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(FINANCIAL INVESTMENT ANALYSIS)**

INCOME TAX LAW AND PRACTICE

**DISCIPLINE SPECIFIC CORE (DSC-12)
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(FOR LIMITED CIRCULATION ONLY)



**DEPARTMENT OF DISTANCE AND CONTINUING EDUCATION
UNIVERSITY OF DELHI**

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INCOME TAX LAW AND PRACTICE

[FOR LIMITED CIRCULATION ONLY]

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UNIT - I

Basic Concepts

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Origin of Tax System in India

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STRUCTURE

- 1.1 *Learning Objectives*
- 1.2 *Introduction*
- 1.3 *Origin of Tax System in India*
- 1.4 *Basic Concepts*
- 1.5 *Rounding off of Income [Section 288A]*
- 1.6 *Computation of Tax Liability on Total Income*
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- 1.10 *Summary*
- 1.11 *Answers to In-Text Questions*
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- 1.13 *References*
- 1.14 *Suggested Readings*



1.1 Learning Objectives

- ◆ Understand the origin of the tax system in India.
- ◆ Understand the basic essential concepts.
- ◆ Understand the rounding off total income and income tax slab.
- ◆ Understand the concept of surcharge and cess.

1.2 Introduction

The provisions of income tax are contained in the Income tax Act, 1961 which extends to the whole of India. The Income tax Act 1961 is a revenue law. Every year a Budget is presented before the Parliament by the Finance Minister. One of the most important components of the Budget is the Finance Bill, which declares the financial proposals of the Central Government for the next financial year. When the Finance Bill is approved by both the Houses of Parliament and receives the assent of the President of India, it becomes the Finance Act which gives the rates for computation of **Advance Tax**. The Income tax Act and Finance Act together provides provisions of taxability for a year.

1.3 Origin of Tax System in India

It was in 1850 that Sir James Willson formally introduced the tax in India. He was the finance minister of the pre-independent India. He introduced the tax during the first union budget session under British rule.

The Direct Taxes Administration Enquiry Committee, under the chairmanship of Mahavir Tyagi, submitted its report on 30th November 1959 and its recommendations took shape in the Income tax Act, 1961. The Act, which became effective on 1st April 1962, replaced the Indian Income Tax Act, 1922.

Income tax in India is governed by the Union List of the Seventh Schedule to the Constitution of India, empowering the central government to tax non-agricultural income. Agricultural income is defined in section 10(1) of the Income tax Act, 1961. Income tax law consists of the 1961 Act, Income Tax Rules 1962, Notifications and Circulars issued by the



Central Board of Direct Taxes (CBDT), annual Finance Acts, and judicial pronouncements by the Supreme Court and the High Courts.

1.3.1 Taxation – Voluntary Practice to Involuntary System

Tax compliance represents the most inclusive and neutral term for taxpayers' willingness to pay taxes.

(a) Voluntary Taxation System

Voluntary compliance originates from taxpayers' trust in authorities. Voluntary compliance is motivated and originates from the spontaneous willingness to cooperate, emanating from taxpayers' moral obligation to contribute to the public welfare.

It refers to the principle that citizens will cooperate with their government by filing honest and accurate annual returns. It implies that the individual taxpayer will prepare and file a return without proactive action by the government.

(b) Involuntary Taxation System

The term “taxation” applies to all types of involuntary levies. The government compels taxation through an implicit or explicit threat of force. Taxes are mandatory contributions levied on individuals or corporations by a government entity—whether local, regional, or national. Enforced compliance is fostered through the power of authorities to effectively carry out audits and impose fines more costly than cooperation.

In India, taxes are mandatory contributions collected by the government. Taxes are levied by governments on their citizens to generate income for undertaking projects to boost the economy of the country and to raise the standard of living of its citizens.

1.3.2 Kautilya Views on Taxation

The foundation of taxation was laid during the time of Kautilya. Most of the concepts of modern taxation find seminal ideas in Arthashastra. Kautilya implicitly suggests a linear income tax.



Notes

He advocates fixing a time table for payment of taxes and also what share of the produce or product value is to be paid as tax. Further, the stance of Kautilya on taxation and ability to pay principle is followed in modern day practice also.

The philosophy of Kautilya can be seen in the following saying:

"The way the sun collects ocean water in the form of vapor to supply rain water to the fields; in the same way the government should also collect taxes from the public"

The basic premise of Kautilya's taxation doctrine was that public should not be exploited by imposing tax more than their competence to pay. Tax should be paid more by the person who has ability to pay more and less or no tax has to be collected from others.

1.4 Basic Concepts

Income tax is a direct tax contributed by the assessee on the total income earned, based on the residential status, during the previous year and collected by the government in advance in the previous year.

1.4.1 Income [Section 2(24)]

This term has not been defined in the Income tax Act, except that it states what is included in income. Under this *section*, income includes:

- ◆ Profits and gains.
- ◆ Dividend.
- ◆ The value of any perquisite or profits in lieu of salary taxable under the head 'salaries'.
- ◆ Any special allowance or benefit, other than granted to the assessee to meet his expenses.
- ◆ Any allowance granted to the assessee either to meet his personal expenses, e.g., City Compensatory Allowance.
- ◆ The value of any benefit or perquisite.



- ◆ Any sum paid by any such company in respect of any obligation.
- ◆ Any profits on the sale of import license.
- ◆ Cash assistance received or receivable under exports.
- ◆ Any refundable custom duty or excise the value of any benefit or perquisite arising from business or exercise of profession.
- ◆ Any capital gains.

What is Accrual of Income?

Income accrued in India is chargeable to tax in all cases irrespective of the residential status of an assessee. The words “accrue” and “arise” are used in contradistinction to the word “receive”. Income is said to be received when it reaches the assessee. When the right to receive the income becomes vested in the assessee, it is said to accrue or arise.

What is Income Deemed to Accrue or Arise in India?

- (i) Income of an individual which falls under the head “Salaries” is deemed to accrue or arise in India if service is rendered in India.
- (ii) Salary received by Indian nationals from the Indian Government, outside of India, is deemed to accrue or arise in India. By virtue of section 10(7), any allowance or perquisite paid abroad is, however, fully exempt from tax.
- (iii) Dividend received by a shareholder from an Indian company is always deemed to accrue or arise in India.
- (iv) Income by way of interest, royalty and technical fees: these are deemed to accrue or arise in India in the following cases:

Rule 1: When received from Government - Interest, royalty or technical fees received from the Central Government/any State Government is deemed to accrue or arise in India.

Rule 2: When received from a person resident in India - Interest, royalty or technical fees received from a resident person, is deemed to accrue or arise in India in the hands of the recipient. However, this rule is not applicable in the following cases – a) if the borrowed money is utilised



Notes

by the payer for carrying on a business/profession outside India or for earning any income outside India; or b) payment of royalty/technical fees pertains to a business/profession carried on by the payer outside India or earning any income outside India.

Rule 3: When received from a non-resident - Interest, royalty or technical fees received from a non-resident, are deemed to accrue or arise in India in the hands of the recipient, in the following cases:

- (a) Borrowed money is utilised by the payer for carrying on a business/profession in India; or
 - (b) Payment of royalty/technical fees pertains to a business/profession carried on by the payer in India or earning any income in India.
- (v) Interest received outside India by a foreign bank from its branch in India - In the hands of the recipient, income shall be deemed to accrue or arise in India.

Casual Income

Any receipt which is of a casual and non-recurring nature is casual income. It is an income the receipt of which is accidental and without a stipulation. It is in nature of an unexpected windfall.

Examples of casual income:

1. Winnings from lottery, crossword puzzles, card games and other games of any sort or form, gambling or betting of any form or nature;
2. Receipts even from habitual betting are non-recurring receipts and assessable as casual income.
3. Prize awarded for coin collection or stamp collection may be a casual income. This income is due to the hobby.

Casual income does not include:

- ◆ Capital gains;
- ◆ Receipts arising from business or the exercise of a profession or occupation;
- ◆ Receipts by way of addition to remuneration of an employee;



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- ◆ Voluntary payment received in exercise of an occupation, e.g., tips given in the ordinary way to taxi drivers.

Note:

- ◆ Expenses are not deductible from casual incomes.
- ◆ Set-off of losses is not permitted against casual income.

1.4.2 Person [Section 2(31)]

The term “person” includes:

- ◆ An individual;
- ◆ A Hindu undivided family;
- ◆ A firm;
- ◆ A company;
- ◆ An association of persons or a body of individuals, whether incorporated or not;
- ◆ A local authority; and
- ◆ Artificial juridical person not falling within any of the preceding categories e.g., University of Delhi.

1.4.3 Assessee [Section 2(7)]

An assessee means a person:

- ◆ Who is liable to pay any **tax**; or
- ◆ Who is liable to pay any other sum of money under this Act (e.g., **interest, penalty**, etc.); or
- ◆ In respect of whom any **proceeding** under this Act has been taken for the assessment of his income; or
- ◆ In respect of whom any proceeding under this Act has been taken for the **amount of refund** due to him or to such other person; or
- ◆ Who is **deemed** to be an assessee under any provision of this Act; or
- ◆ Who is deemed to be an **assessee in default** under any provision of this Act.

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1.4.4 Assessment Year [Section 2(9)]

- ◆ “Assessment year” means the period of 12 months commencing on the 1st day of April financial year. The income earned during the previous year is taxable in the next year which starts from April 1.
- ◆ In simple words, it can be said that the year in which the assessment procedure of income is started and taxable is known as the assessment year.

1.4.5 Previous Year [Section 3]

The year in which an assessee has earned the income is said to be the previous year. The previous year means the financial year immediately preceding the assessment year.

- (a) It will be the uniform previous year for all the assessees and for all sources of income.
- (b) For a newly set-up business or profession, the first previous year may be of less than 12 months, i.e., from the date of start to the end of the financial year.

Exceptions to the general rule (i.e., when income of previous year is taxable in the same previous year but not taxable in the assessment year)

In the following circumstance, the income of the previous year is taxed in the same previous year:

1. Income of non-resident from shipping:

Conditions to be satisfied:

- ◆ The assessee is a non-resident who owns a ship or ship is chartered by a non-resident.
- ◆ The ship carries passengers, livestock, mail or goods shipped at a port in India.
- ◆ The non-resident may (or may not) have an agent/representative in India.

2. Income of persons leaving India either permanently or for a long period of time;



3. Income of association of persons or a body of individuals or artificial juridical persons formed for short duration;
4. Income of a person trying to alienate his assets with a view to avoiding payment of tax; and
5. Income of a discontinued business.

1.4.6 Gross Total Income

As per section 14, all income shall, for the purposes of Income tax and computation of total income, be classified under the following FIVE heads of income:

- (i) Income from Salary
- (ii) Income from House Property
- (iii) Profits and Gains of Business and Profession
- (iv) Capital Gains
- (v) Income from Other Sources

Aggregate of above five heads of income, after applying clubbing provisions and making adjustments of set-off and carry forward of losses, is known as Gross Total Income.

1.4.7 Total Income

The income of an assessee is computed by deducting all deductions (Sections 80C to 80 U) permissible under Chapter VIA of the Income tax Act. The steps of computing total income for any assessment year are determined as follows:

1. First, determine the residential status of the assessee to find out which income is to be included in the computation of his Total Income.
2. Second, compute the income under each head of income, after allowing the deductions prescribed for each head of income.
3. Third, find the total of income of five heads i.e., known as Gross Total Income.
4. Fourth, provide all deductions available under Chapter VIA (80C to 80U) and you will get Total Income.



Note: If an assessee opts for the alternative tax regime u/s 115BAC, deduction u/ss 80C to 80U is blocked except contribution to NPS. This will be discussed in detail later in the Lesson 9.

1.4.8 Agricultural Income: (Section 10(1))

1. Agricultural income earned in India is fully exempt from income tax.
2. If an individual, HUF, BOI, AOP or artificial juridical person also has income from any head of income and the total income from five heads of income is more than exemption limit, and agricultural income exceeds Rs. 5,000 then agricultural income is added in the total income. Thereafter difference of tax is calculated by adding agricultural income and without adding agricultural income. This process is known as partial integration of non-agricultural income with agricultural income.

Agriculture income means:

1. Any rent or revenue derived from land which is situated in India and is used for agricultural purpose.
2. Any income derived from such land by agricultural operations including processing of the agricultural produce, raised or received as rent-in-kind so as to render it fit for the market or sale of such produce.
3. Income attributable to a farm house subject to certain conditions.

1.5 Rounding off of Income [Section 288A]

The total income, as computed above, shall be rounded off to be the nearest multiple of 10 rupees and for this purpose any part of a rupee consisting of paisa shall be ignored. Therefore if such amount is not a multiple of 10, then, if the unit figure is 5 or more, the amount shall be to the next higher multiple in 10 but if the unit figure of the total income is less than 5, the amount shall be reduced to the next lower multiple of 10.

Rounding off tax: [Section 288B]

The amount of tax payable shall be rounded off to the nearest multiple of 10 rupees as discussed in case of rounding off total income as above.



1.6 Computation of Tax Liability on Total Income

On the total income, tax is computed according to the normal rates prescribed under the relevant Finance Act and special rates prescribed in the Income tax Act.

Tax rates, surcharge and cess applicable for the Assessment Year 2023-24

(i) Tax Rates for “Individuals” [Under Existing (Regular) Tax Regime]

Situation 1: For a resident senior citizen (who is 60 years or more at any time during the relevant previous year 2022-23 but less than 80 years on the last day of the relevant previous year 2022-23):

Total Income/ Annual net taxable income	Tax
Up to Rs. 3,00,000	Exempted or Nil tax
Rs. 3,00,001 – Rs. 5,00,000	5% of income exceeding Rs. 3,00,000
Rs. 5,00,001 – Rs. 10,00,000	Rs. 10,000 + 20% of income exceeding Rs. 5,00,000
Above Rs. 10,00,000	Rs. 1,10,000 + 30% of income exceeding Rs. 10,00,000

Situation 2: For a resident super senior citizen (who is 80 years or more at any time during the relevant previous year 2022-23):

Annual net taxable income	Tax
Up to Rs. 5,00,000	Exempted or Nil tax
Rs. 5,00,001 – Rs. 10,00,000	20% of income exceeding Rs. 5,00,000
Above Rs. 10,00,000	Rs. 1,00,000 + 30% of income exceeding Rs. 10,00,000

Situation 3: For any other resident individual (who is less than 60 years of age at any time during the relevant previous year 2022-23), any non-resident individual, every HUF/AOP/BOI/artificial juridical person:

Annual net taxable income	Tax
Up to Rs. 2,50,000	Exempted or Nil tax
Rs. 2,50,001 – Rs. 5,00,000	5% of income exceeding Rs. 2,50,000
Rs. 5,00,001 – Rs. 10,00,000	Rs. 12,500 + 20% of income exceeding Rs. 5,00,000
Above Rs. 10,00,000	Rs. 1,12,500 + 30% of income exceeding Rs. 10,00,000

**(ii) Tax Rates for Individual [Alternative Tax Regime U/S 115BAC (1)]**

AY 2023-24

Under the alternative tax regime income tax on the Income of Individuals and HUF shall be computed at the option of the assessee as per the rate given as under:

Total income	Rate of tax
Upto Rs. 2,50,000	Exempt
From Rs. 2,50,001 to Rs. 5,00,000	5%
From Rs. 5,00,001 to Rs. 7,50,000	10%
From Rs. 7,50,001 to Rs. 10,00,000	15%
From Rs. 10,00,001 to Rs. 12,50,000	20%
From Rs. 12,50,001 to Rs. 15,00,000	25%
Above Rs. 15,00,000	30%

(iii) Conditions and Restrictions to avail the benefit of lower tax rate [Section 115BAC(2)]

The following conditions should be satisfied in order to avail the benefit of lower tax rate under the alternative tax regime of section 115BAC:

(a) Individual/HUF: The alternative tax regime u/s 115BAC is available only in the case of an individual/HUF from the AY 2021-22 onwards. It is optional. Individual/HUF may be resident or non-resident. Individual may be a salaried/retired employee (having salary income) or a self-employed person (having business income) or any other person (having any other income).

(b) A Few Incentive Not Available: Total income of Individual/HUF is calculated under the alternative tax regime of Section 115BAC without claiming the following deductions/exemptions (which otherwise available under normal tax regime):

1. Leave travel concession [Section 10(5)]
2. House Rent Allowance [Section 10(13A)]
3. Special Allowance(s) (other than those as may be prescribed) [Section 10(14)]
4. Allowance to MPs/MLAs [Section 10(17)]
5. Exemption upto Rs. 1,500 is available in the case of clubbed income of a minor child [Section 10(32)]
6. Special Economic Zone [Section 10AA]



7. Standard deduction [Section 16(i)]: Note: Now it is allowed deduction i.e., Rs. 50,000 from the AY 2023-24
8. Entertainment allowance deduction [Section 16(ii)]
9. Profession-tax deduction [Section 16(iii)]
10. Interest on housing loan in the case of one or two self-occupied properties [Section 24(b)]
11. Additional depreciation [Section 32(1)(iia)]
12. Investment allowance in the case of backward area [Section 32AD]
13. Tea/Coffee/rubber development account [Section 33AB]
14. Site restoration fund [Section 33ABA]
15. Deduction for scientific research [Section 35(1)(ii)(iia)(iii), 35 (2AA))]
16. Capital expenditure pertaining to specified business [Section 35AD]
17. Agriculture extension project [Section 35CCC]
18. Standard deduction in the case of family pension [Section 57(iia)]
19. Deduction u/s 80C to 80U [except employer's contribution towards NPS u/s 80CCD(2), deduction u/s 80JJAA and deduction u/s 80LA(1A)].

Note: Exemption available even in alternative tax regime u/s 115BAC:

- (a) Interest on PPF as well as final payment at the time of maturity will remain exempt u/s 10(11), even if a person opts for the alternative tax regime u/s 115BAC.
- (b) Interest on Sukanya Samriddhi Account as well as withdrawal or final payment from such account will enjoy exemption u/s 10(11A) even if the concerned person has opted for the lower tax regime of Section 115BAC.
- (c) Gratuity u/s 10(10).
- (d) Commutation of pension u/s 10(10A).
- (e) Leave encashment u/s 10(10AA).
- (f) Retrenchment compensation u/s 10(10B).
- (g) Compensation on voluntary retirement or separation u/s 10(10C).
- (h) Tax on non-monetary perquisites paid by employer u/s 10(10CC).



Notes

- (i) Lump-sum received under a life insurance policy u/s 10(10D).
- (j) Interest and withdrawal from RPF u/s 10(12).
- (k) Payment including withdrawal from NPS u/s 10(12A)(12B).
- (l) Payment from approved superannuation fund u/s 10(13).

1.7 Rebate of Tax in Case of Certain Individuals [Section 87A]

A resident individual (whose taxable income does not exceed Rs. 5 lakh can claim a rebate under section 87A from income tax under the existing tax regime and alternative tax regime, both. The amount of rebate is 100% of income tax or Rs. 12,500, whichever is less. This rebate is available from income tax (before adding surcharge and cess).

Note: Under the alternative tax regime, a resident individual (whose taxable income does not exceed Rs. 7 lakh can claim a rebate u/s 87A from income tax from the Assessment Year 2024-25). The amount of rebate is 100% of income tax or Rs. 25,000, whichever is less. This rebate is available from income tax before adding surcharge and cess.

1.8 Surcharge and Cess

- (a) Surcharge [under existing tax regime and alternative tax regime]:

	Income-range	Surcharge as % of income tax on total income
Individual	Upto Rs. 50 lakh	Nil
	Rs. 50 lakh-Rs. 1 crore	10%
	Rs. 1 crore-Rs. 2 crores	15%
	Rs. 2 crore-Rs. 5 crore	25% [Note: 1]
	Above Rs. 5 crore	37% [Note: 1] if however, income includes capital gain taxable u/s 111A and/or 112A, surcharge cannot exceed 15% of income tax.

- (b) Health and Education Cess @4%

The amount of income tax and surcharge shall be increased by health and education cess which is 4 per cent of (income tax + surcharge).



(c) Special rates of tax on certain incomes

Some incomes under the Income tax Act are taxable at special rates. While applying tax on these incomes, exemption slab applicable for an assessee is of no use. It means **under the existing tax regime and alternative tax regime**, these incomes are taxable at **flat rate given below**:

1. Long-term capital gain is taxable at a flat rate of 20%.
2. Short-term capital gain covered under section 111A is taxable at a flat rate of 15%.
3. Casual income (viz., gambling, lottery, betting, etc.) is taxable at a flat rate of 30%.

IN-TEXT QUESTIONS

1. State which of the following statements is True or False:

- (a) The Income tax Act, 1961 is a revenue law.
- (b) It was in 1850 that Sir James Willson formally introduced the tax in India.
- (c) Kautilya implicitly suggests a linear income tax.
- (d) Income accrued in India is chargeable to tax in all cases irrespective of residential status of an assessee.
- (e) Previous year for all the assessees and for all sources of income are uniform.
- (f) If the assessment year is 2023-24, then the previous year is 2022-23.
- (g) Gross Total Income is the aggregate of income of all heads.
- (h) The year in which assessment procedure of income is started and taxable is known as assessment year.

2. Fill in the blanks:

- (a) The Income tax Act took shape in the year _____.
- (b) In India, taxes are _____ contributions.
- (c) Previous year is the year in which an assessee has _____ his/her income.



Notes

- (d) When income of previous year is not taxable in the immediately following assessment year, it is known as _____ of the previous year.
- (e) When the previous year is 2022-23, then the assessment year is _____.
- (f) Total income means Gross Total Income minus _____.
- (g) Assessee is the person who is liable to pay _____.
- (h) Any receipt which is of a casual and _____ nature is casual income.

1.9 Residential Status of an Individual

Tax liability of an assessee varies with the residential status in India for any particular financial year. Tests of residence, as specified in section 6, are based on his territorial connection with India in the previous year and are different in case of different assessable units, e.g., Individual, Hindu Undivided Family, Firm or Company.

For the purpose of residential status, an assessee can be classified into the following three categories:

- (i) Resident in India (also called resident and ordinarily resident).
- (ii) Resident but not ordinarily resident in India.
- (iii) Non-resident in India.

I. Resident (Ordinarily Resident) [Section 6(1)]

An individual is said to be a resident and an ordinarily resident in India during the previous year if he/she satisfies at least one of the basic condition and both of the two additional conditions.

Basic Conditions [Section 6(1)]

- (i) He/she is in India in the previous year for a period of 182 days or more;

OR

- (ii) He/she is in India for a period of 60 days or more during the previous year and 365 days or more during the 4 years immediately preceding the previous year.

**Exceptions:**

In the following two situations, basic condition (ii) is not applicable:

1. An **Indian citizen** who **leaves** India during the previous year
 - ◆ For the purpose of employment outside India; or
 - ◆ As a member of the crew of an Indian ship.
2. An **Indian citizen** or a **person of Indian origin** who **comes** on a visit to India during the previous year.

Additional Conditions [Section 6(6)]

- (a) He/she has been **resident** in India in at least 2 out of 10 previous years immediately preceding the relevant previous year.

Note: Here, resident means satisfying either of the basic conditions.

AND

- (b) He/she has been in India for a period of 730 days or more during 7 years immediately preceding the relevant previous year.

II. Resident But Not Ordinarily Resident

An individual is said to be resident but not ordinarily resident in India during the relevant previous year if he/she satisfies only a basic condition but not two additional conditions.

III. Non-Resident in India

An individual is said to be a non-resident in India during the relevant previous year if he/she does not satisfy basic conditions.

Note: if he/she satisfies additional conditions, even then he/she will remain non-resident in India.

Problem 1:

Mr. Murthy left India for the first time on May 11, 2021. During the previous year 2022-23, he came to India on October 2 for a period of 45 days. Determine his residential status for the assessment year 2023-24.

Solution: To determine the residential status of an Individual, Mr. Murthy has to satisfy: **Basic condition and additional conditions.** In this case:

Basic Condition: Since Mr. Murthy comes to India only for 45 days in the previous year 2022-23, so he does not satisfy any of the basic conditions



laid down in section 6(1). Therefore, Mr. Murthy is non-resident in India during the previous year 2022-23.

Problem 2:

Mr. Mohan was born in India in on Feb 6th, 2001. He went to Dubai on April 1st 2022 for 15 days, thereafter he came back to India. Again he went to Sri Lanka on July 1st for 20 days and thereafter he came back to India. Determine his residential status for the assessment year 2023-24.

Solution: First consider whether he is satisfying the basic condition during the PY 2022-23; then additional two conditions:

Basic Conditions:

- (i) **He is in India during the previous year for at least 182 days or more:**

Mr. Mohan is an Indian citizen. He Stayed outside India during the relevant previous year 2022-23 for a period of 15 days + 20 days = 35 days only. So he fulfils the basic condition.

Additional Conditions:

- (a) **He has been resident in India (Basic condition only) in at least 2 out of 10 previous years immediately preceding the relevant previous year 2022-23:**

Before the relevant previous year 2022-23, he never left India. So, he satisfies this condition.

- (b) **He has been in India for a period of 730 days or more during 7 years immediately preceding the relevant previous year 2022-23:**

Before the relevant previous year 2022-23, he never left India. So, he also satisfies this condition.

So, he is a resident and ordinarily resident in India during the previous year 2022-23.

Tax Incidence

Section 5 specifies incomes that will be taxed in the hands of any person depending on his residential status. This is explained below:



A- Tax incidence in case of resident and ordinarily resident [Section 5(1)] (only applicable to Individual and HUF)

The following incomes from whatever source derived from part of Total Income in case of Resident in India or ordinarily resident in India:

- (a) Any income which is received or is deemed to be received in India in relevant previous year by or on behalf of such person;
- (b) Any income which accrues or arises or is deemed to accrue or arise to him in India during the relevant previous year;
- (c) Any income which accrues or arises to him outside India during the relevant previous year.

B- Tax incidence in case of resident but not ordinarily resident [Section 5(1)] (only applicable to Individuals and HUF)

- (a) Any income which is received or is deemed to be received in India in the relevant previous year by or on behalf of such person;
- (b) Any income which accrues or arises or is deemed to accrue or arise to him in India during the relevant previous year;
- (c) Any income which accrues or arises to him outside India during the relevant previous year if it is derived from a business controlled in or a profession set up in India.

C- Tax incidence in case of non-resident [Section 5(2)]

- (a) any income which is received or is deemed to be received in India in the relevant previous year by or on behalf of such person; or
- (b) any income which accrues or arises or is deemed to accrue or arise to him in India during the relevant previous year.

Thus, you can note that income described in items (a) and (b) in all three categories of the assessee (above) are to be included in Total Income.

The income described in item (c), i.e., income which accrues or arises outside India is not included in the total income at all for the assessee who is Non-Resident in India but included in the total income of the assessee who is Not-ordinarily Resident in India only when derived from a business controlled in or profession set-up in India.



Notes

Tax incidence at a glance:

S. No.	Particulars	Ordinarily Resident in India	Not Ordinarily Resident in India	Non-Resident in India
1.	Any income which is received or is deemed to be received in India in the relevant previous year by or on behalf of such person.	Taxable	Taxable	Taxable
2.	Any income which accrues or arises or is deemed to accrue or arise to him in India during the relevant previous year.	Taxable	Taxable	Taxable
3.	Any income which accrues or arises outside India during the relevant previous year if it is derived from a business controlled in or a profession set up in India.	Taxable	Taxable	Not Taxable
4.	Any income which accrues or arises outside India during the relevant previous year.	Taxable	Not Taxable	Not Taxable

IN-TEXT QUESTIONS

3. State which of the following statements is True or False:
- (a) Tax liability of an assessee depends on his/her residential status in India.
 - (b) Tests of residence are based on his territorial connection with India in previous year.



Notes

- (c) An individual is said to be resident in India if he satisfies basic condition as well as additional conditions.
- (d) Any income which accrues or arises to him outside India during the relevant previous year if it is derived from a business controlled in or a profession set up in India is taxable for ordinarily resident and not ordinarily resident in India.
- 4. Fill in the blanks:**
- (a) Tax liability of _____ varies with his/her residential status in India.
 - (b) Tests of residence are based on his territorial connection with India in _____ year.
 - (c) An individual is said to be non-resident in India during the relevant previous year if he _____.
 - (d) Any income which accrues or arises to him outside India during the relevant previous year is taxable for _____.

Problem 3:

Discuss whether the following incomes are taxable or not in India:

- (i) A non-resident owns a residential house in Delhi which is given on rent to a foreign embassy. Rent is, however, payable outside India in a foreign currency.
- (ii) Non-resident purchases goods from India and sells these goods abroad at profit.
- (iii) Interest on loan is paid by the Govt. of India to a non-resident outside India.
- (iv) A non-resident owns commercial building in Mumbai which is transferred to another non-resident outside India. The consideration is payable in a foreign currency outside India.
- (v) C, a non-resident Indian, is presently appointed by the Govt. of India in its embassy at Saudi Arabia; salary for rendering service is paid to him in foreign currency outside India.

Solution:

- (i) **Taxable**, as it is accrued in India and thus, becomes an Indian income which is taxable for a non-resident.



Notes

- (ii) **Not taxable**, as profit is earned and received outside India and thus, a foreign income which is not taxable for a non-resident. It does not matter whether the goods have been purchased from India or not.
- (iii) **Taxable**, as interest paid by Government of India is assumed as an Indian income and thus, taxable for a non-resident.
- (iv) **Taxable**, as it is accrued in India and thus, Indian income which is taxable for a non-resident.
- (v) **Taxable**, as salary paid by the Indian Government to an Indian national is deemed to accrue or arise in India, even if service is rendered outside India. This provision is applicable only in respect of salary and not in respect of allowances and perquisites paid or allowed by the Government to Indian nationals working abroad, as such allowances and perquisites are exempt under section 10(7). C, though a non-resident, but an Indian national.

Problem 4:

Mrs. Y is a foreign citizen. Her grandmother was born in Karachi on February 6, 1957. She came to India for the first time on November 3, 2022 for a period of 200 days. Her income for the previous year 2022-23 is as under:

- (i) Income earned in Bangladesh but received in India Rs. 4,40,000.
- (ii) Income earned and received outside India Rs. 5,60,000.
- (iii) Royalty received in Germany from a resident of India for technical services provided for a business carried on in Germany Rs. 1,00,000.
- (iv) Agricultural income in Sri Lanka Rs. 5,00,000.
- (v) Dividend from Indian Company received in Pakistan Rs. 80,000.
- (vi) Profits of a business carried on in Pakistan but controlled from India Rs. 2,00,000 (out of which Rs. 50,000 is received in India).

Solution:

In the question, residential status is not given. So first, we have to identify about the residential status of Mrs. Y. She was present in India for a period of 149 days (Nov. 28 + Dec. 31 + Jan. 31 + Feb. 28 + March. 31) only during the previous year 2022-23.

Mrs. Y is a **Non-Resident** for the previous year 2022-23 as she does not satisfy the basic condition of presence for a period of 182 days or more.



Further, as she is a person of Indian Origin (because her grandmother was born in Undivided India), she is covered under the exception of basic condition no. (ii) Applicability. For a person of Indian Origin who comes on a visit to India during the previous year, basic condition no. (ii) of 60 days is not applicable.

**Computation of Taxable Income of Mrs. Y (a non-resident)
For the Assessment Year 2023-24**

	Amount (Rs.)
(i) Indian income (income received in India)	4,40,000
(ii) Foreign income (income received and accrued outside India)	----
(iii) Foreign income (royalty income received and accrued outside India)	----
(iv) Foreign income (accrued outside India)	----
<i>[Though, agricultural income outside India is not exempt from tax]</i>	
(v) Dividend income from an Indian company [exempt from tax]	----
(vi) Indian income (received in India)	50,000
(vii) Foreign income (received and accrued outside India)	----
Total Income	<u>4,90,000</u>

Problem 5:

Mr. Nath earns the following income during the financial year 2022-23:

- (a) Profit earned from a business in Japan which is controlled in India, half of the profit being received in India 100,000.
- (b) Interest from an Indian company received in Canada 60,000.
- (c) Income from agriculture in Dubai and remitted to India 75,000.
- (d) Pension from former employer in India received in U.K. 1,00,000.
- (e) Income from property in Canada received there 2,00,000.
- (f) Past income brought to India from U.K. 20,000.

Compute his income for the assessment year 2023-24, if he is (i) Resident and ordinarily resident in India (ii) Not ordinarily resident in India and (iii) Non-resident in India.

**Solution:****Computation of Total Income of Mr. Nath
For the Assessment Year 2023-24**

S. No.	Particulars	Ordinarily Resident in India	Not Ordinarily Resident in India	Non-Resident in India
1.	Income received in India: (a) *50% of profit of business in Japan	50,000	50,000	50,000
2.	Income deemed to arise/accrue in India: (a) Interest from an Indian Company (b) Pension from former employer in India	60,000 1,00,000	60,000 1,00,000	60,000 1,00,000
3.	Income earned and received outside India, from a business controlled from India: (a) *50% of profit in India	50,000	50,000	-----
4.	Income earned and received outside India: (a) Income from property in Canada (b) Income from agriculture in Dubai	2,00,000 75,000	----- -----	----- -----
	Total Income	5,35,000	2,60,000	2,10,000



ORIGIN OF TAX SYSTEM IN INDIA

Notes

Note: Past foreign income is not to be included because it is not the income of the previous year 2022-23.

1.10 Summary

Income earned by every person is chargeable to income tax provided it exceeds the minimum exemption limit. The total income of a person is determined on the basis of residential status in India during the previous year. Income tax is charged on the total income of the previous year but taxable in the following assessment year at the rate applicable and paid in the form of advance tax and deduction of tax at source.

1.11 Answers to In-Text Questions

1. All true
2. (a) 1961
(b) Mandatory
(c) Earned
(d) Exception
(e) 2-23-24
(f) Deduction/s 80's
(g) Tax
(h) Non-recurring
3. All true
4. (a) An assessee
(b) Previous
(c) Does not satisfy basic condition
(d) Non-resident in India

1.12 Self-Assessment Questions

A- Theory questions:

1. What do you understand by the term Income tax?
2. Explain the exception of previous year.

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Notes

3. Distinguish between Gross Total Income and Total Income.
4. When is an individual said to be ordinary resident in India?
5. When is an individual said to be Non-Resident in India?
6. When is an individual said to be not ordinarily resident in India?
7. Who is a senior citizen under the Income tax Act?
8. What is casual income?
9. Incidence of income tax depends upon the residential status of an assessee. Discuss.
10. Define assessment year.

B- Numerical exercise:

11. Mr. Nath is a citizen of India. He left India for the first time on July 1st, 2020 for the purpose of working on an overseas project of his employer company. He finally came back to India on November 30th, 2022. Determine his residential status for the assessment year 2023-24.
12. Mr. Shyam is an Indian citizen employed in Dubai from October 25th, 2020. He came to India for a visit of 200 days on June 1st, 2022. Determine his residential status for the assessment year 2023-24.
13. Mr. Mohan furnishes his annual income for the previous year 2022-23 as follows:

	Rs.
1. Income from salary earned and received in Singapore	30,00,000
2. Income from Cotton business (controlled from India)	21,00,000
3. Interest on bank fixed deposit in India	2,00,000
4. Interest on bank fixed deposit in Singapore	1,00,000
5. Income from Oil business (accrued and received outside India, controlled from Singapore)	10,00,000

Determine his income if:

- (a) He is ordinarily resident in India
- (b) He is not ordinarily resident in India
- (c) He is non-resident in India.



1.13 References

- ◆ Singhania V. & Singhania, M. Students Guide to Income Tax, Taxman Publications.
- ◆ Ahuja, G. & Gupta, R. Systematic Approach to Income Tax: Bharat Law House.
- ◆ Chandra, M. & Shukla, D. C. Income Tax Law and Practice: Pragati Publications.

1.14 Suggested Readings

- ◆ Income Tax Act, 1961: <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>
- ◆ ICSI Study Material - Tax Laws



UNIT - II

Computation of Income (Applicable Sections 56 to 59 of Income-tax Act, 1961)

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Income from Salary: Part-I

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STRUCTURE

- 2.1 Learning Objectives**
- 2.2 Introduction**
- 2.3 Understanding Relevant Concepts**
- 2.4 Basis of Charge**
- 2.5 Meaning of Salary [Section 17(1)]**
- 2.6 Profits in Lieu of Salary [Section 17(3)]**
- 2.7 Deductions from Salary [Section 16]**
- 2.8 Allowances**
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- 2.10 Summary**
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2.1 Learning Objectives

- ◆ Understanding the basic concepts of salary.
- ◆ To compute the income from salary received by an employee from the employer.
- ◆ Learning the tax treatment of different types of allowances.
- ◆ To understand the contribution system in PF and NPS.



2.2 Introduction

In India, there are almost 86 million people who earn income in the form of salary. Generally we are told by the employer about in-hand salary. Suppose the in-hand salary is Rs. 50,000 per month. Then, we must understand how we arrived at this figure of Rs. 50,000. This figure of Rs. 50,000 is consolidated figure of basic salary along with allowances and perquisites. Under this lesson we will understand the meaning of salary along with the allowances and perquisites. *Sections 15, 16 and 17 of the Act deals with the computation of income under the head “Salaries”.*

2.3 Understanding Relevant Concepts

In order to understand the computation of income under the head “Salaries”, the following relevant concepts need to be understood first:

2.3.1 Employer-Employee Relationship

An income is taxable under the head “Income from Salaries” if there is a relationship between the payer and payee of employer-employee or master and servant. If this relationship does not exist, then the income will not be taxable as salary income; it will be taxable under other heads of income.

Employer may be an individual, firm, association of persons, company, local authority, Central Government, State Government, etc. Likewise, the employer may be operating in India or outside India. The employee may be a full-time employee or a part-time employee.

MPs or MLAs are not treated as employees of the Government. Thus, remuneration received by them is not taxable under the head “Income from Salaries” but taxable under the head “Income from other sources”.

However, pay and allowances received by the Chief Minister of a State are assessable as salary and not as income from other sources, in view of the provisions of article 164(5) of the Constitution.



INCOME FROM SALARY: PART-I

Notes

Note: Any salary, bonus, commission or remuneration, by whatever name called, due to/ received by, a partner of a firm from the firm shall not be taxable under the head “Income from Salaries” because there is no employer-employee relationship between the firm and its partners. Such remuneration, however, is taxable under the head “Profits and gains from business or profession” in the hands of partners.

2.3.2 No Difference Between Salary and Wages

Conceptually, there is no difference between ‘salary’ and ‘wages’, both being a payment for work done or services rendered.

2.3.3 Arrears of Salary

Salary due to an assessee in the earlier years, which was neither paid nor was charged to tax in those years, will have to be treated as ‘arrears of salary’ and thus, taxable under the head “Income from Salaries”. It is taxable on receipt basis. In this case, recipient can claim relief u/s 89.

2.3.4 Advance Salary [Section 17(1)(v)]

Salary received in advance is taxable in the year of receipt. It will not be taxable again in the relevant year in which it becomes due. In this case, the recipient, however, can claim relief u/s 89.

2.3.5 Salary Paid by Foreign Government

Salary paid by a foreign Government to its employees serving in India is taxable under the head “Income from Salaries”.

2.3.6 Salary from More Than One Employer

Salary received by an employee from more than one employer during the same previous year, then in such case, the total salary received from all employers is taxable under the head “Income from Salaries”

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2.3.7 Salary from Former Employer, Present Employer or Prospective Employer

Salary received (or due) during the previous year is chargeable to tax under the head “Income from Salaries” irrespective of the fact whether it is received from a former, present or prospective employer.

2.3.8 Tax-Free Salary

If a Tax-free salary is paid by the employer, the employee has to include in his taxable income not only the salary received but also the amount of tax paid by the employer on this tax-free salary income of the employee.

2.3.9 Forgoing of Salary

Once salary is earned by the employee, it becomes taxable in his/ her hands though he/she may subsequently waive the right to receive the same from his employer. Such voluntary waiver or forgoing by an employee of salary due to him/her is merely an application of income and is chargeable to tax under the head “Income from Salaries”.

2.3.10 Place of Accrual [Section 9(1)]

Income under the head “Income from Salaries” is deemed to accrue or arise at the place where the service (in respect of which it accrues) is rendered. If the services are rendered in India and if the salary in respect of such service is received outside India, it will be treated as an income which is deemed to accrue or arise in India.

Similarly, if a person, who after rendering services in India, retires and settles abroad, receives any pension on account of the same, such pension shall be an income which is deemed to accrue or arise in India because the services on account of which pension accrues, were rendered in India.

There is, however, an exception to the above rule. Salary payable by the Government of India to a citizen of India for services outside India is treated as income deemed to accrue or arise in India even though services are rendered outside India.



2.3.11 *Method of Accounting not Relevant*

Salary is taxable on receipt or due basis, whichever is earlier regardless of the fact whether books of account, in respect of salary income, are maintained by the assessee on mercantile basis or cash basis.

2.4 Basis of Charge

Under section 15, the following income shall be chargeable to income tax under the head “Salaries”:

1. Any salary **due** from an employer (or a former employer) to an assessee in the previous year, whether actually *paid or not*;
2. Any salary **paid** or allowed to him in the previous year by or on behalf of an employer (or a former employer), though not due or before it became due; and
3. Any **arrears** of salary paid or allowed to him in the previous year by or on behalf of an employer (or a former employer), if not charged to income-tax for any earlier previous year.

2.5 Meaning of Salary [Section 17(1)]

Salary includes:

- (i) Wages;
- (ii) Any annuity or pension;
- (iii) Any gratuity;
- (iv) Any fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages;
- (v) Any advance of salary;
- (vi) Any payment received by an employee in respect of any period of leave not availed by him;
- (vii) Employer's contribution towards Recognized Provident Fund (RPF) in excess of 12% of employee's salary and interest credited to RPF in excess of 9.5% p.a.;
- (viii) Transferred balance in a recognized provident fund to the extent it is taxable; and



Notes

- (ix) The contribution made by the Central Government (or any other employer) in the previous year, to the account of an employee under a notified pension scheme referred to in section 80CCD.

Update on NPS:

Employer contribution to NPS is also a part of this definition.

2.6 Profits in Lieu of Salary [Section 17(3)]

It includes the following:

- (a) The amount of any compensation due to or received by an assessee from his employer (or former employer) at or in connection with the termination of his employment or the modification of the terms and conditions thereto;
- (b) Any payment due to or received by an assessee from his employer (or former employer) except the following:
 - (i) Payment of gratuity exempted under section 10(10); (Discussed in lesson 3)
 - (ii) Payment of commuted pension exempted under section 10(10A); (Discussed in lesson 3)
 - (iii) Payment of retrenchment compensation exempted under section 10(10B); (Discussed in lesson 3)
 - (iv) Payment from statutory provident fund (SPF) Section 10(11);
 - (v) Payment from recognized provident fund (RPF) to the extent it is exempt under [section 10(12)];
 - (vi) Payment from an approved superannuation fund under section 10(13);
 - (vii) Payment of HRA exempted under section 10(13A).
- (c) Any payment from unrecognized provident fund (UPF) or such other fund to the extent to which it does not consist of contributions by the assessee or interest on such contributions.
- (d) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.



- (e) Any amount due to or received, whether in lump sum or otherwise, by an assessee from any person prior to employment or after cessation of employment.

2.7 Deductions from Salary [Section 16]

The following are three deductions available to salaried individual which is deductible from gross salary:

(a) Standard Deduction [u/s 16(i)]: Amount of Gross Salary or Rs. 50,000, whichever is lower.

(b) Entertainment Allowance [u/s 16(ii)]: Entertainment allowance is first included in salary income under the head “Salaries” and thereafter a deduction is given on the basis enumerated in the following paragraphs:

In the case of a Government employee (i.e., a Central Government or a State Government employee), the least of the following is deductible:

(i) Rs. 5,000;

(ii) 20 per cent of basic salary; or

(iii) Amount of entertainment allowance granted during the previous year.

(c) Professional Tax [u/s 16(iii)]: Professional tax or tax on employment, levied by a State under article 276 of the Constitution, is allowed as deduction. The deduction is available only in the year in which professional tax is paid.

It is to be noted that there is no monetary ceiling for professional tax, under the Income-tax Act. Under article 276 of the Constitution, a State Government cannot impose more than Rs. 2,500 per annum as professional tax. However, under the Income-tax Act, whatever professional tax is paid during the previous year is deductible.

Note: Deduction u/s 16(i); 16(ii) and 16(iii) has been initially blocked under alternative tax regime u/s 115BAC but The Finance Bill 2023 allowed Rs. 50,000 deduction u/s 16(i) under alternative tax regime u/s 115BAC for the assessment year 2023-24.

***Computation of Basic Salary******Problem 1: Non-Govt. Sector: Salary due on the last day of each month***

N is an employee of XYZ Private Ltd. getting a salary of Rs. 50,000 per month which becomes due on the last day of each month but is paid on the fifth of the next month. Explain the provisions regarding the Computation of the salary taxable for the assessment year 2023-24.

Solution:

The provisions of computation of Salary is taxable on a receipt basis or due basis, whichever is earlier.

- (i) In case of Non-Government Sector, salary gets due on last of the same month.
- (ii) In case of Government sector, salary gets due on 1st day of the next month.

For assessment year 2023-24, the relevant previous year is 2022-23.

- (i) N is a non-Govt. employee, so in this case, salary becomes due on the last day of each month and received on the fifth day of next month. Thus, salary of April 2022 will become due on April 30, 2022 and will be paid on May 5, 2022.
- (ii) Salary of April 2022 will become taxable on April 30, 2022 irrespective of payment date. On this basis, May 2022 salary will become taxable on May 31, 2022 and so on.

Thus, during the previous year 2022-23, salary from April 2022 to March 2023 will be taxable on due basis and amount of taxable salary will be Rs. 6,00,000 [Rs. 50,000 per month*12 months].

Problem 2: Non-govt. Sector: Salary due on the first day of next month

N is an employee of XYZ Private Ltd. Company. His salary till March 31, 2021 was Rs. 40,000 per month and from April 1, 2022 his salary becomes Rs. 50,000 per month. Salary becomes due on the first day of next month but is paid on the fifth of next month. Compute the salary taxable for the assessment year 2022-23.

Solution:

- (i) In this case, salary becomes due on the first day of next month and received on the fifth day of next month.



INCOME FROM SALARY: PART-I

Notes

- (ii) Thus, salary of April 2022 will become due on May 1, 2022 and will be paid on May 5, 2022. So, salary of April 2022 will become taxable on May 1, 2022. On this basis, May 2022 salary will become taxable in June 2022 and so on.
- (iii) However, March 2022 salary will become taxable in April 2022 which is not in our relevant previous year. But March 2022 salary is taxable in April 2022 which is in our relevant previous year 2022-23.

Thus, during the previous year 2022-23, salary from March 2022 @ Rs. 40,000 per month (1 month only) and from April 2022 to February 2023 will be taxable @ Rs. 50,000 per month (11 months) and amount of taxable salary will be Rs. 5,90,000 [Rs. 40,000*1 + Rs. 50,000*11].

Problem 3: On advance salary- of assessment year received in previous year

N is an employee of XYZ Ltd. getting a salary of Rs. 50,000 per month which becomes due on the last day of each month but is paid on the fifth of next month. He is paid the salary of April 2023 in advance in March 2023. Compute the salary taxable for the assessment year 2023-24.

Solution:

- (i) In this case, the Previous year is 2022-23 and the Assessment year is 2023-24.
- (ii) The salary of April 2023 will become due on April 30, 2023 (i.e., the previous year 2023-24) but it is received in advance in March 2022 (i.e., previous year 2022-23). Thus, advance salary of April 2023 will become taxable on receipt basis which is earlier than the due date.

In this case, N received salary of 13 months during the previous year 2022-23.

Computation of Salary Income For the Assessment Year 2023-24

		Rs.
1.	Regular salary received for the previous year 2022-23: Salary from April 2022 to March 2023 due basis: Rs. 50,000 p.m.* 12 months	6,00,000
2.	Advance Salary of April 2022 paid in March 2022	50,000
	Taxable Gross Salary	6,50,000

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**Problem 4: Calculation of Basic pay. In-case of Non-Govt. Sector**

N joins a private company on September 1, 2020 in the pay scale of Rs. 14,000-30,000. Annual increment is Rs. 1,000. The company fixed his basic salary at the time of joining is Rs. 18,000). As per the terms of employment salary becomes “due” on the first day of next month, and it is generally paid on the fifth day of the next month. Find out the taxable salary for the assessment year 2023-24.

Solution:

N is employed in a non-Government sector. For the assessment year 2023-24, previous year is 2022-23. In this case, N gets an annual increment of Rs. 1,000. The amount of salary with increment i.e., Rs. 1,000 for different years will be as follows:

Basic Pay	Rs.
September 1, 2020 to August 31, 2020	18,000
September 1, 2020 to August 31, 2021	19,000
September 1, 2021 to August 31, 2022	20,000
September 1, 2022 to August 31, 2023	21,000

Note: Rs. 1,000 will be added to the basic salary every year as an annual increment till it reaches the maximum of Rs. 30,000.

Thus, N's basic salary (month-wise) for the previous year 2022-23, salary will be taxable as follows:

Month	Due date of salary [Due date or receipt date, whichever is earlier]	Amount (Rs.)
March 2022	April 1, 2022	20,000
April 2022	May 1, 2022	20,000
May 2022	June 1, 2022	20,000
June 2022	July 1, 2022	20,000
July 2022	August 1, 2022	20,000
August 2022	September 1, 2022	20,000
September 2022	October 1, 2022 (after increment)	21,000
October 2022	November 1, 2022	21,000
November 2022	December 1, 2022	21,000
December 2022	January 1, 2023	21,000



Month	Due date of salary [Due date or receipt date, whichever is earlier]	Amount (Rs.)
January 2023	February 1, 2023	21,000
February 2023	March 1, 2023	21,000
Total Basic Salary		2,46,000

Problem 5: Calculation of Basic Pay: Govt. Sector

Dr. N joins in an affiliated college of Central Government University as an assistant professor on July 1, 2020 in the pay scale of Rs. 57,700. The annual increment is 3% of the basic pay. Find out the taxable salary for the assessment year 2023-24.

