



OVERVIEW OF SECTION II

Section II of the syllabus comprises of Chapter 3 covering the five heads of Income. Each head of income forms a separate unit of this chapter.

Unit 1: Salaries - Salary, pension earned is taxable under the head **“Salaries”**.

Unit 2: Income from house property - Rental income is taxable under the head **“Income from house property”**.

Unit 3: Profits and gains of business or profession - Income derived from carrying on any business or profession is taxable under the head **“Profits and gains of business or profession”**.

Unit 4: Capital Gains - Profit from sale of a capital asset (like land, building and shares) is taxable under the head **“Capital Gains”**.

Unit 5: Income from Other Sources - The fifth head of income is the residuary head. Income which is chargeable to tax under the Income-tax Act, 1961 but not taxable under the first four heads will be taxed under the head **“Income from other sources”**.

These heads of income exhaust all possible types of income that can accrue to or be received by the tax payer. Every tax payer has to classify the income earned by him under the relevant head of income. Each head of income has a charging section which defines the scope of income taxable under that head. The heads of income also contain deeming provisions which amplify the scope of income taxable under that head. In addition, each head provides for certain deductions while computing income thereunder. The deductions may be subject to certain threshold limits and satisfaction of certain conditions. However, standard deduction is available in respect of salary income, income from let out/deemed let out house property and family pension, without any condition. Each head also contains provisions spelling out the deductions which are expressly not admissible therefrom. In addition to the above, there may be other provisions under each head, like presumptive income provisions under the head “Profits and gains of business and profession”, where income is computed as a percentage of total turnover or gross receipts, subject to fulfilment of certain conditions.

HEADS OF INCOME [Section 14]					
	Salaries	Income from house property	Profits and gains of business or profession	Capital gains	Income from other sources
Charging section	15	22	28	45	56
Deeming provisions	-	25A & 27	41	46, 46A, 50AA, 50B, 50C, 50CA & 50D	59
Deductions allowable	16	24	30 to 37	48(i), (ii) & 54	57
Deductions not allowable	-	25	40 & 40A	Last proviso to section 48	58
Other provisions	17	23 & 26	29, 38, 43, 43A, 43B, 43CA, 44AA, 44AB, 44AD, 44ADA & 44AE	47, 49, 51, 55 & 55A	-



Read the Scenario below including its different components described in the table below and the "Points to Ponder" in respect thereof. Thereafter, read the chapter, comprehend the provisions under each head of income, analyse the tax effect and write your responses in the last column of the table. Finally, solve the two Crosswords given at the end. Crossword I is on Units 1 and 2, namely, Salaries and Income from house property. Crossword II is on Units 3, 4 and 5, namely, Profits and gains of business or profession, Capital gains and Income from Other Sources.

SCENARIO

Akash, an electronics engineer aged 48 years, is employed with ABC Ltd., Delhi from 1.4.2023. Prior to that, he has always been a freelance consultant, rendering consultancy services to various Indian companies. He has three children - two sons who are twins studying in class 10 in a reputed school in Delhi, and a daughter who is studying engineering in Delhi. Akash stays in a rented apartment in Munirka with his wife, Geetha and his children. Geetha plays violin in music concerts held in Delhi. Music is her passion and she does not charge for playing violin in the concerts. Akash's parents stay at Chennai in an apartment in Adyar owned by Akash, who purchased the same in the year 2020. Akash also owns an apartment in Bangalore which he has let out at ₹ 40,000 per month. Akash opts out of the default tax regime and pays tax under the optional tax regime as per the regular provisions of the Income-tax Act, 1961. Akash's nephew Arvind, aged 24 years, completed his graduation in the year 2021 and started the business of retail trade in garments in Pune. The turnover of the said business for the previous year 2022-23 is ₹ 2.10 crores and P.Y.2023-24 is ₹ 2.50 crores.

The scenario is continued below and divided into parts depicting the different components of salary and other income earned by Akash, Geetha and Arvind as well as transactions entered into by them during the previous year 2023-24. Column (2) indicates the "Points to Ponder" in respect of each component to urge you to put your thinking caps on and give your responses after reading the Units, comprehending the provisions under each head of income and analysing the tax consequences thereof.

Read the Scenario and each component thereof described in Column (1) of the table below and "Points to Ponder" in relation thereto raised in the corresponding row of Column (2). Thereafter, read the relevant Unit, analyse the tax consequences and write your response in column (5). Reference to the section number is mentioned in Column (4) to enable you to give your response after reading and understanding the relevant provision of law.

