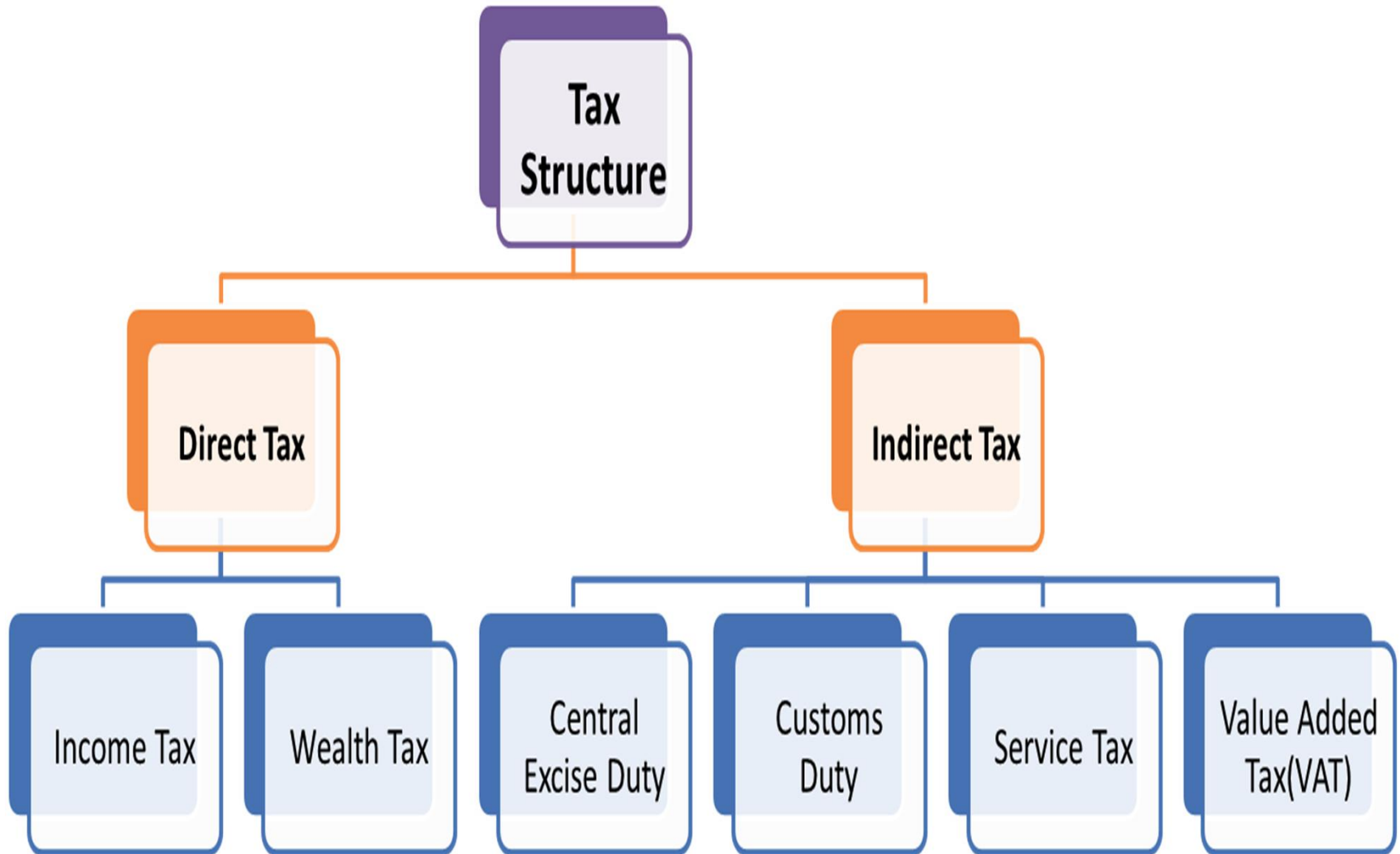


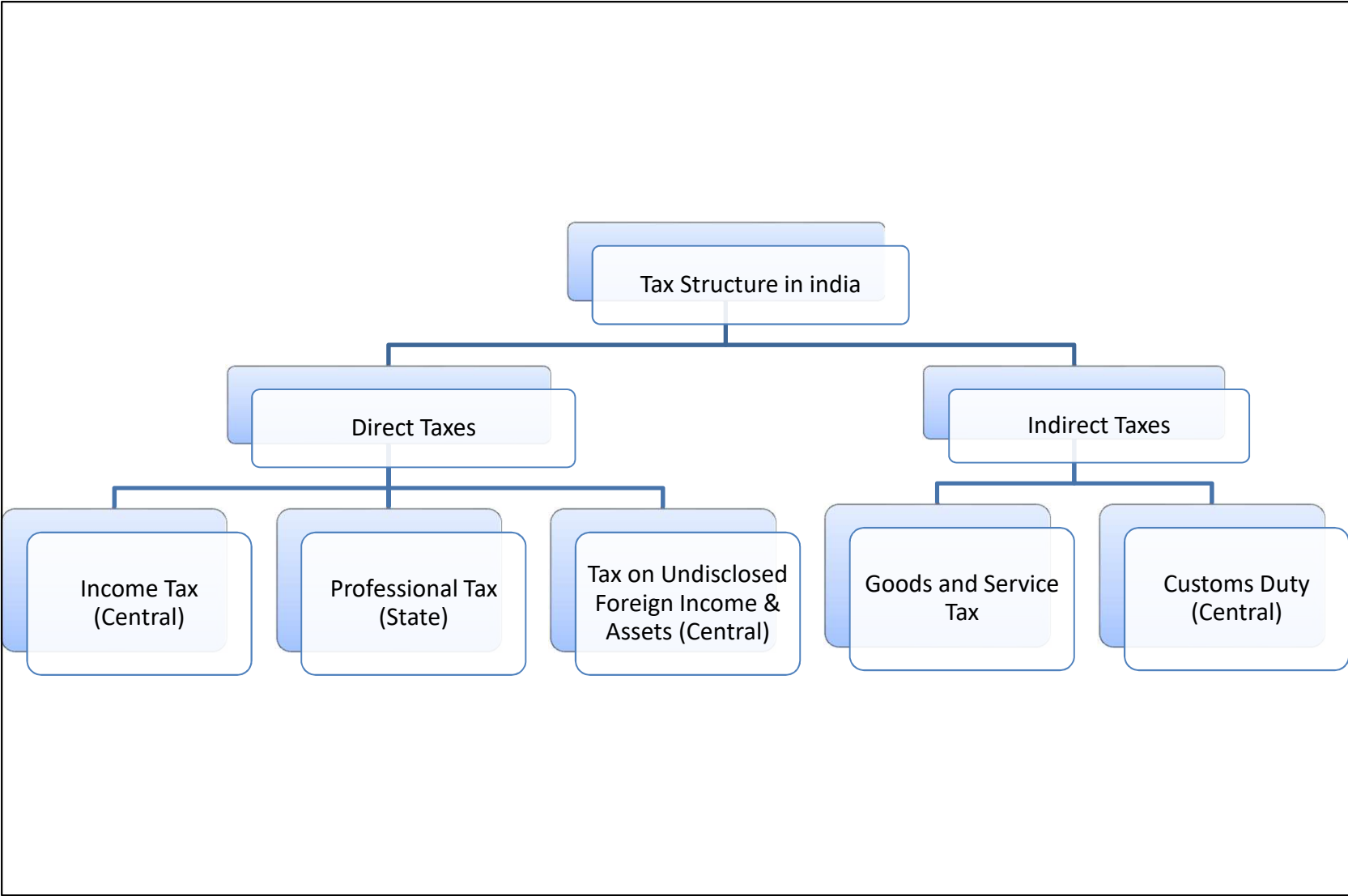
Direct and Indirect Taxes
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Basic Concept

- The word 'Tax' originated from the 'Taxation.' which mean 'Estimate.' Hence, 'Income Tax' mean 'Income Estimate,' which helps the government to know the actual economic strength of a person. It helps the Government to know the distribution of money among country's people.
- The Central Government has been empowered by Entry 82 of the Union List of Schedule VII of the Constitution of India to levy tax on all income other than agricultural income (subject to Section 10(1)). The Income Tax Law comprises The Income Tax Act 1961, Income Tax Rules 1962, Notifications and Circulars issued by Central Board of Direct Taxes (CBDT), Annual Finance Acts and Judicial pronouncements by Supreme Court and High Courts.





BASIS OF CHARGE OF INCOME TAX (SEC.4)

Here are some basic principles of charge of income tax:

- 1. Tax is charged on every person as defined in section 2(31)
- 2. Income tax is an annual tax on income
- 3. The income of the previous year is taxed and not of the year of assessment
- 4. Income-tax is to be charged at the rate or rates fixed for the year by the annual Finance Act
- 5. The levy is on the total income of the assessable entity computed in accordance with and subject to the provisions of the Act
- 6. Income tax is to be deducted at the sources or paid in advance as provided under the provision of the Act

Assessment Year: Sec.2 (9)

- Financial year starts from 1st April and ends on 31st March (wherein there is income pertaining to the whole year or part of the year). Assessment year is the year immediately following the financial year wherein the income of the F.Y. is assessed. For example, during the assessment year 2018-19, tax shall be paid for the previous year 2017-18.