Solution:

For the assessment year 2023-24, previous year is 2022-23. In this case, Dr. N gets an annual increment @3% on every July 1 on basic pay of the relevant previous year. The amount of salary for different years will be as follows:

Month			Basic Pay	
From	To	Basic pay (Rs.)	Rs. (rounded off)	
July 1, 2020	June 30, 2021	57,700	57,700	57,700
July 1, 2021	June 30, 2022	Increment: 3% on Rs. 57,700 = 1731 (rounded off)	57,700 + 1,730 = 59,430	59,430
July 1, 2022	June 30, 2023	3% on Rs. 59,430 = 1,783.90 (rounded of Rs. 1784)	59,430 + 1,784 = 61,214	61,230

Note: Dr. N is a Central Government employee. So it is assumed that as per the terms of employment salary becomes “due” on the first day of next month but paid on the 5th day of the next month. Hence, taxable salary is to be calculated on the basis of due.

Salary of March 2022 is in the previous year 2021-22 but gets due and received on April 1, 2022. Hence, taxable in the year of due i.e., previous year 2022-23, i.e., (April 2022 to March 2023).

Calculation of basic pay for the Assessment Year 2023-24 is as follows:



Notes

Month	Total months	Basic pay	Rs.
March 2022 to June 2022	4 months	@59,430 p.m.	2,37,720
July 2022 to Feb. 2023	8 months	@61,230 p.m.	4,89,840
Total taxable salary			7,27,560

IN-TEXT QUESTIONS

1. State which of the following statements is True or False:
 - (a) MPs or MLAs are not treated as employees of the Government.
 - (b) Pay received by the Chief Minister of a State is assessable as salary.
 - (c) Salary received by, a partner of a firm from the firm shall not be taxable under the head “Income from Salaries”
 - (d) Salary paid by a foreign Government to its employees serving in India is taxable under the head “Income from Salaries”.
 - (e) Any salary *paid* or allowed to him in the previous year by or on behalf of an employer (or a former employer), though not due or before it became due is known as Advanced salary.
2. Fill in the blanks:
 - (a) An income is taxable under the head “Income from Salaries” if there is a _____ between the payer and payee is of employer-employee.
 - (b) Remuneration received by MPs is _____ under the head “Income from Salaries”.
 - (c) Salary from former employer is taxable under the head _____
 - (d) Meaning of salary is given under section _____.
 - (e) Standard Deduction u/s 16 (i) is deducted from the _____.

2.8 Allowances

Any monetary benefit offered by the employer to its employees for meeting some particular expenses whether personal or for the performance of



duty over and above the basic salary is known as allowance. These are generally fully taxable and thus, included to compute gross salary unless a specific exemption has been provided in respect of that particular allowance which is received.

As per the Income-tax Act, allowances are broadly divided into three categories for the purpose of taxability:

- (i) Fully taxable allowances;
- (ii) Fully exempt allowances;
- (iii) Partially exempt allowances:
 - (a) Exemption depending upon actual expenditure; or
 - (b) Fixed exemption depending upon the provisions of the Act.

I. Fully Taxable Allowances:

These allowances are fully taxable in the hand of recipients. Some of the common fully taxable allowances are:

- (i) Dearness Allowance: It is an allowance given to employees by the employer, the government or private sector, to compensate for the rising cost of living due to inflation. DA is reviewed biannually by government, once in every six months, in January and July. Dearness Allowance becomes that part of the salary up to which it forms the retirement benefit salary of the employee, provided that all other pre-conditions are met. It is fully taxable.

Types of Dearness Allowance: There are mainly two types:

- (a) **Fixed Dearness Allowance:** It is constant amount that is added to the employee's basic salary as a part of their compensation. This type of DA is usually offered to employees who work in industries where the cost of living does not vary significantly overtime.
- (b) **Variable Dearness Allowance:** It is calculated as a percentage of the employee's basic salary and is adjusted twice a year, January and July, depending on the inflation rate and other economic factors. This type of DA is mainly applicable to government employees and is calculated based on the Consumer Price Index or Industrial Average.



- (ii) **City Compensatory Allowance:** CCA is a type of allowance offered by companies/government to their employees to compensate for the high cost of living in metropolises and large cities at the discretion of the employer. CCA is fully taxable under Indian income tax laws.
- (iii) **Fixed Medical Allowance:** This allowance is given for meeting expenditure on their day-to-day medical expenses that do not require hospitality. It is fully taxable.
- (iv) **Non-practicing Allowance:** This allowance is given to doctors who are practicing under central government organizations and provides their certificate that they are not working in any self-practice. It is calculated on the basis of their basic pay plus dearness allowance. It is fully taxable.
- (v) **Servant Allowance:** When an employer pays an employee to engage the services of a servant. It is fully taxable.
- (vi) **Deputation Allowance:** In general terms deputation is posting of an employee to other location on temporary basis. It involves change in station. It is fully taxable.
- (vii) **Lunch/Meal/Dinner/Tiffin Refreshment Allowance:** When employer pays for employee's Tiffin/meals that is fully taxable.
- (viii) **Overtime Allowance:** Employees who work beyond their regular shifts may receive an overtime payment that is fully taxable.
- (ix) **Warden/Dy. Warden Allowance:** When an employer provides this allowance, to its employee serving as a Warden or Dy. Warden/superintendent at educational institution, it is fully taxable.

I. Allowances Prescribed as Exempt under Section 10(14)

The following six allowances are exemption depending upon actual expenditure by the employee—subject to the least of the following:

(a) The amount of the allowance;

or

(b) The amount utilized for the specific purpose for which allowance is given.

These allowances are as follows:

- (i) **Travelling allowance/Transfer allowance:** An allowance (by whatever name called) granted to meet the cost of travel on tour or on transfer



(including any sum paid in connection with transfer, packing and transportation of personal effects on such transfer).

- (ii) **Conveyance allowance:** Conveyance allowance is exempt from tax to the extent it is utilized for performance of official duties. It is an allowance which is granted to meet the expenditure on conveyance in performance of duties of an office. It may be noted that any expenditure for covering the journey between office and residence is not treated as expenditure in performance of duties of the office.
- (iii) **Daily allowance:** An allowance whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty.
- (iv) **Helper allowance:** An allowance (by whatever name called) to meet the expenditure on a helper where such helper is engaged for the performance of official duties.
- (v) **Research/ Academic allowance:** An allowance (by whatever name called) granted for encouraging the academic research and other professional ethics.
- (vi) **Uniform allowance:** An allowance (by whatever name called) to meet the expenditure on the purchase or maintenance of uniform for wear during the performance of duties of an office.

II. Partially Exempt Allowances

In case of following allowances, the amount of exemption does not depend upon the expenditure actually incurred by the employee. But amount of exemption is lower of the following:

- (a) The amount of allowance; or
- (b) The amount specified in rule 2BB,

1. House rent allowance [Section 10(13A) and rule 2A]:

Note: Exemption on HRA is blocked under alternative tax regime u/s 115BAC

HRA is given by the employer to its employee to meet the expenses in connection with rent of the accommodation which the employee might have to take if he/she is dwelling in the house owned and provided by employer. This allowance is also given to that employee who lives in his own house.



Taxability of HRA: It is taxable under the head “Income from Salary” to the extent it is not exempt. In other words,

- (i) Employee who is receiving HRA and **staying in his own accommodation**, then no exemption is available. Hence, whole amount of HRA received is fully taxable.
- (ii) Employee who is receiving HRA and **lives in a rented house but does not incur expenditure as rent**, no exemption is available. Hence, the whole amount is taxable.
- (iii) Employee who is receiving HRA and lives in a rented house and pays some rent and submits the evidence of paying rent to the employer is eligible for exemption as under:

Exemption u/s 10(13) and rule 2A: Least of the following is exempt from tax:

- (a) House rent allowance received by the employee in respect of the period during which rental accommodation is occupied by the employee during the previous year.
- (b) The excess of rent paid over 10% of salary.
- (c) An amount equal to 50% of salary where residential house is situated at Mumbai, Kolkata, Delhi and Chennai or an amount equal to 40% of salary where residential house is situated at any other place.

Thus, Taxable amount of HRA = HRA received minus Exemption

Notes:

- ◆ Exemption on HRA is available for the period in which the employee lives in a rented house.
- ◆ *Salary for this purpose means:* Basic salary (+) dearness allowance (if terms of employment so provide) (+) commission based as a fixed percentage of turnover achieved by an employee.

2. Entertainment Allowance [Section 16(ii)]

It is first included in salary income under the head “allowances” and thereafter a deduction is given on the following basis:

- (i) This deduction is allowed u/s 16(ii) only to a government employee (including employees of local authority and statutory corporation) from gross salary to the extent of least of the following:



INCOME FROM SALARY: PART-I

Notes

- (a) Actual entertainment allowance received during the previous year
(b) 20% of his Basic salary
(c) Rs. 5,000
- (ii) Non-government employees shall not be eligible for any deduction on account of any such allowance received by them. Hence, the whole of the amount is taxable.

Note: Exemption on Entertainment allowance is blocked under alternative tax regime u/s 115BAC

Problem 6: [on HRA]

Dr. N is employed in Delhi Government College which is affiliated to the University of Delhi, a Central University since June 1, 2010 as Assistant Professor till November 30th, 2022. His basic pay on January 1, 2022 was Rs. 89,700 p.m. and promoted as associate professor from December 1, 2022. His basic pay on December 1, 2022 is fixed at Rs. 131,100 p.m. He gets 3% annual increment on every July. He gets dearness allowance @34% from March 2022 to June 2022 and @38% from July 2022 to December 2022 and thereafter D.A was increased to @42% from January 2023. He gets House Rent Allowance @27% of his basic. He lives in a rented house in Delhi and pays Rs. 34,000 p.m. as rent.

Calculate his taxable salary showing exempt portion of HRA under the existing tax regime and under Alternative tax regime for the assessment year 2023-24.

Solution:

Computation of income under the head “Salaries” for the assessment year 2023-24:

Particulars	Existing tax regime	Alternative tax regime u/s 115BAC
	Amount (Rs.)	Amount (Rs.)
Basic pay: see W.N.-1	12,14,100	12,14,100
Dearness Allowance: see W.N.-2	4,10,008	4,10,008
House Rent Allowance: see W.N.-3	41,217	3,27,807
Gross Salary	16,65,325	19,51,915



Notes

Working notes:

1. Calculation of Basic Salary:

	Rs.
(a) From March to June 2022: 4 months' salary @Rs. 89,700 p.m.	3,58,800 4,62,000
(b) From July 1, 2022 to Nov. 30, 2022: i.e., 5 months' salary @Rs. 92,400 p.m. (with 3% increments rounded off)	3,93,300
(c) From Dec 1, 2022 to Feb 2023: 3 months' salary @Rs. 1,31,100 p.m.	
Total Basic pay	12.14.100

Calculation of Dearness Allowance:

	Rs.
(a) From March to June 2022 (4 months'): 34% on Rs. 3,58,000	1,21,720
(b) From July to Dec. 2022 (6 months'): 38% on Rs. 5,54,400	2,10,672
(c) From Jan to Feb. 2023 (2 months'): 42% on Rs. 1,84,800	77,616
Total D.A	4,10,008

Calculation of Exempt Amount of HRA:

	Rs.	Rs.
Actual House Rent Allowance received: 27% on basic pay of Rs. 12,14,100		3,27,807
Less: Exemption u/s 10(13): least of the following:		
(a) Actual HRA received	3,27,807	
(b) Excess of rent paid over 10% of salary (Basic pay + DA) 4,08,000 – 1,21,410	2,86,590	
(c) 50% of salary	6,07,050	2,86,590
Taxable HRA		41,217

3. Allowance for Transport Employees Working in any Transport System:

System: It is an allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running such transport from one place



to another place provided that such employee is not in receipt of daily allowance.

Amount of exemption is 70% of such allowance or Rs. 10,000 per month whichever is lower.

4. **Transport Allowance:** It is granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence to place of his duty. Transport allowance and DA received on transport allowance are fully taxable. It is to be noted that expenditure for covering the journey between office and residence is not treated as expenditure in the performance of duties of the office.

Exemption: Amount of exemption is limited to Rs. 3,200 per month in case of an employee who is blind or orthopedically handicapped.

5. **Children Education Allowance:** If an employee gets children education allowance from his/her employer, then he is entitled to claim exemption from tax is limited to @Rs. 100 per month per child up to a maximum of two children.
6. **Hostel Expenditure Allowance:** If an employee gets hostel expenditure allowance from his/her employer, then he is entitled to claim exemption from tax is limited to @Rs. 300 per month per child up to maximum of two children.
7. **Tribal/Scheduled Areas Allowance:** Rs. 200 per month if an employee is posted in U.P., M.P., Tamil Nadu, Karnataka, West Bengal, Bihar, Orissa, Assam or Tripura.
8. **Underground Allowance:** Underground allowance is granted to an employee who is working in uncongenial, unnatural climate in underground mines. Exemption is limited to Rs. 800 per month.
9. **Highly Active Field Area Allowance:** It is granted to the members of armed forces in the nature of special compensatory highly active field area allowance. It is exempt from tax up to Rs. 4,200 per month.
10. **Island Duty Allowance:** This special allowance is granted to the members of the armed forces in the nature of island (duty) allowance



in Andaman and Nicobar and Lakshadweep group of islands. It is exempt from tax up to Rs. 3,250 per month.

11. **Allowance to Government Employees Outside India:** Any allowance paid or allowed outside India by the Government to an Indian citizen for rendering service outside India is wholly exempt from tax.
12. **Allowance Received from UNO:** Not chargeable to tax.
13. **Allowance to High Court and Supreme Court Judges:** Not chargeable to tax.
14. **Allowances to Chairman/Members of UPSC:** In the case of serving Chairman and members of UPSC, transport allowance and sumptuary allowance are not chargeable to tax.

Problem-7: Mr. Ram is employed in a private company. He furnished his income/payment for the previous year 2022-23:

- (i) Basic salary: Rs. 75,000 per month.
- (ii) Bonus: Rs. 6,000
- (iii) Fixed commission on sales: Rs. 10,000
- (iv) Dearness allowance @40% of basic salary (forming part of salary)
- (v) City compensatory allowance: Rs. 30,000
- (vi) Children's education allowance for 3 children @ Rs. 150 p.m. per child
- (vii) Children's hostel allowance for 2 children @ Rs. 50 p.m. per child.
- (viii) Entertainment allowance: Rs. 10,000
- (ix) Conveyance allowance: Rs. 6,000
- (x) Helper allowance: Rs. 5,000
- (xi) Profit in lieu of salary: Rs. 50,000
- (xii) House rent allowance @ Rs. 10,000 per month. He lives in a rented house for which pays rent @ Rs. 12,000 per month.

Determine his taxable salary for the assessment year 2023-24:

- (a) Under regular tax regime; and
- (b) Under alternative tax regime u/s 115BAC

**Solution:**

**Computation of Taxable Salary
For the Assessment Year 2023-24**

Particulars	Under regular tax regime	Under alternative tax regime
	Rs.	Rs.
(i) Basic Salary @ Rs. 75,000 for 12 months	9,00,000	9,00,000
(ii) Bonus	6,000	6,000
(iii) Commission on sales	10,000	10,000
(iv) Allowances:		
A- Fully taxable:		
(a) Dearness allowances @40%	3,60,000	3,60,000
(b) City compensatory allowance	30,000	30,000
(c) Helper allowance	5,000	5,000
(d) Entertainment allowance (W.N.-1)	10,000	10,000
B- Partially taxable:	1,03,000	1,20,000
(a) House rent allowance (W.N.-2)		
(b) Children's education allowance (W.N.-3)	3,000	5,400
(c) Children's hostel allowance(W.N.-4)	Nil	1,200
C- Exempt allowance:		
(a) Conveyance allowance (W.N-5)	Exempt	Exempt
(iv) Profit in lieu of Salary	50,000	50,000
Gross Salary	14,32,000	14,52,600
Deductions:		
(i) Standard Deduction u/s 16(i)	50,000	50,000
(ii) Entertainment allowance u/s 16(ii) W.N-1	Not available	Not available
Net taxable salary	13,82,000	14,02,600



Notes

Working Notes:

1. First, the amount of entertainment allowance is taxable. Since he is working in the private sector; hence, deduction u/s 16(ii) is not available.
2. **Computation of Exemption on HRA u/s 10(13A):** Least of the following is exempt:

- (i) Actual amount of HRA received: Rs. 1,20,000
- (ii) Excess of rent paid over 10% of salary: Rs. 17,000
(Rs. 1,44,000 – 1,27,000)
- (iii) 40% of salary: Rs. 5,08,000

Thus, taxable HRA is Rs. 1,20,000 – 17,000 = Rs. 1,03,000

Note: Here, salary means the sum of:

- (a) Basic Salary: Rs. 9,00,000
- (b) Commission: Rs. 10,000
- (c) D.A: Rs. 3,60,000
Rs. 12,70,000

Note: Exemption on HRA is blocked u/s alternative tax regime. Hence, the whole amount of HRA is fully taxable.

3. **Children's education allowance:** Exempt @ Rs. 100 per child per month subject to a maximum of 2 children. Hence, the taxable amount will be (Rs. 5,400 – 2,400) = Rs. 3,000.

Note: Exemption is blocked under alternative tax regime, hence, taxable in full.

4. Children's hostel allowance is exempt @ Rs. 300 per month per child subject to a maximum of 2 children. Hence, the taxable amount will be (1,200 – 7,200) = Nil

Note: Exemption is blocked under alternative tax regime, hence taxable in full.

5. It is assumed that whole amount is spent in the performance of duty.



2.9 Provident Funds

Provident fund scheme is a retirement benefit scheme under which a set sum (say 10%) is deducted from the basic salary of the employee as his contribution towards the fund. The employer (except in case of government organization where pension facilities are provided) also, generally, contributes simultaneously the same amount out of his pocket to the fund. The interest earned thereon is credited to the employee's fund. Thus, the accumulated sum is paid to the employee at the time of his retirement. In the case of death of an employee, accumulated balance is paid to his legal heirs.

Types of provident funds and tax treatment:

	1. Statutory PF	2. Recognised PF	3. Unrecognised PF	4. Public PF
When set up:	Set up in 1925	Set up in 1925		The central government established.
Applicable:	Govt., semi-govt. local authority, railways, universities and recognised educational institutions.	Any establishment employing 20 or more persons is covered.	If not recognised by Commissioner of Income-Tax	Both, salaried employee or general public.
Employer's Contribution	Exempt	Employer's contribution in excess of 12% of salary is taxable. Also, employers contribution in excess of Rs. 7,50,000 pa is taxable.	Exempt	Employer does not contribute.
Interest credited	Exempt	Exempt if rate of interest does not exceed 9.5%. Excess of interest over 9.5% is taxable. Exemption is not available if interest accrued on the employee contribution exceeds Rs. 2.50 lakh or Rs. 5 lakh if employer doesn't contribute.	Exempt	Exempt



Notes

	1. Statutory PF	2. Recognised PF	3. Unrecognised PF	4. Public PF
Lump sum payment received at the time of retirement/ termination of service.	Exempt	Exempt	Employer's contribution and interest thereon is taxable under the head salary. However, interest received on employee's contribution is taxable under the head 'income from other sources'.	Exempt

Note: Contribution to Provident Fund is blocked under alternative tax regime u/s 115BAC, thus, the deduction u/s 80C is not eligible to the employee who joins service on or after April 1, 2004

National Pension Scheme (NPS) w.e.f. Jan 1, 2004**Pension scheme in case of an employee joining Central Government or any other employer on or after January 1, 2004:**

National Pension Scheme (NPS) is applicable to new entrants to Government service or any other employer. Even a self-employed person can join NPS. As per the scheme, it is mandatory for persons entering the service on or after January 1, 2004, to contribute 10% of salary every month towards NPS and a matching contribution or 14% is required to be made by the employer to the said account.

The tax treatment under the new scheme is as follows:

- (a) Contribution by the employer to NPS is first included under the head "Income of Salaries" in hands of the employee and then deduction is also available under section 80CCD(2) for such contribution (*shown in the table given below*).
- (b) *Taxability of amount received from NPS:*
 - (i) Partial withdrawal from NPS (to the extent it does not exceed 25% of an employee's contribution) is exempt from tax.



INCOME FROM SALARY: PART-I

Notes

- (ii) When pension is received out of NPS, it will be chargeable to tax in the hands of the recipient.
 - (iii) In case of closure of account or on his opting out of the NPS scheme, 60% of the amount received by the assessee is taxable.
 - (iv) If received amount mentioned in points (i) and (ii) above is utilized for purchasing an annuity plan in the same previous year, then the received amount mentioned in point (i) and (ii) above is exempt from tax. However, pension received out of this annuity plan is chargeable to tax.
- (c) *Exemption of amount received from NPS:*
- The whole amount received by the nominee from NPS on death of the assessee is exempt from tax.
- (d) No deduction will be allowed under section 80C in respect of amounts on which deduction has been claimed under section 80CCD.
- (e) “Salary” for the above purpose of NPS means basic salary + dearness allowance (forming part) + commission based as fixed percentage of turnover achieved by the employee.
- (f) **Deduction for Employees Contribution** towards NPS is available under section 80CCD which is explained below in detail:

Provisions	Maximum deduction	Cumulative maximum deduction
Section 80C (Investments in NSC, SPF, RPF, PPF)	Rs. 1,50,000 (Blocked u/s 115BAC)	
Section 80CCC (Pension Fund)	Rs. 1,50,000 (Blocked u/s 115BAC)	Rs. 1,50,000
Section 80CCD(1) [i.e., employee's contribution or assessee's contribution towards NPS]	(i) 10% of salary (if a salaried individual) (ii) 20% of GTI (if a non-salaried individual)	[Section 80CCE]



Notes

Provisions	Maximum deduction	Cumulative maximum deduction
Section 80CCD(1B) [i.e., employees contribution or assessee's contribution towards NPS]	Rs. 50,000	Deduction available over and above of cumulative deduction subject to a maximum of Rs. 50,000
Section 80CCD(2) [i.e., employer's contribution towards NPS]	14% of salary	Deduction available over and above of cumulative deduction subject to maximum of 14% of salary

Problem 8:

For the previous year 2022-23, Ram submits the following information:

- (a) Basic salary @ Rs. 50,000 per month
- (b) Servant allowance: Rs. 6,000
- (c) Uniform allowance: Rs. 3,000
- (d) The employee contributes @ 15% of salary towards provident fund.
- (e) The employer also contributes matching amount to provident fund.
- (f) Interest credited in the provident fund account @ 9% comes to Rs. 9,000.

Find out the taxable income from salary for the assessment year 2023-24 if the provident fund is:

- (i) Statutory provident fund;
- (ii) Recognized provident fund;
- (iii) Unrecognized provident fund.

Solution:

**Computation of taxable salary of Ram
For the Assessment Year 2023-24**

	SPF	RPF	URPF
Basic Salary	6,00,000	6,00,000	6,00,000
Allowances:			
◆ Servant allowance	6,000	6,000	6,000
◆ Uniform allowance	3,000	3,000	3,000



INCOME FROM SALARY: PART-I

Notes

	SPF	RPF	URPF
Employer's contribution to RPF in excess of 12% of salary [90,000-72,000]	Exempt	18,000	Exempt
Interest on RPF in excess of 9.5%	Exempt	Nil	Exempt
Gross Salary	6,09,000	6,27,000	6,09,000
Less: Deductions:			
(i) Standard deduction u/s 16 (i)	50,000	50,000	50,000
Taxable Salary	5,59,000	5,77,000	5,59,000

IN-TEXT QUESTIONS

3. State whether the following statement is True or False:

- (a) Entertainment allowance received by government employee is exempt.
- (b) An employee who lives in employer's accommodation gets HRA.
- (c) Maximum amount of deduction on entertainment allowance for government employee is Rs. 5,000.
- (d) An employee who lives in a rented house can claim exemption on HRA only when he pays some rent.
- (e) Children education allowance is exempt up to maximum of two children.
- (f) Exemption on HRA is granted by the employer.
- (g) Deduction is also available under section 80CCD(2) for the contribution made in NPS.

4. Fill in the blanks:

- (a) Entertainment allowance received by _____ is subject to deduction.
- (b) An employee who stays in his _____ accommodation gets HRA.
- (c) Exemption on HRA is granted u/s _____.



Notes

- (d) If rent is paid for a house situated in Delhi, the house rent allowance shall be exempt to the maximum of extent of _____.
- (e) Children Hostel Allowance is exempt up to maximum of _____ children.
- (f) Employee's maximum contribution in NPS is restricted to _____.
- (g) Employees' contribution towards NPS is allowed under section _____.

2.10 Summary

The first head of income is "Income from Salary." Under this head an income/receipt is taxable when the relationship between the payer and payee is of employer and employee or master and servant. Conceptually, there is no difference between wages and salary. Salary is taxable on due or receipt basis whichever is earlier whether it is received from former or present employer. But the arrears of salary which have not been taxed in the past, such arrears will be taxed in the previous year in which paid or allowed to the employee. Although, the contribution made in Provident Fund is blocked in alternative tax regime u/u115BAC but even then, employees who joined the service before April 1, 2004 can enjoy the benefits of deduction u/s 80C. So the knowledge of the provisions is essential. Employees who joined the service on or after April 1, 2004 will contribute in to NPS and the contribution made by employee and employer is eligible for deduction u/s 80C.

2.11 Answers to In-Text Questions

1. All True
2. (a) Relationship (c) Income from Salary
(b) Not taxable (d) Section 17(1)
(e) Gross salary



INCOME FROM SALARY: PART-I

Notes

3. (a) False (c) True (e) True
(b) False (d) True (f) True
(g) True
4. (a) Government employee (d) 50% of salary
(b) Own (e) Two
(c) 10(13) (f) 10%
(g) 80CCD(1B)

2.12 Self-Assessment Questions

A- Theory questions:

1. When is an income taxable under the head “Income from Salary”?
2. What is the basis of chargeability of Salary u/s 15?
3. Define Salary u/s 17.
4. Name at least 5 allowances which are fully taxable.
5. Name at least 5 allowances which are fully exempt.
6. Explain the provisions of House Rent Allowance.
7. Explain the provisions of Entertainment allowance.
8. Distinguish between SPF, RPF and URPF
9. Explain the provisions regarding Public Provident Fund.
10. Explain the provisions regarding NPS.

B- Numerical exercise:

11. Mrs. ‘S’ joined the company on November 1st, 2021 in the pay scale of Rs. 80,000 – Rs. 5,000 – Rs. 1,50,000. At the time of joining her salary was fixed Rs. 89,000. Besides, she gets Rs. 10,000 per month as dearness allowance (not forming part of salary for retirement benefits). As per service rules, she is entitled to the following:
 - (a) Fixed servant allowance: Rs. 1,000 per month;
 - (b) Fixed meal allowance: Rs. 1,500 per month.
 - (c) Garden allowance: Rs. 2,000 per month (with effect from May 1, 2022).

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- (d) She received house rent allowance Rs. 6,000 per month. She lives in a house for which she did not pay any rent.
- (e) She received Rs. 3,000 per month as entertainment allowance.
- (f) She contributes @10% of salary to NPS.
- (g) Her employer's also contributes 14% of salary to NPS.

Determine the taxable salary for the assessment year 2023-24.

2.13 References

- ◆ Singhania V. & Singhania, M. Students Guide to Income Tax, Taxmann Publications.
- ◆ Ahuja, G. & Gupta, R. Systematic Approach to Income Tax, Bharat Law House.
- ◆ Chandra, M. & Shukla, D. C., Income Tax Law and Practice, Pragati Publications.

2.14 Suggested Readings

- ◆ Income Tax Act, 1961: <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>
- ◆ ICSI Study Material - Tax Laws



Income from Salary: Part-II

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STRUCTURE

- 3.1 Learning Objectives**
- 3.2 Introduction**
- 3.3 'Perquisite' [Section 17(2)]**
- 3.4 Retirement Benefits**
- 3.5 Summary**
- 3.6 Answers to In-text Questions**
- 3.7 Self-Assessment Questions**
- 3.8 References**
- 3.9 Suggested Readings**

3.1 Learning Objectives

- ◆ To understand the concepts of perquisites.
- ◆ To calculate the value of perquisites.
- ◆ To learn the tax treatment of different types of perquisites.
- ◆ To understand the provisions of some retirement benefits.

3.2 Introduction

In continuation to lesson 2, we are going to discuss further concepts of salaries in this lesson. Sometimes employer provides benefits/advantages in addition to the

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basic salary, fee, bonus, commission and allowances; these are referred to as perquisites/perks. Perquisites are included in salary income only if received by an employee from his employer. Perquisites received from a person other than an employer, are taxable under the head “Profits and gains of business or profession” or “Income from other Sources”.

Thus, perquisites may be defined as any casual emolument or benefit (monetary or non-monetary) attached to an office or position in addition to salary or wages.

3.3 ‘Perquisite’ [Section 17(2)]

Under the Act, the term “perquisites” includes the following:

- (a) The value of rent-free accommodation provided by the employer;
- (b) The value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer;
- (c) The value of any benefit or amenity granted or provided free of cost or at a concessional rate in any of the following cases:
 - (i) By a company to an employee who is a director thereof;
 - (ii) By a company to an employee, being a person who has a substantial interest in the company;
 - (iii) By any employer (including a company) to an employee to whom provisions of (i) and (ii) above do not apply and whose income under the head “Salaries” exclusive of the value of all benefits or amenities not provided for by way of monetary benefits, exceeds Rs. 50,000;
- (d) Any sum paid by an employer in respect of any obligation which but for such payment would have been payable by the assessee;
- (e) Any sum payable by the employer, whether directly or through a fund other than a recognized provident fund or approved superannuation fund or a deposit-linked insurance fund, to effect an assurance on the life of the assessee or to effect a contract for an annuity;



- (f) The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee;
- (g) The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds Rs. 1,50,000;
- (h) The value of any other fringe benefits or amenities as may be provided.

3.3.1 *The Perquisites are Divided in Two Parts*

- (a) Monetary Perquisites: It is taxable for all employees. These are (i) reimbursement of salary of servant; (ii) reimbursement of gas, water, electricity bill; (iii) reimbursement of school fees exceeding Rs. 1,000; (iv) reimbursement of private travel bill of transport employees.
- (b) Non-monetary Perquisites: It is taxable in the hands of specified employees section 17(2)(iii). These are (i) free domestic servants at employees' home such as gardener, sweeper, and watchman; (ii) free gas, water and electricity at employees' home; (iii) free educational facilities for employee's children exceeding Rs. 1,000; (iv) use of motor car; (v) private journey provided free of cost or concessional rate to employee/family.

3.3.2 *Categories of Perquisites*

It can be divided in the following 3 categories:

1. Perquisites taxable for all types of assessee (including specific employee):

I. Accommodation facilities:

‘Accommodation’ includes a house, flat, farmhouse (or part thereof) or accommodation in a hotel, motel, service apartment, guest house, caravan, mobile home, ship or other floating structure.



(A) Unfurnished Residential Accommodation provided by the Employer:
[Rule 3(1)]

1. If the employer is the owner of residential accommodation: For the purpose of valuation of this perquisite, employees are divided into two categories:
 - (a) Central and State Government Employees: The value of perquisite is the license fee as determined by the Govt. as reduced by the rent actually paid by the employee.
 - (b) Non-Govt. Employee: (including employees of local authority or a foreign Government): The value of perquisite is:
 - (i) An amount equal to 15% of the salary in cities having population more than 25 lakh;
 - (ii) 10% of salary in cities where the population as per 2001 census is exceeding 10 lakh but not exceeding 25 lakh; and
 - (iii) 7.5% of salary in areas where the population as per 2001 census is 10 lakh or below.
2. If the accommodation provided is not owned by the employer, but taken on lease or rent, then the value of the perquisite would be the lower of the following two:
 - (i) The actual amount of lease rent paid/payable by the employer, or
 - (ii) 15% of salary

And reduced by the rent, if any, actually paid by the employee.

(B) Value of Furnished Accommodation:

- (a) First, the value would be the value of unfurnished accommodation as computed above (A), increased by 10% per annum of the cost of furniture (including TV/Radio/Refrigerator/AC etc.)
- (b) In case such furniture is hired from a third party, the value of unfurnished accommodation would be increased by the hire charges paid/payable by the employer.

However, any payment recovered from the employee towards above (a) & (b) would be reduced from this value.



(C) Rent-free Furnished Accommodation Provided in a Hotel: Besides, accommodation in a hotel, it includes licensed accommodation in the nature of a motel, service apartment or guest house.

The value of perquisite shall be taken as lower of the following:

- (i) 24% of salary paid or payable for the period during which such accommodation is provided in the previous year; **or**
- (ii) Actual charges paid/payable by the employer to such hotel,

However, nothing is chargeable to tax subject to the fulfilment of given below two conditions:

1. The hotel accommodation is provided for a period not exceeding in aggregate of 15 days in a previous year; and
2. Such accommodation is provided on an employee's transfer from one place to another place.

Note: If hotel accommodation is provided for more than 15 days, then a period exceeding 15 days is chargeable to tax.

(D) Accommodation provided at concessional rent: Accommodation may be furnished or unfurnished or it is provided in a hotel. However, if it is provided at a concessional rent, the valuation should be made as follows:

Step 1: Find out the value of the perquisite on the assumption that no rent is charged by the employer (as per the above stated rules or rent free accommodation).

Step 2: From the value so arrived at, deduct the rent charged by the employer from the employee.

Notes: Here, *Salary for this purpose includes* – Basic salary + dearness allowance/pay (if terms of employment so provide) + bonus + commission + fees + all other taxable allowances and any monetary payment which is chargeable to tax.

(E) Accommodation Provided on Transfer: Where on account of the transfer of an employee from one place to another, he is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation



Notes

which has the lower value for a period not exceeding 90 days and thereafter the value of perquisite shall be charged for both such accommodations.

Exemption: The above perquisite is not chargeable to tax in respect of any accommodation located in a ‘remote area’ [i.e., an area located at least 40 kilometres away from a town having a population not exceeding 20,000] provided to an employee working at a mining site or an onshore oil exploration site, or a project execution site or a dam site or power generation site or an offshore site.

Problem 1: On Accommodation Facility

Mr. N furnished the following information for the previous year ending March 31, 2023, consisting of:

- (i) Basic pay: Rs. 1,31,100 p.m.
- (ii) Tiffin allowance: Rs. 19,000.
- (iii) Reimbursement of medical expenditure: Rs. 10,700.
- (iv) His employer has also provided a rent-free furnished flat in Delhi. Lease rent of the unfurnished flat is Rs. 1,60,000.
- (v) Some of the household appliances provided to N (with effect from June 1, 2022) are owned by the employer (cost price of which is Rs. 36,000, date of purchase is April 1, 2004 and written down value, as on April 1, 2022 is Rs. 8,400).
- (vi) Employer pays Rs. 12,000 annually as hire charges for air-conditioners installed throughout the previous year in rent-free flat.

Compute the value of the perquisite if:

- (a) Mr. N is a Government employee and Rs. 5,000 is the license fee for unfurnished flat as per the Central Government rules.
- (b) Mr. N is a Non-Govt. employee.
- (c) If Mr. N has been provided hotel accommodation throughout the year (tariff being Rs. 1,90,000 per annum).

Solution: Value of unfurnished accommodation is:

- (a) **In case of Government employee,** the value of unfurnished accommodation is Rs. 5,000 (being the licence fee)



(b) **In case of Non-Government employee**, the value of unfurnished accommodation which is lower of the following:

- (i) 15% of salary on Rs. 16,02,900 i.e., Rs. 2,40,435
- (ii) lease rent paid i.e., Rs. 1,60,000

Thus, Rs. 1,60,000 will be the value of the unfurnished house

(c) **In case of hotel accommodation**, the value is whichever is less of the following:

- (i) 24% of salary on Rs. 16,02,900 i.e., Rs. 3,84,696 or
- (ii) Actual charges paid/payable by the employer to such hotel i.e., Rs. 1,90,000.

Thus, Rs. 1,90,000 will be the value of the unfurnished house.

Working notes:

1. Here, Salary means = Basic Salary + Tiffin allowance + reimbursement of medical expenses.

	Rs.
Basic Salary @Rs. 1,31,100 × 12 months	15,73,200
Tiffin allowance	19,000
Reimbursement of medical allowance	10,700
Total	16,02,900

2. Calculation of Value of household appliance (furniture) is:

	Rs.
(a) Cost of appliances Owned by the employer [Rs. 36,000 × 10% for 10/12 months']	3,000
(b) Hire charge of air-conditioner paid by the employer for 10/12 months' of Rs. 12,000	10,000
Total	13,000

(F) Employee's Personal Obligation Met by the Employer: Amount paid by the employer in respect of any personal obligation, which otherwise would have been payable by the employee, is taxable in all cases whether the employee is specified or non-specified.

(G) Amount Payable by the Employer to Affect an Assurance on the Life of the Employee: Amount payable by an employer, directly or indirectly,



to affect an assurance on the life of the assessee or to affect a contract for an annuity is taxable in the hands of all employees.

Exception: This rule is, however, not applicable if the employer makes a contribution/payment towards the following:

- (a) RPF (up to 12% of salary of the employee);
- (b) Approved superannuation fund (up to Rs. 1,50,000 per annum);
- (c) Group insurance schemes;
- (d) Employee's state insurance schemes; and
- (e) Fidelity guarantee schemes.

(H) Interest-free loan or loan at a concessional rate of interest: If interest-free loan is given by an employer to the employee (or any member of his household), it is a perquisite chargeable to tax. Value of perquisite is computed at the rate of interest charged by SBI as on the first day of the relevant previous year in respect of loan for the same purpose advanced by it. Interest is calculated on the maximum outstanding monthly balance for each loan as on the last day of each month.

Exceptions: In the following cases, however, the above perquisite is not chargeable to tax:

1. If a loan is made available for medical treatment in respect of diseases specified in rule 3A (the exemption is, however, not applicable to so much of the loan as has been reimbursed to the employee under any medical insurance scheme; in such a case, perquisite will be chargeable to tax from the date of receipt of insurance compensation).
2. Where the amount of original loan (or loans) does not exceed Rs. 20,000 in aggregate. Where, however, the amount exceeds Rs. 20,000, entire amount is chargeable to tax.

(I) Use of Movable Assets: The value of this perquisite is determined **@ 10% p.a. on the actual cost of such asset** (if the asset is owned by the employer) or **the amount of rent paid or payable** (if the asset is taken on hire by the employer). From the value so arrived, deduct the amount received from the employee. However, no perquisite is chargeable to tax in respect of use of computer/laptops.



Movable Assets Sold by Employer to its Employees (or any member of his household) at a nominal price:

The value of this perquisite is calculated as an actual cost of such asset to the employer *minus* normal wear and tear at the rate given below for each completed year during which such asset was put to use by the employer for his business purposes *minus* amount received from the employee.

Following are the rates for normal wear and tear:

Computer/electronic gadgets	50% p.a. by reducing balance method (WDV)
Car	20% p.a. by reducing balance method (WDV)
Any other asset	10% p.a. of the actual cost

(J) Lunch/Refreshment, etc.: The value of free food, tea and snacks etc. shall be as under:

Circumstances	Value of Perquisite
Food and non-alcoholic beverages are provided in working hours at any other place (other than remote area or in an offshore installation) i.e., either in office or business premises or through non-transferable paid vouchers usable only at eating joints provided by an employer	<p>(i) If the value thereof in either case is up to Rs. 50 per meal, it is not taxable or exempt.</p> <p>(ii) However, expenditure in excess of Rs. 50 per meal should be treated as perquisite.</p> <p>Less: Amount received from the employee is deducted to compute the taxable value of the perquisite.</p>
In any other case	Actual amount of expenditure incurred by the employer <i>minus</i> amount paid or recovered from the employee is taxable.

(K) Travelling, Touring and Accommodation: (other than LTC- Blocked under alternative tax regime u/s 115BAC): Following is the tax treatment:

(i) Where such facility is available uniformly to all employees:

Expenditure incurred by the employer *minus* amount recovered from the employee is the taxable value of the perquisite.

(ii) Where such facility is not available uniformly to all employees:



Notes

Value at which such facilities are offered by other agencies to the public *minus* amount recovered from the employee is the taxable value of the perquisite.

(L) Gift, Voucher or token:

- (i) Such gift (on ceremonial occasions) is exempt from tax where, the value of such gift, voucher or token, as the case may be, is below Rs. 5,000 in aggregate during the previous year. Beyond Rs. 5,000, gift-in-kind is taxable.
- (ii) However, gifts made in cash or convertible into money (gift cheques) are not exempt from tax even if their value is less than Rs. 5,000.

(M) Credit Card: Any expenditure incurred by the employer in respect of credit card used by the employee or any member of his household after deducting the expenditure on use of this credit card for official purposes is the taxable value of the perquisite.

(N) Domestic Servants: The value of perquisite shall be the actual cost to the employer minus amount paid by the employee for such services. If an employer provides a rent-free house (owned by the employer) to his employee, expenses (inclusive of salary of a gardener) incurred by the employer on maintenance of garden and ground attached to the house, are not taxable separately.

(O) Gas, Electricity or Water Supply: The value of perquisite shall be the cost to the employer as reduced by the amount recovered from the employee.

(P) Education Facility:

1. Any amount spent for providing free education facilities to, and training of, the employees is not taxable.
2. Any payment of school fees of the family members of the employee directly to the school or any reimbursement of expenditure incurred for education of the family members of the employee is taxable as a perquisite in all cases.
3. Education facility in employer's institute:

It means:

- (a) an educational institute which is owned and maintained by the employer and educational facility is provided; or



- (b) An educational facility is provided in any institute by reason of employee's employment with the employer.

Different situations	Amount chargeable to tax
1. Where educational facility is provided to employee's children: (a) If cost of education or value of such benefit does not exceed Rs. 1,000 per month per child (no restriction on number of children)	Nil
(b) If cost of education exceeds Rs. 1,000 per month per child	Cost of such education in similar educational institution in or near the locality minus amount paid or recovered from the employee
Where education facility is provided to member of his household (other than children)	Cost of such education in a similar institution in or near the locality <i>minus</i> amount paid or recovered from the employee

(Q) Leave Travel Concession in India [Section 10(5)]:

Note: Blocked under alternative tax regime u/s 115BAC

2. Perquisites taxable only for Specific Employee:

The following employees are deemed as "specified employee":

- (a) A director-employee
- (b) An employee who has substantial interest in the employer-company i.e., (beneficial owner of equity shares carrying 20% or more voting power in the employer-company".
- (c) An employee whose monetary income under the salary exceeds Rs. 50,000

Note: Monetary Income means income chargeable under salary but excluding perquisites value of all non-monetary perquisites.

The following perquisites are taxable only in the hands of specified employees **on actual cost to the employer basis:**

- (i) Motor Car



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- (ii) Service of a sweeper, gardener, watchman or personal attendant
- (iii) Supply of gas, electricity or water for household purposes
- (iv) Education facility to employee's family members
- (v) Leave travel concession (LTC)
- (vi) Medical facility
- (vii) Transport facility by a transport undertaking

1- Motor Car Facility:

Before valuing car facility provided by the employer, you have to find out the following three steps:

Step 1: Check who is the owner of car: employer or employee?

Step 2: Check who incurs the running and maintenance expenditure of car: employer or employee?

Step 3: Check the use of car: private, office or both

Ready reckoner chart for valuing of motor car facility:

A- If Car is Owned by Employee:								
	Expense of car is borne by Employee	Expenses of the car is borne by Employer						
◆ Official use only	It is not a perquisite, not taxable.	Not taxable.						
◆ Private/personal use only	It is not a perquisite, it is not taxable.	Actual expenses including driver salary born by employer minus amount recovered by employer from the employee will be taxable perquisites.						
Both, Official as well as personal use	It is not a perquisite, not taxable.	a- If log book is not maintained: Actual amount of expenditure incurred by the employer as reduced by the perquisite value given below: <table border="1"><tr><td>CC of engine</td><td>perquisite value</td></tr><tr><td>Upto 1600</td><td>Rs. 1800 pm</td></tr><tr><td>Above 1600</td><td>Rs. 2400 pm</td></tr></table> b- If log book is maintained: Actual expenditure born by the employer plus Driver salary @ Rs. 900 p.m. if paid by the employer	CC of engine	perquisite value	Upto 1600	Rs. 1800 pm	Above 1600	Rs. 2400 pm
CC of engine	perquisite value							
Upto 1600	Rs. 1800 pm							
Above 1600	Rs. 2400 pm							



B- If Car is Owned by Employer:								
	Expenses of car is borne by Employee	Expenses of the car is borne by Employer						
Official use only	Nil	Nil						
Private use only	Cost of wear and tear (calculated @10% p.a of actual cost of the motor car) and actual running and maintenance expenses paid by the employer less amount charged from the employee for such use.	Actual running expenditure of car plus cost of wear and tear is taxable plus actual driver's salary or hire charges if car is hired.						
Both, office and personal use	<p>the perquisite value given below:</p> <table border="1"> <tr> <th>CC of engine</th> <th>perquisite value</th> </tr> <tr> <td>Upto 1600</td> <td>Rs. 600 pm</td> </tr> <tr> <td>Above 1600</td> <td>Rs. 900 pm</td> </tr> </table>	CC of engine	perquisite value	Upto 1600	Rs. 600 pm	Above 1600	Rs. 900 pm	<p>a- If log book is not maintained: Rs. 1,800 p.m. if engine capacity is upto 1600cc/Rs. 2,400 p.m. if engine capacity is more than 1600cc plus Driver salary @ Rs. 900 p.m. if paid by the employer</p> <p>a- If log book is maintained: Actual expenditure born by the employer plus Driver salary @ Rs. 900 p.m. if paid by the employer</p>
CC of engine	perquisite value							
Upto 1600	Rs. 600 pm							
Above 1600	Rs. 900 pm							

2- Car facility at concessional rate:

If motor car facility is provided at a concessional rate, first find out the value of car assuming it is free computed as above and then reduced by the amount charged by the employer for use of care.

3- In case of two or more cars are owned or hired by the employer and maintenance and running expenses are also met or reimbursed by the employer, then any one car, as selected by the employee, will be treated as used partly for official and private purpose and others would be assumed as used wholly for private purpose for the purpose of valuation of perquisite of car.

IN-TEXT QUESTIONS

- State whether the following statements are True or False:
 - Rent free Accommodation provided by the Government to its employee shall be valued by the license fee.



Notes

- (b) Rent free accommodation given to a Union Minister is exempt from tax.
- (c) Rent free accommodation given to a Leader of Opposition in Parliament is exempt from tax.
- (d) Rent-free accommodation is taxable in the hands of all categories of employees.
- (e) For computing monetary income of a specific employee, entertainment allowance to the extent deductible u/s 16(ii) shall not be included.
- (f) Any tea or snacks provided by employer during working hours is a tax-free perquisite.

2. Fill in the blanks:

- (a) Meal provided to employee in the office by the employer shall be exempt up to a maximum of _____ per meal.
- (b) Rent free accommodation provided to judge of a High Court is _____.
- (c) Perquisites are defined as per the section _____.
- (d) All monetary _____ of the employee discharged by the employer perquisites.
- (e) Motor car facility provided by the employer is taxable for _____.
- (f) Tax paid by the employer on non-monetary perquisites shall be _____ in the hands of employee.
- (g) Car facility is taxable for _____.

3.4 Retirement Benefits

Retirement benefits are considered as those benefits which are generally given to the employees at the time of retirement. Some common retirement benefits are explained below:

3.4.1 Pension

Pension is always given to the employee after retirement. The tax treatment of pension received by the employee from the employer is given below:



Pension	Status of Employee	Is it chargeable to tax
Uncommuted pension (Periodical payment)	Both, for Government and Non-Government employee.	Full amount of periodical pension received by the employee is fully chargeable to tax.
Commuted Pension (Lump sum payment in lieu of periodical payment)	For Government employee (including the employees of local authority and statutory corporation) For Non-Government employee	(i) Lump-sum amount of commuted pension received is fully exempt from tax. (ii) Remaining amount of uncommuted pension received periodically is fully taxable. (i) If gratuity received: One-third of the pension which he is normally entitled to receive is exempt from tax (ii) If gratuity is not received: One-half of the pension which he is normally entitled to receive is exempt from tax See provisions below:

Notes:

1. Assessee can claim relief under section 89 in respect of taxable pension.
2. Pension received from UNO by the employees or his family members is not chargeable to tax.
3. Family pension received by the family members of armed forces is exempt from tax under section 10(19) in some cases.
4. **Family Pension** received by family members (not being the family members of armed forces) after the death of an employee is taxable in the hands of recipients under section 56 under the head "Income from other sources". Standard deduction is available under section 57 which is one-third of such pension or Rs. 15,000, whichever is lower.

3.4.2 Gratuity

Gratuity is generally payable to an employee at the time of cessation (i.e., retirement, death, termination, resignation or on his becoming incapacitated prior to the retirement) of employment in appreciation of the past services rendered by him.



