SYLLABUS

B.Com - III Year

Subject – Income Tax Law and Practice

UNIT-I	General introduction of Indian income tax act, 1961. Basic concepts: income, agriculture income, casual income previous year, assessment year, gross total income, total income, person assessee, residential status and tax liability, exempted income.
UNIT-II	Income from salary, income from house property.
UNIT-III	
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UNIT-I

Basic concepts of Income Tax

Meaning of Income Tax

Income tax is a tax on year 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.1961

SALIENT FEATURES OF INCOME TAX –

1. Central Tax
2. Direct Tax
3. Tax on Taxable Income
4. Progressive rates of Tax
5. Scope of Taxation not only with individual but also with firm, company, HUF, Trust & Co-Operative Societies
6. Tax Exemption limit
7. Burden on Rich class persons
8. Separate Administration
9. Distribution of Tax between Central and State Government.
10. It is largest source of revenue.
11. Tax for country welfare
12. History of income Tax in India is about 150 years old.
13. Control on Income by Income tax
14. Beginning of Income Tax by sir James Wilson in 1860 in India.

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 narration 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 satutorily 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.

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.

CASUAL INCOME

Causal Income means such income the receipt of which is accidental and without any stipulation. It is the nature of an unexpected windfall.
Though causal income is fully taxable but it is necessary to clear this meaning from the following point of view –

1. Causal income like lottery, race income are taxable at special rate of 30%
2. Causal income cannot be set off against other causal income as well as casual income cannot be used for setting off loss of other head.

4. ASSESSMENT YEAR : (2018-2019) [Section 2 9)]
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.

5. PREVIOUS YEAR (Section 3) (2017-2018) [Section3]
Previous year means the financial year immediately preceding the assessment year e.g. for the assessment year 2018-2019 previous year will commence on 1st of April, 2017 and end on 31st March, 2018. 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

Exception to the rule of Previous Year:

These exceptions are:
1. Shipping business income of non-resident ship-owners
2. In case of persons leaving India
3. In case of persons who are likely to transfer their assets to avoid tax
4. In case of discontinued business

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.

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.
(vi) so, aggregate amount of income computed under the above 5 heads, after
(vii) making adjustments of set off and carry forward of losses and clubbing of income is known as Gross Total Income (G.T.I.).

TOTAL INCOME

'Taxable income of an assesses is called Total Income. Income Tax· Liability is Calculated on such income. It is computed as perprovisions 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.

In other words, total income means the amount left after making the deductions under sections 80C to 80U from the gross total income.

Gross Total Income and Total Income at a glance

1. Income from Salary	....
2. Income from House Property	....
3. Income from Business/Profession	....
4. Income from Capital Gain	....
5. Income from Other Sources	....
Less: Set off and carry forward losses	
Add: Clubbed income '	....
Gross Total Income	....
Less: Deduction u/s 80C to 80U '	(-).................
Total Income	....

S.No.	Gross Total Income	Total Income
1.	Aggregate of various heads of income salary, house property, business/profession, capital gains and other sources is called gross total income.	After deducting deduction u/s 80C to 80U from Gross Total Income the remaining amount is called Total Income.
2.	Tax calculation is not done on Gross Total Income.	Tax calculation is done on Total income.
3.	Gross Total Income can remain more than or equal to total income.	Total income can remain less than or equal to Gross Total Income.
4.	Rounding off procedure does not apply.	Total income shall be rounded off to the nearest multiple of ten rupees.
5.	Due to exemption agricultural income shall not be included in Gross total income ·	Only for tax purpose, agricultural Income shall be added to Total income.

Tax rates for the Assessment Year 2019-20

The following are the current rates of taxation for an individual, Hindu, Undivided Family, firm, company and co-operative society for the assessment year 2019-20.