Previous Year or Financial Year: Sec.3

- “Previous Year” means the financial year immediately preceding the assessment year. In other words, the year in which income is earned is known as previous year and the next year in which this income is taxable is known as assessment year. For example, for the income accrued in FY 2017-2018, assessment year is 2018-2019. So, financial year is the previous year while assessment year is the current year. In the AY, your total tax liability for the income earned in the previous or financial year is evaluated and computed. Consequently, tax for the income earned in the previous year is paid in the current year or assessment year

Person: Sec. 2(31)

- Income-tax is to be paid by every person. The term „person“ as defined under the Incometax Act covers in its ambit natural as well as artificial persons. For the purpose of charging Income-tax, the term „person“ includes
- Individual,
- Hindu Undivided Families [HUFs],
- Association of Persons [AOPs],
- Body of individuals [BOIs],
- Firms,
- LLPs,
- Companies,
- Local authority
- and any artificial juridical person not covered under any of the above.

Thus, from the definition of the term „person“ it can be observed that, apart from a natural person, i.e., an individual, any sort of artificial entity will also be liable to pay Income-tax.

Assessee: Sec. 2(7)

- Normally the term „Assessee“ is considered as one who is supposed to pay tax under Income Tax. However, it is advisable to understand complete meaning of the term as envisaged under the Income Tax Act.

Concept of Earned Income and Unearned Income:

Earned income is a type of income which is generated in the course of activities of employment, and self employed business activities. This includes the following

- Income from Salaries
- Income from business or profession
- Income from other sources. (includes those income which require personal labour or merit i.e. Royalty income, Honorarium, Director fees etc.

Unearned income: is defined as any income which is derived from sources other than employment. This includes the following

- Income from House Property
- Income from Capital gain
- Income from other sources
- (includes dividend income, interest income etc.)

Heads of Income: (Section 14)

- Income Tax Act, 1961 provides Five broad heads of income for computation of total income of an assessee relating to a Assessment Year. These are as follows.
- Income from Salary [Section 15 to 17]
- Income from House Property [Section 22 to 27]
- Profits and gains of business or professions [Section 28 to 44]
- Income from Capital gains [Section 45 to 55]
- Income from other sources [Section 56 to 59]

Sources of Income:

- It is a general term used for any activities for inflow of money arising. There is no specific list which contain the examples of income under different sources i.e. the list is not exhaustive and we can say that the list is numerous in nature. Income Tax Act, 1961 does not confer any provisions which restricts the list of sources of income.

Source of Income	Heads of Income
i) It means the origin of income wherefrom those are generated.	i) It is the categories of income as laid down in the IT Act.
i) No specific list of income.	i) List contain only five types of income.
i) All sources of income may be grouped under heads of income.	i) For IT purpose income should be computed under the five broad heads.
i) It is not a legal concept covering different categories of income.	i) It is a legal concept.
i) After aggregating the different sources of income it constitutes the income under different heads.	i) After aggregating income under different heads the gross total income is found out.
i) So far the list is concern it is numerous in nature.	i) So far the list is concern it is broad category specific.

Point of Difference	Tax Planning	Tax Management
Nature	It is optional.	It is essential.
Objective	Its objective is to minimize the short term and long term tax liability.	Its objective is to avoid interest, penalty and prosecutions.
Related Time Period	It relates to future.	It related to past (Assessment Proceedings, Appeals, and Revisions etc.), present (Filing of Return, payment of advance tax etc.) as well as future (to take corrective actions).
Scope	Tax planning also includes tax management.	Tax management deals with filing of return in time, getting the accounts audited, deducting tax at source etc.

Point of Difference	Tax Avoidance	Tax Evasion
Nature	It is a hedging of tax.	It is a concealment of true tax liability.
Mode	It exploits the loop holes of law.	It uses unfair means.
Permissibility of measures adopted	Measures are permissible in tax law.	Measures are not permissible in tax law.
Legality	It is legal.	It is illegal.
Consequences	No legal consequences follow.	It is punishable.
Example	Use of eligible deductions, offset of tax credit as per records, set off of losses as per norms, availing the incentive schemes (voluntary)	Undisclosed income, underreporting of income or overstatement of expenses, overstatement of tax credits, non-payment of tax.

Tax Planning	Tax Management
<ul style="list-style-type: none">▪ It relates to future	<ul style="list-style-type: none">▪ It related to past, present, future (i.e. deals with previous assessment, appeals, current and past filing of return, future corrective actions)
<ul style="list-style-type: none">▪ Minimise short term and long term tax liability	<ul style="list-style-type: none">▪ Avoidance of interest, penalty and prosecutions etc.
<ul style="list-style-type: none">▪ It is an optional process	<ul style="list-style-type: none">▪ It is an essential process of all assessee

Tax Avoidance	Tax Evasion
<p>Minimization of tax liability.</p> <p>Example: Use of Eligible deductions, Offset of tax credit as per records, set off of losses as per norms, availing the intensive schemes (voluntary)</p>	<p>Not paying true taxes.</p> <p>Example: Undisclosed income, underreporting, overstating expenses, concealment of permissible transactions, overstatement of tax credits and non payment of tax.</p>

Tax avoidance	Tax evasion
<ul style="list-style-type: none"> ▪ A planning which reduce tax liability as recognized by legal aspect 	<ul style="list-style-type: none"> ▪ An unrecognized planning to reduce tax liability in the context of law.
<ul style="list-style-type: none"> ▪ It deals with loop holes of law 	<ul style="list-style-type: none"> ▪ It is a method to adopt unfair means.
<ul style="list-style-type: none"> ▪ It is tax hedging within the framework of law 	<ul style="list-style-type: none"> ▪ Tax evasion is tax omission.
<ul style="list-style-type: none"> ▪ If properly complied with law no legal consequences 	<ul style="list-style-type: none"> ▪ Legal action can be taken at any time.
<ul style="list-style-type: none"> ▪ It is a tax planning with an honest aptitude 	<ul style="list-style-type: none"> ▪ It is intentional and unrecognized aptitude in our society frame work.

Residential Status

- Section 6 of the Income Tax Act provides the relevant rules to determine the residential status of all the seven categories of persons. As per these rules, except for an Individual or a Hindu Undivided Family (HUF), residential status all other persons may be either of the following two:
 - (a) Resident in India; and
 - (b) Non-resident in India.
- However, an Individual or a Hindu Undivided Family (HUF) may have any one of the following three residential statuses:
 - (a) Resident and Ordinarily Resident in India;
 - (b) Resident but Not Ordinarily Resident in India; and
 - (b) Non-resident in India.

BASIC CONDITIONS FOR AN INDIVIDUAL TO BE RESIDENT

- Under Section 6(1) of the Income-tax Act, an individual is said to be resident in India in any previous year if he:
 - 1. he has been in India for at least 182 days during the previous year; or,
 - 2. he has been in India for at least sixty days (60 days) during the previous year and for at least three hundred and sixty-five days (365 days) during the four years immediately preceding the previous year.

NON-RESIDENT

- If an individual does not satisfy any of the above two basic conditions then, he will be treated as non-resident. It must be noted that the fulfilment of any one of the above conditions 1 or 2 will make an individual resident in India since both these conditions are alternative and not cumulative in their application

ADDITIONAL CONDITIONS FOR AN INDIVIDUAL TO BE RESIDENT AND ORDINARY RESIDENT (ROR)

- An individual may become a resident and ordinarily resident in India if he satisfies both the following conditions given u/s 6(1) besides satisfying any one of the above mentioned conditions:
 1. he is a resident in atleast any two out of the ten previous years immediately preceding the relevant previous year, and
 2. he has been in India for 730 days or more during the seven previous years immediately preceding the relevant previous year.

RESIDENT AND NOT ORDINARY RESIDENT (RNOR)

- If a resident individual is not able to satisfy both the additional conditions, then he will be resident but not ordinary resident (RNOR).

MEANING AND SCOPE OF TOTAL INCOME (SECTION 5)

- The scope of total income and consequently the liability to income-tax depends upon the following facts:
 - a. whether the income accrues or is received in India or outside,
 - b. the exact place and point of time at which the accrual or receipt of income takes place, and
 - c. the residential status of the assessee.

Scope of Total income has been defined on the basis of Residential status

- Resident and Ordinarily Resident Assessee

According to Sub-section (1) of Section 5 of the Act the total income of a resident and ordinarily resident assessee would consist of: i. income received or deemed to be received in India during the accounting year by or on behalf of such person; ii. income which accrues or arises or is deemed to accrue or arise to him in India during the accounting year; iii. income which accrues or arises to him outside India during the accounting year.

Scope of Total income has been defined on the basis of Residential status

- Resident but Not Ordinarily Resident In India

Proviso to section (1) of section 5 provides that the total income in case of resident but not ordinarily resident in India would consist of: i. income received or deemed to be received in India during the accounting year by or on behalf of such person; ii. income which accrues or arises or is deemed to accrue or arise to him in India during the accounting year; iii. income which accrues or arises to him outside India during the previous year if it is derived from a business controlled in or a profession set up in India.

Scope of Total income has been defined on the basis of Residential status

- Non-Resident

Sub-section (2) of Section 5 provides that the total income of a non-resident would comprise of: i. income received or deemed to be received in India in the accounting year by or on behalf of such person; ii. income which accrues or arises or is deemed to accrue or arise to him in India during the previous year.

