Here is the comprehensive solution for Question 1 from the "Income Tax Law and Practice" paper for the Assessment Year 2024-25 (Previous Year 2023-24).

Question 1. (a) Mr. Ranjan's Residential Status and Taxable Income

Previous Year: 2023-24 Assessment Year: 2024-25

Scenario (i): As per details given above

1. Determination of Residential Status of Mr. Ranjan:

- Mr. Ranjan was born in India , and his father was also born in India. This makes Mr. Ranjan a person of Indian origin.
- He left India on 18.03.2020 to USA and took US citizenship.
- During the previous year 2023-24, he visited India for 90 days.
- **Basic Conditions for Resident:**
  1. Stay in India for 182 days or more during the previous year.
     - Mr. Ranjan stayed for 90 days, so this condition is **not satisfied**.
  2. Stay in India for 60 days or more during the previous year AND 365 days or more in the 4 preceding previous years.
     - Since Mr. Ranjan is a person of Indian origin visiting India, the 60-day period in the second basic condition is extended to 182 days. Therefore, for him to be resident, he must stay 182 days or more in India during the previous year.
     - As he stayed only 90 days, this condition is also **not satisfied**.
- **Conclusion:** Since Mr. Ranjan does not satisfy any of the basic conditions, he is a **Non-Resident (NR)** for the previous year 2023-24.

2. Computation of Taxable Income for Mr. Ranjan (Non-Resident): For a Non-Resident, only income that accrues or arises in India, or is deemed to accrue or arise in India, or is received or deemed to be received in India, is taxable.

S.No.	Income Particulars	Accrual/Receipt Status	Taxable Amount (INR)
(1)	Interest on German Development bonds, 40% received in India	Accrued outside India, 40% received in India	180000 * 40% = 72,000
(2)	Dividend from a British Company received in USA	Accrued outside India, received outside India	Nil
(3)	Cash gift received in India from a friend on his birthday (exceeds ₹ 50,000)	Received in India	100,000

(4)	Rent received from a property situated at Delhi	Accrued in India (from property in India)	300,000
(5)	Income from profession (set up in Delhi) in USA and received in Germany	Deemed to accrue in India (profession controlled in India)	150,000
(6)	Royalty from a foreign company (received in London). Royalty pertains to a project of the foreign company situated in India	Deemed to accrue in India (project in India)	250,000
Total Taxable Income			**872,000**

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Scenario (ii): If he had left India on 01/04/2020 keeping no change in his income.

- **Residential Status:** Changing the departure date to 01/04/2020 does not alter his residential status for PY 2023-24. He remains a US citizen who visited India for 90 days during the previous year. As discussed in Scenario (i), he does not meet the basic conditions for being a Resident.
- **Conclusion:** He remains a **Non-Resident (NR)** for the previous year 2023-24.
- **Taxable Income:** Since his residential status and income details are unchanged, his taxable income will be the same as in Scenario (i).
- **Total Taxable Income: ₹ 872,000**.

Question 1. (b) "Person" vs "Assessee"

- **Meaning of "Person" as per Section 2(31) of the Income Tax Act, 1961:** Section 2(31) of the Income Tax Act, 1961, provides an inclusive and exhaustive definition of the term "Person." It covers various entities that can be recognized as distinct legal identities for the purpose of income taxation. The term "Person" includes the following:
  1. An Individual
  2. A Hindu Undivided Family (HUF)
  3. A Company
  4. A Firm
  5. An Association of Persons (AOP) or a Body of Individuals (BOI), whether incorporated or not
  6. A Local Authority
  7. Every Artificial Juridical Person not falling within any of the above categories.
- **How is the term "person" different from the term "assessee"?** While related, "Person" and "Assessee" are distinct terms in income tax law:
  - **Person:** This is a broader term encompassing all the entities capable of earning income as defined in Section 2(31). It refers to the legal identity of an entity that can potentially be subject to the provisions of the Income Tax Act.
  - **Assessee:** The term "Assessee" (defined in Section 2(7) of the Income Tax Act, though not explicitly in the provided text) is a more specific term. A

"Person" becomes an "Assessee" when they are liable to pay any tax or any other sum of money (like penalty or interest) under the Income Tax Act. It also includes:

- Anyone against whom an assessment proceeding has been initiated for their own income, or for the income of another person for whom they are assessable.
- Anyone who is deemed to be an assessee under any provision of the Act.
- Anyone who is deemed to be an assessee in default under any provision of the Act.

In essence, **every assessee is a person, but not every person is an assessee**. A person only becomes an assessee if there is a tax liability, an assessment proceeding is initiated, or they are deemed to be an assessee under the law. For example, a minor earning income is a "person," but if their income is clubbed with a parent's income, the parent becomes the "assessee" for that income.

OR Option

Question 1. (a) Mr. Ankit's Residential Status and Taxable Income

Previous Year: 2023-24 Assessment Year: 2024-25 Mr. Ankit is a citizen of India.

Scenario (a): Mr. Ankit has not visited India during PY 2023-24

1. Determination of Residential Status:

- Stay in India during PY 2023-24: 0 days.
- Since he does not satisfy either of the basic conditions (182 days or 60 days + 365 days), he is a **Non-Resident (NR)** for PY 2023-24.

2. Computation of Taxable Income (NR):

S.No.	**Income Particulars**	**Accrual/Receipt Status**	**Taxable Amount (INR)**
(i)	Interest from deposits in India	Accrued in India	200,000
(ii)	Dividend from UK company received in India	Received in India	300,000
(iii)	Winnings from lottery in India	Accrued in India	1,200,000
(iv)	Professional income accrued and received in Singapore	Accrued/Received outside India	Nil

(v)	Business income in Singapore but business is controlled from India	Accrued/Received outside India (taxable for RNOR, not for NR unless partly received in India)	Nil
Total Taxable Income			**1,700,000**

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Scenario (b): Mr. Ankit visited India for 200 days during 2023-24, and 200 days in every preceding financial year since 2015-16

1. Determination of Residential Status:

- **Basic Condition Check:**
    - Stay in India during PY 2023-24: 200 days. This satisfies the first basic condition (182 days or more).
- **Conclusion for Basic Condition:** Mr. Ankit is a **Resident**.
- **Additional Condition Check (for ROR or RNOR):** To be Resident and Ordinarily Resident (ROR), a resident must satisfy BOTH additional conditions:
    1. Resident in India in at least 2 out of 10 previous years immediately preceding the relevant previous year.
        - Since he stayed 200 days in every preceding financial year since 2015-16, he would have been a resident (stayed more than 182 days) in all those years. Thus, he is resident in more than 2 out of 10 preceding years. This condition is **satisfied**.
    2. Stay in India for 730 days or more during the 7 previous years immediately preceding the relevant previous year.
        - Total stay in the 7 preceding years (2016-17 to 2022-23) = 7 years * 200 days/year = 1400 days.
        - Since 1400 days > 730 days, this condition is **satisfied**.
- **Conclusion:** Since he satisfies both basic and both additional conditions, Mr. Ankit is a **Resident and Ordinarily Resident (ROR)** for PY 2023-24.

2. Computation of Taxable Income (ROR): For an ROR, global income is taxable.

S.No.	Income Particulars	Accrual/Receipt Status	Taxable Amount (INR)
(i)	Interest from deposits in India	Accrued in India	200,000
(ii)	Dividend from UK company received in India	Received in India	300,000
(iii)	Winnings from lottery in India	Accrued in India	1,200,000
(iv)	Professional income accrued and received in Singapore	Accrued/Received outside India	600,000
(v)	Business income in Singapore but business is controlled from India	Accrued/Received outside India	400,000
Total Taxable Income			**2,700,000**

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Scenario (c): Mr. Ankit visited India for 121 days and in the four preceding years immediately the previous year 2023-24, he was in India for 300 days

1. Determination of Residential Status:

- **Basic Condition Check:**
  - Stay in India during PY 2023-24: 121 days. (Does not satisfy 182 days).
  - Stay in India for 60 days or more during PY 2023-24 (121 days satisfied) AND 365 days or more in the 4 preceding previous years.
    - Stay in 4 preceding years: 300 days. (Does not satisfy 365 days).
  - Also consider the extended 182-day rule for an Indian citizen visiting India with total income (other than foreign sources) exceeding ₹ 15 lakhs. Mr. Ankit's Indian income (Interest from deposits + Winnings from lottery) = ₹ 200,000 + ₹ 1,200,000 = ₹ 1,400,000, which is less than ₹ 15 lakhs. So, this extended rule does not apply.
- **Conclusion:** Since Mr. Ankit does not satisfy any of the basic conditions, he is a **Non-Resident (NR)** for PY 2023-24.

