Unit I : Income from 'Profits and Gains of Business or Profession'

(Sections 28 to 44D)

Sec. 2(13) Business :

Business means the **purchase and sale or manufacture** of a commodity with a **view to make profit**. It includes any **trade, commerce or manufacture or any adventure** (Doing activity for the first time without knowing the outcome) **or concern in the nature of trade, commerce and manufacture.**

To judge a transaction as business transaction, following points should be considered -

1. Nature of commodity
2. Nature of transaction (Whether incidental to a business or not)
3. Intention of the related party
4. Duration of transaction
5. Effort applied in transaction.

Sec. 2(36) Profession:

Profession means the activities for earning livelihood which require **intellectual skill or manual skill**, e.g. the work of a lawyer, doctor, auditor, engineer and so on are in the nature of profession. **Profession includes vocation**.

Vocation : Vocation implies natural ability of a person to do some particular work e.g. singing, dancing, etc. Here, no training or no qualification is required but having natural ability.

Profits : Excess income over expenditure.

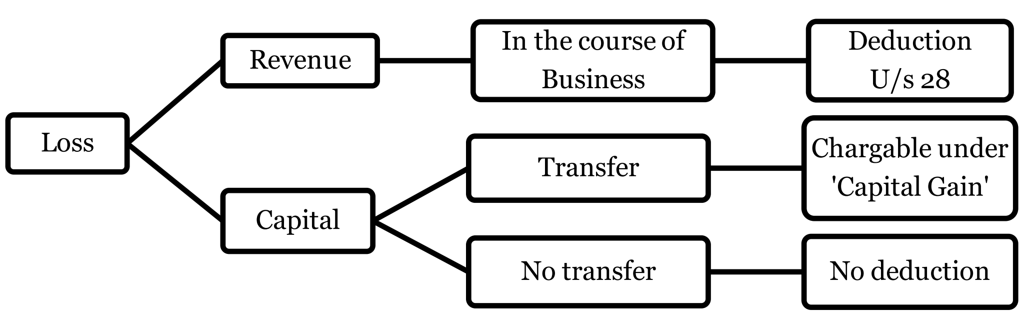
Gains : Any incidental revenue from business.

As the rules for the assessment of business, profession or vocation are the same, there is no importance of making any distinction between them for income tax purposes.

Sec. 28 : Basis of Charge :

The following incomes are chargeable to income tax under the head 'PGBP':

i) **Revenue Profits from Business or Profession :** The profits and gains of any business or profession which was carried on by the assessee at any time during the previous year;



ii) **Any Compensation due to or received by an agent :** Any compensation or other payment due to or received by an agent, managing the whole or substantially the whole of the affairs of any person, at the termination his management or modification of the terms and conditions relating thereto.

iii) **Income of trade association, etc :** Income derived by a trade, professional or similar association from specific services performed for its members.

iv) **Receipts in connection with foreign trade :**

a) Profit on sale of import license.

b) Duty Draw back / Duty remission (decrease) scheme / Duty free replenishment (refill) certificate.

c) Cash Assistance.

d) Profit on sale of Duty Entitlement Passbook.

e) Repayment of any customs or excise duty to any person against exports.

v) **Value of any benefit or Perquisite from business or profession :** The value of any benefit or perquisite whether convertible into money or not, arising from business or the exercise of profession.

vi) **Remuneration to partner from the firm :** Any interest, salary, bonus, commission or remuneration due to or received by a partner of a firm from the firm provided that it has been allowed as deduction in computing the taxable profits of such firm.

vii) **Amount received or receivable for certain agreement :**

a) Not carrying out any activity in relation to any business or

b) Not sharing any know-how, patent, copyright, trade mark, license, franchise or any other business or commercial right of similar nature or information or technique.

viii) **Keyman Insurance Policy :** Any sum received under a keyman insurance policy including the sum allocated by way of bonus on such policy.

ix) **Interest on securities :** Interest on securities, if the business of the assessee is to invest in securities, otherwise interest on securities shall be chargeable to income tax under the head Income from other sources'.

x) **Recovery against certain capital assets covered u/s 35AD :** Any sum received on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as deduction u/s 35AD.

xi) **Income from speculative transaction.**

Sec. 43(5) Speculative Transaction : Speculative transaction means a transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrip.

Sec. 29 : Computation of Income from Business or Profession :

According to Section 29, the profits and gains of any business or profession are to be computed in accordance with the provisions contained in Section 30 to 43D.

Sec. 29 : Computation of Income from Business or Profession

- Admissible Deduction (Sec. 30 to 37)
- Inadmissisable Deduction (Sec. 40)
- Expenses or payments not deductable in certain circumstances (Sec. 40A)
- Profit Chargable to Tax (Sec. 41)
- Other Provisions

Rules for adjustment of Profit and Loss Account prepared by the Assessee :

The profit and Loss Account prepared by the assessee is not correct from the income tax point –

a) Several expenses are charged to it which are wholly or partly inadmissible.

b) Some admissible expenses are omitted.

c) Some taxable income are not credit

d) Some such incomes are credited which are either not taxable under the head PGBP or are not taxable at all.

Proforma for computation of Income under the head PGBP

	Particulars	**Rs.**	**Rs.**
	Profit as per P & L A/c		xxx
Add :	i) Expenses or losses disallowed but charged in P & L A/c	xxx	
	ii) Incomes taxable as business income but not credited to the P & L A/c	xxx	
	iii) Expenses in excess of the allowed amount charged to P & L A/c	xxx	
	iv) Under valuation of closing stock or over valuation of opening stock	xxx	xxx
Deduct	i) Expenses or losses allowed but not debited to P & L A/c	xxx	
	ii) Incomes not taxable as business income but credited to the P & L A/c	xxx	
	iii) Income exempt from tax but credited in P & L A/c	xxx	
	iv) Over valuation of closing stock and under valuation of opening stock	xxx	xxx
	Taxable income from Business		**xxx**

Deductions Expressly Allowed (Sec. 30 to 37)

Sec. 30 : Expenses in respect of business premises : Revenue expenses for use of premises for business or profession is allowed.

a) **Premises are occupied as tenant :** Rent, Repair, Insurance and Tax.

b) **Premises are occupied as owner :** Repair, Insurance and Tax.

Note :

1. If the business premise belongs to the assessee no deduction in respect of rent will be allowed.
2. If the assessee is a partnership firm and the business premises belongs to a partner of the firm, the rent payable to the partner will be an allowable deduction.

Sec. 31 : Revenue Expenditure on Plant and Machinery / Furniture and Fixture :

Revenue expenditure incurred on current **repairs and insurance** premium incurred on plant and machinery / furniture and fixture is allowed. **[Rent and taxes are allowed u/s 37]**

Note : Capital expenditure shall not included in repairs.

Sec. 32 : Depreciation :

Difference between Depreciation under Accounting Rules and Taxation Rules

No.	Accounting System	Taxation System
1.	Charges against profit.	Allowances in nature
2.	WDV / SLM method is allowed.	Only WDV method is allowed. (Electricity Generation Unit can adopt SLM Method)
3.	Depreciation is charged on Individual Asset	Depreciation is charged on Block of asset.
4.	On the basis of number of days asset used.	50% of normal Depreciation (If asset is used below 180 days) or Normal Depreciation.
5.	Only on Tangible Asset.	Tangible and Intangible asset.
6.	Life of the asset.	Prescribed rate.

Category of Asset : Five categories of asset.

I. Building

II. Furniture and Fittings.

III. Machinery and Plant

IV. Ships

V. Intangible Asset (Know-how, Patents, Copyrights, Trademarks, Licenses, Franchises or Commercial rights).

Block of Assets :

1. Falls under the same category.
2. On which same rate of depreciation is applied.

Conditions of Allowance of depreciation :

There are two essential conditions :

1. Asset should be owned, wholly or partly by the assessee.
2. It should be used for the purpose of assessee's business or profession.

50% of normal Depreciation :

If any asset is acquired and put to use not to excess of 180 days during same previous year then assessee can get the benefit of depreciation only 50% of normal depreciation.

Format for computation of Depreciation :

	Opening WDV of block	xxx
Add	**Actual Cost** of asset acquired during P.Y.	xxx
Less	Money payable in respect of asset sold / discarded / damaged, etc.	xxx
	WDV for Depreciation	xxx
Less	Depreciation at prescribed rate	xxx
	Closing WDV	xxx

Rates of depreciation prescribed under IT Act :

1) Building
- Residential Purpose (5%)
- Business Purpose (10%)
- Installing Plant and Machiner / Temporary Building (40%)

2) Furnture and Fittings
- (10%)

3) Plant and Machinery
- General (15%)
- Motor Car used on hire (15%)
- Motor Car used for own business (30%)
- Remaining Assets (40%) [Books, Computers /etc]

4) Ships
- (20%)

5) Intangible Assets
- (25%)

Sec. 33AB : Tea, Coffee and Rubber Development Account

a) The assessee should deposit in special account with the **National Bank for Agricultural and rural Development**.

b) The deposit should be made within a period of six months from the end of the PY or before furnishing the return of his income, whichever is earlier.

c) **Limit :** Sum equal to deposited or **40% of profits** of such business (before making deduction under this section and before setting off brought forward business losses), whichever is less.

d) **Utilization of funds :** Must be used in the same previous year in which it is withdrawn.

Sec 33ABA : Site Restoration Fund :

Deduction will be allowed in respect of prospecting, extraction or production of petroleum or natural gas in India. It is necessary that, agreement with central government.

a) The assessee should deposit in special account with the **State Bank of India**.

b) The deposit should be before the end of the previous year.

c) **Limit :** Sum equal to deposited or **20% of profits** of such business (before making deduction under this section and before setting off brought forward business losses), whichever is less.

Sec. 37 : General Deduction (Residuary section) :

Conditions should be fulfilled –

a) Expenses not covered under section 30 to 36.

b) Revenue nature expenditure.

c) Not of capital nature

d) Not of personal nature

e) Expenses incurred for running of business / profession.

f) Expenditure shall be made during the previous year.

Explanation 1 : Expenditure incurred on protection money, hafta, bribes, etc. will not be allowed.

Explanation 2 : Expenditure incurred on CSR activities will not be allowed.

Examples of expenses allowed :

1. Expenses incurred in the purchase, manufacture and sale of goods.
2. Expenses incurred on day to day running of the business.
3. Expenses incurred on breach of contract.
4. Amount of Value Added Tax / GST, excise duty, professional tax.
5. Compensation paid for retrenchment of undesirable employee.
6. Contribution made to provident fund.
7. Commission paid for securing orders.
8. Compensation paid to employees due to accident on duty.
9. Royalties paid for mines.
10. Insurance premium paid for policy of its employees for compensation during work.
11. Compulsory subscription to an association.
12. Legal expenses for – normal course of business, to avoid business liability, defend for title of his assets, terminate a disadvantageous trading relationship, and resist a winding-up petition by some shareholders.
13. Annual listing fee paid to stock exchange.
14. Expenditure on inauguration ceremony.

Sec 34 : Conditions for depreciation allowance and development rebate [Omitted w.e.f. **1.4.1988**].

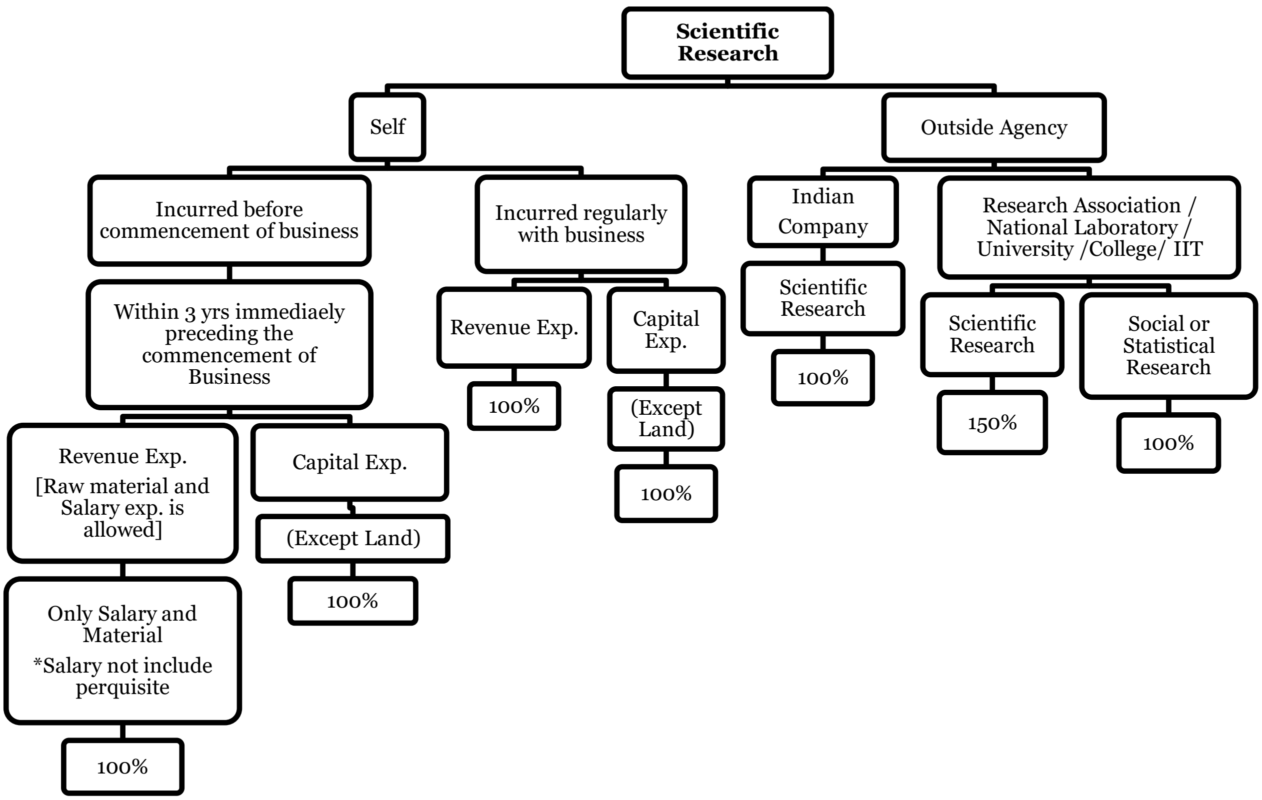
Section 35 : Expenditure on Scientific Research :

a) **Scientific Research :** It means activities for the extension of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries.

b) **Scientific Research Expenditure :** It means expenditure incurred on scientific research would include all expenditure incurred for the prosecution or the provision of facilities for the prosecution of scientific research but **does not include any expenditure incurred in the acquisition of right in or arising out of scientific research**.

A summary of weighted deduction u/s 35

Section	Expenditure incurred / contribution made	Deduction (As a % of contribution made)
35(1)(i)	Revenue Exp. Incurred on scientific research related to the assessee's business	100%
35(1)(ii)	Research Association for scientific research	150%
35(1)(iia)	Company for scientific research	100%
35(1)(iii)	Research Association for research in social science or statistical research	100%
35(1)(iv)	Capital expenditure (Other than expenditure on land)	100%
35(2AB)	Expenditure on in-house research (Except land and building)	150%



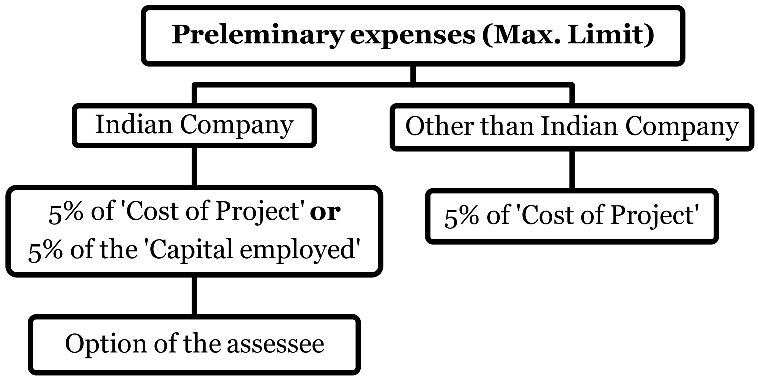
In-house Research : A deduction of an amount equal to **150%** of expenditure (excluding land or building) shall be allowed.

Sec. 35D : Amortization (paying off) of Preliminary Expenses :

Preliminary expenses includes –

1. Preparation of feasibility report,
2. Preparation of project report
3. Conducting market survey.
4. Legal charges for drafting any agreement.
5. Printing charges for the Memorandum and Articles of Association.
6. Fees paid for registering the company.
7. Expenses regarding issue of shares or debentures e.g. underwriting commission, brokerage, typing, printing, advertisement of prospectus etc.

Deduction : Deduction is allowed is **1/5 of such expenditure** for each of the five successive previous year beginning with the previous year in which the **business is commences**.



Sec. 35DD : Expenditure for amalgamation or demerger of an undertaking :

Allowed deduction of **20%** of such expenditure for each of **five** successive previous years beginning with the year in which amalgamation or demerger takes place.

Section 35DDA : Expenditure on voluntary retirement :

Allowed deduction of **20%** of such expenditure for each of **five** successive previous years beginning with the year in which the expenditure was incurred.

Sec. 35 AD : Expenditure on Specified Business :

- 100% expenditure of capital nature is allowed **[Excluding land, goodwill, financial instrument]**
- **Deduction** is allowed in the year in which business is commenced –
  - a) Expenditure incurred prior to commencement of its operations.
  - b) The amount is capitalised in the books of accounts on the date of commencement of its operations.
- Payment of **Rs. 10,000 in a day** should not be made in cash.

Businesses :-

1. **Setting up and operating of cold chain facility.**

   Cold chain facility means a chain of facilities for storage or transportation of:
   - a) Agriculture and forest produce,
   - b) Meat and meat products,
   - c) Poultry
   - d) Marine and dairy products
   - e) Products of horticulture, floriculture and apiculture
   - f) Processed food items.
2. Warehousing facility – for storage of agricultural produce.
3. Laying and operating of petroleum oil pipeline.
4. At least one hundred beds hospital.
5. Building for slum redevelopment or rehabilitation framed by Central or State Government.

6. Housing project under a scheme for affordable housing framed by Central or State Government.
7. Two-star or above category hotel.
8. Production of fertilizer in India.
9. Inland container depot / container freight station.
10. Bee-keeping and production of honey and beeswax.
11. Warehousing facility for storage of sugar.
12. Infrastructure facility – toll road, bridge, water supply, water treatment, irrigation project, sanitation, port, airport, etc.
13. Semiconductor wafer fabrication manufacturing unit.

Sec. 36 : Other deduction :

1. Insurance premium paid for stock which is used for purpose of business / profession.
2. Insurance premium for cattle, Paid by federal milk co-operative society.
3. Insurance premium paid (**any mode other than cash**) for the **health** of employees.
4. Bonus or commission to employee. **(On actual payment basis)**
5. **Interest paid on borrowed capital** for purpose of business / profession (**On actual payment basis**). No deduction of 'interest paid' for acquisition of asset from the date of borrowing till the date of 'put to use'. (It would be added to cost of asset).
6. Discount on **Zero Coupon Bond** allowed as deduction on pro-rata basis.
7. **Bad debts** – The debt should be incidental to the business.
8. Loss regarding animals (Not for stock in trade) – allowed as deduction. **[Cost of animal – carcasses of animals]**
9. Employers contribution to provident Fund – only Recognized provident fund or approved superannuation fund. **[Subject to Sec. 43B]**
10. Employees contribution to provident fund or superannuation fund etc. **[Subject to Sec. 43B]**.
11. Approved gratuity fund. **[Subject to Sec. 43B]**.
12. Expenditure on family planning (Only when assessee is company) : Capital expenditure = 5 equal installments; Revenue expenditure – in the same previous year.
13. Entertainment expenses, advertisement expenses (Except section 37(2B) i.e. advertisement in political party).
14. Security Transaction Tax (STT).

Sec. 40(a) : Expenses not allowed in any circumstances :

1. Expenditure on advertisement in any souvenir, etc. published by a political party.
2. Payments outside India, in India to a non resident or a foreign company on which TDS is not deducted and has not paid on or before the due date specified.
3. Payment to residents – on which TDS has not been deducted or before the due date of filing the return of income – 30% of such sum shall not allowed as deduction.
4. **Wealth tax :** Wealth tax chargeable under the Wealth Tax Act shall not be allowed as deduction.
5. **Tax on Profits and Gains :** Any sum paid on account of any tax levied on the profits and gains of any business or profession shall not be allowed as a deduction.

6. Contribution to unrecognized provident fund.

Sec. 40A : Expenses not deductible in certain circumstances :

1. Excessive payment to relatives.
2. **Payment in Cash :** Payment made to a person in a day is made exceeding Rs. 10,000 other than account payee cheque, bank draft or use of electric clearing system, it will be disallowed. **Entire amount will be disallowed**.

   Exception : Where payment is made for plying, hiring or leasing goods carriages, the limit of disallowance shall be exceeding Rs. 35,000.

Sec. 43B : Deductions allowable only on actual payment :

1. Any sum payable by the assessee by way of tax, duty, cess or fee.
2. Any sum payable by him as an employer by way of contribution to any provident fund, superannuation fund or gratuity fund or any other fund for the welfare of employees.

Certain Allowable Losses

Losses which are directly incidental to the business or profession of the assessee are allowable. Following are some examples of such losses.

1) Robbery or Dacoity : Loss caused by robbery or **dacoity is not deductible**. But, if it is incidental to business it will be allowed as a deduction and this depends upon the specific circumstances and conditions. For example, if cash is sent for disbursement at different centers by a sugar factory in rural area, it is incidental to business and is, therefore, allowed. Any loss due to robbery in a bank will be allowed as the bank is under an obligation to maintain some cash outside the strong room for payments.

2) Embezzlement (Misappropriation), Theft, etc. : The loss of money due to embezzlement by an employee handling the funds of the business while discharging his official duties is allowed as deduction. When an employee goes to bank to deposit the cash and he takes away the money for his own use, even then, the loss is allowable. Theft by a cashier, who is in charge of cash, is also an allowable loss. A theft committed either by an employee or by someone else by breaking open into the business premises after office hours, is also allowable.

3) Loss due to Non-recovery of Advances : If it is the practice in a business to give advance money to the suppliers and if the supplier neither supplies the order nor refunds the advance money, the loss sustained by the assessee is incidental to business and is, therefore, allowable.

4) Penalty paid for **infraction of law** is not allowed.

Illustration 1 :

Mr. Amitabh prepared the following profit and loss account of his cloth shop for the year ended 31st March, 2019. Find out his income from business for the AY 2019-20.

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	Rs.	Particulars	Rs.
Salaries and wages	33,000	Gross Profit	3,34,725
Rent, etc.	1,600	Gifts received from relatives	275
Household expenses	82,000		
Income Tax	900		
Advertisement	800		

Postage expenses	600		
Gifts to relatives	900		
Fire Insurance Premium	400		
Life Insurance Premium	2,100		
Bad Debts Reserve	800		
Audit Fees	400		
Net profit	2,11,500		
Total	**3,35,000**	**Total**	**3,35,000**

Solution :

Computation of Income from PGBP

A.Y. : 2019-20

	Particulars	Rs.	Rs.
	Profit as per P & L A/c		2,11,500
Add :	Household expenses	82,000	
	Income Tax	900	
	Gifts to relatives	900	
	Life Insurance Premium	2,100	
	Bad Debts Reserve	800	86,700
			2,98,200
Less	Gifts received from relatives	275	275
	Taxable income from Business		**2,97,925**

Illustration 2 : Given below is the Profit and Loss Account of a Timber Merchant for the year ended 31st March, 2019. Compute total income for the AY 2019-20.

