

C.B.BHANDARI JAIN COLLEGE

84, Krishna Rajendra Rd, Chikkanna Garden, Shankarapuram,
Bengaluru, Karnataka 560004

VI Semester B.COM

INCOME TAX II



Prepared By

Veena Ravi.

Department of Commerce & Management

PROFITS AND GAINS FROM BUSINESS AND PROFESSION

FORMAT FOR COMPUTATION OF INCOME FROM PROFESSION

IN CASE OF DOCTOR OR MEDICAL PRACTITIONER

| PARTICULARS | AMOUNT | AMOUNT |
|--|---------------|---------------|
| PROFESSIONAL RECEIPTS: | | |
| 1. Fees for conducting operations | XX | |
| 2. Consultation fees | XX | |
| 3. Visiting fees | XX | |
| 4. Sale of medicines | XX | |
| 5. Gifts received from patients | XX | |
| 6. Examiners fees | XX | |
| 7. Any other professional receipts | XX | |
| TOTAL PROFESSIONAL RECEIPTS | | XX |
| LESS: PROFESSIONAL EXPENSES | | |
| 1. Rent, light, water charges, salary to staff, telephone expenses of clinic | XX | |
| 2. Cost of medicines | XX | |
| 3. Depreciation on surgical equipments and X-ray | XX | |
| 4. Depreciation of books at prescribed rates | XX | |
| 5. Motor car expenses | XX | |
| 6. Depreciation on motor car | XX | |
| 7. Expenditure incurred to increase professional knowledge | XX | |
| 8. Hospital or clinic expenses | XX | |
| 9. Any other expenditure pertaining to profession | XX | XX |
| TOTAL PROFESSIONAL EXPENSES | | XX |
| INCOME FROM PROFESSION | | XX |

IN CASE OF CHARTERED ACCOUNTANT

| PARTICULARS | AMOUNT | AMOUNT |
|------------------------------------|---------------|---------------|
| PROFESSIONAL RECEIPTS: | | |
| 1. Audit fees | XX | |
| 2. Consultation fees | XX | |
| 3. Gain from accounting work | XX | |
| 4. Institute fees | XX | |
| 5. Gifts received from clients | XX | |
| 6. Examiners fees | XX | |
| 7. Any other professional receipts | XX | XX |
| TOTAL PROFESSIONAL RECEIPTS | | XX |
| LESS: PROFESSIONAL EXPENSES | | |

| | | |
|---|----|----|
| 1. Audit office expenditure | XX | |
| 2. Institute fees | XX | |
| 3. Depreciation of books at prescribed rates | XX | |
| 4. Motor car expenses | XX | |
| 5. Depreciation on motor car | XX | |
| 6. Membership fees | XX | |
| 7. Hospital or clinic expenses | XX | |
| 8. Stipend to trainees | XX | |
| 9. Subscriptions | XX | |
| 10. Depreciation on office equipments, office furniture | XX | |
| 11. Any other expenditure pertaining to profession | XX | XX |
| TOTAL PROFESSIONAL EXPENSES | | XX |
| INCOME FROM PROFESSION | | XX |

IN CASE OF LAWYER OR ADVOCATE

| PARTICULARS | AMOUNT | AMOUNT |
|---|---------------|---------------|
| PROFESSIONAL RECEIPTS: | | |
| 1. Practicing fee | XX | |
| 2. Legal fees | XX | |
| 3. Special Commission | XX | |
| 4. Gifts received from clients | XX | |
| 5. Examiners fees | XX | |
| 6. Any other professional receipts | XX | |
| TOTAL PROFESSIONAL RECEIPTS | | XX |
| LESS: PROFESSIONAL EXPENSES | | |
| 1. Office expenses | XX | |
| 2. Salary to staff | XX | |
| 3. Depreciation of books at prescribed rates | XX | |
| 4. Depreciation on office equipments, office furniture | XX | |
| 5. Expenses incurred to increase professional knowledge | XX | |
| 6. Subscriptions | XX | |
| 7. Purchase of stamp paper and court fees | XX | |
| 8. Any other expenditure pertaining to profession | XX | |
| TOTAL PROFESSIONAL EXPENSES | | XX |
| INCOME FROM PROFESSION | | XX |

INCOME FROM BUSINESS

FORMAT FOR COMPUTATION OF TAXABLE INCOME FROM BUSINESS

Assessee:

Previous year:

