Income Tax is a very important direct tax. It is collected by the Central Government. It is a major source of revenue to the Central Government.

History of Income Tax in India

In India, Income Tax was introduced in the year 1860. Thereafter, several amendments were made from time to time. In 1886, another Income Tax Act was passed. This Act remained in force upto 1917. In 1918, a new Act was passed. This Act was replaced by another Act in 1922 which remained in force till 1961. The Government of India wanted a new Income Tax Act which suits the requirements of Indian conditions. Therefore, the Government of India referred it to the Law Commission in 1956. The Commission submitted its report in 1958. In the meantime the Government of India had appointed the Direct Taxes Administration Enquiry Committee to suggest measures to minimize inconveniences to assess tax and to prevent tax evasion. This Committee submitted its report in 1959. On the basis of the recommendations of the two Committees, the Government of India passed the Income Tax Act in September 1961. The Act came into force with effect from Ist April, 1962. It applies to the whole of India.

Since 1962, several amendments to this Act were made by the Finance Acts. The present Income Tax law consists of the Income Tax Act 1961, the Income Tax Rules 1962, various circulars, notifications, etc., issued by the Income Tax Department from time to time, the Finance Act passed in Parliament every year and the judgments of the Court of Law.

Central Board of Direct Taxes (CBDT)

CBDT is the supreme authority of Income Tax in India. It is considered as the apex body of the Income Tax Department. It is empowered to frame rules under the control of the Central Government.

Definitions

1. Income [Section 2(24)]

The term 'income' has not been defined in the Act. Under this section, income includes:

(i) profits and gains
(ii) dividend, interest, etc.
(iii) voluntary contributions received by a trust created for charitable or religious purpose, or by a scientific research association, or by a games or sports association etc.
(iv) salary, allowances, perquisites, etc.
(v) capital gains
(vi) winnings from lotteries, crossword puzzles, races, card games or betting etc.

Assessment Year [Section 2(9)]

Assessment year means the period of twelve months commencing on the first day of April every year and ending on 31st March of the next year. It is the year in which assessment is made on the income of the previous year. The current assessment year is 2016-17 (from Ist April 2016 to 31st March 2017).

Previous Year (Sec. 3)

Previous year means the financial year immediately preceding the assessment year. It is the year in which income is earned. The current previous year is 2015-2016.

Exceptions to the General Rule - Accelerated Assessment

Every assessee is liable to be assessed during the assessment year in respect of the income earned during the previous year,. But in certain circumstances an assessee shall be assessed during the year in which he earned the income.

1. ***Income of non-resident from shipping business (Sec. 172)***

In the case of a non-resident shipping company, any income derived in India will be taxed in the year of its earning @ ***7 ½ %*** of such income and not in the assessment year.

2. ***Income of persons leaving India (Sec. 174)***
3. ***Income of an association of persons or a body of individuals formed for a particular purpose (Sec. 174 A)***
4. ***Transfer of property to avoid tax (Sec. 175)***

If a person is likely to transfer his property to avoid tax, the assessing officer shall charge income tax during the previous year itself.

5. ***On discontinuance of a business or profession (Sec. 176)***

In the case of discontinuance of a business or profession, the income of the period from the expiry of the previous year to the date of such discontinuance may be charged to tax in the same year.

Person [Sec. 2 (31)]

Tax is payable by a person. Person includes the following:

(i) an individual
(ii) a Hindu Undivided Family (H.U.F.)

(iii) a company
(iv) a firm
(v) an association of persons or a body of individuals
(vi) a local authority
(vii) every artificial juridical person

Assessee [Sec. 2 (7)]

Assessee means a person:

1. who is liable to pay tax or any other sum of money like interest or penalty
2. in respect of whom any proceedings under this Act have been taken for the assessment of his income or income of any other person in respect of which he is assessable, or
3. in respect of whom any proceedings under this Act have been taken for the assessment of loss sustained by him or for the amount of refund due to him, or
4. who is deemed to be an assessee, or
5. who is deemed to be an assessee in default.

Deemed Assessee: A person who is considered as an assessee for some other persons or representative of some other persons is called deemed assessee

Assessee in Default: When a person is liable to do a work or duty under this Act and if he fails to do that, he is called an assessee in default.

Agricultural Income [Sec. 2(1 A)]

Any rent or revenue derived from land which is situated in India and is used for agricultural purposes and any income derived from such land by agricultural operations or any process or sale of such produce and any income from a farm house, is treated as agricultural income

Gross Total Income [Sec. 80 B(5)]

The total of income under five heads of income is Gross Total Income.

Total Income [Sec. 2 (45)]

Total income is equal to Gross Total Income minus all deductions under section 80. It is the income on which Income Tax is calculated. Hence it is also known as taxable income.

Maximum Marginal Rate of Tax [Sec. 29 C]

Maximum Marginal Rate is the rate of tax applicable to the highest slab of income of an individual, association of persons as specified in the Finance Act each year. The present maximum rate for individual is 30%.

6. **Casual Income**

Any receipt of casual or non-recurring nature is casual income, e.g. winnings from lottery, crossword puzzles, card games or betting.

Features of Income Tax

1. Income Tax is a direct tax.
2. It is an annual tax.
3. It is collected by the Central Government.
4. Income is calculated under 5 heads:
(a) Income from salaries
(b) Income from house property
(c) Profits and gains of business or profession
(d) Capital gains, and
(e) Income from other sources
5. Tax rate is fixed by the Annual Finance Act.
6. Any income whether legal or illegal is taxable.

RESIDENTIAL STATUS AND TAX LIABILITY

The incidence of tax or tax liability of a person depends upon the residential status of the person (Sec. 5).

Residential Status

The residential status of an assessee is determined with reference to his residence in India during the previous year.

Residential Status of an Individual [Sec 6(1)]

An individual may be:

1. A resident in India popularly known as ordinarily resident.
2. A not-ordinarily resident in India.
3. A non-resident.

The residential status of an individual assessee is determined on the basis of the following conditions:

A. **Basic Conditions**

(a) He is in India in the previous year for a period of 182 days or more, or
(b) He has been in India for at least 365 days during the four years preceding the previous year and is in India for at least 60 days during the previous year.

B. **Additional Conditions**

(i) He has been resident in India in at least two out of the ten previous years preceding the relevant previous year, and
(ii) He should have been in India for at least 730 days in all during the seven previous years preceding the relevant previous year.

Determination of residential status

1. **Resident:** An individual is resident or

2. ordinarily resident if he satisfies any one of the **basic conditions** and both the **additional conditions.**
3. **Not-ordinarily resident:** An individual is not-ordinarily resident if he satisfies any one of the **basic conditions** but does not satisfy both the additional conditions.
4. **Non-resident:** An individual is non-resident if he satisfies none of the **basic conditions.** In this case **additional** conditions are irrelevant.

Note: For determining number of days of stay in India, days of entry and exit should be included.

II. <u>Residential Status of Hindu Undivided Family (H.U.F.) [Sec. 6 (2)]</u>

AH.U.F. maybe:

1. A resident
2. A not ordinarily resident
3. A non-resident

A. Resident

A H.U.F. is resident if the control and management of its affairs is situated wholly or partly in India during the relevant previous year and the Karta (or manager of H.U.F.) satisfies both the ***Additional conditions*** applicable to an individual.

B. Not ordinarily resident

A H.U.F. is not ordinarily resident when the control and management of its affairs is situated wholly or partly in India, but the Karta of H.U.F. does not satisfy the additional conditions.

1. during the previous year, the place of effective management (POEM) is situated in India.

A. Non-Resident

A company is said to be non-resident if it is not an Indian company and the place of effective management is situated outside India.

<u>Tax Liability (Incidence of Tax)</u>

The incidence of tax depends on the residential status of the assessee. In other words, an assessee's tax liability depends, to a great extent, on the residential status of the assessee.

C. Non-resident

A H.U.F. is non-resident when the control and management of its affairs is situated wholly outside India.

III. <u>Residential Status of a Firm, Association of Persons and Body of Individuals</u>

A. Resident

A firm, A.O.P. or B.O.I. is resident if the control and management of its affairs is situated wholly or partly in India.

B. Non-Resident

A firm, A.O.P. or B.O.I. is non-resident if the. control and management of its affairs is situated wholly outside India.

