CA INTER DIRECT TAX Notes

May 26 / Sept 26 / Jan 27



Tax रटना नहीं है,
Tax रचना है,

CA/CMA INTER DIRECT TAX
BY. CA CS & CMA BHARAT RUNIWAL

“Welcome, Welcome, Welcome Kya Haal Hn Kaise Hn App ?”

Aasaan-Hai



CA/CMA INTER DIRECT TAX
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Special Note

Hey students,

With over 12 years of corporate experience—from an intern to a Finance Head—I have navigated numerous cha enges throughout my career. These experiences inspired me to create something that cou d tru y support students in both their academic and corporate journeys

I envisioned a earning approach where students don't have to rote- earn, but instead re ax, enjoy, and natura y master concepts. My teaching journey began with Income Tax, and after investing more than 500 hours, I deve oped this book to present concepts in a high y practica manner. To make earning even more impactfu , I a so introduced an innovative 'Revo utionary Video Concept' for taxation, bridging the gap between theory and rea -wor d app ication."



Bharat Rvniwal

Direct Tax Notes

BY. CA CS & CMA BHARAT RUNIWAL

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Chapter 1

Basic & Tax Rate

TAXATION IN INDIA- Income Tax (Direct Tax)

Tax is Collected by the Govt. Directly from the Taxpayer

Government ⟵ Taxpayer

Goods and Services Tax (Indirect Tax)

- Govt. collects tax from manufacturer and retailer
- Manufacturer collects tax from retailer
- At the end, retailer collects whole amount of tax from actual Taxpayer i.e. end Consumer

  Government ← Retailer / Manufacturer Etc. ← Taxpayer

Taxes

Direct Tax – Tax on income, paid directly to Govt. by the assessee

Indirect Tax- Tax on expenses, paid indirectly to Govt. through manufacturer or retailer

Govt. has power to impose the tax Because of constitution of India

- **Article 265** – No tax shall be levied or collected except by authority of law. (as per article 246)
- **Article 246** – Power of Govt. to levy the tax (mentioned in seventh schedule)

  (As per the seventh schedule)

97 Entries **Union List (List – I)** **Entry No. 82 Tax on Income** (other than Agriculture income)	66 Entries **State List (List – II)** **Entry No. 46** Tax on Agriculture income	47 Entries **Concurrent List (List – III)** Covers mostly non-financial matters

Sources of Income Tax Law in India

- Income Tax Act, 1961
- Income Tax Rules, 1962
- Circulars & Notifications
- Judicial Decisions
- Finance Act

1. **Income Tax Act, 1961**

(Section 1 to Section 298 and schedule 1 to 14)

Administration of Direct Tax is looked by **CBDT**

Provisions related to determination of:

- Total income & tax liability
- Procedure for assessment
- Appeals, penalties & prosecutions etc.

2. **Income Tax Rules, 1962**

Section 295 of the act empowers the CBDT to make rules (In the act, unless otherwise required, the expression "Prescribed" means as prescribed by the rules made in this behalf)

3. Circulars & Notifications

Section 119 of the act empowers the CBDT to issue order, instructions & directions for the proper administration of the act.

Circulars

- Issued by CBDT to deal with specific problem & give clarity about any doubt related to any provision
- Issued for the guidance of the officers & assessee but not binding on assessee

Notifications

- Issued by CG to give effect to the provisions of the act (It is binding on department and assessee as well)

5. Annual Finance Act

Presenting the finance bill in parliament during budget session.

- Approval from both houses and Assent of President, Then it becomes Finance Act.
- Amendments are made every year in income tax & other laws through Finance Act.

4. Judicial Decisions

It means decision given by court on any issue. It is important because it is not possible for the parliament to provide solutions to all the issues which arise during implementation of the law.

Supreme Court

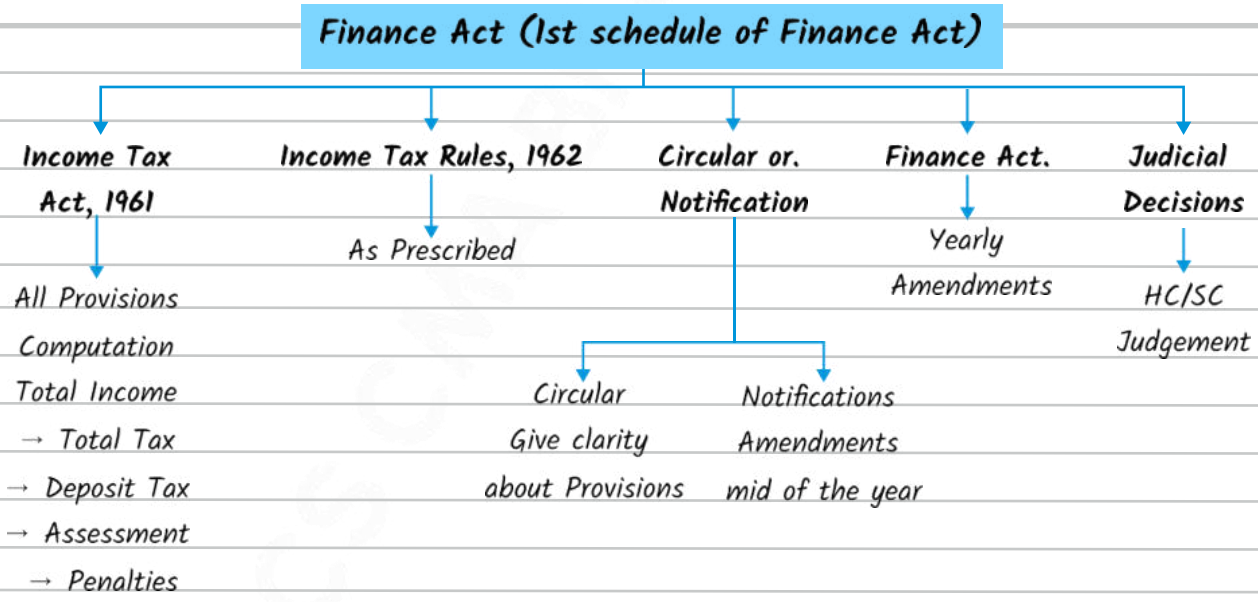
Decision Binding on:

- Tribunal (ITAT)
- Income tax Authority
- Assessee
- **All courts**

High Court

Decision Binding on:

- Tribunal (ITAT)
- Income tax Authority
- Assessee



Finance Act (Ist schedule of Finance Act)

Part-I	Rates of taxes for current A.Y.
Part-II	Specifies the rates at which tax deductible during the current financial year.
Part-III	Special rates for calculating income tax for deducting tax from salary & computation of advance tax.
Part-IV	Rule for computing net agricultural income.

Section 1 : Title, Extent & Applicability

Income Tax Act, 1961 - Applicable to whole India (Incl. J&K) w.e.f. 1st April, 1962

Section 2

Section 2 (31) Person – It includes

- Individual
- HUF (Concept of coparceners)
- AOP/BOI (Association of person/Body of individuals)
- Company
- Firm (incl. LLP)
- Local Authority
- AJP (Artificial juridical person e.g. Trust, Universities, etc.)

Section 2 (9) Assessment year

Year which starts from 1st of april and ends on 31st march. The Year in which tax is imposed on the income of the previous year. e.g. AY 2024-25 for PY 2023-24.

Section 2(7) Assessee – Any person by whom any tax or any other sum of money is payable under this act & includes

- Any Proceeding under this act which has been taken for the
  - Assessment of income
  - Determination of the loss
  - Determination of the refund in respect of assessee or of any other person in respect of whom he is assessable
- Deemed Assessee
- Assessee-in-default

Section 2(8) Assessment

This is the procedure by which the income of an assessee is determined by the Assessing Officer, it may be by way of a normal assessment or by way of reassessment or income previously assessed.

Types of income tax assessments:—

1 Self Assessment u/s140A
2 Summary Assessment u/s143(1)
3 Scrutiny Assessment u/s143(3)
4 Best judgement Assessment u/s144
5 Re-Assessment or Income escaping Assessment u/s147

SECTION 3 PREVIOUS YEAR

The year start from **1st of Apr to 31st of Mar** in which assessee earns the income.(In case of newly setup business Previous Year starts from the date of setting up)**Income of P.Y is taxable in the A.Y. e.g. for AY 2024-25, PY will be 2023-24.**

Except following cases (when income of P.Y is taxable in the P.Y only)

- Shipping Business of a non-resident
- Assessee leaving India for permanent purpose
- AOP/BOI formed for short duration
- Transfer of property to avoid tax
- Discontinued Business

Shipping Business of NR: Where a ship of NR, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid.

Person leaving India: Where it appears to the AO that any individual may leave India and he has no intention of returning, the income of such individual for the period upto the probable date of his departure from India is chargeable to tax in current year only.

AOP/BOI/ AJP formed for a particular event or purpose: AO apprehends that the AOP/ BOI is likely to be dissolved in the same year, he can make assessment of the income up to the date of dissolution as income of the current year.

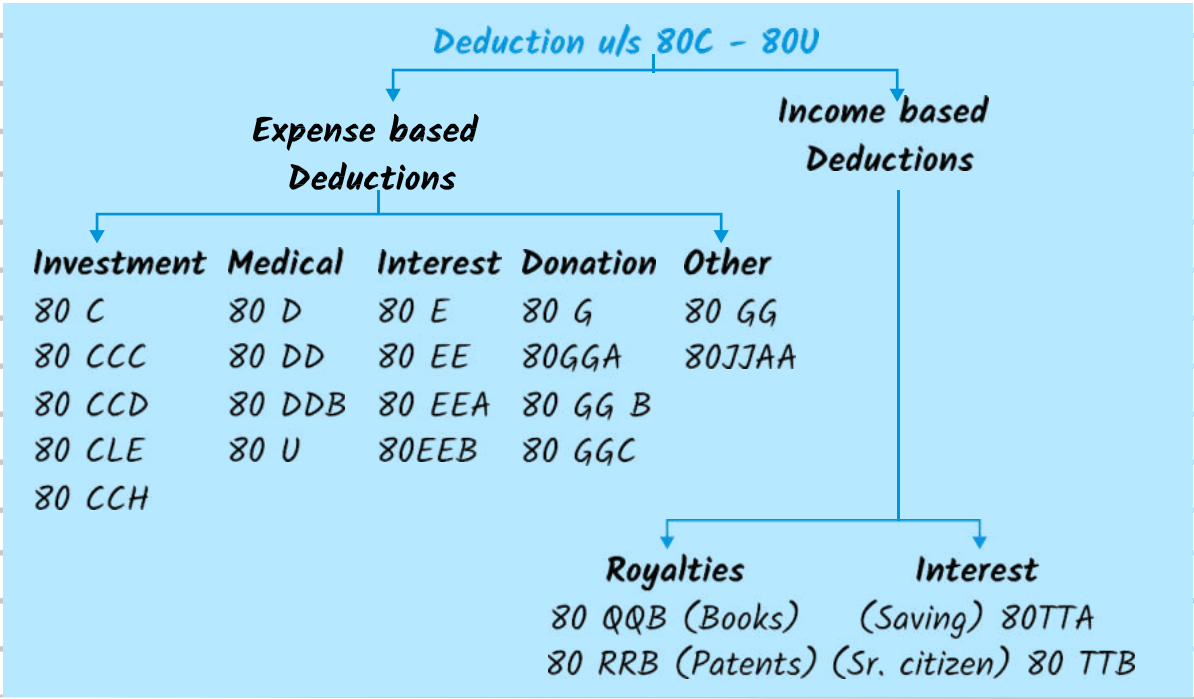
Persons likely to transfer property to avoid tax: If it appears to the AO that a person is likely to charge, sell, transfer, dispose of his assets to avoid payment of any liability, the total income of such person charge to tax in current year itself.

Discontinued business: Where any business or profession is discontinued, the income of the period upto the date of such discontinuance may, at the discretion of the AO, be charged to tax in current year.

SECTION 4 CHARGING SECTION :
(COMPUTATION OF TOTAL INCOME AND TAX PAYABLE ON SUCH INCOME)

Computation of total income..... for the P.Y. 20XX-XX, A.Y. 20XX-XX

Particulars	Amount
Income from Salary (Sec 15-17)	xx
Income from House Property (Sec 22-27)	xx
Income from Business & Profession (Sec 28-44DB)	xx
Income from Capital Gain (Sec 45-55A)	xx
Income from Other Sources (Sec 56-59)	xx
Adjustment of –	
I. Clubbing of income (Sec 60 – 69D)	xx
II. Set-off & carry forward of losses (Sec 70 – 80)	xx
GROSS TOTAL INCOME	**xxx**
Less Deduction u/s 80C – 80U (Chapter VI-A deductions) – Refer Note-1	(xx)
NET TAXABLE INCOME / TOTAL INCOME	**xxx**
(As per sec 288A, total income will be rounded off to the nearest multiple of ₹10)	



Steps to Calculate Total Income / Tax/Deposit of Tax

S.1 Determine the Residential Status

S.2 -Computation of Total Income based on their Residential Status

S3-Computation of Tax on Total Income

S.4 -Determine the final tax liability payable to Department. (Self Assessment)

Tax on Total Income-

1. Old Tax Regime
2. New Tax Regime

Note 1

1 The **new tax regime for Individual and HUF**, introduced by the Finance Act 2020, is now proposed to be the **default regime**.

2 This regime would also become the **default regime for AOP (other than co-operative), BOI and AJP**.

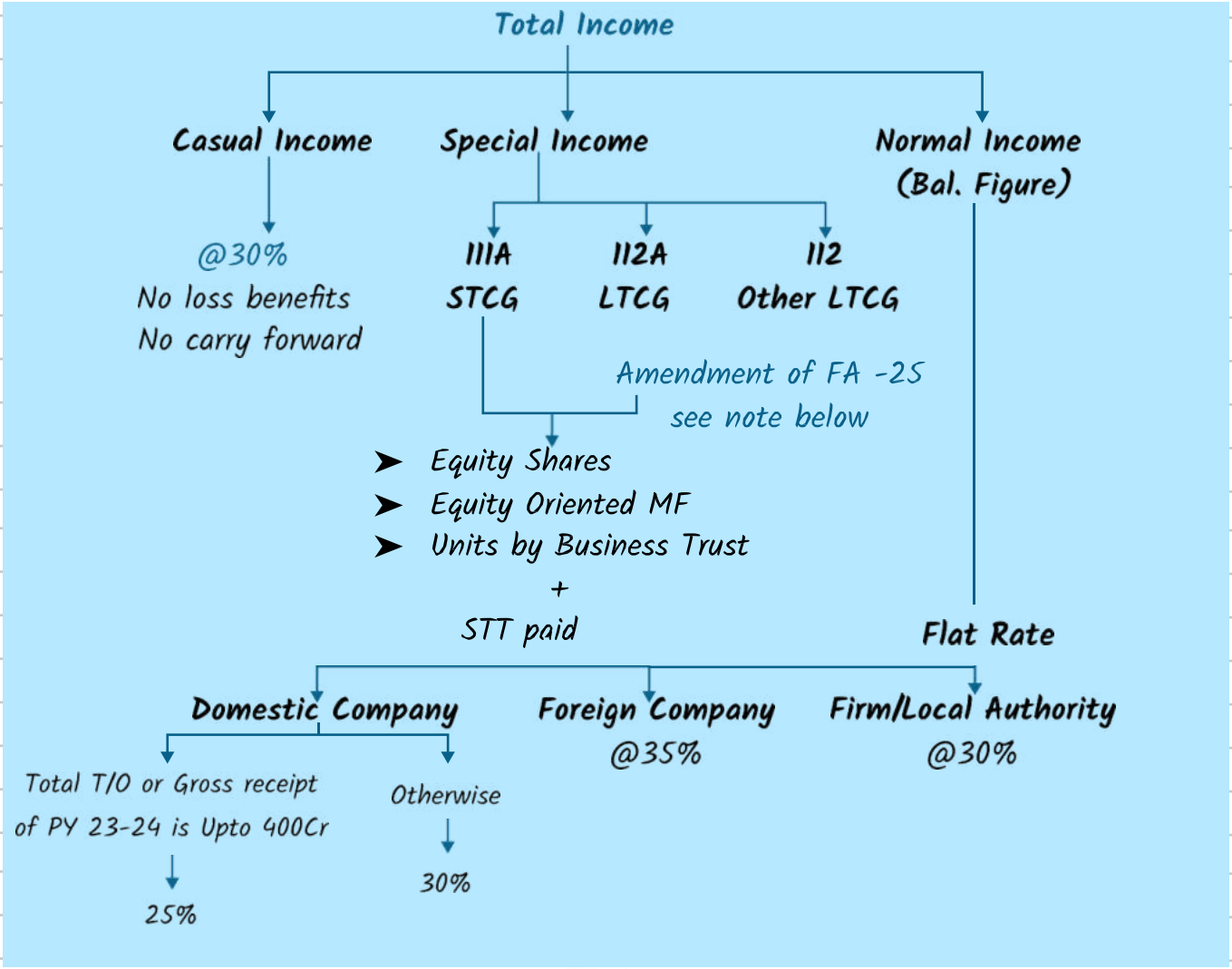
3 Any individual, HUF, AOP (other than co-operative), BOI or AJP **not willing to be taxed under this new regime can opt to be taxed under the old regime**. For those persons having income under the head **"profit and gains of business or profession"** and having opted for old regime can revoke that option only once and after that they will continue to be taxed under the new regime. For those not having income under the head **"profit and gains of business or profession"**, option for old regime may be exercised in each year.

Below rates as per Old Tax Regime (not default Tax regime)

Now Default Tax Regime is the Now New Tax Regime

u/s 115 BAC for Ind./HUF/AOP/BOI/AJP

Basic & Tax Rate



Slab Rate as per Old tax regime

Co-operative Society

Up to 10k	-10%
>10k but up to 20k	- 20%
> 20 k	-30%

Other (Ind/HUF/AOP/BOI/NR)

first 2.5 Lakhs	-Nil
>2.5 Lakhs upto 5 lakhs	-5%
>5 Lakhs upto 10 lakhs	-20%
>10 Lakhs	-30%

Resident Individual + Senior Citizen (age ≥60 but < 80)

first 3Lakh	-Nil
>3 Lakhs upto 5 lakhs	-5%
>5 Lakhs upto 10 lakhs	-20%
>10 Lakhs	-30%

Resident Individual + V.Senior Citizen (age ≥80)

first 5 Lakh	-Nil
>5 Lakhs upto 10 lakhs	-20%
>10 Lakhs	-30%

Amendment FA (July 2024)

u/s 111 A

- till 22nd July 2024 → 15%
- on or after 23rd July 2024 → 20%

u/s 112 A

- till 22nd July 2024 → 10%
- on or after 23rd July 2024 → 12.5%

In Excess of ₹1,25,000

Note - u/s 112 -In case of immovable property

Options

- Option 1 @20% (with indexation)
- Option 2 @12.5% (without Indexation) -

जब Question मे Specially mention हो Immovable Property के बारे मे, then only you have to opt such option

u/s 112

- till 22nd July 2024 → 20%
- on or after 23rd July 2024 → 12.5%

Surcharge

1. Company

	Domestic Company	Foreign Company
Total income >1 cr. but up to 10 cr.	7%	2%
Total income > 10 cr.	12%	5%

2) Firm/Local Authority

→ Total income > 1 cr. → 12%

3) Co-operative Society

→ Same as Domestic Company

4) Ind./HUF/AOP/BOI/AJP

Total income > 50 lakhs but upto 1 cr. - 10%

Total income > 1 cr. but upto 2 cr. - 15%

Total income > 2 cr. but upto 5 cr. - 25%

Total income > 5 cr. - 37%

दो बत्ती Process

1) पहली बत्ती जलाओ - अगर ईश्म है तो

↓

अगर पहली बत्ती जली तो

Surcharge लगेगा with category wise rate

2) दुसरी बत्ती जलाओ देखो अगर Total Income > 2 cr. + इस टोटल Income मे Special Income भी हो

↓

अगर दूसरी बत्ती जली तो Follow below process

↓

Income के दो टुकडे करो

Income (>2)

Special Income/Dividend

↓

Calculate Tax on Special Income XXX
Surcharge @ 15% would also
be applicable on income more
than 2cr or Scr

Other (BF)

↓

If Other Income 2-5 cr. - 25%
- If Other Income > Scr. - 37%
Otherwise Always - 15%
(even if ₹1)

Note -

In New Tax Regime u/s 115 BAC, Surcharge @35% is removed. Means following Surcharge in NTR :-

TI > 50 lakh but upto 1 cr.	10%
TI >1cr. but upto 2 cr.	15%
TI > 2 cr.	25%

Marginal Relief

If income is slightly larger than surcharge limit.

A Tax as per normal Provision (including Surcharge)
B Tax on Surcharge Limit (above Surcharge Limit) + Extra Income
Marginal Relief available → If A > B
Amount of Marginal Relief → A-B

Rebate u/s 87 A

Only to Resident Individual

OTR (Old Tax Regime)

↓

Total Income up to 5 lakhs =

↓

Rebate = Actual Tax (or) ₹12500

whichever is lower of following.

Note :
Rebate u/s 87 A will not be available against Tax calculation as per special rates.

NTR (New Tax Regime)

↓

1) Total Income upto 12 lakhs

↓

Rebate = 1) Actual Tax or 60,000 whichever is lower of following.
2) Rebate if Income Is Slightly higher than 12 lakhs

If Tax on Total Income (A) > Extra income above 12 lakhs (B)

Rebate = A-B

Special Points

1) If Normal Income is less than basic exemption limit, then such difference of basic exemption limit> Normal Income, can be adjusted with Special Income (only 111A/112A/112)

2) Deductions under/section 80C – 80U only from Normal Income (not from Casual/Special Income)

Example of marginal relief

XYZ Ltd. [Domestic Company], Turnover **in P.Y. 22-23 = ₹ 450 cr., Total Income = ₹ 10,01,00,500**

Steps	Calculation	Amount (₹)
Step 1: Tax on actual Total Income = ₹ 10,01,00,500		
➤ Base tax @ 30% of ₹ 10,01,00,500	30% × 10,01,00,500	3,00,30,150
➤ Surcharge @ 12% of "Base tax" (since Income > ₹ 10 cr.)	12% × 3,00,30,150	36,03,618
→ Total (Step 1)	3,00,30,150 + 36,03,618	3,36,33,768
Step 2: Tax on "threshold" Income = ₹ 10,00,00,000		
➤ Base tax @ 30% of ₹ 10,00,00,000	30% × 10,00,00,000	3,00,00,000
➤ Surcharge @ 7% of "Base tax" (since exactly ₹ 10 cr. → ₹ 1 cr. < Income ≤ ₹ 10 cr.)	7% × 3,00,00,000	21,00,000
→ Total (Step 2)	3,00,00,000 + 21,00,000	3,21,00,000
Step 3: "Tax to be paid" = (Step 2) + (Extra Income over ₹ 10 cr.)		
➤ Extra Income = ₹ 10,01,00,500 – ₹ 10,00,00,000 = ₹ 1,00,500	– – –	1,00,500
➤ So, Tax to be paid = ₹ 3,21,00,000 + ₹ 1,00,500	– – –	3,22,00,500
Step 4: Marginal Relief = (Step 1) – (Step 3)	**3,36,33,768 – 3,22,00,500**	**14,33,268**

Therefore, Marginal Relief = ₹ 14,33,268

Add Health & Education Cess

As before, once you have "Tax + Surcharge – Marginal Relief," you apply Health & Education Cess @ 4% on that net amount

1. **Tax + Surcharges before Marginal Relief (Step 1) = ₹ 3,36,33,768**
2. **Less Marginal Relief = – ₹ 14,33,268**
3. **Subtotal = "Tax Payable before Cess" = ₹ 3,22,00,500**
4. **Health & Education Cess @ 4% on ₹ 3,22,00,500 = ₹ 12,88,020**
5. **Final Tax Liability (including Cess) = ₹ 3,22,00,500 + 12,88,020 = ₹ 3,34,88,520**

New Tax Regime (Default Regime) (Ind/HUF/AOP/BOI/AJP)

Sec 115BAC is the default tax regime until an assesse opts out from sec 115BAC it means he has selected old tax regime.

Be careful while reading question whether it specifies assesse opt out default regime (select old tax regime) and accordingly solve the question.

Basic & Tax Rate

Total Income	Tax rates
upto ₹4,00,000	Nil
₹4,00,000 to ₹8,00,000	5%
₹8,00,000 to ₹12,00,000	10%
₹12,00,000 to ₹16,00,000	15%
₹16,00,000 to ₹20,00,000	20%
₹20,00,000 to ₹24,00,000	25%
Above ₹24,00,000	30%

Exemptions or deductions (few) withdrawn means available in OTR but not in NTR

1) Salary

→LTA [Sec 10 (5)

→HRA Sec 10(13A)

→Allowance [Sec 10(14)]

- **Except 4 allowances**
  - Transport allowance to handicapped (ee)
  - Travelling allowance
  - Daily Allowance
  - Conveyance allowance

→ **Sec 16 Deduction.**

- Standard deduction is ₹50,000 in OTR & ₹5,000 in NTR
- Entertainment Allowance
- Profession Tax

→ Exemption/Deductions related to Perquisites

2) House Property

→Interest on self occupied property (Sec.24(b))

→Loss of let out property cannot be set off with any other head

3) PGBP

→Additional Depreciation.

→Tea/Coffee/Rubber (Sec. 33 AB) & Petrol & Natural Gas (Sec 33 ABA)

→Scientific Research - contribution to others. [Sec.35 (1) (ii) (iia) (iii)]

→Specified business. [Sec. 35 AD]

→ Agriculture extension project[Sec. 35ccc]

4) Capital Gains

No Impact

(No exemptions/deductions withdrawn in CG head)

5) IFOS

→Clubbing of Income (minor children) (exemption u/s 10 (32)

→Allowances to MP/MLA [Exemption u/s 10(17)]

Common Points

1. Deduction u/s 10AA (SEZ) **withdrawn,**
2. Deduction u/s 80C – 80U **withdrawn** (except 80CCD(2) and 80JJAA/80CCH)

Concept of Rebate in new tax regime (Provision discussed above) Lets discuss example

Example

Mr A [Resident]	**Case I**	**Case II**	**Case III**
Total Income	₹ 7,00,000	₹ 6,00,000	₹ 7,15,000
Tax as per 115BAC	20,000	15,000	21,500
(-) Rebate u/s 87A	(20,000)	(15,000)	(6,500)
			(21,500 - 15,000)
Tax after Rebate			15,000 + 4% cess

(iv) Surcharge : If Total Income

Upto ₹ 50 lacs	**Above ₹ 50 lacs but upto ₹ 1 cr.**	**Above ₹ 1 cr. but upto ₹ 2 cr**	**Above ₹ 2 cr**
Nil	10% of Tax	15% of Tax	25% of Tax

→Surcharge / Rate of 25% is not applicable on STCG u/s 111A, LTCG u/s 112A, LTCG u/s 112 and Dividend Income.

General Notes

1. Resident individual of **age of 60 year or more & 80 year or more** would not be entitled to claim higher **exemption limit of 3 Lakh/ 5 Lakh**.
2. Tax on **special income @ special Rate** (As per Ch. XII)
3. Assessee, not having any business income, has the **option to choose either the old tax regime or the new tax regime each year**.
4. Assessee **having business income, once the option of the old tax regime is exercised, it cannot be withdrawn**. This option, once exercised, will be applicable for all subsequent years and can be withdrawn only once in a previous year (other than the year in which it was exercised) and thereafter, the assessee will not be eligible to exercise the old tax regime option (except for such individual/HUF who cease to have any business income).
5. AMT (Alternate Minimum Tax) is not applicable **if 115BAC is applicable** & AMT credit cannot be set off.
6. House property loss **cannot be set off against other head**.
7. Sec. 115BB – Winning from lotteries, crossword puzzle, card game, horse race, gambling etc. – **Tax Rate @ 30% (no deduction allowed)**
8. Sec. 115 BBJ – Tax on net winnings from **online game (Tax @ 30%)**
9. Sec. 115 BBA – Tax on non-resident sportsmen or sports associations (Tax @ 20%)
10. Sec.115BBE – Deemed income u/s 68 to 69 D → Tax @ 78% [60% + 25% surcharge (Along) + 4% cess]
    - ➤ **Sec 68** → Cash credit
    - ➤ **Sec 69** → Unexplained investment
    - ➤ **Sec 69A** → Unexplained money, etc
    - ➤ **Sec 69B** → Amount of investment not fully disclosed
    - ➤ **Sec 69C** → Unexplained expenses
    - ➤ **Sec 69D** → Amount borrowed or repaid on hundi

11. Sec.115BBF – Royalty income from Patent (Developed and Registered in India) Tax rate @ 10%.

➤ Min 75% Expenses Should be incurred in India

➤ No deduction for any Expenses/Allowances in respect of royalty income shall be allowed.

➤ Eligible Assessee means – Person resident in India who is true & first inventor of the invention & whose name is registered as patentee under Patent Act, 1970

➤ Assessee has to exercise the option for taxation of royalty in accordance with provision of sec.115BBF up to due date of return filing u/s 139(1)

➤ Where assessee opt. for sec.115BBF for any PY & the assessee is not offered income u/s 115BBF in any of the next 5 years than assessee shall not be eligible to claim benefit of sec.115BBF for 5 AY subsequent to the AY relevant to the PY in which income has not been offered u/s 115BBF

12. Sec 112/112A/111A – Capital Gain (Seperately Discussed)

Miscellaneous Provisions

Deemed Income

Cash Credits [Section 68]

➤ Where any sum is found credited in the books of the assessee and the **assessee offers no** explanation about the **nature & source** or the explanation offered **is not satisfactory** in the opinion of the A.O., the sum so credited may be charged as **income** of the assessee of that P.Y.

➤ Further, any explanation offered by a Private Company for any sum credited as share application money, share capital, share premium etc., in the accounts of such Co. → shall be deemed to be not satisfactory if-

➤ The person (resident), in whose name such credit is recorded in the books of such company **also not explains**, to the satisfaction of the A.O., about the nature and the source of sum so credited in his hands or explanation not satisfactory.

➤ However, this deeming provision would not apply if the person is Venture Capital Fund (VCF) or a Venture Capital Company (VCC).

Unexplained Investments [Section 69]

Where in the P.Y. the assessee has made investments which are not recorded in the BOA and the assessee offers no explanation about the nature and the source of investments or, the explanation offered is not satisfactory in the opinion of the Assessing Officer, the value of the investments are taxed as deemed income of the assessee of that PY.

Unexplained money, Assets etc. [Section 69A]

Where in any P.Y. the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the BOA and The assessee offers no explanation about the nature and source of acquisition, or

➤ The explanation offered is not satisfactory in the opinion of the Assessing Officer,

➤ The money and the value of bullion etc. may be deemed to be the income of the assessee for such financial year.

Ownership is important and mere possession is not enough.

Amount of investments etc., not fully disclosed in the books of account [Section 69B]

Where in any P.Y., the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the Assessing Officer finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the BOA of the assessee and He offers no explanation for the difference or

- The explanation offered is unsatisfactory in the opinion of the AO,
- such excess may be deemed to be the income of the assessee for such financial year.

Unexplained expenditure [Section 69C]

Where in any P.Y., an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or the explanation is unsatisfactory in the opinion of the A.O., A.O. can treat such unexplained expenditure as the income for such PY. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.

Amount borrowed or repaid on hundi [Section 69D]

Where any amount is borrowed on a hundi or any amount due thereon is repaid other than through an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the previous year in which the amount was borrowed or repaid, as the case may be.

However, where any amount borrowed on a hundi has been deemed to be the income of any person, he will not be again liable to be assessed in respect of such amount on repayment of such amount. The amount repaid shall include interest paid on the amount borrowed.

Note: Income mentioned u/s 68 to 69 D taxable 60% (+25% Surcharge+4% Cess i.e 78%).

Exempt Income

1. Section 10(1): Agricultural Income shall be exempt from tax, It includes

- **Rent or revenue** from land in India used for agricultural purposes.
- **Income from agricultural operations,** including:

Cultivation, Processing to make produce marketable, Sale of produce without further processing.

- **Income from house located in rural area(use as store house)**
- **Income from nursery operations.**

2. Rule 7: Scenarios of Agricultural Income

Scenario	Component	Taxable Head	Computation
Sale in Raw Form	Entire income from sale	Agricultural Income	100% Exempt under Section 10(1)
Sale after Optional Processing	A. Value of agriculture produce used	Agricultural Income	FMV of agriculture produce - Cost of agriculture produce
	B. Profit from further processing	Business Income (PGBP)	Sale value - FMV of agri. produce (-) processing cost

3. Rules for Apportionment of Income in case of Specific incomes

Rule	Description	Agricultural Income	Business Income
7A	Rubber products from rubber plants grown in India	65%	35%
7B	Coffee grown and cured in India	75%	25%
	Coffee grown, cured, roasted, and grounded in India	60%	40%
8	Tea grown and manufactured in India	60%	40%

4. Additional Notes on Agricultural vs. Non-Agricultural Income

Agricultural income includes earnings like income from nursery-grown saplings, growing flowers or creepers, grazing land rent for agricultural cattle, and growing bamboo. In contrast, non-agricultural income includes income from livestock breeding, poultry farming, fisheries, and dairy farming, as these do not involve direct agricultural operations on land

5. Partial Integration of Agricultural Income

Applicability:

- Individuals, HUFs, AOPs, BOIs, and artificial juridical persons.
- Not applicable to companies, LLPs, firms, co-operative societies, or local authorities.

Conditions :

1. Net agricultural **income exceeds ₹5,000/year.**
2. Non-agricultural income exceeds the basic exemption limit:

₹3,00,000 (default regime),

2,50,000/₹3,00,000/₹5,00,000 (old regime, based on age).

Tax Calculation Steps:

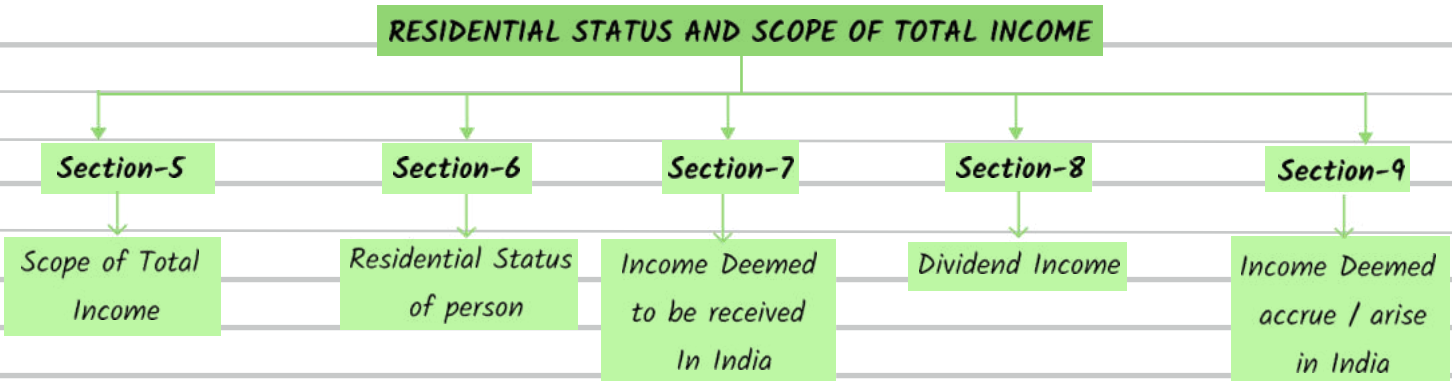
1. Step 1: Add non-agricultural income + net agricultural income → Compute tax.
2. Step 2: Add basic exemption limit + net agricultural income → Compute tax.
3. Step 3: Deduct Step 2 result from **Step 1.**
4. Step 4: Add surcharge (if applicable), subtract rebate (if any under Section 87A).
5. Step 5: Add health & education cess @ 4%.

Notes



Residential Status & Scope Of Total Income

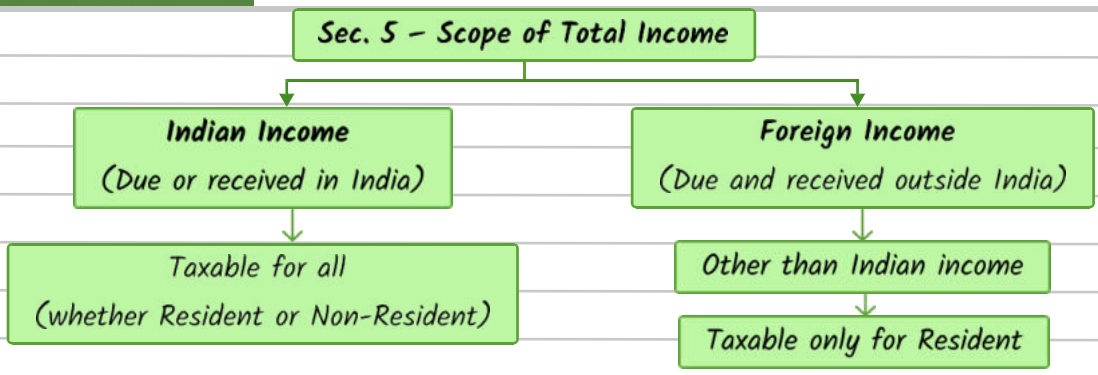
Chapter 2



➤ As per Income Tax Act, tax will be imposed based on the **Residential status** of the Assesee during the Previous Year(PY), so we have to identify the residential status of every person to determine his taxable income and liability of tax. Residential status will be determined for every person for each previous year independently.

➤ If any person become Resident then his whole world income is taxable in India but if person become Non-Resident, then only Indian Income is taxable for that person.

Sec. 5 – Scope of Total Income



Note –

➤ **Due in India** : Income arise because of utilization of Indian Resources

OR

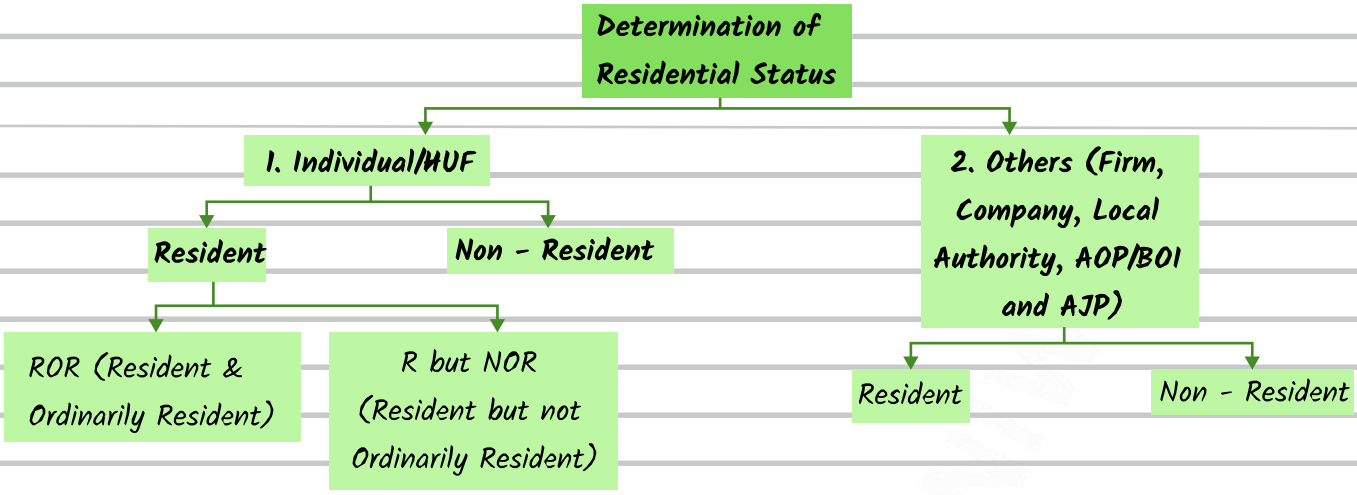
➤ **Received in India** : Income received first time in India (whether due/arise outside or not)

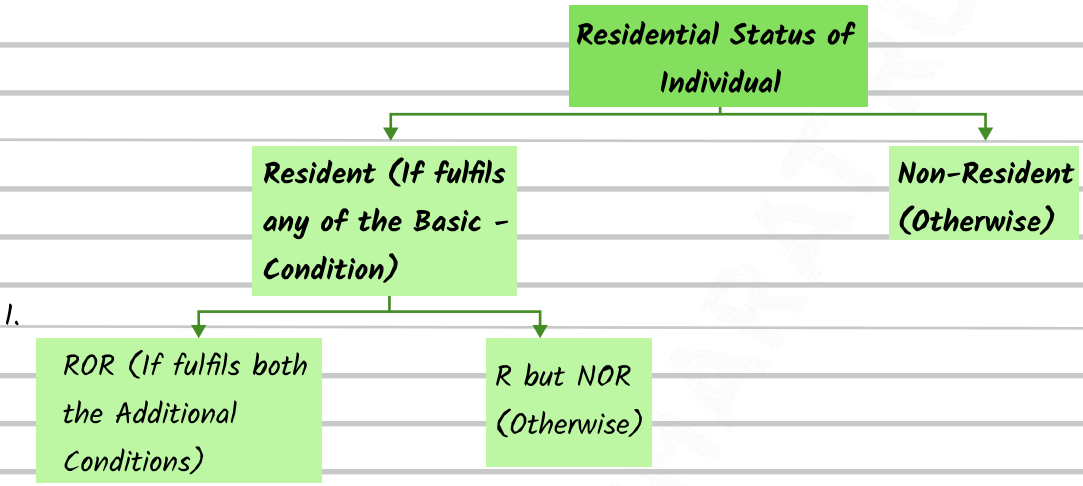
➤ Income may be in Cash or in Kind.

➤ Any income already taxed on accrual basis, consequently remitted to India, is not chargeable to tax at the time of remittance irrespective of the residential status.

➤ Income accrual in India means, income generated in India or source of Income situated in India.

Sec. 6 – Determination of Residential Status





If any individual satisfies any One Basic condition (at least one) then he is treated as Resident in India otherwise Non Resident in India. If any individual become Resident in India, then we have to check that such person is Resident and ordinarily resident (ROR) in India or Resident but Not ordinarily resident (R but NOR) Resident in India. If the such assessee satisfy both the additional conditions then he is treated as R and OR otherwise R but NOR.

A. Basic Conditions u/s 6(1)

1. Stay in India ≥ 182 days in PY

OR

2. Stay in India ≥ 60 days in PY

\+

Stay in India ≥ 365 days in 4 PPY

} Exception of this condition

Exception 1 - 60 days substituted by 182 days in following cases -

Indian Citizen leaving India (during PY)

- Employment Purpose (It includes self-Emp. also)
- As a Crew Mem. of Indian Ship

Indian Citizen/POIO who resides outside India and comes to India for any purpose.

+

Total Income (Other than Pure Foreign Income) upto 15 lakhs

Exception 2 - 60 days substituted by 120 days in following cases -

Indian Citizen/Person of Indian origin, engaged outside India in any employment or a Business or Profession, comes/visits India in PY

+

Total Income (Other than Pure foreign source income) > ₹15 Lakh in PY

+

Stay between 120 to 181 days

Always R but NOR (No need to check additional condition)

Note 1- Person of Indian origin means ::

If he or either of his parents or either of his grandparents was born in undivided India.

Note 2- Entry date to India/Leaving date from India :

The day on which he enters India, as well as the day on which he leaves India, shall be taken into account as stay of individual in India

Note 3- In case of individual being a citizen of India, Member of the crew of a foreign bound ship leaving India, then Period to be excluded-Period commencing from Date entered into continuous discharge Certificate in respect of joining the ship to period ending on date entered into continuous discharge certificate in respect of signing of the ship.

B. Additional Conditions u/s 6 (6)

1. Resident in India ≥ 2 PY in any 10 PPY*
2. Stay in India ≥ 730 days in 7 PPY*

*PPY - Preceding previous year

Special Note 1 : Section 6(1A) - Deemed Resident (Always R but NOR)

Indian Citizen

+

Total Income (other than foreign source income) > ₹15 lakh in PY

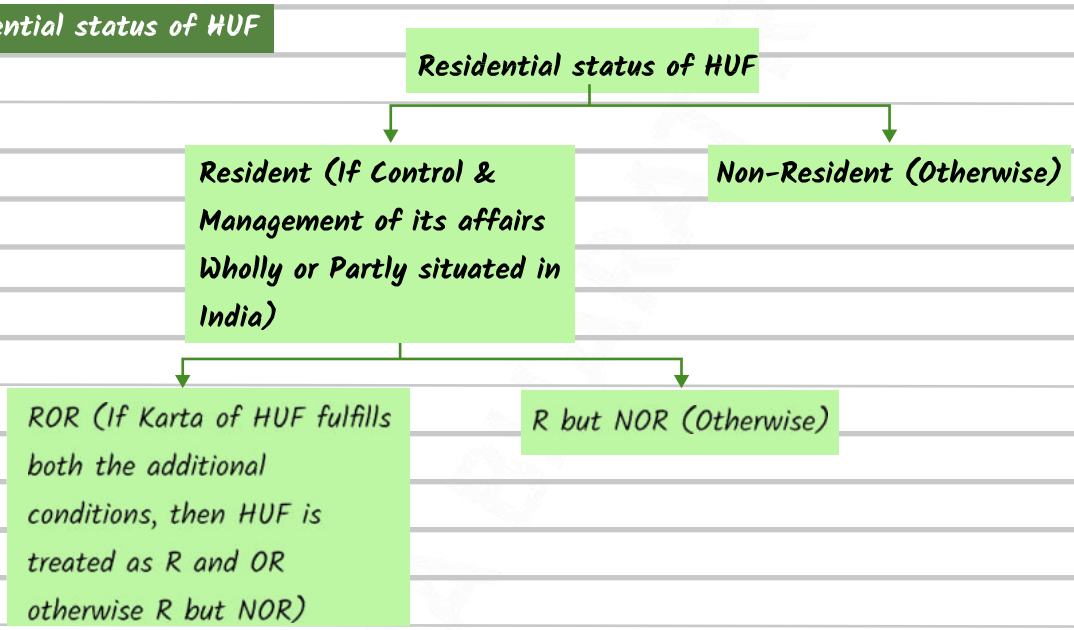
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➤ Not liable to tax in any other Country/Territory (by reason of his domicile or residence or any other criteria) will be treated as Deemed Resident [But he will be always R but NOR] (Note- Deemed Resident provision will not apply if Individual is resident during the PY)

➤ Liable to tax means that there is an income-tax liability on such person under the law of that country for the time being in force. It also includes a person who has subsquently been exempted from such liability under the law of that country.