2. Computation of Taxable Income (NR): Since his residential status is NR, the taxable income will be the same as in Scenario (a).

S.No.	Income Particulars	Accrual/Receipt Status	Taxable Amount (INR)
(i)	Interest from deposits in India	Accrued in India	200,000
(ii)	Dividend from UK company received in India	Received in India	300,000
(iii)	Winnings from lottery in India	Accrued in India	1,200,000
Total Taxable Income			**1,700,000**

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Question 1. (b) Mr. Vinod's Tax Liability under Old Tax Regime

Assessee: Mr. Vinod (Age 50 years, Ordinary Resident) **Assessment Year:** 2024-25 (Previous Year 2023-24) **Gross Total Income (GTI):** ₹ 620,000 **PPF deposit:** ₹ 120,000 **Agricultural income:** ₹ 400,000

Since Mr. Vinod has both non-agricultural and agricultural income, and his non-agricultural income (after deductions) exceeds the basic exemption limit, partial integration of agricultural income will be applied.

Step 1: Compute Net Non-Agricultural Income Gross Total Income = ₹ 620,000 Less: Deduction u/s 80C (PPF) = ₹ 120,000 (Maximum deduction u/s 80C is ₹ 1,50,000, so ₹ 1,20,000 is fully allowed). **Net Non-Agricultural Income = ₹ 500,000**

Step 2: Compute Tax on (Net Non-Agricultural Income + Agricultural Income)

- Net Non-Agricultural Income = ₹ 500,000
- Add: Agricultural Income = ₹ 400,000
- **Total Income for Rate Calculation = ₹ 900,000**
- **Tax on ₹ 900,000 (Old Tax Regime, for individuals below 60 years):**
    - Up to ₹ 2,50,000: Nil
    - ₹ 2,50,001 to ₹ 5,00,000 (@ 5%): ₹ (2,50,000 * 5%) = ₹ 12,500
    - ₹ 5,00,001 to ₹ 9,00,000 (@ 20%): ₹ (4,00,000 * 20%) = ₹ 80,000
    - **Total Tax (A) = ₹ 12,500 + ₹ 80,000 = ₹ 92,500**

Step 3: Compute Tax on (Basic Exemption Limit + Agricultural Income)

- Basic Exemption Limit (for individuals below 60 years) = ₹ 2,50,000
- Add: Agricultural Income = ₹ 400,000
- **Total = ₹ 650,000**
- **Tax on ₹ 650,000 (Old Tax Regime, for individuals below 60 years):**
    - Up to ₹ 2,50,000: Nil
    - ₹ 2,50,001 to ₹ 5,00,000 (@ 5%): ₹ (2,50,000 * 5%) = ₹ 12,500
    - ₹ 5,00,001 to ₹ 6,50,000 (@ 20%): ₹ (1,50,000 * 20%) = ₹ 30,000
    - **Total Tax (B) = ₹ 12,500 + ₹ 30,000 = ₹ 42,500**

Step 4: Tax Payable before Cess

- Tax Payable before Cess = Tax (A) - Tax (B) = ₹ 92,500 - ₹ 42,500 = ₹ 50,000

Step 5: Apply Rebate under Section 87A

- Mr. Vinod's net non-agricultural income is ₹ 500,000. Since this is exactly ₹ 5,00,000 or less, he is eligible for rebate u/s 87A.
- The rebate is the lower of the tax on total income or ₹ 12,500. In partial integration, the tax on the non-agricultural income is effectively the "difference" calculated in Step 4.
- Tax on his non-agricultural income (effectively ₹ 50,000) is eligible for rebate.
- Rebate u/s 87A = Lower of (₹ 50,000 or ₹ 12,500) = ₹ 12,500.

Step 6: Net Tax Payable before Cess

- Net Tax Payable before Cess = ₹ 50,000 - ₹ 12,500 = ₹ 37,500

Step 7: Add Health and Education Cess @ 4%

- Cess = 4% of ₹ 37,500 = ₹ 1,500

Step 8: Total Tax Liability

- **Total Tax Liability = ₹ 37,500 + ₹ 1,500 = ₹ 39,000**

Here is the comprehensive solution for Question 2 from the "Income Tax Law and Practice" paper for the Assessment Year 2024-25 (Previous Year 2023-24).

Question 2. (a) Mr. Rahul's Residential Status

Previous Year: 2023-24 Assessment Year: 2024-25

Mr. Rahul is an Indian citizen who left India for the first time on 01.10.2023 for employment abroad.

1. Determine the number of days Mr. Rahul stayed in India during PY 2023-24:

- April 2023: 30 days
- May 2023: 31 days
- June 2023: 30 days
- July 2023: 31 days
- August 2023: 31 days
- September 2023: 30 days
- October 2023: 1 day (up to 01.10.2023, day of departure is counted)
- **Total stay in India = 184 days**

2. Check Basic Conditions for Residential Status (Section 6(1)):

- **Condition 1:** Stay in India for 182 days or more during the previous year.
  - Mr. Rahul stayed for 184 days. This condition is **satisfied**.
- **Condition 2:** Stay in India for 60 days or more during the previous year AND 365 days or more in the 4 preceding previous years.
  - Since Mr. Rahul is an Indian citizen leaving India for employment abroad, the proviso to Section 6(1) states that only the first basic condition (182 days) applies. The second basic condition (60 days + 365 days) is not applicable to him.
- **Conclusion on Basic Conditions:** Since Mr. Rahul satisfies the first basic condition (184 days >= 182 days), he is a **Resident** for the previous year 2023-24.

3. Check Additional Conditions for Ordinarily Resident (ROR) or Not Ordinarily Resident (RNOR) (Section 6(6)): To be a Resident and Ordinarily Resident (ROR), an individual must satisfy BOTH additional conditions:

1. He has been a resident in India in at least 2 out of the 10 previous years immediately preceding the relevant previous year.
2. He has been in India for a period of 730 days or more during the 7 previous years immediately preceding the relevant previous year.

<!-- end list -->

- The problem states that Mr. Rahul left India for the *first time* on 01.10.2023. This implies that he was a resident in India in all previous years prior to 2023-24.
- Therefore, he satisfies:
  - Additional Condition 1: He was resident in India in more than 2 out of the 10 preceding years. (**Satisfied**)
  - Additional Condition 2: He was in India for more than 730 days in the 7 preceding years. (**Satisfied**)

4. Final Residential Status: Since Mr. Rahul satisfies the basic condition and both additional conditions, he is a **Resident and Ordinarily Resident (ROR)** for the Assessment Year 2024-25.

Question 2. (b) Various Incomes Exempt from Tax under Section 10 of the Income Tax Act, 1961

Section 10 of the Income Tax Act, 1961, lists specific incomes that are exempt from income tax, meaning they are not included in the total income for tax calculation. These exemptions serve various socio-economic objectives, promote certain activities, or prevent double taxation. Some important incomes exempt under Section 10 are:

1. **Agricultural Income [Section 10(1)]:** Any income derived from agricultural land in India, agricultural operations, or sale of agricultural produce is fully exempt from tax.
2. **Share of Income from Hindu Undivided Family (HUF) [Section 10(2)]:** Any sum received by an individual as a member of a HUF from the income of the HUF, or out of its income, is exempt in the hands of the member.
3. **Share of Income from Partnership Firm [Section 10(2A)]:** The share of profit received by a partner from a partnership firm (which is separately assessed as a firm) is exempt in the hands of the partner to avoid double taxation.
4. **Interest on Non-Resident External (NRE) Account [Section 10(4)(ii)]:** In the case of a Non-Resident Indian (NRI), any interest paid by a bank in India on deposits made in a Non-Resident (External) Account is exempt from tax.
5. **Leave Travel Concession (LTC) [Section 10(5)]:** The value of any travel concession or assistance received by an employee from their employer for proceeding on leave to any place in India is exempt, subject to certain conditions and limits (twice in a block of four calendar years).
6. **Gratuity [Section 10(10)]:** Gratuity received by an employee is exempt up to certain limits. The full amount is exempt for government employees. For non-government employees, the exemption limit depends on whether they are covered by the Payment of Gratuity Act or not.
7. **Commutation of Pension [Section 10(10A)]:** The commuted value of pension (lump sum payment in lieu of periodical pension) is fully exempt for government employees. For other employees, it's exempt up to a specified fraction of the full commuted value, subject to conditions.
8. **Leave Encashment [Section 10(10AA)]:** Leave encashment received by a government employee at the time of retirement is fully exempt. For non-government employees, it's exempt up to certain limits prescribed by the Act.
9. **Retrenchment Compensation [Section 10(10B)]:** Compensation received by a workman at the time of retrenchment is exempt up to a specified limit.
10. **Payments from Provident Funds [Section 10(11) & 10(12)]:** Payments received from a Public Provident Fund (PPF), Recognised Provident Fund (RPF), or Approved Superannuation Fund are generally exempt, provided certain conditions regarding contribution and service period are met.
11. **House Rent Allowance (HRA) [Section 10(13A)]:** HRA received by an employee is exempt to the extent of the least of: (a) actual HRA received, (b) rent paid minus 10% of salary, or (c) 50% of salary (for metro cities) / 40% of salary (for non-metro cities).

