Cost + Profit)	4,84,616.00
(3,46,154 x 140%)	
CST @ 4%	19,385.00

<u>Calculation of VAT Payable</u>

	<u>DVAT</u>	<u>CST</u>
Output Tax		
Goods A	30,600	-
Goods B	83,333	96,666
Goods C	-	19,385
Total	1,13,933	1,16,051
Less: Tax Credit		
Goods A	-	-
Goods B	1,13,933	36,067
Goods C	-	13,846
Net Payable	NIL	66,138

<u>Computation of Total Income</u>

<u>Profit on Sale of Goods</u>

Goods A	40,800.00
(2,44,800- 2,04,000)	
Goods B	8,00,000.00
(6,66,667+6,66,667+6,66,666-12,00,000)	
Goods C	1,38,462.00
(4,84,616 – 3,46,154)	
Total Profit	9,79,262.00
Gross Total Income	9,79,262.00
Less: Deduction u/s 80D	23,000.00

(i) Self	`4,000	
(ii) Spouse	`4,000	
(iii) Dependent son	`4,000	
(iv) Dependent daughter	`4,000	
(v) Independent son	Not Allowed	
(vi) Dependent brother	Not Allowed	Maximum `15,000
(vii) Independent father	`4,000	

(viii) Independent mother	`4,000
(ix) Grand father	Not Allowed

TOTAL DEDUCTION ALLOWED (15,000 + 8,000) `23,000

Total Income	9,56,262.00
Rounded off u/s 288A	9,56,260.00

Computation of Tax Liability

Tax on `9,56,260 at slab rate	1,21,252.00
Add: Education Cess @ 2%	2,425.04
Add: SHEC @1%	1,212.52
Total Tax Liability	1,24,889.56
Rounded off u/s 288B	1,24,890.00

<u>**Illustration 7:**</u> Mrs. Geetanjali, aged 65 years a retired Central Government employee, is a dealer registered under DVAT Act and CST Act and she has submitted the information as given below:-

1. Purchased goods ‘A’ within Delhi for ` 10,00,000 plus DVAT @ 10%.

2. Purchased goods ‘B’ within Delhi for ` 5,00,000 plus DVAT @ 4%.

3. Purchased goods ‘C’ within Delhi for ` 4,00,000 plus DVAT @ 5%.

4. Purchased goods ‘D’ from Punjab for ` 6,00,000 plus Central Sales Tax @ 2%.

5. Goods ‘A’ were sold at a profit of 30% on purchase price and charged DVAT @ 10%.

6. Sold goods ‘B’ at a profit of 20% on sale price plus DVAT @ 4%.

7. Sold goods ‘C’ at a profit of 30% on purchase price plus DVAT @ 5%.

8. Goods ‘D’ were sold at a profit of ` 1,00,000 plus DVAT @12.5%.

She has one house property which is let out @ 10,000 p.m.

Winning from lottery (gross): `60,000

Contribution to public provident fund: `25,000

Medical insurance premium – Paid by cheque : `8,000
– Paid in cash : `6,000

Expenditure incurred on medical treatment of her dependant son being a person with disability `35,000.

Compute the total income and tax liability for the assessment year 2014-15 and Compute Output tax/ tax credit/ Net Tax. (ignore provisions of section 44AD)

<u>**Solution:**</u> ` `

<u>Goods ‘A’</u>

Cost		10,00,000
DVAT @ 10%		1,00,000
		11,00,000
Input Tax Credit		1,00,000
Sale Price(10,00,000 x 130%)		13,00,000
Output Tax @ 10%		1,30,000
		14,30,000
<u>Goods ‘B’</u>		
Cost		5,00,000
DVAT @ 4%		20,000
		5,20,000
Input Tax Credit		20,000
Sale Price (5,00,000 x 100/80)		6,25,000
Output Tax @ 4%		25,000
		6,50,000
<u>Goods ‘C’</u>		
Cost		4,00,000
DVAT @ 5%		20,000
		4,20,000
Input Tax Credit		20,000
Sale Price (4,00,000 x 130%)		5,20,000
Output Tax @ 5%		26,000
		5,46,000
<u>Goods ‘D’</u>		
Cost		6,00,000
CST @ 2%		12,000
		6,12,000
Input Tax Credit		NIL
Sale Price (6,12,000 + 1,00,000)		7,12,000
Output Tax @ 12.5%		89,000
		8,01,000
<u>Output Tax</u>		
Goods ‘A’		1,30,000
Goods ‘B’		25,000
Goods ‘C’		26,000
Goods ‘D’		89,000
Total		2,70,000
Less: Input Tax Credit		
Goods ‘A’	1,00,000	
Goods ‘B’	20,000	
Goods ‘C’	20,000	
Goods ‘D’	NIL	(1,40,000)
Net Tax payable		1,30,000

Computation of income under the head Business/Profession

Goods ‘A’ (13,00,000 – 10,00,000)	3,00,000
Goods ‘B’ (6,25,000 – 5,00,000)	1,25,000

Goods ‘C’ (5,20,000 – 4,00,000)	1,20,000
Goods ‘D’	1,00,000
Income under the head Business/Profession	6,45,000

Computation of income under the head House Property

Gross Annual Value (10,000 x 12)	1,20,000
Less: Municipal Taxes	Nil
Net Annual Value	1,20,000
Less: 30% of NAV u/s 24(a)	36,000
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	84,000

Computation of income under the head Other Sources

Winning from lottery	60,000
Income under the head Other Sources	60,000

Gross Total Income	7,89,000
Less: Deduction u/s 80C {Contribution to public provident fund}	25,000
Less: Deduction u/s 80D	8,000
Less: Deduction u/s 80DD	50,000
Total Income	7,06,000

Computation of Tax Liability

Tax on casual income `60,000 @ 30% u/s 115BB	18,000
Tax on `6,46,000 at slab rate	54,200
Tax before education cess	72,200
Add: Education cess @ 2%	1,444
Add: SHEC @ 1%	722
Tax Liability	74,366
Rounded off u/s 288B	74,370

Illustration 8: Mr. X is a dealer registered under DVAT and CST and purchased goods ‘A’ from Haryana for `20,00,000 and paid CST at the applicable rate and Local rate in Haryana is 12.5%.

He sold the goods at a profit of 40% on sale price and rate of DVAT is 12.5%.

1/4th of the goods were sold in Delhi.
1/4th to a registered dealer under CST in UP.
1/4th to an un-registered dealer in M.P.
1/4th of such goods is in stock.

He purchased goods B from Delhi for `15,00,000 plus DVAT @12.5% and sold at a profit of 20% on purchase price.

1/3rd of the goods were sold in Delhi
1/3rd in U.P. to an un registered dealer
1/3rd in M.P. to a registered dealer.

Output DVAT is 12.5%.

Mr. X has long term capital gain `1,35,000 and casual income `47,000.

He has paid premium of a mediclaim policy amounting to `20,000 taken in the name of his dependant grand father who is senior citizen and payment was made by a cheque.

He has given premium of Jeevan Suraksha policy `7,000, has donated `12,000 to the National Defence Fund, `4,000 to Rajiv Gandhi Foundation and `45,000 to a charitable institution notified under section 80G. (all the donations was made by cheque)

Compute his total income and tax liability for A.Y. 2014-15 and also show the treatment for VAT. (ignore provisions of section 44AD)

(b) Presume in the above question the assessee has given donation of `25,000 by cheque to Birla Temple notified under section 80G and he has also given a donation of `10,000 for family planning to the Government.
Compute his total income and tax liability for the assessment year 2014-15.

(c) Presume in part (b), donation to government for family planning is `50,000 by cheque.

<u>Solution 8(a):</u>

	`
<u>Goods ‘A’</u>	
Purchased	20,00,000.00
CST @ 2%	40,000.00
Total	20,40,000.00
<u>Sale in Delhi (1/4th)</u>	
Cost	5,10,000.00
(20,40,000 x ¼)	
Add: Profit	3,40,000.00
(5,10,000 x 40/60)	
Total	8,50,000.00
Output DVAT @ 12.5%	1,06,250.00
<u>Sale to a dealer Registered under CST Act in U.P.(1/4th)</u>	
Cost	5,10,000.00
(20,40,000 x ¼)	
Add: Profit	3,40,000.00
(5,10,000 x 40/60)	
Total	8,50,000.00
Output CST @ 2%	17,000.00
<u>Sale to an un-registered dealer in M.P.(1/4th)</u>	
Cost	5,10,000.00
(20,40,000 x ¼)	
Add: Profit	3,40,000.00
(5,10,000 x 40/60)	
Total	8,50,000.00
Output CST @ 12.5%	1,06,250.00
<u>Goods ‘B’</u>	
Purchases	15,00,000.00

Add: DVAT @ 12.5%	1,87,500.00
Total	16,87,500.00
Tax Credit allowed	1,87,500.00

Sale in Delhi(1/3rd)

Cost (15,00,000 x 1/3)	5,00,000.00
Add: Profit (5,00,000 x 20%)	1,00,000.00
Total	6,00,000.00
Output DVAT @ 12.5%	75,000.00

Sale to an un-registered dealer in U.P.(1/3rd)

Cost (15,00,000 x 1/3)	5,00,000.00
Add: Profit (5,00,000 x 20%)	1,00,000.00
Total	6,00,000.00
Output CST @ 12.5%	75,000.00

Sale to a dealer Registered under CST Act in M.P.(1/3rd)

Cost (15,00,000 x 1/3)	5,00,000.00
Add: Profit (5,00,000 x 20%)	1,00,000.00
Total	6,00,000.00
Output CST @ 2%	12,000.00

Calculation of VAT Payable

	DVAT	CST
Output Tax		
Goods A	1,06,250	1,23,250
Goods B	75,000	87,000
Total	1,81,250	2,10,250
Less: Tax Credit		
Goods A	-	-
Goods B	1,81,250	6,250
Net Payable	NIL	2,04,000

