SYLLABUS

Class – B.Com. I Year (Taxation)

Subject – Direct Tax System Income Tax (Specialization-02)

UNIT – I	Tax System – Meaning Tax, Features and Objects Direct Taxes in India – General introduction of Central, Provincial and Local Direct Taxes.
UNIT – II	Characteristics and main features of income tax. Contribution of Income Tax in public revenue. Important definitions – Previous year – Assessment year, gross total income – Total income, person, agricultural income. Residential status and tax liability. Exempted income.
UNIT – III	Computation of taxable income of salaried persons exempt items and taxable income computation in case of retirement.
UNIT – IV	Computer of taxable income from house property. Calculation of taxable income from business or profession. Provisions relating to calculation of income on estimated basis of small traders, contractors, transporters and professionals.
UNIT – V	Capital gains – Calculation of taxable capital gain / loss on short term & long term capital assets. Exemptions for capital gains. Computation of income from other sources.

UNIT-I

Meaning of Tax

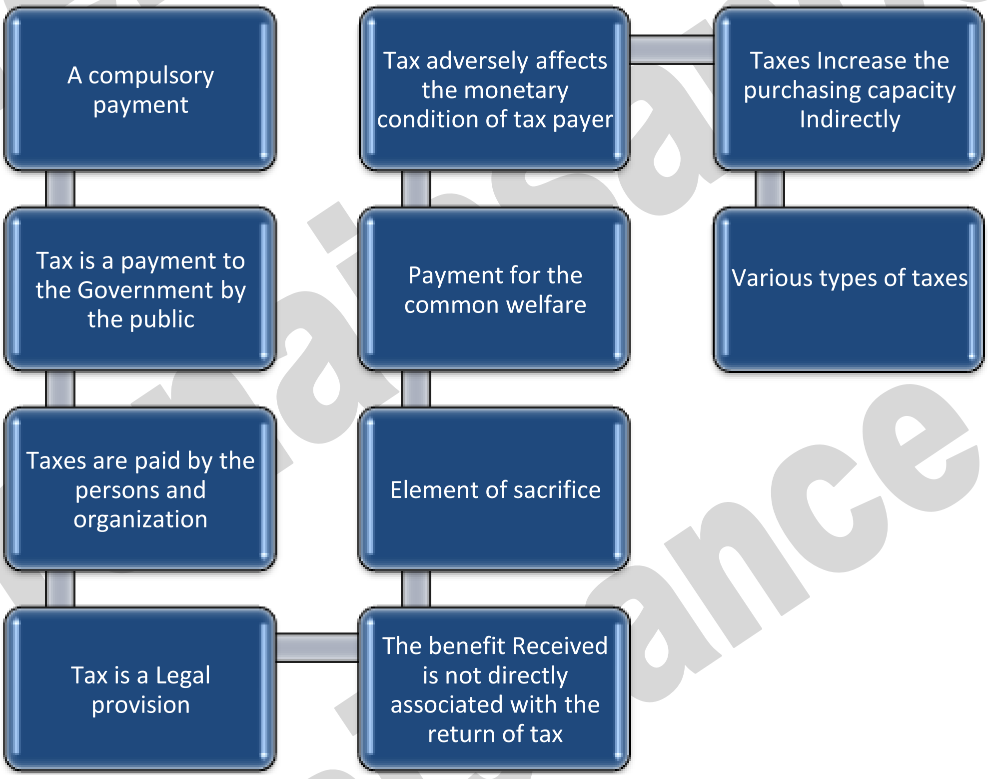
Taxation is the major Instrument in the hand of the modern Governments to raise finance to meet expenditure done on various public services. It is a compulsory obligation on the peoples and the payment of which is the legal duty of the citizens. It may be on their property. Income and even it may be required to pay at the time of manufacturing and selling or purchasing a commodity. Tax constitute the major source of the government's income.

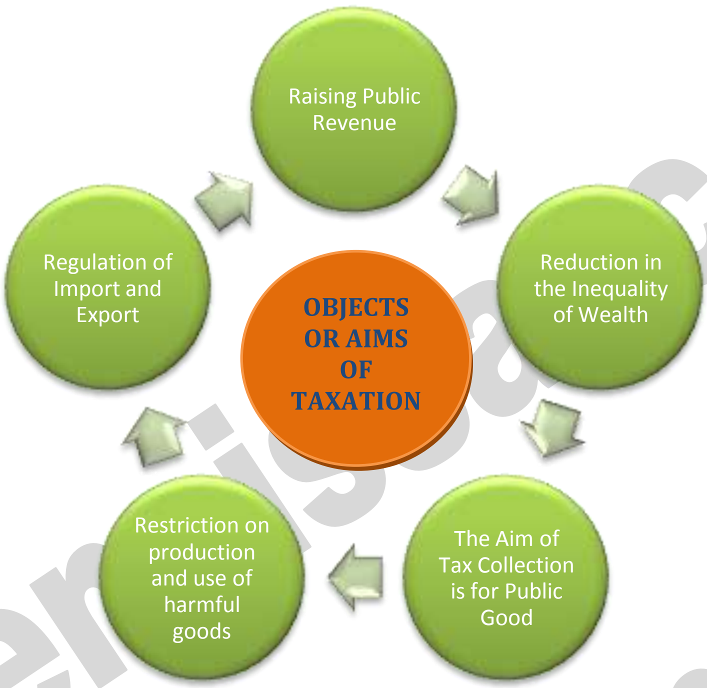
Tax System

The tax is compulsory payment to the Government by taxpayer without any expectation of some specified return. While paying tax, the tax payer is not entitled to force the Government to give something to him in return of the sum he has paid as tax.

CHARACTERISTICS OF A TAX

The conclusions which stem from the above discussion help us to point out certain characteristics of a tax which are generally called the elements of a tax. We may discuss the characteristics of a tax under the following heads.





DIRECT TAX

According to Dr. Dalton: "A direct tax is really paid by the person on whom it is legally imposed, while an indirect tax is imposed on one person, but paid partly or wholly by another, owiong to a consequential change in the terms of some contract or bargain between them."

MERITS AND DEMERITS OF DIRECT TAXES

Merits of Direct Taxes

1. Equitable
2. Elastic
3. Civic Consciousness
4. Reduce Inequalities
5. Economy
6. Certainty
7. Absence o leakage
8. Educative Value or Civic Consciousness

MERITS OF DIRECT TAXES

- Equitable
- Elastic
- Civic Consciousness
- Reduce Inequalities
- Economy
- Certainty
- Absence o leakage
- Educative Value or Civic Consciousness

DEMERITS OF DIRECT TAXES

- Unpopular
- Inconvenience
- More Possibility of Evasion
- Possibility of Injustice
- Narrow Based
- Not so Economical
- Discourage Savings
- Corruption
- Black Money

SUGGESTIONS FOR IMPROVEMENT

- Curtailment in tax rates
- Check on tax evasion

- Extending the tax payers numbers
- Priority to direct taxes

- Simplification of tax Laws
- Changes in public expenditure

- The regressive nature o the taxation system should be curbed
- Uniformity

- Study of Effects
- Reduction in direct tax rates

- Saving and planning habits of the people should be encouraged
- An All India Taxation Council should be instituted

INDIRECT TAXES

Indirect taxes are now defined as taxes on commodities. These are customs duties such as import and export duties on the value of goods manufactured and sales tax on goods purchased In a sense, indirect are taxes on expenditure.

Due to lack of any precise definition, all taxes on commodities and services other than personal services are treated as indirect taxes Thus, all types of sales tax, excise and customs duties are grouped as indirect taxes.

Merits of Indirect Taxes

- Highly Revenue givers in Developing Countries
- Convenient
- Elastic
- Productive
- Lower Collection Costs
- Slightly Less Tax Evasion
- Can be Progressive
- Psychological Advantages to Tax payer
- Rational and Equitable Allocation of Resources
- Help in Capital Formation
- Balanced Regional Development
- Broad based
- Social Welfare

DEMERITS OF INDIRECT TAXES

- Regressive
- Uncertainty
- No Civic Consciousness
- Inflationary
- Tax Evasion
- Loss of Consumer Surplus
- Encourage Dishonesty and Corruption

Indian Tax Structure

There is a Union Government system in India. Administration lies in the hands of Central, States and local self governments. Functions of each government have been divided in the constitution. At the same time, their sources of finance have been specifically distributed. Description of centre-state financial relations is as under

HIGHLIGHTS OF TAX STRUCTURE IN INDIA

There is a clear allocation of sources among and states under Indian constitution. Central Govt. is authorized to impose some taxes, like Income Tax. Excise Duty, Customs etc. while State Governments may impose tax on sales or purchase of goods, Excise duty on intoxicants, land revenue, entertainment tax etc. A table is given below regarding various imposed by central, state and Local Governments.

