Unit 11: COMPUTATION OF TAX

HOW TO COMPUTE TAX PAYABLE

Once the net taxable income is computed, the next step is to compute the final tax payable. The final tax payable is computed as follows:

(1) Taxable Income x Prescribed Rate of the tax = Gross Tax Payable.

(2) Add: Surcharge if any, on net tax.

(3)Compute Tax payable [1+2].

(4) Add: Education Cess on Tax in (3).

(5) Compute Final Tax Payable [3+4].

How to Compute Gross Tax

Gross tax is computed in the following manner-

(1) Winnings from lotteries, crossword puzzles, races, card games, gambling etc. are taxed at a special rate of 30%.

(2) Other income (“Adjusted Net Income “) is charged at normal rate. Higher income is taxed at higher rates. Tax payable by an individual in respect of the current assessment year 2017-2018, at the normal rates is shown in the Worksheet below:

A. Normal Rates of Tax for every individual, resident in India who is below the age of sixty at any time during the financial year:

S .No.	Total Income	Rate of Tax
1.	Where the total income does not exceed ` 2,50,000/-.	Nil
2.	Where the total income exceeds ` 2,50,000 but does not exceed ` 5,00,000/-.	5% of the amount by which the total income exceed ` 2,50,000/-.
3.	Where the total income exceed ` 5,00,000/- but does not exceed ` 10,00,000/-.	` 12,500/- plus 20% of the amount by which the total income exceeds ` 5,00,000/-.
4.	Where the total income exceeds ` 10,00,000/-.	` 1,12,500/- plus 30% of the amount by which the total income exceeds ` 10,00,000/-.

B. Rates of tax for every individual, resident in India who is of the age of sixty years or more but less than eighty years at any time during the financial year:

S. No.	Total Income	Rate of Tax
1.	Where the total income does not exceed ` 3,00,000/-.	Nil
2.	Where the total income exceeds ` 3,00,000 but does not exceed ` 5,00,000/-.	5% of the amount by which the total income exceeds ` 3,00,000/-.
3.	Where the total income exceeds ` 5,00,000/- but does not exceed ` 10,00,000/-.	` 10,000/- plus 20% of the amount by which the total income exceeds ` 5,00,000/-.
4.	Where the total income exceeds ` 10,00,000/-.	` 1,10,000/- plus 30% of the amount by which the total income exceeds ` 10,00,000/-.

C. In case of every individual being a resident in India, who is of the age of eighty years or more at any time during the financial year:

S. No.	Total Income	Rate of Tax
1.	Where the total income does not exceed ` 5,00,000/-.	Nil
2.	Where the total income exceeds ` 5,00,000 but does not exceed ` 10,00,000/-.	20% of the amount by which the total income exceeds ` 5,00,000/-.
3.	Where the total income exceeds ` 10,00,000/-.	` 1,00,000/- plus 30% of the amount by which the total income exceeds ` 10,00,000/-.

a) Surcharge on Income tax

i) 10% of the Income Tax, where taxable income is more than `50,00,000 but does not exceed `1 crore.

ii) 15% of Income Tax, where taxable income is more than ` 1 crore.

b) Education Cess on Income Tax

The amount of income –tax shall be increased by Education Cess on Income tax at the rate of the 2% of the income- tax.

c) Secondary and higher Education Cess on Income Tax

An additional surcharge is chargeable at the rate of 1% of income tax (not including the Education Cess on income tax).

d) Rebate under section 87A

A resident individual whose net income does not exceed ` 3,50,000 can avail rebate under this section. The amount of rebate would be 100% of income tax or ` 2,500 whichever is less. It is deductible from income tax before calculating education cess.

TAX ON AGRICULTURAL INCOME

Under section 10(1), any agricultural income in India is fully exempt from income tax but if the agricultural income is from outside India, it is chargeable to tax. If any person has agricultural income as well as non- agricultural income, his tax liability shall be computed in the manner given below:

1. Compute tax on the total of agricultural income and non –agricultural income considering it to be total income of the assessee.
2. Compute tax on exemption limit (` 2,50,000 / 3,00,000 /5,00,000) and agricultural income considering it to be total income.
3. Deduct tax computed under Step 2 from Step 1 and apply education cess.
4. Long term capital gain, casual income and short term capital gain u/s 111A shall not be taken into consideration for the purpose of partial integration.
5. If Agricultural income is up to ` 5,000, or non agricultural income is up to the limit not chargeable to tax (` 2,50,000 / 3,00,000 5,00,000), partial integration is not applicable.
6. Partial integration is not applicable in case of a partnership firm or a company.