EXEMPTED INCOMES

- AGRICULTURAL INCOME [SECTION 10(1)]
- AMOUNT RECEIVED BY A MEMBER OF THE HUF [SECTION 10(2)]
- SHARE OF PROFIT RECEIVED BY A PARTNER FROM THE FIRM [SECTION 10(2A)]
- INTEREST ON NOTIFIED SAVINGS CERTIFICATES [SECTION 10(4B)]
- ALLOWANCE/PERQUISITES TO GOVERNMENT EMPLOYEE OUTSIDE INDIA [SECTION 10(7)]
- INCOME OF FOREIGN GOVERNMENT EMPLOYEE UNDER COOPERATIVE TECHNICAL ASSISTANCE PROGRAMME [SECTION 10(8)]

LEAVE TRAVEL CONCESSION [SECTION 10(5)]

- An employee (Indian as well as foreign citizens) can claim exemption under section 10(5) in respect of Leave Travel Concession. Exemption is available in respect of value of any travel concession or assistance received or due to the employee from his employer (including former employer) for himself and his family members in connection with his proceeding on leave to any place in India. Quantum of exemption will be as follows:
 - a. Where journey is performed by air, amount of exemption will be lower of amount of economy class air fare of the National Carrier by the shortest route or actual amount spent.
 - b. Where place of origin of journey and destination are connected by rail and the journey is performed by any mode of transport other than by air, air-conditioned first class rail fare by the shortest route to the place of destination..
 - c. Where the place of origin and destination are not connected by rail and journey is performed by any mode of transport other than by air the exemption will be:
 - i. If recognised public transport exists, lower of first class or deluxe class fare by the shortest route or actual amount spent.
 - ii. If no recognised public transport exists, lower of amount of air conditioned first class rail fare by the shortest route (considering as if journey is performed by rail) or actual amount spent.

RETIREMENT BENEFIT

- GRATUITY
- PENSION
- LEAVE ENCASHMENT

GRATUITY

- DEATH-CUM-RETIREMENT GRATUITY RECEIVED BY GOVERNMENT SERVANTS [SECTION 10(10)(I)]

The amount of any death-cum-retirement gratuity received by Government employee (i.e., Central Government or State Government or local authority) is wholly exempt from tax under Section 10(10)(i) of the Act.

GRATUITY RECEIVED BY A NON-GOVERNMENT EMPLOYEE COVERED BY PAYMENT OF GRATUITY ACT, 1972 [SECTION 10(10)(II)]

- As per section 10(10)(ii), exemption in respect of gratuity in case of employees covered by the Payment of Gratuity Act, 1972 will be lower of following :
- ☐ 15 days' salary \times years of service.
- ☐ Maximum amount specified, i.e., Rs. 10,00,000.
- ☐ Gratuity actually received.
- Note:
 - 1. Instead of 15 days' salary, only 7 days salary will be taken into consideration in case of employees of seasonal establishment.
 - 2. 15 days' salary = Salary last drawn \times 15/26
 - 3. Salary for this purpose will include basic salary and dearness allowance only. Items other than basic salary and dearness allowance are not to be considered.
 - 4. In case of piece rated employee, 15 days' salary will be computed on the basis of average of total wages (excluding overtime wages) received for a period of three months immediately preceding the termination of his service.
 - 5. Part of the year, in excess of 6 months, shall be taken as one full year.

GRATUITY RECEIVED BY A NON-GOVERNMENT EMPLOYEE NOT COVERED BY PAYMENT OF GRATUITY ACT, 1972 [SECTION 10(10)(III)]

- As per section 10(10)(iii), exemption in respect of gratuity in case of employees not covered by the Payment of Gratuity Act, 1972 will be lower of following :
 - [?] Half month's salary for each completed year of service, i.e., [Average monthly salary \times $\frac{1}{2}$] \times Completed years of service.
 - [?] Rs. 10,00,000.
 - [?] Gratuity actually received.
- Note:
 1. Average monthly salary is to be computed on the basis of average of salary for 10 months immediately preceding the month of retirement.
 2. Salary for this purpose will include basic salary, dearness allowance, if the terms of service so provide and commission based on fixed percentage of turnover achieved by the employee.
 3. While computing years of service, any fraction of a year is to be ignored.

PENSION [SECTION 10(10A)]

- As per section 10(10A), any commuted pension, i.e., accumulated pension in lieu of monthly pension received by a Government employee is fully exempt from tax. Exemption is available only in respect of commuted pension and not in respect of un-commuted, i.e., monthly pension. Exemption in respect of commuted pension in case of a non-Government employee will be as follows:
 - [?] If the employee receives gratuity, one third of full value of commuted pension will be exempt from tax under section 10(10A).
 - [?] If the employee does not receive gratuity, one half of full value of commuted pension will be exempt from tax under section 10(10A).

LEAVE SALARY [SECTION 10(10AA)]

- As per section 10(10AA), leave encashment by a Government employee at the time of retirement (whether on superannuation or otherwise) is exempt from tax. In the hands of nonGovernment employee exemption will be least of the following:
 - 1. Period of earned leave standing to the credit in the employee's account at the time of retirement (*) \times Average monthly salary.
 - 2. Average monthly salary \times 10 (i.e., 10 months' average salary).
 - 3. Maximum amount as specified by the Government, i.e., Rs. 3,00,000.
 - 4. Leave encashment actually received at the time of retirement. (*)Leave credit to the account of the employee at the time of retirement should be restricted to 30 days per year of service if leave entitlement as per service rules exceeds 30 days per year of actual service. Salary for the above purpose means average salary drawn in the past ten months immediately preceding the retirement (i.e., preceding the day of retirement) and will include basic salary, dearness allowance (if considered for computing all the retirement benefits) and commission based on fixed percentage of turnover achieved by the employee.

EXEMPTION IN RESPECT OF AMOUNT RECEIVED FROM VARIOUS PROVIDENT FUNDS [SECTION 10(11)/(12)]

- Statutory Provident Fund
- Recognised Provident Fund
- Un-recognised Provident Fund
- Public Provident Fund

PROVIDENT FUND

Provident Fund is a fund which is created to help an individual in future i.e. after retirement or death. The employee contributes certain amount every month out of his salary and an equal amount is contributed by the employer. The contributions of both are invested in gilt-edged securities. Interest earned is also credited to the provident fund account of employee. There are four types of provident fund accounts –

- 1) Statutory Provident Fund (SPF)
- 2) Recognized Provident Fund (RPF)
- 3) Unrecognized Provident Fund (URPF)
- 4) Public Provident Fund (PPF)

Statutory Provident Fund (SPF)

This fund is mainly for Government/University/Educational Institutes (affiliated to university) employees.

Recognized Provident Fund (RPF)

This scheme is applicable to an organization which employs 20 or more employees. An organization can also voluntarily opt for this scheme. All RPF schemes must be approved by The Commissioner of Income Tax.

Unrecognized Provident Fund (URPF)

Such schemes are those that are started by employer and employees in an establishment, but are not approved by The Commissioner of Income Tax. Since they are not recognized, URPF schemes have a different tax treatment as compared to RPFs.

Public Provident Fund (PPF)

This is a scheme under Public Provident Fund Act, 1968. In this scheme even self-employed persons can make a contribution. This fund is made by the Government of India for the purpose of promoting savings among the general public. It has no relation with any employee or employer or salary. Every person opens an account for himself. The individual gets every year deduction u/s 80C on the amount deposited in this fund account. Interest is credited to the account every year on rates fixed by the government. This amount is repayable along with interest after minimum specified period (15 years). The whole amount received at the time of withdrawal is fully exempt from tax.

INCOME FROM SALARY

- As per section 17(1), salary includes-
- ☐ Wages;
- ☐ Any annuity or pension;
- ☐ Any gratuity;
- ☐ Any fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages;
- ☐ Any advance of salary;
- ☐ Any payment received by an employee in respect of any period of leave not availed by him;
- ☐ Employer's contribution to Recognized Provident Fund (RPF) in excess of 12% of employee's salary and interest credited to recognized provident fund in excess of 9.5% p.a.;
- ☐ The aggregate of all sums that are comprised in the transferred balance of an employee participating in a recognized provident fund to the extent to which it is chargeable to tax;
- ☐ 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.

TAXABILITY OF ALLOWANCES

- HOUSE RENT ALLOWANCE (HRA) [Section 10(13A) & Rule 2]
Employees generally receive house rent allowance (HRA) from their employers. This is a part of the salary package, in accordance with the terms and conditions of employment. HRA is given to meet the cost of the accommodation which the employee might have to take.
- HRA is taxable under the head 'Salary' to the extent it is not exempt under section 10(13A). HRA is exempt to the extent of the minimum of the following three amounts –
 - 1. Actual HRA received by the employee in respect of the relevant period.
 - 2. Excess of rent paid over 10% of the salary of the relevant period.
 - 3. 40% of the salary (50% of salary in case of Mumbai, Kolkata, Delhi or Chennai)

Salary for this purpose = Basic + D. A. (forming part of salary for retirement benefits)

ALLOWANCE	LIMIT
1. Children education allowance	Rs.100 per month, per child, up to a maximum of two children or actual amount received; whichever is less.
2. Hostel expenditure allowance	Rs.300 per month, per child, up to a maximum of two children or actual amount received; whichever is less.
3. Tribal area, scheduled area and agency area allowance	Rs.200 per month or actual amount received; whichever is less.
4. Special compensatory hilly area allowance or high altitude allowance, etc.	Varies from Rs.300 to Rs.7,000 per month.
5. Border area, remote area allowance, disturbed area allowance, etc.	Varies from Rs.200 to Rs.1,300 per month.
6. Compensatory field area allowance	Exempt to the extent of Rs.2,600 per month.
7. Compensatory, modified field area allowance	Exempt to the extent of Rs.1,000 per month.
8. Counter insurgency allowance granted to members of armed forces	Exempt to the extent of Rs.3,900 per month.
9. Transport allowance	Exempt to the extent of Rs.800 per month (Rs.1,600 instead of Rs.800 if the employee is blind or orthopedically handicapped with disabilities of lower extremities).