Central Taxes	State Taxes	Local Taxes
Income Tax	Road tax	Property tax
Corporate Tax (tax on income of companies)	Land Revenue	Light and water tax
Expenditure tax	Agricultural Tax	Sanitary tax
Securities transaction Tax	Stamp Duty	Market tax
Commodity Exchange Tax	Electric Tax	License fees on shop
	Professional tax	Passenger tax
	Vehicle tax	Tax on hoardings
		Exhibition and fairs tax

UNIT-II

"Income tax is a tax on yearly taxable income of a person levied by the Central Government at prescribed rates." Tax payers include individual, firm, company, Hindu undivided family, association of persons, trust etc.
Taxable income means income calculated under the provisions of the Income Tax Act.

Salient Feature of Income Tax

- Central Tax
- Direct Tax
- Tax on Taxable Income
- Tax Exemption limit
- Progressive rates of Tax
- Scope of Taxation
- Burden on Rich class of Persons
- Administration of Income Tax
- Distribution of Income Tax

Merits of the Income Tax

- Helpful in reducing the unequal distribution of wealth
- Definiteness
- Elasticity and Productivity
- Shifting of tax burden not possible
- Just and Equitable

Demerits of the Income Tax

- Bad effect on economic development
- Income cannot be the only measurement of taxable capacity
- Tax evasion

Income [Section 2(24)]

Though 'Income' is a very important word for the Income Tax Act but no precious definition of the word "Income" is attempted under the Income Tax Act, 1961. The term "Income", in the context of the Act, in inclusive. The narrion given in Sub-Section (24) of Section 2 of the Act enumerates certain items, including those which cannot ordinarily be considered as income but are treated statutorily as such.

Definition of Income [Section 2(24)]

Income Includes:-

1. Profit and gains;
2. Dividend;
3. Voluntary contributions received by a trust.
4. The value of a perquisite o profit in lieu of salary.
5. Any special allowance or benefit other than perquisites included under 4.
6. Any allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office
7. The value of any benefit or perquisite obtained from a company.
8. Any compensation
9. Profit on sale of License
10. Cash assistance received
11. Any interest, salary, bonus, commission/remunerations
12. Profit/gain of mutual or co-operative insurance co.
13. Capital gain arising from transfer of capital gain
14. Any sum received under a key man insurance police.

Important Definitions:

GROSS TOTAL INCOME

Gross Total Income means aggregate amount of taxable income computed under five heads of income i.e. salaries, house property, business & profession, capital gains and other sources. In other words, Gross Total Income means total income computed in accordance with the provisions of the Act before making any deduction under sections 80C to 80U.

In Simple words, the aggregate amount of the following heads of income is called Gross Total Income –
- (i) Salaries (Cash receipts and perquisites from the employer),
- (ii) Income from House Property (Rental income)
- (iii) Profits an Gains of Business or Profession,
- (iv) Capital Gains from transfer of movable and immovable assets,
- (v) Income from other Sources i.e. interest, royalty, lottery etc.

TOTAL INCOME

Taxable income of an assesses is called Total Income. Income Tax Liability is calculated on such income. It is computed as per provisions and rules of Income Tax.
As per Section 2(45): "Total Income means the total amount of income referred to in section 5, computed in the manner laid down in the Income Tax Act."

PREVIOUS YEAR (Section 3) (2018-2019)

Previous year means the financial year immediately preceding the assessment year e.g. for the assessment year 2017-2018 previous year will commence on 1st of April, 2016 and end on 31st March, 2017. Previous year for income tax purposes will be financial year which ends on 31st of March, however the assessee can close his books of accounts on other date e.g. an assessee may maintain books of accounts on calendar year basis but his previous year, for Income Tax purpose, will be financial year and not the calendar year. This uniform previous year has to be followed for all sources of income.

Important points in relation to previous year: Under the following situation the previous year would be -
1. Where a different accounting year is followed
2. Previous year in case of newly set up business
3. In case of newly created source of income

ASSESSMENT YEAR (20119-2020)

It means the period of twelve months commencing on 1st of April every year. In other words period of 12 months – 1st April to 31st March is called assessment year.

PERSON [SECTION-2 (31)]

The term 'person' includes:
- (1) An individual
- (2) A Hindu undivided family
- (3) A Company;
- (4) A Firm;
- (5) An association of persons or a body of individuals, whether incorporated or not;
- (6) A local authority like Municipalities, Panchayats, Cantonment Boards, Port Trusts etc.
- (7) Every artificial juridical person Like Life Insurance Corporation, University etc.

ASSESSEE [SECTION-2 (7)]

In simple word, An Assessee is a person who is liable to pay any sum under Income Tax Act or in respect In respect of whom the proceeding have been initiated under this Act.

The word 'assessee' has been defined in Section 2(7) of the Act according to which assessee means a person by whom any tax or any other sum of money is payable under the Act and includes –

(a) **Every person**:
- (i) Who is liable to pay any tax; or
- (ii) Who is liable to pay any other sum of money under this Act (e.g. interest, penalty, etc); or
- (iii) In respect of whom any proceeding under this Act has been taken for the assessment of the income; or
- (iv) In respect of whom any proceeding under this Act has been taken for the assessment of the income of any other person in respect of which he is assessable; or
- (v) In respect of whom any proceeding under this Act has been taken for the assessment for the loss sustained by him or by such other person; or
- (vi) In respect of whom any proceeding under this Act has been taken for the amount of refund due to him or to such other person;

(b) **A Deemed Assessee**:
A person who is liable to pay tax not only on his own income but on the income of any another person. Deemed assesses includes legal representative, agent of non resident, guardian or manager of an infant and lunatic, trustees and administrators etc.

(c) **Who is deemed to be an assessee in default**?
A person is said to be an assessee in default if he fails to comply with the duties imposed upon him under the Income tax Act.

AGRICULTURAL INCOME [SECTION 2 (1A)]

Definition of Agriculture Income

Sec. 2(1A) defines "agricultural income" to means –
- (A) any rent or revenue derived from land which is situated in India and is used for agricultural purposes,
- (B) any income derived from such land by agriculture or by the process employed to render the produce fit for the market or by sale of such produce by a cultivator or receiver of rent in kind,
- (C) Any income derived from any building provided the following conditions are satisfied (i) The Building is immediate vicinity of the agriculture land (ii) it is occupied by the cultivator or received of rent or revenue (iii) It is used as a dwelling house or store house/out house. (iv) The land is assessed to land revenue or a local rate.
- (D) Any income derived from saplings/seedling grown in a nursery shall be deemed to be agricultural income.

Partly Agricultural Income Shown by Chart

S.No.	Partly Agricultural Income	Agricultural Income	Non Agricultural Income
1	Growing & manufacturing tea in India	60%	40%
2	Growing & cured coffee in India by the seller	75%	25%
3	Sale of Coffee grown, cured, roasted and grounded	60%	40%
4	Sale of centrifuged latex or cenex manufactured from rubber	65%	35%
5	Other Agricultural produce grown by the manufacturer and used for own product.	Market value of agricultural produce used in production	Remaining Business income will be taxable.

Income connected with land but not agricultural income –

1. Profit earned on purchasing the standing crop.
2. Income from mines
3. Income from self grown grass, trees/bamboos
4. Divided from a company engaged in Agricultural
5. Income from warehouses and godowns.
6. Income from land used for brick making
7. Income from supply of water for irrigation purposes.
8. Remuneration for managing agricultural property.
9. Income from dairying.
10. Interest accrued on promissory notes executed for arrears of rent.

Agricultural Income and Tax Liability –

Though agricultural income is exempt and it is not included in computation of total income of an assessee but from tax calculation point of view it is added to total income. The agricultural income is integrated with non-agricultural income in those cases where assessee has both incomes. Such integration is done only in the case of individual, HUF, AOP/BOI and Artificial juridical person.

Condition for Integration –

When the following two conditions are satisfied-

(i) Non agricultural income of the assessee exceeds the maximum exemption limit which for the assessment year 2018-19 is Rs. 2.5 lakh in the case of an individual, Women and HUF in case of Senior citizen it will be Rs. 3,00,000 and Super senior citizen Rs. 5,00,000 instead of Rs. 2,50,000/-.

(ii) Net agricultural income exceed Rs. 5,000

Procedure for computation of Tax-payable an non-agricultural income after Integration-

1. Aggregate the Agricultural income with non Agricultural income and determine the tax payable on such amount.
2. Aggregate the Agricultural income with basis exemption limit and determine the tax payable on such amount.

3. The difference between the tax computed in step (a) and step (b) will be the tax payable in respect of non-agricultural income.