Computation of income under the head Business/Profession

Profit on Sale of Goods

Goods A [8,50,000 + 8,50,000 + 8,50,000 - (20,40,000 x ¾)] (Since, $1/4^{th}$ of the goods 'A' is in stock hence profit shall be calculated on ¾th goods)	10,20,000.00
Goods B (6,00,000 + 6,00,000 + 6,00,000 -15,00,000)	3,00,000.00
Income under the head Business/Profession	13,20,000.00
Income under the head Capital Gain (LTCG)	1,35,000.00
Income under the head Other Sources (casual income)	47,000.00
Gross Total Income	15,02,000.00
Less: Deduction u/s 80CCC	7,000.00

Less: Deduction u/s 80G		
(i) National Defence Fund		12,000.00
(ii) Rajiv Gandhi Foundation		2,000.00
(iii) Charitable Institution		22,500.00

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 15,02,000 – 1,35,000 – 7,000
= 13,60,000

Qualifying amount = 10% of AGTI or donation whichever is less
= 1,36,000 or 45,000 whichever is less
= 45,000

50% of the qualifying amount = 22,500

Total Income		14,58,500.00

Computation of Tax Liability

Tax on casual income `47,000 @ 30% u/s 115BB	14,100.00	
Tax on LTCG `1,35,000 @ 20% u/s 112		27,000.00
Tax on normal income `12,76,500 at slab rate		2,12,950.00
Tax before education cess		2,54,050.00
Add: Education cess @ 2%		5,081.00
Add: SHEC @ 1%		2,540.50
Tax Liability		2,61,671.50
Rounded off u/s 288B		2,61,670.00

<u>Solution 8(b):</u>

Computation of Total Income

Gross Total Income		15,02,000
Less: Deduction u/s 80CCC		7,000
Less: Deduction u/s 80G		
(i) National Defence Fund		12,000
(ii) Rajiv Gandhi Foundation		2,000
(iii) Other Donations u/s 80G		45,000

Working Note:

	`
Charitable Institution	45,000
Birla temple	25,000
Family planning	10,000
	80,000

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 15,02,000 – 1,35,000 – 7,000
= 13,60,000

Qualifying amount = 10% of AGTI or donation whichever is less
= 1,36,000 or 80,000 whichever is less
= 80,000

50% of the qualifying amount (i.e. 35,000)
= 35,000 + 10,000
= 45,000

Total Income		14,36,000

Computation of Tax Liability

Tax on casual income `47,000 @ 30% u/s 115BB		14,100
Tax on LTCG `1,35,000 @ 20% u/s 112	27,000	

Tax on normal income `12,54,000 at slab rate	2,06,200
Tax before education cess	2,47,300
Add: Education cess @ 2%	4,946
Add: SHEC @ 1%	2,473
Tax Liability	2,54,719
Rounded off u/s 288B	2,54,720

Solution 8(c):

Computation of Total Income

	`
Gross Total Income	15,02,000
Less: Deduction u/s 80CCC	7,000
Less: Deduction u/s 80G	
(i) National Defence Fund	12,000
(ii) Rajiv Gandhi Foundation	2,000
(iii) Other donations u/s 80G	85,000

Working Note:

	`
Charitable institution	45,000
Birla temple	25,000
Family planning	50,000
	1,20,000

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 15,02,000 – 1,35,000 –7,000
= 13,60,000

Qualifying amount = 10% of AGTI or donation whichever is less
= 1,36,000 or 1,20,000 whichever is less
= 1,20,000

50% of the qualifying amount (i.e. 35,000)
= 35,000 + 50,000
= 85,000

Total Income	13,96,000

Computation of tax liability

Tax on casual income `47,000 @ 30% u/s 115BB	14,100
Tax on LTCG `1,35,000 @ 20% u/s 112	27,000
Tax on normal income `12,14,000 at slab rate	1,94,200
Tax before education cess	2,35,300
Add: Education cess @ 2%	4,706
Add: SHEC @ 1%	2,353
Tax Liability	2,42,359
Rounded off u/s 288B	2,42,360

Illustration 9: Mr. X has income under the head Business/Profession `5,00,000 and LTCG of ` 2,00,000, STCG u/s 111A `3,00,000 and casual income of ` 1,00,000.

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

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

Compute income tax liability for A.Y. 2014-15.

Solution:

	`
Income under the head Business/Profession	5,00,000
Computation of income under the head Capital Gain	
Long Term Capital Gain	2,00,000
Short Term Capital Gain u/s 111A	3,00,000
Income under the head capital gain	5,00,000
Computation of income under the head Other Sources	
Casual income	1,00,000
Income under the head Other Sources	1,00,000
Gross Total Income	11,00,000
Less:	
Deduction u/s 80C	30,000
Deduction u/s 80GG	24,000

Working Note:
Least of the following:
1. 24,000
2. 25% x 5,70,000 = 1,42,500
3. `4,80,000 – 57,000 = 4,23,000

AGTI = GTI – LTCG – STCG 111A – Deduction u/s 80C to 80U
(except 80GG)
= 11,00,000 – 2,00,000 – 3,00,000 – 30,000
= 5,70,000

Total Income	10,46,000
Computation of Tax Liability	
Tax on casual income ` 1,00,000 @ 30%	30,000
Tax on LTCG `2,00,000 @ 20%	40,000
Tax on STCG 111A ` 3,00,000 @ 15%	45,000
Tax on `4,46,000 at slab rate	24,600
Tax before Education Cess	1,39,600
Add EC @ 2%	2,792
Add SHEC @ 1%	1,396
Tax Liability	1,43,788
Rounded off u/s 288B	1,43,790

Illustration 10: Mrs. X is author of one book of scientific nature and its print price is `500 and total copies sold are 2000 and she has received royalty @ 50%.

She has taken a loan from State Bank in 2002 for pursuing bachelor's degree in Engineering and she has given repayment of principal amount `80,000 and interest `20,000 to State Bank. (payment of interest was given for the first time in financial year 2009-10)

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

Compute Income Tax liability A.Y. 2014-15.

Solution:

	`
Income under the head Other Sources	
500 x 50% x 2000	5,00,000.00

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

Computation of tax liability

Tax on `3,27,000 at slab rate	12,700.00
Less: Rebate u/s 87A (12.700 or 2,000 whichever is less)	2,000.00
Tax before education cess	10,700.00
Add: Education Cess @ 2%	214.00
Add: SHEC @ 1%	107.00
Tax Liability	11,021.00
Rounded off u/s 288B	11,020.00

PRACTICE PROBLEMS

TOTAL PROBLEMS 17

Problem 1.

Mr. X has taken a loan of `10,00,000 from S.B.I @ 10 % p.a. on 01.07.2009 for construction of one residential house which was completed on 01.07.2011. It was let out @ ` 55,000 p.m. w.e.f 01.04.2013 and Mr. X has paid Municipal tax of `20,000 though the amount due is `30,000.

He has repaid Principal amount of `70,000 on 01.07.2013.

He has Agricultural income of ` 3,00,000 and unadjusted loss of house property of P.Y. 2004-05 `10,000 and P.Y. 2005-06 `21,000

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

Compute his Income Tax Liability for the A.Y. 2014-15.

Answer: Tax Liability: Nil

Problem 2.

Mr. X has taken a loan of `12,00,000 @ 10 % p.a. on 01.07.2009 and the house completed on 01.05.2013. It was let out @ ` 30,000 p.m. w.e.f 01.08.2013 and the loan was repaid in annual installment of `40,000 starting from 01.01.2011.

Mr. X has STCG 111A `10,00,000.

He has paid premium of life policy `40,000 and sum assured is `1,00,000.

He has paid premium of Jeevan Suraksha Policy `20,000.

Compute his Total Income and Tax Liability for the A.Y. 2014-15.

Answer: Total Income: `9,74,000; Tax Liability: `1,19,580

Problem 3.

Mr. X is a Practicing Chartered Accountant and he started his practice from 01.04.2013 and he has income from profession `8,00,000.

He has LTCG of `3,00,000, STCG 111A of `1,00,000, casual income `2,00,000.

Investment and donations are as given below:-

- NSC `10,000.
- Medi-claim premium (by cheque) of `15,000.
- Prime Minister's National Relief Fund `10,000. (Paid by cheque)
- Rajiv Gandhi Foundation `8,000. (Paid by cheque)
- Donation to Birla Temple (Notified u/s 80G) `1,60,000. (Paid by cheque)
- Charitable institution (Notified u/s 80G) `40,000. (Paid by cheque)
- Social organization (Notified u/s 80G) `20,000. (Paid by cheque)
- MCD `10,000. (Paid by cheque)

Compute income tax liability for A.Y. 2014-15.

Answer: Tax Liability: `2,13,670

(b) Presume in the above question the assessee has given donation to the Government also for family planning is ` 20,000.

Answer: Tax Liability: `2,11,610

(c) Presume in the above question the assessee has given donation to the Government also for family planning is ` 3,00,000.

Answer: Tax Liability: `2,03,630

Problem 4.

Mr. X has income from business `7,00,000.

Mr. X has incurred `65,000 on the treatment of his dependent brother who is suffering from a disease notified under Rule 11DD and he has received claim under medi-claim policy `35,000.

Compute his income and tax liability for assessment year 2014-15.

Answer: Total Income: `6,95,000; Tax Liability: `71,070

(b) Presume assessee incurred `65,000 on the treatment of his independent brother.

Answer: Total Income: `7,00,000; Tax Liability: `72,100

Problem 5.

Mrs. X has let out one residential house property @ `1,00,000 p.m. and she has paid municipal tax of `1,00,000.

She has taken a Medi-claim policy in the name of Mr. X and paid premium of `18,000 by cheque

She has also taken a Medi-claim policy in the name of her Father in law. Who is aged 66 years and paid premium of `16,000 by cheque.

She has incurred `21,000 on the treatment of her brother who is dependent on her and suffering from severe disability.

