UNIVERSITY GRANTS COMMISSION

COMMERCE **CODE: 08**

Unit 10: Income Tax and Corporate Tax Planning

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SECTION – 1: Unit at a Glance

Sub Unit-1: Basic Concept

***What is tax?**

At first, we have to understand the meaning of tax. Tax is fee charged by a government on a product, income or activity. There are two types of tax- Direct and Indirect Taxes. Direct tax is directly levied on the income or wealth of a person. On the other hand, indirect tax is levied on the price of goods and services (GST). The levy of income –tax in India is governed by the Income-tax Act 1961. The Act came into force on 1st 1962. The Act contains 298 sections and XIV schedules. Central Board of Direct Taxes (CBDT) looks after the administration of direct taxes and GST council for indirect tax.

***Assessment Year [(Sec. 2 (9)]:** Assessment Year means the period of twelve months starting from 1st April of every year and ending on March 31 of the next year. For example, the assessment year 2019-20 commences on April 1, 2019 and ends on March 31, 2020.

***Previous Year [(Sec. 3]:** Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year. From the assessment year 1989-90 onwards, all assesses are required to follow financial year (i.e., April 1 to March 31) as the previous year. The uniform previous year has to be followed for all sources of income.

***Person [(Sec. 2 (31)]:** The term person includes: (i) an individual, (ii) a hindu undivided family, (iii) a company, (iv) a firm, (v) an association of persons or a body of individuals, whether incorporated or not, (vi) a local authority, and (viii) every artificial juridical person, not falling within any of the preceding categories.

***Assessee [(Sec. 2 (7)]:** Assessee means a person by whom any tax or any other sum of money such as penalty or interest is payable under the Act.

- **Income [Section 2(24)]:**

The Definition given u/s 2 (24) is inclusive and not exhaustive. According to English dictionary, the term "Income" means periodical monetary return coming in regularly from definite sources like one's business, Land, Work, Investments etc.".

It's nowhere mentioned that "Income" refers to only monetary return. It includes value of Benefits and Perquisites.

The term "Income" includes not only what is received by using the property but also the amount saved by using it himself. Anything which is convertible into income can be regarded as source of accrual of income.

***Charge of income-tax [(Sec. 4]:** The following basic principal followed when charging tax:

1. Income-tax is an annual tax on income
2. Tax rate is applicable for the assessment year. However, this rule has certain exception (already explain in para 1.1.3).
3. Tax rates are fixed by the annual finance act and not by the Income tax Act.
4. Tax is charged on every person.
5. Tax is levied on total income of every assessee.

***Heads of income:** The Act prescribes five heads of income. These are i) salaries, ii) income from house property, iii) profits and gains of business or profession, iv) capital gain, v) income from other sources.

Sub Unit-2: Residential status and tax incidents

The residential status of a person has to be determined to ascertain which income is to be included in computing the total income.

***Residential status of Individual [Sec. 6]:** In case of an individual, the duration for which he is present in India determines his residential status. Based on the time spent by him, he may be a) resident and ordinarily resident, b) resident but not ordinarily resident, c) non-resident.

Sub Unit-3: Exempted incomes

Any income earned which is not subject to income tax is called exempt income. As per Section 10 of the income tax act, 1961, there are certain types of income which will be subjected to income tax within a financial year, provided they meet certain guidelines and condition.

Sub Unit-4: Agriculture income

Agriculture income refers to income earned or revenue derived from sources that include farming land, building on or identified with an agriculture land and commercial produce from a horticultural land. Agricultural income is defined under section 2(1A) of the Income Tax Act, 1961.

Sub Unit-5: Computation of taxable income under various heads

As per the Section 14 of the Income Tax Act of 1961, there can be several modes of income for an individual. The income tax computation is an important part and has to be calculated according to the income of a person. For a hassle-free computation, the income has to be classified properly so that there is zero confusion regarding the same. The government has classified the sources of income under separate heads and then the income tax is computed accordingly. The provisions and rules are according to the details mentioned in the Income Tax Act.

The five main heads of income according to the above-mentioned Section 14 for the computation of the Income Tax in India are:

- Income from Salary
- Income from House Property
- Income from Profits and Gains of Business or Profession
- Income from Capital Gains
- Income from Other Sources

Let us understand these one by one in detail.

- **Income from Salary**

This head essentially includes any remuneration, which is received by an individual on terms of services provided by him based on a contract of employment. This amount qualifies to be considered for income tax only if there is an employer-employee relationship between the payer and the payee respectively. Salary also include the basic wages, advance salary, pension, commission, gratuity, perquisites as well as annual bonus.

The important point to note here is that salary is taxable on due basis or received basis whichever is earlier. Let me explain this with the help of an example. If you receive salary for the month of march 2020 in April 2020, it will still be taxable in previous year 2019-20. This is because it was due in march. Similarly, if your employer has given you salary of April and

May in advance in the month of March, then it will be taxable again in the month of march itself.
Therefore, salary income will be taxable on due basis or received basis whichever is earlier.

- **Income from House Property**

According to the Income Tax Act 1961, Sections 22 to 27 is dedicated to the provisions for the income tax computation of the total standard income of a person from the house property or land that he or she owns.
In simple terms, this head includes rental income received from the properties. For tax computation purposes, the property in which you are staying and not earning any rental income can give you benefit. This benefit is in the form of deductions of interest paid on home loan.
However, if the property is utilized for letting out the normal course of business, then the income from the rent will be considered.

- **Income from Profits of Business**

The income tax computation of the total income will be attributed from the income earned from the profits of business or profession. The difference between the expenses and revenue earned will be chargeable. Here is a list of the income chargeable under the head:

- Profits earned by the assessee during the assessment year
- Profits on income by an organization
- Profits on sale of a certain license
- Cash received by an individual on export under a government scheme
- Profit, salary or bonus received as a result of a partnership in a firm
- Benefits received in a business

- **Income from Capital Gains**

Capital Gains are the profits or gains earned by an assessee by selling or transferring a capital asset, which was held as an investment.
Capital asset can be real estate, stocks, Mutual funds, Bonds, Gold etc.
So, whenever you sell a capital asset and earn gains. This is considered as your income which will be taxable under the head Capital Gain.
Just to clarify, please note that rental income from property is taxed under "Income from house Property" but if you sell the property and experience gain, it will be taxed under "capital gain".

- **Income from Other Sources**

This is the last head of income. Any other form of income, which is not categorized in the above mentioned 4 heads, can be sorted in this category.
Some of the examples can be interest income from bank deposits, lottery awards, card games, gambling or other sports awards are included in this category.
These incomes are attributed in the Section 56(2) of the Income Tax Act and are chargeable for income tax.
Now that you are aware of the five heads of income, take out a piece of paper, write down all the sources of income that you have and classify it into these 5 heads. This will help you to plan your taxes well. This is the first step to identify your incomes in respective heads.
If you need expert help in doing so, get in touch with our financial tax experts at Minty who will guide you in the best possible way to plan your taxes.

Sub Unit-6: Deductions from Gross total income

Deductions allowed under the income tax act help to reduce taxable income. You can avail the deductions only if you have made tax-saving investments or incurred eligible expenses. There are a number of deductions available under various sections that will bring down your taxable income. The most popular one is section 80C of Chapter VIA. Other preferred deductions under chapter VIA are 80D, 80E, 80G, 80DDB and so on.

Sub Unit-7: Assessment of Individual

Every assessee, who earns income beyond the basic exemption limit in a Financial Year (FY), must file a statement containing details of his income, deductions, and other related information. This is called the Income Tax Return (ITR). Once you as a taxpayer file the income returns, the Income Tax Department will process it. There are occasions where, based on set parameters by the Central Board of Direct Taxes (CBDT), the return of an assessee gets picked for an assessment.

The various forms of assessment are as follows:

1. Self-Assessment
2. Summary Assessment
3. Regular Assessment
4. Best Judgement Assessment
5. Income Escaping Assessment

Sub Unit-8: Clubbing of incomes

Clubbing of income means Income of other person included in assessee's total income, for example: Income of husband which is shown to be the income of his wife is clubbed in the income of Husband and is taxable in the hands of the husband. Under the Income Tax Act a person has to pay taxes on his income.

A person cannot transfer his income or an asset which is his one of source of his income to some other person or in other words we can say that a person cannot divert his income to any other person and says that it is not his income. If he do so the income shown to be earned by any other person is included in the assessee's total income and the assessee has to pay tax on it. Clubbing of Income under Income Tax Act, 1961 -Section 60 to 64

Unit 2: International Taxation:

Sub Unit-1: Double taxation and its avoidance mechanism

The Double Tax Avoidance Agreement (DTAA) is a tax treaty signed between two or more countries to help taxpayers avoid paying double taxes on the same income. A DTAA becomes applicable in cases where an individual is a resident of one nation, but earns income in another.

DTAAs can be either be comprehensive, encapsulating all income sources, or limited to certain areas, which means taxing of income from shipping, inheritance, air transport, etc. India presently has DTAA with 80+ countries, with plans to sign such treaties with more countries in the years to come. Some of the countries with which it has comprehensive agreements include Australia, Canada, the United Arab Emirates, Germany, Mauritius, Singapore, the United Kingdom and the United States of America.

Sub Unit-2: Transfer pricing

Transfer price is the price at which related parties transact with each other, such as during the trade of supplies or labour between departments. Transfer prices are used when individual entities of a larger multi-entity firm are treated and measured as separately run entities. It is common for multi-entity corporations to be consolidated on a financial reporting basis; however, they may report each entity separately for tax purposes.

- Transfer prices that differ from market value will be advantageous for one entity, while lowering the profits of the other entity.
- Multinational companies can manipulate transfer prices in order to shift profits to low tax regions.
- To remedy this, regulations enforce an arm's length transaction rule that requires pricing to be based on similar transactions done between unrelated parties.

Unit-3: Corporate tax planning

Sub Unit-1: Concepts and significance

Tax Planning is an activity conducted by the tax payer to reduce the tax liable upon him/her by making maximum use of all available deductions, allowances, exclusions, etc. feasible under law. In other words, it is the analysis of a financial situation from the taxation point of view. The objective behind tax planning is insurance of tax efficiency. Tax planning allows all elements of the financial plan to function in sync to deliver maximum tax efficiency.

Tax planning is critical for budgetary efficiency. A reduced tax liability and maximized the ability of retirement plans.

Objectives of Tax Planning

- Minimal Litigation
- Productivity
- Reduction of Tax Liability
- Healthy Growth of Economy
- Economic Stability

Sub Unit-2: Tax avoidance vs. Tax evasion

Tax evasion means concealing income or information from tax authorities-and it’s illegal. Tax evasion may involves:

- Untrue statement knowingly
- Submitting misleading document
- Suppression of facts
- Not maintaining proper accounts of income earned
- Omission of material facts on assessment

Tax avoidance means legally reducing your taxable income.

- Tax avoidance is reducing or negating tax liability in legally permissible ways and has legal sanction
- Tax avoidance is sound law and certainly not bad morality for anybody to so arrange his affairs in such a way that the brunt of taxation is the minimum
- This can be done within the legal framework even by taking help of loopholes in the law

Sub Unit-3: Techniques of corporate tax planning

1. Tax Planning in Respect of Employee`s Remuneration
2. Tax Planning in Case of Amalgamation
3. Deduction of tax at source
4. Tax Consideration on capital structure
5. Tax Planning in respect of bonus share

Sub Unit-4: Tax considerations in specific business situation

One of the most important decisions to make when starting a business is the legal form (sole proprietorship, corporation, limited liability company, etc.) in which you will operate. And as your business grows, you may want to change forms to accommodate more owners, a different capital structure, or shield your growing wealth from business liability. Be sure to weigh the tax considerations associated with the business type you choose.

Sub Unit-5: Make or buy decisions

Basically, the decision to make or buy is a costing decision and is influenced by many factors are as follows

I. Availability of factors
II. Investment required in fixed assets
III. Availability of skilled and unskilled labour
IV. Availability of suppliers
V. Existence of idle capacity in organization

With due considerations to above factors, marginal costing and differential costing techniques of cost accounting help a lot in reaching at any conclusion

Sub Unit-6: Own or lease an asset

Lease are contracts in which the property/asset owner allows another party to use the property/asset in exchange for something, usually money or other assets. The two most common types of lease in accounting are financing (capital lease) lease.

Leasing Equipment

Leasing business equipment and tools preserves capital and provides flexibility but may cost you more in the long run.

- Advantages of Leasing Equipment

- **Less initial expense:** The primary advantage of leasing business equipment is that it allows you to acquire assets with minimal initial expenditures. Because equipment leases rarely require a down payment, you can obtain the goods you need without significantly affecting your cash flow.
- **Tax deductible:** Lease payments can usually be deducted as business expenses on your tax return, reducing the net cost of your lease.
- **Flexible terms:** Leases are usually easier to obtain and have more flexible terms than loans for buying equipment. This can be a significant advantage if you have bad credit or need to negotiate a longer payment plan to lower your costs.

- **Easier to upgrade equipment:** Leasing allows businesses to address the problem of obsolescence. If you use your lease to obtain items that may be outdated in a short period of time, such as computers or other high-tech equipment, a lease passes the burden of obsolescence onto the lessor. You are free to lease new, higher-end equipment after your lease expires.

➢ Disadvantages of Leasing Equipment

- **Higher overall cost:** Leasing an item is almost always more expensive than purchasing it. For example, a 3-year lease on a computer worth $4,000, at a standard rate of $40/month per $1,000, will cost you a total of $5,760. If you had bought it outright, you would have paid only $4,000.
- **You don't own it:** You don't build equity in the equipment. Unless the equipment has become obsolete by the end of the lease, this lack of ownership is a significant disadvantage.
- **Obligation to pay for entire lease term:** You are obligated to make payments for the entire lease period even if you stop using the equipment. Some leases give you the option to cancel the lease if your business changes direction and the equipment you leased is no longer necessary, but large early termination fees always apply.

Buying Equipment

Ownership and tax breaks make buying business equipment appealing, but high initial costs mean this option isn't for everyone.

Advantages of Buying Equipment:

- **Ownership:** The most obvious advantage of buying business equipment is that you gain ownership of it. This is especially true when the property has a long useful life and is not likely to become technologically outdated in the near future, such as office furniture or farm machinery.
- **Tax incentives:** Section 179 of the Internal Revenue Code allows you to fully deduct the cost of some newly purchased assets in the first year. In 2012 and 2013, you can deduct up to $500,000 of equipment (subject to a phase-out if you placed more than $2,000,000 of equipment in service in any one year). For example, if you are in the 25% tax bracket and you purchase $100,000 in business equipment this year, the net cost to you is only $75,000.
- **Possibility of depreciation deduction:** Although not all equipment purchases are eligible for Section 179 treatment, you can still receive tax savings for almost any business equipment through depreciation deductions. (Some assets that don't qualify for the Section 179 deduction are real estate, inventory bought for resale, and property bought from a close relative.)

➢ **Disadvantages of Buying Equipment:**

- **Higher initial expense:** For some people, purchasing business equipment may not be an option because the initial cash outlay is too high. Even if you plan to borrow the money and make monthly payments, most banks require a down payment of around 20%. Borrowing money may also tie up lines of credit, and lenders may place restrictions on your future financial operations to ensure that you are able to repay your loan.
- **Getting stuck with old equipment:** Although ownership is perhaps the biggest advantage to buying business equipment, it can also be a disadvantage. If you purchase high-tech equipment, you run the risk that the equipment may become technologically

obsolete, and you may be forced to reinvest in new equipment long before you had planned to. Certain business equipment has very little resale value. A computer system that costs $5,000 today, for instance, may be worth only $1,000 or less three years from now.

- **Should we Buy or Lease?**

When deciding whether to buy or lease a particular piece of business equipment, try to figure out the approximate net cost of that asset. Be sure to factor in tax breaks and resale value when making this calculation. After determining which option is more cost-effective, consider other intangibles such as the possibility that the product will become obsolete (if you are considering purchasing) or that your need for the product will expire before the lease does (if you are considering leasing).

If you are considering a car lease, see Leasing a Car to learn about the advantages and disadvantages of car leasing.

Sub Unit-7: Retain, Renewal or replacement of asset

1. The term repairs mean restoration of an asset to the original and normal condition by incurring certain expenditure without increasing the efficiency beyond its original efficiency.
2. Repairs is done to maintain the original efficiency and its objective is neither to bring any new asset or obtaining a new advantage. So, it is nature of revenue expenditure.
3. Expenditure on repairs is an important item of expense and bone of contention between income tax department and assessee. The permissibly of repairs is dealt in following sections: -
4. Sec 30 which covers repair expenses relating to business premises.
5. Sec 31 which covers repair expenses relating to plant, machinery and furniture
6. Deduction for rent, rates, taxes repairs etc. for building (sec 30)

- Allowance of repair to tenant's u/s 30(a)(i)

If the lease agreement contain provision that tenant will bear the cost of repairs. Then it is permitted otherwise not.

- Allowance of current repairs to owners –sec 30(a)(ii): - current repairs means repair during the financial year for the purpose of preserving or maintaining an already existing asset. Neither the new assets come into the existence or does not give the assessee new advantage.

This section permits the expense incurred on the current repair does not differentiate between revenue nature and capital expenditure.

- Deductions under sec 31

Repairs & insurance of machinery, plant and machinery: The following deductions are allowed: -

The amount paid on account of repair there to

The amount of any premium paid in respect of insurance against damage or destruction thereof

- **Repairs and renewals**

No clear difference between repairs and renewals.

The term repairs/current repairs is wide enough to include replacement or renewal etc in certain cases.

Repair is undertaken by replacing a or any part of the asset and hence repairs or renewal for deduction u/s 30 and 31 have become common

But in certain cases, they are treated different

- Replacement

1. It is different from repairs. Replacement implies the removal or discarding of the thing that was in use by a different or new thing capable of performing the same function with greater efficiency or same efficiency.
2. It may bring a new asset or it may replace defective/broken part
3. Where replacement is undertaken to replace or renew any parts to bring the asset into original position then it is treated as current repair and permitted in the year it is incurred.

- Tax planning

1. Heavy expenditure on repairs, renewal or replacement should be done in the year having substantial profit.
2. Instead of replacing the asset entirely, part or parts of the assets should be replaced
3. Maintain full details of heavy expenditure incurred on repairs etc. And separate bills should be taken for

- If repairer besides giving repair service also make available part or parts then separate disclosure must be made in the bill for the cost of parts and service charges charged by the repairer

Sub-unit 8: Shut down or continue operation

A firm will choose to implement a shutdown of production when the revenue received from the sale of the goods or services produced cannot even cover the variable costs of production. In that situation, the firm will experience a higher loss when it produces, compared to not producing at all.

Technically, shutdown occurs if average revenue is below average variable cost at the profit-maximizing positive level of output. Producing anything would not generate enough revenue to offset the associated variable costs; producing some output would add further costs in excess of revenues to the costs inevitably being incurred (the fixed costs). By not producing, the firm loses only the fixed costs.

Unit 4: Deduction and collection of tax at source

Sub Unit-1: Advance payment of tax

advance tax refers to the tax to be deposited by a taxpayer with the income tax department during the year without waiting for the end of the year. This is to ensure that the government is able to collect taxes more uniformly throughout the year. While the government collects tax at source by mandatorily applying TDS, in some cases a person's income, though taxable, does not attract full TDS and hence, the person can claim an income tax refund. Conversely, in some cases, TDS deducted may be less than the total tax liability for the year. In all such cases, the advance tax has to be deposited.

- Advance tax payment is mandatory for all assessee whose estimated tax liability is above ₹ 10,000.
- The calculation of advance tax is made by applying the tax slab rate on the estimated income of an individual for the concerned year.

- The payment of advance tax is to be done in 4 instalments.
- The deadlines of four instalments are 15 June, 15 September, 15 December, and 15 March.
- In case of late payment of advance tax, 1% of interest is applicable as late fee as per Section 234B and 234C.
- If at the end of the year, your actual tax liability is less than the advance tax submitted by you, then you are eligible to claim the refund.

Sub Unit-2: E-filling of income-tax return

1. (https://www.incometaxindiaefiling.gov.in/home). Make sure that you enter the correct mobile number and email ID when you register. All future communication will be sent to the number and email you provide.
2. Get your Digital Signature Certificate (DSC) on the I-T Department website and register it. If you don't have a DSC, you can file your returns and then send an email to the I-T Department's Centralized Processing Centre (CPC).

SECTION 2 : KEY STATEMENTS

Every candidates appearing for NET/SET examination should follow these key (main) points those can help them a better understanding regarding this unit very quickly.