12. **Allowances to Government Employees Abroad [Section 10(14)(i)]:** Any allowance or perquisite paid by the Government of India to its employees serving outside India is fully exempt.
13. **Interest on Certain Securities [Section 10(15)]:** Interest on certain specified securities, bonds, certificates, etc., issued by government, local authorities, or public sector undertakings, may be exempt.
14. **Scholarships [Section 10(16)]:** Scholarships granted to meet the cost of education are fully exempt from tax.
15. **Daily Allowance of MP/MLA [Section 10(17)]:** Daily allowance received by Members of Parliament (MPs) or Members of Legislative Assemblies (MLAs) is exempt.

OR Option

Question 2. (a) Mr. Sharma's Taxable Salary

Previous Year: 2023-24 Assessment Year: 2024-25 Mr. Sharma (age 50 years), Production Manager in ABC Ltd.

1. Computation of Gross Salary:

Income Head	Calculation	Amount (INR)
Basic Salary	₹ 60,000 p.m. * 12 months	720,000
Dearness Allowance (DA)	₹ 20,000 p.m. * 12 months	240,000
Rent-Free Furnished Accommodation (RFA) Perquisite:		
a) Salary for RFA calculation	Basic Salary + DA (forming part of salary for retirement benefits) = ₹ 720,000 + (60% of ₹ 240,000) = ₹ 720,000 + ₹ 144,000 = ₹ 864,000	
b) Value of Unfurnished RFA	**Assumption:** Assuming population of the city is > 25 lakhs. 15% of Salary (for RFA) = 15% of ₹ 864,000	129,600
c) Value of Furniture	10% of original cost of furniture = 10% of ₹ 1,00,000	10,000
Total RFA Perquisite		139,600
Car Perquisite:	(Capacity > 1.6 litres, for personal & official use, all expenses met by employer) ₹ 3,300 p.m. * 12 months (assuming no chauffeur)	39,600
Gross Salary		**1,139,600**

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2. Less: Standard Deduction u/s 16(ia)

- Lower of ₹ 50,000 or Gross Salary

- = ₹ 50,000

3. Taxable Salary:

- Taxable Salary = Gross Salary - Standard Deduction
- = ₹ 1,139,600 - ₹ 50,000
- **= ₹ 1,089,600**

Note: The fair rental value (FRV) of ₹ 15,000 p.m. is not directly used in the valuation of RFA if the accommodation is owned by the employer, and valuation is based on a percentage of salary depending on the population. If the accommodation was taken on lease by the employer, then the perquisite value would be lower of the actual rent paid by the employer or 15% of salary. As no information on employer ownership or lease is provided, we assume employer-owned accommodation and use the percentage-of-salary method. The population assumption significantly impacts the final value.

Question 2. (b) Various Perquisites Taxable in the Hands of All Employees and Specified Employees

Perquisites are benefits or amenities provided by an employer to an employee in addition to their regular salary or wages. These can be in cash or in kind. Historically, the Income Tax Act made a distinction between perquisites taxable for "all employees" and those taxable only for "specified employees." However, for Assessment Year 2024-25, many perquisites previously restricted to "specified employees" are now taxable in the hands of "all employees" as per current tax laws.

I. Perquisites Taxable in the Hands of ALL Employees: These perquisites are fully taxable for every employee, regardless of their position or salary level.

1. **Rent-Free Accommodation (RFA):** The value of accommodation provided free or at a concessional rent.
2. **Concessional Loans:** The value of the benefit from interest-free or concessional loans (exceeding ₹ 20,000, except for specified medical treatment).
3. **Employee Stock Option Plan (ESOP) / Sweat Equity Shares:** The value of shares allotted or transferred to the employee free of cost or at a concessional rate.
4. **Payment of Employee's Obligation:** Any sum paid by the employer in respect of an obligation that would otherwise have been payable by the employee (e.g., club bills, school fees of children, professional tax of employee).
5. **Life Insurance Premium paid by Employer:** Any premium paid by the employer to effect an assurance on the life of the employee.
6. **Employer's Contribution to Approved Superannuation Fund:** Any contribution by the employer exceeding ₹ 1.5 lakh annually.
7. **Transfer of Movable Asset:** The value of benefit arising from the transfer of a movable asset (other than shares or specified assets) by the employer to the employee, after its use.
8. **Use of Movable Asset:** The value of benefit from the use of certain movable assets (other than specified assets and car) belonging to the employer.
9. **Meals/Refreshments:** Free or concessional meals (if exceeding ₹ 50 per meal).

10. **Gifts, Vouchers, Tokens:** If their aggregate value exceeds ₹ 5,000 in a financial year.
11. **Credit Card Expenses & Club Membership:** Expenses incurred for personal purposes and paid/reimbursed by the employer.
12. **Medical Facilities:** Value of medical treatment/reimbursement provided by the employer beyond specified limits.

II. Perquisites (Historically) Taxable in the Hands of Specified Employees Only (and Current Treatment for AY 2024-25): The concept of "specified employee" (a director, or an employee with substantial interest, or an employee whose monetary salary exceeds ₹ 50,000) was previously crucial for taxing certain perquisites. However, for AY 2024-25, most of these perquisites are now taxable in the hands of **all employees**. This means the "specified employee" distinction for taxability of these items is largely obsolete for current assessment.

Historically, the following were taxable only for specified employees:

1. **Motor Car Facility:** Value of the benefit of a motor car provided by the employer for personal use, or for both official and personal use where expenses are met by the employer.
    - **Current Status (AY 2024-25):** Taxable for **all** employees based on prescribed valuation rules (Rule 3(2)).
2. **Services of Domestic Servants:** Value of free or concessional services of a sweeper, gardener, watchman, or personal attendant provided by the employer.
    - **Current Status (AY 2024-25):** Taxable for **all** employees based on valuation rules (Rule 3(1)).
3. **Gas, Electricity, or Water Supply:** Value of free or concessional supply of gas, electricity, or water for household consumption.
    - **Current Status (AY 2024-25):** Taxable for **all** employees based on valuation rules (Rule 3(1)).
4. **Education Facility for Children:** Value of educational facilities provided by the employer for the employee's children (exceeding ₹ 1,000 per month per child).
    - **Current Status (AY 2024-25):** Taxable for **all** employees based on valuation rules (Rule 3(1)).
5. **Transport Facility:** Value of free or concessional transport facility provided by a transport undertaking employer (other than for official duties).
    - **Current Status (AY 2024-25):** Taxable for **all** employees.

Question 3. (a) Provisions of Section 80C regarding Deduction in respect of Certain Investments

Section 80C of the Income Tax Act, 1961, is a crucial provision that allows individuals and Hindu Undivided Families (HUFs) to claim a deduction from their Gross Total Income (GTI) for certain specified investments and expenditures. The primary objective of this section is to encourage long-term savings and investments among taxpayers. The maximum aggregate deduction allowed under Section 80C (along with Sections 80CCC and 80CCD(1)) is **₹ 1,50,000** for a financial year.