Ist Step : Tax Calculation on total Income

NORMAL RATES OF INCOME TAX

Individual and HUF (less than 60 years)–

Slabs of Income	Tax Rate
On First Rs. 250000	NIL
On Next Rs. 250001 to 5,00,000	5%
On Next Rs. 5,00,001 to 1000000	20%
On above 10,00,000	30%

senior citizen (60 year or more but less than 80 years)

Income	Tax Rate
On First Rs. 3,00,000	-
On Next Rs. 3,00,001 to 5,00,000	5%
On Next Rs. 5,00,001 to 10,00,000	20%
On above 10,00,000	30%

6. **Super Senior Citizen** (80 years or more)

Income	Tax Rate
On First Rs. 5,00,000	-
On Next Rs. 5,00,001 to 10,00,000	20%
On above 10,00,000	30%

7. **Partnership firm** - 30% flat Rate on Income of firm.

8. **Domestic Company** –Domestic Company 30% flat rate on income, if income is more than Rs. 1 Crore then 7% Surcharge & 12% surcharge in case exceed of 10 Crore is also applicable on tax payable.

9. **Foreign Company** –Foreign Company 40% flat rate on income if income is more than Rs. 1 Crore then 7% Surcharge & 12% surcharge in case exceed of 10 Crore is also applicable on tax payable.

10. **Co-operative Society** –

Income	Tax Rate
On First Rs. 10,000	10%
On Next Rs. 10,000	20%
On remaining balance	30%

11. **Tax Rate on special income-**

a. Long term capital gain	20% (Flat)
b. Short term capital gain (U/s 111A)	15% (Flat)
c. Income on lottery, horse race, Cross word Puzzle etc.	30% (Flat)

12. **Education Cess** – 3% Education Cess is applicable on taxable Income of all type of assessee but in case of company education cess is applicable after adding of surcharge (if any).

INCOME WHICH DOES NOT FROM PART OF TOTAL INCOME

EXEMPTED INCOME

Section -10 of Income Tax Act laye down income which is totally or partially exempted from tax-

A. EXEMPTED INCOME FOR ALL ASSESSES

1. Agricultural Income Sec. 10(1)
2. Share of income from partnership firm Sec. 10 (2A)
3. Share of HUF Income Sec. 10(2)
4. Scholarships – Sec.10(16)
5. Income as divided Sec. 10 (34 & 35)
6. Capital gain on transfer of u/s 64 (Sec. 10 (33)
7. Allowance of M.P./MLA Sec. 10 (17)
8. Award / reward Sec. 10 (17A)
9. Pension to gallantry award winner Sec. 10(18)
10. Family Pension received by the family members of armed forces Sec. 10(19).
11. Capital gain on compulsory acquision of urban Agriculture land Sec. 10(37)
12. Interest on notified Government Securities Sec. 10(15)
13. Income of minor child which is clubbed Sec. 10(32) [Up to 1,500/- per child]
14. Compensation under Bhopal Gas Leak Disaster Sec. 10(10BB)
15. Income of subsidy from Tea Board Sec. 10(30)
16. Income of schedule Tribe members Sec. 10(26)
17. Amount received under a life Insurance Policy Sec. 10(10D)
18. Income of subsidy from Rubber Board/Coffee Board /spices board / any other notified Board Sec. 10(31)
19. Income from Sukanya Samriddhi Account – Sec. 10(11)A.

B. EXEMPTED INCOME FOR EMPLOYEES

1. House Rent Exempted upto a certain limit Sec.10(13A)
2. Gratuity :- Sec. 10(10)
   a) Gratuity for Government employees is fully exempted
   b) Gratuity for non-government, employees is exempted up to a certain limit.
3. pension Sec. 10(10A)
   a) Pension for government employees, fully exempted
   b) Pension for non-government employee exempted upto certain limit.
4. Leave travel concession in India Sec. 10(5)
   :-