Basic Key Statements: Basic concept (10.1.1), Residential status and tax incidence (10.1.2), Computation of taxable income under various heads (10.1.5), Assessment of Individual (10.1.7), Double taxation and its avoidance mechanism (10.2.1), Concept and Significance of tax planning (10.3.1), Tax considerations in specific business situation (10.3.4), Advance payment of tax (10.4.1),

Standard Key Statements: Exempted incomes (10.1.3), Agriculture income (10.1.4), Transfer pricing (10.2.2), Techniques of corporate tax planning (10.3.3), Retain, renewal or replacement of asset (10.3.7), E-filing of income tax return (10.4.2)

Advanced Key Statements: Deductions from Gross total income (10.1.6), Clubbing of incomes (10.1.8), Tax avoidance versus tax evasion (10.3.2), Make or by decisions (10.3.5), Own or lease an asset (10.3.6), Shut down or continue operation (10.3.8),

Sub-unit:1 Income tax

10.1.1Basic Concept:

***What is tax?**

At first we have to understand the meaning of tax. Tax is fee charged by a government on a product, income or activity. There are two types of tax- Direct and Indirect Taxes. Direct tax is directly levied on the income or wealth of a person. On the other hand indirect tax is levied on the price of goods and services (GST). The levy of income –tax in India is governed by the Income-tax Act 1961. The Act came into force on 1st 1962. The Act contains 298 sections and XIV schedules. Central Board of Direct Taxes (CBDT) looks after the administration of direct taxes and GST council for indirect tax.

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***Previous Year [(Sec. 3]:** Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year. From the assessment year 1989-90 onwards, all assesses are required to follow financial year (i.e., April 1 to March 31) as the previous year. The uniform previous year has to be followed for all sources of income.

For newly formed company, the first previous year will be the period commencing from the date of setting up of the business/profession or the date on which the source of income comes into existence and ending on 31st March of the immediately following calendar year. So, the first previous year may be 12 months or less but never exceed 12 moths and the subsequent previous year would be of 12 months each (April to March). There is certain exception of the rule that the income of previous year assessable as the income of the immediately following assessment year, namely,

1. Shipping business of non-residents (Sec. 172)
2. Person leaving India (Sec.174)
3. Person likely to transfer property to avoid tax (Sec.175)
4. Discontinued business/profession (Sec. 176)

***Person [(Sec. 2 (31)]:** The term person includes: (i) an individual, (ii) a hindu undivided family, (iii) a company, (iv) a firm, (v) an association of persons or a body of individuals, whether incorporated or not, (vi) a local authority, and (viii) every artificial juridical person, not falling within any of the preceding categories.

***Assessee [(Sec. 2 (7)]:** Assessee means a person by whom any tax or any other sum of money such as penalty or interest is payable under the Act.

***Charge of income-tax [(Sec. 4]:** The following basic principal followed when charging tax:

1. Income-tax is an annual tax on income
2. Tax rate is applicable for the assessment year. However this rule has certain exception (already explain in para 1.1.3).
3. Tax rates are fixed by the annual finance act and not by the Income tax Act.
4. Tax is charged on every person.
5. Tax is levied on total income of every assessee.

***Concept of Income [(Sec. 2 (24)]:** The definition of income in the Income-tax Act 1961 begins with the words "Income includes". Therefore, it is an inclusive definition and not an exhaustive one. Some important principals relating to income are discussed below:

1. Generally income means a periodic monetary return which accrues or is expected to accrue regularly from definite source. However, certain exception is there, the incomes which do not arise regularly are treated as income for tax purpose e.g. Crossword puzzles, Winning from lotteries.
2. Income actually indicates net receipts and not gross receipts. To get net receipts all the expenditures (related to earn such receipts) are deducted from the gross receipts. The expenditure which can be deducted while computing income under each head is prescribed under the income tax Act.
3. Income generally means to revenue receipts. Capital receipts are not included within the scope of income. However, Income-tax Act includes certain capital receipts within the definition of income e.g. capital gain i.e. gains on sale of a capital asset like land.
4. Income is taxable either on due basis or receipt basis. To compute income under the heads "profits and gains of business or profession" and "income from other sources", the method of accounting regularly employed by assessee should be considered, which can be either cash basis or mercantile basis.

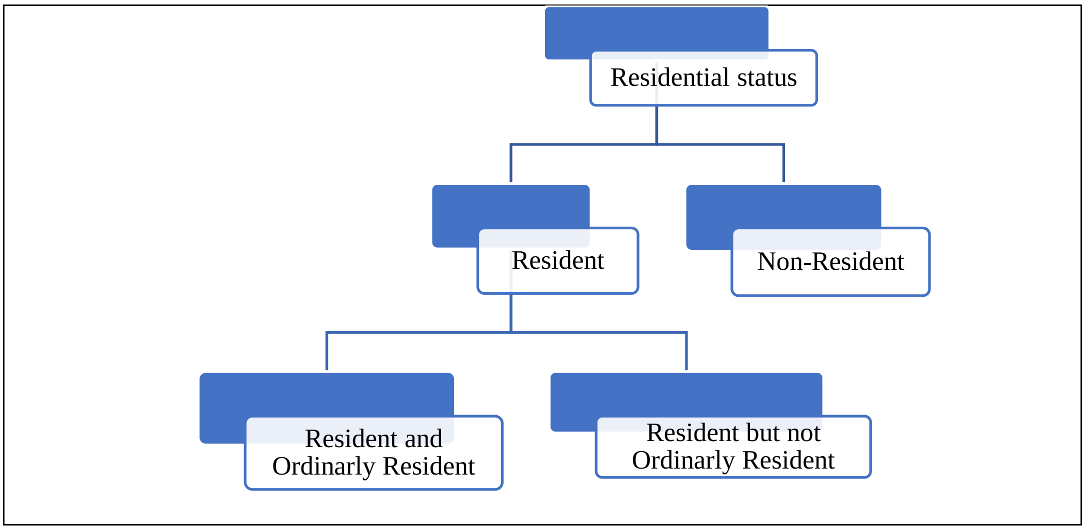
***Heads of income:** The Act prescribes five heads of income. These are i) salaries, ii) income from house property, iii) profits and gains of business or profession, iv) capital gain, v) income from other sources.

These heads of income exhaust all possible types of income that can accrue to or be received by the tax payer. Salary, pension earned is taxable under the head "salary". Rental income is taxable under the head "Income from house property". Income derived from carrying on any business or profession is taxable under the head "Profits and gain from business or profession". Profit from sale of a capital asset is taxable under the head "Capital Gain". The fifth head of income is the residuary head under which income taxable under the Act, but not falling under the first four heads, will be taxed.

- [(Sec. 2 (8)]: This is the procedure by which the income of an assessee is determined by the Assessing Officer. It may be by way of a normal assessment or by way of reassessment of an income previously assessed.

10.1.2 Residential status and tax incidents: The residential status of a person has to be determined to ascertain which income is to be included in computing the total income.

***Residential status of Individual [Sec. 6]:** In case of an individual, the duration for which he is present in India determines his residential status. Based on the time spent by him, he may be a) resident and ordinarily resident, b) resident but not ordinarily resident, c) non-resident.



***Resident and ordinarily resident [Sec. 6(1), 6(6) (a)]**

A taxpayer would qualify as a resident of India if he satisfies one of the following 2 basic conditions:

a) Stay in India for a year is 182 days or more or

b) Stay in India 365 days or more for the 4 years immediately preceding the previous years **and** 60 days or more during the previous year

In the event an individual leaves India for employment during an FY, he will qualify as a resident of India only if he stays in India for 182 days or more. This otherwise means, condition (b) above of 60 days would not apply to him

***Resident Not Ordinarily Resident (RNOR)**

If an individual qualifies as a resident, the next step is to determine if he/she is a Resident Ordinarily Resident (ROR) or an RNOR. He will be a ROR if he meets both of the following conditions:

i) Has been a resident of India in at least 2 out of 10 previous years immediately preceding the relevant previous years and

ii) Has stayed in India for at least 730 days in 7 years immediately preceding the relevant previous year.

Therefore, if any individual fails to satisfy even one of the above conditions, he would be an RNOR.

***Non-resident**

An individual satisfying neither of the conditions stated in (a) or (b) above would be an NR for the year.

***Rule of residence in brief:**

Resident and Ordinarily Resident (ROR)	He must satisfy one of the basic condition [i.e. (a) or (b)] and at same time he has to satisfy two additional conditions [i.e. (i) and (ii)]
Resident but Not Ordinarily Resident (RNOR)	He must satisfy at least one of the basic conditions [i.e. (a) or (b)] and he may satisfy one or none of the additional conditions.
Non-Resident	He satisfies none of the basic conditions. Additional conditions are not relevant.

Consider the case of Mr X, Business Head for Asia Pacific regions for a private firm. Mr X was born and brought up in India. He has to travel to various locations of the continent for business purposes. He has spent 200 days travelling in the current financial year. Also, he has been travelling abroad from the past two years and has stayed out of India for about 400 days in this period.

When you consider this information to figure out the resident status of Mr X, you will understand that he has only spent 165 days in India during the current financial year. That proves the first condition wrong. It is given that Mr X has been travelling only from the past two years.

Also, it is said that he has travelled for 400 days in the past two years. That means, in the past four years, Mr X has stayed in India for more than 365 days (1061 days). You must remember that he has stayed for 165 days in the current year. Therefore, the second condition holds good. Mr X is a resident taxpayer.

Alternatively, consider that he had to work from the headquarters of his firm, located in Kota Kinabalu, Malaysia for the past six years. He has only visited his parents for a week, twice a year during this time. That means, he has resided in India for 449 days in the past six years and the same applies for the current financial year too. In this case, one condition is not met. Therefore, Mr X is RNOR.

An individual who does not fall under either of the above categories can be considered as a non-resident. For example, Ms G went to London to join a reputed university for a graduation course (three years). While studying there, her professor suggested her to join a post-graduate course at the same university (two years).

She had to get an internship certificate to complete the course. Upon completion, the firm offered her a permanent position. She has been an employee there for the past four years. That is, Ms G has stayed out of India for nine years now. She receives rental income from the property that she inherited from her parents. Both the conditions applicable for ROR are not satisfied. That makes Ms G a non-resident.

***Residential status of a Hindu Undivided family [Sec. 6(2)]**

Place of control	**Residential status of family**
Wholly in India	Resident
Wholly out of India	Non-resident
Partly in India and partly outside India	Resident

*N.B-if the karta or manager of a resident Hindu undivided family does not satisfy the two additional conditions, the family is treated as resident but not ordinarily resident

***Residential status of the firm and association of persons [Sec. 6(2)]**

Place of control	**Residential status of family**
Wholly in India	Resident
Wholly out of India	Non-resident
Partly in India and partly outside India	Resident

*N.B-A firm/an association of persons cannot be "ordinarily" or "not ordinarily resident".

***Residential status of a company [Sec. 6(3)]**

section	**Company**	**Residential status**
6(3)(i)	Indian company	Always resident in India
6(3)(ii)	A foreign company (if turnover/gross receipt in the previous year is more than Rs. 50 crore)	Resident if its place of effective management during the relevant previous year, is in India
6(3)(iii)	A foreign company (if turnover/gross receipt in the previous year is Rs. 50 crore or less)	Always non-resident in India

***Residential status of "every other person "[Sec. 6(4)]:** Every other person is resident in India if control and management of his affairs is wholly or partly situated within India during the relevant previous year. On the other hand, every person is non-resident in India if the control and management of his affairs is wholly situated outside India

***Taxability:**

The residential status of a person determines the taxability of the income. For e.g. income earned outside India will not be taxable in the hands of a non-resident but will be taxable in case of a resident and ordinarily resident.

10.1.3 Exempted incomes:

Sections	Particulars	Exemption limit
Sec 10(1)	Agricultural Income (from agricultural land, farm house, or sapling seedling grown in nursery) for self employed	Fully exempt from tax
Sec 10(2)	Income received from HUF (Hindu-undivided family) by a tax payer in his capacity as a member of HUF	Fully exempt from tax
Sec 10(10C)	Compensation received at the time of voluntary retirement for salaried employees	Exempt from tax up to a certain limit of compensation amount Rs. 5,00,000
Sec 10(10D)	Amount received under life insurance policy including policy bonus	Fully exempt from tax
Sec 10(11)(12)	Amount withdrawn from Provident fund by salaried employees	Fully exempt from tax
Sec 10(10BC)	Compensation received in case of any disaster from central government	Fully exempt from tax
Sec 10(13A)	House rent allowance (HRA) to salaried employees (rent paid by the employees to stay in a rented house)	Fully exempt from tax and 50% of salary amount if residential house is in metro cities otherwise 40% in non-metro
Sec 10(14)	Children education allowance (salaried employees can claim a pre defined allowance for two children)	Exemption up to Rs. 100 per month per child
Sec 10(14)	Special compensatory allowance for hilly areas or climate allowance or high altitude allowance to salaried employees	Exemption up to Rs. 7,000 per month
Sec 10(14)	City Compensatory Allowance	Fully Taxable
Sec 10(14)	Tribal area allowance in: Madhya Pradesh, Tamilnadu, Assam, UP, Karnataka, West	Exemption up to Rs. 200 per month

	Bengal, Bihar, Orissa and Tripura to salaried employees	
Sec 10(14)	Compensatory field area allowance available in various areas of AP, Manipur, Sikkim, Nagaland, HP, UP and J&K to salaried employees	Exemption up to Rs. 2,600 per month
Sec 10(14)	Transport allowance granted to employee for the purpose of commuting from home to office salaried employees	Exemption up to Rs. 1,600 (Rs. 3,200 for blind, deaf and dumb) per month
Sec 10(14)	Fixed Medical Allowance	Fully taxable
Sec 10(14)	Tiffin, Lunch, Dinner of Refreshment Allowance	Fully taxable
Sec 10(14)	Servant Allowance	Fully taxable
Sec 10(14)	Project Allowance	Fully taxable
Sec 10(14)	Overtime Allowance	Fully taxable
Sec 10(14)	Telephone Allowance	Fully taxable
Sec 10(14)	Holiday Allowance	Fully taxable
Sec 10(14)	Any other Cash Allowance	Fully taxable
Sec 10(14) rule 2BB	Border area allowance or remote area or any disturbed area allowance to salaried employees	Exemption up to Rs. 1,300 per month
Sec 10(15)	Income from tax free securities to all assesses (Income received as interest from securities, bonds, deposits notified by government)	Fully exempt from tax
Sec 10(23D)	Income from mutual fund (Any income earned from mutual funds registered under SEBI or set-up by any PSU or authorized by RBI)	Fully exempt from tax
Sec 10(32)	Income of minor	Exemption Rs. 1500 in respect of each minor child

Sec 10(33)	Capital gain on transfer of US64	Exempted from tax (where the transfer of such assets takes place on or after April 1, 2002)
Sec 10(34)	Income from dividends (Tax paid by the company over the profits is considered as the final payment of tax no further credit to be claimed as dividends)	Fully exempt from tax
Sec 10(34A)	Income of a shareholder on account of buy-back of share	Fully exempt from tax
Sec 10(38)	Long term capital gains on transfer of shares and securities	Fully exempt from tax
Sec 10(43)	Reverse Mortgage (Any amount received by the individual as loan in lump-sum or in instalments in transaction of reverse mortgage)	Fully exempt from tax
Sec 10(44)	New Pension System exemption (Any income received by any person on the behalf of New pension system)	Fully exempt from tax
Sec 10(49)	Income of National financial holdings company	Fully exempt from tax
Sec 10(11A)	Income from Sukanya Samriddhi Account	Fully exempt from tax

10.1.4 Agriculture income:

Sec.10(1) exempts Agricultural Income from Income-Tax. Bu virtue of Sec.2(1)a the expression "Agricultural Income" means :

- Any Rent or Revenue derived from Land which is situated in India and is used for agricultural purposes. [Sec. 2(1A)(a)]
- Any income derived from such land :
  - Use for Agricultural purposes ; or
  - Used for agricultural operations means- irrigating and harvesting , sowing, weeding, digging, cutting etc. It involves employment of some human skill, labour and energy to get some income from land. ; or

According to Sec. 2(1)(a) , if the following 3 conditions are satisfied, income derived from Land can be termed as "Agricultural Income".

Condition-1: Income derived from Land
It is essential that for any income to be termed as agricultural Land must be effective and immediate source of Income and not indirect and secondary.

As a result, interest on arrears of land revenue, dividend paid by a company out of its profits which included agricultural income also and salary paid to a manager for managing agricultural farms are not agricultural incomes because in all these cases land is not the effective and immediate source of income.

Condition-2: Land is used for Agricultural Purposes
To term any income as agricultural income, it is necessary that income must be the result of agricultural operations performed on agricultural land. Agriculture means performance of some basic operations— irrigating and harvesting , sowing, weeding, digging, cutting etc. it involves employment of some human skill, labour and energy to get some income form land.

Condition-3: Land is situated in India
To qualify the exemption u/s 10(1) of the Act, it is necessary that agricultural income must be derived from land situated in India. In case income is derived from agricultural land situated outside India or is from any non-agricultural land, it will not be exempted u/s 10(1). It is taxable income under the head “Income from other Sources”.

What is the Tax Treatment of Income which is partially Agricultural and partially from Business [Rules 7, 7A, 7B and 8]

For disintegrating a composite business income which is partly agriculture and partly non-agricultural, the following rules are applicable –

Type of Income	*Business Income*	*Agricultural Income*
• Tea Business	40%	60%
• Coffee Business	40%	60%
• Rubber Business	40%	65%

Example:
Mr. X owns a Flour Mill and some agricultural Land. During the year 2018-2019 he has shown profit of Rs.25 lacs from the Business of Flour Mill. On scrutiny of accounts it was found that he has used 5,000 quintals of wheat produced in his own Farms and cost of this wheat has not been debited to P & L account. The market price of the wheat during the season was Rs.400 per quintal.. Find out his Agricultural and Business income.

[Hints: Agricultural income Rs.20,00,000 and Business income Rs. 5,00,000]

10.1.5 Computation of taxable income under various heads:

- **Salary:** In general, the term salary refers to any remuneration received by an employee from his employer in consideration of his service.

- **Salary under section 17 (1):** U/S 17(1), salary is defined to include the following:
  a. Wages, **b.** any annuity or pension, **c.** any fees, commission, perquisite or profits in lieu of or in addition to any salary or wages, **d.** any gratuity, e. any advance of salary, **f.** Any payment received in respect of any period of leave not availed by him, **g.** the proportion of the annual accretion in any previous year to the balance at the credit of an employee participating in Recognized Provident Fund to the extent it is taxable, **h.** transferred balance in a recognized Provident Fund to the extent it is taxable; and **i.** the contribution made by the Central Government in the previous year, to the account of an employee under a pension scheme referred to in section 80CCD

- **Define the salary U/S 15 of the IT Act.**
  - Any salary due to an employee in the P.Y from the present employer or former employer whether actually paid or not.
  - Any advance salary paid to an employee in the P.Y by the present employer or former employer before it becomes due.
  - Any arrears of the salary paid or allowed to an employee in the P.Y from the present employer or former employer, if not charged to income tax in any earlier P.Y.

- **What is profit in lieu of salary?** Profit in lieu of salary includes:
  Compensation received for termination of employment, refund from URPF, any payment received under a key man insurance policy, compensation received for modification of terms and conditions of employment, cash gifts received from the employer in appreciation of employee's service.

- **What is perquisite?**
  A perquisite means benefits given to employees in addition to salary or bonus. Any casual emoluments, fee or profit attached to an office or position in addition to salary or wages. The taxable value of the perquisite shall be the total wages paid or payable by the employer, less any amount recovered from the employee for providing such services.

- **What is advance salary? How is it treated?**
  In see an assessee is received salary in advance in a previous year, which was actually not due in that year; it shall be taxable in the year of receipt. On the other hand, if any loan is taken against salary, it is not treated as advance salary.

- **What is transferred balance?**

  If URPF is recognized by the CIT for the first time, the balance standing to the credit of the employee in the URPF account will be transferred to his RPF A/c. the amount so transferred is known as transferred balance.

- **Distinguish between allowances and perquisites.**

  Allowance is a fixed sum of money received by the employee's from the employer to meet their official or personal expenses. Whereas, perquisite means any casual emoluments, fee or profit attached to an office or position in addition to salary or wages. Further, allowances are always given in monetary terms, whereas, perquisites are normally given in kind. However, sometimes it may be given in cash also.

- **Give the meaning of fringe benefits.**

  Fringe benefits means any consideration for employment provided by way of any privilege, service, facility or amenity, directly or indirectly by an employer to his employees. For example: car facility, transport facility, travelling/touring, free lunch, gift, club/credit card facility, free holiday home facility.

- **Give the meaning of dearness allowance.**

  Dearness allowance shall be considered only when it is part of salary for computing all retirement benefits such as pension, leave encashment, gratuity, etc. if dearness allowance is part of salary for computing only some of the retirement benefits, then it is not taken into consideration for this purpose.

- **What is Sec.16 of the IT Act?**

  To calculate the taxable income under the head salaries, the following deductions are allowed U/s 16: Entertainment allowance to govt, employees U/s 16(ii), professional tax paid by the assessee or employer on behalf of the employee U/S 16(iii).