TAXATION OF CAPITAL GAINS

1) How to compute tax on long- term capital gains [S.112]

1. Long- term capital gain is taxable at a flat rate of 20% (plus surcharge and education cess).
2. In case long- term capital gain is covered by section 115AB, 115AC, 115AD or 115E, it is taxable at the rate of 10 % plus surcharge plus education cess. Moreover, if listed shares/ securities/ units are transferred and the benefit of indexation is not taken, then long–term capital gain is taxable @ 10% plus surcharge plus education cess [see para 3.3.2].
3. Deductions under sections 80C to 80U are not available in respect of long–term capital gains.
4. The proviso to section 112 (1) (a) gives a relief which is given below-

a) Conditions- The relief is a available if the following conditions are satisfied-

i) Condition 1: The taxpayer is a resident individual. He may be ordinarily resident or not ordinarily resident.

ii) Condition 2: Taxable income minus long- term capital gain is less than the amount of exemption limit, i.e. ` 2,50,000; 3,00,000 or 5,00,000 respectively for an individual, senior citizen or super- senior citizen.

b) Relief – if the above conditions are satisfied, the following shall be deducted from long- term capital gain-

Exemption limit- (Net income or taxable income- Long-term capital gain)

After deducting the aforesaid amount, the balancing amount of long- term capital gain is chargeable to tax.

5. If long -term capital gain arises on transfer on or after October 1, 2004 of equity shares or units of equity oriented mutual fund and the transactions covered by securities transaction tax, such capital gain is not chargeable to tax by virtue of section 10(38). Exemption is also available in some cases under section 10(33)/ (36)/ (37).

2. Tax on transfer of listed shares, securities and units

If the following conditions are satisfied, than tax on long- term capital gain will be computed under Option 1 or 2 given below-

1) Conditions – The following conditions should be satisfied-

a) Conditions 1: The taxpayer is an individual, HUF, company or any other person (may be resident or non resident).

b) Conditions 2: The asset is a long- term capital asset.

c) Conditions 3: The long- term capital asset-

1. A security listed in any recognised stock exchange in India; or
2. A unit of UTI or a mutual fund (whether listed in a recognised stock exchange or not); or

2) Tax computation – If the capital asset which is transferred is equity shares or units of equity oriented mutual fund and the transaction is subject to securities transaction tax, the long –term capital gain is not chargeable to tax. In other cases, if the above conditions are satisfied, the tax shall be computed as follows (I.e. under Option 1 or 2 whichever is lower)-

Option 1	Option 2
1. Find out sale consideration	1. Find out sale consideration
2. Deduct: Indexed cost of acquisition/ improvement and expenses on transfer	2. Deduct: Indexed cost of acquisition/ improvement and expenses on transfer
3. The balancing amount [i.e. (1)- (2)] is Long-term capital gain.	3. The balancing amount [i.e. (1)- (2)] is Long-term capital gain.
4. 20% (plus education cess) of (3) is the amount tax liability	4. 10% (plus education cess) of (3) is the amount tax liability

The taxpayer has an option to pay tax under Option 1 or 2, whichever is lower. In the case of transfer of listed bonus shares, listed debentures and listed bonds, Option 2 is better as compared to Option 1.

3. Tax on short- term capital gain in certain cases [S. 111A]

The provisions of section 111A are given below-

1) Conditions: Section 111A is applicable if the following conditions are satisfied –

a. The taxpayer is an individual, HUF, firm, company or any other taxpayer.

b. During the previous year, he has earned short –term capital gain on transfer of equity shares or units inequity –oriented mutual fund.

c. The transaction of transfer takes place on or after October 1, 2004.
d. Such transaction is chargeable to securities transaction tax at the time of transfer.

2) Consequences: If the above conditions are satisfied, short –term capital gain is taxable at the rate of 10% (+EC).

It should be noted that no deduction is available under section 80C to 80U from such short- term capital gains.

3) Exemption Limit in Some Cases [Proviso to S. 111A] – The proviso to section 111A gives a relief-

a) Conditions – The relief is available if the following conditions are satisfied –

1) The taxpayer is a resident individual or Hindu undivided family. He or it may be ordinarily resident or not ordinarily resident.
2) Taxable income minus short –term capital gain is less than the amount of exemption limit, i.e. `2,50,000; ` 3,00,000; ` 5,00,000 respectively for an individual, senior citizen or super-senior citizen.

b) Relief – If the aforesaid conditions are satisfied, the following shall be deducted from such short-term capital gain-

Exemption limit- (Net income or taxable income- Such short -term capital gain)

After deducting the aforesaid amount, the balancing amount of such short- term capital gain is chargeable to tax.