Key Provisions and Eligible Investments/Expenditures:

1. **Life Insurance Premium:**

- Premium paid to insure the life of the assessee, their spouse, or any child (for individuals).
    - For HUFs, premium paid on the life of any member of the HUF.
    - **Limit:** The premium amount eligible for deduction should not exceed 10% of the actual capital sum assured for policies issued on or after April 1, 2012. For policies issued before April 1, 2012, the limit is 20%.
2. **Public Provident Fund (PPF):**
    - Contribution to a PPF account standing in the name of the assessee, their spouse, or any child (for individuals).
    - Contribution by an HUF to the PPF account of any of its members.
3. **Employees' Provident Fund (EPF) / Recognised Provident Fund (RPF):**
    - The employee's own contribution to a Statutory Provident Fund (SPF), Recognised Provident Fund (RPF), or an Approved Superannuation Fund.
4. **Equity Linked Savings Scheme (ELSS):**
    - Investment in ELSS schemes of mutual funds, which are equity-oriented funds with a lock-in period of 3 years.
5. **National Savings Certificates (NSC):**
    - Amount invested in National Savings Certificates (VIII Issue), and the accrued interest on NSC (which is deemed to be reinvested) is also eligible for deduction.
6. **Unit Linked Insurance Plan (ULIP):**
    - Contribution to ULIP of the Life Insurance Corporation of India (LIC) or other specified insurers.
7. **Sukanya Samriddhi Yojana:**
    - Deposits made into an account under the Sukanya Samriddhi Account Rules, 2014, in the name of a girl child (either the assessee's own girl child or a girl child of whom the assessee is the legal guardian).
8. **Fixed Deposit with Scheduled Bank:**
    - Investment in fixed deposits (term deposits) with a scheduled bank for a minimum period of 5 years.
9. **Post Office Time Deposit:**
    - Investment in the Post Office 5-Year Time Deposit scheme.
10. **Senior Citizens' Savings Scheme (SCSS):**
    - Amount deposited in the Senior Citizens' Savings Scheme.
11. **Housing Loan Repayment (Principal Component):**
    - Repayment of the principal amount of a housing loan taken from specified financial institutions (e.g., banks, housing finance companies).
    - Also includes stamp duty, registration fees, and other expenses for the transfer of property to the assessee, paid for the purpose of acquiring a residential house property.
12. **Tuition Fees:**
    - Any sum paid as tuition fees (excluding development fees or donations) to any university, college, school, or other educational institution situated in India for the full-time education of any **two** children of the assessee.

Important Considerations:

- The deduction is allowed from the Gross Total Income before arriving at the Total Income.

- The total deduction under Sections 80C, 80CCC, and 80CCD(1) combined cannot exceed ₹ 1,50,000.
- This deduction is available only to Individual taxpayers and Hindu Undivided Families (HUFs).

Question 3. (b) Set-off and Carry Forward of Losses & House Property Loss Adjustment

- **Set-off of Losses:** "Set-off of losses" refers to the process of adjusting a loss incurred under one head of income against income falling under the same head (intra-head adjustment) or against income falling under any other head of income (inter-head adjustment) in the same assessment year. The primary aim is to reduce the current year's taxable income.
    - **Intra-head Adjustment:** Losses from one source under a particular head of income can be set off against income from any other source within the same head (e.g., loss from one house property set off against income from another house property).
    - **Inter-head Adjustment:** If, after intra-head adjustment, a loss still remains, it can generally be set off against income under any other head of income in the same assessment year. However, there are restrictions (e.g., business losses cannot be set off against salary income, speculation business loss only against speculation business income, long-term capital loss only against long-term capital gains).
- **Carry Forward of Losses:** "Carry forward of losses" comes into play when a loss cannot be fully set off against any income in the current assessment year, even after both intra-head and inter-head adjustments. Such unadjusted losses can be carried forward to subsequent assessment years (for a specified number of years) and set off against specific types of income in those future years. Each type of loss has its own rules for carry forward and set-off in future years.
- **How is Income from House Property Loss Adjusted under the Income Tax Act, 1961?** The adjustment of loss from house property follows a specific order:
    1. **Intra-head Adjustment:** First, any loss from one house property can be set off against income from any other house property in the same assessment year.
    2. **Inter-head Adjustment (Current Year):** If, after intra-head adjustment, there is still a net loss from house property, it can be set off against income under **any other head of income** (e.g., Salaries, Profits and Gains of Business or Profession, Capital Gains, Income from Other Sources) in the same assessment year.
        - **Limit:** However, for Assessment Year 2018-19 onwards, the maximum amount of house property loss that can be set off against other heads of income in the same assessment year is **restricted to ₹ 2,00,000**.
    3. **Carry Forward:** Any unadjusted house property loss (i.e., the amount exceeding the ₹ 2,00,000 limit, or the entire loss if no other income was available for set-off) can be carried forward for a maximum of **8 assessment years** immediately succeeding the assessment year in which the loss was incurred.

4. **Set-off in Future Years:** The carried forward house property loss can **only be set off against income from House Property** in subsequent assessment years. The ₹ 2,00,000 limit per year also applies to such set-offs in future years if set off against other heads of income.

OR Option

Question 3. (a) Computation of Business Income of Mr. Rohan

Assessment Year: 2024-25 Previous Year: 2023-24

We will start with the Net Profit as per the Profit & Loss Account and make adjustments for inadmissible expenses/incomes and allowable expenses as per the Income Tax Act.

Computation of Income from Business of Mr. Rohan

Particulars	**Amount (INR)**
Net Profit as per Profit & Loss Account	5,90,000
Add: Inadmissible Expenses / Undervalued Income (Debited to P&L or affecting P&L):	
Interest on Capital	20,000
Provision for Bad Debts	10,000
Income Tax Paid (part of Office Expenses)	5,000
Donations (part of General Expenses)	2,000
Depreciation (as debited in P&L)	25,000
Overvaluation of Opening Stock (increased debit, lowered profit, so add back)	10,000
Undervaluation of Closing Stock (decreased credit, lowered profit, so add back)	20,000
Total Additions	**92,000**
Sub-Total (A)	**6,82,000**
Less: Allowable Expenses / Overvalued Income (Not debited or needing adjustment):	
Depreciation allowable as per Income Tax Rules	30,000
Total Deductions	**30,000**
Income from Business	**6,52,000**

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Question 3. (b) Enumerate any four incomes which are taxable under the head "Income from Other Sources."

The head "Income from Other Sources" [Section 56 of the Income Tax Act] is a residual head of income. It covers any income that is not specifically taxable under the other four heads of income (Salaries, House Property, Profits and Gains of Business or Profession, or Capital Gains).

Here are four common examples of incomes taxable under "Income from Other Sources":

1. **Dividend Income:** Dividends received by a shareholder from a company, whether Indian or foreign, are taxable in the hands of the shareholder. (Historically, dividends from Indian companies were exempt for shareholders but this changed from AY 2021-22).
2. **Interest Income:** Interest received on bank deposits (savings accounts, fixed deposits), loans given, government securities, bonds, etc., if not chargeable under the head "Profits and Gains of Business or Profession."
3. **Winnings from Lotteries, Crossword Puzzles, Races (including horse races), Card Games, etc.:** Any income from these sources is taxable under this head. Such winnings are taxed at a flat rate of 30% (plus cess).
4. **Gifts:** Certain gifts received by any person are taxable if they exceed ₹ 50,000 in value. This includes:
   - Any sum of money received without consideration.
   - Movable property received without consideration or for inadequate consideration.
   - Immovable property received without consideration or for inadequate consideration.
   - **Exemptions:** Gifts from relatives, on the occasion of marriage, under a will/inheritance, etc., are exempt.

Question 4. (a) Various Expenses Expressly Disallowed under Section 40A of the Income Tax Act, 1961

Section 40A of the Income Tax Act, 1961, contains specific provisions that override other sections related to the computation of "Profits and Gains of Business or Profession." It lists certain expenses that, despite being incurred and debited to the Profit and Loss Account, are expressly disallowed, either wholly or partially, while computing taxable business income. The primary objectives of Section 40A are to curb tax evasion, prevent inflated claims, and regulate certain types of payments.