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Opening Stock	25,000	Sales	6,00,000
Purchases	2,50,000	Rent for Property	15,000
Wages	1,00,000	Closing Stock	35,000
Audit Fees	1,000		
Repairs (House Property)	2,000		
General Charges	1,500		
Commission for raising loan	1,000		
Bad debts Reserve	500		
Bad debts	2,000		
Interest on capital	10,500		
Contribution to Staff Welfare Fund	2,500		
Provision for Income Tax	1,500		
Depreciation (Allowable)	2,500		
Net Profit	2,50,000		
Total	**6,50,000**	**Total**	**6,50,000**

Solution :

Computation of Income from Business

	Particulars	Rs.	Rs.
	Profit as per P & L A/c		2,50,000
Add :	Repairs (House Property)	2,000	
	Bad debts Reserve	500	
	Interest on capital	10,500	
	Contribution to Staff Welfare Fund	2,500	
	Provision for Income Tax	1,500	17,000
			2,67,000
Less	Rent for Property		15,000
	Taxable income from Business		**2,52,000**

Problem 1 : The following is the Profit and Loss Account of Mr. X for the year ended on 31st March, 2019. Compute his taxable income from business for that year: **[Problem 10, Page 236]**

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Opening Stock	15,000	Sales	2,80,000
Purchases	1,40,000	Closing Stock	20,000
Wages	20,000	Gift from Father	10,000
Rent	46,000	Sale of Car	17,000
Repairs of Car	3,000	Income tax Refund	3,000
Medical Expenses	3,000		
General Expenses	10,000		
Depreciation of Car	4,000		
Profit for the year	89,000		
Total	**3,30,000**	**Total**	**3,30,000**

Following further information is given:

(1) Mr. X carries on his business from rented premises half of which is used as his residence.

(2) Mr. X bought a car during the year for Rs 20,000. He charged 20% depreciation on the value of the car. The car was sold during the year for Rs 17,000. The use of the car was 3/4th for the business and 1/4th for personal use.

(3) Medical expenses were incurred during the sickness of Mr. X for his treatment.

(4) Wages include Rs 250 per month on account of Mr. X's driver for 10 months.

Problem 2 :

The following is the Profit and Loss Account of the Raj Oil Mills for the financial year 2018-19. Compute its business income on the basis of additional information.

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Office Salaries	15,000	Gross Profits	80,000
General Expenses	7,000	Profit on Sale of car	15,000
Bad Debts	1,000	Recovery of bad debts	5,000
Advertising Expenses	3,700	Interest on Govt. Securities	3,500
Insurance Premium (fire)	1,500	Dividends	3,500
Depreciation	5,000	Gifts on the occasion of Gruhapravesam	5,000
Reserve for bad debts	3,000		
Donation to a school	2,500		
Car Expenses	2,000		
Net Profit	71,300		
Total	**1,12,000**	**Total**	**1,12,000**

Additional information:

(a) General expenses include:

(i) Rs 2,500 as compensation paid to an accountant who had to be removed from service in the interest of business, and

(ii) Rs 3,300 as contribution paid to the Govt. for laying electric cables for the company's plant.

(b) Depreciation as regards to the relevant blocks of assets under the Income Tax Act was Rs 3,500.

(c) In the assessment year 2015-16 the Assessing Officer had refused to allow deduction for the bad debts of Rs 5,000 now recovered.

(d) Car expenses include Rs 500 attributable to use of car for personal work.

Solution :

Computation of Income from Business

AY : 2019-20

	Particulars	**Rs.**	**Rs.**
	Profit as per P & L A/c		71,300
Add :	Disallowed Expenses		
	Depreciation	5,000	
	Reserve for bad debts	3,000	
	Donation to School	2,500	
	Car expenses	500	11,000
			82,300
Less	Profit of sale of car	15,000	
	Recovery of Bad debts	5,000	
	Interest on Govt. Securities	3,500	
	Dividends	3,500	
	Gifts on the occasion of Gruhapravesam	5,000	
	Depreciation	3,500	35,500
	Taxable income from Business		**46,800**

Problem 3 : The following is the Profit & Loss Account of Sri S. Kumar for the year ending 31st March, 2019: **[Problem 12, Page 238]**

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	**Rs**	**Particulars**	**Rs**
Rent	3,870	Gross Profit b/d	55,048
Staff Salaries	8,620	Miscellaneous Receipts	383
General Charges	3,780	Discounts	458
Interest on Capital	1,800	Interest of Govt. Securities	2,400
Audit Fee	1,050	Bad Debts Recovered	560
Bad Debts	840	Profit on Sale of Machineries	5,765
Reserve for Bad Debts	600	Profit on Smuggling Business 1,25,000	
Income Tax	2,400	Less:	
Law Charges	3,700	(1) Bribe to Border Police 12,000	
Compensation to a retrenched employee	2,800	(2) Smuggled goods Seized 16,000	
Cost of extension of office premises	2,000	(3) Penalty to Custom Authorities 13,000	84,000
Charity and Donation	184		
Depreciation	5,700		
Entertainment Expenses	12,600		
Net Profit	98,670		
Total	**1,48,614**	**Total**	**1,48,614**

Compute Mr. Kumar's Income from Business for the related Assessment Year after taking into account the following:

(a) The expenditure of rent includes a sum of Rs 720 being rent charged for a godown owned by the assessee himself.

(b) Staff salary includes Rs 1,200 being the salary of a servant engaged at the residence of the assessee.

(c) The general expenses include a sum of Rs 500 being advertisement expenses.

(d) Law charges include payment of Rs 2,300 being Stamp and Registration Fees and Solicitor's Bill for the Deed of Purchase of a property.

(e) Depreciation on fixed assets chargeable according to Income Tax Rules amounts to Rs 6,780.

(f) Bad Debts recovered include an item of Rs 200 the claim for which was disallowed in the related year of assessment.

(g) The profit on sale of machineries relate to a machine purchased in December 2016 for Rs 15,000. Its written-down value on 1.4.2018 was Rs 10,935 and the same was sold during the year for Rs 16,700.

Problem 4 : From the following Profit and Loss Account of a sole proprietorship business for the year ended 31st March, 2019, compute his taxable income from business and the gross total income for the assessment year 2018-19: **[Problem 11, Page 237]**

Profit and Loss Account
(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Salary to Staff	15,000	Gross Profit b/d	2,00,000
General Expenses	8,000	Dividend from an Indian Agricultural Company	5,000
Bad Debts	3,000		
Advertisement	5,000	Interest on Notified Capital Investment Bonds	1,000
Proprietor's Salary	15,000		
Int. on Proprietor's Capital	3,000		
Reserve for Sales Tax	8,000		
Gratuity to Staff	40,000		
Donation	12,000		
Purchase of Land	20,000		
Advance Income Tax Paid	5,000		
Depreciation	10,000		
Legal charges for defending a suit for breach of a trading contract	1,000		
Net Profit	61,000		
Total	**2,06,000**	**Total**	**2,06,000**

Additional Information:

(1) General Expenses include Rs 2,000 paid as compensation to an employee whose services were terminated as his continuing in service was considered detrimental to the profitable conduct of the business.

(2) The assessee has received demand notice of sales-tax for the preceding year amounting to Rs 8,000 and he has not disputed the liability.

(3) The gratuity paid had no relation to the service or salary drawn by the staff. It was given on ad hoc basis.

(4) Donation was given to the Chamber of Commerce to work against the threat of nationalization of the type of business carried on by the assessee. The Chamber collected such donations from several other parties also doing the same type of business. The Chamber in turn donated money to different parties who exercised their pressure with the Government and ultimately it was averted.

(5) The assessee purchased land in the name of the District Magistrate for constructing houses for its workers. It was to be done by the Government under the subsidized Housing Scheme for industrial workers. The ownership would vest in the Government.

(6) Depreciation is found to be in excess by Rs 2,000.

Problem 5 : Sri Pandey is a reputed Vakil of Bikaner. He has prepared the following Income & Expenditure Account for the year ended 31st March, 2019: **[Problem 17, Page 244]**

Profit and Loss Account
(For the year ended 31st March, 2019)

Expenditure	Rs	Income	Rs
Household Expenses	12,000	Legal fees	1,26,000
Office Expenses	7,000	Special commission appointment fees	1,400
Charity	500		
Telephone Expenses	500	Cash gifts received from Clients	2,000
Income Tax	900	House Rent	15,000
Rent	4,000	Int. on Govt. Securities	3,000
Gift to daughter	2,000	Salary as part-time Lecturer in Law	6,000
Electricity Charges	1,000		
Donation to National Defense Fund	1,000		
Contribution to Public Provident Fund	2,400		
Books for profession (Annual publications)	3,000		
Salaries	15,000		
Purchase of Motor-car	60,000		
Purchase of Furniture	2,000		
Life Insurance Premium	5,000		
Motor-car Expenses	6,000		
Purchase of Typewriter	6,000		
Excess of Income over Expenditure	25,100		
Total	**1,53,400**	**Total**	**3,53,400**

Following other particulars were received:

(a) Sri Pandey lives in one-half of the house and the other half is used for office. Rent and Electricity charges are in respect of this house.

(b) One-half of car expenses are for personal use.

(c) Depreciate Motor-car @ 15%, Typewriter @ 15% and Furniture @ 10%.

Compute his taxable income from business and profession for the A.Y. 2019-20.

Problem 6 : From the Profit & Loss Account for the relevant assessment year, compute income from business of Sri Babu Rao.

Profit and Loss Account
(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
To Salaries	88,000	By Gross Profit	3,80,000
To Rent	42,000	By Sundry receipts	20,000
To General expenses	20,000	By dividends	40,000
To Advertisement	25,000	By Commission	30,000
To Legal expenses	15,000	By Bad debts recovered (earlier allowed)	10,000
To Sales-tax	10,000		
To Wealth-tax	20,000	By Rent of building let out	44,000
To Telephone expenses	12,000		
To Gratuity paid	30,000		
To Provision for bad debts	10,000		
To Advance income-tax	20,000		
To Depreciation	38,000		
To Office expenses	12,000		
To Municipal taxes of property let out	10,000		
To Contribution to employees provident fund	6,000		
To Net profit	1,66,000		
Total	**5,24,000**	**Total**	**5,24,000**

Other information:

(a) Legal expenses were found to have been incurred for the registration of a business asset.

(b) 50% of the business premises were used for residential purposes.

(c) General expenses include a donation of Rs 10,000 towards A.P. Chief Minister's Relief Fund.

(d) Advertisement expenses were paid in Cash.

(e) Allowable depreciation as per income-tax rules, Rs 46,000.

Solution :

Computation of Income from Business

AY : 2019-20

	Particulars	**Rs.**	**Rs.**
	Profit as per P & L A/c		1,66,000
Add :	Inadmissible Expenses		
	Rent	21,000	
	General Expenses(Donation)	10,000	
	Advertisement expenses (Paid in cash)	25,000	
	Wealth tax	20,000	
	Provision for bad debts	10,000	
	Advance Income Tax	20,000	
	Depreciation	38,000	
	Municipal Tax of property let out	10,000	1,54,000
			3,20,000
Less	Inadmissible Incomes		
	Dividends	40,000	
	Rent of building let out	44,000	84,000
	Depreciation	46,000	
	Taxable income from Business		**1,90,000**

Problem 7: Sri Sunil Dutta furnishes the following information relevant for the A.Y. 2018-19: **[Problem 21, Page 247]**

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	**Rs**	**Particulars**	**Rs**
Office Expenses	45,000	Gross Profit	3,43,000
Sundry Expenses	39,000	Sundry Receipts	11,000
Entertainment Expenses	15,000	Bad debts recovered (Not allowed earlier)	7,100
Audit Fees	12,000		
Legal Charges	4,000	Customs duties recovered from the Government (Allowed earlier as deduction)	32,500
Extension of Building	6,000		
Bonus to Staff	36,000		
Salary to Staff	43,000	Gifts received from father	1,43,000
Depreciation on Plant & Machinery	23,000		
Contribution towards Recognised P.F.	15,000		
Contribution towards Unapproved Gratuity Fund	4,000		
Provision for Sales Tax	25,000		
Sales Tax	38,000		
Payment to a National Laboratory for Scientific Research	49,600		
Net Profit	1,82,000		
Total	**5,36,600**	**Total**	**5,36,600**

Additional Information:

(a) Payment to a National Laboratory is for the purpose of carrying on approved scientific research, not related to the business. Besides, Sri Sunil Dutta purchases a plant of Rs 30,000 for the purpose of carrying on scientific research related to the business. Neither cost of plant nor depreciation thereon is debited to profit and loss account.

(b) Depreciation on plant and machinery and extension of building as per income-tax rule is Rs 19,000.

(c) Sales tax of Rs 38,000 includes interest for late payment of sales tax Rs 1,200 and penalty for evading GST Rs 10,000.

(d) Provision for sales tax is however paid on July 10, 2015. Evidence of payment is submitted along with the return of income.

(e) Salary to staff includes a payment of pension of Rs 8,000 to the widow of a former employee.

Compute business income of Sri Sunil Dutta for the assessment year 2019-20.

Problem 8: Mr. Dewan is a Chartered Accountant in Delhi. From the following information, compute the income from profession. **[Problem 22, Page 249]**

Income and Expenditure Account

(For the year ended 31st March, 2019)

Expenses	**Rs**	**Income**	**Rs**
To Drawings	8,000	By Audit fees	2,24,000
To Office rent	42,000	By Financial consultancy service	98,000
To Telephone charges	15,000	By Dividend from UTI	10,000
To Electricity Bill	4,200	By Accountancy works	14,000
To Salary of staff	66,000		
To Car expenses	21,000		
To Subscription for journals	2,500		
To Institution fee	1,200		
To Stipends given to Trainees	12,000		
To Net Profit/Income	1,74,100		
Total	**3,46,000**	**Total**	**3,46,000**

Notes:

1. Depreciation of car during the year amounts to Rs 5,000.
2. 30% of the car is used for personal purpose.

Problem 9 : Dr. Surendra is a renowned medical practitioner who maintains books of account on cash basis, furnishes his Receipts and Payments Account for the financial year 2018-19. **[Problem 20, Page 152]**

Income and Expenditure Account

(For the year ended 31st March, 2019)

Receipts	**Rs**	**Payments**	**Rs**
Balance b/d	14,000	Electricity and Water Bills	2,000
Consultation Fees:		Rent of Clinic:	
2013-14	3,000	2013-14	600
2014-15	15,000	2014-15	4,800
2015-16	2,000	2015-16	600
Visiting Fees	30,000	Purchase of medicines	40,000
Loan from bank for professional purposes	25,000	Purchases of Professional Books	4,000
Sale of Medicines	60,000	Household expenses	7,800
Gifts and Presents	5,000	Collection charges on Dividend Income	100
Remuneration from Articles Published in Professional Journals	6,000	Motor-car purchased	30,000
		Surgical Equipments	4,800
		Income Tax	10,000
Dividend	10,000	Salary to Staff	15,000
Interest on Post Office Savings Bank A/c	7,000	Life Insurance Premium	15,000
		Gift to Wife	5,000
		Interest on Loan	2,000
		Car expenses	15,000
		Balance c/d	20,300

Total	1,77,000	Total	1,77,000

Compute his Taxable Professional Income for the assessment year 2019-20, after taking into account the following additional information:

(a) 1/3 of the use of Motor-car relates to his personal use.

(b) Depreciation on Motor-car allowable is 15%, on books it is @ 100% and on Surgical Equipments it is @ 15%.

(c) Gifts and presents include Rs. 3,000 from patients in appreciation of his medical service and Rs 2,000 received as Birthday Gifts from relatives.

(d) Closing stock of medicine amounted to Rs. 5,500.

Problem 10: The following is the Receipts and Payments Account of Mr. Nagaraja Rao, a practicing Chartered Accountant for the year ended 31.3.2019:

Receipts	**Rs.**
Audit Fees	19,210
Consultation	10,000
Appellate Tribunal appearance	15,000
Miscellaneous	20,000
Interest on Government Securities	10,000
Rent received	10,000
Presents from clients	10,000
Payments	**Rs.**
Office expenses	10,000
Office rent	5,000
Salaries and Wages	12,050
Printing and Stationery	1,000
Subscription to C.A. Institute	3,000
Purchase of books for professional purposes (Annual publications)	1,300
Travelling expenses	5,800
Interest on bank loan	3,000
Donation to National Defense Fund	5,000

Loan from bank was taken for the construction of the house in which he lives. Municipal value of this house is Rs 8,000 and the local taxes Rs 800 p.a. 1/4th of travelling expenses are not allowable.

Compute professional income and income from house property for the previous year 2018-19.

Problem 11 : Dr. Gupta is a medical practitioner of Ludhiana. From the following, calculate his income from profession for the assessment year 2019-20: **[Problem 18, Page No. 150]**

		Rs.
1.	Gross receipts from dispensary	2,35,000
2.	Gross receipts from consultation	1,65,000
3.	Operation fees	2,50,000
4.	Visiting fees	50,000

5.	Gifts from patients	30,000
6.	Medicine purchased	1,25,000
7.	Closing stock of medicines	35,000
8.	Salaries paid to employee	1,50,000
9.	Surgical equipments purchased	48,000

10. Dr. Gupta went to attend a medical seminar in Germany to update the knowledge and spent Rs 25,000 on it.
11. He owns a house whose municipal value is Rs 50,000. Half portion of the house is used for profession. Expenses paid on the house: Municipal Taxes 10% of M.V., Repairs Rs 10,000.
12. Medical books purchased (Allow depreciation @ 40%) Rs. 30,000.

Problem 12 : Sri Rathore gives you the following particulars from his books of account. Compute his Taxable Business Income for the year ending 31.3.2019: **[Problem 12, Page No. 144]**

Net profit as per Profit and Loss A/C (Before charging the following) Rs. 5,75,000

Expenditure on Family planning Rs. 45,000

Lump-sum payment made for Technical know-how Rs 90,000

Entertainment expenditure Rs. 30,000

Expenditure on acquiring Patent-Right Rs. 84,000

Expenditure on advertisement – Paid in Cash Rs. 18,000

Amount paid to Rajasthan University for an approved Research Programme in Social Sciences not connected with his business Rs. 20,000

Provision for Excise duty (He paid only Rs 20,000 before filing I.T. return) Rs 45,000.

Problem 13 : Miss. Vishnu Priya gives you the following information from her accounts for the year ending 31.3.2019:

Net profit as per the Profit and Loss Account (Before charging the following) Rs. 5,40,000

Expenditure on staff welfare Rs. 30,000

Revenue expenditure on family planning among employees Rs. 32,000

Capital expenditure on the above Rs. 8,00,000

Lump sum consideration for purchase of technical know-how on 1.7.2013 Rs. 1,00,000

Entertainment expenditure Rs. 15,000

Expenditure on acquisition of patent right on 1.11.2012 Rs. 1,25,000

Expenditure on advertisement paid in cash Rs. 90,000

Amount paid to Anna University for an approved research programme in the field of social science not connected with the Business Rs. 40,000

Compute business income of Vishnu Priya for the assessment year 2015-16.

Problem 14 : The Net profit of Mr. Sulaiman of Madurai as per his profit and loss account for the year ended 31.3.2019 after charging the following item was Rs 2,40,000: **[Problem 13, Page 145]**

(a)	Interest on capital	Rs. 20,000
(b)	Salary to staff	Rs. 1,16,000
(c)	Office expenses	Rs. 3,000

(d)	Bad debts written-off	Rs. 13,000
(e)	Provision for bad debts	Rs. 10,000
(f)	Provision for income-tax	Rs. 16,000
(g)	Donation	Rs. 10,000
(h)	Depreciation	Rs. 17,000
	Depreciation allowable as per the Act is only	Rs. 12,000.

Compute income from business.

Problem 15 : Mr. Gupta provides you the following detail from his business books for the assessment year 2019-20:

(a) Computed net profit after charging the following Rs. 72,000

(b) Provision and reserves debited to P & L A/c.

(1) Provision for Discount on Debtors Rs. 42,000

(2) Provision for Depreciation Rs. 31,000

(c) Household expenses Rs. 48,000

(d) Donation to a recognised school Rs. 70,000

(e) Computer purchased for scientific research Rs. 20,000

(f) Bearer cheque issued for a purchase Rs 25,000

(g) O. Y. T. deposit Rs. 16,000

(h) Advertisement expenses on sign boards Rs. 45,000

(i) Audit fees paid in cash Rs. 25,000

(j) Patent purchased during the year Rs. 75,000

(k) Market survey and feasibility report expenses (Cost of a new project Rs 6,00,000) Rs. 50,000

(l) Opening stock is valued at cost + 10% basis and closing stock is valued at cost - 10% basis. Opening stock was valued at Rs 66,000 and closing stock was valued at Rs. 72,000.

Income credited to Profit and Loss account were:

(1) Bank Interest on F. D. Rs. 7,000

(2) Refund of Excise Duty Rs. 5,000

(3) Dividend from Indian Cos. Rs. 3,000

(4) Bad debts recovered Rs. 3,000

Compute Business Income of the assessee for the assessment year 2019-20. Give proper notes in support of your answer.

*****

Computation of Income from Business or Profession [Proforma]

Particulars	₹	₹
Profit as per Profit & Loss A/c or Income and Expenditure A/c :		
Add: Inadmissible Expenses		
- Personal Expenses (Car Expenses, Household Exp.)		
- Depreciation as per books		
- Penalty for evading Sales Tax		
- Contribution towards Unapproved Gratuity Fund		
- Extension of buildings (Capital Expense)		
- Reserve for Bad Debts		
- Donation to a School		
- Income Tax		
- Life Insurance Premium		
- Charity and Donation		
- Wealth Tax		
- Expenses related to agricultural land		
Less: Expenses expressly allowed as deduction		
- Depreciation as per Income Tax Act		
- Capital Expenditure on scientific research related to the business of the Assessee		
- Payment to an approved research association for carrying on scientific research		
Less: Income not chargeable under this head:		
- Dividend		
- Rent of Building		
- Interest on Govt. Securities		
- Profit on Sale of Car		
Less: Income exempt from tax:		
- Agricultural Income		
- Dividend from domestic company		
- Gifts on marriage, from relatives etc.		
Add: Unrecorded Income		
- Any type of income which is not recorded in books		
Income from Business or Profession		

Example 1: Depreciated value of the:

Block of assets (consisting of plants A, B and C) on 1st April, 2020	29,60,000
Additions of plant D made on September 1, 2020 (it is put to use on September 8, 2020)	3,20,000
Cost of plant E purchased on December 24, 2020	6,20,000

Sale proceeds of plant A (sold on March 3, 2021 and was originally purchased on 1st April, 2015 for ` 240,000)32,60,000

Assuming that the rate of depreciation is 30%, find out the admissibility of depreciation for the assessment year 2021-2022.

Solution: - Computation of depreciation allowance for A. Y. 2021-22 relating to P. Y. 2020-21

Plant (Block 1, Rate of depreciation 30%):

WDV of plants A, B and C on 1st April 20	2960000
Add: - Cost of plant D (put to use on 8.9.20)	320000
Add: - Cost of plant E (put to use on 24.12.20)	620000
Total Cost at year end	3900000
Less: - Sale proceeds of plant A	(3260000)
WDV of the block of plants	640000

Depreciation Allowance:

Plant E (used for less than 180 days during the P.Y.) (620000*30%*1/2)	=	93000
Remaining WDV of block of assets i.e. (640000 – 620000) or (20000 * 30%)	=	6000
Total depreciation for the P. Y. 2020 – 21	=	99000

Example 2: V Ltd., engaged in manufacture of PVC pipes, purchased a machinery on 25.09.2020 for ` 2,00,000 and put it to use after two weeks. There is no other asset in the block. What is the WDV of theblock as on 31.03.2021. The normal rate of depreciation may be assumed to be 15%.

Solution: - Computation of WDV for the A. Y. 2021-22 relating to the P. Y. 2020 – 21

WDV as on 1.4.20		Nil
Add: - Cost of plant acquired on 25.9.20 (Put to use after two weeks)		200000
Total		200000
Less: - Normal depreciation (200000 * 15% *1/2)	=	15000
Less: - Additional depreciation @20% (200000 * 20% * ½)	=	20000
WDV as on 1.4.2021		165000

Example 3: N Textiles Ltd. purchased a machinery from Germany for Euro 1,00,000 on 3.09.2019 through a term loan from Fortune Bank Ltd. The exchange rate on the date of acquisition was `65. The assessee took a forward exchange rate on 05.10.2020 when the rate specified in the contract was `67 per Euro. Compute depreciation for the assessment years 2020-21 and 2021-22. Ignore additional depreciation and assume normal depreciation @15%.