ENTERTAINMENT ALLOWANCE

- It is the money paid to employees to cover the cost of meals and other entertainment incurred while doing their job. Entertainment allowance in case of non-government employees is fully taxable while deduction is allowed only to government employees. In case of entertainment allowance, the assessee is not entitled to any exemption but he is entitled to a deduction under section 16(ii) from gross salary, to the extent of minimum of the following three limits –
 - i. Actual entertainment allowance received during the previous year.
 - ii. 20% of his salary exclusive of any allowance, benefit or other perquisite.
 - iii. Max. Limit Rs.5,000

ALLOWANCES WHICH ARE FULLY TAXABLE

- Dearness Allowance (DA)
- City Compensatory Allowance (CCA)
- Medical Allowance
- Lunch Allowance / Tiffin Allowance
- Non-practicing Allowance
- Overtime Allowance
- Warden Allowance
- Servant Allowance

TAXABILITY OF PERQUISITES

- Perquisite is defined in the Oxford Dictionary as any casual emolument or benefit attached to an office or position in addition to salary or wages. It is a facility provided by employer in kind to the employee for official use or for personal benefit or partly for official purpose and partly for private purpose. Section 17(2) defines perquisite in income tax act.

Specified Employee

- An employee is referred to as a specified employee [**Section 17(2)(iii)**] if,
- ☐ Employee is Director in the employer company
- ☐ Employee has substantial interest in the employer business – 20% or more share in the ownership or profit of the employer company
- ☐ Employee has cash taxable salary more than Rs.50,000 during the year.

Perquisites which are taxable in the hands of all categories of employees are:

- 1. House accommodation with or without furniture
- 2. Furniture
- 3. Servant hired by employee
- 4. Gas or electricity or water service connection in the name of the employee
- 5. Sale of assets to employees
- 6. Loans to employees without interest or at lower interest.
- 7. Club membership for personal use
- 8. Car facility or other vehicles hired or owned by employee
- 9. LTC – Leave Travel Concession above limit
- 10. Medical facility beyond permissible limits
- 11. Education facility beyond permissible limits
- 12. Food or snacks provided by employer beyond limits
- 13. Contribution to provident fund or pension fund or other welfare fund for the benefit of employee above prescribed limits
- 14. Monetary obligations of employee paid or reimbursed by the employer
- 15. Income tax paid on behalf of employee (not TDS)
- 16. Professional tax paid for employee

Perquisites taxable for specified employees only :

- 1. Furniture provided without house for personal use
- 2. Servant provided for personal use
- 3. Gas or electricity or water services provided from one source or from outside agency where connection is in the name of the employer
- 4. Car facility or other vehicle facility where it is owned or hired by the employer
- 5. Education facility from own source or outside agency

Perquisites exempted for all employees:

- 1. Any facility received only for official use
- 2. Telephone or mobile or fax service at house or for personal use including bills.
- 3. Use of computers, laptops, iPad, tablet, and other electronic devices for official purpose
- 4. LTC – Leave Travel Concession within limits
- 5. Medical facility in hospital maintained by Government or Government approved or maintained by the employer
- 6. Education facility for employee
- 7. Health club or recreational facility for employee
- 8. Food or snacks provided by employer within limits
- 9. Contribution to provident fund or pension fund or other welfare fund for the benefit of employee within limits
- 10. Gift or Vouchers up to Rs.5000
- 11. Training expenses incurred on employee
- 12. Premium on health and life insurance policy of employee

VALUE OF HOUSING ACCOMMODATION [New Rule 3(1)]

- Computation of taxable value of house assuming unfurnished and rent free –
- If house accommodation is owned by government and provided to its employees
- [?] The taxable value shall be the License fee determined by Union or State Government in respect of accommodation in accordance with the rules framed by that government for allotment of houses to its officers.
- [?] Rent free official residence provided to a judge of a High Court or to a judge of the Supreme Court is exempt from tax.
- [?] Rent free accommodation given to an official of Parliament, a Union Minister and a Leader of Opposition in Parliament is exempt from tax.

If house accommodation is owned by any other employer and provided to employees

(Population of city as per 2001 census)	Taxable value
Up to 10 lakhs	7.5% of salary
Above 10 lakhs and up to 25 lakhs	10% of salary
Above 25 lakhs	15% of salary

If house accommodation is hired by employer on rent and provided to employee, taxable value is minimum of the two –

- Actual rent paid by employer;
- 15% of salary

If the accommodation is provided by the government at a concessional rate, the value of concession shall be the license fee reduced by the rent actually paid by the employee.

If the accommodation is furnished, calculate assuming that the accommodation is unfurnished and increase the calculated value by 10% of the cost of furniture or by the actual hire charges paid or payable for such furniture (if the furniture is hired from outside).

If the accommodation is provided by the employer (government or other employer) in a hotel, the value of the accommodation shall be minimum of the following two amounts –

- 24% of salary paid or payable for the previous year
 - The actual charges paid or payable to such hotel.
 - No perquisite value even if accommodation provided in a hotel, if the following two conditions are fulfilled –
 - Such accommodation is provided for a period not exceeding 15 days; and
 - It has been provided on the transfer of the employee from one place to another.
- Salary for this purpose = basic + DA (forming part of salary) + all other taxable allowances + bonus and commission + monetary obligation of employee paid by employer.

VALUE OF FURNITURE

Furniture provided by the employer to employee for personal use with or without house accommodation may be owned by the employer or hired by the employer. Computation of taxable value of furniture –

- If the furniture is owned by the employer – taxable value is 10% of original cost of the furniture to employer per annum.
- If the furniture is hired by the employer – taxable value is actual hire charges paid by the employer.

VALUE OF CAR [Rule 3 (2)]

- Computation of taxable value of car when –
- 1. Car is owned or hired by employer and is used by employee ☐
Only for official use – not taxable ☐ Only for personal use by him and his family – taxable for specified employees and Taxable Value = all running and maintenance expenses on car paid or reimbursed by the employer + depreciation @ 15% (if car is owned by the employer)
- Partly for personal use by him and his family, and partly for official use – taxable for specified employees and taxable value shall be determined separately, if the employer maintains proper separate record of expenses for official use and private use. If the employer does not maintain proper separate record for official use and private use, then taxable value shall be computed as follows –

- If running and maintenance expenses are incurred by employer

SPECIFICATIONS OF CAR	TAXABLE VALUE
Up to 1600CC or 1.6 litres	Rs. 1800 per month + Rs. 900 for driver
More than 1600CC of 1.6 litres	Rs. 2400 per month + Rs. 900 for driver

- If running and maintenance expenses are incurred by employee

SPECIFICATIONS OF CAR	TAXABLE VALUE
Up to 1600CC or 1.6 litres	Rs. 600 per month + Rs. 900 for driver
More than 1600CC or 1.6 litres	Rs. 900 per month + Rs. 900 for driver

If car is owned or hired by the employee and running and maintenance expenses are incurred by the employer and car is used by employee

Only for official use – not taxable

Only for personal use by him and his family – taxable for all employees and Taxable value = all running and maintenance expenses on car paid and reimbursed by the employer.

Partly for official use and partly for personal use by him and his family - taxable for all employees and taxable value shall be determined separately, if the employee maintains proper separate record of expenses for official use and private use. If the employer does not maintain proper separate record for official use and private use then taxable value shall be computed as follows :

SPECIFICATIONS OF CAR	TAXABLE VALUE
Up to 1600CC or 1.6l	Actual running and maintenance expenses incurred by the employer – (Rs. 1800 per month + Rs. 900 for driver)
More than 1600CC or 1.6l	Actual running and maintenance expenses incurred by the employer – (Rs. 2400 per

	month + Rs. 900 for driver)
--	-----------------------------

VALUE OF MEDICAL FACILITY [Provisions to 17 (2)]

- If fixed medical allowance per month is received by an employee, it is fully taxable.
- If medical treatment expenses of employee or his family member is reimbursed or directly paid by the employer and treatment is in a –
 - Government or government approved hospital – fully exempt from tax
 - Hospital maintained by employer – fully exempt from tax
 - Private hospital or nursing home – exempt up to Rs.15,000 per annum
- If medical treatment expenses of employee or his family member is reimbursed or directly paid by the employer and treatment is outside India –
 - Cost of treatment – exempt up to amount permitted by the RBI
 - Lodging and boarding expenses of patient and one attendant – exempt up to amount permitted by the RBI
 - Cost of travel to and fro, of patient and one attendant – if GTI of employee is up to Rs.2 lakhs, it is fully exempt and if it is more than Rs.2 lakhs, it is fully taxable.

INCOME FROM HOUSE PROPERTY

- The annual value of a property is taxable under this head if all the following conditions are satisfied:
 - 1. The property should consist of any building or land appurtenant thereto.
 - 2. The assessee should be the owner of the property.
 - 3. The property should not be used by the owner for the purpose of any business or profession carried on by him, the profits of which are chargeable to income tax.

COMPUTATION OF NET ANNUAL VALUE OF HOUSE PROPERTY

- Municipal Value - it is the value determined by the municipal authorities for the purpose of levying municipal taxes on house property.
- Fair Rent- it is the amount which a similar property can fetch in the same or similar locality, if it is let out for a year.
- Standard Rent- it is the sum fixed under Rent control Act. Where the property is subject to Rent Control Act, the expected rent cannot be higher than the standard rent fixed under this Act.
- Actual Rent- it is the rent received/receivable for the let out period.
- Municipal Taxes- these include service taxes (fire tax, water tax, etc.) levied by any municipality or local authority.