Assessment year:

| PARTICULARS | AMOUNT | AMOUNT |
|---|---------------|---------------|
| Net Profit as per profit and loss account | | XX |
| ADD: Inadmissible expenses debited to P/L a/c | XX | |
| Business Income not credited to P/L a/c | XX | |
| Overvaluation of opening stock | XX | |
| Undervaluation of closing stock | XX | |
| Notional Loss | XX | XX |
| | | XX |
| LESS: Admissible expenses not debited to P/L a/c | XX | |
| Tax –free incomes credited to P/L a/c | XX | |
| Non-business Incomes credited to P/L a/c | XX | |
| Undervaluation of opening stock | XX | |
| Overvaluation of closing stock | XX | |
| Notional Profit | XX | XX |
| TAXABLE INCOME FROM BUSINESS | | XX |

2 MARKS THEORY QUESTIONS

1. What do you mean by business?

The term business means any trade, commerce or any adventure of concern in the nature of trade, commerce or manufacture.

2. What do you mean by vocation?

Vocation means activities, which are performed in order to earn livelihood. Example: music, dancing.

3. What are deemed business profits?

Deemed business profits are not incomes, but as per the IT act, they are regarded as incomes and included in the taxable income from business/profession.

4. Mention any two examples of deemed incomes.

Cash credit, unexplained money, unexplained investment and unexplained expenditure.

5. How do you allow expenditure on patents in the case of a sole trader?

Any capital expenditure incurred in acquiring patent rights on or after 1/4/98, the taxpayer can claim depreciation u/s 32 at the rate of 25%.

6. What is depreciation u/s (1) of the act?

The act specifies: 1. Assets eligible for depreciation are a building, machinery or plant or furniture.

2. Asset should be owned whether partly or wholly by the assess.
3. Asset should be used in assesses business/profession during the previous year.
4. Depreciation is allowed on block of assets.

7. What do you mean by profession?

Profession refer to any occupation where intellectual skill and technical experts in a specified field is acquired for earning livelihood.

8. List the expenditure on building, which are allowed as deduction u/s 30.

- Rent paid as a tenant
- Current repair expenses towards the premises
- Land revenue or local rates or municipal taxes
- Insurance premium paid in respect of damage or destruction of the building

9. What is speculative business or transaction?

Speculative transaction is one where profit is earned by fluctuations in prices of securities or commodities.

10. What is cash system of accounting?

Cash system of accounting is an accounting in which payment receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid.

If accounts are kept by an assesses on the basis of cash system of accounting, income received during the previous year is taxable whether it relates the previous year or a year preceding or following the previous year.

Cash system of accounting, a record is kept of actual receipts and actual payments of a particular year.

11. What is mercantile system of accounting?

Mercantile system of accounting, all the income and expenses are record on accrual basis.

12. Name any two intangible assets on which depreciation is allowable under the income tax, 1961?

Patents, copy rights, Technical know how, trade mark, licenses, franchise

CAPITAL GAINS

TYPES OF CAPITAL ASSETS

| SL. NO | CAPITAL ASSETS | NATURE OF CAPITAL ASSETS |
|--------|--|---|
| 1. | Financial assets like shares, listed debentures, government securities, units of UTI, mutual funds, zero coupon bonds | 1. If capital assets is held for less than 1 year = It is short term capital assets 2. If capital assets is held for more than 1 year = It is a Long term capital assets |
| 2. | Depreciation assets : Land, building, furniture | Always treated as short term capital assets |
| 3. | Other assets/ Non financial assets: house property, land, building, jewellery | 1. If capital assets is held for less than 3 year = It is short term capital assets. 2. If capital assets is more than 3 year = It is long term capital assets |

COMPUTATION OF TAXABLE INCOME FROM CAPITAL GAINS

| NATURE OF CAPITAL ASSETS | SHORT TERM CAPITAL ASSET | LONG TERM CAPITAL ASSET |
|--|-------------------------------------|--|
| Gross sale consideration | XX | XX |
| LESS: Realization expenses | XX | XX |
| Net sale consideration (1-2) | XX | XX |
| LESS: Actual cost of acquisition of capital assets | XX | - |
| LESS: Indexed cost of acquisition of capital assets | - | XX |
| LESS: Actual cost of improvement of capital assets | XX | - |
| LESS: Indexed cost of improvement of capital assets | - | XX |
| Gross capital gain/ Loss | XX | XX |
| LESS: Exemptions from capital gain | U/S-54B, U/S-54D, U/S-54G, U/S-54GA | U/S-54, U/S-54B, U/S-54D, U/S-54EC, U/S-54F, U/S-54G, U/S-54GA |
| NET CAPITAL GAIN | XX | XX |
| Exemptions cannot be claimed, if there is gross capital loss | | |

CAPITAL GAINS THEORY

1. Define capital assets.

Capital assets is defined to include property of any kind either fixed or circulating, movable or immovable, tangible or intangible etc

2. What is long term capital asset?

LTCA means a capital asset held by an assessee for more than 36 months, (12 months in the case of specified assets), immediately preceding the date of its transfer.

