



SYLLABUS

B.Com II Year (Tax)

Subject – Income Tax Procedure and Practice

UNIT-I	An outline of provisions and rules of various heads of income. Set off and carry forward of Losses. Clubbing of income. Practical Problems relating to computation of Gross Total Income.
Unit-II	Deductions under section 80C to 80U against gross total income, Income tax rates applicable for various categories assesses . computation of taxable income and tax liability of an individual.
	Advance tax, interest on tax, compulsory disclosure of PAN, relating to, written forms, assessee, Electronic
	Total income, tax from, Pro
	are for computation, applicable on, Spec, ded, available, under, Sec.



Unit - I

An outline of Various Heads of Income

Income is classified under five heads under the income tax act-

1. Income from Salary
2. Income from House Property
3. Income from Business/Profession
4. Income from Capital Gain
5. Income from Other Sources

A detailed outline of the a foresaid heads is given below-

Income from Salary
Computation of Income from Salary
 Assessment Year 2018-19

(A) Cash Receipts :-	
Salary	-----
Bonus	-----
Commission	-----
Allowances	-----
Advance Salary	-----
Arrears of Salary	-----
(B) (i) Employer's Contribution in R.P.F. (Recognized provident fund) in excess of 12% of salary	-----
(ii) Interest on R.P.F. in excess of 9.5%	-----
C) Perquisites:-	
Rent free house	-----
Medical facility	-----
Motor car	-----
Education facility	-----
Gross Salary	-----
Less:- Deduction u/s 16 (ii)	
Entertainment allowance (Only for govt. employee)	
Actual entertainment allowance of 20% of basic salary or maximum 5000 Rs. Which everless .	.....
Less:- Deduction u/s 16 (iii)	
Professional tax (Paid during the previous year)	-(------)
Taxable Salary	-----

Deduction form Gross Salary

(1) Entertainment allowance u/s 16(ii) :- This deduction is allowable only to government employees.

Salary = Basic Salary :-

- | | | |
|------------------------|---|-------------------|
| (i) Allowance received | } | Whichever is less |
| (ii) 20% of Salary | | |



(iii) Rs. 5000

(2) Professional Tax or Employment tax u/s 16(iii) :-

Actual Payment will be deductible.

Allowances		
Fully Taxable Allowance	Fully Tax free allowance	Partly Taxable allowance
(1) City compensatory allowance (2) Dearness Allowance (3) Deputation Allowance (4) Entertainment Allowance (5) Family allowance (6) High cost of living allowance (7) Medical Allowance (8) Non-practicing allowance (9) Overtime allowance (10) Project allowance (11) Rural area allowance (12) Servant allowance (13) Tiffin allowance (14) Warden and proctor allowance	1) Conveyance allowance 2) Travelling allowance 3) Tour allowance 4) Helper or assistant allowance 5) Academic and research allowance 6) Uniform allowance 7) Special allowance for performing duty. Above allowances will be fully exempted if :- (i) Whole amount is spent (ii) Amount is spent for office use only	1) Education allowance 2) Hostel allowance 3) Tribal area allowance 4) Transport allowance 5) Composite hill compensatory allowance 6) Running allowance to the employees of transport undertakings 7) House rent allowance 8) Under Ground Allowance

Rules regarding partly taxable allowance

- 1) Education allowance :-** Exempted to Rs.100/- P.M. per child for maximum 2 children i.e. $100 \times 2 \times 12 = \text{Rs. } 2,400/-$
- 2) Hostel allowance :-** Exempted up to Rs. 300/- P.M. per child for maximum 2 children i.e. $300 \times 2 \times 12 = \text{Rs. } 7,200$
- 3) Tribal area allowance:-** Exempted up to Rs. 200/- P.M.
- 4) Transport allowance:-** Allowance for going to office and coming back to home is exempted up to Rs. 800 P.M.
- 5) Composite hill compensatory allowance:-**
 - Manipur skim, u.p., H.P. and J & K where height is 9000 ft. and above Rs. 800 P.M. exempted
 - In Siachin area Rs. 7000 P.M. exempted.
 - Places located at a height of 1,000 meter or more above the sea level Rs. 300 per month.
- 6) Running allowance for employees of Transport undertakings**
 70% of allowance received
 or
 Rs. 10,000/- P.M. } **Whichever is less is exempted**
- 7) House Rent allowance:-**
 Salary = Basic Salary + D.A. Under the terms + Commission at fixed percentage

Allowance received		-----
Less:-		
1) Allowance received	} Whichever is less will be exempted	-----
2) Rent paid – 10% of salary		-----
3) 40% or 50% of salary		-----
Taxable H.R.A.		-----

8) Under Ground Allowance : - Exempted upto Rs. 800 Per Month



Perquisites

Tax free perquisites	Taxable perquisites	
	For all class of employers	For Specified employers
1) Refreshment facility	1) Rent free house	1) Servant facility
2) Telephone facility	2) Concessional rent house	2) Gas, Water & electricity facility
3) Medicinal facility	3) Liabilities of employee paid by employer	3) Free education facility (exceeding Rs. 1000 P.M. Per child)
4) Expenses on Training	4) Interest free or concessional loan exceeding Rs. 20,000	
5) Sale of goods as concessional rate	5) Use of movable assets [10% of cost will be Taxable]	
6) Issue of shares/debentures at concessional rate	6) Transfer of movable assets [W.D.V. - Transfer price]	
7) Free Conveyance facility	7) Medical reimbursement (exceeding Rs. 15000)	
8) Free Accommodation for employees		
9) Scholarship to children of employee		
10) Leave travel concession or assistance		
11) Loan facility up to 20000		
12) Free use of computers		
13) Free Education facility up to Rs. 1000 P.M. per child		
14) Health club and sport facilities		
15) Tax paid on perquisites		
16) Group insurance and accidental insurance premium paid by employer		
17) Transfer of 10 year old movable assets		
18) Free meal upto Rs. 50		

Rules Regarding Retirement

1. Monthly Pension - Fully Taxable

2. Computation of Pension -

(A) Government employee - Fully exempted

(B) Other employee

(i) If employee is getting Gratuity - 1/3rd of total pension will be exempted

(ii) If gratuity employee is not getting gratuity - 1/2th of total pension will be exempted.

3. Gratuity -

(A) Government employee - fully exempted

(B) Employee covered under gratuity payment 1972

Salary = Basic salary + Dearness allowance (which is under the terms of employment or not)

Gratuity received	-----
Less :-	



1. Gratuity received -----	} Whichever is less	(-) -----
2. $\frac{\text{Salary last drawn} \times \text{Service Year} \times 15}{26}$ -----		
3. Maximum limit Rs. 10,00,000 -----		
Taxable Gratuity		-----

Note:- Salary will be calculated on the basis of last months receipts

(C) Employee not covered under Gratuity payment Act 1972

Salary = Basic Salary + Dearness allowance under the terms + Commission at fixed percentage

Gratuity received -----	} Whichever is less	(-) -----
Less :-		
1. Gratuity received -----		
2. $\frac{\text{No. of Completed year} \times \text{Preceding 10 month average salary}}{2}$ -----	} Whichever is less	(-) -----
3. Maximum limit Rs. 10,00,000 -----		
Taxable Gratuity		-----

Note:- Salary will be calculated on the basis of last months receipts

(4) Earned Leave Salary:-

(A) Government employee – Fully exempted

(B) Non Govt. employee –

Salary = Basic salary + D.A. under the terms + Commission of fixed percentage

Salary received for earned leave -----	} Whichever is less will be exempted	(-) -----
Less :-		
1) Salary received for earned leave -----		
2) Salary of approval period -----		
3) Salary of 10 months -----	} Whichever is less will be exempted	(-) -----
4) Maximum limit Rs. 3,00,000 -----		
Taxable earned leave Salary		-----

Note:- Salary will be calculated on the basis of last to month's average salary.

(5) Compensation on Retrenchment

Salary = Basic salary + Allowances Taxable + All taxable perquisites

Compensation received -----	} Whichever is less	(-) -----
Less :-		
1) Compensation received -----		
2) Salary of 15/30 days on the completed year of service (under industrial dispute act 1947) -----	} Whichever is less	(-) -----
3) Maximum limit Rs. 5,00,000 -----		
Taxable Amount		-----

Note:- Salary will be calculated on the basis of last 3 month's average salary

(6) Amount received from provident fund:-

Amount received from statutory P.F. and Recognised P.F. will be fully exempted but amount received from unrecognised P.F. will be taxable as under-



- (i) Employer's share with interest will be taxable in the head of salary
- (ii) Interest on employee's share will be taxable in the head of other sources.

INCOME FROM HOUSE PROPERTY

The second head of Income is income from house Property. In this head of income, we compute the income received by an assessee from the house owned by himself. There are some incomes which arise from house, Owned by the assessee, but not to be included in this head:

- 1. Income from staff-quarters.
- 2. House used by the assessee for his own business or profession.
- 3. House Let out to government authorities for police station, fire brigade, bank, insurance company etc. for taking assistance in the business.

Similarly, income from subletting house or sub-tenancy will not be the part of this head.