Notes

Tax treatment – The tax treatment is given below:

Status of Employee	Taxability
(a) Government employees receiving gratuity at the time of retirement	In case of Government employees (including employees of local authority but not employees of a statutory corporation), amount of death-cum retirement gratuity received is fully exempt from tax.
(b) Non-Government employee	<p>(i)- Covered by the Payment of Gratuity Act, 1972</p> <p>In such cases, least of the following amount is exempt from tax:</p> <p>(a) 15 days salary (7 days salary in the case of employees of a seasonal establishment) based on salary last drawn for every completed year of service or part thereof in excess of 6 months.</p> <p><i>For example, if service is rendered for 20 years and 6 months, then we have to take 20 years.</i></p> <p>(b) Rs. 20,00,000 being the amount specified by the Government</p> <p>(c) Gratuity actually received.</p> <p><i>Salary for this purpose means – Salary last drawn by an employee and dearness allowance (whether forming part or not) but does not include any bonus, commission, etc.</i></p> <p>*15 days salary will be calculated taking 26 working days in a month. So 15/26 will be used to calculate 15 days salary.</p>
	<p>(ii)- Not covered by the Payment of Gratuity Act, 1972</p> <p>In such cases, least of the following amount is exempt from tax:</p> <p>(a) Half months average salary for each completed year of service</p> <p>(b) Rs. 20,00,000 minus amount exempted earlier</p> <p>(c) Gratuity actually received</p> <p><i>[Salary for this purpose means – Basic salary (+) dearness allowance (if terms of employment so provide) (+) commission based on fixed percentage on turnover achieved by an employee. It is to be noted that dearness allowance/pay shall be considered only when it is part of salary for computing all retirement benefits (like provident fund, pension, leave encashment, gratuity, etc.). If dearness allowance/pay is part of salary for computing only some (not all) of the retirement benefits, then it is not taken into consideration for this purpose.]</i></p>



Gratuity paid while in service is taxable: Any gratuity paid to an employee while he continues to remain in service (whether or not after he has put in a minimum specified period of service) is not exempt from tax.

Gratuity received by family members after the death of the employee: If gratuity is paid after the death of an employee following situations may arise:

- (a) When gratuity becomes due before the death of the assessee but paid after the death of the assessee, it will be taxable (as per the provisions) in the hands of the assessee even if it is received by his legal heirs after his death.
- (b) When gratuity becomes due and paid after the death of a person, then the gratuity amount will neither be taxable in the hands of that person nor in the hands of legal heirs of that person.

3.4.3 Encashment of Earned Leave Salary

Employees are entitled to different types of leaves while they are in service. The leaves may either be allowed to be availed by them or if not availed, then these leaves may either lapse or encashed every year or accumulated and encashed at the time of retirement/death/or leaving the job.

Tax treatment— The tax treatment is given below:

Nature of Leave Encashment	Status of Employee	Taxability
Leave encashment during continuity of employment	Government/non-Government employee	It is fully chargeable to tax. However, relief can be taken under section 89.
Leave encashment at the time of retirement/leaving job	Government employee	It is fully exempt from tax (see the provisions given below in Note-1).
	Non-Government employee	It is fully or partially exempt from tax. (see the provisions given below in Note-2).

**Note:**

1- Government employees getting leave encashment at the time of retirement – In case of Central/State Government employees, any amount received as cash equivalent of leave salary in respect of earned leaves standing to their credit at the time of retirement/leaving the job is **exempt from tax**.

2- Non-Government employees getting leave encashment at the time of retirement– In case of non-Government employees (including an employee of a local authority or public-sector undertaking), leave salary is **exempt from tax to the extent of least of the following four amounts:**

- (a) Period of earned leave (in number of months) standing to the credit of employee at the time of retirement/leaving the job (earned leave entitlements cannot exceed 30 days for every year of actual service)*Average monthly salary
- (b) 10*Average monthly salary
- (c) Amount specified by the government (i.e., Rs. 3,00,000 minus amount exempted earlier)
- (d) Leave encashment actually received at the time of retirement

When earned leave encashment is received from two or more employers: Where leave salary or leave encashment is received by a non-Government employee from two or more employers (may be in the same year or different years), the maximum amount of exemption cannot exceed Rs. 3,00,000 during the lifetime of the concerned employee.

5. Other relevant points:

- ◆ Relief under section 89 would be admissible in respect of encashment of leave salary by an employee while in service.
- ◆ Salary paid to the legal heirs of the deceased employee in respect of privilege leave standing to the credit of such employee at the time of his/her death is not taxable as salary.

IN-TEXT QUESTIONS

3. State whether the following statements are True or False:

- (a) Pension is always given to the employee after retirement.
- (b) Full amount of periodical pension received by the employee is fully chargeable to tax.



- (c) Family pension received by the family members of armed forces is exempt.
4. Fill in the blanks:
- (a) Gratuity is generally payable to an _____ at the time of cessation.
- (b) Gratuity paid while in _____ is taxable.
- (c) Leave encashment during continuity of employment is _____.

Problem 2:

Mr. Ram, a director of Company (Pvt.) Ltd., Delhi furnished the following information during the previous year relevant for the financial year 2022-23:

- (i) Basic salary: Rs. 15,00,000 per annum;
- (ii) Commission @ 1% of turnover (turnover achieved by Ram during the previous year 2022-23: Rs. 5 crores);
- (iii) Arrears of the bonus of the previous year 2021-22: Rs. 60,000 (not taxed earlier);
- (iv) Dearness allowance @40% of basic salary (not forming part of basic pay);
- (v) Conveyance allowance: Rs. 1,20,000 (60% of which is utilized for official purposes);
- (vi) Education allowance for Ram's three sons @ Rs. 1,500 per month per child: Rs. 54,000;
- (vii) Rent-free furnished house in Delhi (lease rent of unfurnished house paid by the employer: Rs. 2,00,000; rent of furniture: Rs. 20,000);
- (viii) Free services of gardener, cook and watchman (salary Rs. 10,000 each).
- (ix) Ram own contribution to RPF is 10% of salary and his employer's also contribute @ 12%. Interest credited in provident fund account @ 13.5% on April 1, 2022: Rs. 44,540;

Determine the Taxable salary and tax liability for the assessment year 2023-24.



Solution: Note: Mr. Ram is a specific employee:

**Computation of Taxable Salary of Mr. Ram
For the Assessment Year 2023-24**

Particulars	Regular tax regime (Rs.)	Alternative tax regime (Rs.)
◆ Basic salary	15,00,000	15,00,000
◆ Commission	1,00,000	1,00,000
◆ Arrears of bonus	60,000	60,000
Allowances:		
◆ Dearness allowance @40% (not forming part)	6,00,000	6,00,000
◆ Conveyance allowance; 40% of Rs. 1,20,000	48,000	48,000
◆ Education allowance [54,000 minus exempt]	51,600	51,600
◆ @ Rs. 100 per child on two children i.e., Rs. 2,400]		
Perquisites:		
◆ Rent-free furnished house [see W.N-1]	2,20,000	2,20,000
◆ Salary of Gardener, Cook and Watchman (Actual basis)	30,000	30,000
Provident Fund:		
◆ Employer's contribution to RPF in excess of 12% (Rs. 3,00,000 minus 12% of Rs. 15,00,000; i.e., 4,50,000 = Rs. Nil)	Nil	Nil
◆ Interest credited to in excess of 9.5% (4% of Rs. 44,540)	1781.60	1,681.60
Gross salary	26,11,381.60	26,11,381.60
Deduction : (i) Statutory deduction u/s 16(i)	(50,000)	(50,000)
Net Salary	25,61,381.60	25,61,381.60



Notes

Particulars	Regular tax regime (Rs.)	Alternative tax regime (Rs.)
Less: Deduction under section 80C subject to a maximum of Rs. 150,000	<u>(1,50,000.00)</u>	<u>Blocked</u>
(i) Employee's contribution to PF @10%		
Net taxable salary	<u>24,11,381.60</u>	<u>25,61,381.60</u>
Taxable Salary (rounded off)	<u>24,11,380.00</u>	<u>25,61,380.00</u>

Working note:

1. Rent-free furnished house:

Rule: Whichever is less of the following:

- ◆ 15% of salary on Rs. 16,59,600 = Rs. 2,48,940
- ◆ Lease rent = Rs. 2,00,000

The value of unfurnished house is: Rs. 2,00,000

Add: rent of the furniture: Rs. 20,000

So, Value of furnished house is Rs. 2,20,000

Calculation of salary for valuation of Rent Free Accommodation:

Here Salary means:	Rs.
◆ Basic salary	15,00,000
◆ Commission	60,000
◆ Conveyance allowance	48,000
◆ Education allowance	51,600
Total	16,59,600

**Computation of Tax Liability
For the Assessment Year 2023-24**

Regular Tax Regime			Alternative Tax Regime		
Total Income = Rs. 24,11,380			Total Income = 25,61,380		
Upto 2,50,000		Exempt	Upto Rs. 2,50,000		Exempt
On next Rs. 2,50,000	5%	12,500	On next Rs. 2,50,000	5%	12,500
On next Rs. 5,00,000	20%	1,00,000	On next Rs. 2,50,000	10%	25,000



Notes

Regular Tax Regime			Alternative Tax Regime		
Total Income = Rs. 24,11,380			Total Income = 25,61,380		
On next Rs. 14,11,380	30%	4,23,414	On next Rs. 2,50,000	15%	37,500
			On next Rs. 2,50,000	20%	50,000
			On next Rs. 2,50,000	25%	62,500
			On balance Rs. 10,61,380	30%	3,18,414
Total		4,35,914.00	Total		5,05,914.00
Add: Educa- tion cess	4%	17,436.56	Add: Education cess	4%	20,236.56
Gross Tax li- ability		4,53,350.56			5,26,150.56
Rounded off		4,53,350.00	Rounded off		5,26,150.00

Problems 3 (Computation of taxable salary and tax liability u/s regular tax regime and alternative tax regime u/s 115BAC):

Dr. Bhatt is employed as an assistant professor in a Central University situated in Uttar Pradesh on June 1, 2022 and furnished the following information of his income earned during the previous year ending March 31, 2023.

1. Basic pay @ Rs. 57,700 p.m.
2. Dearness allowance @ 34% in June 30; @ 38% from July to Dec. 2022 and from Jan. 2023 @ 42%.
3. He gets house rent allowance @ 27%. He lives in a rented house from August and pays rent @ Rs. 15,000 p.m. His employer provided a rent-free unfurnished flat in the month of January 2023.
4. He also gets Transport allowance @ Rs. 1,350 p.m. and applicable DA on it.
5. His employer provided Rs. 1,00,000 as seed money to purchase equipments.
6. He contributes 10% to NPA and his employer also contributes 14% in the same.
7. He also contributed Rs. 80,000 to Public Provident Fund.

Compute his taxable salary and tax liability for the assessment year 2023-24.

**Solution:**

**Computation of Taxable Salary of Dr. Bhatt
For the Assessment Year 2023-24**

	Under Existing Scheme		<i>Under alternative tax regime u/s 115BAC</i>
	Rs.	Rs.	Rs.
Income			
Basic Salary (W.N-1)		5,19,300.00	5,19,300.00
Taxable Allowances:		2,95,516.00	
◆ Dearness Allowance (W.N.-2)	1,99,642		◆ 1,99,642.00
◆ Transport allowance (W.N.-3)	16,821		◆ 16,821.00
◆ House Rent allowance (W.N.-4)	79,053		◆ 1,09,053.00
Perquisites:			
◆ Rent-free unfurnished house (W.N-5)		17,272.85	17,272.85
NPS:			
◆ Employer's contribution to NPS (W.N.-6)		1,00,651.88	1,00,651.88
Gross Salary		9,32,704.73	9,62,740.73
Deduct: Standard Deduction u/s 16(i)		(50,000.00)	(50,000.00)
Net Salary		8,82,704.73	9,12,740.73
Deductions:			
(a) Contribution to PPF u/s 80C		(80,000)	Blocked
(b) Contribution u/s 80CCC: pension fund		nil	Blocked
(c) Employees' contribution to NPS u/s 80 CCD(1)/1(B)		(51,930)	Blocked
The total of (a), (b) and (b) is Subject to a maximum of Rs. 1,50,00 u/s 80CCE under regular tax regime		(1,00,651.88)	(1,00,651.88)
(d) Employers' contribution to NPS u/s 80CCD (2) subject to a maximum of 14% of salary			
Total Income		7,30,122.85	8,12,088.85
Rounded off		7,30,120.00	8,12,090.00



Notes

(1) Computation of Tax Liability:

Under Regular Tax Regime Total income = Rs. 7,30,120			Alternative Tax Regime Total income = Rs. 8,12,090		
	Tax Rate	Rs.		Tax Rate	Rs.
Upto Rs. 2,50,000		Exempt	Upto Rs. 2,50,000		Exempt
One next Rs. 2,50,000	@5%	12,500.00	On next Rs. 2,50,000	@5%	12,500.00
On balance Rs. 2,30,120	@20%	46,024.00	On next Rs. 2,50,000	@10%	25,000.00
			On balance Rs. 62,090	@15%	9,313.50
Total (A)		58,524.00	Total		46,813.50
(B) Add: Cess @ 4% on Rs. 58,524		2,340.96	Add: Cess @ 4% on Rs. 46,813.50		1,872.54
Gross Tax Liability (A+B)		60,864.96	Gross tax liability (A+B)		48,686.04
Tax liability rounded off		60,860.00	Gross tax liability rounded off		48,690.00

Note: Tax liability under alternative tax regime u/s 115BAC is lower, therefore assessee is advised to opt alternative tax regime.

Working notes:

1. Basic salary for 9 months, i.e., (June 2022 to Feb. 2023) = Rs. 57,700 × 9 = Rs. 5,19,300

2. Computation Dearness allowance:

- ◆ In June 2022: 34% on Rs. 57,700 = Rs. 19,618
 - ◆ From July to Dec. 2022: @ 38% on 3,46,200 = Rs. 1,31,556
 - ◆ From Jan. to Feb. 2023: 42% on 1,15,400 = Rs. 48,468
- Total = **Rs. 1,99,642**

3. Computation of Transport allowance:

- ◆ In June 2022: Rs. 1,350 + 34% on Rs. 1,350 = Rs. 1,809
- ◆ From July to Dec. 2022: (1,350 + 38% on Rs. 1,350) × 6 months = Rs. 11,178



- ◆ From Jan. to Feb. 2023: $(1,350 + 42\% \text{ on } 1,350) \times 2 \text{ months}$
 $= \underline{\text{Rs. } 3,834}$

Total = **Rs. 16,821**

4. Computation of House Rent Allowance:

- ◆ In the month of June and July, it is clear that he is neither living in a rented house nor living in employer's house, that's why you can assume he lives in his own house. So the HRA received in the months of June and July is fully taxable, i.e., Rs.

$$(27\% \text{ on } \text{Rs. } 57,700) \times 2 \text{ months} = \text{Rs. } 31,158.$$

- ◆ He lives in a rented house from Aug to Dec. 2022 i.e., 5 months and pay rent:

Exempt HRA amount: **Least** of the following:

(a) Actual amount of HRA for 5 months = **Rs. 77,895**

(b) 5month's Rent paid minus 10% of 5 month's salary
= **Rs. 46,150**

$$(\text{Rs. } 75,000 \text{ minus } 10\% \text{ of } \text{Rs. } 2,88,500 \text{ i.e., } 28,850)$$

(c) 40% of 5 month's salary i.e., **Rs. 2,88,500 = Rs. 30,000**

Thus, Taxable HRA =

(5 months' HRA received minus Exempt HRA)

$$(\text{Rs. } 77,895 - \text{Rs. } 30,000) = \text{Rs. } 47,895$$

Thus, Total taxable HRA is **Rs. 31,158 + 47,895 = Rs. 79,053**

Note: **Exemption on HRA is blocked under alternative tax regime u/s 115BAC**:

Hence, total amount of HRA received is taxable, i.e., **Rs. 1,09,053**;

$(31,158 + 77.895)$

5. Computation of Rent-free unfurnished house:

He lives in a house provided by employer in the months of January and February 2023. It is assumed that the population of Varanasi as per Census 2011 is as less than 10 lakhs and **valuation will be @7.5% of salary** (for the period (Jan. & Feb.) in which he lives in rent-free accommodation; e.g. **2 months**)



Notes

Here, Salary means: Basic salary + DA (under terms of employment) + Taxable Transport allowance + Taxable HRA + all others taxable allowance.

Thus, salary is $1,15,400 + 48,468 + 3,834 + 79,053 = \text{Rs. } 2,46,755$

So, the value of rent-free accommodation for 2 months' is:

Valuation:

$7.5\% \text{ on Rs. } 2,46,755 = \text{Rs. } 18,506.75$

6. Computation of Employer's to NPS:

14% on (Basic pay + DA under terms of employment)

$14\% \text{ on Rs. } 7,18,942 = \text{Rs. } 1,00,651.88$

Problem 4: (On Tax Rebate u/s 87A)

Sri Ram is employed in non-government organization since 2003 and furnishes the following information of his income during the previous year 2022-23:

- (i) Basic Salary Rs. 4,10,000.
- (ii) Dearness allowance - Rs. 1,38,000 (under terms of employment).
- (iii) Entertainment allowance Rs. 2,000.
- (iv) Conveyance allowance (fully utilized for official purpose) - Rs. 40,000.
- (v) House rent allowance Rs. 70,000 and paid rent Rs. 1,00,000. He lives in Lucknow.
- (vi) He paid employment tax, Rs. 4,000
- (vii) He contributed Rs. 40,000 in Public Provident Fund.

Compute his total income and tax liability under: (a) regular tax regime; and (b) alternative tax regime u/s 115BAC.

Solution:

**Computation of Total Income
For the Assessment Year 2023-24**

	Under regular tax regime Rs.	Alternative tax regime Rs.
(i) Basic Salary	4,10,000	4,10,000
(ii) Dearness Allowance	1,38,000	1,38,000
(iii) Entertainment allowance-see W.N.-1	2,000	2,000



INCOME FROM SALARY: PART-II

Notes

	Under regular tax regime Rs.	Alternative tax regime Rs.
(iv) Conveyance Allowance-see W.N.-2	Exempt	Exempt
(v) House Rent Allowance-see W.N.-3	45,000	70,000
Gross Salary	5,95,000	6,200,000
Deduction: see W.N.-4		
(a) Statutory deduction u/s 16(i)	50,000	50,000
(b) Entertainment allowance u/s 16(ii)	Nil	Blocked
(c) Employment tax u/s 16(iii)	5,000	Blocked
Net Salary	5,40,000	5,70,000
Deductions:		
(a) Contribution to PPF u/s 80C	40,000	Blocked
Total Income	5,00,000	5,70,000

Working notes:

1. Conveyance allowance: He is non-Govt. employee, so not eligible for deduction u/s 16(ii). Hence, full amount of Entertainment allowance is taxable.
2. Conveyance allowance is fully spent in performing official duty, so it is exempt.
3. Computation of taxable amount of HRA:

[Note: Under Alternative tax regimes u/s 115BAC exemption on HRA is blocked.]

He lives in lucknow in a rent and pay rent. So, he is entitled to claim exemption u/s 10(13) which is least of the following:

- (a) Actual amount of HRA received during the previous year
= Rs. 70,000
- (b) Excess of rent paid Rs. 1,00,000 over 10% of salary Rs. 5,50,000
= Rs. 55,000
- (c) 40% of salary i.e. Rs. 5,50,000
= Rs. 2,20,800
(as live in other than Delhi, Kolkata, Chennai, Mumbai):
Taxable HRA = HRA received, Rs. 70,000 – Exemption, Rs. 55,000
= Rs. 45,000

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Notes

Here, **Salary means:** Basic salary Rs. 4,10,000 + DA Rs. 1,38,000 + EA Rs. 2,000 = Rs. 5,50,000

4. Deduction u/s 16 is blocked u/s 115BAC except statutory deduction/s 16(i).

**Computation of Tax Liability
For the Assessment Year 2023-24**

Under regular tax regime Total income = Rs. 5,00,000			Under alternative tax regime Total income = Rs. 5,70,000		
	Rate	Rs.		Rate	Rs.
Upto Rs. 2,50,000		Exempt	Upto Rs. 2,50,000		Exempt
On next Rs. 2,50,000	5%	12,500	On next Rs. 2,50,000	5%	12,500
			On next Rs. 70,000	10%	7,000
			Total		19,500
			Add: Cess on Rs. 19,500	4%	780
Less: Rebate u/s 87A		(12,500)	Less: Rebate u/s 87A		Not available
Net tax liability		Nil	Net tax liability		20,280

Note: Rebate u/s 87A is available in both tax regime only in the case of resident individual if his/her taxable income is Rs. 5,00,000 or less. Cess is not applicable in alternative tax regime as total income does not exceed Rs. 5 lakh.

3.5 Summary

Perquisites are benefits (monetary or non-monetary) provided to an employee by the employer. It is a personal gain to the employee. Perquisite can vary depending on an employee's position in that particular institutions/organization.

Monetary perquisites is taxable for all employees and are (i) reimbursement of salary of servant; (ii) reimbursement of gas, water, electricity bill; (iii) reimbursement of school fees exceeding Rs. 1,000; (iv) reimbursement of private travel bill of transport employees.



Non-monetary perquisites are taxable in the hands of specified employees section 17(2)(iii). These are (i) free domestic servant at employees home such as gardener, sweeper, watchman; (ii) free gas, water and electricity at employees home; (iii) free educational facilities for employees children exceeding Rs. 1,000; (iv) use of motor car; (v) private journey provided free of cost or concessional rate to employee/family where as some non-monetary perquisites are taxable in the hands of all employees including specific employees such as (i) accommodation facilities, (ii) obligation of the employee paid by the employer.

In addition to, it is the responsibility of employer to maintain provident fund account of each employee and its tax treatment. Generally, employer maintain SPF, RPF or URPF but employee as well public can open PPF account independently.

3.6 Answers to In-Text Questions

1. All True
2. (a) Rs. 50 (d) Obligations
 (b) Exempt (f) Special employee
 (c) 17(2) (g) Exempt
3. All True
4. (a) Employee (c) Fully taxable
 (b) Service

3.7 Self-Assessment Questions

A- Theory questions:

1. What is perquisite?
2. What are types of perquisites?
3. Name the categories of perquisites.
4. Who is a specific employee?
5. What do you mean by rent-free accommodation and concessional accommodation?



Notes

6. What do you mean by furnished accommodation?
7. Name any four perquisites which are not chargeable to tax.
8. Name any four perquisites which are taxable for specific employee.
9. Discuss the provisions of valuing facilities of gardener, sweeper and watchman.
10. Discuss the computation of accommodation facility provided by the Central Government.
11. Discuss the mode of computation of taxable value of perquisite in respect of rent-free unfurnished house provided by a private sector employer.

B- Numerical exercise:

12. Mr. Ram gives the following information for the previous year 2022-23:
 - (a) Basic Salary: Rs. 9,00,000
 - (b) Fixed commission on Sale: Rs. 1,00,000
 - (c) Dearness allowance: @ 40% of basic salary
 - (d) Rent-free unfurnished house

Find out the taxable value of the perquisite in respect of rent-free accommodation on the assumption that:

- (i) The house is situated in Delhi (population is more than 25 lakh)
 - (ii) The house is situated in Bhadohi (population is less than 25 lakh)
- Does it make any difference if Ram pays tax under alternative tax regime u/s 115BAC?

13. Assume question 12 that the rent-free accommodation given to Ram under different situation:
 - (a) Ram is an employee of LIC of India and the house is owned by the employer.
 - (b) Ram is a non-government employee. House is taken on rent by employer rent being Rs. 2,40,000 per annum.
 - (c) Ram is a govt. employee. License fee of the house is Rs. 7,000 per annum.



3.8 References

- ◆ Singhania V. & Singhania, M. Students Guide to Income Tax, Taxmann Publications.
- ◆ Ahuja, G. & Gupta, R. Systematic Approach to Income Tax, Bharat Law House.
- ◆ Chandra, M. & Shukla, D. C. Income Tax Law and Practice, Pragati Publications.

3.9 Suggested Readings

- ◆ Income Tax Act, 1961: <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>
- ◆ ICSI Study Material - Tax Laws



Income from House Property

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STRUCTURE

- 4.1 Learning Objectives**
- 4.2 Introduction**
- 4.3 Basis of Charge [Section 22]**
- 4.4 Method of Computation of Income from House Property**
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4.1 Learning Objectives

- ◆ Understanding the concept of house property to be taxed under this head.
- ◆ Learning various provisions regarding income from house property.
- ◆ Calculating income from a house property which is let out.
- ◆ Calculating income from house property which is self-occupied.
- ◆ Setting-off and carry forward of loss from house property.



4.2 Introduction

This is the second head of income after salary. An individual may also earn some income as rental income from the house property. Any income received from house property, if it is received as rent by letting then it is taxable under the head “Income from House Property”. House property includes building and land connected to the building or land as a part of premises e.g., kitchen garden, cattle shed, motor garage etc. Commercial properties which are used in business do not come under this head of income but will be charged under next head of income that is profits and gains of business or profession.

A person can receive income from a house in two forms:

- (i) Profit on sale of house, and
- (ii) Rent received on let out of house. Profit on sale of house is treated as capital gain and taxable under separate head of incomes i.e., Capital Gain. But rent received by the owner of a house is taxable under the head ‘Income from house property’.

The use of the house property can be as under:

- (a) **Let Out for Any Purpose:** Income of such house is taxable under this head and some expenses incurred on house are considered as allowed.
- (b) **For Running Own Business or for Carrying Profession:** Income of this house is not taxable under this head but taxable under ‘profits and gains of business or profession’ and all expensed incurred on house are treated as business/profession expenses.
- (c) **For Owner’s Residential Purpose:** Income of this house in case of two house is taken as Nil, but if owner has more than two houses, then other houses income (as deemed to be let out) is taxable under this head.

4.3 Basis of Charge [Section 22]

If the following three conditions are satisfied, then only the income derived from the building/house is treated as “Income from House Property”.



First Condition: The property should consist of any building or lands connected to the building:

A permanent structure on the land is known as a building, which is capable for the use for which it is constructed, i.e., a house in collapsing stage or a house without roof and doors or a house which is under construction cannot be treated as buildings.

From income tax point of view, buildings are of two types:

- (i) Buildings which require roof for using, i.e., using for residential purpose, running a hotel business or for having an office room to carry professional services etc.
- (ii) A permanent structure on the land designed for a useful purpose, i.e., a building which does not require a roof, i.e., stadium or swimming pool etc.

It can be concluded that the term building includes (i) residential house either for owner's living (popularly known as 'self-occupied house') or for letting out for any purpose. In addition to this term building includes: (a) Bridge, (b) Storage or warehousing, (c) Factory, (d) Stalls, (e) Bazaar/Malls, (f) Shops, (g) Lecture hall, (h) Dance hall, (i) Platforms, (j) Cinema hall, (k) Public auditorium and (l) Dock.

Second Condition: The assessee should be owner of property:

The term ownership is to be taken in the spirit of the language. i.e., if a person is not the owner of a building either in letter or spirit of the term "owner" then income received by him from the building is treated as "Income from other sources" but not as an income from house property. i.e., rent received from sublet is considered as income from other sources.

Ownership of the building is of four types:

Freehold Rights:

- (i) It means a person who acquired a house/building by means of purchase or inheritance or gift or under a will having absolute rights to enjoy the property with regards to using the building for living or for using self or for let out and to sell the property or transferring the property to anyone.

**Leasehold Rights:**

- (ii) If the agreement between the owner and tenant of property is for a longer period of time and under the terms of agreement if the lessee (tenant) constructed a permanent structure on leased property and any rent received from the construction made shall be treated as "income from house property".

Co-ownership [Section 26]:

- (iii) If a property is jointly held by two or more person and their shares are ascertainable and defined then each person's share in the income of the property will be treated as income from house property. If their shares are not definitely ascertainable, then the income of house property will be taxed as the income of 'AOP'. Each owner when receives his share of income, he is not liable to pay any tax.

Deemed Ownership Rights [Section 27]:

- (iv) If a person is legally not the owner of a building but enjoys all the rights on the property viz., letting out or transferring the property for no consideration or transferring the house or property to members of the family etc. then he is considered as deemed owner.

The following persons, though not owners of property in the legal sense are liable to pay tax as deemed owners.

An individual who transfers house property to his/her spouse:

- (a) if an individual transfers any house property to his or her spouse otherwise than for adequate consideration and it is not related to an agreement to live apart, the transferor in that case is deemed to be the owner of the house property transferred.

An individual who transfers house property to his/her Minor child:

- (b) if an individual transfers any house property to his/her minor child otherwise than for adequate consideration, the transferor in that case is deemed to be the owner of the house property transferred. However, where transfer is to a minor married daughter then transferor shall not be treated as the deemed owner of the house property.

**Holder of an imitable Estate:**

- (c) The term imitable Estate means the property which is not legally divisible. The holder of the Imitable estate will be treated as the owner.

Member of a co-operative society:

- (d) A member of a co-operative society, Association of Persons to whom a building or part thereof is allotted or leased under a house property scheme of such society/AOP shall be deemed to be the owner of that building or part thereof although the co-operative society/AOP is legal owner of that buildings.

Person in possession of property:

- (e) A person who is allowed to take or retain the possession of any building or part thereof in part performance of a contract of the nature referred to the section 53A of the Transfer of Property Act shall be deemed owner of that building or part thereof.

This would cover cases:

- (i) Possession of property has been handed over to the buyer.
- (ii) Sales consideration has been paid or promised to be paid to the seller by the buyer.
- (iii) Sale deed has not been executed in favour of the buyer.
- (iv) The buyer would be deemed to be the owner of the property although it is not registered in his own name.
- (v) Person having right in a property for a period not less than 12 years: A person who acquires any right in or with respect to any building by way of lease for a period not less than 12 years shall be deemed to be the owner of that building or part thereof.

Third Condition: House property should not be used for owner's own business/profession:

The owner of a house property is not liable to tax if the property is used by him/her for own business or profession. But the business or profession should be such whose income/profit is chargeable to tax.

Non-House Property Income: The following incomes will not be considered as income from house property:

- (i) If the house is used for agriculture purposes.



- (ii) If the income of a former ruler from any one palace was exempted before the commencement of the Constitution (26th Amendments Act of 1971).
- (iii) Property income of a local authority.
- (iv) Property income of a registered trade union.
- (v) Income from house property held for charitable or religious purposes (temple etc.).
- (vi) Income from house property occupied for the purpose of running own business or carrying profession whose income is taxable.

Special Situation: In the following situations, the treatment is as under:

- (i) If the building is let out to the employees whose stay is incidental to the business, rent received will be treated as business income and expenditure incurred on such house will be considered as business expenditure.
- (ii) If the building is let out to the police station or post office or bank which is incidental to the business, rent received will be treated as business income.
- (iii) Where the tenant has sublet the house, the rent received by him will not be considered as income from house property but it is taxable under the head ‘income from other sources’.
- (iv) Rent of the land and rent from huts or from tents will not come under house property but they will be considered as ‘income from other sources’.
- (v) If a person owns a building, and let out which is fit for running a hotel viz, restaurant or lodging or paying guest house, home for aged or working women hostel, hostel for students etc, then rent received will be taxable as ‘income from other sources’.
- (vi) If a person owns a building and running the business of a Hotel/ Hostel then rent received from customers/boarders shall be treated as “income from business”.
- (vii) Where the ownership is in dispute, the ITO will decide on some reasonable basis and the rent receiver will be assessed (subject to the court’s judgment).
- (viii) If the house is mortgaged, the mortgager is liable for tax payment.



- (ix) In the case of partnership, if the building is constructed in the name of the firm then the firm is assessed separately but not the partners.

IN-TEXT QUESTIONS

1. Fill in the blanks:

- (a) Income is taxable under the House property when the assess is the _____ of such house property.
- (b) If a person is owning a building, and let out which is fit for running hostel for students, rent received will be taxable as _____.
- (c) If the building is let out to the police station or post office or bank which is incidental to the _____, rent received will be treated as business income. (business)
- (d) Rent of the land and rent from huts or from tents _____ come under house property.
- (e) Where the tenant has sublet the house property, the rent received by him _____ be considered as income from house property.
- (f) Property income of a local authority _____ treated as income from house property.

2. State whether the following statements are True or False:

- (a) If a person is legally not the owner of a building but enjoy all the rights of letting out, then he is considered as deemed owner.
- (b) A member of a co-operative society to whom a building is leased under a house property scheme of such society shall be deemed to be the owner of that building although the co-operative society is legal owner of that building.
- (c) The holder of Impartible estate will be treated as the owner.
- (d) If the building is let out to the employees whose stay is incidental to the business, rent received will be treated as business income.
- (e) Rent of the land and rent from huts or from tents will not come under house property.



4.4 Method of Computation of Income from House Property

Income from house property is computed based upon Annual value not on the basis of actual rent received.

(a) Meaning of Annual Value:

According to Section 23 (1)(a): The annual value of any property shall be the sum for which the property might reasonably be expected to be let out from year to year. In determining the “Annual Value”, the following four factors are to be considered:

1. **Municipal Value:** Municipal value means the rental value of the house according to a local authority. According to the Indian Constitution, Municipalities or local bodies have the right to levy tax on the house properties held by residents in their jurisdiction. For levying tax, the municipalities will value the income generating capacity in the form of rent of each building. The assessed value of the house is known as municipal value.
2. **Fair Rental Value:** Fair rental value means rent fetched by a similar property in the same street or similar locality. It is also termed as ‘Notional Rent’.
3. **Actual Rent:** Actual Rental Value means rent received and receivable from the tenant for one year period.
4. **Standard Rent:** Standard Rent means maximum rent according to the provisions of the Rent Control Act which a person can legally recover from his tenant.

Problem 1: Consider the following and comment:

- (i) Sri Gopinath constructed a residential house in 500 sq. meters in Delhi. And 100 sq. meters open space for front yard and kitchen garden is also there. He has let out the house on a monthly rent of Rs. 15,000 of this 20% can be apportioned to open end.
- (ii) Smt. Sudha purchased an open freehold land of 2000 sq. meters in NOIDA for constructing a residential house; in the meanwhile, she has let out the land for Rs. 1,25,000 per annum.
- (iii) Mr. Nath is running a business in Varanasi, constructed 10 staff quarters and let out to his employees on a monthly rent of Rs. 3,000.



Notes

- (iv) Mrs. Gupta owns a building, which is occupied for her residential purpose. During the previous year she allotted one room to a student as paying guest, charging Rs. 3,000 p.m. (including Rs. 1,000 for rent of the room and the balance for food and other incidental services.)

Solution:

- (i) The land is adjacent to the building and also it is part of the house property premises, hence rent received for let out of the building and open land becomes ‘income from house property’.
- (ii) The land is purchased for constructing the building, but as of today the construction has not yet commenced, hence income from letting out of open land becomes ‘income from other sources’.
- (iii) Assessee is running the business and it is assumed that the stay of the employees near to the business is essential hence rent received from employees can be taken as ‘income from business’.
- (iv) Rent received by the assessee is composite rent Rs. 12,000 shall be taken as ‘income from house property’ and the balance Rs. 24,000 is ‘income from other sources’.

(b) Municipal Tax:

Municipal taxes (like house tax, service tax, local tax) levied by any local authority in respect of the house property are deductible from gross annual value only if:

- (i) These taxes are borne by the owner, and
- (ii) Are actually paid by owner during the previous year.

Note:

- (i) If municipal taxes are due but not paid then due amount is not to be deducted from gross annual value.
- (ii) It is to be noted here that if municipal tax has been paid by the owner of house in the current financial year, then the whole of the amount will be fully deductible irrespective of the year whether the municipal tax is concerned with prior to previous years (if not paid in respective previous years).
- (iii) Municipal tax paid in advance is not allowed as deduction in the year of payment, but it is allowed as a deduction in the year for which the payment is made.



- (iv) Municipal tax paid by the tenant is not allowed as deduction but if there is a provision in the agreement that the owner will reimburse the tax amount, then it will be allowed as deduction otherwise not allowed as deduction.
- (v) Interest on loan taken to pay municipal tax is not allowed as deduction.
- (vi) If the building is situated in the foreign country and local taxes paid by the assessee, then taxes are deducted from gross annual value.
- (vii) Taxes levied by State or Central Government but collected by municipal authorities shall not be treated as municipal taxes; hence they cannot be deducted from the gross annual value.

4.4.1 Computation of Income from Let-Out House Property

Annual Value of a house property will be of the following:

Step-1: Find out reasonable expected rent of the property which is higher of municipal valuation or fair rent but subject to a maximum of standard rent.

Step-2: Find out rent actually received or receivable, after deducting unrealized rent but before deducting vacancy.

Step-3: Higher of amount computed in step-1 or step-2 is taken.

Step-4: Find out loss due to vacancy and deduct it from the amount of step-3.

Step-5: Step-3 minus step-4 is Gross Annual Value.

Step-6: Less: Municipal tax paid by owner.

Step-7: Net Annual Value of the House Property [Step-5 minus step 6].

Note: Following points should be noted in regard to Rent actually received/receivable:

1. Advance rent cannot be rent received/receivable of the year of receipt.
2. If the tenant has undertaken to bear the cost of repairs, the amount spent by the tenant cannot be added to rent received or receivable.
3. Occupier's (i.e., tenant's) share of municipal tax realized from the tenant cannot be added to actual rent received/receivable, as it is the occupier's duty to pay municipal tax.

Unrealized Rent:

- (a) Unrealised rent is the rent which the owner could not realize. Unrealized rent of earlier years is not deductible, only unrealized



rent of current previous year is deductible. Unrealized rent shall be excluded from the rent received/receivable only if the following conditions are satisfied [conditions of Rule 4]:

1. The tenancy is bona fide.
2. The defaulting tenant has vacated, or steps have been taken to compel him to vacate the property.
3. The defaulting tenant is not in occupation of any other property of the assessee.
4. The assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

Composite Rent:

(b) If the owner of the house property charges for facilities provided to the tenant or hire charges for using other assets, then the rent received along with charges is known as “Composite Rent”. The facilities to the tenant are providing lift, gas, security, water and electricity charges etc. The examples for other assets are furniture, air conditioner etc. The treatment of composite rent under different situations is explained as under:

Situation 1: Composite rent on account of services provided.

(a) Rent attributable for the use of the building is charged as ‘income from house property’.
(b) Rent attributable to the services is to be shown as income under the head ‘income from other sources’. For example, service charges received or recoverable from the tenant minus actual service charges paid by the owner will be shown under the head ‘income from other sources’.

Situation 2: Where the composite rent includes rent for using the building and for using other assets and letting of these assets is easily separable example. Rent of the building and the rent of furniture.

(a) Rent for using the building is charge to tax as ‘income from house property’.
(b) Rent for using other assets is charged to tax as ‘income from other sources’.



Situation 3: Where the composite rent includes rent for using the building and for using other assets and letting of these assets is not separable example, letting of auditorium or cinema hall. The entire amount received, i.e., rent of the building and rent of other assets is to be shown under the head ‘income from other sources’.

(c) Deductions u/s 24: In case of LET-OUT HOUSE PROPERTY:

(i) Standard deduction or statutory deduction u/s 24(a):

This is a compulsory deduction to every assessee who is having income from let out house and given at a flat rate of 30% on Net Annual Value.

Note: Thus, no deduction can be claimed in respect of expenses on insurance, ground rent, land revenue, repairs, collection charges, electricity, water supply, salary of liftman etc.

(ii) Interest on borrowed capital u/s 24(b):

Interest on borrowed capital is allowable as deduction on the due/accrual basis, if capital is borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of the property and the borrowed amount is utilized for the purpose only.

Note:

- (a) Interest on borrowed capital of the relevant previous year is deductible fully.
- (b) Pre-construction period interest is deductible in five equal instalments from the previous year in which construction is completed.
- (c) Full amount of interest on loan is deductible without any maximum ceiling in the case of a let-out house property.

Note:

- (i) If the interest is paid in India, actual interest amount is allowed as deduction and if the interest is paid outside India, tax is to be deducted as source, and then only can be allowed as deduction.
- (ii) Interest on loan is allowed as deduction on due basis also. Even if interest is not paid during the previous year; interest for the previous year period can be claimed as deduction.
- (iii) If the interest paid for earlier period is not claimed as deduction, then the same cannot be claimed as deduction in the current financial year in 5 equal instalments.



Notes

- (iv) Interest on loan taken to purchase or to acquire the property or to construct the house, interest paid for period prior to purchase/ completion of construction will be allowed as deduction in five equal annual instalments commencing from previous year in which the house construction is completed.
- (v) Interest relating to the year of completion of construction can be fully claimed as deduction in that year irrespective of the date of completion.
- (vi) Interest on interest, i.e., penal interest is not allowed as deduction.
- (vii) If a new loan is taken to repay the original loan, interest paid on the new loan will be allowed as deduction. (The assessee has to satisfy in this regard to assessing officer with the facts.)
- (viii) Brokerage or commission paid or expenses incurred to raise the loan are not allowed as deduction.

Compute income from house property: At a glance**Let out house and house deemed to be let out**

		Rs.
Step-1	Expected Rent: Municipal value or Fair rent whichever is higher (Higher of MV/FR) but subject to Standard Rent (if rent control act apply)	
Step-2	If actual rent received or receivable after deducting unrealized rent but before vacancy	
Step-3	Higher of step-1 or step-2	
Step-4	Deduct: loss due to Vacancy	
Step-5	Gross Annual Value [Step-3 minus step-4] Less: Municipal tax paid by owner	
	Net Annual Value (NAV)	xxxx
	Less: Deductions u/s 24: (i) Standard Deduction u/s 24(a) @30% of NAV (ii) Interest on capital borrowed u/s 24(b) *limits applicable	
	Income from House Property	
	Add: Income u/s 25A	
	Income Taxable under “House Property”	



Special Note to students: To calculate actual rental value, the following points are to be considered:

1. Outstanding rent of the relevant previous year shall be added to the rent received = rent received + rent receivable or outstanding rent.
2. If the owner has provided any facilities to the tenant then the cost of such facilities shall be deducted from the 12 months period rental value i.e., lift and premises maintenance, watchman and Gardner salary etc.

Note:

- (i) If the owner collects an amount towards services/facilities provided then service charges collected become ‘income from other sources’, while computing this income expenses incurred shall be deducted from the service charges collected. If service charges are not collected separately then cost of facilities shall be deducted from actual rental value but if service charges are collected by the owner then do not deduct cost of facilities provided to the tenant from rental value.
- (ii) If the owner has paid personal obligation expenses of the tenant related to let-out house, then deduct such expenses from Actual Rent i.e., watchman salary/gas or electricity bill of the let-out house.
- (iii) If the tenant pays the personal obligations of the owner like interest paid on the loan taken by the owner and life insurance etc., then the same is to be added to the actual rent received.
- (iv) In the case of newly purchased or constructed house, calculate actual rental value for the time period for which the property is available for let-out.
- (v) If the house is sold or transferred to others during the previous year then calculate income from house property from April 1st to the date of sale or transfer.
- (vi) Advance rent or refundable deposit received from the tenant is not to be added to rent received amount.
- (vii) If non-refundable deposit is received for the rental agreement period viz., for a period of 5 or 10 years etc., then proportionate deposit amount per annum is added to the actual rent received.



IN-TEXT QUESTIONS

- 3.** State whether the following statements are True or False:
- (a) If non-refundable deposit is received for the rental agreement period viz., for a period of 5 or 10 years etc., then proportionate deposit amount per annum is added to the actual rent received.
 - (b) If the house is sold to others during the previous year then income from house property will be from April 1st to the date of sale.
 - (c) If the tenant pays the personal obligations of the owner like interest paid on the loan taken by the owner and life insurance etc., then the same is to be added to the actual rent received.
 - (d) If the owner has paid personal obligation expenses like watchman salary/gas or electricity bill of the tenant related to let-out house, it will be deducted such expenses from Actual Rent.
 - (e) If the owner has provided any facilities like lift and premises maintenance, watchman and gardener salary etc. to the tenant then the cost of such facilities shall be deducted from the 12 months period rental value.
- 4.** Fill in the blanks:
- (a) Statutory deduction u/s 24 (a) is given at a flat rate of _____ on Net Annual Value.
 - (b) Interest on borrowed capital is allowable as deduction _____.
 - (c) Unrealized rent of _____ years is not deductible, only unrealized rent of _____ year is deductible.
 - (d) If the amount is borrowed from bank for construction of let-out house property and interest paid is not claimed as deduction in the relevant previous year, then total amount of interest paid before the completion of house property can be claimed as deduction in _____ instalments.

**Problem 2:**

Sri Ram is the owner of a house, let out for 10 years on March 1st, 2022 on a monthly rent of Rs. 7,500 and received Rs. 1,20,000 non-refundable deposit and interest earned on deposit is 12% per annum. The municipal valuation is Rs. 80,000 p.a., Fair Rental Value is Rs. 75,000 p.a. Sri Ram incurs the following expenses:- municipal taxes Rs. 9,300, repairs Rs. 5,000, and interest paid on the loan taken to purchase the house Rs. 14,300. During the previous year rent is received for 10 months and balance is due. This house property is not governed by the jurisdiction of the Rent Control Act. Compute income from house property for the assessment year applicable to you.

Solution:

**Computation of Sri Ram's Income from House Property
For the Assessment Year 2023-24**

Particulars	Rs.	Rs.
Step-1: Expected Value: Higher of municipal value i.e., Rs. 80, 000 or Fair value i.e. Rs. 75,000 Subject to a maximum of Standard Rent (if the Rent Control Act applies) nil	80,000	
Step-2: If actual rent received or receivable after deducting unrealized rent but before vacancy, i.e., [Rs. 7,500 p.m. × 12 months] + [Rs. 1,20,000/10 years] i.e., [90,000 + 12,000]	1,02,000	
Step-3 : Higher of steps 1 and 2	1,02,000	
Step-4: Less: Loss due to vacancy		Nil
Step-5: Step-3 minus step-4 will be Gross Annual Value	1,02,000	
Step-6: Less: Municipal Tax paid by owner		(9,300)
Step-7: [Step 5 minus step 6] Annual Value	92,700	
Deductions u/s 24: (i) Standard deduction u/s 24(a) @30% of Annual Value (ii) Interest on loan u/s 24(b)	27,810 14,300	42,110
Income from House Property		50,590

**Problem- 3:**

Smt. Sudha Gupta is the owner of a house, and the following particulars are related to the previous year 202-23. Compute her income from house property for the assessment year 2023-24.

Municipal valuation Rs. 1,25,000; Standard Rent Rs. 2,00,000; Rent of similar building Rs. 2,75,000; Rent received Rs. 2,10,000 including hire charges for the furniture provided to the tenant Rs. 30,000; Municipal taxes Rs. 18,750; Interest paid on loan taken to construct the house Rs. 50,000;

Solution:**Computation of Income from House Property of Smt. Sudha Gupta
For the Assessment Year 2022-23**

Particulars	Rs.	Rs.
Step-1: Expected Value: Higher of Municipal Valuation, i.e., Rs. 1,25,000 or Fair Rent, i.e., Rs. 2,75,000 but subject to Standard Rent, i.e., Rs. 2,00,000.	2,00,000	
Step-2: Rent received or receivable after deducting unrealized rent but before vacancy allowance [Rs. 2,10,000 minus Rs. 30,000 = Rs. 1,80,000]	1,80,000	
Step-3: Higher of steps 1 and 2	2,00,000	
Step-4: Less: Loss due to vacancy		Nil
Step-5: Step 3 minus step 4 will be Gross Annual Value		2,00,000
Step-6: Less; Municipal taxes paid by owner		18,750
Step-7: [Step-5 minus step-6] Annual Value		1,81,250
Step-8: Deductions u/s 24: (i) Standard deduction u/s 24(a) @ 30% of annual value (ii) Interest on loan taken for construction of house u/s 24(b)		1,04,375
	54,375	
	50,000	
Income from House Property		76,875

Note: This house property is governed by the jurisdiction of the Rent Control Act since Standard Rent is given.

**Problem 4 [House let out throughout the year and unrealized rent of the current previous year and house is vacant]:**

Sri Nath is the owner of a house property which is let out for residential purpose on a monthly rent of Rs. 7,200; Municipal Valuation is Rs. 60,000 per annum and Fair rental value is Rs. 78,000 per annum. During the previous year the tenant has not paid 1 month rent and proved to be irrecoverable. The house is also vacant for 1 month. The construction of the house was commenced on April 1st, 2018 and completed on April 2nd, 2021. For this purpose, she borrowed Rs. 1,80,000 from Commercial Bank on April 1st, 2018 @ 10% per annum. The interest due upto the date is paid and no amount of principal is repaid. His other expenses are insurance premium Rs. 1,500; Municipal taxes Rs. 6,000 (including Rs. 2,000 paid in advance for the next year) and ground rent Rs. 1,000.

Compute the income from house property for the current assessment year 2023-24.

Solution:

**Computation of Income of Sri Nath under the head
‘Income from House Property’
For the Assessment Year 2023-24**

Particulars	Rs.	Rs.
Step-1: Expected Rent: Higher of municipal valuation, i.e., Rs. 60,000 or Fair rent, i.e., Rs. 78,000	78,000	
Step-2: Actual rent received or receivable after deduction unrealised rent but before vacancy allowance [Receivable Rs. 7,200 p.m. × 12 months minus unrealised rent of 1 month, i.e., Rs. 7,200]	79,200	
Step-3: Higher of step-1 and step-2	79,200	
Step-4: Less: Loss due to vacancy (1 month’s rent, i.e. Rs. 7,200)		7,200
Step-5: Step-3 minus step-4, i.e., Gross Annual Value		72,200
Step-6: Less: Municipal taxes paid by owner [6000 minus 2000 advance]		4,000
Step-7: Step-5 minus step-6, i.e., Annual Value		68,200



Notes

Particulars	Rs.	Rs.
Step-8: Deductions u/s 24:		51,360
(i) Standard deduction u/s 24 (a)@ 30% of annual value	22,560	
(ii) Interest on loan taken for construction of house	28,800	
Income from House Property		16,840

Working notes on the calculation of interest on loan:

A- Interest paid for previous year (2022-23) is allowed in full:

Interest from 1-4-2022 to 31-3-2023 = 10% on Rs. 1,80,000 =
Rs. 18,000

B- Interest paid prior to year of completion of construction is allowed in 5 equal instalments:

- (i) Interest from 1-4-2018 to 31-3-2019 = 10% on Rs. 1,80,000 =
Rs. 18,000
- (ii) Interest from 1-4-2019 to 31-3-2020 = 10% on Rs. 1,80,000 =
Rs. 18,000
- (iii) Interest from 1-4-2020 to 31-3-2021 = 10% on Rs. 1,80,000 =
Rs. 18,000
- (iv) Total of interest is Rs. 54,000. Each Instalment of interest = $54,000/5$
= Rs. 10,800

Thus, total amount of interest to be allowed as deduction = Rs. 18,000 +
Rs. 10,800 = Rs. 28,800.