(1) Scenario Component	(2) Point(s) to Ponder	(3) Relevant Unit	(4) Relevant Provision of law Section	(5) Write your response after reading the Units of this Chapter
(1) Akash's basic salary is ₹ 1,50,000 p.m. and dearness allowance (forming part of pay for retirement benefits) is ₹ 75,000 p.m. He also gets house rent allowance of ₹ 45,000 p.m. He lives in a rented house in Munirka and pays rent of ₹ 50,000 p.m.	Akash thinks that he is eligible for exemption of his entire HRA since the rent paid by him exceeds the HRA. Is he correct? If not, what is the amount of HRA that would be exempt?	1	10(13A)	
(2) Akash also gets children education allowance of ₹ 3,000 per month per child from ABC Ltd.	Akash is aware that some portion of the allowance is exempt. Is he correct? If so, how much is the amount exempt?	1	10(14)	

(3)	Akash's salary includes transport allowance of ₹ 5,000 per month for commuting from home to office.	Akash is of the opinion that the allowance would be exempt since his expenditure on commuting between home and office amounts to ₹ 8,000 per month. Is he correct?	1	10(14)	
(4)	Akash is also entitled to an entertainment allowance of ₹ 5,000 per month.	Is Akash eligible for any deduction or exemption in respect of entertainment allowance?	1	16	
(5)	Akash gets a gift voucher of ₹ 20,000 on his birthday from ABC Ltd.	Akash thinks that the value of the voucher is not taxable, since it is a birthday gift and not his monthly salary. Is he correct?	1	17	
(6)	ABC Ltd. has given Akash a laptop, which he uses for both personal and official purposes. ABC Ltd. also pays mobile phone charges of Akash.	Would the use of laptop by Akash for his personal purposes and payment of his mobile phone charges by ABC Ltd. be treated as a perquisite and be included in his salary? If so, what would be the perquisite value?	1	17	

(7)	ABC Ltd. and Akash contribute ₹ 30,000 per month towards provident fund (RPF).	Akash wants to understand the tax implications of his and ABC Ltd.'s contribution to RPF.	1		
				17	
				80C	
(8)	Akash pays EMI (Equated Monthly Installment) of ₹ 30,000 to SBI in respect of loan taken for purchase of Chennai apartment. The interest payment for the year was ₹ 2,50,000 and the principal repayment was ₹ 1,10,000.	<div>Is Akash entitled for any deduction in respect of EMI paid by him during the year? If so, how much?</div>	2	24 and 80C	

(9)	During the year, Akash pays property taxes of ₹ 5,000 for his apartment in Chennai and his tenant pays property taxes of ₹ 4,000 for the apartment in Bangalore.	Akash wants to claim the property taxes paid in respect of his apartments in Chennai and Bangalore as deduction. Can he do so? If not, why?	2	23	
(10)	During the year, Akash received ₹ 48,000 from his tenant towards arrears of rent for the apartment in Bangalore for the years 2021-22 and 2022-23.	Akash is of the opinion that he would have to include the arrears in his income of the P.Y.2021-22 and P.Y.2022-23 by revising his tax returns for those years. Is he correct? If not, what would be the tax treatment for arrears of rent received this year?	2	25A	
(11)	Akash incurred ₹ 50,000 towards repairs of his Chennai apartment and ₹ 30,000 towards repairs of his Bangalore apartment.	Akash wants to claim deduction of amount incurred towards repair of his apartments in Chennai and Bangalore. Can he do so?	2	24	

(12)	Akash is contemplating whether or not to gift his Bangalore apartment to Geetha.	Akash thinks that if he gifts the apartment to Geetha, the rental income therefrom would be assessed in her hands.			
		(i) What would be the tax implication of gift of Bangalore apartment by Akash to his wife Geetha?	5	56(2)(x)	
		(ii) In case Akash transfers the apartment in Geetha's name, in whose hands would the income be taxable?	2	27	
(13)	Arvind pays rent of ₹ 40,000 per month for the premises in which he is carrying on his business without deducting tax at source.	Arvind is of the opinion that the entire rent paid by him would be allowed as deduction while computing his business income. Is he correct? If not, how much deduction would he be entitled to?	3	40(a)	

(14)	Arvind has made cash payment of ₹ 20,000 on 1 st December to Mr. Vallish for purchase of stationery items. All other payments have been made through permissible electronic modes.	Would Arvind be eligible for deduction in respect of ₹ 20,000 paid to Vallish while computing his business income?	3	40A(3)	
(15)	Arvind has purchased furniture worth ₹ 10 lakh during the year for his business premises.	<div>Arvind wants to know whether he can claim the value of furniture as deduction while computing business income.</div> <div> <div>(i) Can he do so? If not, why?</div> <div>(ii) Would he be entitled to any other deduction in respect of the same?</div> </div>	3	37 & 32	
(16)	Arvind recovered ₹ 40,000 from Mr. Balram, whose debt of ₹ 60,000 was written off by him last year as bad debts.	Arvind is of the opinion that he need not pay tax on the amount recovered in respect of the bad debts written off. Is he correct?	3	41	