COMPUTATION OF NET ANNUAL VALUE OF HOUSE PROPERTY

- Composite Rent- When the owner of the building gets along with the rent of the building, rent or hire of other assets (like furniture) or charges for different services provided in the building (e.g. charges for security, lift, air-conditioning, electricity, water, etc.), the total amount so received is called 'composite rent'. The tax treatment of composite rent is as follows:
 - [?] When composite rent is inseparable, i.e. the other party will not accept the letting of one without the other, then such income is taxable as 'Income from profits and gains of business or profession' or 'Income from other sources'.
 - [?] When composite rent is separable, the rent of building is taxable as 'Income from house property' and rent or hire of other assets and charges for different services is taxable under the head 'Income from Profits and gains of business or profession' or 'Income from other sources'.

Net Annual Value shall be computed in the following manner:

Step-1 Determine the Gross Annual Value of the property.

Step-2 Deduct the municipal taxes actually paid by the owner during the previous year from the Gross Annual Value to arrive at Net Annual Value.

For the purpose computation of net annual value, properties can be classified into 3 categories:

- A. Properties let out.
- B. Properties occupied by the owner for residential purposes or properties not self occupied owing to employment at some other place.
- C. Partly let out and partly self occupied.

A. PROPERTIES LET OUT [SECTION 23(1)]

When the property is let out, the following situations may arise:

- i. The property is let out for the whole of the previous year
- ii. The property is let out for a part of the previous year and remains vacant for the other part.

A. PROPERTIES LET OUT [SECTION 23(1)]

When the property is let out, the following situations may arise:

- i. The property is let out for the whole of the previous year
- ii. The property is let out for a part of the previous year and remains vacant for the other part.

Case 1. *Property is let out for the whole year:*

The Gross Annual Value shall be the higher of

- a) Expected Rent
- b) Actual rent received or receivable

Expected rent is the higher of Municipal value and Fair Rental value but subject to Standard rent because expected rent cannot be higher than the standard rent fixed under the Rent Control Act.

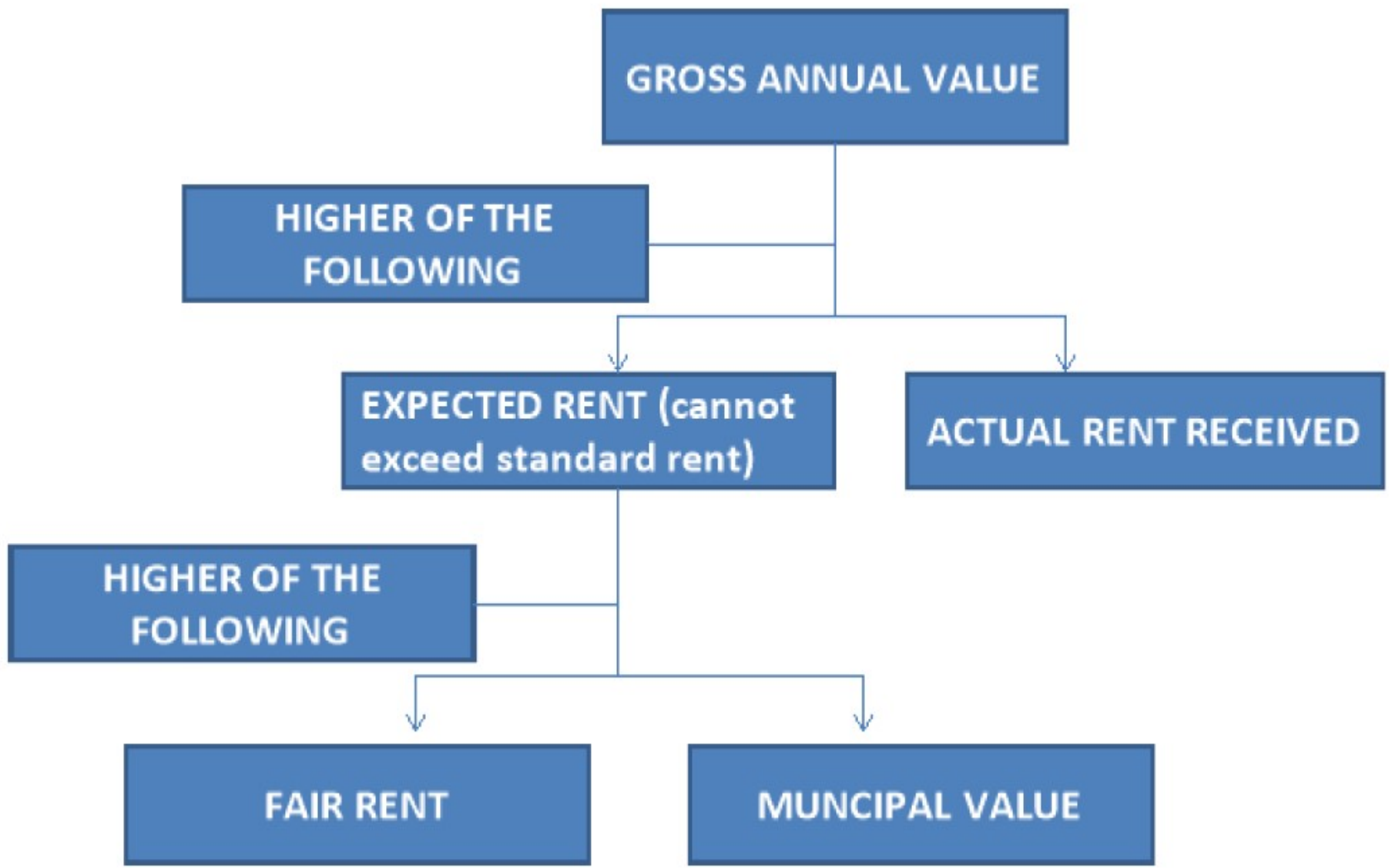


CHART SHOWING DETERMINATION OF GROSS ANNUAL VALUE

Case 2. Let out and vacant property

When the property is let out for a part of the previous year and remains vacant for the other part and the annual value declines due to such vacancy then such decline in value shall be considered.

B. PROPERTY OCCUPIED BY THE OWNER [SECTION 23 (2)]

In the following two cases, the Net Annual Value shall be considered to be *NIL*:

- i. The property is occupied by the owner for his own residence throughout the previous year.
- ii. The property cannot actually be occupied by the owner because due to his employment, business or profession, he has to reside at some other place in a building not belonging to him.

But, the NAV shall be considered to be nil only if,

- The property is not actually let out during any part of previous year, or
- No other benefit is derived from such property by the owner.

In respect of such house, the only deduction permissible against this nil income is interest on borrowed capital which can be upto Rs. 30,000 or Rs. 2,00,000 as the case may be. This point is explained later in the chapter under the heading : Deductions from Income under the head house property. No other deduction (municipal taxes or standard deduction) is permissible for self occupied property.

DEEMED LET OUT PROPERTIES

If there are more than one self occupied houses, then the assessee may exercise an option to treat any one of the houses to be self-occupied. The other house(s) will be deemed to be let out and annual value of such house(s) will be determined as in the case of let out property. The assessee in this case, should exercise his option in such a manner that his taxable income is the minimum.

C.) LET OUT AND SELF OCCUPIED PROPERTY

a) Partly let out and partly self occupied property :

When a portion of the property is self occupied for residence for the whole year and the other portion is let out for the whole year, the annual value of such property shall be determined as follows:

- i. From the full annual value of the house the proportionate annual value for self occupied portion for the whole year shall be deducted.
- ii. The balance under (i) shall be the annual value for let out portion.

b) *Property let out for any part of the previous year and self occupied for the remaining part of the year:*

The valuation of such property shall be done as if let out throughout the previous year.

Note: Actual Rent is taken only for the period it is actually let out while expected rent is always taken for the entire previous year and the gross annual value shall be higher of these two.

DEDUCTIONS FROM INCOME UNDER THE HEAD HOUSE PROPERTY [SEC 24] AND OTHER PROVISIONS

- W.e.f. Assessment year 2002-03, income chargeable under the head —Income from house property|| shall be computed after making the following deductions from the Net Annual Value:
 - a) Standard deduction A sum equal to 30% of NAV shall be deducted for repairs, maintenance, collection charges, etc. This sum is deducted irrespective of the actual amount paid for repairs, collection, etc. The deduction is allowed even if the actual amount paid is nil.
 - b) Interest on borrowed capital Where the property is acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such borrowed capital shall be allowed as deduction from NAV to compute the income from house property.

However, the following points must be considered in respect of interest on borrowed capital:

- i. The interest is deductible on *accrual basis*. Hence it should be claimed on yearly basis even if no payment has been made during the year.
- ii. *Deduction of interest for self occupied properties and properties not self occupied owing to employment at some other place*- the amount of deduction for interest in such cases shall not exceed Rs. 30,000. However, interest upto Rs.1,50,000 is deductible if the following conditions are satisfied:
 - capital is borrowed *on or after April 1, 1999* for acquiring or constructing a property;
 - the capital is borrowed only for *acquisition or construction* of the house;
 - the acquisition or construction should be completed *within 3 years* from the end of the financial year in which capital was borrowed; and
 - the assessee furnishes a *certificate* from the person to whom interest is payable specifying the amount of interest

Note: The amount of Rs. 1,50,000 has been increased to Rs. 2,00,000 w.e.f. 1-04-2015.

iii. *Interest for pre-construction period:* Sometimes it happens that money is borrowed earlier and acquisition or completion of construction takes place in any subsequent year. Meanwhile interest becomes payable. In such a case interest paid/payable for the period prior to previous year in which the property is acquired/ constructed will be aggregated and allowed in five successive financial years, starting from the year in which the acquisition/construction was completed. Interest will be aggregated from the date of borrowing till the end of the previous year prior to previous year in which the house is completed and not till the date of completion of construction.