Solution: - Computation of WDV for the A.Y. 2020-21 relating to PY 2019-20

Plant (Block 1, rate of depreciation 15%)

WDV as on 1.4.19	Nil
Add:- Cost of plant (100000 Euro * Rs. 65)	6500000
Less:- Depreciation (6500000 * 15%)	975000
WDV as on 31.3.2020	5525000

Computation of WDV for the A.Y. 2021-22 relating to PY 2020-21

Plant (Block 1, Rate of depreciation 15%)

WDV as on 1.4.2020	5525000
Add:- Exchange rate difference u/s 43A [100000* (67-65)]	200000
WDV as on 31.3.2021	5725000
Less:- Depreciation (5725000*15%)	858750

WDV as on 31.3.2021 4866250

Example 4: X is a manufacturer of plastic goods in India. The following particulars are available in respect of his business:

(a) Written down of plant and machinery as on 1st April, 2020 `8,00,000

(b) Additions to plant and machinery during the previous year 2020-21 `1,00,000

(c) One machine was destroyed in an accident for which compensation received from the insurance company `40,000

(d) During the year X sold some machinery

Find out the depreciation allowance or capital gains for the assessment year 2021-2022, if the sale price of the machinery is (i) `5,00,000 (ii) `9,00,000. Rate of depreciation in respect of all the machines is 30%.

Solution: - Computation of depreciation and capital gains for the A. Y. 2021-22 relating to the P.Y.2020-21

Plant and Machinery	Case (i)	Case (ii)
(Block 1, Rate of depreciation 30%)		
WDV of the block of plant and machinery as on 1st April 20	800000	800000
Add:- Purchase during the year	100000	100000
Total	900000	900000
Less:- Money received as compensation	40000	40000
Less:- Machinery sold during the year	500000	900000
WDV of the block of plant and machinery as on 31st March 21	360000	(40000)
Less:- Depreciation (360000*30%)	108000	Nil
WDV after depreciation as on 31/3/21	252000	Nil

In case (i), the firm is going to get depreciation allowance of Rs. 108000 and they will earn capital gain of Rs. 40000 in case (ii)

Example 5: M/s Anita Enterprises has written down value in furniture block (depreciation rate 10%) as on 1/4/2020 ` 80,000. The block consists of two furniture X and Y.

Compute depreciation u/s 32 for the A.Y. 2021-22 in the following cases:

- Case A Furniture X sold for ` 20,000 on 1/5/2020
- Case B Furniture X sold for ` 1,00,000 on 1/1/2021
- Case C Furniture X sold for ` 1,00,000 and Furniture S purchased for ` 35,000 as on 1/7/2020
- Case D Furniture X sold for ` 10,000 and Furniture S purchased for ` 40,000 as on 1/7/2020
- Case E Furniture X sold for ` 10,000 and Furniture S purchased for ` 40,000 as on 11/11/2020
- Case F Furniture X sold for ` 2,00,000 and Furniture S purchased for ` 40,000 as on 11/11/2020
- Case G Furniture X and Furniture Y both sold for ` 10,000 and ` 35,000 respectively.
- Case H Furniture X and Furniture Y both sold for ` 10,000 and ` 35,000 respectively as on 11/11/2020. New Furniture T purchased for ` 5,000 as on 1/7/2020.
- Case I Furniture Z purchased for ` 40,000 on 1/7/2020 and the same being put to use on 11/11/2020.
- Case J Furniture Q purchased for ` 50,000 on 1/7/2020 but put to use on 1/11/2021.
- Case K Furniture R purchased for ` 30,000 on 1/7/2019 but put to use on 11/11/2020.
- Case L Furniture S purchased for ` 10,000 on 1/7/2020 but put to use on 11/11/2020 and Furniture X and Y sold for ` 10,000 and ` 6,000 respectively.
- Case M Furniture R purchased for ` 30,000 on 1/7/2020 and sold the same for ` 40,000 on 11/11/2020.
- Case N Sold Furniture X and Y for ` 95,000 on 1/7/2020 & purchased Furniture R for ` 30,000 on 11/11/2020

Assume in all cases new furniture is charged to deprecation @ 10%

Solution: - Computation of depreciation for A. Y. 2021 – 22

Block: - Furniture (10%)

Particulars	Case A	Case B	Case C	Case D	Case E	Case F	Case G
WDV as on 1/4/20	80000	80000	80000	80000	80000	80000	80000
Add:- Purchases	Nil	Nil	35000	40000	40000	40000	Nil
	80000	80000	115000	120000	120000	120000	80000

Less:- Sale proceeds	(20000)	(80000)	(100000)	(10000)	(10000)	(120000)	(45000)
WDV as on 31/3/21	60000	Nil	15000	110000	110000	Nil	35000
Depreciation	6000	Nil	1500	11000	10000*	Nil	Nil
WDV after depreciation	54000	Nil	13500	99000	100000	Nil	Nil
Short term capital gain		20000				80000	
Short term capital loss							(35000)

Particulars	Case H	Case I	Case J	Case K	Case L	Case M	Case N
WDV as on 1/4/20	80000	80000	80000	80000	80000	80000	80000
Add:- Purchases	5000	40000	Nil	30000	10000	30000	30000
	85000	120000	80000	110000	90000	110000	110000
Less:- Sale proceeds	(45000)	Nil	Nil	Nil	(16000)	(40000)	(95000)
WDV as on 31/3/21	40000	120000	80000	110000	74000&	70000	15000@
Depreciation	4000	10000#	8000	11000	6900	7000	750
WDV after depreciation	36000	110000	72000	99000	67100	63000	14250
Short term capital gain							
Short term capital loss							

Depreciation Calculation: -
*Case E: - (80000 *10%) + (40000*10% * ½) = 8000 + 2000 = 10000/-
#Case I: - (80000*10%) + (40000*10% * ½) = 8000 + 2000 = 10000/-
&Case L: - (64000*10%) + (10000*10% *1/2) = 6400 + 500 = 6900/-
@Case N:- (15000*10%* ½) = 750/-

Example 6: C Ltd., a manufacturing concern, working since last 20 years. The block (Plant 15%) has WDV as on 1/4/2020 `10,00,000. Subsequently it purchased the following plants:

Assets	Date of Acquisition	Cost of Acquisition	Rate of depreciation
Plant A	07/04/2020	6,00,000	15%
Plant B	07/12/2020	2,00,000	15%
Plant C	05/05/2021	2,50,000	15%
Plant D	06/12/2020	1,00,000	15%

Plant B installed on 7/5/2021. Compute additional depreciation.
Solution: - Computation of additional depreciation

Assets	Rate	Cost	Calculation	Depreciation
Plant A	20%	600000	= 600000 * 20%	= 120000 in A.Y. 21-22
Plant B	20%	200000	= 200000 * 20%	= 40000 in A.Y. 22-23
Plant C	20%	250000	= 250000 * 20%	= 50000 in A. Y. 22-23
Plant D	20%	100000	= 100000 * 20%	= 10000 in A.Y. 21-22 & 10000 in A.Y. 22-23

Example 7:An industrial undertaking, which commenced the manufacturing activity with effect from 1st September, 2020 hasacquired the following assets during the previous year 2020-21:

Assets	Date of acquisition	Date when put to use	Cost of acquisition
Factory building	4-4-2020	1-9-2020	50,00,000
Plant & Machinery			
Machinery A	5-5-2020	1-9-2020	2,00,000
Machinery B	7-6-2020	1-9-2020	5,00,000
Machinery C	30-8-2020	1-9-2020	10,00,000
Machinery D	1-9-2020	31-10-2020	4,00,000
Machinery E	1-1-2021	28-2-2021	3,00,000
Machinery F (second hand)	11-1-2021	13-1-2021	2,00,000
Motor car	1-2-2021	1-2-2021	5,00,000
Air-conditioner (installed in the office)	1-2-2021	2-2-2021	1,00,000

Compute the depreciation allowable for the assessment year 2021-22 and the written down value as on 1st April 2021.

Solution: - Computation of depreciation allowable for the A. Y. 2021-22

Particulars	Building	Plant & Machinery
Rate	10%	15%
WDV as on 1-4-2020	Nil	Nil
Add:- Purchases during the year	5000000	3200000
	5000000	3200000
Less :- Sale Proceeds	Nil	Nil
	5000000	3200000
Less:- Depreciation on above	500000*	777500#
WDV as on 1st April 2021	4500000	2422500

* 5000000 * 10% = 500000/-

\# Normal Depreciation on machinery

[(200000+500000+1000000) *15%] + [(400000+300000+200000+500000+100000) *15% * 1/2]

= (1700000 * 15%) + (1500000 * 15% * ½)

= 255000 + 112500

= 367500/-

Additional depreciation on machinery A to E

= (1700000 * 20%) + [(400000 + 300000) * 20% * ½]

= 340000 + 70000

= 410000/-

Total depreciation = Normal + Additional

= 367500 + 410000

= 777500/-

Example 8: - Important Ltd. is a power-generating unit. On 1-4-2018, it purchased a plant of ` 50,00,000 eligible for depreciation @ 15% on SLM. Compute balancing charge or terminal depreciation assuming the plant is sold on 21/4/2020 for: A) ` 7,50,000 B) ` 30,00,000 C) ` 45,00,000 D) ` 55,00,000

Solution: - Computation of capital gain or balancing charge or terminal depreciation for the A. Y. 2021-22

Particulars	Note	Amount

		A	B	C	D
WDV as on 1/4/2020	1	3500000	3500000	3500000	3500000
Less: Sale proceeds		750000	3000000	4500000	5500000
Balance		2750000	500000	(1000000)	(2000000)
Terminal depreciation		2750000	500000	Nil	Nil
Balancing charge		-	-	1000000	1500000
Short term capital gain		-	-	-	500000

Note: - 1: Computation of WDV as on 1/4/2020

Particulars	Amount
Original cost	5000000
Less: Depreciation for the year 2018-19 @ 15%	750000
WDV as on 1/4/2019	4250000
Less: Depreciation for the year 2019-20 @ 15%	750000
WDV as on 1/4/2020	**3500000**

Example 9: - Dr. R purchased a house property on 1-12-2018 for ` 10,00,000. Till 1-12-2020, the same was self-occupied as aresidence. On this date, the building was brought into use for the purpose of his medical profession. What would be the depreciation allowable for the assessment year 2021-22?

Solution: - Computation of depreciation for the A. Y. 2021-22

Particulars	Amount
Rate of depreciation	10%
Cost of building as on 1.12.2018	1000000
Less:- Depreciation (1000000*10%*1/2)	50000
WDV as on 31/3/2019	950000
Less:- Depreciation (950000*10%)	95000
WDV as on 31/3/2019	855000
Cost of building as on 1/4/2020	855000
Less :- Depreciation for the year 2020-21 (855000*10%)	85500
WDV as on 1/4/2021	769500

Example 10: - Roshan started a business of designing on 01-04-2019. He acquired a laptop on 01-04-2019 for ` 50,000 for hisbusiness use. Since his gross total income for the previous year 2019-20 is only ` 55,000/-, he did not file his return of income. During the previous year 2020-21, his business income before depreciation u/s 32 is ` 5,60,000. Since he is required to file his return of income for the assessment year 2021-22, he seeks your advice for computing depreciation. Please compute depreciation on his behalf assuming that:

a. He is maintaining books of account from 01-04-2019 but did not provide any depreciation on laptop.
b. He is maintaining books of account from 01-04-2019 and provided depreciation ` 8,000 on laptop.
c. He is maintaining books of account from 01-04-2020.

Solution: - Computation of depreciation in various cases:

Particulars	Case A	Case B	Case C
Cost of laptop as on 1/4/2019	50000	50000	50000
Less:- Depreciation for the P.Y. 2019-20 provided in books of accounts	Nil	(8000)	Nil
WDV as on 31/3/2020	50000	42000	50000
Less:- Depreciation for the P.Y. 2020-21 @40%	(20000)	(16800)	(20000)
WDV as on 31/3/2021	30000	25200	30000

Example 11: -A car was purchased by 'S'on 10.8.2016 for ` 3,25,000 for personal use is brought into the business of the assessee on 01.12.2020, when its market value is ` 1,50,000. Compute the actual cost of the car and the amount of depreciation for the Assessment year 2021-22 assuming the rate of depreciation to be 15%.

Solution: -Computation of depreciation on car for the A. Y. 2021-22

Particulars	Amount

Cost of car	325000
Less:- Depreciation on car @ 15% (325000*15%)	48750
WDV as on 31/3/2021	276250

Example 12: -Compute depreciation u/s 32 for the A.Y. 2021-22 from the following information:

a. W.D.V. of plant and machinery (15%) as on 01-04-2020 ` 10,00,000

b. Plant D acquired on 10-07-2020 for ` 5,00,000/-. ` 1,00,000 has been paid in cash to the vendor and balance amount has been paid through an account payee cheque. Such plant was put to use on the same day.

c. The assessee is engaged in the business of manufacturing of industrial paints.

Solution: - Computation of depreciation on plant and machinery for A. Y. 2021-22

Particulars	Amount
W.D.V. as on 1/4/2020	1000000
Add:- Plant D purchased on 10/7/20	400000
Total cost of block	1400000
Less:- Normal depreciation (1400000*15%)	(210000)
Less:- Additional depreciation (400000*20%)	(80000)
WDV as on 31/3/21	1110000

Example 13: X, a retail trader of Mumbai gives the following Trading and Profit and loss Account for the year ended 31st March, 2021.

Trading and Profit and Loss Account for the year ended 31.03.2021

	₹		₹
To opening stock	86,000	By Sales	12,11,500
To Purchases	10,00,000	By Other business receipts	6,500
To Gross profits	3,06,000	By Income from UTI	2,400
		By Closing Stock	1,71,600
	13,92,000		13,92,000
To Salaries	60,000	By Goss Profit B/D	3,06,000
To Rent and rates	40,000		
To Interest on loan	10,000		
To Depreciation	1 02,000		
To Postage and Telegram	1,640		
To Printing and Stationary	23,200		
To Loss on sale of shares (Short term)	8,100		
To General expenses	11, 060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

Some stocks were found to be not included in both the opening and closing stock, the value of which were: Opening Stock `12,000, Closing Stock `21,000.

Salary includes `18,000 paid to his brother, which is unreasonable to the extent of `2,000.

The whole amount of printing and Stationary was paid in cash.

Depreciation as per Income Tax rules is `66,000.

Rent and Rates includes Sales Tax Liability of `5,000 paid on April 4, 2021.

Other Business Receipts include `3,000 received as refund of Sales Tax relating to the year, 2019-20.

General expenses include `1,500 paid as donation to a Public Charitable Trust.

You are required to advise X whether he can offer his Business Income under sec. 44 AD, i.e. Presumptive Taxation.

Solution: - Computation of business income for the assessment year 2021 – 22

Particulars	Amount
Net profit as per profit & loss Account	50000
Add:- Expenses disallowed	
Loss on sale of shares	8100
Net undervaluation of stock (21000 – 12000)	9000
Salary not allowed to brother uptoRs. 2000	2000
Depreciation not allowed (102000 – 66000)	36000
Less:- Income from UTI	(2400)

Income from business	102700

Example 14: X ltd is a manufacturing company. The profit and loss Account of X Ltd. For the year ending March 31, 2021 is given below:

	₹		₹
Sales tax	50,000	Sales	20,10,000
Other expenses	14,15,000		
Net profit	5,45,000		
Total	20,10,000	Total	20,10,000

Other information:
1. Out of sales tax of `50,000 only `47,000 is paid, the payment is made as follows: `40,000 on September 2, 2020; `4,000 on May 9, 2021; and `3,000 on November 1, 2021.
2. Return of income is submitted on November 10, 2021 and evidence of Sales tax payment as stated in 1 (ii) and 1 (iii) above is submitted along with the return of income.
3. During the previous year 2020-21, the following payments are made in respect of expenses pertaining to earlier years:

(i) Bonus to employees pertaining to the previous year 2020-21 paid on April 30, 2021`15,000;
(ii) Customs duty pertaining to the previous year 2020-21 paid on May 3, 2020: `25,000;
(iii) Electricity bill payable to BSES pertaining to previous year 2020-21 paid on May 3, 2020: `35,000
(iv) Excise duty pertaining to the previous year 2020-21 paid on May 20, 2021: `40,000; and
(v) Leave salary payable to employees pertaining to the previous year 2020-21 paid on December 2, 2020: `45,000.

These payments do not pertain to the previous year 2020-21. Consequently, these are not recorded in the Profit & Loss Account. Find out the consequences on the net income of X Ltd. For the assessment year 2021-22, assuming that there are on other adjustments.

Solution: - Computation of business income for the assessment year 2021 – 22

Particulars	**Amount**
Net profit as per profit & loss Account	545000
Add:- Expenses disallowed	
Sales tax not yet paid but debited to account	3000
Sales tax paid after the due date	3000
Less:- Expenses paid after the previous year but within the date specified u/s 43B	
Bonus to employees	(15000)
Customs duty	(25000)
Electricity bill	(40000)
Excise duty	(40000)
Leave salary	(45000)
Income from business	**386000**

Example 15: V Pharma Ltd. informs that it has net profit of `60 lakhs for the year ended 31st march, 2021. It gives you the following further information:
(i) Depreciation as per books `3,50,000.
(ii) Bad debts written off in the books `5,00,000, which includes `1 lakh due from one customer who has disputed the liability to pay but continues to have business relationship with the company.
(iii) Proposed dividend debited to profit and loss account `6 lakhs.
(iv) One machinery which has become useless has been written off in P & L Account, the amount debited being `90,000.
(v) Provident Fund collections from employees for the year `1,50,000 and company‘s own contribution of `1,10,000 for the year have not been remitted. These amounts are shown as Sundry Liability in the books. Assume it will be remitted after 31st December, 2020.
(vi) Income from agricultural lands surrounding the factory `50,000 credited to Profit and Loss account.
(vii) Bank term loan for purchases of machinery waived `2 lakhs is credited to capital reserve account.

(viii)The opening WDV of plant and machinery was `15,90,000. One machinery for 4,10,000 was acquired on 01.06.2020 and was put to use immediately.

(ix) Provisions for taxation debited in the Profit and Loss Account amounts to `15 lakhs.

(x) You are required to compute the income of the company under the head profits and gains of business or profession 'for the assessment year 2021-22.

Solution: - Computation of profits and gains of business or profession for the A. Y. 2021-22 relating to P. Y. 2020-21

Particulars	Amount
Net profit as per profit & loss Account	6000000
Add:- Expenses disallowed	
Proposed dividend	600000
Provident fund collection from employees and own contribution	260000
Written off machinery	90000
Provision for taxation	1500000
Excess depreciation charges (350000 – 286500)	63500
Less:- Income from agricultural land	(50000)
Bank term loan	(200000)
Income from business	8263500

Working note for depreciation

WDV as on 1/4/19	1590000
Add: - New machinery purchased	410000
Less: - Write off machinery	(90000)
WDV as on 31/3/20	1910000
Depreciation as per rule @ 15% (1910000*15%)	286500

Example 16: The statement of Profit and loss of XYZ Limited for the previous year 2020-21 shows a net profit of `8,50,390 after debiting/crediting the following items: Purchase of goods for `42,000 (market value `35,000) from one of the directors of the company. Interest of `1,00,000 paid on loan taken from Mr. Ron of USA without deducting tax at source. Advance of `90,000 paid in earlier year for purchase of machinery Written off. Income tax on perquisites of employees paid by the company `20,000. Recovery of bad debt of ` 30,000 which was disallowed in previous assessment of the company. Compute income of XYZ limited under the head —Profits and gains of business or profession for Assessment Year 2021-22 indicating reasons for treatment of each item.

Solution: - Computation of Business income for the A. Y. 2021-22 relating to P. Y. 2020-21

Particulars	Amount
Net profit as per profit & loss Account	850390
Add:- Expenses not allowed/Income not considered	
Excess amount charged for goods purchased (42000 – 35000)	7000
Income tax paid for employee	20000
Less:- TDS not considered for payment of interest on loan (100000*10%)	10000
Recovery of bad debts	30000
Income from business	**837390**

Example 17: Following is the Profit and Loss Account of A, a resident of India, for the year ended 31.03.2021:

	₹		₹
To Administrative Expenses	2,75,000	By Gross Profit	7,50,000
To Interest	55,000	By Agricultural income (net): from Lands in India	
To Life Insurance Premium:		from lands in Malaysia	25,000
Self	25,000	By Interest (PPF)	20,000
—daughter in law	15,000	By Dividend from listed Indian companies	31,200
To Depreciation	1,50,000	By Savings Bank Interest	12,000
To Net Profit	3,24,200		6,000
	8,44,200		8,44,200

Other information:
(i) Depreciation allowable for the year under section 32 of the income-tax Act, 1961 amounts to `1,75,000.
(ii) Administrative expenses include salary taken by Mr. Ashwin at `10,000 per month for 8 months.
(iii) Interest includes payment of `24,000 to daughter @36% per annum when the market rate of interest is 15% per annum.
Compute the total income of A for the assessment year 2021-22.
Solution: - Computation of profits and gains of business or profession for the A. Y. 2021-22 relating to P. Y. 2020-21

Particulars	**Amount**
Net profit as per profit & loss Account	324200
Add :- Expenses not allowed	
Life insurance premium – self	25000
Life insurance premium – daughter in law	15000
Excess interest paid to daughter (24000 – 10000)	14000
Less:- Expenses not recorded / income not allowed	
Depreciation undercharged (175000 – 150000)	25000
Agricultural income from India	25000
Agricultural income from Malaysia	20000
Interest on PPF	31200
Dividend from listed Indian companies	12000
Saving bank interest	6000
Total Income from Business	**259000**

If 36% is 24000 then 15% is how much? (24000*15)/36 = 10000.

Example 18: X, a businessman submits the following profit and loss account for the year ended 31.3.2021: The following additional information was available:
(a) Salaries include `15,000 paid to the proprietor's wife who was an engineer and before joining the business of her husband was employed in a Government concern and was drawing a salary of `10,000 p.m. She joined here on 15.2.2016.
(b) The proprietor went to foreign tour for business purposes and stayed there for 18 days, of which he spent 3 days for sight-seeing. Total expenses incurred in foreign country was `18,000, which was included in travelling expenses a/c.
(c) Depreciation as per IT Rules was `40,000.
(d) Birthday gift presented to son in cash was invested in a nationalized bank, interest on the same accrued up to 31-3-2016 was `2,500. His son is a minor. Compute X's taxable income from business for the assessment year 2021-2022.

Example 19: H is the owner of a small scale industry. The following are the particulars of his business and other related matters during the accounting year 2020-2021.
(a) Net Profit as per Profit and Loss Account `36,000.
(b) The Profit and Loss Account was debited for `1,200 as his interest on capital and for `2,400 as remuneration to self.
(c) H has taken goods for his personal consumption valued `8,000. On this account sales account was credited for `6,000 only.
(d) Opening and closing stock of finished goods are valued for `4,500 and `7,200 respectively which were 10% below the cost of production.
(e) Profit and Loss Account is debited for `1,500 as rent for godown owned by H.
(f) Profit and Loss Account has been credited for `2,500 as interest on fixed deposit with Bank and for `5,000 (Gross) as dividend from Indian company.
(g) Profit and Loss Account is excess debited by `2,500 on account of depreciation.
(h) Profit and Loss Account is debited for ` 4,000 as donation to National Defence Fund. From the above particulars, compute the taxable income of H for the assessment year 2021-2022.

INCOME FROM BUSINESS AND PROFESSION

Example 1: Depreciated value of the:

Block of assets (consisting of plants A, B and C) on 1st April, 2016	29,60,000
Additions of plant D made on September 1, 2016 (it is put to use on September 8, 2016)	3,20,000
Cost of plant E purchased on December 24, 2016	6,20,000
Sale proceeds of plant A (sold on March 3, 2017 and was originally purchased on 1st April, 2012 for ` 240,000)	32,60,000

Assuming that the rate of depreciation is 30%, find out the admissibility of depreciation for theassessment year 2017-2018.

Answer: Computation of depreciation allowance for the A.Y. 2017-2018 relating to the P.Y. 2016-2017.

