

DIRECT TAX

A tax (from the Latin word taxo; "rate") is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditures. A failure to pay, or evasion of or resistance to taxation, is usually punishable by law. Taxes are also imposed by many administrative divisions. Taxes consist of direct or indirect taxes and may be paid in money or as its labour equivalent. Few countries impose no taxation at all, such as the United Arab Emirates.

In India Income Tax is levied on the basis of provisions of Indian Income Tax Act, 1961. Amendments in provisions are made by Finance Act each year which is presented by the Union Finance Minister in the Parliament during Union Budgets. The Union Budget is generally presented on the last working day of February each year. Amendments made by the Finance Act are incorporated in the Income Tax Act and made applicable. Clarifications are made through circulars which are issued by the CBDT (Central Board of Direct Taxes) from time to time. CBDT is the supreme direct tax monitoring body of India.

UNIT 1: DEFINITIONS

(Students are not expected to study definitions verbatim, hence only gist is given)

Section 2 (7): ASSESSEE

The term Assessee includes the following persons: -

1. A person by whom any amount by way of tax, interest or penalty is payable under this Act. Whether the proceedings under this Act has been taken or not will be immaterial.
2. A person against whom the proceedings under this Act has been taken. In this case, it will be immaterial whether such a person is liable or not to pay any amount by way of tax thereon.
3. A person who is required to file his return of loss and who is not required to pay any tax thereon.
4. A person who is not liable to pay tax on his net taxable income, but since the tax is deducted at source; he is entitled to claim for refund.
5. A person who is deemed to be an assessee and who is assessable in respect of income or loss of another e.g. the representative of non-resident, the trustees in case of trust.
6. A person who is deemed to be an assessee in default. For instance, an employer who is required to deduct tax from salaries paid by him to his employees and fails to deduct such tax or after deducting tax does not pay it to the Government.

Section 2 (24) : INCOME

Income includes: -

- (a) Profits and Gains (it includes loss as well, loss is considered as minus income)
- (b) Dividend,
- (c) Salary and money value of all other benefits received from the employer or former employer including Pension, Wages by whatever name it may be called.
- (d) Any sum such as interest, salary, bonus, commission or remuneration received by a partner of the partnership firm from such firm.
- (e) Any capital gains chargeable u/s 45.
- (f) Any winning from lottery, crossword puzzles, horse races, card-games and other games of any sort or gambling or betting of any form or nature whatsoever.
- (g) Amount exceeding ₹ 50,000 received without consideration from non-related person of the assessee.
- (h) Personal gift is not considered as income, however, gift received for professional skill is to be considered as income.
- (i) Income may be received in cash or in kind. It still remains income.
- (j) It is immaterial for income tax purpose whether income is earned from lawful means or unlawful means.
- (k) Income may be calculated on receipt or accrual basis depending upon facts & nature of income.
- (l) Pin money received by wife for her personal expenses is not treated as income.
- (m) Income should be real & not fictional.
- (n) Awards received by a professional sportsman is an income.

The term 'income' as defined by the Act does not actually define the term "income" but merely describes various receipts as income. It, therefore, follows that in addition to the receipts mentioned in the definition, any other receipt is taxable under the Act if it comes within the general and natural meaning of the term "income".

Section 2 (31): PERSON

The term person includes the following: -

- i) An individual
- ii) A Hindu Undivided Family (HUF)
- iii) A Company
- iv) A firm
- v) An association of persons (AOP) or body of individuals (BOI) whether incorporated or not.
- vi) A local authority.
- vii) Every artificial juridical person not falling in the categories mentioned above.

These are seven categories of persons chargeable to tax under the Act. The aforesaid definition is inclusive and not exhaustive. Therefore, any person, not falling in the above-mentioned seven categories, may still fall in the four corners of the term “person” and accordingly may be liable to tax under section 4.

EXPLANATION: -

1. **Individual** : Natural human being e.g. Mr. X.
2. **H.U.F.** : It is the family arising out of Hindu law consisting of all members lineally descended from a Hindu ancestor (children & grandchildren), and their wives & unmarried daughters. E.g. Mr. A as Karta and B, C, D & E as family members.
3. **Company** : Under section 2(17), “company” is defined as –
 - a) any Indian company; or
 - b) any body corporate incorporated under the laws of a foreign country; or
 - c) any institution or association or a body which is assessed or was assessable/assessed as a company for any assessment year commencing on or before April 1, 1970; or
 - d) any institution, association or a body, whether incorporated or not & whether Indian or non-Indian, which is declared by special order of the Central Board of Direct Taxes to be a company.
Eg. Wipro Ltd.; Reliance India Ltd.
4. **Firm** : A partnership firm e.g. A registered partnership firm with X, Y, Z partners.
5. **AOP/BOI** : It is an Association of Persons for a common cause, e.g. XYZ Housing Society.
6. **Local Authority**: It means a municipality, district board, gram panchayat or any body entrusted by the government the control and management of a municipal or local fund e.g. Thane Municipal Corporation, B.E.S.T. etc.
7. **Artificial Juridical Person** : It includes an idol, a deity, a university, Bar Council etc. e.g. Idols of Gods & Allah, Balaji, Mumbai University etc.

XXXXXXXXXX

UNIT 2 : BASIS OF CHARGE

Section 2 (9): ASSESSMENT YEAR

Assessment Year means a period of Twelve months commencing from 1st Day of April every year.

EXPLANATION: -

Assessment year 2019-20 thus begins on 1st April 2019 and ends on 31st March 2020. This is the year in which income relating to Previous Year 2018-19 is assessed to tax.

Section 2 (34), Read with Section 3 : PREVIOUS YEAR

Under Section 2 (34) Previous Year means the "Previous Year" as defined in Section 3.

As per Section 3 there will be only one previous year for all the assessee ending on 31st March for all sources of income. E.g. In case of newly set up business previous year will begin from the date of setting up of business & will end with 31st March next. Thus, if a new business is commenced on 18th Dec. 2018, first previous year will be from 18th Dec. 2018 to 31st March 2019 and will cover a period of less than 12 months.

For Income Tax purpose status of the assessee is classified as-

1. Legal Status—Which is decided on the basis of definition of person. Eg. For a Joint Stock Company, legal status is company. For Mr. X legal status is 'individual'.
Legal Status of an assessee decides the rate at which he is required to pay income tax.
2. Residential Status—On the basis of these provisions residential status of the assessee is either – a) Resident or b) Non-Resident.
Residential status decides income on which assessee is supposed to pay tax. Income earned by assessee is either Indian income or/and Foreign income.

Thus, legal status decides rate of tax, whereas, residential status decides income on which tax is to be paid.

RESIDENTIAL STATUS

Every assessee is Either Resident or Non-Resident.

Based on legal status of the assessee there are different provisions, which decide whether a particular assessee is resident or non-resident.

If an assessee becomes Resident as per the provisions of the act then it is to be decided further, whether he is

1. Resident and Ordinary Resident
OR
2. Resident but Not Ordinary Resident.

RESIDENTIAL STATUS OF AN INDIVIDUAL — SEC. 6 (1)

For an individual to become Resident he has to satisfy any one of the following two conditions:

1. He should have been in India in the year for which Residential Status is to be decided for a period amounting to 182 days or more.
OR
2. Within the 4 years preceding to the year for which residential status is to be decided, he should have been in India for a period amounting to 365 days or more and should have been in India for 60 days or more in the year for which Residential Status is to be decided.

Exception to condition 2:

An Indian Citizen or an Indian member of a crew of an Indian ship who leaves India in any previous year for employment outside OR an Indian Citizen or a person of Indian origin who is outside India and comes on a visit to India, in the second part of the condition no.2 the words 60 days should be replaced by 182 days. It is clear that condition no.2 becomes non-functional in case of such assesses.

A person is deemed to be of Indian origin if he or either of his parents or any of his grandparents was born in undivided India.

If an individual becomes a Resident it is to be decided further which type of Resident he is. These provisions are discussed in Section 6 (6).

For an individual to become Resident and Ordinary Resident he has to satisfy both the conditions given below: -

1. He should have been resident in India at least 2 out of 10 previous years, preceding to the previous year in which he is resident.

AND

2. He should have been in India for a period amounting to 730 days or more in 7 years preceding to the previous year in which he is resident.

If assessee does not satisfy any one of the above mentioned conditions (or both) his Residential Status will be Resident but Not Ordinary Resident.

