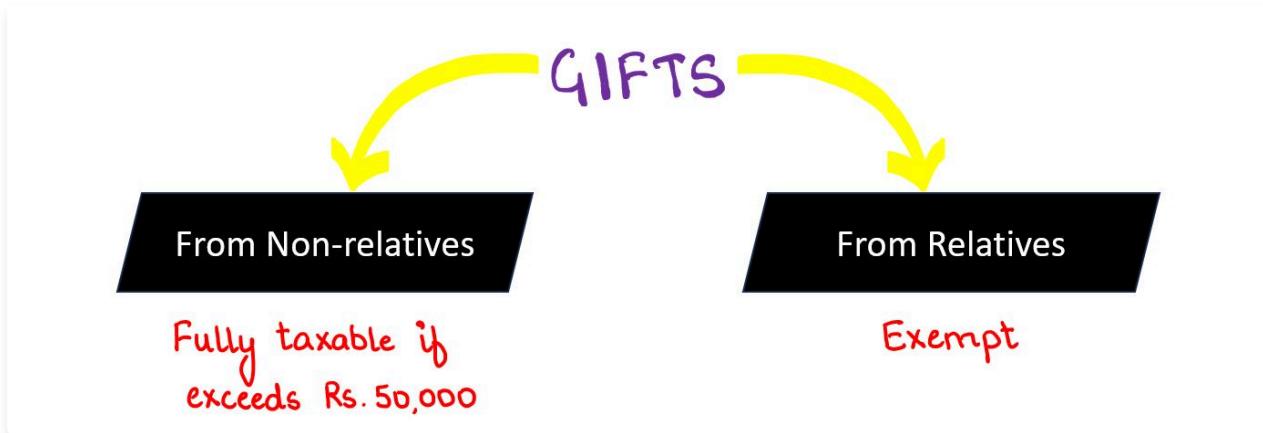


# **Auditing Course Material**

Part 38 of 61 (Chapters 3701-3800)

## 2. Specific Incomes

Section 56(2) enlists certain specific incomes which shall be chargeable to Income-tax under the head 'Income from Other Sources'.



These incomes are as follows:

- 1) Dividend received from a foreign company. [Refer points given under 'Tax treatment of Dividend received from a company' of the Chapter named *Corporate Tax Planning*]
- 2) Dividend received from domestic company by all resident persons (other than domestic company and approved or registered charitable trusts) shall be chargeable to tax at the rate of 10%, if aggregate amount of dividend received during the year exceeds Rs. 10,00,000. [upto AY 2020-21].
- 3) Winnings from lotteries, crossword puzzles, races including horse races, card games and other game of any sort, gambling or betting, of any form, whatsoever, are always taxed under this head. These incomes are known as casual incomes. Such incomes are taxable at a flat rate of 30% (+ Surcharge + HEC) on the gross winnings, by virtue of Section 115BB. In case of winning from lotteries or crossword puzzles or card games, or other games, payments exceeding Rs. 10,000, and in case of winnings from horse races, payments exceeding Rs. 5,000, are subject to TDS at the rate of 30%.

**Note:** Section 115BB of the Act has been amended to exclude income from winnings from online games from the purview of the said section from the **AY 2024-25**, since a new section 115BBJ has been introduced to tax winnings from online games from that assessment year at the rate of 30%.

- 4) Income by way of interest received on compensation or on enhanced compensation shall be chargeable to tax under the head "Income from other sources", and such income shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. In the case of such interest, a deduction of sum equal to 50% of such income, shall be allowed to the assessee.

5) Gifts are also taxed under this head. Nature of taxes on the various gifts are as follows:

- (i) Gift from non-relatives is fully taxable if the aggregate of the gifts received exceeds Rs. 50,000.
- (ii) Gift received from relatives is fully exempted from the levy of tax. The term "RELATIVE" includes: spouse of assessee, brother and sister of assessee, brother and sister of spouse of assessee, brother and sister of either of the parents of assessee, any lineal ascendant or descendant of the assessee, any lineal ascendant or descendant of the spouse of the assessee.
- (iii) Gift received on account of specified events are not taxable, even if value is greater than Rs. 50,000.

These are the **specified events**:

- a. On the marriage of individual
  - b. By will or inheritance
  - c. In contemplation of death of payer
  - d. From local authority
- 6) Any consideration received by a closely held company in previous year from any resident person, for issue of shares, which exceeds the face value of shares, then, the aggregate consideration received for such shares, which is in excess of fair market value, shall be taxable. Note that this is in the nature of 'Angel Tax'. Angel Tax is a tax levied on companies that issue fresh shares to investors at a price above the company's Fair Market Value. The excess of the Issue Price over and above the FMV was made taxable u/s 56(2)(viii) as an angel tax in the hands of the Company. Note that **Angel tax has been abolished with effect from FY 2025-26**, for all investor classes to strengthen India's start-up ecosystem.
- 7) Forfeiture of advance received for transfer of a capital asset to be taxed under the head "income from other sources".

8) Any compensation received /receivable (whether revenue or capital in nature), in connection with the termination or the modification of terms of employment.

9) Any specified sum received by a unit holder from a business trust during the previous year, with respect to a unit held by him at any time during the previous year. [Inserted vide Finance Act, 2023]

In addition to above, the following incomes are charged to tax under this head, if not taxed under the head "Profits and gains of business or profession".

i. Any contribution to a fund for welfare of employees received by the employer.

ii. Income by way of interest on securities.

iii. Income from letting out or hiring of plant, machinery or furniture.

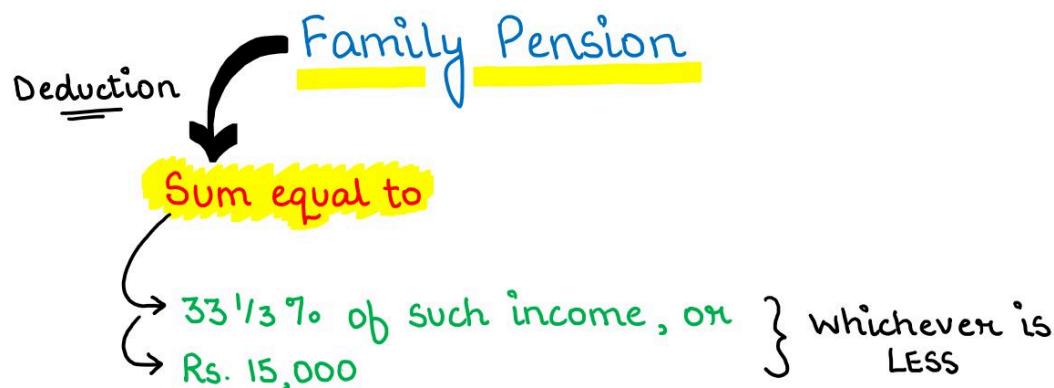
iv. Income from letting out of plant, machinery or furniture along with building and both the lettings are inseparable.

v. Any sum received under a Keyman Insurance Policy, including bonus.

Income chargeable to tax under the head "Income from other sources" is to be computed in accordance with the method of accounting regularly employed by the assessee. However, method of accounting does not affect basis of charge, in case of dividend income.

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### 3. Other incomes



Following are some of the other incomes which are normally chargeable to tax under this head because these are not covered under any of the four specified heads:

- 1) Income from sub-letting of a house property by a tenant;
- 2) Casual income;
- 3) Insurance commission;
- 4) Family pension (payments received by the legal heir of a deceased employee) – a standard deduction shall be allowed to the legal heir @ 33 1/3 % of such pension, or Rs. 15,000, whichever is less.
- 5) Directors' sitting fee for attending board meetings;
- 6) Interest on bank deposits/ deposits with companies;
- 7) Interest on loans;
- 8) Income from undisclosed sources;
- 9) Remuneration received by Members of Parliament;
- 10) Interest on securities of foreign governments;
- 11) Examinership fees received by a teacher from an institution, other than his employer;
- 12) Total interest till date on employee's contribution to an unrecognised provident fund at the time when the payment of lump sum amount from the unrecognized provident fund is due;
- 13) Rent from a vacant piece of plot of land;
- 14) Agricultural income from agricultural land situated outside India;
- 15) Interest received on delayed refund of income tax;
- 16) Income from royalty, if it is not income from business or profession;
- 17) Director's commission for standing as a guarantor to bankers;
- 18) Director's commission for underwriting shares of a new company;
- 19) Gratuity received by a director who, under the relevant contract, is not an employee or servant of the company, is assessable as income from other sources;
- 20) Income from racing establishment;
- 21) Income from granting of mining rights;
- 22) Income from markets, fisheries, rights of ferry or moorings;
- 23) Income from grant of grazing rights;
- 24) Interest paid by the Government on excess payment of advance tax, etc;
- 25) Income received after discontinuance of business.

Note that *Refund of Income Tax* is not income, but interest received on refund will be treated as income.

### **3. Other incomes**

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Such interest shall be exempt from tax to the extent of:

- (a) Rs. 3,500 in case of an individual account, and
  - (b) Rs. 7,000 in case of joint account
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### **3. Other incomes**

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R receives Rs. 2,00,000 from his father; Rs. 50,000 from his friend S and Rs. 20,000 from another friend T on the occasion of his birthday on 29.05.2024. Compute the sum taxable in the hands of R.

**Solution:**

Rs. 70,000 shall be taxable, being gifts received from outsiders.

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### **3. Other incomes**

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R receives a sum of Rs. 15,000 each from his friends S & T and another sum of Rs. 20,000 from his friend U. Discuss the tax liability of the sum received.

**Solution:**

Nothing is taxable as aggregate amount does not exceed Rs. 50,000.

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### **3. Other incomes**

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R receives Rs. 10 Lakh from his relatives and the parents of his wife on the occasion of their marriage. He also received one car and large amount of jewellery from the parents of his wife. Further he receives aggregate sum of Rs. 6,00,000 from persons other than relatives on the said occasion. Discuss the taxability of such gifts.

**Solution:**

Nothing is taxable as gifts received on occasion of marriage shall be exempt whether these are received from relatives or other persons.

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### 3. Other incomes

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R whose property was compulsorily acquired in 2016 received enhanced compensation of Rs. 9,00,000 on 15.11.2023 which includes Rs. 2,40,000 as interest on such enhanced compensation. Discuss the tax liability of such compensation.

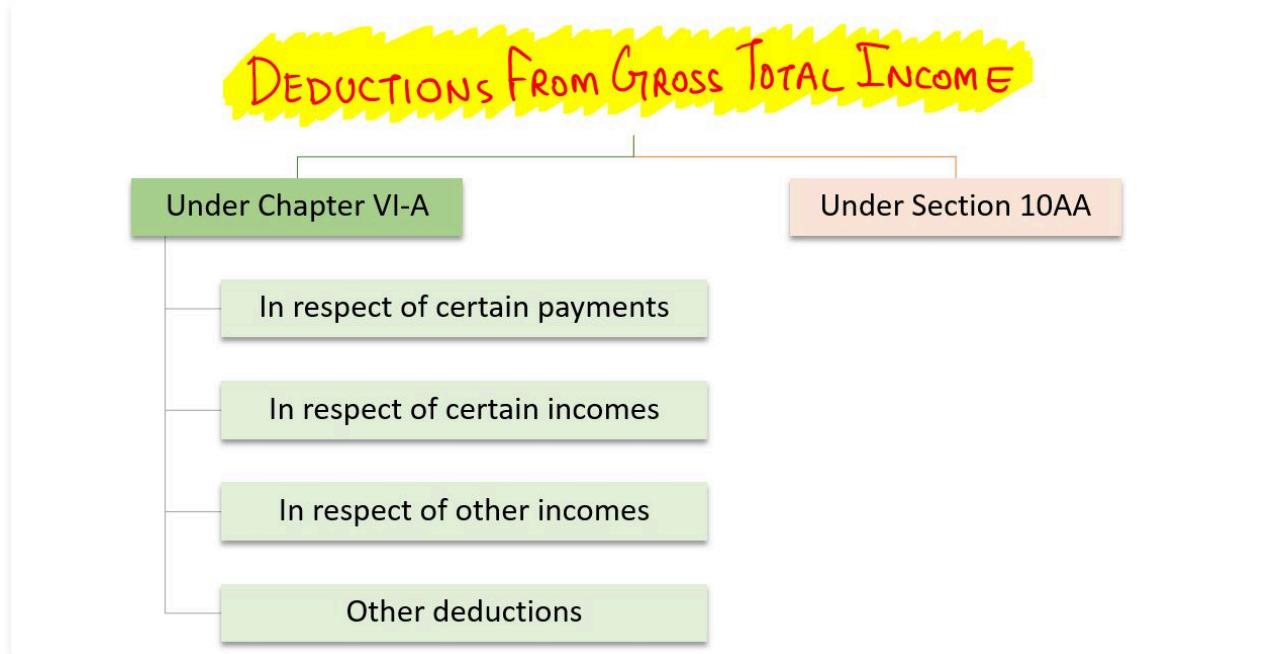
**Solution:**

Enhanced compensation of Rs. 9,00,000 – Rs. 2,40,000 = Rs. 6,60,000 shall be taxable under the head capital gain. Whereas interest on enhanced compensation shall be taxable under the head income from other sources as under:

Particulars	Amt. in Rs.
Interest on enhanced compensation received	2,40,000
Less: Deduction @ 50%	1,20,000
Balance Taxable	1,20,000

## 1. Introduction

In computing the total income of an assessee, certain deductions are permissible under **Chapter VI-A** of the Income Tax Act, 1961, from the gross total income. These deductions are available in the form of tax-free investments and deductions, in respect of certain expenditures incurred by the assessee, towards medical treatment, higher education, etc., for the relevant financial year. They include deductions under Section 80C to 80U of the Act.



The following essential rules have to be kept in mind while calculating deductions under Sec. 80C to 80U:

- 1) These deductions are allowed from gross total income.
- 2) The aggregate amount of deductions cannot exceed gross total income, i.e., gross total income after excluding LTCG, STCG taxable under Section 111A, winning from lotteries, races, etc., and income referred to in Sec. 115A, 115AB, 115AC, 115AD, 115BBA and 115D. *For instance*, if gross total income is nil, deductions under these sections cannot be claimed.
- 3) Deduction u/s 80-IA to 80U is admissible in respect of 'net income', i.e., income arrived at after deducting permissible deductions and adjusting current or brought forward losses.
- 4) Double deduction is not possible in respect of the same business income under Sections 10A, 10AA, 10B, 10BA and 80H to 80RRB.
- 5) The aggregate deductions under the provisions of Sections specified in Point 4 supra, shall not exceed the profits and gains of the undertaking or unit or enterprise of eligible business, as the case may be.
- 6) No deduction under the provisions of Sections, specified in Point 4 supra, shall be allowed, if the deduction has not been claimed in the return of income.
- 7) Deductions under Sec. 80HH to 80RRB is not available, if return of income is not submitted on or before due date u/s 139(1).
- 8) For the purpose of claiming deduction under the sections specified in Point 4 supra, the transfer price of goods & services between the undertaking (who is eligible for these deductions) and any other undertaking or unit or enterprise or business of the assessee, shall be determined at the market value (or arm's length price) of such goods or services, on the date of transfer.
- 9) Revenue subsidies from the government, towards reimbursement of cost of production/ manufacture or for sale of manufactured goods, are part of profits and gains of business derived from an industrial undertaking/ eligible business, for the purpose of computing deduction under Sec. 80-IA, 80-IB, etc.
- 10) Deduction under Chapter VI-A is admissible on the profits, so enhanced, by the disallowances under Sec. 32, 40(a)(ia), 40A(3), 43B, etc.

Note that certain deductions from Gross Total Income are also covered under Section 10AA of the Act.

## 2. Deductions u/s 80C to 80U

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The deductions under Section 80C to 80U are discussed next one by one.

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### 3. Section 80C – in respect of Specified qualifying amounts

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Section 80C provides deduction in respect of specified qualifying amounts paid or deposited by the assessee (being an individual or HUF) in the previous year.

Following are the **main provisions** of Section 80C:

- (a) Under this section, the deduction would be available from Gross Total Income.
  - (b) Deduction is available on the basis of specified qualifying investments/ contributions/ deposits/ payments (hereinafter, referred to as 'gross qualifying amount') made by the taxpayer during the previous year.
  - (c) The maximum amount deductible under Sections 80C, 80CCC and 80CCD(1) cannot exceed Rs. 1,50,000.
-

### **3. Section 80C – in respect of Specified qualifying amounts**

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The various investment avenues or expenses that can be claimed as tax deductions under section 80C are as below. In other words, **Gross qualifying amount is the aggregate of the following:**

1) Life insurance premium (including payment made by Government Employees to the Central Government Employees' insurance scheme and payment by a person under children's deferred endowment assurance policy); Life insurance premium (in case of individual, on life of assessee, assessee's spouse and any child of assessee; and in case of HUF, on life of any member of the HUF) – subject to maximum of following percentages of sum assured:

- a. 20%, if policy is issued before 01.04.2012.
- b. 10%, if policy is issued on or after 01.04.2012.
- c. 15%, if policy is issued on or after 01.04.2013, on the life of a person with disability (or severe disability) or on the life of a person suffering from disease or ailment as given in Sec. 80DDB).

2) Payment in respect of non-commutable deferred annuity.

3) Sum deducted from salary payable to Government servant for securing deferred annuity or making provision for his wife/children [qualifying amount limited to 20% of salary].

4) Contribution by an employee to statutory provident fund and recognized provident fund.

5) Contribution to Public Provident Fund Account (in case of individual, in the name of such individual or his spouse or any child of such individual; and in case of HUF, any member, thereof).

6) Contribution by an employee to an approved superannuation fund.

7) Subscription to notified savings certificates, (VIII Issue or IX issue) and deposit in Sukanya Samridhi Account.

8) Contribution for participation in Unit-Linked Insurance Plan (ULIP) of UTI by individual / HUF.

9) Contribution to notified ULIP of LIC Mutual Fund by individual / HUF (i.e., formally known as Dhanraksha plan of LIC Mutual Fund).

10) Sum paid towards notified annuity plan of LIC or other insurer.

11) Subscription to any units of any notified Mutual Fund or the UTI.

12) Contribution by an individual to any pension fund set up by any mutual fund which is referred to in Section 10(23D) or by the UTI (UTI Retirement Benefit Pension Fund).

13) Subscription to notified deposit scheme or notified pension fund setup by National Housing Bank.

14) Subscription to notified schemes of (a) public sector companies engaged in providing long-term finance for purchase/construction of residential houses in India, (b) housing board constituted in India for the purpose of planning, development or improvement of cities/ towns.

15) Tuition fees (excluding development fees, donations, etc.) paid by an individual to any university, college, school or other educational institution situated in India, for full time education of any 2 of his/her children.

16) Any instalment / part-payment towards the cost of purchase/construction of a residential property to a housing board/ co-operative society (or repayment of housing loan taken from Government, bank, cooperative bank, LIC, National Housing Bank, assessee's employer, where such employer is public company/ public sector company/university/co-operative society).

17) Amount invested in approved debentures of, and equity shares in, a public company engaged in infrastructure including power sector or units of a mutual fund proceeds, of which are utilized for the developing, maintaining, etc., of a new infrastructure facility.

18) Amount deposited as term deposit for a period of 5 years or more in accordance with a scheme framed by the Government.

19) Subscription to notified bonds issued by the NABARD.

20) Amount deposited under Senior Citizens Saving Scheme.

21) Amount deposited in the 5 year time-deposit scheme in post office.

22) Amount contributed (for a fixed period of not less than 3 years) by Central Government employee to his NPS (Tier-II) Account.

#### **Steps to Compute Deduction under Section 80C**

Computation of 'Deduction u/s 80C' can be explained in following 3 steps:

<b>Step 1</b>	<i>Gross qualifying amount, i.e. aggregate of the amounts/ investments specified above.</i>
<b>Step 2</b>	Deduction under Sec. 80C is available on the basis of <i>net qualifying amount</i> , which is determined as – <i>Gross qualifying amount or Rs. 1,50,000, whichever is lower.</i>

**Step 3**

*Amount of deduction – Net qualifying amount is deductible. The maximum amount deductible under Sec. 80C is Rs. 1,50,000. Moreover, the aggregate amount of deduction under Sec. 80C, 80CCC and 80CCD(1) [i.e. contribution by employee (or other individual) towards National Pension Scheme (NPS)] cannot exceed Rs. 1,50,000.*

## 4. Section 80CCA – in respect of National Savings Scheme

This deduction was available only for AYs 1988-89 to 1992-93, in the case of an individual and HUF.

## 5. Section 80CCB – in respect of Equity Linked Savings Scheme

This deduction was available only for AYs 1991-92 and 1992-93, in respect of investment made in accordance with the notified Equity Linked Scheme. No deduction is available from the AY 1993-94.

## 6. Section 80CCC – in respect of Pension Fund

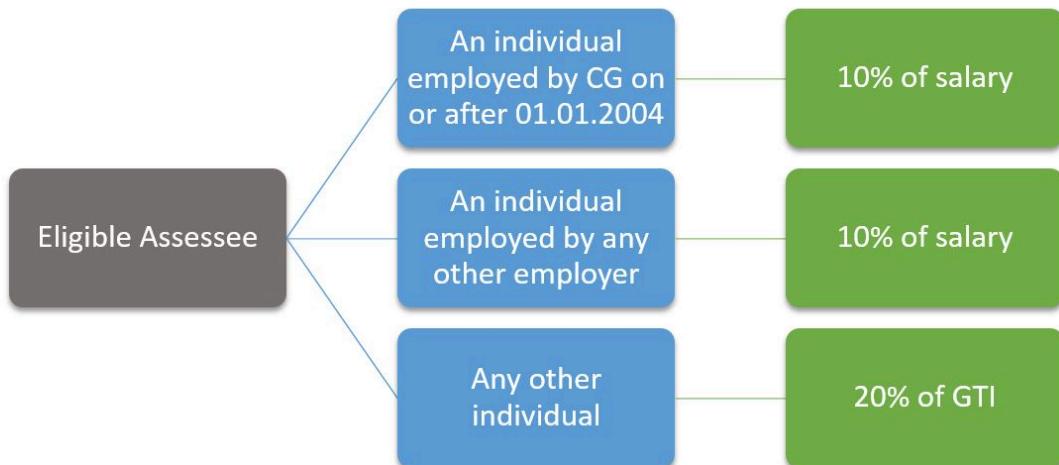


Section 80CCC provides a deduction to an individual for any amount paid or deposited in any annuity plan of LIC or any other insurer. Pension received from the annuity or amount received upon surrender of the annuity, including interest or bonus accrued on the annuity, is taxable in the year of receipt upto Rs 1,50,000, subject to a maximum of overall limit of Rs. 1,50,000, under Section 80C, 80CCC and 80CCD(1) (i.e., contribution by an employee (or any other individual) towards NPS cannot exceed Rs. 1,50,000. However, employer's contribution towards NPS (to the extent of 10% of employee's salary) shall not be considered for the ceiling of Rs. 1,50,000).