Plant (Block 1, Rate of Depreciation 30%):

W.D.V. of plants A, B and C on 1.4.2016	29,60,000
Add: Cost of plant D (put to use on 8.9.2016)	3,20,000
Add: Cost of plant E (put to use on 24.12.2016)	6,20,000
	39,00,000
Less: Sale Proceeds of plant A	32,60,000
W.D.V. of the block of plants	6,40,000
Depreciation allowance:	
Plant E (used for less than 180 days during the previous year) [`6,20,000 ×30/100x1/2]	93,000
Remaining W.D.V. of block of assets i.e., ` (6,40,000 - 6,20,000) or ` 20,000 @ 30%	6,000
Total depreciation for the previous year 2016-2017	99,000

Example 2: V Ltd., engaged in manufacture of PVC pipes, purchased a machinery on 25.09.2016 for Rs. 2,00,000 and put it to use after two weeks. There is no other asset in the block. What is the WDV of theblock as on 31.03.2017. The normal rate of depreciation may be assumed to be 15%.

Answer: Computation of written down for the assessment year 2017-18 relating to the previous year 2016-17.

Plant (Block 1, Rate of depreciation 15%)		Nil
WDV as on 1.4. 216		
Add: Cost of plant acquired on 25.9.2016		2,00,000
Total		2,00,000
Less: Normal depreciation [` 2,00,000 x 15%x1/2]	15,000	
Less: Additional depreciation @20% [2,00,000 x 20% x ½]	20,000	35,000
WDV as on 1.4. 2017		1,65,000

No mention of additional depreciation in the question.

Note: Since the plant was used for less than 180 days during the previous year, normal depreciationand additional depreciation shall be allowed at half the eligible rates.

Example 3: N Textiles Ltd. purchased a machinery from Germany for Euro 1,00,000 on 3.09.2015 througha term loan from Fortune Bank Ltd. The exchange rate on the date of acquisition was Rs.65. The assesseetook a forward exchange rate on 05.10.2016 when the rate specified in the contract was 67 per Euro.Compute depreciation for the assessment years 2016-17 and 2017-18. Ignore additional depreciationand assume normal depreciation @15%.

Answer: Computation of depreciation for the assessment years 2016-17 and 2017-18

Assessment year 2016-17:

Cost of the asset [€1,00,000 x ` 65]	65,00,000	
Less: Depreciation @15%	9,75,000	9,75,000
WDV as on 1.4.2016	55,25,000	
Add: Exchange rate difference u/s 43A [€1,00,000 x ` 2]	2,00,000	
WDV as on 31.3.1016	57,25,000	
Depreciation @15%	8,58,750	8,58,750
WDV as on 1.4.2017	48,66,250	

Example 4: X is a manufacturer of plastic goods in India. The following particulars are available inrespect of his business:

(a) Written down of plant and machinery as on 1st April, 2016	Rs.8,00,000
(b) Additions to plant and machinery during the previous year 2016-2017	Rs.1,00,000

(c) One machine was destroyed in an accident for which compensation received from the insurance company Rs.40,000
(d) During the year X sold some machinery
Find out the depreciation allowance or capital gains for the assessment year 2017-2018, if the sale priceof the machinery is (i) Rs. 5,00,000 (ii) Rs. 9,00,000. Rate of depreciation in respect of all the machines is 30%.

Answer: Computation of depreciation and capital gains for the assessment year 2017-2018 relating to the **P.Y.** 2016-2017.

Plant and machinery:	Case(i)	Case(ii)
(Block1,Rate of depreciation 30%): W.D.V.of the block of plant and machinery ason 1st April, 2016	8,00,000	8,00,000
Add: Purchase during the year	1,00,000	1,00,000
	9,00,000	9,00,000
Less: Moneys payable in respect of machinery sold, destroyed or demolishedduring the year	5,40,000	9,00,000
W.D.V.of the block of plant and machinery as on 31st March, 2017	3,60,000	Nil
Depreciation allowance(Note1)	1,28,000	Nil
Short-term capital gains	Nil	40,000

Notes :

(1) Depreciation has been worked out as under: Normal depreciation: @ 30% of ` 3,60,000	Rs.1,08,000
Additional depreciation: @ 20% of ` 1, 00,000	Rs.20,000
Total	Rs.1,28,000

(2) In the case of (ii), moneys payable in respect of assets sold and destroyed being higher than theW.D.V. of the block of assets, neither normal depreciation nor additional depreciation has beenallowed. On the other hand, the excess of the sale proceeds over the W.D.V. has been treated asshort-term capital gains u/s 50(1).
(3) Rs.40,000, being insurance claim received, has been added in both cases with the sale proceeds ofmachines.

Example 5: X, a retail trader of Mumbai gives the following Trading and Profit and loss Account for the year ended 31st March, 2017

Trading and Profit and Loss Account for the year ended 31.03.2017

	₹		₹
To opening stock	86,000	By Sales	12,11,500
To Purchases	10,00,000	By Other business receipts	6,500
To Gross profits	3,06,000	By Income from UTI	2,400
		By Closing Stock	1,71,600
	13,92,000		13,92,000
To Salaries	60,000	By Goss Profit B/D	3,06,000
To Rent and rates	40,000		
To Interest on loan	10,000		
To Depreciation	102,000		
To Postage and Telegram	1,640		
To Printing and Stationary	23,200		
To Loss on sale of shares (Short term)	8,100		
To General expenses	11, 060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:
Some stocks were found to be not included in both the opening and closing stock, the value of which were: Opening Stock Rs.12,000, Closing Stock Rs.21,000.
Salary includes Rs.18,000 paid to his brother, which is unreasonable to the extent of Rs.2,000.
The whole amount of printing and Stationary was paid in cash.
Depreciation as per Income Tax rules is Rs.66,000.
Rent and Rates includes Sales Tax Liability of Rs.5,000 paid on April 4, 2017.
Other Business Receipts include Rs.3,000 received as refund of Sales Tax relating to the year, 2015-16.
General expenses include Rs.1,500 paid as donation to a Public Charitable Trust.

You are required to advise X whether he can offer his Business Income under sec. 44 AD, i.e.Presumptive Taxation.

Answer: - **Computation of business income for the assessment year 2017-18**

Net profit as per P/L Account		50,000
Add: Expenses disallowed:		
Loss on sales of shares	8,100	
Net undervaluation of stock [21,000 -12,000]	9,000	
Depreciation not allowed [1,02,000 -66,000]	36,000	
Unreasonable salary to brother	2,000	(+) 55,100
Less: Items to be deducted:		
Income from UTI		(-) 2,400
Income from business		1,02,700

Presumptive income u/s 44AD: Since the gross turnover or receipt from the eligible business does not exceed Rs.1 crore, the assessee may pay presumptive tax being 8% of the gross receipt or Rs.12,11,500 x 8% = Rs.96,920.

Example 18: X ltd is a manufacturing company. The profit and loss Account of X Ltd. For the year ending March 31, 2017 is given below:

	₹		₹
Sales tax	50,000	Sales	20,10,000
Other expenses	14,15,000		
Net profit	5,45,000		
Total	20,10,000	Total	20,10,000

Other information:

1. Out of sales tax of Rs.50,000 only Rs.47,000 is paid, the payment is made as follows: Rs.40,000 on September 2, 2016; Rs.4,000 on May 9, 2017; and Rs.3,000 on November 1, 2017.
2. Return of income is submitted on November 10, 2017 and evidence of Sales tax payment as statedin 1 (ii) and 1 (iii) above is submitted along with the return of income.
3. During the previous year 2016-17, the following payments are made in respect of expensespertaining to earlier years:
    (i) Bonus to employees pertaining to the previous year 2016-17 paid on April 30, 2017 Rs.15,000;
    (ii) Customs duty pertaining to the previous year 2016-17 paid on May 3, 2016: Rs.25,000;
    (iii) Electricity bill payable to BSES pertaining to previous year 2016-17 paid on May 3, 2016: Rs.35,000
    (iv) Excise duty pertaining to the previous year 2016-17 paid on May 20, 2017: Rs.40,000; and
    (v) Leave salary payable to employees pertaining to the previous year 2016-17 paid on December2, 2016: Rs. 45,000.

These payments do not pertain to the previous year 2016-17. Consequently, these are not recorded inthe Profit & Loss Account.Find out the consequences on the net income of X Ltd. For the assessment year 2017-18, assuming thatthere are on other adjustments.

Answer: Computation of Profits and gains of business or profession for the A.Y. 2017-18 relating tothe P.Y. 2016-17.

Net profit as per P/L Account		5,45,000
Add: Expenses disallowed u/s 43B:		
Sales tax not yet paid but debited to the account	3,000	
Sales tax paid after the due date of submission of return	3,000	6,000
Less: Expenses paid after the previous year but within the date specified u/s 43B:		
Bonus to employees	15,000	
Customs duty	25,000	
Leave salary	45,000	
Excise duty	40,000	1,25,000
Business income		4,26,000

Note: Under section 43B sales tax, bonus to employees, customs duty, and leave salary are to be allowed on accrual basis if the expenses are paid within the due date of submission of return which is 30th September in the case of a company and the evidence of such payments are submitted alongwith return. Accordingly, sales tax not paid and those paid after 30th September 2017 are disallowed.Similarly, although bonus, customs duty, excise duty and leave salary are not paid within the previousyear, these are allowed as deduction on accrual basis as they are paid within 30th September 2017.Since electricity bill is not covered under section 43B, it has been allowed on accrual basis.

Example 19: V Pharma Ltd. informs that it has net profit of `60 lakhs for the year ended 31st march, 2017.It gives you the following further information:

(i) Depreciation as per books Rs.3,50,000.

(ii) Bad debts written off in the books Rs.5,00,000, which includes Rs.1 lakh due from one customer whohas disputed the liability to pay but continues to have business relationship with the company.

(iii) Proposed dividend debited to profit and loss account Rs.6 lakhs.

(iv) One machinery which has become useless has been written off in P & L Account, the amount debited being Rs.90,000.

(v) Provident Fund collections from employees for the year Rs.1,50,000 and company's own contribution of Rs.1,10,000 for the year have not been remitted. These amounts are shown as Sundry Liability in thebooks. Assume it will be remitted after 31st December, 2017.

(vi) Income from agricultural lands surrounding the factory Rs.50,000 credited to Profit and Loss account.

(vii) Bank term loan for purchases of machinery waived Rs.2 lakhs is credited to capital reserve account.

(viii)The opening WDV of plant and machinery was Rs.15,90,000. One machinery for 4,10,000 wasacquired on 01.06.2016 and was put to use immediately.

(ix) Provisions for taxation debited in the Profit and Loss Account amounts to Rs.15 lakhs.

(x) You are required to compute the income of the company under the head profits and gains of business or profession Rs. for the assessment year 2017-18.

Answer: Computation of Profits and gains of business or profession for the A.Y. 2017-18 relating tothe P.Y. 2016-17

Net profit as per P/L Account		60,00,000
Add: Expenses disallowed:		
Depreciation (treated separately)	3,50,000	
Bad debt (Note 1)	Nil	
Proposed dividend	6,00,000	
Machinery discarded (treated separately)	90,000	
Provident fund collection from employees and own contribution notdeposited within due date	2,60,000	
Provision for taxation	15,00,000	(+)28,00,000
Less: Incomes wrongly credited:		50,000
Agricultural income	Nil	
Bank loan credited to capital reserve (Note 2)	3,00,000	
Less: Depreciation as per IT Act (Note 3)		(-)3,50,000
Business income		84,50,000

Note:

(1) In TRF Ltd. V. CIT it has been held that it is not necessary to establish that the debt has become irrecoverable; it is enough if bad debt is written off as irrecoverable in the accounts of the assessee.

(2) Recently, the Delhi High Court (High Court) in the case of Logitronics Pvt. Ltd.[Logitronics Pvt. Ltd v.CIT (ITA no. 1623 of 2010) & CIT v. Jubilant Securities Pvt. Ltd. (ITA No. 503 of 2010) it was held that inthe context of waiver of loan amount, taxability would depend upon the purpose for which theloan was taken. Waiver of loan taken for acquiring a capital asset would not result in income eligible to tax. However, waiver of loan availed for trading purpose, results in the income taxableunder the Income-tax Act, 1961(the Act).

(3) Depreciation as per IT Act:

WDV as on 1.4.2106

Add: New machinery purchased

Less: Money received in respect of machinery discarded or demolished

WDV as on 31.3.2017

Depreciation @ 15%

4,10,000
Nil
15,90,000
4,10,000
20,00,000
3,00,000

Practice Problems on "Income from Profits and Gains from Business or Profession"

1) Given below is the Profit & Loss A/c of M/s Narayan & Sons for the year ended on 31/03/2022.

Particulars	₹	Particulars	₹
To Salaries	24000	By Gross Profit	80600
To General Expenses	6500	By Bad debts recovered	2000
To Interest on Capital	8600	By Interest on Debentures	1500
To Bad Debts	1000	By Dividend on Shares	6500
To Reserve for Doubtful Debts	4000		
To Interest on Loan	7000		
To Income Tax Provision	5000		
To Donations	2500		
To Motor Car Expenses	5000		
To Depreciation Provision	6000		
Net Profit	21000		
	90600		**90600**

Additional Information:

i) Depreciation allowed as per the provisions of Income Tax is ₹4000.
ii) Motor Car is used for private purpose only.
iii) General Expenses include ₹500 for travelling for private purpose.

Compute Taxable Income from business for A.Y. 2022-2023.

2) Mr. Ganesh provides following details for the F.Y. 2021-2022. Calculate his income from Business.

Particulars	₹	Particulars	₹
General Expenses	13400	Gross Profit b/d	415500
Bad Debts	22000	Commission	8600
Advance Tax	2000	Brokerage	37000
Insurance	600	Sundry Receipts	2500
Salary to Staff	26000	Bad Debts recovered (earlier allowed as deduction)	11000
Salary to Ganesh	51000	Interest on Debentures (Gross)	25000
Interest on Overdraft	4000	Interest on Deposits with a Company	13000
Interest on Loan to Mr. Ganesh	42000		
Interest on Capital	23000		
Depreciation	48000		
Advertisement	7000		
Contribution to Employee's R.P.F.	13000		
Net Profit	260600		
	512600		**512600**

Other Information:

i) Advertisement Expenditure includes ₹3000 being cost of permanent Sign Board fixed on office premises.
ii) The amount of depreciation allowable is ₹37300 as per Income Tax rules. It includes depreciation on permanent signboards.
iii) Income of ₹4500 accrued during the previous year is not recorded in Profit & Loss A/c.
iv) Mr. Ganesh pays ₹6000 as premium on own Life Insurance Policy of ₹70000.
v) General expenses include a) ₹500 given to Mrs. Ganesh for domestic purchases and b) ₹1000 being contribution to a Political Party.

vi) Loan from Mrs. Ganesh was taken for payment of arrears of Income Tax.

3) Mr. Satyaprakash furnishes following Profit & Loss Account for the year ended on 31-03-2022. Compute his taxable income for the A.Y. 2022-2023.

Particulars	₹	Particulars	₹
To Household Expenses	11200	By Gross Profit	169000
To Bad Debts	600	By Commission	5000
To R.D.D.	4800	By Sundry Receipts	8000
To Fire Insurance	1000	By Bad Debts Recovered earlier allowed as deduction	2000
To Salary to Staff	8000	By Interest on Govt. Securities	17000
To Salary to Wife	3000		
To Copyright purchased during the year	33000		
To Interest on Overdraft	7000		
To Interest on Capital	13000		
To Depreciation	13600		
To Advertisement	3800		
To General Expenses	4700		
To Net Profit	9700		
	201000		**201000**

Working Note:

1) General Expenses include personal expenses of ₹1200.
2) As per rule depreciation on copyrights @ 25% in admissible.
3) Depreciation charged in Profit & Loss A/c should have been ₹3000 as per the provision of the Act.
4) His wife practically renders no service to the service to the business.

4) From the following Profit & Loss Account of Mr. ABC, calculate his income from business for the A.Y. 2022-2023.

Particulars	₹	Particulars	₹
General Expenses	7000	Gross Profit b/d	141000
Fire Insurance Expenses	2000	Bad Debts recovered (disallowed earlier)	8000
Bad Debts	1000	Interest on Govt. Securities	18000
Salaries	70000	Interest from debtors for delayed payments	6000
Advertisement	22250		
Proprietor's Salary	12500		
Interest on Capital	2000		
Income Tax	1250		
Advance Income Tax	1000		
Donations	1500		
Motor Car Expenses	1250		
Net Profit	51250		
	173000		**173000**

The following further information is provided:

i) General Expenses include ₹4000 paid as compensation to an old employee whose services were terminated in the interest of business.

ii) ₹2200 paid to a poor student by way of help.

iii) Depreciation calculated as per the provisions of Income Tax Act ₹8900.
iv) 50% of the motor car expenses are for proprietor's personal use.

5) Mr. Om is a cloth merchant. From the following Profit & Loss A/c for the year ended on 31/03/2021 compute his income form business and his gross total income for the Assessment Year 2022-2023:

Particulars	₹	Particulars	₹
Salaries & Wages	15000	Gross Profit	270000
Rent & Taxes	4000	Dividend on Shares (Gross)	4000
Domestic Expenses	2500	Rent from Building Let out	10000
Income Tax	1200		
Postal Charges	1500		
Donation	2500		
Life Insurance Premium	2000		
Audit Fees	1500		
Bad Debts Reserve	1800		
Bad Debts	2500		
Depreciation	5000		
Net Profit	244500		
	284000		**284000**

Other Information:

i) Rent and Taxes include ₹2000 paid as Municipal Tax on building let out.
ii) Value of Life Insurance Policy is ₹18000.
iii) Donation was given to an approved institution.
iv) Permissible Depreciation was ₹4000.

6) A cycle manufacturer furnishes following details of Profit & Loss A/c for the year ended on 31-3-21

Particulars	₹	Particulars	₹
To Salary to Employees	90000	By Gross Profit	370000
To Advertisement Expenses (Cash)	24000	By Interest on Securities	24000
To General Expenses	12000	By Income from House Property	35000
To Entertainment Expenses	26000	By Bad Debts recovered (allowed earlier)	12000
To Bad Debts	1500		
To Drawings	24000		
To House Tax (Let-out Property)	7500		
To Interest to Proprietor's Capital	7000		
To Repairs	4000		
To Rent	23000		
To Legal Expenses	5000		
To Depreciation	15000		
To Bonus	112800		
To Bonus to the Proprietor	4000		
To Motor car purchased	72000		
To Expenses on Car during the year	12000		
To Donations	6000		
To Provisions for Bad Debts	2000		
To Net Profit	100000		

	441000		441000

Additional Information:

1) ₹3000 spent on purchase of Land are included in legal expenses.
2) Half of the repairs expenses were on let-out property.
3) Depreciation allowable on all business assets including car ₹14400.

Calculate the income under the head 'Profits & Gains from Business & Profession' for the year ending on 31-03-2022.

7) Shri. Wankhede runs a Dal Mill. His Profit & Loss A/c for the year 2021-2022 is as under.

Particulars	₹	Particulars	₹
To Opening Stock	56000	By Sale of Gram	656000
To Purchase of Gram	680000	By Sale of Husk	264000
To Wages	144000	By Closing Stock	248000
To Gross Profit c/f	288000		
	1168000		**1168000**
To Patent purchased	14000	By Gross Profit b/d	288000
To Manager's Salary	26400	By Profit from Wheat Business	95000
To Stationary	1600	By Income from Commission of agency business	5300
To Travelling Exp.	8000		
To Repairs	14400		
To Insurance	6800		
To Interest on Overdraft	13400		
To Office Expenses	36600		
To Labour Welfare Expenses	6000		
To Compensation	8000		
To Net Profit	300800		
	43600		**436000**

Additional information is available:

1) Gram of ₹36000 was purchased on 28-03-2021. This amount is included in purchases, but not included in the stock. Its delivery was received on 02-04-2021.
2) Office expenses include ₹4000 for expenditure on Diwali celebration in an office.
3) Shri. Wankhede is manager himself and received salary. He gives full time to factory.
4) Assets of Factory were as follows:
    a. Factory Building – ₹300000
    b. Machinery (01-04-2020) – ₹270000
5) Depreciation of above assets is not charged to Profit & Loss A/c
6) Compensation is paid for breach of contract.

   Compute income from business of Shri. Wankhede for the relevant Assessment Year.

8) Mr. Amit is a proprietor of a business. His Profit & Loss A/c for the year ended on 31-03-2022 is as follows:

Particulars	₹	Particulars	₹
To Establishment, Rent & Rates	14640	By Gross Profit	301680
To Household Exp.	103460	By Interest on Gov. Security	10800
To Discount & Allowance	900	By Rent from House Property	10800
To Provision for Bad Debts	2400		

To Law Charges	900		
To Advertising	3100		
To Gifts	300		
To Fire Insurance	720		
To Sales Tax	2900		
To Repairs (Not for business)	960		
To Loss on Sale of Motor Car	3600		
To LIC Premium on the life of Grand Son	3580		
To Wealth Tax	1480		
To Interest on Capital	700		
To Audit Fee	600		
To Interest on Bank Loan	2760		
To Provision for Depreciation	5000		
To Income Tax	7800		
To Net Profit	161680		
	323380		**323280**

Following further information is available:

1) Actual Bad debts written off during the year amounts to ₹1100.
2) Amount of income tac actually paid during the year is ₹8400.
3) Depreciation allowable is ₹3400 as per Income Tax Rules.
4) Advertising Expenses include ₹1100 spent on special advertisement campaign to open a new shop in the market.
5) Law Charges are in connection with a trademark.
6) Mr. Amit carries on his business from rented premises, half of which is used as his residence.
7) Rent, Rates & Taxes include ₹2400 paid as a rent of the premises during the year.

Compute the business income of Mr. Amit for the A.Y. 2022-2023.

9) The Profit & Loss A/c of Raviraj Ltd. for the year ended on 31-03-2022 showed a net profit of ₹250000.
   a. The Profit & Loss A/c included in the Debit Side the following:
      i. ₹ 20000 interest paid on money borrowed for extending the company's factory premises, the expansion was however still in progress.
      ii. The depreciation provided in the books is ₹ 50000; however, the amount computed under Income Tax Act is ₹ 150000.
      iii. ₹ 25000 was paid to company's lawyer for arguing appeals of the company before the Tribunal.
      iv. ₹ 3000 paid for the late payment of Professional Tax as a penal interest.
      v. Reserve for Bad Debts ₹ 15000.
      vi. ₹ 500 being fine imposed by the municipality for violating their regulations.
   b. The Credit side of Profit & Loss A/c included:
      i. Dividend from:
         1. Company's foreign subsidiary in Japan ₹ 10000.
         2. Domestic Company ₹ 25000.
   c. It is also observed that the opening stock of ₹ 90000 and closing stock of ₹ 108000 are undervalued by 10% on cost.

Compute the total income of the company for the assessment year 2022-2023.

Solution:

Particulars	₹	₹
Income from Business		
Net Profit as per Profit & Loss A/c		250000
Add: Inadmissible Expenses		
- Reserve for Bad Debts (being an anticipated loss)	15000	
- Penal Interest for delay in Payment of Profession Tax	3000	
- Fine imposed by municipality for violation of regulation	500	
- Interest on money borrowed for extending the company's factory premises	20000	
- Depreciation as per books	50000	88500
Less: Expenses expressly allowed as deduction		
- Depreciation as per Income Tax Act	150000	150000
Less: Income not chargeable to Tax under this Head		
- Dividend from Subsidiary in Japan	10000	
- Dividend from a Domestic Company	25000	35000
Less: Income exempt from Tax		-
Add: Adjustments on Undervaluation of Stock		
- Undervaluation of Opening Stock (1/9th of ₹90000)	-10000	
- Undervaluation of Closing Stock (1/9th of ₹108000)	12000	2000
Business Income		**155500**
Income from Other Sources		
- Dividend from Subsidiary in Japan	10000	
- Dividend from a Domestic Company	25000	35000
Income from Other Sources		**35000**
Total Income of Raviraj Ltd.		**190500**

10) From the particulars submitted below, find out the income from Business and Profession of RGK Ltd. for the year ended on 31-03-2022:

Particulars	₹	Particulars	₹
To Opening Stock	52400	By Sale of Sugar	1152500
To Sugar Cane Purchased	475200	By Transfer Fees	300
To Manufacturing Expenses	259000	By Rent from Agricultural Land	1000
To Salaries and Wages	45500		
To General Expenses	8500		
To Commission and Brokerage	36400		
To Interest on Loan	8500		
To Director's Fees	1200		
To Income Tax	35800		
To Reserve for Bad Debts	19500		
To Depreciation	69000		
To Provision for Dividend	30000		
To Net Profit	112800		
	1153800		**1153800**

Other Information:

a) General expenses include:
   i. ₹ 1000 as donation to a hospital;
   ii. ₹ 1000 subscription to Sugar Syndicate;
   iii. ₹ 2600 commission to broker for arranging a loan for the company; and
   iv. ₹ 2000 paid to a director for trip to Hyderabad to study modern methods in Chocolate manufacture.

b) The actual bad debts amounted to ₹ 6000.

c) Depreciation as per the provisions of Income Tax Act is ₹ 72000.