- **Types of provident funds (PF)**

  a. Statutory Provident Fund (SPF): Maintained by government offices or semi-government offices like local authorities, corporations, universities, recognized educational institutions and nationalized banks.

  b. Recognised Provident Fund (RPF): Provident fund which is recognized by the chief commissioner or commissioner or income tax with the approval of provident fund commissioner. This fund is maintained by factories, scheduled banks and several business houses.

  c. Unrecognised Provident Fund (UPF): Provident fund which is approved by the provident fund commissioner but not recognized by the chief commissioner or commissioner of income tax. This provident fund is maintained in private sector organization.

d. **Public Provident Fund (PPF):** Every individual including a salaried employee can subscribe to this fund any amount being not less than Rs.500 and not more than Rs.1,00,000 in a year. An individual can open a PPF at a branch of state bank of India or at a branch of any 13 nationalized banks authorized for this purpose by central government.

- **Voluntary Retirement Compensation (VRS)/ Provisions of VRS?**

Voluntary retirement compensation received by the employee is exempt from tax up to Rs.5,00,000, if the following conditions are satisfied.

a. The compensation must receive for voluntary retirement.
b. The employee must have completed 10 year of service or 40 years of age.
c. The scheme must be offered by the employer to all employees except directors of the company.
d. The purpose of the scheme must be to reduce the overall strength of the in the organization.

- **Perquisite and taxability**

Section	particulars	Taxability
17(2)(i)/(ii) read with Rule 3(1)	Rent free unfurnished accommodation provided to Central and State Government employees	License fees determined in accordance with rules framed by Government for allotment of houses shall be deemed to be the taxable value of perquisites.
17(2)(i)/(ii) read with Rule 3(1)	Unfurnished rent free accommodation provided to other employees	**Taxable value of perquisites** i. If house property is owned by the employer, the taxable value of perquisite shall be: A. 15% of salary, if population of city where accommodation is provided exceeds 25 lakhs B. 10% of salary, if population of city where accommodation is provided exceeds 10 lakhs but does not exceed 25 lakhs C. 7.5% of salary, if accommodation is provided in any other city ii. If house property is taken on lease or rent by the employer, the taxable value of perquisite shall be: i. Lease rent paid or payable by the employer or 15% of the salary, whichever is lower

		*Salary includes: a) Basic Pay b) Dearness Allowance (only to the extent it forms part of retirement benefit salary) c) Bonus d) Commission e) All other allowances (only taxable portion) f) Any monetary payment which is chargeable to tax But does not include i. Value of any perquisite ii. Employer's contribution to PF iii. Benefits received at the time of retirement like gratuity, pension etc. *Note:* 1) Rent free accommodation is not chargeable to tax if provided in remote area. 2) Rent free accommodation provided to High Court or Supreme Court Judges, Union Ministers, Leader of Opposition in Parliament, an official in Parliament and Serving Chairman and members of UPSC is tax free perquisite. 3) The value so determined shall be reduced by the amount of rent, if any, recovered from the employee. 4) If employee is transferred and retain property at both the places, the taxable value of perquisites for initial period of 90 days

		shall be determined with reference to only one accommodation (at the option of the assessee). The other one will be tax free. However after 90 days, taxable value of perquisites shall be charged with reference to both the accommodations.
17(2)(i)/(ii) read with Rule 3(1)	Rent free furnished accommodation	Taxable value of perquisites shall be computed in following manner: a) Taxable value of perquisite assuming accommodation to be provided to the employee is unfurnished b) *Add:* 10% of original cost of furniture and fixtures (if these are owned by the employer) or actual higher charges paid or payable (if these are taken on rent by the employer). c) *Less:* The value so determined shall be reduced by the amount of rent, if any, recovered from the employee
17(2)(i)/(ii) read with Rule 3(1)	Accommodation provided in a hotel Hotel accommodation will not be chargeable to tax if : a) It is provided for a total period not exceeding in aggregate 15 days in the financial year; and b) Such accommodation in hotel is provided on employee's transfer from one place to another place.	Taxable value of perquisite shall be lower of following: a) Actual charges paid or payable by the employer to such hotel; or b) 24% of salary
17(2)(viii) read with Rule 3(2)	Motor Car / Other Conveyance	**Taxable value of perquisites** *(See Note 1 below)*
17(2)(iv)	Any sum paid by employer in respect of any obligation of an employee	Fully Taxable
17(2)(viii) read with Rule 3(3)	Services of a domestic servant including sweeper, gardener, watchmen or personal attendant (taxable only in case of specified employee [See Note 4])	Taxable value of perquisite shall be salary paid or payable by the employer for such services *less* any amount recovered from the employee.

17(2)(viii) read with Rule 3(4)	Supply of gas, electricity or water for household purposes	Taxable value of perquisites: ➢ Manufacturing cost per unit incurred by the employer., if provided from resources owned by the employer; ➢ Amount paid by the employer, if purchased by the employer from outside agency *Note:* 1. Any amount recovered from the employee shall be deducted from the taxable value of perquisite. 2. Taxable in case of specified employees only [*See note 4*]
17(2)(viii) read with Rule 3(5)	Education Facilities	**Taxable value of perquisites** *(See Note 2 below)*
17(2)(viii) read with Rule 3(6)	Transport facilities provided by the employer engaged in carriage of passenger or goods (except Airlines or Railways)	Value at which services are offered by the employer to the public *less* amount recovered from the employee shall be a taxable perquisite
17(2)(v)	Amount payable by the employer to effect an insurance on life of employee or to effect a contract for an annuity	Fully Taxable
17(2)(vi) read with Rule 3(8)/3(9)	ESOP/ Sweat Equity Shares	**Fair Market value** of shares or securities on the date of exercise of option by the assessee *less* amount recovered from the employee in respect of such shares shall be the taxable value of perquisites. Fair Market Value shall be determined as follows: a) In case of listed Shares: Average of opening and closing price as on date of exercise of option (Subject to certain conditions and circumstances)

		b) In case of unlisted shares/ security other than equity shares: Value determined by a Merchant Banker as on date of exercise of option or an earlier date, not being a date which is more than 180 days earlier than the date of exercise of the option.
17(2)(vii)	Employer's contribution towards superannuation fund	Taxable in the hands of employee to the extent such contribution exceeds Rs.1,50,000
17(2)(viii) read with Rule 3(7)(i)	Interest free loan or Loan at concessional rate of interest	Interest free loan or loan at concessional rate of interest given by an employer to the employee (or any member of his household) is a perquisite chargeable to tax in the hands of all employees on following basis: 1) Find out the "maximum outstanding monthly balance" (i.e. the aggregate outstanding balance for each loan as on the last day of each month); 2) Find out rate of interest charged by the SBI as on the first day of relevant previous year in respect of loan for the same purpose advanced by it; 3) Calculate interest for each month of the previous year on the outstanding amount (mentioned in Step 1) at the rate of interest given in Step 2 4) From the total interest calculated for the entire previous year (step 3), deduct interest actually recovered, if any, from employee 5) The balance amount (Step 3-Step 4) is taxable value of perquisite Nothing is taxable if: a) Loan in aggregate does not exceed Rs. 20,000; or

		b) Loan is provided for treatment of specified diseases (Rule 3A) like neurological diseases, Cancer, AIDS, Chronic renal failure, Hemophilia (specified diseases). However, exemption is not applicable to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.
17(2)(viii) read with Rule 3(7)(ii)	Facility of travelling, touring and accommodation availed of by the employee or any member of his household for any holiday	a) Taxable value of perquisite shall be expenditure incurred by the employer *less* amount recovered from employee. b) Where such facility is maintained by the employer, and is not available uniformly to all employees, the value of benefit shall be taken to be the value at which such facilities are offered by other agencies to the public.
17(2)(viii) read with Rule 3(7)(iii)	Free food and beverages provided to the employee	1) Fully Taxable: Free meals in excess of Rs. 50 per meal *less* amount paid by the employee shall be a taxable perquisite 2) Exempt from tax: Following free meals shall be exempt from tax: a) Food and non-alcoholic beverages provided during working hours in remote area or in an offshore installation; b) Tea, Coffee or Non-Alcoholic beverages and Snacks during working hours are tax free perquisites; c) Food in office premises or through non-transferable paid vouchers usable only at eating joints provided by an employer is not taxable, if cost to the employer is Rs. 50(or less) per meal.
17(2)(viii) read with Rule 3(7)(iv)	Gift or Voucher or Coupon on ceremonial occasions or otherwise provided to the employee	a) Gifts in cash or convertible into money (like gift cheque) are fully taxable

		b) Gift in kind up to Rs.5,000 in aggregate per annum would be exempt, beyond which it would be taxable.
17(2)(viii) read with Rule 3(7)(v)	Credit Card	a) Expenditure incurred by the employer in respect of credit card used by the employee or any member of his household *less* amount recovered from the employee is a taxable perquisite b) Expenses incurred for official purposes shall not be a taxable perquisite provided complete details in respect of such expenditure are maintained by the employer
17(2)(viii) read with Rule 3(7)(vi)	Free Recreation/ Club Facilities	a) Expenditure incurred by the employer towards annual or periodical fee etc. (excluding initial fee to acquire corporate membership) *less* amount recovered from the employee is a taxable perquisite b) Expenses incurred on club facilities for the official purposes are exempt from tax. c) Use of health club, sports and similar facilities provided uniformly to all employees shall be exempt from tax.
17(2)(viii) read with Rule 3(7)(vii)	Use of movable assets of the employer by the employee is a taxable perquisite	**Taxable value of perquisites** a) Use of Laptops and Computers: *Nil* b) Movable asset other than Laptops, computers and Motor Car*: 10% of original cost of the asset (if asset is owned by the employer) or actual higher charges incurred by the employer (if asset is taken on rent) *less* amount recovered from employee. *See *Note 1* for computation of perquisite value in case of use of the Motor Car
17(2)(viii) read with Rule 3(7)(viii)	Transfer of movable assets by an employer to its employee	**Taxable value of perquisites** a) Computers, Laptop and Electronics items: Actual cost of asset *less* depreciation at 50% (using reducing balance method) for each

		completed year of usage by employer *less* amount recovered from the employee b) Motor Car: Actual cost of asset *less* depreciation at 20% (using reducing balance method) for each completed year of usage by employer *less* amount recovered from the employee c) Other movable assets: Actual cost of asset *less* depreciation at 10% (on SLM basis) for each completed year of usage by employer *less* amount recovered from the employee.
17(2)(viii) read with Rule 3(7)(ix)	Any other benefit or amenity extended by employer to employee	Taxable value of perquisite shall be computed on the basis of cost to the employer (under an arm's length transaction) *less* amount recovered from the employee. However, expenses on telephones including a mobile phone incurred by the employer on behalf of employee shall not be treated as taxable perquisite.
10(10CC)	Tax paid by the employer on perquisites (not provided for by way of monetary payments) given to employee	Fully exempt
10(5)	Leave Travel Concession or Assistance (LTC/LTA), extended by an employer to an employee for going anywhere in India along with his family* *Family includes spouse, children and dependent brother/sister/parents. However, family doesn't include more than 2 children of an Individual born on or after 01-10-1998. (Subject to certain conditions)	The exemption shall be limited to fare for going anywhere in India along with family twice in a block of four years: • Where journey is performed by Air – Exemption up to Air fare of economy class in the National Carrier by the shortest route • Where journey is performed by Rail – Exemption up to air-conditioned first class rail fare by the shortest route • If places of origin of journey and destination are connected by rail but the journey is performed by any other

		mode of transport – Exemption up to air-conditioned first class rail fare by the shortest route. • Where the places of origin of journey and destination are not connected by rail: * Where a recognized public transport system exists – Exemption up to first Class or deluxe class fare by the shortest route * Where no recognized public transport system exists – Exemption up to air conditioned first class rail fare by shortest route. *Notes*: i. Two journeys in a block of 4 calendar years is exempt ii. Taxable only in case of Specified Employees [*See note 4*]
Proviso to section 17(2)	Medical facilities in India	a) Expense incurred or reimbursed by the employer for the medical treatment of the employee or his family (spouse and children, dependent – parents, brothers and sisters) in any of the following hospital is not chargeable to tax in the hands of the employee: i. Hospital maintained by the employer. ii. Hospital maintained by the Government or Local Authority or any other hospital approved by Central Government iii. Hospital approved by the Chief Commissioner having regard to the prescribed guidelines for treatment of the prescribed diseases. b) Medical insurance premium paid or reimbursed by the employer is not chargeable to tax.

Proviso to section 17(2)	Medical facilities outside India	Any expenditure incurred or reimbursed by the employer for medical treatment of the employee or his family member outside India is exempt to the extent of following (subject to certain condition): a. Expenses on medical treatment – exempt to the extent permitted by RBI. b. Expenses on stay abroad for patient and one attendant – exempt to the extent permitted by RBI. c. Expenditure incurred on travelling of patient and one attendant- exempt, if Gross Total Income (before including the travel expenditure) of the employee, does not exceed Rs. 2,00,000.
Deduction from salary		
16(ia)	Standard Deduction	Rs. 50,000 or the amount of salary, whichever is lower (Any salaried person & pensioners)
16 (ii)	Entertainment Allowance received by the Government employees (Fully taxable in case of other employees)	Least of the following is exempt from tax: a) Rs 5,000 b) 1/5th of salary (excluding any allowance, benefits or other perquisite) c) Actual entertainment allowance received
16(iii)	Employment Tax/Professional Tax.	Amount actually paid during the year. However, if professional tax is paid by the employer on behalf of its employee than it is first included in the salary of the employee as a perquisite and then same amount is allowed as deduction.
Retirement Benefits		
Leave Encashment		
10(10AA)	Encashment of unutilized earned leave at the time of retirement of Government employees	Fully Exempt
10(10AA)	Encashment of unutilized earned leave at the time of retirement of other	Least of the following shall be exempt from tax:

	employees (not being a Government employee)	a) Amount actually received b) Unutilized earned leave* X Average monthly salary c) 10 months Average Salary** d) Rs. 3,00,000 * While computing unutilized earned leave, earned leave entitlements cannot exceed 30 days for each completed year of service rendered to the current employer ** Average salary = Average Salary*** of last 10 months immediately preceding the retirement ***Salary = Basic Pay + DA (to the extent it forms part of retirement benefits)+ turnover based commission
Retrenchment Compensation		
10(10B)	Retrenchment Compensation received by a workman under the **Industrial Dispute Act, 1947** (Subject to certain conditions).	Least of the following shall be exempt from tax: a) Amount calculated as per section 25F(b)of the Industrial Disputes Act, 1947; b) Rs. 5,00,000; or c) Amount actually received *Note:* i. Relief under Section 89(1) is available ii. 15 days average pay for each completed year of continuous service or any part thereof in excess of 6 months is to be adopted under section 25F(b) of the Industrial Disputes Act,1947
Gratuity		

10(10)(i)	Gratuity received by Government Employees (Other than employees of statutory corporations)	Fully Exempt
10(10)(ii)	Death -cum-Retirement Gratuity received by other employees who are covered under Gratuity Act, 1972 (other than Government employee) (Subject to certain conditions).	Least of following amount is exempt from tax: 1. (*15/26) X Last drawn salary** X completed year of service or part thereof in excess of 6 months. 2. Rs. 20,00,000 3. Gratuity actually received. *7 days in case of employee of seasonal establishment. ** Salary = Last drawn salary including DA but excluding any bonus, commission, HRA, overtime and any other allowance, benefits or perquisite
10(10)(iii)	Death -cum-Retirement Gratuity received by other employees who are not covered under Gratuity Act, 1972 (other than Government employee) (Subject to certain conditions).	Least of following amount is exempt from tax: 1. Half month's Average Salary* X Completed years of service 2. Rs. 20,00,000 3. Gratuity actually received. *Average salary = Average Salary of last 10 months immediately preceding the month of retirement ** Salary = Basic Pay + DA (to the extent it forms part of retirement benefits)+ turnover based commission
Pension		
–	Pension received from United Nation Organization by the employee of his family members	Fully Exempt

10(10A)(i)	Commuted Pension received by an employee of Central Government, State Government, Local Authority Employees and Statutory Corporation	Fully Exempt
10(10A)(ii)	Commuted Pension received by other employees who also receive gratuity	1/3 of full value of commuted pension will be exempt from tax
10(10A)(iii)	Commuted Pension received by other employees who do not receive any gratuity	1/2 of full value of commuted pension will be exempt from tax
10(19)	Family Pension received by the family members of Armed Forces	Fully Exempt
57(iia)	Family pension received by family members in any other case	33.33% of Family Pension subject to maximum of Rs. 15,000 shall be exempt from tax
Voluntary Retirement		
10(10C)	Amount received on Voluntary Retirement or Voluntary Separation (Subject to certain conditions)	Least of the following is exempt from tax: 1) Actual amount received as per the guidelines i.e. least of the following a) 3 months salary for each completed year of services b) Salary at the time of retirement X No. of months of services left for retirement; or 2) Rs. 5,00,000

- **Income from House Property** :

  If the following three condition are satisfied:

Condition 1	The property should consist of any building or lands appurtenant thereto.
Condition 2	The assessee should be owner of the property.
Condition 3	The property should not be used for carrying out any business or profession carried on by him, the profits of which are chargeable to income-tax.

- **Important points to be kept in mind as drawn from section 22:**

Tax under this head is not levied on the rent of the property but it is on the capacity of a property to earn income. The basis of measurement of the capacity of property to earn income is “Annual Value” (i.e., Gross Annual Value). This fact can be confirmed from the charging section which says as follows:
“Annual value” of a property, consisting of building or land appurtenant thereto, of which the assessee is the owner, shall be charged to tax under the head “Income from house property”.

- Rental income of any property, being building or land appurtenant thereto, is only charged to tax under this head. Hence, rent of vacant plot is not charged to tax under this head.
- If the property being rented is building or land appurtenant thereto but the assessee is not the owner of the property, then the rental income will not be charged to tax under this head.
- It will make no difference whether renting is the business of the assessee or not. In other words, on satisfaction of above conditions, rental income from building or land appurtenant thereto will be charged to tax under the head "Income from house property", even if the assessee is doing the business of renting of properties.

➢ **Manner of computation of Income from house property (in case of let-out property)**

The provisions relating to computation of computation of income chargeable to tax under the head "Income from house property" have already been discussed in study material and in case study (Day 6). However, for ease of reference the relevant portion of these provisions is reproduced below:

Manner of computation of income from house property in case of a let-out property:

Gross annual value (*)	XXXX
Less:- Municipal taxes paid during the year	XXXX
Net Annual Value (NAV)	XXXX
Less:- Deduction under section 24	
➢ Deduction under section 24(*a*) @ 30% of NAV	XXXX
➢ Interest on borrowed capital under section 24(b) XXXX	
Income from house property	XXXX

(*) Gross annual value is determined in following three steps:

Step 1: Compute reasonable expected rent of the property (Note 1).
Step 2: Compute actual rent of the property (Note 2).
Step 3: Compute gross annual value (Note 3).
Rent pertaining to vacancy period is to be deducted from amount derived at step 3

Note 1

Reasonable expected rent will be higher of the following:

- Municipal value of the property; or
- Fair rent of the property.

If a property is covered under the Rent Control Act, then the reasonable expected rent cannot exceed standard rent. In other words, in case of a property covered under the Rent Control Act reasonable expected rent will be higher of the municipal value or fair rent subject to standard rent of the property.

Note 2

It is the actual annual rent for which the property is let-out during the previous year.
While computing actual rent, rent pertaining to vacancy period is not to be deducted.
Treatment of unrealized rent while computing actual rent:

- **Unrealised rent:** It is the rent of the property pertaining to the previous year, which the owner of the property could not recover from the tenant. If following conditions are satisfied, then unrealised rent pertaining to the previous year is to be deducted from actual rent of the previous year:
- The tenancy is *bona fide.*
- The defaulting tenant has vacated the property, or steps have been taken to compel him to vacate the property.
  - The defaulting tenant is not in occupation of any other property of the assessee.
  - The assessee has taken all steps to recover such amount, including legal proceedings or he satisfies the Assessing Officer that legal proceedings would be useless.

Note 3

Gross annual value will be higher of amount computed at step 1 or step 2.

Following important points should be kept in mind while computing annual rent of a property:

- Non-refundable deposit received from tenant is to be included in annual rent, *i.e.*, rent received or receivable. Non-refundable deposit is to be added to annual rent on a pro rata basis.
- Refundable deposit cannot be added to annual rent. Further, notional interest on refundable deposit can be added to annual rent only if it is proved that such deposit is given to compensate for non-payment of rent or short payment of rent. Deposit taken for purposes like ensuring timely payment of rent, proper security of property, etc., cannot be added to the annual rent.
- Advance rent cannot be considered in rent received or receivable to be used for the purpose of computation of GAV.

- **Deductions available while computing income from house property:**
- Deduction on account of Municipal taxes paid by the assessee during the year.
- Deduction under section 24(a) @ 30% of Net Annual Value.
- Deduction under section 24(b) on account of interest on capital borrowed for the purpose of purchase or construction of the property.