## 7. Section 80CCD – in respect of contribution to a National Pension System (NPS)

NPS covers New Pension Scheme and Atal Pension Yojana. An individual, who is employed by the Central Government, will have to join NPS, on compulsory basis. Any other employee, or even a self-employed person, may join NPS, at their option. Employer's contribution to NPS is taxable as salary income in the year of contribution.

### SECTION 80CCD- CONTRIBUTION To NPS



#### Deduction under Sec. 80CCD (2) in respect of employer's contribution to NPS

Contribution by the employer to NPS is deductible in the hands of the concerned employee, in the year in which contribution is made. However, no deduction is available in respect of employer's contribution, which is in excess of 10% (14%, if employer is the Central Government) of the salary of the employee.

#### Deduction under Sec. 80CCD (1) in respect of employee's contribution to NPS

Employee's contribution to NPS is deductible in the year in which contribution is made. However, deduction on account of employee's contribution, is limited to 10% of the salary of the employee. The deduction is 20% of gross total income, in case the taxpayer is self-employed.

#### Combined Maximum Ceiling

The aggregate amount of deduction under Sec. 80C, 80CCC and 80CCD(1) cannot exceed Rs. 1,50,000. However, employer's contribution towards NPS (to the extent of 10% of employee's salary), shall not be considered for the ceiling of Rs. 1,50,000.

#### Additional deduction under Sec. 80CCD (1B)

An employee (or any other person) can contribute to NPS and claim (up to Rs. 50,000) additional deduction under this section. On the additional contribution, the ceiling of Rs. 1,50,000 (as given above), is not applicable.

Salary, for calculating 10% limit for the above purpose, includes DA, if the terms of employment, so provide, and commission, if calculated at a percentage of turnover achieved by an employee. However, it excludes all other allowances and perquisites.

Note that **Budget 2024** has now increased the deduction limit to 14% of the salary of the employee during the previous year for the employer's contribution to pension scheme.

## **7. Section 80CCD – in respect of contribution to a National Pension System (NPS)**

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The amounts standing to the credit of an assessee in NPS, for which a deduction has already been claimed by the assessee, and accretions to such account, shall be taxed as follows:

1. Partial withdrawal from NPS (not exceeding 25% of an employee's contribution)	Exempt
2. Amount received by an employee (or a non-employee) on closure of account or on his opting out of NPS	60% Exempt
3. In (2), amount is received by a nominee on the death of the assessee	Exempt
4. Pension received out of NPS	Taxable
5. Amount received in (2), (3), (4) is utilized for purchasing an annuity plan in the same previous year	Exempt
6. Pension received out of annuity plan purchased in (5)	Taxable

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## **8. Section 80CCE – Combined maximum ceiling**

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This section restricts the aggregate amount of deduction under Section 80C, 80CCC and 80CCD(1) to Rs. 1,50,000. It may be noted that the deduction of up to Rs. 50,000 under Section 80CCD (1B) and employer's contribution to pension scheme, allowable as deduction under Section 80CCD(2) in the hands of the employee, would be outside the overall limit of Rs 1,50,000, stipulated under Section 80CCE.

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## **9. Section 80CCG – in respect of investment made under any Equity Saving Scheme**

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Deduction, under this section, would be available to a new retail investor, being a resident individual with gross total income of up to Rs. 12 lakh, for investment in listed equity shares or listed units of equity oriented fund, in accordance with a notified scheme. The deduction is 50% of amount invested in such equity shares or Rs. 25,000, whichever is lower. Further, the deduction shall be allowed for 3 consecutive assessment years, beginning with the assessment year relevant to the previous year in which the listed equity shares or listed units of equity oriented fund were first acquired. Moreover, deduction is available up to the AY 2017-18.

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## 10. Section 80CCH – in respect of contribution to Agnipath Scheme

A new section 80CCH to the Act has been inserted vide Finance Act 2023 to provide that an assessee, being an individual enrolled in the Agnipath Scheme and subscribing to the Agniveer Corpus Fund on or after the 1st day of November, 2022, shall be allowed a deduction of the whole of the amount deposited by him and also the amount contributed by the Central Government to his account in the Agniveer Corpus Fund, from his total income.

## 11. Section 80D – in respect of Medical Insurance Premia

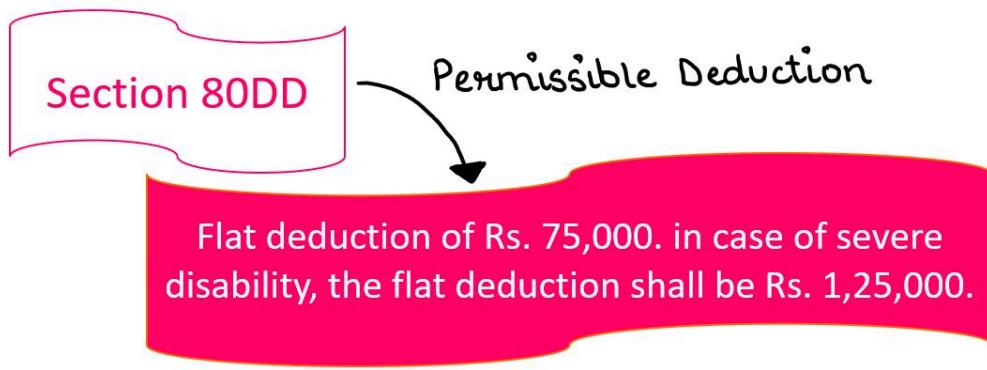
This deduction is available to an individual (resident /non-resident or Indian citizen/ foreign citizen) or an HUF (resident or non-resident). Payment should be made out of income chargeable to tax by any mode other than cash. However, payment on account of preventive health check-up can be made by any mode (including cash).

The maximum deductible amount and other relevant points are given below:

### SECTION 80D- MEDICAL INSURANCE PREMIA

		Deduction in the case of individual		Deduction in the case of HUF
For whose benefit, payment can be made		Family	Parents	Any member of HUF
<b>A.</b>	a. Medi-claim insurance premium b. Contribution to CGHS/ notified scheme c. Preventive health-check-up payment	Eligible Eligible Eligible	Eligible - Eligible	Eligible - -
	Maximum Deduction: - General Deduction (applicable in respect of (a), (b) and (c)) - Additional Deduction (applicable only in case of (a) when Mediclaim policy is taken on the life of senior citizen)	Rs. 25,000 Rs. 25,000	Rs. 25,000 Rs. 25,000	Rs. 25,000 Rs. 25,000
<b>B.</b>	Medical expenditure on the health of a person who is a super senior citizen (senior citizen from AY 2019-20) if Mediclaim insurance is not paid on the health of such person	Eligible	Eligible	Eligible
	Maximum deduction in respect of (B)	Rs. 50,000	Rs. 50,000	Rs. 50,000
<b>C.</b>	Maximum deduction in respect of (A) & (B)	Rs. 50,000	Rs. 50,000	Rs. 50,000

## 12. Section 80DD – in respect of maintenance including Medical Treatment of a dependent being a person with disability

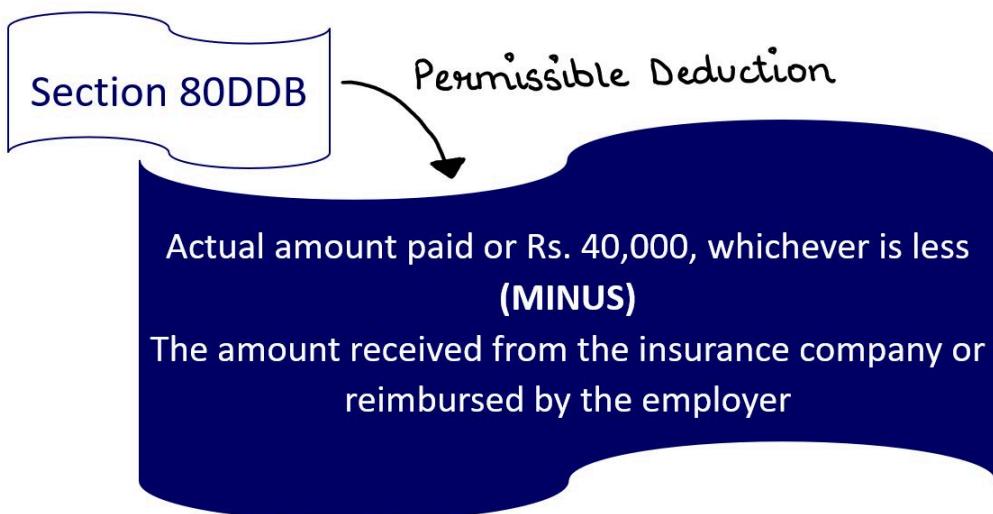


A resident individual or a resident HUF can claim deduction under section 80DD. One can claim fixed deduction of Rs. 75,000 for spending on medical treatment of his dependents (*spouse, parents, children or siblings, who is wholly or mainly dependent upon the individual and in the case of HUF, 'dependent' means any member (of the family), who is wholly and mainly dependent upon the family*) who have 40% disability.

A higher deduction of Rs 1,25,000 is available, in case of severe disability (80% or more). Deduction can also be claimed, if the resident individual/ HUF has paid or deposited under any approved scheme of LIC (or any other insurer) or UTI for the maintenance of such dependent relative. Deduction under this section is available regardless of actual expenditure.

To claim this deduction, the assessee should have a certificate issued by the medical authority.

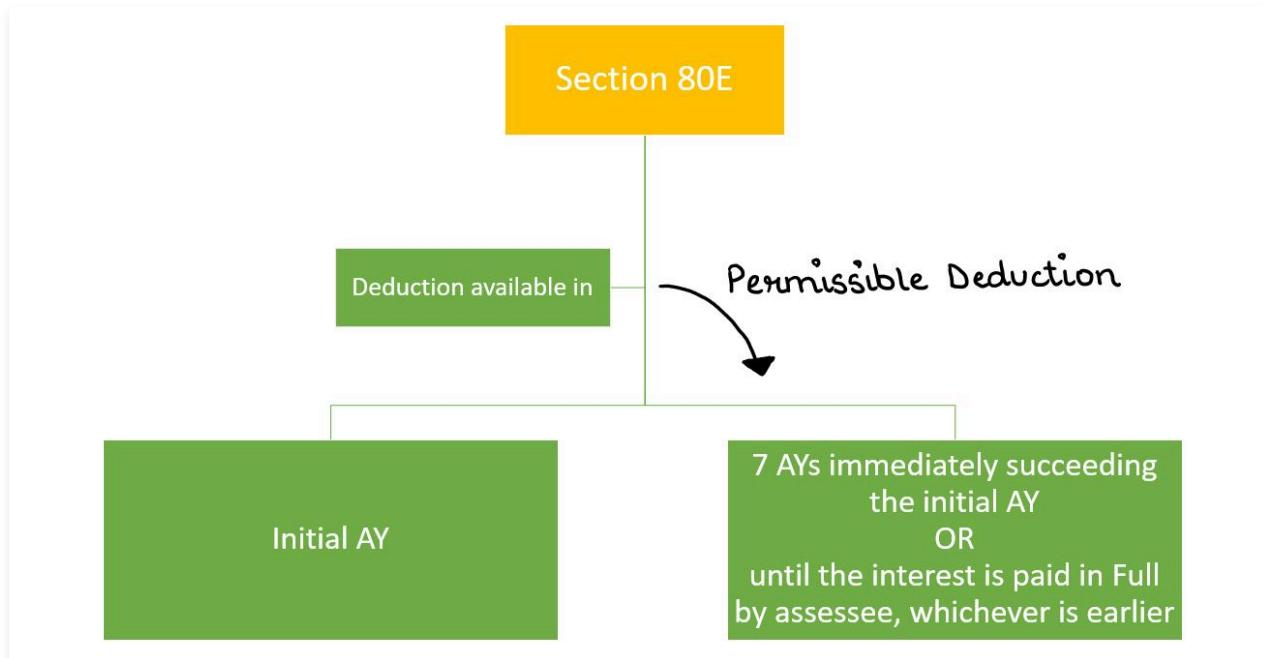
## 13. Section 80DDB – in respect of medical treatment, etc.



A resident individual or a resident HUF can claim deduction under Sec. 80DDB, if he/it has actually incurred expenditure for the medical treatment of a specified disease or ailments towards treatment of the assessee himself or wholly/mainly dependent husband/ wife, children, parents, brothers and sisters of an individual (any member of the family, in the case of HUF).

Actual expenditure on medical treatment or Rs. 40,000 (Rs. 1,00,000 in the case of a senior citizen, who is 60 years of age), whichever is lower, is deductible. Deduction under this Section shall be reduced by the amount received, if any, under insurance from an insurer, or reimbursed by an employer, for the medical treatment of the person referred to above. The assessee is required to obtain a prescription from a specialist doctor for availing this deduction.

## 14. Section 80E – in respect of payment of interest on loan taken for higher education

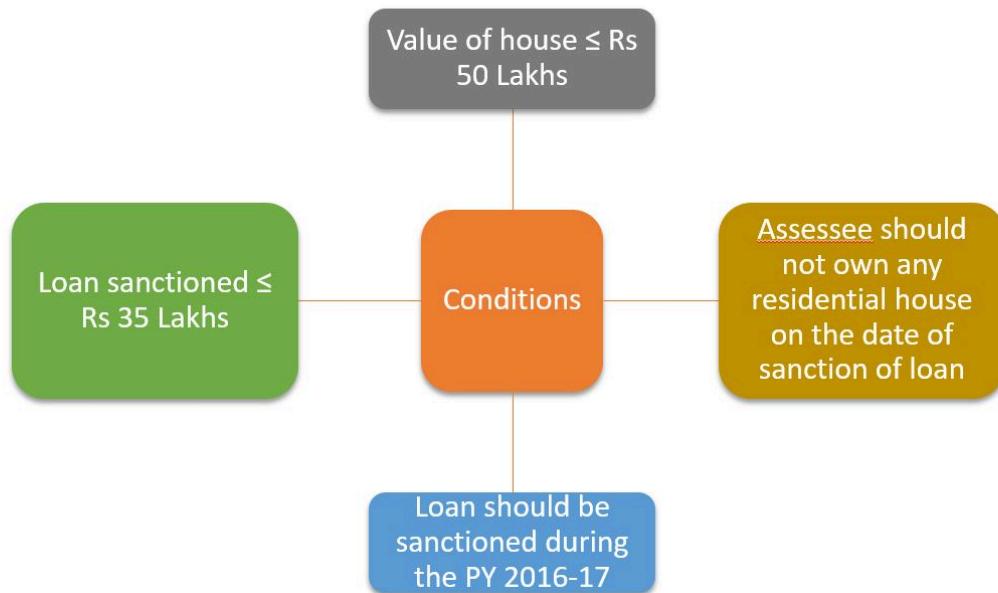


Only an individual can claim deduction u/s 80E. If an individual takes any loan for higher studies (*after completing Senior Secondary Exam*) in India or outside India, from a bank, financial institution or an approved charitable institution, tax deduction can be claimed under Section 80E for interest that he pays towards his Education Loan. This loan should have been taken for higher education, for himself, his spouse or his children, or for a student for whom, he is a legal guardian.

Principal Repayment on educational loan cannot be claimed as tax deduction. There is no limit on the amount of interest, he can claim as deduction under Section 80E. The deduction is available for a maximum of 8 years or till the interest is paid, whichever is earlier. However, interest should be paid out of income chargeable to tax.

## 15. Section 80EE – in respect of loan taken for residential house property

### SEC. 80EE - LOAN TAKEN FOR RESIDENTIAL HOUSE PROPERTY



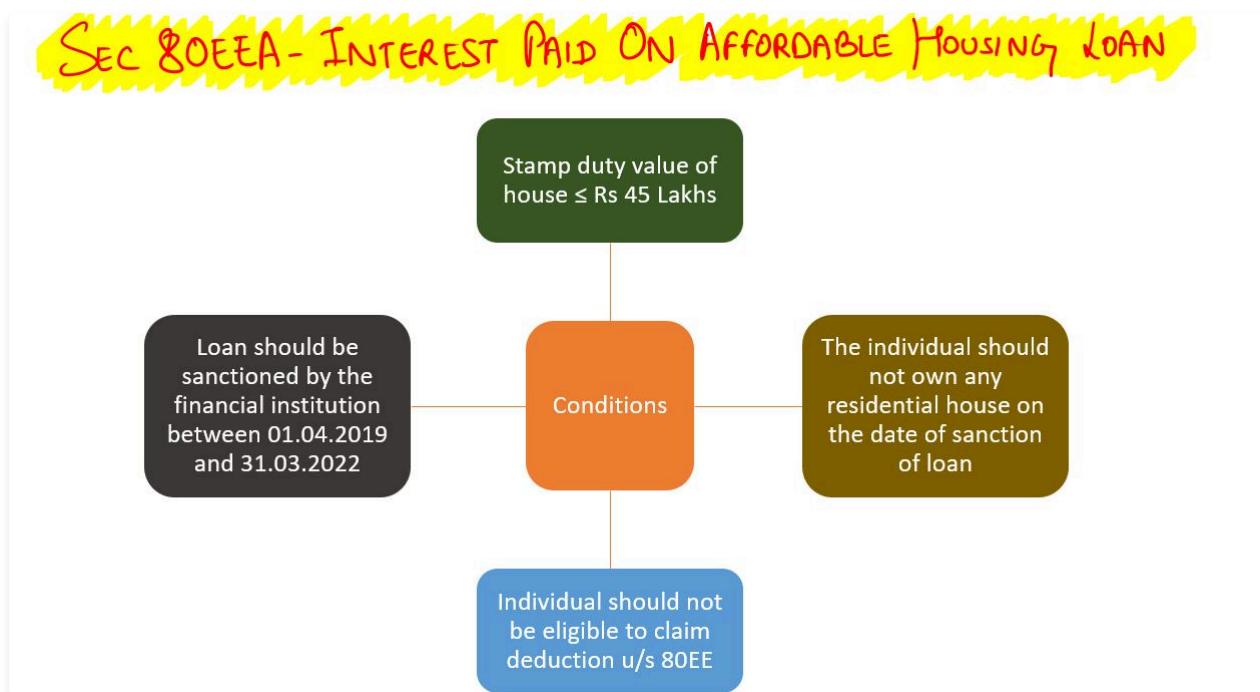
This is a deduction in respect of interest on loan taken for residential house property and is available only to individuals (resident or non-resident).

The conditions to be met, for claiming such deduction, are described below.

- 1) Value of the residential house property does not exceed Rs. 50 Lakh.
- 2) The amount of loan sanctioned for residential house property does not exceed Rs. 35 Lakh.
- 3) The loan must be sanctioned by a bank or housing finance company.
- 4) The loan must be sanctioned between 01.04.2016 to 31.03.2017.
- 5) As on the date of the sanction of loan, no other house must be owned by the assessee.

If the above conditions are satisfied, the assessee can claim deduction u/s 80EE, in respect of interest payable on the above loan or Rs. 50,000, whichever is less. Deduction is available for the AY 2017-18 and subsequent AYs. If deduction is claimed u/s 80EE, no deduction will be allowed in respect of such interest, under any other provision of the Act for the same or any other AY.

## 16. Section 80EEA – in respect of interest paid on housing loan taken for affordable housing



Sec. 80EEA has been inserted with effect from the AY 2020-21. It is available to an individual.

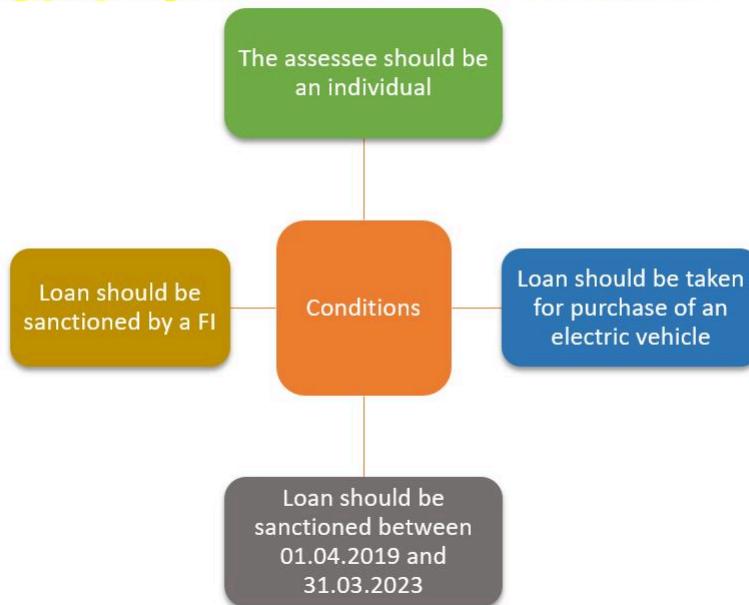
An individual can claim deduction up to Rs. 1,50,000 under this section subject to the satisfaction of following conditions:

- a) The assessee is not eligible to claim any deduction under Sec. 80EE;
- b) The loan should be sanctioned by the financial institution (i.e., bank or banking institution or housing finance company) during the period beginning on 01-04-2019 and ending on 31-03-2022;
- c) The stamp duty value of residential house property should not exceed Rs. 45 lakhs;
- d) The assessee should not own any residential house property on the date of sanction of loan.

If the above conditions are satisfied, the assessee can claim deduction u/s 80EEA, in respect of interest payable on the above loan or Rs. 1,50,000, whichever is less. Deduction is available for the AY 2020-21 and subsequent AYs. If interest is claimed as deduction u/s 80EEA, such interest is not again deductible under Section 24(b) or under any other provisions of the act for the same or any other AY.