11) XML Ltd. Furnished the following details of its Profit & Loss Account for the year ended on 31/03/2021. Compute its income from business or profession.

Particulars	₹	Particulars	₹
Opening Stock	104000	Sales agency business	9251000
Purchases	8008750	Closing Stock	210000
Salaries & Wages	175000		
Rent & Rates	131000		
Commission	21500		
Stationary	20000		
Income Tax for 2020-21	36100		
Advertisement	5000		
Postage & Telegram	4000		
Interest on Loan	84000		
Reserve for Bad debts	3400		
Depreciation on Furniture	18000		
Net Profit	850250		
	9461000		9461000

Other Particulars:

1) Closing Stock and Opening Stock has consistently been valued at 10% below cost price.
2) Depreciation on furniture, as per tax provisions is ₹17200.

3) Purchases include a consultancy bill of ₹100000 (out of ₹100000, tax of ₹10000 was deducted at source but it is deposited on 10 January 2022).

12) From the particulars submitted below, find out the total income of RGK Ltd. for the year ended on 31-03- 2021:

Particulars	₹	Particulars	₹
To Opening Stock	52400	By Sale of Sugar	1152500
To Cane Purchased	475200	By Transfer Fees	300
To Manufacturing Expenses	259000	By Rent from Agricultural Land	1000
To Salaries and Wages	45500		
To General Expenses	8500		
To Commission and Brokerage	36400		
To Interest on Loan	8500		
To Director's Fees	1200		
To Income Tax	35800		
To Reserve for Bad Debts	19500		
To Depreciation	69000		
To Provision for Dividend	30000		
To Net Profit	112800		
	1153800		**1153800**

Other Information:

a) General expenses include:
   i. ₹ 1000 as donation;
   ii. ₹ 1000 subscription to Sugar Syndicate;
   iii. ₹ 2600 commission to broker for arranging a loan for the company; and
   iv. ₹ 2000 paid to a director for trip to Hyderabad to study modern methods in Chocolate manufacture.

b) The actual bad debts amounted to ₹ 6000.

c) Depreciation as per the provisions of Income Tax Act is ₹ 72000.

CORPORATE TAX PLANNING

UNIT 3

CAPITAL GAINS AND OTHER SOURCES

Income from 'Capital Gains'

(Sec. 45 to 54)

Sec. 45(1): Basis of Charge :

Any **profit or gain** arising from **transfer** of **capital asset** shall be charged to tax under the head capital gain in the same previous year in which **transfer took place**.

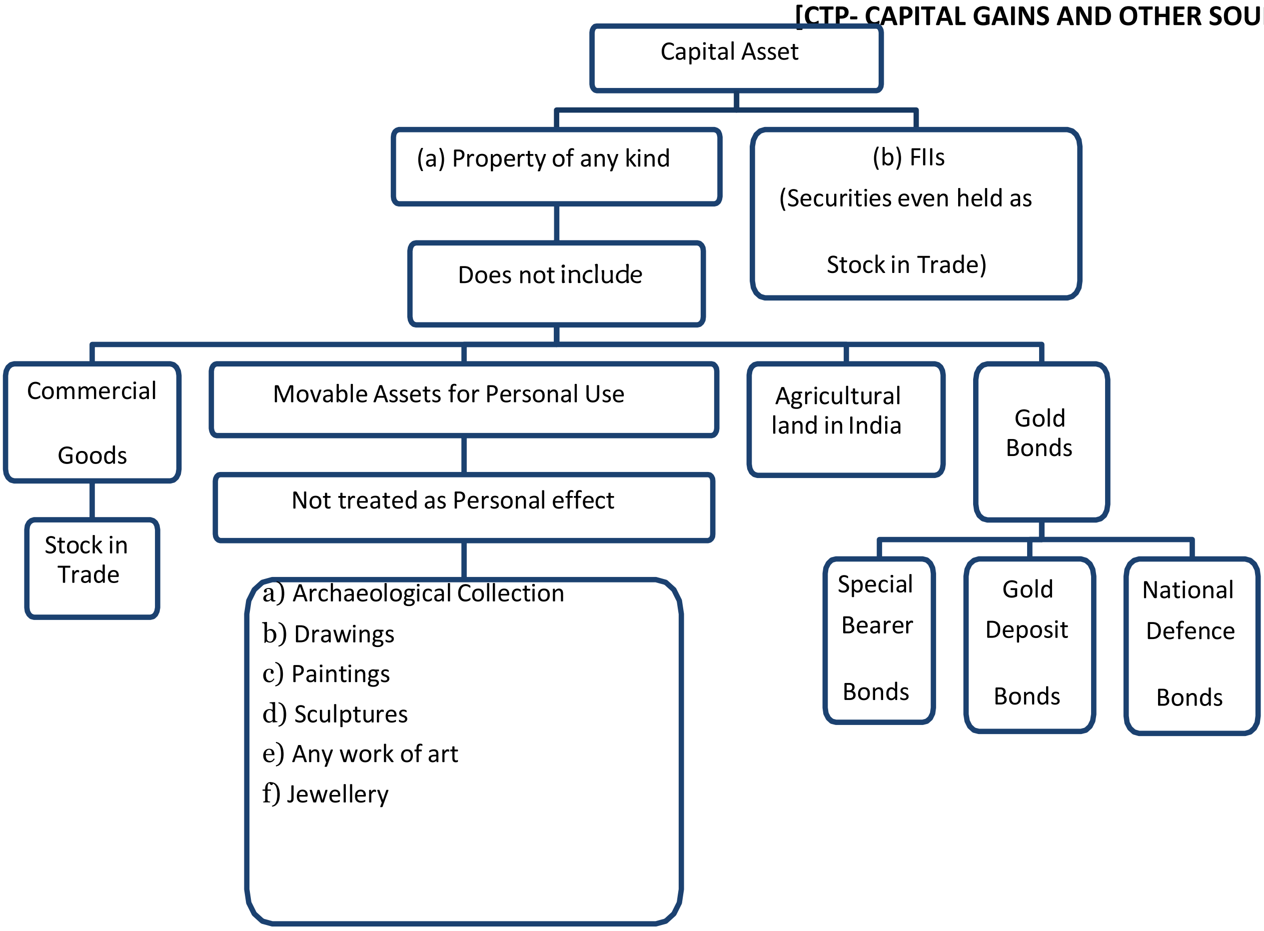
[Capital Asset + Transfer = Capital Gain / Loss (Accrual basis)]

Sec. 2(14): Capital Asset:

Capital asset means: a) Any kind of property held by an assessee, whether or not connected with business or profession of the assessee. b) Any securities held by a FII which has invested in such securities in accordance with the regulations made under the SEBI Act, 1992.

a) **Property of any kind held by an assessee, whether connected with his business, profession or not.**
   [Capital asset may be movable or immovable, tangible or intangible, fixed or floating. It includes land, building, plant, machinery, investments, goodwill, leasehold, jewellery, shares, a manufacturing licence, etc.]
b) **Any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under SEBI Act, 1992.**
   Securities as Stock in Trade – transfer – Taxable u/h PGBP.
   Securities as an Asset – transfer – Taxable u/h Capital Gain.

   Both are taxable u/h Capital gain in the hands of FIIs.



Jewellery :

a) Ornaments made of gold, silver, platinum or any other precious metal, whether or not worked or sewn into any wearing apparel.

b) Precious or semi precious stones, whether or not set in any furniture, utensil (home appliances) or other article or worked or sewn into any wearing apparel.

Agricultural Land :

The land in India, which is not situated within the limits of municipality or cantonment board:

Population of the municipality or cantonment board according to last preceding census	**Distance from the limits of municipality or cantonment board**
More than 10,000 upto 1 lakh	2 kms.
More than 1 lakh upto 10 lakhs	6 kms.
More than 10 lakhs	8 kms.

Sec. 2(47) : Transfer of Capital Asset :

Transfer includes –

a) Sale, exchange or relinquishment (give up) of the asset.

b) The extinguishment of any right.

c) Compulsory acquisition under any law.

d) Asset converted into stock in trade.

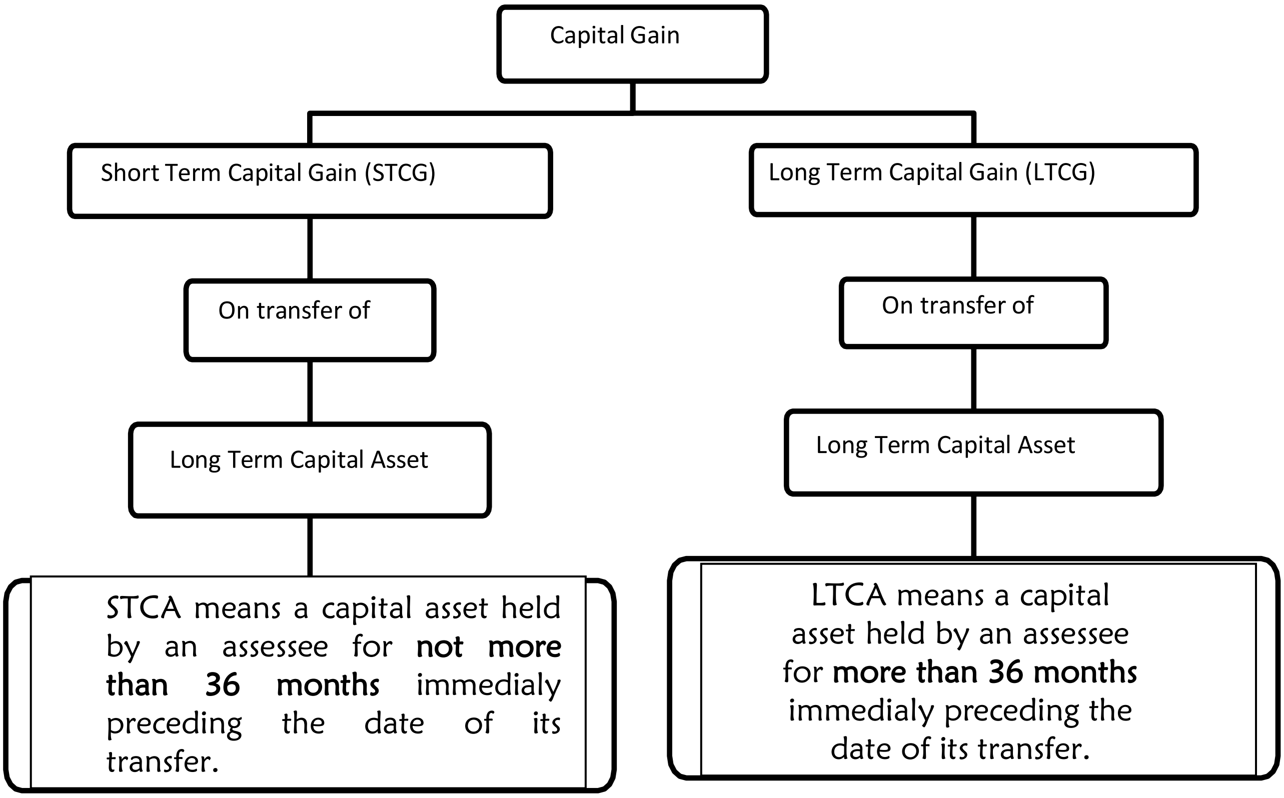
e) Conversion of business into limited co.

f) Allowing of the possession of any immovable property

g) Maturity of Zero Coupon Bond

h) Any transaction which effects the enjoyment of any immovable property.

Kinds of Capital Assets :



Exceptions to STCG

12 Months instead of 36 Months

1) Listed securities
2) Units of UTI
3) Unit of equity oriented fund
4) Zero Coupon Bond

Note: Assets used for business or profession, On which depreciation is allowed on the basis Of **WDV method are treated as STCA**.

24 Months instead of 36 Months

1) Unlisted securities
2) Land or Building or Both

Land or Building or Both (**Exception**):
(i) Transferred upto 31.3.2017 = **36 Months**
(ii) Transferred on or after 1.4.2017 = **24 Months**

Sec. 47: Certain Transactions not regarded as transfer

1) Transfer of **Capital Asset** under partition (Full or Partial) of HUF.
2) Gift or Will or an irrevocable (Unconditional transfer for long time of the beneficiary) trust. **Exceptions :** Shares allotted to its employees under the scheme Employees Stock Option Plan (ESOP) is treated as transfer.
3) Any transfer of a capital asset by a company to its subsidiary company.
   Conditions :
   i) Holding Company holds 100% shares of Subsidiary Company.
   ii) Subsidiary Company is an Indian Company
4) any transfer of a capital asset by a subsidiary company to the holding company
   Conditions :
   i) Holding Company holds 100% shares of Subsidiary Company.
   ii) Holding Company is an Indian Company
5) Amalgamating Company to Amalgamated Company.
   Conditions : Amalgamated Company is an Indian Company.
6) Demerged Company to Resulting Company.
   Conditions : Resulting Company is an Indian Company.
7) Banking Company to Banking Institution (Brought into force by the Central Government).
8) Foreign Amalgamating Company to Foreign Amalgamated Company.
   Conditions :

i) At least 25% of **shareholders** remain shareholder of amalgamated foreign company.
ii) Such transfer does not attract tax in that country.

9) Foreign Demerged Company to Foreign Resulting Company.

Conditions :

i) Shareholders holding not less than 75% in value of shares.

ii) Such transfer does not attract tax in that country.

10) Any work of art, Archeological, Book, Manuscript, drawing, photograph

Government / University / National Art Gallery / National Museum.

11) Conversion of debentures into Shares / debentures of the same company.

12) **Transfer of Land** of Sick Industrial Company. (Exemption is allowed for the sickness period).

EXPENSES ON TRANSFER

- Incurred wholly and exclusively in connection with transfer of capital asset
- Expenditure which is necessary to effect the transfer
- Examples:
- Brokerage or Commission paid for securing a purchaser
- Cost of stamp
- Registration fees borne by the vendor
- Travelling expenditure incurred in connection with transfer
- Litigation expenses for claiming compensation
- Advertisement expenses

Sec. 48: a) Computation of Short-term Capital Gains:

Short Term Capital Gain

Full value of consideration	xxx
(-) Selling expenses / Cost of Transfer	(xxx)
Net Value of Consideration	**xxx**
(-) Cost of acquisition	(xxx)
(-) Cost of Improvement	(xxx)
Short Term Capital Gain	**xxx**

Example: Mr. A purchased house on 1.7.17 for Rs. 5,00,000, he made improvement expenses in July 17 Rs. 2,00,000. This house was sold for Rs. 12,00,000 on 1.1.2019. He paid commission 2% on sale value. Calculate capital gain.

Solution: Total holding period is 18 months, hence it is Short Term Capital Asset.

Full value of consideration	12,00,000
(-) Selling expenses / Cost of Transfer	(24,000)
Net Value of Consideration	**11,76,000**
(-) Cost of acquisition	(5,00,000)
(-) Cost of Improvement	(2,00,000)
Short Term Capital Gain	**4,76,000**

Set-off of Short Term Capital Loss : If there is short-term capital loss on transfer of a short-term capital asset, such loss can be set-off against any other short-term capital gain or long-term capital gain.

INDEXED COST OF ACQUISITION

b) **Computation of Long-Term Capital Gains :**

Full value of consideration	xxx
(-) Selling expenses / Cost of Transfer	(xxx)
Net Value of Consideration	**xxx**
(-) Indexed Cost of acquisition	(xxx)
(-) Indexed Cost of Improvement	(xxx)
Long Term Capital Gain	**xxx**

Note: Indexed cost of acquisition and indexed cost of improvement is not applicable to bonds or debentures.

Set-off of Long Term Capital Loss : If there is long-term capital loss on transfer of a long-term capital asset, such **loss can be set-off only against any other long-term capital gain**.

1) **Computation of Indexed Cost of acquisition :**

Cost of acquisition x Cost inflation index for the year in which the assed is sold

Cost inflation index for the first year in which the asset was held or

Cost inflation index on 1.4.2001, whichever is later

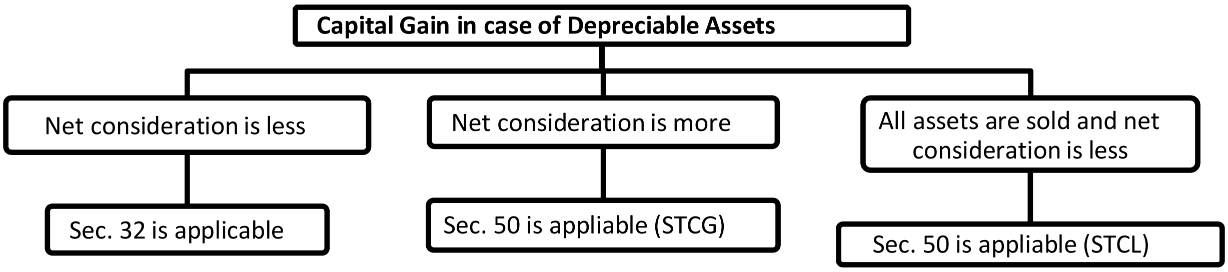
Note : Cost of acquisition or cost of fair market, whichever is higher, if acquired before 1.4.2001.

2) **Computation of Indexed Cost of Improvement:**

Cost of improvement x Cost inflation index for the year in which the assed is sold
Cost inflation index for the year in which the improvement to asset took place

Important Note : If expenditure is incurred for improvement prior to 1.4.2001, it shall not be deducted.

Sec. 50 : Computation of Capital gain in case of depreciable assets on which depreciation is allowed on the basis of written-down value method :



Format to Compute Depreciation

	Particulars	Case I		Case II		Case III	
		No.	Rs.	No.	Rs.	No.	Rs.
i)	Opening stock	5	2,50,000	5	2,50,000	5	2,50,000
ii)	Add : Asset Purchased	3	3,00,000	3	3,00,000	3	3,00,000
iii)	Total	8	5,50,000	8	5,50,000	8	5,50,000
iv)	Less : Asset Sales	6	(3,50,000)	5	(6,00,000)	8	(4,50,000)
v)	WDV for Depreciation	2	150,000	3	(50,000)	0	1,00,000
		Dep. u/s 32 Dep. u/h PGBP		No Dep. U/s 50 This is STCG		No Dep. U/s 50 This is STCL	

Computation of Capital Gains in Special Cases :

1. **Sec 45(1A) : Capital gains in case of damage or destruction of capital asset.**
When an assessee receives any money or other asset under any insurance then

such money or other asset shall be chargeable to tax under the head 'Capital gain'. The income shall be deemed to be the income of the previous year in which such money or other asset is received. **The fair market value of asset received on the date of receipt shall be deemed to be the full value of the consideration.**

2. **Sec. 45(2) : Transfer by way of conversion of capital assets in stock in trade.**

When asset is transferred into Stock-in-trade then it is taxable u/h 'Capital Gain'. This is taxable in that previous year in which such stock is sold or otherwise transferred by him. **The fair market value of the capital asset on the date on which it was converted into stock in trade shall be the full value of the consideration.** The excess of actual sale consideration over the fair market value is deemed to be business profit.

Illustration 1 :

Siddharth converts his plot of land purchased in the year 2001-02 for Rs. 40,000 into stock- in-trade on 1st April, 2018. The fair market value on 1st April 2018 is Rs. 4,50,000. The stock-in-trade is sold for Rs. 4,90,000 in May, 2018. Find out the taxable income, if any, and if so under which head of income? The cost inflati0n index in 2001-02 was 100 and in 2018-19 it was 280.

Computation of Taxable Income (For the Assessment Year 2018-19)

1. **Business Income :**
   Sales consideration – Sale value (4,90,000 – 4,50,000) Rs. 40,000

2. **Long Term Capital Gains**

Full value of consideration (Fair Value	4,50,000
(-) Selling expenses / Cost of Transfer	00
Net Value of Consideration	**4,50,000**
(-) Indexed Cost of acquisition 40,000 x 272 / 100	1,08,800
(-) Indexed Cost of Improvement	--
Long Term Capital Gain	**3,41,200**

Rs. 3,41,200

3. **Total Taxable Income** Rs. 3,81,200

Sec. 45(5) : Compulsory Acquisition of an asset and Enhanced Compensation :

a) Capital gain computed in the year where compensation or part thereof was first received.

b) When amount of compensation enhanced by court it shall be charged in Previous Year in which such amount is received.

Note : Increased acquisition and the cost of improvement shall be taken to be nil.

Example: Indian Railway acquires an agricultural Land of Mr. Yogeswar Lal for Rs.100 Lakh in the financial year 2018-19 (AY 2019-20) and compensation of Rs.80 lakh is received in the financial year 2019-20 (AY 2020-21). The capital gain shall be taxable in the financial year 2019-20 (AY 2020-21) for the full sales consideration i.e Rs.100 lakh in this case.

4. **Sec. 45(3) : Transfer of Capital asset to a firm, AOP or BOI :**

When asset transfers as capital contribution shall be taxable in the previous year in which such transfer takes place.

Note : Amount recorded in the books of firm is treated as the amount of consideration.

5. **Sec. 45(4) : Transfer by a firm, AOP or BOI :**

When asset transfers on its dissolution shall be chargeable to tax as its income of the previous year in which such transfer takes place.

Note : Fair market value is treated as the amount of consideration.

Capital Gain Exempt from Tax: Separate sheets will be provided

List of indexation –

As per Notification no. 62/2022, dated 14-06-2022 following table should be used for the Cost Inflation Index:-

Sl. No.	*Financial Year*	*Cost Inflation Index*
(*1*)	(*2*)	(*3*)
1	2001-02	100
2	2002-03	105
3	2003-04	109
4	2004-05	113
5	2005-06	117
6	2006-07	122
7	2007-08	129
8	2008-09	137
9	2009-10	148

10	2010-11	167
11	2011-12	184
12	2012-13	200
13	2013-14	220
14	2014-15	240
15	2015-16	254
16	2016-17	264
17	2017-18	272
18	2018-19	280
19	2019-20	289
20	2020-21	301
21	2021-22	317
22	2022-23	331

Capital Gain not to be charged on Investment in Units of a Specified Fund [Section 54EE]

- The assessee has transferred a long-term capital asset.
- He has invested the whole (or any part) of capital gains in long-term specified assets(to be notified by the Central Government to finance start-ups).
- Such investment can be made at any time within 6 months from the date of transfer oforiginal asset.
- The amount of such investment (made on or after April 1, 2016) by an assesseeduring any financial year cannot exceed Rs. 50 lakh.
- Moreover, investment made by an assessee in long-term specified assets, out of capital gains arising from transfer of one or more original assets, during the financial year in which the original asset or assets are transferred and in the subsequent financial year should not exceed Rs. 50 lakh.
- **Amount of Exemption or Deduction –**
  - If the amount of capital gain is equal to or less than the cost of the long-term specified assets acquired within 6 months of the date of transfer, the entire capital gain shall be exempt.
  - If the amount of capital gain is greater than the cost of the long-term specified assets, than the cost of the long-term specified assets shall be allowed as exemption.
  - In other words, capital gain shall be exempt to the extent it is invested in the long-term specified assets within a period of 6 months from the date of such transfer.

- **Revocation of exemption -**
  The long-term specified assets should not be transferred (not even loan or advance is taken on security of such assets) within 3 years from the date of acquisition. If long-term specified assets are transferred (or loan or advance is taken on security of such assets) within 3 years, the amount of exemption given earlier will be revoked and it shall be chargeable to tax as long-term capital gain in the year in which such specified assets are transferred (or loan or advance is taken).

Problems on Capital Gains

1) Property – House

Purchased on 14-05-2012 for ₹500000.