CHART SHOWING COMPUTATION OF TAXABLE INCOME FROM HOUSE PROPE

Gross Annual Value of the house property

Less: Municipal Taxes paid by the owner during the previous year

Annual Value/ Net Annual Value

Less: Deductions under Sec. 24

- i. Standard Deduction (for repair and collection charges)
@ 30% of Annual Value XXX

- ii. (a) Interest on loan taken for purchase, construction or repair
of the house, relating to previous year XXX

- (b) Interest on loan for the period prior to the previous year in
which the house is completed is also allowable in five equal
annual installments XXX

Taxable Income from House Property

INCOME FROM CAPITAL GAIN

Capital asset means -

- any kind of property held by an assessee, whether or not in connection with his business or profession;
- any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the Securities and Exchange Board of India Act, 1992

Note: Capital asset may be movable or immovable or tangible/corporeal (furniture, jewellery, etc.) or intangible/incorporeal (goodwill, tenancy right, copy right, etc.)

"Property" includes any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever

- but does not include the following:

(1) Stock in trade

Stock in trade, consumable stores or raw materials held for business or profession.

However, any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the Securities and Exchange Board of India Act, 1992 shall not be treated as stock-in-trade

Treatment of profit on sale of stock

Such profit shall be taxable under the head "Profits & gains of business or profession"

(2) Personal effect

Personal effect means any movable property held for personal use of the assessee or for any dependent member of his family but excludes the followings:

- | | | |
|---------------|-------------------------------|--------------------|
| a. jewellery# | b. archaeological collections | c. drawings |
| d. paintings | e. sculptures; or | f. any work of art |

Taxpoint

- ❖ An immovable property and aforesaid assets held for personal use are not personal effect and hence are capital assets. E.g. a house property even though used for personal purpose cannot be treated as personal effect and shall fall within the definition of capital assets.
- ❖ Securities are not personal effect.
- ❖ Personal effect includes wearing apparel, furniture, car, cycle, scooter used by the assessee for personal purpose.
- ❖ Intangible asset do not have personal effect.

Jewellery includes –

- ornaments made of gold, silver, platinum, any other precious metal or any alloy containing one or more of such precious metals. It is immaterial whether or not such ornaments contain any precious or semi-precious stones and whether or not such ornaments are worked or sewn into any wearing apparel;
- precious or semi precious stones whether or not set in any furniture utensil or other article or worked or sewn in any wearing apparel. E.g. loose diamond shall be treated as jewellery.
- ❖ Treatment of profit on sale of personal effect

Any income on transfer of personal effect shall not be treated as capital gain. Such income is in the nature of capital receipt and hence shall not be taxed under any head.

(3) Agricultural land in rural area

Agricultural land in **India** is not a capital asset **except** the following –

- a. land which is situated within the jurisdiction of any Municipality (whether known as a municipality, municipal corporation, notified area committee, town area committee, town committee, or by any other name) or Cantonment Board having population of 10,000 or more; or
- b. in any area within the distance, measured aerially,—

Population of the municipality or cantonment board	Area within the aerial distance from the local limits of such municipality or cantonment board is non-rural area
More than 10,000 but not exceeding 1,00,000	Upto 2 kilometres
More than 1,00,000 but not exceeding 10,00,000	Upto 6 kilometres
More than 10,00,000	Upto 8 kilometres

Notes

- i. Population, according to the last preceding census of which the relevant figures have been published before the first day of the previous year, shall be considered.
- ii. If such land is not agricultural land, it will be treated as capital asset irrespective of its location.
- iii. If agricultural land is located outside India, it will be treated as capital asset

Capital Asset

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graph TD; CA[Capital Asset] --> STCA[Short Term Capital Asset [Sec. 2(42A)]]; CA --> LTCA[Long Term Capital Asset [Sec. 2(29A)]]; STCA --- STCA_DEF[It means a capital held by an assessee for not more than 36 months immediately before the date of transfer]; LTCA --- LTCA_DEF[A capital asset, which is not a short-term capital asset, is a long-term capital asset];
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Short Term Capital Asset [Sec. 2(42A)]

It means a capital held by an assessee for not more than 36 months immediately before the date of transfer

Long Term Capital Asset [Sec. 2(29A)]

A capital asset, which is not a short-term capital asset, is a long-term capital asset

Exceptions

In the following cases, an asset shall be termed as a short-term capital asset (STCA) if it is held for not more than following period before the date of transfer:

12 months	24 months
● Equity or preference share in a company (listed in India)	● Equity or preference share in an unlisted company
● Any security e.g. debenture, Government securities, etc. (listed in India)	● Immovable property being land or building or both
● A unit of an equity oriented fund ¹ (whether quoted or not)	
● Zero-Coupon Bonds (whether quoted or not)	
● Units of UTI (whether quoted or not)	

Short-term capital gain (STCG) arises on transfer of short-term capital assets (STCA) and long-term capital gain (LTCG) arises on transfer of long-term capital assets (LTCA). However, any gain on transfer of an asset on which depreciation is allowed as per WDV method u/s 32(1)(ii) shall be taxable as short-term capital gain (irrespective of their period of holding) [Sec. 50].

Transfer in relation to a capital asset includes:

- (a) Sale, Exchange & Relinquishment of the asset;
- (b) Extinguishment of any right in an asset;
- (c) Compulsory acquisition of an asset under any law;
- (d) Conversion of asset into stock-in-trade by the owner;
- (e) Any transaction of immovable property u/s 53A of the Transfer of Property Act, 1882;
- (f) Any transaction which has the effect of transferring or enabling the enjoyment of any immovable property.
- (g) Maturity or redemption of a zero coupon bond

Computation of Short Term Capital Gain (STCG)

At a glance, computation of capital gain of ____ for the Assessment Year

Particulars	Details	Amount
Sale consideration (Full value of consideration)		****
Less: Expenses on transfer		****
Net sale consideration		****
Less: i) Cost of acquisition	****	
ii) Cost of improvement	****	****
Short Term Capital Gain		****
Less: Exemption u/s 54B, 54D, 54G, etc.		(****)
Taxable Short Term Capital Gain		*****

Note: No deduction shall be allowed in computing the income chargeable under the head "Capital gains" in respect of any sum paid on account of securities transaction tax.

At a glance, computation of capital gain of ____ for the Assessment Year

Particulars	Details	Amount
Sale consideration (Full value of consideration)		****
Less: Expenses on transfer		****
Net sale consideration		****
Less: i) Indexed cost of acquisition	****	
ii) Indexed cost of improvement	****	****
Long Term Capital Gain		****
Less: Exemption u/s 54, 54B, 54D, 54EC, 54F, etc.		****
Taxable Long Term Capital Gain		****

Note: No deduction shall be allowed in computing the income chargeable under the head "Capital gains" in respect of any sum paid on account of securities transaction tax.

The meaning of terms used in the computation:

(i) Indexed cost of acquisition

"Indexed cost of acquisition" means the 'cost of acquisition' (as discussed in case of short term capital gain) adjusted according to the price level of the year of sale. As per explanation to sec.48, "Indexed cost of acquisition" is an amount which bears to the 'cost of acquisition' the same proportion as Cost Inflation Index for the year in which the asset is transferred bears to the Cost Inflation Index for the first year in which the asset was held by the assessee or for the year beginning on 1/4/2001, whichever is later.

Taxpoint: Indexed cost of acquisition = Cost of acquisition \times $\frac{\text{Index of the year of transfer}}{\text{Index of the year of acquisition}}$

(ii) Indexed cost of improvement

"Indexed cost of improvement" means the 'cost of improvement' (as discussed in case of short term capital gain) adjusted according to the price level of year of sale. As per explanation to sec. 48, "in-dexed cost of any improvement" is an amount, which bears to the cost of improvement the same proportion as Cost Inflation

Index for the year in which the asset is transferred bears to the Cost In-flation Index for the year in which the improvement to the asset took place.

$$\text{Indexed cost of improvement} = \text{Cost of improvement} \times \frac{\text{Index of the year of transfer}}{\text{Index of the year of improvement}}$$

Financial Year	Index
2001-02	100
2002-03	105
2003-04	109
2004-05	113
2005-06	117
2006-07	122
2007-08	129
2008-09	137
2009-10	148
2010-11	167

Financial Year	Index
2011-12	184
2012-13	200
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272

PROFIT AND GAINS FROM BUSINESS AND PROFESSION

- As we know that a person's income can be divided under five heads like Salary, House property, Capital gains, income from other sources and Profits and gains of Business or Profession. Out of these heads Profits and gains of Business or Profession are most important and largest head. The income from business to which a person is chargeable under this head represents not the gross receipts from the business but the profits and gains derived from there. For instance, in the case of a businessman, the gross sale proceeds would not be the basis for levying tax but it is net profit or the profit or gain as determined in accordance with sections 28 to 44DB.
- The chargeability to tax under Section 28 is based primarily upon the condition that the assessee must have carried on a business or profession at any time during the accounting year, though not necessarily throughout the accounting year. There are two parts of this head one is business and second is profession.