RESIDENTIAL STATUS AND TAX LIABILITIES

The tax liability under income tax is determined on the basis of residential status of an assessee but not according to the citizenship hence it becomes necessary that firstly the residential status of an assessee should be determined.

On the basis of residential status there are 3 categories of assessees:

1) Resident/Ordinary resident
2) Not ordinarily resident
3) Non resident

There are separate rules for different types of assessee like; individual, H.U.F., firm, companies etc. for determination of residential status.

Individual Assessee

1) **Resident / Ordinary Resident : -** If an individual wants to become resident in India, then he has to fulfill the basic condition as well as two additional conditions:

i) **Basic conditions:** In the basic conditions, there are two conditions. On satisfying any one of these, it will be assumed that the basic condition is satisfied.

a) The assessee must have lived for at least 182 days in India during the previous year.

OR

b) The assessee must have lived for at least 365 days in 4 years preceding the previous year and at least 60days in 4 years preceding the previous year.

EXCEPTIONS TO THE BASIC CONDITIONS

1. If an assessee is an India citizen and goes aboard for the employment purpose or leaves the country as a member of crew of an Indian ship.
2. If an assessee is an Indian citizen or an Indian origin, living in a foreign country and comes to India on tour during the previous year.

In both these exceptional cases an assessee has to lives for at least 182 days for satisfying the basic condition.

ii) **Additional Conditions**

There are two additional conditions and assessee has to satisfy both of these conditions. These are :

i) An assessee must have been assessed as resident for at least 2 out of 10 years preceding the previous year.

AND

ii) An assessee must have lived for at least 730 days out of 7 year proceeding the previous years.

Thus on satisfying any of the two basic conditions and two additional conditions an individual assessee can be termed as "ordinary resident".

2) **Not Ordinarily Resident:** If an assessee satisfies the basic condition but fails to satisfy the two additional conditions, then he will be assessed as "not ordinarily resident".
3) **Non Resident:** If an assessee fails to satisfy even the basic condition, then he will be assessed or" non resident".

Hindu Undivided Family (H.U.F.)

1) **Resident :** An HUF will be assessed as resident in India if :
   a) Management and control of the business is wholly/partly situated in India.
   AND
   b) "Karta" of the HUF satisfies the two additional conditions.
2) **Not Ordinarily Resident :** An HUF will be assessed as NOR if:
   a) Management and control of the business is wholly/partly situated in India
   BUT
   b) Karta of HUF does not satisfy the two additional conditions.

3) **Non Resident:** An HUF will be assessed as nonresident if control and management of the HUF is wholly situated outside in India.

FIRM OR ASSOCIATION OF PERSONS

1) **Resident :-** A firm or an AOP will be assessed as Resident of India if its control and management is wholly/partially situated in India
2) **Non Resident :** A firm or an AOP will be assessed as non resident in India if it is wholly/partly controlled and managed from outside India.

COMPANY

1) **Resident :** A company will be assessed as resident in India if :
   i) It is an Indian Company
   OR
   ii) It is controlled and managed wholly within India.
2) **Non-Resident :** A company which is neither an Indian company nor it is wholly/partly controlled and managed from outside India, is called as non-resident.

RESIDENTIAL STATUS AND TAX LIABILITIES

The tax liability under income tax is determined on the basis of residential status of an assessee but not according to the citizenship hence it becomes necessary that firstly the residential status of an assessee should be determined.

On the basis of residential status there are 3 categories of assessees:
4) Resident/Ordinary resident
5) Not ordinarily resident
6) Non resident

There are separate rules for different types of assessee like; individual, H.U.F., firm, companies etc. for determination of residential status.

Individual Assessee

4) **Resident / Ordinary Resident : -** If an individual wants to become resident in India, then he has to fulfill the basic condition as well as two additional conditions:
i) **Basic conditions:** In the basic conditions, there are two conditions. On satisfying any one of these, it will be assumed that the basic condition is satisfied.

a) The assessee must have lived for at least 182 days in India during the previous year.

OR

b) The assessee must have lived for at least 365 days in 4 years preceding the previous year and at least 60days in 4 years preceding the previous year.

EXCEPTIONS TO THE BASIC CONDITIONS

3. If an assessee is an India citizen and goes aboard for the employment purpose or leaves the country as a member of crew of an Indian ship.
4. If an assessee is an Indian citizen or an Indian origin, living in a foreign country and comes to India on tour during the previous year.

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There are two additional conditions and assessee has to satisfy both of these conditions. These are :

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ii) An assessee must have lived for at least 730 days out of 7 year proceeding the previous years.

Thus on satisfying any of the two basic conditions and two additional conditions an individual assessee can be termed as "ordinary resident".

5) **Not Ordinarily Resident:** If an assessee satisfies the basic condition but fails to satisfy the two additional conditions, then he will be assessed as "not ordinarily resident".
6) **Non Resident:** If an assessee fails to satisfy even the basic condition, then he will be assessed or" non resident".

Residential Status for Hindu Undivided Family (H.U.F.)

4) **Resident :** An HUF will be assessed as resident in India if :

a) Management and control of the business is wholly/partly situated in India.

AND

b) "Karta" of the HUF satisfies the two additional conditions.

5) **Not Ordinarily Resident :** An HUF will be assessed as NOR if:

a) Management and control of the business is wholly/partly situated in India

BUT

b) Karta of HUF does not satisfy the two additional conditions.

6) **Non Resident:** An HUF will be assessed as non resident if control and management of the HUF is wholly situated outside in India.

FIRM OR ASSOCIATION OF PERSONS

3) **Resident :-** A firm or an AOP will be assessed as Resident of India if its control and management is wholly/partially situated in India
4) **Non Resident :** A firm or an AOP will be assessed as non resident in India if it is wholly/partly controlled and managed from outside India.

COMPANY

3) **Resident :** A company will be assessed as resident in India if :
   i) It is an Indian Company

   OR

   ii) It is controlled and managed wholly within India.
4) **Non-Resident :** A company which is neither an Indian company nor it is wholly/partly controlled and managed from outside India, is called as non-resident.

Exempted Income

Though a detail discussion has been given in chapter 'Exemptions from Tax' regarding exempted income or tax free incomes. Here a brief account of exempted incomes is given for convenience of students to solve the practical problems relating to income from other sources –

1. Agricultural income in India,
2. Share in income of HUF,
3. Share in profit of partnership firm
4. Post office savings bank interest (exempted in case of single name Rs. 3,500 and joint name Rs. 7,000)
5. All type of allowances received by M.P. (Lok Sabha or Rajya Sabha)
6. Daily allowances and constituency allowance received by MLA's
7. Scholarships
8. Gallantry awards,
9. Interest on Post office CTD accounts (10 or 15 years.)
10. Interest on capital investment Bonds. Relief bonds and Certificates,
11. Dividend from domestic companies and mutual funds, e.g. UTI units income.
12. Family pension received by the family members of armed forces died in operational duties.

UNIT-III

INCOME FROM SALARY

Computation of Income from Salary
Assessment Year 2019-20

(A) Cash Receipts :-	
Salary	-------------
Bonus	-------------
Commission	-------------
Allowances	-------------
Advance Salary	-------------
Arrears of Salary	
(B) (i) Employer's Contribution in R.P.F. (Recognized provident fund) in excess of 12% of salary	-------------
(ii) Interest on R.P.F. in excess of 9.5%	-------------
C) Perquisites:-	
Rent free house	-------------
Medical facility	-------------
Motor car	-------------
Education facility	-------------
Gross Salary	-------------
Less:- Deduction u/s 16 (ii)	
Entertainment allowance	
Less:- Deduction u/s 16 (iii)	
Professional tax	(---------)
Taxable Salary	....

Deduction form Gross Salary

(1) Entertainment allowance u/s 16(ii) :- This deduction is allowable only to government employees.

Salary = Basic Salary :-

(i) Allowance received
(ii) 20% of Salary
(iii) Rs. 5000

Whichever is less

(2) Professional Tax or Employment tax u/s 16(iii) :-

Actual Payment will be deductible.