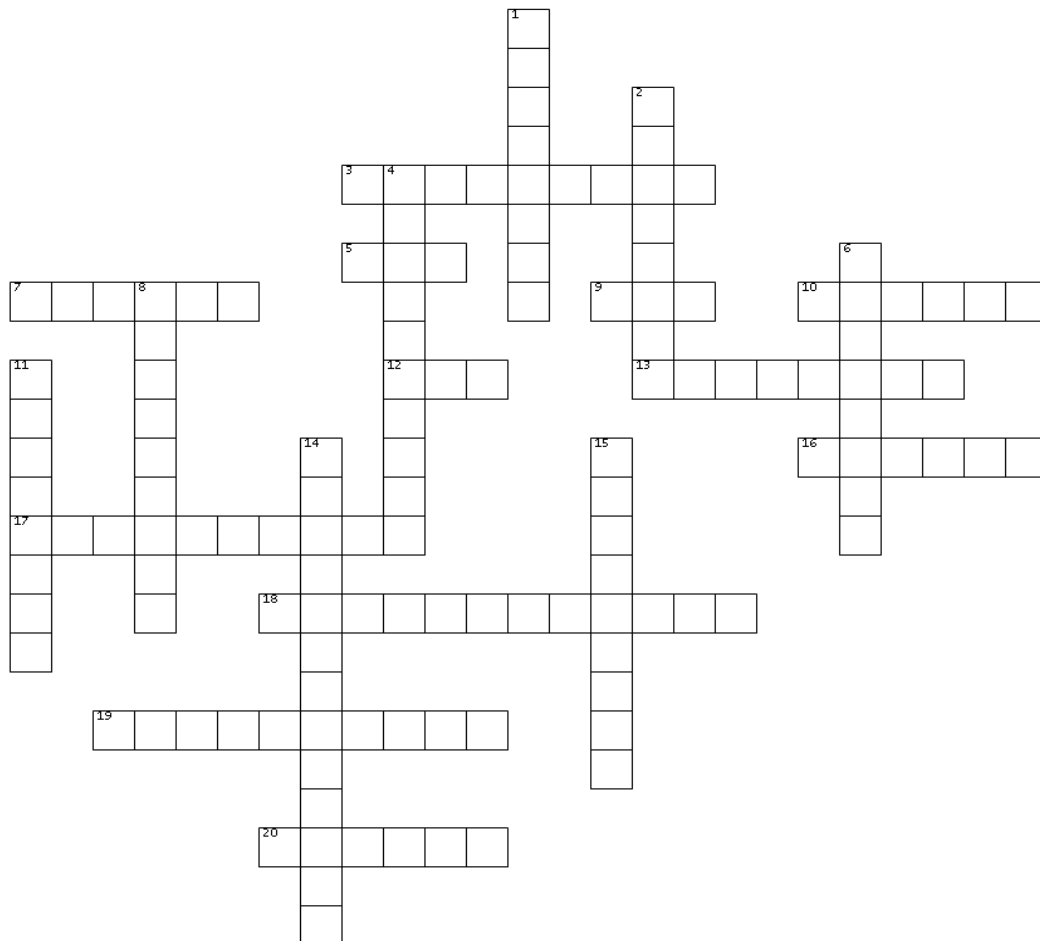
(17)	Arvind received ₹ 25 lakh turnover in cash during the year. The remaining amount was received through permissible electronic modes. Assume that turnover from business represents his total receipts.	(i)	Arvind wants to know whether he has to get his books of account audited. If so, why?	3	44AB	
		(ii)	He wants to declare profits on presumptive basis. Can he do so? If not, why?		44AD	
(18)	Akash's father sold the residential flat owned by him in Baroda. He wants to invest the capital gains of ₹ 40 lakhs in order to be exempt from capital gains tax.		Akash's father wants to know the options available to him for investment of capital gains so that he need not pay any capital gains tax. What are the options available?	4	54 & 54EC	
(19)	Geetha sells some of the gold jewellery gifted to her by her parents at the time of wedding for ₹ 80 lakhs	(i)	Geetha is of the opinion that capital gains on sale of jewellery received as gift from parents has to be computed by taking the cost of acquisition as Nil. Is she correct?	4	49(1)	