3. What are short term capital assets?

STCA means a capital asset held by an assessee for less than 36 months, (12 months in the case of specified assets), immediately preceding the date of its transfer.

4. Explain the term block assets

All the assets are classified into blocks, based upon the nature of assets and the rate of depreciation allowed in respect of them.

5. What is a capital loss? Give an example.

Capital loss is a loss on sales or transfer of capital assets

Ex- loss on sales building, plant, machinery, land

6. How do you treat short –term capital losses

Short-term capital losses can be set off against capital gains only. Further, unabsorbed – term capital losses can be carry forward for 8 years and can be set off against short-term or long –term gains only

7. Define the term transfers

Transfer in relation to a capital asset includes sales, exchange or relinquishment of an asset or the extinguishment of an asset or the extinguishment of any rights, conversion of capital assets into stock in trade or compulsory acquisition thereof under any law

8. What do you mean by long term capital gain and short-term capital gains?

Long term capital gains are capital gains which arise from the transfer of long-term capital assets. Whereas, short-term capital gains are capital gains, which arise from the transfer of short-term capital asset

9. State any LTCA for which benefit of indexation is not available

Debentures, bonds

10. What is the long term specified assets u/s 54 EC

Bonds of national highways of India and rural corporation

CHAPTER – 3

INCOME FROM OTHER SOURCES

FORMAT FOR COMPUTING TAXABLE INCOME FROM OTHER SOURCES

| ASSEESSEE: STATUS: | | PREVIOUS YEAR: ASSESSMENT YEAR: |
|--|--|--|
| SL NO | PARTICULARS | AMOUNT |
| 1. | Dividends | |
| 2. | Interest on securities | |
| 3. | Bank interest on fixed deposits | |
| 4. | Casual income | |
| 5. | Income from Family pension | |
| 6. | Composite rent | |
| 7. | Income from subletting | |
| 8. | Rental income from machinery. Plant or furniture | |
| 9. | Gifts | |
| 10. | Insurance commission | |
| 11. | Deemed Incomes | |
| 12. | Mining rent / Royalties / Ground rent | |
| 13. | Withdrawal from National savings scheme | |
| 14. | Agriculture income from a place outside India | |
| 15. | Directors fees or commission | |
| 16. | Salaries received by a member of parliament or MLA or MLC | |
| 17. | Rent from land | |
| 18. | Examination fees received by a teacher (not from the employer) | |
| 19. | Interest on employee's contribution to an URPF | |
| 20. | Interest on employee's contribution to an URPF | |
| 21. | Remuneration received for writing articles in Journal / Magazine | |
| 22. | Other incomes | |
| | LESS: Exemption U/S 57 | |
| | 1. Any expenditure incurred wholly for the purpose of earning the income is deductible provided such expenditure is neither of capital nature nor of personal nature | |
| TAXABLE INCOME FROM OTHER SOURCES | | |

| FOLLOWING IS FULLY EXEMPTED FROM TAX | |
|---|---|
| 1. | National defence gold bonds, 1980 |
| 2. | National plan certificates (10 years) |
| 3. | National plan savings certificates |
| 4. | 12 year national savings annuity certificates |
| 5. | Treasury savings deposit certificates |
| 6. | Fixed deposit scheme governed by |
| 7. | Post office cash certificates (5 years) |
| 8. | Post office national savings certificates |
| 9. | Post office savings bank account to the extent Rs.3,500 in case of individual accounts, Rs.7000 in case of joint accounts |
| 10. | Post office cumulative time deposit account |
| 11. | Public account in post office (up to Rs.5000) |

| | |
|-----|---|
| 12. | Fixed deposit scheme governed by the post office fixed deposit rules |
| 13. | Deposits made by a retired government employee out of his retirement benefits for the lock in period of three years |
| 14. | Special bearer bonds, 1991 |
| 15. | Special deposit scheme, 1981 |
| 16. | Capital investment bonds |
| 17. | Relief bonds |
| 18. | NRI bonds issued by RBI |
| 19. | Non resident rupee deposit scheme |
| 20. | Dividend on equity shares, preference shares |
| 21. | Daily allowances |
| 22. | Cash received on the occasion of marriage |
| 23. | Refund of money by LIC under money back policy |
| 24. | Income from units of mutual fund |
| 25. | Agricultural income |
| 26. | Interest on public provident fund |
| 27. | Interest on national savings certificate |
| 28. | Scholarship for research work |
| 29. | Political party registered with the election commission of India |