IV. <u>Residential Status of a Company [Section 6 (3)]</u>

B. Resident

A company is said to be resident if:

it is an Indian company; or —

<u>Relationship between residential status and incidence of tax</u>

<u>Income</u>	<u>Resident</u>	<u>Not Ordinarily Resident</u>	<u>Non Resident</u>
Income Received in India	Taxable	Taxable	Taxable
Income deemed to be received in India	Taxable	Taxable	Taxable
Income accruing or arising in India	Taxable	Taxable	Taxable
Income deemed to accrue or arise in India	Taxable	Taxable	Taxable
Income From Business or profession outside India but controlled from India	Taxable	Taxable	Not taxable
Income From Business or profession outside India but controlled from outside India	Taxable	Not Taxable	Not taxable
All incomes outside India.	Taxable	Not taxable	Not taxable

<u>INCOME FROM SALARIES</u>

As per section 14 of the Income Tax Act, income is chargeable under five heads of income. These five heads are:

1. Salaries (Sections 15 to 17
2. Income from house property (22 to 27)
3. Profits and gains of business or profession (Sec 28 to 44)
4. Capital gains (Sections 45 to 55) and
5. Income from other sources (Sec 56 to 59)

Salary

Salary means any remuneration paid by an employer to his employee in consideration of his services and includes any benefits or facilities provided by the employer.

Under Section 15, Salary includes the following:

1. The salary due from an employer or former employer.
2. The salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer.
3. Any arrear of salary paid

Features of Salary

a) Employer-employee relationship

In order to treat an income as salary, there should be an employer-employee relationship.

b)Pension is part of salary

Pension paid by the employer after the retirement is also part of salary.

c)Salary from more than one source

An employee may receive salary from more than one source. Salary from each source is taxable under the head 'salary'.

d)Salary must be real and not fictitious

Amount taxable under the head 'salary' should be a real salary and not fictitious salary.

e)Voluntary foregoing of salary

Voluntary foregoing of salary by an employee is taxable on the ground that salary is taxable if it is due, whether paid or not.

Elements of Salary

I. Basic Salary (Basic Pay)

Every employee may have a salary grade or scale of pay.

II. Arrears of Salary

Any salary received which relates to some earlier years is treated as part of salary taxable in the year in which it is received.

III. Advance Salary

Any salary received in advance is also part of salary.

IV.Bonus

Any bonus received from the employer during the previous year is part of salary.

V. Commission

Commission received from employer is also part of salary.

VI. Allowances

Allowance is a fixed amount of money paid regularly by the employer in addition to basic salary in order to meet some personal and official expenses of the employee.

(a) Fully taxable allowances.
(b) Allowances exempt upto a specified limit
(c) Fully exempted allowances.

(a) Fully Taxable Allowances

The following allowances are fully taxable:

1. ***Dearness Allowance:*** This is an allowance given in order to meet the increase in expenses on account of increase in prices. Dearness Allowance is of two types:
   (a) *D.A. given under the terms of employment:* This means D.A. is considered along with basic pay to determine the retirement benefits like Pension, Gratuity, etc.
   (b) *D.A. not given under the terms of employment:* This means D.A. is not considered to determine the retirement benefits.

Unless otherwise stated Dearness Allowance is not given under the terms of employment.

2. ***Dearness Pay:*** This is another form of dearness allowance but given under the terms of employment.
3. Fixed Medical allowance
4. Tiffin allowance
5. Servant allowance
6. Non-practicing allowance
7. Hill allowance to employees
8. Warden or Proctor allowance
9. Deputation allowance
10. Overtime allowance
11. City compensatory allowance
12. Other allowances like Family allowance, Festival allowance, Marriage allowance, Telephone allowance, Interim relief allowance and all allowances which are not specifically exempted.

Allowances exempt up to a specified limit

(1) House Rent Allowance (H.R.A.)

This is an allowance given by the employer to meet the expenditure on account « payment of rent in respect of the accommodation occupied by the employee. H.R.A. ; exempt to the extent of the least of the following:

(a) House Rent Allowance actually received by the assessee or
(b) The excess of rent paid by the assessee over 10% of salary for the relevant period, or

(c) 50% of salary if the accommodation is in Mumbai, Kolkata, Delhi or Chennai (the four metro cities) and 40% of salary if the accommodation is in other places.

Salary for this purpose includes Basic Pay, Dearness Allowance given under the terms of employment and Commission based on a fixed percentage of turnover.

Note: H.R.A. is exempted only if rent is paid by the assessee.

(2) Entertainment allowance

It is an allowance given by the employer to employees. It is included fully **in** ... the assessee's income and later deducted under section 16 in the case of Government employees.

(3) Special allowances for meeting official expenditure [Section 10(14) (i)]

These allowances are exempt to the extent of the actual amount spent by the employee. In the absence of information regarding the actual amount spent, it will be assumed that the full amount of allowance is spent by the employee.

(a) Travelling allowance
(b) Conveyance allowance
(c) Daily allowance
(d) Helper allowance
(c) Academic allowance
(d) Uniform allowance

(4) Special allowances for meeting the personal expenses [Sec 10(14) (ii)]

Such allowances are exempted to the extent of the amount notified.

(a) Children Education allowance is exempt upto 100 per month per child for a maximum of two children.
(b) Children Hostel allowance is exempt upto 300 per month per child for a maximum of two children.
(c) Transport allowance is exempt upto a maximum of 1,600 per month.
d. Underground allowance is exempt upto 800 per month.

(c) Fully Exempted Allowances

1. Foreign allowance paid by the Government to an Indian citizen outside for rendering service abroad.

2. Sumptuary allowance to High Court or Supreme Court Judges.

3.Allowance from the United Nations Organisation (U.N.O.).

VII. Provident Fund

Provident Fund is a fund created for future. The amount available in this ~~rc is given to the employee on retirement. Provident Funds are of four types:

1. Statutory Provident Fund
2. Recognized Provident Fund
3. Unrecognized Provident Fund
4. Public Provident Fund

1. Statutory Provident Fund

This is a fund created as per Indian Provident Fund Act 1925. Generally this is maintained by the Government or semi-Government offices, local authorities, Universities, Statutory Corporations, Nationalised Banks etc.

2. Recognised Provident Fund

This is a fund created as per Provident Fund Act 1952. This fund is generally maintained by private sector organisations.

3. Unrecognised Provident Fund

It is that Provident Fund which is neither statutory nor recognised. Any organisation can have its own provident fund scheme.

4. Public Provident Fund

This fund is meant for the public, and was started on 1st July 1968. Every individual can subscribe a minimum amount of 500 and a maximum of 70,000 a year.

Treatment of Provident Fund for Tax Purpose

	SPF	RPF	URPF
Employer's contribution	Not taxable	In excess of 12 % of salary is taxable	Not Taxable
Employee's Contribution	Taxable	Taxable	Taxable
Interest	Not Taxable	Interest in excess of 9.5 % is taxable	Not Taxable
Lump sum amount	Not Taxable	Not taxable	Employer's share and interest thereon is taxable

VIII. Perquisites

Perquisite is defined as any casual emolument, or profit attached to an office or position in addition to salaries or wages. It is the value of any benefit or facility given by the employer.

Perquisites are of three types:

1. Perquisites taxable in all cases
2. Perquisites taxable in the case of specified employees only
3. Tax-free perquisites

1. Perquisites Taxable in all cases

(A) Value of rent-free accommodation or accommodation at concessional rent

When the employer provides accommodation to employees, its value is treated as perquisite and included in salary income. The method of valuation is as follows:

(a) Government employees:

Unfurnished accommodation = Amount determined
by the Government as per rules (Licence fees)
Add 10% of cost of furniture or hire charges
Less amount collected from employees, if any

(b) Other employees

(1) If accommodation is owned by employer:

a. Accommodation is in a city with a population exceeding 25 lakhs - 15% of salary
b. Accommodation is in a city with a population exceeding 10 lakhs but not exceeding 25 lakhs 10% of salary
c. Other places - 7.5% of salary

Add 10% of cost of furniture or hire charges
Less amount collected from employee

(2) If accommodation is taken on rent

Value of unfurnished house - 15% of salary or actual lease rental whichever is less
Add 10% of cost of furniture or hire charges
Less amount collected from employee (if any)

Note: Salary for this purpose = Basic pay,D.A. if given under the terms of employment, bonus, commission and taxable allowance but does not include the value of any perquisite.

If accommodation is provided in a hotel for a period exceeding 15 days, 24% of salary or actual charges whichever is less.

(B) Any amount paid by employer in respect of any obligation payable by employee like payment of club bills or hotel bills, payment of loan, education expense of employee's children, income tax or any other tax payable by employee.