(20)	Akash transfers the listed shares of XYZ Ltd. for ₹ 20 lakhs in July this year. These shares were purchased by him in the year 2020 for ₹ 12 lakhs. He also transfers the listed shares of PQR Ltd. for ₹ 8 lakhs in August this year. These shares were purchased by him in December 2022 for ₹ 5 lakhs.	(ii)	Would Geetha be entitled to any exemption on capital gains computed if she invests the capital gains in purchase of a residential apartment?		54F	
		(iii)	If she delays purchasing the residential apartment to next year, what should she do in the meanwhile to be eligible for exemption from capital gains?	4	112A & 111A	
	Akash wants to know the capital gains tax payable by him on the transaction of sale of shares. He informs that he has paid securities transaction tax both at the time of purchase and sale of the shares.					

(21)	Akash's father wins ₹ 5 lakh from lottery. He had borrowed money for purchase of the ticket and he paid interest of ₹ 20,000 on such borrowings.	Akash's father is of the opinion that interest of ₹ 20,000 is deductible from lottery income of ₹ 5 lakh. Is he correct? He also wants to know the rate of tax on lottery income. What is the applicable rate on such income?	5	58(4) 115BB	
(22)	Akash earns dividend income of ₹ 20 lakh from Indian companies. He has paid interest of ₹ 5 lakh on money borrowed to invest in shares of such companies.	Akash is of the opinion that the net dividend of ₹ 15 lakh is taxable. Is he correct?	5	56(2)(i) & 57	
(23)	Akash gifts a sum of ₹ 1 lakh to Geetha on her birthday.	Geetha is of the opinion that the gift of sum of money and value of car is not includible in her income. Is she correct?	5	56(2)(x)	
(24)	Arvind gifts a car to Geetha on her birthday.				
(25)	Arvind gives a cash gift of ₹ 1 lakh to Akash on Diwali.	Akash is of the opinion that the amount gifted is not includible in his income since Arvind is his relative. Is he correct?	5	56(2)(x)	



CROSSWORD PUZZLE – I



ACROSS

3. taxes are allowable as deduction while computing income from house property, only if they are paid by the owner of the house property.
5. This allowance (acronym) is granted to an employee by his employer towards rental payment for his residence.
7. Value of benefit to be included in salary in respect of use of the movable asset, namely, would be nil.
9. Deduction@30% under section 24(a) is allowable from (acronym)
10. The value of the house is chargeable to tax under section 22.