Cost of improvement 12-05-2016 for ₹50000

Property transferred on 20-08-2021 for ₹2500000.

Expenses for transfer ₹25000.

Calculate Capital Gains.

Particulars	**₹**
Sale Consideration	2500000
Less: Expenses on transfer	-25000
Net Consideration	2475000
Less: Indexed Cost of Acquisition (₹500000*301/200)	-752500
Less: Indexed Cost of Improvement (₹50000*301/264)	-57008
Long Term Capital Gains	**1665492**

Calculation of Indexed Cost of Acquisition

Date of Acquisition	Date of Transfer
14-05-2012 (F.Y. 2012-2013)	20-08-2020 (F.Y. 2020-2021)
200	**301**
₹500000	? (Indexed Cost of Acquisition)

₹500000 - 200

? - 301

= 500000 * 301/200 = ₹752500

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
12-05-2016	20-08-2020
264	**301**
₹50000	? (Indexed Cost of Improvement)

₹50000 - 264

? - 301

= 50000 * 301/264 = ₹57008

Cost Inflation Index will always be considered for Financial Year.

Cost of Improvement incurred before 1st April 2001, should not be considered for calculation of Income from Capital Gains.

2) Property – House

Purchased on 14-05-2017 for ₹500000.

Property transferred on 20-08-2020 for ₹2500000.

Expenses for transfer ₹25000.

Calculate Capital Gains.

Particulars	**₹**
Sale Consideration	2500000
Less: Expenses on transfer	-25000
Net Consideration	2475000
Less: Indexed Cost of Acquisition (₹500000*301/272)	-553308
Long Term Capital Gains	**1921692**

Calculation of Indexed Cost of Acquisition

Date of Acquisition	Date of Transfer
14-05-2017	20-08-2020
272	**301**
₹500000	₹ (Indexed Cost of Acquisition)

₹500000 - 272

? - 301

= 500000 * 289/272 = ₹553308

3) Property – House

Purchased on 14-05-2012 for ₹700000.

Cost of improvement 12-05-2016 for ₹50000

Property transferred on 20-08-2020 for ₹3500000.

Expenses for transfer ₹75000.

Calculate Capital Gains. (CII for 2020-2021 = 301, 2016-2017 = 264, 2012-2013 = 200)

Particulars	**₹**
Sale Consideration	3500000
Less: Expenses on transfer	-75000
Net Consideration	3425000
Less: Indexed Cost of Acquisition (₹700000*301/200)	-1053500
Less: Indexed Cost of Improvement (₹50000*301/264)	-57008
Long Term Capital Gains	**2314492**

Calculation of Indexed Cost of Acquisition

Date of Acquisition	Date of Transfer
01-05-2012	20-08-2020
200	**301**
₹700000	₹? (Indexed Cost of Acquisition)

₹700000 - 200

? - 301

= 700000*301/200 = ₹1053500

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
12-05-2016	20-08-2020
264	**301**
₹50000	₹? (Indexed Cost of Improvement)

₹50000 - 264

? - 301

= 50000 * 301/264 = ₹57008

4) Property – House
Purchased on 14-06-2014 for ₹750000.
First Cost of improvement 12-05-2015 for ₹250000
Second Cost of improvement 13-08-2017 for ₹350000
Property transferred on 01-02-2021 for ₹3500000.
Expenses for transfer ₹175000.
Calculate Capital Gains.
(CII: 2020-21 = 301, 2014-15 = 240, 2015-16 = 254, 2017-18 = 272)

Particulars		₹
Sale Consideration		3500000
Less: Expenses on transfer		-175000
Net Consideration		3325000
Less: Indexed Cost of Acquisition	(₹750000*301/240)	-940625
Less: Indexed Cost of Improvement	(₹250000*301/254)	-296260
Less: Indexed Cost of Improvement	(₹350000*301/272)	-387316
Long Term Capital Gains		**1700799**

Calculation of Indexed Cost of Acquisition

Date of Acquisition	Date of Transfer
14-06-2014 (2014-2015)	01-02-2020 (2020-2021)
240	**301**
₹750000	₹ (Indexed Cost of Acquisition)

₹750000 - 240
? - 301
= 750000 * 301/240 = ₹940625

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
12-05-2015 (2015-2016)	01-02-2020 (2020-2021)
254	**301**
₹250000	₹ (Indexed Cost of Improvement)

₹250000 - 254
? - 301
= 250000 * 301/254 = ₹296260

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
13-08-2017 (2017-2018)	01-02-2020 (2020-2021)
272	**301**
₹350000	₹? (Indexed Cost of Improvement)

₹350000 - 272
? - 301
= 350000*301/272 = ₹387316

5) Property – House

Purchased on 14-06-2013 for ₹350000.

First Cost of improvement 12-05-2014 for ₹150000

Second Cost of improvement 13-08-2016 for ₹250000

Property transferred on 01-02-2021 for ₹3500000.

Expenses for transfer ₹175000.

Calculate Capital Gains.

Sale Consideration	3500000
Less: Expenses on Transfer	-175000
Less: Indexed Cost of Acquisition	-478864
Less: Indexed Cost of Improvement	-188125
Less: Indexed Cost of Improvement	-285038
Long Term Capital Gain	**2372973**

6) Property – House
Purchased on 01-08-1999 for ₹350000.
Fair Market Value as on 01-04-2001 ₹450000
First Cost of improvement 12-05-2015 for ₹150000
Second Cost of improvement 13-08-2016 for ₹250000
Property transferred on 01-02-2021 for ₹3500000.
Expenses for transfer ₹175000.
Calculate Capital Gains.

P.Y. 2020-2021	**A.Y. 2021-2022**
Particulars	**₹**
Sale Consideration	3500000
Less: Expenses on transfer	-175000
Net Consideration	3325000
Less: Indexed Cost of Acquisition (₹450000*301/100)	-1354500
Less: Indexed Cost of Improvement (₹150000*301/254)	-177756
Less: Indexed Cost of Improvement (₹350000*301/272)	-752500
Long Term Capital Gains	

Calculation of Indexed Cost of Acquisition

As Capital asset is purchased before 01-04-2001, the cost of acquisition will be determined as below:

1) Actual Cost of Acquisition as on 01/08/1999 – ₹350000
2) Fair Market Value as on 01/04/2001 – ₹450000

   Whichever is higher.

Therefore, Cost of Acquisition will be ₹450000 being higher of both.

Date of Acquisition	Date of Transfer
01-04-2001 (2001-2002)	01-02-2020 (2020-2021)
100	**301**
₹450000	₹? (Indexed Cost of Acquisition)

₹450000 - 100
? - 301
= 450000 * 301/100 = ₹1354500

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
12-05-2015 (2015-2016)	01-02-2020 (2020-2021)
254	**301**
₹150000	₹? (Indexed Cost of Improvement)

₹150000 - 254
? - 301
= 150000 * 301/254 = ₹177756

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
13-08-2016 (2016-2017)	01-02-2020 (2020-2021)
264	**301**
₹250000	₹? (Indexed Cost of Improvement)

₹250000	-	264
?	-	301

= 250000 * 301/100 = ₹752500

7) Property – House
Purchased on 01-08-1998 for ₹450000.
Fair Market Value as on 01-04-2001 ₹500000
First Cost of improvement 12-05-2014 for ₹250000
Second Cost of improvement 13-08-2015 for ₹350000
Property transferred on 01-02-2020 for ₹3000000.
Expenses for transfer ₹75000.
Calculate Capital Gains.

P.Y. 2019-2020	**A.Y. 2020-2021**
Particulars	**₹**
Sale Consideration	3000000
Less: Expenses on transfer	75000
Net Consideration	2925000
Less: Indexed Cost of Acquisition (₹500000*289/100)	-1445000
Less: Indexed Cost of Improvement (₹250000*289/240)	-301402
Less: Indexed Cost of Improvement (₹350000*289/272)	-398228
Long Term Capital Gains	**780370**

Calculation of Indexed Cost of Acquisition
As Capital asset is purchased before 01-04-2001, the cost of acquisition will be determined as below:
1) Actual Cost of Acquisition – ₹450000
2) Fair Market Value as on 01/04/2001 – ₹500000
<u>Whichever is higher.</u>
Therefore, Cost of Acquisition will be ₹500000 being higher of both.

<u>Date of Acquisition</u>
01-04-2001 (2001-2002)
100
₹500000

<u>Date of Transfer</u>
01-02-2020 (2019-2020)
289
₹1445000 (Indexed Cost of Acquisition)

₹500000 - 100
? - 289
= 289/100 * 500000 = ₹1445000

Calculation of Indexed Cost of Improvement

Date of Improvement
12-05-2014 (2014-2015)
240
₹250000

Date of Transfer
01-02-2020 (2019-2020)
289
₹301402 (Indexed Cost of Improvement)

₹250000 - 240
? - 289
= 289/240 *250000 = ₹301042

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
13-08-2015 (2015-2016)	01-02-2020 (2019-2020)
254	**289**
₹350000	₹398228 (Indexed Cost of Improvement)

₹350000	-	254
?	-	289

= 289/254 *350000 = ₹398228

8) Property – House
Purchased on 01-08-1995 for ₹50000.
Fair Market Value as on 01-04-2001 ₹250000
First Cost of improvement 12-05-2013 for ₹350000
Second Cost of improvement 13-08-2016 for ₹450000
Property transferred on 01-02-2020 for ₹3500000.
Expenses for transfer ₹125000.
Calculate Capital Gains.

P.Y. 2019-2020	**A.Y. 2020-2021**
Particulars	**₹**
Sale Consideration	3500000
Less: Expenses on transfer	125000
Net Consideration	3375000
Less: Indexed Cost of Acquisition (₹250000*289/100)	-722500
Less: Indexed Cost of Improvement (₹350000*289/220)	-459773
Less: Indexed Cost of Improvement (₹450000*289/272)	-492614
Long Term Capital Gains	**1700113**

Calculation of Indexed Cost of Acquisition

As Capital asset is purchased before 01-04-2001, the cost of acquisition will be determined as below:

1) Actual Cost of Acquisition – ₹50000
2) Fair Market Value as on 01/04/2001 – ₹250000
   Whichever is higher.

Therefore, Cost of Acquisition will be ₹250000 being higher of both.

Date of Acquisition
01-04-2001 (2001-2002)
100
₹250000

Date of Transfer
01-02-2020 (2019-2020)
289
₹722500 (Indexed Cost of Acquisition)

₹250000 - 100
? - 289
= 289/100 * 250000 = ₹722500

Calculation of Indexed Cost of Improvement

Date of Improvement
12-05-2013 (2013-2014)
220
₹350000

Date of Transfer
01-02-2020 (2019-2020)
289
₹459773 (Indexed Cost of Improvement)

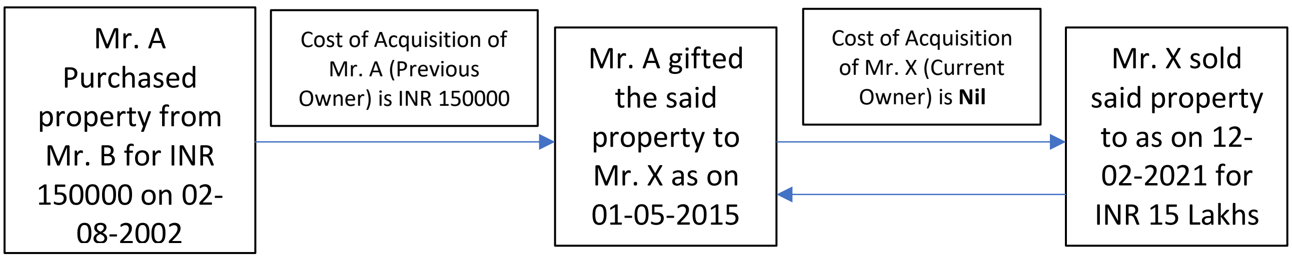
₹350000 - 220
? - 289
= 289/220 *350000 = ₹459773

Calculation of Indexed Cost of Improvement

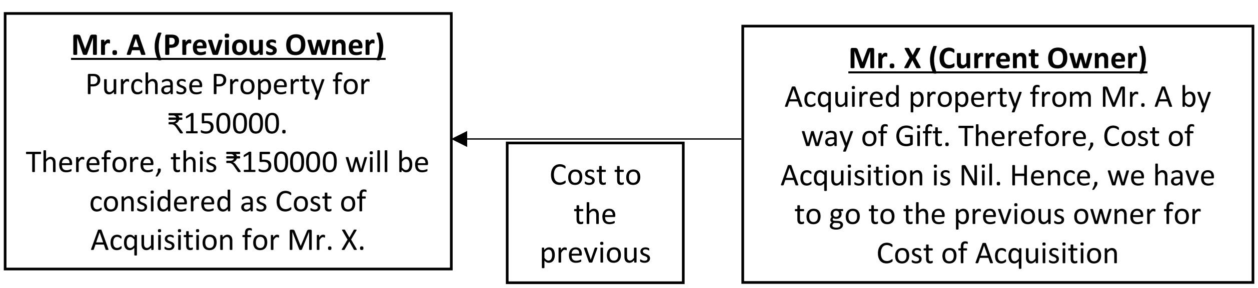
Date of Improvement	Date of Transfer
13-08-2016 (2016-2017)	01-02-2020 (2019-2020)
264	**289**
₹450000	₹492614 (Indexed Cost of Improvement)

₹450000 - 264
? - 289
= 289/264 *450000 = ₹492614

9) Mr. X transferred property for ₹1500000 to Mr. C on 12-02-2021. Mr. X has received this property from Mr. A by way of gift as on 01-05-2015. Mr. A has purchased the said property from Mr. B for ₹150000 on 02-08-2002. Mr. X has incurred ₹50000 as expenses on transfer.
Calculate Capital Gains.



P.Y. 2020-2021	**A.Y. 2021-2022**
Particulars	**₹**
Sale Consideration	1500000
Less: Expenses on transfer	-50000
Net Consideration	1450000
Less: Indexed Cost of Acquisition (₹150000*289/105)	-430000
Long Term Capital Gains	**1020000**



Calculation of Indexed Cost of Acquisition

Date of Acquisition	Date of Transfer
02-08-2002 (2002-2003)	12-02-2021 (2020-2021)
105	**301**
₹150000	₹ (Indexed Cost of Acquisition)

₹150000 - 105
? - 301
= 150000 * 301/105 = ₹430000

10) Mr. X transferred property for ₹1500000 to Mr. C on 12-02-2021. Mr. X has received this property from Mr. A by way of gift as on 01-05-2015. Mr. A has purchased the said property from Mr. B for ₹150000 on 01-04-1999. Fair Market Value as on 01-04-2001 is ₹175000. Mr. X has incurred ₹50000 as expenses on transfer. Calculate Capital Gains.

P.Y. 2020-2021	**A.Y. 2021-2022**
Particulars	**₹**
Sale Consideration	1500000
Less: Expenses on transfer	-50000
Net Consideration	1450000
Less: Indexed Cost of Acquisition (₹175000*301/100)	-526750
Long Term Capital Gains	**923250**

Mr. A (Previous Owner)
Purchase Property for ₹150000.
Therefore, this ₹150000 will be considered as Cost of Acquisition for Mr. X.

Cost to the previous

Mr. X (Current Owner)
Acquired property from Mr. A by way of Gift. Therefore, Cost of Acquisition is Nil. Hence, we have to go to the previous owner for Cost of Acquisition

Calculation of Indexed Cost of Acquisition

As Capital asset is purchased before 01-04-2001, the cost of acquisition will be determined as below:

1) Actual Cost of Acquisition on the date of purchase i.e. on 01/04/1999 – ₹150000
2) Fair Market Value as on 01/04/2001 – ₹175000
   Whichever is higher.

Therefore, Cost of Acquisition will be ₹175000 being higher of both.

Date of Acquisition	Date of Transfer
01-04-2001 (2001-2002)	01-02-2021 (2020-2021)
100	**301**
₹175000	₹ (Indexed Cost of Acquisition)

₹175000 - 100

? - 301

= 175000 * 301/100 = ₹526750

11) Mr. X transferred property for ₹2500000 to Mr. C on 12-02-2021. Mr. X has received this property from Mr. A by way of gift as on 01-05-2014. Mr. A has purchased the said property from Mr. B for ₹200000 on 01-04-1999. Fair Market Value as on 01-04-2001 is ₹250000. Mr. X has incurred ₹50000 as expenses on transfer. Calculate Capital Gains.

P.Y. 2020-2021	**A.Y. 2021-2022**
Particulars	**₹**
Sale Consideration	2500000
Less: Expenses on transfer	-50000
Net Consideration	2450000
Less: Indexed Cost of Acquisition (₹250000*301/100)	-752500
Long Term Capital Gains	**1697500**

Mr. A (Previous Owner)
Purchase Property for ₹200000.
Therefore, this ₹200000 will be considered as Cost of Acquisition for Mr. X.

Cost to the previous

Mr. X (Current Owner)
Acquired property from Mr. A by way of Gift. Therefore, Cost of Acquisition is Nil. Hence, we have to go to the previous owner for Cost of Acquisition

Calculation of Indexed Cost of Acquisition

As Capital asset is purchased before 01-04-2001, the cost of acquisition will be determined as below:

1) Actual Cost of Acquisition on the date of acquisition i.e. on 01/04/1999 – ₹200000
2) Fair Market Value as on 01/04/2001 – ₹250000

   Whichever is higher.

Therefore, Cost of Acquisition will be ₹250000 being higher of both.

Date of Acquisition	Date of Transfer
01-04-2001 (2001-2002)	01-02-2021 (2020-2021)
100	**301**
₹250000	₹ (Indexed Cost of Acquisition)

₹250000 - 100

? - 301

= 250000 * 301/100 = ₹752500

12) Mr. X transferred property for ₹3000000 to Mr. C on 12-02-2021. Mr. X has received this property from Mr. A by way of gift as on 01-05-2014. Mr. A has purchased the said property from Mr. B for ₹450000 on 01-04-1999. Fair Market Value as on 01-04-2001 is ₹500000. Mr. X has incurred cost of improvement of ₹450000 as on 15-06-2015. Mr. X has incurred ₹150000 as expenses on transfer.
Calculate Capital Gains.

P.Y. 2020-2021	**A.Y. 2021-2022**
Particulars	**₹**
Sale Consideration	3000000
Less: Expenses on transfer	-150000
Net Consideration	2850000
Less: Indexed Cost of Acquisition (₹500000*301/100)	-1505000
Less: Indexed Cost of Improvement (₹450000*301/254)	-533268
Long Term Capital Gains	**811734**

<u>Mr. A (Previous Owner)</u>
Purchase Property for ₹450000.
Therefore, this ₹450000 will be considered as Cost of Acquisition for Mr. X.

Cost to the previous

<u>Mr. X (Current Owner)</u>
Acquired property from Mr. A by way of Gift. Therefore, Cost of Acquisition is Nil. Hence, we have to go to the previous owner for Cost of Acquisition

Calculation of Indexed Cost of Acquisition

As Capital asset is purchased before 01-04-2001, the cost of acquisition will be determined as below:

3) Actual Cost of Acquisition as on the date of acquisition i.e. on 01/04/1999 – ₹450000
4) Fair Market Value as on 01/04/2001 – ₹500000

Whichever is higher.

Therefore, Cost of Acquisition will be ₹500000 being higher of both.

Date of Acquisition	Date of Transfer
01-04-2001 (2001-2002)	01-02-2020 (2020-2021)
100	**301**
₹500000	₹? (Indexed Cost of Acquisition)

₹500000 - 100
? - 301
= 500000 * 301/100 = ₹1505000

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
15-06-2015 (2015-2016)	01-02-2020 (2020-2021)
254	**301**
₹450000	₹? (Indexed Cost of Improvement)

₹450000 - 254
? - 301
= 450000 * 301/254 = ₹533268

13) Mr. Amit has transferred property for ₹3500000 to Mr. Akshay on 14-02-2021. Mr. Amit has received this property from his father under will on 14-01-2000. Amit's Father had received the said property by way of gift from his friend Mr. Sharma. Mr. Sharma has acquired the said property for ₹450000 on 12-05-1997. Fair Market Value of the said property as on 01-04-2001 was ₹750000. Mr. Amit has incurred cost of improvement of ₹250000 as on 16-04-2017 and he paid ₹150000 in connection with transfer.

Calculate Capital Gains.

P.Y. 2020-2021	**A.Y. 2021-2022**
Particulars	**₹**
Sale Consideration	3500000
Less: Expenses on transfer	-150000
Net Consideration	3350000
Less: Indexed Cost of Acquisition (₹750000*301/100)	-2257500
Less: Indexed Cost of Improvement (₹450000*301/272)	-276654
Long Term Capital Gains	**715846**

<u>Mr. Sharma</u>
<u>(Previous Owner 2)</u>
Acquired property for ₹450000 as on 12-05-

Cost to the previous owner

<u>Mr. Amit's Father</u>
<u>(Previous Owner 1)</u>
Acquired property **by Gift**.

Cost to the previous owner

<u>Mr. Amit (Current Owner)</u>
Acquired property **by Will**

Calculation of Indexed Cost of Acquisition

As Capital asset is purchased before 01-04-2001, the cost of acquisition will be determined as below:

1) Actual Cost of Acquisition as on the date of acquisition i.e. on 12/05/1997 – ₹450000
2) Fair Market Value as on 01/04/2001 – ₹750000

   Whichever is higher.

Therefore, Cost of Acquisition will be ₹750000 being higher of both.

Date of Acquisition	Date of Transfer
01-04-2001 (2001-2002)	14-02-2021 (2020-2021)
100	**301**
₹750000	₹? (Indexed Cost of Acquisition)

₹750000 - 100
? - 301
= 750000 *301/100 = ₹2257500

Calculation of Indexed Cost of Improvement

Date of Improvement	Date of Transfer
16-04-2017 (2017-2018)	14-02-2021 (2020-2021)
272	**301**
₹250000	₹? (Indexed Cost of Improvement)

₹250000 - 272
? - 301
= 250000 * 301/272 = ₹276654

14) Mr. Sujay has transferred property for ₹4500000 to Mr. Sufal on 25-03-2020. Mr. Sujay has received this property from his father under will on 14-01-2000. Sujay's Father had received the said property by way of gift from his friend Mr. Gupta. Mr. Gupta has acquired the said property for ₹500000 on 12-05-1997. Fair Market Value of the said property as on 01-04-2001 was ₹650000. Mr. Sujay has incurred cost of improvement of ₹450000 as on 23-03-2016 and he paid ₹250000 in connection with transfer.

Calculate Capital Gains.

P.Y. 2019-2020	**A.Y. 2020-2021**
Particulars	**₹**
Sale Consideration	4500000
Less: Expenses on transfer	250000
Net Consideration	4250000
Less: Indexed Cost of Acquisition (₹650000*289/100)	1878500
Less: Indexed Cost of Improvement (₹450000*289/254)	512008
Long Term Capital Gains	**1859492**

Conversion of capital asset intro stock in trade

15) Mr. Sanjay has purchased a house property for ₹450000 on 12-05-2012. On 15-05-2016, he converted this house property in stock-in-trade. The Fair Market Value of the property on the date of such conversion was ₹900000. Mr. Sanjay later sold this House Property to Mr. Amit for ₹1800000 on 21-02-2021.
Calculate Capital Gains.

Solution:

Mr. Sanjay purchased property on 12-05-2012 for ₹450000.

Gain of ₹450000 is **Not taxable as Capital Gain**. Because Stock-in-trade is not considered as Capital Asset and hence this transactions is not treated as transfer at this point of time.

Mr. Sanjay converted this property into Stock-in-trade on 15-05-2016 Fair Market Value = ₹900000

Profit of ₹900000 (₹1800000 - ₹900000) is **taxable under PGBP**.

Mr. Sanjay sold this property on 21-02-2021 for ₹1800000 as a stock in business.

The gain of ₹450000 was not taxed earlier. **Such gain will become taxable in the year in which the stock in trade is sold** i.e. in the F.Y. 2020-2021 (A.Y. 2021-2022).