	ROR	NROR	NR
Indian Income	✓	✓	✓
Foreign Income Business/Profession Controlled from India	✓	✓	✗
Pure Foreign Income (No control of Business/Profession from India)	✓	✗	✗

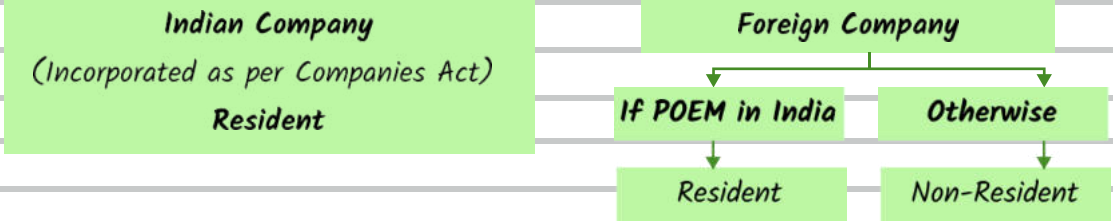
2. Residential status of HUF



3. Residential status of Firm/AOP/BOI/AJP



4. Residential Status of Company



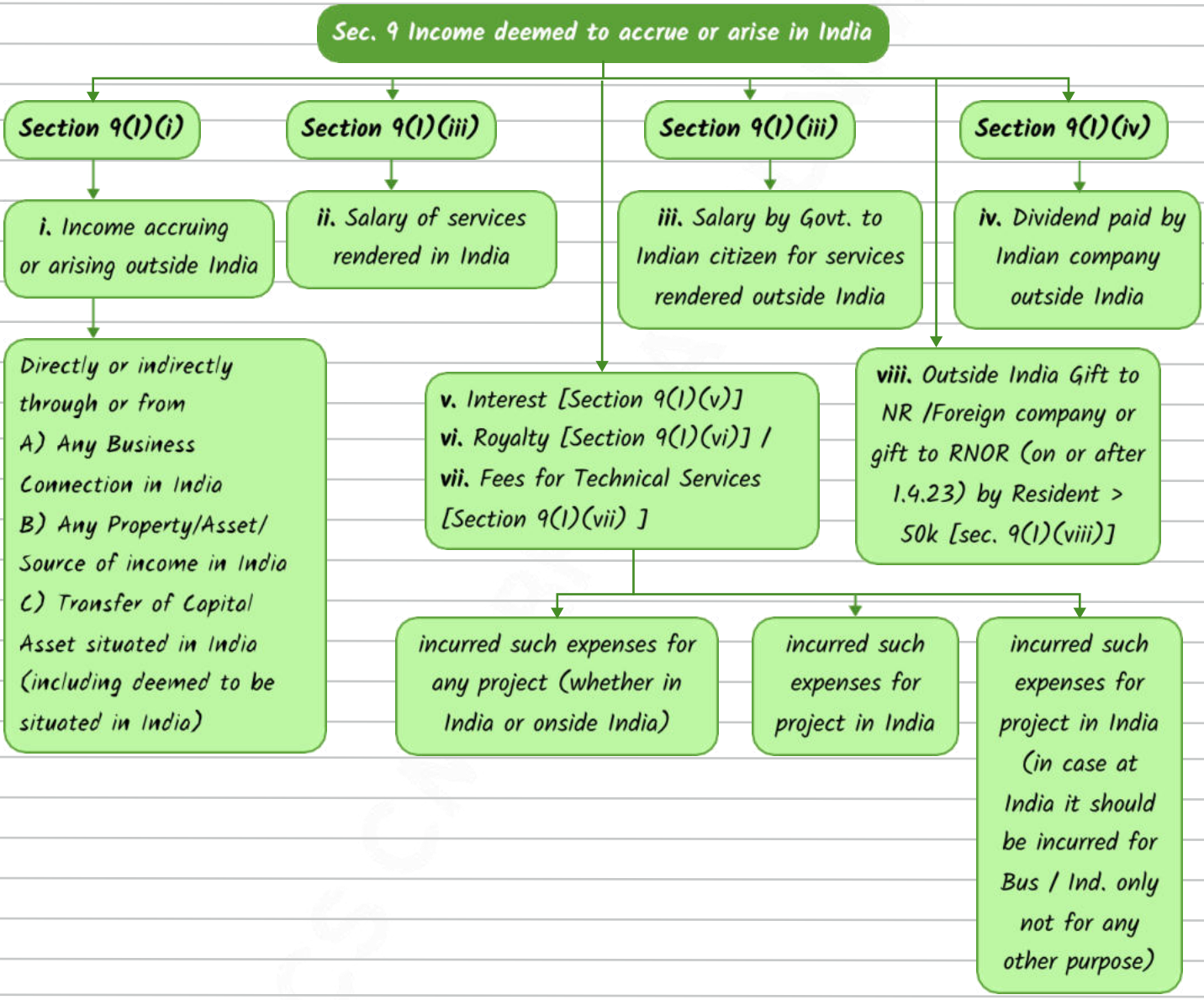
Note - POEM (Place of effective management means a " place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are in substance mode

Sec. 7: Income deemed to be received in India

➤ Contribution in excess of 12% of salary to Recognised Provident Fund, or Interest credited in excess of 9.5% p.a. (Annual accretion to th credit of RPF).

➤ Contribution by employer under a pension scheme referred u/s 80CCD. (NPS).

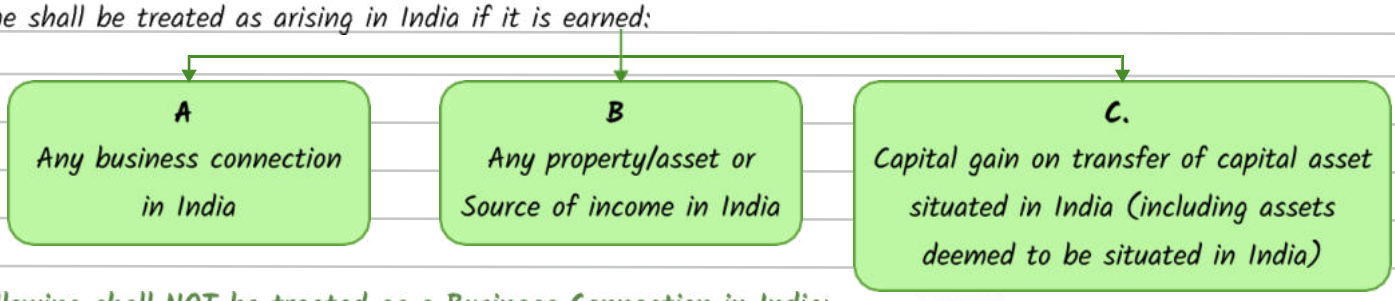
➤ Amount transferred from URPF to RPF (being the employer's contribution and Interest thereon.)



Section 9: Income Deemed to Accrue or Arise in India

Section 9(1)(i):

Income shall be treated as arising in India if it is earned:



The following shall NOT be treated as a Business Connection in India:

A. Purchase of goods in India for the purpose of export.

B. Collection of news and views in India for transmission abroad.

C. Shooting of cinematograph films in India by a non resident individual (not a citizen of India), or by a firm/ company where no partner/shareholder is an Indian citizen or resident.

D. A foreign company engaged in diamond mining activities, where such activities are limited to displaying uncut and unassorted diamonds in any special zone notified by the Central Government.

Additional Points:

➤ If the property, asset, or source of income is located in India, the income is deemed to accrue or arise in India.

➤ In case of transfer of a capital asset situated in India, the income is deemed to accrue or arise in India, regardless of where the transfer is registered or where the consideration is received (India or abroad).

1. Salary of services rendered in India [Sec 9 (1)(ii)]-

Income, which falls under the head "Salaries", deemed to accrue or arise in India, if it is earned in India. Salary payable for service rendered in India, would be treated as earned in India.

Further, any income under the head "Salaries" payable for rest period or leave period which is preceded and succeeded by services rendered in India, and forms part of the service/ contract of employment, shall be regarded as income earned in India.

2.Salary by Govt. to Indian citizen for services rendered outside India [Sec 9 (1) (iii)]-

Income from **'Salaries'** which is payable by the Government to a citizen of India for services rendered outside India would be deemed to accrue or arise in India.

However, allowances and perquisites paid or allowed outside India by the Government to an Indian citizen for services rendered outside India is **exempt,** by virtue of section 10(7).

3.Dividend paid by Indian Company [Sec 9 (1)(iv)]-

Dividend paid by an Indian company outside India is deemed to be accrue or arise in India and would be taxable in India in the hands of non-resident shareholders.

4. Section 9(1)(viii) : Deemed accrual of gift made to a person outside India

Gift of any money made by resident to;-

- NR or foreign company on or after 5th July 2019 or
- R but NOR on or after 1st April 2023,

shall be deemed to be accrued or arise in India.

6. Interest/Royalty and Fees for technical services (details mentioned

- Interest [Section 9(1)(v)] OR
- Royalty [Section 9(1)(vi)] OR
- Fees for Technical Services [Section 9(1)(vii)]

Paid / Payable by

Government (for any purpose)	**Resident**	**Non-Resident**
	For any purpose but excluding → Amount payable for the purpose of business or profession carried out outside India or → For the purpose of earning any income from any source outside India	Expenses incurred for the purpose of business or profession or other source of income carried on in india. But in case of interest, expenses should be incurred only for Business / Profession in India, then it will be treated as deemed to be accrue or arise in India. Example: - If a non resident X borrows money from a non-resident Y and invests the same in shares of an Indian company, interest payable by X to Y will not be deemed to accrue or arise in India.

Meaning of Royalty:

The term 'Royalty' means consideration (including any lumpsum consideration but excluding any consideration which would be the income of the recipient chargeable under the head 'capital gains') for:

(i) the **transfer of all or any rights** (including the granting of a license) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property;
(ii) the **use of any patent**, invention, model, design, secret formula or process or trade mark or similar property.

(iii) the **imparting of any information concerning the working** of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property;

(iv) the **imparting of any information concerning technical**, industrial, commercial or scientific knowledge, experience or skill;

(v) the **use or right to use any industrial, commercial or scientific equipment**.

(vi) the **transfer of all or any rights** (including the granting of a license) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connections with television or tapes for use in connection with radio broadcasting;

(vii) the **rendering of any service in connection with the activities listed above**.

The definition of 'royalty' for this purpose is wide enough to cover both industrial royalties as well as copyright royalties. The definitiono specifically excludes income which should be chargeable to tax under the head 'capital gains'

Note:

(i) Lumpsum consideration for supply of computer software embedded in computer hardware is not royalty.

(ii) Payment for downlinking television channels constitutes royalty.

(iii) Consideration for sale/distribution/exhibition of films is royalty.

Meaning for Fees for technical services-

Means any consideration (including any lumpsum consideration) for the rendering of any managerial, technical or consultancy services (including providing the services of technical or other personnel).

Payment towards drawing and design are in the nature of fees for technical services.

However, it does not include consideration for any construction, assembly, mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head 'Salaries'.

Notes



Chapter 3

Income From Salaries

Sec.15 - Charging Section

Employer (ER) → Relationship → Employee (EE)



Any amount received (cash/kind) Benefits by EE

↓

Taxable u/h salary



Right to give directions

Bound to follow that direction

NOTE: -

1. Contract OF Services - Salary
   Contract FOR Services - PGBP
2. Salary received by partner from partnership firm taxable u/h PGBP for partners
3. Salary received by MLA's / MP's not taxable u/h salary. It is taxable under IFOS
4. Salary forgone is always taxable as it is only application on income. (Salary surrender to CG, not taxable u/h salary)
5. Salary is taxable even in case of part time job like employee work with 2 employers simultaneously.
6. Salary is taxable on the basis of due or received whichever is earlier.

Component Of Salary

Particulars	Amount
1. Basic Salary	xx
2. Bonus	xx
3. Commission	xx
4. Allowances	xx
5. Perquisites	xx
6. Leave Travel Concession	xx
7. Retirement Benefit	xx
8. Profit in lieu of salary	xx
Gross Salary	xxxx
Less: Deduction u/s 16	
1. Professional Tax	
2. Entertainment Allowance (Govt. employee)	

3. Standard deduction (Max 50k) (75,000 in case of IISBAC)	xx
Net Taxable Salary	**xx**

NOTE- uls 10(7) any allowance or perquisite paid or allowed outside India by the Govt. to a citizen of India for rendering of services outside India will be fully exempt.

1. Basic Salary Taxable on the basis of DUE or RECEIVED **(whichever is earlier)**
(**Arrear salary Salary** under dispute or retrospective increase **Taxable on received basis only with relief uls 89**). But if it has already assessed on due basis then same cannot be taxed again when it is paid.)

BASIC SALARY

Advance Salary
Taxable when received
So not taxable when due
(Relief u/s 89 is also available)

Arrear Salary
General arrear salary taxable on due basis but if not taxable then taxable when it is received
(Relief u/s 89 is also available)
Ex- Pay commission is appointed by CG & recommends revision of salary from retrospective

However , if advance against salary is given or only advance is given , it will be treated as loan , thus ignore the same while-computing income u/h Salary

2. / 3. Bonus / Commission — Taxability

Fixed
Due or Received
(Whichever is earlier)

Event / Performance
Rec. basis

4. Allowances [Fixed amount received by EE from ER (Whether actual exp Incurred or not)]

a Entertainment Allowance
b House Rent Allowance
c Special Allowance
d Others Allowance

a. Entertainment Allowances [Deduction uls 16(ii)]

It is given to meet hospitality expenses for customer etc
This can be provided to all (Govt EE/Non Govt EE) but ded"n is available only to Govt EE, which is lower of the following

Actual Ent All
5,000 p a
20% of Basic Salary
↓ Lower

b. House Rent Allowances [Exemption u/s 10(13A)]

HRA granted to an Employee for the payment of rent of his residence. HRA exemption is **lower** of the following:

1 Actual HRA
2 Rent paid (-)10% of Special salary
3 40% or 50% of Special salary (40% in case of Non - Metro or 50% in case of Metro)

[Metro City: Delhi, Mumbai, Kolkata, Chennai]

NOTE -

1 Salary is taken on due basis for the period for which HRA is granted
2 Special Salary means
= Basic Salary + DA (If in term) + Commission (Fixed % on TO)

(In case of any change in above any 4 components, then HRA will be calculate for different period based on change)

- HRA Amount
- Rent Paid Amount
- Salary of EE
- Location of rented house

↓ Lower

c. Special Allowance

→ Official Purpose [10(14)(i)] Purpose →

- Travelling Allowance
- Daily Allowance
- Conveyance Allowance
- Uniform Allowance
- Education/Research Allowance
- Helper Allowance

Whatever amount incurred for Official purpose Exempt

Note- Exemption u/s 115BAC

available only for:

Travelling or Tour Allowance
Daily Allowance
Conveyance Allowance
Uniform all for office purpose
Research / Academy Allowance

→ Personal Purpose [10(14)(ii)] →

➤Children Education All
(Max 100 p m /child up to 2 children)
➤Hostel Education All
(Max 300 p m /child up to 2 children)
➤Tribal Area All
(Max 200 p m)
➤Transport All to Handicapped EE
(Max 3200 p m)
➤Transport All to EE of transport system
i) 70% of such All, or
ii) 10,000 p m (Whichever is lower)
➤Underground All
(Max 800 p m)
➤ Compensatory Field Area All
(Max 2600 p m)
➤Compensatory Modified Field Area All (Max 1000 p m)
Note- IISBAC exemption is available only for -Transport All. to Handicapped EE

Compensatory Allowances

Compensatory	Exemption
➤ Field Area	2600 pm
➤ Modified Field Area	1000 pm
➤ Special (Hilly Area)	800 pm
➤ Special (Border Area)	1300 pm
➤ Special (High Action Field Area)	4200 pm

e. **Other Allowances** – Any allowances other than are **Fully Taxable**

➤ Entertainment Allowances
➤ HRA
➤ Special Allowances
➤ Dearness Allowance (D A)

Note But following allowances are not taxable (fully exempt)

➤Allowances to Indian citizen (Govt EE) who rendering services outside India
➤Allowances to high court judge/ supreme court judge Ex- Sumptuary All Etc
➤Allowances paid by UNO to its employee

5. Perquisite

Means extra benefits granted to EE in addition of his salary. It can be in kind or in cash. (It's received when actual exp incurred)

Difference Between Allowances and Perquisites

Allowance: An allowance refers to a fixed monthly amount paid by the employer to the employee, regardless of whether the actual expenditure is incurred. It forms part of the employee's salary.

Examples: House Rent Allowance (HRA), Medical Allowance, etc

Perquisite : A perquisite refers to any benefit or facility provided by the employer to the employee. It is generally provided when the actual expenditure is incurred.

Examples: Medical facilities, car facilities, accommodation, etc

Types of Perquisites [Sec.17(2)]

i. Rent Free Accommodation (RFA)
ii. Concessional RFA
iii. Obligation of EE paid by ER
iv. Value of benefits provided by ER (Specified EE)
v. Life Ins./Annuity Premium Payment
vi. ESOP/Sweat equity shares
vii. Contribution to RPF/NPS/ASF
viii. Fringe benefits

i. Rent Free Accommodation (RFA)

- **Wholly Official Exempt**
  - **Owned** (ie Fees x No. of Months)
  - **Hotel** 24% of RFA Salary or Actual charges **Whichever is lower**
- **Partly Official Partly Personal**
  - **Owned**
  - **Rented** 24% of RFA Salary or Actual charges **Whichever is lower**
  - **Hotel** 24% of RFA Salary or Actual charges **Whichever is lower**

For Owned (Wholly Official Exempt) and Partly Official Partly Personal:

Area population > 25 Lakh population	Population > 10 ≤ 25 Lakh	Population > 10 Lakh
15% of RFA Salary	**10% of RFA Salary**	**7.5% of RFA Salary**

If furniture (furnished accommodation) provided by Govt./Non-Government ER, then we have to include value of furniture (except hotel)

Owned	Rented
10% of Actual Cost (p.a.)	Actual Rent

Salary Components Considered for RFA Taxability

Each of the following components is included in salary for the purpose of calculating the value of Rent Free Accommodation

Included Components

Basic Salary

Dearness Allowance (Taxable Portion)

Bonus

Taxable Allowances

Commission (All Types)

Other Monetary Income

and retirement benefits

(excluding perquisites)

ii. Concessional RFA

Value of RFA	XX
( ) Amount received from EE	(XX)
Concession RFA	XX

Notes :

(1)If hotel facility is provided at the time of transfer of employee & if it is up to 15 days, then it is not taxable

(2)In house facility & hotel facility if employer recover any rent from employee, then such rent should deducted from above taxable amount

iii. Obligation of EE paid by ER

Actual amount paid by ER will be treated as Perquisites

iv. Value of benefits provided by ER (to specified EE)

Specified Employees means

➤Director or

➤Substantial interest **(20% or more)** or

➤Monetary payment > 50,000/ **(It does not include payment which is**

a. Non monetary benefits

b. Monetary benefits exempt u/s 10

c. Ded'n uls 16)

Benefits to Specified employees (Perquisites Value)

i. **Sweeper/ Gardner/ Watchman etc.** → Value of perquisite - Amount paid or payable by ER

Fully Taxable

ii. **Gas/ Water/ Electricity etc.** → Provided by ER from his own - Mfg cost/unit x No of unit consumed

Fully Taxable → Provided by ER from outside Actual amount/charges paid by ER

iii. Education facility

For employee fully exempt

- ER Owned or ER Associated/Educational Institute
  Exempt if fees doesn't exceed Rs 1000 p m /child
  (only for children of employee otherwise fully taxable)
- Others/ Relatives
  Actual amt, paid by ER

iv.Transport facility (Free Tickets)

- Airway/Railway EE
  Exempt
- Other EE
  Taxable – General Tickets charges from others

v.Motor Car facility

- a Car owned by ER & Exp incurred by ER
- b Car owned by ER & Exp incurred by EE
- c Car owned by EE & Exp incurred by ER
- d Two-wheeler owned by EE & Exp incurred by ER

1. Used Fully for Office Purpose

➤ Taxability: Fully Exempt

➤ Condition:

- Employer maintains a record of each journey
- Employer issues a certificate confirming exclusive office use

2. Used Fully for Personal Purpose

➤ Taxability: Fully Taxable

Car Ownership	Taxable Amount
Owned by Employer	10% of Cost of Asset (annually)
Hired by Employer	Hire Charges Paid by Employer

+ Add:

➤ Driver Salary (if paid by employer)

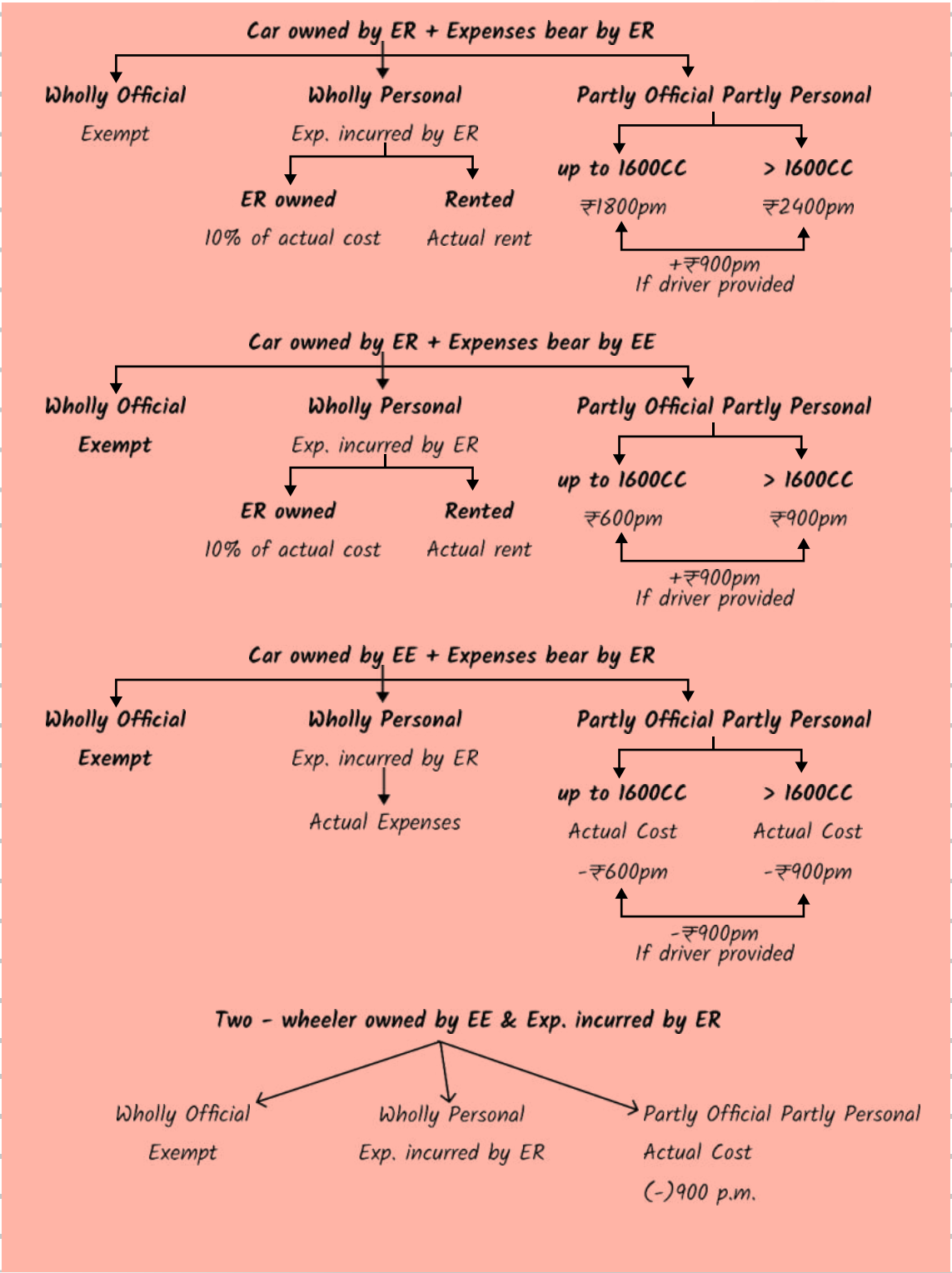
➤ Running & Maintenance Charges (if paid by employer)

3. Used Partly for Office & Partly for Personal Purpose (POPP)

Car Owned By	R&M Charges Paid By	Taxable Amount
Employee	Employee	No benefit → Not taxable
	Employer	R&M paid by ER ₹1800/₹2400 p m → [Up to 1600cc] / [Above 1600cc]
Employer	Employee	₹600/₹900 p m → [Up to 1600cc] / [Above 1600cc]
	Employer	₹1800/₹2400 p m → [Up to 1600cc] / [Above 1600cc]

Notes:

- If driver is also provided, add ₹900 p.m. to taxable value
- If more than one car is provided for POPP:
  - One car is taxable as per standard amount
  - Other car is considered fully used for personal purpose
- 1600CC = 1.6 Litre of engine capacity



vi. ESOP/Sweat Eq. Shares

FMV on the date of exercise the option	XX
(-) Amt, recovered from EE	(XX)
Taxable perquisites in the year of allotment	**XX**

- **Listed**
  - **Trade on same day** → Avg. price
  - **No Trade on same day** → Closing price of last day (when trade happened)
- **Unlisted/Specified security other than E.S.** → Price determined by merchant banker

Note – 1 Avg price = $\frac{\text{Opening + Closing}}{2}$

Note – 2 If share of any company is listed in more than one stock exchange, then **average price Closing price of that stock exchange** will be token ,where **highest of trading** recorded

vii. Contribution to RPF/NPS/ASF

RPF – Recognised Provident Fund
NPS – National Pension Scheme u/s 80CCD(1)
ASF – Approved Superannuation Fund

As per Finance Act 2020, w e f AY 21 22

Employer Contribution towards RPF/NPS/ASF in excess of ₹7,50,000 treated as perquisite & taxable in hands of Employee Further annual accretion Int/Div/similar amount on contribution of more than ₹7,50,000 is also treated as perquisite and taxable in hands of employee

Note: Only the contribution in excess of ₹7,50,000 is taxable

[Section 17(2)(viia)] : Annual Accretion on RPF, ASF & NPS

Annual interest or dividend income accrued on the excess employer contributions (above ₹7.5 lakhs) is also treated as **taxable perquisite** in the hands of the employee (EE)

Taxability of Annual Accretion – Section 17(2)(viia)

Annual Accretion of Interest on RPF, ASF & NPS in excess of ₹ 7.5 lakhs [Sec 17(2)(viia)]
Annual Accretion by way of Interest/dividend on contribution of more than ₹ 7,50,000 by ER also treated as perquisite in hands of EE and Taxable

Calculation of Annual Accretion in PY:

TP = (PC/2)*R+(PC1+TPI)*R

TP : Taxable perquisite u/s 17(2)(viia) for the current Py

PC : Amount of ER's contribution in excess of ₹ 7.5 lakh to RPF, NPS and ASF during Py

PC1 : Amount or aggregate of amounts of ER's contribution in excess of ₹ 7.5 lakh to RPF, NPS and ASF for the PY or years commencing on or after 01/04/20 other than the current Py

TPI: Aggregate of taxable perquisite u/s 17(2)(viia) for the PY or years commencing on or after 01/04/20 other than the current PY

R : I/ Favg

I : Amount of income accrued during the current PY in RPF, NPS and ASF

Favg : (Amount of balance to the credit of RPF, NPS and ASF on 01/04/24 + Amount of balance to the credit of RPF, NPS and ASF on 31/03/25)/2

viii. Fringe Benefits

- Interest free loan
- Gift
- Credit card facility/Club membership
- Travelling & Holidays
- Food & Beverage
- Use of movable assets
- Sale of movable assets

a. Interest Free Loan

Loan Provided by Employer at Concessional or Nil Interest Rate

Applicability:

When an employer provides a loan to an employee or their family member at a concessional interest rate or without charging interest

Taxable Perquisite Calculation:

Taxable Amount=

Outstanding Loan Amount at Month End *(SBI Interest Rate on 1st April of PY - Actual Interest Rate Charged)

Notes:

- (i) If the loan amount is ₹20,000 or less, the interest benefit is not taxable
- (ii) If the loan is taken for treatment of a specified disease, the interest benefit is not taxable, even if the loan amount exceeds ₹20,000

b. Gift

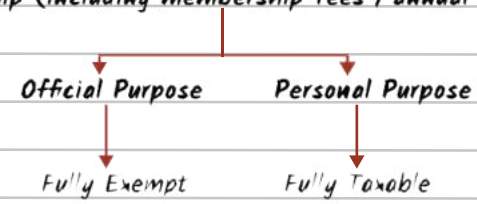
Cash	Kind
Fully Taxable	Gift in kind >5,000 Fully Taxable

Note:- ICAI has two option-

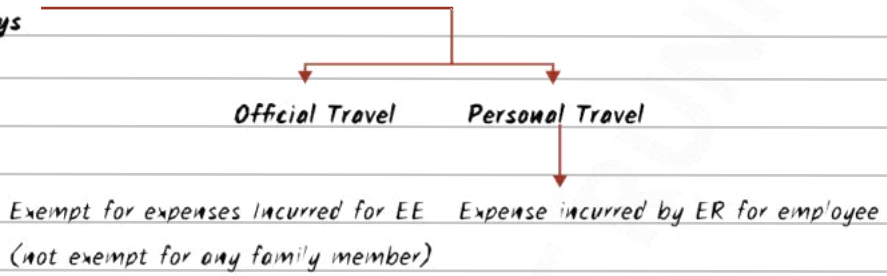
Gift > Rs.5000--- Excess to Rs.5000 is taxable

OR complete amount taxable.

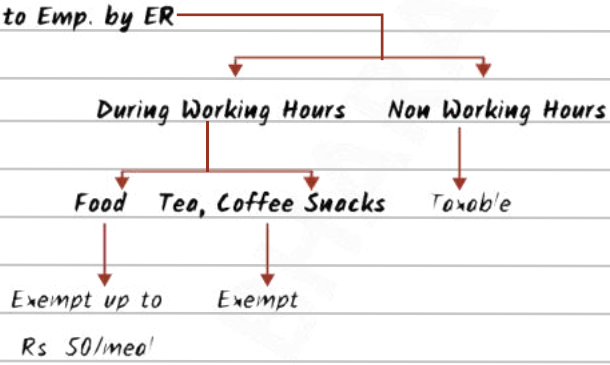
c. Credit Card Facility /Club Membership (including membership fees / annual fees)



d. Travelling & Holidays



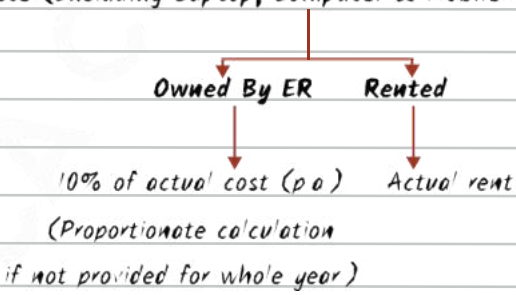
e. Food & Beverages provided to Emp. by ER



Note 1 : Free food and non alcoholic beverages provided during working hours in a remote area or an off shore installation is not taxable

Note 2 : However, the exemption provided in respect of free food and non alcoholic beverage provided by such employer through paid voucher shall not apply to an employee, being an assessee, who has exercised option under Section 115BAC (Amended w e f 01-04-2021 ie AY 2021-22)

f. Use of Movable Assets (Excluding Laptop, Computer & Mobile - as Exempt)



g. Sale of Movable Assets

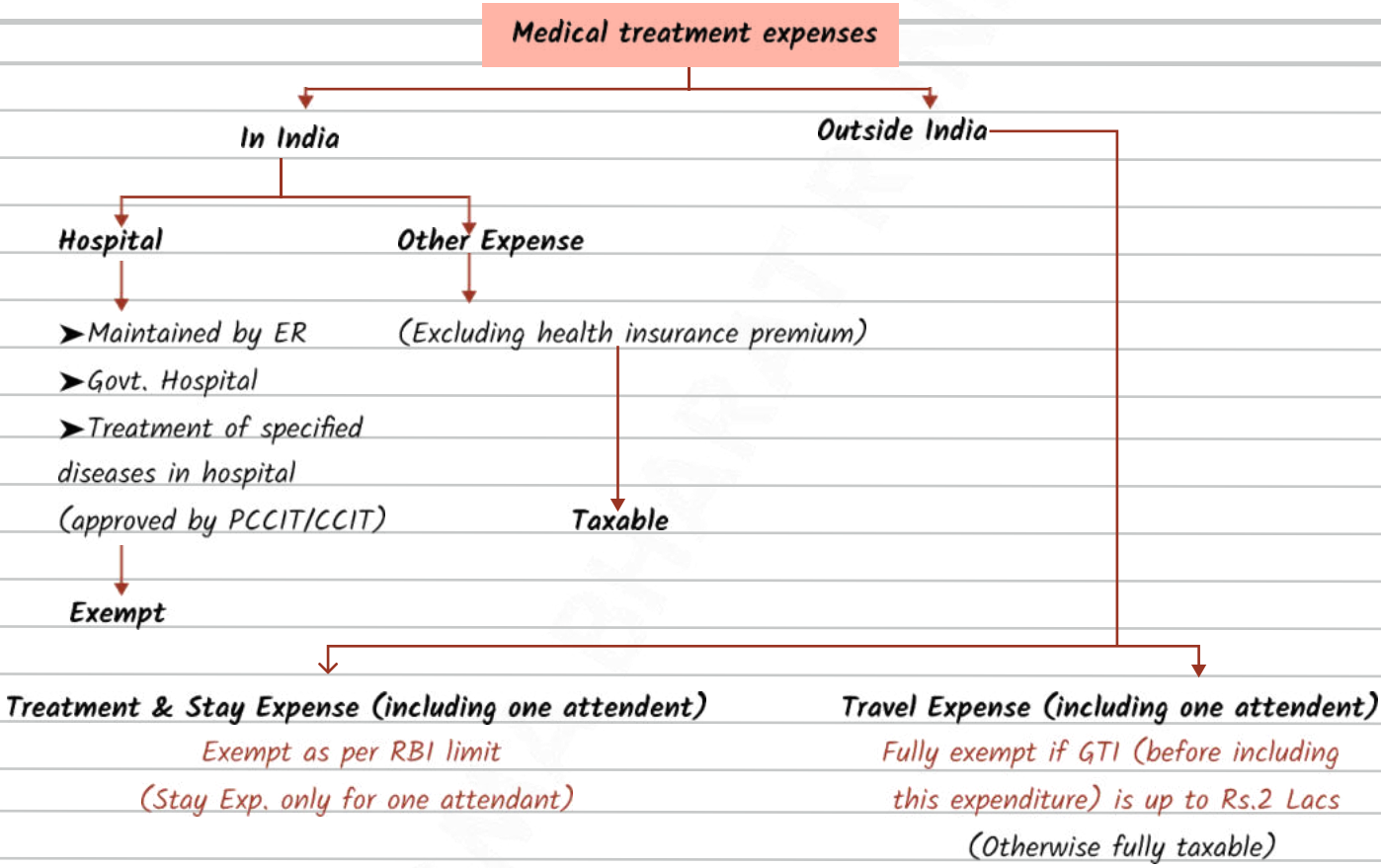
Taxable Amt = WDV of Asset - Consideration paid by EE

For WDV calculation depreciation shall be calculated for every completed year from the date of acquisition of asset till transfer of asset as per following methods

Computers and related Accessories	
Actual cost	XX
(-) Dep. on WDV basis for completed year @50%	(xx)
	(XX)

Motor Car	
Actual cost	XX
(-) Dep. on WDV basis for completed year @20%	(xx)
	(XX)

Others	
Actual cost	XX
(-) Dep. on WDV basis for completed year @10%	(xx)
	(XX)



h. Others

The value of any other benefits or amenities, services, rights, etc. provide by ER to EE then actual cost incurred by ER based on Arm's Length Price will be taxable as perquisite.

Note - Health insurance premium paid by ER for the benefit of EE/reimbursement :- Exempt

Family means - Spouse / Children & Dependent mother/ father/ brother/ sister.

6. LTC Exemption – Section 10(5)

Applicable for: Travel anywhere in India

[Travel in India for assesse, spouse & children and dependent family member (parents, brother, sister)]

Note In case of children born after 1.10.98 the exemption is available for two surviving children and in case of birth of multiple children after one child then multiple children will be recorded as one child

Amount of Exemption -Actual Exp. or Limit whichever is Lower

- By Air → Economy fare of National carrier (Air India)
- By Train → Ist class AC Fare
- Any other
  - Connected by train → Ist class AC Fare
  - Not Connected by train → Ist class deluxe Bus Fare

NOTES

1. Above exemption can be claim in a block of 4 calendar year & current block is 2018- 2021.
2. If no concession is availed in previous block, then assessee can claim one additional exemption in first year of next block.
3. Carry-over of Concession: In case no concession or only one concession is availed in the previous block, then the assessee can claim one additional exemption in the first year of next block.

7. Retirement benefit

- Gratuity Sec.10(10)
- Pension Sec.10(10A)
- Leave encashment Sec.10(AA)
- Retrenchment compensation Sec.10(10B)
- Voluntary retirement scheme Sec.10(10C)
- Provident fund

A Gratuity [Sec.10(10)] – It is voluntary payment made by an ER in appreciation of services rendered by the EE.

If received during employment Fully taxable

But if received at the time of retirement, then exempt as per below

- Govt. Emp. → Fully Exempt
- Non-Govt. Emp.

Covered under Gratuity Act, 1972 | **Not Covered under Gratuity Act, 1972**

Exemption → **Lower of following**

1) Actual Gratuity Received
2) 20 Lakh **(For Lifetime)**
3) Completed yrs x half month salary

	If covered under Gratuity Act	If not covered under Gratuity Act
Completed Year	> 6m year -will be treated as full	only completed year will be treated as full
Half Month Salary	Last month salary x 15 / 26	Avg. 10m salary x 15 / 26
Salary means (include)	Basic + DA	Special Salary [Basic + DA (if) + com. (% on TO)]

b. Pension

- **Uncommuted (Regular Pension) Fully Taxable**
- **Commuted (convert the future right into lumpsum amt.) (lumpsum)**
  - **Govt. Emp. Exempt**
  - **Non-Govt. Emp.**
    - **Gratuity Received** — 100% Pension x 1/3
    - **Gratuity Not Received** — 100% Pension x 1/2

NOTE :

1. Pension received from UNO is exempt.
2. Commuted pension received from pension fund of LIC or other insurer u/s 10(23AAB) is exempt from tax for all employees.
3. Pension to legal heirs will be taxable under IFOS.

c. Leave encashment Sec.10(AA)

Eligible leaves (as per company policy but max 30 days/year) x Completed year	XX
(-) availed leaves during employment	(xx)
	(xx)

Unavailed Leaves (at the time of retirement)

Govt. Emp.
Exempt

Avg. Salary P.M. (Avg of last 10 months upto date of Retirement)	
Avg. Basic salary of last 10 months	xx
Avg. DA (in terms) of last 10 months	xx
Avg. Turnover Commission of last 10 months	xx
Avg. Salary P.M.	xx
Leave Credit (months) = Leave allowed − Leave token [Max. 30 days for every completed year]	

Non-Govt. Emp.
Exempt Amount
(i) Leave credit × Avg. salary p.m.
(ii) 10 months × Avg. salary p.m.
(iii) Actual amount received
(iv) Maximum 25tootooo
whichever is lower

d)Retrenchment Compensation [Sec.10(10B)]

Exemption − Lower of the following
i. Actual
ii. 5,00,000/-
iii. Compensation as per Industrial Dispute Act, 1947*
*Calculation of the compensation as per Industrial Dispute Act
Avg. salary of last 3 months × No. of completed years × 15/26
*(> 6 month then will be treated as 1 completed year)

e)Voluntary Retirement Scheme [Sec.10(10C)]

Exemption − Lower of the Following
i. Actual
ii. 5,00,000/-
iii. 3 m x last month salary x No of years of completion of Service before (only completed years)
iv. Lost month salary × balance retirement month
[salary means Special Salary = Basic + DA (if) + Com. (% on TO)]
Note − No exemption u/s10(10) if relief u/s 89 availed.

f. Provident Fund

Type of PF	Stage	EE's Contribution on	ER's Contribution	Interest on EE's Contribution	Interest on ER's Contribution	Lump Sum at Retirement
Statutory PF (SPF) For Govt./Semi-Govt. employees	During Employment	Ignore (Deduction u/s 80C allowed)	Exempt	Exempt	Exempt	Fully Exempt u/s 10(11)
Recognised PF (RPF) Recognised by Commissioner of IT	During Employment	Ignore (Deduction u/s 80C allowed)	Exempt up to 12% of Salary (Basic + DA (T) + Commission on turnover)	Exempt up to 9.5% p.a.	Exempt up to 9.5% p.a.	Fully Exempt u/s 10(12), if conditions met (see notes below)
Unrecognised PF (URPF) Not recognised by Commissioner of IT	During Employment	Ignore	Exempt	Exempt	Exempt	Partially Taxable (see below): · EE Contribution: Ignore · ER Contribution: Taxable under Salary · Interest on EE Contribution: Taxable under IFOS · Interest on ER Contribution: Taxable under Salary

Additional Notes (RPF Lump Sum)

1. Exemption Conditions for RPF u/s 10(12):

➤ Exempt if service ≥ 5 years.

➤ If < 5 years: Employer's contribution & interest are taxable unless:

- (i) Retirement due to ill health
- (ii) Employer's business shut down
- (iii) Amount transferred to new employer's RPF or NPS A/c u/s 80CCD

2. Interest on EE's Contribution – Limit (SPF/RPF):

➤ From 01/04/2021, exemption u/s 10(11)/10(12) not available on interest on EE's contribution exceeding ₹2.5 lakhs/year.

➤ If employer doesn't contribute → limit raised to ₹5 lakhs/year.

➤ Interest accrued up to 31/03/2021 is exempt without any limit.

Following perquisites are Fully Exempt

1. telephone / mobile bill paid or re-imbursed by Employer.
2. Scholarship to employee's children.
3. Goods sold by employer to employee at reasonable price.
4. Tax on non-monetary perquisites paid by employer.
5. Personal Accidental Policy premium paid by employer.

Professional Tax

It means tax on employment. If it is paid by employer on behalf of employee, then first it should be taxable and there after deduction allowed u/s 16. If it is paid by employee then only deduction is allowed.

8.Profit in lieu of Salary [Sec.17(3)]

- Any compensation due to termination of his employment.
- Compensation due to change in terms & condition of employment.
- Any amount received due to Keyman Insurance
- Any amount received
  - Before joining any employment
    or
  - After cessation of his employment

Standard Deduction

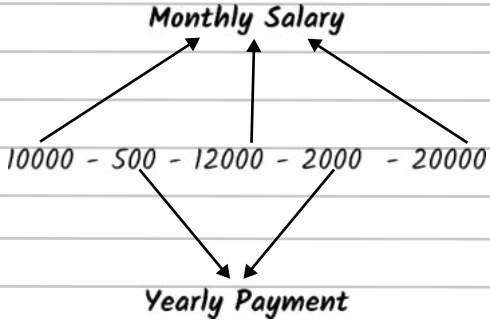
Assesee optout from 115BAC	If assessee opted 115BAC
(i) Salary Income	(i) Salary Income
(ii) ₹50,000	(ii) ₹75,000

Final Notes

1. Salary Means

Ent. All	Covered under Gratuity act	RFA	Non-Govt. Emp.
Basic salary	Basic + DA	Basic + Bonus+ Commission + Tax All. +DA(if) + All monetary payment (no any Perquisite or Ret. Benefit)	Special Salary Basic + DA(if) + Comm. (% on TO)

2.Grade System



3. **As per sec. 10(10CC)** tax on non monetary perquisite borne by ER, then it is exempt for EE Cond some is not deductible for ER in his PGBP income)

4. **Relief u/s 89**

Relief available if –

- Salary paid in arrear or advance
- Salary for more than 12 months in any FY
- Profit in lieu of salary u/s 17(3)
- Family pension refund u/s 57(iiA) being paid in arrears & due to this total income is assessed at higher rate than that at which it should have been assessed

Computation of Relief –

Step 1 – Calculate the tax on total income (include additional salary) of the PY in which the same is received

Step 2 – Calculate the tax on total income (exclude additional salary) of the PY in which the same is received

Step 3 – **Step 1 – Step 2**

Step 4 – Calculate the tax on total income (include additional salary) in the PY to which such salary relates

Step 5 – Calculate the tax on total income (exclude additional salary) in the PY to which such salary relates

Step 6 – **Step 4 – Step 5**

Step 7 – **Relief u/s 89 = Step 3 – Step 6**

Notes



Income From House Property

Chapter 4

Sec. 22 Income taxable under House Property Head

- Building and Land Appurtenant there to (land connected with building, garden, garage etc.)
- Ownership (incl. deemed ownership)
- Such property should not be in use for his Business & Profession





Residential Or Commercial

Sec. 27 Deemed owner

- Transfer to spouse/minor child without consideration or inadequate consideration (except transfer to spouse in connection of agreement to live apart or transfer to minor married daughter)
- Holder of Impartible Estate (which is legally not divisible)
- In case of Co - Society, shareholder will be treated as deemed owner
- In case of Immovable property if possession taken in part performance of contract then assessee treated as deemed owner
- if property acquired under long term lease (>= 12 years) acquirer is deemed owner

Computation of Income from House Property (Sec.23)

Gross annual value (GAV) (Note-1)		xx
Less: Municipal taxes (Paid by owner + Paid in Previous year for any year)		(xx)
		xxx
Net annual value (NAV) (Sec. 23)		
Less: 1) Standard deduction (Sec.24) (30% of NAV)	xx	
2) Interest on loan (Sec.24) (Note 2)	xx	xxx
Income from house property		

Income From house property

Gross Annual Value (GAV)

GAV = Expected Rent (ER)
OR
Actual Rent (AR)
(received or receivable) → Higher

Expected Rent (ER) Means –

Municipal Value (MV)
OR
Fair Rent (FR) → Higher
(but up to Standard Rent)

Municipal Value – Value of property determined by municipal authority for verifying municipal taxes.

Municipal Taxes

- It is allowed on payment basis [paid – Allowed; o/s Not allowed].
- Municipal taxes includes sewerage tax & water tax
- If municipal taxes are given on % age basis then it should be calculated on municipal value.

Fair Rent – Rent of same type of property in same area (also known as reasonable rent)

Standard Rent –Maximum amount of rent, which is recoverable by owner from tenant as per the Rent Control Act

Actual Rent (AR)

Rent for the property which is **received** or **receivable (excluding unrealized rent)**

Actual Rent: Actual Rent Rent received (+) Rent receivable (-) unrealised rent.