## 17. Section 80EEB – in respect of interest on loan taken for purchase of electric vehicle

### SEC. 80EEB - INTEREST ON LOAN TAKEN ON ELECTRIC VEHICLE



This Section has been inserted from the AY 2020-21.

Under this Section, deduction is available, if the following conditions are satisfied:

- 1) The assessee is an individual.
- 2) He has taken a loan for the purpose of purchase of electric vehicle.
- 3) Loan is taken from a financial institution (i.e., a bank or any deposit taking NBFC or a systematically important non-deposit taking NBFC).
- 4) Loan is sanctioned during 01.04.2019 and 31.03.2023.

If the above conditions are satisfied, the assessee can claim deduction in respect of interest payable on the above loan or Rs. 1,50,000, whichever is less. Deduction is available for the AY 2020-21 and subsequent years. If interest is claimed as deduction under this Section, deduction shall not be allowed in respect of such interest, under any other provision of this Act, for the same or any other assessment year.

## **18. Section 80G – in respect of donation to certain funds, charitable institutions, etc.**

Contributions made to certain relief funds and charitable institutions can be claimed as a deduction under Section 80G of the Income Tax Act and is available to any taxpayer (may be resident or non-resident individual, company, firm or any other person). This deduction can only be claimed when the contribution has been made via cheque or draft or in cash. But deduction is not allowed for donations made in cash, exceeding Rs 2,000 (from FY 2017-18 onwards). Prior to FY 2017-18, the amount was Rs. 10,000. In-kind contributions such as food material, clothes, medicines etc. do not qualify for deduction under Section 80G.

It is calculated under the following 3 steps:

<b>Step 1</b>	Gross qualifying amount, i.e., aggregate of the donations made to any of the institutions/funds given below.
<b>Step 2</b>	Net qualifying amount, i.e., limited to 10% of adjusted gross total income of the assessee.
<b>Step 3</b>	Amount deductible, i.e., the various donations specified in Section 80G, are eligible for a deduction of up to either 100% or 50%, with or without restriction, as provided in Section 80G (given below).

### **Donations Eligible for 100% deduction without qualifying limit**

Donations Eligible for 100% deduction without qualifying limit are listed below.

- 1) National Defence Fund set up by the Central Government
- 2) Prime Minister's National Relief Fund or (w.e.f. AY 2020-21) Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund)
- 3) Prime Minister's Armenia Earthquake Relief fund
- 4) Africa (Public Contributions - India) Fund
- 5) National Foundation for Communal Harmony
- 6) An approved university/educational institution of National eminence
- 7) The Maharashtra Chief Minister's Earthquake Relief Fund
- 8) Any fund set up by the State Government of Gujarat, exclusively for providing relief to the victims of earthquake in Gujarat
- 9) Zila Saksharta Samiti constituted in any district
- 10) National Blood Transfusion Council or to any State Blood Transfusion Council
- 11) Any fund set up by a State Government for medical relief to the poor
- 12) The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air Force Central Welfare Fund
- 13) The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
- 14) National Illness Assistance Fund
- 15) The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund, with respect to any State or Union Territory
- 16) National Sports Fund set up by the Central Government
- 17) National Cultural Fund set up by the Central Government
- 18) Fund for Technology Development and Application set up by the Central Government
- 19) National Trust for Welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
- 20) National Children's Fund
- 21) Donations made by any assessee (resident and non-resident) to the Swachh Bharat Kosh, set up by the Central Government (eligible for deduction u/s 80G, only if the amount is not spent by the assessee in pursuance of CSR u/s 135(5) of Companies Act, 2013).
- 22) Donations made by a resident assessee to Clean Ganga Fund set up by the Central Government (eligible for deduction u/s 80G, only if the amount is not spent by the assessee in pursuance of CSR u/s 135(5) of Companies Act, 2013).
- 23) The National Fund for Control of Drug Abuse.

### **Donations Eligible for 50% Deduction without qualifying limit**

Donations Eligible for 50% Deduction without qualifying limit are listed below.

- 1) Jawaharlal Nehru Memorial Fund (Omitted vide Finance Act 2023, w.e.f. 01.04.2024)
- 2) Prime Minister's Drought Relief Fund
- 3) Indira Gandhi Memorial Trust (Omitted vide Finance Act 2023, w.e.f. 01.04.2024)
- 4) Rajiv Gandhi Foundation (Omitted vide Finance Act 2023, w.e.f. 01.04.2024)

#### **Donations Eligible for 100% Deduction subject to qualifying limit**

Donations Eligible for 100% Deduction subject to qualifying limit are listed below.

- 1) Donations to the government or any approved local authority, institution or association to be utilized for the purpose of promoting family planning.
- 2) 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.

#### **Donations Eligible for 50% Deduction subject to qualifying limit**

- 1) Any other fund or any institution which satisfies the conditions mentioned in Section 80G(5).
- 2) Donation to Government or any approved local authority, institution or association to be utilized for any charitable purpose, other than promoting family planning.
- 3) To 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.
- 4) To any corporation established by the Central or any State Government for promoting the interest of the minority community.
- 5) For repairs or renovation of any notified temple, mosque, gurudwara, church or other places.

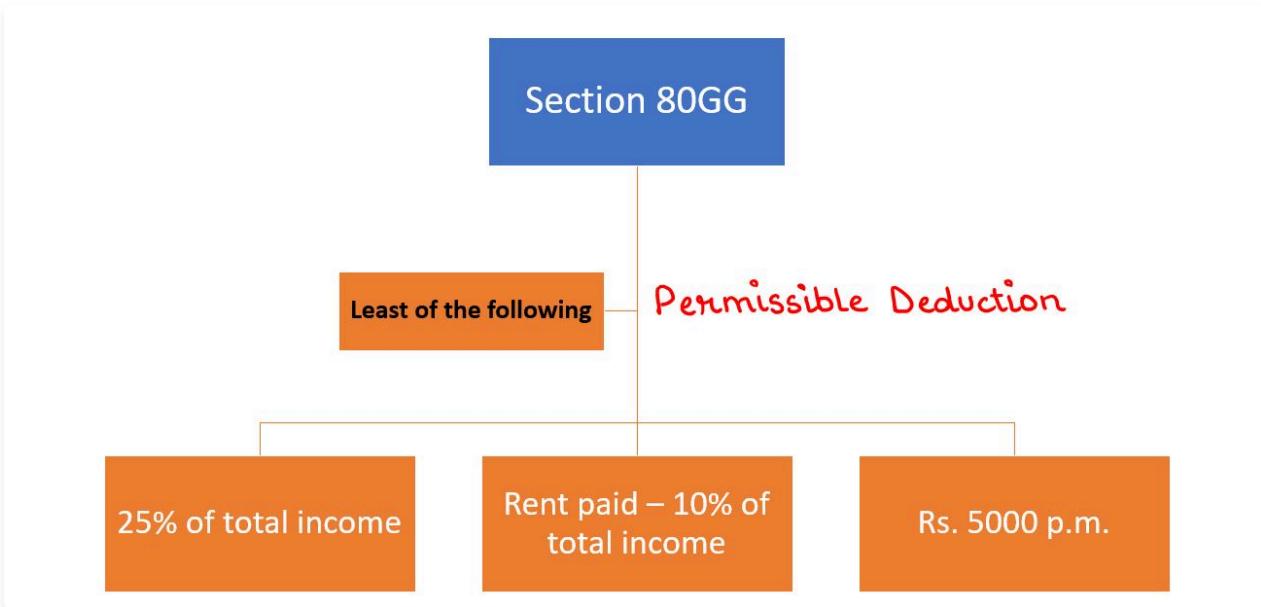
For applying **qualifying limit**, all donations made to funds/ institutions shall be aggregated and the aggregate amount shall be limited to 10% of Adjusted Gross Total Income. In other words, where the aggregate of the sums mentioned at 3. and 5. exceeds 10% of the adjusted gross total income, then the amount in excess of 10% of the adjusted gross total income, will be ignored while computing the aggregate of the sums, in respect of which deduction is to be allowed.

## **18. Section 80G – in respect of donation to certain funds, charitable institutions, etc.**

Steps to calculate adjusted gross total is given below.

<b>Gross Total Income</b>	<b>XXX</b>
Less: Exempt Income	XXX
Less: Long Term Capital Gain	XXX
Less: Short term capital gain on sale of shares u/s 111A	XXX
Less: Deductions u/s 80CCC to 80U (excluding 80G)	XXX
Less: Income referred to in Section 115A, 115AB, 115AC, 115AD	XXX (XXX)
<b>Adjusted Gross Total income</b>	<b>XXX</b>

## 19. Section 80GG – in respect of rent paid



Only an individual can claim deduction u/s 80GG.

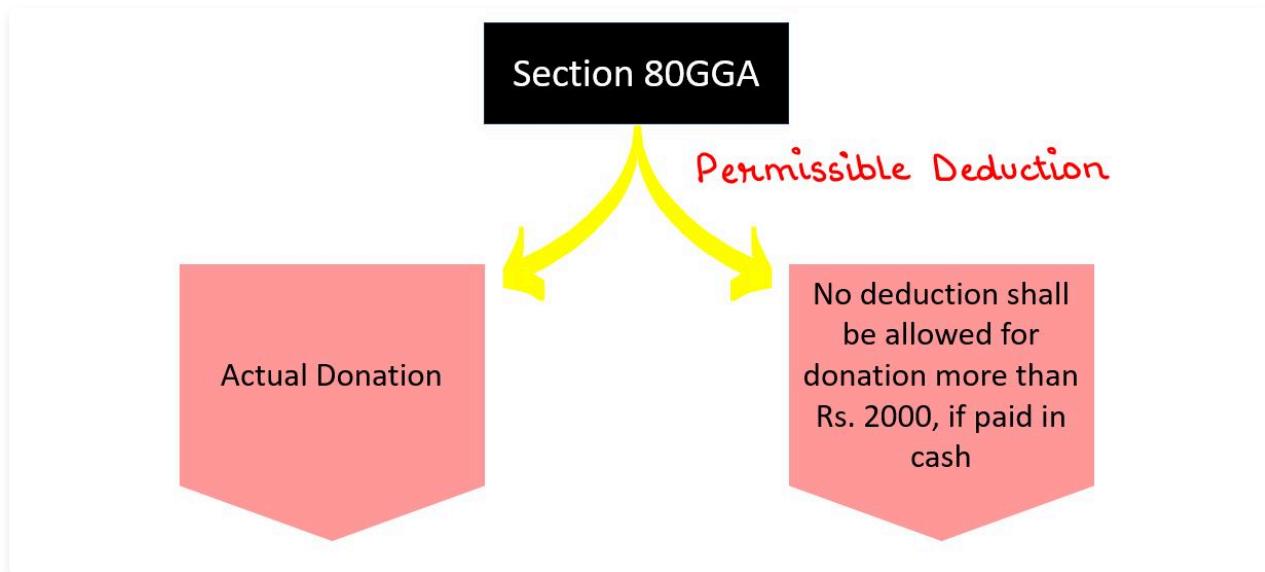
The essential conditions for claiming deduction under this section are as follows:

- 1) The individual should pay rent for his residential accommodation, whether furnished or unfurnished.
- 2) He is either a self-employed person or if he is an employee, he is neither entitled to any HRA nor a rent-free accommodation.
- 3) The individual, his or her spouse, or minor child, or a HUF, of which he/she is a member, does not own any residential accommodation at the place where such an assessee ordinarily resides or at the place where he works or carries on his business or profession.
- 4) If the assessee, i.e., the individual owns any residential accommodation at any place, other than the place of residence or work of the assessee, then such property should not be assessed in the hands of the individual as self-occupied property.
- 5) Such individual should fulfil such other conditions or limitations, as may be prescribed, having regard to the area or place to which such accommodation is situated and other relevant considerations. The assessee must file a declaration in prescribed form along with the return of income to claim such deduction.

The extent of tax deduction will be *limited to the least of the following amounts:*

- a) The excess of actual rent paid over 10% of Adjusted Total Income
- b) Rs 5,000 per month.
- c) 25 % of the Adjusted Total Income.

## 20. Section 80GGA – in respect of certain donations for scientific research or rural development

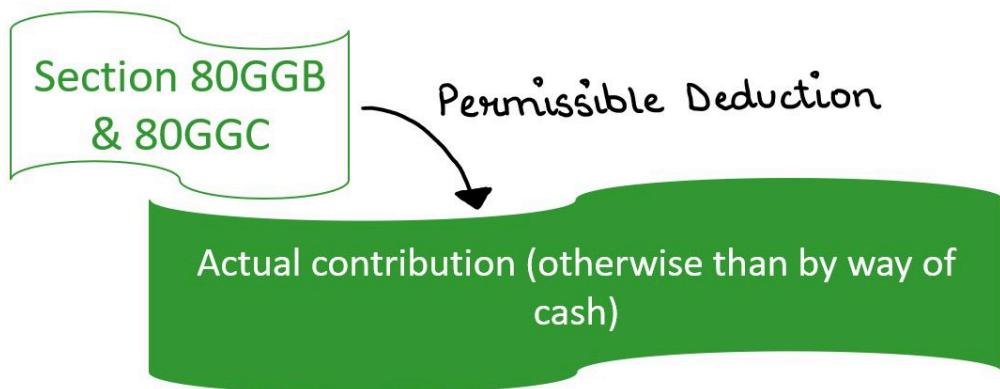


This Section allows deductions for donations made towards scientific research or rural development. This deduction is allowed to all assessees, except, those who have an income (or loss) from a business and/or a profession.

### Mode of payment

Donations can be made in the form of a cheque or by a draft or in cash; however, cash donations in excess of Rs 10,000 (Rs. 2,000 from AY 2021-22) are not allowed as deductions. 100% of the amount that is donated or contributed is considered eligible for deductions.

## **21. Section 80GGB & 80GGC – in respect of contributions given to political parties or electoral trust**



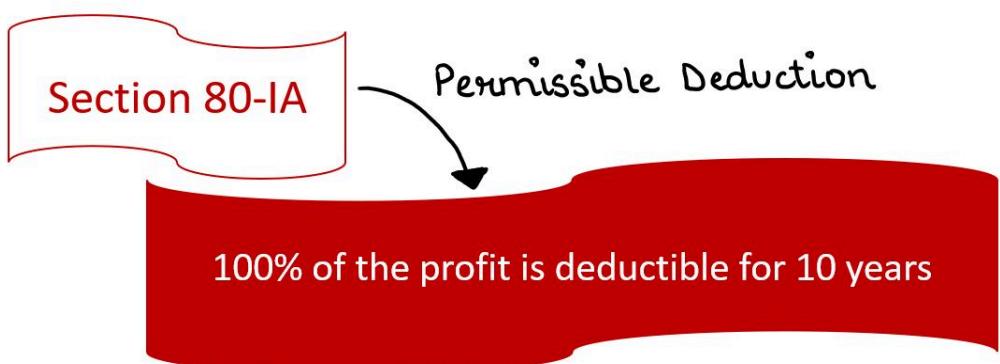
This Section provides for deduction of any sum, contributed in the previous year, by an Indian company (Section 80GGB) and by any person (Section 80 GGC) to any political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.

The deduction is not available to a local authority and every artificial juridical person wholly or partly funded by the Government. From AY 2014-15, no deduction shall be allowed in respect of any contribution (which is given in cash) to a political party.

## **22. Sections 80HHB, 80HHBA, 80HHC, 80HHD, 80HHE and 80HHF – in respect of earnings in convertible foreign exchange**

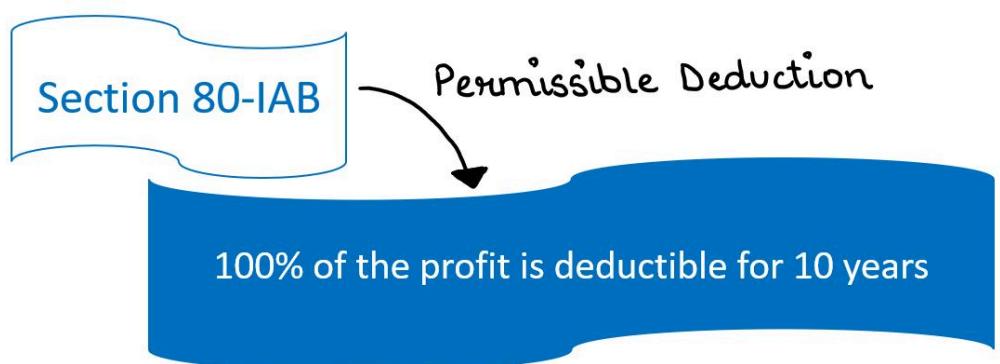
No deduction under these Sections is available from AY 2005-06 onwards.

## 23. Section 80-IA



This Section provides for deduction in respect of profits and gains from industrial undertakings engaged in infrastructure development, telecommunication services, development of industrial parks/ SEZ, generation & distribution of power, etc. 100% of the profit is deductible for 10 years, on satisfaction of certain conditions.

## 24. Section 80-IAB – in respect of profits & gains by an undertaking or enterprise engaged in development of SEZ



This deduction is available, if the taxpayer is a developer of Special Economic Zone (SEZ) and his gross total income includes profits and gains derived by an undertaking from any business of developing a SEZ (notified on or after April 1, 2005 and development beginning on or before March 31, 2017). The deduction is available only when it is claimed in the return of the income and return of income is submitted on or before the due date of submission of return of income. Moreover, books of accounts should be audited. Audit report should be uploaded one month prior to the due date of submission of return of income.

If all the above conditions are satisfied, then 100% deduction is available in respect of the aforesaid profit for 10 consecutive AYs. Also, the taxpayer, at his option may claim deduction under this Section for any 10 consecutive AYs out of 15 years, beginning from the year in which the SEZ has been notified by the Central Government.

## 25. Section 80-IAC – in respect of eligible start-up



This Section provides for deduction, if the assessee, is a company or an LLP, and engaged in an eligible business.

'Eligible business' means a business carried out by an eligible start-up engaged in innovation, development, deployment or commercialization of new products, processes or services or a scalable business model with a high potential of employment generation or wealth creation. The deduction is available if the above company or an LLP is incorporated, on or after 01.04.2016 but before 01.04.2025, and holds a certificate from Inter-Ministerial Board of Certification. The deduction is available up to 100% of the profits and gains derived from such business for any 3 consecutive assessment years out of 7 years (10 years from the AY 2021-22) beginning from the year in which the eligible start-up is incorporated. However, total turnover of eligible start-up should not exceed Rs. 25 Crore (Rs. 100 crore from AY 2021-22) in previous year, in which deduction under Section 80-IAC is claimed.

Note that in **Budget 2025**, the benefit u/s 80-IAC has been extended for another period of 5 years. Thus, the benefit will therefore now be available to eligible start-ups incorporated before 1.4.2030.

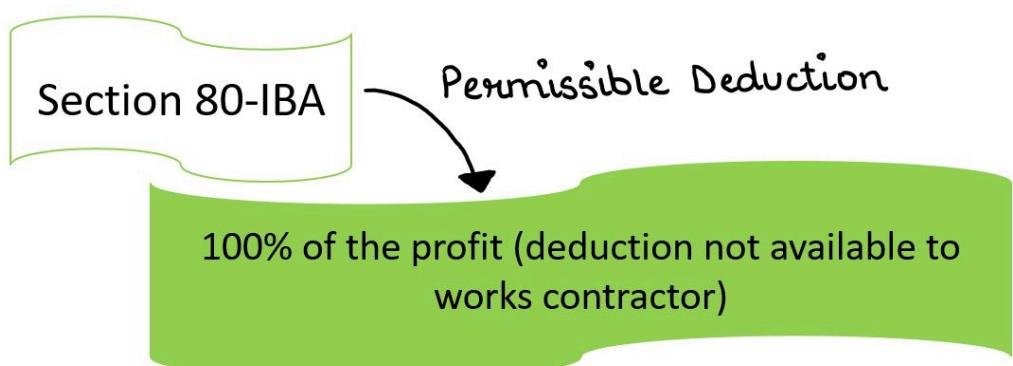
## 26. Section 80-IB – in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings

Deduction under this Section is available to different industrial undertakings as follows (subject to satisfaction of certain conditions):

Case	Type of undertaking	Quantum of Deduction
1	Business of an industrial undertaking	<p>100% of the profit is deductible for the first 5 years and 30% (25% in the case of non-corporate assessee) is deductible for next 5 years.</p> <p>In case of Small scale undertaking, deduction is available at the rate of 30% (25% in case of non-corporate assessee) for first 10 years.</p> <p>Tax holiday period is 10 years (12 years in case of co-operative society).</p> <p>In case of industrial undertaking, in a Category B backward district, 100% tax holiday is available for first 3 years and for remaining period of tax holiday, the partial deduction of 25% or 30% is available.</p>
2	Operation of ship	Nowadays, this deduction is not available.
3	Hotels	No deduction is available for the AY 2011-12 onwards.
4	Industrial research	100% of profit is deductible. Deduction is available for a period of first 5 years, if company approved before 01.04.1999 and for first 10 years, in case company is approved after 31.03.2000, but before 01.04.2007.
5	Production of mineral oil	100% of the profit is deductible for first 7 years.
6	Developing & building housing projects	100% of the profit of housing project is deductible.
7	Business of processing, preservation & packaging of fruits/ vegetables or integrated handling, storage & transportation of food grains	100% of the profit for the first 5 years and 30% (25% in case of non-corporate assessee) for next 5 years.
8	Multiplex theatres	Nowadays, this deduction is not available.
9	Convention centre	Nowadays, this deduction is not available.
10	Operating and maintaining a hospital in rural area	Nowadays, this deduction is not available.
11	Hospital located in certain areas	Nowadays, this deduction is not available.

## **27. Section 80-IBA – in respect of profits from housing projects**

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This Section provides for deduction in respect of profits and gains arising from housing projects. The deduction of 100% of the profits and gains derived by assessee from the business of developing and building affordable housing projects is available (deduction not available to a works contractor), on fulfilment of certain conditions.