PROBLEMS

- 1.** Mr. X left India on 1st Aug. 2018. His stay during preceding 4 years was as follows: -

2017-18	50
2016-17	70
2015-16	90
2014-15	100

Determine his residential status for the A.Y. 2019-20.

- 2.** Mr. Suresh Ahire, an Indian citizen left India for London on 1st August 2018 as he was appointed manager in U.K. based hotel. Determine his Residential Status for A. Y. 2019-20.
-

- 3.** Mr. Advani, an Indian citizen who is working as an assistant in a tourist company in Pakistan came to India on holiday on 15th April 2018 and left for Pakistan on 30th June 2018.
Determine his Residential Status for A.Y. 2019-20.
-

- 4.** Mr. X left India on 15th Oct 2018. His stay in India during preceding years was as follows:

2017-18	220
2016-17	185
2015-16	90
2014-15	320
2013-14	100
2012-13	200
2011-12	75
2010-11	55
2009-10	365
2008-09	200
2007-08	320
2006-07	300
2005-06	120

Determine his residential status for the A.Y. 2019-20.

- 5.** Mr. X was a private detective. Prior to 1st Dec, 2017 he had never been outside India. On 1st Dec. 2017 he left India for South Africa as he was asked by the Government of India to find certain details regarding irregularities in IPL cricket matches and submit a report. He came back to India on 1st June 2018 and was again asked to leave for South Africa on 15th June 2018. He was to come back on 10th Oct. 2018, but unfortunately met with an accident and was killed.

Determine his Residential Status for A.Y. 2019-20.

- 6.** Mrs. X came on a visit to India on 10th April 2018 and left India on 1st Sep.2018. Her stay during preceding years was as follows: -

2017-18	100
2016-17	100
2015-16	100
2014-15	100

Places of birth

Mr. X--- Bristol, U.K.

Mrs. X---Jamaica

Father of Mr. X – Dubai

Mother of Mr.X—Hamilton

Grandmother of Mr.X - London

Grandfather of Mr.X - Nairobi

Grandmother of Mrs. X - Karachi

Grandfather of Mrs. X – Port of Spain

Mrs. X celebrated her 70th birthday on 15th August 2018.

Determine her residential status for the A.Y. 2019-20.

- 7.** Mr. Tiwari left for Switzerland on 15th March 2016 after staying in India for about 1 year from 1st April 2017. He came back to India on 9th Sept 2018.

Determine his Residential Status for Assessment Year 2019-20.

- 8.** Mr. Harry, an Indian Citizen was born in Germany. He came to India for the first time when he was 10 and never went outside India till he was 25. He left for Germany again in May 2015 and again came back to India in March 2019.

Determine his Residential Status for A.Y. 2019-20.

RESIDENTIAL STATUS OF HUF, FIRM AND AOP OR BOI SEC. 6 (2)

HUF, Firm or AOP is said to be Resident in India in any previous year if the control and management thereof is situated either partly or wholly in India.

RESIDENTIAL STATUS OF COMPANY SEC. 6 (3)

A company is said to be Resident in India in any previous year if:

- 1) It is an Indian company or
 - 2) During the previous year control and management of its affairs is situated wholly in India.
-

RESIDENTIAL STATUS OF OTHER ASSESSEES Sec. 6 (4)

Any other assessee is said to be Resident in India in any previous year if the control & management of its affairs is wholly or partly situated in India.

RESIDENT AND ORDINARY RESIDENT: Sec. 6 (6)

1. H.U.F.: - H.U.F. is said to be Ordinary Resident in any previous year if its 'Karta' is resident and Ordinary Resident in that previous year.
 2. Firm, AOP, Company and All Other Assesses: - The term 'Ordinary Resident' is not applicable to other assesses. They are either Resident or Non Resident.
-

PROBLEMS

1. During the previous year 2018-19 affairs of a Hindu Undivided family are partly managed from Delhi and partly from Hong-Kong. Don, a Karta of H.U.F., is resident and ordinary resident in India and Tan who also manages the affairs of family is a non-resident in India for the assessment year 2019-20. Determine the residential status of the family for the assessment year 2019-20.

2. A firm has five partners all of whom are resident in India. The firm owns a tea estate in Sri Lanka, which is managed by an agent who stays in Sri Lanka. Agent looks after the day to day working of the estate. He takes permission of the partners before taking any major decision. Determine the residential status of the firm.

3. A company is registered in Dubai, having its head office there. However, the majority of the directors and managers resided in India. Sales contracts and other important business

functions were controlled by directors in India. What is the residential status of the company?

SCOPE OF TOTAL INCOME

On what income an assessee will pay tax in India depends upon his residential status. Scope of total income is explained in the following chart: -

INCOME :-

A. INDIAN INCOME

1. Received or deemed to be received in India
2. Accruing or arising or deemed to accrue or arise in India.

B. FOREIGN INCOME

ACCRUING OR ARISING OUTSIDE INDIA & RECEIVED OUTSIDE INDIA :-

1. From a business Controlled from India or Profession setup in India.
2. From a business controlled from outside India or profession set up outside India.

Note :- If in respect of any business, operations are not carried out in India it will be treated as Foreign income even if it is controlled from India. However, if such an income is received in India it will be treated as Indian Income.

TAXABILITY BASED ON RESIDENTIAL STATUS

- | | |
|---------------------------------------|---|
| 1. Resident and Ordinary Resident | : Has to pay Income- tax in India on total income earned by him. i.e. Indian as well as Foreign Income. |
| 2. Resident but Not Ordinary Resident | : Has to pay Income-tax in India on total income earned by him except from business controlled from outside India or profession setup outside India |
| 3. Non-Resident | : Has to pay Income-tax in India only on Indian Income. |

SECTION 9: INCOME DEEMED TO ACCRUE OR ARISE IN INDIA

- 1) All income accruing or arising through or from:
 - a. Any business connection in India.
 - b. Any property in India.
 - c. Any asset or source of income in India.
 - d. Transfer of capital asset situated in India.
 - 2) Salaries payable for services rendered in India will be called Indian income.
 - 3) Salary received by Indian National from the Government in respect of services rendered outside India is an Indian income.
 - 4) Any dividend paid by an Indian company is considered as an Indian income.
-

PROBLEMS

1. From the following details of income of the assessee find out his gross total income for the A.Y. 2019–20 if he is: -
 - a) R & OR b) R but not OR c) Non Resident
 - (1) Dividend from Indian companies credited to bank account in Iraq ₹ 12,000.
 - (2) Income from business in Sri Lanka controlled from Mumbai ₹ 18,000.
 - (3) Income accrued in Afghanistan & received in Pakistan ₹ 31,000.
 - (4) Income from property in Australia received in Bhutan ₹ 12,000.
 - (5) Interest credited in Bank account in Switzerland ₹ 50,000.
 - (6) Rent from property in Australia received in Nepal ₹ 24,000.
 - (7) Income from business in Mumbai controlled from Dubai ₹ 1,00,000.
 - (8) Past untaxed profit brought to India ₹ 40,000.
 2. Mr. Balvinder, an Indian citizen, furnishes the following particulars of his income earned during the previous year relevant to assessment year, 2019-20.
 - (a) Pension from an Indian employer received in Sudan ₹ 36,000.
 - (b) Profit from business at Pune and managed from Britain ₹ 48,000.
 - (c) Income earned from business in Kuwait which is controlled from Mumbai (₹ 30,000 received in India) ₹ 54,000.
 - (d) Past untaxed profit brought to India ₹ 1,00,000.
 - (e) Income from agricultural land in Sri Lanka ₹ 10,000 received in India.
 - (f) Profit on sale of plant at Bhopal (1/2 received in U.S.A.) ₹ 38,000.
 - (g) Dividend from German company received in India ₹ 5,000.
 - (h) Profit from business in Rajasthan controlled from Maharashtra ₹ 74,000.
 - (i) Salary earned and received in Saudi Arabia ₹ 48,000.
 - (j) Interest on Bhutan Development Bonds (entire amount received in Sudan) ₹ 40,000.
-

Determine the gross total income of Mr. Balvinder for the assessment year 2019-20 if he is,
(i) Resident and ordinarily Resident (ii) Resident but not ordinarily Resident (iii) Non-Resident.