Note 1 :- Manner of GAV computation in following cases

1.Fully let out – General Computation (as above)

2.Vacancy –In case of vacancy during the year

3.Self occupied – If anyone using property for his own use

- → 2 SOP/Unoccupied
  - ➤ NAV – NIL
- → Balance SOP /Unoccupied
  - ➤ Deemed let out

Unrealized Rent –Which is not recovered from the tenant
&
Following 4 conditions satisfied

1. Bonafied Tenancy Agreement
2. Tenant vacated the house property
3. Such tenant do not occupy any other property of some assessee
4. Reasonable step taken for recovery of Unrealised rent

Part of the year

Actual rent is lower then PER due to vacancy, then AR will be GAV Otherwise PER will be GAV.

Step 1 – ER to be convert in PER (Proportionate Expected Rent) &

Step 2 –compare with AR (Actual Rent)

Step 3 – If PER > AR, then GAV = ER otherwise GAV = AR

Whole year (unoccupied)

Annual value of property – NIL (NAV)
(Max 2 Properties)

4.Time wise occupancy – Some period let out & some period self-occupied property Treatment will be same as it is let out property(LOP). If property is let out for even 1 day, then, also that property is treated as LOP

S. Area wise occupancy Partly let out & Partly SOP (Some portion let out and some potion SOP e.g. 40% / 60%

- Let out portion → **Calculate NAV for let out portion separately**
  (MV, FR, SR, Municipal Tax & Interest on loan will be divide between let out & SOP based on reasonable basis.)
  Actual rent should never be divided because it is always for LOP.
- SOP portion → **NAV - NIL for SOP portion**
  maximum 2 property

Note 2): Interest on loan

Normal Interest (yearly) + 1/5 of Pre. Acquisition/Construction Interest

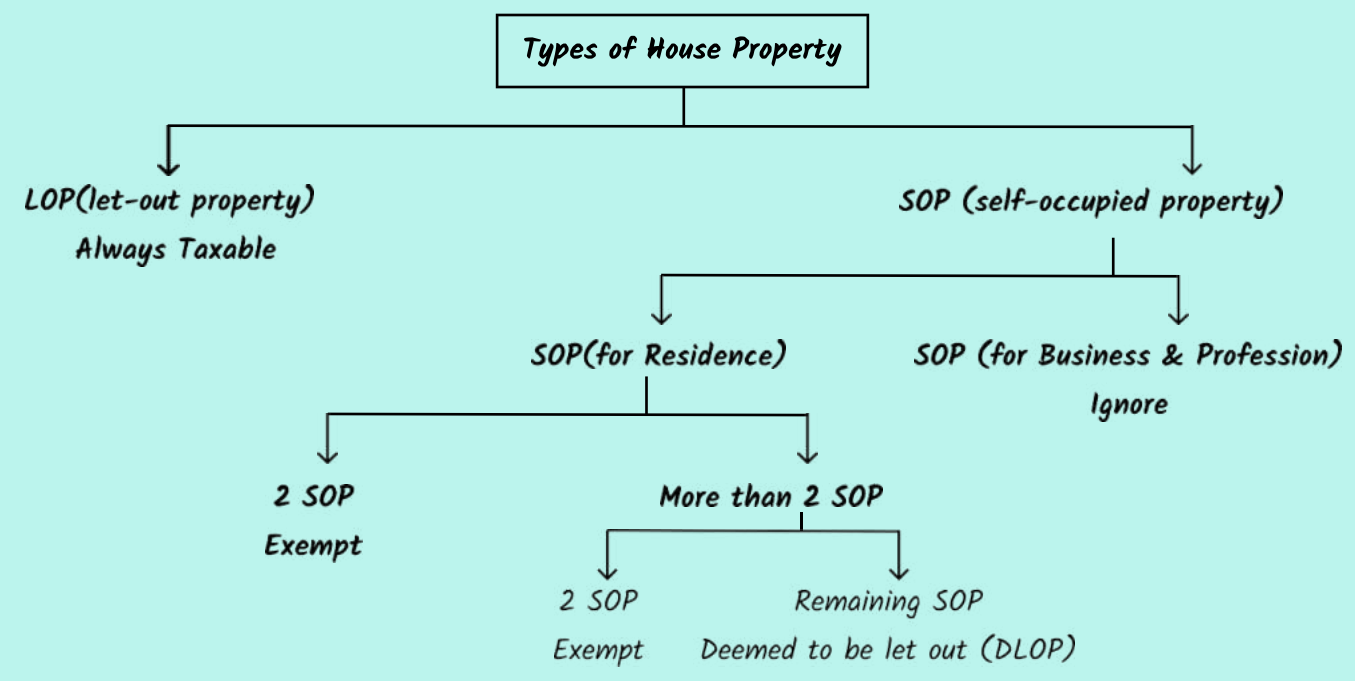
Interest on loan

- **Purchase/construction**
  - Normal Interest (Interest for the year in which purchase/ Construction completed- full year interest allowed irrespective of the date of construction / acquisition.) + 1/5th of pre - acquisition (Interest from loan date to 31st march prior to date when construction / acquisition completed.)
    - **Let out/deemed to be let out property (No Limit)** → Total interest allowed
    - **Self-occupied**
      - **Loan for Purchase/ construction of house property** + Loan taken on or after 1.4.1999 + Acq./Cons. completed within 5 years (From the end date of loan year) → **Maximum allowed Interest Rs. 2 lacs** (Including Pre-Construction Interest)
      - **Otherwise** → Max. 30k
- **Others** (Repairs & Renovation) → Interest for P.Y → Max. 30k

"NOTE- If loan before 1.4.99 the Max. 30k.
Note: Pre acquisition interest allowed in 1/5 equal instalments from the year when construction/ acquisition completed.

Some more point related to Interest on loan

1. Loan can be taken for purchase/ construction, repair or renovation
2. Loan can be taken from any person (relatives /banks etc.)
3. Interest on loan is allowed on due basis (whether paid in PY or not)
4. Interest on interest is not allowed (Penal Interest)
5. Fresh loan taken for re-payment of earlier loan, then interest on fresh loan will be allowed as deduction.
6. Unpaid purchase price would be treated as capital borrowed (loan).
7. Sec. 25 Interest payable outside India & TDS not deducted, then such interest not allowed as deduction.



Sec.25A Arrear of rent or unrealized rent received subsequently

In case of recovery of unrealized rent & arrear of rent (Disputed rent), ownership of that property is not relevant. It is taxable even if assesse is not the owner of property in the financial year of **receipts or realization.** Any expenditure incurred for such recovery shall be ignored

Taxable Amt = Recovery x 70% [30% std deduction]

Amount received	i) Arrear of Rent	XX
	ii) Unrealized Rent	XX
Less: Standard deduction **@ 30%**		(XX)
	Income from HP	**XX**

Sec. 26-Co-Ownership (Joint Ownership)

In case of co-ownership (means property owned by more than one owner), Income from house property calculated as per general calculation of such house property and then such income divided between co-owner based on their **ownership ratio.**

(Interest on loan Rs. 2 lacs/30K is limit for each owner not for each property, so in case of co-owner every owner can get benefit of Rs. 2 lac/30K on their income portion)

1. Some Special Notes:

Composite Rent - Rent of House Property including Rent of Amenities

- **Separation of rent possible**
  - **HP Rent** → HP
  - **Amenities Rent** (Asset,Furniture/ P&M etc) & (Service Lift, security, power backup.etc) → IFOS
- **Separation of rent is not possible** → IFOS/PGBP

Note: If let out of property not feasible without other asset then total rent is taxable under the head income from Business / Profession or income from other sources whether agreement is separable or not. Eg. Hotel.

2. As per amendment 2019 (Finance Act 2019)

House property held as SIT and not let out for whole/ any part of PY

NAV -NIL(2 years from the end of PY, which completion certificate obtains from authority)

3. If Assessee pay tax under default taxation regime u/s 115BAC then Interest on loan u/s 24(b) in respect of SOP (30000/2,00,000) not allowed to assessee.
4. SOP means property which is occupied by assessee for self occupation or could not occupied due to business, profession or employment at any other place.
5. SOP exemption is allowed only in case of Individual & HUF.
6. Municipal taxes paid to foreign municipality also allowed as deduction if foreign house income is taxable in India

HP outside India

Rent income to

- **Resident (ROR in case of Individual/ HUF)** → Always Taxable
- **Non-Resident (RNOR in case of Individual/ HUF)** → Taxable only if the rent received in India.

NOTE- If property outside India then taxes levied by local authority of the country in which property is situated is deductible.

Notes



Income From Profit & Gain From Business Or Profession

Chapter 5

Computation of Income from profit & gain from Business or profession (Sec.28)

Profit & Gain from Business / Profession
- Business or Profession (It includes vocation)

Compensation received / Non-compete fees (whether revenue or capital)
i) Not carrying out any business/profession of this
ii) Not sharing any copyright, patent, know how, Trademark etc
iii) In connection with termination or modification of the terms and condition, or any contract relating to his business

Gift/Perquisite received because of Business / Profession
- The value of any benefit or perquisite arising from business or the exercise of a profession, whether—
(a) convertible into money or not, or
(b) in cash or in kind or partly in cash and partly in kind

Export Incentives
- Duty drawback/Cash assistance
- Profit on sale of import entitlement license
- Profit on sale of DFRC / DEPB (Duty Free Replenishment Certificate / Duty Entitlement Pass Book Scheme)

Income derived by trade/ profession or similar association
- From specific services performed for its member.

Amount Received under Keyman Insurance Policy
- Received by business – Taxable u/s PGBP
- Received by employee – Taxable u/s Salary
- Received by any other – Taxable u/s IFOS

Conversion of Stock in Trade into Capital Asset (FMV on date of conversion)

Partner remuneration/Interest/Salary/ Commission etc.
- Allowed to Partnership firm as per Sec 40(b), then such allowed amount taxable for partner in PGBP (in his individual return)

Ex: Partnership firm (20%) interest to partner & allowable rate is 12% then such excess 8% will be disallowed to partnership firm, so it will be taxable to firm
Remaining allowable part (12%) will be taxable in hands of partner

Sale proceeds of assets of Specified Business (u/s 35AD)

Notes : Any income from letting out of a residential house or a part of the house by the owner shall not be taxable under **"PGBP"** and shall be taxable under **"Income from house property"** [Explanation added by FA 24 w.e.f. AY 25-26]

Meaning of Speculative Transaction

"Speculative transaction" means a transaction in which a contract for the purchase or sales of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scripts. **[Section 43(5)]**

Note: However this deeming provision does not apply to

1. A company whose entire income consists of income chargeable under the head "interest on securities", "Income from house property", "Capital gains" and "Income from other sources";
2. A company, the principal business of which is:

a) The business of trading in shares or

b) The business of banking or

c) The granting of loans and advances.

Transaction not deemed to be speculative transaction

- Hedging contract in respect of raw materials or merchandise or stocks & shares.
- Forward contract
- Futures contract
- Trading in derivatives
- Trading in Commodity derivatives through RSE on which CTT paid. However, the requirement of charge ability of CTT not applicable in respect of trading in agricultural commodity derivatives from A.Y. 19-20.

Notes: Speculative business shall be treated as separate and distinct business.

Section 28 Income u/h PGBP

General manner

As per Normal Provision	Amounts
Income (Sec 28 & 41)	XX
Less - Expenses (Sec 30 - 37)	XX
(With restriction of Sec 40 - 43B)	(XX)
Income u/h PGBP	**XX**

Presumptive Income
(On fulfilment of certain conditions to be discuses later)

Note: Method of Accounting

As per Sec.145(1) income under the head PGBP or income under the head other source shall be in accordance with either cash or mercantile system of accounting regularly employed by the assessee.

Section 29 : How to Compute PGBP

PGBP are to be computed in accordance with the provisions contained in sections 30 to 43D.

Assets required for Business / Profession

Section 30 – Building

- Repair (Revenue)
- Rent (Revenue)
- Property tax
- Insurance

Section 31 – Plant and Machinery (Other than Building and Furniture) and Furniture

- Repair (Revenue)
- Insurance

Notes:

1. Expenses u/s 30 & 31 allowed only if asset **used for business or profession**.
2. **Capital repair not allowed as deduction** as it will be **added to cost of asset**. Capital repair incurred by tenant is treated as **Deemed Building** & depreciation is allowed to Tenant.
3. If a firm runs its business in the premises owned by its partner, the rent payable to the partner will be allowed to the extent it is **reasonable and is not excessive**.

Capital expenditure on property by lessee

Where an assessee being a lessee of a property , incurred any capital expenditure by the way of improvement, extension, construction on a building used for his business/profession, he is entitled to deprecation in respect of such expenditure.

Sec. 32 – Depreciation (including Additional depreciation)

A. Benefit of Depreciation – only if

- Assets should be used for business/profession (wholly / partly)

AND

- Assets should be owned by assessee (including deemed ownership)

Note

1. Benefit of depreciation only if assets have been **"Put to use"**
2. Depreciation on assets partially owned by the assessee shall be allowed to him to the extent of his share in assets.
3. In case of Lease, Depreciation is always claimed by lessor whether it is Financial lease or Operating lease [CBDT circular].
4. In case of Hire Purchase, assessee gets the ownership only after payment of last instalment but he can claim depreciation from beginning, assuming assessee is the owner from beginning.
5. In case of stand by machinery and emergency spares the depreciation shall be allowed even if they are ready for use & not put to use.

B. How to compute Depreciation on Assets (Tangible / Intangible)

Straight Line Method (SLM)
(Option available only to Power Generating Units)

Depreciation calculate on Individual assets as per accounting method

Written Down Value Method (WDV)
(Mandatory for all other than Power Generating Units)

Depreciation calculate on Block of assets' concept

C. Types of Assets

Intangible – @ 25%
(Knowhow, patent, copyright, trademark license, franchise or any other business or commercial rights)
Goodwill of business or profession will not be part of immovable assets)

Tangible

Class I
Building
* Residential building- 5%
* Other than residential- 10%
* Temporary structure- 40%

Class II
Furniture & Fittings – @ 10%

Class III
Plant and Machinery (General @15%)

- Motorcar
  - Used the motor car in hire business @ 30%
  - Other than hire business including fork lift @ 15%
  - (Purchase between 23rd Aug '19 to 31st March 20, then extra depreciation @ 15% other than existing rate) [45% / 30%]
- Ships – 20%
- Aircraft – 40%
- Computer and laptop – 40%
- Books – 40%
- Windmills
  - Installed before 1.4.14 @ 15%
  - Installed on or after 1.4.14 @ 40%
- Pollution control equipment – 40%
- Oil Wells – 15%
- Other – 15%

D. System of Depreciation

WDV Method – Block of Asset system shall apply

➤ Block of asset means "Group of assets having Same Rate of dep within the Same Class of Asset"

SLM method – Individual asset system shall apply (Power Units)

➤ Individual assets system: Depreciation calculated on Individual asset – Same as Accounts.

Note:

1. Claim of depreciation is mandatory
2. EPBAX, Mobile Phone will not be treated as computer. Hence dep. @ 40% is not allowed.
3. Computer related accessories will be treated as computer & depreciation is charged @40%.
4. Plants and machinery means – All assets (Including Ships, Vehicles, books, scientific apparatus & surgical equipment) used for business or profession but does not include Tea bushes, Live stocks, Building, Furniture & Fittings.

E. COMPUTATION/CALCULATION OF DEPRECIATION BASED ON BLOCK OF ASSETS CONCEPT

(Let assume depreciation of block @15%)

Particulars	No. of assets	Details	Amounts
Opening WDV	xx		xxx
ADD: Assets Purchased during the year			
1) Not put to use during the year	xx	xxx	
2) Put to use for less than 180 days	xx	xxx	
3) Put to use for more than or equal to 180 days	xx	xxx	xxx
	xx		xxx
LESS – Money payable if assets sold/ discarded etc.	(xx)	(xx)	
LESS – WDV of assets in case of slump sale (Compute WDV assuming that this is the only assets in the block)	(xx)	(xx)	
			(xx)
WDV of block for purpose of depreciation	(xx)		(xxxx)
LESS – Depreciation for the year (As computed below)			(xxxx)
Closing WDV			**xxxx**

Calculation of Depreciation (Section 32)

If both conditions fulfils

1. Assets in block > 0
2. WDV for depreciation > 0

Calculation of Capital Gain (Section 50)

If anyone of these 2 conditions not satisfied, then compute

Capital Gain u/s 50

Sale Price	xx
(-) Op. WDV + Purchase (in block)	(xx)
STCL/STCG	**xx**

If both these conditions fulfilled then calculation of Depreciation on WDV for depreciation

- Asset purchased but not put to use → **No Dep.**
- Put to use less than 180 days (in the year of purchase) → **Depreciation @ half rate**
- Other → **Deprecation @full rate**

Notes:

1. If asset acquired during current PY & not put to use then depreciation shall not be allowed for such asset but that asset should be added to Block of asset.
2. Actual sale price of assets shall be reduced, not FMV of assets.
3. If assessee transferred building then actual sale price reduce not SDV, but if Sec 50 attract then SDV will be considered for computation of capital gain.

First Proviso to Sec. 32

➤ If assets put to use less than 180 days in the year of ACQUISITION, then Depreciation charged @ Half Rate. Otherwise, it will be charged as Normal Rate (Full rate)

Second Proviso to Sec. 32

➤ Depreciation in case of---

- Amalgamation -> Proprietory/Partnership Firm -> into company
- Demerger or -> Company (Unlisted) -> into LLP
- Succession -> Any other succession other than death

Computation of depreciation as per following steps-

Step 1st - Calculate the Depreciation in General manner (Assuming that there is no any Amalgamation/Demerger/Succession)

Step 2nd - Distribute the Depreciation between predecessor or successor in the ratio of number of days assets actually used by them.

F. Calculation of Capital gain as per section 50

Example 1 : NO asset in block

Particulars	No. of Assets	(Rs.) Amount
Opening WDV	2	5,00,000
(+) Purchase price of Assets	1	7,00,000
	3	12,00,000
(-) Sale value of assets	3	9,00,000
	No assets in block	3,00,000

Case 1

As per sec. 50 – If there are no assets in the block OR closing WDV = Nil

Then there will be no calculation of depreciation, as it will be taxable u/h Capital Gain.

Here as per example there is no assets in block, so depreciation will not be calculated as we need to compute Capital Gain.

Computation of Capital Gain

Particulars	Amount (Rs.)
Full value of consideration	9,00,000
Less: opening WDV + Purchase	(5 lakhs + 7 lakhs) = 12,00,000
Short term Capital loss	**3,00,000**

Example – 2 : WDV become negative

Particulars	No. of Assets	(Rs.) Amount
Opening WDV	2	5,00,000
(+) Purchase price of Assets	1	7,00,000
	3	12,00,000
(-) Sale value of assets	(2)	(16,00,000)
Closing WDV	**1**	**Nil**

Computation of Capital Gain as per Sec. 50

Particulars	Amount (Rs.)
Full value of consideration	16,00,000
Less: opening WDV + Purchase	(5 lakhs + 7 lakhs) = 12,00,000
Short term Capital Gain	**4,00,000**

G. Benefit of Additional depreciation along with regular depreciation

Sec 32(1)(iia) – Additional depreciation (Only in case of WDV)

Purchase & installed of New Plant & Machinery (other than Ship/Aircraft/Road Transport Vehicles)

↓

For any Business of **Manufacturing / Production** of any article or thing OR

↓

For any Business of **Power Generation / Transmission / Distribution**

↓

Additional Depreciation benefit @ 20%

(Additional depreciation allowed only in First year when assets put to use)

(If assets put to use less than 180 day in year of acquisition, then 10% in the year of acquisition & balance 10% in next year)

Notes

1. No additional depreciation if P&M procured for
   - ➤ Office Premises or residential accommodation
   - ➤ 100% Depreciation Allowed on such P & M
   - ➤ Second hand plant and machinery
2. As per CBDT circular, installing or printing and publishing amount to manufacture or production of an article or thing and therefore eligible for additional depreciation.
3. Forklift Truck used in factory is not treated as transport vehicle, so it is eligible for Additional depreciation
4. Additional depreciation shall be available only on plant & machinery and not on other assets like furniture, building ,etc.
5. Addition depreciation shall be rescued while computing closing WDV id respective block.
6. Additional depreciation – NOT available if
   a. New plant & machinery sold in year of acquisition
   b. Power unit is claiming depreciation under SLM method ie. u/s 32(1)(i).

H. Calculation of Actual cost, which will be part of Block of assets:

Actual cost = Cost of assets purchased during the Previous Year (see Sec. 43 (1))

Particulars	Amounts
Cost of asset (Purchase Price)	xx
Add:	
➤ Installation & erection charges	xx
➤ Transportation / Freight expenses	xx
➤ Trial run / Test run expenses (net of sale proceeds)	xx
➤ Taxes & duties (if ITC not available)	xx
➤ Interest on loan (upto date of asset put to use)	xx
➤ Preliminary testing & commissioning charges	xx
Less:	
➤ Subsidy / Govt. Grant / Reimbursement received	(xx)
➤ Cash payment > ₹10,000 to a person in a day (u/s 40A(3))	(xx)
Actual Cost	**xx**

Note – If expenses incurred > 10,000 (other than the prescribed method of payment just like cash etc.) example cash to a single person in a single day for the purchase of assets, then such expenses will not be the part of actual cost.

Clearity

Exp'n 1 –
↓
Scientific Research – Assets brought to regular business which previously used for scientific research
↓
Actual cost :- NIL

Exp'n 1A
↓
Stock In Trade converted to Business Assets
↓
Actual cost :- FMV on the date of conversion

Exp'n 2
↓
Gift / Will / Inheritance (Assets received to Business under gift etc.)
↓
Actual cost :- Cost of Previous owner (If depreciation allowable than it will reduce from cost)

Planning to claim more Depreciation

Exp'n 3 –
↓
Second hand Assets (Assets acquired to claim higher depreciation)
↓
Actual cost :- Value determined by AO (With the approval of JC) i.e. Generally FMV

Exp'n 4
↓
Re-acquisition of assets (Assets transfer to someone & re-acquired such assets to claim higher depreciation)
↓
Actual cost (lower of):-
WDV at the time of transfer
OR
Re - acquisition cost

Exp'n 4A
↓
Assets purchased from seller & Lease back to seller (same person)
↓
Actual cost :- WDV of the seller

Assets Transfer

- **Personal to Business** — Exp'n 5
- **100% Holding to Subsidary a vice versa** — Exp'n 6
- **Amalgamation or Demerger** — Exp'n 7

Exp'n 5 - Building used for personal purpose & brought into business

Cost of Building	xx
Less: Depreciation from the date of acquisition (Depreciation @ current rate)	(xx)
WDV (Actual Cost)	**XX**

Exp'n 6 - Capital assets transfer by 100% holdings to subsidiary or vice versa

Actual cost :- WDV in hands of transferor (By assuming that this is only assets in the block)

Exp'n 7/7A - Assets transferred in case of Amalgamation (7) / Demerger (7A)

Actual cost :- As discussed in Proviso to Sec. 32

Exp'n 8
Interest on loan
↓
Part of actual cost (Till put to use)

Exp'n 9
Excise duty/ Custom duty etc.
↓
Part of actual cost (If credit not available)

Exp'n 10
Govt. Grant etc.
↓
Not part of cost (Reduce from cost of assets)

Exp'n 11 - Assets brought into India by NR (for his Business/ Profession)

Cost of Assets	xx
Less: Depreciation from the date of acquisition (Depreciation @ of respective year if such assets purchased in India)	(xx)
WDV (Actual Cost)	**XX**

Exp'n 12 - Capital assets acquired under scheme of corporatisation of stock exchange

↓

Actual cost :- Cost of assets to such stock exchange had there been no such corporatisation

Exp'n 13 – Cost of assets of specified business (referred u/s 35AD) transfer to non –

↓

Specified business after 8 year of acquisition (from the year of acquisition) OR
Transfer by way of transactions referred u/s 47
Actual cost = NIL

Note 1 : Assets Used Partly for Business and Partly for Personal [Sec 38(2)]

➤ Car for Business
➤ Car for Personal

Rule: If assets are partly used for business or personal use, deduction u/s 30, 31, 32 is allowed only for the proportion used for business.

Example:

Opening WDV (as on 1.04.21) = ₹5,00,000 · If 30% car is used for business and 70% for personal purpose:

Solution: Op. WDV = ₹5,00,000
(-) Depreciation (proportionally allowed) = ₹22,500 · Cl. WDV = ₹4,77,500
Total Depreciation @15% = ₹75,000
· Business (30%) = ₹22,500
· Personal (70%) = ₹52,500
Only ₹22,500 is allowed as depreciation (as business portion)

I. Special Note : Depreciation in case of Straight-Line Method (SLM)

Applicable to: Power Generating Units

· Depreciation is charged on individual assets at prescribed SLM rate.
· On sale of asset, three treatments apply based on sale price:

3. Scenarios:

1. Terminal Depreciation →
If **Sale Price < WDV** – Deduct the shortfall as terminal depreciation.
2. Balancing Charge →
If **Sale Price > WDV but < Cost** – Treat the excess over WDV (up to cost) as balancing charge (taxable).
3. Capital Gain →
If **Sale Price > Cost**
➤ Difference between Sale Price and Cost = Capital Gain
➤ Difference between Cost and WDV = Balancing Charge

Example
Asset purchase @10 lakhs and life 5 yrs (PY 21-22)
Sale price such asset in PY 23-24
case 1 : 4,00,000
case 2 : 9,00,000
case 3 : 13,00,000

WDV as on 31/03/23 – Purchased in 21-22		10 lakh
[10 lakh/5yrs] (-) Depreciation 21-22		(2 lakh)
		8 lakh
(-) Depreciation 22-23		(2 lakh)
WDV as on 31/03/23		6 lakh

Case 1 : If sale price is 4,00,000

OP. WDV	6lakh	
(-) Sale Price	(4 lakh)	
Terminal depreciation	2 lakh	**PGBP Dr.**

Case 2 : If sale price is 9,00,000

OP. WDV	6lakh	
(-) Sale Price	(9 lakh)	
PGBP Income	3 lakh	**PGBP Cr.**

Case 3 : If sale price is 13,00,000

Opening WDV 6 lakhs → PGBP Income 4 lakhs → Cost 10 lakhs → Capital Gain 3 lakhs → Sale price 13 lakhs

J. Set-off and Carry Forward of Unabsorbed Depreciation [Sec 32(2)]

1. Current year depreciation (fully adjustable):

➤ It shall be allowed to be set off1. Against any business/profession income in the same year.

2. Against other heads of income (except Salary).

Unabsorbed Depreciation [Sec 32(2)]

Key Provision:

➤ When current year profits are insufficient to absorb the entire depreciation allowance, the unabsorbed depreciation is carried forward and deemed to be part of the depreciation allowance of the following previous year.

➤ This process continues indefinitely until the depreciation is fully set off.

Salient Features

1. **Unlimited Carry Forward:**

Where, in any PY the PGBP is not sufficient to give full effect to the dep., the unab. dep. shall be added to the dep allowance for next PY and shall be deemed to be part of that allowance. Thus, the unab. dep. shall be c/f indefinite no. of years till it is fully set off.

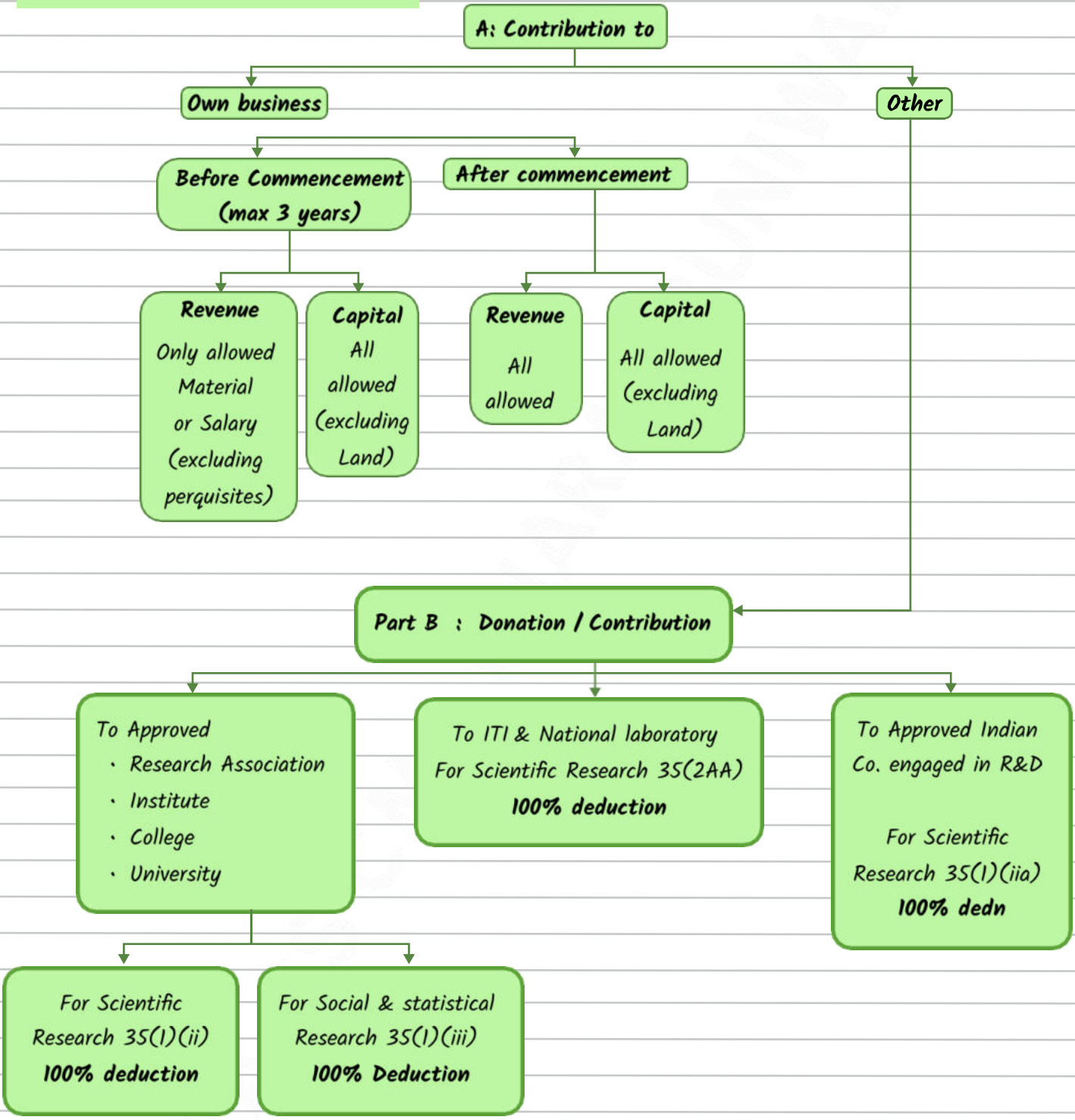
2. Order of Set-Off (as per SC in CIT v. Mother India Refrigeration P. Ltd. [1985])

i. Current Year Depreciation

ii. Brought Forward Business Loss

iii. Unabsorbed Depreciation

Section 35 - Scientific Research



Notes:

1. The deduction u/s 35(1)(ii)/(iio)/(iii)/35(2AA) shall not be denied if approval of such institution has been withdrawn after payment of sum by assessee.
2. No depreciation allowed on assets if deduction u/s 35 claimed.
3. If L&B purchased through a composite agreement then the cost of L&B shall be bifurcated on the basis of FMV because cost of land is not allowed as deduction.
4. Unabsorbed research capital expenditure can be set off & c/f same as un absorbed depreciation.

Section 35D – Preliminary Expenses

General (Corporate/Non Corporate)

1. Preparation of Report
i) Feasibility Report
ii) Project Report
iii) Market Survey Report
iv) Eng. Service Report
2. Legal charges for Drafting Agreement
(For Business commencement/setting up/extension)

Specific for Corporate

1. Legal charges for drafting AOA/MOA
2. Printing charges for drafting MOA/ AOA
3. Legal fees for Registration of company
4. Expenses related to issue of share/ debenture
5. Other expenses (Notified by CBDT)

Eligibility:

Deduction is available to a resident assessee who incurs such expenses before commencement of business or after commencement for extension or for establishing a new unit.

Amount of Deduction:

Category	Deduction Allowed
Indian Company	Lower of: (i) Actual Preliminary Expenses (ii) 5% of COP or CE (whichever is higher)
Other Resident	Lower of: (i) Actual Preliminary Expenses (ii) 5% of COP

Key Notes:

1. The deduction is allowed in **five equal installments**.
2. **Cost of Project (COP):** Total investment in fixed assets of a new project, extension, or new unit as per books on the last day of the previous year.
3. **Capital Employed (CE):** Sum of share Capital + Debentures + Long term Borrowings, excluding reserves & surplus including securities premium, for the new project or unit as per books on the last day of the previous year.

4. **Reserves and surplus** (including security premium) are excluded from CE calculation.
5. **Audit is mandatory** for the year such expenditure is incurred (except companies and co operative societies), and the audit report must be submitted within the timeline specified under **section 44AB**.
6. Assessee must submit the **details of expenditure in Form 3AF** to the Income Tax Authority **at least 1 month before the due date** of filing the return under **section 139(1)**.

Sec 35DDA: Expenditure on Voluntary Retirement Scheme

Assessee: All Assesses
Deduction allowed in 5 equal instalments.

Note: 35D & 35DDA: If there is Amalgamation/Demerger, then remaining deduction shall be Allowed to Amalgamated Company/Resulting Company

Section 35AD – Specified Business

Capital Expenses (capitalized in Books) → 100% deduction (except ➤ Land ➤ Goodwill ➤ Financial Instrument)

BUT

(1) New Business
(Business should not be formed by splitting or reconstruction of existing Business)

AND

(2) Plant & Machinery should be newly purchased Except.
- Imported P&M
- 20% of total P&M can be old

Note
1) Benefit of Sec. 35 AD is optional, If benefit of Sec. 35 AD not taken then it will be treated as Normal Business.
2) Cash Exp. >10k (as per Sec. 40A [3]), then such will not be considered for Sec. 35 AD

14 Specified Business

Year 2009 (1.4.2009)
3 Business
- Cold chain facility
- Warehouse facility for Agriculture produce
- Cross-country pipeline (For distribution of Oil & Gas)

Year 2010 (1.4.2010)
3 Business
- Hotel (2 Star & above)
- Hospitals (with min. 100 beds)
- Housing project under Slum Development Scheme

Year 2011 (1.4.2011)
2 Business
- Housing project under Affordable Housing Scheme
- Production of fertilizer's (in India)

Year 2012 (1.4.2012)
3 Business
- Bee keeping & production of Bee's Honey & Wax
- Warehousing facility for Sugar
- Inland Container depot or Container freight station

Year 2014 (1.4.2014)
2 Business
- Slurry Pipeline for transportation of Iron ore
- Semi-conductor Wafer ,Fabrication manufacturing unit

Year 2015/2016
- No Business included in PY 2015-16 / PY 201617

Year 2017 (1.4.2017)
- New Infrastructure Facility

Additional Conditions for Some Businesses (Section 35AD)

1. Cross-Country Pipeline

Criteria	Description
Ownership	Owned by a **Registered Company in India** or a **consortium** of such companies, or by authority/body/corporation under any law established under **Central or State Act**
Approval	Approved by **Petroleum & Natural Gas Regulatory Board and notified by Central Government**
Pipeline Availability	Certain % of pipeline must be available for **common carrier basis** ↓ Min 1/3 (33.33%) Natural Gas ↓ Min 1/4 (25%) Petroleum

2. Hotel Operator

➤ If hotel operator transfers operation to another person, the **transferee can also claim benefit** under Sec. 35AD.

➤ This benefit is only **available to hotel operators.**

3. Infrastructure Facility

(i) A road including toll road, a bridge or a rail system.

(ii) A highway project including housing or other activities being an integral part of the highway project.

(iii) Water supply project, water treatment system, irrigation project, sanitation and sewage system or solid waste management system.

(iv) A port, airport, inland waterway, inland port or navigational channel in the sea.

Criteria	Details
Ownership	Should be owned by a registered company in India or consortium / authority / body / corporation established under Central/State Act
Agreement	Must have an agreement with the Government

Notes for Section 35AD – Depreciation not allowed if deduction claimed u/s 35AD

Note 1 – No Double Deduction

➤ If deduction claimed u/s 35AD, then no other deductions u/s 80-IA, 80RRB, 10AA etc., shall be allowed.

Note 2 – Set Off & Carry Forward of Losses

Rule	Explanation
Loss of Specified Business	Can be set off only against income from other Specified Business u/s 35AD
Carry Forward	Allowed indefinitely

Note 3 – Condition for Retention of Assets (8 Years)

➤ Assets must be used exclusively for specified business for 8 years from acquisition.

➤ If it is used for non- specified business within 8 years, then following shall be taxable under PGBP.

Particulars	
Amount Deducted under Sec. 35AD	XXX
Less: Allowable Depreciation (If Sec. 35AD not there)	(XXX)
Taxable under PGBP	**XXX**

Asset of specified business u/s 35AD

Transfer to another business

To Specified business

No treatment

To non-specified business

Within 8 year

PGBP shall be:

Amt of deduction claimed u/s 35AD earlier	XX
(-) Notional dep allowable as if sec 35AD is not there	(xx)
	XX
Actual cost (added to Block) shall be:	
Cost of such asset	XX
(-) Notional dep allowable to non-specified business	(xx)
	XX

After 8 years

No PGBP

Actual cost = Nil

[expln to sec 43(1)]

Sale

PGBP = Sale price

No CG even SP > Actual Cost

Section 36-Certain Deduction u/s 36

1. **Section 36(1)(i)** : Premium Payment for

➤ **Stock Insurance** : Allowed

➤ **EE's Health Insurance {Section 36(1)(ib) }** : Allowed (if payment other than cash)

2. **Section 36(1)(iii) : Interest on loan**

Loan for Business or Profession Purpose

Loan from Schedule Bank, PFI, State Financial Corp., State Industrial Investment Corp., NBFC

Allowed (subject to 43B)

From others

Also Allowed

Loan for personal Purpose

Not Allowed

Notes :

(1) Interest on loan taken for payment of income tax shall be disallowed since income tax is a personal liability.

(2) Interest on loan advanced to sister concern for commercial expediency is allowed.

3. Section 36(1)(iiia) : Discount on Zero Coupon Bonds (ZCB) [Issued at discount but redeemed at par]

Pro-rata amount of discount shall be amortized (over the life of ZCB) in calendar months (15 days or more in a month will be treated as one month, otherwise ignore)

Example – A Ltd. issued 1,00,000 ZCB on 5/10/23 @ Rs. 76. Face Value of bond is Rs. 100. ZCB redeemable after 24 months. Compute deduction allowed for P.Y. 2023-24.

Solution: Total Discount = 1,00,000 × 24 = Rs. 24,00,000

Monthly Discount = 24,00,000 / 24 months = Rs. 1,00,000 p.m. Discount for P.Y. 2023-24 = 1,00,000 × 6 Months (Oct 23 to Mar 24) = ₹ 6,00,000

4. Section 36(1)(iv)/(v) – Employer's Contribution for Employee's Benefit

Type of Fund	Examples	Deductibility
Recognized & Approved Funds	- Statutory Provident Fund (SPF) - Recognized Provident Fund (RPF) - Approved Superannuation Fund (ASF) - Approved Gratuity Fund (AGF) - Any other fund as per law	Allowed (Subject to Sec 43B)
Unrecognized or Unapproved Funds	- Unrecognized Provident Fund (URPF) - Unapproved Superannuation Fund (UASF) - Unapproved Gratuity Fund (UAGF) - Any other fund	Not Allowed

5. Section 36(1)(iva) – Employer's Contribution to Pension Scheme (u/s 80CCD)

Deduction Criteria	Details
Allowed Deduction	Lower of: (i) Actual Contribution (ii) 14% of Salary (Basic + DA as per terms)
Condition	Subject to Sec 43B (payment should be made before due date)

6. Section 36(1)(va) – Employee's Contribution towards Welfare Fund

Particulars	Details
Applicability	PF, ESI, Superannuation, etc. collected by employer from employee
Condition for Deduction	Must be deposited in the respective fund by due date
Due Date	15th of the next month
If deposited after due date	Treated as PGBP income of the employer, no deduction allowed

7. Section 36(1)(vi) – Animals used in Business (other than SIT)

Particulars	Details
Deduction Allowed When	Animal becomes permanently useless or dies
Amount of Deduction	Cost of Animal – Scrap Value
Depreciation Applicability	Not allowed under Sec 32 on such animals

8. Section 36(1)(vii) : Bad Debts (Actual bad debts related to sales)

Allowed if –

1.Bad debts have been taken as **income in earlier previous year** (means recorded sales in earlier P.Y. and considered for taxability in this P.Y.)

2.Debtors has been write off as **irrecoverable in books**

NOTE : Bad debt related to loan shall not be allowed except in money lending business

Recovery of Bad Debts [as per section 41 (4)]

➤ Taxable u/h PGBP (Even business in existence or not) & Recovery is taxable only in hands of assessee who claim the debt.

Recovery of Bad debts

➤ Already taxed (Sales price – Bad debts allowed) → Not Taxable

➤ Balance Amount → Taxable

Where the amount of such debt or part thereof has been taken into account in computing the income of the assessee **(on the basis of ICDSs without recording the same in the accounts)**

Of the previous year in which such debt has become irrecoverable **OR** of an earlier previous year

↓

Such debt or part thereof shall be allowed **in the previous year in which such debt or part thereof becomes irrecoverable and**

↓

It shall be **deemed that such debt or part thereof has been written off as irrecoverable in the accounts**

Example : **Bad debt Claim ₹500**

Allowed ₹500

↓

Any recovery

↓

Taxable

Allowed ₹200

Disallowed ₹300

Any recovery not taxable up to the limit of disallowed amount.

Recovery ₹350	**Recovery ₹200**
Recovery ₹350	Recovery ₹200
Disallowed (₹300)	Disallowed (₹300)
₹50	(₹100)
↓	↓
Taxable	**Not taxable**

Notes

➤ Taxable u/h PGBP (Even business in existence or not) & Recovery is taxable only in hand's of assessee who claim the debt.

(a) Firm claims bad debts – Firm dissolved – Partner recovered bad debts – Section 41(4) not applicable because it is applied only if assessee who claims the bad debts and assessee who recover is same.

9. Section 36(1)(ix) :Expenses on Promotion of Family Planning (only to company)

Ded'n allowed

➤ **Revenue Expenses** – 100% allowed

➤ **Capital Expenses** – 1/5 allowed [Capital Expenses Allowed in 5 Installment]

(Can be set off & carry forward as unabsorbed depreciation)

10. Section 36(1)(vx)/(xvi) : STT/CTT

Allowed as ded'n only if shares / units / commodities held has stock in trade.

Sec. 37 General Deduction Expenses which are not allowed u/s 30–36, are allowed in Sec. 37 only

if Business Expenses + Revenue Expenses + Legal Expenses (bribe, illegal expenses etc are not legal) **+ incurred by the assessee + not be of the nature described in sections 30 to 36.**

Explanation – Following expenses treated as **illegal and not allowed as deduction:**

➤ For any purpose which is an **offence or prohibited by any law in India or outside India**; or

➤ To provide any **benefit or perquisite** to a person, whether or not carrying on a business or profession & acceptance of such benefit/perquisite is in **violation of any law or rule or regulation or guideline** governing the conduct of such person **(free samples to Dr.)**; or

➤ To **compound an offence** under any law for the time being in force, in India or outside India; or

➤ To **settle proceedings initiated in relation to contravention under such law as may be notified by the Central Government.**

Corporate Social Responsibility (CSR)

CSR expenses as referred in Sec.135 of Company Act, 2013 shall not be treated as Business Expenses, so it will not allowed under PGBP

(i) If donation made to PM cares fund or PM relief Fund etc. then assessee can claim deduction u/s 80G even if it's a CSR expense.

(ii) If donation made to Clean Ganga Fund or Swach Bharat Kosh then assessee not eligible to claim deduction u/s 80G if it is CSR spends.

(iii) The rationale behind the disallowance is that CSR expenditure, being an application of income, is incurred wholly and exclusively for the purposes of carrying on business.

Some illustration on sec. 37

1. Freebies, gifts, cash travel facility etc. to medical practitioner **(by Pharma company)** – **Not Allowed**

→Gift to employee **allowed**

2. Penalty

→ Breach of Law – **Not allowed**

→ Breach of Contract – **Allowed**

3. Payment of Taxes (Including interest)

→ Direct Taxes – **Not Allowed**

→ Indirect Taxes – **Allowed**

4. Loss of Illegal Business

⟶ **Allowed** (case law of Dr. Qureshi)

5. Donation to Political Party ⟶ **Not Allowed**

(It includes – Expenses on advertisement in any Souvenir, Brochure, Pamphlet or the like published by political party) (Deduction can be allowed u/s 80GGB only to company)

6. Loss of Embezzlement (Cash embezzlement) ⟶ **Allowed**

7. Share / Debenture Issue expenses

Change in Capital (Net Worth) (IPO/FPO & Right Shares etc.)	No Change in Capital (Net worth) (Buy back of shares, bonus shares, Debenture or loan issue exp. etc.)
Capital Nature – Not Allowed	**Revenue Nature** – Allowed

8.Dividend – Not Allowed (Profit Distribution)

9.Any uncertain provision etc. – Not Allowed

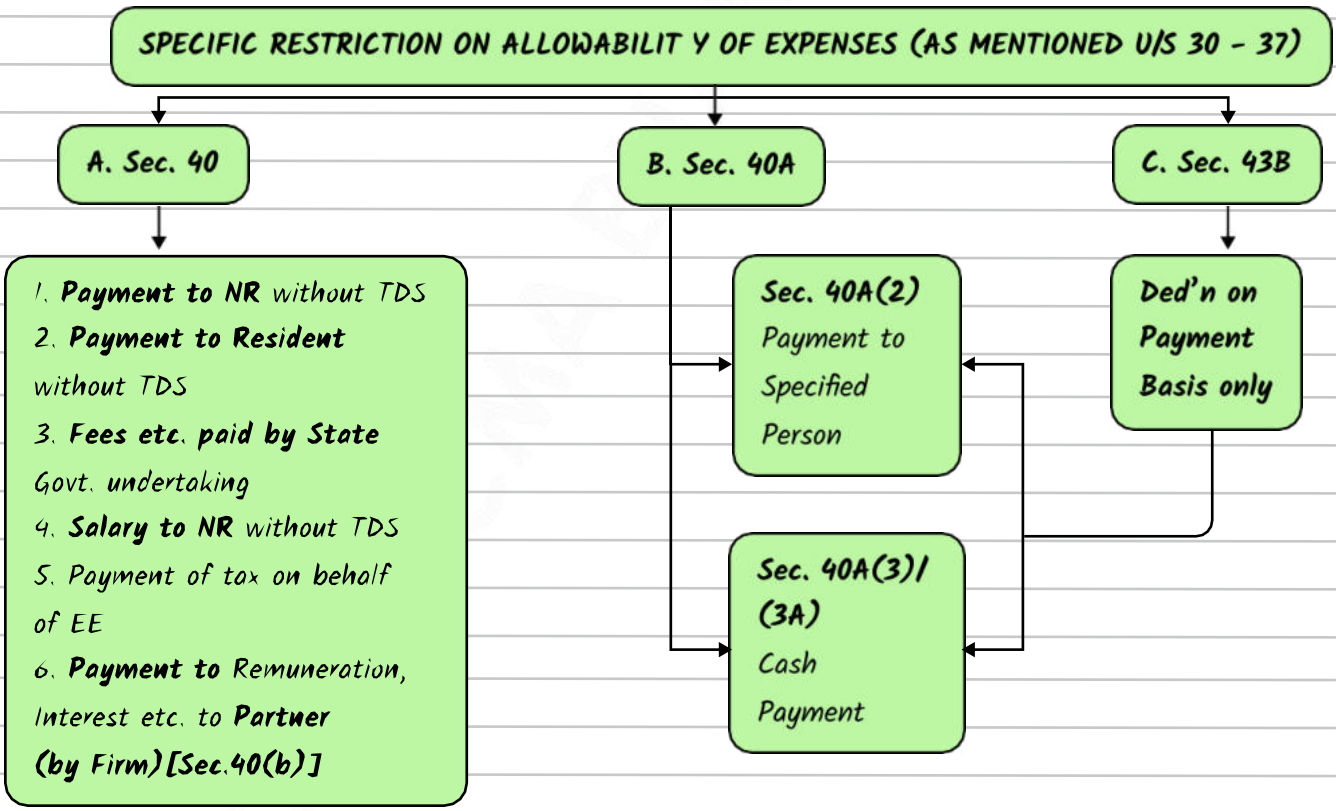
10. Customary Expenses (Puja at the time of new year) – Allowed

11. Expenses Incurred by CA's for attending CPR seminar – Allowed

12. Interest on loan taken for payment of income tax – Not Allowed

13. Premium paid by the firm on the keyman Insurance Policy Of a partner – Allowed

Section 40: Amounts Not Deductible



A. Section 40(a)(i): Payment to Non-Resident

Any interest, royalty, fees for technical services or other sum paid or credited to a non-resident or foreign company will be **disallowed as deduction** if:

a. TDS is not deducted during the relevant previous year, or

b. TDS is deducted but not deposited with the government on or before the due date of filing the return under section 139(1)

→ In such cases, **100% of the expense will be disallowed** as a deduction in the current previous year.