She has purchased N.S.C. in P.Y. 2011-12 and there is accrued interest of `30,000 and also there is accrued interest of PPF `10,000

She has taken Jeevan Suraksha Policy in the name of Mr. X and paid premium of `19,000.

She has taken a loan in 2007-08 from SBI for the education of his son who is studying in B.com (Hons) in SRCC and she had paid principal amount of `60,000 and interest `10,000 in P.Y.2013-14.

She has Agricultural Income `1,00,000

Compute her Income Tax Liability for the A.Y.2014-15.

Answer: Tax Liability: `71,070

Problem 6.

Mrs. X is registered under DVAT Act/Central Excise Act and CST and she has submitted the information as follows:-

Purchased Raw Material-R1 for `2,00,000 plus custom duty @10% plus EC @ 2% plus SHEC @ 1%.

She has purchased Raw Material-R2 for ` 3,00,000 plus Excise Duty @ 12% plus EC @ 2% plus SHEC @ 1% plus DVAT @ 10%.

She has purchased Plant & Machinery for `10,00,000 plus Excise Duty @ 12% plus EC @ 2% plus SHEC @ 1% plus DVAT @ 10%.

She has taken services for `3,00,000 plus Service Tax @ 12% plus EC @ 2% plus SHEC @ 1%.

Other processing charges were `5,00,000.

Profit @ 40% on total cost.

Entire goods were sold and output Excise Duty @ 12% plus EC @ 2% plus SHEC @ 1% and DVAT @ 10% was charged.

Tax credit for Excise Duty on Plant & Machinery is allowed in two installments and tax credit for DVAT on Plant & Machinery is allowed in three installments.

Depreciation is allowed @ 20% on Plant & Machinery on SLM basis.

She has spent `30,000 on the treatment and education of her sister who is a disabled person as per section 80U and she is dependent on Mrs. X.

She has paid premium of medi-claim policy `18,000 by cheque and policy is taken in the name of her father who is not dependent on Mrs. X.

She is holder of one patent right and has received royalty of `3,20,000

She has paid rent of `30,000 p.m. and she has complied with all the conditions of section 80GG

You are required to compute Output Tax, Tax credit, Net Tax payable by Mrs. X and also compute her Income tax liability for the A.Y. 2014-15. (ignore provisions of section 44AD)

Answer: Tax Liability: `38,980

<u>Problem 7.</u>

Mr. X has received royalty of `5,00,000 in connection with a patent right registered in his name (service tax is not applicable)

Other informations are as given below:

1. He has donated ` 30,000 to a political party by cheque.

2. He donated `10,000 to Delhi University notified under section 80G

3. He donated `10,000 to Government for the purpose of promoting family planning.

4. He paid premium of medi-claim policy `6,000 by cheque in the name of his major married independent son.

5. LIC premium paid `25,000 (Policy value `1,00,000)

6. Repayment of housing loan to Indian Bank `50,000

7. Payment made to LIC pension fund notified under section 80CCC `20,000

Compute income tax liability for A.Y 2014-15.

Answer: Tax Liability: Nil

Problem 8.

Mr. Mukesh Gandhi has incomes asunder:

	`
1. Rent from letting out one house property	3,00,000
2. Long term capital gains	2,00,000

He has donated `5,000 to MCD which is notified under section 80G and has donated `4,000 to National Children's Fund and `2,000 to the Government for promotion of family planning norms.

He has invested `6,000 in NSC. He is aged about 67 years.

Compute his total income and tax liability for the assessment year 2014-15.

Answer: Total Income: `3,97,500; Tax Liability: `28,330

Problem 9.

Mr. Mayank Bindal has short term capital gain of `6 lakhs and he has donated `20,000 by cheque to a charitable institution which is notified under section 80G and he has spent `25,000 on the treatment of his handicapped dependant brother.

Compute his total income and tax liability for the assessment year 2014-15.

Answer: Total Income: `5,40,000; Tax Liability `39,140

Problem 10.

Mr. Ram Kumar has incomes asunder:

1. He has received dividends from an Indian company of `11,000.
2. He has income from Business/Profession `1,22,000.
3. He has long term capital gains of `1,00,000.
4. He has donated `10,000 to MCD for family planning and has donated `3,000 to a charitable institution notified under section 80G.

Compute his total income and tax liability for the assessment year 2014-15.

Answer: Total Income: 2,10,900; Tax Liability: `190

Problem 11.

Mr. Vijay Sukla has incomes asunder:

1. Short term capital gains on sale of a capital asset `5,00,000.
2. Mr. Vijay Sukla has donated `7,000 to the Prime Minister's National Relief Fund and `20,000 to Birla temple which is notified under section 80G. (Paid by cheque)

Compute his total income and tax liability for the assessment year 2014-15.

Answer: Total Income: `4,83,000; Tax Liability: `27,090

Problem 12.

Mr. Naveen Verma has incomes asunder:

		`
1.	Income from Business/Profession	1,00,000
2.	He has long term capital gains	2,50,000
5.	He has income from other sources	1,10,000
6.	He has donated `10,000 to National Defence Fund	
7.	He has donated ` 5,000 to charitable institution notified under section 80G.	

Compute his total income and tax liability for assessment year 2014-15.

Answer: Total Income: `4,47,500; Tax Liability: `48,930

Problem 13.

Mr. Pradeep Kumar has incomes asunder:

Long Term Capital Gains: `1,00,000
Short Term Capital Gains: `2,55,000
Casual income: `10,000

Donations given to charitable institutions notified under section 80G `45,000 paid by cheque and donation to MCD for family planning `3,000 paid by cheque.

Compute his total income and tax liability for the assessment year 2014-15.

Answer: Total Income: `3,50,250; Tax Liability: `25,780

Problem 14.

Mr. Rahul Rai is engaged in the business of manufacturing chemicals and has income under the head business/profession of `5,00,000 and has paid rent of `10,000 p.m. for taking a house on rent because he did not have any house in his name or in the name of his spouse or minor child or the Hindu Undivided Family of which he is a member. He has invested `75,000 in NSC which were taken in the name of his spouse.

Compute his total income and tax liability for assessment year 2014-15.

Answer: Total Income: `4,01,000; Tax Liability: `18,640

Problem 15.

During the previous year 2013-14, Mr. Ranjan Goyal has income under the head house property `4,00,000. He has donated `12,000 to a notified institution for the purpose of scientific research.

Compute his total income and tax liability for the assessment year 2014-15.

Answer: Total Income: `3,88,000; Tax Liability: `17,300

Problem 16.

Mr. Rajat Sapra is engaged in the business of collecting and processing bio-degradable waste since 01.07.2012 and has income of `4,10,000 from this business. He has received income of `2,80,000 from subletting also.

He has paid premium of medi-claim policy of `11,000. It was paid by cheque and the policy was taken in the name of his father.

Compute his total income and tax liability for assessment year 2014-15.

Answer: Total Income: `2,69,000; Tax Liability: `5,050

Problem 17.

For the assessment year 2014-15, Mr. Rahul Yadav submits the following information:

Income from business 9,800

Property income	**House I**	**House II**
	`	`
Fair Rent	75,000	82,000
Rent Received/Receivable	78,000	85,000
Municipal Valuation	76,000	75,000
Municipal Taxes (due but outstanding)	13,000	14,000
Repairs	3,500	47,000
Insurance	2,000	3,000
Land Revenue (Paid)	2,500	4,000
Ground Rent (due but outstanding)	1,600	6,000
Interest on capital borrowed by mortgaging house I (Funds are used for construction of house II)	14,000	———
Nature of Occupation	Let out for Residence	Let out for Business
Date of completion of construction	30.04.2007	07.04.2009

Assume that standard rent is less than rent actually received.

Mr. Rahul Yadav has brought forward losses of house property asunder	`
Assessment year 1999-00	1,00,000
Assessment year 2009-10	10,100

Other incomes of Mr. Rahul Yadav

1. Vacant site lease rent 4,12,000

2. Rent from house property at Chennai 3,000 p.m.

This house was constructed by taking a loan of ` 2,00,000 @ 10% from State Bank of India but it was repaid on 01.10.2013 by taking a loan of `2,00,000 from Punjab National Bank on 01.10.2013 @ 9.5% p.a.

3. He has also received `3,000 during the year from Calcutta University for acting as an examiner and `1,500 from Delhi University also, for acting as an examiner.

4. He has received from Life Insurance Corporation of India `1,20,000 being the maturity amount of life insurance policy.

5. He has received a reward of `5,000 from Central Government and the reward is notified under section 10(17A).

He has invested `1,000 in the bonds of ICICI (tax saving) eligible for deduction under section 80C, but the investment is out of past savings and has invested `1,000 in master equity plan of Unit Trust of India.

He is eligible for deductions under section 80D to 80U amounting to `1,005.

Compute his income and also tax liability for assessment year 2014-15.