However, any income tax on perquisites payable by employee, if paid by employer, is not a taxable perquisite.

(C) Interest-free loan or loan at concessional rate

a. Where the amount of loan does not exceed 20,000 - the value shall be nil.
b. Loans for medical treatment of specified diseases - the value shall be nil
c. Where the amount exceeds 20,000, value is equal to interest charged on the amount for the period by the State Bank of India or the difference between the rate charged by S.B.I. and the actual rate charged.

(D) Holiday enjoyment

(E) Free food

Free food provided during working hours is exempted upto 50 per meal.

(F) Gift

Gifts given in kind on social or religious occasions is exempt upto 5,000. All other gifts are taxable perquisites. Cash gifts shall be fully taxable

(G) Club expenses

The actual cost to the employer is the value of perquisite.

(H) Use of Movable Asset

When the employer provides any movable assets (other than laptops and computers) for the use of employees, the value of the perquisite shall be:

1. If the asset is owned by the employer - 10% per annum of the actual cost
2. If the asset is taken on rent - actual rent payable

(I) Transfer of Movable Asset

Where the employer transfers any movable asset to the employee, the value of perquisite shall be:

(a) Computers and Electronic goods

Actual cost of Asset
Less depreciation @ 50% on W.D.V. for each completed year used by employer
Less any amount recovered from employee Value of perquisite

b) Motor Car

Cost of car
Less depreciation @ 20% on W.D.V. for each completed year used by employer
Less any amount recovered from employee

(C) Other Movable Assets
Cost of asset
Less depreciation @ 10% on straight line method for each completed year
Less amount recovered from employee

(K) Allotment of Sweat Equity Share (17 (2)

(2) Perquisites Taxable in the case of specified employees only

Specified employee means:

a. a director - employee
b. an employee having substantial interest in the company (with not less than 20% voting power)

The following are the perquisites taxable in the ca.se of specified employees only:

1. Facility of car
2. Sweeper, watchman, gardener and personal attendant
3. Gas, electricity and water
4. education facility to the family members
5. Transport facility

(i) <u>Valuation of a car</u>

A. Car owned or hired by employer

(a) If the car is used for official purpose only - value is NIL.
(b) If the car is used only for private purpose.

Value = Actual amount of expenditure of running and maintenance plus driver's salary plus 10% depreciation (depreciation is not added if the car is hired).

(c) Car used partly for official purpose and partly for personal or private purposes.

1. If all expenses of car are borne by employer.

Small car (within 1.6 litre c.c.) 1,800 p.m.
Large car (more than 1.6 litre c.c.) 2,400 p.m.
If driver is also provided add 900 p.m.

2. If the expenses of the car in respect of private use is borne by employee

Small car 600 p.m.
Large car 900 p.m.
If driver is provided, add 900 p.m.

Car owned by Employee

(a) If the car is used for official purpose only - value is NIL.
(c) If the car is used only for private purpose - the amount reimbursed by the employer.
(d) If the car is used partly for official purpose and partly for private purpose.

Small car Actual expenditure by employer less 1,800 p.m. + 900 p.m. for driver.
Large car = Actual expenditure by employer less 2,400 p.m. + 1900 p.m. for driver.

(ii) Facility of Sweeper, Watchman, Gardener and Personal attendant

(iii) Gas, Electricity and Water

The actual cost incurred by the employer.

(iv) Education facility

If the cost of education is upto 1,000 p.m. per child - the value is nil. If the cost exceeds 1,000 p.m. - the cost of education in a similar institution.

(v) Transport facilities

The value of perquisite shall be the value at which such benefit is offered by the undertaking to the public.

(3) Tax-free perquisites

The value of the following perquisites are not included in the salary of an employee:

1. Tea or snacks provided in the office.
2. Residential accommodation provided at site.
3. Expenses on telephone including mobile phone.
4. Employer's contribution to Staff Group Insurance Scheme.
5. Scholarships to employees and their children.
6. Cost of refresher courses.
7. Facility of conveyance from residence to office and back.
8. Tax paid on the value of perquisites.
9. Perquisites to Government employees posted abroad.
10. Laptops and computers.
11. Leave Travel Concession (L.T.C.) u/sl0(5).
12. *Medical benefits:* The treatment of medical benefits is summarised as follows:

If the treatment is done in any hospital owned by employer, or a Government hospital or an approved hospital, the full amount reimbursed is tax-free.

If the treatment is done in a private hospital, Tax free upto 15,000. The balance amount is taxable.

If the treatment is done outside India, expenses for treatment are fully exempt if the approval of R.B.I. is obtained.

<u>Deductions (Under Section 16)</u>

1. Entertainment allowance [Sec. 16 (ii)] - In the case of Government employees:
   a. the amount of entertainment allowance received
   b. 1/5 of basic pay

   c. 5,000 whichever is less is deductible.
2. Employment tax [Section 16(iii)] (or Profession tax)

Incomes on Retirement

When an employee retires from service, he gets the following amounts:

1. Provident Fund
2. Gratuity
3. Earned Leave Salary
4. Pension and Commuted Pension
5. Compensation on Voluntary Retirement

I. Provident Fund [Section 10 (11) (12)]

On retirement, an employee gets a lump sum from his Provident Fund, The provisions of the Income Tax Act are as follows:

a. The amount received from Statutory Provident Fund is fully exempt.
b. The amount received from Recognized Provident Fund is fully exempt provided he was in continuous service for 5 years.
c. The amount received from URPF is treated as follows:

(1) Out of the lump sum received, share of employer's contribution and interest is included in salary.

(2)The share of employee's contribution is exempt.

(3)Interest on employee's contribution is included under the head "income from other sources".

II. Gratuity [Section 10 (10)]

Gratuity is a payment made by the employer in return for service rendered by employee. The treatment of Gratuity is given below:

Government employee

Any Gratuity received by a Government employee is fully exempt.

Non-Government employees

1. **Covered by the payment of Gratuity Act 1972**

Those employees coming under the provisions of the payment of Gratuity Act 1972 will get an exemption to the extent of the least of the following:

1. 15 days salary (— of salary drawn in the last month prior to retirement)

for every completed year of service or part thereof in excess of six months.

2. 10,00,000 or
3. Gratuity actually received

Salary for this purpose includes Basic salary and Dearness allowance (whether as per terms of employment or not).

II. Not covered by the payment of Gratuity Act 1972

Least of the following is exempt:

1. One-half month's salary based on average salary for ten months immediately preceding the month of retirement for every completed year of service, or
2. 10,00,000 or
3. Gratuity actually received.

Salary for this purpose includes Basic salary and Dearness allowance, if given under the terms of employment and Commission based on a fixed percentage of turnover. "

III. Encashment of earned leave or earned leave salary [Section 10 10AA)]

Some employees are eligible for earned leave which can be surrendered or encashed. If encashment is done while in service it is taxable under the head salary.

Government employees: Full amount is exempt.

1. Non-Government Employees:

Least of the following is exempt:

a. Maximum 10 months salary on the basis of average salary drawn during 10 months preceding retirement.
b. Amount of salary on the basis of average salary for the approved period for which earned leave has not been availed by the employee.
c. 3,00,000
d. Actual amount received.

Salary includes Basic pay, D.A. if given under the terms of employment and Commission based on fixed percentage of turnover.

IV. Pension and Commuted Pension [10 (10A)]

Pension is taxable under the head salary. Commuted pension is exempt subject to the following limits:

1. Any amount received from the Government is fully exempt.
2. Any payment received from any other employer is exempt to the extent it does not exceed:
   a. the commuted value of one-third of normal pension if he also receives Gratuity.
   b. the commuted value of one-half of normal pension if he does not receive gratuity.

Normal pension = the amount receivable if full pension is commuted

V. Compensation on Voluntary Retirement [Section 10(10c)]

When a person takes VRS (Voluntary Retirement Scheme) he. is eligible for exemption to the extent of the least of the following:

1. 3 months salary for each completed year of service.
2. Salary at the time of retirement multiplied by the balance of months of service left before the actual retirement.
3. Amount actually received.
4. 5,00,000

Salary means Basic salary plus D.A. (if given under the terms of employment) and Commission at a fixed percentage of turnover.

INCOME FROM HOUSE PROPERTY

Sections 22 to 27 deal with income from house property. According to section 22, income from property consisting of any building or lands appurtenant thereto of which the assessee is the owner and which is not used for the purpose of the assessee's business or profession is chargeable to tax under this head.