Problem 5:

Mr. Nath owns a house property in Prayagraj. On April 1, 2022 he let out the house on a monthly rent of Rs. 8,000. On September 1, 2022 the tenant 'A' has to vacate the house for non-payment of rent of August, 2022. On November 1, 2022 the house is let out to another tenant 'B' on a monthly rent of Rs. 9,000. On February 15th, 2023 tenant 'B' died and his family vacated the house on March 1st, 2023. Tenant 'B' wife paid Rs. 4,000 rent as final settlement for the month of February and thereafter the house is vacant.

The municipal value of the house is 90,000 p.a. Fair rental value is Rs. 72,000 p.a. and interest on loan taken to construct the house is Rs. 25,000. Municipal tax is 10%.



INCOME FROM HOUSE PROPERTY

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Compute the income from house property of Mr. Nath for the assessment year 2023-24.

Solution:

**Computation of Income of Mr. Nath under the head
‘Income from House Property’
For the Assessment Year 2023-24**

	Particulars	Rs.	Rs.
Step-1	Expected Rent: Higher of Municipal Valuation, i.e., Rs. 90,000 or Fair rent, i.e., Rs. 72,000	90,000	
Step-2	Actual rent received for 12 months rent receivable after deducting unrealized rent but before vacancy allowance. (See W.N.-A & B) [Rs. 1,01,000 minus 12,000] = 89,000	89,000	
Step-3	Higher of step-1 and step-2	90,000	
Step-4	Less: Loss due to vacancy (see W.N.-C)	25,000	
Step-5	Step-3 minus step-4 = Gross Annual Value	65,000	
Step-6	Less: Municipal tax paid by owner	9,000	
Step-7	Annual Value	54,000	
Step-8	Deductions u/s 24: (i) Statutory deduction u/s 24(a) @ 30% of annual value (ii) Interest on loan u/s 24(b)	16,200 25,000	41,200
	Income from House Property		12,800

Working notes:

A- Rent receivable: [Rs. 8000×7 months] + [Rs. $9,000 \times 5$ months]

$$\text{Total} = 56,000 + 45,000 = \text{Rs. } 1,01,000$$

Rent realized:

(a) 1-4-2022 to 31-8-2022, i.e., 5 months @ 8,000 = 40,000

(b) 1-11-2022 to 29-2-2023, i.e., 4 months @ 9,000 = 36,000

Thus, total rent realized = Rs. 76,000.

B- Unrealized rent:

(a) August 2022 month rent = Rs. 8,000



Notes

(b) February 2023 month rent, i.e., Due Rs. 8,000 minus paid Rs. 4,000
= Rs. 4,000

Total unrealized rent = Rs. 12,000.

C- Loss due to vacancy:

- (i) From 1-9-2022 to 31-10-2022, i.e., 2 months @ 8,000 = 16,000
- (ii) From 1-3-2023 to 31-3-2023, i.e., 1 month @ 9,000 = 9,000

Total loss due to vacancy = 25,000

(d) Treatment of Unrealized rent realized subsequently [Section 25A and 25AA]

In the following two situations unrealized rent is collected:

- (i) **Arrear of rent or Unrealised rent received subsequently [Section 25A(1)]:** Where a deduction has been allowed under section 24(1)(x) [in the AY 2022-23 or earlier years] in respect of unrealized rent and subsequently during any previous year [relevant for the assessment years 2023-24 or subsequent year] the assessee has realized any amount in respect of such rent, the amount so realized will be chargeable to tax under the head “Income from house property” (without making any deduction under section 23 and 24.)

The unrealized rent so recovered is taxable in the previous year in which it is recovered.

It is taxable even if house is not owned (or deemed to be owned) by the assessee in the year of recovery.

- (ii) **Standard deduction @u/s 24(a) to be allowed from such arrears of rent/Unrealized rent if realized [Section 25A(2)]**

Problem 6:

Mrs. Gupta (age 68 years) owns a house property in Delhi (construction of which completed on November 30, 2008). Municipal Valuation of house is Rs. 3,00,000; fair rent is Rs. 2,90,000 and the standard rent under the Delhi Rent Control Act is Rs. 2,50,000. It is let out to a tenant for residential purpose at monthly rent of Rs. 50,000. Unrealized rent pertaining to the financial year 2020-21 is Rs. 24,000 which is realized in the previous year. Unrealized rent pertaining to the financial year 2022-23 is Rs. 50,000. During the previous year, the property remains vacant for 1 month.



INCOME FROM HOUSE PROPERTY

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Mrs. Gupta makes the following expenditure/investment during the previous year 2022-23:

- (i) White washing of the house Rs. 20,000
- (ii) Municipal taxes paid Rs. 20,000
- (iii) Interest on borrowed capital Rs. 6,000
- (iv) Contribution to Public Provident Fund Rs. 1,50,000

Determine the Income from house property of Mrs. Gupta for the assessment year 2023-24. Ignore section 115BAC.

Solution:

Computation of Income from House Property of Mrs. Gupta For the Assessment Year 203-24

Particulars	Rs.	Rs.
Step-1: Expected rent being higher the following two: (i) Municipal valuation Rs. 3,00,000 (ii) Fair rent Rs. 2,90,000	2,50,000	
But subject to a maximum of Standard Rent i.e., Rs. 2,50,00		
Step-2: Actual rent received/receivable after deducting unrealized rent but before loss due to vacancy: (i) Actual rent received is Rs. $50,000 * 11$ months, i.e., Rs. 5,50,000 Less: Unrealized rent of previous year Rs. 50,000	5,00,000	
Step-3: Higher of step-1 and step-2	5,00,000	
Step-4: Less: Loss due to vacancy (1 month)	50,000	
Step-5: Gross Annual Value	4,50,000	
Step-6: Municipal tax paid by the owner	20,000	
Step-7: Annual Value	4,30,000	
Deductions: (a) Standard deduction u/s 24(a) @30% of AV (b) Interest on borrowing u/s 24(b)	1,29,000 6,000	1,35,000
Income from let-out house property	2,95,000	
Add: Unrealized rent of PY 2020-21 received in relevant PY	24,000 (7,200)	16,800
Less: Standard deduction u/s 24(a) @30%		
Income from house property		3,11,800

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4.4.2 Self-Occupied House Property: How to Compute Taxable Income?

Special features which regulate tax incidence on self-occupied properties:

- (a) A property occupied for own business purposes: Such type of property is not taxable under the head “Income from house property” but will be taken into consideration while computing income under the head profits from business/profession.
- (b) In case of two self-occupied houses, the annual value of such two self-occupied houses, as chosen by assessee, is taken as Nil if the following conditions are satisfied:
 - ◆ The house is not let out during the previous year.
 - ◆ No other benefit is derived from there on.

Deductions u/s 24: In case of self-occupied house and deemed to be let-out:

- (i) In case of self-occupied house, the deduction u/s 24(a) is not allowed;
- (ii) But Interest on loan for each self-occupied is allowed u/s 24 (b) subject to the following rules:

Rule 1: If the loan is taken before 1-4-1999 for the purchase/construction of house property:

The deduction is least of the following amounts:

- ◆ Actual interest paid or payable
- ◆ Rs. 30,000

Rule 2: If the loan is taken on or after 1-4-1999 for the purchase/construction of house property:

If the assessee satisfies the following three conditions, then

- ◆ The deduction shall be given upto Rs. 2,00,000 or
- ◆ Actual amount of interest due or paid, whichever is less.

1. The loan is taken on or after 1-4-1999 either for construction or for purchase of the house.
2. The construction or purchase process should be completed within 5 years from the end of the financial year in which the loan is taken.



3. The lending person/institution has to give a certificate giving the following details:-
 - (i) Loan sanctioned amount to purchase/construct the house.
 - (ii) Amount of interest payable for the relevant previous year to the current assessment year.
 - (iii) Amount of principal amount repaid during the previous year relevant to the current assessment year.
 - (iv) Outstanding principal amount.

Note:

- (i) If the assessee is unable to satisfy the above three conditions, then the maximum deduction will be limited to Rs. 30,000.
- (ii) If the assessee takes a new loan to repay the original loan then interest payable on new loan qualifies for deduction.

Rule 3: If the loan is taken for repairs/renewal/reconstruction either before or after 1-4-1999, then the deduction is the **least** of the following:

- ◆ Actual interest paid or payable.
- ◆ Rs. 30,000.

Problem 7: (on interest on loan)

Mr. Nath takes a loan of Rs. 5,00,000 @ 12% per annum for constructing a house on June 1, 2017. Construction of the house is completed on January 1, 2023. Determine the amount of interest on loan u/s 24(b) if:

- (i) The house property is let out;
- (ii) The house property is self-occupied.

Solution:

The loan is taken on or after 1-4-1999, then the deduction shall be given upto Rs. 2,00,000 or actual amount of interest due or paid, whichever is less if completed within 5 years from the date of loan.

In this case the construction is completed within 5 years from the end of previous year in which loan is taken.

**Computation of interest of various years:**

F.Y	Pre-construction period Interest					Interest of Completion year
	Year of loan 2017-18 (June 1 st , 2017)	PY 2018-19	PY 2019-2020	Instalments	PY 2021-22	
Outstanding loan amount	5 lakh	5 lakh	5 lakh	5 lakh	5 lakh	5 lakh
Rate of interest	12%	12%	12%	12%	12%	12%
Months	10	12	12	12	12	12
Interest due	Rs. 50,000	Rs. 60,000	Rs. 60,000	Rs. 60,000	Rs. 60,000	Rs. 60,000
	Total pre-construction's interest = Rs. 2,90,000 allowed in five equal instalments from the year of completion. Thus, $2,90,000/5 = \text{Rs. } 58,000$					Rs. 58,000

Deduction: Interest on loan u/s 24(b):

Qualifying amount of interest on loan in the relevant previous year, i.e., 2022-23:

- ◆ Current previous year 's interest is allowed in full =Rs.60,000
- ◆ Add: Pre-construction period's interest allowed (1st instalment) = Rs. 58,000
= Rs. 1,18,000

(i) If the house property is let-out:

Full amount of interest Rs. 1,18,000 is deductible u/s 24(b).

(ii) If the house property is self-occupied:

Here, the loan is taken after 1-4-1999, hence, full amount of interest Rs. 1,18,000 is deductible u/s 24(b) subject to a maximum of Rs. 2,00,000.

(e) In case of more than two self-occupied houses:

When the assessee has occupied more than two houses for his residential purpose:



- (i) Two houses, according to the choice of the assessee will be treated as self-occupied house and annual value of both houses will be taken as Nil; and deduction u/s 24(b) is allowed.
- (ii) Other houses will be treated as deemed to be let out and the taxable income will be calculated assuming that the property is let-out; so Municipal taxes paid by owner and deductions u/s 24(a) and u/s 24(b) are allowed as deduction.

Problem 8:

Mr. Gupta owns three houses which are used for his own residential purposes. The details are as under:

	House 1 Rs.	House 2 Rs.	House 3 Rs.
Municipal valuation	30,000	70,000	92,000
Fair rent	40,000	58,000	96,000
Standard rent	37,000	74,000	NA
Municipal tax paid by Mr. Gupta	3,000	16,000	29,000
Interest on borrowing for purchase (inclusive of 1/5 of pre-construction period's interest) [capital was borrowed before 1-4-1999 in the case of houses 1 and 3 but in case of house 2, capital was borrowed on April 16, 2014]	11,060	2,30,000	54,090
Repayment of loan for acquiring house property	Nil	6,000	17,000

Suggest Mr. Gupta to which house he must have to select as his own residential purpose under section 23 (2)(a)(i).

Solution:

Option 1: If houses 1 & 2 are treated as self-occupied and house 3 as deemed to let out.

Option 2: If houses 1 & 3 are treated as self-occupied and house 2 as deemed to let out.

Option 3: If houses 2 & 3 are treated as self-occupied and house 1 as deemed to let out.



Notes

	House 1	House 2	House 3	Total
Option-1	(11,060) SO	(2,00,000) SO	(7,190) DLO	(2,18,250)
Option-2	(11,060) SO	(1,92,200) DLO	(30,000) SO	(2,33,260)
Option-3	(12,740) DLO	(2,00,000) SO	(30,000) SO	(2,17,260)

Suggestions: Mr. Gupta must choose option-2 because in this case the loss is maximum which will reduce his tax liability.

Working Notes:**A: Assuming all houses as self-occupied:**

	Particulars	House 1 before 1-4-1999 Rs.	House 2 on or after April 16, 2014 Rs.	House 3 before 1-4-1999 Rs.
Step-1	Annual Value being self-occupied	Nil	Nil	Nil
Step-2	Deductions u/s: Interest on loan u/s 24 (b)	11,060	2,00,000 (max)	30,000 (max)
	Income/(loss) from house property	(11,060)	(2,00,000)	(30,000)

B:- Assuming all houses as deemed to be let out:

	Particulars	House 1 Rs.	House 2 Rs.	House 3 Rs.
	Expected Rent: Higher of (i) or (ii) of the following: (i) Higher of Municipal Valuation or (ii) Fair rent But subject to a maximum of Standard Rent	30,000 40,000 37,000	70,000 58,000 74,000	92,000 96,000 Nil
Step-1	Expected Rent: Being calculated as above	37,000	70,000	96,000



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	Particulars	House 1 Rs.	House 2 Rs.	House 3 Rs.
Step-2	Actual rent received or receivable after deducting unrealized rent but before vacancy	Nil	Nil	Nil
Step-3	Higher of step-1 and step-2	37,000	70,000	96,000
Step-4	Less: Loss due to vacancy	Nil	Nil	Nil
Step-5	[Step-3 minus step-4]: Gross Annual Value	37,000	70,000	96,000
Step-6	Less: Municipal tax paid by owner	3,000	16,000	29,000
Step-7	[Step-5 minus step-6]: Annual Value	34,000	54,000	67,000
Step-8	Deductions u/s 24: (i) Standard deduction u/s 24(a) 30% of Annual Value (ii) Interest on loan u/s 24(b)	(10,200) (11,060)	(16,200) (2,30,000)	(20,100) (54,090)
	Income/(loss) from house property	12,740	(1,92,200)	(7,190)

4.4.3 Partially Let-Out and Partially Self-OccUPIED House Property

House Property of which part of the year let-out and part of the year self-occupied [section 23(1)]: Benefit of self-occupied houses for residential purposes shall not be allowed. The annual value shall be determined as per section 3(1).

Problem 9:

Mr. Ram is the owner of a house which consists of two identical units each of which has been given on rent of Rs. 20,000 p.m. The municipal value of the house is Rs. 3,60,000 while the fair rental value is Rs. 4,20,000. Unit-2 was vacated by the tenant on 31-12-2022 and from January 1st, 2023 to March 31st, 2023 this unit-2 was occupied by the owner for his own residence. The municipal tax paid of unit-2 is Rs. 80,000 and the construction of the house was completed on 1-2-2001.

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Notes

Compute the income from house property for the assessment year 2023-24.

Solution:

Unit-1: Let-out throughout the year	Rs.	Rs.
Gross Annual Value being higher of step-1 and step-2: Step-1: Expected rent, i.e., (higher of Municipal Value Rs. 1,80,000 or Fair rent, i.e., Rs. 2,10,000) Step-2: Actual rent received/receivable (Rs. 20,000 p.m.* 12 months) Rs. 2,40,000	2,40,000 2,10,000 2,40,000	
Less: Municipal Value paid (50%)		(40,000)
Annual Value		2,00,000

Unit-2: Partially let-out (9 months) and partially self-occupied (3 months)	Rs.	Rs.
Gross Annual Value being higher of municipal value, i.e., Rs. 1,80,000 or Fair rent, i.e., Rs. 2,10,000		2,10,000
Less: Municipal tax paid (50%)		40,000
Annual Value		1,70,000

Income from house property	Rs.
Total Annual value:	
Unit-1: Rs. 2,00,000	
Unit-2: Rs. 1,70,000	3,70,000
Less: Statutory deduction u/s 24(a): @ 30% of total annual value	1,10,100
Income from house property	2,50,900

4.5 Set-off and Carry Forward of Losses of House Property

1. Set-off of losses under the head ‘Income from House Property’
 - Inter-source:** Loss from a house property can be set off against income from any other house in the relevant previous year.
 - Inter-head:** Loss under the head ‘Income from house property’ can be set-off against business income, capital gains, salary income and income from other sources in the relevant previous year.



2. Carry forward of losses under the head ‘Income from House Property’

Carry forward of loss is permissible only for 8 assessment years. It is permitted even if return of income is not submitted in time. But brought forward losses can be set off against income under the head ‘Income from House Property’ only.

IN-TEXT QUESTIONS

5. Fill in the blanks:

- (a) If the loan is taken before 1-4-1999 for the purchase/construction of house property, the maximum of deduction is allowed _____.
- (b) If the assessee takes a new loan to repay the original loan then interest payable on new loan _____ for deduction.
- (c) If the loan is taken on or after 1-4-1999 for the purchase/construction of house property, the maximum amount of deduction is _____.
- (d) When the assessee has occupied more than two houses for his residential purpose, two houses, according to choice of the _____ will be treated as self-occupied house.

6. State whether the following statements are True or False:

- (a) The amount of unrealized rent so recovered is taxable in the previous year in which it is recovered.
- (b) The unrealized rent so recovered is taxable even if house is not owned (or deemed to be owned) by the assessee in the previous year in which it is recovered
- (c) Loss from a house property can be set off against income from any other house in the relevant previous year.
- (d) Loss under the head ‘Income from house property’ can be set off against any heads of income in the relevant previous year.



4.6 Summary

If the assessee is the owner of house property and earn any income from letting out of such house property or kept house for his own residential purpose, then such house property is taxable under the head ‘Income from House Property’. But if he uses house property for running his own business/profession, then such house property will not be taxed under this head but such house is treated under the head ‘Income or profit from Business or profession’. Before computing income from house property, the assessee must have to consider the provisions given under sections 22 to 27.

4.7 Answers to In-Text Questions

1. (a) Owner (d) Will not
(b) Income from other source (e) Will not
(c) Business (f) Will not be

2. (a) True (c) True
(b) True (d) True
(e) True

3. All True

4. (a) 30% (c) Earlier; previous
(b) u/s 24(b) (d) Equal instalments

5. (a) Rs. 30,000 (c) Rs. 2,00,000
(b) Qualify (d) Assessee

6. All True

4.8 Self-Assessment Questions

A- Theory Questions:

1. What do you understand by house property?
 2. When is a house property taxable under the head “Income from House Property”?



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3. What is Annual Value? How is it computed?
4. Explain the procedure of computing income of self-occupied house.
5. Explain the procedure of computing income of a let-out property.
6. Explain the rules regarding set-off and carry forward of losses of house property.
7. What is composite rent?
8. Explain the rules of deductions u/s 24.
9. What is unrealised rent and how is it treated if realised subsequently?

B- Exercise on numerical problem:

10. Mr. Gupta owns a house property in Mumbai. It is let out to a tenant for commercial purpose at Rs. 40,000 per month. The standard rent of the house is Rs. 4,00,000. Municipal tax paid Rs. 5,000 by tenant which later on reimbursed by the owner. Determine the income from house property for the assessment year 2023-24.
11. Mr. Ram owns a small house in Delhi since 2010 which is used by him for his own residence. Municipal valuation of the house property is Rs. 1,80,000 whereas its fair rental valuation is Rs. 2,00,000. During the previous year, he paid municipal tax Rs. 25,000 out of which Rs. 7,000 is related to previous year 2021-22 and Rs. 10,000 related to previous year 2023-24. He paid interest on borrowed capital for acquiring house of Rs. 5,000. Determine the income from house property for the assessment year 2023-24.

4.9 References

- ◆ Singhania V. & Singhania, M. Students Guide to Income Tax, Taxman Publications.
- ◆ Ahuja, G. & Gupta, R. Systematic Approach to Income Tax, Bharat Law House.
- ◆ Chandra, M. & Shukla, D. C. Income Tax Law and Practice, Pragati Publications.

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4.10 Suggested Readings

- ◆ Income Tax Act, 1961: <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>
- ◆ ICSI Study Material - Tax Laws



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STRUCTURE

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- 5.4 Income Chargeable Under the Head Profits & Gains of Business or Profession [Section 28]**
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- 5.15 The Amount Paid as Insurance Premium for Stocks and Stores [Section 36(1)(i)]**



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- 5.16** *Insurance Premium for Life of Cattle [Section 36(1)(ia)]*
- 5.17** *Insurance Premium for Health of Employees [Section 36(1)(ib)]*
- 5.18** *Payments Made to Employees as Bonuses or Commissions [Section 36(1)(ii)]*
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- 5.20** *General Deduction [Section 37]*
- 5.21** *Section 145A - Method of Accounting in Certain Cases*
- 5.22** *Expenditures Allowed on Cash Basis [Section 43B]*
- 5.23** *Compulsory Maintenance of Books of Account [Section 44AA]*
- 5.24** *Compulsory Audit of Books of Account [Section 44AB]*
- 5.25** *Tax on Presumptive Basis in Case of Certain Eligible Business or Profession [Section 44AD]*
- 5.26** *Business of Plying, Hiring or Leasing Goods Carriages [Section 44AE] Basis [Section 44AD]*
- 5.27** *Presumptive Taxation for Professionals [Section 44ADA] Basis [Section 44AD]*
- 5.28** *Summary*
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5.1 Learning Objectives

- ◆ Describe the concept of Profits and Gains of Business or Profession under the Income-tax Act, 1961.
- ◆ Explain the different sections under Profits and Gains of Business or Profession.
- ◆ Understand the computation of Taxable Income under the head Profits and Gains of Business or Profession.
- ◆ Understand the need to study the sections related to Profits and Gains of Business or Profession.



5.2 Introduction

After Income from house property, let's discuss the next head of income. The scope of "Profits and Gains of Business or Profession" extends its reach over a multitude of economic activities, encompassing traditional trades, modern enterprises, and the dynamic world of freelance and consultancy. Its presence is felt in the boardrooms of corporations, the studios of artists, and the offices of professionals, shaping the financial landscape of the nation.

Suppose an individual operates a small bakery shop where cakes and pastries are sold. The money earned from selling these delicious treats is their income after deducting all the revenue expenses associated with running the bakery, such as buying ingredients, compensating staff, and rent and utility bills. To follow the rules, individuals must maintain records of all income and expenses. This involves retaining receipts and documents that demonstrate how much was earned and how much was spent on running a bakery shop.

5.3 Meaning of Business & Profession

Business [Section 2(13)]: Business encompasses trade, commerce, or manufacturing activities, as well as ventures resembling these activities. Typically, it involves ongoing economic operations, but even a one-time activity could be termed as business for tax purposes based on specific details. To determine if a transaction is business-related, these aspects should be evaluated: the type of goods or services, how often the transaction occurs, the party's intent, the effort invested, and whether the transaction aligns with the core business activities.

Profession [Section 2(36)]: A profession encompasses a vocation. It demands primarily intellectual or manual skills based on specialized education and qualifications acquired through previous training or experience. Examples include chartered accountants, doctors, lawyers, etc. Professional expertise is attainable only through rigorous study (within a specific educational system like a college, university, or institute) and practical application (i.e., experience).



On the other hand, vocation refers to an individual's inherent ability to perform specific work, such as singing, dancing, etc.

5.4 Income Chargeable Under the Head Profits & Gains of Business or Profession [Section 28]

Section 28 of the Income-tax Act defines the following incomes which are chargeable to tax under the head 'Profits and Gains of Business or Profession'.

- 1. Profits & gains of any business or profession [Section 28(i)]:** Section 28(i) establishes that the income earned from business or profession, and even speculative transactions, falls within the taxable domain of 'Profits and Gains of Business or Profession'.
- 2. Any Compensation or other payment due to or received by any specific person [Section 28(ii)]:** Any compensation received or receivable by:
 - (i) Person who is overseeing the operations of an Indian company or any company in India, or as a result of Termination or modification in the terms of their appointment.
 - (ii) Any individual who holds an authorization in India for any segment of activities linked to another person's business, or associated with the discontinuation of that authorization or adjustments to its terms and conditions.
 - (iii) Concerning the transfer of management control over any property or business to the Government or any Government-owned or regulated corporation.
 - (iv) Compensation received or potentially receivable by an individual as a result of concluding or altering the terms and conditions of a contract linked to their business.
- 3. Income derived by a trade or professional or similar association for specific services performed for its members [Section 28(iii)].**
- 4. Profit on sale of a license granted under the Import (Control) Order 1955 made under the Import Export Control Act 1947 [Section 28(iia)].**



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5. Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of Government of India [Section 28(iiib)].
6. Any duty of Customs or Excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duties Drawback Rules, 1971. [Section 28(iiic)].
7. Profit on transfer of Duty Entitlement Pass Book Scheme, under section 5 of Foreign Trade (Development and Regulation) Act, 1992[28(iiid)].
8. Profit on transfer of Duty Free Replenishment Certificate, under section 5 of Foreign Trade (Development and Regulation) Act 1992[28(iiie)].
9. Value of any Benefit or perquisite arising from a Business or the exercise of a Profession [Section 28(iv)].
10. Interest, salary, bonus, commission or remuneration due to or received by a partner from partnership firm [Section 28(v)].
11. Under section 28(va), any sum received or due for agreements involving non-engagement in business or sharing intellectual property is taxable. Exclusions apply, such as amounts subject to Capital Gains tax or restitution payments from the global fund under the Montreal Protocol.
12. **Any sum received under a Keyman Insurance Policy [Section 28(vi)]:** Any sum acquired from a Keyman Insurance Policy, including any benefits linked to the policy. As per section 10(10D), a Keyman insurance policy refers to a life insurance policy obtained by an individual on the life of another individual who is or has been either:

IN-TEXT QUESTIONS

1. What does Section 28 of the Income-tax Act, 1961, primarily deal with?
 - (a) Income from salary
 - (b) Income from house property

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- (c) Income from profits and gains of business or profession
(d) Income from capital gains
2. Which of the subsequent items is not categorized as taxable income under the “Profits and Gains of Business or Profession” category according to section 28?
- (a) Income from business
(b) Income from speculative transactions
(c) Income from capital gains
(d) Income from a profession
3. In the context of section 28, what is the meaning of “speculative transaction”?
- (a) Any transaction involving risk
(b) Any transaction involving the purchase of stocks or shares
(c) Any transaction involving the sale of property held as an investment
(d) Any transaction involving a chance of profit or loss not arising from a business or profession
4. Which of the following is an example of income that is chargeable under section 28?
- (a) Rental income from a residential property
(b) Salary received by an employee
(c) Profit earned from regular trading in shares
(d) Interest income from a fixed deposit
- ◆ An employee of the individual purchasing the policy, or
 - ◆ In any capacity related to the business of the individual purchasing the policy.

This also encompasses policies that have been transferred to an individual, with or without compensation, at any point during the policy’s duration.

13. Any profit or gains arising from Conversion of stock into capital asset [Section 28(via)].



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- 14. Any sum received or receivable against certain capital assets covered u/s 35AD [Section 28(vii)]:** Any amount received or due (in cash or non-monetary form) due to the demolition, destruction, discarding, or transfer of any capital asset (excluding land, goodwill, or financial instruments), provided that the entire expense incurred on that capital asset has been permitted as a deduction under section 35AD.

5.5 Incomes That are Exempt from Taxation Under the Category of Profits and Gains of Business or Profession

The incomes taxable under the “Profits and gains of business or profession” category encompass rental income from a property, which is subject to taxation under section 22. This falls under the ‘Income from House Property’ category, irrespective of the given conditions:

- ◆ The taxpayer is involved in the business of renting out properties.
- ◆ The property is held for the purpose of being used as stock for trade.

Note: However, in cases where renting out the property is essential for the efficient functioning of the business (i.e., it’s incidental to the business), the income from such property will be taxed under this category.

1. Dividend earned from shares is subject to taxation under section 56(2) (i) as part of the ‘Income from Other Sources’ category, even when the taxpayer is actively involved in trading shares and these shares are held for the purpose of being traded as inventory. However, this rule does not apply to interest earned on securities that are held as stock in trade.
2. Gains from lotteries, races, and similar sources are subject to taxation under the ‘Income from Other Sources’ category, even if these earnings are generated through regular business operations.

Treatment of unsold lottery tickets held as inventory: Nevertheless, when an individual is involved in the sale of lottery tickets and certain tickets remain unsold, any winnings from such unsold lottery tickets will be considered as an outcome of business activities and taxed as ‘Profits and Gains of Business or Profession’.



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3. Income that is exempted from taxation due to the provisions outlined in section 10, 11, or 13A.
4. Amounts that are subject to taxation under the category of 'Capital Gains' according to the regulations of section 28(va) will not be liable to taxation under this specific category. For instance, gains from the sale of a route permit will not be taxed under the category of 'Profits and Gains of Business or Profession'.

Deductions [Section 29]: It permits the following deductions and allowances laid down by sections 30 to 43D, while computing Profits and Gains of business or profession are:

5.6 Expenses Related to Rent, Taxes, Repairs, and Insurance for Buildings [Section 30]

Revenue expenses related to rent, rates, taxes, repairs, and insurance for the premises utilized for business or professional activities will be eligible for deduction under this section. Important considerations in this context include:

- ◆ **Utilization of the Building:** The building must be employed for business or professional activities. In cases where the building isn't solely utilized for business or profession, the deduction will be confined to a reasonable portion of the mentioned expenses, as determined by the Assessing Officer under section 38(2).
- ◆ **Notional Rent:** The rental payment made to a proprietor is not eligible for deduction. However, if a firm pays rent to its partner for the usage of their premises, such expenditure is considered allowable.
- ◆ **Distinguishing Current and Capital Repairs:** Only expenses incurred for current repairs are permissible for deduction. Deductions for capital repairs are not allowed.

Current Repair is defined as:

- ◆ Repairs carried out to conserve and uphold an existing asset.
- ◆ Repairs that do not lead to a novel or additional benefit or advantage.
- ◆ **Municipal Taxes:** Rates and taxes, such as land revenue and municipal taxes, can be deducted on a cash basis as per the provisions of section 30 in conjunction with section 43B.



5.7 Maintenance and Insurance Costs for Machinery, Equipment, and Furniture [Section 31]

Expenses related to the repair and insurance of plant, machinery, and furniture can be claimed as deductions. Key considerations in this context include:

- 1. Utilization of Asset:** The asset should be employed for business or professional purposes. However, if the asset isn't solely used for these purposes, the deduction will be limited to a reasonable portion of the mentioned expenses. This determination will be made by the Assessing Officer under section 38(2).
- 2. Distinguishing Current and Capital Repairs:** Only expenses for current repairs are eligible for deduction. Examples are as follows:
 - ◆ Substantial expenses incurred for replacing a portion of a ship without generating a new asset are deductible.
 - ◆ Any expenditure incurred for replacing a petrol engine with a diesel engine in a vehicle is permissible under section 31.
- 3. Rent for Furniture, Plant, or Machinery:** This section pertains exclusively to repairs and insurance of machinery, plant, and furniture. Rent paid for the utilization of these assets is deductible under section 37(1).

IN-TEXT QUESTIONS

5. Which section of the Income-tax Act deals with the provisions related to repairs and insurance of machinery, plant, and furniture?
 - (a) Section 30
 - (b) Section 31
 - (c) Section 32
 - (d) Section 33
6. What type of expenses related to machinery, plant, and furniture can be claimed as a deduction under section 31?
 - (a) All expenses, regardless of the purpose or usage
 - (b) Expenses incurred solely for personal use
 - (c) Expenses incurred for business or professional use
 - (d) None of the Above



5.8 Depreciation [Section 32]

This section provides for depreciation on:

1. Tangible assets (building, plant and machinery and furniture); and
2. Intangible assets (Licence, Trade Mark, Franchise, Copyright, Know-how) or any other business or commercial right of the similar nature, not being goodwill of business or profession, acquired on or after April 1st, 1998.

Block of Assets: According to section 2(11), a Block of assets refers to a collection of assets belonging to a certain class of assets. These can include tangible assets as well as intangible assets. What's important is that the same percentage of depreciation is prescribed for all assets within this block, ensuring consistency in the treatment of depreciation for assets falling under the same category.

Table 5.1: Depreciation Rates for Most Commonly Used Assets

Block Number	Asset Class	Asset Type	Rate of Depreciation
Block 1	Building	Housing structures designated for residence, excluding accommodations such as boarding houses and hotels.	5%
Block 2	Building	Lodging establishments providing accommodations, typically including boarding houses and hotels.	10%
Block 3	Building	Temporary constructions, such as those made from wood, for short-term or impermanent use.	40%
Block 4	Furniture	Any fittings or furniture, including electrical installations.	10%
Block 5	Plant and machinery	Motor cars, excluding those engaged in a business of renting them out.	15%
Block 6	Plant and machinery	Ocean going ships, vessels ordinarily operating on inland waters including speed boats.	20%



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Block Number	Asset Class	Asset Type	Rate of Depreciation
Block 7	Plant and machinery	Motor cars, excluding those used in a business of running them on hire, purchased between 23 August 2019 and 1 April 2020, and put to use before 1 April 2020. Lorries, taxis, and motor buses used in a business of running them on hire.	30%
Block 8	Plant and machinery	Computers and computer software, Airplanes, Containers made of glass or plastic used as refills, Energy saving devices, Air pollution control equipments.	40%
Block 9	Plant and machinery	Lorries, taxis, and motor buses used in a business of running them on hire, purchased between 23 August 2019 and 1 April 2020, and put to use before 1 April 2020.	45%
Block 10	Intangible assets acquired after March 31, 1998	Franchise, trademark, patents, license, copyright, know-how, or other commercial or business rights of a similar nature.	25%

Actual Cost [Section 43(1)]: The concept of ‘actual cost’ is elucidated in section 43(1) of the Act. It pertains to the authentic expenditure incurred by the taxpayer for an asset, excluding any portion of the cost that has been reimbursed, either directly or indirectly, by another individual or entity. For example, if a taxpayer receives a subsidy from the Government for acquiring a specific piece of machinery, the actual cost of the machinery for the taxpayer will be the sum of the purchase price and related installation expenses, minus the subsidy granted by the Government. This definition helps in accurately determining the real cost incurred by the taxpayer for the asset in question, considering any external contributions that have offset the expense.



Additional Depreciation [Section 32(1)(iiA)]

Scope: Additional depreciation is extended to all taxpayers engaged in manufacturing or producing goods, as well as those operating in the power generation, transmission, or distribution sectors.

Conditions to be Satisfied

1. The recipient of this benefit should be an industrial enterprise engaged in either the manufacturing or production of goods or in the power generation, transmission, or distribution business.
2. The individual or entity in question has obtained and set up a new piece of equipment or machinery, excluding the following categories:
 - ◆ Ships and aircraft.
 - ◆ Any equipment or machinery that had been previously used by another person, either within or outside of India, prior to its installation.
 - ◆ Equipment or machinery installed within office spaces, residential accommodations, or guest houses.
 - ◆ Office appliances or vehicles used for road transport.
 - ◆ Any equipment or machinery for which a 100% deduction is permitted in the preceding fiscal year, either through depreciation or other means, is also excluded.

Taxpoint: Additional depreciation is applicable exclusively to plant and machinery and it doesn't pertain to other assets such as furniture or buildings. The additional depreciation rate is set at 20% of the actual cost of the said plant or machinery.

In cases where the asset is procured and utilized for a period of fewer than 180 days, an additional depreciation of 10% (which is half of the 20%) of the actual cost will be permitted in that fiscal year. The remaining 10% will be eligible for deduction in the immediate subsequent fiscal year.

Note: Assessee who choose to calculate depreciation using the straight-line method are not eligible to claim additional depreciation.

Depreciation in Case of Power Units

A company involved in power generation or both power generation and distribution can select between two methods for calculating depreciation on assets acquired after March 31, 1997:



- ◆ The conventional written-down value method, similar to what other taxpayers typically use.
- ◆ The straight-line method, following the rates specified in 'Appendix IA' of the Income Tax Rules, applied to the actual cost of the asset (not the asset's block value).

5.9 Impact of Currency Exchange Rate Fluctuations [Section 43A]

Conditions

1. If an individual or entity has obtained an asset from a foreign country in a prior fiscal year,
2. And due to fluctuations in the exchange rate during that fiscal year after acquiring the asset, there is either an increase or a decrease in their financial obligation (in comparison to the obligation at the time of acquiring the asset) when making payments for:
 - ◆ The complete cost of the asset or a portion thereof.
 - ◆ The repayment of the total or a portion of the funds borrowed from any source, directly or indirectly, in a foreign currency, specifically for acquiring the asset, including interest.

Treatment:

The amount by which the financial obligation is either increased or decreased at the time of payment, regardless of the accounting method used by the taxpayer, will be added to or subtracted from the actual cost of the asset (after deducting any previously claimed depreciation).

Tax Point:

- ◆ If such increase or decrease occurs after the depreciable asset has been transferred (but the asset still forms part of an asset block), then this change will be adjusted within the Written Down Value (WDV) of the block. However, if the asset block no longer exists, this amount will be treated as either a capital receipt or expenditure.
- ◆ If the liability mentioned above is paid not by the taxpayer but by another person or authority, directly or indirectly, this liability will not be considered for the purposes of this section.



Taxation of Foreign Exchange Fluctuation [Section 43AA]

Any profit or loss, calculated according to the Income Computation and Disclosure Standards (ICDS), resulting from changes in foreign exchange rates will be considered as income or loss for tax purposes.

Tax Point:

This profit or loss can occur in various foreign currency transactions, including:

- ◆ Transactions involving both monetary and non-monetary items.
- ◆ The translation of financial statements from foreign operations.
- ◆ The use of forward exchange contracts.
- ◆ Handling foreign currency translation reserves.

It's important to note that section 43AA provisions do not apply to cases covered under section 43A, such as the computation of the actual cost of an asset, among others.

5.10 Unabsorbed Depreciation [Section 32(2)]

Unabsorbed depreciation pertains to the portion of depreciation that could not be fully deducted from the profits and earnings of a business or profession within the current year due to insufficient profits.

Treatment:

Unabsorbed depreciation can be set off against income from any other source, except for casual income and salaries, within the same assessment year. If any unabsorbed depreciation remains unutilized, it can be carried forward indefinitely and applied to offset against any income, except casual income and salaries, in future years.

Key Points:

- (i) The continuity of the same business is not a prerequisite for the set-off.
- (ii) The set-off order is as follows: current year depreciation carried forward business loss, and unabsorbed depreciation.
- (iii) Unabsorbed depreciation is added to the depreciation amount for the subsequent year, subject to specific sections, and is treated as the depreciation allowance for that year and subsequent years.



- (iv) Unabsorbed depreciation can be carried forward without any time limit and utilized to offset various types of income, excluding salary income and earnings from lotteries and crossword puzzles.
- (v) It is possible to carry forward unabsorbed depreciation even without filing a tax return.

5.11 Scientific Research [Section 35]

Scientific research involves efforts directed towards enhancing our knowledge in natural or applied sciences, which may extend to areas such as agriculture, animal husbandry, or fisheries, in accordance with section 43(4).

Such research falls into two main categories:

- (a) Internal Research: Research carried out by the taxpayer within their own business operations.
- (b) External Research through Institutions: Payments made to external organizations engaged in scientific research with the aim of supporting scientific advancements.

5.12 Payments to Associations and Institutions for Rural Development Programmes [Section 35CCA]

When a taxpayer incurs specific expenses, they are eligible for deductions in the following situations:

- (a) If they make a payment to an association or institution endorsed by the prescribed authority to carry out rural development programs, provided they furnish a certificate from such an association or institution.
- (b) If they make a payment to an association or institution focused on training individuals for rural development program implementation, provided they present a certificate from that association or institution.
- (c) If they contribute to the National Fund for Rural Development.
- (d) If they contribute to the National Urban Poverty Eradication Fund.

It's important to note that claiming double deductions for the same expenditure is not allowed. If a deduction is granted under this section for a particular assessment year, a deduction for the same expenditure cannot be claimed under section 80G or any other provision of this tax law.



Additionally, the deduction cannot be denied solely because the approval granted to the program or institution has been revoked after the taxpayer's contribution.

5.13 Costs Incurred for Agricultural Extension Initiatives [Section 35CCC]

If a taxpayer spends money on an agricultural extension project that has been officially notified, they can claim the full expenditure as a deduction.

However, it's important to note that double deductions for the same expenditure are not allowed. If a deduction is claimed and granted under this section for any assessment year, the same expenditure cannot be claimed for deduction under any other provisions of this tax law, either for the same assessment year or for any other assessment year.

5.14 Costs Associated with Skill Development Initiatives [Section 35CCD]

If a company spends money (excluding costs related to land or buildings) on a skill development project that has been officially notified, they can claim the full expenditure as a deduction.

However, it's important to note that double deductions for the same expenditure are not allowed. If a deduction is claimed and granted under this section for any assessment year, the same expenditure cannot be claimed for deduction under any other provisions of this tax law, either for the same assessment year or for any other assessment year.

5.15 The Amount Paid as Insurance Premium for Stocks and Stores [Section 36(1)(i)]

The complete insurance premium amount paid to cover the risk of damage or destruction of business-related stocks and stores is eligible for a full deduction. The term "paid" here signifies actual payment or expenses incurred, following the accounting method used to calculate business profits and gains. [Section 43(2)]



5.16 Insurance Premium for Life of Cattle [Section 36(1)(ia)]

A federal milk co-operative society has the privilege to claim a complete deduction for insurance premium payments related to the cattle owned by members of a primary milk co-operative society affiliated with it.

5.17 Insurance Premium for Health of Employees [Section 36(1)(ib)]

Premiums paid by an employer, except in cash, to initiate or maintain health insurance for their employees under a scheme established by The General Insurance Corporation of India and endorsed by the Central Government.

Any other insurer endorsed by the Insurance Regulatory and Development Authority, will be eligible for deduction.

IN-TEXT QUESTIONS

7. What is the maximum additional depreciation rate allowed under Section 32(1)(iia) for eligible businesses?
 - (a) 5%
 - (b) 10%
 - (c) 15%
 - (d) 20%
8. Which of the following payments is not eligible for a deduction under section 43B?
 - (a) Interest on loans
 - (b) Employee provident fund contributions
 - (c) Rent for office space
 - (d) Purchase of raw materials
9. Which section of the Income-tax Act deals with the treatment of unabsorbed depreciation and losses in subsequent years?
 - (a) Section 44AB



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(b) Section 80C

(c) Section 32

(d) Section 72

10. Which of the following situations would not qualify for a deduction under section 36(1)(iii)?

(a) Interest paid on a loan used to purchase machinery for a manufacturing business

(b) Interest paid on a personal loan for a vacation

(c) Interest paid on a loan used to acquire office space for a professional practice

(d) Interest paid on a loan to expand a retail business

5.18 Payments Made to Employees as Bonuses or Commissions [Section 36(1)(ii)]

Any bonus or commission paid to employees (excluding payments made in place of profits or dividends) can be claimed as a deduction. However, this payment must have been physically disbursed by the due date for submitting the income tax return, as specified in section 43B.

5.19 Interest on Borrowed Funds [Section 36(1)(iii)]

Interest payments related to capital borrowed for business or professional purposes are eligible for deduction.

To qualify for a deduction under this section, the following conditions must be met:

(a) The taxpayer must have taken a loan.

(b) The borrowed capital should have been applied for business or professional objectives in the prior fiscal year.

(c) Interest must have been accrued on the borrowed amount.

5.20 General Deduction [Section 37]

Section 37 of the Income-tax Act in India outlines a range of general deductions that allow businesses and professionals to decrease their



taxable income. These deductions encompass expenses incurred during regular business or professional activities. The following is a summary of several general deductions available under section 37:

- ◆ **Business Costs:** Deductions can be made for expenses that are exclusively and entirely related to the business or profession, such as rent, salaries, advertising, and office supplies.
- ◆ **Depreciation:** Deductions can be claimed for the depreciation of assets used in business or profession. The depreciation rate depends on the asset type and usage.
- ◆ **Bad Debt:** If a business or professional cannot recover debts, they are eligible for a bad debt deduction, provided they meet specific criteria.
- ◆ **Losses:** Business losses can be carried forward and offset against future profits, which is beneficial for start-ups and businesses initially facing losses.
- ◆ **Entertainment Costs:** A deduction is allowed for entertainment expenses directly linked to the business or profession.
- ◆ **Legal and Professional Charges:** Fees paid to lawyers, accountants, or other professionals for services related to the business can be deducted.
- ◆ **Repairs and Maintenance:** Costs associated with repairing and maintaining business assets qualify for a deduction.
- ◆ **Charitable Donations:** Contributions made for charitable purposes can be claimed as deductions, subject to certain conditions.
- ◆ **Travel Expenses:** Expenses related to business travel, including transportation, accommodation, and meals, can be deducted.
- ◆ **Interest Payments:** Deductions can be claimed for the interest paid on business loans and borrowings.

These deductions help reduce the taxable income of businesses and professionals, ultimately lowering their tax obligations. Maintaining proper records and documentation is essential to support these deductions, as tax authorities may require evidence of these expenses during audits. Moreover, the precise rules and conditions for these deductions can vary, so it is advisable to seek guidance from a tax professional or refer to the most recent tax regulations for accurate information.



5.21 Section 145A -Method of Accounting in Certain Cases

Valuation of stock

- ◆ Inventory must be assessed at the lesser of its true cost or net realizable value, following the guidelines of the Income Computation and Disclosure Standards (ICDS).
- ◆ The valuation of items, services, and inventory concerning purchases and sales should encompass all taxes, duties, fees, or charges paid or incurred by the taxpayer to bring these items to their present location and condition on the valuation date. This includes all such payments, regardless of any entitlements arising from them.
- ◆ Securities in inventory not listed on a recognized stock exchange or listed but infrequently quoted should be initially valued at the actual cost according to ICDS.
- ◆ Securities in inventory, excluding those specified above, should be valued at the lower of their actual cost or net realizable value, as per ICDS.
- ◆ Securities in inventory held by scheduled banks or public financial institutions should be valued in compliance with ICDS, taking into account the guidelines provided by the Reserve Bank of India.

The assessment of actual cost versus net realizable value for securities should be conducted on a categorical basis.

5.22 Expenditures Allowed on Cash Basis [Section 43B]

Deductions for the following expenditures are permissible only if the payment is executed on or before the deadline for submitting the income tax return, as stipulated by section 139(1) of the previous fiscal year in which the obligation arises:

- ◆ Any outstanding amount for taxes, duties, levies, fees, or analogous charges under current legislation.
- ◆ Any outstanding payments for employee bonuses or commissions for their services.
- ◆ Any interest payments on loans or borrowings from the following entities:



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- ◆ Public financial institutions (e.g., IFCI, LIC, etc.).
- ◆ State financial corporations.
- ◆ State industrial investment corporations.
- ◆ Any interest payments on loans or borrowings from deposit-accepting non-banking financial companies or systemically important non-deposit-accepting non-banking financial companies, as per the conditions of the loan agreement. Definitions:
 - ◆ **Systemically important non-deposit-accepting non-banking financial company:** NBFCs with substantial assets, not accepting public deposits, and registered with the RBI.
 - ◆ **Deposit-accepting non-banking financial company:** NBFCs that accept public deposits and are registered with the RBI.
- ◆ Any interest payments on loans and advances from scheduled banks or co-operative banks (excluding primary agricultural credit societies or primary co-operative agricultural and rural development banks), in accordance with the loan agreement's terms and conditions.
- ◆ Any employer's disbursements for accrued employee leave (leave encashment).
- ◆ Any employer's contributions to provident funds, superannuation funds, gratuity funds, or other employee welfare funds.
- ◆ Any payments made by the taxpayer to the Indian Railways for the utilization of railway assets.

5.23 Compulsory Maintenance of Books of Account [Section 44AA]

- ◆ Individuals engaged in specified professions (as notified by CBDT) must maintain books and documents enabling the Assessing Officer to calculate their total income if their gross receipts exceed Rs. 1,50,000 in the preceding three years or are expected to exceed Rs. 1,50,000 in the first year of establishment.
- ◆ For individuals or Hindu Undivided Families (HUF) in businesses or professions not mentioned above, they must maintain necessary accounting records if their income exceeds INR 2,50,000 or if total



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turnover/gross receipts surpass INR 25,00,000 in any one of the three years prior to the accounting year. This also applies to newly established businesses or professions with expected income or sales/turnover exceeding Rs. 2,50,000 or Rs. 25,00,000, respectively.

- ◆ Entities other than Individuals/HUFs engaged in businesses/professions not mentioned above must maintain necessary accounting records if their income exceeds INR 1,20,000 or if total turnover/gross receipts exceed INR 10,00,000 in any one of the three years prior to the accounting year. This also applies to newly established businesses or professions with expected income/sales/turnover exceeding Rs. 1,20,000 or Rs. 10,00,000, respectively.
- ◆ If an assessee, whose business profits are deemed under specified sections, claims an income lower than the deemed profits, the deemed profits will be considered as the profits of their business for the previous year.
- ◆ If an assessee falls under the provisions of section 44AD(4) or section 44ADA and their total income exceeds the non-taxable threshold, the excess amount is subject to income tax.