- **Common mistakes made by the assesses while claiming deduction on account of Municipal taxes**

Following are the few common mistakes made by the assesses while claiming deduction on account of Municipal taxes:

- Municipal taxes not paid up to 31st March, *i.e.*, paid in next year. However, owner makes mistake by claiming deduction on account of outstanding Municipal taxes.
- Municipal taxes paid by the tenant and the owner makes mistake by claiming deduction of taxes paid by the tenant.

- **Common mistakes made by the assesses while claiming deduction under section24(a):-**

Deduction under section 24*(a)* is available whether or not any expenditure is incurred by the assessee in respect of house property, like repairs, insurance, etc. Assessee may make a mistake by claiming actual expenditure on account of repairs, insurance, etc., instead of flat deduction at 30%.

Example:

Mr. Kapoor has rented a flat at a monthly rent of Rs. 84,000. During the year 2012-13, he had incurred following expenditure in respect of the property rented by him :

- Rs. 25,200 on account of repairs of the property.
- Rs. 8,400 on account of insurance premium.
- Rs. 12,520 on account of society's maintenance charges.

In this case, while computing income from house property, he cannot claim deduction of any of the above items. However, irrespective of the amount of expenditure incurred by him, he can claim a flat deduction under section 24(a) at 30% of the Net Annual Value.

- **Deduction under section 24(b)**

While computing taxable income from house property, assessee is entitled to claim deduction under section 24*(b)*. Deduction under section 24(*b*) is available in respect of interest on capital borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of the property. Interest on capital is deductible on accrual basis.

Deduction of interest is classified into two forms, *viz.*, interest pertaining to reconstruction period and interest pertaining to post-construction period. Post construction period interest is the interest pertaining to the previous year (*i.e.*, the previous year for which house property income is being computed). Preconstruction period interest is explained below:

Pre-construction period interest is allowed as deduction in five equal annual instalments, commencing from the previous year in which the house property was acquired or constructed. Pre-construction period is the period commencing from the date of borrowing of loan and ends on the earlier of the following:

- Date of repayment of loan; or
- 31st March immediately prior to the date of completion of the construction/acquisition of the property

In case of let-out property, interest is deductible without any limit. However, in case of a self-occupied house property, interest is deductible subject to maximum limit of Rs. 1,50,000 or Rs. 30,000. If the following conditions are satisfied, then limit in respect of interest on borrowed capital will be Rs. 1,50,000:

- Capital is borrowed on or after 1-4-1999. However, the construction can start even before 1-4-1999.
- Capital is borrowed for the purpose of acquisition or construction (*i.e.*, not for repair, renewal, reconstruction).
- The acquisition or construction is completed within 3 years from the end of the financial year in which the capital was borrowed.
- The person extending the loan certifies that such interest is payable in respect of the amount advanced for acquisition or construction of the house or as refinance of the

principal amount outstanding under an earlier loan taken for acquisition or construction of the property.

If any of the above condition is not satisfied, then the limit will be Rs. 30,000.

- **Common mistakes made by the assesses while claiming deduction under section 24(b)**

  Deduction on account of interest is available on accrual basis. Hence, interest pertaining to a year which is paid in the next year is also deductible. Assessee may make a mistake by not claiming deduction of the amount of interest which is not paid during the year but is paid in the next year.

Example

Mr. Kapil has rented a flat at a monthly rent of Rs. 84,000. The flat is purchased by him from a bank loan. Interest on bank loan for the year 2012-13 amounted to Rs. 2,52,000. Interest of Rs. 2,52,000 pertaining to the year 2012-13 is paid in April, 2013. In this case Mr. Kapil can claim deduction under section 24*(b)* of Rs. 2,52,000 in respect of interest on loan taken to purchase the flat. It should be noted that for the year 2012-13, Mr. Kapil can claim deduction under section 24*(b)* of Rs. 2,52,000, even though interest for the year 2012-13 is paid in the year 2013-14.

- Deduction under section 24*(b)* on account of interest is available only if the assessee has borrowed the funds and he is paying the interest. Many times property is co-owned by two or more persons (like property jointly owned by husband and wife or by brothers or by father and son/daughter). In such a case, the co-owner can claim deduction on account of interest under section 24*(b)* only if he has borrowed the funds to acquire the property. If the property is purchased by one co-owner from his own funds and by another co-owner from bank loan, then in such a case, the co-owner who has borrowed funds can only claim deduction under section 24*(b)*. The co-owner who has acquired the property through his own funds cannot claim deduction under section 24*(b)* merely because his name appears as a co-owner.

Example

Mr. Ratan and Mr. Sun are co-owners/joint owners of a flat (50% share each). The flat is given on rent to a company at a monthly rent of Rs. 84,000. The property is acquired through a bank loan and loan is sanctioned in the name of both the co-owners. Both the co-owners are paying the instalments by sharing each instalment equally. In this case, Mr. Ratan can claim deduction under section 24*(b)* of 50% of the amount of interest and Mr. Sun can claim deduction under section 24*(b)* of 50% of interest pertaining to his share. Suppose in the above case, Mr. Ratan has taken bank loan to buy the property and Mr. Sun has contributed the amount from his own funds. In this case, deduction under section 24*(b)* can be claimed only by Mr. Ratan, since he has taken loan to acquire the property. No deduction under section 24*(b)* is available to Mr. Sun, since he has not borrowed any amount to acquire the property.

Deduction under section 24*(b)* on account of interest is available only if the assessee has borrowed the funds and he is paying the interest. Many times, in case of property jointly owned by two or more persons, loan is borrowed by one co-owner and the instalments are paid by another co-owner. In such a case, the co-owner repaying the loan cannot claim deduction under section 24*(b)*, since he is not the borrower and the co-owner who is the borrower cannot claim deduction under section 24*(b)*, since he is not repaying the loan.

- **Tax treatment of composite rent**

  Following different situations may arise in case of composite rent (i.e., building rented along with other assets or provision of different services along with building):

  (I) Renting of building and provisions of other services

In such a case composite rent includes rent of building and charges for different services(like lift, watchman, electricity supply, etc.). In this situation, composite rent is to be split up and the sum attributable to the use of property is to be assessed under the head "Income from house property" and charges for various services will be taxed under the head "Profits and gains of business or profession" or "Income from other sources" (as the case may be).

(II) Renting of building and other assets:

In such a case, composite rent includes rent of building and rent of other assets. This situation can further be classified as follows:

(a) Letting out of building and letting out of other assets are non-separable (i.e., both the lettings are composite and not separable) (*e.g.*, letting out of equipped theatre). In this situation, entire rent is taxed under the head "Profits and gains of business or profession" or "Income from other sources". This rule is applicable even if rent of both lettings is fixed separately.

(b) Letting out of building and letting out of other assets are separable (i.e., both the lettings are separable) (e.g., letting out of bike along with building). In this situation rent of building is taxed under the head "Income from house property" and rent of other asset is taxed under the head "Profits and gains of business or profession" or "Income from other sources" (as the case may be). This rule is applicable even if the assessee receives composite rent for both the lettings.

- **Profits and Gains of Business or Profession:**

Business is an activity of purchase and sell of goods with the intention of making profit. Profession is an occupation requiring intellectual skill. E.g. Doctor, Lawyer etc. Vocation is an activity, which requires a special skill, which is used to earn income. E.g. Painter, Singer etc. For income tax purpose there is no difference between business income, profession income and vocation income.

- **METHODS OF COMPUTING TAXABLE INCOME:**

1. Gross Sales or Gross fees as the case may be are to be taken as the base if Receipt and Payment A/c or cash Book is given. From this Gross income expenses which are specifically allowed by the income tax act are deducted to arrive at taxable income.

2. If profit & loss a/c or income & expenditure a/c is given Net Profit or (Surplus) is taken as the base and then following adjustments are made: - 1) Expenses, which are debited, to profit & loss a/c, but disallowed by the Income Tax Act and either fully or partially are added back. 2) Expenses, which are not debited, to profit & loss a/c but which are allowed by the Income Tax Act are deducted. 3) Income that is credited to profit & loss a/c but not taxable at all or taxable under some different head is to be deducted. 4) Income that is not credited to profit & loss a/c, but which is chargeable to tax as business income is to be added.

- **BASIS OF CHARGE: SECTION 28:**

Under Section 28 following are the income chargeable to tax under the head Profits or Gains from Business or profession: - 1) Profits and Gains of any business or profession that is carried on by the assessee at any time during the previous year. 2) Any compensation or other payment due to or received by an assessee for loss of agency due to termination or modification of terms. 3) Income derived by a trade, professional or a similar association for specific services performed for its members. 4) Any profit on sale of a license granted under Imports (controls) Order 1955 made under Imports & Exports (control) Act of 1947. 5) Any cash assistance (by whatever name called) received or receivable against exports under any scheme of Government of India. 6) Any duty of customs or excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duty's Drawback Rules 1971. 7) Any profit on the transfer of the Duty entitlement pass book scheme under export import policy. 8) Any profit on the transfer of the Duty-free replenishment certificate under export import policy. 9) The value of any benefit or perquisite whether convertible into money or not arising from business or exercise of a profession e.g. A gift received by the lawyer from his client. 10) Any interest, salary, bonus, commission or remuneration due to or received by partner of a firm from such firm. 11) Sum received or receivable in cash or in kind under an agreement for not carrying out any activity in relation to any business or 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 likely to assist the manufacture or processing of goods or provision of services. 12) Any sum received including bonus under Keyman Insurance Policy. 13) Any sum received (or receivable) in cash or kind, 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 a deduction under section 35AD. 14) Income from a speculative business.

- **DEDUCTIONS FOR EXPENSES SPECIFICALLY ALLOWED SECTION 30 TO SECTION 43D:**

1. Rent, rates, taxes, repairs and insurance of building (Section 30): 1) If assessee has occupied the premises as a tenant, rent of the premises and if he has agreed to bear cost of repairs, such cost is allowed as deduction, provided it is not of capital nature. 2) If assessee has occupied premises as the owner; repairs, land revenue, local taxes, insurance premium etc. are allowed as deduction. However, no expenditure in form of capital expenditure is allowed.

2. Repairs & Insurance of machinery, Plant & Furniture (Sec.31): Amount paid on account of repairs and insurance premium against risk of damage in respect of machinery, plant & furniture are allowed as deduction provided, they are not of capital nature.

3. Depreciation u/s 32: Under Section 32 depreciation on assets is allowed as deduction while computing income from business or profession. To claim this deduction following conditions should be satisfied: 1) Assessee should be owner of the asset. 2) Asset must be used for the business. 3) Such use must be in the previous year. Depreciation is allowed not on individual asset items, but on block of assets under following categories: - 1) Buildings 2) Plant & Machinery 3) Furniture 4) Intangible Assets acquired after March 31, 1998 such as know- how, Patents, Trademarks, licenses, franchises or any other business or commercial rights of similar nature.

The term plant includes ships, vehicles, books, scientific apparatus and surgical equipment's used for the business but excludes tea bushes or live stock. If any asset falling in block of assets is acquired during the year and put to use during the previous year for less than 180 days depreciation on such asset shall be restricted to 50% of the normal depreciation. No depreciation is allowed on motor car which is manufactured outside India and acquired on or after 1st March 1975 but before 1st April 2001. However, this restriction does not apply if: 1) Assessee carries on a business of running the car on the hire for tourist, or 2) If assessee is using the car outside India for his business in another country. If business is carried on in a building not owned by the assessee but acquired on lease or any other occupancy right and any capital expenditure is incurred by him in respect of this building, such expenditure will be considered as cost of asset as if he is the owner of such property.

- **METHOD OF CALCULATING DEPRECIATION:**

1. Consider total W.D.V. of assets falling in a particular block of assets at the beginning of the year. 2. Add cost of assets purchased during the previous year. 3. Deduct Sale Price (or Scrap value) of asset sold, discarded, demolished or destroyed during the year. 4. On the balance amount i.e. 1+2-3, calculate depreciation at the given rate. If WDV becomes negative, no depreciation is allowed. If all assets in the block are sold depreciation is not allowed even if block has any balance WDV. B. In the first year if asset acquired is used for less than 180 days depreciation is restricted to 50% of normal depreciation. C. W.e.f. A.Y. 1998-99 an undertaking engaged in generation / distribution of power has an option to claim depreciation on Straight Line Method. Once option is exercised it will apply to all subsequent years.

Additional depreciation

It can be claimed on new plant & machinery acquired after 31st March 2005 by an assessee in the previous year in which it begins manufacturing or producing. Rate of additional depreciation: 20% of actual cost.

UNABSORBED DEPRECIATION SECTION 32 (2) If profit for the year is not sufficient to absorb depreciation either fully or partially, unabsorbed depreciation can be deducted from any other head of income. If it still remains unabsorbed it can be carried forward to subsequent assessment years to be adjusted against future taxable income. It can be carried forward for unlimited period.

Deduction u/s. 36 & 37:

1. Insurance: Section 36(1) (i)- Premium paid to cover the risk of damage or destruction of stocks, stores, cattle and on health of employees under the approved scheme. 2. Insurance Premium paid by Federal milk co-op. society on the lives of cattle owned by the members of a Primary Milk Co-op, Society affiliated to it. Section 36(1) (ia) 3. Premia for insurance on health of employees in accordance with scheme framed by GIC & approved by Central Government or any other insurer & approved by the Insurance Regulatory & Development Authority (only if paid by cheque) Section 36(1) (ib). 4. Bonus or commission paid to Employees: Section 36(1) (ii): It is allowed as deduction so far as they are not paid as profit or dividend. 5. Interest on borrowed capital: Section 36(1) (iii): - It is allowed as deduction. However, interest paid by firm to its partners is allowed subject to provisions of Sections 40(b). 6. Discount on zero coupon bonds is deductible by issuing Company on pro rata Basis Sec.36(1)(iii a) 7. Contribution to recognised Provident fund or an approved super annuation fund: Section 36(1)(iv). Any sum paid by the assessee as an employer by way of contribution towards pension scheme. 8. Contribution to Pension Scheme: Sectlon 36(1) (iv a) Any contribution by an employer by way of contribution towards a pension scheme for an employee

up to 10% of salary shall be allowed as deduction. 9. Contribution to approved Gratuity Fund Section 36(1)(v): - Amount contributed to the fund which is for the exclusive benefit of the employees will be allowed as deduction. 10. Contributions received from employees (when deposited) Section 36(1) (va): - Any contribution received from employees towards any funds for the welfare of the employees e.g. P.F. will be allowed as deduction when such contribution is credited to employees a/c on or before the due date. It is allowed as deduction not because it is an expenditure of the assessee. In fact, it is not at all an expenditure of the assessee. But when this amount is deducted from salary of employees, it is treated as an income under section 2(24)(x). Therefore, deduction is allowed when payment is made by the due date. 11. Animals used for the business: Section 36 (1) (vi): - Deduction is allowed when animals have died or have become permanently useless. Amount of deduction will be difference between actual cost of the animals and amount realized if any in respect of carcasses of the animals. Deduction is allowed only if animals are used for the purpose of business but not as stock in trade. 12. Bad debts: Section 36(1)(vii) and Section 36(2): - Deduction is allowed on this account if debts have arisen out of business transaction. It is the responsibility of the assessee to prove to the satisfaction of income tax officer that such debts are irrecoverable. 13. Expenditure for promoting family planning: Section 36(1)(ix): - Only a company can claim this deduction. Any expenditure incurred by a company to promote family planning among its employees is allowed as deduction fully, provided it is revenue expenditure. Any capital expenditure on this account is allowed as deduction in 5 equal instalments. If profit is not sufficient to absorb this expenditure it can be carried forward to be set off in future. No depreciation can be claimed under section 32 on capital assets used for promoting family planning and allowed as deduction under section 36(1) (ix). 14. Any amount of banking cash transaction tax paid during the year. 36(1) (xiii) 14. General Expenditure for the purpose of business or profession Section 37: - Any other expenditure not covered by section 30 to 36 which is of revenue nature will be allowed as deduction provided it is incurred exclusively for the purpose of business or profession. e. g 1. Embezzlement of cash. 2. Expenses on local festival such as Diwali, Muhurta etc. 3. Cash shortage found in the business at the end of the day. 4. Entertainment Expenses 5. Advertisement Expenses 6. Travelling Expenses 7. Guest House Expenses. 8. Lawful expenses related to illegal business. 9. Premium on redemption of debentures 10. Discount on issue of debentures (on pro rata basis)

Expenses Not Deductible Under Section 37:

1. Donations 2. Charities 3. Gifts to relatives 4. Income tax 5. Wealth tax 6. Advance income tax 7. Fines and penalties for breach of any laws. 8. Personal Drawings 9. Salary to owner 10. Interest on proprietor’s capital 11. Capital expenditure12. Purchase of an assets 13. Extension of building 14. Personal expenditure 15. Household expenses. 16. Drawings 17. Education expenses of children 18. Residential telephone bill 19. Residential electricity bill 20. Residential maintenance 21. Amount transferred to reserve 22. Personal Hotel expenses 23. R.D.D. But deduction is allowed for actual bad debts 24. Personal motor expenses 25. L.I.C. on own life. 26. Any Investments 27. Any expenses related to let out

house property. 28. Expenditure on Advertisement (Section 37(2B): It is allowed as deduction. However, as per Section 37 (2B), any expenditure incurred by an assessee on the advertisement in any souvenir, brochure, pamphlet etc. published by a political party will not be allowed as deduction. 29. In case of all assessee Section 40(a): Interest, royalty, fees for technical services or any other sum chargeable to tax payable outside India without deducting tax at source & where there is no person to be treated as an agent of person receiving this amount. 30. Salary paid outside India without deducting tax at source 31. Any contribution to PF or any other Fund, if there is no arrangement for TDS from any payment to be made from such Fund if it is taxable under the head Salaries. 32. Expenditure on Corporate Social Responsibility. (W.e.f A.Y. 2016-17)

Deductions under section 40:

Deduction to firm / AOP on certain appropriations: - 1. In case of partnership firm Section 40(b): - Payment of salary, bonus, commission or remuneration to partner of the firm, by the firm is allowed as deduction only to the following extent: -

1. Loss or profit up to ` 3,00,000 - ` 1,50,000 or 90%of book profit whichever is more 2.On the balance - 60% of book profit

2. In case of A.O.P. Section 40(ba): Any payment of Interest, Salary, bonus, commission or remuneration made by A.O.P. or B.O.I. to the member thereof shall not be allowed as deduction.

3. Interest to partners – Interest on capital of partners is allowed as deduction provided it is authorized by the partnership deed & rate of interest does not exceed 12% p.a.

- **Capital Gain:**

Any profits arising on the Transfer of any Capital Asset shall be chargeable to tax under the head Capital Gains in the year of transfer.

- **CAPITAL ASSET:** It means property of any kind

a. Stock in Trade. (E.g.: X is a dealer in house property. For him, house property is stock-in-trade. Any profit earned by him on sale of stock-in-trade (i.e., house property would be taxable as Business income), movable or immovable, tangible or intangible but does not include the following:

b. Personal Effects: It means any Article, Commodity or Property used in the day-to-day life of the individual which is a movable property (i.e. Not capital asset). But personal effect excludes Jewellery (i.e. Jewellery is a capital asset), Archaeological collections, Drawings, Paintings, Sculptures, Any work of art. E.g.: Z purchases a computer for his personal use. It is treated as "personal effects" therefore not a capital asset. Any surplus arising on transfer of it can't be taxed under the head "CG".

c. Agricultural Land not situated in the "Specified Area" (i.e. agricultural land situated in specified area is called capital asset). Specified area - any area located within the limits of a Municipality which has a population of ≥ 10,000 according to the last census and includes any area within the distance of 8 Kms. from the limits of such Municipality.

d. Special Bearer Bonds, 1991 (No more in existence).

e. Gold Bonds issued under Gold Deposit Scheme, 1999.

- **WHAT IS A TRANSFER? {Sec.2(47)}**

  a. Sale.: It includes: b. Exchange (Must be of two capital assets). c. Relinquishment of an Asset. d. Extinguishment of an Asset. e. Compulsory acquisition by Government. f. Conversion of an asset into Stock-in-trade. g. Any transfer covered by Sec.53 A of the transfer of Property Act. h. The maturity or redemption of zero-coupon bonds.