4. Steps in Calculating Tax on short-term/ Long term Capital Gains

To sum up, tax on capital gains will be calculated as follows-

Step what is to be done

[A] Gross total income [excluding income giving in step (B) and (C) below]

1) Find out gross total income from all sources excluding income given in Step B1 and C1.
2) Deduct, deduction permissible under sections 80C to 80U (not exceeding 1).
3) The balancing amount is "other net income".
4) Find out income-tax on "other net income".

[B] Long –term capital gains taxable under section 112

1) Find out long-term capital gain.
2) Find out income –tax on long -term capital gain at the rate specified by section 112.

[C] Short –term capital gains taxable under section 111A

1) Find out short –term capital gains taxable under section 111A.
2) Find out income –tax on short –term capital gain at the rate specified by section 111A.

[D] Add the tax computed at Steps A (4), B (2) and C (2).

[E] Add education cess at the rate of 3% of Step D.

[F] Tax liability is equal to D+E.

PROBLEMS

1. Compute tax liability in the following cases for the assessment year 2018-19.
1. Mr. X (resident) has total income of ` 12,00,000
2. Mr.X (non -resident) has total income of ` 12,00,000
3. Mrs. X (resident) has total income of ` 12,00,000
4. Mrs. X (non- resident) has total income of ` 12,00,000
5. Mr. X (resident), aged 60 years has total income of ` 12,00,000
6. Mrs. X (resident) aged 80 years has total income of ` 12,00,000
7. Mr. X (Non-resident) aged 80 years has total income of ` 12,00,000

8.Mrs X. has agricultural income of ` 1,00,000, income under the head salary amounting to ` 2,55,000, long term capital gain of ` 10,00,000 and casual income of ` 1,00,000 (winnings of a game show on TV). Compute her tax liability for the assessment year2017-18. Her date of birth is 02.04.1954.

2. The total income of Mrs. Z computed for the assessment year 2018-19 is ` 2,80,000, which includes the following:

	`
Long –term capital gain	30,000
Winnings from lotteries	20,000
Short-term capital gains covered by Sec. 111A	10,000
Agricultural income earned by her was ` 50,000	

Compute the tax payable by Mrs. Z

FIRMS AND PARTNERS

For the Assessment Year 2018-19, a partnership firm (including LLP) is taxable at 30%.

a) Surcharge:
12% of the Income Tax, where taxable income is more than ` 1 crore.

b) Education Cess:
The amount of income –tax shall be increased by Education Cess on Income tax at the rate of the 2% of the income- tax.

c) Secondary and Higher Education Cess:
An additional surcharge is chargeable at the rate of 1% of income–tax (not including the Education Cess on income–tax).

PROBLEMS

1. The net profit of Sastri Brothers, a partnership firm, consisting of three partners carrying on business for the accounting year ended 31st March, 2018 was ` 5,20,000. The said net profits were after charging salary payable to all the partners amounting to ` 1,08,000 but before crediting interest to the partner accounts on their fixed capital amounting to ` 10 lakhs total. The partnership deed provided for payment of interest on fixed capital at 22% p.a. The deed does not, however, specify any salary entitlement of partners.
1) Compute the taxable income of the firm:
2) Calculate the remuneration allowable under the provisions of Income Tax Act to all the partners, if the partnership deed had provided for the payment of remuneration for them.

2. Following is the profit & loss account of Gupta Traders, a registered partnership firm, of which Mr. A and Mr. B are equal partners.

Particulars	`	Particulars	`
To Salaries	1,06,000	By Gross Profit	1,66,000
To Electricity and Water	12,200	By Commission	5,.000
To Rent	2,000	By Sale of Scrap	5,000
To Rates & Taxes	2,500	BY Excise Penalty Refund	2,500
To Motor Car Expenses	9,000	By Income tax Refund	7,700
To Entertainment Expenses	3,000	By Capital Gain on Sale of Shares (Computed)	15,000
To Repairs	6,000		

To Depreciation	8,000		
To Trade Expenses	6,500		
To Legal Expenses	3,500		
To Net Profit	42,500		
	2,01,200		2,01,200

Other particulars:

1) Salaries include:
   ` 30,000 paid to Mr. A
   ` 30,000 Paid to Mr. B
2) Rates and taxes include municipal taxes of ` 1,000 paid on the premises of the partner Mr. B to be borne by him.
3) Repairs include cost of electric motor replaced at a cost of ` 3,000.
4) Legal expenses include ` 500 paid to advocate in connection with the litigation of the partner Mr. B's property.
5) Excise penalty was disallowed when debited in the earlier year
6) Trade expenses include:
   i) Donation to charitable (Approved) ` 1,500
   ii) Diwali Pooja expenses ` 1,000
7) Shares sold were held by the firm for a period of more than 12 months.