Calculation of Income taxable under the Head Profits and Gains from Business and Profession:

P.Y. 2020-2021	**A.Y. 2021-2022**
Particulars	**₹**
Sale Consideration	1800000
Less: Cost of Purchase (Fair Market Value on the date of conversion)	(900000)
Business Profit on the transfer of House Property	**900000**

Calculation of Income taxable under the Head Capital Gains:

P.Y. 2020-2021	**A.Y. 2021-2022**
Particulars	**₹**
Sale Consideration (Fair Market Value on the date of conversion)	900000
Less: Indexed Cost of Acquisition	-594000
Long Term Capital Loss	**306000**

Calculation of Indexed Cost of Acquisition

Date of Acquisition	Date of Conversion of Capital Asset into Stock in Trade
12-05-2012 (2012-2013)	15-06-2016 (2016-2017)
200	**264**
₹450000	₹? (Indexed Cost of Acquisition)

₹450000 - 200
? - 264
= 450000*264/200 = ₹594000

Problems on Sale of Depreciable Asset:

16) PQR Ltd. Owns two plants A & B (Depreciation Rate = 15% p.a., depreciable value as on 01, April 2021 = ₹816000). On 1 June 2021 it purchased Plant C (old) (Depreciation rate = 15% p.a.) for ₹100000. On 5 November 2021, it transfers Plant A for ₹130000 (expenses on transfer = ₹500). Plant A was purchased for ₹45000 in 2015. Find out the amount of depreciation and capital gain for the A.Y. 2022-23.

Solution:

Calculation of depreciation on block of asset:

Particulars	₹
Depreciated value of the block consisting Plants A & B as on 01/04/2021 (Opening WDV of block)	816000
Add: Actual Cost of Plant C (old) purchased during the previous year 2020-21	100000
Less: Sale proceeds of Plant A transferred during the previous year 2020-21	-130000
Written down value of block as on 31/03/2022 (Closing WDV of block)	786000
Depreciation on the block of asset (15% on ₹786000)	**117900**

Capital Gains on transfer of Plant A: In case of transfer of a depreciable asset, capital gain (or loss) arises only in two cases:

i) if on the last day of the previous year, the written down value of the block of asset is ***zero***, or

ii) if the block of asset is empty.

In the given case of PQR Ltd.,

i) the written down value of the block of asset is not ***zero*** as on the last day of the previous year i.e. as on 31/03/2022 (it is ₹786000) nor

ii) the block is also not empty as on 31/03/2022 (the Plant B & C are still the part of block of asset).

Hence, there is no capital gain on transfer of Plant A.

17) ABC Ltd. Owns two plants A & B (Depreciation Rate = 15% p.a., depreciable value as on 01, April 2020 = ₹816000). On 1 June 2020 it purchased Plant C (old) (Depreciation rate = 15% p.a.) for ₹100000. On 5 November 2020, it transfers Plant A for ₹950000 (expenses on transfer = ₹500). Plant A was purchased for ₹45000 in 2015. Find out the amount of depreciation and capital gain for the A.Y. 2021-22.

Solution:

Particulars	₹
Depreciated value of the block consisting Plants A & B as on 01/04/2020 (Opening WDV of block)	816000
Add: Actual Cost of Plant C (old) purchased during the previous year 2020-21	100000
	916000
Less: Sale proceeds of Plant A transferred during the previous year 2020-21	-916000
Written down value of block as on 31/03/2021 (Closing WDV of block)	Nil
Depreciation on the block of asset	**Nil**

Capital Gains on transfer of Plant A: In this case, written down value of the block of asset is ***zero*** on the last day of the previous year. Consequently, capital gain will arise in this case.

For this purpose, cost of acquisition will be calculated as below:

Particulars	₹
the opening balance of the block of asset on the first day of the previous year	816000
assets falling in the block purchased during the previous year	100000
Cost of acquisition for the purpose of calculating capital gain on transfer of depreciable asset	**916000**

Calculation of Capital Gains:

Particulars	₹
Full Value of Consideration	950000
Less: Cost of Acquisition (₹816000 + ₹100000)	916000
Less: Expenses on transfer	500
Short Term Capital Gain on transfer of depreciable asset	**33500**

Problems on sale of an intangible asset:

18) Mr. Sunil sells the goodwill on 20-01-2022 for ₹3800000. It was self-generated by him on 02-01-2001 and he incurred cost of improvement thereof for ₹555000 on 01-04-2015. Compute his taxable gains.
Also compute the capital gains in case the goodwill was purchased by Mr. Sunil on 02-05-2001 for ₹546000.

Solution

P.Y. 2021-2022		**A.Y. 2022-2023**
Particulars	**Self-Generated Goodwill (₹)**	**Purchased Goodwill (₹)**
Sale Consideration	38,00,000	38,00,000
Less: Indexed Cost of Acquisition (W.N. 1)	Nil	-17,30,820
Less: Indexed Cost of Improvement (W.N. 2)	Nil	Nil
Long Term Capital Gains	**38,00,000**	**20,69,180**

Working Notes:

1) Indexed Cost of Acquisition in case of purchased goodwill = ₹546000 * 317/100 = ₹1643460
2) Indexed Cost of Improvement shall be always NIL in case of Goodwill.

19) Mr. Pravin transfers the following assets as on 15/05/2021:

Particulars	Cost (₹)	Fair Market Value as on 01/04/2001 (₹)	Sale Consideration (₹)
Land (acquired in 1968)	20000	45000	685000
Goodwill of a business (self-generated)	-	10000	175000
Tenancy Rights	-	30000	200000

Determine the amount of capital gains chargeable to tax for the A.Y. 2022-23. Does it make any difference if the goodwill is of a profession?

Solution:

Particulars	Land (₹)	Goodwill (₹)	Tenancy Rights (₹)
Sale Consideration	685000	175000	200000
Less: Indexed Cost of Acquisition (₹45000 * 301/100)	-135450	Nil	Nil
Long-term Capital Gains	549550	175000	200000

Note: If a self-generated goodwill of a profession is transferred, it is not chargeable to tax.

<u>Problems on right shares and right entitlement:</u>

20) Mr. Sujay holds 1000 equity shares in A Ltd. since 1988 (Cost of acquisition = ₹10000, Fair market value as on 01/04/2001 = ₹14000). A Ltd. offers 2000 rights shares of ₹10 each to Mr. Sujay on 01/05/2020 at a premium of ₹50. Mr. Sujay subscribes for 800 rights shares and renounces 1200 shares in favour of Mr. Sumit by transferring the right entitlement for a consideration of ₹4800. Mr. Sujay sells 1800 shares in A Ltd. On 30/03/2021 at the rate of ₹160 per share (STT was not applicable, as shares are transferred outside recognised stock exchange).

Solution:

Assessment of Mr. Sujay for the A.Y. 2021-22

Long Term capital gains on original shares:

Particulars	(₹)
Sale proceeds of 1000 Original shares (₹160 * 1000 shares)	160000
Less: Indexed Cost of Acquisition (₹14000 * 301/100)	-42140
Long term capital gains	**117860**

Short term capital gain on transfer of rights shares

Particulars	(₹)
Sale proceeds of 800 rights shares (₹160 * 800 shares)	128000
Less: Cost of Acquisition (₹60 * 800 Shares)	-48000
Short term capital gains	**80000**

Short term capital gain on entitlement of rights shares

Particulars	(₹)
Sale proceeds of rights entitlement of 1200 shares	4800
Less: Cost of Acquisition	Nil
Short term capital gains	**4800**

<u>Problems on buy back of shares:</u>

21) On 31/03/2021, JPG Ltd. (domestic company) purchased its own shares (Face Value: ₹10, amount offered to shareholders: ₹90 per share). Total amount distributed by JPG Ltd. on buy back of 20000 shares is ₹1800000. These shares were issued in 2004-05 at a premium of ₹15. Mr. Ajay is one of the shareholders. He holds 2000 shares (Cost of acquisition: ₹27 per share, year of acquisition 2007-08). He gets ₹180000 on buy back of shares. Determine the tax consequences in the hands of Mr. Ajay and JPG Ltd., if any.

Solution:

<u>Tax Consequences in the hands of Mr. Ajay:</u>

Mr. Ajay is not chargeable to tax. His capital gain is exempt under Section 10(34A).

<u>Tax Consequences in the hands of JPG Ltd.:</u>

However, JPG Ltd. will have to pay tax on distributed income as per the provisions of Section 115QA as follows:

Particulars	₹
Amount paid to shareholders at the time of buy back (20000 shares * ₹90 per share)	1800000
Less: Amount received at the time of issue of shares in (20000 shares * ₹25 per share)	-500000
Distributed Income	1300000
Tax on distributed income as per Section 115QA @ 20%	260000
Add: Surcharge @ 12%	31200
	291200
Add: Health & Education Cess @ 4%	11648
Tax Liability of JPG Ltd. Under Section 115QA	**302848**

Exemption from Capital Gains:

22) On 02/01/2022, Mr. Amit sells commercial plot for ₹9185000 (cost of acquisition as on 10/03/2004: ₹105000). Expenses on purchase and transfer are ₹10000 and ₹200000 respectively. To get the benefit of exemption under Section 54EC, Mr. Amit makes the following investments –
   a. Purchase of NHAI bonds worth ₹4600000 on 01/03/2022
   b. Purchase of REC bonds worth ₹2400000 on 01/04/2022

   Find out the amount of exemption under Section 54EC. Also compute taxable capital gains and capital gain tax on the same.

   Solution:

Particulars	₹
Full value of consideration	9185000
Less: Expenses on Transfer	-200
	9184800
Less: Indexed Cost of Acquisition (₹105100 * 301/109)	-290230
Long Term Capital Gains	**8894570**
Less: Exemption under Section 54EC (₹4600000 + ₹2400000, but exemption is restricted up to ₹5000000 p.a.)	-5000000
Long Term Capital Gains chargeable to Tax	**3894570**
Long term capital gain tax @ 20%	**778914**

23) On 01/12/2020, Mr. Puneet sells commercial plot for ₹9275000 (acquired on 01/12/1999 for ₹15000, FMV as on 01/04/2001: ₹16000). Mr. Punnet incurred cost of improvement as follows:
   a. First improvement on 01/01/2000 = ₹450000
   b. Second improvement on 01/12/2004 = ₹550000

   Expenses on purchase and transfer are ₹12000 and ₹20000 respectively. To get the benefit of exemption under Section 54EC, Mr. Puneet makes the following investments –
   a. Purchase of NHAI bonds worth ₹4600000 on 01/03/2021
   b. Purchase of REC bonds worth ₹2400000 on 20/06/2021

   Find out the amount of exemption under Section 54EC. Also compute taxable capital gains and capital gain tax on the same.

   Solution:

24) During the previous year 2020-21, Mr. Amit transfers the following assets –
   a) On 30/04/2020, he transfers a personal computer for ₹60000 (it was purchased for ₹58000 on 01/01/2020)
   b) On 15/06/2020, he transfers personal jewellery for ₹1800000 (purchased during 2006-07 for ₹80000). To avail exemption, he has invested ₹1800000 in the purchase of new jewellery on the same day.
   c) On 18/06/2020, he transfers a painting for ₹5800000 (purchased during 2004-05 for ₹2400000). Out of the sale consideration, Mr. Amit purchases on the same day another painting for ₹4000000 and invested ₹600000 in the bonds of NHAI.
   d) On 06/07/2020, he transfers his personal car for ₹250000 (this car was purchased in the year 2006 from the second hand market for ₹80000 and he spent ₹100000 for the renewal of the car). On the same day out the sale consideration, Mr. Amit purchased bonds of RECL worth ₹100000.

   Find out the amount of capital gains chargeable to tax in the hands of Mr. Amit for the A.Y. 2021-22.

   Solution:

Personal computer and personal car are not capital assets. Consequently, capital gain is not chargeable to tax. However, personal jewellery and paintings are capital assets and capital gain arising on their transfer will be calculated as below:

Particulars	Jewellery (₹)	Paintings (₹)
Sale Consideration	1800000	5800000
Less: Indexed Cost of Acquisition (₹80000 * 301/122) & (₹2400000 * 301/113)	-197377	-6392920
	1602623	-592920
Capital Gains		1009703
Less: Exemption under Section 54EC		Nil
Long Term Capital Gains chargeable to tax		**1009703**

Note: Mr. Amit is not eligible for any exemption under Section 54EC. Because Mr. Amit has not transferred any capital assets comprising land or building or both during the P.Y. 2020-21. Hence Mr. Amit cannot claim exemption under Section 54EC in respect of investment made by him during the P.Y. 2020-21.

25) Mr. Abdul (61 years) acquires 10000 equity shares in BTS Ltd. on 16/03/2006. He gets 8000 bonus shares on 11/03/2013. Mr. Abdul transfers original shares in the previous year 2014-15. He transfers 5000 bonus shares on 02/11/2020 at the rate of ₹900 per share (STT is paid the time of transfer). Fair market value of the shares in BTS Ltd. as per Bombay Stock Exchange quotation is ₹300 on 31/01/2018. Income of Mr. Abdul for the P.Y. 2020-21 from other sources is ₹2640000. He has brought forward short-term capital loss of ₹290000 pertaining to the A.Y. 2017-18. Compute capital gains taxable in the hands of Mr. Abdul.

Solution:

Section 112A is applicable if following conditions are satisfied:

a) **Condition 1:** The total income includes any income chargeable under the head "Capital Gains".
b) **Condition 2:** The capital gain arise from the transfer of a long-term capital asset being an equity share in a company or a unit of equity-oriented fund or a unit of a business trust.
c) **Condition 3:** At the time of transfer of equity share/equity oriented mutual fund unit/unit of business trust, securities transaction tax (STT) has been paid.
d) **Condition 4:** In case capital gain arises on the transfer of equity shares, securities transaction tax (STT) was paid also at the time of acquisition of shares. However, CBDT has clarified that the requirement of STT payment at the time of acquisition is applicable only when shares were acquired after 01/10/2004.

Section 112A is applicable only if 4 conditions as mentioned above are satisfied. First 3 conditions are satisfied in the case of Mr. Abdul. Condition 4 is not applicable in certain notified cases ***(STT is not paid at the time of acquisition of bonus shares, these shares are issued by company, this transaction is covered by the notification issued by CBDT)***. Consequently, tax is calculated under Section 112A as follows:

Particulars	(₹)
Full Value of Consideration (5000 shares * ₹900	4500000
Less: Indexed Cost of Acquisition Higher of the following: 1) Actual Cost of acquisition = Nil 2) Fair Market Value as on 31/01/2018 = ₹300 Hence Cost of acquisition = ₹300*5000	-1500000
Long Term Capital Gains	3000000

Less: Brought forward loss	-290000
Long-Term Capital Gains	2710000
Other income	2640000
Taxable Income	**5350000**

Computation of Tax

Particulars	**(₹)**
Income tax on LTCG under Section 112A 10% of ₹2610000 (₹271000 - ₹10000)	261000
Income tax on other income of ₹2640000 0 - ₹300000 = Nil ₹300000 - ₹500000 = ₹10000 ₹500000 - ₹1000000 = ₹100000 ₹1000000 - ₹2640000 = 492000	602000
Income Tax	863000
Add: Surcharge	86300
	949300
Add: Health & Education Cess @ 4%	37972
Tax Liability (rounded off)	**987270**

INCOME FROM OTHER SOURCES

Income from Other Sources

Any income which is not chargeable to tax under any other heads of income and which is not to be excluded from the total income shall be chargeable to tax as residuary income under the head "Income from Other Sources".

Basis of Charge [Sec. 56]:

Income chargeable to tax under the head "Income from other sources" shall include following:

S. No.	Nature of income taxable as residuary income
1.	Dividends
2.	Income by way of winnings from lotteries, crossword puzzles, races including horse races, card games, gambling or betting of any form or nature whatsoever
3.	Any sum received by an employer from his employees as contribution towards PF/ESI/ Superannuation Fund etc., if same is not deposited in the relevant fund and it is not taxable under the head 'Profits and Gains from Business or Profession'.
4.	Interest on securities, if not taxable under the head 'Profits and Gains of Business or Profession'
5.	Income from machinery, plant or furniture belonging to taxpayer and let on hire, if income is not chargeable to tax under the head 'Profits and Gains of Business or Profession'
6.	Composite rental income from letting of plant, machinery or furniture with buildings, where such letting is inseparable and such income is not taxable under the head 'Profits and Gains of Business or Profession'
7.	Any sum received under Keyman Insurance Policy (including bonus), if not taxable underthe head 'Profits and Gains of Business or Profession' or under the head 'Salaries'
8.	In the following cases, any sum of money or property received by a person from any person (except from relatives or member of HUF or in given circumstances, *see note 1*) shall be taxable under the head 'Income from other sources': a) If any sum is received without consideration in excess of Rs. 50,000 during the previous year, the whole amount shall be chargeable to tax; Though the provisions relating to gift applies in case of every person, but it has been reported that gifts by a resident person to a non-resident are claimed to be non-taxable in India as the income does not accrue or arise in India. To ensure that such gifts made by residents to a non-resident person are subjected to tax in India, the Finance (No. 2) Act, 2019 has inserted a new clause (viii) under Section 9 of the Income-tax Act to provide that any income arising outside India, being money paid without consideration on or after 05-07-2019, by a person resident in India to a non-resident or a foreign company shall be deemed to accrue or arise in India. b) If an immovable property is received without consideration and the stamp duty value exceeds Rs. 50,000, the stamp duty value of such property shall be chargeable to tax;

	c) If immovable property is received for consideration which is less than the stamp duty value of property by higher of following amount the difference is chargeable to tax: (i) the amount of Rs. 50,000 (ii) the amount equal to 10% of consideration. d) If movable properties* is received without consideration and the aggregate fair market value of such properties exceeds Rs. 50,000, the whole of aggregate fair market value of such properties shall be chargeable to tax e) If a movable property is received for consideration which is less than the aggregate fair market value of properties by an amount exceeding Rs. 50,000, the difference between the aggregate fair market value and the consideration is chargeable to tax. **Note:** 1. Any sum of money received by an individual, from any person, in respect of any expenditure actually incurred by him on his medical treatment or treatment of any member of his family in respect of any illness related to COVID-19, shall not be considered as income of such person. (subject to certain conditions) 2. Any sum of money received by family member of a person who died due to COVID-19, the money so received shall not be considered as income of the family member where such money is received from the employer of deceased person. Where the money is received from any other person or persons, the exemption amount shall be limited to Rs. 10 lakh in aggregate. (subject to certain conditions
9.	If shares in a closely held company are received by a firm or another closely held company from any person without consideration or for inadequate consideration, the aggregate fair market value of such shares as reduced by the consideration paid, if any, shall be chargeable to tax. *Note:* Nothing would be chargeable to tax if taxable amount doesn't exceed Rs. 50,000.
10.	If a closely held public company receives any consideration for issue of shares which exceed the fair market value of such shares, the aggregate consideration received for such shares as reduced by its fair market value shall be chargeable to tax.
10A.	Any compensation received by a person in connection with the termination of his employment or modification of terms and conditions relating thereto.
11.	Interest received on compensation or enhanced compensation
12.	Any sum of money received as an advance or otherwise in the course of negotiations fortransfer of a capital asset shall be charged to tax under this head, if: a) Such sum is forfeited; and b) The negotiations do not result in transfer of such capital asset.

* 'Movable property' shall include shares, securities, jewellery, archaeological collection, drawings, paintings, sculptures, any work of art or bullion etc.

Deductions [Sec. 57]:

The following expenditures are allowed as deductions from income chargeable to tax under the head 'Income from Other Sources':

S.No.	Section	Nature of Income	Deductions allowed
1.	57(i)	Dividend or Interest on securities	Any reasonable sum paid by way of commission or remuneration to banker or any other person for purpose of realizing dividend or interest on securities
2.	57(ia)	Employee's contribution towards Provident Fund, Superannuation Fund, ESI Fund or any other fund setup for the welfare of such employees	If employees' contribution is credited to their account in relevant fund on or before the due date
3.	57(ii)	Rental income letting of plant, machinery, furniture or building	Rent, rates, taxes, repairs, insurance and depreciation etc.
4.	57(iia)	Family Pension	1/3rd of family pension subject to maximum of Rs. 15,000.
5.	57(iii)	Any other income	Any other expenditure (not being capital expenditure) expended wholly and exclusively for earning such income
6.	57 (iv)	Interest on compensation or enhanced compensation	50% of such interest (subject to certain conditions)
7.	58(4) Proviso	Income from activity of owning and maintaining race horses.	All expenditure relating to such activity.

Expenses not deductible [Section 58]:

S.N.	Section	Nature of Income
1.	58(1)(a)(i)	Personal expenses
2.	58(1)(a)(ii)	Interest chargeable to tax which is payable outside India on which tax has notbeen paid or deducted at source
3.	58(1)(a)(iii)	'Salaries' payable outside India on which no tax is paid or deducted at source
4.	58(1A)	Wealth-tax

5.	58(2)	Expenditure of the nature specified in section 40A
6.	58(4)	Expenditure in connection with winnings from lotteries, crossword puzzles,races, games, gambling or betting

Meaning of Interest on Securities

Income, by way of interest on securities, is chargeable under the head "income from other sources", if such income is not chargeable to income-tax under the head, "Profits and Gainsof Business or Profession".

According to Section 2(28B) "Interest on securities" means:

- Interest on any security of the Central Government or a State Government;
- Interest on debentures or other securities for money issued by, or on behalf of a localauthority or a company or a corporation established by Central, State or Provincial Act.
- Thus securities may be divided into following categories:
- Securities issued by Central/State Governments;
- Debentures/bonds issued by a local authority;
- Debenture/bonds issued by companies;
- Debenture/bonds issued by a corporation established by a Central, State or ProvincialAct i.e. autonomous and statutory corporations.

Chargeability of Interest on Securities :

Income by way of interest on securities is taxable on “receipt” basis, if the assessee maintainsbooks of account on “cash basis”.

It is taxable on “due” basis when books of account are maintained on mercantile system.

Interest is taxable on “receipt” basis, if such interest had not been charged to tax on due basisfor any earlier previous year.

Accrual of Interest on Securities :

Interest on securities does not accrue everyday or according to the period of holding of investment. For instance, if one holds 7% securities from January 1, 2019 to February 28,2019, it cannot be said that interest of two months has accrued to the security holder.

Generally, interest becomes due on due dates specified on securities. For instance..., if specified due dates of interest of particular securities are March 1 and September 1 every year, interest of six months falls due on each such date and holder of securities on these dateswill be entitled to interest of six months on each such date.

Grossing up of Interest on Securities :

Gross interest [i.e., Net Interest + TDS (Tax Deducted at Source] is Taxable.

Net interest is grossed up in the hands of recipient if tax is deducted at source by the payer.

Net interest (if tax is deducted at source) in the hands of the recipient should be grossed up bymultiplying it by the following fraction :

Net Interest x 100 ÷ [100 - Rate of TDS (tax deduction at source)]

Deductions for Expenses from Interest on Securities [Section 57(i) and (iii)]:
As discussed in the case of dividends, the following deductions will also be allowed from thegross interest on securities:

- Collection charges [Section 57(i)]:
  Any reasonable sum paid by way of commission or remuneration to a banker, or any otherperson for the purpose of realising the interest.
- Interest on loan [Section 57(iii)]:
  Interest on money borrowed for investment in securities can be claimed as a deduction.
- Any other expenditure [Section 57(iii)]:
  Any other expenditure, not being a expenditure of a capital nature, expended wholly and exclusively for the purpose of making or earning such income can be claimed as a deduction.

Cum-Interest Price and Ex-Interest Price.

When debentures are purchased before the date of interest a problem may arise whether thequoted price of debentures includes interest upto the date of purchase or not. Price may be quoted **Ex-interest** or **Cum-interest**.
Cum-Interest Price : When the interest accrued from the last due date of interest to the date of transaction is included in the price quoted, it is called Cum-Interest price which is the totalamount paid for the purchase of debentures.
Thus, **Cum-Interest Price = Payment towards Capital Portion + Payment** towardsInterest accrued from the last due date of interest to the date of transaction.