Exempted Income from house properties:

Some incomes are been declared exempted which have arisen from house properties.

- 1. Income from self-residential house
- 2. Income from official residence of former rulers.
- 3. Income of some social & charitable institutions.
- 4. Income from agricultural farm house.

From the Income-tax point of view, house properties can be classified into 4 parts:

1. Self-Residential House:

Computation of Income from House Property
Assessment year 2019-20

Gross Annual value of self-occupied house	NIL
Less: Interest on loan (Rs. 30,000 if loan taken before 1.04.1999 OR Rs. 2,00,000 it if loan taken after april 1999)	----- -----
Income from House Property	=====

2. Let-Out House:

Computation of Income from House Property
Assessment year 2019-20

Gross Annual Value	-----
Less: Municipal Taxes [Paid by owner on or before 31 st march, 2013].	(-) -----
Net Annual Value	-----
Less: Deduction u/s 24:	
(i) Standard deduction (30% of N.A.V.)	-----
(ii) Interest on loan (actual interest due in previous year)	-----
	(-) -----
Income from House Property (Taxable)	=====

3. Partly let-out & Partly self-occupied House:

2/3 Self-occupied	1/3 Let-out
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- 4. Some part of the house is self-occupied for the whole year and remaining portion is let out for some period by self-occupies for the remaining period:

2/3 Self-occupied	10 months Let out
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	2 months Self-occupied
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While doing valuation in this case, actual rent will be calculated of the whole house for the let-out period only. But, fair-rent and municipal-valuation will be taken for the whole year

Rules regarding valuation:

1. Gross Annual Value (G.A.V.)/Actual Rental Value

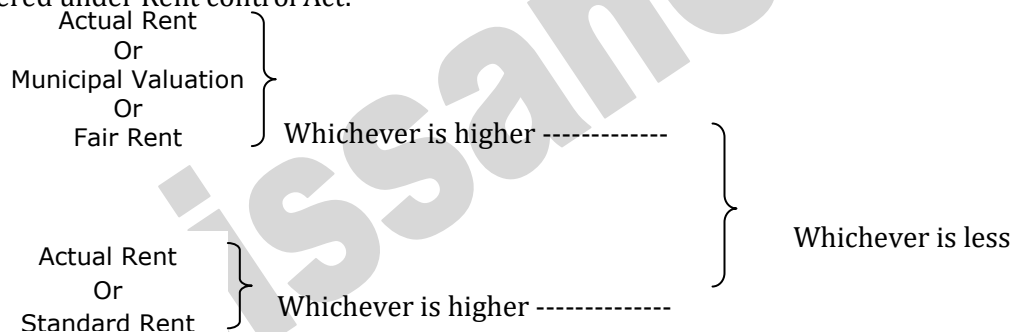
It is been calculated on 2 basis:

- (a) Self-occupied house: NIL
- (b) Let-out house:

i. If the house is not covered under Rent control Act:



ii. If the house is covered under Rent control Act:



NOTES:

1. If the let-out house has remained vacant for some period during the previous year, then actual rent for such vacancy period will be deducted in the calculation of gross annual value.
2. If amount of approved unrealized rent is given in the question then such amount will also be deducted in the calculation of G.A.V.
3. If owner of the house has provided some facilities to the tenant, free of cost as per agreement or Rent-deed during the previous year, then the value of such facilities firstly be deducted from the rent received and remaining actual rent will be compared with other rents.
4. If an assessee has kept more than one house for his own residence, then only one house will be valued as **self-occupied house** and other self-residential houses will be valued as **“deemed to be rental”**.

2. Municipal Taxes/ Local Taxes:

Municipal taxes are deducted on “Payment Basis”. It means that the whole amount of taxes paid during the previous year 2017-18 will be fully deductible, doesn’t matter to which year they belongs to. To get the deduction of these taxes, it is necessary that the assessee should fulfill the following 2 conditions:

- a. Taxes must be paid by the owner only.
- b. Taxes must be paid on or before last day of the previous year i.e. 31st March, 2018
- c.



3. Standard Deduction: 30% of Net Annual Value

4. Interest on Loan:

This deduction is allowed on "Due basis". It means that whether the amount of interest is paid or not by the assessee, on claiming the deduction by him he will get the deduction.

Deduction of interest on loan is allowed only when the amount of loan is utilized for purchasing, constructing or repairs or renewal of the house.

Deduction of interest of loan is given in 2 parts:

- I. Amount of interest due during the previous year 2017-18
- II. 1/5th of interest for construction period.

Construction period will be calculated from the date of taking loan upto 31st March immediately preceding the date of completion of construction of house.

Deduction of interest on loan will be allowed as under:

- a. Let-out house: The whole amount of interest will be deductible.
- b. Self-Residential house:

Amount of due interest during 2017-18
Or
Maximum Rs. 30,000 or Rs. 2,00,000

} Whichever is less

NOTE:

If loan is taken before April 1st, 1999, then maximum deductible amount will be Rs. 30,000 otherwise it will be Rs. 2,00,000

If the loan is taken for repairs or renewal of the house, then in each case maximum deductible amount will be Rs. 30,000

More than one house/houses for self residence -

Where the person has occupied more than one house for his own residential purposes, only one house (according to his own choice) is treated as self-occupied and all other houses will be deemed to be let out. Except one house (on the choice of the assessee) remaining house or houses will be computed as let out. So, annual value of such deemed let house/houses is determined u/s 23(1) (a) on the basis of reasonable expected rent and entitled for the deduction of municipal taxes, standard deduction (30% of NAV) and interest on loan like out property.

Only one house owned and kept vacant - Section 23 (2) (b)

In the case of an assessee who owns only one house property which is kept vacant as he has to reside at some other place in a building not belonging to him due to his employment, profession or business, the annual value will be taken as nil. Deduction u/s 24 shall be allowed only in respect of interest on loan borrowed upto Rs. 30000. Where the property is acquired or constructed out of loan borrowed on or after 1-4-99, interest in respect of such property shall be allowed upto Rs. 2 Lacs.

House acquired or transferred during the year

If the house is acquired or completed during the year then annual rental value will be determined from the date of completion or acquisition to 31st March. For example a house is completed on 1.8.2011 and let out. In this situation the annual rental value will be computed for 8 months (1.8.2011 to 31.3.2012). On the contrary a house which is sold or transferred during the year, will be valued from 1st April to date of transfer.

Rent received after deduction of Tax

If the assessee lets out his property to a company or firm or trust or bank etc. (other than Individual or H.U.F.) and gross annual rent is more than Rs. 180000 then the tenant would pay rent after deduction of



tax @10%. In such position at the time of determination of annual rental value gross rent should be kept in view instead of net rent. If the net rent is given then it will be grossed up as under:-

$$\frac{\text{Net Rent} \times 100}{90}$$

Arrears of rent received during the year – Sec. 25B

If the assessee received any amount, by way of arrears of rent from such property, not charged to income-tax for any previous year, the amount so receivable (after deducting a sum equal to 30% of on account of standard deduction such amount) shall be deemed to be the income chargeable under the head “Income from House Property”. It is taxable in the previous year in which it is received. It is taxable even if the assessee is not the owner of that property in that year.

Recovery of Unrealized rent – Sec. 25A & 25AA

If the assessee has claimed deduction for unrealized rent in preceding year (before previous year) and subsequently realized or recovered any such amount during the previous year, then it will be taxable and included in the income from house property. The following points should be noted in this reference :-

- i) The amount so recovered is taxable in the previous year in which it is recovered.
- ii) No deduction whatsoever will be allowed to the assessee for any expenses for recovery of such unrealized rent.
- iii) Recovered amount is taxable even if the house is not owned by the assessee in the year of recovery.
- iv) If the deduction for unrealized rent was not allowed and claimed in past, then such recovered amount is not taxable in the previous year because the assessee has paid tax on such amount in past.
- v) If the partial deduction was allowed for unrealized rent in past then such part of recovered amount was not taxable during the previous year which was not deducted as unrealized rent at the time of assessment.

Income from Business/Profession

Third important head of the income is ‘Profit and gains of business or profession. Major part of the revenue is collected by income tax department from the tax payees engaged in business activities.

Meaning of Business- Sec. 2 (13)

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

“Profession” includes ‘Vocation’ Sec. 2 (36)

Profession- The expression Profession involves the idea of an occupation requiring Purely intellectual skill or manual Skill controlled by the operator as distinguished from an occupation or business which is substantially the production/ sale/ arrangements for the production or sale of commodities.

Vocation: In the act, It implies natural ability of person for some particular work. In the other words by the way in which a man passes his life.



Profits and Gains of business/ Profession include-

1. Profit from trading activities
2. Compensation
3. Receipts from Profession
4. Profit from speculation business
5. Brokerage
6. Commission
7. Import-export Incentives
8. Income of trade Associations
9. Royalty etc.

Traders, Manufactures, Suppliers, banks, insurance Companies transporters, lawyers, doctors, engineers, singers, insurance agents, trade Associations, money lenders etc. are covered under this head.