Answer = Total Income: `4,21,000; Tax Liability: `20,700

SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:

Computation of income under the head House Property

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

Working Note:

Prior period interest

From 01.07.2009 to 31.03.2011

= (10,00,000 x 10% x 9/12) + (10,00,000 x 10% x 1)

= `75,000 + `1,00,000 = `1,75,000

Installment = `1,75,000/5 = `35,000

Current period interest

From 01.04.2013 to 31.03.2014

= (10,00,000 x 10% x 3/12) + (9,30,000 x 10% x 9/12)

= `25,000 + `69,750 = `94,750

Total interest on capital borrowed

= `35,000 + ` 94,750 = `1,29,750

Income under the head House Property	3,18,250.00
Brought forward Loss of P.Y.2005-06	21,000.00
Income under the head House Property	2,97,250.00
Gross Total Income	2,97,250.00
Less: Deduction u/s 80C	
Repayment of Housing loan	70,000.00
NSC	10,000.00
PPF	5,000.00
Post Office Time Deposit	5,000.00
Total Income	2,07,250.00
Agricultural Income	3,00,000.00

Computation of Tax Liability

Step 1 Tax on (agricultural + non agricultural income)	
i.e. Tax on `5,07,250 at slab rates	31,450.00
Step 2 Tax on (agricultural + 2,00,000) at slab rates	30,000.00
Deduct Tax at Step 2 from Step 1	1,450.00
Less: Rebate u/s 87A (1,450 or 2,000 whichever is less)	1,450.00
Tax Liability	Nil

Solution 2:

	`
Computation of income under the head House Property	
Gross Annual Value	2,40,000
Less: Municipal Tax	NIL
Net Annual Value	2,40,000
Less: 30% of NAV u/s 24(a)	72,000
Less: Interest on capital borrowed u/s 24(b)	1,94,000

Working Note:
Prior period interest
From 01.07.2009 to 31.03.2013
= (12,00,000 x 10% x 6/12) + (12,00,000 x 10% x 1)+ (11,60,000 x 10% x 1)+ (11,20,000 x 10% x 1)+ (10,80,000 x 10% x 3/12)
= `60,000 + `1,20,000+ `1,16,000+ `1,12,000+ `27,000 = `4,35,000
Installment = `4,35,000/5 = `87,000
Current period interest
From 01.04.2013 to 31.03.2014
= (10,80,000 x 10% x 9/12) + (10,40,000 x 10% x 3/12)
= `81,000 + `26,000 = `1,07,000
Total interest on capital borrowed
= `87,000 + ` 1,07,000 = `1,94,000

Income under the head House Property	(26,000)
STCG u/s 111A	10,00,000
Gross Total Income	9,74,000
Less: Deduction u/s 80C to 80U	NIL
Total Income	9,74,000

Computation of Tax Liability

Tax on STCG @ 15 % ` 7,74,000 (9,74,000-2,00,000) u/s 111A	1,16,100
Add: EC @ 2%	2,322
Add: SHEC @ 1%	1,161
Tax Liability	1,19,583
Rounded off u/s 288B	1,19,580

Note: Deduction under section 80C to 80U is not allowed from STCG u/s 111A.

Solution 3(a):

	`
Income under the head business / profession	8,00,000.00
Income under the head Other Sources	
Casual income	2,00,000.00
Income under the head other sources	2,00,000.00
Income under the head Capital Gain	
Long term capital gain	3,00,000.00
Short term capital gain 111A	1,00,000.00
Income under the head capital gain	4,00,000.00
Gross Total Income	14,00,000.00
Less: Deductions	

Deduction u/s 80C for NSC	10,000.00
Deduction u/s 80D for Mediclaim policy	15,000.00
Deduction u/s 80G	
Prime Minister National Relief Fund	10,000.00
Rajiv Gandhi Foundation (50% of `8,000)	4,000.00
Donations	48,750.00

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 14,00,000 – 3,00,000 – 1,00,000 – 25,000
= 9,75,000

Qualifying amount = 10% of AGTI or donation whichever is less
= 97,500 or 2,30,000 whichever is less
= 97,500

50% of qualifying amount = 48,750

Total Income	13,12,250.00

Computation of Tax Liability

Tax on casual income `2,00,000 @ 30% u/s 115BB	60,000.00	
Tax on LTCG `3,00,000 @ 20%		60,000.00
Tax on STCG 111A `1,00,000 @ 15%		15,000.00
Tax on normal income `7,12,250 at slab rate		72,450.00
Tax before education cess		2,07,450.00
Add: Education Cess @ 2%		4,149.00
Add: SHEC @ 1%		2,074.50
Tax Liability		2,13,673.50
Rounded off u/s 288B		2,13,670.00

<u>Solution 3(b):</u>

	`
Gross Total Income	14,00,000.00
Less: Deductions	
Deduction u/s 80C for NSC	10,000.00
Deduction u/s 80D for Mediclaim policy	15,000.00
Deduction u/s 80G	
Prime minister national relief fund	10,000.00
Rajiv Gandhi Foundation	4,000.00
Donations	58,750.00

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 14,00,000 – 3,00,000 – 1,00,000 – 25,000
= 9,75,000

Qualifying amount = 10% of AGTI or donation whichever is less
= 97,500 or 2,50,000 whichever is less
= 97,500

50% of qualifying amount = 77,500 x 50% + 20,000
= 58,750

Total Income	13,02,250.00

Computation of Tax Liability

Tax on casual income `2,00,000 @ 30% u/s 115BB	60,000.00	
Tax on LTCG `3,00,000 @ 20%		60,000.00
Tax on STCG 111A `1,00,000 @ 15%		15,000.00
Tax on normal income `7,02,250 at slab rate		70,450.00
Tax before education cess		2,05,450.00
Add: Education Cess @ 2%		4,109.00
Add: SHEC @ 1%		2,054.50
Tax Liability		2,11,613.50
Rounded off u/s 288B		2,11,610.00

<u>Solution 3(c):</u>

	`
Gross Total Income	14,00,000.00
Less: Deductions	
Deduction u/s 80C for NSC	10,000.00
Deduction u/s 80D for Mediclaim policy	15,000.00
Deduction u/s 80G	
Prime minister national relief fund	10,000.00
Rajiv Gandhi Foundation	4,000.00
Donations	97,500.00

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 14,00,000 – 3,00,000 – 1,00,000 – 25,000
= 9,75,000

Qualifying amount = 10% of AGTI or donation whichever is less
= 97,500 or 5,30,000 whichever is less
= 97,500

100% deduction is allowed 97,500

Total Income	12,63,500.00

Computation of Tax Liability

Tax on casual income `2,00,000 @ 30% u/s 115BB	60,000.00	
Tax on LTCG ` 3,00,000 @ 20%		60,000.00
Tax on STCG 111A `1,00,000 @ 15%		15,000.00
Tax on normal income `6,63,500 at slab rate		62,700.00
Tax before education cess		1,97,700.00
Add: Education Cess @ 2%		3,954.00
Add: SHEC @ 1%		1,977.00
Tax Liability		2,03,631.00
Rounded off u/s 288B		2,03,630.00

<u>Solution 4:</u>

	`
Income under the head Business/Profession	7,00,000
Gross Total Income	7,00,000
Less: Deduction u/s 80DDB (40,000 – 35,000)	5,000
Total Income	6,95,000

Computation of Tax Liability

Tax on `6,95,000 at slab rate	69,000

Add: Education cess @ 2%	1,380
Add: SHEC @ 1%	690
Tax Liability	71,070

Solution 4(b):

	`
Income under the head Business/Profession	7,00,000
Gross Total Income	7,00,000
Less: Deduction u/s 80DDB	Nil
Total Income	7,00,000

Computation of Tax Liability

Tax on `7,00,000 at slab rate	70,000
Add: Education cess @ 2%	1,400
Add: SHEC @ 1%	700
Tax Liability	72,100

Note: Deduction under section 80DDB is not allowed in case assessee incurred expenditure on treatment of his independent brother.

Solution 5:

Computation of income under the head House Property	`
Gross Annual Value	12,00,000
Less: Municipal Tax	1,00,000
Net Annual Value	11,00,000
Less: 30% of NAV u/s 24(a)	3,30,000
Less: Interest on capital borrowed u/s 24(b)	NIL
Income under the head House Property	7,70,000
Income under the head other sources	30,000
Gross Total Income	8,00,000
Less: Deductions	
Deduction u/s 80C for NSC	30,000
Deduction u/s 80CCC for Jeevan Suraksha Policy	NIL
Deduction u/s 80D for Mediclaim Policy	15,000
Deduction u/s 80DD for Severe Disability	1,00,000
Deduction u/s 80E for Education Loan Interest	10,000
Total Income	6,45,000
Agricultural Income	1,00,000

Computation of Tax Liability

Step 1 Tax on (agricultural + non agricultural income)	
i.e. Tax on `7,45,000 at slab rates	79,000
Step 2 Tax on (agricultural +2,00,000) at slab rates	10,000
Deduct Tax at Step 2 from Step 1	69,000
Tax before EC	69,000
Add: EC @ 2%	1,380
Add: SHEC @ 1%	690
Tax Liability	71,070

Solution 6:

`

Raw Material R1

Purchase price	2,00,000.00
Add: Custom Duty @10%	20,000.00
Education Cess @ 2%	400.00
SHEC @ 1%	200.00
Total	2,20,600.00

Raw Material-R2

Purchase price	3,00,000.00
Add: Excise Duty @12%	36,000.00
Education Cess @ 2%	720.00
SHEC @ 1%	360.00
Total	3,37,080.00
Add: DVAT @ 10%	33,708.00
Total	3,70,788.00

Plant & Machinery

Cost	10,00,000.00
Add: Excise Duty @ 12%	1,20,000.00
Education Cess @ 2%	2,400.00
SHEC @ 1%	1,200.00
Total	11,23,600.00
Add: DVAT @ 10%	1,12,360.00
Total	12,35,960.00

Calculation of Output Tax

Cost of product sold	
R1 (2,00,000 + 20,000 + 400 + 200)	2,20,600.00
R2 (3,00,000)	3,00,000.00
Plant & Machinery (10,00,000 x 20%)	2,00,000.00
Services	3,00,000.00
Processing Charges	5,00,000.00
	15,20,600.00
Add: Profit @ 40%	6,08,240.00
Total	21,28,840.00
Add: Excise Duty @ 12%	2,55,460.80
Education Cess @ 2%	5,109.22
SHEC @ 1%	2,554.61
Total	23,91,964.63
Add: DVAT @ 10%	2,39,196.46
Total	26,31,161.09

Calculation of Tax Payable

	Excise Duty/ Service Tax	Education Cess @ 2%	SHEC @ 1%	DVAT
Output Tax	2,55,460.80	5,109.22	2,554.61	2,39,196.46
Less: Input Credit				
R2	36,000.00	720.00	360.00	33,708.00
Plant & Machinery	60,000.00	1,200.00	600.00	37,453.00
Services	36,000.00	720.00	360.00	-
Net Tax Payable	1,23,460.80	2,469.22	1,234.61	1,68,035.46
Rounded off	1,23,460.00	2,469.00	1,235.00	1,68,035.00