Here are the key expenses expressly disallowed under Section 40A:

1. **Payments to Relatives and Related Persons [Section 40A(2)]:**
   - If an assessee incurs any expenditure in respect of which payment is made to a relative of the assessee or to a person in whom the assessee has a substantial interest (e.g., director, partner, or person holding a significant percentage of shares/profit share), and the Assessing Officer (AO) believes such expenditure is excessive or unreasonable, the **excessive or unreasonable part** of the payment shall be disallowed. This provision prevents diversion of profits through inflated payments to related parties.
2. **Cash Payments Exceeding Prescribed Limits [Section 40A(3) & 40A(3A)]:**
   - **Direct Disallowance [Section 40A(3)]:** Any expenditure in respect of which a payment or aggregate of payments exceeding **₹ 10,000** (or **₹ 35,000** in case of

payment made for plying, hiring, or leasing goods carriages) is made to a person in a single day, otherwise than by an account payee cheque/draft, use of ECS through a bank account, or other prescribed electronic modes, shall be **disallowed**. This encourages banking transactions and transparency.
    - **Deemed Income [Section 40A(3A)]:** If an allowance has been made in a previous year for any liability incurred, and in a subsequent year, the assessee makes payment in respect of such liability exceeding the limits (₹ 10,000 or ₹ 35,000) otherwise than by prescribed banking channels, the payment so made shall be **deemed to be the income** of the previous year in which the payment is made.
3. **Provisions for Gratuity [Section 40A(7)]:**
    - No deduction is allowed in respect of any provision made for the payment of gratuity to employees on their retirement or termination.
    - **Exception:** This disallowance does not apply to a provision made for contribution to an approved gratuity fund, or a provision for actual gratuity that has become due and payable to the employee during the previous year.
4. **Contributions to Unapproved Funds [Section 40A(4) & 40A(9)]:**
    - Any contribution made by an employer to a provident fund or other fund established for the benefit of employees, if such fund is not a recognized provident fund, an approved superannuation fund, or an approved gratuity fund, is **disallowed**.
    - Similarly, any sum paid by an employer as bonus or commission to employees, which would not have been payable to them as profits or dividend, is disallowed if it's considered excessive or uncommercial.
5. **Tax on Perquisites Paid by Employer [Section 40A(5)]:**
    - Any income-tax actually paid by an employer on the value of perquisites provided to an employee, which would otherwise have been payable by the employee, is **disallowed** as a business expenditure in the hands of the employer. This ensures that the tax burden on perquisites ultimately rests with the employee.

These disallowances ensure that only genuine and reasonable business expenses paid through traceable means are allowed as deductions, thereby preventing tax manipulation.

Question 4. (b) Computation of Total Income of Mr. Lokesh

Assessment Year: 2024-25 Previous Year: 2023-24 Mr. Lokesh (age 46 years)

I. Computation of Income under various Heads:

Head of Income	**Details**	**Amount (INR)**
1. Income from Salary	Salary (before standard deduction): ₹ 6,50,000	
	Less: Standard Deduction u/s 16(ia): ₹ 50,000	**6,00,000**
2. Income from House Property	Computed Income from House Property:	**2,25,000**
3. Capital Gains	Short-term Capital Gains on gold: ₹ 2,00,000	

	Long-term Capital Gains on house property: ₹ 3,50,000	**5,50,000**
4. Income from Other Sources	Interest on Fixed Deposits: ₹ 14,000	
	Interest on Saving Banks: ₹ 11,000	**25,000**
Gross Total Income (GTI)	**(1+2+3+4)**	**14,00,000**

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II. Deductions under Chapter VI-A:

Section	**Particulars**	**Amount (INR)**
Section 80C, 80CCC, 80CCD(1)		
	- Contribution to Public Provident Fund (PPF): ₹ 1,80,000 (Eligible for 80C)	
	- Life Insurance Premium (LIP) for married son: ₹ 15,000. (Sum assured ₹ 2,60,000. Policy after Apr 2012, so max 10% of sum assured = ₹ 26,000. ₹ 15,000 is within limit and eligible for 80C, even if son is not dependent.)	
	Sub-total eligible for 80C (before restriction): ₹ 1,80,000 (PPF) + ₹ 15,000 (LIP) = ₹ 1,95,000	
	Deduction u/s 80C (Restricted to maximum ₹ 1,50,000)	**1,50,000**
Section 80CCD(1B)	- Contribution by him towards National Pension Scheme (NPS): ₹ 36,000. (This is an additional deduction over and above the ₹ 1.5 lakh limit of 80C, restricted to a maximum of ₹ 50,000.)	**36,000**
Section 80D	- Mediclaim Premium paid by cheque for himself: ₹ 32,000. (Maximum deduction for an individual for self/spouse/dependent children is ₹ 25,000, assuming not a senior citizen).	**25,000**
Section 80G	- National Defence Fund: ₹ 10,000 (100% deduction without any qualifying limit)	10,000
	- Swachh Bharat Kosh: ₹ 15,000 (100% deduction without any qualifying limit)	15,000
	- PM CARES Fund: ₹ 5,000 (100% deduction without any qualifying limit)	5,000
	- Zila Saksharta Samiti: ₹ 8,000 (50% deduction without any qualifying limit = 50% of ₹ 8,000)	4,000
	- Donations of blankets to an orphanage: ₹ 12,000 (Donations in kind are not eligible for deduction under Section 80G).	0
	Total Deduction u/s 80G	**34,000**
Total Deductions (A+B+C+D)	**(₹ 1,50,000 + ₹ 36,000 + ₹ 25,000 + ₹ 34,000)**	**2,45,000**

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III. Computation of Total Income:

Particulars	**Amount (INR)**
Gross Total Income	14,00,000
Less: Deductions	2,45,000
Total Income	**11,55,000**

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OR Option

Question 4. (a) Scope of Total Income under the Income Tax Act, 1961 & Concept of Incidence of Tax

- **Scope of Total Income under the Income Tax Act, 1961:** The scope of total income defines what income is considered taxable in India for an individual or entity. This is primarily governed by Section 5 of the Income Tax Act, 1961, and critically depends on the **residential status** of the assessee in the relevant previous year. The three residential statuses are: Resident and Ordinarily Resident (ROR), Resident but Not Ordinarily Resident (RNOR), and Non-Resident (NR).

  The total income of any person includes:

  1. **Income received or deemed to be received in India:** Any income received in India (irrespective of where it accrues or arises) or deemed to be received in India during the previous year is always taxable for all assessees (ROR, RNOR, NR).
  2. **Income which accrues or arises or is deemed to accrue or arise in India:** Any income that accrues or arises in India (irrespective of where it is received) or is deemed to accrue or arise in India during the previous year is always taxable for all assessees (ROR, RNOR, NR).
  3. **Income which accrues or arises outside India:** The taxability of this foreign income depends entirely on the residential status:
     - **Resident and Ordinarily Resident (ROR):** An ROR is taxable on their global income. This means all income, whether received in India or outside India, and whether accrued/arisen in India or outside India, is taxable.
     - **Resident but Not Ordinarily Resident (RNOR):** An RNOR is taxable on:
       - All Indian income (as defined in points 1 and 2 above).
       - Foreign income if it is derived from a business controlled in India or a profession set up in India. Other foreign income (e.g., salary earned outside India, interest from foreign bank accounts, if business not controlled from India) is generally not taxable.
     - **Non-Resident (NR):** A Non-Resident is taxable only on income that is received or deemed to be received in India, or that accrues or arises or

is deemed to accrue or arise in India. Any income that accrues and is received outside India is not taxable for an NR.

- **Concept of Incidence of Tax:** The "incidence of tax" refers to the final burden of a tax, i.e., who ultimately bears the tax liability. In income tax, the incidence of tax for an assessee is directly determined by their **residential status**. It specifies the extent to which an individual is liable to pay tax on various types of income (Indian vs. foreign income).
  - **Highest Incidence (for ROR):** An ROR has the highest incidence of tax as they are liable to pay tax on their worldwide income.
  - **Moderate Incidence (for RNOR):** An RNOR faces a moderate incidence of tax. They are taxed on their Indian income and specific foreign incomes related to a business controlled in or profession set up in India.
  - **Lowest Incidence (for NR):** A Non-Resident has the lowest incidence of tax as they are only taxed on income that has a direct nexus with India (income received in India or income accruing/arising in India).

  Thus, the residential status dictates the tax net's reach over an individual's income, thereby determining the incidence of tax for that individual.

Question 4. (b) Circumstances when Income of Other Persons is Included in Assessee's Income under Clubbing Provisions

"Clubbing of income" refers to the provisions in the Income Tax Act, 1961 (Sections 60 to 65), under which the income of another person is included in the assessee's income for the purpose of taxation. These provisions are anti-avoidance measures designed to prevent taxpayers from diverting their income to other individuals (especially those in lower tax brackets like spouse or minor children) to reduce their own tax liability, without genuinely transferring the underlying asset.

Here are the various circumstances under which the income of other persons is clubbed with the assessee's income:

1. **Transfer of Income without Transfer of Asset [Section 60]:**
   - If a person transfers only the income arising from an asset to another person, without actually transferring the ownership of the asset itself, the income so transferred will be clubbed with the income of the transferor.
   - *Example:* Mr. A owns a house and transfers only the rental income to his brother, while retaining ownership of the house. The rental income will be taxed in Mr. A's hands.
2. **Revocable Transfer of Assets [Sections 61-63]:**
   - If an asset is transferred under a "revocable transfer," meaning the transferor retains the right to re-assume power over the asset or income therefrom, either immediately or after a specified period, any income arising from such an asset will be clubbed with the income of the transferor.
   - *Example:* Mr. B transfers shares to his daughter with a condition that he can revoke the transfer after three years. Dividend income from these shares will be clubbed with Mr. B's income.
3. **Income from Assets Transferred to Spouse [Section 64(1)(iv)]:**

- If an individual directly or indirectly transfers an asset (other than house property or for adequate consideration) to their spouse, any income arising from such asset will be clubbed with the income of the transferor-individual.
- *Example:* Mrs. C transfers shares to her husband without adequate consideration. The dividend income from these shares will be clubbed with Mrs. C's income.