2. Section 40(a)(ia): Payment to Resident

Any interest, royalty, fees for technical services or other amount paid or credited to a resident will be **disallowed to the extent of 30%** if:

a. TDS is **not deducted** during the relevant previous year, **or**

b. TDS is **deducted but not deposited** with the government **on or before the due date of return filing under section 139(1)**

→ In such cases, **30% of the expenditure** will be disallowed in the current year.

Note:

➤ If TDS is **deducted in a later year**, or **deducted in the same year but paid to the government after the due date**, then:

➤ The disallowed amount **(100% for non-resident, 30% for resident)** shall be **allowed as a deduction** in the **year in which TDS is actually deposited** with the government.

Exception to Section 40(a)(ia) & 40(a)(i)

If an amount is paid or credited **without TDS deduction**, it will **not be disallowed** if the following conditions are fulfilled:

➤ The **payee files their Return of Income (ROI)**.

➤ The amount is **included in the payee's total income**.

➤ The **tax due** on such income is **duly paid** by the payee.

➤ The **payer obtains a certificate in Form 26A** from a Chartered Accountant stating the above facts.

→ It will be deemed that TDS has been deducted and paid, and hence, the disallowed amount (30% for residents / 100% for non-residents) will be allowed as deduction in the year in which the payee files the ROI.

3. Fees, Royalty etc, paid by SG undertaking to State Govt, – Not Allowed as deduction

4.Section 40(a)(iii): TDS on Salary Payable Outside India or to NR

If salary is payable outside India or to a non-resident (NR) in India, and:

a. TDS is **not deducted**, or

b. TDS is **deducted but not deposited** with the government by the due date for TDS payment,

→ Then, such salary payment will not be allowed as a deduction.

Note: Even a **1-day delay** in TDS deposit will result in **disallowance** of salary expense.

5. Section 40(a)(v): Tax on Non-Monetary Perquisites

When an employer gives **non-monetary perquisites** to an employee:

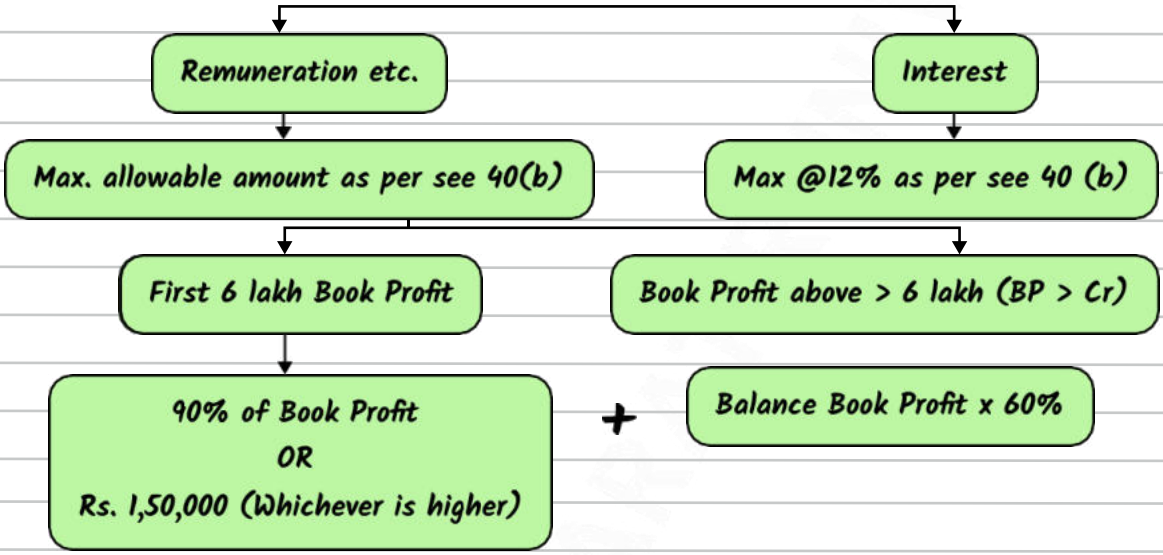
➤ The tax liability is **on the employee**.

➤ However, if the **employer bears the tax** on such perquisites **from his own pocket**,

→ Then such tax paid by the employer will not be allowed as deduction.

Reason: It is exempt in the hands of the employee under Section 10(10CC).

6. Interest to Partners



NOTE

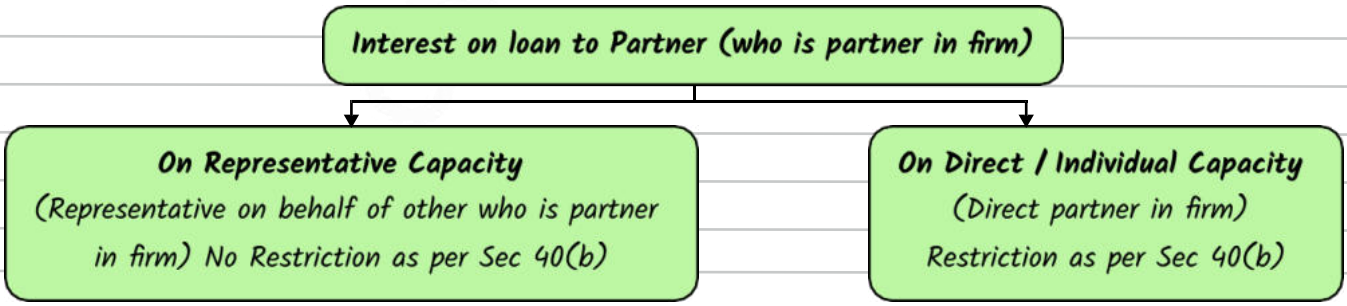
1 Book profit means- Profit after all Ded'n (but before Ded'n of Remuneration) except brought forward business loss)

2 Remuneration to non-working partner – Not Allowed

3 Remuneration to working partner not authorised by deed – Not Allowed

4 Interest should be as per deed **but not allowed if more than 12%**.

5 Partner in **representation capacity (Interest)**



Computation of Book Profit

Net Profit under PGBP	XXXX
(–) [Current year Depreciation + B/F Depreciation]	(XXXXX)
(+) Remuneration (Which Debited to P&L A/c)	XXXX
Book Profit	XXXX

B. 1. Section 40A(2): Disallowance of Excessive or Unreasonable Payments to Specified Persons

*If payment is made to a **specified person** and the **AO finds** it excessive or unreasonable considering Fair Market Value/ Arm Length Price –*

*→ Then the **excess amount** will be **disallowed** while computing business income.*

Who are "Specified Persons" [as per Section 40A(2)(b)]?

Specified persons vary depending on the type of assessee:

Assessee	Related / Specified Persons
1. Individual	Spouse, Minor Child, Son, Father, Brother, Sister, Lineal Ascendant (LA), Lineal Descendant (LD)
2. HUF	Members of HUF & their relatives
3. Firm / LLP	Partners & their relatives
4. Company	Directors & their relatives
5. AOP / BOI	Members & their relatives
6. Assessee/ any of his relatives having Substantial Interest (20% or more share-holding/ profit sharing) in ➤ Company ➤ firm	

2. Section 40A(3): Cash Payment > ₹10,000

*If an assessee makes a payment **exceeding ₹10,000 in a day to a single person otherwise than by account payee cheque/draft or electronic modes**, such expenditure shall be **disallowed**.*

➤ **Limit for Transporters:** ₹35,000 (Transport operators for plying, hiring or leasing goods carrioges, otherwise than through prescribed modes. Therefore, payment or aggregate of payments up to 35,000)

➤ **Even cross cheque = disallowed**

➤ *If earlier claimed on accrual basis but later paid in cash → deduction withdrawn (taxable as PGBP u/s 40A(3A))*

Exceptions to Section 40A(3) (Rule 6DD):

1. Payment made to **RBI/LIC/Banks/Govt**.
2. Payment made through **NEFT/RTGS/Debit card/ECS/credit card/UPI/BHIM**.
3. Payments by book entry **(adjustment)**.
4. Payment to producers of agriculture product, **forest product, poultry product, fish product, live-stock etc.**
5. Payment of Retirement benefits, provided such payment is **upto ₹ 50000**.
6. Payment of salary to an employee who is posted **to any other place or ship** for **15 days or more** other than his normal place of duty.
7. **Payment made where Banking facility not available.**
8. Payment is made **by any person to his agent who is required to make payment in cash** for goods or services on behalf of such person.
9. Payment is made by **an authorised dealer or a money changer against purchase of foreign currency or travellers cheques** in the normal course of his business.

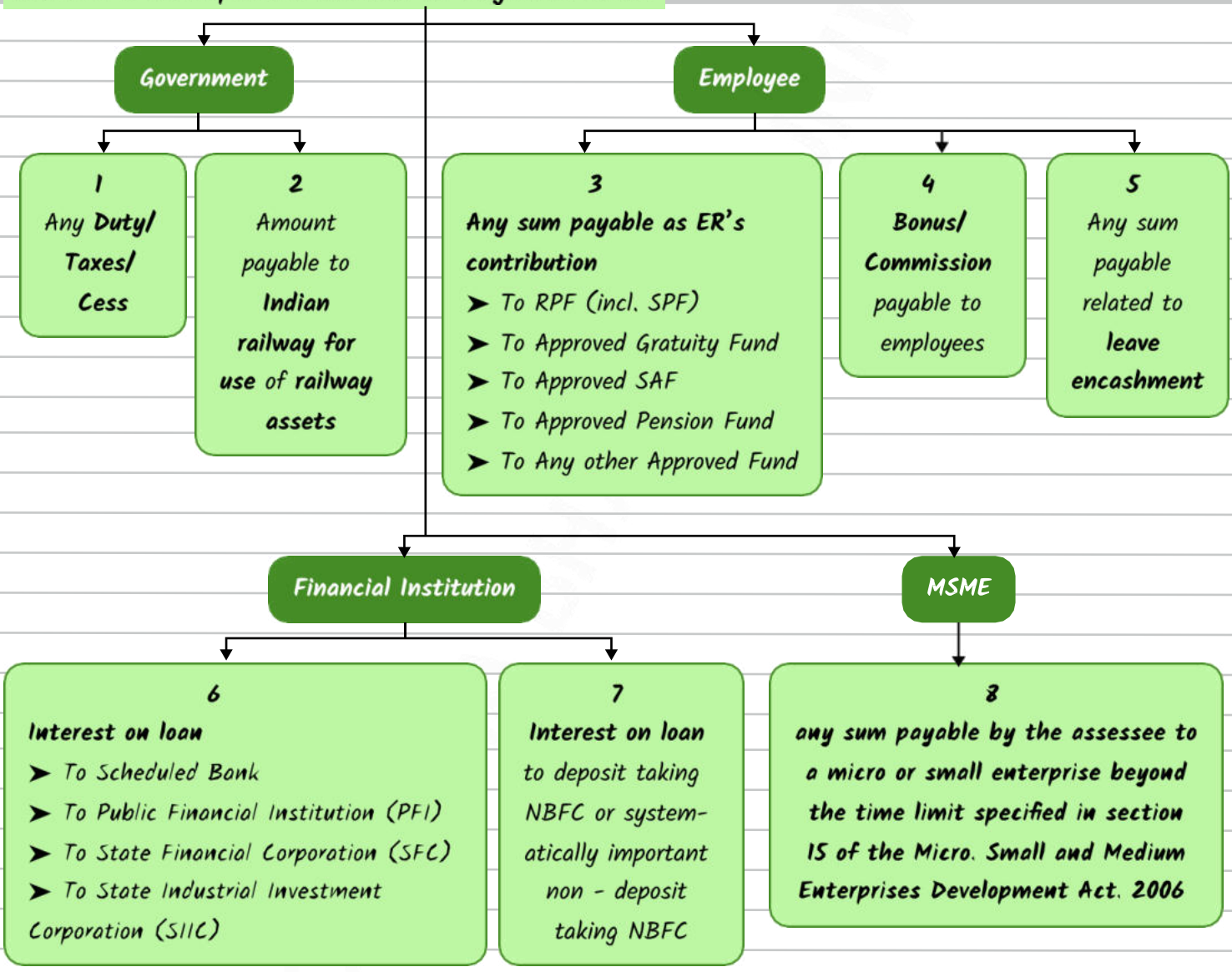
10. **Payment for purchase of product manufactured or processed without aid of power in a cottage industry,** to the producer of such product.

Section 40A(7): Provision for Gratuity – Not Allowed

➤ Only **actual payment** to an **approved gratuity fund** or **provision that becomes payable** during the previous year is allowed as deduction.

➤ Mere **provision** is **not deductible.**

Section 43 B Expenses allowed on Payment Basis



Note: If payment made after due date of return filing & payment made after time limit of MSMED Act, then such expenses shall be allowed in the year of actual payment.

Notes:

1. Where the interest payable on loans has been converted into a loan or borrowing, it shall not be deemed that the interest is paid off. Interest shall only be allowed as deduction in the PY in which such instalments are paid.

2. If interest payable on loan is converted into debenture or any other instrument by which the liability to pay is deferred to a future date shall not be treated as actual payment.
3. Any payment made to Micro & Small enterprise allowed as deduction in current year if payment made within time allowed u/s 15 of MSMED Act otherwise allowed in the year of Actual Payment.
4. Time Limit as per Sec 15 of MSMED Act: Where any person purchases goods/services, from a micro/small enterprise, the payment shall be made before the date agreed upon between him and supplier in writing. In no case the period agreed upon between the supplier and the buyer in writing shall more than 45 days. If, however, there is no such agreement, the payment shall be made within 15 days of acceptance or deemed acceptance of goods/services.

Manufacturin enterprises and enter rises renderin services	Micro Ent.	Small Ent.
Investment in P&M or equipment's, and	Upto 2.5 crore	Upto 5 crore
Turnover	Upto 10 Crore	Upto 100 crore

Section 41 : Deemed PGBP

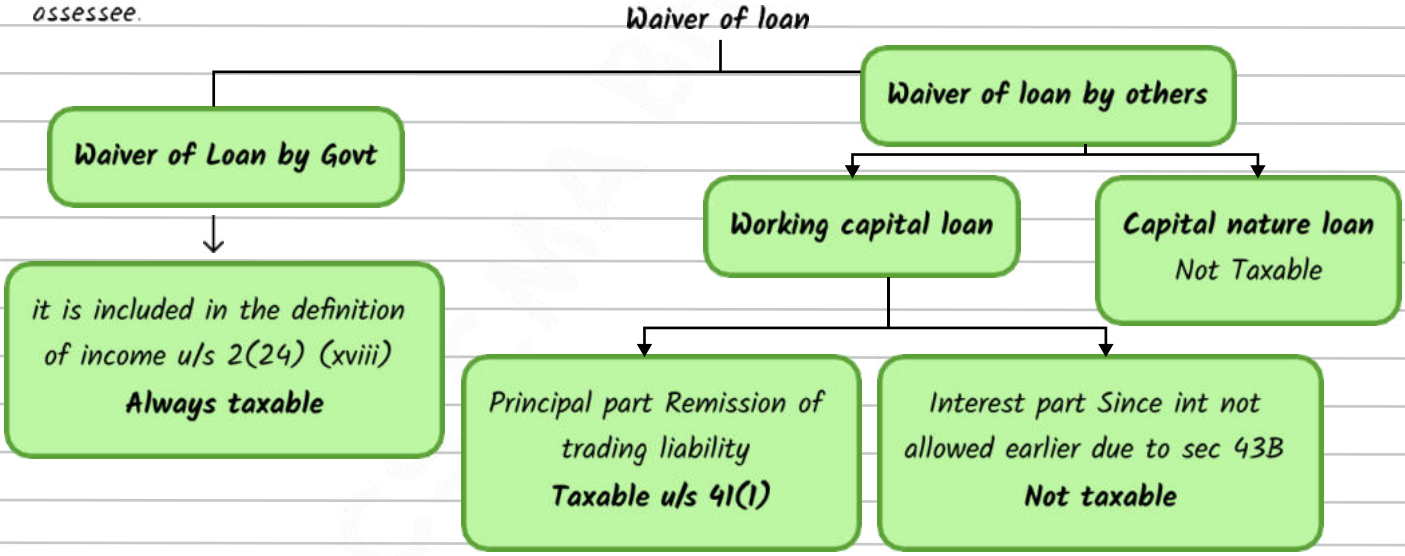
Sec. 41(1) Recovery against any deductions already claimed

If Assessee was allowed a deduction in earlier P.Y. by way of expenditure, loss, trading liability & now during the current P.Y. assessee has obtained a refund of such liability or there is remission/cessation of such trading liability, then such refund/remission shall be taxable under PGBP.

Example:

a) Sales Tax/GST Refund

b) stock in trade is destroyed by fire & allowed as trading loss & later on insurance compensation is received by assessee.



Sec. 41(3): sale of Scientific Research Assets

Sale without use in Business	Sale after use in Business
(i) Sale price	(a) Add to Block of asset Actual cost = Nil
(ii) Deduction already claimed u/s 35(1)(iv)	Expln 1 of Sec. 43(1)
Whichever, is lower Taxable as PGBP	(b) at the time of sale Sec. 50 will apply
If SP> Cost then capital gain also arise.	[full block/part block sold]

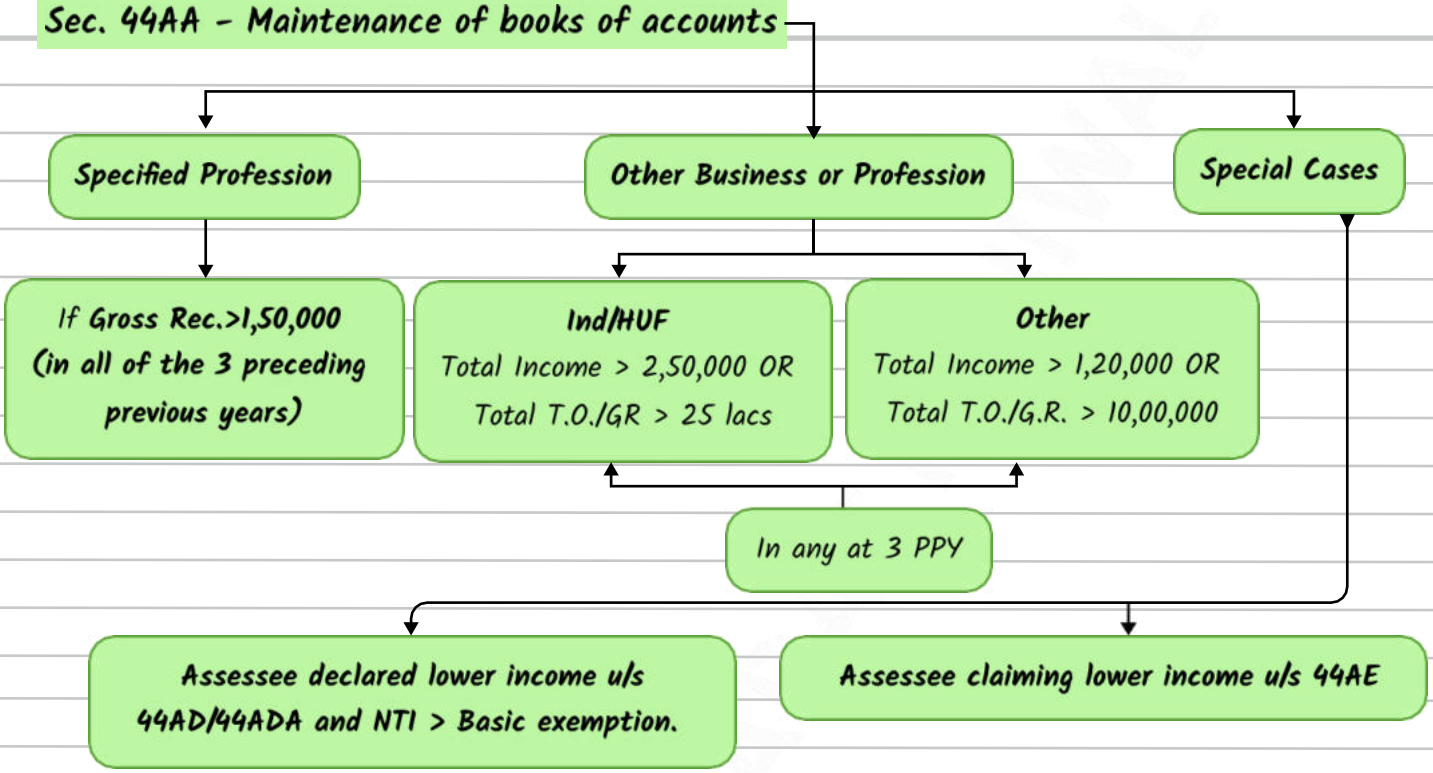
Sec. 41(2): Balancing charge

Already discussed with the power units depreciation.

Sec. 41(4): Recovery of Bad debts.

Recovery amount shall be taxable in the year in which it is recovered.

Sec. 44AA – Maintenance of books of accounts



Sec. 44AA – Maintenance of Books of Accounts Applicability Table:

Specified Profession: In case of specified profession, if Gross Receipt is more than 1,50,000 in all 3 years preceding the Py or likely to exceed if the profession is newly setup then, assessee is required to maintain books of accounts as per Rule 6F, otherwise he is required to maintain such books of accounts or documents from which AO is able to complete the assessment.

Specified Professions (CAMATL LIFE):

Code	Profession
C	Company Secretory
A	Accountancy
A	Authorised Representative
M	Medical
A	Architecture
T	Technical Consultancy
L	Legal
I	Interior Decoration
F	Film Artist
E	Engineering
IT	Information Technology

Books to be kept: **Ledger, Cash Book, Journal, Bank Book, etc.**

Retention Period: **6 years** from end of relevant A.Y.

Journal,Carbon copies of bill issued by the assessee serially numbered amount >25,original bills issued to assessee for exp >50

In case of medical profession daily case register and inventory reg to be maintained

Penalty u/s 271A: Failure to maintain BOA shall **attract a penalty of 25,000.**

AUDIT OF ACCOUNTS OF CERTAIN PERSONS CARRYING ON BUSINESS OR PROFESSION [SECTION 44AB]

1. Persons Carrying on Business

Person	When Audit is Required
Person carrying on business	If Turnover / Gross Receipts > ₹1 crore in P.Y. However , 1 Crore limit will be substituted by 10 Crore in the following below case
Person carrying on business (cash ≤ 5%)	If Turnover > ₹10 crore, provided – (i) Cash receipts ≤ 5% of total receipts, and (ii) Cash payments ≤ 5% of total payments.
Person covered u/s 44AE (Transport business)	If declared income < Deemed income (₹1,000 per ton per vehicle / ₹7,500 per month per vehicle, as applicable).
Eligible assessee u/s 44AD (Presumptive)	1. Audit required if: – Declared profit < 6%/8% of turnover and income > basic exemption limit. 2.Opted u/s 44AD in earlier P.Y. but not continued for 5 years → Audit mandatory if income > basic exemption.

2. Persons Carrying on Profession

Person	When Audit is Required
Person carrying on profession	If Gross Receipts > ₹50 lakh in P.Y.
Person covered u/s 44ADA (Presumptive for Professionals)	If profit declared < 50% of gross receipts and income > basic exemption limit
if income > basic exemption limit	**Opted u/s 44AdA** in earlier P.Y. but not continued for 5 years

➤ **Forms of Audit Report:**

– **Form 3CA** is required where the assessee is already subject to audit under any other law.

– **Form 3CB** is used where the assessee is not required to get accounts audited under any other law.

– In both cases, Form **3CD (Statement of particulars)** must be annexed.

➤ **Specified Date:**

The tax audit report must be obtained and furnished by 30th September of the relevant assessment year, i.e., one month prior to the due date of return under section 139(1).

➤ **Multiple Businesses/Professions:**

For determining the applicability of tax audit, the **turnover/gross receipts of all businesses or professions carried on by the assessee are aggregated.**

➤ **Audit under Other Law:**

Where audit has already been conducted under the **Companies Act, LLP Act, Societies Act, etc.**, it is sufficient if **Form 3CA along with Form 3CD is furnished** for income tax purposes.

➤ **Penalty under Section 271B:**

Failure to get the accounts audited or to furnish the report attracts a penalty, which shall be the **lower of:**

(i) 0.5% of turnover/gross receipts, or

(ii) ₹1,50,000.

➤ **No Penalty (Reasonable Cause):**

No penalty shall be levied if the assessee proves a **reasonable cause** for such failure, such as resignation of auditor, loss of accounts due to fire/theft, natural calamity, etc.

Special Provisions for Computation of Profits and Gains of Business on Presumptive Basis [Sections 44AD, 44ADA & 44AE]

Particulars	Section 44AD	Section 44ADA	Section 44AE
Eligible Assessee	Resident Individual, HUF, Partnership Firm (not LLP) Who has not Claimed deduction u/s 10	Resident Individual or Partnership Firm (not LLP) as referred in section 44AA	Any assessee owning ≤ 10 goods carriages
Eligible Business / Profession	Any business (except profession u/s 44AE, agency,commission/brokerage)	Specified professions – legal, medical, engineering, architecture, accountancy, technical consultancy, IT, etc.	Business of plying, hiring, or leasing goods carriages
Turnover / Receipts Limit	≤ ₹2 Cr (≤ ₹3 Cr if cash receipts ≤ 5%)	≤ ₹50 L (≤ ₹75 L if cash receipts ≤ 5%)	≤ 10 vehicles at any time during PY
Presumptive Income	8% of turnover (6% if receipts via banking/electronic modes)	50% of gross receipts	**- Heavy goods vehicle** (Gross / Unladen weight) (refer note 2 &3) (>12,000 kg): ₹1,000 per ton per month **- Other vehicles:** ₹7,500 per month

Deduction of Expenses	➤ No further deductions allowed ➤ salary & interest to partners **not deductible**	➤ No further deductions allowed; ➤ salary & interest to partners **not deductible**	➤ Salary & interest to partners deductible
Depreciation (WDV)	Deemed to have been allowed; WDV adjusted accordingly	Same as 44AD	Same as 44AD
Books of Accounts	Not required if declaring income as per 44AD	Not required if declaring income as per 44ADA	Not required if declaring income as per 44AE
Audit Requirement	Required if income declared is lower than presumptive and total income > basic exemption	Same as 44AD	Same as 44AD
Advance Tax	100% to be paid by 15th March of FY	100% to be paid by 15th March of FY	Payable in 4 installments
Applicability	Small Businesses	Specified Professionals	Goods Transport Operators

Notes :

1. Heavy Goods Vehicle

➤ Any goods carriage whose gross vehicle weight exceeds 12,000 kilograms.

2. Gross Vehicle Weight (GVW)

➤ The total permissible weight of the vehicle + load, as certified and registered by the registering authority.

3. Unladen Weight

➤ The weight of a vehicle (or trailer) without load, including equipment ordinarily used with the vehicle/trailer.

➤ Excludes driver/attendant.

➤ If alternate parts/bodies are used, it means the weight with the heaviest such body.

➤ Gross vehicle weight is to be used to calculate income and if Gross vehicle weight is not available then weight is to be used.

Section 43A : Asset acquired in foreign currency

- **Purpose :** It ensures that the "actual cost" of an asset acquired from a country outside India for business or profession purposes is correctly adjusted to account for fluctuations in the foreign exchange rate.

- **Applicability :** It applies only when an assessee acquires an asset from outside India and:
  - The whole or part of the cost of the asset remains outstanding, or
  - Moneys were borrowed in foreign currency specifically for acquiring the asset.

- **Adjustment to Actual Cost:** If there is an increase or decrease in the liability (as expressed in Indian Rupees) due to a change in the foreign exchange rate at the time of making the

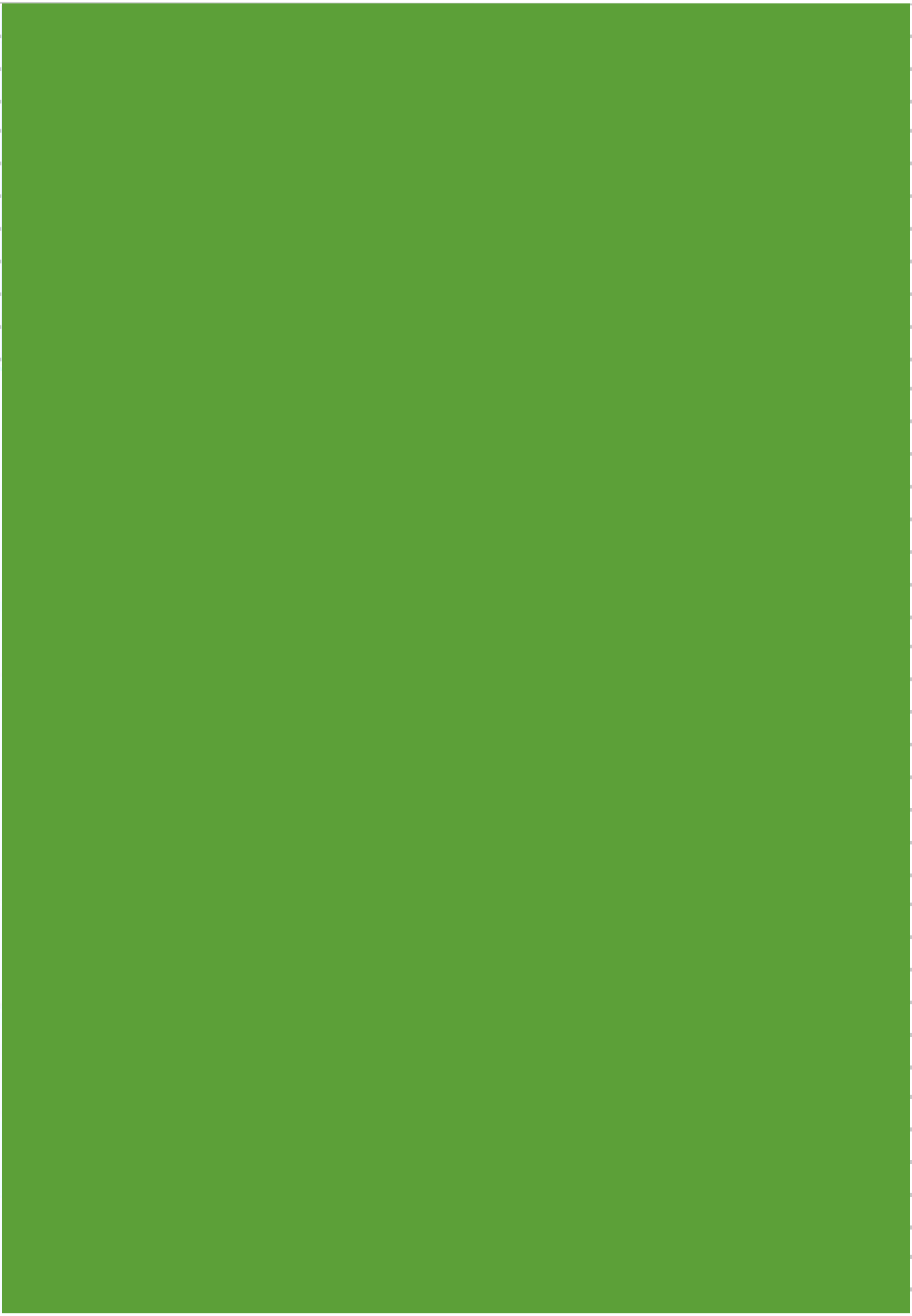
payment (towards the cost or loan repayment) after the asset's acquisition, the actual cost of the asset is adjusted:

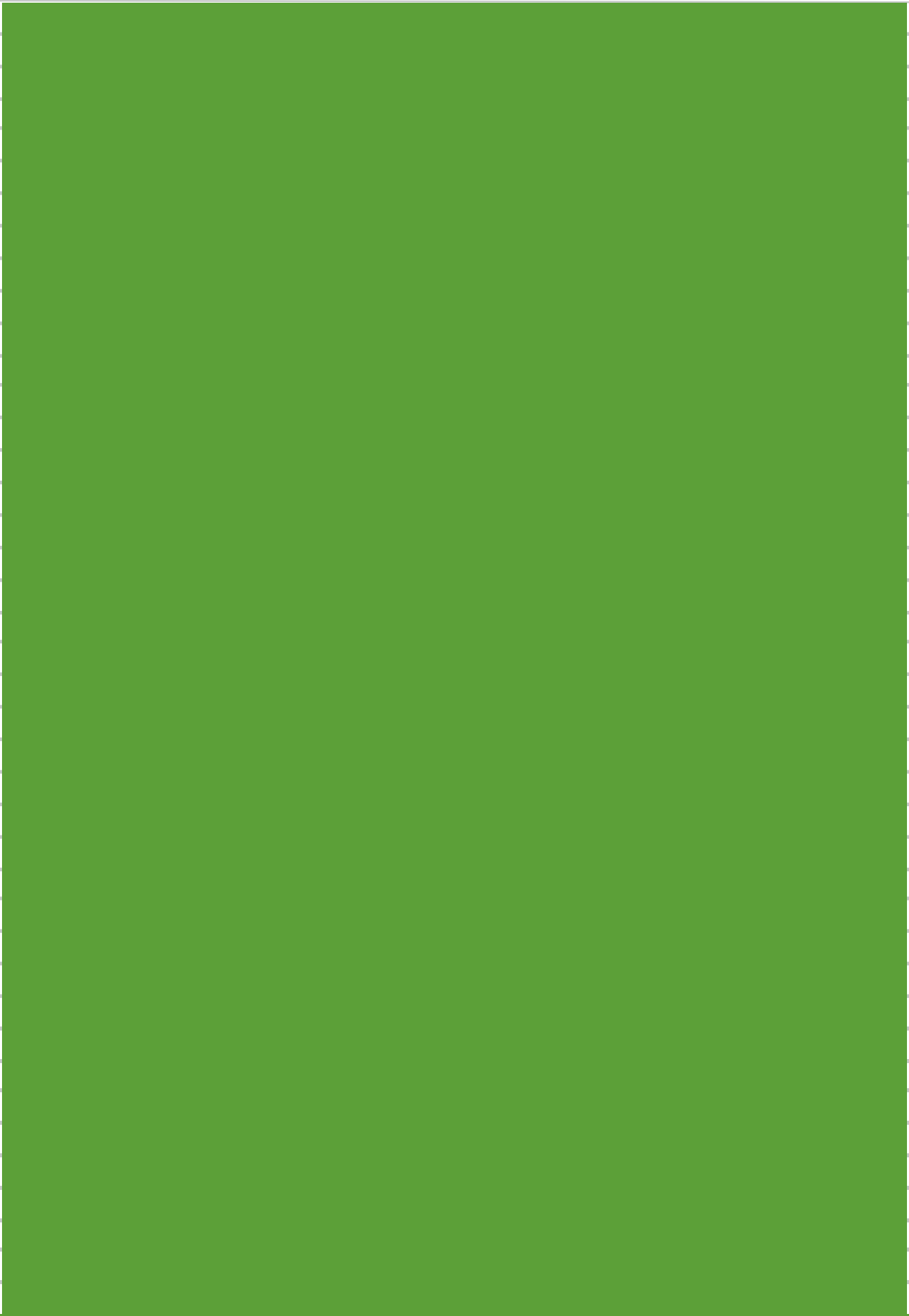
- Increase in liability (Forex Loss): The amount of increase is added to the actual cost of the asset.
- Decrease in liability (Forex Gain): The amount of reduction is deducted from the actual cost of the asset.

- **Consequences :** The adjusted amount is then taken as the actual cost of the asset for the purpose of calculating:

Depreciation (under Section 32).
Deductions for certain capital expenditures (under Sections 35, 35A, 36(1)(ix)).
The cost of acquisition for calculating Capital Gains (under Section 48).

Proforma for computation of income under the head "Profits and gains of business or profession" under default tax regime under section 115BAC





CA CS CMA BHARAT RUNIWAL

Notes



Chapter 6

Capital Gain

SECTION 45 (1) Chargeability

Capital asset [Sec.2 ((14)] + Transfer [Sec.2 (47)]

↓

During the PY

↓

Profit/Loss Taxable u/s Capital Gain

(Whether the money has received or not)

NOTE –

Whether the amount received or not during the previous year is irrelevant for chargeability.

Consideration in installments : Consideration is receivable in installments in different year, the entire value of consideration shall be taxable in the year of transfer.

A. Any kind of property held by assessee whether used for business or profession or not but,

Excluding –

1) Stock in Trade/Raw Material/Consumables

2) Personal effect-Movable property (used by assessee or by his dependent family member)

(Excluding **JADASP**)

J – JEWELLERY

A –ARCHEOLOGICAL COLLECTION

D – DRAWINGS

A – ANY WORK OF ART

S – SCULPTURE

P – PAINTINGS

3) Rural Agriculture land in India

4) Gold deposit bonds

➤ Under Scheme 1999

➤ Under Scheme 2015

Interest on such bonds is Exempt u/s 10(15)

B. Any Securities held by Foreign Institutional Investors (FII) or investment funds as per SEBI Guidelines

C. ULIP to which exemption u/s 10(10D) does not apply.

NOTES -

1. Jewellery includes -

➤ Ornaments made of Gold, Silver, Platinum or any other precious metal (or any alloy containing such metals)

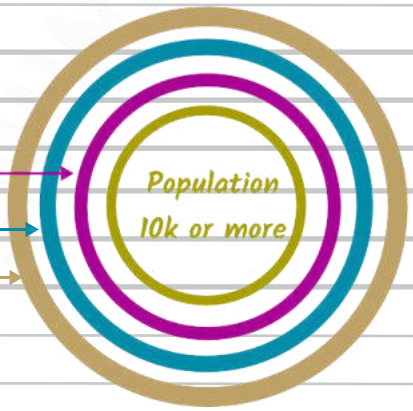
➤ Precious or Semi-precious stones (whether or not set in any Furniture/Utensil/other article etc.)

Definition of Urban Area

a) Any area (municipality, contonment board etc) which has a population of 10000 or more.

b) In the following area within the distance, measured aerially

Shortest distance from area referred in point (a)	Population according to last census
upto 2kms	>10,000 up to 1,00,000
upto 6kms	>1,00,000 up to 10,00,000
upto 8kms	>10,00,000



3. Assets used for personal purpose of assessee:-

T.V., Car, Mobile etc - Not a Capital Asset-CG not Applicable

Jewellery, Drawings, Paintings-Capital Asset CG Applicable.

4. Gold Utensils, Silver Bars, Silver Coins were held not to be Considered as Personal Effect Capital Gain Applicable (Maharaja Rana Hemanth Singh).

5. Silver Utensils held to be Personal Effect - No Capital Gain (Benarshilal Kataruka)

6. Cars used in the business are treated as capital assets.

7. Movable assets used for Business purpose will be treated as Capital assets.

Types of capital assets

Long term Capital assets
LTCG

Short term Capital assets
STCG

Capital Asset	Period of Holding	
PART : A - Security (other than Unit) listed in recognised stock exchange of India - Unit of UTI - Unit of Equity oriented Mutual Fund - ZCB	Upto 22/07/24 1 Year	from 23/07/24 1 Year
PART : B - Unlisted shares (Shares not covered in Part A) - Immovable Property	2 Year	2 Year
PART : C- Any other Asset	3 Years	2 Years

If any asset is held for more than years mention in part A B C then it is treated as LTCA otherwise STCA

'other than Unit is omitted w e f 23rd July, 24 so now in case of listed units POH 1 year applicable from 23rd July, 24 in case of listed security whether it is share or units

Types of Capital Gain

Long term | **Short term**

Benefit of Indexation — Refer Note 5 for indexation

LONG TERM		**SHORT TERM**	
Particulars		**Particulars**	
Full value of consideration (FVOC)	XXX	Full value of consideration	XXX
(-) expenses related to transfer	XXX	(-) expenses related to transfer	XXX
Net FVOC	XXX	**Net FVOC**	XXX
Less:- 1) Indexed (COA) Cost of Acquisition	XXX	Less:- 1) Cost of Acquisition (COA)	XXX
2) Indexed (COI) Cost of Improvement	XXX	2) Cost of Improvement (COI)	XXX
Capital Gain / Loss	XXX	**Capital Gain / Loss**	XXX

Provided that COA or COI shall not include the deductions claimed in respect of Interest u/s24(b) or under the provisions of chapter VI A

In case of LTCA COA & COI should be indexed

$$\text{Indexed Cost of Acquisition (ICOA)} = COA \times \frac{CII \text{ for the year of transfer}}{CII \text{ for the first year in which assets held by assessee or for the year 2001-02 (if assets acquired before 1.04.01), whichever is later}}$$

$$\text{Indexed Cost of Improvement (ICOI)} = COI \times \frac{CII \text{ for the year of transfer}}{CII \text{ for the year of improvement}}$$

Note - Improvement done before 01.04.2001 shall be ignored

NOTE 1 PERIOD OF HOLDING

Period starting from the date of acquisition till the date of transfer

NOTE 2 INDEXATION MEANS

Conversion of the cost (which was incurred in post) in the current value by using cost of inflation index (CII)

NOTE 3 COST INFLATION INDEX

The cost of inflation index notified by the CG are as follows

FY	C.I.I.	FY	C.I.I.	FY	C.I.I.
2001-02	100	2009-10	148	2017-18	272
2002-03	105	2010-11	167	2018-19	280
2003-04	109	2011-12	184	2019-20	289
2004-05	113	2012-13	200	2020-21	301
2005-06	117	2013-14	220	2021-22	317
2006-07	122	2014-15	240	2022-23	331
2007-08	129	2015-16	254	2023-24	348
2008-09	137	2016-17	264	2024-25	363

NOTE 4 SITE AND BUILDING ARE SEPARATE ASSETS

The site and building are separate assets for the purpose of capital gain. If site acquired before 2 years and building constructed within 2 years then we have to calculate separate capital gain for both the assets. Capital gain on land is treated as LTCG and on buildings treated as STCG.

NOTE 5 :

From July 23, 2024, indexation benefits are not available on the transfer of long-term capital assets, regardless of the holding period.

NOTE 6 :

Asset acquired before 01/04/2001:

COA = Actual cost or FMV as on 1/4/01, whichever is higher

In case of immovable properties if Stamp Duty Value (SDV) as on 01.04.2001 available then FMV as on 01.04.2001 should not be more then SDV as on 01.04.2001

COA ↑	a) Actual Cost of Asset			xxx
↑ b)	↓ (i) FMV as on 01/04/01	xxx		
	↓ (ii) SDV as on 01/04/01	xxx		xxx

Improvement done before 1.04.2001 should be ignored.

NOTE 7 :

Short-term capital gain (STCG) arises on the transfer of short-term capital assets (STCA) and long-term capital gain (LTCG) arises on the transfer Of long-term capital assets (LTCA).

Exception :

➤ Any gain on transfer Of an asset on which depreciation is allowed as per WDV method u/s 32(1)(ii) shall be taxable as short-term capital gain (irrespective of their period of holding) [Sec. 50].

➤ Capital gains arising from the transfer of market-linked debentures and units of a specified mutual fund would always be capital gains arising from the transfer of short-term capital assets irrespective of the period Of holding Of such assets [Sec. 50AA] .....To be discussed later

SECTION 2(47) - TRANSFER :

It includes -

1) Sale, Exchange or Relinquishment of assets
2) Extinguishment of any right therein
3) Conversion of Assets into Stock In Trade (SIT)
4) Compulsory acquisition of assets under any law
5) Transfer of possession of any Immovable Property
6) Transfer of Share holdings/ Membership in Co-society because of that, the right in immovable property gets transferred.
7) Redemption of Zero Coupon Bonds

Explanations of above -

1) Sale, Exchange or Relinquishment - Sales as mentioned in Sales of Goods Act. Exchange means Barter. Relinquishment means transfer of ownerships rights.

2) Extinguishment of any right therein -

➤ Right on assets has been gone, but the existence of assets should be there.

➤ If right on assets has been gone, & but existence of assets is also not there, then this will not be treated as transfer as per General Chargeability u/s 45(1)

➤ But the department has included some exceptions related to the above provision of extinguishment and charged Capital Gain under specific provisions.

Section 45(1A),45(2),45(5)	Section 46A	Section 46(2)Assets
Insurance claim on damage of capital asset	Buy back of shares Section Discussed Later	Distribution on liquidation of company Discussed Later

A. Sec. 45(1A) - Capital Gain on insurance claim on Damage/ Destruction of Capital Asset

Any compensation received from an insurance company for the specified damages is treated as transfer. Such transfers are liable to capital gain in the year of receipt of compensation.