The following conditions should be fulfilled for allowing deduction under the Section-

1. Expenditure must be in revenue nature, capital expenditure is not allowed.
2. Expenditure must be related to business/profession.
3. Expenditure must be actually made reserve/provision made for any expenses is not allowed.
4. Expenditure must not be personal/Domestic
5. Expenditure must be paid/ payable during the year.

Computation of income from business assessment year 2019-20



<p>Net profit as per P & L a/c or surplus as per income & exp. a/c Add- Disallowed expenses & Losses debited to P&L A/c:</p> <ol style="list-style-type: none"> 1. Household expenses/ Personal expenses 2. Life insurance premium 3. Int. on capital 4. Income tax & wealth tax 5. Capital expenditures & capital losses/ Speculations 6. Fees & penalties (except penalty in the form of interest for late payment of sales tax) 7. Reserves & provisions (except prov. For payment of excise duty) 8. Capital expenditure on advertisement expenses new sign board. 9. Adv. In souverior of political party. 10. Donation to political parties 11. Charities & donation (except compulsory subscription for business) 12. Personal gifts & presents 13. Cash payment exceeding Rs. 10,000 of the whole amt. will be disallowed. 14. Payment outside India without TDS 15. Excess payment to relatives 16. Excess dep. Charged in P & L a/c 17. Irrelative exp. Of business 18. Fringe benefit tax (FBT) 19. Securities transaction tax (STT) 20. Income tax on perquisites 21. Valuation of closing stock 22. Exp. On intangible assets like patents copyright, know how etc. (25% dep allowed on it) 23. Preliminary expenses (4/5 th disallowed) 24. Exp. On prospecting of minerals (9//10 disallowed) 25. Exp. On family planning program 26. Provision for Gratuity [u/s 40 A (7)] 	(+)-
Total	-
<p>Less- Allowed expenses and allowances which are not debited to P&L A/c wholly/partly for instance depreciation:</p> <ol style="list-style-type: none"> 1. Allowed bad debts 2. Allowed depreciation 3. Any other allowed expenses 4. Banking cash transaction tax 	(-)-
<p>Less : Income not related to business but credited to P&L A/c:</p> <ol style="list-style-type: none"> 1. Rent from house property. 2. Selling price/profit from sale of assets. 3. Interest and dividend 4. Int. on post office savings a/c 5. Income tax refund 6. Agricultural income 7. Bad debts recovered which were previously disallowed as bad debts 8. Personal/ Family Gift 	(-)-
<p>Add : Add- deemed income which are not recorded in the books:</p>	(+)-
Taxable Income from Business/ Profession	-----



Deductions expressly allowed in respect to expenses and allowances (sec. 30 - 37)

1. Rent, taxes, insurance, repairs etc. of the building: If an assess is running his business in a rental house, then rent and all other expenses will be fully allowed. But if the business is running in own house, then rent will be fully disallowed and other expenses will be allowed proportionately. (Sec. 30)
2. Repairs & insurance of other assets: If an assessee has taken insurance of plant & machinery, furniture, motor car etc. or spent on repairs of these assets, then the whole amount will be fully allowed. (Sec. 31)
3. Depreciation: (sec. 32) depreciation will be allowed on all those assets at prescribed rates, which are allowed by the assessee and are used in business of profession

Dep. On leasehold assets will not be allowed and also on foreign cars.

Dep. Will be allowed on any asset only when it is existing the business on the last day of the previous year Mar'31, 10. If an asset has been sold or destroyed before this date, then dep. Won't be allowed on such asset.

If an asset is used for a period. of 180 days or more in an year, then only dep. Will be allowed for the whole year. But, if an asset is used for less than 180 days in a year, then dep. will be allowed at prescribed rate for the half year.

Dep. is to be calculated on the WDV of the asset which will be calculated As under:

WDV on 1 st Apr. 09					
(+) Cost of new asset purchased		(+)	.....	
	Total		.....	
(-) Sales Price of the asset sold		(-)	.....	
WDV on 31 st Mar.010			.....	

Following are the prescribed rates of depreciation on some of the important Assets.

i. Residential Building	5%
ii. Commercial Building	10%
iii. Furniture	10%
iv. Motor Car	15%
v. Scooter, motorcycle	15%
vi. Plant & Machinery	15%
vii. Intangible assets like patent, copyright, know how etc	25%
viii. Computer	60%
ix. Professional books :	
a) Books annually published	100%
b) Other books	60%

20% additional dep. will be allowed on assets purchased during the previous year. But assets use for less than 180 days rate of additional depreciation will be 10%

4. Expenditure on scientific research: Every amount of such expenditure, whether it is capital or revenue, will be fully allowed. (Sec. 35)
5. Contribution to national laboratory: Weighted deduction of 200% will be allowed. [Sec. 35(2AA)]
6. Patents, copyright, technical know how: Exp. On them exp. On various intangible assets like patent, copyright license, trademark, know how etc. will be treated as capital expenditure hence it all be disallowed if it is written in P & L a/c (Sec. 35 A & 35 AB) Being a capital expenditure, 25% dep. Will be allowed on it. (If intangible assets acquired after 31/3/98). In case of Patent/ copyright acquired before 1/4/1998 it would be allowed in 14 years equal installments.



7. Preliminary Expenses: They are allowable in 5 equal annual installments. It means that every year, 1/5th will be allowed & 4/5 disallowed. (Sec. 35 D)
8. Expenditure on prospecting of minerals: Allowable in 10 equal annual installments i.e. every year 1/10th allowed and 9/10th disallowed. (Sec. 35 E)
9. Exp. On family planning programs: If some amount is spent by the assessee on family planning programs of employees, allowed fully capital expenditure is allowed 1/5 portion and revenue expenditure whether it is capital or revenue expenses will be fully disallowed. [Sec. 36 (i) (ix)]
10. Payment for rural development program: This expense will be allowed fully only when the payment is made to an approved institution. (Sec. 35 CCA)
11. Security, transaction Tax
12. Other deduction (Sec 36) Insurance Premium, Bonus Bad Debts, Commission, Interest on capital, Contribution to P.F./ Gratuity fund
13. Tea, coffee & rubber Development Account (Sec. 33AB)
14. **Examples of expenditure allowable as a deduction u/s 37 (1)**
 - I. Expenses relating to sale- purchase/ Manufacturing
 - II. General expenses for running business.
 - III. Remuneration to employees
 - IV. Compensation/ damages
 - V. Legal expenses
 - VI. Indirect Taxes
 - VII. Expenditure on raising loans
 - VIII. Expenditure on advertisement
 - IX. Other expenses are allowed as per business needs
 - a. Guest house Expenses, Entertainment expenses, advertisement, travelling etc.
 - b. Telephone deposit and installation changes.
 - c. Expenditure on labour welfare
 - d. Subscription/ contribution/ fees paid to any institution in the interest of business.
 - e. Office expenses, Royalty, Commission, brokerage etc.
 - f. Civil defence expenses
 - g. Expenditure on training of employees/ apprentices
 - h. Rebate or discount allowed to customers
 - i. Professional tax levied by state Govt.
 - j. Express incurred on the occasion of Diwali Muhurat, Business anniversary/ exhibition, festival etc.
 - k. Interest paid for delay payment of sales tax etc.
 - l. Fees/ Remuneration to tax consultant/ Advocate
 - m. Expenses related to tax procedure/ registration of trade mark to promote family planning among the employees.
 - n. Some losses are allowed like- destruction of stock due to fire, theft or war, embezzlement by employee etc. Any other expenses/ losses related to business which is in the revenue nature
 - o. Audit fees
 - p. Taxes imposed by local authority

Allowable losses: following items of losses are allowable in the head of business or profession.

- a) Lost of cash or stock due to embezzlements by employees
- b) Lost of cash or stock due to theft or robbery.
- c) Lost of stock due to war or natural calamity
- d) Lost of lapsation of advance



Deductible expenses on actual payment: Following expenses will be deductible if it is paid before due date of filing income tax return. These expenses are issued. [Sec. 43 (b)]

- a) Govt. dues- (Tax/ duty etc.)
- b) Bonus, comm. etc. payable to employees
- c) Interest on intuitional loan.
- d) Contribution to P.F.

Deemed Profits (Sec 41)

It is deemed to be income from business under Income tax Act

1. Remission of liability/ Recoupment of Loss/ Expenditure
2. Amount realised on transfer of an asset used for scientific research
3. Recovery of Bad Debts
4. Amount withdrawn from special reserve by financial institution
5. Receipts after discontinuance of business

Methods of Accounting (Sec. 145)

Accounting system adopted by the assessee should be considered while computing income from Business. Books of account may be maintained either mercantile system or cash system-

- a. **Mercantile System-** If an assessee keeps his books of account on the basis of mercantile system then net profit / loss of business will be determined after making necessary adjustments (any income/ expenditure will be taken in computation which is related to the previous year either it is paid/ unpaid, received/ receivable)

Income- Income received during the year
Add- Accrued income
Less- Unaccrued income

= Net income related to previous year.

Expenditure- paid during the year
Add- Due but outstanding
Less- Prepaid/ Advance Expenses

= Net expenditure related to previous year.