Allowances		
Fully Taxable Allowance	**Fully Tax free allowance**	**Partly Taxable allowance**
(1) City compensatory allowance (2) Dearness Allowance (3) Deputation Allowance (4) Entertainment Allowance (5) Family allowance (6) High cost of living allowance (7) Medical Allowance (8) Non-practicing allowance (9) Overtime allowance (10) Project allowance (11) Rural area allowance (12) Servant allowance (13) Tiffin allowance (14) Warden and proctor allowance	1) Conveyance allowance 2) Travelling allowance 3) Tour allowance 4) Helper or assistant allowance 5) Academic and research allowance 6) Uniform allowance 7) Special allowance for performing duty. Above allowances will be fully exempted if :- (i) Whole amount is spent (ii) Amount is spent for office use only	1) Education allowance 2) Hostel allowance 3) Tribal area allowance 4) Transport allowance 5) Composite hill compensatory allowance 6) Running allowance to the employees of transport undertakings 7) House rent allowance 8) Under Ground Allowance

Rules regarding partly taxable allowance

1) **Education allowance :-** Exempted to Rs.100/- P.M. per child for maximum 2 children i.e. 100 × 2 × 12 = Rs. 2,400/-
2) **Hostel allowance :-** Exempted up to Rs. 300/- P.M. per child for maximum 2 children i.e. 300 × 2 × 12 = Rs. 7,200
3) **Tribal area allowance:-** Exempted up to Rs. 200/- P.M.
4) **Transport allowance:-** Allowance for going to office and coming back to home is exempted up to Rs. 1600 P.M.
5) **Composite hill compensatory allowance:-**
   (i) Manipur Sikkim, U.P., H.P. and J & K where height is 9000 ft. and above Rs. 800 P.M. exempted
   (ii) In Siachin area Rs. 7000 P.M. exempted.
   (iii) Places located at a height of 1,000 meter or more above the sea level Rs. 300 per month.
6) **Running allowance for employees of Transport undertakings**

   70% of allowance received
   or
   Rs. 10,000/- P.M.
   } Whichever is less is exempted

7) **House Rent allowance:-**
   Salary = Basic Salary + D.A. Under the terms + Commission at fixed percentage

Allowance received Less:- 1) Allowance received 2) Rent paid – 10% of salary 3) 40% or 50% of salary } Whichever is less will be	 ---------------- ---------------- ----------------	---------------- ----------------
Taxable H.R.A.		----------------

8) Under Ground Allowance : - Exempted upto Rs. 800 Per Month

Perquisites

Tax free perquisites	Taxable perquisites	
1) Refreshment facility	**For all class of employers**	**For Specified employers**
2) Telephone facility	1) Rent free house	1) Servant facility
3) Medicinal facility	2) Concessional rent house	2) Gas, Water & electricity facility
4) Expenses on Training	3) Liabilities of employee paid by employer	3) Free education facility (exceeding Rs. 1000 P.M. Per child)
5) Sale of goods as concessional rate	4) Interest free or concessional loan exceeding Rs. 20,000	
6) Issue of shares/debentures at concessional rate	5) Use of movable assets [10% of cost will be Taxable]	
7) Free Conveyance facility	6) Transfer of movable assets [W.D.V. –Transfer price]	
8) Free Accommodation for employees	7) Medical reimbursement (exceeding Rs. 15000)	
9) Scholarship to children of employee		
10) Leave travel concession or assistance		
11) Loan facility up to 20000		
12) Free use of computers		
13) Free Education facility up to Rs. 1000 P.M. per child		
14) Health club and sport facilities		
15) Tax paid on perquisites		
16) Group insurance and accidental insurance premium paid by employer		
17) Transfer of 10 year old movable assets		
18) Free meal upto Rs. 50		

Rules Regarding Retirement

1. **Monthly Pension -** Fully Taxable
2. **Computation of Pension –**
   (A) Government employee – Fully exempted
   (B) Other employee
   (i) If employee is getting Gratuity – 1/3rd of total pension will be exempted
   (ii) If gratuity employee is not getting gratuity – ½th of total pension will be exempted.

3. Gratuity –
   (A) Government employee – fully exempted
   (B) Employee covered under gratuity payment 1972

Salary = Basic salary + Dearness allowance (which is under the terms of employment or not)

Gratuity received	------------
Less :-	
1. Gratuity received ----------	
2. Salary last drawn x Service Year x 15 / 26 ----------	
3. Maximum limit Rs. 10,00,000 ----------	
Whichever is less	(-) -----------
Taxable Gratuity	------------

Note:- Salary will be calculated on the basis of last months receipts

(C) Employee not covered under Gratuity payment Act 1972

Salary = Basic Salary + Dearness allowance under the terms + Commission at fixed percentage

Gratuity received	------------
Less :-	
1. Gratuity received ----------	
2. No. of Completed year x Preceding 10 month average salary / 2 ----------	
3. Maximum limit Rs. 10,00,000 ----------	
Whichever is less	(-) -----------
Taxable Gratuity	------------

Note:- Salary will be calculated on the basis of last months receipts

(4) Earned Leave Salary:-

(A) Government employee – Fully exempted

(B) Non Govt. employee –

Salary = Basic salary + D.A. under the terms+Commission of fixed percentage

Salary received for earned leave	------------
Less :-	
1) Salary received for earned leave -----------	
2) Salary of approval period -----------	
3) Salary of 10 months -----------	
4) Maximum limit Rs. 3,00,000 -----------	
Whichever is less will be	(-) -----------
Taxable earned leave Salary	------------

Note:- Salary will be calculated on the basis of last to month's average salary.

(5) Compensation on Retrenchment

Salary = Basic salary + Allowances Taxable + All taxable perquisites

Compensation received	------------
Less :-	
1) Compensation received -----------	
2) Salary of 15/30 days on the completed year of service (under industrial dispute act 1947) -----------	
3) Maximum limit Rs. 5,00,000 -----------	
Whichever is less	(-) -----------
Taxable Amount	------------

Note:- Salary will be calculated on the basis of last 3 month's average salary

(6) Amount received from provident fund:-

Amount received from statutory P.F. and Recognised P.F. will be fully exempted but amount received from unrecognised P.F. will be taxable as under-

(i) Employer's share with interest will be taxable in the head of salary

(ii) Interest on employee's share will be taxable in the head of other sources.

UNIT-IV

INCOME FROM HOUSE PROPERTY

The second head of Income is income from house Property. In this head of income, we compute the income received by an assessee from the house owned by himself. There are some incomes which arise from house, Owned by the assessee, but not to be included in this head:

1. Income from staff-quarters.
2. House used by the assessee for his own business or profession.
3. House Let out to government authorities for police station, fire brigade, bank, insurance company etc. for taking assistance in the business.
   Similarly, income from subletting house or sub-tenancy will not be the part of this head.

Exempted Income from house properties:

Some incomes are been declared exempted which have arisen from house properties.

1. Income from self-residential house
2. Income from official residence of former rulers.
3. Income of some social & charitable institutions.
4. Income from agricultural farm house.

From the Income-tax point of view, house properties can be classified into 4 parts:

1. Self-Residential House:

Computation of Income from House Property
Assessment year 2019-20

Gross Annual value of self-occupied house	NIL
Less: Interest on loan (Rs. 30,000/ Rs. 2,00,000)	--------
Income from House Property	--------

2. Let-Out House:

Computation of Income from House Property
Assessment year 2019-20

Gross Annual Value		--------
Less: Municipal Taxes		(-) --------
Net Annual Value		--------
Less: Deduction u/s 24:		
(i) Standard deduction (30% of N.A.V.)	--------	
(ii) Interest on loan	--------	(-)--------
Income from House Property (Taxable)		--------

3. Partly let-out & Partly self-occupied House:

2/3 Self-occupied	1/3 Let-out

4. Some part of the house is self-occupied for the whole year and remaining portion is let out for some period by self-occupies for the remaining period:

2/3 Self-occupied	10 months Let out
	2 months Self-occupied

While doing valuation in this case, actual rent will be calculated of the whole house for the let-out period only. But, fair-rent and municipal-valuation will be taken for the whole year

Rules regarding valuation:

1. **Gross Annual Value (G.A.V.)/Actual Rental Value**
   It is been calculated on 2 basis:
   (a) Self-occupied house: NIL
   (b) Let-out house:

i. If the house is not covered under Rent control Act:

Actual Rent
Or
Municipal Valuation
Whichever is higher

ii. If the house is covered under Rent control Act:

Actual Rent
Or
Municipal Valuation
Whichever is higher -------------

Actual Rent
Or
Whichever is higher --------------

Whichever is less

NOTES:

1. If the let-out house has remained vacant for some period during the previous year, then actual rent for such vacancy period will be deducted in the calculation of gross annual value.
2. If amount of approved unrealized rent is given in the question then such amount will also be deducted in the calculation of G.A.V.
3. If owner of the house has provided some facilities to the tenant, free of cost as per agreement or Rent-deed during the previous year, then the value of such facilities firstly be deducted from the rent received and remaining actual rent will be compared with other rents.
4. If an assessee has kept more than one house for his own residence, then only one house will be valued as **self-occupied house** and other self-residential houses will be valued as **"deemed to be rental".**

2. **Municipal Taxes/ Local Taxes:**
   Municipal taxes are deducted on "Payment Basis". It means that the whole amount of taxes paid during the previous year 2017-18 will be fully deductible, doesn't matter to which year they belongs to. To get the deduction of these taxes, it is necessary that the assessee should fulfill the following 2 conditions:

a. Taxes must be paid by the owner only.
b. Taxes must be paid on or before last day of the previous year i.e. 31st March, 2018

3. **Standard Deduction:** 30% of Net Annual Value
4. **Interest on Loan:**

This deduction is allowed on "Due basis". It means that whether the amount of interest is paid or not by the assessee, on claiming the deduction by him he will get the deduction.