Special Points

1. **Income from House Property situated abroad** is taxable only in the case of residents.
2. **Property owned by co-owners:-** Where the property is owned by two or more persons jointly and their respective shares are definite, income from such property shall be assessed separately.
3. **Composite rent:** If a building is let out along with other facilities like electricity, cooler, lift, water pump, water tax, for a composite rent, and if the rent of building can be separated from the rent of other facilities, rent belonging to the building is taxed under the head, income from house property.

Income from House Property Exempted from Income Tax

1. Income from farm house
2. Annual value of one palace of ex-Indian Ruler
3. Income from property owned by:
4. Local Authority
5. Scientific Research Association
6. Trade Union
7. Charitable Trust
8. Political Party
9. University or Educational Institutions
10. Hospitals or Medical Institutions
11. used for assessee's business or profession
12. Income from one self-occupied house

Computation of Income from House Property

Computation of income from house property involves the following steps:

(1) Computation of Gross Annual Value

Gross Annual value = Expected rent or Actual rent whichever is higher.

Expected Rent = Municipal value of the house or Fair Rental value whichever is higher subject to a maximum of Standard Rent.

(Standard Rent is the rent fixed as per Rent Control Act)

(2) Computation of Annual Value

Annual value = Gross Annual value minus municipal tax paid by the assessee and all services tax like fire tax, water tax, education cess during the previous year,

If Municipal tax is paid by the tenant, it should not be deducted.

Expenses Incurred on Tenant's Amenities and Additional Facilities

If the landlord incurs additional amounts for providing additional amenities to the tenant such as lift maintenance, lighting of stairs, gardening, special water facilities, such additional expenses can be deducted from rent received to compute Gross Annual value.

Vacancy

Sometimes, the house may remain vacant for the whole or a part of the previous year.

A. House remains vacant for a full year

In such a case gross annual value will be nil.

B. House remains vacant for a part of the year

1. If the actual rent for let-out period is more than the expected rent, the actual rent is the Gross Annual value.
2. If the actual rent for let-out period is less than the expected rent owing to such vacancy, the actual rent will be the Gross Annual value. That means, if there is loss in account of vacancy, actual rent will be the Gross Annual value.

Unrealised Rent (Rule 4)

When there is unrealised rent, it can be deducted from Gross Annual value along with municipal tax paid by the assessee.

3. Computation of income from House property (Sec. 24)

The following deductions are to be made from Annual value:

1. A sum equal to 30% of Annual value as Standard deduction for expenses like repairs, insurance premium, annual charges, ground rent etc.
2. Interest for the previous year (whether paid or not) on loam taken for the purpose of purchasing, constructing, reconstructing or repairing the house property.
3. One-fifth of interest for pre-construction or pre-acquisition period.

Pre-construction period means the period from the date of borrowing to 31st March preceding the date of completion of the construction or the date or repayment the loan, whichever is earlier.

Self-occupied House [Sec. 23 (2)]

If the house is occupied by the owner, for his own residence, it is called self- occupied house. The **Annual Value** of **a** self-occupied house is nil.

A part of the house self-occupied throughout the year and the remaining part is let-out

In such a case, the annual value of the part of the house self-occupied is nil and the annual value of the let out part is calculated as usual.

House self-occupied for a part of the year and let-out for the remaining period Sec. 23(3)]

In such a case the house is treated as let out house and the calculations will be made as usual.

More than one house self-occupied (23(4))

Where the owner occupies more than one house, for his residence, the annual value of the house (of his choice) is nil and the other house or houses shall be deemed to be let out.

Realization of unrealized rent (Sec. 25 AA)

Any unrealized rent of previous year is subsequently realized, it is added to income from house property.

Arrears of rent realized (Sec. 25B)

Arrears of rent of previous years realized during the previous year is added to income from house property after deducting 30% of the amount so received.

<u>Profits and Gains of Business or Profession</u>

Sections 28 to 44 D of the Income Tax Act, 1961 deal with the provisions regarding income chargeable under the head 'profits and gains' of business or profession.

Business (Section 2 (13))

Business means production or purchase and sale of goods and services with a view to make profits. It includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

Profession (Section 2 (36))

Profession means those activities which require specialised knowledge and intellectual or manual skill. Examples are work of a doctor, lawyer, auditor, engineer, architect, etc. It also includes vocations. Vocation means all activities which are performed in order to earn a livelihood. Examples are brokers, insurance agents, self-employed people, dancers, musicians, painters, etc.

Computation of Profit from Business

Profit as per Profit & Loss A/c

Add expenses not admissible (not allowed)

Less income not admissible (not allowed)

Less expenses not debited to P&L a/c

Add incomes not credited to P&L a/c

Disallowed Expenses

a. Income tax, provision of income tax
b. Wealth tax
c. Sales tax if not paid before the due date of filing returns
d. Provision for Gratuity.
e. Provision for bad and doubtful debts.
f. Provision for discount on debtors.
g. Interest on capital
h. Life insurance premium.
i. Personal expenses
j. Purchase of assets
k. Capital expenditure
l. Payments in cash exceeding 20,000 (Payments for plying, hiring or leasing goods carriages - exceeding ? 35,000)
m. Transfer to reserves
n. Donations, charity, presents and gifts (not for business)
o. Penalty for infringement of law (interest for delay in payment of sales tax is not a penalty)
p. Interest on loan for payment of income tax.
q. Contribution to political parties.
r. Expenses on issue of shares, debentures etc.
s. Litigation expenses not related to business.
t. Excessive payments to relatives or associates.

u. Advertisement in the Souvenir of a political party.
v. Any payment of interest, royalty or fees for technical services made outside India without deduction of tax at source.
w. Dividend paid or proposed including interim dividend
x. Excess depreciation.
y. Loss on sale of fixed assets or investments.

Expressly Allowed Expenses

1. Any normal expense incurred for the conduct of business.
2. Depreciation as per income tax rules.
3. Loss on robbery, embezzlement of cash.
4. Loss due to non-recovery of advance.
5. Expenditure on promotion of family planning (If capital expenditure - only one-fifth is allowable.)
6. Expenses in connection with income tax proceedings.
7. Bad-debts written off.
8. Provision against the risk of damage or destruction of stock or assets.
9. Interest on borrowed capital.
10. Contribution to Provident Fund or any other statutory fund. (Staff Welfare Fund is not a statutory fund.)

Disallowed Incomes

1. Interest on securities including debentures, banks etc.
2. Dividends
3. Rent from house property.
4. Profit from sale or revaluation of investment or fixed, assets.
5. Income tax refunds.
6. Gifts from relatives.
7. Any other capital receipts.
8. Agricultural income.
9. Bad-debts written off recovered (if bad debts were not allowed earlier)

Treatment of Bad-debts Recovered

Sometimes bad-debts written off in the previous years may be recovered during the current financial year. Naturally, it will appear on the credit side of P & L a as an income.

At the time of writing off bad debts in any of the past years, if the Assessing Officer of the Income Tax Department had allowed it as an expense and deducted:

From income, when it is recovered during the current financial year, it can be treated as an income. Hence no adjustment is required while computing the business income.

Instead, if the bad-debt was not allowed as a deduction by the Assessing Officer in the past years, when it is recovered, it cannot be treated as an income of the current year. Hence it should be deducted from the net profit as *'inadmissible income'.*

If bad-debt is allowed partly and disallowed partly, then that part of bad-debts recovered during the year which belongs to *"allowed bad-debts"* is treated as income and which belongs to *"disallowed bad-debts"* is not treated as income and hence deducted from net profit.

Treatment of Some Special Items

I. Depreciation

1) Depreciation is calculated on Block of Assets

The term *"Block of Assets"* means a group of assets falling within a class of assets comprising tangible assets and intangible assets.

2) Methods of depreciation

For income tax purpose depreciation is charged on the Written Down Value (W. D.V.) on all assets except in the case of assets of an undertaking engaged in : aeration and distribution of power.

(3) Method of charging depreciation

On asset which is in use in the business for 180 days or more, depreciation is charged at full rate. If the asset is used in the business for less than 180 days in the previous year, depreciation is charged at 50% of the normal depreciation rate. Rates of depreciation for the Assessment year 2014-15

ASSETS	% of DPRN
Building for residential purpose	5
Other buildings	10
Furniture and fittings	10
Plant and machinery	15
Motor cars	15
Books being annual publications	100
Other books	60
Computers	60
Intangible assets	25

Additional depreciation on machinery

On new plant and machinery purchased after 31-3-2005, additional depreciation @ 20% is to be charged. Additional depreciation is available only in the year in which the new plant and machinery is first put to use.