Other particulars relating to Mr. A for the year ended 31-03-2015.

a) From M/s Rane Traders, in which he is a partner, he received:
   i) Share of profit ` 30,000
   ii) Commission from the firm ` 75,000
   iii) Interest on capital ` 16,000
b) Gross interest on Bank fixed deposits ` 30,000 (TDS ` 3,060).
c) Interest on public provident fund account ` 10,000
d) Dividend on units of Unit Trust of India ` 5,000
e) Mr. A also made the following investments:
   Public provident fund ` 40,000
   National savings certificate (VIIIth Issue) ` 20,000
f) Mr. A also paid the life insurance premium of ` 6,000 on policy taken on his own life.
g) Mr. A also made a donation of ` 10,000 to National defence fund in cash.

You are required to calculate:

1) Taxable income and tax liability of the firm Gupta traders.
2) Taxable income and tax liability of Mr. A

COMPANIES

- **Domestic Company -**

  1. **Turnover or gross receipts during the previous year 2015-16 upto ` 50 crores** 25%.
  2. **Any other case** 30%

Surcharge:

a. At the rate of 7% of income tax, where the taxable income exceeds ` 1 crore but does not exceed ` 10 crores.
b. At the rate of 12% of such income tax, where the taxable income exceeds ` 10 crores.

Education Cess: 3% of the total of Income Tax and Surcharge.

PROBLEM

1. Hyper Ltd., engaged in diversified activities, earned a net profit of ` 14,25,000 after debit/ credit of the following items to its profit and Loss account for the year ended on 31-03-2018

Particulars	`
a) Items Debited to Profit and Loss Account	
Expenses on Industrial Unit exempt under section 10A	2,10,000
Provision for loss on subsidiary	70,000
Provision for sales tax demand (paid before due date)	75,000
Provision for wealth tax demand	90,000
Provision for income tax demand	1,05,000
Expenses on purchase / sale of equity shares	15,000
Depreciation	3,60,000
Interest on deposit credited to buyers on 31-03-2018 for advance received from them, on which TDS was deposited on 31-07-2018	90,000
b) Items credited to Profit and Loss Account	
Income on Industrial Unit exempt under section 10A	2,70,000
Profit from 100% EOU exempt under section 10B	60,000
Long term capital gain on sale of equity shares on which securities transaction tax was paid	3,60,000
Income from units of UTI	75,000

The company provides the following additional information:

i) Depreciation includes ` 1,50,000 on account of revaluation of fixed assets.

ii) Depreciation allowable as per Income –tax rules are ` 2,80,000

You are required to compute the total income and tax of the company for the assessment year 2018-19 giving the reasons for treatment of items.

2. RST Ltd. is engaged in the manufacture and sale of drugs. Its net profit for the year ending 31-03-2018 after debit/ credit of following items to the P & L A/c was ` 28,00,000.

1. Income –tax paid on non monetary perquisites provided to employees ` 1,00,000.
2. Legal fees incurred in defending title to factory premises ` 2,00,000.
3. Expenditure on scientific research (not in respect of cost of land or building) on in house research and development facility approved by the prescribed authority ` 10,00,000.
4. Interest paid on arrears of sales tax ` 1,00,000.
5. Cash payment of ` 20,000 made on 10-10-2017 to a supplier towards purchase of raw material.
6. Rent received from letting out vacant land ` 1,00,000.
7. Arrears of rent received in respect of a house property, which was let out in the earlier years and which was not charged to tax in any earlier year ` 2,00,000. The said property was sold during the year ending 31-03-2015.

The company had paid royalty in India to a foreign company amounting to ` 3,00,000 on 1-5-2015, which was disallowed by the Assessing Officer for the assessment year 2016-17 since tax was not deducted thereon. The company deducted and paid tax at source on the said amount of royalty on 1-1-2018.

Compute the total income and tax of RST Ltd. for the assessment year 2018-19.

Furnish explanations for the treatment of the various items given above.