 # Specified damages

Damages caused due to -

➤ Flood, typhoon, hurricane, cyclone, earthquake or other natural calamities; or

➤ Riot or civil disturbance; or

➤ Accidental fire or explosion; or

➤ Action by an enemy and an action taken in combating an enemy (whether with or without a declaration of war)

Sales consideration	If compensation received is in cash	Compensation so received
	If compensation received is in kind	Fair Market value (as on date of receipt) of assets received as compensation.
Cost of acquisition / Cost of improvement / Expense on transfer	As usual	
Indexation benefit available (if any)	Till the year of destruction [available only in 2 specified situations, as discussed above]	
Taxable	In the year of receipt of compensation	
Tax rate	As applicable in the year of receipt of compensation	

➤**Compensation received for any other damages to capital asset:** Compensation received for any other damages of capital asset (e.g. loss of capital assets due to theft, road accident or sunk of ship due to technical error, etc.) shall be treated as a capital receipt and shall not be taxable.

➤ **Compensation received for any damages to non-capital asset:** A revenue receipt may be chargeable u/s 28 or 56. E.g. compensation received on theft of stock in trade shall be taxable as business income.

➤ **Destruction of asset without insurance:** Where an asset is destroyed and there is no insurance or insurance compensation is not received, neither sec. 45(1A) nor sec. 45 shall be attracted and destruction of asset shall not be treated as transfer. Cost of such asset destroyed is not an allowable loss under the Income Tax Act.

Example: Mr. X acquired a residential building for self occupation on 5/5/2022 for 90 lacs. On 7/4/2024, the property caught fire. No insurance was made. Such loss or 90 lacs is not an allowable loss under the Income tax Act.

Particulars	**Amount**	**Amount**
Full value of consideration (Money or FMV of the asset received)	xx	xx
Less:- Expenses related to transfer	xx	xx
Net FVOC	xx	xx
Less:- COA/ICOA	xx	xx
Less:- COI/ICOI	xx	xx
Long-term/Short term Capital Gain	XX	XX

Conversion of Capital Assets into Stock (Sec. 45(2)) in Trade (SIT)

- Conversion of capital asset into stock in trade.

Computation

Capital Gain

FVOC (FMV on the date of conversion)	xxx
Less:- COA/ICOA	(xxx)
COI/ ICOI	(xxx)
Long term/Short-term Capital Gain	**xxx**

PGBP

Sale Price	xxx
Less:- FMV of asset on the date of conversion	(xxx)
PGBP	**xxx**

Notes

➤ **Computation of Capital Gain** will be made in the year of conversion (for indexation purpose) but such Capital Gain will be taxable in the year in which when such stock-in-trade is sold. And hence, indexation benefit is available upto the year of conversion & not up to the year of sale.

➤ If **stock-in-trade is sold proportionately,** then capital gain will also be taxed on proportionate basis.

➤ For the **exemption u/s 54EC,** 6 months to be considered from the date of sale of stock-in-

Conversion of Stock in Trade into Capital Assets

➤ **Section 28(via): PGBP**

The FMV of Inventory as on the date on which it is converted into capital asset shall be Taxable under PGBP.

➤ **Section 49(9): Cost of Acquisition**

For the purpose of computing capital gain COA of such asset shall be FMV Referred in sec. 28(via).

➤ **Section 2(42A): Period of Holding**

POH Shall be reckoned from the date of conversion into Capital Asset.

Note: In this case the PGBP taxable in the year of conversion of SIT into Capital asset and capital gain taxable in the year in which capital asset transferred but in section 45(2) conversion of capital asset into stock in trade, capital gain and PGBP both taxable in the year in which stock sold.

Compulsory acquisition of Capital Sec.45(5)-Asset Under any law

Computation of Capital Gain will be made in the year in which capital asset is compulsory acquired (for indexation purpose) but it will be taxable in the year in which compensation is first received from the Government. Hence, benefit of indexation is available up to the year capital asset is compulsory acquired and not up to the year in which compensation is received.

Computation (Due to Final Order)

Initial Compensation	
FVOC (Initial compensation)	xxx
(-) COA/ ICOA	(xxx)
COI/ ICOI	(xxx)
Capital Gain	**xxx**
(Entire amount is taxable in the year in which when first Installment of compensation is received by the assessee.)	

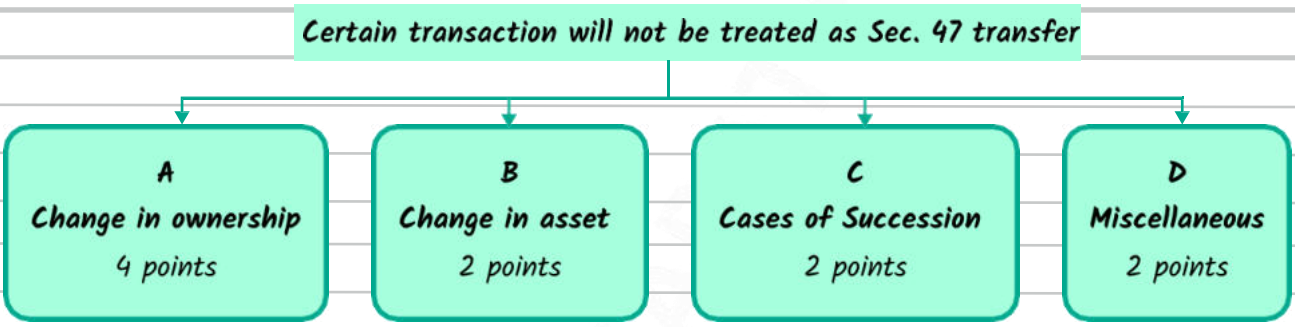
Enhanced Compensation	
FVOC (enhanced compensation)	xxx
(-) Expenses related to such compensation (eg. Litigation expenses)	(xxx)
Capital gain	**XXX**
(Taxable as & when enhanced compensation is received due to final order (not due to Interim order))	

NOTES :

1. Interest on Late compensation will be taxable in IFOS (50% Deduction allowed u/s 57)
2. If compensation is subsequently reduced, then rectification has to be made to give effect of the same (Sec. 155)
3. If due to the death of transferor, the enhanced compensation is received by any other person, in that case it will be taxable for other person under the head of Capital Gain.
4. If any enhanced compensation received due to interim order of any court, then such compensation will be not taxable in the year of receipt but in the year in which final order is passed by such court.

Exemption on compulsory acquisition of urban agricultural land [Section 10(37)]

In case of Individual and HUF, capital gain on compulsory acquisition of urban agricultural land is Fully Exempt, if such land is used for agricultural purpose preceding 2 years before transfer.



A. Changes in Ownership :

(1) Transfer under gift/will by an individual or HUF

(2) Distribution on total/partial partition of HUF

(3) Transfer under Amalgamation/Demerger of Companies

- Transfer of capital asset by amalgamating company to amalgamated Indian company
- Transfer of capital asset by demerged company to resulting Indian company
- Issue of shares by amalgamated company to shareholders of amalgamating company
- Issue of shares by resulting company to shareholders of demerged company

(4) Transfer of capital asset between wholly owned subsidiary company [100%] and holding company

Conditions :

(i) Transferee company must be Indian

(ii) Holding company must hold 100% share capital for at least 8 years from date of transfer

B. Changes in Assets :

(1) Conversion of bonds/debentures into shares

(2) Conversion of preference shares into equity shares

C. Changes in Assets :

(1) Transfer of capital asset on succession of sole proprietorship/firm by a company

Conditions:

(i) All assets/liabilities of proprietorship/firm become assets/liabilities of the company.

(ii) Proprietor/partner hold not less than 50% voting power in the company for at least 5 years

(iii) Proprietor/partner does not receive any contribution except allotment of shares in the company

(2) Transfer of capital asset on conversion of private company or unlisted public company into LLP

Conditions

(i) All assets/liabilities of a company become assets/liabilities of an LLP.

(ii) Shareholders of a company shall become partners in LLP in some proportion of their shareholding.

(iii) Shareholders of the company shall receive at least 50% profit of LLP for 5 years.

(iv) No amount is paid to any partner from accumulated profit of the company for 3 years.

(v) Total turnover/gross receipts of the company does not exceed 60 lacs in 3 preceding P.Y.

(vi) Total book value of assets of the company does not exceed 15 crores in 3 preceding P.Y

D. Miscellaneous:

(1) Transfer of capital asset under reverse mortgage

(2) Conversion of gold into electronic gold receipt or vice verso.

(3) Transfer of Sovereign Gold Bond issued by RBI under Sovereign Gold Bond Scheme 2015, by way of redemption by the assessee being an Individual.

(4) Transfer of Work of Art, scientific, archaeological, manuscript, books, photograph or print to Govt., University, National Museum or art gallery or archives, any public notified museum.

In Above cases

(a) Cost of Acquisition Sec. 49 (1): Cost to the Previous Owner previous assets.

(b) Cost of Improvement: Incurred by previous owner & present owner shall be considered.

(c) Period of Holding: POH of previous owner shall also be considered.

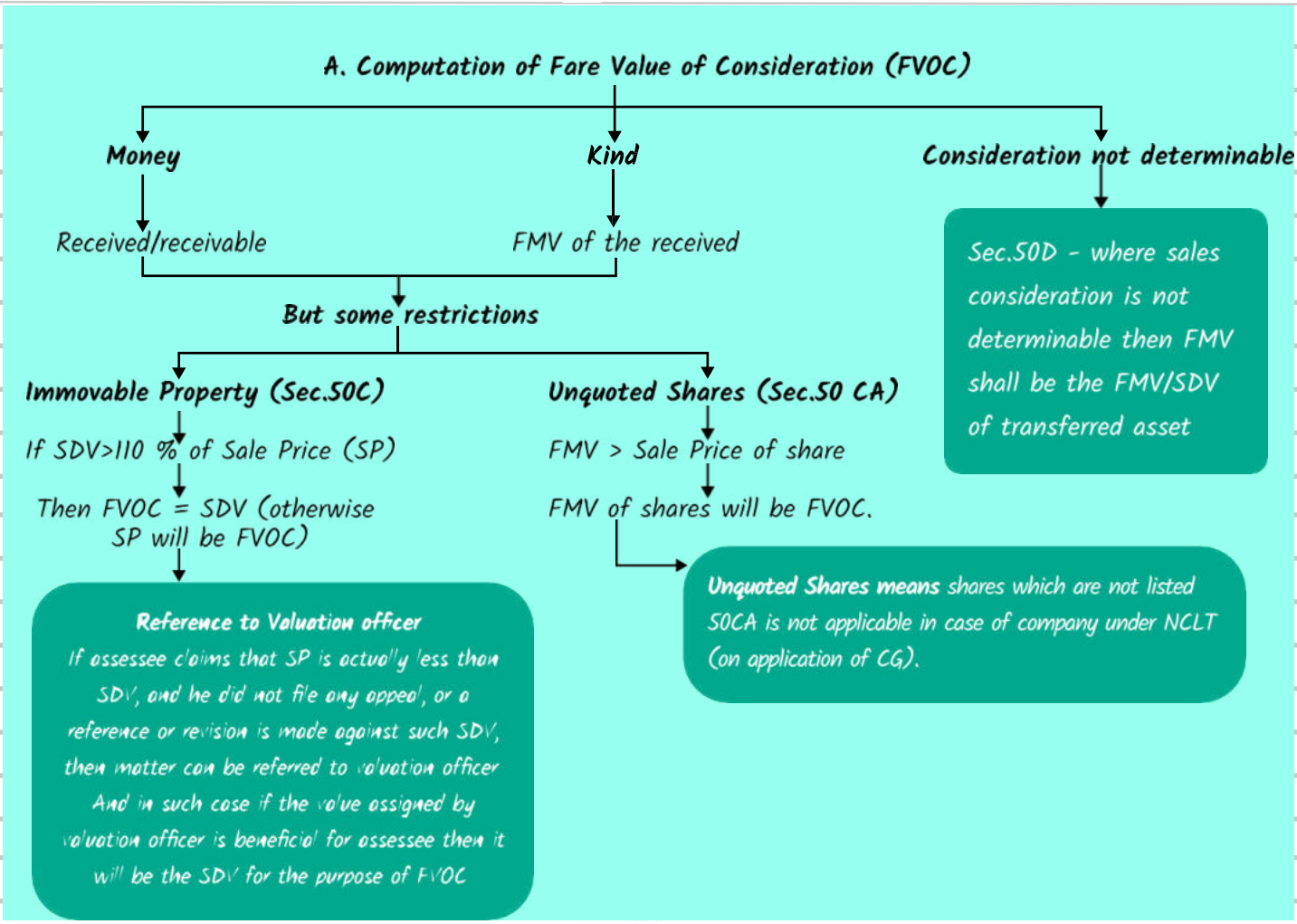
(d) Indexed Cost of Acquisition: Manjula J. Shah (Bombay H.C)

$$COA \text{ of Previous owner} \times \frac{CII \text{ of the year of Transfer}}{CII \text{ for the year in which asset first held by Previous Owner}}$$

(e) Benefit of FMV as on 01/04/2001 - Available

Sec.48 Computation of Capital Gain

Full value of consideration (FVOC)	**(A)**	xx
(-) Expenses related to transfer		(xx)
Net FVOC		xx
(-) COA/ICOA	**(B)**	(xx)
COI/ICOI		xx
CAPITAL GAIN (ST/LT)		**xxx**



Normally SDV considered on the date of registration but u/s 50C if date of agreement & registration are not same, then assessee can take SDV on the date of agreement if he has received consideration or part thereof upto the date of agreement in A/c payee cheque /DD, use of electronic clearing system (ECS) through a bank account or any other electronic modes as may be prescribed.

Notification 8/2020 - Other electronic modes

(a) Credit Card, Debit Card
(b) Net Banking
(c) IMPS (Immediate Payment Service)
(d) UPI (Unified Payment Interface)
(e) RTGS (Real Time Gross Settlement)
(f) NEFT (National Electronic Funds Transfer), and
(g) BHIM (Bharat Interface for Money) Aadhaar Pay.

B. Expenses on transfer

It means any expenditure incurred wholly and exclusively in connection with such transfer such as, brokerage or commission incurred for securing buyer, cost of stamp and registration fee by the vendor, traveling expenses, etc. It is reduced from sale consideration to get net sale consideration.

Notes

a. Expenditure must be necessary to affect the transaction and should not be vague

b. Expenditure on transfer may be incurred prior to or after completion of transfer

c. If expenditure has been allowed as deduction under ani other heads of income then the same cannot be claimed as deduction u/s 48.

d. STT is not deductible.

C. Cost of Acquisition

Purchase

General Rule

➤ COA will be purchase price

➤ But if Asset acquired before 1.04.2001 then COA

COA or ← Higher

FMV on 01/04/01 ←

Improvement done before 1/04/2001 should be ignored

No Purchase

Deemed Cost of Acquisition.

[because of B.C. Shrinivasa Shetty]

As per Sec.55

1- Self Generated Assets

2. Bonus shore

3 - Right Renouncement

4- Trading & clearing rights in case of Demutualization or Corporatization of Stock Exchange

As per Sec.49

Certain transaction which will not be treated as transfer as per Sec- 47 [Sec. 49]

SECTION 55 : Deemed cost of Acquisition

1. Self-Generated Assets (SGA)

➤ Goodwill of Business or profession (or any intangible assets)

➤ Trademark or brand name associated with Business or profession

➤ Tenancy rights

➤ Stage carriage permit (route permit)

➤ Loom hours

➤ A right to Manufacture/Produce/Process any article or thing (Patent/Copyright)

➤ A right to carry on any Business or Profession (or any other right)

For all above stated points **Cost of Acquisition - NIL**

NOTE 1 : All of above assets are self-generated then COA shall be Nil. If purchased then actual purchase price. Benefit of FMV as 01.04.2001 is not available for above assets.

2. Bonus Shares

If acquired before 01/04/2001

FMV as on 01/04/2001

If acquired on or after 01/04/2001

Nil

POH Case of Shares/Securities from allotment date to transfer date.

Note: If sec. 112A apply & Bonus shares allotted before 01/2/18 then COA is FMV as on 31/1/18.

3. Right Shares & Security

If acquired by shareholder

COA: Amount paid to Company

(POH- From allotment date)

Renouncement of Right

CG applicable

FVOC	Renouncement price
COA	Nil
STCG	XX

POH= From offer date to renouncement date

In hands of purchaser of right

COA: Amount paid to Company for shares + Amount paid for purchase of right

POH: From date of allotment of shares

Cost of Improvement (COI)

Capital nature expense incurred for addition/alteration...

Some Specific Assets

- Goodwill of Business/Profession
- Patent/Copyright
- Right to carry any Business or Profession

COI = Nil

Other Assets

If incurred on or after 1.04.2001 then consider otherwise completely ignore.

PROVISIO OF SECTION 48

Ist Proviso

First Proviso to Sec 48

➤ Applicable to **Non-Residents**.

➤ In case of transfer of **shares or debentures of an Indian company**:

Capital gain shall be computed **in the same foreign currency** in which the investment was originally made.

(Such asset acquired in foreign currency by way of purchase or reinvestment)

Steps:

1. Convert **sale consideration** into some foreign currency.
2. Convert **cost of acquisition** and **expenses** also into that currency.
3. Compute capital gain in foreign currency.
4. Reconvert the resultant capital gain into Indian rupees.

Objective: To protect non-residents from loss due to exchange rate fluctuations

FVOC	$\left[\frac{\text{Consideration in INR}}{\text{Average Rate on date of transfer}}\right]$	XX
Less - Expenses Related to transfer	$\left[\frac{\text{Expenses In INR}}{\text{Average Rate on date of transfer}}\right]$	XX
Net FVOC		XX
Less - Cost of acquisition	$\left[\frac{\text{Purchase price in INR}}{\text{Average Rate on date of Acquisition}}\right]$	XX
Capital Gain (In Foreign Currency)		

Capital gain in INR = Capital Gain in Foreign Currency X TTBR on the date of transfer

NOTES:-

1) Average Rate means -

Average of TTBR & TTSR [TTBR + TTSR)/2]

2) If Assessee is NR during the PY (in the year of sale), they only will get benefit of Proviso 1

3) There is no indexation benefit in Proviso 1.

Second Proviso to Sec 48

➤ Applicable to **Residents** (not covered by first proviso).

➤ Provides **indexation benefit** on:

- **Cost of Acquisition** and
- **Cost of Improvement using Cost Inflation Index (CII).**

Indexed Cost of Acquisition = Cost × (CII of year of transfer ÷ CII of year of purchase)

➤ But if transfer happens on or after 23 July 2024 , then no indexation available.

Third Proviso to Sec 48

First and Second Proviso not appliable for computation of LTCG computed refrred u/s 112A

Fourth Proviso to Sec 48

- Introduced to **counter abuse** of indexation benefit.
- Applies where **bonds/debentures are transferred**.
- Provides that **indexation benefit shall NOT be available for:**
  - Bonds
  - Debentures

  (other than Capital Indexed Bonds & Sovereign Gold Bonds)

NOTE - No capital gain on sovereign gold bond for Individual as per sec. 47.

Individual
- **Redemption on maturity** → No Capital Gain (Sec.47)
- **Redemption before maturity** → Capital Gain apply (indexation benefit available)

7th Proviso

STT paid on sale/purchase of shares/units not allowed under Capital Gain-

- If it is paid at the time of Sale - Not treated as transfer expense
- If it is paid at the time of Purchase - Not added to the cost of acquisition

SUMMARY OF ALL SECTIONS OF CAPITAL GAIN

SECTION	PARTICULAR
45(1)	General Chargeability
Specific Provision	
45(1A)	Insurance Compensation
45(2)	Conversion of Capital Assets into SIT
45(2A)	Demat (FIFO)
45(3)	Assets transfer as Capital Contribution by partner
45(4)	Assets Distribution by firm to partner
45(5)	Compulsory Acquisition of immovable property
45(5A)	Joint Development Agreement
46A	Buy back of shares
46(1)	Distribution of assets on liquidation - Not taxable for company
46(2)	Distribution of assets on liquidation - taxable in hands of share holder
Sec. 47	Certain transfer which will not be treated as transfer
Sec. 48	Computation of Capital Gain
Sec.49	Deemed cost of Acquisition

Sec. 50	Capital Gain on Dep. Assets (WDV)
Sec. 50A	Capital Gain on Dep. Assets (SLM)
Sec. 50AA	Special provision for computation of capital gains in case of Market Link Debenture
Sec. 50B	Slump Sale
Sec. 50C	Stamp duty value (Immovable Property)
Sec. 50CA	Unquoted shares
Sec. 50D	Consideration not determinable
Sec. 51	Advance Forfeited → To be discuss

SECTION 50B – SLUMP SALE

Meaning of Slump Sale

➤ **Defined in Sec 2(42C):**

"The transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to individual assets & liabilities."

➤ Undertaking = a business activity (not individual assets).

Key Features

1. Entire undertaking (assets + liabilities) transferred.
2. Lump sum consideration received (single amount).
3. No individual values assigned to assets/liabilities in agreement.
4. Sale of undertaking is treated as a transfer of capital asset.

Computation of Capital Gain

FVOC(FMV as per rule no. 1 IUAE) Less : Any transfer Expenses	XX
Net FVOC Less COA (Net worth of the undertaking)	XX
Capital Gain	**XX**

Computation of Net worth

Assets Depreciable Asset Other Assets	₹ WDV as per Income Tax Book Value
Less: Liabilities Net worth	(Book Value) XXX

NOTES

1. No indexation benefit
2. Long term/Short Term based on holding duration of unit
   a. If held more than 3 Yrs – Long Term
   b. If held less than 3Yrs – Short Term
3. No profit under PGBP, even if stock is transferred under slump sale.
4. For computing net worth, if assets (where ded'n claimed u/s 35AD) is transferred, value shall be taken as NIL
5. In case of slump sale, assessee need to furnish a certified report from CA upto date referred to in sec 44 AB, indicating the Computation of net worth of the unit and certifying its correctness
6. If net worth comes negative, then net worth (COA) – Nil
7. For the computation of net worth, value of self generated goodwill of business/profession is taken as NIL
8. Revaluation of asset shall be ignored
9. **Rule 11UAE – FMV forSlump sale**

   On date of transfer: FMV = Higher of:

   FMV 1 = FMV OfUndet taking Transferred

   FMV 2 = FMV of Considerotion Received

Section 51 — Advanced Money Forfeited (by present owner)

Advanced received before 01.04.2014	Advanced received on or after 01.04.2014
To be reduced from COA when such assets are sold in future	Taxable in IFOS u/s 56(2)(ix) in the year when such amount forfeited
Taxability postponed	Taxable in the same year

Note- Any forfeiture one by previous owners shall not considered

Exemption under Capital Gain

Particulars	Section 54	Section 54F
Eligible Assessee	Individual / HUF	Individual / HUF
Type of Asset Transferred	Residential House Property (Long-Term)	Any Long-Term Capital Asset (other than residential house property)
Type of New Asset to be Purchased	1 Residential House Property in India	1 Residential House Property in India
Time Limit for Investment	- Purchase: within 1 year before or 2 years after transfer - Construction: within 3 years after transfer	Same as Sec 54 (1 year before / 2 years after purchase OR 3 years for construction)

Exemption Amount If cost of new assets exceeds 10cr ,then the amount exceeding 10Cr, shall not be taken into account for purpose of exemption	Lower of 1 Capital Gain, or 2 Cost of New House	Proportionate Exemption = Capital Gain × (Amount Invested ÷ Net Sale Consideration)
Condition on No. of Houses Owned	No such restriction (can own more houses)	On date of transfer Must not own >1 residential house (other than new one) Must not purchase another house (within 2 years) or construct (within 3 years)
Deposit Scheme (CGAS)	If amount not utilized before due date of ITR → deposit in Capital Gain Account Scheme (CGAS)	Same requirement
Consequence of Sale of New House	If sold within 3 years → exemption withdrawn (reduced from cost, capital gain taxable)	New assets transferred within 3 year from date of purchase or construction then exemption claimed earlier shall be within drawn be treated as LTCG
Exemption on More than 1 House	Allowed for 2 houses if capital gain < ₹2 Cr (once in lifetime)	Not available (only 1 house allowed)

In short:

➤ Sec 54 → Relief on sale of residential house, reinvest in residential house.

➤ Sec 54F → Relief on sale of any other asset, reinvest entire net consideration in residential house, subject to ownership conditions.

Particulars	Section 54G	Section 54GA
Applicable To	Any person (Individual, HUF, Company, Firm, etc)	Any person (Individual, HUF, Company, Firm, etc)
Nature of Transfer	Capital gain arises from transfer of assets (land, building, plant, machinery) on shifting an industrial undertaking	Capital gain arises from transfer of assets (land, building, plant, machinery) on shifting an industrial undertaking from urban area to Special Economic Zone (SEZ)
Condition	Undertaking shifted from urban area to any rural area	Undertaking shifted from urban area to Special Economic Zone (SEZ)
New Asset to be Acquired	Must acquire new land, building, plant, machinery for the purpose of shifting	Same (land, building, plant, machinery in SEZ)
Time Limit for Investment	Purchase within 1 year before / 3 years after transfer	Same

Exemption Amount	Lower of 1 Capital Gain, or 2 Amount Reinvested in new assets	Same
Deposit in CGAS	Unutilized amount before due date of ITR → deposit in Capital Gain Account Scheme	Same
Withdrawal of Exemption	If new asset is transferred within 3 years, exemption withdrawn	Same
Objective	To encourage shifting of industries from congested urban areas to less congested zones	To promote establishment of industries in SEZs

In short:

➤Sec 54G → Exemption for shifting industry from urban to non-urban area.

➤Sec 54GA → Exemption for shifting industry from urban to SEZ.

Particulars	**Section 54B**	**Section 54D**
Eligible Assessee	Individual / HUF	Any assessee (Individual, HUF, Firm, Company, etc.)
Asset Transferred	Agricultural land (urban or rural)	Land or building forming part of an industrial undertaking
Condition Before Transfer	Land must have been used for agricultural purposes: By assessee or parent (in case of Individual) For 2 years immediately before transfer	Land/building must be used by industrial undertaking for business purposes for 2 years immediately before transfer
Nature of Transfer	Sale of agricultural land	Compulsory acquisition of land or building
New Asset to be Acquired	Another agricultural land (urban or rural)	Other land or building for shifting/re establishing the industrial undertaking
Time Limit for Investment Exemption Amount	Within 2 years from date of transfer	Within 3 years from date of compulsory acquisition
Deposit in CGAS	Lower of 1 Capital Gain, or 2 Cost of new agricultural land	Lower of 1 Capital Gain, or 2 Cost of new land/building
Withdrawal of Exemption	Required if not utilized before due date of ITR	Same (deposit in CGAS)
Objective	If new agricultural land transferred within 3 years → exemption withdrawn	If new land/building transferred within 3 years → exemption withdrawn
	To protect farmers selling land and reinvesting in agriculture	To support industries facing compulsory acquisition to re establish themselves

In short:

➤ Sec 54B → Relief on sale of agricultural land (reinvest in agricultural land).

➤ Sec 54D → Relief on compulsory acquisition of industrial land/building (reinvest in industrial assets).

Section 54EC – Exemption on Investment in Specified Bonds

Particulars	Details
Eligible Assessee	Any assessee (Individual, HUF, Firm, Company, etc.)
Asset Transferred	Long Term Capital Asset (being land or building or both)
New Asset to be Acquired	Investment in specified bonds issued by National Highways Authority of India (NHAI) Rural Electrification Corporation (REC) Power finance corporation limited (PFCL) Indian railway finance corporation limited (IRFCL) HUDCO (1 April 25) IREDA (1 July 25) or other notified bonds
Time Limit for Investment Maximum Investment Limit	Within 6 months from date of transfer
Exemption Amount	₹50 Lakhs in a financial year
Lock-in Period Deposit in CGAS	Lower of 1 Capital Gain, or 2 Amount invested in specified bonds
Withdrawal of Exemption	5 years (earlier 3 years, amended) – bonds cannot be transferred, converted, or pledged Not applicable (only direct investment in bonds is allowed)
Objective	If bonds are transferred / converted into money within 5 years → exemption withdrawn (capital gain taxed in year of transfer) To promote investment in infrastructure projects (through NHAI/ REC bonds)

In short:

➤ Sec 54EC → Long-term capital gains from land/building can be saved by investing in NHAI/REC bonds within 6 months (up to ₹50L), subject to 5 years lock-in.

➤ **Capital Gain Account Scheme:**

a. **Amount:** If investment u/s 54, 54B, 54D, 54F is not made before the date of filing of return, then the amount of net consideration (in case of sec. 54F) or capital gain has to be deposited under the CGAS. The amount so deposited shall be deemed to be cost of new asset.

b. **Time limit:** Such deposit in CGAS should be made before due date or actual date of filing the return, whichever is earlier.

c. **Unutilized amount:** If the amount deposited is not utilized for the **specified purpose** within the stipulated period, then the unutilized amount shall be charged as CG of the PY in which the specified period expires.

However, In the case of sec. 54F, proportionate amount will be taxable.

Note: CBDT clarifies that in the event of death of an individual before the stipulated period, the unutilized amount is not chargeable to tax in the hands of the legal heirs of the deceased individual.

Section 54H – Extension of Time Limit in Case of Compulsory Acquisition

Particulars	Details
Applicability	Where transfer of a capital asset is by **compulsory acquisition** and the compensation is received later
Problem Addressed	Normally, for claiming exemptions (54/54B/54D/54F/54EC etc.), assessee must invest within a specified time (1 year before / 2 or 3 years after transfer) But in compulsory acquisition, **transfer date** is when asset is taken over, while compensation may be received much later → mismatch occurs
Provision	The **time limit for making investment or deposit in Capital Gain Account Scheme (CGAS)** shall be reckoned **from the date of receipt of compensation** (not from date of transfer)
Effect	Gives assessee a fair chance to reinvest after actually receiving compensation money
Example	Land compulsorily acquired in FY 2022-23, but compensation received in FY 2024-25 → Time limit for exemption u/s 54, 54B, 54D, etc. will be counted from **FY 2024-25 (date of compensation receipt)**.

In short:

Sec 54H ensures that exemption window starts from the date of compensation receipt (in case of compulsory acquisition) instead of the transfer date.

Summary of all provisions

Section	Eligible Assessee	Asset Transferred	New Asset to Acquire	Time Limit	Exemption Amount	Special Conditions
S4	Individual / HUF	Residential House (LTCG)	Another Residential House in India	Purchase: 1 yr before /2 yrs after Construction: 3 yrs after	Lower of (Capital Gain, Cost of New House) (If COA < 10 Cr)	Only 1 house allowed, if transfer > 2 cr, only once in lifetime (proviso)
S4B	Individual / HUF	Agricultural Land (used 2 yrs)	Agricultural Land	2 yrs after	Lower of (Capital Gain, Cost of New Land)	New land not to be sold within 3 yrs
S4D	Any Assessee	Land/Building compulsorily acquired (used for industrial undertaking 2 yrs)	Land/Building for shifting industrial undertaking	3 yrs after	Lower of (Capital Gain, Cost of New Asset)	Compulsory acquisition case
S4EC	Any Assessee	Land or Building	Specified Bonds (NHAI/REC/PFC/ IRFC/ etc)	6 months	Lower of (Capital Gain, Amount Invested)	Max ₹50L, lock in 5 yrs
S4F	Individual / HUF	(LTCG) Any LTCG asset (other than residential house)	1 Residential House in India	Purchase: 1 yr before / 2 yrs after Construction: 3 yrs	Exemption = Capital Gain × (Investment in New House − Net Consideration) (If COA < 10 Cr)	Assessee must not own >1 house on date of transfer
S4G	Any Assessee	Land/Building/Plant in urban area used for industrial undertaking (shifted)	Land/Building/Plant in new area	1 yr before / 3 yrs after	Lower of (Capital Gain, Cost of New Assets + Expenses of shifting)	For shifting industry from urban area to non-urban
S4GA	Any Assessee	Land/Building/Plant in urban area	Land/Building/Plant in SEZ	1 yr before / 3 yrs after	Lower of (Capital Gain, Cost of New Assets + Expenses of shifting)	For shifting to Special Economic Zone (SEZ)
S4H	Any Assessee	Any Capital Asset (compulsory acquisition)	Linked to respective section (S4, S4B, S4D, S4EC, S4F, S4G, S4GA)	Period counts from date of compensation receipt	As per relevant section	Provides relief by shifting the start date

Quick Flow of Logic:

- S4 & S4F → Residential House relief
- S4B → Agricultural Land relief
- S4D → Industrial Land (compulsory acquisition)
- S4EC → Bonds investment
- S4G & S4GA → Industrial shifting relief
- S4H → Compensation date relief (compulsory acquisition)

TAX RATES FOR CAPITAL GAIN

LTCG u/s 112A	STCG u/s 111A	Other long term Capital Gain u/s 112

1. SECTION 112A : Tax on LTCG of certain Asset

Applicability

Long-term capital gains (LTCG) arising from:

1. Equity Shares of a company listed on a recognized stock exchange in India
2. Units of Equity-Oriented Mutual Funds
3. Units of a Business Trust

Condition for LTCG

Asset should be held for >12 months

Tax Rate

1. LTCG on transfer of equity shares Of equity oriented units Of units of Business Trust, in excess of ₹1,25,000 shall be taxable:-

(a) @ 10% for any transfer which takes **place before 23rd July, 2024**; and

(b) @ 12.5% for any transfer which takes place **on or after 23 July, 2024**,

if following conditions are satisfied:

- STT paid on acquisition & transfer of Equity shares.
- STT paid on transfer of equity oriented units and units of business trust.

NOTE:

1 limit of shall apply on aggregate of the L TCG under sub-clauses (a) and (b).

[Amended by FA 24, w.e.f- 23rd July, 24]

2. LTCG arising from transaction in recog.- stock exchange located in an international financial service centre (IFSC) would be taxable @10%/12.5% where the consideration in foreign currency even though STT Not Paid in respect of such transaction.

3. Deduction u/s VI-A & Rebate u/s 87A Not Allowed Against Capital Gain referred u/s 112A-

4. C.G. May notify certain modes of acq. of equity shares where payment of S TT on acquisition would not be applicable.

Sec. 55: Cost of Acquisition

In case of equity shares or unit of equity oriented fund or unit of Business Trust acquired before 1/2/2018 & transferred on or after 1/4/2018, **COA shall be:**

Higher of step 1 & 2

Step - 1	(i) Cost of acquisition			xxx
Step - 2	(ii) Lower of			
	a. FMV as on 31/01/2018		xxx	
	b. Sale value FVOC		xxx	xxx
		COA		xxx

Note: Indexation not available for computation of Capital Gain u/s 112A.

Computation of FMV on 31/01/2018

(i) Listed shares/Units on RSE on 31/01/2018:

FMV Highest price Quoted on 31/01/2018.

Note: If no trading on 31/01/2018 then the highest price of last trading session before 31/01/2018.

(ii) Unit/Shares not listed on 31/01/2018

In case of Units

FMV NAV on 31/01/2018

In case of Share Not Listed on 31/01/2018 but Listed on Date of transfer

$$FMV = COA \times \frac{CII \text{ of FY 17-18 i.e. 272}}{CII \text{ of the year in which the share was first held by assessee or 01-02, whichever is later.}}$$

2. SECTION 111A: TAX ON STCG OF CERTAIN ASSET

Particulars	Details
Applicability	Applies to Short-Term Capital Gains (STCG) on: 1. Equity Shares listed on a recognized stock exchange in India 2. Units of an Equity-Oriented Mutual Fund 3. Units of a Business Trust
Condition	Transaction must be chargeable to Securities Transaction Tax (STT) at the time of transfer
Holding Period for STCG	Asset held for ≤ 12 months
Tax Rate	On or before 22nd July 2024 15% On or after 23rd Jul 2024 20%
Basic Exemption Limit	For resident individuals/HUF, if total income (excluding STCG u/s 111A) is less than the basic exemption limit, the shortfall can be adjusted against STCG
Deduction u/s 80C to 80U	Not allowed against such STCG
Rebate u/s 87A	Can be claimed
Set-off	Can be set-off against any STCL / LTCL as per rules

3. Capital Gain Tax on Other Assets

(Excluding those covered under Sections 112A & 111A)

Scenario	LTCG Tax Rate	STCG Tax Rate
A. Transfer before 23rd July 2024	20% (with indexation)	Normal slab rate
B. Transfer on or after 23rd Jul 2024	12.5% without indexation)	Normal slab rate

Note I Expectation to computation of tax on LTCG

Where -

a) The transferor is a resident individual or resident HUF;

b) Long term capital gain arises on the transfer of long-term capital asset being land, building or both;

c) Such asset may be residential or commercial or used for any other purpose;

d) Such asset was acquired before 23-07-2024; and

e) Such asset is transferred on or after 23-07-2024

then, the assessee has the option to pay tax:

Option 1 - Pay tax @ 12.5% without considering index benefit

Option 2 - Pay tax @ 20% after considering index benefit.

Tax point : The option is for computing tax liability on long-term capital gain but there is no option for computing long-term capital gain. In other words, long-term capital gain shall be computed without considering index benefit, however for the purpose of computing tax on long-term capital gain on an aforesaid capital asset, the assessee has options.

Note 2 In case of NR or Foreign Company 10% Tax on LTCG from Unlisted securities or shares without First & Second Proviso to Section 48 if transfer took place before 23rd July, 24 & **12.5%** if transfer took place on or after 23rd July 2024.

Note 3 : Benefit of Basic Exemption against LTCG/STCG 111A/LTCG 112A

In case of Resident Individual/HUF, if balance total income (other than LTCG 112, L TCG 112A & STCG 111A) is less than basic exemption then unexhausted (unutilised) basic exemption can be used against L TCG 112. LTCG 112A & STCG 111A.)

Note 4 Cases where indexation benefit not available on transfer of LTCA

Debenture or Bonds: In case of transfer of bonds and debentures other than capital indexed bonds issued by the Government or Sovereign Gold Bond issued by the RBI under the Sovereign Gold Bond Scheme, 2015 [Sec. 48].

Slump Sale: Transfer of an undertaking or division in a slump sale [Sec. 50B].

Equity shares and equity oriented fund referred to in sec. 112A (Discussed later in this chapter)

In case of depreciable assets, unit of a specified mutual fund and marked linked debenture (discussed later), there will be no indexation and the capital gains will always be short term capital gains.

SECTION 50AA – Capital Gain in case of Market Linked Debentures, Specified Mutual Fund Units and Unlisted Bonds/Debentures (Amended by FA 2024, w.e.f. from 23 July 24)

Applicable for:

- Units of specified mutual funds acquired on/after 1 April 2023
- Market Linked Debentures (MLD)
- Unlisted bonds/debentures transferred/redeemed/matured on/after 23 July 2024

Treatment:

- Always treated as Short Term Capital Gain (STCG)
- No indexation benefit

FVOC	XX
(-) Transfer Expenses	(XX)
Net consideration	XX
(-) Cost of assets	(XX)
Short term capital gain	**XX**

Key Points :

1. **STT** (Securities Transaction Tax) not allowed while calculating capital gain
2. Asset deemed as STCA – always STCG – indexation not allowed
3. **MLD** = Debt security linked to market returns on other securities/indices
4. **Rate of tax : As per normal slab rates (No special rate)**

5. "Specified Mutual Fund" means; -

(a) Mutual Fund, which invests more than 65% of its total proceeds in debt and money market instruments; or

(b) fund which invests 65% or more of its total proceeds in units of a fund referred to in sub clause (a).

Percentage of equity shareholding shall be computed with reference to the Annual average of daily closing figures.

Taxation in Case of Amalgamation & Demerger

A 1.Amalgamation – Definition (Sec. 2(1B))

Amalgamation refers to the merging of one or more companies with another company, or the merger of two or more companies into a single entity, in such a way that:

- Transfer of assets and liabilities of one or more companies to another.
- **75% or more value** of the shareholders of the amalgamating company become shareholders of the amalgamated company.

2. Taxation — Shareholders (Amalgamation)

Aspect	Provision
Capital Gains	Not considered a transfer → No Capital Gains Tax (Sec. 47)
Cost of Acquisition	Same as original shares in amalgamating company (Sec. 49(2))
Period of Holding	Includes holding period of amalgamating company shares (Sec. 2(42A))

3. Taxation — Amalgamating Company

No capital gain on transfer of capital assets during amalgamation. (Sec. 47)

4. Taxation — Amalgamated Company

Aspect	Provision
Cost of Acquisition	Same as cost to the amalgamating company (Sec. 49(1))
Period of Holding	Time held by both the amalgamating and amalgamated companies.
Business Losses & Depreciation	Can be carried forward and set off by amalgamated company (subject to conditions)

5. In amalgamation add fresh period of 8 year would be available to set off & Carry forward losses , Revaluation of assets to be ignore

B. 1. Demerger – Definition (Sec. 2(19AA))

1. A demerger involves the transfer of one or more undertakings to a resulting company, provided:

- All assets & liabilities of the undertaking are transferred
- Transfer is at book value (except IND AS cases)
- Shareholders of the demerged company get proportionate shares in the resulting company
- At least 75% value of shareholders continue in the resulting company
- Transfer is made on a going concern basis
- Car forward a for the remaining period

2. Taxation – Shareholders (Demerger)

Aspect	Provision
Capital Gains	Not considered a transfer → No Capital Gains Tax (Sec. 47)
Period of Holding	Includes period held in the demerged company (Sec. 2(42A))
COA of Resulting Co. Shares	will be determined proportionately based on the book value.
Formula for COA – Resulting Company: = Original COA × (Book Value of Assets Transferred / Net Worth of Demerged Company before Demerger) Net Worth = Paid-up Share Capital + General Reserve	

3. COA of Remaining Shares in Demerged Co. (Sec. 49(2D))

Original COA of shares in the Demerged Company:	xx
Less: COA of shares allocated to the Resulting Company	xx
Revised COA of shares remaining in the Demerged Company:	xx

4. Taxation – Resulting Company

- COA of Assets = Same as cost in the hands of the Demerged Company
- Can carry forward and set off:
  - Business Losses
  - Unabsorbed Depreciation of the undertaking

5. Taxation – Demerged Company

- No capital gain on transfer of assets during demerger (Sec. 47)
- **Note:** Business losses and unabsorbed depreciation related to the transferred undertaking can be carried forward and set off by the Resulting Company.

Particulars	Amalgamation	Demerger
Definition	Merger Of two/more companies into one	Transfer Of one or more undertakings into a new/resulting company
Capital Gains (Company)	Exempt uls 47(vi)	Exempt u/s 47(vib)
Capital Gains (Shareholders)	Exempt uls 47(vii)	Exempt u/s 47(vid)
Cost of Acquisition	Old shares' cost continues (Sec 49(2))	Apportioned between shares (Sec 49(2C), 49(2D)) resulting co.

Carry Forward of Losses	Entire company's losses & depreciation (Sec 72A) For Fresh 8 years	Only of the undertaking transferred (Sec 72A(4)) for remaining period
Continuity Conditions	Business continuation 5 years, asset retention 3 years	Business continuation 5 years, asset retention 3 years
Shareholding Condition	> 75% value shareholders of old co. become shareholders of amalgamated co.	>75% value shareholders of demerged co. become shareholders of resulting co.

In case of Liquidation

In hands of Company

(a) Distribution shall be treated as Deemed dividend u/s 2(22)(c)

(b) As per sec 46(1): Where asset of Co. is distributed on its liquidation, such distribution shall not be treated as transfer. Hence, Capital Gain shall not apply in hands of company.

In Hands of Shareholder

If shareholder receives money or assets upon liquidation, Capital Gain is applicable.

Particulars	₹
Money received	xx
(+) FMV of asset received on date of distribution	xx
Gross Receipts	xx
(–) Amount assessed as deemed dividend u/s 2(22)(c)	(xx)
Full Value of Consideration (FVOC)	xx
(–) Cost of Acquisition (COA)/ Indexed COA	(xx)
Capital Gain (STCG / LTCG)	xx

Notes:

- POH: Date of acquisition till date of liquidation ,determines long term or short term:
  Listed shares → >12 months long term
  Unlisted shares → >24 Long term
- Capital Gain: Taxed in the year of receipt.
- Excess of distribution over the deemed dividend is treated as consideration for transfer of shares (Sec 46(2))
- COA: FMV of asset on date of distribution (Sec 55).
- Deemed dividend u/s 2(22)(c) is taxable u/h Income from other sources.

Taxation in Case of Buyback (Upto 30th Sep, 2024)

In Hands of Company

- Section 115QA applies.
- Tax @ 23.296% (20% + 12% SC + 4% Cess) on Distributed Income.
- Distributed Income = Buyback Price – Issue Price (including premium).
- Tax to be paid within 14 days from distribution date.

In Hands of Shareholder

- Exempt u/s 10(34A).
- No tax in hands of shareholder.

Taxation in Case of Buyback (w.e.f. 1st Oct, 2024)

In Hands of Company

- No tax in hands of company.

In Hands of Shareholder

➤(a) As per Sec. 2(22)(f) → Buyback amount = Deemed Dividend, taxable under IFOS as per normal slab.
(b) Buyback = is treated as Extinguishment of Rights, so Capital Gain arises as per Sec. 46A

Computation of Capital Gain

Particulars	₹
Full Value of Consideration	Always NIL
(–) COA of shares	(xx)
Capital Loss (STCL / LTCL)	**(xx)**

- **Note -POH = From acquisition to date of buyback.**

Example

- Company issued shares at ₹100 each.
- It decides to buy back shares at ₹400.
- Shareholder holds **1,000 shares.**
- Cost of acquisition for shareholder = ₹100,000 (₹100 × 1,000).
- Total payout = ₹400,000 (₹400 × 1,000).

Before 1 Oct 2024 (Old Regime – Sec 115QA)

- **Company's liability:**
  - Distributed income = (₹400 – ₹100) × 1,000 = ₹300,000.
  - Buy back tax = 20% = ₹60,000 (+ SC + Cess).
- **Shareholder's liability:**
  - Entire buy back proceeds = **Exempt u/s 10(34A).**
  - No capital gain/loss allowed.
- **Net outcome:**
  - Company pays tax.
  - Shareholder gets ₹400,000 **tax-free.**

After 1 Oct 2024 (New Regime – Dividend route)

➤ **Company's liability:**

- No buy-back tax (Sec 115QA abolished).

➤ **Shareholder's liability:**

- Entire ₹400,000 treated as Dividend Income u/s 2(22)(f).
- Taxed at slab rate (say 30%).
- Tax = ₹120,000 (plus cess).

➤ **Capital Loss treatment:**

- Cost of shares (₹100,000) becomes notional capital loss (Sec 40A).
- Can be set off against capital gains for 8 years.

➤ **Net outcome:**

- Company saves tax.
- Shareholder bears full tax burden.