II. Expenditure on Scientific Research (Sec. 35)
The following deductions are allowed in respect of expenditure on scientific research:

1. *Revenue expenditure incurred by the assessee himself:* 100%
2. *Capital expenditure incurred by the assessee himself:* Any capital expenditure (excluding land) – 100%
3. *Contribution made to an Approved Research Association, or a University. College or other institutions: A* deduction of 175% of the amount contributed is allowed.
4. *Sum paid for scientific research to a company:* 125%
5. *Sum paid for social or statistical Research:* 125%
6. *Sum paid to a National Laboratory or a Recognised University or an Indian Institute of Technology (approved by the prescribed authority):* 200%
7. *Expenditure on in-house research:* 200%

Commodities Transaction Tax (CTT)
A new tax called commodities transaction tax is to be levied @ 0.01 %on a transaction of sale of commodity derivatives in respect of commodities other than agricultural commodities, traded in recognized associations.

CAPITAL GAIN
The fourth head of income is capital gains. Sections 45 to 55 deal with this head of income. The basis of charge is profits or gains arising from the transfer of a capital asset in the previous year.

Capital Asset (Sec. 2) (14)
Capital asset means property of any kind held by an assessee, whether connected with his business, profession or not. It may be movable, immovable tangible or intangible, fixed or floating. It includes land, buildings, plant machinery, furniture, investments, goodwill, leasehold rights, shares, jewellery etc.

Exceptions
The capital asset does not include the following:

1. Commercial goods like stock in trade, consumable stores, raw-materials held for the purpose of business or profession.
2. Movable assets for personal use like car, T.V, refrigerator, electrical appliances. But some assets for personal use are treated as capital assets Such assets are (a) jewellery for personal use (b) drawings (c) paintings
3. (d) sculptures (e) any art work and (f) archaeological collections.
4. Gold Bonds and National Defence Bond issued by the Government of India.
5. Special Bearer Bonds 1991 and
6. Gold Deposit Bonds.

Capital Assets are of two types:

1. Long-term capital assets and
2. Short-term capital assets.

Long-term capital asset: A long term capital asset means a capital asset held by an Assessee for more than 36 months immediately preceding the date of transfer. But in the case of a security (other than unit) listed in a recognised stock exchange in India or a unit of an Equity Oriented Fund or a Zero Coupon Bond a period of twelve months shall be applicable.

Short-term capital asset: Short-term capital asset means a capital asset held by an assessee for not more than 36 months immediately preceding the date of transfer. In the case of financial assets like a securitylisted in a recognised stock exchange in India or a unit of an equity oriented fund a period of 12 months shall be applicable.

Short term capital gain&long term capital gain
Capital gain on the transfer of short-term capital asset is called short-term capital gain. Capital gain on the transfer of long-term capital asset is called long- capital gain.

Computation of Short-Term Capital Gain (STCG) (Sec. 48)
Short-term capital Gain = Full value of consideration minus cost of acquisition, cost of improvement and any other expenditure incurred in connection with such transfer.

Computation of Long-term Capital Gain
While computing long-term capital gains, the assessee will get the benefit of indexation. Indexation means making the cost of acquisition and cost of improvement in terms of the present price level. For this purpose, the Government have notified the following 'COST INFLATION INDEX'

YEAR	CII	YEAR	CII	YEAR	CII
81-82	100	87-88	150	93-94	244
82-83	109	88-89	161	94-95	259
83-84	116	89-90	172	95-96	281
84-85	125	90-91	182	96-97	305
85-86	133	91-92	199	97-98	331
86-87	140	92-93	223	98-99	351

YEAR	CII	YEAR	CII	YEAR	CII
99-00	389	05-06	497	11-12	785
00-01	406	06-07	519	12-13	852
01-02	426	07-08	551	13-14	939
02-03	447	08-09	582	14-15	1024
03-04	463	09-10	632	15-16	1081
04-05	480	10-11	711		

Long-term Capital gain or loss is calculated as follows

Net consideration (Total amount less expense)

Less Indexed cost of Acquisition

Less Indexed cost of Improvement

Long-term capital Gain/Loss

Indexed cost of Acquisition is calculated as follows:

$$cost\ of\ acquistion \text{ X} \frac{\text{CII OF ASSETS SOLD}}{\text{CII OF ASSETS PURCHASED}}$$

Indexed cost of improvement is calculated as follows:

$$cost\ of\ Improvement \text{ X} \frac{\text{CII OF ASSETS SOLD}}{\text{CII OF IMPROVEMENT}}$$

Cost of Asset Acquired Before 1-4-1981

Where the asset is acquired by the assessee before 1-4-1981, its cost of acquisition is equal to the cost of asset or its fair market value on 1st April 1951 whichever is higher.

Cost to previous owner

In the following cases, cost to the previous owner shall be deemed to be cost of acquisition.

1. On partial or total partition of a H.U.F., or
2. Under a gift or will, or
3. On liquidation of a company
4. On transfer by a subsidiary company to holding company or by a holding company to a subsidiary company.
5. On amalgamation
6. Where a member converts his self-acquired property to the property of H.U.F.

Cost of Acquisition of Rights Shares

If the assessee subscribes for the rights issue, the actual amount paid is cost of acquisition.

Tax Rate on Capital Gains Tax on Long-term Capital Gains (Sec. 112)

The rate of tax on L.T.C.G. is 20%.

Note: If Security Transaction Tax (STT) has been paid, no tax on shares, etc.

Tax on short term capital gains

On transfer of equity shares or units - 15% plus surcharge; if any, plus education cess

On other assets at the general rate applicable to the assessee.

Distinction between long-term capital gains and short-term capital gains

Long-term capital gain	Short-term capital gain
arises on transfer of long-term capital term asset	arises on transfer of short capital asset
held for a period exceeding 36 months	held for a period not exceeding 36 months.
benefit of indexation is given to the assesse	no benefit of indexation to the assesse
exemption available under almost all Sections of 54	only limited exemption
rate of tax is 20%.	rate of tax is the general rate applicable to the assessee.

Income from Other Sources

Sections 56 to 59 deal with this residuary head of income. Any income which taxable under the first four heads of income finds a place in this head. Some f incomes chargeable under this head are:

- Interest
- Dividend
- Gift from non-relatives
- Winnings from lotteries, crossword puzzles, betting, horse race etc.
- Income from letting on hired assets
- Royalty
- Directors fees
- Honorarium
- Interest from URPF (employees)
- Income from sub-letting
- Income from undisclosed sources
- Family pension
- Agricultural income outside India
- Income from leasehold property
- Salary of Member of Parliament
- If immovable property is transferred for a consideration which is less than the stamp duty value of the property by more than 50,000
- Advance forfeited due to failure of negotiations for transfer of a capital asset

Dividends

The treatment of dividend is given below:

- Dividend from an Indian company

- (domestic company) is exempt under section 10(34).
- Dividend from a foreign company is taxable.
- Dividend from a co-operative Society is taxable.

Interest on Securities

Interest on securities is taxable under this head.

(**Tax-free Government securities:** Interest on these securities is **fully** exempt under Section 10(15). The tax-free securities are:

For All Assessees

- Twelve-year National Savings Annuity Certificates.
- National Defence Gold Bonds, 1980.
- Special Bearer Bonds, 1991
- Treasury Savings Deposit Certificates(10 yrs)
- Post Office Cash Certificates (5 years)
- National Certificates (10 years)
- National Plan Savings Certificates (12 years)
- P.O. National Savings Certificates (12 years/7 years)
- P.O Savings Bank Account
- P.O Cumulative Time Deposit A/c (15 years)
- Fixed Deposit scheme governed by the Government Saving Certificates (Fixed Deposit Rules) 1968
- Fixed Deposit Scheme governed by Post Office (Fixed Deposit Rules) 1968.
- Special Deposit Scheme, 1981
- Public Account in P.O (upto 5,000)
- Gold Deposit Bonds, 1999
- Bonds issued by local authority and specified by the Central Government

For Individuals and H.U.F.

Interest on 7% Capital Investment Bonds.

Interest on notified bonds or debentures of public sector companies

Less-tax Government Securities: Securities issued by the Central Government and State Government belong to this category. The securities are taxable but no tax is to be deducted at source. Hence, interest on such securities will not be grossed up.

Tax-free Non-Government Securities: These securities are issued by local authorities, statutory corporations and companies in the form of bonds or debentures. On these securities, tax to be deducted at source will be borne by the issuing company.