3. Following is the income of Mr. Khan for the previous year relevant to assessment year 2019-20.

- i) Interest from Indian companies received in Iraq and credited to bank account in Iraq ₹ 12,000.
- ii) Income from business in Sri Lanka controlled from Kerala ₹ 18,000.
- iii) Income accrued in Nepal and received in Pakistan ₹ 31,000.
- iv) Income from property in Japan received in Tibet ₹ 12,000.
- v) Interest credited from Bank account in Switzerland ₹ 50,000.
- vi) Rent from property in Australia received in France ₹ 24,000.
- vii) Income accrued in Switzerland and not received in India ₹ 10,000.
- viii) Income earned in U.S.A. in past but brought in India during the year ₹ 20,000.

Find out his gross total income resident:

- i) Resident and ordinarily resident;
 - ii) Resident but not ordinarily resident;
 - iii) Non-Resident in India.
-

4. The following are the sources of income of Shri Manohar for the assessment year 2019-20. Determine his total taxable income assuming alternatively that he is:

- i) Resident and Ordinarily Resident.
 - ii) Not Ordinarily Resident
 - iii) Non-Resident.
-
- (a) Salary from a company (Gross) ₹ 52,000. (Earned in India)
 - (b) Income from profession carried in India ₹ 57,000.
 - (c) Income accrued in U.K. and brought in India ₹ 3,000.
 - (d) Income from a business in Germany ₹ 81,000(The business is controlled from India).
 - (e) ₹ 10,000 received from a bank in France. The money was deposited in the bank account by his brother being the interest and dividend earned by Mr. Manohar in America.
 - (f) ₹ 20,000 salary earned in India deposited by his employer directly in the bank in Switzerland.
 - (g) ₹ 2000 Professional fees earned and received in New York but later remitted to India.
 - (h) ₹ 10,000 income from business, which is carried on in Hong Kong but controlled from New York.



UNIT 3: EXCLUSIONS FROM TOTAL INCOME (SECTION 10)

Under Section 10 of Income Tax Act of 1961 certain income is exempted from tax either fully or partially. In other words it is a list of tax-free income in the hands of the assessee and though it is an income of the year assessee is not required to pay tax on it.

1. **Receipt from H.U.F. Sec. 10 (2):** Any amount received by member of H.U.F. out of the family income is exempt from tax.
2. **Partners Share in the profits of the firm Sec. 10 (2A):** Partner of the firm is not required to pay tax in individual capacity on his share in profits of the firm.
3. **Amount received under a Life Insurance Policy Section 10 (10D):** Policy amount as well as bonus is fully exempt from tax except amount received under Keyman Insurance Policy under section 80DD or 80DDA(3), any sum received under policy issued on or after 1.4.2003 where premium payable in any year exceeds 20% of sum assured and any sum received under policy issued on or after 1.4.2012 where premium payable in any year exceeds 10% of sum assured. However in such cases sum received on death of a person shall continue to be exempt.
4. **Certain income by way of interest Section 10 (15):**
e.g. a) Interest on P.P.F.
b) Interest on Post Office Savings Account.
c) Interest on Notified Government Securities & Debentures.
d) Interest on Tax-free RBI bonds etc.
5. **Clubbed income of a minor child Section 10(32):** In case income of a minor child is clubbed with that of the parent under section 64(1A) such income is exempt from tax up to maximum of ₹ 1,500 in respect of each minor child.
6. **Section 10(34): Dividend** – Any income by way of dividend referred to in section 115-O.
7. **Section 10(35):** Any income in respect of Mutual Fund specified under clause 23D.
8. **Section 10(38):** Long Term Capital Gain on transfer of equity shares/units covered by Securities Transaction Tax (STT) up to ₹ 1,00,000.
9. **Section 10(39):** Income arising from international sporting event held in India where in two or more countries are participating.



UNIT 4: HEADS OF INCOME

- 1. Income from Salaries:** The remuneration which an individual receives for services rendered by him under a contract of employment shall be chargeable to income tax under the head 'Income from Salary'. According to section 17 of Income Tax Act, 1961, salary includes basic salary or wages, advance salary, Fees, commission, pension, annuity, perquisites, gratuity, annual bonus, income from Provident Fund, Leave Encashment, Allowances and awards. It also includes monetary value of all other benefits received from the employer unless it is specifically exempt under the Act either fully or partially. Salary also includes Pension received or receivable from the former employer.
- 2. Income from House Property:** Section 22 to section 27 of the Income Tax Act, 1961, contains provisions for computation of total income from income that an individual derives through his house property or land. If an assessee owns more than one self occupied properties then except one property of his choice others are treated as if they were let out and taxed accordingly.
- 3. Profits and Gains from Business or Profession:** The difference between the revenue earned from the business and the expenses incurred shall be chargeable to tax under this head.
- 4. Income from Capital Gains:** Capital Gain means the profits or gains derived by the assessee on the sale or transfer of capital asset which was held as investment by the assessee.
- 5. Income from Other Sources:** Any other income which does not fall within the above four heads of income shall be chargeable to tax under Income from Other Sources. Eg: interest income from bank deposits, winnings from lottery, crossword puzzles, races, etc.



UNIT 5: INCOME FROM BUSINESS/PROFESSION

Business is an activity of purchase and sell of goods with the intention of making profit. Profession is an occupation requiring intellectual skill. E.g. Doctor, Lawyer etc. Vocation is an activity, which requires a special skill, which is used to earn income. e.g. Painter, Singer etc. For income tax purpose there is no difference between business income, profession income and vocation income.

Section 2 (13) : Business

Business includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

Explanation: -

Thus business is any activity carried out with the intention to earn profit, whether such an activity is continuous or temporary is immaterial.

In determining whether a particular transaction is an adventure in the nature of trade or not, total impression and effect of all relevant facts and circumstances of the transaction have to be seen. To bring a transaction within the term "business", the transaction must be a "trade" or in the nature of "trade". Hence everything depends upon the facts and circumstances of the case. E.g. A person making investment of surplus funds in shares or debentures cannot be deemed to be carrying on the business of trading in shares although occasionally he may be selling "some" shares or debentures and making gains thereon.

METHODS OF COMPUTING TAXABLE INCOME

1. Gross Sales or Gross fees as the case may be are to be taken as the base if Receipt and Payment A/c or cash Book is given. From this Gross income expenses which are specifically allowed by the income tax act are deducted to arrive at taxable income.
2. If profit & loss a/c or income & expenditure a/c is given Net Profit or (Surplus) is taken as the base and then following adjustments are made: -
 - 1) Expenses, which are debited, to profit & loss a/c, but disallowed by the Income Tax Act and either fully or partially are added back.
 - 2) Expenses, which are not debited, to profit & loss a/c but which are allowed by the Income Tax Act are deducted.

- 3) Income that is credited to profit & loss a/c but not taxable at all or taxable under some different head is to be deducted.
- 4) Income that is not credited to profit & loss a/c, but which is chargeable to tax as business income is to be added.

DEDUCTIONS FOR EXPENSES SPECIFICALLY ALLOWED SECTION 30 TO SECTION 43D

1. Rent, rates, taxes, repairs and insurance of building (Section 30):

- 1) If assessee has occupied the premises as a tenant, rent of the premises and if he has agreed to bear cost of repairs, such cost is allowed as deduction, provided it is not of capital nature.
- 2) If assessee has occupied premises as the owner; repairs, land revenue, local taxes, insurance premium etc. are allowed as deduction. However, no expenditure in form of capital expenditure is allowed.

2. Repairs & Insurance of machinery, Plant & Furniture (Sec.31): Amount paid on account of repairs and insurance premium against risk of damage in respect of machinery, plant & furniture are allowed as deduction provided they are not of capital nature.

3. Depreciation u/s 32: Under Section 32 depreciation on assets is allowed as deduction while computing income from business or profession. To claim this deduction following conditions should be satisfied:

- 1) Assessee should be owner of the asset.
- 2) Asset must be used for the business.
- 3) Such use must be in the previous year.

Depreciation is allowed not on individual asset items, but on block of assets under following categories: -

- 1) Buildings
- 2) Plant & Machinery
- 3) Furniture
- 4) Intangible Assets acquired after March 31, 1998 such as know- how, Patents, Trademarks, licenses, franchises or any other business or commercial rights of similar nature.

The term plant includes ships, vehicles, books, scientific apparatus and surgical equipments used for the business but excludes tea bushes or live stock.

If any asset falling in block of assets is acquired during the year and put to use during the previous year for less than 180 days depreciation on such asset shall be restricted to 50% of the normal depreciation.