- **TRANSFER WHEN COMPLETED**

  a. Immovable property when documents are registered: Ownership of immovable assets will not pass till the title deeds are registered in the name of purchaser.

  b. Immovable property when documents are not registered: Even if the documents are not registered but when the conditions of Sec.53A of the Transfer of Property Act are satisfied, ownership is "transferred".

  c. Movable property: Ownership passes at the time when property is delivered pursuant to a contract to sell. Full value of Consideration

- **TYPES OF CAPITAL GAINS**

  STCG: Capital gains arising on transfer of a short term capital asset are called STCG. **Manner of Computation - Sec.48 (For Non depreciable assets)**

Full value of consideration			XXX
Less: Transfer expense			XXX
Net Consideration		**XXX**	
Less:			
Cost of Acquisition	XXX		
Cost of Improvement	XXX	XXX	
Gross Capital Gain/Loss		**XXX**	
Less: exemption U/S 54		**XXX**	
Net STG/C		**XXX**	

LTCG: Capital gains arising on transfer of a Long-term capital asset are called LTCG (chargeable to income tax @20%).
Manner of computation: Replace Indexed Cost of acquisition and Indexed Cost of Improvement for Cost of Acquisition and Cost of Improvement. Note:
a. Capital gains are chargeable on accrual basis: It is not necessary that the consideration should be received in the year of transfer itself.
b. Receipt of consideration in instalments: Even in that case also the entire consideration has to be taken into account for computing the capital gains.
c. Transfer expenses are: Sales commission paid for broker, cost of stamp, registration fees borne by the seller, travelling expenses incurred in connection with transfer. a. Ordinary asset: A capital asset held by an assessee, before the date of its transfer, for

- **LONG TERM CAPITAL ASSET {Sec.2(29B)}**

It is to be decided based on the period of holding by the assessee. > 36 months b. Shares etc.: In case of shares held in a company, Securities (listed), Units of UTI & Units of a mutual funds specified U/s.10 (23D), Zero coupon bonds will be treated as Long Term Asset if the period of holding is a Long term Capital Asset. >12 months, before the date of its transfer.

- **SHORT TERM CAPITAL ASSET {Sec.2(42B)}**

It is a capital asset other than the long-term capital asset.

Issues:

- If land is held for more than 36 months but the building constructed thereon is less than 36 months old as on the date of transfer, land becomes long term whereas the building is short term.
- In the case of transfer of a depreciable asset, capital gain is taken as short-term capital gain, irrespective of period of holding.

- **SEC.54 SERIES**

Sec.	***Assessee***	***Conditions***	***Quantum of Exemption***
54	Individual & HUF	Residential house (L.O.P. or S.O.P.) to be transferred. It must be a LTCA Within ***1 year before*** or 2 years after, a residential house is purchased and/or within a period of 3 years, a residential house is constructed.	Amount of investment or Capital gain whichever is lower
54B	Individual	Agricultural land situated in specified area to be transferred. It must have been used in the 2 years immediately preceding the date of transfer for agricultural purposes either by the assessee or by his parents. Within 2 years from the date of transfer another Agric. land is purchased (Capital asset or not).	Same as Sec. 54
54D	Any Assessee	There must be a compulsory acquisition of a capital asset. The property acquired is land and building forming part of an industrial undertaking. The asset must have been used in the 2 years immediately preceding the date of transfer. Within a period of 3 years any other land or building is purchased or/and constructed for the industrial undertaking existing or newly setup.	Same as Sec. 54
54F	Individual & HUF	The asset transferred is a LTCA other than a residential house. Within a period of ***1 year before*** or 2 years after the date of transfer, a residential house is to be purchased or/and within a period of 3 years a residential house is to be constructed. The assessee does not own	If the cost of the new residential house is equal to or more than the net consideration then the whole of the capital gain. Other wise the capital gain is exempted proportionately.

		more than one residential house on the date of transfer. Assessee does not within a period of 1 year purchase or does not within a period of 3 years construct any residential house other than the new asset. (*)	
54G	Any assessee	Asset transferred is a LTCA/STCA. Machinery, Land & building, or any right in Land & building used for the business of an industrial undertaking situated in an urban area is transferred. Transfer is due to shifting to any area other than an urban area. Within a period of ***1 year before*** or 3 years after the date of transfer the assessee has purchased machinery, building or land and/or constructed building & completed shifting to the new area.	Same as Sec. 54
54GA	Any Assessee	Asset transferred is a LTCA/STCA. - Do – Transfer is due to shifting to SEZ. - Do -	Same as Sec. 54
54EC	Any Assessee	The asset transferred is a LTCA **. Within a period of 6 months after the date of transfer, investment shall be made in Bonds redeemable after 3 years issued by NHAI or by the Rural Electrification Corporation.	Same as Sec. 54 (However, the investment made on or after 1.4.07, can't exceed Rs.50 Lakhs during any financial year.

➢ **Income from Other Source:**

Basis of charge [Sec. 56]: Income from other sources is the last and residual head of income. Sub-section (1) of section 56 covers any income which does not fall under any other head of income. However, Sub-section (2) of section 56 specifies eight incomes which are always taxable under head "Income form other source"

The following eight incomes are always taxable under the head "Income form other source"

1. Dividend	Dividend is always charged to tax under the head "Income from other sources". However, dividends from domestic company except dividends covered by section 2(*22*)(*e*) are exempt from tax under section 10(*34*). Dividends from foreign company do not qualify for exemption under section 10(34) and, hence, will be fully charged to tax.

2. Winning from lotteries etc.	Income by way of winnings from lotteries, crossword puzzles, races including horse races, card game and other game of any sort, gambling or betting of any form whatsoever, are always charged to tax under the head "Income from other sources". Hence, Rs. 25,200 won from a game show will be charged to tax under the head "Income from other sources".
3. Employees' contribution towards staff welfare scheme	Any sum received by the assessee from his employees as contributions to staff welfare scheme is taxable in the hands of the employer under the head "Income from other sources" (if it is not taxable as business income under section 28).
4. Interest on securities	Interest on debentures, Government securities/bonds is taxable under the head "Income from other sources" (if it is not taxable as business income under section 28).
5. Rental income of machinery, plant or furniture	Rental income from machinery, plant or furniture let on hire is taxable as income from other sources (if it is not taxable as business income under section 28).
6. Rental income of letting out of plant, machinery or furniture along with letting out of building and the two meetings are not separable	Rent from plot of land will be charged to tax under the head "Income from other sources". Rent of plot of land is not charged to tax under the head "Income from house property"
7. Sum received under keyman insurance policy	Any sum received under a Keyman insurance policy (including bonus) is taxable as income from other sources (if the same is not taxable as salary income or business income).
8. Gift	Gifts received by an individual or HUF (which are charged to tax) are taxed under the head "Income from other sources". In this case, gift is received from a friend and it exceeds Rs. 50,000. Hence, entire amount will be charged to tax under the head "Income from other sources".

- **Receipts without consideration to be treated as income [Sec. 56(2)(vi)]**

Conditions- The following conditions should be satisfied—

a. The recipient is an individual or a Hindu undivided family,
b. Any sum of money is received without consideration on or after April 1, 20XX year,
c. The aggregate amount of such money received by an Individual/Hindu undivided family during a financial year from any person/persons exceeds Rs.50000.
d. If these conditions are satisfied the entire amount is chargeable to tax in the hands of recipient. In other words, if aggregate amount of such money received by an

Individual/Hindu undivided family during a financial year from any person/persons is Rs.50000 or less, nothing would be chargeable to tax. Conversely, if such amount is more than Rs.50000, the entire amount is chargeable to tax.

Provisions not applicable in few cases- while calculating the above monitory limit of Rs. 50000, any sum of money received from the following shall not be considered-

1. Money received from a relative
2. Money received on the occasion of the marriage of the individual
3. Money received by way of will/inheritance.
4. Money received in contemplation of death of the payer.
5. Money received from a local authority.
6. Money received from any fund, foundation, university, other educational institution, hospital, medical institution, any trust or institution referred to in section 10(23C).
7. Money received from a charitable institute registered under section 12AA

- **Meaning of relative**- for the aforesaid purpose, the term "relative" means

	If taxpayer is X
1. Spouse of the individual	Mrs. X
2. Brother or sister or the individual	Brothers/sisters of X
3. Brother or sister of the spouse of the individual	Brothers/sisters of Mrs. X
4. Brother or sister of either of the parents of the individual	Brothers/sisters of father/mother of X
5. Any lineal ascendant or descendant of the individual	Lineal ascendant or descendant of X
6. Any lineal ascendant or descendant of the spouse of the individual	Lineal ascendant or descendant of Mrs. X
7. Spouse of the persons referred to in (2) to (6)	Spouse of the aforesaid persons

- **Example:**

During the year 2017-18, Mr. K received following gifts. Ascertain the total amount of gift charged to tax.

- Gift of Rs. 84,000 from his father.
- Gift of Rs. 25,200 received from his friend on his birthday.
- Rs.2,52,000 received on account of will of his grandfather.
- Rs.30,000 received from his friends on the occasion of marriage anniversary.
- Rs. 5,40,000 received under will of a person known to him.
- Rs. 80,000 received from a notified public charitable institution.
- A computer received from his employer (Rs. 40,000).
- Purchase a house property from his friend for Rs.35,000 (market value of the property is Rs.6,00,000)

Considering above, the tax treatment of various items in the hands of Mr. K will be as follows:

- Gift received from father will not be charged to tax (since father is covered in the definition of relative), hence, Rs. 84,000 will not be charged to tax.
- Gift received from the friends is not covered in any of the above discussed exemptions and, hence, Rs. 25,200 received from his friend on his birthday will be charged to tax.
- Money received on account of Will is covered in the above discussed exemptions and, hence, nothing will be charged to tax on account of Rs. 2,52,000 received on account of Will of his grandfather.
- Money received on account of marriage of an individual in covered in above discussed exemptions. However, the benefit is not available in respect of money received on marriage anniversary. Hence, Rs. 30,000 received from his friends on account of marriage anniversary will be charged to tax.
- Gift received by taxpayer under a will of any person is not taxable.
- Gift from a charitable institute is not taxable.
- Gift from employer is taxable under the head “Salaries”
- Gift in kind is not taxable

Considering above discussion, the total amount of gift not covered in any of the specified exemptions will come to Rs. 55,200 (i.e., Rs. 25,200 + Rs. 30,000). If the gift not covered in specified exemptions exceeds Rs. 50,000 then the entire amount of such gift is charged to tax. Hence, taxable amount of gift will come to Rs. 55,200.

10.1.6 Deduction:

Deductions allowed under the income tax act help to reduce taxable income. You can avail the deductions only if you have made tax-saving investments or incurred eligible expenses. There are a number of deductions available under various sections that will bring down your taxable income. The most popular one is section 80C of Chapter VIA. Other preferred deductions under chapter VIA are 80D, 80E, 80G, 80DDB and so on.

1. Section 80C: Deductions on Investments

You can claim a deduction of Rs 1.5 lakh from total income under section 80C. In simple terms, you can reduce up to Rs 1,50,000 from your total taxable income, and it is available for individuals and HUFs.

2. Section 80CCC – Deduction for Premium Paid for Annuity Plan of LIC or Other Insurer

Section 80CCC provides a deduction to an individual for any amount paid or deposited in any annuity plan of LIC or any other insurer. The plan must be for receiving a pension from a fund referred to in Section 10(23AAB). Pension received from the annuity or amount received upon surrender of the annuity, including interest or bonus accrued on the annuity, is taxable in the year of receipt.

3. Section 80CCD – Pension Contribution
Deduction for Contribution to Pension Account
b. Deduction for self-contribution to NPS – section 80CCD (1B) A new section 80CCD (1B) has been introduced for an additional deduction of up to Rs 50,000 for the amount deposited by a taxpayer to their NPS account. Contributions to Atal Pension Yojana are also eligible.
c. Employer's contribution to NPS – Section 80CCD (2) Claim additional deduction on your contribution to employee's pension account for up to 10% of your salary. There is no monetary ceiling on this deduction.
4. Section 80 TTA – Interest on Savings Account
Deduction from Gross Total Income for Interest on Savings Bank Account
If you are an individual or an HUF, you may claim a deduction of maximum Rs 10,000 against interest income from your savings account with a bank, co-operative society, or post office. Do include the interest from savings bank account in other income.
**Section 80TTA deduction is not available on interest income from fixed deposits, recurring deposits, or interest income from corporate bonds.
5. Section 80GG – House Rent Paid
Deduction for House Rent Paid Where HRA is not Received
a. Section 80GG deduction is available for rent paid when HRA is not received. The taxpayer, spouse or minor child should not own residential accommodation at the place of employment
b. The taxpayer should not have self-occupied residential property in any other place
c. The taxpayer must be living on rent and paying rent
d. The deduction is available to all individuals
Deduction available is the least of the following:
a. Rent paid minus 10% of adjusted total income
b. Rs 5,000/- per month
c. 25% of adjusted total income*
* Adjusted Gross Total Income is arrived at after adjusting the Gross Total Income for certain deductions, exempt income, long-term capital gains and income related to non-residents and foreign companies.
An online e-filing software like that of Clear Tax can be extremely easy as the limits are auto-calculated. So, you do not have to worry about making complex calculations.
From FY 2016-17 available deduction has been raised to Rs 5,000 a month from Rs 2,000 per month.
6. Section 80E – Interest on Education Loan
Deduction for Interest on Education Loan for Higher Studies
A deduction is allowed to an individual for interest on loans taken for pursuing higher education. This loan may have been taken for the taxpayer, spouse or children or for a student for whom the taxpayer is a legal guardian.
80E deduction is available for a maximum of 8 years (beginning the year in which the interest starts getting repaid) or till the entire interest is repaid, whichever is earlier. There is no restriction on the amount that can be claimed.

7. Section 80EE – Interest on Home Loan

Deductions on Home Loan Interest for First Time Home Owners

FY 2017-18 and FY 2016-17 This deduction is available in FY 2017-18 if the loan has been taken in FY 2016-17. The deduction under section 80EE is available only to home-owners (individuals) having only one house property on the date of sanction of the loan. The value of the property must be less than Rs 50 lakh and the home loan must be less than Rs 35 lakh. The loan taken from a financial institution must have been sanctioned between 1 April 2016 and 31 March 2017. **There is an additional deduction of Rs 50,000 available on your home loan interest on top of deduction of Rs 2 lakh (on interest component of home loan EMI) allowed under section 24.**

FY 2013-14 and FY 2014-15 During these financial years, the deduction available under this section was first-time house worth Rs 40 lakh or less. You can avail this only when your loan amount during this period is Rs 25 lakh or less. The loan must be sanctioned between 1 April 2013 and 31 March 2014. The aggregate deduction allowed under this section cannot exceed Rs 1 lakh and is allowed for FY 2013-14 and FY 2014-15.

8. Section 80CCG – RGESS

Rajiv Gandhi Equity Saving Scheme (RGESS)

The deduction under this section 80CCG is available to a resident individual, whose gross total income is less than Rs.12 lakh. To avail the benefits under this section the following conditions should be met:

a. The assessee should be a new retail investor as per the requirement specified under the notified scheme.

b. The investment should be made in such listed investor as per the requirement specified under the notified scheme.

c. The minimum lock in period in respect of such investment is three years from the date of acquisition in accordance with the notified scheme.

Upon fulfillment of the above conditions, a deduction, which is lower of the following is allowed.

- 50% of the amount invested in equity shares; or
- Rs 25,000 for three consecutive Assessment Years.

Rajiv Gandhi Equity Scheme has been discontinued starting from 1 April 2017. Therefore, no deduction under section 80CCG will be allowed from FY 2017-18. However, if you have invested in the RGESS scheme in FY 2016-17, then you can claim deduction under Section 80CCG until FY 2018-19.

9. Section 80D – Medical Insurance

Deduction for the premium paid for Medical Insurance

You (as an individual or HUF) can claim a deduction of Rs.25,000 under section 80D on insurance for self, spouse and dependent children. An additional deduction for insurance of parents is available up to Rs 25,000, if they are less than 60 years of age. If the parents are aged above 60, the deduction amount is Rs 50,000, which has been increased in Budget 2018 from Rs 30,000.

In case, both taxpayer and parent(s) are 60 years or above, the maximum deduction available under this section is up to Rs.1 lakh.

Example: R's age is 65 and his father's age is 90. In this case, the maximum deduction R can claim under section 80D is Rs. 100,000. From FY 2015-16 a cumulative additional deduction of Rs. 5,000 is allowed for preventive health check.

10. Section 80DD – Disabled Dependent
Deduction for Rehabilitation of Handicapped Dependent Relative **Section 80DD deduction is available to a resident individual or a HUF and is available on:**
a. Expenditure incurred on medical treatment (including nursing), training and rehabilitation of handicapped dependent relative
b. Payment or deposit to specified scheme for maintenance of handicapped dependent relative.
i. Where disability is 40% or more but less than 80% – fixed deduction of Rs 75,000.
ii. Where there is severe disability (disability is 80% or more) – fixed deduction of Rs 1,25,000.
To claim this deduction a certificate of disability is required from prescribed medical authority.From FY 2015-16 – The deduction limit of Rs 50,000 has been raised to Rs 75,000 and Rs 1,00,000 has been raised to Rs 1,25,000.
11. Section 80DDB – Medical Expenditure
Deduction for Medical Expenditure on Self or Dependent Relative
a. For individuals and HUFs below age 60
A deduction up to Rs.40,000 is available to a resident individual or a HUF. It is available with respect to any expense incurred towards treatment of specified medical diseases or ailments for himself or any of his dependents. For an HUF, such a deduction is available with respect to medical expenses incurred towards these prescribed ailments for any of the HUF members.
b. For senior citizens and super senior citizens
In case the individual on behalf of whom such expenses are incurred is a senior citizen, the individual or HUF taxpayer can claim a deduction up to Rs 1 lakh. Until FY 2017-18, the deduction that could be claimed for a senior citizen and a super senior citizen was Rs 60,000 and Rs 80,000 respectively. This has now become a common deduction available upto Rs 1 lakh for all senior citizens (including super senior citizens) unlike earlier.
c. For reimbursement claims
Any reimbursement of medical expenses by an insurer or employer shall be reduced from the quantum of deduction the taxpayer can claim under this section.
Also remember that you need to get a prescription for such medical treatment from the concerned specialist in order to claim such deduction. Read our detailed article Sec.80DDB
12. Section 80U – Physical Disability
Deduction for Person suffering from Physical Disability
A deduction of Rs.75,000 is available to a resident individual who suffers from a physical disability (including blindness) or mental retardation. In case of severe disability, one can claim a deduction of Rs 1,25,000.

From FY 2015-16 – Section 80U deduction limit of Rs 50,000 has been raised to Rs 75,000 and Rs 1,00,000 has been raised to Rs 1,25,000.

13. Section 80G – Donations

Deduction for donations towards Social Causes

The various donations specified in u/s 80G are eligible for deduction up to either 100% or 50% with or without restriction. From FY 2017-18 any donations made in cash exceeding Rs 2,000 will not be allowed as deduction. The donations above Rs 2000 should be made in any mode other than cash to qualify for 80G deduction.

a. Donations with 100% deduction without any qualifying limit

1.	National Defence Fund set up by the Central Government
2.	Prime Minister's National Relief Fund
3.	National Foundation for Communal Harmony
4.	An approved university/educational institution of National eminence
5.	Zila Saksharta Samiti constituted in any district under the chairmanship of the Collector of that district
6.	Fund set up by a State Government for the medical relief to the poor
7.	National Illness Assistance Fund
8.	National Blood Transfusion Council or to any State Blood Transfusion Council
9.	National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
10.	National Sports Fund
11.	National Cultural Fund
12.	Fund for Technology Development and Application
13.	National Children's Fund
14.	Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund with respect to any State or Union Territory
15.	The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund, Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
16.	The Maharashtra Chief Minister's Relief Fund during October 1, 1993 and October 6,1993
17.	Chief Minister's Earthquake Relief Fund, Maharashtra
18.	Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of earthquake in Gujarat
19.	Any trust, institution or fund to which Section 80G(5C) applies for providing relief to the victims of earthquake in Gujarat (contribution made during January 26, 2001 and September 30, 2001) or
20.	Prime Minister's Armenia Earthquake Relief Fund
21.	Africa (Public Contributions — India) Fund
22.	Swachh Bharat Kosh (applicable from financial year 2014-15)
23.	Clean Ganga Fund (applicable from financial year 2014-15)
24.	National Fund for Control of Drug Abuse (applicable from financial year 2015-16)

b. Donations with 50% deduction without any qualifying limit

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

c. Donations to the following are eligible for 100% deduction subject to 10% of adjusted gross total income

- Government or any approved local authority, institution or association to be utilized for the purpose of promoting family planning
- Donation by a Company to the Indian Olympic Association or to any other notified association or institution established in India for the development of infrastructure for sports and games in India or the sponsorship of sports and games in India

d. Donations to the following are eligible for 50% deduction subject to 10% of adjusted gross total income

- Any other fund or any institution which satisfies conditions mentioned in Section 80G(5)
- Government or any local authority to be utilized for any charitable purpose other than the purpose of promoting family planning
- Any authority constituted in India for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or both
- Any corporation referred in Section 10(26BB) for promoting the interest of minority community
- For repairs or renovation of any notified temple, mosque, gurudwara, church or other places.

14. Section 80GGB – Company Contribution

Deduction on contributions given by companies to Political Parties **Section 80GGB** deduction is allowed to an Indian company for the amount contributed by it to any political party or an electoral trust. Deduction is allowed for contribution done by any way other than cash.

15. Section 80GGC – Contribution to Political Parties

Deduction on contributions given by any person to Political Parties

Deduction under section 80GGC is allowed to an individual taxpayer for any amount contributed to a political party or an electoral trust. It is not available for companies, local authorities and an artificial juridical person wholly or partly funded by the government. You can avail this deduction only if you pay by any way other than cash.