Less tax Non-Government Securities: On these securities, tax is deducted at source and only the balance amount (Net) is given to the assessee. Hence, if the amount of interest actually received by the assessee is given, it is to be grossed up.

Method of Calculating Gross Amounts

(f) In the case of interest on less tax debentures interest received x 100/90

(g) In the case of winnings from lotteries, etc. Amount received x 100/70

Agricultural Income

Agricultural income in India is exempted. Agricultural income outside India is taxable.

Gifts

- Any gift exceeding 50,000 received - the whole of such amount a taxable.
- Any gift of immovable property exceeds 50,000, the stamp duty is taxable The above provisions are not applicable to:
  - a relative, or
  - under a will or by way of inheritance, or
  - on the occasion of marriage, or
  - in contemplation of death of the payer, or
  - from any local authority, or
  - from any Registered Trust or Institution
  - from any Fund or Foundation or University or Hospital as per Sec 10 (23).

Income from Mutual Funds

Income from notified mutual funds are exempted.

Interest on Post Office Savings Bank account

Royalty Received

Royalty received is a taxable income. But expenses in connection with earning the income are deductible.

Deduction of Tax at Source

The person responsible for paying interest or other incomes shall deduct tax at source at the prescribed rates and deposit the amount in Government Treasury.

However, Tax is not to be deducted at source on the following items:

- Government bonds and securities notified by the Government
- 7 year National Savings Certificates.
- Debentures issued by Co-operative Societies or public sector company or any other institution so notified,
- Interest on listed debentures, if the amount does not exceed 2,500.
- Interest from bank not exceeding 10,000.

Winnings from lottery etc., if the amount does not exceed 10,000. On winnings from horse race if the amount does not exceed 5,000.

Bond Washing Transactions

It is a method to avoid tax by high income group of assessees by transferring securities to low-income class of assessees on the eve of the due date of interest. In order to escape from tax, some assessees may sell securities a few days before the due dates to their close friends or relatives and repurchase the securities from them after a few days of the due dates. If the close relatives or friends are of low-income group, both the persons can escape from tax liability. By this device, the department of Income Tax suffers loss of revenue. This is known as bond washing transactions.

In order to prevent this method of avoiding tax, it is provided that the Assessing officer can include such income in the total income of the actual owner.

<u>GROSS TOTAL INCOME</u>

Gross total income of an assessee is the aggregate of

- Incomes under five heads (After set-off of losses and adjusting carried forward losses)
- Deemed incomes
- Income of other persons included in the income of the assessee (clubbing of incomes)

Set-Off and Carry Forward of Losses Set-off of Losses

While computing incomes under various heads, there may be losses under some heads. Such losses can be adjusted against incomes of the same year. The provisions regarding set-off of losses are as under:

(1) Set-off under the same head (Section 70)

- Loss from HP can set off only against income from HP
- Loss from business or profession can be set-off against any income under other heads except salary
- Loss of specified business (Sec. 35 AB) cannot be set-off against income from other business.
- Short-term capital loss can be set-off against short-term capital gain and long-term capital gains and not against incomes under other heads.
- Long-term capital loss can be set-off only against long-term capital gain.
- Speculation loss can be set-off only against speculation profit.
- Loss from the activity of owning and maintaining race horses can be set-off against income from owning and maintaining race horses only
- Losses of lottery, crossword puzzles, gambling, card games or betting, etc. cannot be set-off against any income.
- Loss from an exempted source of income cannot be set-off against any taxable income.

Carry Forward of Losses

The following losses can be carried forward:

B. Loss from house property (Sec 71B)

The unabsorbed loss from house property shall be carried forward and set-off in subsequent assessment years upto a maximum of eight assessment years against income from house property.

C. Loss from business [Section 72 (1)]

Loss from business shall be carried forward for a maximum period of eight assessment years immediately succeeding the assessment year for which the loss was first computed.

D. Loss of speculation business [Sec 73 (2) (4)]

Speculation loss can be carried forward for a maximum period of four assessment years to be set-off against profit on speculation business.

E. Loss of specified business[Sec 73 A (2)]

Loss of specified business can be carried forward till it is fully set-off.

F. Short-term capital loss [Section 74 (1)]

Short-term capital loss can be carried forward for eight assessment years to be set-off against capital gains.

G. Long-term capital loss [Section 74 (2)]

Long-term capital loss can be carried forward for eight assessment years to be set-off against long term capital gain.

H. Loss from owning and maintaining race horses [Section 74 (A) (3) (b)]

Such loss can be carried forward for four assessment years to be set-off against such income.

I. Loss of discontinued business

Loss of discontinued business can be carried forward for eight years.

Order of Set-Off

If an assessee is entitled to claim depreciation, capital expenditure, etc. as well as carried forward business losses, the order of set-off will be as follows:

- Current year depreciation
- Capital expenditure on Scientific Research and promotion of Family Planning
- Carried forward business losses
- Unabsorbed depreciation (which can be set-off against any income)
- Unabsorbed capital expenditure on Scientific Research and promotion of Family Planning

Aggregation of Incomes

As per Chapter VI of Income Tax Act. in computing total income of an assessee, the following incomes shall also be included.

- **Share of a member of an AOP or BOI in the income of the AOP or BOI (Sec. 67):** This shall be included in the total income of an individual who is a member of an AOP or BOI.
- **Cash credits (Sec. 68):** If any sum is found credited in the books of an assessee for the Previous Year and the assessee offers no explanation about its nature and source or the explanation given is not satisfactory, the sum so credited may be charged to income tax as the income of the assessee for such previous year.
- **Unexplained investments or unrecorded investments (Sec. 69)**
- **Unrecorded and unexplained money (Sec. 69A):**
- **Amount of investments not fully disclosed in the books of accounts (Sec. 69B):**
- **Unexplained expenditure (Sec. 69C):**
- **Hundi borrowals and repayments (Sec. 69D):** Borrowals on Hundi and repayments thereof must be made by Account Payee cheques. Otherwise the amount so borrowed or repaid will be treated as his income.

Clubbing of Incomes

In certain cases, incomes of other persons are included in the Gross Total Income of the assessee. Such inclusion of income of other persons in the income of the assessee is called 'clubbing of income.'

Transfer of income without transfer of assets (Sec. 60)

If a person transfers to another person the income from an asset without transferring the ownership of the asset, the income from such asset shall be deemed to be the income of the transferor.

Revocable transfer of assets (Sec. 61)

Revocable transfer means transfer with power to take back the asset.

Income of spouse [Sec. 64 (I) (ii)]

If an asset (excluding house property) is transferred by an individual to his or her spouse without adequate consideration, the income from such asset will be included in the income of the transferor.

Income of daughter in law [Sec. 64 (I) (iv)]

If an individual transfers assets after 31st Mayl973, without adequate consideration to his son's wife, any income arising from such assets will be included in the total income of the transferor.

Transfer of assets to other persons or association of persons for the benefit of spouse [Sec. 64 (I) (vii)]

If an individual transfers an asset, without adequate consideration, to some other persons or association of persons for the benefit of spouse, any income arising from such assets will be included in the income of the transferor.

Transfer of assets to a person or association of persons for the benefit of his son's wife [Sec. 64 (I) (viii)]

Income from such assets will be included in the income of the transferor to the extent it is for the benefit of son's wife.

Income from business [Sec. 64 (I)]

If an individual transfers an asset to the spouse or son's wife and such assets are invested by the transferee in any business, the proportionate income from such business will be treated as the income of the transferor.

Income of a minor child [Sec. 64 (1A)]

When the income of the minor child is included in the income of the parent, the parent is entitled to exemption upto 1,500 per minor child u/s 10(32).

Transfer of individual property or self-acquired property to a HUF [Sec. 64 (2)]
When an individual transfers his property to the property of a HUF to which he is a member, the income from such property shall be included in the income of the transferor.

Benami transactions
When a person enters into a transaction in the name of another person to avoid tax, it will be treated as benami transaction and the income of that transaction is treated as income of the real person.

DEDUCTIONS

Deductions under section 80 (Chapter VI-A of income Tax Act)
The following are the deductions available to an individual assessee under section 80.