No depreciation is allowed on motor car which is manufactured outside India and acquired on or after 1st March 1975 but before 1st April 2001. However, this restriction does not apply if:

- 1) Assessee carries on a business of running the car on the hire for tourist, or
- 2) If assessee is using the car outside India for his business in another country.

If business is carried on in a building not owned by the assessee but acquired on lease or any other occupancy right and any capital expenditure is incurred by him in respect of this building, such expenditure will be considered as cost of asset as if he is the owner of such property.

A. METHOD OF CALCULATING DEPRECIATION

1. Consider total W.D.V. of assets falling in a particular block of assets at the beginning of the year.
 2. Add cost of assets purchased during the previous year.
 3. Deduct Sale Price (or Scrap value) of asset sold, discarded, demolished or destroyed during the year.
 4. On the balance amount i.e. 1+2-3, calculate depreciation at the given rate. If WDV becomes negative, no depreciation is allowed. If all assets in the block are sold depreciation is not allowed even if block has any balance WDV.
- B. In the first year if asset acquired is used for less than 180 days depreciation is restricted to 50% of normal depreciation.

Additional depreciation

It can be claimed on new plant & machinery acquired after 31st March 2005 by an assessee in the previous year in which it begins manufacturing or producing.

Rate of additional depreciation: 20% of actual cost.

UNABSORBED DEPRECIATION SECTION 32 (2)

If profit for the year is not sufficient to absorb depreciation either fully or partially, unabsorbed depreciation can be deducted from any other head of income. If it still remains unabsorbed it can be carried forward to subsequent assessment years to be adjusted against future taxable income. It can be carried forward for unlimited period.

PROBLEMS

1. Find out WDV on block of assets for depreciation purpose under Income Tax Act for assessment year 2019-20. Also find out amount of depreciation

- i) 1) WDV on 1st April 2018 ₹ 35,000
2) Purchase of assets during the year
a. On 5th April, 2018 ₹ 13,000
b. On 30th Sept. 2018 ₹ 10,000
3) On 7th March 2019, one asset WDV of which at the beginning of the year was ₹ 7,000 was sold for ₹ 5,000.
4) Rate of depreciation: 10%
-

- ii) 1) Block of asset-Plant & Machinery.
2) W.D.V. on 1st April 2018 ₹ 8,000.
3) Purchases of a new machine on 1st September 2018 ₹ 6,000.
4) One machine W.D.V. of which at the beginning was ₹ 7,000 was sold for ₹ 16,000.
5) Rate of depreciation 15%.
-

- iii) 1) Block of asset-Plant & Machinery
2) W.D.V. on 1st April 2018 ₹ 50,000.
3) Machines purchased during the year
(a) On 15th May 2018 ₹ 20,000
(b) On 18th Oct 2018 ₹ 4,000
4) Rate of depreciation 10%
-

- iv) 1) W.D.V. as on 1st April 2018 ₹ 60,000
2) Purchases on 30th March 2019 ₹ 10,000
3) Sales W.D.V. ₹ 8,000, Selling Price ₹ 5,000.
4) Rate of depreciation 15%.
5) Block of Assets: Furniture
-

v) If selling price is ₹ 62,000 in case (iv) find the amount of depreciation.

- vi) WDV on 1.4.2018 ₹ 16,000
All assets sold for ₹ 4,000
Rate of depreciation 10%
-

- vii) Following assets were acquired for a new business. Form block of assets & calculate depreciation:

Particulars	Rate of Depreciation	Cost(₹)
1. Building	5%	60,00,000
2. Machinery	20%	2,00,000
3. Machinery	40%	3,00,000
4. Machinery	50%	1,00,000

Expenditure on Scientific Research [U/S 35]

Scientific Research means any activities for the expansion of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries. The following expenditure on scientific research is allowed as deduction:

- a) Revenue expenditure incurred for scientific research related to assessee's business will be fully allowed. This may be the payment of any salary to the persons engaged in scientific research or purchase of materials for use in such scientific research.
- b) Capital expenditure incurred on scientific research related to assessee's business, will be allowed in full, however purchase of land is not allowed. No depreciation is allowed u/s 32 in respect of such asset during the previous year and subsequent year.
- c) Contribution made to approved scientific research association or college or university or other approved institutions for scientific research and to approved university, college or institution for the use of scientific research is allowed. Above may or may not be related to assessee's business & a weighted deduction of 1.50 times of amounts paid is allowed as a deduction.
- d) Contribution made to approved university, college or institution for research in social science or statistical research is allowed as deduction. Above may or may not be related to assessee's business.
- e) Any sum paid to a "National laboratory" or I.I.T. or a university or a specified person approved by prescribed authority, to be used for scientific research under an approved program, will be allowed deduction of 1.5 times of the amount so paid [Sec. 35(2AA)].

5. Deduction u/s. 36 & 37:

1. Insurance: Section 36(1) (i)- Premium paid to cover the risk of damage or destruction of stocks, stores, cattle and on health of employees under the approved scheme.
2. Premia for insurance on health of employees in accordance with scheme framed by GIC & approved by Central Government or any other insurer & approved by the Insurance Regulatory & Development Authority (only if paid by cheque) Section 36(1) (ib).
3. Bonus or commission paid to Employees: Section 36(1)(ii): It is allowed as deduction so far as they are not paid as profit or dividend.

4. Interest on borrowed capital: Section 36(1)(iii): - It is allowed as deduction. However, interest paid by firm to its partners is allowed subject to provisions of Sections 40(b).
5. Contribution to recognised Provident fund or an approved super annuation fund: Section 36(1)(iv). Any sum paid by the assessee as an employer by way of contribution towards pension scheme.
6. Contribution to Pension Scheme: Section 36(1)(iv a) Any contribution by an employer by way of contribution towards a pension scheme for an employee up to 10% of salary shall be allowed as deduction.
7. Contribution to approved Gratuity Fund Section 36(1)(v): - Amount contributed to the fund which is for the exclusive benefit of the employees will be allowed as deduction.
8. Animals used for the business: Section 36(1)(vi): - Deduction is allowed when animals have died or have become permanently useless. Amount of deduction will be difference between actual cost of the animals and amount realised if any in respect of carcasses of the animals. Deduction is allowed only if animals are used for the purpose of business but not as stock in trade.
9. Bad debts: Section 36(1)(vii) and Section 36(2): - Deduction is allowed on this account if debts have arisen out of business transaction. It is the responsibility of the assessee to prove to the satisfaction of income tax officer that such debts are irrecoverable.
10. Expenditure for promoting family planning: Section 36(1)(ix): - Only a company can claim this deduction. Any expenditure incurred by a company to promote family planning among its employees is allowed as deduction fully, provided it is revenue expenditure. Any capital expenditure on this account is allowed as deduction in 5 equal instalments. If profit is not sufficient to absorb this expenditure it can be carried forward to be set off in future. No depreciation can be claimed under section 32 on capital assets used for promoting family planning and allowed as deduction under section 36(1)(ix).
11. General Expenditure for the purpose of business or profession Section 37: - Any other expenditure not covered by section 30 to 36 which is of revenue nature will be allowed as deduction provided it is incurred exclusively for the purpose of business or profession. e. g
 1. Embezzlement of cash.
 2. Expenses on local festival such as Diwali, Muhurta etc.
 3. Cash shortage found in the business at the end of the day.
 4. Entertainment Expenses
 5. Travelling Expenses

6. Guest House Expenses.
7. Lawful expenses related to illegal business.
8. Premium on redemption of debentures
9. Discount on issue of debentures (on pro rata basis)
10. Expenditure on Advertisement (Section 37(2B)): It is allowed as deduction. However, as per Section 37 (2B), any expenditure incurred by an assessee on the advertisement in any souvenir, brochure, pamphlet etc. published by a political party will not be allowed as deduction.

Expenses Not Deductible Under Section 37

1. Donations
2. Charities
3. Gifts to relatives
4. Income tax
5. Wealth tax
6. Fines and penalties for breach of any laws.
7. Salary to owner
8. Interest on proprietors capital
9. Purchase of an assets
10. Personal expenses
11. Amount transferred to reserve
12. R.D.D. But deduction is allowed for actual bad debts
13. L.I.C. on own life.
14. Any Investments
15. Any expenses related to let out house property.
16. In case of all assessee Section 40(a): Interest, royalty, fees for technical services or any other sum chargeable to tax payable outside India without deducting tax at source & where there is no person to be treated as an agent of person receiving this amount.
17. Salary paid outside India without deducting tax at source
18. Any contribution to PF or any other Fund, if there is no arrangement for TDS from any payment to be made from such Fund if it is taxable under the head Salaries.
19. Expenditure on Corporate Social Responsibility.(w.e.f A.Y. 2015-16).