   Actual Amount Received or
   Amount Prescribed or } Which ever is less is exempted
   Amount Actual Spent
5. Amount received as leave encashment on retirement Sec.-10 (10AA)
   a) Central/State Government Employee – Fully Exempted
   b) Other Employee exempted upto certain limit
6. Compensation on retrenchment Exempted upto certain limit.Sec.10(10 B)
7. Allowance or perquisite outside India Sec 10(7)
8. Allowance/perquisite paid outside India by Indian Government is exempted.
9. Provident fund Sec. 10(11)
   a) P.F. received from Recognised P.F. fully exempted
   b) P.F. received from unrecognised P.F. Taxable
10. Superannuation fund Sec. 10(13)

11. Voluntary retirement Scheme Sec. 10(10c) (Amount received by this scheme is exempted upto 5 lakh.)
12. Tax on perquisite paid by the employer is exempted Sec. 10 (10 CC)
13. **Special Allowance Sec. 10 (14) for performing duty**

1	Travel/Tour Allowance	Actual Expanses Exempted
2	Daily Allowance	Actual Expanses Exempted
3	Conveyance Allowance	Actual Expanses Exempted
4	Helper Allowance	Actual Expenses exempted
5	Training Allowance	Actual Expenses exempted
6	Uniform Allowance	Actual Expenses exempted

14. **compensatory allowances to Employee ---**

1	Education Allowance	100/- Per month Per Child (for 2 child)
2	Hostel Allowance	300/- Per month Per Child (for 2 child)
3	Transfer Allowance	70% of Allowance Or 10,000 Rs. Per month } Whichever is less
4	Tribal Area Allowance	Up to 200 Rs. Per month
5	Field Area Allowance	Rs. 2,600 Per month
6	Composite Hill Compensatory Allowance	From 300 Rs. to 7000 Rs. Per month. according to place
7	Border/Remote area allowance	200 to Rs. 1,300 Per month. according to place
8	Allowance to workers of coal mines	Rs. 500 Per month
9	High Attitude allowance	Rs. 1060 to Rs. 1600 Per month
10	Highly Active field area allowance	Rs. 4,200 Per month
11	Modified field area allowance	Rs. 1,000 per month.
12	Counter Insurgency Allowance	Rs. 3,900 per month.
13	Transport Allowance	Rs1600 per month (Rs. 3200 per month in the case of handicapped, blind or disabled employee) Upto 31/03/2018
14	Island (Duty) Allowance	Rs. 3,250 per month.

C. EXEMPTED INCOME FOR INSTITUTIONS

1. Income of scientific research association Sec. 10(21)
2. Income of employee's welfare fund Sec. 10 (23AAA)
3. Venture capital fund/Company Sec. 10 (23F)
4. Income of news Agency Sec. 10 (22B)
5. Income of Professional institutions Sec. 10 (23A)
6. Income of Regimental Fund of the Armed forces Sec. 10(23AA)
7. Income of Khadi/Village industrial Sec. 10(23B)
8. Income of Khadi Board Sec. 10(23BB)
9. Income of the European Economic Community Sec. 10 (23BBB)
10. Income of statutory bodies Sec. 10 (23 BBA)
11. Income of pension fund (Set up by LIC) Sec. 10 (23AAB)
12. Income from mutual fund Sec. 10 (23D)
13. Income of Registered Trade unions Sec. 10 (24)
14. Income of local authorities Sec. 10(20)
15. Income of Co-operative Societies for Scheduled castes/Tribes Sec. 10 (27)

16. Income of political party Sec. 13 (A)
17. Income of the SAARC fund for regional Project Sec. 10(23BBC)
18. Income of a corporation promoting the interest of a minority community Sec. 10 (26BB)
19. Income of certain national funds Sec. 10 (23 c)
20. Income of Hospitals and Educational Institution association Sec. 10 (23C)
21. Exemption of income of Investor Protection Fund – Sec. 10 (23EA)
22. Income of Swachh Bharat Kosh and Clean Ganga Fund – Sec. 10 (23C)