- b. **Cash system-** In this system all revenue receipts will be included in the income which are received during the year on the other hand all revenue expenses which are paid during the year will be deducted from gross receipts. In cash system no adjustment in respect of accrued, unaccrued income/ outstanding, prepaid expenses will be considered.

Computation of Income Relating to specific Business

Ascertainment of taxable income is typical in case of some business activities like retail trade, small transports and contractors, therefore. Special provisions have been made to assess the taxable income of such specific business an estimation basis under the Income tax act. These provisions are optional. If the assessee does not want to assess his income related to specific Business under these Provision,- he must to maintain regular accounts and gets audited them.

I. Special Provisions for Computing Profits and gains of small business of civil construction, etc. [Sec. 44AD]

1. Gross receipts not more than Rs. 2 Crore (Paid/ Payable)
2. Deemed profit equal to 8% of the gross receipts paid/payable in previous year
3. Deductions of business head not allowed
4. Maintenance of books and audit is not compulsory



5. In case if the profit is less than 8% provisions of sec. 44AD shall not apply where the assessee claims and produces evidence to prove this then the Assessing officer shall proceed to make an Assessment of the total income/loss and determine the sum payable by the assessee. Assessee has to keeps and maintains such accounts Books and other documents as required u/s 44 AA & furnishes a report of such audit as required u/s 44AB.
6. The Assessee will entitle for deductions u/s 80 c to 80 u against GTI.
7. If the assessee is a firm the salary and interest paid to its partners shall be deducted from their income computed u/s 40 (b)

II. Special Provisions for Computing Profits and gains of business of plying, hiring or leasing goods carriages [Sec- 44AE]

1. In case of an assessee who owns not more than 10 (at any time in the Previous year) goods Carriages
2. Estimated profit on heavy goods vehicle or light vehicle shall be an amount equal to Rs. 7,500 (A.Y. 2015-16) for per month or part of a month.
3. Further deductions are not allowed.
4. Maintenance of books and audit is not compulsory.
5. If assessee shows income lower than a foresaid limit sec. 44AF shall not apply where the assessee claims and produces evidence to prove this then the assessing officer shall proceed to make an assessment of the total income/loss and determine the sum payable by the assessee. Sec 143 (3) Assessee has to keeps and maintains such accounts Books and other documents as required u/s 44 AA & furnishes a report of such audit as required u/s 44A
6. If the assessee is a firm the salary and interest paid to its partners shall be deducted from their income computed u/s 40 (b)

III. Expenses deductible from commission earned by insurance agents etc.

Adhoc deduction from commission earned by insurance agents, UTI agents, Mutual funds agents and Govt. securities agents are allowed as under when given 2 conditions are fullfil by assessee-

1. If agent who do not maintain detailed accounts for expenses incurred of Agency
2. If gross aggregate commission should be less then Rs. 60000 during previous year.

Commission	Adhoc Deduction
1. Agent of LIC of <ul style="list-style-type: none"> • First year’s commission • Renewal commission • When first year and renewal commission separate figures are not available • Bonus commission 	50% of commission 15% of renewed commission OR maximum limit 20000, whichever is less. 33 ¹ / ₃ % earned during the Previous Year No Deduction allowed
2. Commission received by authorized agents of unit trust of India	50% of commission
3. Commission received by authorized agents of Govt. & Post office securities	50% of commission
4. Commission received by authorized agents of notified mutual fund	50% of commission



Income from Capital Gain

Meaning of capital gains (Sec. 45)

Any profit or gain arising from the sale or transfer of a capital asset is chargeable to tax under the head "Capital Gains", Capital asset means any movable or immovable asset like land, building, plot, gold, silver, jewellery, shares, securities etc. Profit/Loss arising from transfer of such assets is compared under the had of capital gain from Income tax point of view.

Definition of Capital Asset Sec-2 (14) -

Capital asset means property of any kind, whether fixed or circulating, movable or immovable, tangible or intangible e.g. land, building, plot, gold, silver, precious metals, jewellery, shares, securities, furniture, machinery etc.

Exception -

1. Though Property of any kind held by an assessee whether or not connected with his business/profession is included in the definition of 'Capital Assets' it does not include -

1. Stock in trade
2. Personal effect Assets (which is personally used by assessee and family member)
3. Agricultural land in rural area
4. Gold Bonds
5. Special Bearer Bonds
6. Gold deposit bonds

} **Which is issued by Central Government**

2. Items included under capital gains Sec. -45

1. Profit from transfer of Capital Assets Sec. 45 (1)
2. Insurance Claim Sec. 45 (1A)
3. Conversion of Capital Assets into stock in trade Sec.45 (2)
4. Assets transferred to Firm/AOP Sec. 45 (3)
5. Profit from distribution of capital assets on dissolution Sec. 45(4)
6. Profit arises from compulsory acquisition of capital Assets. Sec. - 45 (5).
7. Capital Gain on repurchase of units of Mutual Fund Sec. 45 (6)

Types of Capital Gains

1. Short term capital gain
2. Long term capital gain

Short term capital asset

- (i) Shares, securities, bonds, units are held by the assessee for not more than 12 months before transfer.
- (ii) Assets on which depreciation has been allowed under the Income Tax Act, whether depreciable asset held by the assessee more or less 36 months.
- (iii) Any other asset which is held by the assessee for not more than 36 months, e.g., land, building, precious metals, jewellery etc.

Long term capital asset

- (i) Shares, securities, bonds, units held by the assessee for more than 12 months.
- (ii) Other assets like building, gold, plot, land, jewellery etc. held by the assessee for more than 36 months.



Computation of Short term capital gain/loss (For the Assessment Year 2018-19)

Sales consideration	.....
Less – Aggregate amount of the following:	
(a) Transfer Expenses (Advertisement). Brokerage, legal exp. etc)	.....
(b) Cost of acquisition of the asset	.....
(c) Cost of improvement (-).....
Short term capital gain/less	.....

Computation Of Long Term Capital Gain/Loss (For the Assessment Year 2018-19)

Full value of consideration	
Less : Total of the following	.....
(i) Transfer expenses	.....
(ii) Indexed cost of acquisition	.....
(iii) Indexed cost of improvement (-).....
Long term capital gain/loss	.....

Formula:-

1. Calculation of Index cost of acquisition

(i) If assets acquired before 01.04.2001 by the Assessee

$$\text{Index Cost} = \frac{\text{Original Cost or fair market value on } 1.4.1981 \text{ (which ever is more)} \times \text{Index for the transfer year 2017-18 (272)}}{\text{Cost inflation Index for 2001-02 (100)}}$$

(ii) If assets acquired on or after 01.04.2001 by the Assessee

$$\text{Index Cost} = \frac{\text{Cost of acquisition} \times \text{Index for the transfer year 2017-18 (272)}}{\text{Cost Inflation Index for the year in which the assets is acquired by the assessee}}$$

Note:- If the property is acquired before 01.04.2001 then index for 2001-02 will be taken as index for the base year.

2. Calculation of Indexed cost of improvement

Formula:-

$$= \frac{\text{Cost of Improvement} \times \text{Cost Inflation index for the year in which the asset is transferred year 2017-18 (272)}}{\text{Cost Inflation Index for the year in which Improvement to the asset took place.}}$$



Note:- Improvement cost incurred before 01.04.2001 is not considered. It should be ignored. Only cost of improvement will be considered which is related after 31.03.2001

Exemption of Capital Gains

Exemptions are of two types

A. Exemption of capital gains under various sub-clauses of section 10;

- 1. Capital gain on transfer of units of US 64 exempt [Section 10 (33)]
2. Exemption of long-term capital gain arising from sale of shares and units and Securities Transaction Tax paid [Section 10(38)]
3. Capital gain on compulsory acquisition of urban agriculture land-Sec. 10(37)

B. Capital gains exempt from tax - Under section 54 to 54H

Table with 2 columns: Description of exemption and corresponding calculation/condition. Rows include residential property conversion, agricultural land transfer, compulsory acquisition, notified bonds, residential property investment, industrial shifting, and residential house property transfer.



Tax on Capital Gains

- Long-term capital gains are taxable at special rates for each type of assessee –
 - a. 10% tax on long-term capital gain arising from transfer of securities, bonds, units, debent
 - b. 20% on other long term capital gains.
- Short-term capital gains are taxable at normal rates but Short term capital gain ce transfer of equity shares or units sold through Stock Exchange and Securities transaction tax paid, it will be taxable at concessional rate 15%.
Add : Education cess @ 3% on tax payable.