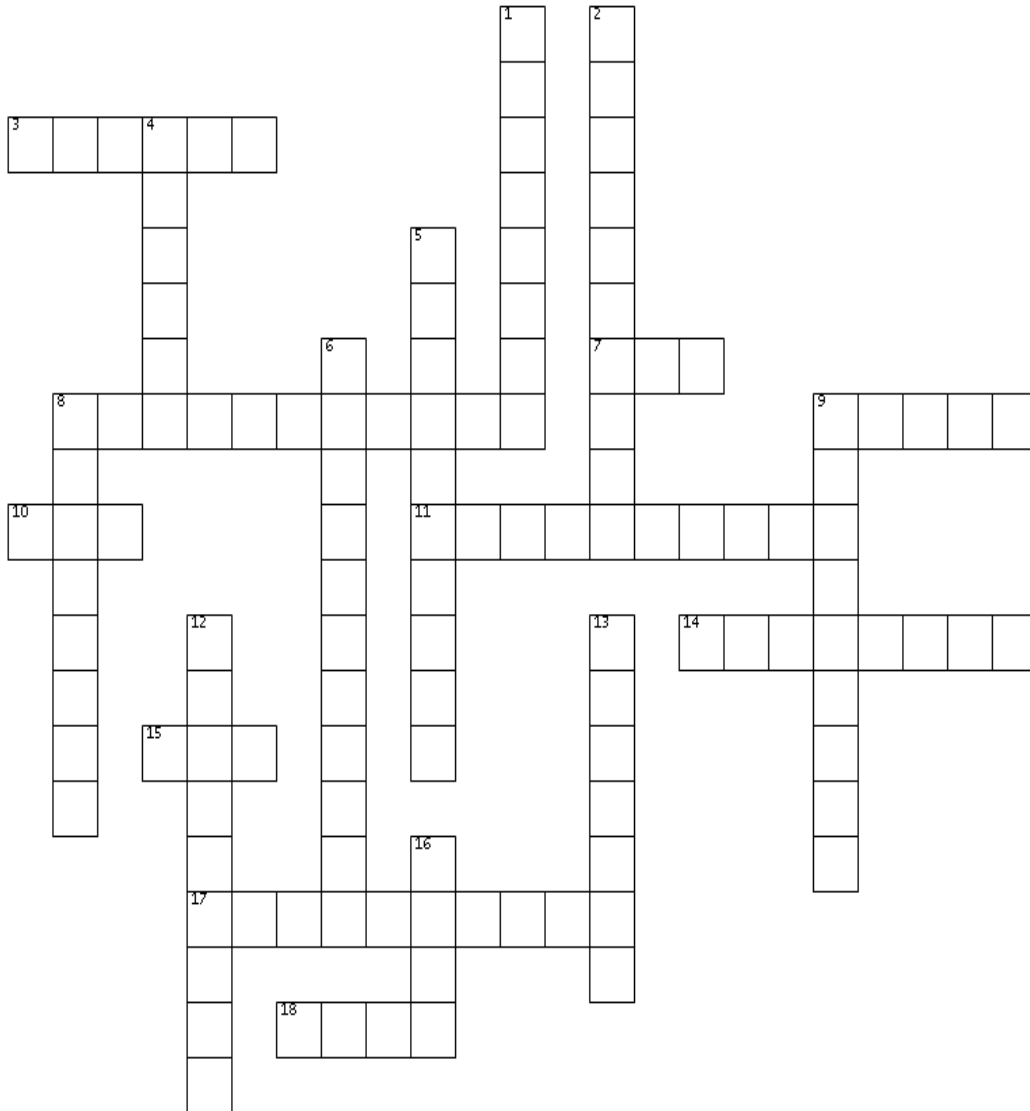
12. Benefit under section 10(5) in respect of (acronym) is available only if the employee opts out of the default tax regime.
13. allowance would be included in salary for valuation of perquisites, only if it forms part of pay for retirement benefits
16. Where an individual has three properties for self-occupation, one of the properties would be to be let out.
17. pension is fully taxable in the hands of all employees.
18. tax paid is allowable as deduction u/s 16, where an employees opts out of the default tax regime.
19. This element of salary is chargeable u/s 17(2)
20. In case Mr. A gifts his house to his minor child, Mr. A would continue to be the owner.

DOWN

1.Rent is the higher of Municipal Value and Fair Rent but restricted to Standard Rent
2. Employees would be eligible for deduction u/s 16, irrespective of the regime under which they pay tax.
4. rent is allowable as deduction from actual rent, only if the conditions prescribed in Rule 4 are satisfied.
6. While computing income from house property, deduction for is allowable on accrual basis.
8. Allowance which is granted to an employee who is blind would be exempt upto ₹ 3,200 p.m.
11. received during the period of service is fully taxable, without any exemption u/s 10(10)
14. Only Government employees are eligible for deduction u/s 16 in respect of this allowance, if they opt out of the default tax regime.
15. Where rent is received for building and other services, the same is referred to as rent.



CROSSWORD PUZZLE – II



ACROSS

3. pension is taxable under the head "Income from Other Sources".
7. 40% of income derived from sale of grown and manufactured by the seller in India would be treated as business income.

8. income is computed under section 44AD, 44ADA and 44AE.
9. Section 50B deals with capital gains on sale of an undertaking.
10. Expenditure in respect of (acronym) is allowable as deduction in 5 equal annual installments while computing business income.
11. The rate of depreciation in respect of these assets is 25%.
14. income is always taxable under the head "Income from Other Sources"
15. (acronym) of inventory on the date of its conversion into a capital asset would be chargeable to tax as business income.
17. Expenditure on, *inter alia*, research is allowable as deduction u/s 35 while computing business income.
18. Income from transfer of building held for 25 months would be (acronym).

DOWN

1. Sum of money received without consideration from a would not be taxable under the head "Income from Other Sources".
2. Transfer includes maturity or of a zero coupon bond.
4. tax is not allowable as deduction while computing business income.
5. depreciation is allowable in respect of new plant and machinery installed during the year by a manufacturing concern while computing business income, only if it has opted out of the default tax regime.
6. Where transactions carried on by an assessee are of such a nature to constitute a business, the business shall be deemed to be distinct and separate from any other business.
8. expenses are disallowed u/s 37.
9. Deduction u/s 35AD is available to these businesses, if they opt out of the default tax regime.
12. or cessation of a trading liability is deemed as income u/s 41(1).

13. Section 46A deals with capital gains on of shares or specified securities.
16. Income from transfer of shares held for 9 months would be (acronym)

Scan the following QR code to find out the answers to the Scenario and Crossword puzzle.