5. Deductions under section 40:

EXPENSES OR PAYMENTS NOT DEDUCTIBLE IN CERTAIN CASES UNDER SECTION 40 A

1. Payments to certain persons which are unreasonable or excessive under Section 40A(2).
Payments made by assessee to following persons :-
 - (a) Who is relative of assessee, if assessee is an individual i.e. spouse, brother, sister or any lineal ascendant & descendant
 - (b) Who is director, partner, member or their relatives, if assessee is a company or a firm or AOP or HUF
 - (c) Any person who is having substantial interest in business or profession of the assessee. i.e. a person who is beneficial owner of at least 20% of equity capital or entitled to 20% profit.

If any payment is made by assessee on any account to above mentioned persons & if in the opinion of assessing officer such payment is excessive or unreasonable then to the extent it is unreasonable will be disallowed.

2. Payments exceeding ₹10,000 made otherwise than by a crossed cheque or a draft or use of electronic clearing system through a bank account Section 40A(3) & 40A (4):- If assessee incurs any expenditure exceeding ₹ 10,000 otherwise than by a crossed cheque or a draft it shall be disallowed to the extent of 100%.

Where the assessee incurs any expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, exceeds twenty thousand rupees, no deduction shall be allowed in respect of such expenditure.

If expenses are incurred in earlier years and remained outstanding in that year but deduction was allowed on accrual basis and if actual payment (exceeding ₹ 20,000) is made in the next year in cash it will be considered as if expenditure allowed earlier as deduction was wrong & necessary amount will be added to income of year in which it is paid.

However, Rule 6DD provides for exceptional or unavoidable circumstances where payments exceeding ₹ 20,000 are to be made in cash. Taking into consideration genuineness of such transaction they will be allowed as deduction.

With effect from October 1, 2009, the monetary limit of ₹ 20,000 under section 40A(3) has been raised to ₹ 35,000 in the case of payment made for plying, hiring or leasing goods carriages. For other payments, the limit of ₹ 20,000 will continue.

For the purpose of this Section even payment for purchase of goods is considered as expenses.

3. Provision made for payment of gratuity under section 40 A (7)
 - a) Subject to the provisions of clauses (b), no deduction shall be allowed in respect of any provision (whether called as such or by any other name) made by the assessee for the payment of gratuity to his employees on their retirement or on termination of their employment for any reason.
 - b) Nothing in clause (a) shall apply in relation to any provision made by the assessee for the purpose of payment of a sum by way of any contribution towards an approved gratuity fund, or for the purpose of payment of any gratuity, that has become payable during the previous year.
 4. Contributions made by employer to non-statutory funds under section 40A(9) & 40A (10): - Any contribution mentioned above shall not be allowed as deduction. This provision does not apply to contributions to recognised PF, approved gratuity & super annuation fund etc.
-

6. Deduction under section 43:

Disallowance of unpaid statutory liability (Section 43B): - This section is applicable only if books are maintained on accrual basis. In the following cases, deduction otherwise allowable under the Income-tax Act will not be allowed unless the amounts are actually paid by the due date for filing return of income. If these liabilities are disallowed under section 43B in the year of provision, they will be allowed in succeeding year or years when actually paid: -

- 1) Tax, duty, cess or fees, under any law (e.g. Sales-tax, Excise duty, etc.)
- 2) Employer's contribution to provident fund or super annuation fund or gratuity fund or any other fund for the welfare of the employees.
- 3) Bonus or commission for services rendered payable to employees referred to in section (1) (ii) & sum due in lieu of leave balance.
- 4) Interest on any loan or borrowing from any public financial institutions or a State Financial Corporation or a State Industrial Investment Corporation, in accordance with the terms and conditions of loan/borrowing agreement.
- 5) Interest on any term loan from a scheduled bank in accordance with the terms and conditions of the agreement governing such loan.

It should be noted that these payments will not be allowed as deduction on accrual basis if not paid by the due date of filing return of income even if books are kept on mercantile basis.

Applicability of Tax Audit and related Income Tax Provisions (Section 44AB)

1] Introduction

Section 44AB gives the provisions relating to the class of taxpayers who are required to get their accounts audited from a chartered accountant. The audit under section 44AB aims to ascertain the compliance of various provisions of the Income-tax Law and the fulfillment of other requirements of the Income-tax Law. The audit conducted by the chartered accountant of the accounts of the taxpayer in pursuance of the requirement of section 44AB is called tax audit.

2] Applicability

As per section 44AB, following persons are compulsorily required to get their accounts audited :

- A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds ₹ 1 crore.
- A person carrying on profession, if his gross receipts in profession for the year exceed ₹ 50 lakhs.
- A person who is eligible to opt for the presumptive taxation scheme of section 44AD and opts for the same, if his total sales or turnover in business for the year exceed or exceeds ₹ 2 crore.

3] Tax Audit Report and its Due date

The chartered accountant conducting the tax audit is required to give his findings, observation, etc., in the form of audit report. The report of tax audit is to be given by the chartered accountant in Form Nos. 3CA/3CB and 3CD.

A person covered by section 44AB should get his accounts audited and should obtain the audit report on or before the due date of filing of the return of income, i.e., on or before 30th September of the relevant assessment year, e.g., Tax audit report for the financial year 2018-19 corresponding to the assessment year 2019-20 should be obtained on or before 30th September, 2019.

4] Penalty for non compliance

According to section 271B, if any person who is required to comply with section 44AB fails to get his accounts audited in respect of any year or years as required under section 44AB, the Assessing Officer may impose a penalty which shall be lower of the following amounts:

(a) 0.5% of the total sales or turnover as the case may be, in business, or of the gross receipts in profession, in such year or years.

(b) Rs. 1,50,000.

Presumptive computation of profits for taxation for business (Section 44AD)

1] Applies to:

Any eligible assessee engaged in an eligible business. Eligible assessee is defined as an individual, HUF, resident partnership firm, but excludes an Limited Liability Partnership(LLP) under the LLP Act, 2008 and any assessee who has claimed a deduction under sections 10A, 10AA, 10B, 10BA or heading C of Chapter VIA (sections 80I-A, 80-IB, etc.). An eligible business means any business other than the business of plying, hiring, or leasing of goods carriage as given in section 44AE and whose turnover/gross receipt in the previous year does not exceed ₹2 crores.

2] Deemed Income:

8% of the total turnover or gross receipts of the assessee on account of such business or any higher amount voluntarily declared by him shall be deemed to be his income chargeable to tax.

• Conditions:

- 1) All deductions u/s. 30 to 38 including depreciation deemed to be allowed. No further deduction allowed under those sections.
- 2) The written down value of asset used in the business will be computed as if depreciation, as applicable, was allowed.
- 3) It will be assumed that disallowances if any u/ss. 40, 40A and 43B were considered by calculating the income estimated in 2] above.
- 4) In the case of a firm, the deduction in respect of salary and interest to partners u/s. 40(b) will be allowed.
- 5) In respect of this business the assessee is not required to maintain books of account as per the provisions of s. 44AA.
- 6) The assessee is not required to get the books of account audited u/s. 44AB in respect of the above business.
- 7) If the assessee wants to declare lower income than the deemed profits as calculated above, he will have to maintain the books of account as per s. 44AA and get the accounts audited as per s. 44AB irrespective of turnover if his total income exceeds basic exemption limit.

PROBLEMS

1. Dr. Vijay a medical practitioner provides you the Income & Expenditure account for the year ended 31st March 2019

Expenditure	₹	Income	₹
To Salaries to Staff	54,000	By Consultation Fees	2,60,000
To Rent	36,000	By Visiting fees	30,000
To Purchase of Medicines	28,000	By Winning from horse races	10,000
To Telephone Expenses	12,000	By Sale of medicines	30,000
To Printing & Stationery	11,500		
To Donations	2,500		
To Books & Periodicals	11,800		
To L.I.C. Premium	21,200		
To Income Tax	3,000		
To Surplus for the year	1,50,000		
	3,30,000		3,30,000

Following additional information has been provided:

- Visit fees include ₹ 10,000/- received as a gift from father.
- Entire stock of medicines has been utilised.
- Half of the rent is attributable towards residence.
- ₹ 2,300 printing charges are incurred for printing wedding cards of his daughter.