Deduction of interest on loan is allowed only when the amount of loan is utilized for purchasing, constructing or repairs or renewal of the house.

Deduction of interest of loan is given in 2 parts:

I. Amount of interest due during the previous year 2017-18
II. 1/5th of interest for construction period.

Construction period will be calculated from the date of taking loan upto 31st March immediately preceding the date of completion of construction of house.

Deduction of interest on loan will be allowed as under:

a. Let-out house: The whole amount of interest will be deductible.
b. Self-Residential house:

$$\left.\begin{array}{c}\text{Amount of due interest during 2017-18}\\ \text{Or}\\ \text{Maximum Rs. 30,000 or Rs. 2,00,000}\end{array}\right\}\ \text{Whichever is less}$$

NOTE:

If loan is taken before April 1st, 1999, then maximum deductible amount will be Rs. 30,000 otherwise it will be Rs. 2,00,000

If the loan is taken for repairs or renewal of the house, then in each case maximum deductible amount will be Rs. 30,000

More than one house/houses for self residence –

Where the person has occupied more than one house for his own residential purposes, only one house (according to his own choice) is treated as self-occupied and all other houses will be deemed to be let out. Except one house (on the choice of the assessee) remaining house or houses will be computed as let out. So, annual value of such deemed let house/houses is determined u/s 23(1) (a) on the basis of reasonable expected rent and entitled for the deduction of municipal taxes, standard deduction (30% of NAV) and interest on loan like out property.

Only one house owned and kept vacant – Section 23 (2) (b)

In the case of an assessee who owns only one house property which is kept vacant as he has to reside at some other place in a building not belonging to him due to his employment, profession or business, the annual value will be taken as nil. Deduction u/s 24 shall be allowed only in respect of interest on loan borrowed upto Rs. 30000. Where the property is acquired or constructed out of loan borrowed on or after 1-4-99, interest in respect of such property shall be allowed upto Rs. 2 Lacs.

House acquired or transferred during the year

If the house is acquired or completed during the year then annual rental value will be determined from the date of completion or acquisition to 31st March. For example a house is completed on 1.8.2014 and let out. In this situation the annual rental value will be computed for 8 months (1.8.2014 to 31.3.2015). On the contrary a house which is sold or transferred during the year, will be valued from 1st April to date of transfer.

Rent received after deduction of Tax

If the assessee lets out his property to a company or firm or trust or bank etc. (other than Individual or H.U.F.) and gross annual rent is more than Rs. 180000 then the tenant would pay rent after deduction of tax @10%. In such position at the time of determination of annual rental value gross rent should be kept in view instead of net rent. If the net rent is given then it will be grossed up as under:-

$$\frac{\text{Net Rent x 100}}{90}$$

Arrears of rent received during the year – Sec. 25B

If the assessee received any amount, by way of arrears of rent from such property, not charged to income-tax for any previous year, the amount so receivable (after deducting a sum equal to 30% of on account of standard deduction such amount) shall be deemed to be the income chargeable under the head "Income from House Property". It is taxable in the previous year in which it is received. It is taxable even if the assessee is not the owner of that property in that year.

Recovery of Unrealized rent – Sec. 25A & 25AA

If the assessee has claimed deduction for unrealized rent in preceding year (before previous year) and subsequently realized or recovered any such amount during the previous year, then it will be taxable and included in the income from house property. The following points should be noted in this reference :-

i) The amount so recovered is taxable in the previous year in which it is recovered.
ii) No deduction whatsoever will be allowed to the assessee for any expenses for recovery of such unrealized rent.
iii) Recovered amount is taxable even if the house is not owned by the assessee in the year of recovery.
iv) If the deduction for unrealized rent was not allowed and claimed in past, then such recovered amount is not taxable in the previous year because the assessee has paid tax on such amount in past.
v) If the partial deduction was allowed for unrealized rent in past then such part of recovered amount was not taxable during the previous year which was not deducted as unrealized rent at the time of assessment.

INCOME FROM BUSINESS/PROFESSION

Third important head of the income is 'Profit and gains of business or profession. Major part of the revenue is collected by income tax department from the tax payees engaged in business activities.

Meaning of Business- Sec. 2 (13)

Business includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

"Profession" includes 'Vocation' Sec. 2 (36)

Profession- The expression Profession involves the idea of an occupation requiring Purely intellectual skill or manual Skill controlled by the operator as distinguished from an occupation or business which is substantially the production/ sale/ arrangements for the production or sale of commodities.
Vocation: In the act, It implies natural ability of person for some particular work. In the other words by the way in which a man passes his life.

Profits and Gains of business/ Profession include-

1. Profit from trading activities
2. Compensation
3. Receipts from Profession
4. Profit from speculation business
5. Brokerage
6. Commission
7. Import-export Incentives
8. Income of trade Associations
9. Royalty etc.

Traders, Manufactures, Suppliers, banks, insurance Companies transporters, lawyers, doctors, engineers, singers, insurance agents, trade Associations, money lenders etc. are covered under this head.

The following conditions should be fulfilled for allowing deduction under the Section-

1. Expenditure must be in revenue nature, capital expenditure is not allowed.
2. Expenditure must be related to business/profession.
3. Expenditure must be actually made reserve/provision made for any expenses is not allowed.
4. Expenditure must not be personal/Domestic
5. Expenditure must be paid/ payable during the year.

Computation of income from business assessment year 2019-20

Net profit as per P & L a/c or surplus as per income & exp. a/c Add- Disallowed expenses & Losses debited to P&L A/c: 1. Household expenses/ Personal expenses 2. Life insurance premium 3. Int. on capital 4. Income tax & wealth tax 5. Capital expenditures & capital losses/ Speculations 6. Fees & penalties (except penalty in the form of interest for late payment of sales tax) 7. Reserves & provisions (except prov. For payment of excise duty) 8. Capital expenditure on advertisement expenses new sign board. 9. Adv. In souverior of political party. 10. Donation to political parties 11. Charities & donation (except compulsory subscription for business) 12. Personal gifts & presents 13. Cash payment exceeding Rs. 20,000 of the whole amt. will be disallowed. 14. Payment outside India without TDS 15. Excess payment to relatives 16. Excess dep. Charged in P & L a/c 17. Irrelative exp. Of business 18. Fringe benefit tax (FBT) 19. Securities transaction tax (STT) 20. Income tax on perquisites 21. Valuation of closing stock 22. Exp. On intangible assets like patents copyright, know how etc. (25% dep allowed on it) 23. Preliminary expenses (4/5 th disallowed) 24. Exp. On prospecting of minerals (9//10 disallowed) 25. Exp. On family planning program 26. Provision for Gratuity [u/s 40 A (7)]	(+) –
Total	-
Less- Allowed expenses and allowances which are not debited to P&L A/c wholly/partly for instance depreciation: 1. Allowed bad debts 2. Allowed depreciation 3. Any other allowed expenses 4. Banking cash transaction tax	(-) -
Less : Income not related to business but credited to P&L A/c: 1. Rent from house property. 2. Selling price/profit from sale of assets. 3. Interest and dividend 4. Int. on post office savings a/c 5. Income tax refund 6. Agricultural income 7. Bad debts recovered which were previously disallowed as bad debts 8. Personal/ Family Gift	- (-) –
Add : Add- deemed income which are not recorded in the books:	(+) –

Taxable Income from Business/ Profession	-------

Deductions expressly allowed in respect to expenses and allowances (sec. 30 – 37)

1. Rent, taxes, insurance, repairs etc. of the building: If an assess is running his business in a rental house, then rent and all other expenses will be fully allowed. But if the business is running in own house, then rent will be fully disallowed and other expenses will be allowed proportionately. (Sec. 30)
2. Repairs & insurance of other assets: If an assessee has taken insurance of plant & machinery, furniture, motor car etc. or spent on repairs of these assets, then the whole amount will be fully allowed. (Sec. 31)
3. Depreciation: (sec. 32) depreciation will be allowed on all those assets at prescribed rates, which are allowed by the assessee and are used in business of profession

Dep. On leasehold assets will not be allowed and also on foreign cars.

Dep. Will be allowed on any asset only when it is existing the business on the last day of the previous year Mar'31, 10. If an asset has been sold or destroyed before this date, then dep. Won't be allowed on such asset.