1. **Deductions in respect of life insurance premium, contribution to provident fund, etc (Section 80c)**

- This deduction is available to individuals and HUF. The following deduction upto a maximum of l,50,000 available on the following savings:
- Life insurance premium paid on own life, his or her spouse and children (limited upto 20% of the sum assured). But if the policy is taken after 31.3.2012, limited to 10% of the sum assured
- Any contribution to a Statutory Provident Fund, Public Provident Fund (P.P.F), to a Recognized Provident Fund
- Subscription to National Savings Certificates (NSC) VIII Issue and IX Issue
- Contribution in the name of self, spouse or children for participation in the ULIP (Unit Linked Insurance Plan) of Unit Trust of India or LIC Mutual Fund.
- Repayment of loan taken for construction or purchase of house property.
- Interest accrued cm National Savings Certificates VIII Issue and IX Issue.
- Term deposit for a period of not less than five years with a scheduled bank in accordance with a scheme framed and notified by the Central Government.
- Subscription to the bonds issued by NABARD.
- Deposit in Five Year Post Office Time Deposit Account.
- Deposit in Senior Citizen Savings Scheme, 2004..
- Tuition fee paid for full time education of two children in India.
- Investment made under Sukanya Samridhi Account for deposit for girl child (maximum for 2 girl children)

2. **Deduction in respect of contribution to pension fund (Sec. 80 CCC)**
3. **Deduction in respect of contribution to pension scheme of Central Government (Sec. 80 CCD)**
4. **Deduction in respect of investment in listed equity shares (Sec. 80 CCG)**
5. **Deduction in respect of medical insurance premium (Sec. 80 D)**

This deduction is available to an individual and HUF.
A deduction of premium paid for self, spouse and dependent children upto 25,000.
Premium paid for parents, whether dependant, upto 25,000.
If premium is paid for senior citizen, deduction is allowed upto 30,000

6. **Deduction in respect of maintenance including medical treatment of dependant who is a person with disability (Sec. 80 DD)**

Towards the expenditure of a disabled dependant, a deduction of 75,000 for disability and 1,25,000 for severe disability

7. **Deduction in respect of medical treatment (Sec. 80 DDB)**

A deduction to a resident individual or a H.U.F for expenditure actually incurred on the medical treatment of individual or dependant in respect of specified diseases upto a maximum of 40,000 (in the case of senior citizens 60,000). For super senior citizen (who is at least 80 years age) 80,000
The specified diseases are Neurological diseases, Cancer, AIDS, Chronic Renal failure, Hemophilia, Thalassaemia.

8. **Deduction in respect of interest on loan taken for higher education (Sec. 80 E)**
9. **Deduction in respect of interest on loan taken for residential house 1 property (Sec. 80 EE)**
10. **Deduction in respect of donations (Sec. SO G)**

No deduction shall be allowed in respect of donation of any sum exceeding 10,000 unless

such sum is paid by any mode other than cash.
Donations may be:
(A) 100% no limit donation
(B) 50% no limit donation
(C) 100% with limit donation
(D) 50% with limit donation

(A) 100% no limit donation

- The National Defence Fund
- Prime Minister's National Relief Fund
- The Africa (Public Contributions - India) Fund
- The National Foundation for Communal Harmony
- A University or Educational Institution of National Eminence
- Zila Saksharatha Samithis
- National Blood Transfusion Council and State Councils
- National Illness Fund
- National Sports Fund
- National Cultural Fund
- National Children Fund
- National Fund for Control of Drug Abuse
- Any fund set up by State Governments to provide medical relief to] the poor
- The Chief Minister's Relief Fund
- Swach Bharat Kosh
- Clean Ganga Fund (amount donated by residents only)

50% no limit donation

On such donations, 50% of the amount donated without any limit can be deducted. There are 4 items under this^/"

- Jawaharlal Nehru Memorial Fund
- Prime Minister's Drought Relief Fund
- Indira Gandhi Memorial Trust
- Rajiv Gandhi Foundation

100% with limit donation

A deduction of 100% of the amount donated subject to certain limit is available under this category. The donations are:

- Donations to the Government or local authority, institutions or associations for the purpose of promoting family planning.
- Sums paid by a Company to the Indian Olympic Association.

50% with limit donation

Under this category, a deduction of 50% of the amount donated subject to a limit is made. The donations are:

- To the Government or any local authority to be utilized for any charitable purpose.
- To any other fund or any institution which is established in India for a charitable purpose.
- To an authority for the purpose of dealing with housing accommodation or for the purpose of planning, development and improvement of cities, towns, or villages.
- To any corporation established by the Government for promoting the interests of the members of a minority community.
- To any temple, mosque, church

Qualifying amount for with-limit-donations

10% of (Gross Total Income less long-term capital gain and short-term capital gain u/s III A and all deductions under section 80 C to 80 U other than 80 G).

11. **Deduction in respect of rent paid(80 GG)**

Least of the following is deductible
Excess of rent paid over 10% of Total Income
25% of Total Income
2,000 per month
Total Income means G.T.I. minus all deductions under sections 80 C to 80 U other than 80 GG.

12. **Deduction in respect of contribution to political parties (Sec. 80 GGC)**
13. **Deduction in respect of royalty on patents (Sec. 80 RRB)**
14. **Deduction in respect of royalty income of authors (Sec. 80 QQB)**
15. **Deduction in the case of a person with disability (Sec. 80 U)**
    If the assessee is a person with disability, a deduction of 75,000 can be made (in case of severe disability 1,25,000).

Rounding off of Total Income [Section 288 (A)]

The total income is rounded off to the nearest 10

EXEMPTED INCOME

Exempted Income is that income for which income tax is not charged. Such income can be classified into two categories.
Income those are totally exempt from tax.
Income those are partially exempt from tax.

TOTALLY EXEMPTED INCOME (Section- 10)

These are the income which are neither included in total income nor income tax is payable on them.

1. Agricultural income -Sec. 10(1):

2. Sums received from the Hindu Undivided Family: Sec. 10 (2):
3. Share of profit or income of a partner in the firm shall be exempt Sec. 10 (2A)
4. Interest on notified securities or bonds received by non-residents -Sec 10 (4)
5. Interest on Non-resident (external) account Sec. 10 (4) (ii):
6. Interest paid to a person of Indian origin and who is non-resident Sec 10 (4B):
7. Travel concession Sec. 10 (5):
8. Exemption to an individual who is not a citizen of India): Sec. 10 (6):
9. Tax paid by Government or Indian concern on income of a foreign company
10. Perquisites and allowances paid by government to its employees- serving outside India Sec. 10 (7): Fully exempted.
11. Income of employees of foreign countries working in India under cooperative technical assistance programme. Sec. 10 (8):
12. Remuneration or fees received by non-resident consultants and their foreign employees Sec. 10 (8A) & (8B):
13. Income of family members of an employee serving under the cooperative technical assistance programmes Sec. 10 (9): Gratuity Sec. 10(10):
14. Commuted value of pension Sec 10(10A
15. Amount received as leave encashment on retirement Sec. 10 (10AA);
16. Retrenchment compensation Sec. 10 (10B):
17. Payment received under Bhopal gas Leak disaster Sec. 10* (10 BB
18. Compensation received from government or local authority on account of disaster
19. Compensation received at the time of voluntary retirement Sec 10 (10 C):
20. Income by way of tax on perquisites –sec lO (10CC):
21. Sum received from life insurance policy Sec. 10 (10D): Payment from the statutory provident fund or public provident fund Sec. 10 (11.
22. Payment from SUKANYA SAMRIDDHI SCHEME [Sec. 10 (11A)]
23. Payment from the recognized provident fund Sec 10 (12): Payment from approved superannuation fund: Sec. 10 (13):
24. House rent allowance Sec 10 (13A):
25. Interest on securities Sec 10 (15):
26. Scholarships Sect 10 (16):
27. Allowances given to MPs, MLAs, and MLCs. Sec. 10 (17):
28. Awards and rewards Sec. 10 (17 A)
29. Pension (Sec. 10 (18)
30. Family pension of a member of armed forces (S(19),
31. Annual value of one palace, which is occupied by the ruler, Income of a local authority Sec 10 (20):.
32. Income of research associations (iSec 10(21):
33. Income of news agency Sec 10 (22B):.
34. Income of professional institutes Sec 10(23A):
35. Income of regimental fund or non-public fund Sec 10(23AA):
36. Income of fund for welfare of employees or their dependents: Sec 10(23AAA):
37. Income of pension fund set up by.LIC of India
38. Income from khadi or village industries Sec 10(23B)
39. Income of khadi or village boards for the development of khadi or village industries in the state Sec 10(23BB)
40. Income of statutory bodies for the administration of the public charitable trusts Sec 10(23BBA):
41. Income of European Economic Community Sec lO (23BBB).
42. Income of SAARC fund for regional projects Sec 10(23BBC):
43. Income of the secretariat of Asian organisation of Supreme Audit Institutions Sec 10 (23BBD):
44. Income of insurance Regulatory Authority Sec 10(23BBE
45. Exemption for any income of north-eastern development finance corporation limited [section 10(23BBF)]:
46. Income received by any person on behalf of certain national funds, aducational institution and hospitals Sec 10(23C):
47. 10(23C)(iiiaa)- any income of the Swachh Bharat Kosh
48. 10 (23C) (iiiaaa)-any income of the Clean Ganga Fund, Income of mutual fund [Sec 23D): It is exempt if
49. Exemption to income of a securitization trust [Section 10(23DA)]
50. Income of Investor protection Fund Sec 10(23EA):