Important points should be kept in view

- Personal effects (clothing, furniture, utensils, vehicles etc), Rural agricultural land, stock in trade, Gold Bonds are not covered under definition of "Capital Asset". So, profit or loss arising from the transfer such assets is not noticeable.
- Depreciable assets will be treated as short-term asset even if such asset held by the assessee for Less than or more than 36 months.
- Indexed cost will not be allowed for the following long-term assets-
 - a. Securities, Bonds, Units and debentures of company.
 - b. Listed shares of an Indian company sold outside Stock Exchange and the assessee wants to pay tax @10% for long term capital gain instead of 20%
 - c. Nonresident assessee opts taxation u/s 115C to 1151 in respect of foreign exchange assets.
- If the equity shares or units are transferred during the previous year 2014-15 through Stock Exchange and Securities Transaction Tax has been paid, long term capital gain shall be exempt and in case of loss it will be ignored —
- If the transferred asset is acquired before 1.4.2001, the cost of acquisition will be—
Original cost of the asset
or
Fair market value on 1.4.2001
Whichever is more.
- Improvement cost incurred before 1.4.2001 should be ignored. It cannot be part of cost of the asset.
- Cost of bonus shares, obtained by the assessee after 31.3.2001, will be nil, so cost of acquisition of such shares will be taken Nil at the time of computation of capital gains.
- Cost of bonus shares acquired before 1.4.2001 will be considered. Fair market value of such shares on 1.4.2001 will be cost of acquisition. If the bonus shares are acquired after 31.3.2001 the cost of acquisition will be Nil.
- Where any capital asset was on any previous occasion the subject of negotiations for its transfer, any advance or other money received and retained by the assessee in respect of such negotiations shall be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.
- During the previous year (2017-18) the assessee has transferred both type of capital assets, i.e. long term and short term and capital loss arise then —
 - a. Short term Capital Loss can be adjusted against any capital gain either Short term or Long term or both.
 - b. Long term Capital Loss can be adjusted against only Long term Capital Gains. Short term Capital Gain cannot used to set off for Long term Capital Loss.
- Sales consideration of Land or building is lower than value assessed for Stamp Duty purpose, then consideration will be taken as per Stamp Duty purpose instead of actual consideration.
- If the assessee acquired the asset under will or gift or any other way without consideration the cost of previous owner will be cost of acquisition from the point of view of capital gains. Period of holding of



such property will be determined from the date of property acquired by the previous owner not the date of gift.

- Though the period of holding is determined on the basis of the date of acquiring the property by the previous owner but when we calculate the indexed cost of the asset then index will be taken for the year in which the assessee became the owner of the said property.

Calculation of cost of Original Shares & Bonus Shares

Bonus shares means shares allotted by a company to its existing share holders without any consideration. An assessee holds shares of a company and thereafter the company allotted him bonus shares on the basis of holding.

1. If original shares acquired before 1 April, 2001

The cost of actualisation will be taken-
Actual Cost of original shares

or

market value on 1.4.2001, whichever higher is cost

2. If the original shares acquired after 1 April, 2001

Cost of actualisation will be actual cost

3. If the bonus shares acquired before 1st April, 2001

Cost of Bonus Shares – Market value on 1 April, 2001

4. If the Bonus shares acquired after 1 April, 2001

cost of Bonus Shares – Nil

Income from other sources

This is the last and residual head of charge of income. An income which does not specifically fall under any one of the preceding four heads of income (viz Salaries, Income from house property, Profits and gains of business or profession or Capital gains) is to be computed and brought to charge under section 56 under the head Income from other sources.

COMPUTATION OF INCOME FROM OTHER SOURCES

S.No.	Items	Taxability
1.	Dividend on shares	
	(i.) Dividend from domestic company	Exempt
	(ii.) Dividend from units	Exempt
	(iii.) Dividend from non domestic company or co-operative society	Taxable as it is
2.	Interest on securities	
	(i.) Interest on tax free Govt. securities	Exempt
	(ii.) Interest on less tax Govt. securities	Taxable as it is
	(iii.) Interest on commercial securities	
	(a) If gross interest is given	Taxable as it is
	(b) If interest is given net and amount is more than Rs. 5,000 on listed debentures	$\frac{\text{Int.} \times 100}{\text{Gross}}$
	(c) Interest on tax free commercial securities	90



	(i) Listed debentures of a company	- $\frac{\text{Int. x 100}}{\text{Gross 90}}$
	(ii) Unlisted debentures of a company	$\frac{\text{Int. x 100}}{\text{Gross 90}}$
	(d) Interest on Semi Govt. securities	Gross Interest taxable
3	Interest on Bank Deposit – up to Rs. 10,000 If interest is more than 10,000 and given net, such amount will be grossed up.	Taxable as it is $\frac{\text{Int. x 100}}{\text{Gross 90}}$
4	Co-operative interest and dividend	Taxable as it is
5	Interest on company deposits or firm's deposits (i) If interest amount is upto Rs. 5,000 (ii) If net interest is more than Rs. 5,000	Taxable as it is $\frac{\text{Int. x 100}}{\text{Gross 90}}$
6	Lottery (a) If the prize amount is given and (b) If net amount is given and such amount is more than Rs. 5,000	Fully taxable $\frac{\text{Net amount x 100}}{70}$
7	Horse race income	Fully taxable
8	Causal income	Fully taxable
9	Royalty, director's fees, article income, exam. Remuneration	Received income (-) expenses
10	Family pension	Received amount (-) 1/3 or 15,000 whichever is less
11	Income from sub tenant	Net income
12	Income from machinery, plant or furniture on hire.	Rent received (-) expensed and depreciation.
13	Agricultural income outside India	Taxable
14	Income from non agricultural land in India	Taxable
15	Salary of M.P. or M.L.A.	Taxable
16	Income from undisclosed sources	Taxable
17	Cash gifts : (if the aggregate amount exceeding Rs. 50,000 in a financial year) from other persons except relatives. <u>Less : Deduction allowed (above mentioned incomes)</u> (i) Interest Collection charges (ii) Interest on loan (iii) Any expenditure which is incurred by the assessee to earn such income	Fully taxable Actual amount Actual amount Actual amount

Calculation of Income from Sub-tenant

Rent received from sub-tenant		.....
Less – Expenses allowed :		
(i) Rent paid by the assessee for the part which is sub let out	.....



(ii) Repairs and other expenses paid by the assessee regarding such part	.....	(-).....
Income from sub tenant		.....

Interest on National Saving Certificate

Year	Amount of interest accruing on Rs. 100 NSC (VIII issue) 8%	Year	Amount of interest accruing on Rs. 100 NSC (VIII issue) 8%
I	8.16	IV	10.33
II	8.83	V	11.17
III	9.55	VI	12.08

Income of minor

Income of minor shall be included in income of his parents (mother or father which income is higher). Upto Rs. 1,500 in case of minor’s income is exempted so remaining amount shall be taxable. If the minor earns income from self efforts, then such income will not be added to income of his parents. Exemption of Rs. 1,500 is available for every minor.

Income of cricketers

Receipts be a cricket Control Board for plays for India are chargeable in the following manner –

1. Test Matches in India – 25% of Remuneration received by the player from the Cricket Control Board for playing Test matches in India is taxable.
2. Other Matches in India – Entire amount is not possible.
3. Matches outside India – 50% portion of amount received by an Indian cricket player for playing in foreign countries is taxable.

Receipts of gifts without consideration

Gift received on the occasion of marriage from any person, or gift received from nearer relative on any occasion is not taxable. However gifts (cash or property) received from any person are taxable if the following conditions are satisfied –

1. The receiver is an individual or a Hindu Undivided Family.
2. The aggregate amount of such money or value of property received by an individual or HUF during a financial year from any person or persons exceeds Rs. 50,000.
3. The sum so received does not come in the exception list.

Exceptions – Any sum of money shall not be taxable. Which is received from the following –?

1. By way of consideration
2. From any relative for the aforesaid purpose, the term “relative” means –
 - a. Spouse of the individual
 - b. Brother or sister of the individual
 - c. Brother or sister of the spouse of the individual
 - d. Brother or sister of either of the parents of the individual
 - e. Any lineal ascendant or descendant of the individual
 - f. Any lineal ascendant or descendant of the spouse of the individual.
 - g. Spouse of the person referred in (b) to (f)
3. On the occasion of the marriage of the individual.
4. Under a will or by way of inheritance
5. In contemplation of death of the payer.
6. Aggregate of money not exceeding Rs. 50,000 from other persons.



Government Securities

Securities issued by Central Govt. or state Government are of two types -

- a. Tax free Government securities – Interest on tax free Govt. securities is exempted, so it is not included in the income of an assessee. Some Govt. Securities have been declared exempted from tax u/s 10 (15) of the Income Tax Act, namely –
 1. 12 year National Saving Annuity Certificates.
 2. National Defence Gold Bonds, 1980.
 3. Special Bearer Bonds, 1991.
 4. Treasury Savings Deposits Certificates (10 years)
 5. Post Office Cash Certificates (5 years)
 6. National Plan certificates (10 years)
 7. National Plan Savings certificate (12 years)
 8. Post office National Savings certificates (12 years/ 7 years)
 9. Post office Savings Bank Account. (exempt up to rs. 3,500 in single name, up to Rs. 7,000 in joint name)
 10. Post office Cumulative Time Deposits Rules, 1981.
 11. Scheme of fixed deposits government by the Government Savings Certificates (fixed deposits) Rules, 1968
 12. Scheme of fixed Deposits governed by the Post office (Fixed Deposit).
 13. Special deposit scheme, 1981.
 14. Post Office public account 9up to Rs. 5,000)
 15. 7% Capital Investment bonds (exempted only for individual of HUF)
 16. 9% Relief Bonds (exempted only for individual or HUF assessee.
 17. NRI Bonds issued by SBI
 18. Notified Bonds issued by public sector companies.
 19. Gold Deposit Bond – 1999
 20. Interest on securities and bank deposit in respect of Bhopal Gas Leak disaster.
 21. Interest on notified bonds issued by local authority.

so, interest on the above mentioned securities does not form part of total income of any assessee and it is not taken into account in computing total income it is tax free in the hands of all assesses.