If an asset is used for a period. of 180 days or more in an year, then only dep. Will be allowed for the whole year. But, if an asset is used for less than 180 days in a year, then dep. will be allowed at prescribed rate for the half year.

Dep. is to be calculated on the WDV of the asset which will be calculated As under:

WDV on 1st Apr. 09			………
(+)	Cost of new asset purchased	(+)	………
	Total		……….
(-)	Sales Price of the asset sold	(-)	………
	WDV on 31st Mar.010		………

Following are the prescribed rates of depreciation on some of the important Assets.

i.	Residential Building	5%
ii.	Commercial Building	10%
iii.	Furniture	10%
iv.	Motor Car	15%
v.	Scooter, motorcycle	15%
vi.	Plant & Machinery	15%
vii.	Intangible assets like patent, copyright, know how etc	25%
viii.	Computer	60%
ix.	Professional books :	
a)	Books annually published	100%
b)	Other books	60%

20% additional dep. will be allowed on assets purchased during the previous year. But assets use for less than 180 days rate of additional depreciation will be 10%

4. Expenditure on scientific research: Every amount of such expenditure, whether it is capital or revenue, will be fully allowed. (Sec. 35)
5. Contribution to national laboratory: Weighted deduction of 200% will be allowed. [Sec. 35(2AA)]
6. Patents, copyright, technical know how: Exp. On them exp. On various intangible assets like patent, copyright license, trademark, know how etc. will be treated as capital expenditure hence it all be disallowed if it is written in P & L a/c (Sec. 35 A & 35 AB) Being a capital expenditure, 25% dep. Will be allowed on it. (If intangible assets acquired after 31/3/98). In case of Patent/ copyright acquired before 1/4/1998 it would be allowed in 14 years equal installments.

7. Preliminary Expenses: They are allowable in 5 equal annual installments. It means that every year, 1/5th will be allowed & 4/5 disallowed. (Sec. 35 D)
8. Expenditure on prospecting of minerals: Allowable in 10 equal annual installments i.e. every year 1/10th allowed and 9/10th disallowed. (Sec. 35 E)
9. Exp. On family planning programs: If some amount is spent by the assessee on family planning programs of employees, allowed fully capital expenditure is allowed 1/5 portion and revenue expenditure whether it is capital or revenue expenses will be fully disallowed. [Sec. 36 (i) (ix)]
10. Payment for rural development program: This expense will be allowed fully only when the payment is made to an approved institution. (Sec. 35 CCA)
11. Security, transaction Tax
12. Other deduction (Sec 36) Insurance Premium, Bonus Bad Debts, Commission, Interest on capital, Contribution to P.F./ Gratuity fund
13. Tea, coffee & rubber Development Account (Sec. 33AB)
14. Examples of expenditure allowable as a deduction u/s 37 (1)
    I. Expenses relating to sale- purchase/ Manufacturing
    II. General expenses for running business.
    III. Remuneration to employees
    IV. Compensation/ damages
    V. Legal expenses
    VI. Indirect Taxes
    VII. Expenditure on raising loans
    VIII. Expenditure on advertisement
    IX. Other expenses are allowed as per business needs

a. Guest house Expenses, Entertainment expenses, advertisement, travelling etc.
b. Telephone deposit and installation changes.
c. Expenditure on labour welfare
d. Subscription/ contribution/ fees paid to any institution in the interest of business.
e. Office expenses, Royalty, Commission, brokerage etc.
f. Civil defence expenses
g. Expenditure on training of employees/ apprentices
h. Rebate or discount allowed to customers
i. Professional tax levied by state Govt.
j. Express incurred on the occasion of Diwali Muhurat, Business anniversary/ exhibition, festival etc.
k. Interest paid for delay payment of sales tax etc.
l. Fees/ Remuneration to tax consultant/ Advocate
m. Expenses related to tax procedure/ registration of trade mark to promote family planning among the employees.
n. Some losses are allowed like- destruction of stock due to fire, theft or war, embezzlement by employee etc. Any other expenses/ losses related to business which is in the revenue nature
o. Audit fees
p. Taxes imposed by local authority

Allowable losses: following items of losses are allowable in the head of business or profession.

a) Lost of cash or stock due to embezzlements by employees
b) Lost of cash or stock due to theft or robbery.
c) Lost of stock due to war or natural calamity
d) Lost of lapsation of advance

Deductible expenses on actual payment: Following expenses will be deductible if it is paid before due date of filing income tax return. These expenses are issued. [Sec. 43 (b)]

a) Govt. dues- (Tax/ duty etc.)

b) Bonus, comm. etc. payable to employees
c) Interest on intuitional loan.
d) Contribution to P.F.

Deemed Profits (Sec 41)

It is deemed to be income from business under Income tax Act

1. Remission of liability/ Recoupment of Loss/ Expenditure
2. Amount realised on transfer of an asset used for scientific research
3. Recovery of Bad Debts
4. Amount withdrawn from special reserve by financial institution
5. Receipts after discontinuance of business

Methods of Accounting (Sec. 145)

Accounting system adopted by the assessee should be considered while computing income from Business. Books of account may be maintained either mercantile system or cash system-

a. **Mercantile System-** If an assessee keeps his books of account on the basis of mercantile system then net profit / loss of business will be determined after making necessary adjustments (any income/ expenditure will be taken in computation which is related to the previous year either it is paid/ unpaid, received/ receivable)

Income- Income received during the year
Add- Accrued income
Less- Unaccrued income
= Net income related to previous year.

Expenditure- paid during the year
Add- Due but outstanding
Less- Prepaid/ Advance Expenses
= Net expenditure related to previous year.

b. **Cash system-** In this system all revenue receipts will be included in the income which are received during the year on the other hand all revenue expenses which are paid during the year will be deducted from gross receipts. In cash system no adjustment in respect of accrued, unaccrued income/ outstanding, prepaid expenses will be considered.

Computation of Income Relating to specific Business

Ascertainment of taxable income is typical in case of some business activities like retail trade, small transports and contractors, therefore. Special provisions have been made to assess the taxable income of such specific business an estimation basis under the Income tax act. These provisions are optional. If the assessee does not want to assess his income related to specific Business under these Provision,- he must to maintain regular accounts and gets audited them.

I. Special Provisions for Computing Profits and gains of small business of civil construction, etc. [Sec. 44AD]

1. Gross receipts not more than Rs. 1 Crore (Paid/ Payable)
2. Deemed profit equal to 8% of the gross receipts paid/payable in previous year
3. Deductions of business head not allowed
4. Maintenance of books and audit is not compulsory
5. In case if the profit is less than 8% provisions of sec. 44AD shall not apply where the assessee claims and produces evidence to prove this then the Assessing officer shall proceed to make an Assessment of the total income/loss and determine the sum payable by the assessee. Assessee has to keeps and maintains such accounts Books and other documents as required u/s 44 AA & furnishes a report of such audit as required u/s 44AB.
6. The Assessee will entitle for deductions u/s 80 c to 80 u against GTI.

7. If the assessee is a firm the salary and interest paid to its partners shall be deducted from their income computed u/s 40 (b)

II. Special Provisions for Computing Profits and gains of business of plying, hiring or leasing goods carriages [Sec- 44AE]

1. In case of an assessee who owns not more than 10 (at any time in the Previous year) goods Carriages
2. Estimated profit on heavy goods vehicle or light vehicle shall be an amount equal to Rs. 7,500 (A.Y. 2016-17) for per month or part of a month.
3. Further deductions are not allowed.
4. Maintenance of books and audit is not compulsory.
5. If assessee shows income lower than a foresaid limit sec. 44AF shall not apply where the assessee claims and produces evidence to prove this then the assessing officer shall proceed to make an assessment of the total income/loss and determine the sum payable by the assessee. Sec 143 (3) Assessee has to keeps and maintains such accounts Books and other documents as required u/s 44 AA & furnishes a report of such audit as required u/s 44A
6. If the assessee is a firm the salary and interest paid to its partners shall be deducted from their income computed u/s 40 (b)

III. Expenses deductible from commission earned by insurance agents etc.

Adhoc deduction from commission earned by insurance agents, UTI agents, Mutual funds agents and Govt. securities agents are allowed as under when given 2 conditions are fullfil by assessee-

1. If agent who do not maintain detailed accounts for expenses incurred of Agency
2. If gross aggregate commission should be less then Rs. 60000 during previous year.