Process of calculating taxable profit in case of business

The profit and loss account or income and expenditure account as prepared by an assessee is adjusted as per provisions of the Income-tax Act, Profits or losses as shown by any of these accounts are adjusted according to Section 29 of the Act for preparing a statement of profit or loss or income-expenditure adjustment:-

Calculation

Balance as per profit and loss or Income - expenditure account

XXX

Add:

(i) Expenses expressly disallowed but debited to P& L A/c	xxx	
(ii) Expenses not allowed but debited to P&L A/c	xxx	
(iii) Incomes or receipts taxable under this head but not credited to P& L A/c	xxx	
(iv) Capital expenses debited to P & L A/c	xxx	
(v) Personal expenses debited to P & L A/c	xxx	
(vi) Expenses in excess of the allowed amount, debited to P & L A/c	xxx	
(vii) Losses not allowed but debited to P & L A/c	xxx	
(viii) Expenses not relating to the previous year but debited to P & L A./c	xxx	
(ix) Under-valuation of closing stock or over-valuation of opening stock	xxx	xxx

Total Income

x xxx

Less:

(i) Expenses expressly allowed but not debited to P & L A/c	xxx	
(ii) Expenses relating to the previous year but not debited to P & L A/c	xxx	
(iii) Losses allowed but not debited to P & L A/c	xxx	
(iv) Incomes or receipts not taxable under this head but credited to P & L A/c	xxx	
(v) Capital receipts credited to P & L A/c	xxx	
(vi) Incomes or receipts taxable under other head but credited to P & L A/c	xxx	
(vii) Over-valuation of closing stock or under-valuation of opening stock	xxx	
(viii) Profits taxable under the head incomes from business or profession.	Xxx	xxx

Net Income

xxxx

Computation of taxable income if Receipt and Payment Account or Cash Book is given

Generally this system is followed by professionals under this system, only taxable receipts and payments are taken. Let us discuss the performa for computation of income for professionals.

Gross Professional Earnings

(a) In case of a Doctor

(i) Sale of Medicine	xxx	
(ii) Consultation fee/Visiting fee	xxx	
(iii) Examining fee	xxx	
(iv) Operation fee	xxx	
(v) Nursing home charges	xxx	
(vi) Gift from Patients	xxx	xxx

(b) In case of an Advocate or a Chartered Accountant

(i) Fee from clients	xxx	
(ii) Consultation fee	xxx	
(iii) Audit fee	xxx	
(iv) Income from accounting work	xxx	
(v) Gift from clients	xxx	
(vi) Fee from training institute	xxx	xxx

Less: Admissible Expenses

(i) Rent of Dispensary	xxx	
(ii) Salaries to compounder's	xxx	
(iii) Cost of Medicines	xxx	
(iv) General expenses	xxx	
(v) Telephone expenses	xxx	
(vi) Motor car expenses (if used for profession)	xxx	
(vii) Depreciation on Motor car/Surgical equipments	xxx	
(viii) Laboratory expenses	xxx	
(ix) Interest on Loan	xxx	
(x) Expenses on professional Magazines/ Journals	xxx	xxx

Net Income from profession: Gross professional earnings- Admissible expenses

INCOME FROM OTHER SOURCES

- There are certain incomes which are always taxed under this head. These incomes are as follows:
 - 1. Dividends [Section 56(2)(i)]
 - 2. Income by way of interest received on compensation or on enhanced compensation
 - 3. Winnings from lotteries [Section 56(2)(ib)]
 - 4. Gifts

4. Gifts

Gifts received by an individual or HUF (which are chargeable to tax) are also taxed under this head.

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

1. Any contribution to a fund for welfare of employees received by the assessee from his employees in his capacity as an employer. But if the employer deposits such amount on or before due date of deposit applicable for such contribution, he will be allowed a deduction on account of the same. *[Section 56(2)(ic)]*.
2. Income by way of interest on securities. *[Section 56(2)(id)]*
3. Income from letting out or hiring of plant, machinery or furniture. *[Section 56(2)(ii)]*.
4. Income from letting out of plant, machinery or furniture along with building; both the lettings are inseparable. *[Section 56(2)(iii)]*.
5. Any sum received under a Keyman Insurance Policy including bonus. *[Section 56(2)(iv)]*.

Besides the above, there are some other incomes which are also chargeable under the head 'Income from Other Sources'. For example:

1. Any fees or commission received by an employee from a person other than his employer.
2. Any annuity received under a Will. It does not include an annuity received by an employee from his employer.
3. All interest other than interest on securities, e.g. interest on bank deposits, interest on loan, etc.
4. Income of a tenant from sub-letting the whole or a part of the house property.
5. Remuneration received by a teacher or a lawyer for doing examination work.
6. Income of Royalty.
7. Director's fees.
8. Rent of land not appurtenant to any building.
9. Agricultural Income from land situated outside India.
10. Income from markets, ferries and fisheries, etc.

Where an individual or a Hindu undivided family receives, in any previous year, from any person or persons on or after the 1st day of October, 2009 [Section 56(2) (vii)]

- a. any sum of money, without consideration, the aggregate value of which exceeds fifty thousand rupees, the whole of the aggregate value of such sum shall be chargeable to tax under this head.
- b. any immovable property
 - i. without consideration, the stamp duty value of which exceeds fifty thousand rupees, the stamp duty value of such property shall be taxable under income from other sources.
 - ii. any immovable property received for a consideration which is less than the stamp duty value of the property by an amount exceeding fifty thousand rupees, the stamp duty value of such property as exceeds such consideration shall be chargeable to tax under income from other sources.
- c. any property, other than immovable property
 - i. without consideration, the aggregate fair market value of which exceeds fifty thousand rupees, the whole of the aggregate fair market value of such property;
 - ii. for a consideration which is less than the aggregate fair market value of the property by an amount exceeding fifty thousand rupees, the aggregate fair market value of such property as exceeds such consideration shall be chargeable to tax under income from other sources.

Provided further that this clause shall not apply to any sum of money or any property received:

- a. from any relative; or
- b. by an HUF from its members; or
- c. on the occasion of the marriage of the individual; or
- d. under a will or by way of inheritance; or
- e. in contemplation of death of the payer or donor, as the case may be; or
- f. from any local authority as defined in the Explanation to clause (20) of section 10; or
- g. from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to in clause (23C) of section 10; or
- h. from any trust or institution registered under section 12AA.

6. Other deductions [Section 57(iii)]

Any other expenditure (not being in the nature of capital expenditure) laid out or expended wholly and exclusively for the purpose of making or earning such income during the relevant previous year.

Conditions to be satisfied for claiming deductions

Deductions under this clause will be allowed only if the following conditions are satisfied:

- i. The expenditure is laid out wholly and exclusively for the purpose of earning such income. If the purpose of earning income is coupled with some other extraneous purpose, it will not be possible to say that the deduction under Section 57 (iii) is earned by the assessee.
- ii. It is not in the nature of capital expenditure.
- iii. It is not a personal expenditure.
- iv. It is incurred in the accounting year itself and not in any prior or subsequent year.

Note that this section does not restrict deduction of expenditure to income made or earned. Interest on moneys borrowed for investment in shares which had not yielded any income was admissible as a deduction under the section. [*C.I.T. v. Gopal* (1978) 111 ITR 86].

In computing the income by way of dividends of a foreign company, no deduction will be allowed under Section 57.

AMOUNTS NOT DEDUCTIBLE [SECTION 58]

Under section 58, following expenditures are not deductible while computing income chargeable to tax under the head “Income from other sources” :

1. Any personal expenses of the assessee [*Section 58(1)(a)(i)*].
2. Any interest chargeable under the Act which is payable outside India on which tax has not been paid or deducted at source [*Section 58(1)(a)(ii)*].
3. Any amount paid which is taxable under the head “Salaries” and payable outside India on which tax has not been paid or deducted at source [*Section 58(1)(a)(iii)*].
4. Sum paid on account of wealth-tax is not deductible under section 58(1A).
5. Amount specified under section 40A is not deductible [*Section 58(2)*].

A. Exempted Interest [Section 10(15)]

Clause 15 of Section 10 of the Income-tax Act specifically enumerates certain securities, the interest from which is exempted. Hence, the interest thereon shall not be included in the income of the assessee. Some of the specified securities are:

1. Notified bonds, securities or certificates issued by the Govt. and notified deposits,
2. Notified Relief Bonds in the case of individuals and HUF.
3. Securities held by the Issue Department of the Central Bank of Ceylon.
4. Deposits made by a foreign bank performing central banking functions outside India with any scheduled bank in India with the approval of the Reserve Bank of India.
5. Loan advanced by Nordic Investment Bank to a project approved by the Central Govt.
6. Loan granted by European investment Bank in pursuance of the framework agreement for financial co-operation entered by the Central Govt. with this bank.
7. Debt or money borrowed by Govt. or a local authority from foreign sources before June 1, 2001.
8. Money borrowed by an industrial undertaking, before June 1, 2001, engaged in the manufacture or processing of goods or in the business of generation or distribution of electricity or any other form of power or in mining or in construction or in the operation of ships or aircrafts or construction of rail system or provisions of telecommunication services or the manufacture of computer software, from the notified foreign financial institutions.
9. Money borrowed or debt incurred by an industrial undertaking, as stated in (8) above, in a foreign country in respect of purchase outside India of raw-material, capital plant and machinery component.
10. Money borrowed from abroad by IFCI, IDBI, ICICI, Export Import Bank of India, NHB, or SIDBI before June 1, 2001 from sources outside India.
11. Money borrowed from abroad by any other financial institution (other than the ones stated under (10) above) established in India or a banking company before June 1, 2001 from sources outside India, under a loan agreement approved by the Central Govt.
12. Money borrowed by an industrial undertaking, stated under (10) above, in a foreign currency from sources outside India under a loan agreement approved by the Central Govt.

Deduction from GROSS TOTAL
INCOME

Section 80C - Deduction in respect of specified Investments.

- The Assessee can take the benefit of Section 80C by investing in the certain investments and making certain payments as follows:
- Investment in Equity Linked Saving Scheme (ELSS)
- Contribution to Public Provident Fund (PPF)
- Contribution to Recognised Employee Provident Fund (EPF)
- Contribution to Approved Superannuation Fund
- Investment Tax Saving Fixed Deposit
- Investment in National Pension Scheme (NPS)
- Investment in National Savings Certificate (NSC)
- Investment in Unit Linked Insurance Plan (ULIP)
- Sukanya Samriddhi Yojana
- Senior Citizen Saving Scheme
- Life Insurance Premium
- Tuition Fees
- Repayment of Housing Loan
- Each of the above investments and payments have their respective lock-in period, interest rates and other terms and conditions which are to be fulfilled for availing deduction under section 80C.
- The maximum deduction allowable under section 80C is Rs. 1,50,000/- subject to section 80CCE.