Comparison – Old vs New Regime

Aspect	Before 1 Oct 2024	After 1 Oct 2024
Tax incidence	On **Company** (Sec 115QA @20% on distributed income)	On **Shareholder** (entire proceeds taxed as Dividend)
Shareholder proceeds	**Exempt u/s 10(34A)**	Fully taxable at slab rate
Cost of shares	Ignored	Becomes capital loss (Sec 40A)
Effective burden	Lower (company taxed at ~23%)	Higher for HNI investors (30%+ slabs)

Notes



Income From Other Sources

Chapter 7

Income From Other Sources (Sec. 56-59)

Sec.56(1): Any Income which is not taxable under Salary, IFHP, PGBP or Capital gain, shall be chargeable under IFOS

Income taxable u/h IFOS (Sec. 56)

- Taxable in IFOS only
  - Dividend (Sp. Note 1) [56(2)(i)]
  - Casual Income [56(2)(ib)]
  - Interest on Compensation [56(2)(viii)]
  - Advanced Forfeited [56(2)(ix)]
  - Sum of Money/Assets received (Sp. Note 2) (a)Without consideration (Gift) (b) Inadequate consideration
  - Share Issued at Premium (Issue price more than FMV) (Sp. Note 3)
- Taxable in IFOS, if not taxable in PGBP
  - Sum received by Employer (PF/ ESI etc.)
  - Income from let out of P&M/ Furniture
  - Let out of Building (P&M/ Furniture inseparable)
  - Interest on Securities
- Keyman Insurance (Sp. Note 4)

Miscellaneous

1. Income from units of UTI/ Mutual Fund
2. Interest Income
3. Salary Income of MPA/ MLA
4. Family Pension
5. Winnings from Online games
6. Income from transfer of VDA
7. Undisclosed Income u/s 68,69,69A,69B,69C and 69D
8. Others income taxable u/h IFOS-bank deposit and loans given ,interest on income tax refund sub letting ,royalty, agriculture, director sitting fee
9. Interest received on compensation of compulsory acquisition of capital asset

Sec. 57 Following deductions allowed from Income under IFOS

1. **In the case of dividend or income in respect of units of a mutual fund specified under section 10(23D)**– only the interest expenses is allowed as deduction but it will be **allowed maximum 20% of such dividend or income from MF/UTI.**
2. **In the case of interest on securities: any reasonable sum paid** by way of commission / remuneration to a banker or any other person for the purpose of realising such interest a behalf of the assessee.
3. **Income consists of recovery from employees as contribution to any provident fund**– Employee contribution that is paid the due date of return it will be allowed otherwise it will be disallowed.
4. **Income from renting of Plant & Machinery / Furniture**

   If not taxable under PGBP, then taxable under other source.

Computation of Income

Rent Amount (–) Deduction of Expenses (Same as PGBP provisions) Repairs, Insurance Premium, Depreciation and any other expense	XXX (XX)
Income from other sources	**XX**

5. **In the case of income in the nature of family pension**– Deduction shall be lower of 1/3rd of family pension or 15,000 p.a. [₹25,000 in NTR] ("Family pension" means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death)

Certain exemption in respect of family pension:

➤ Received by the widow or children or nominated heirs, of a member of the armed forces (including para-military forces), where the death has occurred in the course of operational duties shall be exempt u/s 10(19).

➤ Received by any family member of individual who had been in the service of CG or SG and had been awarded "Param Vir Chakra" or "Vir Chakra" or Mahavir Chakra" or other notified gallantry awards shall be exempt u/s 10(18)(ii).

6. Interest Income

Taxable Interest Income	Interest on Securities / Deposits / Loans ➤ If not taxable under PGBP, then taxable under other source ➤ Deduction of expenses: Interest / brokerage / any expenses (same as PGBP provision) ➤ Interest on Bank Deposits (Interest on savings A/C and Fixed Deposit (FD)) ➤ Interest on Tax Refund (Taxable in year in which it is received)
Exempt Interest Income	➤ Interest on PPF ➤ Interest on Post Office saving banks → If Individual A/s = upto 3500 Exempt → If Joint A/c = upto 7000 Exempt

7. Interest on compensation / Enhanced Compensation;

➤ **Taxable in year in which it is received.**

➤ **Computation of Income**

Interest on compensation / enhanced compensation received	xx
(-) 50% deduction	(xx)
Income from other source	**xx**

Note: No other deduction

8. Advance money forfeited

If forfeited on or after 1.4.2014 = Taxable under other sources

9. Salary Income of MP/MLA

➤ Daily Allowance and constituency allowance is exempt

➤ Other salary income (Pay and allowance from parliament/assembly) = Taxable under other source

10. Amount received under life insurance policy other than ULIP and keyman insurance policy ;

➤ Amount received under life insurance policy other than ULIP and keyman insurance policy is taxable under other source if it is not exempt u/s 10(10D).

➤ Computation of Income

Amount received under life insurance policy	xx
(-) Premium paid till date of receipt of amount under life insurance policy	(xx)
Income from other source	**xx**

Sec. 58 Deduction not allowable u/h IFOS

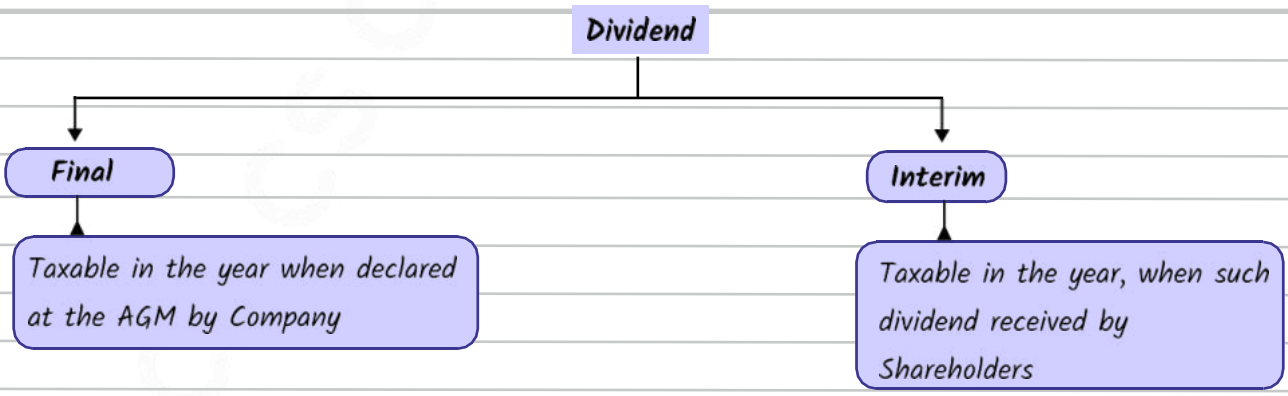
1. Any personal expenses of the assesse.
2. Any expenditure in respect of which made in cash in excess of Rs. 10,000.
3. Any Interest or salary payable outside India on which TDS has not been deducted or paid.
4. 30% of any sum payable to a resident on which TDS has not been paid or deducted at source. Just same as provision of section 40(a)(ia)
5. Any expenditure incurred in connection with casual income

Casual Income

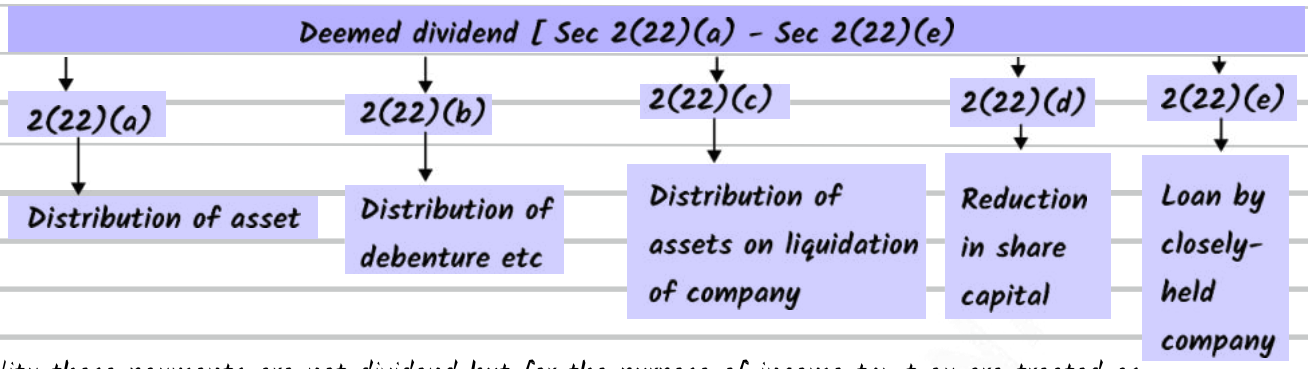
Meaning	➤ Casual income includes ➤ Winnings from lotteries ➤ Crossword puzzles ➤ Races including horse race ➤ Card games ➤ Betting/Gambling ➤ Any Other games (other than online games)
Taxability	Taxable @ 30% uls 115BB
Other Points	i. No deduction of any expenditure from such income ii. No deduction under chapter VI-A from such income iii. No benefit of basic exemption limit from such income iv. No set-off of any loss from such income v. No set-off loss from above activity against any income (Dead Loss)

Special Note 1- Dividend (including deemed dividend)

Dividend is taxable in hands of receiver as per the normal provisions of Income Tax Act, 1961 whether it is received from domestic company or foreign company.



Note: It also include deemed dividend as per section 2(22)(a) - 2(22)(e)



In reality these payments are not dividend but for the purpose of income tax t ey are treated as dividends. The objective is to plug the loopholes in the tax provision & to check avoidance.

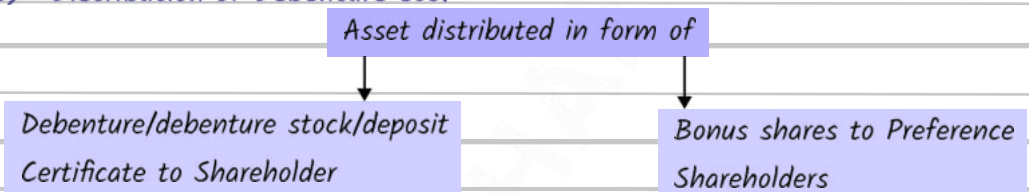
Sec 2(22)(a)- Any distribution of asset

Distribution of asset by company to shareholder will be treated as deemed dividend [upto the limit of accumulated profit (whether capitalized or not)].

Note 1: When assets distributed u/s 2(22)(a), then market value of the assets (FMV) on the date of distribution has to be taken for computing the dividend and this concept of FMV also apply for sec 2(22)(c) & 2(22)(d).

Note 2: There will be no release of asset in case of bonus share, so it is not covered u/s 2(22)(a).

Sec2(22)(b)- Distribution of Debenture etc.



Above will be treated as deemed dividend (upto accumulated profit whether capitalized or not).

Sec 2(22)(c)- Distribution of asset on liquidation

Any distribution of asset by company on its liquidation to the shareholders, will be treated as deemed dividend upto the limit of accumulated profit (whether capitalized or not).

Note - FMV of asset on date of distribution shall be taken for computing deemed dividend.

Sec 2(22)(d) Reduction in share capital

Any distribution to its shareholders by company on reduction of its share capital upto the limit of accumulated profit (whether capitalized or not).

Note FMV of asset distributed on date of distribution shall be taken for computing deemed dividend.

Example : Balance sheet of company as on

• Equity share capital (including bonus shares of 50,000 issued out of reserves)	2,00,000	Cash	2,50,000
• Reserves and surplus	2,00,000	Profit and loss A/C (Dr. balance)	1,50,000
	4,00,000		4,00,000

Case 1 Company reduce the share capital by ₹,50,000 by setting off the Dr. balance of P&L a/c.

Case 2 – Company reduces the share capital by ₹,50,000 refunding cash to shareholders.

Answer :

Case 1 There is no deemed dividend as there is no distribution of asset.

Case 2 ₹,00,000 [2,00,000 (reserve) – ₹,50,000(P/L Dr. Bal) + 50,000 (capital)]

Is deemed dividend for the shareholder & taxable in the hand's of shareholder.

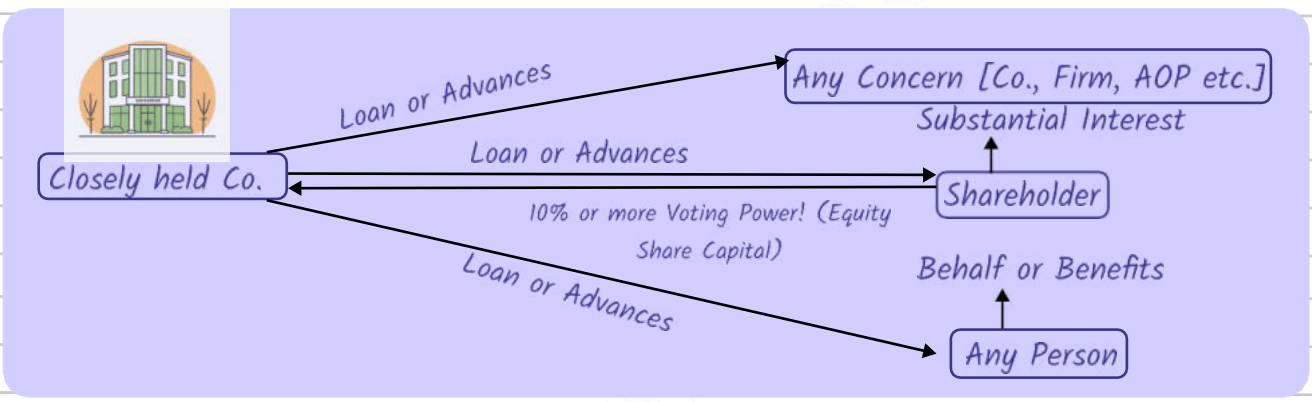
It shall be treated as deemed dividend.

2(22)(f) Payment by company on buyback of shares to its shareholders.

Any amount received by shareholder on or after 01/10/24 because of buy back of share by company , then it will treated as Deemed income

Sec 2(22)(e)– Loan by closely held company (Private and Unlisted Public Company)

Loan and advance given by closely held company



Note 1 Substantial interest in concern means held 20% or more voting power in equity of company or 20% or more profit sharing in case of firm/AOP/BOI at any time during the PY.

Note 2 As per Sec.2(22)(e) the payment is deemed as dividend to the extent the company possesses accumulated profits.

Whereas u/s 2(22)(a) / (b)) / (c)) / (d) the payment/ distribution is deemed as dividend to the extent the company possesses accumulated profit (whether capitalized or not)

Note 3 Sec.2(22)(e) applies to loan/ advance given by closely held company whereas Sec.2(22) (a)/(b)/(c)/ (d) applies to payment/ distribution made by all companies.

Note 4 – Loan is repaid or company charges market rate of interest doesn't make any difference in applicability of Sec.2(22)(e)

Note 5 –Accumulated profit means profit as per company's act (means accounting year) not assessable profit.

Note 6 – Section 2(22)(e) is Not Applicable in case of trade advances means advance which is in the nature of commercial transaction. [CBDT Circular 19/2017]

Example:

1. Advance made by company to sister concern for job work,

2. Advance was made by a company to its shareholder to install plant and machinery at the shareholder's premises to enable him to do job work for the company so that the company could fulfill an export order etc.

Note 7 Share premium, Revenue Reserve, Capital Reserve (created out of capital subsidy) will not be part of reserve and surplus (accumulated profit).

Sec2(22) also provides that following case will not be treated as dividend:

i. Any distribution made in accordance with clause (c) or clause (d) of section 2(22) in respect of preference shares.

ii. Any advances or loan made to a shareholder or a concern by a company in the **ordinary course of its business where the money lending** is substantial part of the business of the company.

iii. Any dividend paid by a company which is **set off** by the company against the whole or any part of the loan which has been deemed as dividend under section 2(22)(e)

iv. Any payment made by a company on purchase of its own shares from a shareholder (BUYBACK) in accordance with the provisions of the section 68 of the Companies Act, 2013.

v. Any distribution of shares pursuant to a demerger by the resulting company to the shareholders of the **demerged company** (whether or not there is a reduction of capital in the demerged company).

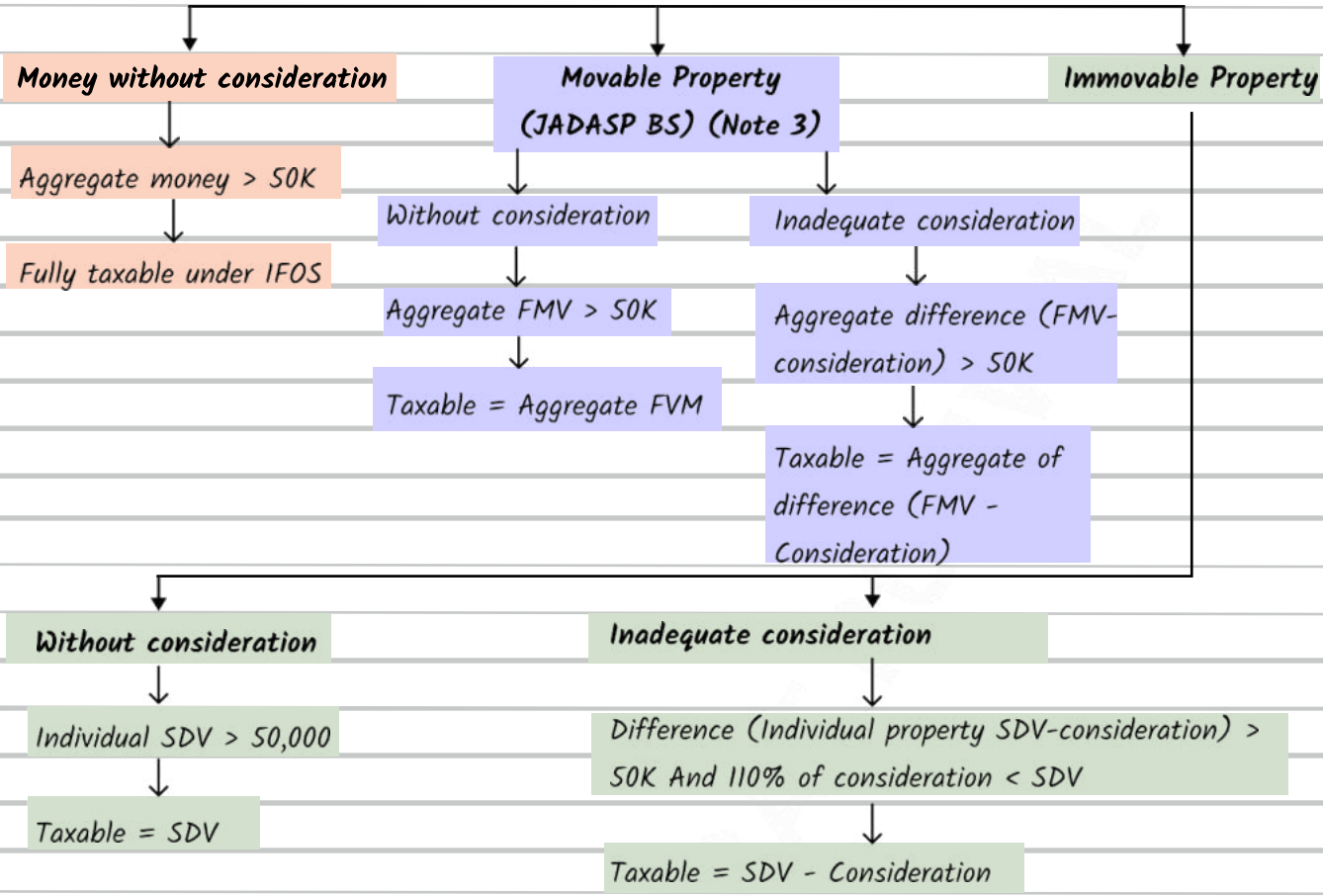
vi. Any advance or loan between two group entities where,

- one of the group entity is a "Financial company" or a "Finance unit" and the parent entity or principal entity of such group is listed on foreign stock exchange.

Special Note 2- Gift Tax

Sum of money/Assets received (with or without consideration)

- **Received in special cases (Note 1) (MRI-DT-HUL-HIT)** → Not taxable as per Sec 56(2)(x)
- **Other cases** → taxable as per Sec 56(2)(x)
  - **Money without consideration**
  - **Movable Property (JADASP BS) (Note 3)**
  - **Immovable Property**



Note ! - Gift will not be taxable, if received from: -

M - On the occasion of **Marriage**.

R - From **Relatives**

I - Under will/**Inheritance**

D - In contemplation of **Death**

T - From **Trust** registered u/s 12AA.

H - From **Hospital/Medical Institution** etc.

U - From **Universities/Educational Institution** etc.

L - From **Local Authority** us 10(20).

H - by **Hospital, Trust** etc, referred u/s 10(23C).

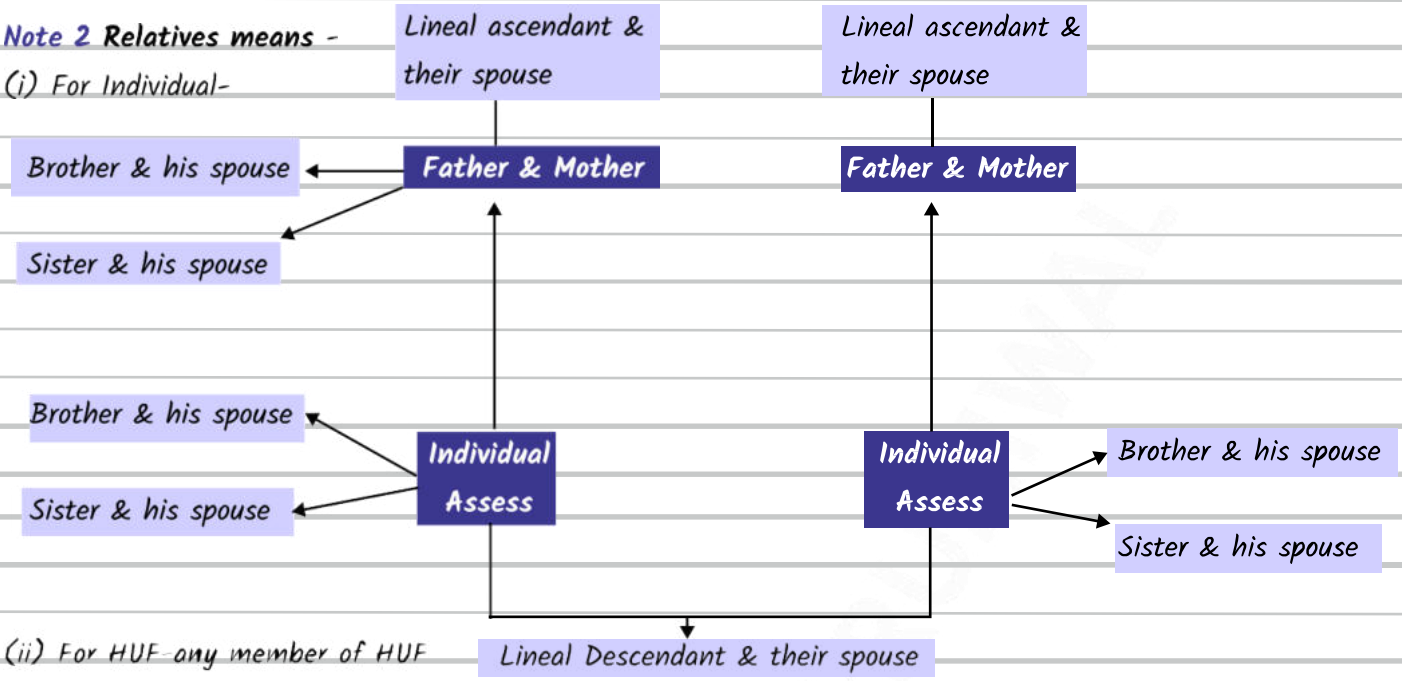
I - From on Individual by trust for the **benefit of relatives of individual**.

T - By way of transfer, not treated as **transfer u/s 47**.

- From such class of persons and subject to such condition as may be specified.

Note 2 Relatives means -

(i) For Individual-



(ii) For HUF any member of HUF

Note 3 Movable Property (JADA SP BS)

J - Jewellery

A- Any Work of Art

B - Bullion.

A - Archoeological Collection

S - Sculptures

S- Shares & Securities.

D - Drawing

P - Painting

V- Virtuol Assets

Note 4 applicable. If property is in nature of capital asset for recipient then only sec 56(2)(x) applicable

If stock in trade for recipient then 56(2)(x) not applicable.

Note-5 **If sec 56(2)(x) applicable for recipient & the COA will be**

Movable property → FMV of property

Immovable property → SDV of property

(and In above case period of holding will be taken from date of receiving the asset.)

Ex. 1 Mr. A acquired a land for Rs 10 Lacs in PY 01-02 and gifted such property to his friend Mr. B on 15/05/21 (SDV on same date is 55 Lakhs)

Taxability of A

Not taxable as it is a gift (as it will not be treated as transfer as per Sec.47)

Taxability for B - As per Sec 56(2)(x)

B received the land without any consideration & SDV of land 50,000, so whole amount will be taxable under IFOS & this 55 lacs will be COA for B if he sale the property in future.

Ex. 2 If above property received by B as stock in trade

Answer : Then S6(2)(x) not applicable

Note 6 Tolerance limit as per sec 50C/43CA

If 110% of sale consideration is less than SDV, then SDV will be fair value of consideration for both Sec. 50C/43CA,

[Sub Note 3 If date of agreement & registration are not same, SDV on the date of agreement can be considered u/s 50C/43CA/56(2)(x), if full or part consideration received or paid by A/c Payee cheque, A/c Payee DD or any mode of electronic clearing system, through bank account/or any other electronic modes as may be prescribed.]

Note 7 If assese not satisfied with stamp duty value then he can refer to valuation officer (some as discussed in Sec. 50C)

Special Note 3- Shares issued at premium (by closely held company)

Where a closely held company receives share application money from a resident at a value exceeding the fair market value (FMV) of shares, the excess amount is taxable as income.

Exceptions:

➤ If received by a venture capital undertaking from a venture capital fund/company or specified fund.

➤ If received by a company from specified classes of persons notified by the Central Government.

If the company fails to meet conditions attached to such exemption, the excess over FMV is taxable as income and will be treated as it shall also be deemed that the company has under reported the said income in consequence of the misreporting under Section 270A for the said previous year.

Section 10(10D): Exemption on Maturity of Life Insurance Policies

Any amount received under a **Life Insurance Policy (LIP)**, including bonuses, is generally **exempt from tax**. However, the following amounts are **taxable**:

Taxable Situations:

1. **Keyman Insurance Policy** – Amount received under such a policy is taxable.
2. **Premium exceeds prescribed limits** – If the premium paid is more than the specified limits under Section 80C (i.e., 20%, 10%, or 15% of the sum assured).
   (Note: If the sum is received due to the death of the insured, it remains exempt.)
3. **High-Premium LIPs (Non-ULIP) issued on or after 1st April 2023** – If the premium payable for any policy year exceeds ₹5,00,000, the maturity proceeds become taxable.

➤ If there are **multiple policies**, the exemption under Section 10(10D) applies **only** to those policies where the **aggregate annual premium does not exceed ₹5,00,000** in any year during the term.

(As per the 6th and 7th provisos to Section 10(10D) – inserted by Finance Act 2023, applicable from AY 2024-25)

Important Note:

Even in the above cases, **any amount received on the death of the insured is fully exempt** under Section 10(10D).

Section 56(2)(xiii): Income from Life Insurance Policy

(Inserted by Finance Act, 2023, applicable from AY 2024-25)

Any sum received, including bonus, at any time during a previous year under a life insurance policy **other than** a Keyman Insurance Policy (KIP) and Unit Linked Insurance Policy (ULIP), which are not exempt under Section 10(10D) shall be taxable to the extent it **exceeds the aggregate premium paid** during the term of such life insurance policy, **provided** the premium was **not claimed as a deduction** under any other provision of the Act. The computation shall be in the manner as may be prescribed.

Scenario:

Anaya, Riya, and Kabir each take a life insurance policy on 10/07/2024. They have no other life insurance policies and do not intend to buy any in the future. Evaluate tax implications under Income Tax Act.

Particulars	Ankita	Tanya	Kabir
Sum Assured	₹45,00,000	₹60,00,000	₹60,00,000
Annual Insurance Premium	₹4,00,000	₹5,20,000	₹6,50,000
Policy Term	10 Years	10 Years	10 Years
Deduction Claimed u/s 80C/year	₹60,000	₹1,50,000	₹1,20,000
Maturity Amount	₹52,00,000	₹77,00,000	₹80,00,000

Analysis and Tax Treatment:

1. **Ms. Ankita**

- Premium ≤ 10% of Sum Assured
- Premium ≤ ₹5,00,000
- Exempt u/s 10(10D).
- No amount taxable u/s 56(2)(xiii).

2. **Ms. Tanya**

- Premium ≤ 10% of Sum Assured
- But premium > ₹5,00,000
- Not eligible for exemption under 10(10D).
- Amount taxable under Section 56(2)(xiii) (IFOS).

3. **Mr. Kabir**

- Premium > 10% of Sum Assured
- Premium > ₹5,00,000
- No exemption u/s 10(10D).
- Fully taxable under Section 56(2)(xiii).

Computation of Taxable Income (IFOS)

Applicable for: **Tanya and Kabir**

Particulars	Tanya	Kabir
Maturity Amount (A)	₹77,00,000	₹80,00,000
Annual Premium Paid	₹5,20,000	₹6,50,000
Less: Deduction Claimed u/s 80C	₹1,50,000	₹1,20,000
Net Premium Paid (B)	₹37,00,000	₹53,00,000
Taxable Income [A – B]	**₹40,00,000**	**₹27,00,000**

Notes



Chapter 8

Clubbing of Income

Generally own Income is assessed for tax but if any assessee divert his Income to any person to avoid tax, then the clubbing provisions will be applicable (as per sec 60-64)

Clubbing of Income

- Sec. 60
- Sec. 61
- Sec. 62
- Sec. 63
- Sec. 64

Section 60

When an individual transfers income from an asset to another person without transferring the ownership of that asset, then the income will still be taxable in the hands of the transferor (original owner of the asset).

Section 61 : Revocable Transfer of Assets

When an individual transfers an asset to another person but retains the power to revoke the transfer (i.e., take the asset back), it is known as a revocable transfer.

Tax Implication:

Any income arising from a revocable transfer of an asset shall be taxable in the hands of the transferor, not the transferee.

Exception: If transfer is revoked after the death of beneficiary or transferee then the above provision is not applicable

Sec. 64 - Clubbing of Income in respect of:

- (a) Minor Child
- (b) Spouse
- (c) Son's Spouse
- (d) HUF

(a) [Section 64(1A)] : Clubbing of Minor's Income

- All income of a minor is included in the income of the parent whose total income is higher.
- Once clubbed with one parent, it continues in following years unless changed by the Assessing Officer.
- If the marriage of parents does not subsist, income is included in the hands of the parent who maintains the child.

Exceptions

Income from:

1. Manual work.
2. Skill, talent, knowledge, or experience.
3. Minor child suffering from disability.

Transfer of House Property to Minor

➤ Transferor is deemed owner; income is taxed in their hands (no exemption under Section 10(32)).

➤ If transferred to minor married daughter, clubbing is done under Section 64(1A), and exemption under Section 10(32) is available if the parent opts out of the default tax regime (115BAC(1A)).

➤ Child in relation to an individual includes a step child and an adopted child of that individual

Exemption in Respect of Clubbed Income of Minor [Section 10(32)]

➤ Parent can claim ₹1,500 exemption per minor child.

➤ If income is less than ₹1,500, the entire amount is exempt.

(b) Related to Spouse

1) Income of Spouse from a Concern in Which Individual Has Substantial Interest-64(1)(ii)

➤ Remuneration (salary, commission, fees, etc., in cash or kind) to spouse from a concern in which the individual has substantial interest is to be clubbed.

➤ Substantial Interest:

Company: 20% or more shareholding.

Firm/AOP/BOI: 20% or more Profit Sharing Ratio (PSR).

2) Exception

Clubbing provisions do not apply if remuneration is due to the spouse's technical or professional qualifications. In such cases, income is assessed in the spouse's hands.

3) Both Spouses Have Substantial Interest

➤ If both are receiving income from the concern, it will be included in the hands of the spouse whose total income (excluding such income) is higher.

➤ Where any such income is once included in the total income of either spouse , income arising in the succeeding year shall not be included in the total income of the other spouse unless AO is satisfied

Transfer of Assets to Spouse [Section 64(1)(iv)]

1) Transfer of House Property

➤ If house property is transferred to spouse without adequate consideration or not in connection with an agreement to live apart, transferor is deemed the owner, and income is taxed in their hands.

2) Transfer of Other Assets

Income arising from other assets transferred without adequate consideration or not in connection with a separation agreement is clubbed with the income of the transferor.

3) Accretion of Income

➤ Income from accretion of transferred asset is not clubbed

➤ Income from investment of income from transferred assets is not clubbed.

4) Adequate Consideration

➤ Natural love and affection is not adequate consideration. Income from such transfers is clubbed with the transferor.

5) Investment in Business

➤ If transferred asset is invested in a business, proportionate income is clubbed.

➤ If capital is contributed, proportionate interest receivable by the transferee is clubbed.

(c) Transfer for Benefit of Spouse or Son's Wife

➤Income from asset transferred to another person for the benefit of spouse or son's wife is clubbed with transferor.

➤ If asset is transferred directly to son's wife without adequate consideration, income is included in the transferor's income.

➤ Income from such asset is received by son's wife but tax on such asset is paid by transferor

➤ **Provision applicable:** Only if relationship of mother /father in law and daughter in law exists at the time of transfer of asset as well as at the time of generating Income

(d) [Section 64(2)] Conversion of Self-Acquired Property into HUF Property

If an individual converts their property into HUF property without adequate consideration, income from such asset remains taxable in their hands.

After partition of HUF, if income from such asset is received by the spouse, it is clubbed with the transferor's income.

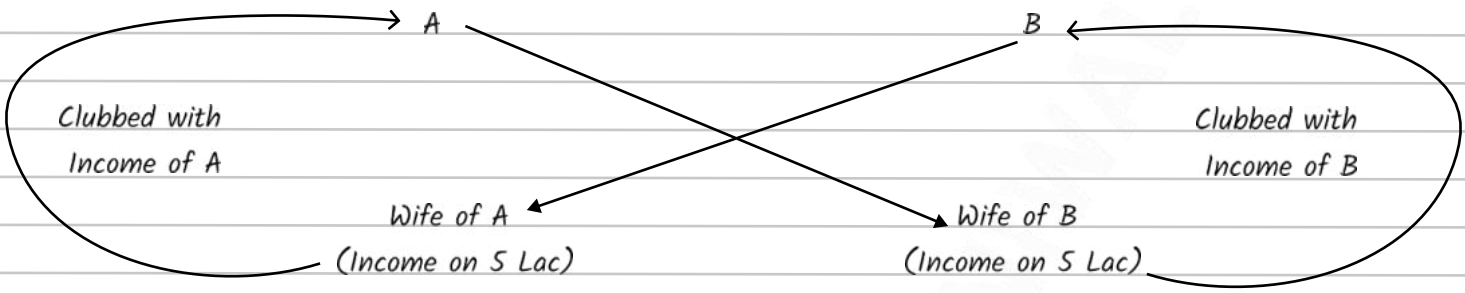
General Notes

1. If clubbed income is a loss, it is also included in the total income computation.
2. The transferee may be served a notice of demand and held liable for tax to the extent of the clubbed income. Where any asset is transferred is converted into other form ,income derived from such converted asset shall be clubbed
3. If transferred asset sold by the transferee , capital gain shall be clubbed
4. **Cross Transfers:**

Example: A gifts ₹50,000 to B's wife; B gifts shares worth ₹50,000 to A's minor son.

➤ The income from the house is taxed in B's hands; dividend from shares is taxed in A's hands.

➤ Supreme Court in CIT v. Keshavji Morarji ('90): Clubbing applies if the arrangement is a device to evade tax.



5. Where any asset is transferred by individual to his spouse/son's wife & such amount is invested in business by transferee then proportionate profit of such business shall be clubbed as per following formula :

$$\text{Income from business} \times \frac{\text{Gifted by Assessee}}{\text{Capital of Business on first day of P.Y. (Opening Capital)}}$$

Clubbing shall be applicable only if gifted money is included in opening capital.

o. All the clubbing provisions are not applicable to second generation income i.e. income from accretion of transferred asset.

Notes



Set-Off & Carry Forward Of Loses

Chapter 9

If assessee has losses in any head of income, then he can set-off such losses with profit of any other head & if losses cannot be set-off during the P/Y then it can be carry forward to next P/Y for set-off

(All Set-off & Carry Forward of losses are as per the provisions of this chapter)

Sequence of Set-off

First - Intra Head Set-off (Sec. 70)

Second - Inter Head Set-off (Sec. 71)

Third & last - Set-off of brought forward losses (71B to 74A)

Note 1 - Set-off of losses incurred in illegal business can be possible with profit of illegal business only

Section 70 - Intra Head Adjustment

Allowed	Exceptions (Not Allowed)
It means loss from one source of income can be set off against income from another source of income but it the **same head of income.**	➤ Speculative business loss can be set off against only speculative business income. ➤ Specified business loss (Sec 35AD) can be set off against specified business income. ➤ Long term capital loss (LTCL) can be set off against long term capital gains. ➤ Loss from owning & maintaining race horses can be set off against income from owning & maintaining race horses.

Section 71 - Inter-head Set-off of Losses (Across Income Heads)

Allowed	Exceptions (Not Allowed)
Loss of any source can be adjusted with profit of any other source in the same head of Income (if possible) as per Sec. 70, but if there is no income in same head to adjust the loss, then it can be adjusted with other head of income	- Loss under "Profits and Gains from Business/Profession" cannot be set off against salary - Speculation loss, 35AD business loss, race horse activity loss cannot be set off under any head

Set-off & Carry Forward

- Long term capital loss (LTCL) can be set off against long term capital gains.
- Short term capital loss (STCL) can be set off only against STCG & LTCG
- House property loss can only be set off up to ₹2 lakhs against other heads (old regime only)
- Loss from business cannot be set off against salary

(*for Carry forward losses Inter-head adjustment Not Allowed)

Section	Losses to be C/F	B/F losses setoff against	Time limit	ROI on time
71B	Loss from HP	Income from HP	8 AYs	No
72	Normal Business Loss	Any Business Income	8 AYs	Yes
73	Speculative Business Loss	Speculative Business Income	4 AYs	Yes
73A	Specified Business Loss	Specified Business Income	Indefinite	Yes
74	STCL	STCG & LTCG	8 AYs	Yes
	LTCL	LTCG	8 AYs	Yes
74A	Owning & maint. race horses	Income from Owning maint. race horses	4 AYs	Yes
32	Unabsorbed Dep.	Any head of Income except salary	Unlimited	No

ORDER OF SET OFF OF LOSSES

As per the provisions of section 72(2), brought forward business loss is to be set-off before setting off unabsorbed depreciation. Therefore, the order in which set-off will be effected is as follows -

1. **Current year depreciation** under section 32(1)
2. **Brought forward loss** from business/profession [Section 72(1)]
3. **Unabsorbed depreciation[Section 32(2)]**

Loss Set-Off and Carry Forward Rules

Source of Income	Type of Loss	Adjustment Order	Carry Forward
1. Salary	Loss not possible	✗	✗
2. House Property	Loss from HP	1. Intra-head 2. Inter-head (Max ₹2,00,000) 3. Carry Forward	Allowed for 8 AYs

Source of Income	Type of Loss	Adjustment Order	Carry Forward
3. Business or Profession	(i) Speculative Business	1. Setoff against speculative income 2. If not setoff during year the then carry forward	Allowed for 4 AYs
	(ii) Specified Business (35AD)	1. Setoff against specified income 2. If not setoff during year the then carry forward	Allowed for Unlimited Period
	(iii) Any Other Business Loss	1. Intra-head 2. Inter-head (expect Salary) 3. If not setoff during year the then carry forward	Allowed for 8 AYs
4. Capital Gains	(i) STCL (Short Term Capital Loss)	1. Setoff against STCG/LTCG 2. If not setoff during year the then carry forward	Allowed for 8 AYs
	(ii) LTCL (Long Term Capital Loss)	1. Setoff against LTCG only 2. If not setoff during year the then carry forward	Allowed for 8 AYs
5. Income from Other Sources	(i) Race Horse Loss	1. Setoff against some source 2. If not setoff during year the then carry forward	Allowed for 4 AYs
	(ii) Other IFOS Losses	1. Intra-head 2. Inter-head 3. Carry Forward not allowed	Not Allowed

Some Important Points

1. For carryforward losses Inter head adjustment not allowed. (Once a Loss from a particular head is carried forward ,it can be set off only against the income from the same head in the coming AY.)
2. Loss u/h Salary -not possible.
3. Loss from Any lottery , cards games, races, etc. are NOT ELIGLIBE for set off & C/F & Losses cannot be set off against the income referred u/s 115BB i.e. lottery income , crossword puzzles, income in TV show etc.
4. Unabsorbed dep can be set off from any head of income except salary.

5. Set off losses not permissible against unexplained income, investment, money u/s 68 to 69D.(!!SBBE)
6. Loss from derivatives is not a speculative
7. B/f losses from a business can be set off even if such business in Not Continued
8. If there is income under any head & eligible losses under other head, such loss shall be first set off against the income c/f of losses (CBDT circular)
9. If assessee opted section !!SBAC default tax regime then HP head losses not allowed to setoff against any other head and it cannot be carry forward

Stock & Commodity market

1. **Transactions in shares where delivery effected**
   a. PGBP if shares held as Stock in trade
   b. Capital Gain if shares held as Capital Asset
2. **Transactions in shares where delivery not effected i.e., Intraday**
   a. Always Speculative Business Income
3. **Transactions in Derivative i.e. futures, options etc. & currency futures at recognised stock exchange**
   a. Always Normal Business Income

CA CS CMA BHARAT RUNIWAL

Notes



Deduction From Gross Total Income

Chapter 10

Deduction u/s 80C-80U (Chapter VI - A)

1. Deduction u/s VI-A is restricted to Gross Total income & deduction cannot be carry forward.
2. Deduction u/s VI-A is Not Allowed against LTCG, LTCG 112A, STCG 111A & special rates of tax income.

Part-1 Expenses Based Deductions

A Investment

Section 80C- Contribution to LIC, PPF, PF, etc. Maximum limit of 1.5 lacs (with sec. 80CCC, 80CCD(1))

Section 80CCC - Pension Scheme

Section 80CCD(1B) - Additional Pension Scheme

Section 80CCD- Contribution to pension scheme of Central Government.

Section 80CCE- Maximum limit of 1.5 lacs

Section 80CCH- Agnipath Scheme

B Medical expenses

Section 80D -Payment of medical insurance premium

Section 80DD -Maintenance including medical treatment of disabled dependent

Section 80DDB -Medical treatment of specified disease

Section 80U -Deduction in case of own disability

C Interest expenses

Section 80E -Interest on loan taken for higher education

Section 80EE/80EEA -Interest payable on loan borrowed for acquisition of house property

Section 80EEB -Loan taken to purchase electric vehicle

D Donation

Section 80G -Donation to certain relief funds, charitable institutions etc.

Section 80GGA -Donations for scientific research and rural Development

Section 80GGB -Contribution given by companies to political parties

Section 80GGC -Contributions given by other person to political parties

E Other expenses

Section 80GG -In respect of rent paid

Part-2 Income based deductions

Section 80JJAA -Employment of new employees

Deduction From GTI

E Royalty

Section 80QQB – Royalty income of authors (certain books other than text books)

Section 80RRB – Royalty on patents

F Interest

Section 80TTA – Interest on deposits in savings account

Section 80TTB – Interest on deposits in case of senior citizens

Part A Deduction based on Investments

Sec. 80C – Deduction in respect of certain specific investment

Eligible Assessee: Individual & HUF

Amount of Deduction: Max 1,50,000

Certain specific Investment

- Only for Ind. / HUF (Resident / Non-Resident) &
- Deduction Maximum up to ₹ **1.5 Lacs**

Eligible Investment

Type – A (For Individual / HUF)

- **LIC (Note 1)**
- **PPF**
- **ULIP**
- **Annuity Plan**

Type – B (Only for Individual)

- Deferred Annuity plan
- **Contribution to SPF / RPF** (Employee contribution
- **Tuition fees** – Max 2 children for full time education in India
- **Repayment of housing loan (taken from Bank or FI for purchase or construction of house)**
- Contribution to approved Superannuation Fund (SAF)
- Contribution as per notified Deposit scheme
- NSC VIII Issue: **NSC as well as interest accrued on it**
- **Fixed Deposit in a scheduled Bank or Post office for 5 years or more.**
- Notified bonds of NABARD
- Deposit in an account Sr. citizen Saving scheme rule, 2004.
- Units of Mutual Fund (Notified)
- Notified Pension Fund of UTI or MF
- Notified deposit scheme of National Housing bank
- Equity shares / debentures to Housing Finance Companies / Venture Funds
- Energy Bonds, Debentures, Units etc. of infrastructure undertaking
- NPS contribution (Tier – I) (Note 2)
- **Deposit in Sukanya Samriddhi Scheme A/c**
- **Stamp duty, Registration fee for acquisition of house property**
- By employee of CG as a contribution to a specified account of the pension scheme referred to in Sec. 80CCD for a fix period of **Three years or more (NPS Tier – II).**

For Life insurance premium and Public provident fund

➤ **In case of individual** – Investment for Individual / Spouse / any child of such individual

➤ **In case of HUF** – Any member of HUF

Note 1

Life Insurance Policy (Lower of two is allowed as deduction)

Issued before 1.4.2012	Issued after 1.4.2012	Issued after 1.4.2013 for person with disability (u/s 80U)
Lower of :	**Lower of :**	**Lower of :**
Premium paid	Premium paid	Premium paid
or	or	or
20% of sum assured	10% of sum assured	15% of sum assured

Sec. 80CCC – Deduction in respect of contribution to certain Pension funds.

Eligible Assessee: Individual & HUF

Amount of Deduction: Max 1,50,000

Contribution to pension fund of LIC or other insurance company.

➤ Only for Individual

➤ Deduction Maximum up to ₹ **1,50,000**

Note – Amount received as pension or on surrender of annuity plan shall be deemed to be the income of Assessee/Nominee and shall be taxable in the previous year in which such income is received.

Sec. 80CCD – Deduction in respect of contribution to Pension scheme of central government.

Eligible Assessee – Individual

Amount of Deduction: Max 1,50,000

Contribution

- **Salaried EE** → Deduction
  - **EE's contribution (Employees)**
    80CCD (1) - lower of the following-
    i) Amt. paid
    ii) 10% of salary
  - **ER's contribution (Employer)**
    80CCD (2) - lower of the following-
    i) Amt. paid
    ii) 10%/ 14% of salary
    (14% in case of EE of CG/SG)
- **Others** → [80CCD (1)]
  - **Ded'n lower of following**
    i) Amt. paid
    ii) 20% of GTI

Note 1 – Employee's contribution is first taxable u/h Salary in hand's of employee and then he gets deduction u/s 80CCD(1)

Note 2 – 14% if assessee follow default tax regime u/s 115BAC (Added by FA 24 w.e.f. AY 25-25)

Salary means – Basic + DA (if) & GTI means – Gross total income.