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## **28. Section 80-IC – in respect of profits & gains of certain undertakings in certain special category of states**

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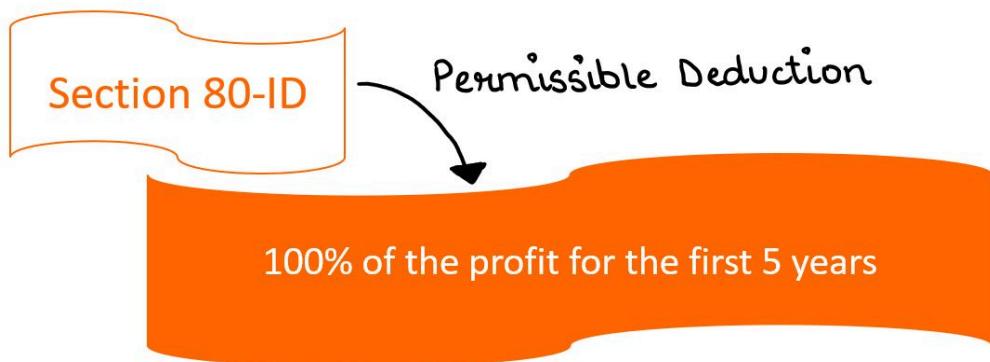
This deduction is available to industrial undertakings set up in Sikkim, Himachal Pradesh, Uttarakhand or in North Eastern State, on satisfaction of certain conditions.

The amount of deduction available is 100% for the first 10 years (in case of Himachal Pradesh or Uttarakhand, it is 100% for the first 5 years and 30% (25% in the case of non-corporate assessee) for the next 5 years.

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## **29. Section 80-ID – in respect of profits & gains from business of hotel/convention centre in NCR**

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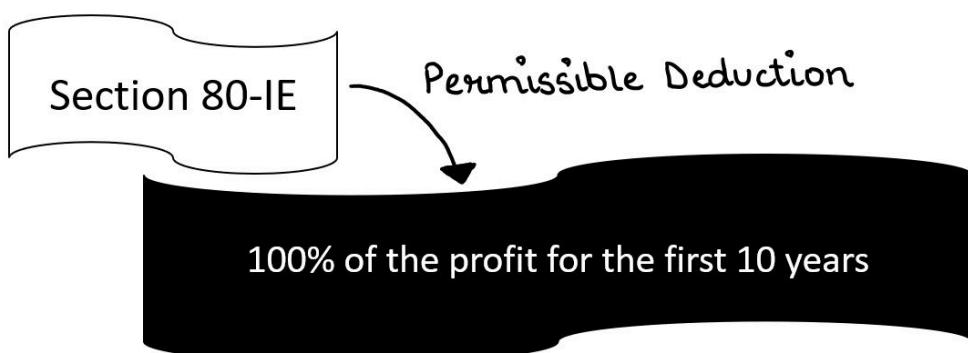


This deduction is available to the taxpayer who is engaged in the business of hotel located in specified area. Alternatively, the taxpayer is engaged in the business of building, owning and operating a convention centre, located in specified area. On satisfaction of certain conditions, 100% profit is deductible for the first 5 years.

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## **30. Section 80-IE – in respect of certain undertakings in north-eastern states**

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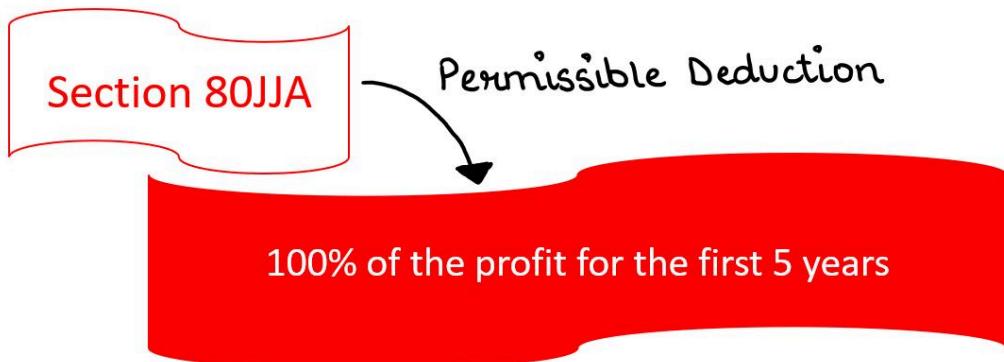


This deduction is available, if the taxpayer has begun to provide eligible services in North-eastern states during 01.04.2007 and 31.03.2017.

The amount of deduction is 100% of profit for first 10 years.

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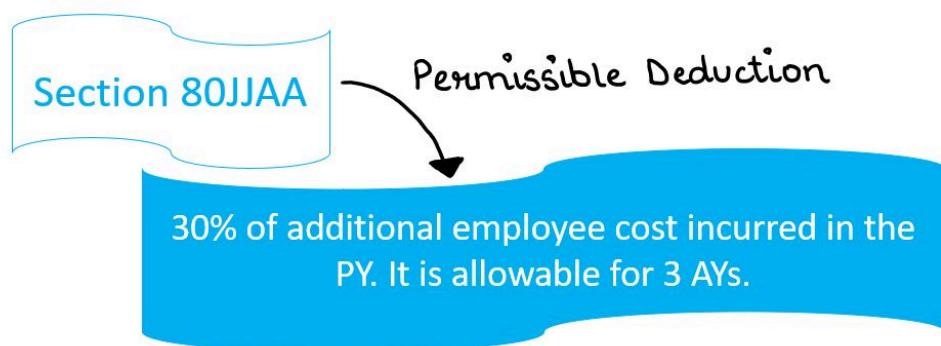
## **31. Section 80JJA – in respect of business of processing of bio-degradable waste**



This deduction is available to the taxpayer, who is in the business of collecting, processing or treating of bio-degradable waste for generating power or producing bio-fertilizers, bio-pesticides or other biological agents or for producing bio-gas or making pellets or briquettes for fuel or organic manure.

The amount of deduction is 100% profit from any such activity and is deductible for first 5 years.

## **32. Section 80JJAA – in respect of employment of new employees**



Where the gross total income of an assessee, to whom Section 44AB applies, includes any profits and gains derived from business, a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, would be allowed for 3 assessment years including the assessment year relevant to the previous year in which such employment is provided.

## **33. Section 80LA – in respect of certain income of offshore banking units & International Financial Services Centre**

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This deduction is available, if the assessee is earning income from (a) a scheduled bank and having an offshore banking unit in a SEZ; or (b) a foreign bank and having an offshore banking unit in a SEZ; or (c) a unit of International Financial Service Centre.

The amount of deduction available is:

Deduction available to scheduled bank/foreign bank having offshore banking unit in SEZ	100% of the aforesaid income is deductible for 5 consecutive AYs beginning with the AY relevant to the previous year in which required permission of RBI / SEBI/ any other law is obtained. For the next 5 years, 50% of such income would be deductible. Note: For the AY commencing on or after the 01.04.2023, the deduction shall be 100% of such income.
Deduction available to a unit of International Financial Services Centre	Such unit can avail the aforesaid deduction up to the AY 2019-20. From AY 2020-21, deduction shall be increased to 100% for any 10 consecutive years.

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## **34. Section 80M – in respect of inter-corporate investment**

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This Section is applicable in respect of dividend distributed on or after the 1st of April, 2020 (AY 2021-22 onwards). With effect from AY 2021-22, dividend received by a shareholder from a domestic company is taxable in the hands of the shareholders.

To avoid cascading affect, Section 80M has been inserted with effect from AY 2021-22. When a company receives dividend by virtue of its shareholding in another company, such dividends are known as inter-corporate dividends. (Note that such dividends are exempt from tax when they are received from a domestic company, if received prior to April 1, 2020).

This Section applies to domestic companies that have declared dividend and are also in receipt of the dividend from another domestic company. A deduction is allowed with respect to the dividend received as long as the same is distributed as dividend, one month prior to the due date of filing return.

Deduction under this Section is lesser of the two amounts given in (a) and (b) below:

- (a) Amount of dividend received from domestic companies (including final dividend, interim dividend and deemed dividend).
  - (b) Dividend distributed by the investor company to its own shareholders before the due date of filing return.
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## **35. Section 80P – in respect of income of a co-operative society**

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Under this section, a certain specified income of a co-operative society engaged in specific activities is considered as a deduction, if such income is included in the gross total income of the society.

- 1) If cooperative society, in such specific activities, as prescribed under the Income Tax Act, 100% of profits and gains of such business is available as deduction.
  - 2) For co-operative society engaged in any other activities – a deduction of Rs. 50,000 (Rs. 1,00,000 in case of consumers' co-operative society) is available.
  - 3) A deduction of 100% of income is available to a cooperative society, if that income is derived in the form of interest or dividend from its investment in any other co-operative society or income is derived from letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities.
  - 4) A deduction of 100% of income is available on income in the form of interest on securities or income from the house property of a co-operative society other than a Housing society or urban consumers' society or society carrying on a transport business or society engaged in manufacturing operations with the aid of power, whose gross total income is not more than Rs 20,000.
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## **36. Section 80PA – in respect of certain income of producer companies**

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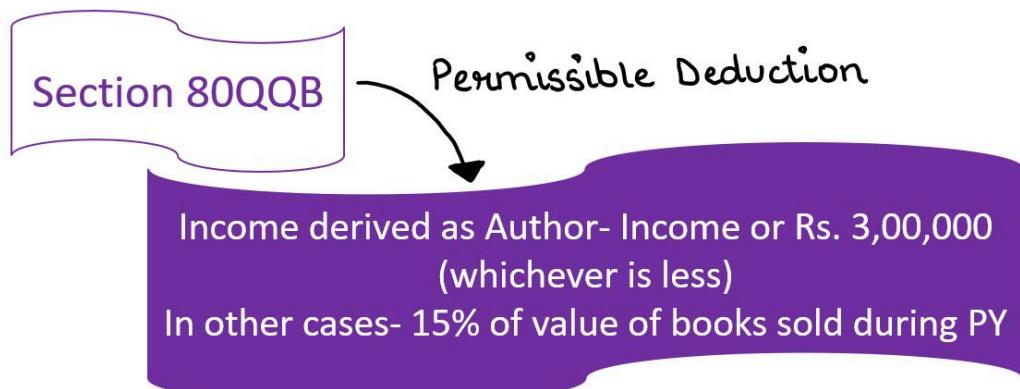
The following conditions should be satisfied, in order to avail deduction, under this Section:

- 1) The assessee is a producer company under Section 581A(i) (of the Companies Act, 1956).
- 2) The total turnover of the producer company is less than Rs. 100 crore in any previous year.
- 3) The gross total income of the producer company includes any profits and gains derived from **eligible business**.

If the above conditions are satisfied, 100% of the profits and gains attributable to "eligible business" is deductible for the assessment years 2019-20 to 2024-25. Only income from eligible business (not from all activities given under Section 581B of the Companies Act) is qualified for deduction under Section 80PA.

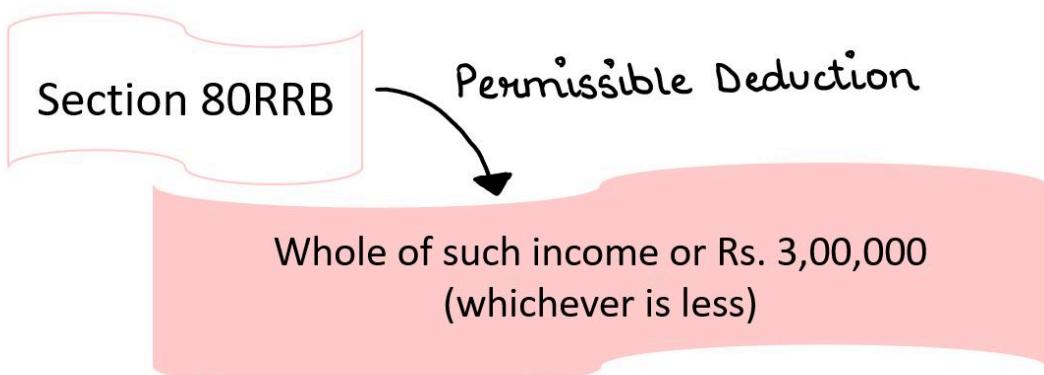
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## 37. Section 80 QQB – in respect of royalty income of authors



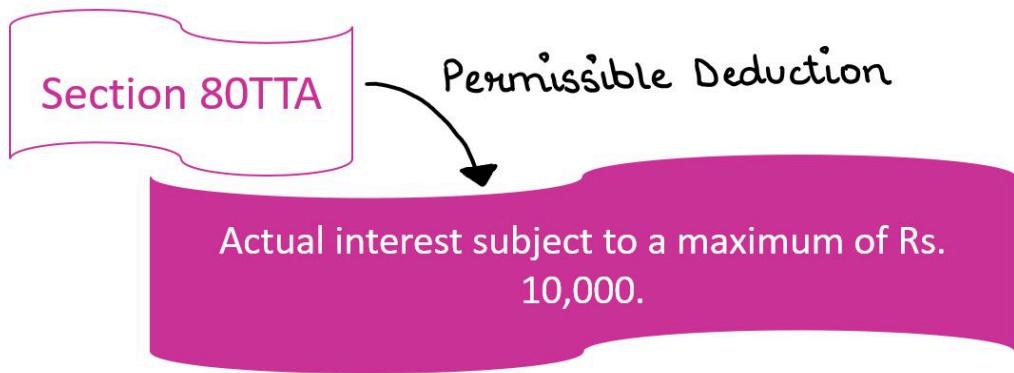
Under Section 80QQB, deduction of up to a maximum of Rs. 3,00,000 is allowed to an individual resident in India, in respect of income derived as author, i.e., the deduction shall be the income derived as author or Rs. 3,00,000, whichever is less, in case of lump sum payment and amount of such income subject to maximum of 15% of value of books sold during the previous year, in other cases. The deduction is not available to non-resident in India.

## 38. Section 80 RRB – in respect of royalty on patents



This section allows deduction to a resident individual in respect of income by way of royalty of a patent registered on or after 01.04.2003. The amount of deduction is Rs. 3,00,000 or income from 'royalty', whichever is less. The deduction is not available to non-resident in India.

## **39. Section 80TTA – in respect of interest on deposits in savings accounts**



Deduction from gross total income of an individual or HUF, up to a maximum of Rs. 10,000 in aggregate, in respect of interest on deposits in savings account with a bank, co-operative society or post office can be claimed under this Section. Section 80TTA deduction is not available on interest income from fixed deposits.

From the AY 2019-20, the above deduction is not available, in the case of a senior citizen who is eligible to claim deduction under Sec. 80TTB. It is also to be noted that Post office savings bank interest is exempt up to Rs. 3,500 (in an individual account) and Rs. 7,000 (in a joint account) under Section 10(15) (i).

## **40. Section 80TTB – in respect of interest on deposits in case of senior citizens**



The deduction under this Section is available from AY 2019-20, with respect to, interest on deposit in saving/fixed account of a senior citizen (at least 60 years of age) with a banking company, a post office, co-operative society engaged in banking business, etc. (subject to certain conditions).

The deduction is available up to 100% of amount of such income subject to maximum of Rs. 50,000.

## 41. Section 80U – in respect of a person with disability

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The deduction of Rs. 75,000 is available to a resident individual, who suffers from a physical disability (i.e., having disability of 40% or more) including blindness or mental retardation. In case of severe disability (i.e., having disability of 80% or more), deduction of Rs. 1,25,000 can be claimed.

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## 42. Section 87A Rebate

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Individual taxpayers, with annual income up to Rs. 5 lakh are eligible for full tax rebate. The income limit, eligible to avail tax rebate under Section 87A, is raised to Rs. 5 lakh from Rs. 3.5 lakh. The limit of tax rebate under Section 87A is increased to Rs. 12,500 from Rs. 2,500 (AY 2020-21). Rebate under Sec. 87A is not available in the case of non-resident individual, resident or non-resident HUF/ AOP/ BOI or any taxpayer other than resident individual.

Note that under the new income tax regime, the amount of the rebate under Section 87A for FY 2023-24 (AY 2024-25) has been modified. A resident individual with taxable income up to Rs 7,00,000 will receive a Rs 25,000 tax relief. The former tax regime remains the same, i.e. 12,500 for income up to Rs 5,00,000.

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## 1. Introduction

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An assessee may have three to four sources of income, under one particular head of income. *For example*, a person might have two businesses, A and B, which are two sources of income under the same head, business and profession. Similarly, a person might be having two part time employments. He will receive salary from both the employers; each salary received is a source of income. But, both are taxable under the head 'Income from Salary'.

### Steps in set off and carry forward

The steps involved in 'Set off and Carry forward of Losses' are described as below.

*Step 1:* Inter-source adjustment is done under the same head of income (also known as intra head adjustment).

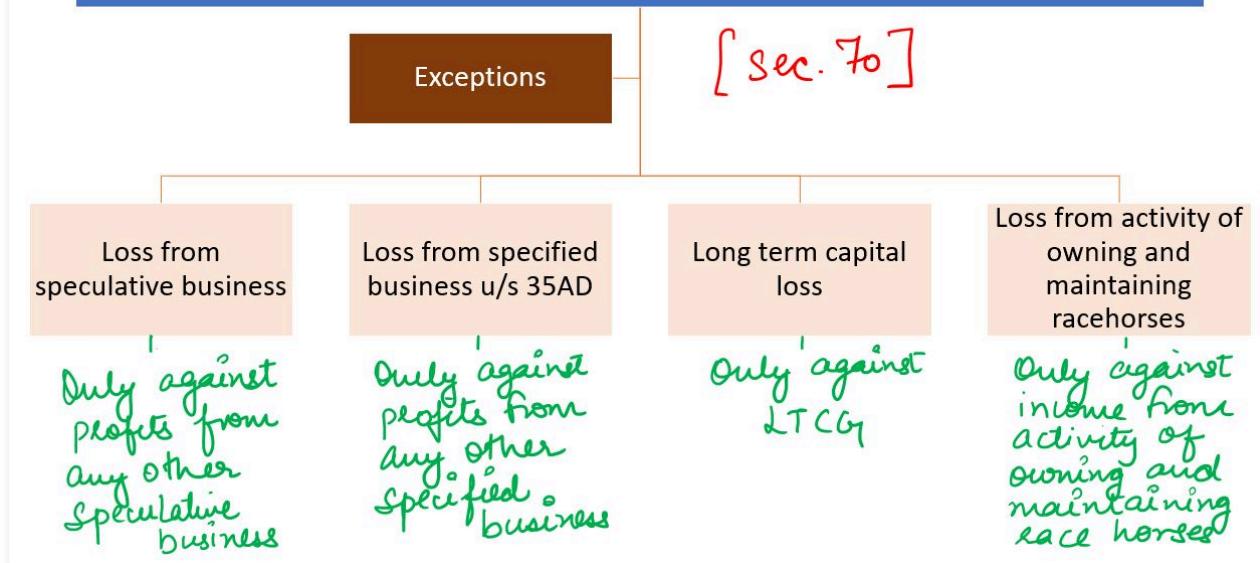
*Step 2:* Inter head adjustment is done in the same assessment year. Step 2 is applied only if it is not possible to set off a particular loss under Step 1.

*Step 3:* Carry forward of loss is done. This step is applicable only if a loss is not set off under Step 1 and 2.

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## 2. Inter Source Adjustment (Sec. 70)

Inter-source set-off of losses is allowed under the same head of income



Where the net result for any assessment year in respect of any source, falling under any head of income other than 'capital gains', is a loss, the assessee shall be entitled to have the amount of such loss, set off, against his income from any other source under the same head. This may also be referred to as intra-head adjustment.

For example, if the assessee has two houses and the net income from one house is Rs. 84,000 while from the other house, there is a loss of Rs. 60,000, the loss shall be adjusted against the income (as both fall under the same head, i.e., 'Income from house property') and after set off, the income under the head 'income from house property' shall be Rs. 24,000. This is inter-source adjustment.

### Exceptions

Exceptions to the Inter Source Adjustment are listed below.

#### 1) Loss from speculation business

As per Section 73, any loss arising from a speculation business, carried on by an assessee, shall be set off only against income of any other speculation business, run by the assessee. It cannot be set off from a non-speculative business income, although, income from both kinds of businesses, are taxable under the head 'profits and gains of business or profession'.

#### 2) Loss of a specified business

As per Section 73A, any loss computed, in respect of any specified business referred to in Sec. 35AD (for example, business of cold chain facility, business of building and operating hotel, etc.) shall not be set off except against profits or gains, if any, of any other specified business. It cannot be set off from any other business income.

#### 3) Loss from the activity of owning and maintaining race horses

As per Section 74A, the loss incurred by an assessee, in the activity of owning and maintaining race horses, shall only be set off against the income from such an activity. It cannot be set off against the income from any other sources.

#### 4) Long term capital loss

Long term capital loss can be set off only against long-term capital gain. However, short-term capital loss can be set off from any capital gain (long-term or short-term).

#### 5) Loss from a source which is exempt

Loss incurred by an assessee, from a source of income, which is exempt, cannot be set off against income from a taxable source.

#### 6) Loss on account of lottery, crossword puzzle, etc

No expenditure or allowance is allowed from winnings from lotteries or crossword puzzles, etc. Similarly, no loss from any lottery, card games, races, etc. is allowed to be set off from the income of the winnings of lotteries, card games, races etc.