<u>Computation of Total Income</u>

Profit from business	6,08,240.00
Income from Patent right	3,20,000.00
Gross Total Income	9,28,240.00
Less: Deduction u/s 80D	15,000.00
Less: Deduction u/s 80DD	50,000.00
Less: Deduction u/s 80RRB	3,00,000.00
Less: Deduction u/s 80GG	24,000.00

Working Note:
Least of the following:
1. `24,000
2. 25% x 5,63,240 = `1,40,810
3. `3,60,000 – `56,324 = `3,03,676
(AGTI = `9,28,240 – 15,000 – 50,000 – 3,00,000 = `5,63,240)

Total Income	5,39,240.00

Computation of Tax Liability

Tax on `5,39,240 at slab rate	37,848.00
Add: Education cess @ 2%	756.96
Add: SHEC @ 1%	378.48
Tax Liability	38,983.44
Rounded off u/s 288B	38,980.00

<u>Solution 7:</u>

	`
Income under the head Other Sources	
Royalty received in connection with a patent right	5,00,000.00
Gross Total Income	5,00,000.00
Less: Deduction u/s 80C	
LIC premium (allowed 10% of sum assured)	10,000.00
Repayment of housing loan to Indian Bank	50,000.00
Less: Deduction u/s 80CCC	
LIC Pension Fund	20,000.00
Less: Deduction u/s 80D	
Premium of medi-claim policy by cheque in the name of his major married independent son.	Nil
Less: Deduction u/s 80G	
Donation to Delhi University	10,000.00
Family planning	9,000.00

Working Note:
Donation to Government for promoting family planning 10,000
AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (Except section 80G)
= 5,00,000 – 10,000 – 50,000 – 20,000 – 30,000 – 3,00,000
= 90,000
Qualifying amount = 10% of AGTI or donation whichever is less

= 9,000 or 10,000
100% of qualifying amount = `9,000

Less: Deduction u/s 80GGC	
Donation to a political party	30,000.00
Less: Deduction u/s 80RRB	3,00,000.00
Total Income	71,000.00
Tax Liability	Nil

<u>Solution 8:</u>

	`
Computation of income under the head House Property	
Gross Annual Value	3,00,000
Less: Municipal taxes	Nil
Net Annual Value	3,00,000
Less: 30% of NAV u/s 24(a)	90,000
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	2,10,000
Computation of Total Income	
Income under the head House Property	2,10,000
Income under the head Capital Gains (LTCG)	2,00,000
Gross Total Income	4,10,000
Less: Deduction u/s 80C {NSC}	6,000
Less: Deduction u/s 80G	
(i) National Children Fund {50% of `4,000}	2,000
(ii) Other Donations u/s 80G	4,500

Working Note:

	`
MCD	5,000
Family planning	<u>2,000</u>
	<u>7,000</u>

AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)
= 4,10,000 – 2,00,000 – 6,000 = 2,04,000
Qualifying amount = 10% of AGTI or donation whichever is less
= 20,400 or 7,000
= 7,000
Deduction = 50% of `5,000 + `2,000
= `4,500

Total Income	3,97,500
Computation of Tax Liability	
Tax on LTCG `1,47,500 (2,00,000 – 52,500) @ 20% u/s 112	29,500
Tax on `1,97,500 at slab rate	Nil
Less: Rebate u/s 87A (29,500 or 2,000 whichever is less)	2,000
Tax before education cess	27,500
Add: Education cess @ 2%	550
Add: SHEC @ 1%	275
Tax Liability	28,325

Rounded off u/s 288B	28,330

Solution 9:

	`
Income under the head Capital Gains (STCG)	6,00,000
Gross Total Income	6,00,000
Less: Deduction u/s 80DD	50,000
Less: Deduction u/s 80G	10,000

Working Note:
AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)
= 6,00,000 – 50,000 = 5,50,000
Qualifying amount = 10% of AGTI or donation, whichever is less
= 55,000 or 20,000
= 20,000
Deduction = 50% of `20,000
= `10,000

Total Income	5,40,000

Computation of Tax Liability

Tax on `5,40,000 at slab rate	38,000
Add: Education cess @ 2%	760
Add: SHEC @ 1%	380
Tax Liability	39,140

Solution 10:

	`
Income under the head Other Sources	
Dividend from Indian company {exempt u/s 10(34)}	Nil
Income under the head Other Sources	Nil
Income under the head Business/Profession	1,22,000.00
Income under the head Capital Gains {LTCG}	1,00,000.00
Gross Total Income	2,22,000.00
Less: Deduction u/s 80G	11,100.00

Working Note:

	`
MCD for family planning	10,000
Charitable institution	3,000
	13,000

Adjusted GTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)
= `2,22,000 – `1,00,000 = `1,22,000
Qualifying amount = 12,200 or 13,000 whichever is less
= `12,200
Deduction = 50% of `2,200 + `10,000 = `11,100

Total Income	2,10,900.00

Computation of Tax Liability

Tax on Long term capital gain `10,900 (1,00,000 – 89,100) @ 20% u/s 112	2,180.00
Tax on `1,10,900 at slab rate	Nil
Less: Rebate u/s 87A (2,180 or 2,000 whichever is less)	2,000.00
Tax before education cess	180.00
Add: Education cess @ 2%	3.60
Add: SHEC @ 1%	1.80

Tax Liability	185.40
Rounded off u/s 288B	190.00

Solution 11:

	`
Income under the head Capital Gains {STCG}	5,00,000
Gross Total Income	5,00,000
Less: Deduction u/s 80G	
(i) Prime Minister's National Relief Fund	7,000
(ii) Other donations	10,000

Working Note:
AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 5,00,000
Qualifying amount = 10% of AGTI or donation whichever is less
= 50,000 or 20,000 whichever is less
= 20,000
50 % of the qualifying amount (i.e. 10,000)

Total Income	4,83,000

Computation of Tax Liability

Tax on `4,83,000 at slab rate	28,300
Less: Rebate u/s 87A (28,300 or 2,000 whichever is less)	2,000
Tax before education cess	26,300
Add: Education cess @ 2%	526
Add: SHEC @ 1%	263
Tax Liability	27,089
Rounded off u/s 288B	27,090

Solution 12:

	`
Income under the head Business/Profession	
Income under the head Business/Profession	1,00,000.00
Income under the head Other Sources	
Income under the head Other Sources	1,10,000.00
Income under the head Capital gains	
Long term capital gains	2,50,000.00
Income under the head Capital Gains	2,50,000.00
Gross Total Income	4,60,000.00
Less: Deduction u/s 80G	
(i) National Defence Fund	10,000.00
(ii) Charitable institutions	2,500.00

Working Note:
AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 4,60,000 – 2,50,000 = 2,10,000
Qualifying amount = 10% of AGTI or donation whichever is less
= 21,000 or 5,000
= 5,000
50% of the qualifying amount = 2,500

Total Income	4,47,500.00

Computation of Tax Liability

Tax on long term capital gains `2,47,500 (`2,50,000 – `2,500) @ 20% u/s 112	49,500.00
Tax on normal income `1,97,500 at slab rate	Nil
Tax before education cess	49,500.00
Less: Rebate u/s 87A (49,500 or 2,000 whichever is less)	2,000.00
Tax before education cess	47,500.00
Add: Education cess @ 2%	950.00
Add: SHEC @ 1%	475.00
Tax Liability	48,925.00
Rounded off u/s 288B	48,930.00

Solution 13:

	`
Computation of income under the head Capital Gains	
Short term capital gains	2,55,000.00
Long term capital gains	1,00,000.00
Income under the head Capital Gains	3,55,000.00
Computation of income under the head Other Sources	
Casual income	10,000.00
Income under the head Other Sources	10,000.00
Gross Total Income	3,65,000.00
Less: Deduction u/s 80G	14,750.00

Working Note:

	`
Charitable institutions	45,000
Family planning	3,000
	48,000

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
= 3,65,000 – 1,00,000 = 2,65,000
Qualifying amount = 10% of AGTI or donation whichever is less
= 26,500 or 48,000
= 26,500
Deduction = 50% of 23,500 + 3,000
= 11,750 + 3,000 = 14,750

Total Income	3,50,250.00

Computation of Tax Liability

Tax on LTCG `1,00,000 @ 20% u/s 112	20,000.00
Tax on casual income `10,000 @ 30% u/s 115BB	3,000.00
Tax on normal income `2,40,250 at slab rate	4,025.00
Tax before rebate	27,025.00
Less: Rebate u/s 87A (27,025 or 2,000 whichever is less)	2,000.00
Tax before education cess	25,025.00
Add: Education cess @ 2%	500.50
Add: SHEC @ 1%	250.25
Tax Liability	25,775.75
Rounded off u/s 288B	25,780.00

Solution 14.