4. **Income from Assets Transferred to Son's Wife [Section 64(1)(vi)]:**
   - If an individual directly or indirectly transfers an asset (other than for adequate consideration) to their son's wife (daughter-in-law), the income arising from such asset will be clubbed with the income of the transferor-individual.
   - *Example:* Mr. D transfers a fixed deposit to his daughter-in-law without adequate consideration. The interest income from this fixed deposit will be clubbed with Mr. D's income.
5. **Income from Assets Transferred for the Benefit of Spouse/Son's Wife [Section 64(1)(vii) & 64(1)(viii)]:**
   - If an individual transfers an asset (other than for adequate consideration) to any person or Association of Persons (AOP) specifically for the immediate or deferred benefit of their spouse or son's wife, the income arising from such asset will be clubbed with the income of the transferor.
6. **Income of a Minor Child [Section 64(1A)]:**
   - All income of a minor child (i.e., a child who has not attained 18 years of age), arising from assets transferred to the child or otherwise, is clubbed with the income of the parent whose total income (excluding the minor's income) is greater. If parents are separated, it's clubbed with the income of the parent who maintains the child.
   - **Exceptions:** Income of a minor child arising from manual work, or from skill, talent, or specialized knowledge/experience (e.g., child artist, sportsperson) is not clubbed. Also, income of a minor child suffering from a disability specified under Section 80U is not clubbed.
   - An exemption of ₹ 1,500 per minor child is allowed under Section 10(32) for the clubbed income.
7. **Income of Spouse from a Concern where Individual has Substantial Interest [Section 64(1)(ii)]:**
   - If an individual has a substantial interest (defined as holding 20% or more voting power in a company, or 20% or more share of profits in any other concern like a firm or AOP) in a concern, and their spouse receives any salary, commission, fees, or any other form of remuneration from that concern, without possessing any technical or professional qualification for that role, such income will be clubbed with the income of the individual having the substantial interest.

These clubbing provisions are critical in ensuring that income is taxed in the hands of the person who is genuinely responsible for generating it or who beneficially owns the asset from which the income arises, thereby preventing artificial reduction of tax liability.

Question 5. (a) Different Types of Assessees under the Income Tax Act, 1961

Under the Income Tax Act, 1961, an "assessee" is defined as any person by whom any tax or any other sum of money is payable under the Act, and includes every person in respect of whom any proceeding under the Act has been taken for the assessment of his income or of the income of any other person in respect of which he is assessable. The Act categorizes assessees into different types, each having specific rules for income computation, deductions, and applicable tax rates.

The main types of assessees are:

1. **Individual:**
    - This refers to a natural living human being. An individual's income comprises salary, house property income, business/professional income, capital gains, and income from other sources.
    - Tax rates for individuals are progressive, varying with income slabs, age (e.g., senior citizens, super senior citizens), and the chosen tax regime (old vs. new).
    - *Examples:* Salaried employees, self-employed professionals, sole proprietors.
2. **Hindu Undivided Family (HUF):**
    - An HUF is a separate taxable entity under the Income Tax Act, distinct from its individual members. It consists of all persons lineally descended from a common ancestor, including their wives and unmarried daughters.
    - Income of an HUF typically includes income from HUF property, business, etc. It is taxed at rates similar to those for individuals, enjoying similar slab benefits.
    - *Examples:* Income from ancestral property, family businesses managed by the Karta.
3. **Company:**
    - A company refers to any body corporate incorporated under the Companies Act, 2013 (or any previous company law), or a foreign company as defined under the Act.
    - Companies are subject to specific corporate tax rates, which can vary based on factors like turnover (for domestic companies), whether it's a domestic or foreign company, and if they opt for any special tax regimes (e.g., lower rates under Section 115BAA/BAB).
    - *Examples:* Private Limited Companies, Public Limited Companies, Foreign Companies operating in India.
4. **Firm:**
    - This category includes partnership firms (as per the Indian Partnership Act, 1932) and Limited Liability Partnerships (LLPs) as per the LLP Act, 2008.
    - Firms are taxed at a flat rate (currently 30% for partnership firms, plus applicable surcharge and cess). The share of profit received by a partner from the firm is exempt from tax in the partner's hands, as the firm itself has already paid tax on that income.
    - *Examples:* Legal firms, consulting firms, manufacturing partnerships.
5. **Association of Persons (AOP) or Body of Individuals (BOI):**
    - **AOP:** When two or more persons (who can be individuals, firms, companies, etc.) join together for a common purpose with a view to earn income, they form an AOP. There is no requirement for a formal partnership deed.
    - **BOI:** When individuals join together to earn income without a formal common objective (e.g., co-owners of a property), they form a BOI.
    - AOPs and BOIs are taxed as separate entities. Their tax rate depends on whether the shares of income of their members are determinate or indeterminate. Generally, if shares are determinate, they are taxed at

individual slab rates; if indeterminate, they may be taxed at the maximum marginal rate.
    - *Examples:* A group of individuals forming a consortium for a project, co-owners renting out a property.
6. **Local Authority:**
    - As per Section 2(31)(vi), a local authority includes a Panchayat, Municipality, Municipal Committee, District Board, or other authority legally entitled to or entrusted by the Government with the control or management of a municipal or local fund.
    - Local authorities are generally taxed at specific rates, similar to companies.
    - *Examples:* Municipal Corporations, Gram Panchayats, Cantonment Boards.
7. **Artificial Juridical Person (AJP):**
    - This is a residual category that covers any entity not falling into the above six categories but which is treated as a person for income tax purposes. These are typically taxed at the maximum marginal rate or specific rates as applicable.
    - *Examples:* Universities, statutory corporations, deities, trusts (in certain cases).

Each type of assessee is subject to different provisions concerning the computation of income, eligibility for deductions, and the applicable tax rates, reflecting their distinct legal and operational characteristics.

Question 5. (b) Procedure for Assessment of Income under the Income Tax Act, 1961

The assessment of income under the Income Tax Act, 1961, is the process by which the tax authorities determine the total taxable income of a person for a given financial year and the amount of tax payable on that income. This involves a series of steps from the taxpayer's compliance to the Income Tax Department's (ITD) scrutiny and final determination.

The general procedure for assessment of income is as follows:

1. **Filing of Return of Income (Section 139):**
    - The first and fundamental step is for the assessee to file a "Return of Income" (ITR) in the prescribed form. Every person whose total income during the previous year exceeds the maximum amount not chargeable to income tax is required to file an ITR by the specified due date (e.g., July 31st for most individuals, October 31st for companies and audited cases).
    - The ITR is a self-declaration providing details of income from all sources, deductions claimed, taxes paid (TDS, advance tax), and the net tax payable or refundable.
2. **Processing of Return (Summary Assessment) [Section 143(1)]:**
    - Once an ITR is filed, it undergoes automated processing at the Centralized Processing Centre (CPC) of the ITD.
    - This is a preliminary, non-adversarial assessment. The system checks for arithmetical errors, internal inconsistencies, and compares claims (e.g., TDS credit, gross receipts) with information available in Form 26AS, Annual Information Statement (AIS), and Taxpayer Information Summary (TIS).