51. Income of Inspector Protection Fund (Section 1G(23EC) :
52. Exemption to income of Investor Protection Fund of depositories [Section 10(23ED)]
53. Income by way of dividend and long term capital gains of venture capital funds and venture capital companies Sec Income of the venture capital fund or companies): Sec. 10 (23 FB):
54. Income of registered trade unions Sec 10(24)
55. Income of provident funds and employees state insurance fund Sec 10(25):.
56. Income of a member of a scheduled tribe Sec 10(26):
57. Income of residents of Ladakh Sec 10(26A)
58. Income of body for promoting interest of scheduled castes/tribes /backward class Sec 10 (26B)
59. Income of corporation for the benefit of the minority communities Sec 10
60. Income of corporation
61. Income of cooperative society for promoting the interests of the scheduled fltsts/tribes: Sec ib(27):
62. Income of board etc Sec 10(29A):
63. Subsidy from tea board Sec 10(30)
64. Income of minor child Sec 10(32)
65. Income from units of Units Scheme 1964 Sec 10(33): Dividends etc Sec 10(34)
66. Exemption to the shareholder on account of buy back of shares [Section 10(34A)]
67. Income from Units Sec 10(35):
68. Income from equity shares Sec 10(36):
69. Capital gains on transfer of agricultural land S10 (37):
70. Long term capital gains on transfer of an equity share or a unit: (S 10 (38
71. Income from international sporting event S 10 (39):

Agricultural Income

Section 2 (1A) of Income Tax Act gives the meaning of agricultural income as follows:

- Any rent or revenue derived from land which is situated in india used for agricultural purposes.
- Any income derived from such land
- By agricultural operations, or
- By any process which render the produce fit for the market by cultivator or receiver of rent-in-kind.
- By the sale of such produce.
- Any income from a farm house.

The above definition of agricultural income gives six kinds of agricultural income.

Kinds of Agricultural Income

Rent or revenue derived from land

When one person allows another person to use his land for agricultural purposes, the former gets rent or revenue from the actual user of land. Such rent or revenue is treated as agricultural income.

Income from agricultural operations

It includes cultivation of a field, tilling, watering, sowing of seeds, planting, manuring and harvesting of crops.

Income from making the produce fit for market

The income from any process employed by cultivators to make the agricultural products marketable is also treated as agricultural income,

Income from sale of produce

Income derived by a cultivator or receiver of rent-in-kind from the sale of produce is also treated as agricultural income.

Income from a farm house

The income from a farm house is treated as agricultural income.

Income from saplings or seedlings

The income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

Partly Agricultural Income

Sometimes an income may be composite income which is partially agricultural income and partially non-agricultural income. Agricultural income and non- agricultural income is calculated as follows:

Profits of sugar factories which use sugar cane cultivated and also sugar cane purchased

In this case, agricultural income is equal to the average market value of sugar cane cultivated in the farm minus the cost of cultivation. Non-agricultural income is equal to total profit minus agricultural income.

Income from growing and manufacturing tea

Sixty per cent of the income is deemed to be agricultural income and 40% is business income.

Income from growing and manufacturing of centrifuged latex

Sixty five per cent is deemed to be agricultural income and 35% is business income.

Income from growing and manufacturing of coffee

Seventy five per cent is deemed to be agricultural income and 25% is business income. - Income from coffee grown, cured, roasted and grounded - 60% agricultural income and 40% business income.)

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS

Computation of Total Income

The following is the procedure for computing the total income of an individual:

J. Compute the income under the heads: salaries, income from house property, profits and gains of business or profession, capital gains and income from other sources.
K. Set off losses if any as per section 70 and 71 of the Income Tax Act.
L. Include deemed incomes and income of other persons includible in the income of the assessee, if any.
M. Compute gross total income by adding up the above incomes.
N. Allow deductions under sections 80 C to 80 U.
O. The result is Total Income.
P. Round off the Total Income to the nearest multiple of ten.

Computation of Tax Liability

The tax liability of an individual is calculated on his total income. The tax rates applicable to the Assessment year 2016-17 in respect of the income of the previous year 2015-16 are:

On long-term capital gain - 20%

On long-term capital gain on transfer of listed equity shares in a company or units of equity oriented fund:

If security transaction tax has been paid - exempt.

If security transaction tax has not been paid:

10% of LTCG computed without indexing.

20% of LTCG computed after indexing - whichever is less.

On short-term capital gain on equity shares and equity oriented funds:

If security transaction has been paid - 15%.

(c) If security transaction has not been paid - the general rate applicable to the assessee.

On other short-term capital gain - the general rate applicable to the assessee.

On winnings from lotteries, crossword puzzles, horse race, card games, gambling, betting, etc. - 30%.

The general rates:

(i) Individual (Male or Female)

First	2,50,000	-	Nil
Next	2,50,000	-	10%
Next	5,00,000	-	20%
Balance		-	30%

(ii) Senior citizen (60 years or more)

First	3,00,000	-	Nil
Next	2,00,000	-	10%
Next	5,00,000	-	20%
Balance		-	30%

(iii) Super senior citizen (Who is of the age of 80 years or more)

First	5,00,000	-	Nil
Next	5,00,000	-	20%
Balance		-	30%

Surcharge: For A. Y. 2016-17 - 12% if total income exceeds one crore rupees

Marginal relief: Where total income exceeds rupees one crore the total amount payable as income tax and surcharge on such income shall not exceed the total amount payable as income tax on total income of one crore rupees by more than the amount of income that exceeds rupees one crore.

Education cess: 3% of tax

Rounding off: Tax payable is rounded off to the nearest multiple of ten rupees.

Rebate and Relief of Tax

Earlier a rebate on tax was allowed to certain assessees when the total income of an assessee includes some incomes on which tax has already been paid. But now, there is no rebate allowed to individual assessees.

Relief of tax as per section 89 is allowed to an assessee when an assessee receives in a financial year:

Q. arrears of salary, or
R. advance salary,
S. salary of more than twelve months or
T. profit in lieu of salary;

and thereby his income is taxed at a higher rate than that at which it would have or otherwise been taxed.

Rebate of tax (w.e.f. A.Y. 2014-15) An individual resident in India, whose total income does not exceed five lakh rupees, shall be entitled to a deduction upto two thousand rupees from the amount of income tax chargeable.

Computation of Net Tax Liability

In order to compute net tax liability, the following procedure is to be adopted:

A. Compute tax liability on the basis of the tax rate or rates applicable to the assessee on the total income.
B. Deduct tax deducted at source (TDS).
C. Deduct advance tax paid.
D. The net result is net tax liability.

Tax Deducted at Source (TDS)

The persons responsible for making payment of certain income to the income earners deduct income tax at the prescribed rates on such incomes before payment is made to them. The amount so deducted shall be deposited by the deductor in the Government Treasury within the prescribed time limit. The tax so deducted is called Tax Deducted at Source (TDS).

Advance Tax ('PAYE' Scheme)

"Pay As You Earn" (PAYE) Scheme is designed to collect advance tax from the assessees before it actually becomes due. According to Section 207, advance tax shall be payable during the financial year in respect of the total income of the assessee. As per Section 208, advance tax shall be payable if the tax payable by an assessee is ? 10,000 or more during the assessment year. Advance tax shall be payable as per the following schedule for an individual assessee:

Refund of Tax

If the amount paid by way of advance tax and TDS is more than the total tax payable during a particular year, then the excess amount is refundable by the Income tax payable (Sec. 237).

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" ***IF YOU ARE NOT WILLING TO LEARN,***

NO ONE CAN HELP YOU !

IF YOU ARE DETERMINED TO LEARN, NO

ONE CAN STOP YOU !"

Study Well...