Ex-Interest .Price : When the interest accrued from the last due date of interest to the date oftransaction is not included in the price quoted, it is called Ex-interest price or Real Price.
Thus, Ex-Interest Price = Payment towards Capital Portion

Other Sources of Income are Stated
Below:-Income From:

- Lottery, Gambling, Batting, Horse Race, Cross Ward, Puzzle
- Any other casual income
- Interest other than interest on securities
- Interest on Securities
- Commission (If it is not a part of one's main Business or Profession)
- Family Pension
- Royalty
- Director's Fee
- Subletting of House
- Dividend
- Tuition Income

Casual Income: TDS is applicable @ 30% on this. It generally received after deduction of tax.Hence it always gross up while calculating the income under this head as given below:

Gross Income = Net Amount Received * 100/70

Lottery Income: If Lottery Income is less than Rs.5000/- then there will be no TDS. Hence noneed to gross up.

Income from Horse Race: If Income from Horse Race is less than Rs.2500/- then there will beno TDS Hence no need to gross up.

Family Pension: Rs.15000/- or 1/3 of Actual Amount received, whichever is less, is exempt.

Taxable = Actual Amount Received – Exempted

AmountDividend from Indian Co. – earlier it was fully exempt but now it is taxable.

Taxable Dividend: 1.Dividend from Foreign Co.

2. Dividend from Co-operative Society

Tax free in case of other sources: -

- Interest from Capital Investment Bond
- Interest on Post Office Savings
- Interest on National Relief Bond
- Income from UTI
- Any Allowance to a M.P. (Member of Parliament)

** **<u>Salary to M.P is Taxable under this head</u>**

If Debenture interest is received up to Rs.2500/-
and
Received by Account payee Cheque, No TDS will be deducted hence no need to gross up

<u>INTEREST ON SECURITIES</u>

Less Tax Security

Govt.

No need to

Commercial

if % is given

No need to gross up

if amt is given

Listed/ Unlisted

Tax free Security

Govt.

Exempt from Tax

Commercial

whether % is given or Amount is given always Gross up

Listed/ Unlisted Amt.

Recd *100/90

<u>TREARTMENT OF GIFTS:</u>

The amendment of Sec 56(2) of the income tax act has intensely changed the scenario of thetax treatment of gifts received by an assessee. The amended provision states that

A. Where any sum of money exceeding Rs.50000 (gift in cash or cheque or draft) in aggregate in any previous year is received by an individual or HUF without any consideration, the sum shall be deemed to be the income of the recipient.

B. Any immovable property without any consideration is received and the stamp duty value of such property exceeds Rs. 50000, the stamp duty value will be taxable in the hand of the recipient.

- Any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding Rs. 50,000, and then the difference between stamp duty value and consideration is chargeable to tax.
- Any movable property is received without consideration, and the fair market value of which exceeds Rs. 50,000, the whole of the aggregate fair market value of such property.
- Any movable property is received for a consideration which is less than the aggregate fair market value of the property by an amount exceeding Rs. 50,000, and then the difference between aggregate fair market value and the consideration is chargeable to tax.

In the following situations any sum of money or property received shall be exempt from tax:

- ✓ **On the occasion of the marriage of individual**
- ✓ **Received under a will / Inheritance**
- ✓ **Contemplation of death of the payer**
- ✓ **Receipt from Local Authority**
- ✓ **From any fund, foundation, university, other educational institution, hospital, medical institution, any trust or institution u/s {Sec 10(23C)}.**
- ✓ **From any charitable institute registered u/s 12AA.**

From relatives

	Relatives means	**Example – Taxpayer is Mr. A**
1	Spouse of the individual	Mrs. A
2	Brothers or sisters of the Individual	Brothers or sisters of A
3	Brother or sister of the spouse of individual	Brothers or sisters of Mrs. A
4	Brother or sister of the parents of the individual	Brothers and sister of father and mother of A
5	Any lineal ascendant or descendant of the Individual	lineal ascendant or descendant of A
6	Any lineal ascendant or descendant of spouse of the Individual	lineal ascendant or descendant of Mrs. A
7	Spouse of the person referred to in pt (ii) to (v)	Spouse of the aforesaid persons.

As a measure of tax planning, one should avoid giving gift to spouse or son's wife because in that case clubbing provisions u/s 64 will be attracted that is income from the gifted amount will be added in the income of the donor

Problems on Income from Other Sources (A.Y. 2022-2023)

1) Compute Income under the head other sources of Mr. Sujeet from the following particulars:
   a) 8% Taxable Savings Bonds of Reserve Bank of India ₹3,00,000
   b) 6% Tax Free notified Railway's Bonds of ₹2,60,000
   c) 12% Bonds of Industrial Development Bank of India of ₹3,50,000
   d) 12% Debentures of ABC Ltd. listed on Ahmedabad Stock Exchange purchased at ₹96 (Face Value ₹100) ₹1,92,000.
   e) Interest received from debentures issued by X Ltd. listed on Stock Exchange – ₹59,400 (After deducting TDS @ 10%).
   f) Interest received from debentures issued by a Ltd. Company not listed on Stock Exchange – ₹10,800 (After deducting TDS @ 10%).
   g) Dividend declared and received from A Ltd. (An Indian Company) on 27-06-2022 – ₹15725
   h) Dividend declared by B Ltd. (An Indian Company) on 05-08-2022 @ 50% on 1000 shares of ₹10 each, which were purchased at ₹40 per share.
   i) 10% Dividend on Preference Shares of ₹10 each amounting to ₹1,50,000 paid by an Indian Company on 10-05-2022.

Solution:

Name of Assessee: Mr. Sujeet	
P.Y. 2021-2022	**A.Y. 2022-2023**
Particulars	**₹**
8% Taxable Saving Bonds of Reserve Bank of India	24000
6% Tax Free notified Railway's Bonds	Exempt
12% Bonds of IDBI	42000
12% Debentures of ABC Ltd. (W. N. 1)	24000
Interest received from debentures of X Ltd. (₹59400*100/90)	66000
Interest received from debentures of unlisted Co. (₹10800*100/90)	12000
Dividend received from A Ltd. (₹15725*100/92.5) (W.N. 2)	17000
Dividend declared by B Ltd. (W. N. 3)	5000
10% Preference Dividend received from an Indian Co. (W.N. 4)	15000
Income from Other Sources	**205000**

Working Notes:

1) **<u>Calculation of Face Value of Debentures and interest thereon:</u>**

Particulars	**Amount**
Actual Amount invested in Debentures	192000
Price paid per Debenture	₹96
Total No. of debentures purchased	=192000/96 = 2000
Face Value of per Debenture	₹100
Face Value of Debentures	200000
Interest on debentures @ 12%	24000

2) **<u>Section 194</u>** - Rate of TDS is 10% and Threshold (Maximum) limit is ₹5000 for dividend paid other than cash only for Resident Individual. Due to outbreak of COVID-19 pandemic rate of TDS REDUCED to 7.5% instead of 10% w.e.f. 14.05.2020 and shall be applicable till 31.03.2021.
3) **<u>Calculation of Face Value of Shares and Dividend thereon:</u>**
   No tax will be deducted on dividend declared by B Ltd. as it does not exceed the threshold limit of ₹5000
4) TDS @ 10% is liable on the dividend received on Preference Shares.

Important Points to remember:

1) **Dividend received from Indian Company is Taxable in the hands of recipient.**
2) **Section 194 - Rate of TDS is 10% and Threshold (Maximum) limit is ₹5000 for dividend paid other than cash only for Resident Individual.**

2) Mr. Ashish has furnished the details of income generated and investments made during the F.Y. 2021-2022.
   a) Income from lottery ₹700000 (Post Tax @ 30%)
   b) Income from Card Games ₹1050000 (Post Tax @ 30%)
   c) Dividend received from a Foreign Company ₹150000. Received on 14-04-2022.
   d) Dividend received from an Indian Company ₹100000. Received on 15-08-2022.
   e) 6% Tax Free National Plan Certificates ₹3000
   f) 10% Government Bonds ₹1500000
   g) 12% Debentures of ABC Ltd. listed on National Stock Exchange purchased at ₹104 (Face Value ₹100) ₹2,08,000.

   Calculate his Income under the head Income from Other Sources.

   Solution:

Name of Assessee: Mr. Ashish	
P.Y. 2021-2022	**A.Y. 2022-2023**
Particulars	**₹**
Income from Lottery (₹700000/70*100)	1000000
Income from Card Games (₹1050000/70*100)	1500000
Dividend received from Foreign Company (W.N. 1)	150000
Dividend received from an Indian Company (W.N. 2)	100000
6% Tax Free National Plan Certificates	Exempt
10% Government Bonds	150000
12% Debentures of ABC Ltd.	24000
Income from Other Sources	**2924000**

Working Notes:

1) In this case, dividend received from a foreign company, is liable to tax in the hands of recipient. TDS at the rate of 10% is to be deducted from such income because
   i) The amount of dividend in exceeding the threshold limit i.e. INR 5000.
   ii) The dividend is received before 14/05/2020.
2) In this case, dividend received from an Indian company, is liable to tax in the hands of recipient. TDS at the rate of 7.5% is to be deducted from such income because
   i) The amount of dividend in exceeding the threshold limit i.e. INR 5000.
   ii) The dividend is received after 14/05/2020.
3) **Calculation of Face Value of Debentures and Interest thereon:**

Particular	**Amount**
Actual Amount invested in Debentures	208000
Price paid per Debenture	₹104
Total No. of debentures purchased	=208000/104 = 2000
Face Value of per Debenture	₹100
Face Value of Debentures (2000 * INR 100)	200000
Interest on debentures @ 12%	24000

3) The following are the details of income received from Mr. Karthik during financial year 2021-2022.
   a) Director's Fees - ₹3600

b) Income from agricultural land in Bangladesh - ₹14000
c) Ground Rent from land in Jammu - ₹12000
d) Interest on Postal Savings Bank A/c - ₹1200
e) Interest on deposits with IFCI - ₹900
f) Dividend from a foreign company - ₹1100
g) Rent from sub-letting of house - ₹37500
h) Rent payable by Mr. Karthik for the sub-let house - ₹15000
i) Other expenses on sub-let house - ₹1500
j) Winnings from lottery (Net) - ₹28000
k) Interest on securities (Gross) - ₹5000

Calculate his Income under the head Income from Other Sources.

Solution:

Name of Assessee: Mr. Karthik		
P.Y. 2021-2022		**A.Y. 2022-2023**
Particulars	**₹**	**₹**
Director's Fees		3600
Income from agricultural land in Bangladesh (W.N. 1)		14000
Ground Rent from land in Jammu		12000
Interest on Postal Saving Bank A/c		Exempt
Interest on deposits with IFCI		900
Dividend received from foreign company		1100
Rent received from sub-letting of house	37500	
Less: Rent payable to Owner	-15000	
Less: Expenses on sub-let house	-1500	21000
Winnings from lottery (₹28000/70*100)		40000
Interest on Securities (Gross)		5000
Income from Other Sources		**97600**

Working Notes:

1) Income from agricultural land situated in foreign is taxable in India.
2) Income received from winnings from lottery is given after deducting an amount of tax deducted at source, therefore for the purpose of computation of income from other sources we have to consider the gross amount of such income. The tax rate applicable for casual income is 30%. Hence the income will be grossed up as follows:
   ₹28000/(1-Tax Rate) = ₹28000/(1-0.30) = ₹28000/0.70 = ₹40000

4) Shri. Anil furnishes the following particulars of his income for the P.Y. 2021-2022. Compute his income from Other Sources.
   a) Dividend on equity shares (received form an Indian Co.) - ₹600
   b) Dividend on Preference Shares (received form an Indian Co.) - ₹3200
   c) Income from letting on hire of building and machinery under one composite rent - ₹17000
   d) Interest on Bank Deposits - ₹25000
   e) Directors sitting fees received - ₹1200
   f) Ground Rent received - ₹600
   g) Income from undisclosed sources - ₹10000
   h) Winnings from lotteries (Net) - ₹14000

   The following deductions are claimed:
   a) Collection charges of preference dividend - ₹200

b) Allowable depreciation on Building and Machinery - ₹4000
c) Fire Insurance on Building and Machinery - ₹100

Solution:

Name of Assessee: Mr. Anil		
P.Y. 2021-2022		**A.Y. 2022-2023**
Particulars	**₹**	**₹**
Dividend on equity shares (W.N. 1)		600
Dividend on Preference Shares (W.N. 2)	3200	
Less: Collection charges paid	-200	3000
Income from letting out on hire building and machinery (Composite Rent)	17000	
Less: Depreciation on Building and Machinery	-4000	
Less: Fire Insurance of Building and Machinery	-100	12900
Interest on Bank Deposits		25000
Directors sitting fees		1200
Ground Rent		600
Income from undisclosed sources (W.N. 3)		10000
Winnings from lotteries (₹14000/70*100)		20000
Income from Other Sources		**73300**

Working Note:

1) Dividend received from an Indian Company is now taxable in the hands of recipient of the dividend.
2) Dividend received from Indian Company on Preference Shares is now taxable in the hands of recipient of the dividend.
3) Income from undisclosed sources is taxable at the rate of 60% + Surcharge on Income Tax @ 25% + Secondary & Higher Education Cess on Income Tax + Surcharge @ 4%.
   For example,

Income from undisclosed sources **10000**

Particulars	**₹**
Income Tax @ 60%	6000
Add: Surcharge @ 25% on Income Tax	1500
	7500
Add: Secondary and Higher Education Cess @ 4% on Income Tax + Surcharge	300
Total Income Tax payable on Income from undisclosed sources	**7800**

5) Mr. Rohit received the following income as interest during the previous year 2021-2022:
   a) ₹4000 as interest on Government Securities
   b) ₹3600 as interest (Net) on debentures issued by local authority
   c) ₹8100 as interest on debentures of MGM Ltd. (not listed on any Recognised Stock Exchange) (Net)
   d) ₹10800 as interest on debentures of X Ltd. (Listed on National Stock Exchange) (Net)
   e) ₹4050 as interest on debentures of ABC Ltd. (Unlisted) (Net)

   Determine the income from other sources for the A.Y. 2021-2022 assuming bank charges of 2% on amount collected.

   Solution:

Name of Assessee: Mr. Rohit	
P.Y. 2021-2022 **A.Y. 2022-2023**	
Particulars	**₹**

Interest on Government Securities	4000
Interest on Debentures issued by Local Authority (₹3600/90*100)	4000
Interest on debentures issued by MGM Ltd. (Unlisted) (₹8100/90*100)	9000
Interest on debentures issued by X Ltd. (₹10800/90*100)	12000
Interest on debentures of ABC Ltd. (₹4050/90*100)	4500
Less: Expenses on collection	
[(₹4000 + ₹3600 + ₹8100 + ₹10800 + ₹4050 = ₹30550) * 2%]	-611
Income from Other Sources	**32889**

6) Shri. Mukund furnished following information for the P.Y. 2021-2022:

a) Honorarium received for writing articles in magazines - ₹1000
b) Income from agricultural land in New York - ₹2500
c) Ground rent from land in Gwalior - ₹5000
d) Interest on Post Office Savings Bank Account - ₹1000
e) Winnings from Horse Races (Net) - ₹12300
f) Dividend on equity shares received from an Indian Co. - ₹15000
g) Interest received on 10% Debentures (Amounting ₹12000 after deducting TDS) issued by Arvind Co.

Determine Income from other sources for A.Y. 2022-2023.

Solution:

Name of Assessee: Mr. Mukund	
P.Y. 2021-2022	**A.Y. 2022-2023**
Particulars	**₹**
Honorarium received from writing articles in magazines	1000
Income from agricultural land outside India	2500
Ground Rent	5000
Interest on Post Office Savings Bank A/c	Exempt
Winnings from Horse Races (₹12300/70*100)	17571
Dividend from Indian Company (W.N. 1)	15000
Interest on Debentures issued by Arvind Co. (₹12000/90*100)	13333.33
Income from Other Sources	**54404.76**

Working Note:

1) Dividend received from Indian company is taxable in the hands of shareholder. It is liable for TDS @ 10% if the amount of dividend distributed by a company exceeds ₹5000.

7) Shri. Anand has the following details for the P.Y. 2021-2022:

a) 10% ₹30000 tax-free Govt. Securities.
b) 10% ₹40000 Karnataka Govt. Loan
c) 10% Interest of ₹36000 (Net) received on Debentures of a Company (Rate of TDS is 10%).
d) 10% Interest of ₹20000 received on Debentures of a Tea Company (Listed).
e) ₹7200 received as an Interest on debentures of a company (unlisted).
f) 7% ₹5000 National Plan Certificates.
g) 9% ₹20000 Bombay Port Trust Bonds.
h) ₹26250 Rent of subletting house.
i) ₹12000 Rent paid for sublated house.
j) ₹1000 Other expenses for sublated house.
k) ₹12300 Winnings from lotteries (Gross).
l) ₹4000 Interest on securities.

Compute the Income from other sources of Mr. Anand for the A.Y. 2022-2023.
Solution:

Name of Assessee: Mr. Anand		
P.Y. 2021-2022		**A.Y. 2022-2023**
Particulars	**₹**	**₹**
10% Govt. Securities		Exempt
Interest on Karnataka Govt. Loan		4000
Interest on Debentures of a company (₹36000/90*100)		40000
Interest on Debentures of a Tea Company		20000
Interest on debentures of an unlisted company		7200
7% National Plan Certificates		Exempt
9% Bombay Port Trust Bonds		1800
Income from subletting	26250	
Less: Rent paid for sublated house	-12000	
Less: Other expenses for sublated house	-1000	13250
Winnings from lotteries (Gross)		12300
Interest on securities		4000
Income from Other Sources		**102550**

Taxation of Gifts

8) Mr. Sharma received following gifts during the previous year 2021-22.

a) On the occasion of marriage of Mr. Sharma, he gets ₹290000 as gift on 02/04/2021 (out of which ₹200000 is received from friends of Mr. Sharma and Mrs. Sharma and remaining amount is received from close relatives of Mr. & Mrs. Sharma).

b) On 22/06/2021, he gets a gift of ₹23000 from Mr. Dubey, who is cousin of his father.

c) On 18/08/2021, he gets a gift of ₹15000 from Mr. Shah, who is elder brother of his grandfather.

d) On 20/09/2021, he gets a gift of ₹700000 from his grandmother.

e) A computer received from his employer (it was purchased for ₹65000 by the employer on 01/05/2021 and given as a gift to Mr. Sharma on 20/10/2021).

Compute the amount chargeable to tax in the hands of Mr. Sharma under the head "Income from other sources" for the A.Y. 2021-22.

Solution:

Name of Assessee: Mr. Sharma	
P.Y. 2021-2022	**A.Y. 2022-2023**
Particulars	**(₹)**
Gift received on occasion of marriage (Exempt)	Nil
Cash gift received from Mr. Dubey who is cousin of his father *(Cousin of father is not considered in the definition of relative, hence gift received from Mr. Dubey will be considered as a gift in the hands of Mr. Sharma)*	23000
Cash gift received from Mr. Shah who is elder brother of his grandfather *(Elder brother of grandfather is not considered in the definition of relative, hence gift received from Mr. Shah will be considered as a gift in the hands of Mr. Sharma)*	15000
Cash gift from grandmother *(Cash gift received from a 'relative' is not taxable in the hands of recipient as a gift. Grandmother is considered as a 'relative'. Hence it is not considered as a gift)*	Nil
Computer (movable asset) received from employer as a gift *(It is taxable as a perquisites under the head "Income from salaries" in the hands of Mr. Sharma, hence **it is not considered while calculating income from other sources**)*	Nil
Total Value of Gifts	**38000**

As the aggregate amount of cash gifts received by Mr. Sharma during the previous year 2021-2022 does not exceed ₹50000, it is not taxable as a gift in the hands of Mr. Sharma.

9) Mr. Rana received following gifts during the previous year 2021-22.

a) On 02/11/2021, Mr. Rana purchases a house property from his friend Mr. Amit for ₹65000 (stamp duty value of the property is ₹1000000).

b) On 30/11/2021, Mr. Rana gets a gift of plot of land from his grandfather (stamp duty value is ₹1500000).

c) On 30/12/2021, Mr. Rana gets a gift of commercial flat from the elder brother of his father-in-law (stamp duty value is ₹2500000).

d) On 06/01/2022, he gets a gift of ₹200000 (cash gift of ₹25000 and gift of a work of art whose market value is ₹175000 from a notified public charitable institution)

e) On 11/01/2022, Mr. Rana receives a house property under will of person known to him. The stamp duty value is ₹1540000.

Compute the amount chargeable to tax in the hands of Mr. Rana under the head "Income from other sources" for the A.Y. 2022-23.

Solution:

Name of Assessee: Mr. Rana	
P.Y. 2021-2022	**A.Y. 2022-2023**
Particulars	**(₹)**
Purchase of immovable property for inadequate consideration (W.N. 1)	935000
Gift of immovable property received from grandfather *(Gift received from relative is exempt from tax and grandfather is considered as a relative)*	Nil
Gift of commercial property *(elder brother of father-in-law is not a relative, hence gift of immovable property received from him without consideration will be considered as a gift.)*	2500000
Gift received from notified public charitable institute (exempt)	Nil
Gift received under a will *(Not taxable as a gift even if it is received from non-relative)*	Nil
Total Value of Gifts	**3465000**

As the aggregate amount of gifts received by Mr. Rana during the previous year 2020-2021 exceeds ₹50000, it is taxable as a gift in the hands of Mr. Rana.

Working Note 1:

1) If the transaction satisfied following two conditions, then the **difference between stamp duty valuation and consideration** will be chargeable to tax as a value of gift.
   a) Stamp duty valuation exceeds 110% of consideration **AND**
   b) The difference between stamp duty value and consideration is more than ₹50000.

   In the case of Mr. Rana both the above-mentioned conditions are satisfied as below:
   a) Stamp duty value (₹1000000) exceeds 110% of consideration (i.e. 110% of ₹65000 = ₹71500)
   b) The difference between SDV and consideration is more than ₹50000 (i.e. ₹1000000 – ₹65000 = ₹935000)

   Therefore, the difference between Stamp Duty Valuation and Purchase Consideration (i.e. ₹1000000 - ₹65000 = ₹935000) will be considered as a taxable value of gift.

Valuation of Gift in case where an immovable property is received for a consideration which is less than the stamp duty valuation of the property:

The transaction should satisfy the following conditions:
   a) Stamp duty valuation exceeds 110% of consideration **AND**
   b) The difference between stamp duty value and consideration is more than ₹50000.

If the above two conditions are satisfied, then the difference between stamp duty valuation and consideration will be chargeable to tax as a value of gift.

10) Mr. Puri received following gifts during the previous year 2021-22.
   a) On 20/01/2022, he gets a wrist watch by gift (fair market value: ₹40000) from his friend Mr. Jha.
   b) On 25/01/2022, he purchases a work of art for ₹1600000 from an exhibition in New York (the fair market value of the work of art on the date of purchase is ₹1700000).
   c) On 01/02/2022, he purchases a commercial property for ₹1600000 (stamp duty value is ₹1675000)
   d) On 05/02/2022, he gets a birthday gift of a gold chain (fair market value: ₹11000) from his friend.
   e) On 10/02/2022, Mr. Puri gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners – father of Mr. Puri and Mrs. Puri. The stamp duty value of the plot of land is ₹1900000.

   Compute the amount chargeable to tax in the hands of Mr. Puri under the head “Income from other sources” for the A.Y. 2022-23.

Solution:

Name of Assessee: Mr. Puri	
P.Y. 2021-2022 **A.Y. 2022-2023**	
Particulars	**(₹)**
Gift of wrist watch received from a friend *(Wrist watch is not considered as a property for the purpose of Section 56(2)(x) hence it is not taxable as a gift in the hands of the recipient)*	Nil
Purchase of a work of art for inadequate consideration *(it is taxable as a gift because the difference between the fair market value of the property and purchase consideration exceeds Rs. 50000)*	100000
Purchase of immovable property for an inadequate consideration *(as the difference between stamp duty valuation and purchase consideration exceeds Rs. 50000* ***but stamp duty value (i.e. Rs. 1675000) does not exceed 110% of purchase consideration (i.e. Rs. 1760000),*** *hence it is not taxable as a gift.)*	Nil
Gift of gold chain received on birthday from a friend	11000
Gift of plot of land received from a partnership firm *(Partnership firm is not a 'relative', even if relatives of Mr. Puri are partners)*	1900000
Total Value of Gifts	**2011000**

As the aggregate amount of gifts received by Mr. Puri during the previous year 2020-2021 exceeds ₹50000, it is taxable as a gift in the hands of Mr. Puri.