## 2. Inter Source Adjustment (Sec. 70)

State whether the loss can be set off in the following two situations:

	(Amt. in Rs.)	
	Situation I	Situation II
Manufacturing Business	(+) 3,00,000	(-) 15,00,000
Speculation Business	(-) 1,40,000	(+) 2,00,000

### Solution

#### SET OFF

Situation I

Not Possible

Speculation loss can be set off only against income from speculation business

Situation II

Possible

Manufacturing loss to be set off against Income from speculation business to the tune of Re 2,00,000

## 2. Inter Source Adjustment (Sec. 70)

State whether the loss can be set off in the following two situations:

(Amt. in Rs.)		
	Situation I	Situation II
Short-term capital gain	(-) 5,00,000	(+) 3,00,000
Long-term capital gain	(+) 7,00,000	(-) 2,00,000

Solution

Situation I

SET OFF

Possible

Short term capital loss of  
Rs 5,00,000 to be set off  
from LTCG

∴ Net LTCG = Rs 2,00,000

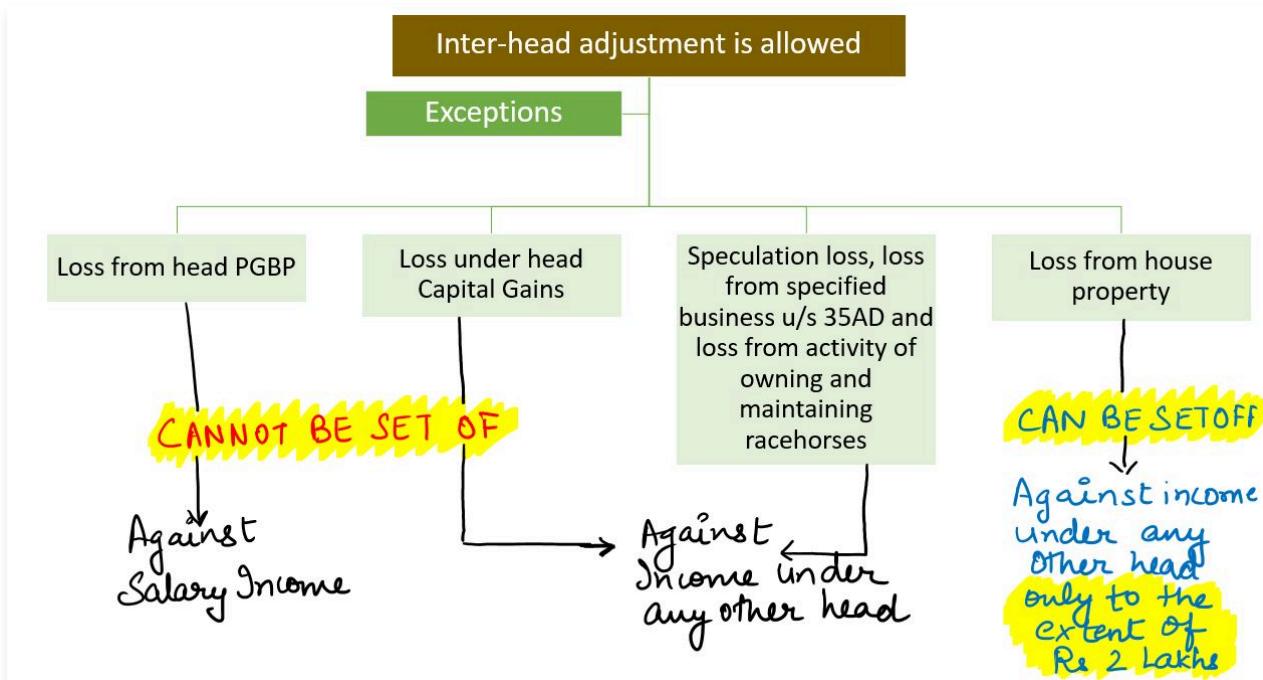
Situation II

Not Possible

STCG of Re 3,00,000 shall  
be taxable  
Long-term capital loss of  
Rs. 2,00,000 to be carry  
forward

### 3. Inter head adjustment (Sec. 71)

Any loss from one source of income, is firstly set off, against any gain from another source, within the same head. Any remaining loss can, then, be set off against Income from any other Head. This is known as **Inter-Head adjustment**.



#### Exceptions

Exceptions to Inter-head adjustment are listed below.

- 1) **Loss in a speculation business:** Such loss cannot be set off against any other income.
- 2) **Loss in a specified business:** Loss computed in respect of any specified business referred to in Section 35AD, cannot be set off against any other income.
- 3) **Loss under the head 'capital gains':** Losses under the head 'Capital gains' cannot be set off against any income, except, income under the head 'Capital gains'.
- 4) **Loss from the activity of owning and maintaining racehorses:** Such losses cannot be set off against any other income.
- 5) **House property loss exceeding Rs. 2,00,000:** House property loss (in excess of Rs. 2 Lakh) cannot be set off against income under the other heads of income (applicable from AY 2018-19).
- 6) **Loss under the head business or profession:** Any loss under the head 'Business or Profession', cannot be set off against income from 'Salaries'. However, it can be set off against Income from any other head.
- 7) **Loss cannot be set off against winnings from lotteries etc:** By virtue of Sec. 58(4), a loss cannot be set off against winning from lotteries, crossword puzzles, races (including horse races), card games and other games of any sort or from gambling or betting of any form or nature.

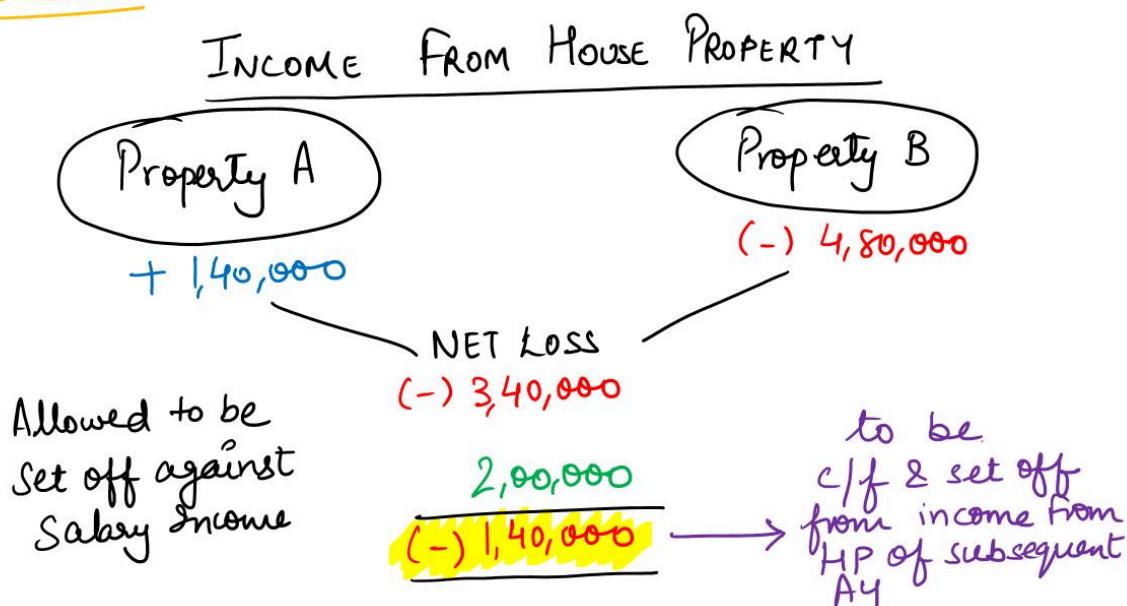
#### Key Points

- a) Before adjusting loss u/s 71, one has to set off the loss u/s 70.
- b) Barring the aforesaid cases (exceptions to inter-head adjustment), any loss can be set off against income, under other heads of income for the same year. For instance:
  1. Loss under the head "Income from House Property" can be set off against business income, capital gains, salary income or income from other sources;
  2. Business loss can be set off against property income, capital gains or other income;
  3. A loss under the head 'Income from other sources' (not being from the activity of owning and maintaining race horses) can be set off against salary income, property income, business income or capital gains.
- c) No order of priority is given in the Act. One should try to first set off, those losses, which cannot be carried forward to the next year.
- d) Barring the aforesaid cases (exceptions to inter-head adjustment), in all other cases, a loss has to be first adjusted against available income under other heads of income. No option is available to set off a loss or not to set off a loss.
- e) Where income from a particular source is exempt from tax, *for example*, income exempt u/s 10, loss from such source cannot be set off against income chargeable to tax. For the purpose of Sec. 71, loss of profits, must be a loss of taxable profits.

### 3. Inter head adjustment (Sec. 71)

Mr. Gujral has income from house property A and loss from house property B to the tune of Rs. 1,40,000 and Rs. 4,80,000, respectively. Besides this, there is an income under the head salary amounting to Rs. 6,00,000. State the provisions of set off with respect to given incomes of Mr. Gujral.

Solution



### 3. Inter head adjustment (Sec. 71)

From the following information, compute the taxable income in the following situation.

	Situation 1	Situation 2
Long-term capital gain/loss	(+) 1,70,000	(-) 3,00,000
Short-term capital gain/loss	(-) 50,000	(+) 1,10,000
Business income/loss	(-) 80,000	(-) 90,000

#### Solution

	SITUATION 1	SITUATION 2
LTC Gain/Loss	(+) 1,70,000	(-) 3,00,000 (set off not possible)
STC Gain/Loss	(-) 50,000	(+) 1,10,000
<u>Capital Gain/Loss (after set off)</u>	1,20,000	1,10,000
Set off Business Income/Loss	(-) 80,000	(-) 90,000
<u>Total Income</u>	40,000	20,000

NOTE: In Situation 2, long term Capital loss of Rs 3,00,000 will be carried forward, & total Income = Rs. 20,000

## 4. Carry forward and Set off of losses

Unabsorbed	CARRY FORWARD FOR	Set-off against
<ul style="list-style-type: none"> <li>Loss from house property</li> <li>Business Loss</li> <li>Long-term capital loss</li> <li>Short-term capital loss</li> </ul>	8 Years	<ul style="list-style-type: none"> <li>Income from house property</li> <li>PGBP</li> <li>Long-term capital gains</li> <li>Capital gains</li> </ul>
<ul style="list-style-type: none"> <li>Loss from speculation business</li> <li>Loss from the activity of owning and maintaining racehorses</li> </ul>	4 Years	<ul style="list-style-type: none"> <li>Income from speculation business</li> <li>Income from the activity of owning and maintaining racehorses</li> </ul>
<ul style="list-style-type: none"> <li>Loss from specified business u/s 35AD</li> <li>Depreciation</li> </ul>	Indefinite Period	<ul style="list-style-type: none"> <li>Profit from any specified business</li> <li>Income under any head other than salaries</li> </ul>

If the losses could not be set off under the same head or under different heads in the same assessment year, such losses are allowed to be carried forward to be claimed as set off from the income of the subsequent assessment years.

All losses are not allowed to be carried forward. Another very important aspect is that, in case of carry forward, losses can be only set off under the same head of income only. Inter head adjustment is not allowed.

Only the following losses are allowed to be carried forward and set off in the subsequent years.

### 1. Carry forward and set off of loss from house property

A loss under the head 'house property' will be allowed to be carried forward for 8 assessment years, to claim it, as a set off in the subsequent years under the head 'Income from house property'.

### 2. Carry forward and set off of business losses

Where the loss under the head 'profits and gains of business or profession', other than loss from speculation business, could not be set off in the same assessment year because either the assessee had no income under any other head or the income was less than the loss, such loss which could not be set off in the same assessment year, can be carried forward to the following 8 assessment years. However, a loss of a 'specified business' u/s 35AD can be carried forward without any limit.

Further, the following losses cannot be carried forward unless the return of income (for the year in which the loss is incurred) is submitted within the due date pursuant to Sec. 139(1).

- Loss of speculative or non-speculative business (not being unabsorbed depreciation / capital expenditure on scientific research/ family planning expenditure);
- Short or long-term capital loss; and
- Loss from the activity of owning and maintaining horse races.

### 3. Carry forward and set off of speculation loss

If a speculation loss could not be set off from the income of another speculation business in the same assessment year, it is allowed to be carried forward for 4 assessment years immediately succeeding the assessment year for which the loss was first computed. Also, it can only be set off against the income of only a speculation business.

### 4. Carry forward and set off of capital loss

Following are the main provisions:

- Loss on Short term capital asset:* Any loss on short-term capital asset is allowed to be carried forward to be set-off in subsequent years against capital gains (short-term as well as long-term). The period of carry forward is 8 years.
- Loss on Long-term capital asset:* Any loss from long-term capital assets can also be carried forward to be set-off in subsequent years but against only long-term capital gains. The period of carry forward is 8 years.

##### **5. Loss on owning and maintaining race horses**

Any loss suffered by the assessee, in respect of maintaining of race horses, can be set-off against the income from the activity of owning and maintaining race horses in subsequent years. The period for carry forward of such a loss is only 4 years immediately succeeding the assessment year, in which the loss was computed for the first time.

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## **4. Carry forward and Set off of losses**

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The right of carry-forward and set-off is available to the same assessee, who has sustained the loss. A holding company, however, cannot claim to carry forward the losses, if any, incurred by its wholly owned subsidiary company.

Exceptions to this rule are listed below.

- (a) Cases of succession by inheritance [a loss incurred by the father in the course of carrying on his business can be carried forward and set-off by his son, if the son succeeds to the business of his father on account of the father's death, but not, otherwise].
- (b) Accumulated business loss of an amalgamating company against the income of amalgamated company (if amalgamation is pursuant to Sec. 72A).
- (c) Accumulated business loss of a demerged company by the resulting company, subject to fulfilment of prescribed conditions.
- (d) Accumulated business loss of the predecessor proprietary concern/firm on its succession by a company, subject to fulfilment of conditions mentioned in Sec. 47(xiii) or (xiv).
- (e) Accumulated business loss of the predecessor company (private or unlisted public company) on its succession by an LLP, subject to fulfilment of conditions mentioned in Sec. 47(xiiib).

However, loss incurred by HUF, cannot be carried forward and set-off, after its partition against income of firm formed, thereafter, by certain coparceners.

The loss can be carried forward to a maximum of 8 consecutive assessment years immediately succeeding the assessment year for which the loss was first computed. In case of a business, on which rehabilitation allowance has been allowed, the previous losses are allowed to be carried forward to the assessment year, relevant to the previous year, in which the business was so revived or re-established and are allowed to be set-off against the profits of that assessment year. Any balance of loss can be carried forward to the succeeding 7 assessment years. It is to be noted that loss of 'specified business' under Section 35AD can be carried forward, without any limit.

Where, any unabsorbed depreciation or capital expenditure on scientific research, has been brought forward along with business loss, the business loss shall, first, be set-off.

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## 4. Carry forward and Set off of losses

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Can brought forward loss in the following cases be set off?

1. Brought forward loss of a business of HUF where the business of the HUF has been taken over by one of the members of HUF.
2. Brought forward loss of a firm succeeded by another firm.
3. Brought forward loss of amalgamating company where such company has amalgamated with another company
4. Brought forward loss of proprietary business taken over a by a firm consisting of the sole proprietor as partner also.
5. Partnership firm taken over by one or more partners.

### Solution

1. No
2. No
3. Yes, if amalgamation is as per sec 72A.
4. No
5. No

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## 4. Carry forward and Set off of losses

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Each year's loss is a separate loss and no loss shall be carried forward for more than 8 AYs immediately succeeding the AY, for which the loss was first computed. Therefore, a loss of previous year 2022-23, i.e., AY 2023-24, can be carried forward till AY 2031-32.

The following losses can also be carried forward indefinitely, although, these are not business losses as per Income-tax law:

- 1) Unabsorbed depreciation
  - 2) Unabsorbed capital expenditure on scientific research
  - 3) Unabsorbed expenditure on family planning
-

#### 4. Carry forward and Set off of losses

##### ORDER OF SET-OFF OF LOSSES BY INDIVIDUAL



In case, where profits are insufficient to absorb brought forward losses, current depreciation and current business losses, the same should be deducted in the following order:

- (a) Current year Depreciation.
- (b) Current year scientific research capital expenditure and current year family planning expenditure to the extent allowed.
- (c) Brought forward business losses.
- (d) Unabsorbed Depreciation.
- (e) Unabsorbed scientific research capital expenditure.
- (f) Unabsorbed family planning expenditure.

## 4. Carry forward and Set off of losses

<b>Loss</b>	<b>Set-off</b>
1. Loss from House Property	(a) Income from any other house property (b) Any other head of income up to maximum of Rs. 2,00,000
2. Loss from Business or Profession	(a) Income from any other Business or Profession (b) Any other head of income except under head 'Salaries'
3. Loss from speculation	(a) Income from speculation
4. Short-term capital loss	(a) Short-term capital gain (b) Long-term capital gain
5. Long-term capital loss	(a) Long-term capital gain
6. Loss from activity of owning and maintaining race horses	(a) Income from activity of owning and maintaining race horses

<b>Loss</b>	<b>Set off &amp; Carry forward</b>
1. Loss from House Property	In the following 8 years, income from house property
2. Loss from Business or Profession	In following 8 years, income from business or profession
3. Loss from speculation	In following 4 years, income from speculation
4. Short-term capital loss	In following 8 years: (a) Short-term capital gain (b) Long-term capital gain
5. Long-term capital loss	In following 8 years, Long-term capital gain
6. Loss from activity of owning and maintaining race horses	In following 4 years, income from activity of owning and maintaining race horses

## 1. Introduction

### OBJECTIVES OF CLUBBING PROVISIONS

Clubbing provisions address tax avoidance by higher-income individuals.

Aimed at preventing income diversion to family members.

Targets transfers to spouses, minor children, and others.

Income subject to clubbing rules is taxed in the original earner's hands.

It may seem ordinary, to invest money for a non-earning spouse by way of fixed deposits, or other income earning assets, or to set up bank accounts, mutual funds or other investments for children, to provide for their needs in future. Usually, an individual is only taxed for his own income, but under certain special circumstances, some incomes are 'clubbed' along with his income and he may be liable to pay tax on such clubbed income. The intention, here, is to make sure, there is no tax that escapes, in case an individual is moving assets or incomes (or diverting income) in the family, in order to reduce the burden of tax. In a situation, where an individual has incurred a loss, such loss (wherever allowed to be adjusted against an income) is also not allowed to be transferred to anyone and will be 'clubbed' to his income. Section 60 to 64 of the Income Tax Act deals with provisions related to 'clubbing of income'.

Note that **transferor** is the person who transfers any of his belongings, specifically his assets/income to another person and **transferee** is the person to whom the transferor transfers his / her assets.

### CLUBBING OF INCOME

Income of other persons included in assessee's total income



The following cases of clubbing of income are discussed next one by one.

1. Transfer of income without transfer of asset
2. Income arising from revocable transfer of assets
3. Clubbing of income arising to spouse

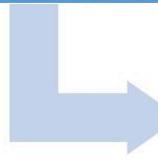
4. Clubbing of income arising to son's wife
  5. Clubbing of minor's income.
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## 2. In the case of transfer of income without transfer of asset

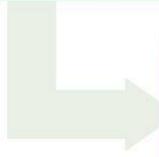
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### TRANSFER OF INCOME WITHOUT TRANSFER OF ASSET

If any person transfers the income from any asset without transferring the asset itself



such income is to be included in the total income of the transferor



whether the transfer is revocable or irrevocable

It is the case, where the taxpayer, owns the asset and retains its ownership, but decides to transfer its income to any person, by doing an agreement or any other way. In such case, the income from the asset, would be taxable in the hands of the transferor.

For example, X owns 4000 14% debentures of Rs. 100 each (annual interest being Rs. 56,000) of a company. On April 1, 2024, he transfers interest income to Y, his friend, without transferring the ownership of these debentures. Although, during 2024-25, interest of Rs. 56,000 is received by Y, it is taxable in the hands of X, as he has transferred income without transferring the ownership of the asset.

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## **2. In the case of transfer of income without transfer of asset**

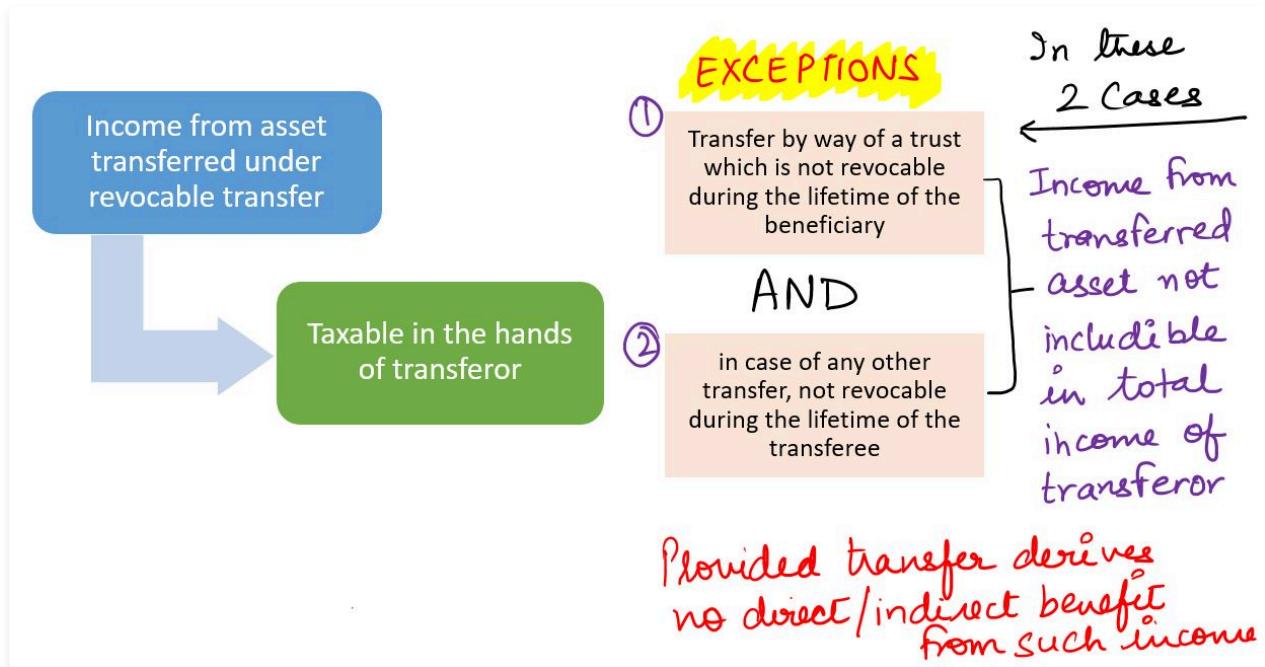
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Mr. Chirag has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

 Illustration 1

### 3. In the case of revocable transfer of asset

If an asset is transferred under a 'revocable transfer', income from such asset, is taxable in the hands of transferor.



'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. Thus, where the transferor has the right to re-transfer or to reassume power, whether directly or indirectly, over the whole or any part of the income or the asset, it is deemed to be a revocable transfer. For example, a father gifting a piece of land to his son but retaining the right to reclaim it at any time, either directly or through a trust arrangement.