16. Section 80RRB – Royalty of a Patent

Deduction with respect to any Income by way of Royalty of a Patent

80RRB Deduction for any income by way of royalty for a patent, registered on or after 1 April 2003 under the Patents Act 1970, shall be available for up to Rs.3 lakh or the income received, whichever is less. The taxpayer must be an individual patentee and an Indian resident. The taxpayer must furnish a certificate in the prescribed form duly signed by the prescribed authority.

17. Section 80 TTB – Interest Income
Deduction of Interest on Deposits for Senior Citizens
A new section 80TTB has been inserted vide Budget 2018 in which deductions with respect to interest income from deposits held by senior citizens will be allowed. The limit for this deduction is Rs.50,000.
No further deduction under section 80TTA shall be allowed. In addition to section 80 TTB, section 194A of the Act will also be amended so as to increase the threshold limit for TDS on interest income payable to senior citizens. The earlier limit was Rs 10,000, which was increased to Rs 50,000 as per the latest Budget.

Table of Deduction:

Section	Deduction on	Allowed Limit (maximum) FY 2018-19
80C	Investment in PPF – Employee's share of PF contribution – NSCs – Life Insurance Premium payment – Children's Tuition Fee – Principal Repayment of home loan – Investment in Sukanya Samridhi Account – ULIPS – ELSS – Sum paid to purchase deferred annuity – Five year deposit scheme – Senior Citizens savings scheme – Subscription to notified securities/notified deposits scheme – Contribution to notified Pension Fund set up by Mutual Fund or UTI. – Subscription to Home Loan Account scheme of the National Housing Bank – Subscription to deposit scheme of a public sector or company engaged in providing housing finance – Contribution to notified annuity Plan of LIC – Subscription to equity shares/ debentures of an approved eligible issue – Subscription to notified bonds of NABARD	Rs. 1,50,000

80CCC	For amount deposited in annuity plan of LIC or any other insurer for a pension from a fund referred to in Section 10(23AAB)	-
80CCD(1)	Employee's contribution to NPS account (maximum up to Rs 1,50,000)	-
80CCD(2)	Employer's contribution to NPS account	Maximum up to 10% of salary
80CCD(1B)	Additional contribution to NPS	Rs. 50,000
80TTA(1)	Interest Income from Savings account	Maximum up to 10,000
80TTB	Exemption of interest from banks, post office, etc. Applicable only to senior citizens	Maximum up to 50,000
80GG	For rent paid when HRA is not received from employer	Least of : – Rent paid minus 10% of total income – Rs. 5000/- per month – 25% of total income
80E	Interest on education loan	Interest paid for a period of 8 years
80EE	Interest on home loan for first time home owners	Rs 50,000
80CCG	Rajiv Gandhi Equity Scheme for investments in Equities	Lower of – 50% of amount invested in equity shares; or – Rs 25,000
80D	Medical Insurance – Self, spouse, children Medical Insurance – Parents more than 60 years old or (from FY 2015-16) uninsured parents more than 80 years old	– Rs. 25,000 – Rs. 50,000
80DD	Medical treatment for handicapped dependent or payment to specified scheme for maintenance of handicapped dependent – Disability is 40% or more but less than 80% – Disability is 80% or more	– Rs. 75,000 – Rs. 1,25,000
80DDB	Medical Expenditure on Self or Dependent Relative for diseases specified in Rule 11DD	– Lower of Rs 40,000 or the amount actually paid

	– For less than 60 years old – For more than 60 years old	– Lower of Rs 1,00,000 or the amount actually paid
80U	Self-suffering from disability: – An individual suffering from a physical disability (including blindness) or mental retardation. – An individual suffering from severe disability	Rs. 75,000 Rs. 1,25,000
80GGB	Contribution by companies to political parties	Amount contributed (not allowed if paid in cash)
80GGC	Contribution by individuals to political parties	Amount contributed (not allowed if paid in cash)
80RRB	Deductions on Income by way of Royalty of a Patent	Lower of Rs 3,00,000 or income received

10.1.7 Computation Of Total Income & Tax Liability of an Individual [Assessment of Individual]

Step 1: Compute the income of an individual under 5 heads of income on the basis of his residential status.

Step 2: Income of any other person, if includible u/ss 60 to 64, will be included under respective heads.

Step 3: Set off of the losses if permissible, while aggregating the income under 5 heads of income.

Step 4: Carry forward and set off of the losses of past years, if permissible, from such income.

Step 5: The income computed under Steps 1 to 4 is known as Gross Total Income from which deductions under sections 80C to 80U (Chapter VIA) will be allowed. However, no deduction under these sections will be allowed from short-term capital gain covered under section 111A, any long-term capital gain and winning of lotteries etc., though these incomes are part of gross total income.

Step 6: The balance income after allowing the deductions is known as total income which will be rounded off to the nearest Rs. 10.

Step 7: Compute tax on such Total Income at the prescribed rates of tax.

Step 8: Allow rebate of maximum Rs. 2,500 under section 87A in case of resident individual having total income upto Rs. 3,50,000. For details see below.

Step 9: Add surcharge @ 10% on total income exceeding Rs. 50,00,000 and upto Rs. 1 crore and 15% of such income tax in case of an individual having a total income exceeding Rs. 1 crore.

Step 10: Add education cess @ 2% and SHEC @ 1% on the tax (including surcharge if applicable).

Step 11: Allow relief under section 89, if any.
Step 12: Deduct the TDS, advance tax paid for the relevant assessment year and double taxation relief under section 90, 90A or 91. The balance is the net tax payable which will be rounded of nearest ten rupees and must be paid as self-assessment tax before submitting the return of income.

**Rebate of maximum Rs. 2,500 for resident individuals having total income up to Rs. 3,50,000 [Section 87A]

With a view to provide tax relief to the individual tax payers who are in lower income bracket, the Act has provided rebate from the tax payable by an assessee, if the following condition and satisfied:

1. The assessee is an individual
2. He is resident in India,
3. His total income does not exceed Rs. 3,50,000.

Quantum of Rebate:
The rebate shall be equal to:
1. The amount of income-tax payable on the total income for any assessment year,

or

2. Rs. 2,500,

Whichever is less.

10.7 Clubbing of Income: Clubbing of income means Income of other person included in assessee's total income, for example: Income of husband which is shown to be the income of his wife is clubbed in the income of Husband and is taxable in the hands of the husband. Under the Income Tax Act a person has to pay taxes on his income.

A person cannot transfer his income or an asset which is his one of source of his income to some other person or in other words we can say that a person cannot divert his income to any other person and says that it is not his income. If he does so the income shown to be earned by any other person is included in the assessee's total income and the assessee has to pay tax on it.

** Income of minor child is clubbed with the income of his/her parent. Section 60 to 64 contains various provisions relating to clubbing of income.

Income of the minor child is required to be clubbed with the parent whose income is higher. If the parents are divorced, it is clubbed with the income of the parent who is maintaining the child. Once the income of the minor child is added to one parent's income, the same would continue for future years also, unless the Tax Officer believes it is necessary to change the same. The parent with whom the income is clubbed will be allowed an exemption of lower of the actual amount of income or Rs. 1,500 per annum, minor child.

For example, R has 2 daughters and he has opened fixed deposits in their names. The fixed deposits earned interest income of Rs. 5,000 each. R should report interest income of Rs. 10,000 as a part of his total income. However, he would be eligible claim exemption of Rs. 3,000 on this income (i.e. 1500 for each child). Hence, the taxable interest income for him from these fixed deposits (on account of the clubbing provisions) would be Rs.7000.

**However, clubbing of the minor child's income is not required when:

- Income arises from manual work or application of skill or specialized knowledge and experience of the minor
- If the minor is disabled (based on definition of disability in Section 80U of the Act) and earns an income

****Clubbing provisions exist in case of transfer of income without transfer of asset**

As per section 60, if a person transfers income from an asset owned by him without transferring the asset from which the income is generated, then the income from such an asset is taxed in the hands of the transferor (i.e., person transferring the income).

E.g., Mr. Raj has given a bungalow owned by him on rent. Annual rent of the bungalow is Rs. 84,000. He transferred entire rental income to his friend Mr. Kumar. However, he did not transfer the bungalow. In this situation, rent of Rs. 84,000 will be taxed in the hands of Mr. Raj.

** **Clubbing provisions exist in case of a revocable transfer**

Revocable transfer is generally a transfer in which the transferor directly or indirectly exercises control/right over the asset transferred or over the income from the asset.

As per section 61, if a transfer is held to be a revocable, then income from the asset covered under revocable transfer is taxed in the hands of the transferor. The provisions of section 61 will not apply in case of a transfer by way of trust which is not revocable during the life time of the beneficiary or a transfer which is not revocable during the lifetime of the transferee.

Remuneration received by spouse of an individual is clubbed with his/her income?

Under certain circumstances as given in section 64(1)(ii), remuneration (i.e., salary) received by the spouse of an individual from a concern in which the individual is having substantial interest is clubbed with the income of the individual. Provisions in this regard are as follows:

- The individual is having substantial interest in a concern (*).
- Spouse of the individual is employed in the concern in which the individual is having substantial interest.
- The spouse of the individual is employed without any technical or professional knowledge or experience (e.,remuneration is not justifiable).

(*) An individual shall be deemed to have substantial interest in any concern, if such individual alone or along with his relatives beneficially holds at any time during the previous year 20% or more of the equity shares (in case of a company) or is entitled to 20% of profit (in case of concern other than a company).

Relative for this purpose includes husband, wife, brother or sister or lineal ascendant or descendent of that individual [section 2(41)].

**** Casual income**

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

Name any four examples for casual income

- Winning from lottery
- Income from cross word puzzles and card games

- Tips given to taxi drivers
- Prize awarded for coin or stamp collection

Sub-unit 2: International Taxation

10.2.1 Double taxation and its avoidance mechanism:

What is Double Taxation Avoidance Agreement (DTAA)?

The DTAA, or Double Taxation Avoidance Agreement is a tax treaty signed between India and another country (or any two/multiple countries) so that taxpayers can avoid paying double taxes on their income earned from the source country as well as the residence country. At present, India has double tax avoidance treaties with more than 80 countries around the world.

The need for DTAA arises out of the imbalance in tax collection on global income of individuals. If a person aims to do business in a foreign country, he/she may end up paying income taxes in both cases, i.e. the country where the income is earned and the country where the individual holds his/her citizenship or residence. For instance, if you are moving to a different country from India while leaving income sources such as interest from deposits in here, you will be charged interest by both India and the country of your current residence as per your consolidated global earnings. Such a scenario can have you pay twice the tax over the same income. This is where the DTAA becomes useful for taxpayers.

- **Benefits of DTAA**

There are lots of benefits associated with DTAA for taxpayers. The basic benefit includes not having to pay double taxes on the same income. Apart from this,

- Lower Withholding Tax (Tax Deduction at Source or TDS)
- Tax credits
- Exemption from taxes

The primary idea behind DTAA agreements with various countries is to minimize the opportunity for tax evasion for tax payers in either or both of the countries between which the bilateral/multilateral DTAA agreement have been signed.

Lower withholding tax is a plus for taxpayers as they can pay lower TDS on their interest, royalty or dividend incomes in India, while some agreements provide for tax credits in the source or country of operations so that taxpayers don’t pay the same tax twice. In some cases, such as agreements with Mauritius, Cyprus, Singapore, Egypt etc. capital gains tax is exempted which can be a boon to taxpayers as they can use the DTAA agreement to minimize taxes.

- **DTAA Rates**

  The rates and rules of DTAA vary from country to country depending on the particular signed between both parties. TDS rates on interests earned for most countries is either 10% or 15%, though rates range from 7.50% to 15%.

- **Double Taxation Avoidance Agreement (DTAA) Country List**

  A total of 85 countries currently have DTAA agreements with India. India has comprehensive DTAAs with 88 countries, out of which 85 have entered into force. This means that there are agreed rates of tax and jurisdiction on specified types of income arising in a country to a tax resident of another country. Under the Income Tax Act 1961 of India, there are two provisions, Section 90 and Section 91, which provide specific relief to taxpayers to save them from double taxation. Section 90 (Bilateral Relief)is for taxpayers who have paid the tax to a country with which India has signed DTAA, while Section 91 (unilateral relief) provides benefit to tax payers who have paid tax to a country with which India has not signed a DTAA. Thus, India gives relief to both kinds of taxpayers. The rates differ from country to country.

Example of DTAA benefit - Suppose interest on NRI bank deposits attracts 30 per cent TDS (tax deduction at source) in India. Since India has signed DTAAs with several countries, tax may be deducted at only 10 to 15 per cent instead of 30%.

In case of any conflict between the provisions of the Income Tax Act or DTAA, the provisions of DTAA would prevail.

A large number of foreign institutional investors who trade on the Indian stock markets operate from Singapore and the second being Mauritius. According to the tax treaty between India and Mauritius, capital gains arising from the sale of shares are taxable in the country of residence of the shareholder and not in the country of residence of the company whose shares have been sold. Therefore, a company resident in Mauritius selling shares of an Indian company will not pay tax in India. Since there is no capital gains tax in Mauritius, the gain will escape tax altogether.

The Protocol for amendment of the India-Mauritius Convention signed on 10 May 2016, provides for source-based taxation of capital gains arising from alienation of shares acquired from 1 April 2017 in a company resident in India. Simultaneously, investments made before 1 April 2017 have been grandfathered and will not be subject to capital gains taxation in India. Where such capital gains arise during the transition period from 1 April 2017 to 31 March 2019, the tax rate will be limited to 50% of the domestic tax rate of India. However, the benefit of 50% reduction in tax rate during the transition period shall be subject to the Limitation of Benefits Article. Taxation in India at full domestic tax rate will take place from financial year 2019-20 onwards.

In an article written for The Wire, Indian lawyer Ashish Goel argued that the May 2016 protocol rewrites treaty provisions with a view to increasing India's tax take on the noble pretext of tackling treaty abuse. According to Goel, the problem of treaty abuse could have been easily solved by introducing special anti-avoidance rules in the treaty without India having to tax capital gains.

The revised DTAA between India and Cyprus signed on 18 November 2016, provides for source based taxation of capital gains arising from alienation of shares, instead of residence based taxation provided under the DTAA signed in 1994. However, a grandfathering clause has been provided for investments made prior to 1 April 2017, in respect of which capital gains would continue to be taxed in the country of which taxpayer is a resident. It also provides for assistance between the two countries for collection of taxes and updates the provisions related to Exchange of Information to accepted international standards.

The India-Singapore DTAA at present provides for residence based taxation of capital gains of shares in a company. The Third Protocol amends the DTAA with effect from 1 April 2017 to provide for source based taxation of capital gains arising on transfer of shares in a company. This will curb revenue loss, prevent double non-taxation and streamline the flow of investments. In order to provide certainty to investors, investments in shares made before 1 April 2017 have been grandfathered subject to fulfilment of conditions in Limitation of Benefits clause as per 2005 Protocol. Further, a two-year transition period from 1 April 2017 to 31 March 2019 has been provided during which capital gains on shares will be taxed in source country at half of normal tax rate, subject to fulfilment of conditions in Limitation of Benefits clause.

The Third Protocol also inserts provisions to facilitate relieving of economic double taxation in transfer pricing cases. This is a taxpayer friendly measure and is in line with India's commitments under Base Erosion and Profit Shifting (BEPS) Action Plan to meet the minimum standard of providing Mutual Agreement Procedure (MAP) access in transfer pricing cases. The Third Protocol also enables application of domestic law and measures concerning prevention of tax avoidance or tax evasion. Singapore's investment of $5.98 billion has over taken Mauritius's investment of $4.85 billion as the single largest investor for the year 2013–14.

10.2.2 Transfer pricing:

➢ What Is Transfer Pricing?

Transfer pricing is an accounting practice that represents the price that one division in a company charges another division for goods and services provided. Transfer pricing allows for the establishment of prices for the goods and services exchanged between a subsidiary, an affiliate, or commonly controlled companies that are part of the same larger enterprise. Transfer pricing can lead to tax savings for corporations, though tax authorities may contest their claims.

****Key points**

- Transfer pricing is an accounting practice that represents the price that one division in a company charges another division for goods or services provided.

- A transfer price is based on market prices in charging another division, subsidiary, or holding company for services rendered.
- However, companies have used inter-company transfer pricing to reduce the tax burden of the parent company.
- Companies charge a higher price to divisions in high-tax countries (reducing profit) while charging a lower price (increasing profits) for divisions in low-tax countries.

How Transfer Pricing Works

Transfer pricing is an accounting and taxation practice that allows for pricing transactions internally within businesses and between subsidiaries that operate under common control or ownership. The transfer pricing practice extends to cross-border transactions as well as domestic ones.

A transfer price is used to determine the cost to charge another division, subsidiary, or holding company for services rendered. Typically, transfer prices are priced based on the going market price for that good or service. Transfer pricing can also be applied to intellectual property such as research, patents, and royalties.

Multinational companies (MNC) are legally allowed to use the transfer pricing method for allocating earnings among their various subsidiary and affiliate companies that are part of the parent organization. However, companies at times can also use (or misuse) this practice by altering their taxable income, thus reducing their overall taxes. The transfer pricing mechanism is a way that companies can shift tax liabilities to low-cost tax jurisdictions.

Sub-unit 3: Corporate Tax Planning

10.3.1 Concept and Significance:

Corporate Tax Planning plays an essential role in supporting a company's value-adding activities and strategic decisions. It helps businesses to ease tax burden and operate more smoothly and efficiently. The basic objective of corporate tax planning involves the reduction of a company's Effective Tax Rate (ETR) to achieve tax efficiency and remain competitive in its industry. In comparison to paying a tremendous amount of corporate tax annually, effective corporate tax planning is a better alternative for companies.

The primary reason for conducting corporate tax planning is to avoid illegitimacy. Tax planning allows enterprises to cope with any changes in the external environment, and lead to more systematic business operations. Effective corporate tax planning facilitates businesses to reduce tax costs, and therefore companies can enjoy higher earnings for shareholders or can gain money for reinvestment. Higher shareholder earnings and reinvestment capital are signs of flourishing business operations and can attract more potential investors which will further improve the company's financial position.

Tax activities will be reflected on the company's financial statements, and well-planned corporate tax contributes to more healthy-looking financial statements. As tax and finance are closely connected, companies must conduct effective tax planning prior to financial planning, in order to execute future financial activities as planned.

➢ **Objectives of Tax Planning:**

- **Minimal Litigation:** There is always friction between the collector and the payer of tax. In such a situation, it is important that the compliance regarding tax payment is followed and used properly so that friction is minimum.
- **Productivity:** Among the most important objectives of tax planning is channelization of taxable income to various investment plans.

- **Reduction of Tax Liability:** As a tax payer, you can save the maximum amount from payable tax amount by using a proper arrangement of your enterprise working as per the required laws.
- **Healthy Growth of Economy:** The growth in an economy depends largely upon the growth of its citizens. Tax planning estimates generation of white money that is in free flow.
- **Economic Stability:** Stability is supplemented when the tax planning behind a business is proper.

- **Types of Tax Planning**

1. Short-range and long-range Tax Planning: The tax planning which is done annually to arrive at specific objectives is called short-range tax planning. Whereas, long-range tax planning does not include immediate pay-offs of any kind.
2. Permissive Tax Planning: Here the planning conforms to law provisions of tax.
3. Purposive Tax Planning: This is the tax planning method that is based on loopholes in the laws.

Tax planning is a term that stands for calculated application of tax laws, so as to effectively manage a person's taxation. Leading to avail the tax benefits as per the law and in accordance with the interest of the nation and its people.

- **Tax Planning in India**

Indian law offers a variety of tax saving options for the taxpayers, allowing for a large range of options for exemptions and deductions through which you could limit your overall tax output.

- The deductions are available from Sections 80C through to 80U and can be utilised by eligible taxpayers.
- All these deductions happen against quantum of tax liabilities.
- There many other sections under the Income Tax Act, 1961 such as exemptions and tax credits that can lower your tax liabilities.

- **A good tax planning results from the following**

- All you need to do is to claim the tax benefit is invest in eligible instruments.
- Giving correct information to relevant IT authorities.
- Being well informed of applicable tax laws and court judgements on the same.
- Tax planning should be done completely under the purview of law.
- Planning should take into consideration business objectives and flexibility for the incorporation of future changes.
- You could be a long-time taxpayer or a first-time payer, in case you did not plan your taxes properly, you are probably paying more in tax than you should.
- Income Tax clauses seem so complex that the common man is averse of dealing with taxes.

This is the arrangement of a tax payer's business or financial dealings, in such a way that complete tax benefit can be availed by legitimate means, so that the amount of the tax is minimal.

10.3.2 Tax avoidance vs. Tax evasion:

Tax evasion is the illegal evasion of taxes by dondes, corporations, and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions.

Tax evasion is an activity commonly associated with the informal economy. One measure of the extent of tax evasion (the "tax gap") is the amount of unreported income, which is the difference between the amount of income that should be reported to the tax authorities and the actual amount reported.