Commission	Adhoc Deduction
1. Agent of LIC of	
• First year's commission	50% of commission
• Renewal commission	15% of renewed commission OR maximum limit 20000, whichever is less.
• When first year and renewal commission separate figures are not available	$33^{1/3}$% earned during the Previous Year
• Bonus commission	No Deduction allowed
2. Commission received by authorized agents of **unit trust of India**	50% of commission
3. Commission received by authorized agents of **Govt. & Post office securities**	50% of commission
4. Commission received by authorized agents of **notified mutual fund**	50% of commission

UNIT-V

INCOME FROM CAPITAL GAIN

Meaning of capital gains (Sec. 45)

Any profit or gain arising from the sale or transfer of a capital asset is chargeable to tax under the head "Capital Gains", Capital asset means any movable or immovable asset like land, building, plot, gold, silver, jewellery, shares, securities etc. Profit/Loss arising from transfer of such assets is compared under the had of capital gain from Income tax point of view.

Definition of Capital Asset Sec-2 (14) -

Capital asset means property of any kind, whether fixed or circulating, movable or immovable, tangible or intangible e.g. land, building, plot, gold, silver, precious metals, jewellery, shares, securities, furniture, machinery etc.

Exception –

1. Though Property of any kind held by an assessee whether or not connected with his business/profession is included in the definition of 'Capital Assets' it does not include –

1. Stock in trade
2. Personal effect Assets (which is personally used by assessee and family member)
3. Agricultural land in rural area
4. Gold Bonds
5. Special Bearer Bonds
6. Gold deposit bonds

(4–6) **Which is issued by Central Government**

3. Items included under capital gains Sec. -45

- Profit from transfer of capital Assets Sec. 45 (1)
- Insurance Claim Sec. 45 (1A)
- Conversion of Capital Assets into stock in trade Sec.45 (2)
- Assets transferred to Firm/AOP Sec. 45 (3)
- Profit from distribution of capital assets on dissolution Sec. 45(4)
- Profit arises from compulsory acquisition of capital Assets. Sec. – 45 (5).
- Capital Gain on repurchase of units of Mutual Fund Sec. 45 (6)

Types of Capital Gains

1. Short term capital gain
2. Long term capital gain

Short term capital asset

(i) Shares, securities, bonds, units are held by the assessee for not more than 12 months before transfer.

(ii) Assets on which deprecation has been allowed under the Income Tax Act, whether depreciable asset held by the assessee more or less 36 months.

(iii) Any other asset which is held by the assessee for not more than 36 months, e.g., land, building, precious metals, jewellery etc.

Long term capital asset

(i) Shares, securities, bonds, units held by the assessee for more than 12 months.

(ii) Other assets like building, gold, plot, land, jewellery etc. held by the assessee for more than36 months.

Computation of Short term capital gain/loss (For the Assessment Year 2019-20)

Sales consideration			....
Less – Aggregate amount of the following:			
(a) Transfer Expenses (Advertisement). Brokerage, legal exp. etc)	....		
(b) Cost of acquisition of the asset	....		
(c) Cost of improvement	....	(-)........	
Short term capital gain/less			....

Computation Of Long Term Capital Gain/Loss (For the Assessment Year 2019-20)

Full value of consideration		
Less : Total of the following		....
(i) Transfer expenses	....	
(ii) Indexed cost of acquisition	....	
(iii) Indexed cost of improvement	....	(-)......
Long term capital gain/loss		....

Formula:-

1. Calculation of Index cost of acquisition

(i) If assets acquired before 01.04.1981 by the Assessee

$$\text{Index Cost} = \frac{\text{Original Cost or fair market value on 1.4.1981 (which ever is more)} \times \text{Index for the transfer year}}{\text{Cost inflation Index for 1981-82 (100)}}$$

(ii) If assets acquired on 01.04.1981 by the Assessee

$$\text{Index Cost} = \frac{\text{Cost of acquisition} \times \text{Index for the transfer year}}{\text{Cost Inflation Index for the year in which the assets is acquired by the assessee}}$$

Note:- If the property is acquired before 1.4.81 then index for 1981-82 will be taken as index for the base year.

2. Calculation of Indexed cost of improvement

Formula:-

$$= \frac{\text{Cost of Improvement} \times \text{Cost Inflation index for the year in which the asset is transferred year}}{\text{Cost Inflation Index for the year in which Improvement to the asset took place.}}$$

Note:- Improvement cost incured before 1.4.81 is not considered. It should be lgnored. Only cost of improvement will be considered which is related after 31.3.81.

Exemption of Capital Gains

Exemptions are of two types

A. Exemption of capital gains under various sub-clauses of section 10;

1. Capital gain on transfer of units of US 64 exempt [Section 10 (33)]
2. Exemption of long-term capital gain arising from sale of shares and units and Securities Transaction Tax paid [Section 10(38)]
3. Capital gain on compulsory acquision of urban agriculture land-Sec. 10(37)

B. Capital gains exempt from tax – Under section 54 to 54H

(i) Residential property converted in new residential property (Sec.54) within 3 years or before 1 year or after 2 years	Cost of new land **or** capital gain (which ever is less)
(ii) Agricultural land transferred and another agricultural land purchased within 2 year (Sec. 54B)	Cost of new land **or** capital gain (which ever is less)
(iii) Compulsory acquisition of land and building of industrial undertaking (Sec. 54D)	Cost of new land building **or** capital gain (which ever is less.)
(iv) Capital gain is invested in notified bonds (Sec. 54EC) NABARD, Rural Electrification Corporation Bonds, National Highway Authority of India etc.	Invested amount within 6 months
(v) Other capital gains invested in residential property (Sec. 54F) $= \frac{\text{Capital gain x Cost of new house}}{\text{Net consideration}}$	Proportionate Exemption
(vi) Shifting of industrial undertaking from urban area to other area (Sec. 54G) or SEZ (Sec. 54GA)	Upto the cost of new industrial assets.
(vii) Capital gain on transfer of residential house property (sec.54GB)- w.e.f. of A.Y. 2014-15 a new exemption is available to an individual or a HUF in respect of LTCG gain. If assessee invest net consideration or part in equity shares before due date of furnishing the return, in eligible company it least 5 year he shall entitled exemption as under_ $\frac{\text{Invested amt in new equity share}}{\text{Net consideration}} = \text{*capital gain}$	Calculated Amount

Tax on Capital Gains

- Long-term capital gains are taxable at special rates for each type of assessee –
  a. 10% tax on long-term capital gain arising from transfer of securities. bonds, units, debent
  b. 20% on other long term capital gains.
- Short-term capital gains are taxable at normal rates but Short term capital gain ce transfer of equity shares or units sold through Stock Exchange and Securities transaction tax paid, it will be taxable at concessional rate 15%.
  Add : Education cess @ 3% on tax payable.

Important points should be kept in view

- Personal effects (clothing, furniture, utensils, vehicles etc), Rural agricultural land, stock in trade, Gold Bonds are not covered under definition of "Capital Asset". So, profit or loss arising from the transfer such assets is not noticeable.
- Depreciable assets will be treated as short-term asset even if such asset held by the assessee for Less than or more than 36 months.
- Indexed cost will not be allowed for the following long-term assets-
  a. Securities, Bonds, Units and debentures of company.
  b. Listed shares of an Indian company sold outside Stock Exchange and the assessee wants to pay tax @10% for long term capital gain instead of 20%
  c. Nonresident assessee opts taxation u/s 115C to 1151 in respect of foreign exchange assets.

- If the equity shares or units are transferred during the previous year 2014-15 through Stock Exchange and Securities Transaction Tax has been paid, long term capital gain shall be exempt and in case of loss it will be ignored —
- If the transferred asset is acquired before 1.4.81, the cost of acquisition will be—

  Original cost of the asset
  or
  Fair market value on 1.4.1981
  Whichever is more.
- Improvement cost incurred before 1.4.1981 should be ignored. It cannot be part of cost of the asset.
- Cost of bonus shares, obtained by the assessee after 31.3.1981, will be nil, so cost of acquisition of such shares will be taken Nil at the time of computation of capital gains.
- Cost of bonus shares acquired before 1.4.1981 will be considered. Fair market value of such shares on 1.4.1981 will be cost of acquisition. If the bonus shares are acquired after 31.3.81 the cost of acquisition will be Nil.
- Where any capital asset was on any previous occasion the subject of negotiations for its transfer, any advance or other money received and retained by the assessee in respect of such negotiations shall be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.
- During the previous year the assessee has transferred both type of capital assets, i.e. long term and short term and capital loss arise then —
  a. Short term Capital Loss can be adjusted against any capital gain either Short term or Long term or both.
  b. Long term Capital Loss can be adjusted against only Long term Capital Gains. Short term Capital Gain cannot used to set off for Long term Capital Loss.
- Sales consideration of Land or building is lower than value assessed for Stamp Duty purpose, then consideration will be taken as per Stamp Duty purpose instead of actual consideration.
- If the assessee acquired the asset under will or gift or any other way without consideration the cost of previous owner will be cost of acquisition from the point of view of capital gains. Period of holding of such property will be determined from the date of property acquired by the previous owner not the date of gift.
- Though the period of holding is determined on the basis of the date of acquiring the property by the previous owner but when we calculate the indexed cost of the asset then index will be taken for the year in which the assessee became the owner of the said property.