Exempted Income

Though a detail discussion has been given in chapter 'Exemptions from Tax' regarding exempted income or tax free incomes. Here a brief account of exempted incomes is given for convenience of students to solve the practical problems relating to income from other sources –

1. Agricultural income in India,
2. Share in income of HUF,
3. Share in profit of partnership firm
4. Post office savings bank interest (exempted in case of single name Rs. 3,500 and joint name Rs. 7,000)
5. All type of allowances received by M.P. (Lok Sabha or Rajya Sabha)
6. Daily allowances and constituency allowance received by MLA's
7. Scholarships
8. Gallantry awards,
9. Interest on Post office CTD accounts (10 or 15 years.)
10. Interest on capital investment Bonds. Relief bonds and Certificates,
11. Dividend from domestic companies and mutual funds, e.g. UTI units income.
12. Family pension received by the family members of armed forces died in operational duties.



Set Off and Carry Forward of Losses

Income tax is levied on the total income of any assessee of previous year, Gross total income is calculated by aggregation the income of the assessee under different sources of income falling under one head of income and then all the heads of income are put together to find out the net result in the shape of gross total income. It is not necessary that every source shall result into a profit every year. The provisions regarding set off and carry forward can be discussed under two categories below-

1. Set off of losses
2. Carry forward and set off of losses

Set off of losses

Computation of total income is to lump together all sums of income falling under one head and then all heads are pooled to find the net result in gross total income. It, therefore, follows that where the net result in respect of any source is a loss, it can be set off against profit in respect of another source of income under the same head. The provisions regarding set off and carry forward one discussed below-

1. **Set off under the same head (Sec-70)** – Set off loss from one source against income from other sources under the same head of income is first step of set off of losses. It is called inter source adjustment. Inter source adjustment is allowed only in case of loss from income from house property, loss from normal business, loss in respect of interest income.

Exceptions- In the following cases loss from one source of income although it falls under the same head-

- i. Loss from speculation business
 - ii. Long term capital loss
 - iii. Loss from the activity of owing and maintaining race houses (sec 74 A)
 - iv. Loss cannot be set off against winnings from lotteries, cross word puzzles etc.
 - v. Loss from a source which is exempt.
2. **Set off against income other heads (Sec. 71)** – Set off loss from one head against the income of another head in the same assessment year. Inter-head adjustment is discussed under sec -71. Where the net result of the computation under any head of income in respect of any accounting year is a loss, the assessee shall be entitled to have such amount of loss set off against his income assessable for this assessment year under any other head of income.

Exemptions- The following losses cannot be set off against the income of other heads or a particular head-

- i. Loss of normal business
- ii. Loss in a speculation business
- iii. Loss from the activity of owing and maintaining race horses.
- iv. Loss under the head “capital Gain”

Carry forward and set off of losses

If it is not possible to set off the losses in the same assessment year in which they occurred so much at the loss as has not been so set off out of the following losses can be carried forward for being set off against his income in the succeeding years. All losses are not allowed to be carried forward. The following losses are only allowed to be carried forward and set off in the subsequent assessment years-

1. Loss under the head “income from house property” (Sec 71) B
2. Loss of non-speculation business or profession (Sec 72)
3. Loss of speculation business (Sec 73)
4. Short term capital loss/ long term capital loss. (Sec 74)
5. Loss from activity of owing and maintaining race horses. (sec 74 A)



6. Unabsorbed Depreciation (Sec 32 (2))

Submission of return for losses (Sec 80)

It is necessary for the assessee to file the return of loss voluntarily if he desires to have the benefit of carry forward.

Order in which current and brought forward losses are to be adjusted-

As per Sec. 72 business loss does not include unabsorbed depreciation, unabsorbed Capital expenditure on scientific research and family planning. Therefore they can also be carried forward. The current years business loss should be set off before setting off unabsorbed depreciation etc. such carries forward business loss will be set off against business head only after the current year's depreciation current capital expenditure on scientific research and capital expenditure on family planning have been claimed. Therefore, the order of set off will be as under-

1. Current year capital expenditure on scientific research and capital expenditure on family planning to the extent allowed
2. Current year depreciation
3. Carried forward business or profession losses
4. Unabsorbed expenditure on family planning
5. Unabsorbed depreciation
6. Unabsorbed capital expenditure on scientific research.

Chart shows the rules for set off and Carry forward of losses

Heads of Income	Set off Losses during current previous year	Carried forward and set off in subsequent years.
1. Loss from house property (Whether self occupied or rented)	Firstly setting off against another house property income and if required, from another heads of income.	Any income under the head Income from House property up to 8 subsequent assessment years.
2. Non speculation business loss	Firstly setting off against another business income and if business income is not sufficient then another heads of income, except income from salary	Any income under the head "Income from Business or profession" up to 8 subsequent assessment years.
3. Speculative business loss	Only against another speculating profit, if any	Only against speculative income under the head "Income from business or profession" up to subsequent 4 assessment years.
4. Short term-capital loss	Any Income under the head "Capital gain" either short-term or long-term.	Any income under the head 'Capital gains' up to subsequent 8 assessment years
5. Long term capital loss	Only against long-term capital gain	Only against long-term 'Capital gains' up to subsequent 8 assessment years.
6. Loss from the activity of owing and maintaining race horses	Only against income from the activity of owing and maintaining race horses.	Only against income from the activity of owing and maintaining race horses up to subsequent 4 assessment years.
7. Unabsorbed depreciation of any period	----- -----	Unabsorbed depreciation can be set off against income of any head (except salary income) there is no time limit for set off



Carry forward of losses:

If still the losses cannot be set-off fully through inter head adjustment, they can be carried forward to the next years. However, the loss so carried forward can be set-off only against same head of income, i.e. the benefit of "inter-source"

Adjustment is lost.

Carry forward of losses - off against

Nature of Loss	Number of years	To be set-off against
Loss from house property	8	Income from house property
Business loss (non-speculative)	8	Income from business/profession (non speculative)
Speculative business loss	4	Income from speculative business
Loss from activity of owning and maintaining of race horses	4	Income from same activity
Short term capital loss	8	Short term or long term capital gains
Long term capital loss	8	Long term capital gains

Clubbing of Income and deemed incomes

In addition to the general provisions which are applicable to the computation of total income and assessment of an assessee, there are special provisions in the income tax Act which are designed to counteract the various attempts which an individual may make for avoiding/ reducing his liability to tax by transferring his assets/ income to other person/ persons while at the same time retaining certain power over, or interest in the property or its income. These provisions are under sec-60 to 69 of the income Tax Act.

Clubbing of Income-

Clubbing of Income mean income of other persons included in assessee's total income under same special circumstances provisions related to clubbing of income aggregation of incomes are as under-

1. Transfer of Income where there is no transfer of assets (Sec. 60)
2. Revocable transfer of assets (Sec. 61)
3. Transfer irrevocable for a specified period (Sec. 62)
4. Income of spouse (Sec 64) (i) (ii)
 - (a) Income to spouse from a concern in which such individual has substantial interest
 - (b) Where husband and wife both have a substantial interest
 - (c) Income to spouse from the assets transferred Sec. 64 (i) (iv)
5. Clubbing of income of minor child Sec 64 (1A)
 - (a) Minor's income will not be included
 - (b) Exemption in respect of the income of minor (Actual income OR Rs. 1500 each child, whichever is less)
6. Income to son's wife Sec 64 (i) (vi)
7. Transfer for immediate or deferred benefit of son's wife sec 64 (I) (viii)
8. Income to spouse through a third person Sec. 64 (i) (vii)
9. Income from the converted property Sec 64 (2)



Note –

1. Income from capital property to spouse after partition shall be included in the income of the individual and this income shall be excluded from the total income of the family/ spouse as the case may be.
2. Clubbed income will be included under same head.
3. The tax on the income of the other person which has been included in the income of the assessee can either be recovered from the assessee or from the other person. The liability of other person is limited to the portion of tax levied on the assessee which is attributable to the income so included. His liability arises after the service of a notice of demand by the assessing officer in this behalf.

Certain Amounts deemed as income (69c)

Under section 68, 69, 69A, 69B, 69D. Certain amounts are treated as the income of the assessee. Hence, while computing the total income of the assessee. Such amount shall be included in his income for income tax purposes.