In contrast, **tax avoidance** is the legal use of tax laws to reduce one's tax burden. Both tax evasion and avoidance can be viewed as forms of tax noncompliance, as they describe a range of activities that intend to subvert a state's tax system, although such classification of tax avoidance is not indisputable, given that avoidance is lawful, within self-creating systems.

****Differences between tax planning, tax avoidance, tax evasion, tax management**

HEADING	TAX PLANNING	TAX AVOIDANCE	TAX EVASION	TAX MANAGEMENT
Meaning	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	Assessee legally takes advantage of the loopholes in the Act.	Reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee	It is a procedure to comply with the provisions of the law.
Feature	Follow the provisions of law within the moral framework	It is a practice of bending the law without breaking it.	Tax evasion is illegal, both in script & moral.	It is implementation Part of Tax planning by an organization.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means	To comply with the provisions of laws.

proach	It is futuristic and positive in nature. It is for long –term	It is futuristic but short term in nature,	It is concerned with past and applied after the liability of tax has arisen	It is a continuous approach, which is concerned with past (rectification, revisions etc.), present (filing of return, etc.) & future (corrective action).
Benefit	Generally, arises in long run	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Practice	It is tax saving.	It is tax hedging.	It is tax concealment	It is tax administration.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law	It overrules the law.	It implements the law.

****Some example of tax avoidance, tax evasion, tax planning and tax management:**
a) M ltd maintains register of tax deduction effected by it to enable timely compliance—Tax management
b) D deposits 700,000 in P.P.F account so as to reduce tax payable—Tax planning
c) R Ltd issues a credit notes for 60,000 for brokerage payable to P who is son of Mr. Q. Managing Director of the company. The purpose is to increase his income from 20,000 to 80,000 and reduce its income correspondingly. —Tax evasion
d) Mr G purchased a house for self-residence of 8 lakhs by taking a loan of 60 lakhs from SBI at 10% interest, instead of using his own funds—**Tax Planning**
e) Mr H invested 1 Crore in purchasing 5 acres of agriculture land in his native village in Panna—Tax Planning
f) Availing deduction under section 10(A) of IT Act—Tax planning
g) Misinterpreting the provisions of IT Act—Tax avoidance
h. Understatement of income—Tax evasion
i. Making suitable arrangement of TDS--Tax administration.

10.3.3 Techniques of corporate tax planning:

1. Tax Planning in Respect of Employee`s Remuneration
2. Tax Planning in Case of Amalgamation
3. Deduction of tax at source
4. Tax Consideration on capital structure
5. Tax Planning in respect of bonus share

1. Tax Planning in Respect of Employee`s Remuneration
• Factors are considered in case of remuneration planning:
– One has to ensure that while calculating business income of the employer, remuneration paid to employee are fully deductable
– One has to see that remuneration received by the employees is taxable in their hands at concessional rates.

➢ **Deduction of remuneration in hand of employer:**

– Remuneration to employees engaged in carrying on scientific research
– Insurance premium on health of employees
– Bonus& commission to employees
– Employers contribution towards PF & Gratuity fund
– Employees contribution to staff welfare scheme
– Family Planning expenditure
– Payment of salary, allowances, perquisites
– Salary payable outside India
– Payment of salaries to relatives
– Payment of salaries exceeding Rs. 20,000 in cash or bearer cheque

2. Tax Planning in Case of Amalgamation
• Meaning of Amalgamation under the Income Tax Act [Sec 2(1B)]
"Amalgamation", in relation to companies,
– one or more companies with another company
[or]
– the merger of two or more companies to form one company

➢ **Tax Concessions**

• Tax concessions are available if an amalgamation satisfies the conditions of Section 2(1B) and the amalgamated company is an Indian company:
– Non-chargeability of capital gain on the transfer of a capital asset including shares held by a shareholder at the time of amalgamation

➢ **Tax Planning in Case of Amalgamation**

– Eligibility of amalgamated company for the deduction in respect of any asset representing expenditure of a capital nature on scientific research
– Eligibility of the amalgamated company for the deduction in respect of acquisitions of patent rights or copy rights
– Similar deduction in respect of expenditure on know-how as provided in
– Amortization of expenditure for obtaining telecom licence fees
– Amortization of certain preliminary expenses
– Amortization of expenditure on amalgamation
– Amortization of expenditure on prospecting etc. for certain minerals
– Writing off bad debts
– Deduction in respect of any expenditure for the purposes of promoting family planning as
– Computation of written down value of the transferred fixed assets in the case of amalgamated company.

– Continuance of deduction available
– Benefit of carry forward and

3. Deduction of tax at source

• In certain specified cases of income, tax at source should be deducted by the person responsible for making payment of such income
• Income-tax Act provides that such tax must be deducted from the amounts of both residents and non-residents according to the rates prescribed in Finance Act of that year.

4. Tax Consideration on capital structure

• A company's capital structure is the method a company uses
– finance its operations and growth utilizing various sources of funding.
• Capital structure is a mix of a company's long-term debt, specific short-term debt, common equity and preferred equity
– Two options for capital are debt and equity.
• Debt receives a tax break but increases the financial risk of a company
• Equity does not share those same qualities

- **Cost of Capital and its tax treatment for Debentures**:

– The cost of capital for loans and debentures refers to interest payable to lender or debenture holder
– An interest rate is the rate at which interest is paid by borrowers for the use of money that they borrow from a lender

- **Tax treatment of interest**:

– Interest on loans or debentures is 100% tax deductible while calculating business income.
– In following cases, interest will be allowed as deduction
• paid during the previous year itself
• if not paid, it must be paid on or before due date of furnishing of return of income
– Interest on loan from any public financial institutions like IDBI, ICICI, SFC.
– Interest on any loan taken from a scheduled bank including a co-operative Bank

• **Cost of Capital and its tax treatment for equity and preference shares:**

– Dividend signifies cost of capital for owned capital
• Tax treatment of Dividend:
– Dividend paid to shareholders is not deductible as business expenditure. It has to be paid out of after-tax profits
– Such dividend distribution tax shall be payable @ 15% + surcharge @ 5% + education cess @ 2% + SHES @ 1% of amount so declared, distributed or paid
• The amount referred to in IT Act Sec. 115-O, i.e. dividend to be distributed shall be reduced by
– The amount of dividend, if any, received by the domestic company during the financial year, if
• dividend is received from its subsidiary
• subsidiary has paid tax under this section on such dividend
• domestic company is not a subsidiary of any other company

5. Tax Planning in Respect of Bonus Shares

- Bonus share are issued to the equity shareholders, the value of the share is not taxed as dividend distributed.
- Bonus are issued to preference shareholders; on their issue it is deemed to be dividend and liable to tax
- Redeemable preference share is issued as bonus share on their redemptions, the amount shall be taxed distributed
- Expenses on issue of bonus shares allowed as deduction as per supreme court judgment.

10.3.4 Tax considerations in specific business situations

One of the most important decisions to make when starting a business is the legal form (**sole proprietorship**, corporation, **limited liability company**, etc.) in which you will operate. And as your business grows, you may want to change forms to accommodate more owners, a different capital structure, or shield your growing wealth from business liability. Be sure to weigh the tax considerations associated with the business type you choose.

➢ **Choosing an Incorporation Type:**

We have many choices when it comes to incorporating a business, including:

➢ Sole proprietorship tax considerations

The business and the owner are legally the same. From the IRS's perspective, the business is not a taxable entity. Instead, all of the business assets and liabilities and income are treated as belonging directly to the business owner.

General partnership tax considerations

As with sole proprietorships, the business and the owners (two or more) are legally the same. A partnership is not a taxable entity under federal law. There is no separate partnership income tax, as there is a corporate income tax. Instead, income from the partnership is taxed to the individual partners, at their own individual tax rates. For tax purposes, all of the income of the partnership must be reported as distributed or "passed-through" to the partners, who will then be taxed on it through their individual returns.

Limited liability company (LLC) tax considerations

A separate legal entity created by a state filing. Under state laws, LLC owners are given the liability protection that was previously afforded only to owners of a corporation (shareholders). Now, LLCs are treated like partnerships for federal tax purposes (unless they elect to be treated like a corporation, which most don't). LLCs have "pass-through" taxation, which means that no tax on the LLC's income is paid at the business level. Income/loss is instead reported on the personal tax returns of the owners, and any tax due is paid at the individual level. Keep in mind, even though LLCs are treated as partnerships for federal tax purposes, the same is not always true for state tax purposes.

C corporation tax considerations

A separate legal entity created by a state filing. The C corporation, also called the "regular" corporation, is subject to corporate income tax. Income earned by a C corporation is normally taxed at the corporate level using the corporate income tax rates. C corporation income is also subject to what is called "double taxation," when the income of the business is distributed to the owners in the form of dividends, because dividends are taxable. Tax is paid first by the corporation on its income and then again by the owners on the dividends received. If the owner draws a salary from the corporation, that salary is also subject to income tax (and FICA).

S corporation tax considerations:

A separate legal entity created by a state filing. The S corporation is a corporation that has filed a special election with the IRS to be treated like a partnership (or LLC) for tax purposes. Therefore, S corporations are not subject to corporate income tax. Instead, their income is subject to what is often called "pass-through" taxation, where the income or loss of the business is passed through the company to the owners (shareholders). Having pass-through taxation means that S corporation income is not subject to double taxation like C corporation income.

As you can imagine, there are significant income tax consequences that flow from each of these choices. Don't forget to weigh the tax issues against the non-tax issues, such as which business form will best help you to operate and grow the business or is easier for you to pass to your heirs.

10.3.5 Make or buy decisions: Basically, the decision to make or buy is a costing decision and is influenced by many factors are as follows

I. Availability of factors

II. Investment required in fixed assets

III. Availability of skilled and unskilled labour

IV. Availability of suppliers

V. Existence of idle capacity in organization

With due considerations to above factors, marginal costing and differential costing techniques of cost accounting help a lot in reaching at any conclusion

Tax consideration

Buy decision in a surplus capacity condition forced to sell an asset and attract capital gain tax

If a new industrial undertaking is established to make the product, the following deductions are to be considered

a. Tax holiday-sec 10AA

b. Deductions U/S

I. 80 IAC

II. 80IBA

III. 80ID

IV. 80IA

V. 80IB

VI. 80IC

VII. 80IE

If the product is a consumable one, raw material is required to replace a worn-out part at the time of repair, its cost will be treated as revenue expense and deductible in computing the income

10.3.6 Own or lease an asset:

Decide to buy

Usually long term it's cheaper to buy an asset than lease it. Remember you won't be able to claim the entire amount paid as a business expense – the value of asset is depreciated over several years.

Buy if:

- The asset plays an integral role in your overall business success and you use it all the time.
- You want control over the asset.
- It's easy to update or upgrade or has the ability to scale up if demand increases.
- There is a good second-hand market if you eventually want to sell it.
- The supplier has great support and maintenance is either easy for you to do, or they have a programme in place to help.
- You can source the piece of equipment second hand, so it's more affordable.

Decide to lease

When you lease an asset, you're renting it for a set period of time. The leasing company retains ownership of the asset while your business has the exclusive use of it for the term of the lease.

Lease if:

- The asset could become obsolete fast and will need updating soon.
- You don't want to spend your cash reserve or go into debt.
- The asset needs specialist support and you don't want to employ a full-time person to manage it.
- You're unsure how long you'll need the asset for, and prefer to lease over a shorter time until it's proven.
- You're unsure of current market demand and may need to upgrade (or downgrade) in the near future. You don't want to be stuck with an asset that is either too small/fast or too big/slow.
- You want to maintain a cash buffer to invest in more stock, develop a new product or service, or just use as spare working capital to keep the business ticking.

A lease will typically run for anything between 12 and 60 months. Once the agreement is entered into, both parties are obligated to see out the term of the lease.

Throughout the course of the lease agreement, you'll pay the lender regular instalment payments for the right to use that asset. For accounting and bookkeeping purposes, some leases can be classified in the same way as an asset purchase and can be capitalised on your balance sheet.

Borrowing to buy

A hybrid option is to finance the asset with a bank loan. You get the benefits of both; you own the asset and have monthly repayments:

- You preserve your cash.
- Possibly you can buy an asset that is more than your cash reserves.
- You may be able to use a business credit card to fund the purchase.

Talk to us about our range of asset finance solutions – we can help expand your business without tying up your finances.

Important questions to consider

Before deciding whether to buy or lease, it's prudent to take a few important factors into account, such as:

- How long will you need the asset for? Is it for a short-term project?
- Is it cost effective? Will the extra business you make cover the expense of leasing or purchasing?
- Will the asset become outdated in the near future? For example, signing a five year lease on a computer that will become obsolete in three years doesn't make much sense.
- What are your current financial priorities? Are there other purchases that should be made first?

Consider upgrades and maintenance costs

There are usually options where the lease agreement can include upgrading the asset to a newer model once the agreement expires.

Likewise, some lease agreements may also include maintenance and servicing costs. By leasing some assets, you could avoid paying any upkeep costs associated with them, saving your business money over the long term.

It's important to look closely at any lease agreement before you sign it. You may find that some agreements:

- Give you the opportunity to purchase the asset at a reduced cost when the lease expires.
- Allow you to exchange the asset and upgrade to a newer model when the lease expires – as long as you enter into a new agreement at the same time.

Always be sure that you understand the terms of an agreement before you sign it. It's also smart to run a cost comparison and a cash flow analysis between leasing an asset and buying one with funds from a small business loan.

Summary

Discuss with your accountant the potential impact that leasing or purchasing may have on your cash flow and ask what alternative options might be available.

1. Calculation of present value of post -tax cash outflows in case of borrowing

A. Cash out flows =loan repayment+ interest on loan.

B. Since both depreciation and interest on loan are tax deductible while calculating business income, therefore there will be tax savings in payment of income tax

Tax savings= (interest+ depreciation) × Tax rate applicable to buyer

c. Post tax cash out flows A-B

d. Post Tax Cash flows ×Present value factor

II. Calculation of present value of post -tax cash outflows in case of lease
A. Cash outflows =Annual lease rent +other charges
B. Tax savings=A× Tax rate applicable to Lessee.
C. Post Tax Cash flows=A-B
D. Post Tax Cash flows ×Present value factor

10.3.7 Retain, Renewal or replacement of asset: Replacement expenditure is capital expenditure—- .It is not deductible

Replacement of parts only is allowed as deduction.
Renewal
Sometimes capital expenditure and sometimes revenue expenditure.
Capital expenditure—when capacity is increased due to renewal.
Revenue expenditure –capacity is not increased .Expenses incurred to get capacity of asset back.
Routine Repair expenses are allowed as deduction.

10.3.8 Shut down or continue operations: Sometime business is forced to shut down due to the following reasons–

a. Fall in demand

b. financial problems

c. Change in technology

d. High rate of taxation

e. Mismanagement

f. Pressure of commercial banks

Tax provisions

The tax aspects are to be considered before taking a decision are as follows—

i. loss of discontinued business can be carried forward up to 8 years

ii. The unabsorbed depreciation of discontinued business can also be set off against future business profits of other business

iii. Following deductions which were allowed in the earlier years may be withdrawn and liable to tax from the year in which business is discontinued

a. Section 33 AB-Tea Development Account /Coffee Development Account/Rubber development account

b. 115 VT-reserve for shipping business

iv. Withdrawal of certain incentive deductions already claimed by business

v. Sale of assets held for scientific research

vi. Sale of depreciable asset

Sales>W.D.V of assets –short term capital gain.

Otherwise short term capital loss

vii. Sale of non-depreciable asset May attract short term or long term capital loss on the basis of nature of Asset.

viii. No deduction with respect to retrenchment compensation

ix. If it is a Company, satisfaction of the conditions laid down in sec 72A is important in the case of amalgamation and demerger.

Sub-unit 4: Deduction and collection of tax at source

Concept:

TDS or Tax Deducted at Source is income tax reduced from the money paid at the time of making specified payments such as rent, commission, professional fees, salary, interest etc. by the persons making such payments.

Usually, the person receiving income is liable to pay income tax. But the government with the help of Tax Deducted at Source provisions makes sure that income tax is deducted in advance from the payments being made by you.

The recipient of income receives the net amount (after reducing TDS). The recipient will add the gross amount to his income and the amount of TDS is adjusted against his final tax liability. The recipient takes credit of the amount already deducted and paid on his behalf.

When and who can deduct TDS?

Any person making specified payments mentioned under the Income Tax Act are required to deduct TDS at the time of making such specified payment. But no TDS has to deducted if the person making the payment is an individual or HUF whose books are not required to be audited. However, in case of rent payments made by individuals and HUF exceeding Rs 50,000 per month, are required to deduct TDS @ 5% even if the individual or HUF is not liable for a tax audit. Also, such Individuals and HUF liable to deduct TDS @ 5% need not apply for TAN.

Employer deducts TDS at the income tax slab rates applicable. Banks deduct TDS @10%. Or they may deduct @ 20% if they do not have your PAN information. For most payments rates of TDS are set in the income tax act and TDS is deducted by payer basis these specified rates.

If anyone submit investment proofs (for claiming deductions) to his/her employer and total taxable income is below the taxable limit – do not have to pay any tax. And therefore no TDS should be deducted on his/her income. Similarly, he/she can submit Form 15G and Form 15H to the bank if total income is below taxable limit so that they don't deduct TDS from interest income.

In case you have not been able to submit proofs to your employer or if your employer or bank has already deducted TDS and your total income is below the taxable limit – you can file a return and claim a refund of this TDS.
**The Tax Deducted at Source must be deposited to the government by 7th of the subsequent month.
For instance
TDS deducted in the month of June must be paid to the government by 7th July. However, the TDS deducted in the month of March can be deposited till 30th April.
For TDS deducted on rent and purchase of property, the due date is 30 days from the end of the month in which TDS is deducted. Tax deducted at source has to be deposited using Challan ITNS-281 on the government portal.

How and When to file TDS returns?

Filing Tax Deducted at Source returns is mandatory for all the persons who have deducted TDS. TDS return is to be submitted quarterly and various details need to be furnished like TAN, amount of TDS deducted, type of payment, PAN of deductee, etc. Also, different forms are prescribed for filing returns depending upon the purpose of the deduction of TDS. Various types of return forms are as follows:

Form 26QTDS on all payments except salaries

1. Q1 – 31st July
2. Q2 – 31st October
3. Q3 – 31st January
4. Q4 – 31st May

Form No	Transactions reported in the return	Due date
Form 24Q	TDS on Salary	Q1 – 31st July Q2 – 31st October Q3 – 31st January Q4 – 31st May
Form 27Q	TDS on all payments made to non-residents except salaries	Q1 – 31st July Q2 – 31st October Q3 – 31st January Q4 – 31st May
Form 26QB	TDS on sale of property	30 days from the end of the month in which TDS is deducted
Form 26QC	TDS on rent	30 days from the end of the month in which TDS is deducted

What is TDS certificate?

Form 16, Form 16A, Form 16 B and Form 16 C are all TDS certificates. TDS certificates have to be issued by a person deducting TDS to the assessee from whose income TDS was deducted while making payment.
For instance, banks issue Form 16A to the depositor when TDS is deducted on interest from fixed deposits. Form 16 is issued by the employer to the employee.

Form	**Certificate of**	**Frequency**	**Due date**
Form 16	TDS on salary payment	Yearly	31st May
Form 16 A	TDS on non-salary payments	Quarterly	15 days from due date of filing return
Form 16 B	TDS on sale of property	Every transaction	15 days from due date of filing return
Form 16 C	TDS on rent	Every transaction	15 days from due date of filing return

** If TDS has been deducted from any of your income you must go through the Tax Credit Form 26AS.

10.4.1 Advance payment of tax: Advance tax means income tax should be paid in advance instead of lump sum payment at year end. It is also known as pay as you earn tax. These payments have to be made in instalments as per due dates provided by the income tax department.

Who should pay Advance Tax?

a) Salaried, freelancers and businesses– If your total tax liability is Rs 10,000 or more in a financial year you have to pay advance tax. Advance tax applies to all taxpayers, salaried, freelancers, and businesses. Senior citizens, who are 60 years or older, and do not run a business, are exempt from paying advance tax.

b) Presumptive income for Businesses–The taxpayers who have opted for presumptive taxation scheme under section 44AD have to pay the whole amount of their advance tax in one instalment on or before 15 March. They also have an option to pay all of their tax dues by 31 March.

c) Presumptive income for Professionals– Independent professionals such as doctors, lawyers, architects etc. come under the presumptive scheme under section 44ADA. They have to pay the whole of their advance tax liability in one instalment on or before 15 March. They can also pay the entire amount by 31 March.

Due Dates for payment of Advance Tax

FY 2019-20 & FY 2018-19 for both individual and corporate taxpayers

Due Date	**Advance Tax Payable**
On or before 15th June	15% of advance tax

On or before 15th September	45% of advance tax less advance tax already paid
On or before 15th December	75% of advance tax less advance tax already paid
On or before 15th March	100% of advance tax less advance tax already paid

For taxpayers who have opted for Presumptive Taxation Scheme under section 44AD & 44ADA – Business Income

Due Date	**Advance Tax Payable**
On or before 15th March	100% of advance tax

10.4.2 E-filing of income-tax return:

***At first register yourself on the Income Tax Department website**

3. (https://www.incometaxindiaefiling.gov.in/home). Make sure that you enter the correct mobile number and email ID when you register. All future communication will be sent to the number and email you provide.
4. Get your Digital Signature Certificate (DSC) on the I-T Department website and register it. If you don't have a DSC, you can file your returns and then send an email to the I-T Department's Centralised Processing Centre (CPC).