5.24 Compulsory Audit of Books of Account [Section 44AB]

Section 44AB mandates that a person must undergo an audit of their accounts by a Chartered Accountant before the “specified date” if:

- ◆ The total sales, turnover, or gross receipts from their business in the previous year exceed INR 1 crore, or
- ◆ The gross receipts from their profession in the previous year exceed INR 50 lakhs. This includes professionals who fall under presumptive taxation provisions and claim that their business/professional profits are lower than what is computed under presumptive basis.

To ease compliance for small and medium enterprises in business, the threshold for tax audit requirements has been raised from 1 crore to 10 crore (this limit was increased from 5 crore to 10 crore by the Finance Act, 2021). However, this is subject to the following conditions:

- (a) The total of all amounts received, including those for sales, turnover, or gross receipts during the previous year, in cash, does not surpass 5% of the said amount.



- (b) The total of all payments made, including expenses incurred, in cash, during the previous year does not exceed 5% of the said payment.

A person who declares their profits or gains based on a presumptive basis under section 44AD, and whose total sales, turnover, or gross receipts do not exceed INR 2 crore, is exempt from the mandatory audit requirement under section 44AB.

5.25 Tax on Presumptive Basis in Case of Certain Eligible Business or Profession [Section 44AD]

This section applies to resident Individuals, Hindu Undivided Families (HUFs), and non-LLP firms engaged in any business, except for the business of operating, hiring, or leasing goods carriages as mentioned in section 44AE. The condition for its application is that the total turnover or gross receipts in the previous year should not exceed 2 crores. Its purpose is to provide relief to small businesses by exempting them from the requirement of maintaining detailed accounting records, thereby reducing their compliance and administrative burden.

Under this provision, a predetermined amount equal to 8% of the total turnover or gross receipts of the assessee in the previous year is considered as the taxable profits and gains of the business. However, if certain conditions are met, the presumptive income under section 44AD is calculated at a reduced rate of 6% instead of 8%. These conditions include receiving turnover, sales, or gross receipts through specified non-cash modes and receiving such payments during the previous year or before the due date for filing the return under section 139(1) in the assessment year.

No deductions are permitted under sections 30 to 38, and the salary and interest paid to partners are not eligible for deduction, subject to conditions and limits specified in section 40(b).

For eligible businesses, the written down value of assets is deemed to be calculated as if the assessee had claimed and been granted depreciation deductions for each relevant assessment year.

The objective of this section is to ease the administrative and compliance burden on small businesses, exempting them from the obligation to maintain detailed accounting records under section 44AA or undergo



audits under section 44AB. However, if an assessee claims profits to be less than 6% or 8% (as applicable) of the gross receipts, they are required to maintain accounts and undergo an audit.

Assessees opting for section 44AD are obligated to pay advance tax by March 15th every fiscal year.

Specifically excluded from the presumptive provisions of section 44AD are:

- ◆ Individuals engaged in professions specified in section 44AA(1), such as legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration, or any other profession notified by the Board.
- ◆ Individuals earning income in the form of commission or brokerage.
- ◆ Individuals conducting agency businesses.

5.26 Business of Plying, Hiring or Leasing Goods Carriages [Section 44AE] Basis [Section 44AD]

This section offers a simplified method for estimating business income related to the operation, hiring, or leasing of goods carriages, as long as the assessee does not possess more than 10 vehicles at any point during the previous year.

The current presumptive income scheme applies to all types of goods carriages, as long as they are fewer than 10 in number, regardless of their tonnage capacity. Therefore, with the amendment introduced by the Finance Act, 2018, the presumptive income will be as follows:

- (i) For heavy goods vehicles (with a gross vehicle weight exceeding 12,000 kilograms), the presumed income will be either Rs. 1,000 for every ton of gross vehicle weight or unladen weight, whichever is applicable, for each month or part of a month in which the heavy goods vehicle is owned by the assessee in the previous year. Alternatively, it can be the amount claimed to have been actually earned from such vehicle, whichever is higher.
- (ii) Vehicles other than heavy goods vehicles will continue to be taxed based on the existing rates, which are Rs. 7,500 for each month or part of a month in which the goods carriage is owned by the assessee in the previous year. Alternatively, it can be the amount



claimed to have been actually earned from such goods carriage, whichever is higher.

5.27 Presumptive Taxation for Professionals [Section 44ADA] Basis [Section 44AD]

This section permits individuals or partnership firms (excluding limited liability partnerships under the Limited Liability Partnership Act, 2008) who are residents of India and engaged in specified professions (legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration, or any other profession notified by the Central Board of Direct Taxes) to use a presumptive basis for taxation. This applies as long as their gross receipts do not exceed INR 50,00,000 in the previous year. Under this provision, either 50% of the total gross receipts or a higher amount declared by the assessee will be considered as income under the category of “Profit and Gains of Business and Profession” (PGBP).

IN-TEXT QUESTIONS

- 11.** What does section 36(1)(iii) of the Income-tax Act primarily deal with?
 - (a) Tax rates on income earned from investments
 - (b) Deductions for interest paid on borrowed capital
 - (c) Calculation of depreciation on machinery and plant
 - (d) Taxation of capital gains

- 12.** What is the main purpose of section 35CCD in the Income-tax Act?
 - (a) To specify tax rates for skill development projects
 - (b) To provide deductions for all business-related expenses
 - (c) To encourage investments in skill development projects
 - (d) To define the criteria for claiming tax refunds

- 13.** Under section 36(1)(ii), a deduction is allowed for bonuses or commissions paid to employees when they are:
 - (a) In excess of the employee's regular salary
 - (b) Part of the employee's regular compensation package



Notes

- (c) Based on the company's profits
- (d) Paid at the end of the fiscal year

14. Section 35 of the Income-tax Act in India provides incentives for which of the following activities?

- (a) Agricultural research
- (b) Scientific research and development
- (c) Manufacturing of consumer goods
- (d) Real estate development

15. Under section 43A, when does a foreign exchange fluctuation gain or loss arise?

- (a) When an individual travels abroad for vacation
- (b) When a company imports goods from a foreign country
- (c) When there is a change in the rate of exchange of currency between the date of a transaction and the date of its settlement
- (d) When foreign currency is converted to Indian Rupees at a bank

5.28 Summary

The Income-tax Act, 1961 in India includes several provisions and sections that pertain to the taxation of profits and gains from business and profession. Business income typically relates to activities involving trade, commerce, manufacturing, or adventure in nature of trade, while professional income pertains to services provided by professionals such as doctors, lawyers, architects, etc. Both business and professional incomes are subject to taxation. Taxable income is computed based on the profits and gains earned by individuals, businesses, or professionals during the financial year. Taxpayers must maintain proper accounting records and follow accepted accounting methods. The Act allows for the use of either cash or accrual basis accounting, depending on the nature and size of the business or profession. Taxpayers can claim deductions and expenses related to their business or profession to reduce their taxable income. These deductions can include rent, salaries, depreciation, interest on loans, and other legitimate business expenses.



5.29 Answers to In-Text Questions

1. (c) Income from profits and gains of business or profession
2. (c) Income from capital gains
3. (d) Any transaction involving a chance of profit or loss not arising from a business or profession
4. (c) Profit earned from regular trading in shares
5. (b) Section 31
6. (c) Expenses incurred for business or professional use
7. (d) 20%
8. (d) Purchase of raw materials
9. (c) Section 32
10. (b) Interest paid on a personal loan for a vacation
11. (b) Deductions for interest paid on borrowed capital
12. (c) To encourage investments in skill development projects
13. (b) Part of the employee's regular compensation package
14. (b) Scientific research and development
15. (c) When there is a change in the rate of exchange of currency between the date of a transaction and the date of its settlement

5.30 Self-Assessment Questions

1. Which incomes are chargeable under the head Profits & Gains of Business or Profession?
2. What are the constituents of Business or profession?
3. What are the Incomes chargeable under the head Profits & Gains of Business or Profession?
4. Describe the applicability and conditions relating to Additional depreciation under Income-tax Act, 1961?



5.31 References

- ◆ Singhania V., & Singhania, M. Students Guide to Income Tax, Taxmann Publications.
- ◆ Ahuja, G., & Gupta, R. Systematic Approach to Income Tax, Bharat Law House.
- ◆ Ahuja, G., & Gupta, R. Direct Taxes Ready Reckoner with Tax Planning, Wolters Kluwer.
- ◆ Chandra, M., & Shukla, D. C. Income Tax Law and Practice, Pragati Publications.

5.32 Suggested Readings

- ◆ Income Tax Act, 1961: <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>
- ◆ ICSI Study Material - Tax Laws.



Capital Gains

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STRUCTURE

- 6.1 Learning objectives**
- 6.2 Introduction**
- 6.3 Basis of Charge [Section 45(1)]**
- 6.4 Capital Assets [Section 2(14)]**
- 6.5 Cost of Acquisition [Section 55(2)]**
- 6.6 Exempted Capital Gains**
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6.1 Learning Objectives

- ◆ Know the meaning of capital assets.
- ◆ Understand the types of capital gains or loss.
- ◆ Learn the tax treatment of capital gains.
- ◆ Understand how exemption on capital gains is calculated.

6.2 Introduction

This is the fourth head of income. Capital gains (sales value is more than the cost) tax liability arises if a capital asset is transferred by the owner during the previous year. If the asset is



not a capital asset, it will not be covered under this head. Exemption can also be claimed by an assessee who opts for the alternative tax regime but Deduction u/s 80C to 80U is not available in respect of Long-term capital gain.

6.3 Basis of Charge [Section 45(1)]

Any gain/profit arises because of the transfer of capital assets effected in the relevant previous year are chargeable to tax under the head “Capital gains”. Tax liability on capital gain arises only when the following conditions are satisfied:

- (i) There must be a capital asset.
- (ii) The capital asset is transferred by the owner.
- (iii) Such transfer takes place during the relevant previous year.
- (iv) There must be profits or gains on such transfer.
- (v) Such profits or gains are not exempted from tax under sections 54, 54B, 54D, 54EC, 54F, 54G, 54GA, 54GB.

6.4 Capital Assets [Section 2(14)]

‘Capital asset’ means property of any kind, whether fixed or circulating, movable or immovable, tangible or intangible. Besides, it includes the following:

- (i) Any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.
- (ii) Property of any kind held by an assessee (whether or not connected with his business or profession).
- (iii) Any securities held by a Foreign Institutional Investor who has invested in such securities in accordance with the regulations made under the SEBI ACT.

Exception: The following assets are excluded from the definition of ‘Capital Gains’:



- (a) **Stock-in-trade** (other than securities referred to in point (iii) above)
- (b) **Personal Effects** (movable assets): Any movable property (including wearing apparel and furniture) held for personal use by the assessee or any member of his family dependent on him. Exceptions to the rule are following assets which are considered as capital assets such as Jewellery made of gold, silver, platinum, precious stones; paintings; archaeological collection, sculptures etc.
- (c) **Agricultural land in a rural area in India:** Any area which is outside the jurisdiction of a municipality or cantonment board having a population of 10,000 or more.
- (d) **A few gold bonds and special bearer bonds**
- (e) **Gold deposit Bonds issued under the Gold Deposit Scheme 1999** or deposit certificates issued under the Gold Monetization Scheme 2015.

6.4.1 Types of Capital Assets

Capital assets can be of two types:

A. Short-Term Capital Assets [Section 2(42A)]

- (a) Capital asset which is held by assessee for not more than 36 months immediately preceding the date of transfer is known as short-term capital assets.

Exceptions:

- (i) In case of financial assets (like listed shares and debentures) held by assessee for a period less than 12 months from the date of acquisition termed as short-term capital assets.
- (ii) Asset on which depreciation is chargeable is always treated as short-term assets.

B. Long-Term Capital Assets [Section 2(29A)]

- (i) Capital asset which is held by assessee for a period of more than 36 months, and



Notes

- (ii) In case of financial assets (like shares and debentures) which are held by assessee for a period of more than 12 months from the date of acquisition is termed as long-term capital assets.

6.4.2 *Types of Capital Gain*

- (i) **Short-Term Capital Gain:** Gain arising on the transfer of short-term capital asset is termed as short-term capital gain.
- (ii) **Long-Term Capital Gain:** Gain arising on the transfer of long-term capital asset is termed as long-term capital gain.

6.4.3 *Tax on Capital Gains*

A. Long-term capital gains:

- (a) **Tax on long-term capital gain @20% [with indexation facility]:**
- (i) Long-term capital gain is taxable under section 112.
 - (ii) Long-term capital gain is taxable at a flat rate of 20% plus (Surcharge rate applicable) + Health and Education Cess (@4%).
- (b) **Tax on Long-Term Capital Gain @ 10% [without indexation facility]:**
- (i) In the case of any taxpayer if listed securities (i.e., shares, bonds, debentures, Government securities) or zero coupon bonds are transferred and the taxpayer **has an option to choose** to pay tax @20% (+SC+HEC), if indexation benefit is claimed or @10% (+SC+HEC), if indexation benefit is not taken.
 - (ii) In the case of debentures, indexation benefit is not otherwise available. Consequently, if debentures (long-term) are listed, one should opt for 10% rate. In the case of transfer of bonus shares, cost of acquisition is generally zero. One should opt for 10% rate if bonus shares are long-term capital assets and are listed.
 - (iii) **Exemption Limit:** However, in the case of a resident individual/HUF, the benefit of exemption limit is available if taxable



income (minus long-term capital gain, which is subject to securities transaction tax) is less than exemption limit. In such a case, the following shall be deducted from the long-term capital gain to calculate the taxable LTCG:

[Exemption limit Rs. 250000 > (total taxable income Rs. 1,00,000 - long term capital gain securities transaction tax is applicable Rs. 90,000)] = the balance amount of Rs. 1,50,000 exemption limit will be deducted from LTCG. Taxable LTCG will be Rs. 7,50,000.

After deducting the aforesaid amount from the balance amount of long-term capital gain is chargeable to tax @10% (+SC+HEC).

B. Short-term capital gains:

(a) Tax on short-term capital gain if securities transaction tax is not applicable:

Short-term capital gain is taxable like any other income (normal tax slab rate).

(b) Tax on short-term capital gain if securities transaction tax is applicable @15%:

- ◆ Short-term capital gain is taxable @15% (+SC+HEC) under section 111A.
- ◆ Deductions under sections 80C to 80U are not available in respect of short-term capital gain.
- ◆ **Exemption Limit:** However, in the case of a resident individual/HUF, the benefit of exemption limit is available if taxable income (minus short-term capital gain, which is subject to securities transaction tax) is less than exemption limit. In such a case, the following shall be deducted from the short-term capital gain to calculate the taxable STCG:

[Exemption limit Rs. 250000 > (total taxable income Rs. 1,00,000 - short term capital gain securities transaction tax is applicable Rs. 90,000)] = the balance amount of Rs. 1,50,000 exemption limit will be deducted from STCG. Taxable STCG will be Rs. 7,50,000.

After deducting the aforesaid amount from the balance amount of short-term capital gain is chargeable to tax @15% (+SC+HEC).



6.4.4 Transfer of Capital Asset [Section 2(47)]

Here, Transfer includes sale, exchange, or relinquishment of the asset or the extinguishment of any rights therein or the compulsory acquisition thereof under any law.

When transfer is completed?

- (i) The date on which transfer of immovable asset deed is executed or registered, or
- (ii) The date on which the possession of movable asset is taken by the transferee.

6.4.5 Computation of Capital Gain [Section 48]

The method of computation of Capital Gain is as follows:

Computation of Long-term Capital Gain	Computation of Short-term Capital Gain
1. Find out full value of sales consideration	1. Find out full value of sales consideration
2. Less: (a) Index cost of acquisition (b) Index cost of improvement (c) Transfer expenses	2. Less: (a) Cost of acquisition (b) Cost of improvement (c) Transfer expenses
3. Long-term capital gain (1-2)	3. Short-term capital gain (1-2)
4. Deduct: Exemption u/s 54; 54B; 54D; 54EC; 54EE; 54F; 54G; 54GA; 54GB	4. Deduct: Exemption u/s 54B; 54D; 54G; 54GA
5. LTCG (3-4)	5. STCG (3-4)

Note:

- (a) Security transaction tax is not deductible.
- (b) Benefit of indexation is not available in case of LTCG in the following circumstances:
 - (i) Bonds or debenture.
 - (ii) Shares in or debenture of, an Indian company acquired by utilizing convertible foreign exchange.
 - (iii) Depreciable assets.



6.5 Cost of Acquisition [Section 55(2)]

Cost of acquisition of an asset is the price which the assessee has paid or the amount which the assessee has incurred, for acquisition of the asset. Expenses incurred for completing or acquiring the title to the property are a part of the cost of acquisition. Interest on money borrowed to purchase asset is part of actual cost of asset. Cost of acquisition includes deemed cost of acquisition.

(a) Deemed cost of acquisition:

In the following cases the method of computation is different from what we learnt previously;

- ◆ **Cost of previous owner [Section 49(1)]:** If a person has acquired a capital asset in the following circumstances, then the cost of such asset will be the cost to the previous owner and is taken as cost of acquisition.
 - ◆ Acquisition of property on any distribution of assets on the total or partial partition of a HUF.
 - ◆ On conversion of self-acquired property of a member to a HUF to the joint family property.
 - ◆ Acquisition of property under a gift or will.

Acquisition of property:

- (a) By succession, inheritance or devolution, or
- (b) On any distribution of assets on the dissolution of a firm, body of individual or association of person where such distribution had taken place before April 1, 1987, or
- (c) On any distribution of assets on the liquidation of a company, or
- (d) Under a transfer to a revocable or an irrevocable trust, or
- (e) By a wholly-owned Indian subsidiary company from its holding company, or
- (f) By an Indian holding company from its wholly-owned subsidiary company, or
- (g) Under a scheme of amalgamation, or
- (h) Under a scheme of demerger; or



Notes

- (i) On any transfer in the case of conversion of firm/sole proprietary concern into company;
- (j) Acquisition of property, by HUF where one of its members has converted his self-acquired property into joint family property after December 31, 1969.

Computation of Indexed cost of acquisition is calculated as follows:

$$= \text{Cost of acquisition} \times \frac{\text{Cost inflation index of the year of transfer}}{\text{Inflation cost of index of the year of acquisition or } 100}$$

(b) Cost of acquisition being the fair market value as on April, 2001:

In the following cases, the assessee may take his/her option, either actual cost or the fair market value of the asset as on April 1, 2001 as cost of acquisition:

- (a) Where the capital asset became the property of the assessee before April 1, 2001; or
- (b) Where the capital asset became the property of the assessee by any mode referred to in section 49(1) and capital asset became the property of the previous owner before April 1, 2001.

Note:

- (i) The option is not available in the case of depreciable assets.
- (ii) Adopting fair market value on April 1, 2001 is optional (in place of actual cost of acquisition). Assessee may or may not opt for it.
- (iii) The option is available only when an asset was acquired by the assessee [or previous owner in case section 49 (1)] is applicable] before April 1, 2001.
- (iv) When the option is available, the cost of asset or fair market value as on April 1, 2001, whichever is higher, is taken as the cost of acquisition.
- (v) Further option is not available in respect of transfer of a capital asset being goodwill of a business, trade mark/ brand name associated with a business; right to manufacture, produce or process any article or thing, right to carry on business/profession; tenancy right; route permits or loom hours (whether self-generated or otherwise)

(c) Cost of Improvement [Section 55(1)(b)]

Cost of improvement is capital expenditure incurred by an assessee in making any additions/improvement to the existing asset. It also



includes any expenditure incurred to protect or complete the title to the capital assets or to cure such title. Any expenditure incurred to increase the value of the capital asset is treated as cost of improvement.

- (i) Cost of Improvement incurred by the assessee/previous owner in making any additions or alterations to the capital asset on or before April 1st, 2001 is to be completely ignored, whether the assessee opts for the fair market value as on 1-4-2001.
- (ii) Cost of Improvement incurred by assessee after April 1st, 2001 will be treated as cost of improvement and to be considered while computing capital gain.

Computation of Index cost of Improvement (If incurred after April 1st, 2001):

$$= \text{Cost of improvement} \times \frac{\text{Cost inflation index of the year of transfer}}{\text{Inflation cost of index of the year of improvement by the assessee or previous owner}}$$

(iii) Cost Inflation Index (CII) for different years:

Py	CII	PY	CII	PY	CII	PY	CII
2001-02	100	2007-08	129	2013-14	220	2019-20	289
2002-03	105	2008-09	137	2014-15	240	2020-21	301
2003-04	119	2009-10	148	2015-16	254	2021-22	317
2004-05	113	2010-11	167	2016-17	264	2022-23	331
2005-06	117	2011-12	184	2017-18	272	2023-24	348
2006-07	122	2012-13	200	2018-19	280		

Problem 1 (Identification of long-term or short-term capital asset)

State giving reason, whether the following transaction is long-term asset or short-term asset:

- (i) A purchased a house property on March 10, 2021 and transferred it on June 6, 2023.
- (ii) B purchased listed shares in an Indian Company on March 10, 2021 and sold it on September 6, 2023.
- (iii) C purchased units of a mutual fund (debt-oriented) on July 7, 2022 and sold on July 15, 2023.



Notes

- (iv) D purchased diamonds on September 12, 2020 and gifted the same to his friend E on December 31, 2014. E transferred the asset on October 20, 2023.
- (v) F purchased unlisted shares in an Indian Company through a broker (date of purchase by the broker is November 21, 2022; the company transferred shares in the name of F on January 5, 2023). These shares were transferred by F on December 21, 2023.

Solution 1:

Taxpayer	Asset	Min period for Long-term capital assets	Period of Holding	Short-term/ long-term
A	House property	36 months+	March 10, 2021 to June 6, 2023	Short-term [26m-27d]
B	Shares [listed]	12 months+	March 10, 2021 to Sept. 6, 2023	Long-term [26 m-27d]
C	Mutual funds [debt-oriented]	36 months+	July 7, 2022 to July 15, 2023	Short-term [12m-8d]
D	Diamonds	36 months+	Sept. 12, 2020 to Oct. 20, 2023	Long-term [37m-8d]
F	Shares [unlisted]	36 months+	Nov. 21, 2022 to Dec. 21, 2023	Short-term [13m]

Problem 2:

Mr. Nath transferred the following capital assets:

Particulars	House property	Gold	Debentures
Date of acquisition	April 20, 2020	July 20, 2021	March 1, 2021
Date of transfer	January 1, 2023	December 20, 2022	June 15, 2022
Sale consideration (in Rs.)	9 lakhs	8 lakhs	12 lakhs
Stamp duty value (in Rs.)	8 lakhs		
Cost of acquisition (in Rs.)	87,000	6.4 lakhs	9.5 lakhs
Cost of improvement in 2021-22 (in Rs.)	1,10,000		
Expenditure on transfer (in Rs.)	15,000	2,000	1,000



CAPITAL GAINS

Notes

Determine the amount of capital gain chargeable to tax for the assessment year 2023-24. Cost of inflation is given below:

PY	2020-21	2021-22	2022-23
CII	301	317	331

Solution 2:

Particulars	House property Rs.	Gold Rs.	Debentures Rs.
Type of capital asset	Long-term	Short-term	Long-term
Indexation	Available	Not available	Not available
(A) Sale proceeds	9,00,000	8,00,000	12,00,000
(B) Less:			
(i) Cost of acquisition	(95,671)	6,40,000	9,50,000
(ii) Cost of improvement	(1,14,858)	_____	_____
(iii) Transfer expenses	(15,000)	2,000	1,000
Total of (B)	2,25,529	6,42,000	9,51,000
Capital Gain (A-B)	6,74,471	1,58,000	2,49,000

Working notes:

1. Index cost of house property:

- (a) Here, sale consideration is more than stamp duty value, hence sales consideration is taken as full value of consideration.
- (i) Index cost of acquisition of house property: $[87,000 \times 331] \div 301 = \text{Rs. } 95,671$.
- (ii) Index cost of improvement: $[1,10,000 \times 331] \div 317 = \text{Rs. } 1,14,858$.

Problem 3:

Find out capital gain chargeable to tax for the AY 2023-24 in the following cases:

Particulars	House	Silver	Diamond
Date of acquisition	May 5, 1968	April 5, 2000	May 1, 2001
Date of transfer	April 30, 2022	June 30, 2022	August 15, 2022
Sales Consideration (in Rs.)	16 lakhs	8 lakhs	8 lakhs
Stamp duty value (in Rs.)	18 lakhs	_____	_____

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Notes

Particulars	House	Silver	Diamond
Cost of acquisition (in Rs.)	45,000	58,000	1,00,000
Fair market value on 1-4-2001	8,00,000	60,000	_____
Cost of construction of 1 st floor In 1991-92 (in Rs.)	1,00,000	_____	_____
Cost of construction of 2 nd floor In 2021-22 (in Rs.)	5,00,000	_____	_____

The cost inflation indexes of different years are as below:

2001-02	100	2021-22	317
2020-21	301	2022-23	331

Solution 3:

Particulars	House	Silver	Diamond
Type of assets	Long-term	Long-term	Long-term
Indexation is available	Yes	Yes	Yes
Option of using Fair Market value Available and should it be adopted	Yes	Yes	No
Fair Market value on 1-4-2001 is more than actual cost of purchase before 1-4-2001	Yes	Yes	_____
(A) Sales consideration (in Rs.)	18,00,000	8,00,000	8,00,000
(B) Less:			
(i) Index cost of acquisition (in Rs.)	1,48,950	1,98,600	3,31,000
(ii) Index cost of improvement (in Rs.)	5,22,082	_____	_____
Total of (B)	6,71,032	1,98,600	3,31,000
Long-term Capital Gain (in Rs.) (A-B)	11,29,968	6,01,400	4,69,000

Working Notes:

(A) Indexation of House property:

- (i) Index cost of acquisition: $[45,000 \times 331] \div 100 = \text{Rs. } 1,48,950$
- (ii) Index cost of improvement of 2nd floor: $[5,00,000 \times 1125] \div 317 = \text{Rs. } 5,22,082$



- (B) Indexation of Silver: $[60,000 \times 331] \div 100 = \text{Rs. } 1,98,600$
- (C) Indexation of Diamond: $[1,00,000 \times 331] \div 100 = \text{Rs. } 3,31,000$

IN-TEXT QUESTIONS

1. State whether the following statements are True or False:

- (a) If an assessee held capital asset not for more than 36 months immediately preceding the date of transfer is known as short-term capital asset.
- (b) Capital asset which is not a short-term is known as long-term capital asset.
- (c) Short-term capital gain arises on the transfer of short-term capital asset.
- (d) Long-term capital gain arises on the transfer of long-term capital asset.
- (e) A financial asset is said to be short term capital assets if it is held for less than 12 months.
- (f) A financial asset is said to be long-term capital assets if it held for more than 12 months.

2. Fill in the blanks:

- (a) Capital gains is the _____ head of income.
- (b) Capital gain/loss arises on the _____ of capital assets.
- (c) Indexing is not available on _____.
- (d) Capital assets are of _____ types.
- (e) Capital gain arises on the transfer of depreciable asset is _____.
- (f) Cost of improvement includes any _____ or _____ in capital assets.

6.5.1 *Capital Gain on Transfer of Depreciable Assets* [Section 50]

The capital gain is calculated under the following two cases:

- (a) Where the entire block of depreciable assets (all the assets of the block charging the same rate of depreciation) is transferred/sold, i.e., the block ceases to exist:



Notes

1. If Sales consideration exceeds the aggregate of cost of acquisition and expenses of transfer, there will be short-term capital gain.
2. If Sales consideration is less than the aggregate of cost of acquisition and expenses of transfer, there will be short-term capital loss.

(b) Where part of the block of depreciable assets (some assets are sold but some remain unsold) is transferred/sold, i.e., the block does not cease to exist:

1. If Sales consideration exceeds the aggregate of cost of acquisition and expenses of transfer, there will be short-term capital gain.
2. If Sales consideration of the part transfer or sold is less than the aggregate of cost of acquisition and expenses of transfer, then the balance left in the WDV of the block at the end of the year on which depreciation will be charged as per Section 32.

(a) Cost of acquisition:

In the above two cases, cost of acquisition shall be the aggregate of the following:

Step-1 Find out written down value of block of assets at the beginning of the previous year.

Step-2 Add: Actual cost of any asset(s) purchased, falling within that block of assets by the assessee during the previous year. (whether put to use or not)

Note: Depreciable assets are always taken as short-term. Hence, on the transfer of depreciable assets, capital gain or loss is always **short-term**.

Problem 4:

ABC Ltd owns two plants - 'X' and 'Y' (depreciation rate is 15%, depreciated value of the block of the asset on 1-4-2022 was Rs. 8,16,000). On June 1, 2022, it purchases another plant 'C' (depreciation rate is 15%) for Rs. 1,20,000. On December 25, 2022, it sold Plant 'X' for Rs. 1,50,000 and incurred transfer expenses Rs. 500. Plant 'X' was purchased for Rs. 40,000 in 2021. Find out the amount of:

- (i) Depreciation and
- (ii) Capital gain for the assessment year 2023-24.



The cost of inflation is given below:

2020-21	2021-22	2022-23
301	317	331

Solution 4:

(i) **Calculation of Depreciation:** Block of asset exists

Particulars	Rs.
WDV of the block consisting Plants 'X' and 'Y' on 1-4-2022	8,16,000
Add: 1. Purchase of Plant 'C' during PY 2022-23	1,20,000
Total value of the block of assets; Plant 'X', 'Y' and 'C'	9,36,000
Less: Sales proceeds of Plant 'X' during PY 2022-23	(1,50,000)
WDV of the block of assets ('Y' and 'C') on March 31, 2023, hence depreciation will be charged.	7,84,000
Less: Depreciation charged @15% on Rs. 7,84,000 for the PY 2022-23	1,17,600

(ii) **Calculation of Capital gain of Plant:** Block of asset exists

In this case, Block of the assets is not empty or zero (as the block still has Plant 'Y' and 'C') and WDV of the block of assets as on March 31st, 2023 is Rs. 7,84,000 hence, **there is no capital gain** on the transfer of Plant 'X'.

Further, Assumed – if entire block is not empty but sales exceeds aggregate cost:

(a) If Plant 'X' is sold for Rs. 9,50,000 in above case, what would be the amount of capital gain/loss?

Solution:

Since sales consideration exceeds the aggregate value of the block of assets, hence the difference of amount will be short-term capital gain. And no depreciation is allowed.

	Rs.
Sales Consideration of Plant 'X'	9,50,000
Less: Total value of the block ('X'; 'Y' and 'C')	9,36,000
Short-term capital gain	14,000

(b) What would be the amount of capital gain in above case, if all the plants 'X', 'Y' and 'C' sold for Rs. 1,36,000.

Solution: Block is empty and does not exist and sales consideration is less than aggregate cost.



Notes

If all plants are sold, it means the block has no assets (empty or zero). Hence, the difference between:

- (i) Excess of Sales considerations over value of the block of assets is capital gain.
- (ii) Excess of value of the block of assets over Sales consideration is capital loss.

	Rs.
Sales consideration of all plants	1,36,000
Less: Value of the block of assets on March 31 st , 2023	8,36,000
Capital loss	(7,00,000)

And no depreciation is allowed.

6.5.2 Capital Gain on the Conversion of Capital Assets Into Stock-In-Trade [Section 45(2)]

- (i) If capital asset is converted into stock-in-trade during the relevant previous year is treated as transfer; section 2(47), but the capital gain will not arise in the previous year in which the asset is so converted.
 - (a) Further, the fair market value of the asset, as on the date of conversion, shall be deemed to be full value of the consideration of the asset.
 - (b) The sale price minus market value as on the date of conversion shall be treated as “Business Income” and taxed under the head “Profit and gains of business or profession”.
- (ii) Capital gain arises in the previous year in which such converted asset is sold or otherwise transferred. Thus, Capital gain is to be computed as:

Sales consideration minus Fair market value of at the time of conversion.

Problem 5:

Mr. Ramji converted his capital assets which was acquired on June 10, 2017 for Rs. 1,00,000, into stock-in-trade on May 10, 2022 when its fair market value was Rs. 4,80,000 and subsequently sold the stock-in-trade so converted for Rs. 8,00,000 on July 10, 2022.



Determine Capital gain. Cost of inflation is given:

2017-18	2020-21	2021-22	2022-23
272	301	317	331

Solution 5:

- (i) Business Income: Apart from long-term capital gain, Ramji will have to pay tax on business income for the assessment year 2023-24 which comes as:

	Rs.
Sales consideration	8,00,000
Less: Fair market value at the time of conversion	4,80,000
Business Income	3,20,000

- (ii) Long-term capital gain is chargeable to tax for the PY 2022-23:

Type of capital assets	Long-term
Indexation available	Yes
	Rs.
Fair market value on the date of conversion	4,80,000
Less:	
Index cost of acquisition of assets	1,21,691
$[1,00,000 \times 331] \div 272$	
Long-term capital gain	3,59,309

6.5.3 Capital Gain on Transfer of Bonus Shares and Right Entitlement

(a) Bonus Shares:

- (i) If bonus shares were allotted before April 1, 2001, then cost of acquisition is the fair market value on April 1, 2001.
- (ii) If bonus shares are allotted after April 1, 2001, then cost of acquisition is taken as ‘zero’.

(b) Right Entitlement:

- (i) Amount realized by an existing shareholder by selling rights entitlement (right to acquire additional shares in the company at a pre-determined price) is taxable in the year of transfer of the right entitlement.



Notes

- (ii) Cost of acquisition of right entitlement is taken as ‘zero’ and capital gain is deemed as short-term capital gain.

6.5.4 Capital Gain on Conversion of Debentures/Bonds into Shares

- (i) Conversion of debenture or part thereof of a company converted into shares of that company is not considered as “transfer”. Hence, no capital gain is chargeable.
- (ii) When these shares so converted are actually transferred, capital gain shall arise and be chargeable in the previous year in which shares are transferred.

6.5.5 Self-generated Capital Assets (Goodwill, Trademark; Brand Name Etc.)

An asset which does not cost anything to the assessee in terms of money in its creation is a self-generated asset and on its transfer, the following rules are applicable:

	Self-generated	If acquired by purchase or acquired from a previous owner
A-Cost of acquisition:- Goodwill/trademark/brand name	Nil	Purchase price or purchase price of previous owner
B-Cost of improvement- (i) Goodwill (ii) Any asset covered under A but not included in (I)	Nil Actual expenditure	Nil Actual expenditure

6.5.6 Transfer of Securities in Demat Form

Demat account is a safe and convenient means of holding securities just like a bank account. The shares are virtually being bought and sold through demat account.



For computing capital gain chargeable to tax and the cost of acquisition and period of holding of any security in demat form shall be determined on the basis of first-in-first-out (FIFO) method.

It may be **noted** that if equity shares or units of equity oriented mutual fund are transferred (even in demat format) in a recognized stock exchange in India on or after October 1, 2004.

6.6 Exempted Capital Gains

Exemptions are of two types:

- (a) Exemption of capital gains under section 10.
- (b) Exemption of capital gains under section 54 discussed below.

1. Capital gains arising from the transfer of residential house property [Section 54]:

The provisions of section 54 are as follows:

Who is eligible to claim exemption?	An Individual and an HUF.
Which specific asset is eligible for exemption?	If a residential house [long-term capital asset] is transferred.
Which asset the taxpayer should acquire to get the benefit of exemption u/s 54?	One residential house property in India. [purchase or construction]
What is time-limit for acquiring the new asset?	<p>In case of purchase—within 1 year before the date of transfer or within 2 years after the date of transfer.</p> <p>In case of construction—within 3 years from the date of transfer.</p> <p>Or</p> <p>Deposit in a Nationalised Bank or IDBI in a ‘Capital Gains Account Scheme, 1988’</p>
Exemption amount	<p>Least of the two;</p> <p>Cost of the new house property + amount deposited in Capital Gain Account Scheme</p> <p>Amount of Capital Gains</p>



Notes

Who is eligible to claim exemption?	An Individual and an HUF.
Revocation of exemption	If the new asset is transferred within 3 years of its purchase, exemption will be taken back.
Tax on unutilized amount	Unutilized amount of capital gain will be taxable.

Note: If the taxpayer dies before the expiry of specified time-limit, then unutilized amount paid to the legal heirs is not taxable in the hands of recipient.

2. Capital gain arising from the transfer of land used for agricultural purpose [Section 54B]: The provisions of section 54B are given below:

Who is eligible to claim exemption?	An individual and an HUF.
Which specific asset is eligible for exemption?	Any long-term agricultural land, if it was used by an individual or parents or HUF for agricultural purpose for 2 years immediately prior to the date of transfer.
Which asset the taxpayer should acquire to get the benefit of exemption u/s 54B?	Agricultural land (may be in rural or urban area).
What is time-limit for acquiring the new asset?	Within 2 years from the date of transfer.
Exemption amount	Least of the two: (i) Cost of new agricultural land + amount deposited in Capital Gain Account Scheme (ii) Amount of capital gain
Revocation of exemption	If the new agricultural land is transferred within 3 years of its purchase.
Tax on unutilized amount	Unutilized amount of capital gain will be taxable.

3. Capital gains on compulsory acquisition of land and building, forming part of industrial undertaking [Section 54D]: The provisions of section 54D are as follows:



Who is eligible to claim exemption?	Any taxpayer.
Which specific asset is eligible for exemption?	Land or building (short-term or long-term) forming part of industrial undertaking which is compulsorily acquired by the Govt. and which is used for 2 years for industrial purpose prior to its acquisition.
Which asset the taxpayer should acquire to get the benefit of exemption u/s 54D?	Land and building for industrial purposes.
What is time-limit for acquiring the new asset?	Within 3 years from the date of receipt of compensation.
Exemption amount.	Least of the two: Cost of land and building + deposited in Capital Gain Account Scheme Amount of capital gain
Revocation of exemption	If the new asset is transferred within 3 years of its purchase.
Tax on unutilized amount	Unutilized amount of capital gain will be taxable.

4. Capital gains on transfer of any long-term capital asset on the basis of investment in certain bonds [Section 54EC]: The provisions of section 54EC are as follows:

Who is eligible to claim exemption?	Any taxpayer.
Which specific asset is eligible for exemption?	Long-term capital asset (being land or building or both).
Which asset the taxpayer should acquire to get the benefit of exemption u/s 54EC?	Bonds of Rural Electrification Corporation (REC). Maximum investment in one financial year is Rs. 50 lakhs. Moreover, investment made by an assessee in the REC bonds, out of capital gains arising from transfer of one or more original assets, during the financial year in which the original asset transferred and in the subsequent financial year should not exceed Rs. 50 lakhs.



Notes

Who is eligible to claim exemption?	Any taxpayer.
What is time-limit for acquiring the new asset?	Within 6 months from the date of transfer.
Exemption amount	Least of the two: (i) Actual amount invested (ii) Rs. 50 lakhs
Revocation of exemption	If the new investment is transferred within 3 years. If the new asset is converted into money or any loan/advance is taken on the security of the new asset within 3 years from the date of acquisition of the new asset.
Tax on unutilized amount	Unutilized amount of capital gain will be taxable.

5. Capital gain not to be charged on investment in units of specified fund [Section 54EE]: The provisions of section 54EE, applicable from the AY2017-18, are as follows:

- (i) The assessee has transferred a long-term capital asset.
- (ii) He has invested the whole or any part of capital gains in long-term specified assets (notified by Central Govt. to finance start-ups). Such investment can be made any time within 6 months from the date of transfer of original asset.
- (iii) The amount of such investment (made on or after April 1, 2016) by an assessee during any financial year cannot exceed Rs. 50 lakhs. Moreover, investment made by an assessee in long-term specified assets, out of capital gains arising from transfer of one or more original assets, during the financial year in which the original asset or assets are transferred and in the subsequent financial year should not exceed Rs. 50 lakhs.

Amount of exemption: east of the two:

- (a) Amount of capital gain.
- (b) Amount invested in long-term specified assets.

Revocation: If transferred within 3 years from the date of purchase of specified assets.



The amount of exemption is tax as long-term capital gain in the year in which such specified assets are transferred.

6. Capital gains on transfer of a long-term capital asset other than house property [Section 54 F]: The provisions of section 54F are given below:

Who is eligible to claim exemption?	An individual and an HUF.
Which specific asset is eligible for exemption?	Capital gain arising on transfer of any long-term capital asset (other than house property) qualify for exemption provided on the date of transfer the taxpayer does not own more than one residential house property (except the new house property)
Which asset the taxpayer should acquire to get the benefit of exemption u/s 54F?	One residential house property in India.
What is time-limit for acquiring the new asset?	Purchase: Residential house can be purchased within 1 year before transfer or within 2 years after transfer. Construction: Residential house can be constructed within 3 years from transfer. In case of compulsory acquisition, these time-limits shall be determined on the date of receipt of compensation (original or additional)
Exemption amount	[Investment in new asset] x (Capital gain) ÷ Net sales consideration.
Revocation of exemption	If the new asset is transferred within 3 years from its acquisition. If within 2 years from the date of transfer of original assets, taxpayer purchases another residential house property. If within 3 years from the date of transfer of original assets, the taxpayer completes construction of another residential house property.
Tax on unutilized amount	Unutilized amount of capital gain will be taxable.



7. Capital gain arising on transfer of assets in cases of shifting of industrial undertaking from urban area to rural area [Section 54G]: The provisions of section 54G are as under:

Who is eligible to claim exemption?	Any taxpayer.
Which specific asset is eligible for exemption?	On transfer of short-term/long-term capital gain being land, building, plant or machinery. These assets should not be transferred in order to shift an industrial undertaking from urban area to rural area.
Which asset the taxpayer should acquire to get the benefit of exemption u/s 54G?	Land, building, plant or machinery in order to shift undertaking to rural area.
What is time-limit for acquiring the new asset?	New asset should be purchased within 1 year before transfer or within 3 years after transfer of the original asset .
Exemption amount	Investment in the new asset or capital gain, whichever is lower.
Revocation of exemption	If the new asset is transferred within 3 years of its acquisition.
Tax on unutilized amount	Unutilized amount of capital gain will be taxable.

8. Capital gains on transfer of assets in cases of industrial undertaking from urban area to any Special Economic Zone [Section 54GA]: The provisions of section 54GA are given below:

Who is eligible to claim exemption?	Any taxpayer.
Which specific asset is eligible for exemption?	On transfer of short-term/long-term capital gain being land, building, plant or machinery. These assets should not be transferred in order to shift an industrial undertaking from urban area to SEZ.
Which asset the taxpayer should acquire to get the benefit of exemption u/s 54GA?	Land, building, plant or machinery in order to shift undertaking to any SEZ.



Who is eligible to claim exemption?	Any taxpayer.
What is time-limit for acquiring the new asset?	New asset should be purchased within 1 year before transfer or within 3 years after transfer of the original asset.
Exemption amount	Investment in the new asset or capital gain, whichever is lower.
Revocation of exemption	If the new asset is transferred within 3 years of its acquisition.
Tax on unutilized amount	Unutilized amount of capital gain will be taxable.

9. Capital gains on transfer of residential property.[Section 54GB]:

The provisions of section 54GB are as under:

Who is eligible to claim exemption?	An individual and an HUF.
Which specific asset is eligible for exemption?	On transfer of a long-term residential property (a house or a plot of land) if transfer takes place during April 1, 2012 and March 31, 2017 (in case of an investment in eligible start-up, the residential property can be transferred up to March 31, 2019).
Which asset the taxpayer should acquire to get the benefit of exemption u/s 54GA?	Equity shares in an “eligible company”.
What is time-limit for acquiring the new asset?	Equity shares in an “eligible company” should be acquired on or before the due date of furnishing of return of income under section 139(1). The “eligible company” should utilize this amount for the purchase of a “new asset” within 1 year from the date of subscription in equity shares.
Exemption amount	[Investment in “new asset” by the eligible company] x [capital gain] ÷ net sales consideration. Exemption cannot exceed capital gain.



Notes

Who is eligible to claim exemption?	An individual and an HUF.
Revocation of exemption	If the equity shares in the eligible company are sold or otherwise transferred by the assessee within 5 years from the date of acquisition. If the ‘new asset’ is sold or otherwise transferred by the eligible company within 5 years from the date of acquisition. If the deposit account is not utilized fully or partly by the eligible company for purchasing the new asset within 1 year from the date of subscription in equity shares by the assessee.
Tax on unutilized amount	Unutilized amount of capital gain will be taxable.

IN-TEXT QUESTIONS

- 3. State whether the following statements are True or False:**
 - (a) Demat account is a safe and convenient means of holding securities.
 - (b) Cost of acquisition of self-generated asset is taken as zero.
 - (c) Conversion of debenture into shares is not treated as “transfer”.
 - (d) Security transaction tax is not deductible as expenses.
- 4. Fill in the blanks:**
 - (a) The shares are virtually being bought and sold through _____ account.
 - (b) Conversion of debenture into shares is not considered as _____.
 - (c) Section 54 is concerned with _____.
 - (d) Benefit of _____ is not available in case of debenture/bond.
 - (e) Benefit of indexation on depreciable assets is _____.



6.7 Summary

To compute any income under the head ‘capital gain’, there must be a transfer of capital asset by assessee, whether short-term or long-term, during the relevant previous year. Capital gain arises on the transfer of capital assets that is taxable if it is not exempt or not included in the definition of capital asset. You must pay special attention while finding out the index cost of acquisition and index cost of improvement.

6.8 Answers to In-Text Questions

1. All true
 2. (a) Four (d) Two
(b) Transfer (e) Short-term
(c) Debenture (f) Addition and alteration
 3. All True
 4. (a) Demat (c) Exemption
(b) Transfer (d) Indexation
(e) Not available

6.9 Self-Assessment Questions

A- Theory questions:

1. What is capital asset?
 2. What is meant by transfer?
 3. What is an expense of transfer?
 4. What do you mean by cost of acquisition?
 5. What do you mean by cost of improvement?
 6. What do you mean by short-term and long-term capital assets?
 7. What is capital gain/loss?
 8. Distinguish between short-term capital gain and long-term capital gain.

B- Exercise:

9. Mr. Shyam owns two plants - 'A' and 'B' (depreciation rate is 15%, written down value of the block on April 1, 2022 is Rs. 1,00,000). On



Notes

July 1, 2022, he purchased Plant 'C' for Rs. 1,00,000 (depreciation rate is 15%). On January 1, 2023, he sold Plants 'A' and 'B' for Rs. 3,30,000 and transfer expenses was Rs. 10,000. Find out the capital gain for the assessment year 2023-24.

10. Mr. Ram purchased preference shares on April 1, 1998 at Rs. 40 per share. Fair market value on April 1, 2001 is Rs. 90 per share. He sold the shares in financial year 2022-23 at the rate of Rs. 250 per share. Comment on it to avoid higher capital gain tax.
11. Mr. Mohan sold gold on January 1, 2023 for Rs. 10 lakhs which was purchased on June 30, 2018 for Rs. 5,60,000. The CII is: 2018-19 is 280; 2022-23 is 331.
12. Mr. X owns equity shares of a listed company. He was allotted 100 bonus shares on January 1, 1997. He sold all bonus shares on January 31st, 2023 for Rs. 20,000. The fair market price on April 1st, 2001 was Rs. 100 per share. Determine the capital gains.
13. Mr. X owns equity shares of a listed company. He was allotted 100 bonus shares on January 1, 2008. He sold all bonus shares on January 31st, 2023 for Rs. 20,000. The fair market price on April 1st, 2001 was Rs. 100 per share. Determine the capital gains.

6.10 References

- ◆ Singhania V., & Singhania, M. Students Guide to Income Tax, Taxmann Publications.
- ◆ Ahuja, G., & Gupta, R. Systematic Approach to Income Tax, Bharat Law House.
- ◆ Chandra, M., & Shukla, D. C. Income Tax Law and Practice, Pragati Publications.

6.11 Suggested Readings

- ◆ Income Tax Act, 1961: <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>
- ◆ ICSI Study Material - Tax Laws.



Income from Other Sources

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STRUCTURE

- 7.1 *Learning Objectives*
- 7.2 *Introduction*
- 7.3 *Conditions for Chargeability of Income [Section 56(1)]*
- 7.4 *Incomes Specifically Taxable Under the Head ‘Income from other Sources’ [Section 56(2)]*
- 7.5 *Incomes Generally Chargeable Under the Head ‘Income from other Sources’ [Section 56(1)]*
- 7.6 *Deductions Allowed from Income Under the Head other Sources [Section 57]*
- 7.7 *Amounts Not Deductible from the Income Chargeable Under the Head other Sources [Section 58]*
- 7.8 *Deemed Income Taxable Under the Head other Sources [Section 59]*
- 7.9 *Interest Income Exempt from Tax [Section 10(15)]*
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- 7.11 *Format for Computation of Income from Other Sources*
- 7.12 *Dividend Income*
- 7.13 *Winnings from Lottery, Races and Games etc.*
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- 7.16 *Interest on Securities*
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- 7.18 *Summary*
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7.1 Learning Objectives

- ◆ Understand the conditions for chargeability of income under this head.
- ◆ Know the various deductions allowed and expenses disallowed.
- ◆ Understand the method of accounting to be followed.
- ◆ Learn the computation of the net income taxable under the head.

7.2 Introduction

So far, we learnt from the preceding chapters how to compute the income chargeable to tax under the four heads namely: ‘Salary’, ‘House Property’, ‘Profits and Gains from Business and Profession’ and ‘Capital Gains’. In the present chapter, we shall focus on understanding the various aspects concerning the head income from other sources (IFOS), namely: the basis of chargeability of income; various incomes, in general, and specifically taxable under this head; allowable deductions and restrictions on expenses; methods of accounting to be followed, and the computation of income under the head ‘Income from Other Sources’. This chapter is organized into two parts: (1) Part A describes the theoretical framework applicable to the head income from other sources and, (2) Part B explains how to compute net income chargeable under this income head.