However, in the following 2 cases, the income from the transferred asset is not includable in the total income of the transferor, provided the transferor derives no direct or indirect benefit from such income:

- (a) a transfer by way of trust which is not revocable during the life time of the beneficiary; and
- (b) any other transfer, which is not revocable during the life time of the transferee.

Thus, if the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the life time of the beneficiary or transferee.

As and when the power to revoke the transfer arises, the income arising by virtue of such transfer will be included in the total income of the transferor.

For example, Mr. Sandeep transfers his house property to a trust for the benefit of Mr. Rohan till his death. This is a situation of irrevocable transfer till the death of Mr. Rohan. Hence, till then, the income from house property would be taxable in the hands of the transferee, i.e., the trust. However, after the death of Mr. Rohan, the income from house property would be included in the total income of Mr. Sandeep as on that date, the transfer has become revocable.

### 3. In the case of revocable transfer of asset

Mr. X transfer a house property to Mr. A. However , Mr. X has a right to revoke the transfer during the lifetime of Mr. A. State in whose hands income arising from house property is taxable?

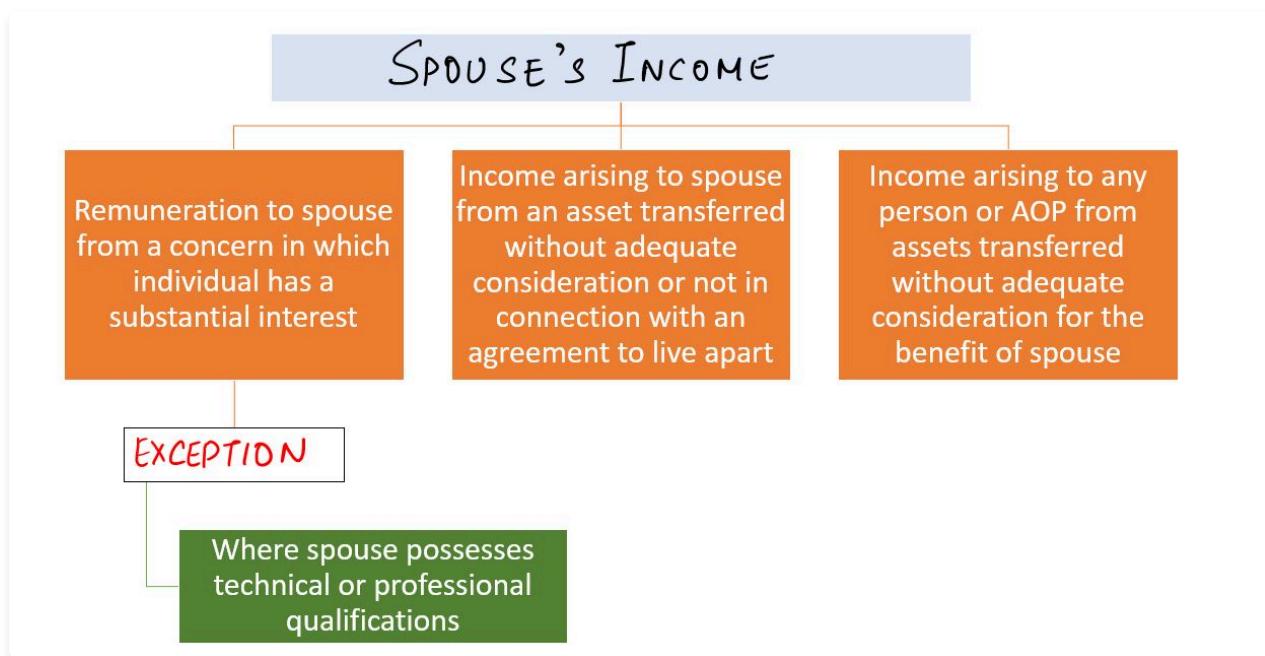
Solution

Since it is a revocable transfer



Income arising from House property  
is taxable in the hands  
of Mr. X.

## 4. In respect of income arising to spouse



Clubbing of income arising to spouse includes the following provisions.

### 1. Income by way of remuneration from a concern in which the individual has substantial interest

Note that remuneration in cash or kind to spouse from a concern in which the individual has a substantial interest to be clubbed.

It is the case where the taxpayer is an individual and he/she has a substantial interest in a concern. In addition, spouse of the taxpayer (i.e. husband /wife) is employed in such concern without any technical or professional knowledge or experience.

An individual has a 'substantial interest' in any of the following *two* situations:

(a) *In the case of a company* – If an individual beneficially holds (individually or along with his relatives), 20% or more of equity shares, in the company, at any time during the previous year.

(b) *In the case of a concern (other than company)* – If an individual is entitled to 20% or more share in profit in the concern (individually or along with his relatives), at any time, during the previous year.

'Relative' in relation to an 'individual' means the husband, wife, brother or sister or any lineal ascendant/ descendant of that individual. If such conditions are satisfied, then salary income of the spouse will be taxable in the hands of the taxpayer.

*For example*, X has substantial interest in A Ltd. and Mrs. X is employed by A Ltd., without any technical or professional qualification, to justify the remuneration. In this case, salary income of Mrs. X shall be taxable in the hands of X. In other words, if spouse of the taxpayer receives the salary due to his/her application of technical or professional knowledge & experience, then, such salary will be taxed in the hands of the person receiving it and not clubbed.

When both husband and wife have a substantial interest in a concern and both are in receipt of the remuneration from such concern, then, the remuneration will be included in the total income of husband or wife whose total income, excluding such remuneration, is greater.

### 2. Income arising to the spouse from an asset transferred without adequate consideration

It is the case where, taxpayer is an individual and he/she has transferred an asset (other than house property), directly or indirectly to his/ her spouse. In addition, the asset is transferred, otherwise, than (a) for adequate consideration, or (b) in connection with an agreement to live apart. The asset may be held by the transferee-spouse in the same or in a different form. If the above conditions are satisfied, any income from such asset, shall be deemed to be the income of the taxpayer, who has transferred the asset.

*For example*, X transfers 100 debentures of IFCI to his wife without adequate consideration. Interest income on these debentures, will be included in the income of X.

*In another example*, where if X gifts or cross transfers Rs. 10,000 to Mrs. A and A gifts property worth Rs. 10,000 to Mrs. X, the transaction would be indirect transfer without consideration by X to Mrs. X and by A to Mrs. A.

Following points are worth noting in this regard:

- a) The exemption, deduction or tax incentives, in respect of such income, can be claimed by the transferor.
- b) The relationship of husband and wife should subsist both at the time of transfer of asset and at the time when income is accrued. It means that transfer of asset, before marriage, is outside the scope of this section.
- c) Where cash is gifted by an assessee to his wife and the latter deposits the same in the bank, interest income is included in the assessee's total income.

If an individual transfers an asset without consideration to his wife, who sells it at a profit, capital gain to wife on sale of asset is chargeable to tax in the hands of the transferor.

In case of transfer of house property as such, provisions are contained in section 27 of the Act. In such a case, the transferor shall be deemed to be the owner of the house property and its annual value will be taxed in his hands.

### **3. Transfer of assets for the benefit of spouse**

It is the case, where the taxpayer is an individual and he/she has transferred an asset, directly or indirectly, to a person or an association of persons, for the immediate or deferred benefit of his/her spouse without adequate consideration. If the aforesaid conditions are satisfied, then income from such asset, to the extent of such benefit, is taxable, in the hands of the taxpayer who has transferred the asset.

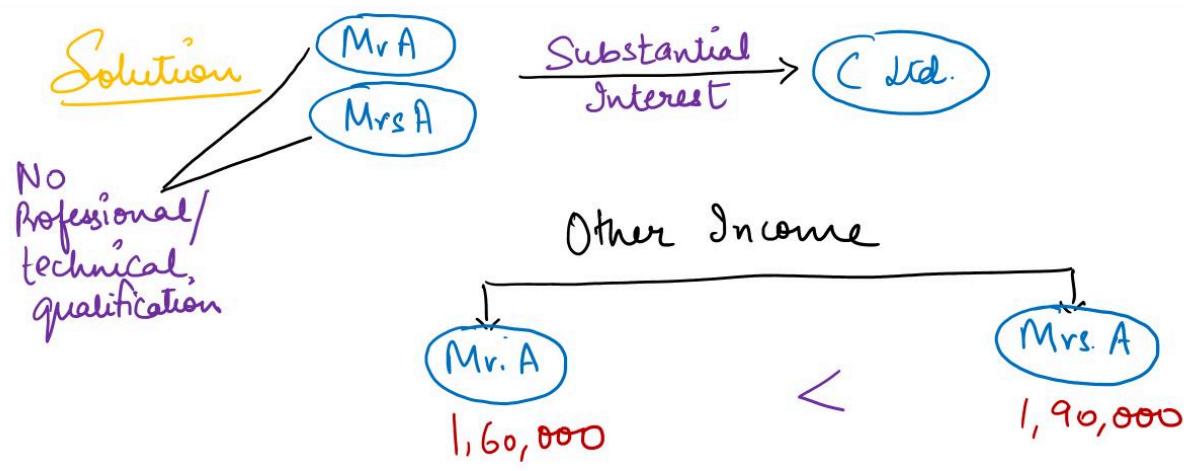
*For example, X transfers Government bonds, without consideration to an association of persons, subject to the condition, that the interest income from these bonds will be utilized for the benefit of Mrs. X. Interest from bonds shall be included in the income of X.*

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#### 4. In respect of income arising to spouse

Mr. A and Mrs. A holds 20% and 30% equity shares in C Ltd. respectively. They are also employed from April 1, 2024 in Bombay branch of C Ltd. (monthly salary being Rs. 80,000 and Rs. 40,000 respectively) without any technical/ professional qualification. Other incomes of Mr. A and Mrs. A are Rs. 1,60,000 and Rs. 1,90,000 respectively. Find out the net income of Mr. A and Mrs. A for the AY 2025-26.

Solution:



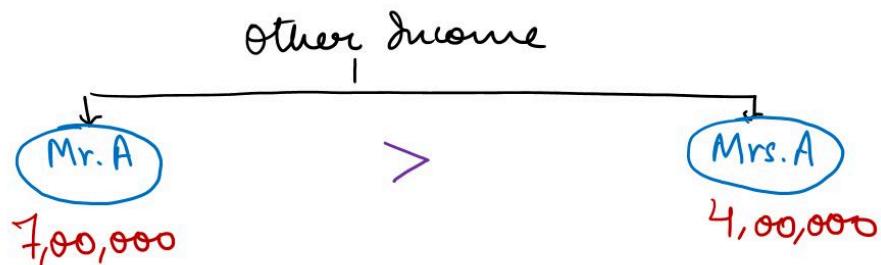
As, Other income of Mrs. A is higher  
Salary of husband & wife to be included in  
Income of Mrs. A

	Mr. A	Mrs. A
Salary of Mr. A [ $80000 \times 12$ ] - [St. Ded. 50,000]	-	9,10,000
Salary of Mrs. A [ $40000 \times 12$ ] - [St. Ded. 50,000]	-	4,30,000
Other Income	1,60,000	1,90,000
<b>TOTAL INCOME</b>	<b>1,60,000</b>	<b>15,30,000</b>

#### 4. In respect of income arising to spouse

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of Rs. 30,000 p.m. She is however not qualified for the job. The other income of Mr. A and Mrs. A are Rs. 7,00,000 and Rs. 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the AY 2025-26.

Solution



As, other income of Mr. A is higher,

Salary of husband & wife to be

included in income of Mr. A

	Mr. A	Mrs. A
Salary of Mrs. A [ $30,000 \times 12$ ] - [Sl. Ded 50,000]	3,10,000	-
Other Income	7,00,000	4,00,000
<b>TOTAL INCOME</b>	<b>10,10,000</b>	<b>4,00,000</b>

Will your answer be different if Mrs. A was qualified for the job?

Solution

As Mrs A possess professional qualification  
↓  
clubbing provisions  
**NOT APPLICABLE**

	Mr. A	Mrs. A
Gross Total Income	7,00,000	-
Mr. A	-	3,10,000
Mrs. B	7,00,000	4,00,000
	<b>7,00,000</b>	<b>7,10,000</b>

## 5. In respect of income of son's wife

### INCOME OF SON'S WIFE

Income arising to son's wife from an asset transferred without adequate consideration

Income arising to any person or AOPs from assets transferred without adequate consideration for the benefit of son's wife

Clubbing of income arising to son's wife involves these 2 cases.

#### 1. Income arising to son's wife from the assets transferred without adequate consideration by the father-in-law or mother-in-law

It is the case, where the taxpayer, is an individual and he/she has transferred an asset to his/her son's wife. The asset is transferred either directly or indirectly, otherwise, than for adequate consideration. The asset may be held by the transferee in the same form or in a different form. If the above conditions are satisfied, then income from the asset is included in the income of the taxpayer, who has transferred the asset. Further, the relationship of father-in-law (or mother-in-law) and daughter-in-law should subsist both at the time of transfer of asset and at the time of accrual of income.

For example, X (or Mrs. X) transfers a bank deposit of Rs. 20,000 in favour of his (or her) son's wife, without adequate consideration. Income accrued to son's wife shall be included in the income of X (or Mrs. X).

#### 2. Transfer of assets for the benefit of son's wife

It is the case, where, the taxpayer is an individual and he/she has transferred an asset directly or indirectly, to a person or an association of persons, for the immediate or deferred benefit of his/her son's wife, without adequate consideration. If the aforesaid conditions are satisfied, then income from such asset, to the extent of such benefit, is taxable in the hands of the taxpayer, who has transferred the asset.

For example, X (or Mrs. X) transfers an industrial undertaking to an association of persons subject to the condition that out of the annual income (i.e., Rs. 30,00,000), a sum of Rs. 5,00,000 shall be utilized for the benefit of daughter-in-law of X (or Mrs. X). In this case, Rs. 5,00,000 shall be included in the income of X (of Mrs. X).

## 5. In respect of income of son's wife

Mrs. Leela transferred her immovable property to PQR Co. Ltd. subject to a condition that out of the rental income, a sum of Rs. 36,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Leela claims that the amount of Rs. 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

State whether the contention of Mrs. Leela is valid in law.

### Solution

Whether transfer is  
otherwise than for  
adequate consideration

YES

NO

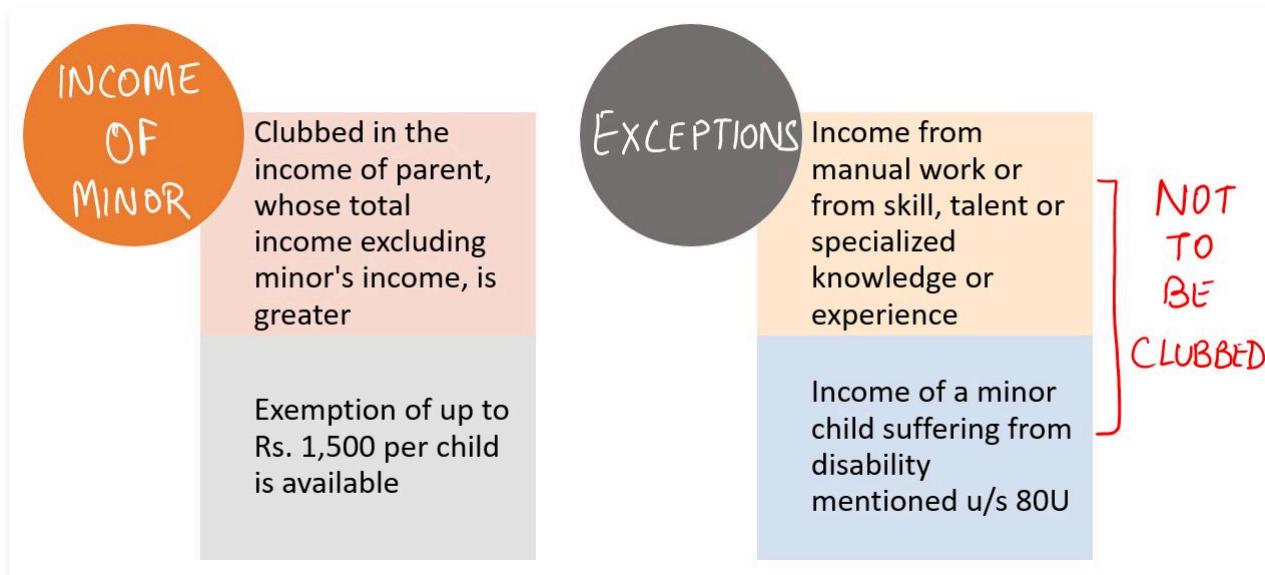
↓  
Clubbing  
Provisions  
Applicable  
↓  
Mrs. Leela Contention  
NOT VALID

Clubbing  
Provisions  
not applicable  
↓

Mrs. Leela Contention  
VALID

## 6. In respect of income of minor child

Some families make fixed deposits in the name of a minor child. Income of a minor is taxable in the hands of the parent whose total income is higher (before including the minor's income). If the parents are divorced, it is clubbed with the person, who is maintaining the child.



In the cases given below, clubbing provisions with respect to income of minor child are not applicable:

1. If the minor has earned an income because of his own manual work.
2. If the minor has earned an income on account of any activity involving application of his skill, talent or specialized knowledge or experience
3. Income of minor child suffering from any disability (of the nature specified in Section 80U)

When minor child's income is clubbed with parent's income, exemption is available up to Rs. 1,500 for each such minor child. This means, if clubbed income is more than Rs. 1,500, the maximum exemption is Rs. 1,500, however, if clubbed income is, say, Rs. 800 (less than Rs 1500), then exemption is limited up to such lesser amount, i.e., Rs. 800 in this case.

## 6. In respect of income of minor child

Mr. Sharma has 4 minor children - 2 daughters and 2 sons. The annual income of 2 daughters were Rs. 9,000 and Rs. 4,500 and of sons were Rs. 6,200 and Rs. 4,300, respectively. The daughter who has income of Rs. 4,500 was suffering from a disability specified under section 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming the following:

- (a) the income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
- (b) the income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma;
- (c) this is the first year in which clubbing provisions are attracted.
- (d) Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

### Solution

*Computation of income earned by Minor children  
to be clubbed with income of Mr. A*

Particulars	(Rs.)
(i) Income of one daughter <u>Less: Income exempt u/s 10(32)</u>	9,000 (-) 1,500 <hr/> <u>7,500</u>
Total (A)	
(ii) Income of two sons (6,200 + 4,300) <u>Less: Income exempt u/s 10(32) (1,500 + 1,500)</u>	10,500 (-) 3,000 <hr/> <u>7,500</u>
Total (B)	
<b>Total Income to be clubbed (A)+(B)</b>	<b>15,000</b>

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included.

However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent, but would be taxable in the hands of the minor child. Therefore, the income of daughter suffering from disability should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includable in the hands of the parent would be exempt to the extent of actual income or Rs. 1,500, whichever is lower.

Mr. Sharma would be eligible for this exemption since he has exercised the option of shifting out the default tax regime provided under section 115BAC(1A).

The remaining income would be included in the hands of the parent.

## 1. Introduction

---

The total income of an assessee for the previous year is taxable in the relevant assessment year. For example, the total income for the PY 2023-24 is taxable in the AY 2024-25. However, income-tax is recovered from the assessee in the PY itself through:

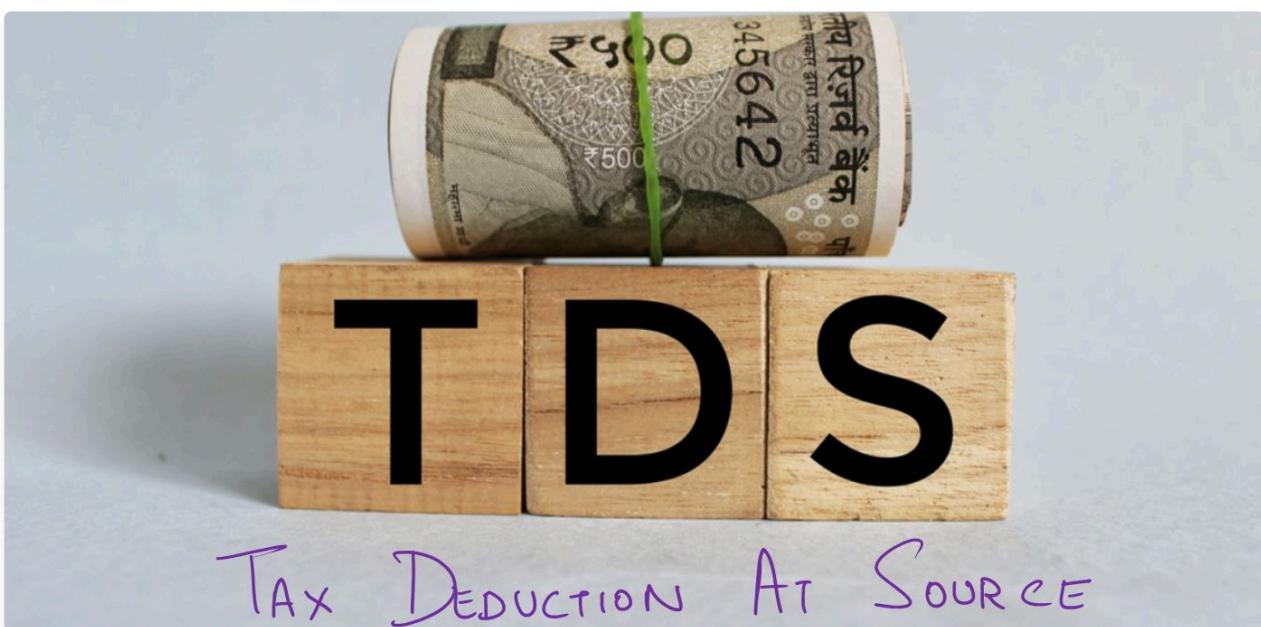
- (a) Tax deduction at source (TDS)
- (b) Tax collection at source (TCS)
- (c) Payment of advance tax.

Let us discuss TDS and TCS next.

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## 2. Tax Deduction at Source

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According to the Income Tax Act 1961, every individual or organisation is liable to pay taxes if their income is above a certain threshold.