D. EXEMPTIONS FOR NON-RESIDENT /FOREIGN CITIZEN

1. Interest received on prescribed securities.
2. Interest received by "non-resident(External) Account"
3. Interest from notified central Government if such certificates are subscribed in foreign currency.
4. Remuneration received by foreign diplomats.
5. Salary received by foreign citizen in India/by non-resident foreign citizen/by an employee being a foreign national.
6. Tax paid by Government/Indian concern in case of non-resident/Foreign company.
7. Income arising to notified foreign companies projects connected with security of India.
8. Foreign allowance granted by the Indian government to its employee posted abroad.
9. Remuneration received from foreign government by an individual who is in India in connection with any sponsored Co-operative technical assistance programme.
10. Remuneration received by non-resident consultants and their foreign employers.

E. EXEMPTIONS FOR OTHERS

1. Exemptions for newly established industrial undertaking in free trade zones Sec. 10 (A)
2. Exemptions for newly established industrial undertaking in special Economic Zone Sec. 10 (AA) after 31st March, 2005
3. Exemptions for newly established industrial undertaking Hundred percent export oriented undertakings Sec. 10(B)
4. Deduction in respect of export of artistic hand made wooden articles section 10 (BA)
5. Income exempted of charitable/Religions trusts Sec.-11

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 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

b)

BUT

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

3) **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

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 INCIDENCE (LIABILITIES)

Tax liability of an assessee depends upon the residential status on which income he is liable to pay tax and which incomes are not taxable for him, for determination of this matter, now we have to understand the relationship between residence and tax liabilities :

a) Tax liability of **ordinarily Resident**
   - i) Income received or deemed to be received in India.
   - ii) Income accrued or deemed to be accrued in India.
   - iii) Income from business outside but control by India.
   - iv) Income received or accrued outside the India

b) Tax liability of **Not ordinarily resident:**
   - i) Income received or deemed to be received in India.
   - ii) Income occurred or deemed to be accrued in India.
   - iii) Income business situated outside India but controlled and managed from India

c) Tax liability of **non residents of India:**
   - i) Income received or deemed to be received in India
   - ii) Income occurred or deemed to be accrued in India.

UNIT-II

Income from Salary
Computation of Income from Salary
Assessment Year 2018-19

(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 (Only for govt. employee)	
Actual entertainment allowance of 20% of basic salary or maximum 5000 Rs. Which everless . ………	
Less:- Deduction u/s 16 (iii)	
Professional tax (Paid during the previous year) ………	-(---------)
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. 800 P.M.
5) **Composite hill compensatory allowance:-**
   (i) Manipur skim, 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 } Whichever is less will be exempted	----------------	
2) Rent paid – 10% of salary	----------------	
3) 40% or 50% of salary	----------------	----------------
Taxable H.R.A.		----------------

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

Perquisites

Tax free perquisites	Taxable perquisites	
	For all class of employers	**For Specified employers**
1) Refreshment facility		
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. $\frac{\text{Salary last drawn x Service Year x 15}}{26}$ ---------- 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 exempted	(-) ----------
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.

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 if loan taken before 1.04.1999 OR Rs. 2,00,000 it if loan taken after april 1999)	--------
Income from House Property	--------

2. **Let-Out House:**

Computation of Income from House Property
Assessment year 2019-20

Gross Annual Value		--------
Less: Municipal Taxes [Paid by owner on or before 31st march, 2013].		(-) --------
Net Annual Value		--------
Less: Deduction u/s 24:		
(i) Standard deduction (30% of N.A.V.)	--------	
(ii) Interest on loan (actual interest due in previous year)	--------	(-) --------
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
Or
Fair Rent
} Whichever is higher

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

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

Actual Rent
Or
Standard Rent
} Whichever is higher -------------

} Whichever is less

NOTES:

1. If the let-out house has remained vacant fro 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
   c.
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 1.8.2011 and let out. In this situation the annual rental value will be computed for 8 months (1.8.2011 to 31.3.2012). 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.