Part-A: Conceptual Framework

In this section, we will gain an understanding of the various provisions applicable to the incomes chargeable under the head ‘income from other sources’ as it is essential to learn these before computing the taxable income under this head.



7.3 Conditions for Chargeability of Income [Section 56(1)]

An **income** that satisfies the following **two conditions** is **chargeable** to income tax under the head ‘Income from Other Sources’ (**IFOS**):

1. **It is not an exempt income:** In other words, we can say that there must be an income liable to be taxed. For instance, interest income from post office savings account is not taxable up to Rs. 3,500 per year for a single account holder as per section 10(15). Thus, if an individual earns Rs. 2,000 as interest from the post office savings account during the previous year 2022-23. In that case, there is no question of its taxability because it is an exempt income. Now, suppose, if he earns Rs. 5,000 as interest from the post office saving account during the previous year 2022-23, then, Rs. 1,500 [Total amount received (Rs. 5,000) – exempt amount (Rs. 3500)] is taxable income covered under the head ‘IFOS’.
2. **Such income** (which is liable to be taxed) is **not chargeable to tax under any of the following four heads:**
 - (a) Income from Salaries.
 - (b) Income from House Property.
 - (c) Profits and Gains from Business or Profession.
 - (d) Capital Gains.

Thus, an income that cannot be taxed under the four heads, as specified above, shall be taxable under the head, ‘Income from Other Sources’. Hence, this head is also known as the **residuary head**.

ILLUSTRATION

Mr. X is an employee in Tata-Steels and drew Rs. 20 lakh salary during the previous year 2022-23. This remuneration amount will be chargeable under the head ‘Salary’ as there is an employer-employee relationship between the payer and payee. Suppose he is also an independent director in XYZ Ltd. company during the previous year 2022-23, and he received Rs. 10,000 as fees for attending the Board of Directors’ meeting. This amount of Rs. 10,000 is not chargeable under the head salary, but under the head other sources. As there is no relationship of employer and employee, between the payer and payee.



Thus, it cannot be taxed under the head salary (moreover, this amount can't be charged under the other heads, namely house property, business and profession and capital gains). Hence, it is chargeable under the head 'IFOS.'

7.4 Incomes Specifically Taxable Under the Head 'Income from other Sources' [Section 56(2)]

As per the special provisions under sec. 56(2), the following incomes are always taxable under the head Income from other sources:

1. Dividend	Dividend as defined under section 2(22)
2. Winning from lotteries, etc.	Any winnings 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 whatsoever are chargeable to tax under the head 'IFOS.'
3. Employees' contribution towards staff welfare scheme	Any sum received by the employer (assessee) from his employees as contributions to any staff welfare scheme is taxable in the hands of the assessee under the head 'IFOS' (if it is not covered under the head 'Profits and gains of business income' u/s 28).
4. Interest on securities	Interest on bonds, debentures, government, and non-government securities, is taxable under the head "Income from other sources" (if it is not a business income taxable u/ s 28).
5. Rental income of machinery, plant or furniture.	Rental income arising from letting out machinery, plant or furniture is taxable as income from other sources (if the same is not chargeable as business income under section 28).
6. Rental income from letting out of plant, machinery or furniture along with building, and the two lettings are not separable.	Such rental income is chargeable under the head "Income from other sources" (if the same is not taxable as business income under section 28).



INCOME FROM OTHER SOURCES

Notes

7. Sum received under Keyman insurance policy.	Any sum received under a Keyman insurance policy (including bonus) is chargeable to tax under the income from other sources (if it is not taxable as salary income or business income).
8. Gift	Any sum of money or property received during a previous year without consideration by an individual or a Hindu undivided family from any person (s), if exceeds Rs. 50,000, then the whole of such amount is taxable in the hands of the recipient as income from other sources. (For details, please refer to the concerned paragraph.)
9. Interest on compensation or enhanced compensation	An income received on account of interest on compensation or enhanced compensation is taxable under the head “Income from other sources” in the year it is received. However, 50 percent of such interest amount is deductible as per section 57. Thus, only 50 percent of such interest is taxable.
10. Advance Money received and forfeited in the course of negotiations transfer of a capital asset.	Where a sum of money is received as an advance by the assessee in the previous year 2014-15, or any subsequent year, during the negotiations for the transfer of a capital asset, and the assessee himself forfeits the same because the negotiation to transfer the capital asset has failed, then such sum forfeited shall be chargeable to income tax under the head ‘IFOS’.
11. Compensation on termination of employment or modification of terms of employment	Any compensation on employment termination or modification of employment terms is treated as income taxable under the head, ‘IFOS’.

Note: Some incomes mentioned above are explained in detail in Part B of this chapter.

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**ILLUSTRATION**

1. Mr. X let out his furniture on June 1, 2022, to Mr. Y and charged a rent of Rs. 50,000 for one month (not charged as business income). This **rental** income from letting out the furniture is chargeable under the head, 'IFOS'.
2. The State government compulsorily acquired Mr. R's land on June 15, 2021, for Rs. 10,00,000. He received Rs. 50,000 as interest for the delay in payment of compensation on September 15, 2022. This **interest** amount is taxable under the head, 'IFOS' in PY 2022-23.
3. Mr. Y received Rs. 2,00,000 as advance from Mr. Z on April 10, 2022, under an agreement to sell his flat in Delhi. Mr. Z fails to pay the rest of the amount on the due date of payment. As a result, the transaction failed, and Mr. Y forfeited the **advance money** he received. Hence, Rs. 2,00,000 is taxable income for Mr. Y under the head, 'IFOS'.

7.5 Incomes Generally Chargeable Under the Head 'Income from other Sources' [Section 56(1)]

As per the provisions under section 56(1), some incomes are generally taxable under the head 'Income from other sources' because these do not specifically fall under any of the four heads of income, namely salary, house property, Business or profession, and capital gain. Hence, these are taxable under the residuary head 'IFOS' as listed below:

- (a) Income from sub-letting
- (b) Director's fee for attending board meetings
- (c) Interest from post office saving account
- (d) Interest from National Savings Certificates (NSC)
- (e) Interest on bank deposits
- (f) Agricultural income from a place outside India
- (g) Interest on securities issued by foreign government
- (h) Ground rent



INCOME FROM OTHER SOURCES

Notes

- (i) Examination fees received by a teacher from a person other than his employer
- (j) Rent of plot of land
- (k) Insurance commission
- (l) Mining rent and royalties
- (m) Casual income
- (n) Income received from undisclosed sources
- (o) Salaries payable to a Member of Parliament, and
- (p) Family pension received by family members of a deceased employee

Thus, it can be said that the head ‘IFOS’ can be resorted to such incomes only if, none of the four specific heads can be applied to these.

7.6 Deductions Allowed from Income Under the Head other Sources [Section 57]

The following deductions are allowed while computing the income chargeable under the head ‘IFOS’:

1. **Commission or remuneration** paid to a banker or any other person for **realizing interest on securities** on behalf of the assessee.
2. In the case of **dividend income** from **companies** or income from units of **mutual funds** or specified company, **only the interest expense is allowed** as deductions, (It means no other deductions from such income is allowed except the interest expense.). However, the interest amount deductible from such income shall not exceed **20 percent** of the dividend income or income from mutual fund units included in the previous year’s total income (before allowing deduction under section 57).
3. **Employees' contribution** to any fund meant for their welfare, received by the assessee (employer), and credited to their accounts in the relevant fund(s) before the due date as per the relevant law of the welfare fund(s). (Provided such item is not covered under the head ‘PGBP’)
4. In case of **rental income** from the letting of machine, plant, and furniture without or along with building (where consideration for

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letting out the building is inseparable under the contract and not taxable under the head house property), the following **deductions** are **allowed**:

- (a) Amount incurred for **current repairs** of the building, machine, plant and furniture.
 - (b) **Insurance premium** against the risk of damage and destruction of the building premises, machine, plant and furniture.
 - (c) **Normal depreciation** on building, machine, plant and furniture is allowed as per section 32.
5. In the case of income from **family pension**, a deduction of **33.33 percent** of such pension income or **Rs. 15,000**, whichever is less.
6. **Fifty percent of the income** received by way of **interest on compensation or enhanced compensation**, is allowed as a deduction, in the year of receipt.

7.7 Amounts Not Deductible from the Income Chargeable Under the Head other Sources [Section 58]

The following **expenses or payments** are **not deductible** while computing the income under the head 'IFOS':

1. **Personal expenses** of the assessee.
2. Any **interest payable outside India**, on which **income tax** has **not been deducted or paid**. And there is no representative of the recipient of such interest from whom the tax may be collected.
3. **Salary paid outside India**, without deducting tax at source (TDS).
4. **Income tax paid**.
5. **TDS (tax deducted at source) defaults** covered under section 40(a)(ia): Any sum payable to a resident without deducting tax at source; or if the applicable TDS is deducted but not deposited in the government treasury on or before the due date [u/s 139 (1)], then 30% of such sum is not allowed as deduction during the previous year (it means only 70% of such sum is allowed as deduction). However, this sum of 30% shall be deductible during the previous year when the tax amount has been paid as per the law.



6. **Payment to relatives** etc. as specified by section 40A: **Excessive or unreasonable** payments to certain specified persons; and **cash payments exceeding Rs. 10000 / Rs. 35,000** made otherwise than account payee cheques or drafts etc. as specified in section 40A(3) & (3A); and payment of gratuity referred in section 40A(7).
7. Any **expenditure** incurred in earning casual incomes by way of winnings from lottery, crossword puzzles, games, and races etc., are not allowed to be deducted from such incomes.

IN-TEXT QUESTIONS

1. (i) Mr. X purchased Nagaland State lottery tickets for Rs. 5,00,000 and he won the first prize of Rs. 50,00,000 on September 9, 2022. How much amount is taxable as winnings from lottery under the head other sources?
 - (a) Rs. 50,00,000
 - (b) Rs. 45,00,000
 - (c) Rs. 55,00,000
1. (ii) Is the expense amount of Rs. 500,000 (in the above case) incurred on the purchase of tickets deductible from the prize amount?
 - (a) Yes
 - (b) No

7.8 Deemed Income Taxable Under the Head other Sources [Section 59]

Deemed income means technically it is not an income, however, it would be treated to be an income according to section 41(1) of the Income Tax Act, 1961 (Please refer to the head “Profits and gains from business and profession” (PGBP) for more details about this section.). For instance, if in a previous year, there is a recovery of any bad debts which were allowed as deduction in the profit and loss account in the past year(s), then such amount of bad debts recovered shall be considered deemed income in the year when received. And it would be taxable under the head ‘IFOS’ if it is not chargeable under the head ‘PGBP.’ Similarly, there may be deemed income on account of recovery of any loss, expenditure or some trading liability.



7.9 Interest Income Exempt from Tax [Section 10(15)]

As per section 10(15) certain interest incomes arising from the specified securities are tax-free. Hence, they are not included in the total income of an assessee. Some of such tax-free interest incomes are mentioned as below:

1. Interest on securities, bonds and certificates issued by central government.
2. Interest on post office savings bank account is exempt up to Rs. 3,500 in case of a single account and Rs. 7,000 in case of a joint account.
3. Interest on notified Capital Investment Bonds held by individuals and HUF.
4. Interest on specific RBI Relief Bonds held by individuals and HUF.
5. Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme 1999 or deposit certificates issued under the Gold Monetization Scheme 2015 notified by the central government.

7.10 Method of Accounting [Section 145]

This section deals with the accounting system to be followed by an assessee for computing income under the head 'IFOS'.

Income under the head 'IFOS' shall be recognized either on a 'due basis' or 'cash basis' depending upon the method of accounting regularly followed by the taxpayer. Thus, where an assessee follows:

1. **Mercantile System of Accounting:** The income would be taxable in the year when it is accrued or earned irrespective of the year of receipt.
2. **Cash System of Accounting:** The income would be taxable in the year of receipt, irrespective of the year in which it is earned or accrued. However, the following points must be noted in this regard:
 1. The same method (as followed for recognition of income) must be applied for claiming deductions and expenses.
 2. The taxpayer must follow the **accounting standards** as notified by the central government from time to time for various types of income.



3. Interest on compensation/enhanced compensation shall be taxable in the year of its receipt, irrespective of the accounting method followed by the assessee.
4. Interest on cumulative deposit schemes of government is taxable on accrual basis annually. For example, in the case of National Saving Certificates issued by the post office.
5. It is to be noted that if an assessing officer is not satisfied:
 - (a) About the correctness or completeness of the accounts of an assessee or (b) The method of accounting adopted by the assessee or (c) The notified accounting standards are not regularly followed by the assessee; in such cases, the assessing officer may do the best judgement assessment under section 144.

Thus, we acquired the theoretical understanding of the relevant provisions applicable to the head 'IFOS' in this section. The practical aspects of these provisions are explained in the next part of the chapter below.

Part-B: Computation of Income

In this section, we will focus on the practical aspects, i.e., how to compute the income chargeable under the head, 'IFOS' with particular focus on the following specific income:

1. Dividend
2. Winnings from lottery etc.
3. Interest on securities
4. Family pension
5. Gift

7.11 Format for Computation of Income from other Sources

Computation of income from other sources

Income specified above (in sections 3.4 and 3.5)

Gross Amount (net amount received plus TDS, if applicable)..... = XXX

Less: Expenses allowed u/s 57, (if applicable)..... = (XX) _____

Net income from other sources = XXX _____

**ILLUSTRATION**

Mr. X, an independent Director of ABC Company, received an amount of Rs. 15,000 as fees for attending a Board meeting on September 5, 2022. He travelled by taxi and incurred an expenditure of Rs. 3,000. He also received Rs. 10,000 from Interest on foreign government securities on January 10, 2023. The collection charges being Rs. 1,000. He received Rs. 3,000 from the post office savings account on March 31, 2023. Compute the income taxable under the head, 'FOS'.

Solution:

Computation of income from other sources

(PY: 2022-23, AY: 2023-24)

1. Board Sitting fees:

Amount received = Rs. 15,000

Less: Expenses allowed u/s 57 = Rs. 3,000

Net amount = Rs. 12,000

2. Interest from Securities:

Amount received = Rs. 10,000

Less: Expenses allowed u/s 57 = Rs. 1,000

Net amount = Rs. 9,000

3. Interest from P.O. Savings A/C:

Amount received = Rs. 3,000

Less: Exempt u/s 10(15) = Rs. 3,000

Net Amount = nil

Total net amount taxable under the head, 'IFOS' = Rs. 21,000

7.12 Dividend Income

- (a) Meaning:** In common parlance, the term 'dividend' means a part of the profits a company distributes to its shareholders in proportion to their shareholdings. However, sometimes companies distribute profits



indirectly to their shareholders. **Section 2(22)** of the Income-tax Act provides an inclusive definition of dividends. It specifies that the following payments or distributions made by a company to its shareholders are **deemed as dividends to the extent of accumulated profits**:

1. Distribution entailing release of the assets of the company.
2. Distribution of debentures, debenture stocks or deposit certificates.
3. Distribution made on liquidation.
4. Distribution made on the reduction of capital.
5. Advance or loan to a shareholder or a concern by a closely held company except in the ordinary business of lending money.

(b) Types of Dividends: Dividends can be of the following types:

1. Dividends declared by a domestic company.
2. Dividends declared by a foreign company.
3. Dividends declared by a co-operative society.

Any amount declared, distributed or paid by a domestic or a foreign company or a co-operative society (whether interim or otherwise) out of current or accumulated profits shall be **taxable to shareholders** under the head other sources.

Similarly, any income received in respect of the Units from the Administrator of the specified undertaking, the specified company, or units of a mutual fund specified under clause (23D), shall be taxable under the head, 'IFOS'.

(c) Basis of charge (Section 8): Dividend income is taxable on the following basis (Irrespective of the method of accounting regularly followed by the assessee):

1. **Normal dividend:** Normal dividend is declared at the annual general meeting of a company, and it becomes taxable in the hands of shareholders **in the previous year** in which it is **declared**.
2. **Deemed Dividend:** Deemed dividend as defined in section 2(22) is considered as the taxable income of the previous year in which it is so **distributed or paid**.



3. Interim Dividend: It is a type of dividend distributed by the company to its shareholders before the annual general meeting and finalization of its annual report. It is taxable in the hands of shareholders in the previous year in which such dividend is **unconditionally made available** to them.

(d) Gross dividend is taxable: It is the **gross dividend** (dividend amount received plus tax deducted at source, if any) which is included in the total income of an assessee. Gross (full) dividend is the amount which is due to a shareholder as a dividend. However, a company deducts tax at the specified rate (called TDS), before paying a shareholder, if the dividend amount payable to him exceeds Rs. 5,000 in a year. In this case, he receives the dividend as reduced by the amount of tax deducted at source (TDS). TDS is deemed to be an advance tax deposited by the company to the government treasury on behalf of the shareholder. Of course, this TDS is adjusted from his income total tax liability payable when filing income tax return for the year. The formula to gross up the dividend received (when the TDS amount is not known):

$$\text{Gross dividend} = [\text{Net dividend received} / (100 - \text{TDS rate})] * 100$$

Note:

- 1 If PAN is provided by the shareholder to the company, then TDS rate is 10 percent, otherwise, it is 20 percent.
- 2 A company deducts no TDS if the dividend amount due to a shareholder during a previous year does not exceed Rs. 5,000 and it is paid by account payee cheque or electronically.
- 3 TDS is not made, in case of dividend paid by a co-operative society. Hence, the amount a shareholder receives, in this case, is the gross dividend.
- 4 Dividend from the foreign company is not to be grossed up, and the net dividend received is included in the total income of the assessee.

(e) Deductions for expenses from dividend income [Section 57]:
No deduction is allowed from the dividend income or income in respect of units of mutual funds specified under section 10(23D) or specified company **except** the deduction on account



of **interest expense**. However, **such deduction in any previous year cannot exceed 20%** of the dividend income or income from units included in the total income for that year without deduction under section 57.

(f) Place of accrual: Dividend paid by an Indian company outside India is deemed to accrue in India. Therefore, a non-resident in India, is liable to pay tax in respect of the dividend distributed by an Indian company paid outside India. However, the dividend paid by a foreign company outside India is not deemed to accrue or arise in India, in the hands of a non-resident.

(g) Key points to remember:

1. Dividend is taxable income in the hands of shareholders (not in the hands of company) who receives it or who has a right to receive it (the entire dividend income is taxable, irrespective of the period of shareholding).
2. Dividend income is chargeable under the head, 'IFOS' only, even if the shares are held in the business of the assessee as stock-in-trade. This is because the dividend income has been made specifically chargeable under this head as per the specific provisions of section 56(2)(i).
3. Dividend income is chargeable to tax whether a company pays it out of its taxable or tax-free profits. Thus, if a company pays dividend out of its agriculture income or other tax-free incomes, it would be taxable in the hands of shareholder who receives it.

7.13 Winnings from Lottery, Races and Games Etc.

Any **winnings** from lottery or crossword puzzle or races including horse race or card game or game of any sort or from gambling or betting of any form or nature are chargeable specifically to the income head, 'IFOS' as per section 56(2). Such incomes are also called **casual incomes** (because such incomes represent one time occurrence and not the regular feature).



EXPLANATION

1. **Lottery** includes winnings from prizes awarded to a person either by draw of lots, by chance, or in any other manner whatsoever under any scheme or arrangement by whatever name called.
2. The phrase **card game or any other game** includes any game or show an entertainment program on television or electronic media in which people compete to win prizes or any other similar games.

The essential points regarding the taxability of casual incomes are:

1. **No deduction of any expenditure** incurred in earning such casual incomes is allowed.
2. **No benefit of maximum exemption limit** (Rs. 2,50,000 / Rs. 3,00,000 / Rs. 5,00,000 depending on the age of resident individual assessee) is available from such casual income
3. **No general deductions under sections 80C to 80U** are allowed from such casual incomes.
4. **Taxable at the special rate of income tax:** Casual incomes are taxable at a **flat rate of 30 percent** [plus surcharge, (if applicable) and health and education cess]. However, on an income arising from the owning and maintaining of racehorses, normal rates of tax are applicable.
5. **Tax deducted at source (TDS):** Winnings from any lottery or crossword puzzles or card games or horse races etc., are subject to TDS @ 30 percent, if the prize money exceeds Rs. 10,000 (Section 194 B). (Moreover, it is the organization's responsibility to distribute the prize to ensure that TDS is deducted before making the payment.)
Note: Surcharge is not applicable for TDS in case of individual, HUF, AOP or BOI, artificial juridical person, co-operative society, local authority, or a firm. Hence, in such cases, the TDS rate applicable is 30 percent only.
6. **No set-off of any losses:** Casual incomes cannot be utilised to set-off any casual loss or any loss arising from any other source(s) or income head(s).
7. If the assessee **does not maintain any books of accounts**, then the lottery prize he won would **accrue in the year** in which it is



received by the assessee, and not in the year in which the prize is declared.

8. Gross up amount of winnings is included under the head, ‘IFOS’:

As we know, if the prize money in case of lottery etc., exceeds Rs. 10,000, then TDS must be deducted, and the winner receives the income net of TDS. It is important to note that it is the gross winning amount (= net amount received plus TDS) to be included under the head, ‘IFOS’. Thus, grossing up is required in such cases using the following method:

- (a) In case of net winnings from lottery, crossword puzzle or card gamer her games or horse race:

Gross up amount = Net amount/[1 – (.30)] (as TDS rate is 30%)

- (b) In case of winnings from other races (like bull or camel, etc.), gambling or betting, and where prize money is not exceeding Rs. 10,000; grossing up is not required as no TDS is deducted from such incomes. So, there is no difference in the net income and gross income.

ILLUSTRATION

Mr. X, during the previous year 2022-23, received the following incomes:

- ◆ Rs. 7,00,000 on account of winnings from the lottery of the Assam Government. For this, he purchases tickets of Rs. 1,00,000.
- ◆ He received Rs. 2,10,000 for winning the horse race and Rs. 5,00,000 from bull race.
- ◆ He also won a bet and received the prize amount of Rs. 4,00,000.

How much income is taxable under the head, ‘IFOS’?

Solution:

Income chargeable under the head, ‘IFOS’

For assessment year 2023-24 (PY 2022-23)

1. Gross Lottery income [= Rs. 7,00,000/ (1- .30)] = Rs. 10,00,000
2. Gross winnings from Horse race [= Rs. 2,10,000 / (1- 0.30)] = Rs. 3,00,000



Notes

3. Winnings from bull race [amount received = Gross amount] = Rs. 5,00,000
4. Winnings from betting [amount received = Gross amount] = Rs. 4,00,000

Income taxable under the head, 'IFOS' = Rs. 22,00,000

Note: 1. Cost of ticket is not deductible.

2. TDS is not applicable in case of bull race and bettings

IN-TEXT QUESTION

2. (i) Mr. Ram lost Rs. 2,000 from the card game during the previous 2022-23.

He further won a lottery prize of Rs. 5,000.

How much amount is chargeable to tax in the hands of Mr. Ram under the head

'IFOS'?

- (a) Rs. 3,000
- (b) Rs. 5,000
- (c) Rs. 7,000

2. (ii) In the above case, can he claim to set off the loss of Rs. 2,000 from the lottery prize?

- (a) Yes
- (b) No

7.14 Income from the Activity of Owning and Maintaining Racehorses

An assessee who earns an income from owning and maintaining racehorses (i.e., as the owner of the horses maintained by him for running in horse races); such an income is specifically **taxable under the head, 'IFOS'**, as per the special provisions under section 56.



INCOME FROM OTHER SOURCES

Notes

The important points applicable in the case of income from this activity are:

- ◆ The income shall be computed in the **normal manner** like other business incomes.
- ◆ An **expenditure wholly and exclusively incurred** by the assessee in the maintenance of racehorses shall be **allowed as a deduction** from the income earned from such activity.
- ◆ Income from such business activity is chargeable at the **normal tax rates applicable** to the assessee [special tax rate is not applicable in this case because it is not a casual income, instead it is a business activity which is specifically taxable under the head, 'IFOS' as per special provision under section 56(2)].
- ◆ If there is a **loss** arising from owning and maintaining the racehorses, then such loss can be **set off** only from **the income** from other **such business**. It cannot be adjusted from any income under any other head.
- ◆ If the loss arising from such activity cannot be set off (as mentioned above), then it can be carried forward for a maximum period of immediately following next four assessment years [Section 74A]. And, brought forward losses can be set off only from the income of same source i.e., owning and maintaining racehorses.

Note: If an assessee earns an income from owning and maintaining of any other animals, it shall be computed under the head, 'Profits and gains from business and profession' because section 56(2) covers only the income arising from owning and maintaining the racehorses.

7.15 Family Pension

Family pension means a **regular monthly amount** payable by the employer to the legal heirs of the deceased. It will be the income of legal heir and **chargeable under the head, 'IFOS'**. A **standard deduction** from such income shall be allowed to the legal heir, which is equal to **1/3rd of the gross family pension or Rs. 15,000, whichever is less**.

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**ILLUSTRATION**

Mrs. Shyama is getting a family pension of Rs. 12,000 per month after the death of her husband, who was an employee of Global Enterprises Ltd. The family income taxable in her hands under the head, 'IFOS' during the previous year 2022-23 is:

Family pension received: Rs. 12,000 X 12 months = Rs. 1,44,000

Less: Standard deduction:

1/3 of Rs. 1,44,000

Or

Rs. 15,000

Less = Rs. 15,000

{}

Family pension chargeable under the head, 'IFOS' = Rs. 1.29,000

7.16 Interest on Securities

- 1. Meaning of 'securities':** The term security is not defined in the Income Tax Act. In common parlance, the term 'security' refers to the safety of a commodity or a loan or a guarantee for repayment of a loan, debt, or liability. However, from the income tax point of view, a **security** indicates to **documentary evidence of a debt** issued and duly signed by a debtor in favour of his creditor, specifying the details such as the amount of loan, rate of interest, conditions for the payment of loan and time of repayment etc. It is to be noted that a 'share' is not a security because it is an acknowledgement of ownership in the company, and not an acknowledgement of a debt.
- 2. Meaning of Interest on Securities:** According to section 2(28B), 'interest on securities' means
 - (i) Interest on any security of the central government or state government.
 - (ii) Interest on debentures or other securities for money issued by or on behalf of a local authority or a company or a corporation established by central state or provincial Act.



Thus, securities may be classified into the following categories:

- (a) Security issued by central or state governments.
- (b) Bonds or debentures issued by a local authority.
- (c) Bonds or debentures issued by companies.
- (d) Bonds or debentures issued by a corporation established by a central state or provincial Act i.e., autonomous and statutory corporations.

3. Chargeability of Interest on Securities: Interest on security is chargeable to tax under the head ‘profits and gains of business and profession’, if an assessee deals in the purchase and sale of securities, and the securities are held by him as stock-in-trade. However, if an assessee holds the securities as an investment; then the interest from these securities shall be chargeable to tax under the head income from other sources. In this section, we are concerned about the latter case as below:

- (i) Interest on securities is included in the total income under this head on ‘receipt’ or ‘due’ basis depending upon the system of accounting regularly followed by the assessee. Thus, if the assessee adopts the cash system of accounting, interest is chargeable on receipt basis, otherwise it shall be chargeable to tax on accrual basis.
- (ii) If the assessee **does not maintain books of accounts**, interest on securities shall be charged to tax on due basis.
Note: The interest on certain securities issued by the central government or the state government or on certain notified bonds or debentures issued by public sector companies, is fully exempt under section 10(15).
- (iii) The **due date of interest on securities is relevant** where it is chargeable on an accrual basis. Remember, the interest on securities doesn’t accrue every day rather on a specific date. Accordingly, the owner of the security on due date of interest becomes liable for tax on the entire interest even if he does not hold the security for the entire period to which the interest relates. So, the date of purchase of security by the assessee is immaterial.

**ILLUSTRATION**

Mr. Ram purchases 1,000 Debentures (Face Value Rs. 100) of XYZ Limited on December 1, 2022, from the market on which 10 percent interest is payable annually on December 31 every year. In this case, the entire amount of interest (i.e., Rs. 10,000) from the debentures for the year 2022-23 will be included in his total income under the head income from other sources even though he holds the debentures only for one month.

4. Grossing up of Interest: in case an assessee receives the interest on securities after tax deducted at source (TDS), then the gross amount of interest i.e., net amount received plus TDS is to be included in the total income under the head, 'IFOS'.

Net amount can be grossed up as below:

$$\text{Gross up interest amount} = \frac{\text{Net interest}}{(100 - \text{Rate of TDS})} \times 100$$

Note:

- ◆ Generally, TDS is deducted @10 percent on non-government securities (listed and non-listed) when the interest amount payable to an assessee exceeds Rs. 5,000 in a financial year.
- ◆ No TDS is deductible in the case of government securities except on Relief Bonds. So, grossing up is not required when there is no deduction of tax at source. However, grossing up is required in the case of 8% / 7.75% / floating rate saving (taxable) bonds if the amount of interest payable exceeds Rs. 10,000.

ILLUSTRATION

Mr. Shyam receives Rs. 9,000 interest (annual) on account of the Debentures of PQR Ltd. Company held by him on June 30, 2022. The amount of interest taxable in the hands of Mr. Shyam under the head, 'IFOS' is as below:

$$\begin{aligned}\text{Gross up interest} &= \frac{\text{Rs. } 9,000}{(100 - 10)} \times 100 \\ &= \text{Rs. } 10,000\end{aligned}$$



5. Deductions for Expenses from Interest on Securities: The following expenditures are deductible from the gross interest on securities:

- (iv) **Collection charges** incurred if any, on account of commission or remuneration to a banker or any other person for realizing the interest.
- (v) **Interest on money borrowed** to purchase the securities. (if any)
- (vi) **Any other expenditure of revenue** nature, if any, incurred wholly and exclusively to earn such interest.

7.17 Gift [Section 56(2)(X)]

The various provisions concerning any gift of money or property (movable or immovable) received by an assessee during a previous year from any person or persons (**other than an employer**) are presented in the following table. Some important points regarding taxability of gifts are as follows:

1. ‘Property’ for this purpose means the following capital assets:

- (i) Immovable property being land, building or both
- (ii) Shares and securities
- (iii) Jewellery
- (iv) Archaeological collections
- (v) Drawings
- (vi) Paintings
- (vii) Any work of art
- (viii) Bullions
- (ix) Virtual digital assets

2. Exempt Categories:

Gifts by way of any sum of money or property (as stated above) received by an assessee during a previous year are **exempt** from tax in the following cases:

- (a) From any relative
- (b) On the occasion of marriage of the individual; or
- (c) Under a will or by way of inheritance; or



Notes

Category	Type of gift received during a previous year	Conditions for chargeability of gift	Taxable amount under the head, 'IFOS' in a previous year	Taxability based on single transaction or all transactions in a financial year
1	Any sum of money without consideration (Cash or cash equivalents such as cheque, draft, etc.) (not a loan)	If the aggregate sum of money received without consideration from one or more persons during a previous year exceeds Rs. 50,000.	The whole of the aggregate value of such sum	All such transactions
2	Any immovable property without consideration	If any immovable property is received during the previous year without consideration and the stamp duty value of such property exceeds Rs. 50,000.	The stamp duty value of such property	Single transaction
3	Any immovable property is received without adequate consideration (i.e., consideration is less than the stamp duty value)	If an immovable property is received for consideration and the transaction satisfies the following two conditions: 1. The stamp duty value of the property exceeds 110 percent of the consideration and 2. The difference between the stamp duty value and the consideration is more than Rs. 50,000	The difference between the stamp duty value and the consideration	Single transaction
4	Any movable property(ies) without consideration	If the aggregate fair market value of the property(ies) (which is received during the previous year without consideration) exceeds Rs. 50,000	The aggregate fair market value of such property(ies)	All such transactions
5	Movable property without adequate consideration (i.e., consideration is less than the fair market value)	If (1) the movable property(ies) received during the previous year for inadequate consideration, (2) the aggregate consideration is less than the aggregate fair market value and (3) the difference between the fair market value and the aggregate consideration is more than Rs. 50,000	The difference between the aggregate fair market value and the aggregate consideration	All such transactions



INCOME FROM OTHER SOURCES

Notes

- (d) In contemplation of death of the payer/donor; or
- (e) From any local authority as defined in section 10(20); or
- (f) From any fund, foundation, university/other educational institution, hospital, other medical institution, any trust or institution which are referred to in section 10(23C). [However, this exemption is not available w.e.f. assessment year 2023-24, if the money or the property is received by a specified person referred into in section 13(3)]
- (g) From an individual by a trust created or established solely for the benefit of relative of the individual; or
- (h) From any trust/institution which are registered under section 12A/12AA/12AB; or
- (i) By any trust/institution which are registered under section 12A/12AA/12AB;
- (j) By any fund/trust/institution/any university/other educational institution/any hospital/other medical institution which are referred to in section 10(23C); or
- (k) By way of transactions under some clauses of section 47 which are not regarded as transfers; or
- (l) From prescribed class of persons.

3. Fair Market Value: A movable property means the value determined as per the prescribed method.

4. Jewellery includes ornaments made of gold, silver, platinum, or any other precious metal or any alloy containing one or more of such precious metals, whether containing any precious or semi-precious stone, and whether or not worked or sewn into any wearing apparel. It also includes precious or semi-precious stones whether or not set in any furniture, utensil or other article or worked or sewn into any wearing apparel.

5. Meaning of ‘relative’ in the case of an individual:

Relation	If Mr. X is an individual
1. Spouse of the individual	Mrs. X
2. Brother or sister of the individual	Brother or sister of X
3. Brother or sister of the spouse of the individual	Brother or sister of Mrs. X



Notes

Relation	If Mr. X is an individual
4. Brother or sister of either of the parents of the individual	Brother or sister of father/mother of X
5. Any lineal ascendant or descendant of the individual	Lineal ascendant or descendant of X
6. Any lineal ascendant or descendant of the spouse of the individual	Lineal ascendant or descendant of Mrs. X
7. Spouses of the person referred to in (2) to (6)	Spouses of the aforesaid persons

6. Valuation rules for the fair market value (FMV) in case of movable property: Jewellery, archaeological collections, drawings, paintings sculptures or any work of art are as below:

- ◆ If such items are purchased from a **registered dealer** (under GST):
FMV = Invoice value of these properties
- ◆ If these properties are received by **any other mode**, then fair market value is the price which such items as jewellery, archaeological collections, etc., would fetch if sold in the open market on the valuation date.

(Note: Please refer to Appendix 1 for more details on valuation rules.)

ILLUSTRATION

1. Mr. Satish received Rs. 51,000 cash gift (on August 15, 2022) during the previous year 2022-23, from his friend Mr. Ramesh:
In this case, since a cash gift is received from a non-relative, and the amount exceeds Rs. 50,000 in a previous year, the entire amount of Rs. 51,000 is taxable and included in the total income of Mr. X under the head, 'IFOS'.
2. Mr. Satish received Rs. 51,000 cash gift (on August 15, 2022) during the previous year 2022-23 from his mother:
In this case, nothing is taxable because it is an exempt income as he received it from his mother. (Any gift received from relatives is fully exempt.)
3. Mr. Satish received Rs. 20,000 cash gift (on August 15, 2022) during the previous year 2022-23 from his friend, Mr. Ramesh,



and Rs. 30,000 cash gift from his other friend, Mr. Mukesh (on December 31, 2022)

In this case, nothing is taxable because it is an exempt income as the aggregate amount of cash does not exceed Rs. 50,000.

4. Mr. Satish received a gift of a residential house from his father-in-law on September 15, 2022. (Stamp duty value is Rs. 11,00,000.):
It is an exempt gift as received from his relatives.
5. Mr. Satish received a gift of a residential house from his friend on September 15, 2022. (Stamp duty value is Rs. 40,000.):
It is exempt as the stamp duty value does not exceed Rs. 50,000.
6. Mr. Satish received Rs. 1,00,000 cash gift (on August 15, 2022) during the previous year, 2022-23 from his friend Mr. Ramesh on his marriage:
It is exempt as received on the occasion of his marriage.
7. Mr. Satish received Rs. 1,00,000 cash gift (on November 15, 2022) during the previous year, 2022-23 from his friend Mr. Ramesh on his birthday:
It is fully taxable as received from non-relative and the amount exceeds Rs. 50,000. Moreover, birthday is not covered in the exempt category.
8. Mr. Satish purchased a shop for Rs. 16,00,000 on November 30, 2022. (Stamp duty value (SDV) is Rs. 16,90,000.)
It is exempt. Though the difference between SDV and the purchase price exceeds Rs. 50,000, but SDV does not exceed 110 percent of the purchase price.
9. Mr. Satish got a gift of a gold chain from his friend on October 10, 2022. (FMV = Rs. 40,000)
It is exempt as the FMV does not exceed Rs. 50,000.
10. Mr. Satish got a gold chain (FMV = Rs. 40,000) and a painting (FMV = Rs. 60,000) from his friend on October 10, 2022.
As the aggregate value of movable property without consideration exceeds Rs. 50,000 in this case, hence, aggregate FMV = Rs. 40,000 + Rs. 60,000 = Rs. 1,00,000 is taxable under the head, 'IFOS'.



IN-TEXT QUESTIONS

3. (i) Mr. X gets a wristwatch gift from his friend on October 10, 2022. (FMV=Rs. 1,00,000). How much amount is taxable?
- (a) Rs. 50,000
 - (b) Rs. 1,00,000
 - (c) Not taxable
3. (ii) Mr. Y received a cash gift of Rs. 11,000 from his employer on July 10, 2022. Is this amount taxable under the head, 'IFOS'?
- (a) Yes
 - (b) No
3. (iii) Mr. Z receives a gold chain as a gift on his marriage from his friend, worth Rs. 80,000. Is this amount taxable under the head, 'IFOS'?
- (a) Yes
 - (b) No

7.18 Summary

In this chapter, we learnt about the incomes chargeable under the head, 'income from other sources'. It is the last and the fifth head of income, also called residuary head of income. Section 56 to 59 of the Income-tax Act, 1961 contains various provisions relating to this income head. Accordingly, there are certain incomes specifically taxable under this head only, such as dividend, winnings from lottery and gifts from persons other than employer. And there are some incomes generally chargeable under this head because these are not taxable under the other four heads, namely, salary, house property, profits and gains from business and profession, and capital gains. For instance, rental income from land, rent from sub-letting of house property by tenant, commission earned by an insurance agent and interest from bank deposits. Further, it is the gross amount of income (= net amount received plus TDS, if any) after deduction on account of allowable expenses, that is to be included in the total income of an assessee during the previous year under the head other sources.



7.19 Answers to In-Text Questions

1. (i) (a) Rs. 50,00,000
1. (ii) (b) No
2. (i) (b) Rs. 5,000
2. (ii) (b) No
3. (i) (c) Not taxable
3. (ii) (b) No
3. (iii) (b) No

[Hints: (1) It is not taxable as the wristwatch is not ‘property’ as per section 56 (2)(X)(2) Gift on occasion of marriage is exempt.]

7.20 Self-Assessment Questions

(a) Theory Questions:

1. What do you understand by income from other sources? Under which head of income, are these chargeable?
2. Enumerate at least five cases of incomes specifically chargeable under the head income from other sources.
3. Specify the allowable deductions under the head income from other sources.
4. Mention a list of five taxable incomes under the head income from other sources per the general provision under section 56(1) of the Income-tax Act, 1961.
5. Explain in brief the income tax provisions relating to the following incomes:
 - (a) Dividend
 - (b) Winnings from lottery
 - (c) Gift in cash
 - (d) Immovable property received for inadequate consideration
 - (e) Gift of movable property
 - (f) Interest on securities

**(b) Practical Questions:**

Mr. X receives the following incomes during the previous year 2022-23.

Income received during PY 2022-23	Amount (Rs.)
1. Director's fees	5,000
2. Income from agricultural land in Nepal	10,000
3. Interest from post office savings account	5,000
4. Interest on deposits with co-operative society	1,000
5. Dividend from a foreign company	2,000
6. Dividend from Reliance company	4,500
7. Rent from subletting a residential flat	25,000
8. Rent payable for the sub-let flat	15,000
9. Other expenses incurred on the sub-let flat	5,000
10. Net winnings received from horse race	21,000
11. Interest received from debentures issued by Tata Steels Ltd.	21,600

Compute the income taxable under the head of other sources for the AY 2023-24.

[Ans.: Rs. 83,000 (= 5,000 + 10,000 + 1,500 + 1,000 + 2,000 + 4,500 + 5,000 + 30,000 + 24,000)]

7.21 References

- ◆ Singhania, V. K., & Singhania, Monika. (2022). *Students guide to income tax, University Edition*. Taxmann Publications Pvt. Ltd.
- ◆ Ahuja, Girish, & Gupta, Ravi. (Assessment year 2022-23). *Simplified approach to income tax*. Flair Publications Pvt. Ltd.

7.22 Suggested Readings

- ◆ Income Tax Act, 1961 latest edition.
- ◆ <https://incometaxindia.gov.in>



Appendix-1

Some of the important points regarding taxability of gifts under the head other source are mentioned below:

1. In case, **the date of agreement** for fixing the amount of consideration concerning transfer of the immovable property, differs from the date of registration of the property, then stamp duty value on the date of the agreement is considered. However, it is essential that the consideration (or a part thereof) must have been paid by way of an account payee cheque or, by account payee bank draft or by use of an electronic clearing system through a bank account or other prescribed electronic modes on or before the date of agreement for the transfer of such immovable property.
2. '**Stamp duty value**' means the value adopted or assessed or assessable by any authority of the Central government or a State government for the purpose of payment of stamp duty in respect of an immovable property.

3. **Valuation rules** in case of shares and securities:

- ◆ In case of **quoted shares and securities** which are received by way of a transaction carried out through a recognized Stock Exchange in India:

Fair Market Value of property = transaction value as recorded in such Stock Exchange.

- ◆ In the case of quoted shares and securities which are not received by way of a transaction carried out through a recognized stock exchange in india:

FMV of property = the lowest price of such shares and securities quoted on any recognized Stock Exchange in India on the valuation date.

However, in case, on the valuation date, such shares and securities are not traded on any recognized stock exchange in India, then,



Notes

FMV = the lowest price of such shares and securities on a date immediately preceding the valuation date when such shares and securities are traded.

- ◆ In the case of **unquoted equity shares**:

Option 1 -

FMV of one share = Net worth X paid up value of one share/
Total amount of paid up equity share capital as shown in
balance sheet.

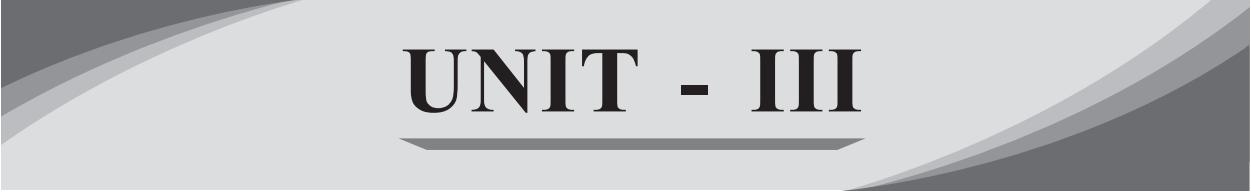
(Net worth = Assets-Liabilities)

Option 2 –

At the option of the assessee, the fair market value shall be determined by a merchant banker or an accountant as per the Discounted Free Cash Flow Method.

- ◆ In the case of **other unquoted shares and securities**:

The fair market value of unquoted shares and securities (other than equity shares in a company which are not listed in any recognised Stock Exchange) is the price it would fetch if sold in the open market on the valuation date, and the assessee may obtain a report from a merchant banker or a chartered accountant in respect of such valuation.



UNIT - III

Clubbing, Set-Off and Deductions

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*Department of Distance & Continuing Education, Campus of Open Learning,
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Clubbing of Income and Set-Off and Carry Forward of Losses

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STRUCTURE

- 8.1 Learning Objectives**
- 8.2 Introduction**
- 8.3 Clubbing of Income**
- 8.4 Set-Off and Carry Forward of Losses**
- 8.5 Summary**
- 8.6 Answers to In-Text Questions**
- 8.7 Self-Assessment Questions**
- 8.8 References**
- 8.9 Suggested Readings**

8.1 Learning Objectives

- ◆ Understand the relevance of clubbing of income.
- ◆ Comprehend the cases where the provisions of clubbing of income are applicable.
- ◆ Understand how an assessee tries to escape his tax liability by transferring his income or source of income.
- ◆ Make adjustment for losses and accurately arrive at gross total income.



8.2 Introduction

The aggregate of income from all five heads after giving effect to the provisions of clubbing of income and set off of losses is known as Gross Total Income (GTI). That's why there is a need to develop an understanding about what is clubbing of income and how losses from House Property, Business & Profession, Capital Gains and other sources can be set off.

Clubbing of Income means the assessee is subject to assessment on income of other person in certain cases. Such income is generally, transferred by the assessee himself either directly or indirectly to avoid tax liability. Such transfers are identified under the provisions of clubbing of income and assessee becomes liable on such incomes. For example, an individual transfers an income generating asset to his/her spouse for inadequate or no consideration, in such cases the income accruing to spouse will be taxable in the hands of the transferor. Hence, the income of spouse (other person) is included in the Income of transferor (Assessee). The Provisions of Clubbing of Income deals with all such cases and clubbing of income is done before arriving at Gross Total Income.

The Provisions of Set-off and Carryforwards of losses apply in case of losses. In such cases losses can be adjusted against certain incomes and detailed provisions provide the rule for adjustment of losses against applicable sources of income.

After such adjustments, the head wise incomes of assessee are computed and added to arrive at Gross Total Income.

8.3 Clubbing of Income

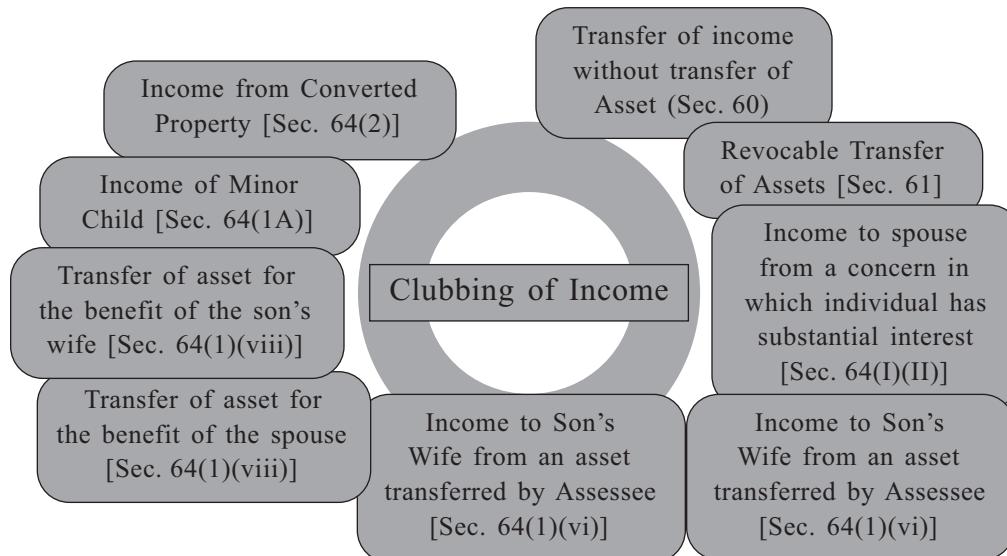
An Assessee is generally assessed in respect of income belonging to him. However, there are certain circumstances where he is assessed in respect of income of other persons. The Income-tax Act provides such cases under sections 60 to 64, where provisions of clubbing of income are applicable. These sections deal with the cases where assessee diverts his assets or source of income in a manner that the income accrues to other person, making the recipient liable or assessable in respect of such income with the intention of tax evasion or reducing assessee's own tax liability. In these cases where sections 60 to 64 apply, the income so



CLUBBING OF INCOME AND SET-OFF AND CARRY FORWARD OF LOSSES

Notes

received by the other person is treated as the income of assessee and assessed accordingly.



8.3.1 Key Points

- ◆ Such income as received by other person is included in the income of concerned heads of Assessee.
- ◆ Deductions u/s 80C to 80U can also be availed by the assessee on such income.
- ◆ Income is first computed head wise and then clubbed in the hands of assessee.
- ◆ According to explanation 2 to section 64, Losses from a head of income can be clubbed if the income from the head attracts the provisions of Clubbing of income.

8.3.2 Transfer of Income Without Transfer of Asset [Section 60]

When an individual assessee transfers an income arising from an asset in any settlement, agreement, arrangement or trust etc. without transferring the ownership of the asset for an inadequate or no consideration. Such transferred income is treated as the income of transferor and included in his respective head of income. For example, when a house is owned by

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Arun and given on rent to Bhushan but Bhushan pays rent to Chaman in place of Arun. The income is received by Chaman but will be included in total income of Arun.

IN-TEXT QUESTIONS

1. Clubbing of income means _____
 - (a) When income of other person is included in assessee's total income
 - (b) Transfer of income
 - (c) Paying tax on own income
 - (d) All of these
2. When income is transferred without transfer of asset _____
 - (a) Such income is assessed in the hands of recipient
 - (b) Such income is included in the total income of the person who owns the asset
 - (c) Such income is not taxed in the hands of any of the parties
 - (d) None of the above

8.3.3 Revocable Transfer of Assets [Section 61]

When a person transfers any asset to another person with a right to revoke the transfer, all income accruing to the holder of asset shall be clubbed with the income of transferor. A transfer is revocable when the transferor reserves the position to take back the asset after the transfer.