TDS, or Tax Deducted at Source, means that when you get paid for certain things like rent, salary, or interest, a bit of the money is taken out as income tax before you receive it. Usually, it's the person who gets the money who has to pay the tax. But the government uses TDS to make sure the tax gets paid upfront by the person giving you the money. So, when you get paid, you get a bit less because of the tax deduction. Later, when you calculate your total tax owed, you can subtract the amount already taken out through TDS. This way, you're not taxed twice on the same income.

Let us understand this with the help of an example.

XYZ Private Limited make a payment for office rent of Rs 90,000 per month to the owner of the property. TDS is required to be deducted at 10%. XYZ Private Limited must deduct TDS of Rs 9,000 and pay the balance of Rs 81,000 to the owner of the property.

Thus, the recipient of income i.e. the owner of the property in the above case receives the net amount of Rs 81,000 after deduction of tax at the source. He will add the gross amount i.e. Rs 90,000 to his income and can take credit of the amount already deducted i.e. Rs 9,000 by XYZ Private Limited against his final tax liability.

---

## 2. Tax Deduction at Source

Any person responsible for paying Salaries (i.e., employer) is required to deduct tax on the salaries payable by him.

Income tax has to be calculated at the average rate of income-tax computed on the basis of the rates in force for the relevant financial year in which the payment is made, on the estimated total income of the assessee where the employee intimates to the employer his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Average rate of income-tax means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income.

TDS is deducted after considering the following:

- 1) If salary exceeds minimum non-taxable limit (Rs 200,000 /Rs.250,000/Rs. 500,000).
- 2) Value of perk is to be included in salary.
- 3) Employee can claim deduction u/s 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80G, 80GG and 80U.
- 4) Salary shall be rounded off in multiple of Rs 10 and tax in multiple of Rs 1.
- 5) Income from any other heads, if disclosed by assessee, shall be considered.
- 6) If employee was earlier employed somewhere else during the previous year, then the present employer should consider the amount of income & TDS on that for computing the TDS on total income of employee.

In case an employee has intimated his employer of his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A), there is a requirement of furnishing of evidence of the following claims by him to his employer in Form No. 12BB for the purpose of estimating his income or computing the amount of tax to be deducted at source.

### SUPPORTING DOCUMENTS FOR CLAIMS

S. No.	Nature of Claim	Evidence or particulars
1.	House Rent Allowance	Name, address and PAN of the landlord(s) where the <b>aggregate rent paid during the PY exceeds Rs. 1 Lakh.</b>
2.	Leave Travel Concession or Assistance	Evidence of expenditure
3.	Deduction of interest under the head 'Income from House Property'	Name, address and PAN of the lender
4.	Deduction under Chapter VI-A	Evidence of investment or expenditure

## 2. Tax Deduction at Source

The chart includes threshold changes introduced in Budget 2025. Only selective sections are covered below.

Section	Nature of Payment	Current Threshold (per annum)	Threshold (as per Budget 2025)	TDS Rate (%)
192	Salary Payment	Basic exemption limit of employee	—	Normal Slab Rates
192A	PF Premature Withdrawal (before 5 years)	50,000	—	10
193	Interest on Securities	10,000 (for 8% / 7.75% Bonds)	10,000	10
193	Interest on Debentures	5,000	—	10
194	Dividend Payment	5,000	10,000	10
194A	Interest by Banks (Non-Sr. Citizens)	40,000	50,000	10
194A	Interest by Banks (Sr. Citizens)	50,000	1,00,000	10
194A	Interest by Others	5,000	10,000	10
194B	Winnings from Lotteries	Aggregate > 10,000	10,000 (per transaction)	30
194BA	Income from Online Games	Nil	—	30
194BB	Winnings from Horse Race	10,000	10,000 (per transaction)	30
194C	Contractors (Single Bill) – Ind/HUF	30,000	—	1
	Contractors (Aggregate Yearly) – Others	1,00,000	—	2
194D	Insurance Commission (Company)	15,000	20,000	10
	Insurance Commission (Others)	15,000	20,000	5
194DA	Maturity of Life Insurance (Non-Exempt)	1,00,000	—	5
194E	Non-resident Sportsman/Sports Association	—	—	20
194EE	National Savings Scheme Withdrawal	2,500	—	10
194G	Lottery Commission	15,000	20,000	5
194H	Commission/Brokerage	15,000	20,000	5
194I	Rent – Land/Building/Furniture	2,40,000	Rs. 50,000 per month	10
194IA	Purchase of Immovable Property	50 Lakhs	—	1
194J	Professional/Technical Services	50,000	50,000	2 / 10*
194K	Income from Mutual Funds	5,000	10,000	10
194LA	Compensation on Property (Non-Agricultural)	2,50,000	5,00,000	10
194M	Individual/HUF paying professional or contractual fee (not liable under 194C/H/J)	50 Lakhs	—	5
194N	Cash Withdrawal by Co-op Society	1 Crore	3 Crores	2
	If ITR not filed for 3 years	—	—	2 / 5
	– Cash withdrawal > Rs. 20L up to Rs. 1 Cr: 2%	—	—	2 / 5
194-O	E-commerce Sale by Resident Seller	—	—	1 (5% if no PAN)
194Q	Purchase of Goods from Resident	Above Rs. 50 Lakhs	—	0.1%
206AA	No PAN Provided	—	—	Higher of 20% or applicable rate

Following changes have been brought through **Finance Act 2023** in relation to above sections:

1. A new Section 194BA has been inserted which requires that income tax be deducted from winnings obtained from online games. The tax is calculated based on the net winnings in the user's account and is deducted either at the end of the financial year or at the time of withdrawal. If the winnings are a combination of cash and other items, the person responsible for paying must ensure that tax has been paid on the entire net winnings.
2. Sections 194B and 194BB of the Act have been amended to provide that deduction of tax under these sections shall be on the amount or aggregate of the amounts exceeding Rs. 10,000 during the financial year.

3. Section 194N of the Act has been amended. Accordingly, TDS threshold has been increased on cash withdrawal by co-operative societies. Starting April 1st, 2023, tax will be deducted on cash withdrawals by co-operative societies if the amount exceeds Rs 3 crore, instead of the previous limit of Rs 1 crore.

#### **Budget 2024 updates**

Further Budget 2024 reduced the TDS rates on specified payments to facilitate business and improve taxpayer compliance. However, TDS rates are effective only either after 1st Oct 2024 or 1st April 2025.

Proposed Reduction of TDS on following payments from 5% to 2%:

1. Section 194D - Payment of insurance commission in case of other than company
2. Section 194DA - Payment in respect of life insurance policy
3. Section 194G - Commission on sale of lottery tickets
4. Section 194H - Payment of commission or brokerage
5. Section 194-IB - Payment of Rent by certain individuals or HUF
6. Section 194M - Payment of certain sums by certain individuals or HUFs

Further, there is a proposed reduction of TDS from 1% to 0.1% under Section 194-O (Payment of certain sum by e-commerce operator to e-commerce participants).

Section 194F, i.e., payment on account of repurchase of units by mutual funds or UTI is proposed to be omitted.

Introduction of TDS on Payments Made to Partners by Firms (Section 194T)

The Budget 2024 introduced a new TDS provision for payments made by the firms (i.e., it covers both partnership firms as well as LLPs), to the partners by way of salary, remuneration, interest, bonus or commission.

So, now any payment by a firm of the above nature exceeding Rs. 20,000 shall be subjected to the TDS at the rate of 10% u/s 194T.

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## 2. Tax Deduction at Source

T.D.S./TCS TAX CHALLAN		Single Copy (to be sent to the ZAO)
<b>CHALLAN NO./</b> <b>ITNS</b> <b>281</b>		<b>Tax Applicable(Tick One)*</b>
<input type="checkbox"/> (0020) Company Deductees <input type="checkbox"/> (0021) Non-Company Deductees		<b>ASSESSMENT YEAR</b>
		<input type="checkbox"/> - <input type="checkbox"/>
<b>TAX DEDUCTION ACCOUNT NO.(T.A.N.)</b>		
Full Name		
Complete Address with City & State		
Tel. No. _____		
<b>Type of Payment</b> (Tick One)		<b>Code*</b> (Please see overleaf) TDS/TCS Payable by Taxpayer (200) TDS/TCS Regular Assessment (Raised by I.T. Deptt.) (400)
<b>DETAILS OF PAYMENTS</b> Income Tax Fee under section 234E Surcharge Late Payment Fee Interest Penalty Total (in words)		Amount (in Rs. Crs.) <input type="checkbox"/> CRORE <input type="checkbox"/> LAKHS <input type="checkbox"/> THOUSANDS <input type="checkbox"/> HUNDREDS <input type="checkbox"/> TENS <input type="checkbox"/> UNITS
Paid in Cash/Debit to A/c /Cheque No. _____ Dated _____ Drawn on _____ (Name of the Bank and Branch)		<b>SPACE FOR BANK SEAL</b>
<b>TAXPAYERS COUNTERFOIL</b> (To be filled by the taxpayer) PAN Received From _____		<b>Rs.</b> <b>SPACE FOR BANK SEAL</b>
Cash/Debit to A/c / Cheque No. _____ For Rs. _____ Rs. (in words) _____ drawn on _____ (Name of the Bank and Branch) Company/Non-Company Deductees on account of Tax Deducted at Source(TDS)/Tax Collected at Source(TCS) from _____ (Fill up Code) (Strike out whichever is not applicable)		<b>Rs.</b>
For the Assessment Year _____ - _____		

*TDS / TCS*

*CHALLAN*

The TDS must be deposited to the Government by 7<sup>th</sup> of the subsequent month. For example, TDS deducted in the month of July, must be deposited with Government by 7<sup>th</sup> August. However, the TDS deposited in the last month of any FY, i.e., March, can be deposited till 30<sup>th</sup> 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.

### 3. TDS/ TCS Returns

# TDS/TCS RETURNS

The screenshot shows the official website of the Income Tax Department Mumbai Region. The top navigation bar includes links for Home, About Us, Jurisdiction, Contact Your Officer, Tax Law & Rules, For Departmental Use, FAQs, and Download. A sidebar on the left lists various services like News And Updates And Tenders, Cadre Restructuring, PAN, TAN, File Returns Online, Pay Taxes Online, Tax Return Preparer Scheme, and TDS. The main content area is titled 'E-TDS/TCS RETURNS' and contains three numbered questions: 1. What is e-TDS Return? 2. Who is required to file e-TDS return? 3. Under what provision the e-TDS return should be filed?

Filing TDS return 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.

Various types of return forms are as follows:

Form No.	Nature of Transactions	Due Date
Form 24Q	TDS on Salary	Q1 ending June 30 – 31st July Q2 ending Sep 30 – 31st October Q3 ending Dec 31– 31st January Q4 ending Mar 31 – 31st May
Form 26Q	TDS on all payments except salaries	Q1 ending June 30 – 31st July Q2 ending Sep 30 – 31st October Q3 ending Dec 31– 31st January Q4 ending Mar 31 – 31st May
Form 27Q	TDS on all payments made to non-residents except salaries	Q1 ending June 30 – 31st July Q2 ending Sep 30 – 31st October Q3 ending Dec 31– 31st January Q4 ending Mar 31 – 31st May
Form 26QB	TDS on sale of property	Within 30 days from the end of the month in which TDS is deducted
Form 26QC	TDS on Rent	Within 30 days from the end of the month in which TDS is deducted
Form 26QD	TDS on commission, brokerage, etc.	Within 30 days from the end of the month in which the payment has been made.
Form 27EQ	Tax collection Return	Q1 ending June 30 – 15 July Q2 ending Sep 30 – 15 October Q3 ending Dec 31– 15 January Q4 ending Mar 31 – 15 May

## 4. 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.

The types of TDS Certificates along with their respective forms and frequency of filing is given below.

Form	Certificate of	Frequency	Due date
Form 16	TDS on salary payments	Annual	On or before June 15 of the FY immediately following the FY in which Tax is deducted
Form 16A	TDS on non-salary payments	Quarterly	Within 15 days from due date of furnishing quarterly return
Form 16B	TDS on sale of property	Every Transaction	Within 15 days of furnishing challan in Form No. 26QB
Form 16C	TDS on Rent	Every Transaction	Within 15 days of furnishing challan in Form No. 26QC
Form 16D	TDS on commission, brokerage, contractual fee, professional fee	Every Transaction	Within 15 days of furnishing challan in Form No. 26QD

## 5. TRACES

**TDS CENTRALISED PROCESSING CELL**  
**TRACES**

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Forms

**Functionalities for Tax Payers through TRACES**

■ View Form 26AS/Annual Tax Statement

Annual Tax Statement available on TRACES portal will have the following data from **AY 2023-24** onwards:

- \* Details of Tax Deducted at Source
- \* Details of Tax Deducted at Source for 15G / 15H
- \* Details of Transaction under Proviso to section 194B/ First Proviso to sub-section (1) of section 194R/ Proviso to sub-section(1) of section 194S
- \* Details of Tax Deducted at Source u/s 194IA/ 194IB / 194M/ 194S (For Seller/Landlord of Property/Contractors and Professionals/ Seller of Virtual Digital Asset)
- \* Details of Transactions under Proviso to sub-section (1) of section 194S as per Form-26QE (For Seller of Virtual Digital Asset)
- \* Details of Tax Collected at Source
- \* Details of Tax Deducted at Source u/s 194IA/ 194IB /194M/194S (For Buyer/Tenant of Property /Person making payment to contractors or Professionals / Buyer of Virtual Digital Asset)
- \* Details of Transactions/Demand Payments under Proviso to sub-section (1) of section 194S as per Form 26QE (For Buyer of Virtual Digital Asset)
- \* TDS/TCS Default
- \* TDS/TCS Refunds

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**New FAQs** [View more](#)

■ Deductor  
■ Tax Payer

TRACES is the website for **TDS Reconciliation and Correction Enabling System**. It is an undertaking of the Income Tax Department. The website enables easy filing of TDS/TCS correction statements by deductors. TDS deductors can register on TRACES and easily file online correction statements. For taxpayers, TRACES is useful in viewing and downloading their Form 26AS.

## 6. Tax Credit Form 26AS

### Form 26AS

#### Annual Tax Statement under Section 203AA of the Income Tax Act, 1961

- See Section 203AA and second provision to Section 206C (5) of the Income Tax Act, 1961 and Rule 31AB of Income Tax Rules, 1962

Permanent Account Number (PAN)		Current Status of PAN	Active	Financial Year	2020-21	Assessment Year	2021-22
Name of Assessee							
Address of Assessee							

- Above data / Status of PAN is as per PAN details. For any changes in data as mentioned above, you may submit request for corrections Refer [www.tin-nsdl.com](http://www.tin-nsdl.com) / [www.utitsl.com](http://www.utitsl.com) for more details. In case of discrepancy in status of PAN please contact your Assessing Officer

- Communication details for TRACES can be updated in 'Profile' section. However, these changes will not be updated in PAN database as mentioned above

(All amount values are in INR)

#### PART A - Details of Tax Deducted at Source

Sr. No.	Name of Deductor				TAN of Deductor	Total Amount Paid/ Credited	Total Tax Deducted*	Total TDS Deposited
Sr. No.	Section 1	Transaction Date	Status of Booking*	Date of Booking	Remarks**	Amount Paid / Credited	Tax Deducted **	TDS Deposited
1	BANK OF INDIA ZONAL OFFICE NEW DELHI				DELB06173G	23624.00	0.00	0.00
1	194A	21-Mar-2021	F	05-Jul-2021	-	5906.00	0.00	0.00
2	194A	31-Dec-2020	F	04-Feb-2021	-	5906.00	0.00	0.00
3	194A	27-Sep-2020	F	06-Jan-2021	-	5906.00	0.00	0.00
4	194A	30-Jun-2020	F	19-Aug-2020	-	5906.00	0.00	0.00
Sr. No.	Name of Deductor				TAN of Deductor	Total Amount Paid/ Credited	Total Tax Deducted*	Total TDS Deposited
2	CANARA BANK				DELC20703E	160636.79	12191.00	12191.00
1	194A	31-Mar-2021	F	28-Jun-2021	-	520.00	39.00	39.00
2	194A	31-Mar-2021	F	28-Jun-2021	-	4200.00	315.00	315.00
3	194A	31-Mar-2021	F	28-Jun-2021	-	25506.00	1913.00	1913.00
4	194A	21-Mar-2021	F	28-Jun-2021	-	4786.00	359.00	359.00

This form is a consolidated tax statement, which is available to all PAN holders. Since all TDS is linked to PAN, this form lists out the details of TDS deducted on the assessee's income by each deductor for all kinds of payments made to him, whether those are salaries or interest income. This form also has details of income tax directly paid by the assessee in the form of advance tax or self-assessment tax.

## 7. Tax Collected at Source

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Tax Collected at Source (TCS) is income tax collected in India, payable by the seller, who collects, in turn, from the buyer and it is provided under Section 206C of Income Tax Act, 1961, at the sale of some goods which are specified. The TCS Rate is different for each category of goods.

**TCS Rate Chart (Before and After 01-04-2025)**

Types of Goods	Rate of TCS (Before 01-04-2025)	Rate of TCS (After 01-04-2025)
Liquor of alcoholic nature, made for consumption by humans	1%	1%
Timber wood under a forest lease	2.5%	2%
Tendu Leaves	5%	5%
Timber wood by any other mode (other than forest lease)	2.5%	2%
Forest produce (other than Tendu leaves and timber)	2.5%	Omitted
Scrap	1%	1%
Minerals like lignite, coal, and iron ore	1%	1%
Purchase of motor vehicle exceeding Rs. 10 Lakhs	1%	1%
Parking lot, toll plaza, mining, and quarrying	2%	2%

Note that section 206CC provides that any person whose payments are subject to tax collection at source i.e. the collectee, shall mandatorily furnish his PAN to the collector failing which the collector shall collect tax at source at **higher** of the following rates:  
(a) at twice the applicable rate of TCS or  
(b) At the rate of 5%.

However, Finance Act 2023 amends this section. Now rate of TCS under this section shall not exceed 20%.

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## 1. Introduction

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An 'Assessee' is any individual who is liable to pay taxes to the government against any kind of income earned or any losses incurred by him for a particular assessment year. A person who has been taxed in the previous years for income earned by him is treated as an 'Assessee', under the Income Tax Act, 1961. An assessee may be any individual liable to pay taxes for himself or to pay tax on behalf of somebody else. The Income Tax Act, 1961 has classified 'Assessee' in different categories.

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## 2. Types of Assessee

### TYPES OF ASSESSEES



Let us discuss the various types of assessees.

#### Normal Assessee

A 'Normal Assessee' is an individual who is liable to pay taxes for the income earned by him for a particular financial year. An individual who has paid taxes in preceding years against the income earned or losses incurred by him is liable to make payments to the government in the form of tax. Any individual who is supposed to make payments to the government in the form of interest or penalty or anybody who is entitled to tax refund under the Income Tax Act (IT Act) is an 'assessee'. All such individuals are grouped under the category of 'normal assessee'.

#### Representative Assessee

Many a times, it so happens that an individual is liable to pay taxes for income or losses incurred, not only by him, but also for income or losses incurred by a third party. Such an individual is known as 'Representative Assessee'. Basically, he acts as a representative for people who themselves are not in a position to file and pay their taxes themselves. Generally, the people who need representatives are non-residents, minors or lunatics.

#### Deemed Assessee

'Deemed assessee' is an individual who is put in a position to pay taxes for some other person by the legal authorities.

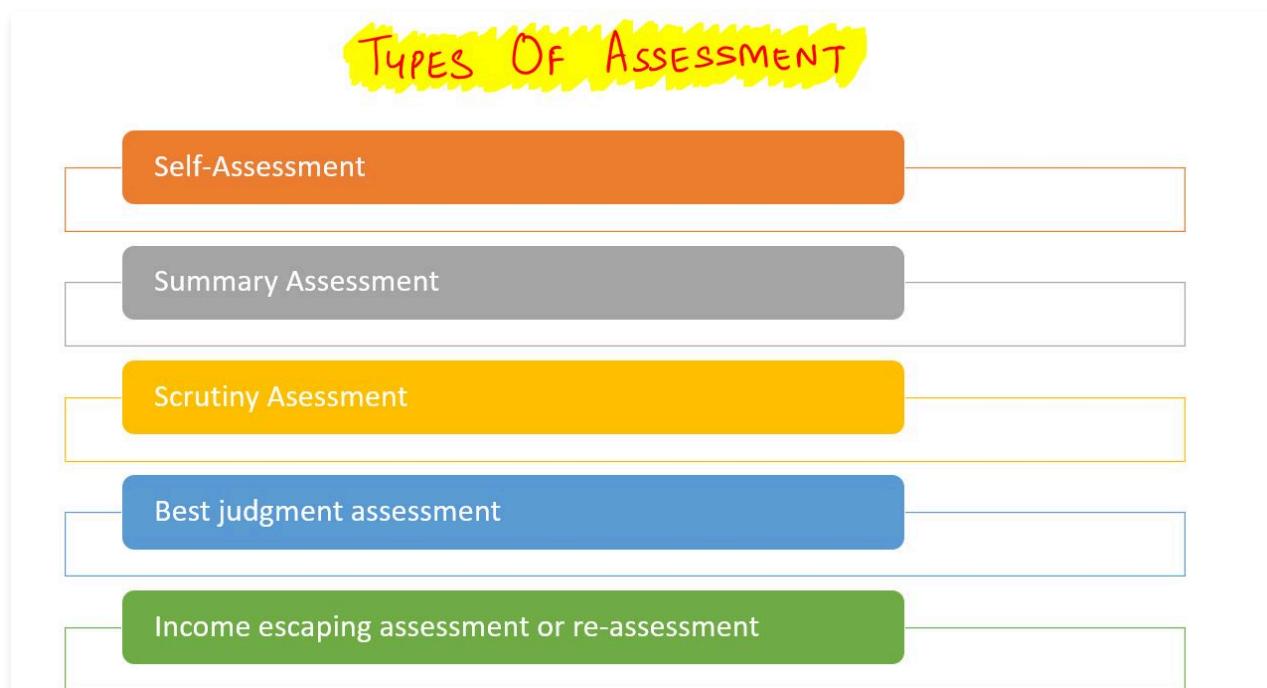
Generally, the individuals who are treated as 'deemed assessees' are:

- The executors or the legal heir of the property of a deceased person, who in written has passed on his property to the executor.
- The eldest son or any other legal heir of a deceased individual (who has expired without writing his will).
- The guardian of a minor, a lunatic or an idiot.
- The agent of a Non-Resident Indian (having Income Sources in India).