1. Cash Credits (sec. 68)
2. Unexplained Investment (Sec. 69)
3. Unexplained money etc. (Sec. 69 A)
4. Under valued Investment or valuables (Sec. 69 B)
5. Unexplained expenditure (Sec. 69 C)
6. Amount borrowed or repaid on Hundi (Sec. 69 D)



**Computation of Gross Total Income
[Assessment Year 2018-19]**

1) Income from Salaries		
(a) Basic salary, bonus, commission, D.A. And	-----	
(b) Taxable perquisites (House, Gas-electric, Servants etc.)	-----	
(c) Any other receipt from employer	-----	

Gross salary		
Less-Deduction u/s 16		
(1) Entertainment allowance (Govt. employee --up to 5000, Non Govt. -Nil)	-----	
(2) Professional Tax (Actual amount)	-----	(-)-----

Income from Salary (Taxable)	-----	-----
2) Income from House Property		
A) Self occupied House :-		Nil
Gross Annual Value		
Less-Interest on loan [if the loan is obtained]		
(i) Before 1.4.99 Actual interest or Rs.30000 ,whichever is less		
(ii) After 31.3.99 Actual interest or Rs.200000 ,whichever is less		
(iii) Loan for repair or renovation- Actual interest or Rs.30000 whichever is less		(-)-----
Income from Self Occupied House (Loss)		-----
B) Let out House :-		
Gross Annual Value		(-)-----
(municipal value or fair rent or actual rent- whichever is more)		-----
Less - Municipal Taxes		-----
Net Annual Value		
Less - Deductions u/s 24		
(i) Standard deduction (30% of NAV)	-----	(-)-----
(ii) Interest on Loan	-----	-----
Income form Let Out House		-----
Income from House property (Taxable)		-----
3) Income from Business Net profit as per P & L A/c		
Add - Disallowed Expences recorded in P&L a/c		(+)-----
Less - Allowed Expenses but not debited in P & L A/c		(-)-----
Less - Other Income not taxable under business head		(-)-----
Add - Allowed income but not credited in in P&L a/c		(+)-----

Income from Business (Taxable)		-----



4) Income from Capital Gains:-		-----
A) Short - Term :-		
Sale Consideration		
Less - Selling Expenses	-----	
Cost of Acquisition	-----	
Cost of Improvement	-----	-----
	S.T.C.G.	
B) Long Term :-		
Sales Consideration		(-) -----
Less - Selling Expenses	-----	
Indexed Acquisition Cost	-----	-----
Indexed Improvement Cos	-----	
	L.T.C.G.	-----
Income from Capital Gains (Taxable)		(-) -----
5) Income from other sources:-		
(i) Dividend [Exempted u/s 10(34)]		-----
(ii) Interest on Government Securities		
(iii) Director's fees or remuneration [If appointed due to holding of HUF]		-----
(iv) Lottery [If ticket is purchased in the name of HUF]		-(+)-----
(v) Royalty		(+)-----
(vi) Subtenant income		(+)-----
		(+)-----
Income from other sources (Taxable)		
Gross Total Income		



Unit - II

DEDUCTIONS FROM GROSS TOTAL INCOME

DEDUCTIONS FROM GROSS TOTAL INCOME

(1) **80 C Deduction in respect of investment in LIP provided funds, NSC etc.:-** This deduction is provided to individual and HUF assesses **maximum** upto **Rs. 1.5 Lac** on their investments following items will be entitled for the deductions under this section:-

- (i) LIP of spouse and children [upto 20% of sum assured]
- (ii) Employees contribution in statutory PF.(SPF)
- (iii) Employees contribution in Recognized PF (RPF)
- (iv) Deposit in Public provided fund.(PPF)
- (v) Exempted contribution Super annulations fund.(SAF)
- (vi) NSC's and accrued interest or it.
- (vii) Contribution to "ULIP" of UTI
- (viii) Amount deposited in Public sector finance companies or housing Board.
- (ix) Payment of principle value of housing loan.
- (x) Investment in shares or debentures of infrastructure companies.
- (xi) Amount deposited in National Housing Bank.
- (xii) Education expenses paid for children.
- (xiii) Amount deposited in fixed deposit for a period of 5 years or more in a scheduled bank.
- (xiv) Contribution to employees insurance scheme of central government by an employee of central government.
- (xv) Investment in Notified Bonds of NABARD
- (xvi) Senior Citizen saving Scheme

Deduction:-

Gross qualifying amount (Aggregate amount of above mentioned items)
OR

Whichever is less (shall be deducted from G.T.I.)

If assessee is also entitled for the deduction of 80CCC and 80CCD, then, he'll get a maximum deduction of Rs. 1.5 lac in all these 3 deduction]

(2) **80 CCC Deduction in respect of contribution to pension fund set up by LIC or any other insurer:**

Only **individual assessee** is entitled for this deduction upto Rs. 1 Lac.

(3) **80 CCD Deduction in respect of contribution on to pension scheme of central government:-** If a person **individual** is appointed as an employee of Central government on 1st Jan 04 or there the amount of gross salary for pension scheme and the same amount will be contributed by the central government also. Amount contributed by central government will be taxable under the head of salary but from the gross total income deduction will be allowed equal to the amount contributed by employer & employee u/s 80 CCD.

(4) **Deduction in respect of investment made under any equity saving scheme (Sec. 80 CCG)**



Amount of deduction –

The amount of deduction under section 80 CCG shall be –

- a. 50% of amount invested in equity share
Or
 - b. Maximum Rs. 25,000 which ever is less.
- (5) **80 D Deduction in respect of medical insurance premium:-** This deduction is allowed upto Rs. 25,000 for premium paid by **individual and HUF assesses** but if premium is paid for a person aged 60 years and above, an additional deduction of Rs. 5000 will be allowed, it means that maximum deduction will be Rs. 30,000.
- (6) **80 DD Deduction in respect of expense of deposit for maintenance of handicapped dependent:-** Under this section, **individual & HUF assesses** will be entitled for a standard Deduction Rs. 75,000. In case of server disability, [More than 80%] S.D. will be Rs. 125,000.
- (7) **80 DDB Deduction in respect of medical treatment of specified diseases:-** This deduction will be allowed to **individual & HUF assesses** upto Rs. 40,000 (In case of persons aged 60 years or above, Rs. 60,000)
- (8) **80 E Deduction in respect of payment of interest of higher education loan for individual :-** **Actual amount of interest is deductible.**
- (9) **80 G Deduction in respect of donation given to recognized charitable institutions and funds:-** This deduction is allowed to **assesses to all categories** for such donation given by them to charitable institution funds situated in India which are given in monetary form only.
This deduction can be divided into 4 categories:-

(a) Without Limit 100%

- (i) P.M. National relief fund
- (ii) Armenia earth quake relief fund
- (iii) Africa Fund
- (iv) National foundation for communal harmony.
- (v) Recognized education institutions and universities
- (vi) Maharashtra C.M earthquake relief fund.
- (vii) Andhra Pradesh CM cyclone relief fund.
- (viii) C.M. or governor relief fund.
- (ix) District literacy committee
- (x) National Sports Fund or National Cultural Fund
- (xi) National Trust for Welfare of Persons with Autism, Cerebralpalsy, mental retardation and multiple disabilities.
- (xii) Clean Ganga Fund
- (xiii) Swaccha Bharat Kosh
- (xiv) National Fund for control of Durg abuse
- (xv) National defiance fund
- (xvi) National Blood Transfusion Council And State Council For Blood Transfusion
- (xvii) Fund Setup By State Government For The Medical Relief To The Poor
- (xviii) Central Welfare Fund of Army and Air Force and the Indian Naval Benevolent Fund
- (xix) National Illness assistance fund

(b) Without limit 50%

- (i) Jawaharlal Nehru Memorial Fund
- (ii) P.M. Draught Relief fund
- (iii) Indira Gandhi Memorial fund
- (iv) Rajeev Gandhi foundation.



(c) Under Limit 100% [100% of Qualifying Amount]

- (i) Donation to central or state government for family planning programs

(d) Under Limit 50% [50% of Qualifying Amount]

- (i) Donation to Approved charitable institutions (Educational, medical, social institutions etc.).
- (ii) Donation to any notified Temple, Mosque, Gurudwara, Church or other place for renovation or repair.
- (iii) Donation by a company to the Indian Olympic association or any other notified games and sports institution.
- (iv) Donation to an authority for the purpose of housing accommodation or planning development of towns & villages.
- (v) Donation to any corporation for promoting interest of minority community.
- (vi) Donation to Government or any local authority for charitable purpose.

Here, the terms under limit means the Qualifying amount (Q.A.) which will be calculated as under :-

Q.A. →

10% of adjusted gross total income (Qualifying amount)

or

Actual Amount of donation

Whichever is less is eligible for deduction @100% or 50%

Adjusted gross total income = GTI - LTCG - deduction u/s 80c to 80u (except Sec. 80G)

(10) **80 GG Deduction in respect of rent paid for house:-** This deduction is provided to such individual assesses who are living in a rental house and who are not getting accommodation facility/House rent allowance from their employer. Deduction is calculated as :-

- (i) 25% of adjusted Gross total income
 - (ii) Rent paid - 10% of adjusted total Gross income
- Or
- (iii) Rs. 2000 P.M.

Whichever is less is eligible for deduction

(10) 80 GGA Deduction in respect of donation to Scientific research:- Every person who has no income from business is entitled for 100% this type of donation.