According to section 63(a) Revocable transfer means a transfer where the transferor has the right to assume or reassume or restore or take back the property either wholly or partly, directly or indirectly from the transferee during the life time of transferee.

Exceptions (Section 62)

Rule: In case of revocable transfer of an asset, the income from such an asset is to be included in the total income of the transferor.

Exception(s): If there is an irrevocable transfer of assets for a specified period, the income from such assets shall not be included in the income of the transferor provided the following conditions are satisfied:



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- (a) The transfer was made before 1st April 1961 and was not revocable for a period exceeding six years; or
- (b) The transfer is made through a trust and it cannot be revoked in the entire life of beneficiary; or
- (c) The transfer cannot be revoked in the entire life of the transferee.

However, the transferor should not derive any direct or indirect benefit from such income in either case.

For example, Pankaj transfers his property to Rajesh for the entire life of Rajesh on 1.4.2021 with a condition that after the death of the transferee (Rajesh), the property will belong to Pankaj. In this case, since the property is transferred under an irrevocable transfer. Therefore, the income generated on this property will be taxable in the hands of Rajesh till his survival. Post the death of Rajesh, the income on this property will be taxable in the hands of Pankaj whether or not he takes back the property.

8.3.4 Income to Spouse from a Concern in which Individual has Substantial Interest [Section 64(1)(ii)]

Any remuneration (salary, bonus, commission etc.) accruing to the spouse from the concern (Company, partnership, BOI, AOP etc.) in which spouse has substantial interest then such remuneration shall be clubbed with the income of spouse.

For example,

Key Points

- ◆ If remuneration is earned using professional or technical qualification, the provisions of clubbing shall not apply; and
- ◆ When the relationship of husband and wife does not exist the provisions of clubbing shall not apply.
- ◆ When both the spouses have substantial interest and drawing remuneration from the same concern, in such case the remuneration shall be clubbed in the total income of that spouse whose total income excluding such remuneration is higher.

Substantial Interest

Substantial interest means when assessee along with his relative has 20% or more beneficial interest in the business concern.

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Relative: Relative means spouse, brother and sister and lineal ascendants and descendants.

IN-TEXT QUESTIONS

3. Which of the following best describes a revocable transfer?
 - (a) Transfer of asset with the intention to revoke it at a future date
 - (b) Transfer of income without transferring the ownership of asset
 - (c) Transferee derives income from the asset
 - (d) Both (a) & (c)
4. In case of substantial interest of a person in a concern-
 - (a) The income of spouse from such concern shall be clubbed in the hands of other spouse having substantial interest even if the spouse is technically and professionally qualified for the position.
 - (b) The benefit derived in the form of salary by his relative(s) because of his substantial interest in the concern and without adequate qualification, will be clubbed with the income of person having substantial interest.
 - (c) Both (a) & (b)
 - (d) None of the above

8.3.5 *Income to Spouse from an Asset Transferred by Assessee [Section 64(1)(iv)]*

When an individual assessee transfers any asset other than a house property, directly or indirectly, to the spouse otherwise than for adequate consideration or in connection with an agreement to live apart, any income that arises from such assets directly or indirectly is treated as income of transferor and clubbed with his income. If any addition is made to the asset and income is derived from such addition, it will not be clubbed with the income of transferor.

For example, Mr. Sharma transferred 1000, 10% debentures of market value Rs. 300 each to Mrs. Sharma for Rs. 3000 and interest received



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by Mrs. Sharma on these debentures at the end of the year is 30,000. Of this income, Rs. 300 ($3000/300000 \times 30,000$) will be taxable in the hands of Mrs. Sharma; remaining Rs. 29,700 will be taxable in the hands of Mr. Sharma. That can alternatively be calculated as: $(3,00,000 - 3000)/3,00,000 \times 30,000$.

8.3.6 Income to Son's Wife from an Asset Transferred by Assessee [Section 64(1)(vi)]

In case an individual transfers any asset either directly or indirectly to his/her son's wife without adequate consideration, on or after 1st June 1973, any income arising from such asset is treated as income of transferor and clubbed with his income.

However, if transferee invests such sum into the business or as capital in the partnership firm then share of profit arising out of asset/income transferred under this section shall also be included in the total income of transferor.

For example, Mr. Sharma transferred 1000, 10% debentures of market value Rs. 300 each to his daughter-in-law for Rs. 3000 and interest received by Mrs. Sharma on these debentures at the end of the year is 30,000. Of this income, Rs. 300 ($3000/300000 \times 30,000$) will be taxable in the hands of daughter-in-law, remaining Rs. 29,700 will be taxable in the hands of Mr. Sharma. That can alternatively be calculated as: $(3,00,000 - 3000)/3,00,000 \times 30,000$.

Another example, Mr. Kumra gifted 1000, shares of Rs. 6,00,000 to his son's wife. The lady received a dividend of Rs. 12000 and sold the shares for Rs. 9,00,000. The entire proceeds of Rs. 9,12,000 was invested to buy a house property, on which the rent proceeds amounted to Rs. 34,000. The taxability of this case is as follows:

Mr. Kumra is taxable in respect of income arising from the asset transferred by him. So he is assessable in respect of following income:

Dividend	12,000
Capital Gain	300,000
Proportion in House Property income	$15658 - 23,800 \times 6,00,000/9,12000^*$
Total	3,27,658

*Explanation

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Notes

Out of the funds utilised for buying house property i.e. 9,12,000, only 6,00,000 is contributed by Mr. Kumra. Therefore the ratio of 6,00,000 to 9,12,000 is applied to HP income to arrive at the share of Mr. Kumra. This is for the reason that income on any appreciation in the asset value is assessable in the hands of transferee.

Computation of Income under head ‘house property’

Gross Annual Value	34000
less: Municipal tax	Nil
Net Annual Value	34000
less: Deduction u/s 24(A) (30% of NAV)	10,200
Interest on Borrowed Capital	Nil
Income u/h House Property	23,800

Similarly, the wife of Mr. Kumra’s son is assessable in respect of income from any appreciation in asset value, i.e., proportion of income from house property on appreciation in asset value calculated as $23,800 \times 3,12,000/9,12,000 = 8142$

**8.3.7 Transfer of Asset for the Benefit of the Spouse
[Section 64(1)(vii)]**

When an individual transfers any asset directly or indirectly to a person or association of persons (trustee or body of trustees or juristic person) without adequate consideration for the partial or full benefit of his/ her spouse. The income so derived only to the extent being used by transferee for the immediate or future benefit of spouse will be clubbed with the income of transferor.

For example, Mr. Kapoor transfers 1000, 10% debentures of Rs. 300 each to Mr. Roy without consideration for a condition that interest income from such debentures will be utilised for the benefit of Mrs. Kapoor. In this case, the interest income on debentures will be taxable in the hands of Mr. Kapoor.

IN-TEXT QUESTIONS

5. Clubbing of income under section 64(1)(iv) will not apply in case of:
- (a) There is transfer with the agreement to live apart



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Notes

- (b) Transfer for adequate Consideration
(c) Income of transferee from addition made to the asset
(d) All of these
6. Which of the following sections is applicable for clubbing of income when an asset is transferred by the asset to an association of persons for the benefit of spouse?
- (a) Section 64(1)(iv)
(b) Section 61
(c) Section 60
(d) None of the above

8.3.8 Transfer of Asset for the Benefit of the Son's Wife [Section 64(1)(viii)]

When an individual transfers any asset directly or indirectly to a person or association of persons (trustee or body of trustees or juristic person) without adequate consideration for the partial or full benefit of his/ her son's wife, the income so derived only to the extent being used by transferee for the immediate or future benefit of son's wife will be clubbed with the income of transferor.

For example, Mr. Kapoor transfers 100, Preference Shares of Rs. 30 each to Mr. Roy without consideration for a condition that any dividend accruing therefrom will be utilised for the benefit of Mrs. Kapoor. In this case, the dividend income on debentures will be taxable in the hands of Mr. Kapoor.

8.3.9 Income of Minor Child [Section 64(1A)]

Income earned by a minor child is clubbed with the income of any of his/her parent whose total income without including the income of minor is higher.

Exceptions:

- ◆ Any income derived by the minor from manual work or any other activity involving his skills or specialized knowledge shall not be included with the income of parent.

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Notes

- ◆ Income of minor child suffering from any disability specified under section 80U shall not be clubbed with the income of parent.
- ◆ Where the marriage of parents is dissolved. Income of minor will be included with that parent who keeps the minor child in the relevant previous year.

For example, in an agreement to live apart, the custody of child is given to mother. In this case, any income earned by minor child will be included in the income of his mother irrespective of the income of the father.

Note: Where the income of an individual includes any income of minor child, then in respect of each minor child such individual shall be entitled to exemption under section 10(32) of Rs. 1500 or the amount includible under section 64(1A) of that minor child, whichever is less.

For example, the income of minor for A.Y. 2023-24 is 4,50,000. The total income of his mother is 8,94,000 and total income of his father is 6,71,000. In this case, the income of minor will be added to his mother's income and she will be entitled to an exemption of Rs. 1500 under section 10(32). Her total income now will be $8,94,000 + (4,50,000 - 1500) = 13,42,500$.

8.3.10 *Income from Converted Property [Section 64(2)]*

When an individual who is a member of Hindu Undivided Family transfers his self-acquired property after 31st December 1969 to the family for the common benefit of the family, or throws it into common stock of the family or transfers it directly or indirectly to the family otherwise than for adequate consideration, such property is known as converted property. The income derived from the converted property or any part thereof, is to be clubbed with the income of transferor.

8.3.11 *Liability on the Transferee [Section 65]*

Sections 60 to 64 provide for the cases where the income is clubbed with the total income of transferor, i.e., the obligation to pay taxes on such income lies on transferor although the income is received by the transferee.

Section 65 gives power to the Income Tax Department to issue a notice to transferee for the amount of tax due on such income. In other



Notes

words, IT Department has the power to proceed against the transferee to recover the tax on income which is clubbed with the total income of transferor.

IN-TEXT QUESTIONS

7. Which of the following is not an exception to clubbing of minor's income in the hand of parent?
 - (a) When the income is earned by minor involving application of his skill
 - (b) When the marriage of parents does not subsist
 - (c) When the income is earned by minor from manual work
 - (d) All of these
8. Which of the following best describes converted property?
 - (a) Conversion of property of a member of Hindu Undivided Family to Joint property of Hindu Undivided Family
 - (b) Transfer of property of husband to wife for inadequate consideration
 - (c) Transfer of property to any relative
 - (d) None of the above

As you learnt that the aggregate of Five heads of income after giving effects to the provisions for clubbing of income and set-off losses is known as "Gross Total Income". However, there are situations when there can be losses which require adjustment with income from other heads. Set-off means the adjustment of losses against some income from different source or different head as per the rules applicable. The adjustment of losses is first done (i) Inter-source or intra-head (Section 70), then (ii) Inter head (Section 71). In other words, the losses are first adjusted against income from different source in same head and if the resultant figure is still a loss, it can be adjusted against an income from other heads.

Intra-head adjustment
(section 70)

Inter-head adjustment
(section 71)



8.4 Set-Off and Carry Forward of Losses

If the loss cannot be completely set off with the income of current year, it is carried to the succeeding years for set off in the subsequent years.

8.4.1 Intra-Head Adjustment [Section 70]

Intra-head adjustment means set-off of losses within the same head. For example, income from House Property A Rs. (-) 2,00,000 can be adjusted with income from House Property B of Rs. 5,00,000 and net income under the head House Property becomes Rs. 3,00,000. Section 70 allows the adjustment of a loss with the income of same head except in below mentioned cases:

- ◆ **Speculative Business Losses**

Speculative business losses can only be set off against profits of speculative businesses. However, the losses of non-speculative business can also be adjusted against the profits of speculative business but losses of speculative business cannot be adjusted against profits of non-speculative business.

To elaborate,

Loss	Set-off Rule	
Non-speculative business loss	Set-off allowed from Speculative Business Profit	Set-off allowed from Non-Speculative Business Profit
Speculative business loss	Set-off allowed from Speculative Business Profit	Set-off not allowed from Non-speculative Business Profit

- ◆ **Long-term Capital Loss (LTCL)**

LTCL can only be set off against LTCG. It neither can be set off against Short-term Capital Gain nor from any other heads of income.

- ◆ **Specified Business Loss**

Loss of specified business under section 35AD can only be set off against income of specified business only.

- ◆ **Loss Arising from the Activity of Owning & Maintaining Race Horses**

Any loss from the activity of owning & maintaining horse races can only be set off against income of owning & maintaining horse races.



◆ **Loss under the Head Whose Income is Exempt from Tax**

No losses can be adjusted from the sources where income is exempt from tax. For example, Agricultural losses cannot be set off.

◆ **No Set-off from Income from Lottery, Card Games etc.**

No losses can be set off against incomes from sources like winning from lotteries, card games, gambling etc.

8.4.2 Inter-Head Adjustment [Section 71]

Inter-head adjustment means loss under one head can be set off with income under other heads. For example, loss of house property is set off with income of business/salary/Capital Gain/Income from other sources. Such adjustment becomes inter-head adjustment.

However, in the following cases inter-head adjustment is not permitted.

1. Speculation Business Loss

Such loss can be adjusted with speculation business profit only. No inter-head set-off is possible.

2. Specified Business Loss

Loss from a specified business under section 35AD can be set off against specified business profit only. It cannot be set off with any other income.

3. Capital Losses

Long-term capital loss and short-term capital loss can only be adjusted income under same head. Such losses cannot be adjusted inter-head.

4. Loss from Owning & Maintaining Race Horses

Loss from owning & maintaining horse races can only be set off in the same head. No inter-head set-off is allowed.

5. Loss from Business

Loss from business cannot be set off from salary income.

6. Loss from House Property of more than 2 Lakhs

House property loss of more than 2 lakhs cannot be adjusted against any other head of income.

**7. No Set-off against Lottery Winnings, Card Games etc.**

No loss can be set off against gains from lottery winning, games, gambling or the like nature of income.

8. Loss from House Property in New Tax Regime u/s 115BAC

In case of new tax regime, loss under the head house property cannot be set off against any other head of income.

9. Virtual Digital Assets Loss

In case transfer of virtual digital asset results in a loss, that loss cannot be set off against any other income.

Note:

- ◆ Loss has to be first adjusted intra-head. If the loss still continues inter-head adjustment is to be made. Further, if the loss is still greater, it is carried to subsequent years as per the provisions of carry forward of losses and set off in subsequent years.
- ◆ Excluding all the above cases, any loss can be adjusted against income under any of the heads.

IN-TEXT QUESTIONS**9. Set-off means:**

- (a) To adjust the negative income or losses from a source against gain or positive income from another source
- (b) To ignore losses while calculating income from all heads
- (c) Adding incomes of similar nature together
- (d) None of the above

10. Loss from a source shall be set off:

- (a) With business gain only
- (b) Against the income of same head only
- (c) First intra-head and then inter-head
- (d) None of the above

8.4.3 Carry Forward

Such losses that cannot be set off in the current financial year are carried forward to next years and can be set off in subsequent assessment



years with concerned heads of income only. So the provisions of section 70 and section 71 should be wisely applied for selection to losses for set off in current and coming years. Losses under following sources can only be carried forward.

8.4.4 Carry Forward and Set-Off of Losses from House Property [Section 71B]

If, for any financial year, the net result under the head “Income from House Property” is loss for the assessee and such loss cannot be or is not entirely offset by income from any other head of income in conformity with the provisions of section 71. Subject to the other provisions of this chapter, the entire loss can be carried forward to be set off for 8 successive assessment years. The carried forward House Property loss will be set off in the following order:

- (i) Firstly set off against the income from residential property assessable for that assessment year; and then
- (ii) The loss, if any, which has not been fully set off, the amount of loss not so set shall be carried forward to the subsequent assessment year, which shall not be more than eight assessment years immediately succeeding the assessment year for which the loss was incurred.

8.4.5 Carry Forward and Set Off of Business Losses [Section 72]

Business loss other than speculation loss to the extent not set off under section 71 will be carried over to the following assessment year and deducted from the income under the head PGBP in the next assessment year. The loss to the extent not set off shall be carried forward to next assessment year.

The loss can however be carried forward for next 8 assessment years immediately succeeding the assessment year in which loss was first computed.

The continuity of business is not needed for set-off of carried forward loss.

The carried forward business loss is set off in subsequent years in following order:

1. Expenses of current year.



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2. Current year expenditure on scientific research, family planning and depreciation.
3. Business loss carried forward (Section 72)
4. Unabsorbed Depreciation (Section 32(2))

8.4.6 Carry Forward and Set Off of Loss in Speculation Business [Section 73]

As per section 28, where the speculative transactions carried on by an assessee are of such a nature as to constitute a business, the business shall be deemed to be distinct and separate from any other business.

Further, section 43(5) defines a speculative transaction to mean a transaction in which a contract for purchase or sale of any commodity, including stock and shares, is periodically or ultimately settled otherwise than by actual delivery or transfer of the commodity or scrip.

However, hedging contracts are not speculative transactions. The following are not speculative transactions:

- (A) A contract in manufacturing or trading business in respect of stocks and shares by a person to avoid the loss that may occur due to price variations in unforeseen future for his contracts including physical delivery of goods manufactured or sold by him; or
- (B) A contract involving stocks and shares that a dealer or investor therein enters into to protect against losing money on his holdings of stocks and shares due to price changes; or
- (C) A contract for arbitrage in a forward market or stock exchange to protect against a loss that might occur in the normal course of his business.

According to Section 73:

- ◆ The loss of a speculation business will be adjusted against the gain of other speculative business.
- ◆ The loss if not fully adjusted, will be taken to next assessment year and adjusted with the profits from speculations business of the next assessment year.



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- ◆ The loss from speculation business can be carried forward for 4 assessment years.

Explanation of Section 73:

Where any part of the business consists of sale and purchase of shares and the like commodity, such business for the purpose of section 73, is considered as speculative business to the level of dealing in shares.

IN-TEXT QUESTIONS

11. A business loss if not fully set off:
 - (a) Can be carried forward for 8 subsequent Assessment Years
 - (b) Cannot be carried forward
 - (c) Can be carried forward indefinitely
 - (d) Can be carried forward for 6 subsequent Assessment Years
12. Which of the following is not true?
 - (a) Loss of a speculative business can be adjusted with gain from other speculative business
 - (b) The unadjusted loss of a speculative business can be carried forward for 4 Assessment Years.
 - (c) The carried forward loss from speculative business can be set off against gain from other speculative business.
 - (d) Loss from speculative business can be set off against gain from other non-speculative business.

8.4.7 Carry Forward and Set-Off of Loss from Specified Business Under Section 35AD [Section 73A]

Loss of Specified Business u/s 35AD can only be set off against Profit of Specified Business in subsequent years. There is no specified time limit for carry forward of such losses.

8.4.8 Carry Forward and Set Off of Unabsorbed Depreciation [Section 32(2)]

Unabsorbed depreciation shall be added to the depreciation of next year and can be set off from any head of income except salary and

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lottery winnings etc. There is no limit for carry forward of unabsorbed depreciation.

The unabsorbed depreciation is set off in subsequent years in following order:

1. Expenses of current year.
2. Current year expenditure on scientific research, family planning and depreciation.
3. Business loss carried forward (Section 72).
4. Unabsorbed Depreciation (Section 32(2)).

8.4.9 Carry Forward and Set-Off of Losses Under the Head 'Capital Gains' [Section 74]

If a loss, whether short-term or long-term, is the net result of the computation under the head "Capital gains" for any assessment year, then that loss must be carried forward to the subsequent assessment year to be set off as explained below:

- (a) The carried forward Short-term Capital Loss (STCL) can first be set off against Short-term capital gain then from any Long-term capital gains that financial year.
- (b) The carried forward Long-term Capital Loss (LTCL) can be set off against Long-term Capital Gain (LTCG) arising in that year.
- (c) When a carried forward short-term or long-term loss cannot be fully set off, the amount of the loss that cannot be set off will be carried over to the subsequent assessment year, and so on.

Loss under the head "Capital gain" can be carried over under section 74 for a maximum of 8 assessment years after the year for which the loss was initially estimated.

8.4.10 Carry Forward and Set-Off of Loss from Owning and Maintaining Race Horses [Section 74A]

Carried forward loss from owning and maintaining race horses shall be adjusted with income of owning and maintaining race horses.

The carried forward loss from owning and maintaining race horses that could not be adjusted as per section 71 will be taken over to succeeding



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years and adjusted against the income from the activity of owning and maintaining race horses.

These provisions are applicable if the activity of owning & maintaining race horses is performed by the assessee in the previous year to which such loss is carried forward.

Carry forward in this case is permissible for four years.

Note:

- ◆ Horse race means a horse race upon which wagering or betting may be lawfully made.
- ◆ Loss from owning and maintaining race horses means: In a case when assessee has no income by way of stake money, the amount of expenditure (not being a capital expenditure) set aside or spent solely and exclusively with the objective of maintaining race horses.

In a case where assessee has income by way of stake money, the amount by which such income falls short of the amount of expenditure (not being in nature of capital expenditure) laid out or expended by him wholly or exclusively for the purpose of maintaining race horses.

- ◆ Income by way of stake money means the gross amount of prize money received on a race horse by the owner of the horse on account of the horse winning or being placed in the second or in the lower position in the horse race.

8.4.11 Carry Forward and Set-Off of Loss from Reconstitution of a Firm [Section 78]

When there is change in structure of the firm due to retirement or death of a partner, the share of loss of outgoing partner is not carried forward for subsequent years. However, this section is not applicable in case of admission of a partner, change in profit sharing ratio etc.

8.5 Summary

This chapter discusses the provisions of clubbing of income as applicable in cases when an individual is liable for assessment in respect of income of another person. These cases generally include those situations

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when an assessee with the objective of escaping tax liability transfers income or an asset that will generate income for a consideration which is significantly less than adequate consideration or under an agreement to revoke such transfer. In these cases, the transferor bears the burden of tax liability and transferee can also be enquired or made liable for amount of tax due in such cases.

Further, the second part of this chapter discusses the treatment of losses. The losses can be adjusted against some gain so as to reduce the net income and such losses are fully set off against certain incomes as per section 70 and section 71. First of all, losses are adjusted in same head; for example, loss of a house property can be adjusted against gain of another house property, so the net income under the head house property is an adjusted figure including the loss. However, if the loss still sustains, it is adjusted with income from different head. Even after this, the loss still sustains it can be carried to subsequent years for different timelines as per applicable provisions.

8.6 Answers to In-Text Questions

1. (a) When income of other person is included in assessee's total income.
2. (b) Such income is included in the total income of the person who owns the asset.
3. (a) Transfer of asset with the intention to revoke it at a future date.
4. (b) The benefit derived in the form of salary by his relative(s) because of his substantial interest in the concern and without adequate qualification, will be clubbed with the income of person having substantial interest.
5. (d) All of these.
6. (d) None of the above.
7. (b) When the marriage of parents does not subsist.
8. (a) Conversion of property of a member of Hindu Undivided Family to Joint property of Hindu Undivided Family.



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9. (a) To adjust the negative income or losses from a source against gain or positive income from another source.
10. (c) First intra-head and then inter-head.
11. (a) Can be carried forward for 8 subsequent Assessment Years.
12. (d) Loss from Speculative business can be set off against gain from other non-speculative business.

8.7 Self-Assessment Questions

1. What are the provisions of clubbing of minor's income?
2. Briefly elaborate the cases when an individual is assessable in respect of income of other persons.
3. How or in what situations can an individual avoid clubbing provisions while transferring an asset to the spouse?
4. Discuss the provisions of section 70 and section 71 for set-off of House Property Loss.
5. How the loss from the activity owning & maintaining race horses is treated and adjusted?
6. What is a speculation business loss? Explain the provisions of set off and carry forward of speculation business losses.
7. What is the liability of transferee in case of transfer of asset by spouse for inadequate consideration?
8. Discuss the provisions for set-off and carry forward of unabsorbed depreciation.

8.8 References

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- ◆ The Institute of Chartered Accountants of India. (2023). *Taxation Section A - Income-tax Law*.
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8.9 Suggested Readings

- ◆ Finance Act, 2022.
- ◆ Income-tax Act, 1961.



Deductions Under Chapter VI-A, Rebates and Reliefs

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STRUCTURE

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- 9.16** *Deduction in Respect of Eligible Start-Up [Section 80-IAC]*
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- 9.25** *Deduction in Case of a Person with Disability [Section 80U]*
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9.1 Learning Objectives

- ◆ Describe the concept of Deductions under Chapter VI-A, rebates and reliefs.
- ◆ Explain the different deductions allowable from Gross Total Income.
- ◆ Understand the maximum amount that can be claimed as deductions in each specific section.



DEDUCTIONS UNDER CHAPTER VI-A, REBATES AND RELIEFS

- Understand the need to study the sections related to Deductions, rebates and reliefs.

Notes

9.2 Introduction

Deductions, rebates, and reliefs under the Income-tax Act, 1961, are like a treasure chest filled with valuable tax-saving opportunities for individuals and businesses in India. It's a set of rules and provisions that the government has put in place to help assessee reduce the Gross Total Income which you have to pay taxes. It encompasses various sections, each catering to different categories of deductions, rebates, and reliefs, with specific eligibility criteria and limits. These provisions are designed to promote activities such as savings in recognized instruments, investments in specified avenues, and spending in essential areas. Deductions under Chapter VI-A include popular sections such as (a) Section 80C, which allows deductions for investments in instruments like Provident Fund, Public Provident Fund (PPF), and National Savings Certificates (NSC), and (b) Section 80D, which provides deductions for health insurance premiums. Additionally, it covers deductions for contributions to charitable organizations under section 80G, deductions for education loans under section 80E, and various other tax-saving opportunities. It encourages taxpayers to save, invest, and spend wisely, thereby channelling funds into sectors that require financial support. Furthermore, it ensures that taxpayers are not burdened with excessive tax liabilities, making the tax system more equitable and accessible.

Deductions, rebates, and reliefs under the Income-tax Act, 1961, serve as a critical component of India's taxation framework. It facilitates responsible financial behaviour, supports key sectors of the economy, and provides taxpayers with opportunities to reduce their tax liability while contributing to the nation's progress. Understanding the provisions within this chapter is essential for effective tax planning and compliance.

9.3 Impact of Section 115BAC/115BAD on Deductions

In 2020, the Finance Act introduced a fresh approach to taxation. It's like giving taxpayers two different options for individuals, Hindu Undivided Families (HUFs), when it comes to paying taxes.

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- ◆ Option one is Old Tax Regime. Here, taxpayers can claim various deductions and exemptions, and their tax rate follows the standard rates specified in the Finance Act of 2020.
- ◆ Option two is governed by section 115BAC/115BAD. It provides an alternative tax system where taxpayers can't claim as many deductions and exemptions, but in return, they get lower tax rates built into these sections.

This change applies starting from the assessment year 2021-22, which corresponds to the fiscal year 2020-21. So, taxpayers now have a choice between these two tax systems.

For individuals and Hindu Undivided Families (HUFs) who choose the tax system governed by section 115BAC of the Income-tax Act, 1961, they won't be able to avail deductions under Chapter VI-A, except for those specified in sub-section (2) of section 80CCD and section 80JJAA.

9.4 Deduction-Basic Rules

Taxpayers can reduce their Gross total income by claiming various deductions specified in Chapter VI-A of the Income-tax Act, subject to meeting the conditions outlined in each respective section. Once these deductions are applied, the taxpayer's total income is determined, and taxes are levied at the prescribed rates.

The aggregate deductions available under Chapter VI-A cannot surpass the Gross Total Income of the taxpayer. When allowing deductions, certain types of income can't be utilised to make deduction including long-term capital gains, short-term capital gains falling under section 111A, incidental income like lottery or race winnings, and income specified in sections 115A, 115AB, 115AC, 115ACA, and so forth. Taxpayers must proactively apply for deductions available within Chapter VI-A to utilize them. If a deduction is claimed under any section of Chapter VI-A, it cannot be used to claim deductions under any other section.

9.5 Deduction in Respect of Investments [Section 80C]

This section allows individuals and Hindu undivided families to receive a deduction on their taxable income for investments made in certain assets, up to a maximum limit of Rs. 1,50,000.



Section 80C of the Income-tax Act, 1961, is like a treasure chest of tax-saving opportunities designed to put more money back in the taxpayer's pocket. It's a way for the taxpayer to reduce the amount of their income that's subject to taxation.

Imagine the taxpayer earns a certain amount of money every year, and the government takes a portion of it as income tax. Section 80C is a special provision that lets the taxpayer lower the amount of income that's taxable. In other words, it allows the taxpayer to save on their taxes legally by investing or spending in specific ways.

The best part about section 80C is that it covers things the taxpayer probably already does or plans to do:

- ◆ **Life Insurance Premium:** If the taxpayer has life insurance and pays premiums, those payments count.
- ◆ **Public Provident Fund (PPF):** Money the taxpayer puts in a PPF account can be considered a tax-saving investment.
- ◆ **Employee Provident Fund (EPF):** If the taxpayer is a salaried person, the contributions they make to their EPF account can also save them taxes.
- ◆ **5-Year Fixed Deposit:** Certain bank fixed deposits with a 5-year lock-in period are eligible.
- ◆ **National Savings Certificate (NSC):** NSC investments are part of section 80C.
- ◆ **Tuition Fees:** If the taxpayer has kids, the tuition fees they pay for their education can help them save on taxes.
- ◆ **Principal Repayment on Home Loan:** If the taxpayer is paying off a home loan, a portion of their repayment qualifies.
- ◆ **Sukanya Samridhi Account:** If the taxpayer is saving for their daughter's future, this account is included.

For Example:

Let's meet Mr. A, who earns Rs. 7,00,000 per year. If he doesn't do anything to save on taxes, he would have to pay tax on this entire amount. But Mr. A is smart and plans his finances well.

Mr. A decides to invest Rs. 1,50,000 in a PPF account, which is one of the options under section 80C. Now, his taxable income isn't Rs. 7,00,000



anymore. It's Rs. 5,50,000 (Rs. 7,00,000 – Rs. 1,50,000). By doing this, he saves on the amount of tax he has to pay because he's not taxed on the full Rs. 7,00,000 anymore. Instead, he's only taxed on Rs. 5,50,000.

IN-TEXT QUESTIONS

1. True or False: Section 80C deductions can only be claimed by individuals and not by Hindu Undivided Families (HUFs).
 - (a) True
 - (b) False
2. What is the maximum deduction amount allowed under section 80C?
 - (a) Rs. 50,000
 - (b) Rs. 1,00,000
 - (c) Rs. 1,50,000
 - (d) Rs. 2,00,000
3. True or False: Section 80C deductions can be claimed for investments made in specified assets only.
 - (a) True
 - (b) False
4. Which of the following expenses is eligible for deductions under section 80C?
 - (a) Petrol expenses
 - (b) Cable TV subscription fees
 - (c) Movie ticket expenses
 - (d) None of these

9.6 Deduction for Contribution to Pension Fund [Section 80CCC]

Section 80CCC allows individuals to claim a deduction for the amount they invest from their taxable income into an annuity plan offered by the Life Insurance Corporation of India or an insurer approved by the IRDAI for pension purposes. This deduction is capped at a maximum of Rs. 1,50,000.



DEDUCTIONS UNDER CHAPTER VI-A, REBATES AND RELIEFS

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It's important to note that contributions under this section cannot be claimed as a deduction under section 80C.

However, it's crucial to be aware that any pension received by the taxpayer or their nominee is subject to taxation in the year it is received. If the taxpayer or their nominee surrenders the annuity plan before its maturity, the surrender value, which includes any bonuses or interest, is also taxable in the year of receipt.

Section 80CCC of the Income-tax Act, 1961, is a provision that encourages individuals to save for their retirement by providing tax benefits for contributions made towards certain pension plans. Here's an overview of section 80CCC:

Eligible Contributions: Section 80CCC allows taxpayers to claim deductions for premiums paid towards pension plans provided by insurance companies. These pension plans are designed to provide individuals with a regular income stream during their retirement years.

Deduction Limit: The deduction under section 80CCC is part of the overall limit of Rs. 1.5 lakh available under sections 80C, 80CCC, and 80CCD(1) combined. In other words, the total deduction for contributions to pension plans, life insurance premiums, and other eligible investments under these sections should not exceed Rs. 1.5 lakh in a financial year.

Promoting Retirement Savings: Section 80CCC plays a crucial role in promoting retirement savings and financial planning. It incentivizes individuals to invest in pension plans, ensuring they have financial security during their retirement years. The deduction encourages taxpayers to set aside a portion of their income for long-term financial stability.

Flexibility in Pension Plans: Taxpayers have the flexibility to choose from various pension plans offered by insurance companies to claim deductions under section 80CCC. These plans may vary in terms of contribution amounts, payout options, and features, allowing individuals to tailor their retirement savings strategy to their specific needs and goals.

Considerations: It's important to note that while section 80CCC encourages retirement savings, the tax benefits are linked to the premiums paid towards pension plans. Additionally, any maturity proceeds received from these pension plans are subject to tax. Therefore, individuals should

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carefully evaluate the terms and conditions of the pension plan they choose and consider consulting a financial advisor for retirement planning.

Section 80CCC is a tax-saving provision that incentivizes individuals to save for their retirement by offering deductions for premiums paid towards eligible pension plans. By utilizing this section, taxpayers can plan for their financial security during their retirement years while also reducing their taxable income within the overall limit specified under the Income-tax Act.

9.7 Deduction in Respect of Contribution to Pension Scheme of Central Government [Section 80CCD]

Deduction under section 80CCD of the Income-tax Act, 1961, is designed to promote retirement savings by offering tax benefits to individuals who contribute to specific pension schemes. Here's an in-depth explanation of section 80CCD:

- ◆ **Eligible Contributions:** Section 80CCD caters to individuals who contribute to the National Pension System (NPS) and other pension schemes notified by the Central Government. It encourages taxpayers to build a financial cushion for their retirement years.
- ◆ **Two Sub-sections:** Section 80CCD is divided into two sub-sections:

◆ 80CCD(1): Employee's Contribution

This sub-section applies to both employees and self-employed individuals.

It allows individuals to claim deductions for contributions made to their NPS Tier I account.

The maximum deduction allowed under 80CCD(1) is 10% of the individual's salary (for employees) or 20% of gross total income (for self-employed individuals).

Additionally, an extra deduction of up to Rs. 50,000 is available under section 80CCD(1B). This is Over and above Rs. 1.5 lakh of the aggregate amount of section 80C, section 80CCC and section 80CCD.



◆ **80CCD(2): Employer's Contribution**

This sub-section deals with the employer's contributions to the employee's NPS account.

There is no specific limit for the employer's contribution, but it should not exceed 10% or 14% of the employee's salary.

- ◆ **Promoting Retirement Planning:** Section 80CCD is a significant incentive for retirement planning. It encourages individuals to set aside a portion of their income for their post-retirement years by offering tax deductions on contributions to pension schemes. The NPS, in particular, is a valuable tool for retirement savings.
- ◆ **Tax Efficiency:** This section is tax-efficient because it allows for deductions not only on contributions made but also on the employer's contributions. This dual benefit enhances the overall retirement savings potential for employees.
- ◆ **Considerations:** While section 80CCD promotes retirement savings, it's important to be aware that the amount received as a pension from NPS or other similar schemes is taxable. Therefore, individuals should plan their retirement corpus and taxation implications carefully.

Section 80CCD is a provision that encourages individuals to invest in their retirement by offering deductions for contributions to pension schemes, primarily the NPS. It's a tax-efficient way to secure one's financial future during the retirement phase while also benefiting from deductions on both personal and employer contributions. Individuals should consider their long-term financial goals and consult with financial advisors to make informed decisions regarding retirement planning and tax savings under section 80CCD(1B).

9.8 Deduction in Respect of Medical Insurance Premium [Section 80D]

Section 80D allows individuals or Hindu Undivided Families (HUFs) to claim deductions for expenses related to health insurance premiums, preventive health check-ups, and contributions to government health schemes. This applies to the health of the taxpayer, their family, parents, or HUF members.



Notes

- ◆ For individuals, the deduction is calculated as follows:
 - ◆ The total amount paid for health insurance or government health schemes or preventive check-ups for the taxpayer or their family, up to a maximum of Rs. 25,000.
 - ◆ The total amount paid for health insurance or preventive check-ups for the taxpayer's parents, up to a maximum of Rs. 25,000.
 - ◆ Medical expenses up to Rs. 50,000 for the taxpayer or their family.
 - ◆ Medical expenses up to Rs. 50,000 for the taxpayer's parents, provided they are senior citizens and no insurance has been taken for their health.

However, the total deduction under (a) and (c) or under (b) and (d) cannot exceed Rs. 50,000.

- ◆ For Hindu Undivided Families (HUFs), the deduction is:
 - ◆ The total amount paid for health insurance for any HUF member, up to a maximum of Rs. 25,000.
 - ◆ Medical expenses up to Rs. 50,000 for any senior citizen HUF member, provided there's no insurance for their health.

Again, the total deduction under (a) and (b) cannot exceed Rs. 50,000 under section 80D.

9.9 Tax Incentives for Affordable Housing [Section 80EEA]

Section 80EEA of the Income-tax Act, 1961, introduced by the Finance Act of 2019 and further amended in the Finance Act of 2021, provides an additional tax deduction of up to Rs. 1.5 lakh for interest paid on loans obtained until March 31, 2022. This deduction is in addition to the Rs. 2 lakh benefit granted by section 24. Therefore, the maximum tax deduction for home loan interest payment is Rs. 3.5 lakh, consisting of Rs. 2 lakh under section 24 and Rs. 1.5 lakh under section 80EEA. This deduction applies to loans acquired until March 31, 2022, and is specifically for the interest portion of the home loan.

**IN-TEXT QUESTIONS**

5. What is the maximum additional tax deduction allowed under section 80EEA for interest paid on home loans?
 - (a) Rs. 2 lakh
 - (b) Rs. 1.5 lakh
 - (c) Rs. 3.5 lakh
 - (d) Rs. 5 lakh

6. What is the total maximum tax deduction available for home loan interest payments, combining sections 24 and 80EEA?
 - (a) Rs. 1.5 lakh
 - (b) Rs. 2 lakh
 - (c) Rs. 3.5 lakh
 - (d) Rs. 5 lakh

9.10 Tax Incentives for Electric Vehicles [Section 80EEB]

When calculating an individual's total income, a deduction is permitted for the interest paid on a loan obtained from a financial institution for the purpose of purchasing an electric vehicle. This deduction is subject to certain conditions and limitations. It cannot exceed Rs. 1,50,000 and is applicable for the assessment year starting on April 1, 2020, and subsequent assessment years. To qualify for this deduction, the loan must have been approved by the financial institution between April 1, 2019, and March 31, 2023.

9.11 Deduction in Respect of Donations to Certain Funds, Charitable Institutions, Etc. [Section 80G]

Section 80G offers deductions to all taxpayers who make donations to specific organizations, institutions, or funds. However, donations exceeding Rs. 2,000 will not be eligible for deduction under this section if they are made in cash. Additionally, if a taxpayer has already claimed and been granted a deduction under this section for a specific donation amount, that same amount cannot be claimed for deductions under any



other provision of the Income-tax Act, whether it's for the same assessment year or any other.

9.12 Deduction in Respect of Rent Paid [Section 80GG]

Section 80GG allows individuals to claim a deduction for the rent they pay when they don't receive House Rent Allowance (HRA) as per section 10(13A) or accommodations from their employer without charge. To qualify, the individual must use the rented place as their own residence, and neither they nor their spouse, minor child, or Hindu Undivided Family (HUF) should own a residential property in the same location where they live, work, or conduct business or a profession.

To claim this deduction, the individual must submit a declaration in Form 10BA. The deductible amount under this section is the lower of:

- ◆ The actual rent paid minus 10% of their Adjusted Total Income.
- ◆ 25% of their Adjusted Total Income.
- ◆ An amount calculated at Rs. 5,000 per month.

Adjusted Total Income, in this context, means the gross total income minus long-term capital gains (if included in the gross total income), income referred to in sections 115A to 115D, and deductions under section 80C, excluding deductions under this section.

9.13 Deduction in Respect of Certain Donations for Scientific Research or Rural Development [Section 80GGA]

Section 80GGA provides a 100% deduction to any taxpayer excluding those whose gross total income includes income subject to taxation under the profits and gains of business or profession head for the following payments or donations:

- ◆ Payments made to a research association whose primary purpose is to conduct scientific research.
- ◆ Payments made to a university, college, or another institution to support scientific research, provided that such association, university, college, or institution has received approval from the designated authority for the purposes mentioned in section 35(1)(ii).



DEDUCTIONS UNDER CHAPTER VI-A, REBATES AND RELIEFS

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- ◆ Payments made to an approved association or institution with the objective of conducting rural development programs are eligible for deductions, provided the taxpayer submits the certificate mentioned in section 35CCA(2).
- ◆ Additionally, deductions can be claimed for sums paid to an approved association or institution engaged in rural development programs, given that the taxpayer furnishes a certificate referred to in section 35CCA(2A).
- ◆ Any amount paid by the taxpayer during the previous year to the National Urban Poverty Eradication Fund, which has been set up and notified by the Central government, qualifies for deductions.
- ◆ Any amount paid by the taxpayer during the previous year to a public sector company, a local authority, or an association or institution approved by the National Committee for executing an eligible project or scheme qualifies for deductions, provided the taxpayer provides a certificate as referred to in section 35AC(2)(a). In this context, the term ‘National Committee’ refers to the committee established by the Central government, comprising individuals of high standing in public life, as per the rules established under the Income-tax Act, 1961. ‘Eligible project or scheme’ denotes projects or schemes that promote the social and economic well-being of the public or upliftment, as notified by the Central government based on the recommendations of the National Committee.
- ◆ Payments made prior to April 1, 2002, to an approved association or institution with the objective of undertaking programs related to the conservation of natural resources or afforestation can be used for carrying out such approved programs under section 35CCB(2).
- ◆ Deductions can be claimed for amounts paid to the National Fund for Rural Development, established and announced by the Central government for the purpose of conducting rural development activities. It’s important to note that if a deduction is claimed and granted under this section, no further deductions will be allowed for the same payment under any other provisions of the Income-tax Act, whether for the same assessment year or any other.

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9.14 Deduction in Respect of Contributions Given by Companies to Political Parties or an Electoral Trust [Section 80GGB]

Section 80GGB allows Indian companies to claim a 100% deduction for any contribution made in the previous year to a political party or an electoral trust when calculating their total income, provided the contribution is made through a non-cash mode.

9.15 Deduction in Respect of Contributions Given by any Person to Political Parties or an Electoral Trust [Section 80GGC]

Section 80GGC offers a 100% deduction to an assessee (Any Person) for any amount contributed to a political party or an electoral trust, excluding local authorities and any artificial juridical entity that receives government funding, when computing their total income, as long as the contribution is made through a non-cash mode.

9.16 Deduction in Respect of Eligible Start-Up [Section 80-IAC]

Section 80IAC offers a deduction to eligible start-ups, and if their gross total income includes profits and gains from eligible business activities, they can claim a deduction equal to 100% of the profits and gains derived from such business for three consecutive assessment years. This option is available for a period of 10 years starting from the year the eligible start-up is established.

To qualify, the eligible start-up should not have been created by dividing or reconstructing an existing business. Additionally, it should not have been established by transferring machinery or plant previously used for any other purpose. However, if any machinery or plant that was previously used for other purposes is transferred to the new business, it can still qualify for this deduction as long as the total value of the transferred machinery or plant doesn't exceed twenty percent of the total value of machinery or plant used in the new business.



IN-TEXT QUESTIONS

7. What is the maximum deduction percentage allowed under section 80GGB for contributions made by Indian companies to political parties or electoral trusts?
 - (a) 50%
 - (b) 75%
 - (c) 90%
 - (d) 100%
8. Who is eligible to claim deductions under section 80GGB?
 - (a) Individual taxpayers
 - (b) Foreign companies
 - (c) Indian companies
 - (d) Partnership firms
9. Under section 80GGB, what type of entities can receive contributions?
 - (a) Individuals
 - (b) Charitable organizations
 - (c) Political parties and electoral trusts
 - (d) Religious institutions
10. How many consecutive assessment years can an eligible start-up claim a deduction under section 80IAC?
 - (a) One year
 - (b) Two years
 - (c) Three years
 - (d) Four years
11. What type of deduction does section 80IAC offer to eligible start-ups?
 - (a) Deduction on employee salaries
 - (b) Deduction on research and development expenses
 - (c) Deduction on profits and gains from eligible business activities
 - (d) Deduction on office rent expenses



9.17 Deductions in Respect of Profits and Gains from Housing Projects [Section 80-IBA]

Section 80-IBA offers a deduction to a taxpayer whose gross total income comprises profits and gains from the business of developing and constructing housing projects. Under the provisions of this section, they can claim a deduction equivalent to 100% of the profits and gains derived from this business.

9.18 Deduction in Respect of Profits and Gains from the Business of Collecting and Processing Bio-Degradable Waste [Section 80JJA]

Section 80JJA offers a deduction to a taxpayer, whose gross total income includes profits and gains obtained from the business of gathering, processing, or treating bio-degradable waste. This business may involve generating power, manufacturing bio-fertilizers, bio-pesticides, or other biological agents, producing bio-gas, creating pellets or briquettes for fuel, or developing organic manure. The deduction equals the entire amount of such profits and gains and is applicable for a continuous period of five assessment years, commencing with the assessment year related to the previous year in which this business was initiated.

9.19 Deduction in Respect of Certain Incomes of Offshore Banking Units [Section 80LA]

Section 80LA provides a deduction to certain entities, including scheduled banks and banks established under foreign laws, from income originating from various sources:

- ◆ Income from an offshore banking unit located within a special economic zone.
- ◆ Income from activities specified in sub-section (1) of section 6 of the Banking Regulation Act, 1949, involving an undertaking situated in a special economic zone or any other undertaking engaged in the development, development and operation, or operation and maintenance of a special economic zone.



DEDUCTIONS UNDER CHAPTER VI-A, REBATES AND RELIEFS

Notes

This deduction applies to income received in convertible foreign exchange, following regulations established under the Foreign Exchange Management Act, 1999.

Starting from the Assessment Year 2021-22, the deduction encompasses 100% of such income for a duration of any 10 consecutive years within a span of 15 years. The choice of which 10 years to claim this deduction lies with the assessee.

9.20 Deduction in Respect of Certain Inter-Corporate Dividends [Section 80M]

When the gross total income of a domestic company for a specific year includes income in the form of dividends from another domestic company, a foreign company, or a business trust, the following provisions apply:

- ◆ The domestic company is eligible for a deduction in its total income, which equals the portion of the dividend income received from the other domestic company, foreign company, or business trust that doesn't surpass the amount of dividend distributed by the paying entity on or before the due date.
- ◆ If a deduction has already been granted in any previous year for the amount of dividend distributed by the domestic company, then no further deduction will be allowed for the same amount in any other previous year.

9.21 Deduction in Respect of Royalty Income, Etc., of Authors of Certain Books other than Text Books [Section 80QQB]

Section 80QQB extends a provision for tax deduction to resident individuals who, as authors or co-authors of a book, derive income from their book-related activities. This income may manifest as a lump-sum compensation received in exchange for assigning or transferring their copyright interests in a book, or as royalties stemming from the sale of their books, excluding textbooks.

The quantum of deduction is determined as the lower of the eligible income or a fixed limit of Rs. 3,00,000. The eligible income, which remains unaltered by deductible expenses, is calculated as the lesser of:

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- ◆ The lump-sum remuneration garnered through assignment or transfer.
- ◆ Royalties earned, provided they do not surpass 15% of the total income.
- ◆ If this income is accrued abroad, the segment of it is repatriated to India in convertible foreign exchange within a span of 6 months from the culmination of the preceding fiscal year or a time frame extended as approved by the Reserve Bank of India.

It is imperative to note that this deduction is not applicable to a particular category of publications such as brochures, diaries, guides, journals, magazines, newspapers, pamphlets, school textbooks, tracts, commentaries, or analogous publications. To lay claim to this tax benefit, the taxpayer must furnish a certificate as per the specified Form 10CCD/10h.

9.22 Deduction in Respect of Royalty on Patents [Section 80RRB]

Section 80RRB is a provision in the Income-tax Act designed to offer deductions to Indian residents who hold patents. If a taxpayer is one of these patent holders and receives income in the form of royalties, they can benefit from this section, but there are some conditions.

To qualify for this deduction, the patent must have been registered after April 1, 2003, under the Patents Act of 1970. The taxpayer should also be the original inventor registered under this act, including cases where the taxpayer shares patent ownership.

Now, here's how the deduction works: The taxpayer can claim an amount equal to either 100% of the royalty income received or a maximum of Rs. 3,00,000, whichever is lower.

If the taxpayer is earning this royalty income from sources outside India, only the portion of income that is brought into India in convertible foreign exchange within six months from the end of the financial year in which it was earned will be considered for this deduction. If the taxpayer needs more time to bring it in, they might be able to get an extension from the competent authority.

In essence, this section encourages innovation and recognizes the contributions of inventors by providing them with tax benefits for their patent-related income.



9.23 Deduction in Respect of Interest on Deposits in Savings Account [Section 80TTA]

Section 80TTA in the Income-tax Act offers a deduction to individual taxpayers and Hindu Undivided Families (HUFs) whose gross total income includes interest income from their savings account deposits. However, this deduction doesn't apply to senior citizens, as they have a separate section called 80TTB for such deductions.

To be eligible for this deduction, the taxpayer's savings account should be with:

- ◆ A bank covered by the Banking Regulation Act, 1949.
- ◆ A cooperative society involved in banking activities.
- ◆ A post office, as defined by the Indian Post Office Act, 1898.

The maximum deduction a taxpayer can claim under this section is Rs. 10,000.