	`
Income under the head Business/Profession	5,00,000
Gross Total Income	5,00,000

Less: Deduction u/s 80C	75,000
Less: Deduction u/s 80GG	24,000

Working Note:
Least of the following:
(i) `1,20,000 – 10% of `4,25,000 = `77,500
(ii) `24,000
(iii) 25% of `4,25,000 = `1,06,250
(AGTI = `5,00,000 – `75,000 = `4,25,000)

Total Income	4,01,000

Computation of Tax Liability

Tax on `4,01,000 at slab rate	20,100
Less: Rebate u/s 87A (20,100 or 2,000 whichever is less)	2,000
Tax before education cess	18,100
Add: Education cess @ 2%	362
Add: SHEC @ 1%	181
Tax Liability	18,643
Rounded off u/s 288B	18,640

Solution 15:

	`
Income under the head House Property	4,00,000
Gross Total Income	4,00,000
Less: Deductions u/s 80GGA	12,000
Total Income	3,88,000

Computation of Tax Liability

Tax on `3,88,000 at slab rate	18,800
Less: Rebate u/s 87A (18,800 or 2,000 whichever is less)	2,000
Tax before education cess	16,800
Add: Education cess @ 2%	336
Add: SHEC @ 1%	168
Tax Liability	17,304
Rounded off u/s 288B	17,300

Solution 16:

	`
Income under the head Business/Profession	4,10,000

Income under the head Other Sources

Income from subletting	2,80,000
Income under the head Other Sources	2,80,000
Gross Total Income	6,90,000
Less: Deduction u/s 80JJA	4,10,000
Less: Deduction u/s 80D	11,000
Total Income	2,69,000

Computation of Tax Liability

Tax on `2,69,000 at slab rate	6,900
Less: Rebate u/s 87A (6,900 or 2,000 whichever is less)	2,000

Tax before education cess	4,900
Add: Education cess @ 2%	98
Add: SHEC @ 1%	49
Tax Liability	5,047
Rounded off u/s 288B	5,050

<u>Solution 17:</u>

Computation of income under the head House Property

	`	`
<u>HOUSE I</u>		
Gross Annual Value		78,000
Working Note:	`	
(a) Fair Rent	75,000	
(b) Municipal valuation	76,000	
(c) Higher of (a) or (b)	76,000	
(d) Expected Rent	76,000	
(e) Rent Received or Receivable	78,000	
GAV = Higher of (d) or (e)	78,000	
Less: Municipal taxes		Nil
Net Annual Value		78,000
Less: 30% of NAV u/s 24(a)		23,400
Less: Interest on capital borrowed u/s 24(b)		Nil
Income under the head House Property		54,600
<u>HOUSE II</u>		
Gross Annual Value		85,000
Working Note:	`	
(a) Fair Rent	82,000	
(b) Municipal valuation	75,000	
(c) Higher of (a) or (b)	82,000	
(d) Expected Rent	82,000	
(e) Rent Received or Receivable	85,000	
GAV = Higher of (d) or (e)	85,000	
Less: Municipal Taxes		Nil
Net Annual Value		85,000
Less: 30% of NAV u/s 24(a)		25,500
Less: Interest on capital borrowed u/s 24(b)		14,000
Income under the head House Property		45,500
<u>HOUSE AT CHENNAI</u>		
Gross Annual Value (3,000 x 12)		36,000
Less: Municipal taxes		Nil
Net Annual Value		36,000
Less: 30% of NAV u/s 24(a)		10,800
Less: Interest on capital borrowed u/s 24(b)		19,500

Working Note:

Current period interest

<u>From 01.04.2013 to 30.09.2013</u>

= 2,00,000 x 10% x 6/12 = `10,000

<u>From 01.10.2013 to 31.03.2014</u>

= 2,00,000 x 9.5% x 6/12 = ` 9,500

Total interest = 10,000 + 9,500 = 19,500

Income under the head House Property		5,700
Brought forward house property loss of assessment year 2009-10		10,100
Brought forward of assessment year 1998-99 has not been taken into consideration because section 71B has been introduced from assessment year 1999-00		
Income under the head house property after adjusting losses		95,700
Income under the head Other Sources		
Vacant site lease rent		4,12,000
Remunerations from Calcutta University		3,000
Remuneration from Delhi University		1,500
Income under the head Other Sources		4,16,500
Income under the head Business/Profession		9,800
Gross Total Income		5,22,000
Less: Deduction u/s 80C		1,00,000
Investment in bonds of ICICI Bank	1,000	
Investment in master equity plan of UTI	1,000	
Repayment of housing loan	1,00,000	
(Whether deduction u/s 80C on repayment of the loan by taking a fresh loan is allowed or not is not clear in the act)		
(but maximum upto `1,00,000)		
Less: Deductions u/s 80D to 80U		1,005
Total Income (rounded off 288A)		4,21,000

Computation of Tax Liability

Tax on `4,21,000 at slab rate	22,100.00
Less: Rebate u/s 87A (22,100 or 2,000 whichever is less)	2,000.00
Tax before education cess	20,100.00
Add: Education cess @ 2%	402.00
Add: SHEC @ 1%	201.00
Tax Liability	20,703.00
Rounded off u/s 288B	20,700.00

Explanations

1. Payments received from LIC on maturity of LIC policy is exempt under section 10(10D)
2. Investment under section 80C is allowed even from past savings and out of incomes exempt from tax.
3. Any award/reward of Central Government or State Government notified under section 10(17A) shall be exempt from income tax.

EXAMINATION QUESTIONS

IPCC MAY – 2013

Question 2(a). **(8 Marks)**

Devesh and Siddhant are brothers and they earned the following incomes during the financial year 2013-14. Devesh settled in America in the year 1985 and Siddhant settled in Mumbai. Devesh visits India for 20 days every year. Siddhant also visits America every year for a month. Compute their total income for the Assessment year 2014-15 from the following information.

Sl. No.	Particulars	Devesh `	Siddhant `
1.	Interest on American Development bonds, 50% of interest received in India.	46,000	18,000
2.	Dividend from a Japanese Company received in America.	10,000	15,000
3.	Profit on sale of shares of an Indian company received in India.	45,000	75,000
4.	Profit from a business in Mumbai, but managed directly from America.	10,000	-
5.	Income from a business in Mumbai.	32,000	28,000
6.	Fees for technical services rendered in America and received in America. The services were, however, utilized in India.	1,50,000	-
7.	Interest on savings bank deposit in State Bank of India, Mumbai.	4,500	12,000
8.	Rent received in respect of house property at Mumbai.	96,000	55,000
9.	Life Insurance Premium paid.	-	25,000

Solution:

Computation of Total Income of Mr. Devesh and Mr. Siddhant for the A.Y. 2014-15

Sl. No.	Particulars	Mr. Devesh Non-Resident	Mr. Siddhant ROR
1.	Interest on American Development bonds, 50% of interest received in India.	23,000	18,000
2.	Dividend from a Japanese Company received in America.	-	15,000
3.	Profit on sale of shares of an Indian company received in India.	45,000	75,000
4.	Profit from a business in Mumbai, but managed directly from America.	10,000	-
5.	Income from a business in Mumbai.	32,000	28,000
6.	Fees for technical services rendered in America and received in America. The services were, however, utilized in India.	1,50,000	-
7.	Interest on savings bank deposit in State Bank of India, Mumbai.	4,500	12,000
8.	Income u/h House Property (Note 2)	67,200	38,500

	Gross Total Income	3,31,700	1,86,500
	Less: Deduction u/s 80C		25,000
	Less: Deduction u/s 80TTA	4,500	10,000
	Total Income	3,27,200	1,51,500

Notes:

1. Dividend received from Japanese company in America, by a non-resident assessee is not taxable income, while the same received by an ROR assessee is taxable and is not exempt under section 10(34) of Income Tax Act, 1961.

2. Calculation of Income u/h House Property

Particulars	**Mr. Devesh Non-Resident**	**Mr. Siddhant ROR**
GAV	96,000	55,000
Less: Municipal Tax	-	-
NAV	96,000	55,000
Less: 30 % Standard Deduction u/s 24(a)	28,800	16,500
Less: Interest u/s 24 (b)	-	-
Income u/h House Property	67,200	38,500

PCC MAY – 2012

Question 2 **(12 Marks)**

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 2013-14. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the assessment year 2014-15

Sl. No.	**Particulars**	**Mr. Ramesh**	**Mr. Suresh**
1.	Interest on Canada Development Bond, (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company received in London	28,000	20,000
3.	Profit from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-----
7.	Interest on saving bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Income under the head house property at Bhopal	1,00,000	60,000

(Modified)

Answer:

Computation of Total Income of Mr. Ramesh and Mr. Suresh for the A.Y. 2014-15

Sl. No.	**Particulars**	**Mr. Ramesh Non-Resident**	**Mr. Suresh ROR**
1.	Interest on Canada Development Bond, (only 50% of interest received in India)	17,500	40,000
2.	Dividend from British company received in London	----	20,000
3.	Profit from a business in Nagpur, but managed directly from London	1,00,000	1,40,000

4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-----
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	------	------
9.	Income under the head house property at Bhopal	1,00,000	60,000
	Gross Total Income	**4,64,500**	**4,32,000**
	Less: Deduction u/s 80 TTA	7,000	10,000
	Total Income	4,57,500	4,22,000

Notes:
1. Dividend received from British company in London, by a non-resident assessee is not taxable income, while the same received by an ROR assessee is taxable and is not exempt under section 10(34) of Income Tax Act, 1961.

2. Agricultural income from a land situated in Andhra Pradesh(in India), is exempted under section 10(1) of Income tax Act, 1961 in case of both non-resident and resident assessee.

Question 7 **(4 Marks)**
Explain how contributions to political parties are deductible in the hands of corporate and non-corporate assesses under the Income tax law.
Answer:
Deduction in respect of contributions given by companies to political parties Section 80GGB
In computing the total income of an assessee, being an Indian company, there shall be deducted any sum contributed by it, in the previous year to any political party or an electoral trust.

No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

Deduction in respect of contributions given by any person to political parties Section 80GGC
In computing the total income of an assessee, being any person, except local authority and every artificial juridical person wholly or partly funded by the Government, there shall be deducted any amount of contribution made by him, in the previous year, to a political party or an electoral trust.

No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

PCC NOV – 2011

Question 1 **(5 Marks)**
The gross total income of Mr. Nepal for the Assessment Year 2014-15, was `12,00,000. He has made the following investments/payments during the year 2013-14.