Note 3 Additional Deduction on NPS –₹50,000

Additional deduction of Rs. 50000 in respect of contribution to NPS of central government **[80CCD(1B)]**. However, no deduction under section 80CCD(1B) shall be allowed in respect of the amount on which a deduction has been claimed and allowed under section **80CCD(1)**.

Example:

Assessee's contribution Rs. 140000 towards NPS & GTI is Rs. 550000

In this case assessee can claim Rs. 110000 (20% of GTI) U/s 80CCD(1) & remaining 30000 U/s 80CCD(1B) or he can first claim u/s 80CCD(1B) of Rs. 50000 & remaining 90000 u/s 80CCD(1).

Note 4 – Amount received as Pension on closure of Pension scheme – Taxable

In case, if assessee or his nominee receives any Pension amount including interest or bonus thereon on closure or in opting out of the Pension scheme, then such amount shall be deemed to be the income of assessee or his nominee in the year of receipt and taxable accordingly.....

However if such above amount is received by nominee on the death of the assessee then the same shall not deemed to be the income of nominee and not taxable.

Sec 10(12A)

Any payment from the NPS Trust to an assessee **on closure or opting out of the Pension scheme** referred to in section 80CCD shall be exempt **to the extent it does not exceed 60% of the total amount payable**.

Sec 10(12B)

Any payment from **NPS Trust to an employee under the Pension scheme** referred to in section 80CCD, **on Partial withdrawal** made out of his account in accordance with the terms and conditions specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made there under, **shall be exempt to the extent it does not exceed 25% of amount of contributions made by him**.

Sec. 80CCE – Exemption limit in respect of 80C / 80CCC / 80CCD(1)

Limit of exemption u/s 80C / 80CCC / 80CCD(1) - Max 1.5 Lacs

Note – This limit do not applicable for ER's contributor to pension u/s 80CCD(2).

Section 80CCH: Deduction in respect of Contribution to Agnipath Scheme

Eligible Assessee: Individual enrolled in Agnipath scheme subscribing to the Agniveer Corpus Fund on or after 1.11.2022.

Amount of Deduction

Section 80CCH(1): 100% of Amount deposited by individual enrolled in Agnipath Scheme in his account in Agniveer Corpus Fund.

Section 80CCH(2): 100% of Contribution made by Central Government to the said account of assessee. Central Government contribution is first taxable under head salary in hands of individual, then he gets deduction u/s 80CCH(2)

Section 10 (12C) Any payment from Agnipath Corpus Fund to a person enrolled under Agnipath Scheme or his nominee is exempt from tax.

Note: As per Agnipath scheme 30% of monthly package should contributed to Agnipath fund by assessee and CG will also contribute matching amount.

Part B Deduction based on Medical Expenses

Sec. 80D – Deduction in respect of payment of medical insurance premium

Deduction in respect of Health Insurance premium

Individual

Self/Spouse / Dependent children
- Health Insurance
- Medical Treatment
- Preventive Heath Check-up
- Insurance under the Scheme approved by CG

Limit is 25000/-
+
Additional 25000/-
(If senior citizen)

Parents
- Health Insurance
- Medical Treatment
- Preventive Heath Check-up

Limit is 25000/-
+
Additional 25000/-
(If senior citizen)

H.U.F.

Any member of Family
- Health Insurance
- Medical Treatment

Limit is 25000/-
+
Additional 25000/-
(If senior citizen)

Note 1: If insurance is not possible (due to age limit) then treatment expenses for Sr. citizen will be Maximum up to ₹ 50000/-.

Note 2: Health check-up for Spouse/Dependent Children/Parents cannot exceed ₹ 5000.

Note 3: Cash not allowed for insurance. Health check-up is still allowed if payment is made in cash.

Where the medical insurance premium is paid in lumpsum for more than 1 year, deduction for each year shall be:

$$\frac{\text{Lumpsum premium}}{\text{PY's in which Insurance in force (No of year for which premium is paid)}}$$

Sec. 80DD – Deduction in respect of Maintenance including medical treatment of a dependent disabled.

Eligible Assessee: Resident Individual & HUF

Amount of Deduction: (i) Normal disability : 75,000

(ii) Severe disability (80% or more disability) Expenses incurred for the maintenance including, treatment of -

I) Dependent

- **Individual** — Spouse/Children/Father/Mother/Brother/Sister
- **H.U.F** — Any Member

ii) Dependent having Disability

- **Normal Disability** — Fixed Deduction of ₹75000/-
- **Serious Disability** — (80% more of disability) Fixed Deduction. ₹ 125000/-

Note –

1. Assessee should incur expenses on medical treatment or deposit any amount for maintenance of such handicapped dependant relative.
2. Deduction will be reversed if dependent handicapped relative received annuity before the death of assessee or before attaining age of 60 years of assessee.

Note 1

Disability certificate by medical authority in prescribed form to be submit, while claim this deduction.

Note 2

Sec. 80DDB for dependent but in case of self disability, deduction U/S 80U apply with same provision.

Sec. 80DDB – Deduction in respect of amount paid for medical treatment of specified diseases or ailment.

- Individual Himself + Dependent (Spouse/Mother/Father/Brother/Sister)
- H.U.F Any member (Dependent)

Ded'n - Lower of following

1. Actual
2. 40000/-(100000/- in case of senior citizen)

Note 1

If amount received from insurance company, then dedn will be reduced accordingly.

Note 2

Medical prescription for such specified disease to be obtained from govt. doctor.

Section 80U: Deduction for Disabled Assessee

Eligible Assessee: Resident Individual

Amount of Deduction

- Normal Disability= ₹75,000
- Severe Disability (80% or more) = ₹1,25,000[Flat Deduction]

Purpose	Section
Higher EDUCATION	Section 80E
Residential House Property (Before 01.4.2016)	Section 80EE
Residential House Property (Between 1.4.2019 to 31.3.2022)	Section 80EEA
Electric Vehicle	Section 80EEB

Part C Deduction based on Interest Expenses

Sec. 80E – Deduction in respect of interest on loan taken for Higher education

Eligible Assessee: Individual

Amount of Deduction: Interest amount for a period of 8 consecutive years starting from the year in which assessee starts paying interest.

Conditions: (Loans must be taken from Bank or financial institution)

Interest on Education loan

- Interest paid to financial institution/approved charitable
- For higher education

(Self / Spouse / Children/student for whom individual is the legal

100% deduction allowed of interest on such

- Deduction allowed for maximum 8 years

(i.e., P.Y. + next 7 years)

Sec. 80EE – Deduction in respect of interest payable on loan borrowed for acquisition of House Property

Particulars	Details
Section	80EE — Deduction for Interest on Housing Loan
Eligible Assessee	Individual
Maximum Deduction	₹50,000

Conditions	- Loan must be from **Financial Institution / Housing Finance Company** - Loan must be sanctioned between **01.042016 to 31.03.2017** - Assessee should not own any other residential house property on the date of loan sanction - Loan amount sanctioned ≤ **₹35 lakhs** - Value of house property ≤ **₹50 lakhs**
Claiming of Deduction	First claim interest deduction u/s 24(b) (up to Additional interest (if any) can be claimed u/s 80EE (up to ₹50,000)

Sec. 80EEA – Deduction in respect of interest payable on loan borrowed for acquisition of House Property by individual (Other than claim to deduction u/s 80EE)

Particulars	**Details**
Section	80EEA – Deduction for Interest on Housing Loan (Affordable Housing)
Eligible Assessee	Individual
Loan Source	Loan must be taken from **Financial Institution (FI) / Housing Finance Company (HFC)**
Time Period of Sanction	Loan sanctioned between **01.04.2019 to 31.03.2022**
Ownership Condition	Assessee must not own any other residential house property on the date of sanction of loan
Property Value Condition	Stamp Duty Value of residential house property ≤**45 lakhs**
Maximum Deduction Allowed	Up to **₹1,50,000 per year**
How to Claim	- First claim deduction u/s 24(b) (restricted to for SOP) - Remaining interest can be claimed u/s 80EEA (subject to limit)

Sec. 80EEB – Deduction in respect of interest payable on loan taken for purchase of electric vehicle

Eligible Assessee: Individual

Amount of Deduction: Max. ₹1,50,000

Conditions :Interest on loan taken from **financial institution, Bank, HFC and NBFC**

For the purpose of purchase of electric vehicle

(If loan sanctioned between 1.4.2019 to 31.3.2023)

Deduction should be allowed for interest payable on such loan but subject to maximum ₹50000/year

Part D: Deduction based on Donation

Sec. 80G – Deduction in respect of interest on loan taken for Higher education

Eligible Assessee: All Assessee

Donation exceeding, ₹2000%- should be done in any mode other than Cash

Deduction Available

Category A – 100% Deduction: Restricted	Category B – 50% Deduction: Restricted	Category C – 50% Deduction: Without Restriction	Category D – 100% Deduction: Without Restriction
1. Donation to government, local authority or any other notified institution for the purpose of promoting family planning. 2. Donation by a company to the Indian Olympic Association or a notified institution for infrastructure for sports in India.	1. Donation to Housing Development Authority. 2. Donation or renovation or repair of temple, Gurudwara, mosque or Church, etc. 3. Donation to any public Charitable Trust. 4. Donation for Promoting Minority community India.	1. Prime Minister's Drought Relief Fund 2. Memorial Fund	1. The Prince Minister's national Relief Fund 2. The Prime Minister's Armenia Earthquake Relief Fund 3. The National Foundation for Communal Harmony 4. The National Defense Fund 5. The National Children's Fund 6. The Africa Fund 7. Notified university or any educational institution of national eminence 8. The chief Minister's Earthquake Relief Fund, Maharashtra 9. The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996 10. Any Fund set up by the State Govt. of Gujarat for providing relief to the victims of earthquake

Category A – 100% Deduction: Restricted

Category B – 50% Deduction: Restricted

Category C – 50% Deduction: Without Restriction

Category D – 100% Deduction: Without Restriction

11. The Chief Minister's Relief Fund
12. The Lieutenant Governor's Relief Fund in respect of any Union Territory
13. Zila Sakshorta Samiti
14. The National Blood Transfusion Council
15. The State Blood Transfusion Council
16. The National illness Assistance Fund
17. The Army Central Welfare Fund
18. The Air Force Central Welfare Fund
19. The Indian Naval Benevolent Fund
20. The National Sports Fund
21. The National Cultural Fund
22. The Fund or Technology Development and Application
23. Any Fund set up by a State Government to provide medical relief to poor
24. The National Trust for Welfare of Persons suffering with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
25. Swachh Bharat Kosh
26. Clean Ganga Fund
27. National Fund for Control of Drugs

Max Allowable Amount
(Lower of following)
Total Donation (A+B)
or
10% of Adjusted GTI

Allowed Amount
↓
Total Donation (C+D)

1. Meaning of Qualifying Amount	2. Calculation of Adjusted Gross Total Income
Amount of qualifying amount = lower of the following two amount: i) 10% of the adjusted gross total income ii) Donations given (A&B category)	= Gross Total income (–) Long Term capital Gain (–) Short Term capital Gain u/s 111A (–) All deductions u/s 80C – 80U except Section 80G (–) Income taxable with special rate

Sec. 80GGA – Deduction in respect of certain donation for scientific research or rural development

Eligible Assessee : All assessees (except assessees having income under the head PGBP)

Amount of Deduction : 100% of donation (If paid in cash > 2000 then deduction not allowed)

Donation for scientific research or rural development.

Donation to

1. Any research association, university, college or other institution to be used for scientific research approved under section 35(1)(ii) and 35(1)(iii)
2. National rural development fund, national urban poverty eradication fund and any association or institution carrying rural development program set up and notified under section
3. Any public sector company or local authority or an association or institution approved by national committee carrying out eligible project under section 35AC

Sec. 80GGB – Deduction in respect of contribution given by Companies to political parties

- **Eligible Assessee:** 80GGB - Indian Company, 80GGC - Any Other Person
- **Amount of Deduction:** 100% of donation
- **Contribution given by Companies to political parties**
- Benefit given to Indian Company only
- Contribution to political party registered under section 29A or an electoral trust approved by Board.
- **100% of contribution is allowed as deduction** (Cash contribution not allowed)

Sec. 80GGC – Deduction in respect of contribution given by any person to political parties

- **Eligible Assessee:** Any Other Person
- **Amount of Deduction:** 100% of donation
- **Contribution given by any person to political parties**
- Benefit given to all assessee

(Other than local authority and an artificial juridical person wholly or partly funded by the government.)

- Contribution to political party registered under section 29A or an electoral trust approved by Board.
- **100% of contribution is allowed as deduction** (Cash contribution not allowed)

Part E: Deduction based on Other Expenses

Sec. 80GG – Deduction in respect of Rent paid

Deduction related to rent paid

Benefit to individual only

(Note: Assessee or his spouse or minor child should not own any house elsewhere, the assessee should not receive HRA)

Lower of the following:

1. ₹5000 p.m.
2. 25% of Adjusted GTI
3. Rent paid – 10% of Adjusted GTI

Note 1 – Adjusted GTI =

Gross Total Income (GTI)	xx
(–) Special income	(xx)
(–) All deductions under:	(xx)
80C – 80U (Except this section)	Xx
Adjusted GTI	**xx**

Sec 80JJAA: Deduction in respect of Employment of new employees

Eligible Assessee: Any Assessee engaged in Business & to whom Sec 44AB applies

Amount of Deduction: 30% of Additional employee cost (deduction for 3 consecutive years)

Employment of new employee

➤ Applicable to: Any assessee engaged in business, to whom section 44AB is applied.

Deduction @ 30% on Additional Employee Cost

(Total emoluments paid or payable to Additional employee employed during the year)

For **3 consecutive Assessment Years**

Note 1:

Additional employee cost will be **Nil** if:

a) There is no increase in total no. of employees as compared to no. of employees on last day of previous year.

b) Emoluments are paid otherwise than by prescribed method (i.e., other than by account payee cheque, draft, ECS, etc.)

Note 2:

Additional employee cost **does not include** if:

a) Employee's **emoluments > ₹25,000 per month**

b) Entire contribution is paid by government under employees' pension scheme notified under EPF Act

c) Employee works for **less than 240 days** (150 days in case of manufacturing of apparel, footwear, leather products)

d) Employee does not participate in Recognised Provident Fund

Note 3 – Emoluments Means:

Any sum paid or payable to employee, excluding contribution by employer to ony Pension Fund, Provident Fund or ony other fund for the benefit of employee under ony law (for the time being in force) relating to Retirement Benefits

Note 4

If an employee is employed during PY for less thon 240/150 days, but is employed for o period of 240/150 days, in next year, he shall be deemed to have been employed in nexy year. Accordingly, ossessee entitled for deduction of 30% of additional employee cost in the next.

Part 2: Income Based Deductions

A. Royalty

Section 80QQB- Royalty income of authors (certain books other thon text books)

Section 80RRB -Royalty on potents

B. Interest

Section 80TTA – Interest on deposits in savings account

Section 80TTB – Interest on deposits in cose of senior citizens

C. Other

Section 80LA – Off-shore banking units & IFSC

Sec. 80M – Inter-corporate dividend

Part A – Deduction based on Royalty

Sec. 80QQB – Deduction in respect of Royalty income on books

Royalty income on books (other thon text books)

Deduction ovailable to **Resident Individual**

Deduction = Lower of the following:

1. **Eligible income**
2. **₹3,00,000**

Eligible Income (Royalty)

1. **Lump Sum:** Actuol omount received
2. **Other thon Lump Sum:** Eligible income cannot be more thon 15% of book sold

Note –

If royalty earned outside India, then deduction is allowed only if such royalty amount is brought in India in convertible foreign exchonge within 6 months from the end of PY or time limit as per RBI.

Sec. 80RRB – Deduction in respect of Royalty income on Patents

Eligible Assessee: Resident Individual

Deduction = Lower of the following:

1. Eligible income
2. ₹3,00,000

Royalty income on patents

Note:

➤ In case of compulsory license in respect of any patent, deduction shall not exceed the amount of royalty under the terms and conditions of license settled by the controller under the Patents Act.

➤ If royalty earned from outside India, then deduction allowed only if such royalty amount is brought to India in convertible foreign exchange within 6 months or extended time limit as per RBI.

Part B – Deduction based on Interest

Sec. 80TTA – Deduction in respect of interest on deposits in saving accounts

Eligible Assessee: Individual & HUF

Deduction : lower of following

1. 100% Interest Income
2. 10000/-

➤ **Interest on deposits in savings accounts**

➤ **Benefit to Individual or HUF** (Other than those covered under Section 80TTB)

➤ Benefit is given on interest on savings bank deposits (Other than time deposits like FDs)

➤ **Sources of interest income**

- **Banking Company**
- **Co-operative society (Engaged in Banking Business)**
- **Post office**

Sec. 80TTB – Deduction in respect of Interest on deposit in case of Senior Citizen.

➤ **Eligible Assessee:** Individual & HUF

➤ **Deduction :** lower of following

1. 100% Interest Income
2. ₹50,000/-

All interest income is allowed as deduction from and Post office(Saving as well as time deposit)

DEDUCTION UNDER SECTION 10AA

SECTION 10AA: SPECIAL PROVISIONS IN RESPECT OF NEWLY ESTABLISHED UNITS IN SPECIAL ECONOMIC ZONES

In computing the total income of an undertaking, which begins to manufacture or produce articles or things or computer software in any SEZ, the deduction shall be:

- For first 5 A.Ys - 100% of export profits.
- For next 5 A.Ys - 50% of export profits.
- For next 5 A.Ys - Amount debited to P&L A/c and credited to "SEZ Reinvestment Allowance Reserve A/c" OR 50% of export profits, whichever is lower

Provided that no such deduction shall be allowed to an assessee who does not furnish return of income on or before the due date specified under sub-section (1) of section 139.

Export profits shall be computed as under:

$$\text{Profits of the business of the UNDERTAKING to which Section 10AA applies. (As Computed under the head PGBP)} \times \frac{\text{Export Turnover of the UNDERTAKING to which section 10AA applies}}{\text{Total Turnover of the UNDERTAKING to which Sec. 10AA applies}}$$

Note 1

Export Turnover means the consideration in respect of export received in, or brought into India by the assessee in convertible foreign exchange, within a period of 6 months from the end of the previous year period or as may be permitted by the RBI.

Note 2

Export T/O **does not include freight**, telecommunication charges, Insurance or expenses for providing service outside India. Further export T/O shall not include cash compensatory support, Duty drawback and profit on sale of import entitlement licenses.

Total T/O shall **not include** freight, telecommunication charges, insurance or expenses for providing service outside India. Further it shall not include CCS, DD and profit on sale of import entitlement licenses. Total T/O includes Export T/O and Domestic T/O and it further includes even that portion of export T/O which is not received in convertible foreign exchange.

Note 3

The sale proceeds referred to above shall be deemed to have been received in India where such sale proceeds are credited to a separate account maintained for the purpose by the assessee with any bank outside India with the approval of the RBI.

Note 4

Amount credited to SEZ Re-investment allowance reserve A/c should be utilized for acquiring new P&M & put to use within 3 years from the end of P.Y. in which reserve was created.

If amount mis-utilised or un-utilised then deduction claimed earlier shall be taxable as **PGBP**.

Deemed Income

If Reserve has been utilized for non-specified purpose of the year in which wrongly utilized.

If Reserve has been utilized till the expiry of time limit of the year immediately immediately following the period of 3 years.

P&M used in business should be New:-

Exceptions:

a) 20% of total value of P&M used in undertaking can be **second hand**.

b) P&M Imported from outside India for the first time shall be treated as **New P&M**.

Deduction u/s 10AA is allowed only to SEZ unit who received approval upto 31.3.20 and begins manufacturing or production on or before 31.3.21.

GENERAL POINTS REGARDING DEDUCTIONS UNDER CHAPTER VIA AND SECTION 10AA

Income from cash Compensatory support, duty drawback and sale of import entitlement licenses are taxable under the head PGBP but not eligible for deduction calculation as these are ancillary profit and hence do not constitute profit "derived from" business.

It has been clarified that the tax holiday should not be denied merely on the ground of physical relocation of an eligible SEZ unit from one place to another SEZ unit.

Alternate Minimum Tax (AMT)

1. Applicability:

All assessee except companies are liable to pay AMT if the tax payable under the Normal provision of Income tax is less than AMT (18.5% of Adjusted Total Income).

[However, AMT shall not be payable if adjustment total income of such person does not exceed 20 Lakhs in case of Individuals/HUF/AOP/BOI/AJP.]

Calculation of ATI (Adjusted Total Income)

Particulars	Amount
Total Income (NTI) as per Normal provision of Income Tax	xx
Add: (i) Deduction u/s 10AA (SEZ)	xx
(ii) Deduction u/s 35AD (14 Businesses)	xx
(iii) Deduction u/c VI-A (except sec 80P) [sec 80IA to 80RRB]	xx
Less: Depreciation allowable u/s 32 assuming deduction u/s 35AD was not allowed	(xx)
Adjusted Total Income (ATI)	**xx**

2. AMT

"Alternate Minimum Tax" means the amount of tax computed on "Adjusted Total Income"

In case of an assessee being unit located in an International financial services center @9% (plus surcharge, if applicable, plus 4% health & education cess in all cases)

In any other case @18.5% (plus surcharge, if applicable, plus 4% health & education cess in all cases)

In case of Co-Operative Society Amount Applicable @ 15% instead of 18.5%.

Provision of this topic not applicable if assessee opting for provisions of Sec 115BAC,

Key Notes →

- AMT will apply to the assessee claiming profit-linked deduction under section **80-IA to 80RRB** and under section **10AA**. However, deduction under section **80P** is not to be added back.
- Assessee claiming deduction under section **35AD** are also liable to pay AMT on such deduction. However, they shall be **allowed depreciation on the asset on which 35AD** has been claimed.
- Deduction under section **80C to 80U** are **NOT** to be added back.

3. Tax credit Section 115 JD

- AMT paid in excess of the regular income-tax computed under the normal provision will be allowed as credit against future tax liability.

  (AMT > Normal Tax)
- The AMT credit shall be allowed to be carried forward and set-off for a period of **15 years** succeeding the year in which such credit becomes available.
- Credit is allowed in the year in which regular tax is **more than AMT.**

  (Normal Tax > AMT)
- The credit allowed to be set-off will be restricted to the difference between the **regular income-tax** computed as per the normal provision and the **AMT.**
- **Credit AMT Claim-Assessee can claim AMT credit in such subsequent P.Y. even if AMT is not applicable in subsequent P.Y.**

4. Other provision of income tax act

- Other provision like **advanced tax, interest under section 234A / 234B / 234C** shall apply to AMT.

Notes



Tax Deduction At Source

Chapter 11

Advance Tax

Advance tax refers to the tax payable during the financial year itself, i.e., the previous year, preceding the assessment year.

Advance tax is the tax payable during the financial year calculated after adjusting TDS, TCS, MAT/AMT credit, foreign tax credit, and relief under section 89.

1. **Applicability:**
   Every assessee whose estimated advance tax liability is ₹10,000 or more shall be liable to pay advance tax.

2. **Exception:** A resident senior citizen who does not have income chargeable under the head "Profits and Gains of Business or Profession (PGBP)" shall not be liable to pay advance tax.

3. **Due Dates and Installments for All Assessees:**

Due Date	Minimum Cumulative Payment Required
On or before 15th June	15% of advance tax liability
On or before 15th September	45% of advance tax liability
On or before 15th December	75% of advance tax liability
On or before 15th March	100% of advance tax liability

Note: Any tax paid up to 31st March of the previous year shall be deemed to be advance tax.

In the case of an assessee opting for presumptive taxation under section 44AD or 44ADA, the entire advance tax liability (i.e., 100%) must be discharged by **15th March** of the previous year in **a single instalment**.

Interest under Section 234A, 234B & 234C

Section	Nature of Default	Amount (after adjustments)	Rate	Period	Remarks
234A	Delay in filing Return of Income (ROI)	Tax as per ROI after TDS/ TCS, Advance Tax, MAT/ AMT credit, Relief u/s 89/90/91	1% per month or part of a month	From next day after due date of ROI till actual date of filing ROI	Interest applies only if tax is payable on 1st April of A.Y.

234B	Non-payment or short payment of Advance Tax	Tax as per ROI minus Advance Tax Paid	1% per month or part of a month	From 1st April of A.Y. till actual date of tax payment	Not applicable if 90% or more of advance tax is paid; tax as per 143(1)/143(3) to be considered in case of reassessment
234C	Deferment (delay or shortfall) of Advance Tax Instalments	Deferred Advance Tax instalment	1% per month or part of a month	3 months for each instalment (except last); 1 month for last (16th March to 31st March)	Interest is levied instalment-wise for June, Sept, Dec, and March; applies even if one due date is missed or short paid

Notes:

1. Interest under section 234C is always computed based on tax as per the Return of Income (ROI).
2. Interest under section 234C is not applicable for deferment of the 1st or 2nd instalment if the assessee has paid at least 12% of total tax liability in the 1st instalment, and 36% in the 2nd instalment.
3. Advance tax on Capital Gains, Lottery Winnings, Dividend, or First-time PGBP Income:
   If such income arises unexpectedly (e.g., capital gains, first-time business income, etc.), the assessee may not be able to estimate it in advance. In such cases:
   - ➤ Advance tax shall be paid in the remaining instalments after the income is received.
   - ➤ If the income is received between 10th March and 31st March, then tax must be paid by 31st March of the P.Y.

Interest under section 234C will apply only from the quarter in which the income is received.

However as per supreme court decision in Dr. Pronnoy Roy, credit will be given of self-Assessment tax, if it is paid upto due date of return filing.

Sec 234E: Fee for default in furnishing TDS/TCS Statements (Return)

For delayed filing quarterly statement, assessee shall be liable to a mandatory **fees of ₹200 per day** during which default continues. The fees cannot exceed the amount of TDS deductible. The fees shall be paid before filing of quarterly statement.

Section 234F – Fee for Delay in Filing of Return of Income (ROI)

If a person is required to file a return of income under section 139 and fails to do so within the prescribed due date, a fee shall be levied as under:

Total Income	Return submitted by 31st December
More than ₹5,00,000	₹5,000
Up to ₹5,00,000	₹1,000

Section 234H – Fees for default in linking Aadhar with PAN

If assessee link Aadhar with PAN on or after 01/04/2022 then he is required to pay following fees:

- link between 01/04/22 till 30/06/22 – ₹500
- link on or after 01/07/22 – ₹1000

Tax Deducted At Sources (TDS)

Tax deducted of source-

1. **TDS is deducted by payer and is deducted only when the amount is taxable in hands of payee/receiver.**
2. If assessee providing any services on which TDS need to be deducted the it should be deducted at the time of payment or at the time of crediting to payee (whichever is earlier)
   But in following case TDS deducted only at the time of payment

a. **192** :- Salary
b. **192A** :- EPF payment
c. **194B** :- Winning from lottery
d. **194BB, 194BA, 194B** :- Winning from horse races
e. **194DA** :- Maturity amount of LIP (which is not exempt in 10(10D)
f. **194LA** :- Compensation on acquisition of immovable property
g. **194N** :- Withdrawal of cash

3. TDS should be deducted on the payment amount excluding GST, as per circular 23/2017
4. Individuals/HUFs need not deduct TDS under sections 194A, 194C, 194H, 194I, 194J, and 194R if turnover in the preceding year is ≤ ₹1 crore (business) or ≤ ₹50 lakhs (profession). No TDS is needed even if audited under 44AB due to lower presumptive income; subject to section 194M.
5. Payer is not required to obtain TAN for the section 194-IA, 194-IB and 194-M and TDS to be deposit within 30 days from the end of the month in which TDS deducted.

6. TDS is required to be deducted even if payments are made for personal purpose.
   Exception to this rule is
   i. Where Individual/HUF make payment to contractor under section 194C for personal purposes.
   ii Where Individual/HUF makes payment of professional fees under section 194J for personal purpose.
7. **All TDS rates are Fixed rates i.e. 1%, 2%,5%, 10% etc. but if payment made to NR / Foreign Co. or payment of salary then surcharge & HEC shall be considered.**
8. As per section 206AA,If payee does not furnish the PAN to payer than tax shall be deductible either -
   i. Prescribed rate as per Income Tax Act
   ii. 20% (Whichever is Higher)

(but in case of 194O/194Q its 5% instead of 20%)

10. If payer deducted the TDS against your PAN than you can adjust such deducted amount against your tax liability based on your total income.
11. **If the payment is made by payer without TDS, then payee shall be responsible to make payment of tax directly. However, if the tax has been deducted by payer, but not deposited with Government, then payee cannot be called upon to pay that much tax.**

Section 192:- TDS on Salary (Resident/NR)

Payer	Payee	Rate	Remarks
Employer	Employee	Slab Rate	1. Employer compute the estimated income of employee based on the details provided by employee (Related to any other income/ deduction etc.) & deducted the tax based on the rates applicable to assessee (incl. 115BAC cases) 2. Employee has to submit evidences of such deductions, exemptions & losses. 3. If employee provide details related to loss of other head, than no other loss will be consider by employer except loss from house property.

Note

TDS TO BE DEDUCTED AT THE TIME OF PAYMENT

1. Payment by Firm to Partner-Firm pays salary to partner, TDS not to be deducted under section 192 as there is no employer- employee relationship & its taxable for partner in the head of PGBP.
2. If an employer pays tax on non-monetary perquisites, it won't be deducted from the employee's salary and is exempt under section 10(10CC). However, the employer cannot claim it as a business expense under section 40(a) it can be claim by employee.

3. Where the employee has worked with more than 1 employer during the year or employee changed the job during the year, he may furnish the details of his salary & TDS deducted by one employer to other/current employer.
4. ITC Ltd (2016)(SC): If tips are paid directly to the waiters, same is NOT salary; and there would be no obligation on employer to deduct TDS.

Section 192A:- TDS on payment of Accumulated Balance (Employer PF), if taxable to employee

Payer	Payee	Rate	Remarks
Trustee of EPF Scheme, 1952	Employee Resident/Non resident	10%	1. TDS to be deducted only if payment >50000. (To be deducted only at the time of payment) 2. Tax shall not be deducted if declaration is given under section 197A (Declared in form 15G) 3. TDS only if amount taxable in hands of employee [Employee renders less than 5 years of service]

Section 193:- Interest on Securities

Payer	Payee	Rate	Remarks
Any person	Resident	10%	**TDS not to be deduct if-** 1. Interest payable to Insurance company (LIC/GIC etc.) 2. Payment to Individual/HUF for interest on debenture, if- · Debenture issued by public company and · Interest paid through a/c payee cheque/DD and · Interest< 10,000(in a year) 3. Interest payable on security of Central Government/ State Government (But if interest exceed 10000 on following case than TDS need to deduct) · 8% saving (Taxable Bonds) 2003 or · 7.5% saving (Taxable Bonds) 2018 or · Floating interest (Taxable Bonds) 2020 4. Interest on IRFCL or PFCL (Notified under section 54EC).

Section 194:- TDS on Dividend

Payer	Payee	Rate	Remarks
Domestic Company	Resident	10%	1. No tax shall be deducted on dividend **(including deemed dividend)** paid to any insurance company (LIC,GIC) in respect of shares owned by it or in which they have full beneficial interest. 2. No TDS if payment made to Individual by any mode other than cash and payment is upto ₹ 10,000 in a PY. 3. TDS also required to be deducted on deemed dividend u/s 2(22)(a) to 2(22)(f).

Section 194A - TDS on Interest other than "Interest on Securities"

Payer	Payee	Rate	Remarks
Any person other than Individual/HUF (Individual/HUF required to deduct TDS) (if the turnover / gross receipt in the immediately preceding financial year is exceeding 1 crore in case of business and 50 lakhs in case of profession)	Resident	10%	TDS not to deduct, If- 1. Interest is less than 10,000 (But if interest is paid by Banking company, Post office, Co-operative society (in banking business) then limit is 50,000 (1,00,000 in case senior citizen). 2.Interest on Savings bank account 3.Interest paid by firm to partners (covered u/s 194T) 4.Interest paid by co-operative society · By co-operative society (Not in banking business) to another co-operative society or any of its member. · By co-operative society (In banking business) to another co-operative society. · By co-operative society (Being as primary credit society/ agriculture credit society, co-operative land mortgage bank/ development bank) but in above case (point 2), Co-operative society shall be liable to deducted TDS.

			It require to deduct if lost year turnover is more than 50cr and interest paid/ credited to any person is more than 40000 (50000 in case of senior citizen) 5. Interest on income tax refund 6. Interest on compensation amount awarded by motor accidental claims tribunal.(and does not exceeds 50,000 in a FY) 7. Interest by banking unit on deposit of NR/RNOR (It cover IFSC as well) 8. Interest on Saving account, Kisanvikaspatra/Indravikaspatra/ NSC/ Post office monthly income account/Post office recurring deposit 9. Interest to Banks, Co-op. banks, Financial Corporations, LIC, Insurance Co., UTI, National Skill Development Fund, Housing and Urban Development Corporation. [NBFC not cover] 10. If interest is payable to & receivable from the same person then it shall not be set off against each other. 11. In case of banks following CBS Software, NO TDS should be made on Interest which is credited to a provision account on a daily or monthly basis only for the purpose of macro monitoring by CBS software since no amount is actually credited to depositor's a/c. Thus, TDS is to be made at the time of actual credit given to depositor's a/c and Further, the limit of ₹ 40,000 shall be check bank-wise not branch-wise. 12. Interst Mahilla Samman saving certificate 2023 of government.

Section 194B:- TDS on winning from Lotteries / Games / Puzzle etc.

Payer	Payee	Rate	Remarks
Any Person	Any Person	30%	TDS deducted if winning amount >10K during the FY in respect of single transaction

Section 194BB:- TDS on Winning from Horse Racing

Payer	Payee	Rate	Remarks
Any Person	Any Person	30%	TDS deducted if winning from horse race amount > 10K. in respect of single transaction

General Note for Sec 194B/194BB

1 If the winning is wholly in kind or it is kind & partly in cash and the money is not sufficient enough to meet the TDS liabilities, then payer shall release the prize only if either-

- He has collected the amount equivalent to TDS amount from the payee, Or
- He insist the payee to make the payment of TDS on his own & submit the proof to the payer.

In cases where the book-maker paying the winnings, credits such winnings and debits the losses to the punter, tax has to be deducted @30% on winnings before set-off of losses. Thereafter, the net amount, after deduction of tax and losses, has to be paid to the winner.

Section 194C:- TDS on Payment to Contractors

Contract and Subcontract carrying out any work(including supply of labour) in pursuance of contract.

Payer	Payee	Rate	Remarks
Any person (if the turnover /gross receipt in the immediately preceding financial year is exceeding 1 crore in case of business and 50 lakhs in case of profession)	Resident	If Payee is:- Ind./HUF - 1% Other than Individual/ HUF -2%	In case of 194C TDS is applicable only if :- a) Single transaction > 30,000 b) Aggregate of contract in PY is upto 1,00,000

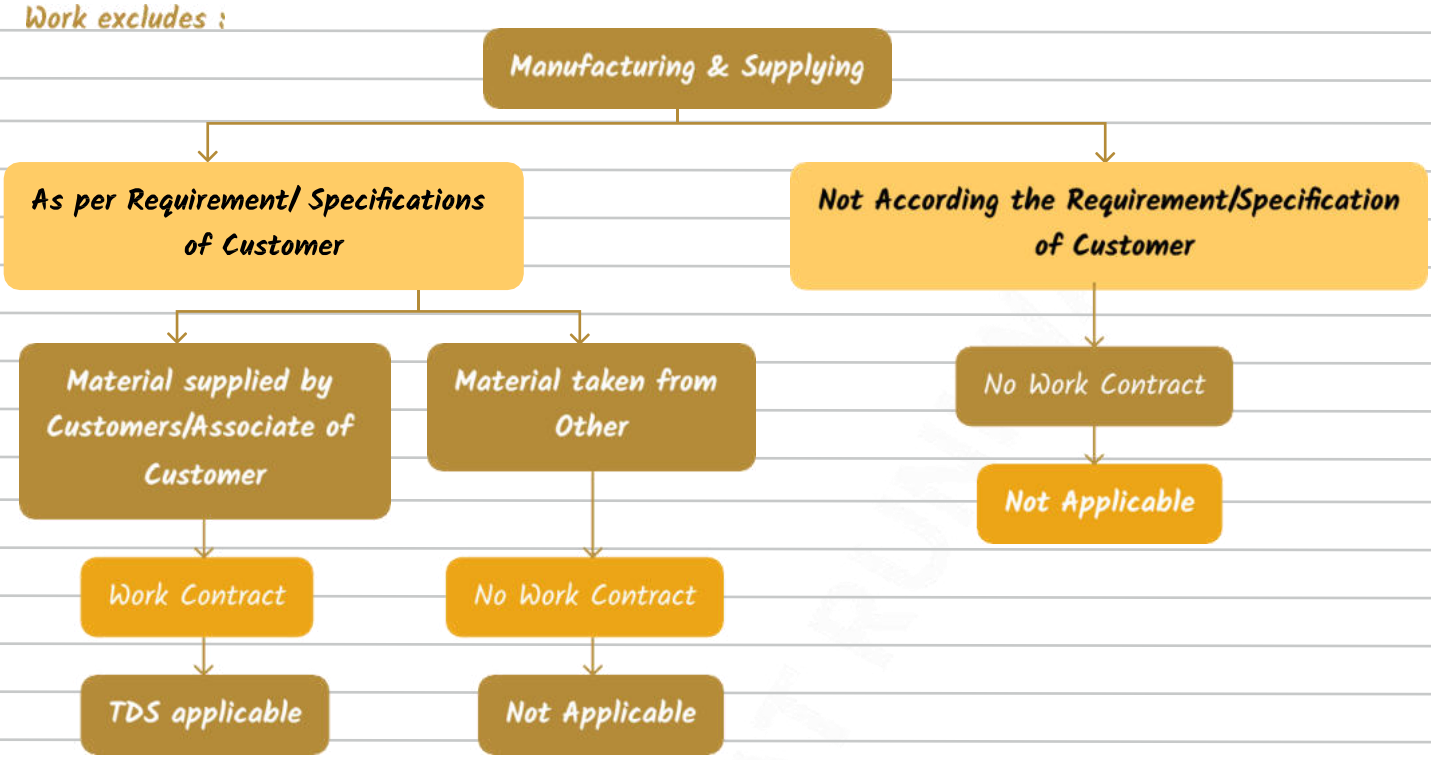
Note: - Not to deduct the TDS

1 If payee is in transport business (plying/hiring/leasing of goods carriage) and do not own more than 10 Goods carriage at any time during the PY.

2 If the payment is made by Individual/HUF for their personal purpose.

The term "Work" includes :
- ➤ Catering
- ➤ Advertising
- ➤ Broadcasting and telecasting including production of programs for such broadcasting or telecasting.
- ➤ Carriage of goods or passengers by any mode of transport other than by railways
- ➤ Manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate.
- ➤ However, it does not include manufacturing or supplying a product using material purchased from a person other than the customer or its associate.

Work excludes :



In case of Job Work, TDS shall be applied on the invoice value excluding the value of material purchased from the customer/associate, provided bifurcation is given in the invoice. If no bifurcation is given, then TDS shall be applied on the entire amount.

Notes :

1. **Production as per broadcaster's specification** – If content is produced per broadcaster's requirements and copyright is transferred, it is treated as "work" under Section 194C and TDS applies.
2. **Acquisition of broadcasting rights** – If only telecast/broadcast rights of pre-produced content are acquired, it is not considered "work" under Section 194C, hence TDS is not applicable.
3. **Payments by client to Advt. agency** – It is treated as work and TDS applicable u/s 194 C
4. **Cold Storage charges,** which involves providing of refrigeration facility as well as storage facility. Shall also be subject to TDS u/s 194C as a contract charge only and not u/s 194-I (Rent).
5. **Landing and parking charges paid by airline co,** to airport authority are not merely for the use of land but it is also for various other facilities provided like air traffic services, ground safety services, and aeronautical communication facilities. Hence, these charges are not liable for TDS u/s 194-I. In this case TDS applicable u/s 194C.

Section 194D: - TDS on Insurance Commission-

	Payee	Rate	Remarks
	Resident	5% (10% if payee Dom. com.)	The recipient of company can furnish declaration under section 197A in from ISG/ISH for non-deduction of TDS. **TDS to be deduct if Commission > 20,000 during the PY.**

Section 194G :

Payer	Payee	Rate	Nature of payment
Any Person	Any Person	5%(>20,000) (2% w.e.f. 1/10/24)	commision on sale of lottery tickets

Section 194DA:- TDS on the Payment of Life Insurance Policy

Any sum received under if insurance policy, which is not exempt under section 10(10D), then **TDS to be deduct on the income part (Insurance amount received – Premium paid)**

Payer	Payee	Rate	Remarks
Any Person	Resident	5% (2% w.e.f. 01/10/24)	TDS to be deduct if Aggregate amount received > 1,00,000

Note :

1. TDS required to be deducted only at the time of Payment
2. No TDS if maturity amount exempted u/s 10(10D) [In case of LIP maturity amount taxable in case of Keyman Ins or LIP taken on or after 1.4.23 & premium paid > ₹5,00,000 in a year or Premium more than limit of 10%, 15%, 20% of policy value prescribed u/s 80C]
3. In this section TDS applicable on income component i.e maturity amount minus premium paid
4. Point 3 got applicable if any sum received on death of person

Before 1st April 2012	Onwards / After 1st April 2012
Premium > 20% of Sum Assured	Premium > 10% of Sum Assured

Section 194H: – TDS on Commission/Brokerage

Commission or Brokerage (Other than commission, which is covered under section 194D (Insurance company) or section 194G (Lottery commission)

Payer	Payee	Rate	Remarks
Any person (if the turnover / gross receipt in the immediately preceding financial year is exceeding 1 crore in case of business and 50 lakhs in case of profession)	Resident	5% (2% w.e.f. 01/10/24) TDS deduct if commission > 20,000 during the PY	TDS not to be deduct if:- 1. Authorized bank received to commission from RBI (For tax collection on behalf for Government) 2. Commission by Employer to Employee (as it is part of salary) 3. Any transaction related to securities are not covered by section 194H, therefore section 194H is not attracted a) Brokerage & Commission paid to underwriter. b) Brokerage & Sub brokerage on issue of security. 4. Payment by BSNL/MTNL to their public call office franchises.

Section 194-I :- TDS on Payment for Rent (building, furniture or plant & machinery)

Payer	Payee	Rate	Remarks
Any person [if the turnover/ gross receipt in the immediately preceding financial year is not exceeding 1 crore in case of business and 50 lakhs in case of profession.]	Resident	Rent for land/ building/ furniture & fixture -10% Rent for P&M (including equipment) -2%	(TDS only in case if payment of Rent including Advance Rent/ Arrears Rent to owner >2,40,000 p.a.)

Rent means

Lease/Sub lease or tenancy agreement or other agreement to use the following assets –

I. Land

II. Building (including factory building)

III. Land apartment to any building (including factory building)

IV. Plant & Machinery (including equipment)

V. Furniture & Fitting

➤ No TDS on 'Refundable Deposits. However, 'Non-Refundable Deposits' shall attract TDS under this section.

➤ Arrears of Rent received during the current year shall also be considered for the purpose of deducting TDS u/s 194I.

➤ Even Advance Rent shall also be subject to TDS in the year of payment.

➤ Warehousing charges shall also be subjected to TDS under this section.

➤ Passenger Service fees (PSF) paid by Airline's Company to Airport Operator is not treated as rent so TDS not applicable u/s 194-I [Circular No. 2/2017]

➤ Payment made for use of mobile towers was for use of technical and specialized equipment used by the Assessee. The towers are neutral platform without which mobile operators could not operate. The dominant intention was the use of P&M and use of premises was only incidental. Hence, although the transaction is renting, it is renting of P&M and hence, TDS @ 2% u/s 194-I is applicable.

➤ Since the payment of rent is made to each co-owner by way of separate cheque and their share is definite, the threshold limit 2,40,000 in sec 194-I has to be seen separately for each co-owner.

➤ Assessee was engaged in the business of transportation of building material, salt, block trap, iron, etc. During the PY, the assesse made payment for hiring of dumpers and deducted TDS u/s 194O. According to AO TDS should be deducted u/s 194-I. HC held that assesse have given sub-contract and not hired any P&M. liable for TDS u/s 194O and not u/s 194-I.

➤ No TDS if rent is upto 50,000 to a person per month or part of month.

5. JAPAN AIRLINES CO.LTD. VS COMMISSIONER OF INCOME-TAX (2015) (SUPREME COURT)

In Japan Airlines Co. Ltd. vs Commissioner of Income-Tax (2015), the Supreme Court held that landing and parking charges paid by airlines are not for the "use of land", but rather for facilities provided by the airport authority. Therefore, TDS (Tax Deducted at Source) on such payments should be deducted under Section 194C (contracts) and not under Section 194-I (rent) of the Income Tax Act.

Section 194-IA:- TDS on Acquisition Property (other than Rural Agriculture Land)

Payer	Payee	Rate	Remarks
Any Person	Resident	1% of the considerat ion or SDV whichever is higher	Consideration means :- Consideration of immovable property (Including Parking Fees, maintenance Fees Advance fees or similar charges etc.) Tds is to deducted only if Sdv or consideration is 50 lakhs or more

Note:

1. If seller jointly own a property and sells for a consideration of 50 lakhs or more, then section 194-IA is attracted even if each co-owners consideration is less than 50 lakhs.
2. In case section 194-IA is attracted then the purchaser is not required to obtain TAN. i.e., tax deduction account number i.e. section 203A is not applicable.
3. If there is more than one buyer/seller for any immovable property, then consideration shall be aggregate amount paid/payable for such property.