    - If any discrepancy leads to additional tax payable, a demand notice is issued. If a refund is due, it is processed. This process typically completes within one year from the end of the financial year in which the return is filed.
3. **Scrutiny Assessment [Section 143(3)]:**
    - After processing, a certain percentage of returns are selected for detailed scrutiny by the Assessing Officer (AO). This is a comprehensive assessment to verify the correctness of the income declared and deductions claimed by the assessee.
    - Selection for scrutiny can be through manual criteria or through the Computer Assisted Scrutiny Selection (CASS) system.
    - The AO issues a notice (e.g., under Section 143(2)) requiring the assessee to furnish explanations, evidence, and documents supporting their claims. The assessee must provide the requested information.
    - After considering the assessee's submissions and conducting inquiries, the AO passes a scrutiny assessment order, determining the final total income and tax liability.
4. **Best Judgement Assessment [Section 144]:**
    - This assessment is done by the AO if the assessee fails to comply with certain statutory requirements, such as:
        - Failing to file an ITR within the specified due date or an extended period.
        - Failing to comply with any notice issued under Section 142(1) (for production of accounts or information) or Section 143(2) (for scrutiny assessment).
        - Failing to maintain proper books of accounts as required by law.
    - In such cases, the AO assesses the income and tax liability to the best of their judgment, based on available information, past records, and often after giving the assessee a reasonable opportunity of being heard.
5. **Income Escaping Assessment (Reassessment) [Sections 147 & 148]:**
    - If the AO has reason to believe that any income chargeable to tax has "escaped assessment" (e.g., due to non-filing of return, understatement of income, claiming excessive deductions, or new information coming to light), they can initiate reassessment proceedings.
    - A notice under Section 148 is issued to the assessee. The time limits for issuing such notices are generally 3 years from the end of the relevant assessment year, extending to 10 years in cases of significant tax evasion (income escaping assessment of ₹ 50 lakh or more).
6. **Rectification of Mistakes [Section 154]:**
    - Both the AO and the assessee can apply for rectification of any mistake apparent from the record in any assessment order or other order passed by the AO. This is generally for clerical or obvious errors.
7. **Appeals [Sections 246A, 253, 260A, etc.] (Hierarchical Redressal):**
    - If an assessee is aggrieved by an assessment order (e.g., scrutiny assessment, best judgment assessment, or reassessment order), they have the right to appeal:
        - **First Appeal:** To the Commissioner of Income Tax (Appeals) [CIT(A)].
        - **Second Appeal:** To the Income Tax Appellate Tribunal (ITAT).
        - **Third Appeal:** To the High Court (only on substantial questions of law).

- **Fourth Appeal:** To the Supreme Court (on a significant question of law).

This comprehensive assessment procedure aims to ensure accurate determination of tax liability and provides a structured mechanism for dispute resolution.

OR Option

Question 5. (a) Various Types of Incomes that are Exempt from Tax under Section 10 of the Income Tax Act, 1961

Section 10 of the Income Tax Act, 1961, plays a vital role by listing various incomes that are **wholly exempt** from income tax. These incomes are not included in the total income of the assessee for tax computation purposes. The objective of these exemptions is diverse, including promoting specific economic activities, providing social welfare, avoiding double taxation, or aligning with constitutional provisions.

Here are some of the significant types of incomes exempt under Section 10:

1. **Agricultural Income [Section 10(1)]:**
   - Any income derived from agricultural land situated in India (e.g., rent from agricultural land, income from agricultural operations, income from a farm building used for agricultural purposes). This is a constitutional exemption.
2. **Share of Income from a Partnership Firm [Section 10(2A)]:**
   - A partner's share in the total income of a partnership firm (including an LLP) is exempt in the hands of the partner, because the firm itself is a separate taxable entity and pays tax on its income. This prevents double taxation.
3. **Income of a Minor Child (Exemption Limit) [Section 10(32)]:**
   - While a minor child's income is generally clubbed with the parent's income, an exemption of **₹ 1,500 per minor child** is allowed to the parent in whose income the minor's income is clubbed.
4. **Leave Travel Concession (LTC) [Section 10(5)]:**
   - Any sum received by an employee from their employer for Leave Travel Concession for travel within India for themselves and their family, subject to prescribed conditions and limits, is exempt.
5. **House Rent Allowance (HRA) [Section 10(13A)]:**
   - HRA received by an employee is exempt to the extent of the least of: (a) actual HRA received, (b) 50% of salary (for metro cities) or 40% of salary (for non-metro cities), or (c) actual rent paid minus 10% of salary.
6. **Gratuity [Section 10(10)]:**
   - Gratuity received by an employee is exempt, subject to certain limits. For government employees, it is fully exempt. For others, limits apply based on whether they are covered by the Payment of Gratuity Act, 1972, or not.
7. **Commutation of Pension [Section 10(10A)]:**
   - A lump sum amount received by commuting a portion of pension is fully exempt for government employees. For other employees, a portion is exempt based on whether they receive gratuity or not.
8. **Leave Encashment on Retirement [Section 10(10AA)]:**

    - For government employees, leave encashment received at the time of retirement is fully exempt. For non-government employees, it is exempt up to a specified limit.
9. **Voluntary Retirement Scheme (VRS) Compensation [Section 10(10C)]:**
    - Compensation received by an employee on voluntary retirement or termination of service, subject to a maximum of ₹ 5,00,000, is exempt.
10. **Scholarships [Section 10(16)]:**
    - Scholarships granted to meet the cost of education are fully exempt from tax in the hands of the recipient.
11. **Awards and Rewards [Section 10(17A)]:**
    - Any award or reward instituted by the Central or State Government (or approved by them) in the public interest is exempt.
12. **Interest on Certain Securities/Bonds/Deposits [Section 10(15)]:**
    - Interest income from certain specified government securities, bonds, deposits in notified schemes (e.g., Sukanya Samriddhi Account), and other specified instruments is exempt.
13. **Income of a University or Educational Institution [Section 10(23C)]:**
    - Income of a university or other educational institution existing solely for educational purposes and not for profit, which is approved by the prescribed authority, is exempt.

This list is illustrative, and Section 10 contains a wide array of specific exemptions serving various socio-economic objectives.

Question 5. (b) Provisions Regarding Agricultural Income under the Income Tax Act, 1961

Agricultural income holds a unique and privileged position under the Income Tax Act, 1961, as it is **wholly exempt from income tax** under **Section 10(1)** of the Act. This exemption stems from the Indian Constitution, which empowers State Governments (and not the Central Government) to levy taxes on agricultural income.

Definition of Agricultural Income [Section 2(1A)]: Agricultural income generally includes three main categories:

1. **Rent or Revenue from Agricultural Land:**
    - Any rent or revenue derived from land which is situated in India and is used for agricultural purposes. This includes income from leasing out agricultural land for cultivation.
2. **Income from Agricultural Operations:**
    - Any income derived from such land by agricultural operations. This category is further divided:
        - **Basic Operations:** These are the initial operations performed on the land to make it fit for cultivation, such as tilling, sowing, planting, irrigating, weeding, and similar operations.
        - **Subsequent Operations:** These operations are performed on the produce to make it fit for the market, provided they do not involve significant manufacturing processes that change the fundamental

character of the produce. Examples include harvesting, threshing, drying, curing, pressing, crushing (for oil seeds), or performing other processes to render the produce marketable.
    - *Examples:* Income from the cultivation and sale of crops like wheat, rice, vegetables, fruits, cotton, sugarcane, etc.
3. **Income from a Farm Building:**
    - Any income derived from a building owned and occupied by the receiver of the rent/revenue or the cultivator/receiver of produce. For this income to be agricultural, the building must satisfy certain conditions:
        - It must be situated on or in the immediate vicinity of the agricultural land.
        - It must be used as a dwelling house, store-house, or out-house by the cultivator or the receiver of rent/revenue.
        - The land on which it is situated must be assessed to land revenue or subject to a local rate, or if not so assessed, must be situated outside specific urban areas (as defined in the Act, based on population and distance from a municipality/cantonment board).

What is NOT Agricultural Income: Certain incomes, even if related to agricultural activities, are not considered agricultural income for tax purposes:

- Income from dairy farming, poultry farming, animal husbandry, fishing, etc.
- Income from the sale of standing timber (unless agricultural operations were involved).
- Income from mines or quarries situated on agricultural land.
- Income from factories or industrial units that process agricultural produce into a new commercial product (e.g., sugar factory processing sugarcane).

Partial Integration of Agricultural and Non-Agricultural Income: Although agricultural income is exempt, for certain assessees (individuals, Hindu Undivided Families (HUFs), Association of Persons (AOPs), Body of Individuals (BOIs), and Artificial Juridical Persons (AJPs)), a system of "partial integration" is applied if they have both agricultural and non-agricultural income. This mechanism ensures that taxpayers with substantial agricultural income do not escape higher tax slabs on their non-agricultural income. This partial integration applies if:

- Net agricultural income exceeds ₹ 5,000.
- Non-agricultural income exceeds the basic exemption limit (e.g., ₹ 2.5 lakh for individuals below 60 years, ₹ 3 lakh for senior citizens, ₹ 5 lakh for super senior citizens in the old regime).