1. L.I.C. Premium paid (Policy value `1,00,000) 25,000

2. P.P.F. amount paid 25,000

3. Repayment of housing Loan to Indian Bank 50,000

4. Payment made to L.I.C. pension fund 20,000

5. Medical insurance premium for self, wife and dependant Children. 18,000

6. Mediclaim premium for parents (aged over 80 years) 30,000

Compute eligible deduction under Chapter VI A for the Assessment Year 2014-15. (Modified)

Answer:

Computation of eligible deduction under chapter VI A for the assessment year 2014-15

	`
Deduction u/s 80C	
L.I.C. Premium paid	10,000
(Paid `25,000, but maximum allowed 10% of `1,00,000)	
P.P.F. amount paid	25,000
Repayment of housing loan to Indian Bank	50,000
Deduction u/s 80 CCC	
L.I.C. pension fund	20,000
Total	1,05,000
Maximum deduction allowed 80CCE	1,00,000
Deduction u/s 80D	
Mediclaim for self, wife and dependant children	15,000
(Maximum allowed `15,000)	
(assumed amount paid through cheque)	
Mediclaim premium for parents	20,000
(Maximum allowed ` 20,000)	
(assumed amount paid through cheque)	
Total	35,000
Total deduction allowed under Chapter VI A	1,35,000

PCC MAY – 2011

Question 5 **(7 Marks)**

Mr. Chaturvedi having gross total income of `6,35,000 for the financial year 2013-14 furnishes you the following information:

(i) Paid `25,000 towards premium on life insurance policy of his married daughter.

(ii) Contributed `10,000 to Prime Minister's National Relief Fund.

(iii) Donated `20,000 to a Government recognized institution for scientific research.

Note: Assume that the gross total income of Mr. Chaturvedi does not include any income under the head 'profits and gains of business or profession'.

Compute the total income of Mr. Chaturvedi for the assessment year 2014-15.

Answer.

Computation of total income of Mr. Chaturvedi for the A.Y. 2014-15

Particulars	`	`
Gross total income		6,35,000
Less: **Deductions under Chapter VI-A**		
(i) Premium on life insurance policy of his married daughter - Eligible for deduction under section 80C	25,000	
(ii) Contribution of `10,000 to PM's National Relief Fund - Eligible for 100%	10,000	

deduction under section 80G		
(iii) Payment of `20,000 to a Government recognized institution for scientific research - Eligible for deduction under section 80GGA	20,000	55,000
Total Income		**5,80,000**

PCC JUNE – 2009

Question 4 **(3 Marks)**

Mr. Abhik, an individual, made payment of health insurance premium to GIC in an approved scheme. Premium paid on his health is ` 10,000 and his spouse's health is ` 15,000 during the year 2013-14. He also paid health insurance premium of ` 25,000 on his father's health who is a senior citizen and not dependent on him. The payments have not been made by cash. Compute the amount of deduction under Chapter VI - A of the Act, available to Mr. Abhik from his gross total income for the assessment year 2014-15. (Modified)

Answer.

Mr. Abhik will be eligible to claim deduction under section 80D on payment of health insurance premium to GIC in a medical insurance scheme approved by the Central Government. The premium is paid otherwise than by way of cash and hence qualifies for deduction under section 80D. Therefore, the amount of deduction under section 80D would be –

Particulars	**Amount (`)**
On health insurance premium paid on the health of himself and his spouse (`10,000 + `15,000 = `25,000, but restricted to `15,000)	15,000
On health insurance premium paid on the health of his father, `25,000 but restricted to `20,000 in the case of a parent, who is a senior citizen (whether dependent or not)	20,000
Total deduction under section 80D	**35,000**

PCC NOV – 2008

Question 4 **(8 Marks)**

Mr. Prasad declares gross total income ` 4,00,000 for the assessment year 2014-15. The gross total income includes taxable long term capital gain ` 65,000 and short term capital gain ` 35,000 which is taxable @ 15% under section 111A of the Income-tax Act, 1961. The details of fund investment made during the year 2013-14 are:

	`	`
(i) Medical insurance premium paid by cheque –		
(a) in the name of Mr. Prasad	4,000	
(b) in name of Mrs. Prasad	5,000	9,000
(ii) Contribution made to –		
(a) Indira Gandhi Memorial Trust	7,000	
(b) Delhi University (declared as an institution of national eminence)	3,000	
(c) Zila Saksharta Samiti	5,000	
(d) An approved charitable institute by cheque	30,000	
(e) Government for the purpose of promoting family planning	10,000	
(f) Hanuman Temple in Mohalla	20,000	75,000

Compute the total income of Mr. Parsad chargeable to tax for the Assessment year 2014-15. (Modified)

Answer.

Computation of Total Income of Mr. Prasad for the A.Y. 2014-15

Particulars		Amount (`)	Amount (`)
Gross Total Income			4,00,000
Less : Deduction under section 80C to 80U			
(a) under section 80D			
Medical insurance premium paid by cheque			
(i) in the name of Mr. Prasad	4,000		
(ii) in name of Mrs. Prasad	5,000	9,000	
(b) under section 80G			
Donation to Indira Gandhi Memorial trust @ 50% of ` 7,000		3,500	
Donation to Delhi University @ 100%		3,000	
Donation to Zila Saksharta Samiti @ 100%		5,000	
Other donations u/s 80G		19,550	40,050

Working Note:

Donation to approved Charitable Institute	30,000
Donation to Government for promoting family planning	10,000
	40,000

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

= 4,00,000 – 65,000 – 35,000 – 9,000

= 2,91,000

Qualifying amount = 10% of AGTI or donation whichever is less

= 29,100 or 40,000

50% of qualifying amount (i.e. 19,100)

= 9,550 + 10,000 = 19,550

Total income	**3,59,950**

Question 5 **(4 Marks)**

Briefly explain provisions of section 80U of the Income-tax Act, 1961, in respect of deduction available on permanent physical disability.

Answer.

Deduction under section 80U in case of a person with disability

(i) This section is applicable to a resident individual, who, at any time during the previous year, is certified by the medical authority to be a person with disability. A deduction of `50,000 in respect of person with disability and `1,00,000 in respect of a person with severe disability is allowable under this section.

(ii) The benefit of deduction under this section has also been extended to persons suffering from autism, cerebral palsy and multiple disabilities.

(iii) The assessee claiming a deduction under this section shall furnish a copy of the certificate issued by the medical authority in the form and manner, as may be prescribed, alongwith the return of income under section 139, in respect of the assessment year for which the deduction is claimed.

(iv) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned in the original certificate in order to continue to claim the deduction.

PCC MAY – 2008

Question 1 **(2 Marks)**

Deduction under Section 80CCD is available only to individuals employed by the Central Government. Discuss the correctness of this statement.

Answer.
The deduction under section 80CCD is available to the individuals employed by the Central Government or any other employer and even to self-employed person. Accordingly, the statement is incorrect.

PE-II NOV – 2002

Question 2 **(12 Marks)**

For the assessment year 2014-15, the gross total income of Mr. Chaturvedi was `4,00,240 which includes long term capital gain of `45,000 and short term capital gain of `80,000.The gross total income also includes interest income (fixed deposits) from banks of `12,000.

Mr. Chaturvedi has invested in public provident fund `60,000 and also paid medical insurance premium `11,000 by cheque. Mr. Chaturvedi also contributed `15,000 by cheque to public charitable trust eligible for deduction u/s 80G.

Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.03.2014.

(Modified)

Answer*:*

Computation of Total Income	`
Long Term Capital Gain	45,000.00
Short Term Capital Gain	80,000.00
Bank Interest	12,000.00
Other Income	2,63,240.00
Gross Total Income	4,00,240.00
Less: Deduction u/s 80C {Public Provident Fund}	60,000.00
Less: Deduction u/s 80D	11,000.00
Less: Deduction u/s 80G	7,500.00

Working Note:
AGTI = GTI – LTCG – STCG u/s 111A Deductions u/s 80C to 80U (Except 80G)
= 4,00,240 – 60,000 – 45,000 – 11,000
= `2,84,240
Qualifying Amount = 10% of AGTI or Donation given whichever is less
= `28,424 or 15,000
= 15,000
50% of qualifying amount = `7,500

Total Income	3,21,740.00

Computation of Tax Liability

Tax on long term capital gain `45,000 @ 20% u/s 112	9,000.00
Tax on normal income `2,76,740 at slab rate	2,674.00
Less: Rebate u/s 87A (11,674 or 2,000 whichever is less)	2,000.00
Tax before education cess	9,674.00
Add: Education cess @ 2%	193.48
Add: SHEC @ 1%	96.74
Tax liability	9,964.22
Rounded off u/s 288B	9,960.00

PE-II NOV – 2001

Question 3 **(5 Marks)**

Mr. Pramod, a writer and a professional furnishes the following particulars for the previous year ended 31.03.2014:

	`
(a) Royalty on books (eligible for deduction u/s 80QQB)	42,000
(b) Expenditure on books	8,000
(c) Income from profession	3,30,000
(d) Deposited in public provident fund (15.03.2014)	70,000

You are required to compute
(i) Taxable income,
(ii) Tax payable for assessment year 2014-15. (Modified)

Answer:

Computation of total income and tax payable by Mr. Pramod	`
Income from business/profession	
Income from profession	3,30,000
Income from royalty	42,000
Less: Expenses	8,000
Income under the head Business/Profession	3,64,000
Gross Total Income	3,64,000
Less: Deduction u/s 80C	70,000
Less: Deduction u/s 80QQB	34,000
Total Income	2,60,000

Computation of Tax Payable

Tax on `2,60,000 at slab rate	6,000
Less: Rebate u/s 87A (6,000 or 2,000 whichever is less)	2,000
Tax before education cess	4,000
Add: Education cess @ 2%	80
Add: SHEC @ 1%	40
Tax Payable	4,120

PE-II MAY – 2001

Question 1 **(15 Marks)**

The particulars of income of Mrs. K. aged 55 years for the financial year 2013-14 are given below:

	`
(1) Gross salary received from M/s ABC Ltd. for the year	4,00,000
(2) Rental income received from a commercial complex	12,000 p.m.
(3) Arrears of rent received from the complex, which were not charged to tax in any earlier years	30,000
(4) Interest paid on loan taken for the purchase of a house from a scheduled bank for use as own residence	1,20,000
(5) Repayment of instalments of loan taken from the bank for the purchase of the above property	60,000
(6) Deposits in public provident fund account	
(i) Towards loan taken from public provident account	20,000
(ii) Out of current year’s income	40,000
(7) Investment made in units of a mutual fund approved by the board under section 80C of the Income-Tax Act.	40,000