#### Assessee-in-default

An 'assessee-in-default' is an individual who has failed to fulfil his legal duty of paying tax to the government. An employer is deemed to be an 'assessee-in-default' if he fails to submit the TDS deducted by him to the government. An employer is supposed to disburse salary to his employees after deducting TDS from their salary and submit the same to the government. However, if he fails to do so, then he is treated as an 'assessee-in-default'.

### 3. Types of Assessment



An assessee is required to submit his return of income u/s 139 or 142 or 148 or 153A or 158BC.

The types of assessments are listed below.

#### **Self-Assessment (Section 140A)**

Self-assessment is the first step in the process of assessment. Self-Assessment, is simply, a process where a person himself assesses his tax liability on the income earned during the particular previous year and submits Income Tax Return to the department.

#### **Summary Assessment (Section 143(1))**

It is a type of assessment carried out without any human intervention. In this type of assessment, the information submitted by the assessee, in his return of income, is cross-checked against the information that the income tax department has access to. In the process, the reasonableness and correctness of the return is verified by the department. The return gets processed online, and adjustment for arithmetical errors, incorrect claims, and disallowances are automatically done. After making the aforementioned adjustments, if the assessee is required to pay tax, he will be sent an intimation under Section 143(1). Such intimation should not be sent after the expiry of 1 year, from the end of the financial year, in which return of income is made.

#### **Scrutiny Assessment (Section 143(3))**

Under such assessment, the Assessing Officer will issue a notice to the assessee under Section 143(2) to take the case in scrutiny. Such notice shall be served on the assessee within a period of 6 months from the end of the financial year in which return is furnished. At present, the returns of income voluntarily filed by the tax payers are mostly accepted by the Income Tax Department without any questions. In a very small percentage of cases, scrutiny assessments are framed under Section 143(3) of the Act. The cases for this purpose are mostly selected through the process of Computer Assisted Scrutiny Selection (CASS) and there is no element of subjectivity in this process.

#### **Best judgment assessment (Section 144)**

The Assessing Officer, after taking into account, all relevant material information which he has gathered, and after giving the assessee an opportunity of being heard, makes the assessment of the total income or loss to the best of his judgement and determine the sum payable by the assessee on the basis of such assessment.

Such cases are:

- (a) If any person fails to submit his return.
- (b) If any person fails to comply with all the terms of a 'Notice u/s 142(1)'.
- (c) If a person fails to comply with the directions to get his accounts audited.
- (d) If a person fails to respond to a 'Scrutiny notice u/s 143(2)'.
- (e) If the Assessing officer is not satisfied about the correctness or the completeness of the accounts.

#### **Income escaping assessment or re-assessment (Section 147)**

If the Assessing officer has reason to believe that any income chargeable to tax has escaped assessment, he may assess or reassess such income. For this purpose, a notice shall be issued u/s 148 within 4 years from the end of relevant AY (or 6 years, in case escaped income is Rs. 1,00,000 or more). Once an assessment has been reopened, any other income which has escaped assessment and which comes to the notice of the Assessing Officer subsequently in the course of the proceeding u/s 147, can also be included in the assessment.

There are two conditions for such assessment to take place:

- (a) The Assessing Officer must have reason to believe that income or profits or gains chargeable to income-tax had escaped assessment.
- (b) Such an escapement has occurred by reason of either omission or failure on the part of the assessee to disclose fully or truly all material facts necessary for his assessment of that year.

#### **Precautionary assessment**

Where it is not clear as to who has received the income, the Assessing officer can commence proceedings against the persons, to determine the question as to who is responsible to pay the tax.

The Inquiry before Assessment is provisioned under Section 142 or 142A. Section 142 and 142A deals with:

1. Giving notice to the assessee to submit return (if not submitted earlier), produce accounts, documents, etc.	Sec. 142(1)
2. Making inquiry and giving opportunity to assessee	Sec. 142(2), (3)
3. Giving directions to get books of accounts audited	Sec. 142(2A) to (2D)
4. Valuation Officer	Sec. 142A

## 4. Assessment of Individuals

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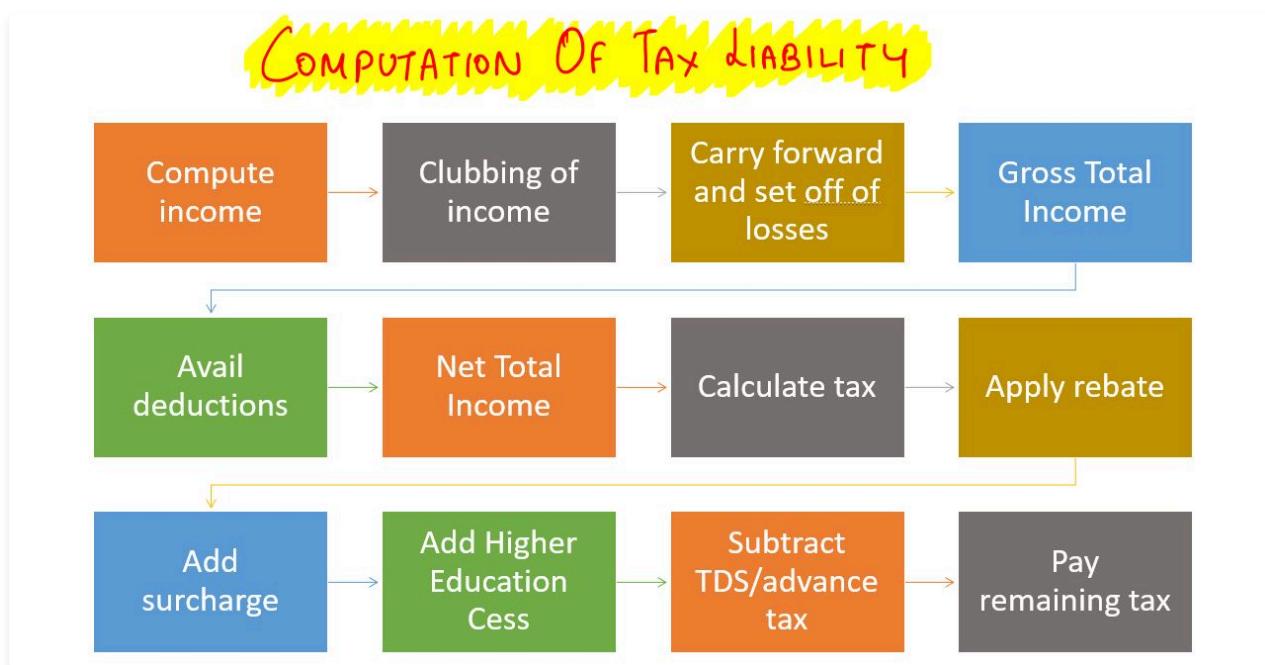
An 'individual' means a natural person, i.e., human being, including a male, female, minor child and a lunatic or an idiot. In the case of male/ female, who is a major, income-tax will be levied on his/her total taxable income unless the income is to be clubbed under the provisions of Sections 60-64.

As regards a minor child, the income of a minor after giving exemption of Rs. 1,500 per minor child will be clubbed with the income of that parent whose total income, before clubbing such income, is greater. However, there are certain incomes which are not to be clubbed. Such income of the minor, which is not to be clubbed, will be assessable in the hands of the representative assessee on behalf of the minor. Also, income of a lunatic or an idiot will be assessed in the hands of the representative assessee.

An individual is liable to pay tax in respect of the following incomes:

- (a) **Income earned by an individual himself** (or in individual capacity), except income exempt under Section 10 to 13A.
  - (b) **Remuneration** (by way of salary, bonus, commission, etc.) received by a partner from a firm or an LLP, is taxable as business income in the hands of a partner.
  - (c) **Interest on capital /loans** received by the partner from a firm or an LLP.
  - (d) **Interest or salary** will be taxable u/s 28(v) in the hands of a partner only to the extent such salary/interest is allowed as a deduction to the firm or an LLP.
  - (e) **Share of profit from an HUF** is exempt under Section 10(2). Any income from an imitable estate of HUF is taxable in the hands of the Karta.
  - (f) **Share of profit from a firm** assessed as a 'firm' is exempt under Section 10(2A).
  - (g) In case of **share of profit received from an AOP/ BOI**, if such AOP/ BOI is taxable at the maximum marginal rate (or at a higher rate), then such share of profit is not taxable in the hands of recipient.
  - (h) **Income earned by others** and included in the income of the taxpayer by virtue of Sections 60 to 64.
-

## 4. Assessment of Individuals



The steps of computation of 'Total Income' and 'Tax Liability' are given below.

- 1) Compute income of an individual from 5 heads on the basis of his residential status.
- 2) Clubbing of income under respective heads.
- 3) Set off of the losses of same year.
- 4) Carry forward and set off of losses of past year.
- 5) Income computed under Steps 1 to 4 is known as 'Gross Total Income' (GTI) from which deductions u/s 80C to 80U will be allowed. This gives the 'Net Total Income'. However, no deduction under these sections will be allowed from short term capital gain covered u/s 111A, any long term capital gain and winning of lotteries, etc., though, these incomes are a part of GTI.
- 6) Compute tax at the prescribed rates of tax on 'Net total income', after rounding off to nearest Rs. 10.
- 7) Allow rebate u/s 87A.
- 8) Add surcharge, if applicable.
- 9) Add HEC (Higher Education Cess) @ 4 %.
- 10) Deduct the TDS or the advance tax paid.
- 11) The balance is the net tax payable which will be rounded off to nearest Rs. 10 and must be paid as self-assessment tax before submitting the return of income.

### Budget 2024 Updates

The Budget 2024 introduced the Vivad se Vishwas Scheme, 2024, as a mechanism to resolve pending income tax disputes. Additionally, the monetary thresholds for filing appeals related to direct taxes, excise, and service tax have been increased to Rs. 60 lakh, Rs. 2 crore, and Rs. 5 crore respectively for Tax Tribunals, High Courts, and the Supreme Court.

Further, in Budget 2024, it is proposed that reopening and reassessment of income tax returns will be allowed in cases beyond 3 years only when the income in dispute is Rs. 50 lakh or more. The time period of 3 years will be calculated from the end of the assessment year. Also, the reopening is permitted up to a maximum period of 5 years from the end of the assessment year.

### I-T search cases

Besides reopening and reassessment, a change has been made with regards to search cases wherein a time limit of 6 years before the year of search is proposed against 10 years which existed earlier.

## 4. Assessment of Individuals

Mrs. Sonakshi Malik is a professor in Delhi University. Following are the particulars of her income for the AY 2025-26. Compute her total income for AY 2025-26, assuming she does not opt to be taxed under Section 115BAC.

- 1) Basic Pay Rs. 60,000 per month
- 2) Dearness Allowance @ 30% of salary
- 3) HRA 30% of basic salary
- 4) Medical Allowance Rs. 500 per month (amount actually spent on her own treatment Rs. 2,000)
- 5) Wardenship allowance Rs. 1,000 per month
- 6) Rent from House property Rs. 2,000 per month
- 7) Interest received from Government Securities Rs. 5,000
- 8) Dividend received from an Indian Company Rs. 1,200
- 9) Interest on Saving Bank Deposits Rs. 62,000
- 10) Contribution to Recognized provident fund 10% of basic salary
- 11) Premium paid by cheque on medical insurance policy on health of dependent mother Rs. 5,000, Rs. 2,000 for dependent mother-in-law and Rs. 1,000 for dependent brother
- 12) Donation to an approved charitable institution Rs. 1,00,000
- 13) House rent paid Rs. 28,000 per month.

### Solution

#### COMPUTATION OF TOTAL INCOME OF SONAKSHI MALIK

##### A. Income from Salary

Salary ( $60000 \times 12$ )	7,20,000
DA ( $30\% \times 60000 \times 12$ )	2,16,000
Wardenship Allowance ( $1000 \times 12$ )	12,000
HRA (see Note 1 below)	-
Medical Allowance ( $500 \times 12$ )	6,000
	<hr/>
	9,54,000
Less: Standard Deduction	( $- 50,000$ )
	<hr/>
	9,04,000

##### B. Income from House Property

Rent from house property ( $2000 \times 12$ )	24,000
Less: Standard Deduction @ 30%	7,200
	<hr/>
	16,800

##### C. Income from Other Sources

Interest from Govt. Securities	5,000
Dividend from an Indian Company	1,200
Interest on Saving Bank Deposits	62,000
	<hr/>
	68,200

##### D. GROSS TOTAL INCOME (A)+(B)+(C)

$$9,04,000 + 16,800 + 68,200$$

9,89,000

### E. Deductions

u/s 80C (RPF)	72,000
u/s 80D (Med. Insurance)	5,000
u/s 80G (Donations) (see Note 2 below)	45,040
u/s 80TTA (up to Rs. 10,000) (Interest on saving bank deposits)	10,000
	<u>1,32,040</u>

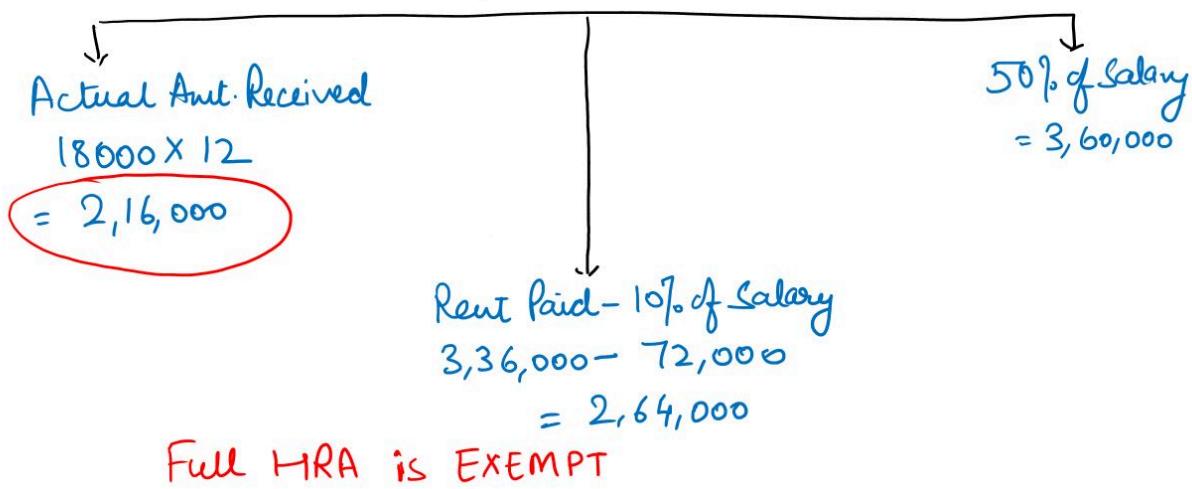
### F. TOTAL INCOME (D) - (E)

$$9,89,000 - 1,32,040$$

$$\underline{\underline{8,56,960}}$$

### NOTE 1: HRA Exemption

Least of the following is EXEMPT



### NOTE 2 : Deduction u/s 80G for donations

Adjusted Gross Total Income

$$\begin{aligned} &\rightarrow 9,89,000 - 1,200,72,000 - 5,000 - 10,000 \\ &= 9,00,800 \end{aligned}$$

Qualifying limit = 10% of Adj. GTI  
 $= 90,080$

Deduction u/s 80G =  $\frac{50}{100} \left[ \text{of Aggregate Amnt or } 1,00,000 \right]$  whichever is less  
 $= 50\% \times 90,080$   
 $= 45,040$

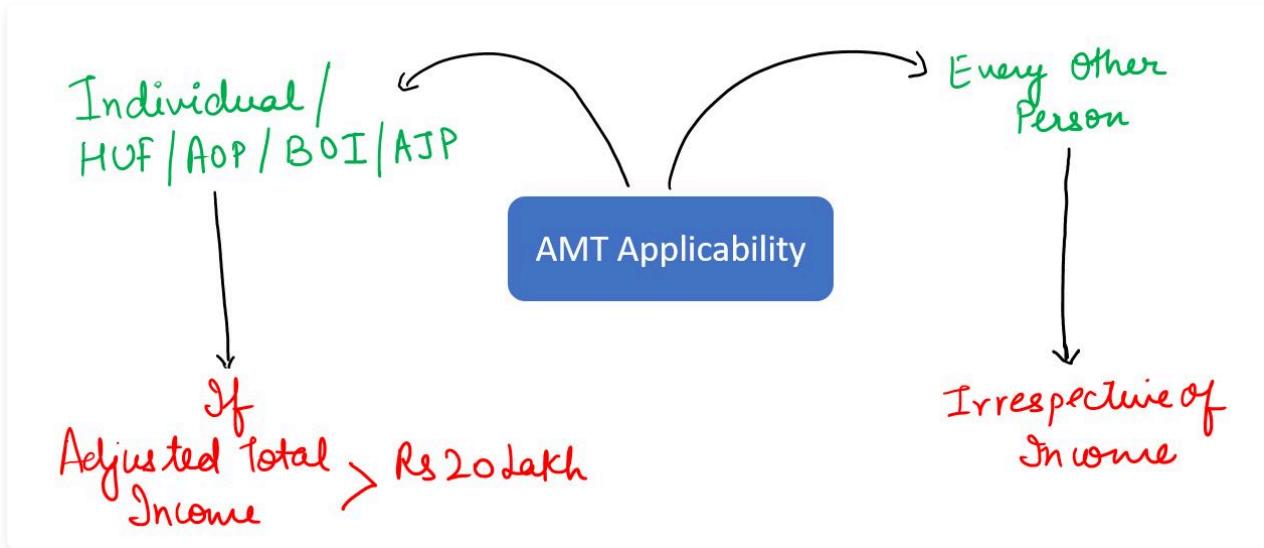
## 5. Alternate Minimum Tax (AMT)



The provisions of MAT (Minimum Alternate Tax) are applicable to a corporate taxpayer only and are discussed under the chapter 'Corporate Tax Planning'. It is advised to go through the provisions of MAT under the said chapter, before going through the provisions of AMT for easy and comparable understanding of both the concepts. Both AMT and MAT concepts are similar.

The provisions relating to AMT are applicable to non-corporate taxpayers in a modified pattern (of MAT) in the form of Alternate Minimum Tax, i.e., AMT. Thus, it can be said that MAT applies to companies and AMT applies to a person other than a company. The provisions relating to AMT are given in Sections 115JC to 115JF.

## 5. Alternate Minimum Tax (AMT)



The provisions of AMT will apply to every non-corporate taxpayer who has claimed:

- (i) Deduction under Section 80H to 80RRB (except 80P),
- (ii) Deduction under Section 35AD and
- (iii) Deduction under Section 10AA.

Thus, the provisions of AMT are not applicable to a non-corporate taxpayer, who has not claimed any deduction under above discussed sections.

However, following points should be kept in mind in this regard.

- 1) The provisions of AMT shall apply to an individual or HUF or AOP or BOI (whether incorporated or not) or an artificial juridical person only if the adjusted total income of such person exceeds Rs. 20,00,000 (Sec. 115JEE).
- 2) The provisions of AMT shall apply to every other person irrespective of its income.
- 3) Further the provisions of AMT are not applicable to a person who has exercised the concessional tax regime available u/s 115BAC or 115BAD.

## 5. Alternate Minimum Tax (AMT)

In case of non-corporate taxpayer, AMT is levied @ 18.5% of adjusted total income. Surcharge and cess, as applicable, will also be levied. However, AMT is levied @ 9% in case of a non-corporate assessee, being a unit located in 'International Financial Services Centre' and deriving its income solely in convertible foreign exchange. Surcharge and cess as applicable will also be levied.

## 5. Alternate Minimum Tax (AMT)

A non-corporate taxpayer to whom the provisions of AMT applies, has to pay higher of 'normal tax liability' or 'liability as per the provisions of AMT'. If in any year, the taxpayer pays liability as per AMT, then he is entitled to claim credit in the subsequent year(s), of AMT paid above the normal tax liability.

However, the AMT credit can be carried forward only for a period of 15 years after which it will lapse.

### 1. Introduction

WHO IS LIABLE TO PAY ADVANCE TAX?

Every Person

whose estimated  
tax liability  
is Rs 10,000 or  
more

Liable to pay  
Advance Tax

EXCEPT

A Resident Senior Citizen (i.e. an  
individual of 60 years or above  
not having income from business/profession)

Payment of tax liability by a person before the end of financial year is called 'Advance tax'. As per Section 208 of 'Income Tax Act, 1961', if the tax payable is Rs. 10,000 or more, then the tax is paid in the previous year itself. In other words, payment of tax is not allowed to be deferred to the assessment year. Thus, the tax is paid in the year of earning of income. In other words, the earning of income and payment of tax goes simultaneously. This scheme of advance payment of tax is also called Pay as you earn Scheme, i.e., pay tax as you earn income.

However, it is to be noted that a senior citizen (i.e. a resident individual who is at least 60 years of age at any time during the financial year), not having any income from business/ profession, is not liable to pay advance tax.

## 1. Introduction

Advance tax is paid by all persons irrespective of the residential status of the person, i.e., by both corporate assessees and non-corporate assessees. The advance tax is to be paid in instalments on the following dates:

### DUE DATES FOR ADVANCE TAX PAYMENT

FOR BOTH INDIVIDUAL AND CORPORATE TAX PAYERS	
Due Date for payment of advance tax	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 OPTED FOR PRESUMPTIVE TAXATION SCHEME	
Due Date	Advance Tax Payable
by 15th March	100% of advance tax

## 2. Computation of Advance Tax Liability

An assessee who is liable to pay advance tax is required to estimate his current income and pay advance tax thereon, without having to submit estimate or statement of income to the assessing authorities. After making payment of first or second instalment of advance tax, an assessee can revise the remaining instalment(s) of advance tax in accordance with his revised estimate of current income and pay tax accordingly, without the requirement of filing the revised estimate of advance tax. Tax can be computed on the current income, as estimated by the taxpayer, at the rates in force during the financial year.