| RATE OF TDS | | |
|-------------|---|------------|
| SL.NO | INCOME | PERCENTAGE |
| 1 | Interest on security issued by statutory bodies or local authority | 10 % |
| 2. | Listed securities | 10 % |
| 3. | Unlisted securities | 10 % |
| 4. | Bank interest | 10 % |
| 5. | Casual income | 30 % |
| 6. | Insurance commission | 10 % |
| 7 | Commission on sale of lottery tickets (no TDS, if amount does not exceed in 1,000) | 10 % |
| 8 | Commission (other than insurance commission) (no TDS, if amount does not exceed in Rs.5,000) | 10 % |

| TAXABILITY OF GIFT | | |
|---------------------------------------|--|---|
| 1. | Gift from non-relatives | Fully taxable if the aggregate of the gifts received exceeds Rs.50,000 |
| 2. | Gift from relatives | Gift received from relatives is fully exempted from the levy of tax |
| The term “ RELATIVE ” include: | | |
| a. | Spouse of assessee | |
| b. | Brother and sister of assessee | |
| c. | Brother and sister of spouse of assessee | |
| d. | Brother and sister of either of the parents of assessee | |
| e. | Any lineal ascendants or descendants of the assessee | |
| f. | Any lineal ascendants or descendants of the spouse of the assessee | |
| 3. | Gift received on account of specified events | In below circumstances, gifts received from non-relatives are not taxable even if value is greater than Rs.50,000 |
| a. | On the marriage of individual | |
| b. | By will or inheritance | |
| c. | In contemplation of death of payer | |
| d. | From local authority | |

| | |
|---|---|
| e. | From a registered charitable Trust |
| f. | From any trust, foundation etc, referred u/s 10 (23c) |
| NOTE: The list of relative does not include nephews/nieces/cousins | |

1. What is casual income?

An income becomes casual income, if it contains the following features: It is unanticipated, it is non-recurring in nature, it arises from an unknown source, no specific efforts were put in to earn such income.

2. Name any four examples for casual income

- Winning from lottery
- Income from cross word puzzles and card games
- Tips given to taxi drivers
- Prize awarded for coin or stamp collection

3. What do you mean by less tax securities?

Less tax securities refers to those securities where interest is paid to the assessee after deducting tax at source. Whereas, tax free securities are those where the gross interest is paid to the assessee without deducting tax by the security issuing authority (i.e, company) to the govt on behalf the assessee and the tax amount so paid is deemed to the income to the assessee.

3. What do you mean by tax free securities?

Interest on tax-free securities is always net while on less tax securities may be gross or net

4. Distinguish between listed and non listed securities

Listed securities are those which are listed on a recognized stock exchange in India in accordance with the securities contracts regulation act 1956; whereas, non-listed securities are those which are not listed in any recognized stock exchange in India.

Only companies whose securities are listed on a recognised stock exchange can sell their securities through the stock exchange; where as, a company whose securities are not listed cannot do this.

5. What are the general incomes taxable U/S 56 of income tax act.

Dividends incomes from winning from lotteries, cross word puzzles, races, card games, gambling or betting. Interest on securities, Income from letting of machinery, plant furniture and building, income from royalty, directors fees, commission, income from undisclosed source, income from UT, income from subletting of house property etc.,

6. Define the term security

A security is the document acknowledging the debt taken by a specific authority from general public. It may be named as debt, loan, paper, debenture or security of certificate

7. Mention the various kinds of securities

A security is the document acknowledging the debt taken by a specific authority from general public. It may be named as debt, loan, paper, debenture or security of certificate

8. Mention the various kinds of securities

The following are the various kinds of securities from tax point of view: Tax free securities and less tax securities

9. Name four incomes chargeable under the head other sources

- Interest on securities
- Royalty income
- Salaries of MP/ MLA/ MLC
- Income from dividend
- Family pension
- Remuneration for doing examination work

10. What are bond washing transactions?

A bond washing transaction which consists of setting securities by high income class assesses to the low income class assesses before the due date and acquiring back the same securities after the due date of interest. This practice is adopted to evade the tax.

CHAPTER 4 DEDUCTION FROM GROSS TOTAL INCOME

(GTI)

1. Name any four items that qualified for deduction U/S 80C.

Life insurance policy (LIP) paid by the assessee, contribution to ULIP, own contribution to RPF/ SPF/ PPF, subscription to home loan to home loan deposit account

2. What is the deduction allowable u/s 80D.

Total amount of deduction allowed shall be Rs.15,000 (Rs.20,000 incase of senior citizen) for medical policies put together in case of assessee, spouse and depended children and another 15,000 (Rs.20,000 incase of senior citizen) in case of a parent or both the parents.