Procedure for Partial Integration (Simplified):

1. **Step 1:** Add the net agricultural income to the basic exemption limit applicable to the assessee.
2. **Step 2:** Calculate income tax on the sum obtained in Step 1 using the applicable tax slab rates.
3. **Step 3:** Calculate income tax on the total non-agricultural income using the applicable tax slab rates.

4. **Step 4:** The tax payable on non-agricultural income is then calculated as (Tax from Step 3) minus (Tax from Step 2). This effectively taxes the non-agricultural income at the higher slab rates that would apply if agricultural income were part of the total income.

This unique treatment highlights the significance of the agricultural sector in India and the constitutional framework governing taxation.

Question 6. (a) Provisions Relating to Advance Payment of Tax under the Income Tax Act, 1961

Advance tax, often referred to as "pay-as-you-earn" tax, is the income tax paid by an assessee in advance, in instalments, during the financial year in which the income is earned. This prevents a large tax liability from accumulating at the end of the year and ensures a steady revenue flow for the government. The provisions for advance tax are primarily governed by Sections 207 to 211 of the Income Tax Act, 1961.

1. Who is Liable to Pay Advance Tax? (Section 208)

- Every person whose estimated tax liability for the financial year is **₹ 10,000 or more** is mandatorily required to pay advance tax.
- **Exception:** A resident individual who is **60 years of age or more** (senior citizen) and does not have any income chargeable under the head "Profits and Gains of Business or Profession" is **exempt** from paying advance tax.

2. Due Dates and Instalments for Advance Tax (Section 211): Advance tax is to be paid in fixed instalments throughout the financial year:

Due Date of Instalment	Percentage of Total Advance Tax Payable (Cumulative)
On or before 15th June	15% of the estimated tax payable
On or before 15th September	45% of the estimated tax payable
On or before 15th December	75% of the estimated tax payable
On or before 15th March	100% of the estimated tax payable

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Special Provision for Assessees Opting for Presumptive Taxation (Sections 44AD/44ADA):

- Assessees (individuals, HUFs, firms) who opt for presumptive taxation schemes under Section 44AD (for eligible businesses) or Section 44ADA (for eligible professions) are required to pay the **entire 100% of their advance tax in a single instalment** on or before **15th March** of the financial year.

3. Computation of Advance Tax:

- The assessee estimates their total income for the current financial year.
- The tax on this estimated income is calculated based on the applicable tax rates.
- From this calculated tax, any Tax Deducted at Source (TDS) or Tax Collected at Source (TCS) is reduced.

- The remaining amount is the advance tax payable.

4. Interest for Default in Payment of Advance Tax: The Act prescribes interest for defaults in paying advance tax, which acts as a deterrent:

- **Interest under Section 234B (Default in Payment of Advance Tax):** If an assessee who is liable to pay advance tax fails to pay such tax, or if the advance tax paid is less than 90% of the assessed tax, simple interest at **1% per month or part of a month** is levied on the shortfall. This interest is calculated from 1st April of the assessment year until the date of payment of tax.
- **Interest under Section 234C (Default in Instalments of Advance Tax):** If an assessee pays less than the required amount of advance tax in any instalment, simple interest at **1% per month** is levied on the shortfall. The period for which interest is charged varies by instalment (e.g., 3 months for the first two instalments, 1 month for the third and final instalments).

5. Credit for Advance Tax:

- Any advance tax paid by the assessee during the financial year is treated as a pre-payment of tax and is allowed as a credit against their final tax liability when they file their annual Return of Income.

6. Revision of Estimate:

- An assessee has the flexibility to revise their estimate of income and the consequent advance tax payable at any time before the last instalment due date (15th March) if they find their earlier estimate to be inaccurate. This allows for adjustments based on the actual income and expenses accruing throughout the year.

The advance tax system is a crucial component of India's tax administration, ensuring timely tax collection and promoting financial discipline among taxpayers.

Question 6. (b) Provisions of Tax Deducted at Source (TDS) with Special Reference to Section 194C, 194J and 194IA of the Income Tax Act, 1961

Tax Deducted at Source (TDS) is a mechanism by which tax is deducted by the payer at the time of making certain payments specified under the Income Tax Act, 1961. The deductor (payer) is responsible for deducting the tax at a prescribed rate and depositing it with the Central Government. The deductee (recipient) receives the net amount, and the TDS amount is later adjusted against their final income tax liability. TDS aims to ensure tax collection at the very source of income, facilitate a steady flow of revenue, and expand the tax base.

General Provisions of TDS:

- **Obligation to Deduct:** Any person (other than specified individuals/HUFs not subject to tax audit) making specified payments is obligated to deduct TDS.
- **Time of Deduction:** TDS is generally to be deducted at the time of credit of income to the payee's account or at the time of actual payment, whichever is earlier.

- **Deposit of TDS:** The deducted tax must be deposited with the Central Government within prescribed due dates (generally 7th of the next month, or 30th April for March deductions).
- **TDS Certificate:** The deductor must issue a TDS certificate (e.g., Form 16A for non-salary payments, Form 16 for salaries) to the deductee, providing details of the tax deducted.

Let's discuss the specific sections:

1. Section 194C: TDS on Payments to Contractors

- **Applicability:** This section applies to any person (excluding individuals or HUFs whose total sales/gross receipts/turnover from business/profession did not exceed ₹ 1 crore/₹ 50 lakh respectively in the preceding financial year) responsible for paying any sum to a **resident contractor** for carrying out any work.
- **"Work" includes:** Advertising, broadcasting and telecasting (including production of programmes), carriage of goods or passengers by any mode of transport (other than railways), catering, manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer, or from a concern associated with such customer.
- **Threshold Limits:**
    - Single payment exceeding **₹ 30,000**.
    - Aggregate payments during the financial year exceeding **₹ 1,00,000**.
    - If payments are below these limits, no TDS is required.
- **TDS Rate:**
    - **1%** if the payment is made to an individual or a Hindu Undivided Family (HUF).
    - **2%** if the payment is made to a company or a firm.
- **Exemptions/Non-applicability:** Payments for personal purposes by an individual/HUF, or payments to a transport operator who owns 10 or fewer goods carriages and furnishes a declaration to that effect.

2. Section 194J: TDS on Fees for Professional or Technical Services

- **Applicability:** This section applies to any person (excluding individuals or HUFs not subject to tax audit) responsible for paying to a resident:
    - **Fees for professional services:** e.g., legal, medical, architectural, engineering, accounting, technical consultancy, interior decoration, advertising, film artists, sports persons.
    - **Fees for technical services:** e.g., managerial, technical, or consultancy services (but not consideration for construction, mining, or project activities covered under 194C).
    - **Royalty:** Including consideration for the transfer of rights in patents, copyrights, trademarks, etc.
    - **Non-compete fees:** (under Section 28(va)).
    - **Director's fees:** (not being salary).
- **Threshold Limit:** Payments exceeding **₹ 30,000** in a financial year for each category of service (i.e., professional fees, technical fees, royalty/non-compete fees each have a separate ₹ 30,000 limit). For director's fees, there is no threshold limit.
- **TDS Rate:**

- **2%** for fees for technical services (not being professional services), royalty where it is in the nature of consideration for sale, distribution, or exhibition of cinematograph films, or call centre services.
- **10%** for all other payments covered under this section (professional fees, director's fees, most royalty and non-compete fees).
- *(Note: Specific provisions under Section 194M might apply for individuals/HUFs not liable for tax audit making payments above ₹ 50 lakh to professionals or contractors.)*

3. Section 194-IA: TDS on Payment on Transfer of Certain Immovable Property (other than agricultural land)

- **Applicability:** This section applies to the **transferee (buyer)** responsible for paying to a **resident transferor (seller)** any sum by way of consideration for the transfer of any immovable property (excluding agricultural land).
- **Threshold Limit:** The consideration for the transfer of the immovable property is **₹ 50 Lakhs or more**.
- **TDS Rate: 1%** of the consideration paid.
- **Key Points:**
  - This section applies even if the buyer is an individual or HUF who is otherwise not subject to tax audit.
  - TDS is to be deducted at the time of credit of the amount to the seller's account or at the time of payment, whichever is earlier.
  - The buyer is required to deduct TDS and deposit it with the government using Form 26QB. No TAN (Tax Deduction Account Number) is required for the buyer.
  - If the consideration is paid in instalments, TDS must be deducted on each instalment.
  - Even if the seller does not furnish PAN, the TDS rate remains 1% as per specific clarification (not 20% as generally applicable for non-furnishing of PAN under other sections), but other compliance issues may arise.

These TDS provisions are instrumental in ensuring a robust and efficient tax collection system in India.