Compute on the basis of the above information Dr. Vijay's taxable income from profession for assessment year 2019-20

- Mr. Jagdish is the owner of Jagdish Industries particulars of which for the year ended 31st March, 2018 are given below:

	₹		₹
To Salary to Staff	3,60,000	By Gross Profit	12,00,000
To Rent	60,000	By Income-tax refund	20,000
To Commission to Dealers	1,00,000	(including interest 3,000)	
To Reserve for Bad Debts	80,000	By L. I. C. (amount received	4,80,000
To Depreciation on Machinery	1,25,000	under Keyman Insurance)	
To Entertainment Expenses	1,75,000		
To Advertisement	47,500		
To Bonus to Staff	22,500		
To Expenses for approved Scientific Programme:			
Payment to IIT	1,00,000		

Land	20,000		
Building	50,000		
Salary	15,000		
Material	5,000		
Other Exp.	<u>10,000</u>	2,00,000	
To L. I. C. Premium on			
Own life	30,000		
Staff(accident)	<u>30,000</u>	60,000	
To Vehicle Running Exps.		70,000	
To Net Profit		4,00,000	
		<u>17,00,000</u>	<u>15,00,000</u>

Following additional information has been provided:

- Commission to dealers includes ₹ 15,000 paid for medical expenses incurred by the proprietor for himself.
 - Depreciation allowable on machinery as per Income Tax Rules is ₹ 1,50,000/-
 - ₹ 15,000 included in advertisement has been incurred for advertisement in souvenir published by a political party.
 - Entertainment Expenses amounting ₹ 30,000/- was not related to business.
 - Telephone expenses ₹ 24,500; Electricity expenses ₹ 32,500 were not recorded.
 - Salary of ₹ 14,000 has been paid to Mr. Jagdish & included in salary.
- Compute his income from business for the assessment year 2018-19

3. Mr. Joseph runs a liquor shop. His gross receipts from sale of liquor previous year 2018-19 is ₹ 1,50,000. He has incurred following expenses during the same year: -

	₹
Expenses for preparation of wine	70,000
Salary to staff	15,000
Donation to school	10,000
Donation to Church (Renowned throughout the state)	10,000
Life Insurance Premium	8,000
Other incidental expenses	12,000

His contention is that his business has been considered illegal and hence, he is not liable to tax. However, the Income-Tax Officer did not accept this contention. Explain whether he is liable to tax. If yes, compute his taxable income, if not give reason supporting your answer.

4. Mr. Vikas is having different agencies. His Receipts and Payments Account is given as under:

Receipts	₹	Payments	₹
To Balance b/d	5,000	By Salaries	
To Commission from L.I.C.	1,45,000	Staff	24,000
To Commission from Post Office	7,500	Own	<u>60,000</u>
To Commission from U.T.I.	22,500	By Conveyance & Travelling	13,350
To Gift from father	10,000	By Advertising	12,000
To Winning from lotteries	5,000	By Rent of Office	12,000
To Winning from horse races	5,000	By Household Expenses	19,000
To LIC – on maturity of policy on own life	30,000	By Entertainment Expenses	12,000
		By Purchase of Furniture for office	10,500
		By Telephone Expenses	12,500
		By L.I.P. for self	4,000
		By Medical Treatment of self	11,500
		By Newspapers, Journals etc.	2,000
		By House Rent	6,000
		By Advance Tax & TDS	24,650
		By Balance c/d	6,500
	2,30,000		2,30,000

Following further information has been provided:-

(a) Depreciation allowable as per Income-tax Act on furniture is ₹ 3,500.

(b) Purchase of old typewriter for ₹ 6,500 has been wrongly included in household expenses. Provide depreciation @ 10%

Compute his taxable business income for the assessment year 2019-20.

5. Dr. Suresh who is a renowned medical practitioner who maintains books of account on cash basis, furnishes his Receipts and Payments Account for the financial year 2018-19:-

	₹		₹
To Balance b/d	14,000	By Rent of Clinic	6,000
To Consultation Fees	20,000	By Electricity & Water Bills	2,000
To Visiting Fees	30,000	By Fees & Subscription	4,000
To Loan from Bank	25,000	By Household Expenses	7,800
To Sale of Medicines	60,000	By Collection charges on	
To Gift and Presents	5,000	Dividend Income	100
To Remuneration from Articles Published in Professional Journals	6,000	By Motor Car Purchased	30,000
To Dividend from Indian Co.	10,000	By Surgical Equipments	4,800
To Interest on Post Office		By Income-tax	10,000
		By Salary to Staff	15,000
		By Life Insurance Premium	15,000

Saving Bank a/c	7,000	By Gift to Wife	5,000
		By Interest on Loan	2,000
		By Car Expenses	15,000
		By Purchase of medicines	40,000
		By Balance c/d	20,000
	1,77,000		1,77,000

Compute his taxable Professional Income for the assessment year 2019-20 after taking into account the following additional information:

- 1/3 of the use of car relates to his personal use.
- Depreciation on Motor Car Allowable is 20% and surgical equipment is 25%.
- Gifts and presents include ₹ 3,000 from patients in appreciation of his medical service and ₹ 2,000 received a Birthday Gifts.



SYPGDPCM - CA. Vidyadhar Joshi

Unit 6 : DEDUCTIONS TO BE MADE IN COMPUTING TOTAL INCOME

Gross total income of the assessee is not the income on which tax is to be paid. From gross total income certain general deductions are allowed which are covered by Chapter VIA of the Income Tax Act. Chapter VIA covers section 80 and these deductions are covered by Section 80 C to 80 U out of which following are included in the syllabus of PGDPCM :-

- 1) 80 C : Life Insurance premium deferred annuity contribution to provident fund, subscription to certain equity shares or debentures etc.
 - 2) 80 D : Medical Insurance Premium.
 - 3) 80 DD : Medical Treatment of Handicapped dependent.
 - 4) 80 E : Interest on loan taken for higher education.
 - 5) 80 U : Deduction to physically handicapped.
-

80C: LIFE INSURANCE PREMIUM, DEFERRED ANNUITY, CONTRIBUTION TO PROVIDENT FUND, SUBSCRIPTION TO CERTAIN EQUITY SHARES OR DEBENTURES ETC

A. Who is eligible: An Individual or a HUF

B. Which payments are eligible?

1. Life Insurance premium. In the case of an individual policy should be taken on his own life, life of the spouse or any child (child may be dependent/independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, policy may be taken on the life of any member of the family.
2. Payment in respect of non-commutable deferred annuity
Annuity plan should be taken in the name of the individual, his wife/ her husband or any child of such individual.
3. Any sum deducted from salary payable to a Government employee for the purpose of securing him a deferred annuity (subject to a maximum of 20 per cent of salary)
It should be for the benefit of the individual, his wife or children

4. Contribution (not being repayment of loan) towards statutory provident fund and recognised provident fund
5. Contribution (not being repayment of loan) towards 15 years public provident fund
In the case of individual, the provident fund account should be in his own name or in the name of his/her spouse or any child (child may be dependent/independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, fund account should be in the name of any member of the family.
There is no maximum ceiling under the Income-tax Act. However, under the public provident fund scheme, the maximum contribution is ₹ 1,50,000.
6. Contribution towards an approved superannuation fund,
7. Subscription to National Saving Certificates, VIII Issue, Accrued interest (which is deemed as reinvested) is also qualified for deduction for first 5 years.
8. Contribution for participating in the unit-linked insurance plan (ULIP) of Unit Trust of India.
In the case of an individual, ULIP should be taken on his own life, life of the spouse or any child (child may be dependent/ independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, ULIP may be taken on the life of any member of the family.
9. Contribution for participating in the unit-linked insurance plan (ULIP) of LIC Mutual Fund (i.e., formerly known as Dhanraksha plan of LIC Mutual Fund)
In the case of an individual, ULIP should be taken on his own life, life of the spouse or any child (child may be dependent/ independent, male/female, minor/major or married/unmarried). In the case of a Hindu undivided family, ULIP may be taken on the life of any member of the family.
10. Payment for notified annuity plan of LIC (i.e. New Jeevan Dhara and New Jeevan Akshay, New Jeevan Dhara I, New Jeevan Akshay I and New Jeevan Akshay II)
11. Subscription toward notified units of Mutual Funds or UTI
12. Contribution to notified pension fund set up by Mutual Fund or UTI (i.e. Retirement Benefit Unit Scheme of UTI and Kothari Pioneer Pension Plan of Kothari Mutual Fund)
13. Any sum paid (including accrued interest) as subscription to Home Loan Account Scheme of the National Housing Bank or contribution to any notified pension fund set up by the National Housing Bank.
14. Any sum paid as subscription into any scheme of -
 - a. Public sector company engaged in providing long-term finance for purchase/construction of residential houses in India.
 - b. Housing board constituted in India for the purpose of planning, development or improvement of cities/ towns.
15. Any sum paid as tuition fees (not including any payment towards development fees/ donation/ payment of similar nature) whether at the time of admission or otherwise to any

university/college/educational institution in India for full time education of any two children of the assessee.