***Steps of filling return**

Given below is a step-by-step procedure of how you can file your ITR online:

1. Log on to the official website using the User ID and password you used to register yourself. The User ID is your Permanent Account Number (PAN).
2. Once you're logged in, click on 'e-file' to get the 'Income Tax Return' options. Click on this.
3. On the page that opens up, select the type of ITR, the relevant Assessment Year (AY2019-20 for FY2018-19), and how you want to submit the form (choose the 'prepare and submit online' option).
4. Some of your details will be automatically filled by the website based on your account information and government records. You can also choose the details that you want to be filled automatically. After this, click on 'Continue'.
5. You will now get a page where you will be able to fill up a form. Before doing this, make sure you read the 'General Instructions' to ensure you do this correctly.

6. After this, fill the required details such as General Information, Income Details, Taxes Paid and Verification, Tax Details, and 80G.
7. Once you're done filling in these details, check your entries again. Make sure there are no errors. Then, click on 'Preview and Submit'.
8. You will now be able to preview your form before you do the final submission. Verify the details once again to make sure they're all accurate. This is extremely important.
9. Once you're sure of all the entries, submit the form. Your return will be uploaded, and you'll have to then verify it. You can verify your ITR in the following 3 ways:

1. Through the Electronic Verification Code (EVC) method, or
2. Via Aadhaar-linked One Times Password (OTP), or
3. By taking a printout of ITR-V, signing it, and physically mailing it to CPC, Bengaluru. This must be done within 120 days of the e-filing date.

10. Your ITR-V is the acknowledgement of your tax return being successfully uploaded on the website. This will immediately be sent to your email ID. You can also download this acknowledgement from your e-filing account on the website.

11. Once you've verified the ITR you've submitted, it will be processed by the I-T department. You will get updates about this on your registered mobile number and via email as well.

This ends the filing process.

The benefits of filing your ITR online

There are various benefits of filing your ITR online. These include:

- ✓ It is fast and convenient.
- ✓ You can access any past data that's available. Your form can be pre-filled with relevant data.
- ✓ The multiple checks rule out errors or keep them to a minimum.
- ✓ The process is completely secure.
- ✓ All your details are kept entirely confidential.
- ✓ You get an immediate receipt of your form submission.
- ✓ Getting your Tax Deducted at Source (TDS) refund — if any — becomes easier as well.

Here's what need to remember while e-filing ITR

Although this is an easy process, there are a few things you need to keep in mind while filling up the ITR. Take a look at the following pointers:

- ➢ You need to submit various documents while filing your return online. Keeping them ready will help save time. These documents include: Your bank statements, bank account details, proof of tax-saving investments you've made, PAN card, Aadhaar card, Form 16 and TDS certificate
- ➢ Make sure you mention any exempt income you've received during the year.
- ➢ Don't forget to include any eligible deductions that you may have missed out on.
- ➢ Ensure all your TDS details and amounts match with those mentioned in your Form 16.

- Verify the bank details you give. Check the account number, IFSC, branch, and other details.
- If you're sending a physical copy of your ITR-V to CPC, make sure you do it within the 120-day time limit. Beyond this limit, your filing will be incomplete, and you may have to pay a penalty for it.
- Most importantly, make sure you file your returns by the due date.

Form ITR-1

Form ITR-1 or "Sahaj" (derived from the Hindi word meaning "easy") is the most commonly used form for filing Income Tax Returns. It is primarily used by salaried individuals. However, there are certain categories of salaried individuals who need to submit their returns through other forms like ITR or ITR-2A.

Taxpayers Eligible to use Form ITR-1

Form ITR-1 can be used by individuals who fall in one of the following categories :

- Any salary or pension earned by an individual from his/her employer and taxable under the category "Income from Salary"
- Income from house property
- Income from other sources like interest income, dividends earned, etc.

If the income of the taxpayer has been clubbed with the income of a minor or a spouse, the additional income should also adhere to the previously mentioned clauses, for the taxpayer to use Form ITR-1

Taxpayers not eligible to use Form ITR-1

- Income arising from lottery or winnings from horse races or legal gambling
- Income from multiple house properties. Also, any loss under "Income from House Property" which has been carried forward from the previous financial year
- Income from capital gains that are taxable. This includes both long-term as well as short-term capital gains
- Agricultural income of more than Rs. 5,000
- Income from professional fees or income earned through business
- Loss under the head "Other Sources"
- Individuals applying for relief under DTAA from double taxation or foreign tax that has been paid as per provisions of Section 90, Section 90A or Section 91.
- Any resident individual having an asset not located within the country or one who acts as a signing authority for accounts located out of the country. The term asset, for this purpose, includes financial interest, such as shares or bonds, in any entity.

Who can file IT Return using ITR Form 2?

If a taxpayer does not derive any income under the head "**Profits and Gains from Business and Profession**", he is required to file Download ITR Form 2. Therefore, a taxpayer having income from any of the following sources during the assessment year is eligible to file ITR Form 2:

- Income From Salary/Pension
- Income From Foreign Assets

- Income From House Property
- Income From Capital Gains (Both Long and Short Term)
- Agricultural Income of more than Rs.5000
- Income from other sources such as such as winnings from lottery or other legal gambling, etc.
- If the residential status of the individual/HUF is either Resident Non-Ordinarily Resident (RNOR) and Non-Resident

Also Read: How to File IT Returns Online?

Who can not file ITR Form 2?

- Any individual or HUF having income from business or profession.
- Individuals who are not eligible to file ITR through ITR Form 1

ITR-3 form

Income Tax Return Form 3 (ITR-3) is meant for individuals and HUFs who have income under the head "profits or gains from business or profession" and who are not eligible to file SUGAM (ITR-4).

Who can file ITR-3 form?

ITR-3 needs to be filed by the people having any of the following set of income:

- Income from salary/pension
- Income from house property
- Taxpayers registered under presumptive taxation scheme and having a turnover of more than 2 crore
- Individuals and HUFs who are partners in a firm but do not carry out business under proprietorship. Such income may include income from salary, bonus, commission, interest or remuneration from the partnership firm.

What is ITR 4?

Income Tax Return Form 4, which also called SUGAM, is filed by the taxpayers who have opted for presumptive taxation scheme under section 44AD, section 44DA and section 44AE of the Income Tax Act, 1961. ITR 4 can be filed by individuals, HUF as well as a partnership firm. However, if the annual turnover of business registered under presumptive taxation scheme exceeds Rs. 2 crores, the taxpayer is required to file ITR-3.

Who is required to file ITR-4?

Under existing rules of the Income Tax Act, 1961, Individuals/HUF/Partnership Firms having any of the following types of income are required to file ITR Form 4:

- Business Income computed under section 44AD or section 44AE
- Income from profession earned under section 44ADA
- Salary/Pension
- Income from one house property (excluding the cases where loss is to be carried forward or brought forward loss)
- Income from other sources (excluding winning from lottery or income from other forms of legal gambling such as horse betting)

ITR-5

Income Tax Return Form-5 (ITR 5) needs to be filed by entities such as Firms, LLPs (Limited Liability Partnerships), AOPs (Association of Persons), Artificial Judicial Person and BOIs

(Body of Individuals). Apart from that, any cooperative society or local authority can file their income tax return using the ITR-5 form.

Who is not Eligible for Filing ITR-5?

- Assessees who are required to file ITR under Section 139 (4A) or 139 (4B) or 139(4C) or 139 (4D) are not required to submit ITR-5.
- Individuals and HUFs are also not eligible to file ITR Form 5.

ITR Form 6

ITR Form 6 or ITR 6 is an income tax return form that is used by companies to e-file income tax return if they do not claim exemption under Section 11 of the Income Tax Act, 1961. Under existing Income Tax rules, companies that can claim exemption u/s 11 are those who have income from property that is held for charitable or religious purposes.

ITR-7

Income Tax Return Form 7 or ITR 7 is an income tax return form that is to be submitted by tax assessees who are required to file returns under key sub-sections of Section 139 of the Income Tax Act, 1961.

Eligibility Criteria for Tax Filing using ITR Form 7

The following the key individuals/businesses who can file income tax return using ITR-7:

Filing ITR 7 u/s 139(4A)

Income tax filing under Section 139(4A) is for any person who receives income from property used solely/partially for charitable or religious purposes. Additionally, in order to file income tax return using ITR 7, such property must be held under a legal obligation or as a trust.

Filing ITR Form 7 u/s 139(4B)

Section 139(4B) specifically applies to political parties. While political parties are exempt from taxation u/s Section 13A, this exemption applies only if they file annual returns using ITR 7. Section 13A also prescribes a basic exemption limit for political parties, thus ITR Form 7 needs to be filed only if the political party breaches this exemption limit.

Filing ITR Form 7 u/s 139 (4C)

Under existing income tax rules, returns need to be mandatorily filed using ITR 7 u/s 139 (4C) by the following entities:

- Scientific research association
- News agency
- Association or institution referred to in Section 10(23A)
- Various types of institutions listed in Section 10(23B)

Filing ITR 7 u/s 139 (4D)

Under rules of Section 139 (4D) all institutions, college and university who are not covered under any other section are required to mandatory file their income tax returns using ITR Form 7.

Surcharge:

Surcharge is a tax on tax. It is levied on the tax payable, and not on the income generated. For example, if you have an income of Rs 100 on which the tax is Rs 30, the surcharge would be 10% of Rs 30 or Rs 3. In India, a surcharge of 10% is levied if an individual’s income is more than Rs. 50 Lakhs and a surcharge of 15% is levied if the individual’s income is more than Rs 1 crore. In case of companies, it is levied if the income is more than Rs. 1 Crore.

Introduction of Surcharge for Individuals

Initially, the surcharge was levied on individuals with a total income more than Rs 1 crore at the rate of 10%. This rate was increased to 12% in the 2015 Budget and further to 15% in the 2016 Budget. The 2017 imposed a surcharge on those with an income above 50 lakh. Companies with an income above 1 crore are also liable to pay surcharge.

Health and Education Cess

In addition to surcharge, all individuals who are liable to pay income tax also have to pay health and education cess on the tax payable. Health and Education Cess is payable at a rate of 4%. It is levied on the tax payable and not on the underlying income. For example if an income of Rs 100 attracts a tax of Rs 30, the health and education cess would be 4% of Rs 30. This would come to Rs 1.2. Unlike surcharge, there are no thresholds for health and education cess – it is payable by all persons

liable to pay income tax.

Current rates of Surcharge

Following are the thresholds and the rates of surcharge applicable in case of various assesses.

- **Individuals, Hindu Undivided Family (HUFs), Body of Individuals (BOI), Association of Persons (AOP) and Artificial Judicial Person (AJP)**

Total Income	**Rate of Surcharge applicable**
Less than Rs. 50 Lakhs	Nil
Rs. 50 Lakhs to Rs. 1 Crore	10%
More than Rs. 1 Crore	15%

- **Domestic Company –** the following are the surcharge rates that are applicable in case domestic companies:

Total Income	**Rate of Surcharge applicable**
Less than Rs. 1 Crore	Nil
Rs. 1 Crore to Rs. 10 Crore	7%
More than Rs. 10 Crore	12%

- **Foreign Company – As per Income Tax Act, 1961,**
- Foreign company refers to a company whose control and management are situated wholly outside of India. Following surcharge rates are applicable in case foreign company:

Total Income	**Rate of Surcharge applicable**
Less than Rs. 1 Crore	Nil

Rs. 1 Crore to Rs. 10 Crore	2%
More than Rs. 10 Crore	5%

The rate of surcharge applicable in case of foreign companies is low as compared to that applicable to domestic companies and individuals because foreign companies are already taxed at a higher rate as compared to other assessees.

Calculation of Surcharge

Incomes from five separate heads are totaled to arrive at the Gross Total Income or GTI. This GTI is then reduced by various deductions under Chapter VI A to obtain the Net Total Income. This is the income on which tax is calculated. The rate of tax depends on the whether the assessee is an individual, firm, domestic company, etc. Once the tax is calculated, rate of surcharge is applied on this amount of tax. Hence, surcharge is calculated on the total Income Tax and not on the income itself. The amount of income is used just to determine the applicability of the surcharge. After computation of total income, surcharge is calculated on the income tax and not income.

To see the applicability and calculation of surcharge in case of individuals, please find below the examples of an individual assessee:

1. **Taxable Income is Rs. 49 Lakhs:** Suppose an individual has a taxable income of Rs. 49 Lakhs, in such case since the total taxable income is less than the minimum threshold limit of Rs. 50 Lakhs, surcharge is not applicable and hence the tax payable will be taxable as per the slab rates applicable.
2. **Taxable Income is Rs. 53 Lakhs:** In this case, since the taxable income of the individual is more than Rs. 50 Lakhs but less than Rs. 1 crore, he is liable to pay surcharge @10%. The income tax on Rs. 53 Lakhs is to be calculated as per the
3. normal slab rate, which amounts to Rs. 14,02,500. The rate of surcharge that is applicable in this case is 10 %, hence amount of surcharge would be 10% of Rs. 14,02,500 which is 1,40,250. Thus income tax payable (inclusive of surcharge would be Rs. 15,42,750 (Rs. 14,02,500 + Rs. 1,40,250).
4. **Taxable Income is Rs. 110 Lakhs:** In this case, since the taxable income of the individual is more than 1 crore, he is liable to pay surcharge @15%. The income tax on Rs. 110 Lakhs is to be calculated as per normal slab rate, which amounts to Rs. 31,12,500. The rate of surcharge that is applicable in this case will be 15 %, hence amount of surcharge would be 15% of 31,12,500 which is Rs. 4,66,875. Thus income tax payable (inclusive of surcharge would be Rs. 35,79,375/- (Rs. 31,12,500 + Rs. 4,66,875).

To see the applicability and calculation of surcharge in case of a domestic company, please find below the examples of tax payable including surcharge in case of a domestic company assessee:

1. **Taxable Income is Rs. 95 Lakhs:** Suppose a domestic company has a taxable income of Rs. 95 Lakhs taxable at the rate of 30%, in such a case, since the total taxable income is less than the minimum threshold limit of Rs. 1 crore, surcharge is not applicable and hence the company will be taxable as per applicable tax rates
2. **Taxable Income is Rs. 1.10 crores:** Suppose a domestic company has a taxable income of Rs. 1.10 crore taxable at the rate of 30%, in this case, since the taxable income is more than Rs. 1 crores but less than Rs. 10 crores, the company is liable to pay surcharge

at 7% on the total tax. The income tax on Rs. 1.10 crore is to be calculated as per applicable rate i.e. 30%, which amounts to Rs. 33,00,000. The rate of surcharge that is applicable in this case is 7 %, hence amount of surcharge would be 7% of 33,00,000 which is 2,31,000. Thus total tax payable inclusive of surcharge would be Rs. 35,31,000 (Rs. 33,00,000 + Rs. 2,31,000).

3. **Taxable Income is Rs. 15 crores:** In this case, since the taxable income is more than 10 crore, it is liable to pay surcharge @12%. The income tax on Rs. 15 crore is to be calculated as per normal tax rate of 30%, which amounts to Rs 4.5 crores. The rate of surcharge that is applicable in this case will be 12 %, hence amount of surcharge would be 12% of 4.5 crores which is 0.54 crores. Thus income tax payable (inclusive of surcharge) would be Rs. 5.04 crores (4.5 crores + 0.54 crores).

To see the applicability and calculation of surcharge in case of a foreign company, please find below the examples:

1. **Taxable Income is Rs. 95 Lakhs:** Suppose a foreign company has a taxable income of Rs. 95 Lakhs. This is taxable at a rate of 40%. In such a case, since the total taxable income is less than the minimum threshold limit of Rs. 100 Lakhs, surcharge is not applicable. The tax payable will be 40% of Rs 95 lakh which is Rs 38,00,000.
2. **Taxable Income is Rs. 1.10 Crores:** Suppose a foreign company has a taxable income of Rs. 1.1 crores taxable at the rate of 40%, in this case, since the taxable income is more than Rs. 1 crore but less than Rs. 10 crore, it is liable to pay surcharge @2%. The income tax on Rs. 1.1 crores is to be calculated as per applicable rate i.e. 40%, which amounts to Rs. 44,00,000/-. The rate of surcharge that is applicable in this case is 2%, hence amount of surcharge would be 2% of 44,00,000 which is 88,000/-. Thus income tax payable (inclusive of surcharge would be Rs. 44,88,000/- (44,00,000 + 88,000).
3. **Taxable Income is Rs. 15 crores:** In this case, since the taxable income is more than 10 crore, the company is liable to pay surcharge @5%. The income tax on Rs. 15 crores is to be calculated as per normal tax rate of 40%, which amounts to Rs. 6 crores. The rate of surcharge that is applicable in this case will be 5%, hence amount of surcharge would be 5% on Rs. 6 crores which is Rs.30 lakh. Thus the total income tax payable (inclusive of surcharge) would be Rs. 6.3 crores (Rs. 6 crore + Rs. 30 lakh crores).

The Concept of Marginal Relief

Surcharge is levied if the total income of the assessee exceeds the minimum amount prescribed and hence surcharge is payable by all the individuals or companies whose total income exceeds Rs. 50 Lakhs or Rs. 1 crore respectively. However in certain cases, assesses might become liable to pay surcharge even in case the income exceeds the limit marginally. To grant relief to such assesses, concept of marginal relief is introduced. As the name suggests, marginal relief is the relief granted to the taxpayer from the levy of surcharge if he is liable to surcharge due to the reason that his income marginally exceeds the limits prescribed.

The purpose of marginal relief is to ensure that the amount of tax payable including surcharge does not exceed the amount of income which exceeds the prescribed threshold. For example, if the income of the individual is more than Rs. 50 Lakhs, marginal relief will be applicable. This will ensure that income tax payable (inclusive of surcharge) on Rs. 50 Lakhs does not exceed the amount by which the individual's income exceeds Rs. 50 Lakhs.

The same can be understood with the help of following example in which **income of an individual is Rs. 50.1 lakhs**:

Since the income of the individual is more than Rs. 50 Lakhs but less than Rs. 1 crores, the individual will be liable for surcharge @ 10%. Calculation of tax liability inclusive of surcharge is as follows:

Total Income	50,10,000
Tax on total income as per slab rate (excluding surcharge)	13,15,500
Surcharge @10%	1,31,550
Total Tax payable (inclusive of surcharge)	**14,47,050**

In case, the tax payable if the amount of income was Rs. 50 Lakhs would be Rs. 13,12,500 (before surcharge). Thus it can be seen that when the income is increased by Rs. 50,000., tax liability increased by Rs. 1,34,550. To prevent such a situation, the provision of marginal relief is provided to the tax payers.

Calculation of Marginal Relief

Continuing from the above example, following steps show the calculation of Marginal relief:

Step 1: Calculation of income tax and surcharge: In this case, as calculated above, the income tax inclusive of surcharge on Rs. 50,10,000 is Rs. 14,47,050.

Step 2: Compare additional income and incremental tax:

Incremental salary = 50,10,000 – 50,00,000 = Rs. 10,000

Incremental Tax = 14,47,050 (income tax inclusive of surcharge on 50,10,000) – 13,12,500 (Income tax on 50,00,000) = 1,34,550

In this case, since incremental tax (1,34,550) is more than incremental income (10,000), the assessee is eligible for Marginal Relief. The total incremental tax inclusive of surcharge will be restricted to Rs. 10,000 based on the concept of marginal relief.

Step 3: Calculation of Surcharge taking into account marginal relief:

In this case, total income is Rs. 50,10,000 on which income tax excluding surcharge is Rs. 13,15,500. If the total income would have been Rs. 50 lakhs, income tax would have been calculated as Rs. 13,12,500. Hence, the incremental income tax (excluding surcharge) is Rs. 3,000 (Rs. 13,15,500 – Rs. 13,12,500).

Since the incremental income tax inclusive of surcharge can be maximum Rs. 10,000 and Rs. 3,000 is consumed in incremental income tax, maximum amount of surcharge will be limited to Rs. 7,000 (10,000 – 3,000).

Hence calculation of income tax including surcharge shall be as follows:

Total Income	50,10,000
Tax on total income as per slab rate (excluding surcharge)	13,15,500
Add: Surcharge after taking marginal relief into consideration	7,000
Tax payable after giving effect of marginal relief	**13,22,500**

However, it is to be noted that in case the incremental income tax inclusive of surcharge does not exceed the amount by which income exceeds the limits prescribed, the above calculation shall not be applicable and normal calculation of income tax shall apply.

I hope the above information is enough to help you successfully file your returns online this year. Here’s wishing you all the best!