3. Mention the provision of section 80DD.

A resident individual or HUF cam claim a fixed deduction of Rs.75,000 in respect of maintenance including medical treatment of a dependent relative suffering from disability. A higher deduction of Rs. 1,25,000 in a available , a higher dependent relative in a suffering from a secure disability.

4. What is the deduction allowable U/S 80 GG.

Amount of deduction is least of the following.

- Maximum limit of 2000 pm
- 25% of adjusted GTI
- Excess of rent paid 10% of adjusted GTI

5. Give the provisions of deduction U/S 80 G

1. All types of assessee's are entitled to a deduction paid in respect of donations paid in the PY to the approved funds at specified rates;
2. The donation may be paid out of taxable /exempted incomes.

6. Mention the provisions under sec 80-E

Section 80-E allows deduction for interest paid on education loan. Loan should have been taken for purpose higher studies of individual/ spouse/ children of the student of whom individual is legal guardian.

7. What is the provision of u/s 80U of IT act 1961?

Resident individual suffering from any disability can claim fixed deduction of 75,000. A high deduction of 1,25,000 is allowed in respect of a person with disability.

8. What is tax relief.

Sec 89 (1) of the IT act gives relief of income tax to salaried assessee whose total income includes

- Arrears of salary
- Advance salary
- Encashment of earned leave
- Compensation received and tax relief is deductible from the tax payable amount by the assessee

9. What is PAN

PAN stands permanent account number it is a ten-digit alphanumeric number, issued in the form of a laminated card, by the income tax department under sect 139A(7), it is mandatory to quote PAN on return of income all correspondence with any income tax authority from 1 January 2005 it will be mandatory to quote PAN on challans for any payments due to income tax department

10. What is tax rebate?

According to sec 88E of the IT act, rebates are allowed in respect of income from securities transaction made by the assessee during the p.y & tax rebates are deductible from the tax payable amount by the assessee

11. What is dividend under IT act?

Dividend means the amount received by a shareholder in proportion to his share holding in a company out of the total sum so distributed.

SET OFF CARRY FORWARD OF LOSSES

1. Give the meaning of inter head set off.

In case of inter head set off, if assessee incurs loss under any head of income, such loss can be set-off against his income from any other source under the same head of income for the same assessment year.

2. State the income tax provision relating to the business loss suffered by an assessee.

- Non speculation business loss can be set off against any income
- Speculation business loss can be set off against speculation profit only
- Speculation business loss can be carried forward for 8 years and can be set off against any speculation profits only.
- Non-speculation business losses can be carried forward for 8 years and can be set off against any business income (speculation and non-speculation income).

3. Mention the losses that can be carried forward for being set off against income in the succeeding year.

Business loss, speculation loss, capital loss, loss from the activity of owning and maintaining racehorses, loss from HP.

4. Give the meaning of set-off.

Adjusting of income under one head against the loss under another head is called set-off. This is done to arrive at taxable /total income

5. What do you mean by set off of losses?

The adjustment of losses from one head against the income, profits or gains of any other head of income during the assessment year is called set-off of losses.

In other words, Set off losses means setting off losses against income of the same year.

6. What do you mean by intra-head-set –off?

Intra- head-set-off means loss from one head of income can be set off against income under other head of income except speculation losses, capital losses and losses from owning and maintaining race horses.

7. Mention losses, which cannot be set off against income from other heads

Speculation loss, capital loss, loss from owning and maintaining racehorses.

8. Under what circumstances the speculation losses can be allowed to be set-off.

- Speculation losses can be set off against speculation profits only.
- Speculation business losses can be carried forward for 8 years and can be set off against speculation profits only.

9. Explain the concept of marginal relief.

Tax payable due to marginal relief is equal to the income tax on 10 lakh plus excess of total income over 10 lakh.

10. Name any four states where tax holiday for new industrial undertaking is available U/S 80-IC of the income tax, 1961, from A.Y. 2010-11

Himachal Pradesh, Sikkim, Uttaranchal, Arunachal Pradesh, Assam, Meghalaya, Manipur, Mizoram, Nagaland and Tripura.

11. What is carry forward of losses.

Where the losses are not fully adjusted against the income of the same assessment year and such losses are transferred to the next assessment year, this process of transferring un-adjustable losses to the next year is known as carry-forward of losses.