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

The following payment made towards the cost of purchase/construction of a new residential property is qualified for the purpose of section 80C:

- a. Repayment of the Principal Amount borrowed by the assessee from an approved financial institution.
 - b. Stamp duty, Registration Fee and Other Expenses for the purpose of transfer of such house property to the assessee.
17. Amount invested in approved debentures of and equity shares in a public company engaged in infrastructure including power sector or units of mutual fund proceeds of which are utilized for the developing, maintaining, etc. of a new infrastructure facility.
18. Amount deposited in a term deposit for 5 years or more with a scheduled bank/post office in accordance with a scheme framed and notified by the Central Government.
19. Subscription to bonds issued by NABARD as notified by the central government.
20. Amount deposited under Senior Citizens Saving Scheme.

C. Amount of deduction:

Gross qualifying amount is the figure derived in para B. However, amount of deduction under section 80C is computed as under:

Gross qualifying amount; or

₹ 1,50,000, whichever is lower.

80CCC: PENSION PLAN

Deposit/Payment made by you towards LIC or any other insurer in the approved annuity plan for receiving pension from the fund referred to in section 10(23AAB) can be claimed as deduction under this section being lower of the following:

- 100% of the amount paid
- ₹ 1,50,000

Section 80CCD: CONTRIBUTION TO PENSION SCHEME OF CENTRAL GOVERNMENT

The 80CCD deduction for AY 2018-19 can be divided into three different categories:

- **80CCD (1):** Assessee can avail this deduction irrespective of whether he/she is in employment or self-employed on the amount deposited under pension scheme notified by the Central Government (NPS deduction for AY 2018-19). The deduction allowed in this section is lower of the following 3 amounts:
 1. 10% of Salary (in case of employment) or 20 % of Gross Total Income (in case of self-employed person)
 2. Limit left under section 80CCE i.e. ₹ 1,50,000 - deduction u/s 80C Less deduction u/s 80CCC.
 3. Actual Amount paid under NPS.
- **80CCD(1B):** Assessee can claim an additional deduction of up to ₹ 50,000 under this section for investment in NPS Scheme. This is in addition to 80CCD (1).
- **80CCD (2):** Sec 80CCD(2) deduction for AY 2018-19 can be availed by assessee if he/she is an employee and employer makes contribution under NPS Scheme for employees. It is allowed only to the extent of 10% of salary.

IT SHOULD BE NOTED THAT THE AGGREGATE AMOUNT OF DEDUCTION UNDER SECTION 80C, 80CCC AND 80CCD CANNOT EXCEED ₹ 1,50,000 EXCEPT ADDITIONAL DEDUCTION U/S 80CCD(1B)

SECTION 80 D: MEDICAL INSURANCE PREMIUM

A. Who is eligible

1. An individual
2. An H.U.F.

B. Which payments are eligible

1. Payments made as premium towards medical insurance policy approved by central government or to central Govt. Health Scheme
2. In case of individual, policy has to be in name of assessee himself or his family members i.e. spouse, dependent children. In case of H.U.F. policy has to be in name of any member.

3. In case of individuals, premium paid for parents is also eligible irrespective of whether they are dependent or not dependent on the assessee.
4. Payment should be made by any mode other than cash. However, payment on account of preventive health check up can be made in any mode including cash.

C. Actual deduction:

If total premium does not exceed ₹ 25,000 : 100% (Separately for 2 & 3 mentioned above)

If premium exceeds ₹ 25,000 : Only ₹ 25,000.

The aforesaid limit will be revised to ₹ 50,000 where the assessee or his wife or her husband, or dependent parents or any member of the family is a senior citizen (i.e. one who is at least of 60 years of age at any time during the previous year) and the medical insurance premium is paid to effect or keep in force an insurance in relation to him or her. In order to get a deduction in excess of ₹ 25,000, one has to pay mediclaim insurance premium to effect or keep in force insurance in relation to a senior citizen as noted above. If mediclaim premium is paid on senior citizen (age above 60 years) then maximum deduction is ₹ 50,000.

It may be noted that an individual can make claim for his family plus parents i.e. ₹ 25,000 + ₹25,000 (or ₹ 50,000 for senior citizen). In rare cases it could very well be up to ₹ 1,00,000.

SECTION 80DD: DEDUCTION IN RESPECT OF MAINTENANCE INCLUDING MEDICAL TREATMENT OF HANDICAPPED DEPENDENT

A. Who is eligible: Resident Individual/ HUF.

B. Which Payments are eligible:

- (a) Expenditure incurred on medical treatment [including nursing], training and rehabilitation of a disabled dependent, or
- (b) Any payment or deposit made under a scheme framed by LIC or any other insurer or the administrator or the specified company and approved by the board for payment of lump sum amount or annuity for the benefit of dependent with disability.

C. Relevant Conditions / Points:

1. The concerned assessee must attach a copy of certificate in the prescribed Form and signed by prescribed medical authority along with return of income filed u/s 139. A fresh medical certificate may be required to be submitted after the expiry of stipulated period depending on the condition of disability as specified in such certificate.

2. Dependent means (a) in case of an individual, the spouse, children, parents, brothers and sisters of such individual and (b) in the case of a Hindu Undivided Family, any member of HUF; and who is dependent wholly or mainly on such individual or HUF for support and maintenance and who has not claimed deduction under section 80U relating to previous year.

D. Extent of Deduction :

- (a) ₹ 75,000/- in case of normal disability or
 - (b) ₹ 1,25,000/- in case of severe disability of 80% or above.
-

SECTION 80E: DEDUCTION IN RESPECT OF INTEREST ON LOAN TAKEN FOR HIGHER EDUCATION

A. Persons Covered : Individual.

B. Eligible Amount:

Any amount paid by way of interest on loan taken from any financial institution or any approved charitable institution for his / her higher education or w.e.f 1-4-2008 for the purpose of higher education of his/her spouse and children or the student for whom the individual is the legal guardian.

C. Relevant Conditions / Points

1. Amount should be paid out of income chargeable to tax.
2. Higher education means full time studies for any graduate or post-graduate course in Engineering, medicine, management or for post-graduate course in applied sciences including mathematics or for post-graduate course in applied sciences or pure sciences including mathematics and statistics. It covers all fields of study including Vocational Studies after passing the Senior Secondary Examination or its equivalent.
3. Approved charitable institution means an institution established for charitable purposes and notified by the Central Government u/s 10(23C) or referred in section 80G(2)(a).
4. Financial institution means banking company or any institution notified by Central Govt.
5. The deduction is allowed in the initial assessment year (i.e., the assessment year relevant to the previous year, in which the assessee starts paying the interest on loan) and 7 assessment years immediately succeeding the initial assessment year or until the interest is paid in full whichever is earlier.

- D. Extent of Deduction** : Entire amount of interest. The deduction is available for a maximum of 8 years or till interest is paid whichever is earlier.

PROBLEMS

1. Calculate deduction available under section 80D for A.Y. 2091-20 :-

Sr. No.	Mr. X	Mrs. X	Parents (age above 60 years)	Deduction
1.	3,000	5,000		Nil
2.	11,000	5,000		Nil
3.	17,000	12,000		Nil
4.	Nil	40,000	10,000	
5.	Nil	Nil	60,000	
6.	Nil	Nil	45,000	
7.	10,000	17,000	80,000	
8.	16,000	10,000	35,000	
9.	9,000	6,000	5,000	
10.	25,000	10,000	Nil	
11.	5,000	Nil	75,000	
12.	19,000	19,000	11,000	
13.	22,000	22,000	22,000	

2. Mr. X's business income is ₹ 1,00,000. He pays ₹ 15,000 to pension fund. He also pays medical insurance premium for the following: -
1. Mr. X ₹ 1,000
 2. Mrs. X ₹ 1,000
 3. Son of X (working in bank) ₹ 2,000
 4. Daughter of X (Dependent) ₹ 1,000
 5. Father of X (working in sales tax) ₹ 1,500

6. Mother of X (Dependent) ₹ 500
7. Brother of X (Dependent) ₹ 1,000

Calculate deduction to be allowed u/s 80D.