Calculation of cost of Original Shares & Bonus Shares

Bonus shares means shares allotted by a company to its existing share holders without any consideration. An assessee holds shares of a company and thereafter the company allotted him bonus shares on the basis of holding.

1. **<u>If original shares acquired before 1 April, 1981</u>**
   The cost of actualisation will be taken-
   Actual Cost of original shares
   or
   market value on 1.4.81, whichever higher is cost
2. **<u>If the original shares acquired after 1 April, 1981</u>**
   Cost of actualisation will be actual cost

3. **<u>If the bonus shares acquired before 1st April, 1981</u>**
   Cost of Bonus Shares – Market value on 1 April, 1981

4. **<u>If the Bonus shares acquired after 1 April, 1981</u>**
   cost of Bonus Shares – Nil

INCOME FROM OTHER SOURCES

This is the last and residual head of charge of income. An income which does not specifically fall under any one of the preceding four heads of income (viz Salaries. Income from house property, Profits and gains of business or profession or Capital gains) is to be computed and brought to charge under section 56 under the head Income from other sources.

COMPUTATION OF INCOME FROM OTHER SOURCES

S.No.	Items	Taxability
1.	Dividend on shares	
	(i.) Dividend from domestic company (ii.) Dividend from units (iii.) Dividend from non domestic company or co-operative society	Exempt Exempt Taxable as it is
2.	Interest on securities	
	(i.) Interest on tax free Govt. securities (ii.) Interest on less tax Govt. securities (iii.) Interest on commercial securities	Exempt Taxable as it is
	(a) If gross interest is given (b) If interest is given net and amount is more than Rs. 5,000 on listed debentures (c) Interest on tax free commercial securities (i) Listed debentures of a company (ii) Unlisted debentures of a company (d) Interest on Semi Govt. securities	Taxable as it is Gross $\frac{Int. \times 100}{90}$ Gross $\frac{Int. \times 100}{90}$ Gross $\frac{Int. \times 100}{90}$ Gross Interest taxable
3	Interest on Bank Deposit – up to Rs. 10,000 If interest is more than 10,000 and given net, such amount will be grossed up.	Taxable as it is Gross $\frac{Int. \times 100}{90}$
4	Co-operative interest and dividend	Taxable as it is
5	Interest on company deposits or firm's deposits (i) If interest amount is upto Rs. 5,000 (ii) If net interest is more than Rs. 5,000	Taxable as it is Gross $\frac{Int. \times 100}{90}$
6	Lottery (a) If the prize amount is given and (b) If net amount is given and such amount is more than Rs. 5,000	Fully taxable $\frac{Net\ amount \times 100}{70}$
7	Horse race income	Fully taxable
8	Causal income	Fully taxable
9	Royalty, director's fees, article income, exam. Remuneration	Received income (-) expenses
10	Family pension	Received amount (-) 1/3 or 15,000 whichever is less

11	Income from sub tenant	Net income
12	Income from machinery, plagt or furniture on hire.	Rent received (-) expensed and depreciation.
13	Agricultural income outside India	Taxable
14	Income from non agricultural land in India	Taxable
15	Salary of M.P. or M.L.A.	Taxable
16	Income from undisclosed sources	Taxable
17	Cash gifts : (if the aggregate amount exceeding Rs. 50,000 in a financial year) from other persons except relatives. **<u>Less : Deduction allowed (above mentioned incomes)</u>** (i) Interest Collection charges (ii) Interest on loan (iii) Any expenditure which is incurred by the assessee to earn such income	Fully taxable …………………….. Actual amount Actual amount Actual amount

Calculation of Income from Sub-tenant

Rent received from sub-tenant Less – Expenses allowed : (i) Rent paid by the assessee for the part which is sub let out (ii) Repairs and other expenses paid by the assessee regarding such part	 …………… …………	…………… (-)………….
Income from sub tenant		……………..

Interest on National Saving Certificate

Year	Amount of interest accruing on Rs. 100 NSC (VIII issue) 8%	Year	Amount of interest accruing on Rs. 100 NSC (VIII issue) 8%
I	8.16	IV	10.33
II	8.83	V	11.17
III	9.55	VI	12.08

Income of minor

Income of minor shall be included in income of his parents (mother or father which income is higher). Upto Rs. 1,500 in case of minor's income is exempted so remaining amount shall be taxable. If the minor earns income from self efforts, then such income will not be added to income of his parents. Exemption of Rs. 1,500 is available for every minor.

Income of cricketers

Receipts be a cricket Control Board for plays for India are chargeable in the following manner –

1. Test Matches in India – 25% of Remuneration received by the player from the Cricket Control Board for playing Test matches in India is taxable.
2. Other Matches in India – Entire amount is not possible.
3. Matches outside India – 50% portion of amount received by an Indian cricket player for playing in foreign countries is taxable.

Receipts of gifts without consideration

Gift received on the occasion of marriage from any person, or gift received from nearer relative on any occasion is not taxable. However gifts (cash or property) received from any person are taxable if the following conditions are satisfied –

1. The receiver is an individual or a Hindu Undivided Family.
2. The aggregate amount of such money or value of property received by an individual or HUF during a financial year from any person or persons exceeds Rs. 50,000.
3. The sum so received does not come in the exception list.

Exceptions – Any sum of money shall not be taxable. Which is received from the following –?

1. By way of consideration
2. From any relative for the aforesaid purpose, the term "relative" means –
    a. Spouse of the individual
    b. Brother or sister of the individual
    c. Brother of sister of the spouse of the individual
    d. Brother or sister of either of the parents of the individual
    e. Any lineal ascendant or descendant of the individual
    f. Any lineal ascendant or descendant of the spouse of the individual.
    g. Spouse of the person referred in (b) to (f)
3. On the occasion of the marriage of the individual.
4. Under a will or by way of inheritance
5. In contemplation of death of the payer.
6. Aggregate of money not exceeding Rs. 50,000 from other persons.

Government Securities

Securities issued by Central Govt. or state Government are of two types -

a. Tax free Government securities – Interest on tax free Govt. securities is exempted, so it is not included in the income of an assessee. Some Govt. Securities have been declared exempted from tax u/s 10 (15) of the Income Tax Act, namely –
    1. 12 year National Saving Annuity Certificates.
    2. National Defence Gold Bonds, 1980.
    3. Special Bearer Bonds, 1991.
    4. Treasury Savings Deposits Certificates (10 years)
    5. Post Office Cash Certificates (5 years)
    6. National Plan certificates (10 years)
    7. National Plan Savings certificate (12 years)
    8. Post office National Savings certificates (12 years/ 7 years)
    9. Post office Savings Bank Account. (exempt up to rs. 3,500 in single name, up to Rs. 7,000 in joint name)
    10. Post office Cumulative Time Deposits Rules, 1981.
    11. Scheme of fixed deposits government by the Government Savings Certificates (fixed deposits) Rules, 1968
    12. Scheme of fixed Deposits governed by the Post office (Fixed Deposit).
    13. Special deposit scheme, 1981.
    14. Post Office public account 9up to Rs. 5,000)
    15. 7% Capital Investment bonds (exempted only for individual of HUF)
    16. 9% Relief Bonds (exempted only for individual or HUF assessee.
    17. NRI Bonds issued by SBI
    18. Notified Bonds issued by public sector companies.
    19. Gold Deposit Bond – 1999
    20. Interest on securities and bank deposit in respect of Bhopal Gas Leak disaster.
    21. Interest on notified bonds issued by local authority.

so, interest on the above mentioned securities does not form part of total income of any assessee and it is not taken into account in computing total income it is tax free in the hands of all assesses.

Exempted Income

Though a detail discussion has been given in chapter 'Exemptions from Tax' regarding exempted income or tax free incomes. Here a brief account of exempted incomes is given for convenience of students to solve the practical problems relating to income from other sources –

13. Agricultural income in India,
14. Share in income of HUF,
15. Share in profit of partnership firm
16. Post office savings bank interest (exempted in case of single name Rs. 3,500 and joint name Rs. 7,000)
17. All type of allowances received by M.P. (Lok Sabha or Rajya Sabha)
18. Daily allowances and constituency allowance received by MLA's
19. Scholarships
20. Gallantry awards,
21. Interest on Post office CTD accounts (10 or 15 years.)
22. Interest on capital investment Bonds. Relief bonds and Certificates,
23. Dividend from domestic companies and mutual funds, e.g. UTI units income.
24. Family pension received by the family members of armed forces died in operational duties.