(11) 80 GGB/80 GGC Deduction in respect of donation to political parties:- Company assessee are entitled under Sec.

80 GGB and other assesses u/s 80 GGC for deduction in respect of donations given to Political party amount of donation is **deductible**

(12) 80 IA Deduction in respect of profits of industrial undertakings engaged in infra - structure industry:- As such this deduction is allowed for all the assesses but here we are going to discuss the provisions regarding assessee other than company assessee.

- (i) Telecommunication Services :- 1st five years - 100%
Next five years - 30%
- (ii) Industrial Park :- Consecutive any 10 years out of first 15 years - 100%
- (iii) Power undertakings engaged in generation and distribution consecutive



- any 10 years out of first 15 years - 100%
- (iv) Undertakings engaged in infra structure development for 10 consecutive years out of first 15 years - 100%

(13) 80 IB :- Deduction in respect of profits of newly established industry, hotels etc.:

Table: Eligible undertakings and Rates of deduction under section 80 – IB

Undertaking	Period in which production started or starts	Company (Rate and period of deduction on profits)	Other assessee (Rate and period of deduction on profits)
1. Industrial undertaking in J & K state	1.4.93 to 31.3.12	First 5 years 100% next 5 years-30%	First 5 years 100% next 5 years 25%
2. Scientific research and development company	1.4.2000 to 31.3.2007	First 10 years 100%	N.A.
3. Production or refining of mineral oil	1.4.1997 or onwards	100% for 7 years	100% for 7 years
4. Integrated business of handling, storage and transportation of food grains	on or after 1.4.2001	5 years - 100% next 5 years 30%	first 5 years 100% next 5 years 25%
5. Agro processing industry	From the 1.4.2009 and onword 2005-06 and onwards	First 5 years 100% next 5 years 30%	First 5 years 100% next 5 years 25%
6. Hospital located anywhere except metro cities	1.4.08 to 31.3.13	First 5 years 100%	First 5 years 100%

Attention Please- Deduction for profits of undertakings covered u/s 80-1A and 80-1B set up or started before 1.4.08 is not allowable for the assessment year 2018-19, because period of deduction (10 years) is expired before 1.4.2017.

- (14) **80 IC Deduction in respect of undertakings established** in H.P., Sikkim, uttarakhand, and North eastern state:- upto first 10 years 100%
- (15) **80 ID Deduction in case of hotel & convention center in NCR** 100% of its profits for a period of five consecutive assessment years.
- (16) **80 IE Deduction in respect of certain undertakings in North-Eastern States** If the required conditions are satisfied 100% of profit from the aforesaid business/services shall be deductible for 10 years beginning with the assessment year relevant to the previous year.
- (17) **80 IJA Deduction in respect of profit and gains from business of collecting and processing of bio-degradable waste – 80IJA** A deduction shall be allowed of an amount equal to the whole of such profits and gains. This deduction shall be allowed a period of five consecutive assessment years.
- (18) **80 IJAA Deduction in respect of employment of new regular workmen** A deduction shall be allowed of an amount equal to 30% of additional wages paid to the new regular workman employed by the assessee.



(19) 80P Deduction in respect of income of cooperative societies

- 1) Whole Deduction for the following cases – Co-operative society engaged in banking, agriculture product, agriculture implements, processing without the aid of power, fishing or allied activities, milk, oil, seeds, fruits, vegetables, warehouse, godown for storage and housing society.
- 2) Restricted Deduction – A restricted deduction shall be allowed if a co-operative society engaged in activities other than aforesaid activities, so much of its profits and gains attributable to such activities as does not exceed –
 - a) Where such co-operative society is a consumers co-operative society, 1,00,000/-
 - OR
 - b) In any other cases, 50,000/-

(20) 80 QOB Deduction in respect of royalty income of authors:-

Max Rs. 3,00,000.or actual royalty income (whichever is lower)

(21) 80 RRB Deduction in respect of royalty income on patents :-

Max Rs. 3,00,000.or actual royalty income (whichever is lower)

(22) 80 TTA Deduction in respect of Interest on Saving Bank A/c deposit:-

Bank, post office, and co-operative society savings bank account interest shall be deductible up to Rs. 10,000. In case of post office savings bank interest firstly Rs. 3,500 shall be exempt and excess interest will be included under other source income.

(23) 80 U: - Deduction in case of a person with disability :-

Fixed Deduction of Rs. 75,000. (if disability up to 80%)
Higher Deduction of Rs 1,25,000. (if disability over 80%)



Assessment of Individuals
Computation of Total Income of an Individuals
[Assessment Year 2018-19]

1) Income from Salaries		
(a) Basic salary, bonus, commission, D.A. And	-----	
(b) Taxable perquisites (House, Gas-electric, Servants etc.)	-----	
(c) Any other receipt from employer	-----	
Gross salary	-----	
Less-Deduction u/s 16		
(1) Entertainment allowance (Govt. employee --up to 5000, Non Govt. -Nil)	-----	
(2) Professional Tax (Actual amount)	-----	(-)-----

Income from Salary (Taxable)	-----	-----
2) Income from House Property		
A) Self occupied House :-		Nil
Gross Annual Value		
Less-Interest on loan [if the loan is obtained]		
(i) Before 1.4.99 Actual interest or Rs.30000 ,whichever is less		
(ii) After 31.3.99 Actual interest or Rs.200000 ,whichever is less		
(iii) Loan for repair or renovation- Actual interest or Rs.30000 whichever is less		(-) -----
Income from Self Occupied House (Loss)		-----
B) Let out House :-		
Gross Annual Value		(-) -----
(municipal value or fair rent or actual rent- whichever is more)		-----
Less - Municipal Taxes		-----
Net Annual Value		
Less - Deductions u/s 24		
(i) Standard deduction (30% of NAV)	-----	(-) -----
(ii) Interest on Loan	-----	-----
Income form Let Out House	-----	-----
Income from House property (Taxable)		-----
3) Income from Business Net profit as per P & L A/c		
Add - Disallowed Expences recorded in P&L a/c		(+) -----
Less - Allowed Expenses but not debited in P & L A/c		(-) -----
Less - Other Income not taxable under business head		(-) -----
Add - Allowed income but not credited in in P&L a/c		(+) -----



	Income from Business (Taxable)	-----	
4) Income from Capital Gains:-			-----
A) Short - Term :-			
Sale Consideration			
Less - Selling Expenses	-----		
Cost of Acquisition	-----		
Cost of Improvement	-----	-----	
		S.T.C.G.	
B) Long Term :-			
Sales Consideration		(-) -----	
Less - Selling Expenses	-----		
Indexed Acquisition Cost	-----	-----	
Indexed Improvement Cos	-----		
		L.T.C.G.	
	Income from Capital Gains (Taxable)	(-) -----	
5) Income from other sources:-			
(i) Dividend [Exempted u/s 10(34)]		-----	
(ii) Interest on Government Securities		-----	
(iii) Director's fees or remuneration [If appointed due to holding of HUF]			-----
(iv) Lottery [If ticket is purchased in the name of HUF]		-(+)-----	
(v) Royalty		(+)-----	
(vi) Subtenant income		(+)-----	
		(+)-----	
	Income from other sources (Taxable)	(+)-----	
		(+)-----	
	Gross Total Income	(+)-----	

Less:- Deduction			-----
Deduction u/s 80 C,80CC &80CCD		-----	
Deduction u/s 80 D		-----	
Deduction u/s 80 DD		-----	
Deduction u/s 80 DDB		-----	
Deduction u/s 80 E		-----	
Deduction u/s 80 G		-----	
Deduction u/s 80 GGC		-----	
Deduction u/s 80 I-A,80 I-B		-----	
Deduction u/s 80TTA & 80U		-----	
		-----	(-)-----



	Total Income	

Tax rates for Individual (Assessment Year 2016 - 17)

(A) Tax @ 20% on LTCG			-----
(B) Tax @ 30% on casual Income			-----
(C) Tax on other incomes			
→ Up to Rs. 2,50,000	Nil		
→ On Next Rs 2,50,000	10%	-----	
→ On Next Rs. 5,00,000	20%	-----	
→ Above Rs 10,00,000	30%	-----	-----

Add:- 3% Educational Cess		Total Tax	(+)------
			(-)------
Less:- T.D.S.		Total Tax Payable	-----

Note:-

1. Special procedure for tax calculation if an individual assessee is -
 - (a) Senior citizen (60 years or more)-
Up to Rs. 3,00,000 Tax liability will be Nil, thereafter tax calculated at normal rates.
 - (b) Super senior citizen (80 years or more)-
Up to Rs. 5,00,000 Tax liability will be Nil, thereafter tax calculated at normal rates.
 - (c) If the assessee has agricultural income exceeding Rs.5000, tax will be calculated in a special manner.
 - (d) Less-special deduction of Rs.5000 if the total Income of the assessee is less than Rs. 500000.
 - (e) Add-12% Surcharge if total income is more than Rs. 1 crore.
 - (f) Less-Advance tax paid and tax deducted at source.