3. Income of a resident is ₹ 12,50,000 (inclusive of interest on Government securities of ₹ 15,000). He invests ₹ 1 lakh in schemes and deposits qualified for deduction under section 80C. He pays ₹ 20,000 on account of mediclaim insurance premium. Find out the net taxable income for the assessment year 2019-20.
-

4. X is salaried employee. His basic salary is ₹ 40,000 per month. He gets one month salary as bonus. He gets bank interest of ₹ 10,000. He makes the following investments/deposits every year –

	₹
Life insurance premium on his own life (sum assured: ₹ 40,000)	9,000
Premium for approved annuity plan of LIC	12,000
Repayment of loan taken on July 1, 2000 for purchasing a house Property (which is self-occupied by his family at Pune)	27,000
Payment of interest on the above loan	1,60,000
Tuition fees of two children (₹ 14,000 + ₹ 26,000)	40,000
Contribution in NPS	9,000
Mediclaim insurance premium	11,000

No other investment is made by X. Find out the net taxable income for the assessment year 2019-20.

SECTION 80U: DEDUCTION TO PHYSICALLY HANDICAPPED

1. **Who is eligible:** An individual only.
2. **Conditions to be satisfied**
 - 1) Individual is resident in India.
 - 2) Such individual at the end of previous year is suffering from not less than 40% of disability given below:
 1. Blindness
 2. Low vision
 3. Leprosy cured
 4. hearing impairment

5. Locomotor disability
 6. Mental retardation
 7. Mental illness
- 3) Such disability should be certified by medical authority notified by the Government. Where disability requires reassessment fresh certificate will have to be produced on expiry of the period of original certificate.

3. Actual Deduction

An Individual who satisfies all conditions mentioned above is eligible to a flat deduction of ₹ 75,000. A higher deduction of ₹ 1,25,000 is allowed for severe disability of more than 80%.

PROBLEMS

1. Mr. X whose business income is ₹ 2,00,000, became blind on 31st March, 2011 in an accident. He paid mediclaim insurance ₹ 7,000, deposited ₹ 12,000 to public provident fund account. His disability is certified to the extent of 50%. Calculate his taxable income.

2. Mr. Anand is blind, who is the owner of M/.s Balaji Food Products. The net profit revealed by the P & L a/c is ₹ 1,75,000. He paid to GIC for Medical Insurance as detailed below:

For Self	₹	3,950
For Wife	₹	3,950
For father who is working as Principal in college	₹	<u>3,950</u>
	₹	<u>11,850</u>

His disability is certified to the extent of 95%.

Determine the amount of deduction available under section 80 and compute net taxable income of Mr. Anand for the assessment year 2019-20



UNIT 7: COMPUTATION AND RATES OF INCOME TAX

HOW TO COMPUTE TAX PAYABLE

The final tax payable is computed as follows:

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

(Where, taxable income is: Income from Salaries, House Property, Capital Gains, Profits from Business/ Profession and Income from Other Sources less Deductions under Chapter VIA)

(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 **2018-19**, at the normal rates is shown in the Worksheet below:

A. Normal Rates of Tax

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/-.

Rebate on Tax under section 87A

1. Conditions :

- a. Assessee is a RESIDENT INDIVIDUAL
- b. Assessee's Total Income Less Deductions (under Section 80) is equal to or less than ₹ 3.5 lakhs.

2. Rebate :

₹ 2,500 or the amount of tax payable whichever is lower.

This rebate is applied to total tax before adding Education Cess (3%).

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).

Income Tax Rates payable by a Firm in respect of Assessment Year 2018-2019

Income Tax: 30% of taxable income.

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

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

ADVANCE TAX

Income liable for advance tax

Under the scheme of advance payment of tax, every income (including capital gains, winnings from lotteries, crossword puzzles, etc.) is liable for payment of advance tax.

1. Liability to advance tax- When arises- It is obligatory to pay advance tax in every case where the advance tax payable is ₹ 10,000 or more.
 - a. An assessee who has opted for the scheme of computing business income under section 44AD on presumptive basis at the rate of 8 per cent of turnover, shall be exempted from payment of advance tax related to such business.
 - b. A senior citizen (i.e. a resident individual who is at least 60 years of age at Any time during the financial year) not having any income from business/profession, is not liable to pay advance.

2. Due dates of payment of advance tax- Advance tax is payable as follows:

Due date of payment	In the case of assesseees who declares income under the provisions of Section 44AD(1) or 44ADA(1)	In the case of all other assesseees
On or before June 15 of the previous year	--	Up to 15 per cent of advance tax payable
On or before September 15 of the previous year	--	Up to 45 per cent of advance tax payable
On or before December 15 of the previous year	--	Up to 75 per cent of advance tax payable
On or before March 15 of the previous year	Up to 100% of tax payable	Up to 100 per cent of advance tax payable

SYPGDPCM - CA. Vidyaadhar Singh

UNIT 8 : INCOME TAX RETURN

The following persons are under statutory obligation to file return of income by virtue of section 139 (1), (4A), (4B), (4C), and (4D)-

Taxpayer	Minimum income to attract the provisions of filing return of income
Company or firm [sec. 139(1)]	Any income or loss
Other than a company or firm [sec. 139(1)]	If the income is in excess of the amount not chargeable to tax (i.e. the amount of exempted slab)

Return forms – These forms are given below-

New ITR Forms	Subject
ITR-1 (i.e., SAHAJ)	For individuals having income from salary/ one house property (not being brought forward loss from previous years)/ income from other sources (not being loss and not being winning from lottery/ income from race horses)*
ITR-2	For an individual/HUF not having proprietary business/professional income
ITR-3	For an individual/HUF having income from a proprietary business/profession
ITR-4S (i.e. SUGAM)	For individual/HUF/Frim (other than LLP) deriving business income and such income is computed in accordance with special provisions referred to in sections 44AD and 44AE
ITR-5	For firms, AOPs and BOIs or any other person (not being individual or HUFs company or to whom ITR-7 is applicable)
ITR-6	For companies other than companies claiming exemption under section 11
ITR-7	For persons including companies required to furnish return under section 139(4A), (4B), (4C), (4D)
ITR-V	Where the data of the return of income in form ITR-1, ITR-2, ITR-3, ITR-4, ITR5, and ITR-6 transmitted electronically without digital signature

If return is submitted electronically without digital signature, then after submission of return electronically, the taxpayer will have to submit verification of return in paper format in ITR-V. ITR-V should be sent within “specified period” by ordinary post (or speed post) to “Income-tax Department- CPC, Post Box No. 1, Electronic City Post Office, Bengaluru- 560100,Karnataka” “Specified period” for this purpose is 120 days from the date of uploading the electronic return.

Note: The Income Tax Returns can be e-verified, due to which sending the signed ITR-V to CPC- Bengaluru is not mandatory.

- a. No document, audit report, statement, accounts, etc., can be attached with these return forms, However, the report of a chartered accountant as required under section 44AB, 92E (pertaining to international transactions) and section 115JB shall be furnished electronically
- b. If a return is uploaded with digital signature, date of uploading shall be taken as the date of furnishing the return.
- c. If return is uploaded without digital signature and ITR-V has been furnished within the specified period given above, the date of uploading shall be taken as the date of furnishing the return.

If return is uploaded without digital signature and ITR-V has not been furnished within the specified period given above, then it will be deemed that the assessee has not submitted his return of income. In such a case, the assessee will have to re- submit the return.

Time for filing return of income [Sec. 139 (1)] – The due dates for filing the returns of income are as given below:

Different situations	Due date of submission of return
1. Where the assessee is required to furnish a report in Form No. 3CEB under section 92E pertaining to international transaction (s) [applicable from the assessment year 2012-13]	November 30
2. Where the assessee is a company [not having international transaction(s)]	September 30
3. Where the assessee is a person other than a company [not having international transaction (s)]	
3.1 Where accounts of the assessee are required to be audited under any law	September 30
3.2 Where the assessee is a “working partner” in a firm whose accounts are required to be audited under any law	September 30
3.3 In any other case	July 31