Section 194-IB: - TDS on Payment of Rent by certain Individual or HUF (not covered Sec. 194-I) (Rent for land, building & both)

Payer	Payee	Rate
Individual /HUF (not covered under u/s 194-I)	Resident person	5% (2% w.e.f. 01/10/24) (If Rent paid > 50000 per month)

Note:

1. It is irrelevant where the land is situated i.e. in India or abroad. What is relevant is the residential status of the person to whom the payment made. TDS will be deducted only if the payment is made to the resident.
2. TDS shall be deducted only on the component of rent paid for the use of land or building. Any other thing taken on rent e.g. furniture, shall not be covered.
3. In case the landlord does not have PAN, then instead of 2%, TDS will be applicable @ 20% because of section 206AA. However, TDS amount cannot exceed last month rent.
4. In this section TDS required to deduct at the time of credit or actual payment of last month rent, whichever is earlier. [Last month rent means last month of the year or tenancy as the case may be]

Section 194J:- TDS on Fees for Professional/ Technical Services, etc. (Paid to Resident only)

- Professional Services
- Fees for Technical Services
- Royalty
- Non-Compete Fees
- Directing Sitting Fees

Payer	Payee	Rate	Remarks
Any person (if the turnover / gross receipt in the immediately preceding financial year is exceeding 1 crore in case of business and 50 lakhs in case of profession)	Resident	10%	A. Directing Sitting Fees :- 10% (There is no limit, even paying Rs.100/- then need to deduct TDS) B. Non-Compete Fees :- 10% (If amount paid> 50,000 in PY) C. Profession Fees :- 10% (If amount paid> 50,000 in PY)(No TDS -Personal Purpose) D. Fees for Technical Service :- 2% (If amount paid> 50,000 in PY) {include payments to call center} [Not being professional service] E. Royalty Related to cinematographic film (Sale/ Distribution/Exhibition) :- 2% (If amount paid > 50,000 in PY) Other (Including sale of computer software) :- 10% (If amount paid> 50,000 in PY)

2. No TDS under section 194J by an Individual/HUF (Even if covered by section 44AB in the immediately preceding PY), if the payment is being made for –

- Royalty
- Non-Compete Fees
- Directing Sitting Fees

3. No TDS under section 194J by an Individual/HUF, if the payment for personal services (only Profession services) is made or credited by that Individual or HUF.

(Whether T/O or G/R > 100 lakhs /50 lakhs or not in the immediately preceding PY) for their 'Personal purpose'.

4. Payment made to sportsperson, sports columnist, umpire, commentator, referee, physiotherapist, team physician, anchor, event manager, will also be regarded as professional fees and accordingly be liable to TDS under section 194J @10% as compared to TDS under section 194C earlier.

5. No TDS shall be deducted:

Payee :- Resident (i.e. Transferor) **Payer** :- Any person (i.e. Transferee)

- For acquisition of software by transfer
- Software is acquired in a subsequent transfer
- Transferor has sold the same to transferee without any value addition
- TDS has already been deducted previous transfer under section 194J/195
- Transferee obtains declaration from transferor that
- TDS has been deducted on previous transfer; and
- Obtains PAN of transferor

7. Only payment for services which are specialized exclusive & would come within of fees for technical services so as to attract TDS under section 194J (Kotak Securities vs CIT)

8. TPA liable to deduct tax under section 194J on payment to hospital on behalf of insurance company (CBDT Circular).

9. No TDS on royalty or fee by individual/HUF if previous year turnover is more than prescribed limit.

Section 194K: - TDS on Income in Respect of Units

Payer	Payee	Rate	Remarks
Any Person	Resident	10%	(If payment > 10000 in PY) Income in respect of Mutual Fund / Unit of UTI

Section 194LA:- TDS on Compensation Related to Compulsory Acquisition of Immovable Property (Other than Agriculture Land)

Payer	Payee	Rate	Remarks
Any person	Resident	10%(If compensation or enhanced compensation > 5,00,000 in PY) (TDS is to be deducted at the time of payment)	No TDS under section 194LA, if the immovable property is on 'Agricultural Land', as capital gain arising on compulsory acquisition of an agriculture land in urban area is exempt from tax under section 10(37).

Section 194M: - TDS on Payment of Certain Sum

Payer	Payee	Rate	Remarks
Individual/HUF (other than required to deduct TDS u/s 194C, 194H, 194J)	Resident	5% (2% w.e.f. 01/10/24) No tds if amount is upto Rs 50,00,000	Remarks If any payment related to a.) Carrying out any work (including supply of labour) in pursuance of contract. b.) Brokerage and Commission (other than mentioned in Sec. 194C. c.) Professional service. Note:- Payer is not required to obtain TAN

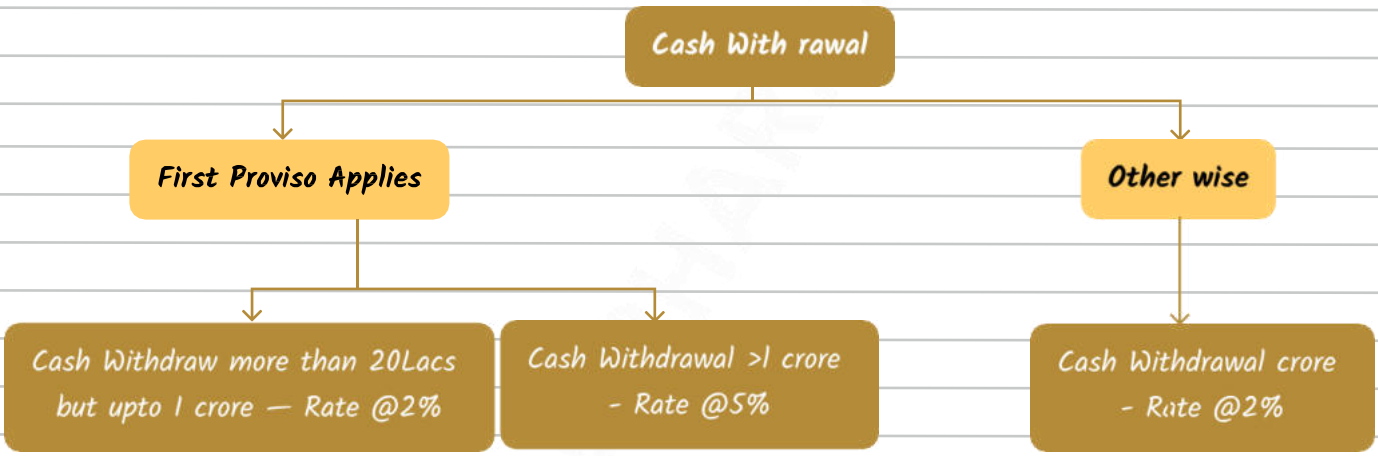
Notes :

1. TDS u/s 194C, 194H & 194J in case of Ind/HUF payer applicable only if last year TO/GR more than prescribed Limit and u/s 194C & 194J TDS not applicable in case of personal nature contract or FPS so in those cases TDS required to be deducted u/s 194M if amount more than lakhs.

2. Note for Sec 194-IA, 194-IB, 194M: in these sections payer not required to opt TAN numbers and TDS required to deposit online to Govt. along with TDS return in Form 26QB, 26QC and 26Qb within 30 days from the end of the month in which TDS was deducted.

Section 194N:- TDS on Cash Withdraw from Bank/Co-operative Bank/Post Office

Payer	Payee	Rate	Remarks
Bank, Co-operative bank, Post Office	Any person	2% of such sum (If cash withdraw > 1 crore in PY) If first proviso applies :- 2% of Sum if Cash withdraw > 20 lacs but up to 1 Cr. 5% of Sum if Cash withdraw in excess of 1 crore.	First Proviso: If the recipient has not furnished the return of income for all the three assessment years relevant to the three previous years, for which the time limit of file return of income u/s 139 (1) has expired, immediately preceding the previous year in which the payment of the sum is made.



- TDS is applicable only on excess amount.
- If payee is a co-operative society, then 3 crores will be taken in place of 1 crore.

Note-1.

1. First Proviso shall not apply if recipient has filed return for any one or more previous year i.e. previous year PY 20-21 and/ or PY 19-20 and/ or PY 18-19 by due date filling of return under section 139(1).

Note 2. Non applicability of TDS u/s 194N

Liability to deduct TDS u/s 194N shall not be applicable to any payment made to-

- Government
- Banking Company/ Co-operative bank/ Post office
- Business correspondent of banking company/ co-operative bank as per guidelines issued by RBI.

Any white label automatic machine operator of bank/ co-operative.

Section 194P – TDS deducted on income of Specified Senior Citizen by Specified Bank.

Payer	Payee	Rate	Remarks
Specified bank	Specified senior citizen	As per applicable slab rates	- Only pension and interest income from same bank. - Senior citizen must submit a declaration to the bank. - Bank computes total income, applies deductions (Chapter VI-A) and rebate (u/s 87A), and deducts tax. - No need to file ITR for such senior citizens.

Section 194Q – TDS on purchase of Goods (w.e.f. 1.7.2021]

Payer	Payee	Rate	Remarks
Buyer	Resident seller	0.1% of such sum > 50 lakhs	1. TDS should be deducted by the buyer to resident seller when the value or aggregate value of purchase of goods > 50 lakhs in a PY. 2. TDS is not required to be deducted under this section in respect of a transaction on which - a. TDS deducted under any of the provisions of this act; and b. TCS collected under the provisions of section 206C(1)(1F)(1G), [other than section 206C (1H) only]. (Means In case of a transaction to which both section 206C (1H) and section 194Q applies, TDS to be deducted u/s 194 Q 3. Buyer means a person whose total Sales, Gross receipts or turnover from the business carried on by him > 10 crore.

CBDT Circulars for section 194-O / 194-Q / 206C (1H)

1. **GST:** TDS u/s 194Q NOT applicable on GST amount if it is separately indicated in Invoice but if advance payment is made then TDS should be deducted on total advance payment as we are not aware that what will be the GST amount in invoice
2. **Purchase Return:** TDS deducted at the time of crediting the party or payment whichever is earlier, so at the time of purchase TDS already deducted by Buyer. In case of purchase return there is no need to return TDS amount and it can be adjusted against future purchase from the same seller. In case of replacement of Goods, No adjustment required
3. **Non Resident Buyer:** Section 194Q NOT applicable in case of NR buyer except where NR having PE in India and purchased relates to that PE
4. **Exempt income of seller**- If seller's whole income is exempt under IT Act [like 10 (23A),10 (44)], then TDS u/s 194Q NOT applicable. Similarly if Buyer's whole income is exempt then TCS u/s 206C (1H) NOT applicable

5. **First year of Incorporation:** In section 194Q TDS is required to be deducted only if buyer's last year T/O is more than 10 Crores Since in the case of the first year of incorporation last year T/O is nil so this section is NOT applicable in the first year of Incorporation
6. **Last Year T/O:** While checking last year T/O of buyer it should include only Business T/O or G/R and it should be more than 10 Crores Non-Business T/O not to be counted

TAX COLLECTED AT SOURCE

A. Section 206C (1):-TCS on sales of certain Goods

Seller of certain goods are require to collect TCS form buyer at specified rates:-

A Alcoholic liquor for human consumption	1%
B Tendu leaves	5%
C Timber under forest leaves/ Any other forest product	2.5%
D Scrap	1%
E Minerals being coal, lignite or iron ore	1%

NOTE 1 – No threshold Limit - There is no threshold limit for collection of TCS on sale of above goods

NOTE 2– Seller - Seller can be any person but that Individual/HUF not covered, whose TO/GR < 1Cr /50 lacs in PPY in case of business /profession (1Cr in case of business and 50 lacs in case of profession)

NOTE 3– Any person other than:

1 Buyer who buys such goods for his personal consumption,

2 Public sector Co,

3 CG, SG, Embassy, High comm , legation, consulate, trade representation and clubs

NOTE 4 – Scrap - **"Scrap"** means waste and scrap from the manufacture or mechanical working of materials which is definitely not usable as such because of breakage, cutting up, wear and other reasons

NOTE 5 – **Non-applicability of TCS [Sec. 206C(1A)]:**

No TCS if a resident buyer furnishes a declaration that goods will be used for manufacturing, processing, production, or power generation, and not for trading

NOTE 6 – Furnishes copy of declaration (Sec 206C(1B)) - The person responsible for collecting tax under this section shall deliver or cause to be delivered to the Chief (Commissioner) or Commissioner one copy of the declaration referred to in sub-section (1A) on or before 7th of the month next following the month in which the declaration is furnished to him

B. Section 206C(1C): – TCS on Lease or a license of parking lot, toll plaza or mine or a quarry

Collector (Seller)	Collectee (Buyer)	Rate	Nature of Transaction
Same as section 206C(1)	Any person other than Public sector company	2%	Every person who grants a lease or a license or enters into a contract or otherwise transfers any right or interest in any barking lot or toll plaza or a mine or a quarry

NOTE –

Mining and quarrying excludes mining and quarrying of mineral oil. Mineral oil includes petroleum and natural gas.

C. Section 206C(1F):- Sale of motor vehicle of value exceeding Rs.10 lakhs

Collector (Seller)	Collectee (Buyer)	Rate	Nature of Transaction
Same as section 206C(1)	Any person other than mentioned in Note-1	1%	Sale of a motor vehicle of the value exceeding ₹10 lakhs

NOTE 1- Seller

Same as Section 206C(1)

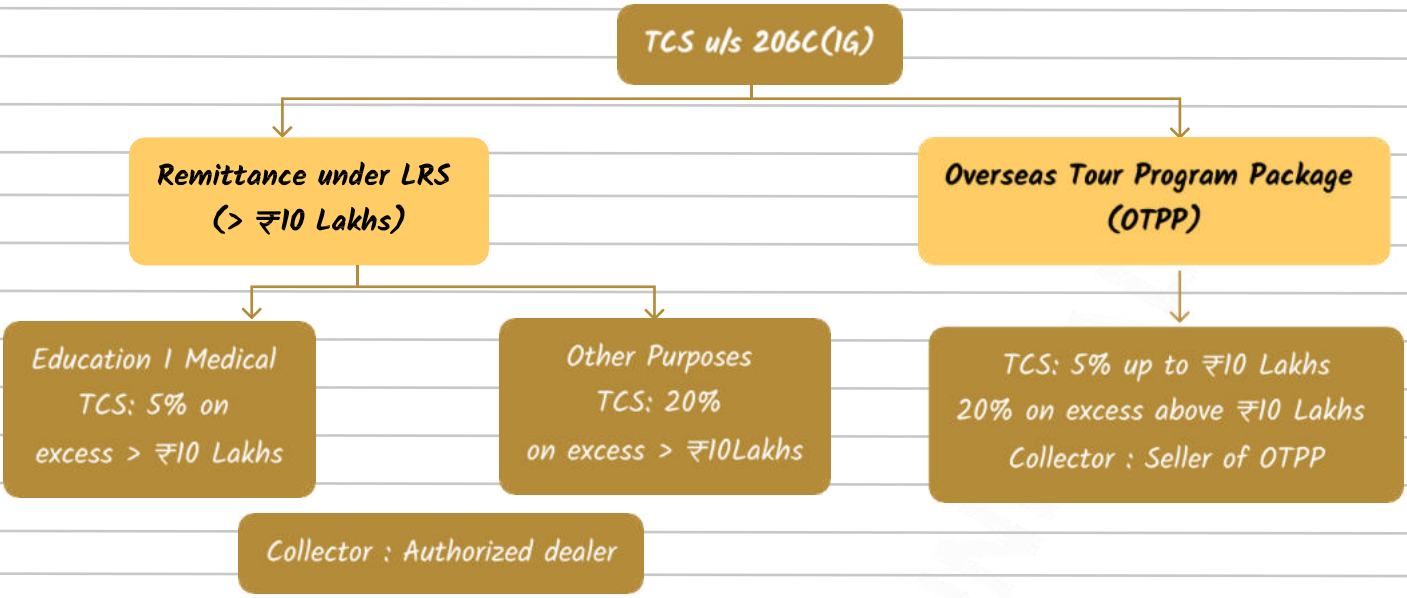
NOTE 2- Buyer

A person who obtains in any sale, goods of the nature specified therein, but does not include –
the Central Government, a State Government and an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State, or a local authority, or public sector company which is engaged in the business of carrying passengers

NOTE 3 – TCS will apply only in case of sale of motor vehicle at retail level, No TCS under this section on sale by manufacturers to dealers/distributors

NOTE 4 – Threshold limit of 10 lakhs has to be looked at on each individual purchase and not on aggregate purchases made during the year

D. Section 206C (1G):- Overseas remittance or an overseas tour package



Being a seller of an overseas tour programmed package who receives any amount from the buyer who purchases the package

NOTE 1 :- Rate of TCS in case of collection by an authorized dealer

Additional Points

➤ Payment through overseas credit cards is not counted in LRS No TCS applicable on expenditure through international credit card while being overseas till further order

➤ Threshold of 10 lakh, for LRS is combined threshold for applicability of the TCS on LRS irrespective of the purpose of the remittance (like education, medical or others)

➤ Medical treatment shall include remittance for purchase of tickets of patient and his attendant, his medical expense and other day to day expenses required for such purpose

➤ Education purpose shall include remittance for purchase of tickets, tuition and other fees to be paid to educational institutes and other day to day expenses required for undertaking such study

➤ Only overseas flight ticket is booked or only hotel booked not covered in "OTPP"

NOTE 2

i No TCS, if the buyer is liable to deduct tax at source under any other provision of the Act

ii No TCS, if the buyer is the Central Government, a State Government, an embassy, a High Commission, a legation, a commission, a consulate, the trade representation of a foreign State, a local authority or any other person notified by the Central Government, subject to fulfillment of conditions stipulated thereunder and no TCS if buyer is non resident visiting India

iii "OTPP" means any tour package which offers a visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto

iv Authorized dealers shall not collect TCS on an amount in respect of which TCS has been collected by the seller

IN REMITTANCE UNDER LRS-WRITE COLLECTOR –Authorised Dealer

! No TCS is applicable if the buyer is:

➤ Deducted TDS under any section

➤ Central Government, State Government, Embassy, High Commission, Legation, Consulate, Trade Representation, or Local Authority

➤ Non-resident visiting India

2 In case of LRS (Liberalized Remittance Scheme), if the remitted amount is for purposes Out of educational loan (under section 80E) taken from a financial institution, the TCS rate is 0.5% instead of 5%

3 "OTPP" refers to any tour package offering visits to countries or territories outside India, including expenses for travel, hotel stay, boarding, lodging, or any similar expenditure

4 If the remittance amount is below ₹7 lakhs, TCS is not applicable

5 For educational or medical treatment purposes, TCS is charged at 5% on the amount exceeding ₹7 lakhs

6 If multiple remittances are made through different dealers, TCS will be applicable on the total amount exceeding ₹7 lakhs as per CBDT clarification

7 If TDS has been deducted under any Income Tax provisions, TCS will not be applicable under section 206C(1G)

8 TCS on overseas tour packages is collected at 5% on the total package cost

A person who receives any amount as consideration for sales of goods whose value exceed Rs 50 lakhs in the previous year other than exported goods or goods covered under subsection (1)/(1F)/(1G)

TCS **@0.1%** of the sale consideration >50 lakhs at the time of receipt of consideration

Tax is not required to collect if the buyer is liable to deduct TDS under any provision of the Act or the goods purchase by him from the seller & has deducted such tax

NOTE 1 -Seller A person whose total sales, gross receipts or turnover from the business carried on by him exceed Rs 10 crores in PPY However, seller does not include a person as notified by the Central Government for this purpose, subject to fulfillment of conditions stipulated [Clause (b) of Explanation to section 206C (1H)]

NOTE 2 Buyer : A person who purchases any goods but does not include -

- the Central Government, a State Government, an embassy, a High Commission,
- legation, commission, consulate and the trade representation of a foreign State, or
- a local authority, or
- a person importing goods into India or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to stipulated conditions [Clause of Explanation to section 206C (1H)]

a If the buyer deducted TDS under any section then TCS is not applicable under this section

b If the buyer does not submit PAN or Aadhar then TCS rate is 1% instead of 0.1% in this section

c Under this section TCS collected only at the time of receiving consideration in excess of ₹ 50 lakhs in PY

Power of CBDT to issue guidelines

1 GST/VAT/Sales tax/CST/Excise Duty (IDT)- TDS u/s 194Q NOT applicable on IDT amount if it is separately indicated in invoice but if advance payment is made then TDS should be deducted on total advance payment as we are not aware that what will be IDT amount in invoice

2 Purchase Return: TDS deducted at the time of crediting the party or payment, whichever is earlier, so at the time of purchased TDS already deducted by Buyer In case of purchase return there is no need to return TDS amount and it can

be adjusted against future purchase from same seller. In case of replacement of Goods, no adjustment required

3. First year of Incorporation: TDS required to be deducted only if buyer's last year T/O more than 10 Crores. Since in case of first year of incorporation last year T/O is nil so this section NOT applicable in first year of Incorporation

4. Last Year T/O: While checking last year T/O of buyer it should include only Business T/O or G/R and it should be more than 10 Crores. Non-Business T/O not to be counted

TCS is collected at the time of debiting the buyer's account or receipt of consideration, whichever is earlier

- However, for Sec 206C(1F) & 206C(1H), TCS is collected only at the time of receipt of consideration

Time of collection of tax

Tax should be collected at the time of debiting of the amount payable by the buyer, licensee OR At the time of receipt of such amount from the buyer or licensee or lessee as the case may be (Whichever is earlier)

Sec 206C(7) Interest on late collection/deposit TCS: In case of any delay, interest shall be calculated @ 1% per month or part thereof from date on which TCS was collectible to date on which TCS is actually paid (w.e.f. 01/04/25 on late payment of TCS interest applicable @ 1.5% p.m. or part of the month]

Sec.206CC PAN not furnished:

If Collectee does not furnish PAN to collector or furnish incorrect PAN then collector shall collect TCS @

- Twice of specified rate OR
- 5% (Whichever is higher)

but in case of 206C(1H) it will be 1%

NOTE: From 1.7.23, the higher rate of TCS leviable for non-furnishing of PAN should not exceed 20%

Section 194BA — Winnings from Online Games

Payer	Payee	Rate	Nature of payment
Any Person	Any Person	30%	Winning from online games

Additional Points:

1. TDS must be deducted at the time of withdrawal from the user account during the previous year, as well as at the end of the financial year.
2. Computation of Net Winnings (for Sec 115BBJ):

Net Winnings = (Aggregate Withdrawn During FY + Closing Balance at Year End)
- (Aggregate Non-Taxable Deposits During FY + Opening Balance at Beginning of FY)

Code	Component Description
A	Aggregate withdrawn from user account during the financial year
D	Closing balance of user account at year-end
B	Aggregate of non-taxable deposits made in user account during the financial year
C	Opening balance of user account at the beginning of the financial year

New Example

Suppose Ms. Anita Sharma is a regular participant in online gaming. She has an account with the "GameWin Online" app.

- Opening balance on 01/04/2023: ₹20,000
- Total amount deposited during FY 2023 24: ₹80,000
- Total amount withdrawn during FY 2023 24: ₹2,00,000
- Closing balance as on 31/03/2024: ₹30,000

Calculation of Net Winnings for the purpose of Sec. 115BBJ:

Net Winnings = (A + D) – (B + C)

= (₹2,00,000 + ₹30,000) – (₹80,000 + ₹20,000)

= ₹2,30,000 – ₹1,00,000

= ₹1,30,000

Tax Deductible (TDS):

Net winnings of ₹1,30,000 will be taxed at 30%.

Important Clarification Regarding TDS for Insignificant Withdrawals:

TDS may not be deducted on withdrawal if all the following conditions are met:

(i) Net winnings included in the withdrawal do not exceed ₹100 in a month;

(ii) Tax, not deducted due to this concession, is deducted later when the net winnings comprised in withdrawal exceed ₹100 in any month or by the end of the financial year, if not earlier;

(iii) The deductor is responsible for paying any balance TDS shortfall if the available account balance at the time of TDS deduction is not sufficient

Payment in Cash or Kind:

If a user receives a payment either fully or partly in cash or kind, and this amount does not come from their account, the rules require that the value of this payment is considered as though it has been credited to the user's account as a taxable deposit. At the same time, it is assumed that the same amount is withdrawn from the user account. This amount should therefore be included in amount A for calculation purposes.

Section 194R – Tax Deduction on Benefits or Perquisites (Arising from Business or Profession)

Section	Nature of Payment	Payer	Rate	Payee
194R	Any benefit or perquisite, whether converted into money or not, arising from business or profession	Anyone other than individuals or HUFs (Individuals/HUFs must deduct TDS if previous year turnover > ₹1 crore in business or gross receipts > ₹50 lakhs in profession)	10%	Resident Person

Additional Notes:

1. TDS is not required if the total value of benefits or perquisites provided to a person does not exceed ₹20,000 during the previous year.
2. When the benefit or perquisite is given wholly in kind, or partially in cash and partially in kind (and the cash portion isn't enough to cover TDS), the benefit or perquisite should be handed over only after ensuring that tax has been paid. This can be done by:

(a) Collecting the TDS amount from the recipient,

(b) Paying the TDS out of your own pocket, or

(c) Having the recipient pay the TDS via advance tax and providing proof of payment to the provider.

Miscellaneous Provisions

1. **Section 196:**
   TDS is not required when payments are made to the Government, RBI, statutory corporations, mutual funds, or the New Pension Trust.
2. No TDS should be applied to the portion of an invoice that represents "GST on services," if this is shown separately.
3. **Section 197** – Certificate for Lower or Nil TDS Deduction:
   If a person's total income or receipts are either not taxable or are taxable at a reduced rate in a given year (for example, due to carried forward losses), the individual can approach the Assessing Officer to request a certificate for lower or nil TDS deduction. If the tax officer is satisfied with the request, they may issue such a certificate, and TDS will then be deducted at the rate specified in that certificate.
4. **Section 197A** – Declaration in Form 15G/15H:
   If a resident individual (other than a company or a firm) expects their total income for the year to be less than the basic exemption limit, they can submit a self-declaration in Form 15G or 15H. As a result, no TDS will be deducted under Sections 192A, 193, 194, 194A, 194D, 194DA, 194-I, or 194K.

Exception:

This relaxation is not available if the income covered by these sections exceeds the basic exemption threshold.

Section 198: Treatment of TDS as Payee's Income

➤ Any TDS deducted is generally considered as the income of the recipient (payee).

➤ **Exception:** If the TDS is deducted by an employer on non-monetary benefits or under Section 194N, it is not treated as the income of the payee.

Section 199: Credit for TDS

➤ TDS credit is given to the person whose income was subject to TDS.

➤ If income is clubbed (i.e., taxed in another's hands due to specific tax rules), the TDS credit is available to the person who is ultimately liable for the tax.

➤ If an employer pays tax on non-monetary benefits out of their own funds, the employee can still claim TDS credit.

Deadlines for Payment of TDS and TC

Month of Deduction/Collection	TDS Payment Due Date	TCS Payment Due Date
April to February	7th of the following month	7th of the following month
March	30th April of next financial year	7th April of next financial year

Note: For TDS under sections 194-IA, 194-IB, or 194M, deposit the TDS within 30 days after the month it was deducted, along with the corresponding return (Form 26QB, 26QC, or 26QD).

Due Dates for Filing TDS/TCS Returns

Quarter Ending	TDS Return Due Date	TCS Return Due Date
30th June	31st July	15th July
30th September	31st October	15th October
31st December	31st January	15th January
31st March	31st May	15th May

➤ **Penalty:** If returns are not submitted on time, a fee of ₹200 per day of delay (under section 234E) applies

➤ **Late Fee:** If you file after the due date, a late fee of ₹200 per day (Section 234E) will be charged.

Section 200A / 206CB: Processing of TDS/TCS Returns (CPC Intimation)

1. **Electronic Processing:**

TDS/TCS returns, once filed, are processed electronically. Only certain adjustments are permitted:

(a) Rectifying Arithmetic Errors: Any calculation mistakes can be corrected.

(b) Correcting Obvious Claims: Any clearly incorrect claims found in the records may be adjusted.

2. **Intimation Notice:**

After processing, an intimation is issued stating the amount of demand or refund, including any applicable interest or fees. This notice is sent to the deductor/collector within one year from the end of the financial year in which the return was filed.

For TCS from 1 July 2023, the maximum deduction rate under this section will not exceed 20%.

Section 201 – Assessee Deemed in Default

Section 201(1A): Interest for Delayed TDS Actions

➤ **Late Deduction:**

If TDS is not deducted on time, interest is payable at **1%** per month or part thereof, calculated from the due date for deduction up to the actual date of deduction.

➤ **Late Payment:**

If TDS is deducted but not deposited promptly, interest at **1.5%** per month or part thereof is charged, from the date of deduction until the date the tax is actually paid.

Section 206AB/206CCA: Higher TDS/TCS Rates for Certain Non-Filers

If the recipient (payee/collectee) has not filed their income tax return for the year immediately preceding the financial year –where the return filing deadline under section 139(1) has passed and the total TDS/TCS in that year was ₹50,000 or more –**higher** TDS/TCS rates apply for the current year. The applicable rate will be:

➤ Twice the standard TDS/TCS rate, or

➤ 5%

whichever is higher.

Notes:

1. This rule does not apply to TDS deducted under sections 192, 192A, 194B, 194BA, 194BB, 194-IA, 194-IB, 194M, and 194N.
2. If the payee/collectee does not provide a PAN or Aadhar, TDS/TCS is deducted at the higher rate as per this section or section 206AA (for TDS) and 206CC (for TCS).
3. To check if this section applies in the current year, confirm whether a return was filed for the previous assessment year (2022-23 or later).
4. If a person responsible for deducting TDS fails to deduct it, or deducts but does not deposit it with the government, they will be treated as an assessee in default and may be liable to pay a penalty under Section 221. The penalty amount can be up to 100% of the TDS not deducted or deposited.

Exception:

The payer will not be considered an assessee in default for payments made or credited to a payee without TDS, provided all the following conditions are satisfied:

- The payee has filed their income tax return under Section 139.
- The relevant income has been included by the payee in that return.
- The tax due on such income has been paid by the payee.
- The payer obtains a certificate in this respect from a Chartered Accountant, using Form 26A.

Sec 206C(7) :

Interest on late collection/deposit TCS: In case of any delay, interest shall be calculated @ 1% per month or part thereof from date on which TCS was collectible to date on which TCS is actually paid. [w.e.f. 01/04/25 on late payment of TCS interest applicable @ 1.5% p.m. or part of the month]

Sec 206CC :

If the collectee has not provided PAN or Aadhaar to the collector, then TCS rate shall be

(a) Twice of the rate or

(b) 5% [1% in case of sub section (1H)]

Whichever is higher

Note: From 1.7.23, the higher rate of TCS leviable for non-furnishing of PAN should not exceed 20%.

Notes



Return Filling & Self Assessment

Chapter 12

SECTION 139(1) Return of Income

A)

i. **Company/Firm (incl. LLP):** – Return filing mandatory

ii. **Any other Assessee:**– Total Income (as per below note) > Basic Exemption Limit

iii. **For other Assessee** – If Gross Total Income (before claiming exemption u/s 54, 54B, 54D, 54EC, 54F) more than basic exemption, then return filing is compulsory.)

B)

i) Resident & Ordinary Resident Individual

➤ Beneficial owner of any assets (incl. Financial Interest) located outside **India**, or Has signing authority in only A/C outside India.

➤ Beneficiary of any asset (including financial interest located outside India).

NOTE– If above income included by the beneficial owner in his income then the beneficiary is not required to file the return.

➤ **Beneficial Owner** – Individual providing consideration for the asset directly or indirectly for the immediate or future benefit for himself or any other person.

➤ **Beneficiary** – Individual deriving benefit from the asset, consideration for which has been provided by any other person.

C) In following case return is also mandatory

i Electricity Expenses > 1,00,000 during PY

ii Foreign travel expenses incurred > 200,000 during PY

iii Deposit in current account > 1cr. during PY (one or more account)

iv Any condition as prescribed by Government

D) In following more case return is also mandatory (FA 2021)

i Deposited 50 lacs or more in Saving account.

ii TO/Sales/GR > 60,00,000 during PY in case of Business (10 Lacs in case of profession).

iii Assessee's aggregate TDS and TCS is 25000 or more during the PY (50k in case of senior citizen).

Due date of Return

1. Assessee who is required to furnish report u/s 92E (transfer pricing) including partner of the firm*
Due date- 30th Nov of A.Y.

2. Company or other Assessee (whose books of accounts required to be audited under any law) or partner of firm (if audit required for such firm).
Due date - 31st Oct of the assessment year

3. Other Assessee
Due date - 31st July of A.Y.

[*Partner includes spouse of such partner if provision of Sec. 5A applies to such spouses]. [As per Sec. 5A whether the husband & wife are governed by the system community of property (known under Portuguese civil code of 1860) in the state of Goa & union territory a Dadra & Nagar Haveli & Daman & Diu than income distributed equally between husband and wife (except salary income)].

Note 1 - Sec.139(1C) Specified class of person to be exempted from filing ROI

CG has been empowered to notify the class who is not required to file the return if satisfying prescribed condition.

SECTION - 139(3) Loss Return

If return not filed upto due date as per Sec.139(1) then following loss cannot be carry forward as per Sec. 80
- Loss of PGBP (Normal/ Speculative/ Specified business)
- Loss of Capital Gain
- Loss of Owing & Maintaining race horses

NOTE :
1. **HP loss & unabsorbed depreciation** can be carry forward even return not filed upto due date.
2. Set off of losses is possible in same year if return not filed upto due date but carry forward of such losses not possible.
3. The condition stipulated/enumerated in sec. 80 applies only for the year in which the loss was sustained/ incurred. it does not apply to the ROI of the year in which carry forward is claimed.

SECTION 139(4) Belated Return

Assessee can file the return after the due date within the following time limit-
a. Before three months prior to the end of R.A.Y.
OR
b. Before the completion of assessment
(whichever is earlier)

NOTE :

If return filing after due date, then assessee has to face following consequences -

1. Fees u/s 234F i.e., 5000 (but if Total Income ≤ 5 lakh fee cannot be more then 1000).
2. Interest u/s 234A i.e 1% pm or part of the month.
3. No carry forward of losses as per Sec.80.
4. No Income based ded'n as per Sec.80AC, 10AA, Ded u/s VI-A (80IA to 80RRB).

SECTION 139(5)-Revised Return

If assessee filed the return u/s139(1)/139(3)/139(4) & assessee finds :

- Any omission or
- Any wrong statement in such return

Then revision in such return can be possible within following time limit.

a. Before three months prior to the end of R.A.Y. - 31st dec 2025 for AY 25-26 OR

b. Before completion of assessment

(Whichever is earlier)

NOTE :

1. Revision in return can be possible only with the filing of revised return as per Sec.139(5).
2. A return can be revised even after receiving intimation or refund u/s143(1). As Sec.143(1) is not completion of assessment.
3. An assessee can revise return any number of times.
4. Revised return substitutes original return from the date the original return was filed.

SECTION 139(9) - Defective Return

Return will not be treated as defective if following condition fulfilled.

1. All annexure / Statement / Column / should be filled (related to computation of total income).
2. ROI should be provided / attached
   - Computation of Tax
   - Audit Report
   - Proof related to tax.
3. Books of Accounts

Maintain
- Manufacture / Trading / P&L
- Audited financials (If accounts audited)
- Cost audit report (as per Sec 233B)

Not Maintain

Sales/Turn Over / Gross Receipt / Gross Profit/Net Profit (also share basis of above calculation) Debtor / Creditor/Stock / Cash as on last day on PY

If return not filed after considering above points then A.O shall intimate the defects to the assessee & assessee need to rectify such defect within 15 days or extended time limit from the date of intimation otherwise it will be treated as Invalid Return

Section 139A: Permanent account number (PAN)

1. At least seven days before the date on which he intends to enter into the said transaction.

Person intends to enter into following transactions

a. Cash deposits aggregating 20 lakhs or more in a FY, in one or more a/ c with a Bank or a co-op. bank.

b. Cash withdrawals aggregating 20 lakhs or more in a FY, in one or more account with a Bank or a co-op. bank.

c. Opening of a current a/c or cash credit a/c with a Bank /Co-op. bank.

2. Up to end of PY

a. Every person carrying on Business or Profession whose Turnover or Gross receipts are or is likely to exceed 5 lakhs in any PY.

b. Trust required u/s 139(4A)

3. Up to 31st May of the AY

a. Every person, if his total income or the total income of any other person in respect of which he is assessable exceeds Basic exemption.

b. Resident, other than an individual, which enters into a financial transaction of an amount aggregating to or more in a FY.

c. MD, director, partner, trustee, author, founder, karta, CEO, principal officer or office bearer of person referred in (b).

S.no	Nature of transaction	Value of transaction
1.	Sale or purchase of a motor vehicle or vehicle, other than two wheeled vehicles.	All such transactions
2.	Opening an account [other than a time-deposit referred to at S. No.12 and a Basic Savings Bank Deposit Account] with a banking company or a cooperative bank.	All such transactions
3.	Making an application to any banking company or a co-operative bank or to any other company or institution, for issue of a credit or debit card	All such transactions
4	Opening of a demat account with a depository,participant, custodian of securities or any other person registered under the SEBI Act, 1992.	All such transactions
5.	Payment to a hotel or restaurant against a bill or bills at any one time.	Payment in cash of an amount exceeding 50,000.
6.	Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time.	Payment in cash of an amount exceeding Rs. 50,000.
7.	Payment to a Mutual Fund for purchase of its units	Amount exceeding Rs. 50,000.
8.	Payment to a company or an institution for acquiring debentures or bonds issued by it.	Amount exceeding Rs. 50,000.

S.no	Nature of transaction	Value of transaction
9.	Payment to the Reserve Bank of India for acquiring bonds issued by it.	Amount exceeding Rs. 50,000.
10.	Deposit with – a Banking company or a Cooperative bank or Post Office	Cash deposits Rs. 50,000 exceeding during any one day.
11.	Purchase of bank drafts or orders or banker's cheques from a banking company pay or a cooperative bank.	Payment in cash of an amount exceeding Rs 50,000 during any one day
12.	A time deposit with, – (i) a banking company or a co- operative bank. (ii) a Post Office; (iii) a Nidhi; or (iv) a non-banking financial company	Amount exceeding Rs. 50,000 or aggregating to more than Rs. 5 lakh during a financial year.
13.	Payment for one or more pre paid payment instruments, as defined in the policy guidelines for issuance and operation of pre-paid payment instruments issued by Reserve Bank of India or to a banking company or a co-operative bank or to any other company or institution.	Payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than Rs. 50,000 in a financial year.
14.	Payment as life insurance premium to an insurer.	Amount aggregating to more than Rs. 50,000 in a financial year.
15.	A contract for sale or purchase of securities (other than shares).	Amount exceeding Rs.1 lakh per transaction.
16.	Sale or purchase, by any person, of shares of a company not listed in a recognized stock exchange.	Amount exceeding Rs. 1 lakh per transaction.
17.	Sale or purchase of any immovable property.	Amount exceeding Rs. 10 lakh, or where Stamp Duty Value referred to in Section 50C exceeds Rs. 10 lakh.
18.	Sale or purchase, by any person, of goods or services of any nature other than those specified at Sl. No. 1 to 17 of this Table, if any.	Amount exceeding Rs. 2 lakh per transaction.

PAN & Aadhaar Interchangeability

1. Use of Aadhaar in Place of PAN

Any individual required to quote or intimate their PAN may instead quote their Aadhaar number if:

➤ They have not yet been allotted a PAN but possess an Aadhaar (In such cases, a PAN will be automatically issued by the department without requiring any documents or fees), or

➤ They already have a PAN and it is linked to their Aadhaar.

2. Authentication Requirement

Any person entering into specified transactions (as mentioned in Point 6 of Section 139A of the Income Tax

Act) must authenticate the PAN or Aadhaar provided.
Furthermore, the person receiving such documents must ensure that the quoted PAN or Aadhaar is correctly mentioned and authenticated.

SECTION 272B: Penalty for non-compliance with provision of PAN

1. PAN not applied even it is mandatory
2. PAN / Aadhar No. not quoted where ever required
3. Correct PAN Aadhar No. not quoted
4. Failure to authenticate PAN / Aadhar
5. Failure to authenticate PAN / Aadhar by receive of document.

(Penalty of Rs.10000/- for each default)

Section 139AA- Quoting of Aadhar (if eligible to obtain)

1. Person who is eligible to obtain Aadhar on or after 01.07.2017 then he needs to quote Aadhar No / Enrolment ID for Aadhar Application in -

➤ PAN allotment application
➤ Return of Income

From 1/10/24 Enrolment ID option not available and if any person applied for PAN on the basis of Enrolment ID then he mandatorily required to intimate his Aadhar No, in prescribed manner.

2. If PAN allotted till 1st July 17 shall link PAN with Aadhar till 31 March 2022 . In case of failure to intimate Aadhar than PAN allotted to him will be inoperative on or after 01.04.22.

3. Provision of 139AA Related to Aadhar not apply in following case the provisions of this section shall not apply to the following persons who does not possess the Aadhar number and enrolment ID and is -

a. Residing in the states of Assam, Jammu and Kashmir and Meghalaya
b. Non-resident as per the Income tax Act;
c. Of the age of eighty years or more at any time during the previous year;
d. Not a citizen of India;

NOTE 1 :Rule 114AAA : Manner of making PAN (where a person feels to link PAN with Aadhar number)

Where PAN allotted to a person has become inoperative from 01.04.2022 on account of failure to intimate his Aadhar number, then:
It shall be deemed that he has not quoted the PAN wherever he was so required to quote and he shall accordingly be liable for penalty for non-quoting of PAN. [PAN shall become operative from the date of intimation of Aadhar number if he intimates Aadhar number after 31.03.2022.]

NOTE 2 :Section 234H: Fee for default relating to intimation of Aadhar Number

Fee for failure to intimate Aadhar Number on or before 31.03.2022, where requirement to intimate the same exist, shall be 1000 payable AT THE TIME OF MAKING INTIMATION LATER.

NOTE- 3 : If Assesses fails to link the same till 31.3.22, then PAN will be inoperative but as per CBDT negative consequence will be effective from 01.07.23 onwards.

SECTION 139B- Tax Return Preparer (TRP)

1. The CBDT may notify a Scheme to enable any specified class or classes of persons to prepare and furnish their returns of income through a Tax Return Preparer.

A. Tax Return Preparer can be an individual, other than-

- any officer of a scheduled bank with which the assessee maintains a current account
- any legal practitioner
- a chartered accountant
- an employee of the 'specified class or classes of persons' who has been authorised to act as a Tax Return Preparer under the Scheme.

2. "Specified class or classes of persons" means any person other than a company or a person whose accounts are required to be audited under section 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Income-tax Act, 1961.

3. As per CBDT scheme, only individuals and HUF can file their return of income through TRP (eligible person).

However, eligible person does not include-

- A person carrying out business or profession during the P.Y. and whose accounts are required to be audited u/s 44AB or under any law for the time being in force.
- Who is not a resident in India during the P.Y.

4. An individual holding a bachelor degree from a recognized Indian university or passing an intermediate exam of ICAI/ICSI/ICMA can become TRP.

SECTION 140 – Person authorized to verify return of income

S.no.	Assessee	Authorised person
1.	a) Individual b) Individual is not present in India or is mentally incapacitated	· Individual himself · Competent to verify on behalf of individual
2.	a) HUF b) Karta is not present in India or is mentally incapacitated	· Karta · Any other adult member of the HUF
3.	a) Company b) where there is no MD c) Company under liquidation d) where an application for Corporate Insolvency Resolution Process(CIRP) has been admitted by the adjudicating Authority under IBC, 2016	· Managing Director · Any other director or any other person as may be prescribed · Liquidator · Insolvency professional appointed by adjudicating authority

4.	a) Partnership Firm b) where there is no managing partner	· Managing Partner · Any partner of the firm, not being a minor
5.	(a) LLP (b) where there is no designated partner	· Designated Partner · any partner or any other person as may be prescribed
6.	Local Authority	Principal Officer
7.	Political Party	Chief Executive Officer
8.	Any other person	Person competent to verify

Sec 140A: Self-Assessment Tax (SAT)

The payment required to be made u/s 140A along with the return of income shall be as under:

A. **Income tax (including surcharge, if any, and education cess) on the returned income**

B. **Add:** Interest u/s 234A, 234B 234C

C. **Add: Fee u/s 234F**

D. **Less:** Relief of tax u/s 90/90A/91

E. **Less:** MAT credit u/s 115JAA/ AMT credit u/s 115JD

F. **Less:** TDS/TCS

G. **Less:** Advance Tax

H. **Less: Relief of tax claimed u/s 89 (Finance Act, 2019)**

I. **Less: Tax and interest thereon, payable according to section 191(2) i.e. self-assessment tax on ESOPs in case of start-up employee.**

A+B+C-D-E-F-G-H-I= Amount to be paid by way of self-assessment under section 140A

Notes

1 Where self-assessment tax paid is less than the amount required to be paid u/s 140A, then the amount so paid shall be.

a. First adjusted towards Fee u/s 234F

b. Then adjusted towards Interest u/s 234A, 234B & 234C

c. Balance towards income Tax

Sec 140A: Self-Assessment Tax (SAT)

Assessee is required to pay taxes before Filing of return [after considering advance tax, TDS, TCS, MAT, AMT credit, relief any tax,] along with interest & Fees.

If there is short payment then the amount so paid is first adjusted towards Fees, there after towards interest & balance towards taxes.

SECTION 139(8A) Updated Return (Added by FA 2022 w.e.f. 01.04.2022)

Budget 2022 has introduced a new section 139(8A) which enables any person to file "updated return" (ITR-U) of his income or the income of any other person for which he is assessable. This section has come into effect

from 01.04.2022.

Time limit : Updated return can be filed within 48 months from the end of relevant FY.

Persons eligible to file updated return : All persons [whether or not he has furnished a return" u/s 139(1)/(4)/(5)] are eligible to file updated return u/s 139(8A), provided following conditions are fulfilled-

The person has not filed an ROI earlier or original return contains errors/omissions.

A person has to disclose any additional income which was not disclosed earlier and pay the additional taxes thereon.

Important Points to Note:

If a person has incurred a loss in any previous year (PY) and has filed a return of loss within the due date under section 139(1), they can file an updated return if it becomes a return of income / Deduction in losses.

If the updated return results in a reduction of carried forward loss, unabsorbed depreciation, or AMT credit, then updated returns must be filed for each affected subsequent year.

Cases Where Updated Return Cannot Be Filed:

(i) If the updated return is a loss return.

(ii)If the updated return has already been filed under section 139(8A) for the relevant assessment year (RAY).

(iii)If filing the updated return:

- Reduces the total tax liability based on return filed under section 139(1)/(4)/(5), or
- Results in a refund or increases the refund already claimed in a return filed under those sections.

Tax Payment Requirement:

- An updated return must be accompanied by proof of payment of tax and additional income tax.
- It cannot be filed unless tax is paid as per section 140B (includes tax + additional income tax).

Additional Tax Payable on Updated Return:

Timing of Filing Updated Return	Additional Tax Payable
Filed after expiry of time under section 139(4)/(5) but within 12 months from the end of the RAY	25% of total tax (+ SC + HEC) and applicable interest
Filed after 12 months but before 24 months from the end of the RAY	50% of total tax (+ SC + HEC) and applicable interest
After expiry of 24 months but before 36 months	60% of total tax (+ SC + HEC) and applicable interest
After expiry of 36 months but before 48 months	70% of total tax (+ SC + HEC) and applicable interest

Notes



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About
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Yogendra creation

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