It's important to note that if the interest income comes from a savings account held by a firm, an association of persons, or a body of individuals, no deduction can be claimed by individual partners or members of these entities. This rule is in place to prevent double deductions on the same income.

9.24 Deduction in Respect of Interest on Deposits in Case of Senior Citizens [Section 80TTB]

In cases where a senior citizen's total income includes interest earned from deposits in a bank, co-operative bank, or post office, a deduction is allowed. The deduction can be:

- ◆ The full amount of interest income if it doesn't exceed Rs. 50,000 in total.
- ◆ Rs. 50,000 if the interest income is higher than that.

However, no deduction is permitted if these deposits are held by a firm, association of persons (AOP), or body of individuals (BOI).

A senior citizen refers to an individual who is aged sixty years or older at some point during the relevant financial year and is a resident in India.



Notes

Section 10(15)(i) under the Income-tax Act, 1961 of India pertains to specific exemptions on income earned from certain investments. This section deals with the exemption of interest on certain bonds or securities. Specifically, it provides an exemption for the interest income earned from specific government securities, bonds, or deposits. The interest income from these instruments is exempt from income tax. The purpose of this exemption is to encourage investment in government securities and bonds and promote savings among individuals.

9.25 Deduction in Case of a Person with Disability [Section 80U]

Section 80U offers a deduction to resident individuals facing significant disabilities, including blindness, low vision, leprosy-cured, hearing impairment, locomotor disability, mental retardation, and mental illness, accounting for 40% or more of the disability. Disabilities covered under section 80U include:

Blindness: This includes both partial and complete blindness.

Low Vision: Individuals with low vision or visual impairment may also qualify for deductions under this section.

Hearing Impairment: Individuals who are deaf or have a significant hearing impairment.

Leprosy-Cured: Persons who have been cured of leprosy but have suffered from its effects, such as physical deformities.

Locomotor Disability: Individuals with any kind of physical disability that affects their mobility, such as difficulty in walking, missing limbs, or paralysis.

Mental Retardation: Individuals with intellectual or developmental disabilities.

Mental Illness: Persons suffering from mental illnesses like schizophrenia, bipolar disorder, and other psychiatric conditions.

The deduction amount is Rs. 75,000 (for any disability) and Rs. 1,25,000 (for severe disability, which is a disability of at least 80%). To claim this deduction, the individual must provide a certificate from a medical authority, following the prescribed format, stating their disability status. This certificate



should be submitted along with the income tax return under section 139 for the relevant assessment year in which the deduction is sought.

9.26 Rebate and Relief

- ◆ Section 87A offers an income tax rebate to resident individuals whose total income does not exceed Rs. 5,00,000. This rebate can be up to Rs. 12,500 or 100% of the income tax, whichever is less. This rebate is deducted before assessing the health & education cess.
- ◆ Section 89 provides relief for individuals who receive parts of their salary in arrears or in advance or receive profit instead of salary during the previous year. Such individuals can request relief from the Assessing Officer, who has the authority to grant relief as per Rule 21AA of the Income-tax Rules, 1962, in suitable cases. However, no relief will be granted for amounts received on voluntary retirement or service termination, especially if the assessee has already claimed an exemption under clause (10C) of section 10 for the same or any other assessment year, especially if it's a public sector company under sub-clause (i) of clause (10C) of section 10. Marginal relief under section 89 is applied to provide relief to taxpayers in cases where they receive salary or other income in advance or in arrears. This can often lead to higher tax liability, as the income received in a particular year may not align with the normal tax slab applicable for that year.

IN-TEXT QUESTIONS

- 12.** What is the maximum value of machinery or plant that can be transferred from other purposes to qualify for the deduction under section 80IAC?
- 5% of the total value of machinery or plant used in the new business
 - 10% of the total value of machinery or plant used in the new business
 - 15% of the total value of machinery or plant used in the new business
 - 20% of the total value of machinery or plant used in the new business



IN-TEXT QUESTIONS

13. When should an individual submit their disability certificate to claim a deduction under section 80U?
 - (a) At the time of medical examination
 - (b) Along with their birth certificate
 - (c) Along with the income tax return under section 139 for the relevant assessment year
 - (d) When applying for a job
14. What is the deduction amount available under section 80U for an individual facing severe disability?
 - (a) Rs. 50,000
 - (b) Rs. 75,000
 - (c) Rs. 1,00,000
 - (d) Rs. 1,25,000
15. What is the primary purpose of section 80U?
 - (a) To provide deductions for educational expenses
 - (b) To encourage individuals to invest in insurance policies
 - (c) To provide financial support to individuals with disabilities
 - (d) To promote entrepreneurship among disabled individuals

9.27 Summary

Deductions, rebates, and reliefs under the Income-tax Act, 1961, stand as a significant pillar within India's taxation framework. This chapter serves as a practical guide for taxpayers seeking to optimize their financial affairs while staying compliant with tax regulations.

In essence, Deductions, rebates, and reliefs under the Income-tax Act, 1961, offers a bouquet of tax-saving options, from deductions and rebates to relief measures, all designed to reduce the taxable income of individuals and businesses. These provisions are strategically structured to promote specific financial behaviours, be it saving for the future, investing in key sectors, or contributing to social causes.



For instance, section 80C encourages individuals to invest in avenues like Provident Funds, National Savings Certificates, and Equity-Linked Savings Schemes (ELSS) by providing deductions. It's a win-win situation: taxpayers enjoy savings while the economy benefits from increased investments. Similarly, section 80D rewards responsible health planning by allowing deductions on health insurance premiums, promoting overall well-being.

Charitable contributions find support in section 80G, where individuals and businesses are encouraged to donate to recognized charitable organizations through deductions, fostering a culture of philanthropy. Meanwhile, section 80E eases the financial load of pursuing education by providing deductions on interest paid for education loans.

The significance of Deductions, rebates, and reliefs lies not only in the tax savings it offers but also in its contribution to the nation's economic landscape. By guiding taxpayers toward prudent financial decisions such as savings and investments, it ensures a steady influx of funds into sectors critical for growth.

In essence, Deductions, rebates, and reliefs under the Income-tax Act, 1961, bridge the gap between individual financial planning and the broader national economic agenda. It empowers taxpayers to make informed choices while simultaneously bolstering the economy. Understanding and leveraging the opportunities within this chapter can significantly impact personal finances and contribute to the country's overall development.

9.28 Answers to In-Text Questions

1. (b) False
2. (c) Rs. 1,50,000
3. (a) True
4. (d) None of these
5. (b) Rs. 1.5 lakh
6. (c) Rs. 3.5 lakh
7. (d) 100%
8. (c) Indian companies



Notes

9. (c) Political parties and electoral trusts
10. (c) Three years
11. (c) Deduction on profits and gains from eligible business activities
12. (d) 20% of the total value of machinery or plant used in the new business
13. (c) Along with the income tax return under section 139 for the relevant assessment year
14. (d) Rs. 1,25,000
15. (c) To provide financial support to individuals with disabilities

9.29 Self-Assessment Questions

1. What are the eligibility criteria and calculation rules for individuals to claim a deduction under section 80GG for rent paid?
2. What types of payments or donations qualify for a 100% deduction under section 80GGA, and what are the requirements associated with each?
3. What are the key provisions of section 80LA, and which entities are eligible for the deduction it offers?
4. What is the key benefit offered by section 80IAC to eligible start-ups, and what are the eligibility criteria that start-ups must meet to qualify for this deduction? Additionally, how does the section treat the transfer of machinery or plant previously used for other purposes in the context of claiming this deduction?

9.30 References

- ◆ Singhania V., & Singhania, M. Students Guide to Income Tax, Taxmann Publications.
- ◆ Ahuja, G., & Gupta, R. Systematic Approach to Income Tax, Bharat Law House.
- ◆ Chandra, M., & Shukla, D.C. Income Tax Law and Practice, Pragati Publications.



Notes

9.31 Suggested Readings

- ◆ ICSI Study Material - Tax Laws.
- ◆ Income-tax Act, 1961: <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>



UNIT - IV

Total Income & Tax Liability

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Computation of Total Income and Tax Liability of Individuals; E-Filing of Income Tax by Individuals

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STRUCTURE

- 10.1 Learning Objectives**
- 10.2 Introduction**
- 10.3 How to Determine Total Income?**
- 10.4 Who is an Individual?**
- 10.5 Format to Compute Total Income of an Individual**
- 10.6 Format to Compute Tax Liability of an Individual**
- 10.7 Computation of Total Income and Tax Liability of an Individual (Numerical Problems)**
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10.1 Learning Objectives

- ◆ Compute total income of an individual.
- ◆ Compute net tax liability of an individual.
- ◆ Understand which ITR is suitable for you.
- ◆ Understand the steps in e-filing of income-tax return.

10.2 Introduction

In the previous lessons you have learnt to compute income from each head of income. Now in this lesson, you will learn to compute total income after deductions, set-off and carry forward of losses, clubbing of income and tax liability of an individual. Assessee is required to fill the income tax return in the assessment year before its due date. In this lesson you will also learn steps required for e-filing of income-tax return. Before e-filing of income tax return, you are required to get Form 16(a) and Form 16(b) from your employer if you are a salaried employee. Other than Form 16, Form 26 Annual Statements (26AS) can be downloaded from the Traces website in which details of tax credit appear linked to a PAN. Besides, you have to download the Annual Information System (AIS), Tax payer Information System (TIS) from e-filing portal for cross checking of your different incomes which you have received other than from your employer. Match your income with 26AS, AIS and TIS, so that you can fill correct income and tax. Then by login to www.incometaxefiling.gov.in you can file the income information and submit after verification.

10.3 How to Determine Total Income?

The aggregate of income computed under each head of income, after giving effect to the provisions for clubbing of income and set off of losses is known as “Gross Total Income”. In computing the total income of an individual assessee, certain deductions under sections 80C to 80U are permissible from Gross Total Income.

However, these deductions are not allowed from the following income although these incomes are part of GTI.



COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS

Notes

- (a) Long-term capital gains.
- (b) Short-term capital gains on transfer of equity shares and units of equity oriented through a recognized stock exchange i.e., covered under section short-term capital gains 111A.
- (c) Winnings of lotteries, horse races etc.
- (d) Incomes referred to in sections 115A, 115AB, 115AC, 115ACA, 115AD and 115D.

Thus, the income arrived at, after claiming the deductions u/s 80C to 80U from Gross Total Income is known as Total Income.

10.4 Who is an Individual?

10.4.1 Individual

An individual means a natural person which includes male, female, minor child and a lunatic or an idiot. In case of male/female who is a major, income tax will be levied on his/her total taxable income separately, unless the income is to be clubbed under provisions of sections 60 to 64.

10.4.2 Minor

As regard to minor child, the income of minor after giving exemption upto Rs. 1,500 per minor child will be clubbed with the income of that parent whose total income, before clubbing such income, is greater.

Note: If minor child earned any income using his/her skill/capacity such income is taxable in the hands of minor.

10.4.3 Lunatic and an Idiot

Income of a lunatic or an idiot will be assessed in the hands of the representative assessee.

10.4.4 On what Income an Individual is Liable to Pay Tax?

- (a) Income earned by an individual in his individual capacity under the different heads of income.

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- (b) Remuneration (salary, bonus and commission) and interest received as a partner from a firm or a LLP.
- (c) Income received as a member of AOP/BOI.
- (d) Income of the other person included in the income of the individual. (Sections 60-65)
- (e) Income from imitable estate of HUF.

10.5 Format to Compute Total Income of an Individual

	Particulars	Under Regular Tax Regime Rs.	Under Alternative Tax Regime Rs.
Step-1	<p>First compute the income of an individual under the following 5 heads of income of his residential status:</p> <ul style="list-style-type: none">(i) Income from Salary(ii) Income from House Property(iii) Profits and gains from business or profession(iv) Capital Gains(v) Income from other Sources	_____	_____
	<p>Add: Income of any other person (clubbing of income) will be added in respective heads as above.</p>	_____	_____
Step-2	<p>Less: Set off the losses of the current previous year, and carry forward of past years losses if any permissible from respective heads of income as above, while aggregating the income under 5 heads of income (as in respective heads-step-1)</p> <p>Find Aggregate Gross Total Income</p>	GTI	GTI



Notes

	Particulars	Under Regular Tax Regime Rs.	Under Alternative Tax Regime Rs.
Step-3	Deduct: Deductions u/s 80C to 80U, if any but not from LTCG & STCG u/s 115.	80C-8U	Blocked
Step-4	Total Income (step-2 minus step-3) will be rounded off in multiple of 10.	TI	TI
Step-5	Add: Agricultural Income, if any, As per applicable provisions (see Lesson 1)	If any	If any
Step-6	Taxable Total Income [step-7 minus step-8]	Total income	Total income

10.6 Format to Compute Tax Liability of an Individual

Under Regular Tax Regime Rs.		Under Alternative Tax Regime Rs.	
Step-1 Compute Tax on Total Income at the pre-scribed rate	Tax Amount	Step-1 Compute Tax on Total Income at the prescribed rate	Tax Amount
Step-2: Less: Rebate u/s 87A	If any	Step-2: Less: Rebate u/s 87A	If any
Step-3: Balance Tax (Step-1 minus Step-2)	Balance amount	Step-3: Balance tax (Step-1 minus Step-2)	Balance amount
Step-4: Add a surcharge on balance amount	If any	Step-4: Add: Surcharge on balance amount	If any
Step-5: Add: Cess @4% on the aggregate amount of step-3 and step-4	+	Step-5: Add: Cess @4% on the aggregate amount of step-3 and step-4	+
Step-6: Less: Relief u/s 89	If any	Step-6: Less: Relief u/s 89	If any
Step-7: Gross Tax Liabil-ity (step-5 minus step-6)	GTI	Step-7: Gross Tax Li-ability (step-5 minus step-6)	GTI



Notes

Under Regular Tax Regime Rs.		Under Alternative Tax Regime Rs.	
Step-8: Deduct: <i>(i)</i> TDS, if any <i>(ii)</i> Advance tax paid, if any	If any	Step-8: Deduct: <i>(i)</i> TDS, if any <i>(ii)</i> Advance tax paid, if any	If any
Step-9: Net Tax Liability payable/ Refund	_____	Step-9: Net Tax Liab- ility payable/ Refund	_____

(a) Tax Deducted at Source: In case of certain incomes/payments, tax is deducted at the source by the payer/employer at prescribed rate at the time of accrual or payment of such incomes to the payee.

Section	Nature of Payment
192	Payment of Salary
193	Payment of interest on securities
194A	Payment of interest other than interest on securities (including Interest on Fixed Deposit etc.)

(b) Advance Payment of Tax: The assessee, in certain cases, is under an obligation to pay tax in advance in certain instalments. This is payable only when the amount of such advance tax payable by the assessee during the previous year is Rs. 10,000 or more.

(i) Liability for Payment of Advance Tax: As per provisions of advance tax, tax shall be payable in advance during the previous year in respect of the total income of the assessee.

(ii) Senior Citizen not required to pay advance tax: if he/she:

- ◆ Does not have any income chargeable under the head “Profits and gains of Business or Profession”, and
- ◆ Is of the age of 60 years or more at any time during the previous year.

(c) Eligibility of Rebate u/s 87A: Rebate is granted if the assessee satisfies the following conditions:

1. The assessee is an individual



2. The assessee is resident in India during the previous year
3. The assessee's total income does not exceed Rs. 5,00,000

Quantum of Rebate: Least of the following:

- (i) The amount of income tax payable on the total income
- (ii) Rs. 12,500

Note: From the assessment year 2024-25, it is Rs. 25,000 under alternative tax regime if total income is upto Rs. 7 lakh.

IN-TEXT QUESTIONS

1. State whether the following statements are True or False:
 - (a) The maximum amount of tax rebate u/s 87A is Rs. 12,500.
 - (b) Senior citizen is not required to pay advance tax.
 - (c) Advance tax shall be payable in assessment year.
 - (d) Deductions u/s 80's is not allowed if short-term capital gains are covered under section short-term capital gains 111A.
2. Fill in the blanks:
 - (a) Tax rebate is available to an individual whose total income _____ Rs. 5,00,000.
 - (b) Senior citizen is not required to pay advance tax if he/she _____ have any income from profits and gains of business or profession.
 - (c) Advance tax shall be payable during the _____.
 - (d) Deductions u/s 80's is not allowed from _____ capital gains.

10.7 Computation of Total Income and Tax Liability of an Individual (Numerical Problems)

Problem 1:

Sri Ram who is an Indian citizen and is a resident in India for tax purposes submits the following information for the previous year 2022-23:



Particulars	Rs.
1. Salary	6,00,000
2. Professional tax paid	2,000
3. Received Entertainment Allowance and spent Rs. 5000	6,000
4. Own contribution to PF/ NPS @10%	60,000
5. Employer contribution to PF/NPS @12%	72,000
6. Interest received on PF @10%	10,000
7. Dividend income from an Indian company	1,500
8. Interest received on Fixed Deposits	9,000

Compute his Total Income under:

(A) Regular Tax Regime for the assessment year 2023-24 assuming he is a member of

- (i) Statutory Provident Fund
- (ii) Recognised Provident Fund
- (iii) Unrecognised Provident Fund

(B) Alternative Tax Regime u/s 115BAC assuming Sri Ram is not a member of provident fund. But employee and employer, both, contribute 10% and 12% respectively to NPS.

Solution:**(A) Under Regular Tax Regime:**

Computation of Total Income of Sri Ram For the Assessment Year 2023-24				
	Particular	SPF Rs.	RPF Rs.	URPF Rs.
1.	Income from Salary:			
	(i) Salary	6,00,000	6,00,000	6,00,000
	(ii) Entertainment Allowance	6,000	6,000	6,000
	(iii) Employer's contribution to RPF in excess of 12% of salary	Exempt	Nil	Exempt
	(iv) Interest on RPF in excess of 9.5% Rs. 10,000 x 0.5/10	Exempt	500	Exempt
	Gross Salary	6,06,000	6,06,500	6,06,000



COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS

Notes

	Less: Deductions:	52,000	52,000	52,000
	(i) Standard Deduction u/s 16(i) Rs. 50,000			
	(ii) Entertainment Allowance u/s 16(ii) Nil [see W.N.-1]			
	(iii) Professional Tax u/s 16(iii) Rs. 2,000			
	Net Salary	5,54,000	5,54,500	5,54,000
2.	Income from House Property	Nil	Nil	Nil
3.	Profits and gains from business or profession	Nil	Nil	Nil
4.	Capital gains	Nil	Nil	Nil
5.	Income from Other Sources: (i) Interest on Fixed Deposits Rs. 9,000 (ii) Dividend from Indian company Rs. 1,500	10,500	10,500	10,500
	Gross Total Income	5,64,500	5,65,000	5,64,500
	Deductions: (i) u/s 80 C: Employees' contribu- tion to PF (ii) u/s 80 TTA: Interest on FD (max Rs. 10,000)	10,000 9,000	10,000 9,000	10,000 9,000
	Total Income	5,45,500	5,46,000	5,45,500

Note:

- Entertainment allowance is to be added first in salary, then deduct u/s 16(ii) but in these case, no deduction u/s 16(ii) is allowed to employee of non-government sector, here, you can assume that Sri Ram is non-govt. employee. Hence, fully taxable irrespective of expenditure.
- Deduction u/s 80C is allowed subject to a maximum of Rs. 1,50,000 and u/s 80TTA subject to a maximum of Rs. 10,000.

**(B) Under Alternative Tax Regime u/s 115BAC**

Computation of Total Income of Sri Ram For the Assessment Year 2023-24		
	Rs.	Rs.
1. Income from Salary:		
(a) Salary	6,00,000	6,78,000
(b) Entertainment Allowance	6,000	(50,000)
(c) Employer's contribution to NPS	72,000	Blocked
Gross Salary		Blocked
Less:		
(i) Standard Deduction u/s 16(i)		
(ii) Entertainment allowance u/s 16(ii)		
(iii) Professional Tax u/s 16(iii)		
Net Salary		6,28,000
2. Income from House Property		Nil
3. Profits and gains from business or profession		Nil
4. Capital gain		Nil
5. Income from Other Sources:		
(i) Interest on Fixed Deposits	9,000	10,500
(ii) Dividend from an Indian Company	1,500	
Gross Total Income		6,38,500
Deductions: u/ss 80C to 80U (all blocked)		
(i) u/s 80C		Blocked
(ii) u/s 80TTA		Blocked
(iii) u/s 80CCD(2): Employer's contribution to NPS (Max.14%)		(72,000)
Total Income		5,66,500

Note:

1. Figure in bracket indicates loss/deductible
2. Under alternative tax regime u/s 115BAC, deduction u/s 16(ii) & 16(iii) is blocked.
3. Deductions u/ss 80C to 80U are blocked i.e., not available except deduction u/s 80CCD(2).



Notes

Problem 2:

Dr. Nath furnished the following information of his income/payments:

	Particulars	Rs.
1.	Gross Salary	6,50,000
2.	Rent received from letting out of House	60,000
	Municipal tax paid	2,000
3.	Capital Gains-	
	(i) Long-term	10,000
	(ii) Short-term u/s 111A	5,000
4.	Income from other sources:	
	(i) Interest on saving bank account	2,000
	(ii) Interest on fixed deposits	10,000
5.	His Contribution to NPS @ 10%	50,000
	Employer contribution to NPS @ 14%	56,000
6.	His contribution to Public Provident Fund	1,50,000

Compute his total income and tax liability for the assessment year 2023-24:

- (A) Under Regular Tax Regime
- (B) Under Alternative Tax Regime u/s 115BAC

Solution:

**Computation of Total Income of Dr. Nath
For the Assessment Year 2023-24**

	Particulars	Rs.	(A) Under Regular tax regime Rs.	(B) Under alternative tax regime Rs.
1.	Income from Salary:			
	(i) Gross Salary	6,32,000	5,82,000	5,82,000
	Deduct: Standard deduction u/s 16(i)	50,000	56,000	56,000
	(ii) Employer's contribution to NPS			

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Notes

	Particulars	Rs.	(A) Under Regular tax regime Rs.	(B) Under alternative tax regime Rs.
2.	Income from House Property: Rent received being Gross Annual Value Less: Municipal tax paid Annual Value Deduct: Statutory deduction u/s 24(a) @ 30%	60,000 2,000 58,000 17,400	40,600	58,000 24(a) Blocked
3.	Profits and gains from Business or Profession		Nil	Nil
4.	Capital Gains: (i) Long-term (ii) Short-term u/s 111A	10,000 5,000	15,000	15,000
5.	Income from other sources: (i) Interest on Fixed deposits (ii) Interest on saving bank	20,400 2,000	22,400	22,400
6.	Gross Total Income (sum of 1 to 5)		7,16,000	7,33,400
7.	Deductions: Chapter VI: (i) u/s 80C: Contribution to PPF (ii) u/s 80CCD(1): Employee's contribution to NPS (subject to a maximum of u/ss 80C, 80CCC & 80CCD(1) is Rs. 1,50,000) (iii) u/s 80CCD(2) Employer's contribution to NPS @ 14% (iv) u/s 80TTA: Interest income	1,50,000 50,000	(1,50,000) (56,000) (10,000)	Blocked (56,000) Blocked
8.	Total Income		5,00,000	6,77,400

**Note:**

1. Statutory deduction u/s 24(a) is blocked under alternative tax regime.
2. Deduction u/s 80's on long-term capital gain and short-term capital gain u/s 111A is not allowed.
3. Under alternative tax regime, deduction u/s 80's is blocked except u/s 80CCD(2).

Computation of Tax Liability of Dr. Nath
For the Assessment Year 2023-24

Under regular tax regime				Under alternative tax regime			
		Tax-rate	Rs.			Tax-rate	Rs.
1.	Income chargeable at special rate: (a) LT Capital gain i.e., Rs. 10,000 (b) ST capital gain u/s 111A i.e., on Rs. 5,000	20% 15%	2,000 750	1.	Income chargeable at special rate: (a) LT Capital gain i.e., Rs. 10,000 (b) ST capital gain u/s 111 A i.e., Rs. 5,000	20% 15%	2,000 750
2.	Remaining Total Income chargeable at normal rate: [5,00,000 – 15,000] = Rs. 4,85,000 is calculated as under: (a) Upto Rs. 2,50,000 (b) On next Rs. 2,35,000	5%	Exempt 11,750	2.	Income chargeable at normal rate: [6,77,400 – 15,000] = Rs. 6,52,400 is calculated as under: (a) Upto Rs. 2,50,00 (b) On next Rs. 2,50,00 (c) On balance Rs. 1,52,400	5% 10%	Exempt 12,500 15,240
3	Total Tax (1+2)		14,500	3.	Total Tax (1+2)		30,490
4.	Less: Rebate u/s 87A; Least of the following: (a) Actual tax (b) Rs. 12,500	Available	12,500	4.	Less: Tax rebate u/s 87A	Not available	Nil
5.	Balance tax [3-4]		2,000	5.	Balance tax [3-4]		30,490



Notes

Under regular tax regime				Under alternative tax regime			
		Tax-rate	Rs.			Tax-rate	Rs.
6.	Add: surcharged		Nil	6.	Add: Surcharge		Nil
7.	Total (5+6)		2,000	7.	Total (5+6)		30,490
8.	Add: Cess @4% on Rs. 2,000		80	8.	Add: Cess @4% on Rs. 30,490		1,219.60
9.	Gross Tax Liability		2,080	9.	Gross Tax Liability		31,709.60
10.	Less: TDS + Advance tax payment, if any		Nil	10	Less: TDS + Advance tax payment, if any		Nil
11	Net tax payable		2,080	11	Net tax payable (rounded off)		31,710

Note:

- Under regular tax regime, tax rebate is available if total income is upto Rs. 5 lakh subject to a maximum of Rs. 12,500.
- But in case alternative tax regime, total income is more than Rs. 5 lakh, hence rebate u/s 87A is not available.
- Cess @4% is charged on the amount of [(tax on total income - rebate u/s 87A) + Surcharge]

Problem 3 [On set-off and carry forward of losses]:

From the following information submitted to you, compute the total income in the following situation:

	Situation-I Rs.	Situation-II Rs.
1. Income from Salary	6,00,000	6,00,000
2. Income/(Loss) from House Property:		
(a) Income from 1 st house	5,000	5,000
(b) Loss from 2 nd house	(10,000)	(3,000)
3. Profits/(Loss) from business:		
(a) Profits from oil business	10,000	10,000
(b) Loss from textiles business	(11,000)	(8,000)
(c) Profit from speculative business	3,000	5,000
(d) Loss from speculative business	(5,000)	(2,000)

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS



Notes

	Situation-I Rs.	Situation-II Rs.
4. Capital Gains:		
(a) Short-term capital gain/(loss)	5,000	(10,000)
(b) Long-term capital gain/(loss)	(3,000)	8,000
5. Income from other sources:		
(a) Winnings from lotteries	5,000	-----
(b) Winning from horse race	-----	3,000
(c) Interest on saving bank account	2,000	2,000

Compute Total Income for the Assessment Year 2023-24. Ignore 115BAC.

Solution:

**Computation of Total Income
For the Assessment Year 2023-24**

	Situation-I Rs.	Situation-II Rs.
1. Income from Salary	6,00,000	6,00,000
2. Income from House Property:		
(a) Income from 1 st house	5,000	5,000
(b) Loss from 2 nd house	(10,000)	(3,000)
3. I-Profit/(loss) from business:		
(a) Profit from oil business	10,000	10,000
(b) Loss from textile business	(11,000)	(8,000)
II- Profit/(loss) Speculative business:	3,000	5,000
Loss of Rs. 2,000 C/f for next 4 yrs.(I)	(5,000)	(2,000)
4. Capital Gains: See note-1		
(a) Short-term capital gain	5,000	-----
(b) Long-term capital loss	Loss c/f	-----
5. Income from other Sources: (not available for set-off of any loss)		
(a) Winning from lotteries	5,000	-----
(b) Winning from horse race	-----	3,000
(c) Interest on savings bank a/c	2,000	2,000
Gross Total Income	6,06,000	6,09,000
Deduction:		
(i) u/s 80TTA	2,000	2,000
Total Income	5,99,000	6,07,000

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**Note:**

1. Figure in the bracket shows loss.

2. Set-off and carry forward of losses:

(a) Under the head ‘Income from house property’:

(i) **Within head:** Loss from one house property can be set-off from income from the income of other house property.

(ii) **Inter-head:** If any loss of house property is set off from within the head, then unabsorbed loss can be set off from income of other heads if available except income from other source, otherwise carried forward the unrecovered loss for next 8 years.

Note: In situation-I, loss of 2nd house is Rs. 10,000 whereas profit from 1st house is Rs. 5,000. Hence, after setting of loss Rs. 5000 from the profit, the remaining loss of 2nd house i.e., Rs. 5,000 can be set off from the income of other heads (salary, business and capital gains) which is sufficiently available.

(b) Under the head ‘profits and gains from business or profession’:

(i) **Within head:** Loss from one business can be set off from the profit of another business. But loss from speculative business can be set off from the profit of speculative business only. But business loss can be set off from the profit from speculative business.

(ii) **Inter-head:** If business loss cannot be set off within head, then it cannot be set off from income from other heads except salary income and income from other source. So unrecovered business can be carried forward for next 8 years.

Note: In Situation-I, business loss can be set off from capital gain.

(c) Under the head ‘Capital loss’:

(i) **Within head:** Long-term capital loss can be set off from long-term capital profit only. But short-term capital loss can be set off first from short-term capital profit then from long-term capital profit. Hence, unrecovered LT



capital loss and ST capital loss are to be carried forward for next 4 years.

- (ii) **Inter-head:** Long-term capital loss and short-term capital loss cannot be set off from any other heads of income.

Problem 4 (On clubbing of income):

The income of Mr. Shyam and his wife Mrs. Neera are Rs. 4,30,000 and Rs. 5,30,000 respectively. They have a minor child who earned Rs. 1,00,000 by active participation in India Got Talent programme and deposited the same in the form of Fixed Deposit in a Bank and earned interest @6% p.a.

Comment on the provisions of clubbing of income of a minor child.

Solution:

The provision u/s 64(1A) states that:

- (i) While computing the total income of an individual, the income arises or accrues to his minor child is to be clubbed in the hand of either of his parents whose total income (excluding the income of minor) is greater.
- (ii) Such parents shall be entitled to an exemption to the extent of such income or Rs. 1,500 whichever is less.
- (iii) **Exception:** If such income which accrues or arises to the minor child on account of any activity involving application of his/her skills, talent or specialised knowledge and experience shall be clubbed and will be taxable in the hand of the minor himself.
- (iv) But under the alternative tax regime u/s 115BAC, exemption Rs. 1,500 is blocked.

Hence, Rs. 1,00,000 has been earned by the minor child by his talent, so such income will not be clubbed in the total income of either of the parents but taxable in the hand of minor child.

10.8 Income Tax Return Forms

Before e-filling of income tax return, an individual is advised to understand which income tax return form is applicable in a given case. These forms are given below:



Notes

ITR Forms	Subject
ITR-1 (SAHAJ)	<p>A. Who can use ITR-1:</p> <p>This form can be used by a resident and ordinarily resident in India. Individual whose total income does not exceed Rs. 50 lakh (including under clubbing provisions i.e., income of spouse, minor child, daughter-in-law etc.). Moreover, only such individual can use ITR-1 who has income from:</p> <ul style="list-style-type: none">(i) Salary/pension.(ii) One house property (not being b/f loss or loss to be carried forward).(iii) Other sources (excluding winning from lotteries/race horse). <p>B. Who cannot use ITR-1:</p> <ul style="list-style-type: none">(a) An individual who:<ul style="list-style-type: none">(i) Is a director in a company.(ii) Has held any unlisted shares at any time during the previous year.(iii) Has any asset located outside India.(iv) Has income from any source outside India.(b) Restrictions: An individual who has many income of the following nature during the previous year:<ul style="list-style-type: none">(i) Profits and gains from business or profession.(ii) Capital gains.(iii) Income from more than one house property.(iv) Income under the head other sources such as winning from lotteries/ race horses etc.(v) Agricultural income in excess of Rs. 5,000.(c) Restrictions: An individual who has any claims of loss/depreciation/ relief/ tax credit etc. of the following nature:<ul style="list-style-type: none">(i) Any brought forward loss or loss to be carried forward under the head "Income for house property.";(ii) Loss under the head "income from other sources";(iii) Any claim of deduction u/s 57 [other than standard deduction to family pension]; or(iv) Any claim of credit of tax deducted at source in the hands of any other person.
ITR-2	ITR-2 can be used by an individual (not being to whom ITR-1 applies) or HUF where total income does not include income under the business or profession.
ITR-3	ITR-3 can be used by an individual/HUF who has income under the head 'Business or Profession'.



COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS

Notes

ITR Forms	Subject
ITR-4 (Sugam)	<p>A. Who can use ITR-4:</p> <p>(a) Individual/HUF, if the assessee is resident and ordinarily resident in India.</p> <p>(b) Firm, other than LLP, if the assessee is resident.</p> <p>◆ Restrictions: Total income for the assessment year does not exceed Rs. 50 lakh and the assessee has income under the following heads—</p> <ul style="list-style-type: none">(i) Income from business u/s 44AD; or(ii) Income from profession u/s 44ADA; or(iii) Income from salary/pension; or(iv) Income from other sources (including clubbing of income such as spouse, minor child, daughter-in-law). <p>B. Who cannot use ITR-4:</p> <p>A person who:</p> <ul style="list-style-type: none">(a) Is a director in a company;(b) Has held any unlisted equity shares at any time during the previous year;(c) Has any asset located outside India;(d) Has signing authority in any account located outside India;(e) Has income from any source outside India. <p>◆ Restrictions: This return form cannot be used by a person who has any income of the following nature during the previous year:</p> <ul style="list-style-type: none">(i) Profits and gains from business which is not required u/s 44AD, 44ADA; or 44AE;(ii) Capital gains;(iii) Income from more than one house property;(iv) Income from winnings from lotteries/race horses(v) Agricultural income in excess of Rs. 5,000(vi) Income to be apportioned in accordance with provisions of section 5A. <p>C. Restrictions: This form cannot be used by assessee who has any claims of loss/deductions/relief/tax credit etc.;</p> <ul style="list-style-type: none">(i) Any brought forward loss or loss to be carried forward under any head of income;(ii) Loss under the head “Income from other sources”;(iii) Any claim of relief u/s 90, 90A or section 91;(iv) Any claim of deduction u/s 57 [other than standard deduction relating to family pension];(v) Any claim of credit deducted at source in the hands of any other person.

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Notes

ITR Forms	Subject
ITR-5	ITR-5 can be used by a firm, AOP, BOI or artificial juridical person; local authority; co-operative society, society, trust (other than trust eligible to file ITE-7) etc.
ITR-6	ITR-6 can be used by companies other than Companies claiming exemption u/s 11.
ITR-7	ITR-7 can be used by persons including companies required to furnish return u/s 139(4A)/4B/4C/4D.
ITR-U	This form can be used by person who wants to update income u/s 139(8A), within 24 months from the end of the relevant assessment year.
ITR-V	Where the data of the return of income in Forms ITR-1/ITR-2/ITR-3/ITR-4/ITR-5 and ITR-U transmitted electronically without digital signature.

10.9 E-Filing of Income Tax Return of an Individual

An individual is required to e-file of income-tax return electronically in all other cases, except can submit income tax return in paper format only if all the following conditions are satisfied:

1. Return is furnished in ITR-1 or ITR-4.
2. The individual assessee is a super senior citizen for the assessment year 2023-24 if he is resident in India and was born before April 2, 1943.

10.9.1 E-Filing Software

A taxpayer can generate e-income-tax return (popularly known as XML file) by utilising e-filing software provided by the Income-tax Department by logging in to www.incometax.gov.in.

E-Income-Tax Return

After generating XML file, one can log on to www.incometaxindiaefiling.gov.in for uploading it.

E-Verification of Return:

Income tax uploaded by a taxpayer is not treated as valid until it is verified by the taxpayer. Verification can be done under the following modes:

- ◆ **Digital signature:** Verification with digital signature is compulsory in the following cases:



COMPUTATION OF TOTAL INCOME AND TAX LIABILITY OF INDIVIDUALS

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Person	Conditions	Mode of furnishing return
Individual	<ul style="list-style-type: none">◆ Case-1- Accounts are required to be audited u/s 44AB◆ Case-2- Return submitted by an individual (who was born before April 2, 1942) in ITR-1 or ITR-4◆ Case-3- any other cases	<p>Verification with digital signature is compulsory.</p> <p>◆ Electronic mode given in case-3; or</p> <p>◆ Paper format</p> <p>If a person uploads his income-tax return and he has does not fall in the cases given above, he can verify his income-tax return by using any one of the following electronic modes:</p> <ul style="list-style-type: none">(a) Digital signature;(b) Electronic Verification Code received in registered mobile number and e-mail. EVC is a 10-digit alphanumeric code which can be generated through the e-filing portal and is valid for 72 hours.(c) Aadhaar OTP(d) Login on e-filing through net banking;(e) EVC through bank account number;(f) EVC through demat account number;(g) EVC through bank ATM. <p>Note:</p> <ul style="list-style-type: none">◆ Alternatively, uploaded return can be verified by submitting hard copy of ITR-V and should be sent within “specified period i.e., 30 days” by ordinary post (or speed post) to “Income-tax Department-CPC, Post Box No 1, Electronic City Post Office, Bengaluru-560500, Karnataka”.◆ If ITR-V is not furnished within “specified period”, then it will be deemed that the assessee has not submitted his return of income. In such a case, the assessee will have to re-submit the return.

Due Date for Filing Returns of Income:

- For an **individual assessee**, the due date for filing income-tax return is **July 31st** for any given assessment year.



2. For the assessee who is required to furnish a report u/s 92E and has international and domestic specific transactions, due date is Nov 30th for any given assessment year.
3. Where the assessee is a company/person not having international and domestic specific transactions due date is Oct. 31st for any given assessment year.

10.10 Procedure of Tax Return E-Filing

There are FIVE steps in e-filing. An assessee has to complete the form step by step. After completing one step, you will be able to go to the next step by clicking on next. These steps are:

Step-1: Register: If you are a new user, register yourself on Income-Tax e-filing Application for which you need PAN (AADHAAR linked with PAN).

Step-2: Login: Using the Income-tax login credentials which you have to generate online.

Step-3:

- ◆ Downloading utility and preparing return: Excel or Jawa and generate xml file and upload it online after filling the relevant form or you can fill online.
- ◆ Fill income details directly online on the website without downloading the return form.

Step-4: e-Verification of the return: Alternatively you can also opt for ITR-V verification mode and

Step-5: Submit the e-filing income tax return.

What is Form 26AS?

The Income-tax Department maintains the database of the total tax paid by a taxpayer. Form 26AS is an annual statement maintained by the Income-tax Department disclosing the details of tax credit available in the account of a taxpayer as per the database of Income-tax Department. In other words, Form 26AS will reflect the details of tax credit appearing in the PAN of the taxpayer as per the database of the Income-tax Department.



Notes

IN-TEXT QUESTIONS

- 3.** State whether the following statements are True or False:
- 26AS is an annual statement maintained by the Income-tax Department disclosing the details of tax credit of taxpayer.
 - Income tax login credentials is to be generated online by the tax payer.
 - For an individual assessee, the due date of filing income-tax return is July 31st.
 - The individual assessee is a super senior citizen for the assessment year 2023-24 if he is resident in India can also file his/her income-tax return in paper format.
 - Form ITR-1 can be used by a resident and ordinarily resident in India individual whose total income does not exceed Rs. 50 lakh.
 - An individual who has salary/pension income can use ITR-1.
 - An individual who has income from one house property can use ITR-1.
- 4.** Fill in the blanks:
- If you are a new user, register yourself on Income-Tax e-filing Application for which you need _____.
 - Income tax uploaded by a taxpayer is not treated as valid until it is verified by the _____.
 - A taxpayer can generate e-income-tax return by _____ to www.incometax.gov.in.
 - After generating XML file, one can _____ to www.incometaxindiaefiling.gov.in for uploading it.
 - ITR-1 is also known as _____.
 - An individual who has income under the head “profits and gains from business or profession” can use ITR _____.
 - ITR-4 is also known as _____.



10.11 Summary

While computing total income of an individual, first you have to compute income of each head separately, i.e., income from Salary, income from house property, profits and gains from business or profession, capital gains and income from other sources. Now you have to take care about clubbing of income to be added in respective heads of income. Thereafter, take care of set-off and carry forward of loss if any. Thereafter deduct deduction u/s 80C to 80U if the assessee has made investment from gross total income. In this way you will get total income of the assessee after rounding off of total income. If you have any tax liability calculated on your total income, you need to e-file income tax return on or before due date.

10.12 Answers to In-Text Questions

1. (a) True (c) False
(b) True (d) True
2. (a) Rs. 5 lakh (c) Previous year
(b) Does not (d) Long-term
3. All True
4. (a) PAN (d) Log on
(b) Taxpayer (e) SAHAJ
(c) Log on (f) 1
(g) Sugam

10.13 Self-Assessment Questions

A. Theory questions:

1. What is total income?
2. Define individual.
3. Explain e-filing of income tax return of an Individual.
4. Who can use ITR-1?



Notes

5. Who can use ITR-4?
 6. What is the due date of filing returns of income for an individual?
 7. What is e-filing software?
 8. What do you mean by e-verification?
- B. Numerical questions:
9. From the following information, compute the total income and the tax liability by an individual for the assessment year 2023-24:
 - (a) Basic salary @ Rs. 50,000 p.m.
 - (b) Bonus Rs. 40,000
 - (c) Commission on sale Rs. 30,000
 - (d) Dearness Allowance Rs. 2,40,000
 - (e) He contributes 10% of his basic salary and DA to an NPS.
 - (f) His employer also contributes to NPS his 14% of salary and DA.
 - (g) Entertainment allowance Rs. 12,000
 - (h) Rent-free accommodation in Delhi from October 1st, 2022
 10. Sri Ram owns three-house property. The other information is given below:
 - (a) The second house is situated in Agra in which his parents live throughout the year. Municipal valuation is Rs. 1,20,000 whereas the fair value is Rs. 2,00,000. Municipal tax paid @10% of municipal valuation. He spent Rs. 5,000 on whitewashing.
 - (b) The third house is situated in Lucknow which is let out for residential purposes on a monthly rent of Rs. 30,000. The Municipal valuation of the house is Rs. 5,00,000 whereas the standard rent is Rs. 4,00,000. He paid municipal tax of Rs. 45,000 during the previous year out of which Rs. 30,000 is for the last two years. The house property was vacant for two months.

Compute his income from house property for the assessment year 2023-24.



Notes

11. The income of an individual for the year ended March 31st, 2023 consists of the following:

- (a) Income from salary Rs. 5,00,000
- (b) Income from house property Rs. 10,000
- (c) Short-term capital loss Rs. 3,000
- (d) Long-term capital profit Rs. 6,000
- (e) Business profit Rs. 2,08,000
- (f) Speculation loss Rs. 5,000
- (g) Interest on Tax-free Govt. security Rs. 9,000
- (h) Interest on Tax-free commercial security Rs. 9,000
- (i) Interest on less-tax commercial security Rs. 18,000
- (j) Interest on less-tax Govt. security Rs. 9,000

Compute the total income and tax liability for the assessment year 2023-24.

10.14 References

- ◆ Singhania V., & Singhania, M. Students Guide to Income Tax, Taxmann Publications.
- ◆ Ahuja, G., & Gupta, R. Systematic Approach to Income Tax, Bharat Law House.
- ◆ Chandra, M., & Shukla, D. C., Income Tax Law and Practice, Pragati Publications.

10.15 Suggested Readings

- ◆ Income-tax Act, 1961: <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>
- ◆ ICSI Study Material - Tax Laws.



Glossary

26AS: It will reflect the details of tax credit appearing in the PAN of the tax payer as per the database of the Income-tax Department.

AIS: Annual Information System in which details information is provided by the Income-tax Department and can be obtained from e-filing portal.

Annual Value: It is the sum for which the property might be reasonably be expected to be let out from year to year.

Annuity: It is an annual grant and when made by an employer falls under the head Salary.

Assessee: A person who is liable to pay tax/penalty on his/her own income and also on the income of the other person for which he is liable.

Assessment Year: Refers to the year following the financial year in which income undergoes taxation assessment. The tax on the income of the previous year is levied in each assessment year which is 12 months commencing on the first day of April every year.

Capital Asset: Property of any kind held by an assessee.

Carry Forward of Losses: When the unadjusted losses of previous years are taken for adjustment in subsequent years.

Cost of Acquisition: It is price which the assessee has paid or amount incurred by the assessee for acquisition of assets.

Cost of Improvement: Amount spent/incurred by the owner in making any additions or alterations to capital assets.

Dearness Allowance: Dearness Allowance (DA) is an allowance given to employees by the employer, the government or private sector, to compensate for the rising cost of living due to inflation or meeting expenses whether personal or for the performance of duties.

Deduction: A deduction is an amount that is subtracted from an individual's total taxable income before calculating the income tax liability. It is allowed for specific expenses, investments, or contributions that meet the criteria set by tax laws.

Depreciation: The decrease in the value of business assets over time, which can be deducted from taxable income.

Exempt Income: These are the incomes not chargeable to income tax i.e., tax-free incomes. Hence, they are not included in the total income of an assessee during the previous year.

Exemption: An exemption is an amount of income that is not subject to taxation. It represents a portion of income that is entirely excluded from the calculation of taxable



income. Exemptions are like special privileges in the tax world. They're specific amounts or benefits that don't count as part of your total income. As a result, you don't have to pay tax on them. For instance, when an employee gets House Rent Allowance (HRA), a portion of it may be exempt from taxes, up to a certain limit.

Form 16: It is annual statement maintained by employer on account of tax payer's PAN **Form ITR:** Income-tax Return form in which tax payer has to disclose his/her income.

Gratuity: It is a payment made by the employer to an employee in appreciation of the past services rendered by the employee. It can either be received by the employee himself at the time of his retirement or the legal heir on the event of the death of the employee.

Gross Receipts: Signifies the complete income before applying any deductions or allowances.

Gross Total Income: It is the aggregate of all the 5 heads of income i.e., Income from Salary, Income from House Property, Profits and gains from business or profession, Capital gains and Income from other sources.

Income Tax: It is charged as per the applicable tax rate on the total income of the previous year in the relevant assessment year.

Income: It covers receipts in the shape of money or money's worth which arise with certain regularity or expected regularity from a definite source.

Keyman Insurance Policy: It is a life insurance policy taken by a person on the life of another person who is (or was) his employee or is (or was) connected in any manner with his business. It also includes the policy assigned to a person at any time during the term of the policy (with or without any consideration).

Monetary Perquisites: It is reimbursement of payment of services which are available by the employer but paid by the employee.

Municipal Tax: This is value of house property determined by the municipal authority for levying municipal tax. It is like water tax, house tax, savage tax etc.

Municipal Value: It is determined by the municipal authorities for levying taxes on house property.



GLOSSARY

Notes

National Pension Scheme: NPS is a retirement benefit Scheme introduced by the GOI to facilitate a regular income post-retirement to all the subscribers. This scheme was launched in January 2004 for government employees. It was opened to all sections in 2009.

Non-monetary Perquisites: It is available in kinds/services by the employer and paid by the employer.

Pension: It is a payment made by the employer after the retirement/death of the employee as a reward for past service. It is normally paid on monthly basis.

Permissible Deductions: Covers expenditures and losses that are legally permitted to be subtracted for the purpose of computing taxable income.

Perquisites: It is the benefits or amenities in cash or kinds or in money or money's worth attached to an office or position provided by the employer to the employee whether free of cost or at concessional rate.

Previous Year: It is the financial year in which a person has earned his income.

Profit in lieu of Salary: It is the payment made by the employer to its employee due to change in terms and conditions of the employment.

Property: It consists of any buildings or lands appurtenant thereto.

Provident Fund: It is a welfare scheme for the benefit of the employees under which a fixed percent is deducted by the employer from the employee's salary as his contribution to the provident fund and earns interest on these contributions. The amount so accumulated in PF account is given to employee on his/her retirement/resignation or on death of the employee, paid to his/her legal heir.

Rebate: Think of a tax rebate as a reward for good tax behavior. It's a discount on the total amount of tax you have to pay. Usually, it's a percentage of what you owe. The government introduces rebates in the yearly budget to give a break to specific groups of taxpayers.

Reconstitution: Change in ownership structure.

Relief: Tax relief is like a helping hand from the government to reduce your tax burden. It's there to make things easier, especially for senior citizens or people who've faced tough situations. These relief measures can lower the amount of tax you owe.

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Salary or Wages: From the point of taxation, there is no difference between salary and wages. Wages are paid by master to servant for rendering physical services whereas salary is paid by employer to employee for the service rendering through mental exercise.

Set-off of Losses: Adjustment of losses with some positive income.

Stamp Duty Value: It refers to the value adopted or assessed or assessable by any authority of the central government or the state government to pay stamp duty while transferring an immovable property.

Standard Rent: It is fixed under the Rent Control Act. It means the owner cannot be expected to get a rent higher than standard rent.

Tax Deducted at Source (TDS): As per the provisions of the Income-tax Act, a person is liable to deduct (income) tax at the time of making payments to another person, which are of a specified nature, such as salary, rent, commission and dividend, etc., and deposit the same into the government treasury, on behalf of the deductee.

TIS: Tax credit Information System in which detail information is provided by the Income-tax Department and can be obtained from e-filing portal.

Total Income: Gross Total Income minus deductions u/s 80C to 80U.

Transfer Expenses: It includes advertisement expenses, brokerage, stamp duty, registration fee, legal expenses etc.

Transfer: In relation to capital assets, it relates to the sale, exchange or relinquishment.

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