Section 80CCC: Deduction for contribution to certain pension funds.

- If deduction is claimed under this section, then no deduction can be claimed under section 80C.
- The maximum deduction allowable under section 80CCC is Rs. 1,50,000/- subject to section 80CCE.
- The following amount received will be taxable in the year in which it is received:
 - Pension received from annuity or
 - Amount received upon surrender of Annuity
 - including interest or bonus accrued.

80D - Deduction in respect of medical insurance premium

- The following expenditure should be incurred:
- Mediciam Premium
- Contribution to Central Government Health Scheme
- Preventive Health Check up
- Medical Expenditure (Only applicable in case of a Very Senior Citizen not having a medical insurance)
- The expenditure can be incurred by the assessee being:
- Individual: for self, spouse, dependent children & parents.
- HUF: for Karta & Co-parceners.

80D - Deduction in respect of medical insurance premium

- For Individuals paying for Self, Spouse & Dependent Children: Rs. 25,000/-
- An additional Deduction is allowed if paid for Parents:
- Rs. 25,000/- (If one of parents are senior citizens or very senior citizen than Rs. 30,000/-)
- The deduction for Preventive Health check up should not exceed Rs. 5000/- however, this limit is not in addition to the above limit of Rs. 25,000/- or Rs. 30,000/-.
- Any mode other than Cash. However, cash is allowed in case of Preventive Health Check up.

Section 80DD - Deduction for expenditure incurred on maintenance and medical treatment of dependant disabled.

- The amount of deduction is Rs. 75,000/-.
- In case of severe disability (person with 80% or more disability), the amount of deduction will be Rs. 1,25,000/-
- Individual - Spouse, children, parents, brother or sister of Individual who is wholly or mainly dependant on such Individual.
- HUF - A member of HUF who is wholly or mainly dependant on such HUF.
- Disease includes Autism, Cerebral Palsy and Multiple disability disorder.

Section 80DDB - Deduction for expenditure incurred on medical treatment etc.

- The expenditure should be incurred for the medical treatment of the specified disease or ailment.
- The Assessee should furnish a prescription for such medical treatment from a neurologist, an oncologist, a urologist, a hematologist, an immunologist or any other specified specialist.
- The amount of deduction is:
 - Very Senior Citizen - Rs. 80,000/-
 - Senior Citizen - Rs. 60,000/-
 - Other than above - Rs. 40,000/-
- The amount of deduction will be reduced by the amount recovered through insurance or reimbursed by employer for the medical treatment of assessee or dependant.

80E - Deduction in respect of interest loan taken for higher education

- Loan must have been taken for the purpose of higher education of self or relative.
- Loan must have been from any financial institution or approved charitable institution.
- For total 8 years or entire repayment whichever is earlier.
- Higher Education: Any course after 12th standard.
- Relative: Spouse & Children

80G - Deduction in respect of donations to certain funds, charitable institutions etc.

- The following are the categories of Donations:
- Donations to funds such as Prime Minister's National Relief Fund, The National Children's Fund, etc. Visit [here](#) for a complete list.
- Donations to the following:
- The Jawaharlal Nehru Memorial Fund,
- Prime Minister's Drought Relief Fund,
- Indira Gandhi Memorial Trust,
- Rajiv Gandhi Foundation.
- Donation to Government or any approved local authority for the promotion of Family Planning.
- Donations to Charitable institutions who provide a certificate.

80G - Deduction in respect of donations to certain funds, charitable institutions etc.

- Amount of Deduction is based on the Donee to whom the Donation is made. The following amount of Deduction is available based on categories of donation:
- 100% of Category 1 donation
- 50% of Category 2 donation
- 100% of Category 3, Subject to qualifying limit
- 50% of Category 4, Subject to qualifying limit

80G - Deduction in respect of donations to certain funds, charitable institutions etc.

- Donation should be made to approved donee's. Along with receipt for such donation, a certificate is required to be collected in order to avail deduction.
- The donation made in kind is not eligible for deduction.
- The donation made in cash exceeding Rs. 2,000/- is not eligible for deduction.
- Qualifying Limit: Total Donations made to donee's specified in Category 3 & 4, should not exceed 10% of Gross Total Income.

80G - Deduction in respect of donations to certain funds, charitable institutions etc.

- List of Donee in Category 1:
- The National Defence Fund set up by the Central Government
- Prime Minister's Relief Fund
- Prime Minister's Armenia Relief Fund
- The Africa (Public Contributions - India) Fund
- The National Children's Fund
- The National Foundation for Communal Harmony
- Approved University or educational institution of national eminence
- Maharashtra Chief Minister's Earthquake Relief Fund
- Any Fund set up by the State Government of Gujarat exclusively for providing relief to the victims of the Gujarat Earthquake
- Any Zila Saksharta Samiti for primary education in villages and towns and for literacy and post-literacy activities
- National Blood Transfusion Council or any State Blood Transfusion Council whose sole objective is the control, supervision, regulation or encouragement of operation and requirements of blood banks
- Any State Government Fund set up to provide medical relief to the poor.
- The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependants.
- The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
- The National Illness Assistance Fund
- The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund
- The National Sports Fund set up by the Central Government
- The National Cultural Fund set up by the Central Government
- The Fund for Technology Development and Application set up by the Central Government
- National Trust for welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
- The Swachh Bharat Kosh, set up by the Central Government
- The Clean Ganga Fund, set up by the Central Government (only Residents are eligible for deduction)
- The National Fund for Control of Drug Abuse
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Section 80GG - Deduction for Rent Paid

- The Assessee, his/ her spouse, minor child or HUF of which he is a member shall not own any residential accommodation at a place where he currently resides, is currently employed or carrying on business or profession.
 - If the Assessee owns any residential property at any other place then the same should not be assessed as self occupied residential property.
 - The Assessee must be paying rent.
 - The deduction will be lowest of:
 - Rs. 5,000/- per month
 - 25% of Adjusted Total Income
 - Rent Paid Less 10% of Adjusted Total Income
- Adjusted Total Income means Income excluding:
- Long Term Capital Gain
 - Short Term Capital Gain under 111A or section 115D
 - Deduction under section 80C to 80U
 - Also deduction under section 80GG is to be excluded.

80TTA - Deduction in respect of interest on deposits in savings accounts

- Earn Interest from Savings Bank Account Upto Rs. 10,000/-
- Amount of Interest earned or Rs. 10,000/- whichever is less.
- Interest on bonds, partner's capital, FD interest, Sweep TD interest, etc are not eligible for this deduction.

Section 80U: Deduction for a person with disability.

- The amount of deduction is Rs. 75,000/-. In case of severe disability (person with 80% or more disability), the amount of deduction will be Rs. 1,25,000/-
- Disease also includes Autism, Cerebral Palsy and Multiple disability disorder.

Income-tax slab rates for Individual for FY 2017-18 (AY 2018-19)

- Normal Rates of tax (applicable to all Individuals who are less than 60 years of age)
- **Taxable Income**
- **(Total Income minus Deductions)**
- **Tax Rate**
- Up to Rs. 2,50,000
Nil
- Rs. 2,50,000 to Rs. 5,00,000
5% of amount in excess of Rs. 2,50,000/-
- Rs. 5,00,000 to Rs. 10,00,000
Rs. 12,500/-+20% of the amount in excess of Rs. 5,00,000/-
- Above Rs. 10,00,000
Rs. 1,12,500/- + 30% of the amount in excess of Rs. 10,00,000/-

Income-tax slab rates for Individual for FY 2017-18 (AY 2018-19)

- Resident Senior Citizen (having age of 60 years or more but less than 80 years)
- **Taxable Income**
- Up to Rs. 3,00,000
Nil
- Rs. 3,00,000 to Rs. 5,00,000
5% of amount in excess of Rs. 3,00,000/-
- Rs. 5,00,000 to Rs. 10,00,000
Rs. 10,000/- + 20% of the amount in excess of Rs. 5,00,000/-
- Above Rs. 10,00,000
Rs. 1,10,000/- + 30% of the amount in excess of Rs. 10,00,000/-

Income-tax slab rates for Individual for FY 2017-18 (AY 2018-19)

- Resident Super Senior Citizen (having age of 80 years or more)
 - Up to Rs. 5,00,000
Nil
 - Rs. 5,00,000 to Rs. 10,00,000
20% of amount in excess of Rs. 5,00,000/-
 - Above Rs. 10,00,000
Rs. 1,00,000/-+ 30% of the amount in excess of Rs. 10,00,000/-

Rebate u/s 87A

- A resident Individual whose Taxable Income does not exceed Rs. 3,50,000 (after deductions), is eligible for rebate of 100 % of Income-tax or Rs.2,500, whichever is lower. Rebate has been reduced from Rs.5000 to Rs.2500 from AY 2018-19.

Surcharge on Income-tax

- Income exceeding Rs. 50,00,000/- but upto Rs. 1,00,00,000/-
10%* of Income-tax Computed
- Income more than Rs. 1,00,00,000/-
15%* of Income-tax Computed
- *Marginal Relief is available if Surcharge is more than incremental Income.

Education Cess and Secondary and Higher Education Cess on Income-tax

- Education Cess
2% of (Income-tax + Surcharge, if any)
- Higher Secondary Education Cess
1% of (Income-tax + Surcharge, if any)