Compute the total income of Mrs. K and the tax payable thereon in respect of assessment year 2014-15. (Modified)

Answer:

	`	`
Computation of total income and tax liability Mrs. K		
Income from salary		
Gross Salary		4,00,000.00
Income under the head Salary		4,00,000.00
Income from house property		
Let out commercial complex		
Gross Annual Value (12,000 x 12)		1,44,000.00
Less: Municipal taxes		Nil
Net Annual Value		1,44,000.00
Less: 30% of NAV u/s 24(a)		43,200.00
Less: Interest on capital borrowed u/s 24(b)		Nil
Income from let out property		1,00,800.00
Property self- occupied for residence		
Net Annual Value		Nil
Less: Interest on capital borrowed u/s 24(b)		30,000.00
Loss from self–occupied property		(30,000.00)
Arrears of rent Section 25B	30,000	
Less: (30% of `30,000)	9,000	21,000.00
Income under the head House Property		91,800.00
Gross Total Income		4,91,800.00
Less: Deduction u/s 80C		1,00,000.00
Repayment of loan taken to purchase residential house property	60,000	
Deposit in public provident fund out of current income	40,000	
Investment made in units of mutual fund for infrastructure facility (but maximum upto Rs.1,00,000)	40,000	
Total Income		3,91,800.00
Computation of Tax Liability		
Tax on `3,91,800 at slab rate		19,180.00
Less: Rebate u/s 87A (19,180 or 2,000 whichever is less)		2,000.00
Tax before education cess		17,180.00
Add: Education cess @ 2%		343.60
Add: SHEC @ 1%		171.80
Tax Liability		17,695.40
Rounded off u/s 288B		17,700.00

PE-II MAY – 2000

Question 1 **(12 Marks)**

Anand is a retired Government officer aged 65 years, who derived the following income in respect of financial year 2013-14. He resides in Cochin:

	`
Pension	1,95,000
Interest from bank deposits (fixed deposits)	1,52,000
Total income	3,47,000

He has paid `18,000 as premium to effect an insurance on his health and his dependant parents and it was paid by a cheque. He pays a rent of `3,000 per month in respect of furnished accommodation. What is his eligibility for deduction under Section 80GG? Compute his total income and tax liability for assessment year 2014-15.

What are the conditions to be satisfied by him to qualify for the deduction? (Modified)

Answer:

	`
Pension	1,95,000.00
Income under the head Salary	1,95,000.00
Income under the head Other Sources {Bank Interest}	1,52,000.00
Gross Total Income	3,47,000.00
Less: Deduction under section 80D	18,000.00
Less: Deduction under section 80GG	3,100.00

Working Note:
Least of the following:
1. `24,000
2. 25% x 3,29,000 = `82,250
3. `36,000 – `32,900 = `3,100

(AGTI = `3,47,000 – `18,000 = `3,29,000)

Total Income	3,25,900.00

Computation of Tax Liability

Tax on `3,25,900 at slab rate	7,590.00
Less: Rebate u/s 87A (7,590 or 2,000 whichever is less)	2,000.00
Tax before education cess	5,590.00
Add: Education cess @ 2%	111.80
Add: SHEC @ 1%	55.90
Tax Liability	5,757.70
Rounded off u/s 288B	5,760.00

Conditions to be fulfilled for grant of deduction under section 80GG :

1. The assessee should not be getting any house rent allowance and also he is not being provided with Rent Free Accommodation by his employer.

2. The assessee should not have any house in his name or in the name of the spouse or in the name of minor child or in the name of Hindu Undivided Family of which he is a member, at a place where he ordinarily resides or performs duties of his office or employment or carries on his business or profession.

3. Also he should not have house even at any other place which he has declared to be self occupied.

4. The assessee has paid rent for the accommodation taken by him for his residence.

PE-II MAY – 1997

Question 1 **(7 Marks)**

In respect of assessment year 2014-15, an author of text-books for schools furnishes the following particulars and request you to work out his tax liability:

	`	`
1. Royalty from Printers Ltd. on publication of books		2,20,000

2. Capital gains long term		1,60,000
3. Other Sources:		
(a) Interest on Bank fixed Deposits	12,000	
(b) Dividend income from Indian company	3,000	
(c) Income from units of U.T.I.	5,000	20,000
Deductions: (i) Contributions towards:		
(a) LIC Pension Scheme		15,000
(b) LIC Premium		10,000
(ii) Contribution to public provident fund		10,000
(iii) Investment in National Savings Certificates		50,000
(iv) Medical treatment of handicapped dependent relative		20,000

(Modified)

Answer:

	`	`
Income under the head Capital Gains (LTCG)		1,60,000
Computation of income under the head Other Sources		
Royalty income		2,20,000
Income under the head Other Sources		
Interest from bank fixed deposits		12,000
Dividend income {exempt u/s 10(34)}		Nil
Interest from units of UTI {exempt u/s 10(35)}		Nil
Gross Total Income		3,92,000
Less: Deduction u/s 80C		70,000
LIC Premium	10,000	
Contribution in Public provident fund	10,000	
National Saving Certificate	50,000	
Total	70,000	
Less: Deduction u/s 80CCC		15,000
Less: Deduction u/s 80DD		50,000
Total Income		2,57,000
Computation of Tax Liability		
Tax on LTCG `57,000 (`1,60,000 – `1,03,000) @ 20% u/s 112		11,400
Tax on `97,000 at slab rate		Nil
Less: Rebate u/s 87A (11,400 or 2,000 whichever is less)		2,000
Tax before education cess		9,400
Add: Education cess @ 2%		188
Add: SHEC @ 1%		94
Tax Liability		9,682
Rounded off u/s 288B		9,680

EXERCISES

1. Mr. Srivastav, aged 72 years, paid medical insurance premium of ` 22,000 by cheque and ` 1,000 by cash during May, 2013 under a Medical Insurance Scheme of the General Insurance Corporation. The above sum was paid for insurance of his own health. He would be entitled to a deduction under section 80D of a sum of–

a) ` 22,000
b) ` 20,000
c) ` 15,000

2. Mr. Ramesh pays a rent of ` 5,000 per month. His total income is ` 2,40,000 (i.e. Gross Total Income as reduced by deductions under Chapter VI-A except section 80GG). He is also in receipt of HRA. He would be eligible for a deduction under section 80GG of an amount of –

a) ` 24,000
b) ` 36,000
c) Nil

3. The deduction allowable under section 80LA in respect of eligible income of Offshore Banking Units and International Financial Services Centre is –

a) 50% of such income for 5 consecutive assessment years
b) 100% of such income for 10 consecutive assessment years
c) 100% of such income for 5 consecutive assessment years and 50% of such income for 5 consecutive assessment years thereafter

4. The deduction under section 80QQB in respect of royalty income of authors of certain books is subject to a maximum limit of -
a) ` 1,00,000
b) ` 3,00,000
c) ` 5,00,000

5. The deduction under section 80-IC permissible to an undertaking or an enterprise, being a company located in the State of Himachal Pradesh, which newly commences business of manufacture or production of an article or thing other than what is specified in the Thirteenth Schedule is
a) 100% of profits for the first 5 assessment years and 25% of the profit for the next 5 assessment years thereafter
b) 100% of profits for the first 5 assessment years and 30% of the profit for the next 5 assessment years thereafter
c) 100% of profits for the first 10 assessment years

6. Under section 80GGB, deduction is allowable in respect of contribution to political parties by -
a) any person other than local authority and every artificial juridical person wholly or partly funded by the Government
b) Local authority and every artificial juridical person wholly or partly funded by the Government
c) An Indian company

7. ` 1 lakh is the maximum qualifying limit for deduction under -
a) Section 80C alone.
b) Sections 80C and 80CCC
c) Sections 80C, 80CCC and 80CCD(1)

8. Write short notes on -
(i) Deduction in respect of royalty income on patents
(ii) Deduction in respect of royalty income of authors of certain books.
(iii) Deduction in respect of royalty income on patents.
(iv) Deduction from Gross Total Income under section 80GG.

9. What is the deduction available from the gross total income of a company in respect of any contribution given to a political party?

10. Who are the assessees eligible to claim deduction under section 80LA? What is the quantum of deduction available under this section? What are the conditions to be fulfilled for claiming such deduction?

11. Discuss the provisions of section 80-IAB relating to deduction in respect of profits and gains derived by an undertaking or enterprise engaged in the development of a special economic zone.

12. What are the special provisions in respect of certain undertakings or enterprises in certain special category states as laid down under section 80-IC.

13. What are the conditions to be fulfilled by a convention centre to be eligible for deduction under section 80-ID?

14. List the conditions to be satisfied for claiming deduction under section 80E.

15. Medical insurance premium paid is deductible under section 80D. What are the conditions to be fulfilled to claim such deduction and what is the maximum deduction that can be claimed if such conditions are fulfilled?

16. Write briefly about the provisions regarding deductions from gross total income in respect of medical treatment of dependent disabled under section 80DD of the Income-tax Act, 1961 and in respect of medical treatment of assessee himself/dependent under section 80DDB of the Income tax Act, 1961.

17. List out the conditions for availing deduction under section 80QQB of Income-tax Act, 1961.

18. Discuss briefly about the deductibility of interest on loan taken for higher education, under section 80E of the Income-tax Act, 1961.

19. State the special provisions in respect of certain undertakings or enterprises in certain special category states as laid down under Section 80-IC of the Act.

20. Explain the deduction in respect of donations for Scientific Research and Development under section 80GGA of the Income-tax Act, 1961.

21. Briefly explain provisions of section 80U of the Income-tax Act, 1961, in respect of deduction available on permanent physical disability.

Answers

1. b; **2.** c; **3.** c; **4.** b; **5.** b; **6.** c; **7.** c